WESTERN STATES CARPENTERS

RCLCO
REAL ESTATE CONSULTING

ECONOMIC ANAYSIS TO SUPPORT HOUSING DEVELOPMENT IN LOS ANGELES

BACKGROUND & INTRODUCTION

The Western States Regional Council of Carpenters (WSRCC) represents nearly 100,000 hardworking men and women in construction across twelve states, with the majority of their members living and working in Southern California. Members share the City's goal of rapidly building substantially more housing and aligning efforts to ensure the construction workforce is not exploited in the name of reducing development costs. WSRCC believes new housing policy should encourage increasing project density, eliminating administrative obstacles, and include labor standards so that hardworking men and women in the construction industry, whether in our union or not, are treated with dignity, respect and are properly compensated for their work.

In order to meet the ambitious housing production goals and prevent further strain on the shrinking residential construction workforce, WSRCC is committed to working with key stakeholders in the public and private sectors to identify ways to increase the supply and accelerate the development of new housing.

The WSRCC engaged RCLCO as its economic consultant to provide analytics and research that helps answer key questions, such as:

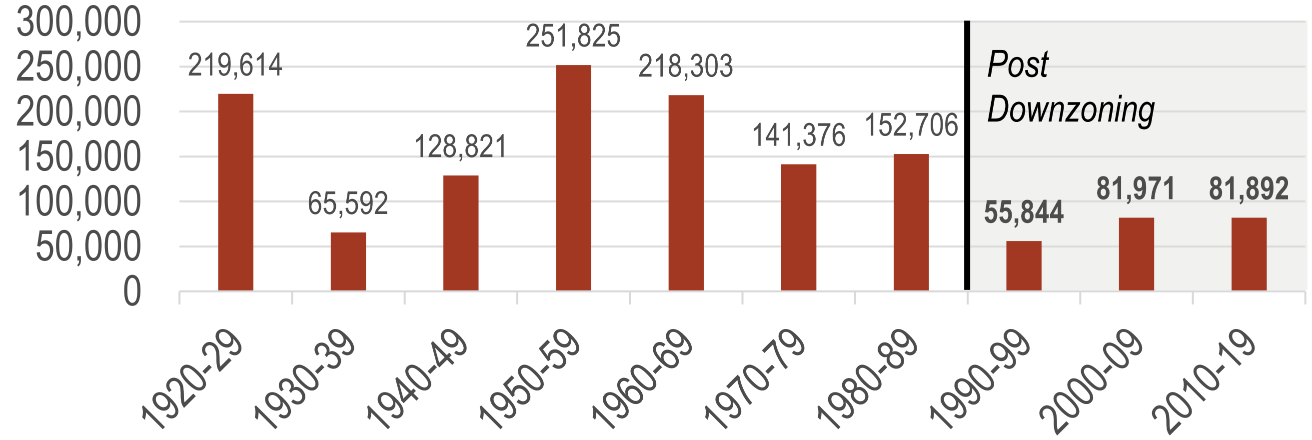
- What are the broader barriers to development in Los Angeles? How could removing these barriers improve project feasibility and allow for greater opportunities to support fair labor standards?
- What could be done to spur housing development at scale?
- What progress has been made recently and where/why have new programs fallen short?
- How can new incentives work to create opportunities for housing and construction jobs in key growth areas in Los Angeles?
- What does an ideal housing incentive program look like that can benefit all parties involved (the City, developers, local communities, the construction workforce, and so on)?

