Dear Business and Community Leaders:

The Los Angeles Business Council Institute (LABCi) is pleased to share the findings of *Housing Pays: Capturing the Economic and Fiscal Benefits of Increased Housing Production for the City of L.A.* by Paul Habibi, Continuing Lecturer of Finance and Real Estate at UCLA Anderson Graduate School of Management.

The report couldn’t be more timely. As *Housing Pays* goes to print, state lawmakers are in negotiations to pass a package of legislation that would address California’s housing crisis. Meanwhile, City officials are examining how best to streamline and reform the housing development entitlement and approval process.

*Housing Pays* seeks to demonstrate the fiscal benefit of streamlined entitlement and approval processing to increase housing production, and how that fiscal surplus can support important city priorities including affordable housing. Using Mayor Garcetti’s goal of 100,000 new units by 2021 as a benchmark, the study calculates that new housing production could produce a cumulative net benefit of $583 million over an 8-year period through taxes and fees. This amounts to millions of dollars added to the city’s bottom line to support critical services that benefit all Angelenos, including building more desperately needed affordable housing.

At the same time, *Housing Pays* demonstrates what’s at stake if housing development slows down. Failure to meet the Mayor’s 2021 goal will hit Angelenos with a one-two punch— foregoing vital new housing and losing hundreds of millions of dollars in new revenue that could otherwise be reinvested in new affordable housing construction.

As if the challenge weren’t enough, the LABC sees 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. Developers conservatively cite a five- to six-year timeline for building one affordable housing project. That is far too long if we’re counting on these units to hit this goal and produce new affordable units. The only viable solution is streamline our city’s complex housing development entitlement and approval process and expedite projects that prioritize affordable and low-income housing units.

*Housing Pays* recommends pursuing a series of policy initiatives to increase housing production, among them decreasing entitlement and approval 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 to include all projects that provide minimum affordable housing targets.

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 yield hundreds, if not thousands, of new homes each year.

We would like to thank Paul Habibi and his team for this valuable report. We are grateful to The Rosaline and Arthur Gilbert Foundation and the California Community Foundation for supporting this research, and are hopeful that its findings will contribute to a more affordable and livable Los Angeles for all Angelenos.

Sincerely,

Mary Leslie  
President, LABC

Brad Cox  
Chair, LABC Institute
About the Author

Biography

Paul Habibi is a Continuing Lecturer of Finance and Real Estate at UCLA Anderson Graduate School of Management and Lecturer in Law at UCLA School of Law. He is consistently a top finalist for the Teacher of the Year Award and began his teaching career at UCLA in 2004.


Outside of campus, Professor Habibi is Principal and Co-Founder of Habibi Properties, LLC, which owns and manages three divisions: (1) multi-family apartments in the Los Angeles area; (2) single-family homes in Kansas City, Missouri (Arrowhead Residential Funds); and, (3) almond and pistachio orchards in California’s San Joaquin Valley.

He is also Principal of Grayslake Advisors, LLC, which provides expert witness and litigation support services to large multinational law firms, Fortune 500 companies, and government and regulatory agencies. The firm has been retained in some of the highest profile cases in the country. Its clients include Goldman Sachs, McKinsey & Company, the U.S. Securities and Exchange Commission, the U.S. Attorney’s Office, and the Federal Bureau of Investigation.

He previously worked as an Investment Banking Associate at Bank of America/Merrill Lynch, Manager of Transaction Support with The Walt Disney Company, and Audit Manager with Arthur Andersen LLP.

He holds an MBA with Highest Distinction, under merit scholarship, from the Ross School of Business at the University of Michigan, where he received the David T. Shelby Award. He also holds a BA in Economics and Accounting from UCSB. He is a licensed Certified Public Accountant and Real Estate Broker.

He serves as an Industrial Advisor for EQT Partners, a Swedish private equity group of 18 funds with $30 billion in capital. He is also an early investor and Member of the Board of Advisors of Knock, a venture-backed real estate startup led by founding team members of Trulia. Active in the community, he is a Member of the Board of Directors of Pacific Charter School Development.

Education

MBA 2003, University of Michigan
B.A. Economics/Accounting 1995, UC Santa Barbara
Executive Summary

Recent reports 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 LA County about 6 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. The outlook is grim even for middle-class families looking to buy, with a median home value of over $550,000.

