2013 Livable Communities Report: A CALL TO ACTION

Introducing the Opportunity Index and Proposed Solutions for L.A.'s Project Financing Challenges
Acknowledgments

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Executive Summary

In October 2012, the Los Angeles Business Council (LABC) released the report *Building Livable Communities: Enhancing Economic Competitiveness in Los Angeles* (2012 Report). The 2012 Report contemplated the connections between jobs, housing, and public transit throughout Los Angeles County, emphasizing that the traditional “jobs-housing balance” metric is no longer a sufficient way to measure economic stability; rather, the region’s expanding transportation infrastructure must be added into the analysis. The report also addressed the need for additional investment in workforce housing, defined as housing affordable to workers earning between 50% and 120% of Area Median Income (AMI). Very few public subsidies and incentives exist to construct housing at these affordability levels, and market rents in most neighborhoods across the County are above these thresholds.

The introduction of transit into the jobs-housing equation provides the opportunity to develop housing in less expensive markets and capitalize on the transit infrastructure that connects these markets to job and activity centers. In addition to providing recommendations that incentivize the development of additional workforce housing in close proximity to transit, the 2012 Report revealed that the developable footprint around transit can be significantly expanded by establishing multimodal connections at transit centers. This concept, described as “transit corridor development,” is a critical component to a long-term growth strategy that will provide more sustainable housing opportunities, minimizing the potential negative impacts typically associated with increased development densities.

The Need for Workforce Housing

Throughout Los Angeles County, residents continue to face extremely high costs for housing. In 2012, 51.3% of owners and 59.8% of renters in the County were considered “housing cost burdened” by the U.S. Department of Housing and Urban Development (HUD), spending more than 30% of their income on housing (U.S. Census Bureau, 2012). While Los Angeles County faces excess demand for housing across all affordability levels, there is a particular need for investment in workforce housing units. In 2013, the Los Angeles County AMI is $82,400 for a family of four—this means that workforce housing units are affordable to families earning between $41,400 and $98,880 (HUD, 2013). These members of the workforce are not receiving public subsidies or housing vouchers; rather they are school teachers, engineering technicians, and web developers who find themselves cost-burdened by market-rate housing in many parts of the County. As the 2012 Report noted, the growing public transit assets in the County create new opportunities to address the shortage of workforce housing in Los Angeles County. By pursuing workforce housing development in less expensive areas that are connected to job centers via transit, the burden on these working residents can be substantially reduced. As such, policymakers must engage with the development community to create appropriate incentives for the development of workforce housing in connected, livable corridors around the County.

The transit corridor concept introduced in the 2012 Report is an essential part of livable community development. Utilizing mobility hubs and walk-extenders, which serve to enhance the connections outward from transit stations throughout the system, helps connect the transportation network to communities beyond the typical quarter-mile radius often associated with Transit-Oriented Development (“TOD”). Multimodal connections are critical to ensuring that housing, employment centers, and other community assets are fully able to realize the benefits of transit throughout Los Angeles County.

Figure 1: From the 2012 Report: Illustrating the difference between traditional TOD and Transit Corridor Development
The 2013 Report

The 2013 Livable Communities Report: A Call to Action is an update to the 2012 Report and it examines livable corridor and livable community development in more detail, from the perspective of developers and cities that are currently seeking opportunities to cultivate more workforce housing around transit. As such, the focus is on implementation of the 2012 Report findings. The 2013 Report seeks to answer several key questions that arose from the 2012 Report:

- Where are the opportunities for livable community development throughout the County?
- How can the concepts introduced in the 2012 Report be applied to real development opportunities?
- What specific policies and programs will incentivize the development of more workforce housing in livable communities connected to the transit system?

This report begins by outlining the current policy climate surrounding transportation, housing, and economic development from the federal to the local level. Several key changes in policy have occurred since the release of the 2012 Report that will alter the context within which new livable communities can be developed.

This report then introduces the Livable Community Opportunity Index (“Opportunity Index”), a tool designed to analyze local markets around transit stops and their potential to support livable community development. The Opportunity Index is made up of six key demographic and market indicators—including population, housing density, income, employment, transit ridership, and land values—to evaluate whether a given market is able to support the type of mixed-use, mixed-income, and higher-density development that comprises a livable community. The index is used to score each of 104 station areas across Los Angeles County’s light rail (LRT) and bus rapid transit (BRT) lines, including the future Crenshaw Line, creating classes of hot, warm, and cool markets for livable community development. The complete list of station areas and their associated index scores is included as Appendix A.

Two of these station areas are examined as case studies in livable community development. These stations score as either warm or hot livable community markets in the Opportunity Index, but they were also selected as representative examples for development strategies that can be applied to other opportunity sites throughout the County. The selected station areas are profiled below:

**Van Nuys Orange Line Station**

**Location:** Intersection of Van Nuys Blvd and Orange Line BRT alignment

**Key Attributes:**
- Surface park & ride lot owned by Metro; numerous lots like this owned by Metro along all transit lines
- Immediately adjacent to transit node
- Multimodal connections to north-south buses and bicycle
- Higher-density development opportunity while maintaining connections to transit riders and existing residents and businesses

**Florence/La Brea Crenshaw Line Station**

**Location:** Intersection of Florence Avenue and La Brea Avenue in City of Inglewood, along the future Crenshaw Light Rail Line

**Key Attributes:**
- Large development site previously owned by Redevelopment Agency, now transferred to the City of Inglewood
- Case study for cities throughout the County seeking to replace lost functions of Redevelopment Agencies (RDAs)
- Connection between Crenshaw Line, Civic Center, Market Street Retail Area, and other community amenities
Recommendations
The final component of this report introduces policy and programmatic recommendations that can help narrow the financial gap to providing workforce housing in livable communities. These recommendations are analyzed in terms of how they will specifically impact developers and work to create more housing units in target areas near transit. The case studies both illustrate a key challenge to the development of new housing near transit—the supportable investment generated by the Net Operating Income (NOI) from workforce housing for developers is simply not enough to cover the costs of new construction, and the private development market cannot provide housing affordable to workers earning 80% to 120% AMI without significant support from the public sector.

