California Housing Crisis

Self-Inflicted Disaster Jeopardizes State's Economy

California is no longer in the midst of a housing "crisis." A crisis is an event likely to lead to an unstable or dangerous situation affecting an individual or community. For millions of Californians, lack of affordable housing is already threatening their families and communities. California's "housing crisis" is instead a self-inflicted disaster.

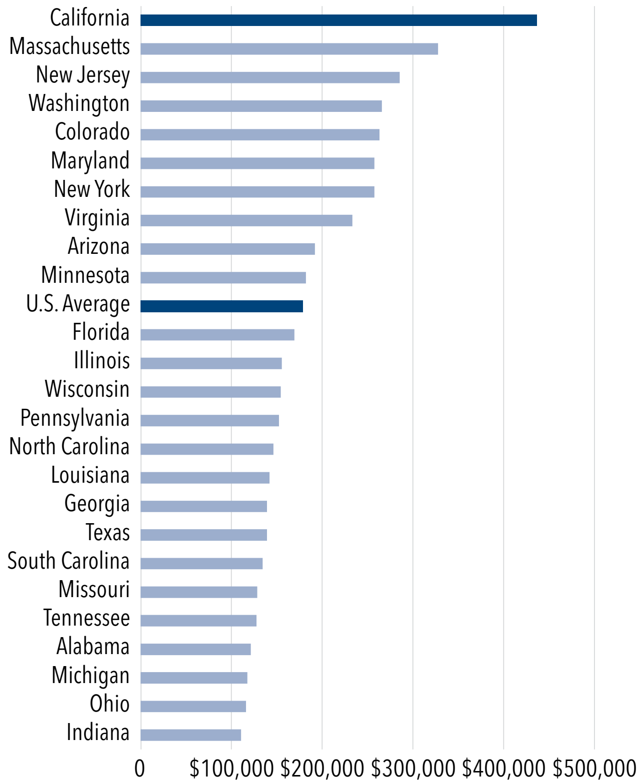
California's housing disaster is apparent from the state's record high rental prices, home prices, homelessness, and emigration of people and businesses to other states. Well before the most recent wildfires, decades of well-intentioned policies stifled housing construction. Owing to the pleasant climate, gorgeous views and opportunity, housing in California has long been more expensive than most areas around the country. But beginning in 1970, the gap between California's home prices and those in the rest of the country began widening. Between 1970 and 1980, California home prices went from 30% above the national average to more than 80% higher, and with that increase came higher rents. The trend has continued unchecked to today: California home prices are higher than any other state in the union and well above the U.S. average. California now ranks 49th in the ratio of housing units per resident.

Various reports estimate California's housing deficit to be between 3 million and 4 million housing units. As the state reaches full employment, it needs an estimated 180,000 new units a year just to meet annual demands. Yet with only about 80,000 units built annually, the existing 3 million-4 million home deficit will grow by another 100,000 units per year. Home construction in the state is going in the wrong direction. As a result, rental and home prices are at all-time highs.

California's housing shortage is a self-inflicted disaster already jeopardizing California's economy. Three recent reports commissioned by Next 10, a nonpartisan nonprofit research organization, find that substantial economic challenges lie ahead for the Golden State due to its severe housing shortage. All across California, the shortage of affordable and accessible housing is restricting economic growth, inflicting economic and environmental damage, and driving low-income and middle-class residents, as well as businesses, to seek opportunities outside of the state. From 2006 to 2016, more than a million more people moved out of California than moved in. By one estimate, California's housing dearth is already costing the state $140 billion a year.

HOME PRICES HIGHER IN CALIFORNIA THAN IN OTHER LARGE STATES

Median Home Value, January 2015



Source: Legislative Analyst's Office, *California's High Housing Costs* (2015).

A PROBLEM ONLY THE LEGISLATURE CAN SOLVE

In 2018, housing advocates presented California voters with ballot measures that purported to address housing issues in which the Legislature did not engage. At the November election, CalChamber

