

SENATE TRANSPORTATION AND HOUSING COMMITTEE

INFORMATIONAL HEARING

High Housing Costs: Ensuring All Californians Have a Place to Call Home

9:00 a.m. - Thursday, November 12, 2015
Board of Supervisors' Chambers - County Government Center
70 West Hedding Street, 1st floor
San Jose

Background Paper

Purpose of the Hearing

The purpose of this Senate Transportation and Housing Committee hearing is to: 1) discuss critical federal and state housing programs, as Congress continues to weigh funding priorities in the age of sequestration and deep funding cuts; 2) understand what factors contribute to California's high housing prices and rental costs; 3) discuss what California can do to increase access to and encourage the construction of affordable housing with the loss of redevelopment funds and the exhaustion of voter-approved bond funds without a permanent source of funding; and 4) discuss what California can do to encourage homeownership, particularly for first-time homebuyers.

This background paper will provide an overview of the cost of housing for low-income persons, as well as the cost of single-family homes and the impact to first-time homebuyers. This background paper will also discuss housing funding trends at the federal and state levels in recent years.

Overview

According to a recent Legislative Analyst's Office report, *California's High Housing Costs: Causes and Consequences*, California's home prices and rents are higher than just about anywhere else in the country. This has dramatic impacts not only for California households across all income levels, but for the state's overall economy. According to the report, there are a number of factors that have contributed to these prices, including far less housing construction in California's coastal areas that is needed, high land prices in the coastal regions, and high builders' costs. This section will explore some of the trends in the rental and homeownership market in California.

Rental Prices

California has become one of the most expensive places to live in the country, which has had a dramatic impact on the middle class and the working poor. Low-income housing units, if available, are often in serious states of disrepair, and working families are unable to make rent payments on their “affordable” housing rents. Additionally, California requires the third-highest wage in the country to afford housing, behind Hawaii and Washington, D.C. In California, the Fair Market Rent — which indicates the amount of money that a given property would command if it were open for leasing — for a two-bedroom apartment is \$1,386. To afford this level of rent and utilities, without paying more than 30% of income on housing, a household must earn an hourly “housing wage” of \$26.65 per hour. This means that a person earning minimum wage must work an average of 3 jobs to pay the rent for a two-bedroom unit.

According to the California Housing Partnership Corporation, the lack of affordable housing in Santa Clara County is driving more families into poverty. Presently, a renter household requires nearly five times the state minimum wage, or \$48.48 per hour, to afford average asking rents in Santa Clara County. High rental prices and low wages often lead to overcrowding, or a situation in which too many people live in a dwelling unit. Overcrowding increases health and safety concerns and stresses the condition of the housing stock and infrastructure. Overcrowding for low-income renters in Santa Clara County is more than two times the national average, contributing significantly to poor health and academic achievement among low-income children. Adjusted for inflation, rent has increased 3% while median renter income has declined 15% since 2000.

Furthermore, California’s 2.2 million extremely low-income (ELI) and very low-income (VLI) renter households are competing for only 664,000 affordable rental homes. This leaves more than 1.54 million of California’s lowest income households without access to affordable housing in a state with 21 of the 30 most expensive rental housing markets in the country. VLI households are those that earn less than 50% of the area median income, while ELI households earn less than 30%. Santa Clara County alone needs 67,576 additional affordable rental homes to meet the needs of ELI and VLI renters.

As a result, low-income families are forced to spend more and more of their income on rent, which leaves little else for other basic necessities. It also means that many renters must postpone or forego homeownership, live in more crowded housing, commute further to work, or, in some cases, choose to live and work elsewhere.

Homeownership

Years after the great recession ended, California can still feel the impacts of the housing crisis. Overall homeownership rates have declined. According to the recent U.S. Census, California’s homeownership rate decreased slightly in the second quarter (Q2) of 2015, to 54.4% from 54.6% in the prior quarter. This is also down from 54.9% one year earlier. The homeownership rate has trended down from its 60.7% peak in 2006 to its present level. California homeownership is certain to remain below California’s historical rate of 55% for years to come, due primarily to the anticipated rise in mortgage rates.

