OVERVIEW OF HOUSING ISSUES IN CALIFORNIA

Introduction

California has the largest concentration of severely unaffordable housing markets in the nation; the typical home value in California reached $747,400 in September 2023, a one percent decrease from the same month last year, but still far exceeding the national typical home value of $349,500[1]. The lack of supply is the primary factor underlying California's housing crunch. The state Department of Housing and Community Development (HCD) estimates that California needs to build 220,000 new homes a year to keep up with current population growth. During the 1990's California averaged only 110,000 new housing units per year. During the early 2000s, production increased significantly, reaching a peak of 212,000 units in 2004 before plummeting to historic lows during the recession. The fact is that California has under-produced housing every single year since 1989.

To keep up with demand, HCD estimates that California must plan for the development of more than 2.5 million homes over the next eight years, and no less than one million of those homes must meet the needs of lower-income households (more than 640,000 very low-income and 385,000 low-income units are needed).

This serious shortage of supply, and, in particular, supply of housing affordable to lower-income families, directly affects the health of California's economy. The lack of available housing hinders the efforts of businesses to attract and retain qualified employees; additionally, long commutes increase freeway congestion, reduce air quality, and increase time away from family. Further, the lack of affordable housing is the single biggest contributor to homelessness. This is because as housing costs continue to rise, rent becomes less affordable for lower-income households, who are forced to live beyond their means (paying more than 30% of income on housing costs) or are pushed out of their homes, leading to rapid increases in homelessness.

Why does California continually under-produce housing, and what can we do about it? Three fundamental structural problems severely constrain the ability of California to meet its housing needs:

1) Many local governments believe that housing does not pay for itself under the current tax structure, making them hesitant to embrace new residential development.
2) The land use entitlement process responds to public opposition to development generally, to high-density development, rental housing, and affordable housing more specifically. Additionally, multifamily zoning has been increasingly limited in favor of single-family zones, rendering multifamily housing (largely rental properties) illegal in much of California.
3) Many families are simply not able to pay market rates for adequate housing, and public investment is insufficient to cover this gap between what families can afford and what the market demands.

[1] Zillow Home Value Index. (2023). Zillow. Accessible here: https://www.zillow.com/research/data/

The first two constraints effectively place barriers in front of private developers as they attempt to increase the state's housing stock. The latter constraint means that the private market cannot meet the housing needs of lower-income households without adequate public subsidy.

Fiscal incentives do not favor housing

Ever since the passage of Proposition 13 in 1978, property taxes have constituted a diminishing source of revenue for governments. In many cases, the additional revenues a local government now earns from each new housing unit (through the collection of property taxes) are insufficient to cover the added expense of providing services to the new residents of that home. By some estimates, local general fund revenues have been cut as a result of Proposition 13, which means fewer resources for local public services, such as police and fire. Some of the fixed costs of infrastructure can be recouped through impact fees (which, of course, add to the cost of housing), but the on-going service costs remain at issue.

At the same time, when a city council considers an alternate proposal to develop a parcel of land as a retail center, the fiscal incentives strongly support approval. Local governments receive a large portion of all sales tax revenue generated within their borders. The additional revenue received from a large retail facility -- such as a big-box retailer, Amazon distribution center, or a car dealership -- easily outweighs the costs of providing services to the facility. Local government can use these surplus revenues to enhance services to its constituents.

Higher density developments tend to generate public opposition

Many communities stigmatize rental housing generally, and affordable housing especially. Though largely debunked by evidence and experience, fears of increased crime and decreased property values fuel these biases. These views manifest themselves in the political arena when communities create their zoning ordinances and when multi-family housing developments are forced to go through the local land use entitlement process. Bowing to political pressure, local planning commissioners and elected officials often seek to limit multifamily zoning designations (in favor of single-family zoning or nonresidential) and to deny or significantly scale back proposals for affordable housing developments. In the meantime, California's population continues to grow and housing prices spiral out of reach for an ever larger number of households.

