CCA
White Paper

Building Affordable Housing at Scale

Delivering More Housing for Vulnerable Populations, Faster

July 2022

CCA
CENTRAL CITY ASSOCIATION
OF LOS ANGELES

Cover image: Rendering of Weingart Towers in Downtown Los Angeles.
Image Source: Weingart Center Association

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About CCA

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Established in 1924, Central City Association of Los Angeles (CCA) is the premier advocacy organization in the region and leading visionary on the future of Downtown Los Angeles. Through advocacy, influence and engagement, CCA enhances Downtown LA's vibrancy and increases opportunity in the region. CCA represents the interests of over 300 businesses, trade associations and nonprofit organizations.

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Graphic Design by: Mary Iannacone

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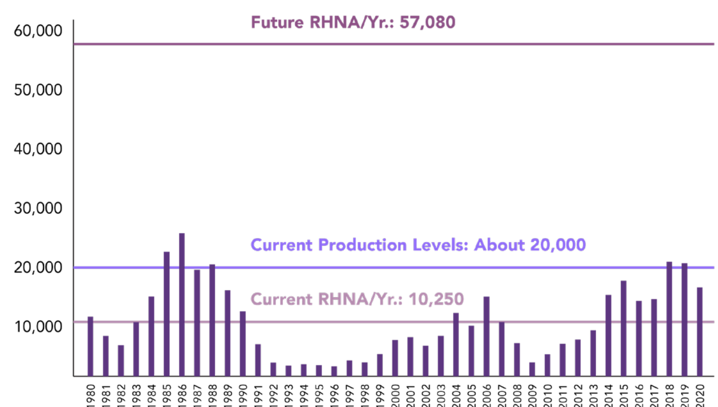
Introduction

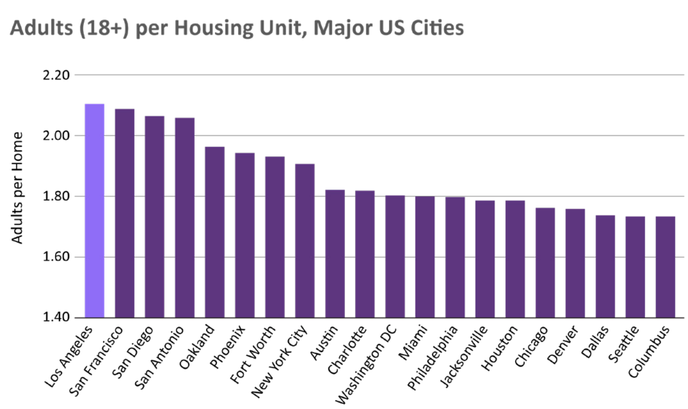
Los Angeles' vast affordable housing and homelessness crisis is well documented. The number of people experiencing homelessness in the City of Los Angeles has nearly doubled in less than a decade, and its share of the County's homeless population has increased as well. Los Angeles also has the fewest number of homes per adult among major cities in the U.S.; if LA had the same number of homes per adult as the U.S. average it would have 130,000 more homes.

The 2021-2029 Regional Housing Needs Assessment (RHNA) indicates that the City of Los Angeles is in a housing deficit of 456,643 units, including 184,721 lower income (i.e., 80% of Area Median Income and below) units. The City would need to average the creation of over 57,000 total new housing units each year for the next eight years to overcome this housing shortage, which would require tripling the amount of housing built in the City currently.

Source: LAHSA Greater Los Angeles Homeless Count

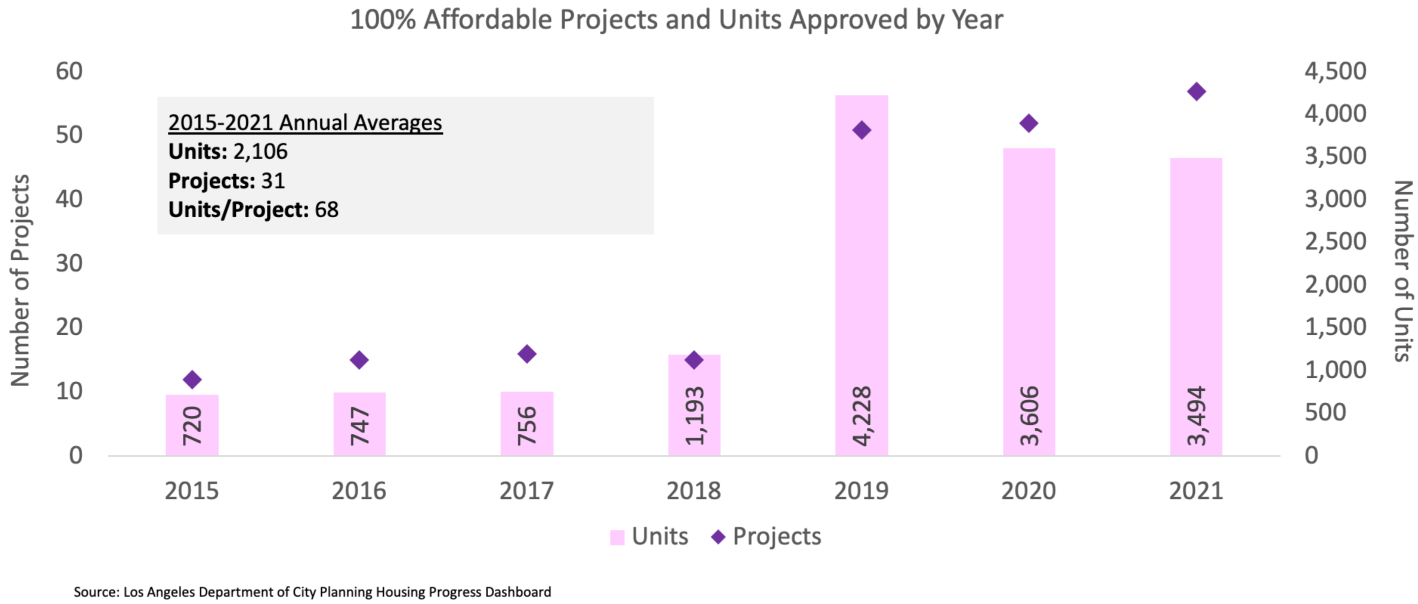


Source: The Plan to House LA, the City of Los Angeles' 2021-2029 Housing Element



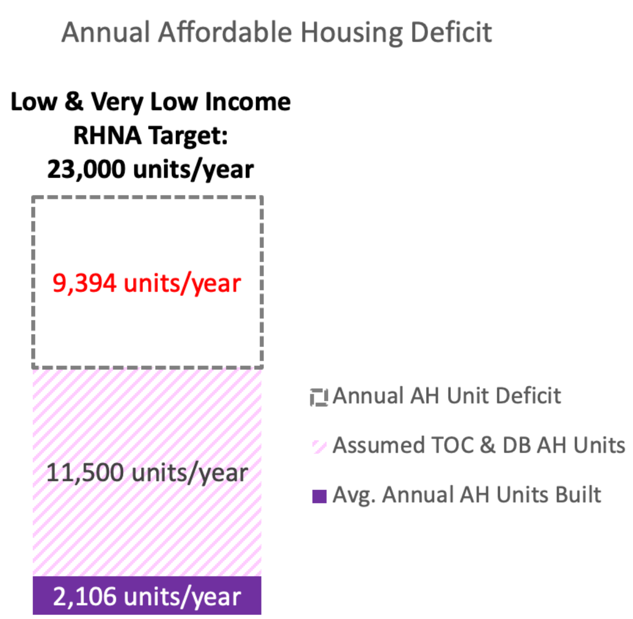
Source: The Plan to House LA, the City of Los Angeles' 2021-2029 Housing Element

Meeting the goal for units affordable to lower income households, the most economically vulnerable residents, would require building over 23,000 units on average annually over the coming eight years, meaning the City would need to produce more than five times the amount of low income units it approved in 2019, its most productive year. The City is currently approving just over 2,100 affordable units per year on average, about 10% of its RHNA target for lower income housing.



