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BIA BAY AREA
BUILDING INDUSTRY ASSOCIATION

DATE: Feb. 2, 2016

TO: Contra Costa County Board of Supervisors Chairwoman Candace Andersen and Supervisors Mary Nejedly Piepho, Federal Glover, Karen Mitchoff and John Gioia

FROM: BIA|Bay Area East Bay Governmental Affairs Executive Director Lisa Vorderbrueggen

RE: **2016 Urban Limit Line Review**

Dear Contra Costa County Supervisors,

BIA|Bay Area strongly advocated in 2006 for the inclusion of the Urban Limit Line housing and jobs adequacy review that Contra Costa County is preparing to conduct this year. A decade later, we look forward to participating as a representative of more than 425 companies that develop, engineer and construct residential housing throughout the region.

Contra Costa County has been on the forefront of the anti-sprawl movement for more than 25 years. But restrictions on new housing construction have come with a steep price. After years of chronic under-building, home prices and rents continue to rise and more families must live farther from their jobs in order to find housing they can afford.

The Urban Limit Line was sold to voters as a means under which new housing would be redirected away from the suburban edge and into existing communities near jobs, transit and services. Unfortunately, the promise of adequate housing within the ULL remains unfulfilled.

As the numbers show in the attached charts, Contra Costa County and its cities issued during the first five years of Plan Bay Area's 30-year planning period just one residential housing permit for every 20 new jobs. To keep pace with Plan Bay Area goals, Contra Costa County needs to produce one housing unit for every 1.5 new jobs. Put another way, Contra Costa should be adding an average of 226 housing units every month. But the county and the cities achieved that level only 10 out of the past 60 months.

For families desperately trying to find housing they can afford, the situation is even worse than these numbers suggest. Plan Bay Area's housing projections are based, in part, on the expected numbers of new jobs. Contra Costa County has outstripped its Plan Bay Area jobs projections by nearly eightfold. We all welcome new jobs but without adequate housing, we are sentencing these workers to horrific commutes and further burdening our already strained transportation systems.

The housing deficit is both unsustainable and untenable. Long commutes hurt productivity at home and at work. Children without stable housing suffer at school. Current and prospective employers without a reliable source of workers within a reasonable commute distance may move elsewhere.

The 2016 Urban Limit Line review is a valuable opportunity to take a critical look at how Contra Costa County is balancing its responsibility to preserve open space against its duty to adequately house its workers and protect its economic viability. To that end, BIA respectfully asks the Board of Supervisors to consider the following factors:

- Every Contra Costa jurisdiction has a state-approved housing element, which suggests that the county and its cities have adequately planned and zoned for the housing they need. But you can't live in a house that exists only on paper. Many of the housing opportunity sites identified in housing elements have been identified as such for decades. Please include in the survey and analysis statistics and background on how many housing units of all types were actually constructed compared with the actual demand.

- Many jurisdictions point to their self-nominated Priority Development Areas, or PDAs, as defined under Plan Bay Area, as the answer to the questions about where growth will occur. However, a new analysis of PDAs prepared by Economic & Planning Systems, Inc. for the Metropolitan Transportation Commission, offers a sobering check: Of the 12 PDAs studied in Contra Costa County, consultants found that just 46 percent of the 58,868 planned housing units were likely to be built by 2040. If a host of changes were made, the figure rises modestly to 56 percent. The consultants rated a PDA's "readiness" based on physical capacity, planning and

