



The Ethics and Consequences of California's Local Government Restrictions on Housing

Robert W. Wassmer
Professor and Chairperson
Department of Public Policy and Administration

16th Annual Fall Ethics Symposium:
Ethics and the City
Cosumnes River College
Sac State's Center for Practical and Professional Ethics
<https://www.csus.edu/center/practical-professional-ethics/>

October 13, 2021

Topics

Refer to Previous Seminar

Jesus Hernandez, *Fiduciary Responsibility and the Myth of Equity in Sacramento*

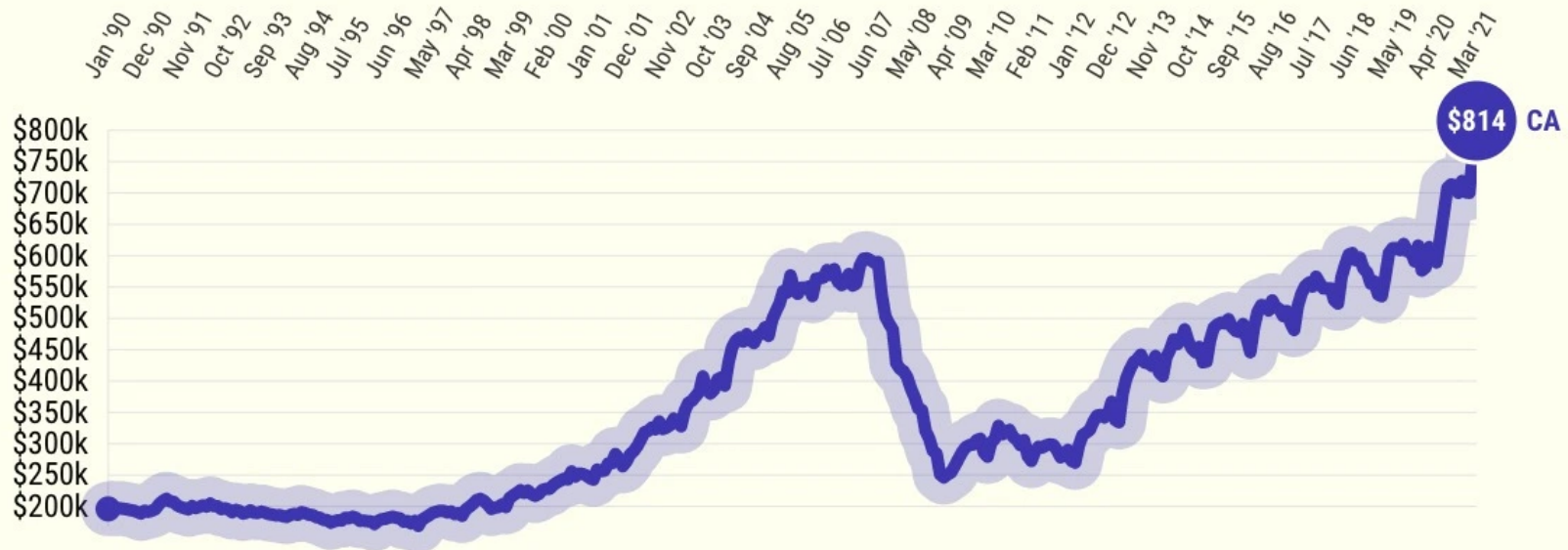
- Shelter in CA is Expensive
- Why is This a Concern?
- Institutions and Laws
- Texas Comparison
- Not Enough Housing Supply
- State Policy Response
- Ethical Conundrum
- So What to Do?

The presence of “affordable” housing, be it rental or owner-occupied, distributed throughout a metropolitan area is essential to the wellbeing of its lower-income households, the region’s overall economic productivity, offering equal access to K-12 education opportunities, and minimizing the region’s greenhouse gas emissions. Since California’s population primarily resides in metropolitan areas, it is not surprising that state policy leaders actively promote metropolitan-wide affordable housing as a desirable policy outcome. However, these metropolitan areas consist of local jurisdictions (cities or unincorporated portions of a county) and neighborhoods within these jurisdictions whose vocal citizens and leaders often ask “what is in it for us” when evaluating the desirability of more affordable housing within their boundaries. Thus, the NIMBYism of many California homeowners supporting more affordable housing, but just not in my neighborhood. The resulting undersupply of housing is the primary reason for California’s “housing affordability crisis.” This talk lays out California’s history, institutions, laws, and practices that allow such to continue. It also covers what the State has done to overcome this situation and why it is politically difficult to do more. I hope the talk helps frame the ethical quandary of whether the State should use its power to achieve its already established affordable housing policy goals at the cost of less local control over local land-use decisions related to housing.

