Sixth Cycle Regional Housing Needs Assessment (RHNA) Appeal Request Form

All appeal requests and supporting documentation must be received by SCAG October 26, 2020, 5 p.m.
Appeals and supporting documentation should be submitted to housing@scag.ca.gov.
Late submissions will not be accepted.

Date: 10/26/20

Jurisdiction Subject to This Appeal Filing:
(to file another appeal, please use another form)
City of Beverly HIlls

Filing Party (Jurisdiction or HCD)
City of Beverly Hills

Filing Party Contact Name
Timothea Tway

Filing Party Email:
ttway@beverlyhills.org

APPEAL AUTHORIZED BY:

Name: Ryan Gohlich

PLEASE SELECT BELOW:

- ☐ Mayor
- ☐ Chief Administrative Office
- ☐ City Manager
- ☐ Chair of County Board of Supervisors
- ☑ Planning Director
- ☐ Other: _____

BASES FOR APPEAL

- ☑ Application of the adopted Final RHNA Methodology for the 6th Cycle RHNA (2021-2029)
- ☑ Local Planning Factors and/or Information Related to Affirmatively Furthering Fair Housing (See Government Code Section 65584.04 (b)(2) and (e))
  - ☐ Existing or projected jobs-housing balance
  - ☐ Sewer or water infrastructure constraints for additional development
  - ☑ Availability of land suitable for urban development or for conversion to residential use
  - ☐ Lands protected from urban development under existing federal or state programs
  - ☐ County policies to preserve prime agricultural land
  - ☐ Distribution of household growth assumed for purposes of comparable Regional Transportation Plans
  - ☐ County-city agreements to direct growth toward incorporated areas of County
  - ☐ Loss of units contained in assisted housing developments
  - ☐ High housing cost burdens
  - ☐ The rate of overcrowding
  - ☐ Housing needs of farmworkers
  - ☐ Housing needs generated by the presence of a university campus within a jurisdiction
  - ☐ Loss of units during a state of emergency
  - ☐ The region's greenhouse gas emissions targets
  - ☐ Affirmatively furthering fair housing
- ☑ Changed Circumstances (Per Government Code Section 65584.05(b), appeals based on change of circumstance can only be made by the jurisdiction or jurisdictions where the change in circumstance occurred)

FOR STAFF USE ONLY:
Date_____ Hearing Date: _____ Planner: _____

Sixth Cycle Regional Housing Needs Assessment (RHNA) Appeal Request Form

All appeal requests and supporting documentation must be received by SCAG October 26, 2020, 5 p.m.

Appeals and supporting documentation should be submitted to housing@scag.ca.gov.

Late submissions will not be accepted.

Brief statement on why this revision is necessary to further the intent of the objectives listed in Government Code Section 65584 (please refer to Exhibit C of the Appeals Guidelines):

Please include supporting documentation for evidence as needed, and attach additional pages if you need more room.

The City of Beverly Hills is respectfully submitting an appeal of the 6th Cycle Draft RHNA allocation for the City. The revision to the draft allocation is necessary to further the intent of the objectives listed in Government Code 65584 in that it does not promote socio-ecnomic equity (65584.d.4). In order to accomdate the vast number of new units that will be required per the existing draft RHNA allocation, a large number of existing residents, most of whom are renters will be displaced to accommodate new development. In general, new development in the City, even when constructed using Density Bonus, consists of buildings that are majority luxury units due to the limited land in the City, high construction costs, and hight cost of land in the region. Nearly 50% of renters in the City are cost burdened when it comes to housing. The construction of these new units will replace existing lower cost housing that is generally under rent-control with luxury units that do not fall under rent control for higher income earners. More explanation is provided in the attached letter from the City of Beverly Hills.

Brief Description of Appeal Request and Desired Outcome:

A brief description of the appeal request and desired outcome is included in the letter from the City of Beverly Hills attached to this appeal request form. The City is requesting a reduction in the draft RHNA allocation of 1,486 units.

Number of units requested to be reduced or added to the jurisdiction's draft RHNA allocation (circle one):

Reduced 1486 **Added** _____

List of Supporting Documentation, by Title and Number of Pages

(Numbers may be continued to accommodate additional supporting documentation):

1. Letter from the City of Beverly Hills and attachments, 30 pages

2.

3.

FOR STAFF USE ONLY:

Date_____ Hearing Date: _____ Planner: _____

October 26, 2020

Kome Ajise
Southern California Association of Governments
900 Wilshire Blvd
Los Angeles, CA 90017

Mr. Ajise:

The City of Beverly Hills recognizes the importance of housing for all residents in the SCAG region and understands the City's role in developing solutions to address its fair share of the current affordable housing crisis. Housing is such a critical issue for the region's residents, that policy analysis and decisions must be based on accurate and up-to-date data and facts. The City does not believe that the Draft Regional Housing Needs Assessment (RHNA) allocation of 3,096 units that was assigned to the City for the 6th Housing Element Cycle is based on accurate or up-to-date data and facts, and for this reason among others, the City is respectfully submitting an appeal of the Draft RHNA allocation.

The City has and continues to undertake a number of efforts to address housing including: strengthening its rent stabilization program (which has been in existence for over 40 years), providing direct and indirect relief to renters during the COVID-19 Pandemic, adopting inclusionary housing regulations, and exploring zoning solutions to provide for additional units through mixed-use development and changes to accessory dwelling unit standards. In addition, the City has begun the process of exploring development options for constructing one or more 100% affordable housing projects on City-owned land. Beverly Hills is a thoughtfully-planned community that includes a full complement of housing options for its current and future residents, ranging from dense multi-family housing (more than 50% of the City's housing units are in multi-family developments) near commercial corridors to larger single-family properties in the hillside areas, plus everything in between; Beverly Hills has actually achieved the "missing middle".

While the City recognizes the housing affordability crisis in the State of California and the Southern California region, the City has a number of concerns regarding the RHNA process and draft assignment, and is appealing the Draft RHNA allocation on the following grounds:

1. The number of units that the State has determined is necessary to accommodate during the 6th Housing Element Cycle is incorrect and based on flawed assumptions, data, and information. According to the attached reports from the Embarcadero Institute and Freddie Mac, the state has based the housing need for the current housing element cycle on an incorrect vacancy rate and double counting of needed units, which had already been accounted for in past planning cycles. Accordingly, if correct numbers were used in the State's calculations, the 1,341,827 units that were assigned to the SCAG region would have been 651,000 units, or 48% of the total number of units that were assigned to the SCAG region by the State (see Embarcadero Institute report). The

over allocation of units by the State to the region has resulted in grossly inaccurate RHNA allocations for many jurisdictions including the City of Beverly Hills. Further, as described in SCAG's own objection letter to HCD dated September 18, 2019, the Regional Housing Needs Determination assigned to the SCAG region from the State is flawed. It is inappropriate to use flawed numbers, data, and methodology to address such an important issue as housing policy.

2. The methodology for the allocation of units to each jurisdiction in the SCAG region that was adopted by SCAG is flawed, and creates a vacuum of economic development in areas of the region that are already rich in housing, but struggling to attract jobs and economic development. The methodology adopted by SCAG allocates a disproportionate number of units to already densely populated urban areas instead of lower populated suburban areas where growth can more easily be accommodated. By forcing more housing into dense urban areas, this will further perpetuate job growth and creation in these urban areas, instead of encouraging job growth in outlying areas that are in need of high quality jobs. In addition, the methodology burdens jurisdictions like Beverly Hills, that may not be experiencing a high rate of job growth, with providing housing units just because nearby jurisdictions may be experiencing high job growth rates. Beverly Hills has comparatively low job growth over a number of decades and should not be required to provide additional housing units due to the fact that nearby jurisdictions are developing at an unsustainable pace and are not providing the needed housing units within their own jurisdictions for these additional jobs.

3. The City of Beverly Hills is constrained as it is a built out City with little to no urban land for development of housing. In addition, the City has had a stable population for the last several decades. In fact, the population in the City of Beverly Hills has decreased since 2000. During the same time, while the City has added housing units, the City has not experienced extensive interest from developers wishing to construct new housing, even though a significant portion of the residential parcels in the City are underbuilt. This is an indication that there is not necessarily the demand for housing in the City that the RHNA allocation may suggest. The lack of availability of land suitable for urban development is a local planning factor for which the City is basing this appeal.

4. It is likely that the ongoing COVID-19 pandemic will have a significant impact on the nature of employment and jobs, housing, commuting, and development over the coming years. This is an unforeseen externality that is significantly impacting City finances, and operations, among other things. The repercussions of the COVID pandemic are likely to be felt for a number of years, well into the 6th Housing Element Cycle planning period and will impact the ability for developers to construct housing units in the jurisdiction and could constrain the City's ability to support services for these units financially. In addition, it is likely that due to the pandemic, residential and commercial vacancy rates will increase, which will further reduce the demand for new housing units in the densely population urban area of Beverly Hills. In fact, according to the Beverly Hills Rent Stabilization Division, the current vacancy rate for multi-family units in the City is approaching 7%, even with an eviction moratorium currently in place. This is already significantly above the 3% - 4% vacancy rate that would otherwise be considered to be an indicator of a healthy and balanced residential market, thus indicating that COVID is already impacting housing patterns in Beverly Hills, and likely the surrounding area. In fact, much of the available data suggests that

surrounding areas in Los Angeles, as well as other urban areas like San Francisco, are experiencing similar, if not higher, vacancy rates. The significant and likely long-lasting repercussions of the COVID-19 pandemic and associated economic downtown is a significant and unforeseen circumstance for which the City is basing this appeal.

5. Implementing the Draft RHNA allocation for the City would cause the displacement of a significant number of existing residents in the City, many of whom are currently protected by rent control, and are lower income residents. The majority of residents in the City reside in multi-family properties, and a majority of residents in the City are renters (nearly 60% of the population). The City has a robust rent stabilization program to ensure that existing residents and lower income residents are protected from displacement and large increases in rent. If the City were to rezone multi-family areas as would be required to accommodate the Draft RHNA allocation, at a minimum this would cause the demolition of hundreds of multi-family buildings, which, in turn, would cause the displacement of thousands of residents that are currently residing in these buildings. It is important to note that, according to SCAG's Pre Certified Local Housing Data for the City of Beverly Hills (published in August 2020), nearly 50% of renters in the City are cost burdened when it comes to housing and spend more than 30% of their income on rent. Further, nearly 30% of households spend 50% or more of their gross income on rent. These households are already burdened, and displacing them from their existing units would likely make it even more difficult for them to find adequate or affordable housing in Beverly Hills or the surrounding region. Further, new units would likely not be subject to rent control, which means the replacement of existing housing with more expensive units. In addition, Beverly Hills has an aging population, and nearly 25% of "elderly families" in the City make less than 30% of the surrounding area income. These vulnerable households will be severely impacted by potential displacement due to new construction of multi-family buildings, which is counter to the State's, SCAG's, and Beverly Hills' shared goal of affirmatively furthering fair housing.

For the reasons outlined above, the City is respectfully requesting that SCAG consider reducing the RHNA allocation for the City of Beverly Hills by a minimum of 48% to 1,486 units, with further reductions likely warranted due to the other unforeseen circumstances and planning factors highlighted in this letter. As outlined above, and in the attachment to this letter by the Embarcadero Institute, the entire SCAG allocation, if it had been calculated correctly, should have been 48% of the current allocation.

