California's 3.5M Housing Shortage Number Faces Questions

The Housing per Capita Benchmark Approach

- Housing per Capita (New York vs Texas)
- Using a 50 state housing-population model

Other Single Variate Models

- Average Household Size
- Jobs per Housing Ratio

A Sophisticated Multivariate Approach

- CA Dept of Housing and Community Development's (HCD) Regional Housing Need Allocation

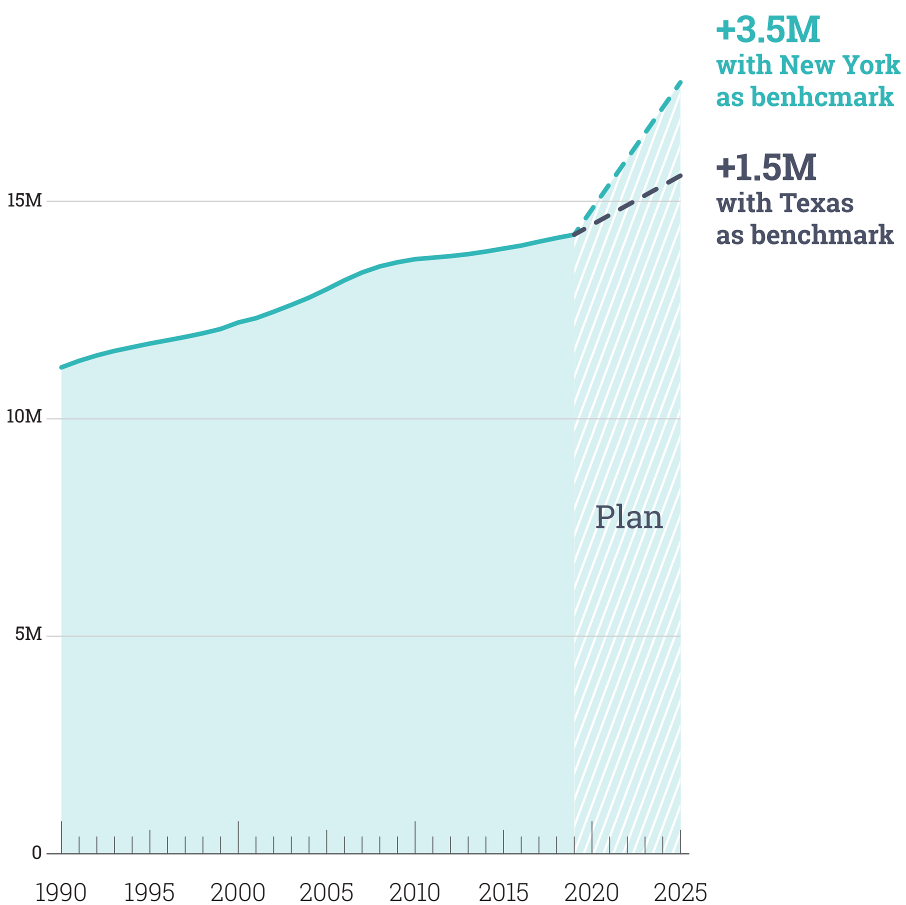
What Problem are We Trying to Solve?

Which Legislation Might Help and Hurt?

California has a housing shortage, but how do we reliably determine how many homes California needs to build? The State Legislature has called for construction of 3.5 million homes by 2025 based on a study that uses New York as a benchmark. But is New York the right benchmark?
If New York, the number is 3.5 million. If Texas, it's 1.5 million.

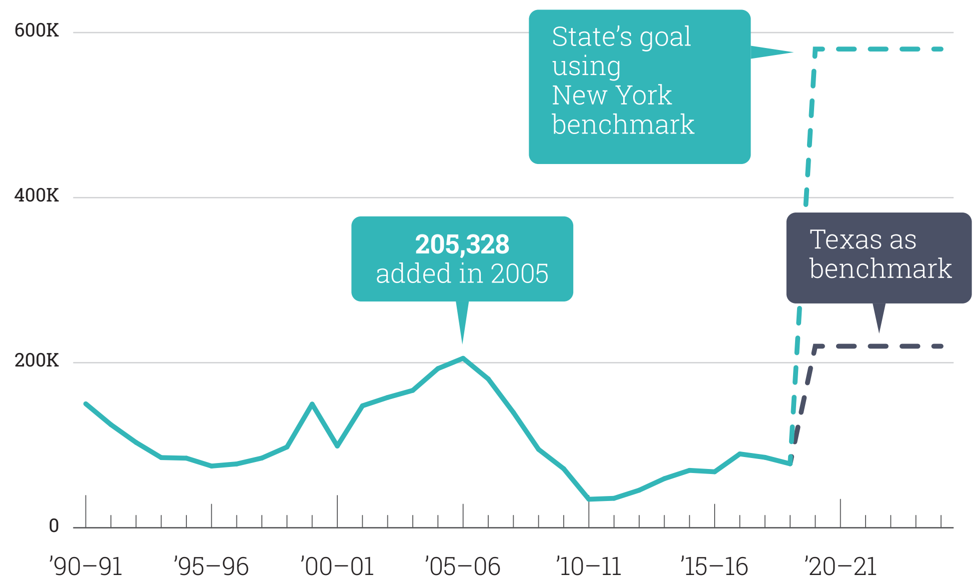
Housing per Capita

Housing Units in California



In 2005 the State added just over 200,000 housing units, the highest rate in three decades. More recently the State has been adding around 80,000 to 90,000 units a year. 3.5 million homes by 2025 would require that the State add almost 600,000 housing units a year—a number which represents almost half the housing added nationally in 2017.

Incremental housing



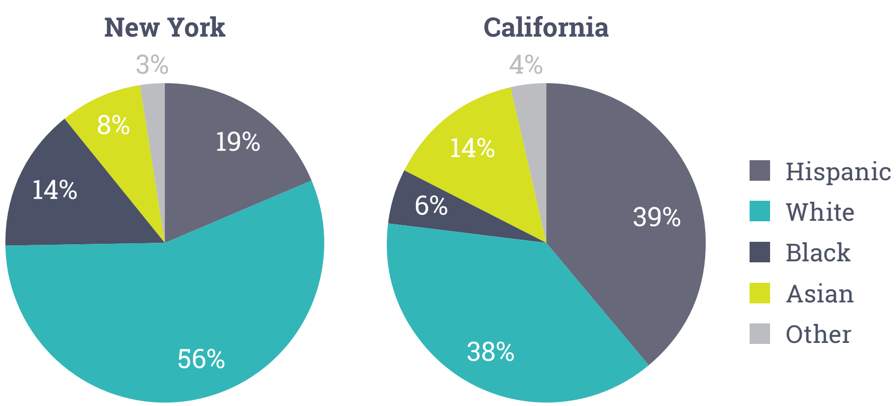
Sources: California Dept. of Finance, Tables E5 (2010–2018), Table E8 (1990–2010); McKinsey & Company "A Tool Kit to Close California's Housing Gap: 3.5 million homes by 2025" Oct, 2016.

McKinsey & Company used New York's housing per capita as the goal, but California is not New York.

