

ASSEMBLY THIRD READING
AB 426 (Jackson)
As Amended May 18, 2023
Majority vote

SUMMARY

Authorizes the Department of Housing and Community Development (HCD) to include, in the California Statewide Housing Plan, a strategy for the state to keep pace with building housing units and affiliated infrastructure during an economic downturn.

Major Provisions

Authorizes (HCD) to include, in the California Statewide Housing Plan, a strategy for the state to keep pace with building housing units and affiliated infrastructure during an economic downturn, including:

- 1) The number of housing units needed to be built during an economic downturn for all income levels; and
- 2) Recommendations for facilitating production at all income levels during and coming out an economic downturn, including the implications to the housing industry of not facilitating countercyclical housing construction.

COMMENTS

Statewide Housing Plan: Every four years, HCD is required to produce a Statewide Housing Plan, in coordination with the private sector and state, regional, and local housing and planning agencies. The most recent plan was released in March of 2022.¹ According to the most recent version, "The Statewide Housing Plan lays out a vision to ensure every Californian has a safe, stable, and affordable home. The state is working towards three objectives to achieve this vision:

- 1) Keep Californians in their homes;
- 2) Produce more affordable and climate-smart housing; and
- 3) Continue to act with urgency to address homelessness and housing need.

The plan describes why we need to act now to address the state's housing affordability crisis, what we know about California's housing crisis, including how we got here and growing challenges, what the housing needs in California are, what our state and local governments are currently doing to address the problem, where we are going in the future, and how we will track our progress."

Housing During and Economic Downturn: Market-rate housing production is feasible when the revenues from developing housing (the rents or sales price) exceeds the costs (design, process, materials and labor). During an economic downturn, revenues typically decline more quickly than costs, as households are able to pay less for housing. The result is that market-rate housing production can decline precipitously during an economic downturn. For example, in the three

¹ <https://storymaps.arcgis.com/stories/94729ab1648d43b1811c1698a748c136>

years prior to the recession of 1990, there were over 240,000 units built per year in California. By contrast, from 1991-1993, less than 100,000 units were built annually.²

The production of publicly-subsidized affordable housing may also be affected by economic downturns. Economic downturns typically cause budget deficits, which creates pressure to reduce discretionary funding for housing. For example, the previous two state budgets included over \$5 billion per year for affordable housing. This year's budget proposed less than \$3 billion.³

Economic downturns often have an effect on the housing market that lasts far longer than the downturn itself. When housing production declines, it leads to a decrease in construction jobs. These workers then seek work in other professions, or move out of state to pursue their line of work. When the economy recovers, it has proven difficult to replenish the construction workforce, making it difficult to produce the same amount of housing as was constructed before the downturn. For example, the number of residential construction workers in California dropped steeply during the Great Recession that began in 2008, from about 160,000 in 2006 to about 80,000 in 2011.⁴ Even with strong economic upturn and demand for housing that lasted throughout the subsequent decade, the number of residential construction workers never exceeded 110,000.⁵ The number of units built was reduced commensurately – from a cyclical peak of over 200,000 units in 2005 to 130,000 units in 2017.⁶

AB 426 would authorize the state to develop a strategy to facilitate housing construction and commensurate infrastructure during an economic downturn and include it in the next Statewide Housing Plan due on January 1, 2025. If included, the strategy could determine the state's housing needs during a downturn at all income levels. It could also include recommendations for facilitating production at all income levels during and coming out of an economic downturn, including the implications to the housing industry of not facilitating countercyclical housing construction to better prepare the state to facilitate housing production and worker retention during an economic downturn.

According to the Author

"California cannot afford to stop building homes during an economic downturn or it will fail to build enough homes to keep pace with current housing demands. Currently, California law fails to mandate or account for a statewide plan to continuously build housing during an economic downturn. In fact, California has not been able to build more than 120,000 units of housing (annually) since the Great Recession. In 2007, California issued 207,000 housing permits, the highest total of the past two decades. This data clearly shows evidence of a clear correlation (if not causation) that during an economic downturn, the state's homebuilding permitting process will slow and could experience another slow recovery."

² Ibid

³ <https://ebudget.ca.gov/2023-24/pdf/BudgetSummary/HousingandHomelessness.pdf>

⁴ See Figure 5: <https://norcalapa.org/2019/03/taking-the-high-road-to-fix-californias-broken-housing-production-system/>

⁵ Ibid

⁶ HCD's Statewide Housing Plan, March 2022. See figure entitled "New Permitted Units in California by Year and Structure Type": <https://storymaps.arcgis.com/stories/94729ab1648d43b1811c1698a748c136>

Arguments in Support

Supporters of this bill, including the California Commission on Aging, argue that this bill "would provide the needed foresight and planning in order to avoid furthering the state's housing crisis."

Arguments in Opposition

None on file.

FISCAL COMMENTS

According to the Assembly Appropriations Committee : No state costs. This bill authorizes, but does not require, HCD to include the strategy. Should HCD decide to include the strategy, HCD will incur consultant and staffing costs likely in the hundreds of thousands of dollars for the initial study and additional costs for consultant and staffing costs for any subsequent plan updates.

VOTES**ASM HOUSING AND COMMUNITY DEVELOPMENT: 8-0-0**

YES: Wicks, Joe Patterson, Wendy Carrillo, Gabriel, Juan Carrillo, Quirk-Silva, Sanchez, Ward

ASM APPROPRIATIONS: 11-0-5

YES: Holden, Bryan, Calderon, Wendy Carrillo, Mike Fong, Hart, Lowenthal, Papan, Pellerin, Weber, Ortega

ABS, ABST OR NV: Megan Dahle, Dixon, Mathis, Robert Rivas, Sanchez

UPDATED

VERSION: May 18, 2023

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