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# The false narrative around CEQA and the California housing crisis

By Andrew W. Schwartz


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It's no secret that homelessness has become a national crisis, as communities nationwide are struggling to provide sufficient affordable housing. To solve this growing problem, we must focus on the real causes of the crisis, and the realistic policy solutions that will lift us out of it. Cynically, some real estate developers are taking advantage of the crisis to attempt to escape environmental regulations. This effort to short circuit environmental review would increase developer profits at the expense of local communities, while offering almost no solutions to the affordable housing problem. California is ground zero for this campaign of deregulation through misinformation.

In California, the California Building Industry Association, "Yes in My Back Yard" advocates (YIMBYs), and their champion in State government, Senator Scott Weiner, contend that we cannot simultaneously have affordable housing and strong environmental protections. Therefore, the argument goes, housing projects should be exempted from environmental review. This is a false choice. California's environmental laws do not stop housing projects, they improve them. The shortage of affordable housing in California is the result of market forces and government's failure to provide adequate housing subsidies, not laws that play a critical role in protecting public health and pushing back against environmental injustice.

The primary target of the Building Association and YIMBYs is the California Environmental Quality Act (CEQA), which was signed into law in 1970 by then-Governor Reagan. For more than 50 years, CEQA has required developers to disclose the environmental and public health impacts of their projects and to reduce those impacts to the extent feasible. CEQA has been amended dozens of times in recent years to streamline environmental review for infill housing projects, or to exempt those projects altogether. Nevertheless, CEQA critics continue their push to weaken the law.

What is really going on here? The Building Industry/YIMBY coalition is exploiting the affordable housing crisis to save real estate developers the cost of reducing environmental harms from both residential and commercial projects. Avoiding environmental review might increase developer profits, but it would have negligible impact on the state's whopping deficit of affordable housing. It would also deprive communities of their most effective tool to ensure that new development avoids damaging the environment; namely, a seat at the table. The result of eviscerating these protections would be degradation of air and water quality, urban sprawl, removal of protections of public health for disadvantaged communities, and increases in climate-harming greenhouse gas emissions. Without CEQA, communities would lose protection against soil contamination, air pollution, and displacement of existing residents from development projects.

Market forces, not CEQA, are impeding the production of affordable housing. High land and construction costs, in particular, have become a huge problem. Because California has the strongest job market in the nation and is a desirable place to live and work, land available for new housing development in California's major cities is more expensive than in any other state except Hawaii. In a 2018 study, the Terner Center for Housing Innovation at UC Berkeley reported that San Francisco, along with New York City, has the highest construction costs in *the world*—yes, *the world*. According to a March 2020 report from the Terner Center, hard construction costs account for more than 75% of total multi-family housing development costs, and such costs increased by 25% between 2009 and 2018. The Terner Report found that from 2010 to 2020, costs for some building materials increased by 65%. The Report also notes that the cost of housing construction has been driven higher by a shortage of general contractors, construction workers, and construction materials, and by federal, state, and local requirements that developers pay prevailing wages to construction workers.

In the same 2010-2020 period, California added 2,428,930 jobs. Due to the aforementioned land and construction costs, the ratio of new jobs to new housing units built between 2010 and 2020 in California, 2.54 jobs for every new home, was the highest in the nation by a wide margin. The ratio in the next closest state, Utah, was 1.57 jobs per housing unit. The Manhattan Institute reports that between 2010 and 2019, the ratio of new jobs to building permits for housing in the San Francisco Bay Area was 3.6 to 1, and in San Francisco and San Mateo Counties was more than 6 to 1. The shortage of housing to accommodate these new workers has further elevated housing costs at all affordability levels.

Housing economists agree that the primary driver of the affordable housing gap in California is the disparity between wages and housing costs. Even prior to the current high interest rates, which have rendered infeasible virtually all unsubsidized multi-family housing projects, most California incomes were too low to afford market-rate housing. An April 2021 report by the San Francisco Planning and Urban Research Association concluded that a moderate-income household would require a subsidy of $240,000 to afford a home in California. The Joint Center for Housing Studies at Harvard University advises that the ratio of median home prices to median wages in the San Francisco Bay Area is the highest in the nation, again with the exception of Hawaii. The plain truth is that monetary subsidies are necessary to close the affordability gap.

Compared to this disconnect between wages and housing costs in California, the cost of CEQA review is miniscule. The Building Association has never provided evidence that the cost of CEQA compliance and building construction escalates significantly during CEQA review. Nor has it produced data showing that the average time required to obtain discretionary entitlements in California is a function of CEQA review, rather than the application by local agencies of their zoning and planning regulations or California's notoriously strict Building Code.

In fact, the evidence shows that due to economic realities, the construction of housing, particularly affordable housing, has been unable to keep up with job growth in California. The high wages earned in California are still not enough for many households to afford housing. This phenomenon is well-documented, but has been ignored in much of the mainstream media, by some California legislators, and the Governor's Office.