Shelter in CA is Expensive

California home prices soar

Monthly median selling price, existing 1-family houses, in thousands

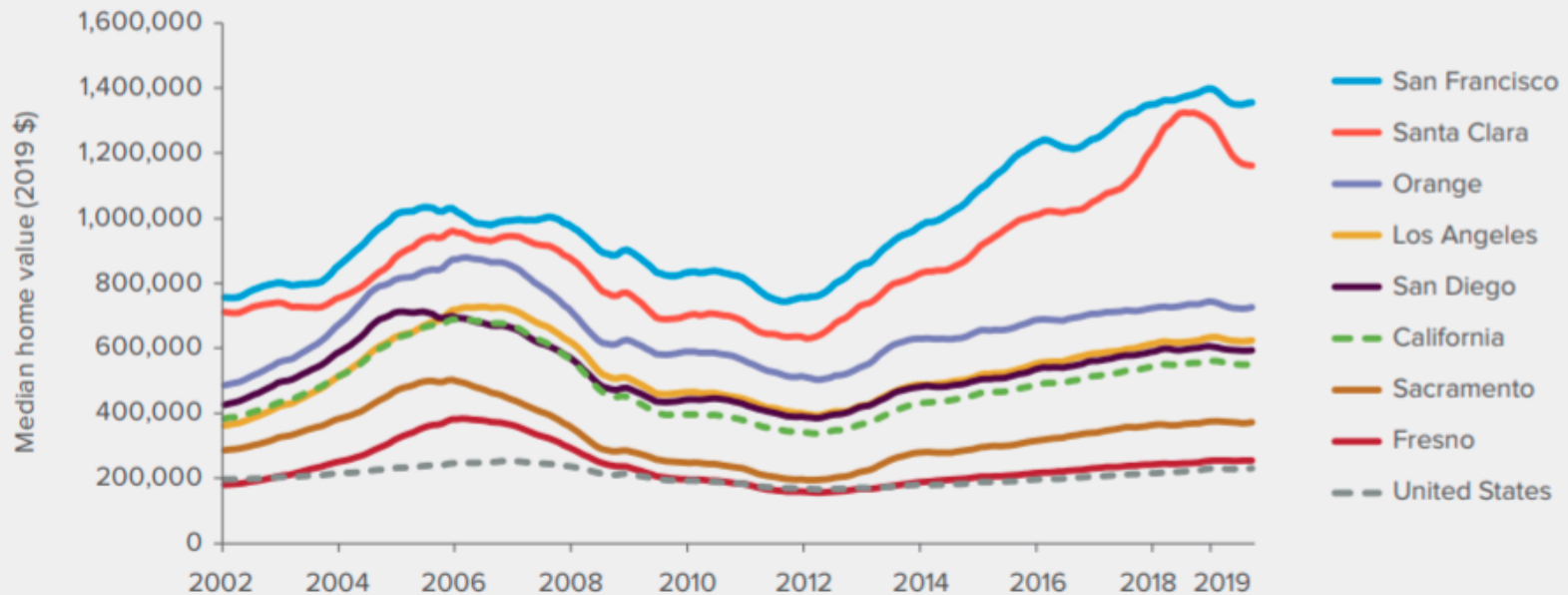


[See it again](#)

Source: California Association of Realtors

Shelter in CA is Expensive

HOME VALUES VARY WIDELY ACROSS THE STATE



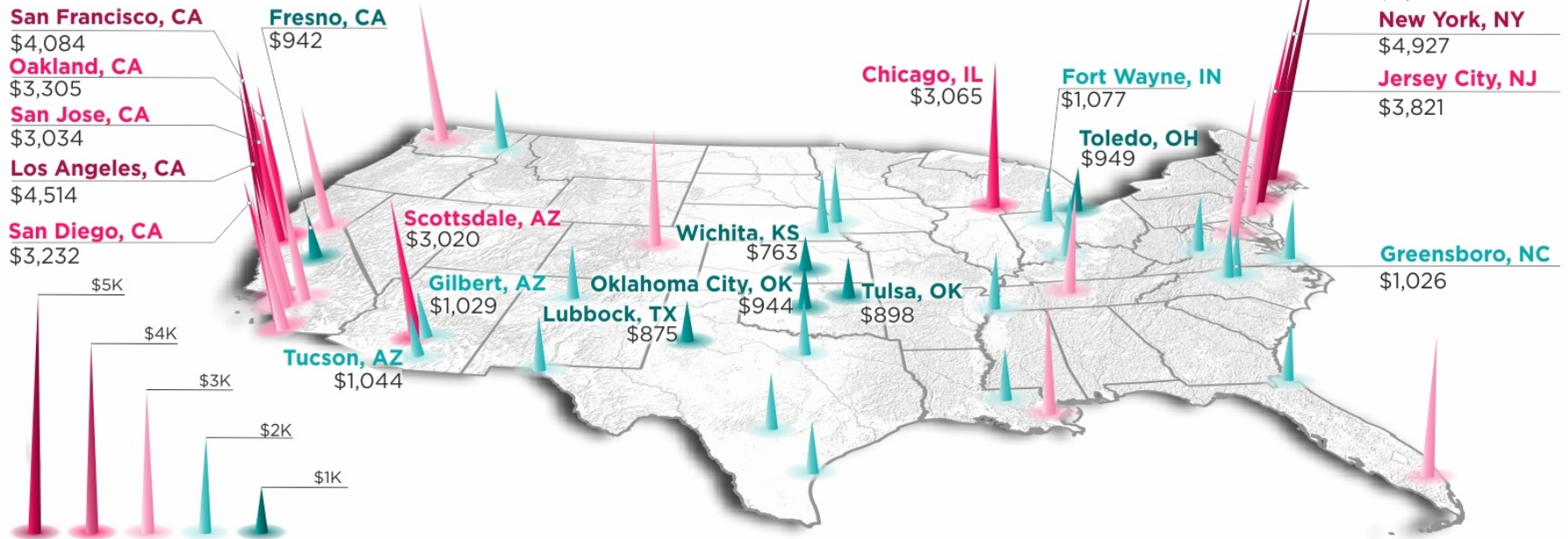
SOURCE: Zillow.

