Building Livable Communities

Enhancing Economic Competitiveness in Los Angeles

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Acknowledgments

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Building Livable Communities

Executive Summary

In 2008, the Los Angeles Business Council (LABC) published a Workforce Housing Scorecard (2008 Scorecard), which evaluated the balance of jobs and housing across the 88 cities of Los Angeles County. The 2008 Scorecard concluded that most cities fell short of an ideal jobs-to-housing balance of 1.5 to 1, and that workforce housing was relatively scarce in proximity to major employment and activity centers.

The 2008 Scorecard stressed the need for a jobs-housing balance, whereby the number of jobs in a community relative to the amount of housing units located nearby must be at the appropriate proportion to support healthy economic growth. The logic behind the jobs-housing balance is that if a community or region adds jobs without adding the necessary housing to support new employees, workers will either face unaffordable housing costs or be forced to move away from employment centers and bear the high costs of commuting. Ultimately, a jobs-housing mismatch may force employees to live in more affordable communities far from employment centers, resulting in increased congestion and commute times, reduced air quality, and reduced quality of life (SCAG, 2001).

Four years later, the need for workforce housing – housing that is affordable to households earning between 50% and 120% of Area Median Income (AMI) of $53,000, or between about $26,500 and $63,600 – remains critically high throughout the County. This report will present and synthesize updated jobs, housing, and development data to make specific recommendations as to how the supply of workforce housing can be increased in order to improve the jobs-housing balance. Further, this report will demonstrate why planning efforts need to focus on transit corridors – not Transit Oriented Developments (TODs) – to promote long-term development of livable communities that integrate residential, commercial, and everyday amenities through an integrated transit network.

Los Angeles County is at a crossroads in its regional development. In the wake of an extended recession and foreclosure crisis, an economic recovery is starting to take shape. Economic and construction activity is picking up, although slowly, and business investment is gaining traction.

Concurrently, the public transportation sector – backed by Measure R—is making an unprecedented push to reshape transit infrastructure across the region. Over the next 30 years and potentially beyond, an estimated $40 billion or more of tax revenues will be committed to expanding and enhancing Los Angeles' transit system.

Economic Trends

Since 2008, the impacts of the recession on the County have been deep and widespread. Employment dropped substantially, as did median home values. The housing bubble's burst led to a wave of foreclosures throughout the region, which in turn resulted in additional devaluation of housing prices. The median price of a single-family home in Los Angeles County fell from a high of nearly $590,000 in 2007 to under $335,000 in July 2012 (California Association of Realtors, 2012). Despite this large drop, home ownership is still largely unattainable for median income earners. Market rents are also largely unattainable. Multifamily market rents, averaging $1,797 per month in Q4 2011 for a two-bedroom unit, are not affordable for the median household, which can afford rent of only $1,325 per month (USC Lusk Center, 2012).[1] This $472 monthly gap is about 1/3 more than the average household in the County can afford. While the housing crisis has been painful for many homeowners, low property values and interest rates have created opportunities for the purchase of distressed properties. Also, the convergence of tight lending standards, shifting views on homeownership, and increased need for mobility have strengthened the rental market. The outcome of these trends has been: (1) the development of new rental apartments, and (2) the conversion of distressed housing to rental stock. Los Angeles should capitalize on these two trends in order to accommodate the County's housing needs.

[1] Workforce rental affordability based on 30% of gross income being dedicated to rental payments.

The Time for Change

In 2012, after experiencing a recession and huge job losses throughout the region, defining the economic well-being of Los Angeles County by its jobs-housing balance alone is no longer sufficient. This report considers how Los Angeles County's transit system connects with the jobs-housing universe. Today, the jobs-housing balance in cities throughout the County looks more favorable than it did several years ago, but this is because of the loss of jobs in the region, not because of a new investment in housing. With significant investments in transportation infrastructure throughout Los Angeles County being made now and far into the future, housing and jobs are no longer required to be co-located and can instead be built across a larger area, creating livable corridors around an expanding transit system.

The problem remains, however, that the costs of housing combined with transportation throughout Los Angeles County are not affordable to many of the area's residents and employees. As of 2010, using the most recent data available, 55.3% of homeowners and 59.1% of renters in Los Angeles County were considered cost burdened by the U.S. Department of Housing and Urban Development (HUD) – spending more than 30 percent of their household income on housing costs (American Community Survey, 2010). Public policies and programs have historically focused on the provision of low-income housing available to residents earning less than 80% of AMI, and new multifamily rental housing developed by the private sector tends to be provided at the highest price points in the market, leaving workforce housing—particularly for households earning 80% to 120% of AMI—as the empty "donut hole" in the center of the market. Due to the high cost and risk of development in Los Angeles County, private investors require higher rates of return, and new housing built with private money tends to be delivered at the highest feasible price point. Private developers can only construct additional workforce housing in the region to fill this gap if policies and programs exist to help lower their costs or development risks. Policy leaders must lay the foundation now as the economy begins to turn upwards again in order to ensure that housing is able to expand with employment, and in desirable locations along transit lines to provide connection.

What Has Happened Since 2008?

- **Housing bubble collapse, paired with foreclosure crisis causes downward spiral of prices**
- **Employment falls nationwide, yet the effects are more pronounced in Los Angeles County**
- **Housing affordability increases due to falling home prices, but still over half of all Los Angeles County residents are housing cost-burdened**
- **Demand increases for multifamily rental housing**
- **Investment in Los Angeles County's transportation network increased through passage of Measure R**

Policy Recommendations

By optimizing land use planning, creating incentives for private development, and investing in first and last mile transit solutions, Los Angeles County can begin to close the gap that has formed between it and some of the nation's other top metropolitan areas. This report proposes the following policy recommendations:

1. **Invest in the Development of Livable Corridors Along Transit:** Expand the definition of "transit corridors" to include all areas along Metro rail and high-volume bus routes, not just around stations, and embrace a multi-modal development framework that expands upon the existing paradigm. Use transit to alleviate the jobs-housing imbalances in areas where the ratio is extremely high (i.e., prosperous, dense infill communities).
2. **Foster Private Development – and Capitalize On It:** Modify land use policy to reduce obstacles for quality, mixed-income or true mixed-use housing near transit. Create zones where private sector developers encounter little to no entitlement risk, and provide incentives to reduce unit cost, such as parking reductions and density bonuses. Work with private organizations to generate new sources of funds that seek lower than market returns on workforce housing projects in target areas.
3. **Emphasize Development of Mixed-Income Housing Near Transit:** The investment in transit and livable corridors has an unintended consequence of putting upward pressure on property values near transit assets. As a result, development efforts price out lower-income households who have a higher propensity to use and rely on transit. Local jurisdictions must make a commitment to support new mixed-

income housing around transit investments, and because of the increased costs of building near transit this will only be accomplished through a combination of innovative policies and public investment.

4. **Plan for Employment-Generating Land Uses:** Public agencies must work to enable land uses that promote job creation in addition to enabling residential land uses in proximity to transit corridors. Achieving a successful jobs-to-housing balance by simply "increasing the denominator" is an artificial solution to a much more significant issue.
5. **Empower Public Agencies to Act as Development Agencies:** Public agencies should be more directly involved in the development process, to help fill the vacancy created in the absence of redevelopment agencies.

Building Livable Communities and a Strong Regional Economy through Jobs-to-Housing Balance

Since the release of the 2008 Scorecard, Los Angeles County has undergone a major transformation. The one-two punch of the national housing downturn and anemic labor markets is slowly being offset by signs of economic recovery. Meanwhile, the sluggish delivery of for-sale and for-rent workforce housing has continued to work against the County's economy, as qualified employees are leaving high-cost areas for better, more affordable housing in other metropolitan areas throughout the nation that compete with Los Angeles for large employers, such as New York City, Silicon Valley, Dallas, and Houston. In 2006, 25 Fortune 500 companies were headquartered in Los Angeles County; in 2012, that number has been reduced to just 14 (CNN Money, 2012). The 2008 Scorecard established a ranking system for the county's 88 cities that documented the region's jobs-housing balance, and in the aftermath of the housing downturn, it is clear that those areas with a stable balance have suffered the least negative impacts from the economic downturn.[2] As the County's economy improves, it is critically important that workforce housing be developed to improve the jobs-housing balance throughout the region.

