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UCLA Ziman Center for Real Estate presents the next in a series of Affordable Housing Policy Briefs. This Policy Brief is from the executive summary of the new report commissioned and released by the Los Angeles Business Council Institute. It details the potential fiscal benefit of streamlined entitlement and approval processing to increase housing production, and how that fiscal surplus can support affordable housing. It is authored by Paul Habibi, a Continuing Lecturer of Finance and Real Estate at UCLA Anderson School of Management and Lecturer in Law at UCLA School of Law.

Housing Pays:
Capturing the Economic and Fiscal Benefits of Increased Housing Production in L.A.

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Commissioned by LABC Institute

Recent reports have consistently ranked Los Angeles among the most unaffordable housing markets in the nation. In LA County about 6 in 10 renters are cost-burdened, paying at least 30 percent of their income on housing each month, and nearly one third of county renters spend more than 50 percent of their income on housing. The outlook is grim even for middle-class families looking to buy, with a median home value of over $550,000.

"Streamlining LA's development process to sustain high levels of market-rate housing production benefits the City's financial bottom line, provides new revenues that may be re-invested in affordable housing, and creates thousands of privately-funded housing units for low- and moderate-income."

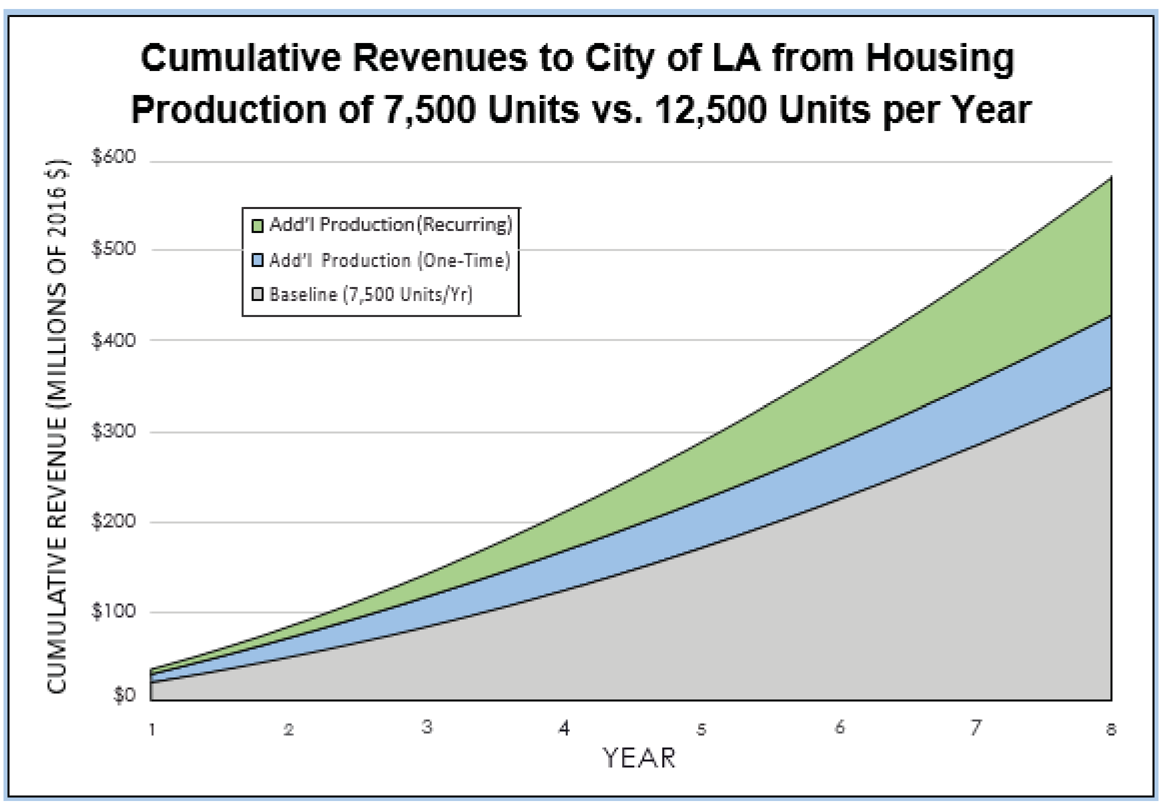
Although there are many factors contributing to Los Angeles' affordability crisis, it boils down to supply and demand: Housing production has not kept up with population and job growth. For decades the region has operated under the false premise that "if you don't build it, they won't come," and the housing shortage that's followed has had substantially adverse—and yet predictable—results. Vacancy rates have fallen to historic lows, forcing residents to pay more each year just to secure their place in the city.

Recognizing the importance of housing production for stabilizing rents for residents at every income level, Los Angeles Mayor Eric Garcetti set a goal to build 100,000 new housing units in LA by 2021, including 15,000 homes affordable to low-income households. To meet the Mayor's 2021 goal, the market will have to produce an average of 12,500 new units annually between 2013 and 2021—5,000 more, each year, than were developed between 2000 and 2010. The City is currently on pace to achieve this goal, barring a potential economic downturn and depressed development cycle before 2021. No downturn is currently predicted, but there is some statistical likelihood that one might occur.

