SPUR REPORT
HOUSING

SPUR REGIONAL STRATEGY

# Housing as Infrastructure

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

APRIL 2021

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

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# Introduction

SPUR believes that it is essential that every person have a place to live, just as it is essential to have food to eat, clean water to drink and power to provide heat in the winter. In the United States, housing is viewed as a financial asset — something to be bought, rented and sold. In other countries, housing is a human right, something that is necessary for the health and well-being of every person. Many places outside of the United States treat housing as both a right and a financial asset. In these places, housing is accessible and affordable to a broad swath of the population, and homelessness is less prevalent.

In a world where the premise is that everyone deserves a safe, decent and affordable place to live, government has a large role to play in supporting the production of housing at all income levels. Housing is treated as public infrastructure, much like water or electricity. The government is much more active in owning, funding and financing housing. It also plays a stronger hand in regulating the housing market. Instead of using regulations to limit housing production to the types of housing that are politically acceptable to neighbors, as is the case in the United States, governments determine what public lands will be made available for development and, in many instances, to regulate prices.

Treating housing as infrastructure is not an unachievable fantasy. Other countries have done it, and we can learn from them. What these countries have in common are, first, a belief that housing is a human right and, second, national governments that play a strong role in ensuring that housing is provided at affordable levels to those who need it. While this report focuses on the actions that can be taken at the state and regional — rather than federal — levels, we can learn important lessons from other countries.

**Denmark:** In Copenhagen, 15% of the housing stock is "social housing" — publicly financed housing that serves low- and middle-income households. Denmark's national policy is to provide "affordable housing for all," and housing programs are organized to achieve that goal. Everyone who needs a rental subsidy in Denmark gets one.[1] The National Building Fund for Social Housing provides resources to create social housing as well as to maintain existing social housing. And a public corporation, known as the Copenhagen City and Port Development Corporation, can fund infrastructure and further developments that support the public good.[2]

**Austria:** In Vienna, 48% of housing is either social housing or housing that's owned by nonprofits. A federal tax on both employers and employees is specifically designated to support housing. The city itself owns 220,000 units of housing. And private developers must share profits with a public revolving fund dedicated to producing more housing.[3]

**Japan:** In Tokyo, renters make up 46% of the population. Housing is rebuilt every 20 to 30 years; at the end of that period, the older housing has almost no value and is not seen as a mechanism to transfer wealth. The federal government makes most land use decisions, development is streamlined and new

1 OECD, *The OECD Tax Benefit Model for Denmark: Description of Policy Rules for 2018*, page 11, http://www.oecd.org/els/soc/TaxBEN-Denmark-2018.pdf

2 Cristian Bevington, Paul Peninger and Sarah Karlinsky, *From Copenhagen to Tokyo: Learning From International Delivery Systems*, SPUR and AECOM, August 6, 2020, pages 3–12, https://www.spur.org/publications/white-paper/2020-08-06/copenhagen-tokyo

3 Ibid., pages 20–25.

housing supply outstrips demand, keeping costs low. The government also offers discounts on publicly financed housing to households that locate near their older family members, as well as to families with children, in order to encourage mixed-age communities.[4]

**Hulgård Plads housing in Copenhagen, Denmark, provides publicly financed social housing to residents.**

Treating housing as a human right is not a completely new idea in the United States. In 1944, during his State of the Union address, President Franklin Delano Roosevelt called for a "Second Bill of Rights" that included the right of every family to "a decent home."[5] And in 1948, the United States signed the Universal Declaration of Human Rights, which includes the right to housing but does not have the binding power of law. Despite these initial steps, the promise of housing as a right in this country has never been fulfilled.

Source: SEIER + SEIER, flickr

4 Ibid., pages 32–37.

5 Eric Tars, "Housing as a Human Right," 2016 Advocates' Guide, National Low Income Housing Coalition, 2016, https://nlihc.org/sites/default/files/2016AG_Chapter_1-6.pdf

## A Brief History of New Deal Housing Programs in the United States: Homeownership, Public Housing and Systemic Racism

As part of the New Deal in the 1930s, the United States created the Federal Housing Administration (FHA) to regulate mortgage interest and offer low-cost long-term debt to buyers. Since its creation, the FHA has insured more than 46 million mortgages.[6] After World War II, FHA-backed loans accounted for a massive housing boom, allowing millions of largely white families to access homeownership for the first time. At the same time, this program institutionalized racism. The FHA developed “redlining” maps that showed where loans could and couldn’t be made. FHA-backed mortgages were not permitted in communities primarily made up of Black people and other people of color, thereby denying homeownership to people of color and reinforcing the wealth gap.[7]

The Federal Housing Act of 1937 created public housing (housing owned and funded by the government) in the United States. Under this program, 1.4 million units of housing were built and made affordable to low-income people.[8] While the original impetus of the legislation was to create safe and decent housing for the working class, public housing policies also enshrined racial segregation in many communities.[9] Over the years, chronic defunding of public housing operations contributed to the physical deterioration of the buildings and turned public housing into housing of last resort.

What our history tells us is that this country is capable of treating housing as infrastructure. It is also capable of enacting and reinforcing racism in its housing policies. It is SPUR’s hope that the Bay Area can use the tools of government to create a housing system that is racially equitable and that enables housing to be treated as a human right.

6 U.S. Department of Housing and Urban Development, “The Federal Housing Administration (FHA),” https://www.hud.gov/program_offices/housing/fhahistory

7 Richard Rothstein, *The Color of Law: A Forgotten History of How Our Government Segregated America*, Liveright Publishing / W.W. Norton, 2017, https://wwnorton.com/books/The-Color-of-Law/

8 National Housing Law Project, “Public Housing,” https://www.nhlp.org/resource-center/public-housing/

9 National Low Income Housing Coalition, “Public Housing History,” October 17, 2019, https://nlihc.org/resource/public-housing-history

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?" Reconceiving of housing as infrastructure could fundamentally transform the region's housing landscape and empower state, regional and local governments to undertake changes on a large scale.

If we begin to treat housing as infrastructure, what might the results look like in the Bay Area? In the future, affordable housing would be sufficiently funded to the point where the region produced enough affordable housing for those who needed it. Governmental institutions would be actively looking to acquire new land and buildings and would use existing public land to create more affordable homes. The cost of producing new housing would decrease because modular housing would be the norm and not the exception and because regulatory efforts would not be geared toward stopping new housing from being built, but rather toward encouraging the creation of the housing the region needs. There would be a strong pipeline of construction workers being trained for well-paying jobs building innovative, factory-built housing. These jobs would not be subject to boom-and-bust real estate market cycles because the government would intervene to ensure that housing was built during market downturns. Most middle-income housing would be built by the private market because it would be faster and cheaper to build new housing, and the supply of housing would be large enough that people weren't outbidding each other for scarce units. And our state property tax system would encourage cities to support the construction of new housing.

We have the ability to achieve this vision. But we must create a housing delivery system that works for everyone, not just those who can afford to outcompete everyone else for a new housing unit.

This report makes a series of recommendations to change our housing delivery system. Taken collectively, they move us toward a future where housing is available to all who need it. Some of these ideas require a significant change from our current political reality, but if we want housing to be treated as a human right, these are changes well worth making.

# 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.

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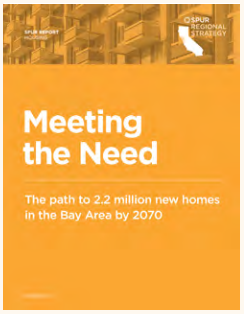



## Meeting the Need

**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.

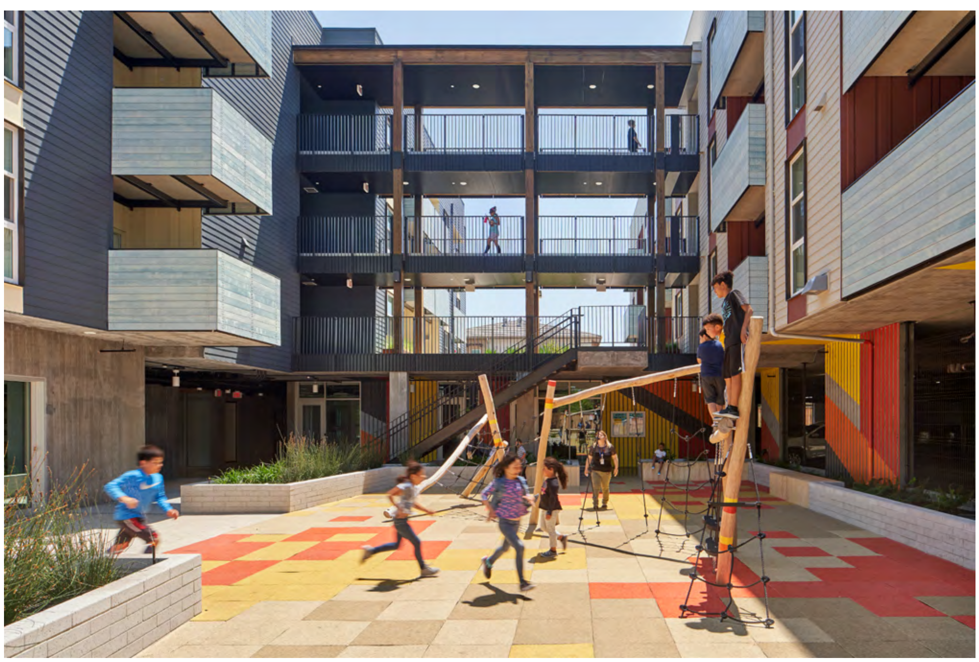
The ideas in these reports are interdependent. It is not sufficient just to build enough housing; we must also protect tenants from displacement and eviction. It is not enough to reduce speculation in the market; we must also make tax structures fairer and support affordable housing production. It is 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**.

# Recommendations

The following recommendations describe how housing policy would need to change in order to produce enough housing at all income levels. These changes include dramatically increasing the level of funding available for affordable housing, making existing housing permanently affordable, building a sufficient amount of middle-income housing, building housing throughout the market cycle including during downturns, industrializing housing production and changing California's tax structure to be fairer and to encourage housing production.

