TRANSMITTAL

To: THE COUNCIL	Date: 06/02/23
From: THE MAYOR	

TRANSMITTED FOR YOUR CONSIDERATION. PLEASE SEE ATTACHED.

(Chris Thompson) for **KAREN BASS**
Mayor

Ann Sewill, General Manager
Tricia Keane, Executive Officer

Daniel Huynh, Assistant General Manager
Anna E. Ortega, Assistant General Manager
Luz C. Santiago, Assistant General Manager

City of Los Angeles

Karen Bass, Mayor

LOS ANGELES HOUSING DEPARTMENT
1200 West 7th Street, 9th Floor
Los Angeles, CA 90017
Tel: 213.808.8808

housing.lacity.org

May 25, 2023

Council File:	18-0315		
Council Districts:	Citywide		
Contact Persons:	Maya Abood	(213) 922-9622	
	Greg Spiegel	(213) 808-8521	

Honorable Karen Bass
Mayor, City of Los Angeles
Room 303, City Hall
200 N. Spring Street
Los Angeles, CA 90012

Attention: Heleen Ramirez, Legislative Coordinator

COUNCIL TRANSMITTAL: LOS ANGELES HOUSING DEPARTMENT REQUEST FOR AUTHORITY TO CONDUCT A PHASE II OF THE CITYWIDE INCLUSIONARY ZONING STUDY

SUMMARY

The General Manager of the Los Angeles Housing Department (LAHD) respectfully requests authority to conduct a second phase of the Citywide Inclusionary Zoning Study by expanding the existing contract for BAE Urban Economics (BAE) and transferring funding to the Department of City Planning to expand its existing contract for the market and economic study for the Density Bonus Ordinance update, RHNA Rezoning Program, and applicable land use incentive programs for the City of Los Angeles. The second phase of study will build off of the initial results discussed in this report and will be funded with $200,000 from the City's Housing Impact Trust Fund, as previously approved per CF No. 17-0274.

RECOMMENDATIONS

I. That the Mayor review this transmittal and forward to the City Council for further action;

II. That the City Council, subject to the approval of the Mayor:

A. AUTHORIZE the General Manager of LAHD, or designee, to execute a contract amendment with BAE (C-139957). This amendment will increase the contract amount by $37,195 from the Housing Impact Trust Fund, (Fund No. 43/59T), Appropriation Account No. 43TA44- Policy Studies, to provide funding for the second phase of the Inclusionary Zoning Study in substantial conformance with the attached draft pro forma Agreement, subject to contractor's performance, funding availability, and approval of the City Attorney as to form.

B. AUTHORIZE the Controller to transfer $162,805 from the Los Angeles Housing Department (LAHD) Housing Impact Trust Fund, (Fund No. 43/59T), Appropriation Account No. 43TA44- Policy Studies to Fund No. 43/59T Appropriation Acct No. 43W168 – Department of City Planning (DCP)/ Fund No. 100/68, Account No. 003040, Contractual Services, to provide funding for the Linkage Fee Market Study update and the Phase II of the Inclusionary Zoning Study.

C. DIRECT that upon completion of the Phase II study finding financial feasibility, LAHD and the Department of City Planning (DCP) prepare recommendations, and DCP, in collaboration with LAHD and the City Attorney, present a draft ordinance that would amend any necessary sections of the City Zoning Code to effectuate a citywide inclusionary zoning policy that incorporates any relevant recommendations and policy considerations resulting from the Phase II Inclusionary Zoning Study, while evaluating any potential impacts to affordable housing zoning incentives and/or fees.

D. AUTHORIZE the General Manager of LAHD, or designee, to prepare Controller instructions and any necessary technical adjustments consistent with Mayor and City Council actions, subject to the approval of the City Administrative Officer (CAO), and instruct the Controller to implement the instructions.

BACKGROUND

On July 1, 2021, City Council approved a report from the Housing Department authorizing the department to conduct the first phase of a market feasibility analysis for a potential citywide inclusionary zoning ordinance. The Scope of Work for the contract approved by Council included: evaluating the interaction and impact of an inclusionary zoning requirement on other affordable housing incentives; assessing the impact of an inclusionary zoning requirement on affordable housing production; conducting a basic financial feasibility assessment; and providing conclusions and high-level policy recommendations.

After releasing the Request for Bids (RFB) and evaluating the respondents, LAHD entered into a contract with BAE Urban Economics on March 3, 2022 (C-139957) to prepare the first phase analysis. This report outlines the key findings and recommendations from that report and provides additional context and considerations for a potential Phase Two of the study (referred to in this report as IZ Phase II). BAE's complete report for the first phase of the Inclusionary Zoning study is included as Appendix A.

Findings from the BAE Study

Financial Feasibility of Inclusionary Zoning

The Phase I Inclusionary Zoning Study evaluated the potential financial feasibility of market-rate housing projects (i.e., projects that do not include any affordable units) to support an 11% Very Low Income (VLI) inclusionary requirement, considering different project types and the four city market conditions (High, Medium-High, Medium and Low Market areas).

Market Areas were determined based on the current Affordable Housing Linkage Fee (AHLF) market areas[1]. High Market areas include the Bel Air - Beverly Crest, Brentwood - Pacific Palisades, Palms - Mar Vista - Del Rey, Venice, West LA, Westchester - Playa del Rey, and Westwood Community Plan Areas (CPAs). Medium-High Market Areas include the Hollywood, Silver Lake - Echo Park - Elysian Valley, and Wilshire CPAs. Central City and Central City North are also considered Medium-High Markets; however, these areas were excluded from this analysis due to concurrent work occurring in these areas as part of the Downtown Los Angeles Community Plan Update effort.

As shown in the chart below, BAE 's analysis found that an 11% VLI inclusionary requirement would be feasible for most medium (11 to 49 unit) and large (50+ unit) projects in High Market areas and potentially feasible in some subsections of Medium-High market areas. In addition, the analysis found that an 11% VLI inclusionary requirement on small projects (e.g., those with ten units or fewer) would be potentially feasible in only higher rent areas of High Market Areas, and otherwise is found to not be currently feasible.

At the 11% VLI threshold, the analysis found that mandatory inclusionary zoning is not currently feasible in the Medium and Low Market areas of the City. Further study in Phase II could identify alternative thresholds that may be feasible in lower market areas.

It is worth noting that since this study was conducted, there have been changes that may impact financial feasibility, including construction costs, interest rates, insurance costs, transfer taxes, and expanded affordable housing replacement requirements which may have additional implications for overall project feasibility with an inclusionary policy.

Table 1: Inclusionary Zoning Feasibility by Market Area (11% Very-Low Income)

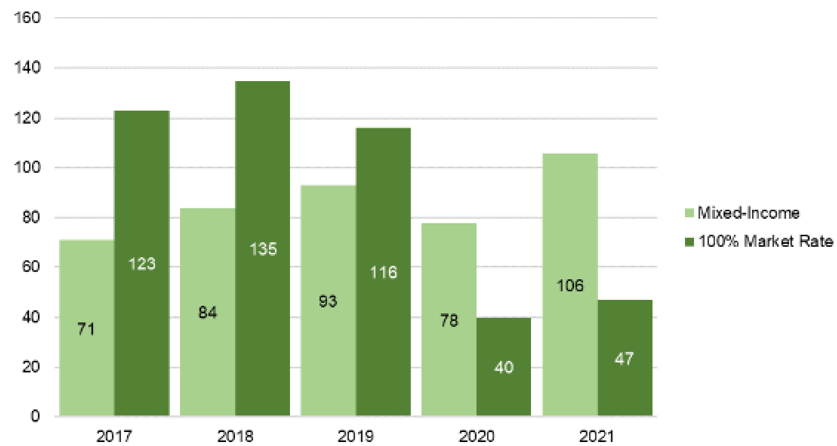
	Large Project (50 or more units)	Medium Project (11 to 49 units)	Small Project (5 to 10 units)
High Market	Feasible	Feasible	Feasible for only higher rent projects/areas
Medium-High Market	Feasible for only higher rent projects/areas	Feasible for only higher rent projects/areas	Not Currently Feasible
Medium Market	Not Currently Feasible	Not Currently Feasible	Not Currently Feasible
Low Market	Not Currently Feasible	Not Currently Feasible	Not Currently Feasible

[1] Under the Affordable Housing Linkage Fee (AHLF) Ordinance, these market areas are required to be evaluated every five years and may be subject to change.

Trends in the Distribution of Mixed-Income and Market Rate Housing

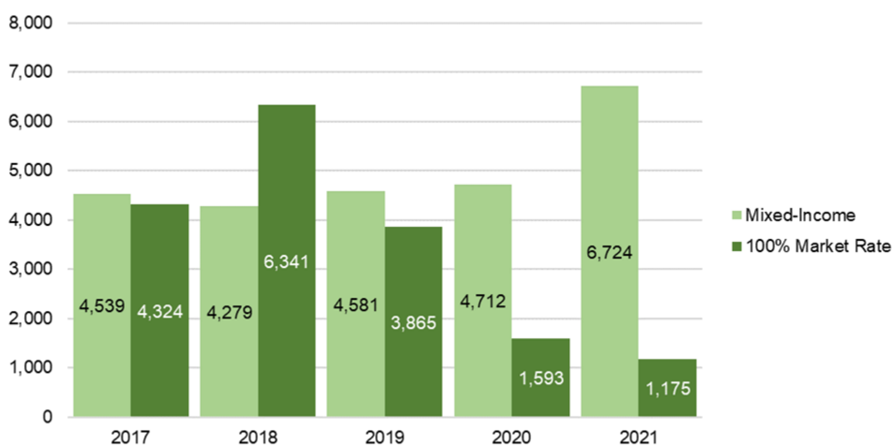
For the Phase I study, BAE analyzed permit data from 2017-2021 and found a clear trend towards mixed-income housing. For example, in 2021, only 15% of market-rate units were located in 100% market-rate projects, meaning projects where all the units were market rate. This is a substantial decrease from 2017 when this figure was 57% and 2018 when it was 62%. Moreover, in 2021, only 31% of total projects were 100% market-rate (compared to 62% in 2018).

Figure 1: Permitted Multifamily Projects by Year, 100% Market Rate vs. Mixed Income (5+ Units)



Note: Excludes permits issued in Central City and Central City North CPAs, and projects with fewer than 5 units.
Source: LAHD, LADBS, LACP, 2022; BAE, 2022.

Figure 2: Permitted Multifamily Units by Year, 100% Market Rate vs. Mixed Income (5+ Units)



Note: Excludes permits issued in Central City and Central City North CPAs, and projects with fewer than 5 units.
Source: LAHD, LADBS, LACP, 2022; BAE, 2022.

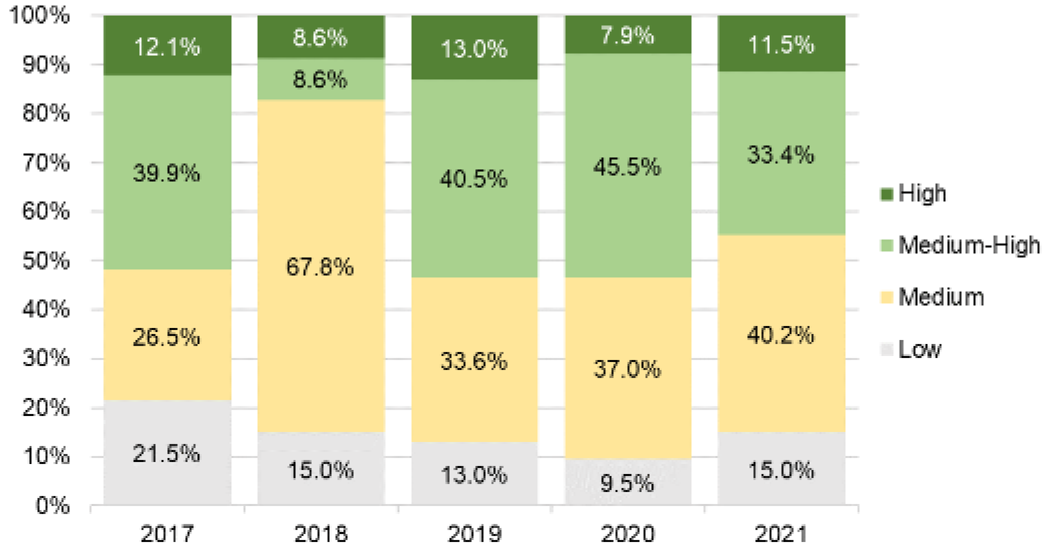
This trend is in large part an intentional, direct result of recent housing policy changes. While a citywide inclusionary zoning policy is not currently in place, the City of Los Angeles has created a set of policies and programs that work together to incentivize affordable housing development in most multi-family development projects. These programs include the Affordable Housing Linkage Fee (AHLF), a fee that provides a permanent source of funding for affordable housing and went into full effect in June 2018, the Transit Oriented Communities (TOC) program established in 2017, the local Density Bonus program, Interim Administrative Procedures (IAP) for implementing the Mello Act in the Coastal Zone, and several specific plan and community plan implementation overlays (CPIOs). Projects that provide onsite affordable units at a level equivalent with that required by the TOC Program are exempt from payment of the AHLF, creating a carrot-and-stick framework that encourages onsite affordable housing (Incentive/Fee Framework). Projects that do not include an equivalent percentage of onsite affordable housing are otherwise required to pay the Affordable Housing Linkage Fee (AHLF).

Because the BAE database includes projects permitted between 2017 and 2021 (which was the most current available data at the time of the study), the data likely includes more 100% market rate projects than would be anticipated in future years. To better understand recent developer behavior in this new regulatory landscape, LAHD and City Planning conducted a review of projects with ten or more units that were subject to the full Linkage Fee and provided an additional analysis in Appendix B of this report back. As of 2021, there were only 62 projects that received permits and were subject to the full linkage fee. Of those, 15 (24%) of projects were 100% market rate and 11% of units were in 100% market rate projects. This relatively small sample size is due to the length of time that it takes for a project to complete review from initial entitlement application through to building permit issuance. Most of these projects were in High or Medium High Market areas and were between 10-20 units (for a full analysis see Appendix B). Overall, the analysis of the most recent projects supports BAE's findings that the majority of units and projects are mixed-income; however, there remains a sizable subset of primarily smaller projects (between 10-20 units) which are 100% market rate and could be subject to an inclusionary zoning requirement.

Less than Half of 100% Market Rate Projects were Located in Inclusionary-Feasible Areas

The BAE study found that in 2021 approximately 45% of all 100% market-rate projects were located in Medium-High or High Market Areas, the market areas where it is largely shown to be financially feasible to implement an 11% VLI inclusionary zoning policy (as shown in Figure 3). The other 55% of 100% market rate projects are located in Medium or Low Market areas where an 11% VLI inclusionary zoning requirement may not be feasible for most projects. As discussed in greater detail in the next section of this report, many of the projects included in BAE's data were permitted or entitled prior to the full implementation of the Linkage Fee ordinance and the TOC Program and as such may not reflect building trends moving forward. Additional analysis is needed to better understand the distribution of 100% market rate projects, particularly in the new regulatory environment, and the financial feasibility of an inclusionary policy at various income requirements (beyond the 11% VLI studied in Phase I).

Figure 3: Distribution of 100% Market Rate by Linkage Fee Market Area



Note: Excludes permits issued in Central City and Central City North CPAs, and projects with fewer than 5 units.
Source: LAHD, LADBS, LACP, 2022; BAE, 2022.

<u>Need for Coordination with Other Work Efforts and a Citywide Standard</u>

Based on the BAE study, a citywide inclusionary policy would ensure that all projects are subject to a baseline affordability standard and would likely be feasible in many parts of the city. While staff expect incentive utilization to continue to increase, staff also expects that there will continue to be projects that choose not to provide onsite affordable units. If calibrated correctly, an inclusionary requirement could help push these projects into using incentives.

Additionally, the absence of a citywide inclusionary policy led to a trend towards incorporating inclusionary requirements into Community Plan updates and other local planning efforts. If not unified by a citywide standard, the result will be a patchwork that will be difficult for developers and communities to understand, and difficult for staff to implement.

In order to maximize feasibility, minimize complexity, and ensure programmatic consistency, the Inclusionary Zoning Phase II Study must be calibrated with other efforts that are proposing to incentivize or require affordable housing.

For example, the forthcoming Citywide Housing Incentive Program detailed in the 2021-2029 Housing Element Rezoning Program is exploring several improvements to the City's existing affordable housing incentive program framework. In particular, the Program is exploring:

- Expanding current incentives available through the existing TOC Program and Density Bonus Program, to include more types of projects in more types of locations (including small and medium sized projects, and projects that are not located in a TOC Area but have access to high opportunity areas)
- Calibrating affordable housing requirements based on market area, to maximize affordable housing construction
- Implementing longer-term affordability covenants for units in mixed-income buildings

If successful, the Citywide Housing Incentive Program is anticipated to steer even more projects to affordable housing incentive programs, especially in higher market areas.

The Department of City Planning recently launched a market study to evaluate the Density Bonus Ordinance Update, RHNA Rezoning Program, and applicable land use incentive programs, and to ensure maximum value capture, provide feasibility testing and recommendations to the calibration of affordable housing incentives and requirements. The Citywide Housing Incentive Program will begin its adoption process in early 2024 in order to meet the statutory deadline of being adopted and effective by February 2025.

Similarly, there are various Community Plan Updates and Transit Neighborhood Plans (TNP) underway including Downtown LA, Hollywood, Boyle Heights, Harbor, South and Southeast Valley, Westside, Cornfields Arroyo Seco Specific Plan (CASP), and the Orange Line TNP. Many of these plans are considering affordable housing incentives and inclusionary zoning requirements. The Phase II will work closely with these various efforts to ensure alignment and consistency.

<u>Recommendations for IZ Phase Two</u>

Given the first phase findings, LAHD recommends moving forward with a second study phase that will better integrate with the citywide RHNA Rezoning efforts, provide a more complete feasibility analysis, and provide clearer policy options. Further, to ensure efforts are aligned and affordability requirements are appropriately calibrated, the second study phase should be closely coordinated with the development of the Citywide Housing Incentive Program. To achieve this, LAHD recommends transferring $162,805 from the Housing Impact Trust Fund (Fund 59T) to DCP to augment its existing contract for the market and economic study for the Density Bonus Ordinance update, RHNA Rezoning Program, and applicable land use incentive programs. This funding also would support the analysis needed to update the Affordable Housing Linkage Fee Market Areas, which are required to be completed in 2023.

LAHD also recommends amending BAE's Phase I Inclusionary Zoning contract (C-139975) to include an additional $37,195 in Affordable Housing Linkage Fee funds to provide support for the Phase II Study and continuity between the Phase I and Phase II studies The second phase of study is detailed in the scope of work provided in Appendix C and will include: testing different affordability percentages and income categories/equivalencies, testing different project size thresholds, testing inclusionary requirements for for-sale housing, determining market areas, providing recommendations and analysis for alternative compliance including an in-lieu fee, and providing recommendations and analysis for how an inclusionary requirement will interact with the existing Affordable Housing Linkage Fee. The combined $200,000 in Affordable Housing

Linkage Fee funds has already been approved for Policy Studies by both the Linkage Fee Oversight Committee and City Council (per CF No. 17-0274).

Based on the results of the second study phase, DCP and LAHD will report back on the findings and recommendations. In addition, as part of the RHNA Rezoning efforts, the Departments will conduct additional stakeholder outreach. After completion of the study and relevant outreach, if the study supports an inclusionary policy, DCP in collaboration with LAHD will draft an Inclusionary Zoning ordinance to be considered for adoption in early 2024.

FISCAL IMPACT

There is no impact to the General Fund. The $200,000 to conduct the second phase of the inclusionary study will be funded through the City's Housing Impact Trust Fund (Fund No. 43/59T) Appropriation No. 43TA44-Policy Studies, and has already been approved by the Linkage Fee Oversight Committee and City Council (per CF No. 17-0274).

Approved By:

ANN SEWILL
General Manager
Los Angeles Housing Department

ATTACHMENTS:

Appendix A - BAE Study
Appendix B - Staff Analysis
Appendix C - Scope of Work BAE amendment C-139957
Proforma - BAE amendment C-139957

bae urban economics

Economic Feasibility Analysis of a Citywide Inclusionary Program

Prepared for the City of Los Angeles

March 2023

bae urban economics

March 1, 2023

Maya Abood
Los Angeles Housing Department (LAHD)
1200 West 7th Street
Los Angeles, CA 90017

Dear Ms. Abood,

BAE is pleased to submit this Economic Feasibility Analysis of a Citywide Inclusionary Program for the City of Los Angeles.

