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January 2017 Draft
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Executive Summary

Home is the foundation for life. It’s where we raise families, feel safe and secure, rest and recharge. Our options for where we live have far-reaching impacts in our lives – from our job opportunities to our physical and mental health, from our children’s success in school to our environmental footprint.

With California’s desirable climate, diverse economy, and many of the nation’s top colleges, the State continues to experience strong housing demand; however, housing construction is constrained by regulatory barriers, high costs, and fewer public resources.

Some of the housing challenges facing California include:

- Production averaged less than 80,000 new homes annually over the last 10 years, and ongoing production continues to fall far below the projected need of 180,000 additional homes annually.
- Lack of supply and rising costs are compounding growing inequality and limiting advancement opportunities for younger Californians. Without intervention much of the housing growth is expected to overlap significantly with disadvantaged communities and areas with less job availability,
- Continued sprawl will decrease affordability and quality of life while increasing transportation costs.
- The majority of Californian renters — more than 3 million households — pay more than 30 percent of their income toward rent, and nearly one-third — more than 1.5 million households — pay more than 50% of their income toward rent.
- Overall homeownership rates are at their lowest since the 1940s.
- California is home to 12 percent of the nation’s population, but a disproportionate 22 percent of the nation’s homeless population.
- For California’s vulnerable populations, discrimination and inadequate accommodations for people with disabilities are worsening housing cost and affordability challenges.

But while California’s housing challenges may appear to be overwhelming, California’s Housing Future: Challenges and Opportunities provides the data and analysis to describe the problem and frame the discussion surrounding solutions. This report offers five challenges to add context to discussions about the current state of housing affordability, and provides several possible options to address housing affordability.
Challenges

California’s Housing Future: Challenges and Opportunities includes five key challenges regarding housing affordability:

1. Housing supply continues to not keep pace with demand, and the existing system of land-use planning and regulation creates barriers to development.
2. The highest housing growth is expected in communities with environmental and socio-economic disparities.
3. Unstable funding for affordable home development is hindering California’s ability to meet California’s housing demand, particularly for lower-income households.
4. People experiencing homelessness and other vulnerable populations face additional barriers to obtaining housing.
5. High housing costs have far-reaching policy impacts on the quality of life in California, including health, transportation, education, the environment, and the economy.

Options for Addressing Housing Challenges

Options for advancing the discussion about how to address the cost of housing fall into three broad categories, with specific potential actions falling under each:

- Reforming land use policies to advance affordability, sustainability, equity.
- Addressing housing and access needs for vulnerable populations through greater inter-agency coordination, program design, and evaluation.
- Investing in affordable home development and rehabilitation, rental and homeownership assistance, and community development.
Need for Housing Outstrips Affordable Options

Resulting Consequences: Environmental, Economic, and Social Impacts

California’s high cost of housing is well documented. Average housing costs in California have outpaced the nation and more acute problems exist in coastal areas. As affordability becomes more problematic, people “overpay” for housing, “over-commute” by driving long distances between home and work, and “overcrowd” by sharing space to the point that quality of life is severely impacted. In extreme cases people can become homeless, either visibly on the streets or less visibly as they experience housing instability and cope with temporary and unstable accommodations. In California’s rural areas, high transportation costs often negate the relatively more affordable housing prices. The combined burden of housing and transportation costs can leave residents in rural communities with a cost-of-living comparable to their urban and suburban counterparts.

In addition, high housing costs — and related housing instability issues — also increase health care costs (for individuals and the State), decrease educational outcomes (affecting individuals, as well as the State’s productivity), and make it difficult for California businesses to attract and retain employees.

Land Use Policy Can Promote Sustainability, Affordability, and Equity

In the last 10 years, California has built an average of 80,000 homes a year, far below the 180,000 homes needed a year to keep up with housing growth from 2015-2025. This lack of supply greatly impacts housing affordability. Low production hasn’t always been the case. From 1955-1990, the State was building more than 200,000 homes annually and a much greater percentage were multifamily (in contrast to today’s focus on single-family). In addition to our supply challenges, the housing growth that does occur frequently takes the form of urban sprawl; expanding into undeveloped areas. These development patterns often resulted in reinforcing income inequality and patterns of segregation.

Today’s population of 39 million is expected to grow to 50 million by 2050. Without intervention, much of the population increase can be expected to occur further from job centers, high-performing schools, and transit, constraining opportunity for future generations.

Land use policies and planning can help encourage greater supply and affordability, as well as influence the type and location of housing. Thoughtful land use policies and planning can translate into the ability for families to access neighborhoods of opportunity, with high-performing schools, greater availability of jobs that afford entry to the middle-class, and convenient access to transit and services. Easy access to jobs and amenities reduces a household’s daily commute and other travel demands. Encouraging new homes in already developed areas and areas of opportunity not only alleviates the housing crisis, but also supports the State’s climate change and equity goals.
Introduction

Moving Forward

There are several possible options for addressing California’s housing challenges. *California’s Housing Future: Challenges and Opportunities* can serve as a guide for those efforts by providing a detailed snapshot of the current state of housing affordability in California, five key challenges that can frame the discussion, and three broad policy avenues with specific potential options and action items in each.

*California’s Housing Future: Challenges and Opportunities* has been prepared pursuant to Health and Safety Code Section 50450 and represents the 2025 Statewide Housing Assessment.
Snapshot: The Current State of Housing Affordability in California

A fundamental purpose of this report is to assess California’s housing needs. This section details the State’s projected housing needs through 2025, demographic trends, current housing characteristics, and housing costs and affordability. As this section will show, California has severe housing issues for both rental and homeownership in terms of both supply and affordability. There is a shortfall of more than one million rental homes affordable to extremely and very low-income households and California’s homeownership rate has declined to the lowest rate since the 1940s. In addition, California needs more than 1.8 million additional homes by 2025 to maintain pace with projected household growth.

Projected Housing Needs Through 2025

1.8 Million New Homes Needed by 2025

From 2015-2025, approximately 1.8 million new housing units are needed to meet projected population and household growth, or 180,000 new homes annually. The California Department of Housing and Community Development (HCD), in consultation with the California Department of Finance, determines the State’s housing need for a 10-year period, based upon Department of Finance population projection and demographic household formation data.

Past Production

Figure 1.1 shows the annual growth in housing units from 2000-2015 compared to the current projected average annual need of 180,000 new homes.

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Sources: 2000-2015 New construction housing permit data from Construction Industry Research Board. 2015-2025 Projected Annual Need from HCD Analysis of State of California, Department of Finance P-4: State and County Projected Households, Household Population, Group Quarters, and Persons per Household 2010-2030—Based on Baseline 2013 Population Projection Series. Estimate is subject to change until final release. Graphic by HCD. Note: Prior Statewide Housing Plan, “Raising the Roof” (1997-2020), projected California needed to add an average of 220,000 new homes/yr to keep up with projected population increases; updated projected need is less due to lower population increase projections and higher household formation rates.
For the past 10 years the State has averaged less than 80,000 new homes annually. However, this has not always been the case. From 1955-1989, the State averaged more than 200,000 new homes annually, with multifamily housing accounting for more of the housing production.

**Figure 1.2**
Annual Production of Housing Units 1955-2015

California's housing needs are influenced by a number of factors that include both the size of the population (sheer number of people), but more importantly, the characteristics of that population (e.g. age, ethnicity, household size). Other characteristics also affect whether California has enough housing to meet the needs of the population, including the percentage of people who have disabilities, percentage of farmworkers whose work is seasonal, and percentage of people experiencing homelessness.