## Recommendation 1
## Expand affordable housing funding and production.

In order to produce a sufficient amount of affordable housing, state, regional and local governments will need to create significant new funding resources. Affordable housing is funded through a variety of different mechanisms, including federal resources in the form of the Low-Income Housing Tax Credit (LIHTC), the HOME Investment Partnerships Program and the Community Development Block Grant Program. The State of California also provides financing through multiple funding programs administered by the Department of Housing and Community Development and tax-exempt bond debt (which is debt that needs to be repaid, but at a lower interest rate). There are also regional, county and local programs that provide funds for affordable housing, usually funded with bonds that are passed by voters.



**Affordable homes, such as these apartments developed by MidPen Housing in Sunnyvale, help create communities where families can thrive.**

Source: Bruce Damonte, courtesy of David Baker Architects

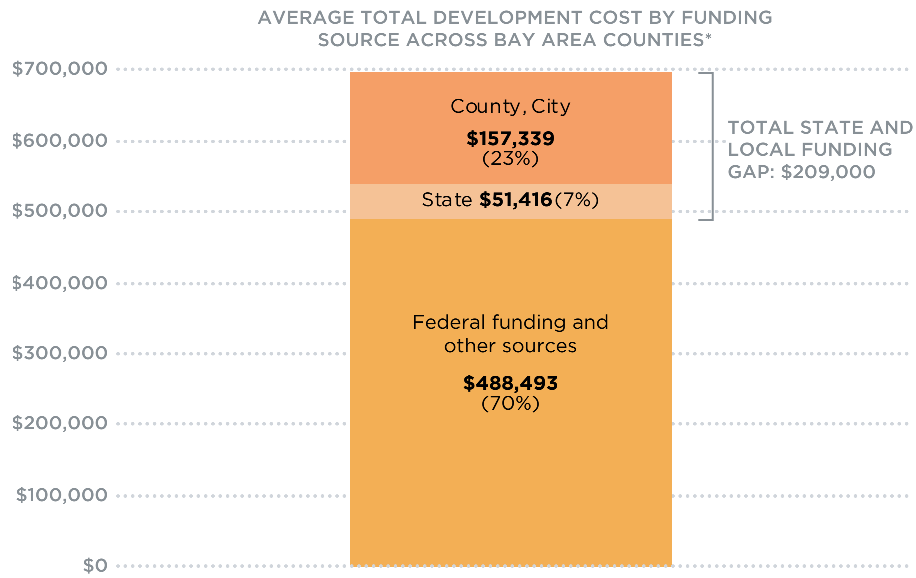
In order to address the need for affordable housing at scale, however, the amount of funding needs to increase and the cost of delivering affordable housing needs to fall. (For a discussion about reducing costs, see Recommendation 5.) On the funding side, the amount of increase needed is substantial. A recent study conducted for SPUR by Strategic Economics found that the combined local and state subsidy needed to create a unit of housing for a low-income family (i.e., the gap between what the unit costs to build and what the federal government, the developer and the family collectively pay) is $209,000. For a moderate-income household, that gap is $240,000.[10] The total cost to produce a housing unit is roughly $700,000.

FIGURE 1

### How Much Does Low-Income Housing Cost State and Local Governments?

**The overall cost per unit to develop a new unit of affordable housing is $700,000. The state and local funding gap is more than $200,000 per unit[11] — the amount needed to build a new unit after federal funding and other sources are taken into account.**

*Average of Alameda, Contra Costa, San Francisco, San Mateo and Santa Clara counties.




Sources: California Tax Credit Allocation Committee, 2020; Santa Clara County, 2020; Strategic Economics, 2020.

The moderate-income household gap is larger than the low-income household gap because there are almost no forms of subsidy for such households at the federal level, and therefore the entire funding gap must be borne by the local government.

Of course, if the cost of producing housing could be lowered, then the amount of subsidy needed would be reduced. SPUR's hope is that the gap to produce permanently affordable housing will shrink as the cost of producing housing falls thanks to construction improvements and a simplified process for housing entitlements, all of which are discussed in Recommendation 5 (see page 26), as well as in SPUR's companion report *Meeting the Need: The Path to 2.2 Million Homes in the Bay Area by 2070*.[12]

At the same time, some actions that state, regional and local governments can take to support the creation of moderate-income housing would require more minimal subsidies or potentially no subsidy at all for certain smaller building types, such as accessory dwelling units.

If we apply the identified funding gap to the number of units that must be built to accommodate the future population growth of low- and moderate-income households, the total need for affordable housing subsidy in the Bay Area is at least $3.5 billion annually in the early years, before construction and process improvements can be realized.

10 Sujata Srivastava, Evelyne St-Louis and Heather Bromfield, "Funding Gap for Low- and Moderate-Income Housing in the Bay Area," Strategic Economics for SPUR, July 8, 2020, https://www.spur.org/sites/default/files/Low-Income_and_Moderate_Income_Funding_Gap_Memo.pdf.

11 Ibid.

12 Sarah Karlinsky and Kristy Wang, *Meeting the Need: The Path to 2.2 Million Homes in the Bay Area by 2070*, SPUR, April 2020, https://www.spur.org/meetingtheneed.

FIGURE 2

**State and Local Government Must Subsidize $3.5 Billion of Housing Annually to Meet Future Demand**

According to current projections, the region will require $3.5 billion in affordable housing subsidies annually, but this amount could decrease if building costs can be reduced and if the market can produce more units that moderate-income households can afford.

**LOCAL AND STATE SUBSIDY NEEDED TO ACCOMMODATE FUTURE HOUSING DEMAND FOR LOW- AND MODERATE-INCOME HOUSEHOLDS (2020–2070)**

| Area Median Income (AMI) Category | Total Households (over 50 years) | Average Annual Production Needed | Amount of Annual Subsidy Needed |
|---|---|---|---|
| Less than 50% AMI (very low-income) | 368,000 | 7,360 units | $1.5 billion |
| 50% to 80% AMI (low-income) | 203,500 | 4,070 units | $850 million |
| 80% to 100% AMI (moderate-income) | 139,500 | 2,780 units | $670 million |
| 100% to 120% AMI (moderate-income) | 103,500 | 2,070 units | $500 million |
| Total | 814,500 | 16,290 units | $3.5 billion |

Sources: The Concord Group analysis of housing demand by income group, https://www.spur.org/publications/spur-report/2020-03-09/what-it-will-really-take-create-affordable-bay-area; Strategic Economics analysis of the local and state subsidy gap for low- and moderate-income households, https://www.spur.org/sites/default/files/Low-Income_and_Moderate_Income_Funding_Gap_Memo.pdf

In order to address the subsidy gap, SPUR recommends the following:

## A | Create new sources of affordable housing funding at the state, regional and local levels.

In order to address the gap in resources for affordable housing, the region will need to develop new sources of funding. These could include a set of large regional bond measures that could then be distributed by the Bay Area Housing Finance Authority, or BAHFA (see sidebar on page 13). Other potential sources include parcel taxes, sales taxes, transfer taxes, commercial linkage fees (impact fees for commercial development), gross receipts taxes, vacant homes taxes and document recording fees. These sources could also be collected and distributed by BAHFA.

At the same time, the state will also need to develop more stable funding for affordable housing. Reform of Proposition 13 — a 1978 constitutional amendment that caps each property's tax rate and assessed value — should be pursued, as discussed in Recommendation 6 of this report (see page 36).

## The Bay Area Housing Finance Authority: What a Regional Housing Agency Could Deliver

SPUR believes that a regional housing entity called the Bay Area Housing Finance Authority (BAHFA), newly enabled in 2019, has the potential to have greater impact on housing outcomes in the Bay Area if its mission is broadened and its resources bolstered.

In many ways, the best place to address Bay Area housing challenges is at the regional level. The Bay Area has a regional jobs and housing market, but land use and housing powers are situated within local governments. And yet housing affordability and a regional housing shortage cannot be solved within an individual jurisdiction. The actions of the 101 cities and nine counties of the Bay Area collectively can lead to the creation of enough housing for all or to the dire shortage and price spikes we see today. On the other hand, California, home to 40 million people, is massive and has a wide range of residents' needs and local conditions. The state government's ability to monitor and intervene to support good land use planning is limited by the sheer size and complexity of the state itself. All of these things considered, the power to address certain types of housing challenges may be better suited to regional government.

Situated between the state and local scale, the region currently has somewhat limited tools with which to fight the housing crises that face the Bay Area. The Association of Bay Area Governments (ABAG) and the Metropolitan Transportation Commission (MTC) provide many important planning, research, coordination and financing functions to the region, including Plan Bay Area, the regional plan and Sustainable Communities Strategy.

In 2019, the State Legislature passed AB 1487, creating the Bay Area Housing Finance Authority thanks to the leadership of State Assemblymember David Chiu, Enterprise Community Partners and the Non-Profit Housing Association of Northern California. AB 1487 now allows a new entity, BAHFA, to raise, administer and allocate money for affordable housing and provide technical assistance in order to strengthen tenant protections, preserve affordable housing and produce new affordable housing. While it is a separate legal entity from MTC, BAHFA will have the same governing board as MTC and be guided by MTC and ABAG's executive board.

BAHFA has important powers, and these should be built upon to make the agency even more effective. Specifically, there are several activities that BAHFA should be tasked with overseeing in the near term, most of which are already permitted. SPUR recommends that BAHFA:

→ Collect and distribute funding for investment in affordable housing production and preservation. BAHFA could receive billions of dollars through federal and state appropriations as well as drive regional ballot measures to fund the production and preservation of affordable housing.

→ Coordinate housing and anti-displacement policies and facilitate information-sharing across jurisdictions.

→ Provide best practices, technical assistance and financial assistance to localities to implement housing and anti-displacement policies.

→ Develop a regional land banking strategy and then acquire, manage, hold and dispose of land and buildings for affordable housing. If needed, the state should amend AB 1487 to ensure BAHFA has these powers.

→ Collect and synthesize data on the planning, production and preservation of housing (with ABAG).

