



Testimony to the Little Hoover Commission **Debbie Arakel, Executive Director, Habitat for Humanity California**

August 26, 2021

OVERVIEW

Thank you for inviting me to testify on the housing crisis in California, I appreciate this opportunity. I deeply respect the Commission's attention and specific focus on increasing housing supply. By evaluating the state's current capabilities to achieve supply goals and developing comprehensive solutions with input from stakeholders, local and state agencies can adopt effective, sustainable, long-term plans that include the affordable homeownership model to increase supply and affordability.

In my testimony, I plan to share some of the challenges, examples, and recommendations I believe are relevant considerations for the state to increase home production. I will do my best to relate my testimony to the goals and questions from the commission. I sincerely believe it is incumbent on all of us, public sector, private sector, and nonprofit organizations to collaborate and comprehensively develop solutions that go beyond our short-term emergency housing needs. California did not suddenly wake up to an extreme housing shortage, we fostered it slowly over decades and our solutions must be thoughtful, thorough, and considerate of the longer-term outcomes.

There is reason for optimism – the extreme shortage, and high cost of housing at every income level, has gained attention. The housing crisis is so extreme, that it's risen as a top priority for lawmakers, voters, residents of all income levels, private industry, and state and local government agencies. It's not just a worry for lower income or underprivileged households, but for all of us. California voter surveys indicate that their top two "neck and neck" priority issues are homelessness and affordable housing. These concerns outrank poverty, crime, education, and climate change.

Additionally, we have an unprecedented opportunity to get this right and develop a sustainable approach to solving the housing shortage. With the California state budget surplus and the commitment of 27 billion from the American Rescue Plan Act, the state must make responsible investments to increase total home production, increase home affordability, provide equitable access to all Californians, and develop an inclusive plan that stops excluding affordable homeownership. An affordable mortgage is the most stable form of secure, affordable housing. Homeownership is the housing solution overlooked in the state's investment and it is the only housing solution that offers long term, permanent affordability, provides an asset for the household and future generations, and helps close the enormous wealth gap and racial inequities in California housing.

Why is it important to include affordable homeownership production?

Rental housing does not build equity or create an asset. If a family becomes a homeowner, they have the opportunity to save, earn equity and share an intergenerational asset. White

households have significantly more wealth than non-white, and property ownership is the key reason. By having a healthy balance of homeowners and renters, families and communities thrive. Homeowners make more of an investment in the community and are more actively engaged. Homeownership is affordable housing. Rents increase, but mortgages are steady and predictable.

We have a moral imperative to address the housing shortage for all Californians and an effective plan must include the spectrum of needed housing supply: emergency, transitional, affordable rental, and affordable homeownership options.

If affordable homeownership continues to be excluded, California's investments will perpetuate racial and wealth inequities. If lower income households are limited to rental housing, they will continue being housing insecure and being excluded from the opportunity to build equity.

With the financial resources available, we have a unique opportunity to jump start a transformation in California and systematically address the housing shortage and inequities that have been growing for decades.

My testimony will emphasize the need for a comprehensive approach to housing that includes investment in producing the supply of homes along the entire spectrum of housing solutions.

As a director with Habitat for Humanity California, I approach this issue as a nonprofit builder and affordable mortgage lender working directly with low-income communities. My perspective is informed through direct experience as well as through coalition building and work with state and national housing advocates and government agencies. My understanding of California's Department of Housing and Community Development (HCD) is based on meeting with staff and leadership, being a non-profit home developer funded partner, and through advocating on behalf of our Habitat for Humanity affiliates statewide.

Recommendations to Address California's Housing Crisis:

- Invest in affordable home production
- Establish parity by investing in the entire housing continuum – include proportionate investment in affordable ownership production
- Prioritize a long term, comprehensive and sustainable approach
 - Look beyond the crisis and toward a vision for California: accessible, healthy, affordable homes
 - Collaborate, measure, and modify
- Build capacity and capability in the Department of Housing and Community Development
 - Ensure the agency can meet the implementation goals
 - Increase staff knowledge and expertise within the housing programs
- Form productive state and local partnerships
 - Identify the issues and bridge the gaps, build on successful models

CALIFORNIA'S HOUSING SHORTAGE: HOW DID WE GET HERE?

