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# Inclusionary Zoning:

Phase I Study Transmittal

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CF 18-0315

- 1) Background
- 2) Phase I Methodology & Findings
- 3) Key Considerations & Recommendations for Next Steps

- Mandatory Inclusionary Zoning, used by over 500 jurisdictions nationally, requires market-rate housing to provide a certain percentage of units as affordable.
- In 2009, an appellate court (*Palmer/Sixth Street Properties L.P. v. City of Los Angeles*) ruled that inclusionary zoning for rental properties violated California's Costa Hawkins Act.
  - As a result, the City addressed affordability through incentives (e.g. TOC) and through mitigation fees as an alternative to providing onsite units (e.g. Linkage Fee).
- In 2017, the state legislature passed AB 1505 to supersede *Palmer*. Subject to a limited State review for feasibility, it authorized local ordinances that require inclusionary zoning in rentals.

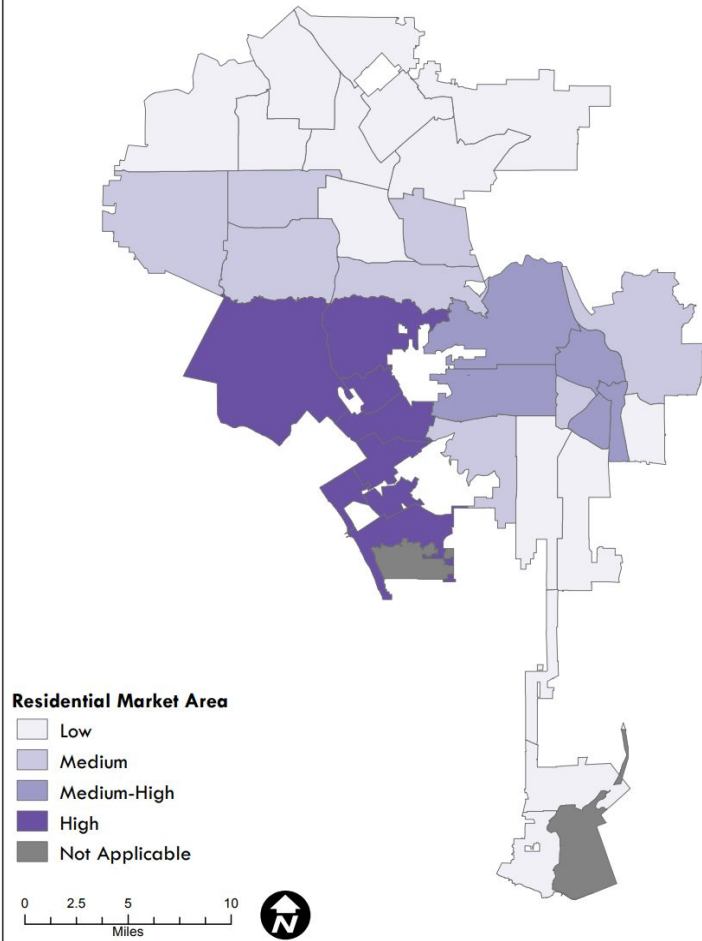
- On July 1, 2021 Council approved a report from the Housing Department authorizing a first phase of study for Inclusionary Zoning (IZ)
- The Scope of Work Focused On:
  - Evaluating the interaction and impact of IZ on other affordable housing incentives
  - Assessing the impact of IZ on affordable housing production
  - Conducting a basic financial feasibility assessment
  - 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)

# Phase I Study Methodology & Findings

- Developed a database of all permitted projects from 2017-2021 (excluded Downtown, 100% Affordable, and projects smaller than 5 units).
- Developed representative pro-formas for Large Projects (50+ units), Medium Projects (11-49 units), Small Projects (5-10 units)
- Proformas varied by the Linkage Fee Market Areas
- Conducted residual land value analysis to test the financial feasibility of an **11% VLI Inclusionary Requirement**

Inclusionary Zoning Feasibility by Market Area (11% Very-Low Income)			
	Large Project (50+ units)	Medium Project (11-49 units)	Small Project (5-10 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