California's home prices have also risen faster than in the rest of the country. According to the Legislative Analyst's Office, home prices in California began to accelerate beginning in about 1970. By 1980, prices were 80% above the national average, and by 2010, the typical California home was twice as expensive as the typical U.S. home. Presently, California's home prices are significantly higher than the rest of the country. According to Zillow, the median home value in California is \$450,600, which is nearly two-and-a-half times the national average at \$182,500. California home values have gone up 5.2% over the past year, and Zillow predicts they will rise 2.4% within the next year.

Potential homebuyers aged 30 and under face the biggest challenge in buying a home in the current market. Based on results from the California Association of Realtors (CAR) Annual Housing Market Survey, this group of young consumers not only has a lower household income than other age groups, but they also make a smaller down-payment when purchasing a property. This means they are in the age group that is the least qualified to buy a median-priced home. Many of them tend to purchase their home in the lower-priced segment, which is also the most competitive market with the tightest housing supply. Not surprisingly, this is also the age group with the most first-time buyers.

First-time homebuyers are among the hardest hit by rising home prices and rising interest rates. According to CAR, in 2014, the share of California first-time homebuyers was 30.5%, a decline from the 50.8% peak of first-time homebuyer market share in 1995. While this rate is slightly higher than the 2013 rate of 28.1%, it remained below the long-run average of 38% and was the second lowest in the last seven years. A number of factors contributing to the decrease of homeownership, including student debt, affordability, lack of interest, and convenience of living with parents.

The low level of first-time homebuyers and high housing prices are concerning because it signals a constrained flow of new households into the housing market. Fewer first-time homebuyers also slow down the housing recovery process. This means that more potential homeowners are continuing to rent, which creates greater competition for a limited number of rental units. Without a steady stream of new households into homeownership, the trade-up market cannot be replenished in the long run.

Housing Funding

Economic and social policies continue to contribute to the lack of housing in California and are particularly relevant as Congress contemplates this year's federal budget. The federal Budget Control Act of 2011 initiated automatic federal spending cuts of \$85 billion (also referred to as "sequestration"). These cuts, which went into effect in March 2013, severely impacted homeless services and affordable housing programs. For example, the Center on Budget and Policy Priorities estimated that between 125,000 and 185,000 low-income families lost housing assistance nationally by the end of 2014 as a result. Additionally, as of July 2014, sequestration had cost California's low-income families nearly 15,000 housing vouchers.

California has also seen a significant reduction of funding at the state level in recent years. Proposition 46 of 2002 provided \$2.1 billion for a variety of affordable housing programs, and Proposition 1C of 2006 provided an additional \$2.85 billion. As important as housing bonds are, they are a short-term strategy. Both Prop 46 and Prop 1C provided roughly 4-5 years of funding, and the state's Department of Housing and Community Development has awarded just about all of these funds. California also recently lost tax increment as a funding stream for affordable housing with the dissolution of redevelopment agencies.

With the loss of redevelopment and expenditure of the last voter-approved housing bonds, \$1.5 billion of annual state investment dedicated to housing has been eliminated. Reductions in federal and state funds and elimination of redevelopment have reduced Santa Clara County's affordable housing funding by more than \$130 million since 2008, an 83% reduction.

Due to the loss of redevelopment funds, the legislature approved and the governor signed two bills to permit local jurisdictions to fund affordable housing through tax increment financing. The first bill, SB 628 (Beall, Chapter 785, Statutes of 2014), allows a city or county to create an Enhanced Infrastructure Financing District (EIFD) to finance specified facilities and infrastructure projects, including housing for low- and moderate-income households using tax increment revenue. The second bill, AB 2 (Alejo, Chapter 319, Statutes of 2015) authorizes local governments to create Community Revitalization and Investment Authorities (Authority) to use tax increment revenue to improve the infrastructure, assist businesses, and support affordable housing in disadvantaged communities. AB 2 also requires Authorities to deposit not less than 25% of all taxes allocated to it into a separate Housing Fund to be used for the purposes of increasing, improving, and preserving the community's supply of low- and moderate-income housing available at an affordable cost.

