

City of Los Angeles

Inclusionary Housing Implementation Policies, Practices, and Program Administration

Submitted to:

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June 4, 2003

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and Program Administration Report

SECTION 1

OUTLINE: PROGRAM COMPONENTS CITY OF LOS ANGELES INCLUSIONARY HOUSING STUDY

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OUTLINE
PROGRAM COMPONENTS
CITY OF LOS ANGELES INCLUSIONARY HOUSING STUDY

June 4, 2003

1. Inclusionary Housing Requirements

1.1 Percentage of total units (or bedrooms) that must be affordable

Options:

- Renter: 10%, 15%
- Owner: 10%, 15%, 20%
- Lower set-aside for designated type of developments, e.g. adaptive reuse

1.2 Target household incomes

Options:

- Renter: 45% of area median income (\$24,795 for a family of four in 2002), 60% of area median income (\$33,060 for a family of four in 2002)
- Owner: 100% of AMI (\$55,100 for a family of four in 2002), 90% of AMI (\$49,590 for a family of four in 2002), 80% of AMI (\$44,080 for a family of four in 2002)
- Mix of income levels
- Inclusionary units must have comparable number of bedrooms as market rate units and a proportional unit mix as the market rate units.
- Only first-time homebuyers and persons who lost their homes due to extenuating circumstances (e.g. victims of predatory lending) are allowed to purchase inclusionary ownership units.

1.3 Maximum affordable housing expense

- Renter: affordable rent is 30% of targeted income, net of utility allowances
- Owner: affordable mortgage is 35% of targeted income, net of insurance, property taxes, homeowner association dues, other fees passed on to homeowners (e.g. Mello-Roos)

1.4 Voluntary or mandatory

2. **Applicability of Inclusionary Housing Program**

2.1 Geographic applicability: citywide

2.2 Minimum project size

2.3 Type of Development: new construction housing

2.4 “Grandfather” clause/Phase in Requirements/Effective Date

Options:

- Entitlements application deemed complete by City, entitlements granted to developer, or building permit application deemed complete by City
- Phase in inclusionary requirements, e.g. year 1, 5% set-aside; year 2, 10% set-aside, etc.
- Effective Date: Immediately upon adoption by Council, one year delay, two year delay, etc.

3. **Term of Affordability, Documenting Restrictions**

3.1 Renter: number of years rent of inclusionary units must be affordable to targeted income group: 55 years, 99 years, or permanent

3.2 Owner: number of years sale price must be affordable to targeted income group: 30 years, 45 years, or 55 years

4. Alternative Compliance Options

4.1 In lieu fee applicability

Options:

- option available to all developers
- option available only when inclusionary requirement results in a fractional unit
- option available only on low density developments (e.g. less than 2 units/acre) or luxury for-sale developments

4.2 In lieu fee amount

Options:

- based on economic equivalent of providing affordable unit
- fee based on common type of development vs. schedule of fees for different housing prototypes and prices
- fee tied to bedroom count of market rate units

4.3 Off-site construction

Options:

- option available to all developers
- option available only to developers who joint venture with nonprofit
- off-site units completed prior to building permit issued for market rate development
- off-site units completed prior to certificate of occupancy issued for market rate development
- off-site units must be equal or greater in number, larger or same size as units that would be built on-site

4.4 Land dedication - land must meet established standards

4.5 Acquisition or acquisition/rehabilitation

5. Incentives and Offsets

5.1 Density bonus

Options:

- By right 35% density bonus if project complies with inclusionary requirements (similar to City's density bonus ordinance)
- By right Residential/ Accessory Services (RAS) designation for developments that meet inclusionary requirements
- By right 50% density bonus if project complies with inclusionary requirements
- Allow higher density (i.e. greater than 50% over current density) in specific plan areas in exchange for higher inclusionary set-aside requirements.

5.2 Alternative unit type: allow townhome construction of affordable units in single family detached home development and allow stacked flat construction in townhome development

5.3 Design of units: affordable units incorporate more modest interior finishes and/or affordable units smaller than market rate units

5.4 Fee deferrals: Defer payment of building permit, impact fees from issuance of building permit to issuance of certificate of occupancy

5.5 Parking: Lower parking requirements for developments that build inclusionary units on-site

5.7 Open Space, Floor Area Ratios, Setbacks: Lower open space, floor area ratio, setback requirements

5.8 Financial subsidy: Local assistance only provided to developers who exceed inclusionary requirements by providing greater number of affordable units and/or targeting income groups lower than required by inclusionary program

6. Implementation

6.1 Uses for in lieu fees: fees paid to Housing Trust Fund

SECTION 2

**SUMMARY:
PROGRAM COMPONENTS
CITY OF LOS ANGELES
INCLUSIONARY HOUSING STUDY**

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PROGRAM COMPONENTS
CITY OF LOS ANGELES INCLUSIONARY HOUSING STUDY

June 4, 2003

1. Inclusionary Housing Requirements

Issue	Ordinance/ Guideline	Options	Discussion	Notes/ Recommendations
<p>(continued)</p> <p>1.1 Percentage of total units (bedrooms) that must be affordable</p> <p>1.2 Target household incomes</p>	<p>Ordinance</p>	<p>Percentage set-aside requirements:</p> <ol style="list-style-type: none"> 1. Renter: 10%, 15% 2. Owner: 10%, 15%, 20% 3. Lower set-aside for designated type of developments, e.g. adaptive reuse <p>Target household incomes:</p> <ol style="list-style-type: none"> 1. Renter: 45% of area median income (\$24,795 for a family of four in 2002), 60% of area median income 2. Owner: 100% of AMI (\$55,100 for a family of four in 2002), 90% of AMI (\$49,590 for a family of four in 2002), 80% of AMI (\$44,080 for a family of four in 2002) 3. Mix of income levels 4. Inclusionary units must have comparable number of bedrooms as market rate units and a proportional unit mix as the market rate units. 5. Only first-time homebuyers and persons who lost their homes due to extenuating circumstances (e.g. victims of predatory lending) are allowed to purchase inclusionary ownership units 	<ol style="list-style-type: none"> 4. 230,356 of all households in Los Angeles live in severely overcrowded homes (greater than 1.5 persons for each room – e.g. 7 persons in a 2 bedroom unit) 5. Current homeownership rate is 39 percent for Los Angeles 6. In 1999, over 77 percent of renter households (over 603,000 households) could not afford a median-priced home in Los Angeles (median price home in 1999 was approximately \$223,000). From 1999 to 2003, median income increased by approximately 10%, while the median home price increased by 40%. 7. 170 households were assisted in Los Angeles in 2002 by the mortgage revenue bond and mortgage credit certificate homebuyer programs 8. Land residual analysis for Type V medium density stacked flat prototype (common type of rental housing built in LA), assuming targeting households at 45% of area median income, <u>no offsets or alternative compliance options</u> and assuming moderate rents in LA: <ol style="list-style-type: none"> a. No inclusionary requirement: land value is \$23.64 per sf. b. 10 percent inclusionary requirement: land value is \$13.39 per sf. c. 15 percent inclusionary requirement: land value is \$7.87 per sf. d. 20 percent inclusionary requirement: land value is \$1.11 per sf. (Land residual value: capitalized value less development costs, not incl. land) 9. Land residual analysis for Type V Condo prototype (common type of owner housing built in LA), assuming targeting households at 90% of area median income, assuming <u>no offsets or alternative compliance options</u> <ol style="list-style-type: none"> a. No inclusionary requirement: land value is \$181 per sf. b. 10% inclusionary requirement: land value is \$159 per sf. c. 15% inclusionary requirement: land value is \$148 per sf. d. 20% inclusionary requirement: land value is \$137 per sf. (Land residual value: net sales revenue less development costs, not incl. land) 	

PROGRAM COMPONENTS
CITY OF LOS ANGELES INCLUSIONARY HOUSING STUDY

June 4, 2003

1. Inclusionary Housing Requirements

Issue	Ordinance/ Guideline	Options	Discussion	Notes/ Recommendations
<p>(continued)</p> <p>1.1 Percentage of total units (bedrooms) that must be affordable</p> <p>1.2 Target household incomes</p>	<p>Ordinance</p>	<p>Percentage set-aside requirements:</p> <ol style="list-style-type: none"> 1. Renter: 10%, 15% 2. Owner: 10%, 15%, 20% 3. Lower set-aside for designated type of developments, e.g. adaptive reuse <p>Target household incomes:</p> <ol style="list-style-type: none"> 1. Renter: 45% of area median income (\$24,795 for a family of four in 2002), 60% of area median income 2. Owner: 100% of AMI (\$55,100 for a family of four in 2002), 90% of AMI (\$49,590 for a family of four in 2002), 80% of AMI (\$44,080 for a family of four in 2002) 3. Mix of income levels 4. Inclusionary units must have comparable number of bedrooms as market rate units and a proportional unit mix as the market rate units 5. Only first-time homebuyers and persons who lost their homes due to extenuating circumstances (e.g. victims of predatory lending) are allowed to purchase inclusionary ownership units 	<ol style="list-style-type: none"> 10. Los Angeles area median income for a family of four in 2002: \$55,100 11. 45% of area median income for a family of four: \$24,795 12. 90% of area median income for a family of four: \$49,590 13. Examples of annual salaries: <ul style="list-style-type: none"> • Receptionists: \$18,700/year • Sales Agents: \$24,700/year • Electricians: \$28,800/year • Auto Mechanics: \$32,100/year 14. Existing State and Local Set-Aside Requirements in Los Angeles: <ol style="list-style-type: none"> a. Redevelopment project areas inclusionary requirements: 15% of units privately developed or rehabilitated in a project area must be affordable to low and moderate income households, with 6% of all units affordable to households at 50% of area median income. 30% of units developed by Agency must be affordable to low and moderate income households, with half of these units affordable to households at 50% of area median income. These requirements are not project-specific but for the entire redevelopment project area b. Central City West: City requires that approximately 15% of units for each project in the Central City West specific plan area must be affordable to lower or moderate income households c. Playa Vista: City requires that 5% of units constructed must be affordable to households at or below 50% of area median income), 5% must be affordable to households at or below 80% of AMI, and 5% must be affordable to households at or below 120% of AMI 	

PROGRAM COMPONENTS
CITY OF LOS ANGELES INCLUSIONARY HOUSING STUDY

June 4, 2003

1. Inclusionary Housing Requirements

Issue	Ordinance/ Guideline	Options	Advantages/Disadvantages	Discussion	Notes/ Recommendations
1.3 Maximum affordable housing expense	Ordinance	<ol style="list-style-type: none"> 1. Renter: affordable rent is 30% of targeted income, net of utility allowances 2. Owner: affordable mortgage is 35% of targeted income, net of insurance, property taxes, homeowner association dues, utilities 		<p>California Redevelopment Law definition:</p> <ol style="list-style-type: none"> 1. Renter: 30% of targeted household income 2. Owner: 30% to 35% of targeted household income <p>Standards are well established in affordable housing regulations and programs at the City, State, and Federal levels. Definition of affordable rent should incorporate allowances for tenant-paid utilities. Definition of affordable housing payment for ownership units should incorporate allowances for utilities, property taxes, insurance, maintenance, homeowner association fees, other fees passed on to homeowners (e.g. Mello-Roos fees). Homeowner association and Mello-Roos fees can be significant. For example, with Playa Vista, these fees may total over \$700 per month.</p>	
1.4 Voluntary or mandatory	Ordinance	Voluntary or mandatory	Mandatory program results in greater production of affordable housing	<ol style="list-style-type: none"> 1. According to a survey conducted by the Northern California Association of Nonprofit Housing, 6 of 108 inclusionary programs in the state are voluntary programs 2. Generally, cities with voluntary programs must offer subsidies or use growth control measures to encourage development of inclusionary units 	

PROGRAM COMPONENTS
CITY OF LOS ANGELES INCLUSIONARY HOUSING STUDY

June 4, 2003

2. Applicability of Inclusionary Housing Program

Issue	Ordinance/ Guideline	Options	Advantages/Disadvantages	Discussion	Notes/ Recommendations
2.1 Geographic applicability	Ordinance	Citywide	Applying inclusionary requirements citywide maximizes the number of affordable units constructed under such a program	<ol style="list-style-type: none"> <li data-bbox="1561 367 2131 808">1. Redevelopment project areas inclusionary requirements: 15% of units privately developed or rehabilitated in a project area must be affordable to low and moderate income households, with 6% of all units affordable to households at 50% of area median income. 30% of units developed by Agency must be affordable to low and moderate income households, with half of these units affordable to households at 50% of area median income. These requirements are not project-specific but are requirements for the entire redevelopment project area <li data-bbox="1561 849 2118 1011">2. Central City West: City requires that approximately 15% of units for each project in the Central City West specific plan area must be affordable to lower or moderate income households <li data-bbox="1561 1052 2139 1255">3. Playa Vista: City requires that 5% of units constructed must be affordable to households at or below 50% of area median income), 5% must be affordable to households at or below 80% of AMI, and 5% must be affordable to households at or below 120% of AMI 	

PROGRAM COMPONENTS
CITY OF LOS ANGELES INCLUSIONARY HOUSING STUDY

June 4, 2003

2. Applicability of Inclusionary Housing Program

Issue	Ordinance/ Guideline	Options	Advantages/Disadvantages	Discussion	Notes/ Recommendations
2.2 Minimum project size	Ordinance	<ol style="list-style-type: none"> 1. No minimum size 2. All developments two units and above 3. Minimum project size where inclusionary requirement results in a whole unit 	<ol style="list-style-type: none"> 1. Equitable application of inclusionary requirements if all development is subject to inclusionary requirements 2. No minimum threshold results in more resources available for affordable housing because of in lieu fee payments from smaller projects to satisfy inclusionary requirements 3. No minimum threshold avoids problems associated with developers avoiding inclusionary requirements by phasing in developments over time, or mapping them in a manner to avoid inclusionary requirements 	<ol style="list-style-type: none"> 1. With a minimum project size threshold, City must incorporate language that defines "project" as units on a lot, or contiguous lots, where there is evidence of common ownership or development 2. Definition of "project" should deter "subdivision" as a means to come under threshold project size 3. According to the NPH survey, 20 cities with inclusionary housing programs do not have minimum thresholds & all housing is subject to inclusionary requirements 	
2.3 Type of development	Ordinance	<ol style="list-style-type: none"> 1. New construction housing 2. Adaptive reuse 	<ol style="list-style-type: none"> 1. Applying inclusionary requirements on both new construction and adaptive reuse will generate more affordable units 2. Applying inclusionary requirements on adaptive reuse may be perceived as too burdensome to this product type 		

PROGRAM COMPONENTS
CITY OF LOS ANGELES INCLUSIONARY HOUSING STUDY

June 4, 2003

2. Applicability of Inclusionary Housing Program

Issue	Ordinance/ Guideline	Options	Advantages/Disadvantages	Discussion	Notes/ Recommendations
2.4 "Grandfather" clause/ Phase-in requirements/ Effective date	Ordinance	<ol style="list-style-type: none"> 1. Entitlements application deemed complete by City 2. Entitlements granted to developer 3. Building permit application deemed complete by City 4. Phase in inclusionary requirements, e.g. year 1, 5% set-aside, year 2, 10% set-aside, etc. 5. Effective Date: Immediately upon adoption by Council, one year delay, two year delay, etc. 	<ol style="list-style-type: none"> 1. Incorporating "grandfather", phase in, or effective date provisions avoids subjecting developers or landowners to unanticipated costs of complying with inclusionary requirements 2. Long phase in period or delayed effective date results in lower production of affordable units 3. Phase in period or delayed effective date may result in a "rush" to meet exemption thresholds 4. Phasing in or delaying effective date of inclusionary requirements is simpler to administer for City staff. There is no need to interpret "grandfather" provisions 	<ol style="list-style-type: none"> 1. Most jurisdictions believe that exempting only those projects with building permits is too aggressive and unfairly burdens developers 2. Phasing in or delaying the effective date of inclusionary requirements allows land values to adjust more gradually 	

PROGRAM COMPONENTS
CITY OF LOS ANGELES INCLUSIONARY HOUSING STUDY

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2. Applicability of Inclusionary Housing Program

Issue	Ordinance/ Guideline	Options	Advantages/Disadvantages	Discussion	Notes/ Recommendations
2.5 Waiver	Ordinance	<ol style="list-style-type: none"> 1. Developer must demonstrate the absence of any reasonable relationship between the impact of the development and the inclusionary requirement 2. Developer must demonstrate that inclusionary requirements constitute a taking in violation of the U.S. and State constitution 3. Developer must demonstrate that as a result of unusual and unforeseen circumstances, it is appropriate to waive or modify requirements. 	<p>The court found in Homebuilders of Northern California v. City of Napa that Napa's inclusionary ordinance could not constitute a taking on its face because of the availability of a waiver or reduction of the requirements.</p> <p>The court did not decide whether without any waiver or reduction provision, Napa's ordinance would have been a taking.</p>	<p>The City of Napa's waiver is based on the developer demonstrating the absence of any reasonable relationship between the impact of the development and the inclusionary requirement. This is one test for an unconstitutional taking.</p> <p>Option 2 (developer must demonstrate that inclusionary requirements constitute a taking) is a broader waiver.</p> <p>Option 3 (demonstrating that it is appropriate to waive or reduce requirements because of unusual and unforeseen circumstances) is broader still.</p>	

PROGRAM COMPONENTS
CITY OF LOS ANGELES INCLUSIONARY HOUSING STUDY

June 4, 2003

3. Term of Affordability, Documenting Restrictions

Issue	Ordinance/ Guideline	Options	Advantages/Disadvantages	Discussion	Notes/ Recommendations
<p>3.1 <u>Renter</u>: number of years rent of inclusionary units must be affordable to targeted income group</p>	<p>Ordinance</p>	<ol style="list-style-type: none"> 1. 55 years 2. 99 years 3. permanent 	<ol style="list-style-type: none"> 1. Longer term of affordability maintains stock of affordable housing 2. Longer term of affordability increases economic burden on developers 3. Permanent affordability of rental units prevents displacement of low income tenants because rent restrictions do not expire 	<ol style="list-style-type: none"> 1. Term of affordability ranges from 20 years to permanent affordability with inclusionary programs in the state. Most cities impose 30 year to 55 year restrictions 2. According to the survey completed by the Northern California Association of Nonprofit Housing (NPH), 20% of jurisdictions with inclusionary housing ordinances impose permanent affordability requirements on ownership and rental housing. 3. California Redevelopment Law imposes affordability for the longest feasible period, including permanently, but not less than 55 years 4. Tax Credit Allocation Committee imposes 55 year rent restrictions 5. State of California Housing and Community Development Department Multifamily Housing Program: 55 year rent restrictions 	

PROGRAM COMPONENTS
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June 4, 2003

3. Term of Affordability, Documenting Restrictions

Issue	Ordinance/ Guideline	Options	Advantages/Disadvantages	Discussion	Notes/ Recommendations
3.2 <u>Owner</u> : number of years sale price must be affordable to targeted income group	Ordinance	1. 30 years 2. 45 years 3. 55 years	1. Longer term of affordability maintains stock of affordable housing 2. Longer term of affordability decreases ability of homeowner to benefit from increasing equity	1. Term of affordability ranges from 20 years to 30 years with inclusionary programs in the state. Most cities impose 30 year restrictions 2. California Redevelopment Law imposes affordability for the longest feasible period, but not less than 45 years. However, shared equity sales are allowed 3. Affordability requirements impose asset management/monitoring responsibilities on the City. City staff must monitor sales of properties as well as occupancy of units 4. The City imposes affordability requirements on units built as a result of the City's Density Bonus ordinance. 30 year affordability is required	
3.3 Documenting rent restrictions	Ordinance	Regulatory agreement	Regulatory agreement and/or deed restriction evidences developer's obligations to the City. Agreement can be recorded against the land, but usually subordinate to first deed of trust of a lender	Recorded regulatory agreements or deed restrictions are the most common form of evidencing developer obligations	

PROGRAM COMPONENTS
CITY OF LOS ANGELES INCLUSIONARY HOUSING STUDY

June 4, 2003

3. Term of Affordability, Documenting Restrictions

Issue	Ordinance/ Guideline	Options	Advantages/Disadvantages	Discussion	Notes/ Recommendations
3.4 Documenting resale, other restrictions, ownership units	Ordinance	<ol style="list-style-type: none"> 1. <u>Resale restrictions</u> owner must sell property to targeted income household, price of home limited to original sale price plus increases in area median income, improvements approved by City, broker's fees, , and other typical seller costs, if any 2. <u>Shared equity</u> seller and City share in equity from sale of property. Home will not be re-sold at a below-market price, affordable to future targeted households. City's share of equity can go into Housing Trust Fund. 3. <u>Occupancy requirements</u> owner must occupy unit and is not allowed to rent the unit. 	<ol style="list-style-type: none"> 1. Resale restriction agreement evidences owner's obligations when selling property 2. Resale restrictions avoid windfall to owners (purchasing homes with price restrictions but selling homes at market prices) 3. Because price of homes have historically outpaced growth in income, using a shared equity model reduces over time the City's ability to provide affordable ownership units 4. Occupancy requirement avoids windfall to homebuyers (purchase homes at restricted prices, renting homes at market rates) 5. Occupancy requirement avoids problems with absentee-owned rental properties 6. If resale restrictions or occupancy restrictions are perceived as too onerous, homes will remain unsold 	<ol style="list-style-type: none"> 1. Resale and occupancy restrictions must be documented clearly to ensure that homebuyer understands all aspects of the agreement 2. Monitoring units for compliance with occupancy requirements can be difficult. Responsibility falls to the Housing Department but however, duties can also be performed by third parties 3. City can offer a purchase or resale program if a home remains unsold after good faith attempts to sell 4. City can hold a first right of refusal to purchase a home that is being sold 5. City can request from senior lender notification and cure rights for defaults 6. The City imposes resale restrictions on units built as a result of the City's Density Bonus ordinance. A covenant is recorded against the property. The City requires an occupancy summary report once per year 7. Existing City programs that provide financing to homeowners (e.g. rehab loans, first time homebuyer loans, etc.) require homeowners to secure City approval prior to refinancing or securing additional debt 	

