California Housing in 2023

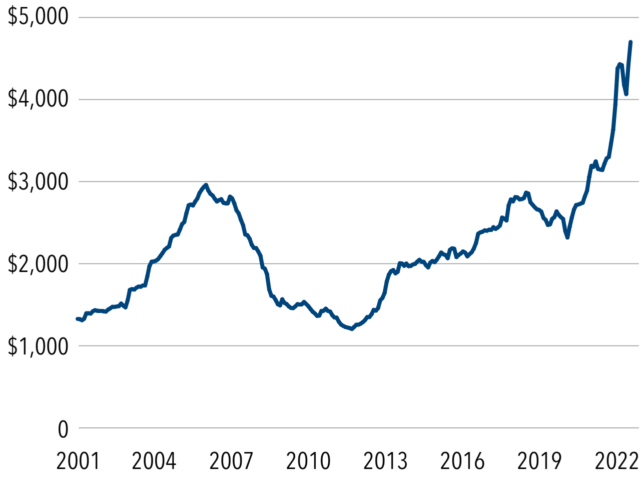
Comprehensive Environmental Law Reform Can Spur Housing Development

California's ongoing housing shortage remains a classic case of a policy-influenced supply-demand mismatch driving home prices and rental prices to record highs, and contributing to the state's homelessness crisis. California continues to have the highest median home price in the nation for existing single-family residences at $777,500 in 2022, a slight decrease from 2021 when it peaked at more than $800,000. The decrease is most likely attributable to the significant increase in interest rates in 2022 from record lows. Compare California's median home price to the national median price of $398,000 and it quickly illuminates just how much more expensive it is to own a home in the Golden State. Additionally, the average monthly mortgage cost associated with owning a median priced home on a 30-year fixed rate mortgage is approaching $5,000.

(*See* ***https://www.car.org/aboutus/mediacenter/newsreleases/2022releases/nov2022sales***. In 2021, the median California home price was $801,190.)

California also remains one of the most expensive states in the country for renters, with further increases anticipated in 2023. For example, Los Angeles County's median rent at the time of this publication is $3,025. In San Diego, the current median rental unit is a whopping $3,230. In almost every other state, such monthly rates are equivalent to a mortgage for a three-bedroom house. According to a Moody's Analytics forecast, the rental prices this year are predicted to rise again by 5% to 7%. (*See* ***https://www.zillow.com/rental-manager/market-trends/los-angeles-ca/***; ***https://www.zillow.com/rental-manager/market-trends/san-diego-ca/***; ***https://www.cnbc.com/2022/09/28/how-much-higher-rent-will-go-in-2023-according-to-experts.html***.)

MONTHLY MORTGAGE COST, CALIFORNIA



Source: Beacon Economics analysis of Redfin, Zillow, Freddie Mac (2022).

With unaffordability on the rise, a drug epidemic and a lack of sufficient mental health services across the state, it is no surprise that California has approximately 172,000 homeless people, or 30% of the nation's homeless population (up 2% from last year). New data from the U.S. Department of Housing and Urban Development reveals that California had the single largest rate of increase in its homeless population in the country at 6.2%.

Finally, California employers face an ever-increasing shortage of workers as the high cost of housing, especially in coastal areas, drives lower- and mid-skilled workers out of California and in search of more affordable states. A significant lack of affordable housing remains a formidable threat to California's economy and a barrier to upward mobility for working Californians.

CalChamber

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CALIFORNIA EXODUS TO DEFINE CALIFORNIA'S NEW DEMOGRAPHIC ERA

From 2000 to 2020, California experienced a net loss of 2.6 million people to other U.S. states. When looking more closely at the numbers, 7.5 million people moved from California to other states since 2010, while only 5.8 million people moved to California from other parts of the country. According to the U.S. Census Bureau, the state's population continued to decline by 114,000 people in 2021 from about 39,143,000 to 39,029,000 in 2022.