Conclusion

High housing costs and shortage of housing stock in California directly affect the future health of California's economy. As the economy continues to rebound, however, both the federal and state governments must give serious consideration to funding programs that encourage the construction of and access to housing that is affordable to all income levels. Additionally, as home values continue to rise, this is an opportune time to identify the economic realities facing potential homeowners and evaluate existing programs that assist first-time homebuyers. Policy makers must also consider what barriers local governments face in keeping up with housing demands.

Questions to Consider

- 1) What is the outlook for federal funding for housing in the new budget?
- 2) What is and should be the state's role in increasing access to housing for all income levels?
- 3) Which programs should be funded to increase construction of housing for all income levels?

- 4) What programs have been the most successful at providing housing financing for first-time homebuyers?
- 5) What tools do locals need to encourage the construction of more housing? Additionally, what barriers can the state eliminate to encourage the construction of more housing?

Biographies

Anna Eshoo – House Committee on Energy and Commerce. Like the Silicon Valley region she represents, Congresswoman Anna G. Eshoo exemplifies innovation. She's creative, boundary breaking, and productive. She is a problem solver and a consensus builder. In Congresswoman Eshoo's two decades in Congress, she has defended consumers, promoted American competitiveness and innovation, fought for access to health care for families and children, protected the environment, and encouraged development of clean energy technology. As a champion of affordable housing, Congresswoman Eshoo is committed to helping hardworking, responsible families keep their homes. She has worked to secure greater relief for borrowers and accountability from banks, and she believes that broader economic recovery will not be a reality without equality in the housing market. In the wake of the mortgage market collapse of 2008, Congresswoman Eshoo sought relief for the millions of Americans impacted. She fought for legislation to ensure mortgage servicers were held accountable and to prevent unfair, unsafe, and unsound home foreclosures. She is a longtime proponent of funding for Community Development Block Grants and architect of the Homeowner's Bill of Rights included in the \$25 billion 50-state settlement in 2012 for mortgage servicing abuses perpetrated by the five largest services.

Glen Campora, Assistant Deputy Director – California Department of Housing and Community Development, Division of Housing Policy Development. Glen joined the Department and Division in 1998 and has been the Assistant Deputy since 2010. Glen's responsibilities primarily include administration and staffing of the Housing Policy Division and implementing housing element law by reviewing and approving local government housing element updates. Housing Policy Division develops and analyzes State housing policy and legislation and provides technical assistance to State and regional agencies and local governments regarding several planning functions and program. The Division updates the State's Housing Plan and Consolidated Plan, determines regional housing need allocations for local governments in planning for future housing units, and develops and administers State Income Limits and some local assistance and grant programs. Glen received his Master and Bachelor degrees in Business Administration from California State University, Sacramento. He holds two Teaching Credentials and has taught business, finance, and management classes at local community colleges and universities in the Sacramento area.

Brian Uhler, Senior Fiscal and Policy Analyst – Legislative Analyst's Office. Brian works primarily on housing, property tax, and local government issues. He recently coauthored a report titled *California's High Housing Costs: Causes and Consequences* which calls for state policy makers to facilitate more private housing development in response to worsening housing affordability throughout the state.

Leslye Corsiglia, Executive Director — SV@Home. SV@Home is a new start-up housing advocacy organization working to increase the supply of affordable housing in the high-cost Silicon Valley. Leslye began her professional career at the State Department of Housing and Community Development, where she held several positions before taking on the challenge of overseeing the day-to-day activities of the state's housing loan and grant programs. Leslye joined the City of San Jose as the Department of Housing's first Assistant Director in 1991, and then served for 14 years as the Director. While with the city, she oversaw a program that developed and improved 21,000 affordable housing units, leveraging the city's funds with more than \$2.7 billion from public and private sources. Leslye has served on a number of federal, state, and regional boards and currently serves on the Board of the Non-Profit Housing Association of Northern California. She is a dedicated housing wonk, loves policy and research, and is excited to take on the challenge of leading SV@Home.