At the same time, recently passed initiatives, such as Build Better LA, have added significant regulation to future development. To ensure that the 100,000-unit goal is met, the City must enact reforms that allow us to make the most of a strong market, and help us weather the years ahead as the current development cycle runs its course.

The Housing Pays report analyzes the net fiscal impact of new market-rate housing production on the City's general fund budget, which considers the revenues new housing generates through taxes and fees, and the expenses incurred for services directly related to supporting new residents, such as police and fire department services, to estimate the net impact to the general fund.

Expediting and streamlining housing development to maintain relatively high levels of housing production (12,500 units per year) would produce cumulative net benefit of $583 million over 8 years, as the chart below illustrates:



New revenues generated from housing production provide much-needed discretionary resources to support critical city services that benefit all Angelenos.[1] The LABC Institute recommends that a portion of these new discretionary funds should be reinvested in the City's Affordable Housing Trust Fund. We propose a potential set-aside of $650 per unit for the first 7,500 housing units built each year, and $1,860 for each unit beyond the 7,500-unit threshold. These set-aside amounts do not exceed even our conservative estimates of the fiscal benefit of new housing.

Using our proposed set-aside ratio, an annual housing production rate of 12,500 units per year would yield $113.4 million in dedicated affordable housing funding over an 8-year period; at an even more accelerated rate of 20,000 units per year the City would raise $225 million over the same time frame. These two scenarios would yield approximately 1,134 or 2,250 new affordable units, respectively.

The 5,000-unit "increment" above a baseline of 7,500 new homes per year would also produce thousands of new affordable units through the state's density bonus law. With just 50% participation in the density bonus program, approximately 1,840 to 3,360 affordable units would accompany this increase in market-rate development over an 8-year period—at no direct cost to the City. Comparing the buying power of the Affordable Housing Trust Fund set-aside to the production potential of the density bonus vividly illustrates how, while new revenues are an important component of affordable housing development, in-kind partnerships and incentives can create many more new homes at much less cost to the public.

Encouraging new housing construction also provides substantial economic and job growth for L.A.'s regional economy. Using the IMPLAN input/output model, the LABC Institute estimates that meeting the Los Angeles Mayor's goal of producing 100,000 housing units will create approximately 181,000 new jobs directly, 150,000 additional jobs in supportive industries through indirect impacts, and roughly 93,000 jobs resulting from increased household spending by new employees in the region.

IMMEDIATE ACTION IS NEEDED TO MEET THE MAYOR'S HOUSING PRODUCTION GOALS

A strong market over the past several years has resulted in more than 58,500 new housing units constructed or permitted since July 1, 2013. If this pace can be sustained, we will reach the Mayor's 100,000-unit goal by the 2021 deadline.

There is the statistical probability of at least one economic downturn between now and 2021, however, and the Los Angeles Department of Building & Safety already anticipates that future development activity will begin to decline over the next two fiscal years. As of early 2016, there were 56 Environmental Impact Reports (EIRs) moving through the City's Planning department, representing 24,180 multifamily housing units, over 1,700 hotel rooms, and upwards of 4.9 million square feet in non-residential space. If we cannot find a way to move these projects forward in a timely manner, they may be forced to wait until the next development cycle, possibly beyond 2021, and the Mayor's housing goal will remain unfulfilled. Meanwhile, our affordability crisis will continue to worsen.

The City must take action to implement reforms and tools that streamline its complex development process. Key recommendations found in this report are summarized below.

Implement measures in Mayor Garcetti's Executive Directive No. 13, which directs the departments of City Planning, Building & Safety, and Housing & Community Investment to reduce permitting and entitlement processing times by 25% and prioritizes projects that provide at least 20% of rental with rents restricted affordable to low-income households or 30% of for- sale units affordable to low-income or moderate-income households. Further, modify the Directive to increase the priority of projects that do not meet the above criteria but maximize their use of the state's density bonus program.

Streamline the City's Density Bonus process to encourage increased development of affordable and workforce housing, by shifting from discretionary action to administrative review.

Streamline the environmental review process by offering expedited processing of environmental documents, including Environmental Impact Reports, at developer cost.

Modify the City's site-plan review requirement to reduce a significant barrier to larger-scale housing developments, which accounted for more than two thirds of all new housing units in 2015.

Earmark a portion of new general fund revenues from increased levels of housing production for the City's Affordable Housing Trust Fund, making the connection between market-rate development and affordable housing clearer than ever.

TARGET AREAS

The citywide strategies recommended above would help to support new market-rate and affordable housing development, particularly in growth areas around major transit hubs near the LA River. At Warner Center on Metro's Orange bus rapid-transit line and at the head of the Los Angeles River in the San Fernando Valley, the Warner Center 2035 Specific Plan will accommodate the growth of an additional 19,800 housing units and 14 million square feet of new commercial and industrial development at full build-out, creating a mixed-use, more pedestrian-oriented district. Innovative mixed-use zoning in the Cornfield Arroyo-Seco Specific Plan, which covers Chinatown and parts of Lincoln Heights in northeast Los Angeles, will allow for up to 7,500 new housing units.

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[1] For complete documentation of revenue increment associated with new housing production please see Appendix A-1 in the full Housing Pays report.