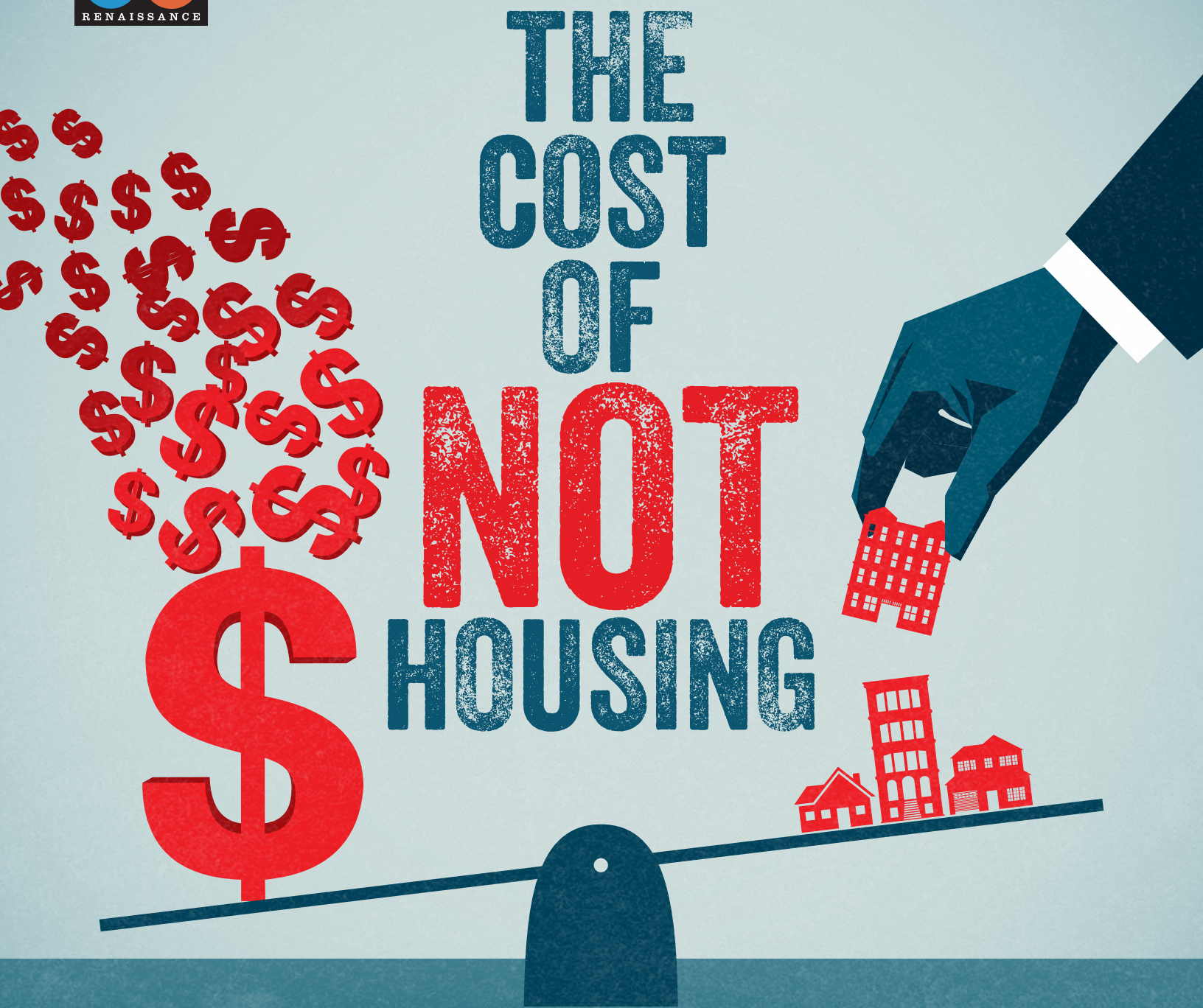




2016 SYMPOSIUM ON THE AFFORDABILITY OF HOUSING



BY JOEL KOTKIN

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## EXECUTIVE SUMMARY

It is a commonplace view that housing does not contribute to the overall fiscal and economic condition of cities. Recent trends—both nationally and here in California—suggest that this is not the case. New housing, including affordable units, provide some direct stimulation through construction jobs, but also allow people, particularly young families, to stay, work and shop locally. Lack of affordable housing ultimately drives people, particularly the entry level and young educated, out of regions where their labor would be coveted by local companies.

Some in the real estate industry, seeing ever higher prices, do not see a crisis here. Yet the current real estate “bubble” is not a durable replacement for a strong, sustainable economy. Older owners, and land speculators with a hold on scarce developable parcel, may do well under such conditions, but draining household finances for rents depresses retail sales, and makes saving for a home purchase ever more difficult.

The problems are particularly relevant to areas like the Inland Empire and the Central Valley, whose economies depend on the migration of middle and working class families seeking more affordable housing. Yet developing such houses—critical to future economic growth—has been greatly constrained by a regulatory regime that works to reduce housing growth, particularly for single family houses, in the periphery. The result has been steadily escalating rents and house prices across the state.

To meet the needs of its increasingly diverse population, and particularly the next generation, California needs to reform its regulations to more fully reflect the needs and preferences of its citizens. Once the home of the peculiarly optimistic “California Dream”, our state is in danger of becoming a place good for the wealthy and well-established but offering little to the vast majority of its citizens who wish to live affordably and comfortably in this most blessed of states.

“*I want, and I know all cities want, to create housing where people who work in our restaurants, who work as first year school teachers, who work in our department stores—we want them to live in our community. My children cannot afford a house in Rancho Cucamonga. We need a greater opportunity for housing affordability.*”

~ **L. Dennis Michael**, Mayor of Rancho Cucamonga and League of California Cities President

## SECTION TWO: THE ROOTS OF CALIFORNIA'S HOUSING CRISIS

In recent years most US major metropolitan areas have experienced rent and home price increases well above the national average.<sup>1</sup> But some California cities are in a world of their own, with San Jose and San Francisco rising to being the most unaffordable major metropolitan markets in the nation.<sup>2</sup> In San Francisco, only ten percent of the population would qualify for a median priced house, compared to over 50 percent nationally.<sup>3</sup>

Some 53 percent of California's middle-income households, earning between \$35,000 and \$75,000 per year, spent more than 30 percent of their income on rent, up from 38 percent just a decade ago. In the nation overall, the figure is 31 percent. It is even worse for those who have borrowed to buy a home — over two-thirds of middle-class households with a mortgage are cost-burdened in California — compared to 40 percent in the nation overall.<sup>4</sup>

### California's Poor Rate of Housing Production

Our state is home to roughly 13 percent of the nation's population, and has slightly greater than average population growth. Yet, over the last 20 years California has accounted for only 8 percent of all national building permits.<sup>5</sup>

Last year, according to research done for Forbes.com, the state issued permits at a rate well below the national average. In terms of permits, only San Jose, which includes part of Silicon Valley, ranked in the top 20 (it was 18th) out of the 53 largest metropolitan areas. In this assessment, the Inland Empire ranked 34th, San Diego ranked 35th, San Francisco 38th, Los Angeles 41st and Sacramento 43rd. Those regions which did even worse were located in the Rust Belt, places where more people have been leaving than coming for decades.<sup>6</sup>

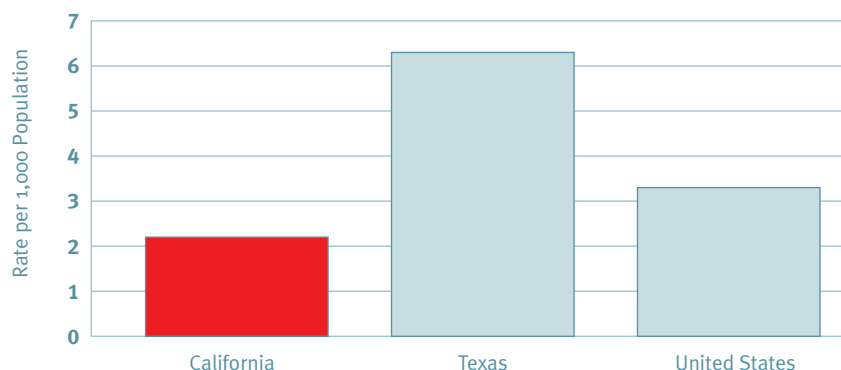
The contrast with other dynamic regions, notably in Texas and the Southeast, is notable. These areas lead the country in growth rate for new residential construction, led by Houston (with its core city, Houston, zoning free), Dallas-Ft. Worth, Austin, Charlotte, Raleigh, Nashville, Orlando, Jacksonville and Oklahoma City. Virtually all of California's closest competitors—Seattle, Salt Lake City, Denver and, even after the crash, Las Vegas—also are building more housing for their residents.