California started experiencing a shortage of housing in the 1970s, since then it has only grown into the critical shortage we have today. There are many factors that have contributed to the extended and increasing problem. Some say it is too complicated to fix quickly, so it was easy

for lawmakers to put off and prioritize issues with more immediate results. Let's consider production, we know production has waned, but our actual home products have also changed. In the 1940s and decades later, "entry level", more naturally affordable "for sale" homes were produced. One of my colleagues often cites this example; "When we were growing up, the school bus driver could afford to buy a home." We can add to that a whole host of essential jobs that used to enable families to buy a home, but no longer. It's not just rising home costs. Over time, it not only became more desirable and more profitable for private builders to build larger, higher priced homes, it also became less profitable, and thus less desirable to build smaller, starter homes, ideal for first-time buyers. With the increased regulations, permitting, entitlement fees, and total development costs, for the same time and expense, developers were incented to go big. It penciled out in favor of larger, higher priced "for sale" homes, so the industry shifted. Inventory of smaller and more affordable homes shrank and access for lower income buyers was nearly eliminated.

It is difficult for all to agree on all the factors, or even accurately estimate the shortage, but the recent 2018-2020 study, reports that annual new production must increase by at least 100,000 units. Experts roughly estimate that California is 3 - 4 million homes short of needed supply.

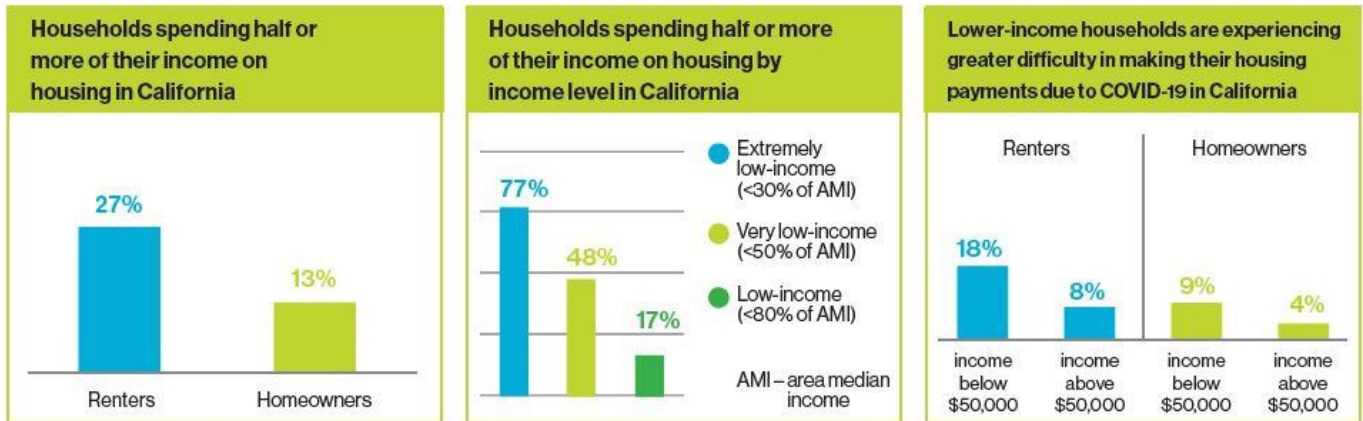
Barriers to Production:

- High land costs and low-density zoning restrictions
- NIMBY-ism
 - not in my backyard – resistance to new development from residents who already own a home
- Tax structures
 - local jurisdictions are motivated to permit commercial versus residential development. For example, in one rural county, a new affordable "for sale" planned unit home development was denied, although it met the zoning requirements allowing mixed use, in order to preserve the land for potential commercial development for more local tax revenue.
- Regulation increases
- Material and Labor increases
- Incentives to build larger, fewer
- Labor shortage
 - industry shift after downturn; workforce has not caught up

SUPPLY, AFFORDABILITY & HOMEOWNERSHIP:

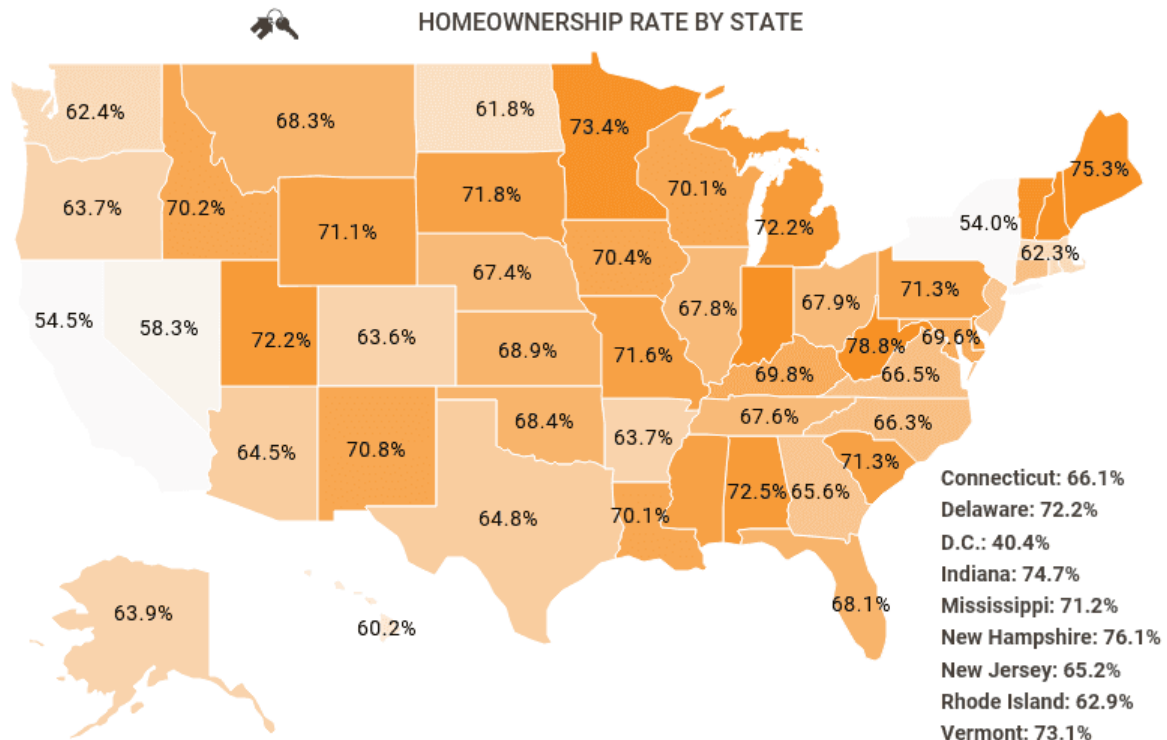
Lack of supply is driving lack of affordability at every income level and driving down homeownership rates.

- California's housing shortage means a scarcity of affordable housing for households at every income level and leaves low-and moderate-income households with the fewest options.
- 1 in 5 California households (20%), spend at least half of their income on housing costs.
- The lack of home inventory continues to grow annually in California, as do housing prices.
- Renters are more cost burdened than homeowners.



Homeownership is more affordable and more desirable for households and communities in California, but it is at its lowest rate since the 1940s.

- California's low homeownership rate of 54.5% is the second lowest in the Nation, only behind New York State's rate of 54%.
- National Average rate of ownership is 65.6%.