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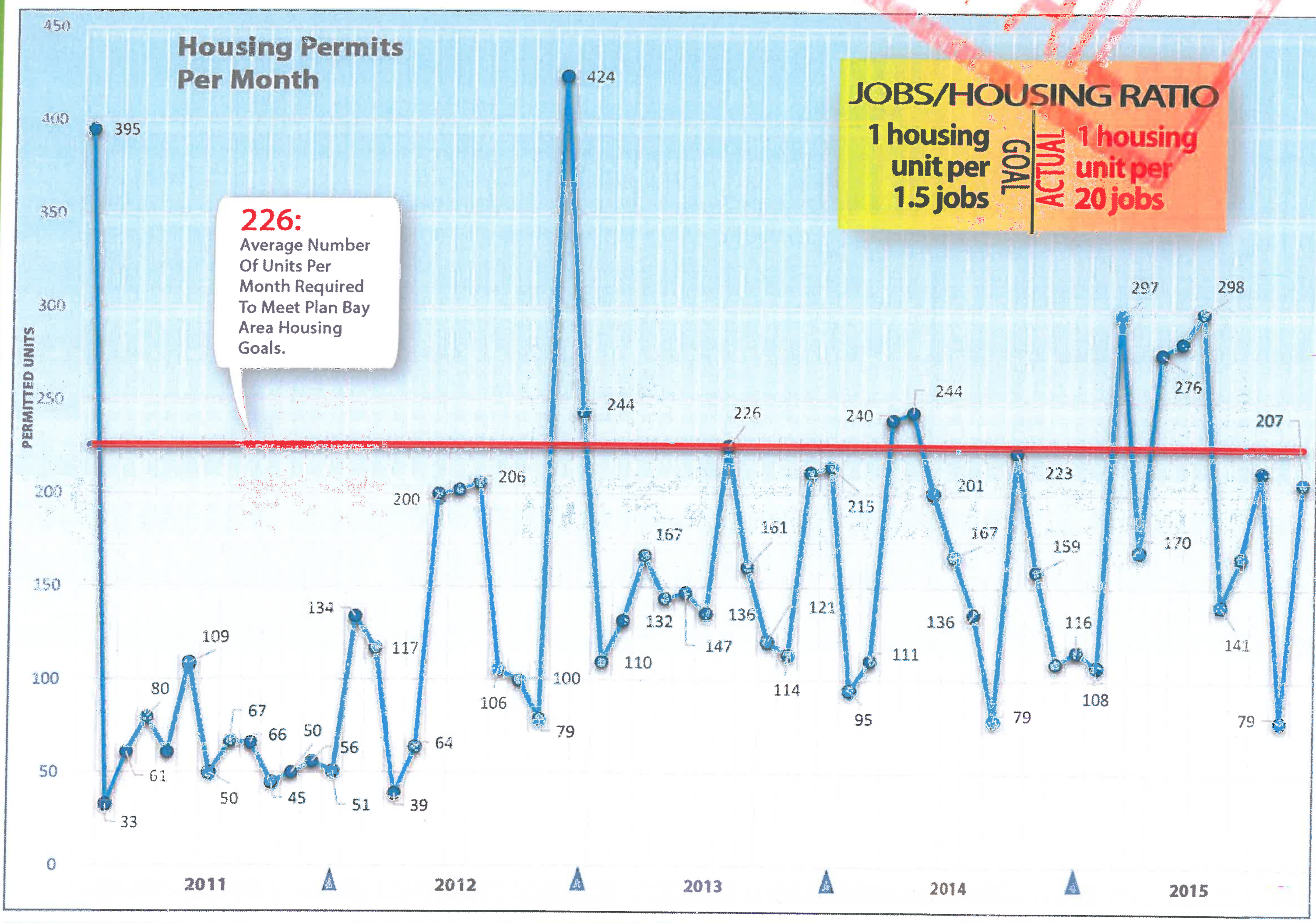
January 2011 through December 2015

CONTRA COSTA COUNTY

BY THE NUMBERS: Five years after Bay Area leaders adopted a regional growth plan, Contra Costa County and its 19 cities are falling further and further behind when it comes to providing an adequate housing supply for their new workers. While the county exceeds by nearly eightfold its Plan Bay Area projections for new jobs, it substantially and consistently fails to produce enough housing for its new workers.



