

California's Housing Future: Challenges and Opportunities

Final Statewide Housing Assessment 2025



February 2018

California Department of Housing and Community Development

California's Housing Future: Challenges and Opportunities

Final Statewide Housing Assessment 2025



State of California
Edmund G. Brown, Governor



Business, Consumer Services, and Housing Agency
Alexis Podesta, Secretary



Department of Housing and Community Development
Ben Metcalf, Director

Division of Housing Policy
Lisa Bates, Deputy Director
Jennifer Seeger, Assistant Deputy Director
Megan Kirkeby, Policy Research Specialist
Melinda Coy, Senior Housing Policy Specialist
Harrison Anixter, Housing Analyst

February 2018

Table of Contents

Table of Contents.....	i
Executive Summary	1
Introduction	3
Snapshot: The Current State of Housing Affordability in California.....	5
Projected Housing Needs Through 2025	5
1.8 Million New Homes Needed by 2025.....	5
Past Production	5
Demographic Trends Drive Housing Needs.....	6
Population.....	6
Household Growth.....	7
Race and Ethnicity Population Trends	8
Vulnerable Populations	9
Current Housing Characteristics	15
Housing Supply by Type and Tenure.....	15
Alternative Housing Models That Contribute to Meeting Housing Demand	15
Age of Existing Housing Stock	17
Overcrowding	17
Homeownership Rate Trends	18
Homeownership Rates by Race and Ethnicity	20
Costs and Affordability	21
Single-Family Home Sale Prices 1990-2017.....	21
Recent Home Sale Prices throughout California	23
Rental Housing Costs 1990-2015	23
Recent Rental Housing Costs throughout California.....	25
Primer on Housing Cost Affordability	26
Affordability and Income Categories.....	26
The Growing Impact on Moderate-Income Households.....	28
Income and Affordability.....	29
Affordable Housing Gap Analysis.....	29
Total Number of Regulated, Deed-Restricted, Affordable Units in California	31
Housing and Transportation Affordability.....	33

Table of Contents

Challenges	36
Challenge 1. Housing supply continues to not keep pace with demand.	36
Challenge 3. Unstable funding for affordable-home development is impeding our ability to meet California's housing needs, particularly for lower-income households.....	44
Challenge 4. People experiencing homelessness and other vulnerable populations face additional barriers to obtaining housing.....	46
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.	48
Recommendations to Address California's Housing Challenges.....	51
Housing Action Plan.....	51
Long-Term Recommendations to Address Housing Challenges	54
Statewide Housing Assessment Outreach and Acknowledgements	61
Endnotes.....	63

Appendices

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 – Designing Affordability: Innovative Strategies for Meeting the Affordability Gap between Low Income Subsidy and the Market in High Cost Areas

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)

Executive Summary

Home is the foundation for life. It is 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.
- Of California's almost 6 million renter households, more than 3 million households, pay more than 30 percent of their income toward rent, and nearly 30 percent — more than 1.7 million households — pay more than 50 percent 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.

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 final report incorporates feedback from significant public outreach subsequent to the release of the draft in January 2017, including a statewide webinar and six public workshops with over 400 participants, presentations at 20 additional events, and nearly 60 written comment letters from a wide variety of stakeholders. The final Statewide Housing Assessment describes California's housing challenges, provides a Housing Action Plan with a set of strategies that should be implemented immediately to address these challenges, and includes a set of long-term recommendations to continue progress into the future.

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 socioeconomic disparities.
3. Unstable funding for affordable home development is hindering California's ability to meet the state'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.

Housing Action Plan

1. **Streamline Housing Construction** — Reduce local barriers to limit delays and duplicative reviews, maximize the impact of all public investments, and temper rents through housing supply increases.
2. **Lower Per-Unit Costs** — Reduce permit and construction policies that drive up unit costs.
3. **Production Incentives** — Those jurisdictions that meet or exceed housing goals, including affordable housing goals, should be rewarded with funding and other benefits. Those jurisdictions that are not meeting housing goals should be encouraged to do so by tying housing planning and permitting to other infrastructure-related investments, such as parks or transportation funding.
4. **Accountability and Enforcement** — Strengthen compliance with existing laws, such as state housing element law and Housing Accountability Act.
5. **Dedicated Housing Funding** — Establish sources of funding for affordable housing and related investments. Any source of funding should be connected to these other reforms.

Long-Term Recommendations for Addressing Housing Challenges

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

1. Reform land use policies to advance affordability, sustainability, and equity.
2. Address housing and access needs for vulnerable populations through greater inter-agency coordination, program design, and evaluation.
3. Invest in affordable home development and rehabilitation, rental and homeownership assistance, and community development.

Introduction

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 each year to keep up with housing growth from 2015-2025. This lack of supply greatly impacts housing affordability. Low production has not always been the case. From 1955-1990, more than 200,000 homes were built annually in California 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.

Moving Forward

Incorporating extensive public comment, the final Statewide Housing Assessment describes California's housing challenges, identifies a Housing Action Plan with a set of immediate strategies, and provides a set of recommendations to continue progress into the future.

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

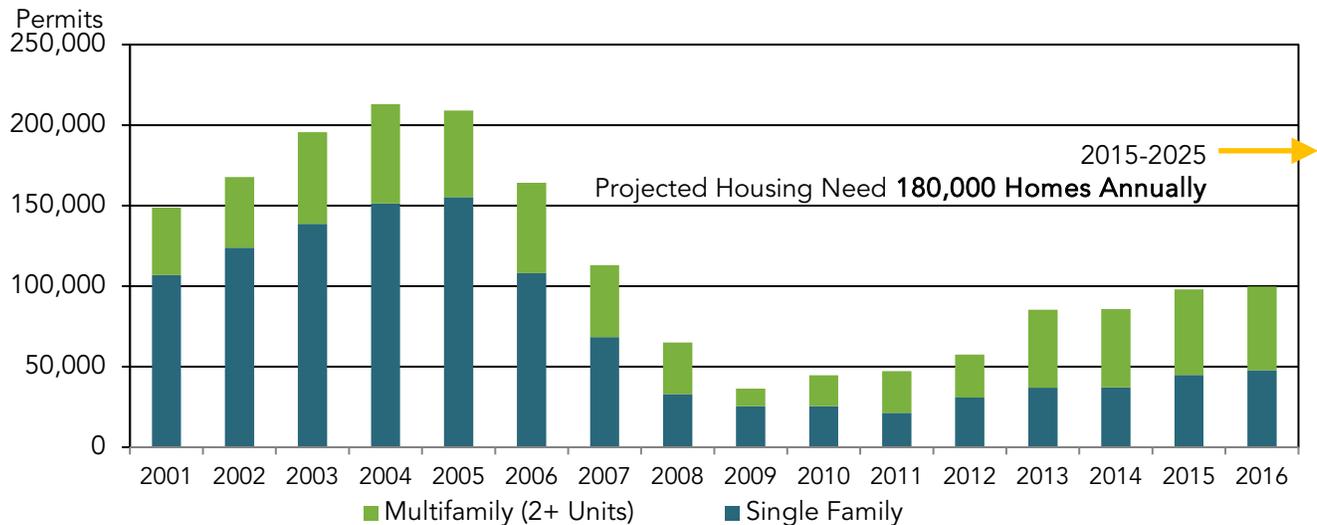
1.8 Million New Homes Needed by 2025

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.¹ 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.

Figure 1.1
Annual Permitting of Housing Units 2001-2016
 Compared to Projected Statewide Need for Additional Homes



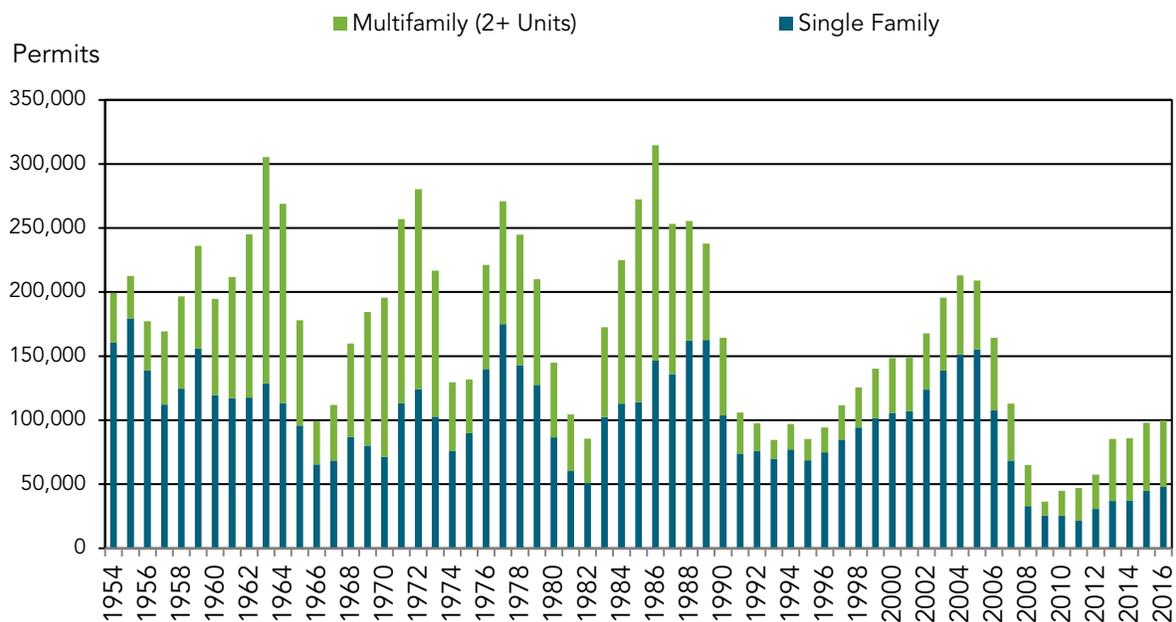
Sources: 2001-2016 New construction housing permit data from Construction Industry Research Board. 2015-2025 Projected Annual Need from HCD Analysis of State of California, Department of Finance P-4: State and County Projected Households, Household Population, Group Quarters, and Persons per Household 2010-2030— Based on Baseline 2013 Population Projection Series. Graphic by HCD. Note: "Raising the Roof" (1997-2020), projected California needed to add an average of 220,000 new homes per year to keep up with projected population increases; updated projected need is less due to lower population increase projections and higher household formation rates.

Snapshot: The Current State of Housing Affordability in California

For the past 10 years, California has averaged less than 80,000 new homes annually. However, this has not always been the case. Figure 1.2 shows from 1954-1989, California averaged more than 200,000 new homes annually, with multifamily housing accounting for more of the housing production. The production of homes increased somewhat during the housing boom of the mid 2000s, and then dropped, coinciding with the economic downturn sometimes referred to as the “Great Recession.”

The production of housing has not returned to the level required to meet the projected housing need. The Administration identified housing supply as a significant issue and worked with the legislature to find solutions. This work resulted in the 2017 Housing Package, a collection of bills that will streamline development, increase accountability for complying with housing laws, and provide ongoing funding to create and preserve affordable homes.

Figure 1.2
Annual Permitting of Housing Units 1954-2016



Source: Construction Industry Research Board/ California Homebuilding Research Reports 1954-2016; Graphic by HCD

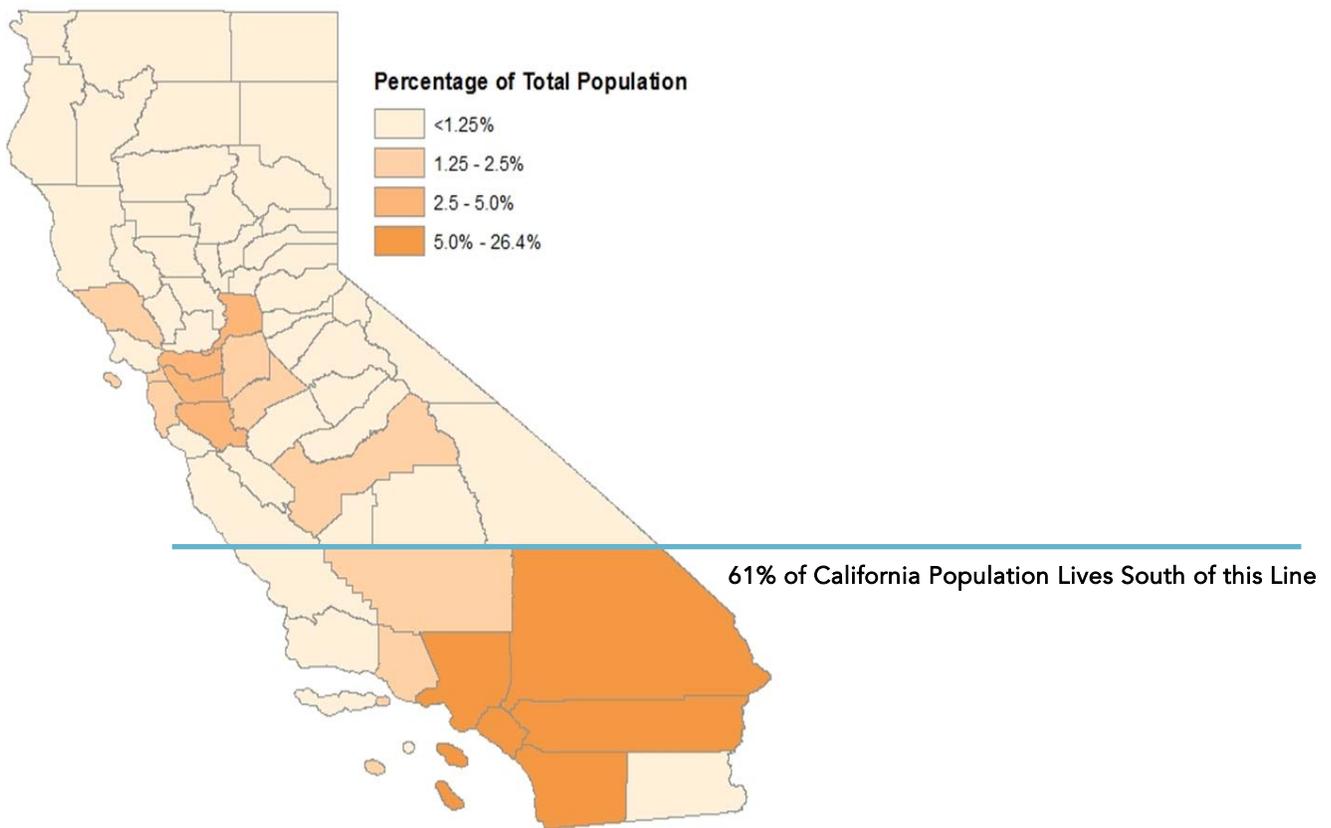
Demographic Trends Drive Housing Needs

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. Figure 1.3 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.

Figure 1.3
Largest Population Concentration in Southern California
Current Population by County



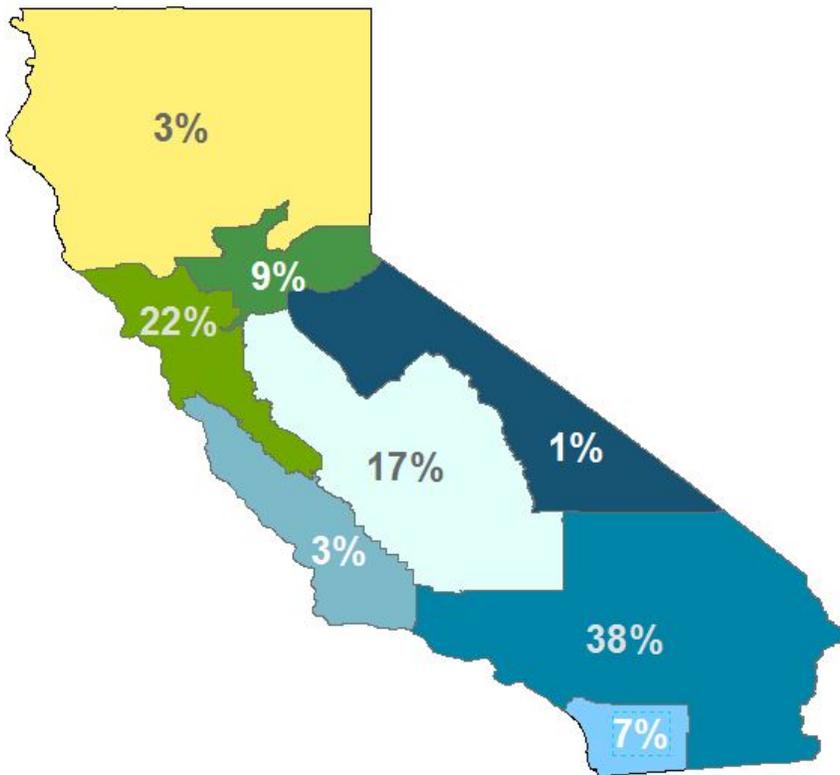
Source: U.S. Census Bureau, Census 2010 Summary File 1. Graphic by HCD.

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.ⁱⁱ

Future 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.