- → Manage Doorway (known today as DAHLIA in San Francisco), a consolidated regional affordable housing platform to connect residents to housing opportunities. Doorway can also provide a tremendous amount of valuable data for future policy-making and program development.
- → Develop and manage a regionwide right-to-purchase program for tenants and nonprofits.
- → Manage a regionwide right-to-counsel program and network for tenants facing eviction.
- → Increase coordination of homelessness prevention efforts (including services and rental assistance) across the region.
- → Promote and support alternative models of affordable, shared equity ownership (shared equity ownership is discussed further in the companion report *Rooted and Growing: SPUR's Anti-Displacement Agenda for the Bay Area*[13]).

In the future, this agency could do even more. For instance, AB 1487 expressly prohibits BAHFA from regulating or enforcing local land use decisions. But because of its focus on the larger region, BAHFA might be in the best position to serve as an arbiter of local disputes. With the powers it has today, BAHFA can immediately contribute to solving the Bay Area's housing problems, but over the next 50 years, it could be positioned to take on an even larger role in future land use issues.

The Bay Area's housing market is regional, and we need regional tools to address our needs. A regional housing agency has the potential not only to address the region's housing crisis but also to strengthen the Bay Area's ability to function as a region on multiple fronts.

## B | Ensure that new sources are available to support affordable housing production during downturns.

Any new funding sources that are created should enable the construction of affordable housing during a downturn (see Recommendation 4 below). This can be accomplished in a variety of ways. Bond issuances and other funding sources passed by voters (typically during an upcycle, when voters are more likely to pass additional funding measures) could require that a percentage of proceeds be placed in a rainy-day fund to be used when the market moves toward a downturn. Other funding sources could be established as revolving loan funds whose proceeds from loan payments are reinvested in future projects.

## C | Advocate for a stronger role for the federal government in funding affordable housing.

While new state and local sources will be critical in funding affordable housing, it will be equally important for the federal government to increase funding for affordable housing production. Yet federal subsidies for affordable housing have declined over the past few decades. Between 2003 and 2015, HOME and Community Development Block Grant funds in California decreased by 50% to 60%.[14]

Increased federal funding for affordable housing would reduce the resources needed at the state and local

13 Kristy Wang, *Rooted and Growing: SPUR's Anti-Displacement Agenda for the Bay Area* , SPUR, April 2020, https://www.spur.org/rootedandgrowing.

14 Strategic Economics, "Funding Affordable Housing Near Transit in the Bay Area Region," prepared for the Great Communities Collaborative, pages 10 and 12, https://www.greatcommunities.org/wp-content/uploads/Report_Final_Updated_20170803.pdf

levels. The largest federal housing program in the United States is the mortgage income tax deduction, which costs between $30 billion and $34 billion annually.[15] It supports homeowners rather than renters, which results in a disproportionate benefit for people with higher incomes.[16] The 2017 Tax Cut and Jobs Act shrank the mortgage interest deduction in a few ways, first by limiting the deduction to the first $750,000 of a mortgage that originated after December 16, 2017 (or the first $1 million for mortgages prior to that date). Because that law also increased the standard deduction, it effectively eliminated the mortgage interest deduction for lower-income households. The funds created from this change were used to pay for tax cuts, but a future tax bill could set aside those funds instead for affordable housing. Additionally, future tax reform that reestablishes higher corporate tax rates could be used to fund a variety of social programs that help low-income families, including affordable housing.

As mentioned earlier, other countries that sufficiently fund affordable and social housing rely on the national government and national housing policies to ensure that all residents are housed. The importance of federal housing policy to support housing affordability cannot be overstated. State and local leaders should continue to advocate for significant funding for affordable housing.

## Can the Bay Area End Homelessness by 2070?

Homelessness is an enormous challenge in the Bay Area today. According to the 2019 count, more than 28,000 residents of the Bay Area were experiencing homelessness, and two-thirds of the homeless population was unsheltered (meaning that they lacked access to even temporary, emergency shelters), the second-highest percentage in the United States after Los Angeles.[17] These statistics don't even show the thousands of Bay Area residents who are living on the edge of homelessness — whether they're doubling up with relatives, moving between short-term living situations or devoting an extreme proportion of income to rent. More than 50% of households in the Bay Area pay over 30% of their income toward housing costs — and more than 26% of households spend over half of their income on housing.[18] And this is happening in a place with a strong economy and high rates of employment, one of the highest concentrations of billionaires in the world and voters who have tended to support a strong safety net. Homelessness is an abject failure of policy — housing policy, economic policy and more — as much as it is a collective moral failure.

Many reasons — both structural conditions and individual circumstances — underlie the region's large and growing number of people without homes.[19] Some of the key drivers include high housing costs (particularly for extremely low-income households), rising income and wealth inequality, and a limited social safety net. Structural racism plays a major role; in the Bay Area, people who identify as Black or African

15 For the $34 billion estimate from the Joint Committee on Taxation, see: Andrew Aurand, "The Mortgage Interest Deduction," 2019 Advocates' Guide, National Low Income Housing Coalition, 2019, https://nlihc.org/sites/default/files/AG-2019/06-09_Mortgage-Interest-Deduction.pdf; for the $30 billion estimate, see: William G. Gale, "Chipping Away at the Mortgage Deduction," The Brookings Institution, May 13, 2019, https://www.brookings.edu/opinions/chipping-away-at-the-mortgage-deduction/

16 IRS, "Publication 936, Home Mortgage Interest Deduction," https://www.irs.gov/publications/p936

17 Bay Area Council Economic Institute, Bay Area Homelessness: A Regional View of a Regional Crisis, April 2019, page 7, http://www.bayareaeconomy.org/files/pdf/Homelessness_Report_2019_web.pdf

18 Bay Area Equity Atlas, "Housing Burden," https://bayareaequityatlas.org/indicators/housing-burden#/?houseburd01=2

19 Ibid, page 6.

American comprise only 6% of the overall population but 29% of those experiencing homelessness.[20]

SPUR believes that the Bay Area should eradicate homelessness by 2070. This is a place known for its economic opportunities and social justice values, but we also struggle with great financial and racial disparities. SPUR wants to see the region make transformative changes across policy areas to embody our values and ensure that all residents of the Bay Area have a roof over their heads by 2070.

Specifically, SPUR's housing vision will help ameliorate homelessness by:

- Seeking to provide a sufficient amount of affordable housing at all levels, especially for extremely low-income households
- Reducing the costs and delays associated with creating affordable housing
- Protecting renters so they don't lose their homes
- Recommending rental enhancements such as vouchers
- Helping secure homeownership opportunities for low- and moderate-income buyers so they are not at risk of displacement

(For detailed recommendations related to this vision, see *Rooted and Growing: SPUR's Anti-Displacement Strategy for the Bay Area*.)

Having a home is the foundation of a safe, secure and dignified life. Many Bay Area organizations, including All Home and Destination Home, are focused on the hard work of making homelessness rare, brief and non-recurring. SPUR will continue to work with these and other partner organizations to realize the vision of a Bay Area where everyone has a home.

**Homelessness impacts residents throughout the Bay Area, forcing families and individuals to find shelter in public spaces such as Guadalupe River Park in San José.**

Souce: Kara Brodgesell

20 Ibid, page 9.

## Recommendation 2
# Place land and buildings in public or nonprofit ownership.

Placing land and buildings in nonprofit or public ownership is one of the most important things the public sector can do to encourage long-term housing affordability and reduce speculation. Many of the successes that cities in Europe or Asia have been able to accomplish through their social housing systems have come about because of access to large swaths of public land. While public land ownership in the Bay Area may be limited today, the region can build toward those goals by better using existing public land and moving more land and housing from private ownership to public or not-for-profit ownership and management, which can lead to more stable communities.

**After purchasing Garland Plaza in 2007, Nonprofit MidPen Housing rehabilitated the units and converted them to permanently affordable housing.**


Souce: Craig Sherod for MidPen Housing

Unrestricted affordable housing is particularly important to preserve. 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.[21]

21 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.

The best time to purchase these properties is during a recession, when the price of apartment buildings and land tends to fall. Without capital or a coordinated plan that allows for quick action, public entities and nonprofits cannot compete with private investors for these assets. The result is a missed opportunity to create long-term affordable housing with a lower level of public investment than it would take to purchase those same buildings or land at the height of the market. California's Project Homekey is a good step in that direction, providing $600 million to purchase buildings and turn them into permanent affordable housing for formerly homeless individuals.

Creating a funding stream for these kinds of acquisitions is one obvious hurdle, but other challenges loom with regard to nonprofit capacity and the efficiency of operating models over the long term. The region's existing housing nonprofits are structured to develop, manage and operate larger low-income housing developments, not small, scattered sites with four, six or even a dozen units each. Small-project transactions often require as much staff work as large ones. More nonprofits will need to grow or be created in order to scale this effort across the region. BAHFA and local governments should invest in capacity-building to help in this effort (see Recommendation 2F below).

During the current downturn, the public sector should waste no time in taking the following actions. These will also set up the Bay Area to respond more effectively during future downturns.

### A | Empower BAHFA to acquire, hold and manage land and property.

As discussed in Recommendation 1, BAHFA is a new regional entity with powers to raise and allocate new revenue for affordable housing, to collect data on housing production and to provide technical assistance to local governments seeking to develop and preserve affordable housing. While BAHFA does have the authority to spend funds to purchase land and property in order to preserve or create affordable housing, it is not yet clear whether BAHFA itself can purchase and hold that property. BAHFA should be empowered to receive, purchase and hold land for the purposes of creating affordable housing and to make that land available for these purposes. This should include allowing BAHFA to hold tax-delinquent land, clear the title and make the property available for affordable housing or other public uses.

BAHFA could also partner with nonprofit entities to secure property. The San Francisco Housing Accelerator Fund, created in 2017 after being incubated in the Mayor's Office, helps creatively facilitate the preservation and production of affordable housing in San Francisco. As a public-private partnership, the fund is able to move more quickly and facilitate different kinds of loans/investments to housing nonprofits than the city of San Francisco can. This kind of partnership could be utilized in more places throughout the Bay Area at the local level.

