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Tackling the Shortage of Affordable Housing in California

By Jim Farris, CEO, Mosser Capital

As leaders in California-based workforce housing, the severe shortage of affordable housing for people with low- to middle-incomes is on our minds every day. Our work is focused on ways to create positive change and improve access and equity in affordable housing. During this past year, we have had a front row seat to witnessing the ravishes of the COVID-19 public health crisis and the severe economic blow it has dealt to low- to mid-income individuals, and often people of color who were disproportionately impacted, and whose struggles began before the pandemic.

There Is A Severe Shortage of Affordable Rental Homes

According to the National Low Income Housing Coalition (NLIHC), just before the COVID-19 pandemic hit, 70 percent of low-income households in the United States spent more than half of their income on rent. There was a shortage of nearly 7 million affordable and available rental homes for extremely low-income renters in the U.S. with incomes at or below the poverty line. Only 37 affordable and available homes existed for every 100 low-income renter households. No state had an adequate supply of affordable and available homes for these renters. In 2019, the supply ranges of affordable and available homes for low-income renter households ranged from 20 out of 100 in Nevada to 61 out of 100 in Mississippi and Wyoming. In California, the shortage equated to over 960,000 homes.

In their report, NLIHC examined the latest data points from the American Community Survey (ACS), for which the latest data was published in 2019. Key facts from the ACS data help determine the availability of rental homes affordable to extremely low-income households and demonstrate the dire situation and need for more affordable housing—and equity in affordable housing. These facts include:

- Only 7.4 million rental homes are affordable to very low-income renters nationally. This supply leaves a shortage of 3.4 million affordable rental homes in the U.S.
    - Note: ACS only accounts for households with addresses, and not those who are homeless, meaning the real shortage is closer to 3.8 million.
- Only four million of the 7.4 million homes affordable to extremely low-income households are available to this population because:
    - Approximately 1.1 million are already occupied by very low-income households.
    - One million are occupied by low-income households.
    - 400,000 are occupied by middle-income households.
    - 900,000 are occupied by households with above-median incomes.
- While a good percentage of renters are cost burdened, the most likely to be housing cost burdened than the rest are as follows:
    - 54% of black renters
    - 52% of Latino renters
    - 42% of white renters
- Extremely low-income renter households are primarily made up of:
    - Black households—20%
    - American Indian or Alaska Native households—18%
    - Latino households—14%
    - Asian households—10%

- White non-Latino households—6%

The main takeaways from this data are that it does not account for the homeless, and cost-burdened and low-income renters are disproportionately of under-represented minorities. The severity of the affordable housing crisis and the lack of equity within this crisis are now more prominent than ever.

The Shortfall is Significant in California's Major Cities

According to Next 10, an independent nonpartisan organization that seeks to educate, engage, and empower Californians with the goal of improving the state's future, California's housing crisis is far from over. "Supply has not met demand for years and it has become increasingly difficult to develop an adequate stock of affordable housing units, forcing some residents to move further away from job centers or out of the state entirely." Furthermore, the 2019-2020 Governor's proposed budget for housing and local government stated that only 113,000 units of housing were permitted in 2017 despite the need for 200,000 housing units to be permitted annually to keep up with population growth in California. In addition, fewer than 750,000 new housing units have been permitted since 2007, creating an even larger gap than previously existed.

At the current rate of housing construction, San Francisco, Oakland, and Los Angeles will not reach their housing goals with regard to very low-income renters until 2030, 2032, and 2040, respectively. For those renters classified as low-income, the need will not be met until 2025, 2072, and 2036. Moderate-income housing goals are also far behind with San Francisco projected to meet their need in 2045, and Oakland and Los Angeles trailing with estimates of beyond 2500 and 2223, respectively.

On top of these alarming statistics, analysis indicates that the current model for developing Regional Housing Needs Assessment (RHNA) targets and reporting on progress appears to be insufficient and in need of modification, as there are few enforcement mechanisms in the law to compel jurisdictions to meet their housing development projects.

Naturally Occurring Affordable Housing is at Risk – Further Threatening Supply

According to McKinsey & Company, naturally occurring affordable housing (NOAH), commonly referred to as "Workforce Housing", the existing multifamily rental properties that are affordable and without public subsidy, are the largest existing supply of affordable housing--and they are at risk for remaining affordable over the long term.