The Need for Workforce Housing

Workforce housing is an essential component of an economically thriving and competitive urban region. The term "workforce housing" has different definitions, but is most commonly defined as housing that is affordable to households earning 50% to 120% of AMI. For Los Angeles County, this equates to roughly $26,500 to $63,600 per year in gross income and a home affordability upper threshold of approximately $240,000 (American Community Survey, 2010).[3] Given that most neighborhoods throughout the County have median values well in excess of $240,000, many workforce households are priced out of established communities and pushed into exurban areas. Similarly, workforce households are priced out of market rate apartments. The average market rent for a two-bedroom apartment in Los Angeles County was $1,797 per month in Q4 2011, whereas a workforce household could afford only $1,325 per month before being considered cost-burdened (USC Lusk Center, 2012).[4]

This problem has diminished the attractiveness of the County to employers, who recognize that the cost of living in the region is greater than in competing employment centers (such as Austin, Texas; Raleigh, North Carolina; and others). Looking at the Consumer Price Index for the cost of housing (Figure 1), it is clear that Los Angeles' economic competitors are able to provide housing at substantially lower price points. This is buttressed by the NAHB/Wells Fargo Housing Opportunity Index (Figure 2), which tracks the percentage of home sales across various metropolitan areas of the U.S. that are affordable by households earning the median income of that particular area. Although housing affordability has increased across the County since the housing downturn in 2007, New York City and San Francisco are the only metro areas with lower levels of housing affordability than the Los Angeles region, and little has been done in the past five years to close the gap. If Los Angeles County does not take steps to increase affordability, especially for median income earners, then these important members of the region's workforce may leave for more affordable areas, leaving behind a weaker regional economy.

[2] A consistent jobs-housing balance between 2008 and 2012 demonstrates a level of household and employment stability. See "Financing Workforce Housing" below for more details.

[3] Ginnie Mae FHA calculations of approximately 30% of gross annual income dedicated to mortgage payments. **(http://www.ginniemae.gov/ypth/index.asp)**.

[4] Workforce rental affordability based on 30% of gross income being dedicated to rental payments.

Figure 1: Consumer Price Index – Housing for Select Cities. Source: National Association of Home Builders.

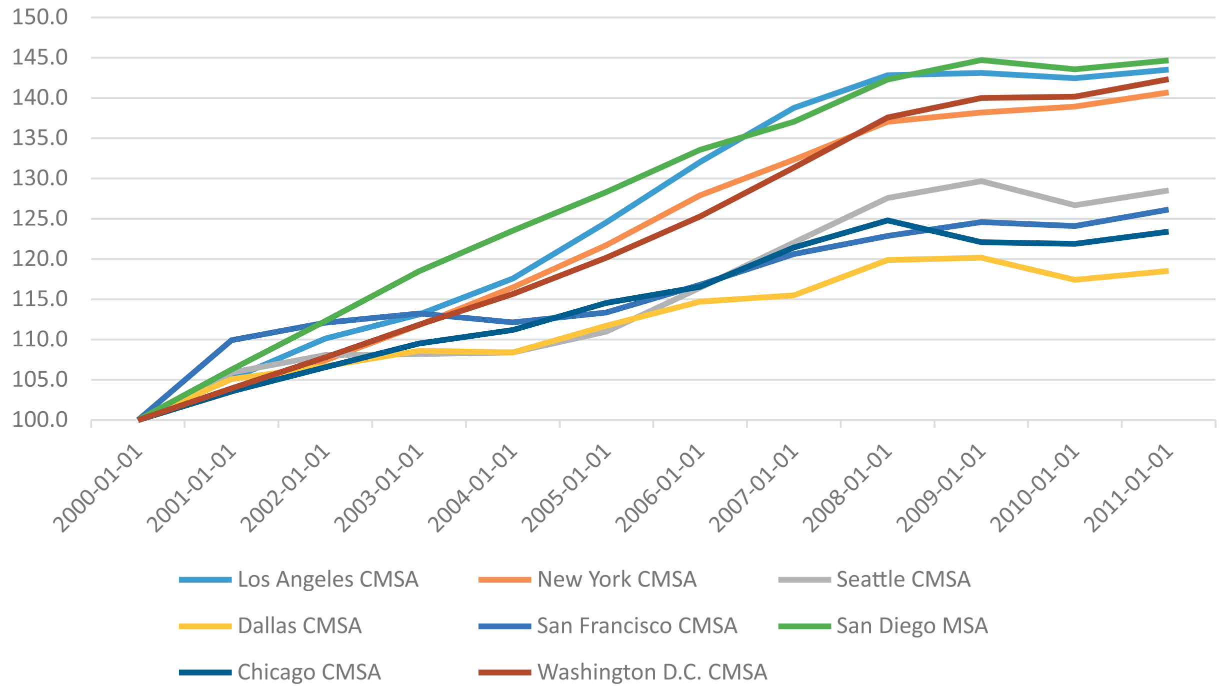
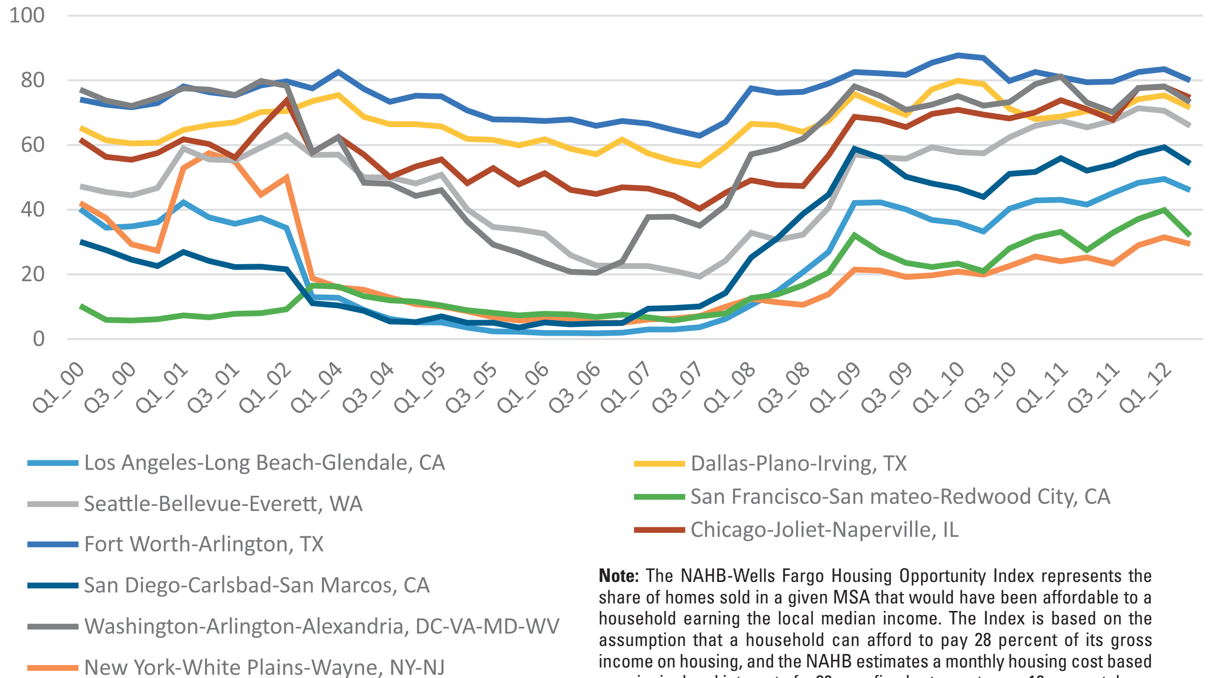


Figure 2: NAHB-Wells Fargo Housing Opportunity Index – Select Cities and Regions. Source: National Association of Home Builders, 2012.

