

Rewarding Ambition

A detailed architectural floor plan of a house, rendered in white lines on a dark blue background. The plan shows various rooms including a living area, kitchen, dining area, and bedrooms, with furniture and fixtures indicated by simple lines.

Latinos, Housing,
and the Future of California

A Report Produced By:
Pepperdine University,
School of Public Policy, Davenport Institute

La Jolla Institute
Pioneering the New Community

Cultural Access Group, Inc.
Cultural Insights Into Tomorrow's Mainstream Markets

Joel Kotkin, *Author*
Thomas Tseng, *Author*
Erika Ozuna, *Project Director*

A close-up photograph of a dormer window on a roof. The window has a white frame and a multi-paned design. The roof is made of dark shingles, and the sky is a pale, overcast grey.

September 2002

Produced by

PEPPERDINE UNIVERSITY
School of Public Policy

The interdisciplinary and innovative program of the Pepperdine School of Public Policy broadens its concerns beyond the study of government solutions to embrace a full range of community-based and free-market approaches to public policy, often using Southern California as an ideal laboratory in which to engage these issues directly. The curriculum goes beyond the theoretical survey of problems to highlight effective and proven applications and attracts leading scholars and policy practitioners for direct and daily contact with the next generation of public policy leaders. Rooted in the classic literature of history, philosophy, and economics, the program is nourished by the moral and ethical principles for which the Pepperdine heritage is well known and which are more important today than ever before.



The La Jolla Institute welcomes those who wish to join in: advancing critical thinking and understanding about the new economy and new ways of working; supplying business, government, and educational leaders with strategic information and insight; developing innovative economic development strategies that will lead to high performance organizations and communities; expanding the public and private sectors' understanding and knowledge about the relationships and linkages found within the new economy and new ways of working; providing a forum for business and civic leaders to address regional, national, and global issues impacting the new economy.



It has long been the vision of Cultural Access Group that America's increasingly diverse population necessitates responsive changes in the U.S. marketplace. For the past 18 years, Cultural Access Group has been at the forefront of America's ethnic and cultural transformation and has communicated our vision and provided strategic direction to over 200 blue chip clients to help them effectively target emerging growth market segments. Supported by our multilingual marketing and research capabilities, our business has received broad recognition as a respected thought leader possessing unmatched ethnic and cultural expertise. According to *American Demographics Magazine*, Cultural Access Group is one of the "Best 100 Sources of Marketing Information."

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About the Authors

Joel Kotkin, Author

An internationally recognized authority on global, economic, political, and social trends, Joel Kotkin is the author of the best-selling book, *The New Geography: How the Digital Revolution is Reshaping the American Landscape*. He is a senior fellow at the Davenport Institute for Public Policy at Pepperdine University and at Santa Monica's Milken Institute. A former business trends analyst for KTTV/Fox Television, he won a Golden Mike Award for best business reporting on the dynamics of the entertainment industry. He wrote the popular monthly "Grass Roots Business" column in the *Sunday New York Times* and is a contributing editor to the *Los Angeles Times*' Sunday opinion section. He served as West Coast editor for *Inc. Magazine* and has contributed regularly to *The Washington Post*, *The Wall Street Journal*, and *Forbes ASAP*. A native New Yorker educated at the University of California, Berkeley, Kotkin has authored four other books: *TRIBES: How Race, Religion and Identity Determine Success In the New Global Economy*; *THE THIRD CENTURY — America's Resurgence in the Asian Era* (co-author); *CALIFORNIA, INC.*; and *THE VALLEY*.

Thomas Tseng, Author

Thomas Tseng is director of marketing for Cultural Access Group, Inc., one of the nation's preeminent ethnic marketing research firms, responsible for strategic marketing, public relations, and new business development. He previously served as research director of the Community Development Technologies Center, a Los Angeles-based urban research institute, where he directed the *Southern California Minority Business Atlas* project that assessed challenges and opportunities faced by Southern California's minority business enterprises. As a concurrent research fellow for the Davenport Institute for Public Policy at Pepperdine, Tseng authored the widely acclaimed study, *Common Paths: Inner City Opportunities in South Los Angeles*, which dispelled myths and highlighted the region's economic opportunities and trends. He also teaches community development research at Los Angeles Trade-Technical College every spring and is a board member of El Rescate Community Development Corporation, an advisory board member for the Los Angeles Local Development Corporation, and a policy director for CAUSE-Vision 21, an Asian-American political organization. Tseng earned his bachelor's degree at the University of California, Irvine, and his master's degree in urban planning at the University of California, Los Angeles, School of Public Policy and Social Research.

Erika Ozuna, Project Director

With a comprehensive background that includes high school teaching and tutoring, Spanish translation, and television production, Erika Ozuna currently serves as a research fellow in the Davenport Institute at Pepperdine University's School of Public Policy. She is co-author of "The Changing Face of the San Fernando Valley," a study of the ethnic evolution of the San Fernando Valley population. Fluent in Spanish, she serves concurrently as a fellow of the Institute of International Relations. She earned a master of public policy from Pepperdine, a degree in international business from the University of Texas, and teacher certification at Texas A&M University. Her honors and awards include dean's list honors, a study-abroad scholarship, a Ford EEOC Scholarship, and a National Hispanic Foundation Scholarship. Prior to her fellowship assignment at Pepperdine's public policy school, Ozuna taught business and tutored students at Memorial High School in McAllen, Texas. She has applied her Spanish speaking and translating skills in such diverse activities as local political campaigns and the Miss USA pageant.

Executive Summary

California has long been the land of dreams, luring people from across the country and increasingly from throughout the world. A good job, an education, and, most of all, possession of one's own piece of this vast and varied state was part and parcel of what drove people here.

Yet today that very dream is threatened by what, for millions of Californians, is a closed door. Much of the blame lies, ironically, with the success of the state, a booming economy that created billions in new wealth and opportunities, turning California into the world's fifth largest economy. California's growth engendered a massive increase in the cost of housing, with prices, particularly on the coast, reaching levels well beyond the reach of most state residents. As a result, despite the good economic times, homeownership in some areas, such as Los Angeles, actually declined in the 1990s.¹

Not all the problems, however, can be blamed on markets. Changes in the state's tax structure have provided little incentive for communities to build more housing; indeed, the current tax system, dependent largely on retail sales, encourages the development not of homes for families, but malls for shoppers. At the same time, tough environmental laws and often a powerful anti-growth lobby make the construction of new housing, particularly in the low- and moderate-level varieties, almost impossible. As a result, California home construction in the past decade lags far behind that of other periods of demographic and economic growth.

Almost all potential middle- and working-class home buyers have been affected by the soaring prices. Yet arguably the group most impacted — and almost certain to feel the sting most acutely — is Latinos, who represent a plurality of California new households.² Strongly work-oriented and family-centric, Latinos are natural home buyers, with a strong, demonstrated cultural affinity for investing their earnings into residential real estate. Yet increasingly they face growing obstacles to purchasing homes, often being forced to crowd several families into one residence or to move to the extreme periphery of our major urban centers.

If not addressed forcefully, this gap in affordability could create a potentially dangerous break with our state's tradition. Earlier waves of migrants to California — from the homesteaders, to the Depression-era "dust bowl" refugees, to the post-World War II generation — all found a California that could reward their hard work with the prospect of owning a home. Latinos, the predominant new wave of the late twentieth and early twenty-first centuries, would become the first major

Report Findings Include:

- Latino home buyers purchase more than one in five homes sold in California.
- More than one-half of all homes purchased in California by Latinos are in the five-county Southern California region, predominantly in Los Angeles County.
- Nearly two-thirds of U.S.-born Latinos in California are homeowners, whereas less than one-third of Latinos born outside the U.S. own their own homes.
- Most of California's Latino homeowners are recent owners — 44 percent have owned their homes for fewer than five years, and more than 70 percent of their current residences are a first-time home purchase.
- Family considerations are the strongest motivation behind purchasing a home, followed by owning the home as a financial investment.
- In purchasing their homes, the top challenges among California's homeowners were "finding the right home" and "understanding the home-buying process." Across the board, foreign-born Latinos faced the greatest challenges in purchasing their homes.
- Foreign-born Latino homeowners in California devote a considerably greater amount of their income to mortgage payments than U.S.-born homeowners. An average of 43 percent of their household income is spent on the monthly mortgage, compared to 32 percent among U.S.-born.

Report Findings *continued*:

- The vast majority of the Latino renting population are immigrants: 80 percent were born outside the U.S. — 66 percent in Mexico.
- Nearly one-half of all Latino renters pay more than 30 percent of their monthly income in rent; more than one-third pay more than 40 percent.
- Among renters who previously attempted to purchase a home, the top two reasons for being declined are: “bad credit/no credit” and “insufficient income for down payment/no money.”
- Overall, Latino renters are very optimistic about their likelihood of purchasing a home at some point in the near future — nearly 70 percent are confident they can purchase a home within five years.
- Most prospective Latino home buyers hope to purchase a single-family home — more than half of them are looking for a home of \$150,000 or less with a down payment of \$10,000 or less.
- More than 65 percent of potential home buyers prefer to conduct the home-buying process in Spanish — 78 percent prefer to work with a Latino real estate agent and 63 percent prefer to deal with a Latino lender representative.

group to find themselves, through no fault of their own, excluded from owning their piece of the California dream.

The implications of this failure could be severe. A largely new population, eager to share the California dream, may become discouraged, alienated, and politically detached. Possible conflicts between a class of permanent renters and homeowners, particularly with racial overtones, would not bode well for the state or its future. Worst of all, the inability to own homes would force many of the most industrious immigrants and second-generation Latinos out of the state, leaving behind vastly weakened communities.

What is urgently needed, then, is a strong commitment, both by the private and public sectors, to address this potentially dangerous situation. Although discrimination is still a factor inhibiting homeownership among Latinos,³ many of the barriers are more aptly described as economic or cultural and ultimately best addressed through policies that increase the supply and access to housing to moderate-income people.

The economic issues are perhaps the most paramount. Effort should be made by private, nonprofit, and public agencies to extend credit to working- and middle-class Californians who include many of those in the roughly two-thirds of households statewide that cannot afford a median-price home.⁴ This would by definition aid Latinos who represent the largest proportion of moderate-income residents and potential home buyers.

Cultural issues need to be addressed largely by the private sector. Our survey results show a powerful proclivity on the part of Latinos to purchase homes through Spanish-speaking or Latino-oriented agencies. Developers also need to be more sensitive to the kinds of housing products that work for Latino families.

But, ultimately, much of the solution lies in Sacramento and in the varied communities of this state. Until tax and fiscal policies are enacted that encourage localities to build housing — as opposed to retail developments — there will be little incentive for them to do so. Only further out peripheral areas would be developed except for the highest cost housing, something that would not address the most critical need and would accelerate sprawl.

And in the end, the state and its communities must recognize that housing is a critical part of the state's infrastructure — just like roads, transit, water, or power systems. Housing is the fundamental thing that roots Californians to the state and allows companies to tap labor markets critical to their growth. Housing for Latinos is not about one sector or one ethnic group; it is about the very essence, the future of California for us all.

Introduction

California's housing crisis is partly the product of auspicious circumstances — rapid economic expansion and population growth have elevated California's international prominence and position. But this growth and success is also creating the conditions for the state's immense housing shortages and out-of-control prices.

Providing housing for its diverse, burgeoning population impacts every aspect of California life. It determines increasingly where workers go, companies locate, and how attractive our communities are. Despite the urgency of the housing crisis, it has remained relatively low on the public policy agenda. Relatively scant attention and limited resources have been dedicated to addressing this crucial concern in Sacramento. Yet left unaddressed, California's housing crisis could have detrimental consequences for the Golden State for decades to come.

Rapid Economic Growth and Record Immigration

Emerging from a debilitating recession during the early 1990s, California has since staged a spectacular resurgence — becoming the nation's undisputed linchpin of the New Economy. Driven by the state's economic diversity, technological ingenuity, and a resilient entrepreneurial spirit, California returned to a path of sustained economic prosperity, becoming a virtual job-making engine fueled by vast pools of human capital from around the world. Employment soared in California — as 2.8 million new jobs were produced from the beginning of 1993 to mid-2002.⁵

Even as California rose from the shadows of retrenchment into economic prominence, it continued to be a primary destination for millions of newcomers from around the world in search of improved opportunities. During this period, the country as a whole experienced one of the greatest immigration booms in its history — adding 11.2 million new immigrants over the previous decade, a record since the passage of the 1965 Immigration Act.⁶ No part of the country felt the impact of this surge more than California, which brought in one-quarter of all these newcomers.

