



# Los Angeles Business Council Institute Report:

The Affordable Housing Crisis  
in Los Angeles: Impacts to  
LA's Fastest Growing Industries





October 5, 2018

Dear Business and Community Leaders:

The LABC Institute is proud to release its newest report prepared by USC's Dr. Gary Painter, **The Affordable Housing Crisis in Los Angeles: Impacts to LA's Fastest Growing Companies**. This report is a follow-up to the LABC Institute's 2017 study authored by USC Professor Dr. Raphael Bostic, **The Affordable Housing Crisis in Los Angeles: An Employer Perspective**.

L.A.'s economy continues to improve from the Great Recession, with steady job growth cutting the unemployment rate down to 5.4 percent in 2017. The three business segments with the **fastest growing job growth are health care and social services; accommodation and food services; and professional, scientific and technical services**. Although strong employment growth in these sectors is encouraging, closer analysis raises questions as to whether the types of jobs being created are sustainable in L.A.'s high cost environment.

As baby boomers age, the demand for home health aides has grown rapidly. Yet the occupation's median annual wage is \$22,600, forcing a large portion of these essential workers to live in poverty. Likewise, L.A.'s booming tourism industry now accounts for over 525,000 local jobs, with this number projected to grow to meet Mayor Eric Garcetti's goal of attracting 50 million visitors by 2020. However, 69% of workers in this sector earn less than \$25,000 annually.

While the tech sector tends to boast higher average salaries, technology companies are increasingly seeking employees without technical skills, such as project managers and HR specialists, to round out their business. These nontechnical roles pay far less, with most salaries falling between \$50,000 and \$90,000, according to a 2018 report released by Glassdoor.

To complicate matters further, L.A. is facing one of the most egregious house-to-income price ratio discrepancies in the nation – worse than San Francisco, Seattle and New York. Yet L.A. still lags behind peer cities in issuing housing permits, exacerbating the housing shortage further and forcing employees to endure long commutes and soaring rental prices.

**This report explores how employers in the fastest growing industries are responding to the region's high cost of living and lack of affordable housing near job centers, and how these trends are impacting employees.** Dr. Painter and his team of researchers surveyed eighteen employers representing over 84,000 employees in the following three industries: health care and social services; accommodation and food services; and professional, scientific and technical services.

***The research and survey yielded several key findings:***

- There is a general consensus amongst employers in all three industries that the high cost of living and housing in L.A. adversely affects employees and employers in the area. However, firms in the Professional, Scientific, and Technical services industry were more likely to reflect the high cost of living in their hiring packages and were therefore more successful attracting and retaining employees.
- The majority of employers surveyed had not taken any steps to directly assist employees with housing – with the lowest wage workers receiving the least housing related assistance.
- Both the quantitative research and survey results suggest the need for intervention to support workers and businesses in order to ensure a thriving economic base and workforce in the Los Angeles region.

***The findings and a roundtable discussion led us to develop the following recommendations:***

***Recommendations for employers:***

- Consider affordable housing as part of an overall business strategy. This includes offering housing related assistance such as homebuyer education, relocation reimbursements, mortgage assistance, and financial education programs.
- Organize business leaders to support and advocate for housing at all income levels
- Build bridges between private, nonprofit, and public entities, and consider taking a coordinated approach to creating affordable housing.

***Recommendations for public agencies:***

- Think creatively about the way affordable housing is subsidized, using tax abatement programs or discounted ground leases to mitigate the cost needed to construct and maintain affordable units.
- Create a permanent revenue stream to finance the construction and preservation of affordable housing units, leveraging revenue sources such as cannabis taxes, Linkage Fee revenues, or Transient Occupancy Taxes (TOT).
- Streamline the rules and approval processes for affordable housing to lower costs and enable development to occur more efficiently.

We would like to thank Dr. Gary Painter and his team for their work and the advisors who provided valuable input. We are very grateful to our financial supporters: California Community Foundation, Enterprise Community Partners, Federal Home Loan Bank of San Francisco, FivePoint, and Habitat for Humanity, without whom our research would not have been possible.

Sincerely,



Mary Leslie  
President, LABC



Brad Cox  
Chair, LABC Institute

# The Affordable Housing Crisis in Los Angeles: Impacts to LA's Fastest Growing Industries

## Executive Summary

It is more expensive to work and live in Los Angeles than ever before, a trend posing new problems for both employers and their employees. While many metropolitan areas are currently feeling the effects of rising housing and living costs, the issue is especially dire in Los Angeles, where one-third of all workers make less than \$30,000.

