Opinion: Affordable housing a middle-class crisis in Calif.

By Christopher Thornberg

Debate about California's housing crisis typically revolves around low-income households. More than 90 percent of California families earning less than $35,000 per year spend more than 30 percent of their income on housing.

This isn't new; that percentage has been stubbornly high for years. Nor is this an exclusively Californian problem—the comparable figure for the U.S. is 83 percent.

What is new and disturbing is that the crisis is now spreading to middle-income households, families earning between $35,000 and $75,000 per year.

In 2006, 38 percent of middle-class households in California used more than 30 percent of their income to cover rent. Today, that figure is over 53 percent. The national figure, as a point of comparison, is 31 percent. It is even worse for those who have borrowed to buy a home—over two-thirds of middle-class households with a mortgage are cost-burdened in California—compared to 40 percent in the nation overall.

The social costs of this middle-class housing crisis are not sufficiently appreciated. Middle-income families have less money to spend on other goods and services—and that creates huge losses across the economy. It forces California employers to pay higher wages than elsewhere in the nation, raising costs for California consumers and diminishing the state's competitiveness. Some middle-class households leave California in search of affordable housing, depriving the state of young, skilled workers who represent the state's future.

The housing crisis is a classic problem of supply and demand.

The state doesn't build enough housing to accommodate its population growth. California is home to roughly 13 percent of the nation's population, and has slightly greater than average population growth. Yet, over the last 20 years the state has accounted for only 8 percent of all national building permits.

To put the shortage in context, consider the amount of housing that would need to be built in order to move the state to national norms for housing stock, vacancy rates, and crowding: California would need to expand its stock by between 6 and 7.5 percent—that's between 800,000 and a million additional residential units. In Los Angeles County, where the situation is far more acute, the state would need to add 180,000 to 210,000 units, between 12 and 14 percent of the total.

These figures dwarf the meager efforts policymakers are proposing to fix the problem. The bill known as AB35, recently vetoed by Gov. Jerry Brown, would have raised $1.5 billion over five years—to build a mere 3,000 affordable housing units. Another piece of legislation, AB 2, proposed a new form of tax-increment financing to partially replace the redevelopment agencies the governor closed. The redevelopment system only managed to build 10,000 affordable housing units in a decade.

Why is it so hard to build? The state has stiff regulations regarding construction quality, high labor costs (in part because construction workers also need to handle their own high housing costs!), higher land costs, and fees and expenses charged to developers by local governments. But taken together, these obstacles do not provide a complete explanation for the shortage of housing.

If you were to compare the same newly built house in California and Texas, the California house would typically sell for twice as much as the one in Texas. If you were to add up all the additional costs of building that house in California—land costs, permit fees, construction code—the number would not fully explain the gap in prices. The gap is much wider. In other words: builders make a lot more profit building a house in California than they do in Texas.

What’s different here? The state has erected two giant barriers to entry: Proposition 13 and the California Environmental Quality Act, known as CEQA.

Proposition 13 limits the value of housing to local governments by keeping property taxes much lower than in other parts of the United States. So California’s local governments—at least the ones that are fiscally wise—do not encourage residential investment, since it produces less in taxes. The state’s CEQA law imposes similar costs on growth. It forces developers to mitigate excessive disruptions they might create in the natural or urban environment. The problem is that “excessive” is being interpreted to mean “any” in the current application of the law.

Is there any conversation about reforming CEQA in Sacramento? None. Any chance of reforming Proposition 13? Very little.

And so, California families continue to face a very real housing crisis. And the state leaders are not helping.

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