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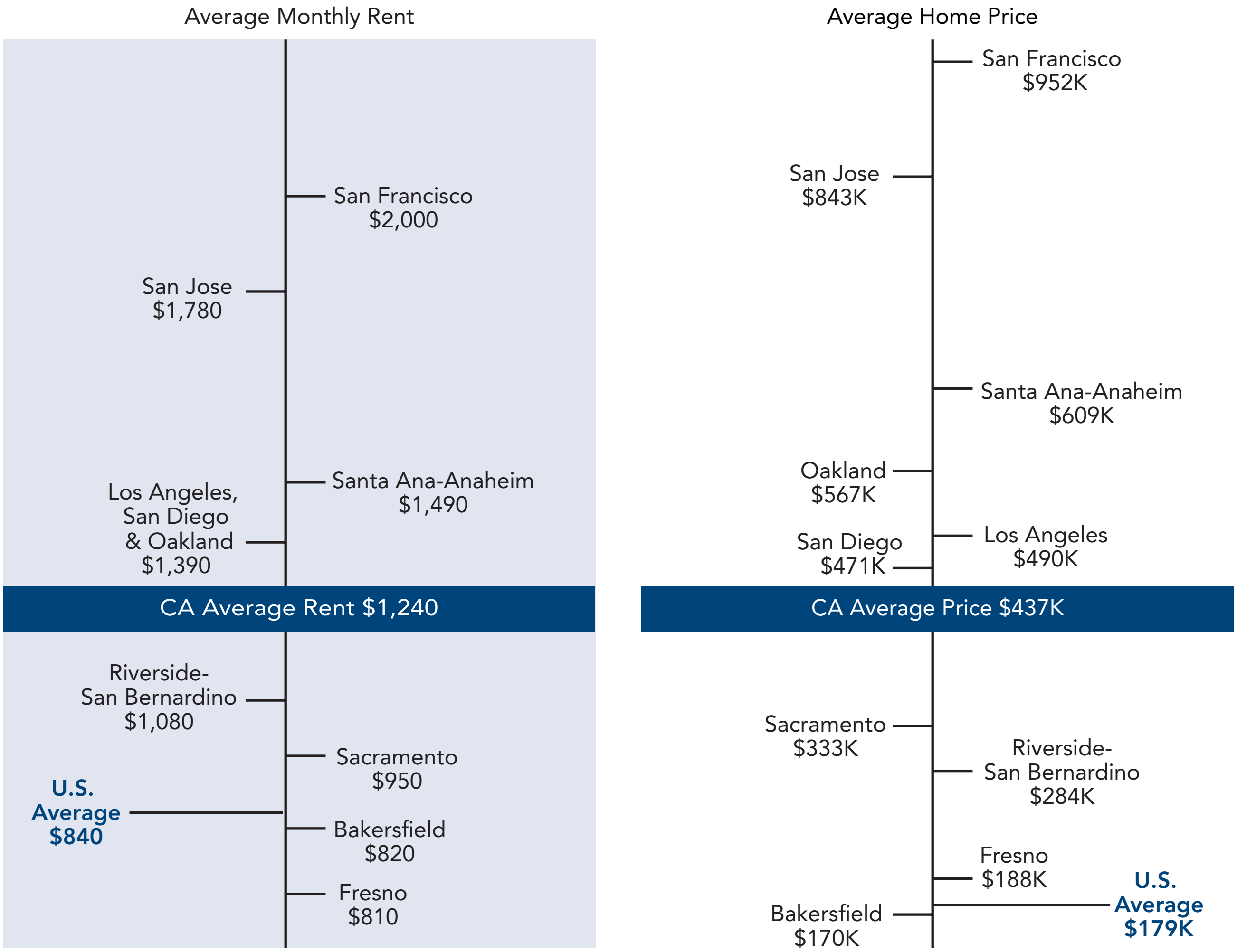
CALIFORNIA HOUSING PRICES VARY, BUT MOST ARE WELL ABOVE U.S. LEVELS



Source: Legislative Analyst's Office, *California's High Housing Costs* (2015).

voters rejected a measure to repeal existing restrictions on cities' ability to impose rent control (Proposition 10), and rejected a measure to incentivize seniors to move by preserving some of their Proposition 13 tax benefits (Proposition 5). In addition, voters approved two bond measures placed on the same ballot by the Legislature that aim to spur new housing development over the next decade: Proposition 1, which will provide $4 billion in general obligation bonds for housing subsidies for low-income Californians and veterans, and Proposition 2, which will redirect $400 million from an existing income tax on millionaires to housing for homeless mentally ill individuals.

None of these measures, successful or failed, would have more than a minor effect on meeting California's housing supply or affordability needs. To ignite a housing development boom on a scale necessary to close the supply/demand gap, significant changes will need to come from the Legislature. The primary challenge has always been that meaningful action to spur sustainable housing development requires the Legislature to overcome one or more powerful interests devoted to preserving the status quo.

POLICIES TO INCREASE HOUSING SUPPLY, AFFORDABILITY

A collection of factors discourages developers from constructing affordable housing necessary to meet demand. Here are the primary policy arguments for reforming how California generally handles land use in order to spur more affordable residential construction.

