



California Building Industry Association

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June 2, 2011

Senator Mark Leno  
California State Senate  
State Capitol, Room 5100  
Sacramento, CA 95814

Re: SB 184 – Oppose

Dear Senator Leno:

California homebuilders, as represented by the California Building Industry Association (CBIA) regret to inform you that we are opposed to SB 184. The measure is intended as a legislative response to the Palmer/Sixth Street Properties, L.P. v. City of Los Angeles decision.

SB 184 would authorize inclusionary housing requirements in state law. Inclusionary housing requirements force buyers, renters, homebuilders and landlords of market rate housing to pay for housing offered to those making 120% or less of the area median income.

In almost all jurisdictions in California, there is *no* demand for the ownership of affordable housing because market priced homes are at or *below* what “affordable” housing sells for. However, those who buy “affordable” housing must do so under the condition that the homeowner gives up some or all of the home’s future appreciation. This prevents those buyers from improving their economic standing. Not surprisingly, lower income families are choosing to buy market priced housing.

The home construction industry is experiencing the freezing cold chill of years of regulatory cost burdens imposed on the production of new homes. In California, housing starts have fallen from a high of 322,000 in 1963 to 42,000 last year. Projections for 2011 predict starts that could fall below last year. On average, California loses 36,000 homes every year to obsolescence or catastrophe. Unemployment rates in the homebuilding industry are now at 85%.

A 10% inclusionary requirement increases the cost to produce new housing by 7-10%, and there are jurisdictions that have set inclusionary requirements many times higher than 10%. However, the price that the market will bring for those homes is declining, not rising. Most newly constructed homes in California are sold at a loss and California’s homebuilding industry as a whole is not profitable. The industry simply cannot sustain even the smallest of cost increases.

Accordingly, inclusionary housing policies will not provide more housing opportunities for lower income buyers, but they will destroy what is left of the homebuilding industry – including the few jobs we still provide.

Regrettably, for these reasons, we are opposed to SB 184.

Sincerely,

Richard Lyon  
Senior Vice President

Mike Winn  
Chairman, President & CEO