### B | Develop a regional land banking strategy.

BAHFA should be charged with developing a regional land banking strategy. This should include maintaining an inventory of publicly owned land suitable for affordable housing development, which would contain data about zoning, how the land is currently being used and who owns it. BAHFA should provide technical support for local public entities that do not have expertise in disposing of land or redeveloping it as affordable housing and should help them pursue legislation needed to support land banking efforts.[22]

22 For more information on steps needed to support regional land banking in the Bay Area, please see: Heather Hood and Geeta Rao, *The Elephant in the Region*, Enterprise Community Partners, January 2018, pages 21–22, https://www.enterprisecommunity.org/download?fid=8728&nid=6072

## C | Retain public land over the long term.

Once government agencies own property, they should strive to lease the land to a developer and allow the developer to build on that land, rather than sell public land in most cases. Not only does retaining public ownership of land allow for more opportunities to prioritize affordable housing, but it also gives public agencies more leverage and more flexibility about how to meet future needs — whether housing-related or otherwise. SPUR believes that public agencies should be able to exercise some flexibility on this front since site conditions, site locations, city needs and agency needs vary widely. Using long-term leases, however, should be the primary and predominant approach.

## D | Develop public and philanthropic resources that can be used during a downcycle to acquire existing property that can be converted to permanently affordable housing.

Recommendation 1 discussed the public funding needed to create new affordable housing. Significant sources of funding will also be needed to purchase unregulated housing that is affordable to low-income people with the goal of converting it to long-term affordable housing. A recent analysis by Enterprise Community Partners estimates that the gap to acquire and rehabilitate a unit of housing for permanent affordability is between $117,000 and $330,000 per unit.[23] In addition, funding will be needed to purchase land and "soft sites" (such as underutilized commercial property) that could be developed as affordable housing in the future. Philanthropic agencies could be working on developing funds during an upcycle that would be deployed rapidly in a downcycle for the purposes of acquiring property for affordable housing use.

## E | Create incentives for property owners to sell existing housing to nonprofit housing organizations.

Currently, property owners who sell their properties for below-market prices can receive tax benefits for their donation, but this approach relies upon the largesse of property owners and is not a scalable incentive. But incentives related to capital gains taxes could make the sale of property to nonprofit organizations more attractive. The state could create an exemption from capital gains taxes for sales to a nonprofit housing organization. Alternatively, the government could offer a longer 1031 ("like-kind") exchange period (under current rules, if an owner sells an investment property to a nonprofit housing organization and purchases a similar one within 180 days, then the owner can defer paying capital gains until after the purchase). Cities also could consider transfer tax exemptions for property sales to nonprofit housing organizations. San Francisco currently offers partial transfer tax relief for transactions involving the Community Opportunity to Purchase Act (see Recommendation 3 in *Rooted and Growing: SPUR's Anti-Displacement Agenda for the Bay Area).*

Cities could also use their zoning powers to create and share value through a transfer of development rights (TDR) program for the air rights above existing housing that is sold to a nonprofit ("air rights" are the right to develop the vertical space above a property, up to the height that zoning rules permit). If a property owner sells a residential building to a nonprofit that intends to retain the existing building and not redevelop the property, the seller would be able to retain the air rights — say, for example, the existing housing is a two-story building, but zoning allows up to five stories. The seller could later sell the development rights to those undeveloped three stories to buyers who would use them to develop a larger building elsewhere. When the seller sells those

23 "Bay Area Affordable Housing Pipeline," presentation by Enterprise Community Partners, December 17, 2020.

air rights through the TDR program, 50% of the value would go to the seller and 50% would go into the city's housing coffers. But cities might want to carve out the ability to retain the air rights in the event that they and their nonprofit partners foresee a future redevelopment of the property.

### F | Form a regional nonprofit entity that can collectively own and asset-manage small properties for smaller nonprofits.

As mentioned earlier, most affordable housing organizations today are scaled to efficiently operate larger buildings, with several dozen if not hundreds of units. To meet the scale of need in the Bay Area and to viably operate smaller existing buildings (that are likely to be acquired as part of the region's preservation efforts), the region needs a different kind of operating model.

In New York, several community development corporations have come together and formed JOE NYC, a joint-ownership entity that owns and asset-manages affordable housing contributed by its members.[24] With a larger collective portfolio, this entity has greater ability to operate at scale, both from an operations perspective and from a financing perspective. With a stronger balance sheet, it can serve as a guarantor for its member organizations and enable refinancing of affordable housing properties. This is a model that the Bay Area could follow in order to support smaller nonprofits in the efficient operation and financial management of smaller properties.

## Recommendation 3
## Make it possible to build middle-income housing.

SPUR estimates we need to build a minimum of 408,500 homes for households at 80% to 150% of Area Median Income (AMI). Households in these "middle incomes" typically do not qualify for housing subsidies, but they are also unable to afford market-rate housing in many parts of the Bay Area market. Failing to plan for and build middle-income housing puts pressure on the more affordable parts of the housing market, leading to gentrification and displacement. It also leads to sprawl as middle-income families look for affordable housing at the fringe of the region and beyond, which exacerbates climate change and wildfire risk.

The most important step we can take to build middle-income housing is to produce significantly more housing, particularly smaller multifamily housing developments that can be built more cheaply. Well-functioning housing markets do not have extreme housing shortages that drive up housing prices to levels that middle-income people cannot afford. We discuss many ways to increase housing production in our report *Meeting the Need: The Path to 2.2 Million New Homes in the Bay Area*.

24 See more at http://www.joenyc.org/

Small four- to six-unit apartment buildings, such as this one in Portland, Oregon, help create more middle-income housing options.


Source: Mark McClure, flickr

This recommendation focuses on some near- and medium-term actions that could create more middle-income housing as we continue to work to address the housing shortage:

## A | Encourage the market to produce more modest housing types.

Much work at the state level has made it possible to build more modest housing types such as accessory dwelling units (ADUs), but more work needs to be done to make it easier to finance and inexpensively construct new ADUs. ADUs are a critical part of the housing market, creating affordable rental units and offering homeowners flexibility throughout different cycles of life — an ADU can be a space for an aging parent to live or for the owners themselves to live in retirement while renting out their principal home.

Enabling the production of duplexes, triplexes and four- to six-unit buildings in lower-density communities would also help enormously to address the housing crisis. These smaller types of buildings can foster more affordable homeownership opportunities while creating their own market ecosystem of smaller contractors and builders.

Reducing development impact fees or inclusionary requirements (requirements that developers build a certain percentage of low-income housing) for buildings that serve the middle-income population would also help. Encouraging the creation of units with more modest finishes that come without a parking space could serve this market as well.

## B | Provide modest subsidies to support the creation of middle-income housing in expensive Bay Area housing markets.

There are many parts of California where market-rate housing is affordable to middle-income households. But in the expensive, densely built parts of the inner Bay Area, some additional subsidy is needed. This doesn't need to come in the form of direct subsidy. For example, the Bay Area could learn from the Mitchell Lama program in New York State.

Signed into law in 1955, the Mitchell Lama program created 269 housing developments with more than 105,000 units of rental and cooperative housing affordable to low- and moderate-income households. Mitchell Lama offered a package of incentives (including low-interest mortgages, low-cost or free land and property tax exemptions) that private developers utilized to build the units and maintain strictly regulated rents over time. The Bay Area might build on this model (with changes to ensure permanent affordability) in order to incentivize the creation of moderate-income housing without direct subsidy.

The state could also encourage local jurisdictions to waive development fees for moderate-income units. Another powerful step would be to expand the welfare property tax exemption for households earning up to 120% of AMI. Currently, the California Constitution allows for a welfare property tax exemption for households earning up to 80% of AMI, meaning that owners of qualifying properties do not have to pay property taxes for units occupied by households earning 80% of AMI or less. Most permanently affordable housing developments make use of this welfare property tax exemption. Expanding the exemption for units serving moderate-income households in high-cost regions such as the Bay Area could help finance the construction of moderate-income housing. It is important, however, that this exemption only be provided to properties whose rents are 20% or more below market rate so that the state does not end up subsidizing market-rate housing.

In another option, the state could greatly expand the pool of tax-exempt bond debt, first to support affordable housing for those at 80% of AMI or below. Once the pool is large enough to support all projects for households at 80% of AMI or below that require financing, the pool could be expanded further to include projects for households earning between 80% and 120% of AMI.

Any project receiving these incentives would be required to price its units to be affordable for households at 120% of AMI or below.

## C | Encourage the creation of a new type of development entity focused on middle-income housing.

Market-rate developers work in exchange for a percentage of the profit from funds they invest in their projects and tend to be profit-motivated. Affordable housing developers rely on sources of subsidy to make units permanently affordable. It would be helpful to have a third type of development entity in the marketplace — for-profit fee-developer entities (i.e., developers that build for a set fee, rather than a percentage of return). These developers would have limited profit and focus on the middle-income housing niche, increasing production capacity for middle-income housing.

## Recommendation 4
# Develop financial and public policy tools that can be deployed to encourage private housing construction during a downturn.

During a downturn, the construction of market-rate housing usually slows to a trickle, since market-rate housing relies on rising rents or sales prices to cover the cost of development — including land, construction, financing, developer profit and soft costs such as architecture, engineering and legal fees. In some parts of the Bay Area, the cost of building a unit of housing is more expensive than anywhere else in the country due to the lack of sufficient land zoned for multifamily housing construction, significant regulatory barriers and the need for more construction workers.

What can be done to encourage the construction of market-rate housing during a downturn so that the region's housing shortage can be addressed? Part of the answer will be to drive down the cost of producing housing by finding ways to produce that housing more cheaply, a topic explored in Recommendation 5 below. Another answer will lie in financial and public policy tools that can boost the financial feasibility of market-rate housing during a downturn.

