

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

---

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

This report is one in a series of publications that lay the groundwork for the SPUR Regional Strategy.

**Acknowledgements**

**Author:**

Sarah Karlinsky, Senior Advisor

**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)

Issi Romem for his review and comments

Enterprise Community Partners and the California Housing Partnership for their analysis of the number of housing units occupied by low-income households that are at risk of cost escalation

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

Justin Fung for data visualization support

Edited by Karen Steen  
Designed by Shawn Hazen  
Copyedited by Valerie Sinzdak

**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  
Additional funding for housing policy provided by Stripe and Wells Fargo.  
Further support from AECOM, Fund for the Environment and Urban Life, Hellman Foundation, Microsoft and the Seed Fund.

# Contents

---

Introduction	4
--------------	---

---

<b>What caused the housing crisis?</b>	6
<b>How much housing should the Bay Area have built?</b>	12
<b>How much housing does the Bay Area need to build for the future?</b>	16
<b>What will it take to get there?</b>	20

---

Appendix	26
----------	----

# Introduction

The San Francisco Bay Area continues to be one of the country’s least affordable housing markets. The region’s lack of housing and limited affordability have significant ramifications for the people who currently live here, the people who once lived here but have been forced to move elsewhere and the people who used to be housed but now live on the street.<sup>1</sup> These housing pressures are remaking the region’s diversity,<sup>2</sup> culture, economy and environment. Limited housing affordability and its impacts across California have dominated the state legislative conversation, resulting in groundbreaking state legislation that has the potential, for the first time in decades, to move the needle on addressing the housing crisis.

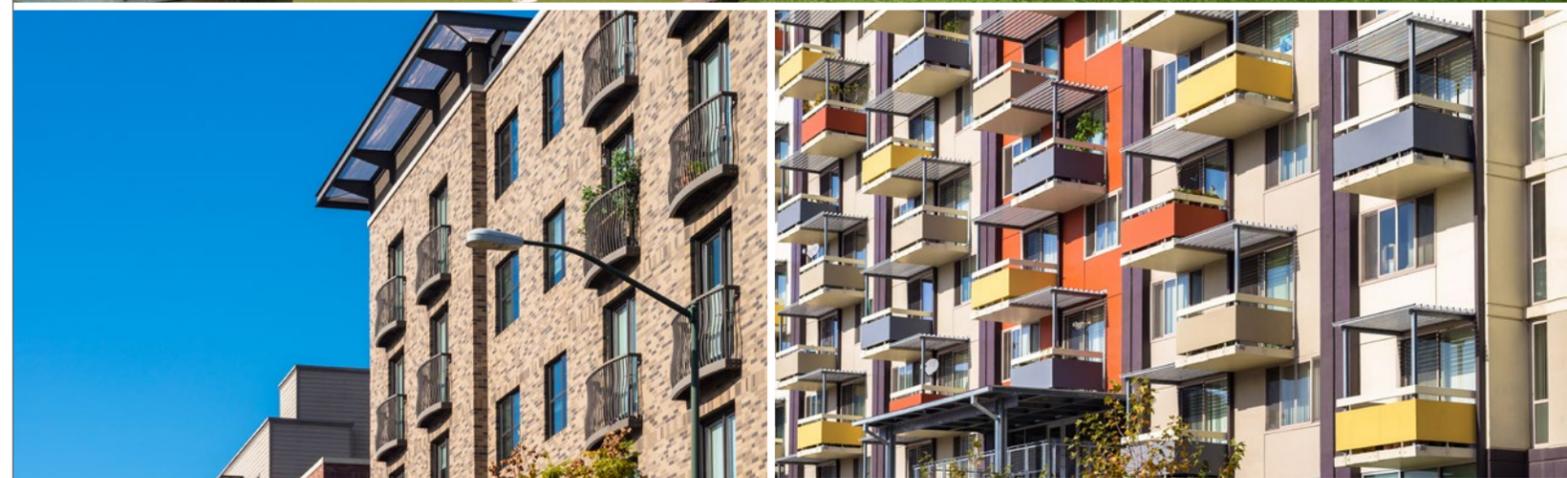
And yet much more needs to be done if the Bay Area is going to become a region that builds enough housing for all of the people who want to live here — and for the children of those people to be able to stay here when they grow up.

SPUR is developing a Regional Strategy to envision what the Bay Area could be like 50 years from now if the region is successful in addressing the housing crisis, making great places that support a high quality of life, creating a transit system that works and combating climate change so that future generations can continue to comfortably inhabit this planet.

As part of this effort, we are delving into the causes, nature and sheer size of the housing crisis to make sure the solutions we propose are far-reaching enough to address the scale of the problem. We are testing our proposed solutions for “enough-ness” so that the region’s policies don’t just continue tinkering around the edges but, when taken together, actually solve the problem. It won’t be easy to do. But it is SPUR’s hope that by laying out the challenge in all of its complexity, we can help local, regional and state government adopt solutions that will ultimately have a chance of working.

