Silicon Valley's Housing Crisis:
How did we get here, and what can we do about it?

Policy brief prepared by

Silicon Valley Community Foundation
and the
Center for Continuing Study of the California Economy (CCSCE)

May 2017

CCSCE
Center For Continuing Study of the California Economy

SILICON VALLEY
community foundation®
2007 TEN YEAR ANNIVERSARY 2017

Introduction

Silicon Valley is experiencing a housing crisis of epic proportions. It is a place with far more jobs than housing, which drives up an already high cost of living and pushes people who cannot afford homes into outlying areas many miles from their jobs. In fact, less than half (40 percent) of first-time homebuyers in Santa Clara County and just 29 percent in San Mateo County could afford to purchase the median priced home in 2016. Rental prices have also continued to soar.

Discussions about the region's housing crisis often focus on what can be done to create more housing opportunities for low-income residents -- and with good reason. But this crisis is affecting many middle-income residents as well. That is why Silicon Valley Community Foundation and the Center for Continuing Study of the California Economy (CCSCE) partnered together on the development of this policy brief. We sought to expose the breadth and depth of the region's housing crisis and present policy options to address a broader housing mandate – one that increases affordable housing opportunities for low-income residents and improves housing affordability overall.

For purposes of this brief, Silicon Valley is defined as San Mateo, Santa Clara and San Francisco counties. This definition recognizes that these three counties are increasingly interconnected in terms of employment, commuting and housing patterns.

Housing Costs Cause Widespread Economic Hardship in Silicon Valley

While Silicon Valley's economy is marked by steady job growth, declining unemployment rates and high median wages compared to the state and nation, housing costs are causing widespread economic distress among many low- and middle-income residents. Silicon Valley earns the distinction of being one of the least affordable places to live in the United States; the median home value is now more than $1 million for the San José metropolitan statistical area[1]. According to the U.S. Department of Housing and Urban Development, housing is considered affordable when a person pays no more than 30 percent of income toward housing costs, including utilities. When people pay more than 30 percent of income toward housing costs, they are considered "housing cost burdened," and when they pay more than 50 percent, they are considered severely housing cost burdened[2]. In San Mateo and Santa Clara counties, nearly half of all renters are housing cost burdened, and nearly 40 percent in San Francisco are in that category. Median monthly rents in those areas are $2,783 and $3,888, respectively.

1 Zillow Home Value Index, All Homes – Time Series. Retrieved from https://www.zillow.com/research/data/.
2 California Department of Housing and Community Development, "California's Housing Future: Challenges and Opportunities Public Draft," January 2017.

Furthermore, the poverty rates in Silicon Valley increase considerably when high housing costs are factored in. The official poverty measure, which has been in use since the 1960s, estimates poverty by looking at a family's or individual's cash income. Based on this measure, in 2015 the poverty rate in San Mateo County was 8.5 percent (a 2.5 percentage-point increase from 2007) and 8.2 percent in Santa Clara County. However, when the region's high cost of housing is taken into account, the poverty rate is actually much higher – 17 percent in San Mateo County and 18 percent in Santa Clara County[3]. In other words, nearly one in five residents in Silicon Valley is coping with significant economic hardship.

Policymakers in California and Silicon Valley have taken steps to address rising poverty rates through a variety of efforts, including increasing the minimum wage in some jurisdictions and expanding Medi-Cal coverage through the Affordable Care Act. But rising housing prices have outrun these gains.

Figure 1 – Percentage of renters that are housing cost burdened, 2016

REGION	MEDIAN APRTMENT RENT	RENTERS PAYING >30% OF INCOME ON RENT
San Mateo and Santa Clara counties	$2,783	48.4%
San Francisco County	$3,888	39.4%