HOUSING

New units needed:
13,555
Actual Units Permitted:
9,043

-50%
BEHIND
PROJECTIONS

&

JOBS

New jobs projected:
20,412
Actual New Jobs:
179,780

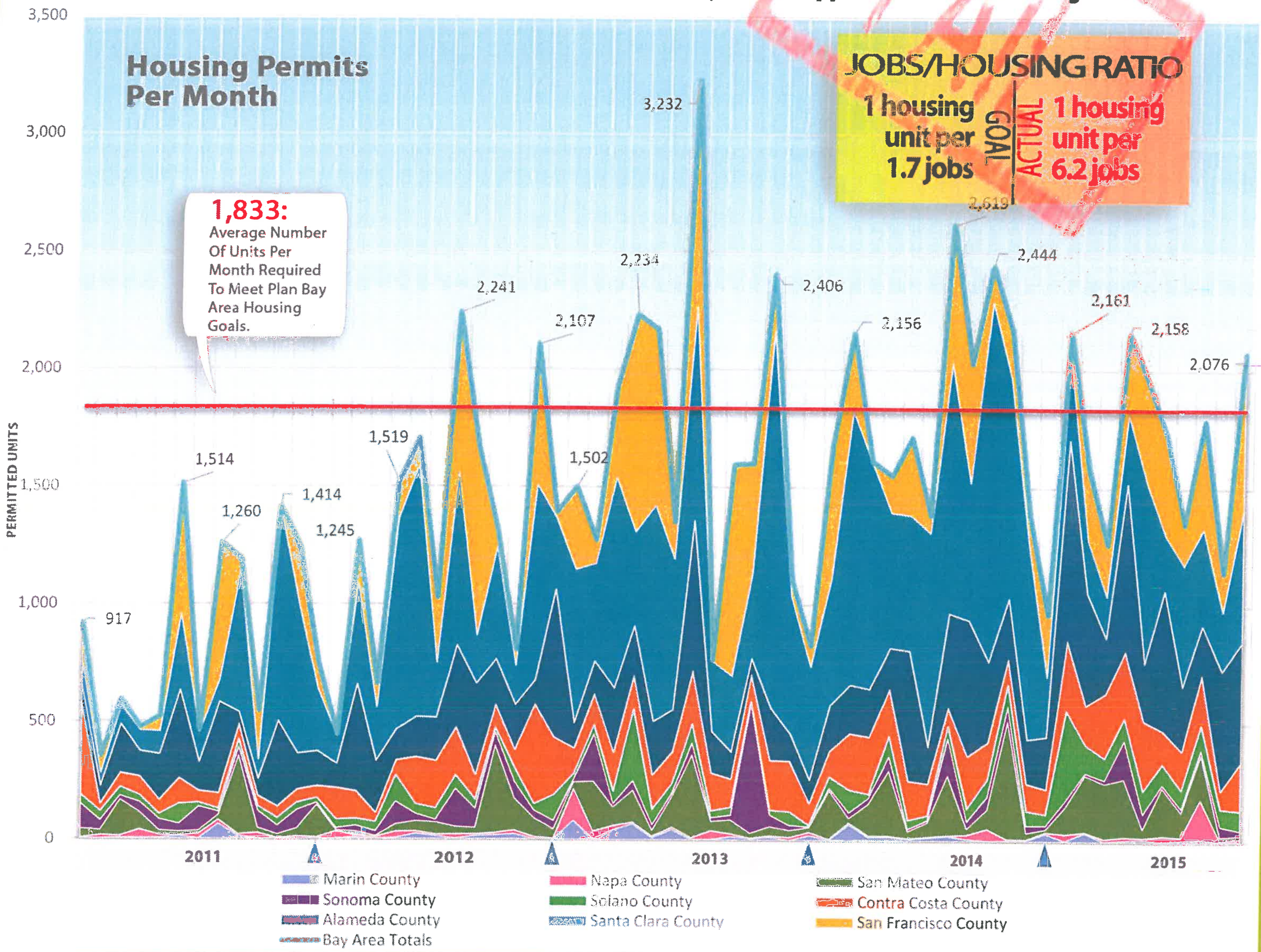
781%
BEYOND
PROJECTIONS

SOURCES: BIA|Bay Area prepared this handout using data obtained from the California Economic Development Dept., California Construction Industry Research Board and California Homebuilding Foundation. For more information, visit www.mychf.org/go/cirb/.

