

## IN BRIEF

# A TOOL KIT TO CLOSE CALIFORNIA'S HOUSING GAP

As California real estate prices rise three times faster than household incomes, more than 50% of the state's households cannot afford the cost of housing. There are many ways to tackle this crisis. Our findings include:

- From 2009 to 2014, California added 544,000 households but only 467,000 net housing units. States such as New York have added nearly 80 percent more housing units than California relative to population growth. As a result, California's real estate prices have increased by more than 15 percent since 2009, but median income by only 5 percent.
- The state now has a \$50 billion to \$60 billion annual housing affordability gap. Virtually none of California's low-income and very-low-income households can afford the local cost of housing. Nearly 70 percent of these households would have to spend more than half of their income to afford the local cost of housing.
- California ranks 49th among the 50 US states for housing units per capita. Benchmarked against other states on a housing units per capita basis, California is short about two million units. To satisfy pent-up demand and meet the needs of a growing population, California needs to build 3.5 million homes by 2025.
- In dollar terms, California loses \$140 billion per year in output or 6 percent of state GDP due to the housing shortage: more than \$90 billion in missing construction investment and more than \$50 billion per year in missing consumption that is crowded out by housing costs.
- California's communities need to identify "housing hot spots" where large numbers of housing units could be built with attractive returns, change the rules of the game to enable housing development on this high-potential land, cut the cost and risk of producing housing, and ensure that low-income and vulnerable individuals who are priced out of the market have access to housing. MGI has identified 15 tools to achieve this (see infographic).
- California could add more than five million new housing units in "housing hot spots"—which is more than enough to close the state's housing gap. In aggregate, there is capacity to build as many as 225,000 housing units on vacant urban land that is already zoned for multifamily housing; 1.2 million to three million housing units within a half mile of major transit hubs; nearly 800,000 units by allowing homeowners to add units to their homes; nearly one million units on land zoned for multifamily development but underutilized; and more than 600,000 affordable single-family units on "adjacent" land currently dedicated to non-residential uses.
- To unlock these units, California needs both public and private sector innovations. Shortening the land-use approval process in California could reduce the cost of housing by more than \$12 billion through 2025 and accelerate project approval times by four months on average. Reducing construction permitting times could cut another \$1.6 billion, and raising construction productivity and deploying modular construction techniques up to another \$100 billion. Governments could reallocate \$10 billion a year in developer impact fees to other forms of revenue generation in order to lower housing costs. California could also incentivize local governments to approve already-planned-for housing to achieve 40,000 more units annually.
- Attracting new sources of capital to affordable housing—such as employers, social impact investors, and financial investors seeking low-risk real assets in one of the world's most dynamic economies—could finance more than 30,000 affordable units a year. Policy tools such as inclusionary zoning, linkage fees, and tax increment financing can capture some of the value created through market-driven real estate development and channel it into subsidized affordable housing. Regulation needs to take account of developers' risks and returns to ensure that affordable housing policies do not stifle new market-driven supply.
- California's housing gap can only be solved at the local level, and communities can follow a five-step process to close the local housing gap: create a housing delivery unit; define the local problem; identify local solutions and map "housing hot spots;" align stakeholders behind a local strategy; and execute the strategy and measure performance.