

Executive Summary

# Workforce Housing Study



Westside Subregion

# Executive Summary

## About the Study

The cities of Beverly Hills, Culver City, Santa Monica, and West Hollywood, as well as the City of Los Angeles, have long collaborated on local planning issues through the Westside Cities Working Group.

In 2007, this organization, comprised of planning staff from each of the four cities and Los Angeles, received grant funding from the Southern California Association of Governments to initiate this Workforce Housing Study. The goal of the Study is to examine regional workforce housing needs and potential housing strategies to reduce Vehicle Miles Traveled (VMTs) by commuters to employment centers on the Westside. The concept underlying this Westside Workforce Housing Study is to create an analytical framework and set of strategic actions which can be collectively implemented to address the issue of workforce housing and build partnerships with area policy makers, local governments, and employers.

## Definitions

### *Study Area*

This report defines the Study Area as encompassing the cities of Beverly Hills, Culver City, Santa Monica, and West Hollywood, along with the portion of the City of Los Angeles encompassed by four Community Plan areas (e.g., Westwood, West Los Angeles, Palms-Mar Vista-Del Rey, and Venice). This Study Area incorporates a portion of the under-construction Exposition Line, as well as potential alignments being considered as part of the Westside Extension Transit Corridor planning process. Thus, this Study Area offers the potential to link transit and workforce housing initiatives.

### *Workforce Housing*

For this Study, workforce housing has been defined as housing for workers that can generally not afford to live in the same location as their workplace in the Westside Study Area, and are not well served by existing public programs aimed at providing affordable housing opportunities. This definition encompasses housing units affordable to households earning from 80 to 180 percent of Area Median Income (AMI). For Westside Study Area households with four people in 2007, this definition brackets household incomes of \$67,800 to \$101,700<sup>1</sup>.

Because some local jurisdictions utilize affordable housing programs serving the 80 to 120 percent AMI household (i.e., “moderate income”), and all jurisdictions are subject to this same definition in meeting requirements for Housing Element Updates, this report uses three subcategories of workforce housing: those earning from 80 to 120 percent AMI, those earning 120 to 150 percent AMI, and those earning 150 to 180 percent AMI. These subcategories are referred to in this Study as Tier 1, Tier 2, and Tier 3,

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<sup>1</sup> The household income encompassed by the 80 to 180 percent AMI definition will vary by household size due to the way the federal and state government administer most housing programs. Please see body of report for more information.

respectively. This broad range of income spans both rental and for-sale units, and encompasses households with workers in almost all of the key industries in the Westside, including entertainment, the arts, lodging, retail, health care, education, and small business.

## **Why is Workforce Housing Important to the Westside?**

### ***Workers commuting into the Westside contribute to traffic congestion, air pollution, and greenhouse gas emissions.***

The Westside area contains some of the most expensive housing markets in the U.S. According to Dataquick, the median sale price for single family homes sold in Westside Cities ranged from \$583,000 in a portion of Culver City to \$3,800,000 in a portion of Beverly Hills (June 2008). Few middle income households can afford these prices, resulting in large portions of the workforce choosing to live in a less expensive, distant location and commute in to their workplace. Although it is difficult to obtain data for specific workers from published sources, the relationship between expensive housing near work, less expensive housing in far-away suburbs, and resultant long distance commute patterns is well understood by Westside workers and employers.

These commute patterns create traffic congestion on all major throughways and freeways in the Westside. For example, the *2007 Urban Mobility Report* (Texas Transportation Institute, University of Texas A & M) ranked the Los Angeles/Long Beach/Santa Ana metropolitan area as the #1 most congested region in the U.S., with 72 hours per year per traveler “lost” due to congestion. This means that the typical commuter driving an automobile spends 72 hours annually stuck in traffic, or driving at slower speeds than intended for the roadway, which is equivalent to almost two weeks of work. While the costs of this lost time varies depending on the economic model used, costs range from \$14.50 to more than \$30 per hour, or more than \$2,100 a year to the traveler, who could be earning his/her pay at the job. From the employer’s perspective, this same “lost” time represents lost productivity.

