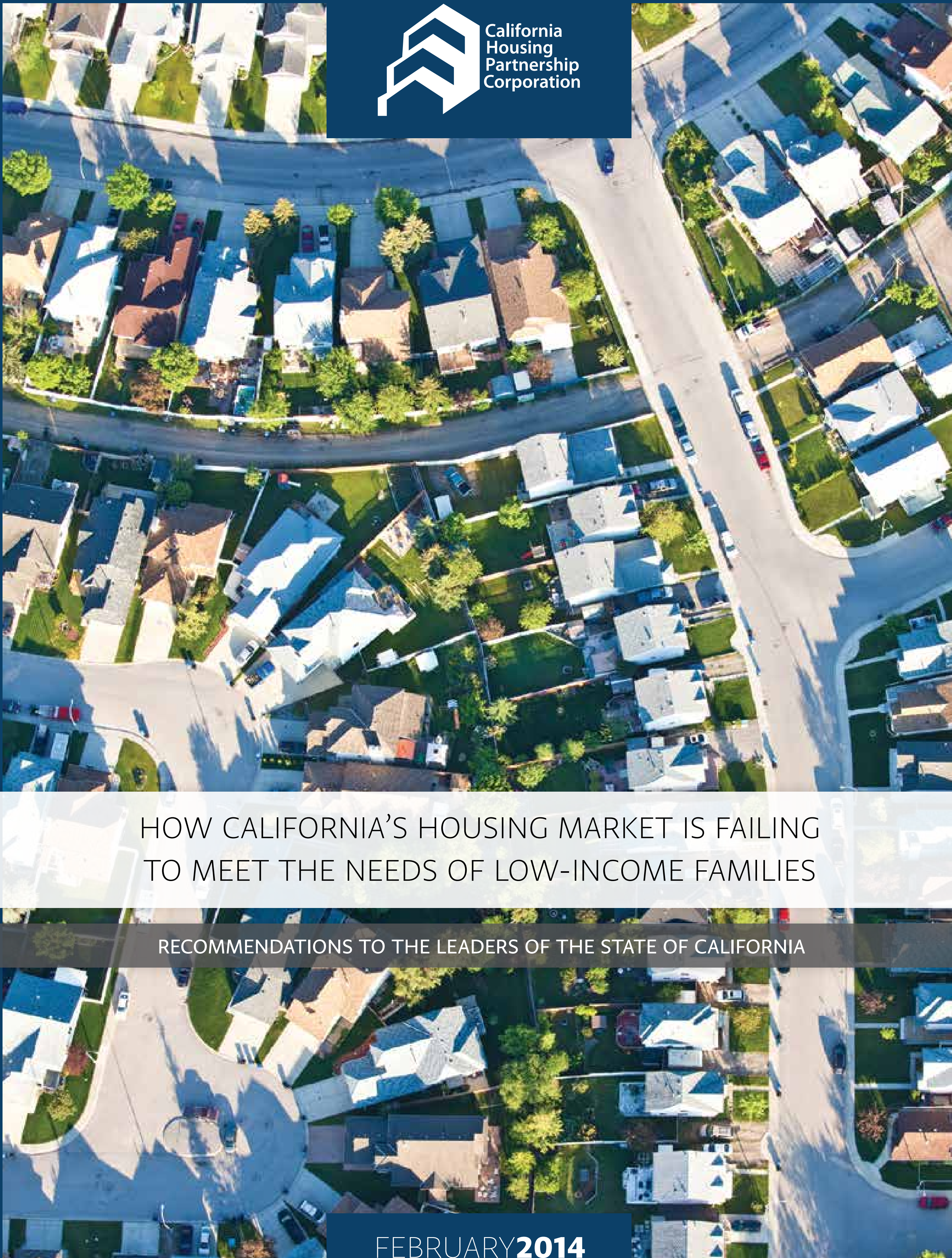
California Housing Partnership Corporation



