



METROPOLITAN
TRANSPORTATION
COMMISSION

Agenda Item 4
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Memorandum

TO: Commission

DATE: December 8, 2016

FR: Executive Director

W.I. 1611

RE: Regional Housing Policy

Background

The Bay Area's current housing and transportation crisis reflect the cumulative impacts of both its robust job market and its abject failure to keep pace with housing need, especially near growing job centers. Since 2010, the Bay Area has added almost 500,000 jobs but only 50,000 new housing units, creating the most expensive housing market in the country. Looking ahead, there is more commercial zoning capacity in the Bay Area than for housing, so the prospect that the housing crisis will worsen is real given current state tax policy and difficult approval processes.

Cuts of over 50% to federal affordable housing programs since 2000, a lack of state funding, and the loss of redevelopment have restricted the ability of public agencies to meet the growing needs of low- and moderate-income households given median wage deflation from 2000-2013. The lack of housing near job centers and transit combined with rapid job growth led to record levels of freeway congestion in 2015 and crowding on transit systems like BART and Muni as impacts of the housing crisis have cascaded into the transportation network. See Attachment A for more background information from the April 2016 Commission Workshop.

Integrating Housing into Transportation

Over the past ten years, MTC has invested in select efforts that advance zoning for and producing housing in the region, including:

- Planning grants to local jurisdictions through the PDA Planning Program (\$24 million);
- Investment in the Transit Oriented Affordable Housing revolving loan fund (\$20 million);
- Conditioned regional One Bay Area Grant (OBAG) funds on local planning and production of housing and adoption of local supportive housing policies (\$710 million);
- Conditioned transit expansion policy on minimum zoning via TOD Policy (\$2 billion);
- Created new OBAG2 initiatives - the Naturally Occurring Affordable Housing (\$10 million) and 80K by 2020 programs (\$30 million);

- Hosted *Calling the Bay Area Home*, the MTC/ABAG-sponsored forum in February to discuss housing affordability and displacement concerns and solutions.

In addition, MTC and ABAG created the Priority Development and Conservation Area program almost a decade ago to steer resources towards transit-served communities planning for increased housing. These regional efforts have been significant in advancing local and regional dialogue about development and creating zoning capacity and real tools that contribute to the production of housing and jobs. However, given the magnitude of the Bay Area's current housing crisis, additional strategies and solutions are needed that go beyond the type and scale of MTC's current activities.

The consolidation of all of the regional planning staff from MTC and ABAG into a new Integrated Regional Planning Program provides an opportunity to maximize the impact of regional action moving forward (see Commission Workshop agenda item 2). With one integrated staff focusing on both transportation *and* housing issues, the MTC and ABAG boards can align and integrate long-range planning and near-term initiatives. This will be possible to advance with a combined staff plan that addresses both subjects with a single line of reporting and more concerted effort.

Role of Transportation Funding

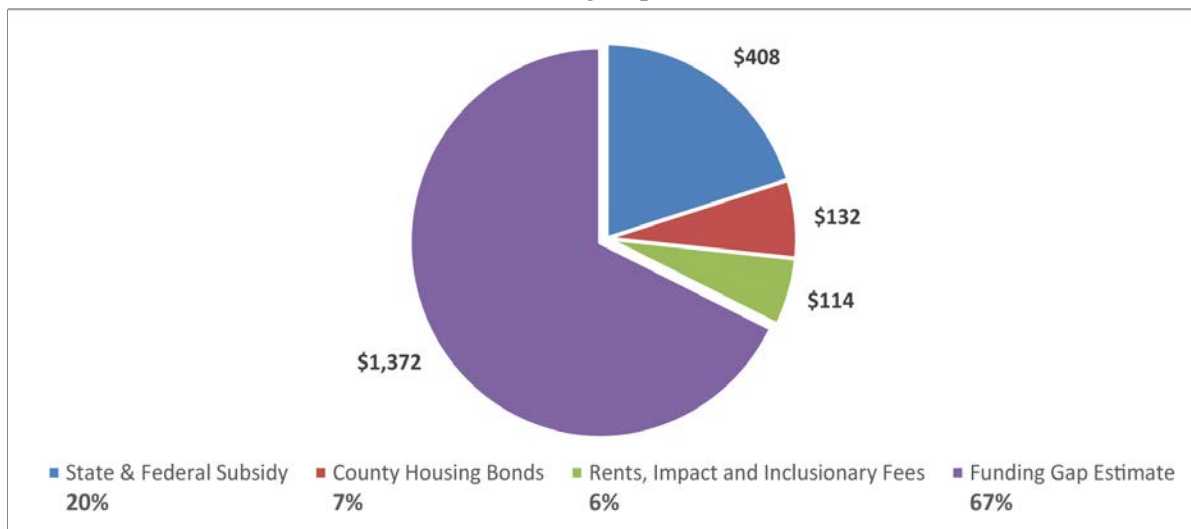
Attachment B includes several charts that illustrate the role transportation funding has played or could play in incentivizing or directly investing in housing production. These select program efforts seek both to influence and respond to local land-use decisions in the near and long term, primarily by leveraging funding as outlined above via the OBAG program and TOD policy.