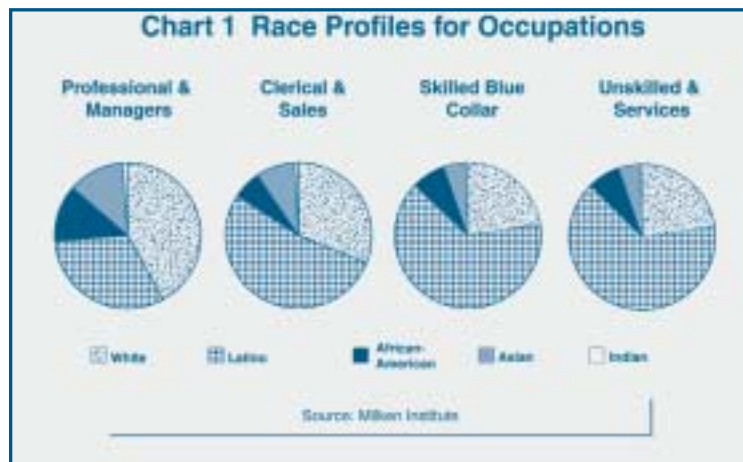
Today, one in four California residents are foreign-born, the highest percentage of any state. About 9 million foreign-born people live in the Golden State, more than twice the number for second-place New York.⁷ A majority of Californians are now non-White. Latinos and Asians comprise the fastest growing segments of the state's population, representing nearly 80 percent of all new immigrants between 1990 and 2000. By mid-century, the ascending Latino population will likely become the majority ethnic group in the state.

California's Greatest Challenge

Yet, for all its economic vibrancy and impressive growth — and due to it as well — California confronts a severe housing crisis that jeopardizes its own long-term economic health as it struggles for ways to house this growing population of 35 million. Population growth demonstrates no immediate signs of slowing down and is projected to top 50 million by 2040.⁸ This growth, combined with a severe shortfall in new housing supply, has spurred a price spiral that may slow but not reverse in the foreseeable future.⁹

Introduction

The problem is most acute among lower wage workers, such as in manufacturing and service positions, who are least financially equipped to cope with the fast-rising prices. This population, according to Milken Institute demographer William Frey, is disproportionately Latino and likely to remain this way for the conceivable future.



There is much at stake. How California's new civic, business, and political leaders tackle this critical issue will likely determine the course of the state's economic future and quality of life for decades to come. So daunting is the challenge posed by this housing crisis, the very well-being of the California dream itself is seriously threatened.

In order for California to continue its ascendancy as a preeminent center for economic vitality, innovation, and creative vibrancy in the new century, difficult decisions and actions will be necessary. Otherwise, we may very well redefine how Californians conceive the American dream — leaving millions of residents, a disproportionate share of them Latino, on the outside looking in.

California's Rising New Majority

The rise of the Latino population represents the most dramatic demographic shift in America in the late twentieth century. Census 2000 revealed astonishing Latino population growth that exceeded even the most buoyant projections; the population became the largest ethnic group in the nation — growing 58 percent over the previous decade. Today, Latinos represent 12.5 percent of the overall U.S. population at 35.3 million.¹⁰

More than any other ethnic group, Latinos are poised to fundamentally shape and redefine the country's dynamic, shifting social landscape. Far from a homogeneous population, the explosive growth of Latinos in the country shows few signs of slowing down in the immediate future — as the Latino population boom is projected to climb to 52.7 million by 2020.¹¹

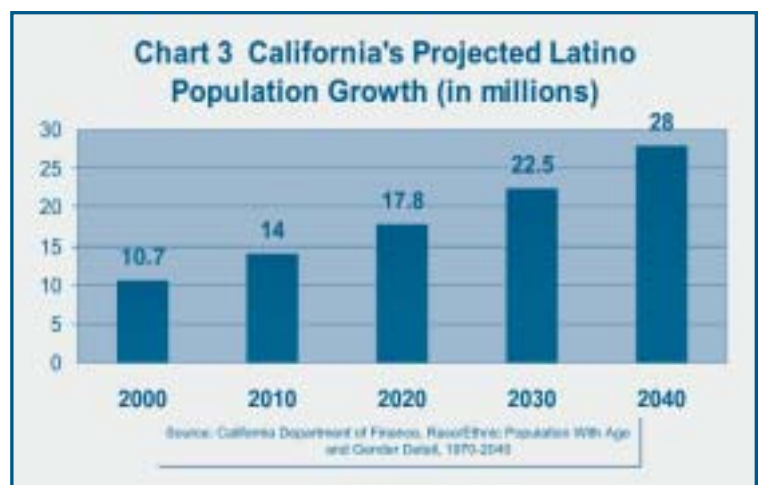
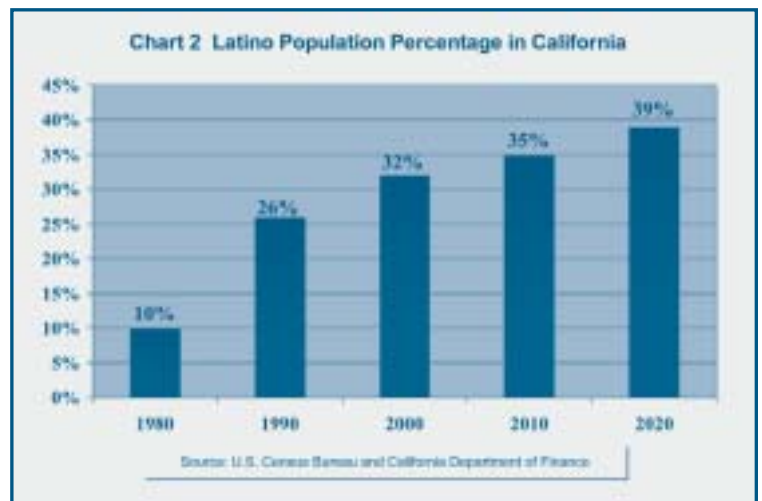
Increasingly, less of this growth will be driven by immigration — as high birth rates subsume a greater proportion of overall population.¹² The fastest growing segment of the Latino population is among the swift-rising third generation. By 2025, it is estimated the U.S. will be home to the second largest Latino population in the world.

California's Rising Latino Population

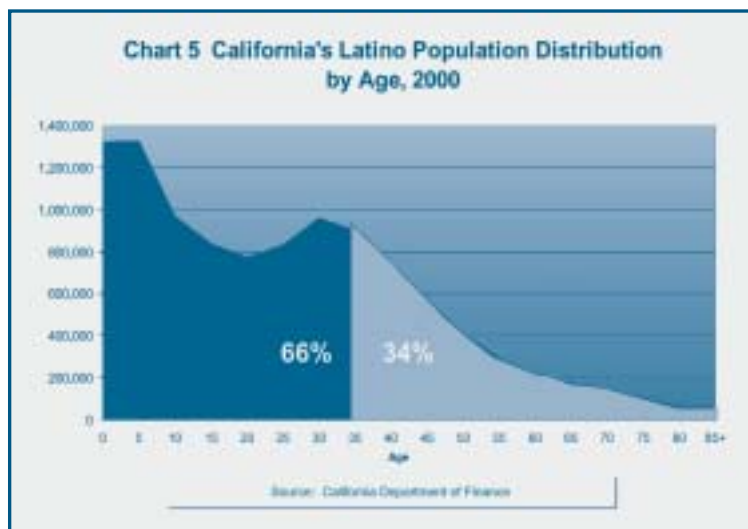
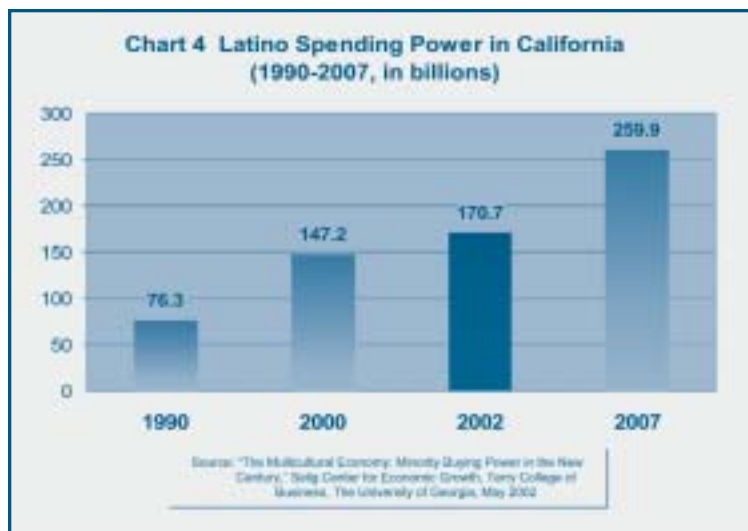
California is home to the largest Latino population in the country and will certainly continue to be one of the primary hubs for the Latino population boom. In just the past twenty years, the proportion of California's Latino population has tripled — comprising just 10 percent of the state's population in 1980, Latinos grew to 32 percent in 2000.¹³

The “Latinization” of the Golden State — which currently comprises approximately 12 million Latino residents — will continue to escalate rapidly in subsequent decades and may very well constitute the majority ethnic group in California before mid-century.

Moreover, Latinos have made tremendous strides into the



California's Rising New Majority



mainstream U.S. economy — bringing new dynamism to the American consumer market overall and comprising a fundamental component of California's overall workforce. This has resulted in exploding purchasing power.

Between 1990 and 2000, Latino purchasing power in California nearly doubled from \$76 billion to \$147 billion. Currently, the spending power of Latinos in the state is estimated at approximately \$171 billion and continues to escalate at a breathtaking clip. By 2007, it is projected to climb to almost \$260 billion.¹⁴

This purchasing power is rapidly climbing at greater levels than even Latino population growth in the state. While this growing economic clout is due partly to an ascending Latino middle class,¹⁵ the relative youth of the Latino population is one critical factor in this phenomenon. While the average age among all Californians is 38, the average age for the state's Latino population is 25. Thus, many Latinos are just entering the workforce and are entering their prime spending years just as many Anglo Californians are preparing for retirement and retrenchment. A considerable proportion of the Latino population has yet to even make its full impact felt in the labor force.

Two-thirds of the Latino population in California is under the age of 35. Due to their relative youth,

their rate of household formation, and entrance into the workforce, this segment of the population will constitute the greatest level of housing demand over the next several decades; and many of them — in the 30-35 age range — are just now entering the peak home-buying periods of their life stage. Between 2000 and 2010, for example, Latinos will account for roughly 40 percent of Californians entering middle age, compared to only 34 percent for Anglos.¹⁶

Achieving the California Dream

One sign of the enormous drive among Latinos for homeownership can be seen in the expanding numbers who, despite rising prices, have managed to join the ranks of California homeowners. Land ownership is, if anything, a more coveted value throughout Latin America than in the United States. The Mexican Revolution, for example, was largely fought over the issue of land ownership; in Mexico, prior to the 1920s, the vast majority of the good land was in the hands of a few owners. Land reform, with the distribution of property to peasants, was a critical part of revolutionary plans put into effect, particularly under the presidency of Lazaro Cardenas.¹⁷

Recent conflicts in Chiapas and around the newly proposed Mexico City airport suggest that land security is a major issue in the cultures from which most Latino immigrants migrate. Lack of formal

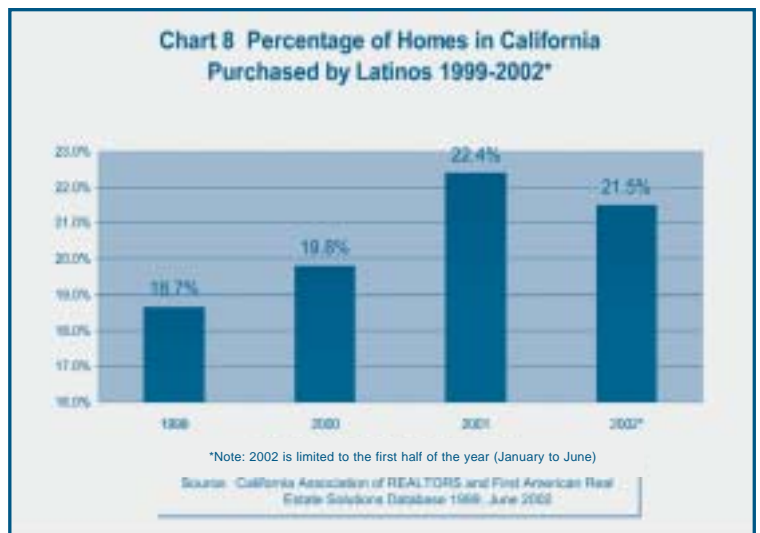
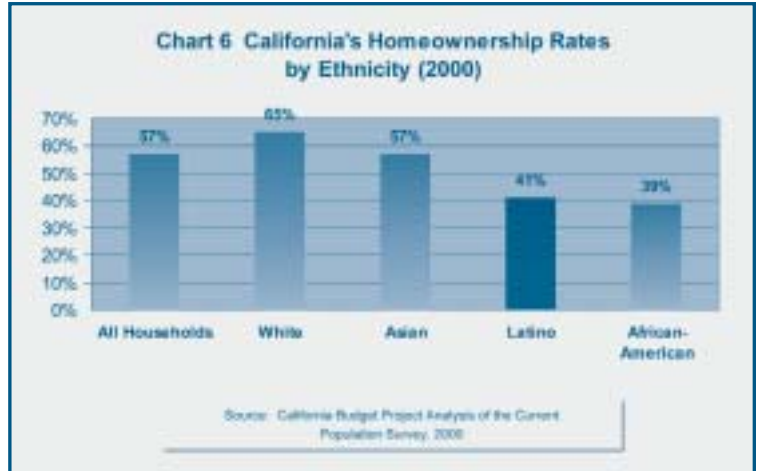
property ownership, as one U.S. AID official suggests, is one of the things that prevents giving the majority of people in these countries “a sense of purpose, a stake in society and a seat in the community council.”¹⁸ Nor is the land problem in Mexico today simply a rural one. With its own rising population, the country is experiencing its own major housing shortage. Mexico, according to one recent study, needs to build roughly a half million affordable new living units a year to accommodate its own soaring domestic growth.¹⁹

A similar orientation towards home or land ownership can be seen in the desire of Latinos relocated in the United States and California to place their primary investment into purchasing a home. Even with their lower incomes, the gap between Latinos and others in terms of the value of their homes is much lower than other barometers of wealth accumulation, such as stocks, bonds, or business equity.²⁰ Home equity represents a median of 71 percent of Latino homeowners’ net worth compared to 40 percent and 57 percent for their Anglo and African-American counterparts, respectively. In contrast, only 4 percent of Latino households owned publicly traded stock compared to 14 percent of overall U.S. households.²¹

Nationwide, Latino homeownership between 1998 and 2000 rose from 4 to 4.5 million, accounting for 17.5 percent of the overall rise in U.S. homeownership levels during that period.²² California was a large part of this movement.