**Demographic Trends Drive Housing Needs**
California has a diverse and growing population. Understanding the State’s changing and unique demographics can inform housing policy decisions.

**Population**
California’s 39 million people live in 13 million households across 58 counties and 482 cities. The graphic below shows the percentage of the total population that lives in each county. The State’s cities and counties range greatly in population. While there are three cities with more than one million residents, there are 107 cities with less than 10,000 residents. The largest population concentration is in Southern California.
Household Growth

Through 2025, the highest percentage of household growth is expected to occur in the Bay Area, Southern California, and Central Valley communities. Between 2014 and 2015, approximately 25 percent of population growth came from migration from other states and countries; and 75 percent of population growth was attributable to births within California. Therefore, household growth projections, as opposed to population growth (of individuals), are helpful for understanding future housing needs as they take into account projected household sizes. Figure 1.4 below shows the expected total household growth of 1.83 million through 2025 and each region’s corresponding percentage of the total household growth.
Race and Ethnicity Population Trends
California’s population is projected to become increasingly racially diverse through 2040. According to the National Equity Atlas, as of the 2010 Census, California is second only to Hawaii in diversity in the nation. People of color have represented the majority of the population in California since 2000 and are projected to be the majority nationwide by 2044. As people of color continue to grow as a share of the workforce and population, California’s success and prosperity will be ever more directly linked to the social and economic well-being of the State’s communities of color.

Source: 2015-2025 Projected New Households from HCD Analysis of State of California, Department of Finance State and County Projections of Households, Household Population, Group Quarters, and Persons per Household 2010-2030—Based on Baseline 2013 Population Projection Series. This estimate is subject to change until the final release of the 2025 California Statewide Housing Plan. Graphic by HCD.
Figure 1.5
California Is Becoming Increasingly Diverse
Racial/Ethnic Composition: California, 1980-2040

Vulnerable Populations
Housing costs and supply issues particularly affect certain vulnerable populations that tend to have the lowest incomes and sometimes experience barriers to housing stability. These groups require targeted policy and programmatic responses. Some of these vulnerable populations are described below, including persons experiencing homelessness, seniors, persons with disabilities, farmworkers, and tribal populations. Further information on these special needs population can be found in Appendix A.
Persons Experiencing Homelessness
On a single night in 2016, more than 118,000 people experienced homelessness in California—22 percent of the entire nation’s homeless population. By comparison, California has 12 percent of the total population in the United States. California also had the highest number of unaccompanied youth, veterans and people experiencing chronic homelessness in the United States, with nearly one-third of the nation’s youth, nearly one-fourth of the nation’s homeless veterans, and more than one-third of the nation’s chronically homeless residents. Most of California’s homeless population resides in major metropolitan areas; however, homelessness impacts communities of all sizes and people experience homelessness throughout all regions of the State.

Figure 1.6
One-Third of California’s Homeless Population Is in Los Angeles County

Source: 2016 Point-In-Time (PIT) Estimates of Homeless People by Continuum of Care
**Seniors**

The number of Californians who are 65 years old or older is growing rapidly. According to the Department of Finance projections shown in Figure 1.7 the over-65 populations will grow by more than four million people by 2030. This trend, combined with the fact that California seniors currently have an average (median) personal income of $21,300, vii will increase the need for affordable housing options, accessible design, and in-home supportive services.

![Figure 1.7](image)

**California’s Population Is Aging**

Percentage and Total Population Change Projections by Age Group from 2010-2030 in California

<table>
<thead>
<tr>
<th>Age Group</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eldest Seniors (85 or more years)</td>
<td>+437,379</td>
</tr>
<tr>
<td>Mature Retirees (75-84 years)</td>
<td>+1,563,283</td>
</tr>
<tr>
<td>Young Retirees (65-74 years)</td>
<td>+2,346,047</td>
</tr>
<tr>
<td>Working Age (25-64 years)</td>
<td>+2,116,108</td>
</tr>
<tr>
<td>College Age (18-24 years)</td>
<td>-67,352</td>
</tr>
<tr>
<td>School Age (5-17 years)</td>
<td>+220,303</td>
</tr>
<tr>
<td>Preschool Age (0-4 years)</td>
<td>+127,854</td>
</tr>
<tr>
<td>Total (All Ages)</td>
<td>+6,743,622</td>
</tr>
</tbody>
</table>

Persons with Disabilities, Including Persons with Developmental Disabilities

The State of California defines "disability" as a physical or mental impairment that "limits a major life activity." This segment of the population needs affordable, conveniently located, and accessible housing, which can be adapted to accommodate the limitations of a specific disability.

According to the U.S. Census, California has 3.8 million persons with disabilities.viii Figure 1.8 shows the breakdown of reported disabilities by type. Persons with ambulatory difficulty (i.e. those who need wheelchairs, canes, or other movement assistance) represent the largest percentage of people who reported that they have a disability. Housing for this group may require reasonable accommodation for their disabilities or homes built with universal design standards. In addition, 20 percent reported having an independent-living difficulty that requires flexible housing solutions (e.g., housing with supportive services, group homes, etc.).

The number of persons with developmental disabilities is difficult to quantify in California. The California State Council on Developmental Services uses Gollay and Associate’s national prevalence of persons with developmental disabilities estimate of 1.8 percent to calculate that 684,000 Californians meet the federal definition of having a developmental disability. Client data from nonprofit regional centers and development centers contracted with the California Department of Developmental Services shows 250,000 people received assistance in 2015.

Source: Disability Characteristics 2010-2014 American Community Survey 5-year estimates Table S1810. Graphic by HCD.

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1 Government Code Section 12926-12926.1
2 Accommodations made to the structure, rental policies, or others so that a person with a disability can enjoy the use of housing.
3 Universal design involves designing spaces so that they can be used by the widest range of people possible taking into account physical, perceptual and cognitive abilities.
Farmworkers

California is the largest producer of agricultural goods in the country and one of the largest agricultural producing regions in the world. Farmworkers play a key role in the operation and delivery of the State’s food system. Despite this, farmworkers face a number of economic challenges compared to California’s population as a whole. Farmworkers tend to have low incomes; higher risk of living in poverty; and have limited access to safe, healthy, and affordable housing choices. It is difficult to determine the State’s current number of farmworkers both migratory and permanent. Estimates range from 391,700 to 802,662 depending on the source.

<table>
<thead>
<tr>
<th>Agency</th>
<th>Who Is Counted</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010-2014 American Community Survey 5-Year Estimates</td>
<td>Agriculture, forestry, fishing and hunting, and mining</td>
<td>401,363</td>
</tr>
<tr>
<td>Employment Development Department (EDD) 2015</td>
<td>Agriculture, forestry, fishing and hunting</td>
<td>391,700</td>
</tr>
<tr>
<td>Giannini Foundation of Agriculture, University of California, 2012</td>
<td>Workers with one agricultural job</td>
<td>802,622</td>
</tr>
</tbody>
</table>

Shifting Characteristics of Farmworkers

Characteristics of the farmworker population have changed during the past two decades. Housing availability must adapt to the changing needs of this population. For example, there has been an increase in the number of farmworkers who work alongside or live with family members, from 59 percent in 1990 to 75 percent in 2012.

