



**L.A.'S HOUSING  
SUPPLY CRISIS:**  
*A Plan to Increase Housing Production  
in Los Angeles*

**Central City Association  
Housing Production Committee  
May 2003**

***Coalition Partners Include:  
Building Industry Association, Los Angeles Business Council,  
Los Angeles Area Chamber of Commerce, Valley Industry and  
Commerce Association, LA Headquarters Association, and the  
Building Owners and Managers Association***

## **Introduction**

### **The Housing Supply Crisis**

The City of Los Angeles is experiencing a severe and continuing shortage of housing at all levels. Each year, with population growth, elimination of substandard housing, and immigration, the City experiences:

- An additional net deficit of between 8,000 and 10,000 housing units;
- More and more families spending over 50% of their income on housing;
- One in seven housing units that are substandard;
- 30% of all units are considered overcrowded.

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 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. While this is a potential problem at all price levels and housing types, those with low incomes are particularly vulnerable because their choices are severely limited. Failure to increase the housing stock will further perpetuate existing overcrowded and substandard housing conditions and increase homelessness.

### **Smart Growth**

Additionally, public bodies within the State are focusing on the issues of sustainability and "smart growth." This focus is occurring at a time of renewed interest in Los Angeles for providing more urban housing prototypes which are the basic building blocks for both revitalizing our cities and creating a more efficient mixed-use environment where housing, schools, work environments, and recreation are in close proximity. The reduction in commuting and transportation costs and the increased use of public transit are also important goals of smart growth planning. Workforce and affordable housing projects tied to transit represent good planning and should be pursued. As well, the ability to provide more proximate housing options near job centers for teachers, police and fire personnel, manufacturing and service employees, and all age groups and income levels will create a more energy efficient and more sustainable environment.

### **Obstacles to Housing Production**

Like any commodity, housing supply should increase naturally with a substantial increase in demand. However, this has not been the case. Housing production is depressed by current obstacles to residential building, including rapidly rising costs of construction, increasing code requirements, bureaucratic inspection processes, planning and zoning restrictions, and NIMBY activism.

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 Committee believes will encourage housing production in the City of Los Angeles.

## **I. Public Policy Directives:**

### **I-A. Declare a Housing Shortage State of Emergency.**

**Condition/Problem:** An inadequate housing supply has resulted in overcrowded and substandard dwellings, loss of jobs, diminished quality of life, low homeownership rates, and urban sprawl.

**Recommendation:** The Central City Association Housing Production Committee (HPC) recommends that the City of Los Angeles declare a housing shortage “State of Emergency,” with associated policy changes that give housing production priority over competing needs.

Clearly, the City’s housing shortage has reached crisis proportions, as illustrated in the statistics cited in the Introduction. Policy changes, such as those recommended in this paper, must be implemented if the City is to respond to this crisis and accelerate the production of needed housing. By declaring a housing shortage “state of emergency,” the City would demonstrate its commitment to this end and set a policy statement for making housing production, code reform, and permit streamlining priorities for the year ahead.

Moreover, the City should make housing a top priority when seeking state and federal funding appropriations and to lobby the State for key legislation that will increase housing production.

### **I-B. Establish a Goal of Safe, Affordable Housing for All Angelenos by 2020:**

**Condition/Problem:** Without measurable goals or policy directives that limit roadblocks to housing production, the housing shortage will continue to grow unabated.

**Recommendation:** The HPC recommends that the City commit to building adequate housing for L.A.’s projected population by 2020, which includes establishing a minimum annual criteria for the creation of housing and allowing housing projects to be exempt from local planning review.

As part of its policy to address the housing shortage state of emergency, the City should announce a “call to arms” to rally the entire Los Angeles community to meet critical housing needs and to achieve this goal within a generation. In addition, the City should set minimum annual criteria for the creation of housing. The City should also establish a framework that will allow housing projects to be exempt from local planning review or, at a minimum, to limit the local approval to design criteria and not allow any density reductions or other exactions that would make housing less feasible.

## II. Recommended Changes to Building Code:

### II-A. Create a Housing Production Advisory Committee.

**Condition/Problem:** Currently, there is little recourse for developers who want to suggest innovative project modification and mitigation measures to reach compliance and obtain project approvals.

**Recommendation:** The HPC recommends that the Mayor instruct the Los Angeles Board of Building and Safety Commissioners (LABBSC) to create a Board of Technical Advisors to serve as a technical review panel for project appeals brought before the LABBSC. The Board shall make recommendations regarding such issues as building code interpretation, proposed modifications and mitigations.

