

Hope for California's Housing Crisis?

Golden State residents and analysts weigh in on the issue of supply and demand.

U.S. News & World Report, by Kateri Wozny, Contributor, April 3, 2018, 12:01 a.m.

LOS ANGELES -- Ellen Tara James-Penney is passionate about her job. An adjunct English professor at San Jose State University since 2014, she enjoys challenging her students to think outside the box. They have dubbed her "Professor E" and enjoy her style of teaching. But when people learn that James-Penney is homeless, living in her Volvo with her husband Jim and two dogs, they are stunned.

Her husband cannot work due to a severe back injury. They shower at the Jewish Community Center in San Jose and because of the neighborhood watches that were enforced last June, they sleep outside Grace Baptist Church, with James-Penney in the car and her husband in a tent. With the average monthly rent for a one-bedroom apartment going for \$1,800 in the city, they simply can't afford it.

"We can't keep living this way; I'm exhausted and we're barely hanging in there," she says.

James-Penney used to work in the high-tech industry before she was laid off and decided to go back to school to earn her Master of Fine Arts degree. She is \$151,000 in debt from student loans and her income depends on how many classes she teaches per semester. The maximum number of classes an adjunct professor can have is four, which for James-Penney yielded about \$3,100 a month last semester. This semester she only teaches three classes.

"I didn't expect to make so little [when I first went into this profession]," she says.

James-Penney is among thousands of middle-class Californians who cannot afford a residence. Across the state, the California Association of Realtors found that the unaffordability rate is at 75 percent and 24/7 Wall Street found that 16 out of 25 least-affordable counties are in California.

Out on the Street

Overall, California cities account for 25 percent of America's homeless population, or 134,278 people, according to the Department of Housing and Urban Development. The agency's 2017 Annual Homeless Assessment Report also found that Los Angeles had 55,000 people who were homeless, while San Francisco saw a decline with 6,858 in a single night. The San Diego region saw a total of 9,160 homeless people.

Over the past three years, the counties of Los Angeles, San Francisco and San Diego have declared homeless emergencies.

"The homeless movement is tremendous," James-Penney says.

Underdeveloped

Professor Richard Green, director and chair of the University of Southern California Lusk Center for Real Estate, says that California has always had a problem keeping up with the required number of newly developed homes. In the past decade, there has been an average of 80,000 homes a year built in California, which is 100,000 units below what's needed to keep

pace with population growth through 2025, according to a California Department of Housing and Community Development report.

"If you look at number of houses versus the number jobs created, California is way behind," Green says.

According to the League of California Cities 2018 Guide to New Housing Law in California report, funding, identifying an adequate supply of water, market conditions, competing with other developers to build more expensive housing, infrastructure deficits, and the cost of land and construction are the challenges developers face.

Green says zoning issues also play a part in underdeveloped housing.

"California doesn't respect zoning. If you want to build an apartment building, you have to see whether the zoning complies with the California Environmental Quality Act," he explains.

He went on to explain that neighbors then take a look at the Environmental Impact Report (EIR), which requires state and local agencies to disclose and evaluate environmental impacts of proposed projects and adopt feasible measures to mitigate those projects. If neighbors don't like the outcome of the EIR, they can sue and then the project is delayed. Equity investors also lose out on a return.

Green says another issue is Proposition 13, which was passed in 1978 as an amendment to the California Constitution. Under Prop 13, all real property has established base-year values and a restricted rate increase on assessments of no more than 2 percent each year. It also provides a limit on property taxes to 1 percent of the assessed value, plus additional voter-approved taxes.

"Before a developer puts a shovel in the ground, you're looking at \$80,000 to \$90,000 fees for a community in order to allow construction," Green says. "With the cost of fees and slowness, it's hard to have units cost \$300,000 to \$400,000."

To Rent...

The recent University of Southern California Casden Real Estate Economics Forecast report showed that rents will keep rising over the next two years in Southern California due to a lack of available units. The costs will be up between \$98 to \$149 yearly depending on the county. In Los Angeles County, for example, average monthly rents are expected to rise to \$2,373 by 2019, which is up \$136 from the 2017 average.

"At some point, we'll have a recession and a recession puts pressures on rent," Green says.

