

GETTING RHNA RIGHT

Making Good Public Policy
Based on Good Data

The Task Ahead

- **General Plan**
 - Land Use
 - Housing Element (every 8 years)
- **Zoning Code**
 - Objective Standards
 - Consistent with General Plan

SO MANY OPINIONS

**“If it was easy, we would have done it by now.”
– Wade Hong**

Legislative Analyst's Office

“California’s High Housing Costs: Causes and Consequences” March 17, 2015

“If California had added 210,000 new housing units each year over the past three decades (as opposed to 120,000), California’s population would be much greater than it is today. We estimate that around 7 million additional people would be living in California.” p. 23. [2.7 million units, 2.6 residents per unit]

“On top of the 100,000 to 140,000 housing units California is expected to build each year, 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. “

There is no explanation of how building more homes to house 7 million new residents would have lowered housing costs, nor how future building would decrease costs rather than attracting additional population.

McKinsey & Company

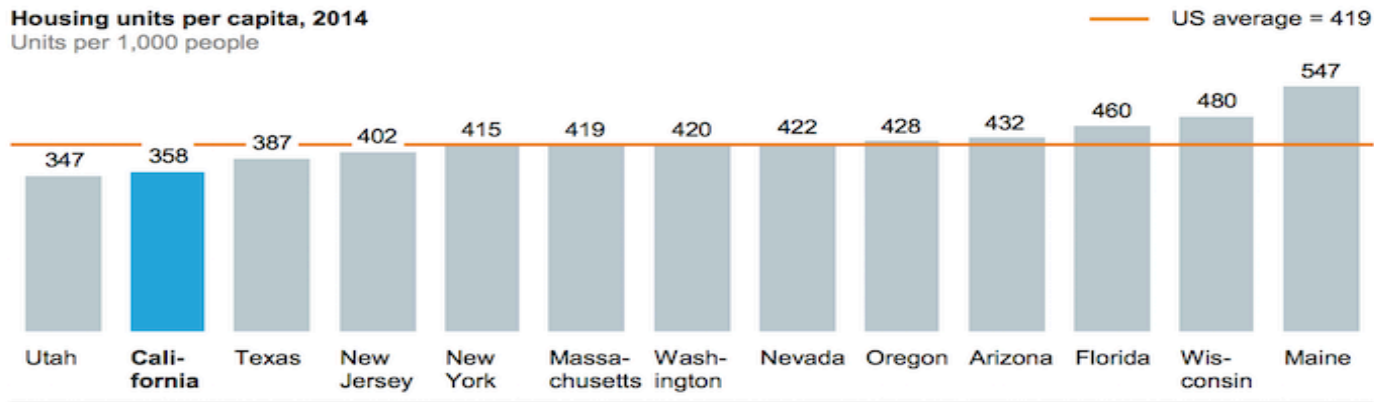
“A Tool Kit to Close California’s Housing Gap: 3.5 Million Homes by 2025” October 2016

Exhibit 3

California would need to build 3.5 million housing units by 2025 to close its housing gap

Housing units per capita, 2014

Units per 1,000 people



McKinsey relied on a single metric, comparing California to New York. No correlation shown between units per capita and housing costs. Numerous other relevant factors ignored.

Freddie Mac Data

(Federal Home Loan Mortgage Corporation)