Commuting to work, especially by automobile, also contributes substantially to greenhouse gas emissions. The recently released Draft Scoping Plan (California Air Resources Board, 2008), which will implement AB32, California’s sweeping greenhouse gas reduction legislation, estimated that transportation contributes 40 percent of total greenhouse gas emissions in California. While improved automobile technology will reduce these emissions, many land use planners and policy-makers also recognize that moving housing closer to jobs will play a key role in overall reductions of greenhouse gases.

### ***Workers commuting into the Westside are impacted in terms of their productivity.***

Numerous studies cite loss of productivity and absenteeism as key factors stemming from increased vehicle miles traveled (VMT) by workers. While this Study could not identify Westside-specific data, national studies estimate that long commutes decrease worker satisfaction, and contribute to higher absenteeism (particularly for those families with children who cannot conveniently travel if family schedules are disrupted). These two factors culminate in a loss of productivity to the employer. Moreover, new research documents the impacts of living in auto-dependent environments, which contribute to higher rates of obesity, stress, and other health factors, all culminating in higher costs to

employers.

***The vitality of an economy depends on the ability of its workforce to afford their housing costs and achieve a high quality of life.***

For many industries contributing to the Los Angeles regional economy, the ability to attract and retain skilled employees is paramount to economic vitality. Talent and innovation drive the success of numerous employment sectors, from medical care to entertainment to design to technology. Educational institutions also directly connect to this concept, with top universities needing to compete nationally and internationally to attract quality faculty members. If workers can not afford their housing costs, they will either move, change jobs, or pressure employers to compensate for the additional housing cost burden. Put simply, the level of wages paid in high cost areas such as Los Angeles, to compensate for “high costs of living,” directly reflects this relationship.

The *Affordability Index* (SCAG, March 2008) analyzes the combined costs of housing and transportation on individual households for the Los Angeles region. This tool describes the true cost of living far from the workplace, demonstrating that while housing costs may be lower in distant suburban communities, the increased costs of transportation, when added to housing costs, can result in a greater total burden on working households, leaving little disposable income for other expenditures. The Affordability Index illustrates the household cost savings from locating near transit. This concept was first elaborated in *A Heavy Load: What Working Families Spend for Housing and Transportation* (Center for Housing Policy, 2006), which looked specifically at households earning \$20,000 to \$50,000 throughout major metropolitan areas of the U.S., and found that in the Los Angeles region, these two costs together accounted for 59 percent of spending by these households in 2000. This dynamic leaves scant room for these low income households to afford food and any other incidentals necessary for daily living.

Recent spikes in gas prices underscore this phenomenon. For many households with fixed costs for housing and food, when transportation costs rise dramatically, discretionary spending on retail goods will commensurately fall. This pattern directly affects retail merchants, restaurants, hotel operators, and many other sectors of the economy dependent on disposable household income.

***Few public sector subsidies are available for the workforce household income segment.***

Although local jurisdictions in California, including those in the Westside, devote considerable resources to address housing needs for households earning up to 80 percent of Area Median Income (AMI), households earning more than 80 percent AMI are less supported. For the group earning between 80 to 120 percent AMI (e.g., moderate income households), some public support is available in selected locations, primarily through housing set-aside funds required to be spent on this income group by redevelopment agencies. West Hollywood, Culver City, and Santa Monica all have redevelopment project areas, and thus have modest program support available for the 80 to 120 AMI group. However, Beverly Hills does not have a redevelopment area, and thus, does not have 80 to 120 percent AMI housing funding available. Moreover, there are no redevelopment areas in the City of Los Angeles portion of the Study Area; thus no redevelopment set-aside funding is available for that geography. For those worker households earning from 120 to 180 percent AMI, there are no specific public sector funding or support programs available to address housing affordability within the Westside Study Area.

## Westside Workforce Housing Needs

The following summarizes the findings from extensive data analysis contained in the report.