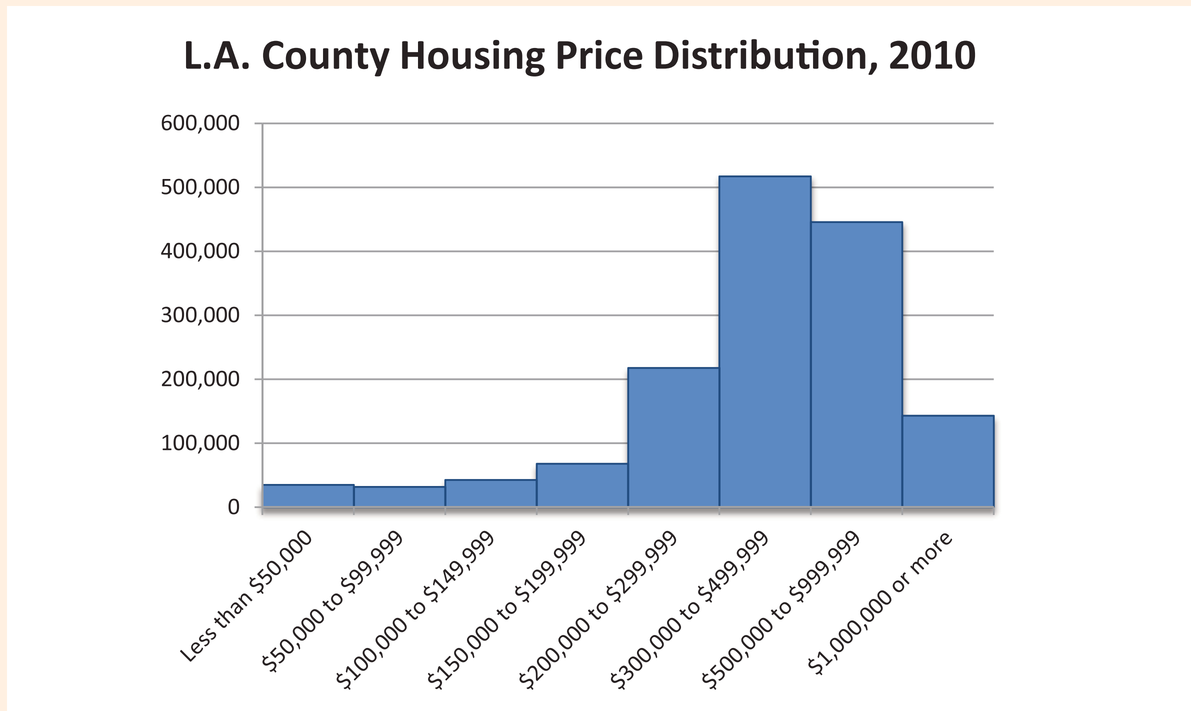


Note: The NAHB-Wells Fargo Housing Opportunity Index represents the share of homes sold in a given MSA that would have been affordable to a household earning the local median income. The Index is based on the assumption that a household can afford to pay 28 percent of its gross income on housing, and the NAHB estimates a monthly housing cost based on principal and interest of a 30 year fixed rate mortgage, 10 percent down payment, and estimated property taxes and insurance.

The distribution of home prices in Los Angeles County shown in Figure 3 below shows just how top-heavy the market truly is. With the median income earner only able to afford a home worth $200,000 or a rent of $1,325 per month, it is clear that the vast majority of housing units in the County are unaffordable to the typical worker. Market rate units are typically built at higher price points, while low-income units—still in short supply—are receiving subsidies. Very little is happening in-between to encourage new workforce housing development.

This dilemma is driven, in part, by the land costs and entitlement risks associated with urban infill development throughout Los Angeles County. As members of the development community who were interviewed for this report noted, developers, lenders, and investors need to have the risks of development – especially predevelopment costs – offset by expected returns, and in Los Angeles County, this only works with public subsidies or high market rents. Workforce housing—particularly for households earning between 80% and 120% of AMI, for which very few housing subsidy programs exist—has thus become the empty "donut hole" of the residential market. Without the proactive leadership of the public sector in policies and financing programs that reduce the risks and/or lessen the costs of developing workforce housing, private developers will continue to underserve this market segment.

Figure 3: L.A. County Owner-Occupied Housing Price Distribution. Source: 2010 American Community Survey, U.S. Census Bureau.



Livable Communities Matter

Developing workforce housing is essential to Los Angeles County's long-term economic growth, but that housing cannot be built on any plot of available land. Rather, to maximize economic and social benefits for members of the workforce, and to create a true livable community, it should be located in proximity to transit connections and other significant investments. Defining a "livable community" can be difficult, but Ray LaHood, the United States Secretary of Transportation, has succinctly distilled the concept:

> "It's a community where if people don't want an automobile, they don't have to have one. A community where you can walk to work, your doctor's appointment, pharmacy or grocery store. Or you could take light rail, a bus or ride a bike." (Christie Findlay, 2009)

In effect, livable communities include housing, employment centers, and activity centers with amenities like grocery stores, retail centers, schools, parks, and open space, all of which are connected by multimodal transit options. Without this combination, households are forced to make tradeoffs – live close to work, but pay more for housing, or vice-versa – that make Los Angeles less attractive to employers. Both empirical and informal studies have revealed that people often enjoy commuting to work, but as commute times and distances increase, the emotional experience sours (IBM, 2011). In turn, this hinders employee productivity and satisfaction. An equalized jobs-housing balance helps limit these negative externalities, as households are better positioned to lessen the emotional, economic, and environmental costs of a daily commute.

Unfortunately, the on-the-ground reality within Los Angeles County is that households are making long-distance commutes. Compounding this reality, many workforce households are relegated to living in more affordable areas that have not yet benefited from multimodal transit infrastructure investments. Where homes are more affordable – such as in more suburban and exurban areas – they tend to be located farther away from transit stops, resulting in fewer transit riders. Figure 4 underscores this point, as the Public Policy Institute of California has empirically researched the commute mode choice of both residents and workers as it relates to the availability of transit options. Residents' propensity to use public transit drops precipitously as the distance between their home or place of work and transit facilities increases.

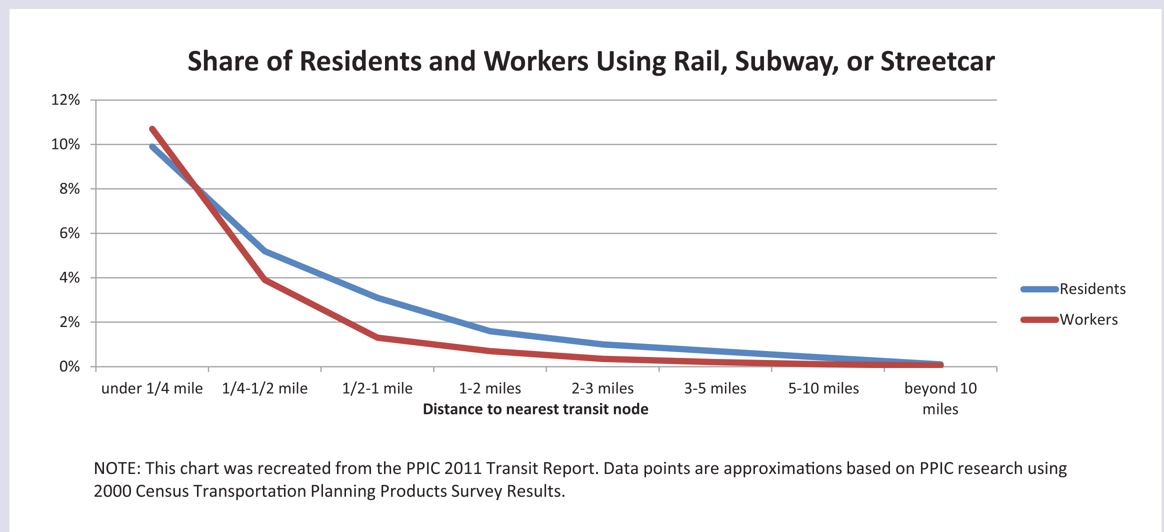
Transit Connections Impact Transit Ridership

Increasing connectivity within the communities surrounding transit and existing transit facilities can increase ridership throughout the transportation system, and bring with it the economic and environmental benefits of increased ridership. In Los Angeles County in 2010, there were 198,423 residents living within 1/4-mile of the County's transit stations, but an additional 1.04 million people living within one mile of those stations (Esri Business Analyst Online, 2010). According to Figure 4, without any additional connections to transit, only about 3% of residents living a mile away would be likely to use that transit; however, if investments in livable communities around transit could make residents living one mile away utilize transit at the same rate as those living ¼-mile away, Los Angeles County could potentially gain an additional 70,000 daily transit riders. If these new users board even once a weekday, it would represent a 19% increase in ridership above and beyond the 351,553 rail systemwide weekday boardings for Metro rail lines in July 2012 (Metro, 2012).

Transit connectivity to employment centers is also a critical component of developing livable communities. Figure 4 below also illustrates that the proximity of place of work to transit has an even larger effect on workers' propensity to take public transportation than the proximity of their home to transit. With this in mind, as new connections are made between residential land uses, and existing and new transit facilities, cities and developers must ensure that employment-generating land uses maintain access to those facilities as well.

Without a comprehensive transit system, livable communities are reduced to livable projects. Single TODs often contain mixed-uses and mixed-incomes, and provide residents with convenient amenities like parks, retail, or office space. Most TODs in Los Angeles County are, however, isolated with few connections to their surrounding neighborhoods or commercial corridors. These TOD projects alone cannot address the need for workforce housing that the County currently faces, but the addition of transit into the jobs-housing balance equation greatly increases opportunities for investment in housing and economic development within key transit corridors.

Figure 4: Transit Ridership Decreases as Distance from Transit Stations Increases. Source: Public Policy Institute of California.



First and Last Mile Transit Connections – Building Livable and Dense Urban Environments

The Los Angeles region has and continues to undergo major transit improvements that are expanding the region's public transportation network. Regional trips, however, emphasize moving people over very long distances and do not work to connect housing, employment centers, and urban amenities within neighborhoods. To leverage the regional transit expansion, it is vital that long-term growth strategies contemplate how short trips often called "first mile / last mile" connections – will be developed to directly connect households to employment centers, amenities, and public goods.