HOW CALIFORNIA'S HOUSING MARKET IS FAILING TO MEET THE NEEDS OF LOW-INCOME FAMILIES

RECOMMENDATIONS TO THE LEADERS OF THE STATE OF CALIFORNIA

FEBRUARY **2014**

California is showing increasing economic and fiscal strength with economic growth among the top five states in the nation and a budget that is in the black for the first time in a decade.[1] Yet this good news is tempered by the growing severity of an age-old California problem: the private housing market is not providing an adequate number of homes affordable to low- and moderate-income households. The shortage is particularly acute in the rental housing market, typically the last resort for lower-income households, many of whom were forced out of single-family homes during the Great Recession and have little chance of becoming homeowners in the near future.

Even as the crisis in housing affordability grows, investment in affordable homes in California by the state and federal governments has been reduced by over $1.5 billion annually. If the state wants to achieve its economic, social, and environmental goals, strong action is required to address the growing imbalance in the housing market and restore the ability of all of California's households to afford healthy homes that provide access to jobs and services.

KEY ELEMENTS OF CALIFORNIA'S AFFORDABLE HOUSING MARKET FAILURE:

- *There is a shortfall of 956,461 homes affordable and available to California's lowest-income households.*
- *Median rents in California increased by over 20 percent from 2000 to 2012, while the median income dropped by 8 percent, significantly driving up the percentage of income that California households must spend on rent.*
- *The percentage of low-income households that are severely rent burdened has increased dramatically since the year 2000.*
- *The foreclosure crisis greatly increased the number of renter households, driving up rents yet failing to make homeownership accessible to low-income households.*

ABOUT CHPC

THE STATE CREATED THE CALIFORNIA HOUSING PARTNERSHIP CORPORATION 25 YEARS AGO AS A PRIVATE NONPROFIT ORGANIZATION WITH A PUBLIC MISSION: TO MONITOR, PROTECT, AND AUGMENT THE SUPPLY OF HOMES AFFORDABLE TO LOWER-INCOME CALIFORNIANS AND TO PROVIDE LEADERSHIP ON AFFORDABLE HOUSING FINANCE AND POLICY. SINCE 1988, THE CALIFORNIA HOUSING PARTNERSHIP HAS ASSISTED MORE THAN 200 NONPROFIT AND LOCAL GOVERNMENT HOUSING ORGANIZATIONS TO LEVERAGE MORE THAN $5 BILLION IN PRIVATE AND PUBLIC FINANCING TO CREATE AND PRESERVE 20,000 AFFORDABLE HOMES.

ONE MILLION

Low-income households in California do not have access to an affordable home.

THE STATE CAN MITIGATE THESE CHALLENGES BY IMPLEMENTING NEW POLICIES IN THREE KEY AREAS:

1 Dedicate a long-term source of state funding for affordable housing and make an immediate general fund investment in the state's existing rental housing production program.

2 Strengthen local jurisdictions' tools for building and preserving affordable homes by taking three important steps:

a) lower the threshold for voter approval of local infrastructure measures, including affordable homes, to 55 percent, as it is for education bonds;

b) create a new tax increment financing mechanism that gives local governments the ability to fund the development of basic infrastructure including transportation, housing, and parks; and

c) allow local jurisdictions to require the inclusion of a percentage of affordable homes in new developments.

3 Invest a significant portion of Cap-and-Trade revenues in affordable transit-oriented homes and energy efficiency retrofits to existing multifamily affordable housing.

THE HOUSING MARKET HAS FAILED TO MEET THE NEEDS OF AN ENTIRE SEGMENT OF CALIFORNIA'S POPULATION

The large and growing shortfall of homes affordable to California's lowest-income households affects every corner of the state. In 2011 California was home to 1,194,957 extremely low-income (ELI) renter households—those earning 30 percent or less of their metro area's median household income. Only two out of ten of these households are able to find an affordable, available home.[2] Very low-income (VLI) households, those who earn up to half of their area's median household income, fair only slightly better; the number of homes available and affordable to VLI households was 29 per 100 in 2011.