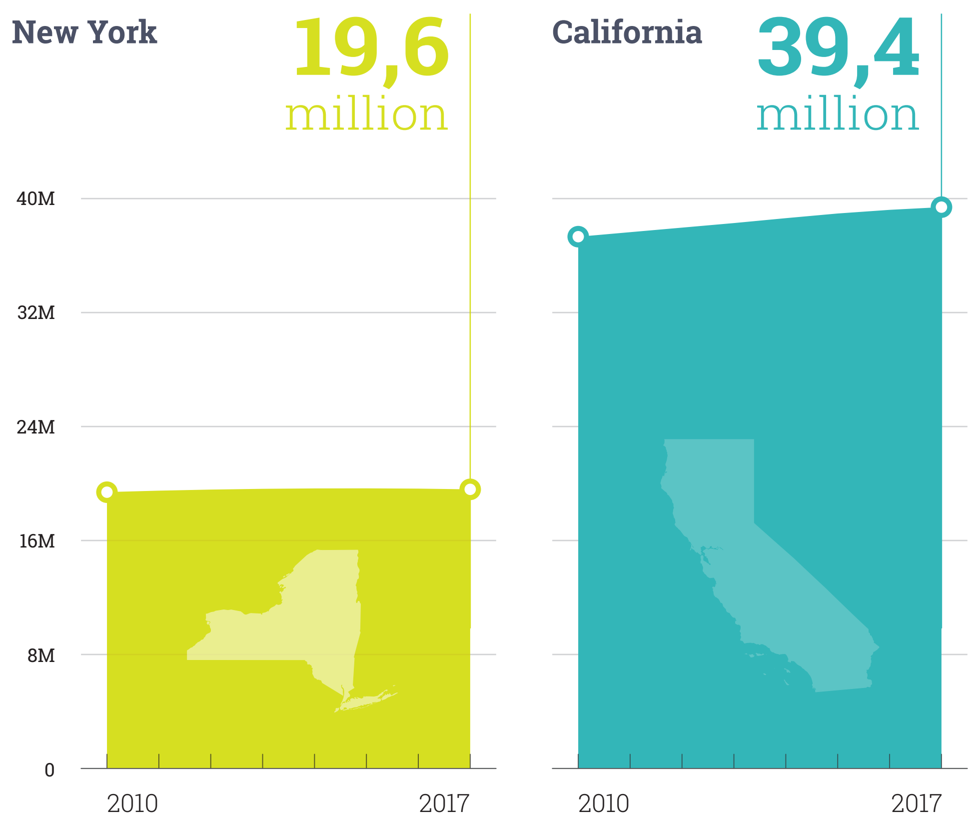
Housing per Capita

3.5 million is number arrived at by McKinsey & Company in their 2016 report on Bay Area housing. They argued that New York State's housing unit per capita should be California's goal, but our demographics and household formations are very different than New York's.

And California is almost twice as large in population, and growing. While New York is shrinking. New York is also the 4th least affordable state in the country. Clearly more housing hasn't helped New York's affordability.



New York	California	
2.63	2.98	**Average household size**

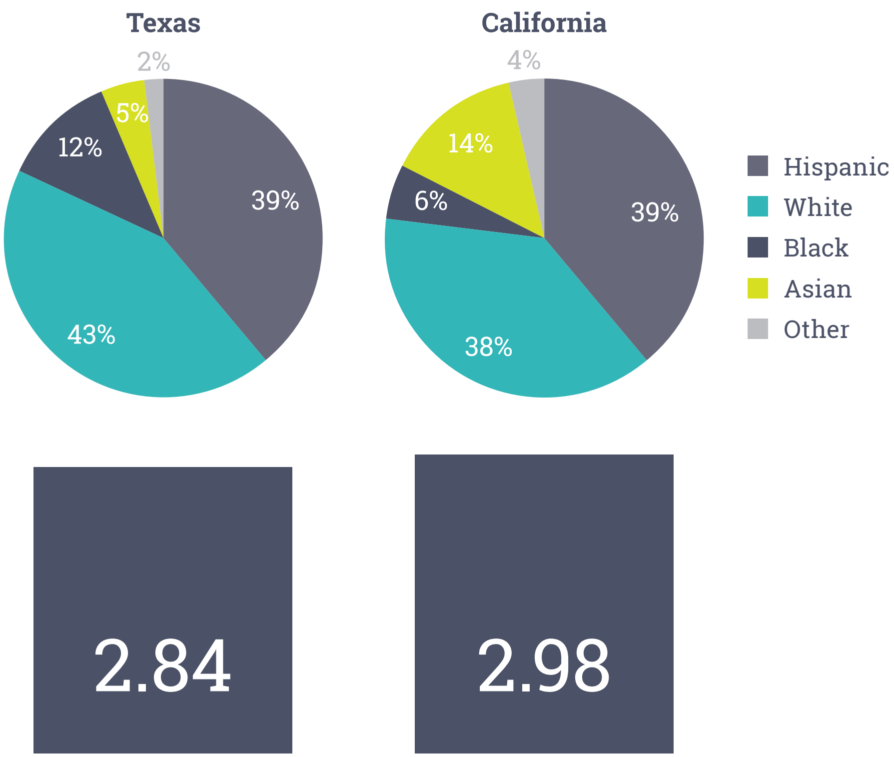


Sources: American Community Survey 5-year Estimates, Tables DP05 and S0501, New York and California

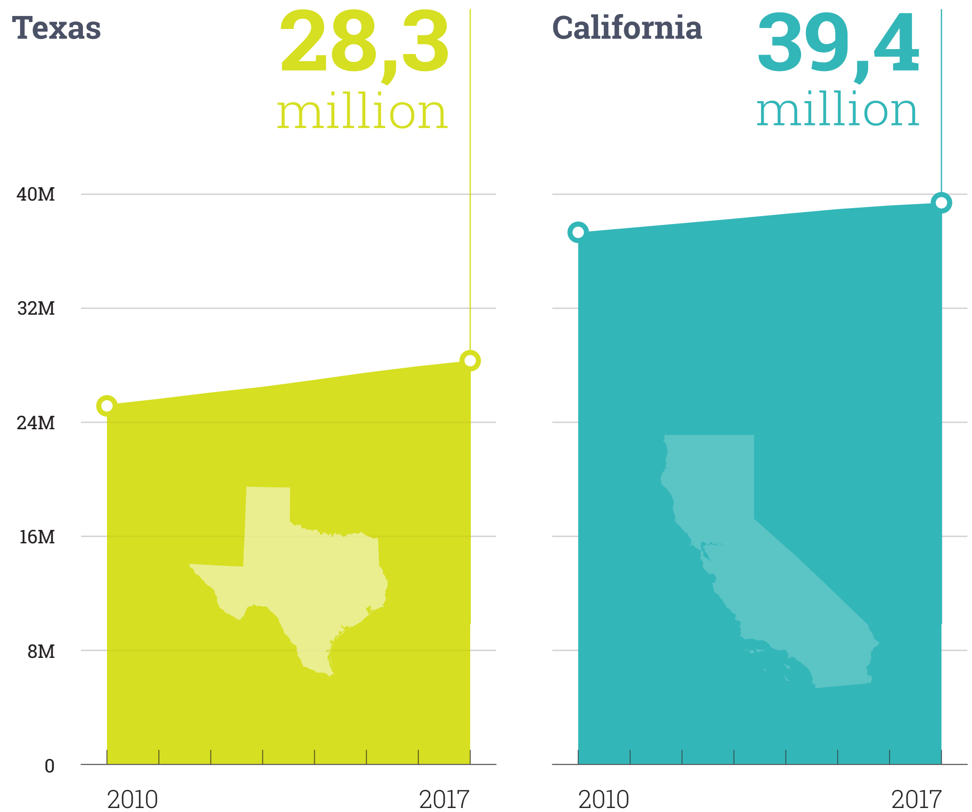
If simple benchmarks are the State's chosen method for determining our housing needs, Texas is a better benchmark for California.

Housing per Capita

Our demographics are similar ...



