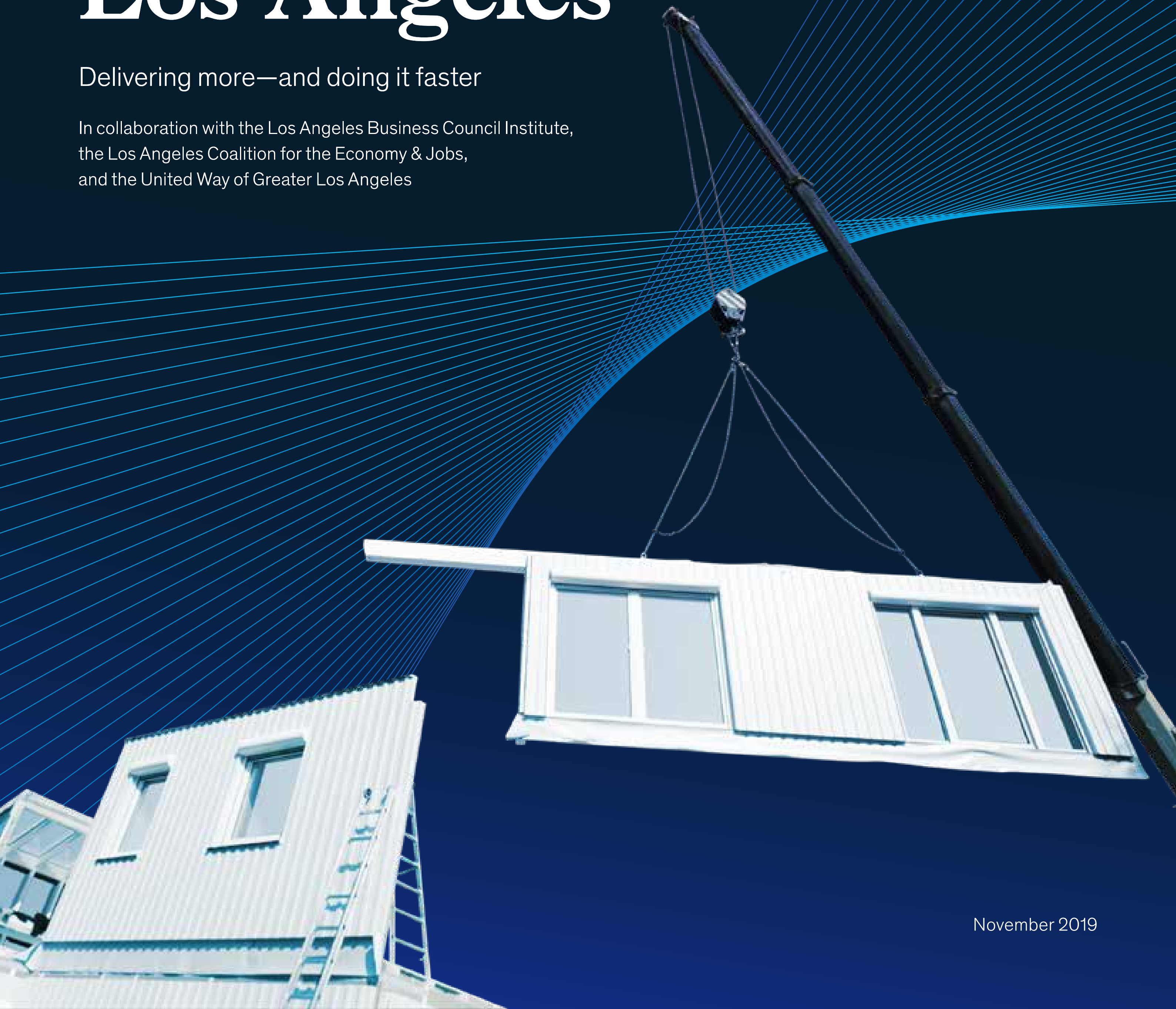
McKinsey Global Institute

Executive summary

Affordable housing in Los Angeles

Delivering more—and doing it faster

In collaboration with the Los Angeles Business Council Institute, the Los Angeles Coalition for the Economy & Jobs, and the United Way of Greater Los Angeles



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McKinsey Global Institute

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MGI is led by four McKinsey & Company senior partners: James Manyika and Sven Smit (co-chairs), Jacques Bughin, and Jonathan Woetzel. Michael Chui, Susan Lund, Anu Madgavkar, Jan Mischke, Sree Ramaswamy, Jaana Remes, and Tilman Tacke are MGI partners, and Mekala Krishnan and Jeongmin Seong are MGI senior fellows.