Basis for Federal housing programs and funding

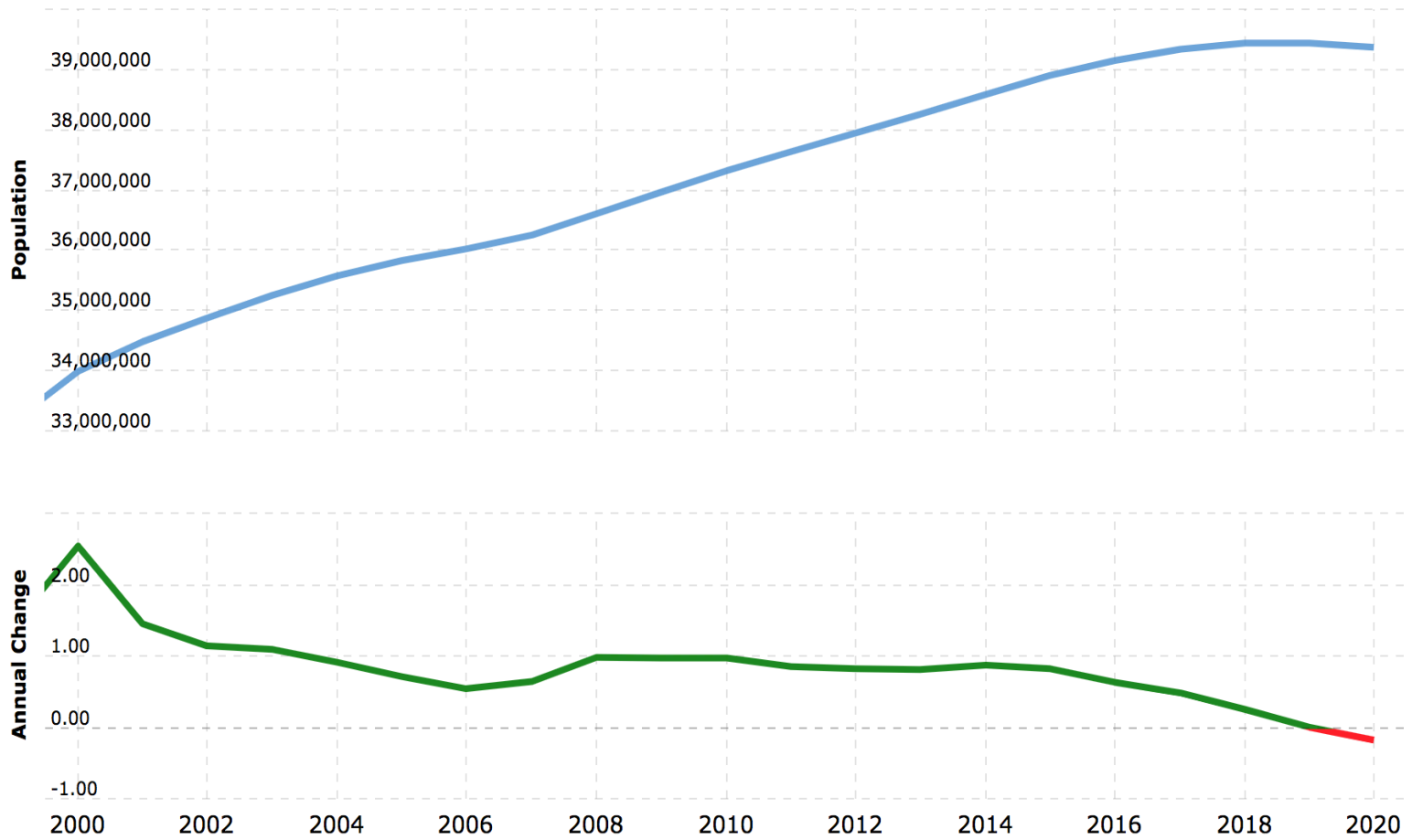
– U.S. existing shortage: 2.5 million homes

“The Major Challenge of Inadequate U.S. Housing Supply” (December 5, 2018)

– Calif. existing shortage: ~775,000 homes

“The Housing Supply Shortage: State of the States” (February 27, 2020)

CA Population Growth



California Agencies

**Plan for growth, transportation,
infrastructure at a regional level (State law)**

- **Department of Finance (DoF)**
- **Department of Housing and Community Development (HCD)**
- **Association of Bay Area Governments (ABAG) / Metropolitan Transportation Commission (MTC) [“COG”]**

RHNA Process – DoF

Department of Finance

Forecasts population and applies “headship” rates to determine number of households required by end of cycle (based on age categories).

DoF has used a higher benchmark headship rate for the Bay Area “because the RHNA process is intended to alleviate the burdens of high housing cost and overcrowding.”

(ABAG Housing Methodology Committee, July 2006)

Provides HCD the number of households at beginning of cycle.

RHNA Process – DoF (con't)

NEW: For 6th cycle, DoF deviated from prior way of determining headship rates. Decline in rates after 2010 was seen as a result of the Great Recession and overcrowding and cost-burdening. DoF benchmarked rates to the early 2000s to correct for this.

(U.S. Census and P-4 table in Department of Finance Household Projection table 2020-2030 and “read me.”)