Houston and Dallas-Fort Worth, each with a population roughly one-half of Los Angeles-Orange, has issued

somewhere close to two times as many new permits. Last year, even with the California recovery accelerating, Los Angeles County produced 1.7 permits per 1000 people (all housing types), and Orange County a somewhat better 3.0 while Riverside County, a traditional growth hub, generated 2.3. Formerly fast growing San Bernardino County has slipped to 1.6. San Francisco, despite its booming economy, produced only 2.0. Each of these areas was below the 3.3 national rate. In contrast, Dallas-Fort Worth produced 6.3 permits per 1000 and Houston achieved 9.8. Overall, California's rate of new permits is 2.2 while across the Lone Star State the rate was nearly three times higher (6.3).<sup>7</sup>

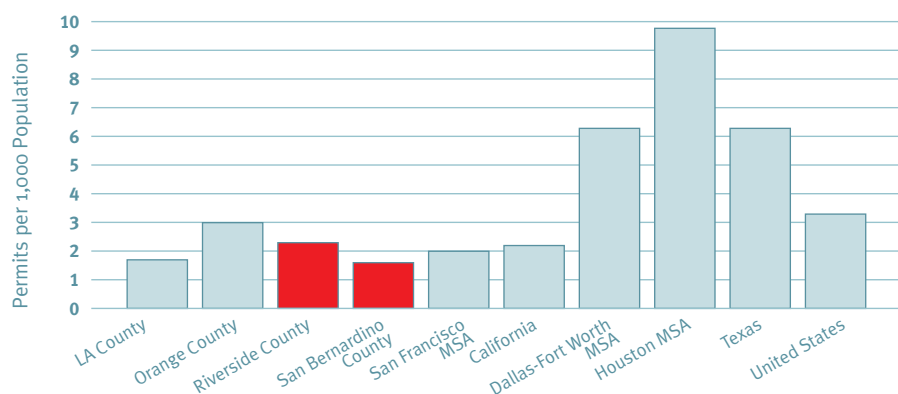
**FIGURE 1 New Houses: Building Permits 2014 (All Types)**

US Census Bureau Data



**FIGURE 2 All New House Building Permits: 2014 California and Comparisons**

US Census Bureau Data



## Planning Policy Failures

The state's Legislative Analyst's Office (LAO) makes clear that California's convoluted, and ideologically driven, planning system has contributed mightily to this meager production.<sup>8</sup> The state's desire to force ever more density, and limit development on the urban periphery, is well known to developers. Jerry Brown, and much of the progressive community, is now obsessed with reducing "sprawl", cars and single family homes, making it all but impossible to build affordable single family homes on the metropolitan periphery. The prospects for such development appear certain to worsen as the requirements of Senate Bill 375 are implemented.<sup>9</sup>

These policies impact even those that might be seen as enlightened from the state's own perspective. Even when state officials approve projects that include various housing forms, ample office space and close proximity between home and work, the state's environmental laws can be used to delay and even stop development, as occurred recently in Valencia.<sup>10</sup>

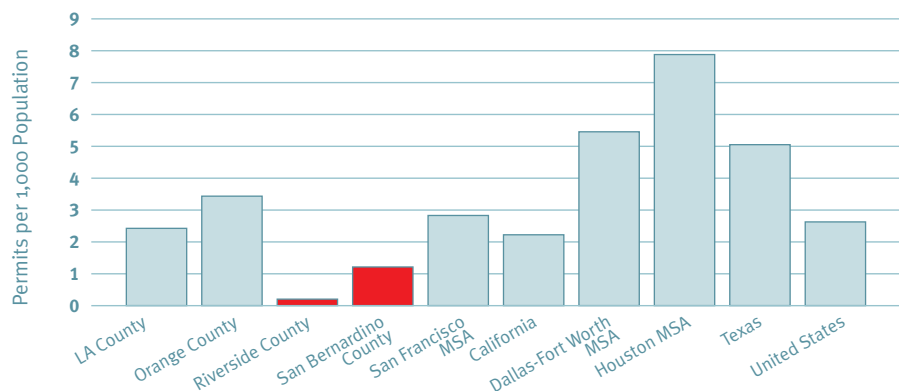
Hemmed in by regulation and resistance from local residents, multi-family construction has not boomed as many might have expected. Much smaller Dallas-Fort Worth and Houston produce more multi-family units (apartments and apartment condominiums) per 1,000 residents than Los Angeles, with more than twice their population. For all of the publicity about strong multi-family housing construction, only San Jose built at a rate in 2015 substantially greater than that of the nation, while economically booming San Francisco was only slightly above the national rate (1.4 per 1,000 residents, compared to 1.3 for the United States).

The rate of new permits for single family homes—preferred by some 80 percent of buyers nationwide<sup>11</sup>—is far worse. Los Angeles County, for example, last year generated 0.5 new single family permits per 1,000 residents and the Bay Area 0.9,<sup>12</sup> well under the 2.0 average for the whole country. Meanwhile Orange County generated 1.2 and Riverside County, once a hot bed for such projects, offered 2.2.

This is a precipitous decline from the 2000 rate of 8.6. San Bernardino County, which has also grown strongly in the past, has dropped to 1.0, from a rate of 3.4 in 2000. In contrast Dallas-Fort Worth produced 3.6 per 1,000 population and Houston 5.9; overall Texas is creating roughly four times as much single family housing per thousand than California.

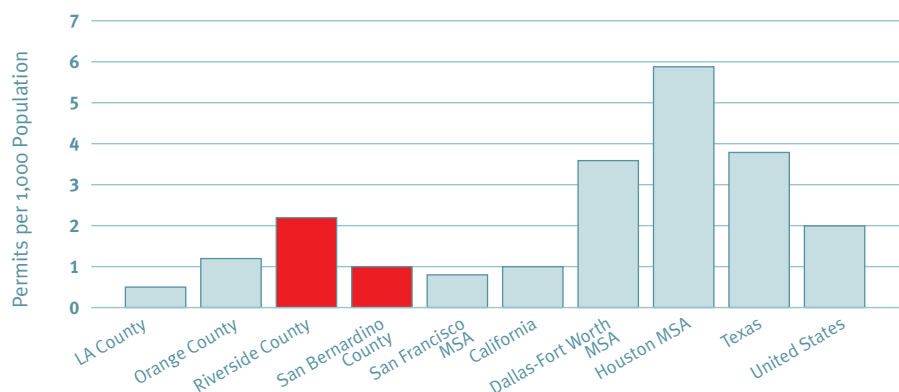
**FIGURE 3 Multi-Family Building Permits:  
2014 California and Comparisons**

US Census Bureau Data



**FIGURE 4 Single-Family Building Permits:  
2014 California and Comparisons**

US Census Bureau Data





The impact of these regulatory policies on prices have been clear for decades. William Fischel, an economist at Dartmouth University, has shown how the imposition of stringent land use regulations have driven house prices up substantially in California, in relation to prices elsewhere.<sup>13</sup> In 1970, for example, housing affordability in coastal California metropolitan areas was similar to the rest of the country, as measured by the median multiple (the median house price divided by the median household income).<sup>14</sup>

The connection between strident regulation and declining affordability was recently seconded by Jason Furman, chairman of President Obama's Council of Economic Advisors:

*With high house prices and further hedges against property value depreciation in local regulations, some individuals are priced out of the market entirely, and homes in highly zoned areas also become even more attractive to wealthy buyers. Thus, in addition to constraining supply, zoning shifts demand outward, exerting further upward pressure on prices.*<sup>15</sup>

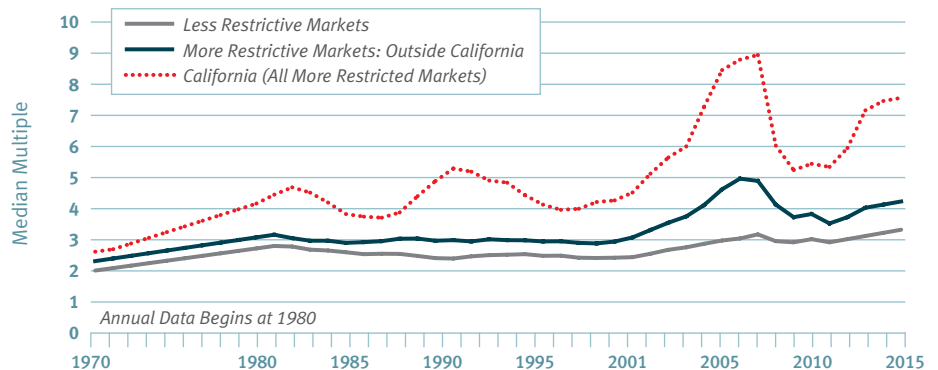
The extraordinary cost of land in California is largely traceable to these regulations, which employ what one critic labels "proscriptive policies and social restraint on the urban form."<sup>16</sup> These policies force many developers to build homes predominantly for the affluent; the era of the Levittown-style "starter home"—which particularly benefited younger families—is all but defunct.

