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Monthly condensed analyses of crucial real estate and economic issues offered by the UCLA Anderson Forecast and UCLA Ziman Center for Real Estate. Here, UCLA Ziman and Anderson Lecturer Paul Habibi offers the top three ways to boost affordable housing in Los Angeles.

THE THREE BEST WAYS TO BOOST AFFORDABLE HOUSING IN LOS ANGELES

By Paul Habibi, Lecturer UCLA Anderson School of Management, UCLA Ziman Center for Real Estate

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Los Angeles is trapped in a deep housing hole with little hope for an easy resolution. To afford the purchase of the median priced home, the median household would require a staggering 53% raise, from $63,000 to $96,000 per year. If that sounds too lofty, a more modest 14% raise would enable that family to rent the median priced apartment. With housing costs rising faster than incomes, we are likely to defend our title as least affordable city in the United States.

“Affordable housing is not just a concern for those living in substandard housing. It threatens the economic vitality of the entire state.’’

Why is our housing stock unaffordable? The answer stems from supply and demand imbalances. While the local economy has made significant progress since the Great Recession, real wage growth has been tepid. Moreover, we are not a hotbed of high-paying industries. The way out, for now, is through increasing supply.

Affordable housing is not just a concern for those living in substandard housing. It threatens the economic vitality of the entire state. As housing becomes more unaffordable, workforce families depart the city, and fewer jobs come to California: a vicious negative feedback loop.

According to the California Housing Partnership Corporation, Los Angeles County needs almost 500,000 more units that are affordable to households earning less than 50% of the area median income (AMI). Developers build less than 3% of this number annually.

Further, the problem is not restricted to "affordable" housing, which is accessible to those earning below 80% of AMI. It drifts upmarket into the "workforce," or those earning between 80% and 120% of AMI. While county affordable housing funding has fallen over 80% since 2008, workforce housing has never even had funding.

While June's California Supreme Court ruling allowing cities to require the inclusion of affordable units in for-sale projects is well intentioned, it will have limited impact, and may push developers to build elsewhere, if at all. Rather than using economic "sticks," we need more "carrots" to incentivize the private sector. Here are three viable solutions:

EXPAND DENSITY BONUSES

Los Angeles is infamous for sprawl development, which honors a separation of uses and low densities. This paradigm, reflective of the victories of homeowner groups post World War II, no longer addresses the challenges facing the City. Rather, it creates congestion, long commutes, and "bedroom suburbs" distant from employment centers. The antidote to sprawl is to build higher density housing near transportation and employment hubs.

While California's state-mandated density bonus law provides incentives to developers who commit to different affordability levels, these bonuses have not been sufficient. According to the City's Housing and Community Investment Department, between 2008 and 2013 only 187 market-rate projects employed density bonuses, providing 1,406 residential units affordable to households earning 80% of AMI or less, and a mere 81 units for those earning between 80% and 120% of AMI. This accounts for only 5% of total multifamily units built during this period. The City must loosen qualifying thresholds and expand the size of the bonuses.

AMEND SITE PLAN REVIEW

On the heels of a lawsuits filed by neighborhood groups in the late 80s, in 1990 the City enacted a well-intentioned ordinance that mandates a site plan review process for any project that results in an increase of 50 residential units or 50,000 non-residential square feet. As part of this process, the Planning Department must review a proposed development's compatibility with its surrounding neighborhood and consistency with relevant planning and zoning codes. As with the California Environmental Quality Act, neighborhood groups routinely abuse Site Plan Review as a tool to water down, stall or block development. While this process creates a powerful screening mechanism, it effectively imposes a tax on even the best proposals. Projects that comply with underlying zoning, meet design guidelines, and reach local affordability goals, should bypass Site Plan Review and enter directly into the building permit process

UTILIZE THE EIFD

The dissolution of California's Redevelopment Agencies (RDAs) in 2012 wiped out tax-increment financing (TIF), which was the largest form of housing subsidy. Under a TIF, future property tax revenues from a new development project could be advanced to the developer to provide gap project financing, and thus providing a form of subsidy. This was a particularly effective tool for the construction of affordable housing projects, which otherwise would not pencil. The loss of this tool, combined with cuts to state and federal subsidies, has dramatically reduced the funds available to affordable and workforce housing developers.

With approval of SB 628 last September, the state authorized the establishment of Enhanced Infrastructure Financing Districts (EIFDs), a promising tool that resembles a partial reincarnation of the RDAs. EIFDs provide cities and counties a means for funding the construction and rehabilitation of affordable housing without imposing additional taxes on residents or fees on developers. In a recent study, I proposed using EIFDs to catalyze the development of affordable housing along the Los Angeles River, and believe this to be a tool that shows great promise.

While the situation is likely to get worse before it gets better, implementation of these recommendations will have a direct and meaningful impact on the economic competitiveness and vitality of Los Angeles County. The crisis demands action now.