The high cost of housing in the region has made it significantly harder for businesses to recruit and retain workers. **Companies that have taken steps to assist employees in reducing their financial burdens, such as sweetening hiring packages or providing mortgage assistance, reported more success maintaining their workforce. Despite this, a majority of businesses have not pursued strategies to alleviate the financial pressure facing their employees.**

This report is a follow-up to the 2017 report issued by the Los Angeles Business Council Institute and Dr. Raphael Bostic, President and Chief Executive Officer of the Federal Reserve Bank of Atlanta, which explored how major employers were reacting to the high cost of living and housing in Los Angeles.

**In this phase of research, a team of USC researchers led by Dr. Gary Painter examined how the high costs of living and housing in Los Angeles affects the fastest growing industry sectors in the region and explores how these conditions might hinder key industries from reaching their full potential.**<sup>1</sup> Specifically, this report targets three of the fastest growing industries in L.A. County in terms of job growth: (1) Health Care and Social Assistance (HCSA), (2) Professional, Scientific, and Technical Services (PSTS), and (3) Accommodation and Food Services (AFS)<sup>2</sup>. The research team surveyed 18 Los Angeles employers in these three industries, accounting for roughly 84,000 employees, to see how their experiences align or differ from that of the major employers surveyed in 2017.

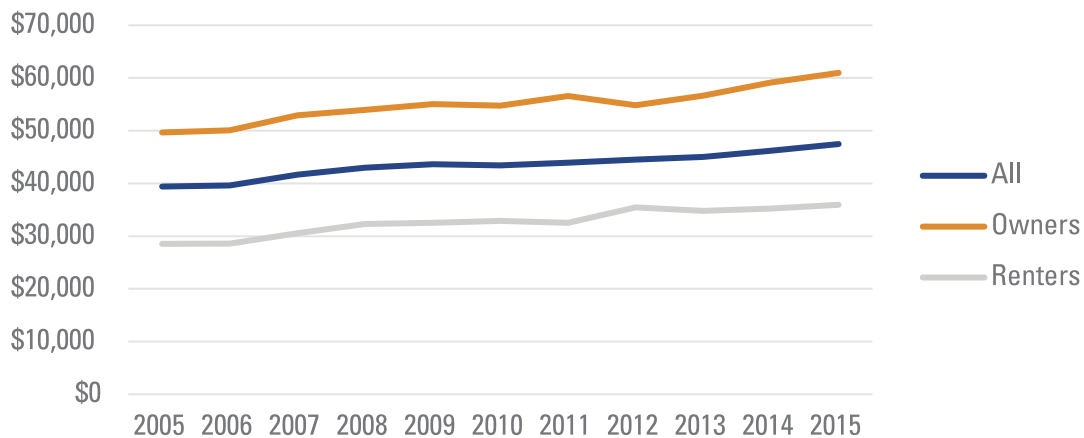
<sup>1</sup> The cost of living takes into account a wide variety of expenses, from housing and transportation costs to the cost of a gallon of milk. The Bureau of Economic Analysis (BEA) collects data on the various components of living costs for every metropolitan area in the nation based on a measure called Regional Price Parities (RPP). RPP documents the different price levels of categories like food, transportation, housing, and education, as compared to the national level, which is set at 100. In 2015, the LA metro area had an RPP of 165.1 for housing, 104.8 for goods, and 107.1 for other, giving it a total cost-of-living score of 117.6.

<sup>2</sup> Two additional industries also experienced high growth rates: Public Administration, and Mining, Quarry, Oil and Gas Extraction. These industries were excluded because they did not meet the established threshold of 200,000 or more jobs, to study growing, but already somewhat sizable, industries.