The percentage of homes purchased by Latinos has climbed in recent years — as more than one in five homes sold in California today are being acquired by Latino buyers.

The number of homes purchased by Latino home buyers has climbed from 18.7 percent in 1999 to 22.4 percent in 2001.²³ Preliminary figures suggest that this upward climb may be slowing down. The current percent of homes acquired by Latinos is 21.5 percent, according to the most recent figures during the first half of 2002.



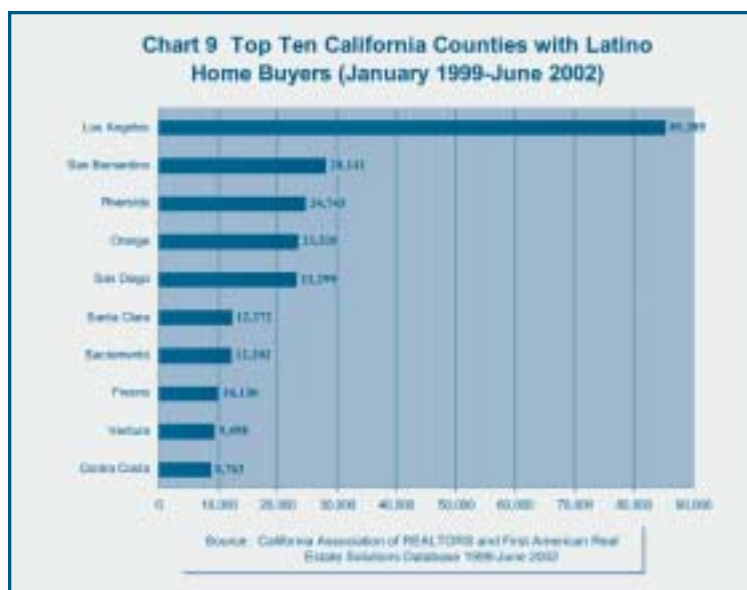
California's Rising New Majority

While home-buying records for the remaining calendar year will provide a more conclusive picture, the slightly falling percentage of Latino home buyers in 2002 may be indicative of California's growing housing crisis (to be discussed in the next section).

More than one-half of all homes purchased by Latinos between January 1999 and June 2002 were in the five-county Southern California region, predominantly in Los Angeles County.

Overall, 57 percent of California's Latino home buyers purchased homes in the five-county Southland area — encompassing Los Angeles, Orange, San Bernardino, Riverside, and Ventura Counties. Across the entire state, more than 300,000 housing units were purchased by Latino home buyers during this three- and a half-year period.

By far, Los Angeles County garnered the highest level of Latino home buyers than any other part of the state. Twenty-eight percent of all homes acquired by Latino home buyers in California were in Los Angeles County.



In Los Angeles County alone, more than 85,000 housing units were sold to Latino home buyers — three times greater than the next closest rival, San Bernardino. In fact, there were more Latino home purchases in Los Angeles County than in San Bernardino, Orange, and Riverside Counties combined during this period. As the second highest county of Latino home purchases at 28,100 homes, San Bernardino is followed by Riverside (24,700), Orange County (23,500), and San Diego (23,300).

Yet this progress is not being experienced across the board among Latinos. A growing divide can be observed in the data between the largely well-acclimated segments of the population (which tend to be U.S.-born and possess higher educational levels) and the considerable immigrant community,

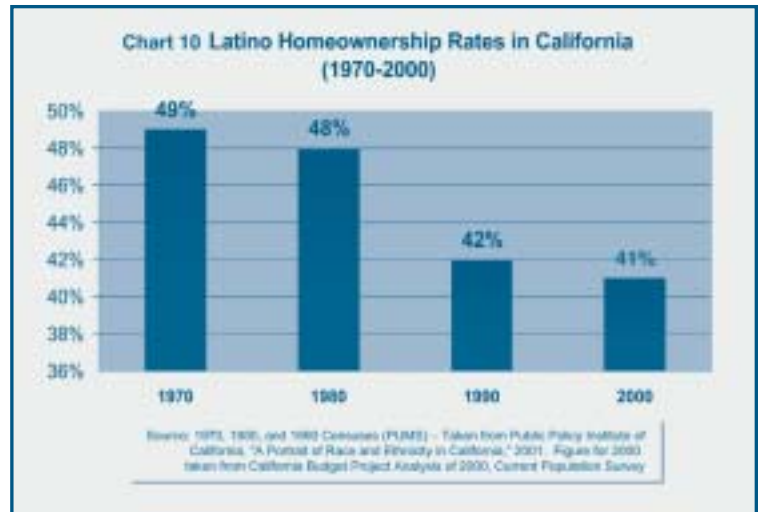
which has been the primary driver of population growth over the last several decades. Perhaps the most critical issue for housing in California lies in preserving the opportunity and hope for homeownership among this large and rapidly expanding group.

In this sense, current statistics for Latinos are really a story of two populations. While the U.S.-born Latino population has demonstrated considerable progress across all social indicators of well-being — including rising income levels and greater levels of educational attainment — it has been the vast immigrant sector, primarily from Mexico and Central America, that has faced the greatest economic pressures and housing challenges.

Due to their swelling numbers during peaks of immigration over the past thirty years, overall homeownership levels among Latinos actually declined from 49 percent to 41 percent between 1970 and 2000.²⁴ Much of this coincided with vast immigration growth from Latin America.²⁵

Certain specific demographic features of California's Latino population have been well documented — including the propensity toward larger households, the centrality of families, and larger numbers of young children per household. Yet, to date, overall data on Latino housing patterns have been scarce.

Thus, in May/June 2002, the sponsors of this study commissioned a statewide poll. A total of 504 telephone surveys were conducted among California's Latino population in order to document the overall housing attitudes, characteristics, and challenges confronting the population. Telephone interviews, conducted in both English and Spanish, were administered by the research firm Cultural Access Group, Inc. In general, the survey captured a representative cross-section of Latino homeowners and renters across the state. (For more information on the survey methodology, refer to the Appendix).



Overall, a little over one-quarter of all respondents — 27 percent — were born in the U.S. Among the rest, 57 percent were born in Mexico, 10 percent were born in Central America, and 6 percent were born in other parts of Latin America.²⁶ Strong differences are apparent between the U.S.-born and foreign-born populations.

Selected Characteristics	U.S.-Born	Foreign-Born
Own versus Rent	65% vs. 35%	31% vs. 69%
Avg. Age	43 yrs.	38 yrs.
Avg. Length of U.S. Residency	41 yrs.	16 yrs.
Avg. Size of Household	3	4.3
Avg. No. of Children Per Household	1.98	2.4
Percent That Completed College	34%	11%
Percent With Income Greater Than \$25K	62%	35%

Nearly two-thirds of U.S.-born Latinos are homeowners whereas less than one-third of Latinos born outside the U.S. own their own homes.

A wide disparity exists between U.S.-born Latinos and foreign-born Latinos in the area of homeownership. U.S.-born Latinos possess substantially higher rates of homeownership than those born outside the country. While nearly two-thirds of the U.S.-born population are homeowners, less than a third of the foreign-born population own their own homes. The foreign-born Latino population also falls behind their U.S.-born counterparts in income and educational levels and tends to have larger households with a higher number of children per household.

Selected Characteristics	Homeowners	Renters
U.S.-Born versus Foreign-Born	43% vs. 53%	16% vs. 80%
Marital Status	70% married	60% married
U.S. Citizen	57%	26%
Average Length of U.S. Residency	32 yrs.	17 yrs.
Average Age	44 yrs.	36 yrs.
Average Size of Household	3.95	4.02
Average No. of Children Per Household	2.55	2.08
Average Household Income	\$60,400	\$42,400

Profile of Latino Homeowners

Latino homeowners tend to be more acculturated than non-homeowners — 43 percent of homebuyers are U.S.-born compared to only 16 percent of renters. Likewise, homeowners have been in the U.S. longer — average 32 years versus 17 years — and are far more likely to be U.S. citizens (57 percent versus 26 percent).

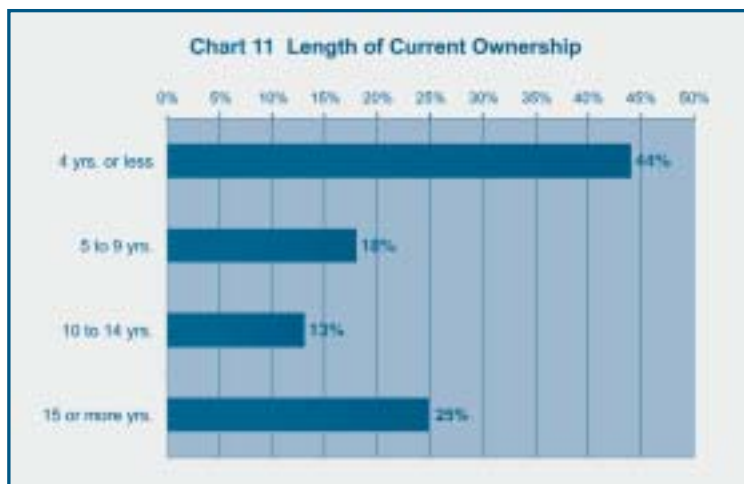
A total of 204 surveys were conducted among current Latino homeowners across the state. In general, existing Latino homeowners are older than Latino renters (average age is 44 years compared to 36 years), favor English slightly more than Spanish (60 percent to 40 percent selected to conduct the survey in English), and live primarily in single-family, detached homes (90 percent).

California's Latino homeowners are also relatively more assimilated into U.S. society than their renter counterparts — more than 40 percent were born in the U.S. compared to only 16 percent among renters. Of those born outside the U.S., most of them — 70 percent — have lived in the U.S. for 15 years or more.

Recent Homeowners

Many Latino homeowners are recent owners — 44 percent have owned their homes for fewer than five years. In addition, more than 70 percent of their homes are a result of a first-time home purchase.

Many Latino owners are fairly recent homeowners — 44 percent of respondents indicated they have owned their homes for fewer than five years, and more than 70 percent revealed that their current residence is their first home purchase. Among immigrant homeowners, these results are even more pronounced. Among the foreign-born homeowners, more than one-half — 52 percent — revealed they have owned their home for fewer than five years and 79 percent indicated that their current home is a first-time home purchase.



Family and Investment Are Prime Motivating Factors

Family considerations are the strongest motivation behind purchasing a home, followed by owning the home as a financial investment.

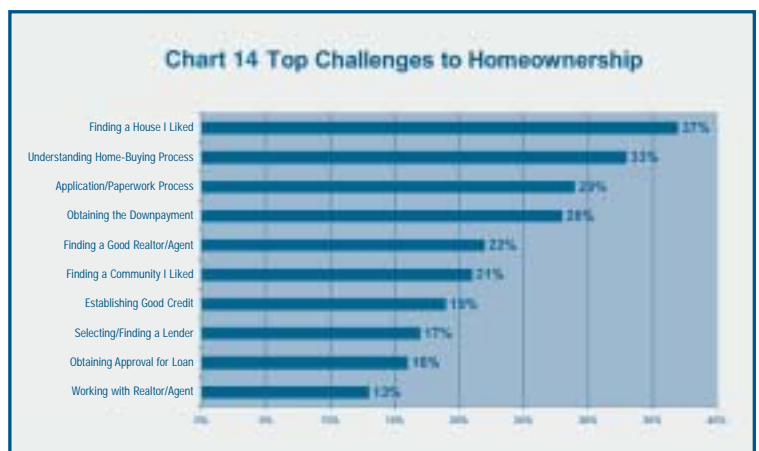
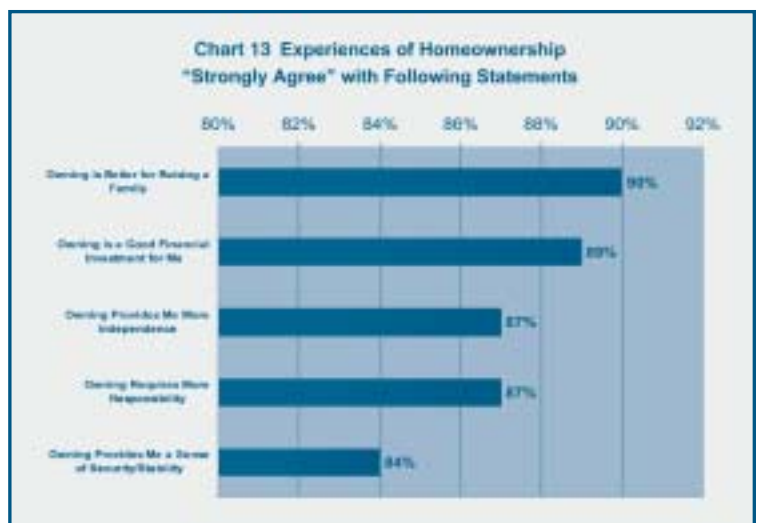
By far, the primary motivating force among respondents to becoming homeowners is due to family considerations. Nearly 40 percent of all Latino homeowners indicated that “more room for a growing family” was the top reason behind their home purchase. This greatly eclipsed the second strongest motivation towards homeownership as a form of financial investment, a view expressed by 22 percent of respondents.

