Housing

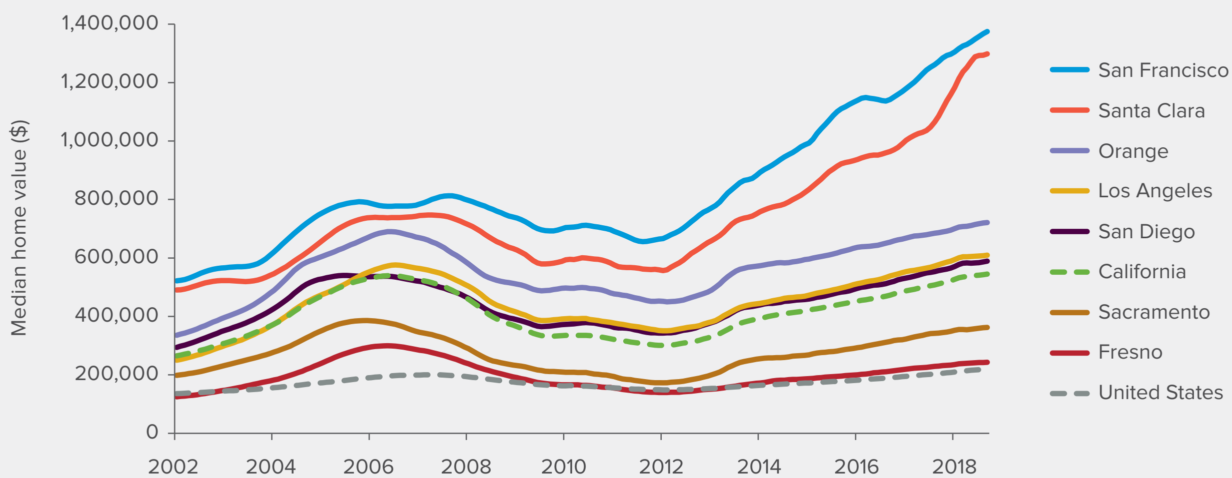
JANUARY 2019

California's housing challenges continue

The rising cost of housing has emerged as a threat to the state's future economy and the well-being of its citizens. Indeed, when housing costs are accounted for, California has one of the highest poverty rates in the nation. According to the PPIC Statewide Survey (May and September 2017), 47 percent of Californians—including 61 percent of renters—say housing costs are a financial strain.

The housing crisis is undoubtedly one of the biggest issues facing the new governor. California is home to the ten least-affordable major markets in the country and ranks near the top in cost-burdened households—second among homeowners and fourth among renters. It also has the second-highest homelessness rate, the second-lowest homeownership rate, and the second-lowest number of housing units per capita. Of course, housing markets vary widely across the state. For example, housing is especially unaffordable in coastal areas, and homelessness is highest in Los Angeles. Increasing the supply of housing, improving affordability for low- and middle-income homeowners and renters, and addressing homelessness are critical issues for the state.

HOME VALUES ARE HIGH AND RISING BUT WIDE VARIATION EXISTS ACROSS THE STATE



SOURCE: Zillow.

NOTE: Values for selected counties, the state, and the US are reported in nominal dollars from January 2002 to September 2018.

Housing remains expensive for most Californians

- **California home values remain the highest in the nation …**
  The state's median home value was $546,100 as of October 2018, higher than its 2006 peak. But gains in home values have been uneven across the state. In 16 counties—most of them coastal—values are at their highest levels ever. In three San Francisco Bay Area counties (San Mateo, San Francisco, and Santa Clara), median home values are now over $1.3 million, about 70 percent above previous highs. Meanwhile, in another 15 counties, mostly in the San Joaquin Valley and the Central Sierra, home values remain more than 15 percent below their peaks.

- **… and they will continue to rise.**
  Statewide median home values have increased every year since 2012. However, growth may be slowing down. For the first time since October 2012, year-over-year growth fell to 6.4 percent in October 2018. Experts at the UCLA Anderson Forecast, Zillow, and the California Association of Realtors forecast that home prices will continue to increase in 2019, but at a slower pace than in 2018.

- **Rents are also high and rising.**
  California has six of the nation's fifteen most-expensive large metropolitan rental markets: San Francisco (number one), San Jose, Oakland, Orange County, San Diego, and Los Angeles. Since 2015, rents have risen anywhere from 25 percent to 50 percent in these areas. According to estimates by the US Department of Housing and Urban Development (HUD), the median fair-market rent for a two-bedroom apartment in these areas ranges from $1,934 in Los Angeles to $3,085 in San Francisco.