The goal of the Board shall be to create a technical basis for exercising reasonable flexibility with respect to code compliance, while assuring equivalent levels of public safety.

The members of the Board would be nominated by the General Manager of the Department of Building and Safety and appointed by the Mayor and would report and make recommendations to the LABBSC. Appointees shall be selected generally from the technical and professional fields (eg. engineers, architects, code consultants, builders, etc.), shall have a working knowledge of building codes and life safety issues, and shall interface with the LABBSC staff and the Los Angeles Fire Department in coordinating project information.

### II-B. Create a Fire Zone 1A.

**Condition/Problem:** Current law designates outdated fire zones for some urban areas of the City, including Downtown. Specifically, only Type III (4-hour fire-resistant construction) is allowed in Fire Zone 1, (but not Type V or 2-hour fire-resistant construction), which, due to cost, limits the viability of this zone for low-rise residential projects. (Note: virtually every other city allows Type V construction which is more cost effective to build and saves roughly \$20,000 per housing unit)

**Recommendation:** The HPC recommends that the designation of Fire Zone 1 in Downtown be amended to include a new Fire Zone 1A overlay that in certain locations shall allow the construction of Type V buildings. Where appropriate, the overlay should be applied in other parts of the City.

Current Fire Zone 1 was originally designated in deference to the historic and predominantly single-use high-rise construction that characterized certain urban centers of the past. With a clear mandate now to develop mixed-use urban centers and the need to include predominantly low and mid-rise residential structures in areas that never fully developed as high-rise, a portion of the Fire Zone 1 designation should be incorporated into a 1A overlay. This overlay would permit Type V construction, which allows for 2-hour fire-resistant construction. Consequently, residential development shall be encouraged on land in the 1A portion that, because of the current restrictions, lies fallow or remains underutilized.

It is our estimation that through the implementation of these two programs, housing construction costs in the new zone could be reduced by as much as \$20,000 to \$30,000 per unit for market rate and affordable housing projects without compromising public safety. These reductions will significantly lower housing costs to end users, increase availability, and enhance the livability of our City.

## **II-C. Encourage the State to Adopt the International Building Code (IBC).**

**Condition/Problem:** The 1997 Uniform Building Code, as adopted and currently utilized by the State of California, is outdated.

**Recommendation:** The HPC recommends that the City of Los Angeles enthusiastically support the adoption of the International Building Code (IBC) by the State of California.

California is one of the few states that have not adopted the International Building Code (IBC) despite the Governor's sub-committee recommendations. In fact, while the rest of the country is working from the 2000 IBC, California continues to operate under the 1997 Uniform Building Code (UBC). The IBC recognizes advancements in technology of building construction that allow increased density at lower cost, without compromising safety.

In the interest of encouraging low and mid-rise housing projects in Los Angeles, we recommend the incorporation of the International Building Code into the LA City Code, which would facilitate consistency and maintenance of an internationally recognized high building code standard, while reducing development costs.

## **III. Planning and Zoning Changes:**

### **III-A. "1:1" Parking Requirements Within a Transit Corridor.**

**Condition/Problem:** Although high-density development is encouraged near transit stops to encourage public transportation usage, there is no corresponding decrease in parking requirements for such development projects.

**Recommendation:** The HPC recommends that the Municipal Code be revised to specify that housing development projects within a prescribed distance to public transit stops be required to provide only one parking space per unit.

As Los Angeles grapples with urban sprawl and efforts to improve its mass transit system, planners have encouraged housing development near transit corridors, which increases public transit usage by making it more accessible. It stands to reason that residents who live near public transit will be less reliant on their automobiles. Consequently, easing the parking requirements for transit-oriented housing developments will allow builders to maximize the density potential of their projects, which will reduce development costs and increase housing production near public transportation. We believe that measures such as this 1:1 parking proposal will promote smart growth strategies that support high-density housing near public transit facilities. Further the City should expand locations where tandem parking can be used to meet parking code requirements.

### **III-B. Allow the Use of Transportation Demand Management Programs for Multi-family Housing Projects**

**Problem/Condition:** High-density housing is often perceived as increasing traffic congestion.

**Recommendation:** The HPC recommends that the Los Angeles Department of Transportation (“LADOT”) formally recognize the use of Transportation Demand Management (“TDM”) programs for multi-family housing projects, which are located within a transit corridor, within proximity to a transit center/station, within a transportation or traffic specific plan area, within proximity to established bikeways or in high-density urban neighborhoods.

