Department of City Planning

City Hall, 200 N. Spring Street, Room 272, Los Angeles, CA 90012

September 24, 2024

TO: City Planning Commission

FROM: Julia Heidelman, City Planner
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TECHNICAL MODIFICATIONS TO STAFF RECOMMENDATION REPORT FOR CASE NO. CPC-2024-388-CA, CPC-2023-7068-CA, and CPC-2024-387-CA

CORRECTIONS AND ADDITIONS TO STAFF RECOMMENDATION REPORT

The following corrections and additions are to be incorporated into the staff recommendation report to be considered at the City Planning Commission meeting of September 26, 2024 related to Item No. 6, 7 and 8 on the meeting agenda.

INSTRUCTIONS: Revise the section on "Amendments to Findings Associated with the Density Bonus for a Housing Development in which the Density Increase is Greater than the Maximum Permitted (LAMC Section 12.24 U.26)" on page A-9 to clarify that staff recommend a revision to allow a discretionary approval pursuant to 12.24 U.26 for projects seeking a greater than 50% or 88.75% Density Bonus.

The CHIP Ordinance proposes an amendment to LAMC Section 12.24 U.26 which contains required findings for Class 3 Conditional Use Permit Density Bonus projects requesting a density increase that exceeds what is permitted under the existing Density Bonus Ordinance (described in Section 12.22 A.25 which are to be replaced by the CHIP Ordinance). The proposed amendments to this section would update the threshold which triggers discretionary review for projects requesting a density bonus beyond 50% or 88.75% ~~or 100%~~ in alignment with state law (Government Code Section 65915 (v) added by AB 1287). The maximum density bonus permitted by state law may be 88.75% or 100%, and is determined by the income category of the restricted affordable units a project provides. Prior to AB 1287, State Density Bonus Law projects providing the requisite number of affordable units were able to receive up to a 50% density bonus under certain circumstances (AB 2345). AB 1287, which became effective in 2024, builds upon the 50% bonus and allows a project to receive an additional density bonus beyond 50% in exchange for a greater set aside of restricted affordable units. Projects providing additional restricted affordable units for Very Low Income households may receive an additional bonus of 38.75%, resulting in a total bonus of 88.75%, and projects providing restricted affordable units for Moderate Income households may receive an additional bonus of 50%, resulting in a total bonus of 100%. Staff recommend maintaining a discretionary approval process for

projects seeking a density bonus of 50% or more so that applicants can opt to propose a project providing affordability in a single category rather than necessarily opting to use the mixed affordability option now available under State Density Bonus Law. Additionally, the proposed amendment replaces a reference to "base density" with "Maximum Allowable Residential Density" per Government Code Section 65915 (o)(6). Other updates to this section include adding references to affordable housing requirements added under the Resident Protections Ordinance pursuant to LAMC Section 16.60 and Section 16.61. More information about the Resident Protections Ordinance can be found beginning on page A-39.

INSTRUCTIONS: Revise "Table 2. Summary of CHIP Ordinance Eligibility Requirements" on page A-14 to clarify limitations on project and incentive eligibility within the AHIP as follows:

Table 2. Summary of CHIP Ordinance Eligibility Requirements

**NOTE: All programs shall be required to provide the requisite number of restricted affordable units per the provisions of the applicable code section.*

Program	Geographic Eligibility	Unit Thresholds	Limitations
State Density Bonus Program	- Citywide	- Be located on a site that allows at least 5 residential units, including mixed-use developments	- Lots in Very High Fire Hazard Severity Zones, Coastal Zones, and Sea Level Rise Areas not eligible for Menu of Incentives or certain Public Benefit Options - No demolition of Designated Historic Resources and limited Menu of Incentives for sites with Designated Historic Resources
Mixed Income Incentive Program			
Transit Oriented Incentive Areas	- Be located within a ½ mile of a major transit stop	- Project must contain at least 5 units	- No demolition of Designated Historic Resources and limited Menu of Incentives for sites with Designated Historic Resources - Very High Fire Hazard Severity Zones (except for limited exceptions), Areas Vulnerable to Sea Level Rise, and Coastal Zones excluded - No projects in single-family zones (RW or more restrictive zones), and no projects in manufacturing zones (M1, M2, or M3), including sites zoned CM, MR1, MR2 if no residential uses are permitted through an applicable planning overlay
Opportunity Corridors	- Be located on a designated corridor with frequent bus service, high quality transit service, or within ½ mile of a Metro Rail Station in a Higher Opportunity Area		
Opportunity Corridor Transitional Area	- Be located within 750 ft from the rear property line of an Opportunity Corridor Incentive Area	- Project must contain at least 4 units and are limited by FAR schedule	

Program	Geographic Eligibility	Unit Thresholds	Limitations
Affordable Housing Incentive Program			
100% Affordable Housing Project	- Be a project where all units are covenanted affordable, exclusive of manager's units (up to 20% may be for moderate income and the remaining 80% must be restricted to lower income categories) - In any zone/land use permitting multi-family or zoned for Parking (P/PB)	- Project must contain at least 5 units	- Lots in Very High Fire Hazard Severity Zones, Coastal Zones, and Sea Level Rise Areas <u>limited eligibility for Base Incentives,</u> not eligible for Menu of Incentives or certain Public Benefit Options and not eligible for the program if a Project's Maximum Allowable Residential Density is less than 5 units. - No projects in single-family zones and no projects in manufacturing zones (M1, M2, or M3), including sites zoned CM, MR1, MR2 if no residential uses are permitted through an applicable planning overlay if a Project's Maximum Allowable Residential Density is less than 5 units. - <u>No demolition of Designated Historic Resources and limited Menu of Incentives for sites with Designated Historic Resources.</u>
Faith-Based Organization (FBO) Project	- Be a project where at least 80% of units are covenanted affordable on land owned by a FBO ~~(Of which, up to 20% of units may be for moderate income with remaining restricted units covenanted for lower income categories)~~		- No projects in Very High Fire Hazard Severity Zones,the Coastal Zone, Sea Level Rise Areas, manufacturing zones, or hybrid industrial zones with residential use restrictions - Single-family sites acquired after 1/1/24 must be located within 528 ft from parcel owned by filing Religious Institution with existing Church or House of Worship - Additional standards and no demolition permitted for projects with Designated Historic Resources or Surveyed Historic Resources - <u>No projects in manufacturing zones (M1, M2, or M3), including sites zoned CM, MR1, MR2 if no residential uses are permitted through an applicable planning overlay</u>

Program	Geographic Eligibility	Unit Thresholds	Limitations
Public Land Project	- Be a project where all units are covenanted affordable, exclusive of manager's units (any mix of moderate and lower income units permitted) on land owned by a public agency or zoned for Public Facilities (PF)		~~- No projects in Very High Fire Hazard Severity Zones, the Coastal Zone, Sea Level Rise Areas.~~ - No demolition of Designated Historic Resources and limited Menu of Incentives for sites with Designated Historic Resources
Shared Equity Project	- Be a project where 80% of units are-covenanted affordable on land owned by a Community Land Trust or Limited-equity Housing Cooperative		- No projects in Very High Fire Hazard Severity Zones, the Coastal Zone, or Sea Level Rise Areas. - No projects in single-family zones and no projects in manufacturing zones (M1, M2, or M3), including sites zoned CM, MR1, MR2 if no residential uses are permitted through an applicable planning overlay - Additional standards and no demolition permitted for projects with Designated Historic Resources or Surveyed Historic Resources

INSTRUCTIONS: Revise paragraph on page A-16 in the Key Provisions section to clarify that projects proposed in Very High Fire Hazard Severity Zones, the Coastal Zone or Sea Level Rise Areas are not eligible for the Menus of Incentives and certain Public Benefit Options:

Environmental criteria for the CHIP Ordinance were carefully crafted to protect public safety, promote sustainability, and enact environmental justice. The MIIP is not available in Very High Fire Hazard Severity Zones, the Coastal Zone or Sea Level Rise Areas. State Density Bonus and AHIP do not allow ~~match state incentives to projects meeting density bonus affordability requirements in these areas and trigger Expanded Administrative Review procedures for~~ projects proposed in Very High Fire Severity Zones, ~~and One Hundred Percent Affordable projects proposed in~~ Sea Level Rise Areas, or Coastal Zones to access each program's respective Menu of Incentives and certain Public Benefit Options.

INSTRUCTIONS: Revise "Table 3. Summary of CHIP Ordinance Project Review Procedures" on page A-19 to more clearly state that projects requesting incentives not on the Menu of Incentives are subject to a ministerial, administrative review:

Table 3: Summary of CHIP Ordinance Project Review Procedures

		Ministerial		**Discretionary**	
Program	**Allowed Incentives**	**LADBS**	**ADM**	**DIR (appeal to CPC)**	**CPC (CPC Final Decision Maker)**
State Density Bonus Program	Up to 4*	-Base Incentives - Menu of Incentives	-Public Benefit Options -Incentives Not on Menu of Incentives*	N/A	-Waivers -Projects Exceeding ~~100%~~ 50% or 88.75% Density Bonus
Mixed Income Incentive Program	Up to 4*	-Base Incentives -On Menu Incentives	-Public Benefit Options -Incentives Not on Menu of Incentives	-Up to 1 Waiver	-Over 1 Waiver
Affordable Housing Incentive Program	Up to 5*	- Base Incentives - On Menu Incentives	-Public Benefit Options -Incentives Not on Menu of Incentives -Up to 1 Waiver	-Up to 3 Waivers	-Over 3 Waivers

* Per GCS 65915, an applicant may request up to 4 incentives (5 for One Hundred Percent Affordable Housing Projects) on or not on Menu of Incentives. An applicant can mix and match incentives on or not on the Menu of Incentives.

INSTRUCTIONS: Revise paragraph in the Menu of Incentives section starting on page A-21 to further clarify that projects seeking incentives not on the menus of incentives will not be subject to discretionary procedures as follows:

The CHIP Ordinance offers Menus of Incentives that developers may elect to utilize to achieve a project's desired building envelope and access streamlined procedures. Though State Density Bonus Law entitles a project to a specific number of incentives contingent on the amount of affordable housing provided, state law does not specify the types of incentives that can be requested. For this reason, City Planning has, since the adoption of the State Density Bonus Ordinance in 2008, offered projects the ability to select incentives from a predetermined menu of relief options informed by commonly requested deviations. The CHIP Ordinance proposes to maintain this tool to standardize the deviations available to proposed projects. Furthermore, the CHIP Ordinance proposes to go further than the incentive programs offered by the City of Los Angeles today by offering projects that use incentives from these menus ministerial review by the Los Angeles Department of Building and Safety. Projects seeking incentives not on the Menus of Incentives will be subject to the proposed new Expanded Administrative Review process. If projects seek ~~additional incentives not on the Menu of Incentives or~~ waivers, they will be subject to administrative or discretionary review processes depending on the number of waivers and ~~and type of request and incentive~~ program being utilized. A summary of the incentives available in each of the CHIP Ordinance's three programs is provided in Table 2 below. Please refer to LAMC 12.22 A.37(f)(2) for the State Density Bonus Program Menu of Incentives; to LAMC 12.22 A.38 (h)(2) for the MIIP Menu of Incentives; and LAMC 12.22 A.39(f)(2) for the AHIP Menu of Incentives. The table below displays the program eligibility of each additional incentive in the ordinance.

INSTRUCTIONS: Revise “Table 6. Public Benefit Options Eligibility” on page A-23 to remove “Commercial Off-Site” from the list of Public Benefit Options consistent with - Citywide Housing Incentive Program Ordinance:

Table 6: Public Benefit Options Eligibility

Incentive	DB	MIIP	AHIP
Child Care Facility	✓	✓	✓
Multi-Bedroom Units	✓	✓	✓
Preservation of Trees		✓	✓
Active Ground Floor Exemption from Calculation of Floor Area		✓	✓
Privately Owned Public Space		✓	✓
Land Donation		✓	✓
~~Commercial Off-Site~~	~~✓~~		
Surveyed Historic Resource Facade Rehabilitation	✓	✓	✓

INSTRUCTIONS: Insert “Opportunity Corridors Incentive Area” APC Maps, and “Corridor Transition Incentive Area” APC Maps after Mixed Income Program Overview following Page A-27.

Corridors In Higher Resource Areas
Citywide APCs

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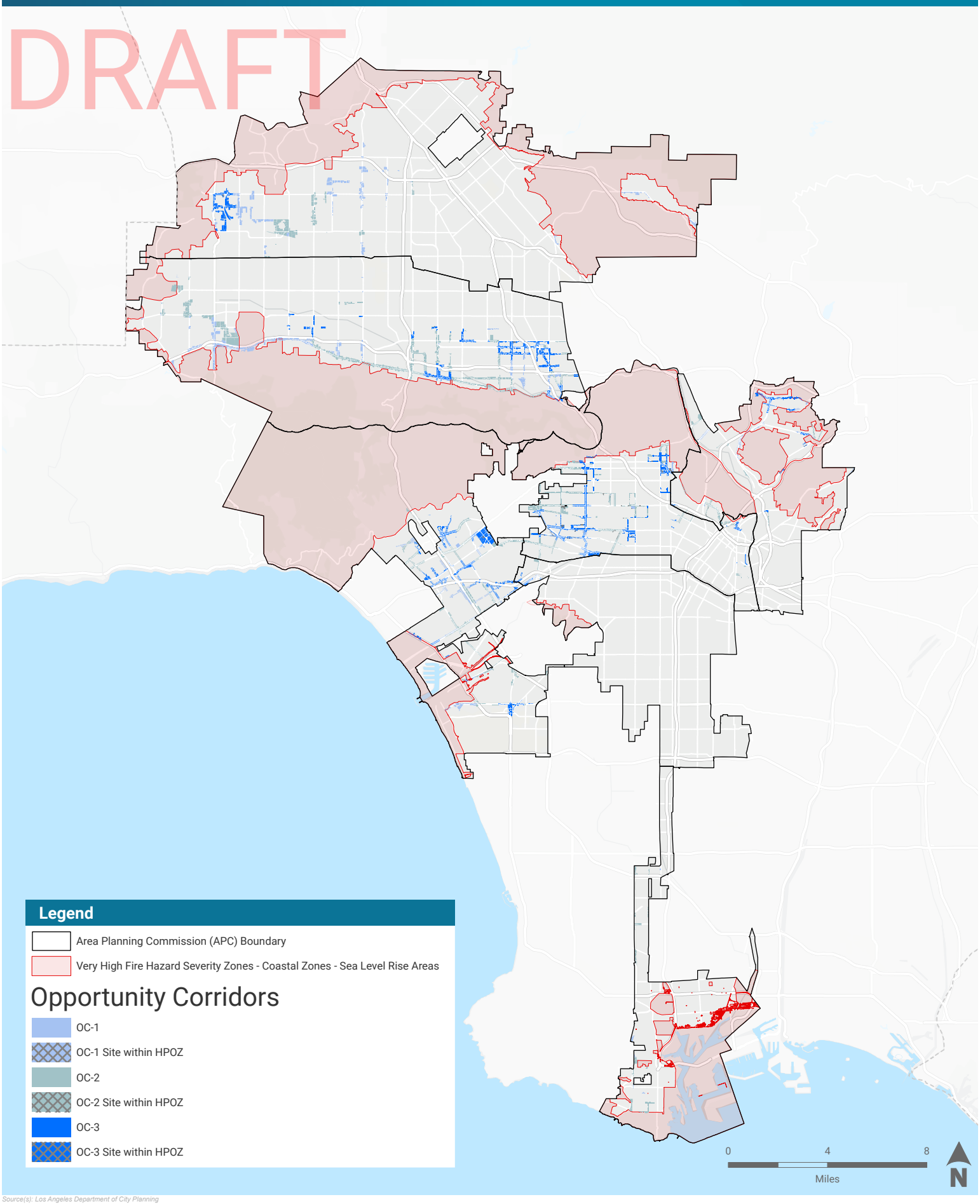
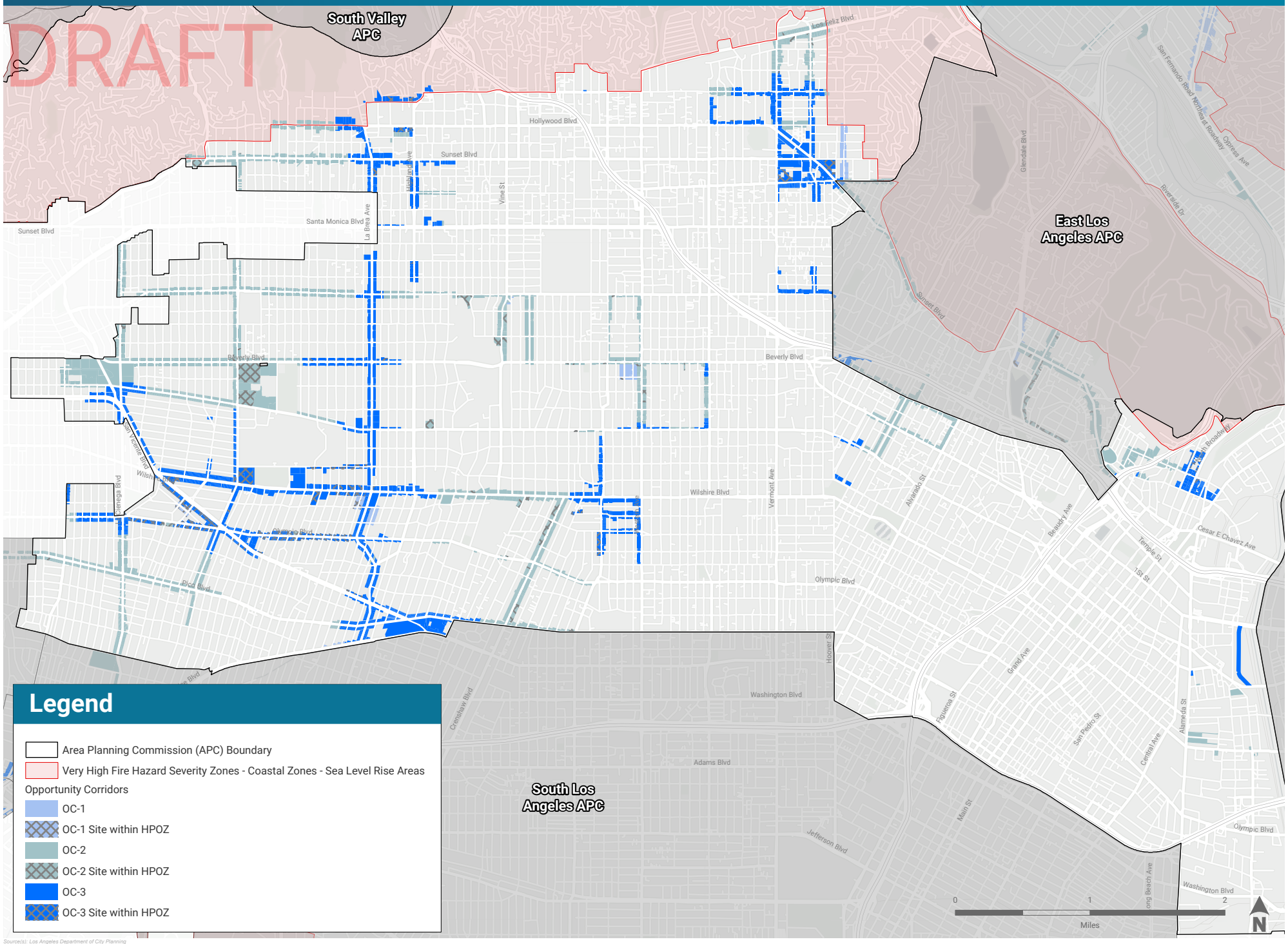


Source(s): Los Angeles Department of City Planning

Corridors In Higher Resource Areas
Central APC



Legend

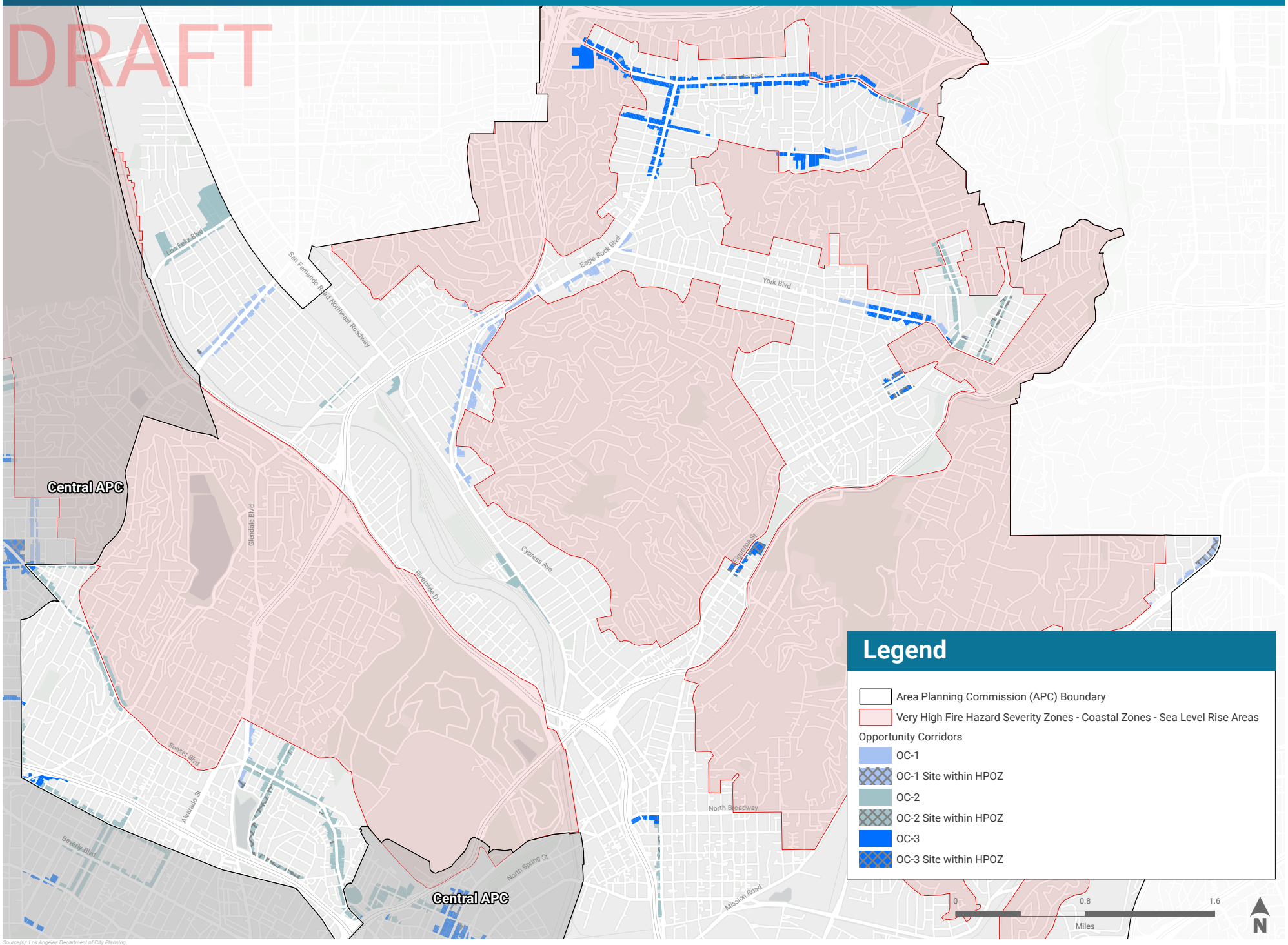
- Area Planning Commission (APC) Boundary
- Very High Fire Hazard Severity Zones - Coastal Zones - Sea Level Rise Areas

Opportunity Corridors

- OC-1
- OC-1 Site within HPOZ
- OC-2
- OC-2 Site within HPOZ
- OC-3
- OC-3 Site within HPOZ