The Process – HCD

California Housing and Community Development

Makes additional adjustments and apportions units to regions by affordability

- Adjustments made for “healthy” vacancy rates (previously 1.5% owned; 5% rental)

- **NEW:** Applied uniform 5% vacancy requirement to **BOTH** owned units as well as rental (healthy owned rate is 1.5%)

SB 828: (b)(1)(E): The vacancy rates in existing housing stock, and the vacancy rates for healthy housing market functioning and regional mobility, as well as housing replacement needs. **For purposes of this subparagraph, the vacancy rate for a healthy rental housing market shall be considered no less than 5 percent.**

The Process – HCD (con't)

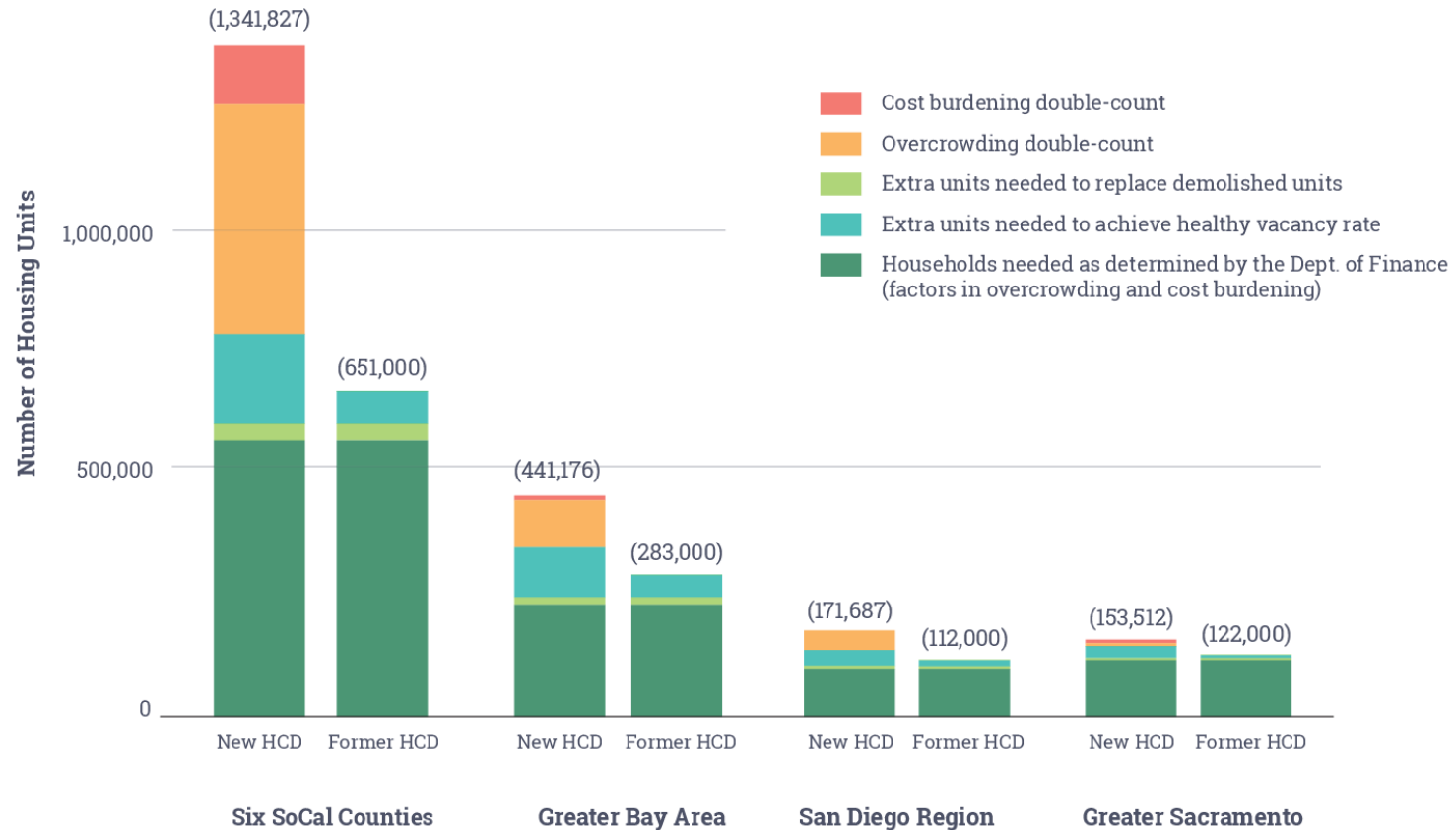
SB 828 called out need to consider overcrowding and cost-burdening, apparently not realizing these were factored into the DoF methodology.