THE HOUSING SHORTAGE AGGRAVATES WEALTH AND RACIAL DISPARITIES

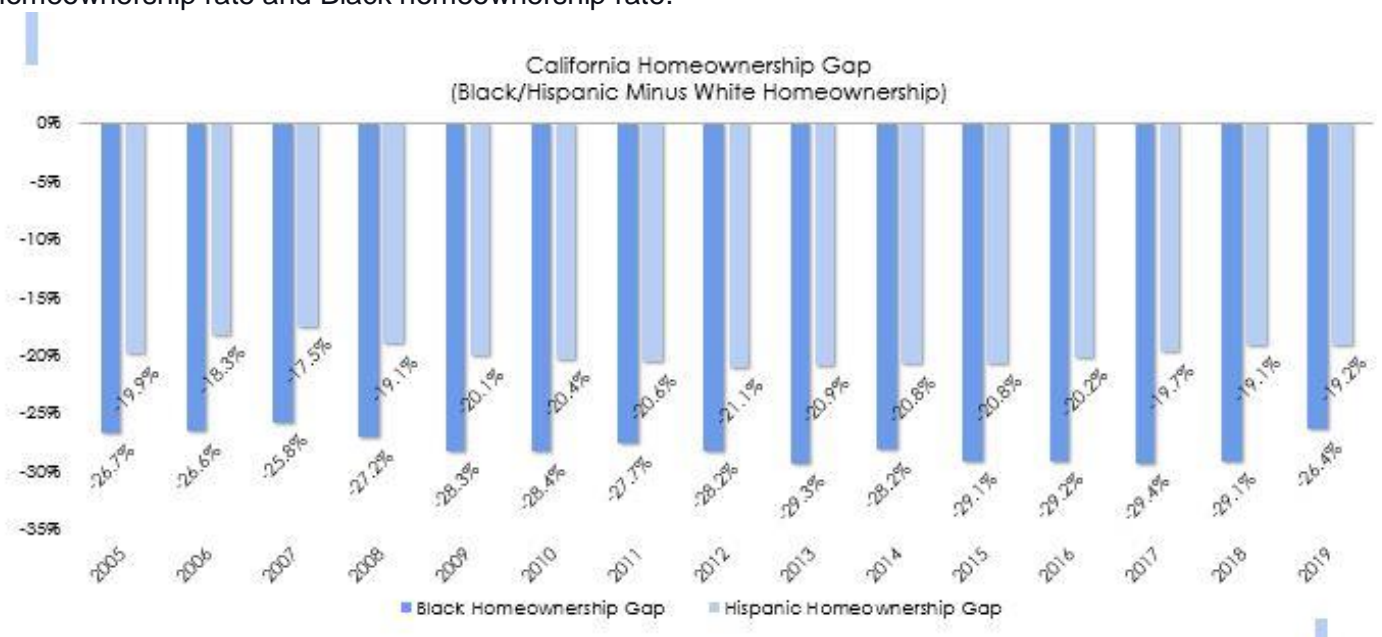
Home equity represents the largest portion of wealth for U.S. and California households and homeownership is the number one means of accumulating generational assets, but ownership rates are disproportionate across income and race.

The rate of homeownership for Black and Latinx households is much lower than the state's ownership rate due to decades-long discriminatory and exclusionary housing policies such as redlining which excluded buyers from certain geographic areas and from access to traditional financing opportunities based on race and ethnicity. According to 2019 data, **only 41% of Black households and 46% of Latinx households own their homes**, compared to the statewide ownership rate of 54.5% and the even higher ownership rate of 66% for White households.

The majority of Black and Latinx households do not own their homes, leaving them without an opportunity to achieve housing stability and home equity experienced by most white households.

The state's practice of investing in affordable rental production as the only option, ignores and perpetuates the growing problem of low-income and communities of color being excluded from access to homeownership.

Although, the research and evidence make the inequities clear, California is not making progress toward closing the homeownership gap for Black and Latinx households, if anything the gap is constant or growing rather than shrinking over the years. Gap = difference between White homeownership rate and Black homeownership rate.



Affordable homeownership production is essential to solving the state's housing crisis because it addresses multiple issues:

- Providing permanent affordability and locking in an affordable mortgage payment
- Building financial stability for households and future generations
- Increasing educational and health outcomes for adults and children

- Boosting the health of local communities
- Addressing decades long and ongoing racial and income inequities

Home equity accounted for the largest portion of net worth of US households in 2016 (the latest year data was available), at 34.5% (Eggleston, 2019). Homeownership is a particularly important source of financial security for low-income homeowners. Home equity contributes a much larger share (at 81%) of net wealth among the typical homeowner in the lowest income quartile, compared with just under a quarter (24%) among those in the highest quartile. (Joint Center for Housing Studies, 2015). Home equity also represents a larger share of the net worth of the typical Black or Latinx homeowner (58%) than of the typical white homeowner (37%) overall, homeowners are wealthier than renters and low-income homeowners had higher non-housing related assets than their renter counterparts.

