



HOUSING CONFERENCE 2002: AFFORDABILITY AND AVAILABILITY

DEFINING THE CRISIS

PRESENTED ON:
NOVEMBER 22, 2002

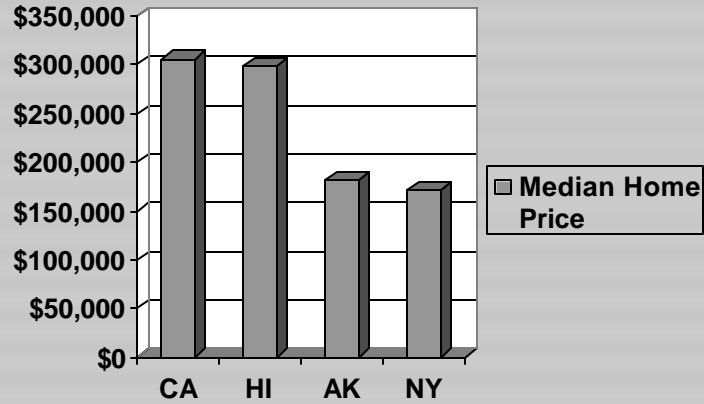
STEVEN B. FRATER
SENIOR FELLOW
THE ROSE INSTITUTE OF STATE AND LOCAL GOVERNMENT

There Is A Crisis

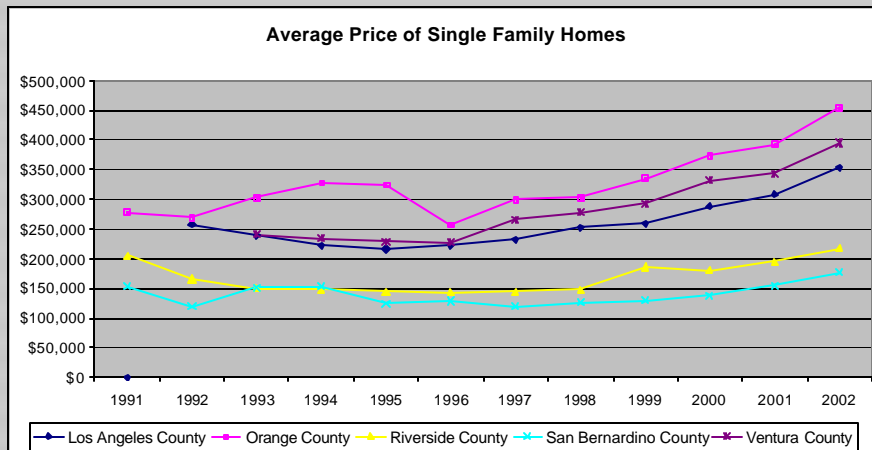
- Affordability
- Availability
- Population increase
- Production Decrease
- Jack Kyser will talk more about economic impact of the housing crisis in California

Affordability?

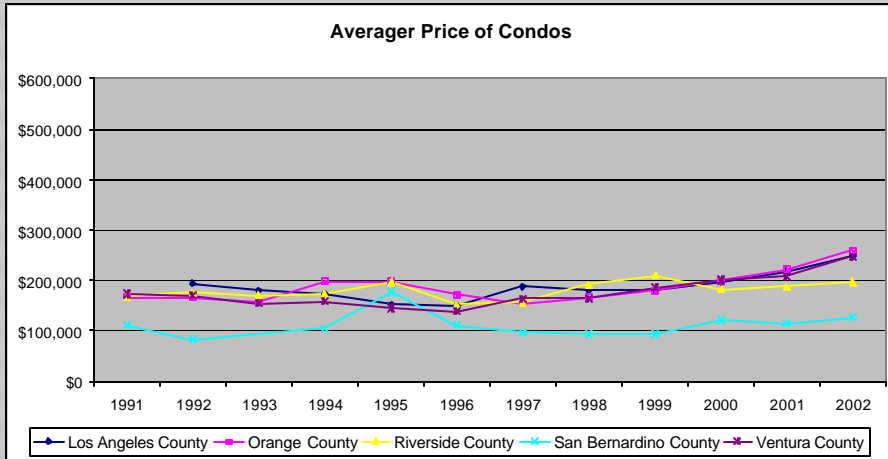
Home Price Comparison Q1 2002



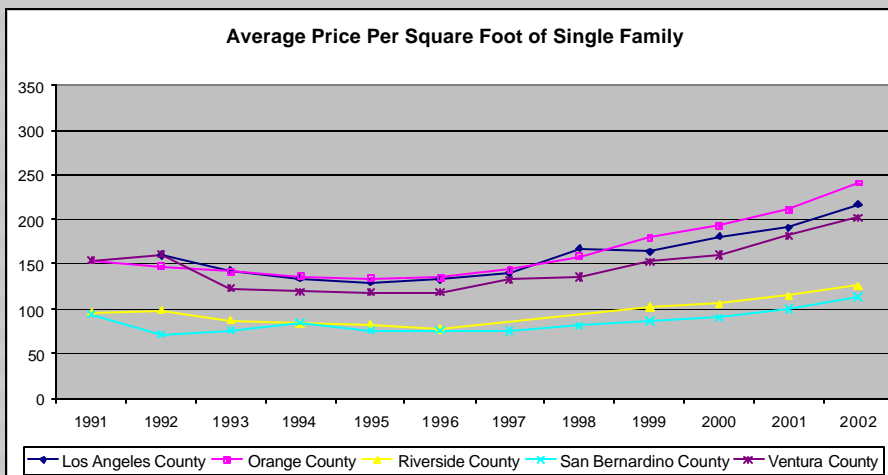
Affordability? (cont.)



