



Little Hoover Commission Written Testimony for Hearing on Housing Crisis  
August 26, 2021

Denise Pinkston

Founder and President, The Casita Coalition

Partner TMG Partners (Bay Area infill mixed use development company)

Former planning commissioner and planning manager including environmental review, code enforcement, permitting, and housing

Thank you for the opportunity to describe the problem and some solutions for the California Housing Crisis. I founded the Casita Coalition in 2019 after an over 35-year successful career in in local government planning and private real estate development out of a personal sense of urgency that we must develop fast-acting ways to widely deliver more homes, and that small homes can be a big part of the solution to California's housing crisis.

Most of us know that California needs more housing. We are producing fewer homes now than ever in our history. We are losing population. We are becoming older and wealthier with a more bifurcated economy. One of our largest cities has the fewest children of any similar US cities. Homelessness appears unsolvable. State housing laws unevenly successful, and mostly not working to deliver lots of new homes.

What we are loathe to admit, however, is how current government policy results in scarcity by preventing market adaptation to expand supply to meet demand at prices people can afford. The new housing we are able to build, due to the rules we adopt, requires a price tag higher than what most people can afford.

Nationally, housing delivery costs are high—they are higher California because our policies make it so. California housing policy cannot succeed without policy changes to bring down the cost of new homes at least to national averages in order to meet demand for low- and middle-income markets in a variety of geographic settings. California's housing regulatory scheme significantly and unnecessarily increases the cost of housing delivery---and government policy should be adapted to remove government-imposed barriers, reduce the cost to deliver homes, and deliver more homes at prices people can pay.

California must take responsibility for how policy promotes scarcity by finding ways to:

- Lower the cost to build housing;
- End delays and inconsistencies caused by zoning and permitting laws;
- Enable expansion in production technology, sources of capital, and labor for housing across the State by making it more viable in lots of places, at lots of prices, built lots of ways.

My comments explore the problems California policy creates and how these steps can move policy from forcing artificial scarcity to encouraging plenty. I firmly believe that government can take immediate and effective steps to deliver housing at prices every family can afford so that the diverse next generation of Californians can afford to call our State home.

Finally, these issues only matter to people who want more housing. Many Californians think that the major housing policy problem is not lack of housing but keeping California “livable” i.e. unchanged for those who already have (own) a home. People who believe current laws and systems are working just fine, and that we should only no-impact housing or that local control dominates all other considerations in the housing arena oppose the types of systemic improvement in housing delivery proposed here. To my neighbors who hold this view—yes, we live in wonderful place, but it is on all of us, in every neighborhood, to embrace change and do our fair share to house the next generation of Californians. If we refuse to accept the responsibility for the future of our children and our workers, then our “Golden State” will be for the “golden people”—wealthier and older homeowners who are cared for by a working underclass that is overcrowded, housing insecure, unable to buy a home, commuting long distances, and not happy about it. This is not the future California I want to leave to our children.

## **I. The Problem**

### **Everything About the Housing Delivery System is Right Sized to Scarcity- or the US Housing Crisis Defined (and it’s worse in California)**

The US and California and particular have a major housing crisis because we are living during a time when nothing about housing delivery is right-sized to ensure plenty of homes. As a supplier of a critical household good in high demand, the housing industry should be able to expand to meet this demand and create jobs and income in the process. However, housing is so heavily constrained at every point in the housing delivery supply chain that changing just one point in the housing delivery ecosystem (say approving all housing permits in 30 days) will not work. The remainder of the pipeline remains “right sized to scarcity”—it has adapted to scarcity, relies on scarcity and can only produce too little that is too expensive unless the whole pipe gets bigger. Think of a “supply pipe” that should be very large and allowing lots of flow having been shrunk to the size of a very narrow pipe. Expanding just one small area of the pipe won’t increase the amount of flow coming out the end. In other essential industries, auto manufacturing for example, rising prices and rising demand create an industrial response. High unmet demand triggers manufacturing innovation and expansion, supply chain right sizing, labor force expansion, marketing and sales point innovations. Industry expands production to sell as many cars as possible to everyone who wants one at a price they are willing to pay—a robust pipeline that expands to meet demand.

For example, from 1913 to 1939, Sears and Roebuck sold mail-order kit homes that homeowners could assemble on their properties at a price affordable to many across the US. There were no multi-year delays to fabricate them, deliver them to a site, build them, or get local approvals. Today’s hyper-local differentiated process and extremely complex standards for housing result in unique “by the piece” design and site-built construction for most home sites today. Complex rules and processes are different in every city that would make standardized, low cost construction difficult to permit. Housing is the last bastion of “by the piece” construction for

major household goods. If we had to buy uniquely designed clothing or cars, designed by our neighbors and City Hall, and built on by day-workers on each property separately, we could not afford to buy cars or clothes either. Housing and land use policies would prevent bringing back the Sears Kit Home, an all-American business model that housed over 75,000 American families in charming craftsman bungalows ordered cheaply, from a paper catalogue

The “supply constraints” to the housing supply chain as described below have now become familiar to most. What is needed to solve the housing crisis is systems thinking to right-size the entire housing supply pipeline to plenty. If families could order charming kit homes from a paper catalogue and put them on any home site over 100 years ago, it should be possible, do at least this well today.

We will come to the solution sets shortly. For now, let’s review all the constraints that must be addressed to right size to plenty,

**1) Our policies drive up the cost of new housing to the point that most people cannot afford it—especially infill homes that are the aim of State climate policies.**

California homes cost so much to build, that there are not many people in the population who can afford new urban infill homes in the State’s job centers where we want workers to be. A recent study on the effect of total regulatory load on housing cost titled “zoning tax” found California regions have the highest effective added cost per housing unit of any State in the US. The zoning tax alone (not even including the cost of land or the cost of building the house) for San Francisco was \$400,000 (house not included).

Cost are high here for many reasons-scarcity of workers, shortages of available land, but California alone charges the equivalent of country-club dues for the privilege of living in a new home here through our unique system of “impact and connection fees” and related local impositions designed to offset the impact of new housing on existing residents. Many CA communities charge in excess of \$50,000/home up to as high as \$150,000/home for impact fees and hook-up fees. No-one knows how much these fees are or how they vary across the State because the total load of fees, mitigations, other impositions, connection charges for utilities etc. is not reported to the State. UC Berkeley’s Turner Center for Housing Innovation studied impact fees, and even after months of research they could only discover some of the fees imposed locally in some jurisdictions (note: the State should require all these charges to be reported annually by jurisdiction).