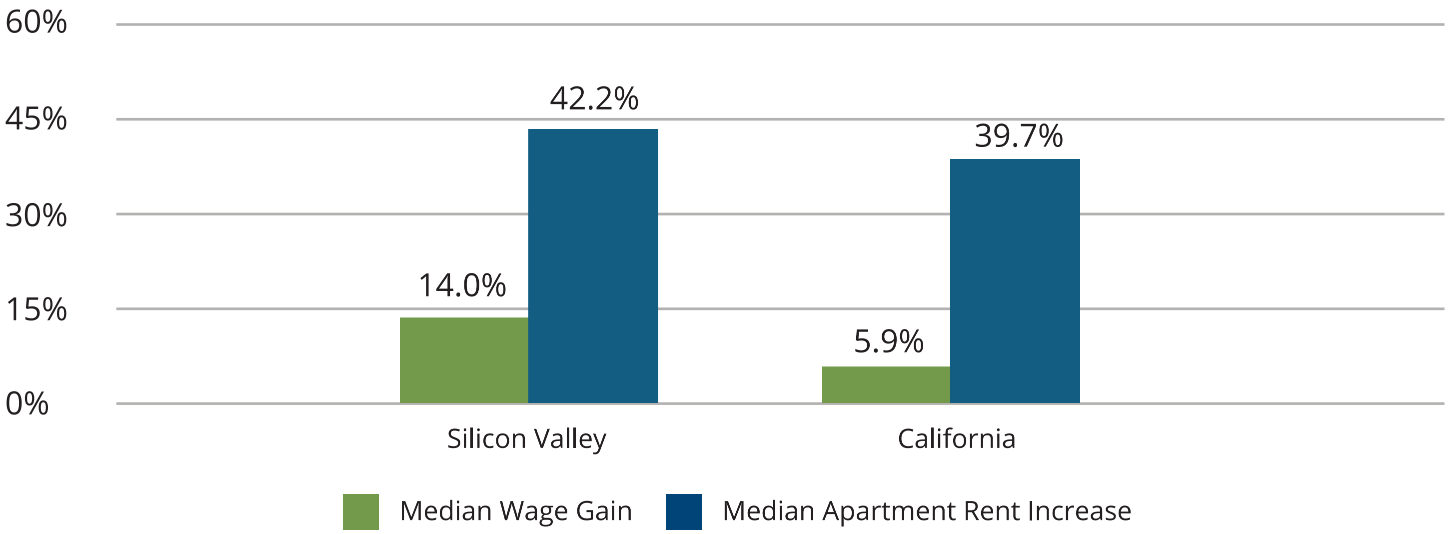
Source: Data for median apartment rental prices are from the 2017 Silicon Valley Index, Joint Venture Silicon Valley and Institute for Regional Studies. Data for owners' and renters' housing costs are from the United States Census Bureau, American Community Survey 1-Year Estimates.

Housing Costs Are Rising Faster than Wages

Despite the economic recovery that has occurred since the recession, incomes, especially among renters, have not kept pace with housing cost increases. Between 2011 and 2016, median wages increased by 14 percent while median rental rates increased by 45 percent, with many renters experiencing even higher increases.

3 California Budget and Policy Center, "Few California Communities Have Fully Made Up Ground Lost Due to the Great Recession," January 2017. Retrieved from http://calbudgetcenter.org.

Figure 2 – Median wage gains compared to median rent, 2011-2016



Source: Data for median wage gains are from the California Employment Development Department. Data for median rent increases are from the 2017 Silicon Valley Index, Joint Venture Silicon Valley Network and Institute for Regional Studies.

While housing costs have soared, wage gains for most low- and middle-income occupations increased much more slowly (between 2.2 and 10.6 percent) compared to the overall median gain of 14 percent. Median wage growth for food prep occupations was the only exception to this trend, helped in recent years by increases in the minimum wage.

Figure 3 – Median wage gains in low- and middle-wage occupational groups in Silicon Valley, 2011-2016

OCCUPATIONAL GROUP	MEDIAN WAGE GROWTH
Transportation and Material Handling	2.2%
Production	10.5%
Installation, Maintenance and Repair	7.1%
Office and Support	10.5%
Personal Care	5.3%
Food Prep	16.7%
Education, Training and Library	8.0%
All Occupations	14.0%

