

## INTRODUCTION

### Hot Market, Exorbitant Prices, and a Debate over Policy Remedies

By Bill Whalen

Not that housing in California defies logic but consider this tale of a home that went on the market in San Francisco back in February 2015.

Located in the city's Outer Sunset District, the four-bedroom home was listed at \$799,000—a bargain by local standards (in April, the median asking price for a San Francisco property was a shade under \$1.01 million). Why the discount? Because, as [this listing warned](#), the house was “in a deteriorative state; needs everything, not for the novice.” Which served only to spark a bidding war. The listing sold in less than two weeks for \$411,000 over its asking price, with the buyer paying in cash.

Welcome to the contradiction that is homeownership versus affordable living in the Golden State. At present, an average California home costs \$437,000—about two-and-a-half times the \$179,000 national average. If that's too rich for your blood, renting doesn't offer much solace. California's average monthly rent is about \$1,240—50 percent higher than the national average of \$840 per month ([according to the real estate firm, Zillow](#), the average home rent in San Francisco now exceeds \$3,100—a 15 percent increase this past year versus the 3.7 percent gain nationwide).

Here's the dilemma facing Californians: the higher the prices rise, the more buyers want to get in on the action. The Golden State is home to [eight of the nation's ten fastest-moving housing markets](#), with San Francisco, San Jose, and Oakland leading the way. Not surprisingly, San Francisco has been ranked as [the nation's worst city for renters](#).

In Los Angeles, 76 percent of houses had multiple offers in March. In Orange County, that number was 64 percent; in San Diego, 70 percent, according to the real estate services site Redfin. Though, paradoxically, there were fewer homes on the market in March than February. One reason why: California homeowners are reluctant to start over as buyers.

All of which raises some thorny questions as to what this means for the future of America's fabled nation-state:

- As housing becomes less affordable, what happens to low-income households who must surrender larger portions of their income to pay the mortgage or rent?
- As housing in California's job-expanding coastal communities continues to skyrocket, how far will workers need to move (and burn up time and gasoline in their daily commutes) to find an affordable home?
- As California housing costs steepen, will the higher prices prove to be a drag on the state's economy as businesses and skilled workers decide they'd rather live in another state where real estate is a better bargain?
- How does California strike a balance between a growing population looking for housing with a growing number of cities and communities that have adopted growth-control policies?

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- Finally, how should the state government attack the problem? To date, Sacramento has subsidized affordable housing starts through bonds and tax credits. Is it time for lawmakers to [shift their focus](#) to easing home and apartment construction in California's coastal urban markets?

In March, California's Legislative Analyst's Office (LAO) issued [a report](#) on the causes and consequences of the state's high housing costs. It points to a few obvious culprits: the housing supply along the coast doesn't meet the demand of people wanting to live there, and higher building costs (such as labor, materials, and government fees) aren't helping matters.

The report ends on this sobering note: "If California continues on its current path, the state's housing costs will remain high and likely will continue to grow faster than the nation's. This, in turn, will place substantial burdens on Californians—requiring them to spend more on housing, take on more debt, commute further to work, and live in crowded conditions. Growing housing costs also will place a drag on the state's economy." So much for California Dreamin'.

In this edition of *Eureka*, we're taking an in-depth look at California's housing concerns.

- Carson Bruno, a Hoover research fellow, analyzes the new Hoover Golden State Poll that surveyed Californians' opinions on the state's housing market.
- Wendell Cox, an international policy consultant and expert on urban density and housing affordability, describes what he sees as a "profound policy failure" on the part of California's leadership.
- Loren Kaye, president of the Sacramento-based California Foundation for Commerce and Education, explains how the California Environmental Quality Act (CEQA) is a lead culprit in the Golden State's infrastructure underinvestment.
- Finally, Carol Galante, the I. Donald Turner Distinguished Professor in Affordable Housing and Urban Policy at UC Berkeley, offers a blueprint for California moving forward.

And before all of that, we have this podcast offering an insight into the findings of the latest Hoover Golden State Poll on California housing. Among the poll's findings:

- Californians are evenly divided on renting vs. owning, though there are stark differences along race, age, and gender lines;
- Californians are undecided on whether to move or not, due to housing costs;
- Respondents believe the high cost of housing is eroding the "California Dream."



EXAMINING CALIFORNIANS' VIEWS  
ON HOUSING PRICES AND POLICY  
Participants: Carson Bruno and Bill Whalen  
Recorded May 12, 2015

We hope you enjoy the series—and that it gets you thinking about where California stands and if we're moving in the right direction.

Bill Whalen is a Hoover Institution research fellow, primarily studying California's political trends. From 1995 to 1999, Bill served as Chief Speechwriter and Director of Public Affairs for former California Governor Pete Wilson.