It has been a pleasure working with you and your team, and we look forward to answering any questions you may have.

Sincerely,

Aaron Barker
Vice President

San Francisco
2600 10th St., Suite 300
Berkeley, CA 94710
510.547.9380

Sacramento
803 2nd St., Suite A
Davis, CA 95616
530.750.2195

Los Angeles
448 South Hill St., Suite 701
Los Angeles, CA 90013
213.471.2666

Washington DC
1140 3rd St. NE, 2nd Floor
Washington, DC 20002
202.588.8945

New York City
234 5th Ave.
New York, NY 10001
212.683.4486

www.bae1.com

Table of Contents

List of Tables

List of Figures

EXECUTIVE SUMMARY

The purpose of this Study is to conduct the first of a two-phase financial feasibility analysis that provides a preliminary examination of the financial feasibility of a citywide inclusionary housing requirement. Phase One of the Study, provided in this report, explores the extent to which a citywide inclusionary policy might increase the production of covenant-restricted unsubsidized affordable housing units in a way that complements existing affordable housing incentive programs without impeding housing development, or otherwise provide a “value add” to the City’s existing incentive framework. Phase One also explores the initial feasibility of an inclusionary overlay by different market areas within the City.

This Study is organized into the following sections:

- The **Permit Database Analysis** describes the process BAE used to merge the City’s building permit records, affordability covenants, planning case files, and Affordable Housing Linkage Fee (AHLF) payment data into one master dataset that represents all multifamily (5+ unit) projects that were permitted from 2017 through 2021. The section includes a detailed analysis of the utilization of the City’s existing affordable housing programs, identifying patterns in these projects’ geographic distribution, project size, zoning, and other factors. The section also describes trends in the overall share of housing projects in the City that do not currently utilize affordable housing incentives, and how this share has evolved over time given ongoing changes in the regulatory landscape. This section also includes a discussion of data limitations, including the fact that building permits can be a lagging indicator of changes in development behavior.

- Given the size of Los Angeles, any citywide inclusionary requirement would need to be sensitive to different market areas within the City. The **Market Area Overview** section describes current real estate market conditions in the City utilizing the City’s four AHLF Market Areas. The section identifies median rents for newly-constructed multifamily projects, cross-tabbed by metrics such as bedroom count, average project size, and aggregated into rent quartiles.

- The **Prototype Summary** section outlines the process BAE utilized to create development prototypes used in subsequent feasibility testing. These development prototypes reflect common project sizes identified in the Permit Database, and replicate inputs such as gross building area, construction type, parking ratios, and building height from scanned permit records and title sheets.

- This **Financial Feasibility Analysis** section presents findings from the financial feasibility analysis, focusing on the universe of “100% Market Rate” Prototypes that could potentially accommodate a citywide inclusionary zoning policy requiring that 11 percent of total project units be affordable to very low-income households. This aligns with the City's existing affordability threshold exempting projects from the Citywide Affordable Housing Linkage Fee.

- Finally, the **Considerations and Next Steps** section outlines some high-level considerations for policymakers should the City wish to pursue additional analysis regarding the potential outcomes of a citywide inclusionary zoning policy. These include, for example, enhanced differentiation between market areas to better calibrate feasibility outcomes, alignment with forthcoming updates to AHLF Market Areas as mandated by the AHLF Ordinance, additional Permit Database analysis to capture activity related to updated replacement unit requirements under Senate Bill 8, as well as developer response to paying the full, non-vested Linkage Fee.

Study Phasing

The first phase of this Inclusionary Zoning Study relies on the assumption that a citywide inclusionary policy would almost certainly target the increasingly small universe of projects in the City that do not currently include onsite affordable housing. These projects typically do not utilize the City's various affordable housing incentive programs (e.g. Density Bonus, Transit Oriented Communities, Community Plan Implementation Overlays, etc.) and are referred to throughout this Study as **"100% Market Rate Projects".**

100% Market Rate Projects are declining as a share of overall development activity, dropping from 62 percent of total projects permitted in 2018 to 31 percent of total projects in 2021. This trend has accelerated since the adoption of the Affordable Housing Linkage Fee in 2018, which requires that projects pay a Fee if they do not include a specified share of affordable housing onsite.

Nonetheless, the Permit Database indicates there are still some recent examples of 100% Market Rate Projects in all market areas of the City—even those that are subject to paying the Full Linkage Fee. As such, this first phase evaluates the financial feasibility of a citywide inclusionary policy in large part based on its potential impact to these 100% Market Rate Projects that do not utilize incentives in order to evaluate the general feasibility of a baseline inclusionary requirement.

It should be noted that this Study's focus on 100% Market Rate Projects does not necessarily preclude other project types, including privately-financed projects that include affordable units as a result of incentives or other planning requirements (defined in this study as "Mixed-Income Projects") from the possibility of being included in a citywide policy. For example, a citywide inclusionary policy might also apply to Mixed-Income Projects if they do not meet a certain affordability threshold—particularly in higher market areas.

To this end, as part of the Citywide RHNA Rezoning Program, a concurrent study is underway that analyzes the extent to which land use incentives such as the Transit Oriented Communities (TOC), Density Bonus, and new programs could expand the current pool of housing projects eligible for incentives, as well as require even higher percentages of affordable units than they do currently in certain market areas of the City.

Any citywide inclusionary policy will ultimately need to consider these forthcoming incentive program updates, as well as how they might reduce even further the share of 100% Market Rate Projects analyzed in the first phase.

The second phase will build upon the results of phase one, incorporating the financial feasibility of a citywide inclusionary policy on Mixed-Income Projects as well. This would likely expand the pool of projects upon which to conduct financial feasibility testing compared to the first phase, and help policymakers better understand the alignment of an inclusionary policy that works in concert with a robust incentive program.

Key Phase One Findings

This section identifies some of the key findings from phase one of this Study. Charts and graphs related to each finding can be found in the body of the report.

100% Market Rate Projects are declining as an overall share of new development activity, as developers continue to utilize incentives and the Full Linkage Fee impacts more projects each year.

- In 2018, about 60 percent of all multifamily **units** permitted were located in 100% Market Rate Projects; however, by 2021, the share of units permitted in 100% Market Rate Projects had decreased to 15 percent.
- Over the same time period, the share of multifamily **projects** that were 100% Market Rate dropped from 62 percent of total projects in 2018 to 31 percent of total projects in 2021.
- Additional LAHD and LACP analysis of multifamily projects in the Permit Database that were subject to the Full Affordable Housing Linkage Fee found an even smaller share of projects located in 100% Market Rate projects.
- In 2021, of the 53 projects with 10+ units that were subject to the Full Fee, 11 projects, or 21 percent, were 100% Market Rate.

The trend towards more Mixed-Income Projects is expected to accelerate in the coming years, and exceed the share calculated from available data at the time of this Study.

- Updated Replacement Unit Requirements established by state law in recent years may push even more applicants into opting for Mixed-Income Projects that utilize incentives than are currently shown in the Permit Database.
- Prior to 2021, projects that demolished “protected units” were not required to replace these units unless they utilized affordable housing incentives. This may have steered such applicants into opting for 100% Market Rate Projects in the years prior.
- An increasing subset of projects that are subject to the Full Affordable Housing Linkage will provide a more conclusive look at characteristics of projects facing the Full Fee that still do not provide onsite affordable units to exempt themselves.

100% Market Rate Projects are characterized by smaller project sizes, which are often exempt from inclusionary overlays in other California jurisdictions.

- In 2021, nearly half of all 100% Market Rate Projects were considered "Small" projects, indicating they ranged from five to ten units in size.
- Only 6.6 percent of Mixed-Income Projects were considered “Small” projects over the same time period.

Mixed-Income Projects are generally larger in scale, and feature more units than 100% Market Rate Projects.

- In 2021, over 34 percent of Mixed-Income Projects were larger than 50 units, with 26.4 percent of Mixed-Income Projects larger than 68 units.
- Only 12.8 percent of 100% Market Rate Projects were larger than 50 units over the same time period.

Local Real Estate Market Conditions

The City’s AHLF Market Areas serve as a useful “first screen” tool for evaluating the financial feasibility of a potential inclusionary overlay.

- Median market rents in newly-constructed projects generally trend upward when moving from lower to higher market areas across all bedroom counts (e.g., studios, one, two, and three-bedrooms).
- Median two-bedroom rents, for example, increase from $2,564 to $2,958 per month when moving from a Low Market Area to a Medium Market Area. Median rents for two-bedroom units are $3,536 per month in the Medium-High Market Area, and rise to $3,990 in the High Market Area.

Additional study would be needed to fine tune these geographies prior to implementing any inclusionary policy, however, as there remains significant variation within Market Areas.

- In the Medium-High Market Area, for example, projects with an average unit size from 800 to 1,200 square feet feature a median rent of $2,684 per month for one-bedroom units, and $3,516 per month for two-bedroom units.
- Medium-High Market Area rents in the 75th percentile, however, jump to $3,352 per month for one-bedroom units and $4,259 per month for two-bedroom units—an increase of 31 percent and 27 percent, respectively, over the median rents.
- This underscores the potential difficulty of implementing a citywide policy that relies solely on the four AHLF Market Areas, and that does not account for intra-market variation in rents.

Financial Feasibility by Project Size and Subarea

Prototypes in the City's High and Medium-High Market Areas are most likely to accommodate an inclusionary overlay requiring that 11 percent of total project units be affordable to very low-income households.

- In the High Market Area, Medium and Large Projects are "marginally feasible" assuming median rents, and "likely feasible" assuming rents in the upper quartile range. Small Projects, however, are not likely feasible assuming median rents under current market conditions.
- In the Medium-High Market Area, Small, Medium, and Large Prototypes are "not likely feasible" assuming median rents. Rents in the upper quartile, however, could potentially support an inclusionary overlay for Medium and Large Projects, but not for Small Projects.
- Rents in the City's Medium and Low Market Areas are unlikely to support an inclusionary overlay for any project size, at any rent quartile, under current market conditions.

However, prototypes showing financial feasibility are not necessarily correlated with a high share of development activity.

- In 2021, nearly half of all 100% Market Rate Projects were considered "Small" projects. This is the project size least likely to support a citywide inclusionary overlay, according to the feasibility analysis.
- The High Market Area also represents a comparatively low share of development activity compared to the wider City.
- In 2021, ten 100% Market Rate Projects were permitted in the High Market Area, representing 135 units. During the same time period, 392 such units were permitted

in the Medium-High Market Area, while 472 units were permitted in the Medium Market Area.

A significant share of 100% Market Rate Project permits are issued in subareas with generous development rights such as Central City (DTLA Plan) and Warner Center.

- In 2020, two 100% Market Rate Projects were permitted in the Central City Community Plan Area. However, these two projects accounted for 1,223 new units, or 43.4 percent of 100% Market Rate permit activity (as a share of units) in that year.
- In 2021, one 100% Market Rate Project was permitted in the Warner Center Specific Plan. This project's 275 units accounted for 23.4 percent of total 100% Market Rate permit activity (as a share of units) in that year.

INTRODUCTION

Background and Purpose of Study

The purpose of this Study is to conduct the first of a two-part financial feasibility analysis that provides initial feasibility testing for a citywide inclusionary housing requirement. Specifically, the Study explores the extent to which a citywide overlay might contribute to the production of covenant-restricted unsubsidized affordable housing units in a way that complements existing incentive programs and results in additional affordable housing production without impeding housing development.

While a citywide inclusionary zoning policy is not currently in place, the City of Los Angeles has created a set of policies and programs that work together to incentivize affordable housing development in most multifamily development projects. These programs include the Affordable Housing Linkage Fee (AHLF), a fee that provides a permanent source of funding for affordable housing, the Transit Oriented Communities (TOC) program, the local Density Bonus program, Interim Administrative Procedures (IAP) for implementing the Mello Act in the Coastal Zone, and several specific plan and community plan implementation overlays (CPIOs). Projects that provide onsite affordable units at a level equivalent with that required by the TOC Program are exempt from payment of the AHLF, creating a carrot-and-stick framework to encourage provision of onsite affordable housing.

Despite the ongoing success of local incentive programs that have encouraged the majority of multifamily projects to include onsite affordable housing in recent years, there are still limited examples of new multifamily projects that do not utilize incentives, and provide no onsite affordable units.

While future trends indicate an environment of increasingly mixed-income development, this Study focuses primarily on the existing inventory of non-incentive utilizing projects ("100% Market Rate" Projects) to evaluate the feasibility of a mandatory inclusionary zoning requirement. This approach is meant to provide a conservative analysis that explores whether any future projects that do not avail themselves of the existing incentive framework would be able to support a mandatory inclusionary requirement.[1]

This is not to say that Mixed-Income Projects would necessarily be precluded from any citywide inclusionary policy. For example, a citywide policy could also apply to Mixed-Income Projects if they do not meet a certain affordability threshold–particularly in higher market areas. The

---

[1] For incentive-utilizing projects, a concurrent study is underway that analyzes the extent to which land use incentives such as the TOC program could require higher percentages of affordable units in higher market areas of the City.

relationship of a citywide inclusionary policy to incentive programs is not studied in-depth in this study, but will be explored further through a second phase of study.

To consider a potential inclusionary framework that complements the City's existing incentive programs, this Study seeks to answer the following questions:

- What is the overall share of housing projects that still do not provide any onsite affordable units compared to the share of those that utilize incentives and do provide onsite affordable units?
- How has this share of non-incentive utilizing projects changed over time across the city, given concurrent changes in incentive programs, zoning guidelines, housing replacement requirements, and housing legislation?
- What patterns can be observed in terms of these 100% Market Rate Projects' geographic distribution, project size, underlying zoning, and other factors?
- What share of 100% Market Rate Projects could potentially absorb a mandatory inclusionary requirement under current market conditions?

Study Parameters

Based on ongoing feedback from the Los Angeles Housing Department (LAHD) and the Los Angeles Department of City Planning (DCP), as well as the ever-changing regulatory and economic landscape, this Study is informed by the following guidelines and parameters:

- The financial feasibility of a citywide inclusionary requirement is analyzed according to the City's existing AHLF "Market Areas", of which there are currently four: High, Medium-High, Medium, and Low. A map of Community Plan Areas organized by Market Area can be found in the Appendix.
- The analysis does not identify specific subareas or Community Plan Areas (CPAs) within each Market Area that could potentially absorb a higher (or lower) requirement during this phase.
- The financial feasibility of a citywide inclusionary zoning requirement is assessed assuming a baseline 11 percent of total project units are provided as affordable to very low-income (VLI) households. This aligns with the City's existing affordability threshold exempting projects from the Citywide Affordable Housing Linkage Fee.

Data and Methodology

To identify the universe of projects that could be included under a potential citywide inclusionary policy, BAE created a master Permit Database that draws from the City's building permit records, affordability covenants, planning case files, and AHLF payment data. The final Permit Database includes a universe of 55,000 residential units permitted from January 1, 2017 through December 31, 2021.

Each permit record was geocoded and classified according to its Community Plan Area (CPA) to help analyze permitting trends by geography. Due to the unique development context associated with the Downtown Los Angeles Community Plan update, as well as its potential standalone inclusionary policy that is under consideration by the City Council, permit activity in the Central City and Central City North CPAs is excluded from this Analysis where noted.

LADBS Building Permit Data

BAE first utilized the Los Angeles Department of Building and Safety (LADBS) permit dataset to identify a citywide inventory of newly-permitted multifamily (5+ unit) apartments, broken down by the number of residential units, date of issue, zoning category, and sub-type (e.g., Mixed-Use vs. Apartment). A summary of filters used in this Study include the following:

- **Permit Type:** New building construction
- **Permit Sub Type:** Multifamily ("Apartment") and Mixed-Use ("Commercial" paired with residential units)
- **Permit Issued Date:** January 2017 through December 2021
- **Number of Residential Units:** Greater than 0. Rows with fewer than five units were later filtered out of analysis.

For the purposes of this Study, some categories of residential permits were excluded from the analysis. These include "Apartment" and "Commercial" (Mixed-Use) projects **with fewer than five units, "**1 or 2 Family" projects associated with single-family homes, duplexes, triplexes, and four-plexes, and Accessory Dwelling Unit (ADU) permits. As such, residential unit totals described here represent a smaller universe than all residential construction as described in the City's Annual Production Report (APR).

LAHD Covenant Data

Next, BAE joined the LADBS permit records with Los Angeles Housing Department's (LAHD) covenant data. Covenant data, which included covenants that restrict rents for a 55-year period, provided the distribution of residential units by affordability category (e.g., extremely low-income, very low-income, low-income, moderate- income, etc.), incentive program utilized (e.g., TOC, Density Bonus), type(s) of incentives utilized (e.g., density, height), and other factors such as replacement unit requirements.

Affordable Housing Linkage Fee Data

BAE worked closely with the City to analyze AHLF payment data from LADBS to identify projects that were subject to the Affordable Housing Linkage Fee over the Study period, as well as those that were classified as exempt. Payment data included information such as the fee paid, total number of dwelling units in the project, square footage of the project, and associated permit number. AHLF data was joined to the combined dataset through the matching of either address, permit number, or APN.

Data Limitations

The Permit Database is subject to its own data limitations and challenges, particularly with respect to a regulatory environment that has evolved significantly during the analysis period from 2017 through 2021.

For example, many projects in the Permit Database applied for building permits prior to June 18, 2018, and are thus exempt from the full Affordable Housing Linkage Fee due to the Fee's phase-in period. These earlier Projects are less inclined to provide onsite affordable units in Mixed-Income Projects than more recent Projects from the last two and half years that are subject to the fully phased-in Linkage Fee.

Early data indicates there is a trend towards increased development of Mixed-Income Projects now that the Full Fee is in effect and affordable housing incentives have become more widely used. Citywide affordable housing incentive programs have evolved substantially during this time period. For example, the TOC Program did not become effective until late 2017; however, most TOC projects did not begin appearing in the Permit Database until 2019. City Planning and the State have also in more recent years enacted procedural changes to better facilitate use of Density Bonus incentives through a by-right process, rather than requiring a more costly and time-consuming discretionary review.

Other potential limitations include a lack of sufficient data to analyze how developers might react to changes in state law under SB8, which expanded tenant protections for residents of demolished units, including extending housing replacement and no net loss provisions to by-right ministerial development projects, which are typically classified as 100% Market Rate.

Despite these limitations, the use of actual permit data (as opposed to permit filings) screens out entitled projects that may not ultimately come to fruition. This represents a conservative approach, but one that may ultimately be more representative of actual built projects, which is a crucial component of financial feasibility testing.

Permit Database Categories

Each record in the Permit Database is classified according to one of three "Affordability Types":

100% Market Rate Projects

- 100% Market Rate Projects represent the universe of projects that do not utilize incentives and do not include any onsite affordable units.

Mixed-Income Projects

- Mixed-Income Projects generally represent the universe of projects that do utilize incentives via programs such as the Statewide Density Bonus and the TOC program, and therefore also include onsite affordable units.

100% Affordable Projects

- 100% Affordable Projects represent a significant share of new housing development in the City, and also often utilize incentives such as the Statewide Density Bonus and the TOC program.

Project Size

Each record in the Permit Database is classified according to one of three Project Sizes:

- “Small” Projects (five to ten units):
  Small Projects range in size from five to ten units. Small Projects are sometimes excluded from inclusionary overlays in other California jurisdictions, such as Berkeley, with a requirement for five units or more; and Pasadena, with an inclusionary requirement for ten units or more.

- “Medium” Projects (11-49 units):
  Medium Projects range in size from eleven to forty-nine units.

- “Large” Projects (50+ units):
  Large Projects are classified as those with 50 units or more. This is also the threshold at which residential projects must complete a Site Plan Review, and therefore generally represents the threshold at which housing projects require a discretionary planning entitlement in the City of Los Angeles.

Zoning

Permit Records are also analyzed by zone. This is intended to identify zoning categories that are likely to generate a pool of new 100% Market Rate permit activity in the coming years.