Los Angeles has long recognized the importance of promoting ridesharing, public transit use and other trip reduction programs for commercial projects. Other cities have successfully used TDM for multi-family residential projects for the same goals of reducing trips and dependence on single passenger vehicle use. We believe there are opportunities to reduce traffic, promote ridesharing and bicycle use if LADOT would establish a standing policy of recognizing the use of TDM for multi-family residential projects. The application of residential TDM programs would encourage projects to provide amenities such as bicycles for residents to borrow, easy paths to transit and transit services in lobbies (schedules, bus passes, shuttles to stations), and on-site services such as dry cleaning and food service. In addition, the application of residential TDM programs for multi-family developments would recognize that these projects can have employees that live on-site as a part of the TDM program. All of these residential TDM program features would reduce trips and enhance the urban living experience. As a result, the use of residential TDM programs would reduce the amount of parking spaces required for a project and reduce the cost to build multi-family residential projects.

### **III-C. Eliminate "Habitable Rooms" from Open Space Requirement Language.**

**Condition/Problem:** Under current law there is a disincentive for developers to construct family-size dwelling units in certain new multi-family construction, because larger dwelling units require the developer to set aside a bigger portion of the project for open space.

**Recommendation:** The HPC recommends that the Los Angeles Municipal Code be revised to remove the use of “habitable rooms” from the open space requirements for six or more residential units consistent with recent changes to delete the use of “habitable rooms” in the density calculation for the R3, R4 and R5 zones. The HPC also recommends that the open space requirements for six or more residential units be revised to a “per dwelling unit” basis according to the zone within which the new construction is proposed.

Under current law for some new construction, minimum open space requirements are required based on the number of “habitable rooms” (typically, the number of bedrooms +1) per unit. As such, there is a disincentive for developers to build multi-room units, thus restricting the number of units available that are suitable for families. This shortage of family-oriented housing is particularly acute in urban areas that rely on multi-family housing rather than single-family homes. In November 2002, the City revised the Municipal Code to

remove the use of “habitable rooms” from the density calculation formula for R3, R4, and R5 zones. The HPC suggests expanding this revision to require that the open space requirements for six or more residential units be on a “per dwelling unit” basis according to the zone within which the new construction is proposed.

The revised area rates and method of measurement will allow for a consistent and easily understandable method for determining the amount of open space required for a project, which will allow both project applicants and reviewing City agencies to quickly evaluate a proposed project for compliance and financial feasibility. These proposed minor reductions in the amount of open space will make development on smaller parcels feasible, thus encouraging the development of housing. These time and cost savings are additional measures that will encourage the development of multi-family residential projects in all areas of the City, but particularly in the existing urban core areas.

#### **IV. Maximize Open Space:**

##### **IV-A. Pay an In-lieu Fee to Count School and Public Recreation Space as Open Space.**

**Condition/Problem:** Many urban areas in the City are short on parks, but do have neighborhood schools with ball fields, courts, playgrounds and other open space amenities that could be useful as park space. Concurrently, high density housing construction in urban areas is sometimes hampered by burdensome on-site open space requirements. While other open space is underutilized because of a lack of additional funds to enhance or staff parks and schools.

**Recommendation:** The HPC recommends that multi-family residential projects in the City, within close proximity to a school or community center with recreational open space, be provided the option of paying an in-lieu fee as an alternative to fulfilling the on-site open space requirement. 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 school or public space open space during non-school hours.

The massive school construction program currently underway by LAUSD will create 60 new schools in the City of Los Angeles. All of the schools will be built in neighborhoods with the most overcrowded schools, primarily in the built-up, urban neighborhoods in Central and South LA. Many of these neighborhoods are “park poor” and have very little open space. However, each new school will be designed with open space that should be made available to the community during non-school hours. The new open space will consist of brand new fields, playgrounds, basketball courts, pools, tennis courts and other recreational uses, adding more than 150 acres of open space to the City’s most park-poor areas. Although school open space has long been used for community recreation purposes by a variety of municipal and private youth sports leagues, school open space has never been considered “open space” for planning and zoning purposes.

The HPC believes that school grounds provide excellent community open space and should be credited as such in high density areas of the City where open space is insufficient and difficult to develop. As well, community open space, such as public parks, also provide the proximate open space needed in high-density areas. *Allowing the crediting of public open space will enhance the City’s ability to utilize the bond monies from Proposition 40 and 50 for the acquisition and development of urban parks.*

Under this program, a multi-family project located within the specified close proximity of a school or Public Park would be provided the option of paying an in-lieu fee as an alternative to fulfilling their on-site open space requirement. 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 school open space during non-school hours.