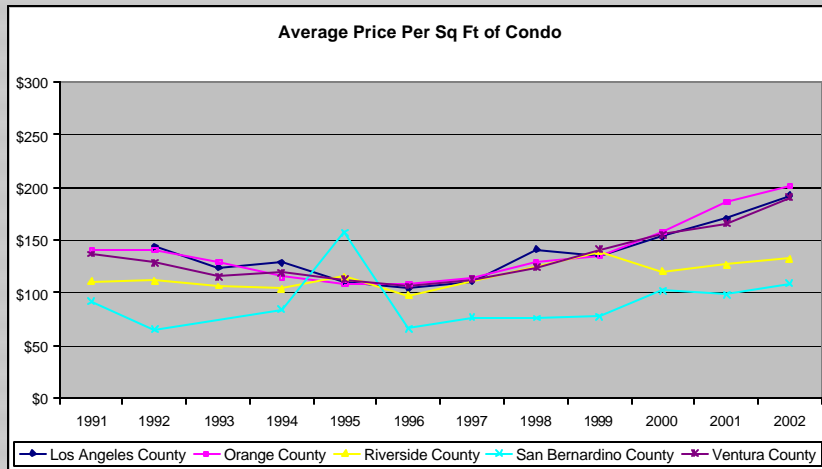
Affordability? (cont.)



Affordability? (cont.)



Affordability? (cont.)



Availability?

- In 2001, California built only 144,000 new homes while the state Department of Finance estimates the annual need to be upwards of 250,000 new homes.
- California has the second-worst home ownership rate (57%) in the nation and would need roughly a 20 percent boost to equal the national average (67.4%).
- Fewer than half of the state's Latino households (42 percent) own their own homes even though desire is strong: A Fannie Mae survey reports that 65 percent of Latinos say that homeownership is a very important to number-one priority and 75 percent say it would have a positive impact on their family.

Basic Demographics

- CA Dept of Finance estimates that California's population will reach 58 million by 2040 – that means that 24 million more Californians will need a place to call home.

Production Decrease

- California is under-producing housing: Last year marked the 11th consecutive year of housing production at roughly 50 percent of normal.

Why Did the Crisis Arise?

- More people (jobs, lifestyle, kids, immigration, etc.)
- Inadequate Production

THE PERFECT STORM

- Municipal Finances
- Regulations

Municipal Finances

- Individual cities have little, if any, incentive to allow housing, especially dense, lower cost housing.
- Condo and apartment construction down because of construction defect law
- Federal tax law changed
 - Reduced incentive to build and own apartments

Municipal Finance (cont.)

- Given this situation, individual cities have every reason to use the full panoply of available regulations to curtail housing in favor of other choices:
 - Open space
 - Retail

Regulations

- How do regulations proliferate?
 - Cost of regulations for new houses
- Metamorphoses of Land Use Laws and Regulation

Land Use Regulation Timeline

- 1890s: * Map Act
- 1920s: * Zoning becomes more prevalent
 - A) manifestation of the progressivist/reform movement to:
 - 1) clean up urban slums
 - 2) separate differing land uses (especially separate housing from heavy industrial uses)
- * Model Zoning Ordinance promulgated by Herbert Hoover, Secretary of the US Department of Commerce
- Late 1960s * Use Permits: Environmental Review
- Early 1970s: * NEPA (Federal Environmental Protection Act, EPA), Nixon Administration
- * CEQA (California Environmental Quality Act)

Timeline (cont.)

- Mid 1970s: * Friends Of Mammoth case law
 - A) Applied CEQA to private projects
 - 1) private projects need EIRs
- Late 1970s: * Courts rule that local governments can impose impact fees
 - * Vesting Rights
 - * ownership of land insufficient to ensure vesting rights
 - * construction must be underway *before* vesting rights exist
- Early/Mid 1980s: * Backlash on Vesting Rights
 - * Land “owned and zoned” was vested
- 1990s: * School Impact Fees become bigger factor
- 2000: * Regional view of larger projects (500-plus units)

Metamorphoses of Land Use Laws and Regulations

1. Advocates raise issues in media, academia, and with receptive advocacy groups
2. Non-governmental advocacy groups support implementation
 - * Political coalition organized
3. Sympathetic professional organizations
 - A) “study issue”
 - B) “take position”
 - C) prepare/circulate “information documents”
 - D) draft “recommended guidelines”
4. Sympathetic government officials institute “guidelines”
 - * ministerial actions
 - * sanctioned, if at all, by vague or non-specific legislation that gives government officials wide leeway and great discretion
5. Aggressive legal action by advocates
 - * try to establish a binding precedent in court

Standby for “Smart Growth”

- “Region Swallowed by Urban Sprawl: Relocating to Inland Empire puts people in the midst of what they fled, researchers find.” by Scott Gold and Massie Ritsch, LA Times
 - “The three-year study was conducted by researchers from Rutgers and Cornell universities and released by a Washington coalition of organizations interested in growth, known as Smart Growth America”

Standby for “Smart Growth” (Cont.)

