USC

Research Brief

USC Keston Institute
for Infrastructure

California Homeowners' Growing Stake in Infrastructure and the Future

April 10, 2006

SUMMARY

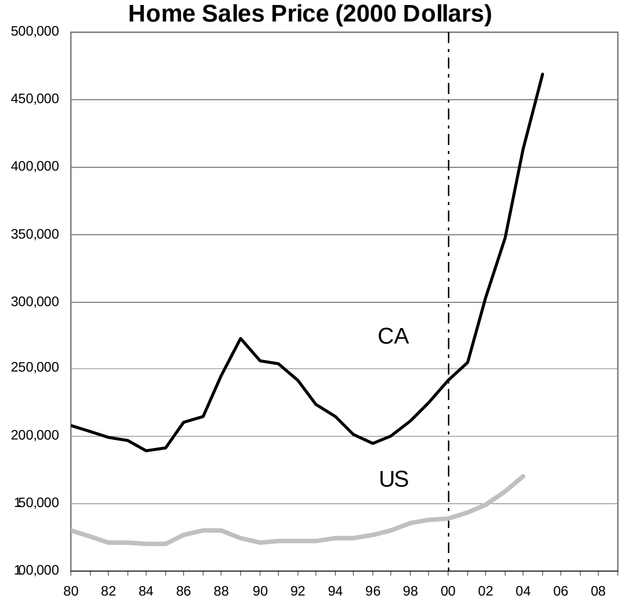
Last summer, the devastation wrought by Hurricane Katrina in New Orleans drew the attention of Californians to the potential consequences of inadequate infrastructure. The linkages between quality of life, preservation of property, and the performance of infrastructure systems had never been more dramatically and emphatically put on display. Surprisingly many Californians seem unconcerned with their own risk: skyrocketing house values have more than doubled the investment stakes of homeowners in recent years, and yet homeowners' support for infrastructure that will protect their investments has significantly lagged recent increases among renters. With support provided by the USC Keston Institute for Infrastructure, a team of economists, demographers and urban planners, led by USC professor Dowell Myers, explores the price trends and relative degree of support among homeowners for new infrastructure funding. Working with survey data developed by the Public Policy Institute of California, the researchers find a paradoxical disconnect between homeowners' rapidly growing financial stakes in their houses brought about by the recent real estate boom and their relative resistance to public spending that could help protect those investments. The disconnect is greatest among middle-aged white homeowners with the most at stake. The researchers believe that this puzzling disconnect deserves scrutiny and public discussion, particularly when 2006 looms as a pivotal year for California infrastructure.

THE OUTLOOK FOR INFRASTRUCTURE SUPPORT IN 2006

Despite the absence of an infrastructure bond proposal on the June ballot, the need remains for increased public investment in California's infrastructure and general level of support for infrastructure spending appears robust in recent opinion polls. However, despite this apparent support, the outlook for ballot box approval of large-scale state infrastructure funding in 2006 is weak where it might be assumed to be strongest.

- **Homeowner support lagging**. Opinion poll support for higher taxes to fund infrastructure is found to be significantly lagging among homeowners, a key group that makes up three-quarters of the regular voters who must approve any funding proposals. Homeowners are 10% less supportive than renters of similar income, age and other factors.
- **Contradiction with rising home investments.** The homeowner resistance to infrastructure spending has arisen in a period of unprecedented escalation in house values and homeowners' stake in the quality of the community infrastructure that sustains those values. The increased stakes are so recent that homeowners may not have realized yet how this changes their situation.
- **Low confidence in planning**. Finally, although there is widespread belief among voters that more funding is needed for infrastructure, the equally widespread lack of confidence in abilities to plan effectively reduces their willingness to provide that funding. Without a widely accepted plan, voters may not open the purse strings.

Graph 1: Annual Median Single-Family Home Sales Price (2000 Dollars)



The increase in what's at stake has been sudden. California house values have appreciated at an extraordinary rate, accelerating after 2001 to 21% increase per year and continuing through 2005 at no lower than 16% per year. It is surprising how much the recent escalation of house values exceeds the peak in the previous real estate boom in the late 1980s, even adjusted for inflation. As shown in the graph below, the previous boom peaking in 1989 only reached half the dollar value of the current boom. Speculation is now mounting of a "bubble" and another crash.

The highest home values are found among people ages 40 to 59 years old, especially among whites and Asians, who have median values in 2004 of $634,000 and $681,000, respectively. However, all demographic segments have participated in the rising house values, increasing by more than 100% in almost every age and ethnicity from 2000 to 2004.

A recent Los Angeles Times poll shows that the great majority of homeowners expect prices to keep rising (March 8, 2006). For 56% of the homeowners, real estate accounted for over half their family's total net worth. A sizable percentage has also drawn against their home values for cash from equity loans or refinancing. Today's house values are so much greater that there is more to protect. If a downturn would occur, it would likely be broad based with variations between areas. Congestion on inadequate roadways, increased travel times, and inconveniences caused by other infrastructure deficiencies could make some neighborhoods less desirable and more vulnerable to losses in value.

Voter support of infrastructure funding does not match up well to their rising stakes in housing investments. Table 1 indicates voter support for higher taxes to support various infrastructure proposals based on other opinions they expressed regarding California and its future.

Homeowners are noticeably less supportive of infrastructure funding, as are those who think funding is already adequate or who think local planning is ineffective. A detailed statistical analysis yields still more insights. Higher income and a college degree lead to high support for state funding, as does greater confidence in local planning, greater pessimism about future conditions in one's local area, and especially one's belief that fund is currently inadequate. But after taking account of all those factors, as well as age and ethnicity, which are not influential, it turns out that homeowners are still 10% less supportive.

What is wrong with this story? Do homeowners have less of a stake today? Or just think they do?

ADDITIONAL RESOURCES

- Principal author Dowell Myers, Ph.D., is a specialist in urban growth and development with expertise as a planner and urban demographer. Professor Myers is an academic fellow of the Urban Land Institute and a member of the Governing Board of the Association of Collegiate Schools of Planning. He can be reached at (213) 740- 7095 or by e-mail at dowell@usc.edu. Other members of the research team include John Pitkin, an economist who is president of Analysis and Forecasting, Inc., Cambridge, Mass. And Julie Park, Ph.D. a demographer and sociologist who is associate director of the USC Population Dynamics Research Group. The complete research report may be found at http://www.usc.edu/schools/sppd/lusk/keston/research/index.html.

Table 1. Voter Support for Higher Taxes of Each Kind Based on Other Expressed Opinions

	Support LOCAL Sales Tax for Transportation Projects	Support LOCAL Bond Measure for Schools	Support STATE Taxes for Infrastructure
Support by total probable voters	66.1%	67.8%	53.5%
Support if a homeowner	63.8%	65.0%	51.9%
Support if a renter	73.0%	74.9%	57.6%
Support if believe infrastructure funding…			
Adequate	52.3%	54.1%	33.9%
Not Adequate	73.1%	74.8%	63.5%
Support if believe local government planning…			
Effective	70.4%	72.4%	57.3%
Not Effective	57.9%	59.0%	46.1%

THE USC KESTON INSTITUTE FOR INFRASTRUCTURE

The USC Keston Institute for Infrastructure is a nonpartisan research organization established at the University of Southern California to help California and the nation address critical infrastructure issues. The Keston Institute supports the formulation of infrastructure polices and practices that will improve the livability of California communities, ensure the economic well-being of its citizens, and promote environmental sustainability.

For more information about the Keston Institute for Infrastructure, please contact Richard G. Little, Director, at (213) 740-4120 or via e-mail at rglittle@usc.edu.