In addition, providing in-lieu fees would reduce the cost of housing development in dense areas of our City, where land costs are high, would provide either an enhanced park or the needed funding to help staff and maintain school and public recreation space, and would increase usable open space in the most park-poor areas of our City. The resulting open space on the school and public sites would be far superior and far more useful to families and children than the small balconies and fragmented spaces often created to meet the on-site open space requirement.

**IV-B. Waive Additional Open Space and Parking Requirements for Projects Utilizing Density Bonus Credits.**

**Condition/Problem: Current law makes many density bonuses useless because accompanying parking and open space requirements negate the cost benefits of the bonuses.**

**Recommendation: The HPC recommends that the Los Angeles Municipal Code be revised to waive the open space and parking requirements for the density bonus units of projects proposed within specified areas of the City.**

Density bonuses are intended to encourage the development of affordable, low- and moderate-income housing units by allowing a project to build additional units above the zone-allowed density when a specified number of units are dedicated as affordable to low- and moderate-income households. However, the current Los Angeles Municipal Code requires that open space and parking be provided for the density-bonus units. In many areas of the City where the density bonus units are the most needed, the open space and parking requirements often prove to be infeasible to provide on-site due to land costs and/or site constraints, or force a change in construction type to accommodate the additional parking and open space, thereby increasing costs. Therefore, rather than seek approval of density bonus units, a project developer will forego the additional units and build a project with fewer units, all at market-rate, thus negating the intent of density bonuses and denying a neighborhood the opportunity to have additional affordable, low- and moderate-income units built.

The HPC recommends that the Los Angeles Municipal Code be revised to waive the open space and parking requirements for the density bonus units of projects proposed within specified areas of the City. The waiver of the 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.

**IV-C. Encourage Coordinated Planning of Schools and Public Facilities.**

**Condition/Problem: City Departments do not work together to find, acquire, plan and develop various public facilities, which leads to uncoordinated and poorly planned communities and public open space.**

**Recommendation: The HPC recommends that the City create a Co-Location Committee whereby all appropriate City departments work in conjunction to develop co-location sites for public facilities or village hubs. City co-location efforts should also be coordinated with adjacent housing development in an effort to maximize public open space.**

Various City departments, including the School District, Fire Department, Police Department, Parks and Recreation, and the Public Library, acquire real property for the development of neighborhood public facilities. Unfortunately, these departments typically act in a vacuum and rarely work together to find development sites that will serve multiple purposes and, thus, maximize available land. For example, schools, parks, libraries and community centers could be combined to provide a neighborhood “center” where valuable open space and public property is used by school children during the day and for recreation in the evening and on weekends. These neighborhood centers could also serve as “village hubs,” which foster a greater sense of community for areas of the City that currently lack a recognized town square or community gathering place.

The Department of Housing and the Mayor’s Business Team should also be included on the City co-location team to help facilitate coordination with private developers. Specifically, new housing projects adjacent to the neighborhood centers should also be coordinated, and should include high-density residential developments that incorporate the use of in-lieu fees for the shared open space.

Also, combined uses could include development of mixed-income or workforce housing above public facilities. This could be accomplished by requiring the City, as part of its cooperative planning process, to evaluate the viability and desirability of developing housing above the public facility.

Housing could be even geared to its ground floor public uses. For example, the air space above a library could be redeveloped to house library employees, a police station for police personnel, senior citizen center for senior citizens, a DWP building for DWP personnel, and so on. We would encourage the City to develop these projects in partnership with for-profit and non-profit developers.

## **V. Increase Land Available for Housing and Open Space:**

### **V-A. Use City and County Surplus Land for Housing and Open Space.**

**Condition/Problem:** The City owns hundreds of underutilized parcels that could be suitable for open space and development.

**Recommendation:** The HPC supports “Maximizing our Real Estate” (MORE), which is a collaborative initiative being spearheaded by the Office of Mayor James K. Hahn to identify surplus City-owned property for appropriate development.

Mayor Hahn’s MORE program will maximize City-owned properties by using them in ways that will improve the quality of life for our neighborhoods through the creation of new open space (e.g. neighborhood parks and pocket parks), affordable housing, or other land uses appropriate to each neighborhood in which these properties are located. As a major component of MORE, the Mayor’s Office is creating the first-ever comprehensive electronic database of all City-owned properties, and has engaged both public and private support to help complete the work of compiling the inventory. Ultimately, a Request for Proposals (“RFP”) and the City property list will be presented to potential developers who will be asked to identify which neighborhood and the specific parcels they would like to develop and submit a program description and plans for the project or park. A variety of options will be considered, including land swaps of scattered parcels to help with site assembly.

