

CHAPTER 2: STABILITY AND SUBSIDY

Introduction

Building more housing will bring down housing costs and give renters more bargaining power than they have under conditions of housing scarcity. The recommendations in Chapter 1 are geared toward achieving that goal. But correcting decades of chronic underproduction will take time. And even once California has reached its housing production goals, extremely low-income residents will likely still need some financial assistance in order to remain stably housed.

While California works toward housing abundance, the state must simultaneously take steps to protect residents who are facing the threat of displacement right now, as well as during future housing shocks like the one we saw during the Covid-19 pandemic. And even as the state works to correct its massive shortage of market-rate housing, it should move more aggressively to subsidize housing for lower-income households and protect tenants from sudden sharp price increases.

Housing stability and housing abundance are both important goals. And while some have claimed that these goals are in tension, we believe they complement one another. It is not only possible to protect existing residents while building millions of new housing units; it is essential.

Thoughtful policy design is key. Rules intended to speed up construction at all costs can inadvertently push out residents who live on valuable land. Poorly structured anti-displacement policies can discourage the production of badly needed housing and stop people from voluntarily moving in search of new opportunities. But when pro-supply and anti-displacement strategies work together, everyone wins.

We believe the below set of recommendations is fully compatible with our affordability goals, while also providing robust protection to existing residents and ample housing subsidies to those who need them.

Recommendations

Consolidate affordable housing funding into a single application process that fully funds projects

Many agencies and programs distribute affordable housing funding in California, and no single program can fund an entire project. As a result, affordable housing developers have to “stack” funding from several different sources before breaking ground on their projects.

Each funding source has its own policy goals, application process, criteria, and schedule, which makes assembling funding extraordinarily complicated and labor intensive. Additionally, the time required to fully finance projects delays housing production and drives up costs.

Once funding is awarded, each source has unique ongoing compliance requirements. Meeting all of these requirements also drives up costs because it results in more administrative overhead.

The state should work with local governments to consolidate affordable housing funding into one process with a single application that will fully fund projects. This will no doubt be an extremely delicate process, and it will likely require legislation to amend and reconcile the policy goals of various funding programs. But it is worth the effort.

A single application will make it easier to develop affordable housing more quickly and efficiently, so affordable housers can focus on building and operating housing instead of navigating byzantine application processes.

Create a permanent social housing developer

In recent years, there has been growing interest among both YIMBY activists and state legislators in the social housing model. This model can work in a variety of different ways, but broadly speaking, it refers to publicly developed housing — managed by either a public sector agency or a nonprofit — that may be offered at below market rates, or include a mixture of market-rate and affordable units. Many other countries have extensive social housing portfolios, with most of their approaches differing significantly from the U.S. federal government’s public housing framework.

[AB 309 \(2023\)](#) would have created a small pilot program that would have developed three social housing projects. While the legislature approved this approach, the governor vetoed the bill and instead signed **[SB 555 \(2023\)](#)**, which directs HCD to conduct a study on social housing.

California does not need to wait for the results of this study to begin developing social housing units. The state should create a social housing program modeled off of [Montgomery County, Maryland’s successful Housing Opportunities Commission \(HOC\)](#).

Rather than acting as a public developer, HOC operates as a public replacement for private equity. Using money drawn from a revolving loan fund, HOC can offer private developers sizable loans on favorable

terms. In return, the developers agree to include more deed-restricted affordable units in their projects, and to transfer ownership of the relevant projects to the county following their completion.

One shortcoming of the HOC model is that the county still defers to local zoning and other land use restrictions. Our proposed social housing program would instead take advantage of state land use preemption by purchasing land and recruiting developers to build social housing at the maximum feasible density on that land.

Create a statewide evictions dashboard

The state currently lacks a dataset that tracks annual eviction filings and lockouts across all 58 counties. To facilitate the creation of such a dataset, the legislature should require that landlords notify a government agency (probably the California Department of Housing and Community Development, or HCD) whenever they file for eviction. Similarly, county sheriff's departments should be required to notify the state government whenever they execute an eviction lockout. Using that information, HCD or a similar agency should launch a dashboard with anonymized data on eviction filings and lockouts in each county.

The state should strive to make it as easy as possible for landlords and sheriff's departments to comply with the above requirements. Reporting should be a straightforward process, and the state should only collect data that will be genuinely useful and illuminating.

This data could be used by the state and other parties to identify eviction hotspots where current anti-displacement protections are insufficient. Both the DOJ and the counties could also use this data to guide enforcement actions against miscreant landlords.