### Most Justifications for Policy are Suspect

Advocates of strict land use policies claim that traditional architecture and increased densities will enable us to enjoy the kind of "meaningful community" that supposedly cannot be achieved in conventional suburbs.<sup>17</sup> Yet, the majority of research shows that most Americans not only prefer suburbs but actually are happier there than their counterparts closer to the urban core.<sup>18</sup>

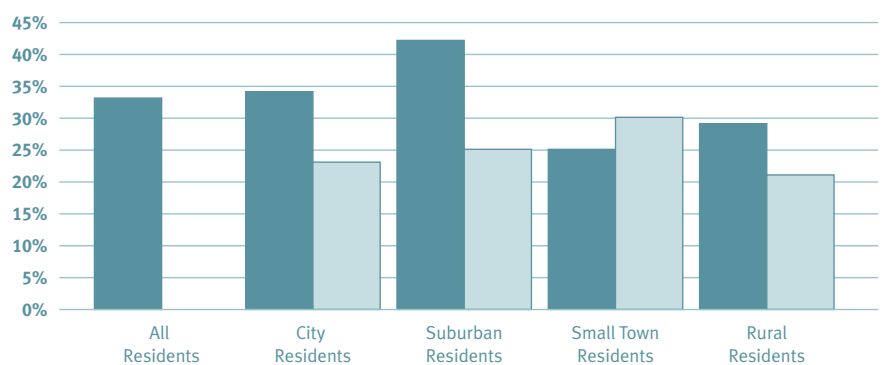
**FIGURE 5 Middle Housing Affordability**  
**U.S. Major Metropolitan Areas: 1950-2015**

Derived from US Census Bureau Data, Harvard University and Demographia



**FIGURE 6 Satisfaction & Living Preference**  
**By residential Location**

Pew Research Center, 2009



*“It is very easy to attribute low-income housing or apartment housing to crime and to problems in the community. It’s not low-income housing that is the problem. There is a significant difference in low-income housing that is well managed versus low-income housing owned by an absentee landlord who is not going to invest in the community or deal with the problems.”*

~ Chief Jarrod Burguan, San Bernardino Police Department

Others, such as New Urbanist architect and planner Peter Calthorpe suggest that demographic trends make the long standing pattern of peripheral development, and particularly single family homes, passé. His conclusion was that: “Realizing the old American dream in existing development patterns seems increasingly unlikely.”<sup>19</sup> Yet two decades after this assessment, the American family appears to be every bit as drawn to suburban lifestyles.<sup>20</sup>

Indeed, contrary to the bold predictions of many retro-urbanists, suburban areas are once again, after a brief slowdown, growing faster than the urban cores.<sup>21</sup> And this trend will continue to intensify, notes Zillow, due to demographic forces discussed below.<sup>22</sup>

Increasingly, housing regulations are justified based on environmental concerns.

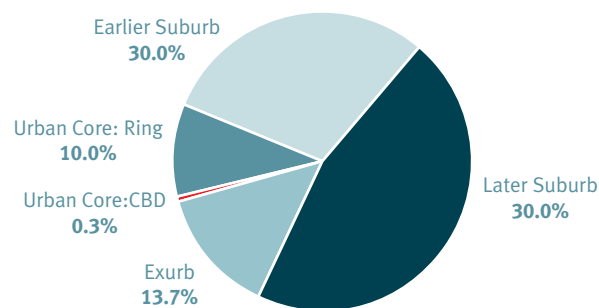
To combat climate change and other environmental challenges, the Sierra Club argues that local, state, and federal governments should enact policies that make people live closer together and, consequently, rely less on their cars. In order to do this, theorists advocate establishing urban growth boundaries which ban new development beyond the urban fringe.<sup>23</sup>

Sadly, much of the advocacy for density as a solution to greenhouse gas (GHG) emission reduction is deeply flawed. It usually excludes GHG emissions from common areas in high density housing, such as elevators, parking areas, hallways and lobbies. It also usually excludes commonly provided lighting, heaters and air conditioning. An Australian study found that lower density housing produced lower levels of greenhouse gas emissions per capita

when common areas were included in high density calculations.<sup>24</sup> In one of the most comprehensive nationwide reviews of greenhouse gas emissions, Australian Conservation Foundation data indicated that per capita emissions tend to decline with distance from the urban core, through suburban rings outward.<sup>25</sup> Another study, this one in Halifax, Nova Scotia, found the carbon footprints of core residents and suburbanites to be approximately the same.<sup>26</sup>

**FIGURE 7 Growth Share by City Sector:2000-2012**  
**52 Major Metropolitan Areas**

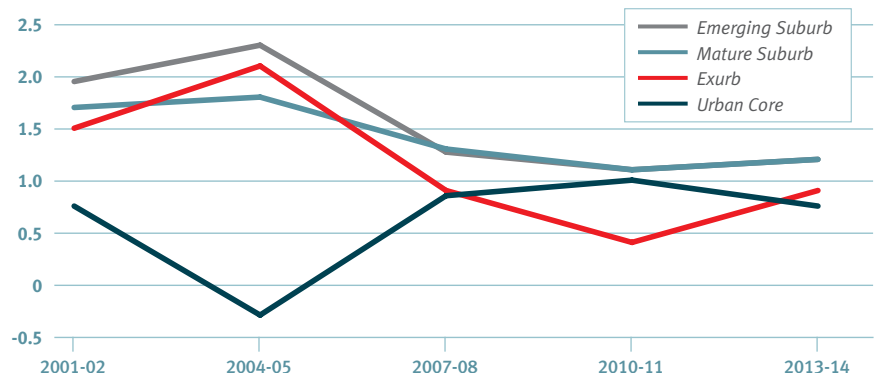
Derived from  
2010 Census, ACS (\*2010-4):  
City Sector Model 2015 Revision



Latest data available at publication

**FIGURE 8 Exurbs are growing faster than urban core again**

Source: The Brookings Institution, US Census Bureau



*“If you want to attract businesses to your community, you’re going to need housing affordability, whether to rent or to own.”*

~ Tim Johnson, Executive Director of  
California Apartment Association  
Greater Inland Empire

Further, little account is taken of substantially improving vehicle fuel efficiency<sup>27</sup> in congested conditions and the resulting much higher greenhouse gas emissions that occur in higher density corridors. Moreover, the pollution from the more intense congestion is a greater threat to people living near congested corridors.

Urban planners hoping to help mitigate CO<sub>2</sub> emissions by increasing housing density and restricting peripheral development also would do better to focus on fuel-efficiency improvements to vehicles, investments in renewable energy, home-based work and perhaps some form of carbon tax.<sup>28</sup> Economist Anthony Downs of the Brookings Institution, a proponent of smart growth policies, has said, “If your principle goal is to reduce fuel emissions, I don’t think future growth density is the way to do it.”<sup>29</sup>

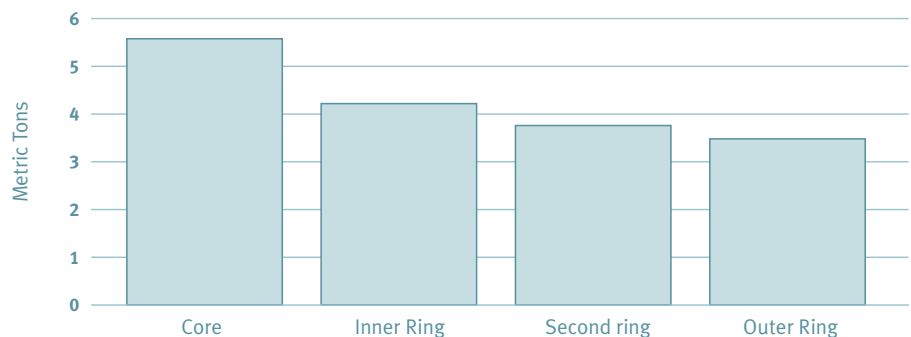
As Downs suggests, there may be other, more effective and less damaging ways to reduce emissions. Improved mileage on cars, including electric and natural gas or hydrogen propelled vehicles, would thus be far more impactful, not to mention less disruptive.<sup>30</sup> A report by McKinsey & Company and the Conference Board indicates that sufficient greenhouse gas emissions could be achieved without any “downsizing of vehicles, homes or commercial space,” while “traveling the same mileage.” Nor, said McKinsey and the Conference Board would there be a need for a “shift to denser urban housing.”<sup>31</sup>

The impact of California’s bid to restrict suburban growth, such by promoting transit oriented developments, have proven notably ineffective in reducing automobile travel. A Los Angeles Times report found that relatively few people in these buildings actually took transit.<sup>32</sup> In addition, California’s strict policies

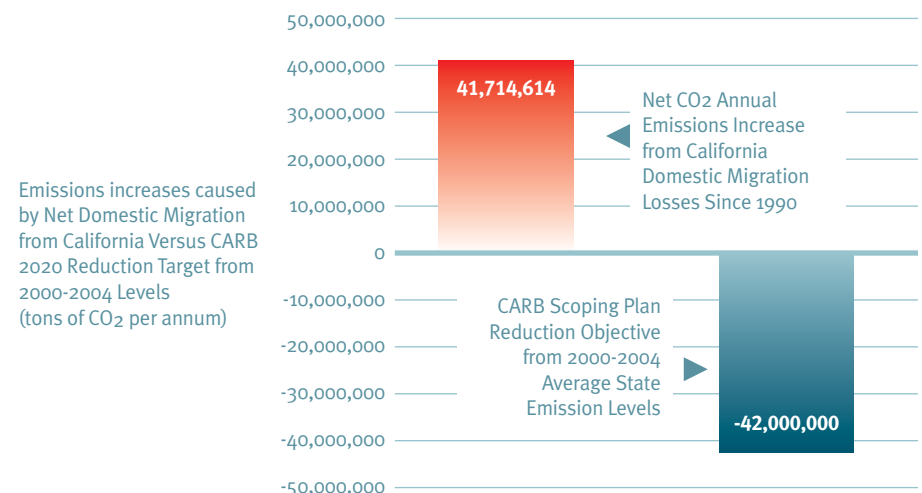
may also have unintentionally driven people, jobs and factories to areas in the United States and abroad where heat and cold, as well as weaker regulation, lead to increased energy consumption. In practical terms this has all but wiped out any net reductions achieved by state policies.<sup>33</sup>

**FIGURE 9 CO<sub>2</sub> Emission per Capita: By Sector**  
**Australia 5 Large Capital Urban Areas**

*Housing Form in Australia and Its Impact on Greenhouse Gas Emissions*



**FIGURE 10 California Emissions: Comparisons**  
**Emission Reduction Goal & Out-Migrant Increase**



California Air Resources Board and Friedman

“Some of the most successful projects that we’ve seen on an organic level have started with housing. Not shopping centers. Not strip centers.”

