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UC BERKELEY

MARCH 2016

CALIFORNIA'S HOUSING CRISIS: CAUSES AND SOLUTIONS

Coastal California: Highest Housing Costs in the Country

**SF
BT**

HIGHEST RENTS IN THE COUNTRY

Here are the highest priced median rents for a typical one-bedroom apartment across the United States. The San Francisco Bay Area has 15 cities on the list including the top three in the ranking: Palo Alto, San Francisco and Cupertino.



SOURCE: LOVELY

Of the 30 US cities with highest rents, 20 are in California.

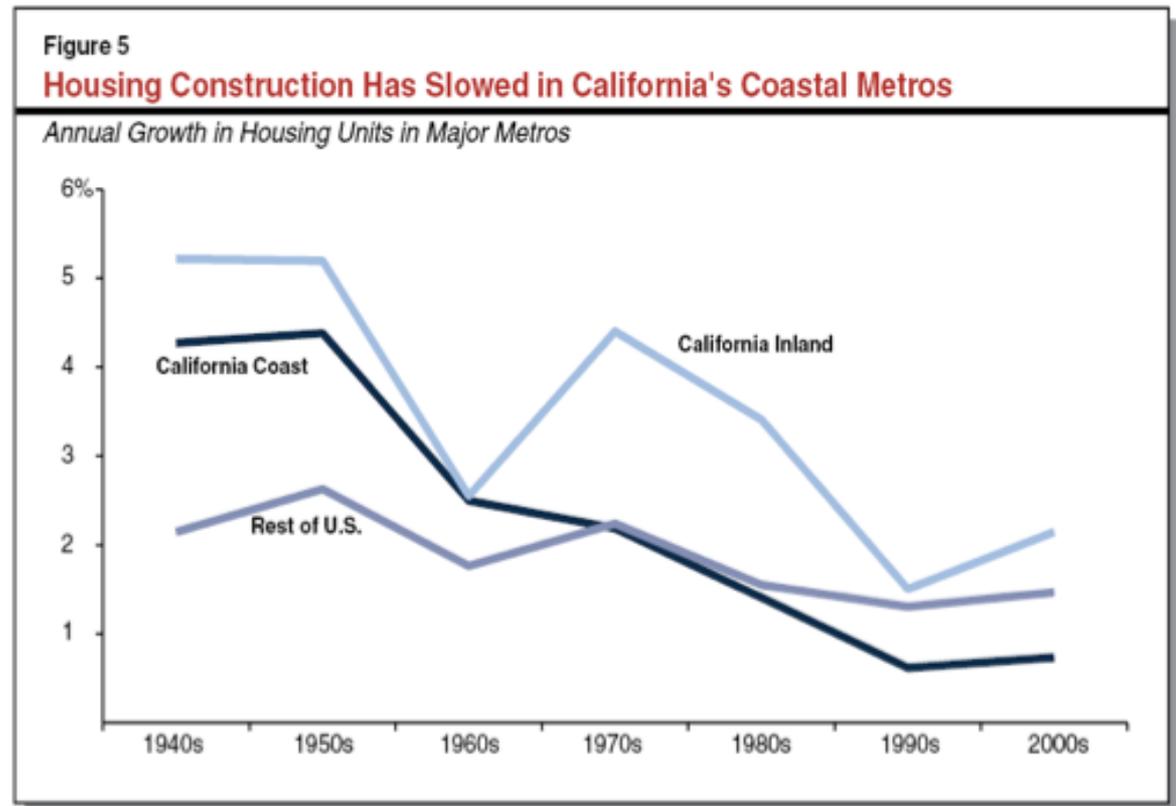
Why? The Perfect Storm.