<sup>1</sup> Homelessness in San Francisco has risen 30% from 2017. Applied Survey Research, *San Francisco Homeless Count and Survey Comprehensive Report*, 2019, <http://hsh.sfgov.org/wp-content/uploads/FINAL-PIT-Report-2019-San-Francisco.pdf>

<sup>2</sup> The University of California at Berkeley’s Urban Displacement Project and the California Housing Partnership, *Rising Housing Costs and Resegregation in the San Francisco Bay Area*, 2019, [https://www.urbandisplacement.org/sites/default/files/images/bay\\_area\\_re-segregation\\_rising\\_housing\\_costs\\_report\\_2019.pdf](https://www.urbandisplacement.org/sites/default/files/images/bay_area_re-segregation_rising_housing_costs_report_2019.pdf)



Photos by Sergio Ruiz.

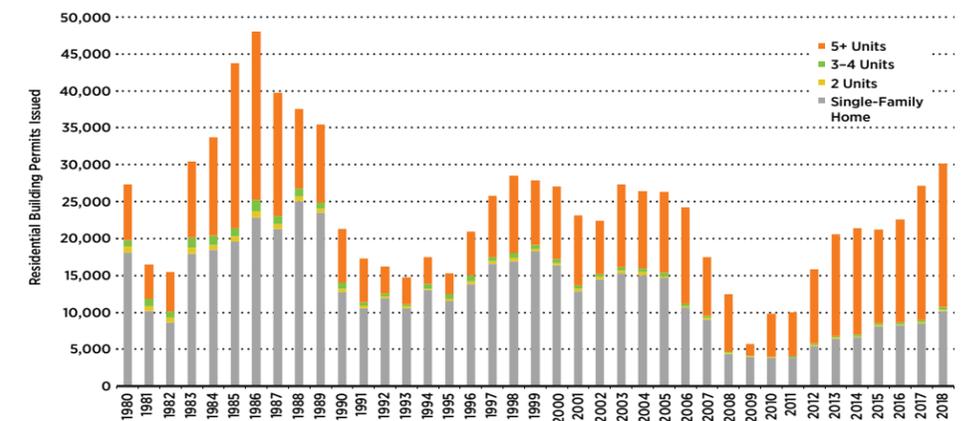
# What caused the housing crisis?

Two interrelated factors drive the housing crisis: a failure to build enough housing for all of the people who live and work here, and increases in both incomes and the number of people with higher incomes. SPUR has been working with The Concord Group, a real estate economics firm, to understand both trends.

## 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 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>3</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 more requirements to the development process, making it harder and harder to build housing in already-developed areas. More recently, 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.

**FIGURE 1**  
Residential Building Permits Issued in the Bay Area, 1980–2018



<sup>3</sup> Romem, Issi, "America's New Metropolitan Landscape: Pockets of Dense Construction in a Dormant Suburban Interior," BuildZoom, February 1, 2018, <https://www.buildzoom.com/blog/pockets-of-dense-construction-in-a-dormant-suburban-interior>

While housing production declined, the number of jobs rose significantly. 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**  
Ratio of Jobs to Housing in Bay Area Counties

COUNTY	JOBS TO HOUSING RATIO 2004-2008	JOBS 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.

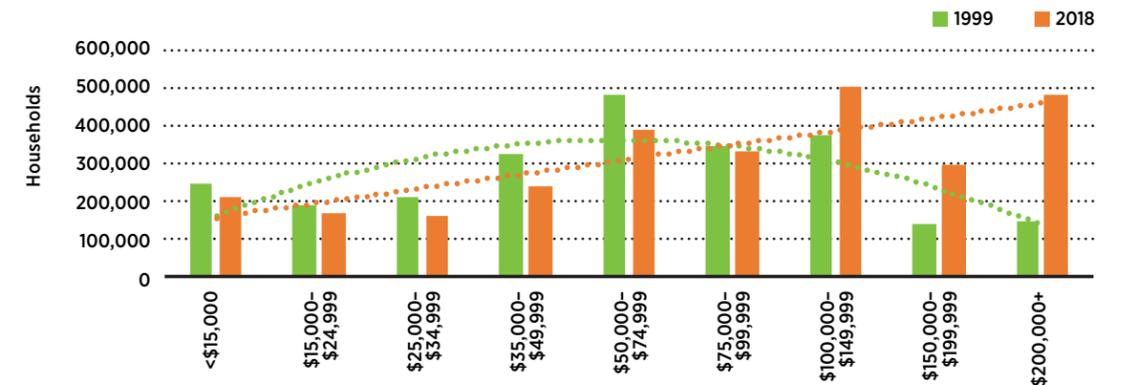
Source: Housing permit data from the Department of Housing and Urban Development, <https://sodcs.huduser.gov/permits>; primary private job data from the U.S. Census, <https://onthemap.ces.census.gov>.



