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# HOUSING REPORT: BLAME OURSELVES, NOT OUR STARS

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## EXECUTIVE SUMMARY

No issue plagues Californians more than the high cost of housing.<sup>1</sup> By almost every metric—from rents to home prices—Golden State residents suffer the highest burden for shelter of any state in the continental U.S. Its housing prices are, adjusted for income, as much as two to three times higher than those in key competitive states, such as Florida, Texas, Tennessee, and North Carolina, and neighbors like Arizona and Nevada.<sup>2</sup>

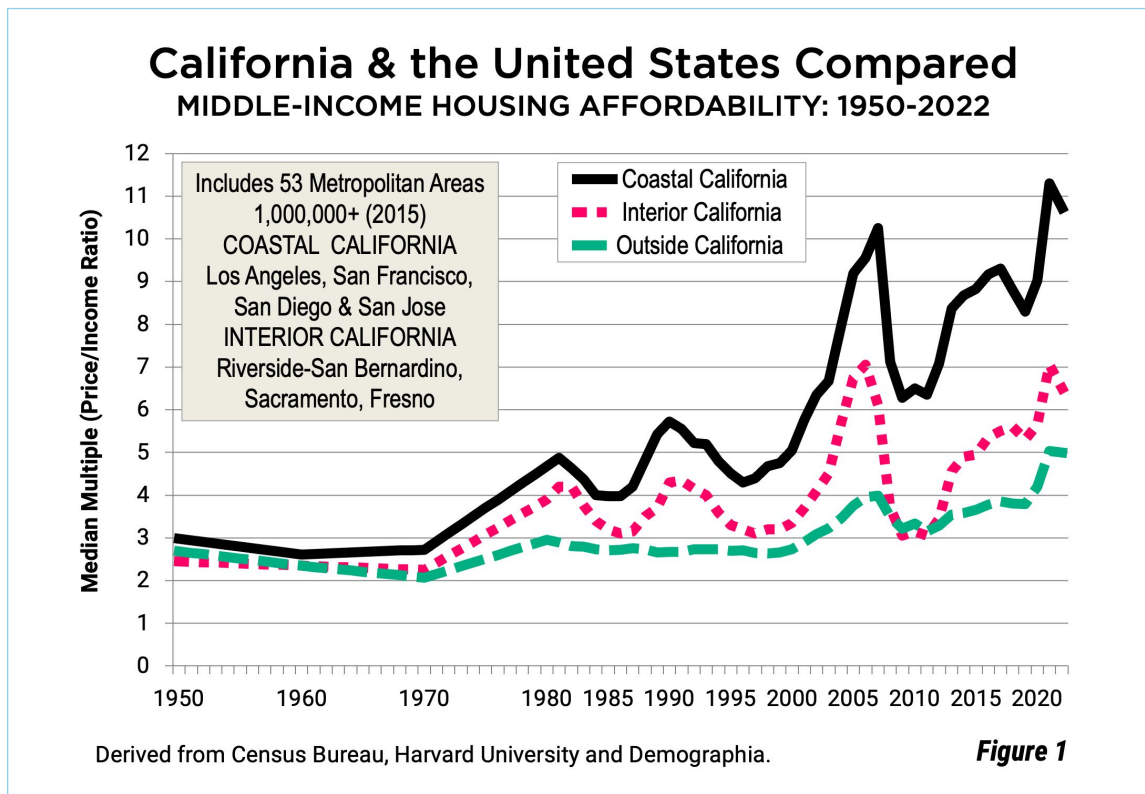
Some claim these high prices are a result of the extraordinary demand to live in the state, and its limited land. Yet California maintained relatively modest prices compared to other states during its period of most rapid economic and population growth, while ultra-high housing costs emerged as the state's economic and demographic growth have slowed, falling behind its prime competitors. In terms of land, only 5.0 percent of California is devoted to any urban use, less than any of the Northeast Corridor states.<sup>3</sup> Moreover, California already has the highest percentage of its population living in urban areas, according to 2020 Census data.<sup>4</sup>



*Los Angeles, by Carol Highsmith, Library of Congress*

The problem, to paraphrase Shakespeare, lies not in our stars but in ourselves—or, more precisely, our policy choices. For the better part of the last few decades, California policy makers have increasingly steered housing development away from peripheral locations, where land is cheaper and local regulations generally less strict, seeking to drive growth to dense urban areas, where costs are higher and regulatory environments generally more difficult to navigate.

This effort has failed completely. The very places that policy makers seek to burden with more regulation, including most notably the Inland Empire and Central Valley, have grown, while the favored big cities have stagnated. Both the city and county of Los Angeles, California’s largest urban area, have fewer residents today than in 2010.<sup>5</sup> Clearly, the state needs a housing policy that can still address environmental concerns while also meeting the aspirations of California’s new, and more diverse, population. California needs once again to do what it has long done: innovate and accommodate new generations of workers and families.



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## THE GREAT DISCONNECT

California's housing crisis reflects a policy agenda at odds with the market and the preferences of most residents. Policies favoring denser development exacerbate fundamental problems, including higher land prices (the largest element of the state's excess housing costs); the higher costs of multi-story construction; and a changing, diverse economy. Most critically, the policy agenda ignores the aspirations of most Californians. The people who design California's land and development policy from Sacramento have one vision of what our housing future should be, while the bulk of the population has very different ideas of how they want to live.

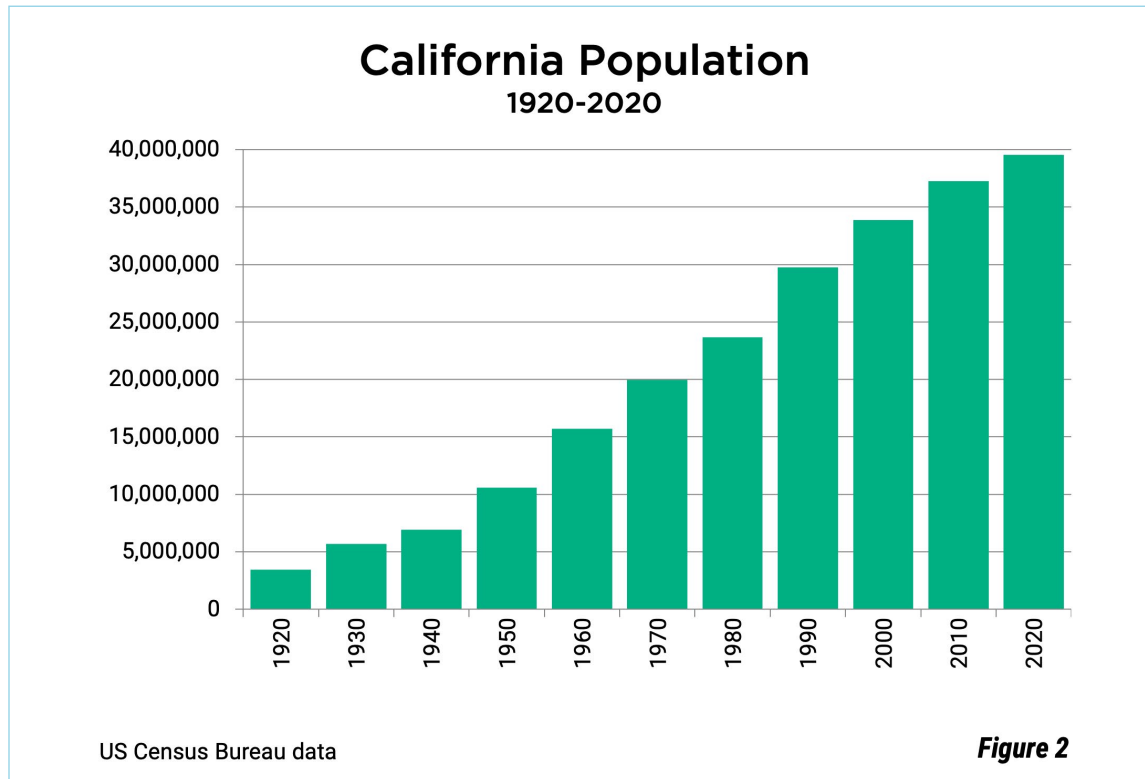
Throughout history, water and other constraints kept population densities relatively high in California—Los Angeles, San Francisco, and San Jose constitute the three densest major urban areas.<sup>6</sup> But the increased drive over the past two decades to favor densification has not resulted in lower housing costs. Examination of U.S. data, in fact, suggests a positive correlation between greater density and higher housing costs. Among 53 major metros, those with more single-family housing and larger lot sizes (key indicators of lower density) have substantially better housing affordability. In contrast, the density-first policies of California's key coastal metropolitan areas—San Diego, San Jose, San Francisco, and Los Angeles—have created the lowest levels of housing affordability.<sup>7</sup>

California makes it difficult to build single-family houses, the preference for which, in California and elsewhere, is “ubiquitous,” according to recent research by Jessica Trounstein at the University of California, Merced. “Across every demographic subgroup analyzed,” she observes, respondents preferred single-family home developments by a wide margin. Relative to single-family homes, apartments are viewed as “decreasing property values, increasing crime rates, lowering school quality, increasing traffic, and decreasing desirability.”<sup>8</sup>

A recent study by the real estate consultancy London Moeder found that in San Diego, for example, the majority of new dwelling units tend to be small one bedroom or studio apartments, built in part to follow state guidelines and serve a growing millennial population. Yet, as the study suggests, as millennials enter their 30s and 40s, demand shifts to larger houses that can accommodate married couples and families. Under the current regulatory regime, these domiciles are virtually impossible to build affordably.<sup>9</sup>

## A CLEAR POLICY FAILURE

The origins of California’s housing disaster lie in the state’s remarkable growth, which saw the population expand from 3 million in 1920 to 34 million in 2000. Many residents saw much of their natural environment rapidly bulldozed. This sparked the growth of the environmental movement to save the state’s natural areas, as witnessed by the famous Joni Mitchell lyric mourning that “they paved paradise and put up a parking lot.”<sup>10</sup>