NOAH renters are often lower-income relative to the surrounding metro and the properties themselves are frequently more sensitive to economic shocks, as they are typically smaller, and older properties that are more likely to be redeveloped when sold. The COVID economy could accelerate the loss of affordable housing across high-cost metro areas. This increases the rate at which NOAH units are being lost and further shrinks the supply of affordable housing.

NOAH is a critical part of maintaining—and growing—the supply of protected affordable housing and creating equity in affordable housing. And yet, that the vast majority of cities lack substantial NOAH-preservation strategies. To support renters and owners and incentivize developers to acquire and preserve NOAH, cities can, and must, consider a set of interventions.

In 2020, McKinsey & Company published a study about the incidence of NOAH in Los Angeles County entitled *Defining and Identifying Naturally Occurring Affordable Housing in Los Angeles County*. That study underscored how, nationwide, NOAH will be a critical factor in maintaining affordable housing options and that preservation of NOAH should be a top priority. The study's findings include:

- Nationwide, NOAH constitutes the largest supply of affordable units; yet, as an asset class, NOAH is not well defined, tracked, or understood. These assets are also typically; smaller, older, and more likely to be redeveloped when sold, increasing the rate at which NOAH units are being lost and further shrinking the supply of affordable housing.

- In the Los Angeles region NOAH accounts for 80 percent of all affordable units—five times more supply than subsidized affordable housing and it is estimated that NOAH accounts for a similar share of affordable housing in other large markets at approximately 75 percent of all affordable-housing units in the United States.

- NOAH properties represent a key source of wealth in low-income communities. In Los Angeles County, individual landlords own 76 percent of all NOAH properties. When NOAH properties fall into disrepair or are redeveloped, it represents a lost opportunity for wealth creation for individual property owners in these low-income communities.

- NOAH assets are often financially fragile and more sensitive to economic shocks. Indeed, unexpected capital expenses are one of the leading reasons why small-scale property owners sell their NOAH properties. When landlords are unable to collect rent or need to fund unexpected and un-reserved expenses - properties go into distress, putting tenants at risk.

- Renter interventions can help such as the City of Los Angeles Emergency Rental Assistance Subsidy Program, which allocated $100 million in temporary rent subsidies to low-income households affected by the COVID19 pandemic was estimated to assist 50,000 Los Angeles households.

- Owner and Financing interventions, when done effectively, also can preserve NOAH by directly financing the purchase and stabilization of properties with the goal of maintaining long-term affordability.

- Affordable-housing developers in Los Angeles cited the time, cost, and complexity of receiving tax abatements as one of the main obstacles limiting their ability to expand their portfolios and preserve more housing units.

Now is the Time for Change. All Parties Must Come Together.

The economic harm created by COVID-19 over the past year has left very few unscathed. As the majority grapple with the financial pain they are now facing, there is a unique opportunity for local, state, and federal policymakers and landlords to unite and take meaningful action toward constructive change in increasing the available affordable housing supply while also promoting equity in affordable housing.

Despite the lack of attention and investment in workforce and NOAH, local, state, and federal players have many things to offer that can help in the preservation of this type of affordable housing. For example, cities can include NOAH supply in local affordable-housing goals, offer grants and low interest loans for; energy efficiency upgrades, preventive maintenance, and capital expenditures that address safety and habitability. States can create tools and databases that increase the visibility of property-preservation opportunities and support targeted investment funds that incentivize affordability. Finally, both state and federal government(s) can motivate private capital to support preservation of existing NOAH and development of new affordable housing by streamlining financing incentives, expanding lender underwriting programs, and standardizing NOAH and Workforce Housing as an investible asset class.

All parties can win in minimizing the affordable housing crisis by supporting NOAH preservation, and by creating more opportunities for affordable housing through conversion by developing a framework for owners and operators of existing and un-protected properties to convert to deed restricted buildings that can qualify for the welfare exemption. Development improvements can be made by utilizing modular construction, addressing land-use restrictions, preventative permitting processes, the California Environmental Quality Act (CEQA) requirements, and other hurdles that make it difficult to develop housing of all kinds including new affordable housing.

Today, we are leveraging our experience in workforce and naturally occurring affordable housing and placing ourselves in strategic conversations in California to create more opportunities to convert unprotected properties into long-term affordable and covenant restricted housing as well as seeking opportunities to develop new affordable housing. We believe these are some of the first steps we can take towards a stronger and more equitable affordable housing market.

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