## Driver 2: The Bay Area is becoming richer.

The Bay Area is becoming increasingly wealthy. Just 20 years ago, incomes were distributed in a bell curve, meaning that 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 households making under \$100,000 and an increase of 625,000 households making over \$100,000.<sup>4</sup>

**FIGURE 3**  
Change in Bay Area Household Income Distribution, 1999-2018



Previous SPUR research provides two explanations for the shifts in household income.<sup>5</sup> The first is that wages in high-wage occupations have grown much faster than wages in low- and middle-wage occupations. The second reason 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.

<sup>4</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.

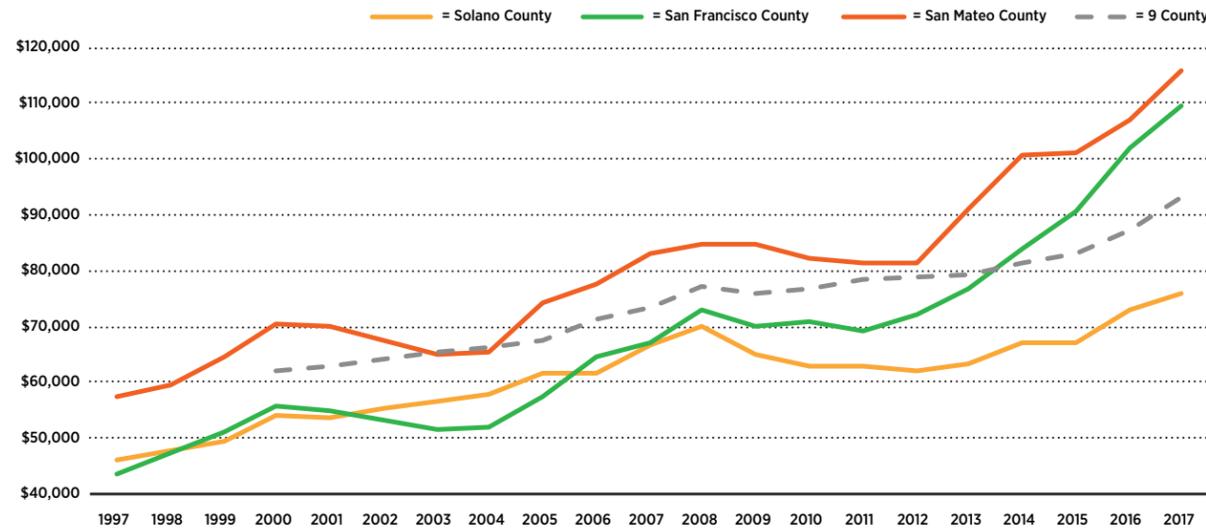
<sup>5</sup> Levy, Stephen, "How the Retirement Wave Will Impact Bay Area Jobs and Workers," SPUR, 2019, <https://www.spur.org/news/2019-01-17/how-retirement-wave-will-impact-bay-area-jobs-and-workers>

Source: The Concord Group analysis of ArcGIS income distribution data and U.S. Census American Community Survey income distribution data, <https://factfinder.census.gov> (Note: This website will be taken off line on March 31, 2020, and will be replaced by <https://data.census.gov/>).

The change in the Bay Area's income distribution can be summarized by a significant shift in median income: The median Bay Area household became 50% wealthier over the last 20 years, with median income rising from \$60,000 to \$90,000.<sup>6</sup>

**FIGURE 4**  
Change in Bay Area Median Household Income, 1997-2016

Median household income has grown significantly in the Bay Area over the last 20 years. San Mateo, San Francisco and Solano counties are included to show the range of distribution across the region.



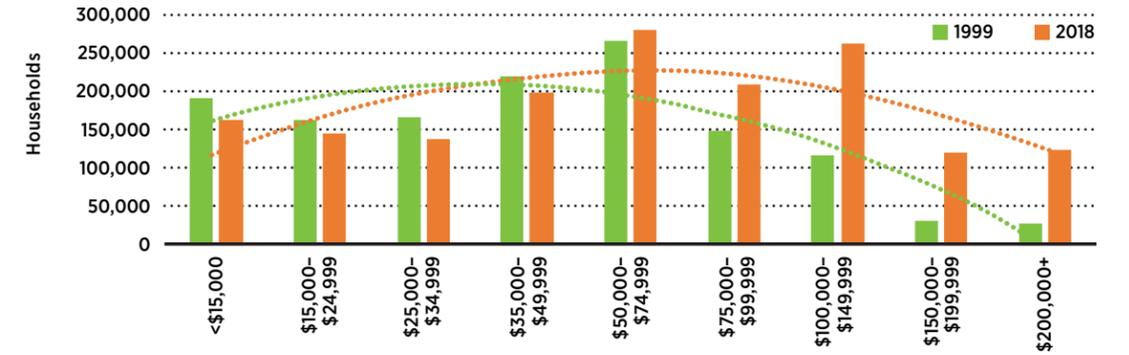
These shifts have enormous implications not just for the Bay Area but for the 21-county Northern California megaregion, a geography that stretches from Santa Cruz to Sacramento. As more people move out of the Bay Area to seek affordable housing, the income distribution of the megaregion has also shifted, albeit less dramatically in the 12 outer-region counties than in the nine-county Bay Area.<sup>7</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 under \$50,000.