The population of farmworkers who are unauthorized to work in the United States is increasing. In 1990, only 13 percent of farmworkers were unauthorized. This was due primarily to the 1986 Immigration Reform and Control Act that granted legal status to many previously unauthorized workers and provided a path to legal, permanent-residence status and citizenship. By 2012, the number of unauthorized farmworkers in California had climbed to 60 percent; while of the remaining 40 percent, 9 percent reported they were U.S. citizens and 31 percent were legal permanent residents. Farmworkers who lack authorization to work in the United States are more vulnerable to exploitation by employers and face more challenges in obtaining decent housing. In addition, access to market-rate and subsidized housing is limited for farmworkers without proper documentation.
Native American Tribes

According to the 2010 U.S. Census, California has the largest Native American population in the nation. Nearly 216,000 Californians identified solely as “American Indian,” 10.9 percent of the national total. California currently has 109 federally recognized tribes, almost one-fifth (19.2 percent) of all tribes nationwide. These tribes—which include nearly 100 small reservations and Rancherias—are spread out across the State, in urban, suburban, and rural jurisdictions.

Poverty disproportionately affects tribal populations. The rate of tribal poverty is more than twice that of the rest of the State’s population, and one-third of tribal residents live below the federal poverty rate. The high incidence of poverty among tribal populations equates to lower income available for other necessities after paying for high housing costs in the State.

Figure 1.9
Tribal Poverty Is More Than Twice That of California's General Population

Source: Special geographic analysis of 2010 Census by California Coalition for Rural Housing delineated by tribal census tracts and tribal block groups unique to and within the boundaries of federally recognized tribes. Graphic by HCD.
Current Housing Characteristics

Housing Types and Tenure
Housing type describes the type of dwelling a person resides in, while tenure describes whether a unit is renter- or owner-occupied. The majority of California households (about 65 percent) reside in single-family homes, while only about 31 percent reside in multifamily homes. The remainder resides in other housing types, such as mobile or manufactured homes, see Figure 1.10

Manufactured homes constitute a small, but meaningful portion of the housing stock in California; about 500,000 housing units. Though not a new idea, the concepts of manufactured housing (also called mobilehomes) and factory-built housing have evolved significantly in the past decade. Manufactured housing is built in one or more modular sections that can be transported to, and installed on, a site with or without a foundation. Factory-built housing components for the house are built and inspected off-site in pieces and then transported and assembled on a foundation at the desired location. Advances in technology and regulation have resulted in higher-quality homes, with greater energy efficiency than past generations, and at a cost that is 10 to 20 percent per square foot less than conventionally built homes.
Age of Existing Housing Stock
As shown in Figure 1.11, the majority of housing in California was built before 1980. These older homes tend to have greater rehabilitation needs, as well as lower energy efficiency.

Source: U.S. Census Bureau, 2010-2014 American Community Survey 5-Year Estimates, DP04. Graphic by HCD.

Overcrowding
Overcrowding is when there is more than one resident per room (every room in the home, bedrooms, kitchen, living room, etc. is included in this calculation). California's overcrowding rate is 8.4 percent, more than twice as high as the national average 3.4 percent. California has the second highest percentage of overcrowded households of any state. The renter overcrowding rate for California is 13.5 percent, more than triple the owner overcrowding rate of 4 percent.xii

Source: U.S. Census Bureau, 2015 American Community Survey 1-Year Estimate, Tables B25014, Tenure by Occupants per Room. Graphic by HCD
Homeownership Rate Trends

Since the 1950s, California's homeownership rate has fallen below the national rate, with a significant gap persisting since the 1970s. Between 2006 and 2014, the number of housing units that were owner-occupied fell by almost 250,000 in California, while the number of renter-occupied units increased by about 850,000. According to the Public Policy Institute of California, “much of the increase in rental units occurred among formerly owned single family detached housing units.”

Figure 1.13 shows that following the foreclosure crisis, homeownership rates in California have fallen to 53.7 percent, reaching the lowest rate since the 1940s, when the homeownership rate in California was 43.4 percent.

Figure 1.13
Recent Homeownership Rates Nationally and in CA 2005-2014

California’s homeownership rate is also lower than other large states. Only New York and Nevada have lower homeownership rates. See Figure 1.14.

**Figure 1.14**
California Has the Third Lowest Homeownership Rate Among the 50 States

Source: 2014 American Community Survey 1-Year Estimates; Table B25003 – Tenure. Graphic by HCD
Homeownership Rates by Race and Ethnicity

Homeownership rates also vary by race and ethnicity in California. As shown in Figure 1.15, 64 percent of households that identified as White (Non-Hispanic) were homeowners, compared to only 35 percent of households that identified as Black or African-American.

Figure 1.15
Homeownership Rates Vary by Race and Ethnicity
California Homeownership Rates by Race and Ethnicity 2010-2014 Average

Source: U.S. Census Bureau, 2010-2014 American Community Survey 5-Year Estimates, Tables B25003A-I, Tenure by Race/Ethnicity California. Graphic by HCD.
Costs and Affordability


Years of low housing production contribute to high demand and high home sale prices. However, home sale prices are also influenced by access to credit, current interest rates, and the role of homeownership as an investment tool. Home sales have experienced higher and lower price cycles throughout the last two decades, with an extreme boom from 2002-2008, followed by a significant decline during the time period sometimes referred to as the “Great Recession,” as shown in Figure 1.16.

Figure 1.16
Home Sales Price Trends in California 1990-2015
Median Sales Price in California Single Family Homes
(adjusted for inflation in 2015 dollars)

Recent Home Sale Prices Throughout California

Figure 1.17 shows home prices in California by county in August 2016. The highest prices were found in the coastal areas. Statewide the highest-cost market was San Francisco with a median home price of more than $1.25 million. The statewide median, existing single-family home sale price was $526,580. As of first quarter of 2016, the California Association of Realtors estimates that only 34 percent of households in California can afford to purchase the median priced home in the State.

![Figure 1.17](image-url)

Median Home Sale Prices by County, August 2016

Source: California Association of Realtors, Historical Housing Data, Median Prices of Existing Detached Homes August 2016.
Rental Housing Costs 1990-2014

Unlike home sales prices shown in Figure 1.18, rents did not experience a significant downward trend during the “Great Recession.” Instead, demand for rental housing has stayed strong and rents have trended upward, even when adjusting for inflation.

Some key factors in the increased demand for rental housing since the recession include:\textsuperscript{xviii}

- Foreclosures and former owners moving into the rental market.
- Demographic shifts, particularly the generational boom of millennials coming of age and entering the housing market with strong rental tendencies.
- Lack of supply.
- Deferred home buying, due to:
  - Lack of market confidence.
  - Reduced access to mortgage credit following the recession.
  - Unemployment and stagnant wages.
  - Competition with investors buying homes to convert to rentals.

\textbf{Figure 1.18}

\textit{Rental Cost Trends in California}

Median Gross Rent 1990 – 2014 (adjusted for inflation in 2014 dollars)

4 The Census and American Community Survey tend to reflect lower rents than are present in the market due to a time delay between data gathering and release. Data tools such as Zillow's Rent Index allow an alternative model for tracking rents closer to real time.
Recent Rental Housing Costs Throughout California

Figure 1.19 shows the Zillow Median Rent Index data for August 2016, which examines rental listings and uses modeling to estimate rents for multifamily and single-family homes for every county in California. Rental costs were higher in the coastal and urban areas, with the highest median rent recorded in San Francisco at above $4,500 a month. No county with available data in California recorded a median rent below $1,100 per month.

