

California's Housing Prices Need to Come Down

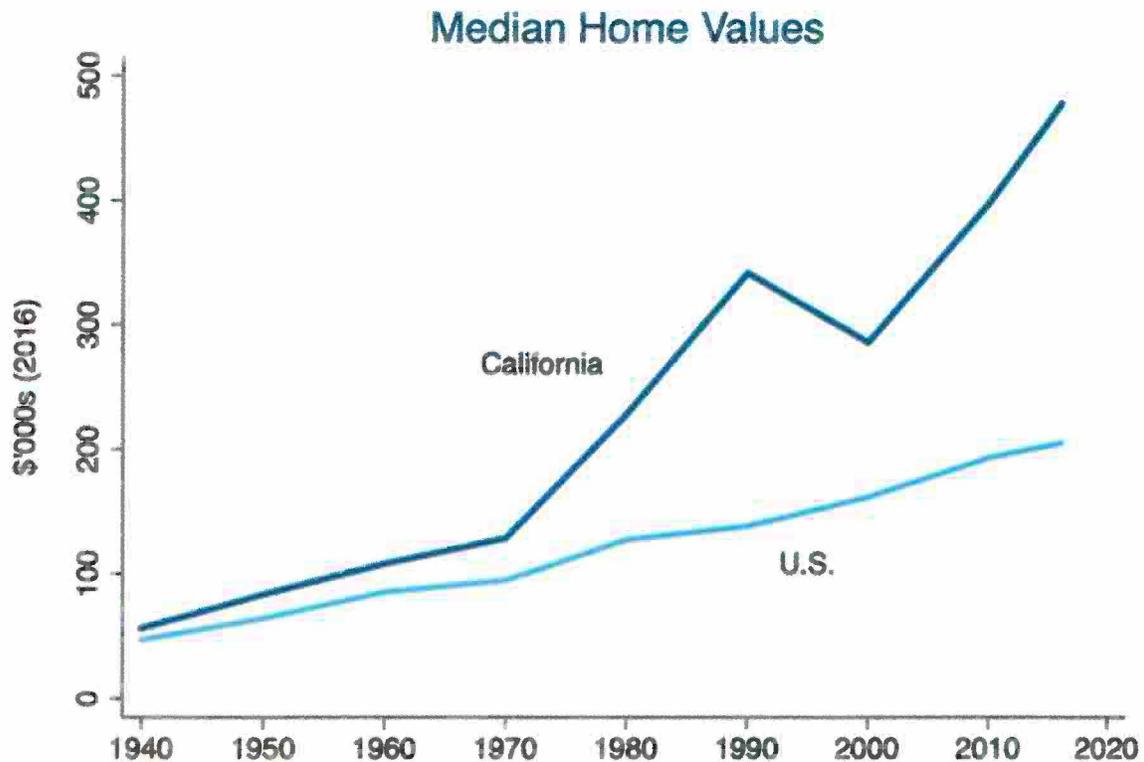
City Lab, by Issi Romem, March 28, 2018

Shifting control of housing decisions from local to state oversight could be a way to slow the rise of California's house prices. A newly proposed bill, SB 827, is a step in that direction.

Housing in California has been appreciating much more quickly than in the aggregate of the U.S. for about half a century. While rising rents and home values have benefitted many along the way, they have become enough of a burden on young adults and families that a new political movement has emerged; this movement argues that more homes must be built in order to mitigate housing price appreciation and allow more people to live where they wish.

The new movement consists of a multitude of overlapping groups, collectively known as YIMBY—“Yes, in my back yard.”

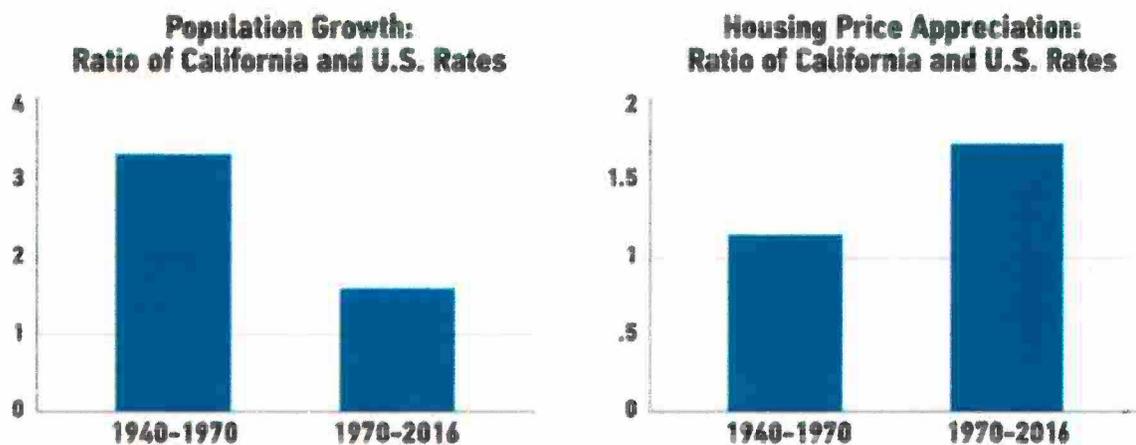
State Senator Scott Wiener, the movement's champion in the California Senate, has proposed a new bill SB 827, that, if passed would compel California's cities to allow dense, mid-rise housing within walking distance of most transit. The bill would affect large swaths of Los Angeles, San Francisco, and Oakland, and other locations farther afield, near rail stations and along bus routes. If SB 827 passes, it would be the most important step in decades towards upping the state's housing supply in substantial numbers.