January 2011 through December 2015

SAN FRANCISCO BAY AREA

BY THE NUMBERS: The nine-county San Francisco Bay and its cities are falling further and further behind when it comes to providing an adequate housing supply for new workers. Five years into the Plan Bay Area planning period, the region exceeds job projections by nearly threefold but consistently fails to approve sufficient housing.



HOUSING

New units needed:
110,115
Actual Units Permitted:
88,355

VS

JOBS

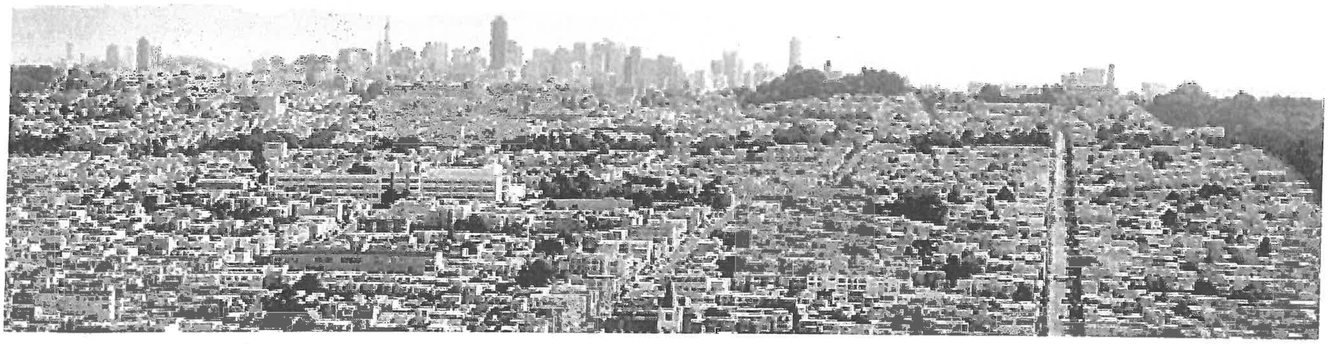
New jobs projected:
186,653
Actual New Jobs:
544,300

-24.6%
BEHIND PROJECTIONS

192%
BEYOND PROJECTIONS

SOURCES: BIA|Bay Area prepared this handout using data that was obtained from the California Economic Development Dept., California Construction Industry Research Board and California Homebuilding Foundation. For more information, visit www.mychf.org/go/cirb/.

California Housing Shortage Getting More Attention



(Photo Credit: Jeremy Brooks/Flickr)

California's housing shortage has been picking up steam as a political and economic issue. The California Economic Summit targeted the issue in 2015. With supply falling far below demand, California needs to build at least one million more homes for low and middle-income Californians in the next ten years.

State resources are constrained and communities face numerous obstacles to building more homes close to jobs. Those "obstacles" include uncertainty around infrastructure financing to lengthy approval processes. The Summit is leading a comprehensive effort aimed at reducing costs and increasing the supply of housing for Californians.

From across the state, voices are being raised that something needs to be done.

Ray Pearl opined in a Capitol Weekly op-ed that the state needs to turn its attention to the housing issue. He said the housing shortage is hurting the state's economy.

For instance, Pearl writes, "When Toyota announced last year that it would move its headquarters out of Torrance, California, some blamed our state's taxes and regulation. But newer reports show a different culprit. 'It was really about affordable housing,' said insider Albert Niemi, dean of the Cox School of Business at Southern Methodist University. Toyota's departure – along with 3,000 workers and their spending power – is another wake-up call that we can no longer ignore California's housing crisis."

