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# Upzoning Opportunities and Challenges in California

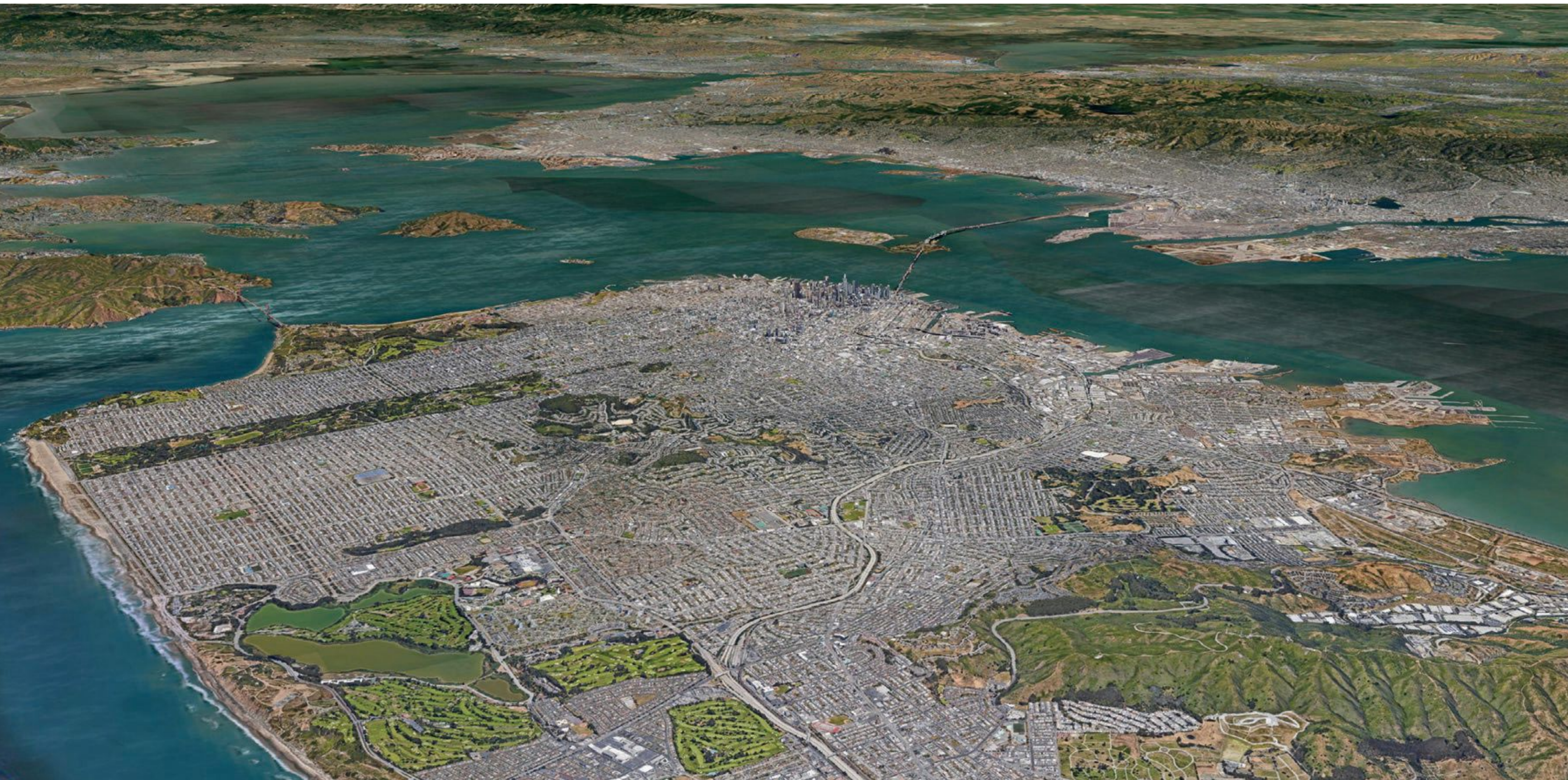
by **HOWARD BLECHER**

**HIGH LEVELS** of housing demand, a rapid influx of wealthy residents, and land scarcity due to environmental protection or disaster risk-avoidance have, in recent years, driven housing costs and affordability to extreme levels in the San Francisco Bay Area and similar regions. To satisfy the demand for affordable housing, policymakers have responded with timely and innovative policies and legislation that flatten bureaucratic obstacles to housing development, but remain responsive to community needs and concerns. Streamlining, flexibility and clarity overcome traditional resistance to densifying suburbs and make upzoning via Accessory Dwelling Unit (ADU) construction and the like attractive to property owners, developers, housing advocates and governments. While central cities will remain housing centers, an increased and appropriate distribution of housing density across regions will improve equity and balance stress on the land and infrastructure. Currently, the COVID-19 pandemic is also influencing lifestyle and market trends along with housing decisions.