## POLL ANALYSIS

### Californians See the Housing Affordability Crisis as a Threat to the California Dream

By Carson Bruno

California's housing prices are the 2nd highest in the country (second only to Hawaii); according to [Zillow](#), Californian home values and rental prices are roughly 2½ times and 1½ times, respectively, the national averages. Home ownership is a signifier of upward economic mobility, but many Californians cannot afford these daunting prices. Overall, Californians see this crisis as a threat to the **CALIFORNIA DREAM**, presenting Sacramento and local elected officials with another daunting problem to solve.

To learn more, the latest [Hoover Institution Golden State Poll](#) examines opinions of California adults living within the Bay Area, Central Valley, and Southern California regions on housing prices and affordable housing policies.

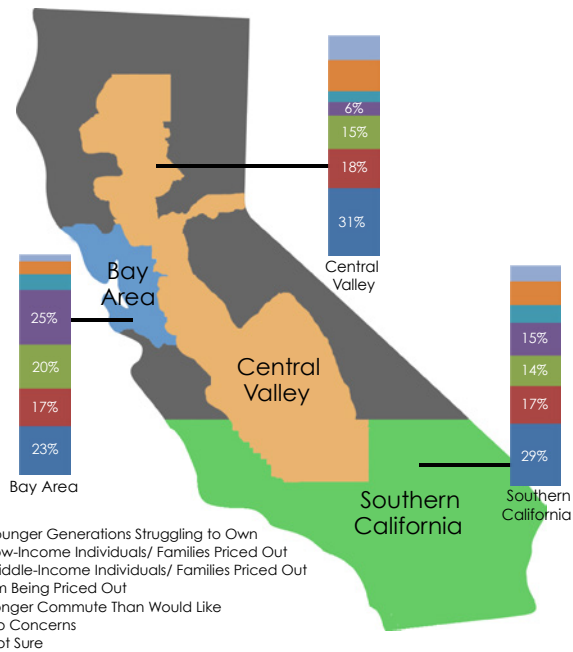
Property ownership enables individuals and families to put their equity to work leading to enhanced opportunities for economic mobility. However, among those adults surveyed living in the Bay Area, Central Valley, or Southern California, just 45 percent said they are homeowners versus 43 percent who said they are renters. While the three regions are evenly split, Californians who would benefit most from strong economic mobility are renters including majorities of 18–29 year olds and 30–44 year olds (52 percent and 53 percent, respectively), 49 percent and 66 percent of Latinos and Blacks are renters, and by almost three to one, low-income Californians rent. Meanwhile, 53 percent of white Californians, 77 percent of 65-and-older Californians, and 71 percent of higher-income Californians are homeowners.

While many are renting, a strong majority would prefer to own. As a good indication of high home ownership demand, Californians, statistically, gauged no difference in the housing



market competitiveness between the one in which they currently live and the one in which they'd prefer to live (55 percent very or somewhat competitive versus 53 percent). Regardless of where Californians decide to live, there is little relief on the horizon. Moreover, when presented with five types of housing development, ranging from apartment-only buildings to single-family homes with large yards spread farther apart, a majority of Californians strongly or somewhat supported constructing more of the classic home: single-family, big yards, and not close to your neighbor. In fact, this was the only development choice to receive a majority, and from those most eager to achieve a slice of the Dream (younger Californians, Latinos, and low-income Californians), this option was endorsed by roughly 60 percent.

**TOP CONCERN ABOUT THE COST OF PURCHASING A HOME IN YOUR AREA**



Note: Randomly sampled 1,500 adult Californians from the Bay Area, Central Valley, & Southern California; numbers may not total 100% due to rounding. Source: May 2015 Golden State Poll