- ***Direct Investment:*** Chart 1 shows the minimal amount of annual funding MTC is spending directly on housing and PCA initiatives, approximately \$3 million out of MTC/BATA's annual \$1.9 billion budgeting, or 0.002%. Chart 2 tells a similar story. It illustrates that only 3% of OBAG2 funding, or \$28 million, is allocated to programs that either influence land use through direct investment in plans and zoning (PDA Planning Program) or preserve it through the new OBAG2 Naturally Occurring Affordable Housing (NOAH) pilot program, which leverages MTC's investment at 5:1.
- ***Leveraging/Incentivizing:*** The role of MTC transportation dollars in leveraging and incentivizing housing policy is much larger. Chart 3 shows that some 45% of OBAG2 funding, or \$416 million (\$83 million annually), serves to incentive housing production through a county formula distribution based on Regional Housing Need Allocation (RHNA) commitment and actual housing production, as well as the 80K by 2020 initiative which rewards jurisdictions that build housing with additional transportation funding. Chart 4 outlines the amount of state and federal funding available to cities, in addition to direct funding from local sources such as sales taxes and parcel taxes, for transportation. The OBAG program is funded by the blue bar at the right of the chart. The other fund sources depicted in Chart 4 currently have no ties to housing or land use policy but could provide an opportunity to make that connection in the future. Regional Measure 3 could provide another opportunity for leveraging better Bay Area housing outcomes.
- ***Self Help Approach:*** While the Bay Area has self-funded transportation in light of state and federal inaction at almost \$1 billion annually, housing in the Bay Area lacks a dependable

regional or local funding program to support it today. The annual funding gap needed to build an adequate supply of low and moderate income housing, over 13,000 homes per year in the current RHNA cycle, is estimated at \$1.4 billion annually, as shown in Figure 1 on the following page. Given the steep decline in federal housing programs, most remaining federal funding is used for rehabilitation and does not increase supply. The Affordable Housing and Sustainable Communities (AHSC) program funded through the State’s Cap and Trade program to date has funded about 10 projects a year in the Bay Area at approximately \$80 million per year. Recently approved bonds in San Francisco, Santa Clara, and Alameda counties at roughly \$130 million annually, also shown in Figure 1, alongside San Mateo’s approved general sales tax, will leverage scarce dollars and infuse the housing system with additional capital.

However, the remaining funding shortfall for affordable housing construction is vast, while the incentives to build housing are limited. Staff believes that the region needs to raise more of its own revenue to address the housing and affordability crisis given the lack of state and federal leadership similar to the “self-help” approach for transportation projects pioneered by Santa Clara County in 1984. Such a regional initiative would complement the bold county housing bond efforts passed in the last two elections, and could provide long-term certainty related to the region’s housing needs. Self-help for housing mechanisms could include a multi-county fee or bond measure and would require state legislative authorization.

Figure 1
Annual Low & Moderate Housing Gap: 2014-22 RHNA (in millions)



Housing Committee Proposal

In light of the region’s housing challenge, staff proposes establishing a regional blue ribbon housing committee composed of multi-sector partners who are committed to identifying and implementing *game-changing regional solutions* to address the Bay Area’s chronic housing affordability challenges. The housing committee’s primary focus would be to develop a *Regional Housing Implementation Strategy* that would represent a regional consensus on a full

range of legislative, regulatory, financial and market-related measures necessary to provide for the region's true housing need at all income levels. That's obviously a pretty tall order.


We further propose to name this ambitious effort the Committee for Affordable and Sustainable Accommodation (CASA). The CASA initiative – similar to a recent consensus-building process in Seattle – would seek to bring together diverse interests to explore regional initiatives that can be implemented for the Bay Area, recognizing that leadership from the state and federal government is unlikely to save the day.

Fred Blackwell, Chief Executive Officer of the San Francisco Foundation, and Leslye Corsiglia, Executive Director of SV@Home, have agreed to serve as co-chairs of the committee should the Commission agree to pursue this course of action. Appointments to CASA would be made by the MTC Chair and ABAG President, and would include local jurisdictions as well as non-governmental organizations representing the “three Es” – economy, equity and the environment.

With the recent approval of the Plan Bay Area 2040 “preferred scenario” and commitment to establish a corresponding action plan by the Commission and the ABAG Executive Board, the CASA initiative offers an initial opportunity to identify near and medium-term actions for the region to make meaningful progress on the Plan's housing goals.

The committee would be supported by the integrated regional planning staff, as well as a consultant team, who would provide the data and analysis necessary to assist the committee in preparing a consensus *Regional Housing Implementation Strategy*. This project would be the first major task for the merged planning groups – working together to jointly address the housing crisis that has been long brewing.

Staff anticipates launching the CASA committee in early 2017, with its work continuing for about one year. We look forward to a robust dialogue about this critical and vexing policy challenge at our workshop next week.