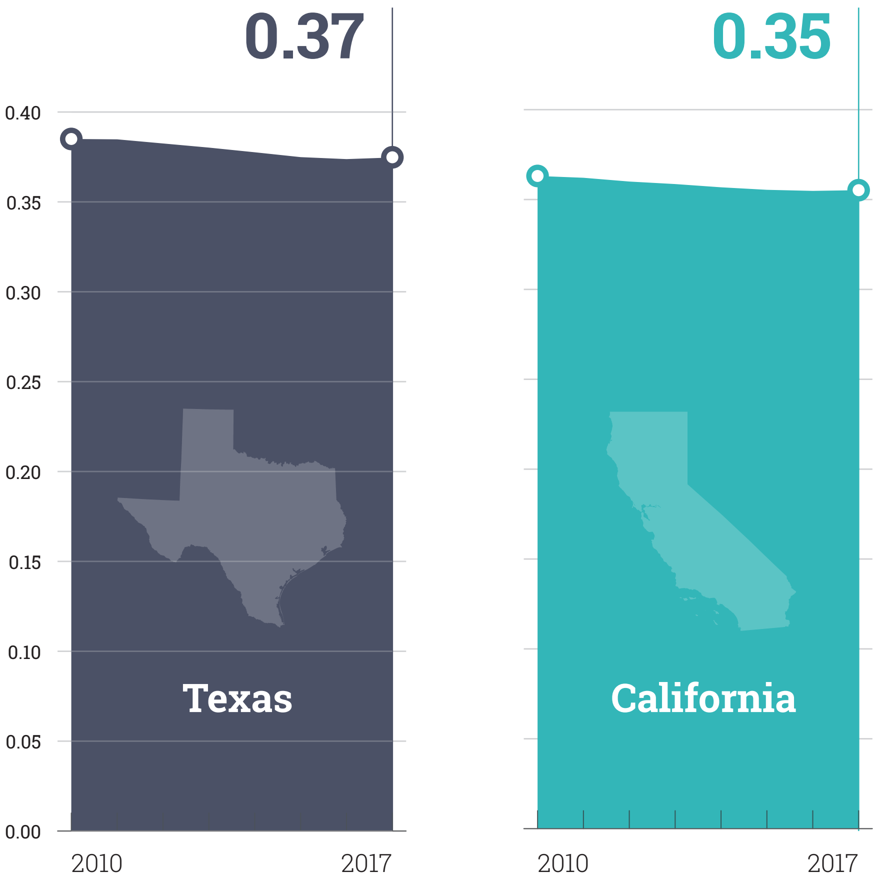
and we're both growing



Sources: American Community Survey 5-year Estimates, Tables DP05 and S0501, Texas and California

Using Texas as a benchmark and McKinsey's approach, California's housing need by 2025 would be 1.5 million, not 3.5 million

Texas's housing per capita is higher than California, but both are declining.



Projected 2025 California population (**42 million**) × Texas housing/capita (**0.37**) **=** Projected housing needed in 2025: **15.5M**

15.5M – 14M (current housing) **= 1.5 M**

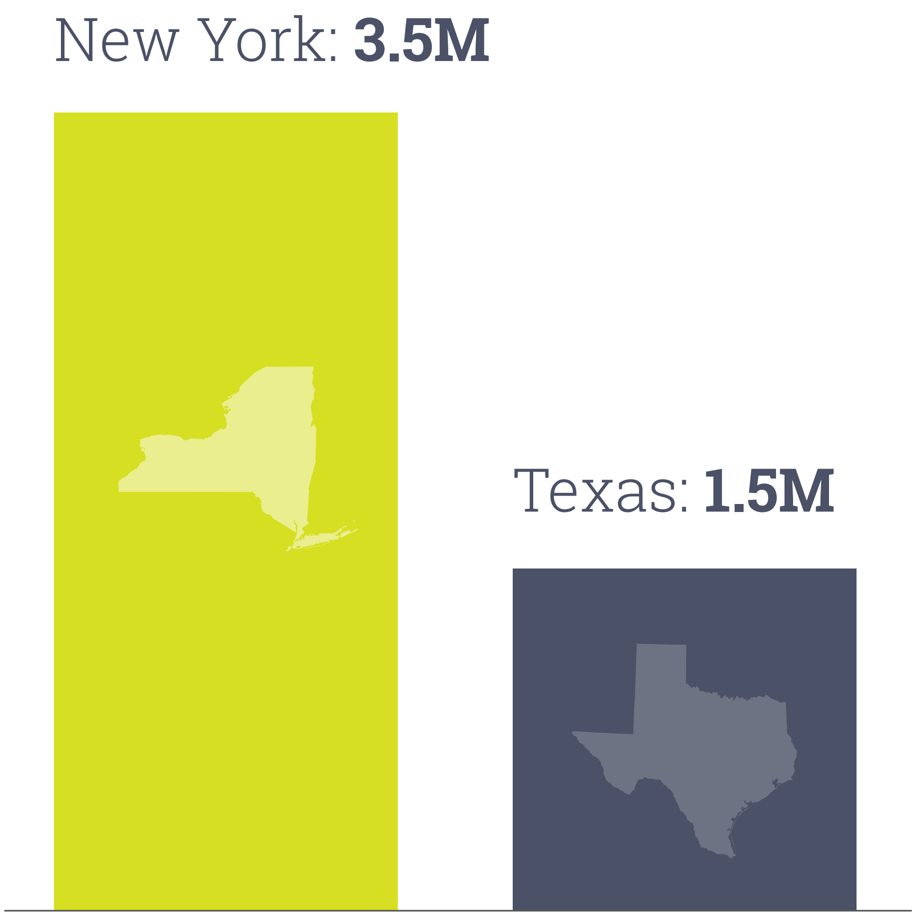
Additional housing needed by 2025 **= 1.5 M**

Sources: American Community Survey 5-year Estimates, Tables DP05, Texas and California; California Dept. of Finance Population Forecasts

Given this sizeable spread, it raises the question:
Are either of these approaches the right way to determine our housing needs?

Housing per Capita

Additional Housing Needed in California based on State Housing per Capita



Are benchmarks the right approach?

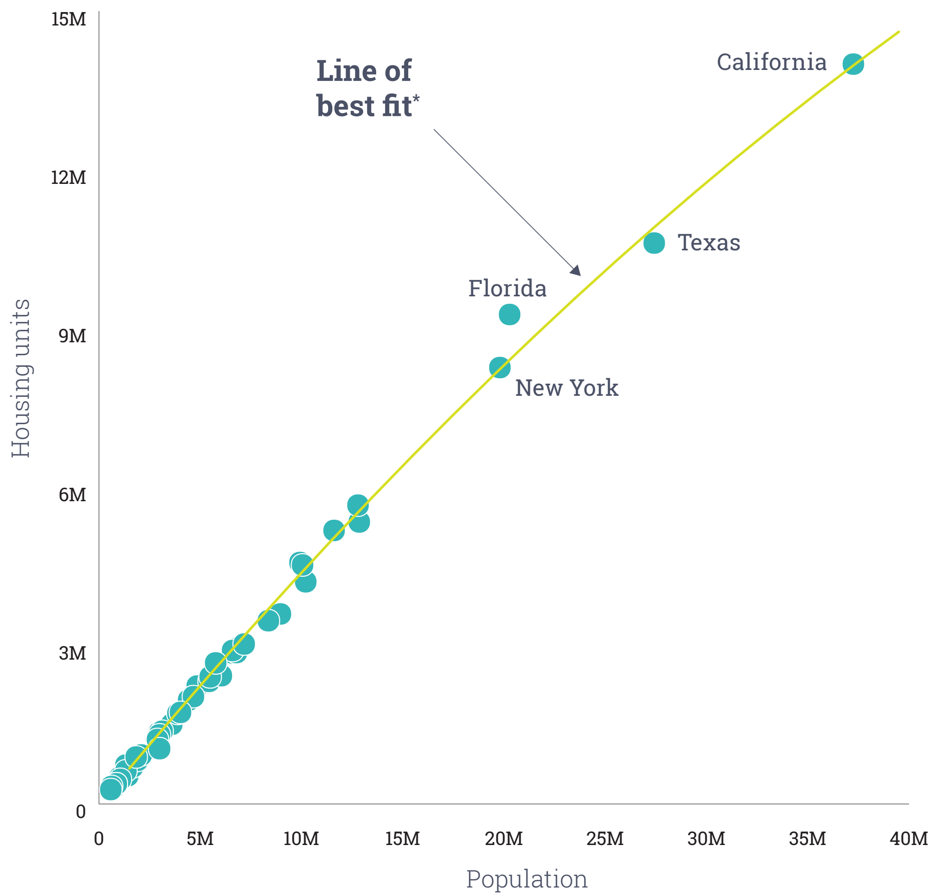
Can a simple single variable linear model do justice to the complexity of the housing question?

If yes, which state should be chosen as the benchmark, and on what basis? Should we choose a state that has a high housing per capita (in part because residents are leaving), or a state that resembles California?

A more comprehensive "housing per capita" model would include all 50 states. Such a model suggests the additional housing needed by 2025 is 1.4 M.