- Barbara McCann, a spokeswoman for Smart Growth America, said the Inland Empire fits the dreaded metropolitan tag: ‘There is no ‘there’ there.’”
- The Los Angeles-Long Beach, San Diego and Sacramento metropolitan regions all registered slightly better than 100, on average on the “sprawlometer”
- The result: Riverside-San Bernardino scored 14.2 on the sprawlometer. A score of 100 is average, researchers said, and the lower the score, the worse the attendant problems are.
- “ ‘It’s a pretty bad commentary,’ said Phillip Lohmna, an executive director of the Los Angeles-based Endangered Habitats League, an environmental organization that helped with the study”

The Impact of Zoning on Housing Affordability

by Edward Glaeser and Joseph Gyourko, HIER

- “...we find a robust connection between high prices and regulations. Almost all of the very high cost areas are extremely regulated...” p.6
- “In the places where housing is quite expensive, zoning restrictions appear to have created these high prices” p.6
- “Building small numbers of subsidized housing units is likely to have a trivial impact on average housing prices...” p.22
- “Reducing the implied zoning tax on new construction could well have a massive impact on housing prices.”

The Impact of Zoning on Housing Affordability (cont.)

- “Of course, it may be that the positive impact of zoning on housing prices is zoning’s strongest appeal. If we move to a regime with weaker zoning rules, then current homeowners in high cost areas are likely to lose substantially. To make this politically feasible, it is crucial that any political reform also try to compensate the losers for this change” p.22

What is behind the housing crunch?

By Tracey Kaplan and Sue McAllister, Mercury Times

- “For \$198,000, you can get a new three-bedroom, 2,200-square-foot house from Standard Pacific House, complete with two-car garage, marble sinks, and extensive landscaping. But you’ll have to move to Dallas or Pheonix. To buy a similar Standard Pacific house in San Jose, you pay \$665,000 – more than three times as much.”
- “...the biggest cost difference between Dallas and San Jose is land; \$232,000 for a tiny 2,400-square-foot lot in San Jose vs. \$29,000 for a lot more than three times larger in Dallas.”

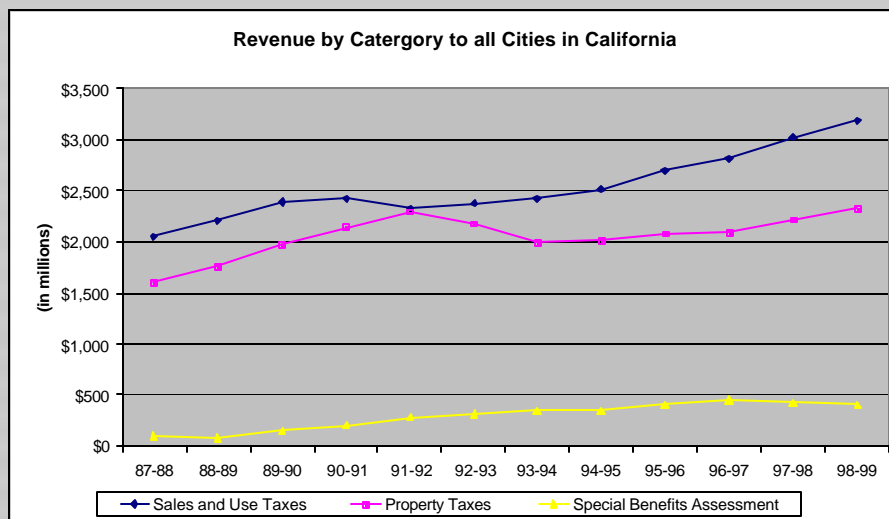
New Homes Cost Cities Money

by Mike Zaper, Mercury News

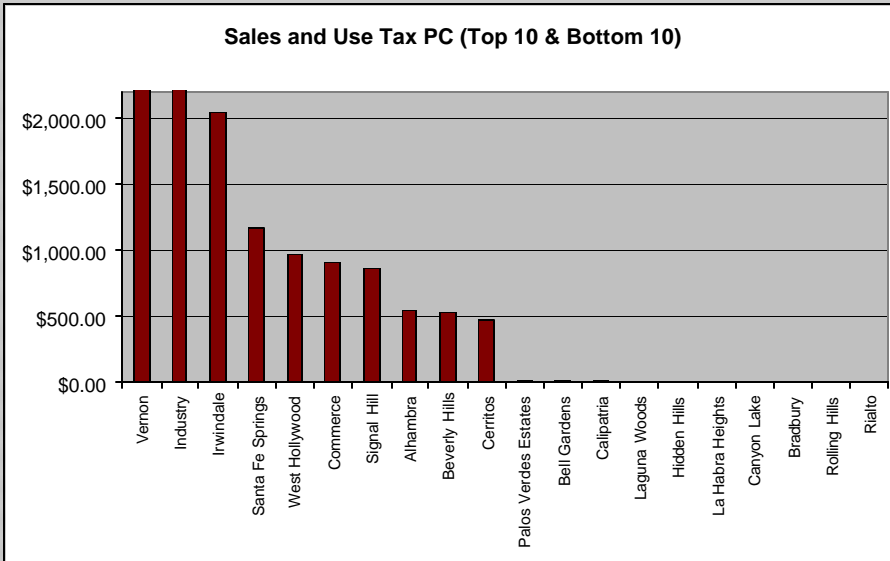
- “Every time an apartment complex is built in the Bay Area, the city where it’s located typically loses about \$600 per unit every year. Bring in a shopping center instead, and the city could rake in hundreds of thousands of dollars in new revenue”
- “‘From our perspective, it’s commercial and industrial growth that pays for everything,’ said Garrett toy, Morgan Hills’s director of business asistance and housing services.”

New Homes (cont.)