TABLE 1 shows the California counties with the worst deficits in homes affordable and available to ELI renter households. While it is not surprising that counties with large populations and many ELI renters would have the largest deficits of affordable and available homes, it is significant that there are large shortfalls in all regions of the state. In fact, not one county or legislative district in the state that has an adequate supply of homes affordable to ELI households.

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TABLE 1: WORST 10 CALIFORNIA COUNTIES BY SHORTFALL OF HOMES AFFORDABLE & AVAILABLE TO ELI RENTER HOUSEHOLDS

COUNTY	SHORTFALL OF HOMES AFFORDABLE & AVAILABLE TO ELI RENTERS	AFFORDABLE & AVAILABLE UNITS PER 100 ELI RENTERS
Los Angeles	(376,735)	19
San Diego	(79,795)	18
Orange	(70,125)	18
Alameda	(44,560)	27
Santa Clara	(39,465)	26
San Bernardino	(36,375)	18
Sacramento	(36,040)	21
San Francisco	(35,855)	37
Riverside	(31,875)	20
Fresno	(23,810)	20

Source: NLIHC Analysis of 2006-2010 CHAS data.

TABLE 2 : WHO IS BEING LEFT OUT OF CALIFORNIA'S HOUSING MARKET?	
50% of State Median Household income: $28,510	
JOB CATEGORY	MEDIAN INCOME IN CA
Nursing Assistants	$27,900
Security Guards	$24,120
Janitors and Cleaners	$23,590
Restaurant Cooks	$23,200
Retail Salespersons	$22,000
Home Health Aides	$21,870
Cashiers	$20,540

SOURCE: CHPC Analysis of 2012 Bureau of Labor statistics and Census data

ELI households are the most vulnerable residents of the state. More than 50 percent of ELI households are elderly or disabled, while VLI households are more likely to include low-wage workers.[3] In fact, hundreds of thousands of workers throughout the state earn less than half the median household income for the state, or $28,510. TABLE 2 provides examples of working adults who are VLI.

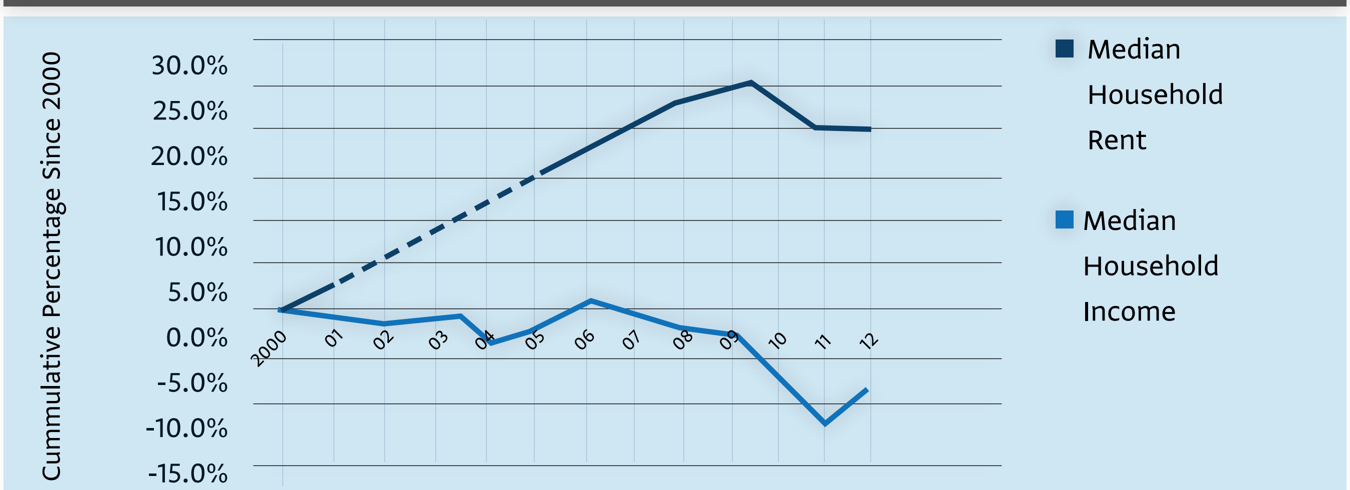
While proposals to increase the state minimum wage would certainly help, the gap between housing cost and income is so great that just raising the minimum hourly wage by a few dollars will not significantly reduce the shortfall of affordable homes in most counties.