This report proposes the following policy recommendations to capitalize on livable community development opportunities throughout Los Angeles County through project finance programs and development incentives:

### Project Finance
- **Establish Dedicated Source for Housing Trust Funds in LA County**
  - Mandate at least 20% of “boomerang funds” to be committed to trust funds
  - Require at least 15% of trust fund expenditures to be reserved for workforce housing
- **Pursue Creative Use of Existing Funding Sources**
  - Establish joint case management program with City Planning, HCID, and EWDD to help developers navigate funding sources
  - Promote funding sources that have uncommitted balances
- **Establish Financing Districts to Recapture Benefits to Land**
  - Create pilot Infrastructure Financing Districts in key locations
  - Pursue state legislation to allow TOD Tax Increment Financing

### Development Incentives
- **Utilize Mobility Hubs to Catalyze Livable Development**
  - Establish separate Modal Application in Metro Call for Projects with mobility hubs
  - Fund and construct five pilot mobility hubs by end of 2014
  - Use mobility hubs as part of Transportation Demand Management Plans
- **Increase Density Bonuses for Mixed-Income Development**
  - Include workforce housing up to 120% AMI in density bonuses Countywide
  - Increase incentive levels across all income thresholds from 50% to 120% AMI
- **Reduce Parking Requirements Near Transit**
  - Eliminate or significantly reduce parking requirements within a quarter-mile of stations
  - Create second tier of reductions within a half-mile of stations
  - Provide parking credits for mobility hubs
- **Reduce Development Fees for Livable Community Development**
  - Codify a formal definition for “Livable Community Development” typology
  - Reduce or eliminate development fees for Livable Community Development projects within half-mile of stations
Changing Policy Dynamics

The regional landscape of Los Angeles policy and politics has substantially changed since the 2012 Report. The region’s Redevelopment Agencies (RDAs) are focused on winding down, seven of 15 City of Los Angeles Councilmembers turned over in 2013, two of the five County Supervisors will term out in 2014, and the City of Los Angeles has a new mayor, Eric Garcetti. In addition to these political changes, the City of Los Angeles is moving forward with the creation of the Los Angeles Economic and Workforce Development Department (EWDD) to create and enact policy changes that will improve real estate and economic development opportunities and assume the role of the former Community Redevelopment Agency of Los Angeles (CRA/LA).

Post-Redevelopment: A Closer Look at the City of Los Angeles Economic and Workforce Development Department

With the dissolution of RDAs in 2011, the City of Los Angeles moved forward with the creation of the EWDD and a partner organization, the Citywide Economic Development Nonprofit (CEDN). These two organizations will form an unprecedented Public Private Partnership (P3) to replace many elements of the CRA/LA, as well as absorbing the efforts of the former Community Development Department (CDD). Many public policy stakeholders are hopeful that the P3 model will provide a strong precedent for how other jurisdictions within the County will respond to the loss of RDAs.

The EWDD will primarily work on strategic planning and policy initiatives, whereas the CEDN will manage the city’s strategic real estate assets, off-budget finance entities1, and implement development initiatives via negotiated real estate transactions (HR&A Advisors, Inc., 2013). Further, it is anticipated that the P3 will help facilitate business and real estate development through the planning and permitting process to streamline approved and ordinary permits.

The EWDD and CEDN will work with developers of potentially catalytic projects across the City of Los Angeles. Since housing development is not explicitly part of the EWDD’s mission, collaboration with the newly consolidated Housing + Community Investment Department (HCID) will be paramount to the success of cohesive, livable community development throughout Los Angeles. On July 1, 2013, the City of Los Angeles consolidated the former Los Angeles Housing Department (LAHD) with the human delivery components of the former Community Development Department (CDD) into the new HCID. HCID is tasked with incorporating social services programming into housing and economic development efforts. HCID has already indicated that planning for affordable housing options around transit is a departmental priority, through both the approval of the 2013-2017 Consolidated Plan and the comprehensive approach through which it engages the development community for projects that contain public investment. Moving forward, the impacts of public programs can be multiplied by focusing the efforts of both the EWDD and HCID on livable community development in transit corridors.

Implications of the Turnover in the Mayor’s Office and City Council

For eight years, Mayor Villaraigosa was successful in developing a bold plan to transform transit in Los Angeles. His administration championed innovative transit initiatives in the City and County, most notably Measure R, which dedicates a projected $40 billion to traffic relief and transportation upgrades throughout the county over the next 30 years. A commitment to advancing these projects should continue to be a priority for our city’s new leaders.

Concurrent with the election of Mayor Garcetti, the Los Angeles City Council had the highest turnover in four decades, as term limits forced seven Council Offices to change in 2013. Because livable community development is a concept that can be tailored to the needs of any scale and style of community, Councilmembers are encouraged to adopt this approach to enhance the City’s economic competitiveness, as well as its competitiveness for key federal funding programs.

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1 Off-budget finance entities are independent organizations that are not funded by the City’s general fund and contribute specific funding sources to development projects. These entities include the Los Angeles Development Fund and the Industrial Development Authority.
MAP-21: Federal Funding for Transit Projects in L.A. County and TOD

Nearly all of the transit projects throughout Los Angeles County, big and small, involve federal funding. Moving Ahead for Progress in the 21st Century (MAP-21), signed into law in 2012, is a funding bill that was designed to streamline the federal process of reviewing transit projects and issuing funding. MAP-21’s major shift from prior transportation legislation is a new focus on performance-based evaluation and secondary transit benefits. This shift puts more emphasis on transporting people between and within dense urban areas; this gives a marked priority to transit, bikes, urban circulators/streetcars, urban light rail, pedestrian circulation, and other innovative transit solutions in the funding cycle (Federal Highway Administration, 2013).