NOTE: Values for selected counties, the state, and the United States are reported in September 2019 dollars from January 2002 through September 2019.

Shelter in CA is Expensive

The Cheapest/Most Expensive Cities to Rent an Apartment

Average 2-Bedroom Apartment Rent in the U.S. 2021



Average Monthly 2-BR Rent, 2021

Note: The map shows the 25 cheapest and 25 most expensive cities to rent a typically 2-bedroom apartment in the U.S. To show the difference in price, we labeled the top and bottom 10 cities by average monthly rent.

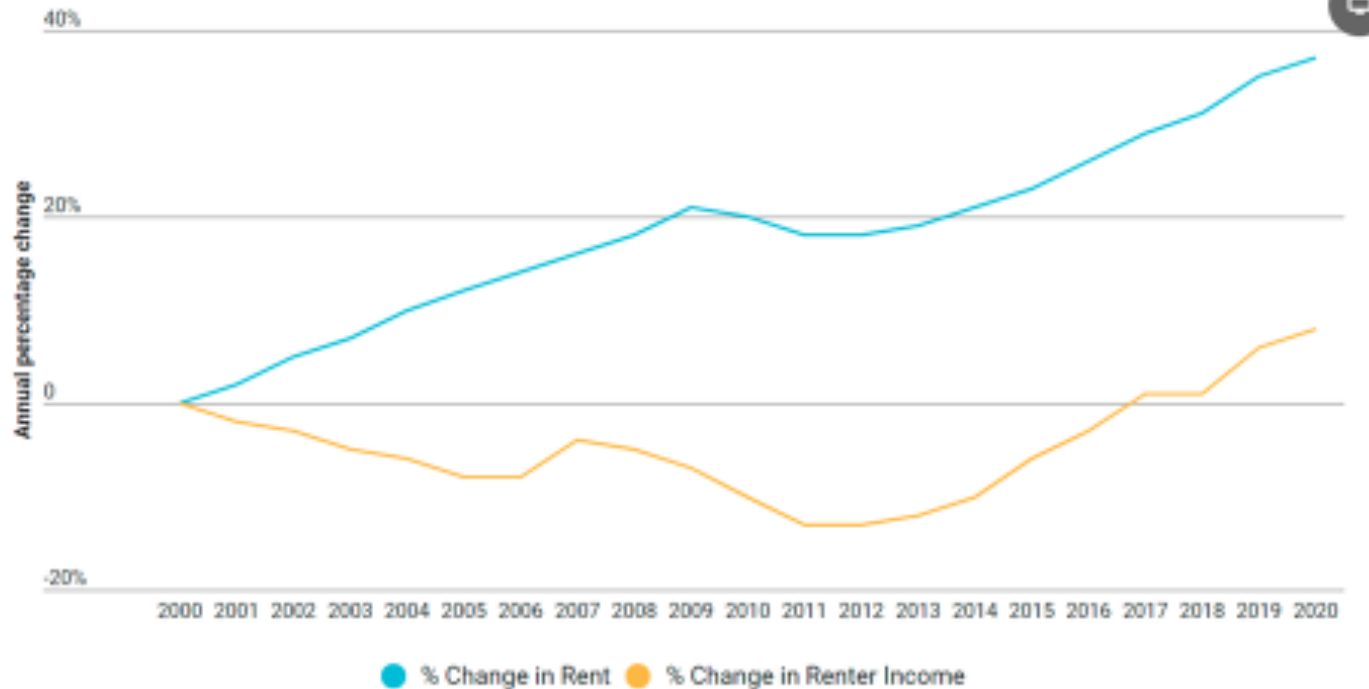
Article & Sources:

<https://howmuch.net/articles/the-cheapest-and-most-expensive-cities-to-rent-an-apartment-us-2021>
Apartment Guide - <https://www.apartmentguide.com/>