Recent reports point to the permitting and approval processes as a major factor preventing more housing construction. Local governments control most of the decisions about where, when, and how to build new housing. Cities and counties often require multiple layers of approval for new housing projects and commonly include review by multiple departments within the city (such as the building department, fire department, and health department), a design review board, the planning commission, and the city council or board of supervisors. Many of these reviews must be conducted at public hearings, providing venues for residents that oppose development, particularly those that have more time and resources to attend, to make their voices heard. More complicated projects require even more approvals and procedural steps, and thus, more opportunities to slow down or stall development.

Most housing projects that require an approval where a local government exercises discretion must also complete California Environmental Quality Act (CEQA) review, which can entail complicated analyses of dozens of aspects of the environment upon which a development may have a significant impact, such as land, air, water, minerals, flora, fauna, ambient noise levels, and objects of historic or aesthetic significance. Development opponents can appeal many of these individual decisions to the planning commission and to the city council or board of supervisors. Finally, litigation over approvals is also common.

Some housing projects can be permitted by city or county planning staff ministerially or without further approval from elected officials. Projects reviewed ministerially require only an administrative review designed to ensure they are consistent with existing general plan and zoning rules, as well as meet standards for building quality, health, and safety. Most large housing projects, however, are not allowed ministerial review. Instead, these projects are vetted through both public hearings and administrative review. Most housing projects that require discretionary review and approval are subject to review under CEQA while projects permitted ministerially generally are not.

Over the last several years, the Legislature has taken steps to update state housing element law, created more oversight and transparency over the regional housing needs allocation process,[2] and the passage of housing streamlining proposals.[3] These streamlined approval processes reduce opportunities for opposition groups to slow-down or stall developments from receiving necessary permits.

Combined, these reforms will result in more sites available for housing development and therefore more opportunities for streamlined approvals to take place; however, the full effects of the changes described above will likely take years to be fully realized as local governments begin to implement their sixth cycle housing element programming. Even once approved, it can take several years for these projects to be constructed. Additionally, some local governments may continue to create other barriers to building denser housing.

The market does not serve the lowest-income households

Some families are simply unable to afford market rates to rent or own a home. Naturally, the private market cannot be expected to serve these households without some form of public, financial assistance. Until the 1980's, public subsidies for affordable housing construction was provided at the federal level. In the 1970s and 1980's, "public housing" – created to provide safe and affordable rental housing for low-income families, the elderly, and people with disabilities under the National Housing Acts of 1934 and 1937 -- began to physically deteriorate due to poor

[2] For more details on recent changes to state housing element law, please review this document: https://shou.senate.ca.gov/sites/shou.senate.ca.gov/files/RHNA%20reform%20fact%20sheet.pdf

[3] Notable streamlining bills include: SB 35 (Wiener, Chapter 366, Statutes of 2017) requires local jurisdictions that have not met their housing production requirements to streamline the approval of certain infill housing developments; AB 2162 (Chiu, Chapter 753, Statutes of 2018) requires streamlined approval of supportive housing developments; AB 101 (Committee on Budget, Chapter 159, Statutes of 2019) creates a streamlined, ministerial approval process for high-quality, low-barrier navigation centers; SB 9 (Atkins, Chapter 162, Statutes of 2021) requires streamlined approval of a housing development of no more than two units in a single-family zone (duplex), the subdivision of a parcel zoned for residential use into two parcels (lot split), or both; AB 2011 (Wicks, Chapter 647, Statutes of 2022) creates a by-right approval process for affordable housing and mixed-income developments in commercial corridors; and SB 6 (Caballero, Chapter 659, Statutes of 2022) authorizes housing developments in otherwise commercial areas to be subject to SB 35 streamlining.

maintenance. In 1974, the Housing Community and Development Act ended most new construction of public housing and the Housing Choice Voucher Program (formerly referred to as "Section 8" vouchers) was created in its place. This new program allowed eligible tenants to pay only a portion of their rent (based on their income) and shifted funds from public housing authorities to the private sector. The goal was to eliminate concentrations of low-income people in housing developments. In 1981, the Reagan administration dismantled federal affordable housing funding. From 1978 to 1983, the funding for low- to moderate-income housing decreased by 77%. Social policies contributing to the rise of homelessness included the deinstitutionalization of the mentally ill during the mid-1980s. Additionally, in the 1980s, the proportion of the eligible low-income families who received federal housing subsidies declined. In 1970, there were 300,000 more low-cost rental units (6.5 million) than low-income renter households (6.2 million). By 1985, however, the number of low-cost units had fallen to 5.6 million, and the number of low-income renter households had grown to 8.9 million, a disparity of 3.3 million units.