Project teams are led by the MGI partners and a group of senior fellows and include consultants from McKinsey offices around the world. These teams draw on McKinsey's global network of partners and industry and management experts. The MGI Council, which includes leaders from McKinsey offices around the world and the firm's sector practices, includes Michael Birshan, Andrés Cadena, Sandrine Devillard, André Dua, Kweilin Ellingrud, Tarek Elmasry, Katy George, Rajat Gupta, Eric Hazan, Acha Leke, Gary Pinkus, Oliver Tonby, and Eckart Windhagen. In addition, leading economists, including Nobel laureates, advise MGI research.

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Executive summary

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Los Angeles Coalition for the Economy & Jobs
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Preface

Growth sometimes sets off unintended consequences. In the heart of some of the world's most affluent cities, one of the most basic human needs—a decent place to call home—is slipping beyond the reach of many residents.

Housing resides at the intersection of several MGI themes, including urbanization, inequality, infrastructure, and construction and government productivity. After our initial work on global affordable housing five years ago, we followed up with a 2016 report on California's statewide housing shortage. Yet housing is ultimately an issue that comes down to many individual and highly local choices. With that in mind, this document zooms in again on Los Angeles, where housing affordability is squeezing low-income residents and the middle class alike.

Produced in conjunction with McKinsey & Company's West Coast Office, this report marks the launch of MGI in Society, an initiative aimed at translating MGI's ideas into action. It suggests concrete steps that could yield clear wins and outlines some of the choices and trade-offs that will need to be made. Above all, it highlights the need for stakeholders from across the region and from every part of its housing ecosystem to work collaboratively and move quickly. Soaring rents and home prices have been shutting people out, but LA can reinvent itself as a more inclusive place to live and a more productive place to do business.

This research was led by Jonathan Woetzel, a director of MGI based in Los Angeles and Shanghai; Shannon Peloquin, a McKinsey partner based in San Francisco; Steve Kling, an associate partner based in Los Angeles; and Tim Ward, managing partner of McKinsey's Southern California office. Sucheta Arora led the project team, which included Andrew Margrave, Matthew Rock, Anneke Maxi Pethö-Schramm, Luis Carlos Piedra, and Justin Portela.

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In the course of this research, we interviewed dozens of people representing every part of the Los Angeles housing ecosystem. Many thanks go to Kome Ajise (Southern California Association of Governments), Ashley Atkinson (LA Department of City Planning), Caitlin Barrow (Highridge Costa Housing Partners), Alison Becker (Los Angeles City Council District 15), Kasey Burke (Meta Housing), Rushmore Cervantes (LA Housing + Community Investment Department), Darin Chidsey (Southern California Association of Governments), Andrew Clare (Loeb & Loeb LLP), Rick Cole (City of Santa Monica), Michael Costa (Highridge Costa Housing Partners), Brian D'Andrea (Century Housing), Kevin Demoff (LA Rams), Steven Dietz (United Dwelling), Chris Dombrowski (State of California), Sean Doss (LA Housing + Community Investment Department), Guadalupe Duran-Medina (Los Angeles County First District), Sarah Dusseault (Los Angeles Homeless Services Authority), Hilary Firestone (Natural Resources Defense Council), Mark Forbes, Gary Freedman (Ervin Cohen & Jessup LLP), James Frost (Frost/Chaddock Developers), Ron Galperin (LA City Controller), Art Gastelum (Gateway Science and Engineering), Tom Gilmore (Gilmore Associates), Matthew Glesne (LA Department of City Planning), Nicholas Greif (Los Angeles City Council District 4), Andrew Gross (Thomas Safran & Associates), David Grunwald (National Community Renaissance), Nicholas Halaris (AH Capital and Proposition HHH Citizen Oversight Committee), Dianne Harrison (California State University, Northridge), Michele Knab Hasson (Natural Resources Defense Council), Marchell Hilliard (Bank of America Merrill Lynch), Rob Jernigan (Gensler), Karly Katona (Los Angeles County Second District), Richard Katz (Richard Katz Consulting), Kevin Keller (LA Department of City Planning), David Kersh (Carpenters/Contractors Cooperation Committee), Monique King-Viehland (LA County Development Authority), Krista