howmuch.net

Shelter in CA is Expensive

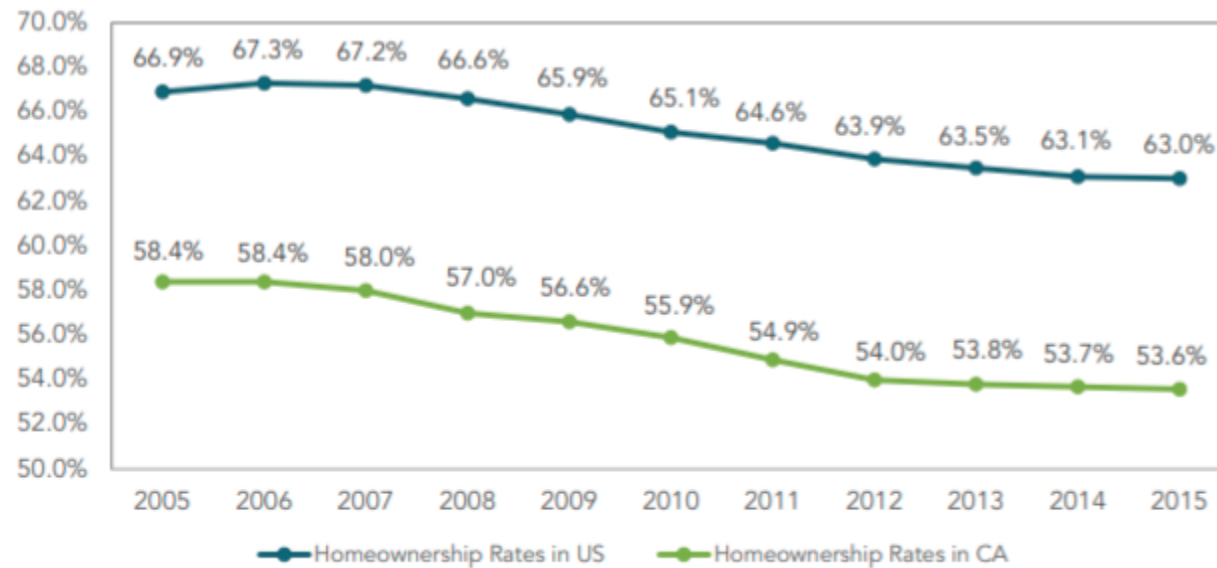
Renter income hasn't kept up with rents



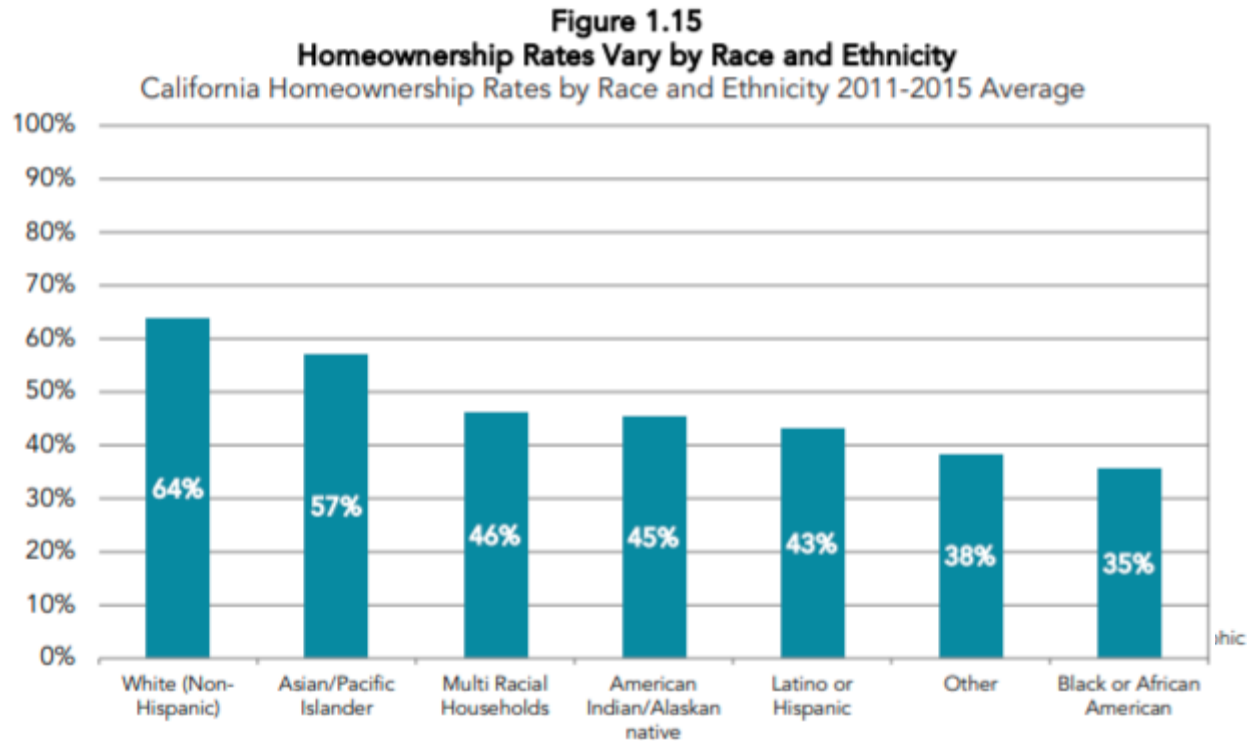
Source: California Housing Partnership analysis of 2000-2019 Census ACS data. Median rent and median renter income are inflation-adjusted to 2019 dollars.

Why is This a Concern?

