

EXECUTIVE SUMMARY



LA's Housing Supply Crisis: A Plan to Increase Housing Production in Los Angeles

The City of Los Angeles is experiencing a severe and continuing shortage of housing at all income levels. The ramifications of the housing crisis are manifest in the poor quality of life for tens of thousands of Angelenos who live in these overcrowded and substandard conditions, have multi-hour commutes, or, due to exorbitant housing costs, fall into homelessness because they cannot secure affordable shelter.

Los Angeles suffers a disproportionate share of the housing deficit due to its sheer size as an employment center. Increasing demand, which supply cannot reasonably meet, results in rapid price inflation such as we have been experiencing recently. Failure to increase the housing stock will further perpetuate existing overcrowded and substandard housing conditions and increase homelessness.

With this background in mind, all reasonable measures must be taken to streamline the approval and delivery process of housing units in Los Angeles, as well as to reduce extraneous costs that contribute to the high price of those units. To those ends, the following proposals represent code changes and policy initiatives that the Central City Association believes will encourage housing production in the City of Los Angeles.

The Solutions

Here are some of the HIGHLIGHTS of CCA's plan, which will address the underproduction of housing in the City of Los Angeles.

- ❖ **Crisis Awareness.** With the need to build an additional 10,000 housing units per year in the City of Los Angeles, elected officials at all levels of government must declare a "Housing Supply State of Emergency" to focus community attention and political will on the critical housing shortage throughout the city.
- ❖ **Create a "Co-Location Committee"** whereby all appropriate City departments would work in conjunction to develop co-location sites for public facilities. The Committee would bring together the School District, Fire Department, Police Department, Parks and Recreation, and the Public Library to acquire real property for the co-development of neighborhood public facilities or "village hubs."
- ❖ **Allow an In-lieu Fee** as an alternative to fulfilling the on-site open space requirement for multi-family units built in close proximity to schools and parks. The open space in-lieu fees collected would be used to fund enhancements at school and public open space or to defray the maintenance and operation (including staffing) costs that are necessary to allow community use of schools or public space open space during non-school hours.

- ❖ **Waive the Open Space and Parking Requirements** for the density bonus units of projects proposed within specified areas of the City where they are not currently usable. A waiver of the expensive open space and parking requirements for the density bonus units should encourage the development of affordable, low- and moderate-income housing units in the areas of the City where such units are most desirable and needed.
- ❖ **Mortgage and Rental Assistance for Police, Fire, Nurses and Teachers.** There is a significant shortage of housing for critical middle-class employees that keep the City safe and healthy. Affordable housing programs should be expanded for critical employees such as teachers, peace officers, firefighters and nurses who work within the City of Los Angeles.
- ❖ **Pension Fund Investments in Housing.** Although local private employers can benefit substantially from improving L.A.'s housing climate, their own pension funds often do not invest in local housing projects. The pension funds for private companies and public agencies whose employees live and work in the City of Los Angeles should be encouraged to invest in housing affordable to their employees.
- ❖ **Increase the Documentary Transfer Tax.** Currently, there is a lack of public funding dedicated to workforce housing production, and additional sources are necessary to support the City's Affordable Housing Trust Fund. CCA recommends that the City of Los Angeles propose to increase the Document Transfer Tax by \$0.50 to a total of \$2.75 per \$500 of a property's total purchase price.
- ❖ **Inclusionary Zoning.** We support "Incentive-Based Mixed-Income Housing" Citywide, which would incentivize developers to allocate a percentage of residentially developed units to affordable housing either in each project or within some acceptable radius of each project, by providing "real-time" subsidies to build affordable units. CCA does not support "Inclusionary Zoning," which mandates that developers provide affordable units in their projects with no financial subsidy. We believe that, without subsidies or development incentives to offset costs of providing affordable housing, inclusionary zoning is merely a tax on market rate units and will actually deter housing development by making it more expensive.
- ❖ **Assure that LA Receives its Fair Share in Sacramento and DC.** Two key resources for affordable housing finance are the California Debt Limit Allocation Committee (CDLAC) and the Low Income Housing Tax Credit (LIHTC). Given the current allocation methodologies, Los Angeles does not receive its fair share of these financing sources. The City of LA must work diligently to re-work the allocation methodology to ensure that LA gets its fair share based on its size and magnitude of its housing shortage.