"Unfortunately," Pearl added, "even though business leaders including the Orange County Business Council and the Silicon Valley Leadership Group have been sounding the alarm bells for years — naming workforce housing affordability as a major threat to the state's economy – action has been hard to come by.

For Christopher Thornberg of Beacon Economics, the housing shortage is "a middle class crisis in California". Writing in the San Diego Union Tribune, Thornberg said that 53 percent of California middle-class households are using more than 30 percent of their income to cover rent. Ten years ago, it was 38 percent.

Here's more from Thornberg:

"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."

"What's driving this housing crisis? It's a classic problem of supply and demand. The state doesn't build enough housing to accommodate its population growth. California 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 the state has accounted for only 8 percent of all national building permits."

Another sign that the housing issue is gaining momentum in California is political writers are beginning to chime in. Dan Walters of the Sacramento Bee wrote on what he called "the state's serious and worsening housing shortage."

Walters writes that housing costs are, according to the Census Bureau and the Public Policy Institute of California, the major factor in the state having the nation's highest level of functional poverty. He added that California has the dubious distinction of having four of the nation's top ten most expensive rental markets.

Governor Brown did not mention housing in the State of the State address last week, and while he has not explicitly ruled out addressing the issue in the next three years, he did rule out his support for any new programs.

Assemblymember David Chiu of San Francisco is the new Chair of the Assembly Housing and Community Development Committee. He is a long-time supporter of affordable housing, which of course is a huge issue in his home city. He and outgoing Speaker Toni Atkins have been promoting the need for more housing.

Earlier in January, a group of State Senators proposed spending $2 billion to build or rehabilitation permanent housing to address the state's large homeless population, estimated at 116,000 people.

With fewer than one in three families able to afford a median-priced home in California—and with soaring rents making it harder than ever to find a place to live—the California Economic Summit will seek to build a coalition that can help more communities increase the supply, and reduce the price, of the homes California's growing population needs to prosper.

After years of efforts to replace redevelopment funds, expand state housing tax credits, and create a dedicated source of revenue for affordable housing, it is becoming clear that a comprehensive effort will be necessary to close the state's growing "housing gap"—a plan that expands resources for subsidized affordable housing, while also increasing production of market-rate housing near transit and jobs.

So how to do address this vexing and expensive problem?

The California Economic Summit released its 2016 Roadmap to Shared Prosperity highlighting a set of ambitious goals—the One Million Challenges—that will be vital to expanding sustainable economic growth in every part of California.

BIA | BAY AREA

BUILDING INDUSTRY ASSOCIATION

HOUSING CRISIS: FAST FACTS

Highlights from "California's High Housing Costs: Causes and Consequences"

Mac Taylor ∝ California Legislative Analyst's Office ∝ March 17, 2015

California's Home Prices and Rents Higher Than Just About Anywhere Else.

Between 1970 and 1980, California home prices went from 30 percent above U.S. levels to more than 80 percent higher. Today, an average California home costs $440,000, about 2 ½ times the average national home price ($180,000). Also, California's average monthly rent is about $1,240, 50 percent higher than the rest of the country ($840 per month). The gap is wider in coastal communities where homes are now more than three times more expensive than the rest of the country.

Building Less Housing Than People Demand Drives High Housing Costs.

Not enough housing exists in the state's major coastal communities to accommodate all of the households that want to live there. A shortage of housing along California's coast means households wishing to live there compete for limited housing. This competition bids up home prices and rents. Some people who find California's coast unaffordable turn instead to inland communities, causing prices there to rise as well.

High Housing Costs Problematic for Households and the State's Economy.

Many households make serious trade-offs to afford living here. Households with low incomes, in particular, spend much more of their income on housing. High home prices here also push homeownership out of reach for many. Faced with expensive housing options, workers in California's coastal communities commute 10 percent further each day than commuters elsewhere, largely because limited housing options exist near major job centers.

