

# What It Will Really Take to Create an Affordable Bay Area

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How much housing does the region  
need to build to keep income inequality  
from getting worse?



**This report is a component of the SPUR Regional Strategy,  
a vision for the future of the San Francisco Bay Area  
[spur.org/regionalstrategy](https://spur.org/regionalstrategy)**

A previous version of this report was published in March 2020. The SPUR Executive Board adopted this updated version on December 1, 2020.

## Acknowledgements

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### Thanks to:

Tim Cornwell and Jordan LaMarche of The Concord Group for providing the housing data analysis in this report

Stephen Levy of the Continuing Center for the Study of the California Economy for providing population and job projections as detailed in his report *High and Low Projections of Jobs and Population for the Bay Area to 2070 — Projection Framework, Specific Assumption and Results* (November 2019)

California Housing Partnership and the Urban Displacement Project for sharing their data with us

Issi Romem for his review and comments

Sarah Jo Szambelan and Nick Josefowitz of SPUR for their contributions to this report

Justin Fung for data visualization support

### Housing the Region Task Force

We thank the following task force members for sharing their time and expertise with us. The findings and recommendations in this report are SPUR's and do not necessarily reflect the views of those listed below. Any errors are the authors' alone.

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### Thank you to the funders of the SPUR Regional Strategy:

Chan Zuckerberg Initiative  
Clarence E. Heller Charitable Foundation  
Curtis Infrastructure Initiative  
Dignity Health  
Facebook  
Genentech  
John S. and James L. Knight Foundation  
Marin Community Foundation  
George Miller  
Sage Foundation  
Silicon Valley Community Foundation  
Stanford University

Further support from AECOM, Fund for the Environment and Urban Life, Hellman Foundation, Microsoft and the Seed Fund

Additional funding for housing policy provided by Stripe and Wells Fargo

# Contents

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Introduction	4
<b>Chapter 1:</b> Why is housing so expensive in the Bay Area?	8
<b>Chapter 2:</b> How much housing does the Bay Area need to build in order to make the region affordable?	15
Conclusion	19
Appendix	20

# Introduction



Photos by Sergio Ruiz.

The high cost of housing has come to define the San Francisco Bay Area. It dictates who gets to live here, which in turn dictates who gets to participate in the region's booming economy and political process. Year after year, the Bay Area tops national lists of the most expensive places to live.<sup>1</sup> Year after year, the number of people without homes grows larger.<sup>2</sup> And the problem never seems to get better. In fact, despite the best efforts of those who work on housing policy, it only gets worse — a dynamic that has now been in play for decades.

This report, the first in a series, aims to determine why housing prices have escalated so dramatically in the Bay Area over the past several decades, what the impacts of those escalating housing costs have been on Bay Area residents and who has borne the brunt of those impacts.<sup>3</sup> The three other reports in this series — *Housing as Infrastructure: Creating a Bay Area Housing Delivery System That Works for Everyone*, *Meeting the Need: The Path to 2.2 Million Homes in the Bay Area by 2070* and *Rooted and Growing: SPUR's Anti-Displacement Agenda* — offer a set of long-range policy solutions to address this crisis and enable the Bay Area to become a more affordable region.

1 National Low Income Housing Coalition, "Out of Reach" 2020, page 17, [https://reports.nlihc.org/sites/default/files/oor/OOR\\_BOOK\\_2020.pdf](https://reports.nlihc.org/sites/default/files/oor/OOR_BOOK_2020.pdf), accessed July 16, 2020. Six of the 10 most expensive metropolitan areas are in California.

2 <http://www.bayareaeconomy.org/report/bay-area-homelessness/>

3 A previous version of this report, published in March of 2020, included initial policy ideas for addressing these changes. These ideas have since been developed into the additional reports in this series.





This report is part of SPUR's Regional Strategy, a 50-year vision for the future of the Bay Area. Focusing on a five-decade time horizon enables us to think about solutions to entrenched problems at the scale that's required to meet the challenge, allowing us to consider the question: "What interventions would actually be sufficient to turn the tide on the housing crisis?" Making these changes means upending current structural systems. This will require us to think differently about where and how we live. But the alternative, which is to continue on the current path, will only lead to greater housing unaffordability, greater anxiety about how to afford the expense of life in this region, more overcrowding, continued displacement of families from their homes and neighborhoods, and more people living on the streets when they have nowhere else to go.

These ramifications, extreme in their own right, have spillover effects into other aspects of Bay Area life. Some people will be forced into much longer car commutes in search of more affordable housing at the edge of the region, increasing the amount of carbon in the air and exacerbating global warming, which in turn fuels wildfires and other forms of ecological destruction. The region will become less racially diverse, undermining the Bay Area's culture and reinforcing segregation, leading to a more brittle democracy. The economy of the Bay Area will become less competitive relative to other regions throughout the country because companies will want to grow in places where their workers can live more affordably and put down roots.

We don't have to live this way. If we believe that housing is a human right and act accordingly, we can live in a region where everyone is housed and the cost of that housing is not wildly out of step with people's ability to pay for it. A region where people don't have to drive two hours to work in order to afford housing for their families. A region where families aren't forced to live in unhealthy or overcrowded conditions. A region where the relationships that people form in their neighborhoods are sustained through stabilizing housing policies. A region where all people, not just the wealthy, get to flourish and thrive. Other societies have figured out how to house people and keep housing affordable while maintaining a strong economy. We can learn from them.

Changing the way we think about housing will require attention, focus and resources. It will not be easy to reverse course on the policies, practices and beliefs that have led us to the current housing crisis. But it is work we must do if we want to create a more equitable, sustainable and prosperous region.

# Housing the Region:

## A 50-Year Vision to Solve the Bay Area's Affordability Crisis

SPUR's vision for the Bay Area is one where all communities can thrive. Housing is the bedrock of a healthy region. By 2070, we want to create a Bay Area where everyone has a safe, decent, affordable place to live.

How does the region achieve this vision? In order to answer this question, SPUR has developed four reports on housing as part of our Regional Strategy initiative. There is no one silver bullet to address the housing crisis. Instead, a sustained, multifaceted approach is needed.