The Public Policy Institute of California (PPIC) recently stated that California "appears to be on the verge of a new demographic era, one in which population declines characterize the state." (*See* ***https://www.ppic.org/blog/whos-leaving-california-and-whos-moving-in/***.) They highlight that lower levels of international migration, declining birth rates, and increases in deaths all play a role, but the primary driver of the state's population loss over the last couple of years has been the result of California residents moving to other states.

The California exodus is not limited to individuals. A study published in September 2022 found that businesses headquartered in California also are leaving the state at a record pace. (*See* ***https://www.hoover.org/sites/default/files/research/docs/21117-Ohanian-Vranich-4_0.pdf***

The Hoover Institution study found that the number of companies relocating their headquarters out of California in 2021 occurred at twice the rate of 2020, with 352 companies moving their headquarters to other states just in the period from January 1, 2018, through December 31, 2021. The study notes that every single month in 2021 saw twice as many companies relocating their headquarters out of California as in the prior year. Additionally, in the last three years, California lost 11 Fortune 1000 companies, whose exits negatively affect California's economy.

The California Chamber of Commerce eighth annual "People's Voice 2022" opinion survey found similar pessimism among likely voters. The vast majority of Californians believe the housing shortage in California is "very significant" (up 35% from five years ago), and almost two-thirds of voters with children living at home agreed that their children would have a better future if they left California.

Recognizing the historic housing crisis and the impact unaffordable housing has had on their workforce, tech companies have committed recently to investing billions of dollars in affordable housing projects in California. Apple announced $2.5 billion in affordable housing investments, Facebook and Google each announced $1 billion commitments, and Airbnb plans to invest $25 million in affordable housing in California, just to name a few. Yet, even with these significant private investments, California desperately needs substantially more housing constructed on a scale and at a pace not seen in decades to truly bring affordable housing to all areas of the state.

WHAT LEGISLATURE SHOULD ADDRESS IN 2023 RELATED TO HOUSING

CEQA Abuse

The California Environmental Quality Act (CEQA) is not the sole cause of the housing shortage, but it often is a major impediment to housing development in California — no matter the size of the project. CEQA requires local governments to conduct a detailed review of discretionary projects prior to their approval. CEQA protects human health and the environment by requiring lead agencies to analyze the impacts of projects and then require project developers to mitigate any potentially significant environmental impacts. But unlike most environmental laws and regulations in California, CEQA is enforced through private litigation, which has mushroomed over time. The litigation can substantially slow or even stop housing projects when opponents do not want added density in their neighborhood, do not want a competitor locating in the area, or want to leverage the project developer for unrelated considerations, like union labor, preferential hiring, or additional environmental mitigation.

CEQA can add significant cost and time to the housing development process. Even the threat of litigation can discourage developers or substantially raise the costs to develop housing, as developers expend significant resources preparing for and defending their projects from opponents. And because housing costs are borne ultimately by future home buyers, CEQA inevitably raises housing prices in California *even* if the project is unchallenged. It may be no coincidence that California's cost of housing began to increase significantly the same decade in which the California Legislature passed CEQA and community resistance to new homes got stronger. Between 1970 and 1980, California home prices went from 30% above U.S. levels to more than 80% higher, according to a report from the Legislative Analyst's Office.

Local Finance Structures Favoring Commercial Development

Different types of developments (for example, commercial, residential, industrial) yield different amounts of tax revenues and service demands. California's local government finance structure provides cities and counties with a much larger fiscal incentive to approve nonresidential development or lower-density housing development.

For example, commercial developments like major retail establishments and hotels often yield the highest net fiscal benefits for cities and counties, as increased sales and hotel tax revenue that a city receives usually more than offsets the local government's costs to provide them public services. In contrast, housing developments generally do not produce sales or hotel tax revenues directly and the state's cities and counties typically receive only a small portion of the revenue collected from the property tax. As a result, cities and counties often incentivize commercial developments by zoning large swaths of land for these purposes and by offering subsidies or other benefits to the prospective business owners.