PROGRAM COMPONENTS
CITY OF LOS ANGELES INCLUSIONARY HOUSING STUDY

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4. Alternative Compliance Options

Issue	Ordinance/ Guideline	Options	Advantages/Disadvantages	Discussion	Notes/ Recommendations
4.1 In lieu fee applicability	Ordinance	<ol style="list-style-type: none"> 1. Option available to all developers 2. Option available only when inclusionary requirement results in a fractional unit 3. Option available only on low density developments, which are usually luxury estate homes (e.g. less than 2 units/acre) 	<ol style="list-style-type: none"> 1. Can be easy to administer 2. In lieu fee important option if inclusionary requirements result in fractions of units 3. Requiring developers to build affordable units on-site with low density developments may be an unfair economic burden. In lieu fee option may be more appropriate 4. Jurisdiction can target uses of funds to meet a variety of affordable housing policy goals 5. Affordable units may not be constructed in a timely manner 6. Affordable units not provided on-site. Lose opportunity for economic integration 		

PROGRAM COMPONENTS
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4. Alternative Compliance Options

Issue	Ordinance/ Guideline	Options	Advantages/Disadvantages	Discussion	Notes/ Recommendations
4.2 In lieu fee amount	Ordinance and Guideline	<ol style="list-style-type: none"> 1. Based on economic equivalent of providing affordable unit 2. Fee based on common type of development vs. schedule of fees for different housing prototypes 3. Different fee for rental and owner 4. Fee tied to bedroom count of market rate units 5. Options for revising fees over time: <ol style="list-style-type: none"> a. Index fee to increases in area median income, CPI, alternative indices b. For rental development, recalculate affordability gap every 2 or 3 years c. For owner developments, recalculate fee based on difference between market price of new construction home and price affordable to targeted households 	<ol style="list-style-type: none"> 1. Unless in lieu fee set at the economic equivalent of providing affordable units, allowing developments to pay in lieu fees will result in fewer affordable units when compared to on-site compliance 2. Different fees for different housing types more complicated to administer. Requires studying the costs of development for several different housing types 	<ol style="list-style-type: none"> 1. To set in lieu fee at the economic equivalent of providing affordable units, fees for rental developments should be equal to the affordability gap 2. To set in lieu fee at the economic equivalent of providing affordable units for ownership developments, fees should be set at the difference between the price of a market rate unit and the price that a targeted household can afford, adjusted for property tax, insurance, homeowner association dues, Mello-Roos, and other assessments, and utilities. City can set fees according to the median price of all new construction homes in Los Angeles, or according to the median price of units in the development. 3. For ownership developments, can cap fees at the affordability gap for rental developments, based on developer providing sufficient fees to the City to develop an affordable rental unit 4. Setting in lieu fee at affordability gap results in the following fees for the Type V medium density stacked flat prototype (common type of rental development in LA), targeting households at 45% of AMI: <ol style="list-style-type: none"> a. \$15,787 per unit (on all units) with a 10% inclusionary requirement b. \$23,570 per unit (on all units) with a 15% inclusionary requirement c. \$31,802 per unit (on all units) with a 20% inclusionary requirement 	

PROGRAM COMPONENTS
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4. Alternative Compliance Options

Issue	Ordinance/ Guideline	Options	Discussion	Notes/ Recommendations
<p>(continued)</p> <p>4.2 In lieu fee amount</p>	<p>Ordinance and Guideline</p>	<ol style="list-style-type: none"> 1. Based on economic equivalent of providing affordable unit 2. Fee based on common type of development vs. schedule of fees for different housing prototypes 3. Different fee for rental and owner 4. Fee tied to bedroom count of market rate units 5. Options for revising fees over time: <ol style="list-style-type: none"> a. Index fee to increases in area median income, CPI, alternative indices b. For rental development, recalculate affordability gap every 2 or 3 years c. For owner developments, recalculate fee based on difference between market price of new construction home and price affordable to targeted households 	<ol style="list-style-type: none"> 5. An example of in lieu fees for ownership housing is to set in lieu fees at the difference between the market price for new construction homes and the prices affordable to targeted households. The following in lieu fees are calculated based on market prices for new construction homes provided by developers active in Los Angeles, less the price that is affordable to households at 90% of AMI for the Type V Condo prototype (common type of owner development in LA): <ol style="list-style-type: none"> a. \$10,392 per unit (on all units) with a 10% inclusionary requirement b. \$15,587 per unit (on all units) with a 15% inclusionary requirement c. \$30,783 per unit (on all units) with a 20% inclusionary requirement 6. Indexing fees at CPI or other indices is not relevant to actual economic equivalency of providing affordable unit. Fees should be recalculated with gap analyses every two to three years to maintain principle of economic equivalency 7. Most cities set in lieu fees at amounts lower than economic equivalent of providing inclusionary units on-site 	

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4. Alternative Compliance Options

Issue	Ordinance/ Guideline	Options	Advantages/Disadvantages	Discussion	Notes/ Recommendations
4.3 Off-site construction	Ordinance	<ol style="list-style-type: none"> 1. Option available to all developers 2. Option available only to developers who joint venture with nonprofit 3. Off-site units completed prior to building permit issued for market rate development 4. Off-site units completed prior to certificate of occupancy issued for market rate development 5. Off-site units completed after certificate of occupancy issued for market rate development 6. Off-site units must be equal or greater in number, larger or same size as units that would be built on-site 7. Financing plan approved by City for off-site units prior to issuance of building permit for project generating inclusionary requirement 8. If off-site units receive public assistance, developer must contribute the economic value equal to affordability gap for inclusionary units 	<ol style="list-style-type: none"> 1. May lower costs of compliance 2. Can result in development of more affordable units with additional subsidies 3. Allows for partnerships between market rate and affordable housing developers 4. Difficult to enforce construction of units. Coordinating the timing of the development of two projects is difficult 5. Affordable units not provided on-site 6. Completion of affordable units may be delayed 7. Potential neighborhood opposition issues 	<ol style="list-style-type: none"> 1. To compel compliance, City can require developers to post bond/letter of credit. This strategy is expensive to developers and difficult to secure 2. Off-site compliance for the Type V medium density stacked flat prototype can result in the following <u>cost savings</u> <ol style="list-style-type: none"> a. \$2,141 per unit (on all units) with a 10% inclusionary requirement b. \$3,211 per unit (on all units) with a 15% inclusionary requirement c. \$4,282 per unit (on all units) with a 20% inclusionary requirement 3. Off-site compliance for the Type V Condo prototype can result in the following <u>cost savings</u> <ol style="list-style-type: none"> a. \$3,936 per unit (on all units) with a 10% inclusionary requirement b. \$5,903 per unit (on all units) with a 15% inclusionary requirement c. \$7,871 per unit (on all units) with a 20% inclusionary requirement 	

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4. Alternative Compliance Options

Issue	Ordinance/ Guideline	Options	Advantages/Disadvantages	Discussion	Notes/ Recommendations
4.4 Land dedication	Ordinance	<p>Land must exhibit following characteristics:</p> <ol style="list-style-type: none"> 1. Land value must equal the economic equivalent of providing inclusionary units on-site 2. Land is appropriately zoned for the affordable housing development 3. Site is buildable 4. Site is free of environmental issues 5. Site can accommodate the number of affordable units required under the inclusionary housing program 6. Site is located near schools, services, recreation, transit 7. Clear title delivered to City-designated entity prior to issuance of building permit on market rate development 	<ol style="list-style-type: none"> 1. May lower costs of compliance 2. Can result in development of more affordable units with additional subsidies 3. Allows for partnerships between market rate and affordable housing developers 4. Additional subsidies necessary to build affordable units because free land is insufficient to subsidize development of affordable units 5. Affordable units not provided on-site 6. Completion of affordable units will be delayed 7. Potential neighborhood opposition issues 		

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4. Alternative Compliance Options

Issue	Ordinance/ Guideline	Options	Advantages/Disadvantages	Discussion	Notes/ Recommendations
4.5 Acquisition or acquisition/ rehabilitation	Ordinance	<ol style="list-style-type: none"> 1. Option available to all developers 2. Option not available to developers 3. Allowed only in targeted neighborhoods 	<ol style="list-style-type: none"> 1. May lower costs of compliance 2. Can result in development of more affordable units with additional subsidies 3. Allows for partnerships between market rate and affordable housing developers 4. Affordable units not provided on-site 5. Completion of affordable units may be delayed 6. Potential neighborhood opposition issues 7. Can be targeted to revitalizing neighborhoods 8. Relocation of tenants may be subject to Uniform Relocation Act 9. It may be difficult to identify willing sellers of properties 10. May serve to revitalize neighborhoods 	<ol style="list-style-type: none"> 1. If acquisition only, need to establish useful life guidelines and require City inspection 2. Need to establish comparability standards with this option: <ol style="list-style-type: none"> a. Bedroom count comparability b. Comparable number of units c. Value of property comparable to in lieu fee or economic equivalent of providing inclusionary units on-site d. Physical needs assessment and escrowed funds needed to pay for rehabilitation e. Environmental f. Close to services, schools, transit, recreation g. Clear title to property transferred to City-designated entity prior to issuance of building permit for market rate development 3. This option for the Type V medium density stacked flat prototype (common type of rental development in LA) can result in the following <u>cost savings</u> <ol style="list-style-type: none"> a. \$6,894 per unit (on all units) with a 10% inclusionary requirement b. \$10,340 per unit (on all units) with a 15% requirement c. \$13,787 per unit (on all units) with a 20% requirement 4. This option for the Type V Condo prototype (common type of owner development in LA) can result in the following <u>cost savings</u> <ol style="list-style-type: none"> a. \$6,930 per unit (on all units) with a 10% requirement b. \$10,394 per unit (on all units) with a 15% requirement c. \$13,859 per unit (on all units) with a 20% requirement <p>Cost savings may be understated because calculations do not incorporate benefit of enabling developer to sell all market rate units at the market rate development</p>	

PROGRAM COMPONENTS
CITY OF LOS ANGELES INCLUSIONARY HOUSING STUDY

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4. Alternative Compliance Options

Issue	Ordinance/ Guideline	Options	Advantages/Disadvantages	Discussion	Notes/ Recommendations
4.6 Other					

PROGRAM COMPONENTS
CITY OF LOS ANGELES INCLUSIONARY HOUSING STUDY

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5. Incentives and Offsets

Issue	Ordinance/ Guideline	Options	Advantages/Disadvantages	Discussion	Notes/ Recommendations
5.1 Density bonus	Ordinance	<ol style="list-style-type: none"> 1. By right 35% density bonus if project complies with inclusionary requirements (similar to City's density bonus ordinance) 2. By right Residential/Accessory Services designation for developments that meet inclusionary requirements 3. By right 50% density bonus if project complies with inclusionary requirements 4. Allow higher density (i.e. greater than 50% over current density) in specific plan areas in exchange for higher inclusionary set-aside requirements 	<ol style="list-style-type: none"> 1. May lower costs of compliance by reducing per unit land expenses 2. Developers may not seek to increase density 3. Can be controversial in neighborhoods which perceive higher density projects as creating adverse conditions, e.g. traffic, parking, etc. 4. Will alleviate market rate housing shortages 5. Will allow City to better meet its long-term housing needs for all income levels 6. Requires high quality neighborhood design and response to neighborhood-wide parking, open space, school enrollment, and other issues 	<ol style="list-style-type: none"> 1. May be used to implement City's General Plan Framework. Framework consists of directing future growth to transit corridors 2. State density bonus ordinance requires jurisdictions to provide a minimum of a 25% density bonus, plus one additional incentive, if a development has at minimum 20% of units for lower income households, 10% for very low income households, or 50% for senior citizens 3. City's density bonus ordinance (Ord. No. 174995) increases State-mandated density bonus to 35% if a development is near transportation centers, regional centers, major economic activity area, or major college/university 4. Cannot undermine State density bonus law (by offering density bonus to projects that meet inclusionary requirements but do not meet State's density bonus affordability requirements, can be interpreted as diluting State law) 5. Residential/Accessory Services (RAS) ordinance permits construction of medium to high density housing (comparable to R3 and R4) in commercial areas. RAS permits commercial uses in ground floor of residential buildings. 	

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5. Incentives and Offsets

Issue	Ordinance/ Guideline	Options	Discussion	Notes/ Recommendations
<p>(continued)</p> <p>5.1 Density bonus</p>	<p>Ordinance</p>	<ol style="list-style-type: none"> 1. By right 35% density bonus if project complies with inclusionary requirements (similar to City's density bonus ordinance) 2. By right Residential/ Accessory Services designation for developments that meet inclusionary requirements 3. By right 50% density bonus if project complies with inclusionary requirements 4. Allow higher density (i.e. greater than 50% over current density) in specific plan areas in exchange for higher inclusionary set-aside requirements 	<ol style="list-style-type: none"> 1. Density bonus can result in significant economic benefit to developers 2. A 25% density bonus can result in <u>cost savings</u> for the moderate density stacked flat rental prototype of \$10,959 per unit (on all units) 3. A 50% density bonus can result in <u>cost savings</u> for the moderate density stacked flat prototype of \$18,941 per unit (on all units) 4. Cost savings may be understated because calculations do not incorporate benefit of enabling developer to sell additional market rate units 	

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5. Incentives and Offsets

Issue	Ordinance/ Guideline	Options	Advantages/Disadvantages	Discussion	Notes/ Recommendations
5.2 Alternative unit type	Ordinance	<ol style="list-style-type: none"> 1. Allow townhome construction of affordable units in single family detached home development 2. Allowed stacked flat construction in townhome development 3. Allow rental units in ownership development 	<ol style="list-style-type: none"> 1. Lowers costs of compliance by reducing per unit construction costs 2. Developers may not want to provide alternative housing product type on-site 	<ol style="list-style-type: none"> 1. Cities typically only allow construction of townhomes in single family detached home developments 2. Some jurisdictions only allow construction of alternative unit types in specific areas, such as corner lots 3. State law requires jurisdictions to allow developers to build rental units in ownership developments as a compliance option 4. Allowing developers to construct attached townhomes in a single family detached home development can result in <u>cost savings</u> <ol style="list-style-type: none"> a. \$3,886 per unit (on all units) with a 10% requirement b. \$5,920 per unit (on all units) with a 15% requirement c. \$7,863 per unit (on all units) with a 20% requirement 	

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5. Incentives and Offsets

Issue	Ordinance/ Guideline	Options	Advantages/Disadvantages	Discussion	Notes/ Recommendations
5.3 Design of units	Ordinance	<ol style="list-style-type: none"> 1. Affordable units incorporate more modest interior finishes 2. Affordable units smaller than market rate units 3. Affordable units must be the same as market rate units 	Lowers costs of compliance by reducing construction costs	<ol style="list-style-type: none"> 1. City must establish clear minimum standards, e.g.: <ol style="list-style-type: none"> a. 1 BR, minimum of 540 sf b. 2 BR, minimum of 725 sf c. 3 BR, minimum of 1,000 sf 2. Reducing bedroom sizes to sf listed above and reducing interior finish quality with the Type V medium density stacked flat prototype can result in the following <u>cost savings</u> <ol style="list-style-type: none"> a. \$2,828 per unit (on all units) with a 10% inclusionary requirement b. \$4,180 per unit (on all units) with a 15% requirement c. \$5,526 per unit (on all units) with a 20% requirement 3. This option for the Type V Condo prototype can result in the following <u>cost savings</u> <ol style="list-style-type: none"> a. \$4,217 per unit (on all units) with a 10% requirement b. \$6,325 per unit (on all units) with a 15% requirement c. \$8,434 per unit (on all units) with a 20% requirement 	

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5. Incentives and Offsets

Issue	Ordinance/ Guideline	Options	Advantages/Disadvantages	Discussion	Notes/ Recommendations
5.4 Location of units	Ordinance	<ol style="list-style-type: none"> 1. Affordable units scattered throughout development 2. Affordable units in one area 	<ol style="list-style-type: none"> 1. Requiring affordable units to be scattered throughout the development reduces any potential stigma associated with affordable units 2. If affordable units are a different housing type than market rate units, then it may be more practical to allow developer to concentrate affordable units 	City's density bonus law requires affordable units to be scattered throughout a development	
5.5 Fee deferrals	Ordinance	Defer payment of building permit, impact fees from issuance of building permit to issuance of certificate of occupancy	<ol style="list-style-type: none"> 1. Lowers costs of compliance by reducing construction interest expense 2. Defers revenues to public agency 	<ol style="list-style-type: none"> 1. Typically, developers do not view fee deferrals as a significant benefit 2. City must issue a certificate of occupancy if building complies with building and fire safety code. City cannot withhold C.O. because of lack of payment of fees. City must rely on civil penalties to enforce payment of fees 3. Fee deferrals for the moderate density stacked flat prototype can result in a \$581/unit savings 4. Fee deferrals for the Type V Condo prototype can result in a \$1,033/unit savings 	

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5. Incentives and Offsets

Issue	Ordinance/ Guideline	Options	Advantages/Disadvantages	Discussion	Notes/ Recommendations
5.6 Parking	Ordinance	<ol style="list-style-type: none"> 1. Lower parking requirements for developments that build inclusionary units on-site 2. Review parking standards in neighborhood transit centers, regional centers 	<ol style="list-style-type: none"> 1. Lowers cost of compliance 2. May allow for increasing density of development 3. May not be advantageous to developers working in neighborhoods that do not have parking issues 	<ol style="list-style-type: none"> 1. Many jurisdictions reduce parking requirements for affordable housing developments to allow for reduction in costs and increased density, such as the City's Affordable Housing Incentive Program, adopted in 1995 2. Can result in significant savings on projects with subterranean parking. Cost savings for on-grade parking or podium parking are not significant 3. For example, for the rental Type III five story prototype with subterranean parking, reducing parking requirement by 0.25 to 0.5 spaces per unit results in <u>cost savings of \$11,500 per unit (on all units)</u> 4. For the rental Type V medium density prototype with one level of podium parking, reducing parking requirements by 0.25 to 0.5 spaces per unit results in <u>cost savings of \$817 per unit (on all units)</u> 	
5.7 Open space, floor area ratios, setbacks	Ordinance	Lower open space, floor area ratio, setback requirements	<ol style="list-style-type: none"> 1. Lowers cost of compliance 2. Increases density of development 	Many jurisdictions offer this compliance option to reduce costs of compliance	

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5. Incentives and Offsets

Issue	Ordinance/ Guideline	Options	Advantages/Disadvantages	Discussion	Notes/ Recommendations
5.8 Financial subsidy	Ordinance	Local assistance only provided to developers who exceed inclusionary requirements by providing greater number of affordable units and/or targeting income groups lower than required by inclusionary program	Maximizes City's ability to facilitate the production of affordable housing	Developers cannot comply with minimum inclusionary requirements using local sources of subsidy. However, developers allowed to use non-local sources of subsidy (e.g. state, federal) to comply with inclusionary requirements	
5.9 Other					

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6. Implementation

Issue	Ordinance/ Guideline	Options	Advantages/Disadvantages	Discussion	Notes/ Recommendations
6.1 Administrative authority	Ordinance	<ol style="list-style-type: none"> 1. Planning, Building and Safety Departments in charge of imposing inclusionary requirements 2. LAHD in charge of administration, certifying initial compliance, oversight, monitoring, and asset management 		Asset management responsibilities will result in additional costs borne by administering department. Can charge developers a ministerial fee to defray costs	
6.2 Uses for in lieu fees	Ordinance	<ol style="list-style-type: none"> 1. Fees paid to Housing Trust Fund 2. Use of fees tied to income and tenure inclusionary requirements of specific projects paying fees 3. Fees can be used at discretion of administrators of housing trust fund 	<ol style="list-style-type: none"> 1. Tying use of in lieu fees to targeted income levels and tenure of specific projects carries out intent of inclusionary program 2. Specifying uses of housing trust funds may constrain ability to meet future affordable housing needs 		

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7. Asset Management

Issue	Ordinance/ Guideline	Options	Advantages/Disadvantages	Discussion	Notes/ Recommendations
7.1 Enforcement and monitoring	Ordinance and Guideline	1. Renter: <ul style="list-style-type: none"> a. Annual certifications provided by developers b. On-site inspections by City 2. Owner: <ul style="list-style-type: none"> a. City monitors occupancy requirements b. City receives notice from homeowner of intent to sell 	Because inclusionary program can result in a significant number of affordable units, monitoring may be a considerable effort	1. City can impose registration fee, similar to rent stabilization program, to defray monitoring costs 2. Can tie into City's new asset management software 3. With the City's Density Bonus program, the City requires annual occupancy reports. With income verification, the City reviews documents such as pay stubs, employer verifications, etc.	
7.2 Sanctions	Ordinance	Civil and criminal actions		Enforcement and sanctions dependent upon quality of monitoring systems	

SECTION 3

City of Los Angeles

Inclusionary Housing Implementation Policies, Practices, and Program Administration

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June 4, 2003

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CITY OF LOS ANGELES

INCLUSIONARY HOUSING IMPLEMENTATION POLICIES, PRACTICES, AND PROGRAM ADMINISTRATION

June 4, 2003

A. Introduction

DRA was retained by the City of Los Angeles to provide City staff with guidance on the development of policies, practices, and program administration for an inclusionary housing program. This report reviews options the City should address if it chooses to develop a City-wide inclusionary housing program.

