



Expanding Access to Homeownership for Low-to-Moderate Income Families in California

DRAFT

The Need to Increase Access to Homeownership in California:

California ranks second to last (ahead of New York) among US states in the percent of households who own their own homes (2005 ACS). Only 57% of Californian households are homeowners, compared to over 70% nationally. As Figure 1 illustrates, this current gap is representative of a persistent growing trend; as homeownership rates have risen nationally, California has failed to keep pace.

Figure 1

	1960	1980	2000	2005
United States	61.9%	65.5%	67.5%	70.3%
California	58.4%	55.9%	57.1%	57.0%
Difference	3.5%	9.6%	10.4%	13.3%

Source: US Census

A major explanation for this persistent lag in homeownership is the remarkably high cost of real estate in California. In 2005, the median home price nationally was approximately \$167,500, compared with a median of \$477,700 in California, the highest in the nation. Not surprisingly, in order to own a home in the state of California households need to earn higher incomes than in other parts of the country. While the difference in median income between California and the US as a whole is about \$7,500, the difference in the median income of homeowners is \$14,000. The median income of homeowners in California is 34% more than the overall median income in the state.

Figure 2

Median Household Income	United States	California
Total:	46,242	53,629
Owner occupied (dollars)	57,843 (25% above median)	71,855 (34% above median)
Renter occupied (dollars)	28,251	35,566

Source: American Community Survey 2005

The disparity in the homeownership rate in California and the US as a whole is not evenly distributed across the income spectrum: it is low-to-moderate income families who are failing to keep up with the rest of the country. As Figure 3 illustrates, while there exists only a 4.0% difference in the US and CA homeownership rate for those making \$150,000 or more, the difference among households earning between \$35,000 and \$50,000 a year is 15.3%. For households with incomes just below the median, the dream of owning a home in California is significantly harder to achieve than in the rest of the country.

Figure 3

	Percent of Owner Occupied Households by Income		
	United States	California	Difference
Less than \$5,000	34.3%	32.0%	2.3%
\$5,000 to \$9,999	35.2%	26.7%	8.5%
\$10,000 to \$14,999	45.3%	34.6%	10.8%
\$15,000 to \$19,999	49.7%	35.9%	13.8%
\$20,000 to \$24,999	52.9%	39.1%	13.8%
\$25,000 to \$34,999	57.9%	45.3%	12.6%
\$35,000 to \$49,999	65.2%	49.9%	15.3%
\$50,000 to \$74,999	75.2%	61.3%	13.9%
\$75,000 to \$99,999	83.8%	72.0%	11.7%
\$100,000 to \$149,999	88.8%	80.9%	7.9%
\$150,000 or more	92.1%	88.1%	4.0%

Source: Author's calculation based on American Community Survey 2005

Policy Proposal:

In order to make homeownership more affordable for low-to-moderate income families, all first time homebuyers whose household income is below the local median will receive a homeowner's tax exemption equal to 25% of the property tax for the first three years of homeownership. For low-to-moderate income families who purchase a home valued at the state median of \$477,700, this tax relief will save families nearly \$1,200 a year. Figure 4 details the potential annual savings based on the assessed value of the home.

Figure 4

	Home Value	Current Property Tax (1%)	Reduced Tax (.75%)	Annual Savings
Median	\$477,700	\$4,777	\$3,583	\$1,194
75% of Median	\$358,275	\$3,583	\$2,687	\$896
50% of Median	\$238,850	\$2,389	\$1,791	\$597
25% of Median	\$119,425	\$1,194	\$896	\$299

Source: Author's calculation based on American Community Survey 2005

what is the cost of this forgone tax revenue? The total cost depends on two factors:

1. The number of households below median income who are first time homebuyers; and
2. the assessed value of the homes they purchase (from which property tax burden is determined). Figure 5 presents a rough sketch of the potential costs under various scenarios. At the extreme, we can imagine a policy so successful it enables 400,000 more low-to-moderate income households to become homeowners, a figure that would bring the homeownership rate in California up to the national average for this income level. An equally optimistic but more reasonable estimate is cutting the difference between homeownership in California and the US by 25%, meaning an additional 100,500 low-to-moderate income Californian households would own their own homes. This would result in the state reimbursing local jurisdictions for approximately \$60 million in lost tax revenue.

Figure 5

		Additional Low-to-Moderate Income Homeowners In California			
		402,000	301,500	201,000	100,500
Home Value	Median	\$480,088,500	\$360,066,375	\$240,044,250	\$120,022,125
	75% of Median	\$360,066,375	\$270,049,781	\$180,033,188	\$90,016,594
	50% of Median	\$240,044,250	\$180,033,188	\$120,022,125	\$60,011,063
	25% of Median	\$120,022,125	\$90,016,594	\$60,011,063	\$30,005,531
		Annual Foregone Tax Revenue			

		Additional Low-to-Moderate Income Homeowners In California			
		100,000	75,000	50,000	25,000
	Median Value	\$119,425,000	\$89,568,750	\$59,712,500	\$29,856,250
	75% of Median	\$89,568,750	\$67,176,563	\$44,784,375	\$22,392,188
	50% of Median	\$59,712,500	\$44,784,375	\$29,856,250	\$14,928,125
	25% of Median	\$29,856,250	\$22,392,188	\$14,928,125	\$7,464,063
		Annual Foregone Tax Revenue			

Source: Author's calculation based on American Community Survey 2005

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