### What It Will Really Take to Create an Affordable Bay Area

**How much housing does the region need to build to keep income inequality from getting worse?**

This report describes the factors that have led to the housing crisis, changes in income and wealth that stem in part from the housing shortage and the impacts these changes have had on the region. It quantifies the housing shortage of the past 20 years and the amount of housing the region will need to build over the next 50 years to prevent income inequality from getting worse: approximately 2.2 million homes, or roughly 45,000 homes a year for 50 years.



### Housing as Infrastructure

**Creating a Bay Area housing delivery system that works for everyone**

SPUR believes that housing is a human right. If we treat housing as essential for humans to thrive, then the government must play a more critical role in providing it. For example, the public sector does not wait for the open market to provide water to homes and businesses: In most communities, it actively intervenes to ensure that this happens.

This report describes how the role of government must change in order to produce enough housing at all income levels, including changes in funding, the roles and responsibilities of different institutions, reforms in property taxation and mechanisms to support the industrialization of housing construction.



## Meeting the Need

### The path to 2.2 million new homes in the Bay Area by 2070

The region needs to produce 2.2 million new homes at all income levels over the next 50 years. This report details where these homes should go: in areas that are well served by transit, in commercial corridors and historic downtowns, in areas with great schools, jobs and amenities, and in the region's existing suburbs. The report also outlines how the rules governing the planning and permitting of housing will need to change. This includes both requirements and incentives for local governments to change their zoning codes to allow for much more housing.



## Rooted and Growing

### SPUR's anti-displacement agenda for the Bay Area

To create an equitable, sustainable and prosperous Bay Area of 2070, we need to radically change not only how much housing we build but also how we build it and where we built it. We must also ensure that the benefits of new infill development are shared by low-income communities and communities of color, who have historically been left out of the region's growing economy.

This report focuses on the steps needed to support both people and neighborhoods. Local jurisdictions will need to actively plan to reduce or eliminate displacement impacts. Local, regional and state government should align tax policies and incentives to reduce speculation in the housing market. Cities across the region must strengthen tenant protections. And government at all levels should foster the creation of places where people of different races, incomes and life experiences all feel like they belong.

The ideas in these reports are interdependent. It is not sufficient just to build enough housing; we must also protect tenants from displacement and eviction. It is not enough to reduce speculation in the market; we must also make tax structures fairer and support affordable housing production. It is not enough to fund affordable housing; we must also make it faster and less expensive to build housing. SPUR views the ideas in these reports as mutually reinforcing and invites readers to engage with each report. A summary of the entire project — Housing the Region: A 50-Year Vision to Address the Bay Area's Housing Crisis — can be found at [spur.org/housingtheregion](https://spur.org/housingtheregion).

## Chapter 1:

# Why is housing so expensive in the Bay Area?

Housing costs in the Bay Area increased 128% between 1997 and 2018.<sup>4</sup> At the time of publication, due to the COVID-19 pandemic and related recession, the average cost of housing in the Bay Area is likely to remain high unless decisionmakers take the necessary policy steps to produce a sufficient amount of housing.

There are two interrelated factors driving up the price of housing: a failure to build enough housing for all the people who live and work here, and increases in both incomes and the number of people with higher incomes. The housing shortage creates competition for scarce housing resources, enabling those with more money to outcompete everyone else.

## Driver 1:

### The Bay Area has not built enough housing.

Although demand for housing has increased dramatically over the years — most notably due to a rapidly expanding regional economy — the amount of housing produced annually in the nine-county Bay Area has decreased in recent decades. Through the 1980s, the region produced a significant amount of housing on an annual basis, though much of it was built in lower density development patterns, including single-family housing, master planned communities and garden-style apartments. In recent years, housing has increasingly been concentrated in fewer locations at higher densities,<sup>5</sup> and the number of units produced annually has decreased. This trend has multiple causes. The region has done a better job of protecting open space and seeking to concentrate growth in places that have already experienced development. Meanwhile local governments have added requirements to the development process, making it harder and harder to build housing in already-developed areas. Real estate investors concerned by the Great Recession (and the subprime lending that exacerbated it) moved capital toward less risky investments in high-end urban development. As the pandemic pushes the country into a recession, the number of units produced will continue to decline.

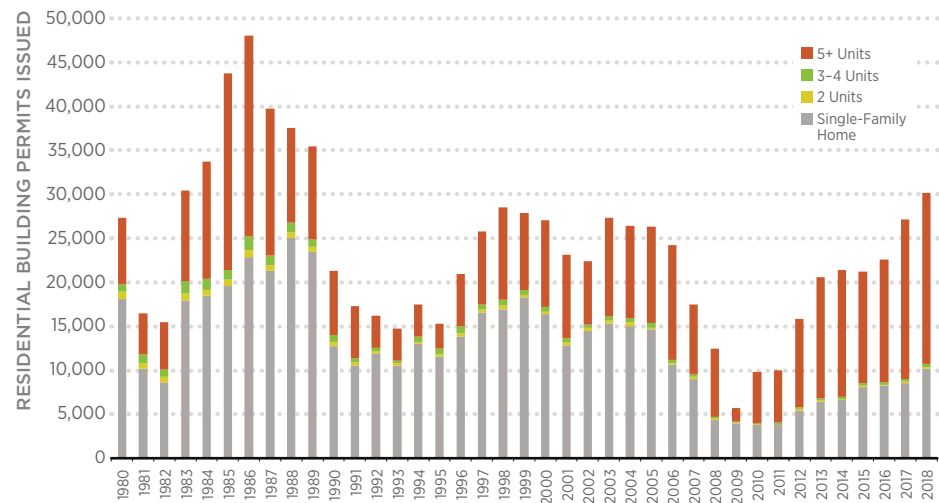
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<sup>4</sup> MTC Vital Signs. Adjusted for inflation. Accessed 9/22/20: <https://www.vitalsigns.mtc.ca.gov/home-prices>.

<sup>5</sup> Romem, Issi, "America's New Metropolitan Landscape: Pockets of Dense Construction in a Dormant Suburban Interior," February 1, 2018, <https://www.buildzoom.com/blog/pockets-of-dense-construction-in-a-dormant-suburban-interior>



**FIGURE 1**  
**The amount of housing produced in the Bay Area has declined since the 1980s.**  
 Residential Building Permits Issued in the Bay Area, 1980-2018



While housing production declined, the Bay Area added a significant number of jobs. From 2011 to 2017, the region added 658,000 jobs and 140,000 housing units, or 4.7 jobs for every housing unit. In many parts of the region, particularly those areas closest to the explosion in tech jobs, the ratio was significantly higher.