# Affordable Housing Linkage Fee Residential Market Areas Map 1





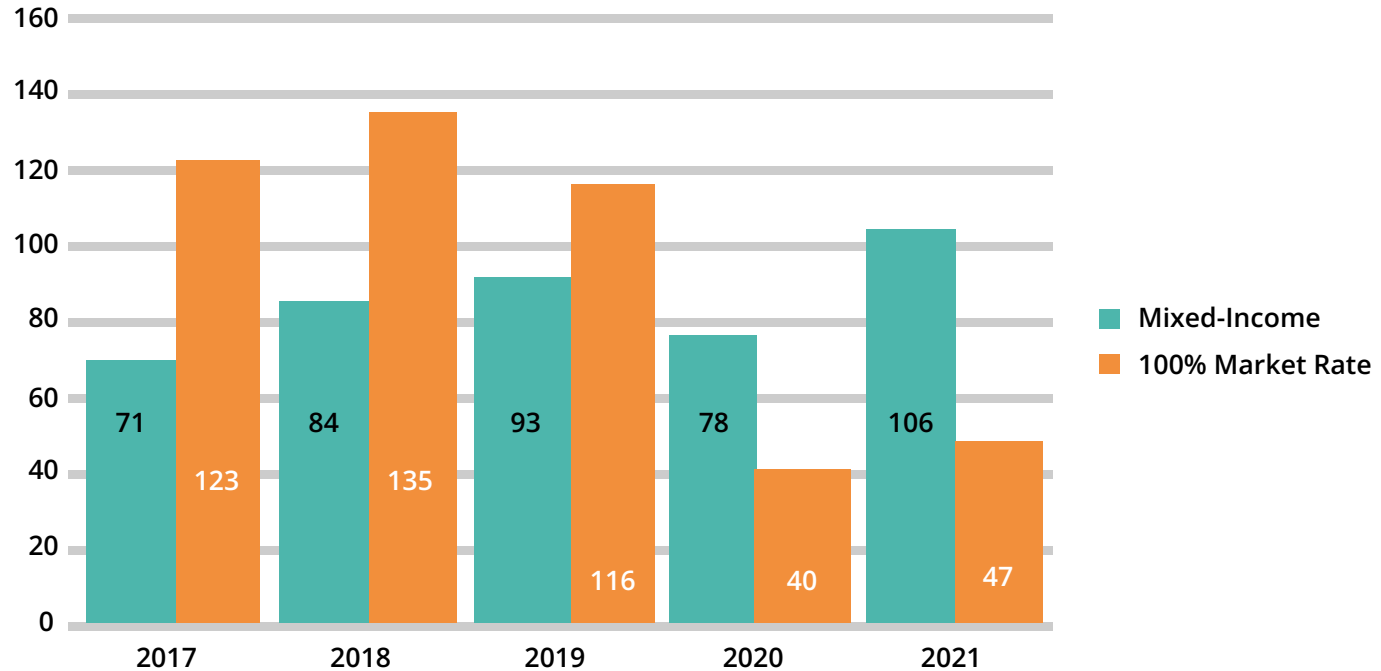
# Incentives working but not reaching all projects

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The share of Mixed-Income housing projects have increased from 38% in 2018 to 69% in 2021.

In 2021, 31% of total projects (and 15% of units) were in 100% Market Rate Projects.

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.