## 1. San Francisco Bay Area From Above

As pandemic social distancing motivates people to seek less expensive housing conducive to remote-working, demand truly becomes a regional issue. As of the second quarter of 2020, Compass shows a significant yearly increase in sales activity for surrounding Bay Area counties while San Francisco activity remains stable. For rentals, San Francisco and New York City, "[t]he two priciest markets continued their downward trajectories with San Francisco…one-bedroom rents down 11% [to $3,200], since this time last year." This all points toward a geographic redistribution of housing demand. Anthemos Georgiades of online rental platform Zumper notes, "As historically expensive cities become cheaper and historically cheaper cities become more expensive, the gap between the price distribution of rentals across the country seems to be closing." [1] Central cities are holding strong, though. According to Compass, the "SF real estate market made a large recovery from the

San Francisco Bay Area from above.



steep declines in March and April. The SF median house price hit a new monthly high in June ($1,800,000), and high-end houses, in particular, have seen very strong demand – this applies to virtually every market in the Bay Area."[2] Upzoning measures such as ADUs can help regions reach the equilibrium in housing distribution to satisfy market demand. Additionally, homeowners may choose to take advantage of the loosened restrictions and priority processing of ADUs to add living and remote working space now with the potential to be used as separate dwelling units in the future.

## 2. Bay Area Real Estate Markets, Demand vs. Supply

That said, COVID-19 is challenging owners and renters. "As of June, nearly 1 million renter households in California have experienced a job loss as a result of the economic impacts of COVID-19, placing households at risk of housing insecurity and eviction."[3] Furthermore, "[t]he majority of respondents to a recent National Multifamily Housing Council (NMHC) survey—more than 80% of who [sic] own or manage buildings with fewer than 20 units—reported a decline in their rental income compared to the first quarter of the year."[4] Since these are the tenants and landlords who benefit the most from upzoning opportunities such as ADUs, it is imperative, especially in times of crisis, that there are programs to help landlords afford adding dwelling units and to help renters afford renting them.

In California, more than 20 housing bills were enacted in 2019 to become effective in 2020—indicative of the recognized urgency of the housing crisis, even before COVID. In turn, jurisdictions tailor (within limits) the measures to local conditions, avoiding contentious approaches such as rezoning to make these measures responsive to and popular among residents. For example, in San Francisco from 2017 to 2019, ADUs added and legalized (as a percentage of the net gain of all dwelling units) has tripled and the number of ADUs has steadily increased, despite a dip in overall unit increase in 2018.

| Year | Net Change in Housing Units | ADUs Added and Legalized | Percentage |
|---|---|---|---|
| 2017 | 4,441 | 99 | 2% |
| 2018 | 2,579 | 141 | 5% |
| 2019 | 4,698 | 270 | 6% |

*Source: 2019 San Francisco Housing Inventory, San Francisco Planning Department, March 2020.*

Among the key California housing laws enacted in 2019 and effective in 2020 are:

**ADUs**

AB 68 Land use: accessory dwelling units.

AB 881 Accessory dwelling units.

- Increases the number of and accelerates the approval of ADUs.

**Upzoning**

AB 1763 Planning and zoning: density bonuses: affordable housing.

- 80% increase in base density and unlimited density bonuses for affordable housing projects.

**Incentives and Streamlining**

SB 330 Housing Crisis Act of 2019.

- Shortens project review and approval timelines.
- Limits subjective adjustments to development standards and fees.
- Prohibits downzoning and net loss of dwelling units and "growth control" measures.