## Key Findings

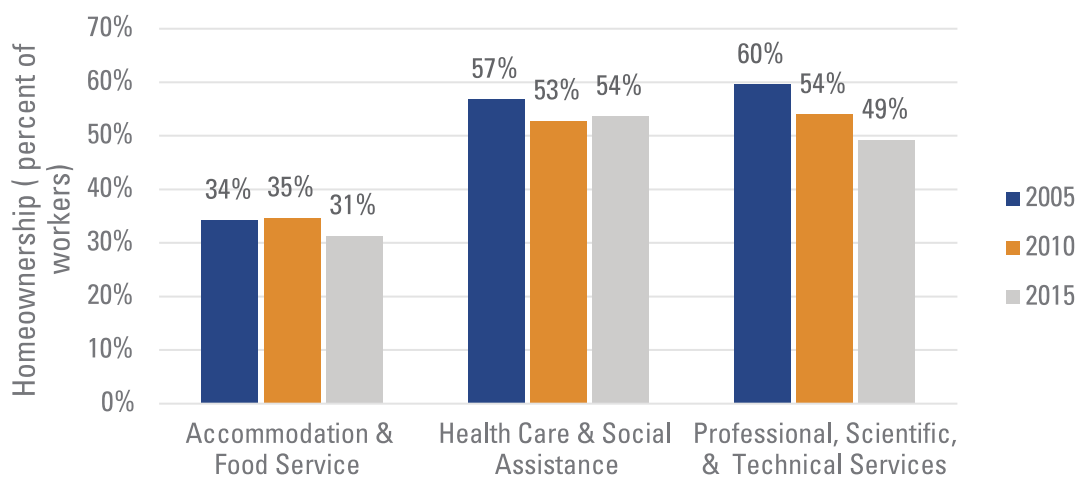
**Between 2005 and 2015 homeownership rates decreased, and commute times increased for employees across all industries surveyed.** Over the same time period, increases in housing costs far outpaced increases in renter wages, forcing households to face difficult tradeoffs in affording other necessities, such as food and healthcare. The burden is greatest for low-income employees, who increasingly face longer commutes and soaring housing costs, factors that can significantly impact one's quality of life.

**Figure 1: Annual Wage (Inflation Adjusted \$)**



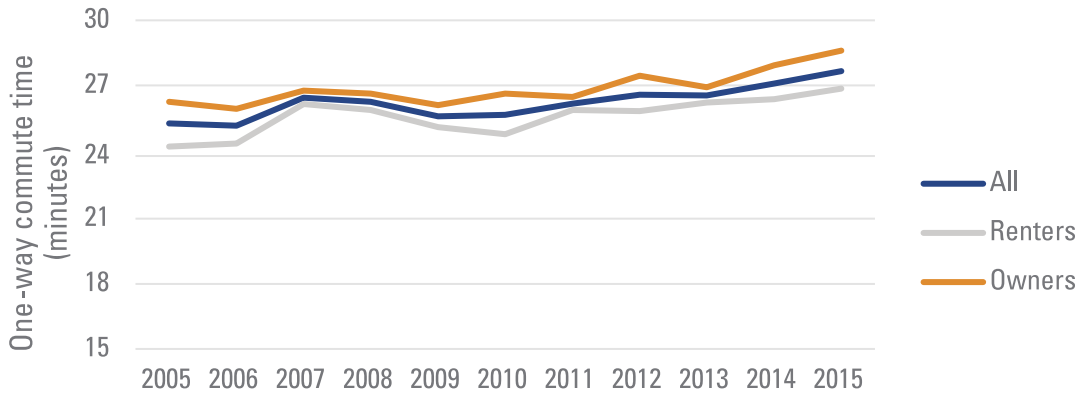
Source: 1-yr American Community Survey (ACS) data downloaded from IPUMS USA.

**Figure 2: Homeownership Over Time**



Source: 1-yr American Community Survey (ACS) data downloaded from IPUMS USA.

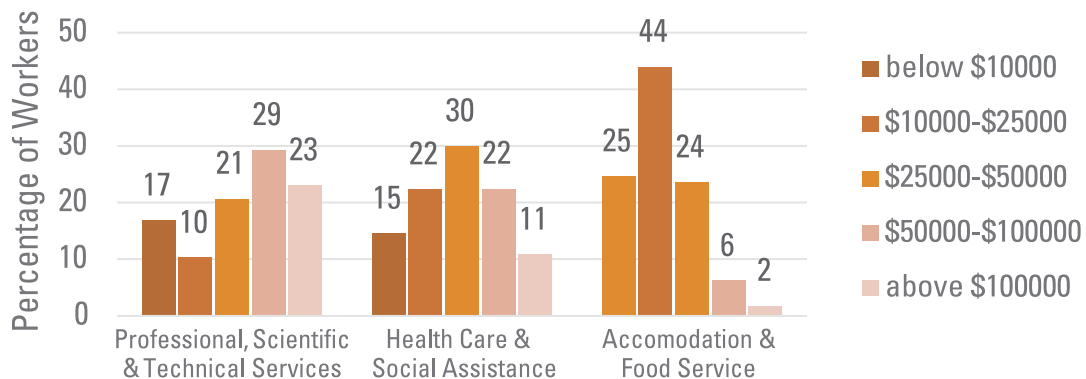
**Figure 3: Average Commute Time (Minutes)**



Source: 1-yr American Community Survey (ACS) data downloaded from IPUMS USA.

