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COMMENTARY

Why Housing Is Unaffordable in California

What could really help is deregulation, but residents aren't likely to get it from Democratic lawmakers.

Contractors work on townhouses near San Jose, Calif., May 10. PHOTO: DAVID PAUL MORRIS/BLOOMBERG NEWS

By Allysia Finley
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Los Angeles

Democrats in Sacramento celebrated earlier this month when they passed a raft of bills intended to redress California's so-called housing crisis. Sorry to spoil the party, but their legislation will do little to address the real problem and could even make things worse for poor and middle-income residents.

Like so many of the state's problems, the crisis has political and regulatory origins. California's housing prices have always been high, but the gap has grown amid an increasing mismatch between supply and demand. Between 1950 and 1970, home prices were about 30% above the national average. By 1980 that had widened to 80%. In 2015 it was 150%.

In Silicon Valley the median home costs $1.2 million, about 2.5 times as much as in Seattle. Houses are less expensive inland—about $350,000 in Riverside and Sacramento—but living there often means a long commute. The weather also isn't much better than in Phoenix or Dallas, so why not move to another state? A net 800,000 people did just that between 2005 and 2015, and many of them earned less than $30,000.

The core problem is that over the past four decades California added only about half as many new housing units as it needed to keep up with population growth, and most of that construction was inland where there is less demand. As a result, real-estate prices in coastal counties have gone through the roof.

California's Department of Housing and Community Development estimates that home construction needs to increase 80% to meet demand. Achieving this would require bulldozing regulatory barriers, which Democratic politicians are loath to do.

The state Legislative Analyst Office notes that in California's coastal metros more than two-thirds of cities and counties have policies explicitly aimed at restricting housing growth, such as limits on density. When a developer wants to break ground, local governments impose multilayered reviews that can mean getting approval from the municipal building department, health department, fire department and planning commission as well as elected officials.

Neighbors can delay or block projects using the state's 1970 Environmental Quality Act. It isn't coincidental that California's housing prices soared during the 1970s. Getting a building permit in San Francisco takes about three times as long as in the typical American metro.

There are more-direct costs, too: Local governments tack on hefty development fees, which run about three to four times as high in California as in the rest of the country. Politicians often attach conditions to projects requiring developers to pay workers "prevailing wages," determined by local unions. This is one reason the cost of construction labor in California is about 20% higher than nationwide. Stringent building codes and energy-efficiency standards can add tens of thousands to the price of a house—even though low-flow appliances often cause people to use more water.

All told, it costs between $50,000 and $75,000 more to build a home in California than in the rest of the country. Building a low-income housing unit costs $332,000—about $80,000 more than the median home in Dallas or Phoenix.

One bill the Legislature passed asks voters to issue $4 billion in general-obligation bonds to subsidize construction of low-income housing. If approved by voters next November it would finance a whopping 750 new homes each year. By the way, taxpayers are already on the hook for $10.7 billion—$350 million in debt service this year—from previous housing bonds.

Another bill would require local governments that aren't meeting state-determined housing targets to streamline permitting for low-income housing. That could help some, but developers still could be forced to pay prevailing wages, and projects still would have to comply with building and zoning codes.

Zoning is generally the biggest obstacle to development in coastal areas. In Orange County's foothills, local residents have protested rezoning 4.4 acres of barren land to allow 22 homes to be built on 10,000-square-foot lots—half the size of the current requirement. Opponents accuse developers of being greedy, but their real gripe is that subdividing the lots would increase the housing stock and thereby diminish the value of their own homes.

California's housing policies are intrinsically regressive. Limiting the supply drives up home values in well-to-do coastal communities, while pricing everyone else out of the market. Households in the lowest quartile in California spend about two-thirds of their incomes on housing; those in the top quartile spend just 16%.

The conundrum California's landed gentry face is they want to boost their home values—and at the same time to have an abundant supply of low-wage workers to mow their lawns and clean their pools too.

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