**FIGURE 2**  
**In the most recent boom, the Bay Area added many more jobs than housing units.**  
 Ratio of Jobs to Housing in Bay Area Counties

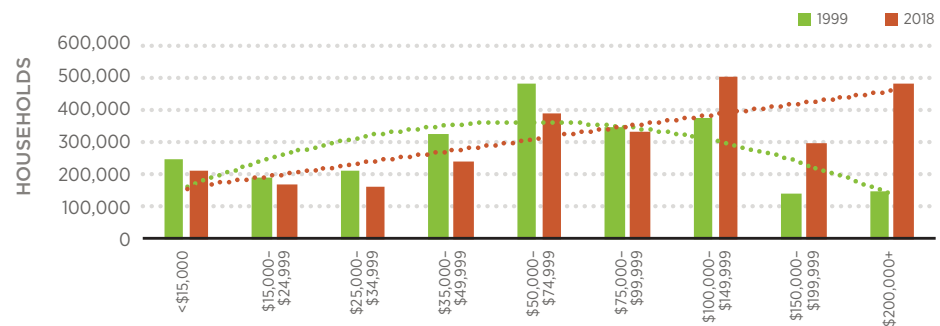
COUNTY	JOB TO HOUSING RATIO 2004-2008	JOB TO HOUSING RATIO 2011-2017
San Francisco County	4.27	6.26
Alameda County	-0.05	3.86
Contra Costa County	0.66	3.04
San Mateo County	0.91	8.14
Santa Clara County	1.71	4.15
Marin County	0.27	4.82
Napa County	1.88	8.41
Sonoma County	-0.63	5.15
Solano County	0.55	4.27

The region's new jobs have attracted new residents. Since 2000, the Bay Area's population has increased by 15% or roughly 1 million people. Adding more people without sufficiently expanding the amount of available housing has exacerbated the housing shortage and driven up the cost of housing. Many of the new jobs pay high salaries, so wealthier people are competing for scarce housing units, thereby increasing housing costs.

## Driver 2: Income inequality in the Bay Area is getting worse.

The Bay Area is becoming increasingly wealthy. Just 20 years ago, incomes were distributed in a bell curve, meaning more middle-income people lived in the region than either low-income people or wealthy people. Over the past two decades, that distribution has shifted to favor wealthier households. Since 1999, the Bay Area has seen a decrease of 300,000 in households making less than \$100,000 and an increase of 625,000 in households making more than \$100,000.<sup>6</sup>

**FIGURE 3**  
**Incomes have shifted in the Bay Area to include many more wealthy people and fewer lower income people.**  
Change in Bay Area Household Income Distribution, 1999–2018



Previous SPUR research provides two key explanations for the shifts in household income.<sup>7</sup> The first is that wages in high-wage occupations have grown much faster than wages in low- and middle-wage occupations. The second is that middle-wage jobs did not grow during the past decade and are projected to grow more slowly than high- and low-wage jobs in the future. Some other reasons for shifts in income could include changes in household formation (when people marry or move in with roommates or family members) and wage increases over time as some people have moved up the job ladder. The net result is that as more higher-income households compete for a limited number of available homes on the market, they bid up rents and purchase prices across the board. This particularly affects new entrants into the housing market, making finding a first-time home expensive — if not impossible — for everyone but the high earners.

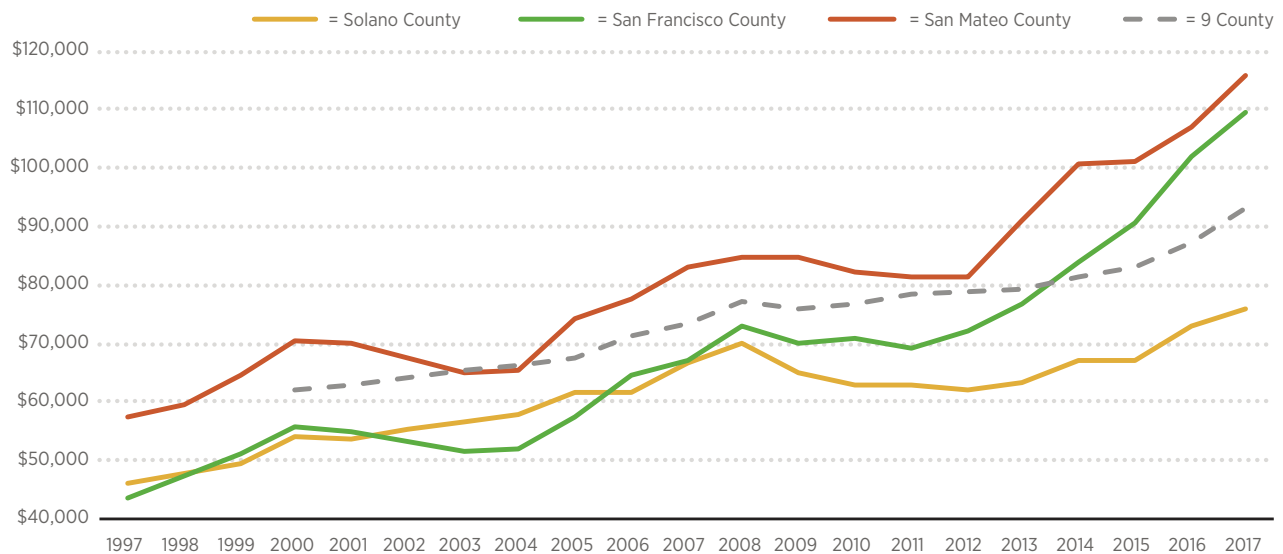
The change in the Bay Area's income distribution is epitomized by a significant shift in median incomes: The median Bay Area household has a 50% higher income now than 20 years ago, with median income rising from \$60,000 to \$90,000 per year.<sup>8</sup>

<sup>6</sup> Analysis by The Concord Group. Note that income figures are not inflation adjusted because typical inflation adjustments use housing as a major component of ongoing Consumer Price Index calculations. If income is inflation adjusted to include housing costs, the enormous impact that housing has on income distribution would be eliminated from the analysis.