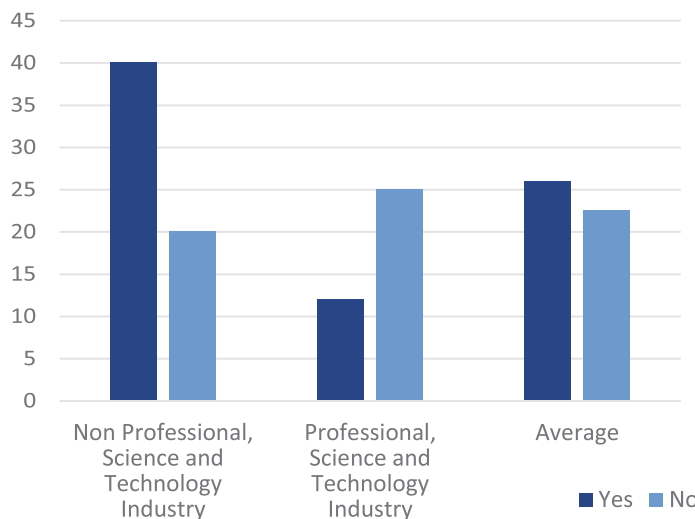
1. **There is a broad consensus amongst employers that the high cost of living and housing in Los Angeles adversely affects employees and employers in the area.** However, important differences exist across different industries. Firms in the Professional, Scientific and Technical Services industry were more successful attracting and retaining employees, while businesses in the Health Care and Social Assistance and Accommodation and Food industries report a wide consensus that the cost of living and housing harm their opportunities for employee attraction and retention. A possible explanation for the PSTS industry’s success with employee attraction and retention as compared to the other industries is that PSTS firms generally offer higher paying jobs to a skilled workforce and factor the cost of living into their hiring packages. Nearly all respondents from the PSTS industry indicated that their hiring packages reflect the high cost of living, while less than half of the other industries indicated the same. **According to the U.S. Department of Housing and Urban Development’s 2018 poverty guidelines, single person households in LA County qualify for low income housing if they earn less than \$54,250 annually.** As of 2015, 93% of Accommodation and Food Service workers, 67% of Health Care and Social Assistance workers, and 48% of workers in the Professional, Scientific and Technical Services industry earned an annual wage less than \$50,000.

**Figure 4: Wage Distribution in 2015 by industry**



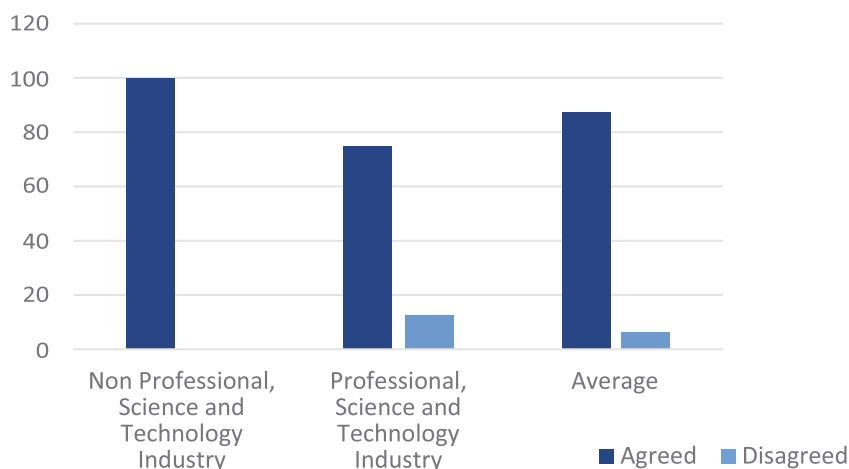
Source: 1-yr American Community Survey (ACS) data downloaded from IPUMS USA.