**During a downturn, market-rate housing production slows to a trickle, causing prices to spike when the economy revives and more workers arrive in the region looking for housing.**

Source: Sergio Ruiz

Recent analysis by the Emerald Fund for SPUR conducted at the start of the current downturn[25] indicates that the gap between what projects require financially to move forward and what current rents provide is significant. Costs to build housing include land, construction, architectural and engineering charges, and permits and fees, as well as the cost of financing. When the total costs (shown in Figure 3 in the "Total Development

25 Analysis completed by Brynn McKiernan of the Emerald Fund in summer of 2020. Pro forma analysis conducted for sample multifamily projects in San Francisco, San Jose and Oakland. See: https://www.spur.org/sites/default/files/Residential_Pro_Formas_in_San_Francisco_San_Jose_and_Oakland.pdf

Cost" column) to build a project are larger than the profit that comes from rent or sales, this creates a shortfall in financing. Recent estimates show that this gap can range from $30 million to $60 million for a 180-unit wood-frame-over-concrete-podium project in different parts of the Bay Area. The annual operating gap (the difference between what it costs to operate the building and what is collected in rent) is between $1.5 million and $3 million, as shown below.

FIGURE 3

**New Housing Construction Falls Short of Funding During Latest Economic Downturn**

**For multifamily housing projects throughout the region, the gap in total development costs ranges from $32 million to $62 million. It will require a significant drop in construction costs, increases in rents and/or public-sector intervention to get multifamily housing development built under these market conditions.**

**FINANCIAL GAPS IN MARKET-RATE HOUSING PRODUCTION DURING THE 2020 DOWNTURN[26]**

| Building Type | Location | Total Development Cost | Total Gap[27] | Annual Net Operating Income Gap |
|---|---|---|---|---|
| 180-unit Type III building (wood frame over podium) | San Francisco | $130 million | $37 million | $2.3 million |
| | Oakland | $125 million | $32 million | $1.5 million |
| | San Jose | $145 million | $62 million | $3.1 million |

In some cases, even a 25% drop in construction costs coupled with an elimination of inclusionary housing requirements does not erase the gap,[28] although such reductions certainly help with project feasibility. For market-rate housing to move forward during a downturn, public intervention will be needed. Some options include the following:

## A | Create public- or philanthropic-sector loan guarantees to reduce risk.

One of the biggest challenges for market-rate developers securing capital during a downturn is managing the risk, or perception of risk, for investors. During a downturn, investors may require developers to create reserve funds to prove that funding will be available over a certain number of months, which only adds to development costs during a financially challenging time. If the public (or even philanthropic) sector could provide guarantees that investments would be repaid, the cost of capital would be lower. The public or philanthropic sector could explore the concept of risk-sharing — where the public or philanthropic entity takes on more risk during a downturn in exchange for a share of the gains during an up market. In other words, the public or philanthropic sector could guarantee or even lend some portion of funds (as subordinate debt), which could be repaid in future years when the market is on an upswing.

26 Ibid.

27 Development cost gap is based on net operating income (NOI) using 5% return on cost (ROC), less total development costs.

28 See note 26.

## B | Subsidize net operating income for a period of time.

Instead of providing long-term funding for market-rate housing, the public sector could instead subsidize the first few years of losses during a downturn, until rents return. This subsidy could come in the form of rental vouchers provided by municipalities or the state. The public sector could then require rent caps on a certain number of units during an upturn in exchange for the public investment during the early years. While this program would cover market-rate developments, SPUR also recommends rental vouchers for low-income households in our report *Rooted and Growing: SPUR's Anti-Displacement Agenda for the Bay Area.*

## C | Create an infrastructure bank to serve as a co-investor in property development.

An infrastructure bank is a publicly funded entity that can loan money for projects that serve a public purpose. The bank can then be repaid over time and relend the money after it is repaid (i.e., a revolving loan fund). The bank can loan money at cheaper rates and/or take on more risk than a conventional bank. In the Bay Area, such an infrastructure bank could serve as a co-investor (equity partner) in a particular development, taking a subordinate equity position and sharing both the risk and the upside of development. In addition to market-rate housing, moderate-income and affordable housing could benefit from the creation of an infrastructure bank. Access to the infrastructure bank could be conditioned on certain types of community-related investments, similar to what's been suggested for Opportunity Zone financing.[29]

## D | Make zoning changes that enhance feasibility.

Some zoning changes could make development more feasible while also supporting sustainability goals. These changes might include eliminating parking requirements (building parking structures can cost between $50,000 and $60,000 per space[30]) and passing zoning regulations that allow more multifamily housing, which has the potential to drive down the cost of land (see SPUR's report *Meeting the Need: The Path to 2.2 Million New Homes in the Bay Area*). Additionally, cities should consider removing requirements for ground-floor retail in some locations and allowing the ground floor to serve as housing. In many places, ground-floor retail does not add to the feasibility of projects and is very sensitive to downturns. In certain locations where ground-floor retail is unlikely to be successful, it should be replaced with other active uses (such as housing or live/work space). Such zoning changes could also help support the feasibility of affordable and moderate-income housing.

29 Kofi Bonner et al., *Growing Wealth in Opportunity Zones: A Proposal for Community Equity Trusts*, https://drexel.edu/nowak-lab/publications/reports/Growing%20Wealth%20in%20Opportunity%20Zones%20A%20Proposal%20for%20Community%20Equity%20Trusts/

30 Michelle Huttenhoff, Michael Lane and Amanda Ryan, "Sheltering in Place Reminds Us How Much Parking Dominates Our Cities — and Lives," SPUR, April 27, 2020, https://www.spur.org/news/2020-04-27/sheltering-place-reveals-how-much-parking-dominates-our-cities-and-lives

# Recommendation 5
# Industrialize housing production.

One of the biggest barriers to creating the 2.2 million new homes we need by 2070 is the high cost of construction in the Bay Area. According to a 2020 study published by the Terner Center, after adjusting for inflation, hard costs (materials and labor) in California increased by 25% between 2009 and 2018 and have continued to rise since then.[31] In addition, construction costs are far higher in the Bay Area due to a confluence of factors, including the high cost of living, tighter site conditions, higher wages, workforce rules and more restrictive regulations, permitting and approvals.

Why is the high cost of construction a problem? With market-rate housing, if development costs, including developer and investor returns, exceed the rent or sale price that prospective residents are willing to pay, then new housing won't get built. As a result, today many housing proposals are not feasible to build, and those that are feasible are likely at the higher end of the market. With affordable housing, when development costs continue to increase, the public gets fewer housing units for the same amount of public investment, and the public becomes increasingly wary of making future investments in housing.

To produce housing at the scale needed, it is therefore critical to examine all the cost components of development: land prices, financing, construction, building permits, planning and building code requirements, taxes and fees. The time it takes to construct a building and the materials and labor costs associated with construction are both challenges that need to be addressed. Construction is one of the few industries that has not benefited from changes in technology and reductions in production costs that have characterized many other industries. SPUR believes that the industrialization of the housing production process (see "What Is Industrialized Housing?" on page TK) would enable housing to be produced faster and for less money. How do we move toward this goal?

## A | Embrace building innovations.

The public and private sector must both embrace building innovations. An oft-quoted report from McKinsey & Company notes that productivity in the global construction sector significantly trails that of other sectors, particularly in the United States, where agriculture and manufacturing productivity have increased by 10 to 15 times since the 1950s, while construction remains at the same level.[32] While the report notes the challenge of comparing productivity across industries, nonetheless the extreme discrepancy suggests there is room for improvement. Some of those areas include digitization, supply chains and procurement, contractual reforms, robotization and new building technologies.

### 1. Shift the mentality of regulators to support innovation.

Regulatory agencies traditionally see themselves as enforcers of rules and often assume the worst of those applying for permits. As regulators, cities and the state must be concerned with the risks for people living in buildings or buying units, so they may be conservative or slow when it comes to approving the use of new building technologies or assigning liability for construction defects.

31 Hayley Raetz et al., *The Hard Costs of Construction: Recent Trends in Labor and Materials Costs in Apartment Buildings in California*, Terner Center, March 2020, http://ternercenter.berkeley.edu/uploads/Hard_Construction_Costs_March_2020.pdf

32 Filipe Barbosa et al., *Reinventing Construction Through a Productivity Revolution*, McKinsey & Company, February 27, 2017, https://www.mckinsey.com/industries/capital-projects-and-infrastructure/our-insights/reinventing-construction-through-a-productivity-revolution

Nevertheless, high housing costs and homelessness are also critical public challenges that need to be addressed. Therefore, the public sector has a moral imperative to support the development of new building innovations that might bring down the cost of housing construction.

SPUR thinks regulatory agencies could follow global examples and reframe their role to embrace innovation and the shared pursuit of certain outcomes — such as more housing or better public spaces — sought by both the public and private sector.

For example, Amsterdam has designated certain areas as "Living Labs," where public and private parties collaborate as a team to pilot new ways of doing urban development to meet climate targets and other goals.[33] In some places, the existing zoning regulations have been waived in order to experiment with different approaches, and city staff and project sponsors are teamed up to identify solutions together.

Closer to home, Mayor London Breed's executive order on ADUs radically slashed permitting timelines in San Francisco for new ADUs and eliminated a longstanding permit backlog. Among other things, the order required the creation of interdepartmental teams to facilitate the review and approval of ADU applications within a certain period of time.[34]

Regulatory agencies should see themselves as part of a team seeking better ways to build housing for all. They could do this by embracing partnerships across agencies and partnerships with the private sector and by working with those partners to actively support the adoption of construction innovations such as factory-built housing.

### 2. Create an arm of the state's housing department that approves the use of new building technologies, means and methods on a pilot basis.

One of the challenges of adopting new building innovations is getting local building departments to consider and approve an approach not explicitly contemplated by the building code. Even if a sponsor is interested in trying a new material or method, the effort to educate and get approvals in only one jurisdiction might not be worthwhile.

California's Housing and Community Development Department (HCD) currently has jurisdiction over permitting for modular and manufactured components of housing. While there are current challenges around how this HCD team interacts with local building departments, which also have a permitting and inspection role, the team's mission could be broadened to include permitting for other pilot-worthy building technologies, materials, means and methods. These innovations could include the prefabrication of units or building components, newer materials like cross-laminated timber (also known as mass timber), 3D printing, robotic processes and the more widespread use of building information modeling and other design technologies.