### **V-B. Aggressively Pursue Grant Programs Under Proposition 40.**

**Condition/Problem:** Significant State funds from Prop. 40 proceeds are available to Los Angeles for local parks and recreation, in the form of grants for acquisition and development.

**Recommendation:** The HPC recommends, in conjunction with counting schools and public parks as open space, the City of Los Angeles aggressively pursue Prop. 40 monies to fund the acquisition of additional public recreation space.

Proposition 40, a \$2.6 billion state bond measure (AB 1602) known as the California Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Act of 2002, was approved by California voters on March 5, 2002. Of the total bond money, \$240 million is allocated for urban parks and recreational facilities acquisition and development, to be distributed to projects statewide. In addition, \$372.5 million is designated for regional and local park acquisitions and development, on a per capita basis. With 11% of California’s population living in the City of Los Angeles (according to the 2000 US Census), Los Angeles has the right to approximately \$40.6 million.

By aggressively pursuing Prop. 40 monies, this recommendation would provide leverage for recommendation III-B, which advocates for reducing requirements for on-site open space, because it would provide the City with an additional funding source. This money also represents an important opportunity for the City to increase the amount and quality of the open space that is currently provided to multi-family housing residents. However, in order to take advantage of this opportunity, the City must first count parks as open space, as noted in recommendation III-B.

## **VI. Increase Financial Resources for Housing**

### **VI-A. Assure that LA Receives its Fair Share in Sacramento and DC.**

**Condition/Problem:** Despite its size and over-crowded, often substandard housing conditions, the City of Los Angeles often does not secure its fair share of housing-related funding from state and federal sources.

**Recommendation:** The HPC recommends that the Mayor's Office make housing a high priority of its lobbying efforts in both Sacramento and Washington, DC. The focus of these efforts should be to maximize funding opportunities for the City of Los Angeles and to lobby for key legislation that will increase housing production.

#### **Preserve Community Redevelopment Funds**

Currently, Community Redevelopment Areas (CRA) are funded through property tax increment monies that are captured within the boundaries of a community redevelopment area after it is established. In his 2003 Budget, the Governor proposes shifting approximately \$500 million of the state's share of the CRA property tax increment money back to the state and place it into the Educational Revenue Augmentation Fund (ERAF).

The City of Los Angeles must lobby the state not to shift CRA funding to ERAF, which is intended to siphon money to schools so the state can reduce the school funding proportionately. The CRA is a vital agent of change in the City and the tax increment is the lifeblood of the agency. If the Governor's proposal is adopted the City would lose a substantial revenue source and it would negatively impact the ability to create additional affordable housing.

#### **Key Funding Resources**

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.

##### **1. CDLAC**

CDLAC provides tax-exempt bond financing for affordable housing development. There are a number of problems with current CDLAC allocation methodology:

- Currently, CDLAC has no geographical apportionment for the allocation of tax-exempt bonds.
- Only a small portion of the multi-family pool is allocated for mixed-income projects, which are the predominant housing type developed in urban areas.
- Given the allocation methodology, there is a preference towards rural areas because of their lower cost structures, which is due to lower land costs and lower density.

#### **Implementation:**

Due to the difficulty of funding deeply affordable projects, in Los Angeles, mixed-income projects are more economically viable and require less subsidy if a portion of the units are market rate and a portion are reserved as affordable. Therefore, more CDLAC money allocated to mixed-income projects creates more opportunities for Los Angeles. However, given the CDLAC bias against such projects, the HPC believes that a fairer and better allocation of CDLAC funds could be achieved by:

- Removing the ceiling on the amount that can be reserved for mixed-income, allow mixed-income projects to score equally to 100% affordable projects, and then determine what projects should be awarded allocation.
- Include a geographic allocation requirement that would be similar to the geographic allocation of the LIHTC – based on population and housing need. The geographic allocation, coupled with a coordinated lobbying effort by the City, would allow the City to focus on those projects that would best meet the objectives of creating healthy communities, including mixed-use, mixed-income projects, as well as the adaptive reuse of underutilized historic buildings.
- Rank competing projects by the amount of benefit provided, i.e. the amount the rent is reduced below market.

