

UCLA ECONOMIC LETTER

REAL ESTATE AND THE MACROECONOMY

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Monthly condensed analyses of crucial real estate and economic issues offered by the UCLA Anderson Forecast and UCLA Ziman Center for Real Estate. Here, Paavo Monkkonen, Associate Professor of Urban Planning at the UCLA Luskin School of Public Affairs, offers prescriptions for California's affordable housing crisis.

This Economic Letter is a summary of work conducted for the University of California Center Sacramento Housing, Land Use and Development Lectureship and White Paper Competition. The Public Lecture will be held at UC Center Sacramento on December 1st, 2016, noon to 1:15 pm. The full White Paper will be available the same day at <http://uccs.ucdavis.edu/>.

How Democratized Planning Can Help California's Affordable Housing Crisis

By Paavo Monkkonen

Housing affordability is one of the most pressing issues facing California's families today. Low incomes for many of the state's residents and insufficient federal subsidies for housing are partly responsible for the affordability crisis, yet so too is California's slow rate of new housing construction. One of the main reasons we do not build housing at a rate that our state's job and population growth merits, is local opposition to new housing construction. State and local governments could help ameliorate the affordability problem by enhancing and enforcing the existing Housing Element framework, democratizing public participation in the planning process, and streamlining the permitting process.

"Conflicts occur in more urban neighborhoods because low-density, high-opportunity neighborhoods often block development."

Efforts to make housing more affordable by building more housing are controversial for many reasons. In my white paper, I group motivations for opposing new housing construction into four categories; quality of life concerns, the desire to control who lives near you, aspirations to preserve neighborhood character (defined in various ways), and confusion about the price impacts of new housing supply at the neighborhood and regional level. New housing is generally more expensive than existing housing it is built next to, thus it seems counterintuitive that building housing could mitigate price increases. Yet not building housing makes existing housing more expensive, with price effects at the metropolitan, not neighborhood, and cities that do build housing have lower housing prices.

The contemporary debates over new construction are further complicated by the fact that most current conflicts over new construction are in already-dense neighborhoods, which are often low-income. Thus, conflicts are now about gentrification rather than traffic. Yet, this is the result of the success of lower-density parts of the city, which tend to be higher income, have had blocking new development by zoning for single family homes. As a result, zoning laws set up in most cases as a way to exclude low-income and non-white households from certain parts of the city continue to do just that and new development is concentrated in a handful of already-dense places.

What can be done? The state and local governments can and should challenge resistance to new housing. I propose three directions for policy reform.

First, California's existing Housing Element framework, which seeks to balance housing development across cities, must be enforced and enhanced. This framework has three components. Regional housing needs – units affordable to different income groups – are estimated based on population projections. Councils of Governments (COGs) allocate these units to the cities and counties within their purview. Cities are then required to update their local housing element to reflect these regional needs.

Yet this system performs an almost symbolic function at present. Cities that meet their housing targets face no consequences, and cities that do meet them reap no rewards. The state should force cities to permit housing allocated to them under the Housing Element framework. In addition to various legal "sticks", the state can provide "carrots" - such as the allocation of infrastructure investment - to incentivize compliance.

We should also calculate regional housing needs differently. If one of the goals of the housing element framework is affordability, housing needs might better be calculated based on metrics like vacancy rates, or even an affordability index. The current system of population estimates is biased downward by housing costs in previous years, because fewer people move to places where costs are high.

Second, state and local governments in California must also take steps to democratize and expand public participation in the planning process. Our current planning system is inherently biased in favor of wealthy homeowners, who have the time and resources to advocate against projects near them. Planners must identify ways to get meaningful input from a more representative sample of the citizens they represent—families, low-income renters, young people, and others who might not have the capacity to regularly attend public hearings and planning commission meetings. If planners cannot get meaningful input from a more representative sample of the citizens they represent, some of the existing channels of input from well-off homeowners should be restrained. The City of Seattle, for example, recently disbanded its neighborhood council system because it was unrepresentative of the city's actual population.

Third, some aspects of planning decisions should not be in the hands of local governments. This planning model denies public input at the regional scale, despite the fact that this is the scale at which housing markets function. Where neighborhood opposition has proven to be a persistent hindrance to regional housing needs, legislators might consider bypassing the public input process in favor of by-right approval of projects. By-right approval means that projects are not put through the regular public comment and approvals process if they comply with current zoning. California's density bonus law is an important example of effective by-right approval that also enhances affordability. The state should expand of the conditions under which projects can be approved by-right.

The current regulatory and zoning environment in California prioritizes homeowners and single-family housing at the expense of renters, the economy, and the environment. Our planning and permitting system currently favors those with the time, resources, and incentives to block development, which reduces development in wealthy parts of cities and makes housing more expensive for the whole region. My forthcoming white paper on this topic presents background and suggestions for policy reform, but is only a first small step in identifying necessary reforms to land use rules in California.