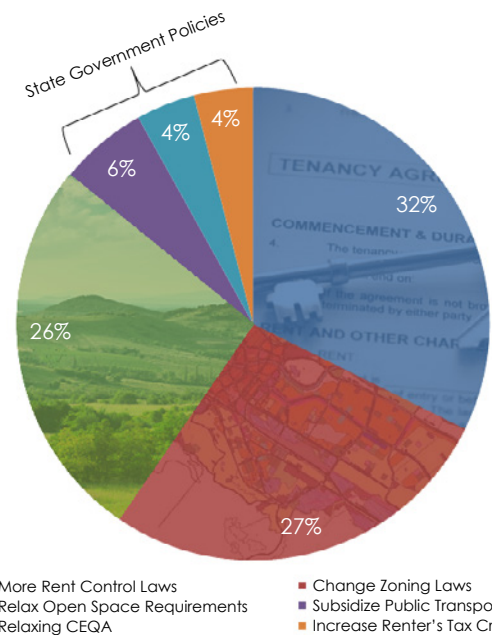
**FACTS ON THE ISSUE**

The California Dream is best characterized by the belief that, by coming to the Golden State and working hard (and with a dash of good luck), an individual can strike success. Yet with home ownership out of reach for the median household, and rental prices just as much a strain on household budgets, the Golden State Poll tested a series of concerns related to the affordability crisis. Three-fourths of Californians named “younger generations will have a difficult time owning a home” (28 percent), “low-income individuals/families being priced out of the area” (17 percent), “middle-income individuals/families being priced out of the area” (15 percent), or “I’m

being priced out of the area in which I currently live” as their top concern, showing deep anxiety that the lack of affordable housing is seriously impacting most Californians’ ability to achieve the cornerstone of success. In fact, a plurality named one of the four California Dream-centric concerns as the top concern across all demographics and regions.

Californians appear to have accurately assessed the problem. But when it comes to the solution, they seem to put short-term gratification over long-term, sustainable results. Among the three state-level and three local government policies to improve housing affordability tested, Californians sided with solutions that will attack the crisis’ symptoms, but do little to address the underlying cause. Fifty-four percent strongly or somewhat support Sacramento subsidizing regional public transportation to ease commutes over increasing the renter’s tax credit (40 percent) or relaxing CEQA to encourage more housing construction (33 percent). On the local government policies, 47 percent strongly or somewhat support passing more rent control laws over changing zoning laws (38 percent) or relaxing open space requirements (36 percent), both which would encourage more construction. The only long-term solution to California’s housing affordability crisis is more housing supply. But that takes time. And it appears Californians are less willing to wait, even if those policies solve the problem.

**THE STATE & LOCAL GOVERNMENT POLICY THAT WOULD MOST REDUCE THE COST OF PURCHASING A HOME IN YOUR AREA**



Note: Randomly sampled 1,500 adult Californians from the Bay Area, Central Valley, & Southern California; numbers may not total 100% due to rounding. Source: May 2015 Golden State Poll

**FACTS ON THE ISSUE**



Just 14% of Bay Area/Central Valley/Southern California adult Californians think state-level policies reduce housing prices the most.

FACTS ON THE ISSUE

While California has had a housing affordability problem for more than 30 years, it may just now be threatening the California Dream since the state's economy has significantly shifted from a diverse, across-the-state economy to a Silicon Valley/Bay Area-centric economy, where the housing crisis is particularly acute—78 percent in the Bay Area, the most among the regions surveyed, said housing prices are very or somewhat expensive. And this has implications. As more of the state is reliant on jobs in just one area—particularly an area as unwilling to endorse pro-growth policies as the Bay Area (relaxing CEQA, changing zoning laws, and relaxing open space requirements received the most opposition among the three regions)—those Californians seeking homeownership are facing immense friction. Regardless of Californians' decisions when faced with the affordability crisis (i.e., move or spend more of their income on housing), California's economy will eventually suffer. And without a vibrant economy, the California Dream that so many have realized could become a distant memory—and for others, an unobtainable goal.

*Note: Unless specifically noted, all references to Californians in this analysis refer to California adults residing in the Bay Area, Central Valley, and Southern California.*

Carson Bruno is a Hoover Institution research fellow, studying California's political, electoral, and policy landscapes. Prior to joining Hoover, Carson structured municipal bond issuances at J. P. Morgan.



**CALNOTES:**  
THE CALIFORNIA DREAM



As historian H. W. Brands observed, the California Dream was cultivated during the Gold Rush and inspired the new American Dream. As an idea that California is a place of good fortune and opportunity where new beginnings and hard work yield great success, wealth, and/or fame, the Dream spurred iconic institutions like Hollywood, Silicon Valley, the aerospace industry, and Napa wine country. And central to the idea of the California Dream has always been the ability for anyone to own a private home to start anew.

FEATURED COMMENTARY

**Housing in California:  
A Profound Public Policy Failure**

By Wendell Cox

For more than a quarter century after World War II, the “California Dream” was real. California was the Promised Land to millions of middle-income households who moved here from all over the country. They were attracted by unmatched weather.

The house—the largest item in household budgets—was affordable to middle-income households, as it was in the rest of the nation. This remained the case from 1950 to 1970, according to US Census data. Median house values rarely reached more than three times median household incomes in today's 52 over-a-million-people US metropolitan areas. The highest was a 3.6 value-to-income ratio in 1950, in Hartford, Connecticut.

