

Testimony of Ben Metcalf
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Hearing on the State's Response to California's Housing Crisis
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Introduction

Commission members, I am pleased to join you today. My name is Ben Metcalf. I am the Managing Director of the Turner Center for Housing Innovation, a research and policy center dedicated to the vision of a country in which we live in vibrant, sustainable and affordable homes and communities. I also speak today from the perspective of having run the State of California's Department of Housing and Community Development (HCD) In my testimony, I will be focusing on a few specific recommendations for actions the State might take to increase the overall supply of housing, particularly in the context of its longstanding housing planning oversight role with local city and county governments. Specifically, I will be focusing on three specific recommendations for how the State might better use data and data analysis to inform its enforcement and administration of existing state housing laws, by:

- *Relying on objective estimates of likelihood of development when the State approves local housing plans;*
- *Encouraging cities to model the impacts of proposed housing policies, such as impact fees, parking requirements, or inclusionary housing impositions, prior to enactment; and*
- *Using data-informed strategies to direct the limited staff and capacity resources of the HCD's new Housing Accountability Unit.*

Fundamental to all of these recommendations is creating the data systems and building out the technical capacity of the state and local governmental actors to use that data. This will require continued state investments into information technology, technical assistance and data planning efforts. HCD's current efforts to develop a statewide data strategy plan offer a key step forward toward systematizing this work.

Background

California's housing crisis is severe and requires bold action from the State government:

- Since 2000, rents in California have grown by 37%, while average wages have only increased by 8% (the figure for income growth includes high-income renters,

many of whom are salaried, as well as minimum-wage workers).¹ In 2019, about 41 percent of California households were housing cost-burdened, with rents or mortgage payments taking at least 30 percent of their household income. This represents a new record of over 5 million households in the state facing housing cost burdens.²

- In addition, nearly a third of the country's homeless population now resides in California. From 2016 to 2020, California saw the largest increase in homelessness compared to any other state, with more than 160,000 individuals experiencing homelessness. Furthermore, California's homeless population is more likely to be unsheltered.³
- According to research by economists Chang-Tai Hsieh and Enrico Moretti, the lack of affordable housing in cities like San Francisco and San Jose costs the U.S. economy about \$1.95 trillion a year in lost wages and productivity.⁴ Research is increasingly showing that local growth controls and local discretion in the permitting process are significantly associated with rising residential segregation and inequality.⁵ While land use regulations can serve important purposes (such as green space conservation), excessive regulations constrain supply and benefit existing property owners at the expense of renters and working-class households.⁶
- Furthermore, the lack of affordably-priced housing supply has led to an increase in net domestic out-migration from economically productive regions, such as those found in California. The loss of lower- and middle-income residents from California, over 400,000 in 2019, eclipses the relatively small in-migration of higher-income residents, totalling around 50,000.^{7,8} Throughout the 2010s, the

¹ Tobias, M. (April, 2021). Californians: Here's why your housing costs are so high. CalMatters. <https://www.cbs8.com/article/news/local/california/calatters/why-is-housing-so-expensive-in-california/509-e463dd3f-4041-43b9-8983-4226caee88e2>

² Kneebone, Elizabeth, and Reid Carolina. "COVID-19 and California's Vulnerable Renters" *Terner Center for Housing Innovation Blog*, August 2020.

<https://ternercenter.berkeley.edu/research-and-policy/covid-19-and-californias-vulnerable-renters/>

³ HUD's 2020 Annual Homeless Assessment Report (AHAR) found that 70% of California's residents experiencing homelessness sleep outside, representing roughly 113,000 unsheltered residents out of 161,000 individuals experiencing homelessness within the state.

⁴ Hsieh, Chang-Tai, and Enrico Moretti. "Housing Constraints and Spatial Misallocation." *American Economic Journal: Macroeconomics* 11, no. 2 (April 2019): 1–39. <https://doi.org/10.1257/mac.20170388>.

⁵ Michael C. Lens & Paavo Monkkonen, Do Strict Land Use Regulations Make Metropolitan Areas More Segregated by Income?, 82 *J. Am. Plann. Assoc.* 6–21 (2016); P Ganong & D Shoag, Why Has Regional Income Convergence in the U.S. Declined? (Harvard Kennedy Sch. Working Paper No. RWP12-028 2015).

⁶ Jason Furman, U.S. Chairman of Council of Economic Advisers, Barriers to Shared Growth: The Case of Land Use Regulation and Economic Rents, Remarks at The Urban Institute (Nov. 20, 2015) (transcript available at www.whitehouse.gov).

⁷ Johnson, H. (May, 2021). Who's Leaving California - and Who's Moving In? Public Policy Institute of California. <https://www.pplic.org/blog/whos-leaving-california-and-whos-moving-in/>

⁸ Johnson, H., McGhee, E., & Cuellar Mejia, M. (March, 2021). California's Population: Just the Facts. <https://www.pplic.org/publication/californias-population/>

Census Bureau's Current Population Survey found that roughly 23% of out-migration in California was explained by housing costs. In March of this year, the Public Policy Institute of California conducted a statewide survey, finding 43% of Californian's considered moving due to housing affordability, with 33% considering moving out of the state completely.