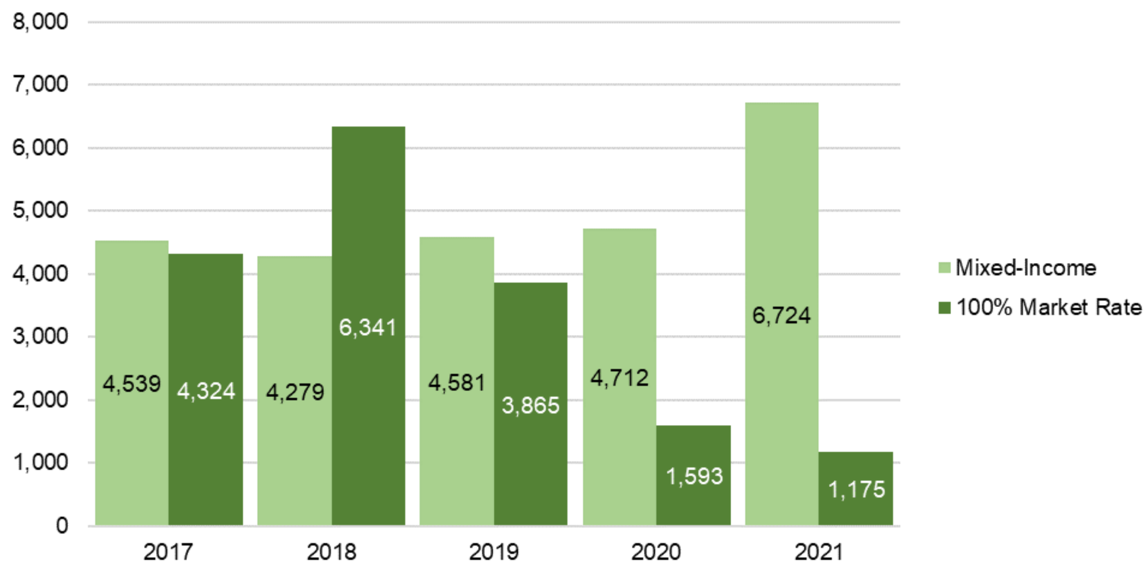
- For the purposes of this Study, residential zoning is generally associated with “**R3” and “R4” zones.** Other residential zones associated with 100% Market Rate activity include **“RD1.5” zones**.
- Commercial zoning, which allows residential projects by right, is typically associated with **“C2” and “C4” zones**.
- Other zones associated with a comparatively high share of 100% Market Rate activity include the **“WC” zone, located in the Warner Center Specific Plan Area.** This is described in more detail below.

PERMIT DATABASE ANALYSIS

Trends in 100% Market Rate Production

Figure 1 displays the share of 100% Market Rate permit activity (shown in dark green below) compared to the share of Mixed-Income permit activity from 2017 through 2021.

Figure 1: Permitted Multifamily Units by Year, 100% Market Rate vs. Mixed-Income Projects with 5+ Units

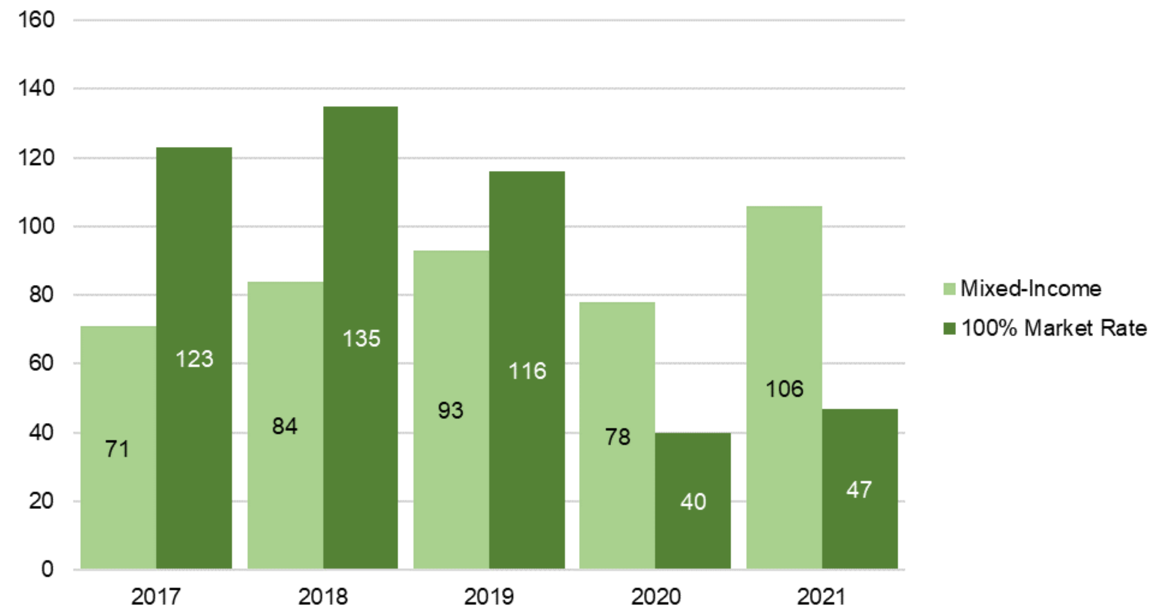


Note: Excludes permits issued in Central City and Central City North CPAs, and projects with fewer than 5 units.
Source: LAHD, LADBS, LACP, 2022; BAE, 2022.

- **Significantly more residential units are permitted in Mixed-Income projects than in Mixed-Income projects.**
  In 2021, for example, 1,175 units across 47 projects were permitted in the 100% Market Rate category, compared to 6,724 units across 106 projects in Mixed-Income category.

- **Mixed-Income projects are capturing a larger share of permitting activity over time.**
  Since the first TOC projects began coming online in 2019 and the Linkage Fee was fully phased-in, Mixed-Income projects have captured an ever-greater share of the City's privately-funded permit activity, meaning that an increasing number of projects include onsite affordable units with a 55 year affordability covenant.

Figure 2: Permitted Multifamily Projects by Year, 100% Market Rate vs. Mixed-Income Projects with 5+ Units



Note: Excludes permits issued in Central City and Central City North CPAs, and projects with fewer than 5 units.
Source: LAHD, LADBS, LACP, 2022; BAE, 2022.

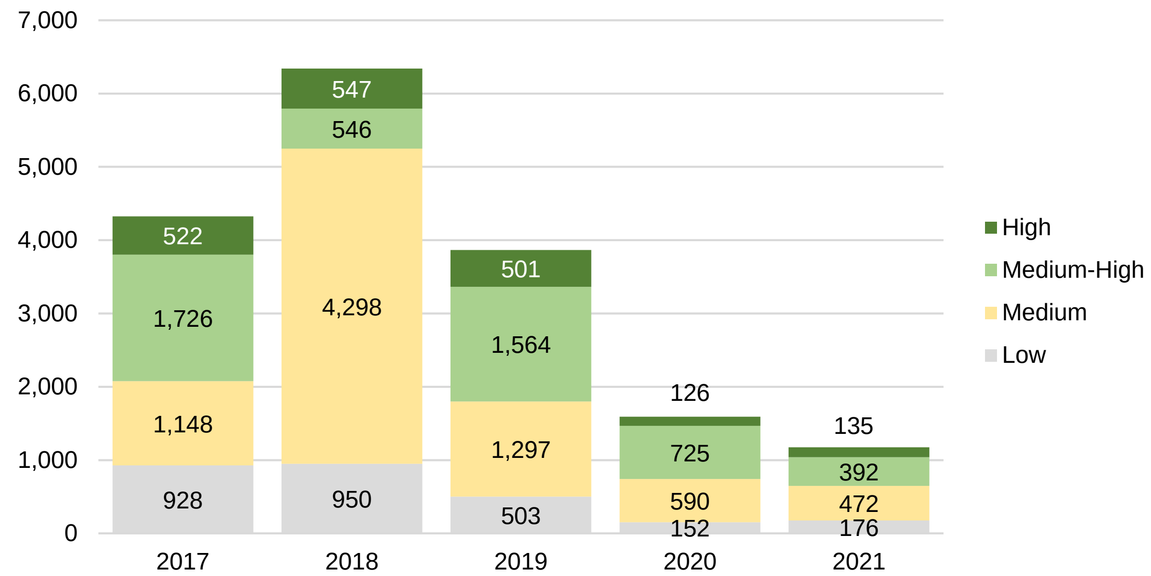
- **The proportion of 100% Market Rate Projects has fallen over the years, similar to what we see in proportion of units in such projects.**
  In 2021, 100% Market Rate Projects had fallen to roughly 31 percent of total projects, down from 62 percent of total projects in 2018.

- **However, the proportion of 100% Market Rate Projects has not fallen as significantly as the proportion of units.**
  As of 2021, roughly 31 percent of permitted multifamily projects were 100% Market rate, versus only 15 percent of units. This is due to a smaller project average size for Market-Rate Projects, which was 25 units per project in 2021 versus 62 units per project for Mixed-Income Projects.

100% Market Rate Trends by Market Area

Figure 3 identifies the distribution of 100% Market Rate Projects by Market Area. It also highlights how the distribution of such projects has changed over the most current five year period.

Figure 3: 100% Market Rate Unit Activity by Market Area, 2017-2021



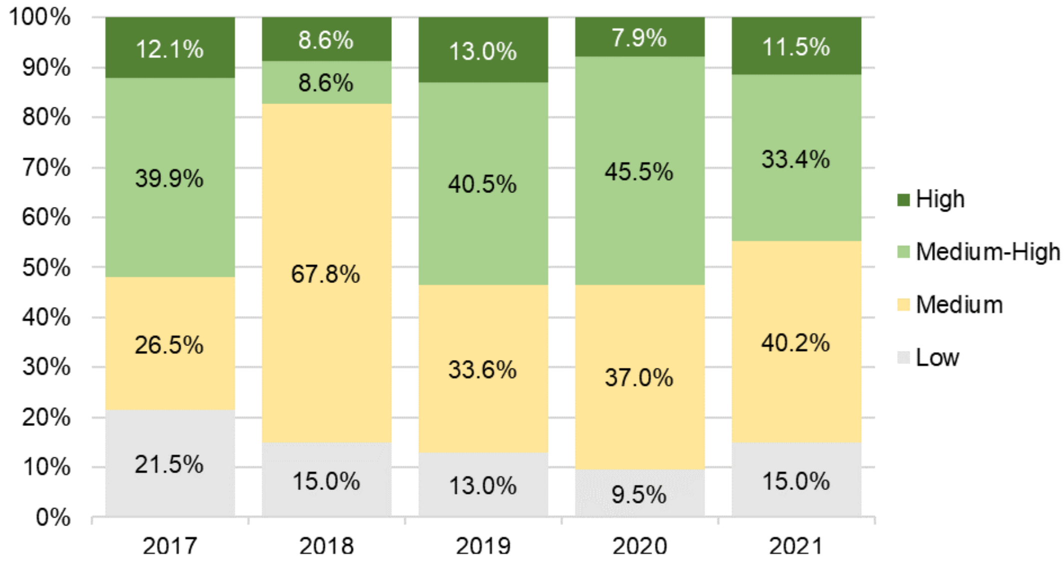
Excludes projects in Central City and Central City North CPAs.
Source: LAHD, LADBS, LACP, 2022; BAE, 2022.

- **The majority of new units in 100% Market Rate Projects are permitted in Medium or Medium-High Market Areas.**
  Taken together, these two Market Areas have captured anywhere from 66 to 83 percent of total 100% Market Rate permit activity—even after excluding the Central City and Central City North CPAs, which are both located in the Medium-High Market Area.

- **The large share of permit activity in the Medium Market Area, particularly in 2018, is driven almost exclusively by activity in the Warner Center Specific Plan Area.**
  The Specific Plan Area's underlying zoning offers generous development rights, reducing the need for utilizing incentives.

- **Comparatively few units in 100% Market Rate Projects have been permitted in the High Market Area over the five year time period.**
  100% Market Rate activity in the High Market Area has historically comprised the smallest share of permit activity across all Market Areas, ranging from eight to 13 percent of permitted units.

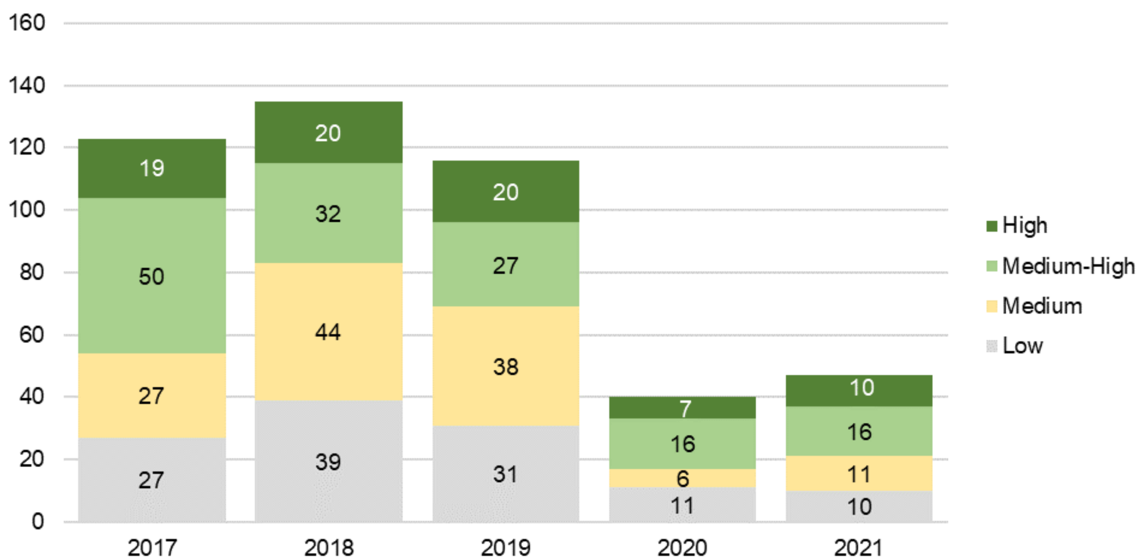
Figure 4: 100% Market Rate Activity by Market Area, Share of Total Units, 2017-2021



Note: Excludes permits issued in Central City and Central City North CPAs, and projects with fewer than 5 units.
Source: LAHD, LADBS, LACP, 2022; BAE, 2022.

- Most years from 2017 to 2021 have seen a relatively consistent mix of 100% Market Rate units constructed across the City's four market areas. The exception to this was in 2018, when the Medium Market Area's share was abnormally high due to increased construction activity in the Warner Center Specific Plan area.

Figure 5: 100% Market Rate Project Activity by Market Area, 2017-2021



Note: Excludes permits issued in Central City and Central City North CPAs, and projects with fewer than 5 units.
Source: LAHD, LADBS, LACP, 2022; BAE, 2022

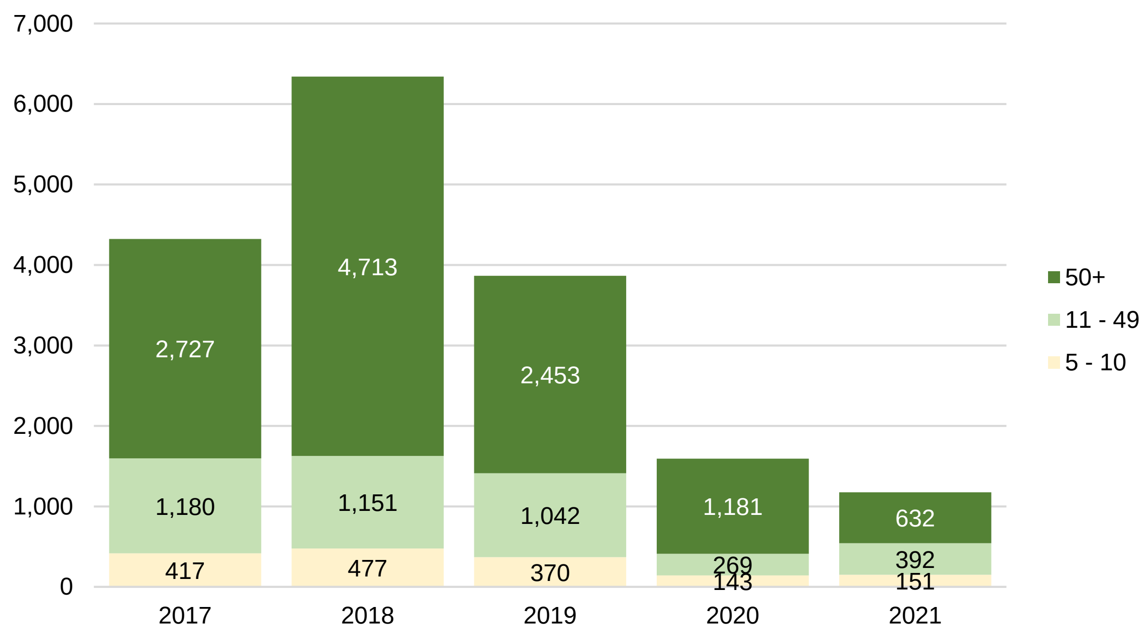
- **The Warner Center Specific Plan has more of an outsized impact on the proportion of new units in the Medium Market Area than the proportion of projects.**
  In 2018, for example, projects in the Medium Market Area comprised one-third of total projects, compared to nearly 70 percent of units during the same year. This is because of the high average unit counts in Warner Center projects.

- **Projects in Medium and Medium-High Market Areas tend to form a majority of projects across all years.**
  In 2021, these two market areas accounted for 57 percent of all projects. The minimum share of such projects across all years was 55 percent in 2020.

100% Market Rate Trends by Project Size

Figure 6 identifies the share of 100% Market Rate permit activity by Project Size, including Small, Medium, and Large projects. Permit activity is expressed in terms of total project units over time.

Figure 6: Project Size of 100% Market Rate Project Units over Time, All Market Areas



Note: Excludes permits issued in Central City and Central City North CPAs, and projects with fewer than 5 units.
Source: LAHD, LADBS, LACP, 2022; BAE, 2022.

- **The majority of new units in 100% Market Rate Projects are permitted in "Large" Projects consisting of 50 units or more.**
  Anywhere from 54 to 74 percent of total units permitted through 100% Market Rate permit activity occurred in Large Projects over the most current time period. However,

the overall share of 100% Market Rate permit activity attributable to Large Projects reached a low point in 2021

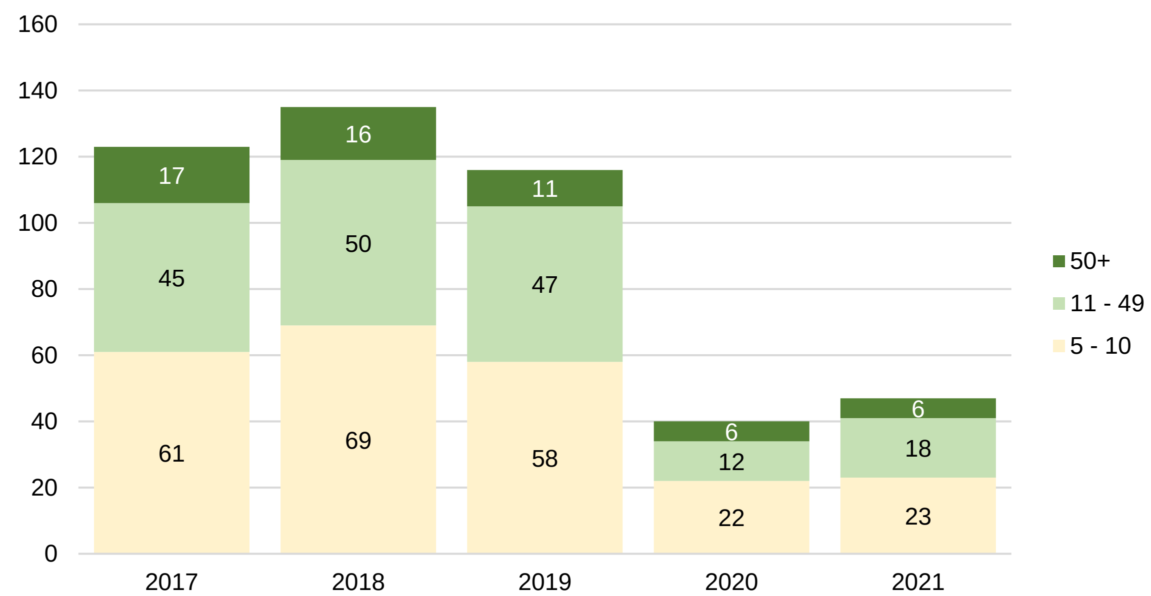
- **"Medium" Sized Projects capture the next highest share of 100% Market Rate permit activity.**
  Anywhere from 17 to 33 percent of total units permitted through 100% Market Rate permit activity took place in Medium Projects over the past five years—with the highest share occurring in 2021.

- **In all of the previous five years, Small Projects saw the least amount of 100% Market Rate permit activity.**

While it is true that the majority of new units in 100% Market Rate Projects are permitted in Large Projects, a different story emerges when analyzing development activity at the Project, rather than the Unit level. Figure 7 displays the share of 100% Market Rate Projects classified as either Small, Medium, or Large over the most current five year period.

