Cunningham, Deborah L@DOT

From: Christopher Sutton <christophersutton.law@gmail.com>
Sent: Monday, August 24, 2015 4:47 PM
To: Affordable Sales Program@DOT
Subject: Comments on Affordable Sales Program Regulations
Attachments: News Articles on Affordability.pdf

Dear Ms. Kimberly Erickson:

Attached please find the following two recent newspaper articles addressing housing affordability in Los Angeles County:

1. Los Angeles Times, August 20, 2015, page A13:
   Is L.A. in a housing bubble? by William Yu,
   an economist at the UCLA Anderson School of Management

2. Pasadena Star News, August 21, 2015, pages 1 and 6:
   Rising home prices push most families out of market --- again
   by Gregory J. Wilcox, reporter (greg.wilcox@langnews.com)

These two items make clear that the housing marking in Los Angeles County is expensive and most middle income families cannot afford to buy homes.

The Caltrans **Affordable Sales Program** proposed regulations fail to address the overall lack of affordability of housing in Los Angeles County and especially within the State Route 710 North Corridor.

The draft regulations utilize an abusive "fair market value" localized to each of the three zip codes where these housing units are located: 91105, 91010, and 90032. This has the impact of driving up the "fair market value" of residential properties within the scope of the Affordable Sales Program under the Roberti Law (Government Code section 54235 to 54238.7).

Simultaneously, the proposed regulations utilize a **county-wide based income calculation** for "median income" and "persons and families of low or moderate income" under Government Code section 54237, but the Regulations could utilize a different geographic area to calculate "median income," as allowed by Government Code section 50093.

By using different geographic areas to determine "fair market value" and "median income" and "persons and families of low or moderate income" the propose regulations will cause the displacements of about 148 families now residing in the Caltrans rental properties.

This was determined in the Draft Relocation Impact Report. This displacement of 148 families from their homes is an adverse environmental impact that will be caused by the Affordable Sales Program Regulations, unless they are modified. Within the California Environmental Quality Act ("CEQA") Caltrans has a duty to mitigate such avoidable adverse environmental impacts under CEQA at Public Resources Code section 21004.

The Regulations can be modified to provide such mitigation by changing the geographic areas used within each definition. **Using "median income" within a given zip code** will allow more families to qualify under the provisions of Government Code 54237 to have the sale price set as a function of their income, rather than as a function of the extremely unaffordable housing market. Localized income definitions will reduce the displacements of existing Caltrans renter-families as required by Public Resources Code section 21004.

- - - Christopher Sutton 8-24-2015

CALIFORNIA

Rising home prices push most families out of market — again

Pasadena Star News Friday 8-21-2015 p.1

By Gregory J. Wilcox
greg.wilcox@langnews.com, @dngregwilcox on Twitter

Rising home prices across California have eroded affordability to the point that only seven counties, including San Bernardino, have housing that a family earning the median income can afford to buy, according to a study released Thursday.

The analysis of second-quarter home prices and income levels in 32 counties by the Los Angeles-based California Association of Realtors found that 25 counties have housing stock priced out of the reach of families earning the median income.

Home prices have been rising around the state for several years and some markets have approached or matched their pre-recession highs.

"It's pretty shocking," said association Vice

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President and chief economist Leslie Appleton-Young.

And the inventory of housing stock within the reach of first-time buyers is dwindling.

"I think that the big risk is with the millennials in California. Where are they going to live? There are some that have parents that can help them with the down payment. They are the lucky ones. But the others are on their own," Appleton-Yound said.

For example, less than 33 percent of the state's inventory of available single-family homes, condominiums and town homes for sale was priced at or below what a household earning the California median income of $60,244 could afford, the association said.

"The significant disparity between what homebuyers can realistically afford and actual home price is discouraging," association President Chris Kutzkey, said in a statement. "While housing is affordable in some regions of the state, California lacks an adequate supply and mix of affordable housing in locations where the majority of the state's workforce resides."

In the second quarter of 2015, the statewide median price of $446,980 was nearly 50 percent higher than what a California household with the median income could qualify for, the analysis said.