This arm of HCD could review and issue permits for pilot projects statewide, perhaps with regional teams that understand place- and market-specific trends. As a result, every single local building department would not need to get comfortable for something new to reach scale, and experience would accumulate within one agency that could be applied to projects in multiple jurisdictions. This HCD team

33 Amsterdam Institute for Advanced Metropolitan Solutions, "Urban Living Labs," https://www.ams-institute.org/how-we-work/living-labs/; Circulair Buiksloterham, "Amsterdam Launches Living Lab for Circular Urban Development," April 22, 2015, https://buiksloterham.nl/message/2229/amsterdam-launches-living-lab-for-circular-urban-development; Letty Reimerink, "Amsterdam Transforms Polluted Industrial Site Into Its Most Interesting Neighborhood," *CitiScope*, March 23, 2016, https://www.govtech.com/fs/Amsterdam-Transforms-Polluted-Industrial-Site-into-its-Most-Interesting-Neighborhood.html

34 San Francisco Office of the Mayor, Executive Directive 18-01, August 30, 2018, https://sfplanning.org/sites/default/files/resources/2018-08/ADU_ExecutiveDirective18_01_FINAL.pdf

lies within the same part of the department that reviews and approves changes to the state building code, so proven innovations should also get adopted statewide more quickly. HCD could first pilot this function in the Bay Area.

**3. Create pre-approved or pre-reviewed plan sets for certain types of buildings.**

Cities in California and elsewhere are starting to pre-approve specific plans for ADUs in order to make it easy for homeowners to add freestanding ADUs to their properties.[35] [36] This model could be expanded to larger, more complex properties in locations outside of the tightest urban infill conditions (along El Camino Real on the Peninsula, for instance). Where infill conditions make it difficult to pre-approve these types of buildings, there are still many components (standard unit plans, bathroom plans and other building details) that could receive a streamlined review and approval process. Architects, designers and contractors already have many unit plans and building details that have been used and reused over the years; these should not have to be repeatedly reviewed and reapproved (with different responses from one permit reviewer to the next). At HCD and at the city level, standard streamlined processes could be developed that allow pre-reviewed building plans to be combined with reviews of site-specific plans and conditions to help speed up the approval process.

Further, the state could explore amendments to construction defect liability laws for pre-approved plans (whether modular or otherwise) that would reduce long-term designer liability. This would further reduce project costs if architects and designers could reduce the scope of their insurance coverage.

**4. Expand the use of technology during the design, permitting and approvals processes.**

Both the public and private sectors should pilot and utilize new technologies that enable more efficient, yet still effective, design, review and inspections. This could include such basics as electronic plan submission and plan review, or it could include more radical innovations like blockchain, a type of database that makes it easier to store and track data and has the potential to transform project management logistics.[37] While much of the conversation today around construction innovation is focused on materials and building methods, the design and construction industries should also look hard at new ways of doing site logistics and planning, procurement and contracts in order to make project management more efficient and less costly. They should also consider adopting technologies that enable automated permitting for simple projects or remote building inspections, which have become more common during the COVID-19 pandemic.[38]

35 Doug Trumm, "City Launches 'ADUniverse' Website for Pre-approved Backyard Cottage Designs," *The Urbanist*, September 15, 2020, https://www.theurbanist.org/2020/09/15/city-launches-aduniverse-website-for-pre-approved-backyard-cottage-designs/

36 Carolina A. Miranda, "How Los Angeles is bringing high design to the granny flat — while saving time and money," *Los Angeles Times,* March 5, 2020, https://www.latimes.com/entertainment-arts/story/2021-03-05/new-city-program-brings-high-design-concepts-to-granny-flat
For more information about the program, see https://ladbs.org/adu/standard-plan-program/approved-standard-plans

37 Don Tapscott and Ricardo Viana Vargas, "How Blockchain Will Change Construction," *Harvard Business Review*, July 26, 2019, https://hbr.org/2019/07/how-blockchain-will-change-construction

38 Kim Slowey, "Building Officials Turn to Video Inspections to Mitigate COVID-19 Risk," *Construction Dive*, April 15, 2020, https://www.constructiondive.com/news/covid-19-forces-building-officials-to-explore-remote-video-inspections/576072/

Factory built housing, such as Tahanan Supportive Housing, currently under construction in San Francisco, can create significant cost savings, making it possible to deliver more affordable housing using less public funding.


Source: David Baker Architects

## B | Make industrialized construction of housing the norm, not the exception.

To build housing faster and more economically, we must create a mutually beneficial ecosystem that allows for the robust production of cost-efficient factory-built housing that protects good jobs for construction workers.

## What Is Industrialized Housing?

Industrialized housing — otherwise known as modular, prefabricated ("prefab") housing, factory-built housing, manufactured housing and offsite construction — means that unit building components or full units have been constructed offsite in a factory.[39] Industrialized housing has captured the design industry's imagination for several decades, and yet it has not fully caught on in the United States. In countries like Sweden, the Netherlands and Japan, it's been more fully adopted by the industry and is used in up to 20% to 30% of multifamily projects.[40] To truly reach efficiencies of scale and establish a solid industry, California should aim to meet and exceed this adoption rate.

The benefits of industrialized housing include cost savings due to manufacturing efficiencies in the factory, time savings (and resulting cost savings) since units can be fabricated at the same time that sitework and foundations are being done, and improved construction quality and worker safety

39 Many approaches are included under the broad umbrella of "modular construction," from full unit modules, bathroom modules and pre-finished wall panels to structural components. See: Nick Bertram et al., "Modular Construction: From Projects to Products," McKinsey & Company, June 18, 2019, https://www.mckinsey.com/industries/capital-projects-and-infrastructure/our-insights/modular-construction-from-projects-to-products

40 Rod Sweet, "Why Sweden Beats the World Hands Down on Prefab Housing," *Global Construction Review*, May 28, 2015, https://www.globalconstructionreview.com/trends/why-sweden-beats-world-h8an0ds-4d2own0-6p4r2e0f8ab/; "Housing in Sweden: An Overview," Terner Center, October 16, 2017, http://ternercenter.berkeley.edu/uploads/Swedish_Housing_System_Memo.pdf

because work is completed indoors in less dangerous conditions.[41] Industrialized construction offers ancillary benefits for neighbors, who endure a shorter construction timeline, and for some workers, who can plan their lives around a consistent daily commute. This benefit, while seemingly small, can make a construction job more attractive to women, who are underrepresented in the construction industry and often bear the responsibility for child care, elder care and other household obligations.

Despite the clear benefits of industrialized housing, the adoption rate in the United States remains low. Some of the challenges are to be expected as an industry evolves and adapts: How do project sponsors and their teams adjust entitlements, design, financing and marketing timelines to accommodate a different construction timeline? How do the industries that support real estate, such as insurance, and consultants adjust their evaluation of projects and their risks? Financing has proven to be a challenge, given the large upfront cost (and associated risk) of materials needed at the factory compared to a site-built construction project. Regulations still need to be updated in many localities. Awkward site configurations or limited space for construction staging can present barriers. And there are few existing factories, so those that are up and running have little additional capacity, and the start-up costs for a new factory are prohibitively high. Factories need to have a steady pipeline, while the housing industry is known for its boom-and-bust cycles.[42] Lastly, while some unions have embraced this new model, others remain resistant, adding significant political challenges in certain jurisdictions.

These conditions mean that each new modular project is a one-off pilot that cannot recognize all of the potential benefits that a fully functioning industrialized housing system could deliver. This is a collective action problem, and one that is hard to solve in the competitive and highly fractured market we have today.

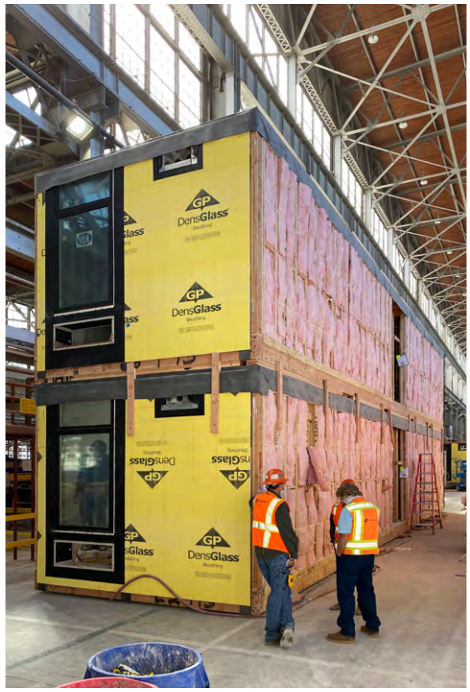
There are some reasons to believe that the latest efforts around industrialized construction may stick. Older players like Guerdon in Idaho are being joined by newer ones like Factory_OS, Blokable, Kasita, Social Construct and Katerra, resulting in more energy and growing experience around multifamily modular construction. Developers in the Bay Area are going beyond their first foray into modular. Factory_OS is opening a second facility. As ADUs gain traction among homeowners, the modular industry is capturing some of that market. And a growing segment of the housing industry (contractors, consultants and engineers as well as developers) is becoming familiar with the modular process and product.

Nonetheless, proactive — and difficult — decisions must be made if the industry is to build on the current momentum in a way that it has failed to do in the past. All sectors must focus on a long-term view and collectively take steps to invest in and build the infrastructure for a new way of delivering housing. Each sector has a role to play in scaling the industry to create a strong competitive market.

41 Carol Galante, Sara Draper-Zivetz and Allie Stein, *Building Affordability by Building Affordably*, Terner Center, March 2017, http://ternercenter.berkeley.edu/uploads/offsite_construction.pdf

42 Ibid.

Factory building techniques, such as those used at Factory OS in Vallejo, should be widely adopted in order to address California's housing crisis.





Source: David Baker Architects

**1. Adopt a Million Modular Homes initiative and use the public sector's regulatory, financing and standard-setting authority to build the industry.**

The state could adopt a Million Modular Homes initiative that's modeled on the Million Solar Roofs initiative.[43] Launched in 2006, the solar roofs program achieved its goals of growing the state's clean energy production and creating new jobs, and it also brought solar technology to scale. A similar Million Modular Homes program could help truly launch the modular industry and create the homes that the region and state need in order to house everyone.