Inclusionary zoning was a concept developed to address the lack of housing options affordable to low and moderate income persons. In addition, inclusionary zoning was created to increase economic integration of communities.

Inclusionary zoning has been used by local jurisdictions for approximately 30 years to address the lack of affordable housing. The longest continuing program is in Montgomery County, Maryland, which is adjacent to Washington, DC. Montgomery County established its Moderately Priced Dwelling Unit (MPDU) program in 1973 to address the lack of affordable housing in the County. The MPDU program requires that between 12.5 percent and 15 percent of new construction units must be affordable to moderate income households. The MPDU program has resulted in the development of over 10,000 units of housing affordable to moderate income households.

Economic integration is a key goal of inclusionary housing. In New Jersey, the landmark decisions of the Mount Laurel I and II cases were actions by the judiciary to strike down exclusionary housing policies that prevented the economic integration of communities in the 1970's. In the Mount Laurel I decision (*Burlington County NAACP v. Township of Mount Laurel*, 1975), the State Supreme Court held that "municipalities had a constitutional duty to provide a fair share of affordable housing in their respective regions."¹ The court concluded that zoning statutes were "unconstitutional because they unduly restricted the construction of low- and moderate-income housing", and that "due process and equal protection were being denied to" low and moderate income households.² With this decision, the court provided the basis for inclusionary housing programs. The Mount

¹ Anglin, Roland. Searching for Justice, Court-Inspired Housing Policy as a Mechanism for Social and Economic Mobility. *Urban Affairs Quarterly*, Vol. 29 No. 3, March 1994. 436.

² Anglin. *Ibid*, 436.

Laurel II decision (Burlington County NAACP v. Township of Mount Laurel, 1983) set “specific standards and methods for determining fair-share obligations” of municipalities.³ In addition, the court held that “affirmative governmental devices...including lower-income density bonuses and mandatory set-asides” were required “if the opportunity for lower-income housing was to be a realistic one.”⁴ The impact of the Mount Laurel II decision was to encourage the New Jersey State legislature to address inclusionary housing issues, including the establishment of fair share goals and “time limits for compliance by the municipalities”.⁵

In California, inclusionary housing programs were first established in the 1970’s. In the 1970’s, 17 jurisdictions established their inclusionary programs. For the most part, inclusionary housing programs in California were established in the 1980’s and 1990’s. According to a recent survey by the Northern California Association of Nonprofit Housing, today, a total of 108 communities in California have inclusionary housing programs. These programs have resulted in the development of over 34,000 units of affordable housing (not including units constructed as a result of redevelopment law inclusionary requirements). Larger cities such as San Francisco, San Diego, and Sacramento, have adopted inclusionary housing programs.

In Los Angeles, inclusionary requirements exist in redevelopment project areas, the Central City West specific plan area, and the Playa Vista development. California Redevelopment Law requires that 15 percent of all units privately developed or rehabilitated in a project area must be affordable to low and moderate income households. At least six percent of the units must be affordable to households at or below 50 percent of area median income. The remaining units must be affordable to moderate income persons. With Agency-developed properties, 30 percent of housing units must be affordable to low and moderate income households, and half of these units must be affordable to households at or below 50 percent of area median income. These requirements are for the entire redevelopment project area, not for specific projects.

In the Central City West specific plan area, the City requires that approximately 15 percent of all units constructed in a development be affordable to lower or moderate income households. The City negotiates development agreements with each developer to define the exact inclusionary requirements.

With Playa Vista, the City requires that developers provide a mix of units affordable to very low, low, and moderate income households. A total of five percent of all units constructed must be affordable to households at or below 50 percent of area median income, five

³ Anglin. Ibid, 439-440.

⁴ Calavita, Nico, Kenneth Grimes, Alan Mallach. Inclusionary Housing in California and New Jersey: A Comparative Analysis. Housing Policy Debate, Fannie Mae Foundation. Volume 8, Issue 1, 1997. 115.

⁵ Anglin, Roland. Op Cit, 442

percent must be affordable to households at or below 80 percent of area median income, and five percent must be affordable to households at or below 120 percent of area median income.

With the development of a City-wide inclusionary housing program, the City of Los Angeles must consider a number of policy issues. In summary, these are:

- affordable housing set-aside requirements;
- applicability of an inclusionary housing ordinance;
- term of affordability of rental inclusionary units and resale restrictions for owner inclusionary units;
- options for developers to comply with inclusionary housing requirements;
- incentives and/or offsets to the costs of complying with inclusionary requirements;
- use of public subsidies to meet inclusionary housing requirements; and,
- program administration, including administrative authority and asset management.

This report discusses these policy issues and associated options to provide the City with guidance as it considers development of a City-wide inclusionary housing program.

B. Affordable Housing Set-Aside Requirements

There are three important considerations regarding affordable housing set-aside requirements:

- percentage of total units that must be affordable units;
- target household incomes for affordable units; and,
- definition of affordable housing expense.

This section discusses these three issues.

1. Percentage of Affordable Units

The Northern California Association of Nonprofit Housing (NPH) conducted a survey of inclusionary housing programs across the state. NPH found that jurisdictions with inclusionary housing programs require developers to set-aside between five percent and 35 percent of all units for very low, low, and/or moderate income households (“set-aside requirements”). Most jurisdictions impose between 10 percent and 20 percent inclusionary requirements. According to NPH, both West Hollywood and Santa Monica impose 20 percent inclusionary requirements. Pasadena imposes a 15 percent inclusionary requirement.

In Los Angeles, the scale of the affordable housing problem suggests that the City should develop a broad set of affordable housing program and policy “tools” to address these needs. The U.S. Census estimates that 353,270 renter households pay more than 30 percent of their income toward housing expenses, and 230,356 renter households live in severely overcrowded homes (defined as more than 1.5 persons per room. Using this standard, seven persons in a two bedroom apartment is considered severely overcrowded). An inclusionary housing program can be an important tool for the City, and imposing a higher percentage of affordable units results in the development of more affordable housing. For example, based on the number of building permits issued in 2001, a 10 percent inclusionary requirement would result in the development of 725 units. However, a 20 percent inclusionary requirement doubles that figure to 1,450 affordable units.

An important consideration when establishing an inclusionary requirement is the economic impact on market rate residential development. The economic effect of an inclusionary housing requirement is likely to be limited by adjustments in land prices, with perhaps some effect on developer profit as well. Rents and home prices will not be affected by a moderate inclusionary zoning requirement. When developers analyze alternative development opportunities, they often conduct a land residual analysis that calculates the value attributed to land from proposed development on that site. Such analysis is commonly used by real estate developers and investors to evaluate development financial feasibility and select among alternative uses for a piece of property and determine the price to pay for it. Developers who conduct such analyses will be able to determine the economic feasibility of a residential development opportunity and adjust what they will pay for land accordingly. This analysis allows developers to evaluate the effect of providing affordable housing units on-site and quantifies how much they should pay for land with inclusionary requirements. Land values are also affected by a number of other factors, such as availability of development opportunities, the overall economy, interest rates, land costs in surrounding areas, and several other factors. Developers who evaluate and understand inclusionary requirements, however, can take into account these effects when negotiating land purchase prices.

DRA conducted a land residual analysis that quantifies the economic effect of an inclusionary housing requirement. The land residual analysis calculates the value of a development based on its income potential and subtracts the costs of development and developer profit to yield the underlying value of the land. When evaluating alternative land uses, the alternative that generates the highest value to a site is considered its highest and best use. An alternative that generates a value to the land that is negative is not financially feasible. In addition, if the residual land value of land use is below the market value of the land, then the land use is not economically viable. The land residual analysis enables us to quantify the economic effect of an inclusionary housing requirement as well as the economic value of alternative compliance methods and offsets that can be offered to developers.

The land residual analyses demonstrate that increasing the percentage set-aside requirement has a discernible economic impact on land values. However, offering alternative compliance options and offsets can mitigate the economic impact of a 10 percent inclusionary requirement for rental households at 45 percent of area median income (\$24,795 for a family of four in 2002) and a 20 percent inclusionary requirement for owner households at 90 percent of area median income (\$49,590 for a family of four in 2002).

Table 1 compares land residual values under four alternative scenarios for the six rental housing prototypes incorporated in the Inclusionary Housing Study, and assuming average market rents (based on REALFACTS database of 45,000 units). These scenarios do not incorporate any potential offsets or alternative compliance options that can mitigate the economic impact on developers:

- no inclusionary requirement (100 percent market rate);
- a 10 percent inclusionary requirement targeting households at 45 percent of area median income;
- a 15 percent inclusionary requirement targeting households at 45 percent of area median income; and,
- a 20 percent inclusionary requirement targeting households at 45 percent of area median income.

Table 1

**Residual Land Value Per Square Foot Site Area ⁽¹⁾
Rental Housing Prototypes
Alternative Inclusionary Requirement Scenarios
City of Los Angeles Inclusionary Housing Study**

Inclusionary Housing Set-Aside	Prototypes					
	Renter 1 Type V Low Stacked Flat 30 units 25 units/acre	Renter 2 Type V Medium Stacked Flat 60 units 35 units/acre	Renter 3 Type V High Stacked Flat 60 units 85 units/acre	Renter 4 Type III Modified Stacked Flat 100 units 100 units/acre	Renter 5 Type 1 High Rise Stacked Flat 100 units 150 units/acre	Renter 6 Adaptive Reuse 70 units 100 units/acre
100% Market Rate Units ⁽¹⁾	\$23.64/sf	\$23.64/sf	\$2.90/sf	\$32.63/sf	(\$144.93/sf)	\$13.55/sf
10% of Units at 45% AMI ⁽²⁾	\$17.72/sf	\$13.39/sf	(\$21.68/sf)	(\$8.65/sf)	(\$206.83/sf)	(\$15.19/sf)
15% of Units at 45% AMI	\$11.86/sf	\$7.87/sf	(\$35.08/sf)	(\$30.25/sf)	(\$239.20/sf)	(\$32.77/sf)
20% of Units at 45% AMI	\$8.93/sf	\$1.11/sf	(\$51.48/sf)	(\$50.47/sf)	(\$269.52/sf)	(\$45.95/sf)

(1) Rents of market rate units based on “average” rents in Los Angeles. Source: REALFACTS

(2) AMI: area median income. 45% of AMI in 2002 was \$24,795 for a family of four.

Source: David Paul Rosen & Associates

Table 1 shows that the economic impact of an inclusionary housing requirement – without any offsets or alternative compliance options – can be significant. Depending upon the inclusionary requirement, land residual value is reduced for each prototype.

All jurisdictions, however, offer some form of offset and/or alternative compliance options. Offsets and alternative compliance options can be viewed as a “tool kit” for developers to use, as appropriate, to offset the impact of an inclusionary requirement. Offering developers a wide range of offsets and alternative compliance options provides them with a set of tools they can employ in a manner that best fits their circumstances. As we discuss later in this report, alternative compliance options and offsets can even increase the value of land relative to the market price of land. **Table 2** provides examples of land residual values based on a 10 percent inclusionary requirement that targets rental households at 45 percent of area median income, and four alternative “packages” of alternative compliance options and offsets:

- Package 1: 25 percent density bonus, fee deferrals, and affordable unit modifications;
- Package 2: 50 percent density bonus, fee deferrals, and affordable unit modifications;
- Package 3: off-site compliance, fee deferrals, and affordable unit modifications; and,
- Package 4: acquisition/rehabilitation of multifamily units, and fee deferrals.

Affordable unit modifications include allowing developers to reduce the size, use modest interior finishes, and reduce the number of bathrooms in the affordable units. Fee deferrals incorporate delaying payment of City building permit fees from start of construction to receipt of the certificate of occupancy.

Although a 10 percent inclusionary requirement targeting households at 45 percent of area median income reduces residual land value for all prototypes, developers taking advantage of the alternative compliance options and offsets in Packages 1 and 2 can mitigate the economic effect of the inclusionary requirement. Under Package 1, developers building projects similar to the Low Density Stacked Flat prototype will be able to completely mitigate the economic impact of a 10 percent inclusionary requirement targeting households at 45 percent of area median income. With Package 2, developers of both Low Density and Medium Density Stacked Flat prototypes can completely mitigate the impact of a 10 percent inclusionary requirement. With the exception of the Type III Modified Stacked Flat prototype, the higher density prototypes are not economically feasible even with 100 percent market rate rents, assuming average market rents. The Type V High Density Stacked Flat and Type 1 High Rise Stacked Flat prototypes are infeasible even at market rate rents, which is confirmed by the lack of recent development of these types of buildings. The Type III Modified Stacked Flat prototype is feasible under a 100 percent market rate rent scenario. However, under any inclusionary scenario, including offsets and incentives, this prototype is rendered infeasible. Finally, under all scenarios, adaptive reuse developments appear to be infeasible.

Table 2

**Residual Land Value Per Square Foot Site Area
Rental Housing Prototypes with Alternative Inclusionary Housing "Packages"
10% of Units Affordable at 45% of Area Median Income
City of Los Angeles Inclusionary Housing Study**

Inclusionary Housing Set-Aside and Alternative Compliance/ Offsets "Packages"	Prototypes					
	Renter 1 Type V Low Stacked Flat 30 units 25 units/ acre	Renter 2 Type V Medium Stacked Flat 60 units 35 units/ acre	Renter 3 Type V High Stacked Flat 60 units 85 units/ acre	Renter 4 Type III Modified Stacked Flat 100 units 100 units/ acre	Renter 5 Type 1 High Rise Stacked Flat 100 units 150 units/ acre	Renter 6 Adaptive Reuse 70 units 100 units/ acre
100% Market Rate Units	\$23.64/sf	\$23.64/sf	\$2.90/sf	\$32.63/sf	(\$144.93/sf)	\$13.55/sf
10% of Units at 45% AMI ⁽¹⁾	\$17.72/sf	\$13.39/sf	(\$21.68/sf)	(\$8.65/sf)	(\$206.83/sf)	(\$15.19/sf)
Package 1: 25% density bonus, fee deferrals, afford. unit mod.	\$26.33/sf	\$22.48/sf	(\$14.91/sf)	\$1.11/sf	(\$233.77/sf)	N/A
Package 2: 50% density bonus, fee deferrals, afford. unit mod.	\$32.94/sf	\$30.64/sf	(\$11.10/sf)	\$9.64/sf	(\$268.95/sf)	N/A
Package 3: Off-site compliance, fee deferrals, afford. unit mod.	\$18.66/sf	\$15.63/sf	(\$17.78/sf)	\$2.01/sf	(\$203.42/sf)	N/A
Package 4: Acq/rehab multifamily, fee deferrals	\$19.27/sf	\$17.46/sf	(\$13.59/sf)	\$12.41/sf	(\$174.67/sf)	(\$8.36/sf)

(1) AMI: area median income.

Residual land values based on average market rents. Source: REALFACTS.

Source: David Paul Rosen & Associates

Table 3 compares land residual values under four alternative scenarios for the four owner housing prototypes incorporated in the Inclusionary Housing Study:

- no inclusionary requirement (100 percent market rate);
- a 10 percent inclusionary requirement targeting households at 90 percent of area median income;
- a 15 percent inclusionary requirement targeting households at 90 percent of area median income; and,
- a 20 percent inclusionary requirement targeting households at 90 percent of area median income.

The calculations of land residual value do not incorporate any potential offsets or alternative compliance options that can mitigate the economic impact of inclusionary requirements. Home sale prices range from \$210,000 to \$230,000 for the single family detached prototype, \$200,000 to \$220,000 for the townhome prototype, \$250,000 to \$270,000 for the condo prototype, and \$300,000 to \$320,000 for the high rise condo prototype.

Table 3 demonstrates that an inclusionary requirement of 10 percent targeting households at 90 percent of area median income has a nominal effect on residual land value, with the exception of the Type 1 Condo prototype, which is economically infeasible even under market rate conditions. Without offsets and incentives, a 20 percent inclusionary requirement does have an impact on land residual value, although this impact can be mitigated through offsets and incentives, as shown in **Table 4**.

Table 4 summarizes land residual values for the owner prototypes under a 20 percent inclusionary requirement targeting households at 90 percent of area median income and two alternative “packages” of alternative compliance options and offsets:

- Package 1: 25 percent density bonus, fee deferrals, and affordable unit modifications;
- Package 2: 50 percent density bonus, fee deferrals, and affordable unit modifications;
- Package 3: off-site compliance, fee deferrals, and affordable unit modifications; and,
- Package 4: multifamily acquisition/rehabilitation.

Affordable unit modifications include allowing developers to reduce the size, use modest interior finishes, and reduce the number of bathrooms in the affordable units.

Table 3
Residual Land Value Per Square Foot Site Area
Owner Housing Prototypes
Alternative Inclusionary Requirement Scenarios
City of Los Angeles Inclusionary Housing Study

Inclusionary Housing Set-Aside Requirements	Prototypes			
	Owner 1 Single Family Detached Infill 40 units, 15 units/acre	Owner 2 Townhomes 30 units, 20 units/acre	Owner 3 Type V Condos 100 units, 80 units/acre	Owner 4 Type 1>75' Condos 100 units, 150 units/acre
100% Market Rate Units	\$13.64/sf	\$19.06/sf	\$181.01/sf	\$4.39/sf
10% of Units at 90% AMI ⁽¹⁾	\$12.48/sf	\$17.28/sf	\$159.06/sf	(\$54.71/sf)
15% of Units at 90% AMI	\$11.92/sf	\$16.22/sf	\$148.09/sf	(\$90.42/sf)
20% of Units at 90% AMI	\$11.35/sf	\$15.67/sf	\$137.11/sf	(\$113.81/sf)

(1) AMI: area median income. 90% of AMI for a family of four was \$49,590 in 2002.

(2) We assume that "fractional" units are not built under an inclusionary ordinance.

Home sale prices range from \$210,000 to \$230,000 for the single family detached prototype, \$200,000 to \$220,000 for the townhome prototype, \$250,000 to \$270,000 for the condo prototype, and \$300,000 to \$320,000 for the high rise condo prototype.

Source: David Paul Rosen & Associates

Table 4

**Residual Land Value Per Square Foot Site Area
Owner Housing Prototypes with Alternative Inclusionary Housing "Packages"
Inclusionary Scenario: 20% of Units Affordable at 90% of Area Median Income
City of Los Angeles Inclusionary Housing Study**

	Owner 1	Owner 2	Owner 3	Owner 4
Inclusionary Housing Set-Aside and Alternative Compliance/Offsets "Packages"	Single Family Detached Infill	Townhomes	Type V Condos	Type 1>75' Condos
	40 units, 15 units/acre	30 units, 20 units/acre	100 units, 80 units/acre	100 units, 150 units/acre
Market: 100% Market-Rate Units	\$13.64/sf	\$19.06/sf	\$181.01/sf	\$4.39/sf
Inclusionary Requirement: 20% of Units at 90% AMI ⁽¹⁾	\$11.35/sf	\$15.13/sf	\$137.11/sf	(\$113.81/sf)
Package 1: 20% of units at 90% AMI; 25% density bonus; fee deferral, affordable unit modifications	\$16.89/sf	\$26.45/sf	\$195.81/sf	(\$68.78/sf)
Package 2: 20% of units at 90% AMI; 50% density bonus; fee deferral, affordable unit modifications	\$20.84/sf	\$32.11/sf	\$231.71/sf	(\$122.92/sf)
Package 3: off-site compliance, fee deferrals, and affordable unit modifications	\$16.13/sf	\$22.19/sf	\$191.98/sf	(\$52.25/sf)
Package 4: multifamily acquisition/rehabilitation	\$9.47/sf	\$12.13/sf	\$146.19/sf	(\$64.23/sf)

(1) AMI: area median income

Home sale prices range from \$210,000 to \$230,000 for the single family detached prototype, \$200,000 to \$220,000 for the townhome prototype, \$250,000 to \$270,000 for the condo prototype, and \$300,000 to \$320,000 for the high rise condo prototype.

Source: David Rosen & Associates

With the exception of Package 4 (compliance through multifamily acquisition and rehabilitation), each of the packages of offsets and incentives can completely mitigate the economic impact of a 20 percent inclusionary requirement. The one exception is the Owner 4 Type 1 Condo prototype, which is economically infeasible under all conditions, including market rate sales.

In conclusion, providing a tool kit of alternative compliance options and offsets can mitigate the economic impact of a 10 percent inclusionary requirement if renter households at 45 percent of area median income are targeted. In addition, alternative compliance options and offsets can mitigate the economic impact of a 20 percent inclusionary requirement targeted to ownership households at 90 percent of area median income. If the City seeks to adopt an inclusionary program, it should provide developers with the tools to mitigate the economic impact of providing affordable units through the use of alternative compliance options and offsets.

2. Targeted Household Income

An inclusionary housing program by itself is not sufficient to meet all affordable housing needs in a locale. Instead, the purpose of an inclusionary housing program is to provide the City with an additional means for meeting its extensive affordable housing needs.

Typically, cities target very low and low income rental households and low and moderate income owner households with their inclusionary programs. Cities recognize that it is costly to provide ownership units affordable to very low income persons and therefore typically do not require developers to meet these income targets.

Some cities provide for a mix of household incomes in their inclusionary housing ordinances to serve a range of household incomes. If the City chooses this option, then the City should adopt specific percentages of set-asides by income level. For example, the City of Pasadena's inclusionary housing ordinance targets low and moderate income households with rental developments. Rather than subjecting the actual mix of units to negotiation, Pasadena specifies that ten percent of all units must be affordable to low income households, and five percent of all units must be affordable to moderate income households.

The land residual analyses indicate that targeting rental households at 45 percent of area median income with a 10 percent inclusionary requirement does not have a significant economic effect if an appropriate package of alternative compliance options and offsets are provided. In addition, targeting ownership households at 90 percent of area median income with a 20 percent inclusionary requirement will have little to no economic effect if an appropriate package of alternative compliance options and offsets are offered.

