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SANTA CRUZ COUNTY HOUSING MARKET GAP ANALYSIS

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I. BACKGROUND AND PURPOSE

The Santa Cruz County Three-Year Strategic Action Plan develops a path for the Santa Cruz community to achieve significant and lasting reductions in homelessness. The goals and strategies included in the Action Plan were guided by predictive modeling of different potential strategies to improve system performance. The modeling work and the assumptions and variables used are presented in a separate report. This report is a companion that looks specifically at the local housing market, including the supply and the availability of housing for people at the lowest income levels. To leave homelessness, people experiencing homelessness must secure a housing unit; the relative availability of housing is a critical consideration in systemic efforts to reduce homelessness. This report examines current known conditions in the housing market in Santa Cruz County and estimates the gap between what is available and what is needed at different levels of affordability.

The predictive modeling starts with information about people experiencing homelessness and system performance. The models then project the results of different assumptions about rates of improvement in performance and expansions of the inventory of shelter, rapid rehousing, and permanent supportive housing -- all interventions operated and filled by the homelessness response system. The scenario for the Plan targets a 50% reduction of households experiencing unsheltered homelessness and a 26% reduction in the total number of households experiencing homelessness.

To achieve these targets, the modeling shows many more households must leave shelter, transitional housing, and rapid rehousing programs for permanent housing they can sustain. Specifically, the modeling suggests approximately 1,500 additional households annually will need to go from shelter and rapid rehousing to permanent housing. Only some of this can be achieved by providing services and rental assistance to help households secure housing in the existing rental housing market. Fully achieving the goals will require additional affordable housing inventory that is subsidized deeply enough to reach people at the lowest income levels, including people at risk of and experiencing homelessness. This report offers three types of analysis: 1) the overall gap between population and housing of all types, 2) the gap in rental units available and affordable to different income levels, and 3) an analysis of disparate access to limited affordable housing based on race and ethnicity. The relationship between housing stock and homelessness is both direct and complex. If there are not enough units for low-income people, some people will fall into or have difficulty leaving homelessness. And, for example, as the rental market fluctuates, landlords are more or less likely to accept rental subsidies and supports, which can help increase the use of the existing



market for low income tenants. Complex relationships also exist in that many households double up in rental units, and how that happens may shift depending on market conditions. Because the relationship between the housing stock size and the size of the homeless population has complexities, this report does not identify a specific number of units that should be developed but provides information that can be used to help set targets for development and ways to measure the impact of that development on the market.

II. OVERVIEW AND LOCAL CONTEXT OF HOUSING MARKET GAP ANALYSIS

This analysis provides an overview of the current affordable housing market in Santa Cruz County and provides estimates on the balance between the demand for and supply of affordable rentals over the next several years (through FY 2023/2024). We begin with an analysis of overall housing available in Santa Cruz County and then focus on units that are affordable for extremely low income (ELI) households, meaning those who earn 30% or less of the Area Median Income (AMI). These are the units that people experiencing or at risk of homelessness are most likely to be able to afford and that are most urgently needed as part of an overall communitywide strategy to reduce homelessness.

A variety of sources - including data from the American Community Survey, the Census Pulse Survey, and information published by both the California Housing Partnership and the National Low-Income Housing Coalition - paint a picture of affordable housing market conditions. Several factors should be noted to place this analysis in context:

- In mid-August 2020, the CZU Lightning Complex Fires destroyed more than 1,490 buildings¹ in both Santa Cruz and San Mateo counties; it is estimated that 1,000 homes in Santa Cruz alone were lost.² Any loss of housing stock will need to be accounted for in future housing market analysis work undertaken.
- There is substantial current uncertainty surrounding the local economy and housing due to the COVID-19 pandemic. The incidence of COVID-19 is higher among low-income populations and there is also more extensive job loss in that population; thus, subsequent loss of stable housing becomes more likely. Again, the impact of the pandemic, changes to housing stock, and affordability will need to be included in future housing market analysis work.

¹ CZU Lightning Complex (Including Warnella Fire)". *Cal Fire Incidents*. California Department of Forestry and Fire Protection. September 22, 2020.

² <https://www.msn.com/en-us/weather/topstories/santa-cruz-county-lost-almost-1000-homes-to-czu-fires/ss-BB19CFts?ocid=uxbndlbing#image=4>.



Even with uncertainties due to the contextual factors noted above, findings presented are relevant to gauging trends and identifying gaps in the availability of low-income housing, especially for ELI households.