Figure 1.19
Median Rent by County, August 2016

Source: Zillow Median Rent Index (All Homes; Multifamily, Single Family Rental, Condo) by County. August 2016. Graphic by HCD. For more information on Zillow Median Rent Index methodology visit http://www.zillow.com/research/zillow-rent-index-methodology-2393/

5 The Census and American Community Survey tend to reflect lower rents than are present in the market due to a time delay between data gathering and release. Data tools such as Zillow’s Rent Index allow an alternative model for tracking rents closer to real time. Zillow’s Rent Index is used along with American Community Survey data in this report to estimate current housing cost information, however Zillow’s Rent Index does not have historical rent information, nor information for every city and county in California.
Primer on Housing Cost Affordability

The issue of home affordability is about more than just the cost of housing. It also includes the ability to access and to pay for housing; the cost of housing relative to income.

As defined by the U.S. Department of Housing and Urban Development, housing is considered affordable when a person pays no more than 30 percent of their income toward housing costs, including utilities. When a person pays more than 30 percent of income toward housing costs, they are considered housing cost burdened, and when a person pays more than 50 percent of income toward housing costs, they are considered severely housing cost burdened.

Working full-time at a minimum wage of $10 an hour (the current California statewide minimum wage), a renter or homeowner can afford $520 per month in housing costs; working full-time at a minimum wage of $15 an hour (the California statewide minimum wage as of 2022 as set by Senate Bill 3), a renter or homeowner can afford $780 per month in housing costs.

Affordability and Income Categories

Income categories describe households with similar incomes adjusted for regional variations. Income categories are determined by the area median income (AMI) for a specific geographic area; typically set at the county level.

Each income category is determined as a percentage of the AMI (see inset). These categories are used to determine eligibility for most housing programs and as a base for setting affordable rents. They can also be helpful for comparing households across regions.

Forty-three percent of all Californian households are lower-income (incomes that are 0-80 percent of AMI for their county), but the percentages differ between renter and owner households: 29 percent of owner households and 61 percent of renter households in California are lower-income. Figure 1.20 below shows the percentage of renter households in each income category that are rent burdened, paying more than 30 percent of income toward rent, and severely rent burdened, paying more than 50 percent of income toward rent.

<table>
<thead>
<tr>
<th>Income Category Definitions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Above-Moderate Income: 121% area median income (AMI) and above</td>
</tr>
<tr>
<td>Moderate Income: 81-120% AMI</td>
</tr>
<tr>
<td>Low Income: 51-80% AMI</td>
</tr>
<tr>
<td>Very-Low Income: 31-50% AMI</td>
</tr>
<tr>
<td>Extremely Low Income: 0-30% AMI</td>
</tr>
</tbody>
</table>
Housing-cost burden is experienced disproportionately by people of color. Figure 1.21 looks across all income levels in the State and shows that the percentage of renters paying more than 30 percent of their income toward rent is greater for households that identify as Black or African-American, Latino or Hispanic, American Indian or Alaska Native, or Pacific Islander, compared to renter households that identify as White. This may become an ever-greater factor in the need for affordable housing as population trends suggest that California will become increasingly diverse in the coming decades.
The Growing Impact on Moderate-Income Households

Housing-cost burden (paying more than 30 percent of income toward housing) and severe, housing-cost burden (paying more than 50 percent of income toward housing) are near universal experiences for low-income renters, but in the highest-cost metropolitan areas, cost burden is rapidly spreading among moderate-income households. In the 10 metropolitan areas with the highest median-housing costs nationwide, 75 percent of renter households earning $30,000–44,999 and half of those earning $45,000–74,999, were experiencing housing cost burden in 2014.\textsuperscript{xxi}
Income and Affordability

Despite the economic recovery that has occurred since the recession, incomes, especially among renters, have not kept pace with housing cost increases.

Figure 1.22
Renter Income Has Not Kept Pace with Increasing Rents 2000-2013
Change in Inflation Adjusted Median Rent and Renter Income Since 2000

Affordable Housing Gap Analysis

Each year the National Low Income Housing Coalition (NLIHC) uses the American Community Survey data to evaluate the supply of rental housing affordable to all income levels, both market rate and deed restricted, across all 50 states. NLIHC compares housing stock, current pricing, and occupancy of that stock for each state against what the renter households living in that state earn and can afford to pay. The result is an annual gap analysis, which shows the shortage of affordable units for each income segment in each state.

Nationwide, the supply of affordable rental homes can only accommodate 31 of 100 renter households with extremely low incomes (ELI); California’s supply of affordable rental homes can only accommodate 21 of every 100 ELI households. The NLIHC Gap Analysis shows a shortfall of 1.5 million homes in California that are available at rents affordable to ELI and very low-income (VLI) households.
California’s high housing costs disproportionately affect extremely low- and very low-income households, but many low- and moderate-income households also have trouble renting a home at an affordable level. Figure 1.24 below shows the affordable and available unit data for all renter-household income levels.

Source: 2016 National Low Income Housing Coalition tabulations of 2014 American Community Survey Public Use Microdata Sample (PUMS) housing file. Graphic created by California Housing Partnership.
Total Number of Regulated, Deed-Restricted, Affordable Units in California

When housing rents or purchase price is made affordable to a certain income level, the housing is regulated by a use-restriction, limiting the price and occupancy to lower-income households for a period of time (generally 30 to 55 years).

The California Housing Partnership Corporation (CHPC), a State-created nonprofit dedicated to the preservation of affordable homes, estimates that the number of deed-restricted multifamily affordable units in California is 478,654\textsuperscript{xxiii} out of 4,270,215 total multifamily units in the State.\textsuperscript{xxiv}

Portions of these housing units are at-risk of losing their affordability restrictions and converting to market-rate once their subsidy contracts or regulatory agreements expire. For the people currently living in housing and paying an affordable rent, this means they may lose those affordability protections and have to pay market rents or move away. Potential conversion of affordable units to market-rate units is an ongoing and critical statewide problem.\textsuperscript{xxv} Over the next decade, project-based rental assistance contracts covering thousands of affordable apartments in California will expire without assurance of renewal, potentially ending the subsidies that ensure affordable housing for thousands of low-income households in the State.

As shown in Table 1.2, from 2016-2021, 31,515 apartments in 499 properties statewide are at-risk of conversion to market rate. Without assistance, this affordable housing will be lost, further reducing the already extremely limited affordable housing supply.

**Table 1.2**

<table>
<thead>
<tr>
<th>RENT SUBSIDY RISK LEVEL</th>
<th>Contract Expiration</th>
<th>Properties with At-Risk Units</th>
<th>Total Units in Properties</th>
<th>At-Risk Rent Assisted Units (Project Based)</th>
</tr>
</thead>
<tbody>
<tr>
<td>At-Risk</td>
<td>Within 5 years</td>
<td>499</td>
<td>35,785</td>
<td>31,515</td>
</tr>
<tr>
<td>Very High Risk</td>
<td>Within 1 year</td>
<td>266</td>
<td>15,471</td>
<td>12,866</td>
</tr>
<tr>
<td>High Risk</td>
<td>2-5 years</td>
<td>273</td>
<td>20,314</td>
<td>18,649</td>
</tr>
<tr>
<td>Moderate Risk</td>
<td>5-10 years</td>
<td>70</td>
<td>5,760</td>
<td>5,251</td>
</tr>
<tr>
<td>Low Risk</td>
<td>Over 10 years</td>
<td>1,209</td>
<td>91,814</td>
<td>80,948</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>1,778</td>
<td>133,359</td>
<td>117,714</td>
</tr>
</tbody>
</table>

Source: Annual At-Risk Analysis, California Housing Partnership, April 2016
Rehabilitating existing homes and preserving affordability by putting in place or renewing affordability protections (use- or deed-restrictions) carries substantially lower costs than building new affordable homes. Given limited resources for new, affordable-home construction, preservation and rehabilitation of existing homes is an important tool to increase access to housing affordable to lower-income households. Preserving housing opportunities in areas close to transit, jobs, high-performing schools, and services helps prevent displacement of existing residents and increases access to opportunity for low-income households that might not otherwise be able to afford to live in these locations.