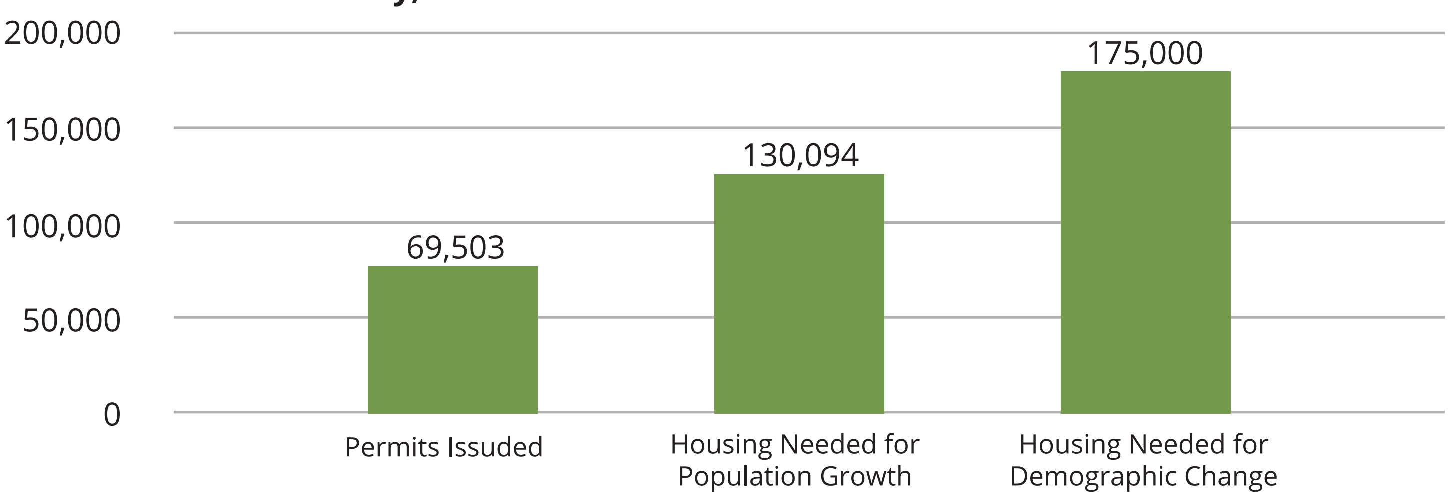
Source: California Employment Development Department.

When low- and middle-income residents are forced to pay a higher percentage of income on housing costs, it can have a profound impact on the quality of their lives. A report from the California Department of Housing and Community Development documents the negative consequences associated with high housing costs for these residents, society and the economy. Silicon Valley is an attractive to place to live and work, but housing costs affects families' ability to stay in or move to the area. This makes it challenging for businesses to recruit and retain talent. There are educational consequences when individuals struggling to find affordable housing have to live in substandard conditions or move frequently, both of which can negatively impact a child's academic performance. The health of families can also be impacted when they shift their spending away from health insurance and health care to cover higher housing costs. And finally, when residents have to move farther from job- and transit-rich areas to find more affordable homes, they bear higher transportation costs and longer commutes, which leads to more pollution[4].

A Shortage of New Housing is a Major Driver of Rapidly Increasing Costs

One of the reasons that housing costs are so high is that housing production has been limited. For example, Silicon Valley added 344,149 residents between 2007 and 2016. To keep pace with this population growth and maintain household size at the 2007 level, an estimated 130,094 units of new housing would have been needed in the region. However, only 69,503 units were issued building permits. The gap between supply and demand is even more pronounced when considering demographic trends such as fewer children and older residents. Those trends should have pushed the average household size down, resulting in a need for an even greater number of housing units. A conservative estimate of the new housing units that were needed to keep pace with this demographic change is 175,000 – more than double the number of units issued permits.

Figure 4 – Number of permits issued compared to housing units needed in Silicon Valley, 2007-2016



Source: Data for building permits are from the California Homebuilding Foundation. Estimates of housing need are from the Center for Continuing Study of the California Economy.

4 California Department of Housing and Community Development, "California's Housing Future: Challenges and Opportunities Public Draft," January 2017.

And most of the permits issued are for housing that will serve higher-income households. Between 2007 and 2014, jurisdictions in San Francisco, San Mateo and Santa Clara counties issued permits meeting about a quarter of the estimated housing need for low- and moderate-income households, while fully meeting the estimated need of higher-income households. The Regional Housing Needs Allocation (RHNA) is the state-mandated process that sets the number of housing units that must be included, at all affordability levels, in each local jurisdiction's housing element.

