

Through the Roof: Solano County's Housing Crisis



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Executive Summary

The housing affordability crisis plaguing the Bay Area and much of California has hit home in Solano County. Although Solano County is building many new homes, they are not the homes that local residents and workers can afford. The housing market in Solano County has become unbalanced, producing many more expensive homes than are needed on the region's outskirts, and not enough starter homes, apartments, townhomes and condominiums within cities.

A lack of homes that residents and workers can afford has negative repercussions for communities and the region:

- People spend more of their income on housing, leaving less money for other needs.
- Businesses hesitate to locate in places where homes are not affordable to employees.
- Young people move out of the area altogether, leaving hometowns and relatives behind.
- Workers move far away and spend precious family time commuting.
- More cars on the road clog freeways with traffic and pollute the air and water.
- The continuous search for affordable homes puts development pressure on natural areas and working farms, threatening to pave over the county's remaining scenic landscapes.

Solano County is a great place to live, with a rich agricultural tradition, strong community ties, and a healthy economy. To maintain Solano County's high quality of life, local leaders need to ensure affordable homes are available inside its cities. Building affordable homes within existing towns will reduce the pressure to sprawl out onto farms and open space, and reduce the

traffic caused by long commutes to distant, less expensive places.

An Unbalanced Market

Solano County's housing market is failing to meet the need. Many new houses are being built, but the prices are too high for local people.

- Between 1999 and 2003, Solano County (including its seven cities and the county) built more than enough market-rate houses (13,539), but **only 34 percent of the homes needed** for families earning the median income (\$73,900) and below.^{1,2}
- In January 2005, the California Association of Realtors found that **80 percent of Solano County residents could not afford to buy the median-priced house** (which cost \$389,000; by August it was \$474,000).^{3,4}
- According to a recent *Consumer Reports* study, **the Fairfield-Vallejo housing market is the ninth most overpriced market in the country—and the second most overpriced market in the Bay Area**, based on the difference between families' incomes and local home prices. In the Fairfield-Vallejo market, the average family would have to earn 51 percent more than it now does to afford the average home.⁵

1 Bay Area Council. 2004. *Bay Area Housing Profile, Second Edition 1999-2003*.

2 Association of Bay Area Governments. March 2001. *Regional Housing Needs 1999-2006 Allocation*.

3 California Association of Realtors. March 2005. *January Housing Affordability Index*.

4 Housing cost data from Data Quick Information Systems, available at www.DQNEWS.com.

5 May 5, 2005. "National housing values by local markets." *Consumer Reports*.

- In May 2005, the *Fairfield Daily Republic* drew attention to the situation by comparing Fairfield’s home prices to prices in “paradise”—places like Miami and Hawai‘i. **Fairfield’s prices were higher.**⁶

Looking ahead, the crisis will only worsen. According to the Association of Bay Area Governments, Solano County is the fastest-growing county in the Bay Area. The county is projected to add more than 200,000 people in the next 25 years.⁷ How can the county accommodate this growth while ensuring a high quality of life for all its residents?

A Strategy to Meet the Need: Inclusionary Housing

Local governments can establish policies that help balance the housing market, control sprawl development and traffic, and provide more options for everyone living and working in Solano County.

One simple, effective tool cities can use is an inclusionary housing policy. Inclusionary policies ensure that each new development includes homes that are affordable to people with modest incomes. They work best in fast-growing places because the more homes are built overall, the more affordable homes are built.

Because most of Solano County’s new growth will occur in its three largest cities—Fairfield, Vallejo, and Vacaville—these cities have the most power to provide new affordable housing.

Focusing new housing in these cities will also help preserve farmland and open space, and reduce long commutes and the traffic they cause. If these cities adopt inclusionary policies now, they will be taking a meaningful step toward more balanced growth:

- Between 1999 and 2003, **only half of the needed affordable housing was built** in Fairfield, Vallejo, and Vacaville.^{8,9}
- **With inclusionary policies** in place requiring 20 percent of the homes to be affordable, **these cities would have met 91 percent of the affordable housing need.**

The time to act is now, to head off skyrocketing home prices, high rents, uncontrolled development on open space, and worsening traffic. Solano County’s three biggest cities should adopt inclusionary housing policies as part of a comprehensive housing program to address the county’s affordable housing crisis and enhance its quality of life.