In Los Angeles, the area median income for 2003 is \$56,400 for a family of four. According to the California Association of Realtors, the median price of a home in the Los

Angeles area in April, 2003, was \$320,720. To be able to afford a median priced home, a family must earn approximately \$82,000, assuming a 10 percent downpayment (which exceeds \$35,000, including closing costs) and an interest rate of 6.5 percent on a 30 year mortgage. A four person household at 45 percent of area median earned \$25,380 in 2003, and a family of four at 90 percent of area median income earned \$50,760.

Some jurisdictions incorporate a mix of targeted household incomes in their inclusionary programs. For example, the City of Fremont requires that developers target 60 percent of rental inclusionary units to very low income households, with the remaining units targeted to low income households. Allowing developers to target a mix of household incomes may lower costs of compliance with inclusionary requirements while still providing some units for very low income persons.

3. Affordable Housing Expense

Federal and state affordable housing sources of housing subsidy define affordable housing expense as 30 percent of gross household income for renters and 30 to 35 percent of gross household income for homeowners. Included in the definition of housing expense for renters are any utility costs paid by the renters. With ownership housing, property taxes, homeowners insurance, homeowner association fees, utilities, and mortgage payments are typically included in the definition of housing expense. In addition, the definition of housing expense should include any other expenses that are passed on to homeowners, such as Mello-Roos fees. This is critical, because these fees can be significant. For example, at Playa Vista, homeowner association fees range from \$305 to over \$700 per month and an additional \$225 for Mello-Roos fees (based on \$1.80 per square foot per year on a 1,500 square foot unit). Assuming a 6.5 percent interest rate, an additional \$600 in housing expense means that the developer must reduce housing prices by an additional \$95,000 to accommodate the homeowner association and Mello-Roos fees.

California Redevelopment Law, which provides the regulations applicable to 20 percent Housing Set-Aside funds, defines affordable housing expense as 30 percent of targeted household income for renter housing. In addition, California Redevelopment Law defines affordable housing expense as 30 percent of targeted household income for ownership housing for very low and lower income persons, and 35 percent of targeted household income for ownership housing for moderate income persons.

Similar to California Redevelopment Law, the Low Income Housing Tax Credit program defines affordable housing expense as 30 percent of targeted household income. Other affordable housing programs, such as the HOME program of HUD and the Federal Home Loan Bank's Affordable Housing Program, use the same definitions for affordable housing expense.

It is standard practice with affordable housing programs to base affordable rents and/or home prices on assumptions of occupancy. Occupancy standards will affect affordable

housing expense calculations. For example, when defining affordable rents, the Low Income Housing Tax Credit program establishes a standard of 1.5 persons per bedroom. Therefore, with two bedroom apartments, the Tax Credit program assumes that these units will be occupied by three persons, and then affordable rent is tied to the income for a three person household. The City should establish a similar standard for its inclusionary housing program, if one is adopted. A standard of 1.5 persons per bedroom is appropriate for renters. With ownership developments, a standard of 1.5 persons per bedroom, or one person per bedroom plus one additional person, are appropriate.

4. Voluntary or Mandatory Inclusionary Requirements

The majority of inclusionary housing programs in the state are mandatory programs. According to the survey by NPH, only six of a total of 108 inclusionary housing programs are voluntary.

Generally, cities with voluntary programs must offer subsidies or impose growth control measures to encourage development of inclusionary units. Cities with voluntary programs without offering subsidies or imposing growth control measures tend to have little to no production of inclusionary units.

The City of Monrovia has a voluntary program where approximately 280 affordable units have been developed. However, Monrovia subsidizes the development of inclusionary units. The City provides developers with \$60,000 per affordable unit. With a subsidy of \$60,000 per unit, the City bears all the economic cost of providing the affordable units.

Morgan Hill's voluntary inclusionary program has resulted in the development of over 300 units. Morgan Hill, however, has a growth control measure where developers must "compete" for approval of their developments. Therefore, developers typically incorporate inclusionary units in their proposals to improve the attractiveness of their proposed developments.

The City of Long Beach has had a voluntary inclusionary housing program, with no units produced under the program. Long Beach does not provide subsidies to developers of inclusionary units and does not impose growth control measures.

C. Applicability of Inclusionary Housing Ordinance

The five major considerations regarding the applicability of an inclusionary housing ordinance are as follows:

- geographic applicability;
- minimum project size;
- "grandfather" provision for projects in the development process;

- type of project; and,
- waivers from inclusionary requirements, if any.

1. Geographic Applicability of Inclusionary Ordinance

Cities typically apply their inclusionary housing ordinance to the entire city unless there is a public policy reason for exempting certain areas. For example, some cities exempt housing developments in redevelopment project areas to encourage housing development in those areas. It is more common for cities to apply their ordinances to the entire city to maximize the number of units constructed under their inclusionary programs. Instead of exempting redevelopment project areas or other areas with special designations, cities typically direct more capital resources and/or other incentives to these areas to encourage development.

Some cities designate specific planning areas where inclusionary requirements will be higher than in other areas of the city. Mission Bay in San Francisco and Otay Ranch in Chula Vista are two examples.

In Los Angeles, there are three areas that have existing inclusionary requirements: redevelopment project areas, Central City West, and Playa Vista.

California Redevelopment Law specifies that 15 percent of all units privately developed or rehabilitated in a project area must be affordable to low and moderate income households. A total of six percent of all units must be affordable to households at or below 50 percent of area median income, with remaining units affordable to moderate income persons. With Agency-developed properties, 30 percent of housing units must be affordable to low and moderate income households, with half of these units affordable to households at or below 50 percent of area median income. These requirements are not project-specific but are requirements for the entire redevelopment project area.

In the Central City West specific plan area, the City requires that approximately 15 percent of all units constructed in a development be affordable to lower or moderate income households. The City negotiates development agreements with each developer to define the exact inclusionary requirements.

With Playa Vista, the City requires that developers provide a mix of units affordable to very low, low, and moderate income households. A total of five percent of all units constructed must be affordable to households at or below 50 percent of area median income, five percent must be affordable to households at or below 80 percent of area median income, and five percent must be affordable to households at or below 120 percent of area median income.

2. Minimum Project Size

Most cities exempt smaller developments from inclusionary housing requirements. Although requiring smaller projects to meet inclusionary requirements is an equitable application of inclusionary requirements, providing an inclusionary unit can be relatively more burdensome for smaller developments. According to the NPH survey, 20 jurisdictions apply inclusionary requirements to all housing developments, including single family homes. Cities such as Santa Monica and West Hollywood exempt only single family homes.

If a jurisdiction seeks to apply inclusionary housing requirements to small developments, then it should allow developers to pay in lieu fees if the inclusionary housing requirement results in a fractional unit. If a developer of a small project is required to provide an affordable unit even though the inclusionary requirement results in a fractional unit, then the developer bears a higher economic burden than a developer of a larger project.

For example, if a jurisdiction establishes a 20 percent inclusionary requirement on all housing developments, then developers of single family homes, duplexes, triplexes and four-plexes bear a relatively high economic burden if they must provide an affordable unit. In this example, a developer of a duplex must now build a third unit, which means that one-third of the development is income restricted. To be equitable, these developers should be allowed to pay an in lieu fee equal to their inclusionary obligations. In the case of a duplex developer, this development has a fractional requirement of 0.4 affordable units. Therefore, this developer should pay an in lieu fee equal to 0.4 times the per unit in lieu fee amount.

One important reason for not establishing a minimum threshold is that the City avoids problems associated with developers avoiding inclusionary requirements by phasing in developments over time. With a minimum project size threshold, the City must incorporate language that defines “project” as units on a lot, or contiguous lots, where there is evidence of common ownership or development. Otherwise, developers may phase in development over time to avoid inclusionary requirements by building phases that fall under the minimum threshold.

3. “Grandfather” Provisions

Typically, jurisdictions will not apply a new fee to projects that have secured building permits. Most jurisdictions believe that applying a new fee after construction has started represents an unanticipated cost to developers and is therefore an unfair burden.

A city should establish a standard where a developer has sufficient time to incorporate inclusionary requirements as well as alternative compliance options and potential offsets in their project financial calculations. However, it is important to understand that many, if not most, developers are aware that a city is considering passage of an inclusionary housing

program long before the ordinance is adopted. Typically, there are numerous public hearings, the Planning Commission considers the ordinance prior to City Council consideration. Typically, cities believe it is fair to exempt developers that are far along enough in the development process that incorporating an inclusionary requirement is an unanticipated cost and represents a burden that is difficult to mitigate (through alternative compliance options and offsets, for example). Most cities believe that this point in time is when a developer has formally defined its project to the city, such as filing of a deemed complete subdivision map application. Los Angeles should review its planning process to determine when it is appropriate to exempt developers from new inclusionary requirements. It is also appropriate for Los Angeles to review its development pipeline to set an appropriate grandfather provision.

Alternatively, the City can phase in inclusionary requirements over time. If requirements are phased in, or if the effective date of the ordinance is delayed, then there is no need to establish grandfather provisions. For example, the City can delay the effective date of the inclusionary ordinance to provide developers and landowners with sufficient notice that inclusionary requirements will be imposed on future housing development. A long phase-in period, however, results in exempting more developments from inclusionary requirements and therefore lowers the production of affordable housing. In addition, there may be a “rush” to submit applications to the City to meet the exemption threshold, regardless of whether a project is ready to proceed otherwise.

The City can also impose lower inclusionary requirements initially, and then increase inclusionary requirements over time. For example, the City can adopt a 15 percent inclusionary requirement, but in the first year after adoption of the ordinance impose a 5 percent requirement, which then increases to 15 percent after the first year is over.

4. Type of Project

Typically, cities only apply inclusionary requirements on new construction housing. With housing rehabilitation projects and adaptive reuse, it is difficult to apply inclusionary requirements. With rehabilitation projects, no new units are created. Therefore, an inclusionary requirement on rehabilitation projects imposes an unfair economic burden on developers rehabilitating housing developments and may serve to discourage rehabilitation.

With adaptive reuse, housing units are created through an alternative use of an existing building. Generally, it is not economically viable to impose inclusionary requirements on adaptive reuse developments. Importantly, with new construction projects, developers can take advantage of a wide variety of strategies to offset the cost of providing affordable units. With adaptive reuse projects, it is more difficult to employ offsets. Two of the most valuable offsets – density bonuses and reducing the size of affordable units – may not offer economic benefit to developers of these types of projects.

5. Waiver Provisions

The California Court of Appeals in *Homebuilders of Northern California v. City of Napa* upheld the legality of the City of Napa's inclusionary housing ordinance. According to the Western Center on Law & Poverty, the court found in *Homebuilders of Northern California v. City of Napa* that "Napa's inclusionary ordinance did not constitute a taking on its face" because of the "availability of a waiver or reduction of the requirements." The Western Center, as well as other attorneys, concludes that as a result of the Napa case, the provision of a waiver reduction is an important component of an inclusionary housing ordinance.

The City of Napa's waiver is based on the developer demonstrating the absence of any reasonable relationship between the impact of the development and the inclusionary requirement. In addition to this type of waiver, other cities provide waivers if developers demonstrate that inclusionary requirements constitute a taking in violation of the U.S. and State constitution. Both these types of waiver have similar effects, since lack of reasonable relationship usually creates an unconstitutional taking. Another alternative used in some jurisdictions is a hardship or unusual circumstances waiver.

D. Term of Affordability and Enforcement

1. Regulatory Agreements, Rental Units

With inclusionary requirements for rental developments, cities must decide on the term of affordability of the inclusionary units and the mechanism for enforcing affordability requirements.

Most cities establish renter affordability restrictions between 20 to 55 years with their inclusionary housing programs. Some cities, such as Pasadena, impose permanent affordability requirements on rental inclusionary units.

Most established affordable housing programs impose 55 year affordability restrictions. For example, California Redevelopment Law imposes affordability restrictions for the longest feasible period, including permanent affordability, but not less than 55 years. The Tax Credit Allocation Committee, which administers the Low Income Housing Tax Credit program, imposes 55 year rent restrictions on developments with allocations of low income housing tax credits. The State of California Housing and Community Development Department Multifamily Housing Program also imposes 55 year rent restrictions.

Affordability requirements are typically evidenced by recorded regulatory agreements, deed restrictions, or other forms of contracts between a city and a developer. As we discuss

later, imposing affordability requirements and methods for evidencing these obligations will result in an ongoing asset management task for the City.

2. Resale Restriction Agreements, Ownership Units

With owner developments, cities establish resale restrictions for inclusionary units. Typically, the increase in an inclusionary ownership unit price is based on increases in median income or the Consumer Price Index, plus the value of improvements (approved by the city), and any sales commissions. By restricting the resale of these homes, cities ensure that these homebuyers do not experience windfall profits by purchasing homes at restricted prices and selling them at market prices.

Cities enforce resale restrictions by incorporating these restrictions in the deed. It is typical for resale restrictions to expire within a defined period of time, such as 30 years. However, with each sale of the property, unless the owner has held the property for longer than 30 years, a new resale restriction period is imposed.

In California, jurisdictions usually impose 30 year resale restrictions on ownership inclusionary units. An important source of subsidies for homebuyer assistance, California redevelopment revenues, imposes affordability for the longest time feasible, but not less than 45 years.

Los Angeles has experience with resale restrictions imposed as a result of its Density Bonus ordinance. The City's ordinance results from the State density bonus law, which requires jurisdictions to provide developers with a 25 percent density bonus and at least one incentive if:

- twenty percent of the total units of a housing development are set aside for lower income households; or,
- ten percent of the total units of a housing development are set aside for very low income households; or,
- fifty percent of the total units of a housing development are set aside for seniors.

The City imposes resale restrictions on units built as a result of the City's Density Bonus ordinance, with a covenant recorded against the property that discusses the resale restrictions.

As an alternative to resale restrictions, some jurisdictions impose shared equity requirements (California Redevelopment law allows for shared equity arrangements). With shared equity programs, the resale price of a home is not restricted. Instead, the homeowner and the jurisdiction share in any price appreciation of a home. Typically, the

jurisdiction's equity share reduces over time. In California, the price of homes have increased at a much higher rate than household incomes. Therefore, a shared equity program in many California markets, including Los Angeles, will erode the City's ability to provide affordable homeownership opportunities. The City's share of the equity from a home sale will be insufficient to subsidize the affordable purchase of another home.

One important consideration regarding shared equity requirements is that homebuyers are more likely to purchase homes with a shared equity arrangement rather than a resale restriction. With resale restrictions, the opportunity for a home to generate equity is through the increase in incomes over time. With shared equity provisions, homeowners will earn a share of equity generated over time through price increases in the housing market. Depending upon the equity share arrangement, the homeowner has a greater opportunity to benefit from the shared equity model. Additionally, if resale restrictions and shared equity arrangements are too onerous, it is possible for homes to remain unsold because potential homebuyers are not optimistic about their ability to earn equity over time.

Most importantly, jurisdictions must ensure that homebuyers understand all restrictions on the sale and occupancy of their homes. Jurisdictions must make it clear that homebuyers are able to purchase homes at restricted prices only because the sale of these homes is also restricted. Documents explaining resale restrictions, shared equity arrangements, or other requirements must be understandable to homebuyers.

3. Occupancy Requirements, Ownership Units

Additionally, cities impose occupancy requirements on buyers of inclusionary units. This requirement ensures that the use of the property meets the original intention, which is providing a low or moderate-income person an affordable home. This policy also avoids any potential issues with absentee owners of rental properties. Finally, this policy avoids any possible economic windfalls to owners who purchase the homes at an affordable price, yet rent the homes at market rates.

4. First Right of Refusal, Ownership Units

Finally, cities often hold a first right of refusal to purchase a property if it is sold prior to expiration of the resale restriction period. West Hollywood, for example, retains a first right of refusal to purchase an ownership unit. By exercising the right to purchase, a city has an opportunity to provide this unit to a household participating in the city's homebuyer program.

Additionally, the City can seek to be informed by the first deed of trust lender that the homeowner is in default. By receiving a notice of that the homeowner is in default, the City has the opportunity to purchase the home prior to a foreclosure sale.

With the imposition of affordability restrictions, cities must develop appropriate asset management systems to ensure that developers are meeting their obligations. An asset management system should enable a city to determine if developers are renting their units at affordable rates, units are occupied by targeted income groups, homes are sold to targeted income groups, and resale restrictions are managed properly.

E. Alternative Compliance Options

The ultimate goal of an inclusionary ordinance is to produce housing units affordable to very low, low, and moderate income persons. The simplest method is to require developers to build affordable units on the same site and at the same time as the market rate units. However, developers face a variety of circumstances where a jurisdiction may wish to offer alternatives to on-site compliance of inclusionary requirements. For example, it can be costly for a developer of luxury single family detached homes to include affordable homes on-site that are comparable to the market rate homes.

One important consideration is the need to create incentives to ensure that a jurisdiction's public policy goals for its inclusionary housing ordinance are met. To achieve this goal, jurisdictions can design alternative compliance measures to provide developers with an incentive to build affordable units on-site. For example, a jurisdiction may allow developers to dedicate land to the jurisdiction or a nonprofit housing developer rather than provide affordable housing units on the same site as the market rate development. However, as an incentive for developers to provide affordable units on the same site as the market rate development, the jurisdiction may require that the value of the land dedicated by a developer exceed the cost of providing the affordable units on-site. In this context, the affordability gap analysis can be used to develop alternative compliance measures that provide developers with an incentive to construct affordable units on-site because the gap analysis quantifies the cost of providing affordable units.

Most jurisdictions offer alternative compliance options as part of their inclusionary housing programs. Alternative compliance measures offer developers opportunities to reduce development costs by allowing developers to meet their affordable housing requirements

through methods other than on-site construction of units comparable to market rate units. This section analyzes the strengths and weaknesses of four alternative compliance measures:

- in-lieu fees: payment of fees to a jurisdiction in lieu of constructing affordable housing units;
- off-site compliance: construction of affordable units at a site other than the market rate development;
- land dedications: dedicating land to a nonprofit housing developer or to the jurisdiction for the purpose of constructing affordable units; and,
- acquisition of off-site units or acquisition/ rehabilitation of units.

Table 5 summarizes the strengths and weaknesses of each option.

Table 5
Summary of Strengths and Weaknesses
of Alternative Compliance Measures
City of Los Angeles Inclusionary Housing Study

Alternative Compliance Option	Strengths	Weaknesses
In-lieu Fee	<ul style="list-style-type: none"> • easy to administer • can be used when inclusionary requirements result in fractions of units • jurisdiction can target uses of funds to meet a variety of affordable housing policy goals 	<ul style="list-style-type: none"> • unless fees are equivalent to the economic cost of providing affordable units, fees will result in development of fewer affordable units • affordable units may not be constructed in a defined time frame • affordable units not provided on-site
Off-Site Compliance	<ul style="list-style-type: none"> • may lower costs of compliance • allows for partnerships between market rate and affordable housing developers 	<ul style="list-style-type: none"> • difficult to enforce construction of units • affordable units not provided on-site • completion of affordable units may be delayed • potential neighborhood opposition issues
Acquisition or acquisition/rehabilitation	<ul style="list-style-type: none"> • may lower costs of compliance • jurisdictions can target neighborhoods for revitalization • can foster partnerships between market rate and affordable housing developers 	<ul style="list-style-type: none"> • difficult to enforce acquisition/rehabilitation of units • affordable units not provided on-site
Land Dedication	<ul style="list-style-type: none"> • can result in development of more affordable units with additional subsidies • allows for partnerships between market rate and affordable housing developers 	<ul style="list-style-type: none"> • additional subsidies necessary to build affordable units • affordable units not provided on-site • completion of affordable units delayed • potential neighborhood opposition issues

1. In-Lieu Fees

a. Advantages of In-Lieu Fee Option

Most cities offer the payment of in lieu fees as an alternative compliance measure. In practice, an in lieu fee option is simple to administer. Once a schedule of in lieu fees is developed (based on factors such as a jurisdiction's inclusionary requirements, target household incomes, size of units, rental or ownership housing), then it is a simple matter to assess the fee.

An important consideration is the applicability of an in lieu fee option. Some cities allow all developers to pay in lieu fees. Other cities place restrictions on the eligibility to pay in lieu fees. A few jurisdictions do not allow payment of in lieu fees, requiring the provision of affordable units.

In lieu fees are useful when an inclusionary ordinance results in fractional unit obligations. For example, a city with a 20 percent inclusionary requirement can allow developers of projects up to four units to pay in lieu fees rather than requiring these developers to build an affordable unit. Requiring developers of very small projects to provide affordable unit on-site can be disproportionately burdensome on these developers.

Some cities offer an in lieu fee option only on low-density developments. Requiring developers to build affordable units on-site with low-density developments may be an unfair economic burden because high per unit land costs of affordable units impose disproportionately high economic costs on developers.

In lieu fees also provide a jurisdiction with an added degree of flexibility with its affordable housing production. With in lieu fees, a jurisdiction decides how it will use the funds (e.g. downpayment and mortgage assistance for first-time homebuyers, constructing rental housing for very low income households). In contrast, requiring on-site compliance usually means that the affordable housing product type will be similar to the market rate housing product.

b. Disadvantages

Generally, jurisdictions seek construction of affordable housing units rather than payment of in lieu fees for three reasons. First, unless in lieu fees are set at a level that matches the economic equivalent of providing an affordable unit on-site (the amount of capital required to develop and provide housing affordable to very low, low, and/or moderate income households), fewer affordable units may be constructed when compared to on-site compliance. In order to create incentive for developers to provide affordable units on-site, in lieu fees must be set at a level comparable to the economic equivalent of providing an affordable unit on-site.