**Figure 5: Our company has failed to attract employees due to the high cost of housing in Los Angeles**

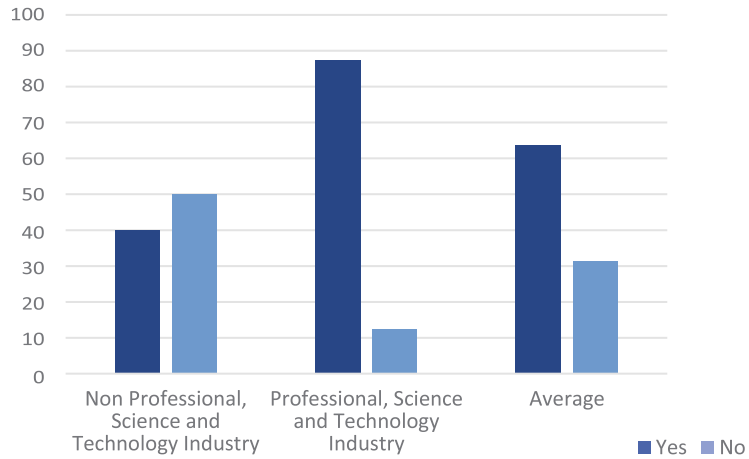


**2. Although most employers acknowledged that housing affordability affects employee recruitment, retention, and quality of life, the majority of employers surveyed had not taken any steps to directly assist employees with housing.** More than half (61 percent) of all business respondents did not implement any programs to assist employees in reducing their financial burdens. Where employers did provide such programs, these included: homebuyer education, relocation reimbursement, mortgage assistance, and financial education. One employer that indicated their financial assistance strategy had been successful offers employees complimentary consultations with licensed financial and legal counselors as part of a corporate wellness plan, and provides grants and financial support in times of stress. For example, employees that were recently displaced by local wildfires received grants and financial assistance to help cover the cost to rebuild.

**Figure 8: The cost of housing in Los Angeles is a challenge for retaining employees**

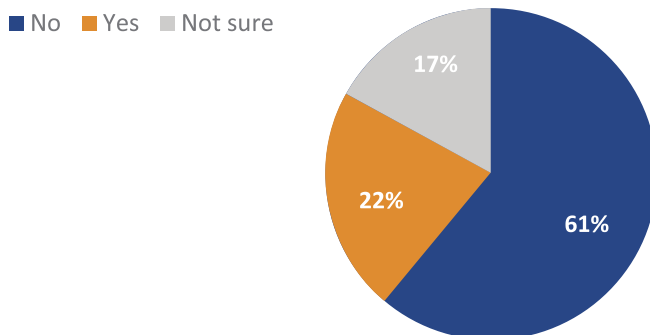


**Figure 7: Our company's hiring package incorporates the cost of living**



- 3. Specific groups of employees – primarily entry-level and low wage employees, face the greatest strains from the high costs of living and housing, yet seem to receive the least housing-related assistance from employers.** Evidence from the surveys suggests that some important financial benefits are only available to the highest earning, highest skilled staff. 27 percent of survey respondents reported they adjusted only *some* of their hiring packages for the cost of living, further underscoring the vulnerability of low-wage workers.
- 4. Although most employers acknowledged that housing affordability affects employee recruitment, retention, and quality of life, the majority (57 percent) were unaware that housing-related assistance was a possible solution to ease the financial burdens of employees.** For those seeking to promote housing-related assistance as a possible solution to the impacts of the high cost of living on businesses, this suggests that outreach is a crucial prerequisite to advancing any intervention. In cases where employers were aware that assistance was a possible solution, but had not taken any steps to directly assist employees with housing, the majority of employers said that they did not offer such programs due to financial barriers. Some employers cited the difficulty of their company's size and age as a primary reason for why they cannot provide housing-related programs for their employees.

**Figure 6: Has your company implemented any programs to assist employees in reducing their financial burdens?**





## Examples of Employer and Public Sector Intervention

A review of relevant literature has identified examples around the country to understand current private and public sector interventions being used to address workforce housing needs.



Photo courtesy of CBRE

**Joining a wave of tech companies viewing Downtown Los Angeles as a live-work destination, Spotify announced relocation of its headquarters to a mixed-use building in the Los Angeles Arts District.**

### *Tech Sector*

Tech companies are often blamed for driving up housing prices in the San Francisco Bay Area because they attract a large number of high earning workers. Tech companies wish to attract the best in the field, but high housing prices have become an obstacle for many in California, as well as in cities across the United States.

**Amazon**, for example, is searching for second headquarters outside of Seattle, where housing prices have skyrocketed. To address this problem, several companies have plans to build workforce housing.