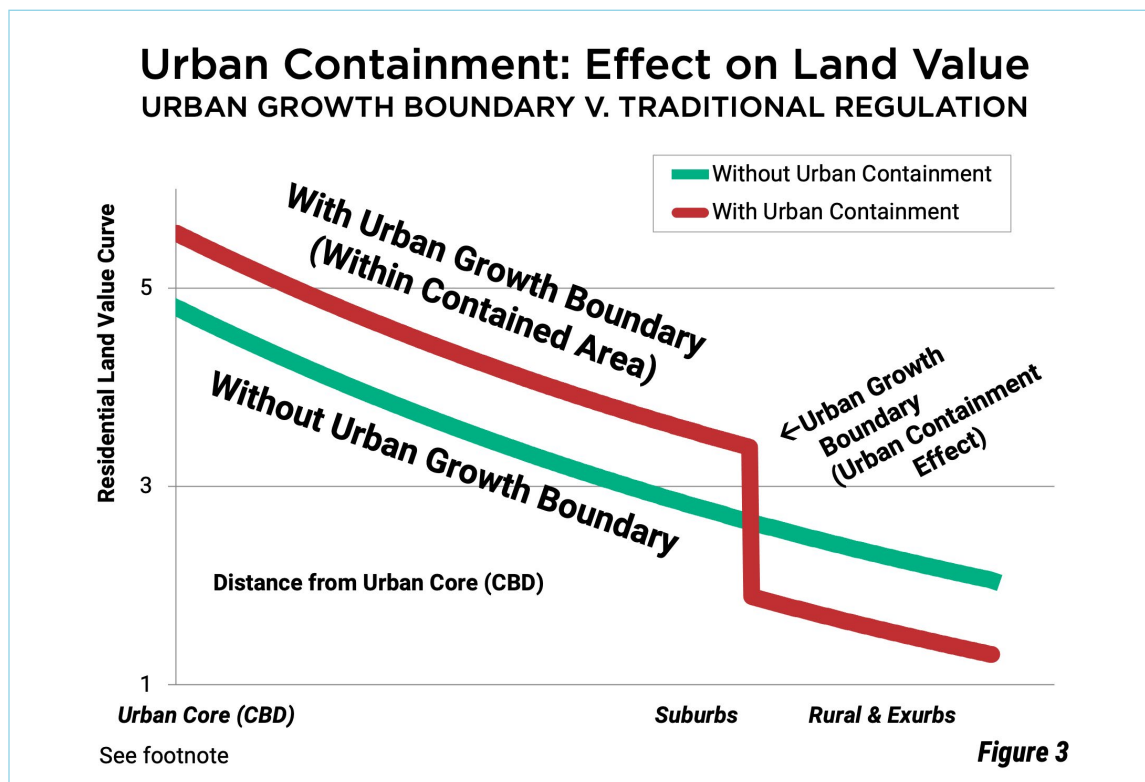
Horrified by the loss of open space near urban areas, California planners became obsessed by “urban sprawl,” which is the organic expansion of cities as populations and incomes increase. They launched concerted effort to drive people into “living smaller, living closer”—whether they liked it or not.<sup>11</sup> These ideas emerged first in the United Kingdom’s 1947 Town and Country Planning Act. In more recent decades, these policies have been adopted around the world, and become more draconian, seeking to densify existing communities while hindering, and even prohibiting, development on the periphery, where costs tend to be lower.<sup>12</sup>

The results have been uniformly disastrous. As early as the early 1970s, the legendary British planner Peter Hall,<sup>13</sup> and colleagues at University College, London, suggested that the “speculative value” of land with planning permission in the UK was five to 10 times that of land without planning permission. He also concluded that the failure to prevent housing affordability losses was “perhaps the biggest single failure” of urban containment in the UK.<sup>14</sup> (see sidebar: “How to Define Housing Affordability”)

In fact, urban containment (the “anti-sprawl agenda”) hurts California’s diverse population by severely limiting or prohibiting the development of low-density housing on the urban periphery

through restrictive mechanisms such as urban growth boundaries. These measures drive up the cost of land throughout the housing market, resulting in the exceedingly high median multiples (see sidebar) found in California, as well as in other countries that impose restrictive land use policies. International research has shown that land prices are skewed from eight to 20 times higher within urban containment areas<sup>15</sup> such as urban growth boundaries and greenbelts.

These policies, dating to the early seventies, may have been inspired by good motives, but as they have become increasingly draconian, particularly due to concerns with climate change, they have pushed housing costs ever higher.<sup>16</sup> Dartmouth economist William Fischel published an early seminal review<sup>17</sup> of housing affordability in California from the seventies to the nineties and concluded that stronger land use restrictions, including the California Environmental Quality Act (CEQA) and local growth management regulations, were the primary drivers of the state's extraordinarily rise in housing prices.<sup>18</sup>



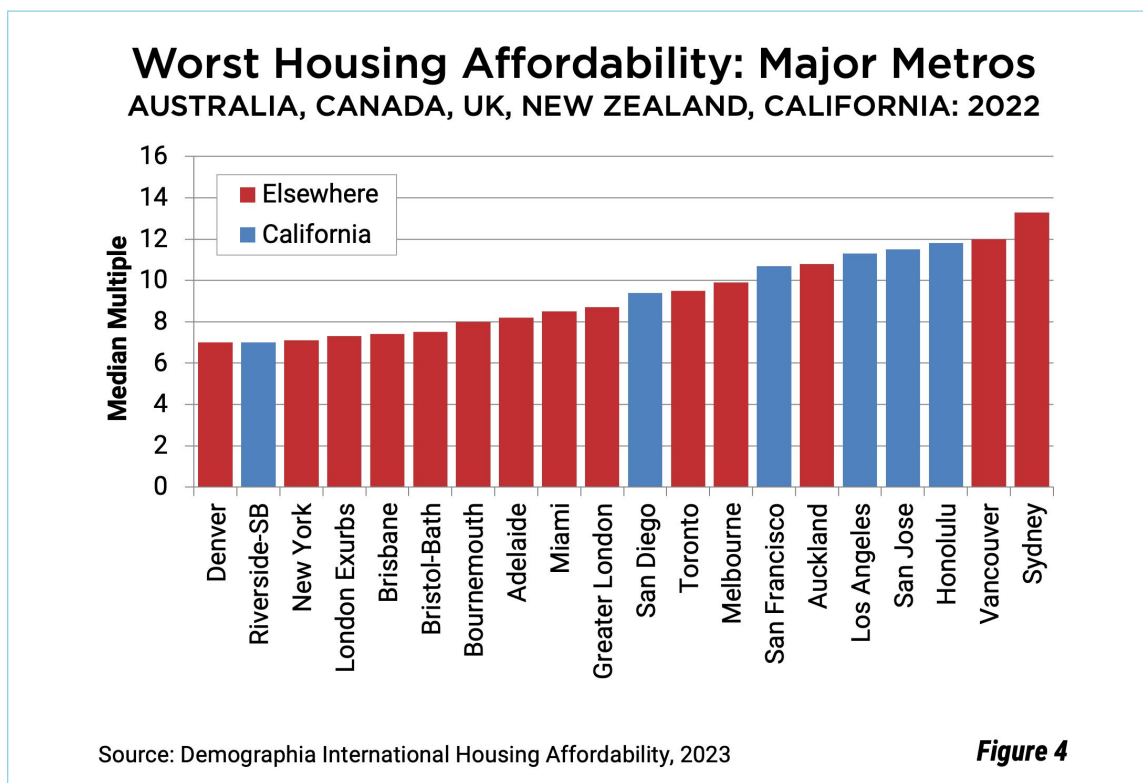
There is a deeply-held, albeit false, assumption that California has no developable open land, though there are 40,000 square miles of farming and grazing dryland across the state that could be the site for new homes, with little fire risk and far lower prices.<sup>19</sup> This is more than five times the total land area of urbanization in the state, according to the 2020 census.<sup>20</sup> Yet CEQA has become a major barrier to housing growth of all kinds across California, particularly effective at hindering or significantly delaying greenfield housing projects, including the blocking of a new 9,000 unit development in Riverside.<sup>21</sup> CEQA has also been cited in research by Jennifer Hernandez of Holland and Knight, who found that it was used to limit both single-family and multi-family development.<sup>22</sup>



## WHAT THE PLANNERS HAVE WROUGHT

Urban containment is primarily responsible for the state’s high housing costs.

Urban containment is primarily responsible for the state’s high housing costs, as illustrated by a national sample of markets without urban containment, compared to the six largest California metropolitan areas.<sup>23</sup> This pattern can be seen across the state. The 1970 census reported that, in 1969, housing was considered technically “affordable”—defined as less than 3.1 the median multiple (median house price divided by median gross household income)—throughout the United States,<sup>24</sup> including California and all of its major metropolitan areas—San Diego, Los Angeles, San Jose, San Francisco, Sacramento, Riverside-San Bernardino and Fresno.<sup>25</sup> By 2019, California’s major coastal markets were the least affordable in the world.<sup>26</sup>