- **In all years, Small Projects have represented the most common Project Size in terms of 100% Market Rate activity.**
  In 2018 and 2020, the number of 100% Market Rate Small Projects permitted exceeded the number of 100% Market Rate Medium and Large Projects combined. Small Projects represent the size threshold at which multifamily projects in other jurisdictions are sometimes excluded from a citywide inclusionary policy.

Figure 7: Size of 100% Market Rate Projects over Time, All Market Areas



Note: Excludes permits issued in Central City and Central City North CPAs, and projects with fewer than 5 units.
Source: LAHD, LADBS, LACP, 2022; BAE, 2022.

100% Market Rate Trends by Zoning

Figure 8 displays the share of new units in 100% Market Rate Projects by zoning over the most current five year period. “R3” and “R4” projects associated with residential zoning are shown in green, while “C2” and “C4” projects associated with commercial zoning are shown in blue.

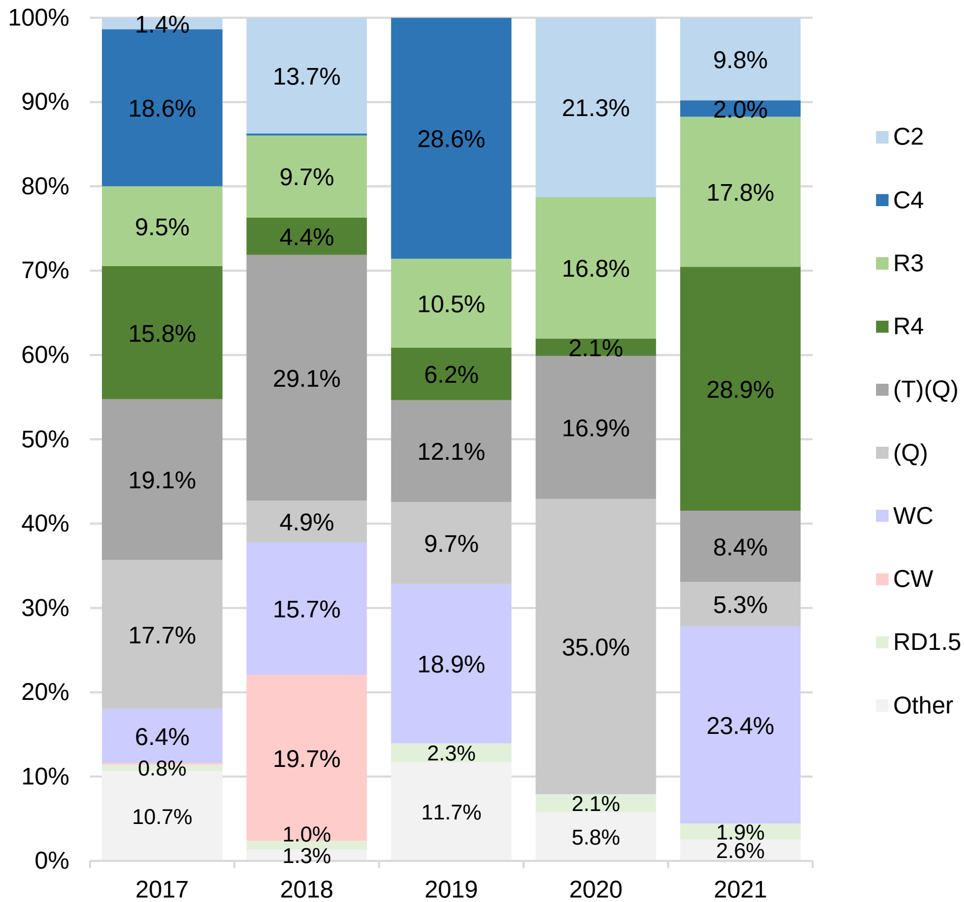
Projects are only classified as R3, R4, C2, or C4 if they are not appended by a “Q” and/or “T” condition, which typically impose additional development restrictions on a project. Projects with these modifiers—irrespective of their location in commercial or residential zones— are classified together and shown in dark gray in the chart below.

- **In 2021, the year most representative of the current development environment, nearly half of new units in 100% Market Rate Projects were located in residential zones.** The City’s “R3” zone accounted for 17.8 percent of new permit activity, while the more permissive “R4” zone accounted for nearly 29 percent of new permit activity.

- **During the same year, 11.8 percent of new units in 100% Market Rate Projects were located in commercial zones (shown in blue in the chart below).** While a higher share of 100% Market Rate permits were issued in the C2 zone than the more permissive C4 zone, most C2 activity occurred in “height district 2”—which allows for more generous FAR and height allowances than the more common “height district 1”.

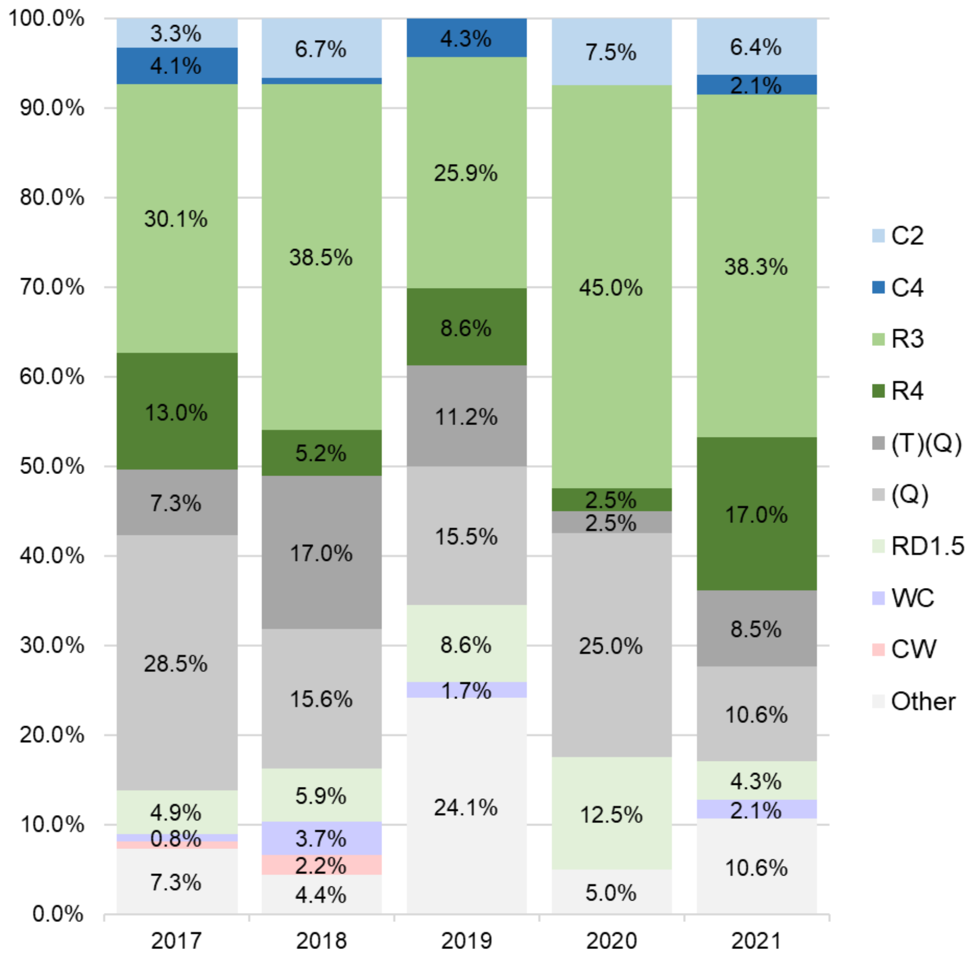
- **The “WC” zone, associated with the Warner Center Specific Plan, captured 23.4 percent of 100% Market Rate permit activity in 2021 (shown in light purple).** It should be noted, however, this activity was associated with a single 275-unit project.

Figure 8: 100% Market Rate Units by Zoning, All Project Sizes and Market Areas



Note: Excludes permits issued in Central City and Central City North CPAs, and projects with fewer than 5 units.
Source: LAHD, LADBS, LACP, 2022; BAE, 2022.

Figure 9: 100% Market Rate Projects by Zoning, All Project Sizes and Market Areas



Note: Excludes permits issued in Central City and Central City North CPAs, and projects with fewer than 5 units.
Source: LAHD, LADBS, LACP, 2022; BAE, 2022.

- At the project level, a higher proportion of 100% Market Rate Projects are located in residential zones, with R3 and R4 zones accounting for a majority (55 percent) of projects despite making up 47 percent of units.
- This is due to the higher average project size for C2 and C4 projects, which made up 8.5 percent of projects, but made up 12 percent of units in 2021.

MARKET AREA OVERVIEW

To assess the financial feasibility of an inclusionary policy by City subarea, BAE grouped market rents according to the City's four AHLF Market Areas. Multifamily rent data was provided by CoStar, a private data vendor, for newly-constructed projects built since 2017. Project-level data for 93,230 rental units in over 1,356 projects was then geocoded and aggregated into rent quartiles for each of the following Market Areas.

- **High:** The High Market Area includes the following CPAs: Bel Air - Beverly Crest, Brentwood - Pacific Palisades, Palms - Mar Vista - Del Rey, Venice, West LA, Westchester - Playa del Rey, and Westwood.

- **Medium-High:** The Medium-High Market Area includes the following CPAs in this analysis: Hollywood, Silver Lake - Echo Park - Elysian Valley, and Wilshire. Market rents associated with the Central City and Central City North CPAs are excluded, as these CPAs are currently undergoing a separate inclusionary zoning feasibility study as part of the update to the Downtown LA Community Plan.

- **Medium:** The Medium Market Area includes the following CPAs in this analysis: Canoga Park - Winnetka - Woodland Hills - West Hills, Encino - Tarzana, North Hollywood - Valley Village, Northeast LA, Reseda - West Van Nuys, Sherman Oaks - Studio City - Toluca Lake - Cahuenga Pass, West Adams - Baldwin Hills - Leimert, and Westlake.

- **Low:** The Low Market Areas include the following CPAs in this analysis: Boyle Heights, Chatsworth - Porter Ranch, Granada Hills - Knollwood, Harbor Gateway, Mission Hills - Panorama City - North Hills, Northridge, San Pedro, South LA, Southeast LA, Sun Valley - La Tuna Canyon, Sunland - Tujunga - Lake View Terrace - Shadow Hills - East La Tuna Canyon, Sylmar, Van Nuys - North Sherman Oaks, and Wilmington - Harbor City.

Average Unit Size

Within each Market Area, BAE sorted the project-level rent data by the project's Average Unit Size, and classified the projects into the following categories:

- **Large Average Unit Size: Average Unit Size 1,200 square feet +**
  These are typically associated with by-right projects in R3-1 zones
- **Medium Average Unit Size: Average Unit Size 800 to 1,200 square feet**
  Typically associated with by-right projects in R4-1 and R4-2 zones
- **Small Units: Average Unit Size 600 to 800 square feet**
  Typically comprised of TOC and/or Density Bonus projects

Rents by AHLF Market Area

At a high level, the City's existing AHLF Market Areas serve as a useful tool for evaluating the financial feasibility of a potential inclusionary policy.

Table 1 shows that for recently built projects, median market rents generally trend upward when moving from the Low to High Market Area across all bedroom counts (e.g., studios, one, two, and three-bedrooms).

Table 1: Median Monthly Rents by AHLF Market Area and Bedroom Count

	Low	Medium	Med-High	High
Studio	$1,965	$2,106	$2,260	$2,390
1 Bdr	$1,993	$2,386	$2,639	$2,933
2 Bdr	$2,564	$2,958	$3,536	$3,990
3 Bdr	$2,996	$3,535	$4,321	$5,004

Note: Sample includes rental data for recently-built (2017+) projects from CoStar.

Source: CoStar, 2022; BAE, 2022.

Median two-bedroom rents, for example, are shown to increase from $2,564 to $2,958 per month when moving from a Low Market Area to a Medium Market Area. Two-bedroom rents see an even larger increase when moving from the Medium Market Area to the Medium-High Market Area, rising to $3,536 per month.

In a City as geographically diverse as Los Angeles, a significant level of internal variation exists within these four AHLF Market Areas. To identify where such variation exists, BAE analyzed market rents by their interquartile range. These results are displayed in the tables below, broken down by bedroom count as well as the project's Average Unit Size (e.g., Small, Medium, and Large) as described in the previous section.

High Market Area

Table 2 displays the interquartile range of rents in the High Market Area, broken down by the project's Average Unit Size.

In the High Market Area, projects with an average unit size of greater than 1,200 square feet (typically characterized by projects in the R3-1 zone) feature a median rent of $4,314 per month for two-bedroom units, and $5,004 per month for three-bedroom units.

Table 2: Monthly Rents by Bedroom Count and Avg. Unit Size, High Market Area

	Average Unit Size 600-800 sf			Average Unit Size 800 to 1,200 sf			Average Unit Size 1200+ sf		
	25th	50th	75th	25th	50th	75th	25th	50th	75th
Studio	$2,041	$2,212	$2,886	$2,390	$2,787	$3,008	n/a	n/a	n/a
1 Bdr	$2,603	$2,650	$3,208	$2,840	$3,124	$3,313	n/a	n/a	n/a
2 Bdr	$3,294	$3,906	$5,222	$3,560	$4,001	$4,323	$3,681	$4,314	$5,363
3 Bdr	n/a	n/a	n/a	$4,084	$4,497	$5,615	$4,177	$5,004	$7,363

Note: Based on a sample of 80 recently-built projects in the High Market Area.

Source: CoStar, 2022; BAE, 2022.

Medium-High Market Area

Table 3 displays the interquartile range of rents in the Medium-High Market Area, broken down by the project's average unit size.

In the Medium-High Market Area, projects with an average unit size from 800 to 1,200 square feet feature a median rent of $2,684 per month for one-bedroom units, and $3,516 per month for two-bedroom units.

Rents in the 75th percentile, however, jump to $3,352 per month for one-bedroom units and $4,259 per month for two-bedroom units—a significant spread over the median rents.

This underscores the potential difficulty of implementing a citywide policy that does not account for intra-market variation in rents. For example, if using the current Market Areas, the City could risk a potential reduction in project feasibility in subareas that cannot currently afford the overlay, or lose out on the potential for new affordable units by not implementing the overlay in subareas where it is feasible.

Table 3: Monthly Rents by Bedroom Count and Avg. Unit Size, Med-High Market Area

	Average Unit Size 600-800 sf			Average Unit Size 800 to 1,200 sf			Average Unit Size 1200+ sf		
	25th	50th	75th	25th	50th	75th	25th	50th	75th
Studio	$2,063	$2,252	$2,448	$2,037	$2,407	$2,902	n/a	n/a	n/a
1 Bdr	$2,393	$2,564	$2,799	$2,419	$2,684	$3,352	n/a	n/a	n/a
2 Bdr	$3,143	$3,433	$3,620	$3,210	$3,516	$4,259	$3,240	$3,731	$4,105
3 Bdr	$4,593	$5,713	$8,440	$4,054	$4,420	$5,878	$3,755	$4,175	$4,727

Note: Based on a sample of 137 recently-built projects in the Medium-High Market Area.

Source: CoStar, 2022; BAE, 2022.

Medium Market Area

Table 4 displays the interquartile range of rents in the Medium Market Area, broken down by the project's average unit size. Projects with an average unit size of 800 to 1,200 square feet feature a median rent of $2,571 for one-bedroom units and $2,987 for two-bedroom units.

Table 4: Monthly Rents by Bedroom Count and Avg. Unit Size, Medium Market Area

	Average Unit Size 600-800 sf			Average Unit Size 800 to 1,200 sf			Average Unit Size 1200+ sf		
	25th	**50th**	**75th**	**25th**	**50th**	**75th**	**25th**	**50th**	**75th**
Studio	$1,931	$2,048	$2,330	$1,887	$2,344	$2,566	n/a	n/a	n/a
1 Bdr	$2,065	$2,210	$2,424	$2,231	$2,571	$2,786	n/a	n/a	n/a
2 Bdr	$2,611	$2,870	$3,158	$2,724	$2,987	$3,460	n/a	n/a	n/a
3 Bdr	$3,614	$4,174	$4,756	$3,084	$3,634	$4,246	$3,343	$3,495	$3,697

Note: Based on a sample of 114 recently-built projects in the Medium Market Area.

Source: CoStar, 2022; BAE, 2022.

Low Market Area

Table 5 displays the interquartile range of rents in the Low Market Area, broken down by the project's average unit size. Projects with an average unit size of 800 to 1,200 square feet feature a median rent of $2,049 for one bedroom units and $2,630 for two-bedroom units.

Table 5: Monthly Rents by Bedroom Count and Avg. Unit Size, Low Market Area

	Average Unit Size 600-800 sf			Average Unit Size 800 to 1,200 sf			Average Unit Size 1200+ sf		
	25th	**50th**	**75th**	**25th**	**50th**	**75th**	**25th**	**50th**	**75th**
Studio	n/a	n/a	n/a	$1,737	$2,283	$2,424	n/a	n/a	n/a
1 Bdr	n/a	n/a	n/a	$1,800	$2,049	$2,479	n/a	n/a	n/a
2 Bdr	n/a	n/a	n/a	$2,333	$2,630	$3,132	n/a	n/a	n/a
3 Bdr	n/a	n/a	n/a	$2,751	$2,950	$3,581	$2,842	$3,227	$3,495

Note: Based on a sample of 43 recently-built projects in the Low Market Area.

Source: CoStar, 2022; BAE, 2022.

PROTOTYPE SUMMARY

100% Market Rate development prototypes are informed by the Permit Database Analysis as described above, with a particular focus on permit trends over the past three years. Prototypes reflect actual projects in terms of gross building area, construction type, parking ratios, building height, side yards/setbacks, and other factors.

BAE began by compiling prototype inputs from scanned permit records from the Los Angeles Department of Building and Safety (LADBS). Additional inputs such as circulation, open space, and other factors are derived from Title Sheets where available.

The 100% Market Rate prototypes are intended to be reflective of theoretical developer behavior when no incentive is utilized. They do not attempt to hypothesize how a developer might behave when confronted with a potential citywide inclusionary policy. Instead, these prototypes conservatively assume the developer does not take advantage of an available affordable housing incentive. This is intended to provide a conservative analysis, but it is likely that many projects will increasingly opt to utilize affordable housing incentives as described in the Permit Database Analysis section above.

100% Market Rate Prototypes

Table 6 displays a high-level summary of the prototypes utilized in the Feasibility Analysis. These include representative samples that were observed in the majority of Market Areas to allow for high-level geographic comparison. Additional assumptions and detailed analyses are provided in the Appendix.

- ***Small (R3-1)***
  The Small Prototype consists of an eight-unit project located on approximately 0.16 acres in an R3-1 zone. The project would include eight units spread atop four floors of residential space, with the basement garage dedicated to vehicle parking.

- ***Medium (R4-1)***
  The Medium Prototype consists of a 32-unit project located on approximately 0.30 acres in an R4-1 zone. The project would include 32 units spread atop five floors of residential space, including the at-grade podium, with a basement garage dedicated to additional vehicle parking.

- ***Large (R4-2)***
  The Large Prototype consists of a 184-unit project located on approximately one-acre site an R4-2 zone. The project would consist of 184 units spread atop six floors of residential

space, including two levels of above grade podium, as well as a basement garage dedicated to additional vehicle parking.

Table 6: Summary of 100% Market Rate Development Prototypes

	Small		Medium		Large	
Zoning	R3-1		R4-1		R4-2	
Residential Units (#)	**8**		**32**		**184**	
VLI Units (#)	1		4		21	
Gross Building Area (sf)	15,260		33,025		224,175	
Buildout	4 over 1 level subterranean		4 over 1 + 1 level subterranean		4 over 2 + 2 level subterranean	
Avg. Unit Size (sf, net)	1,679	(a)	908	(b)	1,029	(c)
Height (feet)	45		61		88	
Parking Ratio (# vehicle spaces/unit)	2.25		2.03		1.60	

Notes:
(a) Unit mix of 25% two-bedrooms and 75% three-bedrooms, depending on local Market Area.
(b) Unit mix of 5% studios, 20% one-bedrooms, 60% two-bedrooms, and 15% three-bedrooms.
(c) Unit mix of 5% studios, 20% one-bedrooms, 60% three-bedrooms, and 15% three-bedrooms.
Source: LAHD, LADBS, LACP, 2022; BAE, 2022.

Average Unit Size

Projects in R3-1 zones generally feature large average unit sizes, especially when utilizing the full 3.0:1 FAR to which they are entitled under base zoning conditions. This is due to the fact that residential density in R3-1 zones is limited to one dwelling unit per 800 square feet of lot area.