Steve Heminger

Attachment A: Key Challenges for Bay Area's Housing

Attachment B: Funding for Housing and Transportation

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Attachment A: Key Challenges for Bay Area's Housing

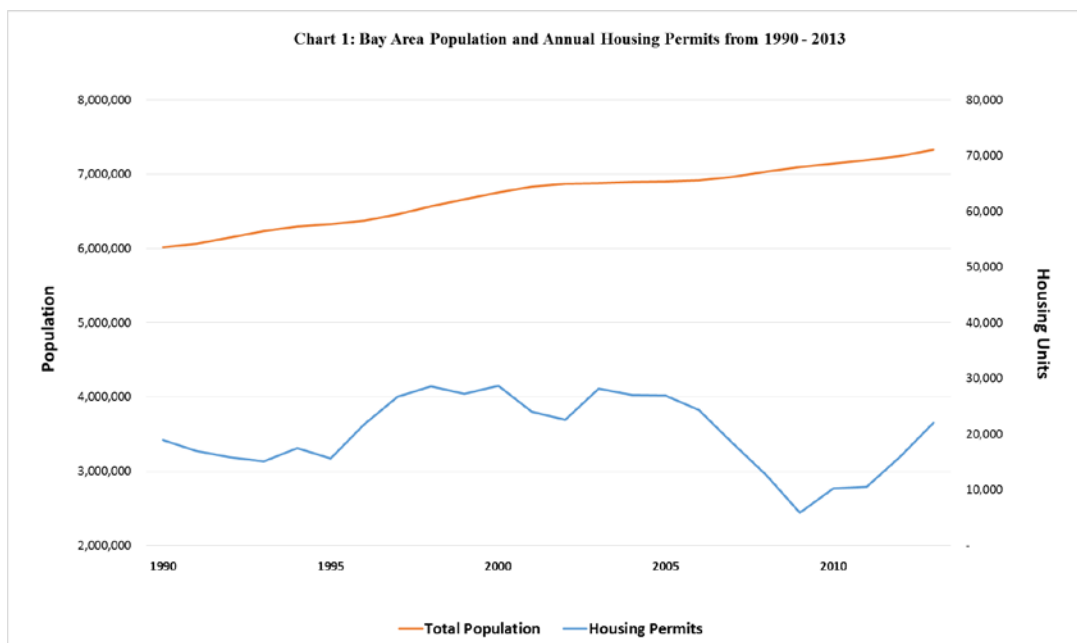
Overview

The Bay Area's housing affordability and neighborhood stability crisis has been decades in the making. It is the cumulative outcome of numerous local, regional, state and federal legislative and regulatory actions (or inactions) over the last 40 years, arguably all the way back to the mid-1970s, when the rate of housing construction in the Bay Area first started to lag behind the rest of the country¹.

Since there are multiple perspectives among various stakeholders on the root causes of and solutions to the current housing crisis, staff has developed this white paper in an attempt to capture these various perspectives on key challenges for review and consideration by the MTC Commission as it develops proposals for regional action. While this paper presents the key findings from staff research, it does not represent a comprehensive account of all the housing issues in the region.

Key Housing Challenges

- Housing production in the Bay Area has lagged growth in jobs and residents for decades** – The region has consistently failed to build an adequate number of housing units to accommodate the growing number of jobs and residents in the region. For example, *since 2010, the region has added only 1 new unit for every 5 new jobs*. Chart 1 compares the 25-year population and annual housing permits, noting the region adding population every year during that period. Lack of adequate supply to meet our growing population is a major contributor to high housing costs in the region.



¹ See CA Legislative Analyst's Office Report, 2016, at <http://www.lao.ca.gov/Publications/Report/3345>

While the cost of housing has increased significantly for both owner and renter households, the level of support and protections for homeowners is far higher than for renters², leading to a higher risk of displacement for renters during periods of growth and expansion. If housing production consistently lags demand, a housing crisis, especially for renters during a jobs boom, is unavoidable.

“Our goal is not to stop all development. Our goal is to stop incredibly large development that focus exclusively on market-rate housing.”

– Edwin Lindo, Vice President for External Affairs for the San Francisco Latino Democratic Club, in an interview with the San Francisco Business Times referring to a proposed moratorium on building new housing in the Mission District (July 2015)

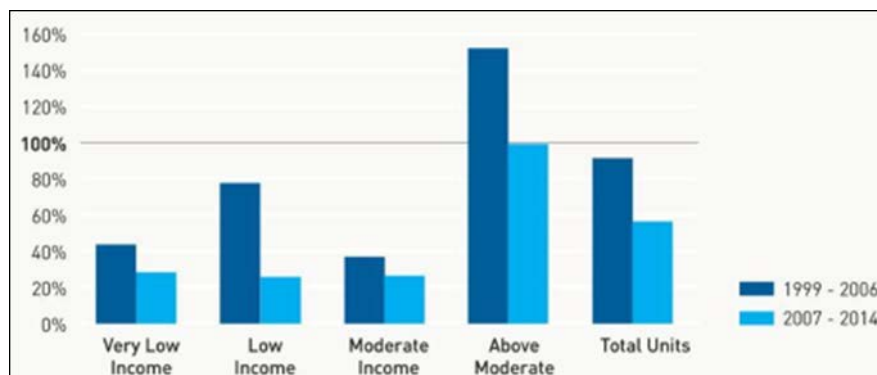
Typically, *as market-rate rental housing ages, it becomes more affordable* to a wider range of households. For example, market-rate rental housing built in the high-cost cities of Los Angeles and San Francisco between 1980 and 1985 were high in 1985 (rents were well- over median), but the same units were more affordable (rents were close to median of all rental units) in 2011, a 1% increase in affordability year-over-year. This points to a need to keep a steady supply of multi-family housing construction, which has been limited until recent years.