- **Eliminate Vexatious Litigation over Already-Approved Projects.**

Although not the sole cause of California's housing shortage, California's litigation-friendly land use laws often are a major impediment to housing development. The California Environmental Quality Act (CEQA), passed in 1970, is an extraordinarily complex and all-encompassing environmental law that has exacerbated California's housing shortage. CEQA and its multitude of substantive and procedural requirements are implicated for nearly every type of land use project in the State of California, including, but not limited to, housing and mixed-use developments. CEQA requires local governments to conduct a detailed review of the potentially significant environmental effects of new housing construction prior to approval. This information influences a city or county decision to approve, mitigate or deny the housing, but has become a useful tool to surface and exhaust concerns.

Unlike most environmental laws and regulations, however, CEQA is enforced through litigation—and the barrier is very low as to who may litigate and what causes may be raised. CEQA's complicated procedural requirements make housing development projects more susceptible to special interest abuses. Opponents to projects have significant opportunities to continue challenging housing projects after local governments have approved them.

Using CEQA to slow or block projects adds significant costs and time to the housing development process. Housing developers initially bear the costs of environmental assessments and indemnify local agencies for litigation costs when plaintiffs sue, but ultimately these costs are passed on to home buyers and increase housing prices. It may be no coincidence that California's cost of housing began to increase sharply the same decade in which the California Legislature passed CEQA.

• **Local Government Fiscal Incentives Favor Commercial Development**.

Different types of developments (e.g. commercial, residential, industrial) yield different amounts of tax revenues and service demands. California's local government finance structure provides cities and counties with a greater 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, because increased sales and hotel tax revenues that a city receives more than offset the local government's costs to provide public services.

In contrast, housing developments produce little direct sales taxes and no hotel tax revenues, and the costs for providing public services often is higher than the related property tax revenues. Moreover, lower-density luxury housing often is more appealing to both developers and local governments because the luxury housing generates higher per-unit profits and property taxes per new resident.

As a result, cities and counties often incentivize these types of commercial developments to locate within their jurisdictions by zoning land for these purposes and by offering subsidies or other benefits to the prospective business owners. With so many cities and counties already struggling for revenue, structuring their land use planning and approval processes disproportionately in favor of nonresidential housing is fiscally prudent but has exacerbated the state's housing crisis.

COMMUNITY RESISTANCE TO NEW HOUSING

Community resistance to new housing construction also adds to the housing shortage. Local communities often fear that increasing housing density will change the neighborhood character, increase traffic congestion, lower home values, and increase crime. Local residents often pressure 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 metropolitan areas have adopted growth control ordinances that limit housing development.

These ordinances are effective at limiting growth and increasing housing costs. One study found that each additional growth control policy correlated to a 3% to 5% increase in home prices. And even where local officials do not bend to community pressure, California provides active residents with the ability to circumvent their local officials and intervene in local land use decisions via the initiative and referendum process.

LEGISLATION IN 2019

Reforming CEQA is a perennial issue in the Legislature. The California Chamber of Commerce anticipates that 2019 will be no exception and foresees the introduction of a significant number of housing bills, some of which will attempt to overhaul CEQA. Inevitably, most housing bills that involve CEQA reform will succeed or fail along party lines.

Given the political power that labor unions wield in the Legislature, only the most narrowly tailored CEQA reform bills—in other words, those bills that are likely to make the smallest impact on solving the state's housing crisis—will have a chance to see a vote by the entire Senate or Assembly. That is because any attempts to reform or streamline CEQA will fail to proceed past early committee hearings unless the labor unions support such measures, which they rarely do.

Labor unions frequently employ CEQA to leverage favorable project labor agreements. Finally, housing bills that aim to reduce local city and county control over land use decisions will likely face resistance from both sides of the aisle.

CALCHAMBER POSITION

California's housing crisis is driving businesses out of state and discouraging new investment and expansion. The cost of housing also is a key reason California's poverty rate is among the nation's highest. Working families become poor families when faced with the cost of shelter. The lack of affordable housing also forces many working Californians into extra-long commutes, adding more air pollution, more traffic congestion, and reduced worker productivity.

Comprehensive reform of environmental and zoning laws, restoring redevelopment programs that provide for economic development and low-income housing, and reducing excessive development fees and ill-conceived construction mandates are necessary to remove obstacles that hamper housing construction and raise new home prices. A comprehensive reevaluation and reform of CEQA is one critical step to spurring housing development in California. Maintaining CEQA's legacy of protecting human health and the environment is not incongruent with more streamlined housing development.

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January 2019