RENTS ARE HIGH AND RISING, ESPECIALLY IN RELATION TO STAGNANT OR DECLINING INCOMES

California rents are high and have remained so in spite of the Great Recession. According to a report produced by the Public Policy Institute of California, "five of the ten most expensive large metropolitan rental markets in the U.S. are in California: San Francisco, Orange County, San Jose, Oakland, and Los Angeles." [4]

Housing and transportation costs have increased at an alarming rate relative to incomes[5] during the 2000s and Great Recession as middle- and low-income households lost the income gains they had made since 2000. Census data shows that inflation-adjusted median household income in California in 2012 was more than eight percent lower than in 2000. However, inflation-adjusted median rent was more than 20 percent higher. FIGURE 1 shows the imbalance between the growth in median rents and the decline in median income since 2000.

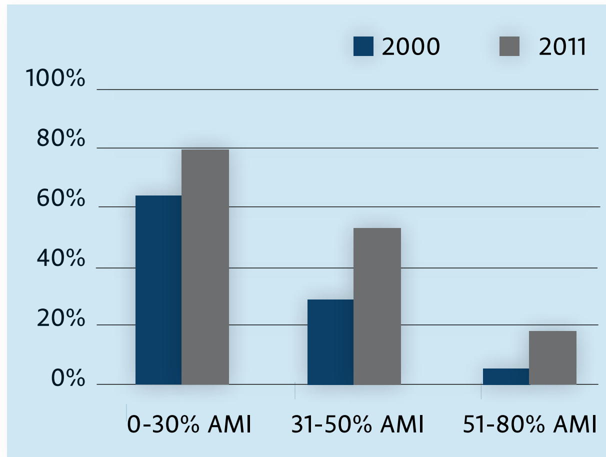
FIGURE 1 : CUMULATIVE PERCENTAGE CHANGE IN INFLATION ADJUSTED MEDIAN INCOME AND MEDIAN RENT IN CALIFORNIA 2000 TO 2012



Source: US Census 2000 Census and Annual ACS Data beginning in 2005. Median rents from 2001-2004 are estimated trend.

As a result of the divergence between incomes and rents, the percentage of low-income households that are severely rent burdened--spending 50 percent or more of their income on housing--increased dramatically since the year 2000. The percentage of severely rent-burdened ELI households rose from 64 percent to 80 percent, with four in five households facing severe rent burden. The change was even more dramatic for VLI households, who jumped from 30 percent severely rent burdened to 53 percent. FIGURE 2 illustrates the increase in rent burden across all household levels since 2000.

FIGURE 2 : % OF CA RENTERS BY INCOME PAYING 50% OR MORE OF INCOME IN RENT



Source: NLIHC special tabulations of 2000 CHAS data, and tabulations of 2011 one-year ACS PUMS data for California.

Together, stagnant wages and steeply increasing housing costs have strained low-income households' budgets to the breaking point, substantially reducing or eliminating savings for emergencies, education, health, or other basic expenses. It is no wonder then that the Supplemental Poverty Measure (SPM), an alternative to the conventional measure of poverty developed by the Census that accounts for the effects of both cost of living and government assistance programs, calculates poverty in California at 23.8 percent of the population--8,952,000 people--by far the highest percentage of any state.[6]

THE HOUSING CRASH HAS PUT GROWING PRESSURE ON RENTAL PRICES WHILE FAILING TO MAKE HOMEOWNERSHIP ATTAINABLE FOR LOWER-INCOME HOUSEHOLDS

MYTH: The foreclosure crisis created opportunities for low-income households to find affordable homes.