NEW: Separate adjustment for overcrowding. Added 1 unit for every overcrowded unit.

NEW: Separate adjustment for cost-burdened (including for new units needed)

“Old” vs. “New” HCD Methodology

Most of the variance between the former and new HCD approach occurs in estimates of the ‘existing’ housing deficit. This is because **overcrowding and cost-burdening are double-counted**. Southern California and the Bay Area are most impacted.



ABAG: 3 Cycles

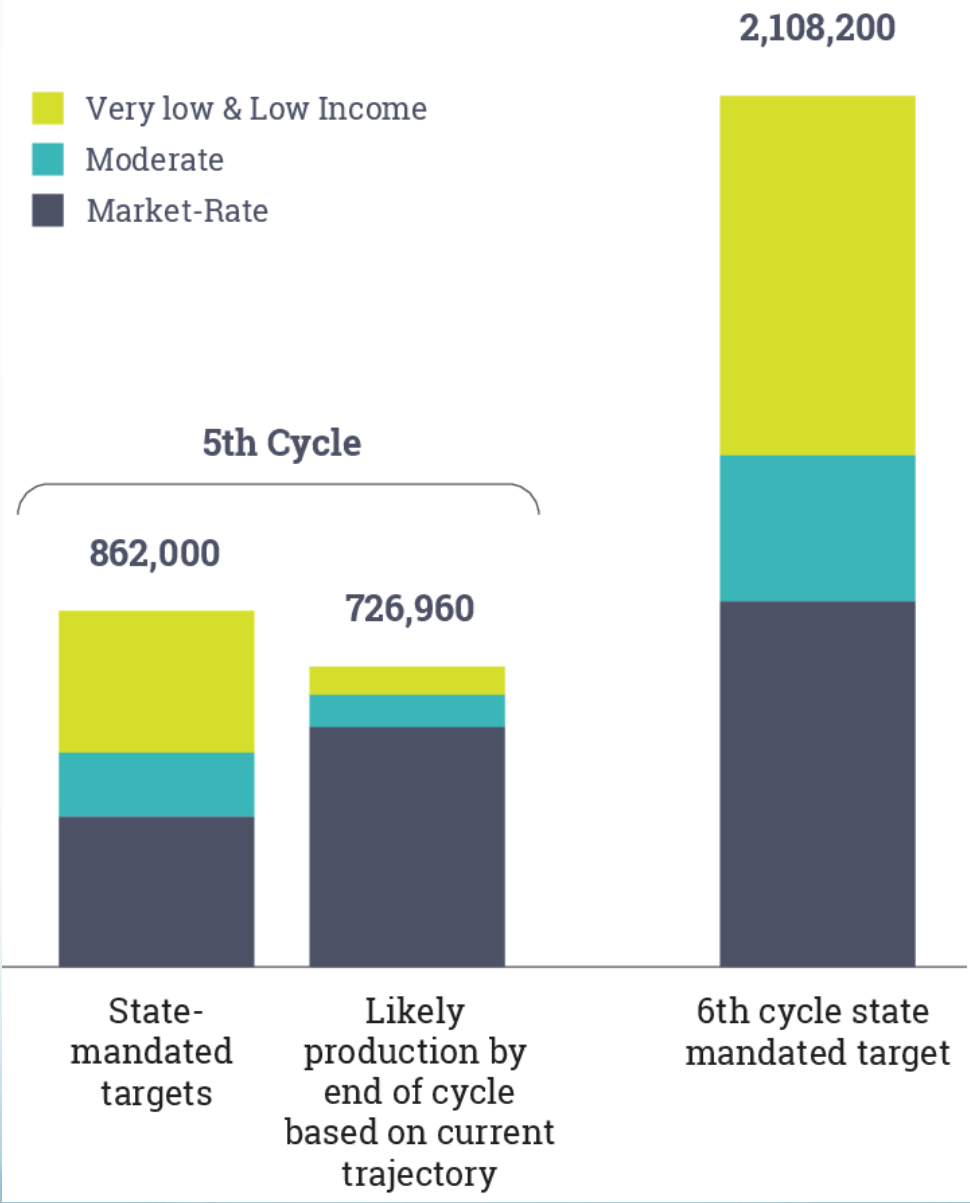
The state's exaggerated targets are problematic because they mask the most important issue - the failure to build affordable housing.