Kline (Los Angeles Council City District 11), Kevin Klowden (Milken Institute), Larry Kosmont (Kosmont Companies), Jake LaJoie (Frost/Chaddock Developers), Jessica Lall (Central City Association of Los Angeles), Scott Laurie (The Olson Company), Wells Lawson (LA Metro), Mia Lehrer (Studio-MLA), Michael Lehrer (Lehrer Architects), Dora Leong-Gallo (A Community of Friends), Jacob Lipa (Micropolitan), Erick Lopez (re:code LA), Lenny Mendonca (State of California), Christina Miller (City of Los Angeles), Jeff Millman (City of Los Angeles), Moe Mohanna (Highridge Costa Housing Partners), Dowell Myers (University of Southern California), Amalia Paliobeis (Common), Michael Parks (Flyaway Homes), Manuel Pastor (University of Southern California), Chris Pearson (Hudson Pacific Properties), Andrew Pennington (Los Angeles City Council, District 3), Adam Perry (Cityview), Thomas Priselac (Cedars-Sinai Health System), Aneesh Raman (State of California), Erin Rank (Habitat for Humanity of Greater Los Angeles), Waqas Rehman (LA County 1st District), Marie Rumsey (Central City Association of Los Angeles), Molly Rysman (LA County 3rd District), Miguel Sangalang (City of Los Angeles), Miguel Santana (LA County Fair Association), Nick Saponara (LA Metro), Elizabeth Selby (City of Los Angeles), Ann Sewill (California Community Foundation), Michael Shilstone (Central City Association of Los Angeles), the Southern California Leadership Council, Sean Spear (LA Housing + Community Investment Department), Gordon Stott (Connect Homes), Arthi Varma (Los Angeles Department of City Planning), Jacqueline Waggoner (Enterprise Community Partners), Todd Wexman (4SITE), Ben Winter (City of Los Angeles and California Community Foundation), Michael Woo (College of Environmental Design at California State Polytechnic University, Pomona), Zev Yaroslavsky (former Los Angeles city council member and LA County supervisor), and Dustin Young (Cityview). In addition, we interviewed a number of other individuals in the region's private, social, and public sectors, including developers of both affordable and market-rate housing, city and county officials, financing organizations, and housing advocates.

This work benefited from the support and contributions of McKinsey colleagues, including Kate Anthony, Avery Cambridge, Josh Davis, Isabelle Fisher, Vasudha Gupta, Tom Hellstern, Garo Hovnanian, Jared Katseff, Jonathan Law, John Means, Jan Mischke, Kunal Modi, Remona Moodley, Seema Parmar, Sangeeth Ram, Sarah-Tucker Ray, Ben Safran, Ben Silverstein, and Jonah Wagner.

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This report contributes to MGI's mission to help business and policy leaders understand the forces transforming the global economy and prepare for the next wave of growth. As with all MGI research, this work is independent, reflects our own views, and has not been commissioned by any business, government, or other institution. We welcome your comments on the research at MGI@mckinsey.com.

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November 2019

Reimagining Los Angeles

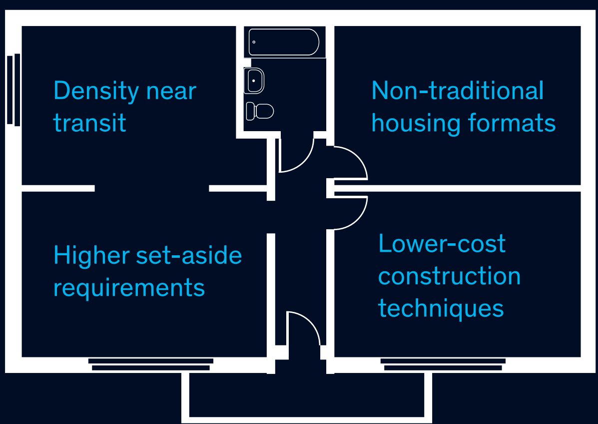
Unlocking affordable

Housing production in LA County

~100,000
housing units permitted from 2014 to 2018....

12%
...of which were affordable

A combination of...



...could deliver more affordable housing—more affordably

The keys that can help Los Angeles provide safe, decent housing for residents in all income brackets

Transit
Capitalizing on Metro expansion to add more affordable units through set-asides

Innovation
Incentivizing new lower-cost construction techniques and non-traditional housing formats

Efficiency and scale
Streamlining approvals and financing to reduce pre-construction time

Safety net
Supporting the most vulnerable tenants

A delivery coalition
Bringing together the public, private, and social sectors to get things done

McKinsey Global Institute

Executive summary

In 2016, the McKinsey Global Institute (MGI) published *A tool kit to close California's housing gap,* extending our earlier work on affordable housing worldwide and on productivity in the construction industry. The intervening years have seen California introduce a number of new housing incentives and legislative proposals, including measures to increase density near transit (Measure JJJ in Los Angeles) and to streamline approval processes in localities where construction is lagging (SB35). Yet housing remains one of the state's most urgent issues—one with profound consequences for millions of lives today and the course of California's future.

This report applies a more detailed lens to the Los Angeles region and to affordability. The City of LA is leading the state in housing production. With the addition of more than 88,000 units since 2010, it has produced more units relative to its population growth than almost any other city in California.[1] Despite this burst of residential construction, only about 9 percent of the new units added over the past five years have been affordable to households earning less than the area median income.[2] The comparable figure for the entire county is only slightly better, at 12 percent.

1.9M

households across LA County fall into the affordability gap

Increases in rents and home prices have far outpaced wage growth for most of the region's workers.[3] As a result, one million households, or 70 percent of all households in the City of Los Angeles, would have to stretch financially to obtain a standard-size unit in their current neighborhood.[4] This number rises to a little over 1.9 million households across LA County. The cost of housing has always weighed most heavily on people in the lowest income brackets, but it is now squeezing the middle class as well. While many homeowners are affected, the situation is inherently more precarious for renters.