Figure 1.4
Where Growth Is Expected Through 2025 by Region

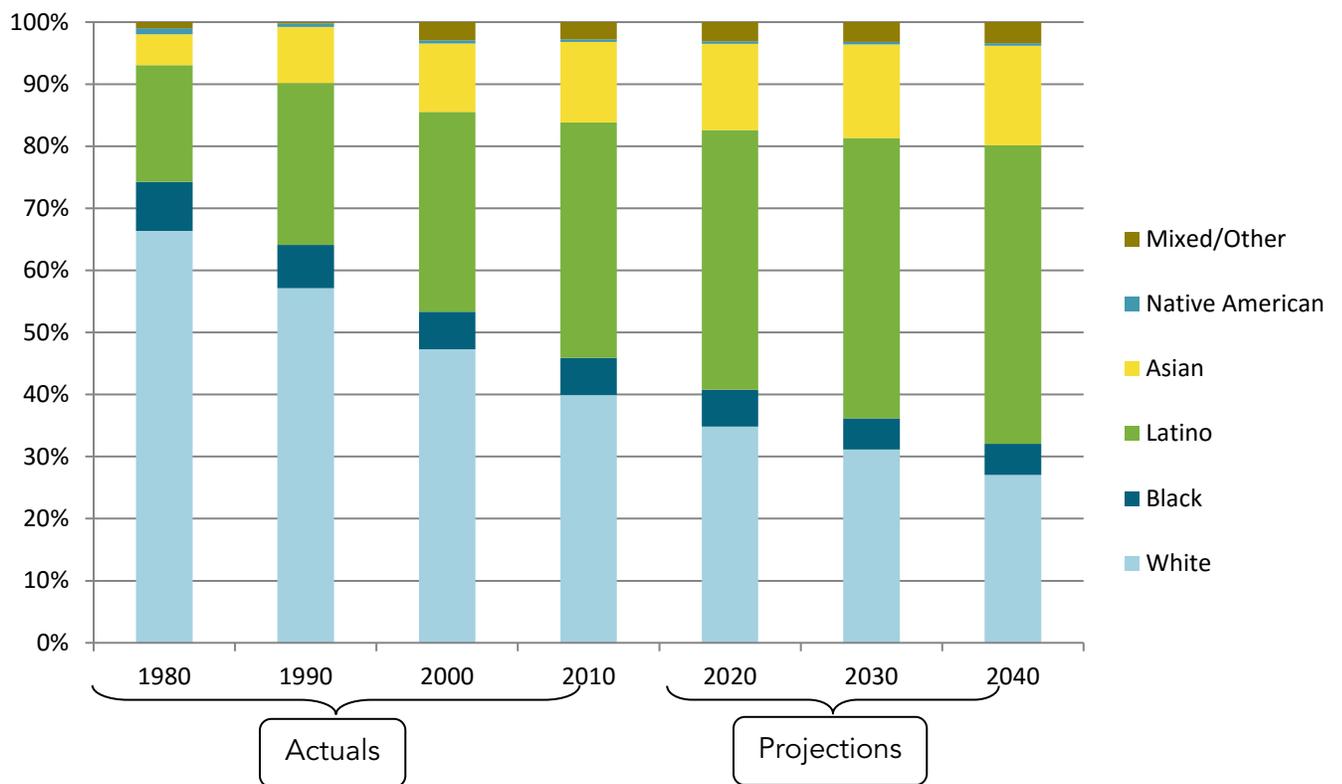


Source: 2015-2025 Projected New Households from HCD Analysis of State of California, Department of Finance State and County Projections of Households, Household Population, Group Quarters, and Persons per Household 2010-2030— Based on Baseline 2013 Population Projection Series. This estimate is subject to change until the final release of the 2025 California Statewide Housing Assessment. Graphic by HCD.

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.ⁱⁱⁱ 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.^{iv}

Figure 1.5
California Is Becoming Increasingly Diverse
 Racial/Ethnic Composition: California, 1980-2040



Source: PolicyLink and the USC Program for Environmental and Regional Equity; National Equity Atlas, www.nationalequityatlas.org, 2014. These projections are based on county-level projections from Woods & Poole Economics, Inc.'s 2014 Complete Economic and Demographic Data Source, and 2014 national projections from the U.S. Census Bureau adjusted to account for different race/ethnicity categorization over time. Graphic recreated by HCD.

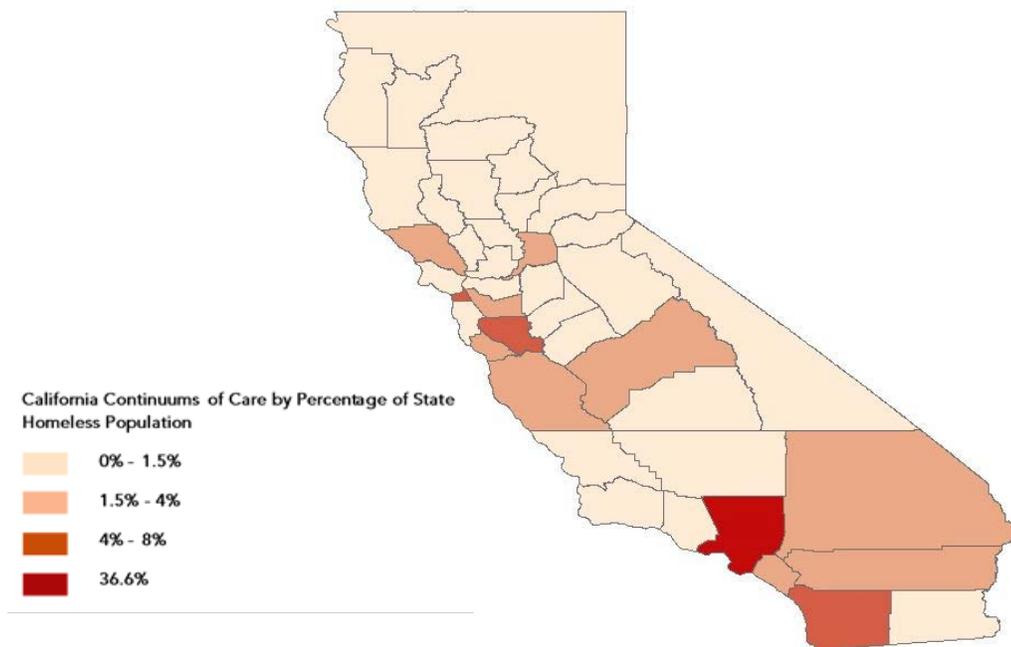
Vulnerable Populations

Housing costs and supply issues particularly affect certain vulnerable populations that tend to have the lowest incomes and experience additional barriers to housing access. For vulnerable populations facing health care costs, there is even less household income available to cover housing costs. 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 populations 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.^v By comparison, California has 12 percent of the total population in the United States. California also had the highest number of unaccompanied homeless youth, homeless veterans, and people experiencing chronic homelessness in the United States, with nearly one-third of the nation’s homeless youth, nearly one-fourth of the nation’s homeless veterans, and more than one-third of the nation’s chronically homeless residents.^{vi} 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 as shown in Figure 1.6.

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

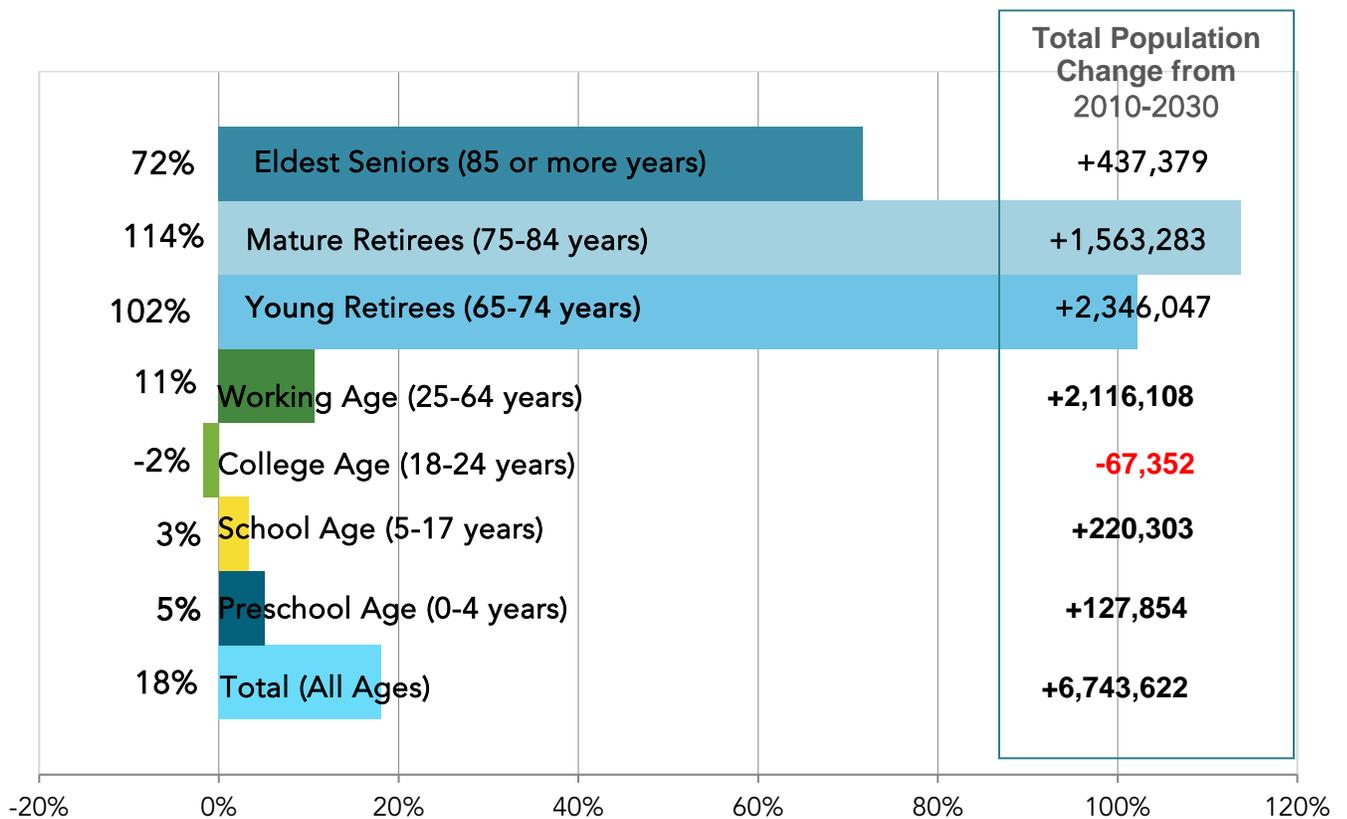


Source: 2016 Point-In-Time (PIT) Estimates of Homeless People by Continuum of Care
<https://www.hudexchange.info/resources/documents/2007-2016-PIT-Counts-by-CoC.xlsx>. Graphic by HCD.

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
California's Population Is Aging
 Percentage and Total Population Change Projections by Age Group
 from 2010-2030 in California



Source: State of California, Department of Finance, Report P-1 (Age): State and County Population Projections by Major Age Groups, 2010-2030. December 2014. Graphic by HCD.

Many senior households live in homes that are larger than their current needs require, and the large homes can be difficult to maintain. Expanding the production of senior housing with age-specific design (smaller homes with accessible features) can help accommodate the growth of senior households, while also freeing up larger homes for larger households. Thereby, senior housing expands the housing stock at less cost in subsidies due to smaller unit size, while opening up more housing for others.

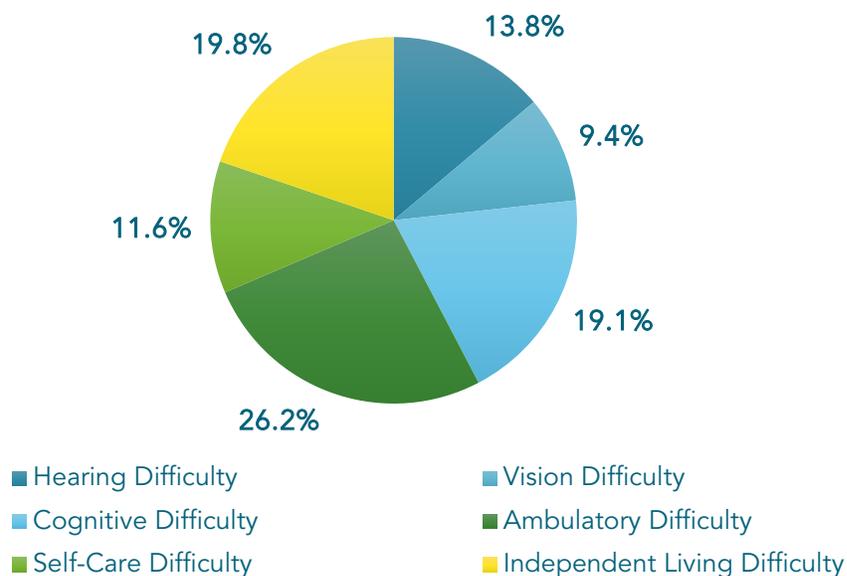
Persons with Disabilities, Including Persons with Developmental Disabilities

The State of California defines "disability" as a physical or mental impairment that "limits a major life activity."¹ This segment of the population needs affordable, conveniently located, and accessible housing, that can be adapted to accommodate the limitations of a specific disability.

According to the U.S. Census, California has 3.9 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 disabilities² or homes built with universal design standards,³ and could greatly benefit from access to transit options. 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.

Figure 1.8
One-Third of Reported Disabilities Are Self-Care or Independent-Living Difficulties



Source: Disability Characteristics 2011-2015 American Community Survey 5-year estimates Table S1810. Graphic by HCD.

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.^{ix} 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 1.1
Farmworker Numbers Are Difficult to Calculate**

Agency	Who Is Counted	Count
2011-2015 American Community Survey 5-Year Estimates	Agriculture, forestry, fishing and hunting, and mining	412,950
Employment Development Department (EDD) 2015	Agriculture, forestry, fishing and hunting	391,700
USDA Census of Agriculture (2012)	Hired farm labor – workers and payroll	465,422
Giannini Foundation of Agriculture, University of California, 2012	Workers with one agricultural job	802,622

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, the number of farmworkers who work alongside or live with family members has increased from 59 percent in 1990 to 75 percent in 2012.^x

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 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.^{xi} 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 the rate for California, and one-third of tribal residents live below the federal poverty rate. The high incidence of poverty leaves tribal populations with fewer resources to pay for housing and other necessities.

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 Supply by Type and Tenure

Housing type describes the type of dwelling a person resides in (single family, multifamily or other), while tenure describes whether a unit is renter- or owner-occupied.

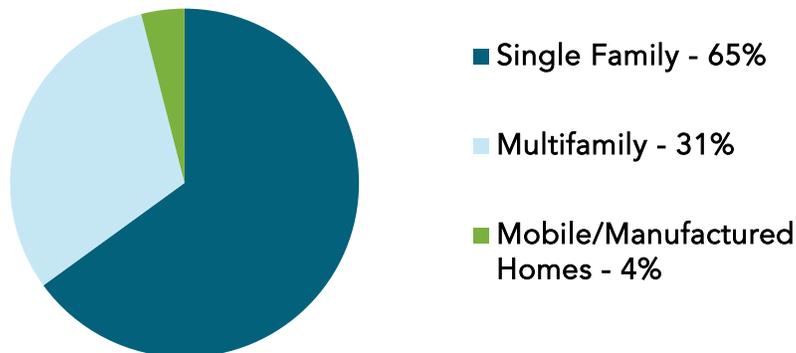
Of the 13.85 million homes in California, 12.72 million are occupied homes and the remainder are currently vacant.^{xii} A recent McKinsey Global Institute report found that California ranks 49th in the nation for housing units per capita with only 358 homes per 1,000 people.^{xiii}

Of the total occupied homes, 6.91 million (54 percent) are owner-occupied and 5.81 million (46 percent) are renter-occupied.^{xiv}

The majority of California households reside in single-family homes (65 percent), while 31 percent reside in multifamily homes. The remainder reside in other housing types, such as mobile or manufactured homes (see Figure 1.10).

Figure 1.10
California Housing Stock by Type
2011-2015 Average: Multifamily, Single-Family, and Mobile/Manufactured Homes/Other

Housing Type	Total Number of Homes (million)
Single-Family (1 unit detached or attached)	9.00
Multifamily (2 or more units)	4.32
Mobilehomes/Manufactured Homes/Other	0.53
Total	13.85



Source: U.S. Census Bureau, 2011-2015 American Community Survey 5-Year Estimates, DP04 Selected Housing Characteristics. Graphic by HCD.

Alternative Housing Models That Contribute to Meeting Housing Demand

Beyond traditional market-rate and deed-restricted homes, there are alternative housing models and emerging trends that can contribute to addressing home supply and affordability in California, including: manufactured housing, community land trusts, micro-units, tiny homes, single resident occupancy (SRO) dwellings, co-housing, multigenerational housing, and accessory dwelling units (also referred to as second units, in-law units, or granny flats).

Snapshot: The Current State of Housing Affordability in California

HCD commissioned California Polytechnic State University, San Luis Obispo, to evaluate several alternative forms of housing through a series of case studies.^{xv} The Executive Summary of this report is available in Exhibit B3 of this document. The entire report is available on HCD's website. The studies found that in these alternative housing types:

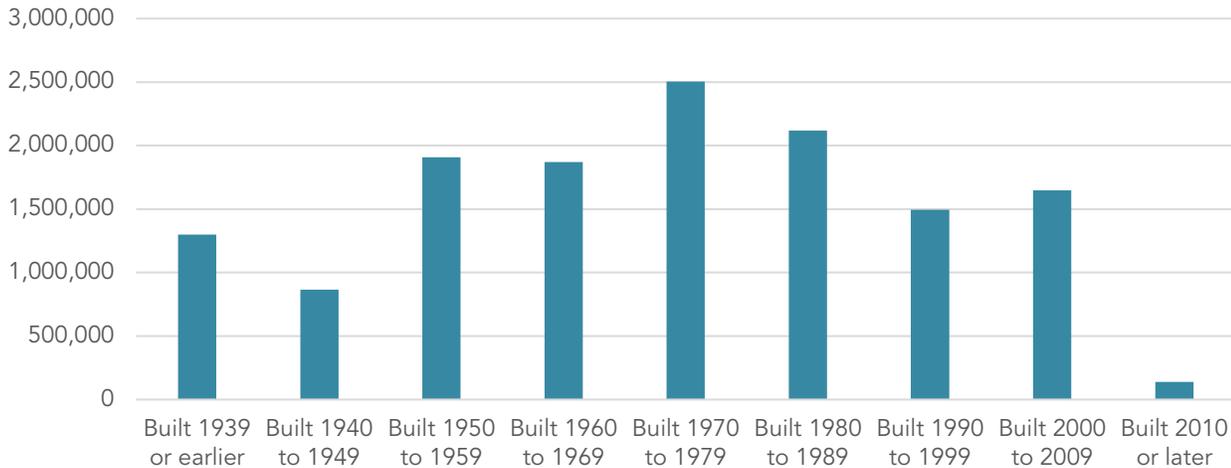
1. Smaller size units reduce the cost of entry to housing.
2. There are strategies to cross-subsidize the price of units for low- and moderate-income households by using proceeds from higher-income market-rate units within the same development.
3. Regulatory concessions were critical to meeting project goals.
4. A project could exceed California building standards (CALGreen) while allowing units to retain greater affordability.
5. Locating projects near sites of employment, education, recreation, and services encouraged residents to use alternative modes of travel.

