

WHEN IT COMES TO HOUSING, CALIFORNIA NEEDS TO LEARN THAT LESS IS MORE

Steven Greenhut

The California Legislature's recent [discovery of the state's housing crisis](#)—and the passage of a hastily drafted housing package last year—seemed like welcome news. Lawmakers finally recognized the extent of a problem that is driving the state's astronomical poverty rates. According to the U.S. Census Bureau's new cost-of-living-adjusted poverty measure, [20 percent of Californians live below the poverty level](#). High housing costs are the main culprit.

Housing affordability—especially in California's urban centers—also is a key reason so many Californians are moving to Texas and other states, [according to surveys](#). Middle-class people aren't leaving this lovely climate primarily because of the state's high taxes or regulatory climate. They are moving because they want to afford a house and a yard. California's population still is growing ([due to births and immigration](#)), but the level of outmigration remains a sore spot.

So it was about time that lawmakers attempted to fix a problem that is a direct result of years of public-policy choices made at the state and local level. Unfortunately, the [2017 laws](#) will do little if anything to ameliorate the situation for a simple reason: California leaders fail to recognize that the main problem is one of supply. The state approach ramps up state spending on subsidized housing, but refuses to loosen its overall grip over land-use policy.

Even when it tries to let the market work, the state does so in a manner that is overly prescriptive. For instance, [Senate Bill 35](#) forces local governments to approve projects that conform to zoning laws and creates a “by right” approval process. That's good, but it does so only for specific, high-density projects favored by lawmakers. And it imposes costly new rules—i.e., quotas for low-income units and union wage rates and hiring practices. As a result, the 15 housing bills the governor signed last year will not make a dent in the housing shortage.

Over the years we've seen plenty of California policies that do not work. Most of these policies are well known, but nothing changes. The [California Environmental Quality Act](#), or CEQA, invites lawsuits (from environmentalists, unions, competitors) against virtually any proposed housing project. That's true even for projects with widespread community support. In Sacramento, for instance, a stylish new housing project proposed in the city's Midtown neighborhood was celebrated by neighbors and local officials alike—yet it, too, was the subject of a [lawsuit](#). Note that whenever policy makers want a particular project, they first push to [exempt](#) it from CEQA.

It can take decades to permit large developments. As the *Orange County Register* [reported](#) last December, “After 20 years of battles over traffic, water and endangered wildlife, brush clearing and construction of roads and infrastructure is underway on 21,500-home Newhall Ranch, which is being marketed as one of the world's first large-scale planned communities that will add no new greenhouse gases to the environment.” Yet despite the environmentally sensitive nature of the project, environmentalists are still fighting it.

Gov. Jerry Brown signed the new housing laws, but when he was state attorney general, he sued San Bernardino County for permitting [too many single-family developments](#) under the state's law designed to battle global warming. Brown even touted tony Marin County as a model for the state. In Marin, 84 percent of the land is permanent open space. Yet Marin, just north of the Golden Gate Bridge, has only 260,000 residents. The [prime reason](#) for its \$1-million-plus median home prices is the slow-growth rules that limit residential construction.

He's probably right, unfortunately, that such an approach has indeed been the model for the state, at least in scenic coastal areas and in California's major cities. The [median home price](#) for the entire San Francisco Bay Area is now above \$800,000, which explains why there's a reported shortage of rental trailers for people high-tailing it out of the region.

In the city of San Francisco, only [12 percent of the population](#) can afford to buy the median-priced home. A modest apartment in the city can easily top \$4,000 a month. Part of the problem is related to the city's efforts to help promote housing affordability. Rent control and tough tenant-protection laws have resulted in thousands of apartments sitting [vacant](#). Once a property owner rents out an apartment, the tenants can typically stay there as long as they want given restrictions on rent hikes and evictions. Many owners rather let the units stay vacant than get trapped with tenants who can never be forced to leave.

So what strategies would work in addressing such a large crisis?

The first thing is for policy makers to stop doing all the things that have created the mess in the first place. It's not easy to unravel the [Rube-Goldberg](#)-like system of state and local rules that impede housing construction, but nothing will improve until the Legislature recognizes the role of these rules in creating the housing crisis. State pre-emptions—such as those included in S.B. 35—offer a useful template, but the new laws shouldn't pre-empt old restrictions only to add new ones (such as those union work rules and wage rates).

Policy makers need to recognize that the state cannot subsidize its way out of the housing mess—a point even Brown made during the housing debate last year. There will never be enough government funding to provide “affordable housing” for everyone who wants it. Furthermore, forcing developers to provide below-market units as part of their housing developments only ramps up the costs of the market units. Many of these [“inclusionary zoning”](#) programs cap the prices that the owners can charge as a means to keep the housing stock affordable, but that limits the equity owners can realize and hobbles their ability to move up the housing ladder.

