

Analysis Of Long Beach's 2005 Housing Market

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Last year was another terrific year for housing appreciation in Los Angeles County. In 2005, a single family residence appreciated 20.1 percent, slightly off the pace of 24.8 percent in 2004. A median priced home in the county sold for \$495,000, according to DataQuick. As for

Long Beach, the market slowed slightly with appreciation dropping to 19.7 percent from the blistering pace of 28.4 percent in 2004. Yet, the median price of a single family Long Beach residence sold for \$525,000; which is \$30,000 above the county's average.

What's driving housing prices and how long will it last? The first question is a little easier to answer than the second.

Housing appreciation is a national and international phenomenon. In the financial markets there has been discussion of a global glut of savings. Since 2001, we have seen historically low long-term interest rates in the U.S. and elsewhere. These lower interest rates have been one of the important factors driving housing demand. While low interest rates explain the rising value of housing across the nation, to

understand why housing is relatively more expensive in our region than elsewhere, one needs to look more closely at our regional housing market.

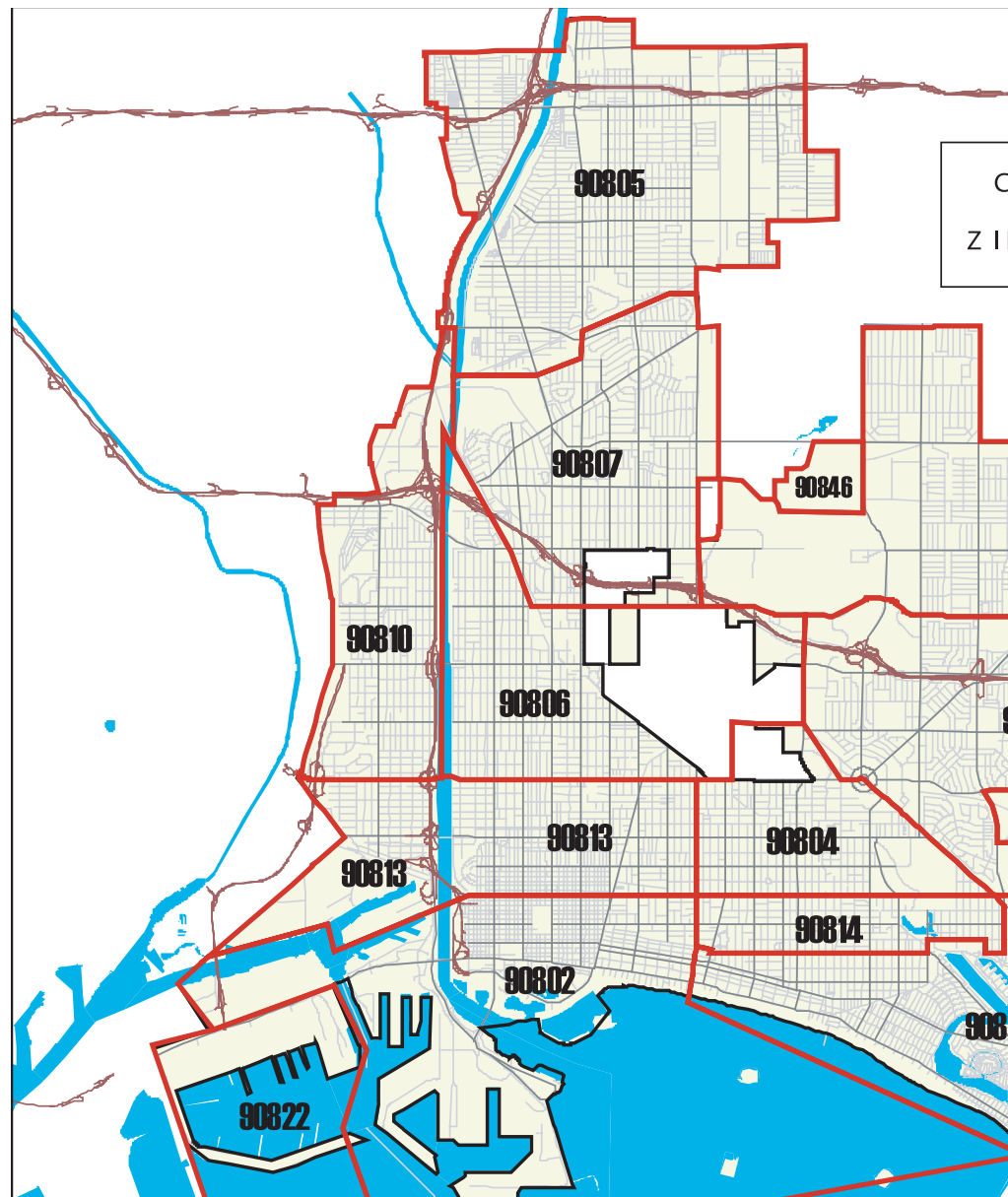
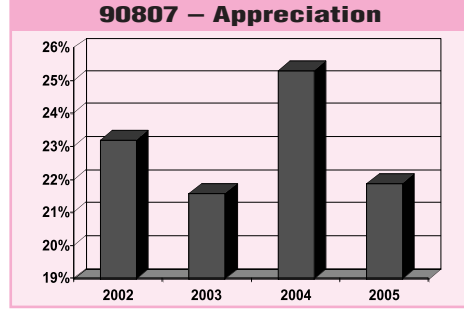
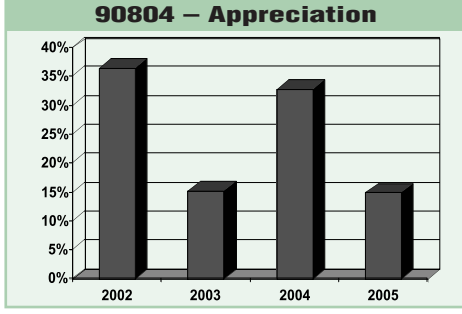
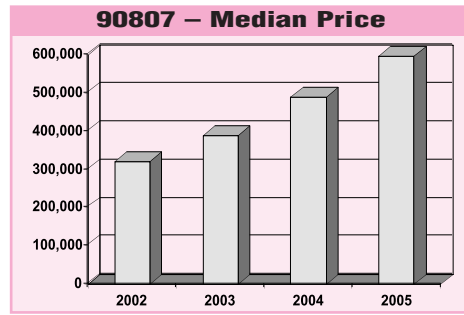
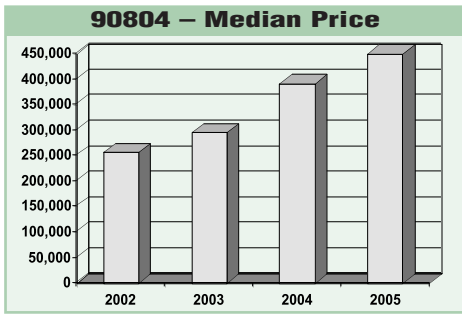
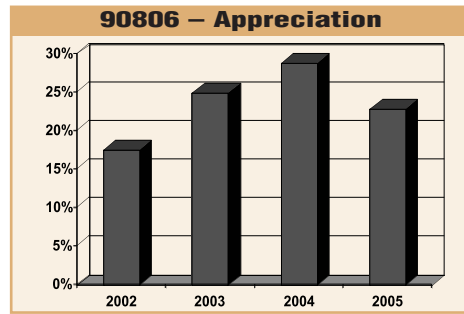
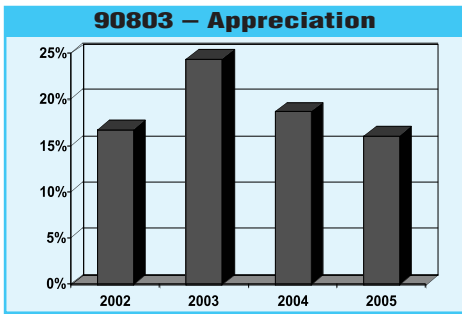
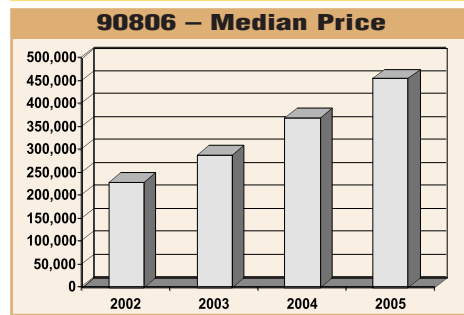
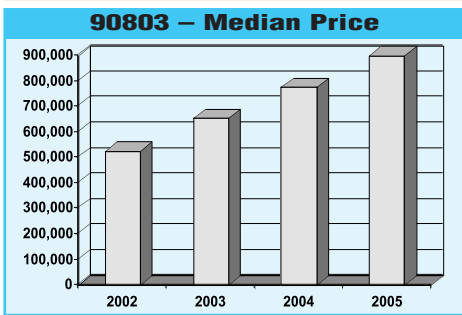
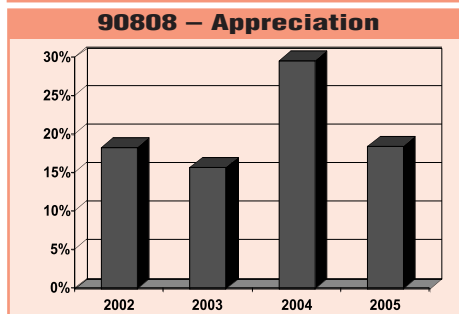
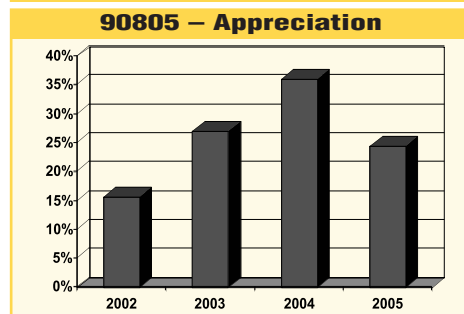
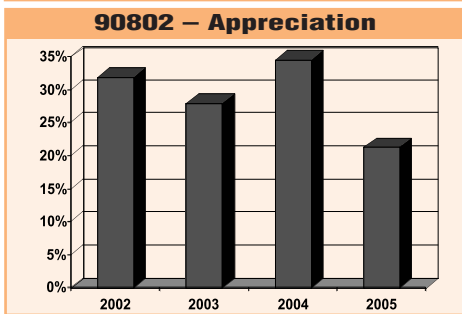
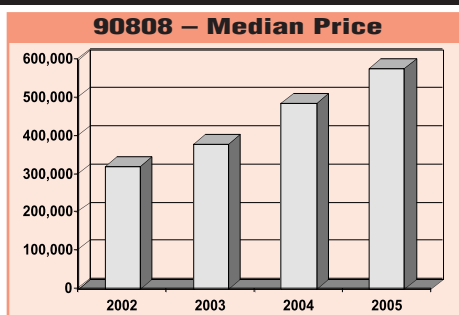
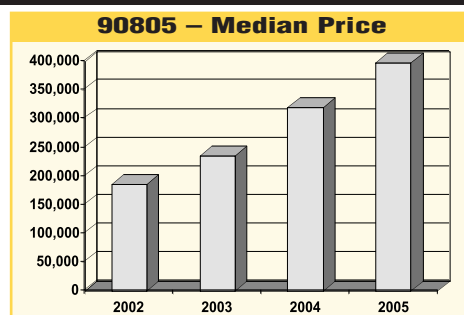
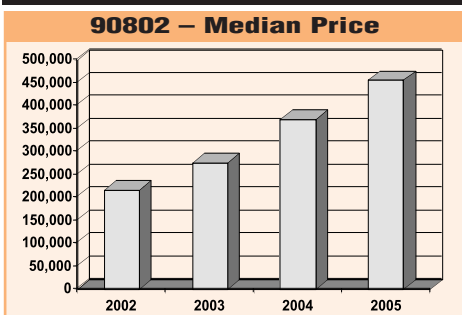
Housing prices in Southern California have always been higher than that of the nation. Land values in our region are higher since the region is an attractive area in which to live.