Lowering Development Fees

California local jurisdictions have relied increasingly on development impact fees to fund local services, such as schools, parks and transportation infrastructure. Although these fees can and often do finance necessary infrastructure, many local jurisdictions levy overly burdensome fees which can limit housing construction by impeding or disincentivizing new residential development, especially affordable residential development. Development impact fees inevitably raise the cost of housing construction, which then increases housing costs.

SB 330 (Skinner; D-Berkeley) was arguably the only significant piece of legislation signed into law in 2019 aimed at addressing sky-high development impact fees in California. Although the bill did *not* preclude a local jurisdiction from setting at the outset the development impact fee, it did prevent local jurisdictions from raising the fee midway through the permitting process. Unfortunately, the bill was watered down to sunset after just five years.

In 2021, the Legislature enacted SB 8 (Skinner; D-Berkeley), which clarified and updated some of SB 330's terms. Specifically, the bill clarified that a single residence could count as a "housing development project" for purposes of Government Code sections 65905.5 (limiting the number of hearings allowed for any "housing development project"), 65940 (requiring that public agency provide list of information required for complete housing development project application), 65941.1 (preliminary application requirements), 65943 (Permit Streamlining Act provision requiring completeness determination within 30 days), 65950 (Permit Streamlining Act provision requiring decision within certain period from completion of CEQA review), and 66300 (prohibition on enforcing new subjective standards on housing projects). Additionally, projects with two or more residences are "housing development projects" for purposes of Government Code Section 65589.5, which prohibits cities and counties from denying or making infeasible "housing development projects" that comply with objective development standards, unless specific findings are made. Data on just how many additional units were approved per SB 330 and SB 8 remains outstanding. Nevertheless, much more work needs to be done to expedite more affordable housing construction as these two bills alone will not solve the crisis.

Community Resistance to New Housing

Community resistance to new housing construction also exacerbates the housing shortage. Local communities often fear that increasing housing density will change their neighborhood character, increase traffic congestion, lower their home value, and bring new crime. Local residents often place significant pressure on their local officials to use their land use authority to suppress new development. As a result, approximately two-thirds of cities and counties in California's coastal metros have adopted growth control ordinances that limit housing development. These growth control ordinances are effective at limiting growth and consequently increasing housing costs. One study found that each additional growth control policy a city adopted had a 3% to 5% correlated increase in home prices. And even where local officials do not bend to community pressure, California's initiative process provides active residents with the ability to circumvent their local officials and intervene in local land use decisions via the initiative and referendum process.

In direct response to many cities and counties failing to approve adequate housing per their Regional Housing Needs Allocation (RHNA), the Legislature passed and Governor Gavin Newsom signed AB 215 (Chiu; D-San Francisco) in 2021. AB 215 works to clarify a three-year statute of limitations for the state to enforce potential violations of housing laws and gives the California Department of Housing and Community Development (HCD) the ability to "seek outside counsel to enforce housing laws if the Attorney General chooses not to enforce a violation." The bill also made clear that the Attorney General could enforce housing laws independently of HCD. Indeed, Attorney General Rob Bonta announced shortly after the bill's passage the creation of a Housing Strike Force within the California Department of Justice (DOJ) to enforce state housing and development laws, which includes issuing guidance letters to local governments on state housing laws. Whether this Housing Strike Force yields any meaningful housing production remains to be seen.

CALCHAMBER POSITION

California's housing crisis is driving many residents and businesses out of state and discouraging new investments from coming in. Unaffordable housing forces many Californians into extra-long commutes, adding more air pollution and traffic congestion, and reducing worker productivity and quality of life. While work-from-home policies may help blunt these impacts, the vast majority of people want to live near the communities in which they work. Furthermore, not all businesses and jobs can accommodate a work-from-home schedule.

Comprehensive reforms of environmental and zoning laws are necessary to remove obstacles that hamper housing construction, add delay and raise new home prices. A comprehensive reevaluation and reform of CEQA is a critical step to spurring housing development in California as abuses continue to plague timely development of housing. Maintaining CEQA's legacy of protecting human health and the environment is not incongruent with more streamlined housing development.

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