But in San Bernardino, where the median-household income is $50,640, wage earners at that level could afford a home costing 13 percent more than the median price of $222,310.

San Bernardino remains one of the state's most affordable markets, according to the analysis.

Fifty-six percent of the county's households could afford the median-priced home costing $223,830. And they needed a minimum annual income of $44,290 to qualify for the mortgage.

Not surprisingly, Los Angeles County is one of the state's least affordable markets.

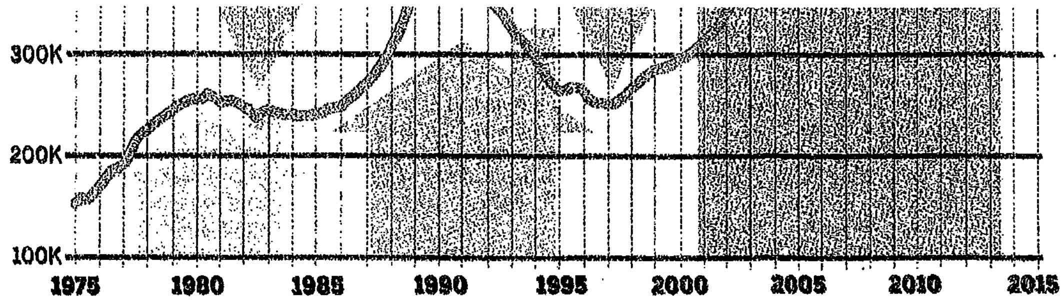
In Los Angeles, where the median income was $54,510, a family earning that amount could afford a home costing $275,530. But the median-priced home here was 58 percent higher at $436,010.

According to the affordability index, only 30 percent of households in the April through June quarter could afford a $445,190 median-priced home and they would need a minimum qualifying income of $88,080.

Not surprisingly, San Francisco was the least affordable county.

Households in San Francisco earning the median income of $75,910 were only able to afford a home costing $383,670, a difference of $863,900 or 225 percent. That's compared with the actual second-quarter median home price of $1.2 million.

And during the second quarter, just 10 percent of families cold afford a median-priced home costing $1.35 million and they would need to earn a minimum annual income of $267,780 to qualify for the loan.



Author's calculation based on Federal Housing Finance Agency (FHFA)'s House Price Index; Bureau of Labor Statistics' Consumer Price Index; and Zillow's Median Home Value Index.

WILLIAM YU AND WES BAUSMITH

Is L.A. in a housing bubble?

By William Yu

Home prices are rising, but the data suggest the market is not on the brink of collapse.

As HOME PRICES RISE ever higher in Los Angeles, some are beginning to wonder if the region is in another housing bubble, one that's ready to burst. Real estate blogs add to the hysteria by pointing to the most ridiculous listings, the million-dollar bungalows in need of a complete renovation, the $3-million teardowns. But the data suggest that the market is not, in fact, on the brink of collapse.

Using the all-transactions house price index from the Federal Housing Finance Agency, I examined price history in Los Angeles County, adjusted for inflation, from 1975 to the present — 1975 being the first year data were available. Along with some short-term fluctuations, we can see four major housing price cycles in Los Angeles since 1975:

(1) Bull market (first quarter of 1975 through the third quarter of 1980): real home price increased by 69% over 23 quarters.

Bear market (1980 Q4 to 1984 Q2): real price decreased by 9% for 15 quarters.

(2) Bull market (1984 Q3-1989 Q4): up 67% for 22 quarters.

Bear market (1990 Q1-1997 Q2): down 37% for 30 quarters.

(3) Bull market (1997 Q3-2006 Q4): up 166% for 38 quarters.

Bear market (2007 Q1-2012 Q2): down 43% for 22 quarters.

(4) Bull market (2012 Q3-2015 Q1): so far the price is up 27% for 11 quarters.

Can these past cycles help us predict the future? To some degree, yes. Unlike the stock market, real estate dynamics tend to hold over time, in part because transaction costs keep prices from bouncing around wildly in response to external events.