- **Not Building Enough; Fast Enough**
 - Zoning Restrictions
 - Approvals Processes, CEQA etc.
- **Tax Policy/Fiscalization of Land Use**
 - Housing “doesn’t pay”
 - Compounded by loss of funding
- **It’s Costly**
 - Fees/exactions
 - Conditions, e.g. Parking, density
- **Surge in Demand; especially Rental**
- **Incomes Stagnant or Declining**

California Coast Has Produced Less Housing Than Anywhere in State or Nation for Decades

California Home Prices- Percent Above United States:

- 1940: 20%
- 1980: 80%
- 2015: 150%

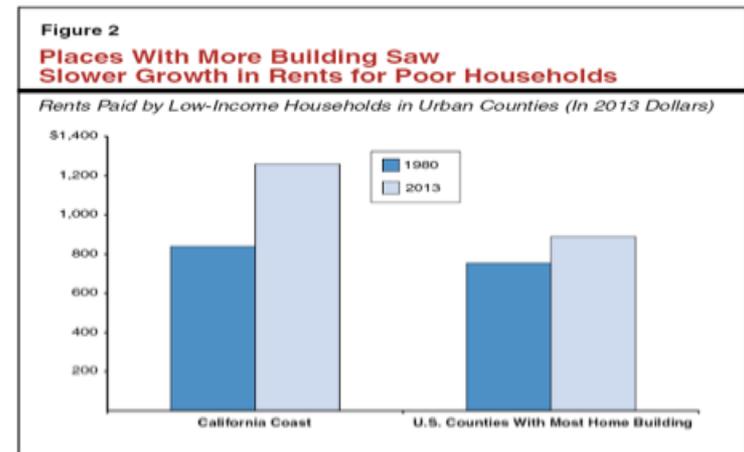


Source: LAO, 2015

Restrictive Zoning Reduces Housing Supply Near Good Jobs Harming Social Equity, Economy, and Environment

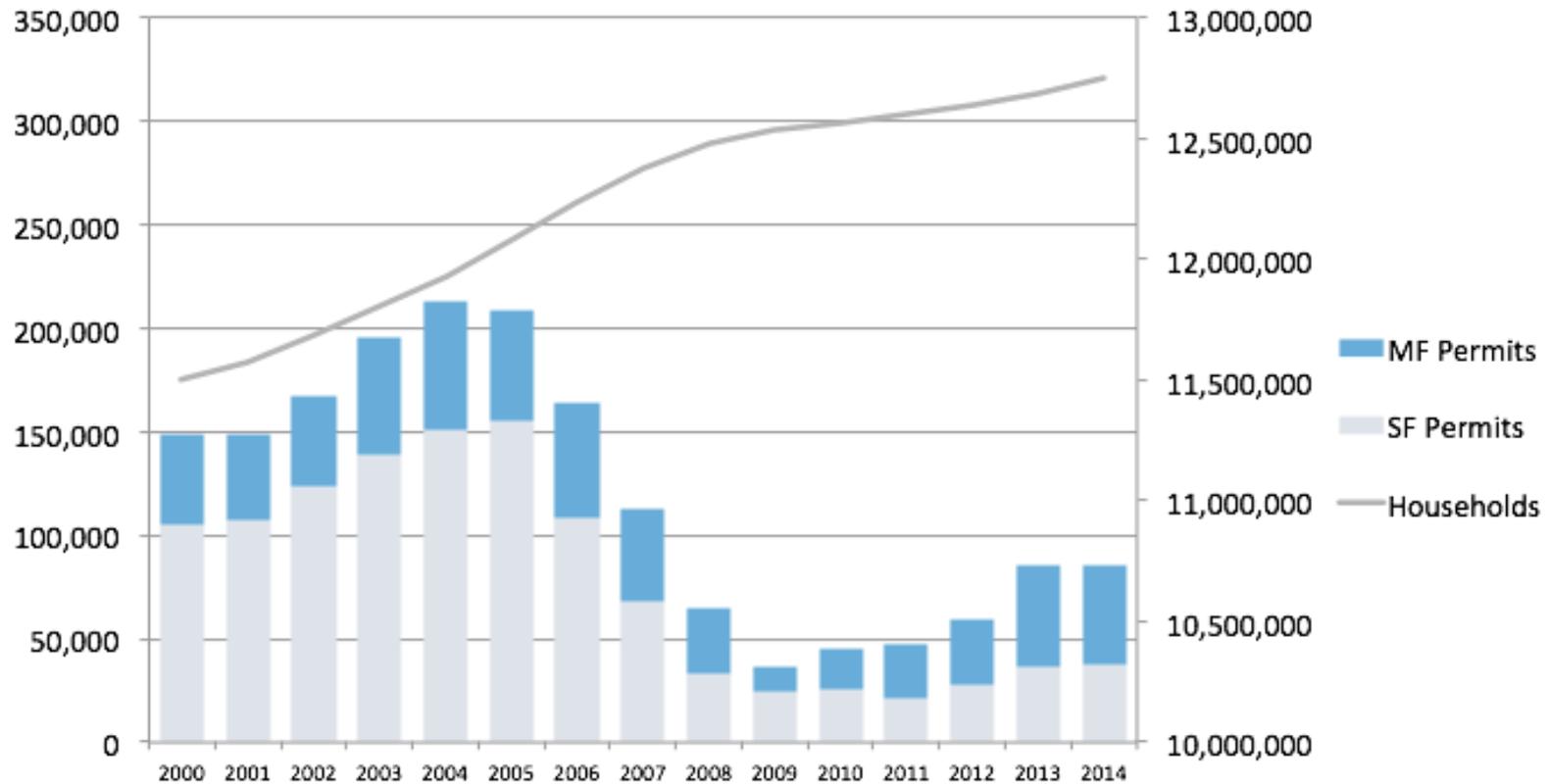
Restrictive zoning “impedes mobility and thus contributes to rising inequality and declining productivity growth...allow a small number of individuals to capture the economic benefits of living in a community, thus limiting diversity and mobility ...restricting the supply of housing...increase its cost ... make it difficult for individuals to move to areas with better-paying jobs and higher-quality schools. *Jason Furman, Chairman, Obama Council of Economic Advisors, 2015*