⁶ Bunk, Matthew. May 23, 2005. “Pricey paradise? Fairfield homes cost more than some in Miami, Hawaii.” *Fairfield Daily Republic*.

⁷ Association of Bay Area Governments. December 2004. *Projections 2005*.

⁸ Bay Area Council. 2004. *Bay Area Housing Profile, Second Edition 1999-2003*.

⁹ Association of Bay Area Governments. March 2001. *Regional Housing Needs 1999-2006 Allocation*.

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Introduction

Solano County is growing fast and is expected to keep growing. Over the next 25 years, its current population of 422,000 is projected to increase by 47 percent, making it the region's fastest-growing county.^{10,11}

Although many new homes are being built, these homes are not affordable to many families that currently work and live in Solano. The problem is a lack of *affordable* homes.

The lack of affordable homes has many negative effects on Solano County's quality of life. Commuters are forced to spend hours on the road, away from their families. Their cars worsen traffic and degrade air and water quality. The search for affordable homes puts development pressure on Solano County's farms and open space. And the economy suffers: businesses cannot attract good employees if those employees cannot find homes they can afford.

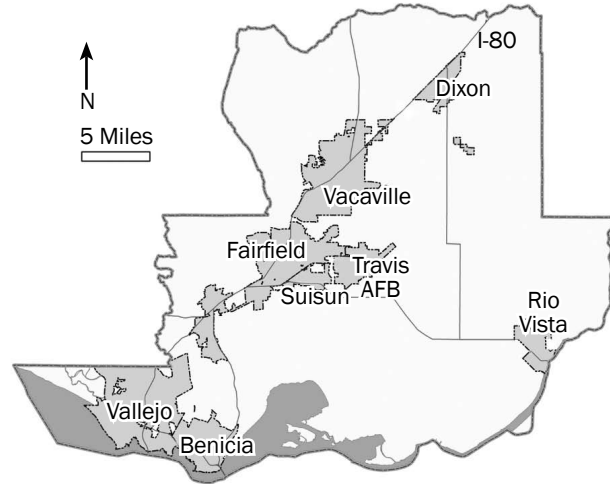


Figure 1: Map of Solano County
Courtesy of the County of Solano.



Photo: Richard Rollins

The lack of affordable housing in Solano County's cities puts pressure on the county's farmland and natural areas.

10 California State Department of Finance. May 2005. *E-4 Population Estimates for Cities, Counties and the State, 2001-2005, with 2000 DRU Benchmark.*

11 Association of Bay Area Governments. December 2004. *Projections 2005.*



Solano County cities are not creating enough affordable homes within existing cities, like these built in Vallejo by Citizens Housing and Affordable Housing Affiliation.

This report examines the growth trends in Solano County and recommends a policy solution to balance the housing market and provide better housing choices.

This report also emphasizes the need for the county's largest cities—Fairfield, Vallejo, and Vacaville—to take action.

Fairfield, Vallejo, and Vacaville will account for about three-quarters of the county's growth over the next decade.¹² The choices these cities make about addressing affordable housing will have a significant effect on the future of Solano County.

Now is the time to take action if Solano County is going to preserve and enhance its quality of life for residents in the coming decades.

¹² California State Department of Finance. May 2005. *E-4 Population Estimates for Cities, Counties and the State, 2001-2005, with 2000 DRU Benchmark*.

An Unbalanced Market

Although Solano County is building many new homes, they are not the homes that local residents and workers can afford. The housing market in Solano County has become unbalanced, producing many more expensive homes than are needed and not enough starter homes, apartments, townhomes and condominiums.

Periodically, the Association of Bay Area Governments (ABAG) produces an assessment of the region's housing needs. Called the Regional Housing Needs Allocation, this assessment determines the number of homes a jurisdiction must build to meet local housing demand. The Regional Housing Needs Allocation estimates the need for both market-rate and affordable homes in the community. Affordable homes are defined as homes that households earning 120 percent of the Area Median Income or less can afford; in Solano County that amount is \$88,700 or less (see sidebar).¹³ Market-rate homes are affordable to households that earn more than this.