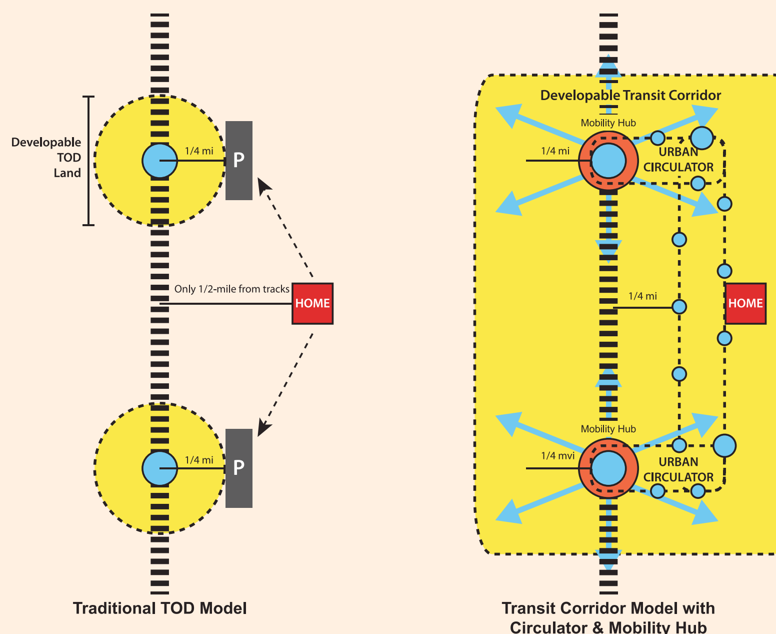
Further, first mile / last mile connections are an integral component of developing livable communities with workforce housing. The large multi-billion dollar transit improvements spread across the region will help incentivize the concentration of livable communities around transit assets. The development potential from transit, however, is often restricted to sites within a short distance, typically one-quarter or half a mile from transit stations. First mile / last mile transit systems – such as streetcars, bus rapid transit (BRT), or mobility hubs that connect transit to pedestrian or bicycle infrastructure – draw on this energy to expand the regional system's ability to deliver more riders to more destinations and the developable land footprint around transit. In effect, developing first/last mile transit linkages provides more opportunities to build workforce housing along transit corridors with local and regional connections. This, in turn, fosters more livable communities that will be ideal for the development of workforce housing.

Mobility Hubs as First/Last Mile Solutions

As an alternative to more costly light rail or fixed-guideway transit investments, Metro, along with several cities in Los Angeles County, is looking to develop mobility hubs that will increase accessibility to the County's rail system and enhance connectivity in transit-adjacent communities. These mobility hubs will include various modes of personal transportation, including bicycles, electric bikes, scooters, and shared cars, and they will be connected into the technology grid via Wi-Fi and GPS services (City of Los Angeles, 2010). The revenues from these "Local Return" programs that would result from the passage of Measure J would provide a source of funds to develop mobility hubs and other first mile / last mile connections across Los Angeles County.

Figure 5 shows how the addition of a first/last mile transit system, in this case a mobility hub, to the traditional TOD model can vastly increase the amount of developable land around transit and enhance existing housing's connection to transit. Further, increasing this developable footprint allows for the development of workforce housing on less expensive plots of land, diminishing the need for excessive subsidies or gap financing tools in order to develop new workforce housing.

Figure 5: The addition of a first/last mile circulator to a traditional TOD and mobility hub leverages transit to create a larger developable footprint.



Without these connections, accomplishing everyday errands – dropping kids off at school to picking up groceries – takes more time and effort that cumulatively diminish a household's quality of life. To minimize this burden, the Los Angeles region would benefit from embracing urban density. Mixed-use projects that integrate components of everyday living add significant value to workforce households, in addition to surrounding landowners, whose parcels gain value through increased development potential. Further, building outwards into suburban exurbs will not improve the jobs-housing balance of the region, nor will it improve commuting conditions or substantially expand job opportunities. In order to encourage livable development patterns, local jurisdictions should pair regional transit investments with local first/last mile solutions and initiate land use policies that focus development around transit assets.

Generating a Favorable Jobs-Housing Balance

An area's job-housing balance has a substantial impact on the physical form of the community. The methodology for determining an area's ratio is calculated by dividing the total number of jobs by total housing units. When used as a general metric, an ideal jobs-housing ratio of 1.5 indicates a healthy ratio such that a community has a stable balance of commercial and residential uses. As a planning tool, the ratio can be used to evaluate how future growth will change an area's composition to proactively address potential impacts – such as air quality, proximity of public goods, etc. (SCAG, 2001).

Beyond providing economic stability, a jobs-housing balance produces ancillary impacts that improve a community's character and quality of living (Weitz, 2003). Empirical studies have found that the benefits of a strong jobs-housing balance are maximized when employment clusters and residential communities are within four miles of each other (Cervero & Duncan, 2006). These benefits include, but are not limited to:

1. Lower Personal Transportation Costs
2. Reduced Housing Costs (achieved via dense, mixed-use living)
3. Reduced Congestion, Travel Time, Vehicle Miles Traveled, and Air Pollution

The housing market's ability to generate an ideal jobs-housing balance is substantially restricted by land use policies. Planning, zoning, and environmental regulation substantially dictate land uses, thereby limiting the market's ability to respond to demand. As such, city planners must utilize existing tools to incentivize development of workforce housing near employment centers and transit corridors. Rental housing is becoming more attractive as residents tend to prefer the flexibility of renting, including

reduced fears about loss of equity, lower transaction costs, and increased mobility (Terwilliger, 2011). Combining the development of new rental workforce housing with connections through new transit networks to employment centers will put Los Angeles County in a position to increase its jobs-housing balance.

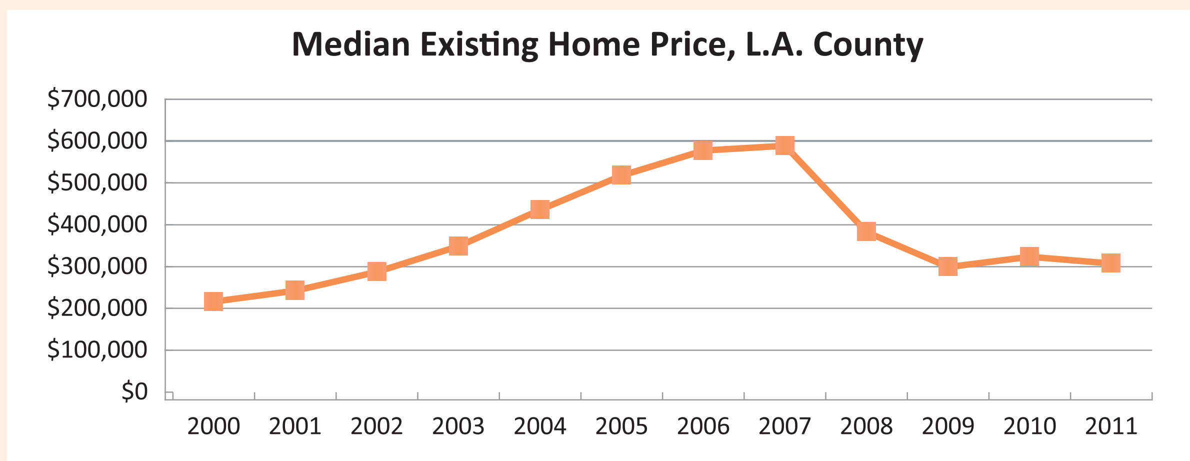
Los Angeles County is still one of the most attractive markets in the country, drawing high interest from private investors, but its workforce housing market is losing ground to some of the fastest developing cities across the nation such as Dallas and Houston, where housing is more affordable and readily available (Federal Reserve Bank of St. Louis, 2012). In order to close this gap and maintain its position as one of the nation's premier employment destinations, leaders throughout the region must be proactive about bolstering workforce housing development and the jobs-housing balance.

How Did We Get Here? Trends from 2008 to 2012

The 2008 Scorecard emphasized the need for greater jobs-housing balance throughout the County and demonstrated that housing affordability was extremely low in the region's job centers. Since 2008, the economic, financial, and political climate of the Los Angeles region has experienced a number of key changes, and it is critical to understand these changes in order to develop an effective plan for the development of livable communities.

The "Great Recession" has dominated public attention for the past several years. When the housing bubble burst, many homeowners were left with greatly reduced equity and upside-down mortgages. Throughout the County, over 125,000 homes have been foreclosed upon in the past year, and many residents have been forced from their homes. The foreclosures, partially caused by aggressive underwriting and lax lending regulations, resulted in a downward spiral effect and even lower values. The median home price in Los Angeles County has dropped from nearly $590,000 at its peak in 2007 to about $335,000 in July 2012, a loss of 43.2 percent (California Association of Realtors, 2012). The foreclosure crisis has resulted in new opportunities for development as public agencies from the Federal to the local level have focused on efforts to purchase, rehabilitate, and re-sell foreclosed properties, or convert them into rental units.

Figure 6: The median home price in Los Angeles County has fallen by nearly 45 percent since 2007 and has struggled to recover since bottoming out in 2009. Source: California Association of Realtors, 2012 Annual Historic Data Summary.