- 2. Affordable housing production in the Bay Area has lagged even further behind market-rate units** – Since 1999, the region has built less than a third of the units needed to meet the needs of vulnerable populations such as low- and moderate-income households, seniors and the homeless. *The private market hasn’t been able to provide housing for even middle-income households*, especially since the cost of land and construction in the Bay Area has increased faster than the rate of inflation.

As illustrated in Chart 2, the Bay Area has struggled to meet all of its Regional Housing Needs Targets, issuing permits for about 35% of the needed low and moderate income housing. This left over 100,000 affordable units unbuilt from 1999-2014. The region exceeded its above moderate (market rate) housing targets over the same period, but too often those homes were far from established job centers. Looking forward, the strong housing market and fewer affordable housing resources are likely to result in similar results going forward.

² Homeowners benefit from Proposition 13, which limits increases to their property taxes, and from federal tax policies, which allow tax deductions on mortgage interest.

**Chart 2: Share of Regional Housing Needs Allocation Permitted 1999-2014
San Francisco Bay Area (Source: ABAG)**



In fact, housing production for moderate income households (the region’s middle class) has been lower than any other income category since the 1990s³. The market provides a diminishing number of homes for non-affluent buyers and subsidies for moderate income households are largely nonexistent.

3. **Even the housing that is built is not “location-efficient”** – Much of the recent housing production has occurred in East Bay jurisdictions while much of the job growth in high-growth industries is concentrated in the West Bay. This has led to longer commutes, more congestion on highways and local streets, higher environmental and health impacts, and higher transportation costs for all workers. These outcomes not only affect Bay Area residents’ quality of life, but also limit the economic growth potential of the region’s employers.

The lack of affordable housing close to low- and moderate-wage jobs, which are often co-located with the high-wage jobs, creates an even bigger imbalance for low- and moderate-income households. These households are unable to compete with higher-wage workers for the limited number of market-rate housing units in neighborhoods near jobs and transit. This jobs-housing mismatch has resulted in higher displacement risk, longer commutes and higher transportation costs for lower-wage workers⁴.

4. **Instead of facilitating planned development, strong local and state regulations often prevent all development** – Many local jurisdictions have laws that require developers to secure conditional use permits for housing developments that are consistent with adopted zoning codes and general plans furtherer delaying and restricting new housing construction.

"It is long past time that we as an agency recognize the need. Will it drive some developers away? Probably. Those left standing will understand the requirements."

– BART Director Joel Keller, City of Antioch, speaking after the agency adopted a policy that requires developers to provide 20% affordable housing units in projects built on BART station property (February 2016)

³ See Regional housing Needs Allocation Report for 1999-2014, ABAG

⁴ See: <http://interact.regionalchange.ucdavis.edu/roi/>

These requirements – essentially prohibiting “by-right” development, even affordable housing development – are largely non-existent in most other metropolitan regions (New York, Washington DC and Seattle, among others).

Similarly, *state environmental protection laws inadvertently restrict higher-density, mixed-use, infill development*, leading to cost escalation due to delays and litigation. While SB226 and SB743 have attempted to address the issue, the impact of such laws relative to enabling infill development has been modest.

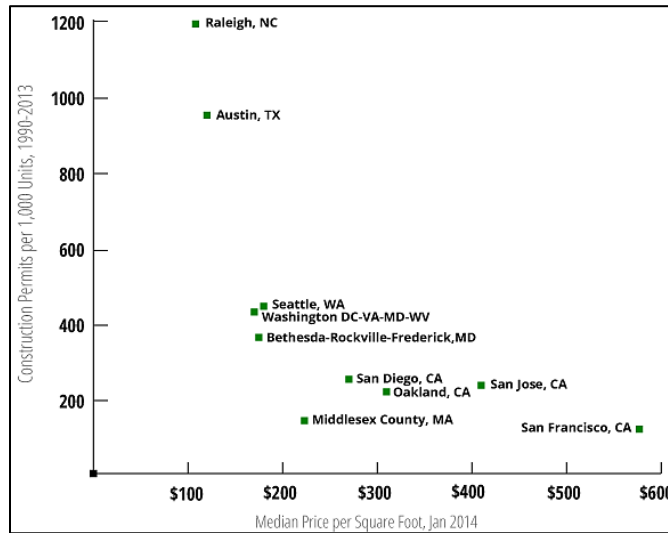
A report released by the law firm Holland & Knight in August 2015 found that projects designed to advance California’s environmental policy objectives are the most frequent targets of CEQA lawsuits: transit is the most frequently challenged type of infrastructure project (more than both highways and local roadways); renewable energy is the most frequently challenged type of industrial/utility project; and housing (especially transit-oriented housing) is the most frequently challenged type of private-sector project. *Almost 80 percent of all CEQA challenges were filed against infill development.* These outcomes can only be described as utterly perverse.

“An adequate supply of housing cannot be built in a day, but will be built faster if we work together and avoid the false and polarizing choice of affordable versus market-rate. We need both, and building new market-rate housing takes pressure off existing supply that serves residents from a wide range of incomes.”