Although there are many factors contributing to Los Angeles’ affordability crisis, it can largely be boiled down to an issue of supply and demand: Housing production has not kept up with population and job growth. For decades the region has operated under the false premise that “if you don’t build it, they won’t come,” and the housing shortage that’s followed has had disastrous—and yet predictable—results. Vacancy rates have fallen to historic lows, forcing residents to pay more each year just to secure their place in the city.

Recognizing the importance of housing production for stabilizing rents for residents at every income level, Los Angeles Mayor Eric Garcetti set a goal to build 100,000 new housing units in LA by 2021, including 15,000 homes affordable to low-income households. To meet the Mayor’s 2021 goal, the market will have to produce an average of 12,500 new units annually between 2013 and 2021—5,000 more, each year, than were developed between 2000 and 2010. The city is currently on pace to achieve this goal, but we are expected to experience an economic downturn and depressed development cycle before 2021, and recently passed initiatives, such as Build Better LA, have added significant regulation to future development. To ensure that the 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.

Streamlining LA’s development process to sustain high levels of market-rate housing production benefits the city’s financial bottom line, provides new revenues that may be re-invested in affordable housing, and creates thousands of privately-funded housing units for low- and moderate-income households by leveraging the state’s density bonus law.

The LABC Institute has long made the case for the economic, environmental, and equity benefits of increased levels of housing production, particularly near LA County’s major transit hubs. Housing Pays seeks to demonstrate the fiscal benefit of increased housing production, and how that fiscal surplus can support important city priorities including affordable housing. The report analyzes the net fiscal impact of new market-rate housing production on the city’s general fund budget, which considers the revenues new housing generates through taxes and fees, and the expenses incurred for services directly related to supporting new residents, such as police and fire department services, to estimate the net impact to the general fund.

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1 Joint Center for Housing Studies of Harvard University, America’s Rental Housing: Expanding Options For Diverse And Growing Demand: http://www.jchs.harvard.edu/sites/jchs.harvard.edu/files/americas_rental_housing_2015_web.pdf
2 Los Angeles Home Prices & Values, Zillow (accessed February 8th, 2017 from http://www.zillow.com/los-angeles-ca/home-values/)
3 Sugarman, Maya, LA rents: Vacancy rate falls to 2.7 percent as area’s rental market tightens further, 89.3 KPCC: http://www.scpr.org/news/2016/01/28/57103/la-apartments-rental-vacancy-rate-fall-to-2/
The Vermont

40,000 square-feet of retail and dining spaces with two landmark high-rise towers offering a total of 464 for-rent apartment units

Courtesy, JERDE (Design Architect); Photographer: David Lena
The report finds that new housing production generates a substantial positive net impact to the general fund.

- Developing the 2000-2010 average of 7,500 units annually, the city will generate a positive net benefit of approximately $350 million in revenue for the city's general fund over an 8-year period.

- Instituting policies and reforms that help increase average levels of housing production by 5,000 additional homes each year for the next 8 years would produce an additional net benefit of $233 million for the city's General fund.

- Expediting and streamlining housing development to maintain relatively high levels of housing production (12,500 units per year) would produce cumulative net benefit of $583 million over 8 years, as the chart below illustrates.

New revenues generated from housing production provide much-needed discretionary resources to support critical city services that benefit all Angelenos. The LABC Institute recommends that a portion of these new discretionary funds should be reinvested in the city's Affordable Housing Trust Fund. We propose a potential set-aside of $650 per unit for the first 7,500 housing units built each year, and $1,860 for each unit beyond the 7,500-unit threshold. These set-aside amounts do not exceed even our conservative estimates of the fiscal benefit of new housing, which is explored in depth in the body of this report.
Using our proposed set-aside ratio, an annual housing production rate of 12,500 units per year would yield $113.4 million in dedicated affordable housing funding over an 8-year period; at an even more accelerated rate of 20,000 units per year the city would raise $225 million over the same time frame. These two scenarios would yield approximately 1,134 or 2,250 new affordable units, respectively.\(^4\)

<table>
<thead>
<tr>
<th>Market-Rate Homes Built Per Year</th>
<th>Annual Affordable Housing Set-Aside</th>
<th>8-Year Affordable Housing Set-Aside</th>
<th>Affordable Units Subsidized</th>
</tr>
</thead>
<tbody>
<tr>
<td>7,500 Units</td>
<td>$4.875 M</td>
<td>$39.0 M</td>
<td>390</td>
</tr>
<tr>
<td>10,000 Units</td>
<td>$9.525 M</td>
<td>$76.2 M</td>
<td>762</td>
</tr>
<tr>
<td>12,500 Units</td>
<td>$14.175 M</td>
<td>$113.4 M</td>
<td>1,134</td>
</tr>
<tr>
<td>20,000 Units</td>
<td>$28.125 M</td>
<td>$225.0 M</td>
<td>2,250</td>
</tr>
</tbody>
</table>