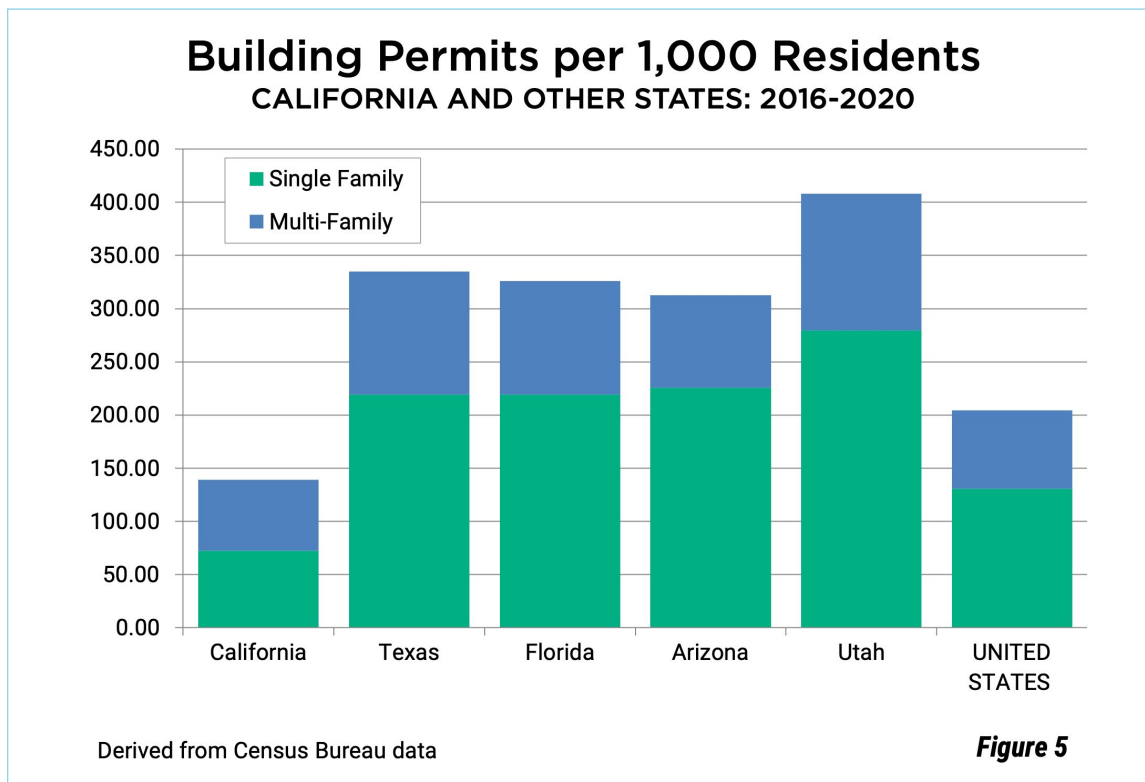


Housing has become increasingly unaffordable even in the state’s interior markets.<sup>27</sup> Overall, California house prices have doubled to quadrupled compared to household incomes since 1969. In 2019, the California Legislative Analyst’s Office reported that an average California home costs 2.5 times the national average, and the average monthly rent is about 50 percent higher.<sup>28</sup> The 2020 Economic Report of the President found “a house price premium resulting from excessive housing regulation” of 100 percent in the Los Angeles and San Diego metros, and

150 percent in the San Francisco Bay Area. This report revealed that the high prices drove rents up as well.<sup>29</sup>

The state’s policies have also hindered California’s overall production of housing. Densification, typically expressed as incentives for infill development, is often advertised as “the solution” to California’s housing crisis, but it is in many ways more a cause of failure than a solution. Particularly misplaced is the notion that new housing must be built near transit, even as transit use has declined markedly, a phenomenon that predated the pandemic, which further weakened it.<sup>30</sup> Furthermore, cars provide 30-minute access to 8 times as many jobs in metro San Francisco as does transit; the multiple is even wider elsewhere: 31 times in Los Angeles, 53 times in San Diego, and 88 times in Riverside-San Bernardino, which makes siting of housing near transit stations a strategy unlikely to increase transit ridership.<sup>31</sup>

According to the state, California needs an estimated 180,000 additional homes annually to keep up with population growth, and in 2017, as a candidate for governor, Gavin Newsom called for 3.5 million new homes to be built over the next seven years. Moreover, according to the Housing Crisis Act of 2019, “California has accumulated an unmet housing backlog of nearly 2,000,000 units.”<sup>32</sup> But as the regulatory vise has tightened and become ever more focused on urban density, California has consistently underperformed both the nation, and its prime competitors, in producing new housing. Los Angeles, for example, ranks near the bottom of all metros, but other big California metros don’t do much better.<sup>33</sup> Throughout recent decades, it has been far easier to build in states like Texas, Florida, Nevada, Arizona, and North Carolina than in California. The money that could help house California has headed elsewhere.



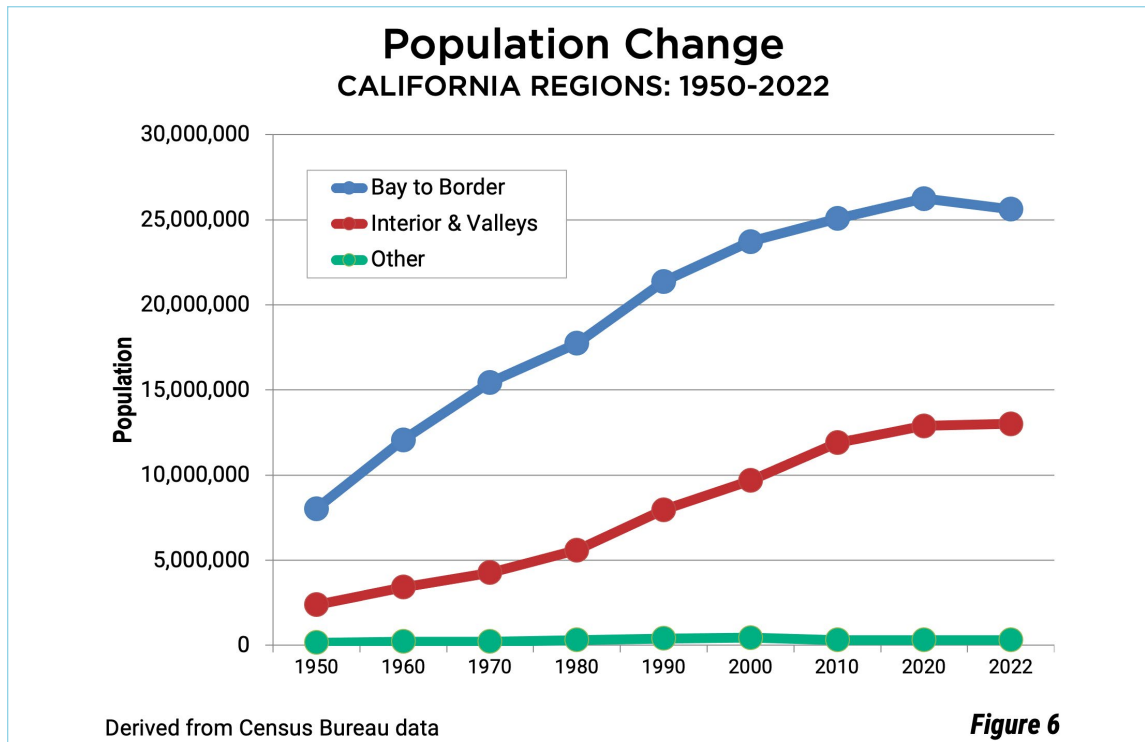
## THE DEMOGRAPHIC EVIDENCE

Urban-centric policies seem oddly tone-deaf when even the ultimate cheerleader for American urbanism, *The New York Times*, admits “the era of urban supremacy is over.”<sup>34</sup>

The rise of online work has amplified the appeal of suburbs, exurbs, and small towns. Nearly half of all Silicon Valley jobs, notes the University of Chicago, could be done remotely.<sup>35</sup>

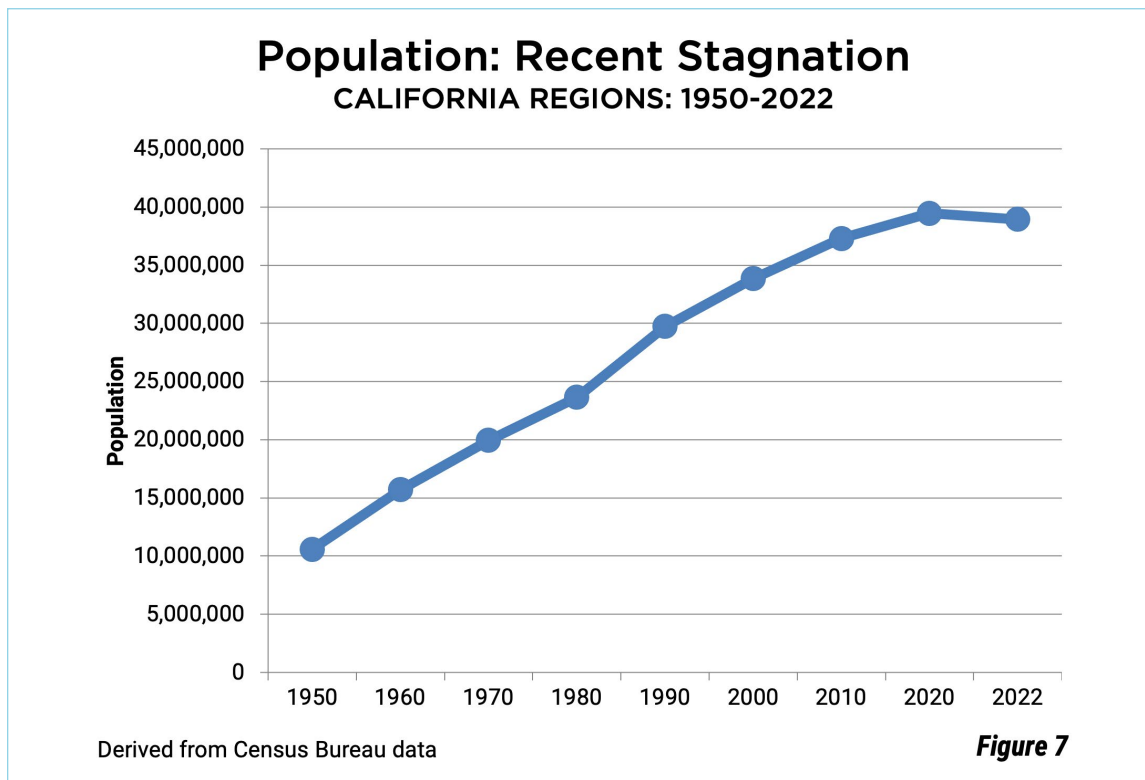
Densification and the promotion of mass transit seem oddly misplaced when California’s urban cores are losing population. After years of promoting its downtown, the Los Angeles central core has steadily shrunk.<sup>36</sup> The state’s strongest business district, downtown San Francisco, has been devastated by work-from-home and the unchecked spread of open drug use and associated criminality. Vacancies in San Francisco are at a record high.<sup>37</sup>

The disconnect becomes obvious if one examines California’s own demographic shifts.<sup>38</sup> California’s growth has long been defined by outward expansion, and for decades most demand was met in suburban communities dominated by single family houses. But as prices began to rise dramatically, the coastal communities became denser, while growth shifted to the more affordable, less dense interior.<sup>39</sup> In 1970, 79.8 percent of the state’s population lived in coastal counties; today it is barely 57 percent. The Interior and Valleys now include three of the state’s seven major metropolitan areas: Riverside-San Bernardino (now the second largest in the state, having recently surpassed San Francisco), Sacramento, and Fresno.



Since the dawn of the new century, the inland geographies, predominately suburban or exurban in form,<sup>40</sup> have accounted for most of the state’s population growth (62.3 percent). The growth of these areas confirms the appeal of single-family housing to most Californians. The interior areas have a much higher percentage of single-family housing (detached and ground-oriented attached<sup>41</sup>) than the coastal metropolitan areas. The housing stock of the three inland major metros is at least 69.5 percent single family housing, while the four major coastal metros are 63 percent or less.