Figure 5 – Percentage of building permits issued to meet projected housing needs at various income levels in Silicon Valley, 2007-2014

COUNTY	VERY LOW-INCOME	LOW-INCOME	LOW-INCOME MODERATE-INCOME	HIGH-INCOME
San Francisco County	59%	27%	18%	109%
San Mateo County	20%	25%	25%	93%
Santa Clara County	27%	28%	22%	139%

Note: The low- and middle-income terms used throughout this brief are consistent with those used by the State of California as part of its Regional Housing Needs Allocation. Low-income residents are those earning between 51 and 80 percent of area median income. Middle-income residents earn between 81 and 120 percent of area median income.

Source: Silicon Valley Competitiveness and Innovation Project – 2017. Silicon Valley Community Foundation and Silicon Valley Leadership Group.

Why Isn't More Housing Being Built?

There are many reasons why more housing is not being built in California and in Silicon Valley. Local governments do not issue permits to build enough housing to meet their needs because they face a number of barriers and constraints throughout the development process. These include community opposition, lengthy development review, incentives to approve sales-tax generating development (such as retail stores) rather than residential development and market conditions, such as limited access to predevelopment financing and high land construction costs[5].

Community opposition comes from residents who are against more housing and traffic in their neighborhoods, labor groups who insist on union wages and community hiring arrangements for construction workers and environmental groups who have concerns about potential environmental threats associated with certain new housing projects. The California Environmental Quality Act (CEQA) has been cited as a major cause of delay and increased cost for new housing development.

5 California Department of Housing and Community Development, "California's Housing Future: Challenges and Opportunities Public Draft," January 2017.

In addition to opposition, there are fees and other requirements imposed by local jurisdictions that can raise costs and can delay or prevent new housing development. For example, parking requirements raise the cost of new housing projects and are often based on patterns of car ownership that are now changing. A California Supreme Court ruling in 2015 made it easier for some cities and counties to require developers to sell a percentage of the units they build at below-market prices as a condition of receiving a building permit. While such requirements support the addition of housing for low-income residents, they may also raise the cost of market-rate units. Other fees on new housing projects raise costs even as they serve other public purposes such as paying for infrastructure.

Unforeseen delays in housing project approvals and added costs are a major reason why the housing that is built is at the high end of the market in terms of prices and rents. For the same reasons, these cost- increasing factors make it difficult to build housing that is affordable to low- and middle-income residents.

Silicon Valley's Dual Housing Mandate

Addressing Silicon Valley's housing crisis will require an intentional, multi-faceted approach to ensuring that low- and middle-income residents can live and work in the region. Housing for low-income residents is very important, but is not the only housing affordability challenge facing Silicon Valley. The fact that housing burdens have surged for middle-income residents – most of whom are not eligible for subsidized housing programs designed to close the gap between income and housing costs – underscores that the region needs a broader housing agenda. Policymakers, advocacy groups and residents alike must champion a dual housing mandate – one that creates more affordable housing opportunities for low-income residents and increases housing affordability overall. This brief presents several state and local policy recommendations designed to address this dual housing mandate.

Streamline time and costs associated with permitting process. Last year Governor Brown introduced the Streamline Affordable Housing Proposal, which would have accelerated the permitting process for certain developments. While it was never voted on, it would have reduced the barriers that CEQA, community opposition and lengthy local approval processes pose. A similar piece of legislation the Housing Accountability and Affordability Act (SB 35), was later introduced by Senator Scott Wiener; this bill would streamline the approval process for housing when cities are not meeting the housing creation goals required by the Regional Housing Needs Assessment (RHNA).

SB 35 would also create a more robust reporting requirement for housing production by requiring all cities to report their annual housing production to the California Department of Housing and Community Development.

Reform the California Environmental Quality Act. Passed in 1970, the California Environmental Quality Act (CEQA) requires state and local agencies within California to identify significant environmental impacts of proposed construction projects and take necessary steps to mitigate those impacts. There has been a growing call for CEQA change across the state with many arguing that the law is not serving its intended purpose and is used to block needed development. A comprehensive study of lawsuits filed under CEQA over a three-year period (2010-2012) revealed that 64 percent of those filing CEQA lawsuits are individuals or groups, the vast majority of which have no track record of environmental advocacy[6]. Although more recent legislative efforts, such as AB 900, have sought to streamline judicial review for projects valued at $100 million or more, policymakers, developers and businesses alike agree that more reform is necessary to end litigation abuse.

