

States Challenge Cities, Nonprofit Low-Income Housing Industrial Complex

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I write about housing policy and economics.

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By now it's conventional wisdom that cities, especially cities dominated by left-leaning politics, have high housing prices. Often cited among these expensive cities are San Francisco and Seattle with their growing tech sectors, legendary locations with access to many amenities, and relative opportunity. However, frustration is growing at the state level in California and Washington over the intransigence of local city governments' inability to get control of rising housing prices. Part of this includes impatience with the costs of housing produced by what I call the Non-Profit Low-Income Housing Industrial Complex, the organizations that typically use tax credits to build very expensive subsidized housing. As I've suggested before, non-profits have grown reliant on more and more subsidies and not argued for lowering regulatory barriers to increase production.

California Governor Jerry Brown and State Senator Scott Weiner have lost their patience with the Complex and with local government. Governor Brown for his part outlined his disinterest in setting aside further subsidies until producers can find a way to lower their production costs. In a story in the Los Angeles Times (*California governor: We're not spending more on low-income housing because it's too expensive to build*)

Brown is quoted saying, "We've got to bring down the cost structure of housing and not just find ways to subsidize it."

He went on to say, "What we can do is cut the red tape, cut the delays, cut whatever expenses we can afford to do without to make housing more affordable and therefore increase the stock and therefore hopefully bring down the costs."

That's how bad things are: Jerry Brown is talking about reducing red tape! Among Brown's stated principles in his budget is to lower per unit costs. I've pointed out before that per unit costs are getting close to \$500,000 per unit in some cases, far higher than per unit costs of market rate housing. Lots of this is due to paying prevailing wages, transaction costs, and the length of time to get financing for projects, including low-income housing tax credits.

Senator Weiner a former member of the San Francisco Board of Supervisors and a supply side champion, introduced legislation, Senate Bill 35, takes on the continuing efforts of local lefty governments that keep ratcheting up regulation in hopes of squeezing out a few more subsidized units. In a blog post, *Housing Is a Statewide Crisis, and All Communities Need to Pitch In*, Weiner says,

Specifically, the bill will put some teeth into the numerical housing goals that are currently assigned to each city in California through a process called the Regional Housing Needs Assessment (RHNA). Every 5 years, each city receives a goal for how many units of housing the city is expected to produce at various income levels over the following 25 years. The problem is that RHNA isn't enforceable, and too many communities either ignore it or make inadequate efforts to comply with it. Under my legislation, if a community is not on track to

meet its RHNA goals, a state-mandated streamlined housing approval process will kick in. Streamlined projects will be required to pay workers prevailing wage—we need more housing and also need jobs that pay people enough to support their families.

How Weiner expects to reduce expenses while still paying prevailing wages is an unanswered question. Unions have lots of power and politicians, even ones who are challenging lefty land use policies, take on prevailing wages at their peril.

Washington has been slow to catch on. But Governor Jay Inslee wrote a letter to his Commerce Departments Affordable Housing Advisory Board (AHAB) asking it to figure out answers to cost questions by June 1st of this year. Inslee calls out the zoning and planning rules relied on by the Seattle Mayor and Council to limit market rate housing production but that also impacts non-profit housing development too. The letter's key paragraph lays out the charge to the Committee:

In order to make meaningful progress on this issue, we require a more thorough analysis of the root causes affecting the lack of affordable housing in our state. Within the next 60 days, I am asking you to convene a work group within the Affordable Housing Advisory Board (AHAB) along with necessary subject matter experts from outside the organization to examine our existing systems that contribute to our housing stock. Please examine how the zoning and planning, permitting, development and financing, and construction processes can be improved to open increased opportunities for additional housing.

Clearly the cries of pain and frustration from consumers and producers of housing in growing cities are reaching the ears of state leaders. But whether Democratic governors and state legislators can stand up to the political clout of unions and non-profit builders is another question. A good start would be asking and answering the question, "Why is subsidized housing so expensive to build?" We already know what makes market rate housing pricey: putting up walls that create inadequate supply.

Roger Valdez is Director of Smart Growth Seattle, an advocacy organization for more housing supply, choice, and opportunity in Seattle.