The City looks forward to partnering with SCAG and the State to address the critical housing issues that exist in the region. Thank you for seriously considering our appeal, which if granted, will ensure that the work undertaken by the City is based on accurate data, facts, and methodology.

Sincerely,

Ryan Gohlich, AICP
Assistant Director/City Planner
Community Development Department
City of Beverly Hills

Attachment 1

Do the Math: The state has ordered more than 350 cities to prepare the way for more than 2 million homes by 2030. But what if the math is wrong?

Senate Bill 828, co-sponsored by the Bay Area Council and Silicon Valley Leadership Group, and authored by state Sen. Scott Wiener in 2018, has inadvertently doubled the "Regional Housing Needs Assessment" in California.

Use of an incorrect vacancy rate and double counting, inspired by SB-828, caused the state's Department of Housing and Community Development (HCD) to exaggerate by more than 900,000 the units needed in SoCal, the Bay Area, and the Sacramento area.

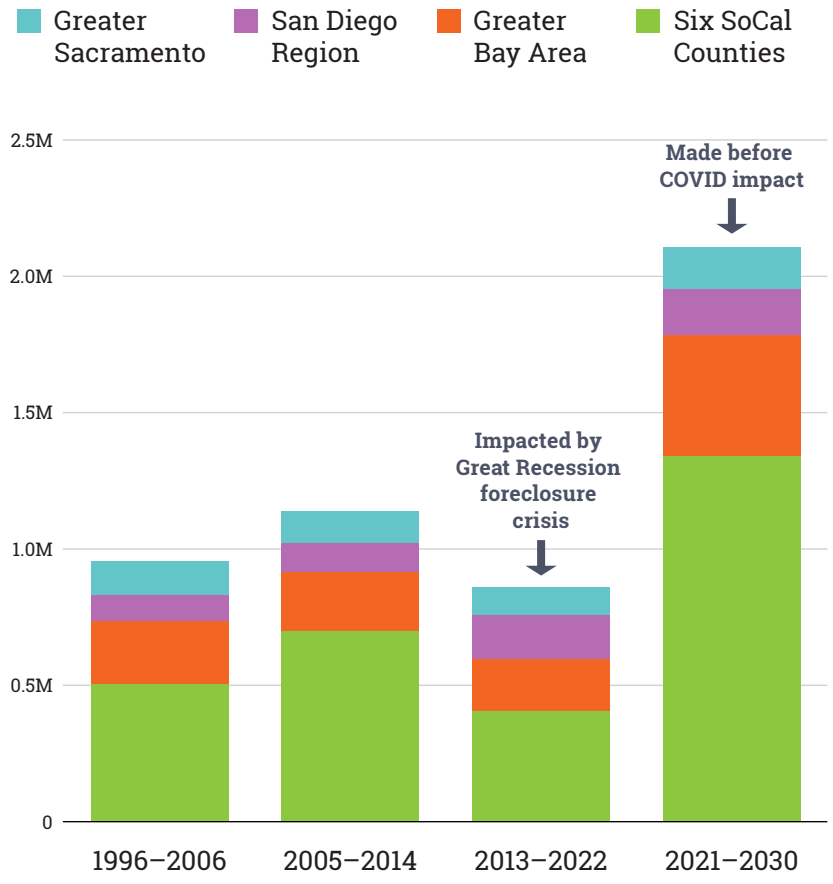
The state's approach to determining the housing need must be defensible and reproducible if cities are to be held accountable. Inaccuracies on this scale mask the fact that cities and counties are surpassing the state's market-rate housing targets but falling far short in meeting affordable housing targets. The inaccuracies obscure the real problem and the associated solution to the housing crisis—the funding of affordable housing.

Author : Gab Layton PhD, President of the Embarcadero Institute

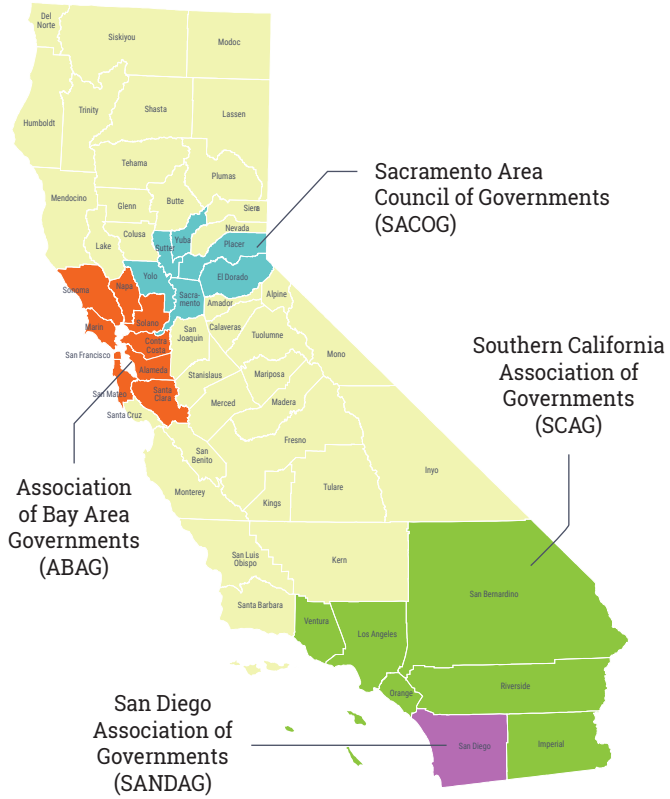
Double counting (not surprisingly) doubled the assessed housing need for the four major planning regions.

Every five to eight years the Department of Housing and Community Development (HCD) supervises and publishes the results of a process referred to as the Regional Housing Needs Assessment (RHNA). Four regional planning agencies cover the 21 most urban counties and account for 80% of California's housing. All four regions saw a significant jump in the state's assessment of their housing need for the years 2021 to 2030.

Housing Units Needed According to the State, (1996–2030)

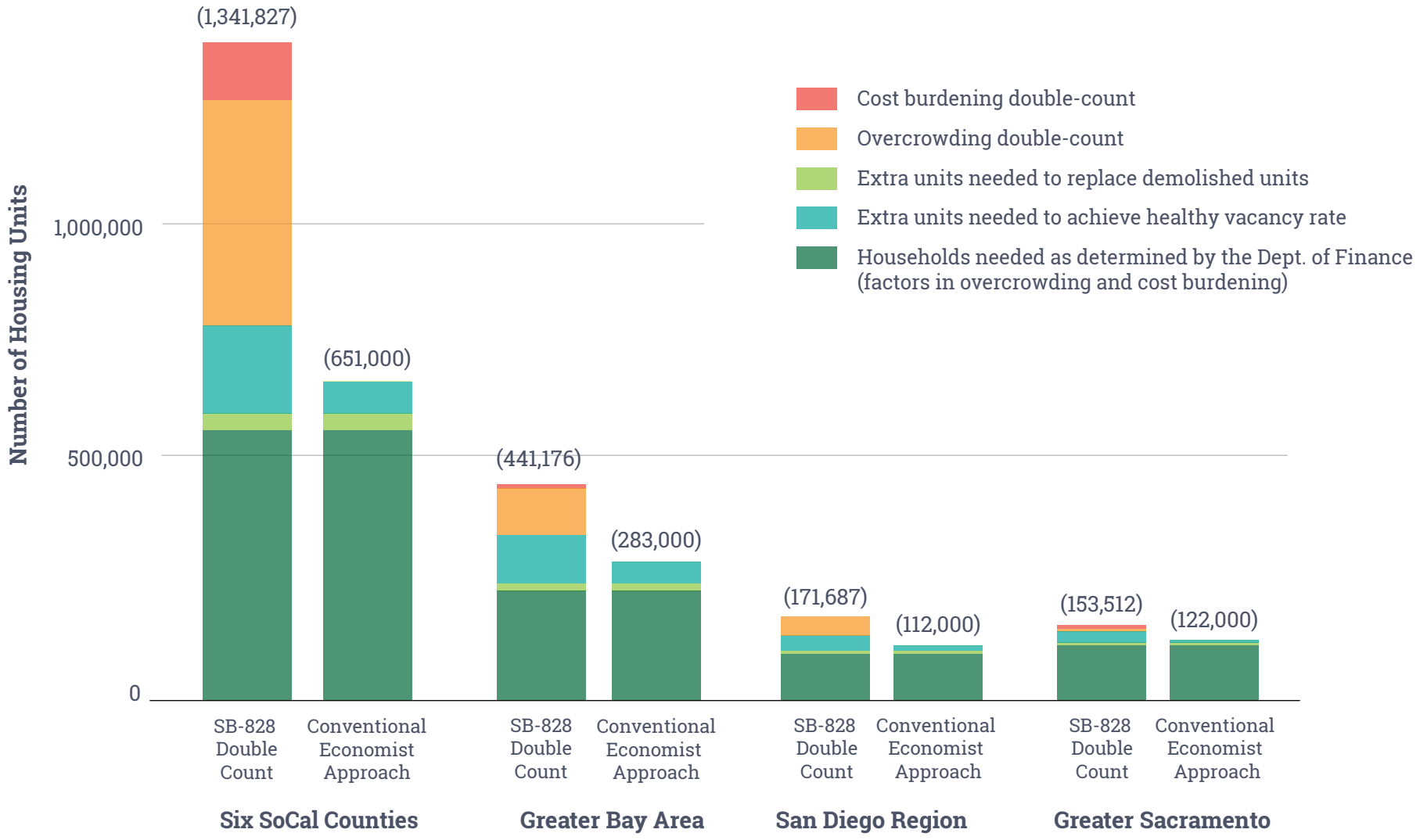


Four Regions Contain 80% of the State's Housing



The double count, an unintended consequence of Senate Bill 828, has exaggerated the housing need by more than 900,000 units in the four regions below.

California plans for its housing needs in "cycles." The four regions are on cycles that last roughly eight years with staggered start dates. In the 2021–2030 housing cycle, errors introduced by language in SB-828 nearly equal the entire 1.15M units of new housing required during the 2013–2022 "cycle." As illustrated, Southern California and the Bay Area are the most impacted by the state's methodology errors.



Senate Bill 828 was drafted absent a detailed understanding of the Department of Finance's methodology for developing household forecasts, and absent an understanding of the difference between rental and home-owner vacancies. These misunderstandings have unwittingly ensured a series of double counts.

SB-828 MISTAKENLY ASSUMED:

1. SB-828 wrongly assumed 'existing housing need' was not evaluated as part of California's previous Regional Housing Need Assessments, or RHNA. There was an assumption that only future need had been taken into account in past assessments. (In fact, as detailed in The Reality section, the state's existing housing need was fully evaluated in previous RHNA assessment cycles).