The Building Association and YIMBYs—groups historically at opposite ends of the political spectrum—have joined forces to promote a slew of new state laws that would purportedly eliminate barriers to housing construction, including critical environmental protections. Most of these laws remove varying degrees of discretion from local agencies' review of projects that include affordable multi-family housing. Others upzone property to permit greater density. What's glaringly absent from these measures, however, is an appropriation of money to subsidize affordable housing. If we're honest, tinkering with the approval process will not get us very far when we do not have the funds to assist families whose income is insufficient to afford the housing they need.

Unfortunately, the Legislature is laboring under Proposition 13 and its progeny, ballot measures that have constrained the ability of the California Legislature and local governments to increase taxes since the 1970s. As a result, the Legislature has little power legally or politically to increase taxes to fund necessary housing subsidies. Not surprisingly, none of the new laws has made a dent in the affordable housing gap. After decades of market failure to close the affordable housing gap, the Building Association/YIMBY solution of "more market" has fallen flat. As demonstrated by a recent survey by university researchers, California voters have not been fooled by claims that construction of more market rate housing will address the affordability crisis. Instead, they identify subsidies, among other measures to reduce the cost of housing, as crucial to meet their housing needs in California's dysfunctional housing market.

Consider California's SB 35. Drafted by the Building Association, SB 35 was the flagship legislation that was supposed to bypass NIMBY resistance to housing projects. SB 35 allows developers to avoid environmental review of their projects and move directly to construction on three conditions: up to half of the proposed housing units in the SB 35 project in some jurisdictions must be affordable to households earning 80% of the Area Median Income (AMI), the developer must pay prevailing wages, and it must use "skilled and trained" construction workers, i.e., union labor.

Since SB 35 became effective in 2018, however, records compiled by the state Housing and Community Development Office show that there have been exactly zero multi-family SB 35 housing projects built without public subsidies in the San Francisco Bay Area. Two notable examples of SB 35 multi-family housing projects that were approved but never got off the ground are a 250-unit project at 1900 4th Street in Berkeley and a 145-unit project at 831 Water Street in Santa Cruz. These records also demonstrate that non-profit housing developers with subsidies have successfully built projects under SB 35.

The state's five-year experience with SB 35 has shown that high land and construction costs and a shortage of union labor, combined with the cost to developers of subsidizing half the proposed units, render SB 35 projects economically infeasible without large subsidies. Jennifer Hernandez, the Building Association's attorney and a vocal proponent of the new California housing laws, admitted that SB 35's requirement that developers pay prevailing wages and use union labor has rendered unsubsidized housing projects "too expensive and there's not enough workers." Accordingly, even when CEQA is removed from the mix, affordable housing is still far too expensive for market-rate housing developers.

History teaches that where the market has failed to generate significant affordable housing, subsidies are essential. Between 1995 and 2012, local agencies in California built more than 100,000 affordable housing units statewide using subsidies funded by property tax increment under the California Redevelopment Law. Redevelopment was the second largest source of affordable housing in the state during this period, after the federal government. Unfortunately, Governor Jerry Brown and the Legislature abolished redevelopment in 2012 to divert the tax increment to schools and courts after funding for those services lagged during the Great Recession. After 2012, the state lost $1 billion per year in redevelopment funding for affordable housing.

Responsibility for the shutdown of multi-family housing construction in California since 2021 also cannot be attributed to CEQA. In reports commissioned by the Rose Foundation in 2016 and 2021, experts determined that CEQA review is responsible for less than 2% of the total cost to produce a housing unit in California. On April 2, 2024, the LA Times reported that high interest rates are the cause of the dearth of new multi-family housing starts. No housing developer quoted in the article blamed CEQA for their woes.

Senator Wiener's recent bill, SB 1227, was his latest effort to weaken CEQA. The theory of the bill was that eliminating environmental review for all downtown San Francisco projects is necessary to avoid delays in the conversion of office space to housing and other development projects in an area where at least 35% of office space is vacant. In other words, the bill blamed CEQA for a market failure. The prohibitive cost of conversions of office space to housing and sky-high interest rates are the real barriers to these conversions. Other types of development face the same high land and construction costs that have made new housing in San Francisco unaffordable to most households. Moreover, the environmental review process in San Francisco is now greatly streamlined. The 2021 Rose Foundation report showed that in the three-year period between 2018 and 2020, the City prepared only seven environmental impact reports for proposed housing developments. CEQA has not prevented construction of many of San Francisco's recent landmark buildings, including the Salesforce Tower and numerous other modern skyscrapers. Perhaps in recognition of these truths, SB 1227 was suspended in committee and will not become law, at least not this year.

Relieving real estate developers from the responsibility to address the negative environmental and public health impacts of their housing projects is not a solution to California's affordable housing crisis. The evidence instead points to two culprits: market forces and insufficient tax revenue for housing subsidies. Government has little control over the price of land, construction costs, job growth, or the lack of sufficient skilled labor without making direct investments to address these shortcomings. Accordingly, massive public subsidies for affordable housing and infrastructure to support new housing are required. California could take a page from Paris, France, where high land and construction costs have also priced out workers. To retain a diverse population essential for a thriving community, the government there subsidizes 25% of the housing in the City. What is to stop California from doing the same?

**Andrew W. Schwartz** *is of counsel at Shute, Mihaly & Weinberger LLP, and has taught land use law at Stanford's and UC Berkeley's law schools.*