Source(s): Los Angeles Department of City Planning

Corridors In Higher Resource Areas
East Los Angeles APC



Source(s): Los Angeles Department of City Planning

Corridors In Higher Resource Areas
Harbor APC

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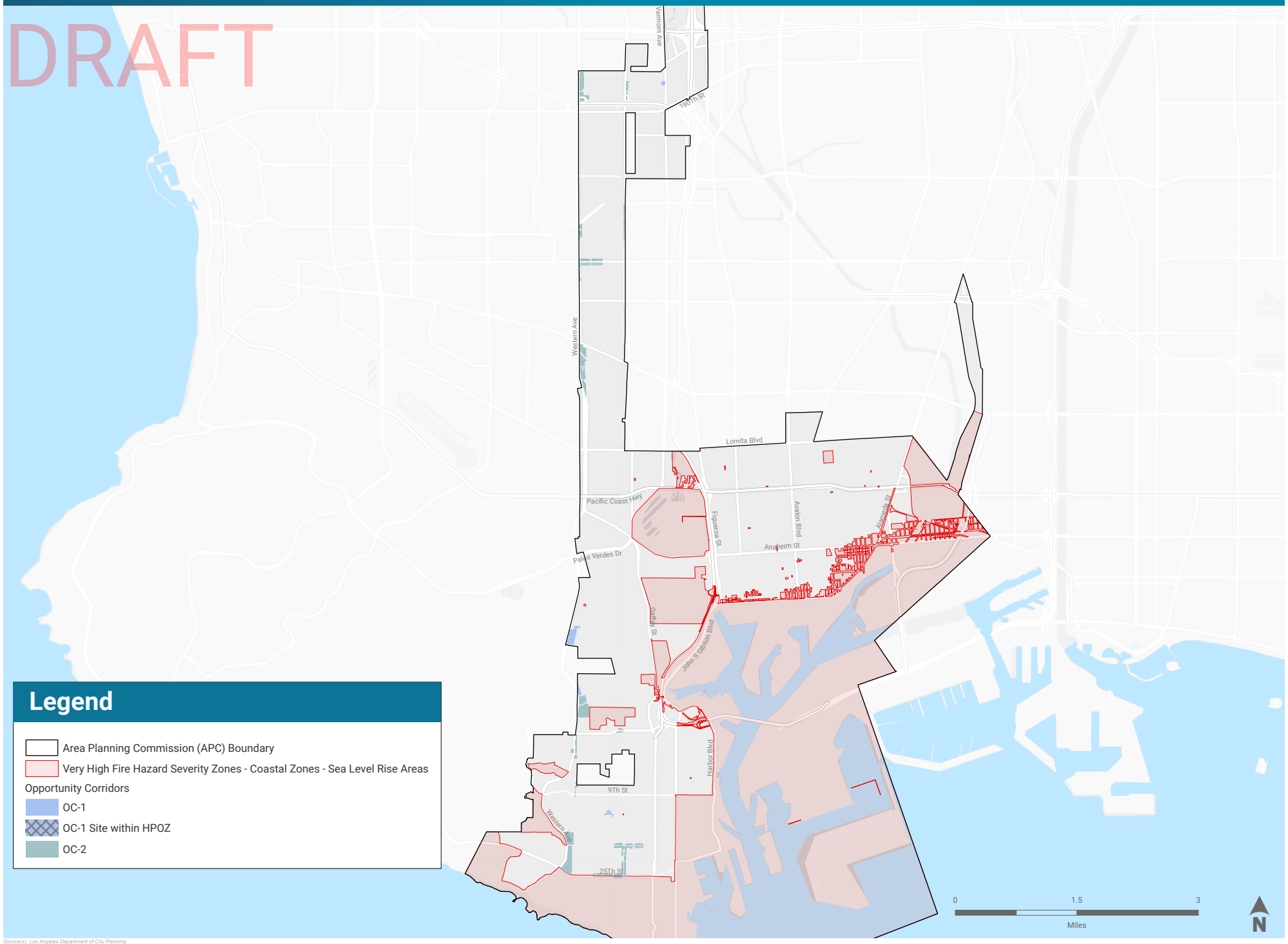

Legend

- Area Planning Commission (APC) Boundary
- Very High Fire Hazard Severity Zones - Coastal Zones - Sea Level Rise Areas

Opportunity Corridors

- OC-1
- OC-1 Site within HPOZ
- OC-2

Source(s): Los Angeles Department of City Planning

Corridors In Higher Resource Areas
North Valley APC

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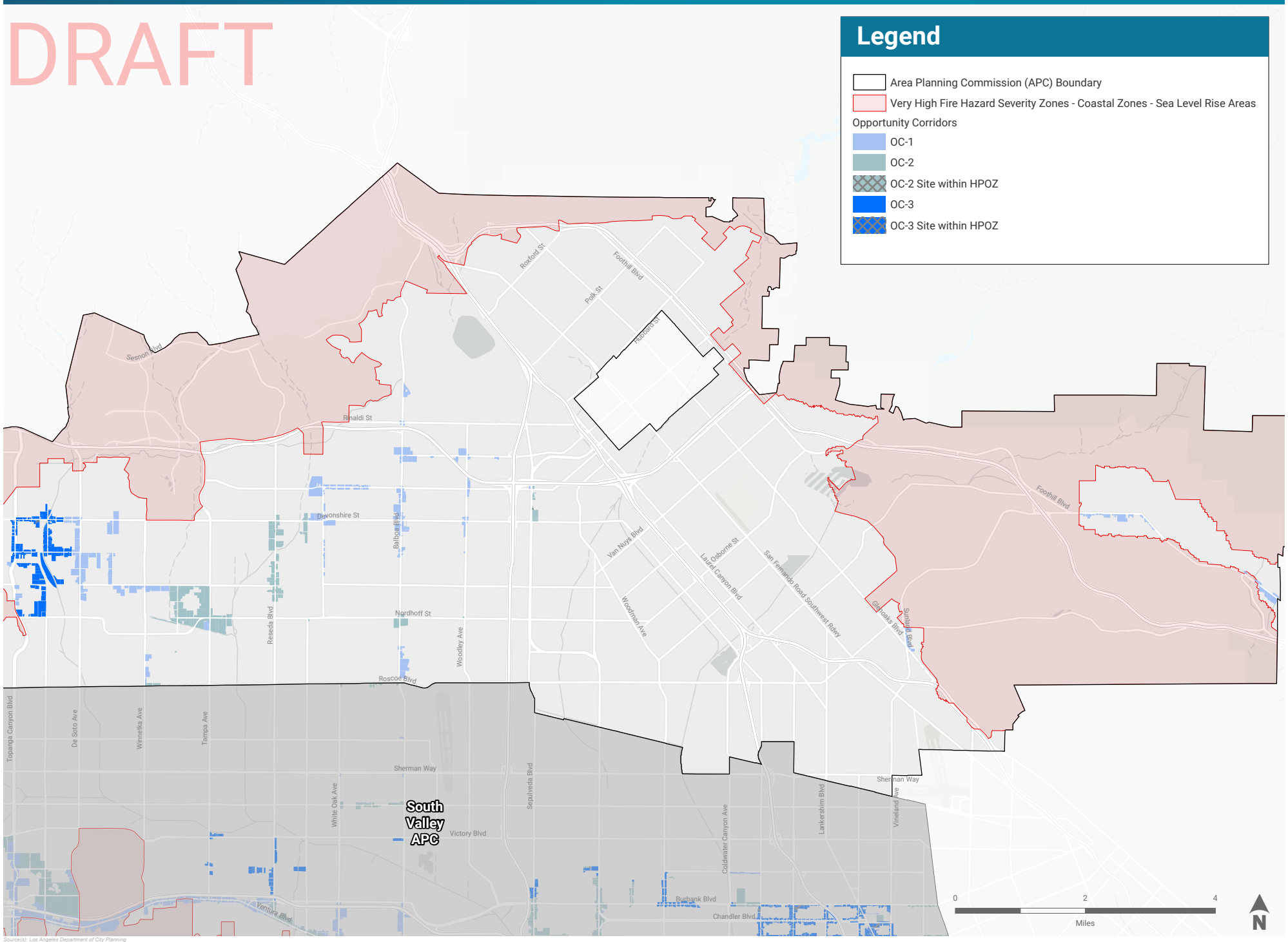
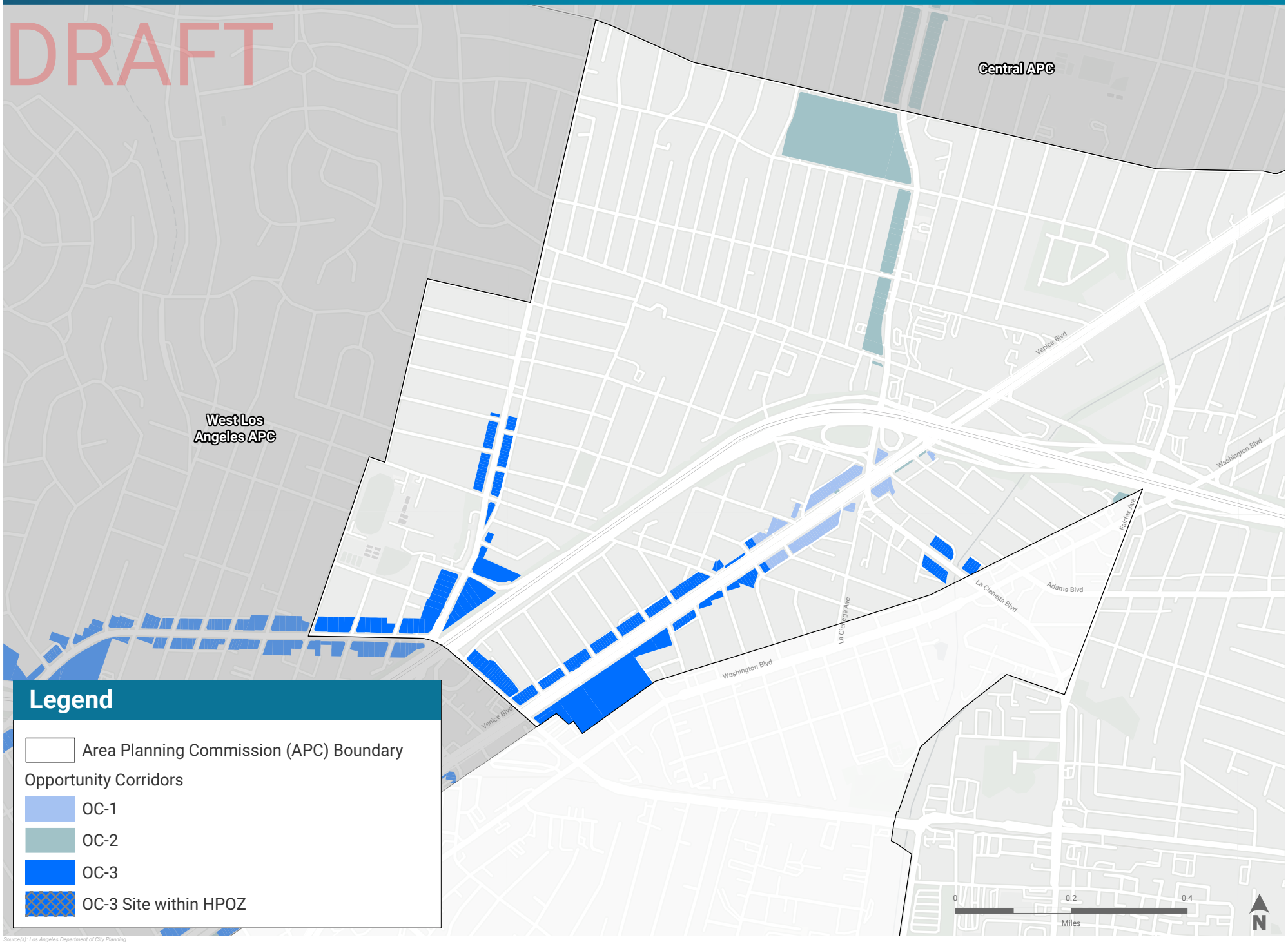


Source(s): Los Angeles Department of City Planning

Corridors In Higher Resource Areas
South Los Angeles APC



Corridors In Higher Resource Areas
South Valley APC

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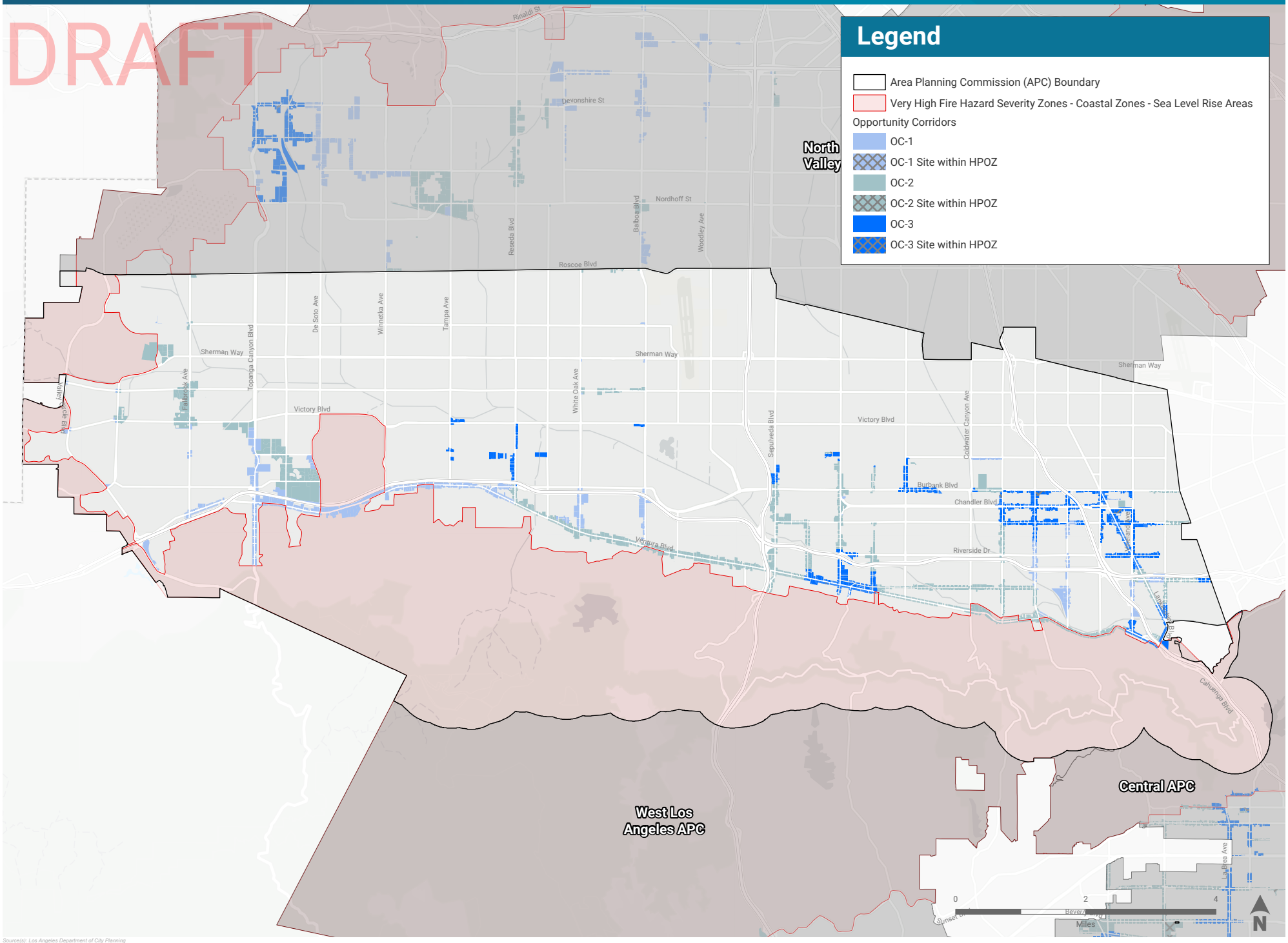

Source(s): Los Angeles Department of City Planning

Corridors In Higher Resource Areas
West Los Angeles APC

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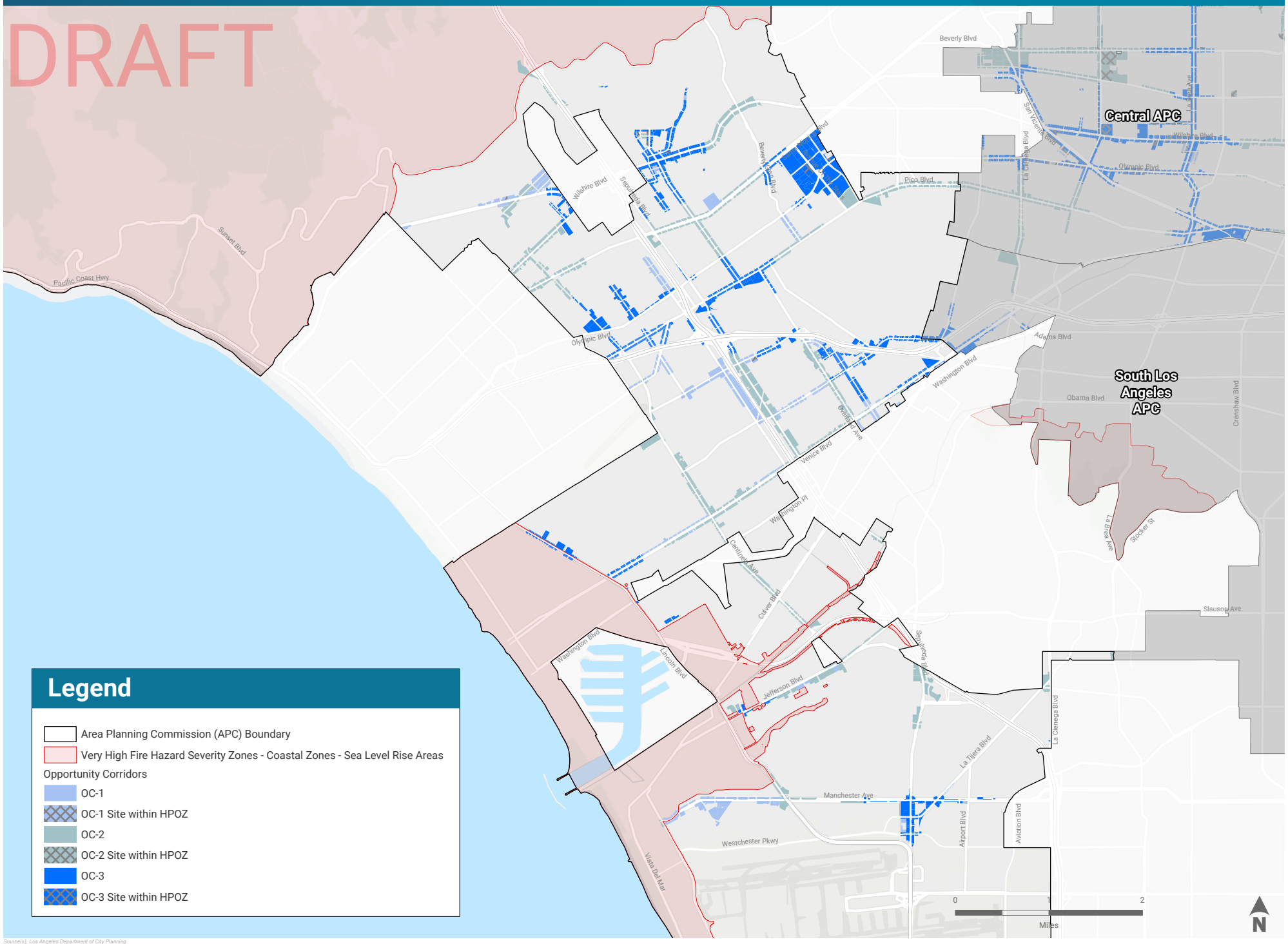

Legend

- Area Planning Commission (APC) Boundary
- Very High Fire Hazard Severity Zones - Coastal Zones - Sea Level Rise Areas

Opportunity Corridors

- OC-1
- OC-1 Site within HPOZ
- OC-2
- OC-2 Site within HPOZ
- OC-3
- OC-3 Site within HPOZ

Source(s): Los Angeles Department of City Planning

Corridors and Corridor Transitions In Higher Resource Areas
Citywide APCs

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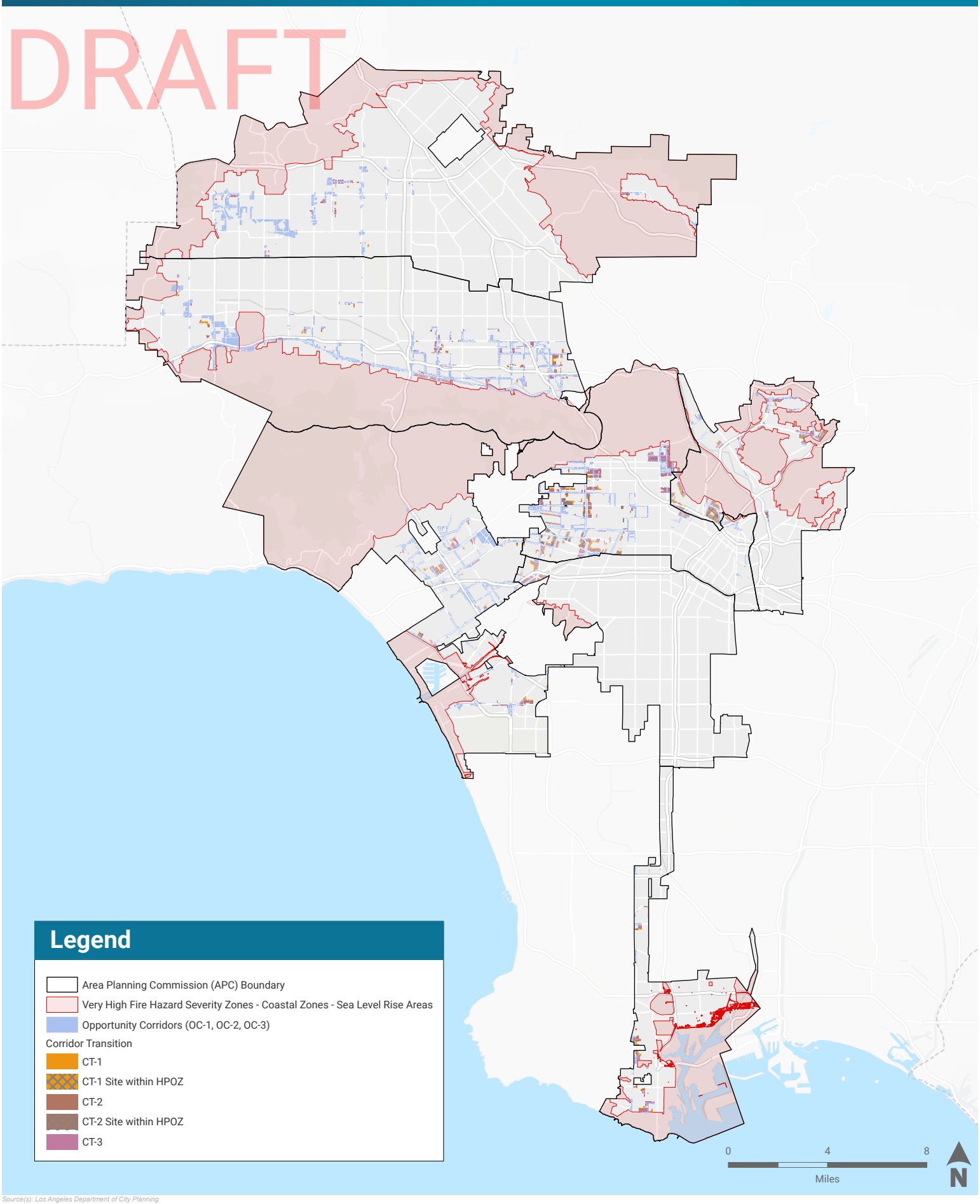
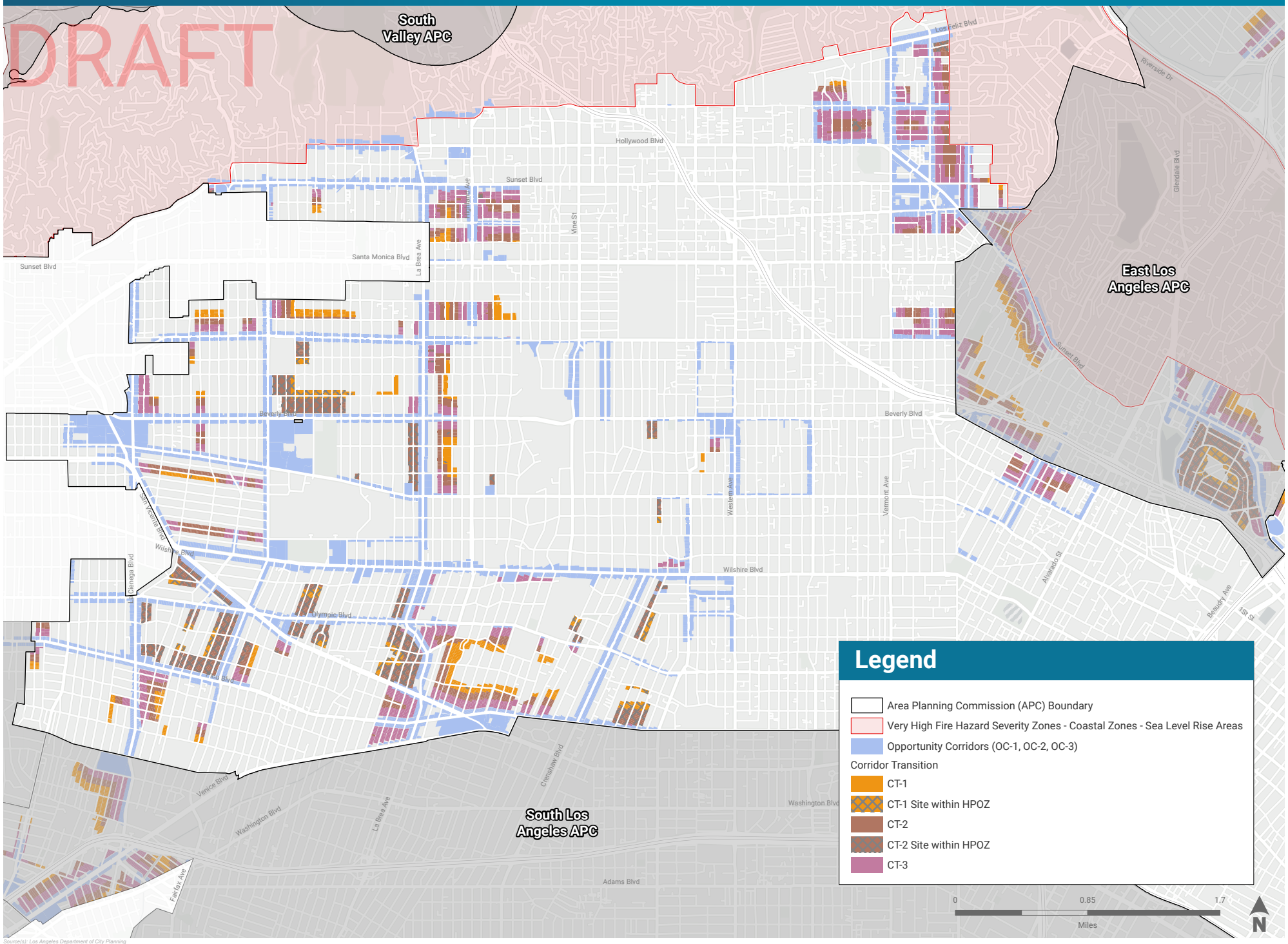