We estimate that the shortage of affordable housing depresses GDP across the metro area by more than 2 percent. This translates into $18 billion to $22 billion in lost output every year for the City of LA, and almost double that amount for all of LA County.[5] Most of this occurs as households forgo other types of consumption to pay the rent or mortgage. Consumption is limited even further for Angelenos who face high transportation costs because they cannot afford to live near their place of employment—a situation that contributes to some of the nation's worst traffic congestion and related environmental consequences. The people who provide many of the services Los Angeles depends on every day are finding it harder to get by or to live anywhere near where they work.

Many young people are unable to gain a foothold to start their own households, and a significant number of them are considering moving out of the region.[6] One study from the

1 Based on California Department of Finance data. Since 2010, the City of LA has added 356 units for every increase of 1,000 in population. Among other California cities with populations above 250,000, only Irvine has a higher ratio (365 units added for every increase of 1,000 in population).
2 Based on the annual progress reports submitted to the California Department of Housing and Community Development from 2014 to 2018. Affordable housing is defined as housing units affordable to households earning less than 120 percent of the area median income.
3 From 2013 to 2017, median rent in LA County increased by 9.7 percent year over year (Zillow data), while median household income increased by only 2.4 percent year over year (American Community Survey data).
4 A standard unit is defined as 970 square feet. We assume that this is adequate space for an average household of three, in line with existing housing under programs such as the Mitchell-Lama affordable housing initiative. This standard also helps in normalizing for the variations in size across one-, two-, and three-bedroom units. Housing is considered affordable when the rent or payment is less than 30 percent of household income, a benchmark used by the World Bank and the US Department of Housing and Urban Development.
5 We estimate that housing costs depress GDP across all of LA County by up to 4 to 5 percent, costing it between $32 billion and $36 billion per year.
6 Berkeley Institute of Governmental Studies poll, September 2019.

LA County Department of Public Health found that more than one-third of adults who had difficulty paying their rent or mortgage could not afford medical care for health problems. Some residents accept whatever kind of substandard housing they can get, from uninsulated garages to tiny apartments where their children have no space to play or do homework. The affordable housing shortage is also one of the factors contributing to homelessness in Los Angeles and increasing the challenge of getting people back on their feet and into permanent housing.[7]

Los Angeles, a city of four million people, added fewer than 7,300 units of affordable housing over the most recent five-year period.[8] The rest of LA County added approximately 6,200 affordable units in the same period. Production is rising year over year. But both the city and the county are far short of where they need to be to meet the 2021 Regional Housing Needs Assessment (RHNA) goals for affordable units—targets that are modest when placed against the scale of the affordability gap.[9]

In addition, the clock is ticking on 10,000 units throughout the City of Los Angeles with affordability covenants that are due to expire before the end of 2023. If no action is taken, the stock of affordable housing will shrink even further.

Los Angeles is taking action. Voters approved $1.2 billion under Proposition HHH to accelerate development of affordable housing and permanent supportive housing for the homeless; more than 9,000 PSH units have been approved for funding since 2016.[10] Incentives built into Measure JJJ have helped create more than 3,800 affordable units near mass transit since its adoption in November 2017.[11] In addition, the city is moving to simplify the zoning code, digitize the permitting process, and provide case-management services to speed through high-priority projects. LA County has significantly increased funding through the Affordable Housing Trust Fund, Measure H, and the No Place Like Home program. Almost all Proposition HHH projects in the City of LA have also received funding from the county.

Despite this progress, a huge share of the population remains underserved. The initiatives currently under way need to be expanded and accelerated even as Los Angeles continues to look for new solutions. It will take not only public agencies but developers, nonprofits, investors, and community groups working together to address a challenge of this magnitude.

It's time to turn the region's housing crunch into an opportunity to reimagine Los Angeles. The region is already undertaking the biggest package of public works in the country, including transit expansion, revitalization of the LA River, the Complete Streets program, and modernization of the city's major port and airport. Now that same kind of ambition and investment has to extend to housing—and particularly to transit-oriented development.

This does not have to involve placing high-rises on every open space. Higher density is a given, but much of the gap could be bridged with low- and mid-rise redevelopment that capitalizes on the ongoing expansion of public transit and is within current zoning. Prioritizing select sites near major transit hubs and primary transit corridors for medium- and some high-rise development early in this effort could accelerate progress.

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7 See, for example, Los Angeles Homeless Services Authority, "Even as housing placement reach new heights, 2019 Greater Los Angeles homeless count shows 12 percent rise in homelessness," press release, June 4, 2019; Chris Glynn, Thomas Byrne, and Dennis P. Culhane, "Priced out: Homelessness rises faster where rent exceeds a third of income," Zillow Research, December 11, 2018; and Maggie Stringfellow and Dilip Wagle, "The economics of homelessness in Seattle," McKinsey.com, May 2018.