Zoning laws lead to racial and economic segregation: “A new study from UCLA provides confirmation...that government restrictions are causing income segregation in U.S. cities. In particular, the wealthy are being separated from the upper-middle class, who in turn are being isolated from the working class. **The more zoning a city has, the more segregated it is.**” *Bloomberg 2016*



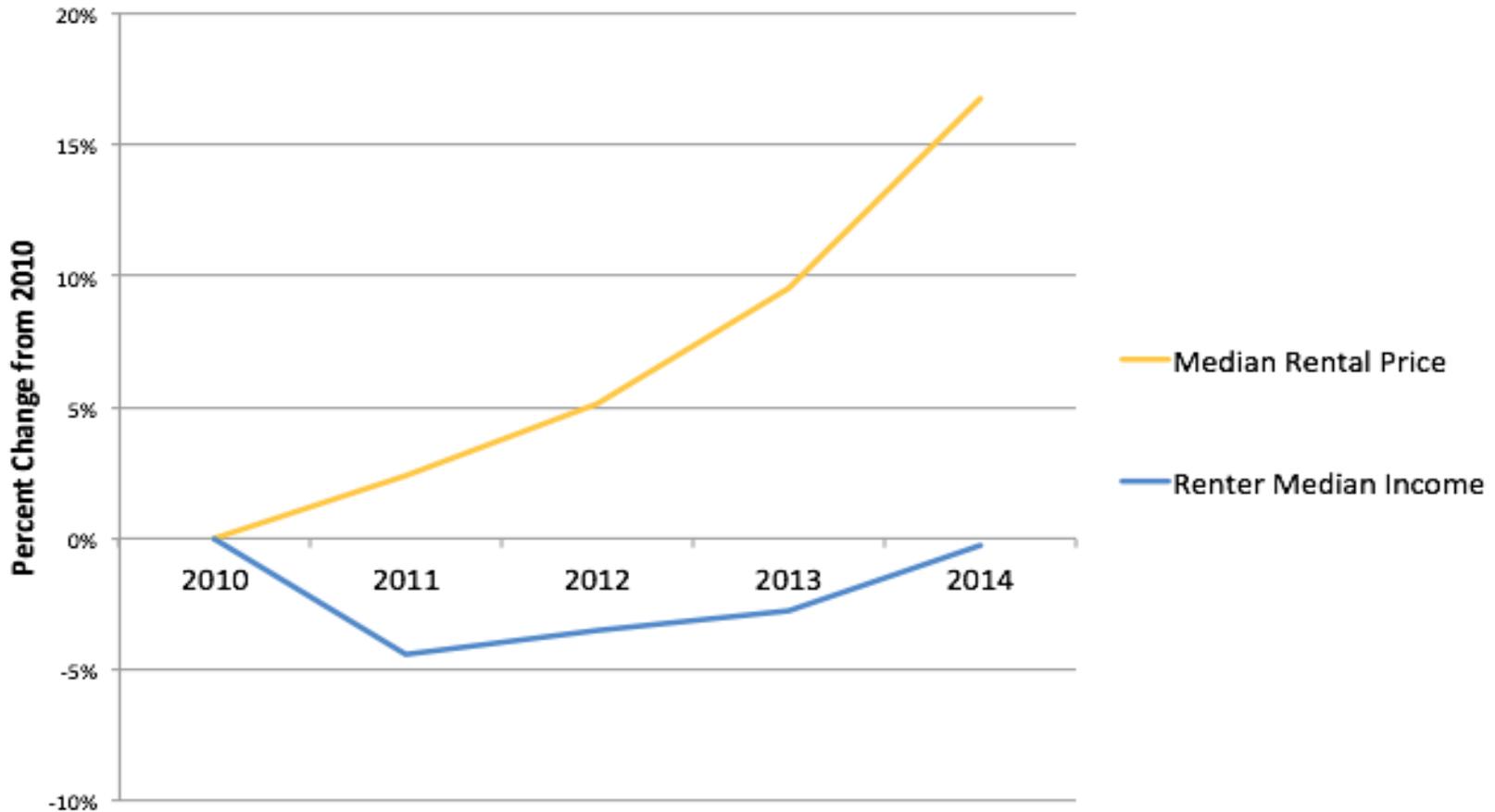
Source: LAO, 2016

Rate of Housing Growth Far Slower than Demand



Source: Construction Industry Research Board/California Homebuilding Foundation and DOF 2014.

California Rents Outpacing Incomes



Income Data Source: 2010, 2011, 2012, 2013 ACS 1-Year Estimates, Table B25119.
Rental Price Data Source: Zillow Rent Index, All Homes, 2010-2013.

We Must Change the Rules to Change the Outcomes: Land Use & Fiscal Barriers

Reform CEQA to avoid litigation abuse for non-environmental purposes

- Restrict CEQA remedies available in lawsuits to corrected environmental studies and more mitigation, no rescission of project approvals if consistent with SB375
- More ministerial approvals not subject to CEQA where State wants to encourage growth

Reward cities that build housing AND hold them accountable

- State/federal/road funds distributed upon delivery of units
- Consider new regional/state appeals board like Massachusetts, New Jersey Special Master

Eliminate fiscal barriers to more housing: level the tax playing field

- Make cities fiscally whole (pay for schools, public safety) if housing a losing proposition
- Distribute commercial activity taxes within regions to remove housing bias