Prototypes in R4-1 zones benefit from higher allowable densities than their R3-1 counterparts, with one dwelling unit per 400 square feet of lot area, but are generally provided a 3.0:1 FAR. Such projects generally feature smaller unit sizes than those in R3-1 zones, as reflected in the table above.

Prototypes in R4-2 zones, meanwhile, benefit from more FAR than R4-1 zones, but not more density. As such, they can feature larger average unit sizes than R4-1 projects, as reflected above.

Project Height

In addition to density, projects in R3-1 zones are also constrained by height, and cannot rise more than 45 feet. R3-1 prototypes often feature four levels of residential space atop one level of subterranean parking in order to maximize their leasable area—despite the increased cost of subterranean parking.

Project Parking
As R4-1 and R4-2 prototypes are not constrained by height, such projects can take fuller advantage of above-grade parking podiums, leading to cost-efficiencies when compared to R3-1 projects.

Bedroom Count Distribution
To estimate the distribution of bedrooms (e.g., share of studio, one-, two-, and three-bedroom units) for each prototype, BAE first identified the project's Average Unit Size after accounting for building circulation.

Next, BAE utilized the CoStar dataset from the Market Analysis to analyze a typical distribution of bedrooms associated with an even more detailed breakdown of the Average Unit Size categories defined in the previous section.

For example, projects in the CoStar dataset with an Average Unit Size of between 800 and 1,000 square feet typically feature a unit mix that includes 5 percent studios, 20 percent one-bedrooms, 60 percent two bedrooms, and 15 percent three-bedrooms.

FINANCIAL FEASIBILITY ANALYSIS

This section presents findings from the financial feasibility analysis. The analysis focuses on identifying the universe of 100% Market Rate Prototypes that could potentially accommodate a citywide inclusionary zoning overlay requiring 11 percent of total project units as affordable to very low-income households.

The financial feasibility analysis uses static residential development pro-forma models on each of the prototypes to evaluate financial feasibility. Static pro-forma models represent a form of financial feasibility analysis that developers often use at a conceptual level when planning for a new project as an initial test of financial feasibility to screen for viability.

The following assumptions are made for all prototypes.

- Even when required to provide 11 percent of total project units as affordable to very low-income households, prototypes do not take advantage of any available development incentives such as density, Floor Area Ratio, height, parking reductions, or others.
- Prototypes do not pay the Affordable Housing Linkage Fee, as they would meet the threshold for exemption under the AHLF Ordinance as a result of the 11 percent VLI inclusionary requirement.
- Prototypes are *not* subject to any updated Replacement Unit (SB 8) Determinations.[2]
- As an initial exploratory feasibility study, this phase of the Study does not explore alternate affordability thresholds—whether they be higher in Market Areas that could support it, or lower in Market Areas that could not.

Residual Land Value Thresholds

The financial feasibility analysis utilizes different residual land value thresholds to assess financial feasibility for each of the four Market Areas represented. In general, Market Areas with lower market rents and higher capitalization rates tend to have a lower sale price per site square foot than Market Areas with better market conditions.

To identify residual land value thresholds for this study, BAE used information on recent land sales in Los Angeles utilizing data from CoStar, which are shown in Appendix A.

---

[2] Even at the ministerial level when no incentives are utilized, housing projects are now required to replace any "Protected Units". In the case of a demolished single-family home, for example, at least one Low Income Unit in the new project would need to be provided if the home had been renter-occupied and did not provide income documentation or was occupied by a Low Income household.

Feasibility Findings by Market Area

As shown in Table 7, the “High” Market Area Prototype performs the best of all Market Areas with respect to the financial feasibility of a citywide inclusionary policy. This is due to higher rent levels as shown in the previous tables, as well as lower capitalization rates.

Medium and Large Prototypes in the High Market Area are marginally feasible or likely feasible, depending on the rent quartile. This means that higher rent Prototypes in these Market Areas are better able to financially support a citywide inclusionary overlay.

Table 7: Summary of Financial Feasibility by Prototype, High Market Area

	Rents in 25th percentile	Median Rents (50th percentile)	Rents in 75th percentile
Small Prototype (8 units, R3-1)	Not Currently Feasible	Not Currently Feasible	Likely Feasible
Medium Prototype (32 units, R4-1)	Not Currently Feasible	Marginally Feasible	Likely Feasible
Large Prototype (184 units, R4-2)	Not Currently Feasible	Marginally Feasible	Likely Feasible

Note: Assumes feasibility threshold of approximately $341 per site sf.
Source: CoStar, 2022; BAE, 2022.

In the “Medium-High” Market Area, median rents are not likely to support an inclusionary policy requiring 11 percent of total project units be affordable to very low-income households. This is true for Small, Medium, and Large Prototypes (Table 8). Rents in the upper quartile range, however, could potentially support such an overlay for Medium and Large Prototypes.

Table 8: Summary of Financial Feasibility by Prototype, Medium-High Market Area

	Rents in 25th percentile	Median Rents (50th percentile)	Rents in 75th percentile
Small Prototype (8 units, R3-1)	Not Currently Feasible	Not Currently Feasible	Not Currently Feasible
Medium Prototype (32 units, R4-1)	Not Currently Feasible	Not Currently Feasible	Likely Feasible
Large Prototype (184 units, R4-2)	Not Currently Feasible	Not Currently Feasible	Likely Feasible

Note: Assumes feasibility threshold of approximately $235 per site sf.
Source: CoStar, 2022; BAE, 2022.

Rents in the “Medium” and “Low” Market Areas are unlikely to support a Citywide IZ policy for any prototype, at any rent quartile, under current market conditions, as shown in Table 9.

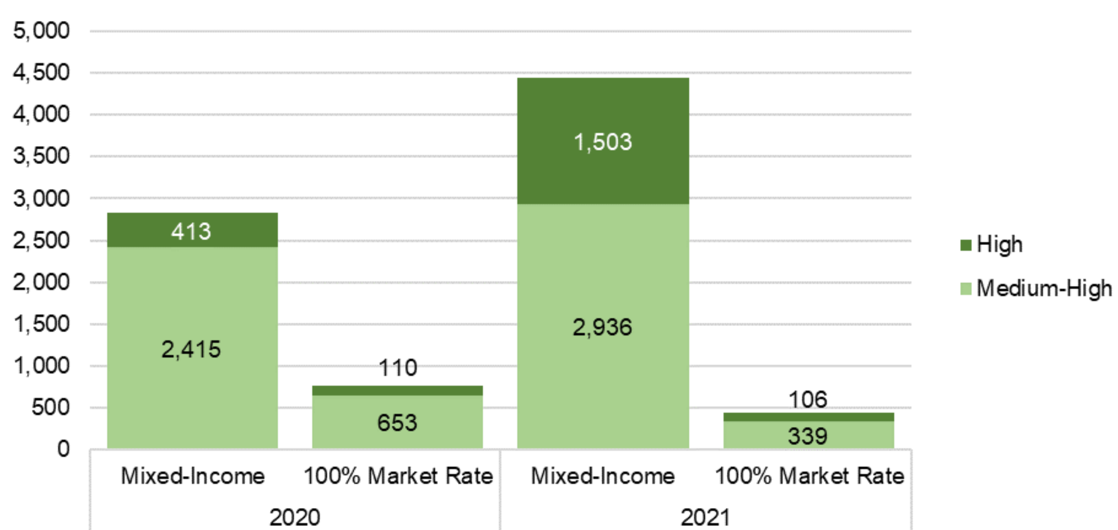
Table 9: Summary of Financial Feasibility by Prototype, Medium and Low Market Areas

	Rents in 25th percentile	Rents in 50th percentile	Rents in 75th percentile
Small Prototype (8 units, R3-1)	Not Currently Feasible	Not Currently Feasible	Not Currently Feasible
Medium Prototype (32 units, R4-1)	Not Currently Feasible	Not Currently Feasible	Not Currently Feasible
Large Prototype (184 units, R4-2)	Not Currently Feasible	Not Currently Feasible	Not Currently Feasible

Source: CoStar, 2022; BAE, 2022.

The following chart isolates project sizes and Market Areas most likely to support a citywide inclusionary policy as described above. This “IZ Supportive” project sample includes Medium and Large Prototypes constructed in the Medium-High and High Market Areas.

Figure 10: IZ Supportive Permit Activity, 100% Market Rate vs. Mixed-Income, 2020-2021



Excludes projects in Central City and Central City North CPAs, as well as projects with fewer than 10 units.
Source: LAHD, LADBS, LACP, 2022; BAE, 2022.

As shown in the chart above, the number of “IZ Supportive” units permitted in 100% Market Rate Projects was vastly outnumbered by the number of such units permitted in Mixed-Income Projects in 2020 and 2021.

This suggests that a citywide policy intended to increase the production of covenant-restricted affordable units would not be as impactful if it ignored the potential for Mixed-Income Projects to contribute additional value as well.

CONSIDERATIONS AND NEXT STEPS

The results of this Study represent preliminary findings of the potential financial feasibility of a citywide inclusionary overlay. Should the City wish to pursue additional analysis regarding the potential outcomes of a citywide inclusionary zoning overlay, BAE recommends incorporating the following approaches for any Phase Two Study.

Refine Prototypes Based on Feasibility Scan from Phase One

A more tailored range of development prototypes for feasibility testing is recommended for any Phase Two Study. This includes the need for:

<u>Additional testing of specific breakpoints, such as:</u>

- The smallest project size for which an inclusionary overlay may be financially feasible

<u>Additional testing of "Large" prototypes (e,g, 50+ units), should they be available</u>

- The dataset included zero recent examples of "Large" 100% Market Rate Projects in the High Market Area
- The dataset included only two recent examples of "Large" 100% Market Rate Projects in the Medium-High Market Area

<u>Additional testing of prototypes with a fuller range of parking treatments:</u>

- 100% Market Rate Projects identified in the Permit Database are still heavily-parked, with parking ratios consistently exceeding two vehicle spaces per dwelling unit, which affects overall project cost and general feasibility of added affordable housing requirements.

<u>Testing of For-Sale prototypes</u>

- Only a small fraction of projects in the Permit Database are ultimately positioned as for-sale projects such as condominiums and townhomes.
- Phase Two could isolate the most common project sizes and configurations for these prototypes, as well as test different affordability sets such as low and moderate-income.

For Specific Plan Areas with unique development guidelines, additional study under Phase Two may also be needed..

Enhanced Differentiation Between Market Areas

The City's existing AHLF Market Areas serve as a useful tool for evaluating the financial feasibility of a potential inclusionary overlay but only at a high level.

In the "Medium-High" Market Area, an overlay requiring 11 percent of total project units be affordable to very low-income households could be feasible in some areas, but infeasible in others—at least in the short to medium term.

To the extent the City's AHLF Market Areas would provide a basis for any inclusionary overlay, a Phase Two Study would likely benefit from an update to the City's AHLF Market Areas, either concurrently or in advance.

Alternatively, the City could explore an approach for overlay geographies that utilize the AHLF Market Areas as a starting point, but could also take a more granular approach that:

- Bisects certain CPAs with high levels of internal variation (e.g., Wilshire)
- Replaces CPAs altogether with smaller geographies, subject to sufficient data samples

Update to Building Permit Analysis

This Study analyzes multifamily units permitted from January 1, 2017 through December 31, 2021. Permit Data from 2022, once available, will potentially provide important insights into the following topics:

<u>Updated Replacement Unit (SB 8) Determinations</u>

Even at the ministerial level, housing projects are now required to replace any "Protected Units." In the case of a demolished single-family home, for example, at least one Low Income Unit in the new project would need to be provided if the home had been renter-occupied and did not provide income documentation.

Phase Two of the Study could identify the universe of non-incentive-utilizing projects that became subject to updated Replacement Unit Requirements under SB 8, as well the most common types of replacement unit scenarios on which to conduct additional feasibility testing.

While we would expect these updated Replacement Unit Requirements to push applicants into utilizing Incentives such as TOC and the Statewide Density Bonus—especially since any protected units would count towards Incentive requirements—more data is needed to validate this assumption. Alternatively, testing can be conducted on projects currently in the Permit Database that demolished a similar number of units and therefore would have been subject to the same requirements.

The City expects projects subject to an SB8 determination to begin appearing in the Permit Database beginning sometime in 2022 and possibly to 2023, providing a better understanding of the extent to which applicants may change behavior based on these requirements.

<u>Non-Vested Projects that Pay the Full Linkage Fee</u>

The existing Permit Database does not yet fully reflect the financial implications faced by applicants who submitted their project applications after June 2019, when they became subject to the Full Linkage Fee.

Nearly 66 percent of eligible units permitted in 2021 were at least partially vested with respect to the Linkage Fee, indicating they were not yet subject to the Full Fee. It is expected that the share of projects vested from the Full Fee will continue to decline in the coming years. While we would not expect this share to completely decline in 2022, additional data would be useful to better understand behavior of projects that are subject to the Full Fee, and how that affects decisions to utilize affordable housing incentive programs.

APPENDIX A: KEY PRO-FORMA ASSUMPTIONS

This appendix includes a description of the key assumptions used in the financial pro-formas used in this study as well as the detailed pro-formas.

Key Assumptions

The information on key assumptions provided below provides detail on the methodology used for this study to derive total development costs and project values. Developers vary somewhat in the categorization of various project costs, and therefore may show different cost figures for individual cost items even for projects with similar overall development costs. Any variation in the specific cost items described below would not affect the findings of this analysis provided that the total development costs shown in each of the following pro-formas are consistent with total development costs for similar projects.

Hard Costs: Hard costs are the costs associated with the physical construction of a building, including all construction materials and labor. For all multifamily rental prototypes except for the high-rise prototype, this analysis uses a hard cost assumption of between $300 and $350 per square foot of built space. All pro-formas included a parking hard cost assumption of $35,000 per podium space, and $50,000 per underground space.

All hard cost assumptions used in this analysis are consistent with 2022 hard cost estimates provided by developers that BAE interviewed for this project as well as with BAE's experience with recent projects in Southern California. However, it should be noted that hard costs are subject to variation, even among projects that are relatively similar, and the sources that BAE used to estimate hard costs for this study reflected this variation.

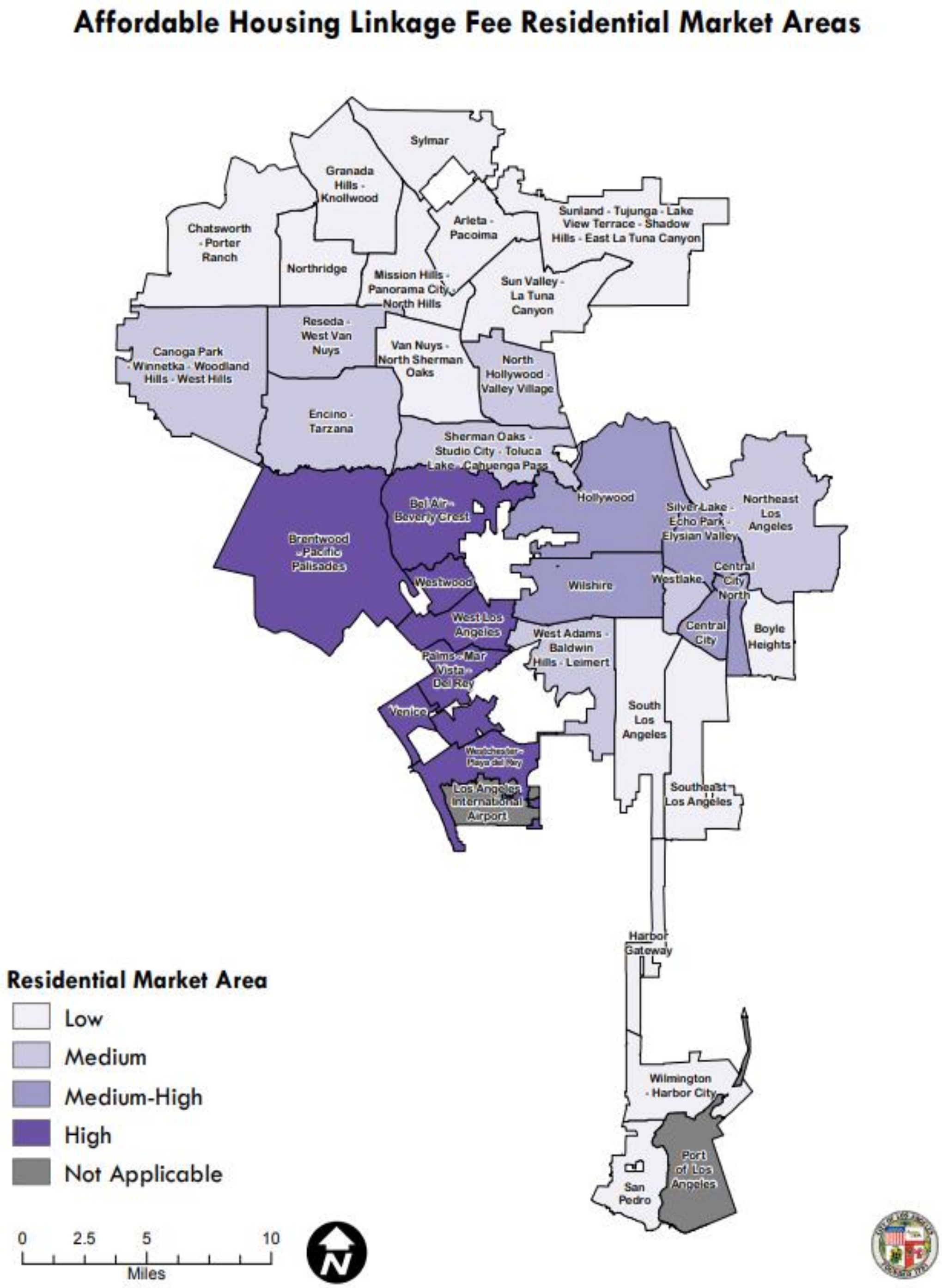
Soft Costs: This analysis assumes that soft costs are equal to 18 percent of hard costs. This soft cost estimate includes engineering, architecture, financing, and CEQA costs, as well as City cost-recovery fees for planning, permitting, and entitlements.

Affordable Residential Rents: The affordable rental rates used in this analysis are based on the maximum allowable rent levels published in the Los Angeles Housing Department's "Table 6" Land Use Schedules, in effect as of August 2022.

Developer Return: This metric divides total developer profit by total development cost, to judge overall project feasibility. It can be considered as a simple profit margin, irrespective of how a project is financed between debt and equity. In other words, ROC is useful because it allows comparison across all real estate project types (whether income-producing or for-sale units), irrespective of individual choices to leverage equity through use of debt. Real estate development has higher risk inherent to the investment activity, so the ROC on real estate projects should be higher than these other investment options. This study assumes a ten percent return on cost for residential projects, which is built in to each pro-forma (expressed in the pro-formas as developer profit).

Capitalization Rate: The capitalization rate is defined as the net operating income that a property generates divided by the estimated value of the property. Capitalization rates are a common metric used to estimate the value of a rental property based on its net operating income, and vary by property type, location, and other property-specific characteristics. This analysis uses a 3.75 to 4.25 percent capitalization rate to value the multifamily rental properties, depending on the Market Area. This capitalization rate is based on the capitalization rates reported by local practitioners and corroborated by data provided by CoStar.

Figure 11: AHLF Residential Market Areas



Source: City of Los Angeles, 2022.