THE PROBLEM

Los Angeles does not have enough housing, and this is largely a structural/policy problem, not a market demand problem

- Proposition U (1986), driven by voter initiative, and the bottom-up community plan update process dramatically reduced development potential both along commercial corridors and in residential neighborhoods
- Emerging from the Great Financial Crisis, the City of Los Angeles was at 92% of its zoned capacity
- The introduction of new incentive programs (such as Transit Oriented Communities) have moved the needle, but density follows "path of least resistance" – very little built in highest-opportunity neighborhoods

Total Housing Units by Decade Built; Los Angeles, CA



According to a UCLA research report, Proposition U "has gone down in history as a key driver of LA's notoriously low-slung urban form"

Population vs. Zoned Capacity; Los Angeles, CA

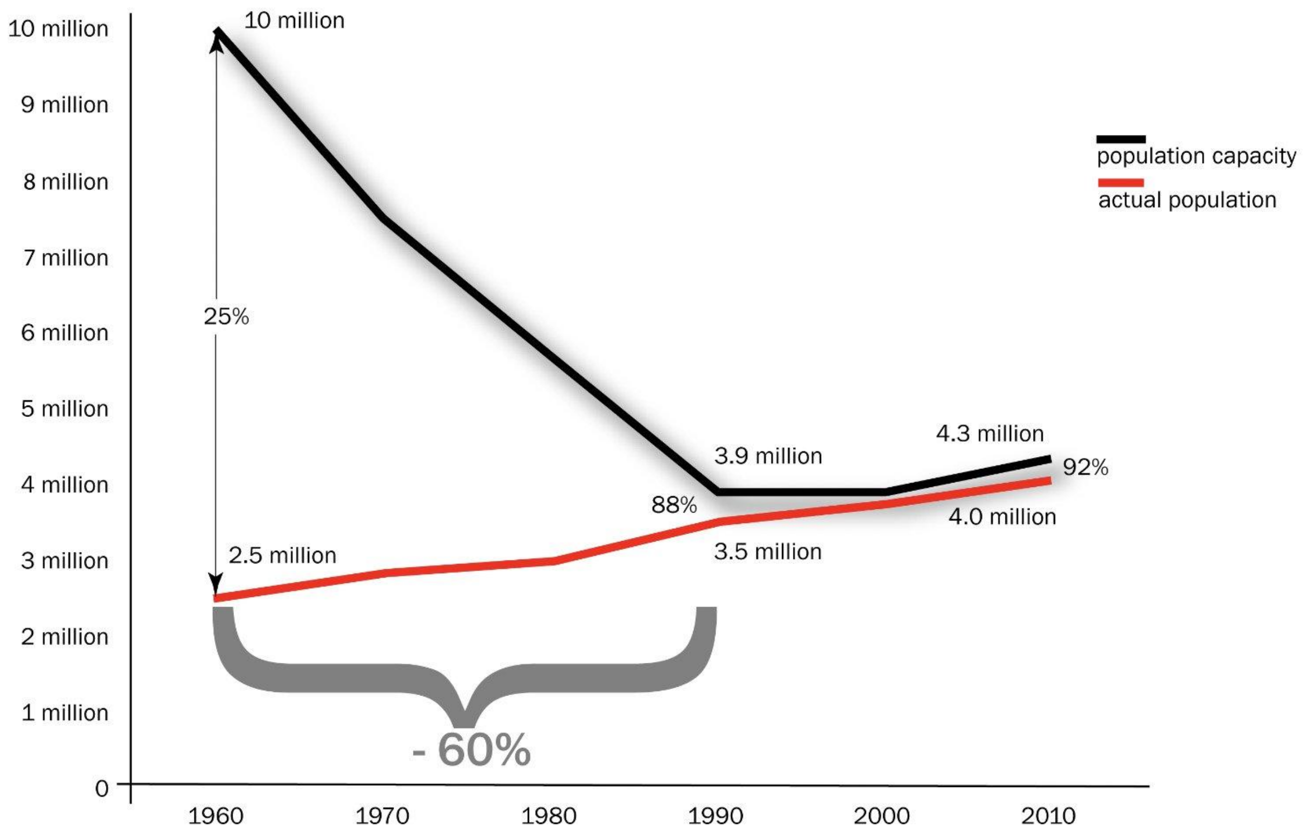


Fig. 1-1: Down-Zoning versus Population Growth

Data Sources: Census and all 104 Community Plans (cumulative population capacity)