Post-Recession Resurgence of Multifamily Development

A key outcome of the recession and housing crisis was the reemergence of multifamily rental housing development across Los Angeles County, which has always had a large renter community. As of 2010, using the latest data available, 53.1% of all housing units in L.A. County were renter-occupied (American Community Survey, 2010). Reduced construction costs, tight lending standards, and record low interest rates have combined with the increased demand for rental housing to make multifamily housing development more attractive than at any time in recent history. After new housing starts bottomed in 2009,

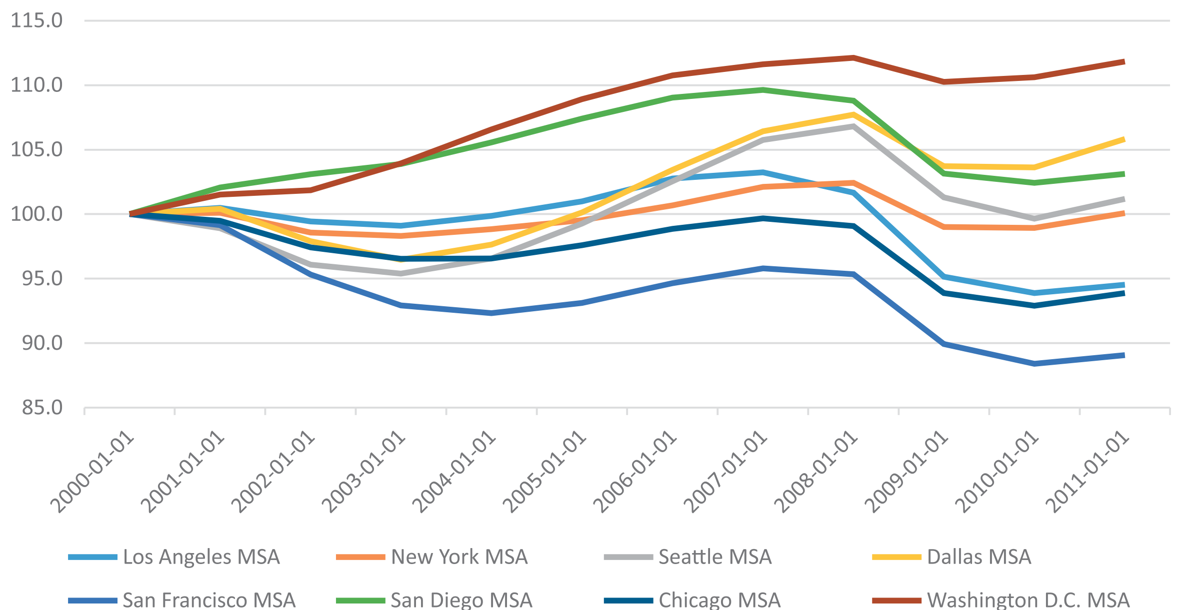
developers began to reinvest in housing development throughout Los Angeles County, with 13,100 housing unit permits projected to be issued in 2012, followed by permits for another 16,240 units in 2013 (LAEDC, 2012). Though this does not approach the 25,000 units a year that were permitted in the height of the housing boom, it appears that the residential building industry is making a recovery. In order to take advantage of this resurgence and meet the future housing needs of the region, jurisdictions must provide private developers with the necessary tools to create quality workforce housing throughout the County.

Regional Unemployment and Sluggish Job Growth

Figure 7 compares the number of employees in several Metropolitan Statistical Areas (MSAs) throughout the nation, indexed to employment in the year 2000. As seen in Figure 7, employment in the Los Angeles region fell steeply between 2008 and 2009, before bottoming in 2010. Since then, employment has crept up steadily, but not at a rate that can stimulate significant economic gains. In July of 2012, the unemployment rate in Los Angeles County was still 11.9%, with over 575,000 residents still looking for work (CA Employment Development Department). In contrast, other metropolitan areas such as Washington, D.C., and Dallas are bouncing back to their pre-recession levels of employment. Sluggish job growth in Los Angeles County is holding down incomes, and a scarcity of workforce housing could force businesses and qualified workers to leave for more affordable parts of the country.

Despite the economic hardships that have hampered the region's growth over the past several years, a number of key initiatives and investments have arisen over the same time period that have opened the door for the development of new, livable communities. Policies and programs have been developed at all levels of government to integrate housing, transit, and economic development.

Figure 7: Los Angeles MSA total number of employees, compared with similar MSAs and indexed to 2000. Source: Federal Reserve Bank of St. Louis, 2012.



Local Transportation Initiatives

At the local and regional level, Los Angeles County voters passed Measure R in fall of 2008. This historic initiative championed by Metro established an additional half-percent sales tax throughout the county that would be dedicated to the funding of local and regional transit improvements and operations throughout the region. In the past four years, Measure R has been an enormous success for transit in the region, with over 75 projects in progress throughout the county being funded by the tax. These projects range from local infrastructure improvement projects to the opening of brand new light rail lines, including the Gold Line extensions, the Expo Line — now operating from Downtown Los Angeles to Culver City, and the first rail transit system to reach the West Side of Los Angeles in over 50 years — and several more projects under or nearing construction including Expo Phase 2 to Santa Monica, the Crenshaw/LAX Line, the Regional Connector and the Westside Subway Extension.

The Measure R projects are a sign of the region's commitment to the expansion of public transit throughout the county and the changing perspectives of voters regarding the automobile, transit, and how they want to move around the region. The recent approval of the 2012 Federal Transportation Bill, including the America Fast Forward program, will provide Metro with some of the tools it needs to accelerate many of its transit projects, changing the public transportation landscape throughout Los Angeles County over the next two decades.

In November of this year, Los Angeles voters will again be asked to vote on the future of the region's transit. If approved by a two-thirds majority, Measure J will extend the half-percent Measure R tax for 30 additional years beyond the currently scheduled expiration date of 2039. With the ability to bond against an additional 30 years of revenues, Metro plans to shorten delivery time for a number of upcoming transit projects. The Measure J vote is a referendum on public opinion regarding expanded transit in Los Angeles. Its passage would give Metro a new tool to fund creative local transit projects, such as multimodal mobility hubs. The extension of the transit sales tax will provide Metro with additional funds for Local Return projects—smaller scale projects to increase local transit access. With additional investment in the construction of workforce housing near transit, Measure J-funded Local Return projects can play a critical role in bringing new transit to existing housing.

Figure 8: Metro's 2009 Long Range Transportation Plan shows existing and funded fixed guideway and transit projects throughout the County. Source: 2009 Final Long Range Transportation Plan.

Recent Legislation Impacting Workforce Housing Production

A number of planning and policy initiatives have taken effect in the last few years to encourage stronger coordination between the development of transit and housing and to create more livable communities. At the Federal level, HUD requires jurisdictions that utilize funding sources including Community Development Block Grants (CDBG) and the HOME Investment Partnership program to develop a Consolidated Plan that outlines community development goals that will be accomplished through affordable housing, community and economic development, emergency shelter and homeless services and housing for persons with AIDS. The Consolidated Plan process ensures that housing development does not take place in a bubble, and that instead communities take into account market conditions, local assets and needs in relation to housing.

In 2008, the California State Legislature passed SB 375, a bill requiring that regional planning organizations integrate the Regional Housing Needs Assessment (RHNA) with the Sustainable Communities Strategy of the Regional Transportation Plan (Carreras, 2009). SB 375 mandates that planning bodies consider a region's long-term transportation development plan when creating a strategy for future housing development.

In 2004, the Southern California Association of Governments (SCAG) released the Compass Blueprint Growth Vision Report, which discussed strategies to accommodate growth in Southern California while emphasizing mobility, livability, and environmental sustainability. Part of the Compass Blueprint is the 2% Strategy, which demonstrates that the region can meet many of its affordable and workforce housing goals by building denser developments on only 2% of the region's total land area (SCAG). The 2% Strategy demonstrates that pursuing and embracing density in a relatively small amount of carefully selected areas within the region can have a dramatic impact on the livability of surrounding communities.

In 2011, the Metro Board authorized a new planning grant program designed to give local jurisdictions financial support to implement changes to land use regulations paving the way for transit oriented land use policy.

The recent emphasis of coordinating planning efforts around housing and transit development, along with the region's financial and political commitment to invest in the expansion of its transit network, puts Los

Angeles County in a unique position to create livable transit corridors. This includes high quality public transportation systems, mixed-income housing, and reduced transportation costs to commute to job and activity centers. The 2008 Scorecard discussed the need for a jobs-housing balance, so that cities could accommodate the housing need of their workforce. What the report did not address is how transit ties into the jobs-housing universe. With a quality transit system connecting employment and activity centers, the region can focus less on developing housing only where employers are located and more on developing housing along its transit corridors that are connected to employment centers. If County policymakers and developers can jointly maximize their investments, it will lay the foundation for sustainable development of the region.