In addition to the housing types described in the case studies, manufactured homes constitute a meaningful portion of the housing stock in California (about 500,000 housing units). Though not a new idea, the concepts of manufactured housing 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 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 that cost 10 to 20 percent less per square foot 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.

Figure 1.11
Majority of California Housing More Than 35 Years Old
 Age of Housing in California 2011-2015 Average

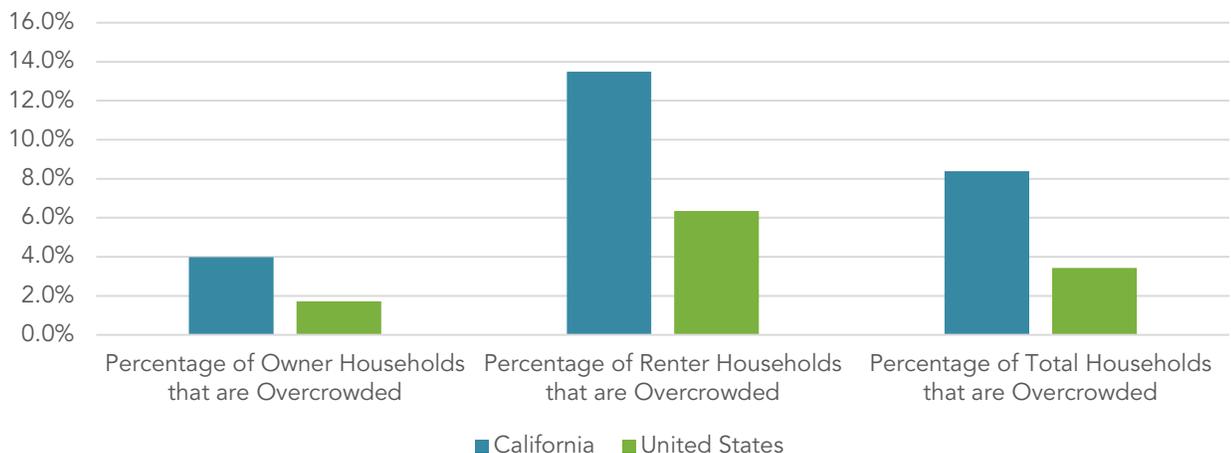


Source: U.S. Census Bureau, 2011-2015 American Community Survey 5-Year Estimates, DP04. Graphic by HCD.

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).^{xvi} California’s overcrowding rate is 8.4 percent, more than twice as high as the national average of 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.^{xvii}

Figure 1.12
California’s Overcrowding Rate More Than Double U.S. Average



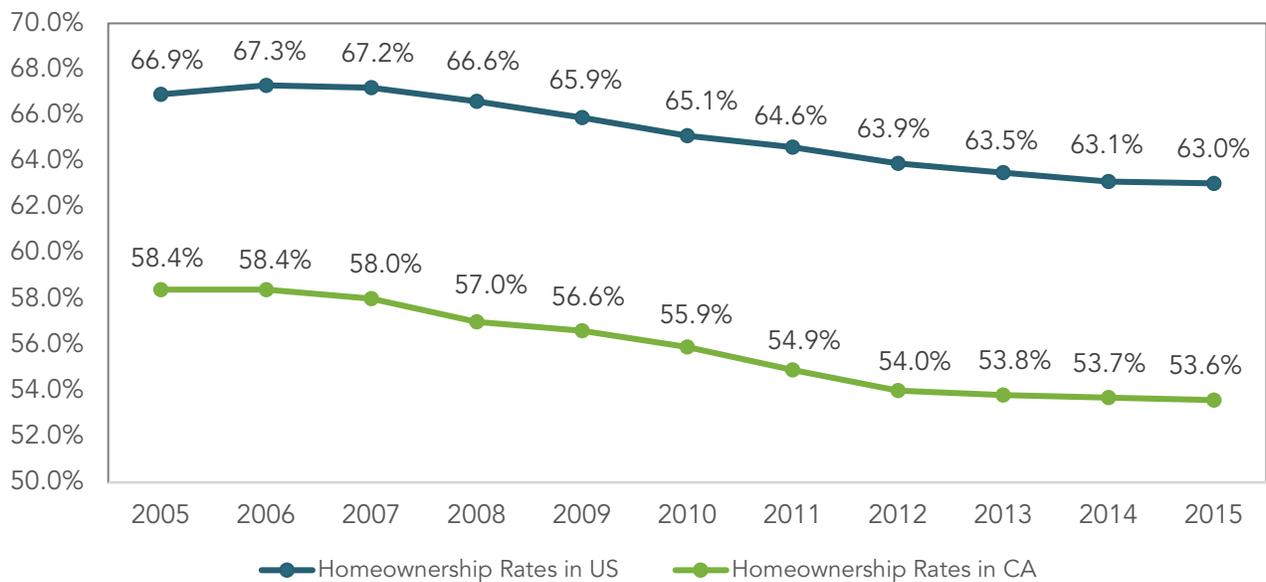
Source: U.S. Census Bureau, 2015 American Community Survey 1-Year Estimate, Tables B25014, Tenure by Occupants per Room. Graphic by HCD

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.^{xviii} According to the Public Policy Institute of California, “much of the increase in rental units occurred among formerly owned single family detached housing units.”^{xix}

Figure 1.13 shows that following the foreclosure crisis, homeownership rates in California have fallen to 53.6 percent, reaching the lowest rate since the 1940s, when the homeownership rate in California was 43.4 percent.^{xx}

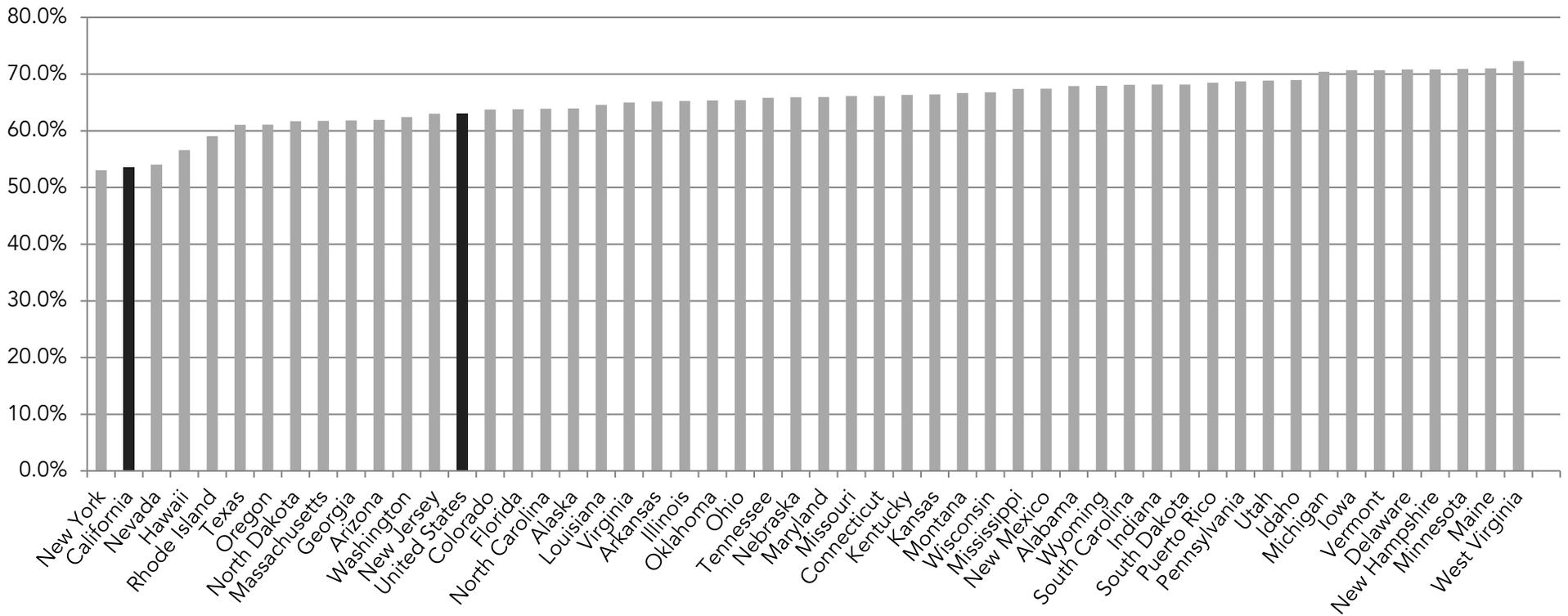
Figure 1.13
Recent Homeownership Rates Nationally and in CA 2005-2015



Source: U.S. Census Bureau, 2005-2009, 2011-2015 American Community Survey 1-Year Estimates, B25003, 2010 Decennial Census, General Housing Characteristics, QT-H1. Graphic by HCD.

California's homeownership rate is also lower than other large states. Only New York has a lower homeownership rate. See Figure 1.14.

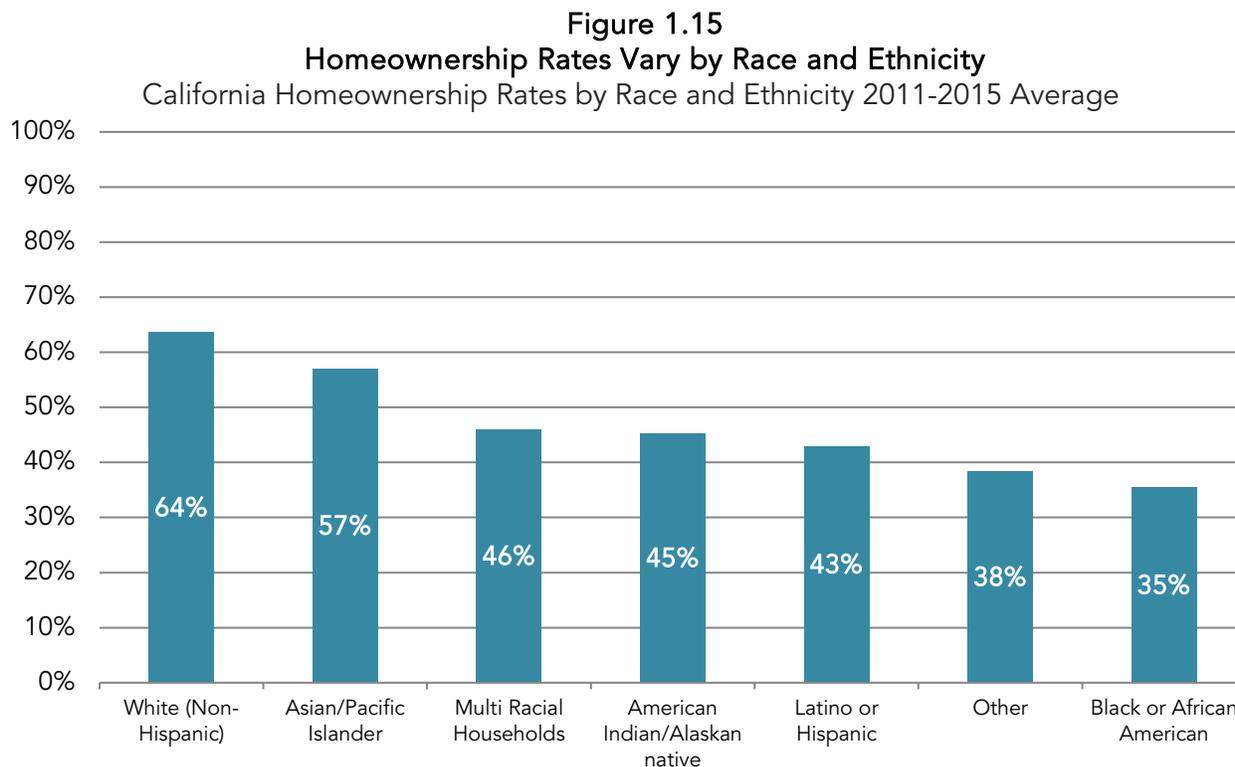
Figure 1.14
California Has the Second Lowest Homeownership Rate Among the 50 States



Source: 2015 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.



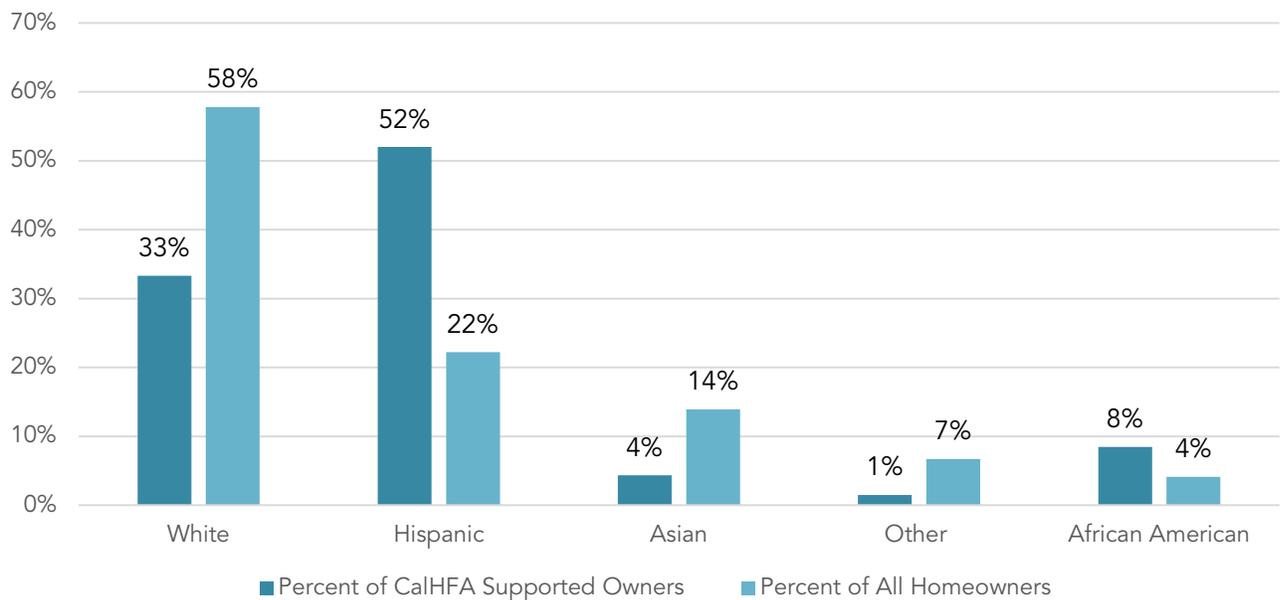
Source: U.S. Census Bureau, 2011-2015 American Community Survey 5-Year Estimates, Tables B25003A-I, Tenure by Race/Ethnicity California. Graphic by HCD.

The California Housing Finance Agency (CalHFA) administers a series of homeownership programs. Historically, homeownership programs, such as those administered by CalHFA, are one of the principal means of reaching moderate- and middle-income households — the “missing middle” — through housing assistance programs. Down payment assistance is a key tool for getting many first-time homebuyers into homeownership.

Figure 1.16 represents the racial distribution of homeowners participating in CalHFA's programs compared with the racial distribution of all the state's homeowners.

Expanding programs to promote homeownership can help alleviate the racial disparity gap in homeownership and ensure all of California's communities experience the benefits of homeownership.

Figure 1.16
Percent of CalHFA Supported Owners by Race/Ethnicity
Compared to Percent of All Homeowners by Race/Ethnicity



Source: Percent of homeowners by race/ethnicity: U.S. Census Bureau, 2015 American Community Survey 1-Year Estimates. CalHFA supported homeowners by race: CalHFA home ownership programs portfolio.

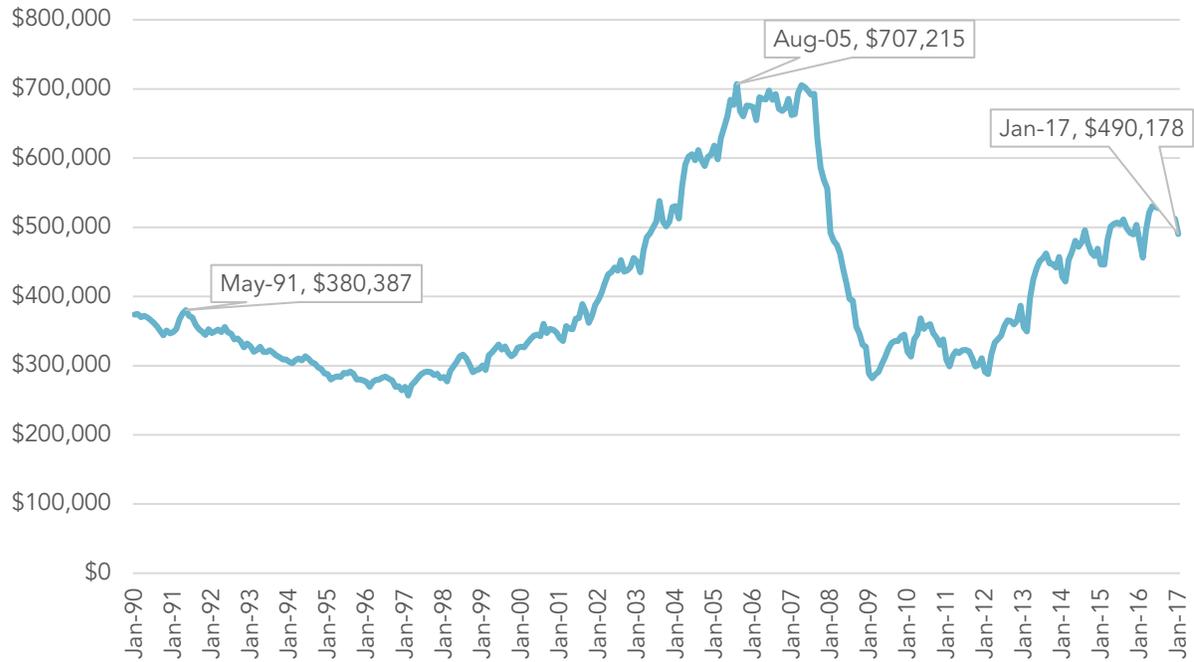
Costs and Affordability

Single-Family Home Sale Prices 1990-2017

Years of low housing production contributes 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 1.17.

