

A Rebuttal to the Embarcadero Institute, or

An Accurate Accounting of HCD's RHNA Methodology



YIMBY LAW

Do the Math: The state has ordered more than 350 cities to prepare the way for more than 2 million homes by 2030.

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



Annie Fryman

Annie Fryman, Policy Director for Scott Wiener, author of SB 828:

“Housing advocates identified several ways that HCD and regional governments were underestimating the Regional Housing Needs Determinations, therefore allowing cities to under plan and under zone for housing. We wrote SB 828 to ensure that the Regional Housing Needs Assessments for individual cities would increase dramatically, fully aware that many Allocations would increase by at least twice as much, and in some cases by a factor of 10 or more.”

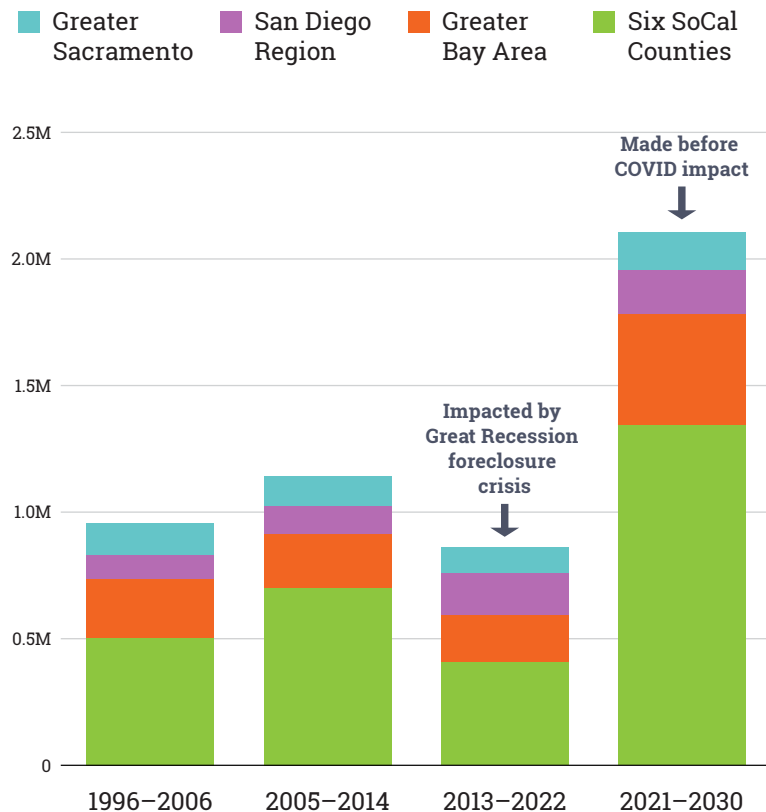
Prior to SB 828, HCD did not adequately account for overcrowding or the number of cost-burdened households when they projected housing needs. The demographers considered people living in crowded conditions, or people paying more than 30% of their income in rent to be adequately housed and not in need of housing. This is clearly false. Crowded and expensive housing are substandard conditions that our RHNA process must take into account and ameliorate.

The Department of Finance housing need projections did not take into account overcrowding and cost-burdening in any standardized way.

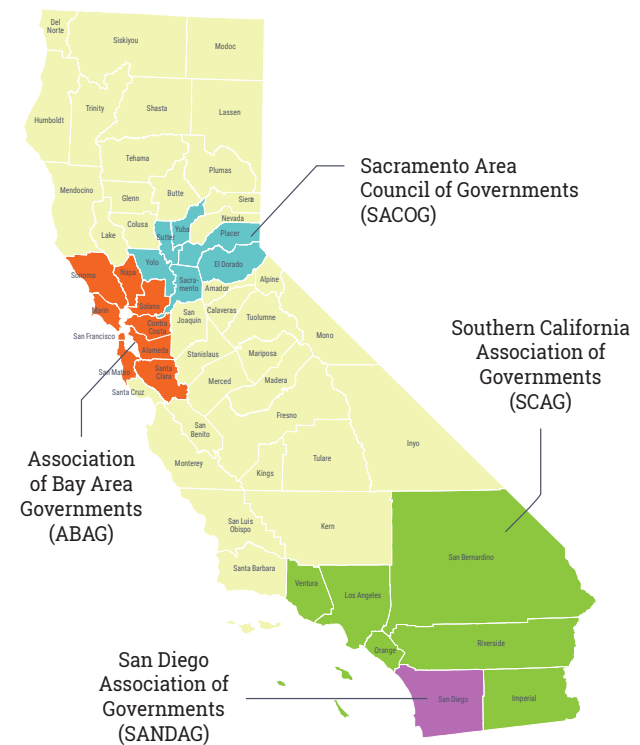
SB 828's updates to the HCD methodology successfully allow HCD to project more realistic housing needs.