6 Analysis by the Concord Group. Note that income figures are not inflation-adjusted, as explained in footnote 4.

7 Analysis by the Concord Group. Note that income figures are not inflation-adjusted, as explained in footnote 4.

Source: The Concord Group analysis of Federal Reserve Bank of St. Louis (FRED) median household income. <https://fred.stlouisfed.org>. Source: The Concord Group analysis of ArcGIS income distribution data and U.S. Census American Community Survey income distribution data. <https://factfinder.census.gov> (Note: This website will be taken off line on March 31, 2020, and will be replaced by <https://data.census.gov/>)

**FIGURE 5**  
Change in Outer-Region Household Income Distribution, 1999-2018

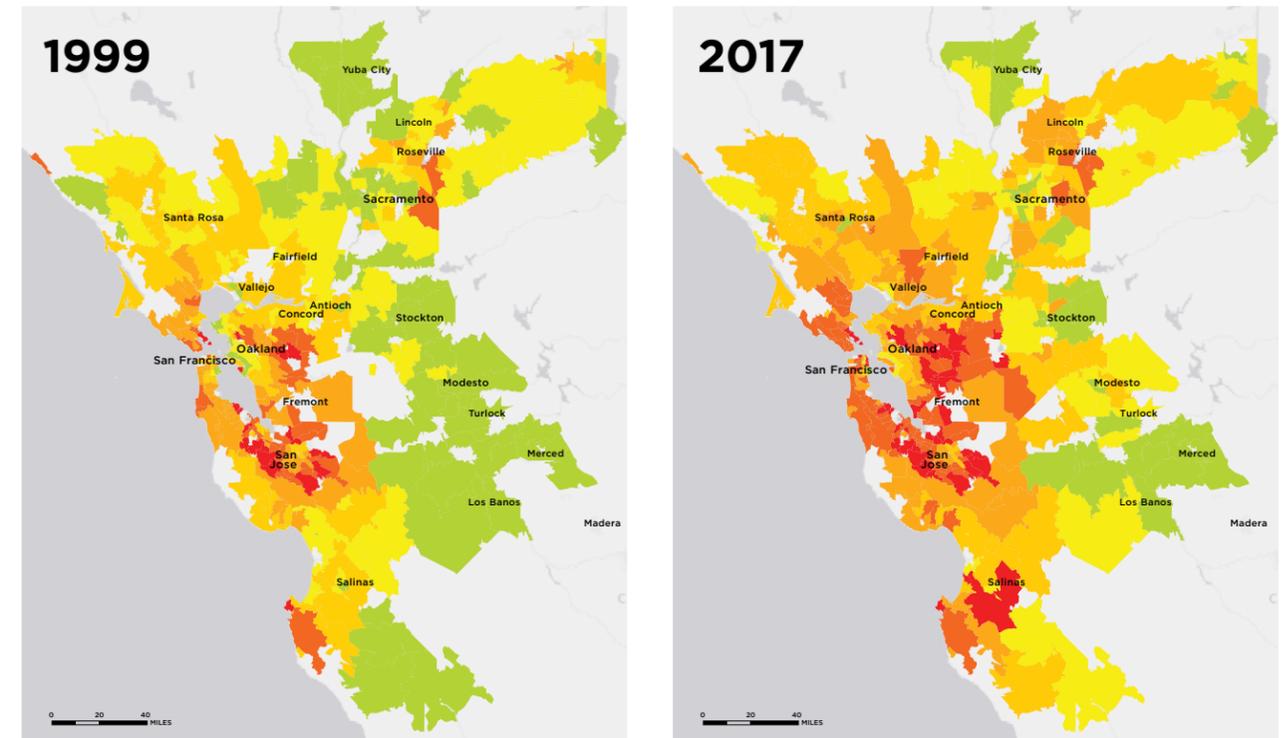


Unsurprisingly, during this same time period, housing prices in the megaregion have increased as well, although the starkest increases have occurred mainly within the nine-county Bay Area.

**FIGURE 6**  
Change in Northern California Megaregion Median Rents, 1999-2017

Median Rent Range

- \$2,200+
- \$1,800-\$2,200
- \$1,500-\$1,800
- \$1,200-\$1,500
- \$1,000-\$1,200
- <\$1,000



Source: The Concord Group of U.S. Census American Community Survey historical rents by zip code. <https://factfinder.census.gov> (Note: This website will be taken off line on March 31, 2020, and will be replaced by <https://data.census.gov/>)