– Dr. Micah Weinberg, *President of the Bay Area Council Economic Institute and a renter in Oakland, in a guest commentary – Oakland housing crisis is a deep hole, but it must start digging – in Inside Bay Area (March 24 2016)*

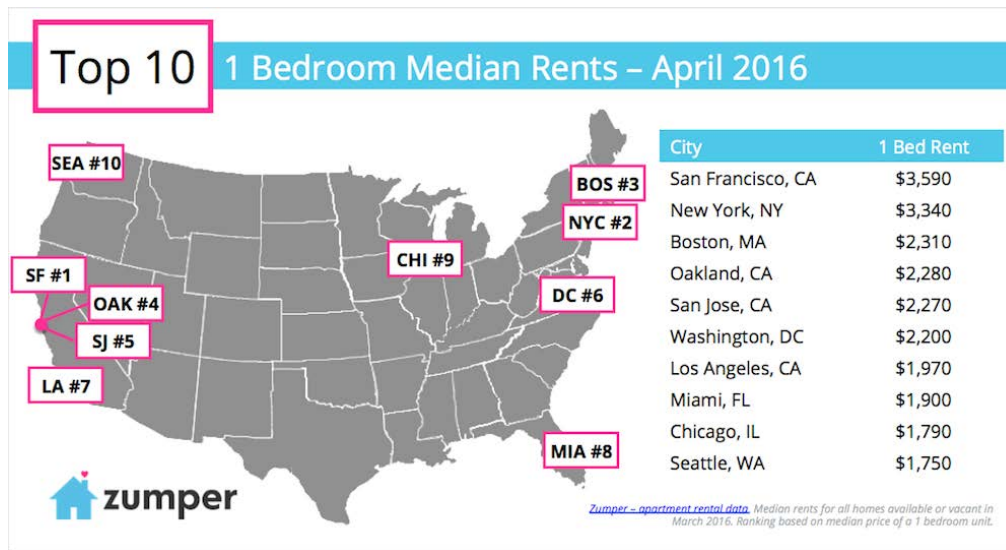
Chart 3 below compares housing cost per square foot in 2013 with housing permits per 1,000 homes in 1990. During that span, Seattle, WA issued construction permits at a rate of a little over 400 new permits for every 1,000 units that existed in 1990. During the same time, San Francisco, CA permitted just 117 units for every 1,000 units that existed in 1990. *In 2014, home prices in Seattle, WA were a little under \$200 per square foot, compared to almost \$600 per square foot in San Francisco.*

Chart 3: Home Prices and New Construction in Tech Hubs 1990-2013 (Source: Trulia)



The cost of housing is not limited to home purchases. As seen in Chart 4, the Bay Area is now home for four of the five most expensive rental markets in the nation.

Chart 4: Cities with the Highest Rents, 2016 (Source: Zumper Real Estate)



- Low- and moderate-income renters face high displacement risk in almost every city –** As housing costs rise, lower-income renters are often forced to move to neighborhoods farther away from jobs, transit and amenities. The lack of adequate tenant protections, or

"It made my heart sink and my stomach feel bad. We are not against affordable housing. We just want to see it done in a sensible, responsible, good way."

– Marin resident and President of the Lucas Valley Homeowners Association, Maggie McCann, referring to filmmaker George Lucas' proposal to use \$100 million of his own money to finance 224 low-income apartments on a piece of land he owns called Grady

availability of subsidized or “naturally affordable” market-rate units in the most “desirable” neighborhoods, has accelerated displacement of lower-income residents and businesses from the urban core.

Without their strong rent stabilization and just cause provisions in place, cities such as San Francisco, East Palo Alto and Oakland would have been expected to lose even more lower-income renters. Despite the benefit of tenant protections many lower-income renters have relocated to more affordable neighborhoods in the suburbs, unintentionally displacing existing residents in these communities to locations farther from the region’s core and related employment centers. This domino effect is one reason why *even the most affordable cities in east Contra Costa and Solano County are experiencing displacement*. Communities that add jobs but not sufficient housing pose the highest risk of displacement to lower-income renters. Communities that have historically underbuilt market-rate and affordable housing have lost the largest percentage of lower-income renters since 2000⁵. These

- 6. Elimination of Redevelopment Authorities has further restricted infill development and affordable housing production** – The dissolution of redevelopment agencies by the state has eliminated a large source of funding for infill and affordable housing projects, and restricted the ability of local jurisdictions to secure and assemble parcels, fund infrastructure improvements that support market rate and affordable housing development. *Redevelopment authorities in Alameda County contributed more than \$500 million for affordable housing between 2001 and 2011*⁶.