Where homes are not worth what it costs to build them, builders won’t build (without public dollars to “fill the gap”). The table below shows how an impact fee increase of \$20,000 and a construction cost increase of 10% can make a housing project infeasible in a market where new for sale homes are price limited to \$750,000.

This table also demonstrates the ineffectiveness of popular “value capture” theories that purport to solve the housing crisis by raising fees and impositions on market rate housing to pay for more affordable housing or other local desires. Some argue that increasing impositions on housing, whether through inclusionary zoning, impact fees, solar roof requirements, on-site storm water drainage, double-piping, or complex building codes will pay for themselves and just “come out of the land”. These advocates ignore the fact that at some point land sellers make more money by NOT BUILDING HOUSING. We

all know sites in high demand communities where dated retail centers, automobile dealerships, Class C apartment buildings, strip malls remain untouched in places with high housing costs. In all likelihood (if it was zoned to allow housing) owners make more money doing whatever they are doing today rather than selling to a housing developer after “land value capture” takes all the profit out of the land for housing.

**Scarcity starts with inability to build for demand  
Housing hard, expensive, unpopular-often infeasible**

<u>Market Price:</u> \$750,000	<u>Market Price:</u> \$750,000
Less Soft Costs/Indirect: \$60,000	Less Soft Costs/Indirect: \$60,000
Less City/Utility fees: \$60,000	Less Fees (\$20k/unit fee) <b>\$80,000</b>
Less Construction Cost: \$400,000	Construction costs rise 10% \$440,000
Less Structured Parking: \$50,000	Less Structured Parking: \$50,000
Less Financing/Carry: \$50,000	Less Financing Costs: \$50,000
Less Equity Return/Profit <u>\$80,000</u>	Less 10% Equity Hurdle/Profit: <u>\$80,000</u>
<b>AVAILABLE FOR LAND: \$50,000</b> Times 200 units - \$10,000,000	<b>AVAILABLE FOR LAND: \$-10,000</b>

**GO**

**IF SELLER WILL SELL  
AT THIS PRICE**

Then have to get it designed,  
approved, financed, and built...  
In 5 years?

**STOP:**

Buyer loses money  
Seller operates current land  
use (mini-mall, garage, gas  
station, industrial building)

Cities where “value capture” theories have been wrapped into very high added impositions on housing may actually see a fall-off in new housing development because the totality of local charges make housing too expensive no-one can pay for it, even for the wealthy. In San Francisco--where the “zoning tax” is \$400,000/unit, city policies require highly designed, very green new homes and also require that more than 20% of units in a project be delivered at a significant loss as affordable homes. No other industry has to sell 20% of its goods well below cost because people cannot afford them at market prices. In San Francisco today, housing projects are sitting on the sidelines until prices rise high enough to cover these added costs. And units are getting smaller so they cost less because they are, well, less.

Super luxury prices for larger homes or super small homes are not options that work well for families and most working people. This week’s Chronicle described how San Francisco has fewer families with children than the top 100 cities in the US. Families cannot afford existing or new housing in San Francisco. San Francisco developers pioneered 200 sqft micro units and “Common” living where people rent by the bedroom.

These very small units pay for construction costs by renting for \$6-\$7/psf for only a 200 sqft space, so total rent is \$1400 vs \$6-7,000 for 1,000 sqft which almost no-one can afford. These small units don't work well for families who are leaving, resulting in fewer children per capita in San Francisco than anywhere else in the US.

So a housing solution set has to enable many more, lower cost homes to be built in many more places, and cap the unique costs allowed to be imposed under California law by local agencies on housing to solve an array of needs by charging the “last guy in the door” a whole lot more than the people who live there pay today. Note that in some places, it is not unintentional that added costs suppress construction. I have heard people testify at public hearings that they do not want housing unless it addresses all their concerns, and if it cannot they don't want it at all. So, we are not getting housing at all in lots of places, and no-where are we getting enough.

## 2) **High costs means not all housing types are viable in all market geographies**

There not many places where new construction works on the economics for the type of dense urban infill favored by State land use planning policies including AB 32 and the Sustainable Communities Strategy such as attached multi story units in 4-7 story or high rise buildings. Urban landowners have no reason to sell for a housing project unless they make money in the transaction, so values for urban land are high and owners expect to achieve high urban densities if they sell (100 units at 50,000/door worth a lot more than 30 units at \$50,000/door and the existing auto dealership could be worth more than either, particularly if there is a long term Prop 13 tax basis).

New, mid-rise and high rise buildings cost a lot to build, and cost more as their size and density increases. 4 story wood frame with no structured parking costs less than 5-7 stories over structured parking that costs less than high rise. Modern mid-rise (4+floors) buildings are complex. They incorporate costly concrete parking structures and require generators, fire life safety systems, elevators, and full ADA systems that are not required for much lower density stick frame and single family homes. It costs over \$700,000 PER UNIT in much of California to build a mid-rise apartment home due to high cost of meeting all the evolving standards of the complex California building code, premium for scarce labor/contractors, high cost/risks of approvals, high impact fees and high cost of land (ranging from \$50,000 to over \$150,000/door). High rises in San Francisco can cost over a million dollars to deliver.

Think of new urban buildings over 4 stories as the building equivalent of a Tesla—expensive, complex, highly engineered goods with complex construction that cost a lot to produce and can only be built by highly specialized teams. What we need are a lot more VW bugs-something lower cost and simpler that lots more people can afford and figure out how to build. Moderate density (over 4-5 stories or 50 units to the acre) costs so much, it can only ever target a portion of housing demand—higher income/high price markets.

Homes that cost less historically have been large greenfield subdivision homes, much lower density, stick frame, simple and low cost to build, outside of major urban employment centers where a first time homebuyer can buy a house for closer to

\$400,000. Californians who want to own a home but cannot afford the high price of infill “drive till you qualify” to buy this home, and face a daunting commute to work that depletes their family time and health, adds to climate change, and sometimes places them in the path of wildfires. State climate change policy is trying to discourage the low cost housing in far flung places. The State is now encouraging a Vehicle Miles Travelled fee on lower cost starter homes that require long commutes, further punishing lower income families. While the State pays lip service to wanting more infill in urban centers through Sustainable Communities Strategy, the State never fully admits that infill housing is more costly, more controversial, and generally harder to do. Our own State housing policy dissonance is causing more people to flee high priced markets for bigger homes farther from jobs and encroaching on wildlands and greenfields (where we don’t want housing), and yet prevents quick, cost-effective building in the urban areas (where we do want housing).