Recommendations:

Listed below are three actions that the State can undertake to assist in unlocking additional housing supply, in ways that can be highly responsive to the affordable housing crisis.

First, the state can rely on realistic estimates of likelihood of development when the State approves local housing plans.

Under current law and practice, the State of California's Department of Housing and Community Development (HCD) assigns each metropolitan region an estimate of the number of units needed over the next 8 years to both meet existing housing needs and accommodate forecasted population growth. This process is known as the Regional Housing Needs Assessment, or RHNA. Each region then passes along allocations to the individual jurisdictions. Every 8 years, cities must demonstrate that they have adequate capacity of developable sites to meet their share of the regional target, and include this in an updated Housing Element, as required by law. However, what constitutes "adequate capacity" in the context of any given site has not been consistently interpreted at the local level or at the state.

The City of Los Angeles recently collaborated with the Turner Center to develop an empirical model for the City's existing residential land.⁹ The model looked at historic rates of redevelopment to develop a predictive model of what redevelopment would happen on which individual sites going forward. Existing law and guidance (eg, HCD's Site Inventory Guidebook) reinforces this concept but cities have largely failed to embrace this approach, relying instead on anecdotal assumptions of likelihood redevelopment which are often far more generous.

The state should, at a minimum, require this more rigorous approach for the next housing element cycle. Even in the current cycle, they could consider conditionally approving draft housing elements until such an analysis can be completed, ideally no later than the deadline for the completion of any required rezonings.

⁹ For more on this empirical model, see <https://turnercenter.berkeley.edu/research-and-policy/stronger-housing-element-los-angeles/> .

Second, the State should encourage cities to model the cumulative impacts of proposed housing policies, such as impact fees, parking requirements, or inclusionary housing, prior to enactment.

Estimating the likely impact of specific housing policy changes has historically been an anecdotal undertaking. To the extent analyses of specific housing regulations have been modelled, such as housing impact fees or parking requirements, such models typically focus on one policy at a time. In reality, land use and housing policies interact with one another to influence the likelihood of residential development.

A new tool prototyped by the Turner Center, onboards a financial proforma on detailed parcel-level land use information to model aggregated impacts of overlapping housing policies at the city level.¹⁰ Users can toggle up or down specific housing policies to see the likely effects under different market conditions. This allows for an understanding of the likely probability of new housing development under various scenarios and offers insight into the nature of the underlying “binding” constraints that may either be inhibiting development on given parcels or lowering the expected density.

The State should require this more nuanced approach for local policymakers, such that assumptions about appropriate policy interventions – such as shifting density caps, setbacks, and parking requirements – can be modelled so as to inform and drive decision making. Tools such as these, if made public, also equip advocates to better hold local policymakers accountable. Some policy interventions that policymakers and advocates prefer may yield counterintuitive results – sounding good in theory but resulting in a trivial, or even negative, change in developable parcels. While no model can perfectly predict future development activity, policymakers decision-making processes should be based on the best evidence and analysis available.

Third, the State should use data-informed strategies to direct the limited staff and capacity resources of the HCD’s new Housing Accountability Unit.

New legislation recently authorized the formation of a Housing Accountability Unit within the Department of Housing and Community Development. This unit is charged with formalizing HCD’s longstanding, and often ad hoc, efforts to monitor local governmental compliance with a lengthy list of state housing laws. The State can bring legal action against cities and counties that expressly violate those laws. In the last decade, only one such action has been brought forward (against Huntington Beach in January of 2019). Most of HCD’s enforcement work is achieved through the issuance of

¹⁰ For example, see: <https://turnercenter.berkeley.edu/example-cities/>

hundreds of informal advisory letters to cities cautioning them against actions that might violate state housing law. HCD primarily relies largely on third parties to inform it of violations, including those submitted through an on-line portal.

While this existing response-driven strategy has merit, a complementary approach should be to take a data-informed approach that expressly targets enforcement capacity and technical assistance toward jurisdictions whose annual rates of permitting are lagging behind both their RHNA targets and that of what a statistical model would suggest their permitting ought to be for any given year, based on a real-time sample of comparable jurisdictions' rates of permitting.

In addition, HCD's current IT platform for tracking local government housing element compliance, the Housing Element Tracking Systems (HETS), is antiquated and sorely in need of updating. It does not currently offer a robust system for tracking and flagging failures of cities and counties to achieve the programmatic commitments incorporated into their Housing Elements which require action during the planning cycle.

Conclusion

In summary, implementation of these recommendations would greatly aid in ensuring accountability and transparency around housing planning, allowing the State to more realistically measure and reward local progress on adding to housing supply. None of these recommendations are easy to implement and each would require significant investments into state staff and IT capacity.

In addition, significant continued investments into technical capacity at the regional level and directly to local governments, as has been provided in previous budget years through the Local Early Action Planning (LEAP) and Regional Early Action Program (REAP) programs, are critically important and must be maintained. Cities, counties, and regional councils of government can benefit greatly from access to tools, best practices, sample ordinances, and other best practice information.