Written Testimony of Matthew O. Franklin
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California Assembly Housing Committee
on
Affordable Housing's Role in California's Economic Recovery

Monday, December 5, 2011

Chairwoman Torres, Members of the Committee, thank you for the opportunity to testify today on this important topic and thank you also for your service to California. I am Matt Franklin, President of MidPen Housing Corporation ("MidPen"), a nonprofit developer, owner and manager of affordable housing based in Silicon Valley.

Since our inception in 1970, MidPen has developed over 6,500 units of affordable housing throughout the San Francisco and Monterey Bay areas. We partner with over 30 cities and counties and are vigorous participants in nearly every State housing program. The apartments we develop are typically financed with several different government sources and are restricted to serving low and moderate income residents at an affordable rent, generally not to exceed thirty percent of their income. This is what I refer to as "affordable housing".

Prior to assuming the leadership of MidPen, I served as Housing Director for City of San Francisco, and as Director of the State Department of Housing and Community Development ("HCD") under Governor Davis.

Today I hope to provide some insight into what's happening on the ground, and also the question of affordable housing's role in California's economic recovery.

The first thing I would report is that California's housing affordability crisis has gotten worse as a result of the Great Recession, not better. At MidPen we are seeing overwhelming demand for the affordable apartment units we produce. The last three communities we have opened include:

- 68 unit family development in San Mateo with over 1,300 applications (19:1);
- 100 unit family development in Union City with over 1,400 applications (14:1);
- 64 unit supportive housing development for formerly homeless in Fremont with over 2,300 applications (36:1);

Statewide statistics confirm MidPen's experience is not unique. According to the US Census, twenty-five percent of California's renter households, or 1.4 million households, are severely cost burdened -- meaning they pay more than half of their income for rent, leaving little left for their food, medical, transportation and other expenses.

Contrary to what some argue, housing in California did not become more affordable over the last few years. Even though housing costs have fallen since 2006, prices have not fallen enough to make up for falling incomes, so Californians continue to have high housing cost burdens. In fact, the number of Californians with worst case housing needs has gone up since 2006. The rate of growth has slowed, but it is not in decline.

We also know from our experience in Northern California that the surge of foreclosures is in no way a cure all for the State's affordability problem. I've heard people around the Capitol argue that the wave of foreclosures is somehow resolving the State's housing needs – as though foreclosed homes result in a net gain of housing to address the need.

But the reality on the ground is that foreclosures create more families with immediate and serious housing needs. For every foreclosed home there is a displaced household. Sixty percent of foreclosures involve owner-occupants, who by definition are suffering the financial distress of mortgage default and possibly even personal bankruptcy. The other forty percent are renters who face displacement and in the case of lower-income families the risk of homelessness. So, while foreclosures create an available unit for potential repurposing, they also create a corresponding number of families with immediate housing needs.

We also are NOT seeing the available foreclosed homes go to the families who need them most. There are many reasons for this. In today's market, low and moderate income borrowers have tremendous difficulty accessing mortgage credit. When they can qualify for a loan, the cost of acquiring the home and also repairing the damage caused by months of vacancy and irresponsible management by banks often puts the price of the home out of reach.

Finally, and perhaps most importantly, there is a significant mismatch between the location of foreclosed homes and jobs. People want and need to live near where they work. Yet, current demographic and employment trends show that the supply of foreclosed homes simply are not located proximate to where jobs are being produced or are likely to be produced in the future. Their location and type also do not match the housing needs of the future. The fastest growing segments of California's population are aging baby boomers, younger "baby-busters" and minorities – all of whom demand infill housing close to jobs, transit and services. Much of this demand is for smaller homes in multi-family rental buildings.

We already are witnessing this trend in the Bay Area where virtually all new housing construction starts have been in multi-family buildings, apartment vacancy rates have fallen as low as 3% and rents are rising by 5-15 percent annually (or higher).

Now, I'd also like to speak more generally to affordable housing's role in California's economy.