Figure 1.17
Home Sales Price Trends in California 1990-2017
Median Sales Price in California Single-Family Homes
(adjusted for inflation in 2016 dollars)

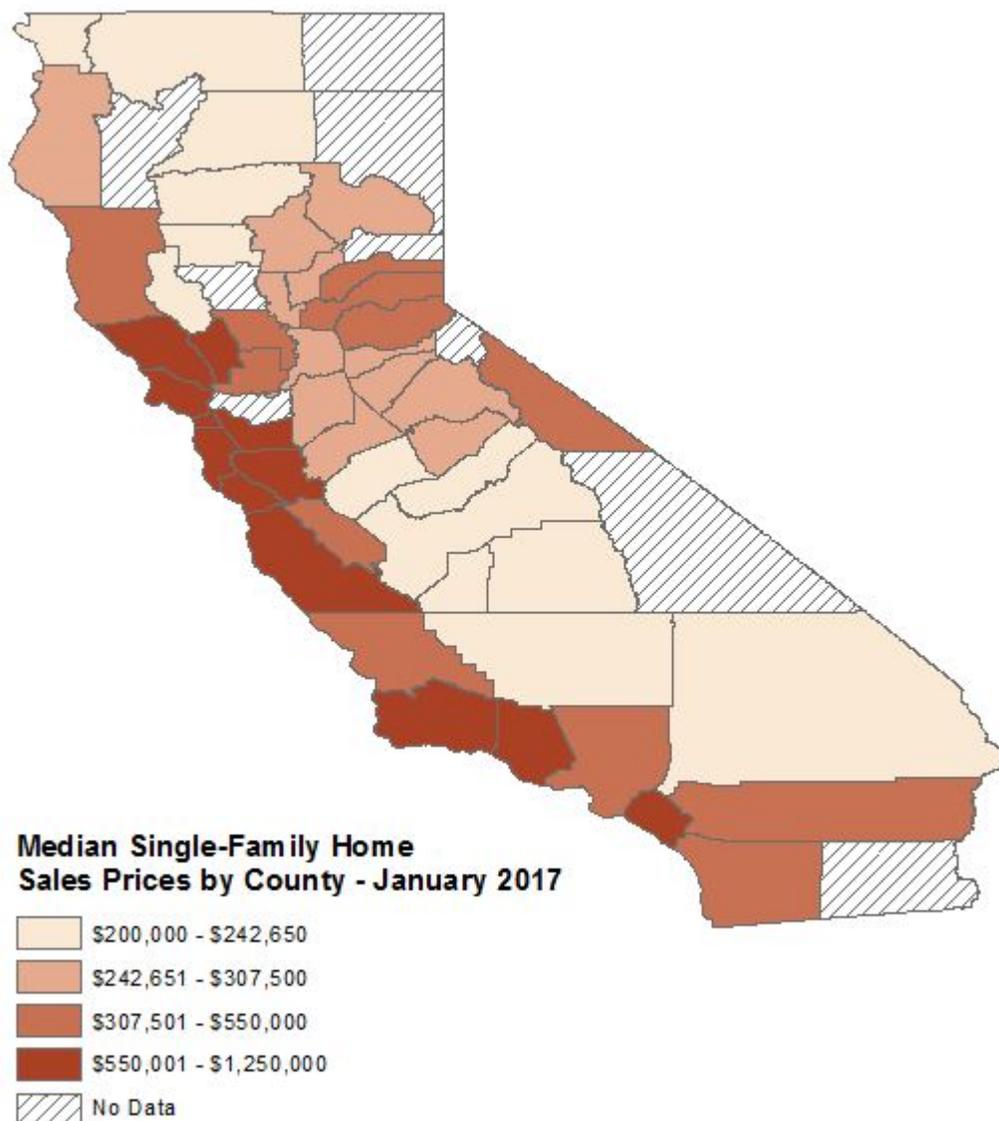


Source: California Association of Realtors – Historical Housing Data, Seasonally Adjusted Monthly Median Sales Price of Existing Detached Homes January 1990-January 2017. Inflation adjustment performed using Bureau of Labor Statistics Consumer Price Index 1990-2016. Graphic by HCD.

Recent Home Sale Prices throughout California

Figure 1.18 shows home prices in California by county in January 2017. 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 \$490,178.^{xxi} As of the fourth quarter of 2016, the California Association of Realtors estimates that only 31 percent of households in California can afford to purchase the median priced home in the state.^{xxii}

Figure 1.18
Median Home Sale Prices by County, January 2017



Source: California Association of Realtors, Historical Housing Data, Median Prices of Existing Detached Homes January 2017.

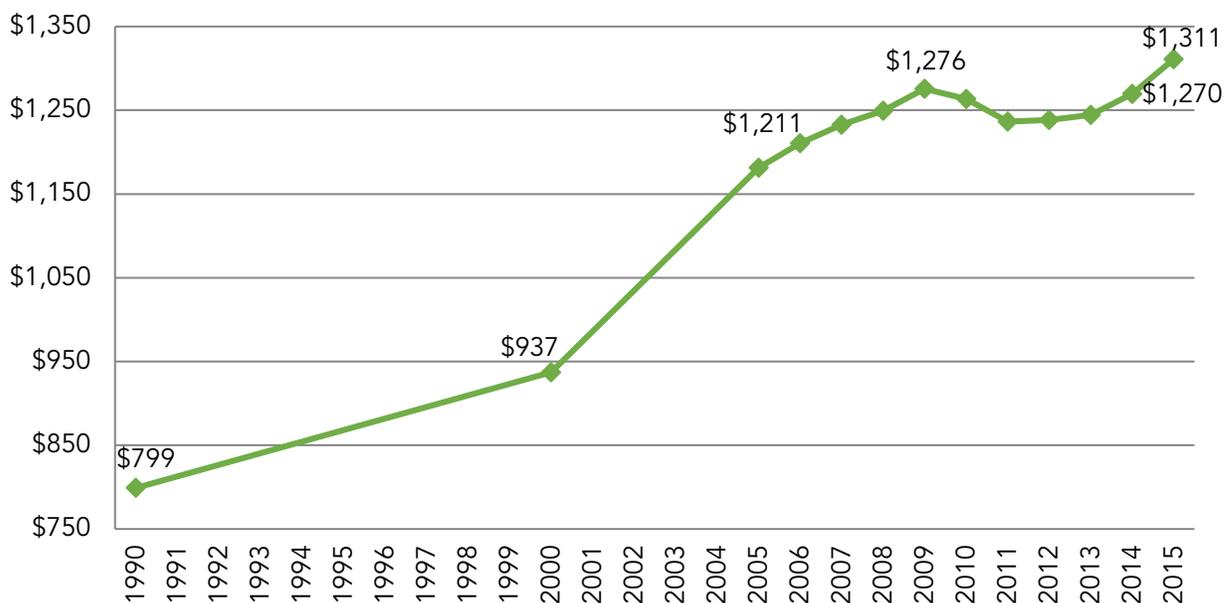
Rental Housing Costs 1990-2015

Unlike home sales prices shown in Figure 1.19, 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:^{xxiii}

- a. Foreclosures and former owners moving into the rental market.
- b. Demographic shifts, particularly the generational boom of millennials coming of age and entering the housing market with strong rental tendencies.
- c. Lack of supply of affordable home ownership and rental options.
- d. 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.

Figure 1.19
Rental Cost Trends in California
Median Gross Rent 1990 – 2015



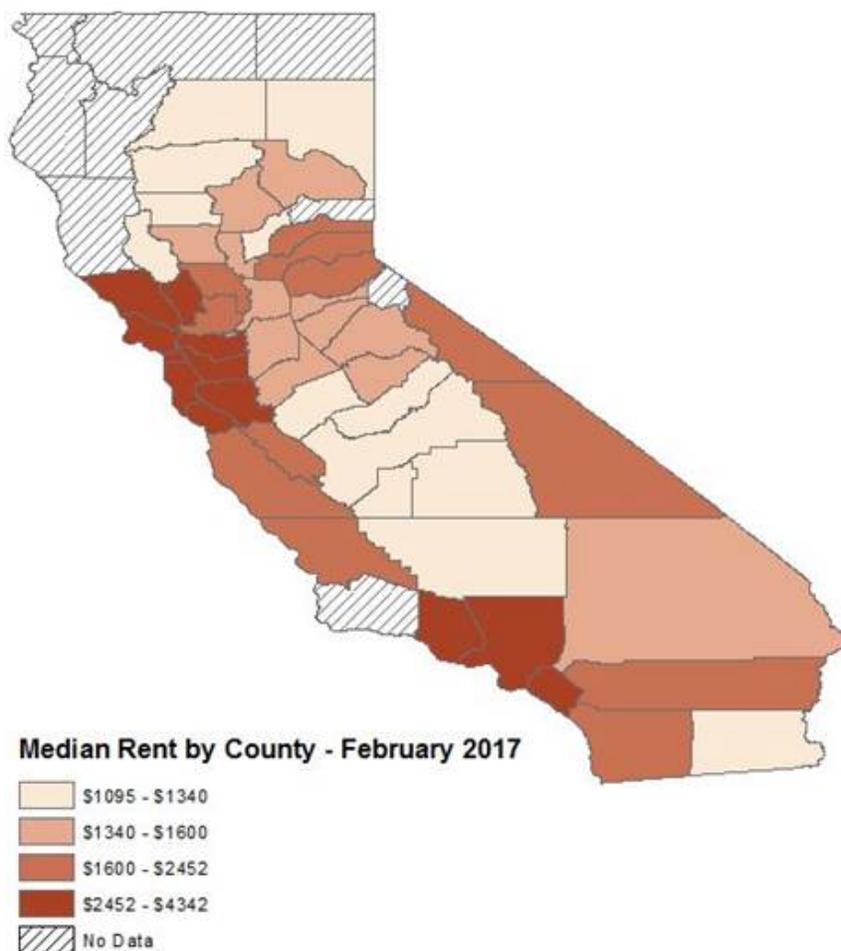
Source: Median Gross Rents, 1990-2010 Decennial Census, 2005-2015 American Community Survey 1 year data.⁴

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 1.20 shows the Zillow Median Rent Index data for February 2017,⁵ 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 \$4,300 a month. No county with available data in California recorded a median rent below \$1,095 per month.

Figure 1.20
Median Rent by County, February 2017



Source: Zillow Median Rent Index (All Homes; Multifamily, Single Family Rental, Condo) by County. February 2017. 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 pay for housing; it is 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. Housing costs for renters include rent plus utilities, and for homeowners, include mortgage payments, taxes, insurance, and utilities. When a person pays more than 30 percent of their income toward housing costs, they are considered housing cost burdened. When a person pays more than 50 percent of their income toward housing costs, they are considered severely housing cost burdened.

As an example, working full-time at a minimum wage of \$10 an hour (the current California statewide minimum wage), a renter or homeowner would be able to afford \$520 per month in housing costs, and if they were paying more, they would be considered housing cost burdened. 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 would be able to afford \$780 per month in housing costs, and if they were paying more, they would be considered housing cost burdened.^{xxiv}

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.^{xxv} Figure 1.21 below shows the total number of renter households by income category that are severely rent burdened, paying more than 50 percent of income toward rent. Table 1.2 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.

Income Category Definitions

Above-Moderate Income: 121% area median income (AMI) and above

Moderate-Income: 81-120% AMI

Low-Income: 51-80% AMI

Very Low-Income: 31-50% AMI

Extremely Low-Income: 0-30% AMI

Figure 1.21
California’s Renter Households Experiencing Severe Rent Burden
Total renter households paying more than 50% of income toward housing costs

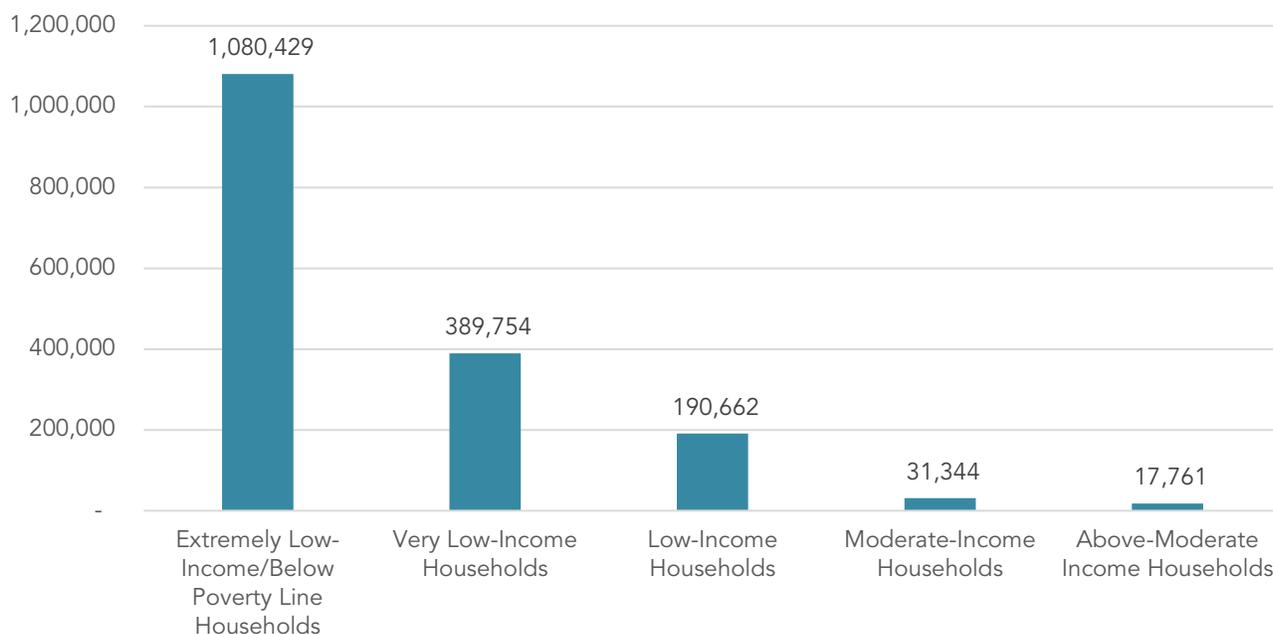


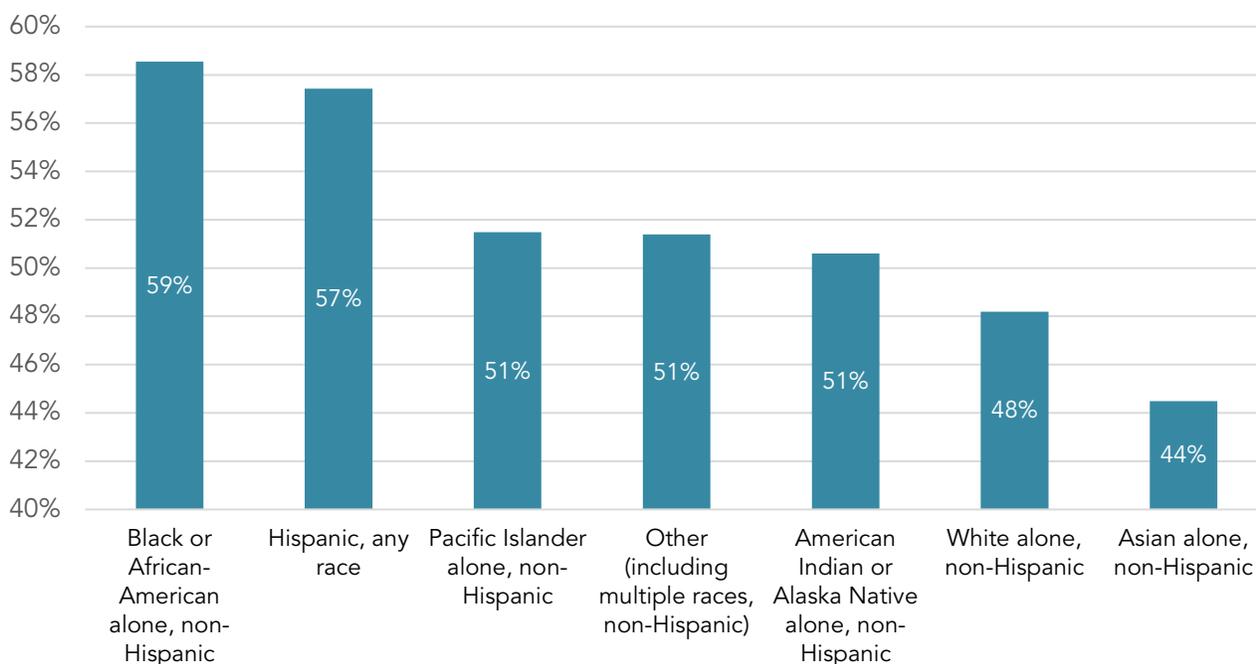
Table 1.2
Percentage of California’s Renter Households Experiencing Rent Burden by Income

Income	Total Renter Households (million)	% Rent Burdened	% Severely Rent Burdened
Extremely Low-Income or Below Poverty Line	1.41	90.2%	76.9%
Very Low-Income	.82	85.4%	47.4%
Low-Income	1.13	64.6%	16.9%
All Lower-Income Renter Households (80% AMI and below) Subtotal of above	3.36	80.4%	49.5%
Moderate-Income	.59	41.5%	5.3%
Above Moderate-Income	2.03	12%	0.9%
All Renter Households Total	5.97	53.4%	28.7%

Source: 2017 National Low-Income Housing Coalition tabulations of 2015 American Community Survey Public Use Microdata Sample (PUMS) housing file.