California took up the mantle by way of investment in affordable housing construction and rehabilitation in three significant ways: (1) creating the state low income housing tax credit program in 1987 to pair with the existing federal program, (2) requiring 20% of redevelopment agency funding to be expended on affordable housing, and (3) proposing and passing statewide housing general obligation bond measures. The expenditure of bond funds from Proposition 46 (2002) and Proposition 1C (2006) combined with the loss of redevelopment funds for affordable housing, however, resulted in the loss of $1.5-1.7 billion per year in dedicated funds for housing.

Over the last several years, California has made significant investments in low- and moderate-income housing[4] largely through the passage of GO bonds and one-time general fund investments. The primary sources of funding include:

- Low Income Housing Tax Credits (LIHTC), administered by the California Tax Credit Allocation Committee;
- Greenhouse Gas Reduction Fund monies allocated to the Affordable Housing and Sustainable Communities Strategies Program (AHSC), administered by the Strategic Growth Council;
- The Veterans Housing and Homeless Prevention (VHHP) Bond Act of 2014, allocated to programs administered by HCD in coordination with the California Housing Finance Agency (CalHFA) and California Veterans Department (CalVet);
- Revenues generated through the Building Homes and Jobs Act[5] (SB 2, Atkins, Chapter 364, Statutes of 2017), allocated through HCD and CalHFA;
- The Veterans and Affordable Housing Bond Act of 2018[6] (Proposition 1), allocated to a program administered by HCD and CalHFA;

[4] Moderate-income households are those earning 80 to 120% of the Area Median Income.
[5] SB 2 established a permanent source of funding for the construction of housing affordable to lower- and moderate-income households, as well as for homebuyer assistance, support for local planning documents, and housing for the homeless. In year 1, 50% of funds went to address homelessness through the California Emergency Solutions and Housing Program at HCD, and 50% went to planning grants issued by HCD. In year 2 and beyond, 70% are allocated by formula directly to local jurisdictions, 15% are administered to CalHFA for the Mixed-Income Program (MIP), 10% fund farmworker housing, and 5% fund incentives to locals for permitting new housing.
[6] Proposition 1 of 2018 allocated $1 billion to the Cal-Vet Farm and Home Loan Program at CalVet; $1.5 billion to the Multifamily Housing Program under HCD, $150 million to the Transit-Oriented Development program (TOD)

- The No Place Like Home Program (established by Proposition 2, 2018), administered by HCD;
- Several affordable housing programs administered by HCD, including the Multifamily Housing Program, Joe Serna Jr. Farmworker Housing Program, CalHome, and the Housing Accelerator Program.
- Budget appropriations to the Homeless Emergency Aid Program (HEAP) and the Homeless Housing, Assistance, and Prevention Program (HHAP), administered by the Homeless Financing and Coordinating Council (HCFC);

It should be noted that of these investments, only funds from AHSC, LIHTCs, and funds from SB 2, are ongoing sources of funding. While the state has invested substantial amounts of one-time funding in recent years, advocates state that more predictable, significant, and permanent investments are necessary to address the substantial underproduction and ongoing needs for California's lowest-income and working families.[7]

under HCD, $300 million to the Infill Infrastructure Grant program under HCD, $300 to the Joe Serna, Jr. Farmworker Housing Grant program under HCD, $300 million to the Local Housing Trust Fund Matching Grant program under HCD, $300 million to the CalHome Program at HCD, and $150 million to the Home Purchase Assistance Program under CalHFA.

[7] For more information about specific funding programs, please see this background on California Housing Finance Programs: https://shou.senate.ca.gov/sites/shou.senate.ca.gov/files/Housing%20Finance%2009.2020_0.pdf