~ Jeff Isenstaadt, President of JCI Development Inc., a developer of commercial and master-planned communities



## SECTION THREE: THE ECONOMIC CONSEQUENCES OF THE HOUSING SHORTAGE

What does this shortfall in housing mean in terms of the lives of California communities? Overall, the regulatory regime threatens the fundamentals of California prosperity: the ability to attract and retain families providing upward mobility for immigrants, instead undermining the expansion of the workforce and depressing levels of consumer spending.

### Impacts on California's Young Families

The cost of high housing prices particularly hits young California families. A recent study we conducted for Chapman University's Center for Demographics and Policy, which ranked regions by their environment for young, middle class families, found the five largest metropolitan areas of California to rank from 67th to 105th out of the 106 with more than 500,000 residents.<sup>34</sup>

This trend can also be seen by the decline in the number of children in our metropolitan areas. Los Angeles has seen among the largest drops in the number of children of any place in the country. In contrast, many lower price cities—Raleigh, Austin, Atlanta, Las Vegas, Houston, Dallas-Fort Worth—continue to gain in terms of their age 5 to 14 population.<sup>35</sup>

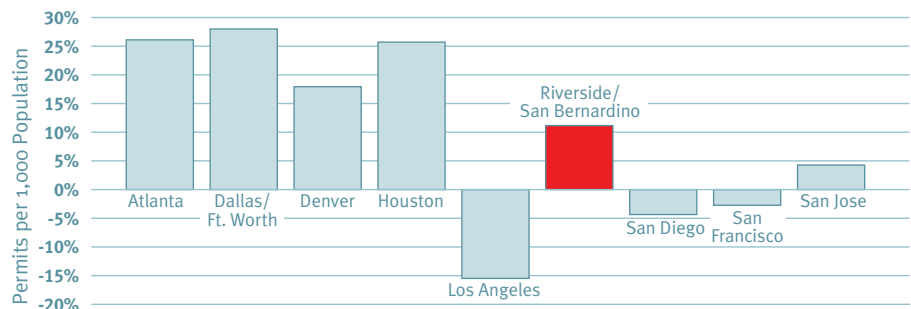
These high prices make life difficult for young people who might want to stay in the state. According to Zillow, for workers between 22 and 34, rent costs claim upwards of 45 percent of income in Los Angeles and San Francisco compared to less than 30 percent of income in cities like Dallas and Houston.<sup>36</sup> The costs of purchasing a house are even more lopsided: In Los Angeles and the Bay Area, a monthly mortgage takes, on

average, close to 40 percent of income, compared to 15 percent nationally.<sup>37</sup>

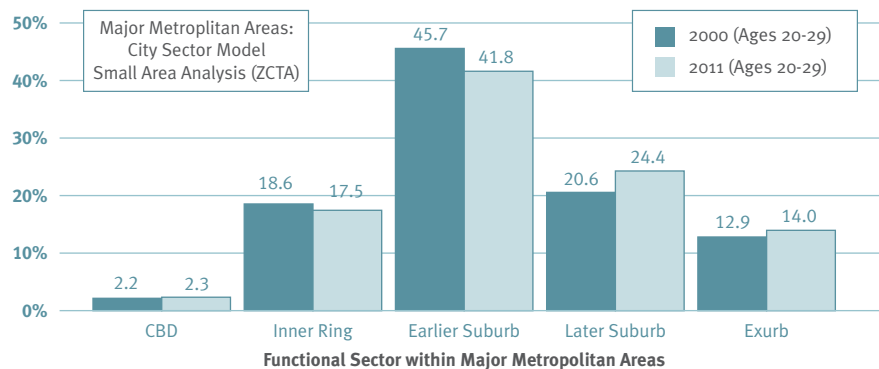
Some suggest that millennials are not interested in home ownership, and disdain settling in the suburbs.<sup>38</sup> Yet only 20 percent of millennials live in urban core districts.<sup>39</sup> Nearly 90 percent of millennial growth in major metropolitan areas between 2000 and 2011 took place in the suburbs and exurbs.<sup>40</sup>

**FIGURE 11 Change in Child Population (5-14)  
Selected Metropolitan Areas: 2000-2013**

US Census Bureau Data



**FIGURE 12 Age 20-29 % Population Distribution  
2000-2011: By Functional Sector**



“Responsible communities provide a range of housing that meets the needs of the people working in them, the children that grow up there and their grandchildren.”

~ Steve PonTell, President and  
CEO of National Community  
Renaissance



Like their parents, many millennials are likely to end up in suburban and lower density locations. The National Association of Realtors surveyed the housing types that had been purchased by homebuyers in 2013 and 2014. They found that 80 percent of millennial buyers had purchased detached houses, and 8 percent had chosen attached housing. Only 7 percent purchased units in multi-unit buildings, although many more, unable to buy, do end up renting in high density buildings longer than they expect.<sup>41</sup> These results track, almost precisely, the data from the survey for all buyers.

In a National Association of Home Builders survey, roughly two-thirds of millennials said they ultimately desire a home in the suburbs. Even the Urban Land Institute, historically less than friendly to the suburbs, found that seventy percent of the entire generation expects to be living in a single family home by 2020.<sup>42</sup>

The issue of high housing prices will become more important when, as economist Jed Kolko notes, they begin to enter their 30s and start families. By 2018, when the peak of the millennial population turns 30, the demand for suburban houses is likely to increase dramatically.<sup>43</sup> Faced with a huge student debt load, a weaker job market, and often high housing prices, millennials still want to own their own home.<sup>44</sup> If they can't do it in California, they may seek a house elsewhere.

## Meeting the Needs of Minorities and Immigrants

Similar demand dynamics can be seen among minority and immigrant families, who represent the future both of the country and, even more so California. According to the Census Bureau, minority children will outnumber white-non-Hispanic children by as early as 2020, and by 2050, non-white ethnic group members will equal the total number of white-non-Hispanics in the

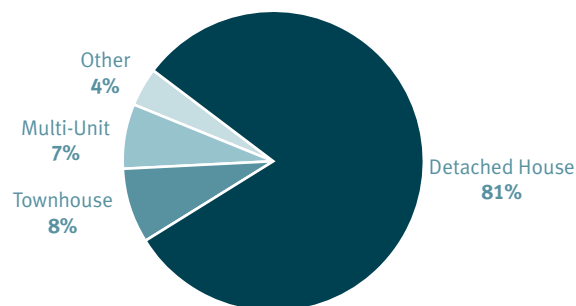
US population. Nearly half of these new households will be Hispanic.<sup>45</sup>

These trends are even stronger in California. The state's Department of Finance estimates that Hispanic population exceeded that of white-non-Hispanics by 2015. Between 2015 and 2060, the Hispanic population is projected to grow by 10 million, while the white-non-Hispanic population is expected to decline by 2 million.<sup>46</sup>

Most minorities, particularly families, have had a hard time adjusting to high prices for houses and soaring rents. The trend was particularly marked among black families with children.<sup>47</sup> Due in part to housing costs, San Francisco lost more of their 5 to 14 year old black population than devastated Detroit did. Los Angeles, once a vital center of African-American life, lost more than one-third of their black children.<sup>48</sup>

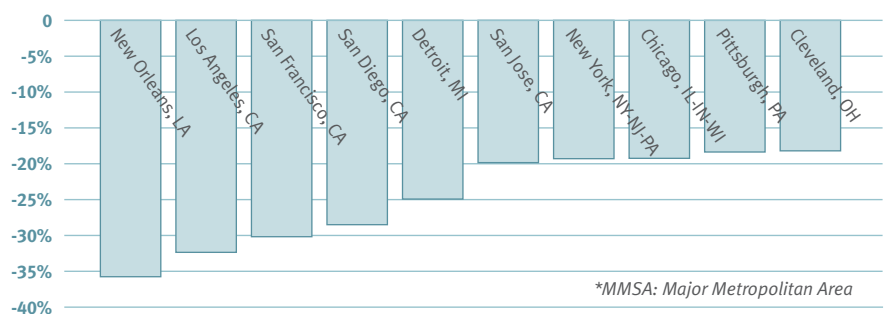
**FIGURE 13 House Purchases: Under Age 35  
2014-2015 National Association of Realtors**

From National Association  
of Realtors, 2015



**FIGURE 14 African-American Children in MMSAs\*  
Largest Losses: Ages 5-14: 2000-2010**

US Census Bureau Data



\*MMSA: Major Metropolitan Area

“Can we use housing in all kinds and forms to solve problems for communities that they’ve been trying to solve?”

~ Greg Devereaux, Chief Executive Officer, County of San Bernardino, asked rhetorically

As housing has become more expensive, not surprisingly California's tide of new immigration also has slowed considerably, particularly from Mexico. Overall, metropolitan areas like Houston, Dallas-Fort Worth and Atlanta are growing much faster in terms of foreign born residents than California, yet another indication of the state's, largely housing-induced diminished appeal.

This trend may become more pronounced in years ahead. Compared to other cities, notably in Texas, the Southeast and the Intermountain West, far fewer minorities own their own home in the Golden State's major metropolitan areas.