California policy largely ignores these trends. In the first two years of the current decade, the Interior and Valleys grew by 120,000 residents, while coastal areas lost 621,000 residents, more than the state’s loss of 509,000 during this period. Figure 3 illustrates these numbers on an annualized basis. According to this trend, by 2048, Riverside County will have 3 million residents, up from 2.5 million in 2022. San Bernardino County is expected to have 2.6 million residents in 2048, up from 2.2 million today. It is in these regions where the future of California housing, and the ultimate future of the state, lies.<sup>42</sup>



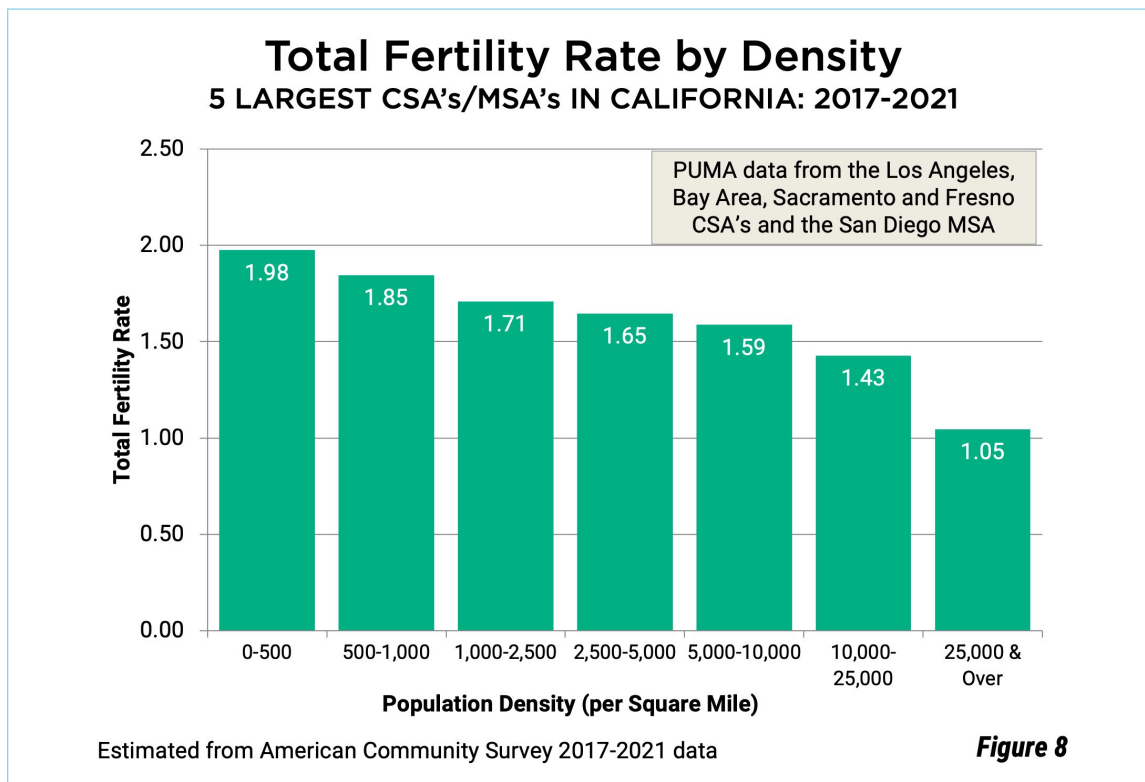
## THE FAMILY FACTOR

The inland areas also remain the last vestige of family growth in the state, reflecting an emerging demographic crisis afflicting higher-income nations across the world.<sup>43</sup> A growing body of research indicates a strong association between housing prices and the declining fertility rates that affect so many nations.<sup>44</sup> This pattern of demographic decline has spread to historically fecund Australia, New Zealand, Canada, and the United States. During the pandemic year of 2020, deaths rose nearly to the level of births.<sup>45</sup> Today, all these countries are operating well below replacement rates.<sup>46</sup>



U.S. population growth fell to 0.5 percent in 2019, which is the lowest at least since 1900, and according to the St. Louis Federal Reserve, possibly the lowest rate since the founding of the nation. It has been estimated that the total fertility rate in the United States during the first half of the nineteenth century was higher than 7.0 and dropped to approximately 3.5 by 1900. It was over 2.0 as late as 2009, but is now well below the replacement rate.<sup>47</sup>

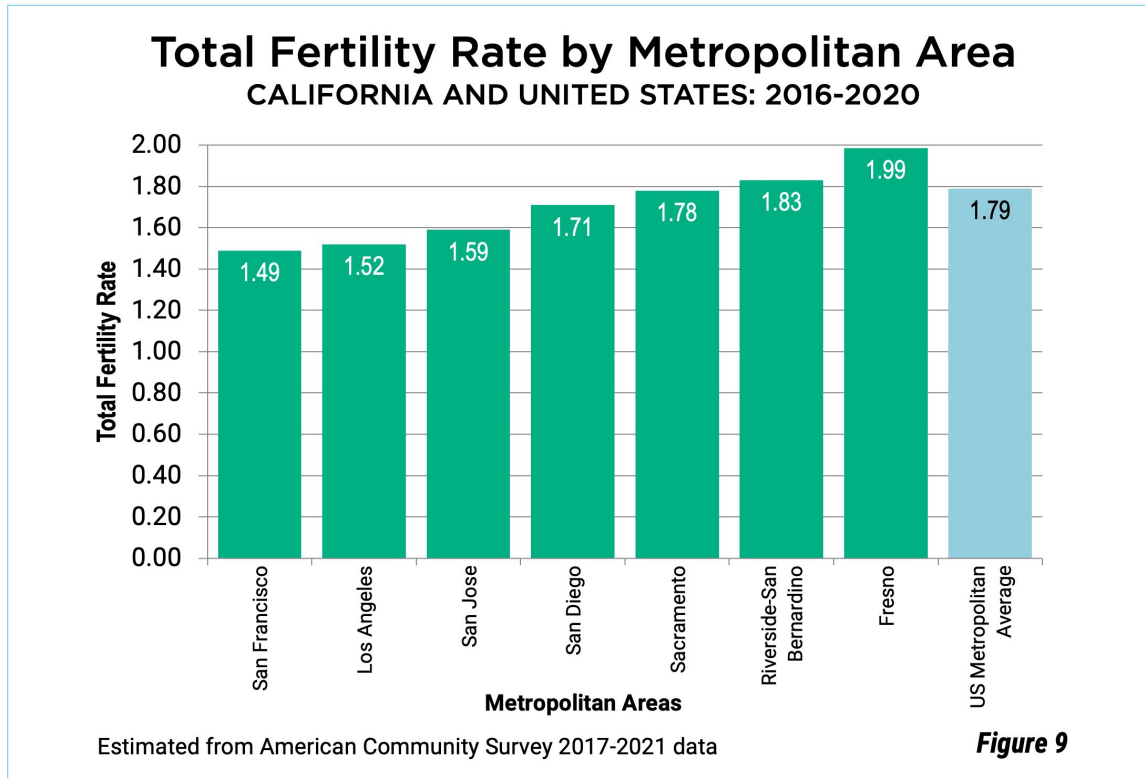
California’s densification efforts work at cross purposes with slowing down this demographic low tide. Researchers at Kingston University (UK), Arizona State University, the University of California at Irvine, and Waterloo University (Canada) assert that, “across 174 countries over 69 years, we found robust association between higher population density and lower fertility rates. As population density increased, fertility decreased, both within and between countries.”<sup>48</sup> The 25 best places for raising kids, notes a recent Fortune survey, are generally exurbs and suburbs,<sup>49</sup> where homeownership is the norm.



Planners sometimes suggest that suburban homes were built around “a stereotypical household” that is fading from existence, particularly among the young.<sup>50</sup> Yet the overwhelming evidence remains that most younger people still seek to start families, and as they do they head towards suburban and exurban communities, and even small towns.<sup>51</sup> Over the last decade there has been an unprecedented increase in migration to smaller metropolitan areas from major metropolitan areas.<sup>52</sup>

Research in Germany<sup>53</sup> and across 18 European and North American nations found that high housing prices defer family formation, which leads to lower fertility rates.<sup>54</sup> The relationship between higher density housing and lower total fertility rate is also evident in California. Using

Census Bureau PUMA geographies,<sup>55</sup> which allow analysis between similarly sized districts, a strong relationship is demonstrated between higher population densities and lower total fertility rates, even in the largest cities. Figure 9 indicates that the lowest total fertility rates are in the areas with the highest population densities<sup>56</sup> in the Los Angeles, San Francisco Bay Area, Sacramento, and Fresno combined statistical areas (CSAs) and the San Diego MSA.<sup>57</sup>