Source(s): Los Angeles Department of City Planning

Corrections and Corridor Transitions In Higher Resource Areas
Central APC



Source(s): Los Angeles Department of City Planning

Corridors and Corridor Transitions In Higher Resource Areas
East Los Angeles APC

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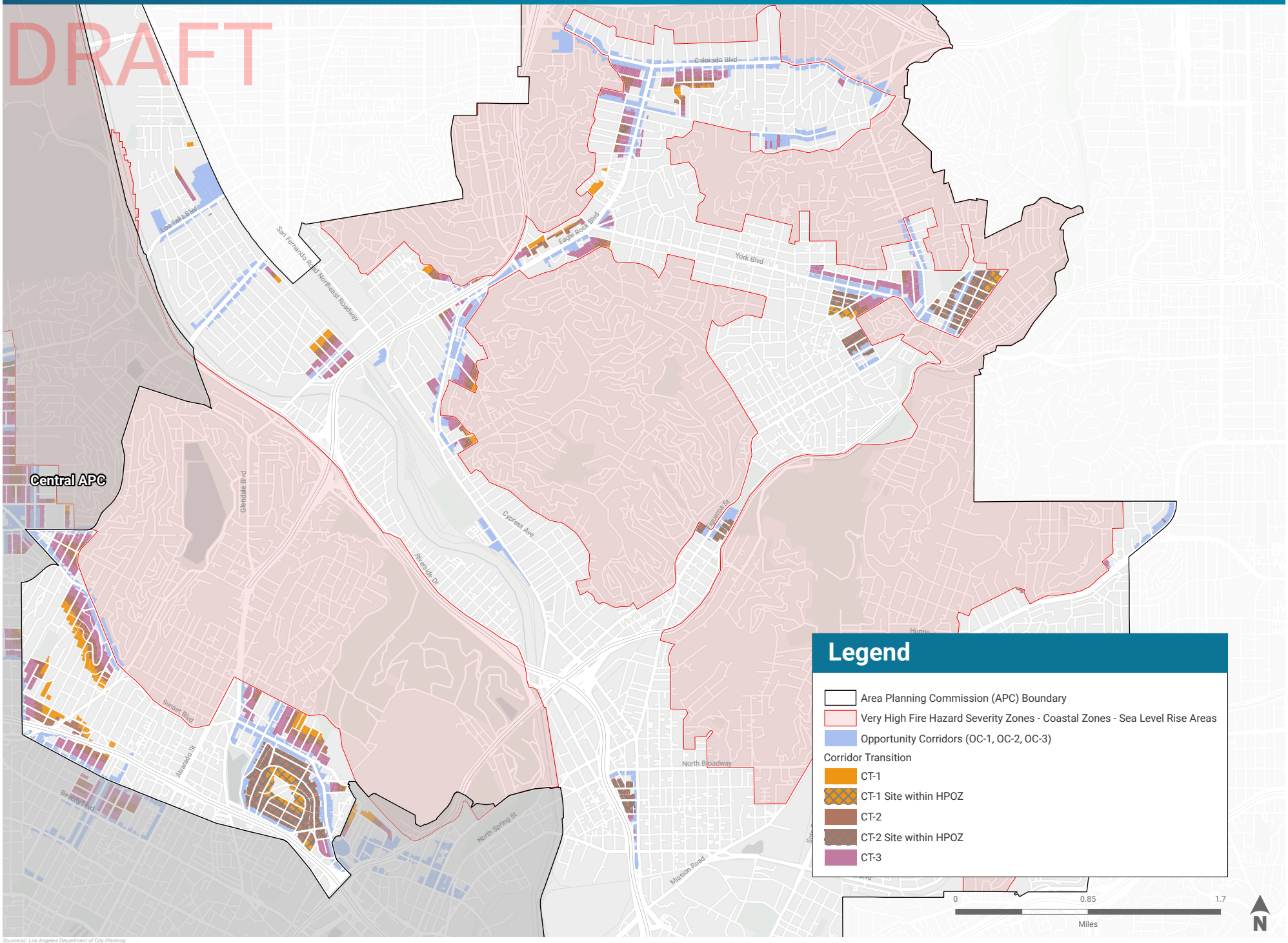

Legend

- Area Planning Commission (APC) Boundary
- Very High Fire Hazard Severity Zones - Coastal Zones - Sea Level Rise Areas
- Opportunity Corridors (OC-1, OC-2, OC-3)

Corridor Transition

- CT-1
- CT-1 Site within HPOZ
- CT-2
- CT-2 Site within HPOZ
- CT-3

Source(s): Los Angeles Department of City Planning

Corridors and Corridor Transitions In Higher Resource Areas
Harbor APC

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Legend

- Area Planning Commission (APC) Boundary
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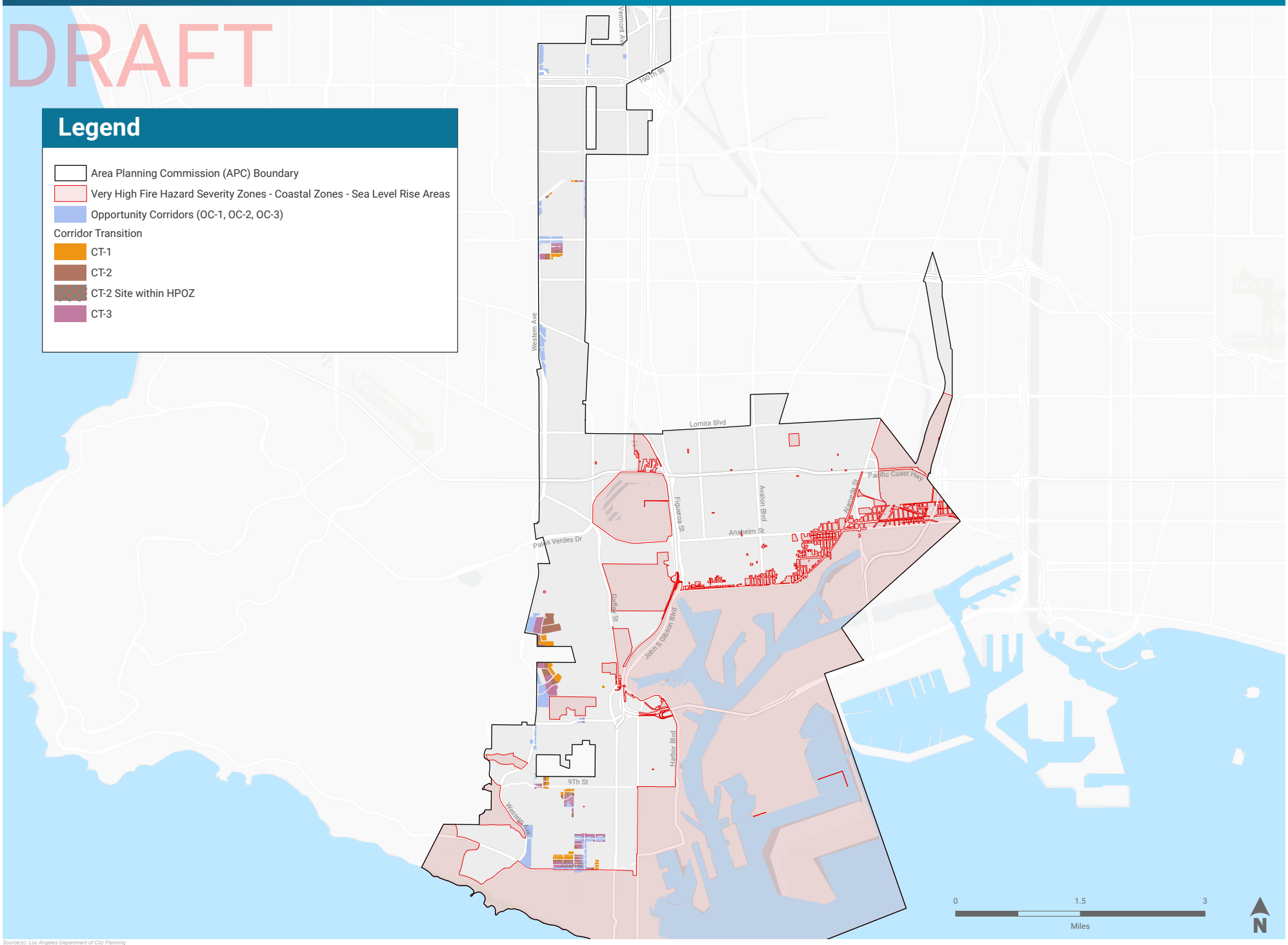
Corridor Transition

- CT-1
- CT-2
- CT-2 Site within HPOZ
- CT-3



Source(s): Los Angeles Department of City Planning

Corridors and Corridor Transitions In Higher Resource Areas
North Valley APC

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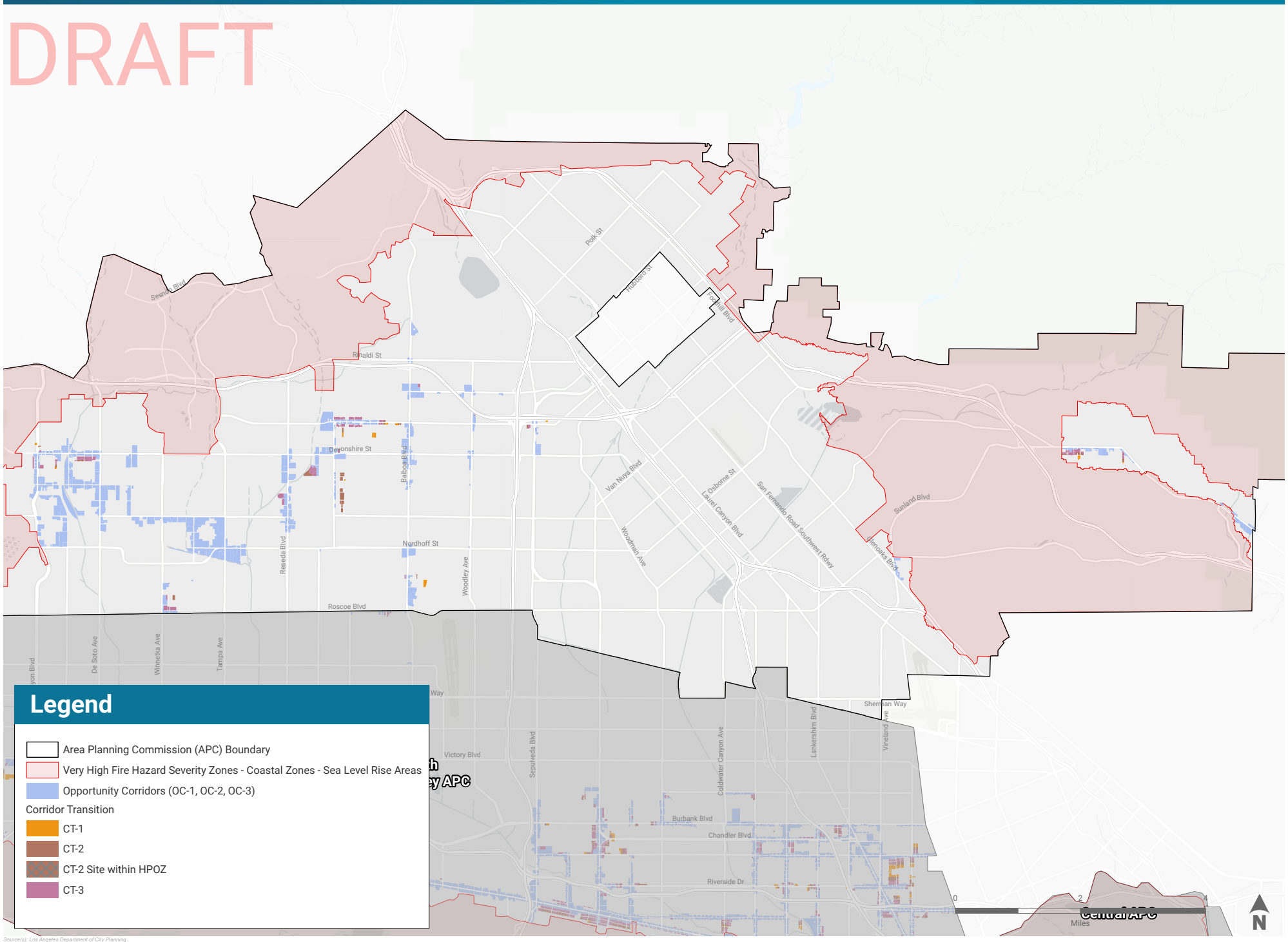

Source(s): Los Angeles Department of City Planning

Corridors and Corridor Transitions In Higher Resource Areas
South Los Angeles APC

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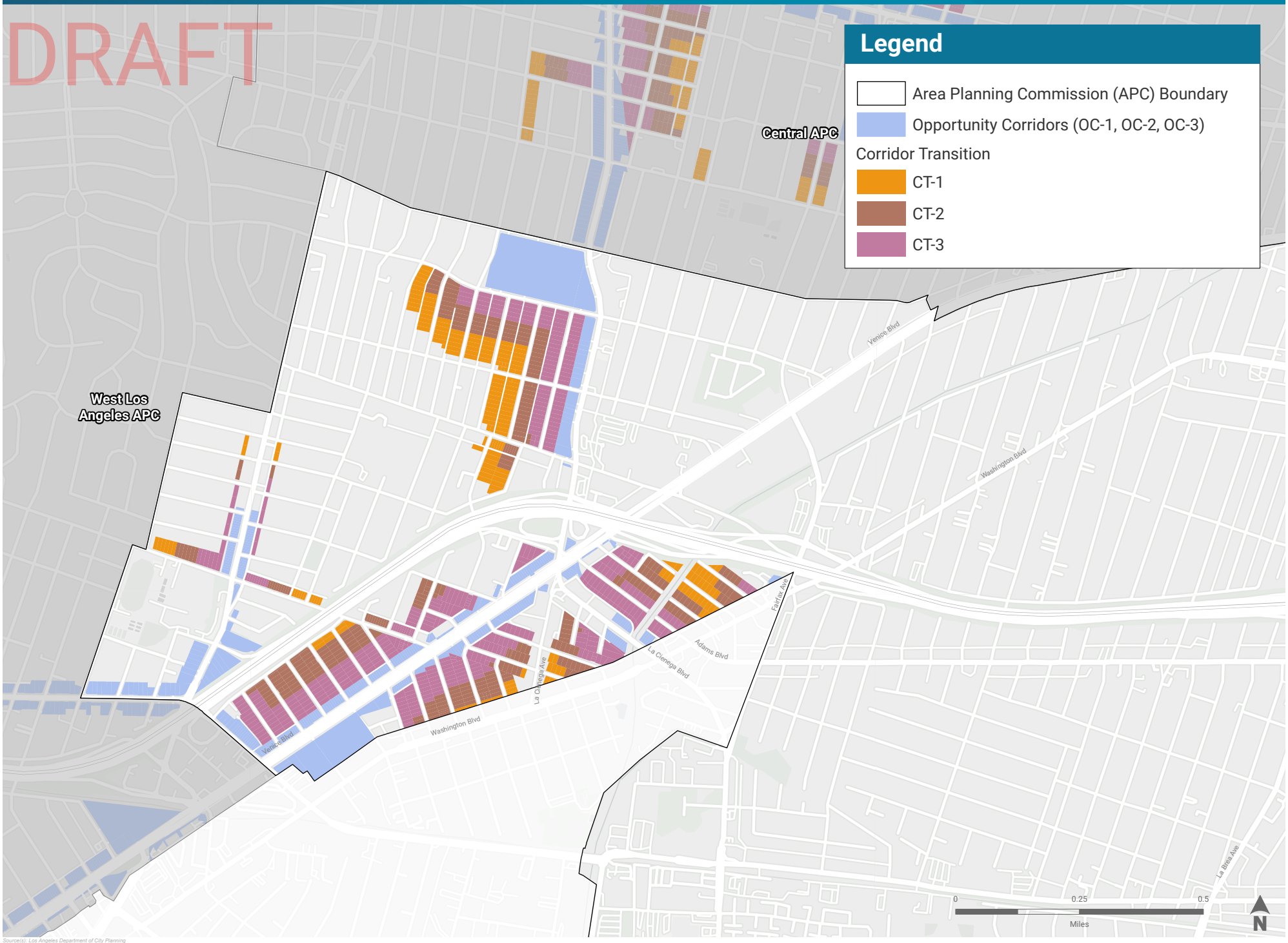
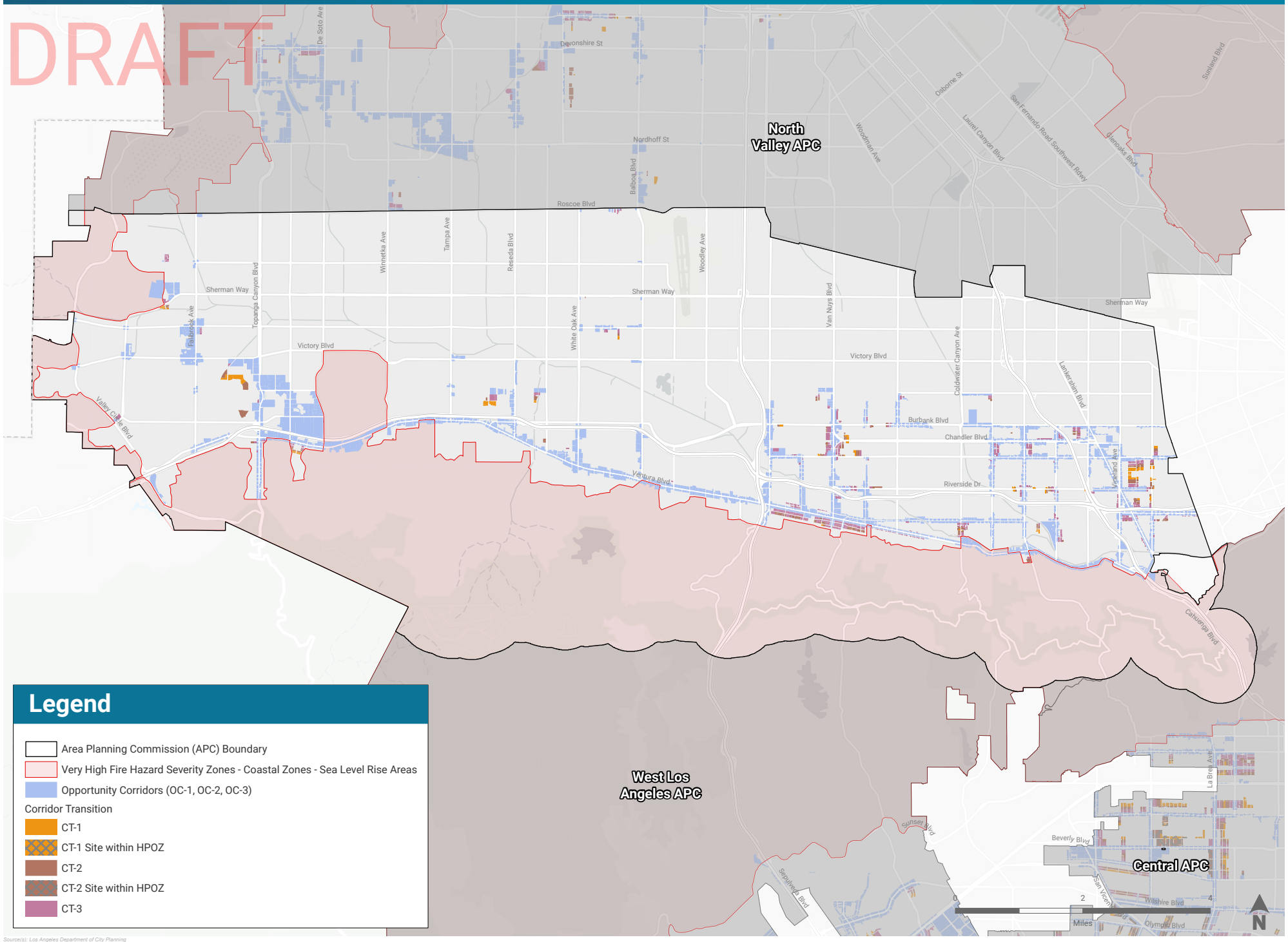


Source(s): Los Angeles Department of City Planning

Corridors and Corridor Transitions In Higher Resource Areas
South Valley APC



Legend

- Area Planning Commission (APC) Boundary
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- Opportunity Corridors (OC-1, OC-2, OC-3)

Corridor Transition

- CT-1
- CT-1 Site within HPOZ
- CT-2
- CT-2 Site within HPOZ
- CT-3

Source(s): Los Angeles Department of City Planning

Corridors and Corridor Transitions In Higher Resource Areas
West Los Angeles APC

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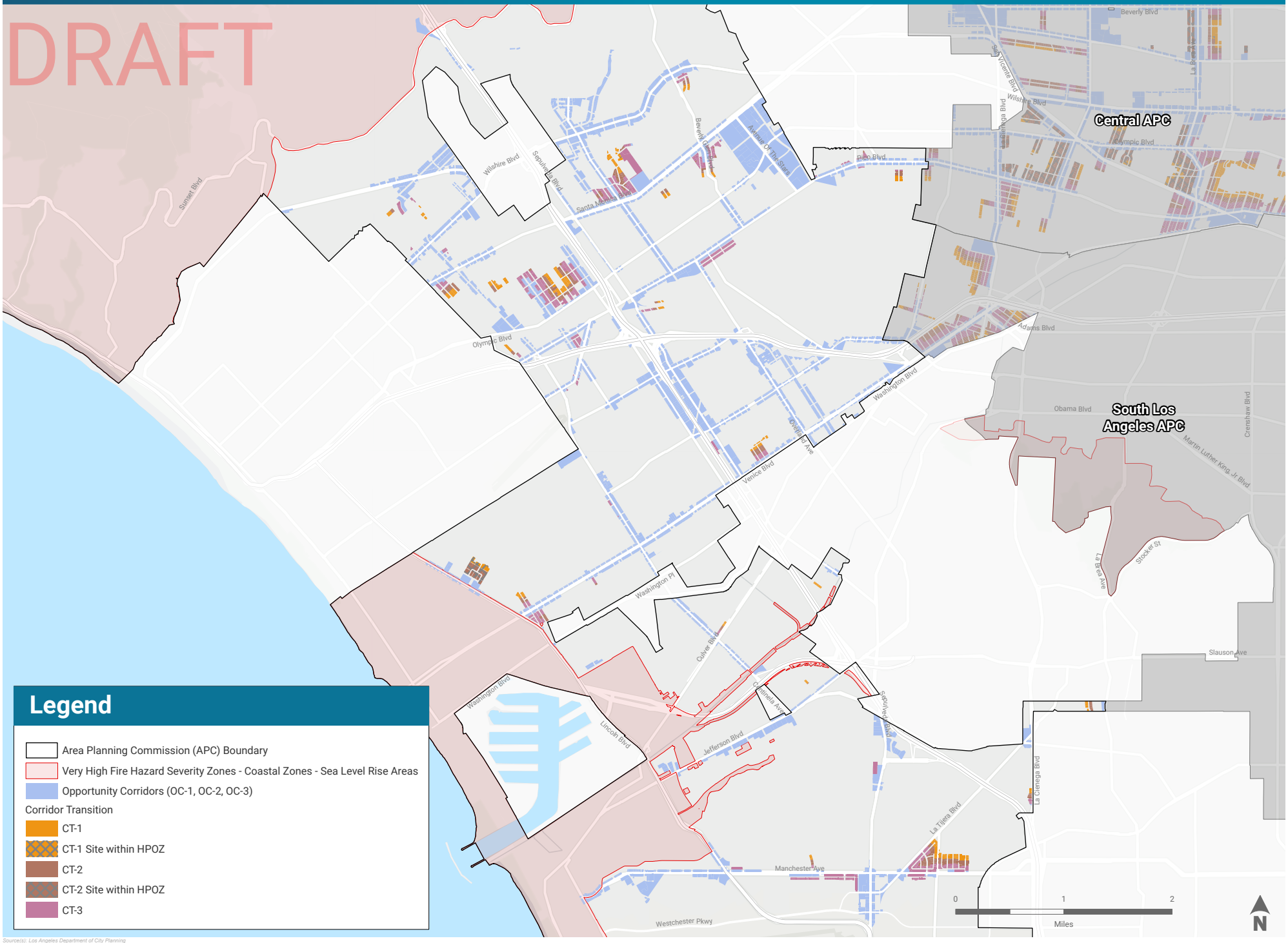

Legend

- Area Planning Commission (APC) Boundary
- Very High Fire Hazard Severity Zones - Coastal Zones - Sea Level Rise Areas
- Opportunity Corridors (OC-1, OC-2, OC-3)

Corridor Transition

- CT-1
- CT-1 Site within HPOZ
- CT-2
- CT-2 Site within HPOZ
- CT-3

Source(s): Los Angeles Department of City Planning

INSTRUCTIONS: Insert “Affordable Housing Programs Citywide” Map, “Faith Based Owned Housing Projects Map”, “Parking Zones” Map, and “Publicly Owned Land and Public Facility Zones: Map after Affordable Housing Incentive Program Overview following Page A-29.