Things began to change in the 1970s. California's state and local governments set about developing a maze of environmental and land-use regulation that drove house prices to record levels. The value-to-income ratio exceeded 4.0 or more in the Los Angeles, San Francisco, San Diego, and San Jose metropolitan areas by 1980, but *nowhere else* among the other 52 US metropolitan areas. Statewide, the ratio reached 4.2 in 2000, more than 50 percent above the national average of 2.7. This meant that Californians could expect to pay an amount equal to 1.5 years of income more than their peers in the rest of the nation.

AVERAGE ANNUAL HOME VALUE RATIO

	California	Fresno	Los Angeles Metro	San Diego	San Francisco Bay Area
2014	1.58	0.74	1.40	1.74	2.16
2004	2.07	1.05	1.92	2.51	1.34
1994	1.41	0.79	1.83	1.34	1.83

Source: California Association of Realtors & U.S. Census Bureau

FACTS ON THE ISSUE

Middle-income housing affordability (as well as low-income housing affordability) became even more severe after that. During the housing bubble, house values escalated to 8.9 times incomes, 130 percent more than the national average. Then came the bust and huge losses as the state led the nation in precipitating the worldwide Great Recession.

Moreover, even after reaching bottom, house values have not returned to their pre-bubble levels relative to incomes.

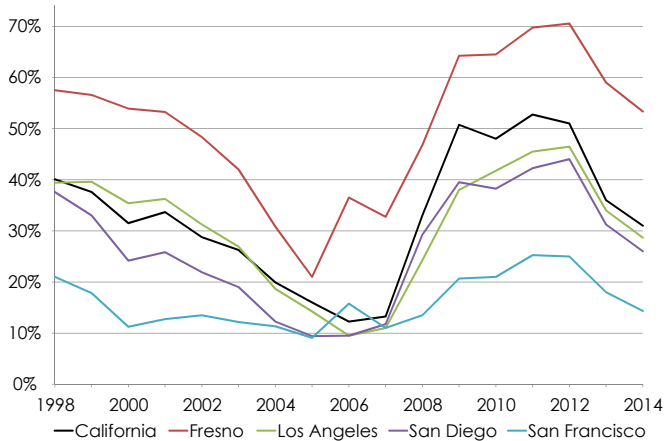


California's value-to-income ratio was 85 percent above the national average in 2013, according to Census Bureau data. Since that time, things have gotten worse.

According to California Association of Realtors data, California median house prices have increased nearly 25 percent since 2013—far more than incomes. In the Bay Area (San Francisco and San Jose metropolitan areas), house prices increased \$173,000, a stunning figure that equals the median value for all houses in the United States in 2013. The price increases are not limited to the coastal markets. As people flee the Bay Area for less unaffordable housing, prices have been driven up more than 40 percent in San Joaquin County (Stockton) and Stanislaus County (Modesto). In Fresno, one of the least unaffordable places left in the state, prices were up one-third.

Just since 2000, the state has sent more than one million domestic migrants out than have arrived. This is not surprising, since in many metropolitan areas, house prices are less than one-half that of California relative to incomes.

**AVERAGE ANNUAL TRADITIONAL HOUSING AFFORDABILITY INDEX (1998 TO 2014Q3, % OF HOUSEHOLDS ABLE TO PURCHASE MEDIAN VALUE HOME)**



Source: California Association of Realtors

FACTS ON THE ISSUE

The LAO identified the regulatory maze as principally responsible for California's housing affordability crises. This is basic economics. When the supply of a demanded good, such as land for housing, is severely restrained, prices rise (other things being equal). That has happened with a vengeance in California. The restrictions include environmental regulations and urban planning measures, such as urban containment policy.

But this is much more than a simple issue of markets versus planning. The issue is people and the impact of these policies on standards of living and poverty levels. The result has been a profound public policy failure.

A state long known as a land of opportunity has become a locus of poverty. California's policies have produced the highest housing-cost adjusted poverty rate in the nation. It should be embarrassing that California's housing-adjusted poverty rate is now 50 percent higher than Mississippi's and nearly double that of West Virginia's—states long belittled for their levels of poverty.



The statewide middle-income housing affordability crisis is bad enough, with a 6.2 ratio. It is much worse for the state's growing minority populations. For African Americans, the value-to-income ratio was 9.1 in 2013 and for Latinos, 8.1. Of course, for White Non-Hispanics the ratio is 5.3, still far too high. This has serious social implications. Brandeis University research shows a widening wealth gap for African Americans relative to Whites and at least as great a gap for Latinos. According to Brandeis University, the greatest potential for reducing this gap is increased access to home ownership for minorities.