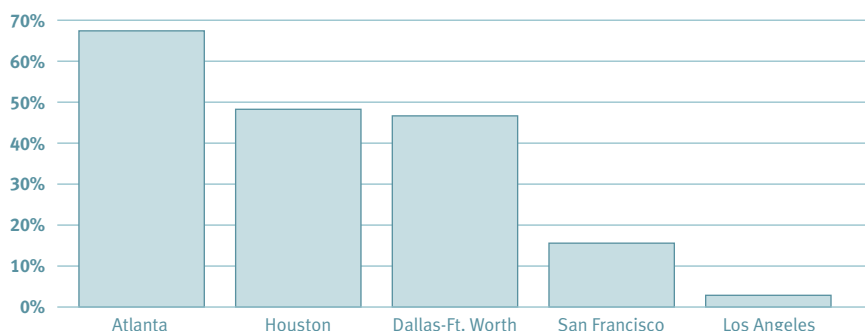
### Killing the Golden Goose

Diminished opportunities for home ownership and for affordable rental housing threatens the future competitiveness of California communities. As millennials, immigrants and minorities seek opportunities elsewhere, we will be hard put to capture the expanding population of young adults, immigrants and minorities that will shape the future.

Toyota's announced headquarters move from Los Angeles (Torrance) to the Dallas-FortWorth area is "really about affordable housing. That's what started the conversation," Albert Niemi Jr., dean of the Cox School of Business at Southern Methodist University (SMU), told the Dallas Business Journal. Niemi said Toyota held focus groups with employees and they said: "We're willing to move. We just want to live the American Dream."<sup>49</sup>

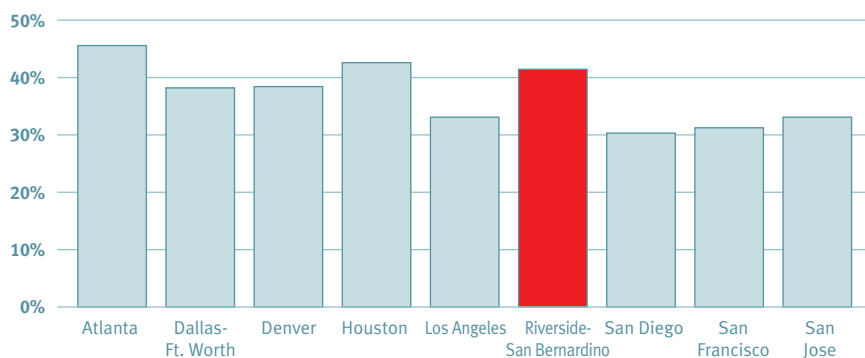
**FIGURE 15 Change in Foreign Born Population  
2000-2011: Metropolitan Areas**

US Census Bureau Data



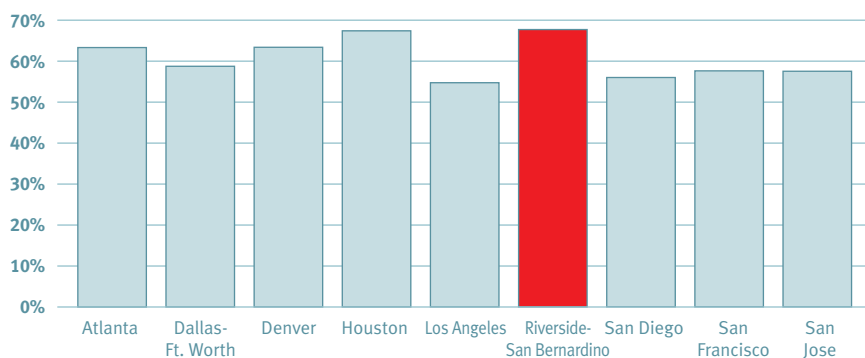
**FIGURE 16 African-American Home Ownership  
California & High Migration Metropolitan Areas**

US Census Bureau Data



**FIGURE 17 Asian Home Ownership  
California & High Migration Metropolitan Areas**

US Census Bureau Data



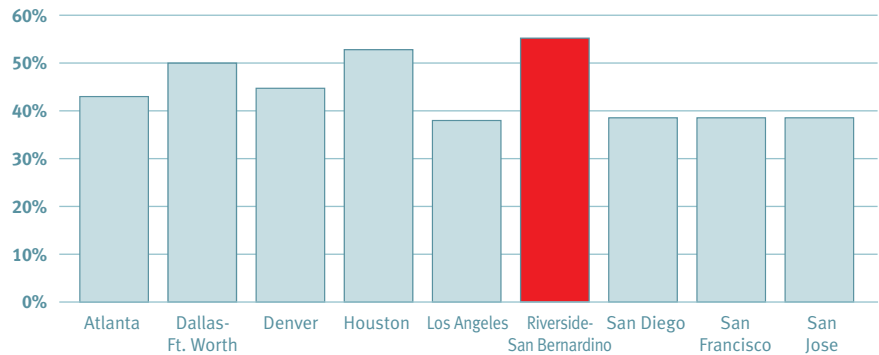
High housing prices will also impact the state's technology sector. The LAO refers to the difficulty that high-tech employers have in retaining and recruiting staff, citing survey data from the Silicon Valley, which has been California's economic "Golden Goose" in recent years. In a 2014 survey of more than 200 business executives conducted by the Silicon Valley Leadership Group, 72 percent cited "housing costs for employees" as the most important challenge facing Silicon Valley businesses.<sup>50</sup>

As a recent Joint Venture Silicon Valley report noted, the number of homes being sold in the area has actually dropped while the inventory has fallen 60 percent since 2011. The median sale price in San Mateo County is \$926,000. In Santa Clara County, it's \$830,000. Nor does there seem to be much help on the way. Between 2011 and 2015, the average rent in the area rose 33 percent. Lack of production is part of the story: In 2015, Silicon Valley saw only 5,055 residences approved for permits compared to 11,000 in 2014.<sup>51</sup>

These realities may explain why there has been a shift of younger workers (those most affected by these high prices), even among educated millennials, to more affordable regions such as Nashville, Orlando, New Orleans, Houston, Dallas-Fort Worth, Pittsburgh, Columbus, and even Cleveland. The one area that still is attracting more of these workers is the Inland Empire, which still has relatively reasonable housing prices, at least by California standards.<sup>52</sup>

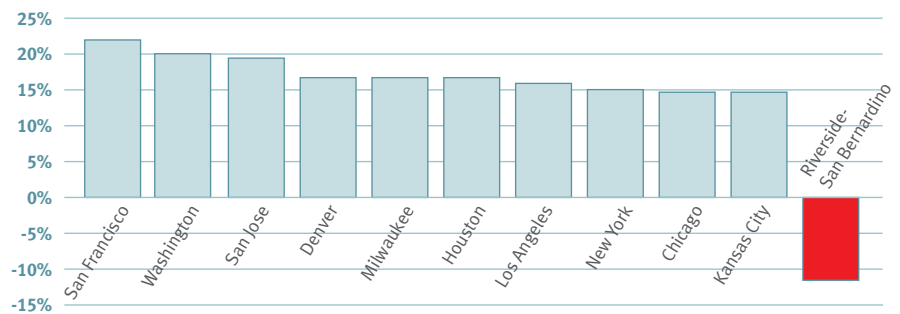
**FIGURE 18 Hispanic Home Ownership  
California & High Migration Metropolitan Areas**

US Census Bureau Data



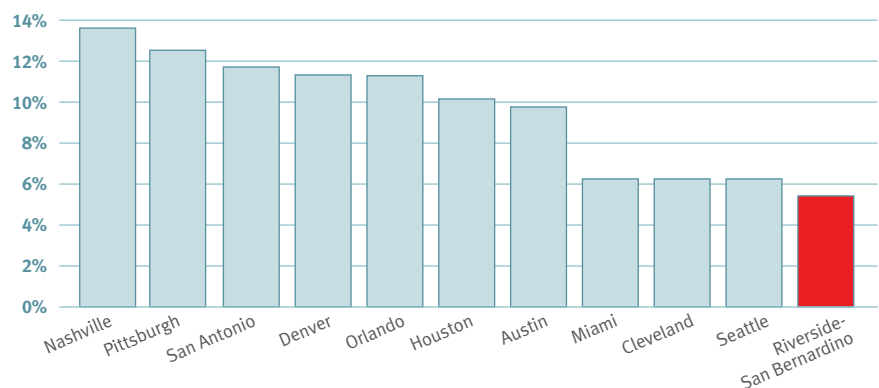
**FIGURE 19 Change in 25-34 Population with BA+  
Metropolitan Areas: 2008-2010**

American Community Survey Data



**FIGURE 20 Change in 25-34 Population with BA+  
Metropolitan Areas: 2011-2013**

American Community Survey Data





## Impacts on Retail Sales and the Tax Base

High housing prices and soaring rents also impact local communities—and their tax bases. “California’s high housing costs force many households to make serious trade-offs,” notes the state legislative analyst. This is particularly true for lower income workers, who have increasingly little left for discretionary spending anywhere else, as so much is spent on rent or mortgage payments. Low-income households who spend **more** than half of their income on housing spent 39 percent less on food than other low-income households.<sup>53</sup>

