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L.A. At Risk of Losing Millions in New Revenue if Housing Development Slows
New UCLA report examines fiscal impact of housing production on city's general fund budget

LOS ANGELES (September 12, 2017) – Failure by the City of Los Angeles to expedite and streamline the housing development process will result in a one-two punch for the city with hundreds of millions of dollars in lost revenue along with a lack of affordable housing, according to a new study released today by Paul Habibi of UCLA Anderson Graduate School of Management. The report, *Housing Pays: Capturing the Economic and Fiscal Benefits of Increased Housing Production for the City of L.A.*, released in partnership with the Los Angeles Business Council, calculates that L.A. is putting at risk a cumulative net benefit of \$583 million generated through new housing taxes and fees if Mayor Eric Garcetti's 2021 goal of building 100,000 new units is not met.

"This study illuminates the need to reform and streamline the City of L.A.'s housing development process now," said Habibi, continuing lecturer of finance and real estate at UCLA Anderson Graduate School of Management and lecturer in law at UCLA School of Law. "To ensure that the Mayor's 100,000-unit goal is met, the city must enact reforms that allow us to make the most of a strong market, and help us weather the years ahead as the current development cycle runs its course. Otherwise, the city will not only forego vital new housing, but also millions of dollars annually that would be added to its general fund to support critical services that benefit all Angelenos and could be reinvested to build more affordable housing."

The report's release comes in the midst of negotiations at the state level to pass a package of legislation that would address California's housing crisis. For its analysis of the situation in Los Angeles, *Housing Pays* used Mayor Garcetti's goal of 100,000 new units – including 15,000 affordable units – by 2021 as a benchmark to evaluate the city's current housing production numbers.

The study found that while L.A. is on track to hit the 100,000-unit goal, reforms are needed to reach the 15,000 affordable unit goal – as well as to ensure that development continues at its current pace. The study cautions that at least one economic downturn is expected before 2021, and that the Los Angeles Department of Building and Safety already projects a decline in future development activity over the next two fiscal years. Additional barriers include the recent passage of Build Better LA, which adds significant regulation to future development projects.

"We see Mayor Garcetti's 100,000-unit goal as a floor for our city's housing needs and believe we have a ceiling closer to 500,000 units based on our Regional Housing Needs Assessment," said Mary Leslie, president of LABC. "Developers conservatively cite a five- to six-year timeline for building one affordable housing project. That is far too long if we're going to build our way out of this housing crisis."

To increase new market-rate and affordable housing stock, *Housing Pays* recommends pursuing a series of policy initiatives, among them decreasing processing times for development proposals by 25 percent; expanding expedited processing to include projects that require new Environmental Impact Reports (EIRs); and raising the city's site plan review requirement above its current threshold of 50 units.

"We applaud the report's finding that streamlining housing production provides an opportunity to

create new resources that can be reinvested into the production of affordable housing” said Ann Sewill, vice president of housing and economic opportunity at the California Community Foundation.

The report also includes a novel proposal, strongly supported by the LABC, that would set aside a fixed portion of discretionary funds from new housing to be reinvested the city’s Affordable Housing Trust Fund. Such an initiative would provide the city with a steady new revenue stream specifically earmarked for affordable housing that could subsidize many new homes each year.

City Councilman Cedillo has proposed motions that would help streamline the development process.

“The City has available mechanisms to cut down pre-construction processes, but they are not broad enough in their scope to be effective. That is why I have introduced a motion to expand LA City Planning’s Expedited Processing Section which allows applicants to pay a fee to reduce up to 50 percent of the time it takes to process entitlement applications,” said Cedillo, chair of the City’s Housing Committee. “I’m also working on increasing the City’s site-plan review threshold which has added an additional deterrent to increasing our affordable and workforce housing stock by adding additional bureaucratic hurdles to an already burdensome process.”

Recent studies have consistently ranked Los Angeles among the most unaffordable housing markets in the nation, with rents and housing values growing at a rapid clip even as incomes remain stagnant. In L.A. County, approximately six in 10 renters are cost-burdened, paying at least 30 percent of their income on housing each month, and nearly one-third of county renters spend more than 50 percent of their income on housing. As the median home value continues to rise, middle-class families are increasingly unable to achieve the dream of homeownership.

The Los Angeles Business Council and Professor Habibi conducted the study with the support of The Rosaline and Arthur Gilbert Foundation and the California Community Foundation. The report follows LABC’s release of [*The Affordable Housing Crisis in Los Angeles: An Employer Perspective*](#) in April. That study surveyed major L.A. employers accounting for nearly 200,000 jobs and found that rising housing costs are deterring senior-level talent from entering the Los Angeles job market as well as leading to higher costs in the recruitment and retainment of employees.

About the LABC Institute

The LABC Institute is a forward-thinking research and education organization dedicated to strengthening the sustainable economy of California, particularly the Southern California region. Founded in 2010, the LABC Institute provides a bridge between the business, government, environmental, labor and nonprofit communities of Southern California to develop policies and programs that promote investment, jobs and business development. We are the research and education arm of the Los Angeles Business Council, one of the most respected business advocacy organizations in Southern California.

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