MAP-21 implementation guidance places substantial emphasis on secondary transit benefits, specifically economic development. While this connection seems obvious to many in the real estate business, it is not the primary goal of transit providers, which have, across the nation, designed transit networks to connect and integrate nodes, but not with the goal of promoting economic and real estate development. MAP-21’s new rating criteria assign 16.7% of a project’s overall evaluation to economic development; this qualitative measure analyzes local plans, policies, and resources that incentivize and support secondary transit benefits, such as affordable housing and supportive zoning. Projects will receive a high rating if “Agencies have adopted effective regulatory and financial incentives to promote transit-oriented development…[and] a significant number of development proposals have been received for transit-supportive housing and employment in station areas.” It will be increasingly important for local jurisdictions in Los Angeles County to develop policy methods to bolster TOD in order to maximize federal funding opportunities for transit projects.

Funding Cuts to Housing at All Levels of Government

The most direct policy impact to the housing development climate today has been the significant reduction in affordable and workforce housing funding resources from the local to the federal level. Cities throughout Los Angeles County are struggling to find new sources to invest in housing projects, as the demise of RDAs eliminated both their direct financing of development projects as well as their substantial contribution to housing trust funds. California Proposition 1C funding, a key component of many affordable and infill developments near transit, is dwindling as well. The 2006 bond measure provided $2.85 billion to a variety of programs related to housing and infill infrastructure, but as of June 2012 the total balance of funds was down to under $200 million; approximately 7% of the original program amount remains (California Housing and Community Development, 2012).

The same trend has occurred at the federal level, as key programs that counties and cities use to inject capital into local housing markets have been dramatically reduced as well. The U.S. Department of Housing and Urban Development’s (HUD) Home Investment Partnerships (HOME) program is a flexible funding source that is distributed to states, counties, and cities. This powerful funding mechanism may be used for acquisition, reconstruction and rehabilitation of housing, allowing jurisdictions to tailor HOME-funded programs to fit their communities’ needs. HOME funds budgets have been nearly cut in half, however, from $1.8 billion in FY2010 to a proposed $950 million in FY2014 (National Association of Counties, 2013). Over the past three years, the City of Los Angeles has lost 32 percent of its Community Development Block Grant allocation and 56 percent of its HOME funding (Marquez, 2013).

Given these funding cuts across the board, it is essential for local governments throughout Los Angeles County to pursue funding sources for workforce housing and livable community development, as well as to create a policy environment that allows the development community to deliver new quality projects near transit in livable, mixed-income communities.
Livable Community Opportunity Index

From the federal to the local level, political support for development around Los Angeles County’s transit network continues. As such, it is critical for cities to identify opportunity areas for livable community development. Rather than institute citywide policies that may not take into account the specific market context of various neighborhoods and transit station areas across the County, it would be prudent for policymakers to target policies at key locations and opportunity sites for this specific form of development. The Livable Community Opportunity Index serves as a tool for cities to determine the sites best situated to test these policies and programs.

The Livable Community Opportunity Index is a tool that enables public agencies and private developers to rate the market potential to support this type of development around station areas based on a composite set of criteria. Station areas were created using a half-mile radius around each transit station. Many TOD studies analyze a quarter-mile radius around a station; however, since the livable corridor concept emphasizes multimodal connections at transit stops that address the first and last mile of commuting, a larger radius around each station is appropriate. The index is composed of the following factors:

- Population
- Number of Housing Units
- Income
- Employment
- Public Transportation Ridership
- Land Values

Population

The index includes total population as a proportion of total Los Angeles County population. At the most basic level, any development requires a base population to generate demand, whether it is for housing, jobs, or consumer goods. Livable communities around transit stations will consist of mixed-use residential and commercial developments. Therefore the current population around a station will create a market for the product type.

Number of Housing Units

Increased housing density is necessary to create walkable communities around transit that include more workforce housing options. Since the station areas examined by the index are all of equal land area, the number of housing units is analyzed to calculate each area’s housing density. Neighborhoods with greater existing density are more likely to support the development of more housing units near their transit stations, and therefore score higher on this component of the index.

Income

There are several metrics to measure income within a particular community. Rather than utilize per capita income or median income, which both serve as a good indicator of relative wealth across neighborhoods, the Opportunity Index captures total area income. In addition to measuring relative wealth, total area income measures the community’s spending power, another driver of demand for goods and services. Incomes are also indicative of average residential rents, and higher-rent areas can support private development of housing without the need for public sector intervention.

Employment

Because livable community development requires integration into the region’s transportation infrastructure, the key drivers of transit ridership are important components that drive livable development opportunities. As illustrated in the 2012 Report, the proximity of jobs to transit actually has a greater impact on ridership than the proximity of housing to transit, so employment within the station area is another key component of the Opportunity Index.

Public Transportation Ridership

The proportion of employees who use public transportation for their daily commute is another factor of the Index. While this doesn’t necessarily encompass all of the transit riders within an area, transit commuters comprise the majority of daily rides on rail and bus lines, and this metric serves as a good indicator of a community’s propensity to utilize public transit regularly.
**Land Values**

The final component of the Livable Community Opportunity Index considers land values in the areas surrounding each transit station area. Land values actually have an inverse relationship to the Opportunity Index, since lower land costs can be supported by lower rents. All else equal, an opportunity site in an area where land can be purchased more cheaply is a better candidate for workforce housing development and therefore receives a higher rating.

Each factor in the index is calculated as a proportion of the County total, then summed and normalized to yield a score out of 100. Station areas with an index score of 67 or above are considered “hot” markets, primed for livable community development. Station areas with a score between 34 and 66 are considered “warm” markets; these locations will likely support livable community development, but they will require more proactive policies in order to incentivize development. Sites with an index score below 34 are considered “cool” markets. A cool market does not necessarily imply that development is not possible at an opportunity site in that location, only that the community may not show the propensity for denser, transit-oriented development patterns, or that current residents of that community are less likely to utilize the transit infrastructure available to them. Figure 2 at right maps the County’s transit station areas and labels cool, warm, and hot markets for livable community development.