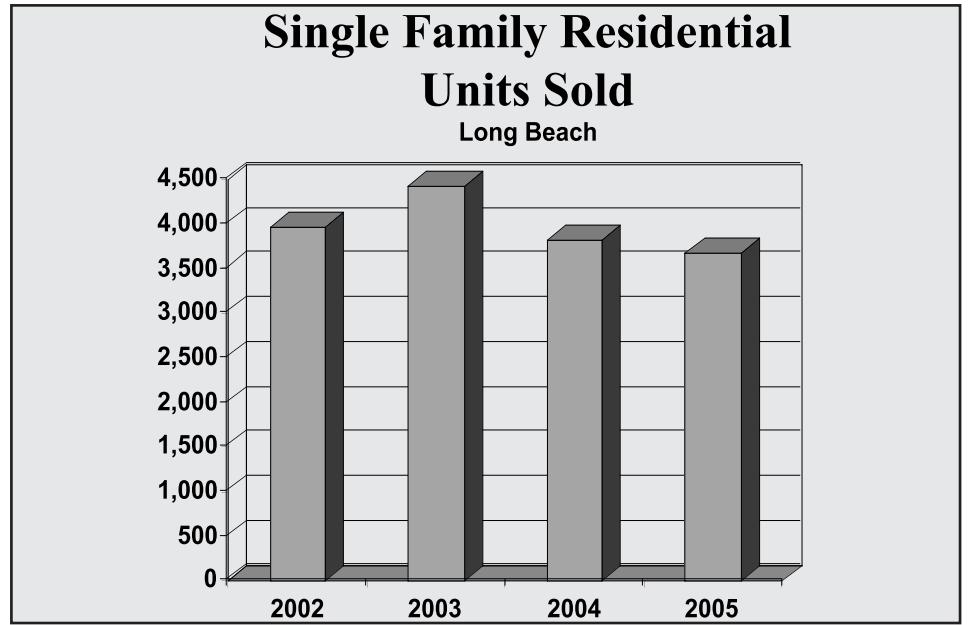
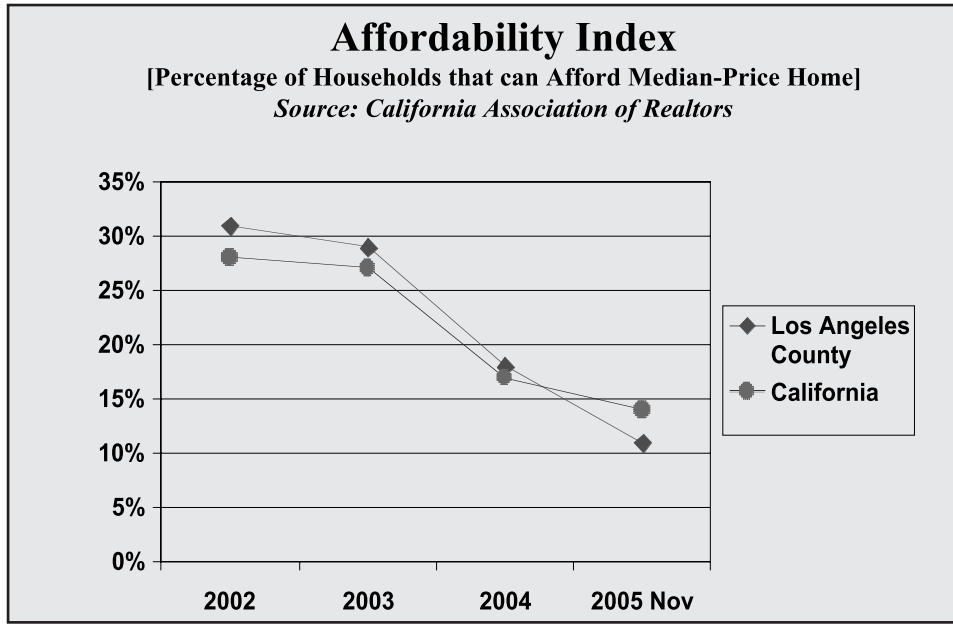
More importantly, there is an imbalance between demand and supply that contributes to relatively higher housing appreciation rates. From 2000-2004, the region has added 40,000 new jobs annually. During the same period, single-family residential permits averaged 6,000 annually. Planning literature suggests that every 1.5 jobs created should be matched by a residential unit. That metric indicates that the shortfall in housing is 20,000 units annually. Given the region's inability to match its jobs formation with an appropriate level of new housing, is it any wonder that housing has appreciated more rapidly in Southern California?