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)

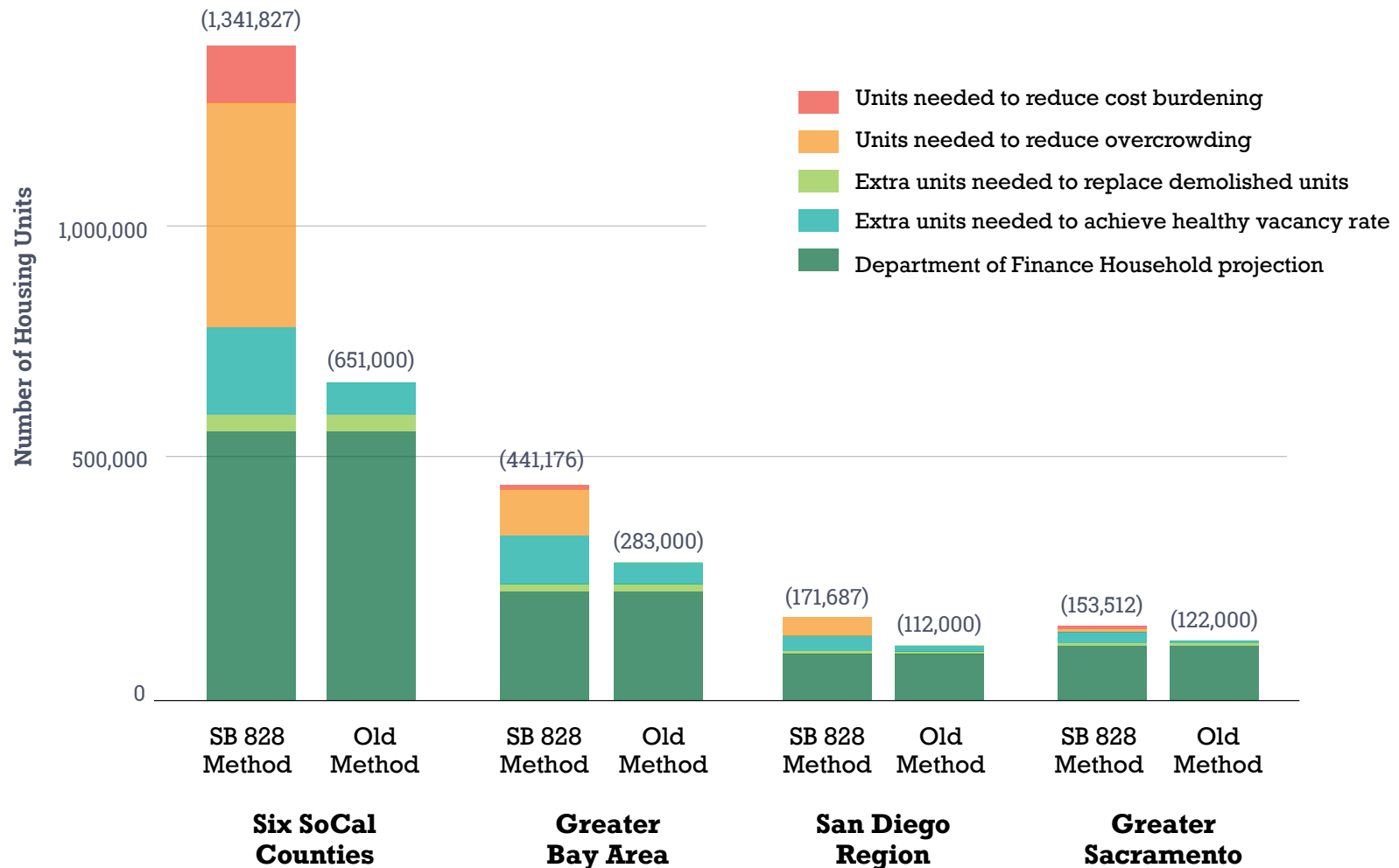


Four Regions Contain 80% of the State's Housing



SB 828 has successfully increased the housing needs projection to more accurately describe housing need in California and ensure that cities plan for it.

California plans for its housing needs in “cycles.” The four regions are on cycles that last roughly eight years with staggered start dates. As illustrated, Southern California and the Bay Area are the most improved by the state’s new methodology.