<sup>7</sup> SPUR, "How the Retirement Wave Will Impact Bay Area Jobs and Workers," 2019, <https://www.spur.org/news/2019-01-17/how-retirement-wave-will-impact-bay-area-jobs-and-workers>

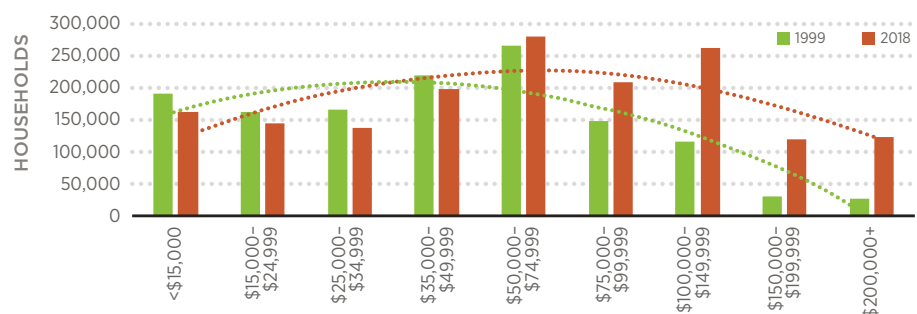
<sup>8</sup> Analysis by The Concord Group. Note that income figures are not inflation adjusted, as explained in footnote 6.

**FIGURE 4**  
**Incomes have risen by 50% over the past 20 years.**  
 Change in Bay Area Median Household Income, 1997–2016



These shifts have enormous implications not just for the Bay Area but for the 21-county Northern California megaregion, a geography that stretches from Santa Cruz to Sacramento. As more people moved out of the Bay Area to seek affordable housing, the income distribution of the megaregion has also shifted, albeit less dramatically in the 12 outer region counties than in the nine-county Bay Area.<sup>9</sup> The 12 outer counties — Mendocino, Lake, Colusa, Yolo, Sacramento, Placer, San Joaquin, Stanislaus, Merced, San Benito, Monterey and Santa Cruz — saw growth in households making \$50,000 to \$75,000 but still saw losses in households making less than \$50,000.

**FIGURE 5**  
**In the larger megaregion, the share of higher-income households has grown over the past 20 years.**  
 Change in Outer-Regional Household Income Distribution, 1999–2018



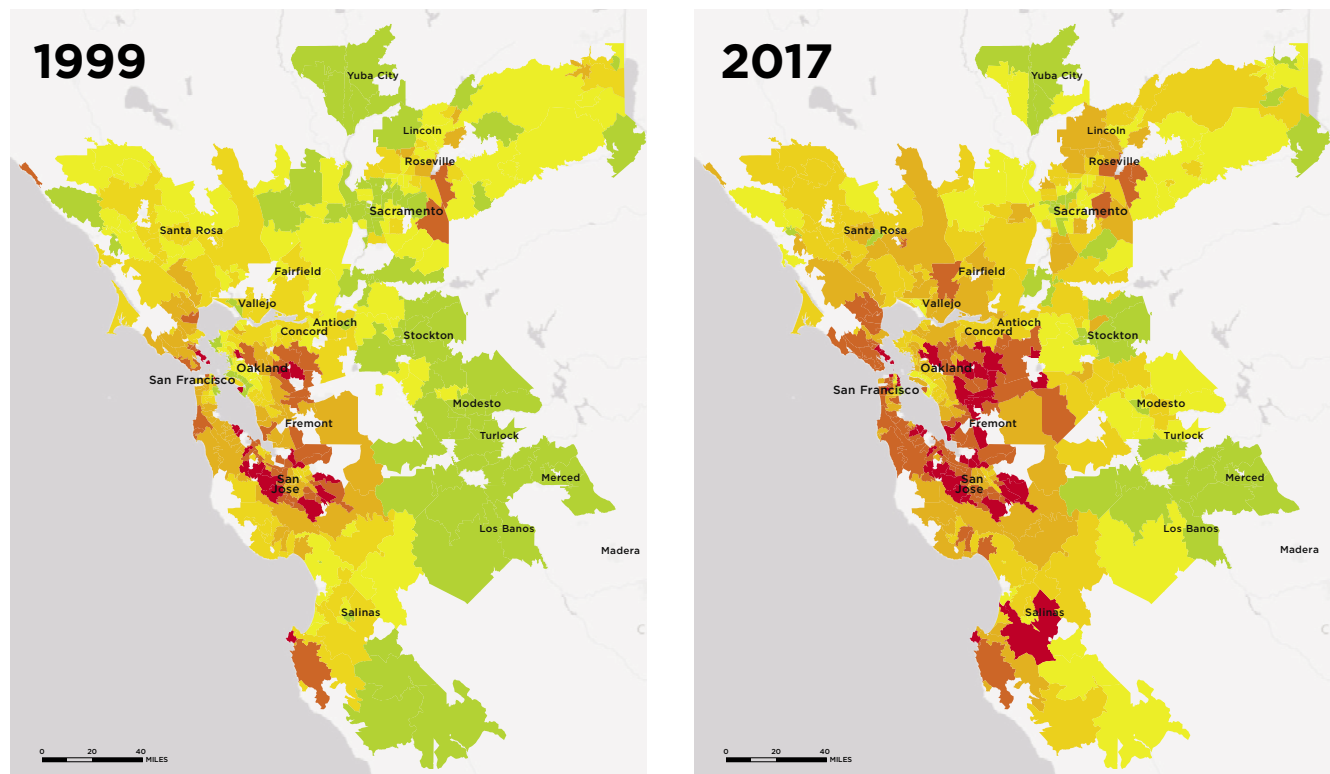
Unsurprisingly, housing prices in the megaregion during this same time period have increased as well, although the starkest increases have occurred mainly within the nine-county Bay Area.

<sup>9</sup> Analysis by The Concord Group. Note that income figures are not inflation adjusted, as explained in footnote 6.