The [“housing ladder”](#) is an important concept that apparently is not understood by California policy makers. The goal of a sane housing policy is not to provide new houses for everyone. Lower and moderate income people typically buy older housing stock, gain equity and then climb up the ladder toward better properties. They vacate less-desirable homes when they sell and move up, which then creates opportunity for others below them. The marketplace is best able to provide the wide variety of housing alternatives that people seek.

California lawmakers have embraced [Smart Growth](#). They want to promote high-density, transit-oriented condos and townhouses in walkable communities. There's nothing wrong with those

types of neighborhoods, but different people want different things. The same people want different things in different stages of their lives. My wife and I first bought a small bungalow in an urban neighborhood. We moved into a suburban house, where we raised our family. My youngest daughter developed a serious interest in agriculture, so we moved onto an acreage where she could raise a herd of goats. Now that she's in college, we're looking to move into the city. This is not unusual. The key is enabling builders to provide many choices, not coercing them into building one particular thing.

Ironically, the state's land-use restrictions end up creating the kind of urban sprawl that the planners were trying to combat. High home prices, caused in large part by all the state and local restrictions, push moderate-income people to seek housing that's unreasonably far from their jobs and friends. Take a look at the traffic patterns from Riverside and San Bernardino counties into Orange County, or from the Antelope Valley into Los Angeles.

San Joaquin County, a Central Valley industrial and agricultural area 80 miles from San Jose, is now considered part of the Bay Area because of the large percentage of residents who commute there. The eastern side of the Altamont Pass is filled with newer subdivisions (Mountain House, Tracy, etc.) that appeal to Bay Area refugees, who often then make a crushing commute to work. In San Diego County, more than [40 percent of a home's cost](#) is attributable to government regulations, which then forces more wannabe homeowners further into the hinterlands.

And because the cost of entry for builders is so high after battling CEQA suits, [NIMBYs](#) (Not In My Backyarders) and planning commissions, they tend to build more profitable mini-mansions rather than more modest homes. Can California lawmakers at least contemplate the degree to which their policies created this perverse situation?

It's unclear whether the current price increases are inflating a new [housing bubble](#), but it's worth learning some lessons from the last bubble from 2008. In other states, prices increased for the same reasons that they increased here. The prevalence of stated-income loans, structured investment vehicles and easy credit were obviously a national phenomenon. But in places such as Texas, builders were able to build new subdivisions in a reasonable time frame, so new supply filtered into the market as demand escalated. It took so long to react to market pressure in California that the bubble became bigger and the bust was that much more severe.

It's a [reasonable theory](#) that California's restrictive policies have had much to do with these boom and bust cycles. The thing to do, then, is to loosen land-use restrictions so that all types of new houses can be built in a timely manner. That will reduce the buying frenzy and the resulting foreclosure mess. When my family moved from Ohio to Orange County in 1998, we signed a one-year lease on a small house in Fullerton to give us time to learn the area and find a home to buy. We watched in horror as prices climbed exponentially month by month, and as multiple above-price offers became typical. After the bust, I purchased a rental home for 23 percent of the cost at the bubble's peak. New supply would ameliorate this unhealthy situation at both ends.

There are some other non-housing reforms that could improve the housing situation. California's leaders are concerned about sprawl, but many of the state's urban policies unnecessarily encourage families to seek out newer suburbs. During our move to Orange County, we found a

lovely old central Anaheim neighborhood that would have suited our needs, but the school system was so poor in the particular neighborhood we liked—and there was no viable system of choice outside of private schools—that we moved instead to a more traditional suburb. Better schools, safer neighborhoods and a reformed pension system (to reduce service “[crowd out](#),” especially in older cities) would open up a wide range of housing choices that don’t require a long commute.

There is no easy button to fix the [housing mess](#). It took a long time for California to get to its current situation, and it probably will take a long time to fix it. But all solutions flow from the same place: California’s leaders must understand that the state’s land-use restrictions, slow-growth rules and other building edicts and controls have suppressed supply and dramatically increased the price of building and buying a home. They must be reduced—and not just for a few select projects.

As the Legislative Analyst’s Office explained in a 2015 [report](#), “the state probably would have to build as many as 100,000 additional units annually—almost exclusively in its coastal communities—to seriously mitigate its problems with housing affordability.” What to do? Let’s stop doing what we’ve been doing, and let the market increase supply. The problem is complex, but the basic solution is simple. It’s time to build more housing.

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