

# SUMMARY - Affordability Gaps Study

June 8, 2017

## **Overview of Measure JJJ Affordable Housing Requirements and In-Lieu Fee**

City of Los Angeles voters approved Measure JJJ in November 2016, which added provisions to the City’s municipal code to require developers of certain residential projects to either provide affordable units or pay an in-lieu fee. To determine the in-lieu fee schedule, the City of Los Angeles commissioned consultants BAE Urban Economics to conduct the Affordability Gaps study using the methodology outlined in Measure JJJ.

Measure JJJ institutes affordable housing requirements for projects that receive a discretionary General Plan amendment, zone change, or height district change resulting in either an increase in residential density of more than 35 percent or development of a residential use where residential uses were not previously allowed. Table 1 summarizes the Measure JJJ affordability requirements.

**Table 1: Measure JJJ Affordable Housing Requirements**

	<b>Rental Projects</b>	<b>For-Sale Projects</b>
<b>Increase in Residential Density &gt;35%</b>	5% extremely low income and 6% very low income  - or -  5% extremely low income and 15% lower income	11% very low income  - or -  20% lower income  - or -  40% moderate income
<b>Residential Use Where Not Previously Allowed</b>	5% extremely low income and 11% very low income  - or -  5% extremely low income and 20% lower income	11% very low income  - or -  20% lower income  - or -  40% moderate income

## **Calculation of In-Lieu Fee**

Measure JJJ allows developers to meet the affordable housing requirements by building units on site, building units off-site, acquiring and preserving existing at-risk affordable properties, or paying an in-lieu fee. The in-lieu fee amount specified in Measure JJJ is equal to 1.1 times the number of affordable units that the developer would otherwise be required to provide, multiplied by the applicable “affordability gap.” Measure JJJ requires affordable units to be comparable to market-rate units in terms of the number of bedrooms and other factors, and therefore the unit mix used to calculate in-lieu fee payments must mirror the unit mix in the project.

According to Measure JJJ, the affordability gap for rental units is the difference between the total affordable unit development cost and the amount of permanent financing that the restricted rents would support. The affordability gap for for-sale units is equal to the difference between the median home sale price and the restricted affordable sale price. Measure JJJ requires the City to update the Affordability Gaps study and resulting in-lieu fees every two years.

**Rental In-Lieu Fee**

Table 2 below shows the rental affordability gaps calculated in the Affordability Gaps study. These figures represent the per unit subsidy amounts that would be necessary to support development of affordable units, after accounting for the permanent loan that an apartment operator could support from rent payments.

**Table 2: Rental Affordability Gaps, City of Los Angeles, 2017**

Unit Size	Income Level		
	Extremely Low	Very Low	Lower
Studio	\$377,030	\$347,850	\$333,260
1 Bedroom	\$401,239	\$367,909	\$351,312
2 Bedroom	\$444,448	\$407,103	\$388,363
3 Bedroom	\$493,490	\$451,862	\$431,115

Source: BAE, 2017.

The in-lieu fee payment for rental developments subject to the Measure JJJ affordability requirements would be consistent across projects for each unit size. For projects that are subject to the affordability requirements due to discretionary approvals for a General Plan amendment, zone change, or height district change resulting in an increase in density of more than 35 percent, the in-lieu fees would be as follows:

- \$43,695 per studio unit
- \$46,350 per one-bedroom unit
- \$51,313 per two-bedroom unit
- \$56,965 per three-bedroom unit

These fee rates represent fees in-lieu of providing five percent of units affordable to extremely low-income households and six percent of units affordable to very low-income households. This results in a lower fee amount than a fee in-lieu of providing five percent of units affordable to extremely low-income households and 15 percent of units affordable to lower-income households.

For projects that are subject to the affordability requirements due to discretionary approvals for a General Plan amendment, zone change, or height district change to allow residential uses where not previously allowed, the in-lieu fees would be as follows:

- \$62,826 per studio unit
- \$66,585 per one-bedroom unit
- \$73,704 per two-bedroom unit
- \$81,817 per three-bedroom unit

These fee rates represent fees in-lieu of providing five percent of units affordable to extremely low-income households and 11 percent of units affordable to very low-income households. This results in a lower fee amount than a fee in-lieu of providing five percent of units affordable to extremely low-income households and 20 percent of units affordable to lower-income households.

### ***For Sale In-Lieu Fee***

For units that would be offered for sale, Measure JJJ defines the affordability gap as the difference between the median home sale price by unit type and the restricted affordable sale price. Measure JJJ requires separate affordability gap calculations for each of the City's 37 Community Plan Areas (CPAs) to reflect the difference in median sale prices between each CPA.

Per the requirements of Measure JJJ, the study calculates the for-sale affordability gaps by subtracting the restricted sale prices at each affordability level by unit size from the median sale price by CPA, unit size, and building type. This results in a total of 1,050 for-sale affordability gaps (35 CPAs x 5 unit sizes x 2 building types x 3 affordability levels).