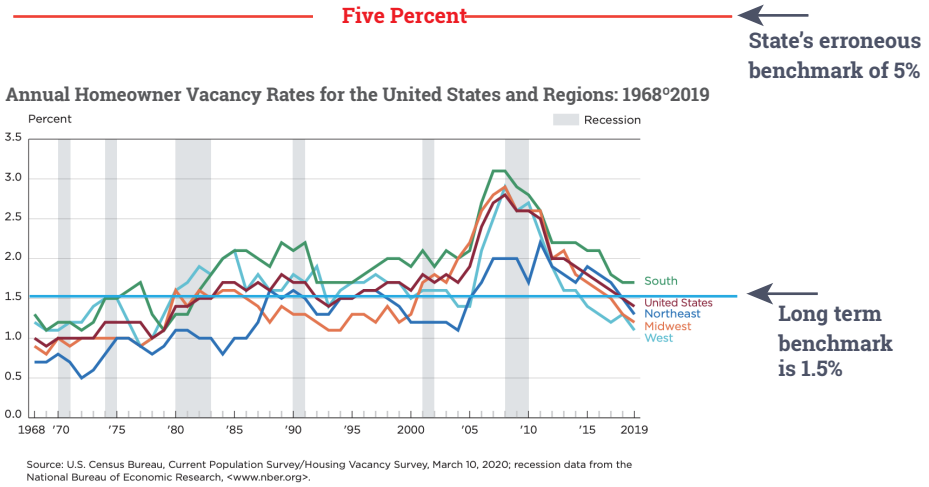
2. SB-828 wrongly assumed a 5% vacancy rate in owner-occupied housing is healthy (as explained in the column on the right, 5% vacancy in owner-occupied homes is never desirable, and contradicts Government Code 65584.01(b)(1)(E) which specifies that a 5% vacancy rate applies only to the rental housing market).

3. SB-828 wrongly assumed overcrowding and cost-burdening had not been considered in Department of Finance projections of housing need. The bill sought to redress what it mistakenly thought had been left out by requiring regional planning agencies to report overcrowding and cost-burdening data to the Dept. of Housing and Community Development (as explained in the right column).

THE REALITY IS:

1. Existing housing need has long been incorporated in California's planning cycles. It has been evaluated by comparing existing vacancy rates with widely accepted benchmarks for healthy market vacancies (rental and owner-occupied). The difference between actual and benchmark is the measure of housing need/surplus in a housing market. Confusion about the inclusion of "existing need" may have arisen because vacancy rates at the time of the last assessment of housing need ("the 5th cycle") were unusually high (higher than the healthy benchmarks) due to the foreclosure crisis of 2007–2010, and in fact, the vacancy rates suggested a surplus of housing. So, in the 5th cycle, the vacancy adjustment had the effect of lowering the total housing need. Correctly seeing the foreclosure crisis as temporary, the state Department of Finance did not apply the full weight of the surplus but instead assumed a percentage of the vacant housing would be absorbed by the time the 5th cycle began. The adjustment appears in the 5th cycle determinations, not as 'Existing Housing Need' but rather as "Adjustment for Absorption of Existing Excess Vacant Units."

2. While 5% is a healthy benchmark for rental vacancies, it is unhealthy for owner-occupied housing (which typically represents half of existing housing). In the U.S. homeowner vacancy has hovered around 1.5% since the '70s, briefly reaching 3% during the foreclosure crisis. However, 5% is well outside any healthy norm, and thus does not appear on the Census chart (to the right) showing Annual Homeowner Vacancy Rates for the United States and Regions: 1968–2019.



3. Unknown to the authors of SB-828, the Department of Finance (DOF) has for years factored overcrowding and cost-burdening into their household projections. These projections are developed by multiplying the estimated population by the headship rate (the proportion of the population who will be head of a household). The Department of Finance (DOF), in conjunction with the Department of Housing and Community Development (HCD), has documented its deliberate decision to use higher headship rates to reflect optimal conditions and intentionally "alleviate the burdens of high housing cost and overcrowding." Unfortunately, SB-828 has caused the state to double count these important numbers.

The forced double-counting errors are significant.*

1. Incorrect use of a 5% benchmark vacancy rate for owner-occupied housing.
The vacancy rate was incorrectly used for both existing and projected owner-occupied households.

+ 229,000 housing units

2. Current vacancies were assumed to exist in household projections.
This error is unrelated to SB-828, but is an accounting error introduced by HCD methodology.

– 22,000 housing units

3. Overcrowding and cost-burdening were double counted.**

In addition to the household projection methodology outlined by the Department of Finance (shown to account for overcrowding and cost-burdening), the matter is also mentioned in meeting notes available on the Association of Bay Area Government's (ABAG) website.***

> **Quote from ABAG's Housing Methodology Committee Agenda Packet for the 4th RHNA Cycle, July 2006**
>
> "There was also a lot of discussion about the headship rates used by HCD/DOF. Several people commented that headship rates in the Bay Area are generally lower than the State's estimates because the region's high housing costs limit household formation. In response, Mr. Fassinger noted that HCD uses these higher headship rates because the RHNA process is intended to alleviate the burdens of high housing cost and overcrowding."

Despite this, overcrowding and cost-burdening were counted a second time as adjustment factors required by SB-828.

+ 734,000 housing units

TOTAL: + 941,000 housing units

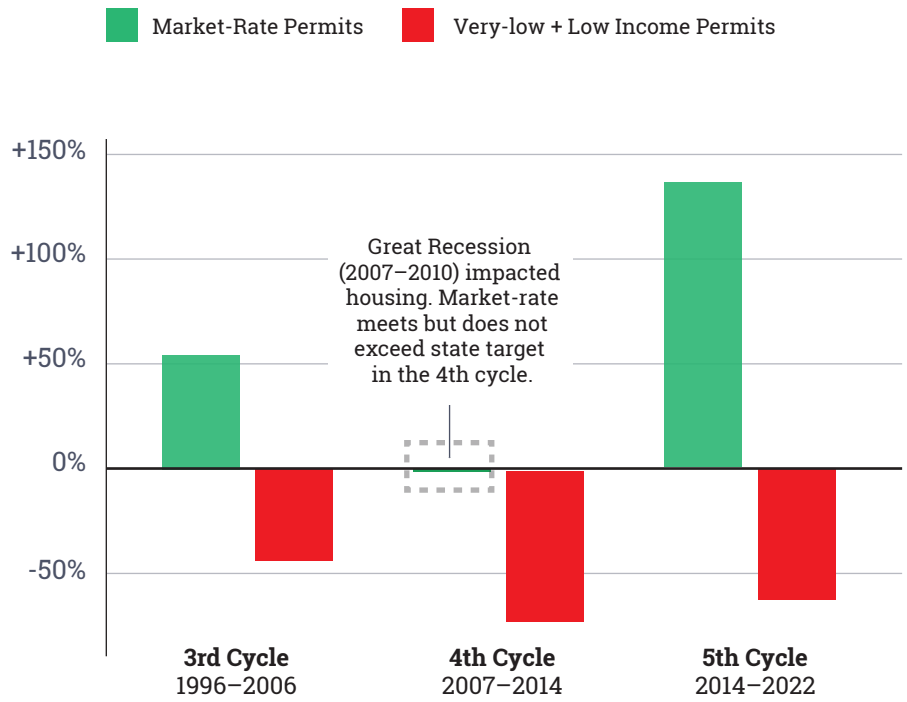
* All errors are rounded to the nearest thousand.
** Overcrowding measures the number of households with more than 1 person per room. Cost-burdening measures the number of households that spend more than 30% of the household income on housing. Cost-burdening is measured by five income levels — extremely low, very low, low, moderate, above moderate
*** P-4 tables are created by the Department of Finance—Household Projection table 2020–2030 and their methodology is fully explained in 'read me' notes that accompany the table.

The state's exaggerated targets unfortunately mask the real story: Decades of overachieving in market-rate housing has not reduced housing costs for lower income households.

The state has shown, with decades of data, that it cannot dictate to the market. The market is going to take care of itself. The state's responsibility is to take care of those left behind in the market's wake. Based on housing permit progress reports published by the Dept. of Housing and Community Development in July 2020, cities and counties in the four most populous regions continue to strongly outperform on the state's assigned market-rate housing targets, but fail to achieve even 20% of their low-income housing target. In the Bay Area where permit records have been kept since 1997, there is evidence that this housing permit imbalance has propagated through decades of housing cycles.

Permit Progress in the 5th Cycle (2013-2022)*
(all 4 regions)

Affordable Housing Languishes as Market-Rate Housing Overachieves
(Bay Area only)*

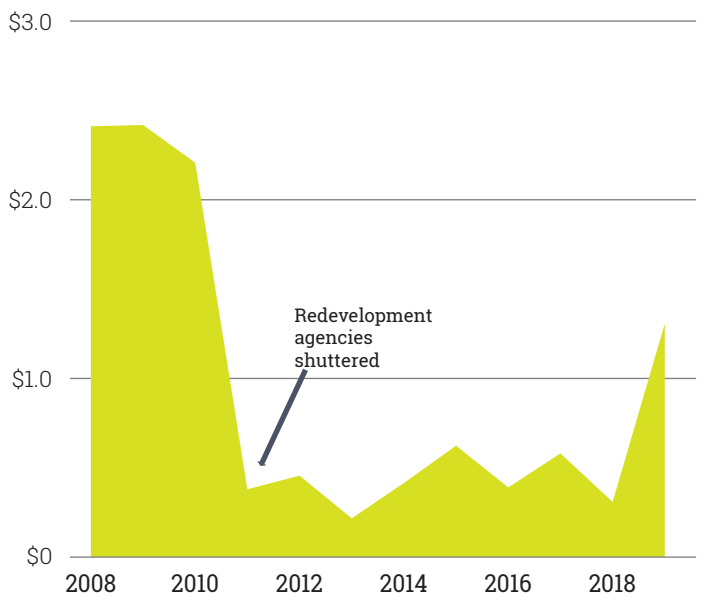


* Based on permit progress reports published by the Dept of Housing and Community Development and updated July 2020, reporting progress through April 2019.
** Only the Bay Area is shown because other regions have not kept detailed records of permit progress through the 3rd and 4th cycles.