Change zoning and process to allow cost-effective construction in more neighborhoods with no delay

- Encourage more lower cost construction types: manufactured, mid-rise, second units
- Reform process to reduce process, length of approval time, expand ministerial approvals for housing
- Allow more cost-effective housing types (second units, duplexes) in single family zones

We Must Change the Rules to Change the Outcomes: Government Subsidies

Government funding for affordable housing must be recalibrated in terms of who receives benefits; how it is targeted; and how cost effective it is.

Ideas to consider:

- Recalibrate/redirect Mortgage Interest Deduction and other regressive tax measures
- Reform Prop 13 or compensate with Tiered Transfer Fee based on Equity Gains

California Excludes 8 Billion in Revenue

Figure 5
The MID Is California's Largest TEP

(In Millions)

Top 12 TEP Programs	Type of Provision	2006-07 Revenue Reduction
Mortgage interest expenses	PIT deduction	\$4,885
Food products	SUT exemption	4,748
Employer contributions to pension plans	PIT exclusion	4,450
Employer contributions to accident and health plans	PIT exclusion	3,975
Basis step-up on inherited property	PIT exclusion	3,030
Gas, electricity, and water	SUT exemption	2,468
Prescription medicines	SUT exemption	1,926
Capital gains on sales of principal residences	PIT exclusion	1,770
Dependent exemption	PIT credit	1,650
Charitable contributions	PIT deduction	1,600
Subchapter S corporations	CT special filing status	1,500
Real property taxes	PIT deduction	1,315