Source: Los Angeles Department of City Planning Housing Progress Dashboard

In terms of scale, the annual average of 2,100 units per year have been spread across 31 projects per year, which is an average of 68 affordable units per project. At the rate at which the City has approved affordable housing, and generously assuming half of the annual 23,000 lower income unit target is met via mixed-income programs like Transit Oriented Communities (TOC) and the Affordable Housing Density Bonus in line with current trends, there still remains at least a nearly 9,400 unit per year deficit.



Source: Los Angeles Department of City Planning Housing Progress Dashboard, Southern California Association of Governments 6th Cycle Regional Housing Needs Allocation

At the same scale that the City is building affordable housing (i.e., an average of 68 units/project), 139 additional 100% affordable housing development projects per year for the next eight years would be needed to make up its annual affordable housing deficit. That's more than four times the number of 100% affordable housing projects per year the City approves on average, and more than double its most productive year. Continuing to build at this scale has vast implications for how much more land and individual sites would be needed, how much more staff and capacity is needed at development firms and in government offices to process funding applications and permits, how much more construction noise and activity there would be across the city, how many more construction crews, etc.

At the same scale that the City is building affordable housing (i.e., an average of 68 units/project), at least 139 additional 100% affordable housing development projects per year for the next eight years would be needed to make up its annual affordable housing deficit.

This is complicated by the fact that most 100% affordable housing including Permanent Supportive Housing (PSH) developments targeted to lower income populations require public subsidy in order to be financially viable. Public subsidy is scarce, particularly as the City's $1.2 billion funding from Proposition HHH has been largely expended. **At current affordable housing cost levels*, meeting the 9,400 unit annual affordable housing deficit necessitates at least $4.7 billion to $7 billion of additional funding per year, a significant share of which would necessarily be public subsidy.**

Projects that use public funding also take longer to build than privately-funded projects – typically as long as three to six years to deliver – due to the need to secure several layers of capital and operating funding and associated approvals. Some approvals must be obtained successively, not concurrently, and many require site control prior to granting approval, causing further delays and barriers.

On top of limited available funding and the lengthy development process, the current typical model of approximately 65 units per each 100% affordable development is a modest return in the number of housing units for the time, capital and resources invested in each project. Available land for 100% affordable development is also increasingly scarce, meaning that each 65-unit project is a missed opportunity for more affordable housing that could have been created with a larger project.

The current affordable housing and PSH development model is to chip away at the housing and homelessness crisis with smaller projects, but this model is inefficient and misaligned with the scale and scope of the crises. Opportunities to deliver the amount of housing necessary to address our crises expeditiously are dwindling. Instead, a framework that would enable and encourage bigger projects could help make more of an impact, quicker, and better utilize limited available land. Additionally, adding more units to each project is a more straightforward and efficient proposition than adding 139 more projects per year.

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An analysis prepared by BAR Architects in their report "Housing Angelenos" illustrates the opportunity costs and spatial tradeoffs for building affordable housing across a spectrum of densities. As shown in the below image, at the lowest residential density (R1 zoning), it would take 5,687 acres, roughly the size of the entire area of Griffith Park as well as some of its surrounding areas, to house every one of the city's homeless residents. At the highest residential density (R4 zoning), it would require only 505 acres, an area approximately the size of the University of California, Los Angeles (UCLA) and Westwood Village. While we are not recommending siting housing this densely, these comparisons illustrate the power of density and its role in increasing affordable housing production.

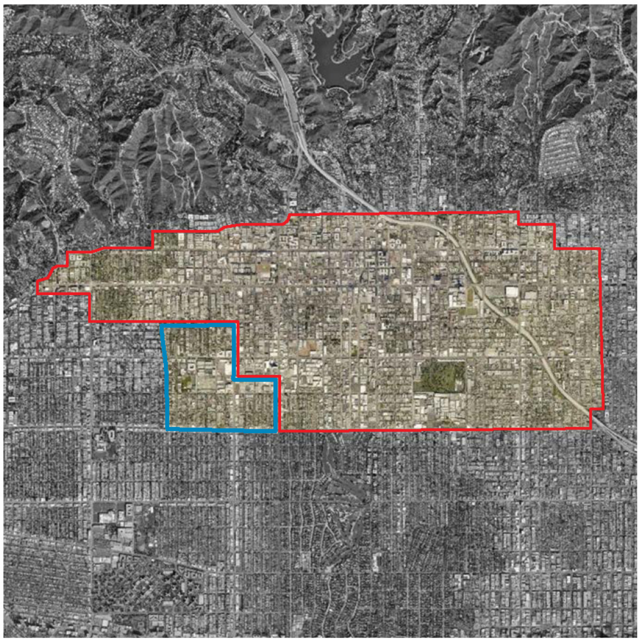
*Assuming an average cost range of $500,000 to $750,000 per unit.

BAR Architects' Analysis of Area Needed to House LA's Entire Homeless Population at Varying Densities

GRIFFITH PARK + FOREST LAWN CEMETERY + AREAS OF LOS FELIZ

5,687 ACRES 41,290 HOUSEHOLDS @ R1 DENSITY

HOLLYWOOD

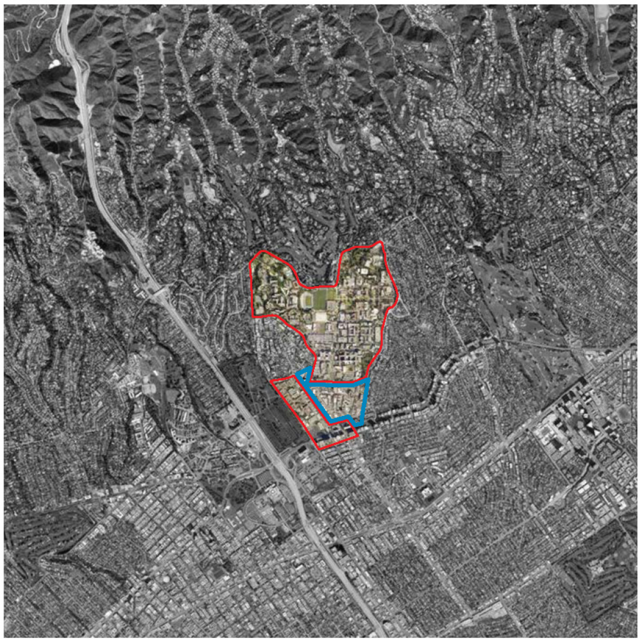


2,962 ACRES 41,290 HOUSEHOLDS @ R1 DENSITY

ELYSIAN PARK + DODGER STADIUM + CHINATOWN STATION

986 ACRES 41,290 HOUSEHOLDS @ R3 DENSITY

UCLA + WESTWOOD VILLAGE



505 ACRES 41,290 HOUSEHOLDS @ R4 DENSITY

Source: BAR Architects

Weingart Tower 1A, a 278-unit PSH development is a 19-story building under construction in Downtown Los Angeles. Led by the Weingart Center Association, the project is a good example of how 100% affordable and PSH projects can be built to scale. In an interview with *Los Angeles Magazine*, Weingart Center Association President and CEO Kevin Murray said, "If the average project is roughly 75 units, we are essentially building four of those projects all at once." It is the largest of any project to receive Proposition HHH funding, with more than double the next closest, the West Third Apartments (a proposed motel conversion with 137 units). Along with Weingart Tower 1B, an adjacent 104-unit 10-story development, they are the only Proposition HHH projects to exceed eight stories and be built with Type I steel and concrete construction. Although not an HHH-funded project, Weingart Center is also planning an 18-story 302-unit PSH development nearby at 600 San Pedro Street. Collectively, these three projects alone will deliver 684 units.

Rendering of Weingart Towers in Downtown Los Angeles
Image Source: Weingart Center Association

Despite a welcome reception by City officials of Weingart Center's three projects and their unmatched volume of affordable housing by other contemporaneously proposed developments, they still faced a lengthy and challenging process of obtaining zoning and land use approvals and cobbling together numerous funding sources. These challenges unfortunately make projects like Weingart Center's exceptions rather than the rule. Ultimately, an overlapping set of land use and zoning rules, development cost drivers and financial incentives all work against larger affordable housing projects.