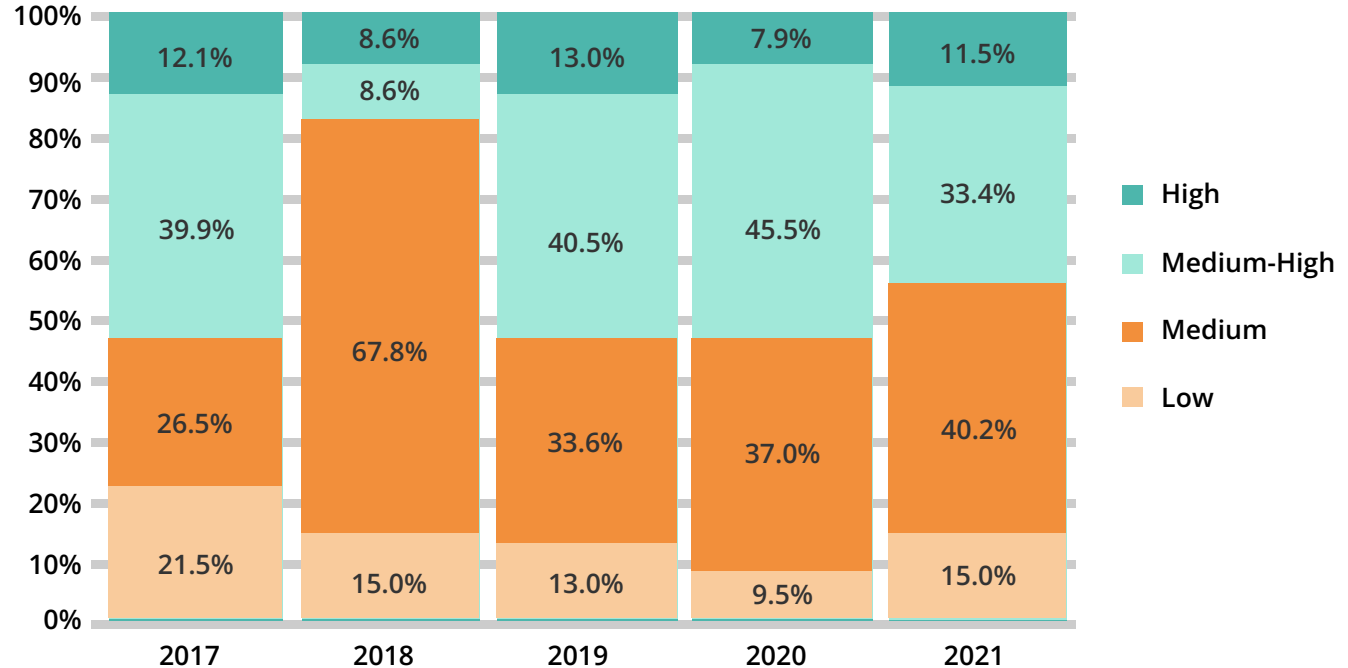
Source: LAHD, LADBS, LACP, 2022; BAE, 2022.

# Need More Analysis to Achieve Citywide IZ Feasibility

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55% of 100% Market Rate projects were located in areas where an 11% VLI requirement was infeasible.

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.

# Key Considerations & Recommended Next Steps

- An 11% VLI inclusionary requirement is feasible in some parts of the City
- Inclusionary on its own is unlikely to significantly increase affordable housing production, but could push non-incentive projects into incentives
- Calibrate incentives to maximize both ease-of-use and value capture
- Replacing a patchwork of community requirements with a citywide baseline requirement could clarify expectations around on-site affordable housing

- Conduct a second phase Citywide Inclusionary Zoning Study
  - Better integrate with the citywide RHNA Rezoning efforts
  - Provide a more complete feasibility analysis: including
    - Testing different affordability percentages and income categories/equivalencies
    - Testing different project size thresholds
    - Testing for-sale
    - Determining market areas
    - Analyze alternative compliance including in-lieu fee
  - Provide clearer policy options (to address policy patchwork) and how an IZ would work with the existing AHLF
- Ensure efforts are aligned by coordinating with DCP
  - Expand existing contract with BAE Urban Economics (BAE)
  - Transfer funding to DCP to expand existing Citywide Incentive Contract
  - Fund with \$200,000 from the City's Housing Impact Trust Fund, as previously approved (CF 17-027)

