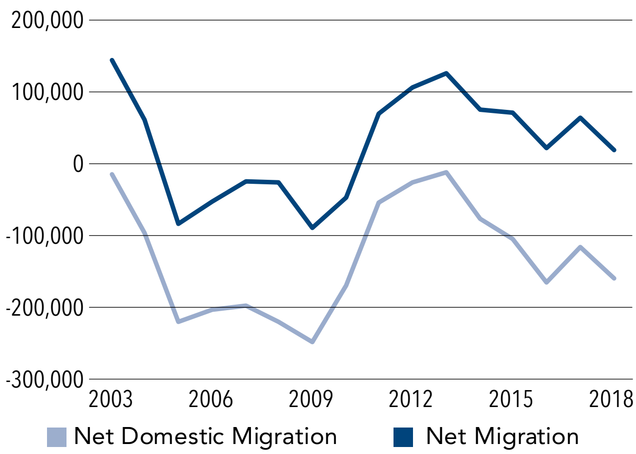
California Housing Crisis

Comprehensive Reforms Needed to Remove Construction Obstacles

California's housing shortage remains a classic example of a supply-demand mismatch that is driving home and rental prices to all-time highs. California employers face an ever-increasing shortage of skilled 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 one of the largest threats to California's otherwise booming economy.

NET MIGRATION



Source: Beacon Economics

THE CALIFORNIA EXODUS

A recent Edelman Trust Barometer survey found that 53% of California residents overall, and 63% of California millennials specifically, are considering leaving the state because of the high cost of living. The Fifth Annual California Chamber of Commerce "People's Voice 2019" survey found similar pessimism among likely voters, with about 2 in 3 voters saying their kids would have a better future if they left California. A record-high share (68%) of Californians say the affordability of housing is a big problem in their region in the most recent Public Policy Institute of California survey.

Data from the U.S. Census Bureau's "American Community Survey" shows a California exodus has already been happening since at least 2007. Over the last decade, approximately 6 million residents have fled California for a net loss of 1 million residents when considering domestic migration, or about 2.5% of the state's total population, and the state has forfeited approximately $26 billion in annual income. The Joint Center for Housing Studies of Harvard University ranks California among the top three states with the largest net domestic outflow of residents.

California businesses also struggling with unaffordable housing are having to make difficult investment decisions. Some companies, after decades of operating in California, have recently decided to move out. Jamba Juice, for example, moved its headquarters from Emeryville to Texas after 25 years of operating in California. The North Face, founded in San Francisco in 1966, left the Bay Area in 2018 to move its headquarters to Denver, Colorado.

Even tech giants like Amazon, Facebook and Oracle have recently chosen to expand in cities outside of California. Facebook invested $1 billion in a suite of five data centers located in Fort Worth, Texas. Oracle is building a new campus in Austin, Texas that will be as large as 10 football fields. Amazon is building a $5 billion second headquarters in Northern Virginia after a nationwide search that left just one California city on the company's short list.

Recognizing the historic housing crisis and the impact unaffordable housing has had on their workforce, tech companies have recently committed 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, CalChamber

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California desperately needs substantially more housing constructed on a scale and at a pace not seen in decades in order to truly bring affordable housing to all areas of the state.

2019 CALIFORNIA HOUSING LEGISLATION

The Governor did help to push through a budget that included approximately $2 billion in funding for housing and related infrastructure, including $750 million for short-term planning and infrastructure, $500 million to support low- and moderate-income housing, a $500 million increase in the state's housing tax credit, $20 million for legal assistance to renters and $650 million for emergency shelters and permanent supportive housing.

However, the 2019 legislative session saw very limited legislation focused on removing barriers to housing construction or providing incentives necessary to achieving the Governor's goal of 3.5 million new homes by 2025.

• **SB 330 (Skinner; D-Berkeley)** was a rare supply-focused housing bill that made it out of the Legislature and was signed by the Governor in 2019. SB 330 aims to reduce permitting costs and expedite housing approvals by providing certainty on development impact fees, standardizing the number of hearings a city can hold to approve projects, and banning cities from downzoning or otherwise removing zoned capacity. Unfortunately, SB 330 is valid only for a period of five years.

• **Accessory Dwelling Unit Bills**. California lawmakers were able to continue their prior year successes and get six new Accessory Dwelling Unit (ADU) bills signed by the Governor: AB 68, AB 881, SB 13, AB 671, AB 587 and AB 670. These bills aim to remove local barriers and spur more ADU development in order to help provide more affordable housing.

• **SB 50 (Wiener-D; San Francisco)** was arguably the most reformative, yet controversial, supply-side piece of housing legislation in 2019. SB 50 proposed eliminating some zoning restrictions near major transit lines and job centers that likely would have resulted in de facto upzoning and thus more dense housing in transit-rich housing areas. The bill was held in the Senate fiscal committee and is expected to return in 2020 with some additional amendments.

• **AB 1482**. Assemblymember David Chiu (D-San Francisco) and several tenant advocacy groups made AB 1482 the key priority in their 2019 legislative agenda. Supporters framed AB 1482 as an anti-rent gouging bill creating a new, statewide standard prohibiting rent increases above 5% plus the Consumer Price Index (CPI) and requiring just-cause evictions. The Governor threw in his support early for the bill and signed it into law. Despite this statewide rent control bill being signed into law, the proponents of Proposition 10 in 2018 plan to have another rent control initiative on the 2020 ballot.

HOUSING ISSUES LEGISLATURE SHOULD ADDRESS IN 2020

• **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. 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 and therefore, ripe for litigation abuse that can substantially slow or even stop housing projects when opponents do not want added density in their neighborhood.

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 increases 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 increased 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 provide 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 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 school, parks and transportation infrastructure. Although these fees can and often do finance necessary infrastructure, many local jurisdictions levy overly burdensome fees that 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 was arguably the only significant piece of legislation signed into law in 2019 aimed at addressing sky-high development impact fees in California. While 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 mid-way through the permitting process. Unfortunately, the bill was watered down to sunset after just five years. Any positive impact SB 330 might have on providing developers with fee-certainty is only temporary.

• **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 values, and bring new crime. Local residents often place significant pressure on 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.

• **Directly Address Homelessness Through Additional Shelters and Mental Health Facilities**. The CalChamber's "People's Voice 2019" survey also found that 75% of respondents said homelessness is getting worse in California and 64% said homelessness is getting worse in their own neighborhood.

The People's Voice survey is supported by data from a recent report by the Council of Economic Advisers that found almost half (47%) of all unsheltered homeless people in the United States live in the State of California. This equates to about four times as high as California's share of the overall U.S. population. The report notes that severe mental illness, substance abuse problems, histories of incarceration, low incomes, and weak social connections each increase an individual's risk of homelessness.

California must pass policies that not only substantially increase the overall housing stock throughout the state, but also add homeless shelters and mental health facilities to more directly address the growing number of homeless Californians.

CALCHAMBER POSITION

California's housing crisis is driving many residents and businesses out of state and discouraging new investments from coming in. Unaffordable housing also forces many Californians into extra-long commutes, adding more air pollution, more traffic congestion, and reduced worker productivity.

Comprehensive reform of environmental and zoning laws is necessary to remove obstacles that hamper housing construction and raise new home prices. A comprehensive re-evaluation 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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