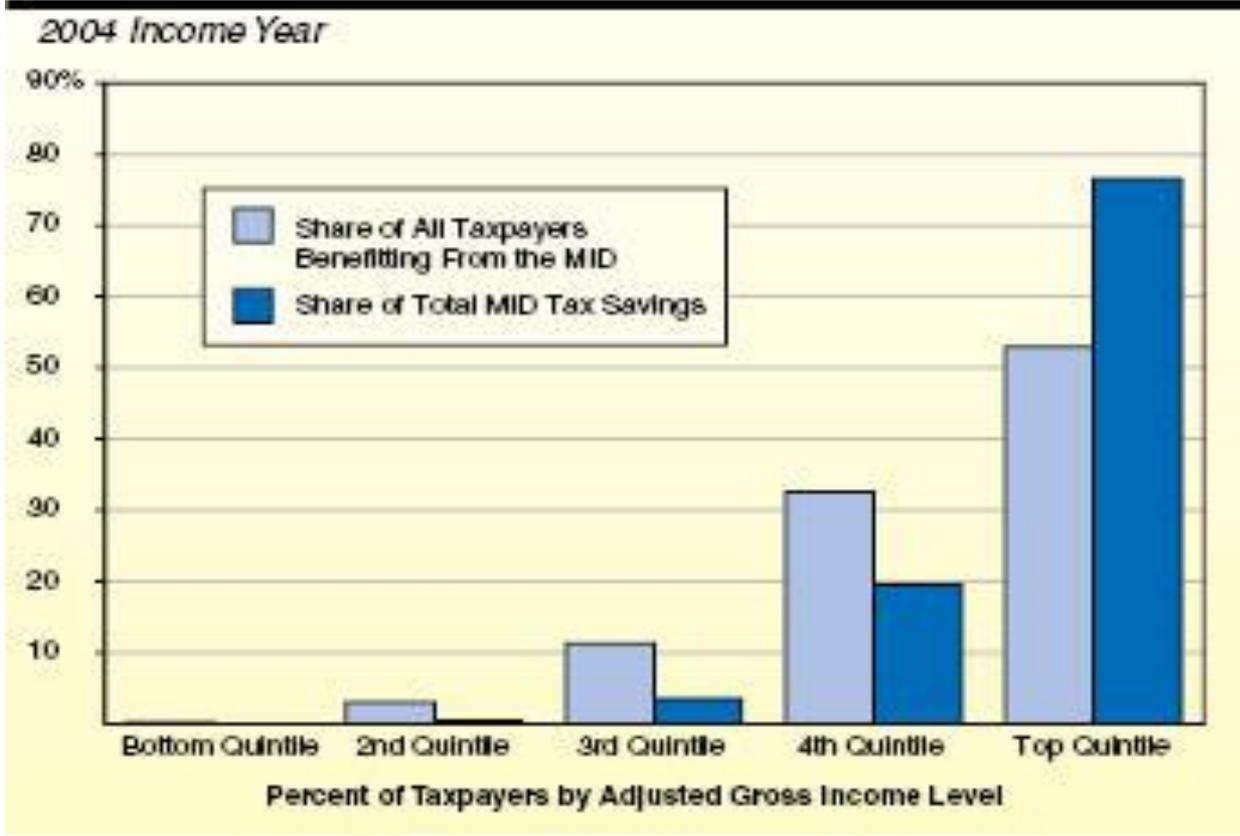
Note: Amounts shown for SUT exemptions include both state and local revenue reductions.
 MID=mortgage interest deduction; TEP=tax expenditure program; PIT=personal income tax; SUT=sales and use tax; and CT=corporation tax.

SOURCE: LAO, Tax Expenditures 2007

Benefit Not Equitable

Figure 7

The MID Disproportionately Benefits Higher Income Taxpayers



Source: LAO, Tax Expenditures, 2007