As part of such a program, the state would have the capacity to create financing mechanisms that would support the growth of the industrialized construction industry. State government could create a risk pool or provide insurance, low-cost loans and guarantees to make investments in the construction of new housing factories more appealing than other investments. The state might offer tax incentives to companies to expand or scale up if they can prove that their model reduces the per-unit construction cost by a certain amount. To go even further, the state could co-invest in factories as a public-private joint venture, in order to boost the industry now and reap financial benefits for the public later.

Public funding sources should consider both incentivizing the use of innovative construction methods (including factory-built housing) for affordable housing development and requiring the payment of prevailing wages in the factory as well as onsite. For example, Los Angeles awarded 10% of its 2016 Measure HHH bond dollars to affordable housing projects that competed on the basis of innovative development practices.[44] In addition, the state's affordable housing agencies — HCD, the California Housing Finance Agency, the California Tax Credit Allocation Committee and the California Debt Allocation Committee — could assign competitive points to projects that utilize industrialized

43 The Vote Solar Initiative, "The California Million Solar Roofs Initiative," SB 1 Factsheet, https://www.sccgov.org/sites/rwr/rwrc/Documents/902794SB_1_Fact_Sheet.pdf

44 Doug Smith, "LA Approves $120 Million to Encourage Building Faster, Cheaper Homeless Housing," *Los Angeles Times*, January 29, 2019, https://www.latimes.com/local/lanow/la-me-ln-council-approves-hhh-pilot-20190129-story.html

construction, in the same way that they have used policy to reward projects that make sustainable environmental choices, are located in certain places or provide certain social services and amenities. Over time, as the industry solidifies, these incentives could be phased out.

**2. Strive for standardization and interoperability.**

The state could encourage the wider adoption of industrialized construction by establishing construction and financing standards for the industry. If HCD (the permitting agency for modular housing in California) were to release a set of standard unit plans with expedited approval timelines, that would create an incentive for factories to build to a standard set of dimensions. Standardization would allow project sponsors and developers to commit to an industrialized product on a given project without worrying about whether their builder/factory were going to go out of business; if that happened, they would be able to take their plans to another factory. Today, if a factory closes, a project has to be almost completely redesigned in order for another builder to complete it.

The factories, module/component builders and designers should participate in an effort to standardize the model — whether for whole units or building components — and strive for interoperability. One challenge in the industrialized construction world is the entrepreneurial impulse to create the "next new thing."[45] As a result, we have dozens of concepts and start-up housing companies, each with its own design and construction method, making it hard to scale. While HCD could play the lead role in incentivizing standardization by offering streamlined approval and permitting timelines for projects that adopt HCD's standard designs (whether unit plans or building components), the private sector would have to decide whether to play along.

Another barrier to industrialized housing construction today is project financing. The funding timing for factory-built housing is very different from the timing for site-built housing — industrial manufacturers need a significant amount of capital in advance of production to purchase materials and supplies, and many lenders and investors are not yet comfortable with providing those funds without having a part of the already-constructed building as collateral. It is incumbent upon the financial industry to understand and underwrite the risks associated with modular, which includes acknowledging a new timeline of cost expenditures during development.

**3. Develop and implement a just workforce transition plan for the construction industry.**

While the Northern California Carpenters Regional Council has recently forged partnerships with modular factories like Factory_OS, the other building and construction trades have largely staked out a position against modular construction, expressing concerns about building quality and safety and work rules for construction workers.

Unions represent and gain their power today from their current workers, many of whom are well along in their careers and trained in specific trades — not from future workers, who could easily be trained to work in factories as well as onsite. The unions might also fear that adopting modular construction could reduce their political leverage to enact project labor agreements and other tools to increase wages. Lastly, local and subregional union units present a barrier to creating a new system that works for the regional or mega-regional economy.

SPUR envisions a future regional system that coherently balances and meets the needs of the

45 Nate Berg, "Prefab Was Supposed to Fix the Construction Industry's Problems: Why Isn't It Everywhere?," Fast Company, October 8, 2020, https://www.fastcompany.com/90561322/prefab-was-supposed-to-fix-the-construction-industrys-biggest-problems-why-isnt-it-everywhere

public, the housing industry and labor. There is no inherent or structural reason that the relationship of organized labor to industrialized housing construction must be any different from its relationship with site-built construction today. In partnership with the public sector and private partners, labor unions could plan ahead for a transition to a building industry that includes more industrialization and factory-built components. The public and private sectors should commit to providing or funding retraining programs for existing construction workers and preserving job opportunities for them.

**4. Prohibit localities from discriminating against modular construction.**
As a regulator, the state could flat-out prohibit localities from discriminating against the use of modular construction or other innovations in technology, means or methods.

It is important to mention that SPUR does not envision that all construction will be provided by an industrialized construction system — only that modular and industrialized approaches become viable and ubiquitous options in a healthy housing construction market. As mentioned above, even in countries where modular construction is more common, it is used in a minority of multifamily housing developments. In the Bay Area, industrialized construction could go further, supplementing the existing housing delivery system to address both the housing backlog and future demand for housing.

A strong and robust industrialized construction system would possess these characteristics:

- → High production capacity
- → Lower costs to produce housing
- → Partnership with organized labor
- → Abundant middle-wage jobs with good wages, worker protections and safe work conditions
- → Strong training programs that are accessible to historically underserved workers

Furthermore, an industrialized construction system that produces both market-rate and affordable housing would have the ability to stabilize the pipeline during shifts in the economy so that housing is less of a boom-and-bust industry.

Financial, political and logistical challenges stand in the way of making this transformation possible, but the region also has people and organizations that are up to the task of navigating the transition.

## C | Expand and develop the construction labor force.

If our region is to build significantly more housing for a sustained period of time *and* for lower cost, we need to grow our construction workforce and strengthen the resilience of the construction industry overall. This moment can also serve as an opportunity to support equitable workforce development by providing more people of color, who have not always had access to unionized construction jobs, a pathway to construction careers with good wages.

## What's Driving the Construction Labor Shortage?

Some believe that we suffer from an overall construction labor shortage, which drives up contractors' and subcontractors' competition for labor. Others say that we don't have a construction labor shortage in general, but a shortage of well-paid construction jobs. Either way, a larger workforce would give contractors and subcontractors greater capacity to meet the region's existing and future housing needs.

Today, the insufficient size of the construction workforce limits the number of jobs that contractors or subcontractors can take on and diminishes their need to compete on price, which can be costly for their customers. Nationally, the construction industry has never really recovered from the Great Recession.[46] The recession forced many construction businesses to fold and many construction workers to retire early or make permanent career changes. Further, longer-term shifts have had an impact, including reductions in Mexico's birth rate and Mexico's strengthened economy, which affect potential construction workers' immigration rates to the United States. Lastly, in today's cyclical market, unions are incentivized to limit their workforce pipeline even in a strong market in order to protect their workers in downturns.

As a result of these dynamics, we face a national construction labor shortage, which is one driver of increasing construction costs. In the Bay Area, the construction workforce did reach and then exceed pre-recession levels in 2016.[47] But demand for housing has continued to grow, and the industry has not been able to grow with it. A 2019 survey showed that more than 60% of responding general contractors were having trouble filling both salaried and hourly craft positions.[48] The 2020 survey showed that a majority of contractors continued to have trouble attracting workers, even during the pandemic. Growth in the Bay Area construction workforce likely came in the very busy and higher-paid commercial construction sector at the expense of the lower-paid residential construction workforce, in line with accounts from local contractors and growth trends in the commercial development pipeline.[49]

In addition, the region is seeing a shortage of experienced construction supervisors, again due to retirements or career shifts during the Great Recession, a shrinking pipeline of young people entering the construction workforce[50] and an overall shortage in general contractors and subcontractors.[51] Because of our existing housing shortage, the construction workforce increasingly lives farther from the inner core of the Bay Area — with unattractively long commutes — in spite of relatively good wages in the construction industry. While these wages may be higher than minimum wage or wages for gig working, they may not be keeping up with other, more labor-competitive industries. Lastly, larger forces also play a role in limiting the construction workforce, including job alternatives that are physically safer or recession-proof, as well as a cultural bias in the United States toward college education as the only path forward for success.

46 Issi Romem, "The Scar From Which the Construction Workforce Has Yet to Recover," BuildZoom blog, https://www.buildzoom.com/blog/scar-from-which-the-construction-workforce-has-yet-to-recover

47 Federal Reserve Bank of St. Louis, https://fred.stlouisfed.org/graph/?g=lXW5

48 AGC and Autodesk, "2019 Workforce Survey Results," https://www.agc.org/sites/default/files/WorkforceDevelopment_2019_California_0.pdf

49 "Housing on the High Road: Rebuilding California's Housing Production Workforce," prepared for the State Building & Construction Trades Council, February 2019, page 20.

50 2018 Construction Industry Institute, "Improving the U.S. Workforce Development System," https://www.construction-institute.org/CII/media/Publications/publications/fr-335_ac18.pdf

51 "Housing on the High Road: Rebuilding California's Housing Production Workforce," prepared for the State Building & Construction Trades Council, February 2019, pages 24–26.

One important way to expand the construction labor force is to strengthen avenues to construction training programs, apprenticeships and jobs, particularly for people of color, women, veterans and others who have been historically underrepresented in the construction workforce. While many labor unions sponsor robust training programs, and public and private organizations help connect individuals with training, Bay Area programs have seen shrinking enrollment in recent years for the reasons explored in the sidebar “What’s Driving the Construction Labor Shortage?” In California, school districts and community colleges have not played as significant a role in creating pathways to construction jobs as they could. The public school system should do more to promote, support and provide introductions to these types of careers.

Some industry experts suggest that American culture currently places too much focus on college for all, at the expense of good middle-income careers that don’t require a college degree.[52] A middle path might be to incentivize more people to go into construction careers by pairing construction training with opportunities to pursue a bachelor’s or associate’s degree. This would provide entry-level workers the opportunity to start a career in construction without forgoing future opportunities that a college degree might enable.

