

Making California housing affordable again will require new laws, more avenues to build

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How can California increase the number of homes that people can afford?

By giving more money to cities that build sufficient affordable housing, some said at a housing summit last week in Los Angeles. Or cutting off funding to those that don't.

Or by allowing developers to bypass the local process in cities and counties with insufficient affordable housing. Allowing single-family homeowners to build and rent out granny flats. And by streamlining the approval process for affordable housing projects.

Those were some of the ideas batted around at an industry brain-storming session Thursday on the state's "affordability crisis." Hosted by the California Association of Realtors, the summit drew about 100 economists, state and local officials, homebuilder representatives and affordable housing developers and advocates.

The fact that Realtors – in the business of getting the best price for their clients' homes – should fret about the high cost of housing reflects a deeper concern about more than just their livelihoods. California rapidly is becoming a state where renters, not homebuyers, are in the majority.

Joel Singer, the association's longtime chief executive, spelled out two stark facts threatening the Golden State: California ranks 49th in the nation in homeownership rates. And 50th in affordability rates.

"Where are our children going to live?" Singer asked.

How bad is it?

Summit speakers came armed with a battery of depressing statistics.

Fewer than half of Inland Empire households can afford a median-priced house in their area, Realtor figures released last week show. In the Los Angeles-Orange County area, just a third can afford a median-priced house.

With jobs and population growing faster than people are building homes, rent and home prices are outpacing incomes.

For example, Southern California added four new jobs for every new home built from 2010 to 2015. Typically, a new unit is needed for every 1.5 new jobs.

In the Bay Area, six jobs were created for each new housing unit built.

As a result, 68 percent of California renters paying the median rent are "cost burdened" – that is, paying more than 30 percent of their earnings on rent, said Matt Schwartz, president and CEO of the California Housing Partnership Corp.

In addition, 25 percent of homeowners who buy a median-priced home are cost burdened.

"It's break-glass time here in California," said Carol Galante, a professor of affordable housing at UC Berkeley and a former Obama Administration housing official. "We have got to be bold about the ideas to fix this problem."

Increasing the supply

The problem is two-fold, several speakers said.

First, California needs to make "market rate" housing affordable for middle-income families. Second, the state needs more subsidized housing for low-income families.

“Affordable housing should be for everyone,” said Ehud Mouchly, owner of Readi LLC, a West Hollywood development firm.

The solution is to increase the supply of both market-rate and affordable housing, speakers said.

Here are some of the proposals discussed:

- Fiscal incentives: Resident opposition often makes it hard for local governments to approve new housing. Local leaders often give in to angry protests.

But tying development to state funding could give cities and counties an incentive to overcome that opposition and approve more housing.

Transportation funds, money for new parks, and even property tax dollars could be used to reward local jurisdictions that do well in approving housing for people of all income levels.

“We all can agree we need more production,” said Schwartz of the California Housing Partnership. “I think it’s time to start acknowledging that we need to link transportation and housing ... in terms of fiscal incentives.”

- The Massachusetts model: California should consider legislation similar to Chapter 40B in Massachusetts, which creates a state appeals board for reviewing denied development projects.

The measure requires every jurisdiction to have a certain level of affordable housing. If a community falls below that level and denies a new development, the developer can bypass the local process and get it approved by the quasi-judicial appeals board.

“It’s been very successful. It’s been in place for decades, and it has actually made a big difference ... in (housing) production in Massachusetts suburban communities,” Galante said.

New ideas

- Granny flats: The bulk of housing in the region and across the state is in low-density single-family housing tracts.

Galante said California needs legislation authorizing granny flats, or “accessory units,” carved out of a home, added in the backyard or by converting a garage into a separate unit. If just 25 percent to 30 percent of Bay Area homes added accessory units, that would create 100,000 new units, she said.

“In California, these are valuable properties. They’re not going anywhere. We’re not going to have those parcels to do major redevelopment and build Manhattan on,” Galante said. “So we need to find a way to use those neighborhoods more creatively.”

- Prefabricated homebuilding: Building parts of homes in factories and assembling them at the home site can reduce homebuilding costs by at least 20 percent and could cut construction time in half, Galante said.

- National renters credit: The federal government subsidizes homeownership by providing a mortgage interest deduction, but has nothing for renters. Galante proposed that the federal government embed in the tax code a credit for renters up to a certain income level and up to a certain rent level.

“Why don’t we help people with their basic rents?” she asked. “You can help millions of people with their housing affordability issue.”

- Rent to own: New mortgage products need to be developed to create more paths to homeownership, Galante said. For example, lenders should create lease-purchase loans.

She said the federal housing finance system should find more ways to increase lending to non-traditional buyers.

- Streamline the approval process: Some affordable housing developers complained about duplicative inspections and reviews by the city and state. Affordable housing, said West Hollywood developer Mouchly, costs about 33 percent more to build than market-rate housing due to red tape and the complexity of financing such projects.

“The reality is it can be extremely challenging to build affordable housing,” said Sarah Letts, executive director of the Hollywood Community Housing Corp.

- New revenue source: Resurrect the \$75 per transaction fee for recording deeds, mortgages and other documents to support affordable housing, said Schwartz.

The measure died in the Assembly in February, but Schwartz said Gov. Jerry Brown would sign such a bill. The fee would become a permanent revenue source for developing affordable housing.

Ultimately, affordable housing is essential to help families stabilize their lives, get an education, find a better job and move up the income ladder, several speakers said. Living in crowded conditions or getting evicted and moving frequently is hard on families and harmful to children.

“At the end of the day, affordable housing changes lives,” said Danavon Horn, president of Palm Communities, an affordable housing builder in Irvine. “The children is where we have a real opportunity, to move them on and move them out of that lifestyle by stabilizing their environment and their lives.”