Housing cost burden is experienced disproportionately by people of color. Figure 1.22 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 even greater factor in the need for affordable housing as population trends suggest that California will become increasingly diverse in the coming decades.

Figure 1.22
Housing Cost Burden Is Distributed Unevenly Across Race and Ethnicity
Average Housing-Cost Burden by Race and Ethnicity 2009-2013



Source: HUD CHAS Data Sets based on 2009-2013 ACS. Graphic by HCD.

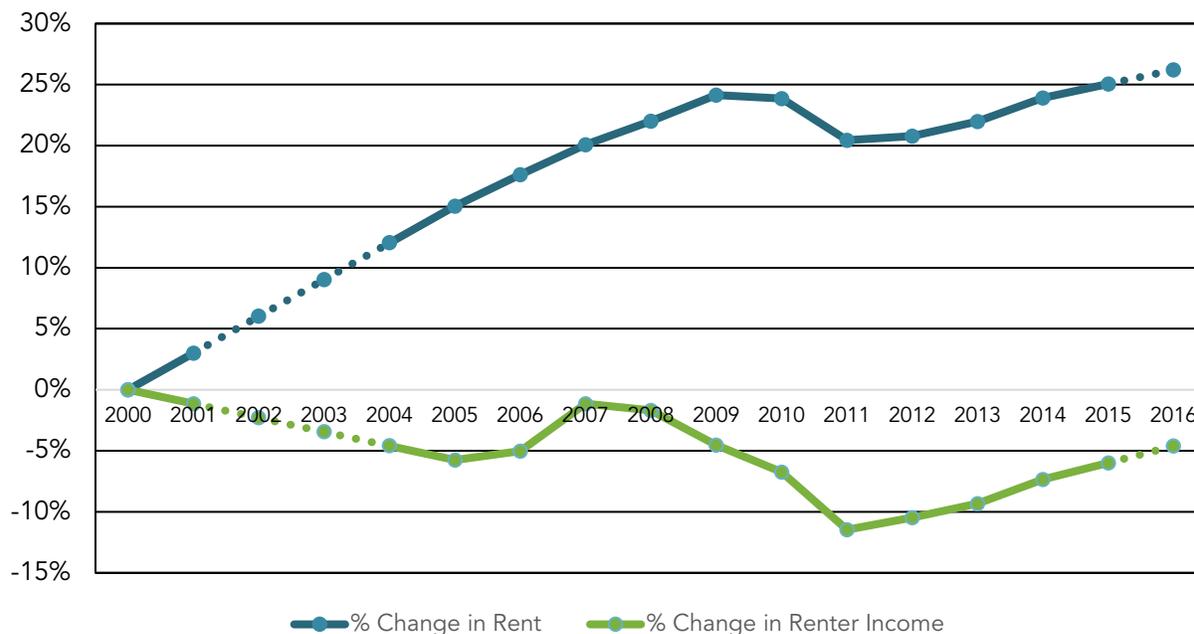
The Growing Impact on Moderate-Income Households

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.^{xxvi}

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 1.23
Renter Income Has Not Kept Pace with Increasing Rents 2000-2013
 Change in Inflation Adjusted Median Rent and Renter Income Since 2000



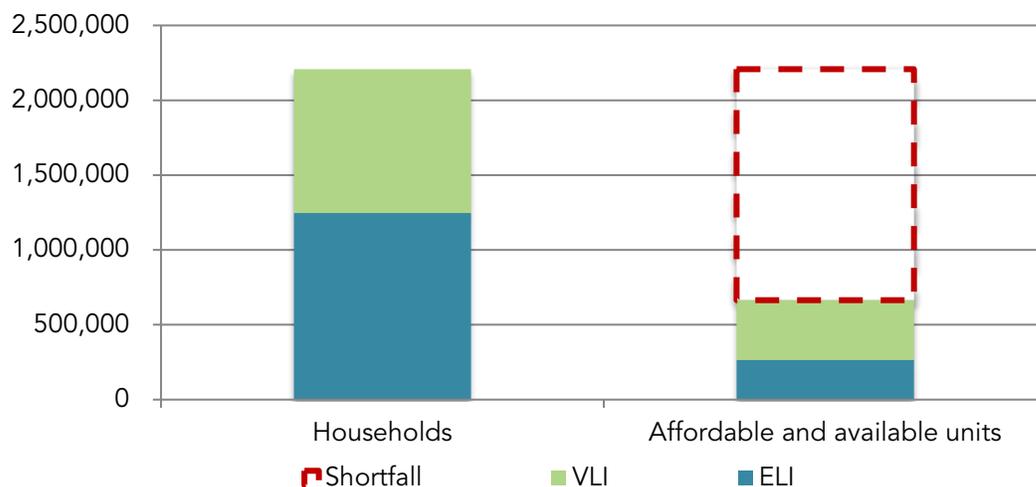
Source: California Housing Partnership analysis of 2000 Decennial Census and 2005-2014 American Community Survey 1 year data. 2001-2004 and 2015-2016 are an estimated trend. Median rent and renter income are inflation adjusted to 2014 dollars. Graphic recreated by HCD.

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,^{xxvii} 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.

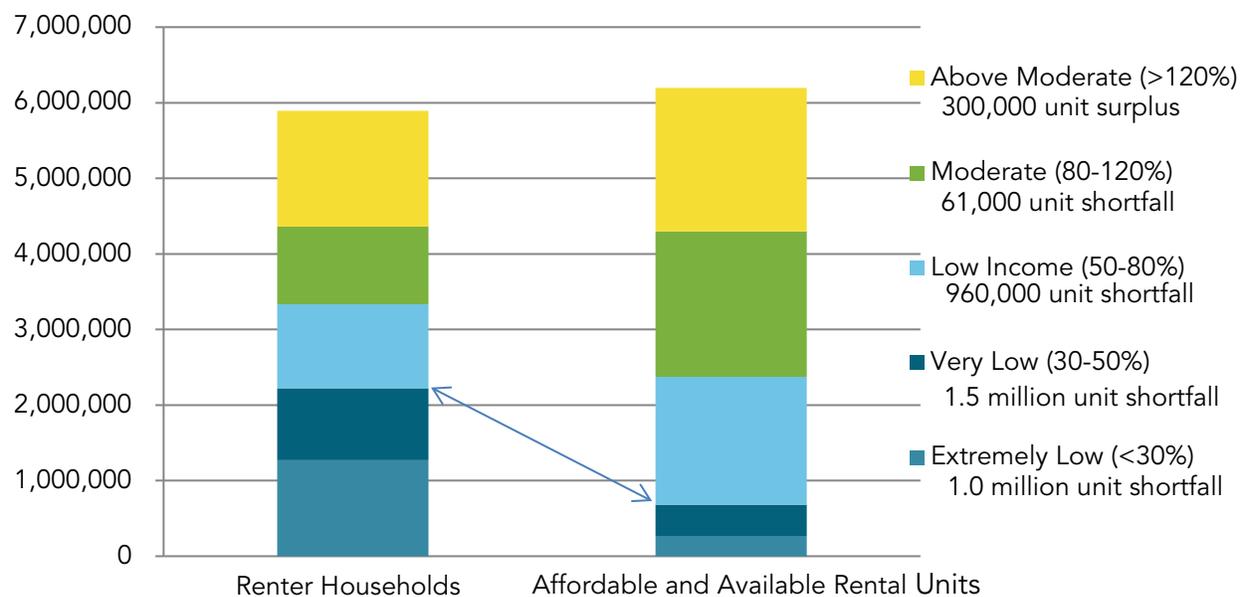
Figure 1.24
1.5 Million Shortfall of Rental Units Affordable and Available to Very Low- and Extremely Low-Income Renter Households in California



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.

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 1.25 below shows the affordable and available unit data for all renter-household income levels.

Figure 1.25
Rental Housing Falls Short at All Income Levels, Except Above Moderate
 Comparison of Households and Affordable and Available Units in California



Source: 2016 National Low Income Housing Coalition tabulations of 2014 American Community Survey Public Use Microdata Sample (PUMS) housing file. Graphic by HCD.

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^{xxviii} out of 4,270,215 total multifamily units in the state.^{xxix}

Preservation

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.^{xxx} 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.

Project-Based Rental Assistance
Assistance available only for lower-income residents provided they live *within a specified building*.

Tenant-Based Rental Assistance
Assistance available only for lower-income residents that can be used *at any building* that accepts the voucher.

As shown in Table 1.3, 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 1.3
Expiring Rental Assistance Contracts 2016-2021

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

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.

Preservation and Anti-Displacement

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. Displacement is involuntary residential migration resulting from increased rents, pressure from property owners, demolition of housing, conversion of units from rental to ownership uses or from deed-restricted to market-rate, or evictions. Displacement does not include voluntary migration to other areas and housing choices.

Transit and job-rich communities in California tend to overlap with high-cost coastal and job-dense areas, making them even less affordable. Modeling and analysis by the 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."^{xxxix}

The UC Berkeley Urban Displacement Project^{xxxix} documented that displacement "is occurring in 48 percent of Bay Area neighborhoods, divided almost evenly between low-income and moderate/high-income neighborhoods." The project's findings further noted that, "[m]ore than half of low-income households, all over the nine-county region, live in neighborhoods at risk of or already experiencing displacement and gentrification pressures."^{xxxix} The study documents how losses of naturally occurring affordable housing units exceed the concurrent growth of low-income households between years 2000-2013. The Urban Displacement Project's work has been extended to the Los Angeles area where it is uncovering similar trends.

As a further example, a recent research brief on displacement from UC Berkeley included a case study focused on a San Francisco neighborhood near Civic Center BART station and found that "both market-rate and subsidized housing development can reduce displacement pressures, but subsidized housing is twice as effective as market-rate development at the regional level."^{xxxix}

In addition to new construction, preserving deed-restricted and naturally occurring affordable housing can support affordable housing supply goals for California as well as curb displacement pressures.

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.

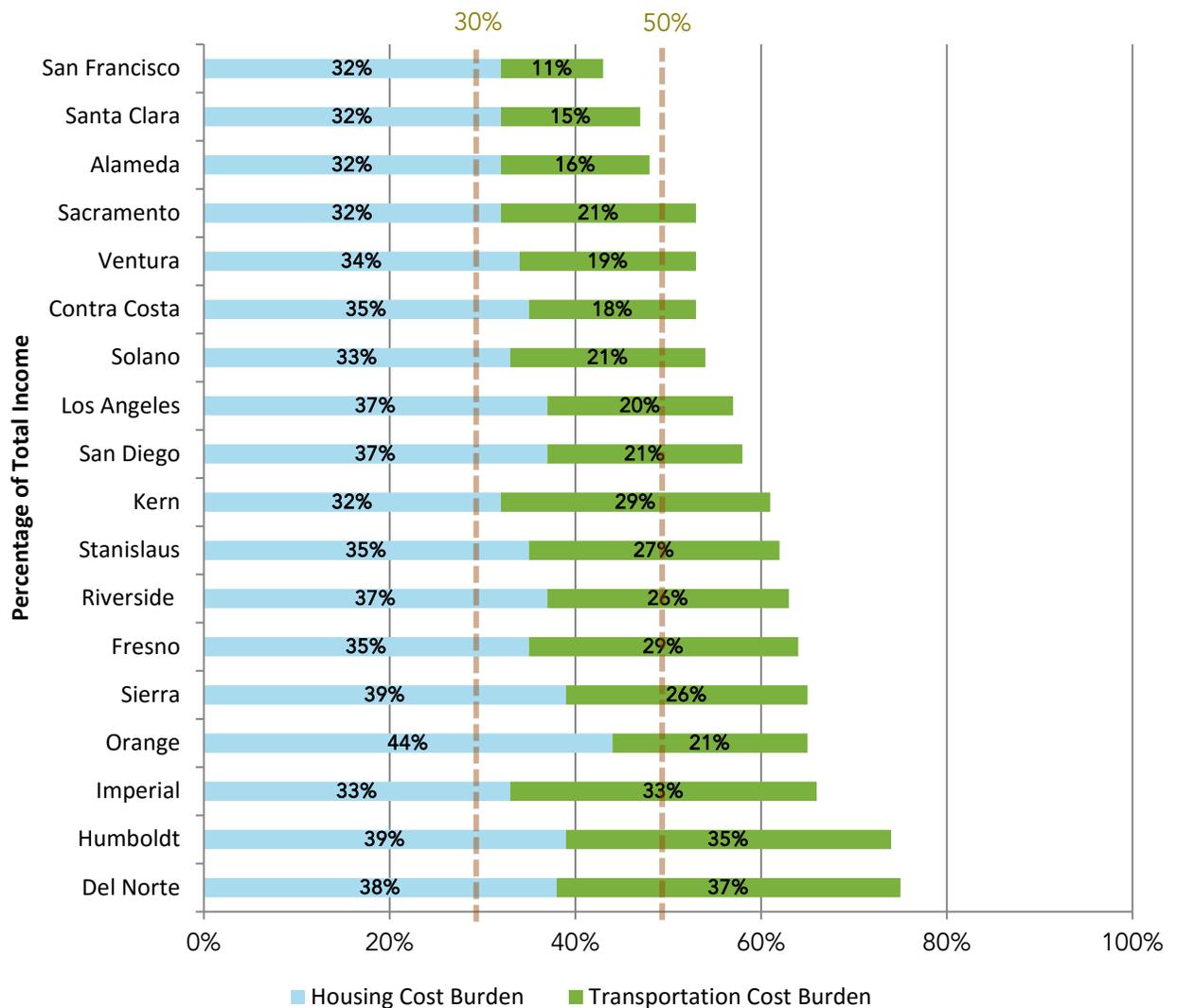
The Center for Neighborhood Technology developed a Housing and Transportation Affordability Index (H+T Index) that has been widely used to examine housing and transportation costs, as well as transportation behavior in different community contexts.

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 1.26, 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 1.26 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.

Figure 1.26
Lower Transportation Cost Burden Can Lower Overall Household Cost Burden
 Housing and Transportation Cost Burdens throughout California



Source: Center for Neighborhood Technology, Housing and Transportation Index, Average Percent of Income Spent on Housing and Transportation for Selected Counties. Graphic by HCD.

When total costs are evaluated, as in Table 1.4, 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 1.4
Average Annual Housing and Transportation Costs throughout California

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

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 is actually built.

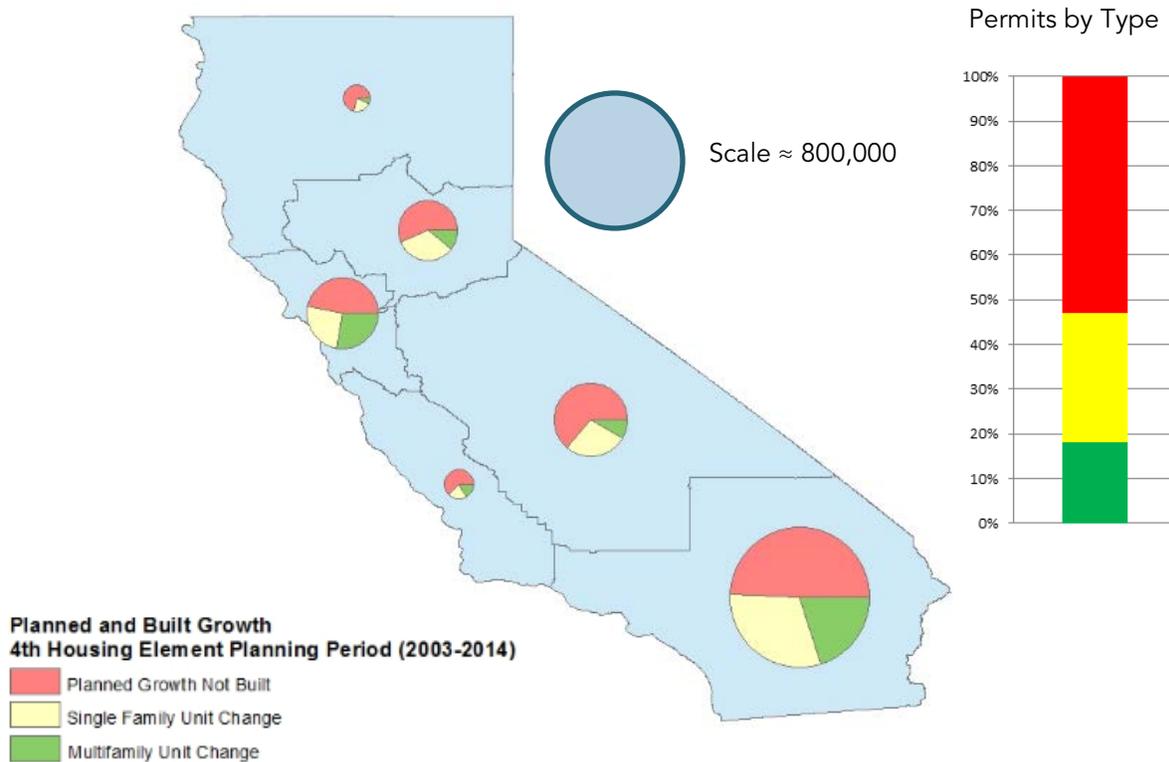
Every eight years by law,⁶ future housing needs are determined for each region of the state based on growth over a specific period of time (projection period) through the Regional Housing Need Allocation (RHNA) process. The RHNA process uses projected population growth to determine housing and affordability 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.

⁶ Government Code Section 65800

Challenges

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.