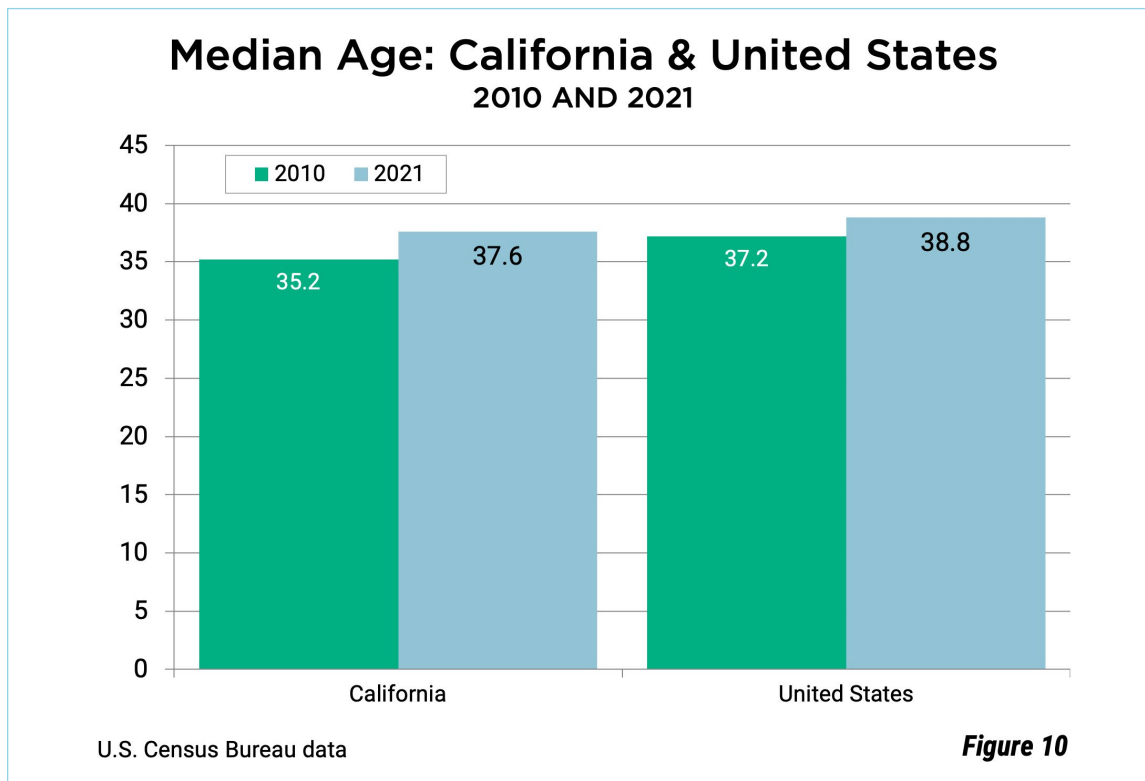
For younger people in the family-formation years, settling in the inland areas may remain their last alternative to leaving California entirely, given the relatively lower home prices in the region. Since 2000, the state has lost 3.5 million net domestic migrants to other states, which is equal to 8.9 percent of California’s 2022 population. The largest losses have occurred in markets with the most severe housing unaffordability. This may well be one reason why the state’s population has slowed and even declined, and may continue to do so in the future.<sup>58</sup> Renters are also affected, and most California evacuees choose to go to states—Texas, Florida, Nevada, and Arizona—where costs are lower and regulations generally less stringent.<sup>59</sup>



Easton Park Construction, Austin TX  
CC 4.0 License

Keeping families in California is critical to the state’s economy and workforce. Yet the state has seen its fertility rate sink to ninth lowest in the nation in 2020, at 1.52, below the national rate of 1.64 in 2020.<sup>60</sup> With its falling birthrate and rising net outmigration, California, the birthplace and

global center of youth culture, is now nearly as old as the rest of the country, but aging 50 per cent faster than the national norm.<sup>61</sup> Los Angeles has suffered the biggest loss of young people in the nation, hemorrhaging 750,000 people under 25 since 2000. From 2001 to 2021, the population of Californians older than 65 grew by over half a million (59 percent) while the population under age 25 shrank by nearly three-quarters of a million (-19 percent). Those 750,000 people would have joined the prime-age workforce over the next 25 years but are now lost to other states where land-use policies encourage growth and development.<sup>62</sup>



Unless housing policy changes, California will be left with a much older and smaller population than previously expected. As late as 2007, the Department of Finance was projecting a 2050 population of 60 million. The most recent projections call for 44.2 million residents by 2060—almost 16 million fewer residents, and 10 years later.

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## HOUSING AND UPWARD MOBILITY

The YIMBY (Yes in My Backyard) movement—the shock troops for densification—represents a well-funded combination of real estate developers, tech leaders, urban enthusiasts, and free market advocates. Some, despite their libertarian perspective, seem fine with draconian market restrictions on the urban periphery.<sup>63</sup> YIMBYs blame the state’s housing crisis largely on middle- and working-class homeowners, many of whom selected lower-density neighborhoods for access to nature, privacy, public safety, and good schools. Sometimes locals may oppose reasonable projects but they often feel they and their families should not have to be forced to abandon their way of life. Certainly densification of some neighborhoods could take place gradually, perhaps with small accessory units, but there are far larger, and less disruptive, alternatives for development given the growing redundancies in office and retail properties.<sup>64</sup>

Given the high costs associated with dense urban housing, the chief beneficiaries of state policy have been large financial institutions and other investors who, as one writer put it, serve largely as “scarcity profiteers,” winners in a world where people without sufficient money remain permanent renters.<sup>65</sup> This reflects a global trend, as property ownership has tended to concentrate in fewer hands, something that has accelerated growing inequality by raising prices to unaffordable levels.<sup>66</sup> According to the Organization for Economic Cooperation and Development (OECD), “the middle class faces ever rising costs relative to incomes and its very survival is threatened.” This is at least partly because “the cost of essential parts of the middle-class lifestyle has increased faster than inflation.” The principal driver of this crisis of unaffordability has been the cost of owned housing.<sup>67</sup>

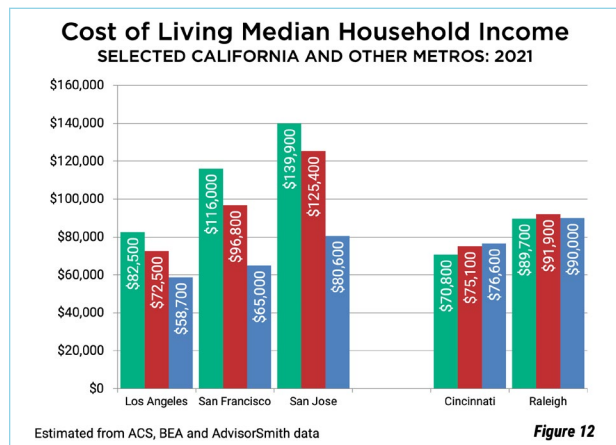
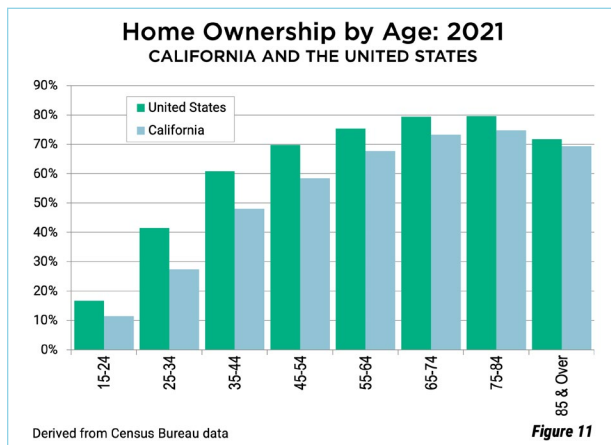
### More than 90 percent of the excess cost of living in California’s seven major metropolitan areas was due to housing costs in 2021.

California is ground zero of this phenomenon. More than 90 percent of the excess cost of living in California’s seven major metropolitan areas was due to housing costs in 2021.<sup>68</sup> This has helped create a high level of geographic and income inequality. According to the Legislative Analyst’s Office, 20 percent of state wealth is held within 30 zip codes that account for just 2 percent of the state’s population. At the other end of the inequality spectrum less than 33 percent of state wealth is held within 1,350 zip codes that house 75 percent of Californians. Not surprisingly, since the seventies, California middle-class incomes, once crescent, have stagnated.<sup>69</sup>

For many even somewhat affluent families, home ownership is largely out of reach. According to one recent study, the median family in San Jose or San Francisco would need 125 years (150 in Los Angeles) to save enough money to make a down payment on a home; in Atlanta or Houston the figure is 12 years.<sup>70</sup> The pain is particularly bad for the young and for blue-collar workers. According to a recent study by economist John Husing, not one unionized construction worker can afford a median priced home in any coastal California county.<sup>71</sup> Further, home ownership



tends to be lower among younger households than older, which is a consequence of the fact that housing was more affordable in previous decades. (Figure 11, below)



High housing costs even undermine the aspirations of those making apparently high incomes. Without adjusting for the cost of living, metro San Francisco had a median household income of \$116,000, according to the American Community Survey. But when the costs of living, using the U.S. Department of Commerce Bureau of Economic Analysis (BEA) regional price parities, are factored in, real income falls to \$96,800; alternative estimates are much lower, pegging real income at closer to \$65,000.<sup>72</sup> This pattern can be seen as well in metro San Jose, where the nominal median household income is \$139,900, the BEA real income is \$125,400, or according to alternative estimates, \$80,600. In metro Los Angeles, the nominal median household income is \$82,500, which is adjusted to \$72,500, and \$58,700, respectively.<sup>73</sup>

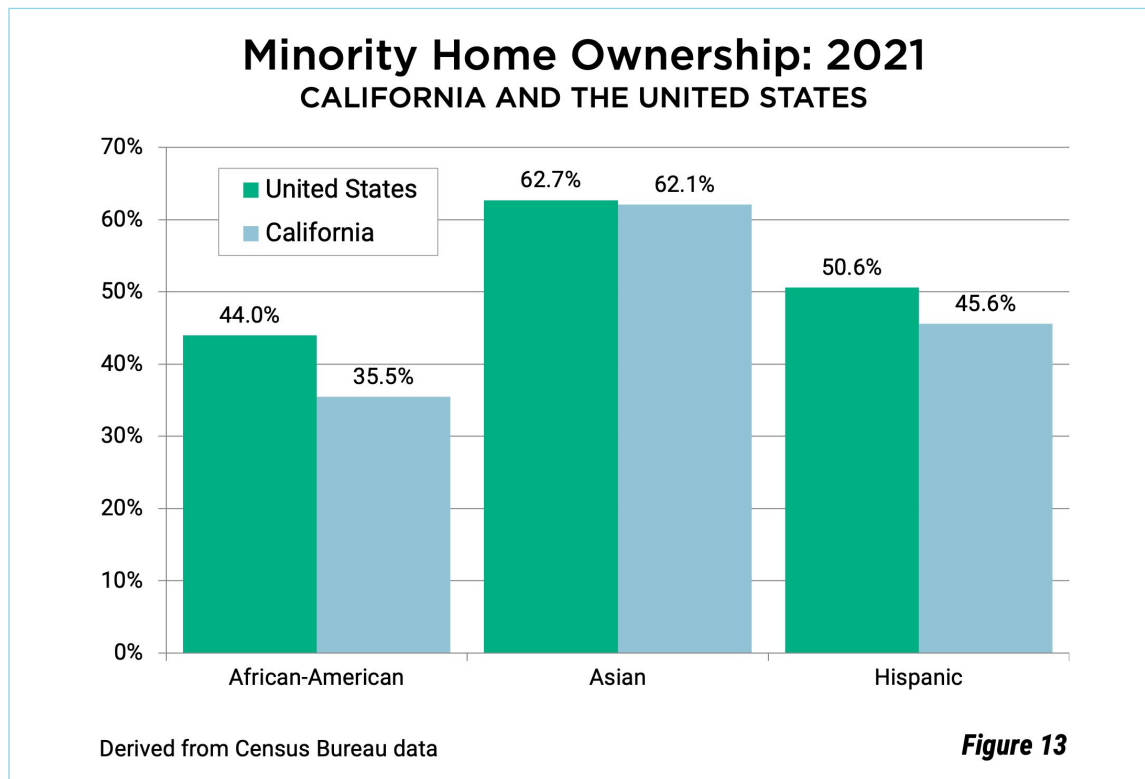
Metro areas like Cincinnati or Raleigh have no urban containment regulations. In metro Cincinnati, the nominal median household income is \$70,800, which is adjusted by the BEA upward to \$75,100. In metro Raleigh, the nominal median household income is \$89,700, which is adjusted upward to \$90,000 by the BEA. In the end, real income is lower in California than in many metropolitan areas (Figure 12, above).