The purpose of this white paper is to highlight the combination of systemic factors that result in smaller, mid-rise projects as the predominant 100% affordable and PSH typology in Los Angeles, and to offer recommendations for policy changes that would foster affordable housing development at greater scale and pace and on par with the magnitude and urgency of our housing and homelessness crises.

CCA advocates for housing affordable across all income levels and believes that mixed-income development is a vital component of addressing the overall housing shortage, especially if it can be built without relying on public subsidy, which frees up public dollars for other community-serving needs and helps deliver projects faster and more cost-effectively for reasons we outline in this paper.

The importance of mixed-income development to bolstering the City's affordable housing stock is strongly supported by the City's housing production data, which is primarily due to the effectiveness of the Density Bonus and TOC programs. Mixed-income housing is also more likely to be built in high opportunity areas (i.e., those with higher incomes and greater access to jobs and public amenities like schools, open space and transit) than subsidized affordable housing which has been mainly concentrated in lower-resourced neighborhoods. Distributing affordable housing in opportunity-rich areas is a key City housing policy objective. However, this white paper focuses on obstacles to and opportunities for large-scale 100% affordable housing and PSH given the unique challenges these developments face, and the vulnerable populations they serve.

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Barriers to Building Affordable Housing at Scale

Building more affordable housing more efficiently and with less resources is a seemingly universally held policy objective by elected officials and the broader public across Los Angeles and California. Large affordable housing developments do exactly that: University of California, Berkeley's Terner Center for Housing and Innovation (Terner Center) found that "On average, efficiencies of scale translate into a reduction of about $1,162 for every additional unit in a project, or approximately 78 cents per square foot. While not a large dollar figure in relation to total development costs, it suggests that adding even 20 units to a building with only 40 units could result in savings of $20,000 per unit."[2]

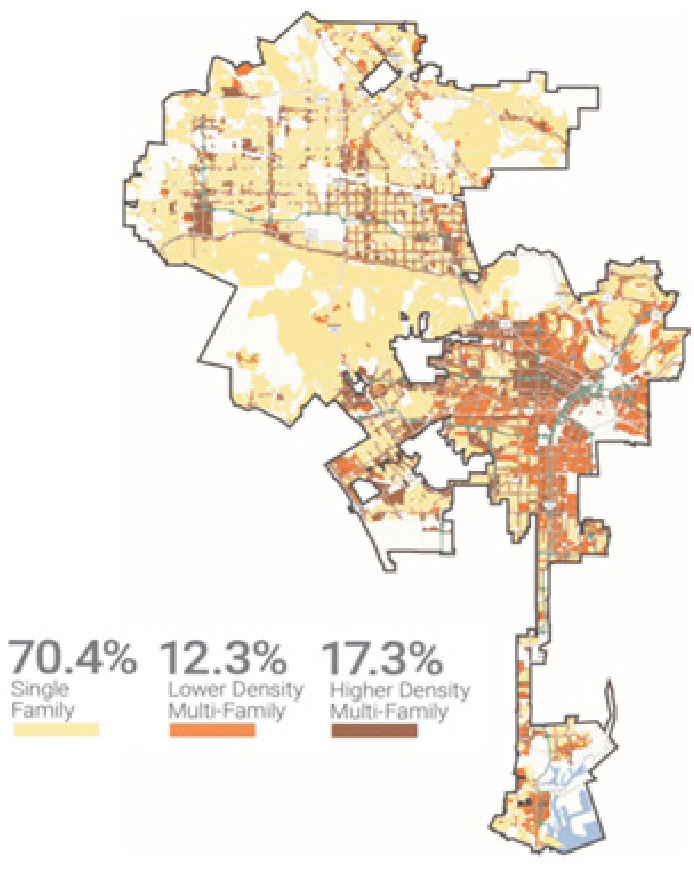
Given this and the great need for affordable housing and PSH, larger developments should be a primary focus for policymakers. However, a web of regulations, development cost and risk factors and limitations of affordable housing financing and funding tools make it challenging to build large affordable housing developments.

Regulation

Outdated and Complex Zoning and Land Use Limitations

The City's Housing Element extensively details the many challenges for housing presented by the City's zoning and land use rules.[3] The root of these constraints is the patchwork manner in which the City's zoning code has been approached for more than a half century:

> It is important to note that the City's Zoning Code was last comprehensively updated in 1946. Every time a complex issue arose, the only practical way to address the problem was to create new zones, entitlements, and overlays. This resulted in a complex code that now has hundreds of standard-format pages and more than 70 types of discretionary entitlements. In addition, over 61.3% of the City is covered by site-specific conditions (called Q, T, & D Conditions), and special overlays.[4]



Source: The Plan to House LA, the City of Los Angeles' 2021-2029 Housing Element

The City's zoning also reflects land use and development patterns characteristic of Los Angeles in the mid-1900s, rather than the contemporary global city and dynamic metropolis it is today. For instance, "over 70 percent of the City's residential land is zoned for single-family housing and only 17% is zoned for densities that can support affordable housing development."[5] Many areas of the city are subject to low Floor Area Ratios (FARs) and building height limits, particularly along commercial boulevards where large multifamily affordable housing development is best suited. Additionally, approximately 8% of the City's land is zoned for industrial uses, precluding residential uses without special approval.[6]

Furthermore, the City requires any housing development with more than 50 units to undergo the Site Plan Review process. Although it does not require more onerous City Planning Commission and City Council approval, Site Plan Review does trigger a more in-depth review process under the California Environmental Quality Act (CEQA), which is subject to public noticing and hearing requirements and can be appealed by project opponents. This adds time and risk to the development process. The PSH ordinance addressed this to an extent by increasing the threshold for PSH projects to 150 units (or 210 units in areas designated as Regional Centers), although it only applies in the limited areas where multifamily housing is already allowed and would still trigger CEQA analysis for large projects, like the Weingart Center developments.

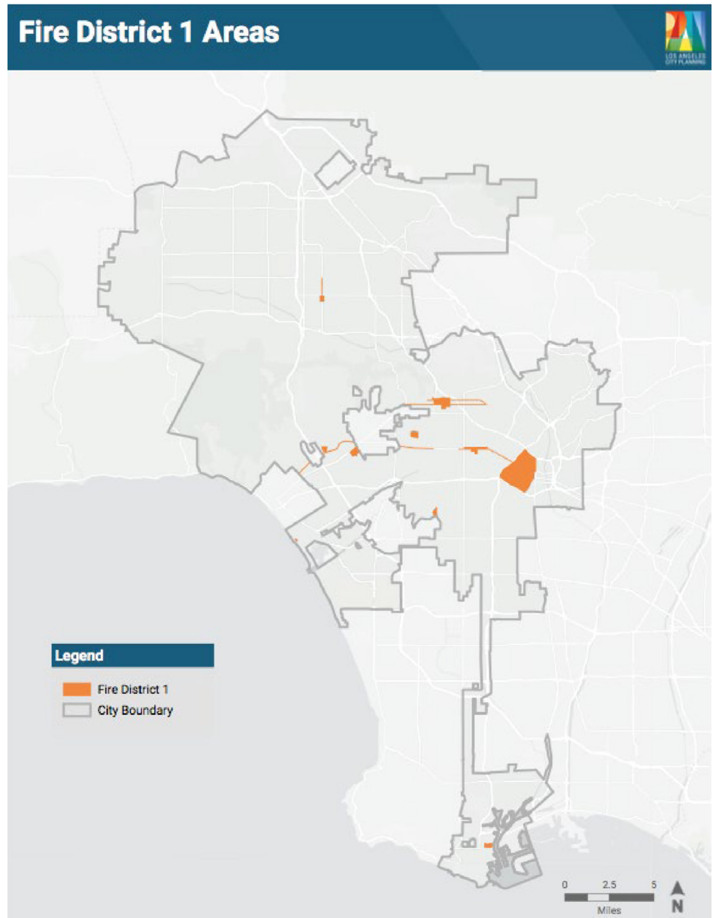
Ultimately, the lack of suitably-zoned land for larger multifamily housing and the City's ad-hoc treatment of zoning has compounded over time to create a cumbersome and complex path to housing development, requiring most large multifamily projects to seek discretionary approval through lengthy, subjective and often politically-charged processes. For example, Weingart Center's 302-unit 600 San Pedro Street project was proposed in an industrially-zoned area of Downtown and therefore required approval from the City Planning Commission and City Council for a General Plan Amendment; Zone Change; Height District Change; reductions in required open space, trees and parking; and Site Plan Review for a project with more than 50 units.[7]