FACT: Rents rose 7% from 2005 to 2010, even in many metro areas with high rates of foreclosure.[7]

Unlike the prices of single-family homes, which are still below their pre-Great Recession peaks in most parts of the state, rents were higher in 2012 than they were at the height of the housing boom in 2006 in nearly all metro areas. Contrary to the common myth, the bursting of the housing bubble and the ensuing foreclosure crisis have not made housing more affordable to lower-income households. Consider the effects on the rental market over the period beginning just before the crisis to today:

- *Between 2005 and 2011, the number of renter households in the state increased by 600,000 while the number of homeowners declined by 200,000. As a result, the state's percentage of renter households jumped from 40 percent in 2006 to 45 percent in 2011.*[8]

- *The huge increase in renter households drove up median rents in California from 2000 through 2012 by 20 percent even though median income dropped by 8 percent over the same period.*

- *In 2013 the median asking rent for an apartment in California was $1,550, while the average hourly renter wage was $17.99.*[9] *A person making that wage would need to work at least 66 hours per week to afford the median rent.*

Foreclosures and distressed sales continue to create housing insecurity for affected families but are no longer driving down home sale prices. The inventory of unsold single-family homes is nearing record lows and the state's supply of homes priced below $300,000 has plunged almost 27 percent since 2012.[10] In September 2013, the median sale price for a single-family home in California was $428,810, a 75 percent increase from the bottom of the real estate market in 2009, according to the California Association of Realtors (CRA). Assuming that the average renter earning $17.99 an hour could afford to put down 10 percent on this median home and would qualify for a mortgage at a 4.5 percent interest rate, she would still have to devote over 60 percent of her income to afford home ownership.

STATE AND FEDERAL DISINVESTMENT IN AFFORDABLE HOUSING HAS EXACERBATED THE HOUSING MARKET'S FAILURE TO PROVIDE FOR LOW-INCOME FAMILIES

Even as California's shortfall of homes affordable and available to lower-income households has become more acute, the state has reduced its direct funding for the development and preservation of affordable homes by 79 percent, from more than $1.5 billion annually to nearly nothing.

- *The elimination of Redevelopment funding in 2012 led to the loss of over $1 billion per year in state investment in the production and preservation of affordable homes.*
- *The exhaustion of state housing bonds funded by Propositions 46 and Prop 1C means the loss of an additional $400 million dollars per year in state investment in housing for low- and moderate-income households.*

Exacerbating state cuts is the simultaneous disinvestment in the production and preservation of homes affordable to lower-income households by the federal government. Repeated and continuing cuts in federal rental assistance and reductions in formula-based grants such as HOME and Community Development Block Grants (CDBG) have resulted in the loss of another $200 million per year in funding. TABLE 3 illustrates the dramatic decrease in state and federal funding for affordable housing over the last six years.

TABLE 3 : CHANGE IN CALIFORNIA'S MAJOR AFFORDABLE HOUSING FUNDING SOURCES FY 2007/08 TO 2012/13*

FUNDING SOURCES	FY 2007/2008	FY 2012/2013	% CHANGE
State Housing Bonds Prop. 46 and Prop 1C◊	$776,281,035	$48,911,000	-94%
Redevelopment Funds for Affordable Housing	$1,079,157,125	$0	-100%
Federal CDBG Funds	$456,494,879	$367,204,607	-20%
Federal HOME Funds	$236,393,040	$127,115,742	-46%
Total	$2,548,326,079	$543,231,349	-79%