Figure 1.13
Recent Homeownership Rates Nationally and in CA 2005-2015

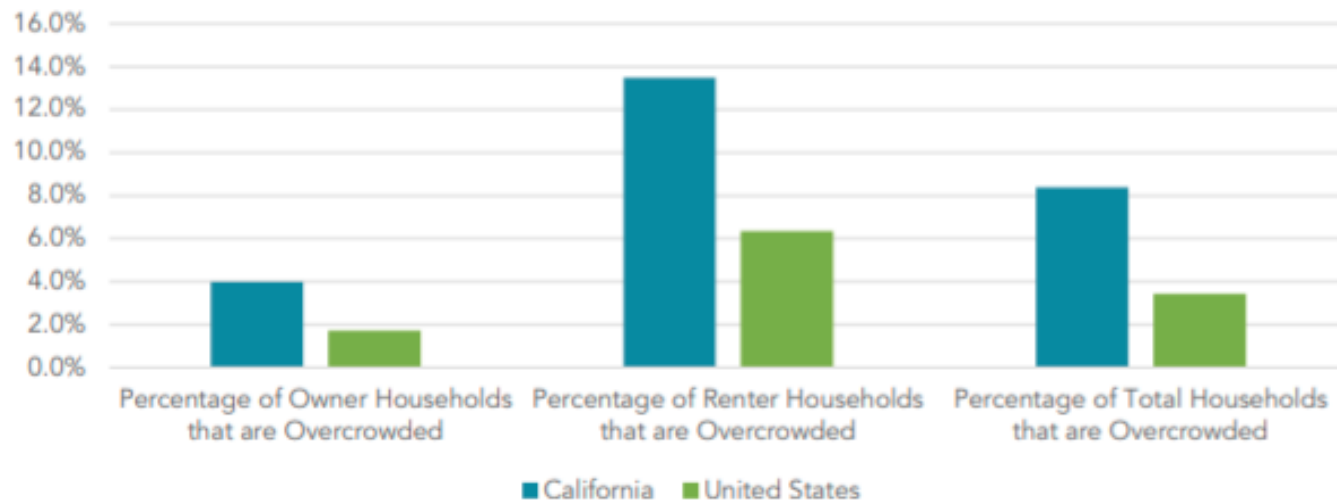


Why is This a Concern?



Why is This a Concern?

Figure 1.12
California's Overcrowding Rate More Than Double U.S. Average



Source: U.S. Census Bureau, 2015 American Community Survey 1-Year Estimate, Tables B25014, Tenure by Occupants per Room. Graphic HCD

Why is This a Concern?

Figure 1.21
California's Renter Households Experiencing Severe Rent Burden
Total renter households paying more than 50% of income toward housing costs

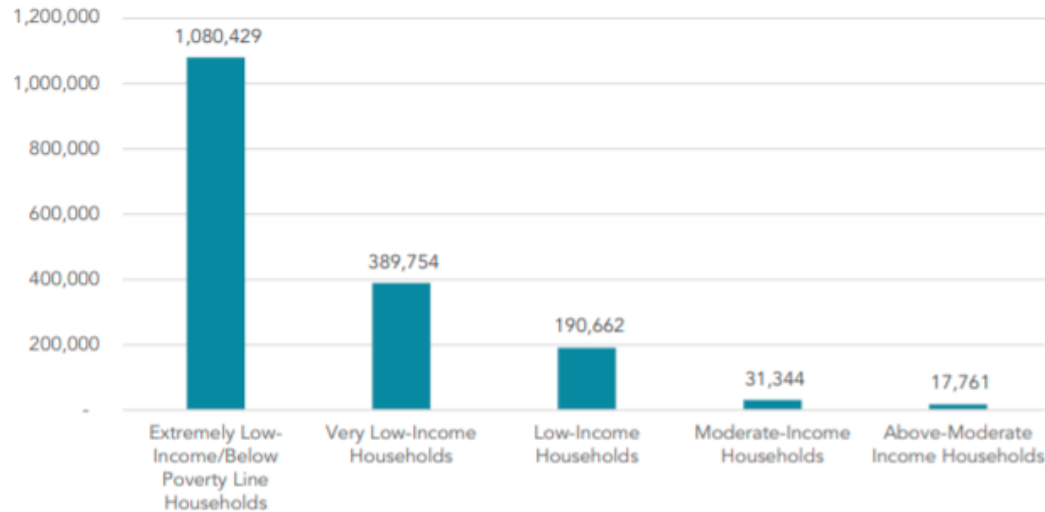


Table 1.2
Percentage of California's Renter Households Experiencing Rent Burden by Income

Income	Total Renter Households (million)	% Rent Burdened >30% Income	% Severely Rent Burdened >50% Income
Extremely Low-Income or Below Poverty Line	1.41	90.2%	76.9%
Very Low-Income	.82	85.4%	47.4%
Low-Income	1.13	64.6%	16.9%
All Lower-Income Renter Households (80% AMI and below) Subtotal of above	3.36	80.4%	49.5%
Moderate-Income	.59	41.5%	5.3%
Above Moderate-Income	2.03	12%	0.9%
All Renter Households Total	5.97	53.4%	28.7%

Source: 2017 National Low-Income Housing Coalition tabulations of 2015 American Community Survey Public Use Microdata Sample (PUMS) housing file.

Why is This a Concern?

- Reduces Economic Growth and Economic Efficiency of a CA Metro Area (State)
 - Hsieh and Moretti, 2017, Housing constraints and spatial misallocation, *American Economic Journal: Macroeconomics*
 - GDP potentially lost to the misallocation of potentially highly productive labor from high-cost housing areas (like Silicon Valley) to low productivity and low-cost housing areas (like Las Vegas).
 - GDP change over this time was 36% lower due to housing and land-use regulation.
 - GDP in 2017 could have been around 9% larger, or nearly \$7,000 more in annual income for every American worker. The approximate loss of \$1.4 trillion in annual GDP would be like the country's economy losing New York State's entire economic output
 - Wassmer*, 2021, Do Higher Land Costs for New Single-Family Housing Inhibit Economic Activity in U.S. Metropolitan Areas?, *Economic Development Quarterly*
 - Longer commutes, greater GHGs (40% of CA GHG emissions)
- Inequity for Those Residing in a CA Metro Area (or wanting to)
 - Cannot afford a home where grew up
 - Cannot build equity through home purchase
 - Perpetuates generational wealth inequalities
 - Neighborhoods segregated by income (race/ethnicity)
 - Overcrowded housing
 - Cannot access “better” schools or policing
 - Furthers political divides