NIMBYs, CEQA, Local Government Finance Structure to Blame for Housing Shortage.

When residents are concerned about new housing, they can use the community's land use authority to slow or stop housing from being built or require it to be built at lower densities. CEQA's complicated procedural requirements give development opponents significant opportunities to continue challenging housing projects after local governments approve them. Local government finance structure typically gives cities and counties greater incentives to approve nonresidential development or lower density housing development.

Development Fees Levied On California Builders Substantially Higher Than Elsewhere.

A 2012 national survey found that the average development fee levied by California local governments (excluding water-related fees) was just over $22,000 per single-family home compared with about $6,000 per single-family home in the rest of the country.

California Needs to Build An Additional 100,000 Homes Per Year.

On top of the 100,000 to 140,000 housing units California is expected to build each year, the state probably would have to build as many as 100,000 additional units annually—almost exclusively in its coastal communities—to seriously mitigate its problems with housing affordability.

Download the full report at http://www.lao.ca.gov/reports/2015/finance/housing-costs/housing-costs.pdf

California's High Housing Costs

Causes and Consequences

MAC TAYLOR • LEGISLATIVE ANALYST • MARCH 17, 2015

LAO

http://www.lao.ca.gov/reports/2015/finance/housing-costs/housing-costs.pdf

EXECUTIVE SUMMARY

California's Home Prices and Rents Higher Than Just About Anywhere Else. Housing in California has long been more expensive than most of the rest of the country. Beginning in about 1970, however, the gap between California's home prices and those in the rest country started to widen. Between 1970 and 1980, California home prices went from 30 percent above U.S. levels to more than 80 percent higher. This trend has continued. Today, an average California home costs $440,000, about two-and-a-half times the average national home price ($180,000). Also, California's average monthly rent is about $1,240, 50 percent higher than the rest of the country ($840 per month).

Building Less Housing Than People Demand Drives High Housing Costs. California is a desirable place to live. Yet not enough housing exists in the state's major coastal communities to accommodate all of the households that want to live there. In these areas, community resistance to housing, environmental policies, lack of fiscal incentives for local governments to approve housing, and limited land constrains new housing construction. A shortage of housing along California's coast means households wishing to live there compete for limited housing. This competition bids up home prices and rents. Some people who find California's coast unaffordable turn instead to California's inland communities, causing prices there to rise as well. In addition to a shortage of housing, high land and construction costs also play some role in high housing prices.

High Housing Costs Problematic for Households and the State's Economy. Amid high housing costs, many households make serious trade-offs to afford living here. Households with low incomes, in particular, spend much more of their income on housing. High home prices here also push homeownership out of reach for many. Faced with expensive housing options, workers in California's coastal communities commute 10 percent further each day than commuters elsewhere, largely because limited housing options exist near major job centers. Californians are also four times more likely to live in crowded housing. And, finally, the state's high housing costs make California a less attractive place to call home, making it more difficult for companies to hire and retain qualified employees, likely preventing the state's economy from meeting its full potential.

Recognize Targeted Role of Affordable Housing Programs. In recent decades, the state has approached the problem of housing affordability for low-income Californians and those with unmet housing needs primarily by subsidizing the construction of affordable housing through bond funds, tax credits, and other resources. Because these programs have historically accounted for only a small share of all new housing built each year, they alone could not meet the housing needs we identify in this report. For this reason, we advise the Legislature to consider how targeted programs that assist those with limited access to market rate housing could supplement broader changes that facilitate more private housing construction.

More Private Housing Construction in Coastal Urban Areas. We advise the Legislature to change policies to facilitate significantly more private home and apartment building in California's coastal urban areas. Though the exact number of new housing units California needs to build is

Housing a middle-class crisis in California

By Christopher Thornberg | 3 p.m. Jan. 23, 2016

Debate about California's housing crisis typically revolves around low-income households. The rule of thumb is that people shouldn't spend more than 30 percent of their income on housing. But more than 90 percent of California families earning less than $35,000 per year spend more than 30 percent of their income on housing.