The table below shows how housing construction costs vary across product types, as buildings grow in size and complexity. At the lowest cost price point are simpler, lower density, wood frame, attached or detached homes, 1-3 stories (single family, duplex, ADU). At the highest cost/highest price point are high rise buildings that only work in a few places sometimes. For example, despite high rise zoning for housing in Oakland for decades, new high rise construction in Oakland only began when rents in Oakland reached \$4-\$5/psf and above to allow underwriting of new high rises, largely after the Great Recession.

Costs have become so unmanageable in housing because Californians have come to accept the unreasonable premise that housing should be responsible for self-solving all the potential impacts it could create. Housing in urban areas, where lots of people already live and are concerned about change, is even more difficult and more expensive. Bad green field housing is bigger, cheaper, and quicker to finance, approve and build than good infill housing which gets hung up at every step of the process and costs nearly double.

Many communities in infill locations are (begrudgingly) willing to accept new housing provided it is....

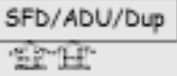
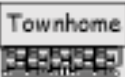


- Green/renewable in every aspect (on-site solar, water meters, no gas, moving to net 0, low flow appliances, low water plants);
- Provides housing affordability (through fees or on site affordable units);
- Has no unmitigated impacts on schools, parks, roads, water systems, neighbors, rare plants or species, traffic and take into account all unique aesthetic and design preferences of local officials and project neighbors
- Is safe (earthquakes, interior fires or wildfires, safety seems like a universally good idea so yes, safe)
- Is as unobtrusive as possible
- Has lots of parking and creates no traffic

Governor Brown at the time of signing his “housing package” reportedly asked to see a copy of the building code of 20 years ago (a thick binder), and the building code of today (several much thicker binders). His remarks at the “housing package” signing ceremony included the quote “too much of a good thing can be a bad thing”. The perfect housing

project has become the cherished local ideal, and the enemy of the actually possible good enough more plentiful housing project. I have witnessed probably thousands of neighbors testify against many housing projects over more than 35 years, and they always start by saying they are not opposed to housing, just to this housing, and if only it were smaller, greener, had more parking, had more attractive designs, had more landscaping, and fewer impacts, and had a few more public hearings and time for review it would be OK. The mythical perfect housing is the enemy of more roofs over more heads.

The table below also suggests one solution set for housing—more low cost homes, like ADUs and duplexes, in all types of neighborhoods, because they just cost less and therefore can be afforded by more people in lots of places and can be built by lots of different kinds of builders in lots of kinds of ways. The ADU and “middle zoning” policies around the State and nation are being adopted because they work to “right size to plenty”, creating more housing equivalent VW bugs and avoiding the cost and production limits of the housing Teslas.

## What Happened to the Middle? We Need More VW Bugs to balance our Teslas

 <p><b>SFD/ADU/Dup</b></p>	<p>5 -15 du/ac 2,000++ sf/du 2 -3 story</p>	<p><b><u>Feasible Every Market</u></b> Lowest cost : wood, no union labor, no elevators/ADA (Cost/value: +-\$300k) (ADUs, SFR in Central Valley)</p>
 <p><b>Townhome</b></p>	<p>20-30 du/ac 1,200-1,800 sf/du 3 -4 story</p>	<p><b><u>Feasible in most markets</u></b> +-\$500k/unit Lower costs (see above)</p>
 <p><b>Midrise</b></p>	<p>50-100 du/ac, 350+ sf/du 5 story + Garage</p>	<p><b><u>Feasible in expensive markets</u></b> Cost <u>3.0X</u>/sf SFD Sites need to be +- 1 acre—rare in cities Price must reach \$5++/psf, so small units/high rents. California liability laws limit ownership units</p>
 <p><b>Highrise</b></p>	<p>&gt;100 du/ac 350+ sf/du 8-50 story</p>	<p><b><u>Feasible in EXTREMELY expensive markets</u></b> Cost <u>+4X</u> SFD Price must reach \$6++/psf Few renters/buyers, few places, hard to fill entire building</p>

### 3) Building at high costs means high prices--that only work in high income areas

If there are a lot of reasonably priced housing options in a local market area, which provide more space for less than what can be attained in new construction, most people will choose the more affordable (existing) housing. Lenders know this and won't lend

where the background housing market has a lot of low priced options. They need to know they can fill a high cost/high priced building. And so the new building will not get built--in many geographies in California. For example, despite favorable mid-rise multi-family housing zoning in the "Priority Development Area" at the Richmond Ferry Terminal, or the TOD area in Sonoma County, new 5 story apartments will not be built there any time soon because renters and buyers have better choices for more house at a lower price in the existing housing market. Once the price of existing homes rises to closer to the price new construction must achieve, new construction becomes viable. Where existing homes are dramatically less expensive, new construction is not viable.

Much opposition to new housing comes because it is expensive, and neighbors rightly note "we could not afford to live there". New homes are the visible manifestation that gentrification and displacement are occurring. What is not widely understood is that the new housing would not be viable unless the gentrification and cost rise had already happened in the background market so that new development gets the prices they need to secure an investment return. New infill market rate is not the cause of gentrification, it is viable only where gentrification is already well underway and probably unstoppable even if nothing new gets built.

The chart below is typical of the economic analysis done by every apartment builder in the State, and expected by lenders. The analysis must "prove" (1) there are enough people at high enough incomes to pay what a new housing project needs to be a good investment and (2) that there are not a lot of other less costly housing choices so these people looking for housing will have to choose the expensive new housing.

In this table, most people in the East Bay population studied (the high point in the red bell curve) earned an insufficient amount of money to rent a new apartment. This includes the entire working middle class who earn too much for subsidized affordable housing, and too little to be able to afford market rate new construction: two-income working families, nurses, teachers, public employees, single professionals. This pattern exists in most housing markets in California.

To deliver new homes at the price people can pay, infill homes are shrinking in size. If all your family has for housing is \$3,000/month, then you just get a smaller unit since you cannot pay for a bigger one. Many/most people cannot afford to rent 1,000 square feet priced at \$5/psf (\$5,000/month. So builders build smaller homes (600 sqft 2-bedrooms, micro units, "rent by the bedroom" shared housing, tiny homes). Families and others who cannot afford the high cost of new or cannot/choose not to "live small" move farther out to formerly more affordable neighborhoods, rent or buy a bigger home/apartment, and displace the lower income earners who live(d) there further driving prices up farther away, adding traffic and GHGs to the State.