Outside maintaining order, the most important obligation of state and local governments may be to establish a framework conducive to higher standards of living and to less poverty. Yet, California's policies drive up housing costs, which reduces discretionary income. Discretionary income—what is left over after taxes—defines the standard of living and poverty.

Sadly, the lesson has not been learned. The fine-sounding "Sustainable Communities Strategies" under **SENATE BILL 375** are being used to place even stronger restrictions on housing. Things could get much worse.

Wendell Cox is a public policy consultant. Born in Los Angeles, he was appointed to three terms on the Los Angeles County Transportation Commission by Mayor Tom Bradley. He coauthors the *Demographia International Housing Affordability Survey*.



**CALNOTES:**  

**SENATE BILL 375**

*The Sustainable Communities and Climate Protection Act of 2008 (SB 375) targets passenger vehicle greenhouse gas emissions by giving the Air Resources Board authority to set regional emission targets. California's eighteen regions must then develop a Sustainable Communities Strategy—consisting of transportation and land-use/housing policies—to achieve the emission mandates. Regions have typically adopted enhanced public transportation, bike and carpool lanes, and walking trails/sidewalks transportation policies as well as infill housing development and urban redevelopment policies to implement their strategy plans.*

## What's Preventing New Housing in California? The Usual Suspects—Plus CEQA

By Loren Kaye

The California political establishment has passed the Fitzgerald Intelligence Test—that's the author F. Scott Fitzgerald, who in 1936 had this observation: "The test of a first-rate intelligence is the ability to hold two opposing ideas in mind at the same time and still retain the ability to function."

In California, that would be the ability to decry income stagnation, wealth inequality, and an embarrassing poverty rate—turning to minimum wage hikes, high wealth taxes, and housing subsidies for solutions. And, at the same time, supporting multiple avenues for the powerful or the clever to insist on their own vision of a "quality of life," manifesting as extraordinary litigation tools, exclusionary zoning, and underinvestment in public infrastructure.

On at least one of the front lines of the war on poverty, extreme deference to stakeholders may be a bigger obstacle than constrained government budgets or income inequality. Take, for example, the "wealth gap." Since 1980, wealth of the top 1 percent has more than doubled, whereas the rest of society has seen its wealth grow by 15 percent.

In California, much of the wealth gap can be explained by the high cost of housing, especially in the metropolitan areas of the state where most of the population lives and the jobs are created. In 2013, the cost of housing in San Francisco was nearly triple the national average; it was double the average in Los Angeles and San Diego. Eight of the ten most expensive cities to rent are in California—led by Palo Alto, San Francisco, and Cupertino.

### 2013 OWNER-OCCUPIED & RENTER-OCCUPIED RATIOS

(% OWNER/RENTER-OCCUPIED RELATIVE TO THE US % OWNER/RENTER-OCCUPIED)

	California	Fresno	Los Angeles Metro	San Diego	San Francisco Bay Area
Owner	0.65	0.82	0.72	0.83	0.57
Renter	1.27	1.32	1.49	1.28	1.76

Source: California Department of Finance, data from 2013 American Community Survey 1-Year Estimates

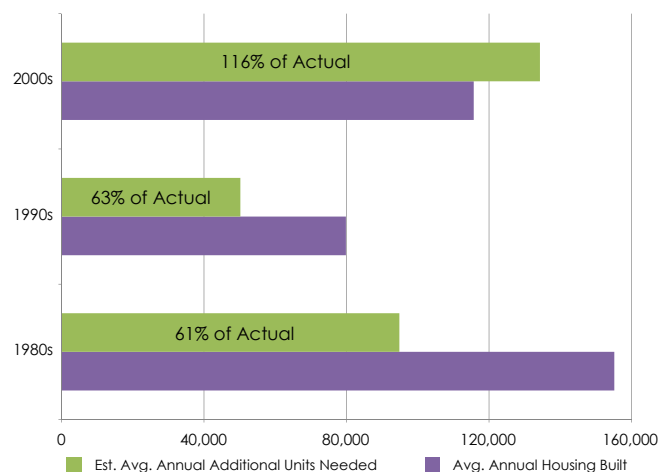
FACTS ON THE ISSUE

According to the nonpartisan LAO, the fundamental reason for California's high housing costs is that "not enough

[housing] exists in the state's major coastal communities to accommodate all of the households that want to live there." To accommodate growth and dampen prices, the LAO suggests that California would have to build as many as 100,000 housing units a year above the 100,000 to 140,000 we build today. And most of those units should be in coastal communities—just the areas where more and denser development is the most difficult.

The Milken Institute reports that the lack of affordable housing in California is [chasing away young talent](#). In its words: "In the last 20 years California has seen an exodus of almost four million people to other US states. Most of those leaving were young families, the group most likely to become first-time homebuyers." The bottom line: California is becoming a less attractive place to live and work—if you're not wealthy.