# How much housing should the Bay Area have built?

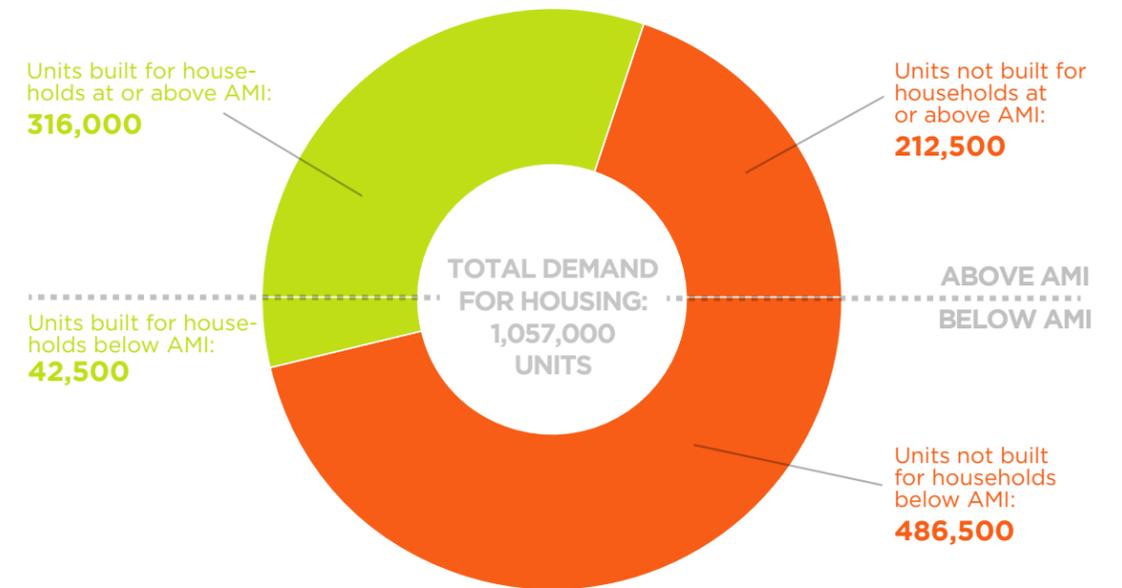
Escalating housing unaffordability has been a contributing factor to massive income distribution changes since 1999, increasing the number of evictions, displacing historic residents of Bay Area communities and threatening the health and growth of the region. How much housing would the Bay Area have needed to build over the last 20 years to prevent income inequality from getting worse? Working with the Concord Group, SPUR sought to answer this question.

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 market largely served those able to pay the most for housing. Roughly 316,000 of the newly built units were rented or sold to those with higher incomes and/or higher levels of wealth, 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 7**  
**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).

**Housing Built: 358,500 units**  
**Housing Not Built: 699,000 units**



Data visualization by Justin Fung. Source: See appendix for sources and methodology.

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>8</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, delaying adulthood. Of those who have left the Bay Area, some have moved to outer-county cities such as Sacramento in search of cheaper housing,<sup>9</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.

---

<sup>8</sup> 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>

<sup>9</sup> 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)



# How much housing does the Bay Area need to build for the future?

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>10</sup> The Concord Group then modeled what those targets mean for housing demand. Using the high growth projection (one that includes more aggressive assumptions regarding levels of immigration and job growth), 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 9). We believe it is 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.

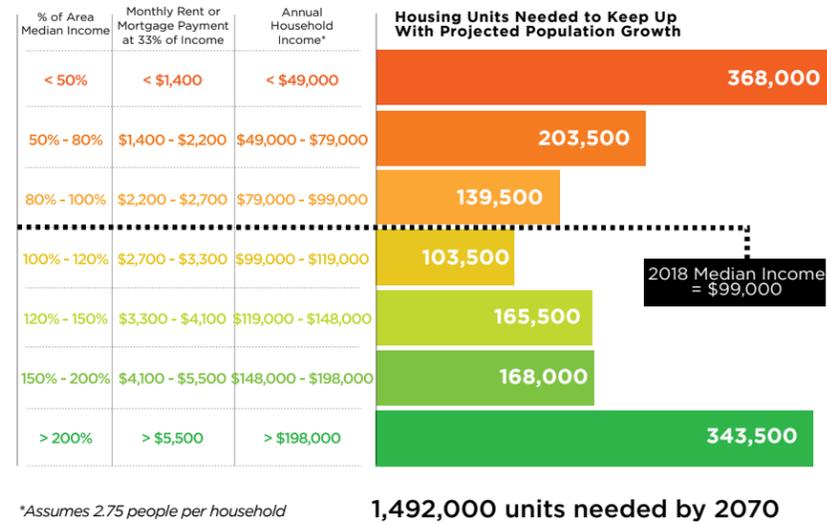
SPUR's housing target of 2.2 million units (45,000 per year) is somewhat higher than the regional target developed by CASA (the Committee to House the Bay Area) of 35,000 units per year.<sup>11</sup> McKinsey estimates that California needs to produce a minimum of 3.5 million homes statewide to meet a backlog demand of 2 million homes plus a growth demand for 1.5 million homes by 2025.<sup>12</sup> The Bay Area's housing growth target from 2015 to 2023, set at the state level through the Regional Housing Needs Allocation (RHNA) process, shows a need for 188,000 housing units over an eight-year period, or roughly 23,500 units per year. SPUR is recommending housing growth targets that are almost double the RHNA estimates and slightly more than double the region's annual production from 2000 to 2018.

<sup>10</sup> 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/wysiwyg/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/wysiwyg/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.