8 Based on annual progress reports submitted to the California Department of Housing and Community Development, 2014 to 2018.

9 The current Regional Housing Needs Assessment calls for adding 46,590 affordable units in the City of Los Angeles, and 103,184 affordable units overall in LA County, by 2021.

10 LA Mayor's Office, "Confronting the crisis: Helping our homeless neighbors," October 16, 2019, lamayor.org/CTC-Helping_our_Homeless_Neighbors.

11 Los Angeles Department of City Planning, Quarterly housing progress report, April–June 2019.

Los Angeles must ramp up construction of affordable units, with a specific focus on serving households earning less than 120 percent of the area median income. Central to our vision is the underlying principle that development should be undertaken in a way that supports low-income tenants through any disruption and helps them remain in their current neighborhood if they wish. It should also create a positive environmental impact by reducing commutes and adding more energy-efficient buildings. This would further ease the financial burden on residents by lowering what they spend on transportation and utilities.

Barriers of both land scarcity and high cost structures can be overcome. Very little land sits vacant in Los Angeles, but the parcels that are available can be prioritized for development. The region's biggest capacity gains could come from redeveloping residential parcels that are currently not taking full advantage of their zoning allowances, as well as underutilized commercial land. In the City of Los Angeles, current zoning allows for 1.5 million to 1.9 million additional housing units on highly underutilized residential parcels.[12] This theoretical potential, which does not include redevelopment of underutilized commercial land, is far beyond what Los Angeles would realistically build in the near future. But the existence of this much capacity indicates that communities have a wide range of choices available to add new housing while maintaining their existing character.

Los Angeles has a window of opportunity to add more affordable housing as it expands public transit networks across the broader region.

LA's ongoing transit expansion is creating an important window of opportunity. Building housing near transit can reduce traffic congestion and create a better work-housing balance. In the City of LA itself, much of the potential we identify for new affordable development comes from the higher density already allowed near transit stations. These allowances are set out in the Transit Oriented Communities (TOC) incentives that are part of Measure JJJ.[13]

Other cities throughout LA County can adopt similar incentive programs. In fact, almost half of Metro rail stations are outside the boundaries of the City of LA—and as its transit networks continue to expand, the broader region will gain even more capacity for affordable housing. This is a crucial point, since the City of LA produced more than 70 percent of the new housing units added across the county from 2014 to 2018 despite accounting for only 40 percent of the county's population.[14] Meeting this challenge will require all cities within LA County and in the surrounding region to do their part and work collaboratively. The current shortage is a regional problem that needs regional solutions.

Public funding resources are limited. Since 2008, cuts in federal and state funding have reduced investment in affordable housing in LA County by more than $496 million annually, a

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12 We define "highly underutilized" parcels as those utilizing less than 25 percent of the density allowed by current zoning.

13 Measure JJJ is time limited and will expire in 2027. It can likely be renewed for an additional five years but will expire after that. The city can consider making the program permanent by folding it into another formal density bonus program or into other local plans.

14 Based on annual progress reports submitted to the California Department of Housing and Community Development, 2014 to 2018.

drop of 70 percent. Most of this drop occurred after California dissolved local redevelopment agencies.[15] More public funding is urgently needed, but realistically, Los Angeles will have to mobilize private capital to meet the scale of this challenge. The region has ample capital available; now it needs to create a pipeline of projects with sufficient returns to put it to work. If private development can provide units affordable to most income cohorts through deed restriction or other methods, the available public dollars could be directed toward the most vulnerable, whose needs are least likely to be met by market solutions.

Under current market conditions, the economics do not work for developers to build standard units that are affordable for households earning less than 120 percent of the area median income. As a result, most affordable units have historically been produced through public subsidies to compensate the developer for lower rents. More recently, the city has experimented with replacing subsidies with incentives—that is, "density bonuses" that allow developers to build bigger projects near transit in exchange for defined affordable housing commitments.[16] This approach has proven successful and could be scaled up even further if combined with new housing formats, innovative construction techniques, and the opportunity to capitalize on public transit expansion.

Unit costs can be reduced by up to

50%

for prefab projects with nontraditional formats

Micro-units, co-living developments, and single-family home conversions are cheaper to build per unit than standard size housing units (assuming appropriate streamlining of the approval process and policy accommodations regarding issues such as open space and parking). These types of homes are not for everyone, but they have enough appeal and utility to account for a sizable subset of the housing the region needs to add. Their reduced construction costs can allow market-driven development of housing that is affordable for moderate-income households without the need for additional subsidies or incentives; they can also support higher set-asides for lower income brackets under the right conditions. Modular and prefab construction can further bring down costs without sacrificing good design and quality, although these methods need to be adopted on a large scale to realize the full potential savings and efficiencies. Utilizing both nontraditional housing formats and prefab construction has the potential to reduce per-unit costs by some 50 percent—while minimizing the number of buildings that must go up and bringing more new housing online faster.