The complete list of 104 station areas and their associated scores on each index criterion, along with their composite score, can be found in Appendix A.

It is important to note that the Livable Community Opportunity Index only analyzes the market potential for higher density, mixed-use projects that connect to public transit. The Index does not, however, rate the feasibility of this type of development at particular locations. Developers and public partners interested in the development of a specific site must conduct further analysis to determine if rental income, land values, and construction costs can support development on that site. The case studies that follow serve as examples of this analytical process from the developer’s viewpoint.

![Figure 2: Los Angeles County Station Areas with Livable Community Opportunity Index Rating](image-url)
Case Study: Van Nuys Orange Line Station

Site Context

The Orange Line is a Bus Rapid Transit (BRT) line that is considered part of Metro’s rail and transitway system. The Orange Line runs along a dedicated right of way in a former Pacific Electric Red Car alignment. This BRT functions more like a light rail line than a traditional bus line since it does not move in and out of the vehicle lanes in a mixed flow of traffic. The 14-mile route goes through the heart of the San Fernando Valley, from the North Hollywood Red Line station west to Canoga and Warner Center, and then north to the Chatsworth Metrolink station. Since the Orange Line connects to both the Red Line terminating in Downtown Los Angeles and the regional Metrolink network, it can be seen as the main transit artery for the San Fernando Valley.

While BRT is akin to light rail, the capital costs are considerably lower since fixed rail construction is not required. Since its inception in 2005 and extension in 2012, the Orange Line has exceeded all ridership projections and has been a huge success for LACMTA. Ridership numbers on the Orange Line exceed that of the Expo Line, the newest addition to the region’s light rail network. In July of 2013, average weekday boardings for the Orange Line and Expo Line were 27,152 and 26,908, respectively (LACMTA, 2013). The Orange Line is an important case study for the potential success of BRT in Los Angeles County and BRT’s role in bolstering the regional transit system. This is especially true considering that the development-generating effects of BRT are less studied than those of heavy and light rail.

Another integral feature of the Orange Line is the related bike path that runs its entire length. Its incorporation supports first and last mile strategies along the corridor, which are fundamental to enabling TOD generally as identified in last year’s report. In addition to the bike path, the majority of the Orange Line stations include park-and-ride lots for motorists, another amenity that contributes to first and last mile strategies and facilitates transit ridership.

The Van Nuys Orange Line station has been identified as a noteworthy station with considerable development potential. With a Livable Community Opportunity Index score of 68, the station area is in the top third countywide as a hot market for livable community development. The Van Nuys Civic Center lies just to the north of the station on Van Nuys Boulevard consisting of large-scale public buildings dedicated to both Los Angeles City and County. Van Nuys Boulevard, which runs perpendicular to the Orange Line, is a critical thoroughfare that supports several local bus lines that link with the transitway and regional transit system.

Key challenges to addressing development around the Van Nuys Station include the numerous car dealerships surrounding the station. These car dealerships are low-intensity land uses, consisting mainly of surface parking lots. Additionally, Van Nuys Boulevard is extremely wide and vehicles move at high speeds. The car dealerships, wide streets, fast speeds, and long blocks create a super-block design, which does not support a pedestrian scale. Also, the station is adjacent to lower-density residential neighborhoods characterized by single-family homes and smaller, older apartment complexes between five and nine units (ESRI, 2013). Although these challenges exist, amenities such as the separated bike path and park-and-ride facility present the opportunity for livable community development in the Van Nuys Orange Line station area. The development potential of the station is further examined in the following discussion.
Figure 3: Van Nuys Project Vicinity Map

Development Opportunity Sites
The park-and-ride facility on the Van Nuys Station is a Metro-owned parcel of land that is prime for land-use intensification and densification in alignment with TOD. As previously mentioned, the majority of the Orange Line stations include park-and-ride surface lots, which are all owned by LACMTA. Several other stations within the Metro Rail and Transitway network also contain park-and-ride facilities. Therefore this development site is a development typology representative of several transit stations and corridors throughout the Los Angeles region.

Market Analysis
Several market indicators make the Van Nuys station area attractive for transit-oriented development. Transit ridership statistics at this station indicate that the station is highly utilized by residents in the station area, a key factor of the Livable Communities Opportunity Index. On any given day of July 2013, approximately 1,300 individuals boarded the line at this station in the eastbound direction, and nearly the same number disembarked at this stop in the westbound direction (LACMTA, 2013). The Reseda station, with the next-highest level of ridership, experiences approximately 800 daily boardings and disembarkations in the eastbound and westbound directions, respectively. (LACMTA, 2013). That is to say that ridership at the Van Nuys Station is nearly double that of any other station on the Orange Line other than the North Hollywood Station, which is the terminus of the Red Line, highlighting its potential for transit-oriented and livable communities development.

The nearby Van Nuys Civic Center is an employment hub for the San Fernando Valley, attracting close to 1,200 government employees on a daily basis (ESRI, 2013). This employment center indicates the potential to develop livable communities in the station area, as increasing workforce housing near job centers already linked to transit is vital to fostering TOD and livable communities.

In a half-mile radius around the station area, there are approximately 3,300 households (ESRI, 2013). This half-mile radius translates to roughly 125 acres of land, meaning that there are around 26 dwelling units per acre around the site. The parcels directly surrounding the station are zoned CM, which allows for 800 square feet per dwelling unit, which is approximately equal to 55 dwelling units per acre. That is to say that the number of housing units around the station area could be doubled according to the zoning envelope. Given the station’s proximity to the Civic Center, there is a clear opportunity to intensify workforce housing around this employment center.
Figure 4: Illustrative site plan for the Van Nuys Station area. This plan shows how higher density residential can be developed while maintaining connections to the Orange Line BRT station, the adjacent bike path, and retail along Van Nuys Boulevard.