The total number of new homes built between 1999 and 2003 hides the affordable housing problem. Solano County (including its seven cities and the county) actually built 109 percent of its total housing needed as determined by the Regional Housing Needs Allocation.^{14,15} However, when the total is divided into mar-

ket-rate and affordable, the problem becomes clear. In those four years, 7,397 new affordable homes were needed, but only 2,487 were built: just 34 percent.

In spite of all the homes being built, Solano County is falling far short of meeting affordable housing needs. The housing supply is heavily tilted toward expensive homes and that imbalance is getting worse: between 2004 and 2005, Solano County had an almost 250 percent increase in sales of high-end properties, the largest increase in one year in the entire Bay Area.¹⁶

A vastly disproportionate amount of new homes are too expensive for Solano County's residents.

Sidebar: Defining Affordability

Affordability guidelines are based on spending 30 percent of gross household income on housing costs. Affordable prices for a given area are defined each year based on the Area Median Income (AMI) data collected by the federal government: half the area's residents make more than the AMI, and half make less. Affordability is further broken down by percentage of the AMI as follows:

Income Levels	Solano County, 2004 ⁹
Area Media Income (AMI)	\$73,900
Moderate: 80-120% of AMI	\$59,120 - \$88,700
Low: 50-80% of AMI	\$36,950 - \$59,120
Very Low: 30-50% of AMI	\$22,170 - \$36,950

¹³ U.S. Department of Housing and Urban Development. January 2004. Median family income data sets available at www.huduser.org/datasets/il/IL04/index.html.

¹⁴ Association of Bay Area Governments. March 2001. *Regional Housing Needs 1999-2006 Allocation*.

¹⁵ Bay Area Council. December 2004. *Bay Area Housing Profile, Second Edition, 1999-2003*.

¹⁶ Zito, Kelly. February 3, 2005. "Big surge in homes costing \$1 million; Bay Area sales rise 73% as low rates lure more buyers." *San Francisco Chronicle*. Data from Data Quick Information Systems, available at www.DQNEWS.com.

Mismatched Prices and Incomes

Comparing rising home prices to average incomes also reveals an imbalance. Although Solano County has long been considered affordable, skyrocketing home prices are outpacing incomes. In August 2005, the Solano County single-family median home price rose to \$474,000, a 26 percent increase from August 2004.¹⁷

Incomes are not keeping pace with these increases in home prices. According to a recent analysis by the California Association of Realtors, 80 percent of residents in Solano County could not afford the median-priced house.¹⁸ This means that half of the houses in the county are selling at prices the vast majority of residents cannot afford.

Furthermore, the gap between the cost of homes and what people earn in Solano County was highlighted in a recent *Consumer Reports* article.¹⁹ The report identified the Vallejo-Fairfield housing market as one of the nine most overpriced markets in the nation, and the second most overpriced in the Bay Area, behind only Santa Rosa. This calculation is based on the difference between families' incomes and local home sale prices. The same article reported that the average family

A Solano Story: Linda

Linda, a single woman working for Solano County government, had rented all her life. Three years ago when she was 48, Linda decided to try to buy her first home. She qualified for a first-time homebuyer program. She was excited and began to look for a place of her own.



But even with the help of the program and with a salary of over \$40,000 a year, Linda couldn't find anything she could afford in any Fairfield neighborhood.

Linda had two friends in the same situation; they bought places in Sacramento and Yolo Counties and made long commutes to Fairfield for work. Frustrated, Linda did the same. She bought a small house in West Sacramento and for the last year has been driving 40 miles each way daily to her job in Fairfield.

But she won't be doing that much longer. Linda has decided to leave her job with Solano County and look for a new one in Sacramento. The pay will be lower, but saving the money on gas—and leaving the traffic headaches behind—are well worth it to her.

"You can create more jobs and hire who you want," Linda says, "but if people can't afford to live here, they're not going to stay."

in the Vallejo-Fairfield housing market would have to earn 51 percent more than it does now to afford the average home.