From Morrow (2013)

Source: Los Angeles County Assessor; Morrow / University of California, Los Angeles

BROADER BARRIERS TO DEVELOPMENT

Amid broader industry headwinds, developers have a lower tolerance for City-imposed barriers

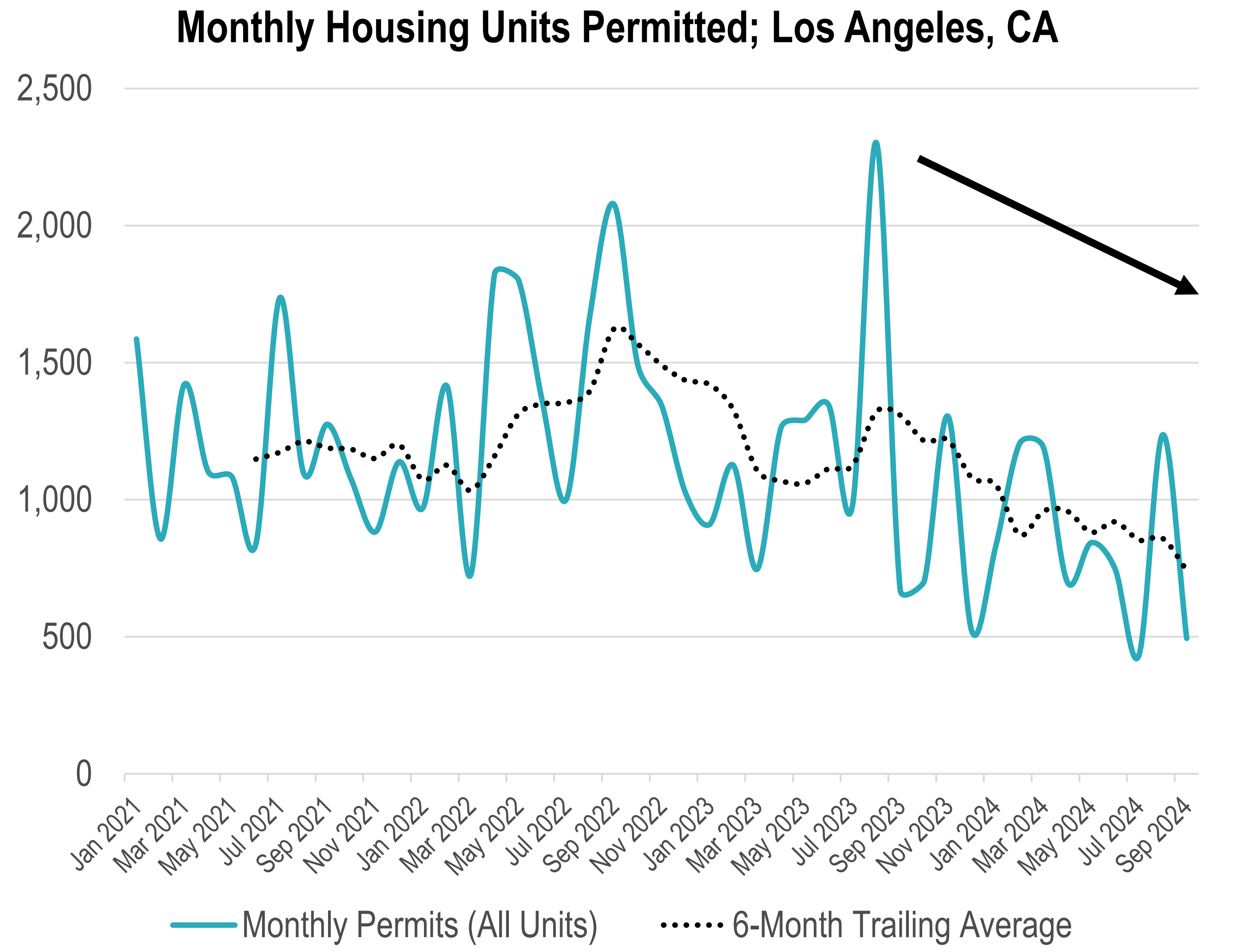
Housing providers have told us that the housing and land use environment in Los Angeles is…