Michael Rawson, Director — Public Interest Law Center. Michael is the director of the Public Interest Law Project in Oakland, a nonprofit state support center for California legal services and public interest law programs. He also directs PILP's California Affordable Housing Law Project. Michael focuses on affordable housing, land use, fair housing and anti-displacement. He advocates before local, state and federal bodies on housing law reform, and he has drafted local and state affordable housing legislation and authored many publications and training materials on affordable housing law and policy. Michael also has litigated many housing related cases with legal services programs, including suits addressing the adequacy of local housing elements, displacement of lower income households, community acceptance of affordable housing, the constitutionality of inclusionary zoning and discrimination against persons protected by the fair housing laws.

Michael Anderson, Director — Housing Trust Fund Project (Project), Center for Community Change (Center). For three decades, the Project has operated as a clearinghouse of information on housing trust funds throughout the country, providing technical and strategic assistance to organizations and agencies working to create or implement these funds. Based in Portland, Oregon, Michael provides technical assistance and support to state and local coalitions working to establish and strengthen housing trust funds that dedicate public revenue to creating and preserving affordable housing for people with the lowest incomes. Michael has particular expertise in effective communication strategies for advancing affordable housing public policy. Prior to coming to the Center, he was the Executive Director of the Oregon Opportunity Network. Michael worked extensively with Oregon's Housing Alliance, which secured dedicated funding for the state's housing trust fund in 2009, and Affordable Housing NOW!, which secured dedicated funding for affordable housing in Portland in 2007.

Oscar Wei, Senior Economist— California Association of Realtors (CAR). Oscar has been with the Research and Economics Department of CAR since 2003. As an economist at CAR, Oscar analyzes housing market conditions, consumer behaviors, and public policy issues through the use of survey research studies conducted by CAR. He is responsible for the compilation and analysis of housing market data released to the public on a regular basis. He also contributes frequently to CAR's market analysis articles, Housing Matters blog, and Market Snapshot, and has written on various topics including housing inventory, distressed sales, conforming loan limits, housing tax credits, housing affordability, and many other subjects relevant to the real

estate industry. Oscar has a bachelor's degree in economics from the University of California, Berkeley and a master's degree in economics from California State Polytechnic University, Pomona. Prior to joining CAR, Oscar worked for a toy company as an analyst, conducting research on identifying kids' trends and evaluating the global implication they may have on the toy industry.

Ray Panek, Senior Vice President, Forward Planning — KB Home. In his current position, Ray manages the design, entitlement, permitting, and development of all KB Home projects in the greater San Francisco Bay Area. During his 17 years with KB Home, he has been involved in the entitlement and development of over 7,000 residential units in this geographic area. He is past Chairman of the Building Industry Association of the Bay Area (BIA BA, formerly HBANC) and the California Building Industry Association (CBIA). He currently serves on the Executive Committee and Board of Directors for CBIA and Board of Directors for BIA BA. Prior to joining KB Home, Ray was the principal planner for the City of Concord, CA; manager for the Concord Redevelopment Agency; and a planner for the City of Elizabeth, New Jersey. Ray holds a BS degree in landscape architecture with honors from Rutgers University and an MBA from the University of San Francisco. He is happily married to his wife of 32 years, Monica.

References

California's High Housing Costs: Causes and Consequences. Legislative Analyst's Office, March 17, 2015. <http://www.lao.ca.gov/reports/2015/finance/housing-costs/housing-costs.aspx>

Special Report: Santa Clara County. California Housing Partnership Corporation, September 2015. <http://www.chpc.net/dnld/SantaClaraHousingNeed2015.pdf>

Wei, Oscar. *Housing Affordability Challenges for the Younger Generation and First-Time Buyers*. California Association of Realtors, November 2014. <http://www.car.org/marketdata/realestate411/reanov2014/>