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to per \$500 of a property's total purchase price

II. EXECUTIVE SUMMARY

This Executive Summary presents the conclusions regarding the implications of an inclusionary housing ordinance on the City of Los Angeles. It also presents the findings of a survey of jurisdictions (both inside and outside California) that have inclusionary housing as well as a survey of relevant literature. The findings of those surveys are the basis for the conclusions reached.

IMPLICATIONS FOR THE CITY OF LOS ANGELES

If an inclusionary housing program is implemented in Los Angeles, the key implications are:

1. The values of properties to be used as sites for new residential development will be permanently lower than they would be without the implementation of an inclusionary housing ordinance.
2. Because the value of properties to be used as sites for new residential development will be lowered with the implementation of an inclusionary housing ordinance, new residential projects will be in a less competitive position in the market compared to alternative (or even existing) land uses.
3. With new residential development at a competitive disadvantage, there will be less new residential development than there would be without an inclusionary housing ordinance because fewer properties will be acquired as sites for new residential projects.
4. Existing uses on sites that would be suitable for new residential development will remain in place longer (and may deteriorate further) before being redeveloped as new residential projects. In some cases, this will contribute to blight conditions in the City.
5. Los Angeles is particularly vulnerable to this effect because there are few large unused sites available for new residential development and most new residential development will be concentrated in areas that previously have been fully built-out.
6. In other jurisdictions, many so-called incentive programs do not materially reduce the financial burden associated with their inclusionary housing requirements. Any inclusionary housing ordinance in Los Angeles would need to offer genuine relief from the financial burden it would otherwise impose and to do so in such a way as to avoid triggering prevailing wage requirements.
7. The City's residential market will become increasingly polarized at the high and low ends of the spectrum. Middle-income families whose income is only marginally higher than households that are eligible for inclusionary units will have to pay a larger percentage of their income for housing or move out of the City.
8. When the residential market softens, as it was in the first half of the 1990s, these impacts will be magnified and the disincentives to develop new housing will increase.

FINDINGS FROM SURVEY OF JURISDICTIONS

The survey of IH programs in six jurisdictions in California and four jurisdictions elsewhere in the United States provided a number of insights into the operations of those programs. It also gave an indication of their impacts on residential development in the jurisdictions in which they are located. The following is a summary of the overall findings from the survey.

1. Inclusionary Housing in California's Largest Cities

While citywide IH programs are found in a number of smaller cities throughout the state, most of the largest cities do not have such programs. San Francisco is a notable exception which does have a citywide IH program.² At the time the survey of jurisdictions was initiated, no city similar in size to the City of Los Angeles had a citywide program that could be used as a direct comparison. Since then, the City of San Diego has implemented a citywide program.

2. Amount of Affordable Housing Produced

Inclusionary housing programs are not an affordable housing panacea. Less than half of the ten jurisdictions comprehensively track the number of affordable units produced by their IH programs. None took a definitive position that more affordable housing is being produced than would have been produced without IH. One city noted that the new housing stock was becoming polarized at opposite ends of the value spectrum and not enough middle-income housing is being produced.

3. Alternatives to Building On-Site Units

Among the jurisdictions in this survey, the payment of in-lieu fees was the most common alternative compliance option selected. Developers always elect to pay an in-lieu fee when it is determined to be more cost effective than providing the units.

4. Incentives to Offset the Burdens of Inclusionary Housing

Developers are rarely able to take advantage of density bonuses and parking reductions because they have already maximized these aspects of their developments based on physical and construction constraints and the marketability of the units located within their projects. This renders most incentive programs ineffectual. Incentives such as fee waivers could in fact increase overall development costs by triggering prevailing wage requirements.

² The City of San Francisco was not selected for this survey because of the significant differences between the regulatory atmosphere and the built environment in comparison to Los Angeles. San Francisco has a high residential density and a relatively low percentage of single-family housing. As a point of reference San Francisco passed its inclusionary housing program in April 2002. It requires that 10% of newly developed residential units must be set-aside as inclusionary units. Alternative compliance options include provision of inclusionary units off-site or payment of an in-lieu fee.

5. Burden of Inclusionary Housing Programs

Residential developers will not build if they believe that a project will not produce the required rate of return. The costs of an IH program are usually shifted to landowners by means of developers paying lower prices for sites. In some cases the burden may be shifted to market rate renters through higher rental rates. Jurisdictions bear a significant administration cost associated with IH programs.

