California's Affordable Housing Crisis

A PUBLICATION OF THE CALIFORNIA BUDGET PROJECT

MAY 2000

California Budget Project

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Locked Out:
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ACKNOWLEDGEMENTS

Locked Out: California's Affordable Housing Crisis was researched and written by Erin Riches and Jean Ross of the California Budget Project with the assistance of Paul Leonard, an independent housing policy consultant. Delaine McCullough and Kate Breslin of the California Budget Project contributed to sections on California's fiscal structure and the relationship between welfare reform and housing, respectively. Kim Wielinski prepared the final document for publication.

This report would not have been possible without the assistance of a dedicated and thoughtful advisory board who cheerfully reviewed drafts, answered questions, and contributed their wealth of expertise on housing policy. Mike Herald of Housing California provided the initial inspiration and ongoing leadership for a productive and enjoyable collaboration between the California Budget Project and Housing California. The authors wish to thank a number of individuals for their assistance with this report. Ben Bartolotto of the Construction Industry Research Board provided 1999 housing production data. Michael Cousineau shared data from a survey of homeless individuals in Los Angeles. Mary Brooks of the Center for Community Change helped identify housing spending in other states. Housing California shared the findings of an unpublished survey of assisted housing waiting lists. A number of individuals shared their insight into local housing markets and housing programs, including Teresa Colby, John Chan, and Michael Carroll of Bank of America; Tim Iglesias of Non-Profit Housing Association of Northern California; Betty Pagett of the Marin Housing Council; Merlin Wedepohl of Shelter, Inc.; Dave Brigode of South County People for Economic Opportunity; Dennis Lalor of South County Housing; Linda Mandolini of Eden Housing; John Mealey of the Coachella Valley Housing Coalition; Tom Collishaw of Self-Help Housing; and Ron Javor of the California Department of Housing and Community Development. John Landis of the Department of City and Regional Planning at the University of California at Berkeley and David A. Vandenbroucke of the federal Department of Housing and Urban Development provided extremely helpful methodological and policy advice.

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Executive Summary

California's booming economy has created an affordable housing shortage of crisis proportions. In some parts of the state, housing at any price is in short supply. Rather than helping to make housing affordable, the strong economy has exacerbated the state's housing problems.

California's housing crisis has serious implications for the families affected, for the communities in which they live, and for the overall well-being of the state's economy. The diversity of the state's local economies gives rise to a diversity of housing problems.

California Suffers From a Lack of Affordable Housing

Far and away, affordability is the most significant housing problem confronting California's families. Housing constitutes the single largest expenditure for most California families. While adequate shelter is fundamental to a decent life, a roof over one's head is becoming increasingly unaffordable for many California families.

Renters Face the Greatest Affordability Challenges

- Over four out of ten (43 percent) of all California households are renters, and renters face the greatest affordability challenges. In 1997, nearly a quarter of the renter households in the state's metropolitan areas (1 million out of 4.2 million households) spent more than half of their incomes on rent. A total of 2 million renter households paid more than the recommended 30 percent of their incomes toward shelter. All indications suggest that the situation has grown worse over the past three years.
- Nearly two-thirds (65 percent) of low income renters paid more than half their income for housing in 1997 and 86 percent spent over the recommended 30 percent of their income on housing.
- The number of Californians in need of affordable housing far outstrips the supply of low cost units. In 1997, the number of low income renter households in the state's metropolitan areas exceeded low cost rental units by 2.1-to-1, a gap of 684,000 units.
- Over the past decade, the cost of rental housing has risen faster than inflation in the state's two largest metropolitan areas and faster than the incomes of the average California family. Rental housing costs increased 14 percent in Los Angeles and 38 percent in San Francisco between 1989 and 1998, while the income of the median renter household increased by 9.6 percent and the median income of renter households with children increased 6.3 percent.

High Housing Costs Have Pushed Homeownership Out of Reach for Many California Families

- Despite a booming economy, California's homeownership rate is the second lowest in the nation. Only 55.7 percent of California households owned their own homes in 1999, compared to 66.8 percent for the nation as a whole.