**Bay Area Real Estate Markets, Demand vs. Supply**

Percentage of Listings Accepting Offers, Monthly Average

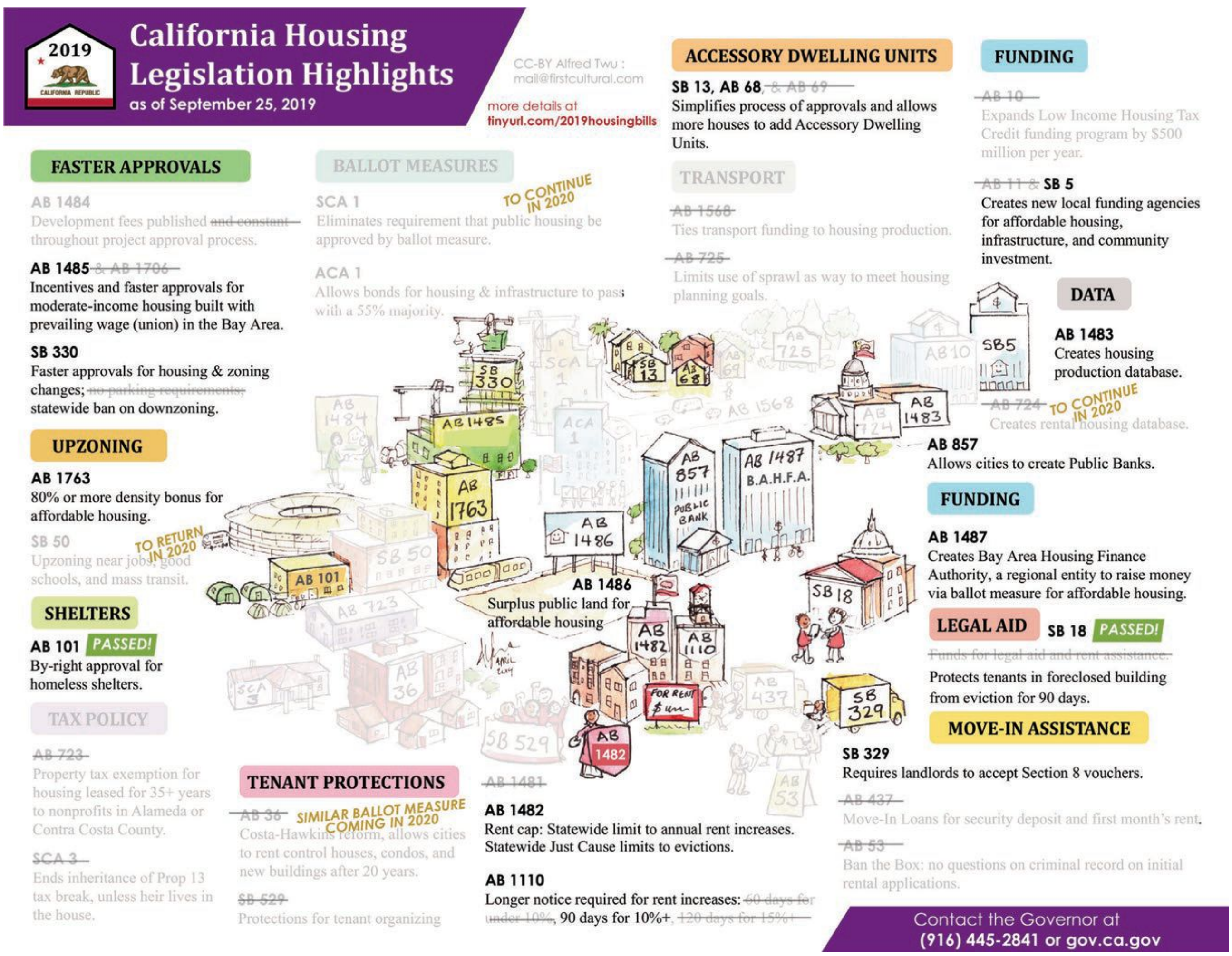
The June/July ratios of # listings accepting offers to # listings for sale within the average month.