## **2. Low Income Housing Tax Credits (LIHTC)**

The California Tax Credit Allocation Committee (TCAC) is responsible for allocating the state's share of LIHTC. The allocation process takes place twice a year. While TCAC makes annual adjustments to its allocation methodology, the methodology consistently leaves the City of Los Angeles without its fair share of tax credits.

A recent analysis was completed by the Mayor's Office, which looked at tax credit allocations between 1999 and the first allocation round of 2002. Los Angeles received an average of 16% of the geographic set-aside, compared to the 39% set-aside it is supposed to receive. The 16% looks at funding after federally required set-asides were met, and amounts to a loss of almost \$47 million in tax credits since 1999.

### **Implementation**

Los Angeles can work to receive its fair share by lobbying TCAC to:

- Change the allocation methodology to make rural set-asides count toward a County's geographic apportionment
- Ensure that LA County receives the full geographic set-aside allocated to it
- Identify projects that will maximize tax credit awards given the current TCAC allocation methodology, and lobby for these projects

## **3. Lobbying as a Public/Private Partnership**

To create a strong lobbying effort and maximize financing resources for housing development, it is recommended that the Mayor's Office look to a broad array of partners including:

- For-profit and non-profit developers
- For-profit and non-profit financing agencies
- City departments and agencies, including Los Angeles Housing Department (LAHD), Community Redevelopment Agency (CRA), Housing Authority for the City of Los Angeles (HACLA) and the Los Angeles Homeless Services Authority (LAHSA).

Working with these partners, the Mayor's Office can develop a strategy that includes:

- Working with contacts in the State and Federal government that deal specifically with housing issues;

- Identifying key contacts within the Los Angeles housing development community and create a regular communication pattern to advise on legislation and funding opportunities;
- Developing a working group that will meet monthly and lay out a plan for increasing lobbying efforts;
- Developing necessary research and reports to support lobbying efforts.

**VI-B. Develop a Workforce Housing Campaign.**

**Condition/Problem: While it is in the best interest of both the City and business to increase the housing stock for our workforce, the City and business organizations fail to work together to get individual employers to understand how housing issues affect their bottom line.**

**Recommendation: The HPC recommends that business organizations and the City work together to develop an outreach strategy to educate employers about the importance of housing to continued economic growth and to recruiting and retaining a quality workforce.**

LA has only provided one new housing unit for every six new jobs created, thus creating a jobs/housing imbalance resulting in:

- Long commutes
- Overcrowding
- Significant increases in rent and home prices

As part of an outreach campaign, organizers should enlist employers' support in political efforts to increase funding for housing and to participate in efforts to provide housing opportunities for their own employees. Organizers should also solicit financial support from large employers for the Housing Trust Fund as a means of developing new workforce housing resources critical to business growth in the region.

**VI-C. Mortgage and Rental Assistance for Police, Fire, Nurses, Teachers.**

**Condition/Problem: There is a significant shortage of housing for critical middle-class employees that keep the City safe and healthy.**

**Recommendation: The HPC recommends the promotion and expansion of affordable housing programs for critical employees such as teachers, peace officers, firefighters, and nurses who work within the City of Los Angeles.**

Former programs within the City (such as Extra Credit for Teachers and Homes for Peace Officers and Firefighters) have provided mortgage assistance for critical employees, while also advancing multiple public objectives such as community based policing and teacher recruitment/retention. By promoting existing initiatives and developing new approaches, the City can serve as a model to private employers who also benefit from workforce housing. Promotion and expansion of the following types of programs will advance the goal of providing affordable housing to critical employees.

Homes and Apartments For Teachers

- Funded by the California Housing Financing Agency, the Extra Credit Homes For Teachers Program assisted credentialed teachers in purchasing homes in the City of Los Angeles by providing low interest rates and \$7,500 down payment/closing cost assistance in the form of a loan forgiven over five years. Teachers were eligible to participate in this program if they were fully credentialed, working or willing to work in a low performing school for five years and first-time home buyers.
- In Santa Clara County, the school district developed a housing concept in response to difficulties in attracting and retaining qualified teachers due to the acute shortage of affordable housing in Silicon Valley. A lottery determined who would be offered the opportunity to move into new apartments built exclusively for the district's teachers on district property. Rents in the 40-unit Teacher Apartment Complex range from \$675-\$725 for 720-976 square foot one-bedroom apartments and \$1,175-\$1,225 for the 1045-1170 square foot two-bedroom apartments.