Similarly, there is a strong tendency to see homeownership as a critical advantage in the raising of a family. Ninety percent of homeowners strongly agree that “owning a home is better for raising a family,” while 89 percent also strongly agree that “owning a home is a good financial investment for me.”

Top Challenges: Finding the Right Home, Understanding the Process

Finding the right home and understanding the home-buying process were the top challenges among homeowners. Foreign-born Latinos, in general, faced far greater challenges across the board than their U.S.-born counterparts.

Among the top challenges in becoming a homeowner, respondents expressed that “finding a home” was the biggest obstacle at 37 percent and “understanding the home-buying process” was expressed by one-third of all respondents. Other impediments indicated by homeowners are: the application/paperwork process at 29 percent, coming up with the down payment at 28 percent, and finding a good realtor/real estate agent at 22 percent.



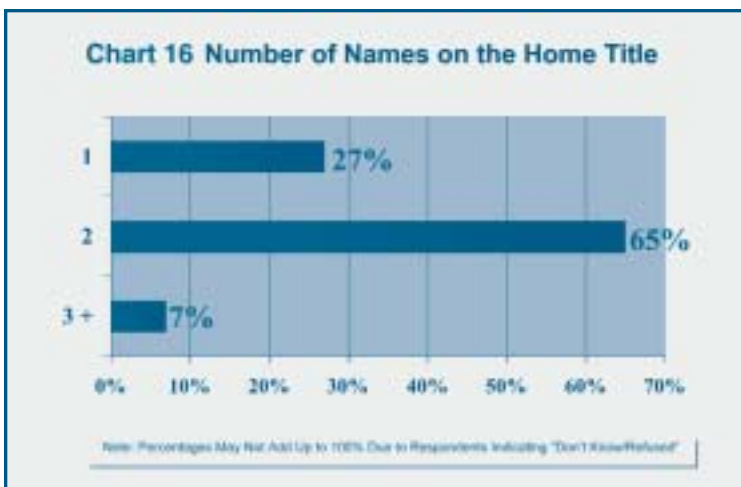
California's Rising New Majority



The foreign-born population revealed a far greater degree of difficulty among all these factors compared to the U.S.-born population. The gaps are particularly wide in terms of “selecting/finding a lender,” “finding a good realtor/agent,” and “finding a community I liked.”

Legal Ownership Patterns

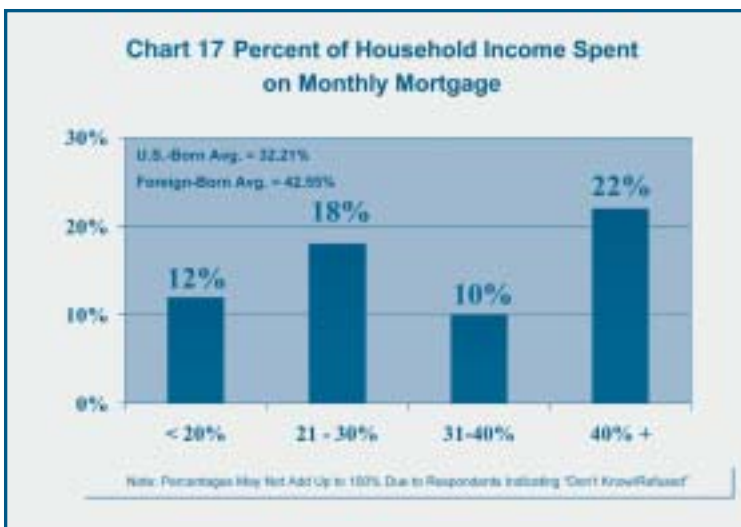
More than 70 percent of Latino homeowners indicated that two or more people share legal ownership of their home.



More than 70 percent of Latino homeowners surveyed indicated that they have two or more names on the mortgage title. Among those born outside the U.S., this is slightly higher. Generally, this includes the primary homeowner in addition to the spouse — as 60 percent of respondents indicate his/her spouse shares legal ownership of the home. Among the foreign-born segment, 70 percent indicate that their spouse shares legal ownership.

It is also predominantly the owners and their spouses who contribute to the down payment and monthly mortgage payment for the home.

Greater Financial Burdens with Mortgage



Foreign-born Latino homeowners devote a considerably greater amount of their income to mortgage payments than U.S.-born homeowners. An average of 43 percent of their household income is spent on the monthly mortgage, compared to 32 percent among U.S.-born.

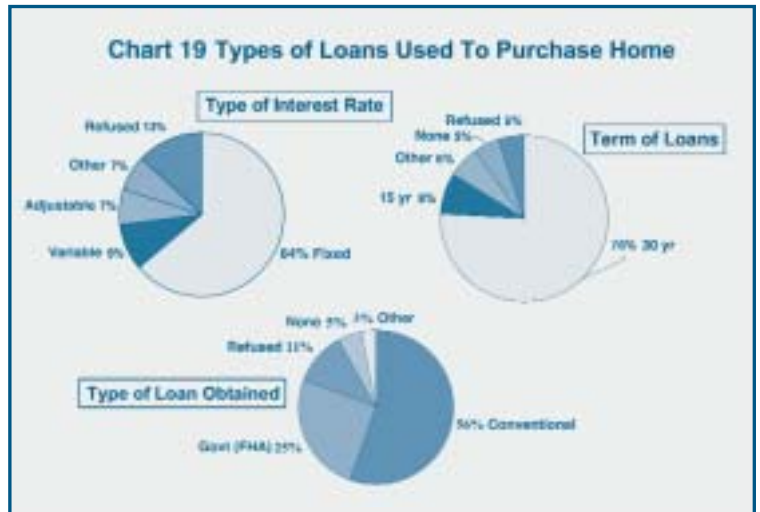
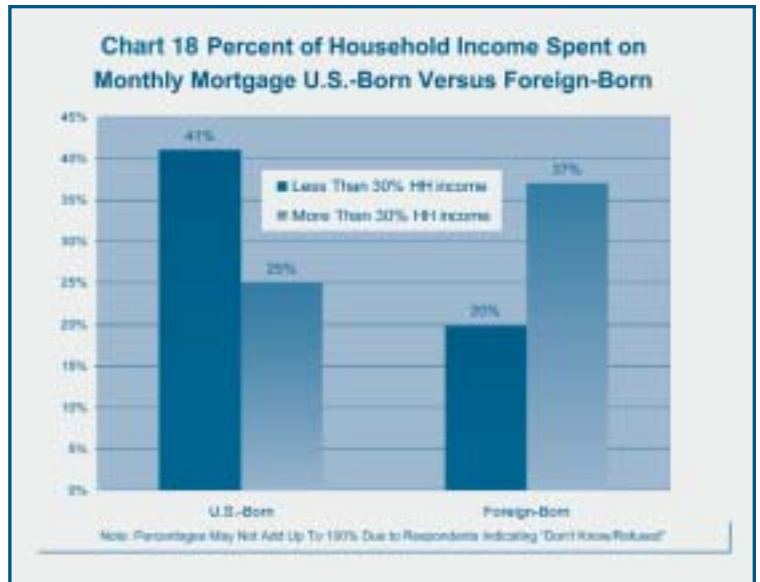
On average, Latinos are spending 38 percent of their income on the monthly mortgage payment, significantly higher than the recommended 30 percent income threshold. More than one-third of these homeowners are spending greater than 40 percent of their income on the mortgage. The differences are considerably wider between U.S.-born and foreign-born homeowners. Whereas the average U.S.-born Latino homeowner in California spends 32 percent of his/her monthly income on the mortgage, the average foreign-born homeowners indicate that they devote 43 percent of their income to monthly housing payments.

Affordable Prices, Low Down Payment

A majority of Latino homeowners financed their home purchases with conventional bank loans. Most home acquisitions were below \$150,000.

More than three-quarters of Latino home buyers financed the purchase of their home with 30-year loans — mostly with fixed interest rates. While a majority of these loans were conventional loans, one-quarter of the loans were government-backed FHA (Federal Housing Administration) loans.

Latino home buyers are concentrated in what, in California, can be considered the lower end of the market. Sixty percent of all the homes purchased by California's Latino homeowners cost less than \$150,000, and nearly one-quarter of the homes were purchased at \$80,000 or less.²⁷ Only a little more than one-quarter of homes purchased by Latinos were priced above \$150,000.



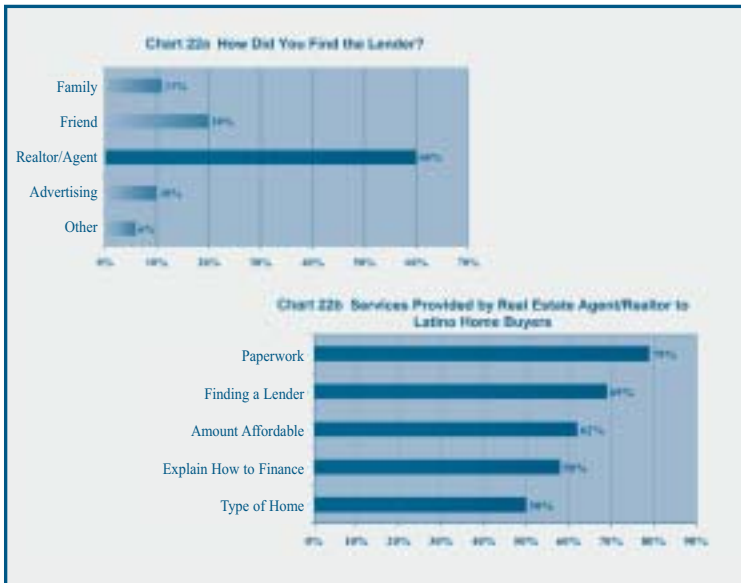
California's Rising New Majority



Since prices for housing purchased by Latino home buyers tend to be significantly below the median prices of California, the down payments for acquiring the homes have been smaller as well. Only 28 percent of homes purchased required a down payment of \$10,000 or greater. Conversely, more than half of all home purchases were purchased with a down payment of less than \$10,000.

The Integral Role of the Real Estate Agent

Real estate agents play a critical role in navigating the home-buying process for the great majority of Latino home buyers, particularly in facilitating paperwork, identifying a lender, determining the right price range for acquisition, and explaining how to finance the home purchase.



During the home-buying period, the real estate agent/realtor plays a critical role in bridging homeownership for many existing homeowners, according to survey results. In particular, immigrant Latinos relied heavily on real estate agents on multiple levels during the home-buying process compared to U.S.-born respondents.

Overall, among existing Latino homeowners, nearly 80 percent of respondents indicated that their agent provided support in handling the paperwork, followed by finding a lender, determining the amount of house the respondent could afford, and explaining how to finance the home purchase. Likewise,

real estate agents/realtors have been the primary resource for helping respondents find the lender.

Profile of Latino Renters

The vast majority of the Latino renting population are immigrants; 80 percent were born outside the U.S. — 66 percent in Mexico.

Of the 300 surveys conducted among California's Latino renters, more than three-quarters of this group demonstrated a preference for Spanish over English. This is also a population that is predominantly foreign-born — 80 percent were born outside the U.S. (66 percent in Mexico) and only 16 percent were born in the U.S. Among California's Latino renter population, one-half of respondents indicated they live in apartments, while more than one-third reside in detached, single-family units.

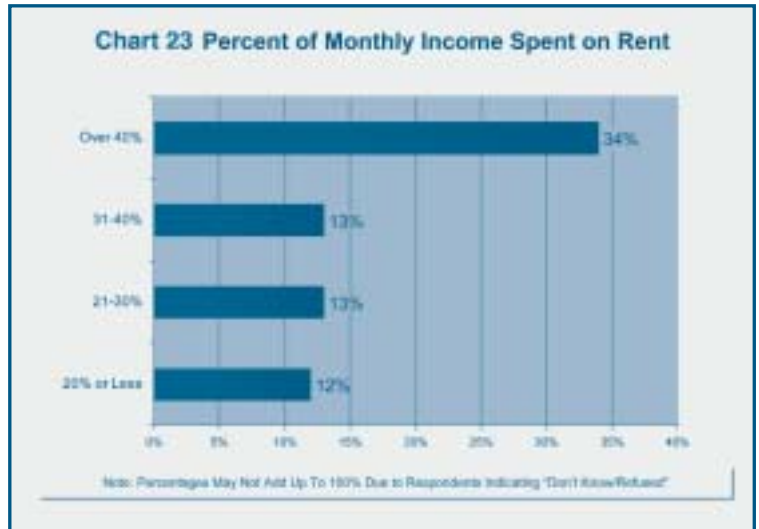
The Financial Burdens of Renting

Nearly one-half of all Latino renters pay more than 30 percent of their monthly income on rent. More than one-third pay more than 40 percent.