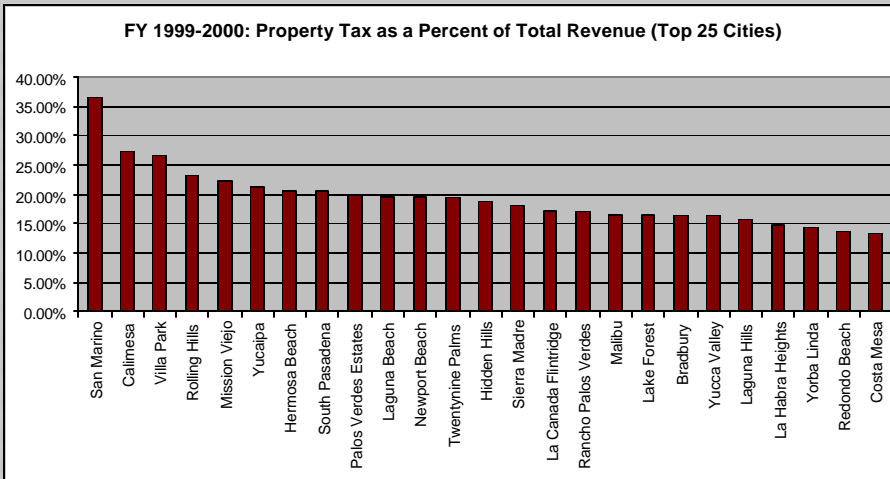
- “Consider the finances of a typical five-acre retail project versus a five-acre apartment complex with 95 units. The apartment would generate 455,827 in tax revenue each year but cost the city \$112,480 for police, fire, street upkeep and other services, said Michael Coleman, an expert in local government finance. The net loss to the city would be \$56,653.”
- “Put a retail project on the same property, and the city would collect \$108,455, in revenue, while spending on \$34,656 to provide services. The net gain: \$73,798.”
- “A development of single-family houses on the five acres would hardly be the answer from the city’s point of view. In Coleman’s scenario, with fewer but more expensive homes, the city would still lose \$2,951.”



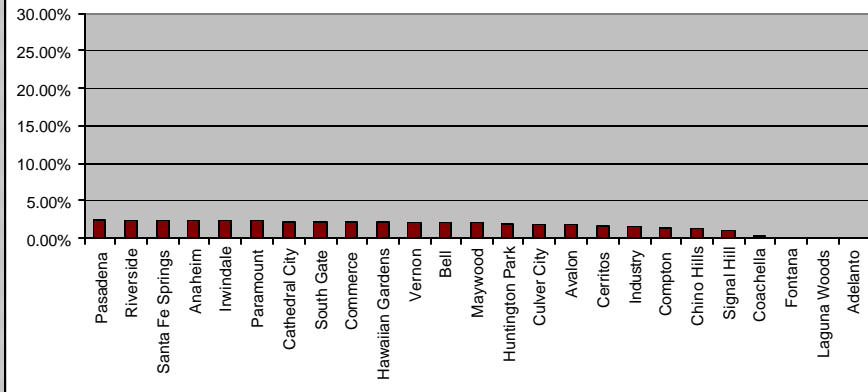
Sales and Use Tax PC (Top 10 & Bottom 10)



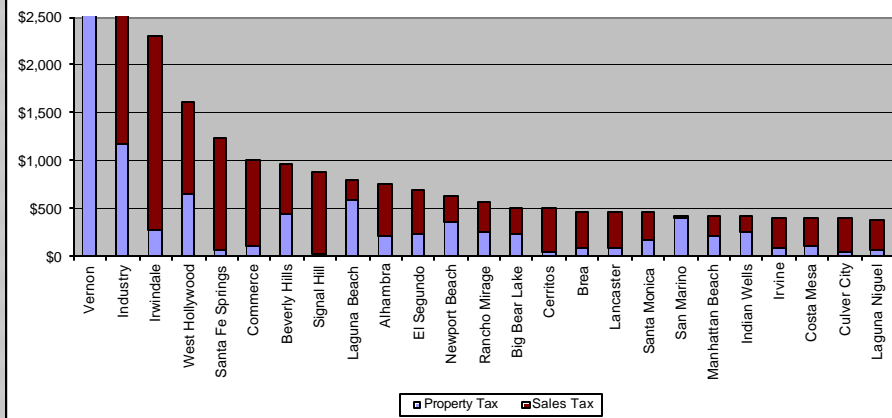
FY 1999-2000: Property Tax as a Percent of Total Revenue (Top 25 Cities)