PUNITIVELY EXPENSIVE: ULA adds to an already challenging cost environment, in which land, labor, and materials have never been more expensive

BUREAUCRATIC: There is a lengthy and complicated entitlement process to move new projects forward; even "streamlined" approval pathways can take months, and housing providers would rather choose statewide programs because they offer greater confidence regarding outcome and timing

UNPREDICTABLE: Housing providers find it difficult to underwrite and capitalize projects; Capital partners desire markets with better risk-adjusted returns and procedural certainty

The average project that was approved in 2022 in Los Angeles took 635 days to receive entitlements*



**Based on RCLCO's analysis of permit and entitlement data in City of Los Angeles, as reported to HCD*

Source: HUD; HCD; RCLCO

RECENT PROGRESS

Recent legislative/policy changes are steps in the right direction, and useful reference points

EXECUTIVE DIRECTIVE 1 (ED1)

Streamlining program for 100% affordable developments; most ED1 projects also take advantage of off-menu Density Bonus incentives to increase allowable density, FAR, and height

Key Takeaways

- Saw an immediate flurry of interest
  - Given the promise of streamlined approval, developers (both affordable housing and mixed-income developers) have shown an interest and willingness to make use of new incentive programs on the table to deliver new housing
- Developers respond most to flexibility (and, as the City has added constraints, such as limiting applicants to five off-menu incentives, interest in the program has declined)
  - This has resulted in a contraction of interest in ED1 projects from the outset due to the City's changes to the program
- As of October 2024, of the 215 approved ED1 projects (comprising 16,127 units), RCLCO identified 22 projects, totaling 1,736 units, that have received construction permits. This means that roughly 10% of the approved ED1 projects and 11% of the approved units have received the necessary permits to commence construction.
  - While development activity is beginning, the scale and likelihood of delivery is unlikely to move the needle in addressing Los Angeles' housing issues

RCLCO REAL ESTATE CONSULTING

SHORTCOMINGS OF CITYWIDE HOUSING INCENTIVE PROGRAM (CHIP)

The City's own economic consultant found that CHIP does not meaningfully improve feasibility

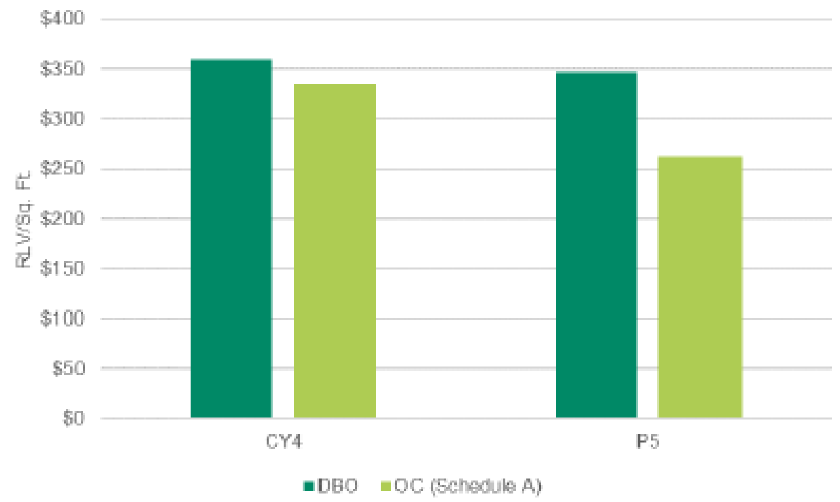
- AECOM determined that only two development scenarios on the Mixed Income Incentive Program (MIIP)'s new Opportunity Corridor (OC) parcels yield feasible projects, using the updated mixed-affordability pathways
- Although there are concerns with the AECOM analysis, adjusting assumptions is unlikely to yield better results; CHIP cannot be expected to significantly accelerate the City's housing development trajectory in its current form