Second, on-site compliance means that affordable housing units will be constructed within a defined time frame (generally, jurisdictions require affordable units to be built concurrently with market rate units). With in lieu fees, the timing of development of affordable housing units depends on several factors, such as availability of land, identifying appropriate developers, and securing any additional subsidies to leverage in lieu fees (if necessary). Therefore, it is impossible to know exactly when affordable units will be constructed with in lieu fees, but it certainly will be substantially later than the market rate units which generated the inclusionary obligation.

Third, an important public policy purpose of an inclusionary housing program is to provide a mix of housing affordability levels at a single development. In other words, one benefit of an inclusionary housing program is to encourage developments that accommodate a mix of household income levels. As we discuss earlier, one of the important considerations of the New Jersey State Supreme Court in the Mount Laurel cases is that the construction of low and moderate income housing was being excluded. Payment of in lieu fees means that a developer does not provide affordable units on-site, and the site loses the opportunity for economic integration.

c. Economic Analysis

To ensure that developers do not have an incentive to pay in lieu fees rather than build inclusionary units, in lieu fees must be set at the economic equivalency of providing affordable unit on-site. If in lieu fees are set at amounts lower than this economic equivalency, then developers have a financial incentive to pay fees rather than build inclusionary units.

With rental developments, the economic equivalent of providing an affordable unit on-site is the affordability gap. The renter affordability gap is the difference between the total development cost of the unit and the amount of mortgage that the net cash flow an affordable unit can produce. Net cash flow is equal to rent revenues less operating expenses and any set-asides for operating and replacement reserves.

For example, the per unit total development cost of the Type V medium density rental prototype is approximately \$175,000 based on moderate land costs in Los Angeles. Assuming targeting household incomes at 45 percent of area median income (\$24,795 for a four person household in 2002 in Los Angeles), affordable rents generate cash flow to support a per unit mortgage of approximately \$16,900 (assuming an interest rate of eight percent, a debt coverage ratio of 1.25 to 1.0, and operating expenses and reserve set-asides). Therefore, the per unit affordability gap for the Type V medium density rental prototype is \$175,000 less \$17,000, or \$158,000 per affordable unit.

With ownership units, the economic equivalent of providing an affordable unit on-site is the difference between the market price of the units in a development and the amount of

mortgage and downpayment that a targeted household can afford. As we stated earlier, the calculation of affordable mortgage for a targeted household should accommodate fees such as homeowner association and Mello-Roos fees, which can be several hundred dollars per month. Units at Playa Vista, for example, may have over \$700 per month in homeowner association and Mello-Roos fees that are passed on to homeowners. These fees would increase the affordability gap by approximately \$132,000 (assuming a 7.5 percent interest rate).

In 2003, the median price of a typical new construction home is approximately \$351,500 in Los Angeles (according to the California Association of Realtors, the median price for all homes sold in the Los Angeles area was approximately \$320,720 in April 2003). A household at 90 percent of area median income for Los Angeles (\$49,590 for a family of four in Los Angeles in 2002) can afford a home price of \$157,714, assuming a mortgage at 7.5 percent interest, a downpayment of 10 percent, \$100 per month in homeowner association fees and maintenance expenses, \$50 per month in insurance expenses, \$116 per month for utility allowances, and \$188 per month in property taxes. Although today the assumed interest rate of 7.5 percent interest is high, historically the rate is a conservative assumption. In addition, the assumption of \$100 per month for homeowner association and maintenance fees is a very conservative estimate of those expenses.

The difference between the market sale price (based on the estimated median price of new construction homes) and the price affordable to a household at 90 percent of area median income is \$193,786. Assuming a 10 percent inclusionary requirement, the equivalent in lieu fee would be \$19,379 per unit. Thus, the owner affordability gap, if calculated as the economic equivalent of providing the inclusionary units on-site, represents a “gap to price” rather than a “gap to cost” standard. Some cities cap the in lieu fees to amounts that are not excessively burdensome to developers. For example, the City of Fremont caps its in lieu fees on single family luxury homes to an amount significantly lower than the economic equivalent of providing an affordable unit on-site. Fremont’s fee for owner (luxury) housing is approximately \$30,000 per unit for all units.

Most jurisdictions prefer that developers construct affordable housing units on-site rather than pay in lieu fees. Again, to create incentive for developers to provide affordable units on-site, in lieu fees should be set at a level that is at a minimum comparable to the economic cost of providing an affordable unit on-site.

Table 6 provides examples of in lieu fees assuming that the City seeks to set these fees at levels comparable to the affordability gap for rental prototypes. **Table 6** assumes an inclusionary requirement of 10 percent and 15 percent for the rental housing prototypes. The fees are expressed as a fee on all units, not just the inclusionary units.

Table 7 provides examples of in lieu fees assuming that the City sets fees equal to the difference between an assumed market price for new construction homes in Los Angeles

and the prices that targeted households can afford. From interviews with developers active in Los Angeles, assumed market prices for ownership units are as follows:

- single family detached infill prototype: \$210,000 to \$230,000 per unit
- attached townhomes prototype: \$200,000 to \$220,000 per unit
- Type V condos prototype: \$250,000 to \$270,000 per unit
- Type 1 high rise condos prototype: \$300,000 to \$320,000 per unit

The data included in **Table 7** uses the assumed market prices listed above.

From information DRA has secured from Dataquick, it appears that assumed market prices listed above may be conservative for new construction homes. According to Dataquick, the median of the median price for new construction homes for 118 zip codes in Los Angeles for 2003 is \$351,500. The list of median prices by zip code is included in Appendix A. However, Dataquick does not separate condominium units from single family detached homes when providing price information. Appendix B provides a list of median prices for resale homes by zip code. This information is separated by condos and single family homes.

If we assume a higher market price for the ownership prototypes and use Dataquick's data, then the examples of in lieu fees would increase from the figures provided in **Table 7**. Assuming all units have a market value of \$351,500, for example, would increase calculations of in lieu fees significantly. The single family detached prototypes fees would increase from a range of \$2,218 to \$4,296 (assuming inclusionary requirements ranging from 10 percent to 20 percent) to a range of \$15,369 to \$30,096. The in lieu fees associated with Type V condos would increase from a range of \$10,391 to \$20,783 (assuming inclusionary requirements ranging from 10 percent to 20 percent) to a range of \$19,542 to \$39,083. Therefore, if the City chooses this methodology for determining in lieu fees for ownership housing, the assumptions for the market value of the inclusionary units is critical.

Table 7 assumes an inclusionary requirement of 10 percent, 15 percent, and 20 percent for owner housing prototypes. The fees are expressed as a fee on all units. In addition, the calculation of these fees incorporate very modest assumptions for homeowner association fees (\$100 per month) and no allowance for Mello-Roos fees. Incorporating allowances for Mello-Roos fees and increasing homeowner association fees will increase the in lieu fee calculations.

In these tables, we assume that developers are required to pay in lieu fees on fractional units. For example, if a developer chooses to build inclusionary units on-site, then the developer is allowed to "round down" if the inclusionary requirement results in a fractional unit. However, if a developer chooses to pay in lieu fees, then the developer is required to pay in lieu fees on fractional units.

Table 6
Examples of In Lieu Fees ⁽¹⁾
Rental Housing Prototypes
City of Los Angeles Inclusionary Housing Study

Inclusionary Housing Set-Aside	Prototypes					
	Renter 1	Renter 2	Renter 3	Renter 4	Renter 5	Renter 6
	Type V Low Stacked Flat	Type V Medium Stacked Flat	Type V High Stacked Flat	Type III Modified Stacked Flat	Type 1 High Rise Stacked Flat	Adaptive Reuse
	30 units 25 units/ acre	60 units 35 units/ acre	60 units 85 units/ acre	100 units 100 units/ acre	100 units 150 units/ acre	70 units 100 units/ acre
10% of Units at 45% AMI	\$14,030	\$15,787	\$15,205	\$18,197	\$23,270	\$14,935
15% of Units at 45% AMI	\$23,785	\$23,570	\$22,658	\$27,259	\$34,851	\$23,469
20% of Units at 45% AMI	\$28,662	\$31,802	\$30,704	\$36,242	\$46,334	\$29,870

(1) Fees are on all units, not just the inclusionary units. Fees are the equivalent to the renter affordability gap. Land costs are based on "moderate" prices.

Source: David Paul Rosen & Associates

Table 7
Examples of In Lieu Fees ⁽¹⁾
Owner Housing Prototypes
City of Los Angeles Inclusionary Housing Study

Inclusionary Requirement Alternatives	Prototype			
	Owner 1 Single Family Detached	Owner 2 Attached Townhomes	Owner 3 Type V Condos	Owner 4 Type I >75' Condos
10% of units @ 90% of AMI	\$2,218	\$3,077	\$10,391	\$15,645
15% of units @ 90% of AMI	\$3,186	\$4,745	\$15,587	\$25,118
20% of units @ 90% of AMI	\$4,296	\$5,632	\$20,783	\$31,291

(1) Fees are on all units, not just the inclusionary units. Fees represent one method for calculating the owner affordability gap, which is the difference between the assumed market price of a unit and the price a targeted household can afford, adjusted for property taxes, insurance, utilities, homeowner association fees, Mello-Roos, and other fees. The assumed market price of units is based on developer interviews in 2002.

Source: Dataquick. David Paul Rosen & Associates.

When developing an in lieu fee schedule, jurisdictions should consider whether the in lieu fee should be the same for all types of development. **Tables 6 and 7** demonstrate that using the principle of setting a fee equal to the economic cost of providing an inclusionary unit results in a variety of fees for different types of developments. To best implement this principle when developing a fee schedule, the City would have to establish different fees for different types of development as well as different fees for ownership and rental

properties. This type of fee scale is complex, may be difficult to apply, and may prove impractical.

Alternatively, the City can use a simpler fee schedule. For example, many cities use only two different fees – one for ownership properties and one for rental properties. In fact, many cities use just one fee for all properties. Using a simple fee schedule enables City staff to implement the in lieu fee option easily. The City can choose the most common types of new developments in Los Angeles, set in lieu fees according to the economic costs associated with these developments, and apply these fees to all developments.

However, a simple fee schedule does not allow the City to equate the fee to the economic cost of providing the inclusionary units. Therefore, with some developments where the economic cost of providing the inclusionary units is greater than the in lieu fee, developers will choose to pay the fees.

Jurisdictions should revise in lieu fees over time because of changes in development costs, incomes, rents, and sale prices. The simplest method for revising fees is to index the fees. Fees can be indexed to the Consumer Price Index, changes in area median income, or alternative indices. Indexing fees, however, moves a jurisdiction away from the principle of equating in lieu fees to the economic cost of providing inclusionary units. The best method to accomplish this goal is to recalculate the affordability gap for rental developments and recalculate the fee based on the difference between market prices of new construction homes and prices affordable to targeted households. If a jurisdiction chooses this methodology for revising fees over time, then the jurisdiction should conduct analyses to recalculate these fees once every two to three years to ensure that the fees are up-to-date.

2. Off-Site Compliance

a. Advantages of Off-Site Compliance Option

A developer may seek off-site compliance for two reasons. First, the cost of developing the affordable units on-site may be more expensive than the development of off-site units if the housing product-type of the market rate development is expensive. To maintain a consistent “character” for a project and to maintain its perceived attractiveness, a developer may feel the need to build an affordable unit that is comparable in quality to a market rate unit. In this case, off-site construction may be less expensive because the developer can build less expensive units in the off-site affordable housing development (by developing smaller units, using less expensive interior finishes, or constructing a higher density development).

Second, off-site compliance may provide a developer an opportunity to take advantage of lower land costs at a separate location. In addition, cost savings of off-site compliance can result from allowing developers to build affordable units that are smaller or use lower grade

of interior finishes than the market rate development, and/or allowing the developer to construct affordable units at a higher density than the market rate development.

Under certain circumstances, more affordable units may be built under an off-site compliance option. For example, developers building market rate developments at high per unit total development costs (e.g. luxury homes) may agree to build a greater number of affordable units if the developer is allowed to build the affordable units off-site. Second, off-site compliance allows developers to partner with nonprofit affordable housing developers to construct units off-site. The market rate and non-profit developers can act as joint partners in an off-site affordable housing development. From the City's perspective, partnerships with nonprofit developers can be beneficial because of nonprofit developers' expertise in developing affordable units and their long-term interest in maintaining quality affordable housing developments.

b. Disadvantages

Most jurisdictions do not consider off-site compliance an attractive alternative compliance measure for two reasons. First, as we stated with payment of in lieu fees, a public policy purpose of an inclusionary housing program is to provide a mix of housing affordability levels at a single development.

Second, off-site compliance is difficult to enforce. Most jurisdictions with off-site compliance options require construction of affordable units either before or concurrently with the construction of the market rate units. In practice, this requirement may be difficult to enforce. Because of the complexities of the development process (including potential community opposition to an affordable housing project), it is difficult for a developer to synchronize the construction of two projects. A developer has more economic incentive to complete the market rate units than the affordable units. A jurisdiction has few effective methods to enforce compliance with the inclusionary requirement once the market rate units have started construction. For example, the Housing Department has received advice from counsel that a certificate of occupancy cannot be withheld from a development for reasons not related to building and safety. A jurisdiction could record a lien on a developer who has not complied, but liens are not effective means for collecting funds and liens on ownership units are not workable. The City can require developers to post bonds or letters of credit, but these options are expensive to developers and bonds are difficult to collect. The Medici apartments are an example where the City has had difficulty working with the developer.

c. Economic Analysis

(1) New Construction

The Inclusionary Housing Study provided estimated potential cost savings from off-site new construction as well as off-site acquisition/rehabilitation. The amount of potential cost

savings for off-site new construction is directly related to the per unit cost of land. Housing prototypes with higher per unit land costs benefit more from off-site compliance. Assuming that developers can reduce costs by building inclusionary units on “low” cost land (and with market rate units built on “moderate” priced land), cost savings from off-site new construction ranges from approximately \$445 per unit for the high rise rental apartment prototype (assuming a 10 percent inclusionary requirement targeting households at 45 percent of area median income) to \$11,792 for the single family detached development (assuming a 20 percent inclusionary requirement targeting households at 90 percent of area median income).

Table 8 summarizes the per unit cost savings from off-site new construction for the rental prototypes, assuming developers build the market rate units on moderately priced land but build inclusionary units on low cost land. **Table 9** summarizes the per unit cost savings from off-site new construction for the owner prototypes.

Table 8
Summary of Per Unit Potential Cost Savings from Off-Site New Construction ⁽¹⁾
Rental Housing Prototypes
City of Los Angeles Inclusionary Housing Study

Inclusionary Housing Set-Aside	Prototypes					
	Renter 1 Type V Low Stacked Flat 30 units 25 units/acre	Renter 2 Type V Medium Stacked Flat 60 units 35 units/acre	Renter 3 Type V High Stacked Flat 60 units 85 units/acre	Renter 4 Type III Modified Stacked Flat 100 units 100 units/acre	Renter 5 Type 1 High Rise Stacked Flat 100 units 150 units/acre	Renter 6 Adaptive Reuse 70 units 100 units/acre
10% of Units at 45% AMI	\$2,821	\$2,141	\$780	\$663	\$445	\$694
15% of Units at 45% AMI	\$4,702	\$3,211	\$1,171	\$995	\$667	\$1,091
20% of Units at 45% AMI	\$5,643	\$4,282	\$1,561	\$1,326	\$890	\$1,389

(1) Cost savings on a per unit basis for all units, not just the inclusionary units.
Source: David Paul Rosen & Associates

Table 9

**Summary of Potential Cost Savings from Off-Site New Construction ⁽¹⁾
Owner Housing Prototypes
City of Los Angeles Inclusionary Housing Study**

Inclusionary Requirements	Prototypes			
	Owner 1 SF Detached	Owner 2 Townhomes	Owner 3 Type V Condos	Owner 4 Type 1 High-Rise Condos
10% of Units at 90% AMI	\$5,896	\$3,537	\$831	\$444
15% of Units at 90% AMI	\$8,844	\$5,895	\$1,247	\$710
20% of Units at 90% AMI	\$11,792	\$7,074	\$1,663	\$887

(1) Cost savings on a per unit basis for all units, not just the inclusionary units.

Source: David Paul Rosen & Associates

(2) Multifamily Acquisition/Rehabilitation

Complying with an inclusionary housing ordinance through off-site acquisition and rehabilitation of multifamily units can also result in savings if the cost of acquisition, rehabilitation, and tenant relocation is lower than the cost of providing new construction affordable units on-site. The Inclusionary Housing Study estimates that the total development cost for acquisition and rehabilitation of multifamily units can range from approximately \$85,000 to \$139,000 per unit depending upon the cost of land, which is below the cost of producing a new construction unit for all of the housing prototypes.

Total development cost for acquisition and rehabilitation (including relocation costs) are assumed to be \$106,000 per unit. Off-site compliance can result in per unit savings ranging from \$5,600 per unit to \$12,570 per unit for the rental prototypes (assuming a 10 percent inclusionary requirement targeting households at 45 percent of area median income). Cost savings range from \$6,930 per unit to \$20,900 per unit for the owner prototypes (assuming a 10 percent inclusionary requirement targeting households at 90 percent of area median income).

Cost savings are directly related to the per unit cost for each of the prototypes. As per unit costs of a housing prototype increase, cost savings from off-site compliance increases. **Table 10** summarizes potential per unit cost savings resulting from off-site multifamily acquisition and rehabilitation compliance for the rental prototypes, and **Table 11** summarizes potential per unit cost savings resulting from off-site multifamily acquisition and rehabilitation compliance for the owner prototypes.

Table 10

**Summary of Potential Cost Savings from Off-Site Acquisition/Rehabilitation ⁽¹⁾
Rental Housing Prototypes
City of Los Angeles Inclusionary Housing Study**

Inclusionary Housing Set-Aside	Prototypes				
	Renter 1 Type V Low Stacked Flat 30 units 25 units/ acre	Renter 2 Type V Medium Stacked Flat 60 units 35 units/ acre	Renter 3 Type V High Stacked Flat 60 units 85 units/ acre	Renter 4 Type III Modified Stacked Flat 100 units 100 units/ acre	Renter 5 Type 1 High Rise Stacked Flat 100 units 150 units/ acre
10% of Units at 45% AMI	\$5,592	\$6,894	\$5,608	\$8,138	\$12,570
15% of Units at 45% AMI	\$9,319	\$10,340	\$8,411	\$12,207	\$18,855
20% of Units at 45% AMI	\$11,183	\$13,787	\$11,215	\$16,276	\$25,140

(1) Cost savings on a per unit basis for all units, not just the inclusionary units, assuming a cost of \$106,000 per unit for acquisition, rehabilitation, and tenant relocation.

Source: David Paul Rosen & Associates

Table 11

**Summary of Potential Cost Savings from Off-Site Acquisition/Rehabilitation ⁽¹⁾
Owner Housing Prototypes
City of Los Angeles Inclusionary Housing Study**

Inclusionary Requirements	Prototypes			
	Owner 1 SF Detached	Owner 2 Townhomes	Owner 3 Type V Condos	Owner 4 Type 1 High-Rise Condos
10% of Units at 90% AMI	\$16,967	\$11,201	\$6,930	\$20,912
15% of Units at 90% AMI	\$25,451	\$18,668	\$10,394	\$33,459
20% of Units at 90% AMI	\$33,934	\$22,402	\$13,859	\$41,824

(1) Cost savings on a per unit basis for all units, not just the inclusionary units, assuming a cost of \$106,000 per unit for acquisition, rehabilitation, and tenant relocation.

Source: David Paul Rosen & Associates

Allowing off-site compliance of an inclusionary housing ordinance through the acquisition and rehabilitation of multifamily buildings can result in significant potential savings for developers. In all cases, off-site compliance through the acquisition and rehabilitation of multifamily buildings results in greater cost savings than allowing compliance through off-site new construction.

With the owner prototypes, **Table 11** may understate the economic benefit of the acquisition/rehabilitation option. We do not calculate the economic benefit of allowing the developer to sell all units at market prices in the market rate development (because the affordable units are located off-site in an acquisition/rehabilitation development).

Because of the large stock of multifamily buildings in Los Angeles in need of rehabilitation, the City may have a strong public policy purpose for encouraging compliance through acquisition/rehabilitation. One potential issue, however, is that some developers of new construction housing have little experience with multifamily acquisition and rehabilitation. Therefore, some developers may not be able to effectively employ this compliance option. In these cases, however, it may be possible to encourage a partnership with a nonprofit or for-profit developer experienced in acquisition/rehabilitation to develop the affordable units.

Developers may also seek to provide properties they hold that do not require rehabilitation. In these cases, the City should establish useful life guidelines for properties that are acceptable without any rehabilitation and require City inspection prior to acceptance of a property.

With the acquisition and acquisition/rehabilitation alternative compliance options, a jurisdiction should also establish comparability standards so that the inclusionary units, while off-site, are comparable to the market rate units generating the inclusionary obligation. For example, the City can establish a bedroom count comparability standard where the number of bedrooms per unit in the off-site development should be comparable to the number of bedrooms per unit of the market rate development. Alternatively, the City can require that the value of the off-site property is comparable, on a per unit basis, to the economic cost of providing the inclusionary units on-site. If the City establishes this standard, however, the opportunity for cost savings to the developer are diminished.

In addition, the City should establish a process to ensure that the rehabilitation of a development will result in a project that meets the City's standards. For example, the City can establish protocols such as conducting a physical needs assessment and then requiring the developer to establish an escrow that contains sufficient funds to pay for rehabilitation costs, with the escrow in place at the time the market rate development that is triggering the inclusionary requirement is issued its building permit. In addition, the City can require that the property be transferred to a City-approved entity (e.g. a trust or a nonprofit entity) prior to issuance of the building permit for the market rate development.