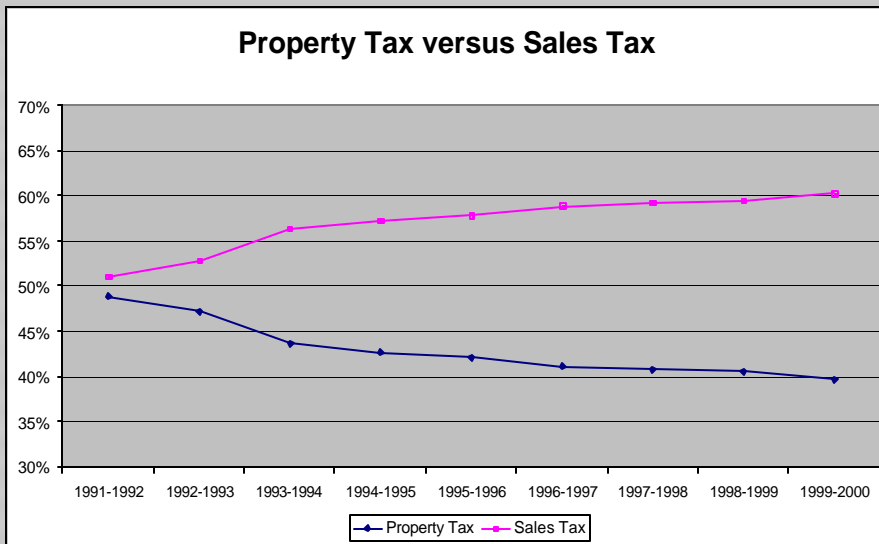
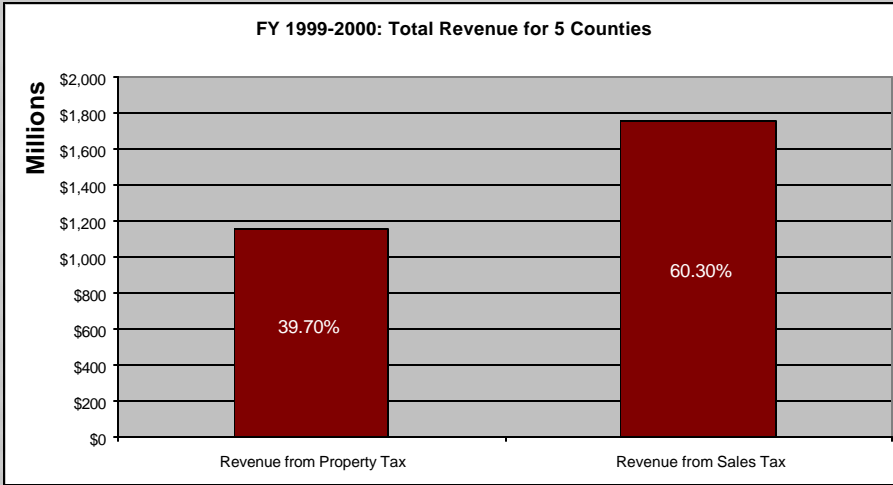


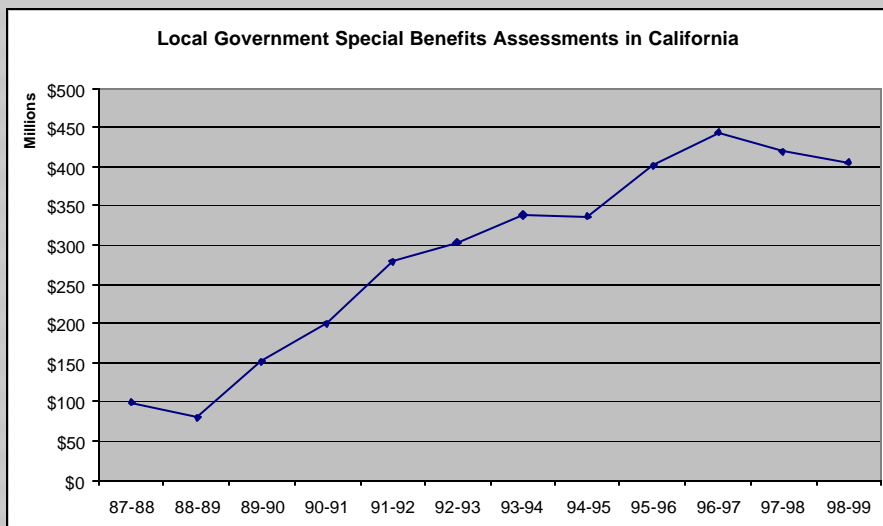
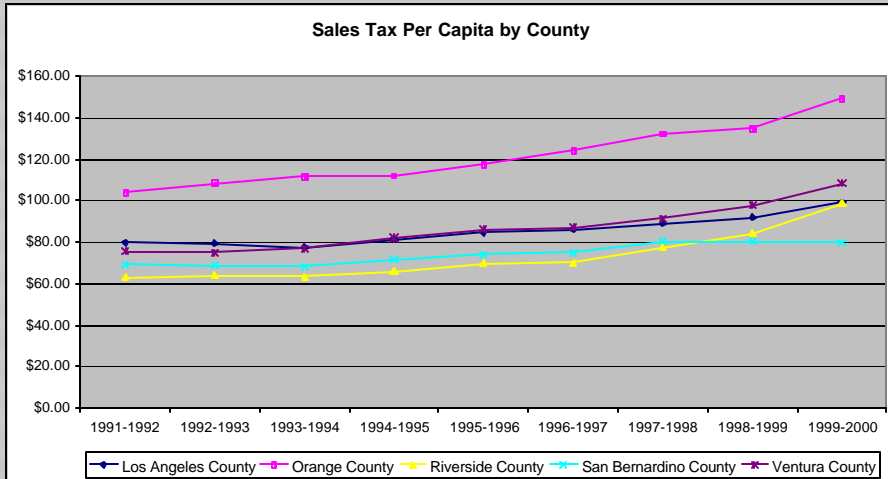
FY 1999-2000: Property Tax as a Percent of Total Revenue, Pasadena (#144), and Lowest 25 Cities of 185

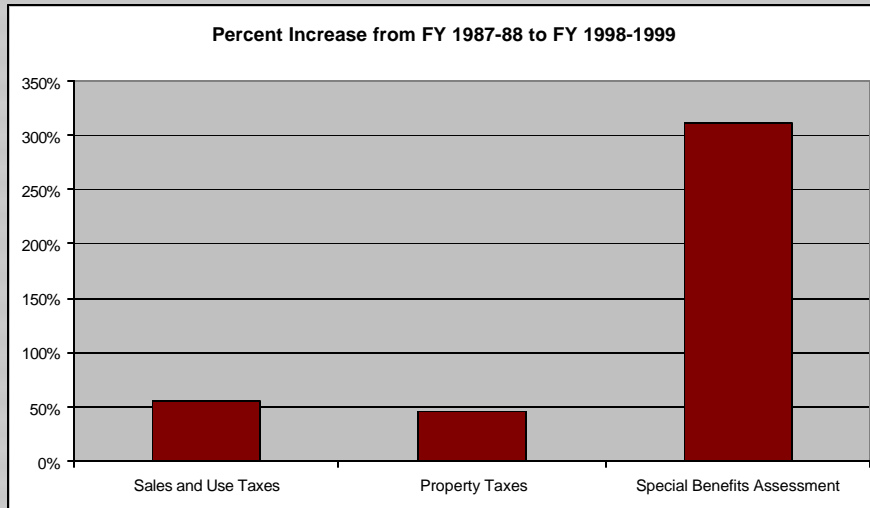


FY 1999-2000: Property and Sales Tax PC (Top 25 Cities)









How did this constellation of financial incentives evolve?