Calculation by Issi Romem from U.S. Census and Bureau of Labor Statistics data

Opponents of the bill portray it as seizing control over neighborhoods from local planners, and they are not entirely wrong. The bill shifts power over an important aspect of land use policy from local decision makers to the state. Indeed, that is the proposal's greatest strength.

Why are California's home prices so high? It hasn't always been this way: In 1940, home values in the state were only modestly more expensive than in the rest of the country but they diverged from the pack in earnest starting around 1970. California has always exerted a powerful pull on people thanks to its climate, natural beauty, and thriving economy. However, as long as abundant new housing was built to accommodate those drawn to California, housing price growth was limited and the state's allure was channeled into population growth: From 1940 to 1970 California's population grew 242 percent faster than the national pace, while the growth of its median home value was only 16 percent faster than the nation's.



Calculation by Issi Romem from U.S. Census data

But from about 1970, land use in California started changing in three ways that made building new housing far more difficult. First, both natural geographic barriers and an emergent environmental movement to preserve open land caused Coastal California's large metro areas to slow their outward expansion, or sprawl. Second, California's cities gradually but pervasively imposed land use restrictions such as single-family zoning, height limits and minimum lot sizes, that made it all but impossible to raise the density of developed residential areas. Finally, starting around that time, it had become standard practice to require community participation in the planning process, offering an exclusive channel for current local residents to exert influence over land use decisions. Although the introduction of community participation and the imposition of land use restrictions took place in cities throughout the U.S., the curbing of sprawl was limited to the nation's large coastal cities, and was most prominent in California.

Because its cities were stymied in expanding their territory and were largely prevented from growing denser, fewer new homes were built in California: The state's allure no longer generated the same population growth as before. Instead, the suppressed housing supply channeled the state's allure into housing price growth, as homebuyers were forced to compete over fewer homes. Rising home prices compelled residents to leave the state at a higher rate than before and increasingly deterred potential newcomers from moving in (especially domestic ones). Whereas California's population growth had clocked in at 242 percent faster than the national pace from 1940 to 1970, from 1970 to 2016, it was just 68 percent faster than the

national pace. In contrast, the median home value which had increased only 16 percent faster than the nation's in the previous 30 years now increased 78 percent faster than the nation's.

Local control in housing matters seems reasonable: Shouldn't people have final say over what happens in their neighborhoods? But when new housing is proposed, those who stand to gain from it most often do not live in the city where it is proposed—they include renters and future homeowners throughout the metro who would benefit from slower housing price growth, and whose ability to remain in the metro diminishes when rents and home values rise. They also include many for whom it would broaden the set of neighborhoods they could afford to live in, expanding access to employment or schooling opportunities and affecting daily commutes. Crucially, those standing to gain include potential new residents who could move to the metro if more housing were built, gaining access to all that the metro provides and in many ways benefitting its current residents. Those who stand to lose because it could hurt their property values or adversely affect such aspects of life as traffic or school enrollment, can also be found outside the city where the new housing is proposed, but the most vocal among them—and those whose interests exclusively sway the decision whether to allow it—tend to be concentrated nearby.

Thus, it should come as no surprise that when land use policy is determined through local politics the outcomes inevitably reflect the interests of current local residents. It tends to restrict the development of new housing, and as a result, restricts the metro-wide housing supply as well. The fix is to wrest that control out of those hands and transfer it to a regional government that internalizes a broader set of interests. An extreme but straightforward approach would be to unify the fragmented municipal landscape of each Coastal California metro—i.e. the Bay Area and Greater Los Angeles—and unite each of them under a regional government, but that would be politically infeasible and would almost certainly over-reach by shifting genuinely local matters out of local hands.

A more measured and politically viable approach would be to use state powers to constrain the choices cities can make with respect to specific aspects of local land use that transcend municipal boundaries. That way, instead of considering only how it affects the current local residents of a city, land use policy will be pursued in light of its consequences for everyone in the region.

SB 827 implements precisely this approach: It shifts power over an important but specific aspect of land use policy—housing density near transit—from the local level to the regional one. Moreover, it does so without otherwise intruding on cities' autonomy. There is no need to over-constrain local land use policy by overriding it even when its effects don't transcend municipal boundaries. Of course, the devil is almost always in the details and it certainly will be in the case of SB 827 too, but in shifting control over a defined aspect of land use from the local level to the regional one, this bill gets the overarching principle right.

Issi Romem is Chief Economist at BuildZoom and a fellow at the Turner Center for Housing Innovation at the University of California, Berkeley.