Senate Bill 828 was drafted with a detailed understanding of the Department of Finance’s methodology for developing household forecast, and corrects for its flaws.

SB-828 introduced several major changes:

Definition of Existing Housing Need	
In the past, existing housing need was evaluated only by comparing the current vacancy rate with a healthy market vacancy rate. This is insufficient.	Now, existing housing need is measured by the difference between the current vacancy rate with a healthy market vacancy rate, AND by 2 other factors: overcrowding rate and rent burden rate.
Different Vacancy Rates for Rental and Owner-Occupier Markets	
The Embarcadero Institute incorrectly writes that “Government Code 65584.01(b)(1)(E)... specifies that a 5% vacancy rate applies only to the rental housing market.” In fact, Government Code 65584.01(b)(1)(E) specifies only that “the vacancy rate for a healthy rental housing market shall be considered no less than 5 percent.”	SB 828 recognizes that the healthy market rental and owner occupier vacancy rates can be different. On page A-5 of their report, the Embarcadero Institute misrepresents the state’s methodology, agreed to by ABAG, by separating out rental and housing units and applying a 5% vacancy rate adjustment to each. The effect on total allocations is the same, but the Embarcadero Institute implies that HCD mistakenly set a 5% vacancy rate target for owner-occupied homes, which HCD did not do. Rather, HCD deliberately used a 5% overall benchmark to moderate between a higher ideal rental vacancy rate and lower ideal owner-occupied vacancy rate. See our “Accurate Counting in the Lastet RHNA” white paper for further analysis.
The Department of Finance Methodology DOES NOT Count Overcrowding or Cost-Burdened Households	
The DoF Methodology for predicting population growth and household formation uses past data on population growth and household formation to predict future population growth and household formation.	Because for the last several decades California has suffered from a housing shortage, and housing shortages suppress household growth (people move away from California, they live with their parents or other family members when they would rather live on their own, they even may have fewer children than they would otherwise) the DoF prediction is a worst case scenario prediction. It predicts what population growth and household formation will be if we continue to have a housing shortage.

The flaws in the Department of Finance household projections are significant.

The California Department of Finance's economic forecasts estimate what each county's population will be over the next 60 years assuming no change in housing policy. In other words, these projections assume that today's problems continue unabated.

- **They forecast fewer immigrants** will move to the Bay Area next decade than this past decade, and that net domestic migration will stay at basically zero — meaning each person that moves to the Bay Area causes an existing person to be displaced out of the region.
- **They assume birth rates will keep falling**, as tens of thousands of people in their late twenties and early thirties continue to move to other parts of the country to raise a family. Deaths will outnumber births in San Francisco, San Mateo, and Marin counties by the end of the decade; the number of children in the region will fall by over 100,000 in ten years.
- **They use status quo assumptions about the average household size** in the Bay Area, meaning they expect people to continue living with parents or housemates well into their twenties, families to live in SROs and small apartments, laborers to live 6 to a room at much higher rates than in the rest of the country.

The California Department of Finance (DOF) is aware of this. In their documentation, they explicitly warn that these estimates do not account for “changing economic conditions... or planning decisions,” that they “do not account for ... the existence of pent-up demand in today's market,” and that “projections of future housing and housing needs are the responsibility of HCD and may use differing assumptions and methods.”



“The DOF forecast is basically a status quo forecast, where the Bay Area gets even more expensive every year going forward. So, a continued housing cost burden for our residents, a continued set of challenges that constrain growth and really double down on this polarization between high-income and low-income and a declining middle class.”¹

- Dave Vautin, Assistant Director, Major Plans - Metropolitan Transportation Commission

California needs more market rate housing AND more subsidized housing.

These types of housing are not mutually exclusive, they are synergistic. Market-rate housing pays taxes that allow the local and state governments to subsidize affordable housing. The zoning changes that facilitate market rate housing also facilitate affordable housing.

Non-profit organizations that develop and advocate for affordable housing supported SB 828, and support the higher RHNA numbers. Affordable housing needs all the help it can get. To support it, follow the lead of professionals in that field: SB 828 was supported by affordable housing groups, including Non-Profit Housing Association of Northern California, California Housing Partnership Corporation, Bridge Housing, California Community Builders.



Since 1979, the Non-Profit Housing Association of Northern California (NPH) has been the collective voice of affordable housing for the Bay Area. NPH works to realize our mission by advancing meaningful, critical policy solutions, and strengthening the affordable housing community who implement the programs and policies in our Bay Area communities. Our policy work advances bold solutions for a more affordable, stable, thriving region and state, focusing on housing solutions for low-income people and communities of color who suffer disproportionately from the housing crisis.