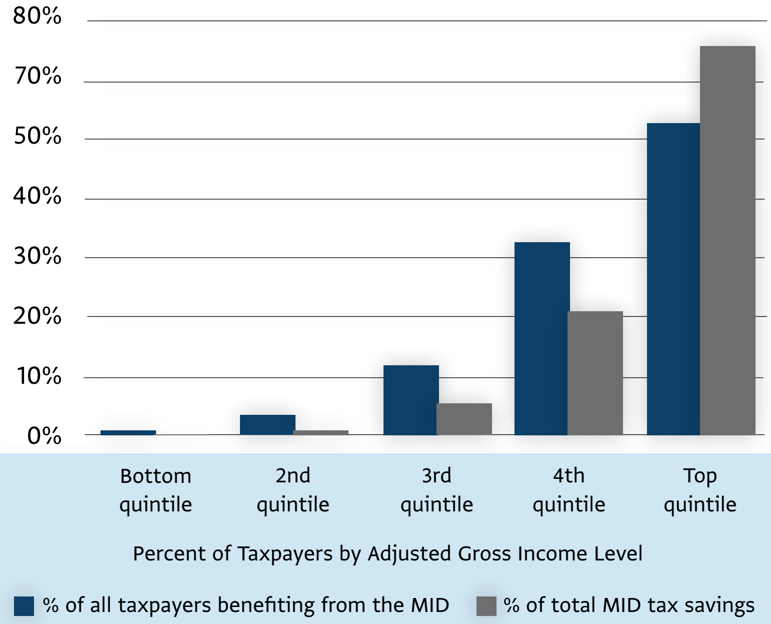
Source: CHPC tabulations of HCD's Annual Report of Financial Assistance Programs and Redevelopment Housing Activities Report, and HUD's CPD program formula allocations by fiscal year.

**The state fiscal year runs from July 1 to June 30. The federal fiscal year runs from October 1 to September 30.*

◊From 2006 to 2013, state housing bond spending averaged $385,517,707 annually. However, all bond funds are likely to be allocated by the end of 2014.

Even as the state has nearly eliminated its support for affordable homes for lower-income Californians, it has maintained one housing program that costs almost $5 billion a year and overwhelmingly benefits higher-income homeowners: the state mortgage interest deduction (MID). Like the federal equivalent, the MID allows homeowners to reduce their personal income taxes based on their mortgage interest and property tax expenses. While the program is intended to increase homeownership for all Californians, in practice the overwhelming majority of benefits accrue to the highest-income homeowners. In fact, 76 percent of the benefits of the State's MID accrue to the 20 percent of homeowners with the highest incomes.[11] See FIGURE 3.

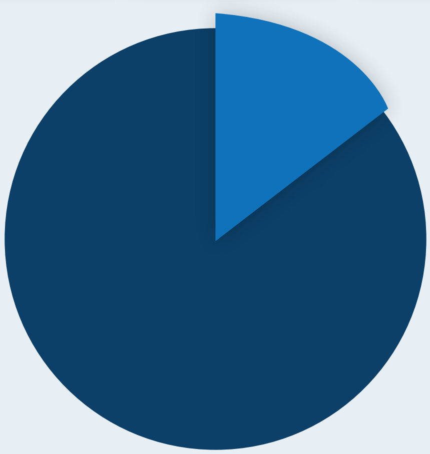
FIGURE 3 : THE MID DISPROPORTIONATELY BENEFITS HIGHER INCOME TAXPAYERS | 2004 INCOME YEAR



SOURCE: California State Legislative Analyst's Office, "Housing-related Tax Expenditure Programs," 2013.

FIGURE 4 : COMPARISON OF SANTA CLARA COUNTY FUNDING SOURCES IN 2008 AND 2013

2008 FUNDING	2013 FUNDING	CHANGE
$126,196,729	$47,327,577	-62%



Available Funding: $47,327,577 (313 units)

Gap: $221,922,423 (1482 units)

$269 Million in Annual Funds Needed to Meet RHNA VLI and ELI Goal of 1,795 Units

SOURCE: Cities Association of Santa Clara County and Housing Trust Silicon Valley, December 2013.