**Housing and Transportation Affordability**

As discussed earlier, housing affordability is recognized as paying no more than 30 percent of income toward housing costs. However, it is also helpful to examine the cost implications of the second-largest household expense, transportation.

The Center for Neighborhood Technology developed a Housing and Transportation Affordability Index (H+T Index) that has been widely used to examine housing and transportation costs, as well as transportation behavior in different community contexts.

Travel demands are determined by where people choose to live, but also by where they can afford to live. The proximity of jobs and services, density, and the availability of public transportation are among the factors that can affect the need for automobile travel and thus transportation costs. In certain communities, higher housing costs can be mitigated by lower transportation costs when less automobile travel is required, and conversely a household seeking more-affordable housing costs by living further away from jobs and services may face higher transportation costs that increase its combined housing and transportation cost burden.

Figure 1.25, based on the H+T Index, shows the average percentage of income spent on housing for selected counties, with lower overall cost burdens aligning with more transit-accessible areas. By looking at costs as a percentage of income, the index allows comparisons across counties with differing average incomes and cost-of-living standards. However, that also means the lower cost burdens shown here are the result of both lower transit costs and higher overall incomes associated with more urbanized areas.

Unlike housing affordability, which is widely accepted as paying no more than 30 percent of income towards housing costs, there is no official affordability definition for housing and transportation costs combined. However, there are discussions about defining a combined affordability threshold at 50 percent of income. Figure 1.25 shows both a 30 percent and 50 percent threshold to demonstrate that in this prototypical sampling of California counties, no jurisdiction has a housing cost burden below 30 percent of income; and almost no counties have a combined housing and transportation burden below 50 percent of income.
When total costs are evaluated, as in Table 1.3, rather than costs as a percentage of income, the H+T Index still shows that lower transportation costs can have a significant impact on overall household costs. For example, San Francisco has an average annual transportation cost of $8,919, which is $5,352 lower than the average annual transportation costs for a household in Solano. In this case, the lower transportation costs in San Francisco actually offset the high housing costs. However, for other counties, such as Fresno and Del Norte, lower-cost housing, even coupled with high transportation costs, still results in a lower overall housing and transportation total.
## Table 1.3
Average Annual Housing and Transportation Costs Throughout California

<table>
<thead>
<tr>
<th>County</th>
<th>Total Annual Housing and Transportation Costs</th>
<th>Annual Housing Costs</th>
<th>Annual Transportation Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Santa Clara</td>
<td>$42,919</td>
<td>$29,364</td>
<td>$13,555</td>
</tr>
<tr>
<td>Alameda</td>
<td>$37,119</td>
<td>$24,708</td>
<td>$12,411</td>
</tr>
<tr>
<td>San Diego</td>
<td>$36,563</td>
<td>$23,544</td>
<td>$13,019</td>
</tr>
<tr>
<td>Solano</td>
<td>$36,279</td>
<td>$22,008</td>
<td>$14,271</td>
</tr>
<tr>
<td>Los Angeles</td>
<td>$34,276</td>
<td>$22,152</td>
<td>$12,124</td>
</tr>
<tr>
<td>San Francisco</td>
<td>$33,975</td>
<td>$25,056</td>
<td>$8,919</td>
</tr>
<tr>
<td>Stanislaus</td>
<td>$30,799</td>
<td>$17,280</td>
<td>$13,519</td>
</tr>
<tr>
<td>Fresno</td>
<td>$29,121</td>
<td>$15,792</td>
<td>$13,329</td>
</tr>
<tr>
<td>Del Norte</td>
<td>$28,714</td>
<td>$14,556</td>
<td>$14,158</td>
</tr>
</tbody>
</table>

Source: Center for Neighborhood Technology, Housing and Transportation Index, Average Annual Housing and Transportation Costs for Selected Counties. Note: Housing Costs are based on 2013 American Community Survey data, and costs in most counties have continued to increase since the publication of that data.
Challenges

As California seeks to promote a housing market that is more accessible, affordable, equitable, and sustainable, the State must be deliberate about understanding the diverse needs of Californians, the State’s role in housing markets and assistance, and the tradeoffs inherent in the diverse policy options at its disposal. This is reflected in the following five major challenges evidenced through the analysis provided above, as well as information contained in the following appendices to this report:

- Appendix A — California’s Diverse Needs: examines the specific housing needs of certain special population groups and briefly examines how housing challenges can be addressed across California’s diverse areas.
- Appendix B — Land Use Planning and Policy’s Influence on Housing Development: examines land use planning and development policies which can greatly influence California’s ability to provide an adequate supply of housing and encourage land use patterns that support infill development.
- Appendix C — Housing and Community Development Production, Preservation, and Financial Assistance Programs: examines direct financing available to support the construction and preservation of affordable housing development as well as financial assistance directly to renters and owners through a variety of federal, State, and local resources.

Challenge 1. Housing supply continues to not keep pace with demand.

California needs at least 1.8 million homes to address household growth from 2015 to 2025. State housing and planning law encourages housing development that also helps the State meet its sustainability goals (developing inward and more compactly, close to jobs, transit, and services), and encourages the development of housing that is affordable to Californians at a range of income levels. While the State can require that local governments plan to meet housing needs and offer incentives to build housing, we continue to fall short on what actually gets built.

Every eight years by law, future housing needs are determined for each region of the State based on growth over a specific period of time (projection period) through the Regional Housing Need Allocation (RHNA) process. The RHNA process uses projected population growth to determine housing and affordability needs relative to household incomes, and provides estimates of how many new units are needed to meet those needs. Regional governments distribute this regional housing need to local governments who must develop a plan (housing element of the general plan) to accommodate the additional housing growth.

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6 Government Code section 65800
As seen in Figure 2.1, during California’s most-recent “Fourth-Cycle” Projection Period (2003-2014) not one region built enough housing to meet its regional need. For example, of the two most populous regions in the State, the Southern California Association of Governments region produced 46 percent and the Association of Bay Area Governments produced 53 percent of their respective regional needs. Statewide, 47 percent of the housing required to meet projected need was constructed during this time-period.

**Figure 2.1**
All Regions Have a Shortfall in Meeting Production Goals

Sources: HCD Regional Housing Needs Allocations; DOF ES Population and Housing Estimates for Cities, Counties, and the State; E8 Historical Population and Housing Estimates for Cities, Counties, and the State; Graphic by HCD.
The low percentage of housing construction compared to the need is especially true for housing affordable to lower-income households. Figure 2.2 shows, for the most-recent projection period, the projected housing need for lower-income households compared to the net change in deed-restricted affordable homes. New home production falls short for all income segments, but is lowest for deed-restricted homes that serve lower-income households.

**Figure 2.2**
Home Production Is Lowest for Lower-income Households

![Chart showing home production compared to projected housing need](chart)


Barriers and constraints (such as lengthy development review, lack of certainty at the local level of where and what is economically and politically feasible to build, and local opposition) impact the type, quantity, and location of housing built. Often these barriers delay, or prevent new home development. Local governments do not permit enough housing to meet their need, in part because they face competing priorities throughout the development process, including community opposition, incentives to approve sales-tax generating development (like retail stores or entertainment venues) rather than residential development, and market conditions (such as limited access to predevelopment financing and high land and construction costs). These competing priorities can constrain housing production at any, or all, stages of the planning and development process. In addition, lack of enforcement of State housing laws limit the effectiveness of existing tools intended to guide housing development.