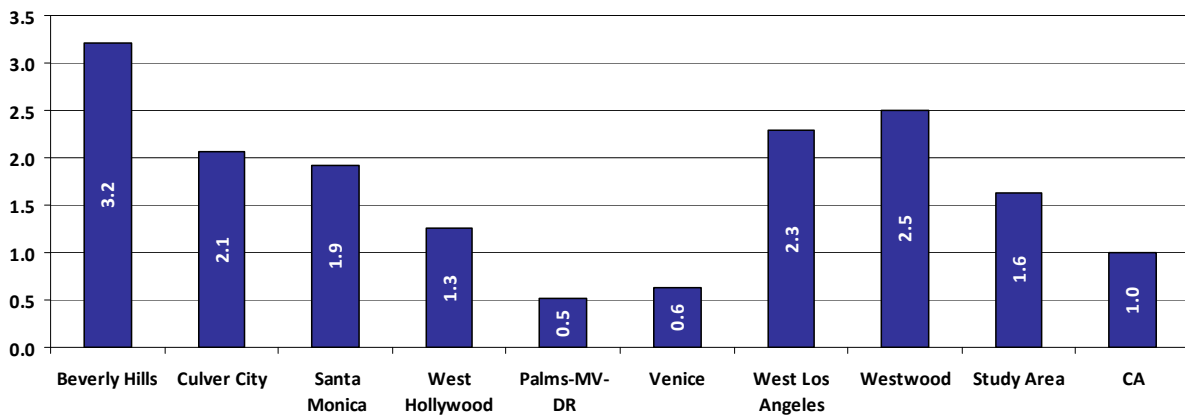
### ***The Study Area lacks sufficient housing inventory to house its workers.***

One way to describe the balance between jobs and housing is to measure the ratio of jobs in an area to the number of employed (e.g., working) residents. This measure is more meaningful than the simple jobs-to-housing ratio, since it accounts for the fact that in contemporary society, there tends to be more than one worker in each housing unit.

The Study Area contains substantially more jobs (just under 400,000 jobs in year 2000) than working residents (about 247,000 residents worked at various locations within or outside of the Study Area, in year 2000). Expressed as a ratio, the Westside Study Area had 1.6 jobs for every employed resident. In comparison, statewide, this ratio is 1, meaning that there is one job in the state matching each person who is employed. The graph below provides the ratio of jobs-to-employed residents for each city within the Study Area.

Thus, the Study Area lacks a sufficient supply of housing to meet the logical ratio of one working resident to fill every job in the same area. To balance the Study Area in terms of adding sufficient housing units, approximately 94,000 new units would need to be added to the existing Study Area housing supply (assumes roughly 1.6 workers per household, the statewide average).

Ratio of Jobs-to-Employed Residents, 2000

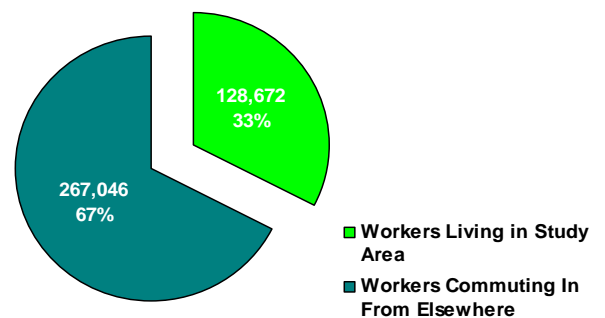


Source: U.S. Census, 2000, BAE 2008.

**The Study Area experiences substantial daily in-commuting of workers living elsewhere.**

Beyond the imbalance of more jobs than places to live in the Study Area, market forces also create a substantial in-commuting situation every day in the Westside. In 2000, almost 2/3rds of all workers holding jobs in the Westside Study Area commuted in from elsewhere in the region. While not all of these in-commuters are doing so because of lack of ability to afford housing, it is very likely that a large proportion of these in-commuters are affected by the cost of housing, and living further away to lower their housing expenditures (or enhance their purchasing power). The report provides further breakdowns of these commute flows for each sub-area within the Study Area.