Draft: Affordable Housing Projects Citywide

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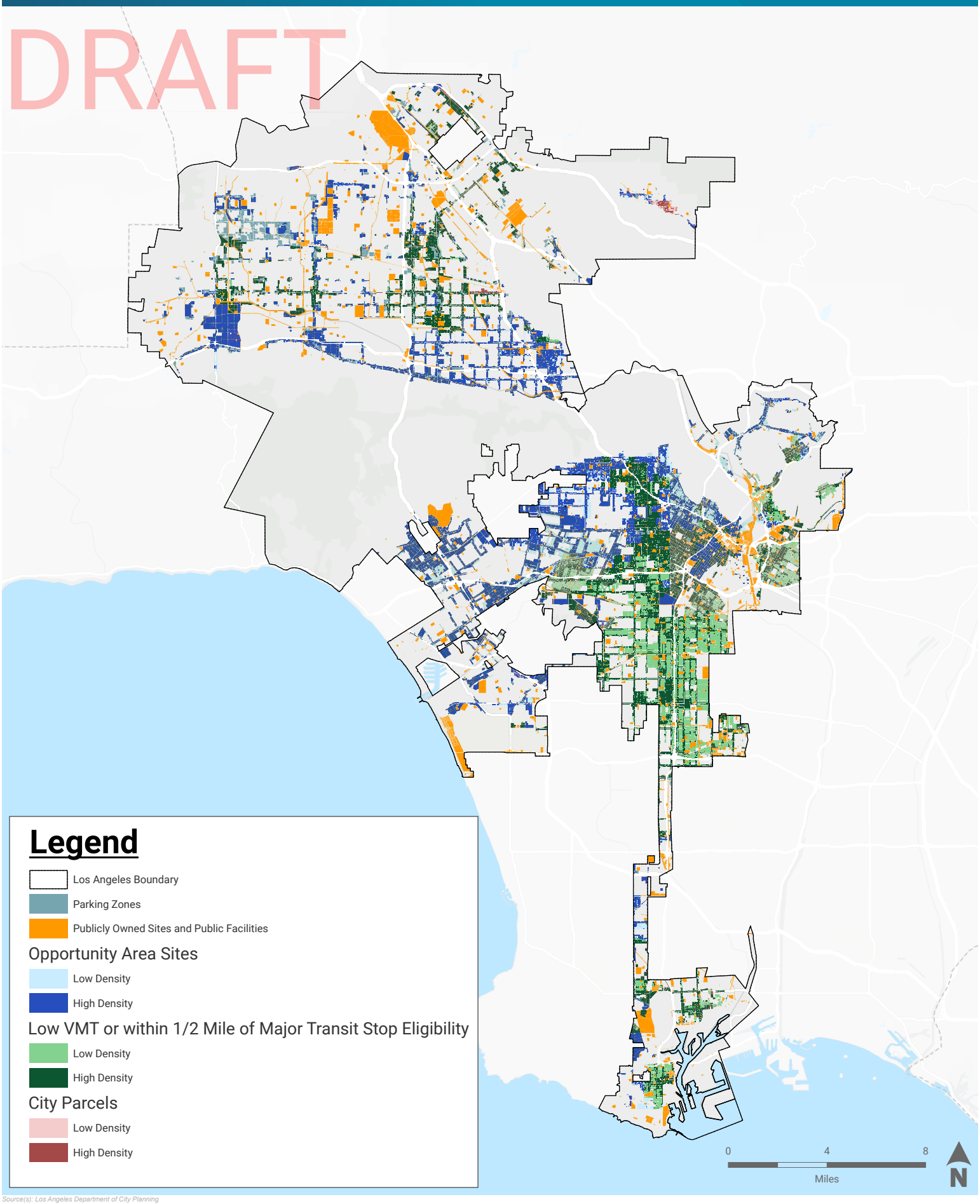
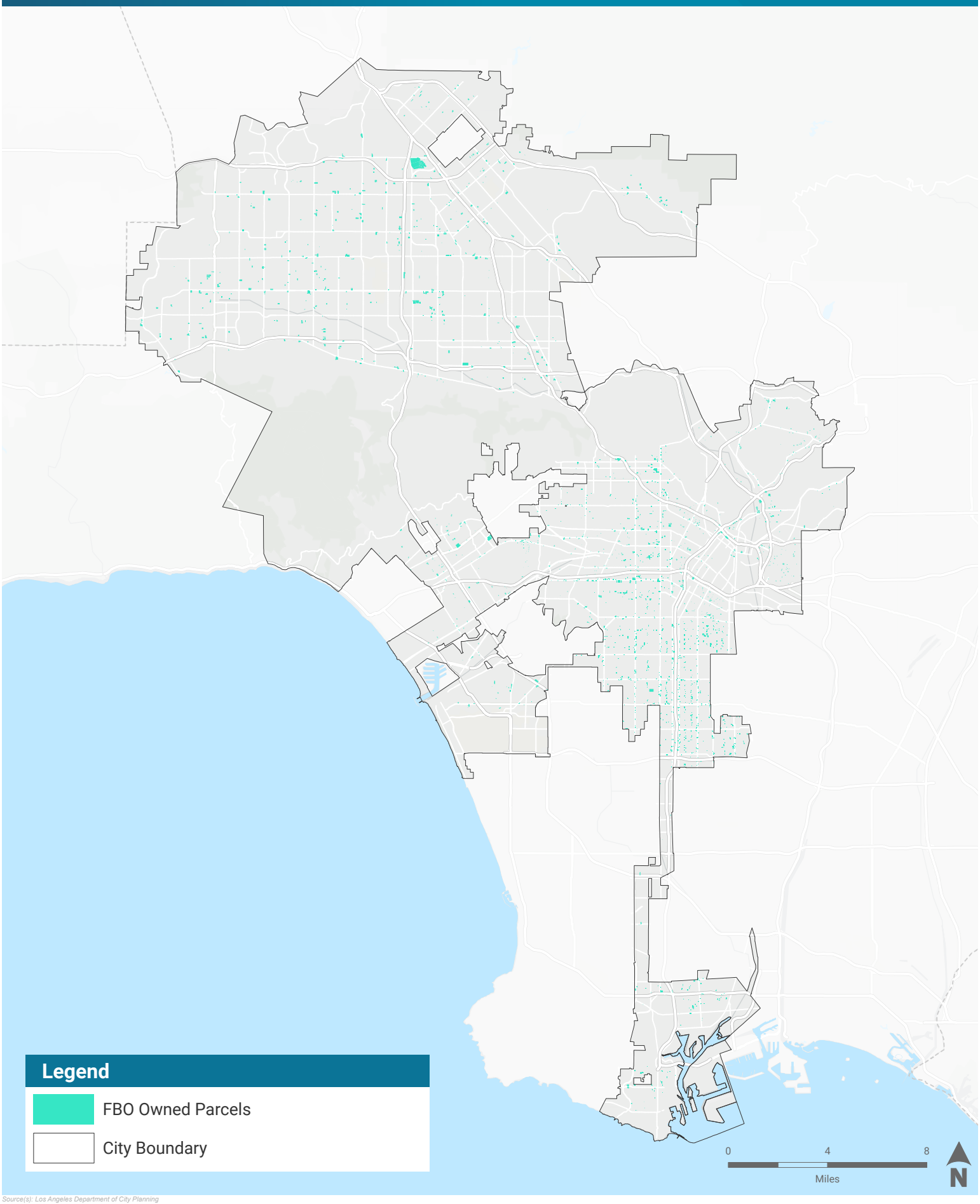


Source(s): Los Angeles Department of City Planning

Parcels Eligible for Faith Based Organization Project Incentives



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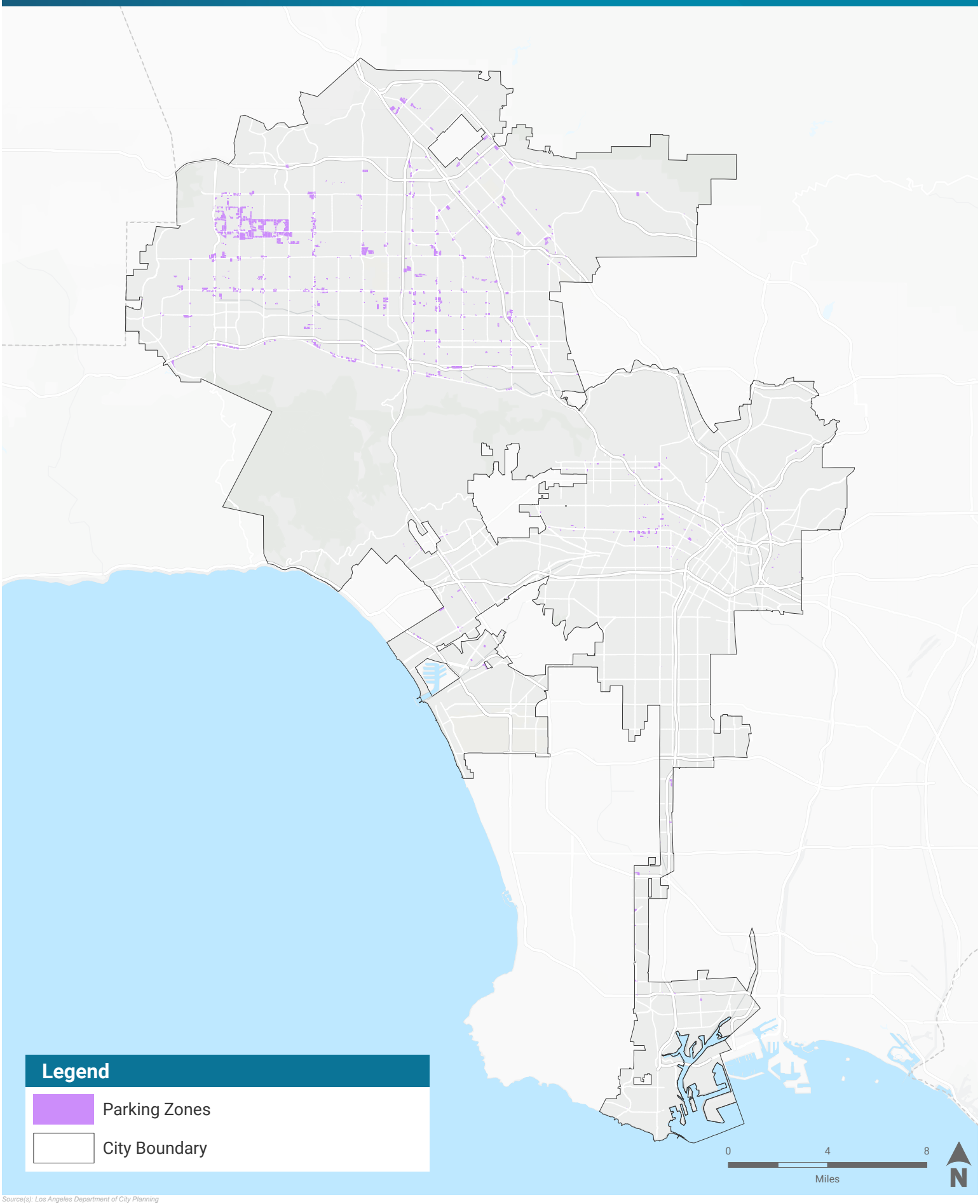
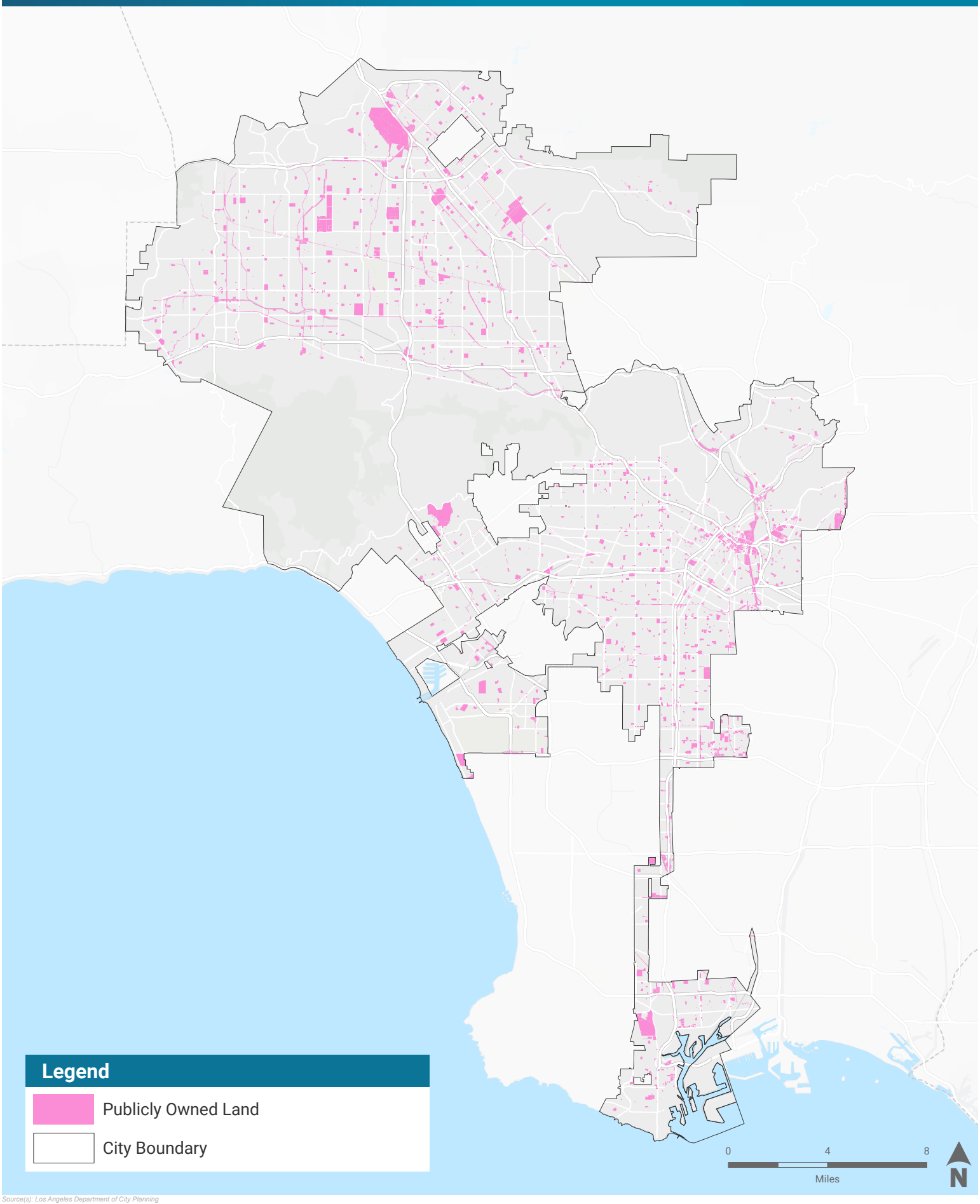
Parking Zones



Source(s): Los Angeles Department of City Planning

Publicly Owned Land and Public Facility Zones



Source(s): Los Angeles Department of City Planning

INSTRUCTIONS: Revise the State Density Bonus Section of Summary of Changes and Revisions on page A-32 to clarify that the Senior Independent Housing incentive would enable projects that meet the definition of Senior Independent Housing to be permitted in any zone that would otherwise allow a Housing Development, as follows:

- Added a new incentive allowing a Housing Development or Senior Citizen Housing Development that also meets the definition of Senior Independent Housing to be permitted in any zone that would otherwise allow a Housing Development pursuant to LAMC 12.22 A.37.

The following corrections and additions are to be incorporated into the staff recommendation report to be considered at the City Planning Commission meeting of September 26, 2024 related to Item No. 8 on the meeting agenda.

INSTRUCTIONS: Revise the definition of "Prior Housing Element Sites" beginning with the second sentence of page A-54 to clarify which Prior Housing Element Sites are eligible for ministerial approval, as follows:

These include sites identified in the Inventory of Adequate Sites for Housing, sites identified on prior Housing Element Site Inventories and identified in the most recent Housing Element as accommodating a portion of the housing need for low and very low income households as well as Lower Income Rezoning Sites that will be identified to meet the City's Regional Housing Needs Assessment (RHNA) allocation.

INSTRUCTIONS: Revise the discussion on "By-right Development Review" beginning from the first sentence of page A-56 to more closely align with the state housing element law, as follows:

By-Right Development Review

The proposed ordinance will codify state housing element law provisions requiring by-right development review for designated Lower Income Rezoning Sites as well as sites listed in the Prior Housing Element Site Inventories that were identified in the most recent Housing Element as accommodating a portion of the housing need for low and very low income households. Eligible projects that meet objective zoning standards will not be subject to discretionary review procedures, including public hearings and review under the California Environmental Quality Act (CEQA) if at least 20 percent of the units are set aside for lower-income households.

INSTRUCTIONS: Revise the 1:1 vs. 2:1 Replacement of RSO Units section on page A-76 to page A-78, to provide additional information from a supplemental study designed to explore the impact of replacement ratios exceeding 1:1, as follows:

1:1 vs. 2:1 Replacement of RSO Units

The proposed citywide 1:1 replacement ratio for RSO units would significantly increase the required percentage of replacement units (about 45%) from the current default rate that applies when incomes are not known or are higher than lower income. Per state law, this default rate changes annually based on census data but is currently about 69% (i.e. a 0.69:1 ratio). Moving to a 1:1 ratio ensures affordable housing is never lost on a development site and is in line with the policy direction of 2021-2029 Housing Element and consistent with state law. It would require the addition of one affordable unit in 4-6 unit demolitions and two affordable units in 7-9 unit demolitions, thereby appropriately scaling up disincentives as higher numbers of RSO units are demolished. After a thorough study and consideration, staff believes a 1:1 policy strikes an appropriate balance between housing production and preservation.

Advocates have requested that the recommended 1:1 replacement ratio for RSO units be increased to a 2:1 ratio. They have noted that affordable replacement units are able to be counted towards affordability requirements provided through incentive programs and that further changes are needed to further disincentivize redevelopment of sites with existing RSO units and ensure net gains in affordable housing. While the Department shares these important objectives, there are several important considerations and trade-offs that warrant detailed discussion.

The policy challenge is how to appropriately balance critically important goals around housing production with equally important preservation and tenant protection goals. Groups advocating for a 2:1 ratio argue that significantly increasing replacement requirements is necessary to effectively discourage displacement. Unfortunately, in a built out city like Los Angeles, with most multi-family zoned sites occupied by RSO buildings, 2:1 replacement is a significant trade-off with the production of affordable housing, and housing in general. More than 650,000 of the City's 880,000 multi-family rental units are subject to the RSO and most multi-family zoned sites are occupied by RSO buildings.

Staff commissioned a consultant (AECOM) to analyze the impact of applying higher replacement ratios citywide, as well as a scenario where replacement units do not count towards affordability requirements~~the "no double dipping" proposal~~, to better understand their potential impacts (see Appendix 3). Housing development projects that resulted in RSO units being demolished during a three year period (2020-23) were examined, excluding 100% affordable housing projects and a few other minor project types.

The analysis that's been completed demonstrates that increasing ratios from the current default ratio (effectively 0.69:1) to 1:1 would not have affected the majority of projects that demolished RSO units in recent years. The majority of projects (61%) already met the 1:1 ratio either because of rounding requirements or because the project required more units of affordable housing to meet the affordable housing incentive requirements. The remaining projects have the potential to be

impacted as they would have been required to add restricted affordable units to achieve a 1:1 ratio. While it is not possible to ascertain exactly how many of these remaining projects would have been rendered infeasible, the study presumes that an affordability set aside exceeding 20% would likely inhibit feasibility. Using this threshold, it is estimated that 16% of all previously developed RSO redevelopment projects would have been negatively impacted by a 1:1 policy.

When compared to total housing production during this time, these potentially impacted projects only represent about 6% of all approved projects (and 3% of total units) in the covenant database.[1] Therefore, while potential impacts on RSO redevelopment projects may be considered significant, impact on overall housing production is less so. In addition, it is worth noting that the impact of this policy disproportionately benefits the preservation of RSO units, compared to the production of total and affordable units. Assuming these 16% of RSO replacement projects would be rendered infeasible and not occur, this would have resulted in the preservation of nearly 25% of RSO units removed (374), compared to a reduction of 10% of new housing units (1,306), and just 5% of new affordable housing units (231).

~~A citywide 2:1 ratio would have much more significant impacts. The same study found that only about 13% of RSO redevelopment projects would have already met a higher 2:1 ratio (compared to 61% at 1:1). Therefore the remainder (87%) of projects would be required to add more affordable housing and some or all of those would therefore potentially be impacted.~~

While examining past data on past projects can provide useful insights, it is difficult to make precise conclusions about the feasibility of future projects, especially given the significant change proposed to the densities and incentives through the CHIP program and state Density Bonus law. It also doesn't give much perspective on the total number of developable sites. As such, and given the importance of this topic, a second analysis that looked at the densities made available through the proposed CHIP program was subsequently commissioned <u>(see Appendix 3)</u> . <u>The study included sites with existing RSO units that are eligible for incentives under the proposed CHIP ordinance (specifically Density Bonus, Opportunity Corridor, Transit Oriented Incentive Areas (TOIA) and Corridor Transition). It focused only on 24% of RSO sites in higher tier market areas with high and medium density- which were the major set of sites found to be feasible under the CHIP Market Study. Under the proposed 1:1 replacement policy, 15.7% of incentive eligible RSO sites representing 18% of potential RSO site capacity could feasibly redevelop and fulfill replacement unit obligations. Under a 2:1 policy, that number drops to 2.8% of sites and 5.8% of units. While this study shows a clear impact on incentive eligible sites as replacement ratios increase, it is important to note that these RSO sites make up only a share of all incentive eligible sites. For example, the first AECOM study (Appendix 3) found that about 75% of mixed-income projects in the past three years were built on sites without existing or demolished RSO units.</u> ~~While the second analysis was unable to be finalized by the date of this staff report transmittal, initial results have been shared with staff. The second analysis appears to confirm the significant impacts of enacting a 2:1 replacement ratio, finding that the vast majority of RSO properties considered feasible for mixed-income housing development under a 1:1 policy would become infeasible under a 2:1 policy. Of note, this analysis was in the top market areas of the City, where economic feasibility is generally higher. Should the report be finalized in time, a summary of the~~

[6] Note that this estimate does not incorporate any site specific economic or physical feasibility analysis.

~~analysis is anticipated to be made available prior to the City Planning Commission meeting. The full report will be available for the City Council.~~

While enacting a 2:1 ratio would likely reduce direct displacement due to fewer demolitions of RSO units, it would also significantly reduce the production of new housing and affordable housing based on the number of projects anticipated to be affected. This could also have negative impacts on displacement and housing instability as we know that unaffordable rents and lack of affordable housing are major drivers of displacement. Of particular concern is that the creation of new deed-restricted affordable housing affordable for 99 years in mixed-income buildings will be significantly impacted. While RSO units offer important affordability benefits by regulating annual rent increase, they typically reset to market rents once vacated and are not restricted to be affordable for 99 years like restricted affordable units. Due to the Just Cause Ordinance, important RSO benefits (e.g. just cause eviction and limits on rent increases) are now available to most non-RSO tenants. In addition, many new developments result in a net gain of RSO units due to the replacement provisions of LAMC 151.28. As the replacement ratios increase, the proportionate preservation benefits of the policy described in the prior paragraph above dissipate, with increasing impacts on affordable housing production. A blanket policy would also not differentiate between small and large RSO sites/buildings, nor whether any tenants are actually being impacted.

To facilitate additional options for decision makers, the Department has provided two additional options for the City Planning Commission to consider. The options described below would enact higher replacement ratios in more limited scenarios to better right-size impacts.

One potential policy option could be to subject demolitions of larger buildings to higher replacement ratios. For example, as more units are demolished, the ratios could increase incrementally. This would disincentivize demolition as the number of existing units was increased. To facilitate deliberations, one potential iteration of this concept could retain 1:1 replacement ratios when there are 1-2 existing RSO units, but apply higher ratios as RSO units increase (e.g. 1.25:1 for 3-4 units, 1.5:1 for 5-9 units, 1.75:1 for 10-14 units and 2:1 for 15 or more RSO units).