Overall, we find that:

- Aggregate housing unit production for all housing in Santa Cruz County has not kept up with demand
 - The aggregate shortage of units is not expected to resolve by 2024 - though how big the gap will be depends on population trends
- A substantial gap exists in affordable housing available to ELI households
 - There is an estimated gap of approximately ELI 8,660 units
- Hispanic households are more likely than non-Hispanic households to be ELI
 - 17% of Hispanic households were ELI, compared with 8% non-Hispanic households

III. SANTA CRUZ COUNTY GENERAL POPULATION AND TOTAL HOUSING UNIT PRODUCTION GROWTH

The next table presents census data from 2010 through 2018.³ The cells with *bolded, italicized font* indicate estimates generated by Focus Strategies using the compound annual growth rate (captures the proportional growth rate from year to year, with the effect of compounding taken into account). As the data indicate, overall, population growth outpaced the production of new housing (for rentals and home ownership) in Santa Cruz County, contributing to a growing deficit of the number of units available for a growing population.

Estimating Growth in Population and Unit Production

Year	General Population			Housing Units		
	Estimate	Net Change in Population	% Increase from Previous Year	Estimate	Net Change in Units	% Increase from Previous Year
2010	263,167	NA	NA	104,495	NA	NA
2011	264,882	1,715	0.70%	104,602	107	0.10%
2012	266,416	1,534	0.60%	104,770	168	0.16%
2013	268,940	2,524	0.90%	104,975	205	0.20%
2014	271,035	2,095	0.80%	105,247	272	0.26%

³ American Community Survey.



Year	General Population			Housing Units		
	Estimate	Net Change in Population	% Increase from Previous Year	Estimate	Net Change in Units	% Increase from Previous Year
2015	273,730	2,695	1.00%	105,527	280	0.27%
2016	274,702	972	0.40%	105,831	304	0.29%
2017	275,105	403	0.10%	106,313	482	0.46%
2018	274,255	(850)	-0.30%	106,728	415	0.39%
2019	<i>275,673</i>	1,418	0.50%	<i>107,010</i>	282	0.26%
2020	<i>277,099</i>	1,426	0.50%	<i>107,293</i>	283	0.26%
2021	<i>278,532</i>	1,433	0.50%	<i>107,577</i>	284	0.26%
2022	<i>279,973</i>	1,441	0.50%	<i>107,862</i>	285	0.26%
2023	<i>281,421</i>	1,448	0.50%	<i>108,147</i>	285	0.26%
2024	<i>282,877</i>	1,456	0.50%	<i>108,433</i>	286	0.26%

Source: American Community Survey 1-Year Estimates 2010-2018

Although the compound annual growth rate is the appropriate approach for projecting future growth based on historical data, population trends in 2016 through 2018 in Santa Cruz County reversed direction from the previous years, going from an increasing growth rate, to a decreasing growth rate. Therefore, to develop a lower bound for estimated population growth, we also used a simple average of the growth rate for just those three years in which the new trend emerged (.07%). Those data are presented in the next table.

Year	General Population			Housing Units		
	Estimate	Net Change in Population	% Increase from Previous Year	Estimate	Net Change in Units	% Increase from Previous Year
2016	274,702	972	0.40%	105,831	304	0.29%
2017	275,105	403	0.10%	106,313	482	0.46%
2018	274,255	(850)	-0.30%	106,728	415	0.39%
2019	<i>274,447</i>	192	0.07%	<i>107,010</i>	282	0.26%
2020	<i>274,639</i>	192	0.07%	<i>107,293</i>	283	0.26%
2021	<i>274,831</i>	192	0.07%	<i>107,577</i>	284	0.26%
2022	<i>275,023</i>	192	0.07%	<i>107,862</i>	285	0.26%
2023	<i>275,216</i>	193	0.07%	<i>108,147</i>	285	0.26%
2024	<i>275,409</i>	193	0.07%	<i>108,433</i>	286	0.26%



IV. ESTIMATING THE HOUSING GAP

Using the data presented thus far, approximations can be generated to indicate the overall current and future housing gap in Santa Cruz County. The tables below present two estimates; one assuming a larger population growth rate than the other.⁴ The two estimates suggest that across all populations, the current housing gap likely lies between 600 and 3,400 units, the difference being based on whether projections of future population growth return closer to historical levels or remain low.