This report provides an in-depth assessment of what it will take to accelerate progress. The six recommendations below have been developed in the context of the City of Los Angeles, but they apply equally to the broader region:

1. **Turbo-charge the process of creating a fully integrated plan with shared accountability for all of Los Angeles.** Every part of LA—including affluent areas and major employment centers—will have to plan and deliver more affordable housing. But instead of piecemeal projects, the region needs a cohesive and integrated approach, with strengthened planning capabilities at the core. In the City of LA, each council district can commit to delivering a share of the overall affordable housing goal and identify the right types of land, following the precedent of the Bridge Program for emergency shelter and supportive housing.[17] The City Planning Department, in collaboration with the City Council, can create an overarching policy document that provides a framework for achieving affordable housing goals. Clear, consistent principles on transit-adjacent housing, density, and housing formats (especially nontraditional alternatives) can be applied across all neighborhoods. The next level of detailed community-level planning should incorporate these principles and respond to potential city- and state-level actions. Among the priorities are expanding the conditions under which desired housing types (such as affordable micro-units and prefab affordable projects) can be considered by

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[15] *Los Angeles County annual affordable housing outcomes report,* California Housing Partnership, April 2019.
[16] A density bonus incentive allows the developer to build more than the allowed number of units under current zoning if it sets aside a specific number of units for households below a certain income level. TOC incentives provided under Measure JJJ are a kind of density bonus.
[17] Everyone In, "Supportive housing tracker," United Way of Greater Los Angeles, everyoneinla.org/supportive-housing-tracker.

right; standardizing select building code requirements and approval processes across municipalities; and reconsidering limits on housing development on commercially zoned parcels, especially near transit. The most recent community plan updates have designated certain projects for staff-level decisions or administrative clearances rather than discretionary approvals—a positive trend that should continue. All community plan updates need to be accelerated, which will require more resources.

2. **Adopt new construction techniques and technologies at scale to decrease costs and accelerate development.** Prefab construction involves producing standardized components of a structure in an off-site factory, then assembling them on-site. It can reduce the development cost of multifamily housing by 5 to 15 percent, if adopted at scale (with even greater benefits over the longer term). This approach promotes standardization within and across projects, which can speed approvals. The city has funded a number of prefab projects as pilots and set up a peer review process to accelerate approvals. But there is room to do more: establishing new standards and regulations that account for these techniques; mandating accelerated approval of these projects; seamlessly integrating permitting and inspections at both factory and assembly sites; and offering favorable financing terms. The city or the county can also partner with select prefab companies to help them build a pipeline of demand. A thriving prefab construction industry will need a workforce with the right skills, which will require investment in training. In addition to building housing faster, this initiative can bring high-quality jobs to the region. Developers and builders can also boost productivity and improve communications and turnaround times by adopting 5D Building Information Modeling (5D BIM) software and other next-generation digital tools more universally.

3. **Gradually increase set-aside requirements to reflect the savings from new housing types and lower-cost construction methods.** California's density bonus program and the city's own Transit Oriented Communities incentive program grant developers the right to build larger projects in exchange for designating a portion of the units as affordable housing. But these set-aside requirements were established with standard property types and traditional construction techniques and cost structures in mind. With the appropriate policy accommodations in place, micro-unit and co-living properties can support a greater proportion of affordable units while maintaining sufficient returns to secure financing.[18] A co-living property can support set-asides of up to 35 percent of units for extremely-low-income tenants, while a micro-unit development could economically set aside up to 33 percent—a significant increase from the 11 percent set-aside that can be supported by standard properties with the same level of density bonus.[19] Prefab construction, when adopted at scale, can bring costs down even further. Los Angeles can consider raising set-aside requirements over time as these formats and technologies are more widely embraced. Without higher requirements, it is unlikely that developers would voluntarily add affordable housing to market-driven projects.

4. **Reduce the time, uncertainty, and complexity of approval and permitting processes.** Building a project in Los Angeles can take three to five years. Developers often cite long and unpredictable processes for obtaining land use and building permits as a major challenge. The city has several initiatives under way to improve the entitlement and permitting process, including online permit submissions and review, plan-level exemptions to California Environmental Quality Act (CEQA) review, and simplification of the zoning code. High-priority affordable housing developments can take advantage of case-management services as well as parallel processing of entitlements and building permits. These initiatives are all positive steps. The city can now accelerate implementation, track data on their effectiveness, and expand the scope of successful programs. The re:code

18 Depending on the specific land parcel, the new housing formats will need accommodations. For example, micro-units may require waivers regarding open space and parking requirements per unit, density limits, and minimum size specifications to ensure lower costs than standard-size units.