**Overall Study Area Commute Flow, 2000**



**Overall Study Area Commute Flow, 2000**

Workers Living in Study Area	128,672	32.5%
Workers Commuting In From Elsewhere	267,046	67.5%
<b>Total Jobs in Study Area</b>	<b>395,718</b>	<b>100.0%</b>

**The Study Area has an extremely limited for-sale housing market in terms of prices affordable to worker households.**

Based on sale prices for units sold during the first half of 2008, just 23 percent of housing units sold in the Study Area would be affordable to workforce households as defined by this Study (e.g., up to 180 percent AMI). This suggests that many households with Westside workers choose to live in distant, less expensive areas in order to achieve homeownership.

**The loss of rental units in from rent control exacerbates the situation for renter households.**

The cities of Santa Monica, West Hollywood, and Los Angeles all have longstanding rent control programs for units constructed up until the late 1970s. Due to several changes in state law in the past decade, however, thousands of formerly affordable rental units have been “lost” to rising rents as units become vacant and re-rented, with rents allowed to rise to market rates during the process. This erosion of a supply of relatively inexpensive rental units, forming a key portion of overall housing inventory serving the workforce in the Westside Study Area, exacerbates the situation for those households who rent their housing unit.

**Summary of Land Use and Housing Plans**

The report provides an overview of the land use plans, housing elements, affordable housing initiatives, and development/parking constraints that all impact production of workforce housing in the Study Area. The following summarizes key findings by subject, as applicable to workforce housing issues.

**Shifting Land Use Emphasis Toward Increased Housing Production**

A review of plans for the jurisdictions in the Study Area suggests a general trend towards positive change with respect to increased workforce housing policies. Examples of this abound, from the regional Compass Blueprint initiative, with its coordinated vision and proactive support to local governments, to the comprehensive approach of Santa Monica’s new draft Land Use and Circulation

Element (LUCE), to the numerous special transit-oriented development plans and projects. The cities of Culver City and Beverly Hills, as well as the West Los Angeles Community Plan area, are all currently revising their General Plans to update for land use policy changes.

In general, these efforts base their approach on directing increasing density to carefully selected “change areas,” while at the same time ensuring that community livability is preserved and enhanced through better pedestrian-oriented streets, open space, proximity to transit, and improved urban design.

While all of these land use and planning techniques foster “smarter growth,” it should be noted that density alone does not necessarily produce less expensive housing. Experience in other livable, walkable communities throughout the country, with high levels of density and vibrant mixes of land uses, can lead to exactly the opposite – even more desirable, higher cost housing. Some of the most dense and transit-rich urban areas of the U.S., such as San Francisco and Manhattan, are also the most expensive housing markets. As climate change and spiking gas prices make these urban neighborhoods even more attractive, in the absence of a coordinated effort to incorporate affordability into the mix, changes in land use alone may price many workers out of the market.

### ***Updated Housing Elements***

All of the cities in this Study are currently completing their updated Housing Elements. All of the Draft Elements reviewed for this report seek to comply with applicable laws and regulations, including identifying housing opportunity sites along with policies and programs to achieve their Regional Housing Needs Allocation goals. However, it should be noted that review of the sections summarizing the past Housing Element achievements indicate the challenges of actually achieving these goals; for the Tier 1 level of this Study’s workforce housing definition (e.g, 80 to 120 percent AMI), none of the cities achieved their goals during the last cycle, despite the perception that this category of housing needs are easily addressed. The city achieving the most proportionately, in this category, was Santa Monica, which created units to meet 55 percent of its moderate income housing goal between 1998 and 2005.

### ***Inclusionary Housing and Density Bonus Programs***

Both Santa Monica and West Hollywood have successfully implemented citywide inclusionary housing programs going up to 120 percent AMI, while the City of Los Angeles attempted this approach but failed to adopt it.