- State financial history
- Individual homeowner incentives (I got mine- Let's keep it valuable)
- Political result at local level:
 - Less housing
 - Prefer more upmarket if any
 - More open space
 - More retail

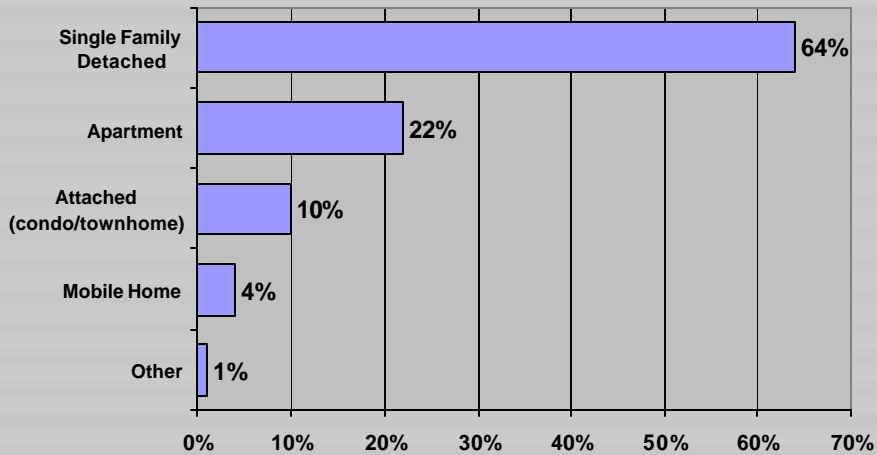
Is it time to change how we approach this?

- Financial incentives to local governments? (keep more of property tax from new housing?)
 - Take from special districts? (opposed by education establishment)
- Change Construction Defect Laws (opposed by trial lawyers)
- Change California tax code to encourage apartment production/ownership (opposed by state government staff, government employees, & education establishment)

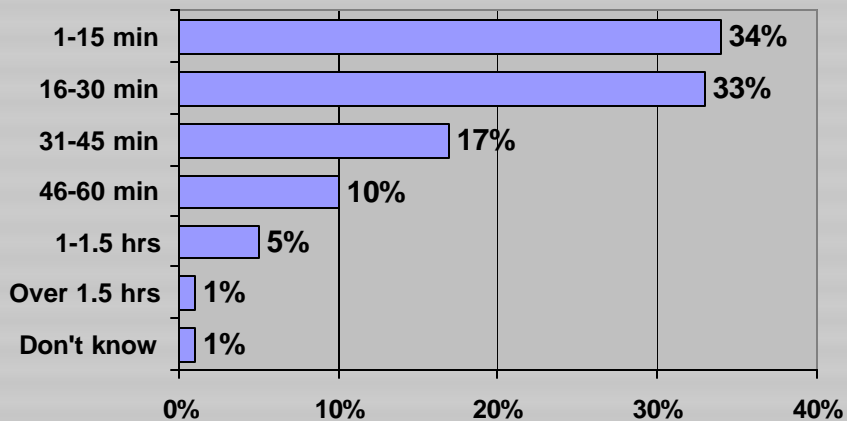
Housing Issues Survey 2002

- People want single family detached homes
- People are willing to commute
- People think their city has reached its limit in terms of growth and development