The 5,000-unit “increment” above a baseline of 7,500 new homes per year would also produce thousands of new affordable units through the state’s density bonus law. With just 50% participation in the density bonus program, approximately 1,840 to 3,360 affordable units would accompany this increase in market-rate development over an 8-year period—at no direct cost to the city. Comparing the buying power of the Affordable Housing Trust Fund set-aside to the production potential of the density bonus vividly illustrates how, while new revenues are an important component of affordable housing development, in-kind partnerships and incentives can create many more new homes at much less cost to the public.

<table>
<thead>
<tr>
<th>Market-Rate Homes Built Per Year</th>
<th>Housing Increment Above Baseline</th>
<th>Affordable Density Bonus Units Created By Housing Increment Above Baseline (Over 8-Year Period)</th>
</tr>
</thead>
<tbody>
<tr>
<td>7,500 Units</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>10,000 Units</td>
<td>2,500 Units/Yr</td>
<td>920 to 1,680</td>
</tr>
<tr>
<td>12,500 Units</td>
<td>5,000 Units/Yr</td>
<td>1,840 to 3,360</td>
</tr>
<tr>
<td>20,000 Units</td>
<td>12,500 Units/Yr</td>
<td>4,600 to 8,400</td>
</tr>
</tbody>
</table>

Encouraging new housing construction also provides substantial economic and job growth for LA’s regional economy. Using the IMPLAN input/output model, the LABC Institute estimates that meeting the Los Angeles Mayor’s goal of producing 100,000 housing units will create approximately 181,000 new jobs directly, 150,000 additional jobs in supportive industries through indirect impacts, and roughly 93,000 jobs resulting from increased household spending by new employees in the region.\(^5\)

<table>
<thead>
<tr>
<th>Category</th>
<th>Direct</th>
<th>Indirect</th>
<th>Induced</th>
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</thead>
<tbody>
<tr>
<td>Employment</td>
<td>181,501</td>
<td>150,522</td>
<td>92,937</td>
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<tr>
<td>Labor Income</td>
<td>$12,320,581,025</td>
<td>$6,807,879,911</td>
<td>$4,676,777,402</td>
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<tr>
<td>Output</td>
<td>$36,445,923,913</td>
<td>$19,751,139,546</td>
<td>$13,332,210,535</td>
</tr>
</tbody>
</table>

\(^4\) Los Angeles Housing and Community Investment Department estimates an average subsidy cost of $100,000 per affordable unit

\(^5\) IMPLAN model
Immediate action is needed to meet the Mayor’s housing production goals

A strong market over the past several years has resulted in more than 58,500 new housing units constructed or permitted since July 1st 2013. If this pace can be sustained, we will reach the Mayor’s 100,000-unit goal by the 2021 deadline.

We are likely to face at least one economic downturn between now and 2021, however, and the Los Angeles Department of Building & Safety already anticipates that future development activity will begin to decline over the next two fiscal years. As of early 2016, there were 56 Environmental Impact Reports (EIRs) moving through the city’s Planning department, representing 24,180 multifamily housing units, over 1,700 hotel rooms, and upwards of 4.9 million square feet in non-residential space. If we cannot find a way to move these projects forward in a timely manner, they may be forced to wait until the next development cycle, possibly beyond 2021, and the Mayor’s housing goal will remain unfulfilled. Meanwhile, our affordability crisis will continue to worsen.

To realize the positive fiscal and economic benefits of new housing, and to help alleviate the region’s record-low residential vacancy rates, the city must take action to implement reforms and tools that streamline its complex development process. Key recommendations found in this report are summarized below.

Crest Apartments
provides 64 apartments to formerly homeless individuals.

Photo: Iwan Baan, Skid Row Housing Trust and Michael Maltzan Architecture, Inc.
**The City of Los Angeles should pursue the following strategies to increase market-rate and affordable housing production:**

- Implement measures in Mayor Garcetti’s Executive Directive No. 13, which directs the departments of City Planning, Building & Safety, and Housing & Community Investment to reduce permitting and entitlement processing times by 25% and prioritizes projects that provide at least 20% of rental with rents restricted affordable to low-income households or 30% of for-sale units affordable to low-income or moderate-income households. Further, modify the Directive to increase the priority of projects that do not meet the above criteria but maximize their use of the state’s density bonus program.