**FIGURE 6**  
**Rents have increased**  
**throughout the Northern**  
**California megaregion, with**  
**the highest rents found in the**  
**inner Bay Area.**

Change in Northern California  
 Megaregion Median Rents,  
 1999–2017

Median Rent Range



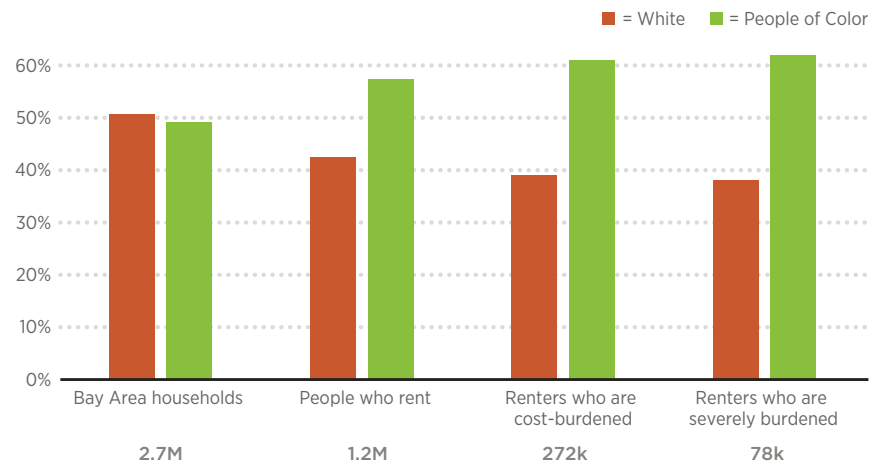
High housing costs impact people of color<sup>10</sup> more severely than white households and upper income households. People of color are more likely to rent their home rather than own their home. This is largely due to the racial segregation imposed on Black people and people of color in the form of racial covenants, zoning manipulation, mortgage redlining and employment discrimination that was sanctioned in the Bay Area until the 1970s. These combined racist policies have resulted in Black families and families of color having fewer resources to purchase homes or afford large rent increases. These families are also more likely to be cost burdened (paying more than 30% of income towards rent) and severely cost burdened (paying more than 50% of income towards rent) than their white counterparts.

<sup>10</sup> People of color are defined as those who are not “white alone,” including Hispanic of any race, Black, Asian, Pacific Islander, Native American, Other and two or more races.

FIGURE 7

### People of color are more likely to rent and to struggle to pay their rent.

Percentage of Renters Who Are Cost Burdened, 2016



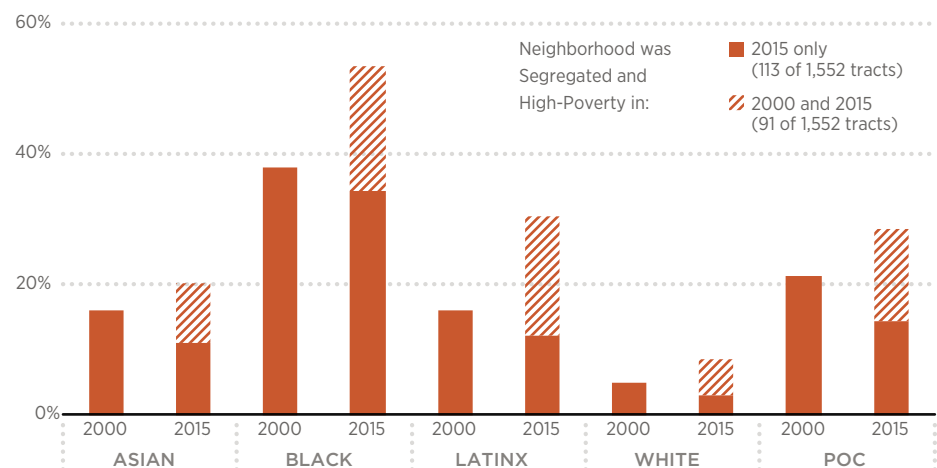
People of color are also more likely to move as a result of rapid rent increases than their white counterparts. A recent report by the Urban Displacement Project and the California Housing Partnership found that between 2000 and 2015, a 30% increase in median rent in Bay Area census tracts correlated with a 28% decrease in low-income households of color.<sup>11</sup> But the number of low-income white households did not see any significant decrease associated with rising rents.

The same report found that the Bay Area has become increasingly segregated. Over the period between 2000 and 2015, low-income Black and Latinx households became much more likely to live in segregated high-poverty neighborhoods, while low-income white and Asian households were only slightly more likely to live in segregated high-poverty neighborhoods. At the same time, roughly one-fifth of the census tracts that were segregated and high-poverty in 2000 had lost that designation by 2015, likely the result of gentrification.<sup>12</sup>

FIGURE 8

### The number of low-income Black and Latinx households living in segregated and high-poverty Bay Area neighborhoods has increased.

Share of Low-Income Households Living in Segregated High-Poverty Tracts in the Bay Area, 2000 and 2015



In 2015, white and Asian households' access to "high-opportunity areas," meaning places with access to good schools and other tools for building wealth,<sup>13</sup> was significantly higher than that of Black and Latinx

<sup>11</sup> "Rising Housing Costs and Re-Segregation in the San Francisco Bay Area," Urban Displacement Project and California Housing Partnership, 2019, page 3.

<sup>12</sup> Ibid, page 22.

<sup>13</sup> High-opportunity areas are defined by the California State Tax Credit Allocation Committee, <https://www.treasurer.ca.gov/ctcac/opportunity.asp>, accessed on October 15, 2020.



households. Low-income white and Asian households were much more likely to be living in high-opportunity areas than their Black and Latinx counterparts. At the same time, moderate and high-income Black and Latinx households were much less likely than their white and Asian counterparts to be living in high-opportunity areas, meaning they have much less access to the educational and economic opportunities that come from living in these places.

FIGURE 9

**Black and Latinx households are less likely than their white and Asian counterparts to be living in higher-resource neighborhoods.**

Level of Neighborhood Resources in the Bay Area, by Race and Income, 2015



This research shows that the housing shortage impacts Black and Latinx households differently than white households, and specifically that Black and Latinx households are more likely to be harmed by policies that exacerbate the housing shortage and increase housing unaffordability. It also suggests that enabling Black and Latinx families to access great schools, employment opportunities and networks will require two different types of policies: those that stabilize Black and Latinx households in neighborhoods experiencing gentrification (through home ownership or other mechanisms) and those that create opportunities for more Black and Latinx households to move to high-opportunity neighborhoods. Creating an equitable Bay Area will depend on both approaches.

