

# California Politicians Misunderstand How to Fix Its Housing Problem

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*I use economic insight to analyze issues and critique policy.*

Housing is a problem in much of California. Prices are high and rising fast in most areas close to the coast. To find affordable housing, millions of people make long commutes with some people spending three or four hours per day driving to and from work. In many cities, long-time residents complain about gentrification forcing them out of rental apartments, leaving them unable to find new, affordable housing, and changing the character of neighborhoods. Everyone knows a problem exists. Unfortunately, most California politicians and activists are relying on exactly the wrong policies to fix the situation.

The reason coastal California is experiencing a crisis of affordable housing is simple: the supply of new housing has not been sufficient for the increase in employment and population. In the nine-county San Francisco metro, commonly referred to as the Bay Area, there has been a recent uptick in home building that has seen about 20,000 housing units added per year, enough to be considered a building boom by local standards. Yet, from November 2016 to November 2017, employment in the same nine counties rose by about 74,000.

Even if every new household was a two-worker household, the San Francisco metro would still only be adding half the housing it needs to keep up with demand. When demand far exceeds supply, the result of rising prices is inevitable. Yet, Californians continue to pursue policies that have either no effect on supply, or, worse, negative ones.

Many renters and politicians want to broaden the use of rent control policies to prevent long-term residents from being priced out of their rentals. Yet, rent control removes the economic incentive to build new rental units and increases the incentive to convert rentals into for-sale units. When rental apartments become condos, instead of facing rising rents tenants face eviction from their homes and neighborhoods experience gentrification as rentals are redeveloped into more upscale, owner-occupied units. In the short-run, rent control delivers tenants benefits through lower rents, but in the long-run, affordable housing actually shrinks and the losses far outweigh the gains.

The California Association of Realtors wants a state constitutional change allowing California residents age 55 and older to take at least some of their Proposition 13 property tax break with them when they move. The realtors think this will make people more amenable to downsizing, creating more sales transactions for them to collect commissions on and freeing up some family-sized homes for families looking to buy. However, unless builders are allowed to build new units for seniors looking to downsize, simply shuffling people around will do nothing to slow price increases.

The problem is that builders have so much difficulty getting approval to build new units. California is home to many people more interested in protecting land from development than supporting an increase in affordable housing. NIMBYs, those continually opposing new development under the umbrella of "not in my backyard," control local housing politics in most

of California. These anti-development attitudes are strengthened by a synergy between the environmentalist leanings of many and the fact that existing homeowners profit economically from these restrictions on new housing supply.

Two potentially helpful ideas are percolating around California. One idea is for the state to bribe local governments to approve more housing by rewarding those cities and counties with contributions of state money to their underfunded and very expensive pension systems. While it is depressing that such bribes are needed to convince local governments to allow development, it might be a very effective policy with the main loser being state taxpayers, especially those in the parts of the state that are not short of housing now (translation: the places farther from the coast that are already affordable).

The second idea is a State Senate bill proposing the state force upzoning anywhere in the state within a-half mile of a train station or a-quarter mile of a bus route with busses at least every fifteen minutes. Within these zones, the state would ban local governments from restricting density, height, or just about any other feature of development. This would allow developers to build any project they think has buyers and would greatly increase housing availability exactly in the locations most likely to have the infrastructure in place to handle that new growth. Again, this would likely lead to a large increase in housing supply and thus a fall in prices. It would also greatly slow the gentrification in many neighborhoods because allowing more density means fewer existing buildings need to be redeveloped. The downside is that mass transit availability does not ensure that all infrastructure is in place (roads, water, sewer, schools, etc.) so this upzoning could put significant pressure on local governments to keep up. Of course, the new growth should produce new tax revenue sufficient to cover that cost, especially if the bill includes the ability to charge impact fees for this purpose.

The solution to California's housing problems is simple: increase the supply of housing by building more housing of all sorts. Even if the new units built are high-priced, it will help people in need of affordable housing by stopping gentrification and opening up older houses and apartments to become affordable housing. Policies that use government to resist market forces instead of addressing the actual problem are doomed to failure. If California's politicians really want to help solve the problem, they should get government out of the way and let the market solve the problem all by itself.

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