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Two cities, 80 miles and a world apart in housing fortunes

STOCKTON FROM **A1**

bust and recovery over the last cycle has exacerbated wealth inequality, leaving many Americans of moderate means behind. While regional factors such as the Western energy boom can explain some differences, the housing market has deepened existing inequalities in America between neighborhoods rich and poor, black and white, and between gentrifying urban neighborhoods and far-flung suburbs.

At the beginning of this time period, values escalated rapidly in the bubble, fueled by financial speculation, subprime lending and an abiding national faith in homeownership as a sure-fire source of wealth. Values peaked by 2007, then collapsed, causing the worst recession since the Great Depression. Trillions of dollars of wealth were lost, and millions lost their homes to foreclosure as values dropped to their nadir in 2011. Since then, the recovery has been swift for some and sluggish for others, creating a fractured national map of housing fortunes.

As of the end of 2015, a home in a typical American neighborhood has recouped most of the value it lost during the crash and ended up worth about 14 percent more than in 2004, near the start of the housing turmoil. But black neighborhoods have been the least likely to recover. Zip codes where blacks make up the largest population share are twice as likely as white Zip codes to have lost home value since 2004.

Across the country, home values have gained the most in neighborhoods that already had the most expensive houses, adding to the wealth advantage of upper-income families. In the top decile of metropolitan Zip codes by home value, homes are worth on average 21 percent more than in 2004, a rate of appreciation well above what the typical homeowner has experienced.

Despite differences in schools, poverty, racial diversity and home size that once drove families from cities, close-in neighborhoods thrived in urban areas like the District, at the expense of some lagging suburbs. In the heart of D.C., where home values are up more than 90 percent, a modest rowhouse in gentrifying Trinidad is now worth about as much as a newer, spacious suburban home in Loudoun County, where values have barely budged.

The findings underscore another way in which the economy, despite its improvements over the past several years, continues to deliver better returns for some Americans — in wealthy metro areas, in elite enclaves, inside homes with coastal views — and to leave others feeling as if there has been little progress since the recession.

In good times, housing converts income into wealth. It turns a paycheck today into another generation's inheritance. And for many homeowning families, that home is their biggest investment. But for households and neighborhoods that haven't weathered the past decade as well, their homes have become a source of debt, a physical trap and an obstacle to life's other goals.

"Things have been calm enough for long enough that we have some clarity," says Jed Kolko, a senior fellow at the Terner Center for Housing Innovation at the University of California at Berkeley. "U.S. housing markets are more unequal today than they were before the housing bubble. The spread in home values has gotten bigger. The spread in incomes has gotten bigger. America's cities today are less like each other on these measures than they were before the bubble."

Here in California, it is no coincidence that the biggest victors and victims in the American housing market exist down the interstate from each other, across the Altamont Pass. Stockton's struggles are closely tied to the Bay Area's rise, as the two places, historically disconnected from each other, have grown into the once-empty space between them. The pressures that have boosted home values in the Bay Area also helped push a bubble over here.

"When they weren't all that connected, they were actually more equal," says Jeff Michael, director of the Center for Business and Policy Research at the University of the Pacific in Stockton. Decades ago, average incomes in Stockton and San Francisco were comparable. The gap in home values between them was narrower. "And now they're growing together, and there's this massive inequality between them."

Stockton's illusion

During the boom years, the moving trucks brought over the Altamont Pass families that were priced out of increasingly expensive communities around the Bay. Hardly anyone moved in the other direction.

Those households helped bring the housing fever with them: a $400,000 enthusiasm for $200,000 homes, a faith that $400,000 homes should become $500,000 jackpots. They brought demand for entire new subdivisions and communities built on former asparagus farms and almond orchards. And entranced by all the money the government reaped in development fees when those subdivisions were built, Stockton built a beautiful new arena downtown, next to a new minor-league ballpark, right by the site of a planned new marina on the inland channel that leads back out to the coast.

At the time, the rapidly rising home values seemed to say something about Stockton itself — that this was a place that was coming up, that was finally poised to share in the Bay Area's prosperity.

"We really did think, 'Oh, great, we're doing better, things are looking up,' " says Jan Truscott, a real estate agent in town and the former dean of business at San Joaquin Delta College. Stockton was even on one of those lists at the time of "All-American Cities."

This optimism created fertile ground for banks eager to hand out mortgages to virtually any family that wanted one. And then the forces collided: the surge in families moving over from the Bay, the land and support for a building boom, the subprime lenders who made it easy to buy a home with no or little money down. All those commuters created both demand for housing and the illusion that Stockton's fortunes mirrored the Bay Area's. And the city wanted the future the mortgage lenders were constantly predicting, one where the region would grow and values would rise indefinitely.

Martin Saltzman, 64, bought his modest one-bedroom home in 2006, near the worst possible moment, with no money down. Then, shortly after he moved here from the Seattle area to be near family, the economy collapsed, and he couldn't find work in the hospitality industry. He took up substitute teaching, and when he was home he watched one cable news show after another in his living room.

"I was watching them continuously to figure out why I was in the situation that I was," he says, "to try to get some sense it wasn't necessarily my fault — I just made a good decision at a bad time, or a good decision at a good time that turned bad."

His home now is worth about half the $126,000 he paid for it. Visionary Home Builders, Ornelas's organization, helped him refinance the property last year for a lower mortgage payment, which helped. But Saltzman wants to get out of homeowning entirely as soon as he can.

"I have no idea how long that would be," he says. "Are we looking at another 10 years?"

In retrospect, it's surprising to economists that prices rose so rapidly here during the boom years — even more rapidly than in the Bay.

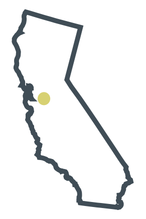
"There was just no reason," says Joseph Gyourko, a professor at the University of Pennsylvania's Wharton School of Business. Shortly after the crash, while at a conference in San Francisco, he rented a car and drove over to see Stockton, a previously obscure place to economists that had by then become infamous as the epicenter of the nation's foreclosure crisis. "Why you would think prices would be fundamentally higher in the Central Valley," he says, "never made sense to me."

In San Francisco and Silicon Valley, incomes were rising during the bubble years. And the growing demand to live in the Bay Area was outstripping the supply of homes, pushing up prices. But the long-time agricultural economy in the Central Valley wasn't taking off. Incomes weren't rising as home prices were. And there wasn't a shortage of housing.

In the run-up to the bust, though, very different communities started behaving similarly — not just out here, but across the country, says Nobel Prize-winning economist Robert J. Shiller, who is credited with having predicted the housing

HOUSING CONTINUED ON **A9**

FROM TOP: Thousands cross Altamont Pass each day to work in the Bay Area. In San Francisco, the Alamo Square neighborhood's famous homes draw tourists. In Stockton, Eric Totman tends to his chickens at his home. He cannot afford to live in Redwood City, where he owns a business.



ABOUT THE SERIES

A bubble sent home values soaring in many U.S. cities. Their crash pulled the country into recession. Today, what kinds of neighborhoods are better off, or worse? These stories map the uneven housing recovery, based on a Washington Post analysis of 12 years of home price data in 19,000 Zip codes.

Upcoming in The Post: The Atlanta metro Zip codes where home values have fallen the farthest — and remain low — are predominantly African American.