In a more recent study, Begley (2017) finds that the effects of financial assets are concentrated during housing bust years, suggesting that family resources, and housing assets specifically, matters more during periods of economic decline.

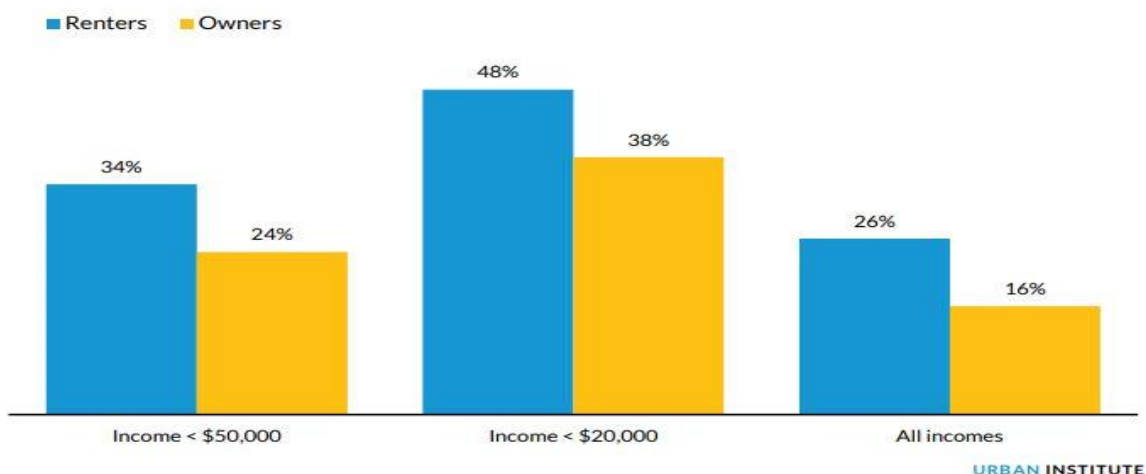
HOMEOWNERSHIP IS AFFORDABLE HOUSING

Increasing production and access to affordable homeownership is key to a successful long-term housing solution for California.

As noted, more renters in California and in the U.S. are housing cost burdened, than homeowners, including homeowners in their same low-income bracket. Whether your household income is low, moderate, or high, renters are more cost burdened than homeowners. Households spending more than 30 percent of their income on housing are cost burdened, and those spending more than 50 percent are severely cost burdened. The lower your income, the more likely you are to be cost burdened.

Cost burden helps us understand how much strain housing costs place on a household's budget. Households spending less than 30 percent of their income on housing are considered to have an affordable housing expense. In comparison, households spending 50 percent of income on housing expenses are severely cost burdened because high housing costs leave little money to cover other necessities, such as food, transportation, clothing, and health care.

Share of Income Spent on Housing, by Income



Source: 2019 American Community Survey.

Note: The data are limited to households with annual incomes greater than or equal to annual housing expenses.

When it comes to housing cost burdens among low-income households (<80% AMI), low-income homeowners are much better off. Of low-income renters, 75 percent are cost burdened, and 42 percent are severely cost burdened. In contrast, only 49 percent of homeowners in this income range spend more than 30 percent of their income on housing expenses, and only 26 percent spend more than 50 percent. The 26 percentage-point difference that separates cost-burdened renters from cost-burdened owners represents more than 6 million households in the U.S. and is a tremendous difference in how much money is available for other basic needs. Notably, this trend continues the lower you go down the income ladder. The share of very low-income homeowners who are severely cost burdened is 18 percentage points less than the percentage of renters (46 percent versus 64 percent).

Affordable homeownership, on the other hand, provides the kind of affordability and stability low-income families need; the home gets more affordable over time, and the housing is more stable because there is no landlord to raise rents, threaten with evictions or decide to sell the rented home unit.

Producing affordable for sale options for low-income buyers is a better investment for state and local governments.