## Chapter 2:

# How much housing does the Bay Area need to build in order to make the region affordable?

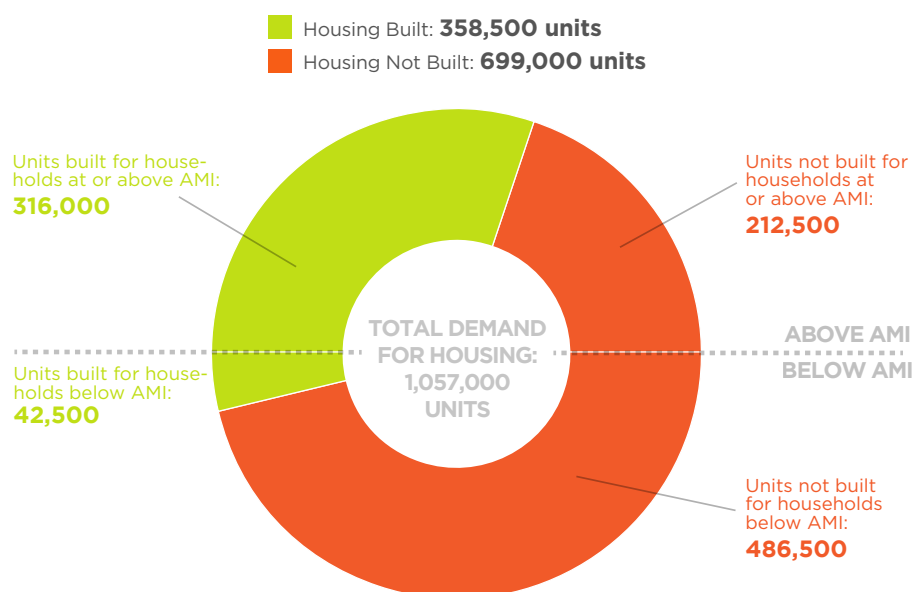
Escalating housing unaffordability has been a contributing factor to historic income distribution changes since 1999, increasing the number of evictions, displacing historic residents of Bay Area communities and threatening the health and growth of the region. How much housing would the Bay Area have needed to build over the last 20 years to prevent income inequality from getting worse? And for what income levels should that housing have been built?<sup>14</sup>

We found that the Bay Area saw the construction of 358,500 total housing units over a time period where typical long-term regional growth patterns would have called for a little over 1 million units. This created a shortfall of 699,000 housing units. The limited new housing that was built during this time largely served those able to pay the most for housing. Roughly 316,000 of the newly built units were rented or sold at market rate to those who were able to absorb the rapidly rising housing costs. At the same time, affordable housing developers built roughly 42,500 units of permanently affordable subsidized housing — not nearly enough to satisfy the demand for housing at the lowest end of the price spectrum. The missing 699,000 units fall into two categories: 486,500 units of housing needed for those below the median income and 212,500 units of housing needed for those above the median income, meaning that the demand for affordable and middle-income housing went largely unmet.

FIGURE 10

### Historical Housing Shortfall Bay Area Housing Demand, 2000–2018

How much housing would the Bay Area have needed to build over the last 20 years to prevent income inequality from getting worse? Analysis by SPUR and The Concord Group shows a shortfall of 699,000 housing units, most of them for households below the area median income (AMI).



14 This research was conducted by The Concord Group for SPUR in 2019.

What was the impact of this failure to produce enough housing? Where did all of those people go? As SPUR has written about previously,<sup>15</sup> some moved to other places, some decided to stay and pay more of their income toward rent, and others never showed up in the first place: Individuals who may have contemplated moving to the Bay Area decided to go elsewhere due to the region's high housing costs. Of those who have stayed, some live in overcrowded housing, doubling up with friends and family, or in units that are ill-suited to their family size. Others have not left their childhood homes. Of those who have left the Bay Area, some have moved to outer-county cities such as Sacramento in search of cheaper housing,<sup>16</sup> enduring lengthy super-commutes to keep their Bay Area jobs. Others have left Northern California altogether for more affordable metro areas, like Denver or Austin. Most distressing of all, many have lost all forms of housing, leading to the region's current homelessness crisis.

We also investigated how much and what type of housing the region should produce to keep up with future demand. More housing will be needed as the region's children grow up and create families of their own and as the economy continues to evolve, adding new workers in the decades to come. Accounting for growing demand is particularly important in stemming the flow of lower- and middle-income households from the region.

It's not possible to know how much the region's population will grow over the next 50 years, but data analysis can offer helpful projections. For this investigation, our partners at the Center for Continuing Study of the California Economy estimated a high population growth target and a low population growth target.<sup>17</sup> The Concord Group then modeled what those targets mean for housing demand. Based on this analysis, SPUR estimates that the Bay Area will need a minimum of 1.5 million new units between now and 2070 both to keep up with population growth and to stop the current trend of losing low- and moderate-income households as the region gains wealthier households.

If we include the existing housing shortfall — the 699,000 units the region should have built over the last 20 years but didn't — we estimate that the Bay Area needs to produce a minimum of 2.2 million units by 2070, or roughly 45,000 units per year (see Figure 12). We believe it's important to include the shortfall, as current residents of the Bay Area are already experiencing the impacts of the region's failure to deliver a sufficient amount of housing: high housing costs, overcrowding and homelessness. As we have shown, the region's inability to deliver a sufficient amount of housing at all income levels has led to a loss of lower-income households. By addressing the shortfall, the region could ameliorate some of these negative impacts.