According to 2018 data from Zillow, the current rent index in highly populated areas throughout California ranges from \$1,300 in Kern County to \$4,196 for San Francisco County. The Los Angeles Times has also created a map for residents and newcomers to see how much rent they can afford in cities throughout California.

...or Buy?

Most Californians wonder if they will ever be able to own a piece of the American Dream. Green says the average income needed in Southern California is \$150,000 to buy a home and live comfortably, yet the average salary Californians made in 2016 was \$63,783, according to the U.S. Census Bureau.

"You can do it if you can afford to and plan on staying five years," Green says. "Don't think about it as an investment as a return on equity, think about it as your family has a stable environment to live and that you can afford it."

According to Los Angeles Mayor Eric Garcetti's website, the mayor has set a goal of 100,000 new housing to be developed by 2021, ensuring that the city builds or preserves at least 15,000 affordable units for low income households by that year. The mayor's office did not respond to a request for comment.

"In a city with 4 million people, it's way better than [how] L.A. has been doing," Green says.

According to 2018 data from Zillow, the current median price for a single family home in high-populated areas throughout California ranges from \$202,100 in Kern County and \$238,500 in Fresno County to \$1,290,000 in San Francisco County and \$1,334,500 in San Mateo County.

The current average price of a home in the U.S. is \$210,200.

In the Silicon Valley area, home to big technology companies such as Facebook, Google and Apple, more middle-class families are being forced out because of the booming technology industry.

"There is pressure from overseas buyers to purchase here because it's safer to have your money in the U.S.," explains Robert Edelstein, professor emeritus for the Haas School of Business and co-chair of the Fisher Center for Real Estate and Urban Economics at the University of California—Berkeley. "There are very rich people pushing people out that because they simply just can't afford it anymore."

Edelstein says that California needs to build modular construction because it is cheaper and substantial. He also says that the state needs to figure out how to increase the supply of housing and how to improve the infrastructure for higher density.

"One way is to have better public transit; it shrinks the city size. By doing that, they become a city that can build a higher density and keep the cost and price of housing down," Edelstein says.

The GOP tax bill that was passed by President Donald Trump in December also makes homeownership costlier for Californians in 2018. Property taxes and state and local income taxes are now limited to a total deductible of \$10,000, while a mortgage interest deduction is capped at \$750,000 or less for a home.

Stay or Go?

The Public Policy Institute of California says that 1 in 3 Californians are considering leaving the state because of affordability. U.S. Census figures also show that 2 million residents, 25 and older, have already left the state since 2010.

James-Penney is one of them. After being a born and raised Californian, she says it's time to go.

"I want to get out of the Bay area," she says. "Nothing is going to change and it has gotten harder." James-Penney and her husband plan to leave once her semester ends in May and move to the East Coast or the South, she says.

Hopeful Solution

Last November, Gov. Jerry Brown signed the Affordable Housing Package, which would provide critical funding for new affordable homes, including placing a \$4 billion bond to fund new low-income developments and potential major changes to Prop 13's property tax restrictions, accelerate development to increase housing supply, holds cities and counties accountable for addressing housing needs in their communities, and creates opportunities for new affordable homes and preserves existing affordable homes.

"For years, California has adopted a housing last policy, but with the passage of last year's housing package, we finally pivoted toward a housing-first policy. No one should be living on our streets, be forced into three- or four-hour commutes, or have to leave their community as their family grows because they just can't afford housing," says State Sen. Scott Wiener (D-San Francisco). "The 15 housing bills we passed were a great first step in addressing California's housing shortage. It took us decades to get into the mess we are in here in California, and it's going to take years of policy work to get us out."

Also projected on the 2018 docket is the Local Rent Control Initiative. If passed, the measure would allow local governments to adopt amendments, ordinances or regulations to govern how much landlords can charge tenants for renting apartments and houses. The measure would also repeal the Costa-Hawkins Rental Housing Act, a law designed to prohibit local governments from enacting rent control on buildings first occupied after 1995.

"There are places that will always be expensive because people always want to be here. California is one of those places," Green says. "The fact that the government recognized what the state is facing is a very good start. It could be less expensive than it is with the right policies."

Kateri Wozny is an award-winning freelance journalist based in the Los Angeles area. Her work has appeared in national outlets and Southern California publications.