Housing-Population Equation

Population vs. housing units (2017)



Answer: **1.4M**

Methodology: Line of best fit determined using population and housing data for all 50 states*.

California's projected population by 2025 = 42 Million,
Housing units for population$_{2025}$ = 15.4 M

Additional Housing Needed by 2025 =
15.4M – 14M (current housing) = 1.4M

Sources: American Community Survey 5-year Estimates, Tables DP05, 50 States (2017); California Dept. of Finance Population Forecasts
*Line of Best Fit : Housing Units = –5717 + 0.465 × Population - 2.34E-09 × $(\text{Population})^2$: $R^2 = 0.996$

Alternatively, if we still wanted to keep things simple and linear, why not use average household size to predict need? In that scenario, the additional housing needed by 2025 would be 1.3 million.

Household Size

California's average household was 2.96 in 2017.

Projected 2025 California population (**42 million**) / Average household size (**2.96**) + Assumed vacant housing rate (**8%**)* **=** Projected housing needed in 2025 **15.3M**

15.3M – 14M (current housing) = 1.3 M

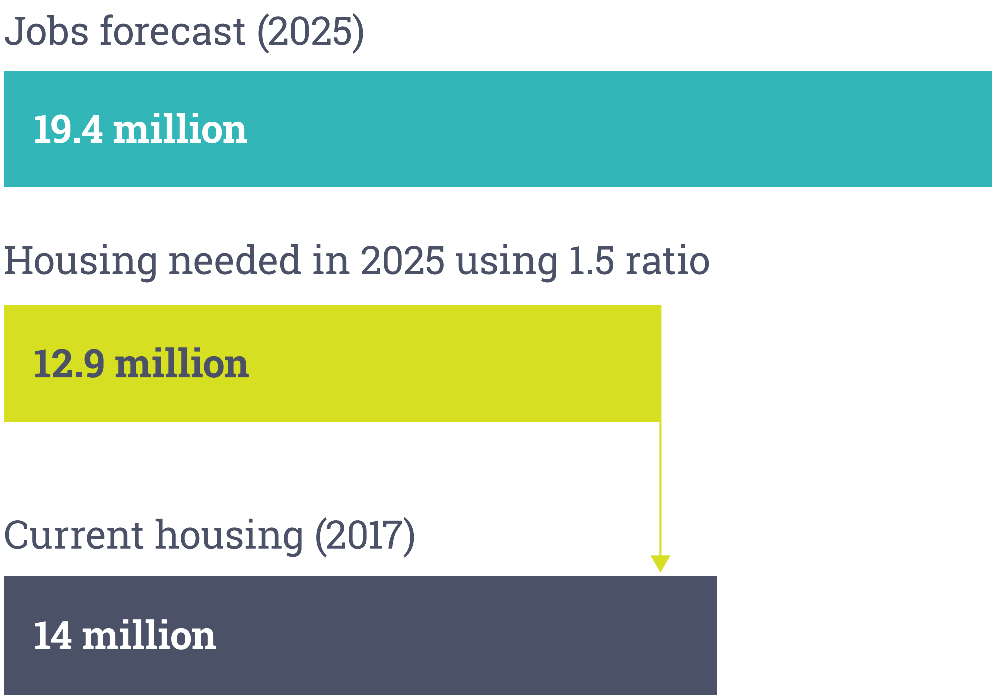
Additional housing needed by 2025 **= 1.3 M**

Sources: American Community Survey 5-year Estimates, Tables S0501 California (2017), California Dept of Finance Population Forecasts

* Vacancy Rate rounded for state vacancy rate (housing - households), California Department of Finance Table E5, 2018

And yet another approach would be to use a “jobs to housing” ratio. This model suggests we already have enough housing, and that what we need is more jobs.

The Building Industry Association suggests a ratio of 1.5 jobs to every house is the right ratio jobs to housing.

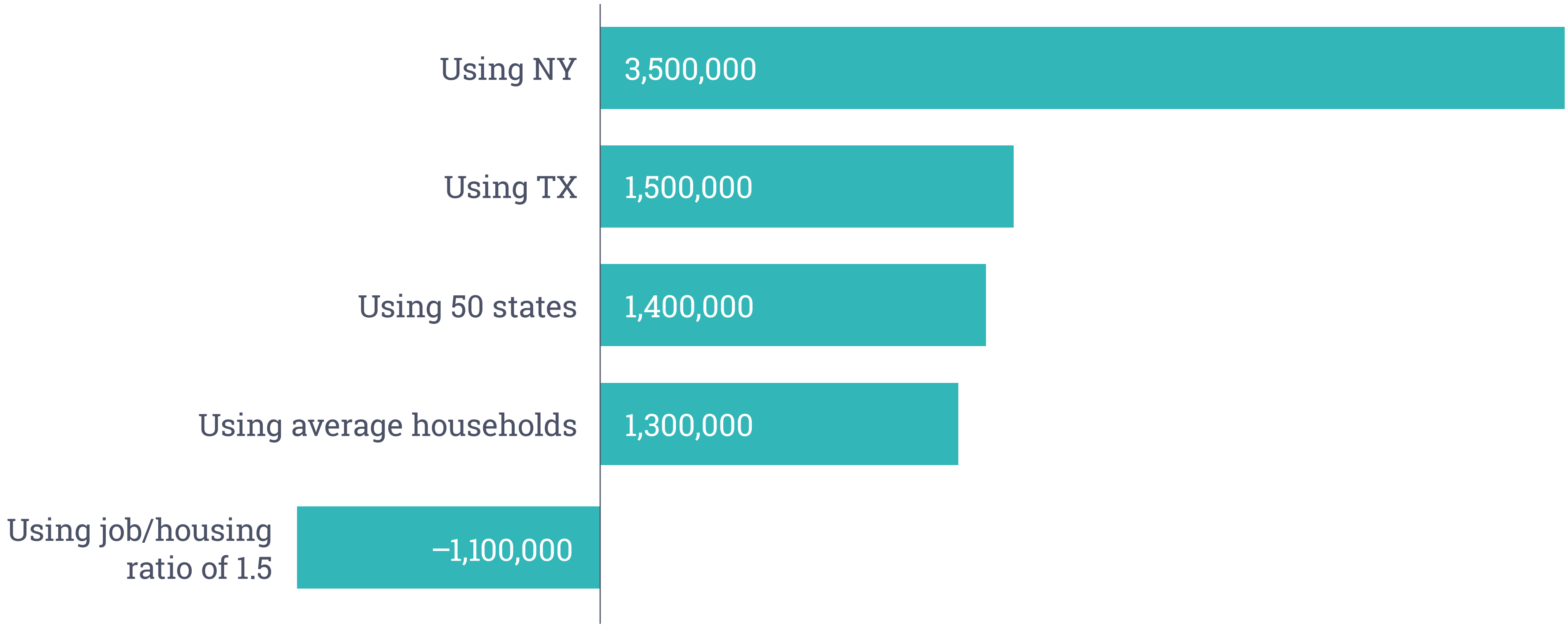


If this were true perhaps the real challenge is **connecting the jobs to the housing.** Efficient and effective public transit is the solution in this scenario.