SPUR's housing target of 2.2 million units (45,000 per year) is somewhat higher than the regional target developed by CASA (the Committee to House the Bay Area) of 35,000 units per year.<sup>18</sup> McKinsey estimates that California needs to produce a minimum of 3.5 million homes statewide to meet a backlog demand of 2

15 Terplan, Egon, "How Much Housing Should the Bay Area Have Built to Avoid the Current Housing Crisis?," SPUR, February 21, 2019, <https://www.spur.org/news/2019-02-21/how-much-housing-should-bay-area-have-built-avoid-current-housing-crisis>

16 Kneebone, Elizabeth and Issi Romem, "Disparity in Departure: Who Leaves the Bay Area and Where Do They Go?," Buildzoom and Turner Center for Housing Innovation, [http://turnercenter.berkeley.edu/uploads/Disparity\\_in\\_Departure.pdf](http://turnercenter.berkeley.edu/uploads/Disparity_in_Departure.pdf)

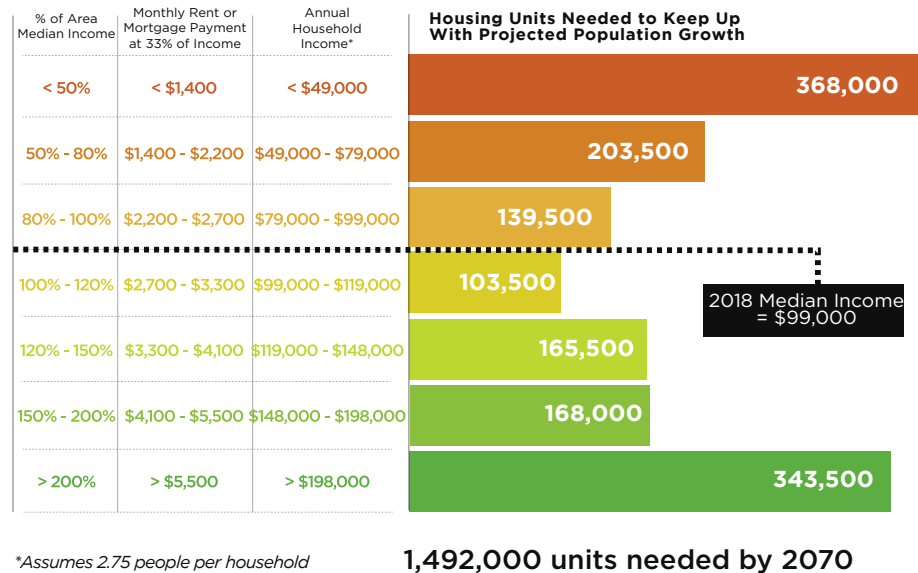
17 The Center for Continuing Study of the California Economy provided SPUR with population and job projections as detailed in its report *High and Low Projections of Jobs and Population for the Bay Area to 2070 — Projection Framework, Specific Assumptions and Results*, [https://www.spur.org/sites/default/files/2020-03/CCSCE\\_High\\_and\\_Low\\_Projections\\_of\\_Jobs\\_and\\_Population\\_for\\_the\\_Bay\\_Area\\_to\\_2070-Projection\\_Framework\\_Assumptions\\_and\\_Results.pdf](https://www.spur.org/sites/default/files/2020-03/CCSCE_High_and_Low_Projections_of_Jobs_and_Population_for_the_Bay_Area_to_2070-Projection_Framework_Assumptions_and_Results.pdf)  
The report included a high growth target and a low growth target based on national projections for jobs and population, as well as assumptions about immigration, growth in various economic sectors and the share of the population and job growth that the Bay Area will attract. SPUR chose to base its analysis on the high growth projection due to the following factors. First, it is unknown how rapidly the Bay Area's population will grow, but it most likely will reach both the low and the high targets eventually, if not within 50 years. Planning for the high growth target enables the region to fully meet future housing demand and plan for appropriate density. Second, if housing growth exceeds population growth targets, then housing prices might stabilize or decline for a period of time. Stabilizing prices would halt further displacement. While a period of declining prices might make existing owners worse off, it might help renters and assist many in the middle of the income distribution in buying a home for the first time. It is also easier to stop building when prices drop too quickly than it is to begin building rapidly when housing prices spike.

18 CASA, *CASA Compact: A 15-Year Emergency Policy Package to Confront the Housing Crisis in the San Francisco Bay Area*, January 2019, [https://mtc.ca.gov/sites/default/files/CASA\\_Compact.pdf](https://mtc.ca.gov/sites/default/files/CASA_Compact.pdf)

million homes plus a growth demand for 1.5 million homes by 2025.<sup>19</sup> The Bay Area's Regional Housing Needs Determination from 2015 to 2023 — set at the state level through the Regional Housing Needs Allocation process — showed a need for 188,000 housing units over an eight-year period, or roughly 23,500 units per year. The needs determination for the 2023–2031 cycle is roughly 441,000 units, or 55,000 units a year.

The Concord Group's model (see Figure 11) looks at housing demand at various income levels based on population growth and seeks to answer the question: How much housing does the Bay Area need to add at different price levels to prevent income inequality from getting worse? It assumes that those who left the Bay Area over the last 20 years aren't coming back and focuses on making things better for the people who are here now and those who might come in the future.

**FIGURE 11**  
**How much housing does the region need to build?**  
 Projected Bay Area Housing Demand, 2018–2070



It's important to note that The Concord Group's modeling doesn't answer the question: How much housing is needed to drive down housing prices? This question is notoriously challenging to answer accurately due to the confluence of many factors. To take just two issues: First, developers won't build new housing unless they are able to cover the costs of construction (labor, materials, land and financing). The ability to cover these costs is often dependent on rising housing prices. If housing prices drop below the level needed to build new units, private developers will stop building new housing and prices will rise. Second, if housing prices do decrease, then the Bay Area becomes a more desirable place to live for more people, which increases demand, and that increases prices.

Because it's so hard to answer the question of how much housing the region would need to build to drive prices down, we are treating the answers that come from our modeling as minimum targets, knowing that the Bay Area would need to outproduce these numbers by some factor in order to reduce housing prices over time. It will be important to develop a housing delivery system that can change based on housing prices, allowing for more rapid housing production when prices spike. This system should also take into account the locations and types of housing needed to address demand.

19 McKinsey Global Institute, A Tool Kit to Close California's Housing Gap: 3.5 Million Homes by 2025, October 2016, <https://www.mckinsey.com/featured-insights/urbanization/closing-californias-housing-gap>

The Bay Area will also need to adopt new policies to help develop housing for people at different incomes. The region will still need to produce a significant amount of market-rate housing: a minimum of 343,500 units for households making more than 200% of the area median income. For those at 80% of the area median income and below, the region will need to produce a minimum of 571,500 units. And for those between 80% and 200% of the area median income, another 576,500 units will be needed.

FIGURE 12

**SPUR's 2070 Housing Target**

Total Bay Area Housing  
Demand, 2000-2070

By adding the existing housing shortfall  
from Figure 7 to the projected housing  
need in Figure 8, SPUR estimates that  
the Bay Area needs to produce roughly  
2.2 million new housing units by 2070, or  
about 45,000 units per year.