In December 2017, **Google** received approval from local lawmakers to build 10,000 new housing units near its future Mountain View campus. Although these homes will benefit generally high-income workers, there is hope is that removing these employees from the housing market will relieve some pressure on overall prices in the area (Robinson, 2017). **Facebook**, too, plans to build housing for its employees with the hope that the development will support the housing density needed to accommodate Silicon Valley's growth (Stangel, 2017).

Additionally, **Facebook** offers free housing for interns and/or a monthly housing stipend to help students cover the costs associated with taking an internship, which – in a major metropolitan area like San Francisco or Los Angeles – runs about \$6,200 for a ten-week internship.

Locally, **Snapchat** has leased real estate in Venice Beach to house employees who would otherwise likely struggle to afford housing in the area.

**Spotify**, who recently relocated their regional headquarters to a mixed-use building in the Los Angeles Arts District, reportedly offers a range of housing and relocation benefits including temporary housing, assistance finding a home, and a furniture allowance (Rudolph, 2015).

As the tech sector demonstrates, providing employee housing in supply-constrained markets is one way to help businesses attract and retain talent.



**Kaiser Permanente recently announced a \$200 million investment to fight homelessness and increase affordable housing development in eight states – including California. Impact investments are a growing trend among employers seeking to expand the reach of their corporate social responsibility.**

### ***Healthcare Sector - The Kaiser Model***

Healthcare giant Kaiser Permanente recently entered into the national affordable housing market, announcing a \$200 million investment in fighting homelessness and building more low-cost housing in eight states, including California, over the next two to three years. The funds will come from Kaiser's *Thriving Communities Fund* and will be expected to generate a return which will allow the fund to continue making new investments in the future. To accomplish this, Kaiser will identify projects that support the preservation and expansion of affordable housing. The move is further acknowledgment of the significant role that housing stability plays in achieving Kaiser's mission to improve health outcomes. Bernard J. Tyson, Chairman and CEO of Kaiser, issued a statement expressing his hope that Kaiser's commitment "creates a broader national conversation on homelessness, and encourages other companies to join with us to advance economic, social, and environmental conditions for health."

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*Bernard J. Tyson, Chairman and CEO, Kaiser Permanente*

## MAP 1 Neighborhood Homeownership Program, University Park Campus



**USC's Neighborhood Homeownership Program helps benefits-eligible employees purchase homes near campus. The program provides dual benefits, lowering the cost of housing for employees and promoting neighborhood stabilization and revitalization close to campus.**

### Education Sector

**Los Angeles Unified School District (LAUSD)** began building affordable housing for its employees after realizing that unaffordable housing costs caused high turnover among teachers. Although the apartment complexes were initially intended for middle-income teachers, federal rules about affordable housing eligibility requirements ultimately determined that teachers earned too much to qualify (Phillips, 2016). Teachers in Los Angeles fall into "the missing middle" of the workforce--they do not qualify for affordable housing but still struggle to pay market-rate rent. As a result, lower-income support staff, such as custodians and cafeteria workers, occupy the LAUSD affordable housing units. Other California cities, including Santa Clara and San Francisco, have also built subsidized housing for school district employees, but the federal eligibility requirements mean that school districts must find other ways to finance the projects if they wish to house teachers (Barragan, 2016).

**The University of Southern California** also has programs designed to help certain employees mitigate the high cost of renting or owning a home in Los Angeles. The USC Neighborhood Homeownership Program (NHP) is a mortgage assistance program designed to provide benefits-eligible employees the opportunity to purchase and own a home within the nearby University Park or Health Sciences communities. The NHP provides eligible employees with monthly payments totaling \$50,000 or 20 percent of the home purchase price. Additionally, through USC's Faculty and Staff Housing Program, selected faculty and executive staff are eligible for assistance in the purchase or rental of a single-family residential home for personal use in the Los Angeles area. The program offers subsidies in the form of one-time down-payment or closing costs subsidies, monthly mortgage or monthly rental subsidies, and short-term or shared appreciation loans. At least ten percent of the purchase price is required from personal resources under the university short-term loan or shared appreciation loan options. Subsidies are considered part of the compensation package and are included in the employee's pay as supplemental salary for a fixed number of years.