This isn't new; that percentage has been stubbornly high for years. Nor is this an exclusively Californian problem — the comparable figure for the United States overall is 83 percent.

What is new and disturbing is that the crisis is now spreading to middle-income households, families earning between $35,000 and $75,000 per year.

In 2006, 38 percent of middle-class households in California used more than 30 percent of their income to cover rent. Today, that figure is over 53 percent. The national figure, as a point of comparison, 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.

The social costs of this middle-class housing crisis are not sufficiently appreciated. These middle-income families have less money to spend on other goods and services — and that creates huge losses across the economy. It forces California employers to pay higher wages than elsewhere in the nation, raising costs for California consumers and diminishing the state's competitiveness. Some middle-class households choose to move out of California in search of more affordable housing, depriving the state of young, skilled workers who represent the backbone of the workforce — and the state's future.

What's driving this housing crisis? It's a classic problem of supply and demand. The state doesn't build enough housing to accommodate its population growth. California 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 the state has accounted for only 8 percent of all national building permits. This chronic lack of new residential construction has led to the higher costs associated with less inventory (low housing vacancy rates) and elevated levels of overcrowded housing (8.2 percent of Californians live in overcrowded circumstances compared to 3.4 percent of all Americans).

To put the shortage in context, consider the amount of housing that would need to be built in order to move the state to national norms for housing stock, vacancy rates and crowding: California would need to expand its stock by between 6 and 7.5 percent — that's between 800,000 and a million additional residential units. In Los Angeles County, where the situation is far more acute, the state would need to add 180,000 to 210,000 units, between 12 and 14 percent of the total.

These figures dwarf the meager efforts policymakers are proposing to fix the problem. The bill known as AB 35, recently vetoed by Gov. Brown, would have raised $1.5 billion over five years — to build a mere 3,000 affordable housing units. Another piece of legislation, AB 2, proposed a new form of tax-increment financing that would have partially replaced the redevelopment agencies the governor closed at the start of his current term. The redevelopment system only managed to build 10,000 affordable housing units in a decade — a tiny fraction of what was needed.

Why is it so hard to build? The state has stiff regulations regarding construction quality, high labor costs (in part because construction workers also need to handle their own high housing costs!), higher land costs and fees and expenses charged to developers by local governments. But taken together, these obstacles do not provide a complete explanation for the shortage of housing.

If you were to compare the same newly built house in California and Texas, the California house would typically sell for twice as much as the one in Texas. If you were to add up all the additional costs of building that house in California — land costs, permit fees, construction code — the number would not fully explain the gap in prices. The gap is much wider. In other words: builders make a lot more profit building a house in California than they do in Texas.

What's different here? The state has erected two giant barriers to entry: Proposition 13 and the California Environmental Quality Act, known as CEQA.

Proposition 13 limits the value of housing to local governments by keeping property taxes much lower than in other parts of the United States. So California's local governments — at least the ones that are fiscally wise — do not encourage residential investment, since it produces less in taxes. And they levy very high fees on those who develop and create restrictive rules that add to the cost of the process.

The state's CEQA law imposes similar costs on growth. Such environmental laws are desirable in theory — forcing developers to mitigate excessive disruptions they might create in the natural or urban environment. The problem is that "excessive" is being interpreted to mean "any" in the current application of the law.

Is there any conversation about reforming CEQA in Sacramento? None. Any chance of reforming Proposition 13? Very little. The only discussion to date involves the so-called "split-roll" that would raise commercial rates while leaving Proposition 13's limits on residential property taxes untouched. This will only make the local government bias against residential real estate worse.

And so California families continue to face a very real housing crisis. And the state leaders are not helping.

Thornberg is founding partner of Beacon Economics LLC and the director of the UC Riverside School of Business Administration Center for Economics Forecasting and Development.