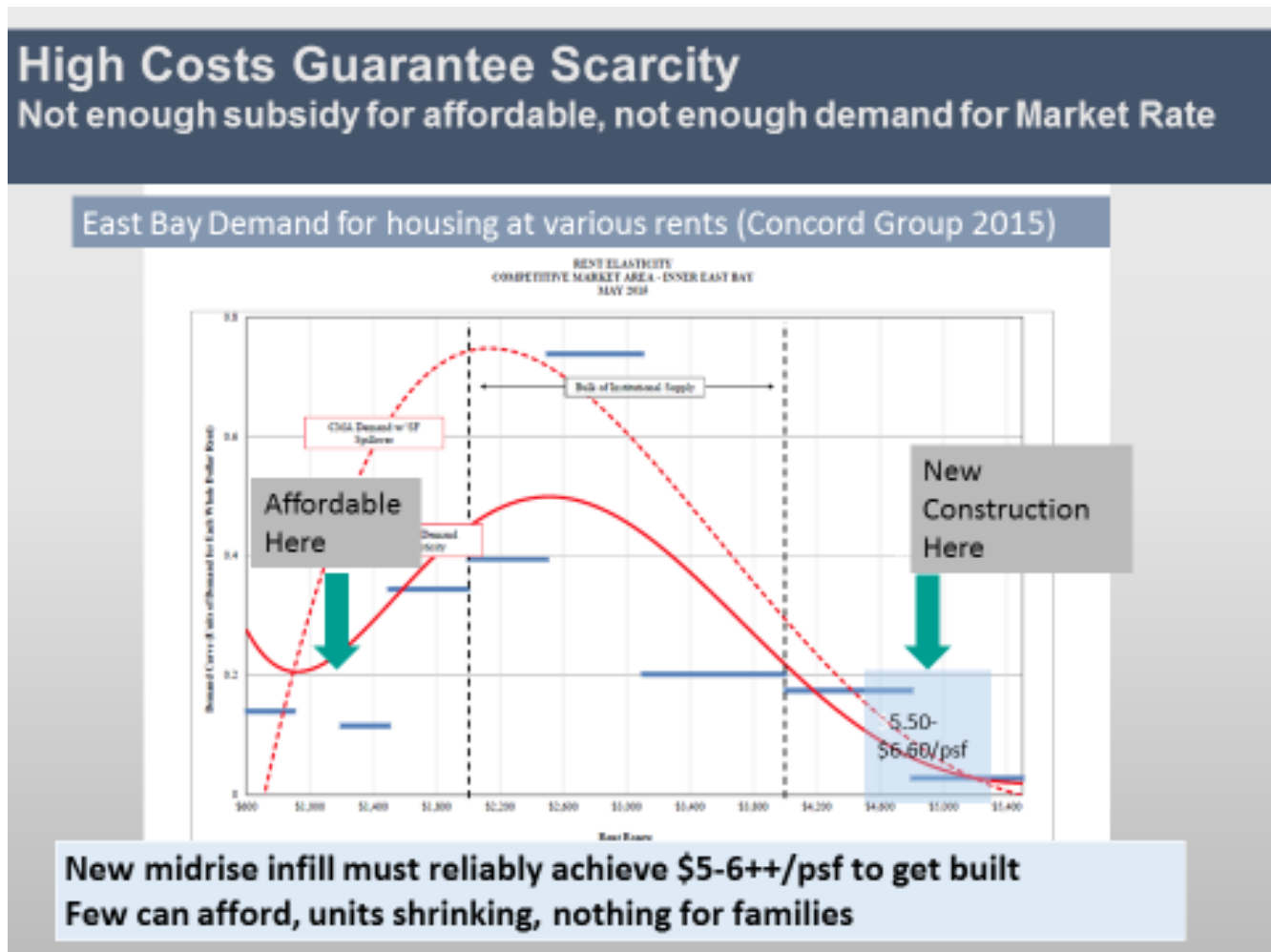
The table below shows that high costs necessitate high prices and high incomes to the point we are building nothing for middle income bulge in the population curve i.e. the majority of the people living in an area (in this case, the East Bay). New construction does not become feasible until rents reach \$5-6/psf which is only affordable to the narrowest tranche of the overall population looking for housing (or on very small units). This narrow "high income" population must have enough wealthy people to pay for all of



the expensive new construction coming to market. Otherwise, builders cannot secure financing because banks and investors believe they will lose their money.

The failure to build for most middle income people who can't afford new construction defines the “missing middle” of housing economics. So most households, with no new home options, move into formerly lower cost neighborhoods causing gentrification and displacement of whoever lived there before, or move farther from jobs, or leave the State.

The inability to house most people in a population is driving the (1) climate crisis by forcing new homes into wildfire zones and long GHG spewing commutes; (2) the health crisis by forcing people into crushing commutes that make them more disconnected, sedentary, and stressed/vulnerable to losing their housing; more overcrowded; or closer to homelessness after any small economic setback and (3) contributing to bifurcation, discord and social unrest as more people are forced into untenable lifestyles or housing insecurity paying more than 50% of their income for homes and unable to pay for other family necessities.



So now new housing mostly only gets built in certain geographies—higher income

**places where people can afford the expense of new construction—or with public dollars to “fill the gap”.** Homes eligible for public dollars must under most subsidy rules serve households at 80% AMI or below, not middle income households. This creates a bar-bell in housing delivery—we only build for very high end and low end, nothing in the middle (the “missing middle”). Where inclusionary zoning requires that a % of total project units must be rented/sold to people earning less than 80% AMI, the price of market rate units must be high enough to build and cover this implied cross-subsidy. Now market rate builders must cannot afford to build middle income homes because they have to rent/sell at high enough prices to cross- lower income housing and still be viable. In many communities (San Francisco), inclusionary zoning, high labor costs, and other impositions has made it impossible to even build super luxury housing at present—every SF project not yet under way is on hold for the foreseeable future until prices rise enough post-pandemic to pay to build (only) luxury or very small homes again. This trend was underway before the Pandemic caused prices to fall significantly.