Financing Workforce Housing

The 2012 Regional Housing Needs Assessment for Southern California, currently being developed by the SCAG, is the first Needs Assessment for the region to be written since the passage of SB 375. The RHNA Determination for Los Angeles County calls for the development of 180,070 units over the 8-year period between 2014 and 2021. In order to reach this number and accommodate the county's growing workforce, an average of 22,509 new units per year will have to be built, including 7,196 new workforce housing units (SCAG, 2011). As Figure 9 shows, this is well above the current pace of housing construction, and it will likely take years for the market to reach that level again unless policymakers take a proactive position on improving the jobs-housing balance in the region.

Figure 9: Projected Housing Needs for Los Angeles County from 2014 to 2021 at Various Affordability Levels. Source: SCAG Regional Housing Needs Assessment

		WORKFORCE HOUSING			
	Very Low Income (<50% AMI)	Low Income (50 to 80% AMI)	Moderate Income (80 to 120% AMI)	Above Moderate Income (>120% AMI)	Total
2014 – 2021	45,720	27,497	30,074	76,779	180,070
Annually	5,715	3,437	3,759	9,597	22,509
2012 Level					**13,100**

Providing a range of housing options that are affordable to earners of various income levels close to transit and other community amenities is an attainable goal, but public financing for workforce housing development is difficult to come by. The reasons are two-fold: (1) most public subsidy programs are targeted at affordable housing for households earning less than 80% AMI, and (2) funding programs for housing at all affordability levels are dwindling in size. Cities in Los Angeles County can use land use tools to encourage private development of workforce housing, but in many cases developers may require financing from sources expecting below-market returns on their capital in order to lower costs and provide new housing units at lower rents. Housing developers interviewed for this report noted that the high risks and costs associated with pre-development activities, such as entitlement risk, land acquisition, and pre-development soft costs, add cost to the development process and drive up asking rents.

Accommodating this need will likely require public agencies and mission-driven nonprofit organizations to develop new funding mechanisms for workforce housing development. The California Community Foundation, for example, is already a leader in developing innovative programs for housing development, making loans to affordable housing developers to purchase, entitle, and lease land and to ensure long-term affordability of more than 1,100 new housing units (California Community Foundation, 2012). Similarly, the New Generation Fund was formed as a partnership between several public agencies, private foundations, and lenders to provide acquisition and predevelopment loans to nonprofit and for-profit developers of affordable housing (New Generation Fund, 2011). Los Angeles County would benefit from more programs such as these, as well as new funds specifically geared toward workforce housing and emerging transit corridors.

Dissolution of Redevelopment Agencies

The loss of Redevelopment Agencies (RDAs) is another key obstacle to overcome in the development of livable communities and transit corridors. RDAs, prior to their dissolution in early 2012, played a key role in workforce housing projects, often taking on substantial predevelopment and entitlement risk that private sources could not sustain. RDA dollars served as a gap-financing tool, and with those funds no longer available, other agencies will have to find new sources of funding or creative uses of existing funds.

Equally important are the policy tools that will enable private developers to build housing in target locations. California state law, for example, requires that all local jurisdictions provide a density bonus for housing developments that set aside at least 10% of their for low-income households earning below 80% of AMI, or 5% for very-low income households units below 50% of AMI (CA Government Code). Though some municipalities continue to use their discretionary actions to resist unpopular low-income housing projects, the intent of this density bonus allows developers to include more market-rate units than would otherwise be allowed per the zoning code, offsetting the lost revenues from below market-rate units.

Increasing allowable density is a powerful tool that incentivizes more development in key neighborhoods. This land use tool is perhaps the simplest way that cities can encourage more private development within transit corridors without costing additional public dollars. In order to accomplish changes in density, however, political and community opposition will likely have to be overcome. Public leaders and policymakers must stand behind the economic, social, and environmental benefits of increasing density in appropriate locations in order to reshape public opinion on the matter.

Policy Recommendations

The policy recommendations contained within this report stem from current economic data and trends, in addition to feedback from industry leaders and practitioners who are working to accelerate job growth and housing production in Los Angeles County.

1. Investment in the Development of Livable Corridors Along Transit

With the significant investments in transit generated by Measure R, and potentially more from Measure J in 2012, the Los Angeles region has an excellent opportunity to create high-quality livable corridors along its current and future transit lines. These corridors must connect housing, jobs, and other livable amenities across the region. A mix of land uses and housing options, along with transportation linkages connecting them, should be developed all along the County's public transportation system, rather than simply within ¼ mile of transit stops. Moving away from the narrow concept of transit-oriented development to a broader approach of livable corridors along transit will help ease upward pressure on housing and improve quality of life throughout the city. Mayor Antonio Villaraigosa of the City of Los Angeles created a "Transit Corridors Cabinet" composed of key City departments and outside stakeholders to capitalize on the unprecedented investment and opportunities at the corridor scale. Formed and led in partnership with Metro, this cabinet is working to coordinate all relevant City efforts around transit and focus efforts along corridors.

Jurisdictions across Los Angeles can help create livable corridors by taking the following steps:

- **Target investment along transit corridors where connections increase the amount of developable land.** Absent transit connections, the ideal location to provide new workforce housing would be in areas that are jobs-rich relative to housing. Unfortunately, the locations throughout Los Angeles County that have the highest concentration of employment also tend to be some of the most expensive areas in which to live. This is reflected in Figure 10, which overlays areas with a jobs-housing ratio greater than 1.5 on a map of housing prices throughout the County.[5] The development of workforce housing in these areas would be prohibitively expensive, and the public sector would have to provide sizable subsidies in order to provide housing at rents affordable to median income-earning households. With the added consideration of the County's transportation network, it is clear that there are less expensive areas that are suitable for workforce housing investment and still connected to major employment centers.

[5] Note that the map in Figure 10 shows owner-occupied housing prices, rather than rental rates. This report does not recommend that all members of the workforce should strive for homeownership or that new housing should all be for-sale. Rather, median home prices are used in this map as a proxy for general housing affordability levels across different communities within the County.

Figure 10: Jobs-Housing Ratio calculated by ZIP code, overlaid on housing affordability heat map for Los Angeles County. Source: U.S. Census Bureau - 2010 Census, 2010 County Business Patterns.

