

Spotlight on California's Continued Stellar Housing Markets

Overview

Over the past five years, house prices in the state of **California** have appreciated above the **U.S. average (67% versus 38%)**. In fact, the majority of HPI releases since 1998 rank **California** in the top 5 for annual appreciation, and it has never been lower than 16. The Third Quarter, 2003 HPI report indicates **17** out of **California's 25** metropolitan areas experienced double digit annual appreciation while the **U.S.** as a whole grew at about **5.56** percent. This article takes a closer look at some of the housing price trends of some of these individual MSAs.

1. Less Expensive Areas in Interior Northern California Take Off

Notable over the past few years have been high annual appreciation rates in some of the less expensive areas of **Northern California**. Since late 2000, the **Chico-Paradise MSA** (ranked **8** with **12.55%** growth) has been growing at double digit rates, along with neighboring **Yuba City**¹. **Redding** has also experienced double digit appreciation since mid 2001. In fact, **Redding** ranked number **1** for appreciation among all MSAs last quarter, and ranks **third** in the current quarter (**14.07%**). While reasons for high growth rates in these cities are not exactly known, Census numbers indicate most of the immigration to these areas is from within the United States². A plentitude of state and national parks, waterfalls, forestlands, and Lake Shasta (in the **Redding** area) make these areas desirable for baby boomers wishing to retire to affordable yet desirable locations.

2. Less Expensive Interior Areas South of Bay Area Picking Up

Similarly, interior areas south of the Bay region have been recently picking up in growth. Most notable are **Fresno** (ranked **second** for annual growth at **14.12%** this quarter) and **Bakersfield** (ranked **26** at **10.35%**). In the beginning of the five year period starting in quarter 2 of 1998, **Fresno** was growing substantially less rapidly than the U.S. By the third quarter of 2001, however, **Fresno** surpassed **U.S.** rates and has been essentially accelerating ever since. **Bakersfield** experienced extremely flat growth through the late 1990s and even through 2000. This area, however, has begun to accelerate over the past year, and has enjoyed double-digit appreciation since first quarter of 2002. Both of these areas are also characterized by large percentages of domestic immigrants, and may well represent retirees.

¹ Yuba City appears in OFHEO's list of unranked MSAs. This trend, however, has been consistent for over 2 ½ years.

² Based on most recent estimates from July 2001 to July 2002. Information available at www.census.gov.

3. Migration out of Bay Area Stimulates Housing Growth in Sacramento

High house price growth rates in **California** in the early part of this five year period was carried in large part by high appreciation rates in the **Silicon Valley** and surrounding Bay area. Eventually, housing prices became prohibitive and failing businesses brought about a leveling off of price growth by 2001. Bordering MSAs such as **Yolo**, **Stockton-Lodi**, and **Modesto** have enjoyed strong housing appreciation as individuals and perhaps businesses were forced to move further from the business loci.

With more plentiful and less expensive land and housing, businesses and labor have also moved to the **Sacramento** area, which has sparked significant housing appreciation (double digit since mid-2000). The Census Bureau estimates that net internal migration is negative in most of the **Bay area** counties, particularly in **Santa Clara**, the heart of the **Silicon Valley**. **Sacramento**, on the other hand, has experienced positive internal net migration. This quarter, **Sacramento** ranks **20** among MSAs, with **10.75 percent** annual appreciation. High appreciation rates in **Merced** (ranked **19** at **10.78%**) may be partially attributed to the same phenomenon. **Merced** is also desirable due to its close proximity to neighboring **Monterey Bay**, which is much more expensive. It is notable, however, that the **Bay Area** as a whole, while experiencing below average appreciation, has not yet suffered the “crash” many feared. Continued international immigration into this area may continue to support the economy and housing markets.

4. Southern California Continues Healthy Appreciation

Most metro areas comprising the **Southern California** region have also fared well relative to the national average over the past five years. Most remarkable were **Santa Barbara** and **San Luis Obispo** metro areas, which have cumulated over **80 percent** growth since second quarter 1998. These areas continue to hover around low double digit annual growth rates (around double the national average). Both **Ventura** and **Orange County** also record impressive five year gains of around **68 percent**, and are currently ranked **17 (11.31%)** and **21 (10.74%)**, respectively among MSAs for annual appreciation.

While **Los Angeles** and **Riverside San Bernardino** MSAs have experienced above average appreciation throughout most of this time period, the majority of increase in these MSAs has taken place over the past 2 years. **L.A.** is currently ranked **18**, with **10.90 percent annual growth** since the same quarter last year, and **Riverside San Bernardino** is ranked **7** with **12.57 percent** growth over this time period.

As in the **Bay Area**, much of **Southern California** has experienced an exodus of labor to other parts of the country. However, recent Census numbers international immigration remains high and largely sustains price growth in these areas.