- 4) The high-cost, high-rent viable housing buildings in most California infill locations also depend on robust, believable rent growth assumptions to attract capital (debt and equity)—only possible during an “up” cycle in the market. **This limits when housing works to only certain points in the market cycle. So now our housing production is limited to certain geographies, certain products, only a subset of the people who need housing, and only some moments in time.**

Since prices rise and infill housing gets built only during up cycle, it gets more expensive to build during the up-cycle because everyone hurries to build everything in brief time window. During down cycles where prices are falling, costs tend to fall too, but not enough to offset falling prices. So, work dries up, and companies lay off workers during the down cycles. During the great recession, California lost 1.5 Million construction workers. They just left the State, or found new careers. Most of these lost workers were never replaced, so during the upcycle from 2011-2019, the construction workforce in the State was stretched thin. More and more developers turned to non-union contractors to lower their delivery costs and to find a way to staff jobs, especially lower value jobs. More contractors hired less experienced workers who and paid them less anticipating that these workers might again be laid off during the next down cycle. Innovations in factory-built multi-family housing still struggle to work due in part to the boom-bust cycle in housing (you cannot run a factory that has to close for a few years once or twice a decade) and because the variable outcomes from local approvals processes and widely different design requirements work against efficient home building.

Most single family and multi-family housing in most places in California today is built by non-union general contractors and workers. To keep their members well paid and in high demand, unions are not incentivized to flood the market with low cost plentiful workers, or to have so many workers that they are laid off during a down cycle. During the last downturn, many construction unions maintained a steady employment market for their members as best they could by relying more on non-housing construction types (infrastructure, office buildings), and by demanding more Project Labor Agreements when any sort of public funding or concession was involved in a housing project. Since Project Labor Agreements (PLA) added costs, these added costs were typically paid for by the public subsidy to which they were tied. Sometimes, requiring a PLA on top of all

the other locally added costs kept union construction projects on the shelves, or limited union work to very high priced homes.

Many large multi-family general contractors have quietly reported that they cannot “make it” building housing because the cost has gotten so high they are not competitive. So they are all diversifying into other product types to remain viable. This year, affordable developers drew a line in the sand and said that they too could not afford to build all-union housing. And instead of growing the housing workforce and stable of contractors and subs who build housing, the best trained capable workers and companies have had to take up non-housing products to stay afloat. And more housing is built by a more seasonal workforce that is less well trained and subject to layoffs when the market cycle turns. We cannot add more costs for labor unless we reduce other costs and impositions so the total cost becomes achievable at reasonable market prices.

#### **5) Land is fixed and scarce.**

The most publically visible housing supply constraint is the limit on available land for housing. Land is a finite commodity made scarcer by local political resistance to new homes. Local governments (mostly) were given land use authority by States. States were given this authority by the federal government at a time when fear of the urban uneducated underclass migrating into “good” neighborhoods fueled national innovations in racially/ethnically biased local planning and zoning rules and deed restrictions. These land use innovations have successfully rationed housing land supply for over 100 years and excluded anyone who could not pay the price of admission. More than 70% of urban infill developable land in many California and US regions are zoned one house per lot, with lot sizes and development standards that ensure home ownership and land for new homes will remain elusive for lower income earners near good jobs forever unless something big changes. Recent national policy innovations in “middle housing”: duplexes, triplexes, ADUs, seek to release the land locked in the amber of one-house-one (large) lot rules to increase land supply for housing and re-open neighborhoods to generations priced out.

#### **6) Permit supply practically, and politically, constrained by local governments who resist State intervention**

California State and local leaders have not yet been able to overcome the political obstacles to housing due to a process heavily weighted to consider the desires of the people who already live there (who are very well organized and vocal) over new people who want to live there but can't get in (our kids, our workforce). In order to have plenty of housing in every community, we can no longer leave big housing policy decisions vulnerable to “local control” where the housing “haves” can keep everyone else out.

The State must create more uniform standards for zoning, permitting and streamlining across all parts of the State. Otherwise while some places will do their best to address the housing crisis, they will always come up short because so many other communities are doing their best to make sure nothing major changes. Sure, local agencies should plan and zone and if they wish set a design tone for their community. But once the planning

and zoning is done, housing should be permitted without delay or the chance to obstruct the process to prevent change.

The new RHNA allocations may start to move the needle on this, only time will tell (and 27 Bay Area jurisdictions are challenging their RHNA requirements so the jury is out on whether this will work). New organizations have sprouted up in opposition to any State intervention in local control of land use, they will continue to be active to prevent the State from making sure everyone does their fair share in a reasonable amount of time so more housing results.

State policy arguably makes the housing crisis worse, not just by failing to create more uniformity and accountability in housing outcomes, but by imposing rules that are overtly contradictory to achieving State desired outcomes. State climate policy that wants to encourage infill and discourage greenfield development, yet the State's premier environmental law, CEQA, has been taken captive by forces opposed to change who use CEQA process delays and litigation rights to grind projects to a halt.

CEQA was created out of a universal California belief in the importance of the natural environment and the need to protect against rampant polluters. Over time, the law has been weaponized by anti-development or self-interested parties in ways that are inconsistent with its purpose. The building unions who do good things for their members like ensure fair pay and worker safety, have decided to preserve the CEQA hammer for their use as a means to expand union workforce in housing by using CEQA powers to challenge and force selected projects to do their bidding. Which is mostly, to use union labor through a Project Labor Agreement (PLA) or similar agreement. A small handful of union law firms are well-known for sending so-called "green mail" letters threatening project approvals with litigation due to some environmental-sounding impact. For example, the furniture might use formaldehyde which was not studied in the environmental document or cats might eat mice that feed the raptors. In order to proceed in a timely way, developers cut a side deal with the unions to use their workers in the building process at which point the "green" concern just somehow dissipates.

In Sacramento, the building unions protect the "hammer" of CEQA to preserve their use of it--just the threat of a union challenge often brings developers to the negotiating table so unions rarely have to sue. This is more effective than picketing I suppose, but has unintended consequences. CEQA litigation is most commonly filed by parties who just do not want the development to happen for their own personal or business reasons—i.e. neighbors, competitors. By preventing meaningful CEQA reform, unions and environmentalists give a huge weapon to self-interested parties who just don't want something for their own reasons, even things that are clearly public goods needed to stop bad things in the places that must grow and absorb change in order to protect the State's pristine environmental resources and save the planet from climate devastation.

What is not yet widely understood is that over the decades of court cases on CEQA, any project subject to CEQA is not governed by the State's Permit Streamlining Act (PSA) deadlines for approving projects until the CEQA process has concluded. When I began my career in local government, I lost sleep over having to manage my staff to conclude the public process in the 12 months allotted by the PSA following a completeness

determination or they would be “deemed approved”. Like many colleagues, I “deemed incomplete” many a project at the start of the process so as not to start the PSA “shot clock” with questionably needed new submittal requirements. \

Today, however, CEQA case law interpretations set the PSA aside entirely until after CEQA had ended, so any project that requires a CEQA review can effectively be delayed for years throughout the CEQA process, and subject to an unreasonable number of public hearings.