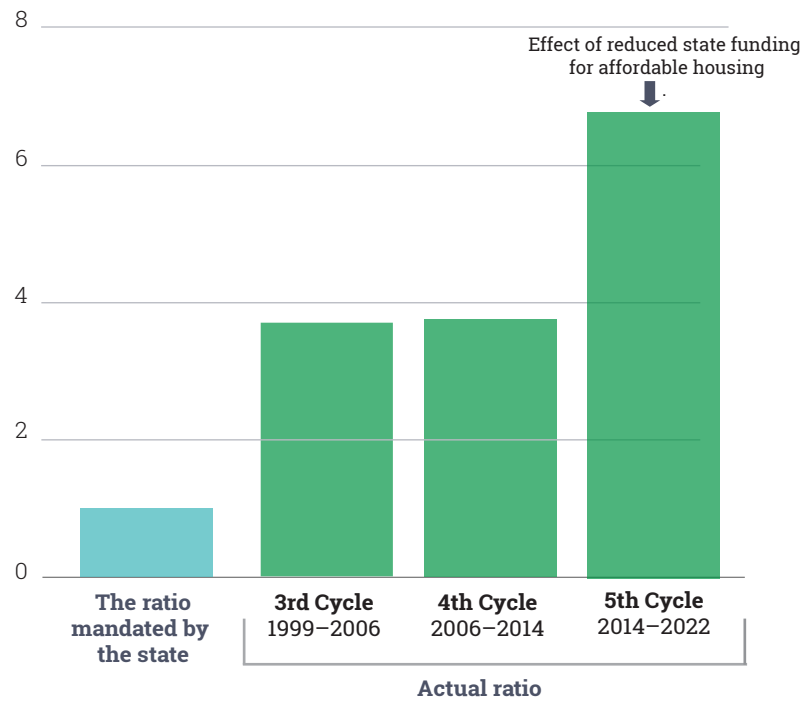
It's clear. Market-rate housing doesn't need state incentives. Affordable housing needs state

Cities are charged by the state to build one market-rate home for every one affordable home. But state laws, such as the density bonus law, incentivize developers to build market-rate units at a far higher rate than affordable units. As a result, California has been building four market-rate units for every one affordable unit for decades. And with the near-collapse of legislative funding for low-income housing in 2011, that ratio has grown to seven to eight market-rate units to each affordable unit. Yet we need one-to-one. This worsening situation can't be fixed by zoning or incentives, which are the focus of many recent housing bills and only reinforce or worsen the ever-higher market-rate housing ratios. From the data it appears that the shortage of housing resulted not from a failure by cities to issue housing permits, but rather a failure by the state to fund and support affordable housing. Future legislative efforts should take note.

State Funds for Affordable Housing, 2008–2019*
$ Billion



Market-Rate to Low-Income Housing Permits in the Bay Area has grown from a ratio of 4 : 1 to 7 : 1
(Bay Area only)**



* "The Defunding of Affordable Housing in California", Embarcadero Institute, update June 2020 www.embarcaderoinstitute.com/reports/

** Only Bay Area is shown because other regions have not kept detailed records of permit progress through the 3rd and 4th cycles. Data is from ABAG's permit progress reports for 3rd and 4th cycle and Dept. of Housing and Community Development's 5th cycle Annual Progress Report.

Finally, since penalties are incurred for failing to reach state targets for housing permits, the methodology for developing these numbers must be transparent, rigorous and defensible.

Non-performance in an income category triggers a streamlined approval process per Senate Bill 35 (2017). These exaggerated 6th cycle targets will make it impossible for cities and counties to attain even their market-rate targets, ensuring market-rate housing will qualify for incentives and bonuses meant for low-income housing. **Yet again, low-income housing will lose out.** The state needs to correct the latest housing assessment errors and settle on a consistent, defensible approach going forward.

At Least Four Different Methodologies Have Been Used Simultaneously by the State to Discuss Housing Need: We Only Need One

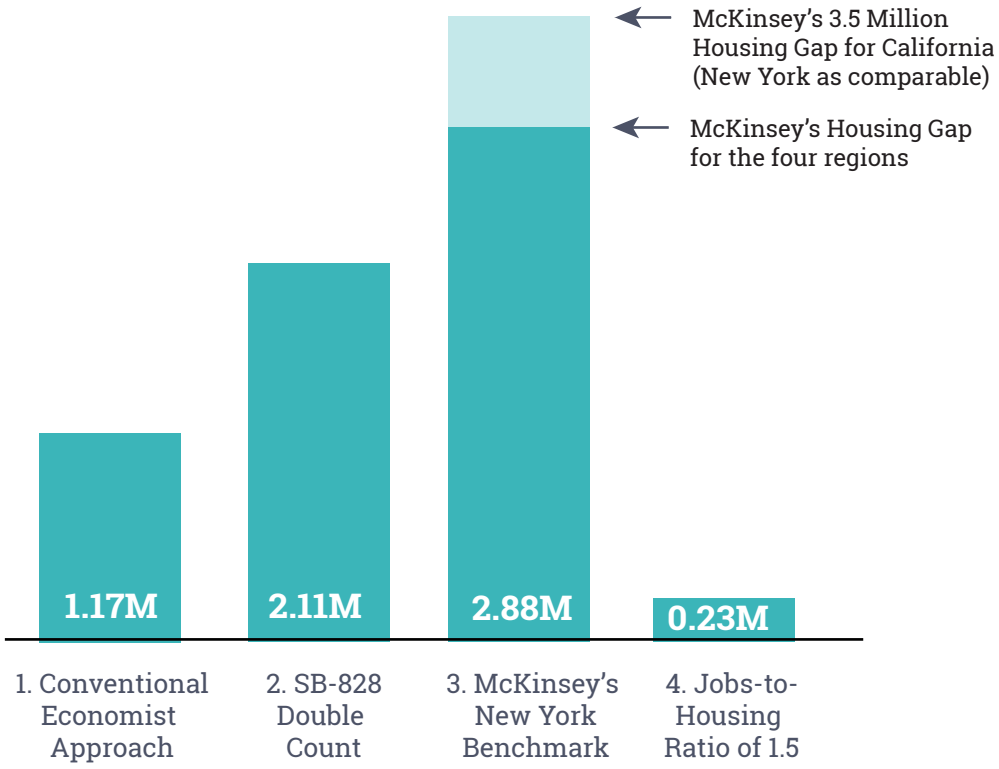
1. **The Conventional Economist Approach**: uses goldilocks (not too big, not too small, just right) benchmarks for vacancies - 1.5% for owner-occupied and 5% for rental housing.

2. **SB-828 Double Count**: incorrectly uses a benchmark of 5% vacancy for owner-occupied housing. It also double counts overcrowding and cost-burdening

3. **McKinsey's New York Benchmark:** the over-simplified approach generated an exaggerated housing gap of 3.5 Million for California. McKinsey multiplied California's population by New York's housing per capita to get 3.5M. New York is not a proper benchmark for California and NY's higher housing per capita is more reflective of NY's declining population rather than a healthy benchmark for housing

4. **Jobs-to-housing ratio of 1.5**: according to state planning agencies 1.5 is the optimal benchmark. Employment in the four regions is estimated to grow to 17 million by 2030 (job growth estimates prepared before COVID).**

Forecast 2030 Housing Need for the Four Regions



* California's Employment Development Department (EDD) estimates employment by county through 2026. Using annualized growth (2016 to 2026) as a basis for future growth 2030 employment is estimated for the four regions.

** The 17 million includes estimates of self employed, private household workers, farm and nonfarm employment. Occupations with employment below 100 in 2016 are excluded.

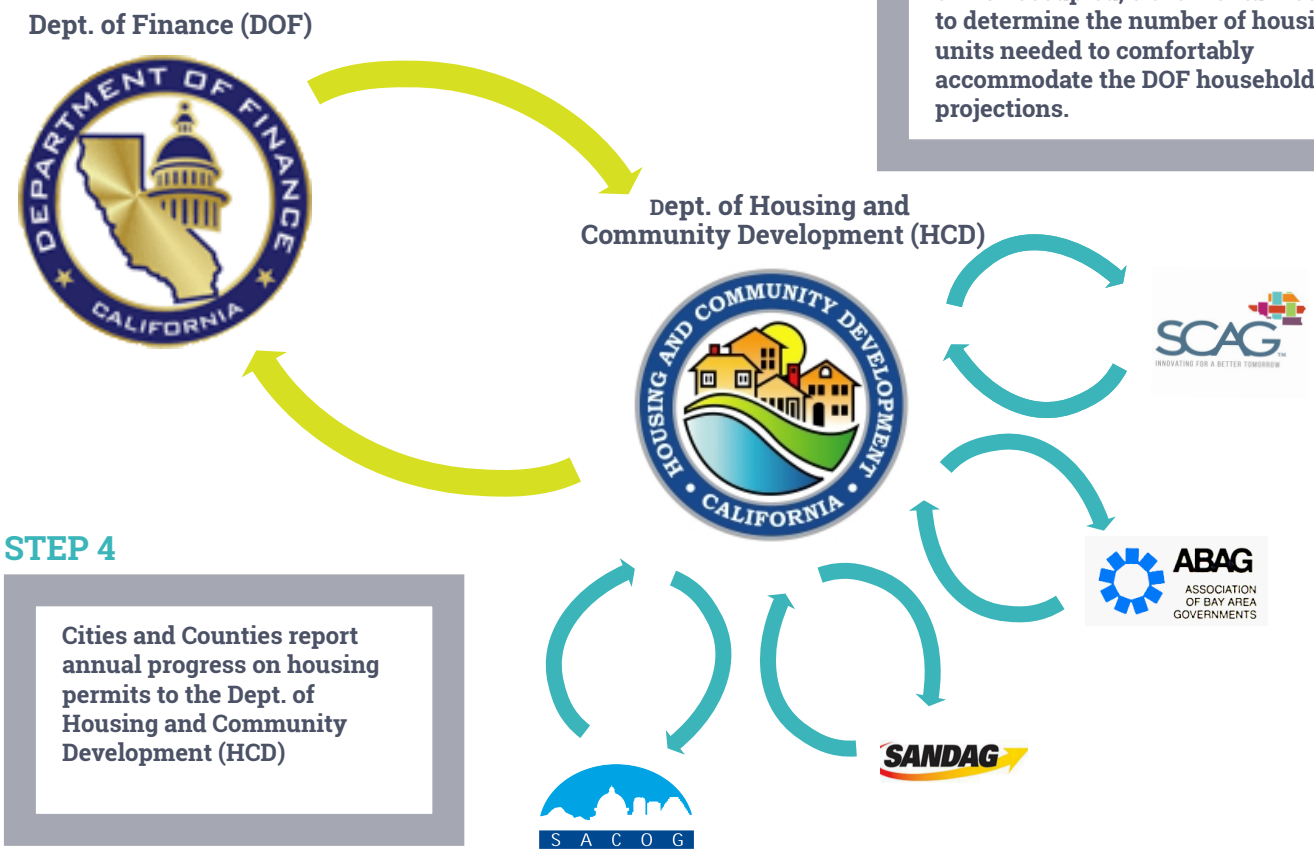
How it Works: A multi-agency collaborative effort has generated past state housing targets. However, in 2018, SB-828 anointed the Dept. of Housing and Community Development with final veto powers.

STEP 1

The Dept. of Finance (DOF) generates household forecasts by county based on population growth and headship rates. This is the step where overcrowding and cost-burdening are factored in .

STEP 2

The Dept. of Housing and Community Development (HCD) then takes the DOF household projections and adds in a healthy vacancy level (1.5% for owner-occupied, 5% for rental housing) to determine the number of housing units needed to comfortably accommodate the DOF household projections.



STEP 3

The regional agencies allocate housing targets to cities and counties in their jurisdiction. These allocations collectively meet their RHNA assessments and are based on algorithms that may include employment, transit accessibility and local housing patterns

STEP 4

Cities and Counties report annual progress on housing permits to the Dept. of Housing and Community Development (HCD)

SB-828 introduced errors in Step 2 (when the Dept. of Housing and Community Development made adjustments to the Dept. of Finance's household projections).

Southern California and the Bay Area were most impacted by the double counting. San Diego was not assessed for cost-burdening although it is more cost-burdened than the Bay Area. It was perhaps overlooked because its assessment cycle began in July, 2018, a few months before SB-828 passed into law.