Sources: Building Industry Association BIA Bay Area Flyer, August 3, (2017); California Dept. of Finance Population Forecasts

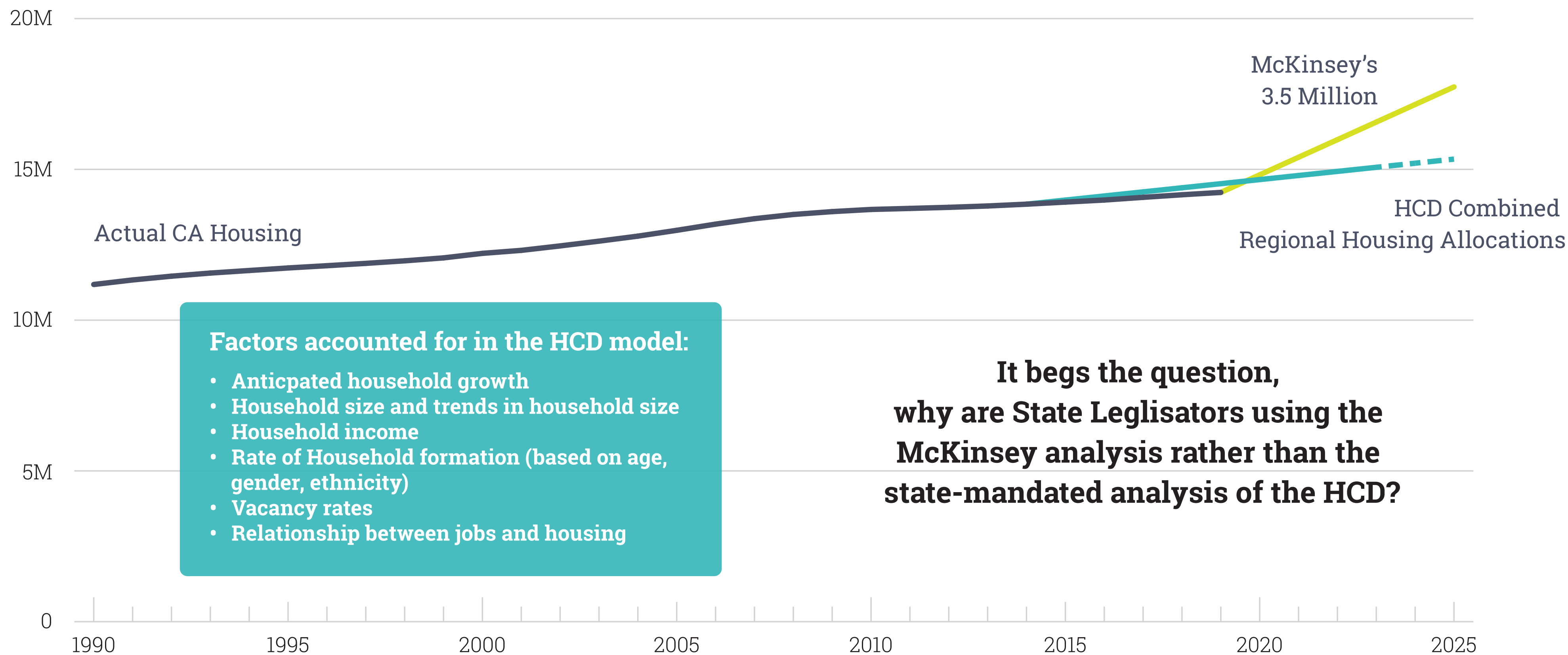
The take-away : Simple linear models produce a range of answers, but in any universe, 3.5 million is an outlier. More importantly, there are more sophisticated approaches for predicting the State's housing needs.

Additional Housing Needed (2019–2025)



And as it turns out California's Department of Housing and Community Development (HCD) already uses one to assess the state housing need. Their 5-year and 8-year forecasts form the basis for all regional planning, and their multivariate model suggests the additional housing needed by 2025 is around 1.1 million* as opposed to 3.5 million.

HCD 5th and 6th housing element cycle vs. McKinsey study



Factors accounted for in the HCD model:

- Anticpated household growth
- Household size and trends in household size
- Household income
- Rate of Household formation (based on age, gender, ethnicity)
- Vacancy rates
- Relationship between jobs and housing

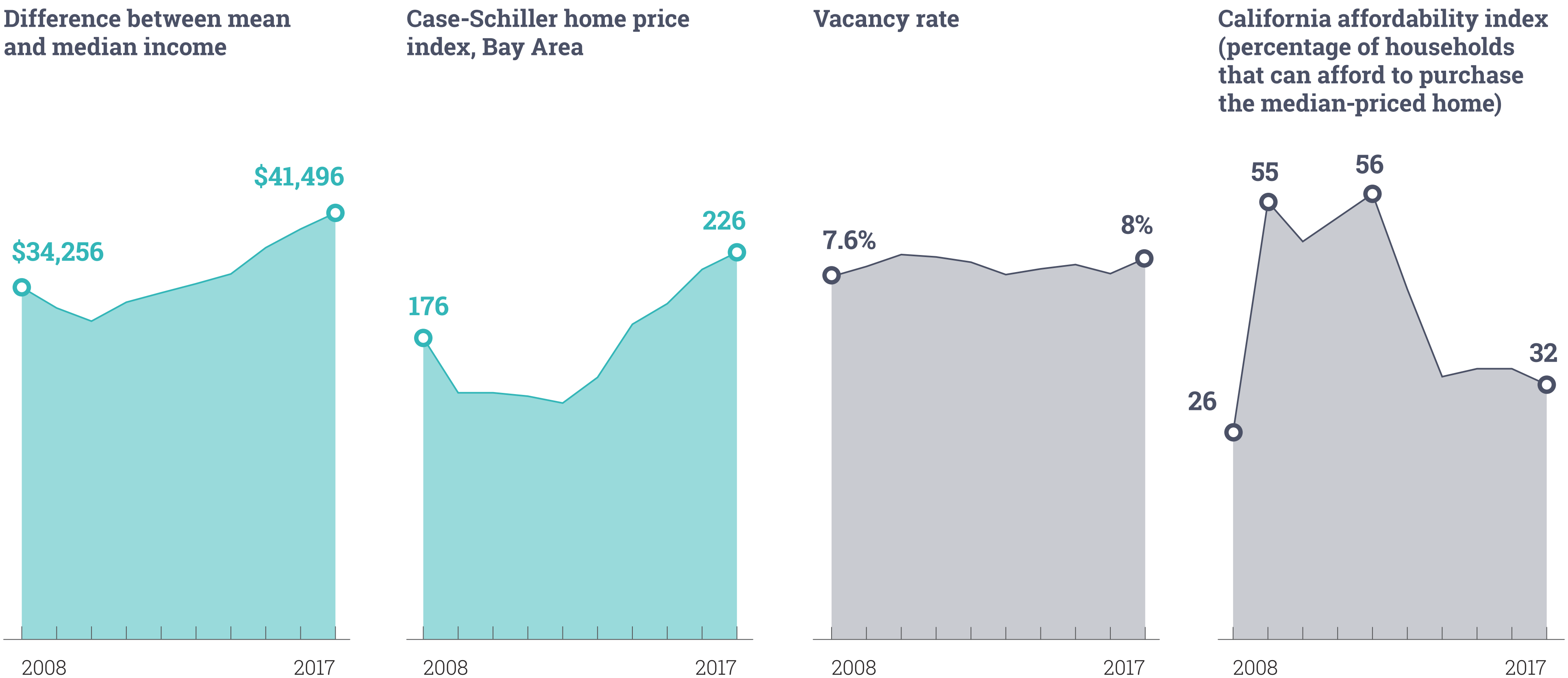
It begs the question, why are State Leglisators using the McKinsey analysis rather than the state-mandated analysis of the HCD?

Sources: : HCD 5th and 6th Housng Element Cycle ,Regional Housing Need Allocations (RHNA) ; California Dept of Finance Table E1

If the HCD model is correct, and we have no reason to think that it isn't, perhaps the emergency housing bills aren't solving the right problem. What if rising rents and housing displacement have less to do with an extreme shortage of housing and more to do with the growing socio-economic gap?