AECOM Study Findings on OC Feasibility Under Mixed-Affordability Pathways

	PARCEL DESIGNATION			
	Market Tier	OC-1	OC-2	OC-3
Residential Zones	1 (Low)	Not Feasible	Not Feasible	Not Feasible
	2 (Medium)	Not Feasible	Not Feasible	Not Feasible
	3 (High Medium)	Not Feasible	Not Feasible	Not Feasible
	4 (High)	Not Feasible	Not Feasible	Sometimes Feasible
Commercial Zones	1 (Low)	Not Feasible	Not Feasible	Not Feasible
	2 (Medium)	Not Feasible	Not Feasible	Not Feasible
	3 (High Medium)	Not Feasible	Sometimes Feasible	Not Feasible
	4 (High)	Not Feasible	Not Feasible	Not Feasible

"Developers may elect to pursue [Density Bonus] rather than OC as currently proposed…a profit-seeking developer may be more likely to take advantage of the [Density Bonus] program" - AECOM

Figure 6. Highest RLV Achieved by Prototype: DBO v. OC (Schedule A) in Market Tier 4



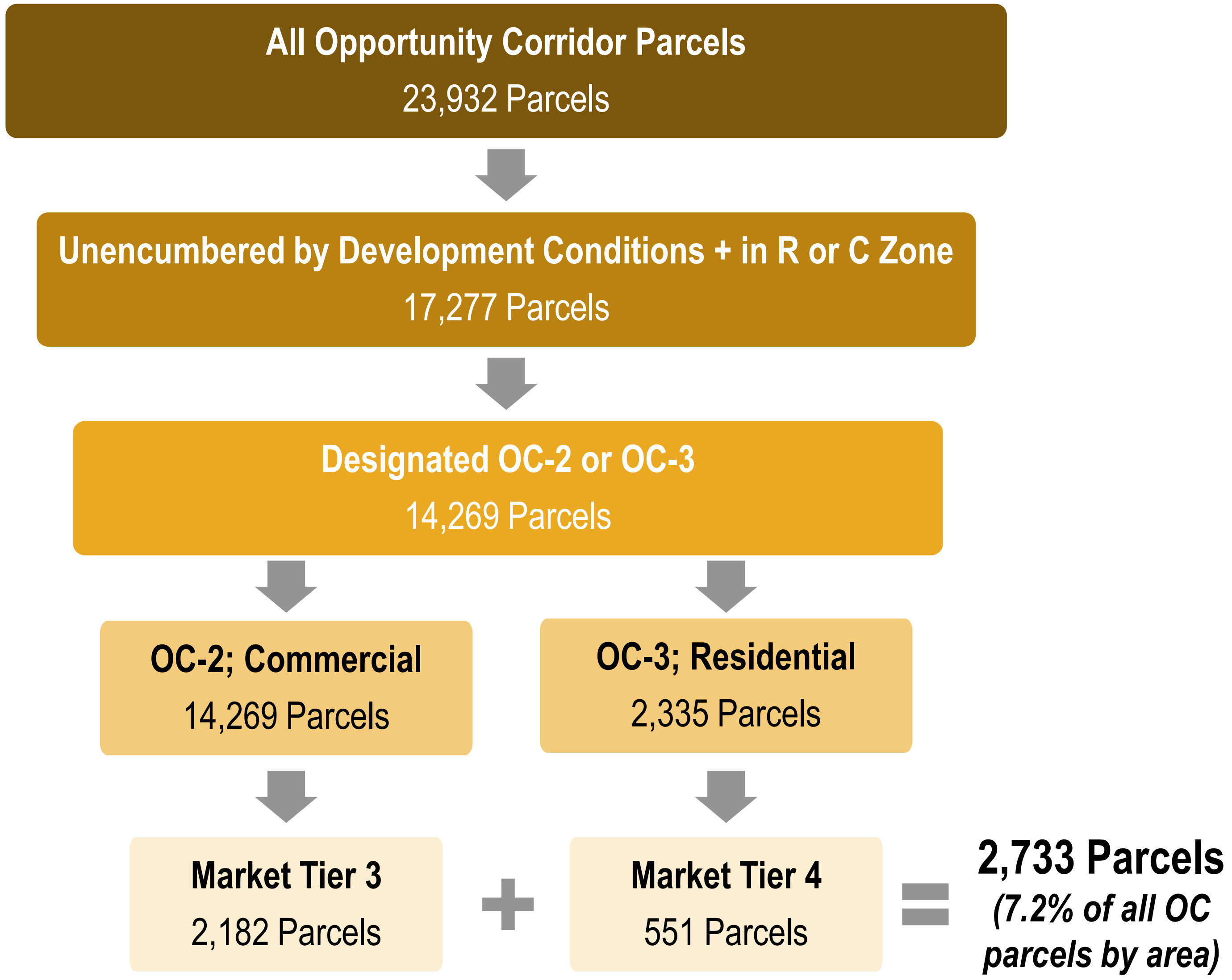
Comparison shows rental prototypes in residential zones. CY4 and P5 were tested with OC-1 and OC-2 Tiers, respectively.
Source: AECOM