- The state's homeownership rate is low because fewer Californians can afford to buy a home. Nationally, 55 percent of households could afford to purchase the median priced home in 1999, as compared to 37 percent of California households. Only 27 percent of the region's households can afford the median priced home in the Bay Area, and even fewer (23 percent) can afford the median priced home in Monterey County. The median California household earns less than two-thirds the income needed to purchase the median priced home.
- The composition of California's homeowners has changed dramatically over the past two decades. The share of homeowner households headed by individuals in their twenties dropped by 40 percent between 1979 and 1999 (from 31 percent to 18 percent). The share of owner households headed by individuals in their thirties dropped 29 percent (from 61 percent to 44 percent). In fact, homeownership rates are down among all age groups except for households headed by seniors.
- California's low income homeowners experience significant housing cost burdens. Over half (54 percent) of the low income homeowners in the state's metropolitan areas spent over half of their income for housing in 1997.
- Households headed by white Californians are significantly more likely to own their own homes than are households headed by African-Americans, Asian/Pacific Islanders, or Latinos. This is true even controlling for differences in household income. While 62 percent of the state's white-headed households were homeowners in 1999, fewer than half (42 percent) of the state's Latino-headed households owned their own homes, along with 54 percent of Asian/Pacific Islander headed households and 40 percent of African-American-headed households.
- California's high home prices make it difficult for renters to become homeowners. The income needed to purchase the median priced home is more than twice the income of the state's median renter household ($27,401 in 1998). Fewer than one out of twenty new homes sold in 1999 were affordable to households with incomes at or below the median for California renter households. Moreover, the high cost burden experienced by many renter households makes it difficult to accumulate the savings needed for a downpayment on a home, closing costs, and other costs associated with home purchase.

Overcrowding Worsens as Housing Costs Rise

- The prevalence of overcrowding nearly doubled between 1980 and 1990, and has worsened in the last decade. In 1997, 13 percent of renter households in the state's metropolitan areas lived in overcrowded conditions. Statewide statistics, however, mask significant regional variations. In 1997, nearly one out of every six (16 percent) renter households in Los Angeles County lived in overcrowded or severely overcrowded conditions.
- The single most significant factor associated with overcrowding is the presence of children in a household. In 1995, 40 percent of the state's children lived in renter households that were overcrowded and one of out six lived in severely overcrowded households. Not surprisingly, large families are especially likely to live in overcrowded housing.
- Approximately two-thirds of the state's overcrowded households, and three-quarters of the state's severely overcrowded households, are Hispanic. Nearly a third (29 percent) of Hispanic renter households in metropolitan areas were overcrowded in 1997. While overcrowding is a minimal problem for the state's homeowners overall — just three percent of owner households in metropolitan areas were overcrowded in 1997 — 14

percent of Hispanic homeowner households were overcrowded.

Lack of Housing Limits Families' Ability to Leave Welfare for Work

- A geographic mismatch between high employment growth areas and affordable housing limit welfare recipients' access to jobs. The wages typically earned by those transitioning from welfare to work are insufficient to offset increased housing costs in areas where employment opportunities are better.
- Current levels of cash assistance severely limit families' housing options. Based on current Fair Market Rents, families relying on CalWORKs, the state's cash assistance program for poor families, pay over 60 percent of their grant toward housing in all California counties. California's welfare recipients are also less likely to receive federal housing assistance than are welfare recipients in other states. In 1997, only 13 percent of families receiving AFDC received federal housing subsidies, compared to 23 percent for the nation as a whole. In fact, California ranks 49th among the 50 states, with only Michigan having a lower share of welfare recipients receiving housing assistance.

While Seniors are More Likely to Own their Own Homes, Senior Renters Face Significant Cost Burdens

- While the housing cost burdens of seniors who own their own homes are modest in comparison to other Californians, a third of senior homeowners pay over 30 percent of their income for housing. Seniors who rent face significant cost burdens, with 65 percent paying in excess of 30 percent of their incomes for rent and 41 percent paying more than half of their incomes for rent. The high rent burden poses a significant problem for seniors since they are more likely than younger renters to be living on a fixed income. An elderly or disabled SSI/SSP recipient would spend over half of his or her income for a studio apartment in 39 of the state's 58 counties.