<sup>11</sup> 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)

<sup>12</sup> McKinsey Global Institute, *A Tool Kit to Close California's Housing Gap: 3.5 Million Homes by 2025*, October 2016, <https://www.mckinsey.com/-/media/McKinsey/Featured%20Insights/Urbanization/Closing%20Californias%20housing%20gap/Closing-Californias-housing-gap-Full-report.ashx>

**FIGURE 8**  
**How Much Housing Does the Region Need to Build?**  
 Projected Bay Area Housing Demand at All Income Levels, 2018–2070



The Concord Group’s model (see Figure 8) 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.

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 three 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. Lastly, driving housing prices down (rather than just flattening out price increases) can have negative impacts for homeowners, who can find themselves upside down on their mortgage if what they owe is more than the value of their home.

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.

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.

Data visualization by Justin Fung. Source: See appendix for sources and methodology.

Source: See appendix for sources and methodology.



**FIGURE 9**  
**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 almost 2.2 million new housing units by 2070, or about 45,000 units per year.



# What will it take to get there?



SPUR is deep in the process of developing an agenda to address the Bay Area's affordable housing challenge at the scale of the problem. While housing unaffordability may seem like an impossible problem to surmount, there are steps that those of us who live and work in the Bay Area can take. We can double the amount of housing our cities build, change our taxation and governance structures to fund the housing we need and adopt policies to protect the people who live here now. But to make all of this happen requires political will. The following are SPUR's initial thoughts about what it will take to create an affordable region.

## Treat housing as infrastructure.

Housing is not something that's nice to have, like a new pair of shoes or a vacation. It is critical to human beings to have a place to live, just as it is critical to have food to eat, clean water to drink and power to provide heat in the winter. When we need new water pipes to ensure regional access to clean water, government doesn't just change the zoning code to allow for the new pipes and wait for the private sector to build them. Government develops the plan for the new water pipes, the public funds their construction and the government hires private contractors to build them.

If we treated housing as infrastructure, the same way we treat roads and water delivery as infrastructure, what in our housing delivery system would change? For starters, it might not be enough to rely solely on the private market to provide enough housing. Privately financed development in the Bay Area requires the careful alignment of a variety of factors: a local jurisdiction that will permit enough housing to be built, land prices low enough for the developer to recoup the cost over time, access to sufficient private lending at a low-enough rate to finance the construction, a workforce available to build the housing — and rising housing prices to pay for all of the above. This system of financing often means that housing can only be built when housing prices are escalating. When the market is down, housing production slows to a trickle — or sometimes stops altogether.

What if we rethought some aspects of this housing delivery system in order to achieve different objectives? For example, what if we could use public financing to build housing, particularly affordable and middle-income housing, at the bottom of the market (when land is cheaper and labor is more available) rather than at the top of the market? Being able to deliver housing at the low end of the market would have the added benefit of providing construction jobs throughout the market cycle, making them more secure over time.

What if there were other ways the public sector could provide readily available, lower-cost capital to finance the creation of middle-income housing — in ways that didn't cannibalize funding for more deeply affordable housing? And what if we were able to squeeze risk out of the development process by ensuring the faster, clearer permitting of housing so that developers functioned more like contractors? If their role was more focused on building the housing rather than negotiating a complicated and risky entitlement process, could they bring housing to market at more affordable price points?

It is not impossible to devise a different housing system than the one we have today. Other countries have made it a societal priority to build enough housing for everyone.<sup>13</sup> We can learn from them.

<sup>13</sup> For example, in Vienna, roughly half of the city's housing stock is highly regulated, affordable "social housing." See: Holeywell, Ryan, "Vienna Offers Affordable and Luxurious Housing," *Governing*, February 2013, <https://www.governing.com/topics/health-human-services/gov-affordable-luxurious-housing-in-vienna.html>

## Make it less expensive to build housing.

Regardless of how housing is financed, one thing is clear: We need to build significantly more of it — at all price points — if we're going to get ahead of the housing crisis. The region hasn't produced 45,000 units per year since the 1980s, when roughly half of new housing came in the form of sprawl-style single-family housing development, a less expensive building type to construct. Apartments, particularly those in taller buildings, are more complicated to build, so labor costs are higher; they take longer to build, so developers need to pay land costs, such as loan payments, property taxes, insurance and security, for a longer period of time before being able to rent or sell homes; and the construction materials, such as steel or mass timber, are more expensive. In order to produce housing at the scale needed, in denser development patterns that preserve the environment, all of the cost components of housing need to be examined: land prices, financing, construction, building permits, planning and building code requirements, taxes and fees. There can be no sacred cows: We need to examine every aspect of the housing delivery system to see how we can produce enough housing at the scale needed.