Forty-seven percent of all Latino renters indicated they are paying more than the recommended 30 percent of their monthly household income on rent, while only one-quarter pay less than 30 percent. Moreover, more than one-third of respondents revealed they spend greater than 40 percent of their monthly income on rent payments.

Foreign-born Latinos pay an average of 45 percent of their monthly income on rent compared to 35 percent for U.S.-born Latinos.

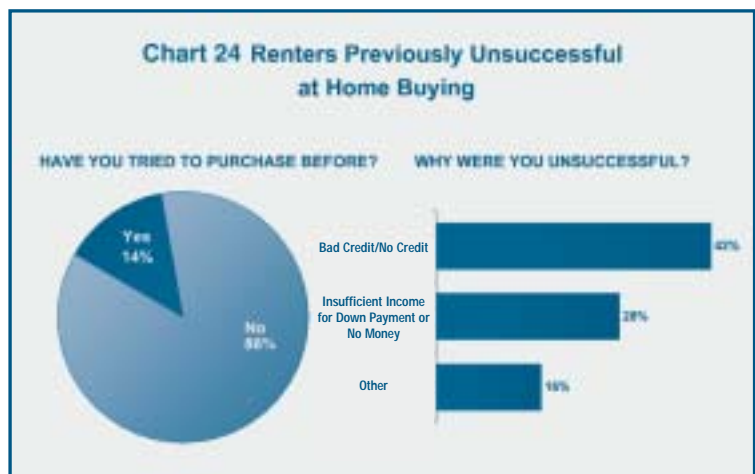
Foreign-born Latinos pay considerably more rent as an overall portion of their monthly income than their U.S.-born counterparts. Whereas the average percent of monthly household income spent on rent for U.S.-born Latinos is 35 percent, for foreign-born Latinos the monthly average is 45 percent.



Purchasing a Home in the Future

Among renters who previously attempted to purchase a home, the top two reasons for being declined are: "bad credit/no credit" and "insufficient income for down payment/no money."

Among all renters surveyed, 14 percent revealed they previously attempted to purchase a home. The two primary reasons they were previously unsuccessful in purchasing a home were "bad credit or no credit" and "insufficient income for down payment/no money."



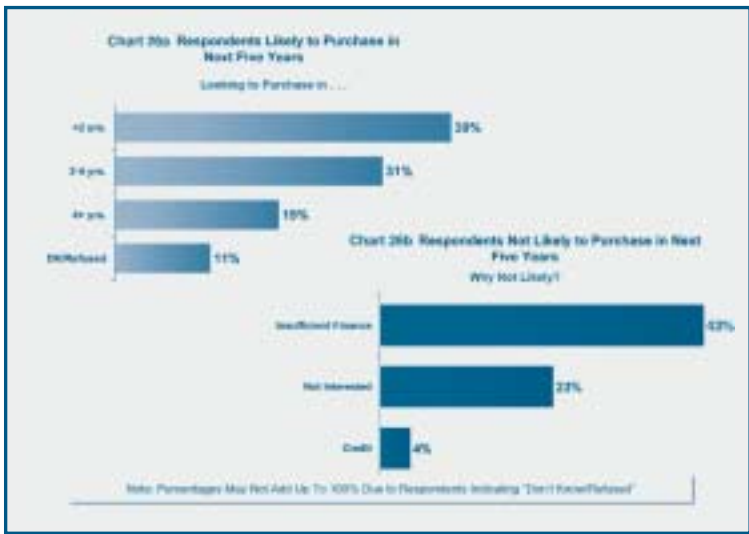
California's Rising New Majority



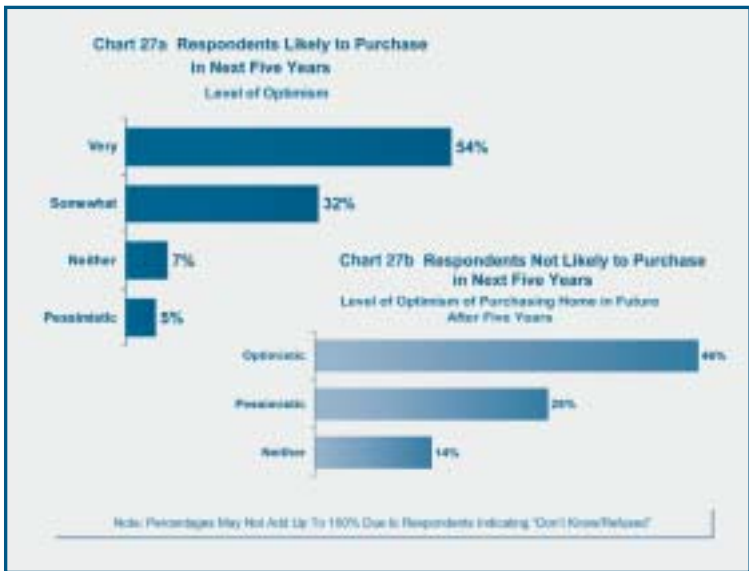
Unbridled Optimism for Future Homeownership

Overall, Latino renters are very optimistic about their likelihood of purchasing a home at some point in the near future — nearly 70 percent are confident they can purchase a home within the next five years.

Despite previous unsuccessful attempts revealed by some renters, overall, Latinos are extremely optimistic about their likelihood of purchasing a home within the near future. Sixty-nine percent of respondents expressed they are likely to purchase a home within the next five years — and 37 percent feel they are either “extremely likely” or “very likely” to reach their home-buying goals within this time frame.



Among respondents who say they are likely to purchase a home within five years, approximately 40 percent of them would be seeking a home within the first two years. In addition, more than half of these respondents expressed a high level of confidence they will be able to achieve their goal of homeownership. This is a sign that, despite rising prices and limited financial resources, Latinos remain a potentially enormous market for mortgages and related services in the years ahead.



The key issue for most Latinos is matching incomes and savings to the rising cost of homes. Among those who indicated they are not likely to purchase a home within five years, 43 percent of them cited insufficient finances as the primary barrier to reaching homeownership. However, almost half of them expressed optimism at being able to achieve homeownership beyond the five years.

Projected Home Prices and Down Payment

Most prospective Latino home buyers hope to purchase a single-family home — more than half of them are looking for a home of \$150,000 or less with a down payment of \$10,000 or less.

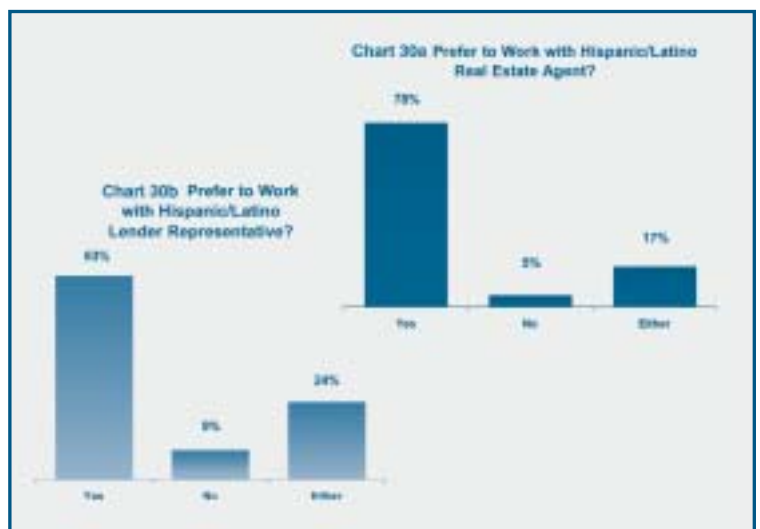
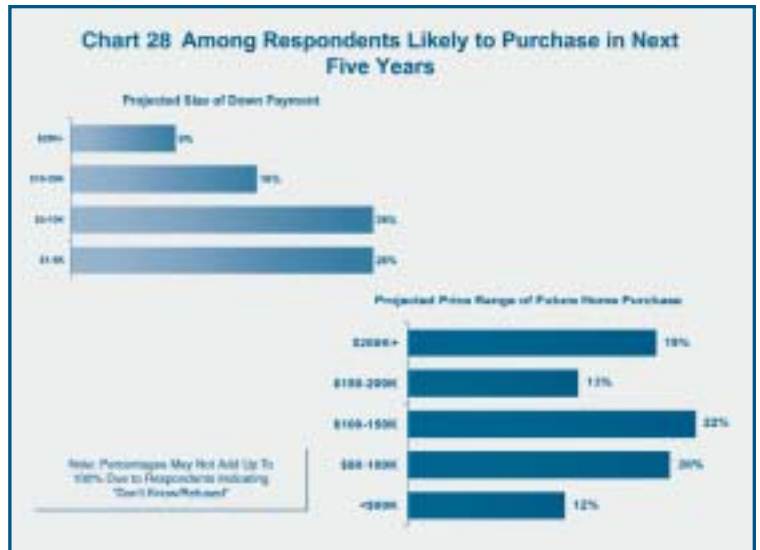
Overwhelmingly, at 83 percent, most of the prospective home buyers are seeking to purchase a single-family house. Among those renters who are seeking to purchase a home within five years, more than half of them are projecting they will make a down payment of \$10,000 or less. Only a quarter of these prospective home buyers foresee placing a down payment greater than \$10,000.

Likewise, more than one-half of these future home buyers are projecting the price of their future home to be \$150,000 or less, while 32 percent project the future price of their home to be greater than \$150,000.

Buying a House en Español

Almost 65 percent of potential home buyers prefer to conduct the home-buying process in Spanish — 78 percent prefer to work with a Latino real estate agent and 63 percent prefer to deal with a Latino lender representative.

According to the survey, 64 percent of prospective Latino home buyers generally prefer to conduct the home-buying transaction in Spanish, demonstrating a strong in-language preference. Likewise, 78 percent of respondents expressed a preference to work with another Hispanic/Latino real estate agent, and 63 percent expressed a desire to work with a Latino lender representative as well.



A Crisis of Supply

California's current housing dilemma is rooted in a severe lack of supply, which is at a historical record low.²⁸ Simply put, housing production in California has not kept up with the state's remarkable population growth — tightening overall inventory levels and lowering vacancy rates. As a result, soaring home prices and rents are endemic across the state's housing markets, erecting rising barriers and squeezing out many lower- and middle-income aspirants to the American dream. This has resulted in a widening chasm between the housing haves and have-nots.

This current dilemma has been further spurred by recent changes in spending patterns. With the collapse of the dot-com boom and the weakening of stock prices, many middle- and upper-class investors have shifted their primary investment into housing. This has fueled, as Milken Institute economists Susanne Trimbath and Juan Montoya have pointed out, a rather unusual phenomenon — rising residential real estate prices even in a relatively weak economic environment. In contrast, during past recessions, such as in the early 1990s, lower real estate prices allowed new entrants to come into the market more easily.²⁹ Even in Northern California, where the stock market decline and the dot-com bust have been devastating in their effect on jobs and incomes, recent reports suggest a strong rebound is already in place for the resilient housing market.³⁰

But even if the stock market improves and affluent Californians choose once again to put their money into equities, other secular factors will likely exacerbate the housing crisis. Rapid population growth is projected as a result of continuing immigration and natural increases. Groups that have previously not been active players in the housing market, such as unattached singles, are now prominent consumer segments, accounting for roughly one in four new home sales.³¹

Immigrants themselves are a contributing factor, increasing demand in many regions of the state, including once heavily Anglo suburbs such as Riverside-San Bernardino as well as the San Fernando, San Gabriel, and Santa Clara Valleys. “We’re not seeing much of a recession in real estate here,” notes Brian Paul, a spokesman for the San Fernando Valley Board of Realtors. “The immigrants are fueling growth here that contradicts most of the negative forces.”

And, unless there is some radical change, it is difficult to imagine the state producing anything like the additional housing stock needed to meet the growing demand as the economy, particularly in the now hard-hit Bay Area, once again recovers its footing.

Dimensions of California's Housing Crisis

Today, California possesses the second lowest homeownership rate in the country at 56 percent, behind only New York. In contrast, the overall U.S. homeownership rate — driven by historically low interest rates — has soared to an all-time high at 68 percent. While the homeownership rate has actually risen 4.2 percent across the rest of the nation during the 1990s, it increased only 2.2 percent in California.³²

A Crisis of Supply



Housing trends in California demonstrate that the crisis is getting worse and showing few signs of improvement, as California has become home to the least affordable housing markets in the entire nation.