#### Homes for Peace Officers and Firefighters

In 1997, the Homes For Peace Officers and Firefighters Program began as a pilot program at the Los Angeles Housing Department to provide peace officers and firefighters with a forgivable loan (\$10,000) to assist with down payment and closing costs. Under the Homes For Peace Officers and Firefighters Program, the following features were provided: No down payment requirement; low fixed interest rate; prospective buyers do not need to be first time home buyers; and there are no income limitations. The program was very successful and sold out in just 6-weeks. However, the program now remains unfunded.

#### **VI-D. Pension Fund Investments in Housing**

**Condition/Problem: 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.**

**Recommendation: The HPC recommends that 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.**

The California Public Employees, the State Teachers Retirement, and Los Angeles County Employee Retirement Systems have home mortgage programs for their members, and investment programs for real estate development. These programs have assisted in community development activities within urban areas, as well as providing many public employees with the opportunity to become homeowners. The AFL-CIO Housing Investment Trust has also initiated programs to invest pension funds in housing owned by union members. However, many of the real estate investments are made outside the Los Angeles area, and most are located outside of California.

All national, state and local pension fund managers whose members live and work in Los Angeles should be investing in our local housing market. This applies to both public agency and private company retirement systems. This can be done directly, as CalPERS and CalSTRS have done, through providing loans to members, or indirectly, as the AFL-CIO HIT has done, by investing in real estate backed securities, bonds, and other financial vehicles. Even committing a few percent of the total assets of these pension funds in local housing would be able to leverage substantial other investment, adding to the economic health of the

region, increasing employment and providing needed housing for our workers, *e.g., if the Los Angeles County Employees Retirement Association invested only one percent of their total assets in housing, it would provide about \$250 million to our economy—over five times the amount allocated to the Los Angeles City Housing Trust Fund thus far.*

**VI-E. Building and Safety Department Fee Deferrals.**

**Condition/Problem:** Financial and regulatory roadblocks often make housing production costly and time-consuming. The City does not provide enough financial incentives to developers to build low and moderate-income housing.

**Recommendation:** The HPC recommends that the City offer various Building and Safety fee deferrals for projects that include an affordable and/or workforce housing component.

While the City is not always financially capable of providing direct financial aid for the creation of affordable and workforce housing, fee deferrals can provide the necessary incentive for private developers to take on these projects. Specifically, the HPC recommends that the City defer plan check and permit fees for five years after the issuance of a Certificate of Occupancy for projects that include 20% of workforce housing (at rent levels affordable to families earning less than <120% of median income) or that include 10% of affordable housing (less than <80% of median income).

We anticipate that deferring Building & Safety fees will provide assistance to affordable housing developers by reducing the cash flow needed at the earliest stages of project development, when carrying debt service is most difficult. We add that the City of Sacramento is currently doing this quite successfully.

**VI-F. Increase the Documentary Transfer Tax.**

**Condition/Problem:** 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.

**Recommendation:** The HPC recommends that the City of Los Angeles propose to increase the Documentary Transfer Tax by \$0.50 to a total of \$2.75 per \$500 of a property's total purchase price.

Currently, individuals who sell property in Los Angeles are required to pay a State-imposed conforming real property transfer tax of \$0.55 per \$500 (proceeds go to the County) and a City-imposed Documentary Transfer Tax of \$2.25. The proceeds from the City-imposed tax are currently considered strictly General Fund revenue and are not designated for a specific purpose. We suggest increasing the Documentary Transfer Tax by \$0.50 per \$500 and earmark the additional revenue to support the construction of workforce housing (80% to 120% of median income). While workforce housing is in desperately short supply, its construction is not always financially viable for the builder, and public subsidies are not typically available for this type of development. Consequently, we believe a dedicated public funding source to support workforce housing is warranted and prudent.

We estimate that a \$0.50 increase in the Documentary Transfer Tax will generate approximately \$20 million per year in the Affordable Housing Trust Fund for workforce

housing. However, the Documentary Transfer Tax is the most volatile of all the major taxes because it is dependent on the real estate market. Moreover, the tax would fall under Prop. 218 and would be subject to a vote of the electorate.

## **VII. Legislative Remedies**

### **VII-A. Revise SB 975.**

**Condition/Problem:** SB 975, a state prevailing wage law, acts as a disincentive for developers to take advantage of public assistance for development projects, thus reducing housing production, particularly for low and moderate-income projects.

**Recommendation:** In light of our housing shortage State of Emergency, the HPC recommends that the state enact legislation that would remove prevailing wage requirements from all private and public housing projects.