## Change the governance structure to support housing construction.

Our current system of governance is not up to the challenge of solving our current housing crisis. Each city is responsible for deciding how much housing will be built within its boundaries and in which neighborhoods. The ability to determine zoning at the local level is called "home rule," a power enshrined in our state governance structure. Although the state sets a goal for how much housing each region should produce, and then regional agencies provide each city with a target, there is almost no consequence for failing to meet these goals. So each city has the power to engage in zoning practices that exclude middle- and low-income residents, such as allowing single-family homes only and requiring large lot sizes and plentiful parking. The requirements squeeze out apartment buildings, townhomes, duplexes and other more affordable housing types. Home rule creates a no-win situation for local politicians who support housing. They can approve the housing that is needed and face the anger of constituents who don't want more housing in their neighborhoods, or they can oppose the housing and make the housing crisis worse. The cumulative result of each city deciding how much housing to allow within its boundaries is the current statewide housing shortage.

State government has a very important role to play in addressing the housing crisis because it can create new rules around what gets built where. Senate Bill 50, a proposed bill that would have prevented cities from blocking housing near transit and in areas with good jobs and good schools, is one example of what state legislators can do. State government can also create new sticks and carrots to discourage or encourage certain behaviors. It can diminish local control for jurisdictions that don't help to address the housing crisis and offer new funding for jurisdictions that work to build the housing needed. It can also reform existing laws, like the California Environmental Quality Act, that make it harder to build housing in already-developed areas.

Regional institutions likewise can play an increased role. The newly created Bay Area Housing Finance Authority has certain powers to help create funding for affordable housing. Such an agency could eventually have other powers, including the power to land-bank parcels for future housing development and assemble land for housing construction.



## Ensure that low-income people can stay in their current homes while new housing is being built.

If we are really to solve the housing crisis, we need to find ways to enable low-income Bay Area residents to remain in their homes. Roughly 282,000 low-income families in the Bay Area live in housing that is affordable to them but is currently at risk of cost escalation because those units are not subsidized or price-restricted.<sup>14</sup> And of course, many more housing units are occupied by low-income households at unaffordable rents, causing overcrowding and financial strain. As rents continue to rise, vulnerable families are displaced from the Bay Area.

Recent research has brought to light more information about the patterns and ramifications of displacement.<sup>15</sup> Long-standing theories that new housing development causes gentrification and displacement are giving way to a more nuanced understanding of this complicated dynamic. In most cases, new market-rate housing follows, rather than causes, gentrification. Developers seek to purchase land and build new units when and where prices are already on the upswing — that's when the odds are good that they can recoup their costs through higher rents or sale prices. In neighborhoods already experiencing gentrification, the development of new market-rate housing can speed up the process by further signaling that a neighborhood is a desirable place for investment. Once those new buildings are built and occupied, gentrification can intensify, adding to displacement pressures.

How do we address displacement? The solution to this problem is not to stop building market-rate housing. Without a sufficient amount of market-rate housing, high-income workers will continue to outcompete everyone else and shift housing prices for the entire region. Building more housing for market-rate buyers can reduce their impact on the housing market as a whole and help limit rapid increases in price.

But building more housing is only part of the solution. We also need to find ways to combat displacement by enabling low-income residents of the Bay Area to remain in their homes.

Finding ways to strengthen community ownership of land, taking existing housing out of the speculative market and making it permanently affordable, and developing other tools to stabilize neighborhoods are of critical importance in addressing the housing crisis. Helping low- and moderate-income families find a path to homeownership (without being swept up in the next foreclosure crisis) is another way to engage the problem. Thoughtful interventions that protect renters, like California's recent anti-price-gouging law,<sup>16</sup> are also needed.

<sup>14</sup> Analysis completed by the California Housing Partnership and Enterprise Community Partners. This number represents an estimate of the total number of unrestricted units offered at rents affordable to low-income (< 80% Area Median Income [AMI]) households and occupied by either an extremely low-income (< 30% AMI), very low-income (< 50% AMI) or low-income (< 80% AMI) household. While this number accounts for most deed-restricted affordable housing, due to data limitations the methodology does not incorporate public housing or locally restricted housing, such as units made affordable through inclusionary zoning. It also excludes housing occupied by tenants using a Housing Choice Voucher, since the units themselves are technically still subject to changes in the market and landlord participation is voluntary.

<sup>15</sup> The Urban Displacement Project at UC Berkeley has developed substantial tools to understand displacement pressures in the Bay Area. See: <https://www.urbandisplacement.org/>

<sup>16</sup> Chandler, Jenna. "Here's How California's Rent Control Law Works," *Curbed*, January 6, 2020, <https://la.curbed.com/2019/9/24/20868937/california-rent-control-law-bill>

## Add significant new resources for affordable housing and find ways to build a lot more of it.

Stabilizing existing housing for low-income people and building the amount of affordable housing the Bay Area needs over the next 50 years will require a significant realignment of resources. It is important to note that the past 50 years of housing policy have predominately benefited one segment of the population: property owners, in particular white homeowners, who were not harmed by historic redlining policies. These laws systematically denied communities of color low-cost mortgages and other resources needed to build wealth. As a result of these disparities, white families have greater homeownership rates and have been able to transfer far more wealth over generations than families of color.<sup>17</sup> The largest housing program in the country has been the mortgage interest income tax deduction, which benefits only those homeowners with enough income to qualify for a deduction. In 2017, the cost of this program was \$71 billion. While the Trump tax plan of 2017 has reduced the value of the mortgage interest income tax deduction to an estimated \$41 billion,<sup>18</sup> none of the cost savings was redistributed to affordable housing programs.