Nine of the ten least affordable metropolitan areas in the country are in California. Similarly, the state is home to sixteen of the twenty least affordable metro areas as well.³³

In the Los Angeles metropolitan area, homeownership levels are particularly low at 49 percent — second lowest behind New York among all metropolitan areas in the country. Within the City of Los Angeles itself, homeownership levels exist at a meager 39 percent.

Not surprisingly, the soaring housing prices have had a disproportionately greater impact on the state's considerable immigrant and minority populations than on its older, more established White population, even controlling for income levels. Among Whites, for instance, the homeownership level hovers at 65 percent, compared to 41 percent among Latinos and 39 percent among African-Americans. Conversely, Latinos and African-Americans represent higher renter proportions at 58 percent and 60 percent, respectively, in contrast to only 34 percent among Whites.³⁴

Another major factor lies in intergenerational transfer of wealth, which helps many Anglos and native-born Americans purchase their first home. Minorities, including Latinos, and immigrants are far less likely to receive funds from parents and other relatives that can be used for the purchase of a home.³⁵

It is at this confluence of race and class that California's housing crisis is most acute. The biggest problem is not that the potential new home buyers are Latino; it is that, as the largest portion of the California working class, they are simply being priced out of the market in a way that other generations of California homeowners — refugees from the Plains “dust bowl,” the rural South, or returning GI's from various wars — were not. As Armen Avedian, a broker at Dilbeck Realtors in Glendale, put it:

“Ten years ago, the first-time home buyer could get something for \$200,000. Now that's up another \$100,000. A blue-collar worker earning \$10 an hour will never be able to get a house, not even a piddly little condo, at these rates.”³⁶

The Housing Supply Constraint

The key difference between the 1990s California boom and previous ones has been the lack of new housing construction. Usually, increases in jobs and incomes drive the housing market, but for a large portion of the past decade, new housing construction has not kept pace with the demands generated by vast employment and population growth.

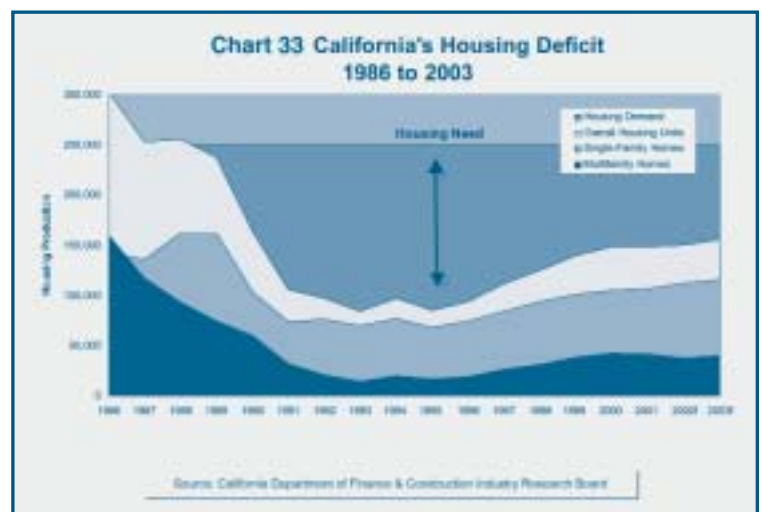
Since the mid-1990s, a low production of predominantly single-family homes has characterized the building environment.

After reaching a pinnacle of housing production in 1986 — when a record 303,000 residential units were built — housing production has since dropped precipitously, accelerating its decline during the state's draining recession until bottoming out mid-decade.

Housing production began to pick up again in 1996, as new construction followed the economy out of the trough, but has only grown at modest levels since — far below previous decades of economic growth. Since 1996, the state has produced just an average of 128,000 units per year. During the entire 1990s, California as a whole produced only 1.1 million housing units. Much of this, in addition, was located not in the key metropolitan regions, but in the more distant suburbs.

In contrast, housing production soared in previous eras of the state's economic expansion. During the 1980s, for instance, California produced more than 2 million units of housing — an average of more than 200,000 units per year. Likewise, housing construction during the 1970s saw the development of nearly 2.2 million housing units for an average of 216,000 units.

Since the beginning of the new century, California has slightly lifted its housing construction levels to approximately 148,000 units per year. Nevertheless, this is still far short of the estimated 250,000 units necessary to sustain statewide housing needs according to estimates.³⁷ Housing permit activity in California is anticipated to increase to slightly above 156,000 in 2003. If the state continues this current path, approximately 1.4 million units will be produced by the end of the decade, well below aggregate housing needs.



A Crisis of Supply

In sum, California currently faces an annual shortfall of more than 100,000 units. Unless this improves in the immediate future, the gap will persist in the face of projected economic growth, straining supply levels. Inventory levels for new homes are at near record lows statewide.³⁸ At the same time, prices are rising fastest not in the affluent areas — out of the price range of most working-class, immigrant, and Latino potential homeowners — but in areas with more modest housing that traditionally attract these buyers including such communities as Bell, Paramount, Lancaster, and Pomona. These communities in 2001 saw rises in home prices by as much as 20 percent. Observes one Santa Ana realtor:

“We get calls saying, ‘If you find anything under \$230,000, I don’t care where it is, I just want to see it.’”³⁹

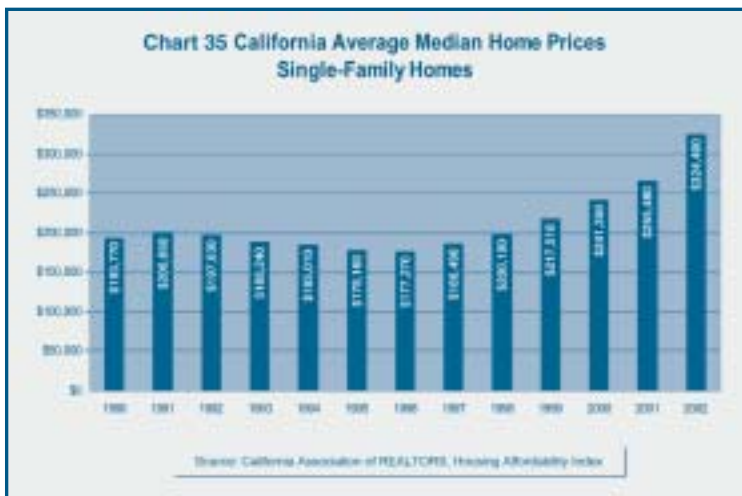
Exacerbating the crisis even further has been the dramatic drop in multifamily housing construction in California since 1986.⁴⁰ While they constituted approximately 45 percent of total housing development during the 1970s and 1980s, these developments plummeted drastically to just under one-quarter of all housing developments during the 1990s. Currently, multifamily housing comprises just over 28 percent of total production and accounts for a considerable proportion of the overall housing shortfall.



Multifamily housing has always served as an affordable source of shelter for lower-income families and immigrant households as they prepared to join the ranks of homeowners. Now these units are crowded and increasingly expensive, draining savings that otherwise might be used for purchasing new homes or condominiums.

Declining Affordability

The low production of new homes in California has resulted in scarce inventory across the entire housing market. This comes at a time when the state has experienced historical record levels of home sales: existing single-family home sales skyrocketed during the latter half of the 1990s, exceeding 500,000 units for the first time in 1998, sustaining that number for four consecutive years.⁴¹

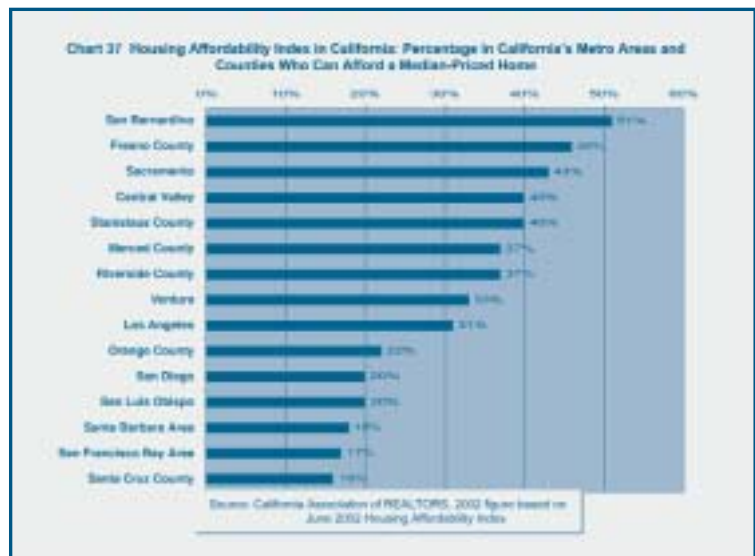


However, the home-buying frenzy is rapidly draining housing stock across California's communities and has swiftly inflated home prices. This has severely constrained new home sales — making buying a home both more difficult and competitive — intensifying home buyer frustration. One-fifth of all home buyers now must make an average of three offers on three different homes before a successful transaction is completed.⁴²

Home prices have risen across the entire country, but few places have matched the blistering pace generated by California's housing markets. Across the state, home prices have escalated to astronomical levels. A median-priced single-family home in 1996 was \$177,270. Today, the median price has climbed 83 percent to over \$324,400. In a single year between June 2001 and June 2002, the state's median home price rose 21.3 percent from \$267,400 to \$324,400.⁴³



Not surprisingly, rising home prices have in effect shut not only low-income households, but also many moderate-income households completely out of the market. As of May 2002, a little over one-quarter — 27 percent — of the state's population could afford to purchase a median-priced single-family home in California — compared to 56 percent in the general U.S. population.⁴⁴ Qualifying income levels must be greater than \$65,000 — \$25,500 more than the median household income in California.



The lack of housing affordability extends beyond purchasing a home — it is even more acutely felt in the rental sector. Rising rental rates have grown much faster than overall median income levels among renters.⁴⁵ With a substantial number of California residents priced out of the housing market, there is mounting evidence that renters are shouldering a greater financial burden due to inflating rents. For instance, 45 percent of California's renting community now spends more than half their income on rent compared to 21 percent of owner households who spend more than half their income on payments.⁴⁶

Since reaching a peak in 1999 — when a record 538,000 single units were sold — home sales have plateaued and may soon hit a wall with the depletion of the housing inventory, aggravated with low rates of production. It is true that the current home-buying attraction will not likely wane — fueled by historically low interest rates and a glut of consumer-friendly mortgage product innovations — but a crushing lack of supply may prove disastrous to housing affordability unless production improves sharply in the near future.

Therefore, California now faces an incongruous condition in that while housing production has not kept up with overall employment growth, income levels generated by that employment also have not kept pace with the subsequent escalation in housing costs.

Barriers to Housing Production

Forced to play catch-up with such tremendous demand, residential developers have been severely strapped in their ability to increase housing production in California. The state has now become one of the most difficult places for developers to construct housing in the country. A myriad of structural and institutional barriers have made it increasingly complex for developers to efficiently gain approval and begin construction for new housing units that might even approach meeting the demand stemming from California's growing base of residents.

Fiscalization of Land Use

One of the core issues driving land-use decisions in California has become known as the “fiscalization of land use.” Since the passage of Proposition 13 in 1978 — which limited local use of property tax revenues — California's local communities have looked to generate alternative sources of revenue to fund public services and infrastructure. As a result, local municipalities employ two primary methods for revenue generation: the imposition of heavier exaction fees for new development and the promotion of retail development in order to maximize sales tax revenues.

This has had a direct, deleterious impact on new housing production. Rather than adopt land-use policies that advance or incentivize new housing production, developing new retail centers — such as big box developments, entertainment complexes, and shopping destinations — emerged as the primary approach for increasing local government revenue. Consequently, residential development (and other forms of development) suffered due to a lack of incentives or outright disincentives. At the same time, in the minds of many public officials, housing development became even less desirable — particularly affordable or moderate-priced residential units — due to perceived fiscal burdens and public spending they imposed on local government. Cities wanted customers but not new residents, particularly those who might also demand services such as schools, hospitals, or police.

Because land use decisions in California are so localized — driven separately by individual municipalities and communities — local governments have become absorbed in the frantic chase for local sales-tax revenues. This fierce competition for retail development has become the primary motivating factor driving land-use decisions across California's cities and counties.⁴⁷ The incentives to build housing in this fiscal environment have been minimized and pushed to the margins — promoting uneven and inefficient land uses that tilt lopsidedly in favor of retail development.

Lack of Raw Land in Metropolitan California

Unlike previous eras of unencumbered development, raw land is no longer as plentiful across California's metropolitan areas as it once was. Across the state, local communities are finding prime developable space in scarce supply — intensifying the shortage constraint. A lack of buildable land in large metro areas such as San Francisco, Los Angeles County, and Orange County has exerted increasing upward pressure on housing costs, straining affordability while construction lags behind.

Yet this is not simply an issue, as some suggest, of “sprawl to the wall.” Despite the relative paucity of prime space to be developed, from a historic viewpoint, sufficient land capacity exists in California — even in the most heavily urbanized coastal regions — to accommodate, at least in part,

the enormous growth generated by the economy through infill development strategies.⁴⁸ The real problem lies in inefficient land uses and countervailing public pressure against higher densities — making these types of projects extremely difficult to approve.