Solano's homes prices are rising faster than incomes for many families. The market simply is not providing the homes that people in Solano County can afford.

¹⁷ Data Quick Information Systems. September 14, 2005. "Strong sales, new price peak for Bay Area homes." Available at www.dqnews.com/RRBay0905.shtml.

¹⁸ California Association of Realtors. March 2005. *January Housing Affordability Index*.

¹⁹ May 5, 2005. "National housing values by local markets." *Consumer Reports*.

Many Homes, Few Real Options

Fairfield, Vallejo, and Vacaville are following the countywide pattern of producing an overabundance of market-rate homes and a severe shortage of affordable homes.

Market-rate homes are those that cost too much for people who make 120 percent (\$88,700) of

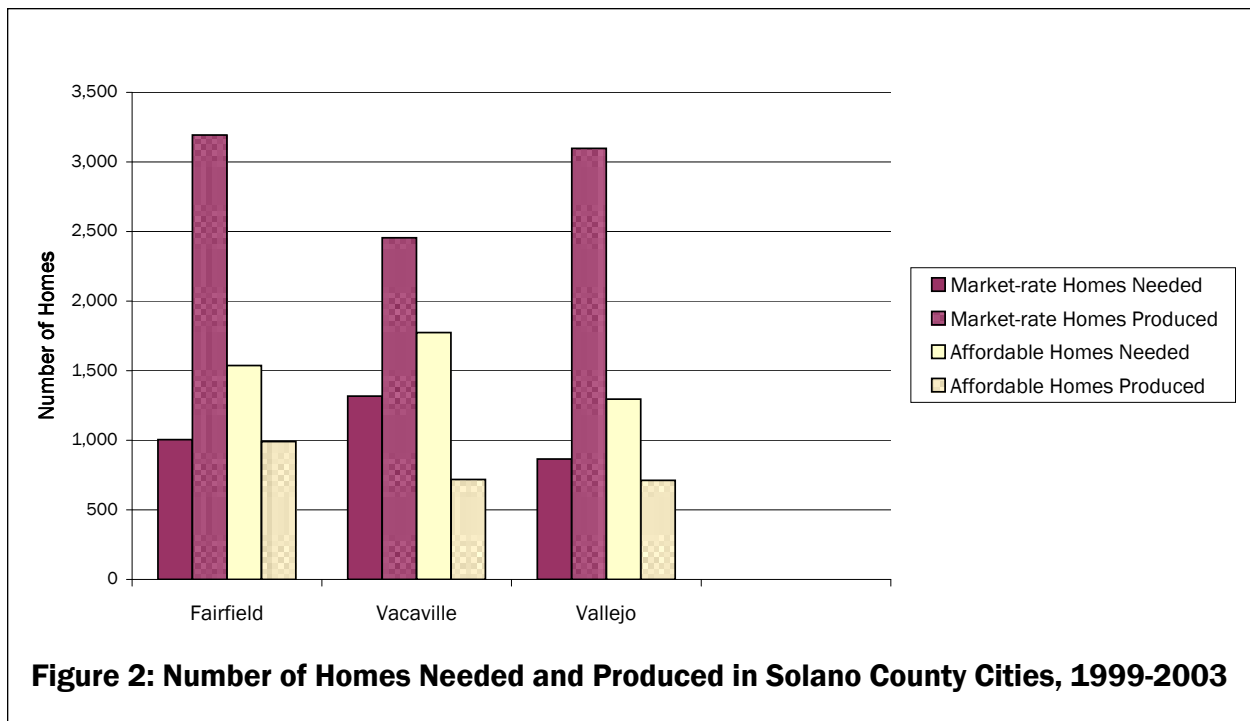
the Area Median Income or less (see “Defining Affordability” sidebar, p.7).²⁰

The disparity between the production of market-rate homes and affordable homes in Solano County’s three largest cities is extreme (Table 1).

²⁰ U.S. Department of Housing and Urban Development. January 2004. Median family income data sets available at www.huduser.org/datasets/il/IL04/index.html.