Construction Type Restrictions

Unique among cities in California, the City of Los Angeles has an established Fire District that prohibits certain construction types and materials in areas of the city. Fire District 1 was created in the late 1800s when local municipalities wrote their own building codes and it persists today, although states are now the authors of building standards.[8]

Fire District 1 prohibits Type IV and Type V construction in Downtown, Hollywood, Century City, Baldwin Hills Crenshaw Plaza and along Wilshire Boulevard. Type IV construction is non-combustible heavy timber (including mass timber, a subject which CCA covered in a previous white paper)[9] and Type V construction is generally combustible light timber. Fire District 1 otherwise allows Type I and Type II construction, which are concrete and steel, as well as Type III construction, which typically is fire-protected light timber.

Although it appears as only a modest share of the City's land area, these are areas of the city with disproportionate zoning capacity for new housing. For example, Downtown is only 1% of the city's land area but is projected to account for 20% of its future housing growth.



Source: City of Los Angeles Department of City Planning

For smaller, mid-rise affordable housing and PSH development, Fire District 1 increases construction costs by forcing projects that would otherwise use less expensive Type V wood construction, to utilize more expensive Type I, II or III construction. A report by the Department of Building and Safety (DBS) found that Fire District 1's prohibition on Type V construction increases costs for multifamily housing by 10.6% to 43.3%.[10]

Fire District 1 negatively impacts building larger scale affordable housing by precluding mass timber construction (as it is classified as Type IV) in the dense, job- and transit-rich areas of the city where it is best suited and where there is more zoning capacity. Mass timber is a new advanced form of wood construction that is structurally stronger and less combustible than light timber and other kinds of heavy timber. It is also renewable and can be sourced locally, making it a more sustainable construction material than concrete and steel, and can potentially be a more affordable material as economies of scale are achieved. To spur innovation, the Governor's Forest Management Task Force and the Office of Planning and Research awarded grants for use of mass timber construction, but the City of Los Angeles' Fire District 1 does not currently allow this new typology.

Fire District 1's impacts on affordable housing could be further exacerbated under a possible expansion currently being considered by the City Council that would extend to all areas designated as "Regional Centers" and areas with certain height limits and permissions. City staff found that "an expansion of Fire District 1 would likely reduce the financial feasibility of affordable housing projects and may result in fewer affordable housing units in the City."[11]

Article 34 Limits on Publicly Funded Housing

Article 34 of the State of California's constitution, the Public Housing Project Law, was adopted in 1950 and requires publicly funded low-income housing to obtain voter approval before being allowed to be constructed. The City of Los Angeles achieved a sort of workaround to Article 34 by having voters approve a set number of 3,500 allowable low-income units per each City Council District, however Council Districts 1 and 14, which cover Downtown, are running out of their Article 34 capacity.[12] Unless voters enable more capacity for the Council Districts or Article 34 is repealed soon, 100% affordable housing developments may not be able to obtain public funding without voter approval in the near future.[13]

Importantly, affordable units that are publicly funded within private mixed-income housing developments or are privately funded, like those that are built as projects that utilize the TOC and Density Bonus programs, are not subject to Article 34 limits. This further emphasizes the significant role that mixed-income developments play in supporting the City's affordable housing stock, as well as the need for more privately-funded solutions for affordable housing.

Development Cost and Risk Drivers

Land Acquisition

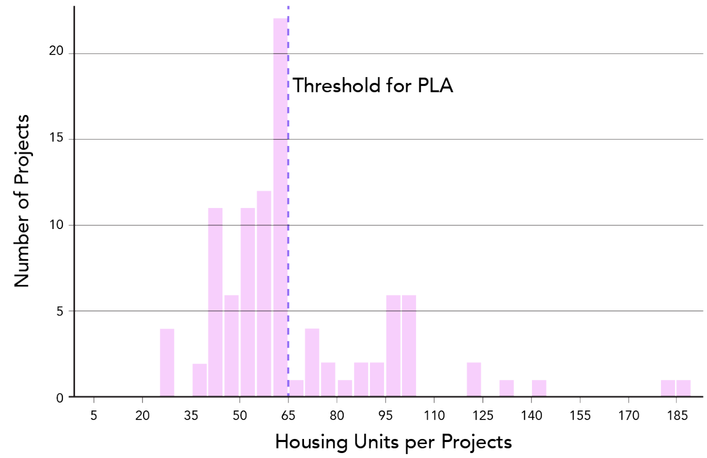
As a desirable coastal metropolis with robust economic activity and diversity, land in Los Angeles is necessarily in high demand and expensive compared to much of the rest of the country. It is particularly challenging for 100% affordable and PSH developments, which virtually all require public subsidy, to compete with market-rate developments for land in high opportunity areas of Los Angeles where market rents can support economically feasible development.[14] In lower resource neighborhoods, market rents may not be high enough to justify the costs of redevelopment, making the market for land in these areas less competitive and easier to access for publicly funded housing. This dynamic is the main explanation for why there are few 100% affordable developments in high opportunity areas and reaffirms the importance of mixed-income development in those areas as a viable pathway for creating new affordable housing without the need for public funding. This pattern is also reinforced by political environments in high resource areas that generally oppose multifamily development coupled with predominantly single-family zoning (and conversely, more available multi-family zoned areas in lower resource areas).

However, land is expensive in all of Los Angeles, but bigger, denser affordable and PSH developments can better justify high land costs compared to smaller projects by producing more homes per square foot of land and effectively getting more "bang for the buck." As a hypothetical example, a 40-unit project built on a $10 million parcel translates to paying $250,000 per each unit for land alone, whereas a 250-unit project equates to paying $40,000 per unit. As most 100% affordable and PSH developments are financed with public funding, the City should aim to maximize the value of each dollar spent on housing by enabling larger, denser developments.

Land Cost per Unit Example	
Land SF	20,000
Price per SF of Land	$ 500
Total Land Cost	$ 10,000,000
Number of Units	**Total Land Cost per Unit**
40	$ 250,000
65	$ 153,846
150	$ 66,667
250	$ 40,000

Labor Costs

A recent report by the RAND Corporation "The Effects of Project Labor Agreements on the Production of Affordable Housing: Evidence from Proposition HHH" acutely documents the impacts of labor agreements and related costs on project scale. Projects that utilized Proposition HHH funding were required to enter in Project Labor Agreements if they had 65 or more units. RAND's analysis found that this requirement resulted in a disproportionate number of projects below 65 units: "There were 22 projects proposed with 60–64 units of housing and only 1 project proposed with 65–69 units of housing."[15] Moreover, RAND also found that the requirement was correlated with higher costs and fewer overall housing units, adding approximately $43,000 per housing unit (a 14.5% increase in construction costs over those not subject to the requirement) and that "more than 800 additional housing units could have been produced with the same level of funding."[16]



Source: RAND Corporation, "The Effects of Project Labor Agreements on the Production of Affordable Housing"

It is important to note that this was a threshold requirement unique to projects using HHH funding, but the outcomes ultimately suggest that these sorts of thresholds, without more critical analysis in the upfront decision-making process and a more comprehensive approach to supporting multiple public objectives, can be detrimental to producing both a greater scale of affordable housing and meeting stated labor goals.