The first, and possibly most important thing to note, is that for several decades now affordable housing production has been a very significant contributor to statewide construction activity and job creation. Together, affordable housing developers and the state have created hundreds of thousands of units.

- The federal and state low income housing tax credit programs, which are ably administered by Treasurer Lockyer's office, have helped produce over 260,000 affordable apartments since 1987.

- Redevelopment agencies, through the state mandated 20 percent set-aside for low and moderate income housing, have financed over 109,000 units since 1994;
- Proposition 46, the housing GO bond approved in 2002 is financing an estimated 117,000 units;
- Proposition 1C – the GO bond approved in 2006 is expected to finance 118,000 units.

Though not nearly enough to meet the State's overall need, this is a very significant amount of production and a big driver of economic activity. Affordable housing construction has typically accounted for 25 to 50 percent of all multifamily construction starts over the past five years – and an even higher percentage at the peak of the recession.

As with any real estate development activity, this creates jobs and generates government revenue. The California tax credit program, for instance, has created an estimated 320,000 direct jobs and 79,000 permanent jobs since its inception in 1987. It also has produced an estimated $23 billion in local income and $2.3 billion in state and local revenue.

Affordable housing also fulfills a couple of other unique roles in our economy. By housing low wage workers, it creates part of the essential infrastructure of a healthy local economy. Business leaders know that low wage workers are critical to the economy. That is why for several years running, the annual survey of CEO members of the Silicon Valley Leadership Group, a leading business association of technology companies, identifies the lack of affordable housing as one of their top three public policy concerns.

In the absence of sufficient housing close to their jobs, workers are forced to commute over a hundred miles a day contributing to congestion on our freeways and negative environmental impacts. Or in the extreme case, it leads to labor shortages – which are what the Silicon Valley CEOs are worried about.

Finally, affordable housing also mitigates the expense of public safety net programs and boosts income tax revenues. When families don't have safe, decent affordable housing, they spend nearly every waking minute of their day trying to fulfill this basic human necessity and often must rely on social safety net programs. Conversely, once their lives are stabilized in affordable housing, residents are much more likely to secure or maintain employment, advance their careers, pay taxes, and generate sales tax revenue in their communities. Our experience shows that this effect can be even greater on the next generation – children in stable, affordable housing do better in school. Every year we have dozens of young residents in our housing matriculate to UC and State Universities, and a handful have enrolled at Stanford, Brown, Harvard and other of the top universities.

Today we are at great risk of destroying this vital sector of our economy. The funding associated with Proposition 46 and Proposition 1C is nearly spent. AB 26 and 27 will reduce redevelopment financing by an estimated 50 to 60 percent. Even worse, if the State Supreme Court ruling upholds AB 26, the dissolution of redevelopment agencies, but rejects AB 27, which creates the voluntary opt-in framework, our last significant source of local funding will be virtually wiped out.

I believe preserving and strengthening the affordable housing sector is essential to our economic recovery. To do this, I recommend we:

1. Be prepared to preserve the compromise embedded in AB 26 and 27. In the event of a worst case Supreme Court ruling upholding 26 and invalidating 27, the Legislature should immediately delay implementation of AB 26 for sufficient time to pass a revised version of AB 27 that passes constitutional muster. These two bills were co-joined and clearly intended to be implemented together;

2. In addition, we must establish a permanent state funding source to support the development of affordable housing. Governor Brown and other leaders have expressed debt fatigue and discouraged the promotion of future general obligation bonds. Instead, we should identify a permanent source to ensure local economies have a sufficient diversity of housing types to create a strong and environmentally sustainable economic future;

3. Preserve local government's ability to meet their housing needs at ALL income levels through the adoption of inclusionary housing ordinances. More than 170 municipalities statewide have chosen to adopt these policies only to have their validity threatened by a recent court decision. Legislation has been introduced that would clarify the right of local governments to enforce local planning and zoning laws, including those that require the provision of affordable housing.