Create a statewide rental registry

Multiple California cities and counties—including Los Angeles County, San Jose, and San Francisco—require that qualifying landlords disclose certain information regarding their properties. These disclosures may include information about changes in tenancy, amenities associated with their properties, and rents and rent increases. Governments that oversee rental registries can use that information to monitor compliance with anti-displacement rules and judge their effectiveness.

The state legislature should direct all counties to launch standardized data collection efforts and forward that data to the Department of Housing and Community Development (HCD). HCD should then publish a dashboard and public registry that includes at least some of the collected information. Making this information public will allow journalists, researchers, and other independent validators to assist in analyzing the housing market and checking for landlord compliance with anti-displacement rules.

As with the evictions dashboard (see the incremental recommendations in this chapter), the state should endeavor to make compliance with reporting requirements as easy as possible. Providing rental data should be simple and straightforward for landlords.

In recent years, the legislature has considered multiple bills that would establish a statewide rental registry. The most recent of these bills, [AB 2469 \(2022\)](#), died in committee. The legislature should revive the idea.

Create and fund a statewide right to counsel

Even in cases where an eviction is illegal or wholly unjustified, tenants may lack adequate representation to prevent it. Landlords are vastly more likely than tenants to retain counsel in eviction disputes, and tenants who do not have legal representation are unsurprisingly at far greater risk of eviction. To remedy this imbalance, several U.S. cities—including San Francisco—have created a tenant right to counsel.

Although San Francisco’s right to counsel rule is relatively new, [evaluations](#) from other cities have indicated that similar laws can significantly reduce the risk of displacement for tenants facing eviction. We therefore recommend that the California legislature create a statewide right to counsel.

To make this right enforceable, the state should fund the hiring of county eviction defense attorneys. Responsibility for providing the necessary legal defense against eviction should rest with these attorneys—who will be civil servants and employees of the county—instead of with outside nonprofit organizations.

Direct Caltrans to study the legal feasibility of leasing its excess sites to developers

Under California’s excess sites program, created by executive order in 2019, the Department of General Services identified hundreds of state-owned, underutilized properties that could be potentially converted into affordable housing. Many of these sites are property of the California Department of Transportation (Caltrans). However, Caltrans has long maintained that leasing much of this property at below market value to homebuilders would expose the department to hostile litigation.

This legal theory has not been tested; it is entirely possible that Caltrans is being unduly cautious when so much of its land could be converted into affordable housing or permanent supportive housing. Resolving this question is particularly urgent because Caltrans currently has thousands of unhoused people residing in its right-of-way. If Caltrans has developable property, it should be turned into homes for those people.

With that in mind, the state should direct Caltrans to publish a formal analysis that would study the legal risks associated with participating in the excess sites program.

Ensure that we get maximum value from affordable housing subsidies

The cost of building subsidized affordable housing in California is extraordinarily high, with projects routinely [requiring funding in excess of \\$1 million per unit](#). This is financially unsustainable and undermines public support for affordable housing development. Perhaps more importantly, it acts as a severe limitation on the amount of subsidized affordable housing that California can build. Due to the

high cost of affordable housing development, even large public investments yield relatively few units. Given the financial constraints on state and local governments, and other significant pressures on public coffers—for example, states cannot deficit spend—we must make more efficient use of scarce public resources by reducing construction costs.

Fortunately, there is much California can do to bring down the cost of building subsidized affordable housing. The state should do the following:

- Cap development fees for publicly subsidized housing at a percentage of state median construction costs.
- Award bonuses to non-profit developers who build quality projects at lower-than-average unit costs.
- Consolidate affordable housing funding into one single application that fully funds projects, which will lower pre-development costs and minimize costly delays. (See another recommendation in this chapter for more details.)
- Preempt local requirements like building design standards and local hire requirements that increase construction costs.
- Streamline entitlements and permitting for below market rate housing that uses prefabricated elements to deliver units at lower cost.

Expand the state definition of excess sites to include all surface parking lots

The State of California owns a large amount of surface parking across the state through its constituent agencies and public colleges and universities. Surface parking is one of the least efficient land uses possible, particularly when California faces both a dire housing shortage and an urgent need to reduce vehicle miles traveled to mitigate climate change. (See Chapter 3: Mobility for more information on vehicle miles traveled.)

With that in mind, the state should include publicly owned surface parking lots in its definition of excess sites. The Department of General Services should then be directed to identify which of those parking lots could be feasibly redeveloped into affordable housing—with special priority given to parking lots near jobs or public transportation.