The Harold Way project in Berkeley demonstrates how State climate policy and environmental laws work to cancel each other out and stop housing. Harold Way proposed over 300 units of high rise BART located housing, in a State-supported Priority Development Area. The plans for high rise housing at BART were paid for by the State, and confirmed by the voters after twice being put on the ballot. The developer agreed to union labor up front to keep them onboard to help with neighbors. 35 public hearings were held during the EIR process over 2 years at over 4 separate hearing bodies. The process entailed negotiating a Community Benefits Agreement worth \$20,000,000 including affordable housing payments, and other mitigation fees. A majority Council approved the project which to this day has never proceeded to get building permits or construction.

Post-approval, a disgruntled neighbor filed an EIR lawsuit claiming that the EIR did not analyze BART capacity at “crush loads” and there was, in her belief, no room on the train. 9 months later the court rejected the lawsuit. However by then the market cycle had shifted, the union labor and community benefits no longer left room for a viable housing project, the developer was unable to prove to lenders that they could build the building and rent/sell units for enough money to repay banks and investors so they lost their funding commitments.

CEQA process abuse against new housing in urban infill areas directly undermines the State’s stated goal of keeping housing out of green fields and wildfire zones. CEQA litigation abuse has been well chronicled elsewhere. Weaponizing the land use process using CEQA and local delays has proven an effective tactic for NIMBYs. And yet some building trades unions and environmentalists still defend against any CEQA amendments to streamline infill housing that does not require union labor. In the last 12 months, building trades unions have begun challenging any State housing law innovations that would streamline permitting or CEQA that does not require union labor, even changes that do not impact any of the product types they ever build.

**So now we have a critical necessity for living, a place to call home, that cannot be supplied to plenty due to our own rules and policies because:**

- 1) Our rules leave too few places where builders are allowed to put it**
- 2) Our rules layered on too much cost and complexity to new housing, especially denser infill, such that it costs too much for most people to pay for it much of the time and in many places**
- 3) Our rules enable time delays, processing delays and allow projects to be hijacked by political opposition who seek to prevent housing projects from happening**

- 4) **State law allows unlimited impositions, impact fees, community benefits requirements, and inclusionary zoning which raises costs and can cause approved projects to get shelved until prices rise still more to pay for the added costs**
- 5) **High costs prevent any housing for the bulk of the population-the “missing middle”**
- 6) **State efforts that pour more money into the broken system to pay for affordable housing, or streamline affordable housing which relies on scarce public dollars and can never be a large scale solution as long as public dollars are scarce**

Back to our supply chain analogy, our rules have made new housing into a luxury good: rare, expensive, highly and uniquely designed to a narrow slice of the demand market.

## **II. How do we right size to plenty:**

To get to plenty, our actions have to chip away at all of the root causes of scarcity, not make them worse, or cherry pick the politically easier ones and declare a “housing package” when the root causes of the problem persist unchanged. In particular our next steps must make headway on all of the following:

- 1) Lower the cost to build (which will both lower the cost and make housing more feasible in more places and more market cycles)
- 2) Increase readily zoned land and simple quick permits for housing in lots of types of places including high cost infill and lower cost suburbs (and stop process abuse and delay)
- 3) Improve consistency of rules and standards so all communities are equally shouldering the “housing work”
- 4) Create sufficient uniformity in housing delivery that companies can improve efficiency and lower cost by building lots of the same type of buildings lots of places (like the Sears kit home) rather than too few highly customized luxury homes for the wealthy
- 5) Enable a major increase number, and type of workers and companies and capital sources deployed to build housing in as many innovative ways as possible, safely, including union labor in housing factories where they can build more, more safely, with benefits.

### **What have we tried so far? Legislative and Executive Efforts Helping Some**

The State has taken steps to curtail process abuse and delay in recent years. The State has done some work to increase land zoned and permitted for housing and work to make sure all communities are shouldering the housing work.

#### **Executive Branch: Enforcement and Budget Resources**

The Governor has provided in recent years more budget and more staff for HCD to engage in tracking, monitoring, and enforcement actions against local agencies who are willfully disobeying State laws, or who may themselves lack the time and attention to closely follow them. More should be done in this regard: more funding, more enforcement authority, and more teeth in enforcement penalties. Short of this, many cities will avoid doing their fair share to implement State laws because consequences will not offset declining local political support for elected and appointed officials who are pro-housing.

The Governor has also taken action against communities that are clearly out of State law compliance, and as a result more have begun to follow at least State housing element law. No city wants to lose their land use authority or pay legal penalties day-for day or for all units denied that should have been approved. Real, noteworthy consequences and monetary penalties will help bring more cities into conformance with RHNA, housing element reporting and updating, and State law compliance.

The AG has also written helpful opinion letters in recent years to “encourage” localities to find their pro-housing way forward. This should be continued and augmented. Perhaps a land use enforcement dedicated attorney to make sure State laws are enforced State-wide.

### **Legislative Branch:**

The Legislature has been trying very hard to create better uniformity of standards and streamlining across the State. Not all of these efforts have proven effective at scale. I have highlighted the laws that are known by market rate and affordable developers to be making a big difference below in order of effectiveness. The State still does not track how often these laws are used. If it is not listed, it is not widely found to be effective for most builders.

#### **1) Laws Working in every local agency to stop process abuse everywhere**

- **The Housing Accountability Act (following the amendment 2017):** localities must approve housing they have zoned for at the density they allocated or be subject to litigation and monetary damages. The amended HAA has forced dozens of California communities to follow their own adopted rules and delivered 1000’s of units worth of housing projects, including many unpopular infill and affordable projects, that would have been denied or reduced in density otherwise in response to local opposition. Instead, local elected officials can now tell their constituents “we had no choice, the State made us approve it” because it follows our rules.
- **The Housing Crisis Act (SB 330, 2019):** localities must not take an unlimited amount of time to take in housing applications and conduct their local review and approval process under local rules. Limits locals to requiring whatever they list on the “Preliminary Application” form in reviewing an application rather than repeated rounds of “completeness review” where the bar for developers to jump to start the process keeps changing (stops the completeness shell game well known to planning staff including me). Limit public hearings to no more than 5, local agencies cannot downzone by vote or initiative without replacing that housing capacity elsewhere. Again, no data is available on SB 330 projects, but anecdotally, this author is aware of 1000’s of units including affordable units that have been approved in 5 hearings under reasonable processing terms. Combined with the HAA, these two laws together have gone a long way to stopping non-CEQA related process abuse.
- **Formerly effective** but now rendered nearly meaningless by CEQA case law (as discussed above): the **Permit Streamlining Act** (with its “deemed approved” penalty).