Challenges

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 Households⁷



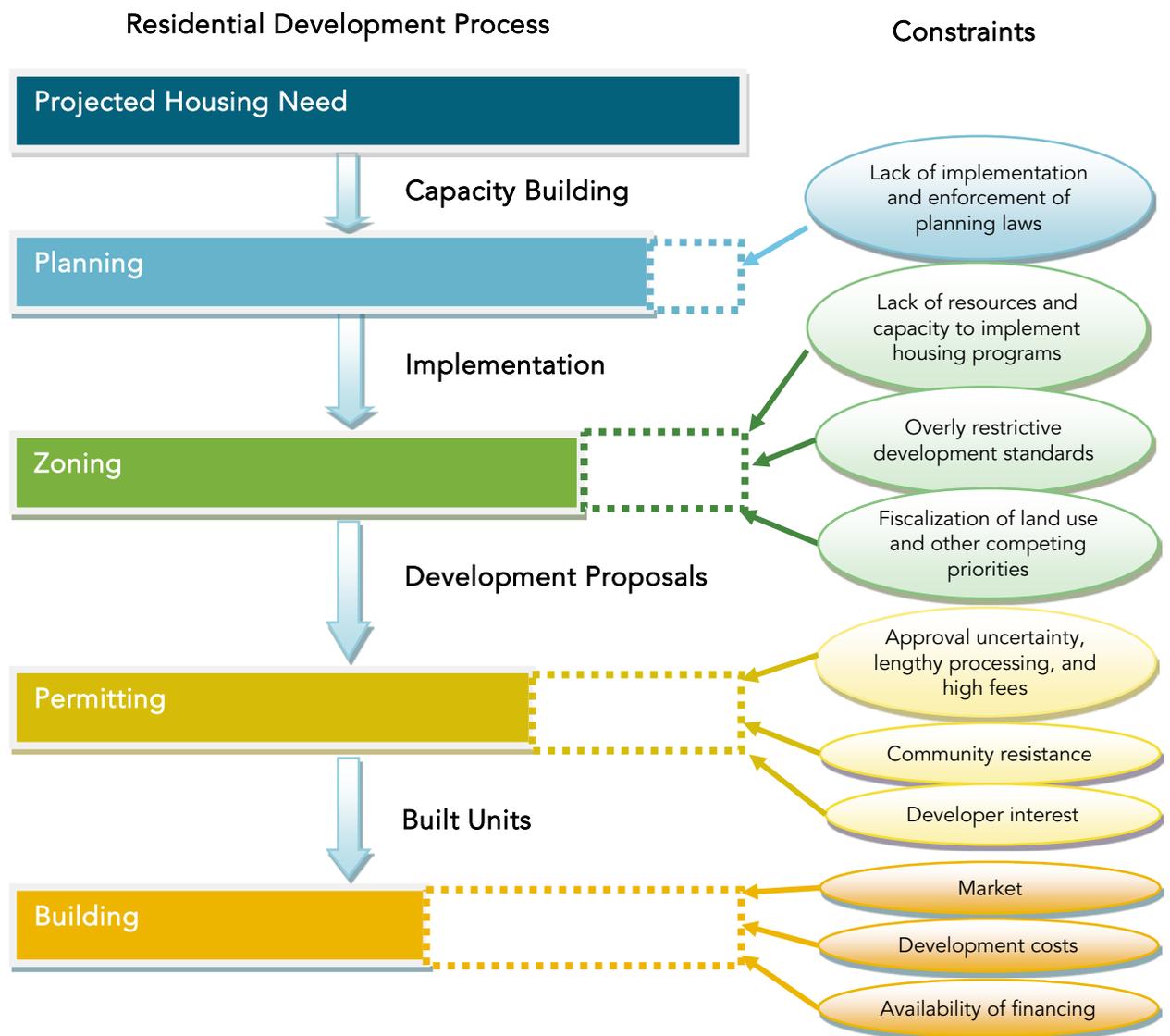
Sources: HCD Regional Housing Needs Allocations 4th Cycle Housing Element (2003-2014); DOF E5 Population and Housing Estimates for Cities, Counties, and the State; E8 Historical Population and Housing Estimates for Cities, Counties, and the State; TCAC Mapped Developments.

Regulatory barriers (such as lengthy development design review) and constraints (such as 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 face competing priorities throughout the development process, including community opposition, and the incentive to approve sales-tax generating development (like retail stores or entertainment venues) rather than residential development. Potential developers must also overcome market conditions (such as limited access to predevelopment financing and high land and construction costs) and legal challenges that can stop or dramatically slow development. 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.

⁷ Note: In this figure deed-restricted units created with low-income housing tax credits 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 affordable units produced during this time include up to twice the affordable units produced depending on local inclusionary policies.

Figure 2.3 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 2.3
Constraints Create a Gap between Planned Capacity and Built Units



**Figure 2.4
Barriers and Constraints to Housing Development**

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

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 higher-income neighborhoods.^{xxxv} Many children growing up in neighborhoods of poverty face lifelong consequences. In fact, studies show that where a child is raised affects the future economic potential of that child. Children with greater exposure to poverty during childhood have less economic mobility and are up to 45 percent more likely to have difficulty escaping poverty as adults.^{xxxvi}

The number of people living in census tracts with poverty rates of 40 percent or more has grown by more than 5 million since 2000. Since 2000, the growth in the poor population for California’s 10 largest metro areas was an average of 28 percent, but the growth of poor residents in the high poverty census tracts was an average of 53 percent.^{xxxvii} The burden of being both poor and living in an area of concentrated poverty is also disproportionately shouldered by racial minorities: Approximately two thirds of African-American and Hispanic households experiencing poverty live in high-poverty neighborhoods (those with 20 percent or greater rates of poverty), compared to one-quarter of non-Hispanic White households experiencing poverty.^{xxxviii}

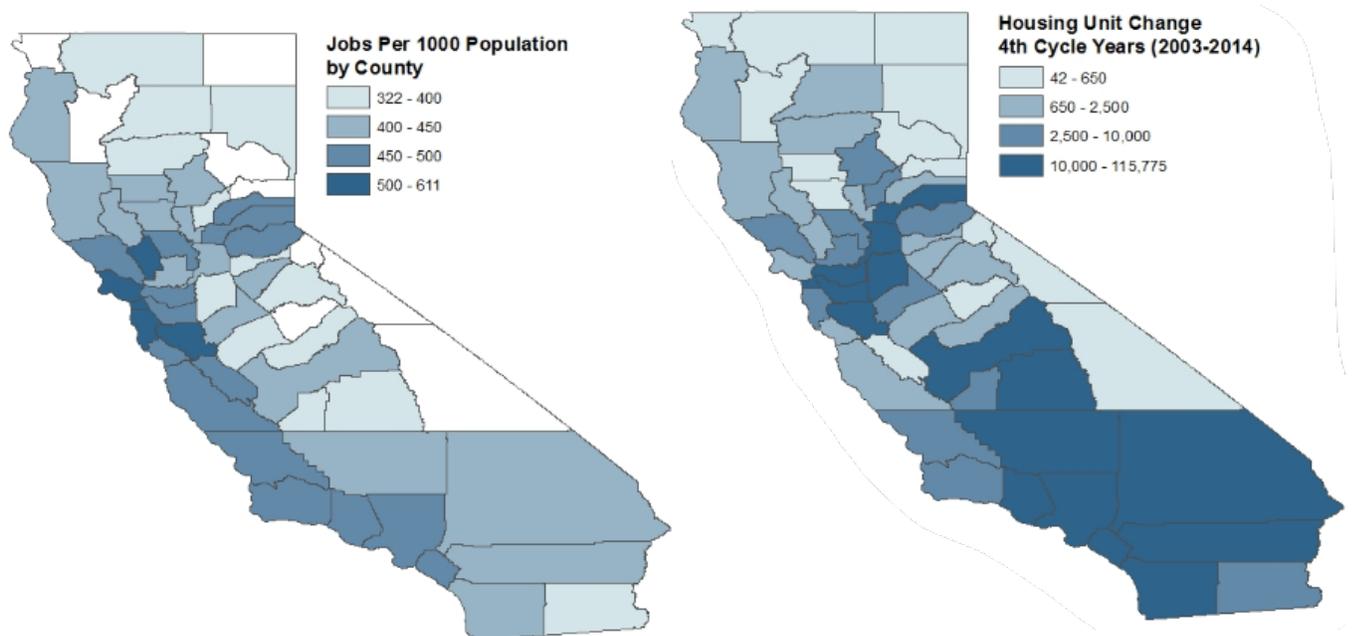
Areas of opportunity exist in urban, rural, and suburban inland areas, but housing is often not planned for and built in these areas of opportunity. Increasing housing opportunities located near jobs, transportation, high-performing schools, hospitals, and other services is critical to improving economic outcomes and the future potential success of our children. Another critical issue is the need to create opportunity in California’s disadvantaged communities through community development interventions and infrastructure improvements, such as those contemplated by Transformative Climate Communities,^{xxxix} and those already being implemented through U.S. Department of Housing and Urban Development Promise Zones^{xl} and Choice Neighborhoods Planning Grants,^{xli} among others.

Challenges

Looking back over the last 10 years, there has been a mismatch between the state's high-cost urban and coastal communities where jobs and services are concentrated, and where housing production has occurred. Limited production in the urban and coastal communities leaves most of the state's housing production in the inland counties. Additional housing supply is needed in all areas of the state, but of the development we are seeing, it is disproportionately further from job centers.

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

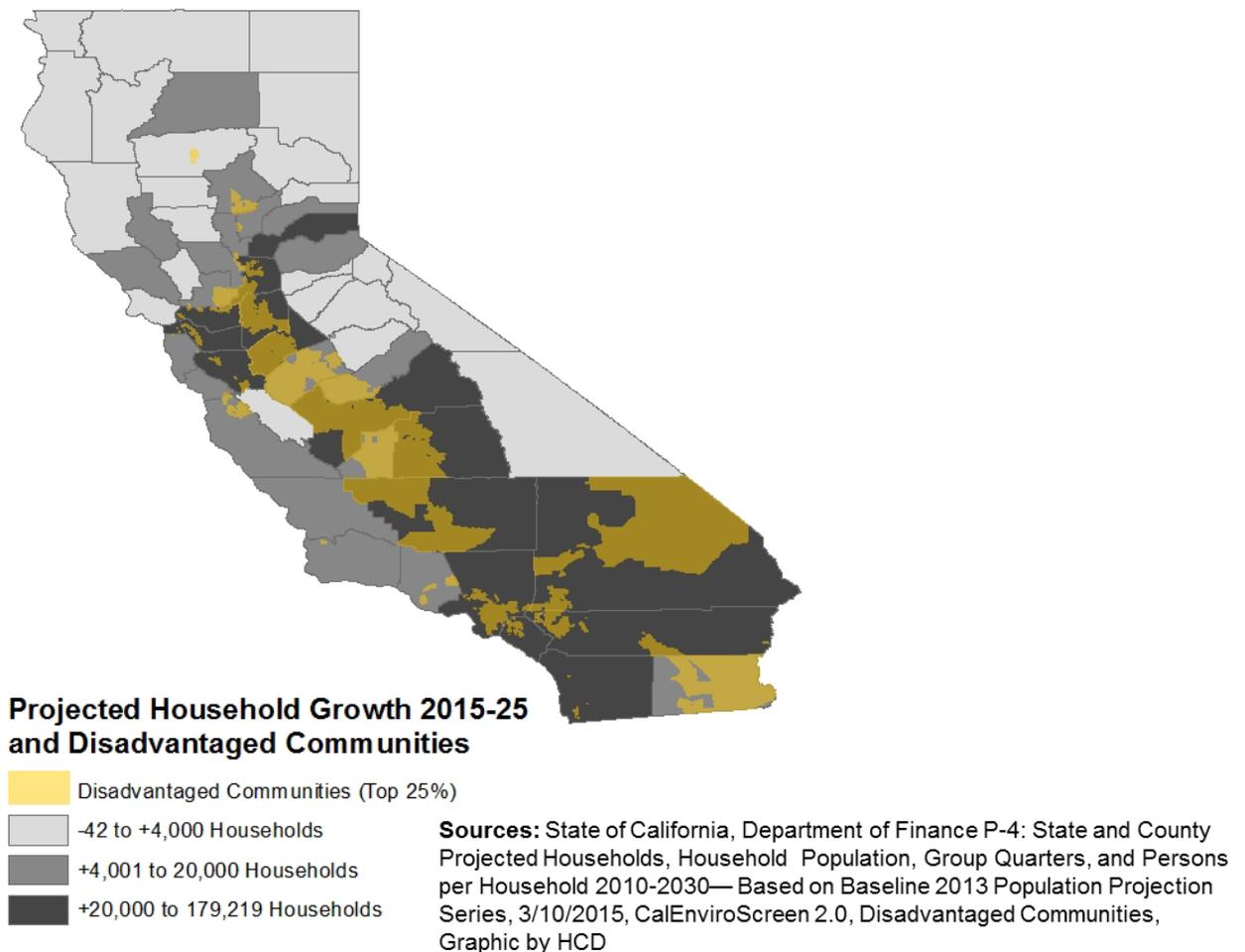


Sources: Population: U.S. Census Bureau, Population Division, 2015 Population Estimates; Labor Force Estimates: State of California Employment Development Department 2015 Labor Force by County, note counties with labor forces under 10,000 were excluded from the map. DOF E5 Population and Housing Estimates for Cities, Counties, and the State; E8 Historical Population and Housing Estimates for Cities, Counties, and the State.

Challenges

If California continues past growth trends, disadvantaged communities (defined below by CalEnviroScreen 2.0) 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 2.6 shows projected household growth by county overlaid with communities identified as being in the top 25 percent most disadvantaged by CalEnviroScreen 2.0.

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



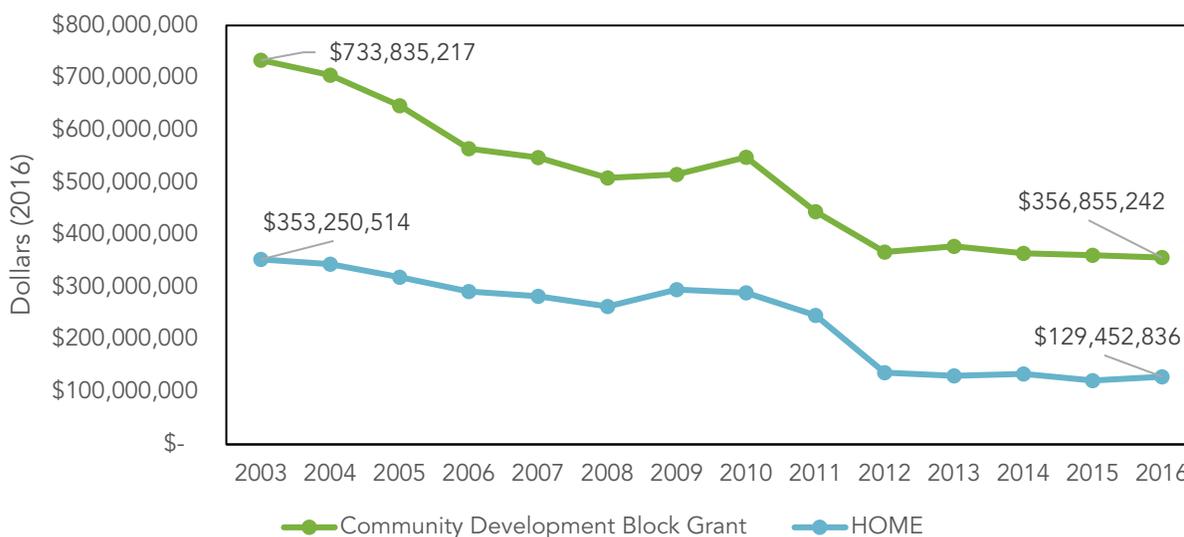
Challenge 3. Unstable funding for affordable home development is impeding our ability to meet California's housing needs, particularly for lower-income households.

To address housing needs, California must 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 2016. Funding levels across other federal housing programs generally trended downward over this period.

Figure 2.7
Federal HOME and Community Development Block Grant Allocations to California Declined from 2003-2016
 (adjusted for inflation in 2016 dollars)



Source: 2003-2016 United States Department of Housing and Urban Development, Office of Community Planning and Development Appropriations Budget, Formula Program Allocations by State, California. Inflation adjustment to 2016 dollars using Consumer Price Index 2003-2016 from Federal Reserve Bank of Minneapolis. Graphic and inflation adjustment by HCD.

Challenges

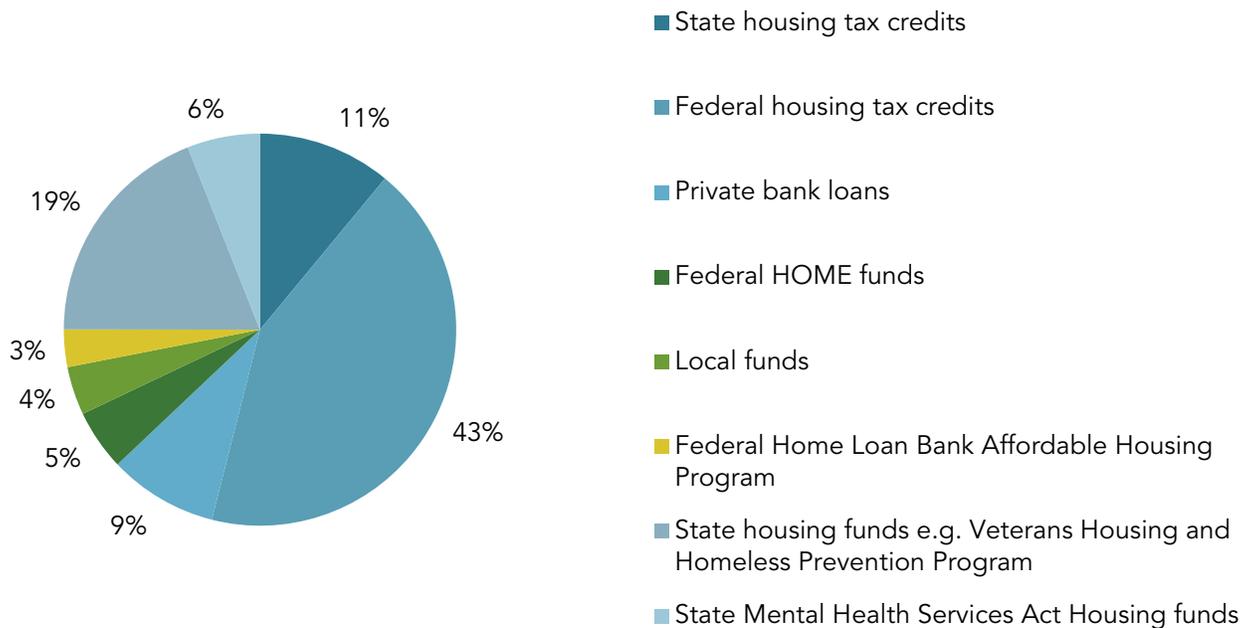
State funds have fluctuated as well, but have experienced some recent gains. For example:

- ✓ \$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. In November 2016, jurisdictions across the state approved almost \$3 billion in local bonds, and two jurisdictions passed sales tax increases for affordable housing.^{xiii} In March 2017, the city of Los Angeles passed Measure H, a sales tax increase to address homelessness expected to generate \$355 million per year.