Fully fund Section 8

Due to the program's limited budget, [only 10 percent of eligible American households](#) receive housing choice vouchers, also known as Section 8 vouchers. The federal Build Back Better plan would have addressed this shortfall by fully funding the program, making it possible for all eligible households to receive critical rental assistance. This plan, however, failed in the United States Senate.

While California cannot control whether the federal government chooses to fully fund Section 8, the state can certainly provide its own funding to help Californians who are eligible for rental assistance. With that in mind, the legislature should secure the funding necessary to extend rental assistance to

all residents who are eligible for Section 8. This funding should also be usable on developments that would otherwise be eligible for project-based Section 8 vouchers.

Increase state funding to local housing trust funds

Local agencies sometimes use Local Housing Trust Funds (LHTFs) to help coordinate the complex array of state and federal affordable housing funding programs. LHTFs are created, administered and run locally, thus giving local officials the authority to develop a strategy that addresses their region's unique housing needs. Once established, LHTFs funds are held in a trust and are funded on an ongoing basis from private or public contributions to help develop affordable housing projects. Additionally, LHTFs:

- Cap development fees for publicly subsidized housing at a percentage of state median construction costs.
- Provide direct financing and leverage other funds to build affordable housing;
- Offer matching funds for state bonds or tax credits;
- Reduce the cost of borrowing for homeowners and developers;
- Preserve and maintain existing affordable housing; and
- Provide long-term rental assistance.

Over the years, the state has established numerous funding programs aimed at providing matching funds to local LHTFs. This larger pool of funding has been used by LHTFs to support individual affordable housing projects. Considering the large impact state matching funds have on the success of local LHTFs, an increase in state funding for the LHTF program could lead to a significant increase in affordable housing development.

This increase in state funding should not be unconditional. Jurisdictions that maintain exclusionary zoning practices and refuse to implement cost-control measures should not receive additional LHTF funding. That money is better spent where the zoning allows for the construction of dense, multifamily affordable housing, and where jurisdictions are committed to maximizing the effectiveness of each additional dollar that goes toward affordability.

Make it easier for affordable housing developers to utilize the Low Income Housing Tax Credit

The Low Income Housing Tax Credit (LIHTC) program supports developers who are building affordable housing. The idea is that by leveraging tax credits, developers can take on less debt and still create affordable housing for people with extremely low incomes.

In practice, though, the process of securing funding through LIHTC is quite complex. Many developers find it daunting to navigate the financial requirements associated with the program. Additionally, multiple funding sources are usually needed to ensure that a project is financially feasible. Federal tax credits are distributed by various state and local agencies, which adds to the complexity of the program.

To simplify LIHTC development, the state should offer technical assistance throughout the development process and encourage better coordination among state and local agencies.

Provide matching funds for cities and counties to set up their own shallow subsidy programs

Some governments in California — most notably the City of Oakland and San Diego County — have been experimenting with “shallow subsidy” programs that provide relatively modest rental subsidies to eligible low-income renters. For example, Oakland’s pilot program offers households [between \\$500 and \\$800](#) per month, while San Diego [provides \\$500 per month](#) to eligible seniors.

There is limited evidence on the effectiveness of shallow subsidies (especially compared to deeper subsidies that serve a smaller number of households), but it is thought they may be able to prevent homelessness for at least some recipients. To encourage these experiments, the state should provide matching funds to cities and counties that wish to establish their own shallow rental subsidy programs. These matching funds would be accompanied by reporting requirements and guidance on how cities and counties should evaluate outcomes.

Secure ongoing funding for Housing First programs

California has adopted the “Housing First” model—an evidence-based approach that prioritizes moving unhoused people into permanent housing—as its overarching anti-homelessness strategy. But many of the state’s current Housing First interventions are funded on a one-time basis and may disappear in the next budget cycle if the legislature does not take action.

Even if some of these programs receive an additional year’s worth of funding, local governments and service providers may struggle to make use of them because reauthorizing homelessness programs on an annual basis creates too much uncertainty. For example, nonprofit housing developers and property managers may be reluctant to undertake a permanent supportive housing project that could create ongoing costs without assurance that the state will provide long-term support.

To alleviate that uncertainty and encourage long-term planning, the legislature should create more ongoing funding sources for Housing First efforts. See the recommendations in our report, [“Housing Abundance as a Condition for Ending Homelessness: Lessons From Houston, Texas,”](#) for more information.