### HOUSING BUILT PER DECADE & ADDITIONAL HOUSING NEEDED TO KEEP PRICE INCREASES EQUAL TO US AVERAGE



Source: Legislative Analyst's Office

FACTS ON THE ISSUE

What's preventing new housing development? The usual suspects in California: litigation, regulation, and underinvestment in infrastructure. And the notorious offender: the private right of action in the **CALIFORNIA ENVIRONMENTAL QUALITY ACT (CEQA)**, which provides an easy litigation path to almost anyone who wants to block a development project.

The majority of projects held up by CEQA litigation are infill developments (rededicating land, usually open space in urban areas, to new construction), which would intensify housing and commercial opportunities in California's metropolitan areas—those most in need of housing for job seekers. The most frequent type of project held up is a mixed-use development of housing and commercial activities.

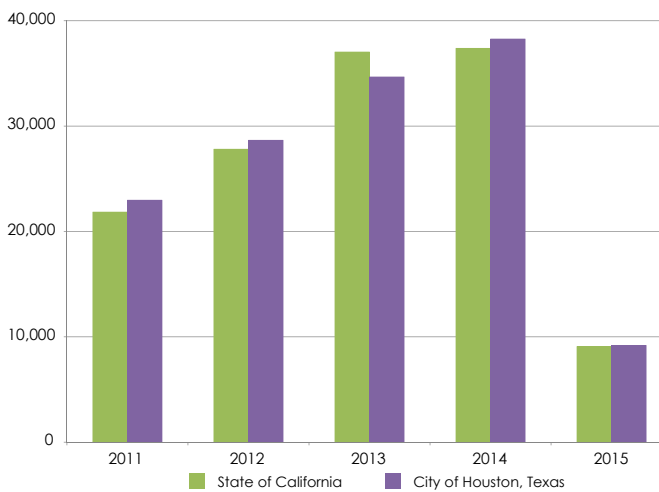


Over the past two decades a strange alliance of NIMBYs (anti-development types who live by the credo “not in my backyard”), environmental organizations, and labor unions seeking leverage over construction projects have strangled numerous reforms to raise the bar to CEQA. CEQA is an equal opportunity tool for abuse, however. Even businesses use it to undermine their competitors.

But more insidious than CEQA is the refusal of cities to increase density to create housing markets suitable to accommodate job seekers. In one form or another, major cities along the coast employ density limits to constrain the height or intensity of housing within their borders. The beneficiaries are incumbent landlords and wealthy residents; the victims are low-income or aspiring renters who spend a high (and rising) proportion of their incomes on rent.

Higher densities are absolutely necessary in the San Francisco Bay Area to overcome expensive land costs. Yet this hasn't been the case—along the Bay Area peninsula, cities with the greatest job demands are issuing the fewest housing permits. Over the past decade, San Mateo and Santa Clara counties have increased their housing stock by only 4 and 9 percent, respectively. That's far below their rates of population growth, never mind job growth. Indeed, most new home construction in the Bay Area is in the poorer areas—leading to social dislocation for current residents and a gentrification backlash against newcomers or outlying regions—further from job centers.

**HOUSING STARTS AUTHORIZED BY 1-UNIT STRUCTURE BUILDING PERMITS (2011 TO MARCH 2015)**



Source: *Mark Perry's Carpe Diem at the American Enterprise Institute, data from U.S. Census Bureau*

FACTS ON THE ISSUE



Since 2011, Houston alone has annually issued, on average, 1.1% more housing permits than all of California.

FACTS ON THE ISSUE

A diminished financial commitment to public infrastructure is the third force pushing up the cost of housing. Roads, sewers and water supply are the lifeblood of new and infill neighborhoods. But competition from other government interests, such as employee pensions and health annuities, are starving new financing for public works. In addition, the state is threatening to back away from its historic partnership with homebuilders and local government to finance school construction in growing areas. Cities will not approve new housing if school facilities will not be there to serve the new families.

Neither “smart growth” nor public subsidies have solved California's housing crisis because the solution does not arise from more regulations or wealth transfers. The shortest path to more supply and affordability is to redirect public investment into public works and drain the litigation and regulatory swamps that provide the institutional support for the exclusive enclaves created in coastal California.

For California, a visionary housing policy is itself a transformational policy for upward mobility and social equality.

Loren Kaye is president of the California Foundation for Commerce and Education and vice chair of the Little Hoover Commission. He served in senior policy positions for both former California Governors Pete Wilson and George Deukmejian.