# Conclusion

Building 45,000 units a year is roughly double the average housing production for the Bay Area over the last 20 years. Reaching this goal across all income targets will be challenging. But with political will, the region can take the concrete steps needed to get there. We describe these steps in the three additional reports in this series: *Housing as Infrastructure: Creating a Bay Area Housing Delivery System That Works for Everyone*; *Meeting the Need: The Path to 2.2 Million Homes in the Bay Area by 2070*; and *Rooted and Growing: SPUR's Anti-Displacement Agenda*.

These policy changes will require all of us to change the way we think about housing. The American Dream has always involved land ownership, from the Jeffersonian agrarian ideal to the cultural elevation of the single-family home and the white picket fence. Yet other countries and cultures do not place homeownership on such a pedestal. Part of the cultural value of homeownership has to do with the role it plays in the United States as a primary mechanism of wealth generation and wealth transfer from one generation to the next. Another part has to do with our country's extraordinary lack of a social safety net relative to other developed countries. One's ability to retire and enjoy old age often hinges on property ownership. But the American conception of property rights has deeply negative consequences for renters. Unlike homeowners, most renters can't rely on being able to stay in their homes for the long term and aren't guaranteed stable housing costs.

If we are going to change our housing system in any meaningful way, we need to change our collective dream. What if we dreamed of a future where all families could afford housing and go to great schools? Where no one had to live in fear that the next illness or change of job could result in losing their home? Where commutes were short and pleasant and it was easy to get around by train, bus, biking or walking? What if there were ways to build assets for future generations that didn't involve owning a home? What if asset building were not a matter of life and death because our society took care of its people? What if homelessness were not tolerated and we found a way to house our most vulnerable populations?

Dreaming a new dream is the prerequisite for a better future. It's time for us to rise to the challenge.

# Appendix

## Methodology to Determine “Historical Housing Shortfall” (Figure 10) and “How much housing does the region need to build?” (Figure 11)

Figures 10 and 11 in this paper, “Historical Housing Shortfall” and “How much housing does the region need to build?,” were developed by The Concord Group (TCG) to illustrate demand for housing at each whole dollar of income and monthly housing cost, which means the model reflects true demand for each individual income. For the model, TCG used data from Claritas’ Spotlight, a syndicated data source that provides yearly demographic data for the United States. This model specifically used the household income distribution from the year 2018. Spotlight, like the U.S. Census, presents its household income distribution in ranges (\$25,000 to \$50,000, \$50,000 to \$75,000, etc.). In total, there are 10 delineated income ranges.

TCG made a set of assumptions that informed the model. First, that “housing affordability” would be defined as a household spending no more than 33% of its income on housing costs and that every household would demand housing at that percentage of their yearly income. TCG then quantified the units demanded at each household income range based on each household in that income range spending 33% of its income on housing. For example, households making less than \$49,000, or less than 50% of the area median income, would have a maximum affordable housing cost of \$1,400 per month. The equation to reach this figure is  $(\text{Annual Income} \times \text{Housing Burden } [33\%]) / 12$  (months in a year).

Second, TCG assumed that households in the nine-county Bay Area would grow at a rate determined by the Center for the Continuing Study of the California Economy (CCSCE). CCSCE used two different growth scenarios: a high growth potential and a low growth potential for the nine-county Bay Area. The maximum growth scenario projected 1% growth through 2040, 1% growth from 2040 to 2050, 0.5% growth from 2050 to 2060, and 0.5% growth from 2060 to 2070. In total, the maximum growth scenario projected a need for roughly 1,492,000 units of housing in the nine-county Bay Area from 2018 to 2070. The low growth scenario projected 0.6% growth through 2040, 0.4% growth from 2040 to 2050, 0.3% growth from 2050 to 2060, and 0.3% growth from 2060 to 2070. In total, the low growth scenario projected a need for roughly 748,000 units of housing in the nine-county Bay Area from 2018 to 2070.

Third, TCG assumed that the 2018 income distribution would remain constant. While TCG and SPUR do not expect income distribution to remain constant over the next 50 years due to a variety of factors, including wage growth, inflation, employment trends and other major economic events, TCG and SPUR wanted to look at the equitable housing needs independent of those factors and give a broad understanding, in today’s dollars, of how much new housing would be needed at which income levels to ensure that housing would be at least as affordable as it is today.

## Additional Methodology to Determine “Historical Housing Shortfall” (Figure 10)

TCG developed a second model to quantify the total housing need for the nine-county Bay Area from 2000 to 2018 as a way to identify the unmet housing needs. In this model, TCG used a household annual growth rate of 2% (the average employment growth per year during this period for the nine-county Bay Area) to reflect what growth could have been for households in this period if sufficient housing had been available. TCG also used the original income distribution of the year 2000. Overall, TCG believes that about 1,057,000 units of housing should have been built during this time period. However, only 358,000 units were built.

The dashed line across the circle represents the area median income for the nine-county Bay Area. The green number below the dashed line represents the affordable housing built in the Bay Area from 2000 to 2018. The data for affordable units came from the Department of Housing and Urban Development’s (HUD’s) Low Income Housing Tax Credits Database (<https://lihtc.huduser.gov/>), which tracks all affordable housing projects, including all projects funded through HUD, state service, local government, for-profit or nonprofit sponsors or any housing project with an income limit. TCG has assumed that, while affordable units can affect households making up to 80% of the area median income, these units served the lowest-earning households within the nine-county Bay Area. This green number below the dashed line represents the units built that are affordable to those making less than 100% of the area median income.

The green number above the dashed line represents the total market-rate units built in the nine-county Bay Area from 2000 to 2018. The data for built housing was taken from HUD’s building permit website (<https://socds.huduser.gov/permits/>), with the assumption that all units from the years 2000 through 2018 were built and operated at an occupancy of 93%. TCG has assumed that, while market-rate units can affect households making any level of income, these units most likely served the highest-wage earners in the nine-county Bay Area. This green above the dashed line represents the units built that are affordable to those making more than 100% of the area median income.

The red number below the dashed line represents the units that should have been built for households below the area median income but were not built. The red number above the dashed line represents the units that should have been built for households above the median income but were not built. Overall, TCG has determined that the housing shortfall for the nine-county Bay Area from 2000 to 2018 was roughly 699,000 units.



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