The Department of Housing and Community and Development

1. Used a benchmark of 5% vacancy rate for BOTH owner-occupied and rental housing.

Six SoCal Counties	=	+126,000
Greater Bay Area	=	+59,000
San Diego Area	=	+23,000
Greater Sacramento	=	+21,000

+229,000 housing units

2. Assumed vacancies in household projections *

Six SoCal Counties	=	-13,000
Greater Bay Area	=	-4,000
San Diego Area	=	-2,000
Greater Sacramento	=	-3,000

– 22,000 housing units

3. Double counted overcrowding and cost-burdening

Six SoCal Counties	=	+578,000
Greater Bay Area	=	+104,000
San Diego Area	=	+39,000
Greater Sacramento	=	+13,000

+734,000 housing units

* P-4 tables are created by the Department of Finance—Household Projection table 2020–2030 and their methodology is fully explained in 'read me' notes that accompany the table

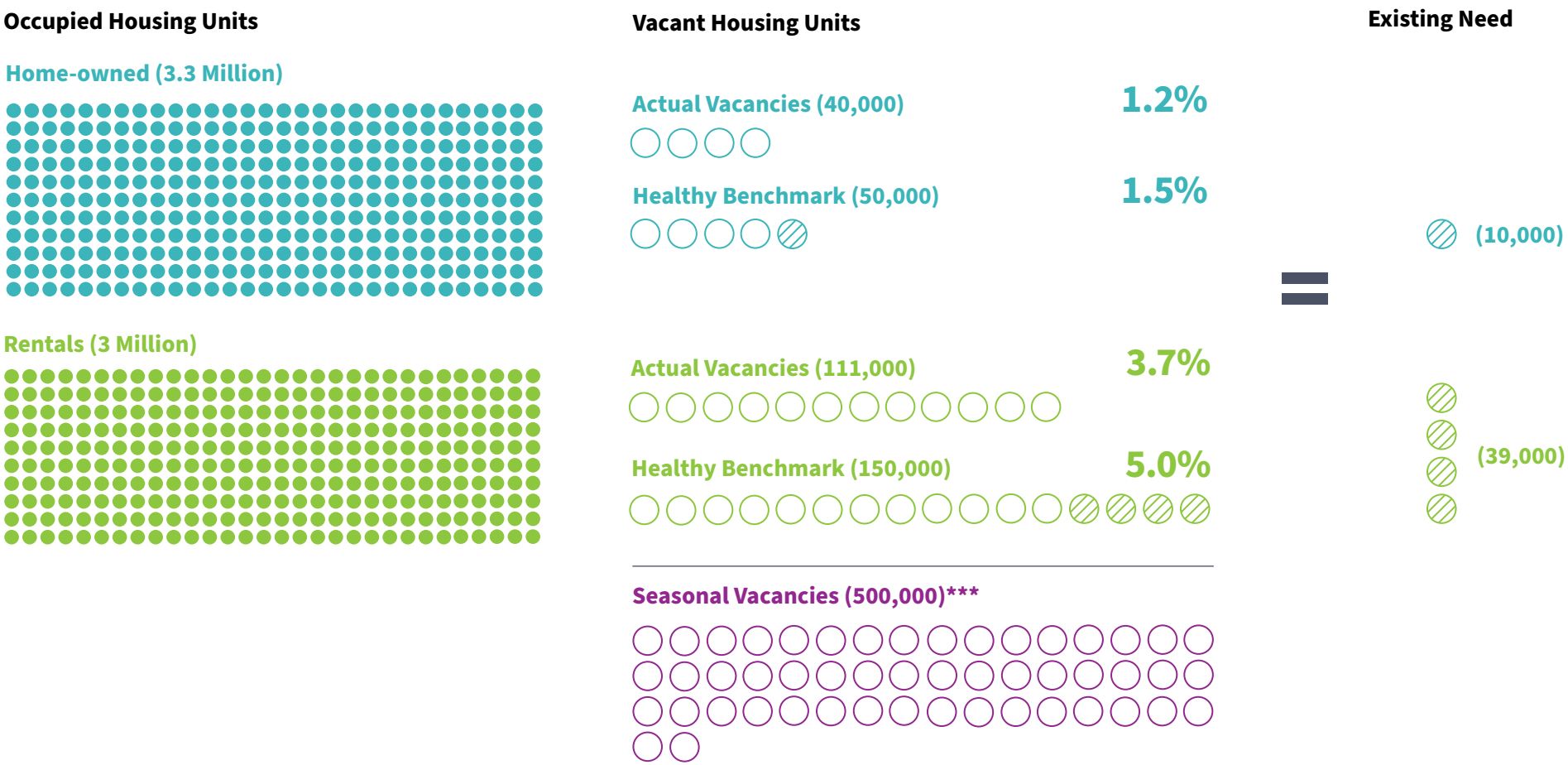
** Overcrowding measures the number of households with more than 1 person per room. Cost-burdening measures the number of households that spend more than 30% of the household income on housing. Cost-burdening is measured by five income levels—extremely low, very low, low, moderate, above moderate.

Detailed explanation of the errors using SoCal Counties as an example: First—the correct approach.

The Department of Housing and Community Development (HCD) has traditionally arrived at a number for pent-up demand or housing shortfall by comparing vacancy rates in owner-occupied and rental housing to healthy benchmarks (1.5% for owner-occupied* and 5% for rental housing). The largest of the four regions, six SoCal Counties (covering Imperial, Los Angeles, Orange, Riverside, San Bernardino, and Ventura counties) is considered in the example below**.

EXISTING HOUSING: Six SoCal Counties

1 circle = 10,000 households



* Owner-occupied has a lower healthy vacancy rate because it is usually only vacant while a house is for sale
** All numbers are rounded to the nearest thousand.
*** Seasonal Vacancies represent second homes, coprorate housing, and short-term rentals such as AIrBnBs

The housing need also takes into account for future growth.

The Dept. of Finance (DOF) supplies the Dept. of Housing and Community Development (HCD) with an estimate of additional households (HH) needed by the end of the cycle. The DOF forecast the 2030 population, and using an optimal household formation rate determine the number of households required to comfortably house that population*. The DOF also supply the HCD with the number of existing households at the start of the cycle. The HCD adds to the base number of additional households needed, factoring in vacancies for a healthy market, and adding a replacement adjustment (also supplied by the DOF)**.

PROJECTED HOUSING NEED: Six SoCal Counties

1 circle = 10,000 households

* Households represent occupied housing units. The number of housing units is always higher as at any given time than the number of households because some housing will be vacant or unutilized. The DOF is responsible for the base projection because they manage population projections for the state, and determine those by analyzing births, deaths and net migration.

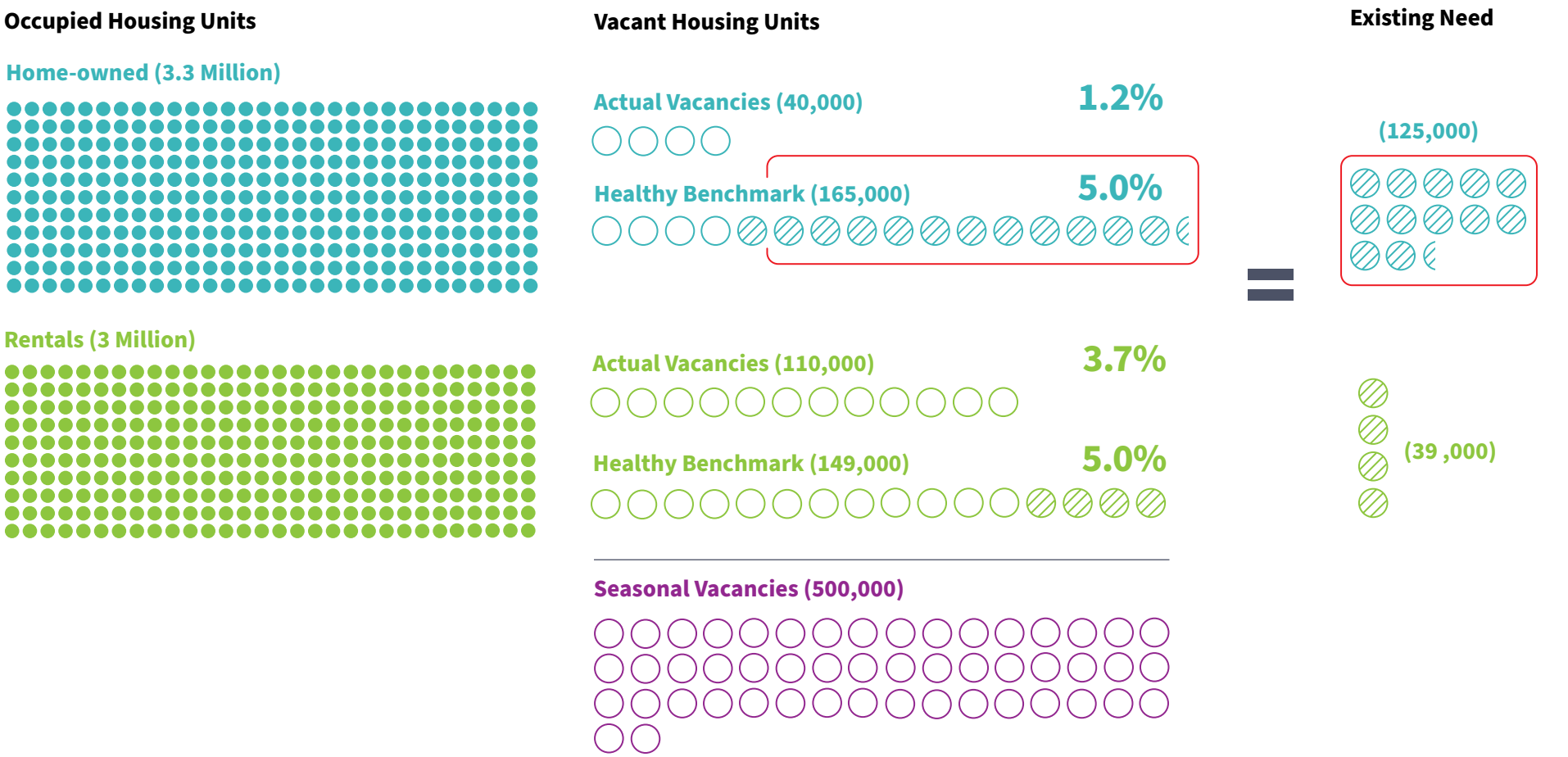
** Replacement represents houses that may be demolished or replaced during the cycle*.

However, the Dept. of Housing and Community Development has adopted an unusual methodology in evaluating existing need in the 6th housing cycle.

Instead of the typical 1.5% benchmark for owner-occupied housing, they used a 5% vacancy rate usually reserved for rental housing. A 5% vacancy in owner-occupied housing is indicative of a distressed housing market. At 5%, SoCal's existing housing need is increased by 115,000 housing units. Existing need for rental housing is unchanged.