| | Pop. Density per Sq. Mile | June/July 2020 | June/July 2019 | Year-over-Year Market Change | Median House Sales Prices in Q2 2020 |
|---|---|---|---|---|---|
| Solano County | 534 | **54%** | 36% | Very Much Hotter | $485,000 |
| Contra Costa | 1568 | **50%** | 34% | Very Much Hotter | $720,000 |
| Alameda County | 2224 | **45%** | 35% | Substantially Hotter | $1,000,000 |
| Marin County | 500 | **44%** | 29% | Very Much Hotter | $1,432,500 |
| Santa Clara County | 1490 | **42%** | 30% | Substantially Hotter | $1,380,000 |
| Santa Cruz County | 615 | **40%** | 23% | Extremely Hotter | $905,000 |
| Sonoma County | 318 | **40%** | 25% | Extremely Hotter | $677,000 |
| San Mateo County | 1708 | **39%** | 37% | Slightly Hotter | $1,695,000 |
| Monterey County | 132 | **39%** | 20% | Extremely Hotter | $675,000 |
| Napa County | 188 | **31%** | 19% | Extremely Hotter | $714,000 |
| SF HOUSE-only | 18,553 | **30%** | 31% | Stable | $1,700,000 |
| SF CONDO-only | 18,553 | **17%** | 26% | Much Cooler | $1,200,000 |

MLS residential activity, per Broker Metrics. Population density figures from U.S. Census 2019 ACS survey. Data derived from sources deemed reliable, but may contain errors and subject to revision. All numbers are approximate.

COMPASS

From *San Francisco Real Estate Market-- Report Bay Area Market Reports -- Compass.* August 2020.




From Twu, Alfred. “2019 California Housing Legislation Highlights.” Medium. April 4, 2019 (Updated Oct 11, 2019).

## 3. California Housing Legislation Highlights

Despite great strides, challenges do remain. For example, some localities may delay adoption of state law features or may require parking along with other restrictive (and space-consuming) measures. (Note that San Francisco eliminated off-street parking requirements in 2018 to make thousands of square feet available for housing that were once reserved for parking.) Moreover, in response to SB330, some jurisdictions may move to codify subjective requirements into “objective” ones as a workaround to maintain those influences. Additionally, some property owners and developers may fear property value decreases due to negative stereotypes about multifamily housing and from increased supply. Densification also stresses infrastructure such as utilities, streets, parks and transit. Finally, construction costs may limit opportunities, especially for small owners, when a mid-range ADU in the Bay Area can cost upwards of $200,000. To address these challenges, permit fees, property taxes and sales taxes from housing development should be invested into infrastructure. Likewise, tax breaks, permit fee waivers, grants and other financial incentives should be employed to support housing at all scales, and renters in need.

Densification, boosted by recent rule changes, helps mitigate the ongoing housing affordability crisis and helps satisfy shifting housing trends across regions. Development also boosts local economies, immediately adding jobs for builders, architects and vendors and later for shops and services. The resulting neighborhoods are richer with community and safer with watchful “eyes on the street.” However, sustaining recent successes requires holistically meeting ongoing physical, bureaucratic and financial challenges.


PROPOSED VIEW

ADUs Converted From Parking – Current and Proposed by Blecher Building + Urban Design and Mission Housing Development Corporation

ADUs Converted From Parking – Unit Layouts by Blecher Building + Urban Design and Mission Housing Development Corporation

Detached ADU In Rear Yard by Blecher Building + Urban Design and Valley Home Development

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[1] Richardson, Brenda. “Covid Effect On Rental Markets: Pricey Cities Become Cheaper, Cheaper Cities Become Costly.” Forbes. Aug 4, 2020. https://www.forbes.com/sites/brendarichardson/2020/08/04/covid-effect-on-rental-markets-pricey-cities-become-cheaper-cheaper-cities-become-costly/#2e9b18b16314. Accessed: August 10, 2020.
[2] “San Francisco Real Estate - Complicated Market Conditions.” *San Francisco Real Estate Market-- Report Bay Area Market Reports* -- Compass. August 2020. https://www.bayareamarketreports.com/trend/san-francisco-home-prices-market-trends-news. Accessed: August 10, 2020.
[3] Kneebone, Elizabeth and Carolina Reid. “COVID-19 and California’s Vulnerable Renters.” *Terner Center for Housing Innovation*. August 4, 2020. ternercenter.berkeley.edu/blog/covid-19-and-vulnerable-renters-california. Accessed: August 10, 2020.
[4] Metcalf, Ben. “NAHREP and Terner Center Survey Highlights the Impact of COVID-19 Pandemic on Small Landlords.” *Terner Center for Housing Innovation*. July 28, 2020. ternercenter.berkeley.edu/blog/nahrep-survey. Accessed: August 10, 2020.

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