

# Op-Ed

## **Changing the rules of the game to close California's housing gap**

<http://www.latimes.com/opinion/op-ed/la-oe-woetzel-california-housing-crisis-20161110-story.html>

**Jonathan Woetzel**

November 10, 2016

*Jonathan Woetzel, a senior partner at McKinsey & Co., is the lead author of the report "A Tool Kit to Close California's Housing Gap." McKinsey associate partner Shannon Peloquin and consultant Daniel Weisfield are coauthors.*

Housing is a chronic pain point for California. The cost of shelter in the state is so high and wages overall are so low that half of the state's households struggle to make rent or mortgage payments.

The state's affordability crisis is the product of a housing drought: Too few units have been built for the number of people who live here, and there are too many barriers to developing more. Today, California ranks 49th out of the 50 U.S. states in housing units per capita (only Utah has fewer). In a new McKinsey Global Institute report, my coauthors and I estimate that California must build 3.5 million housing units by 2025 to satisfy pent-up demand and meet the needs of its growing population.

We have identified where 5 million new units of various kinds could be built in high-demand towns and cities throughout California. Some would be single-family homes on small lots; some would be "accessory dwelling units," such as converted garages or new backyard cottages; some would be multifamily infill apartment buildings or condos. To deal with homelessness, economic pressure on the middle class as well as low-income households, gentrification battles and other ills associated with the state's affordability crisis, California needs to build them all. Every community will want a different mix of solutions.

To start, there is room for a quarter of a million new units on urban land that already is zoned for multifamily development but is sitting vacant. We know this because we mapped specific lots, parcel by parcel, in places such as Los Angeles, San Francisco and Fresno. That's an astonishing number of unused building sites for a state in the midst of a housing crisis. A third of those sites are in L.A. County alone.

There also is room for more than 600,000 "smart growth" affordable single-family homes on undeveloped land near jobs and transit. We arrived at this number by mapping high-growth counties such as Contra Costa, San Bernardino and Sacramento to identify building sites that would minimize sprawl, cut highway gridlock and preserve open space and farmland. The new homes would be within five miles of a public transit hub, or within 20 miles of job centers.

In fact, the biggest opportunity is transforming the areas around California's public transit stations into housing hubs. The state could build up to 3 million new housing units within a half-mile of high-frequency public transit. Development must be sensitive to place, and our estimate envisions transforming suburban station areas into walkable, mixed-use villages, while adding high-rise urban housing in big-city cores. The station areas we analyzed represent less than 2/10 of 1% of California's land mass, yet they have disproportionate potential to rebalance the state's housing deficit.

To unlock the housing supply, California has to add real incentives and accountability to the planning and building process.

The changes might start with the way building projects are approved. California's approval process seeks to protect the environment — a critical goal — but it isn't timely, transparent or predictable. It takes six months on average to approve simple projects in the state, and three years on average for complex projects. Protracted land-use decision-making and litigation are costing Californians well over \$1.4 billion a year and are a major cause of California's housing under-supply.

**It takes six months on average to approve simple projects in the state & three years on average for complex projects.**

Cities have the power to accelerate development approvals. Redwood City and Fresno have instituted new zoning codes that are clear and comprehensive, and they have proactively completed environmental impact reviews to establish where and how development can proceed. If a proposed project ticks all the boxes specified in one of these cities' zoning codes, it can be approved over the counter, with no need for additional review.

At the state level, California could streamline the permitting and environmental review process for multifamily projects that meet critical housing needs. For example, the state already has eased California Environmental Quality Act requirements for certain projects that are socially imperative — such as schools. We are at an inflection point where we may need to do the same for housing.

The state's development impact fees are another barrier to housing starts. The fees cover costs related to growth — such as schools, sewers and community services. But California's impact fees — which amount to \$10 billion a year — are approximately three times higher than average fees in other states. Are they justified? At the least, California's communities could defer or waive fees for projects that help meet affordable housing goals.

Our analysis shows that the construction industry could shave \$6 billion a year from housing costs by boosting its productivity. Experts in “lean construction” suggest that inefficient use of labor and materials accounts for 40% of construction costs. Better project management is one way to fix this. Another is to expand the state's pool of skilled construction workers. Construction trade certifications in California have dropped by 25% in recent years. Building millions of new housing units can create new skilled jobs in addition to lowering the cost of housing.

California has the capacity to build more housing without unleashing sprawl or destroying neighborhoods. Some cities already are bringing down barriers to new housing, proving that growth can co-exist with smart planning policies that address the needs of many stakeholders. The tools exist to ease the state's housing drought and solve its affordability crisis, if Californians will change the rules of the game.