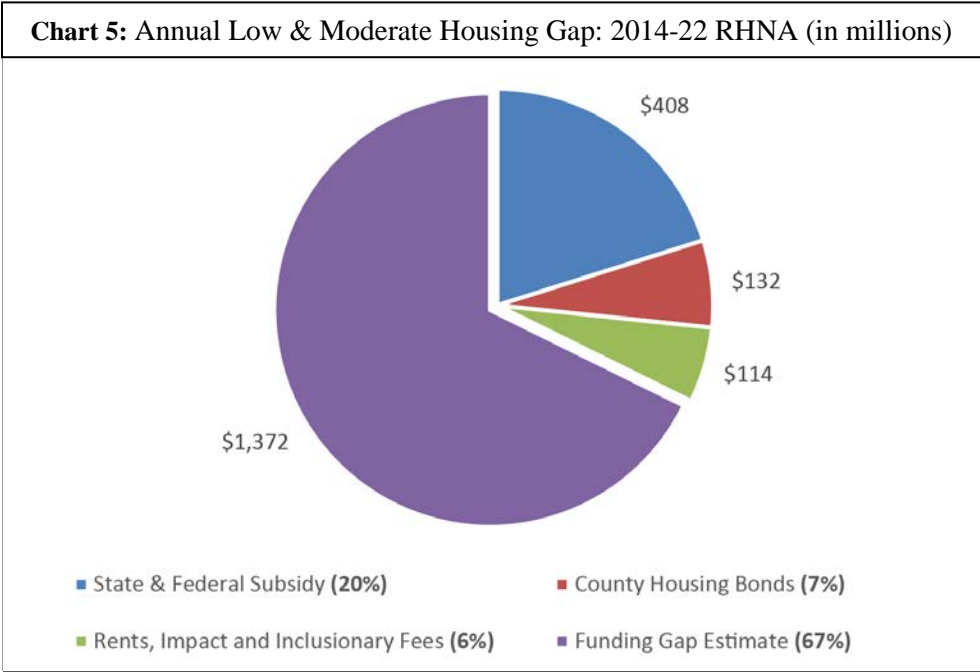
“The scale of the affordable housing crisis and the need for funding to address it over the next five years is much greater than \$250 million — more like twice that amount (in San Francisco). We appreciate the mayor’s commitment to a bond measure, and we urge him to push as far as possible.”

– Peter Cohen, Director of Council of Community Housing Organizations, referring to Mayor Ed Lee’s proposal for a bond issue to fund affordable housing in San Francisco (February 2016)

- 7. Declining state and federal resources have constrained the ability of public agencies to respond** As state and federal funding for housing programs has declined or run out, the number of low- and moderate-income households that are rent burdened has increased significantly. Chart 5 shows the current annual funding gap to construct the low and moderate income units allocated to the Bay Area for the 2015- 2022 regional housing needs cycle. The lack of resources, in light of the dissolution of local redevelopment functions and the end of the Proposition 1C funding, creates a tremendous challenge to the region as it seeks to catch up with its past low and moderate income housing construction shortfall.

⁵ See: http://planbayarea.org/pdf/prosperity/research/REWS_Final_Report.pdf

⁶ See: <https://www.acgov.org/cda/hcd/documents/Lost-Redevelopment-funds-impact-Affordable-Housing.pdf>

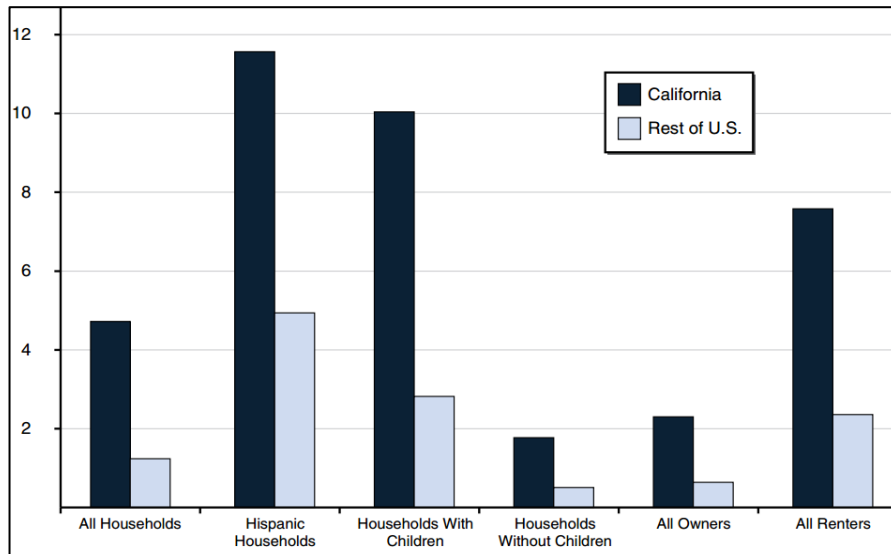


8. **Availability of developable land is limited due to geography and strong land protections** – The Bay Area has done an excellent job of protecting large tracts of wetlands, agricultural land and open space compared to most other metropolitan areas. This effort has limited sprawl on “greenfields”, expanded recreational opportunities and preserved scenic and natural resources. However, the resulting constrained supply of developable land coupled with significant and multiple challenges to infill development has severely restricted housing production across the region.

As mentioned before, the lack of housing production, in the long term, creates conditions for significantly higher housing costs in later years. This dynamic has also led to the long-term trend of Bay Area workers commuting from nearby regions with comparably affordable housing. These long distance commutes to homes, often developed on former farmland, leads to higher per capita greenhouse gas (GHG) emissions and traffic congestion at the region’s gateways.

9. **Wages of low- and moderate-income households have lagged behind rising housing costs** – Even as housing costs rise and funding for housing programs decline, wages of low- and moderate-income households have not kept pace with the rate of inflation. Real wages for many renters have actually declined in terms of purchasing power, with 2013 median household income still below 2000 median household income though it is on the rise. Chart 6 shows a critical way wage and housing pressures manifests itself, with high crowding throughout the state at a rate nearly four-times the national average. California now has the highest share of overcrowded renters in the nation. *Nearly 30 percent of the country’s households living in overcrowded conditions are in California* (CHPC, 2014).