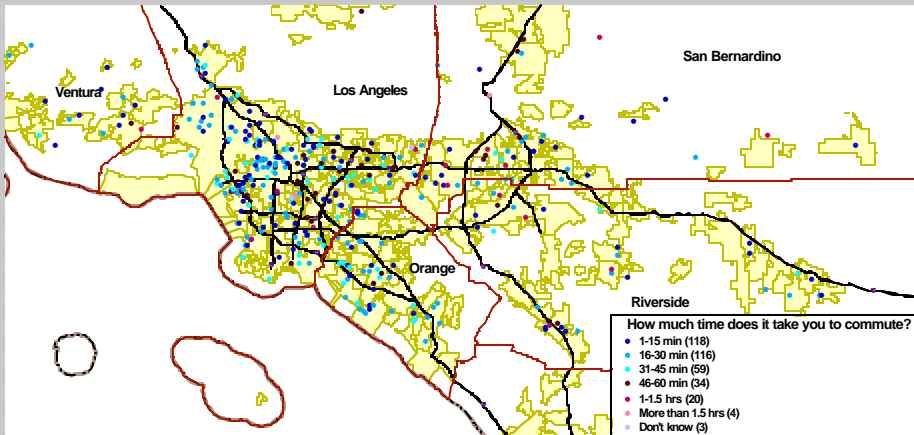
Housing Situation of Respondents



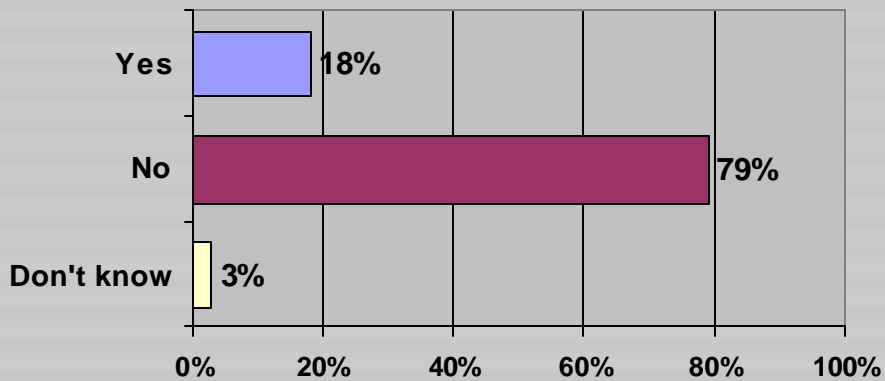
Commute Time (Respondents with a commute)



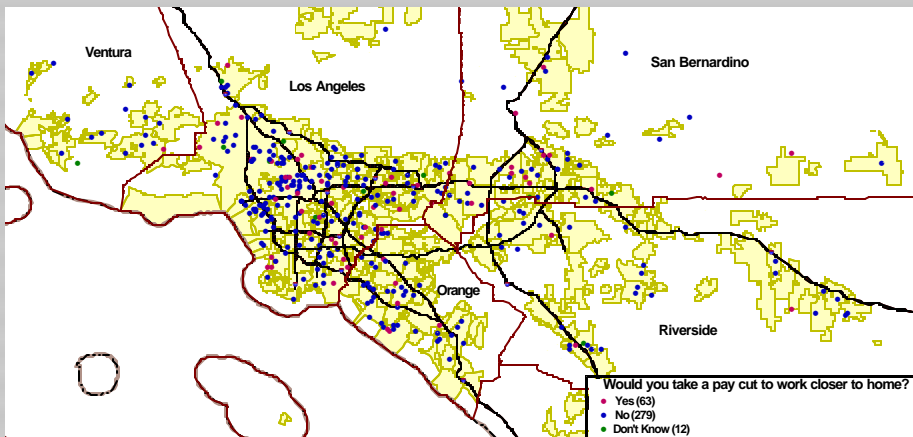
Commute Time



Would You Take a Pay Cut to Work Closer to Home? (Respondents with a commute)



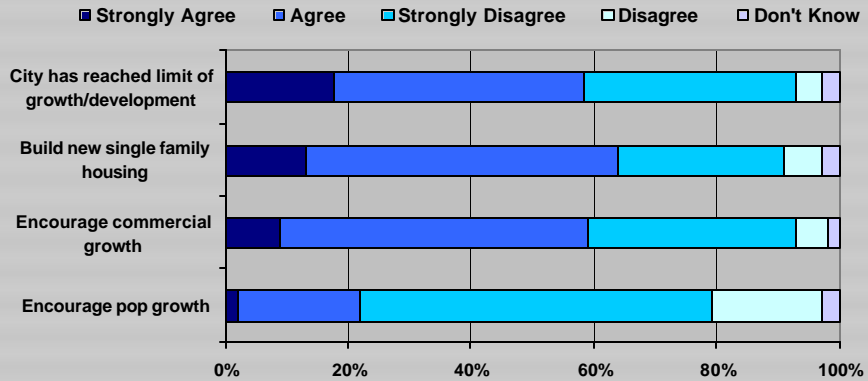
Pay Cut



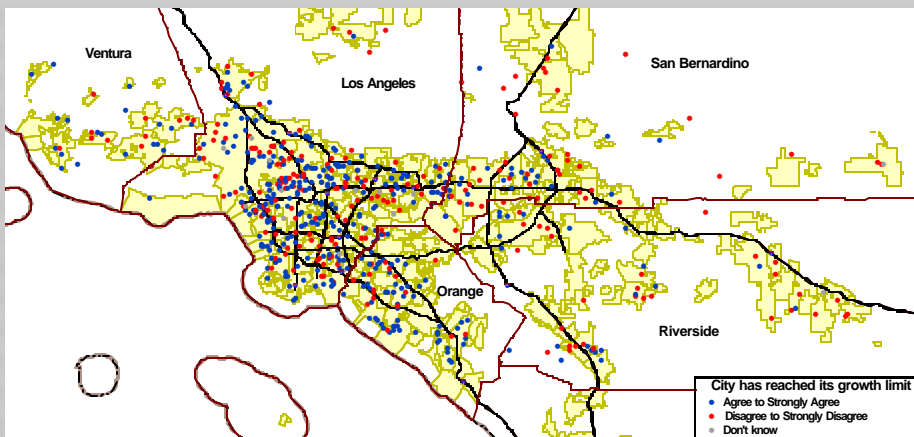
Growth and Development

- Respondents think it is important to limit new development
- Respondents do not want to encourage population growth
- However, respondents do want to encourage commercial growth and the building of new single family housing