The California Housing Partnership plays a unique role in California's struggle to provide housing that is sustainable and affordable to working families, homeless, veterans, seniors and the disabled. The Partnership is a "do-and-think-tank" that uses the experience gained from helping hundreds of nonprofit and local government partners leverage \$20 billion to create 75,000 affordable homes over the past 30 years. We are the trusted advisor to these mission-driven organizations, helping them envision and execute multilayered plans for creating and preserving sustainable affordable rental housing.



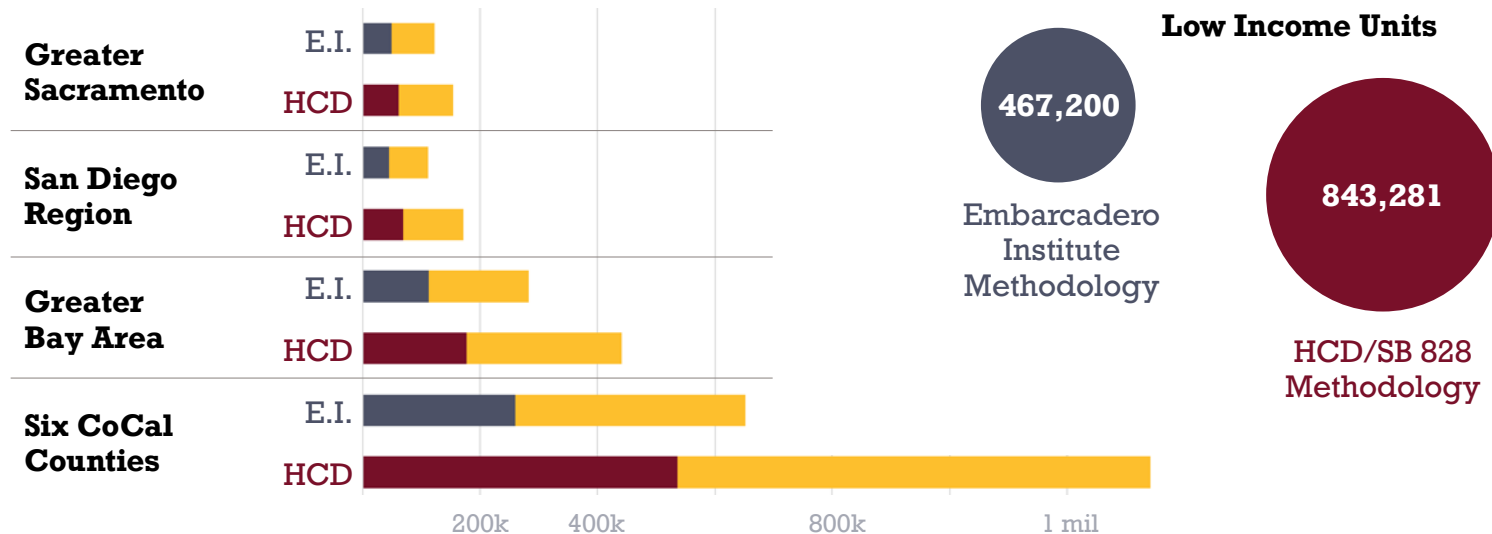
BRIDGE Housing strengthens communities and improves the lives of its residents, beginning—but not ending—with affordable housing. Since 1983, BRIDGE has participated in the development of more than 18,000 homes and apartments in California, Oregon and Washington, with total development cost of over \$3 billion. It has approximately 12,300 apartments currently under property and/or asset management.



California Community Builders (CCB) is a 501(c)(3) nonprofit affordable housing development organization. CCB's mission is to reduce the homeownership gap as a means of closing the wealth gap for communities of color. Through the promotion of affordable homeownership, we seek to mitigate one of the most egregious root causes of increasing poverty and widening wealth gap experienced by communities of color in California.

Reducing the RHND as suggested in the Embarcadero Institute report would reduce the amount of affordable housing that cities have to plan for.

The total RHND for the four largest regions in California is over 2 million units. Approximately 40% - or 800,000 homes - of this allocation is housing affordable to lower income households.



Reducing the RHNDs of the 4 biggest regions by 900,000 units, as advocated by Gab Layton in the Embarcadero Institute report, would reduce the amount of the low income housing allocation by 360,000 homes.

This position is hostile to affordable housing and to the people who live in it.



Gab Layton,
Embarcadero Institute

Better Safe Than Sorry!