**CALNOTES:**

**CEQA PRIVATE RIGHT OF ACTION**



The California Environmental Quality Act (CEQA) signed by former Governor Ronald Reagan in 1970 requires environmental impact analyses and mitigation feasibility studies on all proposed private and public development projects. In addition to state and/or local agency approval, CEQA permits private right of action, which allows even marginally affected individuals or nongovernmental entities to file lawsuits against the project for failure to appropriately analyze impacts or propose feasible mitigation.

## Addressing California's Housing Woes: "A Strategy for State Action" That Can't Wait Another 30 Years

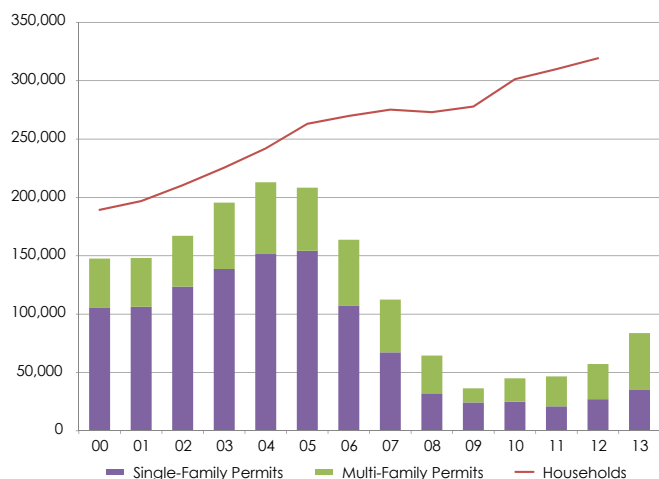
By Carol Galante

Serious students of California's housing woes may recognize the middle part of this column's headline. It's also the subtitle of *101 Steps to Better Housing, The California Housing Plan 1982*, a document now over three decades old. Produced by the **CALIFORNIA DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT (HCD)** (led at the time by the late visionary Don Turner, who served under former and current Gov. Jerry Brown), the publication proposes solutions for many issues the Golden State still struggles with today. If only they had been aggressively and consistently implemented.

California has a massive and chronic housing problem, with two key challenges:

1. The growth in the number of California households is outpacing new housing construction permits by wide margins.
2. Though California is experiencing a robust recovery from the Great Recession, newly minted high-wage jobs are adding pressure to the housing market while wages remain stagnant or are decreasing for very low-income California workers.

### CALIFORNIA HOUSEHOLDS AND NEW HOUSING PERMITS



Source: California Department of Housing and Community Development, data from California Homebuilding Foundation/Department of Finance, chart provided by Carol Galante

FACTS ON THE ISSUE

Median rental rates are up almost 10 percent since 2010, while median renter incomes are down more than 3 percent. This means that more Californians can no longer afford to live

close to their jobs. Obviously, this is an unsustainable trend for a recovering state economy.

In looking toward a set of strategic actions for 2015 and beyond, I want to address three of the themes outlined in *101 Steps to Better Housing*. They are: 1) increase the supply of new homes; 2) reduce the costs of new homes; and 3) locate housing close to jobs. I'd like to begin with the premise that it's going to take both changes in public policy and innovation on the part of business and industry to make any meaningful difference.

### MEDIAN RENTER INCOME & MEDIAN RENTAL PRICES



Source: 2010–2013 American Community Survey 1-Year Estimates & Zillow Rent Index, chart provided by Carol Galante

FACTS ON THE ISSUE

Some of the actions recommended for increasing new home supply back in 1982 (e.g., planning for new sites and offering density bonuses) were at least partially implemented. However, California still doesn't begin to do all that it could to actually ensure that land is zoned at appropriate densities and that the homes actually get built. One idea worthy of further research and dialogue is a state "Projects Appeals Board" empowered to approve development when a local community will not. This tool is used effectively in other states such as Massachusetts and Oregon. And guess what? It was proposed in the California State Legislature back in 1979, but never passed.

It simply doesn't make sense for the state to mandate plans that sit on the shelf without results. Cities shouldn't be rewarded for "checking the box"—rather, they need to demonstrate results, or have some of their authority limited.

New supply is a necessary component of an agenda to reduce the cost of housing to the consumer, but alone not sufficient to meet this goal.