Conversely, Type I and II steel and concrete construction generally have higher union labor workforce involvement because the nature of those projects require more skilled and trained labor and wherein union labor rates are more competitive with non-union rates. Therefore, the City could encourage larger scale affordable and PSH development to simultaneously support its housing and labor policy objectives.

Community Opposition & Public Perception

The history of anti-growth and Not-In-My-Back-Yard (NIMBY) sentiment in Los Angeles and California more broadly is well known and continues to impact planning and housing development, including affordable housing and PSH. A report on the 9% Low Income Housing Tax Credit Program by the Terner Center highlights this issue and its influence over project scale: "As one developer aptly put it: 'It is impossible to overstate the continued resistance to new affordable development in most cities in California.' Developers noted that they often needed to make concessions to density or design to get through the permitting process, and that this works to limit how many units they can build on the lot."[17]

Additionally, the history of urban renewal and federally-funded housing projects in the United States has been mixed. The infamous failure of housing projects like Cabrini-Green in Chicago and Pruitt-Igoe in St. Louis may raise concerns that large-scale affordable and PSH developments would concentrate poverty and unhealthy living conditions.

However, modern-day affordable housing and PSH are markedly different than mid-20th century housing projects. Housing projects of the past often resulted from clearance and razing of established low-income communities, replacing them with uniform banal and institutional-feeling towers-in-the-park style housing without connection to their surroundings, supportive services and amenities or basic maintenance and upkeep. Contemporary affordable housing and PSH is designed to be integrated with communities, employs some of the most thoughtful and innovative architecture, and often includes onsite social services for those in need. Unlike failed federal housing projects that suffered from a lack of maintenance, today's affordable housing operational costs are typically supported by operating subsidy through voucher programs like Section 8 and LA County's Flexible Housing Subsidy Pool (FHSP), although voucher programs are currently undersupplied and more capacity is needed.

Pruit-Igoe, emblematic of 1950's tower in the park public housing project
Image Source: USGS, Public domain via Wikimedia Commons

As the *Los Angeles Magazine* article on the Weingart Tower in Downtown Los Angeles reads:

> To head off complaints from neighbors, the high-rise is designed with extra amenities like a roof deck, a pet relief area, and a fenced-in courtyard to reduce the temptation for residents to congregate on the street outside the entrance. "This is a first-class building which could be in Westwood or Century City, it could be anywhere," Murray says. "It's designed such that without knowing the people in it, you would never know that we were housing formerly homeless people."[18]

Ultimately, it is important that in solving the issue of scale we do not create a new problem of concentrating poverty in which people with unique needs and of certain income levels live in isolation. Architecture, design and a high standard of maintenance are key tools to ensuring that affordable and PSH buildings provide their residents with dignity and integrate with their surroundings, but a broader focus on community building and mixing populations with diverse backgrounds within buildings and neighborhoods is needed, further affirming the crucial role that a multitude of housing options plays, including market rate and mixed-income development alongside 100% affordable housing.

The Six completed by Skid Row Housing Trust in 2016
Image Source: Skid Row Housing Trust

Financing and Funding Sources

Lack of Sufficient Funding

First and foremost, there is a lack of funding for affordable housing needed to match the scale of the crisis. A combination of factors has caused this including diminishing federal funding support for housing, a declining value of tax credits and increasing development costs, but the dissolution of Redevelopment in 2012 has notably left Los Angeles and other California cities with a severe shortage of affordable housing funding, as shown in the chart below. Through Redevelopment, cities were previously able to generate a local source of funding for affordable housing through tax increment financing (TIF), a mechanism by which cities could bond against future tax revenues from designated areas. The State of California has adopted similar TIF tools like Enhanced Infrastructure Financing Districts (EIFDs) and Community Revitalization and Investment Authorities (CRIAs), but none of these mechanisms are as robust or flexible as Redevelopment was.

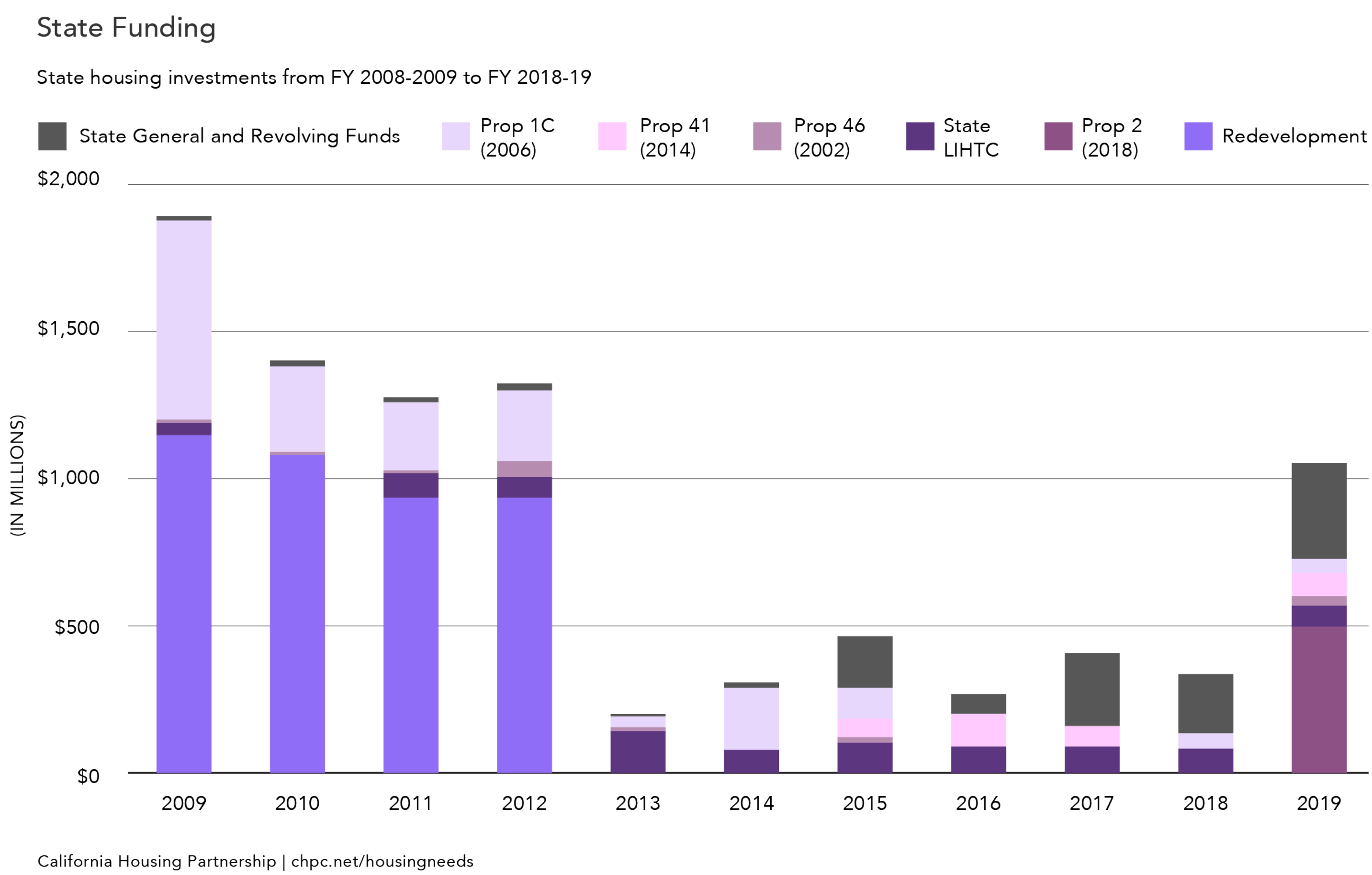
The State of California has begun committing more resources to fund affordable housing and the City of Los Angeles has created some new sources of affordable housing funds through Proposition HHH and the Affordable Housing Linkage Fee (AHLF). However, the $1 billion of funds created by Proposition HHH has largely been spent and the AHLF has yielded only approximately $40 million over the three years since its adoption. Redevelopment was the single most powerful source of annual local funding for housing and it has not been sufficiently replaced.