Table 10: Recent Land Comparables in the High Market Area

	Sale Date	Sale Price	Land Area (SF)	Land Area (AC)	Land Price per AC	Land Price per SF	TOC Tier	Zoning
Palms Residential and Commercial Land Comps								
13481 Beach Ave	6/23/2022	$3,400,000	7,841	0.18	$18,888,889	$434	Not eligible	CM(GM)-2D-CA
4424-4438 Slauson Ave	1/27/2022	$6,320,000	20,003	0.46	$13,763,066	$316	Not eligible	R3-1
3407 Tilden Ave	2/4/2022	$1,837,500	6,647	0.15	$12,041,284	$276	Not eligible	R3-1
4367 Berryman Ave	9/14/2021	$5,275,000	18,735	0.43	$12,264,590	$282	Not eligible	R3-1
3750 Canfield	6/3/2020	$1,990,500	6,751	0.15	$13,108,523	$295	Tier 3	R3-1
3738 Overland Ave	2/17/2022	$1,800,000	5,868	0.13	$13,637,730	$307	Tier 3	C2-1
3521-3525 Hughes	5/29/2020	$3,100,000	9,856	0.22	$13,983,655	$315	Tier 3	R3-1
10409 W Washington Blvd.	6/28/2021	$6,200,062	13,209	0.30	$20,868,238	$469	Tier 3	C2-1
11434 W Pico Blvd	11/23/2021	$15,000,000	20,908	0.48	$31,250,000	$717	Tier 3	C2-1VL
West LA Residential and Commercial Land Comps								
2346 Bundy	3/31/2021	$1,320,000	5,415	0.12	$10,619,469	$244	Tier 3	RAS4-1VL
2307 S Sepulveda Blvd	5/26/2022	$4,658,902	12,196	0.28	$16,638,936	$382	Tier 4	NI(EC)
2576-2580 S Sepulveda Blvd	4/15/2022	$3,600,000	9,814	0.23	$15,978,695	$367	Tier 3	R3-1
Venice Residential and Commercial Land Comps								
2818 Abbot Kinney Blvd	3/31/2022	$1,200,000	3,000	0.07	$17,423,879	$400	Not eligible	C2-1
2501 Lincoln Blvd	5/13/2022	$3,400,000	5,663	0.13	$26,152,840	$600	Not eligible	[Q]C2-1-CDO
3016 Washington Blvd	9/30/2021	$9,150,000	33,271	0.76	$11,979,576	$275	Not eligible	[Q]C2-1-CDO
Westwood Residential and Commercial Land Comps								
1361 Kelton Ave	3/31/2022	$1,200,000	8,020	0.18	$6,500,000	$150	Tier 3	[Q]R4-1L
10915 Strathmore Dr	9/30/2021	$9,150,000	18,379	0.42	$11,500,000	$498	Tier 2	[Q]R4-1VL
Westchester - Playa del Rey Residential and Commercial Land Comps								
6801 S La Cienega Blvd	6/30/2021	$13,650,000	36,590	0.84	$11,500,000	$373	Tier 2	Not eligible
Median		**$3,500,000**	**9,835**	**0.22**	**$13,700,398**	**$341**		
Average		**$5,125,109**	**13,454**	**0.31**	**$15,449,965**	**$372**		

Source: CoStar, 2022; BAE, 2022.

Table 11: Recent Land Comparable, Medium-High Market Area

Wilshire Residential and Commercial Land Comps

220 N Berendo St	9/22/2021	$1,275,000	7,501	0.17	$7,404,181	$170	Tier 4	R3-1	R3
8234 Blackburn Ave	9/21/2021	$2,150,000	6,251	0.14	$14,982,265	$344	Tier 1	R3-1-O	R3
621 S Catalina St	11/1/2021	$14,250,000	24,450	0.56	$25,387,493	$583	Tier 3	[T][Q]C2-2	(T)(Q)
245 N Gramercy Plz	8/30/2021	$1,480,000	6,969	0.16	$9,250,000	$212	Tier 2	[Q]R3-1	(Q)
752 S Harvard Blvd	2/22/2022	$1,550,000	6,726	0.15	$10,038,860	$230	Tier 2	R3-2	R3
926 S Harvard Blvd	7/20/2021	$1,275,000	6,749	0.15	$8,229,204	$189	Tier 3	R4-1	R4
549 N Heliotrope Dr	1/25/2021	$1,240,000	7,998	0.18	$6,753,813	$155	Tier 3	R3-1	R3
547 N Hobart Blvd	12/21/2021	$4,200,000	18,430	0.42	$9,926,731	$228	Tier 2	R3-1	R3
629 N Kingsley Dr	6/1/2022	$5,200,000	6,534	0.15	$34,666,667	$796	Tier 1	R3-1	R3
431 N La Cienega Blvd	12/10/2021	$20,000,000	32,670	0.75	$26,666,667	$612	Tier 2	C2-1VL-O	C2 (L/VL/XL)
651 N Mariposa Ave	5/10/2022	$4,975,000	28,662	0.66	$7,560,790	$174	Tier 2	[Q]R3-1	(Q)
4100 Melrose Ave	7/29/2022	$3,850,000	15,004	0.34	$11,177,434	$257	Tier 2	C2-1	C2
432 N Normandie Ave	10/13/2021	$1,600,000	5,663	0.13	$12,307,692	$283	Tier 3	R3-1	R3
570 N Normandie Ave	9/16/2021	$1,550,000	8,999	0.21	$7,502,420	$172	Tier 1	R3-1	R3
612 N Normandie Ave	9/27/2021	$1,487,000	7,505	0.17	$8,630,296	$198	Tier 2	R3-1	R3
904 S Normandie Ave	2/10/2022	$1,400,000	6,400	0.15	$9,528,736	$219	Tier 3	R4-2	R4
321 Oxford Ave	1/1/2021	$4,650,000	18,000	0.41	$11,253,004	$258	Tier 3	R3-1	R3
1110 S Spaulding Ave	1/27/2022	$4,995,000	9,993	0.23	$21,773,434	$500	Tier 3	R3-1-O	R3
453 N Stanley Ave	9/28/2021	$2,300,000	6,534	0.15	$15,333,333	$352	Tier 1	RD1.5-1-O	RD1.5
544-550 Wilton Pl	3/26/2021	$2,900,000	13,504	0.31	$9,354,839	$215	Tier 3	R3-2	R3
810 S Wilton Pl	5/11/2021	$1,200,000	7,501	0.17	$6,968,641	$160	Tier 3	R3-1	R3
6142 Alcott St	8/27/2021	$1,522,000	5,998	0.14	$11,053,014	$254	Tier 3	RD1.5-1-O	RD1.5
1541 S Hayworth Ave	3/11/2022	$2,150,000	6,880	0.16	$13,612,506	$313	Tier 3	[Q]R3-1-O	(Q)
111 N Orlando Ave	3/4/2021	$1,700,000	5,502	0.13	$13,460,016	$309	Tier 3	R3-1	R3
3019 W 6th St	7/1/2021	$1,610,000	4,708	0.11	$14,896,235	$342	Tier 4	C2-4	C2
112 S Croft Ave	3/2/2022	$2,750,000	7,497	0.17	$15,979,082	$367	Tier 2	R3-1	R3
1035 Dewey Ave	9/20/2021	$4,800,000	17,860	0.41	$11,707,317	$269	Tier 3	R4-1	R4
115 Normandie	1/28/2022	$1,350,000	7,996	0.18	$7,354,423	$169	Tier 2	R3-1	R3
339-341 N Virgil Ave	12/16/2021	$1,850,000	13,745	0.32	$5,862,928	$135	Tier 3	[T][Q]MR1-1VL	(T)(Q)
4155 Wilshire Blvd	9/29/2021	$4,180,000	22,216	0.51	$8,196,078	$188	Tier 3	CR(PKM)-1	Other
8501 Beverly Blvd	10/14/2021	$55,500,000	62,291	1.43	$38,811,189	$891	Tier 3	C2-1-O	C2
8460-8466 Blackburn Ave	1/3/2022	$4,883,784	11,873	0.27	$17,917,738	$411	Tier 3	R4P-1-O	R4
452-456 N Oxford Ave	1/24/2021	$2,480,000	12,310	0.28	$8,775,686	$201	Tier 2	R3-1	R3
3807 Wilshire Blvd	1/29/2021	$13,600,000	22,651	0.52	$26,153,846	$600	Tier 4	C4-2	C4

Table 12: Recent Land Comparables, Medium-High Market Area, (continued)

Hollywood Residential and Commercial Land Comps								
1255 N Beachwood Dr	6/10/2022	$1,475,000	6,749	0.15	$9,520,060	$219	Tier 1	R3-1
1025 N Vermont	2/24/2022	$5,100,000	33,682	0.77	$6,595,692	$151	Tier 4	C2-1D
828 N Detroit St	9/21/2021	$1,560,000	6,534	0.15	$10,400,000	$239	Tier 1	[Q]R3-1XL
815 N Edinburgh Ave	10/8/2021	$2,200,000	6,551	0.15	$14,627,660	$336	Tier 2	R3-1
4853-4857 Melrose Ave	3/9/2022	$2,875,000	13,229	0.30	$9,466,579	$217	Tier 2	C1-1D
1825 N New Hampshire Ave	12/31/2021	$2,650,000	9,270	0.21	$12,453,008	$286	Tier 3	R3-1
6751 W Sunset Blvd	7/16/2021	$9,100,000	16,383	0.38	$24,195,693	$555	Tier 3	C4-2D-SN
5728 Waring Ave	4/27/2022	$1,575,000	6,503	0.15	$10,550,078	$242	Tier 2	R3-1XL
Myra Ave	7/1/2022	$830,621	9,644	0.22	$3,751,743	$86	Tier 3	[T][Q]C2-1D
1011 N Sycamore Ave	6/9/2022	$26,858,034	44,233	1.02	$26,449,391	$607	Tier 3	MR1-1
1522 N Van Ness Ave	1/11/2021	$25,000,000	41,877	0.96	$26,004,718	$597	Tier 3	C2-1-SN
5545 Virginia Ave	2/25/2021	$775,500	9,493	0.22	$3,558,498	$82	Tier 3	R4-1VL
1350 N Western Ave	2/28/2022	$16,375,237	72,310	1.66	$9,864,601	$226	Tier 3	[Q]CM-1
Silver Lake Residential and Commercial Land Comps								
627 Dillon St	1/21/2021	$3,350,000	13,174	0.30	$11,076,834	$254	Not eligible	R4-1VL
921 Manzanita St	7/29/2021	$1,608,000	7,313	0.17	$9,578,099	$220	Tier 3	R3-1VL
801-809 N Alvarado St	12/9/2021	$4,250,000	12,632	0.29	$14,655,172	$336	Tier 2	C2-1VL
1129 Logan St	5/6/2022	$1,272,500	6,498	0.15	$8,530,307	$196	Tier 3	R3-1VL-CDO
326 Robinson St	9/16/2021	$1,550,000	10,193	0.23	$6,623,932	$152	Tier 1	RAS3-1VL
2772 Rowena Ave	12/20/2021	$1,400,000	7,745	0.18	$7,874,016	$181	Not eligible	[Q]C2-1VL
1132 W Sunset Blvd	7/25/2022	$1,607,314	9,147	0.21	$7,653,876	$176	Tier 1	C2-1VL
1330 W Sunset Blvd	12/1/2021	$3,800,000	22,555	0.52	$7,338,741	$168	Tier 1	C2-1VL
3004 W Sunset Blvd	3/2/2021	$5,450,000	18,170	0.42	$13,065,596	$300	Tier 1	[Q]C2-1VL
Median		**$2,250,000**	**9,382**	**0.22**	**$10,219,430**	**$235**		
Average		**$5,402,946**	**14,955**	**0.34**	**$12,898,408**	**$296**		

Source: CoStar, 2022; BAE, 2022.

APPENDIX B: PRO-FORMAS

Table 13: Financial Feasibility Summary By Prototype and AHLF Market Area

	Small R3-1	Medium R4-1	Large R4-2
Zoning	**R3-1**	**R4-1**	**R4-2**
Site Size (acres)	**0.16**	0.29	0.95
Residential Units (#)	8	32	184
VLI Units (#)	1	4	21
Gross Building Area (sf)	15,260	33,025	224,175
Total Development Costs	$7,146,650	$19,427,603	$119,535,515
TDC per Unit (exc. Land)	$893,331	$607,113	$649,650
High Market Area			
Cap Rate	3.75%	3.75%	3.75%
RLV per site sf (25th)	($141)	$53	($66)
RLV per site sf (Median)	($18)	$236	**$267**
RLV per site sf (75th)	$406	**$419**	**$634**
Medium-High Market Area			
Cap Rate	3.85%	3.85%	3.85%
RLV per site sf (25th)	($272)	($130)	($417)
RLV per site sf (Median)	($185)	$6	($147)
RLV per site sf (75th)	($79)	**$370**	**$511**
Medium Market Area			
Cap Rate	4.10%	4.10%	4.10%
RLV per site sf (25th)	($315)	($414)	($909)
RLV per site sf (Median)	($348)	($278)	($660)
RLV per site sf (75th)	($315)	($340)	($338)

Sources: LADBS, CoStar, 2022; BAE, 2022.

Figure 12: Pro-Forma Analysis for Small Project in High Market Area

Development Program Assumptions		
Site Size - acres / square feet	0.16	7,002
Total Dwelling Units		**8**
Gross Building Area (sf)		14,549
Gross Commercial Area (sf)		0
Gross Residential Area (sf)		14,549
Circulation (% / sf)	12%	1,746
Net Area (commercial / residential)	0	12,803
Average Unit Size (sf, net)		1,600
Total Parking Spaces		17
Surface Spaces		0
Podium Spaces		0
Underground Spaces		17
Parking Ratio (spaces/res unit)		*2.1*

Unit Mix and Affordability Breakdown		
ELI (% - count)	0%	0
VLI (% - count) (a)	11%	1
LI (% - count)	0%	0
Mod (% - count)	0%	0
Market Rate (% - count)	89%	7

Unit Mix	(%)	ELI (#)	VLI (#)	LI (#)	Market (#)
Studio	0%	0	0	0	0
1-BR	0%	0	0	0	0
2-BR	15%	0	0	0	1
3-BR	85%	0	1	0	6
All Units	100%	0	1	0	7

Cost and Income Assumptions	
Construction	
Hard Cost (per gross sf)	$300
Surface Parking Cost (per space)	$5,000
Podium Parking Cost (per space)	$35,000
Underground Parking Cost (per space)	$50,000
Soft Costs (% of hard costs)	18% (b)
Developer Profit (% of hard and soft)	10%
Financing	
MR Loan-to-Cost	65%
Loan Fees	1%
Drawdown Factor	65%
Interest rate	6.50%
Loan Term (months)	24

Revenues and Expenses (c) (d)	ELI	VLI	LI	Market
Studio	$461	$768	$921	n/a
1-BR	$527	$878	$1,053	n/a
2-BR	$592	$987	$1,185	$4,927
3-BR	$658	$1,097	$1,316	$7,167

Vacancy Rate	5.0%
OpEx (% gross revenues)	30%
Capitalization Rate	3.75%

Development Cost Analysis	
Hard Costs	
Hard Construction	$4,364,700
Surface Parking	$0
Podium Parking	$0
Underground Parking	$850,000
Soft Costs	$938,646
Linkage Fees - Residential	$0
Linkage Fees - Commercial	0
Subtotal, Hard + Soft	$6,153,346
Const. Loan Fees	$39,997
Const. Loan Interest	$337,973
Developer Profit	$615,335
Total Development Costs	**$7,146,650**

Valuation Analysis	
Gross Scheduled Rents	$576,266
Less: Vacancy	($28,813)
Less: Operating Expenses	($172,880)
Net Operating Income	**$374,573**
Capitalized Project Value	$9,988,611
Less: Development Costs	($7,146,650)
Residual Land Value	**$2,841,961**
RLV/Acre (75th percentile rents)	*$17,680,065*
Yield on Cost (NOI/Costs)	*5.2%*
RLV/Acre (Median rents)	*-$791,889*
Yield on Cost (NOI/Costs)	*3.7%*
RLV/Acre (25th percentile rents)	*-$6,124,291*
Yield on Cost (NOI/Costs)	*3.2%*

Notes:

(a) Threshold at which projects are exempt from the City's Affordable Housing Linkage Fee.

(b) Soft costs shown in this line include engineering, architecture, as well as City cost-recovery fees for planning, permitting, and entitlements.

(c) Affordable rents based on LAHD Schedule VI Maximum Rent Levels, effective August 1, 2022.

(d) Based on rents for market-rate units in 75th percentile of High Market Area, according to CoStar.

Figure 13: Pro-Forma Analysis for Medium Project in High Market Area

Development Program Assumptions

Site Size - acres / square feet	0.29	12,800
Total Dwelling Units		**32**
Gross Building Area (sf)		33,025
Gross Commercial Area (sf)		0
Gross Residential Area (sf)		33,025
Circulation (% / sf)	12%	3,963
Net Area (commercial / residential)	0	29,062
Average Unit Size (sf, net)		908
Total Parking Spaces		65
Surface Spaces		0
Podium Spaces		20
Underground Spaces		46
Parking Ratio (spaces/res unit)		*2.0*

Unit Mix and Affordability Breakdown

ELI (% - count)	0%	0
VLI (% - count) (a)	11%	4
LI (% - count)	0%	0
Mod (% - count)	0%	0
Market Rate (% - count)	89%	28

Unit Mix	(%)	ELI (#)	VLI (#)	LI (#)	Market (#)
Studio	5%	0	0	0	1
1-BR	20%	0	1	0	6
2-BR	60%	0	2	0	17
3-BR	15%	0	1	0	4
All Units	100%	0	4	0	28

Cost and Income Assumptions

Construction

Site Prep Costs (per site sf)	$25
Hard Cost (per gross sf)	$330
Surface Parking Cost (per space)	$5,000
Podium Parking Cost (per space)	$35,000
Underground Parking Cost (per space)	$50,000
Soft Costs (% of hard costs)	18% (b)
Developer Profit (% of hard and soft)	10%

Financing

MR Loan-to-Cost	65%
Loan Fees	1%
Drawdown Factor	65%
Interest rate	6.5%
Loan Term (months)	24

Revenues and Expenses (c)(d)

	ELI	VLI	LI	Market
Studio	$461	$768	$921	$3,040
1-BR	$527	$878	$1,053	$3,313
2-BR	$592	$987	$1,185	$4,323
3-BR	$658	$1,097	$1,316	$5,615

Vacancy Rate	5.0%
OpEx (% gross revenues)	30%
Capitalization Rate	3.75%

Development Cost Analysis

Hard Costs	
Site Preparation	$320,000
Hard Construction	$10,898,250
Surface Parking	$0
Podium Parking	$682,500
Underground Parking	$2,275,000
Soft Costs	$2,551,635
Linkage Fees - Residential	$0
Linkage Fees - Commercial	0
Subtotal, Hard + Soft	$16,727,385
Const. Loan Fees	$108,728
Const. Loan Interest	$918,752
Developer Profit	$1,672,739
Total Development Costs	**$19,427,603**

Valuation Analysis

Gross Scheduled Rents	$1,430,392
Less: Vacancy	($71,520)
Less: Operating Expenses	($429,118)
Net Operating Income	**$929,755**
Capitalized Project Value	$24,793,461
Less: Development Costs	($19,427,603)
Residual Land Value	**$5,365,858**
RLV/Acre (75th percentile rents)	*$18,260,686*
Yield on Cost (NOI/Costs)	*4.8%*
RLV/Acre (Median rents)	$10,275,607
Yield on Cost (NOI/Costs)	4.3%
RLV/Acre (25th percentile rents)	$2,288,405
Yield on Cost (NOI/Costs)	3.9%

Notes:
(a) Threshold at which projects are exempt from the City's Affordable Housing Linkage Fee.
(b) Soft costs shown in this line include engineering, architecture, as well as City cost-recovery fees for planning, permitting, and entitlements.
(c) Affordable rents based on LAHD Schedule VI Maximum Rent Levels, effective August 1, 2022.
(d) Based on rents for market-rate units in 75th percentile of High Market Area, according to CoStar.

Figure 14: Pro-Forma Analysis for Large Project in High Market Area

Development Program Assumptions

Site Size - acres / square feet	0.95	41,251
Total Dwelling Units		**184**
Gross Building Area (sf)		224,175
Gross Commercial Area (sf)		0
Gross Residential Area (sf)		224,175
Circulation (% / sf)	12%	26,901
Net Area (commercial / residential)	0	197,274
Average Unit Size (sf, net)		1,029
Total Parking Spaces		295
Surface Spaces		0
Podium Spaces		197
Underground Spaces		98
Parking Ratio (spaces/res unit)		*1.6*

Unit Mix and Affordability Breakdown

ELI (% - count)	0%	0
VLI (% - count) (a)	11%	21
LI (% - count)	0%	0
Mod (% - count)	0%	0
Market Rate (% - count)	89%	163

Unit Mix	(%)	ELI (#)	VLI (#)	LI (#)	Market (#)
Studio	5%	0	1	0	8
1-BR	20%	0	4	0	33
2-BR	60%	0	13	0	98
3-BR	15%	0	3	0	24
All Units	100%	0	21	0	163

Cost and Income Assumptions

Construction	
Demolition (per site sf)	$10
Site Prep Costs (per site sf)	$25
Hard Cost (per gross sf)	$330
Surface Parking Cost (per space)	$5,000
Podium Parking Cost (per space)	$35,000
Underground Parking Cost (per space)	$50,000
Soft Costs (% of hard costs)	18% (b)
Developer Profit (% of hard and soft)	10%
Financing	
MR Loan-to-Cost	65%
Loan Fees	1%
Drawdown Factor	65%
Interest rate	7%
Loan Term (months)	24

Revenues and Expenses (c) (d)

	ELI	VLI	LI	Market
Studio	$461	$768	$921	$3,040
1-BR	$527	$878	$1,053	$3,313
2-BR	$592	$987	$1,185	$4,323
3-BR	$658	$1,097	$1,316	$5,615

Vacancy Rate	5.0%
OpEx (% gross revenues)	30%
Capitalization Rate	3.75%

Development Cost Analysis

Hard Costs	
Demolition	$412,513
Site Preparation	$1,031,283
Hard Construction	$73,977,750
Surface Parking	$0
Podium Parking	$6,883,333
Underground Parking	$4,916,667
Soft Costs	$15,699,878
Linkage Fees - Residential	$0
Linkage Fees - Commercial	0
Subtotal, Hard + Soft	$102,921,425
Const. Loan Fees	$668,989
Const. Loan Interest	$5,652,959
Developer Profit	$10,292,142
Total Development Costs	**$119,535,515**

Valuation Analysis

Gross Scheduled Rents	$8,325,254
Less: Vacancy	($416,263)
Less: Operating Expenses	($2,497,576)
Net Operating Income	**$5,411,415**
Capitalized Project Value	$144,304,403
Less: Development Costs	($119,535,515)
Residual Land Value	**$24,768,887**
RLV/Acre (75th percentile rents)	*$26,155,108*
Yield on Cost (NOI/Costs)	*4.5%*
RLV/Acre (Median rents)	$11,609,385
Yield on Cost (NOI/Costs)	4.1%
RLV/Acre (25th percentile rents)	*-$2,875,498*
Yield on Cost (NOI/Costs)	3.7%

Notes:

(a) Threshold at which projects are exempt from the City's Affordable Housing Linkage Fee.