Table 3 summarizes the range in single-family and condominium affordability gaps for each of the CPAs in the City. Table 9 and Table 10 of the full study show all 1,050 for-sale affordability gaps by CPA, number of bedrooms, and single-family/condominium building type. The affordability gap calculations found that market sale prices for some unit types in some CPAs were lower than the restricted sale prices, meaning that market rate sale prices for some unit types are affordable to some lower- and moderate-income households. However, because Measure JJJ requires that developers pay a fee for all applicable projects, the City requires developers to apply the next highest income level with a positive affordability gap for the same unit type in any case where an affordability gap is negative or zero.

The for-sale in-lieu fees vary substantially based on CPA, number of bedrooms, and whether the fee rate reflects a fee in lieu of providing 11 percent of units affordable to very low-income households, 20 percent affordable to lower-income households, or 40 percent affordable to moderate-income households. Depending on the unit mix in a particular project, the lowest and highest for-sale in-lieu fees could be based on any of the three on-site affordability options for for-sale units. Overall, fee rates could vary from a few hundred dollars per market-rate unit to over \$400,000 or more per market-rate unit, assuming developers are able to select the lowest fee rate based on the various options for compliance through units built on site. The Measure JJJ in-lieu fee formula for for-sale units requires project-by-project in-lieu fee calculations to determine the appropriate fee amounts.

**Table 3: Summary of For-Sale Affordability Gaps, City of Los Angeles, 2017**

Community Plan Area	Single-Family		Condominium	
	Minimum	Maximum	Minimum	Maximum
Arleta/Pacoima	\$7,770	\$238,492	\$0	\$257,260
Bel Air/Beverly Crest	\$507,507	\$1,938,047	\$486,858	\$1,278,174
Boyle Heights	\$7,770	\$241,047	\$0	\$213,228
Brentwood/Pacific Palisades	\$934,415	\$2,705,547	\$230,133	\$1,144,784
Canoga Park/Winnetka/Woodland Hills/West Hills	\$164,086	\$478,047	\$82,985	\$309,784
Central City	\$490,474	\$1,275,840	\$296,883	\$852,103
Central City North	\$122,638	\$579,892	\$370,407	\$792,040
Chatsworth/Porter Ranch	\$103,247	\$440,047	\$54,120	\$316,760
Encino/Tarzana	\$256,454	\$1,255,547	\$63,407	\$394,784
Granada Hills/Knollwood	\$44,909	\$335,992	\$14,747	\$277,925
Harbor Gateway	\$69,941	\$422,047	\$43,758	\$419,760
Hollywood	\$458,480	\$1,598,547	\$234,633	\$668,650
Los Angeles World Airport	N/A	N/A	N/A	N/A
Mission Hills/Panorama City/North Hills	\$16,652	\$318,047	\$0	\$303,510
North Hollywood/Valley Village	\$180,961	\$708,047	\$100,896	\$419,912
Northeast Los Angeles	\$152,836	\$548,492	\$71,883	\$464,760
Northridge	\$70,533	\$493,047	\$69,641	\$314,284
Palms/Mar Vista/Del Rey	\$465,171	\$1,293,047	\$220,907	\$757,439
Port of Los Angeles	N/A	N/A	N/A	N/A
Reseda/West Van Nuys	\$59,431	\$338,047	\$31,407	\$289,760
San Pedro	\$80,303	\$490,547	\$63,741	\$398,760
Sherman Oaks/Studio City/Toluca Lake/Cahuenga Pass	\$431,125	\$1,343,047	\$157,738	\$602,284
Silver Lake/Echo Park/Elysian Valley	\$300,862	\$888,492	\$219,909	\$699,784
South Los Angeles	\$13,691	\$265,047	\$0	\$395,103
Southeast Los Angeles	\$0	\$140,047	\$0	\$111,105
Sun Valley/La Tuna Canyon	\$38,263	\$363,047	\$0	\$399,760
Sunland/Tujunga/Lake View Terrace/Shadow Hills/East La Tuna Canyon	\$58,099	\$478,047	\$71,883	\$344,760
Sylmar	\$10,730	\$284,297	\$6,455	\$349,760
Van Nuys/North Sherman Oaks	\$137,589	\$574,047	\$60,041	\$330,784
Venice	\$759,744	\$2,378,297	\$641,192	\$1,611,376
West Adams/Baldwin Hills/Leimert	\$140,480	\$598,047	\$71,883	\$355,932
West Los Angeles	\$595,138	\$1,543,047	\$313,166	\$859,510
Westchester/Playa Del Rey	\$357,112	\$1,008,492	\$211,028	\$662,774
Westlake	\$87,405	\$387,073	\$155,407	\$486,503
Westwood	\$856,553	\$3,651,047	\$245,383	\$1,166,784
Wilmington/Harbor City	\$0	\$411,047	\$11,350	\$399,760
Wilshire	\$507,507	\$1,465,547	\$81,383	\$633,396

Source: BAE, 2017.