If history is any guide, the L.A. housing price cycle seems to last about 12 years on average, of which seven years is spent in the bull market with at least 65% real price appreciation, and five years is spent in the bear market. We are three years into the housing recovery that started in 2012, with 27% appreciation so far. On average, there will be four more years or 38% more price growth before we reach the turning point.

Of course, it's possible the bear market could come earlier or later than four years, but that is quite unlikely to happen in the very near future.

How can I be so sure? Often, during a bubble-making period, we see an accelerating rate of home price appreciation, as in 1988-89 and 2004-06. In the last two years, we haven't seen that kind of rapid appreciation in Los Angeles.

Another way to understand housing price cycles is by looking at building permit numbers. Speaking roughly, if developers are investing in new properties, that's a good sign that demand, and prices, are rising or keeping steady. If developers are holding back, that suggests demand, and prices, will soon fall.

L.A. housing permit units peaked in 1977, 1988 (50,500 units) and 2004 (26,900 units), one to three years ahead of the real housing price peaks in 1980, 1989 and 2006. Permits bottomed in 1982, 1993 (7,300 units) and 2009 (5,700 units), a few years before the housing price troughs in 1984, 1997 and 2012.

Over the last three years, we have seen L.A. building permits increase from 11,200 units in 2012 to 18,200 units in 2014. The 2015 number will most likely be higher than 2014. Therefore, we can predict the next home price peak is at least two years away.

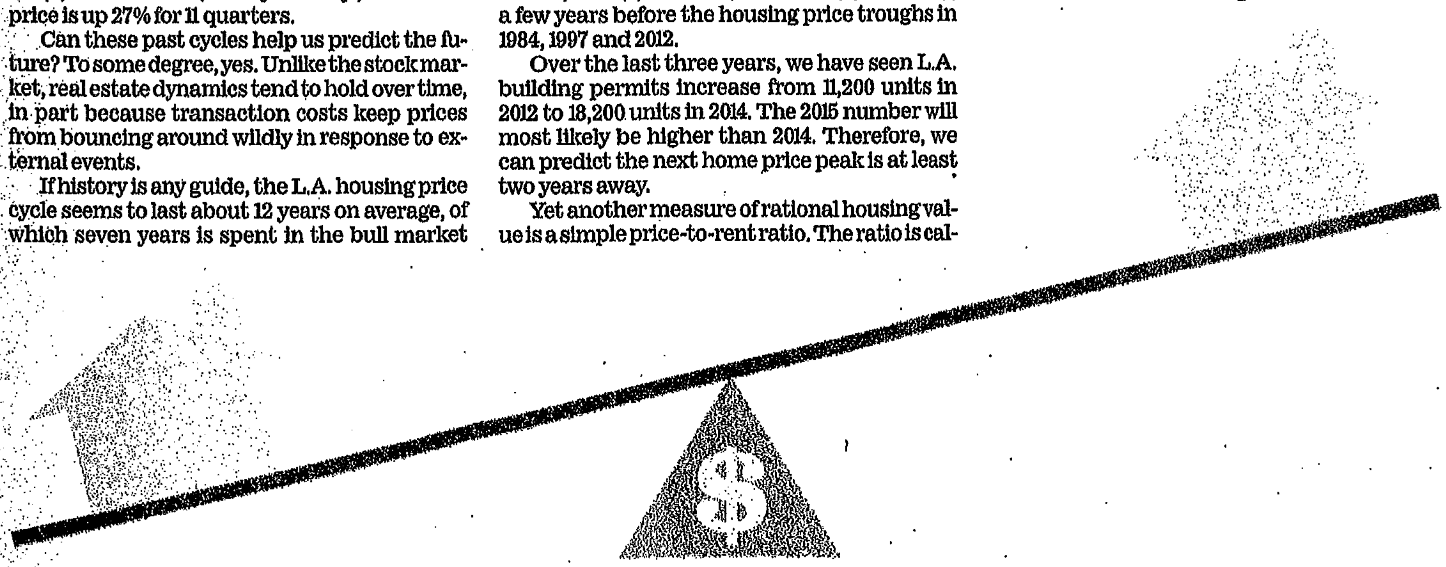
Yet another measure of rational housing value is a simple price-to-rent ratio. The ratio is calculated by taking the median home price over the annual median rent in L.A. If the ratio is high — meaning that home prices are beyond their fundamental value based on expected rental revenues — that points to a bubble. Again, let's look at history.

