

Confronting Affordability

When Homeownership Is Inaccessible

ASK THE EXPERT:

► **How does California compare to other states with regard to affordability?**

California is significantly more expensive. Of the 30 most expensive cities in the country, 20 are in California.

► **How is the middle class coping with the affordability squeeze?**

People are moving farther and farther out from where they work, which goes against the state's climate goals. But even people fairly high up the income scale can't afford to save for a down payment given the extraordinarily high rents we're seeing.

► **Is affordability simply a supply/demand problem?**

The thing that is strangest to me is that we have so many people who need opportunities, yet it's so much more of a struggle today than even 30 or 40 years ago. People need affordability to be able to climb the economic ladder.

► **What about technology?**

New technologies have facilitated the housing search process and will continue to do so.

► **How is accessibility to homeownership changing?**

I don't see much change occurring in the next year. Young people are doubling and tripling up with two to three people sharing a studio apartment. If communities don't get their arms around this soon, we're going to see some of California's robust economic growth change because employees can't afford to live here.

Carol Galante, who served as Federal Housing Administration (FHA) commissioner from 2011 through 2014, knows a lot about affordability issues and not just from her time in Washington, D.C. where she served in one of the most scrutinized roles in housing policy post-recession. • A longtime California resident, Galante watched the Golden State struggle with housing supply and affordability for decades, particularly in heavily populated coastal areas. • “I raised my children in California,” she told *California Real Estate*. “They have decent jobs, but I don’t see them being able to afford a home in the [San Francisco] Bay Area without help any time in the near future.”

Galante has one son in Bakersfield who is an assistant prosecutor. Generally, it's the kind of profession that would generate enough salary in most other parts of the nation for him to easily qualify for a mortgage loan.

But that's not California's story, and it hasn't been for a long time.

Under-Supplied in a Climate of Profound Demand

►► “California has under-supplied for decades,” Galante noted, “and it's been exacerbated today by the huge surge in the renter population.” She pointed out that the Great Recession, tighter credit standards, a large cohort of young people in the state's population, and general post-recession skittishness about home buying have all contributed to the pressure for more multifamily rental housing. Add to that Los Angeles and the Bay areas' staggering job growth post-recession, and you have a perfect storm for major supply, demand, and affordability issues.

Galante's concerns about California's ongoing housing issues are a big part of the reason she chose to serve as faculty director of the Turner Center for Housing Innovation at the University of California, Berkeley when she came home from Washington, D.C. “The primary challenges in supply have

been California's regulatory environment and people's unwillingness to make room,” she explained. “At the Turner Center, we're working on a number of ideas for how the state could change requirements as well as how we produce housing that could address these issues.”

Galante suggested that there is a massive bottleneck occurring in new housing development due to local and state processes that “add significant time, delay, and costs” to bringing new homes online. She would like to see localities looking at possibilities for urban in-fill and building multifamily housing more inexpensively and more quickly, perhaps by adopting modular, off-site construction. Galante indicated there are seven Bay Area housing projects using modular construction right now.

The housing situation in the Golden State has become so dire that Galante said she'd be in favor of the state developing some kind of appeals board to which the public and/or developers could go when communities fail to meet certain levels of housing production. However, Galante suggested the private sector step up to the plate, too. “We can't look to the government to do everything,” she argued.

Among the many ideas Galante is working on as a member of the Turner Center is how to scale a lease-to-own model. “We know of one
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Steve White | President-Elect

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clients and customers ultimately make on whether to sell or buy a property is largely an emotional one. After they receive the information they want and need, they still need to feel good about it. That's where the REALTOR® is uniquely positioned. We advocate for property rights. We're involved in our local communities. We understand that a home is so much more than a set of statistics to a buyer or seller. It's the REALTOR® therefore that can demonstrate the importance of a property beyond its market value. It's this unique value we deliver that has kept us at the center of the transaction and makes us well positioned to remain there.

Our proactive REALTOR® political advocacy has brought real estate-related issues to the forefront in Congress and state legislatures across the country. We have long been involved politically at the local level, in Sacramento and in Washington, D.C. However, it's the amazing successes of our non-partisan REALTOR® Party over the past several election cycles that have made us a widely respected force. Rather than aligning ourselves with rigid ideologies or partisan politics as many industries do, our pragmatic support and education of moderate candidates and legislators from both sides of the aisle has helped preserve mortgage interest deduction, kept big banks out of real estate, prevented point-of-sale taxes and had many other successes on behalf of our clients. In doing so, we have made REALTORS® the recognized voice of real estate and housing issues.

As I move onto the CALIFORNIA ASSOCIATION OF REALTORS® Leadership Team, I'm excited to be working with C.A.R.'s brightest minds in meeting our industry challenges, strengthening our political advocacy, sharpening our technology and information delivery and keeping the REALTOR® relevant to the consumer. In order to do so, we need your input and involvement. Toward that end, I sincerely look forward to hearing from you. ♦

Jared Martin | Treasurer

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Federal Housing Finance Agency (FHFA), and the Consumer Financial Protection Bureau (CFPB).

We had the opportunity to talk about important issues with these groups. These issues included:

- The importance of a viable flood insurance program. And how a lapse in that program affects California REALTORS® and property owners.
- The need for the federal government to remain a part of mortgage financing.

“The homeownership rate [in California] has fallen to 54 percent, according to U.S. Census figures. That is nearly 10 percent less than the national rate.”

Fannie Mae, Freddie Mac, and FHA may need reform, but they should not be eliminated.

• Homeowners' interest deduction and 1031 exchange (the tax deferred exchange) are critical to C.A.R.'s members. California is experiencing a home affordability crisis. The homeownership rate has fallen to 54 percent, according to U.S. Census figures. That is nearly 10 percent less than the national rate. Taking away the homeowners' interest deduction will make homeownership less affordable for Californians and affect our ability to conduct business, which we made clear in Washington, D.C.

All of these leadership actions occurred in the context of our C.A.R. Mission Statement.

As your Treasurer, I look forward to working with you, the members and directors of the CALIFORNIA ASSOCIATION OF REALTORS®, to achieve our mission each day. ♦

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company that helps people find homes they want to purchase but don't have the credit for doing so,” she explained. “In these cases, the bank purchases the home, leases it to the borrowers, and then sells it to the borrower once they've established good credit.”

She said the Center also is evaluating models where a homeowner and an investor share the down payment. Ultimately, Galante pointed out, this isn't so unlike Fannie Mae's Home Ready mortgage program for nontraditional households, where the income from all household members is part of the equation for evaluating readiness for homeownership and credit worthiness.

However, there still needs to be supply. That's step one of the affordability equation. With supply will come some automatic price softening, Galante said, pointing to Seattle, Denver, and Washington, D.C. as examples of where price escalation has occurred but then dampened once more housing came online.

“There has to be radical change,” Galante emphasized, “or we'll keep having the ‘missing middle.’” Of course, that radical change will likely require bipartisan legislative action. “One of the things I learned [as FHA commissioner] is that making change through legislative processes is very, very difficult,” Galante noted. “But when you can make a legislative change at a high level, it has *major* impact in a way nothing else can.”

That's the kind of change Galante wishes to see. Her father and grandfather were in the building trades, and she grew up with a vision of “being in real estate development as a way to make the world a better place.” She added, “I was interested in place-making.” And making a place for everyone in California is critical. “I think there is a real opportunity in California right now to meet affordability and climate change goals,” she said. ♦

Deborah H. Huso is a freelance writer and columnist.