## Public Sector Intervention

In the absence of market rate or employer solutions, many state and local governments are also responding to the need for more middle and low-income housing. Some examples of programs include:

- **The Iowa Finance Authority**, which offers loans to cities and counties that demonstrate a need for workforce rental housing as a result of employment growth (Iowa Finance Authority).
- **The Oregon Workforce Housing Initiative of the Governor's Regional Solutions Office** is currently building partnerships with public, private, and non-profit organizations to pilot projects supporting workforce housing across the state (State of Oregon).
- **The Minnesota Workforce Housing development Program** assists small to mid-size cities with rental workforce housing needs. Communities are required to secure matching funds (Minnesota Housing Finance Agency).
- **Sonoma County's Workforce Housing Program** requires non-residential developers to participate in the County's affordable housing program by constructing workforce housing on-site or at another location, paying a workforce housing fee, or providing an employer-sponsored mortgage assistance program (County of Sonoma California).

## Case Study: Martin Expo Town Center

### Project Data

**Location:** 1201 W. Olympic Blvd. Los Angeles, CA

**Description:** Martin Expo Town Center will include 516 residential units, 150,000 square feet of commercial office space, and 100,000 square feet of retail space (35k grocery store, 18k restaurant space, 46k general retail use). The project includes more than 1500 underground parking spaces (100 of which are designated for Expo patrons), 117 short term and 600 long term bike parking spots, as well as bike storage, showers, and a self-service bike repair station.

**Completion:** The project is slated to break ground in 2018, and scheduled for completion in 2021

**Architect:** Gensler

**Owner(s):** Dan Martin, Jeffrey Hines

**Units:** The complex will feature 192 studio, 181 one-bedroom, 137 two-bedroom, and 6 three-bedroom units.

**Total Square Footage:** 807,200 square feet

**Context and Community:** Sawtelle is a highly diverse, middle-income neighborhood on the west side of Los Angeles. METC will replace a Cadillac/GMC dealership currently located on the property. The development is located within one block of the Expo line station. The site sits next to Kilroy's Westside Media Center, a campus for creative, tech and entertainment media companies. Currently, there are no apartments, and approximately 10,000 workers within a quarter mile of the Martin Expo Town Center development.

**Affordability Targets:** 20 percent total, 15 percent workforce housing, 5 percent low income units

**Martin Expo Town Center** will occupy the parcel of land which housed West L.A.'s Martin Cadillac dealership for nearly 40 years. Property owner Dan Martin's decision to redevelop the property was spurred by the imminent opening of the Expo Line light rail station, located just 500 feet away. Critical to the successful approval of METC, was the vocal support of several businesses and employees located in the vicinity of the proposed development. Employers expressed difficulty hiring on the Westside due to the lack of housing options— especially affordable units. Numerous businesses and employees working in the vicinity expressed their support for the development by writing letters of support to City Council and attending public hearings to vocalize their excitement for the proposed development. **The developers of the project indicated that they would offer priority leasing to individuals who work within walking distance of the Martin Expo Town Center, a perk that excited many employees in the area, and helped garner additional public support for the proposal.**

To encourage development of more workforce housing similar to the METC, the City can leverage its current Community Plan update process to implement land use policies that support higher-density residential development in close proximity to transit. Business owners and employees stand to directly benefit by engaging in the political process to reduce NIBMYism and voice support for affordable housing and transit-oriented developments. Along with alleviating workforce housing shortages, developments that increase density near transit address rising commute times, two issues that are of critical importance to employers and employees throughout L.A. County.

## Recommendations

Quantitative analysis and employer responses suggest the need for both private and public sector intervention to support workers and businesses in order to ensure a thriving economic base and workforce in the Los Angeles region. Given these findings, we offer the following recommendations for government and employers:

### *Employer Recommendations*

#### **Consider housing as part of an overall business strategy.**

To be successful in Los Angeles, businesses need to factor the cost of housing into their broader corporate strategy. Employers should consider local housing costs when deciding employee compensation or benefits packages and when setting company policies such as telecommuting or flexible hours. Furthermore, employers should review the existing models for employer-assisted housing programs, such as rental or mortgage assistance, homebuyer education and counseling, and relocation incentives, and consider implementing similar programs at their institution. Increasingly, corporate social responsibility and impact investment programs are becoming ubiquitous among leading employers. Private entities can expand their community impact by targeting corporate philanthropic efforts toward addressing the creation and preservation of affordable housing.