Table 1: Percentage of Needed Homes Produced in Solano County Cities, 1999-2003

City	Supply of market-rate homes (Percent built / Need)	Supply of affordable homes (Percent built / Need)
Fairfield	318%	64%
Vacaville	186%	40%
Vallejo	358%	55%
Total	274%	53%



Between 1999 and 2003, Fairfield built 318 percent of the market-rate homes needed and only 64 percent of the affordable homes needed. Vacaville created 186 percent of the market-rate homes needed, but only 40 percent of the affordable homes needed. In Vallejo the disparity was the greatest: 358 percent of the needed market-rate homes were built but only 55 percent of the affordable homes needed were built.

The actual numbers of homes built and needed are illustrated in Figure 2, which highlights the enormous numbers of market-rate homes being produced.

Combined, the three cities built almost three times the number of the market-rate homes needed, but only half the affordable homes needed.

Many houses are being built in Fairfield, Vallejo, Vacaville and other Solano County cities. The high numbers of new homes disguise the problem: those plentiful new houses are not the ones Solano's residents need. They are simply too expensive.

This situation is an affordable housing crisis, and poses a significant threat to Solano County's quality of life. Fortunately, there is a powerful tool that Solano County's cities can use to create a more balanced housing market.

A Solano Story: Sheila

Sheila was finalizing her divorce when she learned that the non-profit organization she worked for in Vallejo was closing its doors, and she would soon be out of a job. Sheila was left with few options. At this tough time, finding a good home she could afford was critical to maintaining stability and normalcy for Sheila and her children.

Fortunately, she found what she needed at Burgess Point, a recently completed affordable housing development by the Solano Affordable Housing Foundation in Benicia. Last November, when they moved in, Sheila and her children found not only a quality place to live, but also a truly family-oriented community. Sheila was even offered the job of overseeing the afterschool program in the apartment complex. "It's been a long time coming, but my children and I have finally arrived at home."

Sheila and her children were lucky; other Solano County families are still struggling to find an affordable place to live.

Increasing Housing Options

Building affordable homes requires land, funding, and supportive policies. Many cities in Solano County have begun designating more land for housing, including zoning for more compact development like apartments, townhomes and condominiums. Increasingly, cities are effectively using redevelopment funds and other local sources to leverage state and federal dollars to offset the cost of building below market-rate homes.

In addition, cities can help address their shortages of affordable homes through a policy solution that is growing in popularity throughout the region: inclusionary housing.

Defining Inclusionary Housing

Inclusionary housing policies require new housing developments to include a percentage of affordable homes. These policies enable communities to create a mix of homes to match the needs of current and future residents and workers.

With a thirty-year track record in California, inclusionary housing is a proven strategy for creating affordable homes. In California, 117 cities and counties have adopted inclusionary housing policies. Entire states have also adopted these policies, including Massachusetts and New Jersey.



Creating more housing options, like these apartments in Fairfield developed by the Solano Affordable Housing Foundation and Mid-Peninsula Housing Coalition, will help balance Solano County's housing market

Of the 40 fastest-growing jurisdictions in the Bay Area, only 11 jurisdictions lack inclusionary housing policies. Vallejo and Vacaville are among those 11 jurisdictions.

Other cities in Solano County do have inclusionary policies, but they need to be made stronger and more consistent. Fairfield's policy applies to such a narrow type of development that it has not produced a significant amount of affordable homes. Rio Vista's requirement has been implemented through negotiations with each developer, rather than as a standard policy. Benicia's policy has simply resulted in few affordable homes because not many homes are built there.

Inclusionary housing policies usually require 10 to 20 percent of the new development to be affordable to low- and moderate-income households. Inclusionary policies take the form of a local ordinance, a General Plan policy, or a permit approval process. In designing effective inclusionary programs, the key policy considerations are the percentage of affordable homes required, the income levels they are affordable to, and how long the homes will be kept affordable.

Benefits of Inclusionary Housing

- **Creating housing choices:** Inclusionary housing policies ensure that every community includes homes affordable to a range of income levels. With more housing options, a community's labor force—teachers, police officers, and retail clerks—can afford to live in the communities they serve. Moreover, the opposition that some affordable housing developments face may be reduced because the development is a mix of market-rate and affordable homes.