## IMPACT ON CALIFORNIA'S DIVERSE POPULATION

High housing prices and rents undermine living standards in poorer households, which are disproportionately comprised of economically disadvantaged minorities, particularly African Americans and Latinos. Rents are strongly associated with house values, with a 0.90 correlation between median house values and median gross rents across all 384 metro areas in the U.S.<sup>74</sup> This is further evidence to confirm that rents are driven by house prices, as concluded in the Economic Report of the President (above, p. 6).

California ranks 49 out of the 50 states in home ownership, at 55.9 percent.

This is particularly burdensome for disadvantaged minorities. For example, home ownership is 45 percent lower among Hispanics than non-Hispanic whites; among African Americans, homeownership is 65 percent lower. Homeownership is widely considered the route to the middle class and is the primary source of most Americans' wealth as they age.<sup>75</sup> Yet according to the latest ACS data (2021), California ranks 49 out of the 50 states in home ownership, at 55.9 percent, slightly above lowest-ranked New York, at 55.4 percent. Homeownership rates for disadvantaged minorities in California are far lower than in other states, and the comparisons are even larger when we compare the major metropolitan areas with key competitive regions.<sup>76</sup>



In the United States, planners also characterized the movement to the suburbs as “white flight,” yet it was not to be long before minority incomes were sufficient to permit their moving to the suburbs, too. Today, more than three-quarters of all African Americans, Hispanics, and Asians in major metropolitan areas in the United States live in the suburbs.<sup>77</sup>

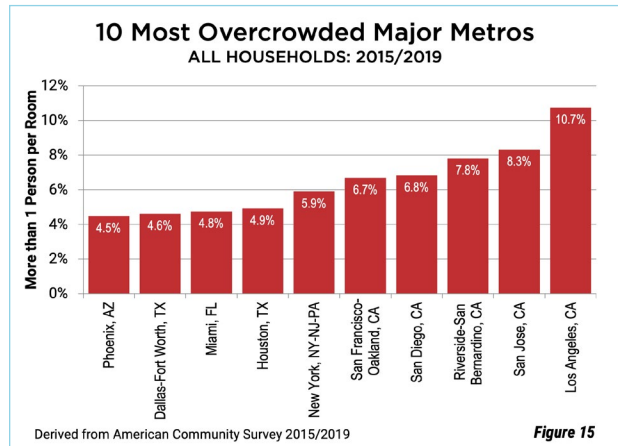
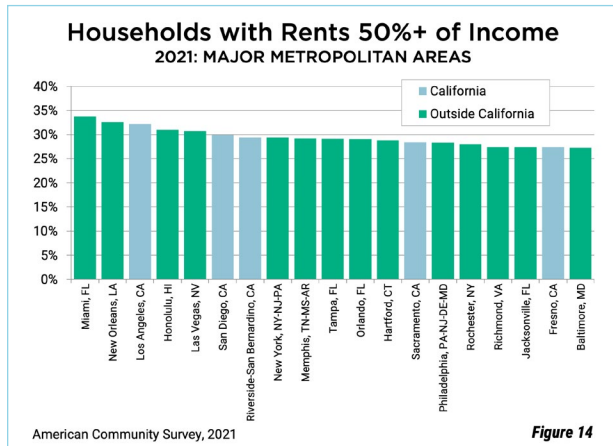
The state’s African American home ownership rate is 35.5 percent, well below the national rate of 44.0 percent. Only Riverside-San Bernardino, among the major metropolitan areas, is above the national rate, at 47.7 percent. The other six major metropolitan areas in California have an African American home ownership rate under 35 percent, with the lowest rates in San Diego (28.7 percent) and San Jose (25.7 percent).<sup>78</sup> The California Housing Finance Agency reports that the African American home ownership rate has plummeted since reaching its high of 51.0 percent in 2004. The present home ownership rate is nearly one third lower than it was almost 20 years ago.<sup>79</sup>

The California Hispanic home ownership rate is closer to the national Hispanic rate, at 45.6 percent, compared to 50.6 percent. The highest Hispanic home ownership rate is in Riverside-San

Bernardino (59.3 percent), higher than the state rate for all households (55.9 percent). Sacramento (52.2 percent) also has a Hispanic home ownership rate higher than the nation.

For most minorities, California’s housing prices hit hardest in the form of rent. Five of California’s seven major metropolitan areas rank among the 20 with the most severe rent burdens (defined as paying more than 50 percent of their income on housing.)

All of California’s major metropolitan areas except San Jose have significant rates of rental burden, with the proportion of tenants paying 30 percent or more of their incomes on rents ranging from 50.2 percent in San Francisco to 58.3 percent in Los Angeles.<sup>80</sup> (Figure 14, below)



Disadvantaged minorities also suffer from overcrowding, a natural consequence of high housing prices and rents.<sup>81</sup> Pre-pandemic data indicated that California had the five most overcrowded major metropolitan areas (over one million population) among the top 53 areas nationwide. These include Los Angeles, with by far the highest rate, followed by San Jose, Riverside-San Bernardino, San Diego, and San Francisco. (Figure 15, above) This includes all of the four major coastal metropolitan areas, and one of the two major interior metropolitan areas. Sacramento, not in the most overcrowded 10, ranked 12th worst.

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## A NEW APPROACH?

California's housing policy is failing its people. Most Californians know this, and it is a primary reason for the state's mounting out-migration.<sup>82</sup> The urban-centric policies, a priority among planners but not most residents, are doing little, if anything, to reverse the cities' slide into the "urban doom loop," which NYU researchers suggest includes the impact of declining central business districts, which could seriously limit the ability of municipalities to sustain public services.<sup>83</sup> Most people are not enthusiastic about densification, either. Three out of four Californians, according to a poll by former Obama campaign pollster David Binder, opposed legislation that banned single family zoning.<sup>84</sup>

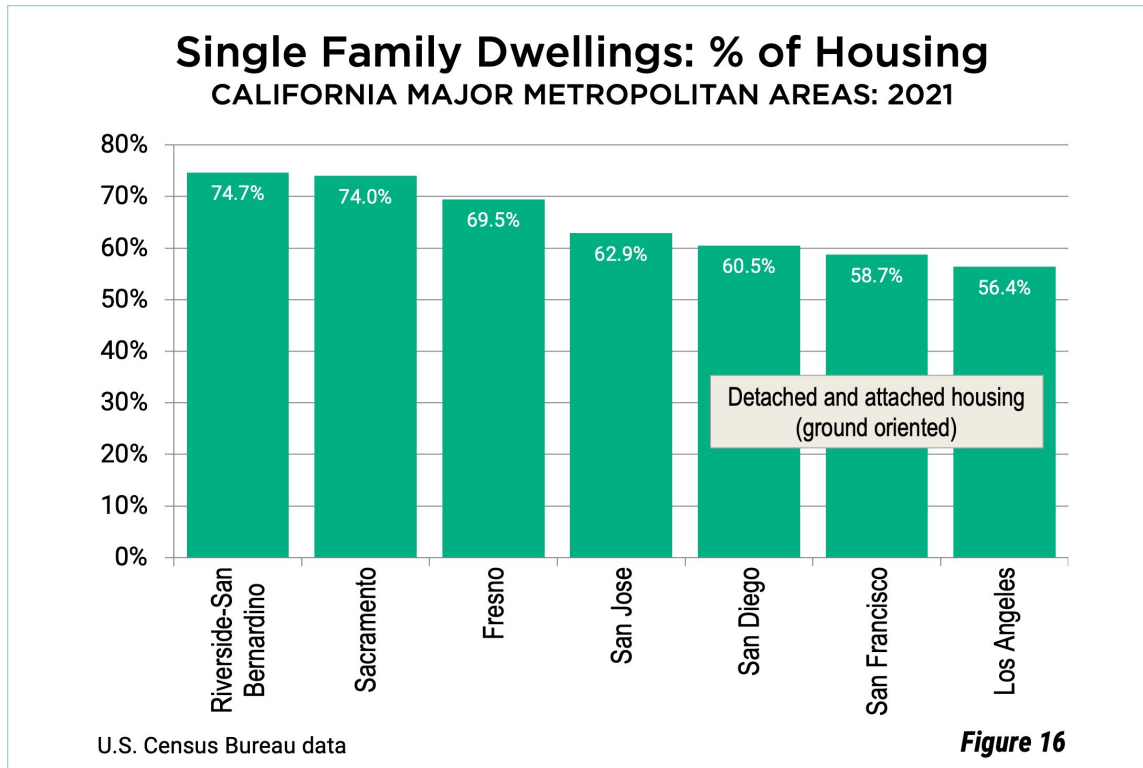
“It is doubtful that the state government can solve the housing problem on its own...

It is doubtful that the state government can solve the housing problem on its own, particularly in view of the current deficit. California cannot possibly take on the financial responsibility for housing much of its population. Even in flush times, state and local funding has never allocated the funds needed to pay for affordable housing for those requiring subsidies and the homeless.<sup>85</sup> Households seeking housing subsidies must wait for years, assuming that they can even get their names on a waiting list. For example, all five such waiting lists are closed in the city of San Francisco.<sup>86</sup>

Due largely to housing costs, African American and Latino incomes, adjusted for cost of living, mostly driven by housing, are far lower in California's main metro areas than in most metros, particularly in Texas, the Southeast, and even parts of the Midwest.<sup>87</sup> In short, for all the attention low-income housing receives in the state's political discourse, the California Housing Partnership says that the state is funding only 20 percent of what is needed to meet its affordable housing goals.<sup>88</sup>

A more practical approach would be to remove the barriers that make it so onerous to construct the single family and moderate density townhouses that would meet existing market needs. The notion that our urban centers, already dense and under enormous strain, can accommodate large demographic growth is patently absurd, given the demographic evidence. One clear alternative would be to reduce regulations in those parts of the state—notably the Inland Empire and the Central Valley—where land costs are lower and to which people are already moving and where most housing continues to be single family.