[*rwassme@csus.edu](mailto:rwassme@csus.edu) for copy

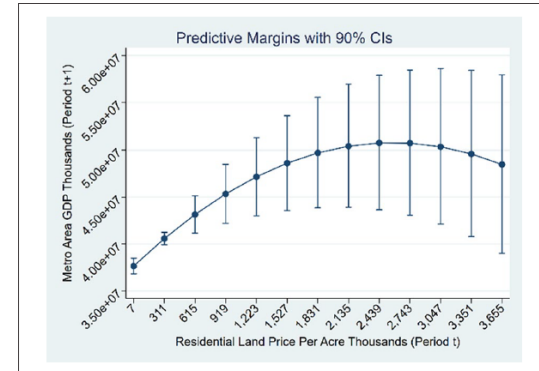
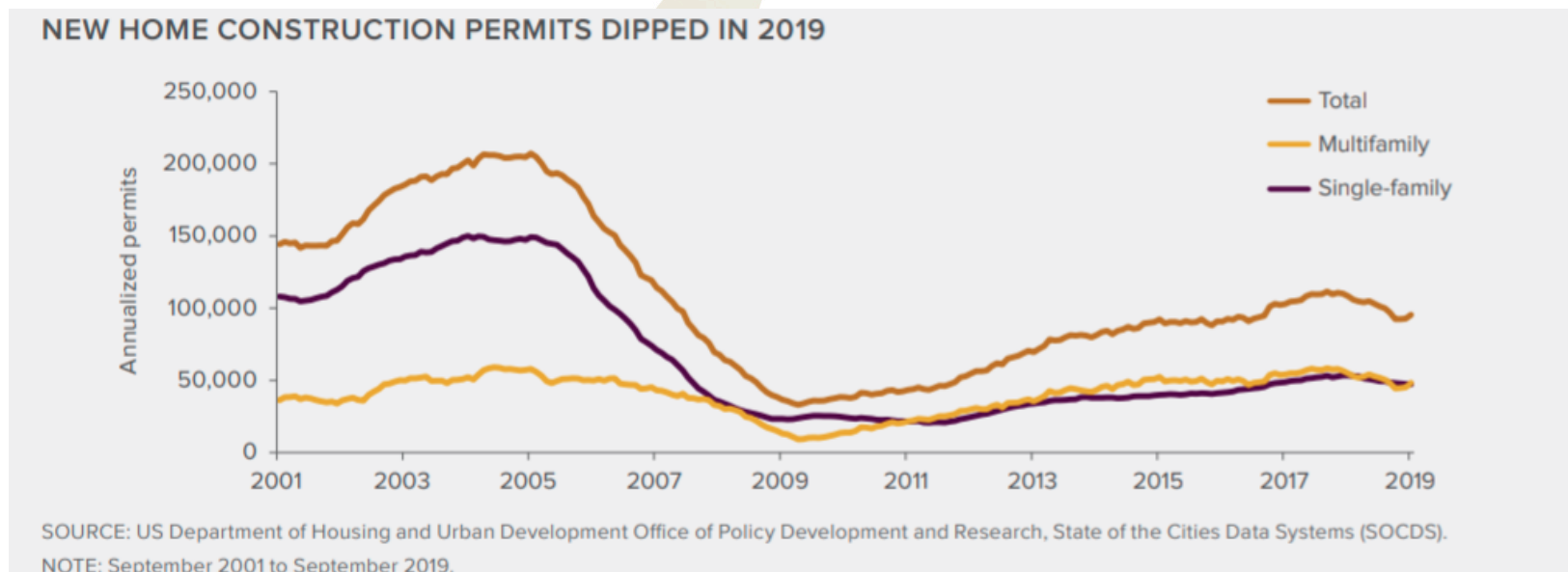


Figure 4. Simulation results of 1 standard deviation (\$303,000) increases in residential land per acre at sample average values for all 384 metro areas and all years.

Texas Comparison

	California	Texas
Population (2019)	39,512,000	28,996,000
Square Miles	155,780	261,231
Population Density	253.6	110.0
% Poor	11.8%	13.6%
Median Household Income (2015-19)	\$75,235	\$61,874
% White	37%	41%
% Population Urban (2015-19)	95.0%	84.7%
Median Home Value (2015-19)	\$505,000	\$172,500
Median Gross Rent (2015-19)	\$1,500	\$1,045
Building Permits 2020	106,075	230,053
Population Growth Rate (2010-20)	6.1%	15.9%

Not Enough Housing Supply



- Glaeser & Gyourko, 2018, *Econ Implications of Housing Supply*
 - <https://www.aeaweb.org/articles?id=10.1257/jep.32.1.3>
- CA ranks 49th by state with 347 housing units per 1,000 residents
- 2015 estimate that CA needs 1.8 million new homes by 2025 to increase affordability
 - Or 180,000 a year
 - 100,000 yearly average since 2015
- PPIC February 2020 Poll
 - 63% CAs say housing affordability “big problem” (25% “somewhat a problem”)
 - 32% CAs consider leaving state due to lack of housing affordability

How to reduce the price of shelter in CA?

• Reduce Demand

- Current residents leave state and/or less migrate here
 - Public subsidies to low-income buyers counteract

• Increase Supply
















- Build more
- Why not being done?