First, using compounded annual population growth rate of .5%, the estimates suggest there is a current housing gap that existed historically and was exacerbated due to unit production not keeping up with population growth. The estimated total deficit in 2019 is 2,117 units. Using this estimate, the population continues to grow at a rate somewhat more than the growth rate in unit production. Combining the current backlog and the continued outpacing of population over unit growth, the community may be short nearly 3,400 units in 2024.

Estimated Aggregate Housing Gap in Santa Cruz County: Compound Annual Growth Rate

Time Period	Population	New People	New Households (People/2.7) ⁵	New Units	Surplus (Deficit) Units
Backlog (2010-2019)	General Pop	12,506	4,632	2,515	(2,117)
Projected 2020-2024	General Pop	7,204	2,668	1,423	(1,245)
Total through 2024	General Pop	19,710	7,300	3,938	(3,362)

Alternatively, using the simple average of the most recent three year's population growth rate of .07%, the estimates suggest an attenuated current housing gap which becomes much less due to growth rate in unit production surpassing population growth. Using this approach, the estimated total deficit is 598 units in 2024.

⁴ The assumption is that the Census population data do not include those experiencing homelessness, but the units produced include all units, including those produced for homelessness.

⁵ Based on estimated average household size for Santa Cruz from the 2018 American Community Survey.



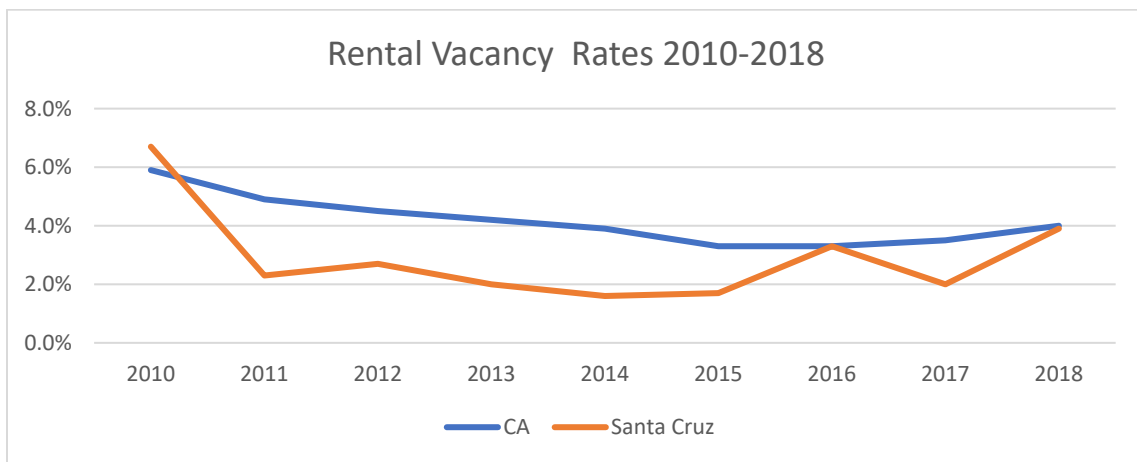
Estimated Aggregate Housing Gap in Santa Cruz County: Simple Average of Recent Annual Growth Rates

Time Period	Population	New People	New Households (People/2.7) ⁶	New Units	Surplus (Deficit) Units
Backlog (2010-2019)	General Pop	11,280	4,178	2,515	(1,664)
Projected 2020-2024	General Pop	962	356	1,423	1,066
Total through 2024	General Pop	12,242	4,536	3,938	(598)

V. HOUSING AFFORDABILITY

The preceding analysis uses aggregate estimates of housing supply and need for all income levels and includes rental and ownership housing. A critical component of reducing the number of households experiencing homelessness in a community is an adequate supply of rental housing that is affordable and available to those with low incomes.

As evident in the next graph, trends in vacancy rates in Santa Cruz signal an extremely tight rental housing market, with historical vacancy rates typically below the already low vacancy rate for the State.



Source: American Community Survey

⁶ Based on estimated average household size for Santa Cruz from the 2018 American Community Survey.



Data compiled by the California Housing Partnership⁷ reveal that asking rents for a two-bedroom home in Santa Cruz increased by 3% in 2019 after rising by an annual average of 5% between 2013-2018. Furthermore, in 2020 renters needed to earn 3.2 times the minimum wage to afford the average asking two-bedroom rent in Santa Cruz County (meaning pay 30% or less of their income for rent.)