Moreover, Santa Monica, West Hollywood, and Culver City all have redevelopment project areas within the Study Area (Los Angeles redevelopment areas do not fall within the Study Area), subject to redevelopment requirements for 20 percent low-moderate housing set-asides and inclusion of 15 percent affordable units if private funded projects built in redevelopment project areas. However, it appears that some of the funding set aside in these programs has not yet been spent, a problem present in many redevelopment agencies throughout California to some extent.

Los Angeles has also embarked on an ambitious program to implement a density bonus which essentially creates a “voluntary” inclusionary program, incorporating density bonuses, parking

requirement reductions, and other incentives which are applicable up to 120 percent AMI ownership housing. However, this ordinance is currently in litigation, making it difficult to evaluate its future. Moreover, it is likely that this kind of approach, when introduced to the community during the updating of the Community Plans, will cause even more local backlash, due to its intent to grant bonuses administratively rather than through public review in some situations.

### ***Parking Standards***

One theme which emerged from review of each jurisdiction’s parking standards indicated that there is room for further work in this arena. In some cases, Westside Cities appear to have relatively high minimum parking standards relative to other urban areas in California, where standards have been lowered gradually to allow developers to provide one space per unit at their option, or in some cases to restrict to one space per unit to force less auto dependence. Moreover, the Toolkit section of this Study offers discussion of “unbundling” structured parking from multifamily housing units, in order to reduce the costs of providing it to those households who do not need it, thereby reducing costs and encouraging other forms of transportation.

It should be noted that in those communities in the Study Area where parking requirements are tied to “habitable rooms” rather than to bedrooms, this likely further exacerbates the issue, since it creates the need for more parking in units that may not house large numbers of people, but simply have doors that close to create dens, separate kitchens, etc.

Clearly, parking requirements per project, and on a larger scale parking management issues throughout districts and cities, are major challenges in the auto-oriented culture of the Westside. While these standards appear to be slowly changing, it will be challenging to take a more restrictive regulatory approach until there are ample, affordable alternative ways of moving people around and through a place. Light rail, bicycles, and walking are all parts of the mix needed, but other options such as car-sharing, small “smart cars,” and new forms of transport will all need to be fully integrated into the lifestyle and culture of residents and workers.

### ***Identification of In-Fill Sites***

The Study Area’s local governments have embarked on identifying in-fill sites as part of their Housing Element update processes. These efforts to computerize site searches for potential infill development sites is an exciting new process, made available by applications such as CaLots and other infill tools. However, these tools are only the first step toward connecting development investment to sites. It is well understood by developers that many sites have numerous constraints, even if they appear underutilized at first glance, such as difficulty in assemblage, lack of willing or interested sellers, access to financing during down periods of the housing cycle, “brownfield” contamination, lack of sufficient infrastructure, entitlement risk, etc. All of these factors and more, create the need for more fine-grained initiatives to study the feasibility of development on example in-fill sites, and to connect key sites with skilled development teams. As climate change, traffic congestion, housing price rises, and population growth continue to collide, the need for urban development ~~experts~~ will only increase, particularly those with concurrent depth of understanding and interest in providing inexpensive housing to low, moderate and workforce households.

## **Westside Employer Outreach**

For this Study, most of the 10 largest employers in each geography were contacted to request an interview about workforce housing. Approximately 15 interviews were conducted, with a mix of outcomes. Several employers felt that the cost of housing on the Westside, and the resulting long commutes made by many employees, was not a problem and did not warrant employers' attention. Other employers, including UCLA, Sony, several cities and medical institutions, and chambers of commerce representing smaller employers, all believed that this issue is a key challenge, and must be addressed.

Three major initiatives were identified during the course of this Study; the Los Angeles Business Council has just published its Los Angeles Housing Scorecard, UCLA has announced a Workforce Housing Master Plan, and the Los Angeles Unified School District has just launched a teacher housing development program on District-owned campuses. These initiatives create unique opportunities for Westside cities and the City of Los Angeles to join existing efforts and build broader interest and support for new workforce housing strategies across jurisdictions and sectors of the local economy.