Figure B.4
Residential Development Process Flowchart



Figure 2.4
Barriers and Constraints to Housing Development

TYPE OF CONSTRAINT	CONSTRAINT
PLANNING PHASE	
Implementation and Enforcement of Planning Laws	 Tension between state and local control
	 Enforcement of state law
	 Community resistance to growth and change
	 Inadequate capacity and resources at a local level to complete plans
	 Weak general plan and housing program implementation
ZONING PHASE	
Competing Priorities	 Local revenue generating mechanisms that favor nonresidential development
	 Tensions between the need for transportation corridor or transit-oriented development (TOD) and health effects from exposure to poor air quality/pollutants
	 Development standards that impact supply and cost of housing
PERMITTING PHASE	
Processes and Standards	 High impact fees
	 Lack of implementation of housing programs
	 Multiple levels of discretionary review
Community Opposition	 Community resistance to new affordable housing
	 Environmental permit process reviews, which can be used to stop, or limit, housing development for various reasons
	 Calls for preservation of character that raise development standards, limit density, etc.
	 Referendums and requirements for voter approval
BUILDING PHASE	
Market Conditions	Limited access to predevelopment financing
	Weak market conditions
	High land and construction costs
	Public subsidies inadequate/declining



Local NIMBYism toward new (affordable) housing



CA Laws and Institutions that Further NIMBYism

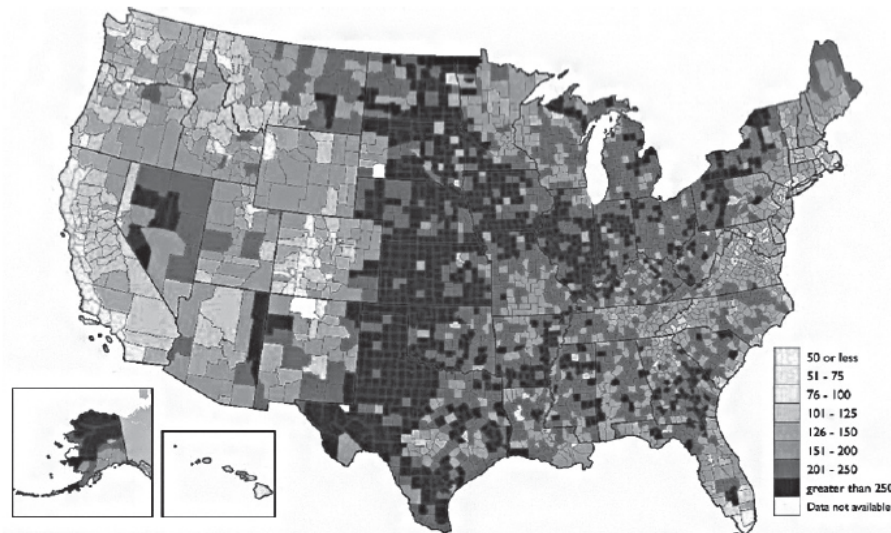
Not Enough Housing Supply

- Wassmer and Williams*, 2021, The Influence of Regulation on Residential Land Prices in United States Metropolitan Areas, *Cityscape: A Journal of Policy Development and Research* (HUD)
 - Measures of the stringency of local land use controls relevant to the development of residential projects do exert measurable positive influences on the average price of an acre of land available for single-family housing and thereby the price of such housing.
 - A decrease in this regulatory stringency by one unit (or about 1 to 1.5 standard deviations from the variation observed in all metropolitan areas) could cut the price of new residential homes by about one-fourth of the standard deviation observed in residential land prices across the United States.

Exhibit 2

Housing Affordability Index in the United States, by County, 2014–18

[*rwassme@csus.edu](mailto:rwassme@csus.edu) for copy



Source: Institute for Policy & Social Research, The University of Kansas; calculated using data from U.S. Census Bureau, 2014-18 American Community Survey; Board of Governors of the Federal Reserve System; Freddie Mac.

Housing Affordability calculated such that a value of 100 indicates a household has exactly enough income to qualify for a 30-year mortgage on a median valued home assuming a 20% down payment and qualifying median household income of 25% of monthly payment. Calculation also uses 5-year average 30-year mortgage interest rate of 4.04% for 2014-18. Therefore an index value of 200 indicates a household earning the median household income has 200% of income necessary to qualify for a conventional loan for 80% of the value of a median-priced home.

Median household is X% of that necessary to finance median house price

State Policy Response

- Regional Housing Needs Analysis (1969, RHNA or the *Housing Element*)
 - Cities and unincorporated portions of counties must adequately plan to meet 20 year, future, regional housing needs in their general land use plan submitted and approved by state office of Housing and Community Development every eight years
 - Each local entity must zone land for its “fair share” of this regional “need”
- Accessory Dwelling Units (ADUs), Housing Element enforcement, and similar minor tweaks (2016 and 2017 State of CA actions)
 - Best estimate +14,000 more annual units
- End of Single Family Zoning (*Upzoning*)
 - SB 9 (2021)
 - Can build two units on a parcel currently zoned single family
 - Can split parcel if each is at least 1,200 sq feet and one no less than 40% of original size)
 - Build four units if owner lives in one unit
 - Approval is now “by right” if result does not conflict with other zoning standards or “have a specific, adverse impact upon health/safety or the physical environment” that cannot be mitigated
 - CEQA and EIR
 - Estimated financial viability for about 110,000 parcels in CA
 - SB 10 (2021)
 - Within a half-mile of “major” transit stop, or directly adjacent, or “urban infill,” then allows local entity to zone a parcel for up to 10 units and avoid CEQA and EIR
- Philips (2020), *The Affordable City*
 - Suggests 40 other housing supply interventions