NIMBY-ism

No-growth sentiments — led by the NIMBY movement (Not In My Back Yard) or NIMFYE (Not In My Front Yard Either) — have become a powerful force in prohibiting local housing construction in many existing cities and localities across California. Many new housing developments today — particularly affordable rental projects or any construction that raises density — are vociferously blocked by these citizen-led, no-growth advocates. Their reactions govern many neighborhood attitudes throughout the state.

New housing development is widely seen as causing more traffic, crowding, and congestion while adding nothing, or little, to the tax base. Widespread public perception that the state's environment is deteriorating has fueled an increasingly potent anti-growth movement.⁴⁹ Slow-growth advocates, according to a study by the Ventura-based Solimar Research Group, won the majority of 61 land-use ordinances on the November 2000 ballot.⁵⁰

Even the most sensitive infill developments today must face concerted opposition by NIMBYs equipped with the California Environmental Quality Act (CEQA) — used by NIMBYs to legally halt or stall new development projects — driving up costs for numerous residential developers. Though originally intended as an important guideline for mitigating the environmental impacts of proposed developments, CEQA has become one of the primary weapons used to thwart new housing development.

Construction Defect Litigation

Although condominium and affordable townhome developments are viewed as being viable, efficient alternatives for higher densities, they are now rarely built in California due to the prevalence of construction defect litigation. Between 1994 and 1999, condominium construction dropped from 18,700 units to just over 2,900 units — collapsing from 30 percent of overall housing production in the state to just 2 percent.⁵¹

After an epidemic of lawsuits over construction defects early in the 1990s, condominium units have become virtually uninsurable. California's lawsuit-dependent system of dealing with construction disputes drove condominium development into the abyss as insurance companies discontinued issuing premiums to builders and subcontractors for these projects. Without policy coverage to protect the builder, condominium construction simply languished.

High Development Fees

NIMBY-ism and environmental pressures have fostered a building environment in which high development fees predominate. California's approval process for new development has become the most complicated in the country. High degrees of uncertainty envelop the development process for developers, who end up shunning projects tainted with extreme levels of ambiguity — many of which are affordable housing developments.

A Crisis of Supply

Lack of Housing Production on the Lower End

Although the most acute housing shortages exist among the low- and moderate-income populations of California, most new residential development has been targeted at the high end, pricing out those who face the greatest housing needs. The promotion of high-end housing development by local governments is also a reflection of the fiscal pressures faced by municipalities in generating revenues. In contrast to affordable housing, high-end housing units generate higher levels of property tax revenues and require relatively lower demands on public services such as public safety, schools, etc.

Lack of Political Will and Vision

Thus far, Sacramento has been ineffective in finding solutions to the current housing crisis. The political environment in California has been characterized by a lack of vision, balkanization, and political gridlock, which has stunted any potentially efficacious responses to increasing residential production to alleviate the housing crisis.

Moreover, various factions and groups have developed in the housing debate, forming polar opposites and splintering recommendations in their housing agendas. Factions among environmentalists — with some favoring “smart growth” while others rarely supporting any development — and among developers have created a veritable chokehold on the creation of new, enlightened housing policies.

In sum, there is nothing determinative about the severe shortage of new building from the perspective of available land. Lacking is creative vision, public determination, and political will to build housing in the available space to accommodate California’s growing citizenry.

Implications of California’s Housing Crisis: What’s At Stake

Clearly, a new path for housing production must be achieved in California. The state cannot afford to continue under-serving its growing population that keeps its economy running in full motion. The immense housing shortages that currently exist are widening and eventually will threaten not just California’s robust economy, but its overall quality of life as well.

An Increasing Jobs/Housing Imbalance

According to the State Department of Finance, a healthy jobs/housing balance should be one new unit of housing for every 1.5 jobs created. California, however, is producing only one new home for every 3.5 jobs created; and in some metropolitan areas, such as Los Angeles County, Santa Clara, San Francisco, and San Mateo, the ratio of new jobs to new housing is even greater — exceeding 5-to-1.⁵²

Due to increases in housing costs, first-time home buyers and renters are left with few choices for housing they can afford near major job centers. Consequently, a greater number of prospective homeowners must pursue their housing needs further away from the places where they work.

The resulting geographical mismatch between where the job centers are and where affordable housing exists cultivates circumstances in which families are commuting and living further from where they work. Such conditions exacerbate traffic congestion, hasten environmental degradation, and distress infrastructure — all of which lead to a decline in the quality of life for communities across California.

Overcrowding

Overcrowding has worsened in the past several decades in California. One of six renter households in Los Angeles County live in overcrowded conditions, in which there is greater than one person per room in a household. Between 1980 and 1999, for instance, overcrowding nearly doubled from 11 percent of all renters to 17 percent.⁵³

The consequences of overcrowding impact two primary areas: (1) the quality of life for California’s families — especially for children — is adversely degraded, and (2) the deterioration of critical infrastructure in the state accelerates much faster, since significantly more people move into neighborhoods not designed to accommodate higher density conditions. This constrains a community’s capacity to provide the necessary level of public services such as water, sewer, roads, parks, fire, police, etc.

Chart 38 Overcrowded and Substandard Renter Households in Metropolitan California (1999)

	Percent of Households	Number of Households
Overcrowded (more than 1 person per room)	13%	590,636
Severely overcrowded (more than 1.5 persons per room)	4%	159,857
Overcrowded Latino Households	33%	403,571
Substandard Conditions	12%	492,792
Severely Substandard Conditions	4%	161,119

Source: California Budget Project Analysis of American Housing Survey Data, March 1999. Updated Data: New Data Center for California's Affordability Housing Crisis Continues, March 2001.

Evidence demonstrates that immigrant households face even greater overcrowding challenges as a result of affordability issues. This is particularly true among Latino households in the state — where one in three Latino renter households in California cope with overcrowding.⁵⁴

Lack of Community Stakeholders

Ultimately, the housing crisis produces large segments of California’s populace who fail to participate in the financial gains of homeownership, which has been one of the leading vehicles of wealth accumulation for a majority of Americans. Housing appreciation, income tax deductions, and home equity are some of the reliable fiscal advantages of owning a home that are not part of the experience for non-homeowners. Renters — particularly in poor, heavily immigrant communities — find it more difficult to accumulate the necessary economic power to improve their class status and move into the middle class.

The housing crisis, seen as one expectation dashed, also threatens the health of our democratic system. Diffusion of property ownership has been a centerpiece of the American experience. In contrast, through much of its history, Europe was bedeviled by struggles over land between peasants and landowners. More than 1,600 peasant revolts took place between the Middle Ages and modern times.⁵⁵

From its inception, America was conceived, at least by many of its founders, as a different kind of place. Here, as Jefferson put it, “most of the laboring class possess property.”⁵⁶ This was the essence of what made democracy viable — in the minds of founders such as Jefferson and Madison in America — while much of the world was dominated by autocracies.

Expansion into unsettled areas both spurred economic growth and fulfilled a social need. When the eastern states became more fully occupied, the West provided an outlet for those seeking to establish homes and farms of their own. This notion of securing land for the largest number of people

A Crisis of Supply

played a critical role in the thinking of Franklin D. Roosevelt, whose New Deal sought to reconcile free-market principles with the priority of allowing those disenfranchised by the catastrophic Depression of the 1930s to keep their homes, farms, and businesses.⁵⁷

California has had a special place in the quest for property and ownership. For many Americans from the eastern and middle parts of the country, California, above all places, was often the place where that dream seemed most manifest and alluring. “In a very real way,” suggests historian and current state librarian Kevin Starr, “the California dream was the American dream undergoing one of its most significant variations.”⁵⁸

Now, with the opportunity for ownership diminishing, the American dream, at least in California, is severely threatened. This is not just an issue for the working-class or immigrant Latinos. As the founding fathers understood, ownership makes neighborhoods more stable and connected than those made up of renters. Significantly, studies have found that true not just in affluent suburbs, but in working-class sections of places as diverse as Baltimore, Cleveland, and Columbus, Ohio. Homeowners, a recent Harvard University review of the best available research shows, clearly are more likely to participate in volunteer and political organizations as well as stay in their areas longer, thereby helping to promote social stability.⁵⁹ Hence, a lack of homeowners decreases a base of community stakeholders — resulting in a less vibrant civil society and a more fragile social fabric overall.

Expanding homeownership is one of the critical ways that working-class communities in California can attain a more stable political and social environment. Communities like La Puente in Southern California tend to be more rooted because many of its residents are homeowners. Allowing for housing opportunities for upwardly mobile Latinos represents an investment not only in the economy, but in the fundamental sense of optimism critical to maintaining and protecting California’s democracy. As Maria Loera, who recently bought a home in La Puente with her husband and three children, put it:

*“I feel like we have accomplished something. We have something to look forward to.”*⁶⁰

By not partaking in homeownership — which has become so intertwined and identified with the American dream — more people become disenfranchised from larger mainstream American society. And there are none more vulnerable to this than those who comprise the nation’s most recent newcomers.

Looking Ahead

By 2020, California will need to house an additional 21.3 million people — a daunting task for any state, particularly one in which housing production has fallen so steeply behind. Between 45 to 50 percent of these additional residents will be Latinos — mostly U.S.-born — who comprise the fastest growing proportion of the state's population.⁶¹

Roughly 4.5 million additional housing units will have to be constructed in the state to sustain anticipated population and employment growth — *on top of what already needs to be built to fill the existing housing gap.*⁶² All told, more than six million housing units are necessary to sufficiently meet housing needs for all of California.

For Latinos, the barriers to achieving greater levels of homeownership fall into three primary categories:

- First and foremost will be overcoming prohibitive home prices growing directly from this severe lack of supply. As a population that is already making considerable progress in reaching the American dream, declining affordability raises the barrier of entry for many of today's Latinos who are now entering into the prime home-buying stage of their lives. This poses a threat not only to current buyers, but also to their children and generations beyond.
- Second is the access to capital that is tailored to the specific credit profile of the Latino home buyer. As the mortgage industry is increasingly a commodity business with low margins and high volumes driven by formula decision making, the characteristics of the buyer with no credit will be increasingly difficult for the lending community to address.
- Finally is the access to information about the home-buying process and the responsibilities of homeownership. Intelligent interpreters of this complex process need to be available to the community. The hurdle of belief needs to be overcome with education. This assistance needs to be provided with the utmost integrity and at competitive rates; otherwise, the specter of predatory lending will further alienate the Latino home-buying public.

Some partial solutions to this problem are already in place and could be greatly expanded. Pushed by secondary mortgage markets and government-driven loan programs, innovations in mortgage lending have opened up numerous homeownership opportunities for immigrants and minority populations that previously did not exist. But increasing the loan pool, even at historically low interest rates that currently exist, will not meet the need as long as the housing shortage and the subsequent high price structure continue and even worsen. As suggested earlier, this situation severely impacts all California home buyers, but most intensely working-class people seeking out their first home, a group that is disproportionately made up of Latino immigrants and their children.

Undeniably, the housing supply constraint — more so than the mortgage lending system and underwriting criteria used — is the single dominant factor impeding increasing Latino homeownership. Although it is fundamentally a problem of supply and demand, it is important not to ignore the need for enlightened attempts to reduce discrimination, provide favorable loan conditions, and streamline mortgage processing.

Changing the now-failing economics of home building lies at the core of any solution to this problem.

Clearly, more housing must be built in California. Drastic measures are necessary ahead to increase housing production and to alleviate the effects of the supply constraint. State leadership — in the

private sector, the government, and nonprofits — must now identify housing opportunities and remove obstacles that prevent market forces from responding more effectively to housing demands across all levels.

Numerous recommendations and policy proposals to address the systemic barriers to housing production are already under consideration and have been previously outlined in lengthy detail — including, most notably, the Little Hoover Commission report.⁶³ Therefore, the following recommendations represent what is considered the most critical directional paths that California must take to address its emerging housing crisis and assure its continued preeminence as the vanguard of the global economy.

• Remove the Disincentives for Housing Development at the Local Level

At the most fundamental level, housing must become a critical measurement of success for local government organizations and, more importantly, a meaningful contributor to their financial stability. Leaders at the local level play the cards they are dealt, and it is time to change the game so that providing housing gives them the resources they need to provide local services. Currently, virtually no incentives exist for California's cities to produce housing, and there are many reasons — such as environment, traffic, and costs in city services — to eschew such development.

Thus, local governments must be offered alternative revenue resources that are tied to meeting the state's existing housing goals and stiff penalties for those cities that resist meeting these goals. By refusing to meet housing goals — either in their towns or through joint efforts with adjacent jurisdictions — these communities in essence “pass the buck” to other places, which then deal with the consequences of increased crowding and the external costs of new development. Conversely, greater state aid should go to assist those cities that build housing to offset the associated costs of higher services.

New revenue sources for cities must be developed. The clearest alternative is for the state to keep all the sales tax dollars and local government keep a proportionate amount of income tax (50 percent based on where they live and 50 percent on where they work) and an increasing amount of property tax. This deals with multiple challenges at once, providing incentive to local government to provide jobs and housing.

• Provide an Accurate Assessment of Housing Needs and Impacts Across the State

Currently, a significant amount of misinformation exists fueling the various anti-housing initiatives. The truth about housing — its need and impact — must be developed and injected into the bloodstream of the media, political leadership, and eventually the public consciousness. Very few media professionals and local government leaders understand the direct relationship between a strong housing infrastructure and a strong economy.