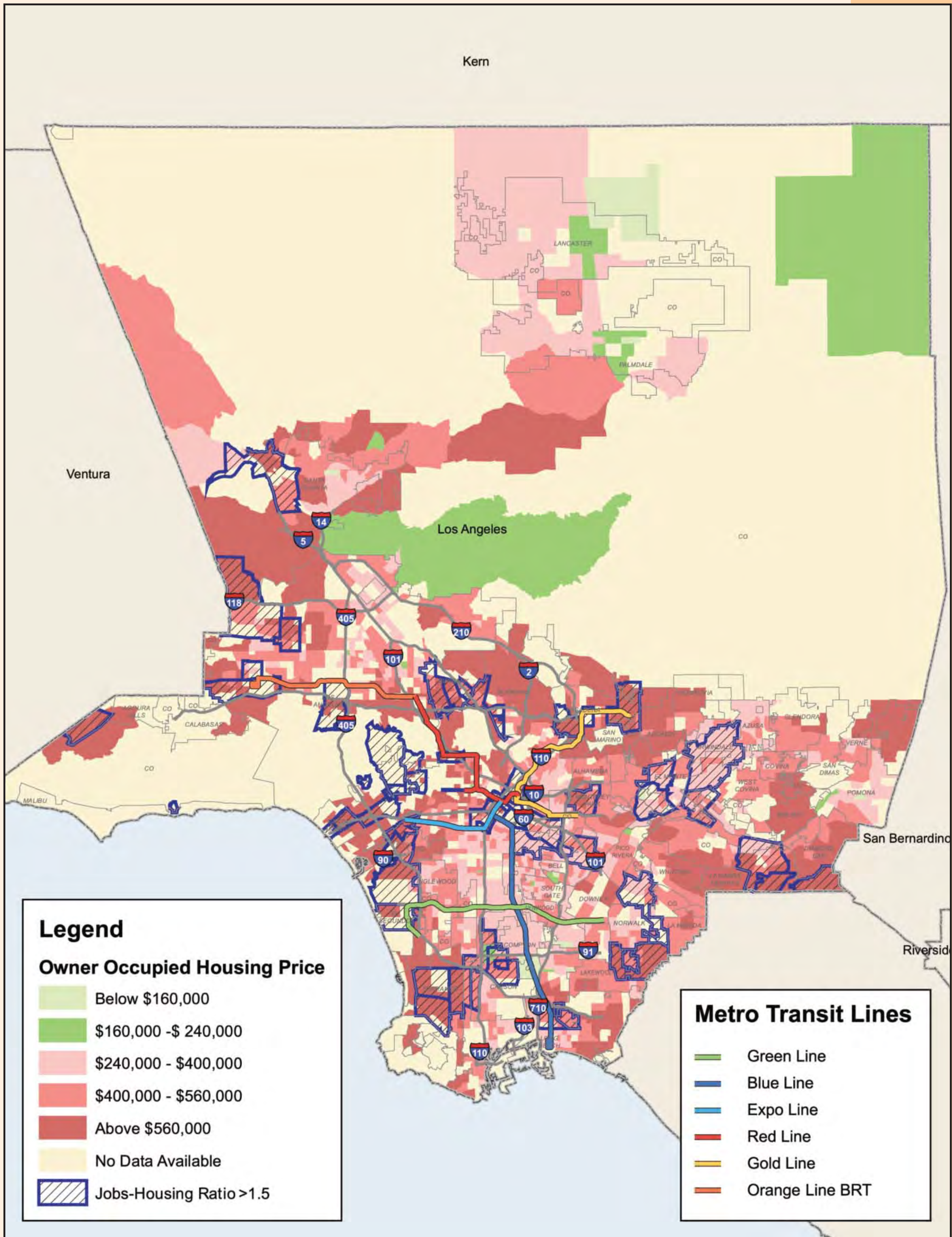


Figure 11 below shows an example of a livable corridor that can be created around Los Angeles County's existing and planned light rail transit lines. The Expo Line Corridor, upon completion of Phase 2 of the Expo Light Rail Line, will connect two key employment centers in downtown Los Angeles and Santa Monica, leaving less expensive land in several neighborhoods across Los Angeles and Culver City south of the 10 Freeway ideal for workforce housing and livable community development. Figure 10 shows that the potential for these livable corridors exists along the Blue Line connecting downtown Los Angeles to Long Beach, as well as along the Red and Orange Lines in the San Fernando Valley.

Figure 11: Expo Line Livable Corridor connects employment centers to more affordable neighborhoods where workforce housing can be built by private developers. Source: U.S. Census Bureau - 2010 Census, 2010 County Business Patterns.

- **Use transit station plans to pursue livable community land use regulations.** Land use and policy tools, such as increased by-right density and streamlining of the entitlement process, should be utilized within these target corridors. Future transportation planning efforts must contemplate land use and housing development around potential alignments. (See recommendation 2 below)
- **Shift focus from single-project TODs to corridor development.** TOD developments on top of or immediately adjacent to transit stations can serve as centralizing places, but in order to create sustainable, livable communities, policies and programs must be put in place to allow private developers to develop beyond station entrances.
- **Invest in first / last mile solutions.** Urban circulators like high-frequency buses and streetcars, walkable and bicycle corridors, and mobility hubs are all powerful tools that increase the footprint of developable land around transit centers. Bicycle sharing programs are an example of a relatively low-cost solution to enhance connectivity between neighborhoods and the regional transit network. A SCAG best practice study of existing programs in Paris, France; Montreal, Quebec; and several newer programs in the United States found that bike share facilities tend to work best in mid-sized communities of around 200,000 people, and they bring benefits of extending service areas around transit lines and attracting and retaining transit customers (SCAG, 2009). There are numerous cities and neighborhoods located along Los Angeles County's rail transit system that fit this mold, and access to transit in these areas can be maximized if these connections are created. Utilizing new funding sources, such as the additional revenues from the Measure J Local Return program, to invest in bike share facilities, mobility hubs, and other first/last mile solutions will help bring transit to homes and magnify the connectivity impacts of the current transit developments. The Los Angeles County Economic Development Corporation (LAEDC) estimates that the Local Return component of Measure J alone will generate an economic impact including over $11 billion in economic output, 70,000 jobs, and $4.3 billion in income across Southern California over the 30-year lifetime that the Measure would be in effect (LAEDC, 2012). These significant impacts show that the Measure J extension is not only a key component in the development of livable communities, it is also invaluable in ensuring long-term economic stability within the County.

2. Foster Private Development – and Capitalize On It

Many of the tools and leadership needed to develop livable communities will come from the public sector, but private developers will likely construct the bulk of new housing and commercial centers. Policymakers must apply a comprehensive mix of political and programmatic solutions to ensure that the development process runs smoothly and cities are able to capture the added value of new development. The National Association of Home Builders (NAHB) estimates that building 100 rental apartment units in a typical metro area produces: (1) 122 short-term jobs, which produce an immediate economic impact of $7.9 million in employee income and $872,000 in government revenues; and, (2) 32 permanent jobs, which produce $2.3 million in recurring annual employee income, and $395,000 in recurring annual government revenues (NAHB Housing Policy Department, 2009).

Allow additional density in target areas by-right. There are a number of policies already in place from the local to the Federal level that require planning bodies to consider transit development alongside housing development. When cities throughout Los Angeles County develop future housing plans through general plan and community plan updates, it will be crucial to allow for more residential units to be built along transit corridors. This will enable developers to move through the entitlement process more quickly and limit the number of discretionary actions required for new workforce housing projects to come online.

Identify new public funding sources for workforce housing. Few public financing programs exist for workforce housing development, and even those programs designated for affordable housing development for lower-income residents are being depleted. If the workforce housing needs of the region are to be addressed, local agencies must collaborate in order to develop new programs that focus on easing workforce housing development by the private sector. The New Generation Fund is an example of an innovative public-private partnership created to fund housing development. The Fund provides acquisition and predevelopment loans to for-profit and nonprofit developers of affordable and mixed-income housing. Initiatives like the New Generation Fund, which are mission-driven and do not anticipate a high return on their investment, must be funded and expanded to include workforce housing development. Such funds usually provide the “first in” monies needed to launch a project, and require assurance that long-term financing will be available to repay the fund loans. Such permanent funding for these programs can come from private institutions, the expanded use of project-based Section 8 vouchers and other public housing programs, and contributions of land from localities or even public agencies such as Metro, whose missions are advanced by the development of workforce housing in proximity to transit.

In the wake of the dissolution of redevelopment agencies and their tax increment financing capabilities, cities can utilize new tools to regain a portion of that taxing authority to raise new funds for livable community development. Infrastructure Financing Districts (IFDs) allow jurisdictions to divert property taxes for up to 30 years in order to finance infrastructure improvements, including transit facilities (Senate Local Government Committee, 2001). These districts require voter approval to form and additional approval to issue bonds, but they can help finance development of key first/last mile systems that connect workforce housing and employment centers. A piece of pending legislation, SB 1156, may provide an even more powerful tool for cities. SB 1156, if signed by the Governor would enable local jurisdictions to create Sustainable Communities Investment Authorities that would gain tax increment authority to finance transit, economic development, and housing development (California Legislature, 2012). The authority gained by the signing of SB 1156 into law should be embraced by policymakers throughout Los Angeles County as a new source of funds for targeted workforce housing, transit, and employment-generating development.

Streamline funding programs for workforce housing development. Because of the number of programs that are in place to encourage development of both affordable and workforce housing, local housing departments should act as clearinghouses for these developers, helping them package together the appropriate sources of financing for a particular development. The Los Angeles Housing Department (LAHD), for example, already manages a majority of Federal, state, and local housing programs, and the

department has existing relationships with the Housing Authority of the City of Los Angeles (HACLA) as well as private housing developers. Developers who already have a presence in the Los Angeles market, as well as those new to the area or to workforce housing development, have a single point of contact within the LAHD case management team to shepherd new projects through the funding process. Other local departments should follow the LAHD's lead and create case management offices to assist developers in locating available public funding sources.

Reform the environmental review process. The California Environmental Quality Act (CEQA) has long been debated across the state, and many believe that the act no longer serves its originally intended purpose. Private capital is available for multifamily housing development in much of the Los Angeles region, but the uncertainty of the environmental review process adds risk and therefore costs to any development project. While wholesale reform of CEQA will take a massive statewide effort, there are interim steps that can be taken now to help developers of workforce housing. AB 900, a state bill chaptered into law on September 27, 2011, allows CEQA challenges for "leadership projects" to be heard in a streamlined judicial review process. AB 900 is a testament to private developers' stance that the lengthy reviews and legal battles that often arise out of the CEQA process are much more concerning to them than the costs of resulting environmental mitigation measures.

While the debate over CEQA reform continues, statewide laws creating categorical exemptions or an alternative legal review process for mixed-use, mixed-income infill projects would provide some buffer for workforce housing developers from the costs associated with the CEQA process. The CEQA revisions proposed in SB 226 in 2011 go a long way toward creating a more navigable environmental review process, but the final language that is adopted must include an eligibility provision for workforce housing located in close proximity to transit, even if it does not meet all of the other eligibility requirements in the proposed CEQA revisions. SB 226 was chaptered on October 4, 2011, and as a result of this law changes to the CEQA process for infill projects seem imminent.