19 Extremely-low-income households are defined as those earning less than 30 percent of area median income.

LA zoning revamp, for example, can be completed hand-in-hand with community plan updates over the next two to three years to incorporate design requirements of new housing formats, eliminating the need for discretionary review. The city recently launched BuildLA, a multi-year effort to digitally streamline development services and improve collaboration and communication between developers and city offices. This platform can be used to provide a comprehensive view of citywide development with a consolidated live performance dashboard tracking projects in the pipeline and the time taken at each stage. Similar initiatives can be adopted by other cities in the region. We estimate that fully digitizing and integrating processes and making targeted operational changes could trim total development time by 30 to 35 percent. Time savings reduce the carrying costs of capital between the start of development and the point at which occupancy starts to generate income—and most important, it gets more Angelenos into new homes faster.

5. **Stabilize and consolidate public financing for affordable developments.** Lining up financing for an affordable housing project can involve applying for multiple types of government funding, philanthropic grants, and loans, with significant administrative burden and uncertain results. Affordable housing developers in the region report that their projects may require up to 15 different sources of funding, each with its own application requirements, restrictions, and timeline for approval. Los Angeles should aim to bring greater coordination, predictability, and transparency to the financing of affordable projects. The city and county are already implementing a single digital application portal where developers can access all public funding sources. It should coordinate the various approval processes and surface ways to create more consistency, just as a university's financial aid office does. The city can also work with smaller affordable developers to help them navigate these highly complex processes and consider consolidating philanthropic and other private funding sources as well. In addition, establishing professional management of city-owned land and other real estate assets, as New York City, London, Copenhagen, and Stockholm have done, can generate additional revenue for affordable housing. There are 14,000 publicly owned parcels in the City of LA, and slightly more than half are owned by the city itself.[20] Professional management of this real estate can identify suitable city-owned sites for affordable developments; other sites can be developed commercially, with the returns channeled back into affordable housing.

6. **Strengthen the safety net for the most vulnerable tenants.** Los Angeles will need to redevelop many existing properties to add more affordable housing. But that raises the issue of what happens to current low-income residents during construction. We take it as an underlying principle that redevelopment should not ultimately force them out of their neighborhood. While affected tenants are entitled to compensation from developers if they have to move out due to construction, they may need additional assistance in finding a new unit. The LA Homeless Services Authority has developed a "coordinated entry system" to match homeless individuals with affordable housing units funded by the city. Now the city may need to establish a similar program for a wider population of at-risk tenants. LA's Housing + Community Investment Department is currently building an online inventory of all non-subsidized affordable units to provide a single platform for tenants to apply; this effort could be scaled up and accelerated. Los Angeles also needs to monitor two additional issues: expiring affordability covenants and tenant eviction. Between 2019 and 2023, more than 10,000 affordable units across the city will convert to market rates as their 30-year affordability covenants expire, threatening to displace more tenants and set back progress. A citywide strategy and program can work with neighborhoods to extend those covenants or place affected tenants in new affordable units nearby, making case-by-case assessments. HCIDLA's 2018-21 strategic plan provides a foundation for what could be an effective citywide initiative. Los Angeles can also consider providing free legal assistance to low-income tenants facing unnecessary evictions, similar to programs

[20] See Property Panel, City of Los Angeles Controller's Office, lacontroller.org/propertypanel.

in New York, San Francisco, and Newark.[21] LA County has instituted landlord incentives such as deposit payments, an emergency fund for any potential damage in the units, and one-time rent payments to curb evictions. These programs can be replicated regionwide.

The Southern California region is currently undergoing the sixth Regional Housing Needs Assessment (RHNA) process for the eight-year cycle that will run from 2021 to 2029. In November 2019, the Southern California Association of Governments finalized its allocation methodology for this cycle, giving LA County an overall housing production goal of 818,943 units. Out of this total, 475,694 units should be affordable to households earning less than 120 percent of the area median income.[22] These targets are more than four times higher than the previous cycle's goals. At the current pace, it would take LA County more than 35 years to hit an overall housing production goal it is meant to achieve in an eight-year period.[23]

Meeting higher RHNA goals in the decade ahead will require a significant increase in construction and investment. In general, building more, increasing density, and capitalizing on set-asides in private-sector developments will improve the region's chances of meeting its goals in a timely manner—with fewer public- and social-sector dollars.