3. Land Dedication

In addition to off-site compliance, most jurisdictions allow developers to dedicate land for the development of affordable housing as a means for complying with an inclusionary housing ordinance. Most jurisdictions require developers who choose to provide land to deed land to a nonprofit housing developer or to the jurisdiction enforcing the inclusionary requirements.

To ensure that the land is appropriate for the construction of affordable housing, most ordinances enumerate conditions for acceptance of the land. Conditions include:

- the land is appropriately zoned for the affordable housing development;
- the site is buildable;
- the site is appropriately located near schools, transit, services, recreation;

- the site is free of any demolition requirements;
- the site is free of environmental issues; and,
- the land can accommodate the number of affordable units required under the inclusionary housing program.

In addition, cities may require that the lots are graded and fully improved, and with fees paid. Cities may also require that the value of the land should at least equate with the cost of providing affordable housing units on-site. Finally, a city can require that a site have appropriate amenities available, such as location nears schools, parks, grocery stores, and other services.

a. Advantages of Land Dedication Option

Land dedications provide the opportunity for market rate developers to partner with nonprofit affordable housing developers. The market rate developer provides the land to a nonprofit developer, which then develops the affordable units. Similar to off-site compliance, partnerships with nonprofit developers can be beneficial because of nonprofit developers' expertise in developing affordable units and their long-term interest in maintaining quality affordable housing developments.

In addition, similar to off-site compliance, it is possible that more affordable units can be constructed under a land dedication option. For example, a developer of a single family detached market rate development may provide land that is zoned for multifamily housing. If the affordable units are constructed as multifamily units rather than single family detached homes, a city may benefit from a greater number of affordable units.

b. Disadvantages

One important disadvantage of land dedication is that there is little available land that meet the criteria discussed above. An additional disadvantage of land dedications is that subsidies will be necessary to build the affordable units. The high cost of development in Los Angeles means that free land is not sufficient to bridge the affordability "gap". We modeled ten housing prototypes in the affordability gap analysis. Without exception, all housing prototypes in the study would require additional subsidy to bridge the affordability gap even with no land cost.

For example, the Type V medium density rental prototype targeted to households at 45 percent of area median income with a ten percent inclusionary requirement requires a per unit subsidy of approximately \$158,000. However, per unit land costs for this prototype are approximately \$43,550 (assuming moderate land costs). Even if the land cost of \$43,550 per unit is eliminated, there remains an affordability gap of \$114,450 that must be bridged from sources of subsidies.

If the City requires that the value of the land equal the cost of providing affordable housing units on-site, then it is possible to mitigate the disadvantage described in the above paragraph. In summary, the City can benefit from a potential partnership between a market rate developer and a nonprofit affordable housing developer that results in a greater number of affordable housing units. This conclusion, however, is based on the nonprofit affordable housing developer's ability to secure subsidies for the affordable housing units.

Using the example above, a market rate housing developer would provide land valued at \$158,000 for each affordable unit required under an inclusionary program. The Type V medium density rental prototype is 60 units. If a jurisdiction adopted a 10 percent inclusionary requirement and required that the value of any land dedication equate with the cost of providing affordable housing units on-site, then a developer would provide land valued at \$948,000 (six units multiplied by \$158,000). Assuming a land cost of \$34 per square foot, a parcel of approximately 27,882 square feet (\$948,000 divided by \$34) should be provided by the market rate housing developer. A lot of almost two-thirds of an acre should be able to accommodate more than six units in higher density areas. This means that a land dedication can result in more affordable units than the six affordable units if the units were built on-site. However, the developer of the affordable units would have to secure subsidies from other sources to build the affordable units, because, as we discuss earlier, free land is insufficient to cover the affordability gap in Los Angeles.

However, small developments are inefficient to develop and manage, and it is difficult to secure subsidies for these developments.

This illustration does show, however, that a land dedication option can facilitate a partnership between a market rate developer and a nonprofit affordable housing developer. In this example, the most appropriate scenario is to provide land at no cost to a nonprofit affordable housing developer. The nonprofit developer seeks available affordable housing subsidies, such as low income housing tax credits, tax increment housing set-aside funds, and then develops and oversees management of the affordable units.

F. Providing Developers with Strategies to Offset the Costs of Complying with Inclusionary Requirements

Recognizing that an inclusionary housing program results in economic costs to a land owner or developer, many jurisdictions provide developers with strategies to reduce costs of complying with inclusionary requirements. The most common strategies are as follows:

- density bonus: providing developers with a density bonus, thereby lowering per unit land expenses;
- alternative housing product types: allowing the developer to provide a different type of housing product for the inclusionary units, such as allowing the construction of townhomes in a single family detached housing development;
- alternative unit comparability standards: allowing modest differences between affordable housing units and market rate units, such as reducing the size of affordable units (while maintaining the same number of bedrooms), reducing the number of bathrooms, and using more modest grades of interior finish; and,
- fee deferral: deferring payment of building permit fees to lower construction interest expenses borne by the developer.

This section provides an analysis of each of these methods for reducing costs of compliance with an inclusionary program. **Table 12** summarizes the strengths and weaknesses of each approach. This analysis also reviews additional potential offsets, including reduced parking standards, open space requirements, floor area ratios, and setback requirements.

Table 12

**Summary of Strengths and Weaknesses
of Strategies to Offset Costs of Compliance
City of Los Angeles Inclusionary Housing Study**

Offset/Incentive	Strengths	Weaknesses
Density Bonus	<ul style="list-style-type: none"> • may lower costs of compliance by reducing per unit land expenses 	<ul style="list-style-type: none"> • developers may not seek to increase density • can be controversial in low density neighborhoods
Alternative Housing Product Type	<ul style="list-style-type: none"> • lowers costs of compliance by reducing per unit construction costs 	<ul style="list-style-type: none"> • applies only to single family detached housing developments • developers may not want to provide alternative housing product type on-site
Alternative Unit Comparability Standards ⁽¹⁾	<ul style="list-style-type: none"> • lowers costs of compliance by reducing construction costs 	<ul style="list-style-type: none"> • City must establish clear minimum standards that are easy to apply by City staff
Fee Deferrals	<ul style="list-style-type: none"> • lowers costs of compliance by reducing construction interest expense 	<ul style="list-style-type: none"> • fee deferrals result in modest savings to developers • slightly reduces and delays revenues to public agency

(1) These may include allowing affordable units to be smaller than the market rate units, using modest interior finishes, and reducing the number of bathrooms.

1. Density Bonus

Many jurisdictions provide density bonuses to developers that construct inclusionary units. In practice, most jurisdictions incorporate the State's density bonus law in their inclusionary housing ordinances. The State's density bonus law requires local jurisdictions to provide developers with a density bonus of at least 25 percent above the otherwise maximum allowable density for the parcel, plus at least one additional incentive, if a developers constructs at least 20 percent of units for lower income households, 10 percent for very low income households, or 50 percent for senior citizens.

The City Density Bonus ordinance results from the State-mandated density bonus law, and therefore uses the same income guidelines as State law. In addition, the City allows for density bonuses of 35 percent if the income set asides are met and the development is located near transportation centers, regional centers, major economic activity area, or a major college or university.

Any density bonus provided by the City to developers as a part of an inclusionary ordinance cannot "undermine" the State's density bonus law. For example, if the City offers density bonuses to projects that meet inclusionary requirements but do not meet the State's density bonus affordability requirements, the State may interpret the density bonus provision of the inclusionary housing ordinance as diluting the State law. If the City chooses to incorporate density bonuses as part of its inclusionary housing ordinance, then the City should consult the State regarding its position on the potential dilution of the State density bonus law.

To promote the development of affordable housing, in 2002 the City adopted the Residential/Accessory Services (RAS) ordinance, which allows for the development of medium to high density housing in previously commercial-only zones. The RAS creates RAS 3 and RAS 4 zones, and permits designated commercial uses on the ground floor of residential buildings. The RAS permits uses and area requirements permitted in R3 and R4 zones, although the RAS allows for even lower setback requirements. Front yard setbacks are only five feet, in comparison to R3 and R4 zones, which require a minimum of 15 foot setbacks. Height limits are 45 feet (four story) in RAS 3 and 4 zones, which is the same as R3 and R4 zones. As an example, Prototype 3, the Type V high density stacked flat, has four stories with a density of 85 units to the acre.

a. Advantages of Density Bonuses

The advantage of a density bonus is that a developer can reduce its per unit land costs and increase profit by increase unit production. Because of the high cost of land in Los Angeles, a density bonus can be economically valuable to a developer, depending upon the density of the development. **Table 13** summarizes potential cost savings from a 25 percent and 50 percent density bonus for the rental prototypes. With a 25 percent density bonus, potential cost savings range from \$2,151 per unit for all units for the High Rise

rental prototype, to \$13,861 per unit for all units for the Type V Low Density rental prototype. **Table 14** summarizes potential cost savings from a 25 percent and 50 percent density bonus for the owner prototypes. With a 25 percent density bonus, potential cost savings range from an increase in costs by \$4,286 per unit for all units for the Type 1 High Rise owner prototype, to a savings of \$32,052 per unit for all units for the Single Family Detached ownership prototype.

Table 13

**Summary of Potential Cost Savings from 25% and 50% Density Bonus ⁽¹⁾
Rental Housing Prototypes
City of Los Angeles Inclusionary Housing Study**

Density Bonus	Prototypes				
	Renter 1 Type V Low Density Stacked Flats	Renter 2 Type V Medium Density Stacked Flats	Renter 3 Type V High Density Stacked Flats	Renter 4 Type III Modified	Renter 5 High Rise
"Baseline" Number of Units	30	60	60	100	100
"Baseline" Density	25 units/ acre	35 units/ acre	85 units/ acre	100 units/ acre	150 units/ acre
25% Density Bonus, Per Unit Cost Savings ⁽²⁾	\$13,861	\$10,959	\$3,641	\$3,104	\$2,151
50% Density Bonus, Per Unit Cost Savings ⁽³⁾	\$22,025	\$18,941	\$6,575	\$5,377	\$3,797

(1) Cost savings are net of any additional costs due to higher densities, such as increases in parking, additional stories). In addition, DRA analyzed increases in building size to ensure compliance with zoning requirements.

(2) Cost savings based on "moderate" land costs.

(3) Cost savings based on "moderate" land costs.

Source: David Paul Rosen & Associates

Table 14

**Summary of Potential Cost Savings from 25% and 50% Density Bonus ⁽¹⁾
Owner Housing Prototypes
City of Los Angeles Inclusionary Housing Study**

Density Bonus	Prototypes			
	Owner 1 Single Family Detached	Owner 2 Townhomes	Owner 3 Type V Condos	Owner 4 Type 1 High- Rise Condos
"Baseline" Number of Units	40	30	100	100
"Baseline" Density	15 units/acre	20 units/acre	80 units/acre	150 units/acre
25% Density Bonus, Per Unit Cost Savings ⁽²⁾	\$32,052	\$17,449	\$4,356	\$4,286
50% Density Bonus, Per Unit Cost Savings ⁽³⁾	\$46,614	\$28,454	\$6,557	(\$426)

(1) Cost savings are net of any additional costs due to higher densities, such as increases in parking, additional stories). In addition, DRA analyzed increases in building size to ensure compliance with zoning requirements.

(2) Cost savings based on "moderate" land costs.

(3) Cost savings based on "moderate" land costs.

Source: David Paul Rosen & Associates

These estimates of cost savings do not take into account the potential benefit of allowing developers to sell or rent more units. This potential benefit, however, may be mitigated because the higher density of a development may decrease its appeal to renters or homebuyers.

In addition, DRA analyzed the prototypes to ensure that developments taking advantage of density bonuses remain feasible. DRA analyzed zoning requirements for each prototype – e.g. floor area ratio, lot coverage – and concluded that these prototypes remain feasible with 25 percent and 50 percent density bonuses under the assumed zoning.

Prototypes that are already relatively dense do not benefit as much from a density bonus. In fact, one prototype, the High Rise condominium development, actually increases costs with a 50 percent density bonus. This results from the need to create more levels of subterranean parking to accommodate the increase in the number of units. Prototypes that are relatively less dense, such as the Single Family Detached prototype, benefit greatly from a density bonus. However, as we discuss below, many developers of lower density developments do not take advantage of the density bonus because public perception may change with higher densities.

b. Disadvantages of Density Bonuses

In many cases, developers do not seek to take advantage of density bonuses for a variety of reasons. First, some developers cannot use a density bonus because their project already has a high number of units per acre. For example, a density bonus for the High Rise rental or owner prototypes may be impractical because these prototypes are already at 150 units per acre. Second, a density bonus is not applicable to certain types of developments. For example, we did not model a density bonus for the adaptive reuse rental prototype because a density bonus for these types of developments may be not economically beneficial. Third, many developers do not seek to increase the density of their developments to maintain a level of density they believe is critical for the marketing of their development. Fourth, in some instances, a higher density would require developers to change their buildings to a more expensive construction type, which can offset the per unit land cost savings. For example, if a higher density requires changing the construction of a building from a wood frame to a concrete and steel structure, per unit construction costs may rise significantly. Fifth, higher densities in many communities can be controversial. Some existing community members may protest a higher density development in their neighborhood.

2. Alternative Housing Product Type

a. Discussion of Advantages and Disadvantages

Some jurisdictions allow developers to provide a different type of housing product for affordable housing units to reduce the cost of developing the affordable units. The most common method is to allow a developer to construct townhomes for the affordable units, although the market rate units are single family homes. In practice, this alternative compliance measure applies only to single family home developments. For townhome configurations, developers may not choose to lower costs by changing the product type to,

for example, a stacked flat configuration. Changing that product type may represent a significant change in the perception of a development.

As one example, Union City (Alameda County) allows constructing affordable units as townhomes in a single family detached housing development. However, Union City establishes standards for the affordable units. Union City allows construction of duplexes on corner lots in a single family detached development. Union City limits the number of duplexes that can be constructed to satisfy the affordable housing requirements. Their ordinance states that no more than fifty percent of the total duplex units built can be affordable units.

State law requires all cities to allow satisfaction of inclusionary requirements by building apartment units. Again, developers of single family detached homes and townhomes may not choose to lower costs by changing the product type to apartments because of the change in the perception of a development. The primary advantage of this option is the lower cost of providing the affordable units. The disadvantage is that developers may not want to construct alternative unit types to preserve the “character” and perception of their development. Developers may not view this option as desirable.

Another potential alternative compliance measure would allow developers additional “credit” for units with higher bedroom count than market-rate units. One alternative would be to allow developers to match the required number of bedrooms with fewer units. For example, where the inclusionary requirement is for six two-bedroom units, for a total of 12 bedrooms, alternative compliance might allow the developer to provide four three-bedroom units or three four-bedroom units, both of which also total 12 bedrooms. The City should ensure, however, that this option does not lead to the development of significantly fewer affordable units, and that the units are marketed to and rented by the large families that need them.

b. Economic Analysis

Using the Townhome owner prototype and the single family detached housing owner prototype as a basis for the economic analysis, we estimate the cost savings to a developer of a single family detached housing development who is allowed to build the affordable units as townhomes. Cost savings result from lower per unit land costs and lower per unit development costs. Excluding land costs, the net development cost of the townhome units is \$156,112 versus \$172,494 for the single family detached units. Including moderate land costs, the per unit total development cost of a townhome unit is \$218,010, while the per unit total development cost of the single family detached prototype is \$275,672, for a difference of \$57,662.

Reducing the number of inclusionary units constructed while maintaining the same number of bedrooms in the inclusionary units yields potential cost savings to developers because they are constructing fewer bathrooms and kitchens. Building two three bedroom units instead of three two bedroom units can result in cost savings ranging from a total of

\$96,176 (\$1,602 per unit for all units) for the Renter 3, Type V High Density prototype, to \$134,447 (\$1,344 per unit for all units) for the Renter 5 High Rise prototype. These cost savings are fairly modest relative to the estimated total development costs of the prototypes. Cost savings for the owner prototypes range from \$1,703 per unit for all units for the Type V Condo prototype to \$4,287 per unit for all units for the single family detached prototype.

3. Alternative Unit Comparability Standards, Fee Deferrals, and Zoning Code Reforms

a. Alternative Unit Comparability Standards

In order to reduce the cost of constructing affordable units, jurisdictions may choose to allow developers to use alternative comparability standards for the affordable units. Common alternatives include:

- allowing the affordable units to be smaller than the market rate units;
- allowing the developer to provide fewer bathrooms in the affordable units; and,
- using more modest grades of interior finishes in the affordable units.

Additionally, cities may allow developers to build fewer inclusionary units if the same number of bedrooms are constructed.

When a jurisdiction allows a developer to reduce the size of the affordable units, it should set a minimum standard to ensure some degree of comparability with the market rate units. In addition to a comparability standard, households should have the same access to project amenities.

Reducing the number of bathrooms works best if the number of bathrooms provided in market-rate units closely approximates the number of bedrooms. For example, if the market rate units offer three bedrooms and two bathrooms, reducing the number of bathrooms for affordable units is not a good strategy. However, if the market rate units offer three bedrooms and three bathrooms, then reducing the number of bathrooms to two may be acceptable.

Using more modest grades of interior finishes (e.g. formica instead of granite kitchen counters) is a common strategy used by jurisdictions. Most commonly, cities allow developers to eliminate luxury items from affordable units. However, there should be a standard for items that should be included in all units, such as dishwashers, cooking facilities, and laundry facilities.

It is also typical that exterior design must be consistent with the market-rate units. Most developers seek to have a consistent exterior design, so this is not typically an issue with developers.

b. Fee Deferrals

Many jurisdictions allow developers to defer the payment of building permit fees as a means for offsetting a portion of the cost of providing inclusionary units. In practice, most jurisdictions that provide this option to developers allow payment of permit fees to be deferred until the jurisdiction issues a certificate of occupancy (typically, building permit fees are paid prior to the start of construction). By allowing a developer to defer payment of these fees, the developer is able to reduce their construction loan interest expenses.

Some jurisdictions do not provide fee deferrals because they believe it is a developer's obligation to provide inclusionary units without any subsidy provided by the jurisdiction. In addition, as we demonstrate in the economic analysis, fee deferrals do not significantly reduce a developer's expense. Therefore, most developers do not view fee deferrals as a major offset to their cost of providing inclusionary units.

One important issue is that with the deferral of the payment of fees, the City loses its leverage for compelling developers to pay fees. As we discuss earlier, the Housing Department has received advice from counsel that the City must issue a certificate of occupancy if a building complies with building and fire safety codes. The City cannot withhold a certificate of occupancy because of lack of payment of fees. Therefore, the City must rely on civil penalties to enforce payment of fees if a developer fails to pay the fees. This may result in the loss of potential fees to the City.

c. Zoning Code Reform

Many jurisdictions offer potential cost savings to developers subject to inclusionary requirements by reducing parking requirements (or permitting tandem parking), or reducing open space requirements (through modifying floor area ratios, setbacks, narrowing street widths, etc.). While these strategies can reduce costs to developers, the potential increase in density of development can be controversial. The City's Enhanced Density Bonus ordinance enacted in 1995 offers reduced parking requirements for the affordable units. Some developers have applied only for the parking reductions and not for density increases.

The main advantage of reducing parking requirements is that this strategy can result in significant savings on projects with subterranean parking. Construction of subterranean parking is expensive. Reducing parking requirements allows developers to reduce these costs. With on-grade parking or podium parking, cost savings are not significant because the costs of providing these types of parking arrangements are relatively less expensive.

d. Economic Analysis

Tables 15, 16, and 17 summarize examples of cost savings for each rental prototype from each of the offsets described above and assuming alternative inclusionary requirements. Cost savings range from almost \$4,000 per unit for all units for the Type V Low Density Apartments (assuming a 10 percent inclusionary requirement) to \$19,700 per unit for all units for the High Rise prototype (assuming a 10 percent inclusionary requirement). The significant portion of these savings is derived from the reduction in the size of the inclusionary units or the reduction in parking requirements. The other alternative compliance standards – reduction in number of bathrooms and reduction in interior finish quality – do not represent significant savings to developers.

Table 18 summarizes examples of cost savings for the owner prototypes from each of the alternative unit comparability standards. Similar to the rental prototypes, most of the cost savings result from the reduction in size of the inclusionary units (reduced parking requirements and tandem parking was not modeled). The other alternative compliance methods represent modest cost savings to developers.

Taken as a package, cost savings can be relevant. As a package, all of the offsets described above result in cost savings ranging from \$6,221 per unit for all units for the owner single family detached home prototype (assuming a 10 percent inclusionary requirement) to \$18,781 per unit for all units for the Type I High-Rise Condo prototype.

Table 15

**Total Economic Value of Incentives Excluding Density Bonus
Rental Housing Prototypes
10 Percent Inclusionary Requirement
Los Angeles Inclusionary Housing Analysis**

	Prototypes					
	Renter 1 Type V Low	Renter 2 Type V Medium	Renter 3 Type V High	Renter 4 Type III Modified	Renter 5 High Rise	Renter 6 Adaptive Reuse
% Affordable units						
Scenario 1	10%					
Reduction in BMR Unit Sizes (1)	\$43,946	\$118,939	\$128,032	\$235,790	\$294,893	\$201,257
Reduction in BMR Unit Bathroom Count (2)	\$5,707	\$26,140	\$28,139	\$50,708	\$63,418	N/A
Reduction in BMR Interior Finish Quality (3)	\$23,750	\$50,750	\$50,750	\$85,500	\$85,500	\$52,500
Reduction in Parking Req. (4)	\$26,250	\$49,000	\$490,000	\$1,150,000	\$1,150,000	N/A
Deferral of Fees (5)	\$17,291	\$34,885	\$47,859	\$79,765	\$189,273	\$50,493
Tandem Parking (6)	\$2,340	\$8,185	\$81,846	\$190,769	\$190,769	N/A
Total Savings, Scenario 1	\$119,283	\$287,899	\$826,626	\$1,792,532	\$1,973,853	\$304,250
Total Savings Per Unit, Scenario 1	\$3,976	\$4,798	\$13,777	\$17,925	\$19,739	\$4,346

- (1) Based on reduction in unit sizes of affordable units to the following minimum unit sizes: one-bedroom–540 SF; two-bedroom–725 SF; three-bedroom–1,000 SF.
- (2) Assumes number of bathrooms may be reduced by one (from two baths to one bath) in two-bedroom/two-bath and three-bedroom affordable units.
- (3) Assumes \$10.00 per square foot reduction in interior finish costs.
- (4) Assumes reducing parking requirements by 0.25 to 0.5 spaces per unit.
- (5) Assumes deferral of development impact fee payment from start of construction to certificate of occupancy. Represents a deferral of 12 months for Renters #1 and #2, 15 months for Renter #3, #4, and #6, and 21 months for Renter #5.
- (6) Assumes tandem parking substituted for units with two or more parking spaces.