At the local level, cities can help take on some of the burden and risk of environmental review from developers through the Master Environmental Impact Report (EIR) process. Master EIRs allow planning entities to study in detail the impacts of a specific plan, station area plan, community plan, or even general plan. This in turn allows future projects to be approved in accordance with those plans to undertake a much simpler environmental study statement. The process takes more time and expense for the city, but it is an excellent way for the public sector to share in the costs of predevelopment and entitlement. The use of Master EIRs by local jurisdictions throughout the County that study the impacts of increased density in target areas for livable community development, combined with increased allowable density in those areas by right, will substantially lower the time and risk of predevelopment activities for private housing developers and funnel workforce housing development to desirable locations throughout the region.

Leverage Catalytic Projects. Los Angeles is a world-class region that attracts world-class investments, such as the current proposal to develop a new NFL stadium in downtown Los Angeles. Many of these catalytic developments, such as the stadium, Hollywood and Highland, and the W Hotel in Hollywood, are occurring on existing and developing transit lines. Cities must start planning now in anticipation of these projects and the additional investment they will attract, so that when the development booms do come about investment can be targeted into the creation of livable communities around transit corridors.

3. Emphasize Development of Mixed-Income Housing Near Transit

According to the 2010 American Communities Survey, residents of Los Angeles County who earned less than $35,000 were 3.5 times more likely to utilize public transit to commute to work than those residents earning more than $35,000 (American Community Survey, 2010). The unintended consequence of new transit-oriented development, however, is that it raises property values near transit assets and pushes out the population of workers who are most likely to use that transit. Public agencies must focus on supporting an equitable mix of housing around transit, including affordable, workforce, and market-rate units.

A key component of Metro's mission is to ensure that transit across the County remains accessible to all segments of the population; therefore, the agency has a vested interest in the development of workforce housing around its transit facilities. With this in mind, Metro should expand its involvement in real estate development to more directly influence the supply of workforce housing and its connection to employment centers around the County. It can do so by devoting resources to the Affordable Housing Trust Fund or to other private funds dedicated to the development of workforce housing. It can also acquire parcels not used explicitly for transportation infrastructure, but designated for workforce housing development that will be connected to the regional transportation network.

4. Plan for Employment-Generating Land Uses

Developing workforce housing is only one half of the jobs-housing equation. While the policy recommendations contained within this report focus on incentivizing the development of workforce housing in and around employment and transit assets in Los Angeles County, the development of jobs-producing land-uses cannot be ignored. Livable housing developments near transit lose their value if there are no job centers available to connect to them. And as Figure 4 presented previously in this report illustrates, proximity of workplace to transit actually has a greater effect on a worker's propensity to use public transportation than the proximity of housing to transit.

It is equally important that planning organizations throughout the County plan for commercial land uses that provide employment opportunities as the region develops its transit and housing infrastructure. The same land-use tools and programs discussed in this report can be used effectively to target commercial development within the County's new livable corridors. A healthy mix of housing and commercial centers connected by a growing transportation system will create sustained growth of livable communities throughout the region.

5. Empower Public Agencies to Act as Development Agencies

Redevelopment agencies (RDAs) have had a substantial role in shaping Los Angeles, funding major redevelopment and infrastructure projects that municipalities were unable to handle – especially affordable and workforce housing. As the task of developing low-income and workforce housing units is transitioned to other agencies, the development community needs a public agency that is capable of stepping in with capital to shoulder development risk, especially for predevelopment expenses.

Further, one of the major roles of redevelopment agencies was land assemblage. Large urban infill projects often require land assembly that private developers do not have the capital to handle, nor the ability to fund holding costs for substantial acquisitions. Both the LAHD and HACLA can help fill this vacated role by making urban land acquisition and assemblage key components of their development agendas.

Metro, on the other hand, is already a major landowner across the country as it acquires property for both stations and construction activities along its planned transit lines. To date, Metro has successfully executed ground leases with developers to create quality urban projects like the W Hotel and Hollywood Highland in Hollywood, as well as the One Santa Fe project in Downtown. Over one-fourth of housing developed on Metro-owned land meets affordability standards required for state and local affordable housing funding. Moving forward, Metro will likely need to be an even more active development partner to ensure that workforce housing development and other economic activity generators are developed on the agency's property.

Generating workforce housing along transit corridors should be the primary goal of future agencies, and substantial efforts to achieve this must be backed by real capital investments. Public agencies should also consider development as an investment in future cash flow. As potential partners in development deals, the public agencies would be entitled to share in the profit.

Conclusion

Los Angeles County is beginning to emerge from a deep and lasting recession, which has left its imprint on the County's housing market. Multifamily housing, historically a strong-performing sector, is reemerging as the product type of choice for many private developers. At the same time, absolute housing affordability remains low despite relative improvements.

In order to ensure stable economic growth in Los Angeles County, employees of incoming and expanding businesses must have access to communities with a variety of housing options and a high quality of life. Workforce housing development is therefore a critical component of the County's economic development strategy. Los Angeles County's public agencies and private developers must expand on the notion of the jobs-housing balance as only the co-location of jobs and housing in immediate proximity to one another. Instead, the development of housing within transit corridors enables connectivity of households and jobs over a larger area and provides access to amenities for more members of the County's workforce. The recommendations contained within this report will help policymakers and developers meet these growing needs, and empower Los Angeles County to prosper as a world-class region.

Areas for Further Study

During the preparation of this report, the author noted the need for further detailed study in the following areas. Detailed analysis in these areas was excluded due to the limited scope of this engagement.

1. Analysis of the ideal size and location of Infrastructure Financing Districts, Sustainable Communities Authorities, and other value-capture tools that can be utilized to invest in livable community development in Los Angeles County
2. Analysis of Metro's planned transit alignments, to ensure maximum ridership and connectivity, and to accommodate Los Angeles County's short- and long-term economic growth strategy

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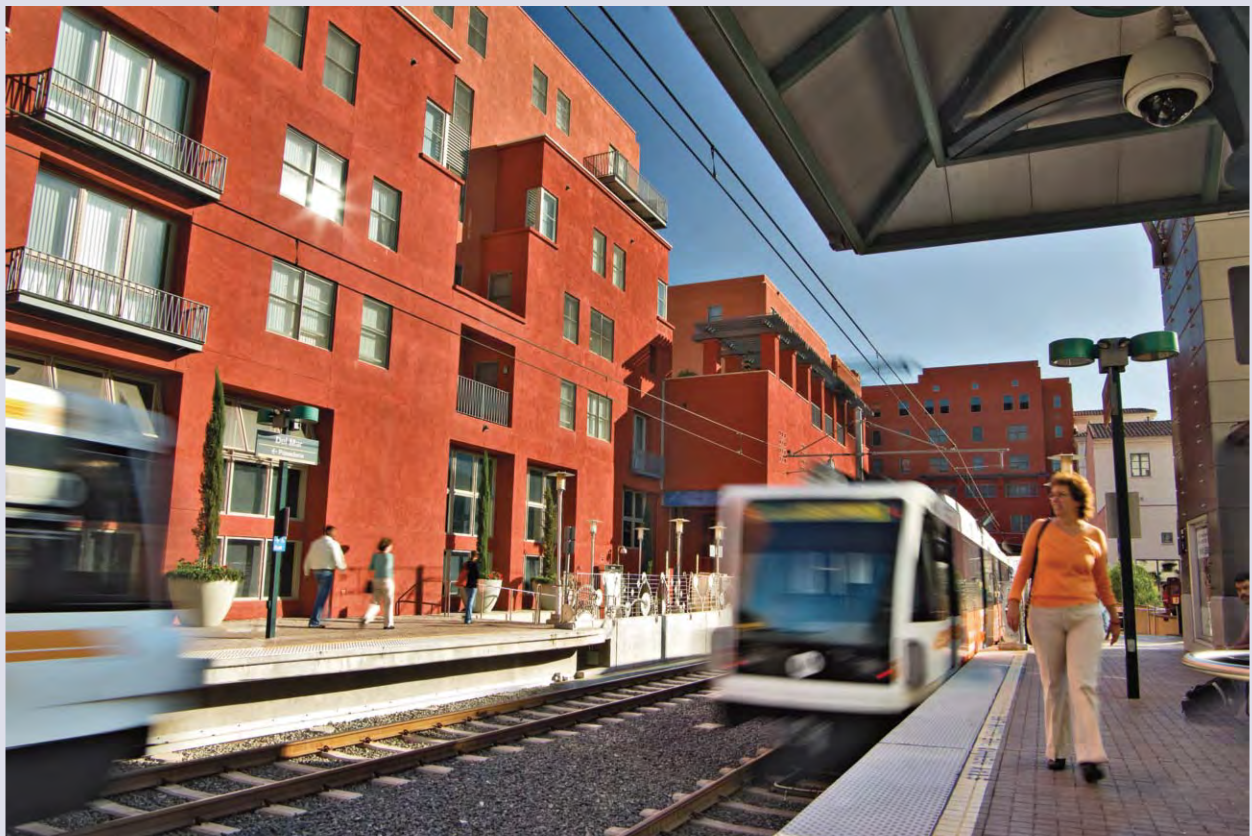

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