Three Factors are at the Heart of California's Housing Crisis

- Between 1990 and 1999, building permits were issued for an average of 110,581 units of housing each year. In contrast, permits were issued for an average of 215,585 units per year during the 1970s and 203,369 units per year during the 1980s. Multifamily housing accounts for the majority of the state's production gap, particularly housing that is affordable to lower income families. During the 1980s, for example, California added an average of 91,682 units of multifamily housing per year, 45 percent of the new housing built. Between 1990 and 1999, the state added an average of 28,089 units per year of multifamily housing, just 25 percent of total housing built during the decade and a 69 percent drop from the levels of the 1980s.
- Job growth has exceeded housing growth in nearly every part of the state since the economic recovery began in earnest in 1994. The number of new jobs exceeded the number of new housing units in all but 12, primarily rural, California counties between 1994 and 1998. The state as a whole added 3.9 jobs for each new unit of housing, more than twice the 1.5-to-1 ratio recommended by housing policy experts.
- California's system of local government finance limits the amount of revenue generated by housing and encourages local communities to favor sales tax generating retail development over residential or other forms of commercial development. The importance of sales tax revenue in relation to other revenue sources is generally cited as the main force driving what has become known as the fiscalization of land use. The added cost of

paying for facilities that were once shared across the entire community increases the cost of housing, pushing homeownership further out of the reach of young families and others of modest means.

Housing Assistance at Federal Level Fails to Meet California's Needs

- Federal support for housing has declined since the 1970s. Modest increases over the past two years will be inadequate to meet California's needs. Nationwide, approximately one in four eligible households receives any federal housing assistance. The proportion of eligible households receiving assistance is even lower in California than in the nation as a whole. California received fewer federal housing assistance dollars in 1999 for each individual living below the federal poverty level than all but one of the ten largest states. While the federal government spent, on average, $286 on housing assistance for each person in poverty, California received only $171 per person in poverty.
- Demand for federally-support assistance is intense. A recent survey of twenty local housing authorities found 371,740 families were on waiting lists for Section 8 assistance, more than three times the 104,133 families receiving assistance. The survey found 93,632 families wait listed for 25,268 units of public housing.
- A significant fraction of the state's federally subsidized housing units are reaching the expiration dates of their contracts to maintain affordability, putting a significant fraction of California's affordable housing stock at risk of conversion to market rate housing as landlords allow these contracts to expire. In the past three years, California has lost more than 15,000 affordable housing units to opt-outs and prepayments, a total of 11 percent of the federally assisted inventory, with most of the losses occurring in Los Angeles, Orange, San Diego, and Santa Clara Counties. The state Department of Housing and Community Development estimates that more than 180,000 units may be at risk of conversion from affordable to market rents over the next decade.

State Support for Housing: From Leader to Laggard

- Over the last decade, California has gone from being a leader of innovative state housing policy to a laggard. During the late 1980s, California implemented a series of innovative housing programs and provided substantial funding for its housing efforts. Among the state's signature initiatives were creation of the first state housing trust fund in 1985; creation of a state supplement to the federal low income housing tax credit in 1987, and passage of three affordable housing bonds in 1988 and 1990.
- State housing spending dropped substantially during 1990s from 0.7 percent of total spending in 1990-91 to 0.2 percent of total spending in 1999-00. During the early 1990s, bond proceeds supported a substantial investment in affordable housing. However, as these funds disappeared only minimal state support was allocated to take their place. While the 1999-00 budget include several modest initiatives, the absolute number of dollars allocated to housing and related programs is less than half that of decade ago.

California Needs a Renewed Commitment to Affordable Housing

Public policies — at all levels of government — can play a significant role in addressing the state's current housing crisis:

- ***Increase the Federal Government's Commitment to Housing.*** A renewed federal commitment to affordable housing including additional financial support is essential to solving California's housing crisis.

- ***Use Existing Resources for Affordable Housing More Effectively.*** While additional resources are clearly needed to address the crisis, more housing could be built by using existing resources more efficiently. Steps that could be taken include targeting redevelopment funds to worst case needs and ensuring the housing set-asides are spent on a timely basis; increasing coordination and collaboration between the state's multiple housing programs; enforcing local "fair share" requirements to ensure that local communities meet the demand for housing at all income levels; and reforming the structure of local government finance to minimize the fiscal disincentives to residential development.
- ***Increase State Support for Housing.*** California's affordable housing crisis will only be addressed through an increased commitment of public resources. The state's strong fiscal condition offers the opportunity to make a major investments that will benefit California's families and communities in the decades to come. Potential sources of state support include: increased support through the annual budget; using one time moneys to endow the state's housing trust fund; and placing an affordable housing bond measure before state voters.