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7 Note: In this figure deed-redistricted units created with public financing sources are used as a proxy for the number of low-income units produced during this time period. Local inclusionary units and non-deed restricted homes affordable to lower-income at initial sales or rental are not included in this total due to lack of statewide data. Comparisons with San Diego Association of Governments and Association of Bay Area Governments regional data show total actual affordable units produced during this time show up to twice the affordable units produced depending on local inclusionary policies.
Figure 2.3 below shows the five stages of the residential planning and development process in California. Constraints at each stage compound to create a large gap between projected housing need and amount of housing built. Figure 2.4 shows further detail on the constraints at each stage that deter the State’s ability to meet its projected housing need.
### Figure 2.4
Barriers and Constraints to Housing Development

<table>
<thead>
<tr>
<th>TYPE OF CONSTRAINT</th>
<th>CONSTRAINT</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>PLANNING PHASE</strong></td>
<td></td>
</tr>
<tr>
<td>Implementation and Enforcement of Planning Laws</td>
<td>Tension between State and local control</td>
</tr>
<tr>
<td></td>
<td>Enforcement of State law</td>
</tr>
<tr>
<td></td>
<td>Community resistance to growth and change</td>
</tr>
<tr>
<td></td>
<td>Inadequate capacity and resources at a local level to complete plans</td>
</tr>
<tr>
<td></td>
<td>Weak General Plan and housing program implementation</td>
</tr>
<tr>
<td><strong>ZONING PHASE</strong></td>
<td></td>
</tr>
<tr>
<td>Competing Priorities</td>
<td>Local revenue generating mechanisms that favor nonresidential development</td>
</tr>
<tr>
<td></td>
<td>Tensions between the need for transportation corridor or transit-oriented development (TOD) and health effects from exposure to poor air quality/pollutants</td>
</tr>
<tr>
<td></td>
<td>Development standards that impact supply and cost of housing</td>
</tr>
<tr>
<td><strong>PERMITTING PHASE</strong></td>
<td></td>
</tr>
<tr>
<td>Processes and Standards</td>
<td>High impact fees</td>
</tr>
<tr>
<td></td>
<td>Lack of implementation of housing programs</td>
</tr>
<tr>
<td></td>
<td>Multiple levels of discretionary review</td>
</tr>
<tr>
<td>Community Opposition</td>
<td>Community resistance to new affordable housing</td>
</tr>
<tr>
<td></td>
<td>Environmental permit process reviews, which can be used to stop, or limit, housing development for various reasons</td>
</tr>
<tr>
<td></td>
<td>Calls for preservation of character that raise development standards, limit density, etc.</td>
</tr>
<tr>
<td></td>
<td>Referendums and requirements for voter approval</td>
</tr>
<tr>
<td><strong>BUILDING PHASE</strong></td>
<td></td>
</tr>
<tr>
<td>Market Conditions</td>
<td>Limited access to predevelopment financing</td>
</tr>
<tr>
<td></td>
<td>Weak market conditions</td>
</tr>
<tr>
<td></td>
<td>High land and construction costs</td>
</tr>
<tr>
<td></td>
<td>Public subsidies inadequate/declining</td>
</tr>
</tbody>
</table>
Challenge 2. High housing growth is expected in communities with environmental and socio-economic disparities.

Many California residents live in areas characterized by low-investment, social and economic problems, and lack of infrastructure. As a result, California has determined that these areas need special attention to increase opportunities and improve conditions. The term “disadvantaged community” is a broad term that refers to areas disproportionately affected by environmental pollution and other hazards that can lead to negative public health effects, as well as lower-economic investment and opportunity. Increasing opportunities and improving conditions in these communities is especially critical for long-term childhood outcomes. Studies show that a child’s adulthood earning potential is reduced every year a child grows up in neighborhoods of poverty in comparison to children who reside in better neighborhoods. In addition, families that live in areas of concentrated poverty have less economic mobility and have difficulty escaping poverty as adults.

There is a mismatch between the State’s high-cost urban and coastal communities, where jobs and services are concentrated, and where housing production has occurred during the last 10 years. Limited production in the urban and coastal communities leaves most of the State’s housing production in the inland counties. Figure 2.5 demonstrates the mismatch between job availability and where past housing production occurred. The land use decisions of the State’s areas of greatest opportunity affect the economic mobility opportunities for the rest of the State if California continues these growth trends, the inland and disadvantaged communities will continue to see high household growth during the next 10 years. Figure 2.6 illustrates future household growth based on current trends, including the continued lack of housing in areas of opportunity, which results in the greatest household growth occurring in disadvantaged areas.
Figure 2.5 shows counties with high job availability as measured by total jobs per 1,000 residents and where housing unit growth occurred from 2003-2014.

**Figure 2.5**
Past Housing Production Lower in Counties with High Job Availability

Figure 2.6 shows projected household growth by county overlaid with communities identified as in the top 25 percent most disadvantaged by CalEnviroScreen 2.0.

**Figure 2.6**
Projected Household Growth Is High in Counties with Disadvantaged Communities

*Sources: State of California, Department of Finance P-4: State and County Projected Households, Household Population, Group Quarters, and Persons per Household 2010-2030—Based on Baseline 2013 Population Projection Series, 3/10/2015, CalEnviroScreen 2.0, Disadvantaged Communities, Graphic by HCD*
Challenge 3. Unstable funding for affordable-home development is impeding our ability to meet California's housing needs, particularly for lower-income households.

To address housing needs, California must to be able to plan for ongoing, sustainable development. Unstable funding makes it difficult to plan for new, affordable development and limits housing-production efficiency over time. Funding uncertainty also makes it difficult to identify and separate the cost impacts of location, construction, fees, and program requirements, and which cost drivers, if any, can be reduced without compromising program outcomes.

Even with important changes in land use policy to remove barriers and increase supply, a large number of Californians will always remain priced out of both the ownership and rental housing market. Public investment in housing programs will remain necessary to meet the needs of those who struggle most to keep roofs over their heads.

Figure 2.7 shows the decline in federal HOME and Community Development Block Grant funding to California between 2003 and 2015. Funding levels across other federal housing programs generally trended downward over this period.

![Figure 2.7](image-url)

**Figure 2.7**
Federal HOME and Community Development Block Grant Allocations to California Declined from 2003-2015 (adjusted for inflation in 2015 dollars)

State funds have fluctuated as well, but have experienced some recent gains. For example:

- $600 million in existing bond authority approved by voters through Proposition 41 to provide multifamily housing for veterans experiencing homelessness.
- 20 percent of Greenhouse Gas Reduction Fund revenues to fund the Affordable Housing Sustainable Communities Program, with at least half of the funds for affordable housing. Program available through 2020.
- $100 million investment in the 2014-2015 Budget Act from the General Fund for the Multifamily Housing Program (MHP) and MHP Supportive Housing.
- $2 billion in bonds to establish the “No Place Like Home” program in 2016 to fund permanent supportive housing for Californians experiencing homelessness and mental illness.

At the local level, some jurisdictions are also setting aside funds for affordable housing through bond measures, tax measures, and newly developed tools, such as Enhanced Infrastructure Financing Districts and Community Revitalization and Investment Authorities, to provide additional opportunities for local governments to support affordable housing goals with much needed funding.