Table 16

**Total Economic Value of Incentives Excluding Density Bonus
Rental Housing Prototypes
15 Percent Inclusionary Requirement
Los Angeles Inclusionary Housing Analysis**

	Prototypes					
	Renter 1 Type V Low	Renter 2 Type V Medium	Renter 3 Type V High	Renter 4 Type III Modified	Renter 5 High Rise	Renter 6 Adaptive Reuse
% affordable units						
Scenario 2 15%						
Reduction in BMR Unit Sizes (1)	\$83,896	\$175,794	\$189,235	\$368,475	\$460,836	\$316,261
Reduction in BMR Unit Bathroom Count (2)	\$17,122	\$39,211	\$42,208	\$84,513	\$105,696	N/A
Reduction in BMR Interior Finish Quality (3)	\$41,750	\$75,000	\$75,000	\$127,750	\$127,750	\$82,500
Reduction in Parking Reqts. (4)	\$26,250	\$49,000	\$490,000	\$1,150,000	\$1,150,000	N/A
Deferral of Fees (5)	\$17,291	\$34,885	\$47,859	\$79,765	\$189,273	\$50,493
Tandem Parking (6)	\$2,340	\$8,185	\$81,846	\$190,769	\$190,769	N/A
Total, Scenario 2	\$188,648	\$382,074	\$926,148	\$2,001,272	\$2,224,325	\$449,254
Total Savings Per Unit, Scenario 2	\$6,288	\$6,368	\$15,436	\$20,013	\$22,243	\$6,418

- (1) Based on reduction in unit sizes of affordable units to the following minimum unit sizes: one-bedroom–540 SF; two-bedroom–725 SF; three-bedroom–1,000 SF.
- (2) Assumes number of bathrooms may be reduced by one (from two baths to one bath) in two-bedroom/two-bath and three-bedroom affordable units.
- (3) Assumes \$10.00 per square foot reduction in interior finish costs.
- (4) Assumes reducing parking requirements by 0.25 to 0.5 spaces per unit.
- (5) Assumes deferral of development impact fee payment from start of construction to certificate of occupancy. Represents a deferral of 12 months for Renters #1 and #2, 15 months for Renter #3, #4, and #6, and 21 months for Renter #5.
- (6) Assumes tandem parking substituted for units with two or more parking spaces.

Table 17

**Total Economic Value of Incentives Excluding Density Bonus
Rental Housing Prototypes
20 Percent Inclusionary Requirement
Los Angeles Inclusionary Housing Analysis**

	Prototypes					
	Renter 1 Type V Low	Renter 2 Type V Medium	Renter 3 Type V High	Renter 4 Type III Modified	Renter 5 High Rise	Renter 6 Adaptive Reuse
% affordable units						
Scenario 3	20%					
Reduction in BMR Unit Sizes (1)	\$103,871	\$228,074	\$245,513	\$492,709	\$616,210	\$402,514
Reduction in BMR Unit Bathroom Count (2)	\$22,829	\$52,281	\$56,278	\$109,867	\$137,405	N/A
Reduction in BMR Interior Finish Quality (3)	\$50,750	\$103,500	\$103,500	\$169,500	\$169,500	\$105,000
Reduction in Parking Reqts. (4)	\$26,250	\$49,000	\$490,000	\$1,150,000	\$1,150,000	N/A
Deferral of Fees (5)	\$17,291	\$34,885	\$47,859	\$79,765	\$189,273	\$50,493
Tandem Parking (6)	\$2,340	\$8,185	\$81,846	\$190,769	\$190,769	N/A
Total, Scenario 3	\$223,331	\$475,925	\$1,024,995	\$2,192,609	\$2,453,158	\$558,007
Total Savings Per Unit, Scenario 3	\$7,444	\$7,932	\$17,083	\$21,926	\$24,532	\$7,972

- (1) Based on reduction in unit sizes of affordable units to the following minimum unit sizes: one-bedroom–540 SF; two-bedroom–725 SF; three-bedroom–1,000 SF.
- (2) Assumes number of bathrooms may be reduced by one (from two baths to one bath) in two-bedroom/two-bath and three-bedroom affordable units.
- (3) Assumes \$10.00 per square foot reduction in interior finish costs.
- (4) Assumes reducing parking requirements by 0.25 to 0.5 spaces per unit..
- (5) Assumes deferral of development impact fee payment from start of construction to certificate of occupancy. Represents a deferral of 12 months for Renters #1 and #2, 15 months for Renter #3, #4, and #6, and 21 months for Renter #5.
- (6) Assumes tandem parking substituted for units with two or more parking spaces.

Source: David Paul Rosen & Associates

Table 18

**Total Economic Value of Incentives Excluding Density Bonus
Owner Housing Prototypes
Los Angeles Inclusionary Housing Analysis**

	Prototypes			
	Owner 1 Single-Family Detached	Owner 2 Townhomes	Owner 3 Type V Condos	Owner 4 Type I High- Rise Condos
POTENTIAL COST SAVINGS FROM INCENTIVES				
% Affordable Units @ 90% AMI				
Scenario 1	10%			
Reduction in BMR Unit Sizes ⁽¹⁾	\$212,651	\$90,388	\$325,205	\$588,642
Reduction in BMR Unit Bathroom Count ⁽²⁾	\$16,376	\$26,180	\$90,338	\$143,417
Reduction in BMR Interior Finish Quality ⁽³⁾	\$62,000	\$35,250	\$96,500	\$94,750
Fee Deferral ⁽⁴⁾	\$50,673	\$31,321	\$103,307	\$168,565
Total Savings, Scenario 1	\$341,700	\$186,639	\$1,226,504	\$1,878,066
Total Savings Per Unit, Scenario 1	\$8,542	\$6,221	\$12,265	\$18,781
Scenario 2	15%			
Reduction in BMR Unit Sizes ⁽¹⁾	\$340,241	\$158,179	\$487,807	\$937,075
Reduction in BMR Unit Bathroom Count ⁽²⁾	\$16,376	\$43,634	\$135,507	\$225,370
Reduction in BMR Interior Finish Quality ⁽³⁾	\$96,000	\$61,250	\$144,750	\$150,500
Fee Deferral ⁽⁴⁾	\$50,673	\$31,321	\$103,307	\$168,565
Total Savings, Scenario 2	\$503,290	\$297,884	\$1,482,525	\$2,364,202
Total Savings Per Unit, Scenario 2	\$12,582	\$9,929	\$14,825	\$23,642
Scenario 3	20%			
Reduction in BMR Unit Sizes ⁽¹⁾	\$446,567	\$192,075	\$650,410	\$1,177,283
Reduction in BMR Unit Bathroom Count ⁽²⁾	\$24,564	\$43,634	\$180,676	\$286,834
Reduction in BMR Interior Finish Quality ⁽³⁾	\$127,000	\$72,500	\$193,000	\$189,500
Fee Deferral ⁽⁴⁾	\$50,673	\$31,321	\$103,307	\$168,565
Total Savings, Scenario 3	\$648,804	\$343,030	\$1,738,547	\$2,704,874
Total Savings Per Unit, Scenario 3	\$16,220	\$11,434	\$17,385	\$27,049

(1) Based on reduction in unit sizes of affordable units to the following minimum unit sizes: one-bedroom–540 SF; two-bedroom–725 SF; three-bedroom–1,000 SF.

(2) Assumes number of bathrooms may be reduced by one (from two baths to one bath) in two-bedroom/two-bath and three-bedroom affordable units.

(3) Assumes \$10.00 per square foot reduction in interior finish costs.

(4) Assumes deferral of development impact fee payment from start of construction to certificate of occupancy. Represents a deferral of 15 months for Owners #1 and #2 and 18 months for Owners #3 and #4.

Source: David Paul Rosen & Associates

G. Public Subsidies and Inclusionary Housing Requirements

The purpose of an inclusionary housing program is to create an additional tool for a jurisdiction to meet its affordable housing needs without public subsidy. Allowing the use of local public subsidies to bridge the affordability gap for inclusionary units defeats this purpose. The use of local subsidies for inclusionary units takes away the ability to use those subsidies for additional affordable housing purposes. To avoid this, jurisdictions should not allow developers to use local public subsidies to meet inclusionary requirements unless developers use these subsidies to “broaden” or “deepen” affordability with their developments.

A jurisdiction can allow use of local subsidies to increase the percentage of affordable units in a development. Alternatively, a jurisdiction can allow use of local subsidies to target household incomes that are lower than required by an inclusionary housing ordinance. The allowable amount of public subsidy should be tied directly to additional affordability provided by the developer, based on an affordability gap analysis for the proposed project.

For example, assume that a jurisdiction targets ownership households at 100 percent of area median income with its inclusionary program. Therefore, the per unit public subsidy of an inclusionary ownership unit should directly lower the price of the unit below the price that is affordable to a household at 100 percent of area median income. If, for example, a developer is required to provide affordable ownership units at \$250,000 under an inclusionary program, then a \$20,000 per affordable unit local subsidy should reduce the price of the home to \$230,000. In addition, a reduction in price may be accompanied by lowering the targeted household income of a unit.

Alternatively, assume that the affordability gap for rental units in a jurisdiction is \$100,000 per affordable unit. Also, assume that a developer secures \$500,000 in public subsidies. The jurisdiction should require the developer to provide five affordable rental units in addition to the inclusionary units the developer is already required to provide.

H. Program Administration

1. Administrative Authority

Administrative authority over an inclusionary housing program should be split among the Planning Department, Building and Safety Department, and the Housing Department. As part of the zoning code, the Planning Department would be in charge of imposing the inclusionary requirements. This responsibility is also shared by the Building and Safety Department. Both of the Departments manage development approval processes, which would also incorporate inclusionary requirements if the City adopts an inclusionary ordinance.

The Housing Department is best placed to manage administration, compliance, oversight, monitoring, and asset management. These ongoing responsibilities will result in additional costs borne by the administering department. Therefore, the City should consider charging developers a ministerial fee to help defray costs. Asset management responsibilities are discussed later in this report.

2. Uses of In Lieu Fees

Many cities designate uses for in lieu fees collected as a result of inclusionary housing ordinances. This strategy can be important for two reasons. First, many cities set in lieu fees lower than the economic equivalent of providing inclusionary units on-site. Therefore, developers choose to pay fees instead of build units, and the result is that cities can end up collecting millions of dollars in fees. Second, designating uses for in lieu fees ensures that the intent of the inclusionary housing ordinance is met through the use of the fees. For example, if a city's inclusionary housing ordinance specifically targets very low income renters, then the ordinance can require that in lieu fees must be used to subsidize the development of rental housing for very low income households.

Because fees are collected in lieu of providing affordable housing, these fees must go toward promoting affordable housing. Therefore, fees should be paid to the City's Housing Trust Fund, managed by the Housing Department. Pasadena, for example, incorporates a clause in their ordinance that states that in lieu fees collected go to the Inclusionary Housing Trust Fund.

The City can specify uses of in lieu fees, such as tying the use of fees to the income and tenure of the inclusionary requirements of the development that triggered the payment of in lieu fees. By specifying uses of fees in this manner, the City ensures that the intent of the inclusionary ordinance is carried out. Specifying uses of funds, however, also constrains the City's flexibility when using funds. The City may have future affordable housing policy goals that could not be funded with in lieu fees if the City specifies uses of these fees in the inclusionary ordinance.

3. Asset Management

The establishment of an inclusionary housing program imposes asset management responsibilities on the City. The City will have to ensure that developers comply with long-term rent restrictions, and homeowners must comply with resale restrictions (or shared equity requirements), restrictions on secondary financing, and occupancy requirements. In addition, the City must ensure that renters and owners income qualify when moving into their units.

With rental inclusionary units, the City should perform annual income certifications from developers to monitor compliance with the inclusionary ordinance. Currently, the City has

experience with annual certifications from developers participating in the Density Bonus program. Although under the Density Bonus program the City does not routinely perform on-site inspections, the City may seek to conduct these inspections to not only ensure compliance with inclusionary requirements but also to monitor the physical condition of the development. Alternatively, because the Housing Department's systematic housing code enforcement program (SCEP) will routinely inspect these properties every five years, there should be coordination with the asset management section to assess property conditions.

With ownership inclusionary units, the City should monitor occupancy if the City chooses to impose occupancy requirements on these units. Monitoring compliance with occupancy requirements can be difficult, however. In addition, the City should periodically review occupancy to determine if homeowners are providing the City with proper notices to sell.

Because an inclusionary program can result in a significant number of affordable units, monitoring may be a considerable effort. In addition, the City does not have many options available if it detects a compliance problem. Some cities incorporate provisions for sanctions in their ordinances. For example, the City of Fremont's ordinance states that it is a misdemeanor to not comply with the City's ordinance, and that the City will also use civil action when seeking remedies.

In practice, however, enforcement and compliance with inclusionary housing requirements depend upon quality of monitoring systems. Because monitoring encompasses additional costs, the City should consider charging a ministerial fee to help defray some of these costs. In the City, landlords are charged a small fee under the Rent Stabilization Ordinance (RSO), with these fees used to help pay for administrative expenses related to the RSO. The City could charge a similar type of fee if it establishes an inclusionary housing program.

APPENDIX A

Median New Home Sale Prices and Number of Sales by Year

City of Los Angeles Zip Codes

2001-April, 2003

Zip	2001		2002		Jan. Through April, 2003	
	Median Price	No. of Sales	Median Price	No. of Sales	Median Price	No. of Sales
90001	\$242,000	6	\$239,000	23	\$260,000	5
90002	\$136,000	17	\$165,500	22	\$220,000	6
90003	\$219,250	18	\$239,000	35	\$241,500	18
90004	\$719,909	4	\$675,000	2	\$616,000	1
90005		0	\$276,000	2	\$519,000	5
90006		0		0	\$300,000	1
90007	\$247,500	3	\$190,000	1	\$416,000	1
90008	\$192,500	2	\$170,000	1	\$238,000	49
90010		0	\$480,000	23		0
90011	\$235,000	23	\$245,000	33	\$249,000	9
90012	\$921,500	2	\$314,296	4	\$432,500	1
90013		0		0	\$380,000	1
90014		0		0		0
90015		0	\$500,000	1	\$800,000	1
90016	\$211,000	7	\$341,750	40	\$429,250	4
90017		0		0		0
90018	\$225,000	3	\$269,000	7	\$288,500	2
90019	\$330,000	5	\$372,000	6	\$427,500	4
90020	\$190,000	2	\$525,000	1	\$1,370,000	1
90021		0		0		0
90023	\$164,000	5	\$245,000	3		0
90024	\$654,000	55	\$762,500	76	\$780,000	11
90025	\$440,000	65	\$523,000	51	\$535,000	32
90026	\$287,500	10	\$350,000	5	\$174,000	1
90027	\$128,000	10	\$160,000	3	\$414,000	3
90028	\$1,225,000	1		0	\$815,250	2
90029	\$355,000	1		0		0
90031	\$200,000	2	\$289,000	3	\$244,000	1
90032	\$176,500	10	\$203,000	4	\$125,000	1
90033	\$231,000	5	\$295,000	3	\$179,500	4
90034	\$645,000	4	\$389,000	8	\$815,000	1
90035	\$197,000	5	\$493,500	26	\$850,000	1
90036	\$610,500	2	\$537,500	2		0
90037	\$190,000	11	\$245,000	13	\$254,000	6
90038		0	\$381,500	4	\$1,220,500	1
90039	\$234,700	6	\$352,728	2	\$283,000	1
90041		0	\$725,000	1	\$195,000	2
90042	\$335,000	13	\$449,750	14	\$586,250	24
90043	\$224,250	14	\$197,000	13	\$265,000	1

Median New Home Sale Prices and Number of Sales by Year

City of Los Angeles Zip Codes

2001-April, 2003

Zip	2001		2002		Jan. Through April, 2003	
	Median Price	No. of Sales	Median Price	No. of Sales	Median Price	No. of Sales
90044	\$195,000	17	\$215,000	25	\$266,591	16
90045	\$420,000	7	\$263,250	66	\$257,250	26
90046	\$255,000	27	\$285,000	28	\$600,000	5
90047	\$197,500	14	\$179,950	10	\$235,000	3
90048	\$830,000	1	\$755,000	3	\$1,000,000	1
90049	\$569,000	21	\$600,000	51	\$609,000	20
90057	\$115,000	4		0		0
90058	\$835,000	1		0		0
90059	\$142,500	10	\$135,000	48	\$192,500	34
90061	\$138,500	4	\$383,750	2	\$208,000	2
90062	\$166,000	6	\$184,000	6	\$292,500	2
90063	\$159,000	8	\$212,000	6	\$210,000	2
90064	\$406,000	3	\$540,000	21	\$560,000	5
90065	\$269,500	3	\$205,500	3	\$308,000	2
90066	\$823,250	8	\$468,455	2	\$617,000	2
90068	\$646,250	2	\$545,000	3	\$495,000	5
90069	\$225,000	8	\$627,000	13	\$472,500	7
90077	\$1,032,500	8	\$962,500	10		0
90094		0	\$749,000	1	\$332,500	46
90210	\$627,250	4	\$600,000	12	\$750,000	9
90230	\$395,000	1	\$609,000	9	\$195,000	1
90232	\$225,000	1	\$223,500	1	\$487,500	2
90247	\$269,091	16	\$250,000	2	\$309,000	2
90248	\$380,000	67	\$315,000	1	\$205,000	1
90272	\$620,000	13	\$805,000	6	\$675,000	3
90291	\$594,000	9	\$781,000	14		0
90292	\$642,500	41	\$825,000	9	\$700,000	1
90293	\$820,000	3	\$205,000	1		0
90402	\$999,000	1	\$975,000	1	\$1,075,000	1
90404	\$335,500	4	\$390,000	3	\$185,000	3
90501	\$331,500	43	\$359,000	16	\$435,000	7
90502	\$147,000	4		0		0
90710	\$407,750	62	\$364,750	2		0
90717	\$438,000	15	\$443,000	18	\$395,000	8
90731	\$356,500	4	\$279,000	9		0
90732	\$259,932	2		0		0
90744	\$152,500	2	\$247,000	25	\$271,250	16
90745	\$339,500	83	\$200,000	11	\$351,500	11
91040	\$491,000	10	\$204,000	1	\$198,500	2
91042	\$494,750	98	\$444,500	22		0
91303	\$254,000	6	\$270,000	13	\$330,000	1

Median New Home Sale Prices and Number of Sales by Year

City of Los Angeles Zip Codes

2001-April, 2003

Zip	2001		2002		Jan. Through April, 2003	
	Median Price	No. of Sales	Median Price	No. of Sales	Median Price	No. of Sales
91304	\$345,750	30	\$354,250	134	\$371,500	10
91306	\$310,250	54	\$320,000	10	\$420,228	6
91307	\$446,500	52	\$230,500	2		0
91311	\$229,500	20	\$308,500	2	\$475,000	1
91316	\$644,500	4	\$1,170,909	1	\$301,250	2
91324	\$367,500	2	\$147,500	2	\$717,500	2
91325	\$255,500	38	\$344,000	17	\$504,750	2
91326	\$520,000	157	\$559,250	204	\$571,000	83
91331	\$185,250	12	\$217,500	4	\$246,500	1
91335	\$347,000	35	\$347,000	31	\$299,000	4
91340	\$209,500	50	\$235,500	24	\$310,500	2
91342	\$293,250	286	\$321,500	244	\$350,000	71
91343	\$225,000	44	\$247,500	47	\$251,000	9
91344	\$505,000	45	\$806,527	40	\$796,000	24
91345	\$177,000	5	\$185,000	5	\$175,000	5
91352	\$187,000	2	\$415,000	71	\$479,000	11
91356	\$499,000	29	\$488,500	20	\$348,000	1
91364	\$555,000	7	\$500,000	11	\$600,000	8
91367	\$415,500	4	\$310,000	1	\$851,000	2
91401	\$750,000	1	\$245,000	4	\$766,250	4
91402	\$249,500	30	\$203,750	24		0
91403	\$615,000	5	\$445,000	10	\$335,000	5
91405	\$104,000	9	\$278,500	8		0
91406	\$526,250	6	\$370,000	3		0
91411	\$285,000	5	\$315,909	7		0
91423	\$230,000	40	\$227,000	20	\$275,500	2
91436	\$209,000	2	\$371,000	15		0
91504	\$857,000	33	\$895,000	13	\$269,000	1
91505	\$387,000	3	\$326,500	4	\$160,000	1
91601	\$373,000	2	\$587,500	6	\$166,000	47
91602	\$289,750	18	\$329,000	31	\$394,000	5
91604	\$350,000	21	\$399,000	17	\$419,000	7
91605	\$256,000	1	\$56,000	3	\$319,000	6
91606	\$361,000	2	\$342,500	2		0
91607	\$317,500	6	\$443,000	2	\$585,000	2
93063		0	\$765,000	1		0
Median/Total	\$323,750	2,012	\$342,500	1,946	\$351,500	771

Source: DataQuick Information Systems; David Paul Rosen & Associates.

