

CAL MATTERS

California has 40,000 affordable housing units ready to break ground. One setback is holding them up

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By: Ben Christopher



The apartment building planned on East Morris Avenue in Modesto is exactly the kind of thing that California’s political leaders want to see a whole lot more of: The project promises 44 units of affordable housing — half reserved for people without homes. It’s received zoning approval, weathered public feedback, earned the support of local elected officials and sits beside a busy bus line. Once built, the project promises on-site mental health services, job training and Zumba classes.

What the project lacks is money.

Having quilted together a financial patchwork of local government and corporate grants, private debt, and a plot of land donated by a foundation, it remains just shy of the total needed to break ground.

Six years and 13 funding applications after it was first proposed, the Morris Village project sits ready, but waiting.

An estimated 39,880 affordable units across California are stuck in financial purgatory, according to a [new report](#) by Enterprise Community Partners, a national nonprofit that funds, consults and advocates for affordable housing. That's 461 "shovel-ready developments" that, like the one on East Morris, are fully designed, legally green-lit and backed with a significant — but still insufficient — amount of money.

Many have "been sitting for a year or two waiting for funding," said Justine Marcus, policy director for Enterprise's Northern California office and one of the report's co-authors. "There's no exit route right now. It's a bottleneck."

For many developers and affordable housing advocates, that bottleneck represents an especially frustrating inconsistency of California public policy. Lawmakers are desperate to see the state build more homes — of all kinds, but especially for people with the least ability to pay the state's exorbitant rents. State housing regulators have ordered local governments to plan for the construction of an [additional 2.5 million units](#) by the end of the decade. One million of those are supposed to be for people making less than 80% of each region's median income.

As a general rule, that's a population of hard-up renters that the private market has been unable to profitably serve at scale. To fill that gap, non-profit low-income housing developers typically turn to taxpayer-funded support. At the moment, according to the report, there isn't enough of that to go around.

Enterprise took publicly available but hard-to-parse applicant lists from seven subsidy programs administered by various wings of California's state government going back three years. With a combination of number crunching and a little inference, the report estimates that clearing the current backlog would require an extra \$4.1 billion, split between state administered grants, low-cost loans and tax write-offs.

Once awarded, this final layer of state subsidy has to be spent in relatively short order. That means this list of 39,880 units comprise a group of affordable housing projects that are all but ready to go, said Marcus. "They kinda have to have their (stuff) together."

Case in point: Two-thirds of the projects on the list have already received support from at least one other state program. Those dollars aren't awarded to just any developer, said Betsy McGovern-Garcia, vice president of Self-Help Enterprises, one of two non-profits behind Morris Village.

"These are all projects that are close to amenities," she said. "These are all projects providing resident services. These are all projects that are financially feasible...They are all meeting the bar for what we want to see as a state out of our affordable housing community."

In February, McGovern-Garcia and her colleagues applied for a final round of financial support from the state "to close the gap" and finally start construction.

“We are optimistic this might be our round,” she said in an interview, her fingers crossed.

A moving bottleneck

California has seen gridlock in affordable housing production before, but the precise location of the traffic jam has changed over time.

When Nevada Merriman was leading a team of affordable developers in Silicon Valley a decade ago, she said local approval was the major hold-up. Getting the legal okay to build low-income housing on a particular site in a particular town required developers to run a gauntlet of planning department and city council meetings, win over hostile neighbors with costly concessions, community meetings and design revisions and to fend off the ever-present possibility of litigation. Because relatively few projects survived that ordeal, the competition for funding on the other side wasn't especially stiff, said Merriman, who is now policy advocate for MidPen Housing, an affordable developer in San Mateo County.

That began to change earlier this decade. California lawmakers began passing laws overriding these local impediments — [especially for affordable projects](#). All of a sudden more projects were clearing those early regulatory hurdles and competing for Low-Income Housing Tax Credits, the federal government's signature affordable housing construction subsidy. The bottleneck moved further up the road.

But then that too began to change late last year. Buried in President Donald Trump's signature tax bill from 2025 was a [significant boost](#) to the tax credit program. (Specifically, the law increased the total supply of one type of credit while allowing another kind to be spread out over twice as many projects).

Which brings us to the latest bottleneck.

Now projects can get through local approval. They can more easily acquire the final and most important layer of federal financing. But project sponsors typically can't apply for that until all other financial holes are plugged.

“We're looking for state sources to fill that gap,” said Merriman. “We want to make sure we don't leave those federal sources on the table.”

MidPen currently has 1,198 units spread across seven developments waiting for that last bit of funding, she said. “Should there be a source...there's a pipeline that is ready to go.”

California's last major infusion of public affordable housing dollars came in the form of a [voter-approved bond](#) in 2018. That well has run dry. A hodgepodge of funding streams remain.

Adding together funding that has already been approved by legislators but not yet spent and a variety of other state and federal sources, California's Housing and Community Development department says at

least \$1.8 billion should be available for affordable developer applicants this year. Gov. Gavin Newsom's budget proposal for the coming fiscal year doesn't include any new discretionary spending beyond that.

Boosters of more funding have reasons to be optimistic. Newsom has taken such an austere posture in early budget negotiations before only to have the Legislature successfully pour [hundreds of millions](#) of dollars of affordable housing subsidies back into the final budget agreement.

California lawmakers are also considering a record-breaking [\\$10 billion affordable housing bond](#) for the 2026 ballot. If a majority of voters go for that, "we'd be off to the races," said Merriman.

Cutting costs

One way to get more affordable housing built is by spending more money. The other is trying to make the existing money go further by cutting costs.

The cost of affordable housing construction is notoriously high in California: A 2025 study estimated that tax credit-financed projects here cost [two- to four-times the amount](#) of comparable projects in Colorado and Texas. There is no single reason for this disparity. Land costs in California are significantly higher. So too, often, is the cost of labor. Regulatory barriers like [restrictive zoning](#), [slow permitting](#) and stiff [impact fees](#) are frequently named as culprits. Sometimes old-fashioned construction [methods](#) and [materials](#) get blamed.

But there's also the cost of just waiting around.

A typical affordable development in California will have two or three public funding sources, with some drawing on six or more. Many of these sources are awarded on their own timelines. Each has its own program-specific requirements that can take time to meet. Some are conditional on the receipt of another. As time goes by, developers still have to make payroll, pay interest on pre-construction loans and watch as inflation drives construction costs up further. As delays compound, funding sources that have already been secured might expire, setting things back further.

Each additional funding source delays the start of construction on a project by an average of four months, adding an extra \$20,460 per unit, according to an analysis by the [Turner Center for Housing Innovation](#) at UC Berkeley.

The Newsom administration is currently tinkering under the hood of California's affordable housing finance system in an effort to speed things up.

Last year, the governor proposed the creation of the state's first ever [cabinet-level housing agency](#). The California Housing and Homelessness Agency is scheduled to take over the state's disparate housing loan and grant programs. The governor's office also [proposed legislative language](#) that would force the new agency and the Treasurer's Office to operate in tandem, giving affordable housing developers a

single place to apply for the state's various funding programs — and to cut out some of the time they spend stuck in line.