While housing appreciation is welcome news to homeowners, it is a cause for concern among the region's employers. As can be seen from the accompanying graph, in November 2005 only 11 percent of the families residing in the county could afford the median price of a home in the county. The lack of affordability

LONG BEACH SINGLE FAMILY RESIDENTIAL APPRECIATION – BY ZIP CODE

Source: Data Quick 2002-2005





further reduces our ability to compete for jobs. Firms wishing to expand or choosing to locate in a city or region must take into account the quality of life of their workers. Even when lower cost housing is available in the outlying counties, workers are engaged in longer commutes and these commutes may reduce worker productivity.

The ability of the region to grow and prosper will be limited because of the higher cost of housing, which begs the question: How long can housing prices continue appreciating if affordability continues to decline?

As housing prices rise, the pool of potential families that can afford a home shrinks.

Additionally, long-term interest rates are slowly increasing, further reducing the pool of eligible buyers. As can be seen in the accompanying graphs, there are two noticeable trends for all of the Long Beach ZIP codes: an increase in housing prices and a slowing in appreciation rates in 2005, although it's hard to imagine double-digit rate increases as a slowing. The 90814 area, which includes Belmont Heights, had the slowest appreciation of 10 percent last year. The highest appreciation rate was 28.1 percent in 90810 on the west side. The most expensive homes

in Long Beach are in 90803, Belmont Shore, Naples and the Peninsula. This area has always been a high priced area and last year the average home sold for \$900,000. The most affordable area was 90813 in West Long Beach, with the average home price of \$350,000.

We expect a further slowing in real estate values to the single digit levels throughout Long Beach. There is considerable anecdotal evidence that the inventory is increasing and that the average number of months a house is on the market is increasing. These factors suggest a

slowing in appreciation. Despite the slowing in housing prices, we do not expect there to be a housing crash. The supply-demand imbalance suggests that our area's housing prices will slow to a soft-landing. While that should be good news to homeowners, the longer-term challenge is to expand housing within Long Beach to improve our ability to attract jobs.

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