EXISTING HOUSING: Six SoCal Counties

1 circle = 10,000 households

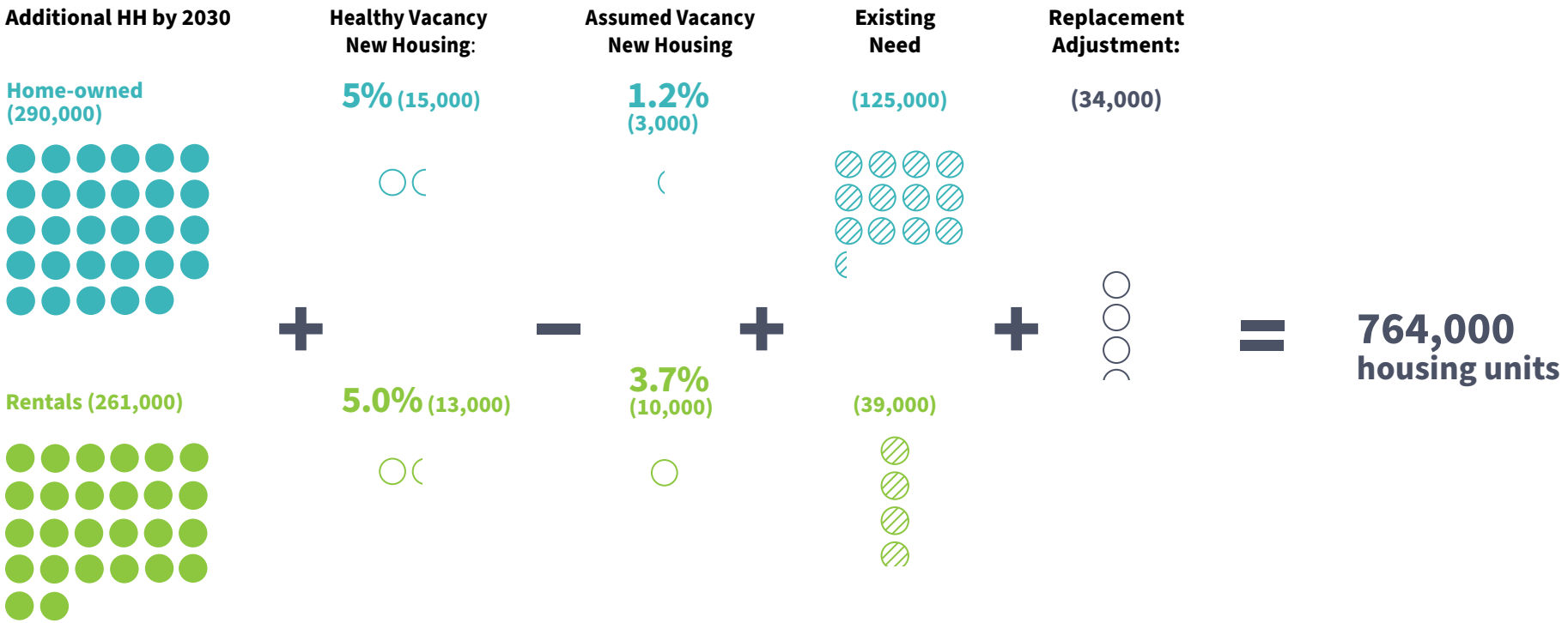


The Dept. of Housing and Community Development have also taken an unusual approach in evaluating projected housing need.

Again, instead of using the separate benchmark of 1.5% for owner-occupied housing, 5% was used for all housing. It was also assumed that new projected households had existing vacancies. The full benchmark was not applied to new households. Instead, the difference between the benchmark and the current vacancy rate was applied. The replacement adjustment was applied as it has been in the past.

PROJECTED HOUSING NEED: Six SoCal Counties

1 circle = 10,000 households

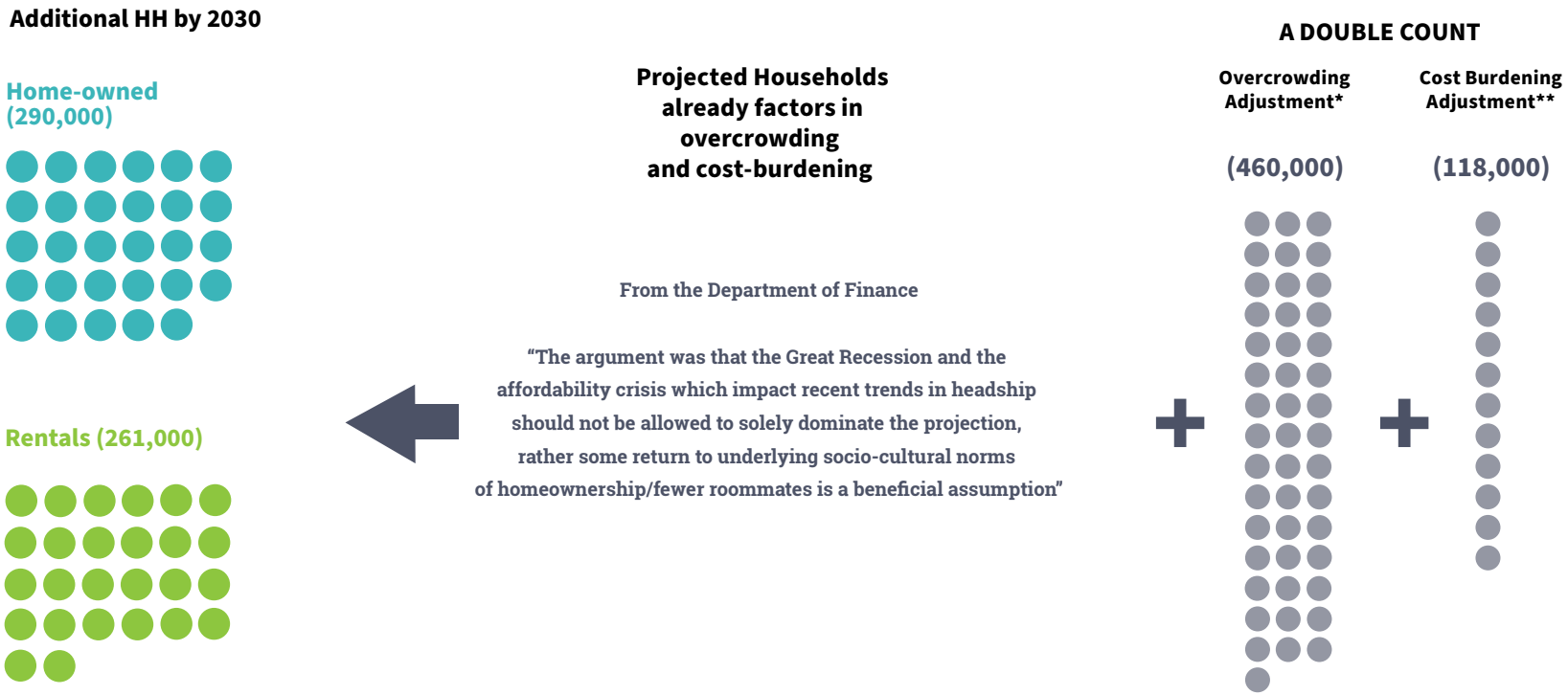


Lastly, the Dept. of Housing and Community Development double counted by adding two new factors that had already been factored into household forecasts made by the Dept. of Finance (DOF).

Two new factors were introduced into the 6th assessment — overcrowding and cost burdening. These factors had already been rolled into the DOF's household projections. The DOF explicitly recognized that regional household formation rates might be depressed (a symptom of overcrowding and cost-burdening) because of the affordable housing crisis. The household formation rate used by the DOF is higher than the actual rate experienced. As such, it generates a higher housing target meant to relieve overcrowding and cost-burdening.

PROJECTED HOUSING NEED: Six SoCal Counties

1 circle = 10,000 households



* In addition to double counting, HCD incorrectly calculated the overcrowding factor. They assumed that for every house that was overcrowded another house would be required to relieve overcrowding. The more accurate analysis would be to assess the number of extra people to be housed and divide by the average household size.

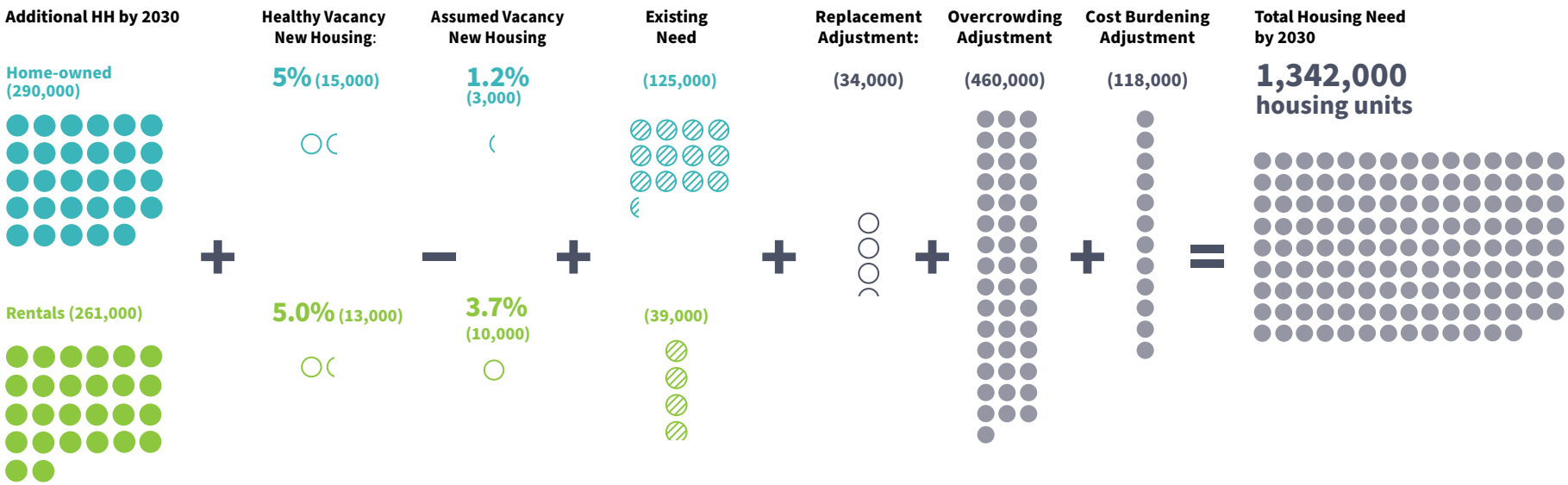
** HCD only applied cost-burdening adjustments to future households not existing households. It is unclear why cost-burdening would only be considered an issue for future households, as the data is for current households.

The vacancy errors and double counting resulted in a doubling of the housing needs assessment for the six counties of SoCal.