Germany’s education system could serve as a model for the region or state to follow. Germany’s system normalizes vocational pathways, which include both classroom learning and field training, but also does not preclude individuals from shifting toward higher education if they are so inclined.[53] Germany’s system includes training funded by private companies, which recognize that this investment benefits their recruitment, hiring and retention efforts as well as ultimately their bottom line.[54]

Lastly, providing construction training and jobs for people exiting incarceration could meet multiple societal needs, both expanding the construction workforce and providing economic opportunity to people who have a difficult time re-entering the workforce. Groups such as One Treasure Island have had good success training and supporting people leaving prison and jail. Upon graduation from the program, participants have not only trained in a variety of construction trades and soft skills, but they also are matched with union interviews and provided with boots, tools and paid union initiation fees and two months of union dues.

The public sector and the design and construction industry have an opportunity today to transform the way that we design, build and approve homes. Embracing innovation in all sorts of ways — new technology, more pilot programs, new collaborative processes, a shift in mindset — could help change the industry to enable the more efficient and less costly creation of high-quality homes for all.

52 2018 Construction Industry Institute, “Improving the U.S. Workforce Development System,” https://www.construction-institute.org/CII/media/Publications/publications/fr-335_ac18.pdf

53 “Education System and VET System in Germany,” Apprenticeship Toolbox, https://www.apprenticeship-toolbox.eu/germany/education-system-and-vet-system-in-germany/142-education-system-and-vet-system-in-germany

54 “The German Vocational Training System: An Overview,” German Missions USA, December 19, 2017, https://www.germany.info/us-en/welcome/wirtschaft/03-Wirtschaft/-/1048296

# Recommendation 6

# Change tax and public funding structures to support new housing.

California's tax system does not incentivize cities to create more housing. Instead, it motivates local jurisdictions to pass zoning laws that encourage commercial uses of property, both to generate sales tax revenue and to limit public expenditures. Proposition 13, passed by voters in 1978, caps each property's tax rate and assessed value. Additionally, a complex statutory system distributes the property tax to cities and other public agencies within each county. This system limits how much local jurisdictions can rely on property taxes to fund services.

In their zoning regulations, cities may discourage housing in favor of businesses that generate sales tax because the cities get to retain a certain portion of the sales tax. Similarly, cities may seek to zone for office space because workers do not generate demand for parks or schools, both of which cost cities money. A recent analysis by California Forward and SPUR showed that jurisdictions that rely more heavily on sales tax revenues to support their general funds pass zoning laws that allow for less housing, while those cities that receive a higher property tax allocation (meaning they get more property taxes under the complex statutory system that distributes property taxes to cities and special districts) are more likely to zone for housing.

While the current tax system does not incentivize housing production, it also does not generate sufficient revenue to pay for the services that enable Californians to flourish and that allow the state to grow in an environmentally sound and equitable manner. To make matters worse, the overall tax system is so complicated that it is challenging for policy-makers to understand trade-offs associated with changes to the system. A wholesale overhaul of California's tax system should be considered. The following are recommendations to encourage housing production and to create the resources needed to support that housing.

## A | Reform the state tax system in order to increase fairness and revenue.

Currently, property taxes are calculated based on an assessment of the value of a home in the year the property was purchased. If a home was purchased in 1982 for $80,000, property taxes would be calculated based on that original assessment (plus an increase of up to 2% a year), even if the home is now worth $1 million. This keeps property taxes artificially low for long-term homeowners.

There are some policy benefits to this system. Having stable property taxes helps keep low- and moderate-income homeowners in their homes even if their property values rise. The low property tax base for these homes can be transferred to children or grandchildren upon death, enabling a family house to remain in the family even in rapidly gentrifying neighborhoods, which helps low- and moderate-income families of color stay in neighborhoods that they helped create and support over decades.

However, there are also many problems with the system. First, there are many higher-income owners that benefit from a low property tax base, enjoying services that they do not contribute to supporting. Second, the system is unfair because it taxes new owners at much higher rates than existing long-term owners solely because they are new owners. Third, the system does not encourage cities to make zoning changes that allow new housing, even new multifamily housing, because if new homeowners stay in their units for a long period of time, eventually the value of the property taxes they pay will be outstripped by the cost of providing services.

An overhaul of the residential side of the property tax system should be considered. The following recommendations are designed to support housing production, make residential taxation fairer and/or generate revenue that can be used for affordable housing or for infrastructure that supports communities. Some ideas include the following:

**1. Assess second homes at market value.**

Currently, vacation homes and pied-à-terres enjoy the same property tax rules as primary residences. Instead, these homes should be reassessed at market value periodically.

**2. Apply a higher tax rate to homes whose market value exceeds a certain threshold.**

A "mansion tax" is a tax on high-value homes. California could create a surcharge on home values above a certain amount (such as $3 million) and use those funds to pay for affordable housing construction.

**3. As homes transfer out of family ownership, remove them from the Prop. 13 cap. Alternatively, revisit the 2% cap on assessment increases.**

As mentioned above, Prop. 13 keeps property taxes low based on how long a family has owned their home. While this can help keep low- and moderate-income households in their home, it also unfairly subsidizes high-income long-term homeowners and pushes cities to pass other types of taxes and fees in order to make up for the artificially low property tax yield. Two changes to the system should be considered. First, as homes transfer out of family ownership, they could be permanently removed from Prop. 13 protections, which tax the value of the property only at sale. With this change, once a current owner sold their home, the home would be reassessed annually and taxes calculated on the market value of the home. While this system would exacerbate the inequality between new and long-term owners in the near term, over the long term it would allow all homes to eventually roll out of Prop. 13's limitations on assessed value.

Another option would be to revisit the 2% cap on assessment increases, which keeps the assessment artificially low relative to property values. Perhaps that 2% cap could be raised to a 5% cap. The actual rate could be lower, depending on the increase in property values in the county.

In either case, low- and moderate-income homeowners, as well as fixed-income owners (with only modest assets outside of their home value) should be protected from extreme increases in property taxes. These owners should be eligible for a reduced rate, a cap on assessed value or the option to defer increased taxes until the home is sold.

**4. Assess vacant residentially zoned land at market value.**

Assessing vacant land, such as parking lots, in high-value areas at market value makes it more likely that this land will be put into active use as new housing. The idea of a "land value tax" was popularized by progressive political economist Henry George in the late 1800s. George held the belief that the economic value of natural resources should benefit all members of society and that the economic value that comes from individual work should benefit private individuals.[55]

55 Philip Bess, "Henry George's Land Value Tax: An Idea Whose Time Has Come?," *American Affairs Journal*, Volume II, Number 1, Spring 2018, https://americanaffairsjournal.org/2018/02/henry-georges-land-value-tax-idea-whose-time-come/

## B | Create a new property tax allocation model that is more sensitive to housing development.[56]

Absent an overhaul of the state's property tax system, reforming the existing property tax allocation system is critical. In order to support the creation of housing, the current system could be amended in a variety of ways.[57] One idea that has been explored in the past is to swap local sales tax for a greater share of property taxes to decrease cities' reliance on sales tax and increase their reliance on property tax. Other swaps could be considered, including sending more sales tax to the state in exchange for receiving a pro rata share of the state income tax.[58]

Second, property tax revenue allocations could be consolidated, and a new property tax allocation could be created. A new system could assign a property tax allocation factor that takes into account principles of fairness and supports public policy goals such as housing production.

Of course, any of these changes would need to be analyzed to ensure there were no unintended consequences to housing production or other important policy values.

## C | Create a regional tax-sharing system that is supportive of housing production.[59]

As mentioned above, local governments and zoning boards seek to generate sales tax revenue. This creates a "race to the bottom" as local governments compete with one another for commercial uses that generate property, sales and business taxes while not incurring the same costs as residential uses (parks, police, etc). This current system should be replaced by one in which sales tax is collected regionally and reapportioned based on a more equitable formula, such as by population.

## D | Encourage denser development in transit-oriented locations by applying a Vehicle Miles Traveled (VMT) tax to both housing and commercial development.

One way to support more growth in the places we want it to go (such as on commercial corridors, near transit and in already urbanized areas) is to levy a fee on any new growth that relies too much on driving. This fee could be applied at a moderate rate in places outside of transit-oriented locations, commercial corridors and walkable downtowns and at a more significant rate in areas with very high rates of VMTs.

## E | Reduce the voter threshold for new funding measures.

In order for housing measures to be successful, the threshold for passing measures should be changed. Currently, local bond measures and new taxes for a dedicated purpose require a two-thirds vote to pass. This threshold should be reduced to a simple majority or 55% vote. Doing so will enable more housing funding measures that are supported by the majority of voters to pass.

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56 SPUR and California Forward, "Does State Tax Policy Discourage Housing Production?," September 2020, https://www.spur.org/publications/white-paper/2020-09-23/does-state-tax-policy-discourage-housing-production

57 J. Fred Silva, Local Finance Reform from a Regional Perspective, Public Policy Institute of California, April 12, 2001, https://www.ppic.org/content/pubs/op/OP_401FSOP.pdf

58 Elizabeth G. Hill, *Allocating Local Sales Taxes*, Legislative Analyst's Office, January 2007, https://lao.ca.gov/2007/sales_tax/sales_tax_012407.pdf

59 See note 57.

# Conclusion

The Bay Area has a choice to make. We can continue down a path where our broken housing delivery system delivers too few homes, particularly to those with lower incomes. Or we can work to make significant changes at the local, regional and state level. Treating housing as infrastructure, rather than as a wealth-building mechanism, has the potential to dramatically transform the Bay Area housing picture by giving government a larger and more critical role in providing housing. With that change, a cascade of other improvements becomes possible: expanded public funding for affordable housing, a more equitable property tax system, a commitment to public ownership of land, permanently affordable housing for low-income families, more housing for middle-income households and new, innovative housing construction that takes less time and costs less money but still delivers on quality.

The region has some work to do to catch up with other cities around the world in elevating housing to the status of a fundamental human right. But taking up this challenge would put us on track to achieve SPUR's vision of housing every Bay Area resident by 2070. SPUR discusses the other actions needed to achieve this goal in two additional reports in this series, *Meeting the Need: The Path to 2.2 Million New Homes in the Bay Area by 2070* and *Rooted and Growing: SPUR's Anti-Displacement Agenda for the Bay Area.* All reports in the series can be found at spur.org/housingtheregion.

# Appendix

We thank the following people for graciously sharing their time and expertise with us as participants in convenings, in individual interviews or as reviewers of this report. 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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