- **Californians spend disproportionate shares of their income on housing.**
  Among homeowners with mortgages, median monthly housing costs are 50 percent higher in California than in the nation as a whole. California renters pay 43 percent above the nationwide median—while California's median household income is only 19 percent higher than the nationwide median. This means that the share of Californians with excessive housing costs is quite high: 38.4 percent of mortgaged homeowners and 55.3 percent of renters spend more than 30 percent of their total household income on housing, compared with 27.5 percent and 49.5 percent nationwide.

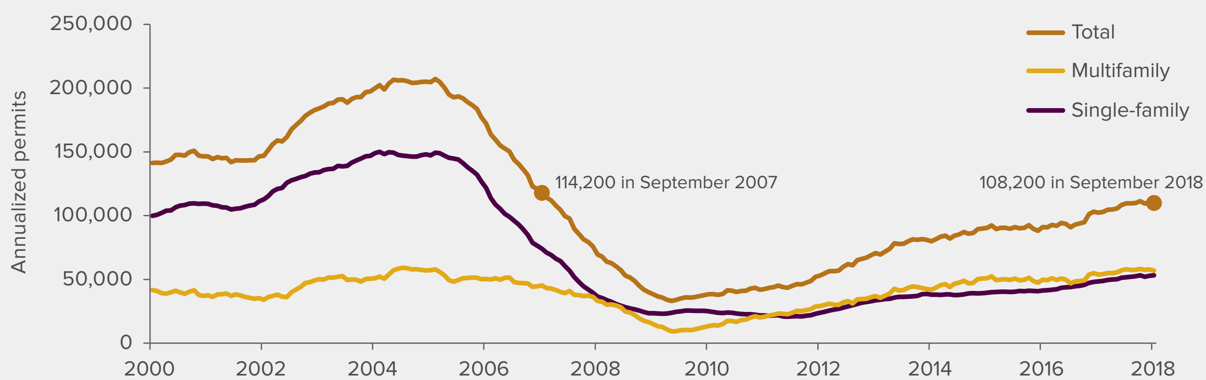
- **Housing is especially unaffordable in coastal areas, where two-thirds of Californians live.**
  High home prices together with slow-growing household incomes are pushing affordability to the lowest levels observed since 2009. According to the National Association of Home Builders, in the third quarter of 2018, the ten least-affordable major metropolitan areas in the nation were all in California. In eight of these areas, fewer than one in five households could afford a median-priced home. The San Francisco metropolitan area (San Francisco and San Mateo counties) was the least affordable: only 6.4 percent of the homes sold were affordable to families earning the area's median income of $116,400. Metropolitan Los Angeles, Orange County, San Jose, San Diego, Oakland, Santa Rosa, Ventura, Stockton, and Modesto were also in the top ten. Only a few areas remain relatively affordable: in metropolitan Redding and Bakersfield, about 50 percent of homes sold were affordable to families at the median income.

Supply shortages will continue to put upward pressure on home prices

- **New construction permits are not growing fast enough to meet demand.**
  California has underbuilt for years. Estimates from Beacon Economics put the backlog at about 2.3 million housing units in 2017. Just to keep pace with its growing population, California needs an average of 180,000 new homes every year, according to state housing officials. New residential permits are set to end up around 110,000 in 2018—up from 33,000 in 2009 but far below the number of new homes needed. The 180,000 yearly average is not unattainable: an average of 200,000 units were permitted each year from 2003 to 2005.

- **California's low vacancy rates contribute to its high housing prices.**
  California's vacancy rate for renters is one of the lowest in the nation; its homeowner vacancy rate is second only to Washington. In 2017, California's homeowner vacancy rate was 1.0 percent, compared to 1.6 percent nationwide. Meanwhile, the rental vacancy rate was 3.5 percent, down 2.4 percentage points from its most recent peak in 2010 and far below the 6.2 percent rate nationwide.

NEW HOME CONSTRUCTION PERMITS ARE ALMOST BACK TO 2007 LEVELS



SOURCE: US Department of Housing and Urban Development: Office of Policy Development and Research: State of the Cities Data Systems (SOCDS).
NOTE: September 2000 to September 2018.