Financial Disincentives for Larger Projects

Public funding sources typically include limits on loan amounts per individual project, and the limits are often set as nominal amounts based on total project cost, rather than per unit or per square foot costs. This disadvantages larger projects even if they are more cost efficient and have lower per unit or per square foot costs than a smaller project, because smaller projects will likely have lower total nominal costs. For example, a 40-unit project at $600,000 per unit has a total development cost of $24 million, whereas a 150-unit project at $500,000 per unit has a total development cost of $75 million.

A Los Angeles Department of City Planning report captures this point:

> The Affordable Housing and Sustainable Communities Grant (AHSC), Infill Infrastructure Grant (IIG), Multifamily Housing Program (MHP), and the Low Income Housing Tax Credit (LIHTC) all have maximum loan amounts...All of these programs also provide additional points for projects that have greater financial leverage or lower costs, which make more expensive housing projects less competitive for funding.[19]



Source: UC Berkely Terner Center for Housing Innovation, "The Complexity of Financing Low-Income Housing Tax Credit Housing in the United States"

The Terner Center has noted similar challenges for developers using LIHTC:

> The Tax Credit Allocation Committee also sets a cap on the amount of funding that can be allocated to any one project. However, with development costs rising, the "cap" on funding in the 9% credit program is often too low for larger projects. Developers sometimes split larger projects into multiple phases, and/or propose projects that are smaller than what could be built on the parcel. In Santa Clara County, for example, one developer explained that "we have given up on doing a 9% project that is above 60 units. Because of the cap, we can't propose larger, more efficient projects." Developers also shared that as a result, they have increasingly been turning to the 4% credit program for larger projects. Developers also noted that larger projects also make it more difficult to find sufficient local gap financing to make a larger project pencil. For example, a developer who builds in the Central Valley explained: "We've settled on the 'sweet spot' of doing between 50-60 units at a time, because that is the only way we can find sufficient gap financing to make a 9% tax credit deal work. The bigger the project, the bigger the gap."[20]

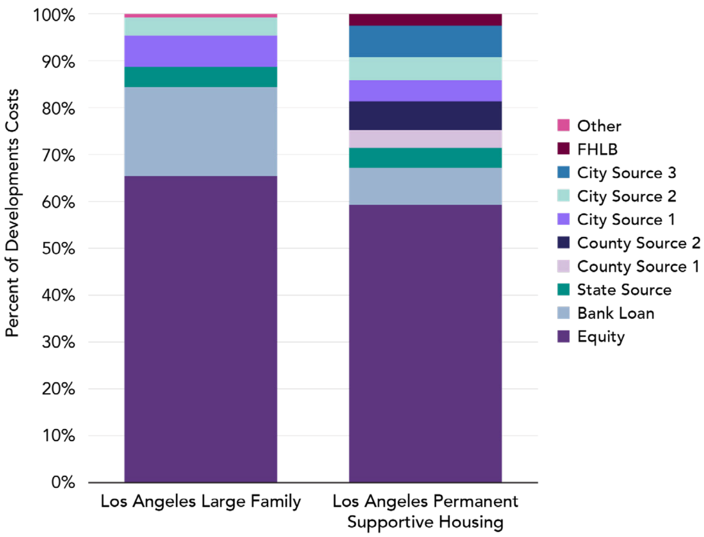
As total funding amounts are limited nominally, so too are developer fees. Developer fees are the financial reward that affordable housing developers seek to earn and are ultimately the way that they financially sustain their organizations through their projects. Maximum developer fee amounts may change based on certain criteria, but their nominal limits cap what a given developer may earn on a project, and they often disincentivize larger, more expensive projects. If a developer can earn the same total fee on a less expensive 60-unit as on a more expensive 150-unit project, there is no financial incentive for that developer to build the larger project.

Multitude of Funding Sources

Affordable housing developers often must secure many layers of funding from various sources in order to finance a single development project: "On average, developers need to pull together 3.5 different funding sources to make a development pencil, with some developments requiring as many as 11 sources on top of tax credit equity."[21] The following chart shows the capital stack for two Los Angeles projects that were awarded 9% tax credits in 2019, which pulled together City, County, state and federal funding sources, including multiple from some levels of government, as well as a bank loan.

Because 100% affordable housing and PSH developments are largely money-losing enterprises, banks are not able to lend the same amounts that they are able to for a conventional market rate or mixed-income project that is financially solvent without public subsidy. For a conventional apartment, banks typically lend 70-80% of project costs. For an affordable housing or PSH development, banks will usually lend 30-40% of project costs. Beyond the inability to secure more debt capital, affordable housing funding opportunities are often designed to reward projects that tap into many funding sources to decrease financial exposure and risk by any one single funding source.

Capital Stack Composition for Two 9% New Construction Developments in Los Angeles Awarded in 2019



Source: Data scraped from applications posted online. State and federal tax credits have been combined into one category to represent total tax credit equity.

Source: UC Berkely Terner Center for Housing Innovation, "The Complexity of Financing Low-Income Housing Tax Credit Housing in the United States"

Amid a housing and homelessness crisis when resources are scant and urgency is paramount, this adds tremendous inefficiency to the development process by creating added costs in the form of additional fees for staff, consultants and lawyers to apply to and secure each individual funding source, holding costs for owning land, and making it altogether more time-consuming. There are also significant opportunity costs with the current funding system that necessitates many different sources: for every dollar spent on a consultant for another funding source, it is one less dollar toward constructing housing; for every month spent applying to funders, it is one less month constructing housing and potentially one more month for a homeless individual spent living in shelters, in a vehicle or on the street.

While the need for securing multiple funding sources impacts all publicly funded affordable housing development, it presents added challenges for more expensive and more capital intensive large-scale projects.

Competitive Strategy

Until recently, certain funding sources, like 4% tax credits, were abundant enough that developers who applied for them were guaranteed funding, but the funding environment has changed with the overall lack of available funding and the high demand for affordable housing, making virtually all affordable housing funding opportunities competitive. This pits projects against each other each funding cycle, meaning that some will advance, and others will be delayed or abandoned. Because affordable housing funding criteria and conditions have historically discouraged larger projects and rewarded approximately 60-unit projects, they have in turn shaped developer behavior and competitive strategy to be geared toward proposing smaller projects.

The limited pool of tax credits and other affordable housing funds in any given year makes it risky for developers to propose larger, more expensive projects, as they would necessarily take away from funds that could potentially be more widely distributed to several smaller projects, a tradeoff that funding decisionmakers have been reluctant to make. Funding opportunities only occur once or twice per year, so if a developer proposes a large project but it is not awarded funding in that cycle, it means the project will be delayed for at least a year and could be further delayed if it is still not seen as competitive in future cycles.

Additionally, affordable housing developers rationally often consider prior funding cycles and projects that were awarded funds as a guidepost for the kinds of projects and development programs that they believe will be more competitive in upcoming funding cycles – it has become a self-reinforcing pattern.

There are also significant opportunity costs with the current funding system that necessitates many different sources: for every dollar spent on a consultant for another funding source, it is one less dollar toward constructing housing; for every month spent applying to funders, it is one less month constructing housing and potentially one more month for a homeless individual spent living in shelters, in a vehicle or on the street.

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Recommendations

To address the many factors that have fostered an inefficient model of producing 100% affordable housing and PSH, we offer the following recommendations to instead enable larger affordable housing developments and to better yield affordable housing at scale:

Recommendation #1.

Adopt an Affordable Housing Overlay (AHO) mechanism, but ensure it meaningfully exceeds Density Bonus and TOC program incentives and reconciles differences among various programs to be simple, clear and maximize usability.

The general concept of an Affordable Housing Overlay (AHO) is to provide various incentives, like relaxed height, density, parking and FAR limitations, for projects with more than 50% of units set aside as affordable housing, and to allow these projects by-right.