The Problem to Solve

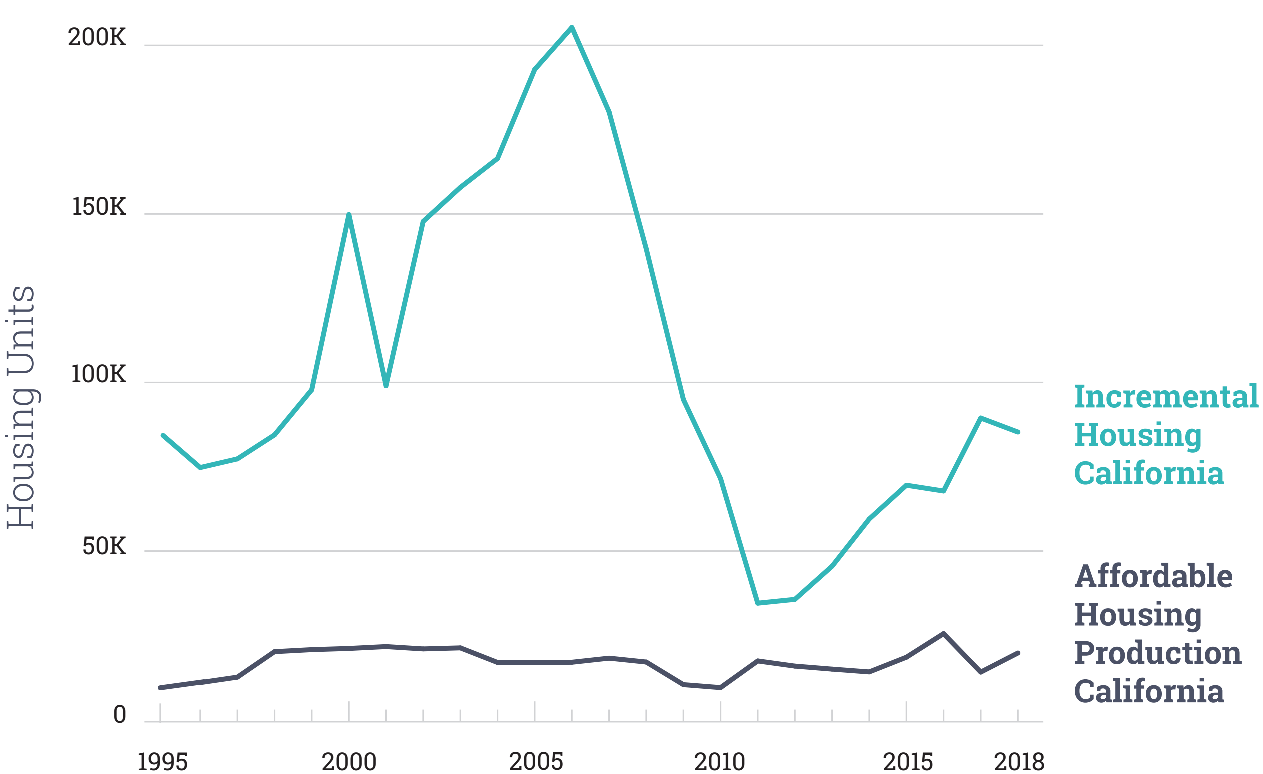
Income inequality appears to be the one metric that is tracking with home prices.

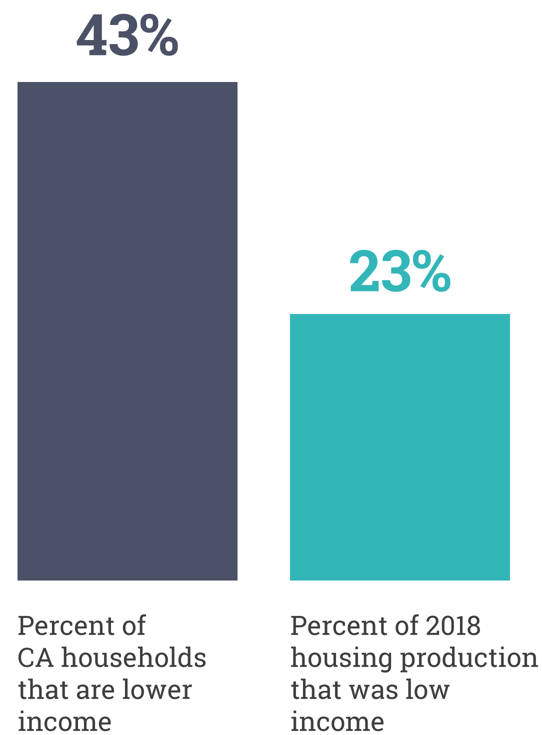


Sources: American Community Survey 5-year Estimates, Tables DP03, DP04 California, S&P Dow Jones Indices LLC, S&P/Case-Shiller CA-San Francisco Home Price Index [SFXRSA], California Association of Realtors Market data C.A.R. index

The Problem to Solve

What if the housing stress the state is experiencing is being driven by a housing mismatch? What if we are producing enough market-rate housing but we have a dearth of affordable housing? Affordable housing was only 23% of California's housing production in 2018, yet 43% of households are lower-income*. The affordable housing shortage has been exacerbated by decades of under-production.

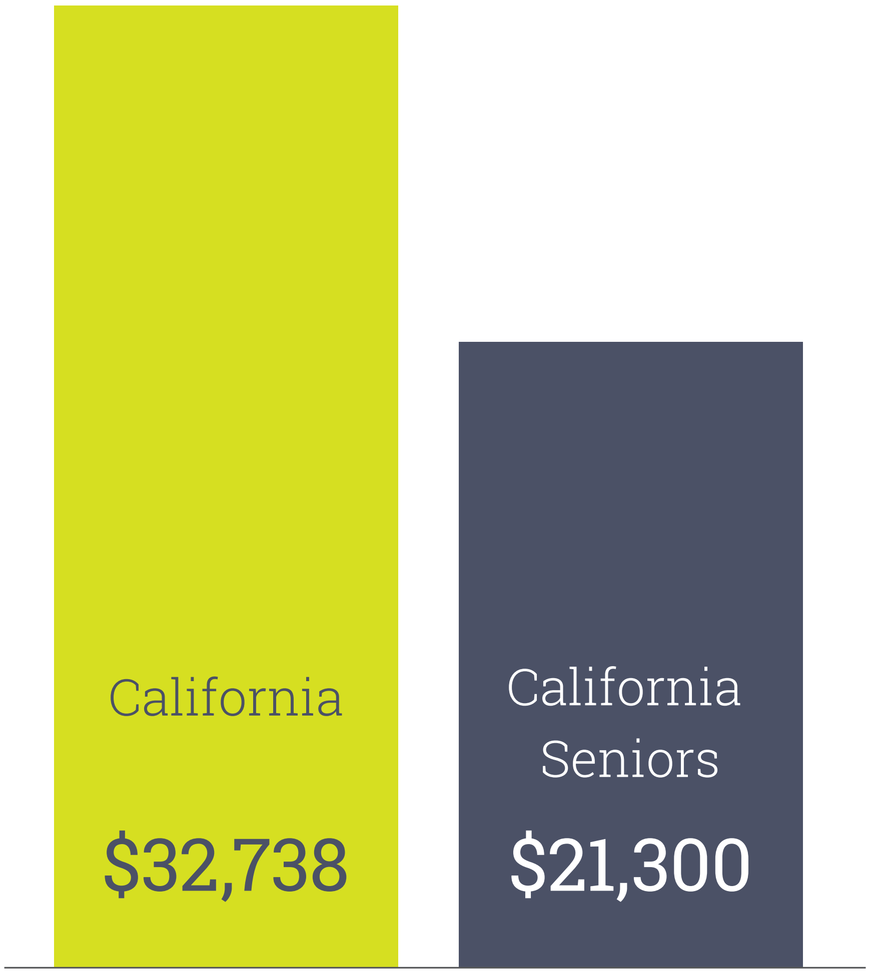




* California Department of Housing and Development, 2007–2011 CHAS data. Lower income includes—extremely low, very low, low and moderate—up to 80% of median income
Sources: California Tax Credit Allocation Committee Annual Report (2018): Affordable Housing for California; California Dept. of Finance Population tables E5 and E8

And the gap between supply and demand for AFFORDABLE housing will be further exacerbated by California's aging demographic. According to California's Department of Finance, the number of seniors (aged 65+) will grow in number from around 6 million today to almost 7.8 million by 2025*. The income for the majority of these seniors will be well below the state median.

Median income



The median income for seniors is $21,300**

If we conservatively assume that 50% of the 'new' seniors will qualify for affordable housing (and their median income suggests the number could be higher), that's an additional 900,000 affordable housing units that will be needed by 2025.

Affordable housing is the real crisis. And this is where all energy and effort should be focused. Because the housing market is highly segmented, the solutions to this challenge are very different from those that stimulate market-rate housing.