4.5x

increase in the county's build rate required to achieve its sixth-cycle RHNA goals

LA County would have to increase its build rate by a minimum of 4.5 times, adding almost 102,000 units per year, to achieve its overall housing production goal for the upcoming cycle. It can meet the affordable housing component of this total in two ways: through public financing and through market-driven developments with set-asides for affordable units.[24]

Meeting 100 percent of the county's affordable housing goal through public financing of standard units alone would require more than $130 billion over the eight-year cycle. The alternative is taking steps to achieve a portion of this goal through the private market. LA County could adopt an incentive program similar to the Transit Oriented Communities provision in Measure JJJ, which has already had success in the City of LA. If the county fully meets its goals for adding new housing geared to above-moderate-income households, it would gain enough set-asides to meet almost 9 percent of its affordable housing goal.[25] If the region adopts new housing formats and lower-cost construction techniques as described above, it could achieve up to 17 percent of its affordable housing goals through set-asides.[26] This shift would also help to produce housing that is affordable to moderate-income households, approximately 28 percent of the affordable housing goal, without the need for public subsidies.[27]

If these approaches are combined, Los Angeles could potentially achieve almost 45 percent of the next cycle's affordable housing target through market-driven development alone. Covering the remaining 55 percent of the RHNA target for new affordable units would require

21 The Los Angeles City Council is considering a proposal to create a "right to counsel" program offering legal advice and emergency payments to keep struggling renters in their homes. The Los Angeles County Board of Supervisors is exploring a similar proposal.

22 "SCAG approves modified plan for allocating 1.34 million units as part of the 6th cycle RHNA process," Southern California Association of Governments press release, November 7, 2019.

23 In the 5th cycle RHNA, covering 2014 to 2021, LA County was given the goal of producing 179,881 total housing units, of which 103,184 were meant to be affordable to households earning less than 120 percent of the area median income. Based on the data from the California Department of Housing and Community Development, LA County's averages during this period were 22,500 units permitted annually, of which 2,700 were affordable.

24 The affordable housing goal is defined as the number of units that should be affordable to households earning less than 120 percent of area median income.

25 This estimate assumes that LA County builds all of the above-moderate-income units allocated in the 6th cycle (343,249 units), with 80 percent of these units added in multifamily developments near transit that follow set-aside requirements similar to those set in the Measure JJJ's Transit Oriented Communities incentive program.

26 This estimate assumes that LA County builds all of the above-moderate-income units allocated in the 6th cycle (343,249 units), with 80 percent of these units added in multifamily developments near transit but follow a higher 30 percent set-aside requirement.

27 Our analysis shows that accessory dwelling units, bungalow-style housing, conversions of single-family homes into multiplexes, and micro-units in multifamily developments can be affordable to moderate-income households (those earning 80 to 120 percent of area median income).

$41 billion to $81 billion in subsidies over the eight-year period.[28] The size of this range reflects variations in housing formats, whether lower-cost construction techniques are used, and the level of affordability desired.

The combination of density around transit, innovative construction techniques and housing formats, and higher set-aside requirements could be a powerful one to attract private investment in both moderate-income housing and deed-restricted low-income housing. Policy makers can consider giving projects that follow this model by-right approvals and incentives. When the state and city took broad action to allow accessory dwelling units, permit applications shot up citywide, a positive trend that could be replicated on a bigger scale with micro-units and prefab construction. Public dollars could then be directed toward efforts to support households with more acute needs such as supportive services, rental assistance, preservation, and eviction support.

Los Angeles also needs to change the way the community engages. Public meetings are often dominated by the loudest anti-growth voices. But everyone needs to be heard, including local employers and workers who are priced out. In a more technology-driven age, the city can conduct digital surveys and create apps to keep the public informed and invite comments while reducing design iterations. While some communities have fought against adding shelters to get homeless people off the streets, things have gone more smoothly in Glendale and other communities where innovative programs have built goodwill. It may take similar creativity, communication, and community education to build consensus on what Los Angeles needs to build and why.

The combination of density around transit, innovation in housing formats and construction techniques, and higher set-aside requirements could deliver more affordable housing through private development.

Los Angeles needs to speed up its metabolism and take an "all of the above" approach to meeting its housing challenge. Increasing the build rate is a must. Since dramatically ramping up construction will affect labor demand, the region should take steps to bolster the local workforce in the construction industry to mitigate the risk of shortages.

The region's fragmented housing ecosystem needs to become more cohesive and easier to navigate. A public-private-social delivery coalition could be the catalyst needed to bring about this change. It should bring together for-profit and nonprofit developers, builders,

[28] The higher end of this range assumes all units are standard-size (970-square-foot) units. The lower end assumes that 60 percent of the units are standard size, 20 percent are micro-units, and 20 percent are co-living units. The funding estimate changes if these ratios shift.

relevant city agencies, and neighborhood representatives—plus the region's major employers, its architecture community, digital innovators, investors, and philanthropists—to create consensus and drive progress. This kind of entity, perhaps united in one space, can provide technical assistance and serve as a forum for difficult conversations regarding trade-offs. More broadly, it could serve as an incubator of ideas and a vehicle for ensuring accountability. All stakeholders in the coalition must commit to the overarching public good of meeting LA's affordable housing needs, recognizing that it will take collaboration and compromise.

Our initiative provides a fact base that can inform the region's road map forward. We measure the size and economic impact of the problem, propose a set of options for boosting the production of affordable housing, and explore how to bring that vision to reality. Los Angeles needs decisive action to ensure that residents of all income levels can count on finding a decent place to call home.

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