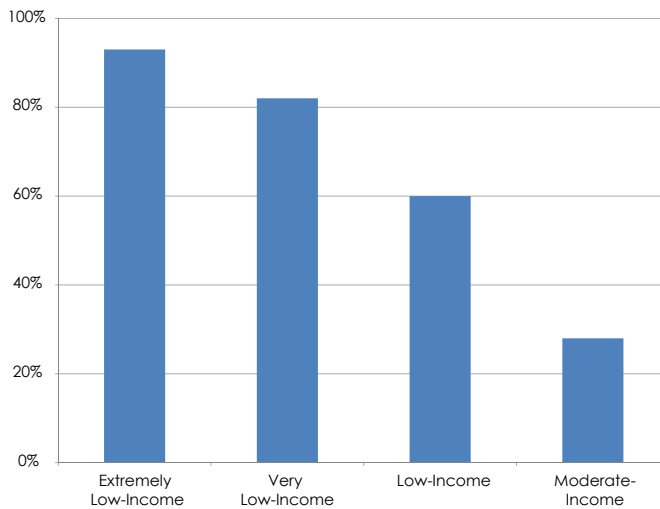


Here again, we can look to the recommendations of the *101 Steps to Better Housing*, which includes many prescient ideas about how to bend the cost curve, including “curbing excessive site standards,” “designing for water conservation,” and “reducing repeated environmental reviews.” The status of many of these ideas should be reviewed in detail and additional efforts made to update and implement them.

At the same time, reducing costs is an area where the building and technology industry could come together and make a huge impact. How is it that, while we no longer use the old Underwood typewriter or drive a Ford Model T, we're still building homes in much the same manner as we did in the 1950s? There are glimmers of innovation in modular construction for multifamily homes, but this is an area that jumps out as ripe for further exploration and ingenuity.

To be clear: bending the cost curve, like increasing new supply, is necessary but again not sufficient to produce affordable shelter for all Californians. There's an undeniable need for government to provide financial resources—yes, call it what it is: a subsidy—to ensure that we have homes and apartments that will be affordable to lower-wage workers. Unless we as a society are willing to pay much more for goods and services, and employers are willing to raise wages very substantially, very low-income Californians will continue to be severely burdened by the cost of housing.

**% OF CALIFORNIA WORKING HOUSEHOLDS PAYING MORE THAN 50% OF INCOME FOR HOUSING IN 2012**



Source: 2010–2013 American Community Survey 1-Year Estimates & Zillow Rent Index, chart provided by Carol Galante

FACTS ON THE ISSUE

To her credit, California State Assembly Speaker Toni Atkins has taken leadership with a [package of bills](#) designed to

generate additional funding for affordable housing needs. Any sensible housing policy requires at least a modest reliable and dedicated funding source. Sacramento should also explore a direct appropriation of state funding, which was used routinely for many years. And it should look at changing existing tax policies that compel local communities to prefer retail or other uses over housing.

How extraordinarily visionary this was in the 1980s: to suggest that California “pace” and “link” new job growth with the required infrastructure, including readily available affordable housing units—and mandate that the state plan for it on a regional basis. Unfortunately, many of the ideas were not implemented at scale. Once again, there weren't enough carrots or sticks.

Today, we have an opportunity and an obligation to provide housing for middle- and lower-income families that is both reasonably priced and strategically located near jobs. If we don't, already major problems such as long commutes, congestion, and greenhouse gas emissions, will only worsen.

Our environment, our economy, and the well-being of California families depend on making housing a central priority for the state. California can't afford to have this same discussion another 30 years from now.

Carol Galante is the I. Donald Turner Distinguished Professor of Affordable Housing and Urban Policy at the University of California at Berkeley and a former Assistant Secretary of the US Department of Housing and Urban Development.



**CALNOTES:** CALIFORNIA HCD

The California Department of Housing and Community Development (HCD) was formed in 1965, reauthorized prior to sun-setting in both 1968 and 1971, and was made permanent and reorganized in 1975 by the Zenovich-Moscone-Chacon Housing and Home Finance Act. The HCD is part of the California Business, Consumer Services, and Housing Agency tasked with developing California's housing policy and building codes and implementing federal housing policies and programs. Since 1975, the HCD has overseen the California Housing Finance Agency, which administers low-rate housing loans for low- to moderate-income homebuyers.

## EUREKA

### ABOUT THE PUBLICATION

*Eureka* was created to serve as an occasional discussion of the policy, political and economic issues confronting California. Like the Golden State motto from which this forum's title was borrowed, the goal here is one of discovery—identifying underlying problems and offering reasonable and common-sense reforms for America's great nation-state.

Ever since Archimedes supposedly first uttered the word, *eureka* has meant joy, satisfaction and a sense of accomplishment. Drawing on the combined wisdom of Hoover's policy experts and leading California thinkers, we hope that you'll find enlightenment in these pages. Hoover research fellow Bill Whalen, who has nearly two decades of experience in California politics and public policy, serves as this forum's editor.

For additional information and previous issues, visit [www.hoover.org/eureka](http://www.hoover.org/eureka).

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