Rarely does any single housing program provide sufficient resources to fund a complete development. Therefore, developers must apply for, and receive, funding from multiple programs and address each program’s overlapping policy goals along the way. Applying for, and securing, many layers of funding can add substantially to the time and difficulty it takes to start production. Scarce resources for housing bring even more attention to the need to control costs, and the effect of having to layer funding from multiple sources (among other issues that could impact costs) is being examined by the State’s housing agencies. Policies that speed up the development process, reduce excessive parking requirements, and limit unnecessary regulatory cost can help control costs and maximize public funding.
Challenge 4. People experiencing homelessness and other vulnerable populations face additional barriers to obtaining housing.

The availability of affordable homes is an important part of addressing California’s housing needs, but many households bear additional challenges. For example, people exiting homelessness may not have the credit or rental history required to rent an apartment (even if they have financial assistance), or they may need a variety of services to help them transition into and stabilize their lives.

Both overt and subtle discrimination, inadequate accommodations for people with disabilities, lack of transportation access, and stringent financial requirements and background checks are among the barriers that prevent many people from finding an affordable place to live. For example, studies show that persons with disabilities are more likely to experience discrimination when seeking housing compared to other protected classes.

In California, 41 percent of the discrimination complaints received by the California Department of Fair Employment and Housing and the U.S Department of Housing and Urban Development were filed by people who felt discriminated against due to their disability. \textsuperscript{xviii}

Source: Examples based on actual development financing; percentages subject to change prior to Final Statewide Housing Plan as more sample developments are reviewed. Graphic by HCD.
Even with federal Housing Choice Vouchers that assist with rent, many households are still unable to find affordable homes. In many high-cost markets, the amount of rent a federal Housing Choice Vouchers will cover is capped based on the Federal Housing and Urban Development (HUD) Fair Market Rent, which can fall significantly below the market rent. This, combined with too few available rentals and landlords who are unwilling to accept vouchers at all is exacerbating the problem.

Figure 2.9 compares for cities throughout California, the rent levels at which households can use Housing Choice Vouchers (HUD Fair Market Rents) to the median rents for two-bedroom apartments in 2016. In all of these cities, households receiving housing assistance cannot access the median apartment. In San Jose, for example, the median rent is more than $1,000 higher than the level at which households can use vouchers.

![Figure 2.9: Housing Assistance Is Insufficient to Afford the Median Rent in Many California Cities](image)

Sources: 2016 Fair Market Rents – HUD, 2016 2-Bedroom Median Rents -- Zillow
Challenge 5. Affordable housing has far-reaching policy impacts that benefit the quality of life in California, including health, transportation, education, the environment, and the economy.

When Californians have access to safe and affordable housing they have more money for food and health care, they are less likely to become homeless and need government subsidized services, their children are apt to do better in school, and their businesses do not have as hard a time recruiting and retaining employees. Housing programs can be used as a platform to achieve multiple policy goals, for example, California’s Veterans Housing and Homelessness Prevention program connects the needs of veterans and people experiencing homelessness, and providing homes and supportive services for formerly homeless populations has been shown to improve health outcomes and reduce local and State health care spending. Another example is the state’s Affordable Housing and Sustainable Communities program, which connects housing with environmental and transportation goals. Increased collaborations across these sectors to share knowledge and leverage resources can improve housing programs while providing multiple benefits to the State.

Consequences for the lack of housing choices and high housing costs can be summarized into the categories of overpaying (paying a higher percentage of income toward housing costs when only unaffordable options remain), over-commuting (when households need to move further from job and community centers in search of lower housing costs), and overcrowding (sharing space at a rate of more than one resident per room to reduce housing costs).8

**Overpaying**

When Californians are forced to pay a higher percentage of income toward housing costs because they only have unaffordable options, it can have a broad impact on the overall quality of their lives and the lives of their families. California’s economy can also suffer.

**Educational Consequences**

Without access to, and supply of, sufficient affordable housing, many individuals are forced to live in substandard accommodations or move more frequently. Both substandard housing conditions and frequent moves are negatively correlated with children’s academic performance. Frequent moves also disrupt the social connections among children, parents, and teachers that have been linked to educational success.xxx These negative consequences are particularly significant for homeless children. Research suggests that homeless children are more likely to be absent from school, repeat a grade, drop out, and perform poorly on standardized achievement tests.xxx

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8 Much of the research for this section was previously gathered and cited for the 2014 California Affordable Housing Cost Study.
Health Consequences

High housing costs impact the health of families. For example, families tend to shift their spending away from paying for health insurance and health care in order to cover basic necessities. Lack of safe and sanitary shelter, homelessness, and housing insecurity are associated with a variety of poor mental and physical health outcomes. Homeless children are more vulnerable to developmental delays, depression, and mental health problems. Families with high portions of household income spent on rent or mortgages are often unable to afford nutritious food. Adequate nutrition is especially critical for both physical and mental child development.

While access to affordable housing can free up funds for other necessities and improve health outcomes for individuals and families, an emerging field of research is examining how affordable housing can also impact government social-services spending. A recent study in Oregon found that after people moved into affordable housing, costs to health care systems decreased along with an increase in care quality and access. A pilot project in Los Angeles County, called Project 50, targets people who are high-risk and experiencing chronic homelessness and places them into affordable housing paired with social services. After the first year of program tracking, the County saw marked declines in incarceration and medical services and a decline in total service use. With these cost savings the County calculates that Project 50 generated a surplus of $4,774 per program participant per year.

Migration and Employment Consequences

California is an attractive place to live and work, but housing costs affect the ability of families to stay in or migrate to California, with consequences for the State and national economy. McKinsey Global Institute estimates that California’s housing shortage costs between $143 billion and $233 billion per year in lost economic output primarily from consumption that is crowded out by housing costs and lost construction activity. According to models by Chang-Tai Hsieh and Enrico Moretti, if high productivity cities across the United States, such as San Francisco and San Jose, relaxed their housing and land use restrictions to the level of the median American metropolitan area, U.S. productivity would increase by roughly $1.4 trillion.

In June 2015-2016, 61,100 more people moved out of California than moved in. According to the U.S. Census Current Population Survey, those moving out of the State listed housing as one of the most common factors, behind only family and job concerns. The lack of housing has consequences for businesses trying to recruit and retain employees. In a 2014 survey of more than 200 business executives conducted by the Silicon Valley Leadership Group, 72 percent of the executives cited “housing cost for employees” as the most important challenge facing Silicon Valley businesses and “employee recruitment and retention” as the second-most frequently identified challenge.
Challenges

Over-Commuting
When households of any income level live near transit and job centers they drive less. But it is becoming harder for them to afford housing near these locations. Housing near transit is in high demand, and rents and property values near transit are 10-20 percent higher on average than similar homes further from transit. Modeling and analysis by the California Legislative Analyst’s Office “suggests that California’s high housing costs cause workers to live further from where they work, likely because reasonably priced housing options are unavailable in locations nearer to where they work.” When households move further from job- and transit-rich areas to find more affordable homes, they encounter consequences in the form of higher transportation costs and commute times. Beyond the individual consequences for households, there are societal consequences including greater pollution and greenhouse gas emissions and decreased productivity due to longer commutes.