## **Financial Challenges to Workforce Housing**

Development of workforce housing faces numerous challenges, including cost of land, construction, and infrastructure, as summarized below.

### ***Land Costs***

Research for this Study included canvassing published documents and members of the Westside Working group for typical land costs in the Study Area. The results indicated that land costs vary widely in the Study Area, from a reported \$80 to over \$200 per square foot of land in Santa Monica, and from approximately \$36 per square foot in South Los Angeles to \$450 per square foot or more in Central Los Angeles, where densities can exceed 200 units per acre. These widely varying numbers illustrate the factors at play in land markets, from the impact of desirable locations to the effects of substantial density. Land markets are often particularly volatile during and just after explosions in demand and resulting building booms, when speculative land purchases, or just the expectation of a "windfall," can create distorted market data.

### ***Construction Costs***

Construction costs for steel, transportation of materials, and most significantly, structured parking spaces all add to the high cost of building workforce housing. Structured parking today can range from \$15,000 in a podium project to more than \$35,000 a space in an underground garage, depending on the type and design of the garage portion (excluding the land to contain this part of the building). Thus, a two-car parking requirement in a typical multifamily project in the Westside can add \$70,000 or more to the cost of the unit, or up to \$500 a month to the mortgage payment, suggesting that eliminating parking spaces and/or unbundling them from the price of the unit (allowing choice in purchase) could reduce housing costs substantially.

**Infrastructure Costs and Impact Fees**

A major issue that affects individual projects is the presence of sufficient infrastructure, both to serve the project and within the broader area. Often, area-wide infrastructure costs are passed forward to the developer in the form of impact fees to pay for citywide roadways, parks, schools, and other municipal improvements. While these fees are necessary given the current fiscal situation of local governments built up from decades of taxation policies and deferred maintenance, these kinds of costs are also often distressing to individual project developers and their customers or tenants as they are passed along.

**Recommended Strategies**

This Study included a review of numerous workforce housing strategies and several case studies of housing projects, in order to formulate a set of strategies applicable to the Westside Study Area. The chart show below summarizes recommended strategies for further consideration as joint or individual initiatives for Westside Cities to consider. The following paragraphs describe each strategy.

Summary of Recommended Strategies for Increased Westside Workforce Housing					
	Reduce VMTs	Expand Supply	Support Ownership	Reduce Dev Costs	Create Partnerships
Build a Coalition of Westside Employers and Local Governments					
Link Workforce Housing Directly to Climate Change Strategies					
Dedicate Land to Reduce Cost of Workforce Housing					
Produce Workforce Housing Through Inclusionary Ordinances					
Leverage Available Financing Sources					
Acquire or Facilitate Purchase of Foreclosed Properties					
Refine Transit Oriented Development Incentives for Westside					
Creatively Mix Incomes and Funding Sources					

### **Build Coalitions of Westside Employers and Local Governments.**

One of the most striking aspects of the workforce housing issue in the Westside is that many large employers do not view this as an important issue needing attention, yet all the data indicates that in-commuting from long distances is a major factor impacting employers and workers in the Study Area. There are many low-cost options which employers can undertake, particularly in partnership with local governments, ranging from the example of Urban Land Institute's coalition to advocate for new housing projects meeting certain criteria, to communicating about available below-market units and financing programs at the workplace. This recommended strategy could be implemented jointly by Westside Cities to be more effective, as major employers in a location draw workforce from surrounding areas in the Westside (or could, if more affordable housing options were available).

### **Link Workforce Housing Directly to Climate Change Strategies**

As California proceeds to implement its statewide greenhouse gas reduction laws, improved land use planning to better locate where we live, work, and shop will become increasingly important. There are numerous initiatives underway to both regulate (e.g., California's use of CEQA to incorporate greenhouse gas reduction into General Plan Updates), and incentivize (e.g., voluntary carbon offset markets) reductions for this category of pollutants.