LOCAL GOVERNMENT CASE STUDY:

SANTA CLARA COUNTY

A recent analysis of affordable housing funding in Santa Clara County by the Cities Association of Santa Clara County and Housing Trust Silicon Valley reveals the local effects of severe cuts to state and federal funding and the huge gap that has developed between funding needed and funding available.

Between 2008 and 2013, the cities of Santa Clara County experienced a 62 percent reduction in affordable housing funding.[12] Meanwhile, the most recent regional housing needs allocation for Santa Clara county has set the need for new housing for low-income households at 1,795 units annually. The Cities Association of Santa Clara County and Housing Trust Silicon Valley estimate each of these homes requires $150,000 in local public subsidy, meaning the county would need $269,250,000 annually to meet demand. The current funding levels are sufficient to produce only 18 percent of the required units. In addition, this annual goal for housing production is based on future need and does not address the current need of 39,465 ELI households in need of affordable homes.

RECOMMENDATIONS to the leaders of the State of California

If California is to rebuild a strong and diverse economy that includes low- and moderate- income households, our state must reinvest and develop responsive policy. Simply allowing a broken housing market to run its course is impoverishing and driving away our low-wage workforce, simultaneously undermining our GHG-reduction goals, and forcing seniors, veterans, and people with disabilities into our shelters and emergency rooms, costing local governments five to ten times more in service costs.

The Legislature and the Governor can demonstrate the kind of leadership that is needed to fix our broken housing market by taking these immediate actions:

1 Replace the exhausted state housing bonds (Propositions 46 and 1C) by:

- Passing the Homes and Jobs Act to provide $500 million per year for the production and preservation of homes affordable to low- and moderate-income households; and
- Make an immediate general fund investment in the state's existing rental housing production program with a focus on providing permanent housing for those most at risk of homelessness due to the rapid increases in home and rental prices.

2 Give local governments the tools and ability to replace lost funding and to meet their SB 375 obligations to create and preserve affordable homes by:

- Raising revenues to fund the development of basic infrastructure including transportation, housing, and parks by lowering the required voter threshold for local funding measures from two-thirds to 55 percent, the same as for local school bonds.
- Authorizing a new tax increment financing (TIF) program that gives local governments the ability to fund the development of basic infrastructure including transportation, housing, and parks.
- Requiring the inclusion of a percentage of homes affordable to low- and moderate-income households in new housing development by passing into law a successor to AB 1229, which was vetoed by the Governor in 2013.

3 Recognize the crucial role that affordable homes near transit and job centers can play in helping California meet its GHG reduction targets by investing a significant portion of Cap-and-Trade auction revenues in the existing state program supporting the production and preservation of transit oriented affordable housing, as recommended by the Air Resource Board in its investment plan.[13]

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8 Public Policy Institute of California. "California Housing." 2013. and Public Policy Institute of California. "Just the Facts California's Housing Market." 2012.
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10 Wei, Oscar. "2013 Annual Housing Market Survey Webinar." PowerPoint presentation from the California Association of Realtors, October 31, 2013.
11 California State Legislative Analyst's Office. "Housing-Related Tax Expenditure Programs." March 2013. http://www.lao.ca.gov/handouts/State_Admin/2013/Housing-Tax-Expenditure-031813.pdf
12 Mohsen, Raania, Kevin Zwick, and Shannon McDonald. "Affordable Housing Funding Landscape & Local Best Practices." Cities Association of Santa Clara County and Housing Trust Silicon Valley, December 2013.
13 For more information on the role affordable TOD can play in reducing transportation-related greenhouse gas emission, please see CHPC's report "Building and Preserving Affordable Homes Near Transit: Affordable TOD as a Greenhouse Gas Reduction and Equity Strategy." Fore information on the existing TOD program created by California's Department of Housing and Community Development, see CHPC's report "Why Cap-and-Trade Auction Proceeds Should Fund Affordable Homes Near Transit."