Many Californians, including those in state government and nonprofit affordable housing organizations, subscribe to the mindset that homeownership is reserved for people who achieve a certain level of financial success and homeownership is not “appropriate” for some. Therefore, affordable housing became synonymous with rental units. This line of thinking is partly to blame for why the state and local efforts to create more affordable housing narrowly focuses on the rental housing. However, whether an individual believes ownership is a privilege reserved for some, the evidence still points to the fact that increased ownership affordability is in California’s best interest. Healthy communities have higher rates of ownership. Another myth is that it is less expensive to build affordable rental housing than for sale affordable homes, this is not accurate.

An investment in affordable homeownership achieves the long-term results, increasing the permanently affordable housing stock, generating property taxes, and sustaining programs by applying mortgage payments to reinvest in housing production. This model is sustainable and even offers lower-income buyers an opportunity to build an asset and move along the housing spectrum.

Down Payment Assistance does not address supply.

Currently, if affordable homeownership is considered by state programs, it is almost always addressed with down payment assistance (DPA). CalHFA has a long standing down payment assistance program, but down payment assistance doesn’t address the shortage and only creates a bidding war between qualified low-income buyers. The reality is that “would be” low-income buyers can’t find homes for sale in their price range and even with down payment assistance, they are simply driving up the home price, competing with other low-income buyers. For example, in San Diego, this past year nine low-income families approved for DPA, made increasingly more competitive offers on the same home. Providing down payment assistance without investing in production, is short sided. DPA should be included in a comprehensive approach to housing, but not the Band-Aid used to check the homeownership box.

It is challenging for any family to become a first-time homebuyer in California, but it is nearly impossible for those whose parents and grandparents never bought a home and never

accumulated assets to help their own children. This population is disproportionately made up of people of color.

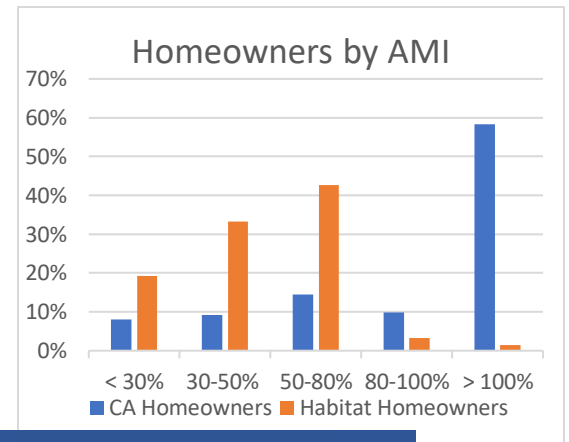
If the state is committed to helping all Californians access the benefits of affordable and stable housing, we need to do more to help low-income, Black and Latinx families to own their own homes. We can accomplish that goal by increasing the production of affordable for-sale homes.

HABITAT FOR HUMANITY CALIFORNIA ROLE

The Habitat for Humanity Homeownership model has a proven track record. We serve communities in all regions of California, producing and preserving affordable homes and increasing access to homeownership through affordable mortgages for low-income households. Homeowner applicants are income qualified and agree to partner with Habitat for Humanity by participating in homeowner and financial counseling programs and helping to build their homes alongside volunteers. Homeowners purchase their homes with an affordable mortgage, and they build equity.

Habitat Homeowners:

- Low-to very low income 30-80% AMI, average 54% AMI
- 81% of Habitat Homeowners are (BIPOC) Black, Indigenous and People of Color
- 15% of Habitat households include a veteran member
- 33% of Habitat households include a member with a disability



Habitat Homeowner Demographics:

Habitat Borrowers

18% Asian

12% Black or African American

47% Latinx

19% White, non-Hispanic

■ White, non-Hispanic
■ BIPOC (Black, Indigenous, and People of Color)

59% have a High School education or less

54% Average AMI

3.8 Average household size

1,725 School-aged children housed

9.5 Average age of children at move-in

33% of Repair and Ownership households have a member with a Disability, and **15%** include a Veteran

\$29.2M paid in property taxes over past 10 years

Top 5 Occupations

- Administrative Assistant
- Food Prep Worker
- Retail Salesperson
- Office Clerk
- Home Health Aide

Stability and Economic Resilience:

The pandemic tested and further proved the critical role affordable homeownership plays in boosting a family's financial, health and educational resilience during a crisis. Low-income households with stable, affordable, not overcrowded housing were better able to remain housing secure and meet their financial obligations, despite the pandemic.

