California Building Industry Association

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Senate Transportation and Housing
Informational Hearing: SB 375: From Vision to Implementation
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Thank you for the opportunity to appear here today. Your interest in seeing the promise of SB 375 move from planning to successful implementation is one we mutually share. I was part of the homebuilder/developer team that negotiated SB 375. The homebuilding industry believes that engaging a regional conversation about how we grow and that nudge the envelope to encourage greater efficiencies in the alignment of transportation, land use and housing decisions to achieve good economic and environmental goals is eminently achievable if done realistically, transparently and in a way that accommodates consumer needs and policy flexibility.

Urban forms that respond to real preferences are resilient and have the greatest chance for local success. Policies that are not realistic or that look to challenge people's preferences have less of a chance of success. The fine line to walk with SB 375 is to ensure that the regional "vision" and the local realities are in alignment when it comes to implementing strategies and making local decisions and approvals.

The Current Condition of Housing in California

New residential construction is one of the most visible and widely dispersed industries in California. Even with the precipitous drop in permit activity and home sales from the top of the last market (2005) to present, the economic benefits of new housing construction contribute over $20 billion to the California economy, support over 122,000 jobs per year, and constitute 0.3 percent of the state's economic output. [1]

Statewide, the median price of an existing single family home in California thru the 1st quarter of 2014 was $435,000. [2] That's up over 14% from the same time one year ago and by over 30% from prices at the depth of the recession in 2009.

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[1] *The Economic Benefits of Housing in California* updated August 2012, prepared by the Center for Strategic Economic Research, Sacramento, Ca.

[2] California Association of Realtors, 2014 *Market @ A Glance.*

California's homeownership rate in 2013 was 54%. The national rate is 65%. While this is not necessarily good news , looking on the brighter side we know there is a strong consumer desire for homeownership. Because homeownership rates had fallen so low, there is a lot of room for growth and improvement.

Included in your materials is a graph showing housing production activity from the years 2004 thru 2013--- with a forecast for 2014 -- expressed in annual permits issued. The chart also shows the breakout between single-family and multi-family. What isn't readily apparent is where those units are being built.

Of the total permits issued in 2013, fully 65% (over 54,000 units) occurred in six specific areas: the job-rich, higher per-capita income coastal areas of Los Angeles, Orange County, San Diego, San Francisco, along with the Santa Clara Silicon Valley, and parts of Riverside County. Multi-family activity (primarily rental) predominated in these higher-cost areas where less than one-third of households can afford the median-priced home.

In areas such as the Central Valley, the Sacramento region and other inland areas of California housing is more affordable and traditional single-family opportunities predominate.

Overall, the California housing recovery has been slow and uneven. Recent gains in home prices and in construction have been driven mainly by restricted supply rather than by growth in first-time homebuyers. Clearly, we need to bring more buyers into and back into the market. Looking forward, we see population groups with Latino and Asian surnames as an emerging force in the consumer markets. Both population groups tend to be family oriented, educated (in many cases highly educated) and very interested in realizing the California and American dream of homeownership.

As to the pace of the housing recovery in California, we are guardedly optimistic that key pieces are coming together to help that happen. As hiring picks up, buyers may be more likely to jump in as the see employers add to the rolls. Additionally, as the supply of distressed properties shrinks and as refinancing slows, we anticipate that lenders will turn to originating more purchase loans … signaling that would-be buyers may have greater access to credit. Finally, interest rates are still historically low levels. Assuming that the Federal Reserve maintains a measured and strategic approach as it backs away from its asset purchases, interest rates should not jump exponentially. This will lead to greater consumer confidence and, hopefully, bring buyers off the sidelines.

The Challenge: Moving From Vision to Implementation

To date, SB 375 is being implemented in four major metropolitan areas of the state --- San Diego, the six-county Southern California region, the nine-county Bay Area, and the six-county Sacramento region. The real results will only be known over time, but it's safe to say that significant challenges remain to fully realize the goals of SB 375. Underlying the sustainable community strategies are ambitious growth and land use forecasts that envision higher and denser levels (in some cases significantly higher levels) of development within the region.

Given the slow and uneven pace of the housing recovery and the uncertainty of the forecasts underlying the plans it is essential that the Legislature and the air board allow for a full eight-year implementation cycle to occur before considering any adjustments to SB 375.

During this time we believe it wise for regions to "ground-truth" the assumptions contained in their plans by monitoring actual development compared to the projections contained in the SCS. Likewise, we believe it important for regions to track and quantify the number of units that were effectively able to utilize the CEQA streamlining provisions of SB 375. As regions move forward in the next update of their SCS the information gained from these processes will help to shape the reliability and feasibility of land use policies, financing and infrastructure needs, market demand and other critical considerations. This information should be published and readily available prior to the release of the next draft SCS.

Additionally, for SB 375 to effectively move from vision to implementation regions and localities must have a broad-based and effective set of tools to finance the rehabilitation, re-sizing and modernization of old and, in many cases, antiquated infrastructure in existing metropolitan areas. With the loss of redevelopment, that job has become significantly more challenging. This is not something the private markets or private financing alone will be able to shoulder.

The same holds true for financing of our transportation and transit systems. Metropolitan planning organizations and local transportation planning agencies alike face capital funding shortfalls to carry out their programs. For nearly a century the gas tax has been a reliable and relatively stable source of funding for our road and transit networks. While it remains a primary source, there are many who fear the gas tax is not sustainable over the long term as vehicles become more fuel efficient.

California remains a high-cost housing state and there is a pressing need to provide affordable housing for individuals and families at the middle-and-lower ends of the economic spectrum. We need to establish an ongoing and equitable source or sources of funding to help finance our state's affordable housing needs.

The need to better balance appropriate environmental review under the California Environmental Quality Act (CEQA) with the goal of providing meaningful streamlining for projects determined by the local lead agency to be consistent with the regionally-adopted SCS is essential to the successful implementation of SB 375.

Finally, in order to realize the housing goals of SB 375 we need to address the construction liability barriers to the provision of attached housing such as condominiums and townhomes that provide necessary entry level opportunities and help us achieve our greenhouse gas reduction goals.

Thank you for the opportunity to offer these comments.