To meet this demand, we propose the development of a Housing Opportunity Area (HOA) where strictures against peripheral development would be loosened to accommodate the aspirations of the state’s younger, and largely minority, population. (See sidebar: “Proposal: A Housing Opportunity Area (HOA)”) This also fits with the emerging economic reality that the overwhelming majority of employment in California metropolitan areas, and elsewhere, is located in suburbs, not in CBDs.<sup>89</sup>

This does not have to be a trade-off between the environment and human needs. California knows how to build more sustainable communities, as we can see in places like Irvine, which has a high percentage of people working at home or nearby, lots of open space, and excellent schools. Irvine, as well as communities like Valencia and similar communities elsewhere, are all thriving and attracting many younger professionals.<sup>90</sup>

At the same time, advances in technology, such as innovative materials and sophisticated systems for controlling energy and water use, could make suburban and exurban communities ever more environmentally sustainable, as demonstrated by MIT professor Alan Berger. Well-planned new developments could reduce greenhouse gases by using rooftop solar systems, electric cars, and, eventually, autonomous taxis. And with their ample open space, these areas are ideal for enhancing biodiversity through thriving populations of insects, birds, and small mammals.<sup>91</sup>



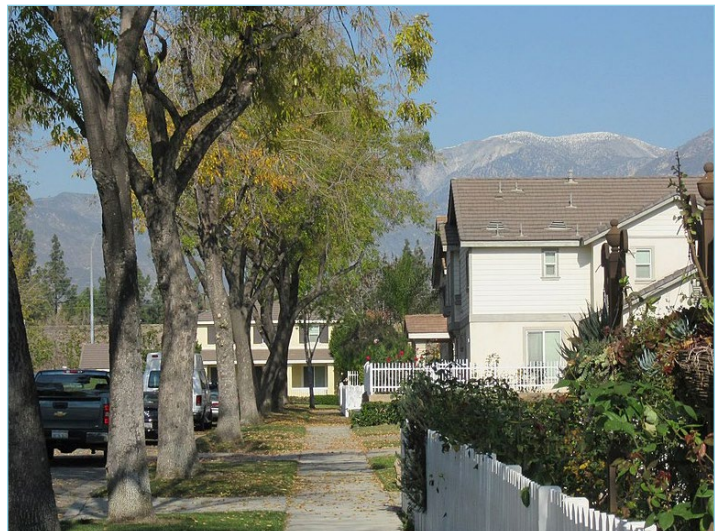
The International Energy Agency suggests that if everybody able to work from home worldwide were to do so for just one day each week, it would save around 1 percent of global oil consumption for road passenger transport per year, an annual decline of 24 million tons— equivalent to the bulk of Greater London’s annual CO2 emissions.

Options such as remote work, already a significant factor, deserve greater emphasis. From an environmental standpoint, even density advocates admit densification can have only a slight impact on emissions.<sup>92</sup> On the other hand, the International Energy Agency suggests that if everybody able to work from home worldwide were to do so for just one day each week, it would save around 1 percent of global oil consumption for road passenger transport per year, an annual decline of 24 million tons— equivalent to the bulk of Greater London’s annual CO2 emissions.<sup>93</sup>

We should be encouraging, not hampering, the building of such new communities. This cannot be done within the footprint of most existing large cities due to lack of land, building regulations, and local political pressure. It requires increasing the urban footprint, and freedom for developers to employ new technologies, including prefabricated housing. The growth of dispersed work is an opportunity to build new, more economically and environmentally sustainable communities.

The potential for new development can be seen at Ontario Ranch, on 8,200 acres in Ontario, California, now among the fastest growing planned communities in the nation.<sup>94</sup> Its roughly 2,000 townhouses and single family houses largely house young families, millennials, and minorities—the same demographic groups leaving the state for more affordable housing and a lower cost of living elsewhere. Single family home prices in Ontario Ranch are as low as the mid-\$500,000s, which is high by national standards, but lower than median prices in Los Angeles or Orange Counties.<sup>95</sup>

To appeal to buyers who work at home, the development has installed digital telecommunications infrastructure offering up to 1,000 megabits per second. It also offers the use of drone delivery systems to deliver packages, e-scooters, and even robot carriers to help people lug groceries back home without needing a car.

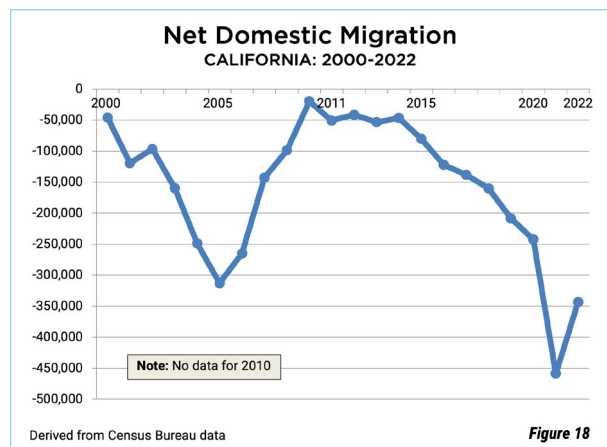
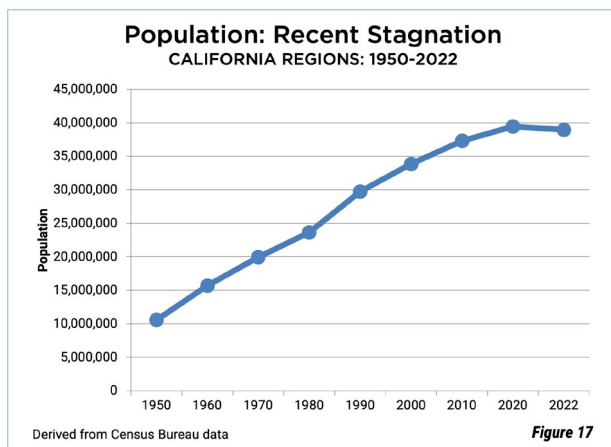


*Ontario, California is a more affordable housing market than Los Angeles or Orange County*

## REIGNITING THE CALIFORNIA DREAM

Even the most enlightened development will, of course, face regulatory hurdles and challenges. But making it possible for families to live and work outside the most expensive urban areas could hold the key to providing upward mobility to the new generation of Californians. That goal is still attainable, but it will take a greater understanding of how suburban and even exurban developments can help meet not only the state’s economic, but also environmental goals.

California’s appeal has long been associated with the notion of access to space, outdoor living, and relatively high levels of mobility. This promise has closed dramatically in recent decades, leaving much of the new generation with little hope of achieving homeownership or even a decent and affordable rental. If this situation is not reversed, California will continue to see outmigration of the next generation, declining foreign immigration, and an increasingly stressed labor market.



Our state should not seek to extinguish the aspirations of its own people. We are increasingly no longer the California that lured millions from the rest of the country, and the world, to our state. Keeping people in apartments, never allowing them to gain the critical asset of homeownership, will do little for the planet, forcing people to drive in crowded communities or to move to Arizona, Nevada, or Texas, where their carbon footprint will increase net GHGs rather than eliminating climate gains. Densification, it turns out, is not necessarily as planet friendly as advocates suggest.<sup>96</sup>

Our future cannot be served by impoverishing our people. In the past California has succeeded because it found new ways to deliver critical goods --- like water and power --- to its people, while building new communities that can house families. This has been the story of California, and its ascendancy, from the beginning. What we need now is to open a new chapter that revives the sense of hope and aspiration that has powered the state throughout its remarkable ascendancy.

# HOW TO DEFINE HOUSING AFFORDABILITY

Housing affordability is more than house prices—it is house prices in relation to income. Price-to-income ratios are widely used, such as by the World Bank,<sup>97</sup> the Organization for International Cooperation and Development, and others to measure housing affordability.

One price-to-income ratio is the “median multiple,” a price-to-income ratio (median house price divided by the pre-tax median household income).<sup>98</sup> This is a measure of middle income housing affordability.<sup>99</sup> *Demographia’s* widely used housing affordability ratings are shown below (Table 1).

<b>Table 1 DEMOGRAPHIA HOUSING AFFORDABILITY RATINGS</b>	
<b>Housing Affordability Rating</b>	<b>Median Multiple</b>
Affordable	3.0 & Under
Moderately Unaffordable	3.1 to 4.0
Seriously Unaffordable	4.1 to 5.0
Severely Unaffordable	5.1 & Over
Median multiple: Median house price divided by median household income	

## PROPOSAL: A HOUSING OPPORTUNITY AREA (HOA)

The extent of the housing affordability crisis in California’s coastal metropolitan areas has led to significant net out-migration. Furthermore, coastal metropolitan areas have lost substantial commercial enterprises to other states, according to Hoover Institution research.<sup>100</sup> In general, the interior areas, notably Sacramento, the San Joaquin Valley, and the Inland Empire (Riverside-San Bernardino metropolitan area), have enjoyed more rapid economic recoveries, in part due to the migration of people to these areas from the California coast.<sup>101</sup> Given its less costly markets, one solution to California’s housing crisis could be designation of the Interior<sup>102</sup> as a “Housing Opportunity Area” (HOA) under state law.<sup>103</sup>

The Housing Opportunity Area should be exempt from regulations, laws, and restrictions that impose urban containment (such as Senate Bill 375), as well as select provisions of the California Environmental Quality Act.<sup>104</sup> The HOA would comprise Interior California, defined as all counties principally to the east of the Coast Range crest and to the west of the Sierra/Cascade Ranges crest from Shasta County south to Kern County, as well as San Bernardino, Riverside, and Imperial counties, and the portion of Los Angeles County north and east of the Tehachapi and San Gabriel Mountains crest (Figure 19). This also includes the Antelope Valley portion of Los Angeles County.<sup>105</sup>