Development Program

The Metro-owned opportunity site at the Van Nuys Station is approximately 275,000 square feet in land area. The current zoning at the site allows for a maximum of 344 units to be developed, yielding just over 325,000 net square feet of residential area, assuming an average unit size of 750 square feet. In addition to the residential development, the site’s location along Van Nuys Boulevard—a highly trafficked commercial corridor—optimizes commercial development at this location. Due to the narrow frontage of the site on Van Nuys Boulevard, however, the retail development will be limited to 10,000 square feet of neighborhood-serving retail. Figure 4 above provides an example of how this site can be programmed in order to maximize residential density and maintain key multimodal connections.

Because of the connections to the Orange Line, the adjacent bike path, and a number of key north-south-running bus routes along Van Nuys Boulevard, this site is an excellent location for the development of a mobility hub. Located adjacent to the Orange Line BRT Station, this mobility hub would contain bike parking, bike share facilities, and pedestrian connections to the bus stops and commercial buildings along Van Nuys Boulevard. A mobility hub is an essential connection between the transit stop, the new development site, and the community beyond it.

Mobility Hub in Action - Long Beach Transit Mall

The Long Beach Transit Mall in Downtown Long Beach is an excellent example of how a mobility hub can be utilized to magnify the impact of transit on its surrounding community. The Transit Mall completed a $7 million renovation in 2012, and is made up of a street closed to automobile traffic, with the Blue Line light rail running down the centerline; bus-only lanes on either side of the light rail tracks; landscaped pedestrian sidewalks; and buffered bicycle lanes. The multimodal connections are enhanced by the Long Beach Bikestation, which provides bike rentals, short- and long-term bike storage, and facilities for cyclists.

The biggest potential benefit of mobility hubs is that they are relatively inexpensive, and there are a number of public sources that are eligible to fund these projects. The Long Beach Transit Mall and Bikestation, for example, had a total budget of approximately $7.5 million, and they were funded through Federal Stimulus dollars, California’s state bicycle transportation account, and local redevelopment funds (Pedestrian and Bicycle Information Center). Long Beach has further leveraged this public mobility hub investment with the approval of the Long Beach Downtown Plan, a strategic plan that focuses more investment in infrastructure and development in Downtown around transit. Cities within Los Angeles County should follow this example of proactive planning and leveraging of public investments to enhance their own livable communities.
Financial Analysis

Table 1 below calculates residual land value using construction costs for development at the Van Nuys Station opportunity site, in addition to the expected revenues from that development at market rents along with workforce housing rents affordable at 80%, 100%, and 120% AMI levels. While construction costs remain the same for all four scenarios, the Net Operating Income (NOI) changes with the rents associated with each level of affordability. The residual land value—or financial gap—for each scenario is calculated by subtracting construction costs from the supportable private investment generated by the respective Net Operating Income.

Table 1: Van Nuys Pro Forma Analysis

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| **Rental Income**        |             |         |          |          |
| Average Residential Rent per NSF* | $2.50 | $1.35 | $1.68 | $2.02 |
| Vacancy Rate             | 5%          | 5%      | 5%       | 5%       |
| Effective Gross Residential Income | $7,353,000 | $3,970,620 | $4,941,216 | $5,941,224 |
| Average Commercial Rent per NSF** | $1.78 | $1.78 | $1.78 | $1.78 |
| Vacancy Rate             | 5%          | 5%      | 5%       | 5%       |
| Effective Gross Commercial Income | $202,920 | $202,920 | $202,920 | $202,920 |
| Total Effective Gross Income | $7,555,920 | $4,173,540 | $5,144,136 | $6,144,144 |
| (Less Operating Expenses) | 30% EGI     | $2,266,776 | $1,252,062 | $1,543,241 |
| Net Operating Income     | $5,289,144 | $2,921,478 | $3,600,895 | $4,300,901 |
| Supportable Investment   | 6.00% Threshold Return | $88,152,400 | $48,691,300 | $60,014,920 |
| Residual Land Value / (Financial Gap) | $17,132,400 | $(22,328,700) | $(11,005,080) | $661,680 |
| Residual Land Value / (Gap) per Unit | $49,803 | $(64,909) | $(31,992) | $1,923 |

*Residential market rents were determined using comparable 1- and 2-bedroom rents in close proximity to the project site. Workforce housing rents were determined using average HUD Fair Market Rents for 1- and 2-bedroom units.

**Commercial per square foot rents were determined using listed leasing rates for comparable retail spaces in the project area.

The analysis shows the difficulty in providing workforce housing in the Van Nuys area without any public financing. At market rents in Van Nuys, the project supports a land basis of about $50,000 per unit, but a financial gap would remain at workforce housing affordability levels. If the City of Los Angeles would like to pursue a development program that includes workforce housing on this site, it would need to substantially discount the cost of land as well as include other development incentives to lower development costs. Strategies to reduce costs for developers are discussed in more detail in the Policy Recommendations section.
Case Study: Florence / La Brea Crenshaw Line Station

Site Context

To date, the majority of light rail lines across Los Angeles County have expanded in an east-west direction. And while the region has had significant success in increasing transit ridership among its residents and employees, one key step to improve the network is to connect these expanding lines with north-south running alignments. Metro’s Crenshaw/LAX Transit Corridor (Crenshaw Line) project is an excellent example of the type of light rail alignment that will connect the transit network and multiply its positive impacts. The Crenshaw Line will connect the Expo and Green Lines through the cities of Los Angeles, Inglewood, El Segundo, and parts of unincorporated Los Angeles County. In December 2011, the Federal Transit Administration issued a Record of Decision for the Crenshaw Line, which authorized the transit agency to proceed with key preconstruction activities for the coming alignment, including utility relocation and property acquisition (LACMTA, 2013).

The Florence/La Brea Crenshaw Line Station is one of the premier development opportunity areas along the new light rail line. With projected daily boardings of nearly 1,500 passengers, the Florence/La Brea Station promises to be one of the most highly-trafficked stations along the new 8.5-mile line, accounting for over 10% of the entire alignment’s daily boardings (LACMTA, 2011). Located in the heart of the City of Inglewood, the Florence/La Brea Station will be within a quarter-mile of the Inglewood City Hall and Civic Center, as well as the Market Street pedestrian-oriented commercial district. With Inglewood High School, a number of neighborhood retail options, and other community amenities within a half-mile radius of the station, Florence/La Brea is primed to be a catalytic station site for the Crenshaw Line and the City of Inglewood alike.