#### **2) Laws working only some places some times to make it somewhat easier to build more quickly, but not creating enabling scaled increased housing production,**

**typically because cost or local compliance requirements exceed project ability to pay for most projects**

- **SB 35:** infill housing consistent with local zoning with union labor and on-site affordable must allow ministerial permitting. The one-two punch of union + on-site affordable severely limits the number of projects that can make use of this provision.
  - **Density Bonus:** Forgive some local standards (parking, development standards) and add density in exchange for on-site affordable units at specified levels. Works well in only a few communities in the State as reported by UCB Turner Center. Contains some “cannot deny” language that provides some approval protections. Recently local agencies have adopted super-charged density bonuses (San Diego, Los Angeles) with a lot more density for an economically reasonable amount of housing that has significantly accelerated their mid and high rise TOD style housing. The State adopted a similar law in 2019, but it is unclear yet if the State formulas are enough to make more housing work in more places.
- 3) **Laws that won’t work:** adding costs for zoning or process changes without offsetting cost reductions or increases in value. Proposed laws to change commercial zoning, up-zone around transit, or other seemingly good ideas that require more union, more affordable, but don’t offset this with tax incentives or much more added density won’t work due to underlying cost issues.

### **3) The closest thing to “right sizing to plenty”—California’s innovative, first ever, State-wide ADU Laws adopted by the Legislature, monitored and enforced by HCD and the Courts**

#### **What California’s ADU laws did (for much more detail go to HCD ADU website)**

In 2017, California required local agencies to issue building permits for adding homes in existing structures and created state ADU standards for jurisdictions with no local ADU laws: no hearings, no appeals, no design review, no public hearings, no CEQA. If neighbors have been looking at a building for years, homeowners can make it an ADU and park the cars on an existing driveway. The ADU bills once again restore “local control” to homeowners, not city halls or neighbors, where homeowners decide who and how to use their existing spaces (safely) (SB 1069).

2019 new laws added still more changes that reduced costs and expanded where ADUs could be built: no HOA can prevent ADUs, no impact fees for ADUs under 750 sqft (the limit for applying school fees under school fee laws), an ADU and a JADU are both allowed in addition to the primary home, an ADU can be delivered in a new standardized 800 sqft 16’ tall structure set back 4’ from neighbors. ADUs can be added in unused areas of multi-family properties (parking, bike rooms, yards, attics, boiler rooms) up to 25% of existing unit count. Locals cannot require owner occupancy of properties with ADUs for 5 years.

This suite of laws took cleared the way to “plenty” for ADUs:

- a) **Standardized the zoning, building form, and permitting requirements State-wide. It is now legal everywhere to build ADUs in a similar way everywhere.**



Small homes on existing developed sites cost less. New State laws limit costs from process delays and most expensive fees (local special districts and utilities still charge high connection fees, but there's been progress). The big 2019 contribution to plenty was the "800 sqft" standardized ADU—a standard size building now legal everywhere. This single standard unleashed many entirely new housing delivery companies and methods driving production costs down further. Factories can now build lots of small homes because they have standard characteristics that can be replicated in a factory setting and can be legally sold everywhere in the State. Standardized buildings cost less to build, have less waste, have higher and safer labor productivity, and build more homes for more people at a lower price point.

In 2016 average site-built ADUs reportedly cost \$400,000 or more. Today, online, in one of the dozens of new ADU start-ups that have attracted over \$400 million dollars in venture capital, you can order a factory built ADU for less than \$200,000. Elon Musk is pledging to deliver "boxabl" ADUs for under \$50,000. The Tesla guru is "hacking housing" to make a small factory-built home cost the same as a factory-built car. Apparently he sold all his big homes in California and moved into a "boxabl" ADU in Texas. Factory built ADUs meet all building, safety, wildfire, earthquake, and net 0 energy standards at a lower price point thanks to standardization and factory building. Sounding more like the Sears Catalogue brought into this century, right?

As costs come down, more and more families can afford to build ADUs. Financing an ADU can happen in a number of ways including home equity lines, cash, or renovation loans. Many ADU companies are looking to apply the solar industry model to housing through ADUs, where a builder agrees to permit, build, install, maintain/rent your ADU and give you a check. These and other continued innovations in finance and delivery will keep finding more and more viable ways to do more homes for less for lots more people. The ADU laws created a housing innovation delivery boom, adding more workers, money, and delivery models to the housing landscape. ADU finance still needs help—which is why the State allocated \$85MM dollars in the 2021 budget to help families who are house rich but cash-poor borrow the funds they need to build.

**b) Other ADU/small home benefits:**

- **Improve GHG and climate change outcomes** by clustering new small homes (with less "stuff", less to heat and cool, fewer building materials) in existing communities served with infrastructure, closer to job centers with reduced commutes
- **Improve inclusion and equity in historically exclusive neighborhoods** thanks to more different kinds of housing options at different price points in places where most average California families have been priced out.
- **Re-enable home ownership due to added ADU income** or shared housing payments by multi-generational families
- **Allow local control to begin at home**, where your home is your castle, you can decide who sleep where, and your neighbors no longer have a lifestyle veto on your family life choices, as long as it is safe and does not create a nuisance.
- **Allow our housing to adapt to changing family needs:** ADUs and other small housing forms will change in their occupancy and use as the needs of the family

and homeowner change over time. ADUs around the State at different points in time have been homes for college students, teachers, extended family, aging parents, aging homeowners, pandemic quarantines or offices, and extra rental income to pay the mortgage during tough economic times.

- c) **Because they cost a lot less and are allowed everywhere, ADUs work everywhere, at all points in the market cycle, in all kinds of places, for all kinds of families. 10's of 1,000's of Californians are quickly building them more cost-effectively than any other housing form all over the State.** Permit data from UCB Turner Center and the Bay Area Council Economic Institute have demonstrated that ADUs are being built all across California, North-South, East-West. ADUs make up in just a few years major percentages of all housing permits issued in the State.

Just 3.5 years after State law changes started, ADU's represent:

- 40% of the housing building permit pipeline in the City of Los Angeles (over 20,000 homes)
- 38% of the housing permit pipeline in the City of San Jose
- 20% of all housing permits in the County of Los Angeles
- 13% of all housing permits in the Bay Area
- 11% of all housing building permits State-wide.