- **High housing costs continue to have an effect on household sizes.**
  California's rate of overcrowding—the share of housing units with more than one resident per room—was 8.3 percent in 2017, well above the national rate of 3.4 percent. Overcrowding is especially high for rental units: at 13.3 percent, it is more than twice the national rate and the highest among the 50 states.
- **Homeownership rates have risen slightly but remain low.**
  In 2017, 54.8 percent of California housing units were owner occupied—a rate that is 10.2 percentage points lower than the rate in the rest of the nation. After 12 years of annual declines or stagnation, the California homeownership rate increased in 2017 by 1.1 percentage points. This translates into 182,000 owner-occupied units. But California's homeownership rate remains second-lowest only to New York.

Homelessness is widespread

- **A quarter of the nation's homeless population lives in California.**
  HUD estimates homelessness by conducting a point-in-time count on a single night in January. In 2017, HUD estimated that about 134,300 individuals in California were homeless—a quarter of the national total and twice the state's share of the US population (12%). California's rate of homelessness, 34 per 10,000 residents, is the second highest in the nation. Also, 12 percent of the nation's homeless people in families with children (21,522 people) are in California, as are 38 percent of all unaccompanied homeless youth (15,458 people), and 29 percent of all veterans (11,472 people).
- **The state's homeless population is growing.**
  Between 2016 and 2017 the number of homeless people in California increased by 14 percent. The increase was even more dramatic in Los Angeles: according to HUD estimates, 55,200 people were homeless in Los Angeles in 2017, up 26 percent from the previous year and up 61 percent since 2014.
- **Most of California's homeless are unsheltered.**
  About 32 percent of homeless Californians are in shelters or other residential programs—the lowest share in the nation. Moreover, California reports the second-highest share of unaccompanied youth who are unsheltered (87%) and the highest share of unsheltered veterans in the nation (67%). Recent research has shown that homelessness is strongly correlated with housing costs.

Looking ahead

California needs short- and long-term policies that improve housing affordability and remove unnecessary barriers to increasing supply. State-level action has been contentious given the role played by local governments in housing policy. State efforts must interact with local land-use and zoning policies; this means that addressing California's housing challenges will take many years of sustained cooperation between state and local officials.

Land-use policies should incentivize more housing. California's tight housing market reflects not only a scarcity of developable land but also an array of policy choices. Many local zoning and planning regulations make it difficult to increase the supply of housing, while policies that promote economic growth boost demand. Incentives for commercial development, such as tax breaks for businesses that relocate, should be balanced by policies that encourage new housing. In 2017, the state legislature passed a series of bills to facilitate housing production by promoting higher density, speedier regulatory permitting, streamlined housing approvals, and the zoning of land for housing. For the first time, local jurisdictions could face substantial penalties for failing to plan adequately for future housing needs.

The state should continue its efforts to expand affordable housing. Voters recently approved a $4 billion general obligation bond to fund various affordable housing programs. In 2017, the governor signed the Building Homes and Jobs Act, which imposes a $75 fee on real estate transaction documents to provide ongoing funding for affordable housing. These are steps in the right direction, but more work needs to be done to build more housing.

California should expand housing options for homeless individuals and families. Reducing homelessness requires coordinated investments, policies, and programs at the federal, state, and local levels, as well as collaboration across sectors (housing, health, and social services). Legislation passed in 2016 requires state agencies and departments that provide services to the homeless or those at risk of homelessness to incorporate core components of the Housing First model. This approach prioritizes getting homeless people into housing and providing services as needed. In 2018, additional legislation streamlined the approval of certain affordable housing projects that include units for the homeless.

Localities are trying a range of approaches to affordable housing and homelessness. Voters in Los Angeles, Berkeley, Santa Rosa, and Emeryville recently passed local bonds to fund housing projects as well as assistance for low- and middle-income households and people experiencing homelessness. San Francisco passed a gross receipts tax to increase services to the homeless—including housing, rent subsidies, shelter beds, legal assistance, and mental health and substance abuse services. Oakland passed a vacant-property tax to address homelessness and illegal dumping. Several Napa County communities passed hotel taxes to fund workforce housing.

New housing development can help achieve environmental goals. California has passed legislation to encourage local land-use planning that reduces driving—and lowers harmful emissions. The goal is to coordinate new housing development with transportation networks. Infill (new construction in built-up areas) is one way to achieve this goal, but there is a trade-off: infill development tends to be more expensive than building on vacant land and usually produces fewer units. In the past, much of California's most affordable housing was built at the edge of urbanized areas. Identifying water sources for new development is also an issue in some parts of the state.

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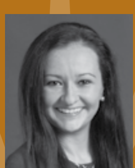

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