One of the key challenges to development around the Florence/La Brea Station is that the neighborhood to the north of the alignment is largely built out with low-density development. Much of this development consists of light manufacturing, including auto repair uses that can cause contamination and require environmental remediation, adding costs and time to any potential development project in that area. Fortunately, the amenities and density of development to the south of the station site provide ample opportunities for livable community development that connects to this incoming piece of transit infrastructure.

Development Opportunity Sites

In addition to the surrounding amenities that make the Florence/La Brea Station attractive for development, directly adjacent to the station location is one of the larger publicly owned development sites along the Crenshaw Line. The City of Inglewood currently owns the “D3” site—a 3.5-acre development site located on the southeast corner of Florence Avenue and La Brea Avenue, which was purchased by the city’s redevelopment agency before being transferred to the city’s ownership last year. The site is currently sitting vacant and primed for development. As well, Inglewood’s C-1 zoning that governs that location allows for mixed-use, relatively dense development. This favorable zoning makes the site ideal for a transit-oriented, mixed-use development that provides multimodal connections to the Civic Center and Downtown Inglewood.

Beyond the city-owned D3 site lie several opportunities for private development along Market Street. This stretch of Market Street, from Regent Street to Hillcrest Boulevard, is a pedestrian shopping district featuring historic buildings, wide landscaped sidewalks, and attractive pedestrian wayfinding signage often found in upscale shopping districts. Currently, however, several storefronts along Market Street sit vacant, along with over an acre of opportunity sites and surface parking lots that have significant mixed-use development potential.
Market Analysis

The area surrounding the Florence/La Brea Station, including the Inglewood Civic Center and the Market Street district, is made up of a healthy mix of complementary uses. The area within a half-mile radius of the station site has several promising demographic indicators that make a market for livable, transit-oriented development, and there is clearly room for additional development in close vicinity to the future station. Within this half-mile area, there are only about 3,100 existing housing units, whereas within a 1-mile radius of the station—a land area four times as large—there are over 16,000 housing units (ESRI, 2013). This means that the residential density within the larger radius is 30 percent higher than that of the smaller radius, a clear indication that density should be increased significantly near Florence/La Brea, along with multimodal connections to the future Crenshaw Line.

Population demographics near the station show a strong market demand for additional rental housing at workforce affordability levels. Nearly 85% of housing units within a half-mile of the station are made up of rental housing, and about 30% of the local population is either between the age of 25 and 34 or over age 65 (ESRI, 2013). These age groups are more likely to be living in smaller households without children, and they generate demand for the smaller units that can be delivered at more affordable levels.

This site presents a unique case study in that residential rents in the Downtown Inglewood area are already affordable to workforce earners in the range of 80% to 120% of AMI. Average per-square-foot rents for apartment units in the Florence/La Brea area are approximately $1.50, which is affordable to residents earning about 90% of AMI, per HUD’s 2013 income limits.\(^2\) The low rental rates mean that new housing units will likely be absorbed by workforce income earners, making the station area an especially attractive location for these members of the region’s workforce to live once the Crenshaw Line arrives. At the same time, the low market rents will make it extremely difficult for the private market to provide any new units without public intervention through either significant development incentives or direct financial contribution.

Development Program

The prime development site at the Florence/La Brea station contemplated by this case study is the D3 site owned by the city of Inglewood. There are other excellent opportunity sites in the area, but the D3 site is already under public ownership, and its proximity directly across Florence Avenue from the station location makes it a critical development in order to connect the future transit station to the surrounding community using concepts of livable corridor development. Figure 7 shows an illustrative example of how this site can be utilized as a gateway from the Florence/La Brea station into the community.

The site is currently zoned C-1, Limited Commercial, which allows for the highest residential density in the city at 55 dwelling units per acre (City of Inglewood, 2013). The 2.69-acre site can therefore support 148 residential units by right, as well as additional community-serving commercial space. 148 units of residential will yield approximately 120,000 square feet of living space at an average unit size of 800 square feet, which is slightly larger than average in order to accommodate Inglewood’s minimum dwelling unit requirements.

In addition to a residential component, the site can support commercial development that will tap into the purchasing power of the thousands of transit riders passing through the area each day. Inglewood’s political leaders and residents have made it clear that they do not want large, national tenants in the Florence/La Brea and Market Street district, but instead want the area to maintain a vibrant, community-oriented feel (CLC Joint Development POD, 2013). As a result, retail development on the site will consist of smaller spaces, between about 1,000 and 3,500 square feet, and will house local businesses.

\(^2\) Area median rents were calculated using a comparable rental analysis of 1, 2, and 3-bedroom units within approximately 1 mile of the Florence/La Brea Station site.
With a number of community amenities in close proximity to the development site, including the civic center, Inglewood High School, and Crozier Middle School, there is an opportunity to develop a community center on the site that will better connect it to the surrounding community. The center would include recreational facilities and classrooms for after-school and adult education programs. As a key community gathering place, this addition would strengthen the Florence/La Brea Station’s role as an important asset for Inglewood along the region’s growing transit network.

Beyond the development program of the site, pedestrian and bicycle connections to the station area should be strengthened along Florence Avenue, La Brea Avenue, and Market Street connecting to the surrounding community. Currently, both Florence and La Brea are extremely vehicle-oriented thoroughfares, making the area difficult to navigate if one is not in a car. Developing the D3 site with multimodal connections to the north and the south as a strong transit- and pedestrian-oriented development will set the foundation for livable community development that spreads throughout the station area.

Financial Analysis

As with the Van Nuys case study, the following analysis compares construction costs to NOI and supportable investment to generate residual land value for four alternative mixed-use development scenarios—market-rate units and workforce units affordable at 80%, 100%, and 120% AMI.