California needs to consider significant new ways to fund affordable housing. It's time to reexamine Proposition 13, the 1978 law that caps property tax increases for both businesses and homeowners. Prop. 13 limits the taxable value of property to its last sale price, even if that sale was decades ago. This has dramatically curbed the amount of funding available for all public goods in California, including affordable housing. We need to find ways as a society to pay for affordable housing, not just through fees on new housing construction or large bond issues that require passage every few years, but through ongoing, stable, large-scale programs that are sized to address the need.

Affordable housing faces the same problems as market-rate housing. Construction costs are the same no matter if the housing is for low-income or high-income residents. The entitlements process is uncertain, as affordable housing must win approvals in jurisdictions that may not want housing for low-income families. And affordable housing often faces even more scrutiny than market-rate housing during the permitting process. There is also significant uncertainty in financing, as affordable housing developers must pull together a dizzying array of funding sources in order to make projects financially viable. This process has led to skyrocketing development costs. We need to find ways to reduce cost and risk in the affordable housing development process so we can build more housing more quickly at a reasonable cost.

## Build housing for the “missing middle.”

SPUR's research has found that the private real estate market addresses the needs of the highest-income households. These households outcompete and set prices for everyone else due to the limited supply of housing. And while the prices they pay are at record highs, households in this category are not in fact paying a higher percentage of their income now than they have historically. At the same time, affordable housing developers, subsidized by public funding, have made a valiant effort to build permanently affordable housing for the region's

<sup>17</sup> Traub, Amy et al., *The Racial Wealth Gap: Why Policy Matters*, Demos, June 21, 2016, <https://www.demos.org/research/racial-wealth-gap-why-policy-matters>

<sup>18</sup> Tax Policy Center, “Key Elements of the U.S. Tax System,” *The Tax Policy Center's Briefing Book*, <https://www.taxpolicycenter.org/briefing-book/what-are-tax-benefits-homeownership>



lowest-income households. But there is a significant part of the population that is not served by either the existing market or subsidized affordable housing programs: the “missing middle.”

As mentioned above, SPUR estimates that over the next 50 years, in order to accommodate future growth, the Bay Area will need to build 576,500 units that are affordable to people making between 80% and 200% of the area median income. One part of the solution is to allow enough market-rate housing to be built to lower prices enough that eventually a larger percentage of middle-income people can participate in the housing market. But another part of the solution involves developing new programs and interventions that can reach middle-income households. Secondary units, smaller units that come without a parking space, mixed-income housing that uses the proceeds from market-rate units to subsidize middle-income units, and co-housing (where households collectively finance housing and some common spaces are shared)<sup>19</sup> all need to be examined as tools to address this portion of the market.

## Change the cultural assumptions about housing.

Lastly and perhaps most importantly, we need to change the way we think about housing. The American Dream has always involved land ownership, from the Jeffersonian agrarian ideal<sup>20</sup> 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.

<sup>19</sup> Wang, Kristy and Benjamin Grant, “Could Germany's Co-Developed Urban Housing Be a Model for the Bay Area?,” SPUR, September 21, 2017, <https://www.spur.org/news/2017-09-21/could-germany-s-co-developed-urban-housing-be-model-bay-area>

<sup>20</sup> “Jeffersonian Ideology,” *U.S. History Online Textbook*, <http://www.ushistory.org/us/20b.asp>

# Appendix

## Methodology to Determine “A Historical Housing Shortfall” (Figure 7) and “How Much Housing Does the Region Need to Build?” (Figure 8)

Figures 7 and 8 in this paper, “A 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 that the model reflects true demand for each individual income. For the model, TCG used data from Claritas’s 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 under \$49,000, or under 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 “A Historical Housing Shortfall” (Figure 7)

TGC 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 blue number at the lower left represents the affordable housing built in the nine-county 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 blue number at the lower left represents the units built that are affordable to those making under 100% of the area median income.

The blue number at the top left of the figure 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 of 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 blue number at the top left represents the units built that are affordable to those making over 100% of the area median income.

The red number at the bottom of the figure represents the units that should have been built for households below the area median income but were not built. The red number at the upper right of the figure 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.



Ideas + action for a better city

SPUR promotes good planning and good government through research, education and advocacy.

We are a member-supported nonprofit organization.  
Join us.

[www.spur.org](http://www.spur.org)

---

**SPUR**

654 Mission Street  
San Francisco, CA 94105  
tel. 415.781.8726  
[info@spur.org](mailto:info@spur.org)

76 South First Street  
San Jose, CA 95113  
tel. 408.638.0083  
[infosj@spur.org](mailto:infosj@spur.org)

1544 Broadway  
Oakland CA, 94612  
tel. 510.827.1900  
[infooakland@spur.org](mailto:infooakland@spur.org)