Chart 6: Crowding Rates in California and the US, 2013 (Source: LAO Report, 2016)



10. Proposition 13 has resulted in fiscalization of development decisions – State law caps property tax increases for owners of residential and commercial property. While Prop 13 benefits long-term homeowners, it reduces the fiscal benefits of housing when compared to retail or commercial development, leading many jurisdictions to view housing as a “net loss”. *Homeowners also lack the motivation to allow new residential development in their neighborhoods, since lower supply provides significant financial benefits in terms of higher housing values and increased equity.*

On the other hand, Owners of commercial property lack the motivation to develop vacant parcels since the “cost” of holding these properties is relatively low, and a potential windfall from rising land values over time relatively high. Consequently, even in “hot” real estate markets, many parcels remain vacant and underutilized. Proposition 13 is another key aspect of the perfect storm of heavy regulation, limited subsidies and disincentives that together make the Bay Area unaffordable for many families in 2016. Peer metropolitan regions in other states do not have a comparable statute that provides extreme advantages for long-term homeowners and puts entry level households at a distinct disadvantage.

11. A relatively large number of currently deed-restricted affordable housing units are at risk of conversion to market-rate units – A recent report⁷ published by the California Housing Partnership Corporation (CHPC) identified around 6,000 units in the region that are at risk of conversion. A large share of these units are located close to transit. All of these units currently house low-income renters. Preserving these units as permanently affordable housing is significantly cheaper than building new affordable units. Unfortunately, most cities in the region do not have a plan to systematically identify at-risk affordable units and

⁷ See: <http://chpc.net/services/preservation-of-at-risk-housing/>. See also: http://planbayarea.org/pdf/prosperity/Reconnecting_America_Preserving_Affordable_Housing_Near_Transit.pdf

prevent these units from being converted to market-rate units. State law also does not allow local jurisdictions to take full RHNA credits for preserved units.

Conclusion

Staff's analysis of the Bay Area' multi-decade housing affordability shortfall has made it clear that, like most chronic problems, the region's shortage of housing cannot be solved with a single solution. Effectively moving the needle on housing affordability in a manner that expands housing choices, reduces displacement pressures on our most vulnerable citizens and strengthens the connection between transit, jobs and housing requires a multi-pronged strategy. The region must pursue a multi-pronged strategy that emphasizes the construction of new homes for all incomes, the protection of the region's most vulnerable households, and the need to advocate for the ability to pursue local and regional solutions.

Attachment B: Funding for Housing and Transportation (MTC, State and Federal)