Statewide, less than 2% of Habitat Homeowners struggled to make their mortgage payments. We are in the process of completing a study demonstrating these outcomes, but the preliminary results offer inspiring evidence.

Assessing the impact of Homeownership:

We surveyed 691 Habitat Homeowners, all low-income households in California in 2021. The length of time as a homeowner ranged from less than 1 year - 15+ years, with a balanced distribution. Homeowner responses included rural and urban, southern, central, and northern regions throughout California.

Homeownership has positively impacted: Stability, Security, Finances, Health, Education, and Civic Engagement for Habitat Homeowners.

Security was the most common theme reported by Habitat Homeowners.

"Homeownership has meant security as well as financial & emotional

"Buying a home has meant, peace of mind not having a landlord bully you or threaten of evicting you. Appreciating what we have. Able to give shelter to others in need."

"My children were able to graduate and find sustainable jobs; didn't have to move out of the Bay Area; and are no longer receiving assistance from government programs. I feel good having a place to raise them without worrying about rent increases."

"Staying home for COVID-19, I am glad my home is big enough so everyone can stay in their own room. Also, I was able to buy a play yard set so my daughter could play in the backyard since the parks were closed."

Habitat for Humanity Homeowner Assessment 2021

Post-Purchase Homeowner Achievements

Achievement	Habitat CA Respondents
Have more space for my family	89%
Able to live in the region long-term	84%
Reduce housing costs	84%
Increase money available for food, health, or educational expenses	80%
Provide better educational opportunities for my children	70%

Habitat California 2021 Homeowner Survey - Analysis

Impact of Homeownership within the household

Habitat CA Respondents	Homeowner Achievements
78%	can often or always save for emergencies, retirement, or education
12%	have completed any estate planning documents
73%	report an upward career trajectory
85%	say their physical or mental health has improved

“We aren’t stressing about how much are we going to pay every month for rent, we are building equity and savings, we have been able to go to college, we feel safe at HOME!”

Impact of Homeownership on Kids and Education

- Responding households included 414 children under the age of 18, and 249 household members between the ages of 18-24.
- 75% of respondents say that their children have sufficient space for schoolwork
- Only 16% of respondents are stressed about their children’s education

“My biggest goal was for my children to have a quiet place to study with no setbacks of furthering their education. As of today, my eldest will be receiving his Master’s and my second oldest will be transferring to a 4-year state university.”

Habitat California 2021 Homeowner Survey - Analysis
prepared by Habitat for Humanity Greater San Francisco, August 2021

Impact of Homeownership on the Community

- 70% of respondents plan to stay in their current home for the next 5 years
- Only 6% of respondents plan to leave their region in the next 5 years
- 87% of those eligible to vote have done so in the last 4 years
- 67% volunteered in the last 2 years

“We feel financially secure and don’t have to worry about leaving the Bay Area due to rising rents and cost in general.”

Habitat California 2021 Homeowner Survey - Analysis

CALIFORNIA’S WEAKNESS WHEN IT COMES TO SOLVING THE HOUSING CRISIS:

Investments are focused on the type of housing, primarily rental housing for low-income households, rather than a multi-solution approach to housing options targeting the population in need. Affordable rental and affordable homeownership solutions aim to serve the same population of households earning 30-80% AMI, however investments in production ignore homeownership.

California’s investment is too low on production overall, but undisputedly nearly all affordable production dollars go toward rental housing, with a tiny percentage for affordable homeownership. For example, between CalHFA and Housing and Community Development, the two state agencies responsible for administering funds to support housing affordability, only one program exists to support affordable ownership production, the CalHome program. This is the one program where nonprofit affordable developers such as Habitat for Humanity, can compete for funds. There are a few other programs that don’t explicitly exclude ownership housing, but program criteria are specifically designed around rental production and the scoring follows suit. Unfortunately, the CalHome program is underfunded and woefully oversubscribed by millions of dollars. During the last award cycle, the program was oversubscribed by 157 million, about three times the amount awarded.