Source: Department of City Planning; AECOM; RCLCO

SHORTCOMINGS OF CHIP

RCLCO's analysis shows that these two feasibility scenarios apply to only 7% of Opportunity Corridor parcels by total land area

- The vast majority of OC-designated parcels are either encumbered by various development conditions that make maximum density difficult to achieve, or the incentives a developer would be entitled to under the OC program do not allow for enough density to make development feasible
- Per AECOM, development in the lowest market tiers (1 and 2) is infeasible under the OC program
- Of the 2,733 parcels that align with AECOM's feasibility scenarios, **many are still unlikely to be redeveloped** given the existing uses currently on those parcels, which the AECOM study does not account for in its feasibility analysis



Source: Department of City Planning; AECOM; RCLCO

SHORTCOMINGS OF CHIP

MIIP affordability requirements are poorly calibrated – a profit-maximizing developer would prefer one pathway over all others

- The second new mixed-affordability pathway yields the highest blended average rent per unit
- If developers do indeed express a clear preference for this pathway – in the same way that developers of TOC projects have disproportionately favored ELI units – **the City would not see production in all categories necessary to meet its housing goals, especially for VLI and LI units**

From AECOM report, on single-affordability pathways:
"Developers who take advantage of the OC program in stronger market areas are likely to build ELI units. ELI units generate less revenue per unit than LI or VLI. However, ELI projects still generate higher overall returns...This is consistent with the City's experience that most projects that have utilized the existing TOC program have built ELI units"

	Rent Schedule (AECOM)	AFFORDABILITY SCENARIO (TIER 3 AND 4) Single-Affordability 1	Single-Affordability 2	Single-Affordability 3	Mixed-Affordability 1	Mixed-Affordability 2
Acutely Low Income (ALI)	$67	0%	0%	0%	0%	**4%**
Extremely Low Income (ELI)	$530	14%	0%	0%	5%	**4%**
Very Low Income (VLI)	$883	0%	17%	0%	9%	**0%**
Low Income (LI)	$1,033	0%	0%	27%	0%	**0%**
Moderate Income (MI)	$2,522	0%	0%	0%	0%	**12%**
Market Rate (estimate)	$3,000	86%	83%	73%	86%	**80%**
Blended Average Rent per Unit		**$2,654**	**$2,640**	**$2,469**	**$2,686**	**$2,727**