The Bay Area has, for decades, exceeded market-rate housing, but simultaneously failed to build affordable housing. Doubling the numbers won't solve the challenge of building affordable housing.



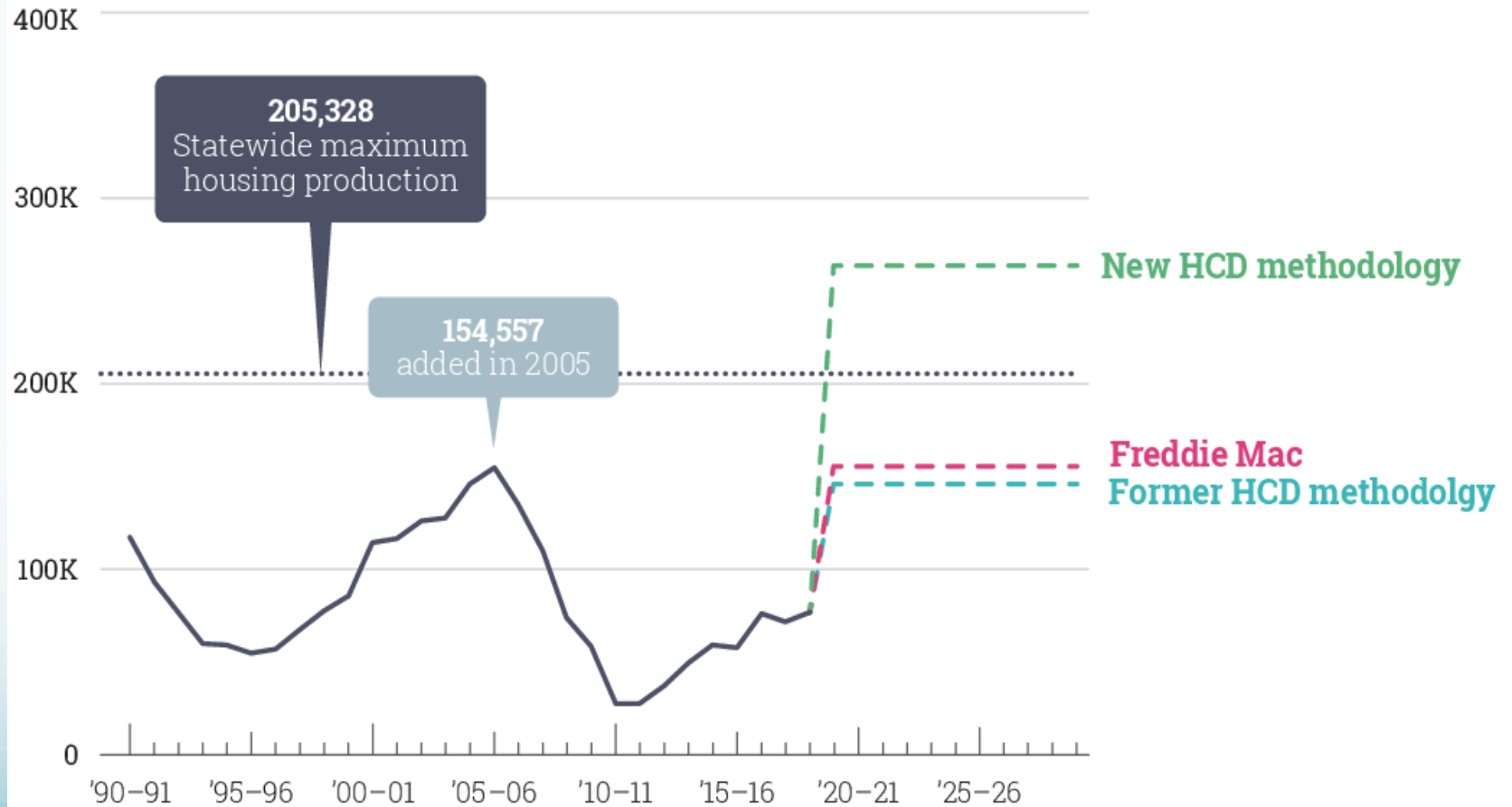
* Based on permit progress reports published by the HCD and updated July 2020, reporting progress through April 2019, and ABAG progress reports for 3rd and 4th cycles.