Estimation and projection is by its nature an uncertain exercise. When dealing with uncertainty, we have to decide whether we want to err on the side of overestimating, or underestimating housing need. To make this decision, we must consider the downsides of each type of error.

Error Type	Downside
Underestimating population growth and housing need	An underestimate of housing need will cause insufficient housing to be built, which impoverishes Californians and causes displacement and long commutes.
Over-estimating housing need	None. If cities zone for more housing than they need, then nothing will happen. In the event that rents and housing prices begin to fall because there is sufficient housing, then developers will not propose new housing developments. Land zoned for high density housing won't be developed.

Therefore, given disagreements in projections of housing need, it is safer to use the higher projections.

APPENDIX A:

Evidence of the housing shortage is around us everywhere.

How could a house as mediocre and uninteresting as this one be sold for \$2.6 million? The only way this tract house can be considered a luxury item is by taking advantage of the total lack of other options available to potential buyers. High prices are a function of scarcity.

922 Celia Dr
PALO ALTO, CA 94303
Status: Sold

\$2,618,417
Redfin Estimate

\$2,600,000
Sold Price

3 Beds

2 Baths

1,120 Sq. Ft.
\$2321 / Sq. Ft.
Built: 1954

Favorite Photos Edit Facts

Overview Redfin Estimate Listing Details Sale & Tax History Public Facts Schools Neighborhood Similar Homes

SOLD JAN 8, 2021

Street View

See all 48 photos

APPENDIX B:

More evidence of the housing shortage, “The NIMBYs doth protest too much.”

By creating and publishing their “Double Counting” report, the Embarcadero Institute authors, despite the apparent message of their report, prove that the HCD projections underestimate the projected need for housing in the next eight years.

Current residents of wealthy California towns who oppose upzonings thereby demonstrate that they believe there is significant unmet demand for housing in their towns and neighborhoods. In the absence of demand, upzonings are irrelevant. In the absence of demand, there is no reason to anticipate new development, irrespective of the zoning.

APPENDIX C:

HCD’s method actually underestimates demand for housing in the Bay Area by as much as 451,856 housing units.

Current Estimates	Suggested Estimates
<p>ABAG & HCD’s goal for the number of low income households to be cost burdened is 66%. That’s the goal. Why should we plan for so many people to suffer high rents?</p>	<p>If ABAG & HCD had planned for 60% percent of low incomes households to be cost burdened, still a very high number, the Bay Area’s RHND would go up by 95,898 housing units. ²</p>
<p>ABAG & HCD’s target for household size is too high. The national average household size is 2.52. Instead of using the national average as a goal, ABAG & HCD used the Bay Area’s current household size as a goal, 2.68.</p>	<p>The Bay Area currently suffers from crowded conditions, if HCD & ABAG had sought to create an improvement, and set the household size goal to be in line with the national size, 2.52 , that would have added 217,953 units to the Bay Area’s RHND.</p>
<p>Government Code, § 65584 (d)(3) and Gov. Code § 65584.01(c) (1) require that HCD consider the relationship between jobs and housing in the Bay Area (a “super-commuter” region), in particular, HCD is required to “improve” the relationship, and reduce emissions from transportation.</p>	<p>HCD’s 5th cycle methodology did not consider the relationship between jobs and housing in the Bay Area. Therefore, the projected housing needs in the ABAG RHND were severely underestimated.</p> <p>If HCD had considered the jobs-housing balance, as it was required to do under the RHND Statute, it could have potentially increased the total number of housing units in the ABAG RHND by a range of 86,000 to 138,000.³</p>

2. <https://medium.com/yimby/planning-to-fail-4e832012a020>

3. Elmendorf, Christopher S., Ethan Elkind, Michael Lens, Michael Manville, Nicholas Marantz, Paavo Monkkonen, Moira O’Neill, and Jessica Trounstine. *Regional Housing Need in California: The San Francisco Bay Area*. UCLA Lewis Center for Regional Policy Studies, p.6 (7.1.2020)

END NOTES



References used in this 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 (7/30/2020)

Allocations for Earlier Cycles and Housing Element

- RHNA 2007-2014 - Housing Methodology Committee Agenda Packet (7/27/06)
- Regional Housing Needs Plan 2006 to 2013 SACOG February 2008
- 3rd and 4th Cycle RHNA allocations (data sent in personal communication with HCD)

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

Other Housing Assessment Methodologies

- Employment Development Department, State of California, Employment Projections: Long Term Projections <https://www.labormarketinfo.edd.ca.gov/data/employment-projections.html>