An analysis by Focus Strategies indicates that there is an acute shortage of housing that is available and affordable to low income households in Santa Cruz County.⁸ As the next table shows, for every 100 households below 30% AMI, there were only 21 units that were affordable (defined as equaling 30% or less of household income) and available (defined as being either vacant or rented to a household with income at that threshold) in Santa Cruz County; for every 100 households below 50% AMI, there were only 37 units affordable and available.

While the gap of 8,660 ELI units is substantial, it should be understood that this is the number of units needed to ensure that every ELI household in the community has access to a housing unit that matches the affordability standard of paying 30% of income for rent. Most ELI households rent units at higher affordability levels (by sharing units, assuming a high rent burden, or by using a rental subsidy). Developing more ELI housing will help improve the system's ability to provide affordable units for people who are experiencing homelessness or who are at-risk of homelessness. Steadily increasing the supply of deeply affordable housing is a critical anti-homelessness and anti-poverty strategy that improves community stability and well-being. Because most households at the lower end of the housing market pay much more than they can afford in the existing market, it would be inaccurate to say that homelessness cannot be ended unless this gap is fully closed.

⁷ California Housing Partnership, "Housing Market Dashboard", 2020, <https://chpc.net/housingneeds/>.

⁸ Our estimate of the gap is based on the methodology used by the NLHC in its Annual Gap Report (Aurand et al., "The Gap: A Shortage of Affordable Homes", 2020, https://reports.nlhic.org/sites/default/files/gap/Gap-Report_2020.pdf).



Santa Cruz County Affordable Housing Gap Estimates

	ELI (0-30%, incl. 0 inc, or Poverty)	Very Low Income (31- 50%)	Low Income (51-80%)	Median Income (81-100%)	Above Median Income (>100%)	Total
Rental Households within AMI Category	10,937	6,265	7,338	3,605	8,260	36,405
All Rental Households at or below Threshold Income	10,937	17,202	24,540	28,145	36,405	36,405
Units Affordable and Available and Adequate at Threshold	2,277	6,418	15,490	23,926	35,721	35,721
Surplus (Deficit) of Affordable and Available Adequate Units	(8,660)	(10,784)	(9,050)	(4,219)	(684)	(684)
Affordable and Available Adequate units per 100 tenants at or below Threshold	21	37	63	85	98	98

VI. RACIAL/ETHNIC DISPARITIES

Racial and ethnic disparities in the likelihood of experiencing homelessness are linked with over-representation among ELI households. The recent GAP report⁹ notes that disparities exist nationally in the likelihood of different racial and ethnic groups being classified as extremely low-income renters. Specifically, Black, Native American, and Hispanic households are more likely than White households to be ELI renters (20% Black population is ELI, as is 17% of American Indian/Alaskan Native, and 15% of Hispanic, compared to 6% of non-Hispanic White households).

For Santa Cruz County the data are slightly different when compared with national data. For example, when looking at race alone, none of the African American only households (1% of all households) or Native American only households (.4% of all households) were ELI renters, compared with 9.3% of White households who comprised 79% of all ELI households. Asian households (4.6% of all households) were only slightly more likely (9.4%) to be ELI renters than White households. In contrast households reporting a different race (10.3% of all households) or multiple races (4.1% of all households) were considerably more likely than White households to be ELI renters, at 15.9% and 13.5% respectively. Additionally, all 185

⁹ Aurand A, Emmanuel D, Threet D, Rafi I, Yentel D. The gap: a shortage of affordable homes [Internet]. Washington (DC): National Low Income Housing Coalition; 2020 Mar.



households reporting a race of Hawaiian/Pacific Islander (0.2% of all households) were ELI renters.

Disparities in the ethnicity of Santa Cruz County ELI renters are in line with national estimates: among Hispanic households who comprised nearly a quarter of all households (24.3%), 17% were ELI renters, compared with 8% of non-Hispanic households. Combining race and ethnicity into a single variable, our analysis showed that White-only non-Hispanic households had a much lower likelihood of being ELI renters (8.1%) than non-White and/or Hispanic households (14.2%).

VII. COVID-19

The unprecedented drop in employment and economic activity due to the COVID-19 pandemic has made paying rent a tenuous prospect for many households. Using data from the national Census Pulse Survey, one firm has estimated that up to 42% of all rental households could face eviction over the next four months due to inability to pay rent.¹⁰ The timing of increased evictions is uncertain due to the California eviction moratorium, and has been a reprieve for many low-income renter households. The eviction moratorium will not prevent or solve the issue, however, unless there are funds available for rent relief to pay back-rent when the moratorium lifts.