APPENDIX B

Median Existing Home Sale Prices and Number of Sales City of Los Angeles Zip Codes April, 2003

Community	Zip Code	Single-Family				Condos		
		No. of Sales	Median Price (000's)	% Change From 4/02	Price/SF	No. of Sales	Median Price (000's)	% Change From 4/02
L.A. - S. Central	90001	19	\$163	17.70%	\$131	1	\$71	n/a
L.A. - S. Central	90002	39	\$155	24.00%	\$160	n/a	n/a	n/a
L.A. - S. Central	90003	35	\$150	26.10%	\$158	n/a	n/a	n/a
L.A.	90004	22	\$776	28.20%	\$343	n/a	n/a	n/a
L.A.	90005	8	\$766	73.50%	\$255	5	\$290	15.10%
L.A.	90006	3	\$300	7.10%	\$156	4	\$296	6.30%
L.A. - S. Central	90007	3	\$255	32.10%	\$123	n/a	n/a	n/a
Baldwin Hills	90008	19	\$325	25.00%	\$211	n/a	n/a	n/a
L.A.	90010	n/a	n/a	n/a	n/a	n/a	n/a	n/a
L.A. - S. Central	90011	26	\$167	39.20%	\$146	2	\$462	18.00%
L.A.	90012	2	\$355	94.80%	\$139	n/a	n/a	n/a
L.A.	90015	n/a	n/a	n/a	n/a	7	\$236	-0.50%
L.A.	90016	21	\$223	21.20%	\$204	2	\$213	70.40%
L.A.	90018	21	\$187	0.80%	\$166	6	\$168	15.60%
L.A.	90019	26	\$416	10.80%	\$266	n/a	n/a	n/a
L.A.	90020	2	\$1,090	58.20%	\$493	n/a	n/a	n/a
L.A.	90023	10	\$190	19.10%	\$204	12	\$204	52.10%
Westwood	90024	7	\$1,079	30.30%	\$452	n/a	n/a	n/a
West L.A.	90025	10	\$673	22.50%	\$448	22	\$423	11.50%
Echo Park	90026	22	\$375	4.30%	\$310	31	\$420	24.90%
L.A.	90027	24	\$601	-1.50%	\$357	4	\$275	-45.00%
Hollywood	90028	4	\$150	-3.80%	\$88	6	\$233	-10.60%
L.A.	90029	4	\$285	n/a	\$231	n/a	n/a	n/a
Lincoln Heights	90031	14	\$192	38.60%	\$168	n/a	n/a	n/a
El Sereno	90032	26	\$198	6.80%	\$193	1	\$175	108.30%
Boyle Heights	90033	6	\$183	17.60%	\$119	2	\$154	41.60%
L.A.	90034	19	\$479	40.90%	\$424	n/a	n/a	n/a
L.A.	90035	14	\$700	23.90%	\$356	3	\$275	5.80%
L.A.	90036	10	\$615	-2.50%	\$362	1	\$430	15.90%
L.A. - S. Central	90037	18	\$200	55.00%	\$136	5	\$365	31.80%
West Hollywood	90038	7	\$270	-36.50%	\$373	n/a	n/a	n/a
L.A.	90039	21	\$408	25.40%	\$366	1	\$323	n/a
Eagle Rock	90041	16	\$315	17.10%	\$293	4	\$196	-13.60%
Highland Park	90042	38	\$252	22.80%	\$243	1	\$230	n/a
L.A.	90043	40	\$275	16.40%	\$227	22	\$231	6.60%
L.A. - S. Central	90044	46	\$161	19.30%	\$161	n/a	n/a	n/a
Westchester	90045	42	\$507	15.10%	\$351	1	\$175	n/a
West Hollywood	90046	45	\$665	28.30%	\$448	18	\$265	-4.50%

Median Existing Home Sale Prices and Number of Sales
City of Los Angeles Zip Codes
April, 2003

Community	Zip Code	Single-Family				Condos		
		No. of Sales	Median Price (000's)	% Change From 4/02	Price/SF	No. of Sales	Median Price (000's)	% Change From 4/02
L.A. - S. Central	90047	42	\$201	20.70%	\$173	n/a	n/a	n/a
West Hollywood	90048	14	\$733	13.20%	\$433	10	\$390	53.00%
Brentwood	90049	10	\$1,090	1.30%	\$519	21	\$486	16.30%
L.A.	90057	1	\$226	n/a	\$171	5	\$148	-12.40%
L.A. - S. Central	90059	22	\$138	8.20%	\$149	n/a	n/a	n/a
L.A. - S. Central	90061	18	\$164	14.50%	\$181	n/a	n/a	n/a
L.A. - S. Central	90062	23	\$200	17.60%	\$152	n/a	n/a	n/a
L.A.	90063	14	\$174	15.70%	\$164	n/a	n/a	n/a
L.A.	90064	35	\$687	24.10%	\$457	4	\$441	29.80%
L.A.	90065	40	\$324	21.80%	\$243	n/a	n/a	n/a
Mar Vista	90066	30	\$545	17.60%	\$450	9	\$308	28.30%
Hollywood	90068	45	\$677	18.80%	\$392	5	\$275	2.20%
West Hollywood	90069	16	\$955	25.80%	\$483	57	\$375	39.50%
Bel-Air	90077	10	\$964	17.50%	\$440	3	\$490	n/a
Beverly Hills	90210	22	\$1,485	30.80%	\$534	2	\$840	13.50%
Culver City	90230	21	\$436	2.10%	\$330	38	\$240	19.90%
Culver City	90232	10	\$525	31.60%	\$411	2	\$183	-31.10%
Gardena	90247	22	\$280	44.30%	\$240	14	\$171	13.40%
Gardena	90248	12	\$303	39.20%	\$217	n/a	n/a	n/a
Pacific Palisades	90272	27	\$1,235	2.70%	\$521	11	\$564	16.40%
Venice	90291	27	\$565	19.60%	\$568	2	\$531	-29.20%
Marina del Rey	90292	7	\$800	61.60%	\$410	19	\$493	11.00%
Playa del Rey	90293	5	\$700	18.60%	\$395	20	\$329	26.50%
Santa Monica	90402	18	\$1,410	14.50%	\$635	5	\$760	-17.10%
Santa Monica	90404	4	\$433	5.10%	\$468	22	\$383	12.00%
Torrance	90501	32	\$350	-2.20%	\$280	7	\$275	10.00%
Torrance	90502	10	\$250	2.00%	\$256	16	\$229	51.70%
Harbor City	90710	15	\$379	17.40%	\$197	14	\$217	18.60%
Lomita	90717	9	\$320	8.50%	\$286	5	\$285	72.70%
San Pedro	90731	27	\$330	8.20%	\$261	12	\$245	35.80%
San Pedro	90732	25	\$439	5.80%	\$279	27	\$245	69.00%
Wilmington	90744	29	\$204	11.50%	\$208	4	\$167	19.30%
Carson	90745	26	\$275	17.00%	\$217	12	\$158	1.60%
Sunland	91040	39	\$290	3.00%	\$245	3	\$230	42.00%
Tujunga	91042	31	\$281	10.20%	\$233	6	\$178	10.90%
Canoga Park	91303	22	\$315	27.30%	\$229	14	\$179	22.00%
Canoga Park	91304	52	\$365	7.40%	\$214	10	\$188	38.50%
Winnetka	91306	50	\$312	22.70%	\$197	11	\$173	8.80%
West Hills	91307	39	\$365	10.60%	\$236	3	\$210	n/a
Chatsworth	91311	28	\$405	30.50%	\$201	26	\$259	17.50%

Median Existing Home Sale Prices and Number of Sales
City of Los Angeles Zip Codes
April, 2003

Community	Zip Code	Single-Family				Condos		
		No. of Sales	Median Price (000's)	% Change From 4/02	Price/SF	No. of Sales	Median Price (000's)	% Change From 4/02
Encino	91316	41	\$378	-13.20%	\$294	26	\$208	28.20%
Northridge	91324	40	\$332	10.70%	\$204	9	\$245	28.90%
Northridge	91325	31	\$465	31.00%	\$215	10	\$260	33.30%
Northridge	91326	47	\$485	14.10%	\$212	7	\$269	8.60%
Pacoima	91331	52	\$234	14.10%	\$186	26	\$143	16.30%
Reseda	91335	68	\$284	20.90%	\$214	30	\$219	28.70%
San Fernando	91340	25	\$240	23.10%	\$199	7	\$165	14.40%
Sylmar	91342	79	\$255	8.50%	\$198	29	\$172	22.50%
Sylmar	91342	79	\$255	8.50%	\$198	29	\$172	22.50%
North Hills	91343	49	\$314	19.20%	\$205	34	\$179	36.10%
Granada Hills	91344	84	\$345	21.10%	\$219	8	\$248	27.50%
Granada Hills	91344	84	\$345	21.10%	\$219	8	\$248	27.50%
Mission Hills	91345	25	\$290	22.20%	\$203	3	\$185	16.40%
Sun Valley	91352	37	\$269	23.40%	\$234	3	\$147	16.20%
Tarzana	91356	44	\$700	29.90%	\$259	32	\$210	27.50%
Woodland Hills	91364	60	\$503	34.00%	\$257	n/a	n/a	n/a
Woodland Hills	91367	42	\$499	31.40%	\$248	24	\$276	-2.50%
Van Nuys	91401	42	\$375	14.70%	\$234	12	\$244	43.70%
Panorama City	91402	33	\$259	26.10%	\$207	20	\$156	25.00%
Sherman Oaks	91403	18	\$630	7.70%	\$304	16	\$271	27.80%
Van Nuys	91405	28	\$300	21.20%	\$215	14	\$179	43.00%
Van Nuys	91406	52	\$291	17.60%	\$224	9	\$181	10.90%
Van Nuys	91411	14	\$344	27.80%	\$246	6	\$186	40.70%
Sherman Oaks	91423	25	\$536	1.10%	\$329	15	\$282	22.50%
Encino	91436	26	\$770	6.20%	\$310	3	\$254	-30.10%
Burbank	91504	14	\$533	36.50%	\$290	9	\$249	5.00%
Burbank	91505	28	\$378	11.20%	\$291	5	\$280	14.10%
North Hollywood	91601	13	\$412	62.20%	\$276	9	\$194	6.70%
North Hollywood	91602	10	\$475	3.30%	\$287	8	\$269	22.00%
Studio City	91604	40	\$650	22.80%	\$353	13	\$299	15.70%
North Hollywood	91605	27	\$280	23.30%	\$210	2	\$216	22.40%
North Hollywood	91606	24	\$300	27.40%	\$221	6	\$185	22.00%
Valley Village	91607	19	\$431	19.70%	\$296	5	\$260	30.00%
Total/Median		2,918	\$345			1,017	\$245	

Source: DataQuick Information Systems; David Paul Rosen & Associates.

APPENDIX B

Median Existing Home Sale Prices and Number of Sales City of Los Angeles Zip Codes 2002

Community	Zip Code	Single-Family				Condos		
		No. of Sales	Median Price (000's)	% Change From 2001	Price/SF	No. of Sales	Median Price (000's)	% Change From 2001
L.A. - S. Central	90001	246	\$136	8.80%	\$141	7	\$101	74.10%
L.A. - S. Central	90002	479	\$130	9.20%	\$128	-	-	-
L.A. - S. Central	90003	462	\$130	9.20%	\$134	-	-	-
L.A.	90004	219	\$522	8.80%	\$303	-	-	-
L.A.	90005	64	\$590	0.20%	\$240	43	\$280	19.10%
L.A.	90006	94	\$264	11.70%	\$161	56	\$284	13.50%
L.A. - S. Central	90007	32	\$193	18.80%	\$128	4	\$192	-
Baldwin Hills	90008	198	\$290	11.50%	\$178	9	\$282	4.40%
L.A.	90010	-	-	-	-	25	\$214	11.20%
L.A. - S. Central	90011	348	\$141	8.50%	\$124	21	\$410	-8.90%
L.A.	90012	13	\$185	3.80%	\$196	-	-	-
L.A.	90015	17	\$229	57.40%	\$150	80	\$240	42.90%
L.A.	90016	242	\$210	23.50%	\$171	45	\$160	37.90%
L.A.	90018	219	\$187	16.60%	\$152	93	\$150	15.40%
L.A.	90019	322	\$388	23.10%	\$231	2	\$127	25.90%
L.A.	90020	41	\$675	9.80%	\$235	19	\$208	8.30%
L.A.	90023	90	\$164	17.10%	\$169	160	\$169	21.20%
Westwood	90024	96	\$898	12.30%	\$425	1	\$150	-
West L.A.	90025	121	\$605	16.10%	\$416	419	\$392	19.40%
Echo Park	90026	284	\$311	18.00%	\$251	339	\$365	17.70%
L.A.	90027	223	\$600	18.10%	\$322	26	\$215	9.70%
Hollywood	90028	21	\$329	10.80%	\$247	50	\$240	20.00%
L.A.	90029	66	\$275	21.70%	\$211	12	\$235	55.60%
Lincoln Heights	90031	142	\$179	11.90%	\$166	5	\$200	31.10%
El Sereno	90032	343	\$179	17.20%	\$166	3	\$183	70.60%
Boyle Heights	90033	95	\$153	11.30%	\$151	43	\$123	23.10%
L.A.	90034	266	\$433	20.00%	\$319	-	-	-
L.A.	90035	177	\$545	3.80%	\$327	76	\$246	18.60%
L.A.	90036	156	\$620	16.30%	\$312	92	\$335	16.60%
L.A. - S. Central	90037	214	\$155	11.50%	\$117	42	\$271	22.60%
West Hollywood	90038	39	\$329	35.40%	\$296	-	-	-
L.A.	90039	281	\$360	22.00%	\$299	15	\$247	11.00%
Eagle Rock	90041	256	\$300	15.40%	\$236	28	\$237	47.20%
Highland Park	90042	446	\$210	23.90%	\$199	8	\$168	5.20%

**Median Existing Home Sale Prices and Number of Sales
City of Los Angeles Zip Codes
2002**

Community	Zip Code	Single-Family				Condos		
		No. of Sales	Median Price (000's)	% Change From 2001	Price/SF	No. of Sales	Median Price (000's)	% Change From 2001
L.A.	90043	464	\$227	19.20%	\$171	223	\$199	32.90%
L.A. - S. Central	90044	591	\$147	11.60%	\$136	1	\$155	307.90%
Westchester	90045	478	\$469	14.40%	\$335	36	\$162	11.90%
West Hollywood	90046	480	\$605	8.00%	\$372	233	\$275	20.40%
L.A. - S. Central	90047	488	\$172	11.00%	\$147	2	\$265	-
West Hollywood	90048	178	\$650	19.20%	\$395	76	\$297	5.60%
Brentwood	90049	282	\$1,049	18.00%	\$446	244	\$415	16.30%
L.A.	90057	16	\$233	5.70%	\$107	69	\$148	60.90%
L.A. - S. Central	90059	478	\$132	10.00%	\$124	-	-	-
L.A. - S. Central	90061	173	\$135	12.50%	\$132	-	-	-
L.A. - S. Central	90062	225	\$167	13.00%	\$135	-	-	-
L.A.	90063	225	\$154	14.60%	\$157	-	-	-
L.A.	90064	291	\$546	7.10%	\$372	61	\$364	17.00%
L.A.	90065	407	\$285	29.00%	\$221	3	\$143	-12.60%
Mar Vista	90066	478	\$467	17.00%	\$363	132	\$278	29.20%
Hollywood	90068	406	\$628	13.20%	\$347	116	\$257	31.10%
West Hollywood	90069	189	\$808	-1.50%	\$446	563	\$295	18.00%
Bel-Air	90077	158	\$819	7.00%	\$359	13	\$388	17.60%
Beverly Hills	90210	275	\$1,250	8.40%	\$447	48	\$600	25.40%
Culver City	90230	185	\$400	14.70%	\$315	357	\$215	20.40%
Culver City	90232	97	\$424	13.90%	\$336	19	\$340	23.60%
Gardena	90247	203	\$225	14.20%	\$191	127	\$169	14.20%
Gardena	90248	79	\$253	10.20%	\$196	8	\$187	58.70%
Pacific Palisades	90272	354	\$1,018	9.20%	\$498	123	\$495	13.80%
Venice	90291	239	\$520	18.20%	\$462	50	\$495	13.90%
Marina del Rey	90292	53	\$759	-2.70%	\$369	215	\$455	14.20%
Playa del Rey	90293	58	\$711	13.70%	\$338	298	\$264	20.00%
Santa Monica	90402	135	\$1,505	18.00%	\$580	43	\$619	9.10%
Santa Monica	90404	24	\$500	26.50%	\$440	186	\$350	16.80%
Torrance	90501	319	\$342	15.60%	\$241	62	\$263	9.40%
Torrance	90502	138	\$260	16.90%	\$201	213	\$161	16.70%
Harbor City	90710	152	\$317	12.40%	\$204	93	\$175	20.70%
Lomita	90717	182	\$340	13.50%	\$241	92	\$238	7.00%
San Pedro	90731	343	\$305	13.00%	\$239	109	\$229	10.40%
San Pedro	90732	217	\$417	26.20%	\$251	286	\$199	10.60%
Wilmington	90744	203	\$196	16.00%	\$174	35	\$127	2.80%

**Median Existing Home Sale Prices and Number of Sales
City of Los Angeles Zip Codes
2002**

Community	Zip Code	Single-Family				Condos		
		No. of Sales	Median Price (000's)	% Change From 2001	Price/SF	No. of Sales	Median Price (000's)	% Change From 2001
Carson	90745	393	\$240	12.70%	\$189	221	\$140	-4.10%
Sunland	91040	383	\$268	15.30%	\$206	44	\$184	17.20%
Tujunga	91042	396	\$255	15.90%	\$204	62	\$163	16.90%
Canoga Park	91303	182	\$240	17.10%	\$198	134	\$156	24.80%
Canoga Park	91304	497	\$318	16.20%	\$193	190	\$136	22.10%
Winnetka	91306	597	\$267	18.70%	\$180	144	\$165	15.20%
West Hills	91307	461	\$339	23.50%	\$206	39	\$245	14.00%
Chatsworth	91311	436	\$345	9.50%	\$184	232	\$225	23.00%
Encino	91316	391	\$347	17.70%	\$266	368	\$176	18.40%
Northridge	91324	323	\$317	16.10%	\$179	61	\$213	25.00%
Northridge	91325	354	\$361	22.50%	\$191	101	\$201	19.00%
Northridge	91326	480	\$427	14.80%	\$193	63	\$245	23.10%
Pacoima	91331	761	\$210	20.00%	\$169	217	\$138	22.70%
Reseda	91335	840	\$248	17.90%	\$191	335	\$185	27.50%
San Fernando	91340	254	\$200	17.00%	\$183	33	\$143	11.70%
Sylmar	91342	867	\$243	20.00%	\$172	374	\$148	15.90%
Sylmar	91342	867	\$243	20.00%	\$172	374	\$148	15.90%
North Hills	91343	555	\$280	16.40%	\$175	282	\$148	18.20%
Granada Hills	91344	849	\$310	17.00%	\$189	87	\$190	8.60%
Granada Hills	91344	849	\$310	17.00%	\$189	87	\$190	8.60%
Mission Hills	91345	225	\$245	16.10%	\$169	46	\$151	16.00%
Sun Valley	91352	361	\$232	20.80%	\$194	62	\$142	5.00%
Tarzana	91356	388	\$562	15.80%	\$243	328	\$181	26.60%
Woodland Hills	91364	607	\$429	17.90%	\$222	14	\$185	5.60%
Woodland Hills	91367	502	\$405	14.70%	\$216	221	\$256	11.30%
Van Nuys	91401	377	\$344	13.90%	\$219	87	\$225	19.70%
Panorama City	91402	393	\$224	20.40%	\$186	317	\$133	12.60%
Sherman Oaks	91403	374	\$549	15.10%	\$286	183	\$240	13.50%
Van Nuys	91405	303	\$260	16.90%	\$175	210	\$135	12.30%
Van Nuys	91406	577	\$255	16.40%	\$194	113	\$173	15.30%
Van Nuys	91411	199	\$310	19.20%	\$230	48	\$157	31.00%
Sherman Oaks	91423	371	\$510	10.90%	\$298	214	\$270	22.70%
Encino	91436	328	\$640	20.80%	\$265	25	\$260	37.90%
Burbank	91504	212	\$407	18.20%	\$271	136	\$255	18.60%
Burbank	91505	382	\$325	20.80%	\$266	48	\$257	19.50%
North Hollywood	91601	237	\$280	22.50%	\$233	60	\$192	6.50%

**Median Existing Home Sale Prices and Number of Sales
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2002**

Community	Zip Code	Single-Family				Condos		
		No. of Sales	Median Price (000's)	% Change From 2001	Price/SF	No. of Sales	Median Price (000's)	% Change From 2001
North Hollywood	91602	189	\$495	9.60%	\$296	149	\$239	26.20%
Studio City	91604	436	\$570	14.00%	\$315	197	\$273	13.60%
North Hollywood	91605	396	\$239	16.60%	\$181	51	\$175	16.30%
North Hollywood	91606	325	\$248	18.30%	\$209	90	\$166	12.40%
Valley Village	91607	272	\$395	16.20%	\$250	113	\$201	11.70%
Total/Median		33,764	\$311			12,019	\$208	

Source: DataQuick Information Systems; David Paul Rosen & Associates.