State Affordability Targets: 4 COGS



Production: 4 COGS

Incremental housing, 4 major urban regions, California 1990-2020

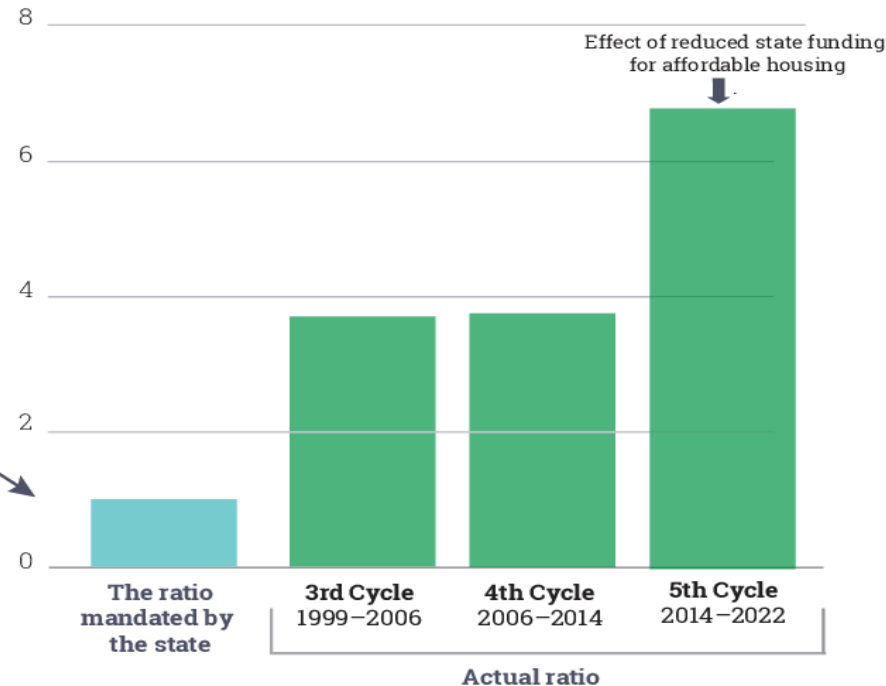


Digging the Hole Deeper

Market-Rate to Low-Income Housing Permits in the Bay Area has grown from a ratio of 4 : 1 to 7 : 1

(Bay Area only)**

Cities can't zone their way to 1 affordable home for every 1 market-rate home



* "The Defunding of Affordable Housing in California", Embarcadero Institute, update June 2020 www.embarcaderoinstitute.com/reports/

** Only Bay Area is shown because other regions have not kept detailed records of permit progress through the 3rd and 4th cycles. Data is from ABAG's permit progress reports for 3rd and 4th cycle and Dept. of Housing and Community Development's 5th cycle Annual Progress Report.

Los Altos

- **Entitled June 2006-October 2017 (permitted and built)**
525 total* 468 market : 57 BMR (8.2:1)
 - **Entitled November 2017-March 2020 (not yet permitted)**
302 total* 257 market : 45 BMR (5.7:1)
- *Excludes newly built single-family homes (empty sites or tear downs)

Los Altos	2015-2023 Current cycle	2023-2031 Draft
Above Moderate	97	843
Moderate	112	326
Low	99	288
Very Low	169	501
Total	477	1948

The Consequences

- Failure to meet targets for market-rate allows SB 35 projects with only 10% affordable. This develops scarce land with few affordable units and puts the city in a deeper hole. (new law)
- Market-rate housing (under SB 35 or as a discretionary project at developer's option) can continue to be built with city's inclusionary requirement, removing land available for additional affordable housing development.
- Eliminates community input on development. (SB 35 objective standards only)
- Potentially forces upzoning for increased density without achieving the goal of more affordable housing. Most recent housing legislation that encourages density or streamlined approval has no affordability requirement.

Proposed Actions

Ask 1: Engage with other interested cities State-wide about how to re-visit HCD projections to eliminate double counting and consider impact of COVID-19 on housing targets for 6th cycle.

Who: City Manager, City Attorney, Council Legislative Committee

Ask 2: Identify ways to preserve land for affordable housing during development of the Housing Element

Who: Community Development Department, City Attorney