## Citywide Housing Incentives Program Timeline

### WE ARE HERE:

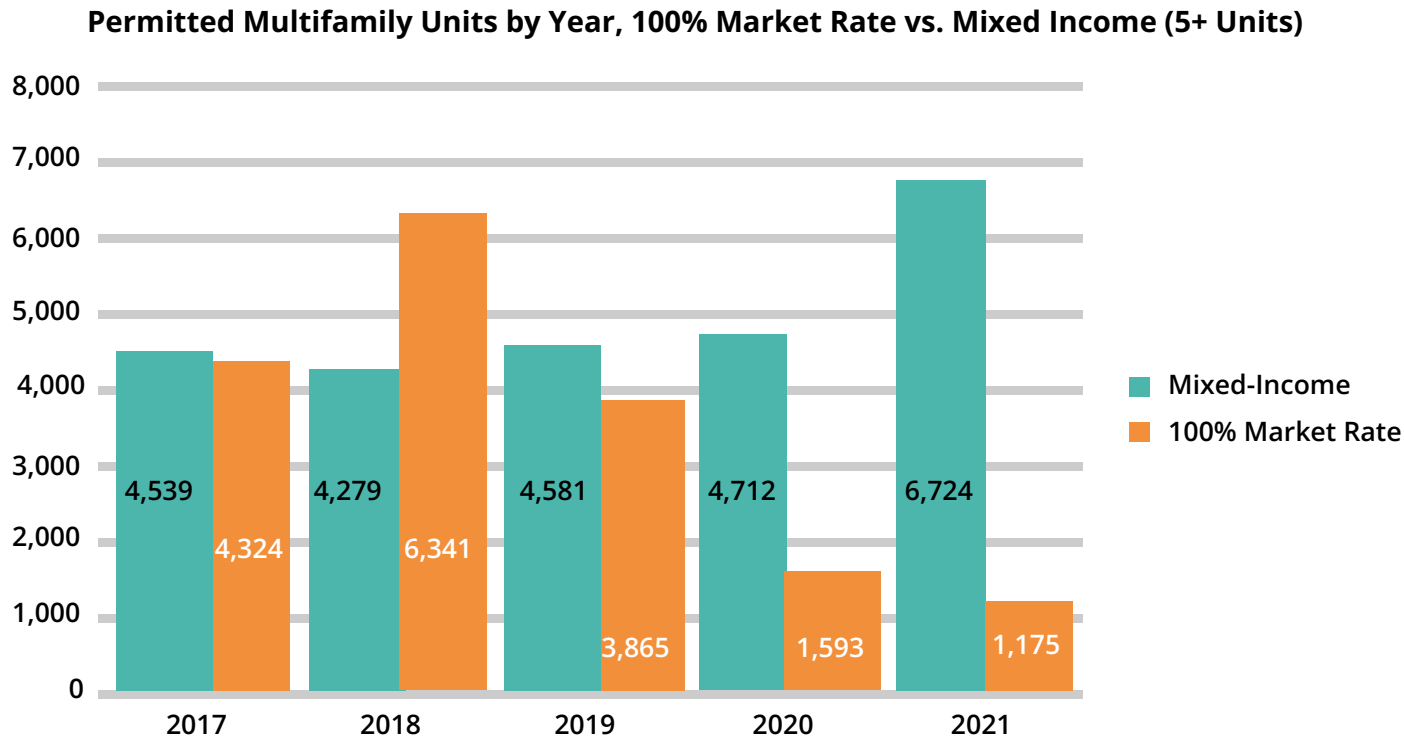


# Questions

# Other Key Findings - Increase in Mixed-Income Housing

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In 2021, only 15% of total units were in 100% Market Rate projects, compared to 60% of units in 2018



**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.



# Additional Staff Analysis - Increase in Mixed-Income Housing

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Permitted Mixed-Income Projects Over 10 Units Citywide Subject to the Affordable Housing Linkage Fee (2017-2021)				
	# Projects	% Projects	# Units	% 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%

## Inclusionary Rental Requirements

	ELI	ELI	VLI	VLI	VLI	LI	LI	Mod	Mod	Mod	
AMI Level	30%	40%	50%	55%	60%	65%	80%	100%	110%	120%	Total
LA County (20 + Units)		10% or				15% or	20%				10-20%
LA County (Less than 20 units)		5% or				7% or	10%				5-10%
Santa Monica (Downtown)	20% or		20% or				or 30%	or 30%			20-30%
Santa Monica	5%** or		10% or				20% or			100%	5-100%
San Jose 20+ units (onsite)			6% and				9%				15%
San Jose (20+ units (offsite))			8% and		12%						20%
San Diego (2+ units)						10%					10%
San Francisco* (10-24 units)				13.5%							13.5%
San Francisco* (25+ units)				12.5% and			4% and		4%		20.5%
San Bruno			6%				4.5%	4.5%			15%
Fremont	2.4% and		4.2% and			3.2% and		3.10%			12.90%
Berkeley (5+ units)					10% and		10%				20%
Pasadena				5%			10% and	5%			20%
South San Francisco (5+ units)			5% and				10%				15%
Glendale (8+ units)							15%				15%
Pomona (on-site)								13%			13%
Pomona (off-site)								15%			15%
Long Beach***			5%								5%

Source: Appendix from LAHD Report dated April 6, 2020 (CF 18-0315)