#### **Organize Business leaders to support and advocate for housing in all income levels.**

Despite the affordable housing crisis, getting new units built for low-income individuals remains a challenge. Opposition from neighborhood groups and pervasive NIMBY-ism present an ongoing obstacle to getting affordable housing built, and outcry from concerned residents can drown-out support and sideline projects that otherwise would have been approved. By advocating on behalf of developers working to get affordable and mixed-income housing projects built, employers can generate critical support to move projects forward and educate local residents on the needs of employees currently working in the area. In exchange for their support, employers can seek out opportunities to negotiate priority leasing agreements for their employees in office-adjacent developments. In addition to providing support for specific development projects, employers could advocate on behalf of specific legislation, such as those that would allow for increased housing density in areas within close proximity to public transit. As the 2017 report pointed out, the business community should join with other stakeholders to generate vocal support and advance housing affordability goals.

#### **Pursue a coordinated approach to creating affordable housing with unconventional partnerships.**

Catalyzing the systemic change necessary to address the major shortage of affordable housing in Los Angeles will require new partnerships to be forged and new approaches to be considered. Create partnerships between the foundations, government entities, and nonprofit organizations who have the money to underwrite affordable housing developments, and the developers who have the expertise, skill, and operating scale to quickly and efficiently construct affordable housing. Commercial real estate developers should stay abreast of affordable-housing activities in their markets as opportunities for public/private partnerships for these projects continues to grow. Businesses in the region have a tremendous capacity to make a positive impact on the affordable housing market. Private entities should think creatively about how their unique skillsets and assets could be leveraged to provide additional resources to alleviate the housing crisis. By taking a coordinated approach to affordable housing, organizations can catalyze systemic change and achieve far greater impact than any one entity alone.

## Government Recommendations

### Think creatively about the way affordable housing is subsidized.

As the costs associated with building affordable housing increase and demand for affordable housing units continues to rise, it's becoming more difficult for governments to subsidize affordable housing through traditional mechanisms. Furthermore, the large portion of LA's workforce earning at or above 60 percent of AMI – while still facing significant struggles with housing affordability - are not eligible for many traditional government subsidies, such as Section 8 housing vouchers. **Providing discounted ground-leases, and extending the duration of these leases, is one way for public agencies to encourage and sustain long-term housing affordability.**

**Tax abatement programs for developers and owners of multifamily buildings who set aside a predetermined number of income-and rent-restricted units in new and existing buildings** is another way to subsidize affordable housing and increase the supply of units on the market. **The Opportunity Zones** identified in the federal tax bill passed at the end of December 2017 could be another **emerging tool to leverage tax incentives to spur investment in affordable housing.** Thinking creatively about how governments subsidize affordable housing can increase the supply of affordable housing units and help close the gap between what these buildings cost to construct and maintain, and the rents most people can afford to pay.

### Identify permanent revenue streams to finance the construction and preservation of affordable housing units.

Opportunities to do this include earmarking a percentage of the **Transient Occupancy Tax (TOT)**, ensuring that a percentage of **Linkage Fee revenues** are allocated toward workforce housing projects, utilizing new revenue sources such as **cannabis taxes**, and encouraging short-term rental companies (ie. Airbnb, VRBO) to **create a new user fee** that would be diverted into the Affordable Housing Trust Fund. Since Los Angeles began collecting lodging taxes from short-term rental hosts in mid-2016, the city has collected upwards of \$50 million in revenue. Devoting the financial windfall created by the short-term rental housing market to the Affordable Housing Trust Fund would offer a flexible, reliable stream of funding that could be used to issue bonds or leverage other sources of funding to construct or preserve affordable housing units.

### Create streamlined approaches to the rules and approval processes to allow affordable housing development to occur more efficiently.

Development costs associated with lengthy and cumbersome entitlement processes are a key driver of high housing costs in Los Angeles. Reducing local barriers to limit delays and duplicative reviews maximizes the impact of all public investments and tempers rents through reduced development costs. Similar to the streamlined development process the County of Los Angeles implemented for permanent supportive housing, county and city officials could **streamline the approval process** for affordable housing projects, saving developers time and money, and helping to shrink the gap between what developments cost to build and what residents can afford to pay.

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<sup>l</sup> Rudolph, Heather. *Interview Insider: How to get hired at Spotify*. Cosmopolitan. March 2015. Retrieved from <https://www.cosmopolitan.com/career/interviews/a37865/interview-insider-spotify-career-jobs/>

## About the Author



**Gary Painter** is a Professor in the USC Sol Price School of Public Policy at the University of Southern California. He also serves as the Director of the Sol Price Center for Social Innovation and the newly created Homelessness Policy Research Institute. Professor Painter's research interests focus on social innovation, housing, urban economics, and education policy. He is among the world's foremost experts on how changing demographics impact U.S. housing markets, and his current research focuses on how to evaluate social innovation.

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