In 2001, the state adopted SB 975 (Alarcon), legislation that expands the definition of “public works” for the purpose of determining the applicability of prevailing wage requirements for projects that receive some public assistance, including loans, fee waivers, tax credits, and other non-cash benefits. We believe legislation that requires prevailing wage on any moderate- or low-income housing project is shortsighted. Given our current dire housing shortage, the state should encourage development of all kinds of housing where appropriate. Prevailing wage requirements may chill housing development in Los Angeles and could prevent innovative incentive programs like the fee deferrals suggested in item C-5 above. We urge the Governor and the Legislature to recognize the current housing emergency and enact additional legislation that would remove prevailing wage requirements from all private and public housing projects.

### **VII-B. Restrict Inclusionary Zoning Ordinance and One-for-One Housing Replacement.**

**Condition/Problem:** Inclusionary zoning and one-for-one replacement policies unfairly tax market-rate units to pay for required affordable units, which can act as a disincentive to housing production.

**Recommendation:** The HPC recommends that the City Council and Mayor reject Inclusionary Zoning and One-for-One Housing Replacement ordinances that do not include offsetting incentives or subsidies.

The HPC 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 the 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.

On the contrary, 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 those affordable units. A task force should be created to develop specific financial subsidies, density and parking bonuses as offsets for the additional costs to develop affordable housing.

Advantages are:

- Affordable Housing is not concentrated entirely in a few areas of Los Angeles, but rather included in all new developments Citywide.
- Subsidies and offsetting planning incentives will allow “real time” financing for the entire project, allowing bank loans and other private financing to proceed

It is our understanding that the City has contracted with a research firm to prepare a study on the feasibility of requiring that, as a condition for approval, any public or private development that removes moderate- or low-income housing units from the market to replace those units on a one-for-one basis within a certain radius of the development. While we share the City’s concern for preserving moderate- and low-income housing stock, we must caution against creating “blanket” legislation that does not take into consideration the individual circumstances surrounding that property or project. In many cases, a one-for-one replacement may not be feasible or desirable. Also, such a stringent requirement could have a chilling effect on housing development and the replacement of slum housing, which would actually exacerbate the housing shortage, drive up prices and make housing even less affordable.

#### **VII-C. Change State Law to Encourage Attached Housing.**

**Condition/Problem: Attached housing development is chilled in California because state laws make it risky for developers to produce this kind of housing.**

**Recommendation: The HPC recommends that the Mayor lobby the state to amend the Subdivision Map Act to allow developers to make binding sales contracts with potential buyers earlier in the attached housing construction process. As well, the State should amend the California Civil Code to increase the presumed valid amount of liquidated damages that are payable to the developer of attached housing.**

Attached housing, including townhomes and condominiums, is generally less expensive than detached single-family homes and could provide a valuable source of housing for middle- and low-income families. Unfortunately, according to a San Francisco Chamber of Commerce report, “state law in California hampers the ability of developers to obtain favorable financing for attached housing development. This is because state law makes attached housing construction riskier than single-family home construction by limiting the ability of developers to pre-sell units before construction is substantially complete. Specifically, state law restricts: 1) how early in the construction process the developer can make a binding sales contract, and 2) the amount of the purchase price that the developer can retain in the form of liquidated damages if the buyer defaults on the sales contract.”

The report goes on to note, “as a result of the above restrictions, many developers and lenders find that attached housing construction is too risky to undertake. Low- and middle-income homebuyers in California thus face reduced opportunities to purchase affordably-priced homes, especially around job centers, where attached development is most likely to occur. Urban density is discouraged in favor of suburban sprawl through development of lower-risk, single-family homes.”

The HPC believes the following changes would reduce the risk of building attached housing and encourage the financing of attached housing construction: amend the Subdivision Map Act to allow developers to make binding sales contracts with potential buyers earlier in the construction process and amend the California Civil Code to increase the presumed valid amount of liquidated damages that are payable to the developer.

## **Closing**

As stated, Los Angeles is experiencing a severe and growing shortage of housing at all levels. The Central City Association's Housing Production Committee believes that the above code changes and policy initiatives will both streamline the approval and delivery process of housing units and reduce extraneous costs that contribute to the high price of those units. It is imperative that the Mayor's Office, City Council, City department staff, private sector and non-profit stakeholders work together to implement these programs. Priority should be given to code modifications that can be fast-tracked and implemented immediately. Importantly, the City should refrain from adopting any additional burdensome requirements on housing construction and conversion, such as inclusionary zoning policies, that will chill private sector motivation to build more housing. On the contrary, the right kind of incentives will encourage urban housing development, particularly the construction of workforce and affordable housing.

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