While these impacts would be shouldered more on projects requiring larger demolitions (not affecting two unit demolitions, for example) the potential loss of covenanted deed restricted affordable housing in the City's multi-family neighborhoods would be significant, compared to a citywide 1:1 policy.

Alternatively, as a way to further limit and target impacts, only demolition of occupied units could be subject to higher replacement ratios. This approach could be combined with the option above or as a standalone policy with a citywide ratio (e.g. 1.25:1, 1.5:1 or 2:1:). Either way, it would further disincentivize redevelopment of sites with tenants currently in occupancy compared to vacant sites. To address concerns that this policy may further incentivize removal of tenants prior to determining a project's replacement obligation, this policy could be complemented by also adding the higher ratios described above to projects on sites where a no-fault eviction occurred in the prior 5 years including pursuant to the Ellis Act or the recently adopted Just Cause Eviction Ordinance. In addition, the proposed ordinance includes provisions to disqualify sites and developers that have committed violations of the Tenant Anti-Harassment Ordinance.

INSTRUCTIONS: Revise the Counting Replacement Units towards Affordability Requirements section on page A-78 to page A-79, to provide additional information from a supplemental study designed to explore the impact of replacement ratios exceeding 1:1, as follows:

Counting Replacement Units towards Affordability Requirements
In addition to a 2:1 replacement ratio, advocates have also requested that replacement units not be permitted to count towards meeting local affordable housing set aside requirements. However, this is a practice that state and local law currently requires to be permitted when implementing the Housing Crisis Act, Density Bonus law, and the TOC Program (see Health and Safety Code Sec. 66300.6(b)(1)(B), Government Code Sec. 65915(C)(3)(a)(i)) and LAMC 12.22 A.31(b)(1). Because the CHIP Ordinance is an implementation ordinance of state Density Bonus law, the Department understands that it must comply with these provisions. The same is true for the TOC Program, which will remain on the books until it sunsets in 2026. Setting a stricter policy for other (non-CHIP/TOC) types of projects may be permitted, but would have marginal effect because the vast majority of projects are anticipated to use the incentive programs.

This policy change would also significantly impact project feasibility for these remaining projects. The second AECOM analysis described above (See Appendix 3) has yielded initial results showing that nearly all evaluated RSO sites would become infeasible for the development of mixed-income housing. Under a 1:1 policy that does not allow replacement units to count towards set-aside requirements, only 0.3% of sites, representing 3.2% of capacity, could feasibly redevelop. When increasing to 2:1, this drops to 0.1% of sites and 0.2% of capacity. For the legal reasons described above, this change may also cause additional confusion for staff, tenants and the public by setting divergent policies based on a narrow range of entitlement types. If the CPC would like to strengthen replacement policies, changing the ratio is more advisable than misaligning with state law and local programs on this provision.

INSTRUCTIONS: Revise the discussion on “Program 124” beginning with the second sentence on Page F-11, as follows:

Of the Program’s proposed housing capacity, approximately 56~~54~~% of the overall capacity is located in Higher Opportunity Areas, with 63~~64~~% and 50~~51~~% of capacity located in Lower Income Category and Moderate Income Category in Higher Opportunity Areas, respectively. Of the proposed housing capacity from the MIIP and AHIP FBO, Parking, and Public Land Projects, approximately 59% of the overall capacity is located in Higher Opportunity Areas, with 64% and 50% of capacity in Lower Income Category and Moderate Income Category in Higher Opportunity Areas, respectively.

INSTRUCTIONS: Revise the discussion on “State Housing Element Law” beginning with the fourth sentence of the first full paragraph on Page F-35 , as follows:

Approximately 56~~54~~% of the rezoning efforts of the CHIP Ordinance and the Downtown Los Angeles Community Plan Update are located in Higher Opportunity Areas of the City, with 63~~64~~% and 50~~51~~% of capacity located in Lower Income Category Capacity and Moderate Income Category Capacity in Higher Opportunity Areas, respectively. Of the proposed housing capacity from the MIIP and AHIP FBO, Parking, and Public Land Projects, approximately 59% of the overall capacity is located in Higher Opportunity Areas, with 64% and 50% of capacity in Lower Income Category and Moderate Income Category in Higher Opportunity Areas, respectively.

INSTRUCTIONS: Revise Exhibit D: Single Family Considerations to include revision of discussion on “Option 1: Capacity” beginning on the second sentence of the fourth paragraph on Page 4, as follows:

This would increase the proportion of housing opportunities located in Higher Opportunity Areas from approximately 56~~54~~% to 67%.

INSTRUCTIONS: Revise Exhibit D: Single Family Considerations to include revision of discussion on “Option 2: Capacity” beginning on the third sentence of the fourth paragraph on Page 10, as follows:

This would increase the proportion of housing opportunities located in Higher Opportunity Areas from approximately 56~~54~~% to 59~~58~~% ~~(see Figure 2)~~.

INSTRUCTIONS: Revise Exhibit D: Single Family Considerations to include revision of discussion on “Option 3: Capacity” beginning on the second sentence of the second paragraph on Page 13, as follows:

This would increase the proportion of housing opportunities located in Higher Opportunity Areas from approximately 56~~54~~% to 58~~56~~% ~~(see Figure 3)~~.

INSTRUCTIONS: Revise Exhibit D: Single Family Considerations to include revision of discussion on “Option 4: Capacity” beginning on the second sentence of the second paragraph on Page 13, as follows:

This would increase the proportion of housing opportunities located in Higher Opportunity Areas from approximately 56~~54~~% to 58% ~~(see Figure 4)~~.

INSTRUCTIONS: Revise Exhibit D: Single Family Considerations to include revision of discussion on “Option 5: Capacity” beginning on the second sentence of the third paragraph on Page 18, as follows:

As a result of the removal of R2 and RD zones from Opportunity Corridor Incentive program eligibility, the overall proportion of housing opportunities located in Higher Opportunity Areas as part of the Program would decrease from approximately 56~~54~~% to 53% (see Figure 5). The distribution of these sites are visible below in Map 5A at a Citywide level. It is important to note that additional analysis would be required to determine the impact of removing R2 and RD sites from the Opportunity Corridors Incentive Area. This would remove eligible sites from the Corridor Transition Incentive Area Program, and additional analysis would be required to determine the impact on Affirmatively Furthering Fair Housing.

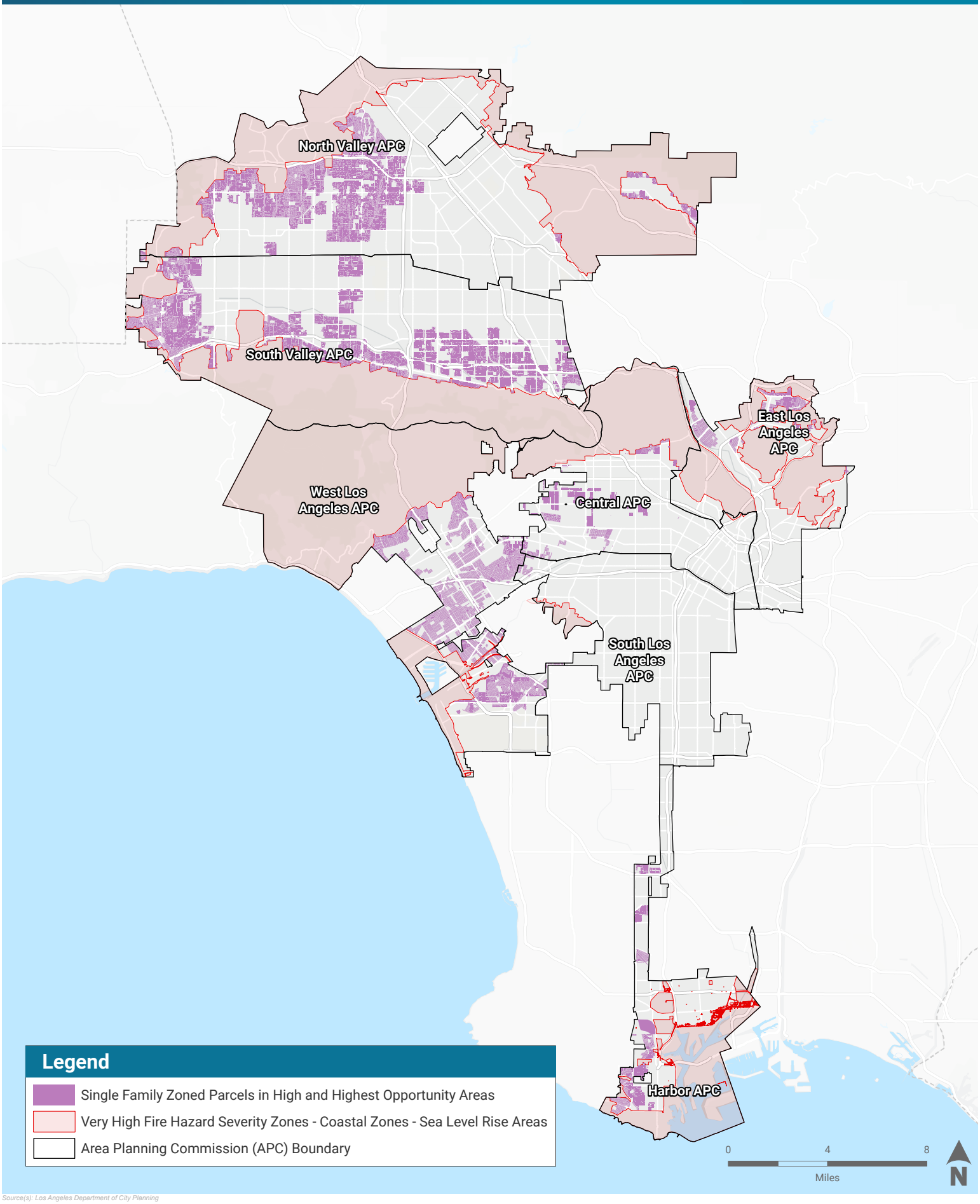
INSTRUCTIONS: Revise Exhibit D: Single Family Considerations to include revision of discussion on “Option 6: High Opportunity Transit Areas in AHIP” beginning on the last sentence of the first paragraph on Page 20, as follows:

Option 6 proposes single-family eligibility for One Hundred Percent Affordable Projects, Faith-Based Organization Projects, and Shared Equity Projects on parcels located within 0.5 miles of a Major Transit Stop and in Higher and Moderate Opportunity Areas. These parcels would be eligible for the low density option (sites with a maximum allowable residential density of less than 5 units) of

Moderate and Higher Opportunity Area base incentives already available in AHIP as displayed in the chart below~~, provided that the proposed projects contain 100% covenanted Affordable units~~.

INSTRUCTIONS: Insert “Option 1: Comprehensive CHIP Applicability in AHIP” map in Exhibit D: Single Family Considerations on Page 8.

Option 1 - AHIP Applicability on all Single Family Parcels in High and Highest Opportunity Areas
Citywide APCs



Source(s): Los Angeles Department of City Planning

INSTRUCTIONS: Insert “AHIP APC level maps” list in Appendix of Maps on page 25 and insert maps in Exhibit D: Single Family Considerations and insert Option 1 maps after Page 40 and Option 6 and 7 maps after Page 66.

Option 1

Map 1: Option 1: Central Los Angeles APC
Map 2: Option 1: East Los Angeles APC
Map 3: Option 1: Harbor APC
Map 4: Option 1: North Valley APC
Map 5: Option 1: South Valley APC
Map 6: Option 1: South Los Angeles APC
Map 7: Option 1: West Los Angeles APC

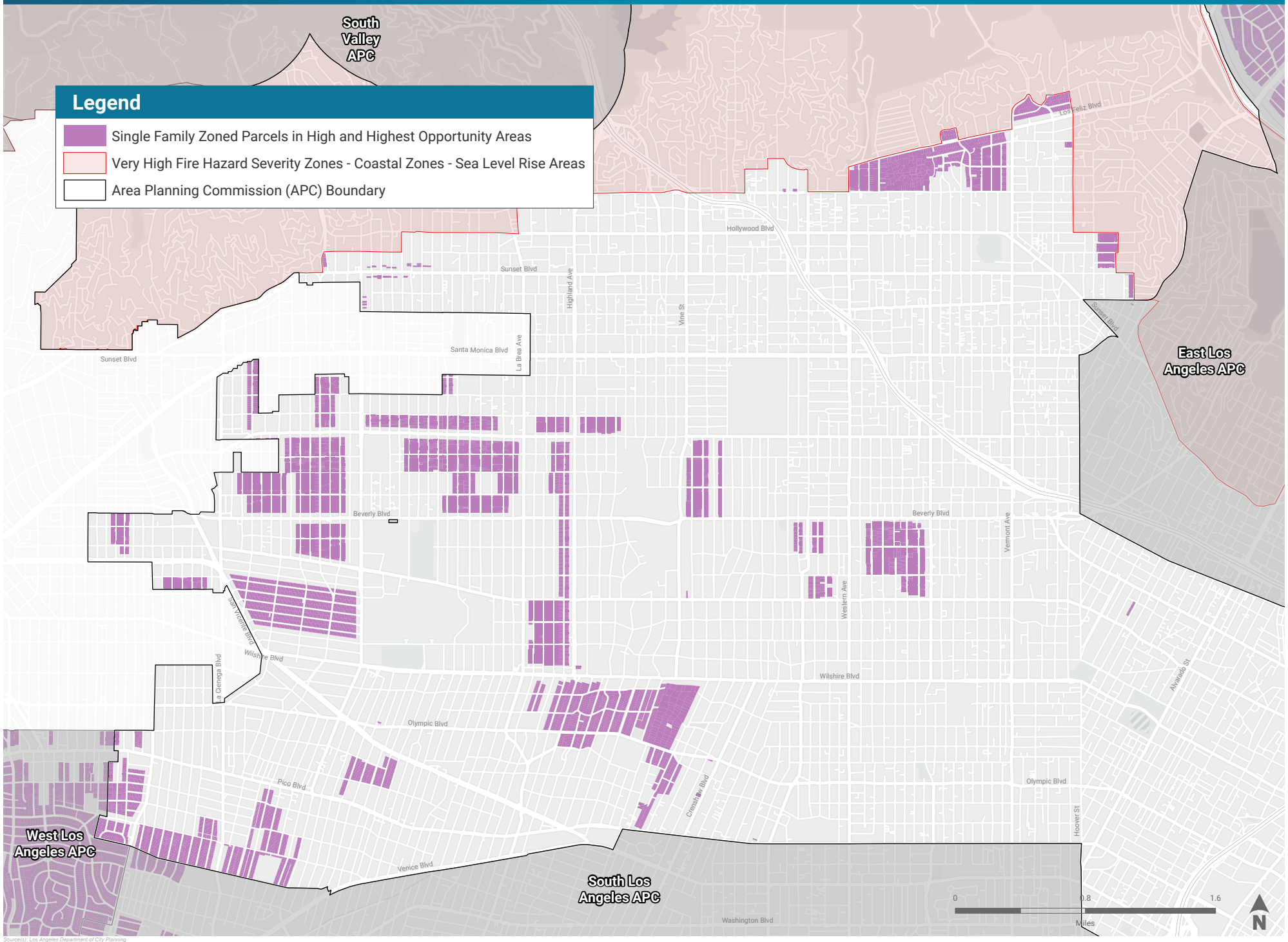
Option 6

Map 1: Option 6: Central Los Angeles APC
Map 2: Option 6: East Los Angeles APC
Map 3: Option 6: Harbor APC
Map 4: Option 6: North Valley APC
Map 5: Option 6: South Valley APC
Map 6: Option 6: South Los Angeles APC
Map 7: Option 6: West Los Angeles APC

Option 7

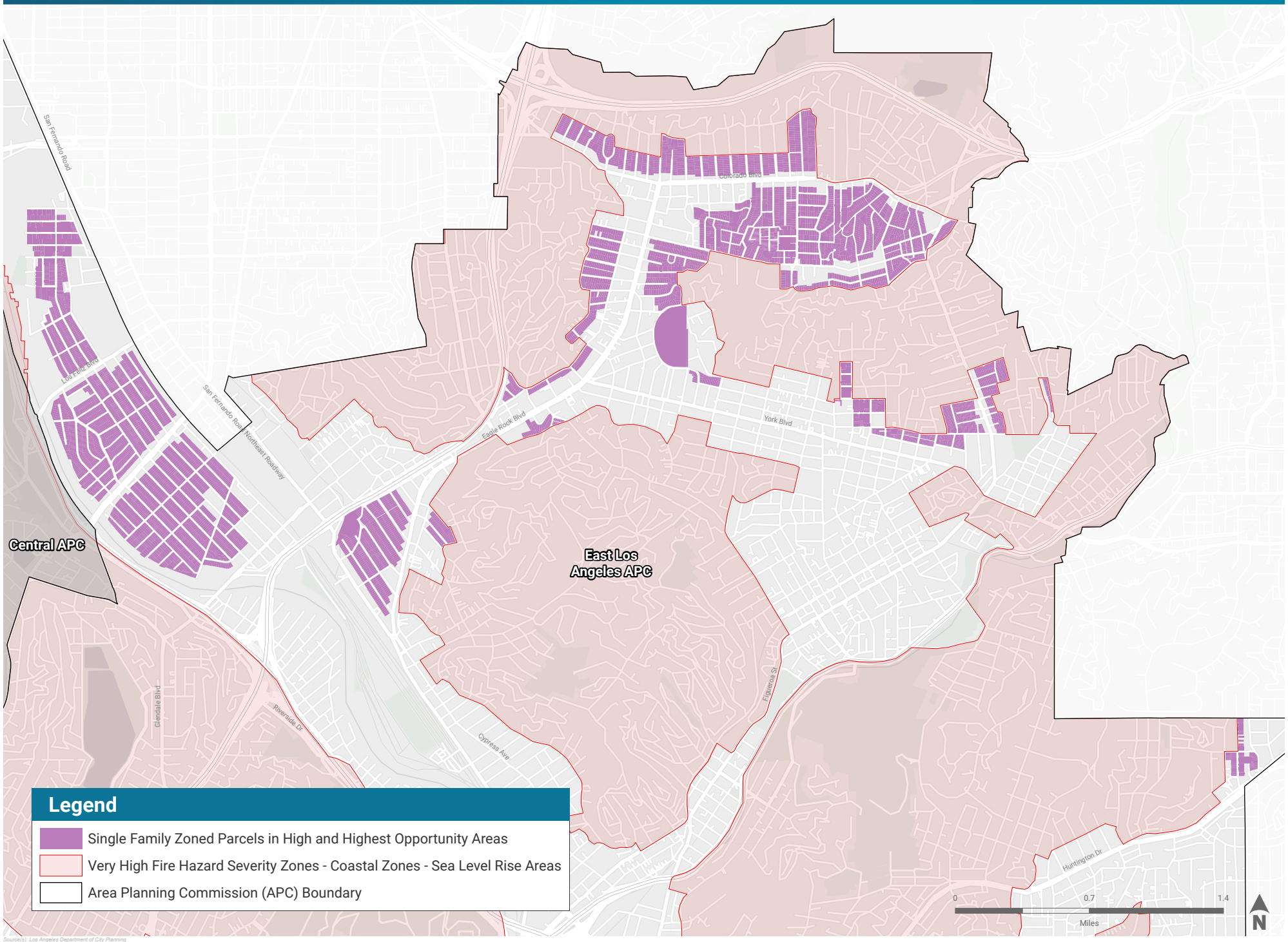
Map 1: Option 7: Central Los Angeles APC
Map 2: Option 7: East Los Angeles APC
Map 3: Option 7: Harbor APC
Map 4: Option 7: North Valley APC
Map 5: Option 7: South Valley APC
Map 6: Option 7: South Los Angeles APC
Map 7: Option 7: West Los Angeles APC

Option 1 - AHIP Applicability on all Single Family Parcels in High and Highest Opportunity Areas
Central APC



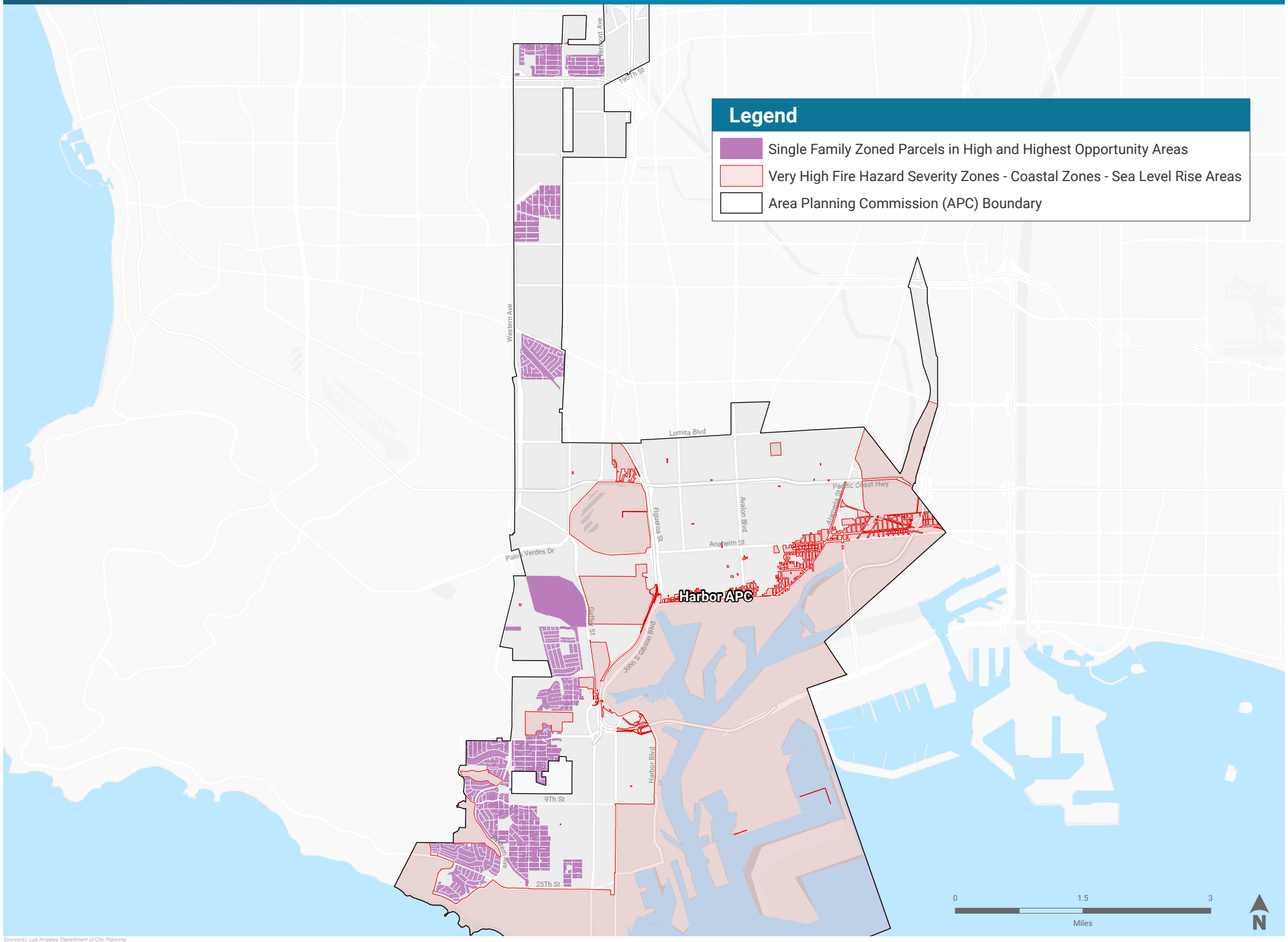
Source(s): Los Angeles Department of City Planning

Option 1 - AHIP Applicability on all Single Family Parcels in High and Highest Opportunity Areas
East Los Angeles APC