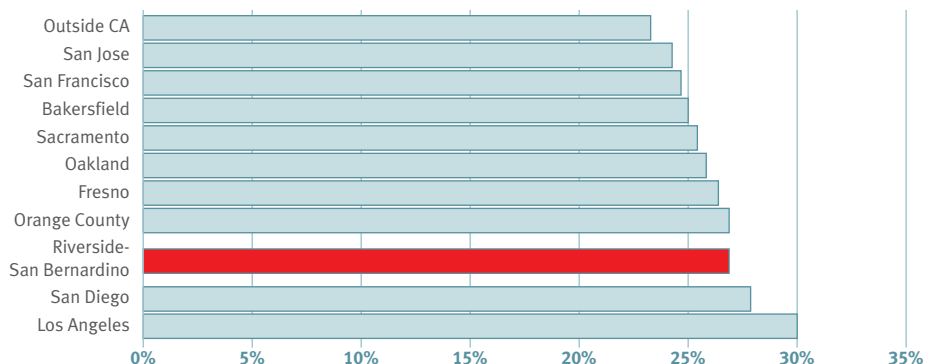
These high rents and mortgages do not simply delay expenditures on luxuries—particularly among the poorest populations. Harvard’s Joint Center for Housing Studies found that among the spending cutbacks due to housing costs are such key items as food, transportation and health care.<sup>54</sup>

*“Housing is essential to a healthy, thriving community. Businesses make decisions on where to invest based on housing costs and the ability to attract qualified employees.”*

~ Ciriaco “Cid” Pinedo, President of Hope through Housing Foundation

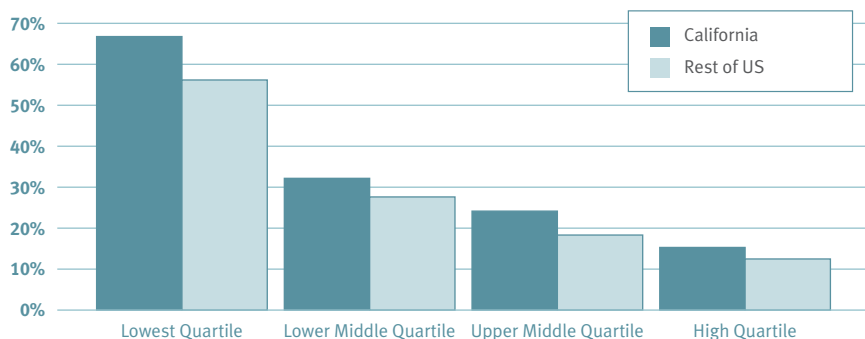
**FIGURE 21 Housing Cost Share of Median Income Metropolitan Areas and Divisions: 2013**

Legislative Analyst’s Office



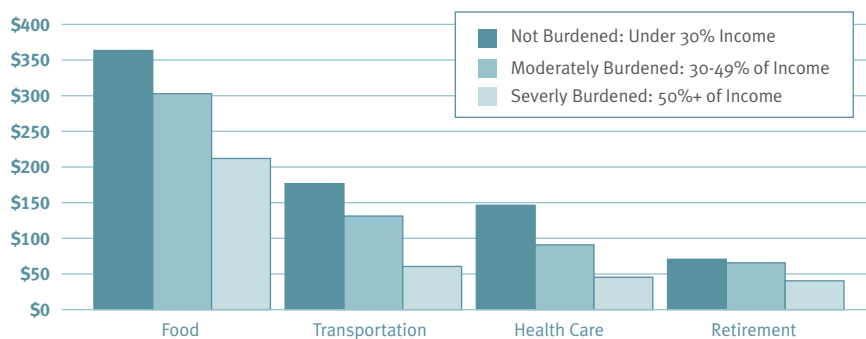
**FIGURE 22 Spending on Housing: California By Income Classification**

Legislative Analyst’s Office



**FIGURE 23 Average Monthly Spending: Low Income By Degree of Housing Cost Burden**

Joint Center for Housing Studies: Harvard University



These higher expenditures on rent and mortgages have a direct impact on local tax revenues. High rents and mortgages tend to depress sales of such big ticket items as appliances and cars, critical sources of local sales tax revenues.<sup>55</sup> A study by the Colorado Futures Center and The Piton Foundation of Adams County, outside Denver, found that the large proportion of people spending 30 percent or more of their income on housing depressed local sales taxes significantly. **“Each additional dollar a household spends to support its housing needs represents a potential reduction of the local sales tax base,” the report concluded.**<sup>56</sup>

The report also suggested that “housing burdened” households also tended to rely more on public services, further stressing local government. These include, of course, measures to subsidize or in other ways make up for the lack of adequate housing for distressed residents.

In California, the trend of higher expenditures on housing is worsening a gradual erosion of sales tax revenues to fund government; sales tax revenues are dropping as a percentage of income. This is in part due to the declining share of expenditures spent on goods, which is directly tied to housing-related spending.<sup>57</sup> High rents, and high mortgage payments, threaten not only family budgets, but local government ones as well.

## SECTION FOUR: THE HUMAN TOLL: OVERCROWDED HOUSES, IMPERILED FAMILIES, DASHED EXPECTATIONS

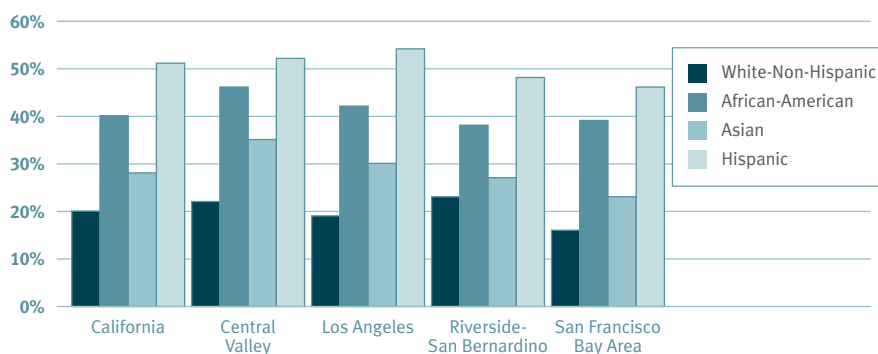
The soaring price of housing, coupled with weak income growth, exacts a human cost. Throughout the country, but particularly in California, housing inflation is causing massive poverty, threatening public health and the future of our children. By the most recent estimates, roughly one in

three California households is close to, or in, poverty. This is even more pervasive among Latinos and African-Americans.<sup>58</sup>

The United Way of California has developed a “Real Cost Measure,” which estimates how many households have insufficient income to afford their basic needs such as food, housing, health, childcare, taxes and transportation.<sup>59</sup> The percentage of households living below the Real Cost Measure is indicated in the chart below by California region.

**FIGURE 24 Households Below Real Cost Measure  
California Metropolitan Regions: 2015**

Joint Center for Housing  
Studies: Harvard University



“From horse properties down the Santa Ana River Trail to downtown housing, where we have 600 units in the pipeline and where we see real potential in the future for millennials and empty nesters coming home to roost.”

~ Mayor Rusty Bailey, on how the City of Riverside strives to be a complete city

## The Impact on the Poor

The housing crisis is a primary driver of California's growing poverty. Although the state's nominal poverty rate is around the national average, housing costs, according to Census estimates, have driven the state's housing cost adjusted poverty rate to the highest in the nation, 50 percent above that of Mississippi.<sup>60</sup>

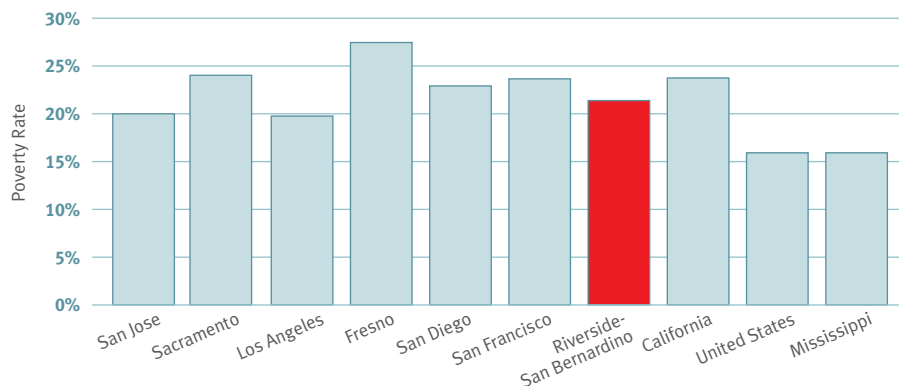
Simply put, incomes are not keeping up with the price of housing. In Los Angeles, prices have grown four times faster. And this is felt not just by the very poor. Roughly half of middle-income households were rent burdened in 2011, compared with just 11 percent in 2000, according to a UCLA analysis. In 2014, more than one-half of major metropolitan area renters had housing expenses that were 30 percent or more of income. By comparison, in 1960 the figure was approximately 25 percent.<sup>61</sup> One in three households earning \$50,000 to \$75,000 spend more than a third of their income on rent.<sup>62</sup>

## Overcrowding in California: The Tragic Side of California's Shortfall.

Another pernicious side effect of high prices has been severe overcrowding. In Los Angeles, stagnant incomes have driven overcrowding and a "rental revolution" which has seen the county as the most overcrowded in the country. As many as 200,000 people live in spaces not meant for, or even legal for, housing, such as converted rooms and garages. The county's shortfall of low-income housing has been estimated as high as a half million units. Seven of the country's most crowded zip codes are in California's largest county.<sup>63</sup>