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.

Figure 2.8
Sample Funding Mixes for Affordable Multifamily Developments



Source: Examples based on actual development financing. Graphic by HCD.

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 housing and stabilize their lives.

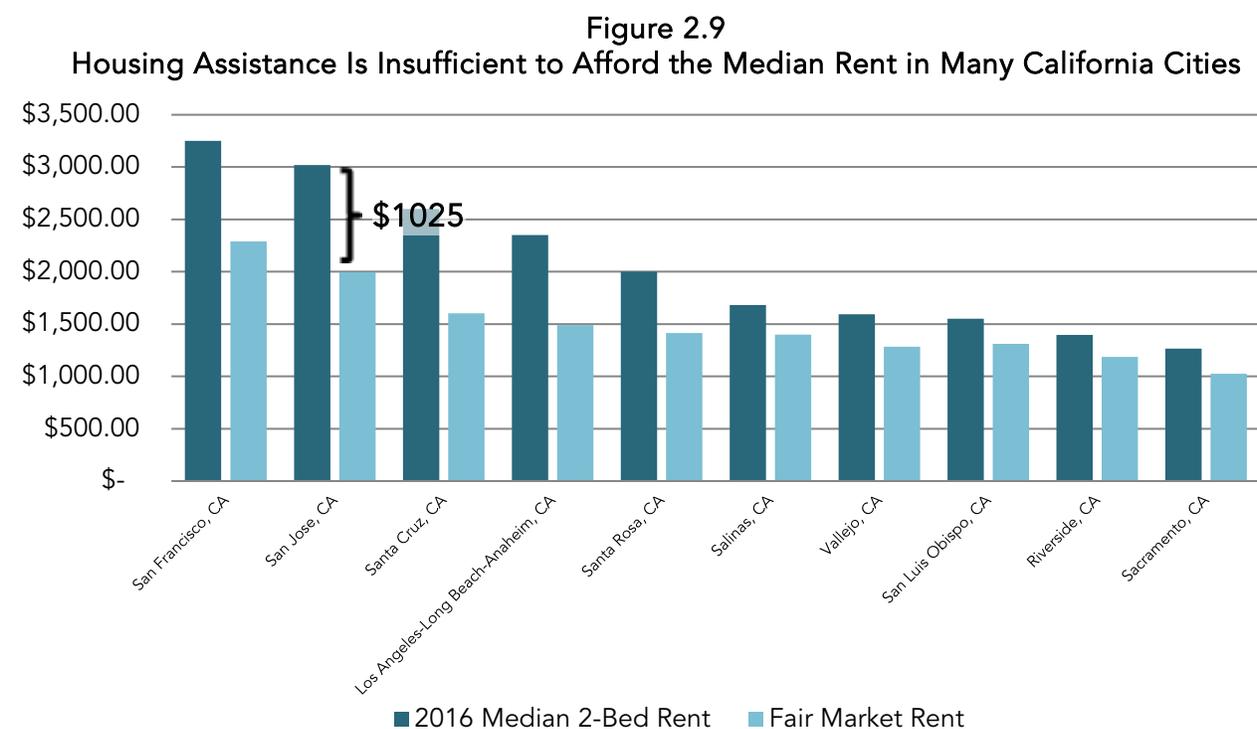
Both overt and subtle discrimination, inadequate accommodations for people with disabilities, lack of transportation access, and stringent financial requirements and background checks are among the barriers that prevent many people from finding an affordable place to live. For example, studies show that 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.^{xliii}

Challenges

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 Voucher 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. As a result, several states and municipalities have adopted laws prohibiting housing discrimination based on source of income.

Figure 2.9 compares the rent levels in cities throughout California 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.



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 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 these categories:

- 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, 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.^{xliv} 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

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

Challenges

tests.^{xlv}

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.^{xlvi} 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.^{xlvii}

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.^{xlviii} 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.^{xlix}

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.ⁱ 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.ⁱⁱ

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.ⁱⁱⁱ 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.ⁱⁱⁱⁱ

Challenges

Over-Commuting

When households of any income level live near transit and job centers, they drive less.^{liv} But it is becoming harder for renter households 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.^{lv} Increasing new construction and preserving existing affordable homes around transit can relieve some of this cost pressure.

There are also displacement pressures on residents that currently live near transit as transit improves. Northeastern University's Dukakis Center studied 42 transit-served metros nationwide with newly improved transit and found that "in some of the newly transit-rich neighborhoods...a new transit station can set in motion a cycle of unintended consequences in which core transit users — such as renters and low-income households — are priced out in favor of higher income, car-owning residents who are less likely to use public transit for commuting."^{lvi}

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.^{lvii} 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.^{lviii}

Recommendations to Address California's Housing Challenges

As the Statewide Housing Assessment describes, California is facing significant housing challenges, including lack of supply and affordability; high rates of homelessness; low homeownership rates; and housing located further from job centers, transit, and areas of opportunity.

In addition to the overall proposed state and local options to address California's housing challenges into the future, the Statewide Housing Assessment recommends a Housing Action Plan with five key housing principles and strategies that should be put in motion in the near term.

Housing Action Plan

Strategy 1: Streamline Housing Construction — Reduce local barriers to limit delays and duplicative reviews, maximize the impact of all public investments, and temper rents through housing supply increases.

1. *Permit Streamlining*: Streamline the permit process for multifamily housing projects with an affordable component in infill areas across the state.
 - a. Streamlining provisions should apply to projects that are consistent with objective general plan and zoning standards, as well as various environmental and public safety criteria.
 - b. Developments in jurisdictions that have experienced sufficient housing growth to meet their share of regional housing need in every income category should be considered for exemption from streamlining provisions.
2. *Local Planning*: Provide incentives to local governments to utilize planning tools in the interest of accelerating housing production and providing housing for all income levels.
 - a. Assist local governments in updating general plans, zoning ordinances, and other planning documents to prepare the jurisdiction for streamlining.
 - b. Encourage local governments to establish targeted zones that accelerate housing production with financial assistance to update planning documents and rewards for the permitting of housing.
 - c. Ensure that a variety of planning tools are available to local governments to foster affordable housing throughout their community.

Strategy 2: Lower Per-Unit Costs — Reduce permit and construction policies that drive up housing costs.

1. *Conduct a Study on Fee Reasonableness:* Evaluate the reasonableness of permitting and impact fees that are charged to new developments, and make recommendations to the Legislature regarding potential changes to the Mitigation Fee Act.

Strategy 3: Production Incentives — Those jurisdictions that meet or exceed housing goals, including affordable housing goals, should be rewarded with funding and other benefits. Those jurisdictions that are not meeting housing goals should be encouraged to do so by tying housing planning and permitting to other infrastructure-related investments, such as parks or transportation funding.

1. *Incentivize Affordable Housing Permitting:* A portion of funding for affordable housing should be in the form of flexible funding for capital projects that serve a community benefit, proportional to a jurisdiction's approved low-income housing permits. This program will fund amenities that encourage future housing development opportunities, including community centers, libraries, parks, affordable housing, and related infrastructure, such as traffic improvements and bike paths.
2. *Reward Use of Tools with Matching Funds:* A portion of funding for affordable housing should be in the form of matching funds for jurisdictions that utilize existing tools that facilitate housing investment, such as Community Revitalization and Investment Authorities and Enhanced Infrastructure Financing Districts.
3. *Align Transit Funding with Housing Goals:* Incorporate housing objectives, such as housing element and annual progress report compliance, into existing and new transportation programs, such as Caltrans Sustainable Planning Grants, Active Transportation Program, and Transit Intercity Rail Capital Program, among others.

Strategy 4: Accountability and Enforcement — Strengthen compliance with existing laws, such as state housing element law and the Housing Accountability Act.

1. *Interim Housing Element Monitoring:* Clarify that initial compliance for general plan housing elements may be revoked if a jurisdiction takes actions inconsistent with their adopted housing element.
2. *Enforce Existing Housing Laws:* Hold jurisdictions accountable for actions taken in violation of state housing laws by collaborating with the Attorney General's office.
3. *Improve Reporting:* Require annual progress reports to include the share of projects that were denied or reduced in size, and require charter cities to submit annual progress reports.
4. *Strengthen Housing Accountability Act:* Strengthen existing provisions of the Housing Accountability Act regarding court procedures and fines.
5. *No Net Loss in Sites Inventory:* Strengthen "no net loss" provisions to maintain

sufficient sites in the housing element sites inventory by requiring additional lower-income sites to be identified in a timely manner if lower-income development capacity is lost.

6. *Site Feasibility*: Foster feasibility of sites by requiring additional or by-right zoning if sites are unused after multiple housing element cycles, unless a jurisdiction can justify that the site is suitable for development.
7. *Preservation*: Protect existing affordable housing properties from conversion to market rates by strengthening existing preservation noticing requirements and providing purchasing preference to those who agree to maintain the affordability of the property.

Strategy 5: Dedicated Housing Funding — Establish sources of funding for affordable housing and related investments. Any source of funding should be connected to these other reforms.

1. *Establish New Transactions-Based Fee*: Establish a fee that creates a robust ongoing funding source for affordable housing and infrastructure-related investments that adds no new costs, or cost pressures to the state's General Fund.
2. *Pursue a General Obligation Bond*: Augment ongoing housing funding with a one-time general obligation bond.
3. *Streamline Funding Programs*: Identify opportunities to increase the efficiency of funding programs. For example, increase utilization of the farmworker set-aside in the state Low-Income Housing Tax Credit by removing program barriers.

Long-Term Recommendations to Address Housing Challenges

This section presents options and strategies supporting three main goals:

1. Reform land use policies to advance affordability, sustainability, and equity.
2. Address housing and access needs for vulnerable populations.
3. Invest in affordable home development and rehabilitation, rental and homeownership assistance, and community development.

The following is intended to guide state and local policy making in the long-term and is not an exhaustive list. Strategies that require funding to implement should avoid additional burden to the state’s General Fund. **Strategies in bold font are also part of the Housing Action Plan.**

Goal 1: Reform land use policies to advance affordability, sustainability, and equity	
Options	Strategies (Those in bold font are also part of the Housing Action Plan)
<p><i>Option 1 — Streamline Housing Construction:</i> Increase the supply of housing affordable to all income levels by reducing the time and cost of development.</p>	<ul style="list-style-type: none"> • Continue to increase certainty for infill development by clarifying and increasing opportunities for streamlining permitting where applicable. • Provide incentives to local governments to utilize planning tools in the interest of accelerating housing production and provision of housing for all income levels. • Create alternatives at the local, regional or state level for developers to appeal local decisions on development proposals. • Encourage local governments to conduct robust public engagement and environmental review as communities are planned in order to reduce the time and cost spent on these activities at the project level (e.g., during updates of general plans, community and specific plans, and zoning ordinances.) • Encourage local governments to utilize a combination of regulatory relief options, such as faster project reviews, parallel approval processing, ministerial approval, allowances for higher density, and lower parking requirements. • Expand regional coordination in land use planning both within and across regions. Housing, transportation, and economic changes in one region impact neighboring regions.

Goal 1 (continued) : Reform land use policies to advance affordability, sustainability, and equity	
Options	Strategies (Those in bold font are also part of the Housing Action Plan)
<p><i>Option 1 (continued) — Streamline Housing Construction:</i> Increase the supply of housing affordable to all income levels by reducing the time and cost of development.</p>	<ul style="list-style-type: none"> • Strengthen existing regulatory tools for local governments, such as simplifying the State Density Bonus Law and streamlining California Environmental Quality Act (CEQA) review. • Streamline and incentivize residential development on state and local public surplus lands.
<p><i>Option 2 — Incentivize Housing Production:</i> Unlock additional housing potential by linking housing production and other housing goals to incentives and investments at local, regional, and state levels. State-level production incentives should avoid additional burden to the state’s General Fund.</p>	<ul style="list-style-type: none"> • Provide infrastructure, parks funding, and other non-housing community benefits as a reward to jurisdictions that produce and preserve affordable housing. • Provide matching funds for jurisdictions that utilize existing tools that facilitate housing investment, such as Community Revitalization and Investment Authorities and Enhanced Infrastructure Financing Districts. • Incorporate housing goals, such as housing element and annual progress report compliance, into existing and new transportation programs. • Expand infill and density incentives in order to encourage local governments to increase zoning for infill and compact development.
<p><i>Option 3 — Strengthen Accountability and Enforcement:</i> Strengthen state and local oversight of housing laws to improve housing production performance at all income levels.</p>	<ul style="list-style-type: none"> • Clarify that housing element compliance may be revoked if a jurisdiction takes actions inconsistent with their adopted housing element. • Enforce existing housing laws by tracking compliance and providing technical assistance. Hold jurisdictions accountable for actions taken in violation of state housing laws by collaborating with the Attorney General’s office. • Require annual progress reports to include the share of projects that were denied or reduced in size, and require charter cities to submit annual progress reports. • Strengthen existing provisions of the Housing Accountability Act regarding court procedures and fines.

Goal 1 (continued): Reform land use policies to advance affordability, sustainability, and equity	
Options	Strategies (Those in bold font are also part of the Housing Action Plan)
<p><i>Option 3 (continued)</i> — <i>Strengthen Accountability and Enforcement:</i> Strengthen state and local oversight of housing laws to improve housing production performance at all income levels.</p>	<ul style="list-style-type: none"> • Strengthen “no net loss” provisions to maintain sufficient sites in the housing element sites inventory by requiring additional lower-income sites to be identified in a timely manner if lower-income development capacity is lost. • Foster feasibility of sites by requiring additional or by-right zoning if sites are unused after multiple housing element cycles, unless a jurisdiction can justify that the site is suitable for development. • Protect existing affordable housing properties from conversion to market rates by strengthening existing preservation noticing requirements and providing purchasing preference to those who agree to maintain the affordability of the property. • Discourage anti-development referenda. • Improve reporting and analysis to measure outcomes and progress in key areas, such as: <ul style="list-style-type: none"> ○ Production in comparison to need. ○ 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.

Goal 1 (continued): Reform land use policies to advance affordability, sustainability, and equity	
Options	Strategies (Those in bold font are also part of the Housing Action Plan)
<p><i>Option 4 — Support Community Development and Infrastructure:</i> Encourage land use policies and investment that support community and infrastructure development.</p>	<ul style="list-style-type: none"> • Continue to integrate strategies to build more homes in areas of opportunity — job- and transit-rich areas with high-performing schools and other amenities — while promoting community development and infrastructure investments in communities experiencing higher concentrations of poverty and fewer services. • Link housing development to job-rich areas through incentive-based programs that reward jurisdictions for housing production when it aligns with job growth. • Avoid displacement and encourage housing stability by preserving housing opportunities for low- and moderate-income residents, including at-risk affordable housing, mobile home parks, and naturally occurring affordable housing. • Promote community resiliency and adaptation to climate change and natural disasters within state and local strategies.
<p><i>Option 5 — Lower Per-Unit Costs:</i> Identify cost drivers and research opportunities to reduce complications, costs, and time in the interest of increasing housing supply.</p>	<ul style="list-style-type: none"> • Conduct a study on the reasonableness of permitting and impact fees that are charged to new developments, and make recommendations to the Legislature regarding potential changes to the Mitigation Fee Act. • Require that development fees be calculated by square foot rather than per unit basis to ensure fees are not a disproportionate burden on lower-cost housing types. • Weigh development cost when evaluating any policy objectives that could reduce the amount of housing produced with state funds. Review building code standards considering the impact of cumulative cost from various policy objectives (e.g., health and safety, construction quality, energy efficiency, green building, etc.). • Expand financing options and reduce barriers for alternative housing models with lower production costs, such as manufactured housing, accessory dwelling units, and tiny homes. • Improve data collection, transparency, and analysis related to reducing housing costs per unit where possible in state housing programs. • Support opportunities for nonprofit and small housing developers to participate in pooled procurement of construction materials.

Goal 2: Address housing and access needs for vulnerable populations	
Options	Strategies (Those in bold font are also part of the Housing Action Plan)
<p><i>Option 1 — Reduce Barriers to Housing Access:</i> Reduce barriers, such as discrimination, and improve habitability with housing design modifications.</p>	<ul style="list-style-type: none"> • Continually review the needs and input of vulnerable populations in the creation and implementation of policies, such as the physical design of homes, the approach to serving various populations, community integration, and the removal of access barriers. • Require outcomes reporting that identifies barriers facing local jurisdictions, including a special assessment of the needs and barriers facing vulnerable populations. Target technical assistance to communities based on identified barriers. • Promote Fair Housing principles through state funding programs, and prohibit source-of-income discrimination to protect households that have tenant-based rental assistance vouchers.
<p><i>Option 2 —Increase Coordination and Collaboration:</i> Increase coordination and collaboration between health, social services, and housing systems to better deliver services integrated with housing for vulnerable populations.</p>	<ul style="list-style-type: none"> • Assist local entities in developing systems with high performance outcomes, such as coordinated entry systems that prioritize housing for the hardest to serve and improve data collection. • Coordinate across local entities and California Department of Social Services, Department of Developmental Services, and the Health and Human Services Agency to better serve affordable housing residents that might be recipients of these programs.