Ethical Conundrum

- "What Republicans want to do with I.C.E. and border walls, wealthy progressive Democrats are doing with zoning and Nimbyism. Preserving “local character,” maintaining “local control,” keeping housing scarce and inaccessible — the goals of both sides are really the same: to keep people out.”
 - Farhad (2019). "America's Cities Are Unlivable. Blame Wealthy Liberals. - The demise of a California housing measure shows how progressives abandon progressive values in their own backyards". *The New York Times*.
- NIMBY Interest of Home Owner and Local Jurisdiction of Keeping Out More Housing
 - Preserve and enhance home’s property value
 - Fischel (2005), *Homevoter Hypothesis*
 - Even more likely if “desirable” home price high
 - Maintain the “character” of the neighborhood you moved into
 - Do not wish to dilute the “quality” of your local public services (roads, parks, K-12 schools)
 - Ideological belief in local governance/control over land use rather than statewide
- **Also:** NIMBY Interest of Low-Income Home Renter Keeping Out *Gentrification*
- Social Interest of Metro or Statewide Efficiency and Equity Gains of Building More Housing
 - YIMBY?

Ethical Conundrum

- Wassmer and Wahid*, 2019, Does the Likely Demographics of Affordable Housing Justify [Motivate] NIMBYism?, *Housing Policy Debate*
 - Hedonic regression analysis of 4K+ home sales in Sacramento County in 2013
 - Controlling for MLS home characteristics, zip code location, and %s race/ethnicity Census Tract characteristics
 - For the then \$240K median price home, a rise in a Census Tract characteristic resulted in change in home price (holding everything else constant)
 - One std deviation (0.5) increase in household size [-\$17,280]
 - One std deviation (10) increase in percentage less than high school educ [-\$11,208]
 - One std deviation (11) increase in poverty [-\$12,329]
- Reaction
 - Three responses published in journal, one titled
 - *Affordable Housing and its Residents are Not Pollutants*

[*rwassme@csus.edu](mailto:rwassme@csus.edu) for copy

So What to Do?

Table 3: Housing Units Permitted in Davis, 2013-2019

Income Level	2013-2021 RHNA Allocation	Units Built or Permitted, 2013-2020 (a)	Shortfall between RHNA and Units Built or Permitted, through 2020
Very Low	248	138	110
Low	174	160	14
Moderate	198	510	N/A
Above Moderate	446	675	N/A
Total	1,066	1,483	124

Note:

(a) Progress shown includes units built or permitted from 2013 to 2020.

Sources: City of Davis 2019 Housing Element Annual Progress Report; City of Davis, 2021; BAE, 2021.

Table 58: City of Davis RHNA (June 30, 2021 – August 31, 2029)

Income Category	Dwelling Units	Percent of Total
Very Low	580	28%
Low	350	17%
Moderate	340	16%
Above Moderate	805	39%
Total	2,075	100%

Source: SACOG 2021-2029 Regional Housing Needs Plan, March 2020.

- State lawsuit against locality refusing to general plan zone for RHNA Housing Element
 - AB72 (2017) allowed state to sue Huntington Beach
- But still need to be built
- Overcome neighborhood resistance
- State Involvement
 - **Carrot** of state funds to mitigate resistance
 - Infrastructure, Public Safety, Public Schools, Parks, etc. subsidy to neighborhood taking them
 - **Stick** of lost state revenue sharing if not on track to achieve Housing Element
 - **Reduce local control** on land use restrictions and CEQA/EIR requirements
 - Coasian **market-based trading** solution

So What to Do?

Table 3: Housing Units Permitted in Davis, 2013-2019

Income Level	2013-2021 RHNA Allocation	Units Built or Permitted, 2013-2020 (a)	Shortfall between RHNA and Units Built or Permitted, through 2020
Very Low	248	138	110
Low	174	160	14
Moderate	198	510	N/A
Above Moderate	446	675	N/A
Total	1,066	1,483	124

Note:

(a) Progress shown includes units built or permitted from 2013 to 2020.

Sources: City of Davis 2019 Housing Element Annual Progress Report; City of Davis, 2021; BAE, 2021.

Table 58: City of Davis RHNA (June 30, 2021 – August 31, 2029)

Income Category	Dwelling Units	Percent of Total
Very Low	580	28%
Low	350	17%
Moderate	340	16%
Above Moderate	805	39%
Total	2,075	100%

Source: SACOG 2021-2029 Regional Housing Needs Plan, March 2020.

- State lawsuit against locality refusing to general plan zone for RHNA Housing Element
 - AB72 (2017) allowed state to sue Huntington Beach
- But still need to be built
- Overcome neighborhood resistance
- State Involvement
 - **Carrot** of state funds to mitigate resistance
 - Infrastructure, Public Safety, Public Schools, Parks, etc. subsidy to neighborhood taking them
 - **Stick** of lost state revenue sharing if not on track to achieve Housing Element
 - **Reduce local control** on land use restrictions and CEQA/EIR requirements
 - Coasian **market-based trading** solution