A broad, diverse set of housing is required throughout the state. Rather than focus on any single housing strategy — urban versus suburban, for instance — California must focus on providing the full plethora of housing types, which encompasses infill development, multi-family units, affordable housing, and even suburban housing production. Simply focusing on one particular area of housing will not be enough to accommodate the diverse set of needs demanded by California's increasingly diverse population.

To meet housing needs in the Latino market, for instance, a large portion of the homes must be priced at moderate levels. At middle-income levels, housing units can only be provided in quantity at remote areas such as the high desert and the closer in parts of the Central Valley. Unfortunately, this often means workers must commute long distances to their jobs.

One clear alternative is to encourage greater levels of high density “infill” housing development that would allow workers to live closer to their jobs, extended families, and shopping destinations. Density bonuses granted in metropolitan areas on relatively small parcels, with significant buyer/builder incentives, can support cities in developing these properties. These projects can take place in areas where economics dictate the logic of land-use changes, such as “land recycling” of the numerous, redundant strip malls across the state, or, as has occurred in Fullerton, among other areas, by reusing land that is no longer needed for industrial firms.

In addition, government agencies could increase land availability by selling their own underutilized properties to developers. Many of California’s riverways, for example, are severely underutilized and can be converted into new housing sites for attractive, medium densities. Similarly, corporations and other private agents that sell large parcels of land for affordable housing should have formulaic reductions on their state tax based on size of the housing gain.

A significant issue is the 20,000 to 30,000 housing units condemned annually. Many of these units could be appropriately rehabbed, thus reducing the need for new housing. A conscious effort on the part of local government to encourage rehabilitation versus destruction would be beneficial.

In the same vein, the state must encourage housing adjacent to job and transportation centers. For example, while combined job growth in Riverside and San Bernardino Counties is equivalent to Orange County, many residents of the Inland Empire nevertheless commute to Los Angeles and Orange Counties for better paying jobs. In the Silicon Valley, government employees and other workers regularly commute from the San Joaquin Valley, forcing some agencies to adopt a three-shift, 12-hour day in some cases so key personnel, such as police officers, can spend some time with their families.

• **Modify State Regulations that Act as Impediments to Reasonable Housing Projects**

Modifications need to be made in environmental laws. For example under current circumstances, the California Environmental Quality Act (CEQA) can be used with impunity to block or delay almost any housing development. State priority to environmentally sensitive housing — particularly high- and mid-density development near transit hubs — should be developed so that housing uses can be categorized as adding to, not detracting from, the state’s long-term environmental health.

Insurance liability needs to be limited to reasonable levels. Current premiums can add thousands of dollars to the cost of constructing a unit for house contractors and subcontractors.

• **Foster Greater Regional Coordination to Produce More Housing**

Improved planning coordination among the regional associations of government about statewide housing opportunities should complement state efforts to improve housing production. California continues to grow through its first- and second-ring suburbs, integrating them even further into the

broader metropolitan framework — and incorporating them into the broader regional challenges as well. Thus, many cities — rather than being secluded from adjacent metropolitan problems — are increasingly facing the same regional planning concerns, issues, and cultural characteristics as those of the broader metropolitan region. Local “visioning” processes in these areas — from large regions to neighborhoods — could help establish more cooperation and shared goals from the local level on up.

• Expand Homeownership Programs

Traditional obstacles, such as lack of credit and down payment, are no longer viable impediments for greater homeownership as they once were — especially since secondary mortgage markets now recognize alternative credit sources as a legitimate determinant of creditworthiness.⁶⁴ Likewise, zero-percent-down programs remove what was once the greatest obstacle for homeownership — the down payment. However, awareness of these programs and financial literacy remains an acute challenge, particularly among the immigrant segments of the Latino market. Thus, the delivery mechanism for communicating these new products and programs should be greatly extended.

Existing homeownership programs by local governments, nonprofit organizations, and community-based groups should be expanded. Despite limits to resources and funding, such programs have experienced remarkable success in navigating many first-time immigrant home buyers into homeownership. In addition to credit counseling and educating new consumers interested in purchasing homes about the home-buying process, many programs also offer lending assistance, low-interest mortgage financing, and down payment or interest rate subsidies.

Conclusion

Whatever the views of individuals on the merits of immigration, the current reality impels Californians to plan for the increasing “Latinization” of the Golden State. This does not mean that there should be any special programs just for Latinos, as suggested by some. Such actions would be, by their very nature, divisive and discriminatory. Latinos represent just the latest of the earlier waves of migrants and, like them, will become critical to shaping California’s future. Over time, with rising rates of intermarriage and increased presence in the middle class, Latinos and their children can, and probably will, become less a distinct group and more reflective, even somewhat defining, of the American mainstream.⁶⁵

The critical issue will be whether these new Californians — with a strong family-oriented culture and historic penchant for homeownership — will enjoy the same access to the fruits of their labor as newcomers from the 1930s to the 1970s. As a population segment that is already making a considerable impact on the consumer marketplace and demanding increasingly greater attention from both corporations and politicians alike, Latinos will also constitute the largest constituency for housing in California over the next several decades.

As evidenced by our survey, even Latino residents who are not current homeowners display a remarkably high degree of optimism in achieving the American dream — even in the face of such discouraging prospects. Most Latinos, including those who are now renters, remain optimistic that the state will meet its promise. It is up to California’s present and next generation of leaders to make sure that their optimism is not dampened, but rewarded.

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Appendix

Methodology

The primary research of this study consisted of data mining and quantitative telephone surveys. For the data mining research, the California Association of REALTORS and First American Real Estate Solutions provided their California home-buyer databases for the following years: 1999, 2000, 2001, and first- and second-quarter of 2002. From these data, Cultural Access Group, Inc., employed an algorithm that determined the ethnicity of these home-buying records utilizing each entry's Hispanic surname and zip code.

In May and June 2002, 504 telephone surveys were randomly conducted among Latinos across California. The telephone surveys were an average of fifteen minutes long. They were conducted in both English and Spanish — depending on language preference — with the self-identified household decision maker. Two hundred and four surveys were administered among existing homeowners; and three hundred surveys were conducted among renters.

Telephone surveys were distributed and administered in the following areas across the state: Los Angeles CMSA (200), San Francisco CMSA (150), Central Valley (50), Sacramento CMSA (50), and San Diego MSA (50). Eighty percent of the respondents were randomly selected from a Hispanic surname sample, and 20 percent were conducted using random digit dialing. The survey results had approximately 4.4 percent margin of error at the 95 percent confidence level.

The respondents in the survey were screened to be self-identified Hispanics or Latinos, primary heads of the household or decision makers on renting or home-buying matters for the household, 18 years or older, and have been living in the U.S. for six months or more.

Acknowledgements

The project team would like to acknowledge the following individuals who contributed their invaluable time, insights, and information to this project, without which this research would not have been possible.

Lupe Anguiano

Principal, Lupe Anguiano & Associates

Benjamin Bartolotto

Research Director, Construction Industry Research Board

Henry Cisneros

President and CEO, American City Vista

Alex Espinoza

President, De Oro Group

Robert Kleinhenz, Ph.D.

Senior Economist, California Association of REALTORS

Jose Legaspi

President, The Legaspi Company

Waldo Lopez, Ph.D.

Director of Economic Policy Research, Tomas Rivera Policy Institute

Antonio Valdez

Vice President Retail Business Development, Countrywide Home Loans, Inc.

Wei Wang

Senior Research Analyst, California Association of REALTORS

Project Team:

Joel Kotkin

*Senior Fellow, Davenport Institute for Public Policy, Pepperdine University
Fellow, Milken Institute*

Thomas Tseng

Director of Marketing, Cultural Access Group, Inc.

Erika Ozuna

Project Director, Davenport Institute for Public Policy, Pepperdine University

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Special Thanks to:

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Established in 1999, NAHREP is a nonprofit trade association created to establish a venue where members can congregate, exchange ideas, and formulate an agenda beneficial to the collective well-being of our segment of the industry. It is our belief that by developing a united voice for all Hispanic real estate professionals, we will ensure the future growth of Hispanic-American homeownership and in turn create a strong American economy. With an overall goal to increase the percentage rate of homeownership for Hispanic-Americans, we have created partnerships with leading corporations that share our vision that an investment in the Hispanic community is an investment in America's future.



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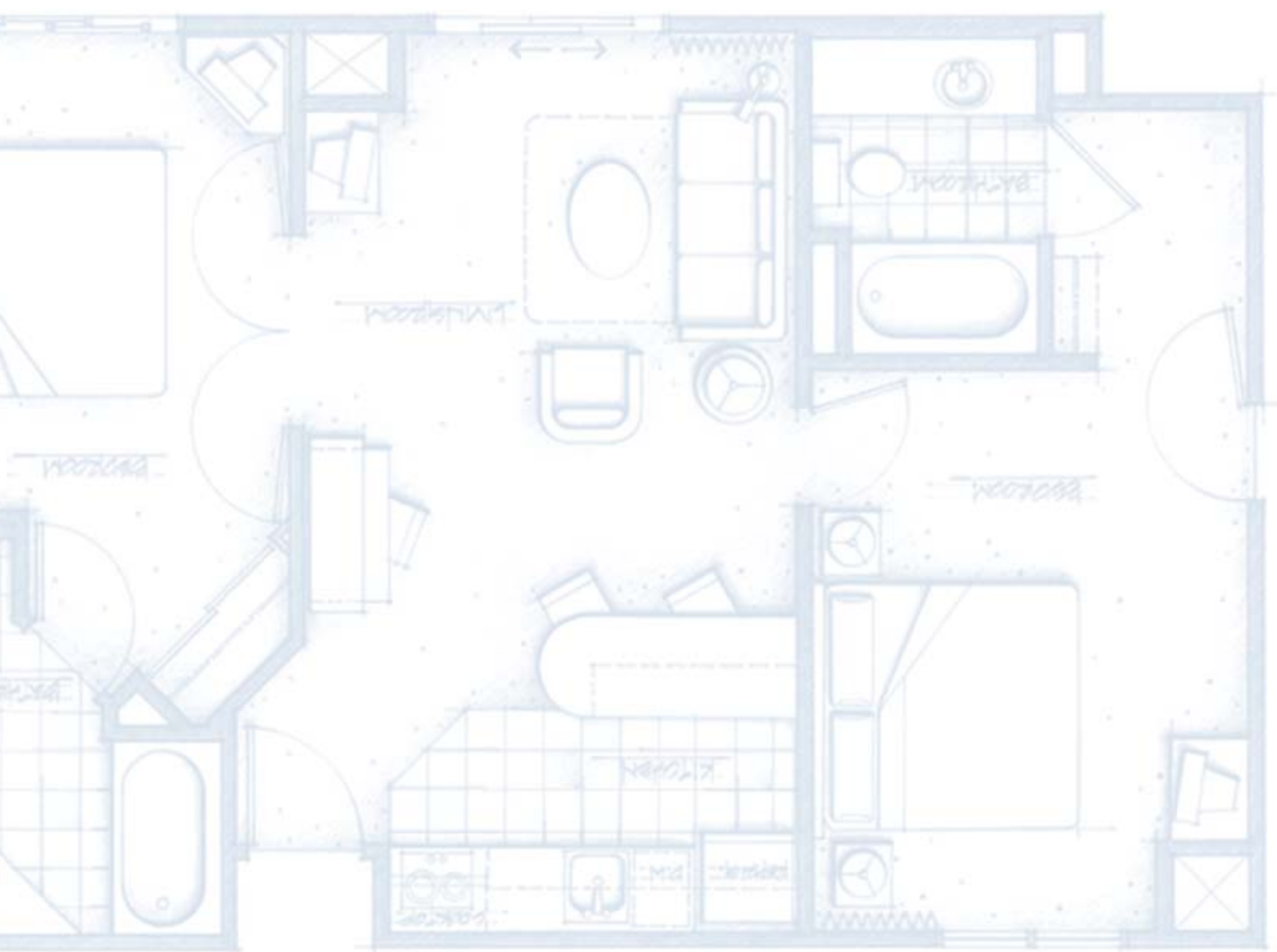
The mission of the Urban Land Institute is to provide responsible leadership in the use of land in order to enhance the total environment.

Contact Information

Davenport Institute
School of Public Policy
Pepperdine University
24255 Pacific Coast Highway
Malibu, CA 90263-4494
PH: 310-506-4494
FX: 310-506-4059
<http://publicpolicy.pepperdine.edu>
James Wilburn
Dean

The La Jolla Institute
1805 S. Euclid Avenue
Ontario, CA 91762
PH: 909-460-1500
FX: 909-391-2238
<http://www.lajollainstitute.org>
Steve PonTell
President

Cultural Access Group, Inc.
445 South Figueroa St., Suite 2350
Los Angeles, CA 90071
PH: 213-228-0306
FX: 213-489-2602
<http://www.accesscag.com>
Thomas D. Tseng
Director of Marketing



PEPPERDINE UNIVERSITY

School of Public Policy

24255 Pacific Coast Highway
Malibu, California 90263-9831