(b) Soft costs shown in this line include engineering, architecture, as well as City cost-recovery fees for planning, permitting, and entitlements.

(c) Affordable rents based on LAHD Schedule VI Maximum Rent Levels, effective August 1, 2022.

(d) Based on rents for market-rate units in 75th percentile of High Market Area, according to CoStar.

Figure 15: Pro-Forma Analysis for Small Project in Medium-High Market Area

Development Program Assumptions

Site Size - acres / square feet	0.16	7,002
Total Dwelling Units		**8**
Gross Building Area (sf)		14,549
Gross Commercial Area (sf)		0
Gross Residential Area (sf)		14,549
Circulation (% / sf)	12%	1,746
Net Area (commercial / residential)	0	12,803
Average Unit Size (sf, net)		1,600
Total Parking Spaces		17
Surface Spaces		0
Podium Spaces		0
Underground Spaces		17
Parking Ratio (spaces/res unit)		*2.1*

Unit Mix and Affordability Breakdown

ELI (% - count)	0%	0
VLI (% - count) (a)	11%	1
LI (% - count)	0%	0
Mod (% - count)	0%	0
Market Rate (% - count)	89%	7

Unit Mix	(%)	ELI (#)	VLI (#)	LI (#)	Market (#)
Studio	0%	0	0	0	0
1-BR	0%	0	0	0	0
2-BR	15%	0	0	0	1
3-BR	85%	0	1	0	6
All Units	100%	0	1	0	7

Cost and Income Assumptions

Construction	
Hard Cost (per gross sf)	$300
Surface Parking Cost (per space)	$5,000
Podium Parking Cost (per space)	$35,000
Underground Parking Cost (per space)	$50,000
Soft Costs (% of hard costs)	18%
Developer Profit (% of hard and soft)	10%
Financing	
MR Loan-to-Cost	65%
Loan Fees	1%
Drawdown Factor	65%
Interest rate	7%
Loan Term (months)	24

Revenues and Expenses (c) (d)

	ELI	VLI	LI	Market
Studio	$461	$768	$921	n/a
1-BR	$527	$878	$1,053	n/a
2-BR	$592	$987	$1,185	$4,105
3-BR	$658	$1,097	$1,316	$4,727

Vacancy Rate	5.0%
OpEx (% gross revenues)	30%
Capitalization Rate	3.85%

Development Cost Analysis

Hard Costs	
Hard Construction	$4,364,700
Surface Parking	$0
Podium Parking	$0
Underground Parking	$850,000
(b) **Soft Costs**	$938,646
Linkage Fees - Residential	$0
Linkage Fees - Commercial	0
Subtotal, Hard + Soft	$6,153,346
Const. Loan Fees	$39,997
Const. Loan Interest	$337,973
Developer Profit	$615,335
Total Development Costs	**$7,146,650**

Valuation Analysis

Gross Scheduled Rents	$390,704
Less: Vacancy	($19,535)
Less: Operating Expenses	($117,211)
Net Operating Income	**$253,958**
Capitalized Project Value	$6,596,301
Less: Development Costs	($7,146,650)
Residual Land Value	**($550,349)**
RLV/Acre (75th percentile rents)	*-$3,423,762*
Yield on Cost (NOI/Costs)	*3.6%*
RLV/Acre (Median rents)	-$8,069,818
Yield on Cost (NOI/Costs)	3.2%
RLV/Acre (25th percentile rents)	-$11,865,436
Yield on Cost (NOI/Costs)	2.8%

Notes:
(a) Threshold at which projects are exempt from the City's Affordable Housing Linkage Fee.
(b) Soft costs shown in this line include engineering, architecture, as well as City cost-recovery fees for planning, permitting, and entitlements.
(c) Affordable rents based on LAHD Schedule VI Maximum Rent Levels, effective August 1, 2022.
(d) Based on rents for market-rate units in 75th percentile of High Market Area, according to CoStar.

Figure 16: Pro-Forma Analysis for Medium Project in Medium-High Market Area

Development Program Assumptions

Site Size - acres / square feet	0.29	12,800
Total Dwelling Units		**32**
Gross Building Area (sf)		33,025
Gross Commercial Area (sf)		0
Gross Residential Area (sf)		33,025
Circulation (% / sf)	12%	3,963
Net Area (commercial / residential)	0	29,062
Average Unit Size (sf, net)		908
Total Parking Spaces		65
Surface Spaces		0
Podium Spaces		20
Underground Spaces		46
Parking Ratio (spaces/res unit)		*2.0*

Unit Mix and Affordability Breakdown

ELI (% - count)	0%	0
VLI (% - count) (a)	11%	4
LI (% - count)	0%	0
Mod (% - count)	0%	0
Market Rate (% - count)	89%	28

Unit Mix	(%)	ELI (#)	VLI (#)	LI (#)	Market (#)
Studio	5%	0	0	0	1
1-BR	20%	0	1	0	6
2-BR	60%	0	2	0	17
3-BR	15%	0	1	0	4
All Units	100%	0	4	0	28

Cost and Income Assumptions

Construction

Site Prep Costs (per site sf)	$25
Hard Cost (per gross sf)	$330
Surface Parking Cost (per space)	$5,000
Podium Parking Cost (per space)	$35,000
Underground Parking Cost (per space)	$50,000
Soft Costs (% of hard costs)	18% (b)
Developer Profit (% of hard and soft)	10%

Financing

MR Loan-to-Cost	65%
Loan Fees	1%
Drawdown Factor	65%
Interest rate	6.5%
Loan Term (months)	24

Revenues and Expenses (c) (d)

	ELI	VLI	LI	Market
Studio	$461	$768	$921	$2,902
1-BR	$527	$878	$1,053	$3,352
2-BR	$592	$987	$1,185	$4,259
3-BR	$658	$1,097	$1,316	$5,878

Vacancy Rate	5.0%
OpEx (% gross revenues)	30%
Capitalization Rate	3.85%

Development Cost Analysis

Hard Costs	
Site Preparation	$320,000
Hard Construction	$10,898,250
Surface Parking	$0
Podium Parking	$682,500
Underground Parking	$2,275,000
Soft Costs	$2,551,635
Linkage Fees - Residential	$0
Linkage Fees - Commercial	0
Subtotal, Hard + Soft	$16,727,385
Const. Loan Fees	$108,728
Const. Loan Interest	$918,752
Developer Profit	$1,672,739
Total Development Costs	**$19,427,603**

Valuation Analysis

Gross Scheduled Rents	$1,431,040
Less: Vacancy	($71,552)
Less: Operating Expenses	($429,312)
Net Operating Income	**$930,176**
Capitalized Project Value	$24,160,416
Less: Development Costs	($19,427,603)
Residual Land Value	**$4,732,812**
RLV/Acre (75th percentile rents)	*$16,106,352*
Yield on Cost (NOI/Costs)	*4.8%*
RLV/Acre (Median rents)	$269,530
Yield on Cost (NOI/Costs)	3.9%
RLV/Acre (25th percentile rents)	-$5,680,030
Yield on Cost (NOI/Costs)	3.5%

Notes:
(a) Threshold at which projects are exempt from the City's Affordable Housing Linkage Fee.
(b) Soft costs shown in this line include engineering, architecture, as well as City cost-recovery fees for planning, permitting, and entitlements.
(c) Affordable rents based on LAHD Schedule VI Maximum Rent Levels, effective August 1, 2022.
(d) Based on rents for market-rate units in 75th percentile of High Market Area, according to CoStar.

Figure 17: Pro-Forma Analysis for Large Project in Medium-High Market Area

Development Program Assumptions

Site Size - acres / square feet	0.95	41,251
Total Dwelling Units		**184**
Gross Building Area (sf)		224,175
Gross Commercial Area (sf)		0
Gross Residential Area (sf)		224,175
Circulation (% / sf)	12%	26,901
Net Area (commercial / residential)	0	197,274
Average Unit Size (sf, net)		1,029
Total Parking Spaces		295
Surface Spaces		0
Podium Spaces		197
Underground Spaces		98
Parking Ratio (spaces/res unit)		*1.6*

Unit Mix and Affordability Breakdown

ELI (% - count)	0%	0
VLI (% - count) (a)	11%	21
LI (% - count)	0%	0
Mod (% - count)	0%	0
Market Rate (% - count)	89%	163

Unit Mix	(%)	ELI (#)	VLI (#)	LI (#)	Market (#)
Studio	5%	0	1	0	8
1-BR	20%	0	4	0	33
2-BR	60%	0	13	0	98
3-BR	15%	0	3	0	24
All Units	100%	0	21	0	163

Cost and Income Assumptions

Construction

Demolition (per site sf)	$10
Site Prep Costs (per site sf)	$25
Hard Cost (per gross sf)	$330
Surface Parking Cost (per space)	$5,000
Podium Parking Cost (per space)	$35,000
Underground Parking Cost (per space)	$50,000
Soft Costs (% of hard costs)	18% (b)
Developer Profit (% of hard and soft)	10%

Financing

MR Loan-to-Cost	65%
Loan Fees	1%
Drawdown Factor	65%
Interest rate	7%
Loan Term (months)	24

Revenues and Expenses (c) (d)

	ELI	VLI	LI	Market
Studio	$461	$768	$921	$2,902
1-BR	$527	$878	$1,053	$3,352
2-BR	$592	$987	$1,185	$4,259
3-BR	$658	$1,097	$1,316	$5,878

Vacancy Rate	5.0%
OpEx (% gross revenues)	30%
Capitalization Rate	3.85%

Development Cost Analysis

Hard Costs	
Demolition	$412,513
Site Preparation	$1,031,283
Hard Construction	$73,977,750
Surface Parking	$0
Podium Parking	$6,883,333
Underground Parking	$4,916,667
Soft Costs	$15,699,878
Linkage Fees - Residential	$0
Linkage Fees - Commercial	0
Subtotal, Hard + Soft	$102,921,425
Const. Loan Fees	$668,989
Const. Loan Interest	$5,652,959
Developer Profit	$10,292,142
Total Development Costs	**$119,535,515**

Valuation Analysis

Gross Scheduled Rents	$8,327,516
Less: Vacancy	($416,376)
Less: Operating Expenses	($2,498,255)
Net Operating Income	**$5,412,885**
Capitalized Project Value	$140,594,426
Less: Development Costs	($119,535,515)
Residual Land Value	**$21,058,911**
RLV/Acre (75th percentile rents)	*$22,237,498*
Yield on Cost (NOI/Costs)	*4.5%*
RLV/Acre (Median rents)	-$6,394,093
Yield on Cost (NOI/Costs)	3.7%
RLV/Acre (25th percentile rents)	*-$17,196,899*
Yield on Cost (NOI/Costs)	3.3%

Notes:
(a) Threshold at which projects are exempt from the City's Affordable Housing Linkage Fee.
(b) Soft costs shown in this line include engineering, architecture, as well as City cost-recovery fees for planning, permitting, and entitlements.
(c) Affordable rents based on LAHD Schedule VI Maximum Rent Levels, effective August 1, 2022.
(d) Based on rents for market-rate units in 75th percentile of High Market Area, according to CoStar.

Figure 18: Pro-Forma Analysis for Small Project in Medium Market Area

Development Program Assumptions		
Site Size - acres / square feet	0.16	7,002
Total Dwelling Units		**8**
Gross Building Area (sf)		14,549
Gross Commercial Area (sf)		0
Gross Residential Area (sf)		14,549
Circulation (% / sf)	12%	1,746
Net Area (commercial / residential)	0	12,803
Average Unit Size (sf, net)		1,600
Total Parking Spaces		17
Surface Spaces		0
Podium Spaces		0
Underground Spaces		17
Parking Ratio (spaces/res unit)		*2.1*

Unit Mix and Affordability Breakdown		
ELI (% - count)	0%	0
VLI (% - count) (a)	11%	1
LI (% - count)	0%	0
Mod (% - count)	0%	0
Market Rate (% - count)	89%	7

Unit Mix	(%)	ELI (#)	VLI (#)	LI (#)	Market (#)
Studio	0%	0	0	0	0
1-BR	0%	0	0	0	0
2-BR	0%	0	0	0	0
3-BR	100%	0	1	0	7
All Units	100%	0	1	0	7

Cost and Income Assumptions		
Construction		
Hard Cost (per gross sf)	$300	
Surface Parking Cost (per space)	$5,000	
Podium Parking Cost (per space)	$35,000	
Underground Parking Cost (per space)	$50,000	
Soft Costs (% of hard costs)	18%	(b)
Developer Profit (% of hard and soft)	10%	
Financing		
MR Loan-to-Cost	65%	
Loan Fees	1%	
Drawdown Factor	65%	
Interest rate	7%	
Loan Term (months)	24	

Revenues and Expenses (c) (d)

	ELI	VLI	LI	Market
Studio	$461	$768	$921	n/a
1-BR	$527	$878	$1,053	n/a
2-BR	$592	$987	$1,185	n/a
3-BR	$658	$1,097	$1,316	$3,697

Vacancy Rate	5.0%
OpEx (% gross revenues)	30%
Capitalization Rate	4.10%

Development Cost Analysis	
Hard Costs	
Hard Construction	$4,364,700
Surface Parking	$0
Podium Parking	$0
Underground Parking	$850,000
Soft Costs	$938,646
Linkage Fees - Residential	$0
Linkage Fees - Commercial	0
Subtotal, Hard + Soft	$6,153,346
Const. Loan Fees	$39,997
Const. Loan Interest	$337,973
Developer Profit	$615,335
Total Development Costs	**$7,146,650**

Valuation Analysis	
Gross Scheduled Rents	$311,666
Less: Vacancy	($15,583)
Less: Operating Expenses	($93,500)
Net Operating Income	**$202,583**
Capitalized Project Value	$4,941,046
Less: Development Costs	($7,146,650)
Residual Land Value	**($2,205,604)**
RLV/Acre (75th percentile rents)	*-$13,721,235*
Yield on Cost (NOI/Costs)	*2.8%*
RLV/Acre (Median rents)	-$15,173,615
Yield on Cost (NOI/Costs)	2.7%
RLV/Acre (25th percentile rents)	-$13,721,235
Yield on Cost (NOI/Costs)	2.8%

Notes:
(a) Threshold at which projects are exempt from the City's Affordable Housing Linkage Fee.
(b) Soft costs shown in this line include engineering, architecture, as well as City cost-recovery fees for planning, permitting, and entitlements.
(c) Affordable rents based on LAHD Schedule VI Maximum Rent Levels, effective August 1, 2022.
(d) Based on rents for market-rate units in 75th percentile of High Market Area, according to CoStar.

Figure 19: Pro-Forma Analysis for Medium Project in Medium Market Area

Development Program Assumptions

Site Size - acres / square feet	0.29	12,800
Total Dwelling Units		**32**
Gross Building Area (sf)		33,025
Gross Commercial Area (sf)		0
Gross Residential Area (sf)		33,025
Circulation (% / sf)	12%	3,963
Net Area (commercial / residential)	0	29,062
Average Unit Size (sf, net)		908
Total Parking Spaces		65
Surface Spaces		0
Podium Spaces		20
Underground Spaces		46
Parking Ratio (spaces/res unit)		*2.0*

Unit Mix and Affordability Breakdown

ELI (% - count)	0%	0
VLI (% - count) (a)	11%	4
LI (% - count)	0%	0
Mod (% - count)	0%	0
Market Rate (% - count)	89%	28

Unit Mix	(%)	ELI (#)	VLI (#)	LI (#)	Market (#)
Studio	5%	0	0	0	1
1-BR	20%	0	1	0	6
2-BR	60%	0	2	0	17
3-BR	15%	0	1	0	4
All Units	100%	0	4	0	28

Cost and Income Assumptions

Construction		
Site Prep Costs (per site sf)	$25	
Hard Cost (per gross sf)	$330	
Surface Parking Cost (per space)	$5,000	
Podium Parking Cost (per space)	$35,000	
Underground Parking Cost (per space)	$50,000	
Soft Costs (% of hard costs)	18%	(b)
Developer Profit (% of hard and soft)	10%	
Financing		
MR Loan-to-Cost	65%	
Loan Fees	1%	
Drawdown Factor	65%	
Interest rate	6.5%	
Loan Term (months)	24	

Revenues and Expenses (c) (d)

	ELI	VLI	LI	Market
Studio	$461	$768	$921	$2,566
1-BR	$527	$878	$1,053	$2,786
2-BR	$592	$987	$1,185	$3,460
3-BR	$658	$1,097	$1,316	$4,246

Commercial Revenue ($/sf)	
Vacancy Rate, Combined	5.0%
OpEx (% gross revenues)	30%
Capitalization Rate	4.10%

Development Cost Analysis

Hard Costs	
Site Preparation	$320,000
Hard Construction	$10,898,250
Surface Parking	$0
Podium Parking	$682,500
Underground Parking	$2,275,000
Soft Costs	$2,551,635
Linkage Fees - Residential	$0
Linkage Fees - Commercial	0
Subtotal, Hard + Soft	$16,727,385
Const. Loan Fees	$108,728
Const. Loan Interest	$918,752
Developer Profit	$1,672,739
Total Development Costs	**$19,427,603**

Valuation Analysis

Gross Scheduled Rents	$1,144,873
Less: Vacancy	($57,244)
Less: Operating Expenses	($343,462)
Net Operating Income	**$744,167**
Capitalized Project Value	$18,150,426
Less: Development Costs	($19,427,603)
Residual Land Value	**($1,277,178)**
RLV/Acre (75th percentile rents)	*-$4,346,395*
Yield on Cost (NOI/Costs)	*3.8%*
RLV/Acre (Median rents)	-$12,110,301
Yield on Cost (NOI/Costs)	3.3%
RLV/Acre (25th percentile rents)	-$18,053,327
Yield on Cost (NOI/Costs)	3.0%

Notes:
(a) Threshold at which projects are exempt from the City's Affordable Housing Linkage Fee.
(b) Soft costs shown in this line include engineering, architecture, as well as City cost-recovery fees for planning, permitting, and entitlements.
(c) Affordable rents based on LAHD Schedule VI Maximum Rent Levels, effective August 1, 2022.
(d) Based on rents for market-rate units in 75th percentile of High Market Area, according to CoStar.