The financial analysis in Table 2 shows the difficulty in developing new construction in a lower-rent area, even when it is surrounded by a number of valuable amenities. On a strictly financial basis, the rental market in the Florence/La Brea section cannot support new construction without the intervention of the public sector. Even before adding in the cost of land, market rate rental housing at this location has a per-unit financial gap of nearly $70,000 per residential unit and over $10 million for the entire project.

Table 2: Florence/La Brea Pro Forma Analysis

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<th>Construction Costs</th>
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<th>100% AMI</th>
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<td>$265</td>
<td>$265</td>
<td>$265</td>
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<table>
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<td>Vacancy Rate</td>
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<td>5%</td>
<td>5%</td>
<td>5%</td>
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<td>$1.35</td>
<td>$1.35</td>
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<td>$(50,575)</td>
<td>$(14,399)</td>
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</table>

*Residential market rents were determined using comparable 1- and 2-bedroom rents in close proximity to the project site. Workforce housing rents were determined using average HUD Fair Market Rents for 1- and 2-bedroom units.

**Commercial per square foot rents were determined using listed leasing rates for comparable retail spaces in the project area.
Market rents in this neighborhood of Inglewood are actually below the Area Median Income for Los Angeles County. This means that higher rent levels still within the workforce housing range would reduce the financial gap. Even if rents strengthen with the arrival of the Crenshaw Line to $2 per square foot, affordable to workforce earners at 120% AMI, there would still be a gap of nearly $15,000 per unit that would need to be filled before accounting for land value. Because of these low market rents in the area, any development on the D3 site at the Florence/La Brea Station will have to be a public/private partnership with a public contribution to close the affordability gap in the project. Writing down the cost of the land to zero will close the financial gap substantially, but still leave a shortfall of about $70,000 per unit to make the project profitable at market rents.

The City of Inglewood has made clear its intent to develop this property to increase housing options near the Crenshaw Line and better connect the station to the surrounding community. As such, the D3 site should be developed using the city’s Planned Assembly Development regulations, which allow for more flexible application of the zoning code to large projects that provide affordable housing or a community benefit (City of Inglewood). This flexibility will allow the city to provide the future development with various incentives to make the project pencil for private investors, including reduction of fees and parking requirements and increase of residential density.

Key Challenges to Livable Community Development

The two case studies presented in this report are indicative of the myriad development opportunities that exist around Los Angeles County’s expanding transportation network. The Van Nuys Orange Line Station site is one of numerous Metro-owned surface parking lots that serve as mixed-use development sites immediately adjacent to transit. The Florence/La Brea Station in Inglewood is an example of a development site that can be used to unlock the potential in the surrounding community by creating a strong, central connection to the regional transit network. It also serves as an example to the many cities across the county that have been transferred ownership of development sites from their now-defunct redevelopment agencies.

Both of these case studies also illustrate the challenge presented to the development community when trying to deliver units affordable to workforce earners of 50% to 120% of AMI. Even in locations where the market is strong enough to support development near transit, high land costs and construction costs that do not vary substantially throughout the county make it nearly impossible to support workforce housing development in livable communities near transit without public intervention in the market.

In the most fundamental analysis, the feasibility of any development project is determined based on comparing costs and returns. Many affordable housing programs that exist today are aimed at reducing costs either through direct financial contributions or through low-interest loan programs that reduce the cost of capital. Public leaders must act now to ensure that these programs maintain their financial support of affordable projects, as well as utilize new programs and planning tools to make workforce housing around transit more feasible for developers from both sides of the equation.

The recommendations that follow are a guide for policymakers to effect changes that will positively impact the development of workforce housing in livable communities. Realizing that each neighborhood within each city of Los Angeles County has different needs and assets, policy leaders must work with local residents and the development community to configure the appropriate mix of funding and planning incentives that suit their needs.
Policy Recommendations Project Finance

Establish Dedicated Source for Housing Trust Funds in L.A. County

As federal, state, and local funding contributions to cities’ affordable housing trust funds have been drastically reduced, jurisdictions must now set aside secure funding streams for affordable housing, further dedicating a proportion of these resources for workforce housing at 50% to 120% AMI. This can be achieved with existing or new sources of funds. The City of San Francisco created a new revenue stream for their housing trust fund in a public election in November 2012. San Francisco’s fund is made up of the city’s “boomerang funds”—former redevelopment area revenues that are being returned to counties—along with a portion of its hotel tax and new business tax revenues. Together, these funds will provide a total of $1.5 billion of investment in affordable and workforce housing over the next 30 years (Housing Trust Fund Project, 2013).

**Policy Milestones**

- Mandate at least 20% of “boomerang funds” are committed to affordable housing trust funds
- Require at least 15% of affordable housing trust fund expenditures to be reserved for workforce housing projects

Pursue Creative Use of Existing Funding Sources

Because of the inherently mixed-use nature of livable community development, projects built in this style provide opportunities to tap into numerous public financing and incentive programs. Both public partners and private developers involved in these deals significantly limit themselves if they look only at existing housing programs to finance their projects. Figure 8 below illustrates how splitting a project into its components allows access to a number of public programs that can help close a workforce housing project’s financial gap.