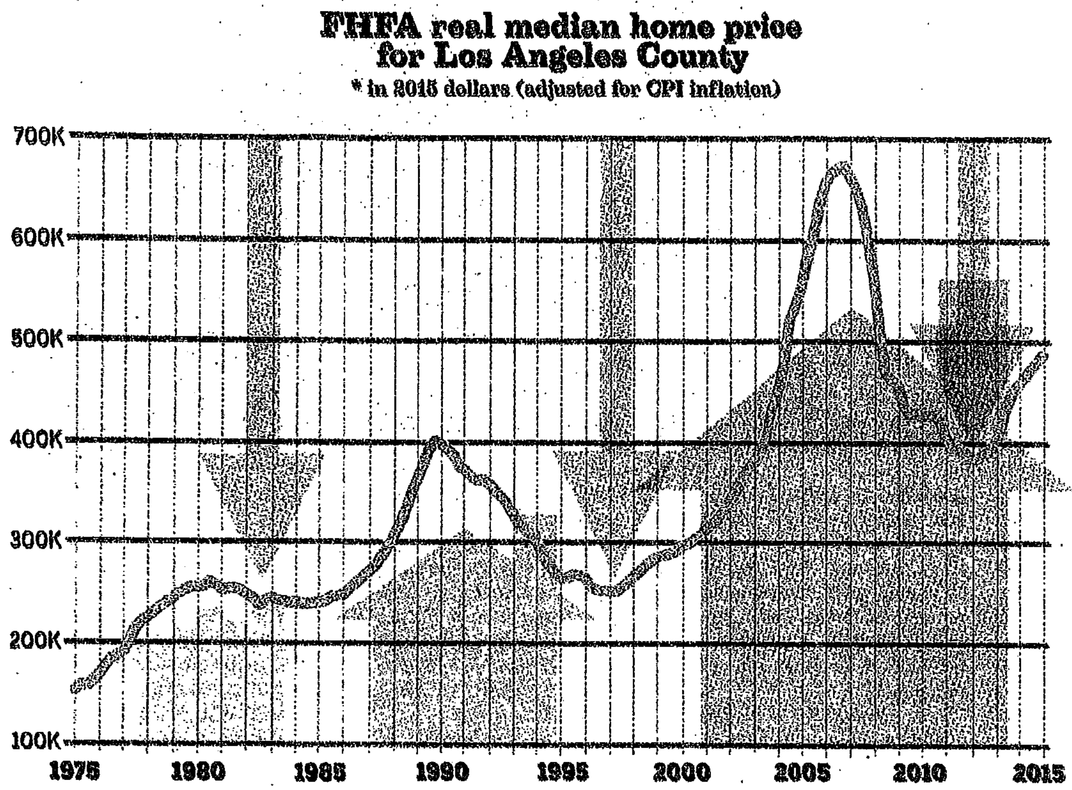
Two previous peaks were in December 1989, with a ratio of 14.8 to 1, and in February 2006, with a ratio of 24.4. According to Zillow, the current price-to-rent ratio in L.A. was 17.1 in May, which is far below the 2006 bubble level but still higher than any time before 2003.

That doesn't worry me, though. A high ratio doesn't spell danger for Los Angeles because, similar to New York (ratio: Manhattan 25, Brooklyn 23) and San Francisco (ratio: 21), it's now a "superstar" city. L.A.'s size, amenities, weather and geography make its houses an investment target for the global elite. Wealthy individuals from all over the world don't care that it might make more financial sense to rent, because they're not simply buying Los Angeles houses to live in them, they're also trying to diversify their financial portfolios.

Even though Los Angeles is one of the least affordable cities in the U.S., all factors indicate that it is not in a housing bubble. Of course the bull market will end eventually, but that doesn't mean we're heading for a devastating crash, like in 1990 or 2007. Whether you should put up a million bucks for that bungalow is another story.

WILLIAM YU is an economist at the UCLA Anderson School of Management.





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