RCLCO REAL ESTATE CONSULTING

WESTERN STATES CARPENTERS

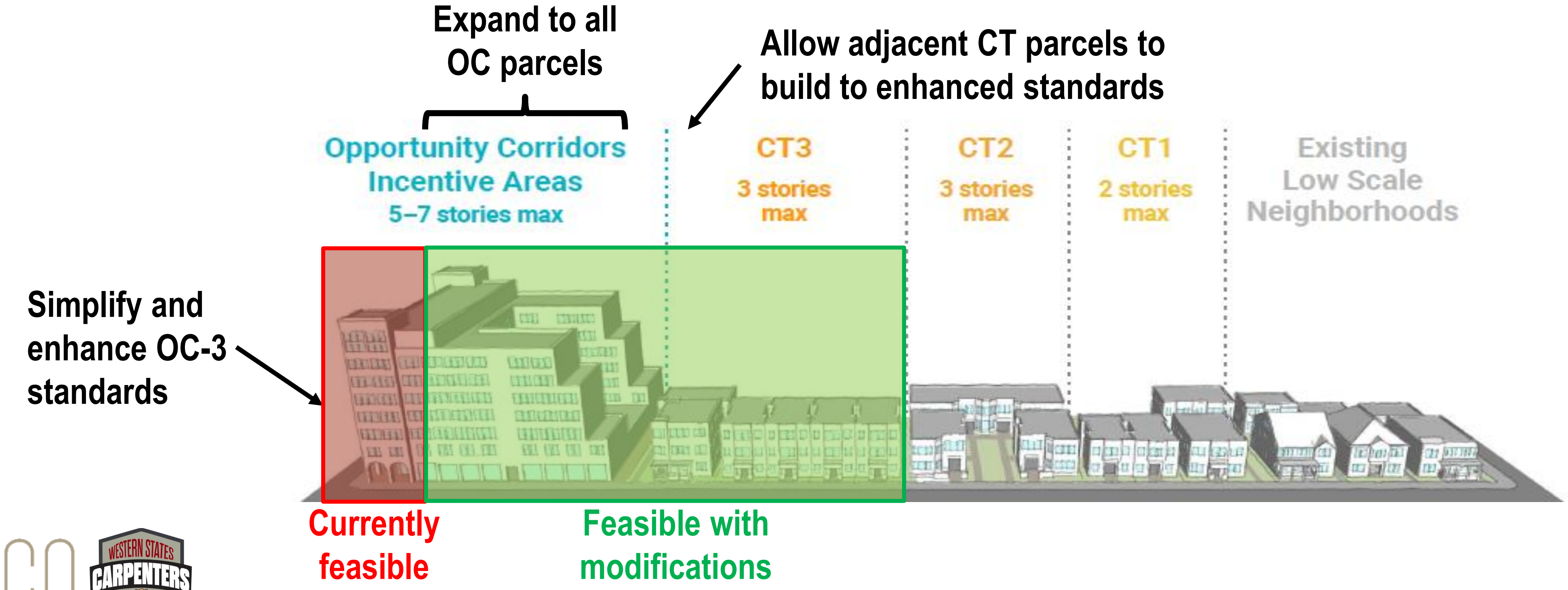
Source: AECOM; RCLCO

EXPLORATION OF OPTIONAL INCENTIVE PROGRAMS

In a letter to CPC, WSRCC recommended several changes as part of an optional pathway

Projects that agree to labor standards could benefit from the following additional incentives:

- **Fewer constraints**: Modified development standards based solely on height, without FAR or density ceilings
- **New height dynamic**: The height of the tallest residential building in the project's Community Plan Area plus four stories
- **More flexibility**: OC-3 development standards applied to multiple contiguous parcels where Corridor Transition (CT) parcels are adjoining
- **Less process**: Ministerial review and site plan review exemption for all MIIP projects
- **Diversity of housing options**: Recalibrated affordability requirements to create more affordable housing at all income levels



Source: AECOM; RCLCO

WESTERN STATES CARPENTERS

LABOR OMNIA VINCIT

RCLCO
REAL ESTATE CONSULTING

ECONOMIC ANAYSIS TO SUPPORT HOUSING DEVELOPMENT IN LOS ANGELES