**Policy Milestones**

- Establish a joint case management program that includes City Planning, HCID, and EWDD—or their local equivalents—to help developers with projects in the pipeline navigate programs that are managed by different city departments
- Publish annual audits of fee revenues and committed program funds to the development community; promote funding sources, such as Quimby Fees, that have uncommitted balances available for new projects

<table>
<thead>
<tr>
<th>Development Component</th>
<th>Potential Funding Sources</th>
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<td>Affordable/Workforce Housing Units</td>
<td>• Low Income Housing Tax Credits</td>
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<tr>
<td></td>
<td>• HOME Funds</td>
</tr>
<tr>
<td></td>
<td>• Local Housing Trust Funds</td>
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<tr>
<td></td>
<td>• 80/20 Financing</td>
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<tr>
<td>Commercial/Community Facilities</td>
<td>• Section 108 Loans</td>
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<tr>
<td></td>
<td>• CDBG Funds</td>
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<td></td>
<td>• New Market Tax Credits</td>
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<tr>
<td>Public Space/Recreation/Mobility Hub</td>
<td>• Quimby Fees</td>
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<tr>
<td></td>
<td>• MAP-21 Regional Surface Transportation Program Grants</td>
</tr>
<tr>
<td></td>
<td>• Metro Call For Projects/Prop C Funds</td>
</tr>
</tbody>
</table>

Figure 8: Compartmentalizing multiple components of a mixed-use project enables developers to access a multitude of financing sources.
Establish Financing Districts to Recapture Benefits to Land

As traditional funding sources for workforce housing and livable community development further diminish, cities throughout Los Angeles County should look toward more innovative financing solutions to fund future projects. Infrastructure Financing Districts (IFDs) enable cities to dedicate a stream of property tax revenue over time for the purpose of creating and rehabilitating public infrastructure, including “schools, libraries, parks, parking facilities, open space,” and transportation systems, and give cities the authority to bond against this revenue stream and finance these improvements over time (CA Government Code 53395). Though IFDs may not be utilized for funding housing development, they can be a critical component for investment in the other components of a livable development that connect housing to transit and the surrounding community, including parking facilities, streetscape improvements, and mobility hubs that connect transit infrastructure to other forms of transportation, expanding the positive impacts of transit investments.

**Policy Milestones**
- Create pilot IFDs in half-mile radius areas surrounding stations that show promise for livable community development
- Pursue state legislation to allow Transit-Oriented Development Tax Increment Financing (TOD TIF) to be used for development around transit stations.

Development Incentives

Utilize Mobility Hubs to Catalyze Livable Development

Strategically located mobility hubs are invaluable to the development of livable communities around transit, as they act as a gateway between the public transportation system and the neighborhoods surrounding it. As seen in both case studies presented, the value of land can have a dramatic impact on the financial feasibility of a housing development. Mobility hubs expand the developable footprint around transit stations, allowing developers to acquire less expensive land slightly farther from transit nodes, while maintaining pedestrian, bicycle, and other alternative transit connections to the central station.

**Policy Milestones**
- Establish separate Modal Application in Metro Call for Projects for mobility hubs and other multimodal connection facilities
- Fund and construct five pilot mobility hubs system-wide by end of 2014
- Encourage use of mobility hubs as part of Transportation Demand Management Plans for major projects

Increase Density Bonuses for Mixed-Income Development

In 2004 the State of California approved SB1818, which created a statewide development incentive for projects that exceed a threshold amount of low-income (80% AMI) or very low-income (50% AMI) affordable units. Since that time, cities across the state have adopted their own legislation that provides additional incentives above and beyond that which SB1818 provides. These incentives include density bonuses, parking reductions, and items like increased floor-area ratio or reduced setbacks, which expand a project’s building envelope. In practice, the only projects that utilize these incentives are those 100% affordable projects that are also receiving some form of public subsidy to defray the costs of development. These incentives must be increased if they are to be attractive to projects originally planned as entirely market-rate developments.

**Policy Milestones**
- Pursue countywide policy to include workforce housing of up to 120% AMI affordability in density bonus ordinances
- Increase incentive levels across all income thresholds from 50% to 120% AMI to counter the financial loss incurred by adding workforce units
Reduce Parking Requirements Near Transit

One of the highest cost drivers in new construction is the development of parking spaces, which can cost up to $50,000 each in subterranean parking structures. Residential units have significant parking requirements, and though some existing policies reduce the parking required for affordable units, the requirements are still such that they can be prohibitively expensive for a new development. Parking standards should be modified to allow more flexibility to developers who are building a product type in a market that does not have as high a demand for parking. Near public transit lines, where residents are likely to be utilizing transit for most of their daily trips, it is even possible to eliminate residential parking requirements entirely and allow the market to determine how much parking to provide. This would allow developers to determine the appropriate level of parking based on their projected costs and revenues, in addition to the community context of a particular project.

**Policy Milestones**

- Eliminate or significantly reduce parking requirements within a quarter-mile of transit stations
- Establish secondary tier of parking reductions for projects within a half-mile of transit stations
- Provide parking credits for developments that include mobility hub features such as bike share and car share facilities

Reduce Development Fees for Livable Community Development

A significant proportion of development costs—on the order of 5% to 10%—is made up of fees for city approvals, building permits, and development impact fees. On large-scale developments, these fees often add up to millions of dollars in costs above and beyond the cost of land and construction. While these fees are a source of funding for the city departments that approve and monitor development, they also provide cities with a resource to incentivize development of a certain type or in a targeted location. By discounting or waiving development fees for workforce housing in close proximity to transit, cities can make these developments much more financially appealing to private developers throughout the County.

**Policy Milestones**

- Codify a formal definition for the preferred mix of uses found within the “Livable Community Development” typology
- Offer reduced or zero development fees for Livable Community Development projects that are located within a half-mile of transit stations

Conclusion

Los Angeles County will continue to develop its transit system and the neighborhoods around that system for the foreseeable future. Political leaders at various levels of government have already made clear their priority for livable community development that capitalizes on this expanding system, but policymakers must take proactive steps today in order to maximize the development potential around transit while addressing issues of workforce housing affordability. This report illustrates that opportunities for livable community development abound throughout the County, but from the development community’s perspective there are a number of issues that make workforce housing development impossible without incentives or financial contributions from municipal partners.
Works Cited


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### Appendix A: Livable Community Opportunity Index Scores

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<th>STATION</th>
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<th>Income Index</th>
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<th>Transit Index</th>
<th>Housing Index</th>
<th>Land Index</th>
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Note: All data was sourced using ESRI’s Business Analyst Online proprietary software, with the exception of the transit index source data, which was drawn from the American Community Survey 2005-2009 5-year average.