



California's Housing Affordability Crisis: Barriers and Potential Solutions to the State's Housing Shortage

The severe supply/demand imbalance in market rate housing is driving up the cost of housing for every income level. California needs to nearly double the number of units that are being built today – which is a minimum of 100,000 more new housing units per year – to keep pace with demand and to lower prices.

- As of February 2018, the median home price is \$529,000 and the average rent for a vacant apartment is \$2,426.
- Only 29 percent of California households earn sufficient income to afford the median-priced single family home.
- More than a quarter of the state's renters are paying more than 50% of their income on housing needs.
- California is home to 22% of the nation's homeless population – the highest in the nation.
- High housing costs are forcing many Californians to live outside of the urban centers where jobs are located, with the Legislative Analyst's Office (LAO) stating in 2015 that average commute times have increased 10%.
- According to the State of California's draft housing assessment released in 2017, California needs to add 1.8 million homes by 2025.
- According to the LAO, California households with incomes at the bottom quartile report spending 67% of their income on housing, 11% more than other such households spend on housing elsewhere in the country.

The consequences of California's housing crisis are having a harmful effect on communities and the state's economy, including:

- The inability for low and middle-income families to attain homeownership as a means to build fiscal stability.
- The continuation of overcrowded housing and sharply increasing homelessness.
- Forcing more Californians to drive further to their jobs, countering the state's greenhouse gas emission reduction goals.
- The inability for employers to recruit and retain employees; and middle and lower income wage income earners compelled to migrate out of California.
- Further, a 2016 McKinsey study found that every year Californians pay \$50 billion more for housing than they are able to afford.
- The McKinsey report also states that the housing shortage costs the state more than \$140 billion per year in lost economic output.

Resources:

- California Department of Housing and Community Development. *California's Housing Future: Challenges and Opportunities; Public Draft Statewide Housing Assessment – 2025*. July 2017.
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- Mischke, J., Peloquin, S., Weisfield, D., Woetzel, J. *A Toolkit to Close California's Housing Gap: 3.5 million homes by 2015*. McKinsey Global Institute, October 2016.
- Taylor, M. *California's High Housing Costs: Causes and Consequences*, Sacramento: Legislative Analyst's Office, March 2015.

As policy makers continue to grapple with this crisis, there are a number of factors that are exacerbating the shortage and constraining supply:

- There is a lack of land supply and local anti-housing policies and decisions do not prioritize housing.
 - The LAO found that 99% of land in coastal urban areas were already developed, leaving less than 1% vacant. This leaves the option of redevelopment, which is slow and costly; requiring the navigation of complex environmental and local regulations.
- Building costs are notably high due to regulations, increased fees, and labor and material costs.
 - According to the LAO, the state's labor, materials and development fees are higher than anywhere else in the nation.
 - Development fees levied by California local governments are much higher than the national average of \$6,000 per single family home (or unit).
- CEQA litigation abuse continues to be a barrier to the addition of housing stock, especially infill development.
 - The latest study by the law firm, Holland and Knight found that the top CEQA litigation target statewide is housing.
 - In the Southern California Association of Governments region, the study showed the most frequent CEQA housing targets are higher density, infill, transit-oriented housing.
 - According to the Legislative Analyst's Office, CEQA appeals delay a project by an average of two-and-a-half years.

Policymakers and elected officials must address the housing crisis through a dual lens: 1) embrace multi-faceted solutions that help remove barriers and speed the addition of supply; 2) reject proposals that only exacerbate the shortage. There is not a single policy solution that will solve the crisis, but policymakers can embrace policies that contain production costs, reduce project delays, and limit regulatory hurdles.

- Reasonable containment measures include:
 - Reducing the amount of impact and permit fees; eliminating impact fees for non-essential government services and increasing the transparency of levying impact fees.
 - Expedite the sale of Proposition 51 school facility bonds to ensure local agencies have the funds to build and renovate schools.
 - Create a new form of local government financing for affordable housing.
 - Consider financial relief for state mandated cost pressures related to greenhouse gas reduction goals; building codes; energy and water efficiency.
- To reduce unnecessary delays and expedite housing construction, the state should consider:
 - Housing-focused CEQA litigation reform to prohibit lawsuits for non-environmental purposes; eliminate redundant CEQA review; end anonymous lawsuits.
 - Expedite approvals at the local level and extend permit duration.
 - Address inadequacies with the Regional Housing Need Allocation (RHNA) process and increase RHNA numbers for market rate housing.
 - Facilitate increased approval/production of Accessory Dwelling Units (ADUs or Granny flats).
 - Reduce land use restrictions and reforming local zoning laws to increase housing.

Resources:

- Genest, M., Williams, B. *Inclusionary Zoning – Good Intentions, Bad Results*. Sacramento: Capitol Matrix Consulting, April 2016.
- Reid, C., Raetz, H. *Perspectives: Practitioners Weigh in on Drivers of Rising Housing Construction Costs in San Francisco*. Turner Center for Housing Innovation; University of California, Berkeley. January 2018.
- Building Industry Association of San Diego County. *2017-2018 San Diego County Fee Survey, Version 8.0*, 2017.
- Hernandez, J. *California Environmental Quality Act Lawsuits and California's Housing Crisis*; San Francisco: Hastings Environmental Law Journal, Vol. 24, No. 1, Winter 2018, pg 21.