* California Department of Finance: Table P1 – Estimated and projected population in California. ** HCD's California's Housing Future : Challenges and Opportunities (2017). .

If income inequality is the real driver of the crisis, we might adopt a different approach than simply stimulating housing. We might focus on:

a) **Specifically incentivizing AFFORDABLE housing.** Market rate already has plenty of incentives built into the tax code. It needs no more. It is affordable housing that needs incentive with stronger inclusionary zoning and greater subsidy.

b) **Adequately supporting renters and protecting them from displacement** with rent credits, stronger eviction rules, the preservation of existing affordable housing by extending subsidy terms, thereby preventing the conversion of affordable to market-rate.

c) **Increasing housing utilization** by taking measures to reduce speculation and discourage housing vacancy (taxing vacancy and speculation).

c) **Giving more latitude to local governments** to raise funds for affordable housing.

b) **Improving access to jobs** with better and more efficient transit, subsidized for those below median income. Making it easier for people who live in places without inflated housing prices to easily participate in the economy.

Bills that potentially HELP

SCA1 recommends an initiative for the November 2020 ballot that repeals Article 34 of the Constitution. Article 34 bars local governments from expending funds to develop or subsideize the development of low income affordable housing. Striking this article will restore the ability of local governments to build shelters, supportive communities and affordable housing.

SB6 seeks to create a registry and database to identify all publicly owned land available and suitable for residential development, to be updated annually. SB6 also expressly provides for public access and transparency, creating the capability to perform online searches for sites suitable for affordable housing projects **(1)**

SB18 removes expiration date (currently 12/31/19) **(2)** on law that ensures tenants are able to stay post-foreclosure by a lender until the later of a) the end of their lease term, or b) 90 days after an eviction notice from the foreclosing lender.

SB248 increases renter's tax credit for spouses or heads of households from the current $120 to a maximum of $434 if the renter has one or more dependents; and for individuals from the current $60 to a maximum of $434 if the renter has one or more dependents.**(3)**

SB521 amends the tax code to provide a landlord with a tax credit equal to 3% of rent payments from a tenant receiving government assistance for housing (such as federal section 8 voucher from HUD).**(4)**

1. Gov Code 11011.8(a). 2. Code of CivPro 1161b(f). 3. Rev&Tax Code 17053.5. 4. Rev & Tax Code 17053.80.

Bills that potentially HURT

SB50 up-zones most of the State. This hurts affordable housing because there is no affordable requirement for the first 10 units of a development **(1)**. The first 10 units can all be market rate. In this way the upzoning of R1 creates lucrative development opportunities. Currently, upzoning is used as negotiating leverage for affordable units. Under SB50, cities will be required to give away this leverage to arguably the most profitable development with the greatest displacement effect. It is unlikely that larger developments, still requiring inclusionary housing, will be built. They will be far less financially attractive and will be prioritized behind R1 opportunities, of which there will be many.

SB294: Existing law provides a property tax exemption for properties that are 90% affordable and wholly managed by charitable non-profit organizations (specifically excluding limited partnerships). SB294 lowers the threshold to 50% affordable and removes restrictions on ownership rules. Furthermore, it increases the tax exemption from $20M to $250M per property owner **(2)**. This not only shifts the focus of housing production away from low-income towards moderate-income, it also dramatically reduces property taxes that might otherwise flow to cities and be used for subsidy. Cities are already starved for resources. Their greatest challenge is stimulating low-income housing with limited funding.

SB330: **As amended July 1 2019 .** As written the law undermines low income housing by including market rate and mixed use in the type of developments that receive special consideraton with streamlined approval processes **(3)**. By creating an advantage for all development (including mixed use which may include office development) the bill creates a disadvantage for affordable housing, as it is the least fiscally viable housing. The streamlined processes of SB-330 should ONLY apply to affordable housing, as that is housing type that is in short supply. In addition, the bill creates considerable confusion over the precedence of local zoning with respect to General Plans. This confusion will likely create additional complexity in the approval and financing of affordable housing projects **(4)**.

AB1487 seeks to set up a regional housing finance agency for the Bay Area with the authority to impose taxes, issue debt, and implement standardized zoning. This new entity is to be run by appointed Commissioners from the Metropolitan Transportation Commission **(5)** (and elsewhere), not elected officials **(6)**. Such an entity diverts resources from local governments that are already starved for them. More, not fewer, tax dollars need to flow back to local government to stimulate local affordable housing. In addition, the MTC is the Bay Area's regional planning agency, charged with creating long range plans for transportation and housing. Given the poor performance of the transit agencies and MTC's inability to correctly forecast regional housing needs, it is questionable whether it is in the interest of Bay Area cities to give MTC more responsibility without adequate accountability.

1. Gov Code 65918.52(d)(2)(B)(i). 2. Rev & Tax Code 214(g)(1)(C). 3. Gov Code 65913.3(b)(2). 4. Gov Code 65905.5(c), 65589.5 (o)(5) and elsewhere
5. Gov Code 64511(a). 6. Gov Code 64511(a)(2), (3), (5) and (6)

ARTICLE 34 STATE CONSTITUTION

ARTICLE XXXIV PUBLIC HOUSING PROJECT LAW [Section 1—Section 4]
(Article 34 added Nov. 7, 1950, by Prop. 10. Initiative measure.)

Section 1.

No low rent housing project shall hereafter be developed, constructed, or acquired in any manner by any state public body until, a majority of the qualified electors of the city, town or county, as the case may be, in which it is proposed to develop, construct, or acquire the same, voting upon such issue, approve such project by voting in favor thereof at an election to be held for that purpose, or at any general or special election.

For the purposes of this Article the term "state public body" shall mean this State, or any city, city and county, county, district, authority, agency, or any other subdivision or public body of this State.

Excerpt from

SB-248 Taxation: Renters' Credit (2019-2020)

Senator Glazer

SECTION 1
Section 17053.5 of the Revenue and Taxation Code is amended to read:

(A) For spouses filing joint returns, heads of household, and surviving spouses, as defined in Section 17046, ~~the credit shall be equal to one hundred twenty dollars ($120)~~ if adjusted gross income is fifty thousand dollars ($50,000) or ~~less.~~ less, the credit shall be equal to:

(i) For taxable years beginning before January 1, 2019, one hundred twenty dollars ($120).

(ii) Except as otherwise provided in subdivision (l), for taxable years beginning on or after January 1, 2019:

(I) Two hundred twenty dollars ($220) if the qualified renter has no dependents as defined in Section 17056.

(II) Four hundred thirty-four dollars ($434) if the qualified renter has one or more dependents as defined in Section 17056.

(iii) For taxable years beginning on or after January 1, 2020, the credit amounts in clause (ii) shall be the amount recomputed pursuant to subdivision (k), except as otherwise provided in subdivision (l).

(B) For other individuals, ~~the credit shall be equal to sixty dollars ($60)~~ if adjusted gross income is twenty-five thousand dollars ($25,000) or ~~less.~~ less, the credit shall be equal to:

(i) For taxable years beginning before January 1, 2019, sixty dollars ($60).

(ii) Except as otherwise provided in subdivision (l), for taxable years beginning on or after January 1, 2019:

(I) Two hundred twenty dollars ($220) if the qualified renter has no dependents as defined in Section 17056.

(II) Four hundred thirty-four dollars ($434) if the qualified renter has one or more dependents as defined in Section 17056.

(iii) For taxable years beginning on or after January 1, 2020, the credit amounts in clause (ii) shall be the amount recomputed pursuant to subdivision (k), except as otherwise provided in subdivision (l).

Excerpt from

SB-6 Residential development: available land (2019–2020)

Senators Beall and McGuire

SECTION 1.11011.8
11011.8.

(a) On or before December 31 of each year, the Department of Housing and Community Development shall furnish to the Department of General Services a list of lands suitable and available for residential development that were identified by a local government as part of the housing element of its general plan pursuant to paragraph (3) of subdivision (a) of Section 65583 and that were submitted to the Department of Housing and Community Development pursuant to Section 65585.