- Streamline the City’s Density Bonus process to encourage increased development of affordable and workforce housing, by shifting from discretionary action to administrative review.

- Streamline the environmental review process by offering expedited processing of environmental documents, including Environmental Impact Reports, at developer cost.

- Modify the city’s site-plan review requirement to reduce a significant barrier to larger-scale housing developments, which accounted for more than two thirds of all new housing units in 2015.

- Earmark a portion of new general fund revenues from increased levels of housing production for the city’s Affordable Housing Trust Fund, making the connection between market-rate development and affordable housing clearer than ever.

**Key areas of opportunity:**

*Citywide strategies would support mixed-income housing development in growth areas near major transit hubs along the Los Angeles River*

The LABC Institute’s 2015 report “LA’s Next Frontier” examined key opportunities for housing and economic development in transit-oriented communities near the Los Angeles River, and discussed the need to balance new growth with equity measures and deliberate strategies to mitigate the potential for displacement of existing residents. That report found opportunity for 5,000 to 8,000 new homes per year, enough to meet half of the Mayor’s 100,000-unit goal in as little as 6 years.

The citywide strategies recommended above would help to support new market-rate and affordable housing development, particularly in growth areas around major transit hubs near the LA River. At Warner Center on Metro’s Orange bus rapid-transit line and at the head of the Los Angeles River in the San Fernando Valley, the Warner Center 2035 Specific Plan will accommodate the growth of an additional 19,800 housing units and 14 million square feet of new commercial and industrial development at full build-out, creating a mixed-use, more pedestrian-oriented district. Innovative mixed-use zoning in the Cornfield Arroyo-Seco Specific Plan, which covers Chinatown and parts of Lincoln Heights in northeast Los Angeles, will allow for up to 7,500 new housing units.  

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6 City of Los Angeles, Cornfield Arroyo Seco Specific Plan: [http://planning.lacity.org/eir/CornfieldArroyo/DEIR/Volume%20I/Ch02_CASP%20DEIR%20Project%20Description.pdf](http://planning.lacity.org/eir/CornfieldArroyo/DEIR/Volume%20I/Ch02_CASP%20DEIR%20Project%20Description.pdf)
Opportunity areas for affordable, sustainable, transit-oriented communities along the LA River would benefit greatly from the housing production strategies identified in this report, as well as several unique recommendations from last year’s “LA’s Next Frontier” report. These include:

- Tying local funding and value capture tools, particularly Enhanced Infrastructure Financing Districts (EIFDs), to new housing production.

- Encouraging sustainable, market-based programs like a stormwater mitigation credit trading program, which would increase stormwater retention, reduce the costs of new development, and provide financial benefits to existing residents.
About the LABC Institute

The LABC Institute is the 501 (c) 3 designated research and educational arm of the LA Business Council. The LABC Institute produces cutting-edge research to strengthen the sustainable economy of the Los Angeles region. Founded in 2010, the LABC Institute provides a bridge between LA’s business, government, and environmental communities to develop and promote effective, forward-thinking public policy.

The LABC Institute capitalizes on the renowned scholars and academic expertise present in the Los Angeles area. Partners have included many of the region’s leading research institutions, including the University of Southern California; University of California, Los Angeles; Loyola Marymount University, and California Institute of Technology. Continued collaborators include the California Governor’s Office, the Los Angeles Mayor’s Office, the California Air Resources Board, and the California Public Utilities Commission.

The LABC Institute’s goal is to facilitate new ideas that lead to policies and programs that advance the environmental and economic sustainability for the City of LA.

Please go to our website labcinstitute.org to see our research.

Over the past several years, the LABC Institute has played a large role in the strategic dialogue between government and business leaders in order to construct approaches which will strengthen the commercial, tourism, and governmental relationship with cities abroad.

Los Angeles has established itself as a global partner and with more foreign investment and a greater global presence seen in the horizon, we continue to see the opportunities to collaborate, learn best practices and facilitate meaningful relationships and exchanges while promoting the diverse business community in Los Angeles.

To learn how to get involved, please contact Zarui Chaparyan at zchaparyan@labusinesscouncil.org.
Acknowledgements

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We would like to thank the report’s author, Paul Habibi, UCLA Anderson School of Management, and the research team of Shane Phillips and Ben Feingold, Grayslake Advisors.

The LABC Institute would like to give special thanks our advisory committee for their guidance and contributions throughout this study. This report would not be possible without Steve Coulter, LABC Institute and Steve Sugerman, Sugerman Communications Group.