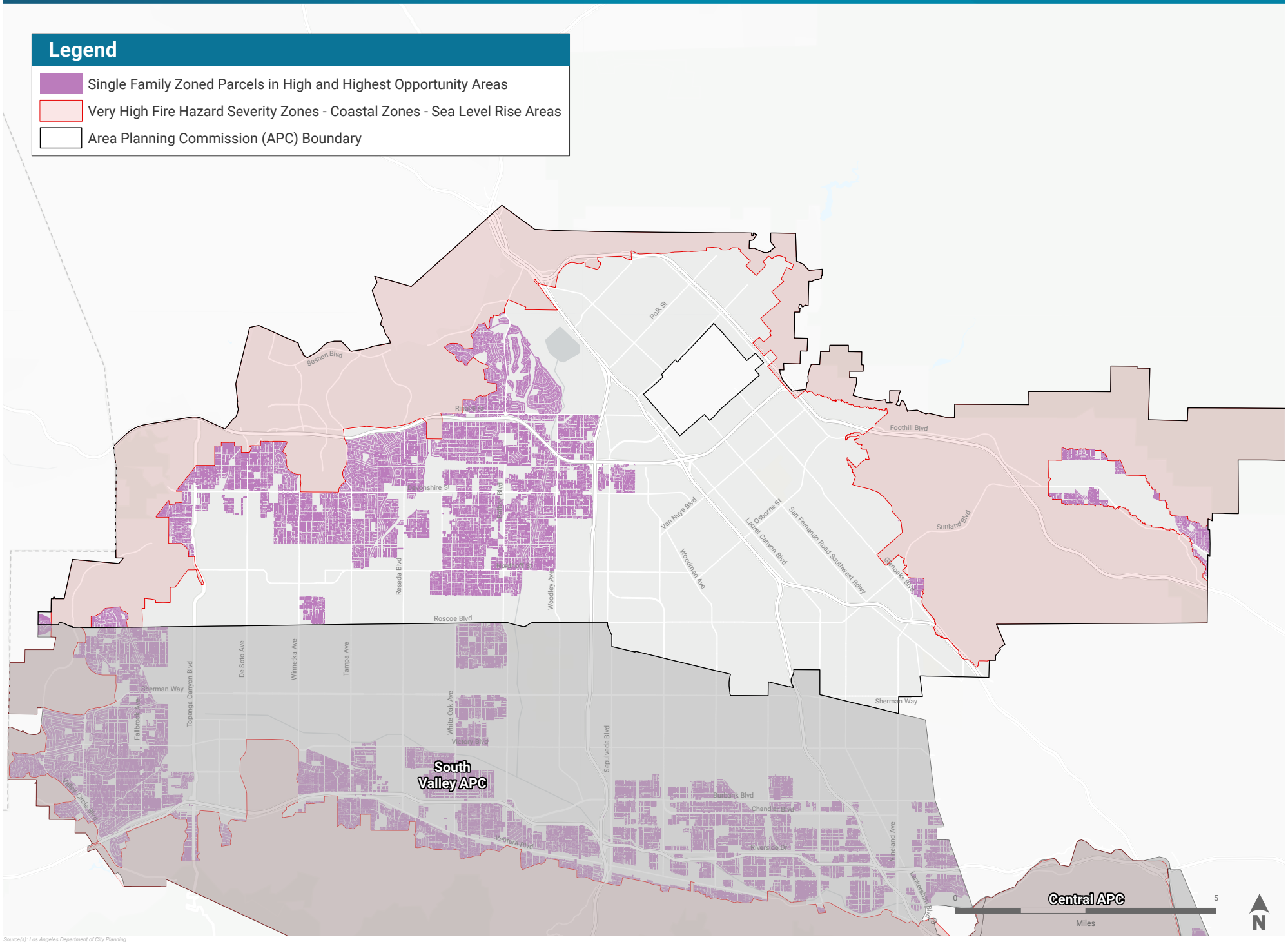
Source(s): Los Angeles Department of City Planning

Option 1 - AHIP Applicability on all Single Family Parcels in High and Highest Opportunity Areas
Harbor APC



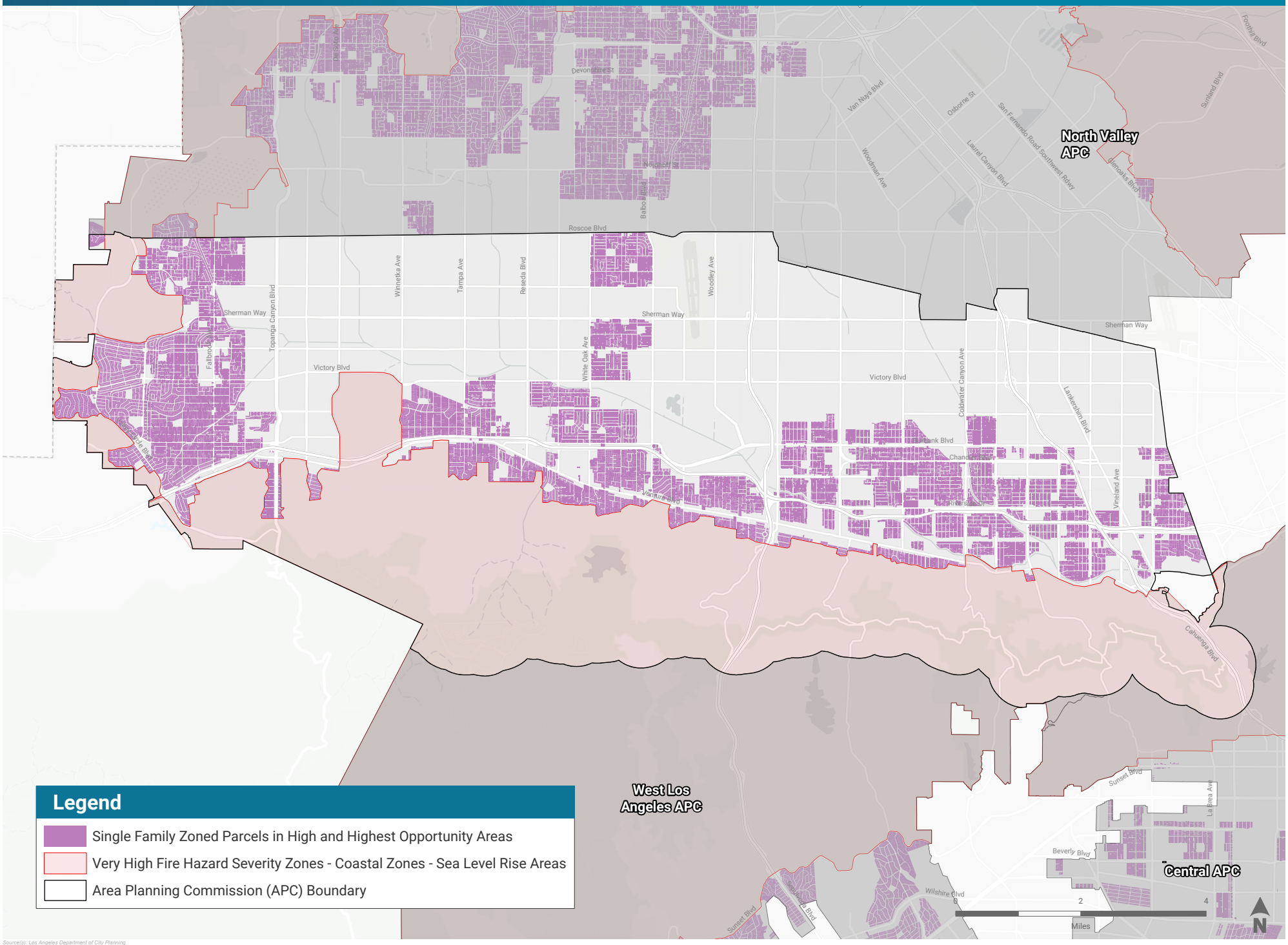
Source(s): Los Angeles Department of City Planning

Option 1 - AHIP Applicability on all Single Family Parcels in High and Highest Opportunity Areas **North Valley APC**



Source(s): Los Angeles Department of City Planning

Option 1 - AHIP Applicability on all Single Family Parcels in High and Highest Opportunity Areas
South Valley APC

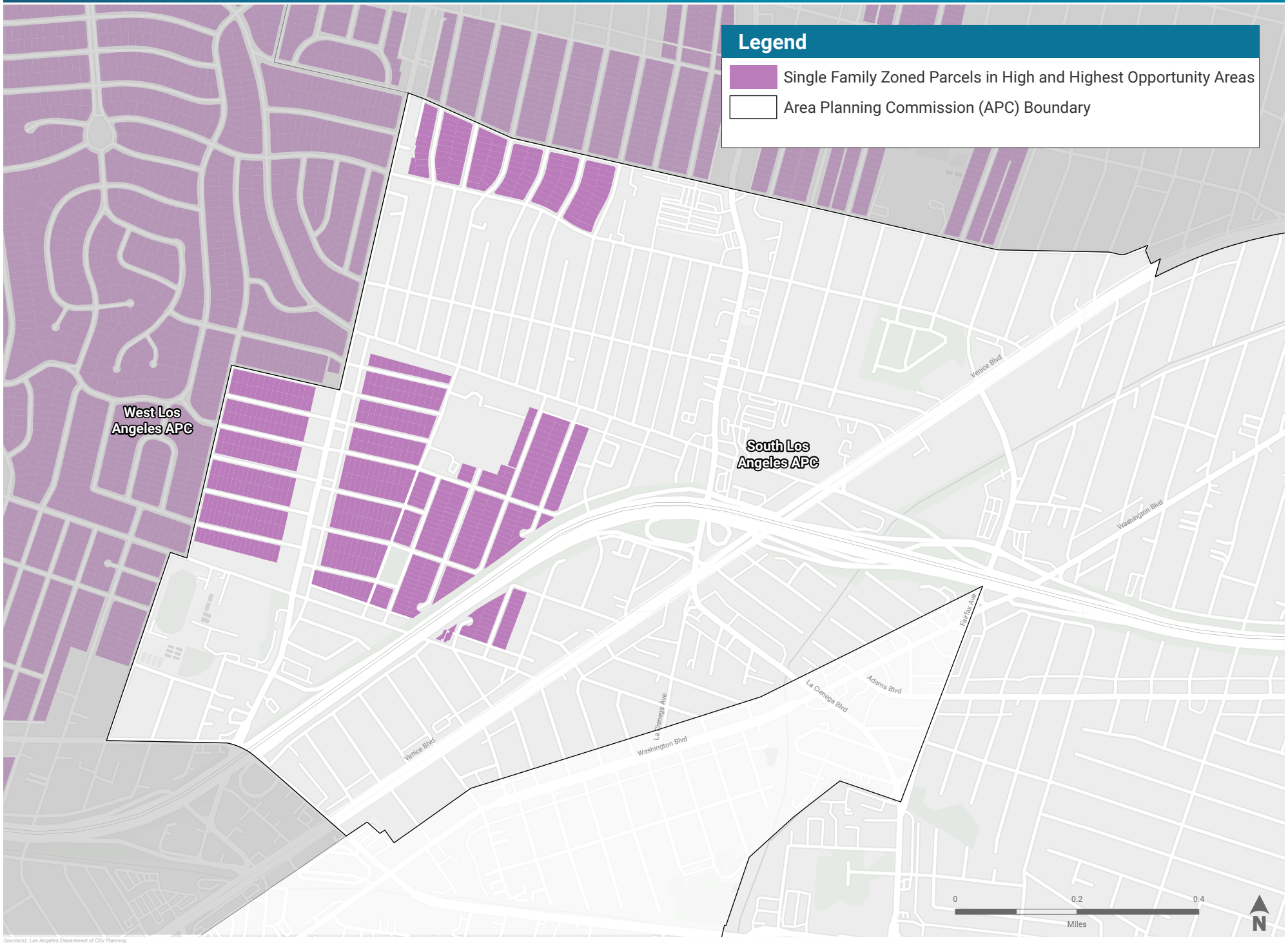


Legend

- Single Family Zoned Parcels in High and Highest Opportunity Areas
- Very High Fire Hazard Severity Zones - Coastal Zones - Sea Level Rise Areas
- Area Planning Commission (APC) Boundary

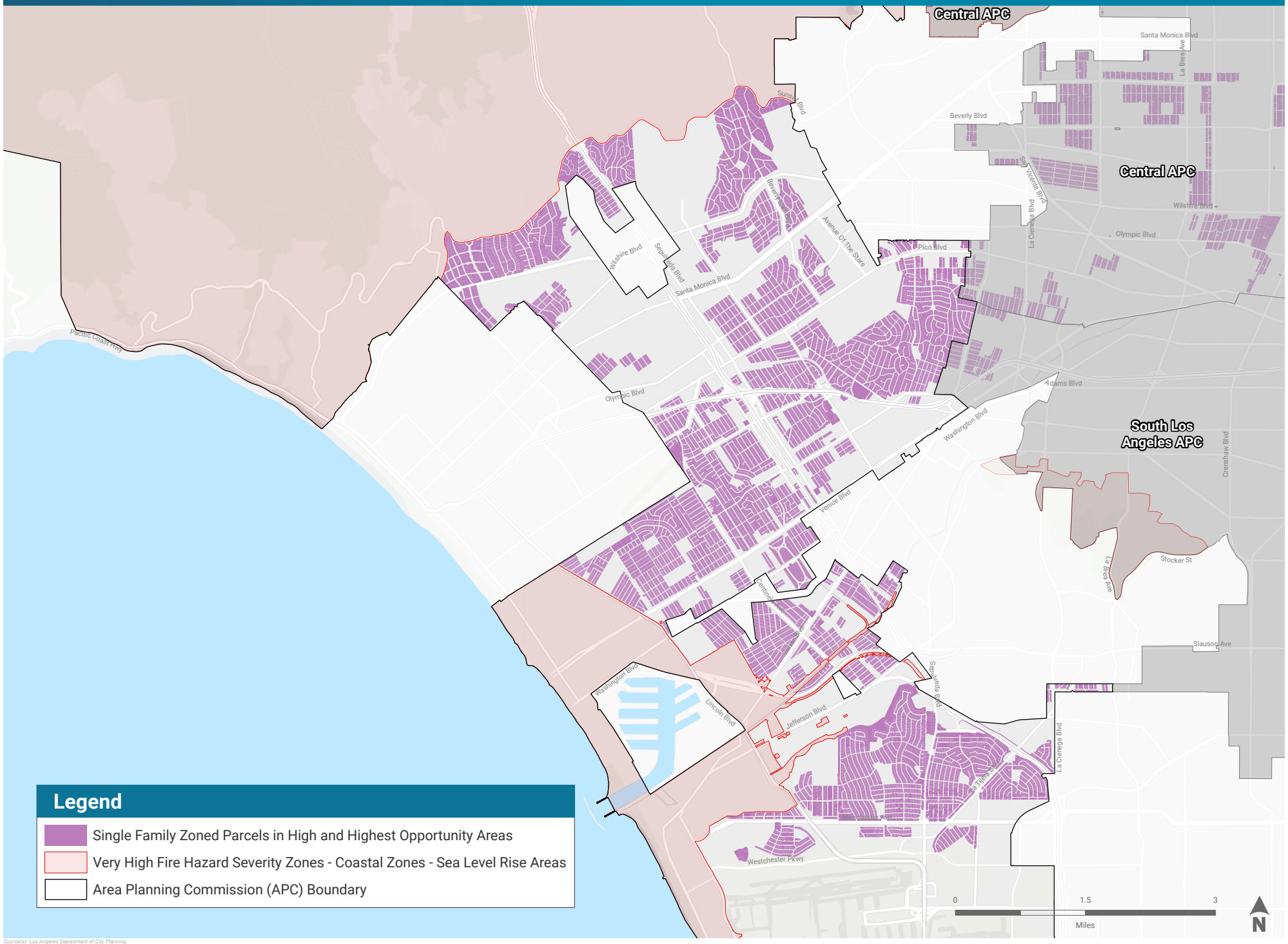
Source(s): Los Angeles Department of City Planning

Option 1 - AHIP Applicability on all Single Family Parcels in High and Highest Opportunity Areas
South Los Angeles APC



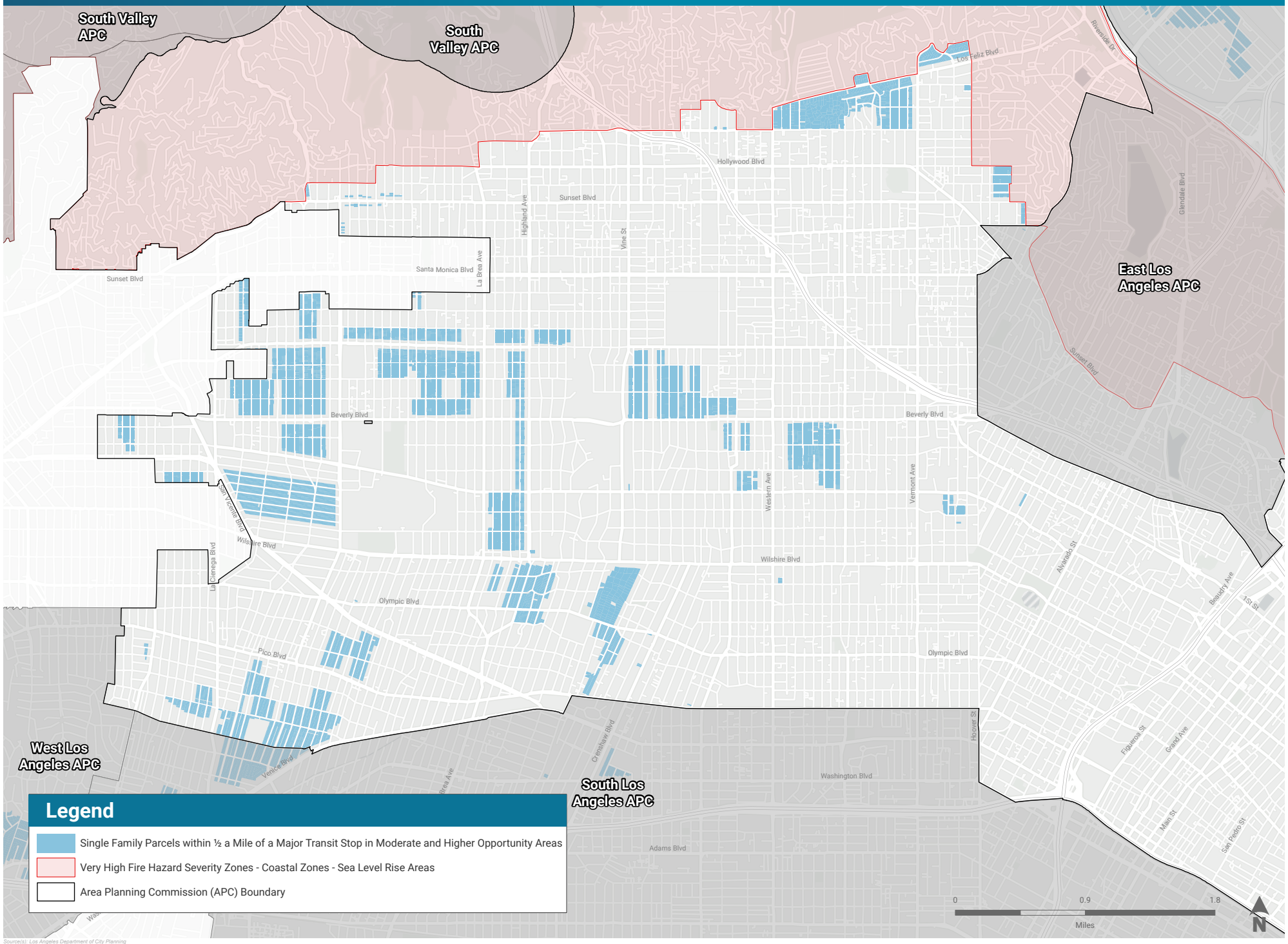
Source(s): Los Angeles Department of City Planning

Option 1 - AHIP Applicability on all Single Family Parcels in High and Highest Opportunity Areas
West Los Angeles APC



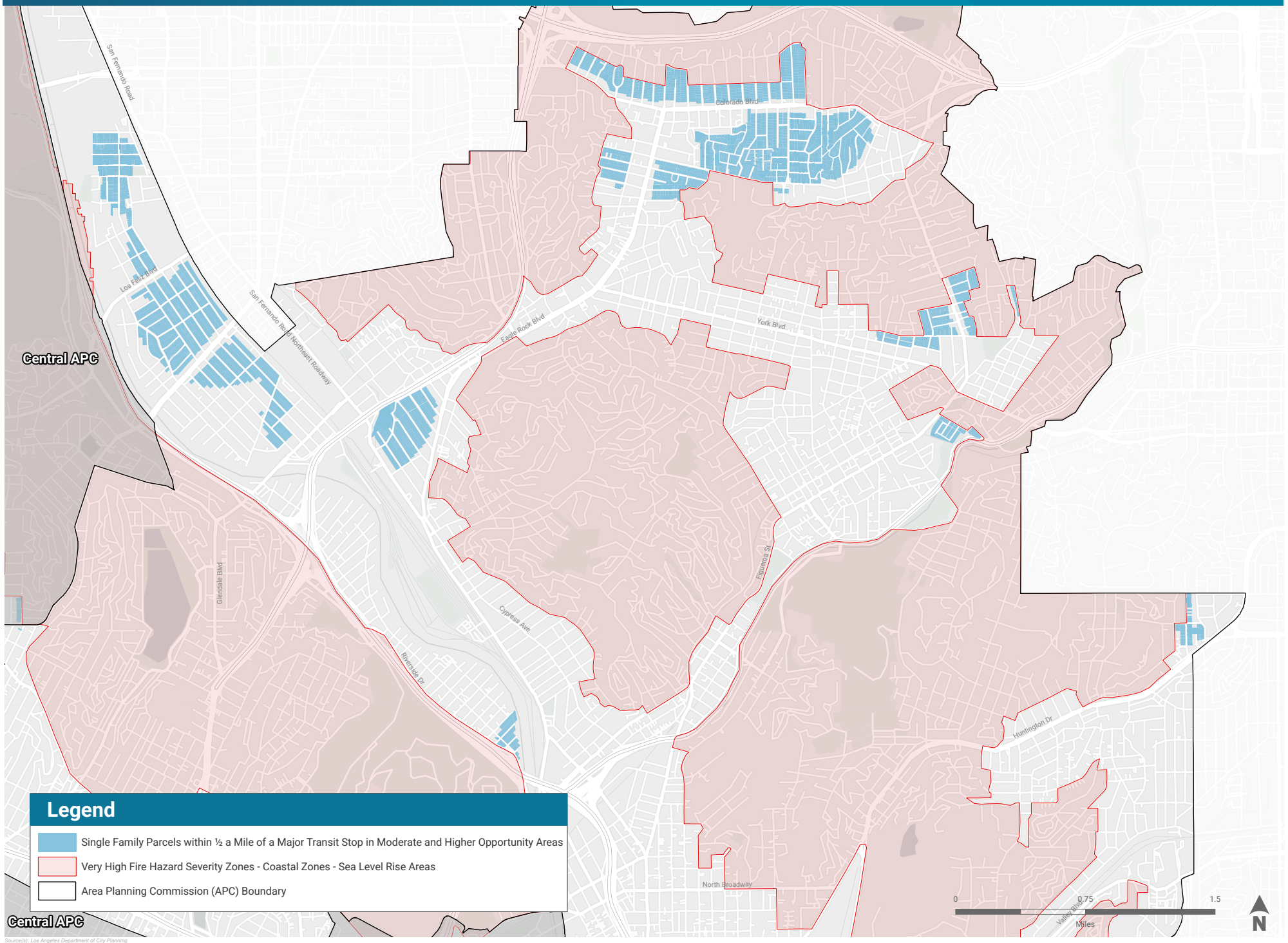
Source(s): Los Angeles Department of City Planning

Option 6 - AHIP Applicability within a ½ Mile of a Major Transit Stop in Moderate and Higher Opportunity Areas
Central APC



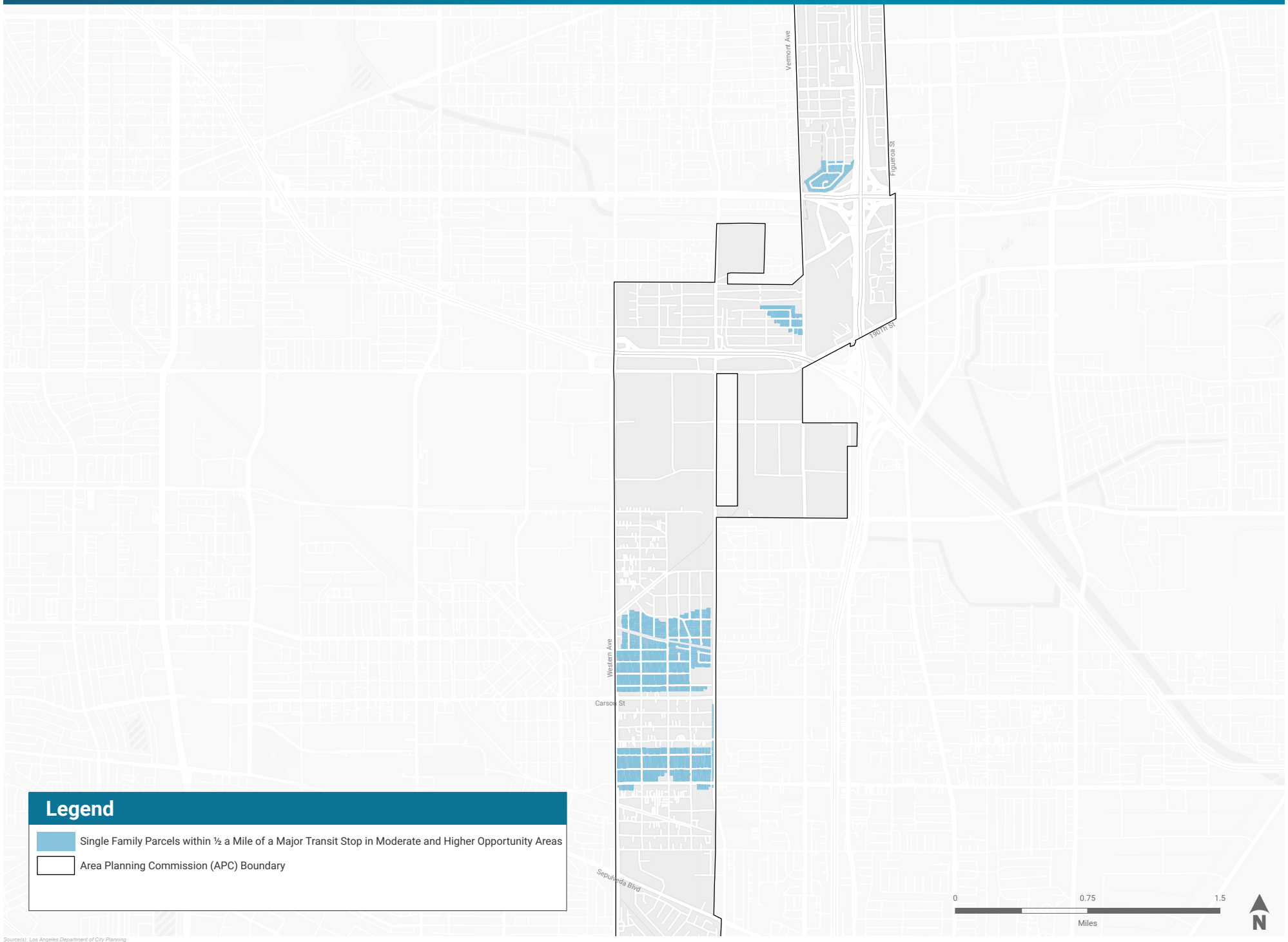
Source(s): Los Angeles Department of City Planning