TYPICAL METHODOLOGY

1 circle = 10,000 households

HCD 6TH CYCLE METHODOLOGY



Complete data tables: *RHNA Data and Models 6th cycle,* www.embarcaderoinstitute.com

References used in the analysis :

Dept. of Housing and Community Development (HCD) https://www.hcd.ca.gov

Regional Housing Needs Allocation and Housing Elements

Regional Housing Needs

Allocations for 6th Cycle Housing Elements:

Association of Bay Area Governments Regional Housing Need Determination Plan for the Sixth Housing Element Update

Sacramento Area Council of Governments Regional Housing Need Determination for the Sixth Housing Element Update

Southern California Association of Governments Regional Housing Need Determination for the Sixth Housing Element Update

San Diego Association of Governments Regional Housing Need Determination and Plan for the Sixth Housing Element Update

Allocations for 5th Cycle Housing Elements:

Association of Bay Area Governments (February 24, 2012)

Sacramento Area Council of Governments (September 26, 2011)

San Diego Association of Governments (November 23, 2010)

Southern California Association of Governments (August 17, 2011)

Annual Progress Reports

Annual Progress Report APR: 5th Cycle Annual Progress Report Permit Summary (updated 730/2020)

Allocations for Earlier Cycles and Housing Element

RHNA 2007-2014 - Housing Methodology Committee Agenda Packet 07-27-06

Regional Housing Needs Plan 2006 to 2013 SACOG February 2008

3rd and 4th Cycle RHNA allocations (data sent in personal communication with the Department of Housing and Comunity Development)

Department of Finance Methodology for Household Forecasts

"Read Me" P4 Tables : Household Projections 2020 to 2030

Association of Bay Area Governments Digital Library: RHNA Documents, Regional Housing Needs Allocation Documents

RHNA 2007-2014 - Housing Methodology Committee Agenda Packet 07-27-06, Regional Housing Need Allocation p 2

Other Housing Assessment Methodologies

"Mckinsey & Company: A TOOL KIT TO CLOSE CALIFORNIA'S HOUSING GAP: 3.5 MILLION HOMES BY 2025", October 2016

Jobs to Housing

Employment Development Department, State of California, Employment Projections : Long Term Projections

https://www.labormarketinfo.edd.ca.gov/data/employment-projections.html

Attachment 2

Freddie Mac

Economic & Housing Research **Insight**

FEBRUARY 2020

The Housing Supply Shortage: State of the States

The United States suffers from a severe housing shortage. In a recent study, The Major Challenge of Inadequate U.S. Housing Supply, we estimated that 2.5 million additional housing units will be needed to make up this shortage. Our earlier study used national statistics, treating the United States as a single market. What happens when we look closer, basing the analysis at the state level?

When we account for state-level variations, the estimated housing deficit is even greater in some states because housing is a fixed asset. A surplus of housing in one area can do little to help faraway places. For example, vacant homes in Ohio make little difference to the housing markets in Texas. We estimate that there are currently 29 states that have a housing deficit, and when we consider only these states, the housing shortage grows from 2.5 million units to 3.3 million units.

We estimate that there are currently 29 states that have a housing deficit, and when we consider only these states, the housing shortage grows from 2.5 million units to 3.3 million units.

Unsurprisingly, the states with the most severe housing shortage are the states that have recently attempted to loosen zoning policy regulations. States like California, Oregon, and others have undertaken policy action to address this issue. California, for example, has been working on chipping away at single-use zoning while Texas has passed a density bonus program, an ordinance which amends the city code by loosening site restrictions and promoting construction of more units in affordable and mixed-income housing developments. Oregon was one of the first states to pass legislation to eliminate exclusive single-family zoning in much of the state. The Minneapolis City Council voted to get rid of single-family zoning and started allowing residential structures with up to three dwelling units in every neighborhood. We took a deep dive into the supply/demand dynamics to analyze state-level variations.

© 2020 Freddie Mac

Accounting for housing supply/demand conditions

To estimate housing supply, we rely on U.S. Census Bureau estimates of the total number of housing units in each state. These estimates include single-family homes, apartments, and manufactured housing. We compare supply to our estimates of housing demand. We first focus on static estimates of housing demand, and then we consider the impact of interstate migration.

Our estimate of housing demand relies on two components. First, we need an estimate of long-term vacancy rates (v^*). Second, we need an estimate of the target number of households (h^*).[1] The estimates of v^* and h^* give an estimate of housing demand (k^*) using the formula:

$$k^* = \frac{h^*}{1 - v^{*}} Eq(1)$$

Vacancy rates

As we discussed in our earlier study, for the housing market to function smoothly, year-round vacant units are needed. Vacancy rates are often used to track the vitality of the housing market. Too high of a vacancy rate reflects a moribund market, while too low of a rate means demand is outstripping supply. Our previous research estimated the average U.S. vacancy rate to be around 13%.

For long-term vacancy rates (v^*), we use historical estimates of vacancy rates in each state as well as the share of the state in the housing stock to obtain the state weight. We compute the weighted average national vacancy rate for the U.S. and then estimate the deviation of the state vacancy rate from the average national vacancy rate (see **Appendix 1.1** for a detailed methodology). We use each state's average from 1970 to 2000 as the estimate for v^* because this was the period before the boom and the bust in the housing market began. Historical vacancy rates vary dramatically by state. States like Vermont and Maine tend to have high vacancy rates because a large fraction of the housing stock serves as vacation/second homes. On the other hand, states like California tend to have very low vacancy rates.

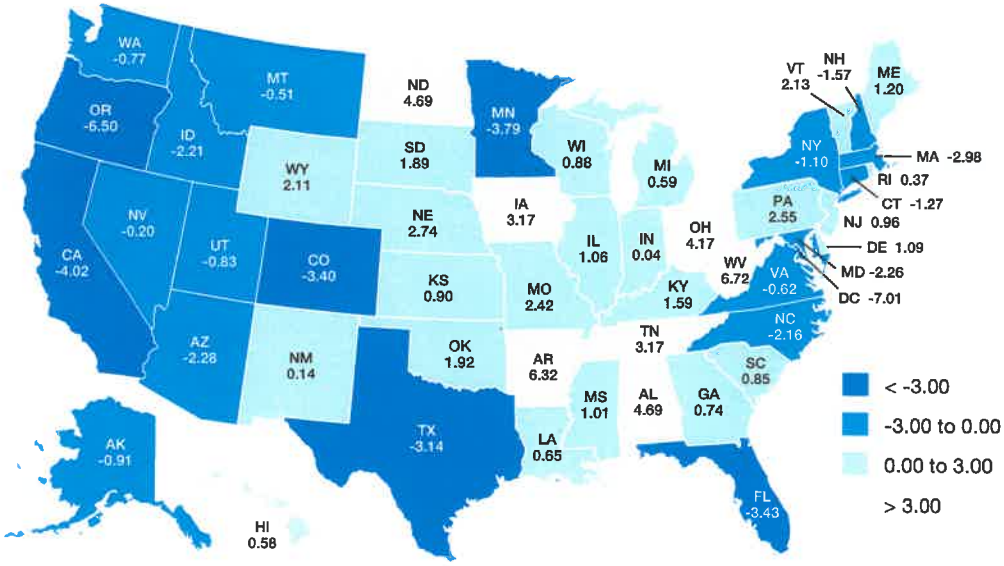
1 The target number of households is the number of unconstrained households that would have formed if households did not face any constraints related to housing costs.

It is interesting to compare each state's long-term vacancy rate (v^*) to recent estimates (v). This measure estimates the number of housing units needed to close the gap between the current vacancy rate and long-term average rates. **Exhibit 1** shows the difference between the estimated vacancy rate in 2018 and the long-term vacancy rate for each state. States like Oregon, California, and Minnesota have much lower current vacancy rates compared to their historical averages, while states like West Virginia, Alabama, North Dakota, and Ohio have witnessed an increase in the vacancy rates as the populations of these states have decreased.

Exhibit 1

Difference between 2018 vacancy rate and historical vacancy rate

States that are losing (gaining) population have high (low) vacancy rates.



Source: Author's calculations based on CPS, HVS, and Moody's Analytics estimated data.

Target households

Our previous research has shown that high housing costs have constrained household formation. These high housing costs have hit the Millennial generation particularly hard. To overcome these cost barriers, some young adults have turned to shared living arrangements. Others have moved back home with parents. As a result, there are more than 400,000 missing households headed by 25- to 34-year-olds (households that would have formed except for higher housing costs).

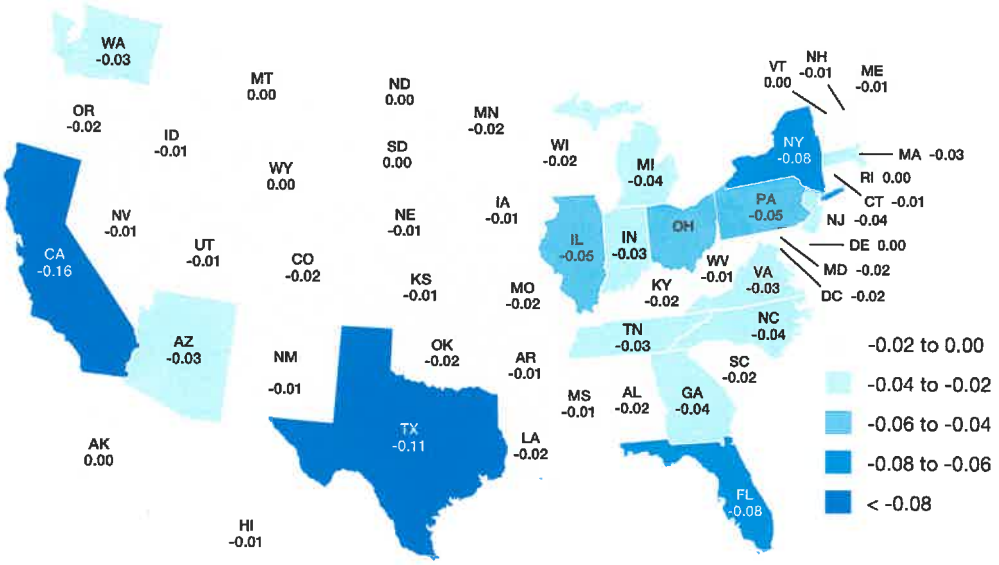
While high housing costs have hit young adults hardest, they have affected all age groups. If housing costs were lower, more households would form. We use our model estimates of the number of households reduced due to unusually high housing costs and add them back. We do this for each age group (see **Appendix 1.2** for more details.)

Due to different age profiles, the share of missing households varies by state. **Exhibit 2** plots the share of missing households due to housing costs for each state. In general, states with relatively lower vacancy rates have proportionally more missing households.

Exhibit 2

Missing households due to high housing costs (millions)

States with relatively lower (higher) vacancy rates have proportionally more (fewer) missing households.



Source: Author's calculations based on American Community Survey data.