Additionally, there has been a fundamental lack of understanding within and between the two state agencies when it comes to homeownership. CalHFA members expect that ownership production is being funded by HCD. When meeting with HCD staff, they shared that their role is to promote affordable housing which they interpret as rental housing. Furthermore, they expected that CalHFA was fully addressing ownership housing needs. Habitat for Humanity helped initiate discussions including both agencies to facilitate broader understanding and gain insight. We have also participated in multiple meetings with staff leadership to learn how we might collaborate to achieve our common goal of meeting California's housing needs. Greater understanding can be achieved with a coordinated effort, but the situation illustrates the need for a comprehensive, informed solution. It also helps explain why HCD programs favor rental production. Adopting an approach targeting the population in need, rather than the production type, would be more equitable in meeting California's housing needs.

Department of Housing and Community Development (HCD) Challenges

Housing and Community Development has a critical and complex role to play, and Habitat for Humanity affiliates have valued our partnership over the years. I was a particular fan of the CalHome program, however HCD has demonstrated over recent years that they have significant challenges and delays administering their programs. My intention is not to criticize HCD, but to raise issues that need to be addressed in a comprehensive approach to housing. We are also appreciative of the discussions we have had directly with HCD, and the earnestness of their staff, however improvements have not been realized. HCD is tasked by the state to increase the supply of affordable housing, however that concerns me and many others because the agency does not have the capacity, capability, or the expertise to administer the current program funding.

It is taking as long as 13 months after a CalHome award notification for HCD to issue a standard agreement. The typical time lapse between award notifications and receipt of the standard agreement has been 8 months, with another 2 to 4 months to receive the executed agreement. This is across the board, not an exception. The program restrictions prohibit starting or closing on a project prior to executing the standard agreement, therefore the delays are causing significant hardships for Habitat for Humanity non-profit developers faced with the impossible choices of delaying pre-development activities, postponing the home closing with a low-income buyer who has met all qualifying requirements to purchase, or forfeiting all or a portion of the CalHome funds. Failure to apply the funds as planned, even if due to an HCD delay, means facing a penalty when applying for future funding.

California's comprehensive solution must include strengthening total capacity and increasing expertise and education on the affordable homeownership model within the state partnering agencies.

Local Government Partnerships:

I believe state and local relationship frameworks can be improved by greater understanding of the local issues, shared responsibility, and shared rewards at the local and state level. Since 1969, there has been a local government mandate by the state of California, to meet the housing needs of all Californians. This is the Regional Housing Needs Allocation (RHNA), or the Housing Element, however it has not achieved the intended outcomes. The challenges and vastly differing needs of local communities add to the complexities, but it's critical that state and local agencies are not working at cross purposes. Rather than focusing on exemptions and policy layers, energy can be spent on workable, practical solutions with compromise.

Considerations include:

- Increasing collaborative partnerships with local governments, the state, and community organizations.
- Fostering collective and diverse thought conversations, not common interest.
- Incorporating successful local elements into broad based program models.

The preference by local governments to maintain control has been a barrier in many cases, however preliminary data from a recent voter poll from 2019-2021 indicates 63% of California voters support increased home production in California, and 61% support increased production in their local community. Additionally, the majority of voters favor revising local restrictions to promote production.

Conclusion:

There is tremendous need and a unique opportunity to address California's housing needs. We have reason to be optimistic, California has the resources and compelling data to develop and implement a comprehensive plan. By ensuring that California invests in housing production including affordable homeownership, rental, transitional, and emergency housing we can address the housing crisis in the short term and eliminate the housing shortage in the long term. The consequences of not taking required steps to transform our decades long housing shortage, will result in the same failed programs and perpetuate discriminatory housing policy by excluding low-income and communities of color from accessing affordable homeownership and financial stability.

Thank you for your time and commitment, we hope that the commission will continue to research and provide recommendations to the state's investment in housing supply and affordability.

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