Goal 2 (continued): Address housing and access needs for vulnerable populations	
Options	Strategies (Those in bold font are also part of the Housing Action Plan)
<p><i>Option 3 — Evaluate and Improve Housing Program Design:</i> Evaluate and improve programs that construct and preserve housing for vulnerable populations, including permanent supportive housing.</p>	<ul style="list-style-type: none"> • Continue aligning state housing programs with best practices, such as the “housing first” model to address homelessness. • Use Medi-Cal 2020–expanded benefits — such as the Whole Person Care Pilot and Medi-Cal’s Health Homes Program — to deliver services that help vulnerable populations secure permanent supportive housing and achieve the greatest cost savings and health outcomes. • Evenly distribute permanent supportive housing units or units designed for persons with disabilities within a property, rather than isolating them within a development. • Programs for new construction should consider setting aside a minimum number of accessible units in a variety of bedroom sizes for persons with disabilities. In the case of housing rehabilitations, programs should consider adapting existing units to provide accessible features. • Increase senior housing production to accommodate the increasing senior population, while also encouraging downsizing in senior households living in homes larger than their needs, freeing up additional housing for larger households.

Goal 3: Invest in affordable home development and rehabilitation, rental and homeownership assistance, and community development	
Options	Strategies (Those in bold font are also part of the Housing Action Plan)
<p><i>Option 1 — Identify Housing Funding Sources:</i> Identify sources of funding for affordable housing that do not add new costs or cost pressures to the state’s General Fund, but that support and align with other state policy goals.</p>	<ul style="list-style-type: none"> • Establish a fee that creates a robust ongoing funding source for affordable housing and infrastructure-related investments that adds no new costs, or cost pressures to the state’s General Fund. • Augment ongoing housing funding with a one-time general obligation bond. • Identify opportunities to increase the efficiency of funding programs. For example, increase utilization of the farmworker set-aside in the state Low-Income Housing Tax Credit by removing program barriers.

Goal 3 (continued): Invest in affordable home development and rehabilitation, rental and homeownership assistance, and community development	
Options	Strategies (Those in bold font are also part of the Housing Action Plan)
<p><i>Option 1 (continued)</i> — <i>Identify Housing Funding Sources:</i> Identify sources of funding for affordable housing that do not add new costs or cost pressures to the state’s General Fund, but that support and align with other state policy goals.</p>	<ul style="list-style-type: none"> • Target funding programs to address housing rehabilitation; preservation of existing affordable housing and naturally occurring affordable housing; rental and home ownership opportunities; down payment assistance; infrastructure; and community development needs. • Encourage Congress to maintain housing funding in the federal budget for programs such as HOME, Community Development Block Grants, the Low Income Housing Tax Credit, and the National Housing Trust Fund. • Incentivize the use of federal four-percent tax credits in state and local funding programs to increase the drawdown of under-utilized federal housing funding. • Pursue elimination of other tax breaks as a potential funding source for expansion of the state low-income housing tax credit. • Build partnerships with philanthropy, businesses, and banking institutions to provide funding mechanisms for residential development.
<p><i>Option 2 — Create Policy and Program Consistency:</i> Create more consistency in guidelines and reporting requirements between housing agencies.</p>	<ul style="list-style-type: none"> • Continue progress toward a universal state housing application, and coordinate funding timeframes between programs and agencies. • Improve tracking of existing affordable housing across housing agencies by using the Assessor’s Parcel Number as the unique project identifier for all housing programs. • Increase options to submit project information and applications electronically. • Explore opportunities to consolidate monitoring and reporting requirements across programs.

Statewide Housing Assessment Outreach and Acknowledgements

The draft Statewide Housing Assessment was available for public comment for a 60-day period, January 3 through March 4, 2017, and accompanied by a public outreach process.

Public Outreach

The California Department of Housing and Community Development (HCD) held a webinar and six public workshops throughout January and February with over 400 participants total from housing and homelessness, health, business, labor, environmental, social justice and equity organizations, as well as local, regional, state, and federal government representatives.

Location	Date
Webinar	1/13/2017
San Diego	1/23/2017
Fresno	1/30/2017
Los Angeles	2/3/2017
Sacramento	2/6/2017
Oakland	2/17/2017
Redding	2/24/2017

In addition to the public workshops, HCD presented the Statewide Housing Assessment at more than 20 events throughout the state, including San Francisco, Orange County, San Jose, and the Coachella Valley.

Written Comments

HCD received nearly 60 comment letters from the following stakeholder groups:

Academics	Real Estate Groups/Realtors
Building Industry/Developers	Business Councils
Housing Advocates	Disability/Health Groups
Rural Housing Advocates	Local Governments
Equity Advocates	Regional Governments
Other Advocates	State Departments

Acknowledgements

In the development of the Statewide Housing Assessment, HCD received extensive feedback from stakeholders, including, UC Berkeley's Terner Center, Dr. Raphael Bostic of the Sol Price School of Public Policy at the University of Southern California, as well as state entities, Business Consumer Services and Housing Agency, California Housing Finance Agency, Office of Planning and Research, Strategic Growth Council, Health and Human Services' Olmstead Advisory Group, California State Transportation Agency, and Department of Finance.

Statewide Housing Assessment Outreach and Acknowledgements

All the comments and contributions throughout the public outreach process were extremely valuable in moving the Statewide Housing Assessment from draft to final. Verbal and written comments were cataloged by topic area and to the degree possible HCD added content and recommendations to address these comments.

Several comment areas led to additional content in the final Statewide Housing Assessment, and also suggested areas for potential further research, including research on the housing needs of rural areas, farmworkers, tribes, college students and seniors; additional strategies for reducing homelessness; analysis of which housing policies have the greatest positive and negative impacts on housing supply; and analysis of the prevalence of displacement and recommended policy responses.

HCD's research portfolio in coming years will consider these comments.

Endnotes

- ⁱ HCD Analysis of State of California, Department of Finance State 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.
- ⁱⁱ State of California, Department of Finance, California County Population Estimates and Components of Change by Year, July 1, 2010-2015. Sacramento, California, December 2015.
- ⁱⁱⁱ PolicyLink and the USC Program for Environmental and Regional Equity; National Equity Atlas, www.nationalequityatlas.org, 2014.
- ^{iv} Ibid.
- ^v 2016 Point In Time Estimates by State. <https://www.hudexchange.info/resources/documents/2007-2016-PIT-Counts-by-State.xlsx>
- ^{vi} The 2015 Annual Homeless Assessment Report (AHAR) to Congress, United States Department of Housing and Urban Development, November 2015.
- ^{vii} 2010-2014 American Community Survey 5-Year Estimates, Table B25072. California State Level Data.
- ^{viii} Disability Characteristics 2011-2015 American Community Survey 5-year estimates S1810, California State Level Data.
- ^{ix} USDA Farm Income and Wealth Statistics, 2014. U.S. and State-Level Farm Income and Wealth Statistics.
- ^x Gabbard, Susan et al. 101 Changes in Farmworker Characteristics. Farm Labor and the ALRA at 40, April 2015.
- ^{xi} Federal Register, Vol. 80, No. 9, January 14, 2015, p. 1943-1946.
- ^{xii} U.S. Census Bureau, 2011-2015 American Community Survey 5-Year Estimates, DP04 Selected Housing Characteristics. Graphic by HCD.
- ^{xiii} McKinsey Global Institute, "A Tool Kit to Close California's Housing Gap: 3.5 Million Homes by 2025," October 2016.
- ^{xiv} U.S. Census Bureau, 2011-2015 American Community Survey 5-Year Estimates, DP04 Selected Housing Characteristics. Graphic by HCD.
- ^{xv} California Polytechnic State University, San Luis Obispo as commissioned by California Department of Housing and Community Development, "Designing Affordability: Innovative Strategies for Meeting the Affordability Gap Between Low Income Subsidy and the Market in High Cost Areas," December 2015.
- ^{xvi} U.S. Department of Housing and Urban Development Office of Policy Development and Research, "Measuring Overcrowding in Housing," September 2007. More than one persons-per-room; traditional overcrowding metric and most frequently seen in overcrowding literature review, pg. 4.
- ^{xvii} U.S. Census Bureau, 2015 American Community Survey 1-Year Estimate, Tables B25014, Tenure by Occupants per Room.
- ^{xviii} U.S. Census Bureau, 2005-2009, 2011-2014 American Community Survey 1-Year Estimates, B25003. California State Level Data.
- ^{xix} "California's Future: Housing". Public Policy Institute of California, January 2016.
- ^{xx} Historical Decennial Census Data for years 1900-2000. General Housing Characteristics.
- ^{xxi} California Association of Realtors – Historical Housing Data, Seasonally Adjusted Monthly Median Sales Price of Existing Detached Homes, January 2017.
- ^{xxii} California Association of Realtors, "Housing Affordability Index – Traditional," Quarter 4, 2016.
- ^{xxiii} This list was generated with assistance from UC Berkeley's Turner Center.
- ^{xxiv} National Low Income Housing Coalition, "Out of Reach 2016: California." <http://nlihc.org/oor/california>. Methodology: Multiply minimum wage by 40 (hours per work week) and 52 (weeks per year) to calculate annual income (\$15 x 40 x 52 = \$31,200). Multiply by .3 to determine maximum amount that can be spent on housing costs, and then divide by 12 to obtain monthly amount (((\$31,200 x .3) / 12 = \$780).
- ^{xxv} Comprehensive Housing Affordability Strategy, U.S. Department of Housing and Urban Development custom tabulations of 2009-2013 American Community Survey data.
- ^{xxvi} Herbert, Chris; et al. "The State of the Nation's Housing, 2016," Harvard University, Joint Center for Housing Studies, 2016.
- ^{xxvii} 2016 National Low Income Housing Coalition tabulations of 2014 American Community Survey Public Use Microdata Sample (PUMS) housing file.
- ^{xxviii} 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).
- ^{xxix} U.S. Census Bureau, 2010-2014 American Community Survey 5-Year Estimates, DP04 Selected Housing Characteristics.
- ^{xxx} California Fact Sheet: Federal Rental Assistance. Center on Budget and Policy Priorities. August 2015.
- ^{xxxi} California's High Housing Costs: Causes and Consequences. Legislative Analyst's Office, March 2015.
- ^{xxxii} Urban Displacement Project, "Executive Summary of Urban Displacement Project", December, 2015, pg. 2 http://www.urbandisplacement.org/sites/default/files/images/urban_displacement_project_-_executive_summary.pdf
- ^{xxxiii} Ibid. p. 2
- ^{xxxiv} Zuk, Miriam and Karen Chapple, "Berkeley Institute of Governmental Studies Research Brief: Housing Production, Filtering and Displacement: Untangling the Relationships," May 2016.
- ^{xxxv} Chetty, Raj, and Nathaniel Hendren. 2015. "The Impacts of Neighborhoods on Intergenerational Mobility: Childhood Exposure Effects and County-Level Estimates". Harvard University and NBER, May 2015
- ^{xxxvi} Wagmiller, Robert Lee and Robert M. Adelman "Childhood and Intergenerational Poverty: The Long-Term Consequences of Growing Up Poor" National Center for Children in Poverty, November 2009
- ^{xxxvii} Ibid.
- ^{xxxviii} Kneebone, Elizabeth and Natalie Holmes. 2016. U.S. concentrated poverty in the wake of the Great Recession. Brookings. March 31. Website: <https://www.brookings.edu/research/u-s-concentrated-poverty-in-the-wake-of-the-great-recession/>

^{xxxix} Assembly Bill 2722 of 2016 established the Transformative Climate Communities Program, administered by the Strategic Growth Council (SGC), to "...fund the development and implementation of neighborhood-level transformative climate community plans that include multiple, coordinated greenhouse gas emissions reduction projects that provide local economic, environmental, and health benefits to disadvantaged communities as described in Section 39711 of the Health and Safety Code." (Pub. Resources Code § 75240.)

^{xl} Promise Zones are high poverty communities where the federal government partners with local leaders to increase economic activity, improve educational opportunities, leverage private investment, reduce violent crime, enhance public health and address other priorities identified by the community. The 22 urban, rural, and tribal Promise Zones were selected through three rounds of national competition, in which applicants demonstrated a consensus vision for their community and its residents, the capacity to carry it out, and a shared commitment to specific, measurable results.

^{xli} Choice Neighborhoods is designed to address struggling neighborhoods with distressed public housing or HUD-assisted housing through a comprehensive approach to neighborhood transformation. Local leaders, residents, and stakeholders, such as public housing authorities, cities, schools, police, business owners, nonprofits, and private developers, come together to create a plan that transforms distressed HUD housing and addresses the challenges in the surrounding neighborhood. In addition to revitalizing severely distressed public and/or assisted housing, the program is designed to invest and leverage investments in well-functioning services and assets, high quality education crime prevention, public transportation, and improved access to jobs.

^{xlii} These ballot measures include Measure A in Santa Clara County: \$950 million bond focused on permanent supportive housing; Measure A1 in Alameda County: \$580 million bond focused on a range of affordable housing needs; Measure K in San Mateo County: (extension of Measure A, approved by voters in 2012) half-cent sales tax that has generated approximately \$80 million annually; Proposition HHH in Los Angeles: \$1.2 billion bond for construction of affordable housing, including permanent supportive housing for chronically homeless; Proposition JJJ in Los Angeles: Requires developers who want zoning changes to build some affordable housing and requires a percentage of local hire for construction; and Measure GSH in Santa Monica: Half-cent city sales tax increase for an affordable housing fund.

^{xliii} Analysis of Impediments to Fair Housing, California Department of Housing and Community Development, September 2012.

^{xliv} Swanson, Christopher B. and Barbara Schneider, "Students on the Move: Residential and Educational Mobility in America's Schools." *Sociology of Education*, Vol. 72, No. 1 (Jan., 1999), pp. 54-67.

Burkam, David T., Valerie E. Lee, and Julie Dwyer. "School Mobility in the Early Elementary Grades: Frequency and Impact from Nationally-Representative Data." Paper prepared for the Workshop on the Impact of Mobility and Change on the Lives of Young Children, Schools, and Neighborhoods, June 29-30, 2009, National Academies, Washington, DC

Reynolds, Arthur J. et. al., "School Mobility and Educational Success: A Research Synthesis and Evidence on Prevention." Paper presented at the Workshop on the Impact of Mobility and Change on the Lives of Young Children, Schools, and Neighborhoods, Board on Children, Youth, and Families, National Research Council, June 29-30, 2009, Washington, DC.

Mantzicopoulos, Panayota and Dana J. Knutson, "Head Start Children: School Mobility and Achievement in the Early Grades." *The Journal of Educational Research*, Vol. 93, No. 5, pp. 305-311 (2000). GAO, "Elementary School Children: Many Change Schools Frequently, Harming Their Education." United States General Accounting Office (1994).

^{xlv} Ernst, Greg and Foscarinis, Maria, "Education of Homeless Children: Barriers, Remedies, and Litigation Strategies." *Clearinghouse Review*: pp 754-759 November-December 1995.

^{xlvi} Cohen, Rebecca, "The Impacts of Affordable Housing on Health: A Research Summary" Center for Housing Policy 2011.

Levy, Helen and Thomas DeLeire, "What do People Buy When They Don't Buy Health Insurance and What Does that Say about Why They are Uninsured?" National Bureau of Economic Research Working Paper Number 9826, July 2003.

^{xlvii} Diana Becker Cutts, Alan F. Meyers, Maureen M. Black, Patrick H. Casey, Mariana Chilton, John T. Cook, Joni Geppert, Stephanie Ettinger de Cuba, Timothy Heeren, Sharon Coleman, Ruth Rose-Jacobs, and Deborah A. Frank. "US Housing Insecurity and the Health of Very Young Children". *American Journal of Public Health*: August 2011, Vol. 101, No. 8, pp. 1508-1514.

^{xlviii} Wright et al., "Health in Housing: Exploring the Intersection between Housing and Health Care" Center for Outcomes Research and Education (CORE) in partnership with Enterprise Community Partners, Inc., 2016.

^{xlix} "Project 50: The Cost Effectiveness of the Permanent Supportive Housing Model in the Skid Row Section of Los Angeles County". County of Los Angeles Service Integration Branch, Research and Evaluation Services, June 2012.

^l McKinsey Global Institute, "A Tool Kit to Close California's Housing Gap: 3.5 Million Homes by 2025," October 2016.

^{li} Hsieh, Chang-Tai and Enrico Moretti, "Why Do Cities Matter? Local Growth and Aggregate Growth," Technical Report, National Bureau of Economic Research 2015.

^{lii} U.S. Census Bureau Current Population Survey microdata 2015.

^{liii} California's High Housing Costs: Causes and Consequences. Legislative Analyst's Office, March 2015.

^{liv} Center for Neighborhood Technology, "Income, Location Efficiency, and VMT: Affordable Housing as a Climate Strategy", December 2015.

^{lv} Keith Wardrip, Public Transit's Impact on Housing Costs: A Review of the Literature. Center for Housing Policy, 2011.

^{lvi} Stephanie Pollack, Barry Bluestone, and Chase Billingham, Maintaining Diversity In America's Transit-Rich Neighborhoods: Tools for Equitable Neighborhood Change, Dukakis Center for Urban and Regional Policy, 2010. <http://www.dukakiscenter.org/report-summary/>

^{lvii} U.S. Census Bureau, 2015 American Community Survey 1-Year Estimate, Tables B25014, Tenure by Occupants per Room

^{lviii} The Impact of Affordable Housing on Health. Center for Housing Policy, May 2011.

http://nhc.org/media/files/Insights_HousingAndHealthBrief.pdf