### **Dedicate Land to Reduce Cost of Workforce Housing**

Another key aspect of increasing the supply of entry-level housing is to reduce development costs through better utilization of land. Many public agencies and private employers own land resources that are underutilized and could accommodate housing, including school sites, public rights-of-way, corporation yards, small airports, university-owned lands, parking lots, etc. A comprehensive assessment of land use / underuse in the Westside would likely reveal numerous opportunities that may make sense for land dedication at low or no cost, to create housing for workers. The Los Angeles Unified School District's current initiative to make school land available for teacher housing is just one example of the creative use of already-owned land.

### **Produce Workforce Housing Through Inclusionary Ordinances**

This approach, more typically used to create housing up to 120 percent AMI (which is Tier 1 of workforce housing as defined in this Study), could be expanded to incorporate an additional requirement for housing up to 180 percent AMI. The tool of inclusionary housing is particularly well suited to produce more workforce-affordable housing units, since it allows increased density (often with concurrent reduced parking requirements) as part of the private development process. Workforce units with no land costs (due to their addition into a project) and low parking requirements can approach a break-even situation for developers of for-sale housing, on sale prices set to match 180 percent AMI household incomes, depending on design and other factors. The additional benefit of using this tool is that it does not detract public resources from much-needed lower income housing subsidies.

### **Leverage Available Financing Resources**

From private and quasi-public workforce housing investment funds, to creative use of statewide teacher housing financing, to "cross-subsidization" with market rate units, to underused moderate income housing funds from redevelopment agency set-asides, there are a wide range of financing resources

available for utilization in a workforce housing project in the Westside. This approach may require the simple support of a technical financing person to identify funding and support developers (both for-profit and non-profit) in accessing and combining available funds to support workforce units.

### **Acquire or Facilitate Purchase of Foreclosed Properties**

In July, 2008, the U.S. Congress passed the Housing and Emergency Recovery Act, which includes a new Neighborhood Stabilization Program (NSP). This program provides emergency grants to state and local governments to acquire foreclosed properties to prevent blight, stabilize neighborhoods and stem the decline of house values of neighboring homes. A key new item from the workforce housing standpoint, is that the NSP program will allow stabilization programs targeting households up to 120 percent AMI (federal programs rarely target above 80 percent AMI).

For the Westside Study Area, the only automatic local government grantee is the City of Los Angeles, which will receive \$16.85 million for neighborhood stabilization purposes. The other cities, however, can submit applications to the statewide pool of grant money, totaling over \$145 million. The State of California's Department of Housing and Community Development (HDC) is currently holding statewide meetings to obtain input prior to formulating its grant program.

### **Refine Transit-Oriented Development Incentives for Westside**

This strategy is particularly well-suited to those cities engaged in planning and implementation of new transit systems, including Santa Monica, Culver City, and portions of west Los Angeles. TOD can facilitate clear reductions in parking standards, due to the proximity of transit options. Incentives can include increased density in a transit zone, and the use of performance zoning, which calibrates density and design with outcomes of the building.

### **Creatively Mix Incomes and Funding Sources**

This strategy underscores the idea that a single project can have multiple target household incomes, ranging from working poor (e.g., Low Income Housing Tax Credits) to moderate income (with redevelopment agency funding) to workforce housing (e.g., up to 180 percent AMI) and market rate units. While not all income levels may make sense in each project, more frequent use of mixed income housing projects should be explored for the Westside. This concept also incorporates "lease-to-own" and other strategies that enable mixed tenure options (e.g., rental and ownership in same project). As described above, one method to increase this project development approach may be to fund a technical assistance staff person through the Westside Council of Governments, or on a consultant contract.

### **Additional Tools and Strategies**

The Study's Appendix contains additional tools and strategies which may have applicability in one or more portions of the Study Area, but not necessarily for the entire Study Area. These include "unbundled" parking, density by design, development using modular green housing units, and employer-sponsored programs such as homeownership counseling and special downpayment assistance funds.