Overcrowding
California has the second highest percentage of overcrowded households of any state. Overcrowding is one way struggling families address high housing costs, but overcrowding results in serious, negative impacts on Californians’ physical and mental health. Because of greater exposure to infectious diseases and daily stressors, people living in overcrowded homes have higher blood pressure and experience more psychological distress and feelings of helplessness.
Options for Addressing Housing Challenges

Most of the potential options that begin to address housing challenges fall into one of three broad categories:

- Reforming land use policies to advance affordability, sustainability, and equity.
- Addressing housing and access needs for vulnerable populations through greater inter-agency coordination, program design and evaluation.
- Investing in affordable home development and rehabilitation, rental and homeownership assistance, and community development.

The following options are meant to be viewed as a guide for discussion among key stakeholders and not as an exhaustive list. Indeed, any discussion of the options below is likely to produce additional potential strategies as ideas are exchanged.

Reforming land use policies to advance affordability, sustainability, and equity.

Option — Increase the supply of housing affordable to all income levels by reducing the time and cost of development.

- Streamline permitting at the development stage with robust public engagement and environmental review early and upfront, during updates of general plans, community and specific plans, and zoning ordinance updates.
- Increase regional coordination in land use planning both within and across regions. Housing, transportation, and economic changes in one region impact neighboring regions. Improved inter-regional, state, and local coordination can lead to better local land use planning.
- Increase certainty for infill development consistent with local governments’ General Plans and zoning, timelines, and costs by clarifying and increasing opportunities for streamlining permitting where applicable.
- Strengthen existing regulatory and entitlement tools for local governments, such as Density Bonus Law, Housing Accountability Act, and Mitigation Fee Act (i.e. promote use of fees based on square footage rather than unit type), to further incentivize increased supply, density, and affordability.
- Maximize use of State and local public surplus lands for affordable housing development.
Options for Addressing Housing Challenges

Option — Link housing production and other housing goals (e.g. sustainable and equitable development patterns) to incentives and investments.

- Provide infrastructure and other non-housing benefits as a reward to jurisdictions that produce housing and set aside funding for affordable housing through local tools such as Affordable Housing Beneficiary Districts (AB 2031, Bonta), Enhanced Infrastructure Financing Districts, local sales tax increase, etc.

- Expand infill and density incentives in order to encourage local governments to increase zoning for infill and compact development.

- Include compliance with State housing laws as a requirement to receive competitive State resources.

- Strengthen State oversight of housing laws to improve local housing production performance at all income levels and accountability.

Option — Encourage land use policies and investment that support community development.

- Continue to incorporate strategies in State planning activities to build more homes in job-, transit- and amenity-rich areas of economic opportunity.

- Encourage local governments to avoid displacement and gentrification by preserving housing opportunities for low-income residents.

- Continuously evaluate State and local strategies to promote community resiliency and adaptation to climate change and natural disasters.

- Improve existing reporting, tracking, and analysis to measure progress in key areas, such as:

  - Production in comparison to need (Regional Housing Need Allocation).
  - Implementation of programs proposed in local planning documents.
  - Use of incentive tools, such as ministerial permitting, density bonus, parking reductions, fee deferrals and waivers, California Environmental Quality Act (CEQA) exemptions, etc.
  - Location of new housing relative to jobs centers, transit, high-performing schools, recreational areas, and services.
  - Development costs for affordable and market rate housing.
  - Local fees and exactions.
Addressing housing and access needs for vulnerable populations through greater inter-agency coordination, program design, and evaluation.

Option — Increase coordination and collaboration between State and federal health, social service, and housing systems to better deliver services integrated with housing to vulnerable populations, including seniors, people with disabilities, farmworkers, tribal populations, and those experiencing, or at-risk of, homelessness.

- Continue aligning State housing programs with best practices, such as the “housing first” model to address homelessness, and improvement in supportive services, particularly where it can result in increased draw of federal funds to California.
- Assist local entities in developing coordinated entry systems that prioritize housing for the hardest to serve, improve data collection and program evaluation, and put in place other systems that create high performance outcomes.

Option — Invest in the construction of permanent supportive housing and ensure it reaches seniors and people experiencing chronic homelessness, and ensure consistent evaluation of programs.

- Continually review the needs and input of vulnerable populations in the creation and implementation of programs, including physical design, program flexibility, and removing access barriers.
- Require outcomes reporting that identifies barriers facing local jurisdictions, including a special assessment to better access the needs and barriers facing vulnerable populations.
- Target technical assistance to communities based on identified barriers.
- Use Medi-Cal 2020–expanded benefits such as the Whole Person Care Pilot and Medi-Cal’s Health Homes Program, to flexibly deliver services that help vulnerable populations secure permanent supportive housing, and achieve greatest potential for cost savings and improved wealth outcomes.
Investing in affordable home development and rehabilitation, rental and homeownership assistance, and community development.

Option — Identify an ongoing source of funding for affordable housing that does not add new costs or cost pressures to the state’s General Fund, but that does support and align with other State policy goals.

- Funding should address housing rehabilitation, preservation, infrastructure, and community development needs in rural, suburban, and urban areas.
- Promote Fair Housing principles through current programs and identify strategies for future funding.

Option — Encourage continued federal support.

- Where possible encourage Congress to avoid further cuts to housing in the federal budget, and to grow existing and new programs, such as the HOME Program, the Low Income Housing Tax Credit, and the National Housing Trust Fund.
- Identify additional sources of federal funding and modify programs to incentivize bringing these resources to California. For example, incentivize the underused federal 4-percent tax credit by providing greater matching funding from State programs for developments that use 4-percent credits.

Option — Increase program data collection and evaluation to reduce costs and improve programs.

- Improve data collection and analysis, as well as availability of data to the public, the academic community, and across agencies, to better support implementation of program goals and evaluate program outcomes.
- Identify cost drivers and research opportunities to reduce complications, costs, and time in the interest of maximizing State investment.
- Create more consistency in guidelines and reporting requirements between housing agencies.
Endnotes

1. HCD Analysis of State of California, Department of Finance and County Projected Households, Household Population, Group Quarters, and Persons per Household 2010-2030—Based on Baseline 2013 Population Projection Series. This estimate is subject to change until the final release of the Statewide Housing Plan.


4. Ibid.


7. 2010-2014 American Community Survey 5-Year Estimates, Table B25072. California State Level Data.

8. Disability Characteristics 2010-2014 American Community Survey 5-year estimates S1810, California State Level Data.


13. California Housing Partnership Corporation Preservation Clearinghouse, May 2016. Includes data from California Tax Credit Allocation Committee (TCAC), Department of Housing and Community Development (HCD), California Housing Finance Agency (CalHFA), United States Department of Agriculture (USDA) and Department of Housing and Urban Development (HUD).


18. Analysis of Impediments to Fair Housing, California Department of Housing and Urban Development, September 2012.


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California’s High Housing Costs: Causes and Consequences. Legislative Analyst’s Office, March 2015.

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Appendices

To access please go to www.hcd.ca.gov/statewide-housing-assessment

Appendix A – California’s Diverse Needs

Appendix B -  Land Use Planning and Policy’s Influence on Housing Development:

Exhibit B1 - State Land Use and Planning Laws Related to Housing Development

Exhibit B2 - 4th Cycle Housing Element RHNA Compared to Production

Exhibit B3 - Executive Summary from The White House Housing Development Toolkit

Appendix C – Housing and Community Development Production, Preservation and Financial Assistance Programs:

Exhibit C1 - Major State Funded Housing and Community Development Programs (Current)

Exhibit C2 - State Housing and Development Program Outcomes 2003-2015

Exhibit C3 - Major Federally Funded Housing Programs (Current)