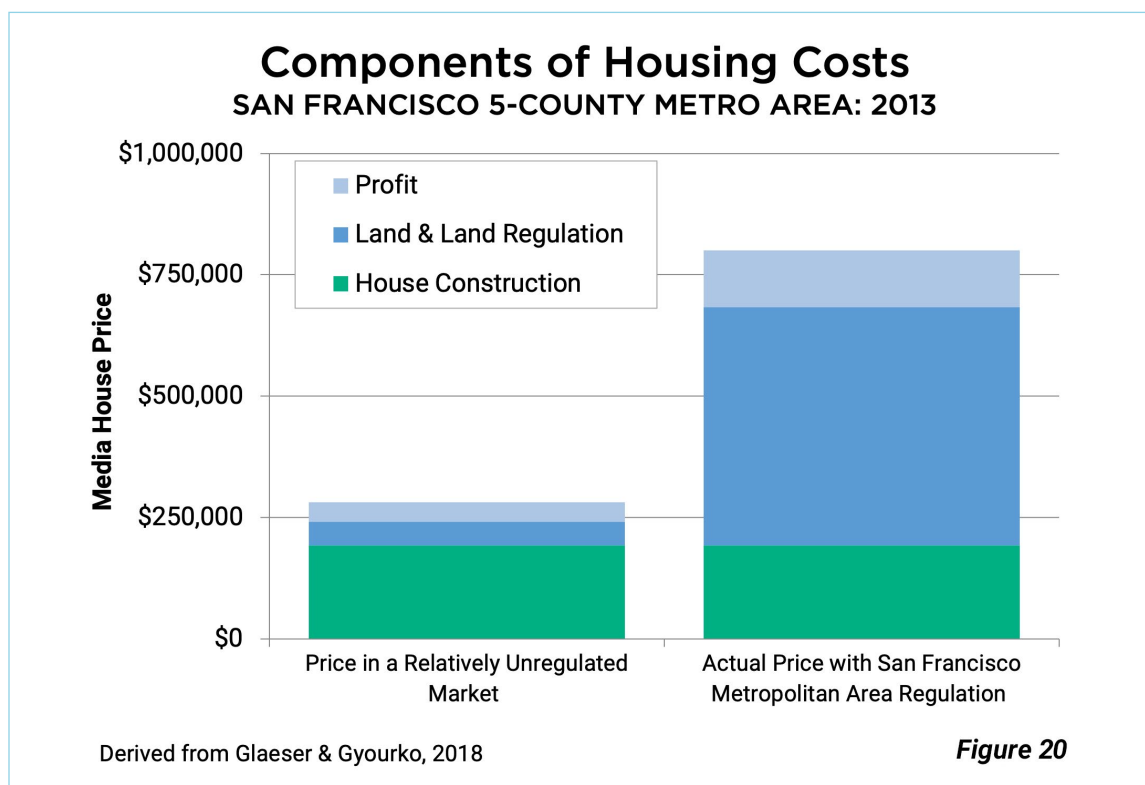


Land-use regulation in the HOA would be liberalized.<sup>106</sup> The HOA would be exempt from urban containment and other post-1970 regulations associated with undermining the competitive market for land. Authorization would be virtually automatic for developments of, as an example,



at least 50 houses or apartments to be served by public or private infrastructure. Location adjacent to existing development *would not* be required. Reasonable detached housing maximum lot sizes would be allowed (consistent with California’s historic small lot sizes).<sup>107</sup> This type of development would be particularly appropriate given the current shift to remote working.

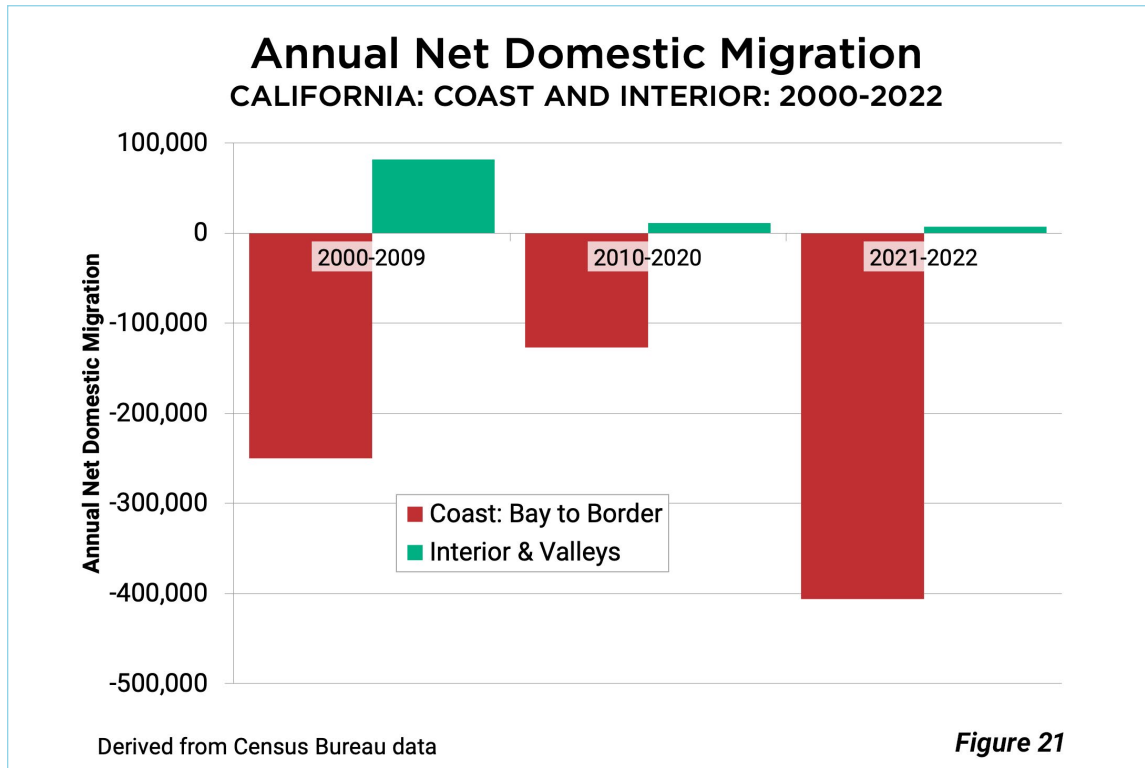
Building on cheaper land is the key, as land costs are what makes construction in places like San Francisco so expensive. With broader availability of land for house construction, a competitive market for land would be restored. This could be expected to eliminate the housing shortage and prevent further deterioration in housing affordability. The HOA would open an opportunity for middle-income households to achieve the California Dream of home ownership, rather than leave California in search of affordable housing. Moreover, the stronger economic and housing affordability in the interior could unleash competitive pressures on the coastal markets that could influence better housing affordability in these tight markets.



The HOA would be transformational as it targets areas that have been growing and lessens pressures on those that are stagnating or even losing population.

The HOA would be transformational as it targets areas that have been growing and lessens pressures on those that are stagnating or even losing population. These are areas of high affordability to which young families, disadvantaged minorities, and immigrants have already been moving. Major metropolitan areas in the Interior have the largest Hispanic populations in the

state: Fresno is highest, at 54.7%, followed by Riverside-San Bernardino at 53.6% The Interior’s other major metropolitan area, Sacramento, ranks 17th at 22.7%.<sup>108</sup> Regrettably, net domestic migration to the Interior stalled over the last decade, as the Interior became more expensive. The key to making the Interior (and California) more affordable lies in taking action to facilitate development of housing that is substantially more affordable than the existing stock.



Our proposal is designed to provide opportunities for ownership, as well as lower rents, to a large portion of our population currently being priced out of the state. Establishing a Housing Opportunity Area will address the root of the problem, namely land valuations that stymie housing production for all but the most affluent middle-income households in the four coastal markets. This will allow middle class families to purchase affordable homes that they can now only purchase in other states.

As *The Economist* recently noted, “suburbs rarely cease growing of their own accord. The only reliable way to stop them, it turns out, is to stop them forcefully. But the consequences of doing that are severe.”<sup>109</sup> The HOA is one way to keep the suburban dream alive for a changing population.

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# Endnotes

## BLAME OURSELVES, NOT OUR STARS

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- 73 <https://advisorsmith.com/data/coli>
- 74 Calculated from American Community Survey data. This is statistically significant at the 99 percent level.
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- 96 [https://www.newgeography.com/files/California\\_percent20GHG\\_percent20Regulation\\_percent20Final.pdf](https://www.newgeography.com/files/California_percent20GHG_percent20Regulation_percent20Final.pdf)

## HOW TO DEFINE HOUSING AFFORDABILITY

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- 98 For example, the second through the fourth household income quintile.
- 99 “Housing markets” in this memo refers to metropolitan areas.

## PROPOSAL: A HOUSING OPPORTUNITY AREA (HOA)

- 100 [https://www.hoover.org/sites/default/files/research/docs/21117-Ohanian-Vranich-4\\_0.pdf](https://www.hoover.org/sites/default/files/research/docs/21117-Ohanian-Vranich-4_0.pdf)
- 101 <https://www.ccsce.com/PDF/Numbers-Dec2022-California-Economic-Update.pdf>
- 102 In addition to the geography defined as the Interior above, the HOA would include the Antelope Valley portion of Los Angeles County.
- 103 See [https://www.chapman.edu/communication/\\_files/beyond-feudalism-web-sm.pdf](https://www.chapman.edu/communication/_files/beyond-feudalism-web-sm.pdf) and [https://joelkotkin.com/wp-content/uploads/2022/01/Restoring\\_the\\_California\\_Dream.pdf](https://joelkotkin.com/wp-content/uploads/2022/01/Restoring_the_California_Dream.pdf)
- 104 [https://www.chapman.edu/communication/\\_files/beyond-feudalism-web-sm.pdf](https://www.chapman.edu/communication/_files/beyond-feudalism-web-sm.pdf)
- 105 The Mojave Desert portion of Los Angeles County.

- 106** This concept was first proposed in Joel Kotkin, Marshall Toplansky, Wendell Cox, Mike Christenson, and Karla Lopez del Rio (2020), *Beyond Feudalism: A Policy to Restore California's Middle-Class*, Chapman University Center for Demographics and Policy, [https://www.chapman.edu/communication/\\_files/beyond-feudalism-web-sm.pdf](https://www.chapman.edu/communication/_files/beyond-feudalism-web-sm.pdf)
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