- **Creating new affordable homes without additional public investment:** In these times of very tight government budgets, inclusionary housing policies are market-driven solutions that create affordable homes without needing significant government funding. Inclusionary housing policies can complement governmental affordable housing programs like bond financing, rent and development subsidy programs, and tax credits.
- **Leveling the playing field for developers:** By adopting inclusionary housing policies, local governments remove uncertainty from the development process. Currently, some local governments have inconsistent affordability requirements, requiring some developers to include them but not others. An inclusionary ordinance is clear and consistent, helping landowners and developers make informed financial decisions and plan ahead before building.
- **Striking a balance between creating affordable homes and providing flexibility to developers:** Flexibility includes allowing developers to donate land within a development or offsite to a nonprofit developer to build the affordable homes, to design affordable units differently than market-rate units, or to pay an in-lieu fee into a fund that helps build other affordable homes. This flexibility often results in more units affordable to people at lower incomes than could otherwise be achieved.

Solano County's Largest Cities

Inclusionary housing programs are most effective in areas experiencing rapid growth because the affordable housing is a percentage of that growth. **Fairfield, Vacaville, and Vallejo are growing very rapidly, but currently that growth is producing just half of the homes needed for moderate- and low-income families (see Figure 2).**²¹ The housing needs of these communities are simply not being met.

If strong inclusionary housing policies had been in place in these cities, they would have met almost the entire need for affordable homes—just with this one policy. A 20 percent inclusionary policy in each city would have created a total of 1,749 additional affordable homes.

Figure 3 displays the affordable housing needed and produced from 1999 to 2003, as well as the potential production if each city had had an inclusionary ordinance requiring 20 percent inclusionary in each market-rate development. In Fairfield, instead of the 990 affordable homes actually created, a total of 1,628 would have been created, easily meeting the need for 1,537 affordable homes. Vacaville would have met much of its need, building 1,209 of the 1,774 affordable homes needed, instead of the 718 actually built. Vallejo would have created 1,331 affordable homes instead of only 712, entirely meeting its need for 1,295 affordable homes.

In all three cities, the adoption of inclusionary housing policies would have made—and would still make—a profound difference in meeting the needs of the entire community.

²¹ Bay Area Council. 2004. *Bay Area Housing Profile, Second Edition 1999-2003*.