Increase local funding for affordable housing. Local bond measures to provide funds for affordable housing for low-income residents, such as those recently passed in San Francisco and Santa Clara counties, can provide substantial locally generated and controlled funding. When the voting majority needed for passage of school bonds was lowered from two-thirds to 55 percent, the successful passage of these bonds increased from 55 to 80 percent statewide. Lowering the voting majority for local housing bonds to a simple majority or 55 percent would increase the amount of funds available for helping low-income residents. Local sources of funding are particularly important given cuts to federal and state funding for affordable housing in recent years.

SVCF has been proud to support efforts in both San Mateo and Santa Clara counties to generate local sources of funding for affordable housing, including Measure K and Measure A. Both were passed by voters in November 2016.

Increase density and incentivize affordable development through density bonuses. Density bonuses are a zoning tool that permits developers to build more housing units, taller buildings, or more floor space than normally allowed under current zoning provisions, in exchange for providing a defined public benefit, such as a specified number or percentage of affordable units included in a housing development. Increasing the density bonus for private developers that commit to adding below-market-rate units would increase the number of units that are built.

Maximize use of local public surplus lands for affordable housing development. Surplus land means land owned by an agency of the state or any local agency, such as a city, county or school district, that is no longer necessary for the agency's use[7].

Working with school districts and cities to identify vacant or underutilized public lands could allow the construction of housing targeted to cities' or districts' employees. That could in turn reduce some employees' long commutes. Last fall, the governor signed the "Teacher Housing Act of 2016" to make this easier for school districts.

Authored by Mark Leno, the former Democratic state senator from San Francisco, the law gives districts explicit permission to set aside housing exclusively for its employees and, crucially, to take advantage of state and federal low-income housing tax credits to develop these projects.

---

6 The Planning Report, December 2015 Issue, "New CEQA Study Reveals Widespread Abuse of Legal Process by Non-Environmentalists." Retrieved from http://www.planningreport.com.

7 Justia. 2005 California Government Code Sections 54220-54232 Article 8. Surplus Land. Retrieved from http://law.justia.com.

Conclusion

Affordable housing is essential to the health and well-being of the region's residents. We all have a stake in addressing the region's housing crisis. By championing the policy recommendations described above, we believe there is great potential to increase the supply of affordable housing, reduce traffic congestion and improve air quality, and help employers find employees who no longer have to face long and expensive commutes. We also hope these policy recommendations will inspire a broad coalition of support, including those committed to social justice, environmental protection and a strong, vibrant and inclusive economy.

About The Center for Continuing Study of California Economy

The Center for Continuing Study of the California Economy (CCSCE) was founded in 1969 to provide an independent assessment of economic and demographic trends in California. CCSCE's primary work is in assisting regional public agencies charged with developing long-term plans for transportation, land use and housing and air quality. CCSCE provides long-term projections of jobs, population and housing as to inform the development of these regional plans. Stephen Levy co-founded the Center and has been the Director since 1985. Learn more at www.ccsce.com.

About Silicon Valley Community Foundation

Silicon Valley Community Foundation advances innovative philanthropic solutions to challenging problems. As the largest community foundation in the world, we engage donors and corporations from Silicon Valley, across the country and around the globe to make our region and world better for all. Our passion for helping people and organizations achieve their philanthropic dreams has created a global philanthropic enterprise committed to the belief that **possibilities start here**. Learn more at **siliconvalleycf.org**.

siliconvalleycf.org

facebook.com/siliconvalleycf twitter.com/siliconvalleycf youtube.com/TheSVCF

Headquarters:
2440 W. El Camino Real, Suite 300 • Mountain View, CA 94040
T: 650.450.5400

About Silicon Valley Community Foundation

Silicon Valley Community Foundation advances innovative philanthropic solutions to challenging problems. As the largest community foundation in the world, we engage donors and corporations from Silicon Valley, across the country and around the globe to make our region and world better for all. Our passion for helping people and organizations achieve their philanthropic dreams has created a global philanthropic enterprise committed to the belief that possibilities start here. Find out more at **siliconvalleycf.org.**