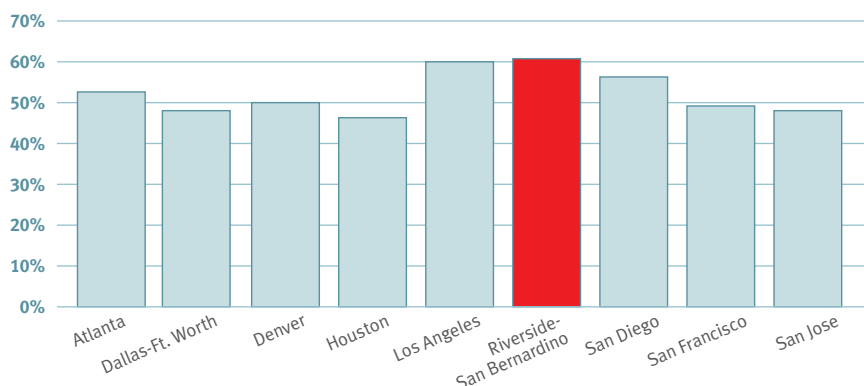
**FIGURE 25 Poverty in California v. US Housing Cost Adjusted 2013**

*California Poverty Measure Scaled to National Supplemental State Poverty Rate*



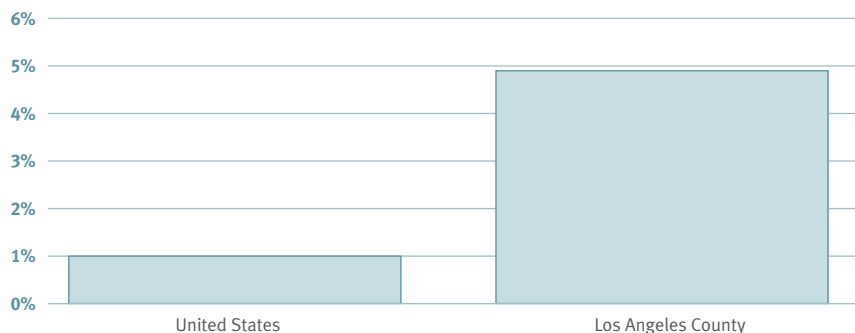
**FIGURE 26 Renters with Housing Cost Burden Rent 30% & Over Income**

*American Community Survey 2014 (1 Year)*



**FIGURE 27 Overcrowding: L.A. County & US Households with More Than 1.5 Persons per Room**

*American Community Survey 2014 (5 Year)*





Crowding has many negative effects, from being a predictor of homelessness to a host of negative health, safety and economic risk factors. As described by New York City's Comptroller Scott M. Stringer in a brief on the city's housing emergency, "children in crowded housing situations have been found to experience negative effects on academic achievement and increases in behavioral problems, which can trigger problems that persist into adulthood."<sup>64</sup> Overcrowding also strains local infrastructure, placing new strains on government. Overcrowding, notes a recent study by the Global Cities Institute, negates many of the efficiencies inherent to city efficiencies, as more people strain resources designed for fewer people.<sup>65</sup> This is true not only in developing countries, but also here in California. In many overcrowded neighborhoods in Los Angeles, water main breaks have become common; the stress on sewers, roads and electrical systems increases as apartments fill up, sometimes with more than one family.<sup>66</sup>

### The Consequences of Downward Mobility

California's high housing prices threaten to make a state that once epitomized aspiration into a dead end for many of its residents. California's rate of homeownership has dropped more rapidly than that of most other states and its rate of homeownership has fallen well below the national average, ranking second lowest in the nation behind only New York.

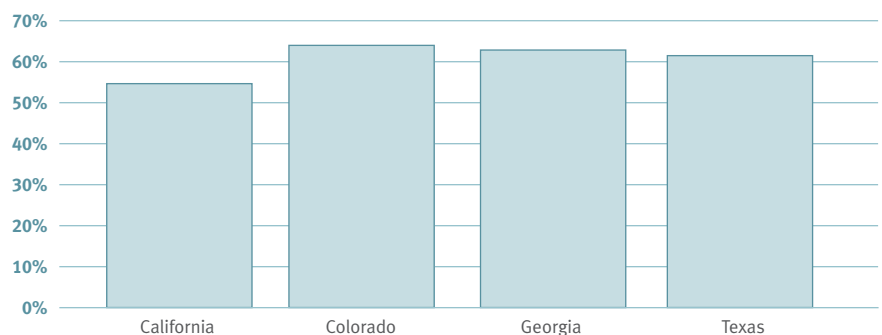
The ability to own a home is widely considered by Americans as critical to being considered middle class.<sup>67</sup> The house remains, even in these more difficult times, the last great asset of the middle class. Homes represent only 9.4 percent of the wealth of the top one percent of the nation's wealthy, but 30 percent for those in the upper twenty percent and, for the overall sixty percent of the population in the middle, 67 percent.<sup>68</sup>

Increasingly, California is a place where young people fail to launch. As the percentage of young people living at home has risen nationally, it has reached much higher levels in the Golden State. Nationally, 30 percent of young adults live with their parents, up from 23 percent in 2000. But in the Inland Empire, that number is 40.3, up from 26.4 in 2000, the highest rate in the entire Southwest. The second highest rate was in Los Angeles at 38 percent.<sup>69</sup>

And once they get out of their childhood homes, young Californians face almost insurmountable odds trying to buy an affordable house anywhere near work. Yet despite the clear impacts highlighted in the California Legislative Analyst's report<sup>70</sup> documenting the association between regulation and housing affordability losses, the state has continued to strengthen regulation.

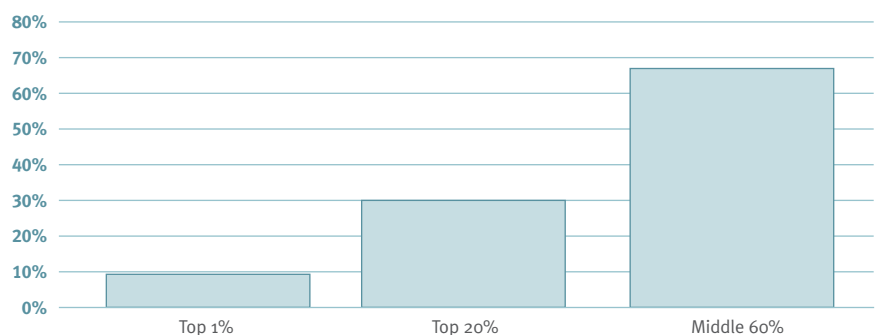
**FIGURE 28 Home Ownership: 2015  
California and High In-Migration States**

Census Bureau



**FIGURE 29 Share of Wealth in Home Equity  
Households: 2010**

Edward Wolf



“We’ve got to start engaging our communities. That’s what I’m working on in Fontana, particularly around civic engagement.”

~ Mayor Acquanetta Warren of Fontana on how to build support for housing

The impacts are particularly severe on minorities. The Tomas Rivera Institute raised concerns about the impact of compact development on minority housing affordability.

*Whether the Latino homeownership gap can be closed or projected demand for homeownership in 2020 be met, will depend not only on the growth of incomes and availability of mortgage money, but also on how decisively California moves to dismantle regulatory barriers that hinder the production of affordable housing. Far from helping, they are making it particularly difficult for Latino and African-American households to own a home.<sup>71</sup>*

To date, the Riverside-San Bernardino area has stood out as a metropolitan area of opportunity for those driven from the coast, where housing is more unaffordable. Their home ownership rates for African-Americans and Hispanics remain near or even exceed those of highly competitive metropolitan areas such as Atlanta, Dallas-Fort Worth, Denver and Houston. All four of the coastal metropolitan areas trail these competitive metropolitan areas by a large margin.

## How to Extinguish the California Dream

Despite the compelling need to reverse course, the state has turned a “deaf ear” to the need to make housing affordable for middle and working class households. The unfolding implementation of Senate Bill 375 requirements makes it difficult, if not impossible, to construct the affordable housing that families desire.

In the coming years, the Inland Empire’s price advantage may drop due to huge drops in housing construction in Riverside and San Bernardino counties since 2000 (see Figure ##). In a sense, California’s restrictive land use policies, which have already done much to destroy housing affordability in coastal metropolitan areas, now threaten to undermine the historically more affordable housing markets so crucial to the beleaguered middle class. Similar consequences are now being felt across the entire Central Valley, such as in Fresno.

“People are always against a development, even if it is one house or hundreds of houses. I guarantee that everyone who speaks against the projects lives in a house or an apartment.”

~ Mark Dowling, CEO of the Inland Valleys Association of Realtors

## CONCLUSION: HOW TO RESTART THE CALIFORNIA DREAM

The advantages of living in California are manifest: the rich and diverse culture, the mild climate, the spectacular scenery. Yet the costs of living this “dream” are getting too high for a growing portion of our population. The notion of California as a place where people achieve their basic aspirations—including an affordable place to live—has become increasingly tenuous. The physical aspects of the dream may remain, but its human essence is being rapidly degraded.

