

Address by Peter MacDonald, June 2001, Tri-Valley Vision Housing Committee

What kind of world are we leaving for our children and the next generation of Californians. Based upon current housing prices, we have created a State which is not affordable to the next generation.

We have in this room a critical mass of the stakeholders on the housing affordability issue. If we can reach a genuine consensus on an approach to the problem of housing affordability that works, I believe we can achieve improved housing affordability.

The problem of high California housing prices seems intractable, and people have been talking about solutions for decades now to no avail. But think back to the problem of inflation in the 60's and 70's which seemed intractable. Double digit inflation was becoming a condition of our existence. Then the pain of solving the inflation problem became less than the pain of inflation and inflation was controlled. We know what the solution to housing affordability is and it is increased housing supply.

Bay Area housing prices have quadrupled relative to the general price level. In 1970, the U.S. Consumer Price Index was at 38. In 1970 you could buy a very nice house in Pleasanton for \$38,000. Now the U.S. Consumer Price Index is at 171, but that tract house in Pleasanton will cost you \$600 to \$700 thousand dollars. For our children to live in a tract home in Pleasanton Valley, they will have to make a \$4000 per month house payment.

And the problem has gotten far worse in recent years. Between 1993 and the year 2000, apartment rents in Pleasanton more than doubled. In 1993, the average two bedroom apartment rented for \$736 per month, according the City's Growth Management Report. By the year 2000, the average two-bedroom apartment in Pleasanton rented for \$1514 per month. Maybe Pleasanton landlords are greedy, but landlords in Tucson and Denver are just as greedy and their rents did not double.

Primarily as a result of overpriced housing, the State that we are handing over to our children is dismal compared to the State that our parents generation left us with.

Please note that the problem of overpriced housing is California specific. In 75% of metropolitan areas in this country, the median family income will purchase the median priced home. In Alameda County, less than 20% of families can afford the median priced home.

We cannot blame this problem on high California income levels. California ranks 18th among states in median household income. When you stack California incomes up against California housing prices, the standard of living is awful compared to other states for anyone who didn't buy their first home in the 1970's.

One explanation put forth is that rapid growth is causing high California housing prices, but that too would be incorrect. The U.S. population grew by 13.2% in the decade of the 1990's. California population grew by 13.8% in the decade of the 1990's, essentially equal to the national rate of population growth.

What is different between California and other states is that California has put housing supply almost completely under the control of local government. In most other states, the level of housing production is determined by consumer demand. If housing supply is to be a government decision, then California governments have to adopt housing policies and plans which permit consumer housing needs to be met. That is a key item of consensus which I am proposing for this Committee to adopt.

I was a student of urban planning in a masters program in the early 1970's. At that time I and other planning students were very excited about the planning advances being adopted in California. We all had vision of a higher quality of life from better planning. At last, government could be the master of development rather than the servant of land speculators. As it turns out, California government has been a short sighted and self-indulgent master of development. Instead of acting as the trustee of the new housing consumer's interests, local government has become the major exploiter of the new housing consumer.

And yet, the bad planning which has been done was done with the best of intentions. But now its time to fine tune our concepts about what constitutes good planning. That where smart growth comes in. I'd like to quote a key paragraph from the Anthony Downs article on smart growth:

AA basic principle of smart growth should be to accommodate future growth, not choke it off. In particular, smart growth should not cut off all the benefits of sprawl for those who enjoy them.@

When Downs uses the term sprawl, I hope he means the kind of compact suburban development which is occurring in East Dublin and planned for North Livermore. He means that people, not governments, should decide whether they will live in single family homes. Given the price structure and amenities, many people will select new urbanist settings if we can just get local governments to make that option available.

That brings me to inclusionary zoning. I am not opposed to inclusionary zoning which addresses subsidized housing needs without heavy taxes on market rate housing consumers. But the vast majority of people with severe housing need will never qualify for subsidies. Only when unsubsidized housing which is affordable by design is once again permitted by California government to grow at the market rate will there be any real progress toward improved housing affordability. More importantly, we cannot let provision of subsidized housing blind us to the lower quality of life that ultra high housing prices are causing to the 99% of housing consumers who do not live in subsidized housing. In the absence of increased housing supply, inclusionary housing advocates are simply running interference for the exclusionary zoning policies which are impoverishing so many Californians.

Now, even if you agree with a lot of what I wrote in the Housing Policy paper, there are several problems which that analysis avoided. One issue is that if we open up housing supply and permit the free market to drive housing prices down, the California growth rate may spike upward. California has a Mediterranean climate which is unique in this country and ideal for human habitation. One thought on this issue is that California can improve its quality of life while absorbing a higher growth rate by implementing appropriate land use patterns and smart growth. The larger solution is that national population will have to stabilize. The strategy that is not working is the strategy of destroying our standard of living in order to control California growth.

A second issue not directly addressed in the housing analysis is this: A functioning majority of voters don't know or care about the differences between smart growth and urban sprawl. What they do care about is increasing their home equity, avoiding congestion, and preserving open spaces. In other words, the exclusionary zoning policies are delivering to the average voter what he or she is asking for. In reality, we can have smart growth and deliver reduced congestion and more usable open spaces better than current exclusionary zoning policies. But smart growth cannot deliver further home equity increases and have more affordable market rate housing at the same time. One key to bringing the silent majority of voters along toward acceptance of increased housing supply is a genuine consensus between all the stakeholders on smart growth policies that work. We have to achieve that consensus for the good of our children and the future of California.