The Housing Element includes the consideration of an AHO in its future rezoning program to meet the City's RHNA unit targets, estimating that it could yield over 45,000 units within high-opportunity areas. Councilmember Nithya Raman has also introduced a motion for a report back on the potential for an AHO, referencing the existence of such tools in Cambridge and Somerville, Massachusetts.[22]

This could be a useful tool for large affordable housing developments to overcome outdated and overly restrictive zoning that covers much of the city. However, an AHO must be more aggressive than Density Bonus and TOC to effectively support such projects, and reconcile differences among existing programs.

Currently, there are tradeoffs as developers consider pursuing a Density Bonus projects vs. a TOC project. For example, a project within a ½-mile of a transit station can achieve unlimited density through the Density Bonus (pursuant to AB 2345) whereas the maximum density increase under TOC is 80%, but a Density Bonus project is more likely subject to lengthy and risky discretionary review than a TOC project. The AHO should be designed to create the most compelling and clearest path of least resistance to facilitate affordable housing, which means waiving height, density limits and parking requirements entirely, providing generous FAR bonuses and requiring only ministerial approval.

Rendering of Renaissance Tower in Downtown Los Angeles
Image Source: Glavovic Studio and AIDS Healthcare Foundation

Recommendation #2.

Eliminate Site Plan Review thresholds or realign them with more appropriate environmental metrics like vehicle miles travelled (VMT) instead of a hard unit count.

CCA continues to strongly advocate against Site Plan Review thresholds, which arbitrarily require more onerous and costly review, create risk and legal vulnerability and politicize housing developments with more than 50 units (and for PSH projects with more than 150 or 210 units, depending on location). Although there have been prior initiatives by the City Council to address Site Plan Review, they have stalled.[23] Additionally, the Housing Element mentions the ongoing work of some Community Plan Updates that are increasing Site Plan Review thresholds by Community Plan area, and the potential for further modification to Site Plan Review.

All related efforts have largely focused on simply increasing the threshold, rather than eliminating the threshold or using a more appropriate metric. Setting the threshold as a hard unit count penalizes and discourages dense, infill development, but these kinds of developments are more environmentally friendly and yield the volume of housing needed amid our crisis. Instead, metrics like vehicle miles travelled (VMT) are more sophisticated and appropriate for determining the level of environmental review needed for a project.

Additionally, there is a clear rationale for eliminating Site Plan Review for any project that conforms with existing zoning. It is redundant to require an additional level of review for projects that meet the applicable zoning requirements and defeats the original intent of zoning to serve as an areawide blueprint for growth.

Recommendation #3.

Allow 100% affordable developments on public and religious-owned land by-right.

In addition to an AHO, the Housing Element also assesses the potential for the City's future rezoning program to allow 100% affordable developments by-right on public and religious-owned land, estimating that over 11,200 units could be created with this approach. However, the Housing Element assumes that developments resulting from this policy would be low- and mid-rise. The City should pursue this policy, but allow for larger scale developments where appropriate, such as in high-opportunity areas as well as transit- and/or job-rich neighborhoods.

Recommendation #4.

Update Fire District 1 to allow mass timber construction.

Fire District 1 currently prevents potentially larger scale affordable housing mass timber development in the city's urban areas. The City's own report found that it increases costs for housing and likely results in less affordable housing without providing any meaningful public safety benefits. Mass timber is an innovative and sustainable construction material that the City should embrace to fill a gap in its housing needs, particularly for larger scale affordable housing developments of up to 18 stories. It is particularly important for 100% affordable developments to be encouraged to use mass timber in its relative early stages as a construction material option, as public funding for its use now can help the mass timber industry achieve economies of scale that will lower costs and increase efficiency in the long term.

The City should update Fire District 1 to enable more widespread use of mass timber construction, which could support larger 100% affordable housing developments.

Recommendation #5.

Support statewide repeal of Article 34 of the California Constitution, and increase affordable housing capacity for City of LA as a backstop.

Although there have been several attempts to repeal Article 34, three prior ballot initiatives have failed.[24] Senators Scott Wiener and Ben Allen continue to advance State Constitutional Amendment 2 (SCA 2) to place a repeal of Article 34 on the ballot again, but there is currently no organized campaign to do so.[25] Additionally, the Housing Element states that "the City intends to put a new Article 34 measure on either the June or November 2022 ballot in an effort to increase the authority and minimize the likelihood of Council Districts running out [of allowable publicly funded affordable housing capacity without requiring project-by-project voter approval]. Research is underway to determine which of the two 2022 ballots will be best for the measure." Public officials, the private sector and other affordable housing stakeholders should strongly support these efforts and organize to finally repeal Article 34, which will reduce barriers to affordable housing.

Recommendation #6.

Work with labor unions to establish appropriate approaches to project labor agreements.

RAND's analysis shows how project size thresholds for labor requirements can influence developer behavior and encourage limited scale projects. Ensuring well-paying, high quality construction jobs and skilled labor for development projects are worthwhile policy objectives in addressing our affordable housing needs. A 2021 UC Berkeley Study, "The Public Cost of Low-Wage Jobs in California's Construction Industry" showed that almost half the families of construction workers are enrolled in at least one safety net program to bridge the gap between their wages and the cost of supporting a family at an annual cost of more than $3 billion in public funds.[26] Moreover, Type I and II construction have higher propensities for unionized work such that fostering more high-rise and larger-scale affordable housing development will support the creation of more high-skilled and unionized jobs.

Recommendation #7.

Create and/or realign funding sources to provide single-source or larger shares of project equity.

The multitude of funding sources typically required for affordable housing and PSH projects makes them both more costly and take longer to implement.

In a *Los Angeles Business Journal* article on SDS Capital Group, a private development firm that has successfully raised over $150 million for a fund focused on PSH, Miguel Santana, President and CEO of the Weingart Foundation and former Los Angeles City Administrative Officer, commented that "when a project has all of its funding coming from one place, the construction timeline can be cut in half, which also helps reduce overall costs."[27] In the same article, Tim Roth, CEO of RMG Housing, a developer working with SDS Capital Group, adds that his firm is able to build units for approximately $200,000 per unit compared to the average $500,000 per unit for conventional publicly-funded affordable housing, and that "the units are cheaper because using private capital speeds up the timeline and eliminates some of the attorney and banking fees, carry costs, and other fees and requirements associated with public funding sources."[28] RMG Housing and SDS Capital Group's projects "take roughly two years to complete, whereas other projects can take five to seven years on average to complete, largely because of the decreased time needed to finance the units."[29]

The recently constructed Hilda L. Solis Care First Village, which includes 232 temporary beds for homeless individuals near Chinatown, also demonstrates the time and cost savings of reducing the amount of funding sources needed. The project was funded almost entirely using federal CARES Act dollars granted to Los Angeles County as a response to the economic fallout of the COVID-19 pandemic, and was completed "from start to finish in under five months and at a cost of about $200,000 per bed."[30] The large primary funding source is not the only reason the project was comparatively inexpensive and expedient – the project also benefitted from using a combination of modular shipping containers and trailers, was able to forgo CEQA review and discretionary approval, and was managed by a well-organized and motivated team – but it was an important component.

Senate Bill 679 (SB 679) introduced in 2021 by Senator Sydney Kamlager would establish the Los Angeles County Affordable Housing Solutions Agency (LACAHSA), a centralized and regional housing department that would have capacity to fundraise and finance affordable housing and PSH developments on an ongoing basis.[31] The bill did not proceed in 2021. The passage of SB 679 and creation of LACAHSA would be an important step in creating an entity that could provide larger and possibly singular shares of project equity for affordable housing projects.

Lawmakers should adopt SB 679 and make additional efforts to remove incentives for affordable housing funding sources, particularly LIHTC, to reward utilizing multiple funding sources while also enabling projects to use larger shares of their capital stack from individual sources. Assembly Bill 434 (AB 434) adopted in 2020 is a positive step in this direction by creating a Super Notice of Funding Availability (NOFA) to consolidate all of the state's housing funding programs into a single application and award process.[32]

Hilda Solis Care First Village in Downtown Los Angeles
Image Source: Central City Association

Rendering of SDS Capital's Dolores Huerta Apartments
Image Source: SDS Capital Group

Recommendation #8.