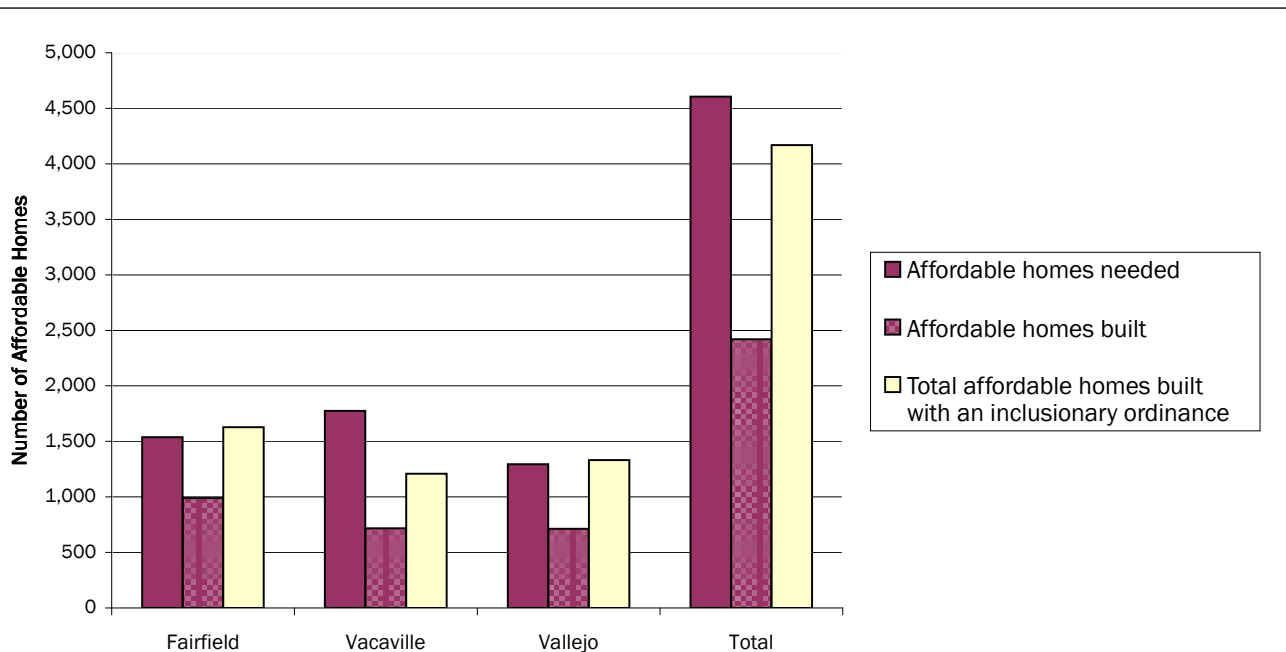


Figure 3: Number of Affordable Homes Needed in Solano County Cities, 1999-2003, and Number Built Without and With Inclusionary Ordinances

Inclusionary Ordinances in Action

In California, approximately one in five jurisdictions has adopted inclusionary housing ordinances. Cities and counties that adopted such ordinances ten or more years ago have a wider range of housing options affordable to many income levels.

The City of Carlsbad in San Diego County adopted an inclusionary ordinance in 1993, which has resulted in 1,142 affordable homes. It requires that at least 15 percent of all residential units in any master plan, specific plan, or residential subdivision be affordable to lower-income households. The ordinance provides several types of incentives and alternatives for developers, including allowing developments of six units or less to pay an in-lieu fee, as well as several other options.

The City of Petaluma also has an inclusionary housing ordinance that has been very effective. Adopted in 1984, the ordinance has resulted in 1,442 affordable homes. The ordinance requires developers of residential projects to rent or sell 15 percent of the units at prices or rents affordable to lower-income households. Because of its flexibility, including allowing land dedication or payment of in-lieu fees, the program is not seen as an undue or onerous constraint on the creation of market-rate housing.

A Solano Story: Maija

For years, Maija slept in the living room of the two-bedroom apartment she could afford, letting her son and daughter each have their own room.

Then the opportunity came to build her own home — and she jumped at it. For a year, Maija's family and eleven others worked together every weekend, building their own homes and creating a community.

In the fall of 2004, Hearthstone Village in Benicia, developed by Affordable Housing Affiliation, was finally complete. Maija's family moved into their new home—and Maija finally got her own bedroom.



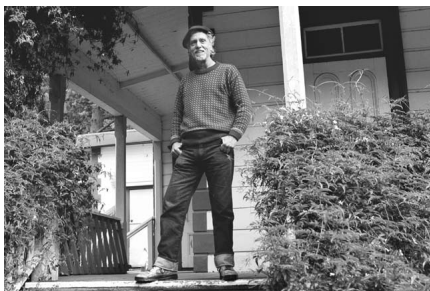
In both of these cities and in many others throughout the state and the country, inclusionary housing ordinances have created a wider range of options in the housing market.

Conclusion

Solano County's affordable housing crisis threatens the health of its communities, its environment, and its economy. The imbalanced housing market is pushing people to look farther and farther out for homes they can afford. This translates into more traffic, polluted air and water, and development pressure on precious farmland and scenic hills and valleys.

Creating housing within existing cities that is affordable to people living and working in Solano County will help support local families and businesses, reduce traffic congestion, and protect the county's working farms and natural areas. To address Solano County's housing crisis, city leaders must ensure that a variety of homes are built to match the full range of incomes in their communities.

Inclusionary housing ordinances will ensure that as each new subdivision, condominium development, or apartment complex goes up, a share of the new homes will be available to people with modest incomes. If Solano County's largest and fastest-growing cities use this simple and effective tool, the supply of affordable homes can increase significantly without worsening traffic or paving open space—and that will be good news for all Solano County's residents.



Photos: EAH, Inc