Chart 1

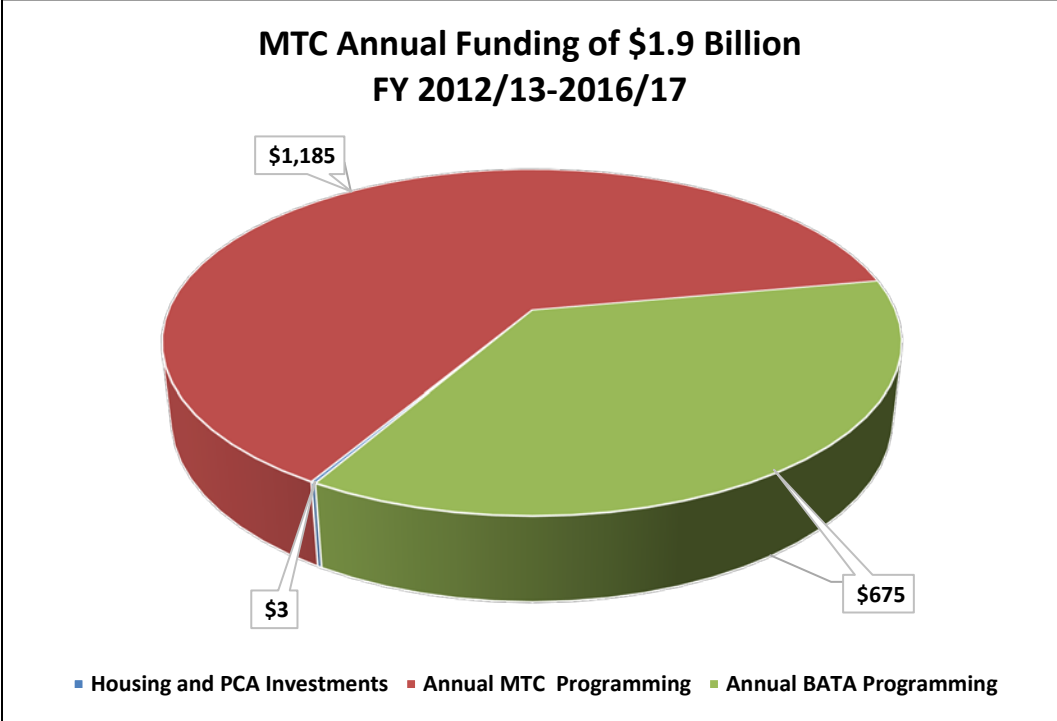


Chart 2

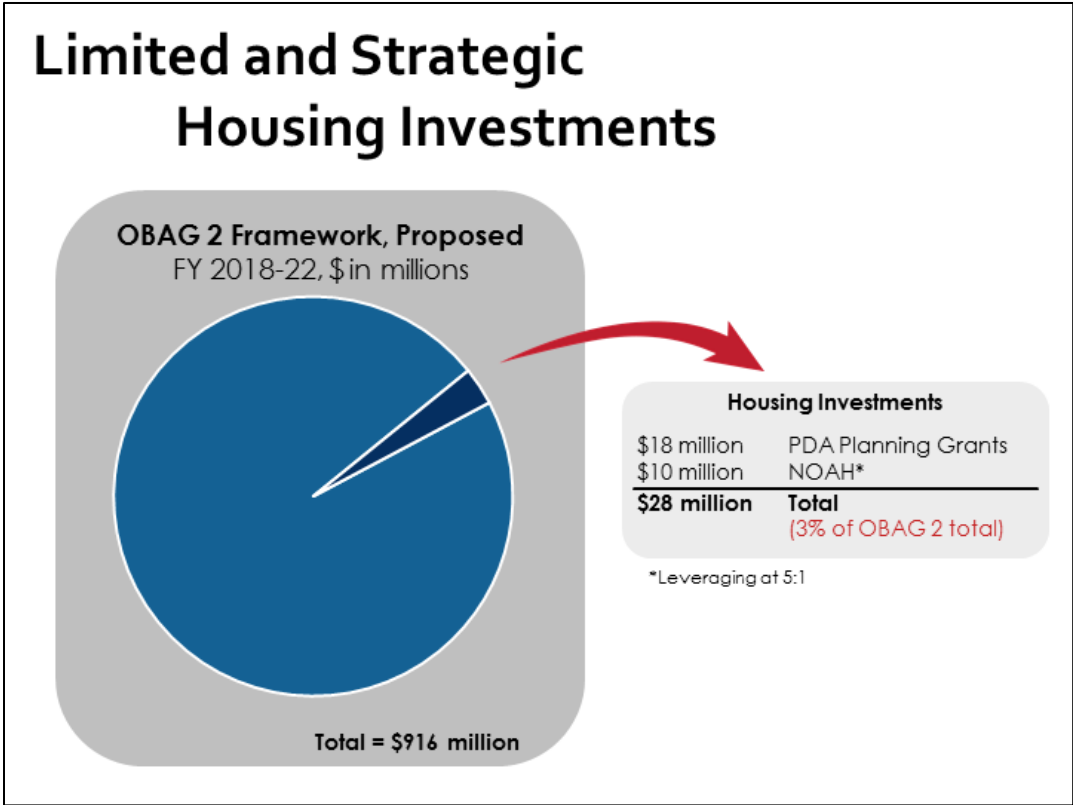


Chart 3

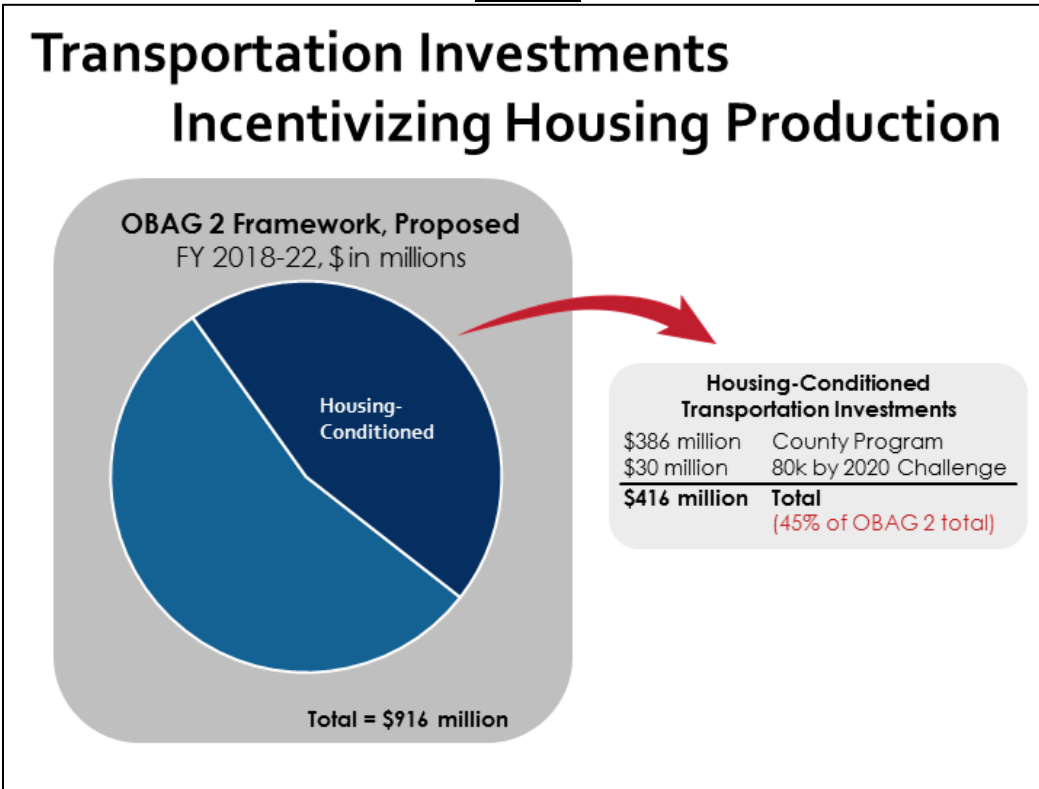


Chart 4

Transportation Fund Sources Available to Local Agencies (Estimated annual Revenue Amounts for FY 2016-17 unless otherwise noted)