Static estimate of housing deficit

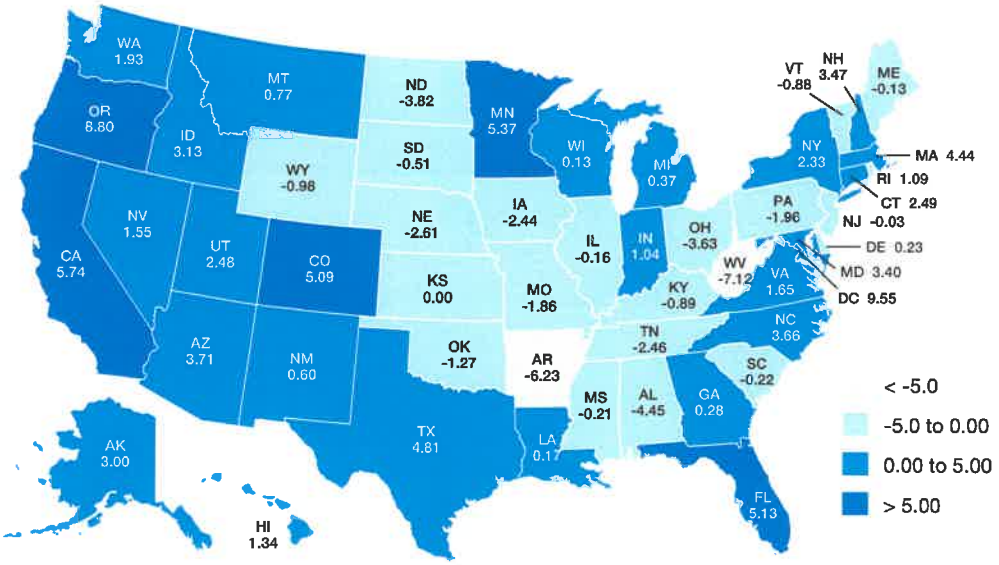
We combine our target vacancy rate and target households to estimate housing demand. Subtracting our estimated housing demand from the Census estimate of housing supply gives us the estimated housing deficit. **Exhibit 3** shows our results by state.

As a percent of the housing stock, the state housing supply deficit varies from -7 to 10%. Excluding the District of Columbia, Oregon has the largest deficit (nearly 9%) followed by California (nearly 6%).[2] Some states have a negative deficit, meaning they are oversupplied. According to our estimate, 21 states are oversupplied, the largest being West Virginia, at more than 7%.

Exhibit 3

Housing stock deficit as proportion of a state's housing stock (static estimate not considering interstate migration flows)

A static view suggests that 29 states have a housing undersupply.



Source: Author's calculations.

2 The District of Columbia had the highest deficit as a share of the existing housing stock at 9.7%.

Impact of migration on the housing deficit of the states

While houses stay in place, people do not. Job growth attracts in-migrants, while a dearth of opportunity drives out-migration. High housing costs also contribute to migration patterns. When the rents get too high, people move away. This dynamic can impact our estimates.

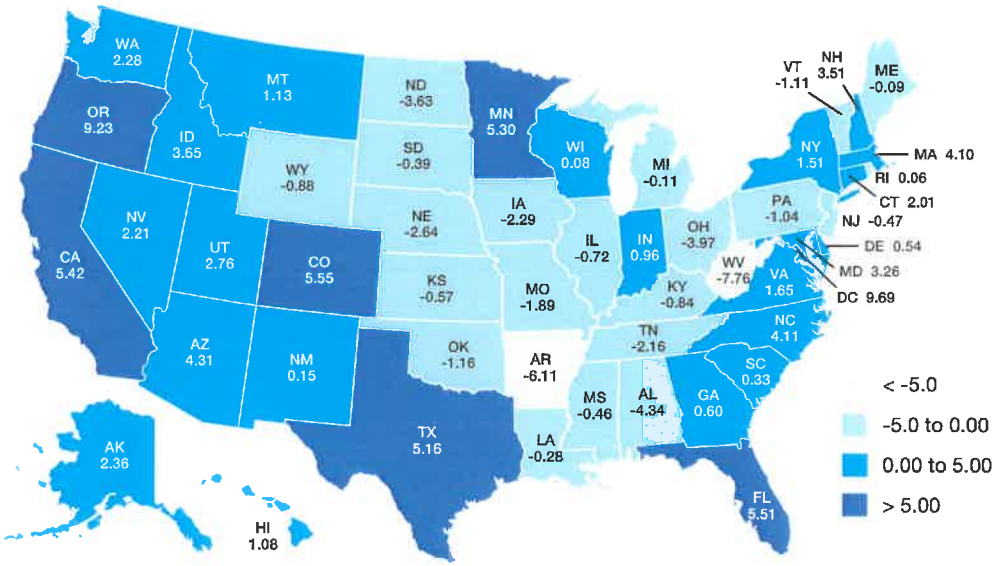
It's helpful to consider the case of California. Our estimates indicate that California has a shortage of 820,000 housing units. But history suggests that California's shortage may be overestimated if interstate migration is considered. For more than four decades, California's state population has grown, but this increase has been driven primarily by international migration. High housing costs have driven many U.S. citizens and households out of California, driving housing demand higher in their destination states.

A robust model of domestic migration flows between states is beyond the scope of this study. But we can approximate how migration may affect our estimates. We can use the historical average of state-to-state migration flows as a forecast of future flows. If the future interstate migration exactly matches past flows since 2001, we can create a rough, but useful approximation (**Exhibit 4**).[3]

Exhibit 4

Housing stock deficit as proportion of state's housing stock (dynamic estimate considering interstate migration flows)

A dynamic view indicates that some states' deficit is overestimated, like California, while others' is underestimated, like Texas. Some states, like Michigan, move from a deficit to a surplus.



Source: Author's calculations.

3 We used the average net migration flows between states from 2001 to 2017 for the past flows.

For example, when considering migration flows, the estimated housing demand in Michigan changes from deficit to surplus; Ohio's surplus increases; and Florida's deficit increases (see **Appendix 1.3** for details on our estimation method).

Given the severity of the problem, states have started addressing the issue of supply shortages by taking legislative action. Some of these states such as California, Oregon, Minnesota, and North Carolina have passed legislation to eliminate exclusive single-family zoning. Removing these zoning restrictions will provide builders with the flexibility to build a range of housing options which could help alleviate some of the shortage.

Conclusion

A shortage of housing remains a major issue for the United States. Years of underbuilding has created a large deficit, particularly for states with strong economies that have attracted a lot of people from other states. The issue of undersupply will be further exacerbated as Millennials and younger generations enter the housing markets, especially as housing costs become more favorable.

Dynamic estimates suggest that contrary to expectations, it isn't only the larger states that have a higher housing supply shortage. Some of the smaller states, which have been attracting a lot of migrants from other states, also need to build more housing units to accommodate the needs of their growing population.

Appendix

1.1 Vacancy rate calculations

We calculate the vacancy rate based on the historical vacancy rate. For this purpose, we obtain the historical vacancy rates by state from Moody's analytics for the period from 1970 to 2000[4] and estimate the average vacancy rate for this period for each state.

$VR_i = average(VR_i)$ for 1970–2000,

where i is the state.

We then obtain the housing stock information by state from the Housing Stock (HVS) ('000s) U.S. Census Bureau (BOC): Housing Vacancies and Homeownership–Table 8–Quarterly Estimates of the Housing Inventory. From these data, the share of the state in the total housing stock is calculated to get the state weights.

$$w_i = \frac{K_i}{\Sigma_i K_i}.$$

The sum product of the vacancy rate of the state and the state's weight in the housing stock gives us the U.S. average vacancy rate.

U.S. average vacancy rate: $VR = \Sigma_i VR_i * w_i$.

We then compute the difference between the state vacancy rate and the average U.S. vacancy rate to see how far away the state is from the U.S. average.

$$D_i = VR_i - VR.$$

This deviation for the states is then applied to the long-run vacancy rate for the United States (which we estimated earlier to be 13%) to get the state-wise vacancy rate.

State-wise Vacancy Rate = 13% + Di for each state.

1.2 Estimating target households

We obtain the headship rates[5] for the year 2018 by state and by age for all the 50 states and District of Columbia.[6] We then estimate target households using this headship rate and adding back housing

4 Data is available from 1970:Q2 onward. We estimate the average for the period up to 2000:Q4. This corresponds to the period before the boom and bust in the housing market began.
5 Headship Rate = Number of Head of Households/Total Households.
6 Data source: Current Population Survey–Annual Social and Economic Supplement (CPS-ASEC) using the Integrated Public Use Microdata Series (IPUMS) (Steven Ruggles, Sarah Flood, Ronald Goeken, Josiah Grover, Erin Meyer, Jose Pacas and Matthew Sobek. IPUMS USA: Version 9.0 [dataset]. Minneapolis, MN: IPUMS, 2019.)

costs assuming that housing costs become more favorable for household formation. The target headship rate would be

$$hr^*_{i,j} = hr_{(i,2018)} + \alpha_{(\text{housing costs},\, i)}.$$

We then use this target headship rate and the population by five-year age buckets to compute the households in each state.

$$hh^*_i = \Sigma_j hr^*_{i,j} * pop_{i,j},$$

where i is the state and j is the five-year age buckets.

The product of headship rate and population by age gives the households by age group. Summing it up over all the ages gives the total households in the state.[7]

1.3 Domestic migration flows between states

For the estimate of the states' share of the deficit, we need to obtain the share of the migration flows between states by age. To get detailed age-wise distribution of population, we use the ACS data from 2001 to 2017. We obtain the population by age and by state for these years. We identify people who had a different state of residence from a year ago, which indicates that they migrated to a different state. We then get estimates of the in-migrants and out-migrants by state and age.

We then estimate the net domestic migrants for each state as the difference between the in-migrants and out-migrants.

$$NM_{i,j} = I_{i,j} - O_{i,j}$$

where i is the state, j is the five-year age buckets, I is the in-migrants, and O is the outmigrants.

To estimate the net outmigrants from states that have a $NM < 0$, we obtain the Moody's historical net domestic migration data. We then apply these shares by state and age to the net migration data for 2018 to obtain the number of people leaving a state by the five-year age bucket.

$$\Delta P^*_{i,j,out} = \frac{NM_{i,j}}{\Sigma_{i,j} NM_{i,j}} * P_{m,i},$$

where $P^*_{i,j,out}$ is the total change in population (net out-migrants) for states that have net outmigration,

7 These households would be based on the Current Population survey (CPS). To make them consistent with estimates of housing supply from HVS, we apply a multiplier to this gap that is proportional to the gap between the CPS-ASEC and HVS household counts. The CPS-ASEC household estimate for 2018 was 127.6 million. The HVS estimate for that year was 121.3 million. We deflate our target households by a factor equal to 121.3/127.6, or 0.95.

$NM_{i,j}$ is the net out-migrants by age group and state,

$\Sigma NM_{i,j}$ is the sum of the total out-migrants for the state, and

$P_{m,i}$ is the historical net domestic migration data from Moody.

The ratio of $NM / \Sigma NM$ gives the share of the five-year age group in the total out-migrants from the state.

This pool of out-migrants ($P^*_{i,j,out}$) is then divided among the in-migrating states, given that the net flows for the country are 0.

We distribute these migrants according to the share of the state in the total in-migrants as well as by the share of the age group in the total in-migrants to the state.

$$\Delta P^*_{i,j,in} = SI_i * SA_{i,j} * \Delta P^*_{i,j,out}$$

where $\Delta P^*_{i,j,in}$ is the in-migrants to the state i from the outmigrants pool,

SI is the share of the state in total in-migrants,

SA is the share of the five-year age bucket in the total in-migrants, and

$\Delta P^*_{i,j,out}$ is the total out-migrants.

The population of each state is then adjusted according to the change in the population estimated above.

$$\begin{aligned} Population^*_i &= P_{i,j} + \Delta P^*_{i,j,out} \ \ if \ NM < 0. \\ &= P_{i,j} + \Delta P^*_{i,j,in} \ \ if \ NM < 0. \end{aligned}$$

The households are then computed based on this adjusted population for each state by applying the headship rates by age group. Then the housing stock is estimated as per equation (1).