Figure 20: Pro-Forma Analysis for Large Project in Medium Market Area

Development Program Assumptions

Site Size - acres / square feet	0.95	41,251
Total Dwelling Units		**184**
Gross Building Area (sf)		224,175
Gross Commercial Area (sf)		0
Gross Residential Area (sf)		224,175
Circulation (% / sf)	12%	26,901
Net Area (commercial / residential)	0	197,274
Average Unit Size (sf, net)		1,029
Total Parking Spaces		295
Surface Spaces		0
Podium Spaces		197
Underground Spaces		98
Parking Ratio (spaces/res unit)		*1.6*

Unit Mix and Affordability Breakdown

ELI (% - count)	0%	0
VLI (% - count) (a)	11%	21
LI (% - count)	0%	0
Mod (% - count)	0%	0
Market Rate (% - count)	89%	163

Unit Mix	(%)	ELI (#)	VLI (#)	LI (#)	Market (#)
Studio	5%	0	1	0	8
1-BR	20%	0	4	0	33
2-BR	60%	0	13	0	98
3-BR	15%	0	3	0	24
All Units	100%	0	21	0	163

Cost and Income Assumptions

Construction

Demolition (per site sf)	$10
Site Prep Costs (per site sf)	$25
Hard Cost (per gross sf)	$330
Surface Parking Cost (per space)	$5,000
Podium Parking Cost (per space)	$35,000
Underground Parking Cost (per space)	$50,000
Soft Costs (% of hard costs)	18% (b)
Developer Profit (% of hard and soft)	10%

Financing

MR Loan-to-Cost	65%
Loan Fees	1%
Drawdown Factor	65%
Interest rate	7%
Loan Term (months)	24

Revenues and Expenses (c) (d)

	ELI	VLI	LI	Market
Studio	$461	$768	$921	$2,566
1-BR	$527	$878	$1,053	$2,786
2-BR	$592	$987	$1,185	$3,460
3-BR	$658	$1,097	$1,316	$4,246

Commercial Revenue ($/sf)	
Vacancy Rate, Combined	5.0%
OpEx (% gross revenues)	30%
Capitalization Rate	4.10%

Development Cost Analysis

Hard Costs

Demolition	$412,513
Site Preparation	$1,031,283
Hard Construction	$73,977,750
Surface Parking	$0
Podium Parking	$6,883,333
Underground Parking	$4,916,667
Soft Costs	$15,699,878
Linkage Fees - Residential	$0
Linkage Fees - Commercial	0
Subtotal, Hard + Soft	$102,921,425
Const. Loan Fees	$668,989
Const. Loan Interest	$5,652,959
Developer Profit	$10,292,142
Total Development Costs	**$119,535,515**

Valuation Analysis

Gross Scheduled Rents	$6,661,169
Less: Vacancy	($333,058)
Less: Operating Expenses	($1,998,351)
Net Operating Income	**$4,329,760**
Capitalized Project Value	$105,603,899
Less: Development Costs	($119,535,515)
Residual Land Value	**($13,931,617)**
RLV/Acre (75th percentile rents)	*-$14,711,316*
Yield on Cost (NOI/Costs)	*3.6%*
RLV/Acre (Median rents)	-$28,745,621
Yield on Cost (NOI/Costs)	3.2%
RLV/Acre (25th percentile rents)	*-$39,576,767*
Yield on Cost (NOI/Costs)	2.8%

Notes:

(a) Threshold at which projects are exempt from the City's Affordable Housing Linkage Fee.

(b) Soft costs shown in this line include engineering, architecture, as well as City cost-recovery fees for planning, permitting, and entitlements.

(c) Affordable rents based on LAHD Schedule VI Maximum Rent Levels, effective August 1, 2022.

(d) Based on rents for market-rate units in 75th percentile of High Market Area, according to CoStar.

Appendix B: Staff Analysis of Projects Subject to the Affordable Housing Linkage Fee

To better understand how an inclusionary zoning policy would potentially impact the most recent housing project pipeline, and to better assess how the changing regulatory environment has shifted developer behavior, LAHD and DCP reviewed projects with ten or more units, excluding 100% affordable housing projects, that were subject to the full Linkage Fee. These projects all submitted entitlements and or building permits before June 17, 2019. Because of the long Linkage Fee vesting period, only 62 projects with ten or more units that received permits between 2017 and 2021 were subject to the full Linkage Fee. The relatively small number of projects subject to the Linkage Fee is due to the lag between the implementation of the full Linkage Fee (which began in June 2019) and the time needed for project approvals. For example, as shown in the chart below, most projects included in the dataset received their building permit at least two years after they submitted their initial building applications. Discretionary projects, which tend to be larger, more complex, and require an entitlement application with DCP, likely take even longer to receive their final approval and building permits. Because of this, the 62 projects described herein may not be entirely reflective of future trends.

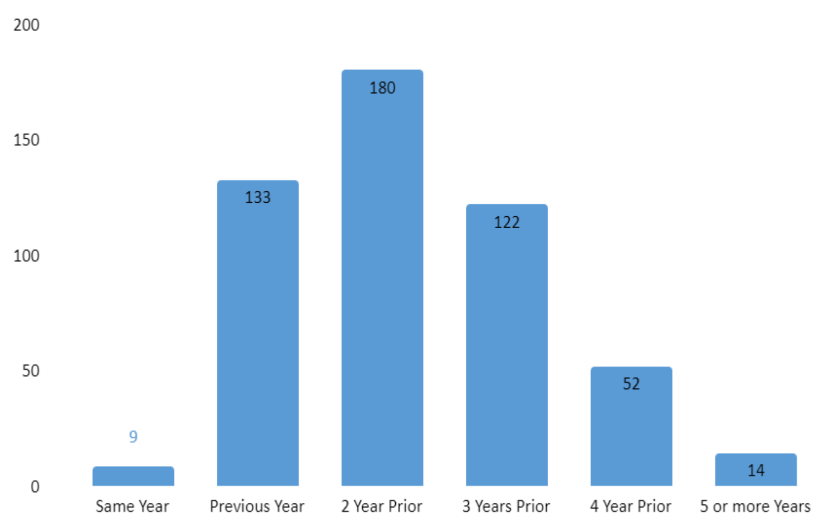


Figure 3: Time Between Building Permit Application and Building Permit Issuance

Despite the small sample size, the initial analysis supports the overall BAE findings that significantly more projects are providing onsite affordable units. Of the 62 projects, 47 projects (76%) provided onsite affordable housing units, all through either the Density Bonus or TOC

Programs. Most of the larger scale projects provided onsite affordable units, and as a result, only 11% of the total units were in 100% market-rate projects. In other words, 89% of units were in mixed-income developments that included onsite affordable housing. However, 24% of projects are still choosing to provide no affordable units. The majority of these 100% market-rate projects (11 out of 15) were located in Market Areas found in the BAE Study to have higher potential to support a potential inclusionary zoning policy (As shown in Table 3).

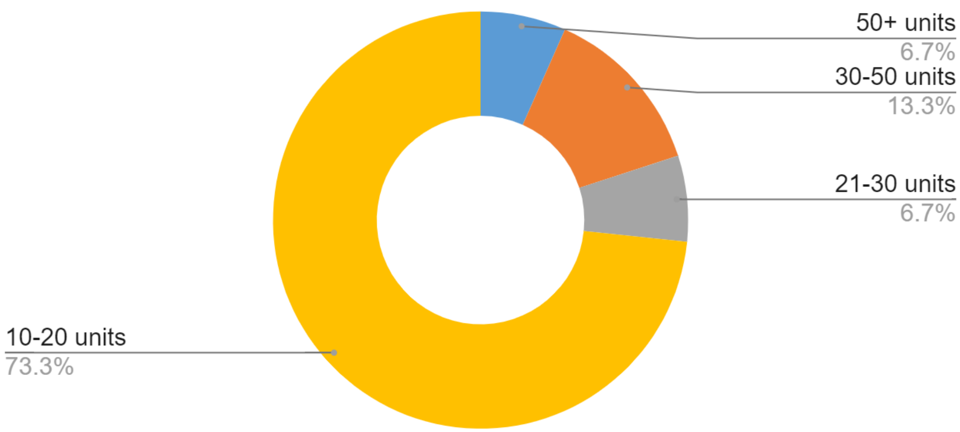
Table 1: 2017-2021 Permitted Mixed-Income Projects Over 10 Units Citywide				
	No. of Projects	Percent of Projects	No. of Units	Percent of Units
100% Market Rate Projects (Paid LF)	15	24%	348	11%
Provided Onsite Affordable	47	76%	2,854	89%
Total Projects Subject to the Fee (not Vested)	62	100%	3,202	100%

Table 2: 2017-2021 Permitted Mixed-Income Projects Over 10 Units - High and Medium High Market Areas				
	No. of Projects	Percent of Projects	Units	Percent of Units
100% Market Rate Projects (Paid LF)	11	33%	209	13%
Provided Onsite Affordable	22	67%	1,463	88%
Total Projects Subject to the Fee (not Vested)	33	100%	1,672	100%

While the majority of the 100% market-rate projects subject to the Linkage Fee are smaller

Figure 3: 100% Market Rate Projects Subject to the Affordable Housing Linkage Fee (2017-2021) by Project Size

developments with between 10-20 units, there were four projects with more than 21 units, including a 43-unit project and an 81-unit project.



Approximately half (47%) of the 100% market-rate projects in the sample involved the demolition of existing multifamily residential units. Prior to the passage of the Housing Crisis Act of 2020 (SB 330 and SB 8), only Density Bonus and TOC projects were required to replace existing RSO housing and housing occupied by low-income households. This requirement may have discouraged developers from using the incentive programs. However, with the passage of the Housing Crisis Act, all residential projects are now subject to affordable housing replacement requirements, which may push more projects toward using the incentive programs.

Although the Linkage Fee, TOC Program, and expanded housing replacement requirements continue to push most projects towards providing onsite affordable housing, other recent changes to State law may potentially counteract this trend. For example, California Assembly Bill (AB) 2097, which into effect on January 1, 2023, eliminates minimum parking requirements for all projects located within a half-mile of a major transit stop. Prior to AB 2097, parking reductions were only available to housing development projects that were located near transit and only if they provided onsite affordable housing. A preliminary pro-forma analysis conducted by LAHD suggests that AB 2097 may make it more profitable for developers to opt out of affordable housing incentives. However, developers may still need commonly-requested incentives that require affordable housing, such as increases in Floor Area Ratio (FAR) or reductions in setbacks. City Planning continues to monitor the potential impacts of AB 2097. Since the City began implementing AB 2097 in January 2023, there has not yet been a demonstrated reduction in projects utilizing affordable housing incentive programs.

Appendix C: Scope of Work for BAE's Contract Expansion

The following section describes the Tasks that BAE will complete to assist the City with Phase II of the Inclusionary Zoning (IZ) Study.

Task 1: Bi-Weekly Meetings with Staff and Phase II Contractors

As part of Task 1, BAE will participate in periodic meetings, as needed, with City staff and Phase II contractors regarding the Inclusionary Zoning Phase II Study.

The timeline assumes a preliminary kick-off date in mid/late-May, with biweekly check-ins as needed through early September.

Task 2: Deliverable Review

As part of Task 2, BAE will review key deliverables related to the Inclusionary Zoning Phase II Study and provide feedback within 10 business days of receipt.

This scope assumes that for all deliverables, BAE will provide comments within the deliverable documents themselves as opposed to drafting standalone memos. Key deliverables will include the following:

Subtask 2.1 - IZ Prototypes for IZ Feasibility Testing

BAE will review the Prototypes that are proposed for subsequent feasibility testing. This scope assumes that the analysis will generally be limited to Non-Incentive Utilizing Prototypes, as opposed to Prototypes that utilize existing or forthcoming Incentives.

BAE will review Prototype assumptions such as density, height, FAR, parking ratios, circulation, unit sizes, bedroom counts, and other factors to ensure they are consistent with underlying "by-right" zoning, and are representative of the types of projects that are likely to come online in the near to mid term.

Subtask 2.2 Draft Proformas for IZ Feasibility Testing

BAE will review the Draft Proformas associated with each of the Prototypes described above. This scope assumes that the Proformas will be provided to BAE in PDF format, as opposed to the live Excel models.

On the revenue side, BAE will review Proforma inputs such as asking rents, sale prices, capitalization rates, and other factors, and ensure they are appropriately calibrated to local market conditions. On the cost side, BAE will review inputs such as hard and soft cost assumptions, construction timelines, financing, and other factors.

The subtask also includes reviewing proposed criteria for when an IZ Requirement would become “feasible”, and under what affordability threshold(s), depending on the local Market Area.

Subtask 2.3 Finalized Approach to Determine Market Areas

BAE will review and comment on the finalized approach to determine Market Areas for both residential and commercial development.

Subtask 2.4 Proposal for In-Lieu Fee Amount

Based in part on the results of Subtasks 2.2 and 2.3, BAE will review and comment on the proposed In-Lieu Fee Amount for Non-Incentive Utilizing Projects subject to a local Inclusionary Policy.

Subtask 2.5 Proposal for Interaction between the Affordable Housing Linkage Fee and the Inclusionary requirement

As part of this subtask, BAE will review and comment on a proposal for how the existing Affordable Housing Linkage Fee might interact with a new Inclusionary requirement.

FIRST AMENDMENT
TO AGREEMENT NUMBER C-139957 OF CITY OF LOS ANGELES CONTRACTS
BETWEEN
THE CITY OF LOS ANGELES
AND
BAE URBAN ECONOMICS, INC.

THIS FIRST AMENDMENT to Agreement Number C-139957 ("Agreement") of the City of Los Angeles Contract is made and entered into by and between the City of Los Angeles ("City"), a municipal corporation, and BAE Urban Economics, Inc. ("Contractor"), a California corporation.

WITNESSETH

WHEREAS, the City and the Contractor have entered into an agreement wherein Contractor shall provide certain services, said Agreement effective March 8, 2022, which together with all amendments thereto shall hereinafter be referred to as the Agreement; and

WHEREAS, Section 405 of the Agreement provides for amendments to the Agreement; and

WHEREAS, the City and the Contractor are desirous of amending the Agreement as authorized by the City Council and the Mayor (Council File Number ##-#### adopted by City Council on XXXXXXX ##, 202#, and concurred by the Mayor on XXXXXXX ##, 202#), which authorizes the General Manager of the City's Los Angeles Housing Department ("LAHD") to prepare and execute an amendment to the Agreement for the purpose of: (a) adding additional funds in the amount of **Thirty-Seven Thousand One Hundred Ninety-Five Dollars ($37,195)** for a new total of **One Hundred Thirty-Seven Thousand One Hundred Ninety-Five Dollars ($137,195)**; (b) amending Section 202 to add additional scope of work; and (c) making such other changes as are required in connection with the foregoing, all as detailed elsewhere in this Amendment; and

WHEREAS, this Amendment is necessary and proper to continue and/or complete certain activities authorized under the Agreement.

NOW, THEREFORE, the City and the Contractor agree that the Agreement be amended as follows:

[Remainder of page intentionally left blank.]

FIRST AMENDMENT

§1. Amend Section 102, "Representatives of the Parties and Services of Notices" by deleting it in its entirety and replacing it with the following:

"A. The representatives of the respective parties who are authorized to administer this Agreement and to whom formal notices, demands and communications shall be given are as follows:

1. The representative of the City shall be, unless otherwise stated in the Agreement:

   Ann Sewill, General Manager
   Los Angeles Housing Department
   1200 West 7th Street, 9th Floor
   Los Angeles, CA 90017

   With copies to:
   Greg Spiegel, Director, Policy and Research Analysis Division
   Los Angeles Housing Department
   1200 W 7th Street, Xth Floor
   Los Angeles, CA 90017

2. The representative of the Contractor shall be:

   Matt Kowta, Managing Principal
   BAE Urban Economics, Inc.
   2560 Ninth Street, Suite 211
   Berkeley, CA 94710
   530-750-2195
   mkowta@bae1.com"

§2. Amend Section 202, "Services to be Provided by the Contractor," under the section entitled "Phase 2 of the Feasibility Study," by deleting it in its entirety and replacing it with the following:

"**Phase 2 of the Feasibility Study**

The following section describes the Tasks that the Contractor shall complete to assist the City with Phase II of the Inclusionary Zoning (IZ) Study.

Task 1: Bi-Weekly Meetings with Staff and Phase II Contractors

As part of Task 1, the Contractor shall participate in periodic meetings, as needed, with City staff and Phase II contractors regarding the Inclusionary Zoning Phase II Study.

The timeline assumes a preliminary kick-off date in mid/late-May, with biweekly check-ins as needed through early September.

Task 2: Deliverable Review

As part of Task 2, the Contractor shall review key deliverables related to the Inclusionary Zoning Phase II Study and provide feedback within 10 business days of receipt.

This scope assumes that for all deliverables, the Contractor shall provide comments within the deliverable documents themselves as opposed to drafting standalone memos. Key deliverables shall include the following:

Subtask 2.1 - IZ Prototypes for IZ Feasibility Testing

The Contractor shall review the Prototypes that are proposed for subsequent feasibility testing. This scope assumes that the analysis shall generally be limited to Non-Incentive Utilizing Prototypes, as opposed to Prototypes that utilize existing or forthcoming Incentives.

The Contractor shall review Prototype assumptions such as density, height, FAR, parking ratios, circulation, unit sizes, bedroom counts, and other factors to ensure they are consistent with underlying "by-right" zoning, and are representative of the types of projects that are likely to come online in the near to mid term.

Subtask 2.2 Draft Proformas for IZ Feasibility Testing

The Contractor shall review the Draft Proformas associated with each of the Prototypes described above. This scope assumes that the Proformas shall be provided to the Contractor in PDF format, as opposed to the live Excel models.

On the revenue side, the Contractor shall review Proforma inputs such as asking rents, sale prices, capitalization rates, and other factors, and ensure they are appropriately calibrated to local market conditions. On the cost side, the Contractor shall review inputs such as hard and soft cost assumptions, construction timelines, financing, and other factors.

The subtask also includes reviewing proposed criteria for when an IZ Requirement would become "feasible", and under what affordability threshold(s), depending on the local Market Area.

Subtask 2.3 Finalized Approach to Determine Market Areas

The Contractor shall review and comment on the finalized approach to determine Market Areas for both residential and commercial development.

Subtask 2.4 Proposal for In-Lieu Fee Amount

Based in part on the results of Subtasks 2.2 and 2.3, the Contractor shall review and comment on the proposed In-Lieu Fee Amount for Non-Incentive Utilizing Projects subject to a local Inclusionary Policy.

Subtask 2.5 Proposal for Interaction between the Affordable Housing Linkage Fee and the Inclusionary requirement

As part of this subtask, the Contractor shall review and comment on a proposal for how the existing Affordable Housing Linkage Fee might interact with a new Inclusionary requirement."

§3. Amend Section 301.A, "Compensation and Method of Payment," by deleting the current total dollar amount of One Hundred Thousand Dollars ($100,000) and replacing it with the new total dollar amount of **One Hundred Thirty-Seven Thousand One Hundred Ninety-Five Dollars ($137,195).**

This amendment adds an additional **Thirty-Seven Thousand One Hundred Ninety-Five Dollars ($37,195)** for a new total of One Hundred Thirty-Seven Thousand One Hundred Ninety-Five Dollars ($137,195).

§4. Amend to add Section 451, "Contractor Data Reporting," as follows:

"§451. Contractor Data Reporting

If Contractor is a for-profit, privately owned business, Contractor shall, within 30 days of the effective date of the Contract and on an annual basis thereafter (i.e., within 30 days of the annual anniversary of the effective date of the Contract), report the following information to City via the Regional Alliance Marketplace for Procurement ("RAMP") or via another method specified by City: Contractor's and any Subcontractor's annual revenue, number of employees, location, industry, race/ethnicity and gender of majority owner ("Contractor/Subcontractor Information"). Contractor shall further request, on an annual basis, that any Subcontractor input or update its business profile, including the Contractor/Subcontractor Information, on RAMP or via another method prescribed by City."

§5. Except as herein amended, all terms and conditions of the Agreement shall remain in full force and effect.

§6. This Amendment is executed in three (3) duplicate originals, each of which is deemed to be an original. This Amendment includes five (5) pages which constitute the entire understanding and agreement of the parties. Alternatively, this Amendment may be executed with electronic signatures, resulting in an electronic final original, which shall be uploaded to the LACityClerk Connect website.

[Signatures begin on next page.]

IN WITNESS WHEREOF, the City of Los Angeles and the Contractor have caused this First Amendment to be executed by their duly authorized representatives.

APPROVED AS TO FORM:
HYDEE FELDSTEIN SOTO, City Attorney

By ______________________________
Deputy/Assistant City Attorney

Date __________________________

ATTEST:

HOLLY L. WOLCOTT, City Clerk

By ____________________________
Deputy City Clerk

Date __________________________

(Contractor's Corporate Seal)

Executed this ___ day of __________ 2023

For: CITY OF LOS ANGELES

ANN SEWILL
General Manager
Los Angeles Housing Department

By _____________________________
Luz C. Santiago
Assistant General Manager

Executed this ___ day of __________ 2023

For: BAE Urban Economics, Inc.

By _____________________________
Matt Kowta
President

By _____________________________
(2nd Signatory Full Name)
(2nd Signatory Title)

City Business License Number: 0002492655-0001-1
Internal Revenue Service ID Number: 94-3185917
Council File/CAO File Number: ##-####; Date of Approval: ##/##/####
Said Agreement is Number C-139957 of City Contracts, Amendment 1