Local jurisdictions tracking ADU rents report that ADUs reliably rent in many places at below market rates for existing homes (i.e. far less than other types of new homes).

This huge, systemic impact is why UCB's Turner Center is calling this the "ADU Revolution". The effectiveness of allowing more small less costly homes to easily be built has led cities and States across the US to allow small low cost homes in every neighborhood. 6 of 10 major US metros have legalized and streamlined small homes (duplex/ADUs) as have other major cities including Chicago, Denver, Philadelphia, Minneapolis, Los Angeles, San Diego, Austin, Portland, and Seattle. Montana, New York and other States are starting to discuss their own State-wide ADU or small housing laws, Oregon and Connecticut have already done so.

### **What else can we do that works to increase supply towards plenty:**

- 1) Pulling back from California's self-imposed regulatory problems that make everything harder and more expensive in California will include reforms to align our environmental laws with the pressing need for permit reform, lowering costs, and tracking whether what the State is doing is working well or not.
  - a. **Reform CEQA's interference with the Permit Streamlining Act to stop process abuse for housing.** Start the CEQA shot clock AND the PSA shot clock at the same time, with the Preliminary Complete Application materials required under SB 330, and require both processes to conclude in 12 months. Align CEQA litigation standards to be consistent with other bodies of State law
  - b. **Gather data on what State laws work (and understand why others don't).** We can't fix problems we don't understand, or evaluate whether our fixes are working without data. Require local agencies to report and how many approved

units used what State housing laws in the Annual Housing Report (APR). State laws empower local agencies to charge impact fees, connection charges, and inclusionary zoning—so the State should track what is going on with these impositions so that the State has a clear and complete picture of the burden placed on new housing from impositions. Over time, the State must reduce these total cost increases on housing at least to national average levels, or offset these total impositions with fiscal benefits like density or tax relief, both of which are used in other States to offset local impositions that otherwise would stifle housing, including in New York and Washington.

- c. **Defend and Enforce State housing laws.** The State housing laws that expect and work to deliver more homes will be challenged over time. The State must defend its laws for the good of all of its citizens. Funds and staffing for monitoring and enforcement should be a priority.

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'This Just Isn't Sustainable': The Housing Affordability Crisis Is Accelerating

[National Affordable Housing](#)

August 16, 2021 [Jarred Schenke, Bisnow Atlanta](#)

Decades in the making, the U.S. is facing a worsening housing shortage that is pushing housing prices and rents higher, and signs are pointing to it getting worse before it gets better.

Experts estimate the country needs to add 2 million housing units per year to accommodate a population that grew by 7.4% over the past decade, according to the recently released 2020 U.S. census data. But last year, the country produced just 1.3 million units of housing, and construction prices, labor shortages and restrictive zoning and building codes are making it unlikely the gap is going to shrink anytime soon.

A sign advertising a new luxury home development in suburban Atlanta.

“This just isn't sustainable. The unavoidable reality is we need more rental housing in this country, both single-family and multifamily,” [National Rental Home Council](#) Executive Director David Howard said in an email. “There are powerful demographic, social and economic trends pushing the demand for rental housing higher and higher.”

Two decades of underbuilding have led to a 5.5 million-unit shortfall across the country, [according to a June study by the Rosen Consulting Group and the National Association of Realtors](#). The gap widens to 6.8 million housing units when taking into account the loss of homes through demolition, natural disaster or functional obsolescence.

To address the shortage, builders would need to ramp up their annual production by 60%. The repercussions are evident in the nation's for-sale market, where the average sale price rose 48.5% over the past decade, from \$173K to \$257K, [according to Zillow](#).

Even as the economy took a severe hit during the recession, apartments rents [continued to rise](#) last year, with one-bedroom unit rents jumping 7% and two-bedroom units climbing 8.7% year-over-year as of July, [according to Zumper](#). Continued low-interest rates are aiding more consumers to enter the homeownership market. But in California, builders are not keeping up with anywhere near the demand from buyers, sparking bidding wars for the homes that hit the market, First Class Real Estate Managing Broker and owner Stacy Carter said.

Carter's focus is on the [Riverside County](#) housing market, a bedroom community for [San Diego](#) and [Los Angeles](#). Average housing prices in Riverside have jumped more than 25% to \$518,300 in the past year alone, [according to Zillow](#).

“We are definitely behind when it comes to new builds by thousands of homes,” said Carter, who is also on the board of the National Association of Real Estate Brokers. “As much as they are building they can't keep up with the current inventory. There are multiple bids on brand-new properties.”

*[Wikimedia/Joe Mabel](#)*

A construction worker building a new home in Seattle.

For low-income households, these trends only exacerbate their financial pain. The wages needed to afford a modest one-bedroom or two-bedroom rental home are between \$20 and nearly \$25 per hour, [according to a 2021 report by the National Low Income Housing Coalition](#). The pool of available low-income housing also has shrunk in the U.S., with only 37 affordable units for every 100 extremely low-income renters.

“It's also a gross income inequity problem,” said Rachel Rintelmann, a supervising housing law attorney with the Legal Aid Society of the District of Columbia. “There isn't a single ZIP code in the United States where you can afford a single-bedroom apartment on minimum wage.”

Local zoning codes, building ordinances and [NIMBYism](#) that block density in urban areas are only making matters worse, [National Housing Law Project](#) Executive Director Shamus Roller said.

Most new multifamily development targets the luxury or young professional class, and while in theory, adding new units of any kind should have a trickle-down effect to lower-income households occupying older units, that has not happened in practice.

The eventual expiration of the [eviction moratorium](#) also will have the effect of spiking the demand for low-income housing, Roller said, as those who are ousted from their current units have fewer options to avoid homelessness.

“If you walk out with an eviction record, there's a big swath of the housing market that's not available to you,” Roller said. “That means in practice you're going to lower-quality housing ... in less desirable areas of town.”

Even as the \$1.2 trillion [infrastructure bill](#) that passed the Senate last week includes a provision [to infuse \\$213B to help preserve more than 2 million affordable housing units](#), it would take years to actually stop the bleeding in the housing market.

“The ramifications are pretty big around this. This is affecting the economy. It's destabilizing our society at this point,” Roller said. “If you're paying 50% of your income in rent, you just have very little capacity to save any money to invest in your kids' education, to invest in your own education, upward trajectory. And the sort of housing segregation that we sort of let go on is sort of contributing to the polarization we're seeing.”

*Bisnow*

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Terner Center Housing Cost briefs, housing impact fee briefs, ADU effectiveness briefs, SB 9 brief