Revise funding caps and the structure of developer fees to reward larger, denser projects that more efficiently produce housing.

Regulations for tax credits and other affordable housing and PSH funding sources should be amended to remove nominal caps on funding for individual projects and developer fees, and instead incentivize developments that are cost efficient and thoughtfully maximize utilization of land (i.e., density).

Recommendation #9.

Work with the private sector, Community Development Financial Institutions (CDFIs) and philanthropic organizations to create more innovation and opportunity for 100% affordable housing and PSH without public subsidy.

As discussed under Recommendation #7, private sector firms like SDS Capital Group and RMG Housing have begun innovating solutions to build 100% affordable housing and PSH developments without requiring public subsidy, which saves time and costs in delivering housing. The largest contributors to SDS Capital Group's $150 million fund are healthcare provider Kaiser Permanente which invested $50 million and Ally Bank which invested $20 million.[33] In a press release, the other fund investors are listed as "Synchrony Bank, East West Bank, CIT Bank, the Weingart Foundation, Western Alliance Bank, Hudson Pacific Properties, Pacific Premiere Bank,…Charles Schwab Bank, First Republic Bank, California Community Foundation, and the Annenberg Foundation."[34]

Another company, Flyaway Homes, is also building entirely privately-financed 100% affordable and PSH developments in Los Angeles by utilizing pre-fabricated modular housing units from shipping containers, with a mission of delivering units "in a third of the time at a third of the cost" than publicly funded housing.[35] Their first project took just seven months to build and produced 32 units at a cost of approximately $120,000 per unit.[36]

In Downtown, Simon Baron Development recently completed a renovation of the Cecil Hotel to deliver 600 affordable co-living units in partnership with Skid Row Housing Trust.[37] Nearby on Skid Row, the AIDS Healthcare Foundation and Healthy Housing Foundation have broken ground on the 15-story Renaissance Center that will have 216 units of affordable housing.[38] Both of these Downtown projects are entirely privately-financed.

These burgeoning private sector affordable housing and PSH models indicate the potential for creative construction and financing solutions without relying solely or as heavily on conventional public funding for housing, which could translate to meaningful savings of public dollars, produce units much faster and provide many more possibilities to create affordable housing. Through research and interviews, CCA identified a common set of approaches that developers employ to achieve projects that are economically feasible by reducing costs wherever possible, maximizing efficiency of the site and project through high densities of small units and delivering projects expediently. Greater collaboration among the private sector, CDFIs and philanthropic organizations, supported by government through providing easier regulatory pathways to building housing and vocal support, could provide an important and powerful tool for more abundant and faster affordable housing production.

Recommendation #10.

Amend the California Property Tax Welfare Exemption to no longer require affordable housing to obtain public subsidy, unlocking greater potential for privately financed affordable housing.

The Property Tax Welfare Exemption is an important cost savings mechanism that can support the financial viability of privately financed affordable housing developments. However, California's Constitution requires that developments obtain some government financing in order to qualify for the tax abatement, which limits the ability of privately financed affordable housing to benefit.[39] Private developers of affordable housing can currently essentially skirt this requirement and claim eligibility by securing loans from the U.S. Department of Housing and Urban Development (HUD) or obtaining small grants or loans from other public entities, which are faster and less competitive public funding pathways than conventional affordable housing funding sources like LIHTC. Nevertheless, this provision creates an unnecessary hurdle for projects that could otherwise be financed entirely with private dollars and not use any public funding.

Recommendation #11.

Expand local flexible housing voucher options, like the County's Flexible Housing Subsidy Pool (FHSP).

Federal housing vouchers, namely the Section 8 program, have long been oversubscribed and undersupplied. Federal vouchers also typically come with various layers of requirements that limit their use. The Flexible Housing Subsidy Pool (FHSP) launched by the LA County Department of Health Services in a public-private partnership with the Conrad N. Hilton Foundation and Brilliant Corners in 2014 has been a promising supplementary local program for delivering housing vouchers, particularly to those tenants and projects that might not qualify for federal vouchers. The FHSP has helped house 9,259 people since it was created, and the County is considering future investments into the program.[40] The County and its partners should further fund the FHSP as a meaningful tool to support PSH and affordable housing operations, and the City of LA should seek opportunities to establish similar local flexible voucher programs as well.

Keys to Making 100% Privately-Financed, 100% Affordable Developments Work

Micro-Units + High Density/Maximize Utilization of Land

A high volume of small units is necessary to achieve rents per square foot that support a project's financial viability

Fast Project Delivery

Modular construction is commonly used for shorter delivery timelines, meaning revenue can be generated quicker

Lower Barriers to Entry

Discounted land and/or repurposing existing operating buildings can reduce upfront costs

No Parking

Parking is a major cost driver and loss leader

Diverse Capital Resources + Trusted Capital Relationships

Many equity partners and existing assets, cash flow and established connections help compel conservative lenders

Reduced Development Fees

All cost savings help

Property Tax Abatement

California's Constitution provides a Property Tax Welfare Exemption for some affordable housing developments

Streamlined Permitting and Entitlements

Greater certainty and less risk

Summary of Recommendations

Recommendation #1. Adopt an Affordable Housing Overlay (AHO) mechanism, but ensure it meaningfully exceeds Density Bonus and TOC program incentives and reconciles differences among various programs to be simple, clear and maximize usability.

Recommendation #2. Eliminate Site Plan Review thresholds or realign them with more appropriate environmental metrics like vehicle miles travelled (VMT) instead of a hard unit count.

Recommendation #3. Allow 100% affordable on public and religious-owned land by-right.

Recommendation #4. Update Fire District 1 to allow mass timber.

Recommendation #5. Support statewide repeal of Article 34 of the California Constitution, and increase affordable housing capacity for City of LA as a backstop.

Recommendation #6. Work with labor unions to establish appropriate approaches to Project Labor Agreements.

Recommendation #7. Create and/or realign funding sources to provide single-source or larger shares of equity.

Recommendation #8. Revise funding caps and the structure of developer fees to reward larger, denser projects that more efficiently produce housing.

Recommendation #9. Work with the private sector, Community Development Financial Institutions (CDFIs) and philanthropic organizations to create more innovation and opportunity for 100% affordable housing and PSH without public subsidy.

Recommendation #10. Amend the California Property Tax Welfare Exemption to no longer require affordable housing to obtain public subsidy, unlocking greater potential for privately financed affordable housing.

Recommendation #11. Expand local flexible housing voucher options, like the County's Flexible Housing Subsidy Pool (FHSP).

Summary of Recommendations by Funding Source

Publicly-Funded

- **Support Statewide repeal of Article 34** of the California Constitution, and increase affordable housing capacity for City of LA as a backstop
- Work with labor unions to establish **appropriate approaches to Project Labor Agreements**
- Create and/or realign funding sources to **provide single-source or larger shares of equity**
- Revise funding caps and the structure of developer fees to **reward larger, denser projects that more efficiently produce housing**

- **Adopt an Affordable Housing Overlay** and ensure it exceeds Density Bonus and TOC program incentives and reconciles program differences
- **Eliminate Site Plan Review thresholds** or realign them with more appropriate environmental metrics like VMT instead of a hard unit count
- Allow 100% affordable on **public and religious-owned land by-right**
- **Update Fire District 1** to allow mass timber
- **Expand local flexible housing voucher options**, like the County's Flexible Housing Subsidy Pool (FHSP).

Privately-Funded

- Work with the private sector, CDFIs and philanthropic organizations to create **more innovation and opportunity for 100% affordable housing and PSH without public subsidy**
- **Amend the California Property Tax Welfare Exemption to no longer require affordable housing to obtain public subsidy**, unlocking greater potential for privately financed affordable housing

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