The Pulse data also show racial/ethnic disparities in households' confidence in their ability to pay the next month's rent, with a higher proportion of White rental households expressing high or moderate confidence compared to African American, Hispanic, and multi-racial households. Current evidence also indicates that African Americans, Native Americans, Asian-Americans, and Hispanics are more likely to be hospitalized and die from COVID-19 compared with White non-Hispanic individuals at the national level.¹¹ In Santa Cruz County, the disparities in the distribution of cases by race/ethnicity are particularly salient for Hispanic residents, compared with White, non-Hispanic residents, as evidenced in the next table.

¹⁰ Stout Consulting, 2020, <https://www.stout.com/en/services/transformation-change-consulting/eviction-right-to-counsel-resources>).

¹¹ (CDC, n.d.) Retrieved on 8/23/2020 from (<https://www.cdc.gov/coronavirus/2019-ncov/covid-data/investigations-discovery/hospitalization-death-by-race-ethnicity.html>).



Santa Cruz County COVID-19 Cases by Race/Ethnicity

Race/Ethnicity	Percent COVID-19 Cases	Percent of Population
Hispanic / Latino	60.7%	33.5%
White, non-Hispanic	18.0%	57.6%
Asian / Pacific Islander, non-Hispanic	2.0%	5.2%
Multi-Race	1.0%	3.3%
Black / African American, non-Hispanic	0.46%	0.86%
Other	2.8%	-
Unknown	16.3%	-

Source: Santa Cruz Department of Public Health COVID-19 Dashboard¹²

Viewed together, these data suggest that the effects of COVID-19 are likely to widen existing racial and ethnic disparities in housing security and health nationally, inclusive of Santa Cruz County.

VIII. CONCLUSION

The relative paucity of housing affordable and available to low-income households in Santa Cruz County is consistent with conditions experienced in many other California communities. Our analysis suggests that current efforts to increase the supply of affordable housing will need to be significantly scaled up to meet the existing backlog of demand, as well as the projected increase in demand over the next few years. The effects of natural disasters have likely only compounded the challenge and highlighted the need to prioritize increasing equity among marginalized groups.

Marshalling resources to scale up production of housing for ELI households will be critical to the success of the community's efforts to reduce homelessness and to address equity in access to affordable housing. We noted earlier that the model adopted by Santa Cruz for the Three-Year Action Plan targets a 50% reduction of households experiencing unsheltered homelessness and a 26% reduction in the total number of households experiencing homelessness. The adopted model also includes increasing the rate at which households exit the homeless system to permanent housing and calls for approximately 1,500 housing exits annually from shelter and rapid rehousing. Only some of these exits may be achieved by

¹²<https://www.santacruzhealth.org/HSAHome/HSADivisions/PublicHealth/CommunicableDiseaseControl/CoronavirusHome.aspx>.



providing services and rental assistance to support people experiencing homelessness to secure units in the existing market. These types of homeless system programs provide people experiencing homelessness access to units with higher rents than they could otherwise afford; higher cost units have smaller inventory gaps. Still, relying solely on the inventory currently available will not be sufficient to solve homelessness; additional units are needed. New ELI housing units will promote neighborhood and household stabilization, prevent and end homelessness, and can be part of addressing racial and gender disparities in access to safe and affordable housing.

In summary, Santa Cruz County has an overall shortage of housing which we estimate by 2024 to be between 600 and 3,400 units - the size of the shortage will depend greatly on population trends which are currently hard to predict. The simultaneous impacts on the housing market of COVID-19, the fires, eviction moratoria, an economy in recession with continuing recovery uncertainty, and population decline cannot be predicted. Even if population growth does trend downward, the gap for people at the lowest income levels is historically high and projected to increase. This impacts the ability of the homelessness response system to function at high performance levels because programs rely on access to housing. Regardless of what the outcomes may be from these unprecedented changes and challenges, based on the current shortage of housing units overall and ELI units in particular, it is unlikely that ending homelessness in Santa Cruz County can happen without developing additional affordable permanent housing units. Although the specific number of units that should be created is uncertain, this report can be used to help the County and its partners set targets for development and ways to measure the impact of that development on the market.