Option 6 - AHIP Applicability within a ½ Mile of a Major Transit Stop in Moderate and Higher Opportunity Areas
East Los Angeles APC



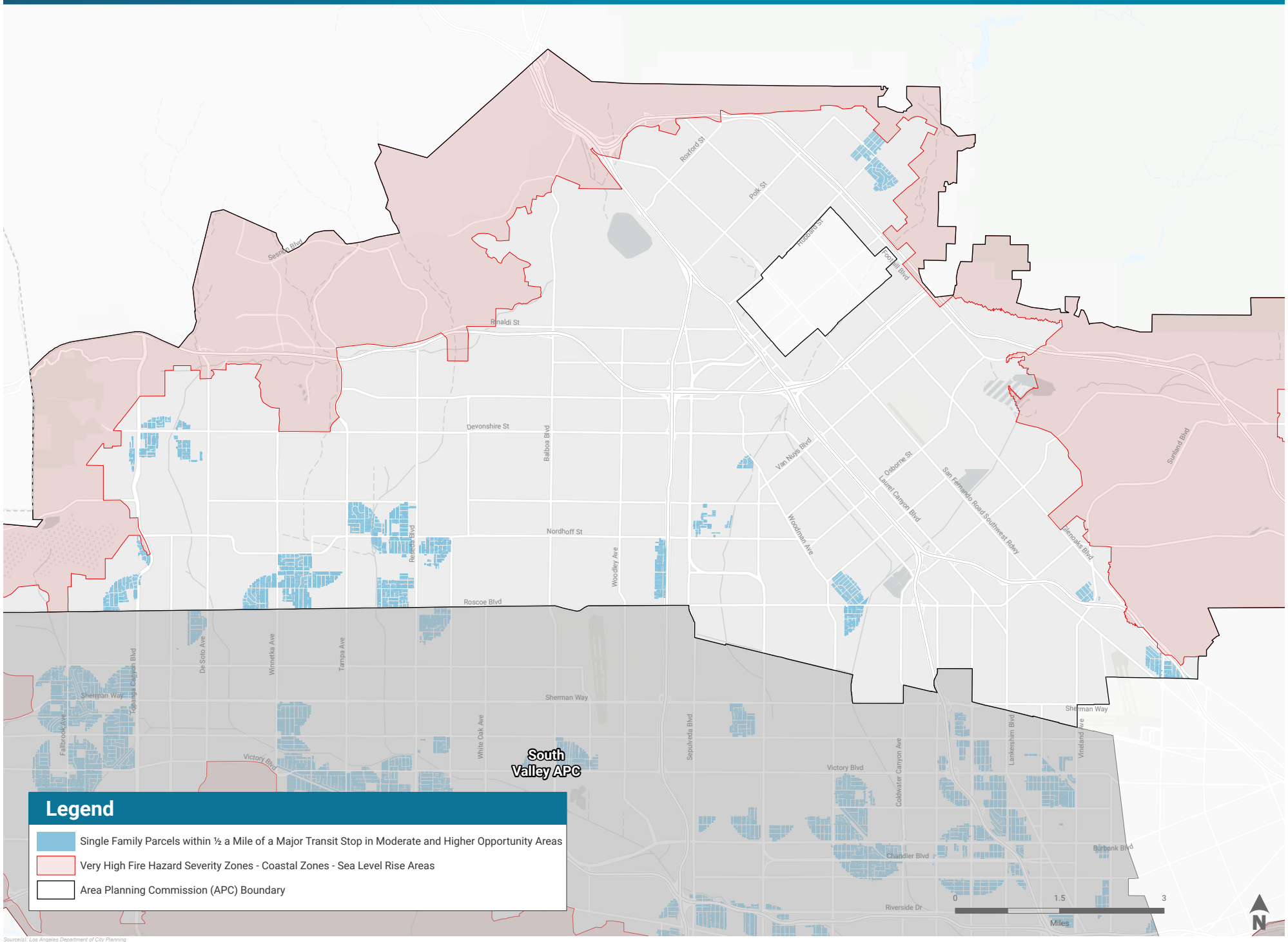
Source(s): Los Angeles Department of City Planning

Option 6 - AHIP Applicability within a ½ Mile of a Major Transit Stop in Moderate and Higher Opportunity Areas
Harbor APC



Source(s): Los Angeles Department of City Planning

Option 6 - AHIP Applicability within a ½ Mile of a Major Transit Stop in Moderate and Higher Opportunity Areas
North Valley APC

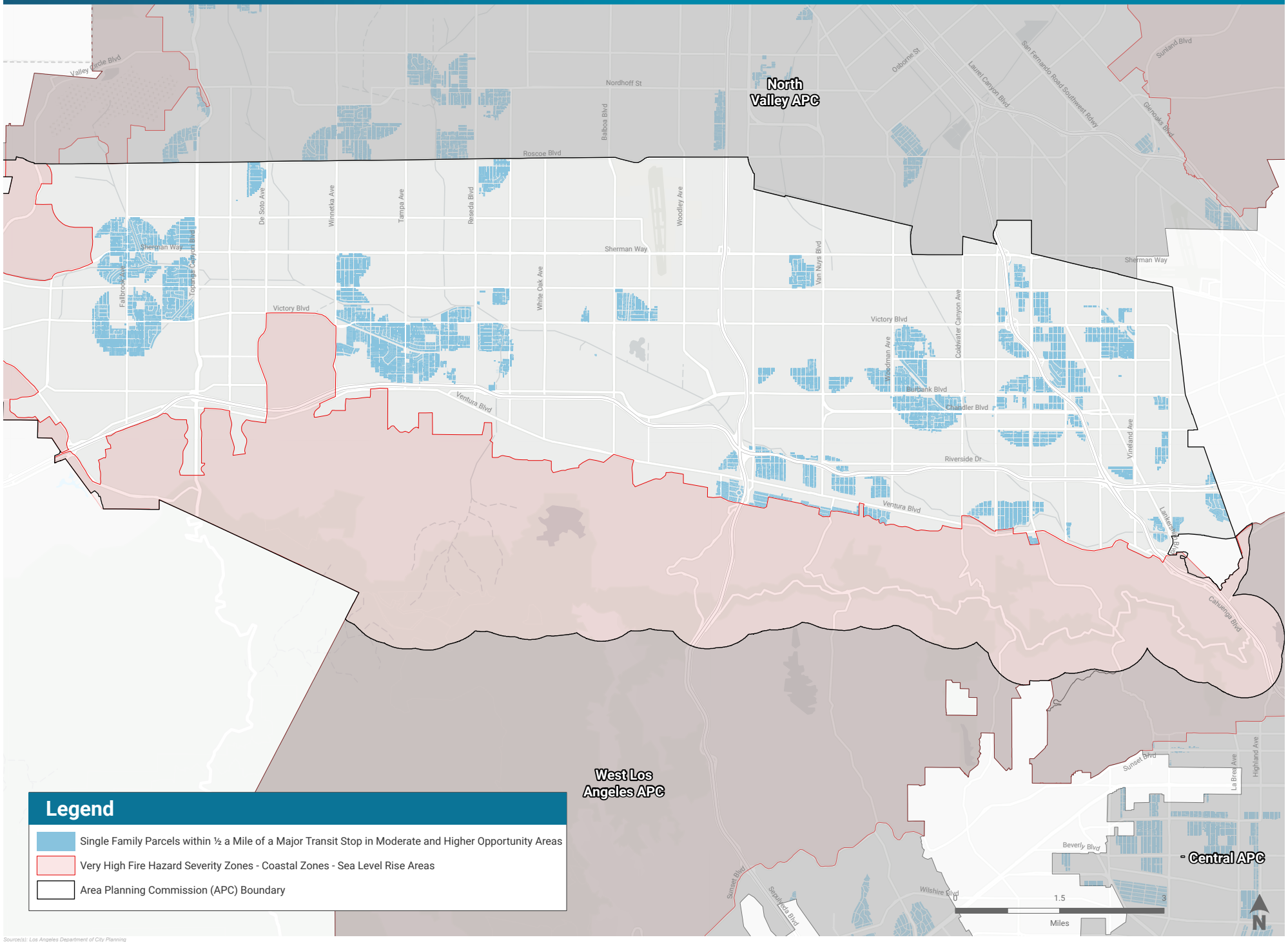


Legend

- Single Family Parcels within ½ a Mile of a Major Transit Stop in Moderate and Higher Opportunity Areas
- Very High Fire Hazard Severity Zones - Coastal Zones - Sea Level Rise Areas
- Area Planning Commission (APC) Boundary

Source(s): Los Angeles Department of City Planning

Option 6 - AHIP Applicability within a ½ Mile of a Major Transit Stop in Moderate and Higher Opportunity Areas
South Valley APC

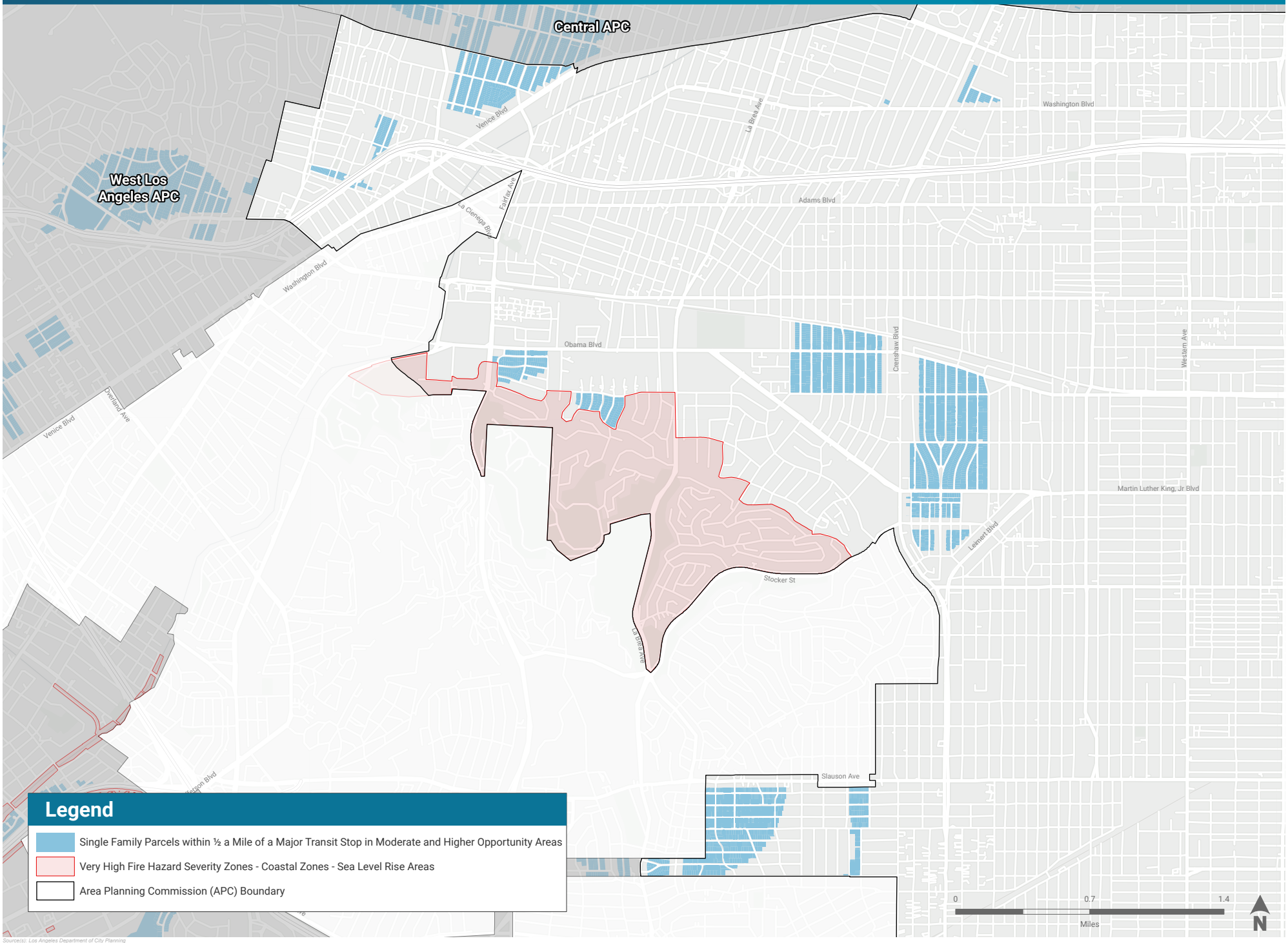


Legend

- Single Family Parcels within ½ a Mile of a Major Transit Stop in Moderate and Higher Opportunity Areas
- Very High Fire Hazard Severity Zones - Coastal Zones - Sea Level Rise Areas
- Area Planning Commission (APC) Boundary

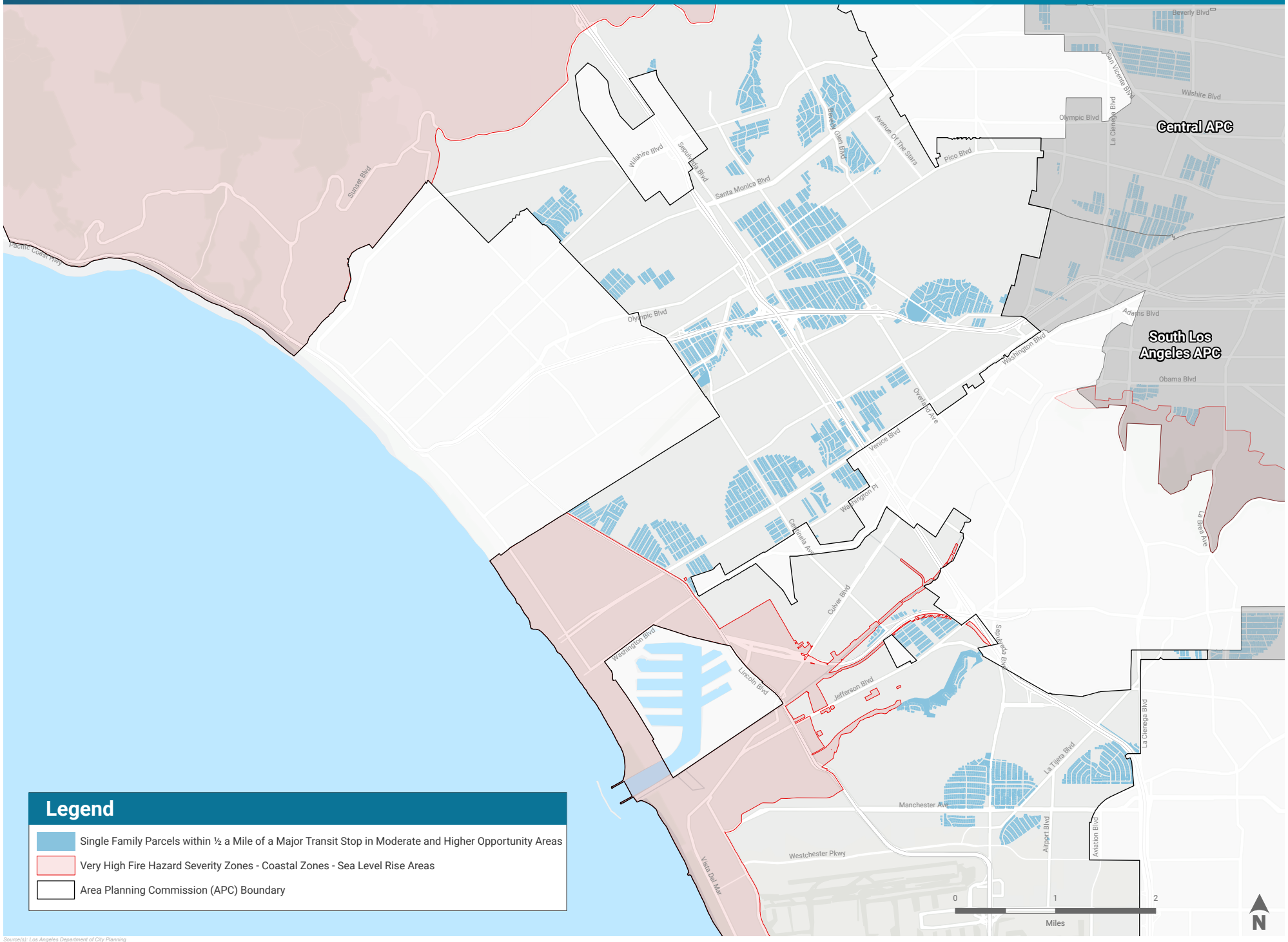
Source(s): Los Angeles Department of City Planning

Option 6 - AHIP Applicability within a ½ Mile of a Major Transit Stop in Moderate and Higher Opportunity Areas
South Los Angeles APC



Source(s): Los Angeles Department of City Planning

Option 6 - AHIP Applicability within a ½ Mile of a Major Transit Stop in Moderate and Higher Opportunity Areas
West Los Angeles APC

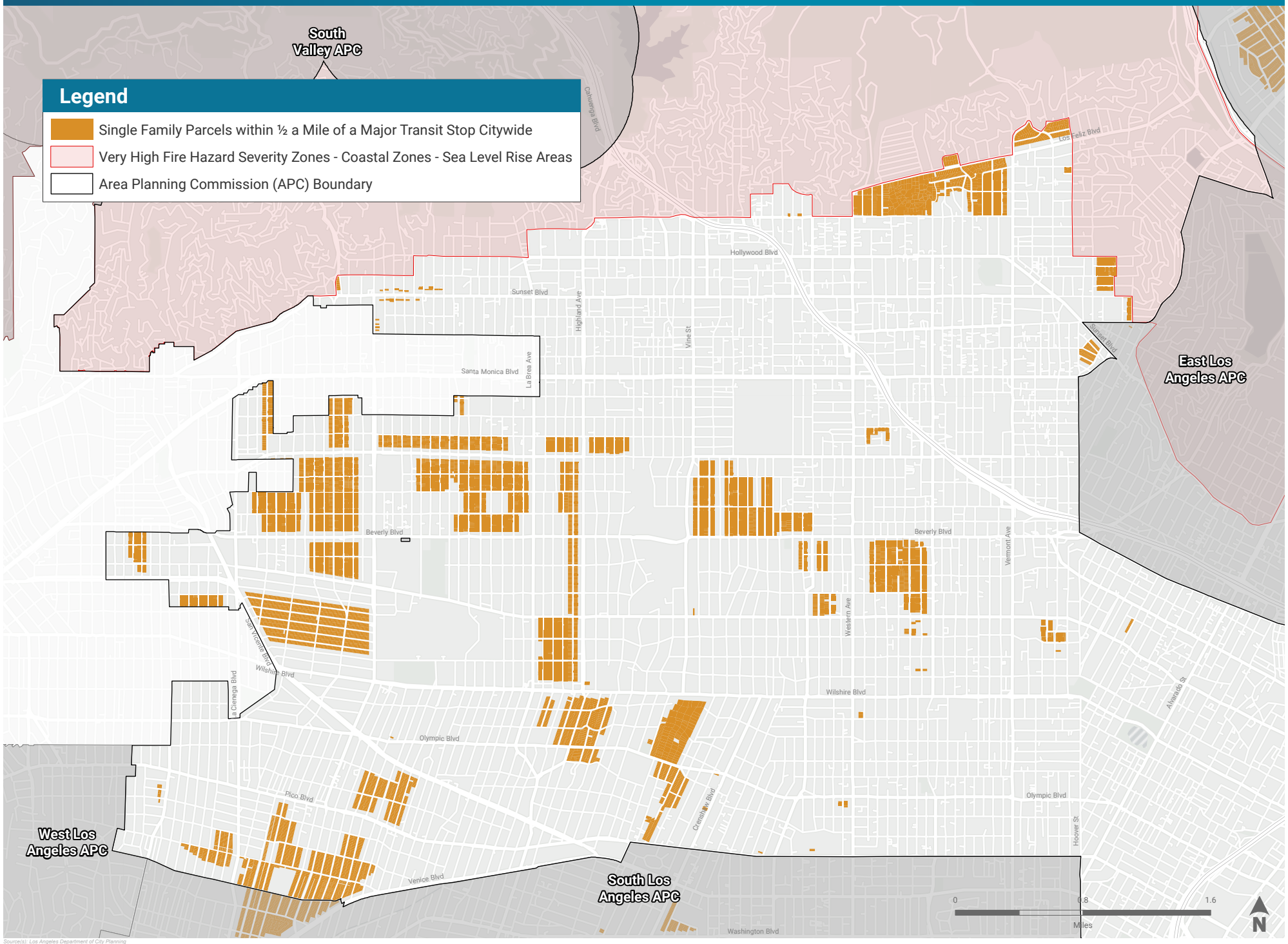


Legend

- Single Family Parcels within ½ a Mile of a Major Transit Stop in Moderate and Higher Opportunity Areas
- Very High Fire Hazard Severity Zones - Coastal Zones - Sea Level Rise Areas
- Area Planning Commission (APC) Boundary

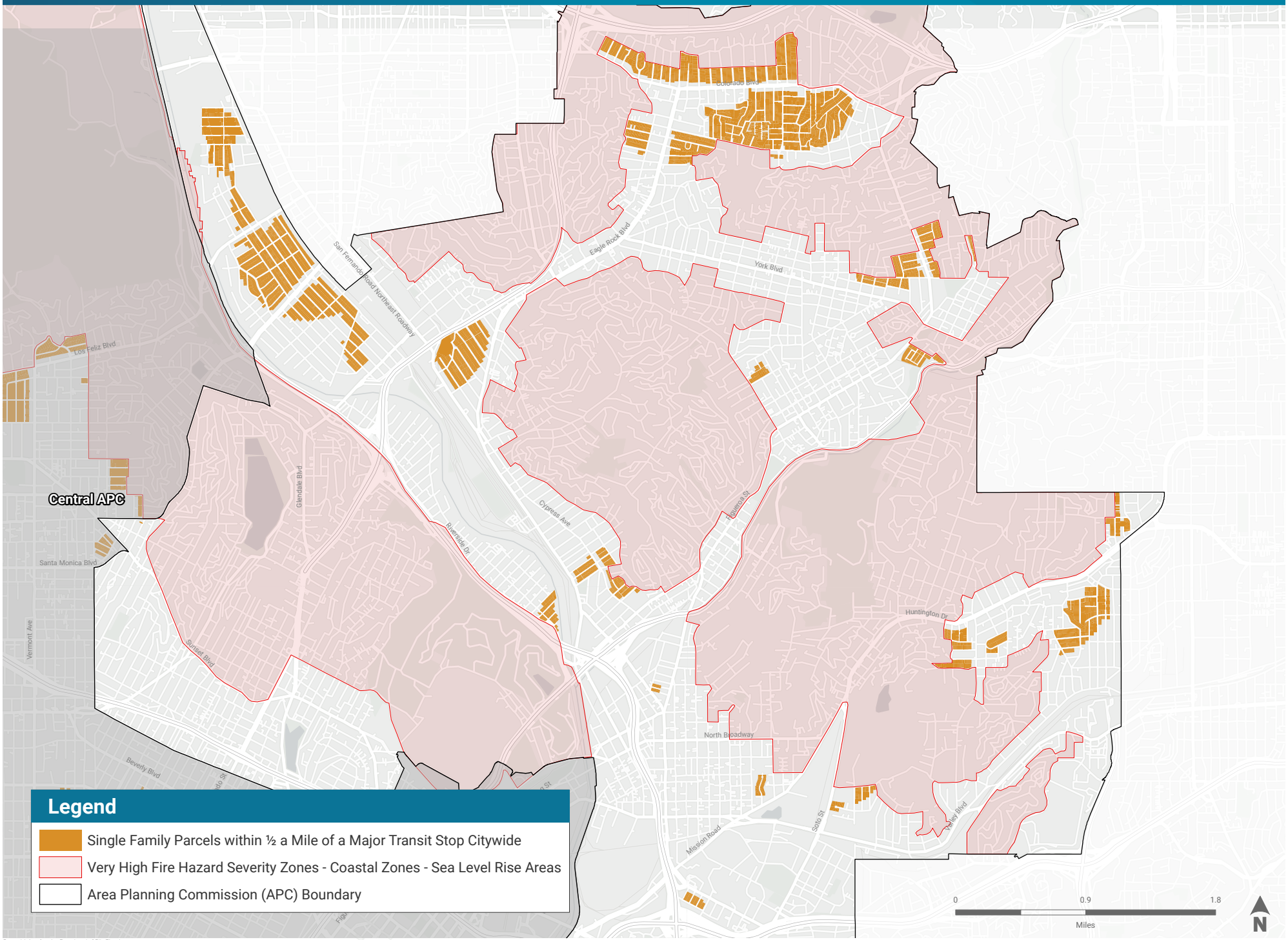
Source(s): Los Angeles Department of City Planning