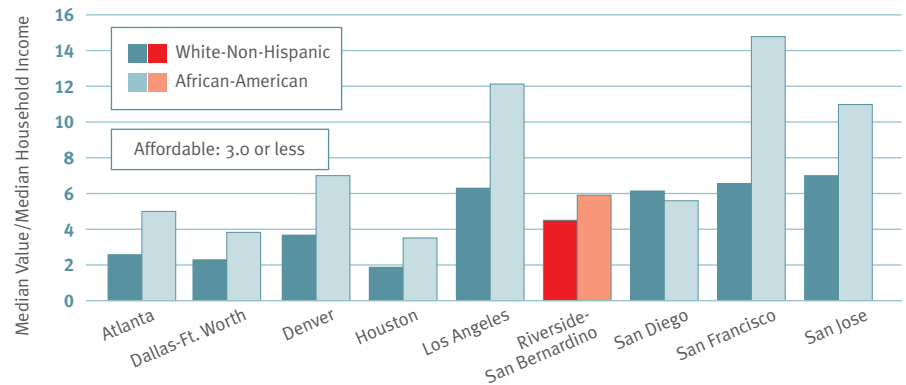
### Needed: A New Policy Paradigm

Ultimately, urban policy should be about choices driven by consumer preferences and human needs. People should be allowed, as much as is feasible and economically sustainable, to live where they please, whether in core cities, suburbs or elsewhere. Simply put, the notion that development must be “steered” into ever denser pockets runs counter to the wishes of the vast majority, and, as we have demonstrated, has severe impact on housing production and affordability.<sup>72</sup>

Some claim that the state’s “pack and stack” approach can solve the housing affordability crisis by increasing densities.<sup>73</sup> Yet by most measurements, higher density housing is far more expensive to build. Gerard Mildner, the Academic Director of the Center for Real Estate at Portland State University, notes that a high rise over five stories costs nearly three times as much per square foot as a garden apartment.<sup>74</sup> Even higher construction costs are reported in the San Francisco Bay Area, where townhome developments can cost up to double that of detached houses per square foot to build (excluding land costs), and units in high rise condominium buildings can cost up to 7.5 times as much per square foot.<sup>75</sup>

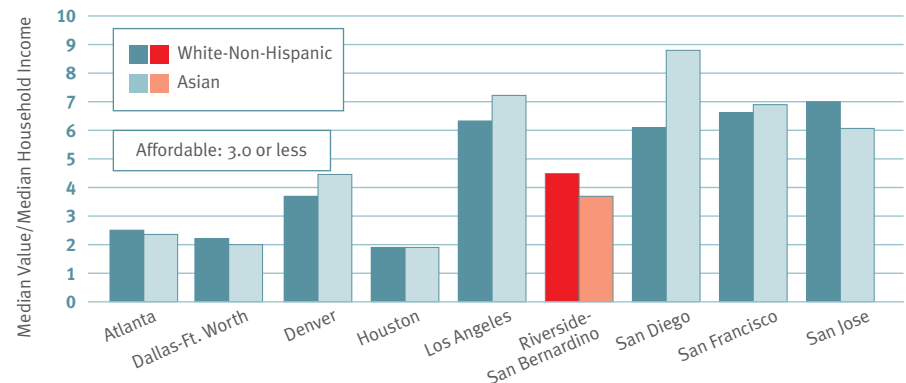
**FIGURE 30 Housing Affordability: Black Compared to White Non-Hispanic: 2014**

*American Community Survey 2014 (1 Year)*



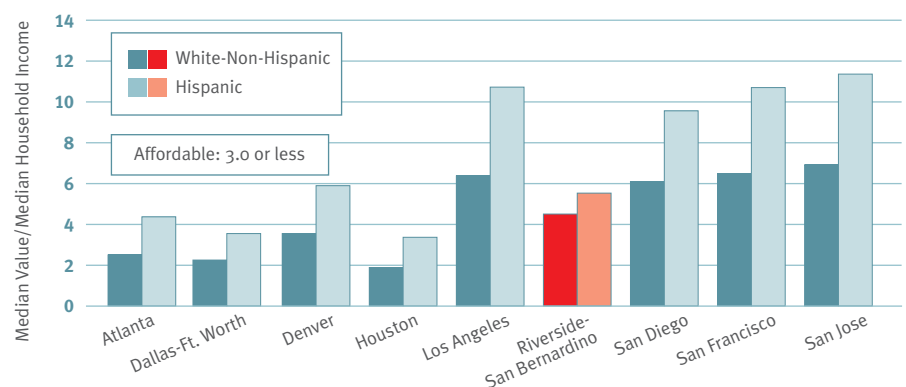
**FIGURE 31 Housing Affordability: Asian Compared to White Non-Hispanic: 2014**

*American Community Survey 2014 (1 Year)*



**FIGURE 32 Housing Affordability: Hispanic Compared to White Non-Hispanic: 2014**

*American Community Survey 2014 (1 Year)*





Instead of fixating on only high density housing, it would make sense to develop what historian Robert Fishman described nearly three decades ago as an “urban pluralism” that encompasses the city center, close-in suburbs, new fringe developments and exurbs.<sup>76</sup> To restrict any form of housing by fiat, as California is doing, tends almost automatically to raise the prices of all housing, particularly that which is preferred by middle class families.

### Meeting the Needs of Families, Millennials and New Californians

How we deal with the housing crisis will shape our future, and will largely determine what kind of state we will become. The current trajectory of California housing policy militates against young families, many of them minority, and places enormous stress on our economy. The state seems deaf to the aspiration of most middle and working class families, the goal of whom is to achieve residence in a small home in a modest neighborhood, whether in a suburb or a city, where children can be raised and also where—of increasing importance—seniors can grow old amidst familiar places and faces.

Rather than stick to family unfriendly policies—which also work against future labor forces and consumers—it would be better to allow for greater growth in housing along the periphery, where rents and prices are lower. One thing we might want to consider is how to allow the construction of modern versions of Levittown or Lakewood, modest collections of largely single family houses that appeal largely to first-time buyers.

Of course, the new suburban developments—whether in single family or multi-family—will not be identical to Lakewood. They, for one thing, will be designed in more environmentally friendly ways; for example, using solar for electricity, landscaping with drought resistant plants and encouraging home-

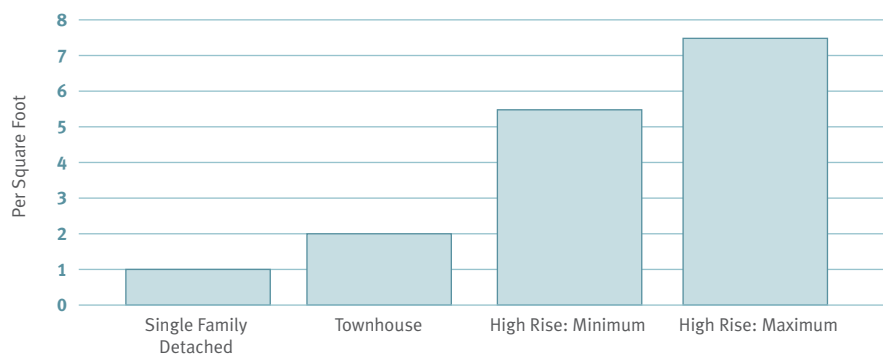
based businesses. Another powerful trend may be an increase in multi-generational houses. The percentage of multi-generational homes has risen from a low of 12 percent in 1980 to 16.7 percent of all households in 2009. The last time multi-generational households stood at this level was in the 1950s.<sup>77</sup> In a 2015 report by the National Association of Realtors, over 13 percent of all new homes purchased were for multi-generational families.<sup>78</sup>

This approach is particularly important in California’s immigrant and minority

communities, who find living together allows for greater pooling of financial resources and reduces poverty.<sup>79</sup> Pew notes that Latinos and Asians, as well as African-Americans, have nearly twice the percentage of multi-family households as non-Hispanic whites.<sup>80</sup> The city with the highest percentage of multi-generational houses is Norwalk, a primarily Hispanic, close-in Los Angeles suburb. The state with the highest percentage of multi-generation households is the heavily Asian/Pacific Islander Hawaii.<sup>81</sup>

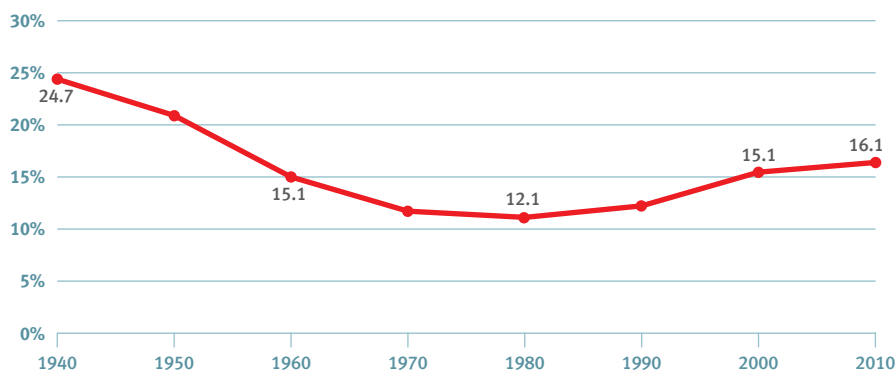
**FIGURE 33 Housing Cost Differential: SF Bay Area**  
**Comparison: Construction Costs by Type**

Summerhill Housing Group,  
TMG Partners, Integral Communities



**FIGURE 34 Multi-Generational Households**  
**Share of U.S. Population Living in Multi-Generational Family Households: 1940-2008**

Pew Research Center, Census Data



Ultimately, the road back to housing sanity—and a brighter future for California’s middle and working classes—involves shifting planning priorities away from ideology and toward something more responsive to human needs. California’s housing policy should be open to all the various forms of housing—from high and mid-density to single family—and also not seek to eliminate the more affordable option of peripheral development. Rather than insist on one form of urbanism, we need to support the idea that a metropolis’ heart exists where its people choose to settle. “After all is said and done, he—the citizen—is really the city,” Frank Lloyd Wright suggested. “The city is going wherever he goes.”<sup>82</sup>

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