(b) The Department of General Services shall create a database of information that was furnished to it pursuant to subdivision (a) and information regarding the state lands determined or declared excess pursuant to Section 11011. The department shall make this database available and searchable by the public by means of a link on its internet website.

Excerpt from

SB-18 Keep Californians Housed (2019–2020)

Senator Skinner

An act to amend Section 1161b of the Code of Civil Procedure

Existing law requires a tenant or subtenant in possession of a rental housing unit under a month-to-month lease at the time that property is sold in foreclosure to be provided 90 days' written notice to quit before the tenant or subtenant may be removed from the property. Existing law also provides tenants or subtenants holding possession of a rental housing unit under a fixed-term residential lease entered into before transfer of title at the foreclosure sale the right to possession until the end of the lease term, except in specified circumstances. Existing law repeals these provisions as of December 31, 2019.

This bill would delete the above-described repeal date, thereby extending the operation of these provisions indefinitely.

Excerpt from

SB-521 Income and corporation taxes: credits: leased or rented property: persons receiving Section 8 assistance (2019–2020)

Senator Portantino

SECTION 1.

Section 17053.80 is added to the Revenue and Taxation Code, to read:

17053.80.

(a) For each taxable year beginning on or after January 1, 2020, and before January 1, 2025, there shall be allowed to a qualified taxpayer a credit against the "net tax," as defined in Section 17039, in an amount equal to 3 percent of the qualified amount per qualified property.

Excerpt from

SB50 Planning and Zoning: housing development: incentives (2019–2020)

Senator Wiener

65918.52.

(B) For purposes of this paragraph, the residential development is subject to one of the ~~following:~~ following, as applicable:

(i) If the project has 10 or fewer units, no affordability contribution is imposed.

Excerpts from

SB330 Housing Crisis Act (2019-2020)

Senator Skinner

Section 65913.3 (a) As used in this section:

(1) (A) Except as otherwise provided in subparagraph (B), “affected city” means a city or city and county, including a charter city, for which the Department of Housing and Community Development determines, pursuant to subdivision (f), that the average of both of the following amounts is greater than zero:

(i) The percentage by which the city’s average rate of rent differed from 130 percent of the national median rent in 2017, based on the federal 2013–2017 American Community Survey 5-year Estimates.

(ii) The percentage by which the vacancy rate for residential rental units differed from the national vacancy rate, based on the federal 2013–2017 American Community Survey 5-year Estimates.

(B) Notwithstanding subparagraph (A), “affected city” does not include any city that has a population of 5,000 or less and is not located within an urban core.

(2) “Affected county” means the unincorporated portions of a county that are wholly within the boundaries of an urbanized area or urban cluster, as designated by the United States Census Bureau, for which the Department of Housing and Community Development determines, pursuant to subdivision (f), that the average of both of the following amounts is greater than zero:

(A) The percentage by which the average rate of rent for residential uses in the unincorporated portions of the county that are wholly within the boundaries of an urbanized area or urban cluster, as designated by the United States Census Bureau, differed from 130 percent of the national median rent in 2017, based on the federal 2013-2017 American Community Survey 5-year Estimates.

(B) The percentage by which the vacancy rate for residential rental units in the unincorporated portions of the county that are wholly within the boundaries of an urbanized area or urban cluster, as designated by the United States Census Bureau, differed from the national vacancy rate, based on the federal 2013-2017 American Community Survey 5-year Estimates.

(3) Notwithstanding any other law, for purposes of any action that this section prohibits an affected county or an affected city from doing, “affected county” and “affected city” includes the electorate of the affected county or affected city, as applicable, exercising its local initiative or referendum power with respect to any act that is subject to that power by other law, whether that power is derived from the California Constitution, statute, or the charter or

SB330 continued

ordinances of the affected county or affected city.

(4) "Housing development project" has the same meaning as defined in paragraph (2) of subdivision (h) of Section 65589.5.

(b) (1) Notwithstanding any other law, with respect to land where housing is an allowable use on or after January 1, 2018, an affected county or an affected city, as applicable, shall not impose any new, or increase or enforce any existing, requirement that a proposed housing development include parking, as applicable:

(A) A minimum parking requirement if the proposed housing development is within one-quarter mile of a rail stop that is a major transit stop, as defined in subdivision (b) of Section 21155 of the Public Resources Code, there is unobstructed access to the major transit stop from the proposed housing development, and the proposed housing development is in an affected city that meets either of the following:

(i) The affected city is located in a county with a population of greater than 700,000.

(ii) The affected city has a population of 100,000 or greater and is located in a county with a population of 700,000 or less.

(B) A minimum parking requirement in excess of 0.5 spaces per unit in affected cities that are not subject to subparagraph (A).

(2) (A) An affected county or affected city may charge a fee that is in lieu of a housing development's compliance with any requirement imposed by the affected county or affected city, as applicable, to include a certain percentage of affordable units.

(B) Nothing in this section prevents an affected county or an affected city from charging a fee that is in lieu of a housing development's compliance with any requirement imposed by the affected county or affected city, as applicable, to include a certain percentage of affordable units.

(c) A proposed housing development project is not inconsistent with the applicable zoning standards and criteria, and shall not require a rezoning, if the housing development project is consistent with the objective general plan standards and criteria in effect as of January 1, 2018, but the zoning for the project site is inconsistent with the general plan. If the local agency complies with the written documentation requirements of paragraph (2) of subdivision (j) of Section 65589.5, the local agency may require the proposed housing development project to comply with the objective standards and criteria of the zoning that is consistent with the general plan, however, the standards and criteria shall be applied to facilitate and accommodate development at the density allowed on the site by the general plan and proposed by the proposed housing development project.

(e) ....

(3) Any units for which a developer provides relocation assistance or a right of first refusal pursuant to subparagraph (D) of para-

SB330 continued

graph (1) shall be considered in determining whether the housing development project satisfies the requirements, if applicable, of an inclusionary housing ordinance of the affected county or affected city requiring that the development include a certain number of units affordable at the applicable household income levels of the household.

66301.

SEC 14

17980.12. (a) As used in this section, "occupied substandard building or unit" means a building or unit in which one or more persons reside that an enforcement agency finds is in violation of any provision of this part, any building standards published in the California Building Standards Code, or any other rule or regulation adopted pursuant to this part.

(b) (1) An enforcement agency that issues to an owner of an occupied substandard building or unit in a zone where residential use is a permitted use, including areas zoned for mixed use, a notice to correct a violation of any provision of any building standard adopted pursuant to this part, or to abate a nuisance pursuant to this part, shall include in that notice a statement that the owner of the occupied substandard building or unit has the right to request a delay in enforcement of up to seven years.

(2) The owner of an occupied substandard building or unit that receives a notice to correct a violation or abate a nuisance, as described in paragraph (1), may submit an application to the enforcement agency, in the form and manner prescribed by the enforcement agency, requesting that the enforcement of the violation be delayed for up to seven years on the basis that correcting the violation or abating the nuisance is not necessary to protect health and safety.

(3) The enforcement agency may grant an application submitted 6630pursuant to paragraph (2) and delay enforcement if it determines that correcting the violation or abating the nuisance is not necessary to protect health and safety. An enforcement agency may require violations or nuisances that impact health and safety to be corrected or abated earlier than seven years.

AB1487 San Francisco Bay Area: Housing Development: Financing (2019–2020)
Assembly Member Chiu

64511.

(a) (1) The entity shall be governed by a ~~board composed of ____ voting members. The~~ board. The membership of the board shall consist of commissioners of the Metropolitan Transportation Commission and members of the Association of Bay Area Governments Executive Board.

(2) The Metropolitan Transportation Commission and the Executive Board of the Association of Bay Area Governments shall serve as the appointing authority and appoint members to the entity board.

(3) The appointing authority shall determine the size and geographic representation of the entity board.

(4) The entity shall form an advisory committee comprised of nine representatives with knowledge and experience in the areas of affordable housing finance and development, tenant protection, resident service provision, and housing preservation.

(5) Each member of the entity board shall serve at the pleasure of the appointing authority.

(6) The appointing authority shall fill any vacancy on the entity board within 90 days from the date on which the vacancy occurs.