6. Total Housing Units Produced

Although it is difficult to determine whether or not IH programs result in the development of fewer housing units than would have been produced without the program, residential developers believe that IH programs result in a different mix of product types being produced. Instead of a more normal mix of units across the pricing spectrum, developers tend to produce a mix of high-end units and affordable units with significantly fewer middle-income units.

7. Periodic Evaluation of Inclusionary Housing Programs

Inclusionary housing programs impose a heavy economic burden on a portion of the private sector. Nonetheless, jurisdictions with IH rarely undertake periodic comprehensive examinations of how many units are being produced and at what total cost. Consequently, IH represents a very expensive public policy program that is seldom evaluated to determine the level of efficiency at which it operates.

8. Administrative Burden

IH programs require significant administrative efforts that result in increased costs to the jurisdiction. After a program is created, the jurisdiction must monitor both the inclusionary units and the occupants to ensure compliance with all of the program's affordability guidelines.

9. Greenfield Development³ Versus Infill Development

Production of inclusionary housing units becomes increasingly difficult when development occurs on infill property rather than greenfield property. Infill development is often riskier, more costly, and takes place on smaller parcels than greenfield development. These factors make it more difficult to obtain financing or secure federal and state subsidies for affordable housing in an infill setting. Residential infill projects must also compete with existing uses for land. The factors combine to make inclusionary requirements more burdensome in infill environments.

³ Greenfield development is defined here as development on virgin land primarily located on the urban fringe.

10. Relationship Between Income and Home Prices

Inclusionary housing becomes more burdensome to provide as increases in home prices outpace increases in median income. If the median home price is only marginally higher than a median income household can afford to pay, the economic burden of providing inclusionary housing may be relatively small. However, when the median home price is significantly higher than a median income household can afford to pay, the economic burden of providing inclusionary housing may be very large.

FINDINGS FROM LITERATURE SURVEY

Literature in both academic journals and trade publications were reviewed. Some articles asserted that IH is beneficial under some circumstances. However, many articles highlighted inherent problems with IH as a solution to a perceived shortage of affordable housing. The following is a listing of some of the key drawbacks to IH that were cited in those articles.

1. Total Housing Units Produced

IH makes new housing developers less competitive in bidding for sites against developers of other types of properties or even existing uses. Consequently, less land can be expected to be made available for new housing development than would be the case without IH.

2. Beneficiaries of Inclusionary Housing

IH programs tend to benefit only the moderate-income first time homebuyers at the expense of the neediest of the needy. The numbers of households that have benefited from IH have been very small compared to the total need and studies have shown that at most 10% of the total affordable housing needs will be met through IH.

3. Incentives to Offset the Burdens of Inclusionary Housing

Many IH programs offer a range of “incentives” intended to offset the economic burden of compliance and to encourage the development of housing. In most cases however, other land use regulations, physical limitations and the nature of the housing market make those incentives ineffective or only partially effective at best.

4. Burden of Inclusionary Housing Programs

Demand and supply factors, and the efficiency of the housing market will determine who bears the cost of IH. Developers will try to shift the cost to the land seller or pass it on to the tenant/homebuyer. Failing that, they will have to operate at a lower margin or suffer losses. This would result in lowered land values, increased prices of market rate units, and/or certain strata of population being priced out of the market. There is also the possibility of developers opting not to build and withdrawing from the market thereby limiting housing supply.

5. Maintaining Long-Term Affordability

Costs are incurred by owners of both rental and for-sale affordable housing units in finding suitable replacements. Ceilings on resale prices or profit sharing could also act as a disincentive for property maintenance and lead to reduction in affordable housing stock.

6. Administrative Burden

IH programs have significant costs of supervision by government agencies and are time consuming, complicated and cumbersome.

7. Efficient Allocation of Scarce Resources

It may be more efficient to increase the amount of affordable housing by providing subsidies to specialized non-profit developers rather than requiring for-profit developers to build affordable units.

8. Alternatives to Inclusionary Housing

Builder/developers who can efficiently assemble low cost financing using the Low-income Housing Tax Credit program may be more efficient producers of affordable housing. Demand side measures like Section 8 vouchers and certificates make housing affordable to greater sections of the population.