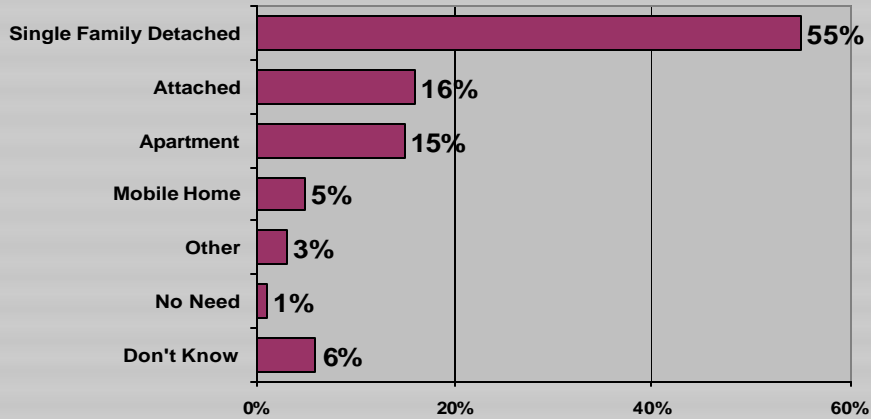
Growth and Development Agreement Levels



City Has Reached Limit of Growth and Development

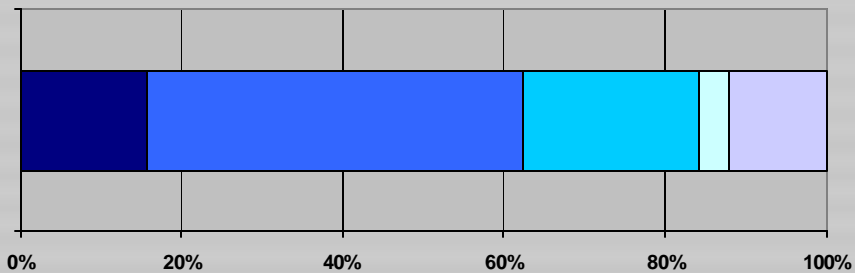


What Type of Housing Should Be Built In Your Area?

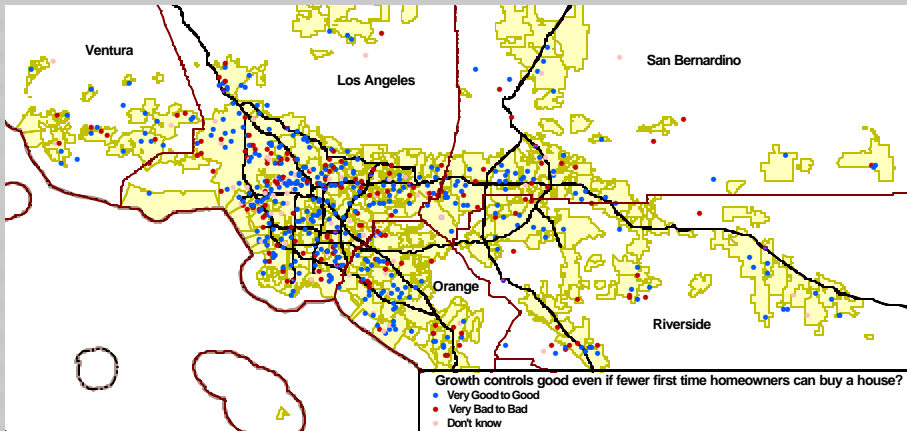


Are Growth Controls a Good Idea if it Means Fewer First Time Homeowners Can Afford to Buy a Home?

Very Good Good Bad Very Bad Don't Know



Growth Controls



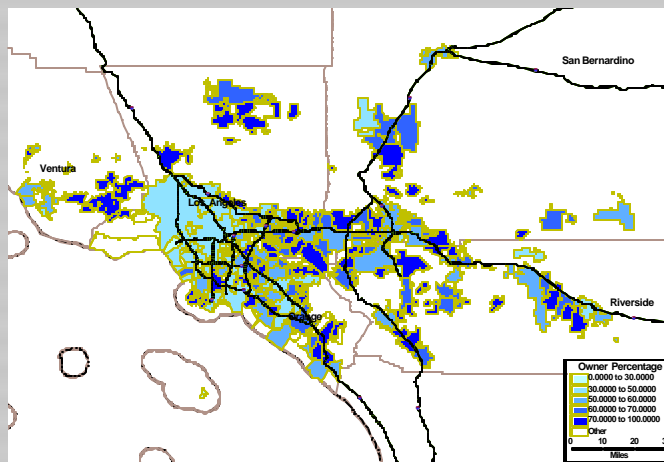
Addressing the Need for More Housing

- Current approach is a proscriptive cram down
- People want to have detached single family homes
- “Smart growth” wants people to live in dense in-fill developments
- It appears there is a fundamental conflict between people’s desires and proposed plans

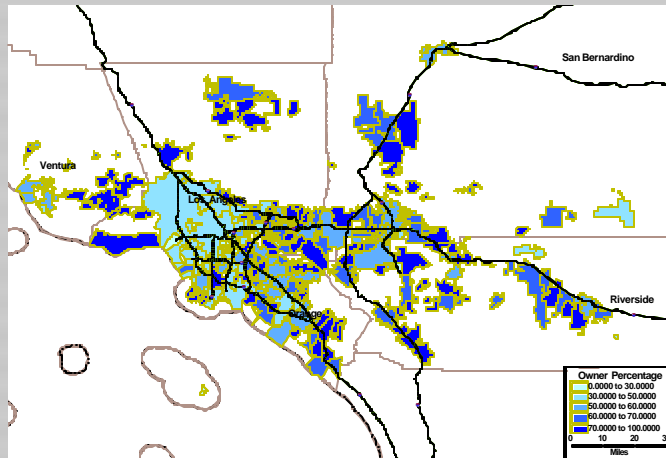
Time for Change? (Yes, you've seen this slide before)

- Provide financial incentives to local governments - allow them to keep more of property tax from new housing
- Change Construction Defect Laws
- Change California tax code to encourage apartment production/ownership

Homeowner Percentage By City, 1990



Homeowner Percentage By City, 2000



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