Option 7 - AHIP Applicability for Shared Equity Projects within a ½ Mile of a Major Transit Stop
Central APC



Source(s): Los Angeles Department of City Planning

Option 7 - AHIP Applicability for Shared Equity Projects within a ½ Mile of a Major Transit Stop
East Los Angeles APC

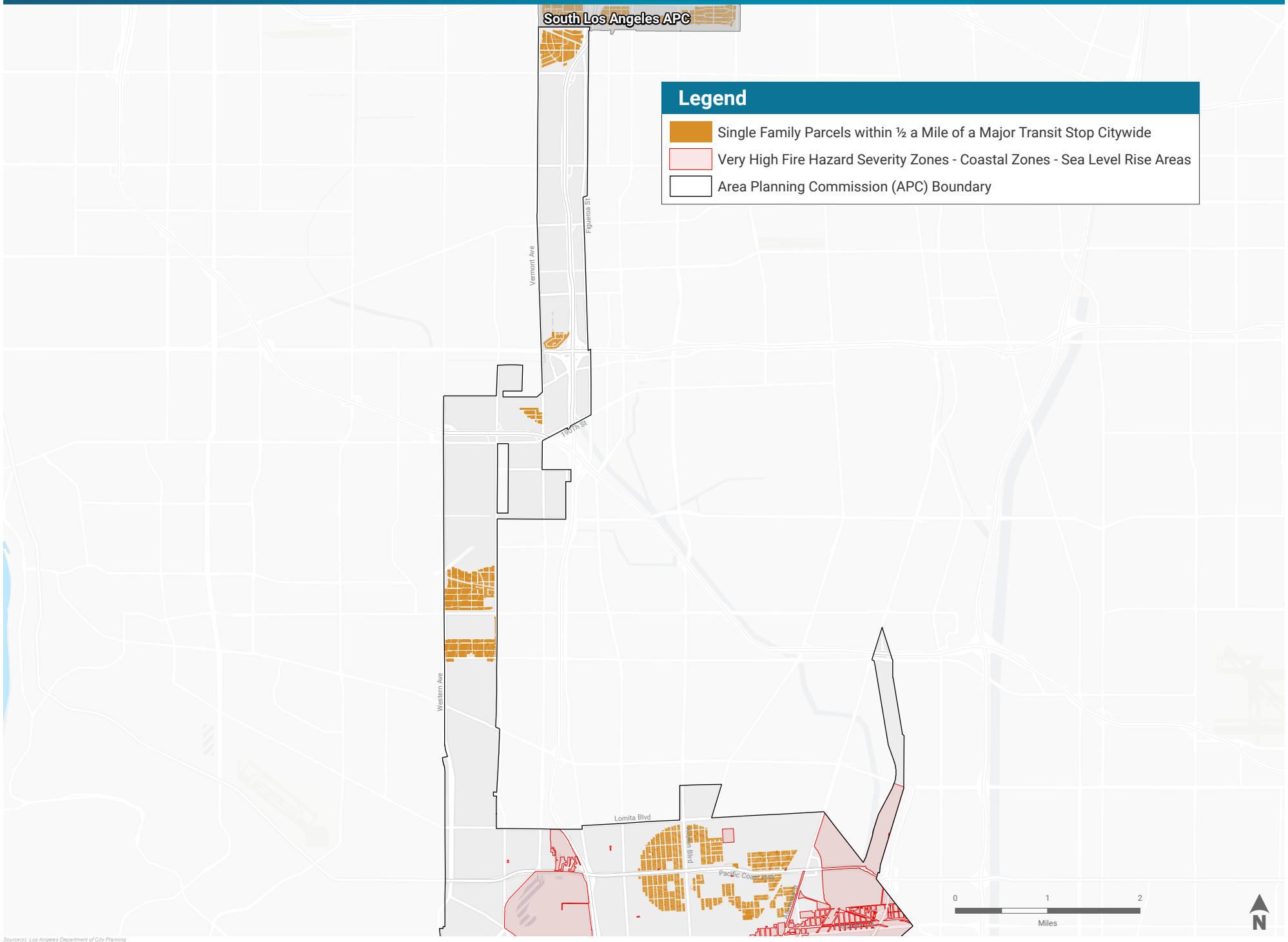


Legend

- Single Family Parcels within ½ a Mile of a Major Transit Stop Citywide
- Very High Fire Hazard Severity Zones - Coastal Zones - Sea Level Rise Areas
- Area Planning Commission (APC) Boundary

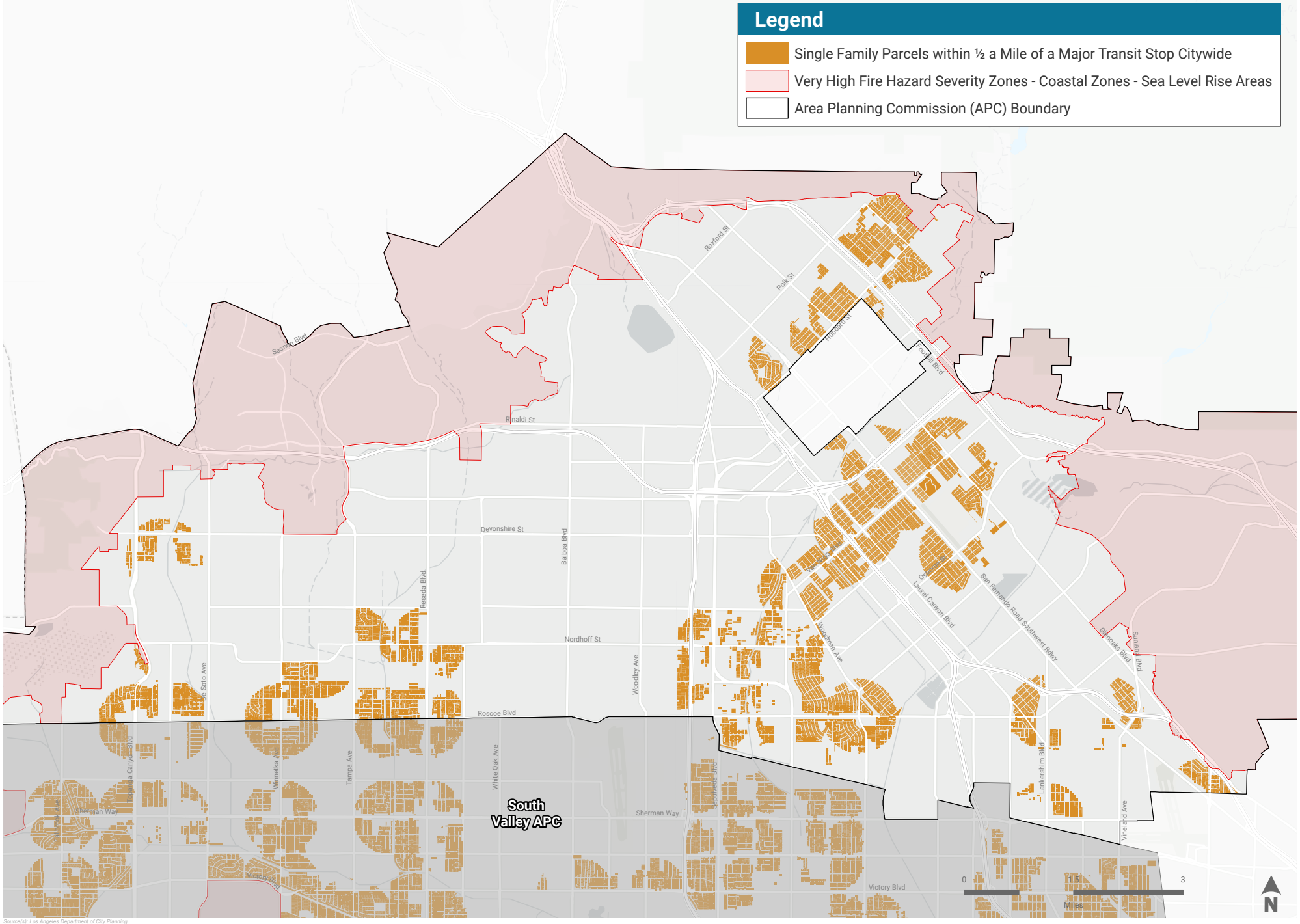
Source(s): Los Angeles Department of City Planning

Option 7 - AHIP Applicability for Shared Equity Projects within a ½ Mile of a Major Transit Stop
Harbor APC



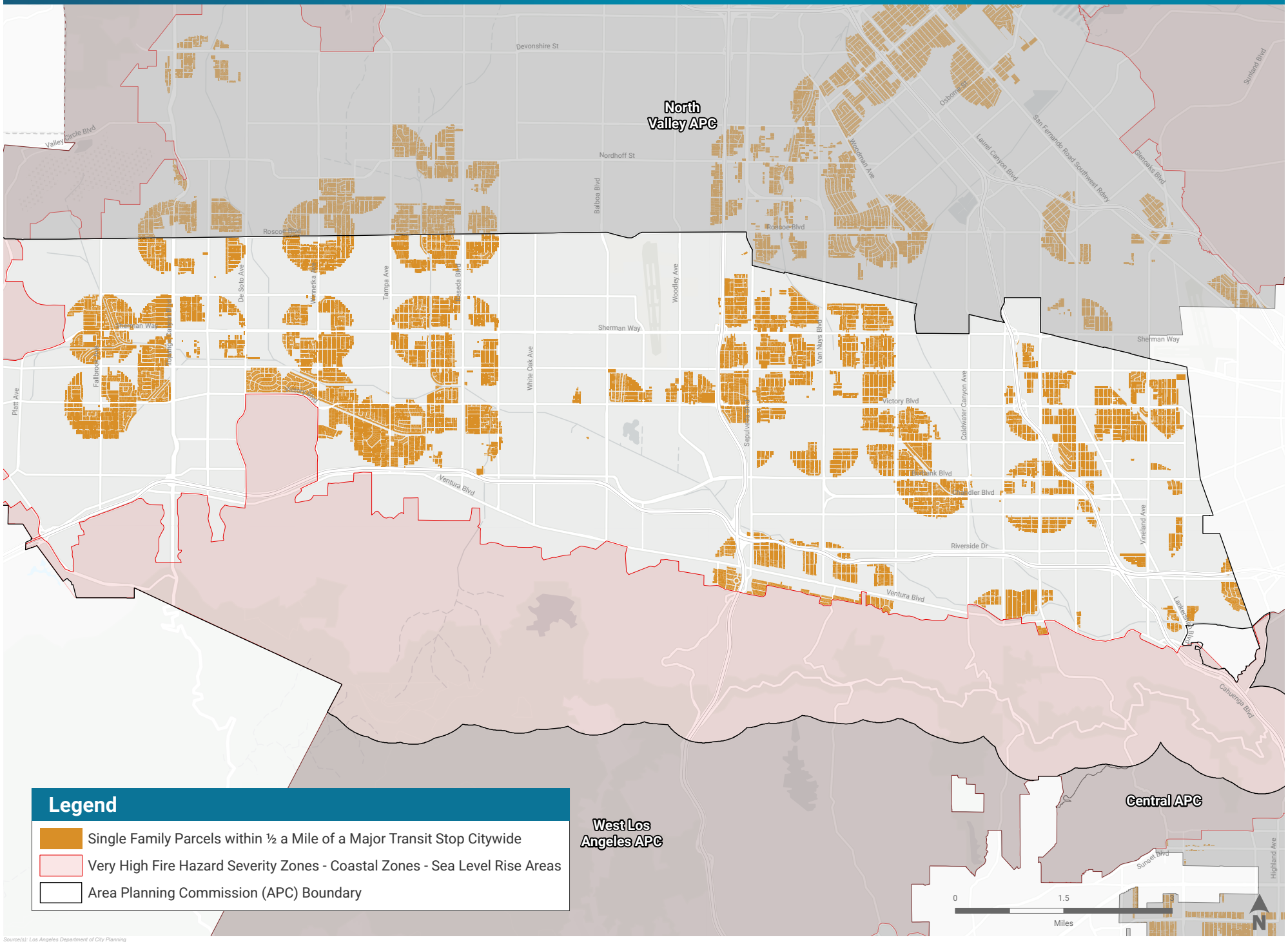
Source(s): Los Angeles Department of City Planning

Option 7 - AHIP Applicability for Shared Equity Projects within a ½ Mile of a Major Transit Stop
North Valley APC



Source(s): Los Angeles Department of City Planning

Option 7 - AHIP Applicability for Shared Equity Projects within a ½ Mile of a Major Transit Stop
South Valley APC

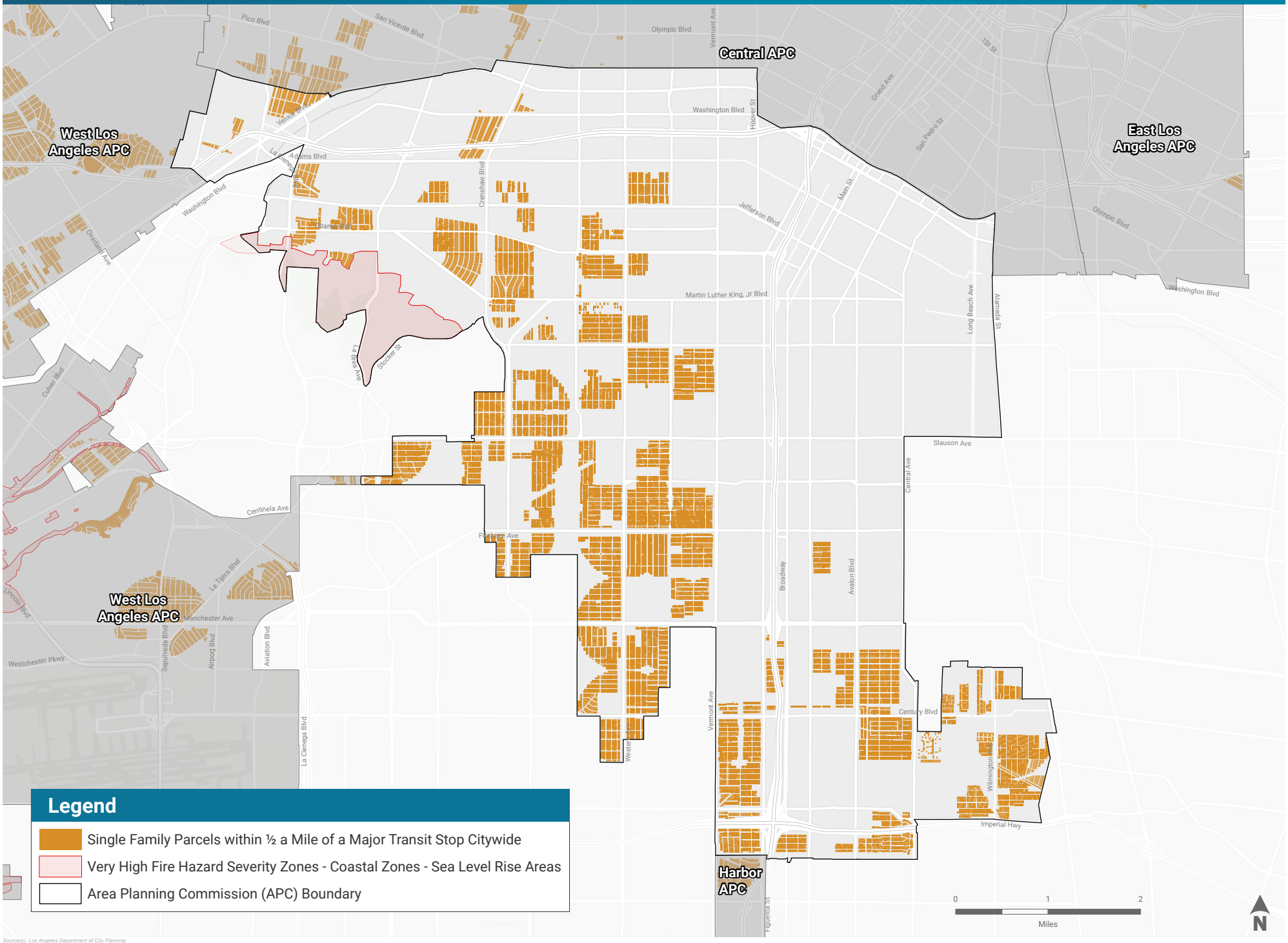


Legend

- Single Family Parcels within ½ a Mile of a Major Transit Stop Citywide
- Very High Fire Hazard Severity Zones - Coastal Zones - Sea Level Rise Areas
- Area Planning Commission (APC) Boundary

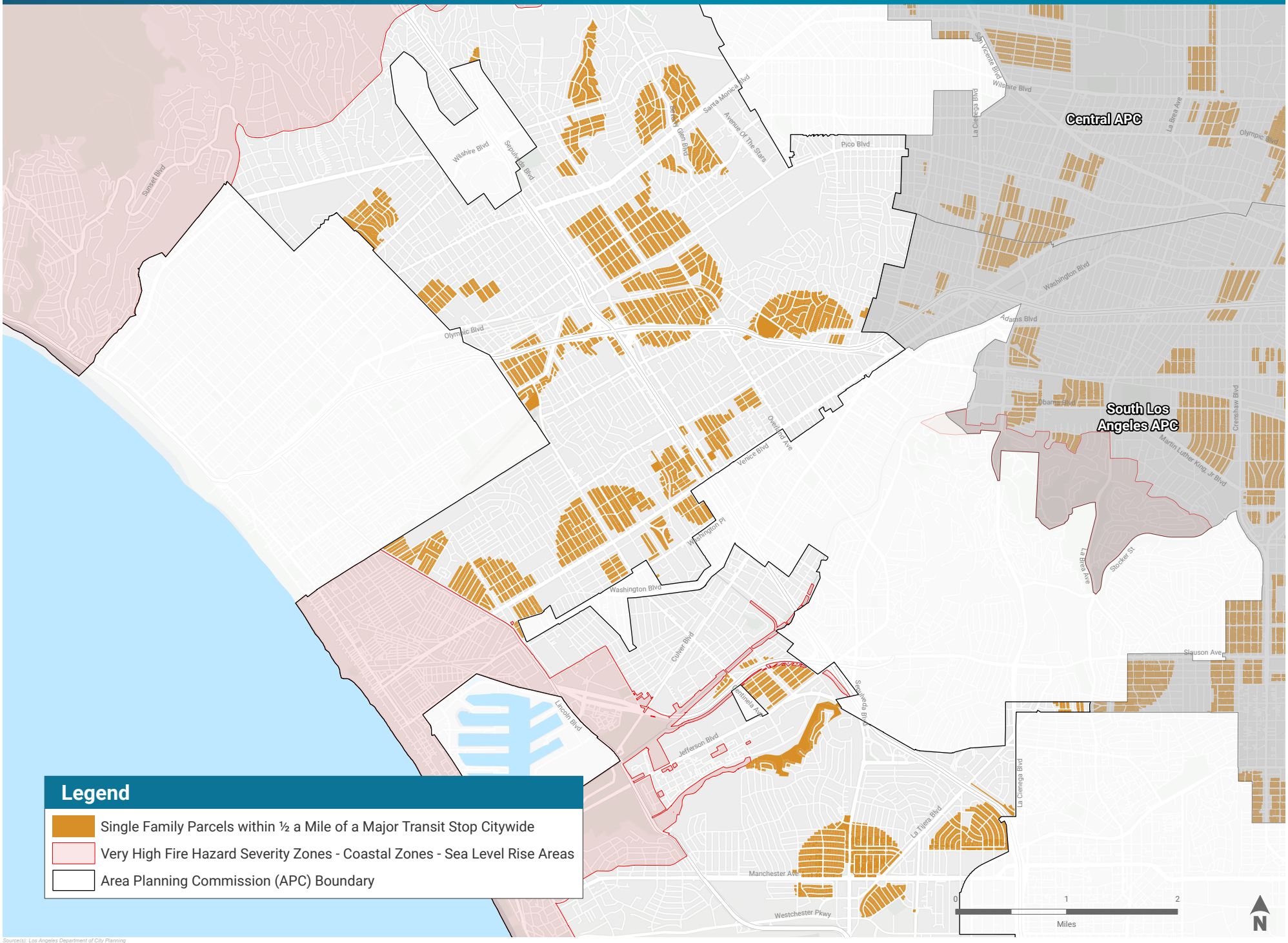
Source(s): Los Angeles Department of City Planning

Option 7 - AHIP Applicability for Shared Equity Projects within a ½ Mile of a Major Transit Stop
South Los Angeles APC



Source(s): Los Angeles Department of City Planning

Option 7 - AHIP Applicability for Shared Equity Projects within a ½ Mile of a Major Transit Stop
West Los Angeles APC



Legend

- Single Family Parcels within ½ a Mile of a Major Transit Stop Citywide
- Very High Fire Hazard Severity Zones - Coastal Zones - Sea Level Rise Areas
- Area Planning Commission (APC) Boundary

Source(s): Los Angeles Department of City Planning

INSTRUCTIONS: Revise Appendix 3: Economic and Market Analysis to include Economic and Feasibility Analysis for the Citywide Housing Incentive Program (CHIP): DBO, TOIA, OC, and CT Strategies after PDF Page 84.

INSTRUCTIONS: Revise Appendix 3: Economic and Market Analysis to include a new RSO Analysis, a supplemental study designed to explore the impact of replacement ratios exceeding 1:1, after PDF Page 219.

Final Consultant Deliverable

AECOM

Economic and Feasibility Analysis for the Citywide Housing Incentive Program (CHIP): DBO, TOIA, OC, and CT Strategies

Final Report

August 19, 2024

Los Angeles City Planning

City of Los Angeles

Delivering a better world

Assumptions & Limitations

Deliverables and portions thereof shall be subject to the following assumptions and limitations:

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1. Introduction and Summary of Findings

The City of Los Angeles Department of City Planning (LACP) engaged AECOM to prepare economic analysis to inform policy development for the City's Regional Housing Needs Allocation (RHNA) Rezoning Program. This report explores the economic feasibility of four proposed program and policy options, which are intended to support the larger effort to expand housing production to meet RHNA goals.

1.1 Background

The State of California requires local jurisdictions to demonstrate through the Housing Element process that they maintain sufficient zoned capacity to accommodate their RHNA allocation for the eight-year Housing Element period.

The City of Los Angeles's 2021-2029 Housing Element, which was adopted in November 2021, includes an Adequate Sites Inventory for which the City has identified a development potential of 230,947 units over the 8-year RHNA planning period. However, the 2021-2029 RHNA allocation for the City of Los Angeles includes a target production of 486,379 units (including buffer). Comparing the RHNA allocation and Housing Element site inventory results in a shortfall of 255,432 units.

As part of the Housing Element update process, the City must provide a RHNA Rezoning Program that outlines strategies and policies expected to close the housing production gap by creating additional housing capacity. The City's proposed RHNA Rezoning Program, introduced in Program 121 of the Housing Element, is intended to help fill the expected housing production gap by creating additional housing capacity. Stated broadly, the program's goals are to:

- Prioritize development in Higher Opportunity Areas as defined by the California Tax Credit Allocation Committee (CTCAC) and California Department of Housing and Community Development (HCD).
- Maximize affordability and community benefits.
- Protect communities vulnerable to displacement and housing pressures.
- Exclude hazard areas such as areas at risk of sea level rise and Very High Fire Hazard Severity Zones (VHFHSZ).

The Rezoning Program proposes a range of strategies to meet its goals, including the following:

1. **State Density Bonus Program.** The Rezoning Program encompasses revisions to the City's local **Density Bonus Ordinance (DBO)** which serves as the City's primary mechanism for implementing State Density Bonus Law (SDBL). Proposed changes to the City's local Density Bonus Ordinance include procedural updates as well as revisions that will affirm consistency between the Los Angeles Municipal Code and State Density Bonus Law.
2. **Mixed Income Incentive Program.** The Mixed Income Incentive Program would introduce the **Opportunity Corridors (OC) Incentive Program** and **the Opportunity Corridors Transition (CT) Area Incentive Program** – two of the core concepts proposed as part of the Rezoning Program. Additionally, the Mixed Income Incentive Program includes the proposed **Transit Oriented Incentive Area (TOIA) Program**, which will enshrine key elements of the Transit Oriented Communities Affordable Housing Incentive Guidelines in the Los Angeles Municipal Code. OC and CT incentives will be reserved for project sites in High and Highest Resource Areas as defined by the

CTCAC/HCD Housing Opportunity Area Maps, while TOIA incentives will be available citywide.

3. **Affordable Housing Incentive Program.** The Affordable Housing Incentive Program will provide tailored land use incentives for One Hundred Percent Affordable Housing Projects and affordable housing projects constructed by Faith Based Organizations in Moderate, High and Highest Resource areas of the City, as defined by the CTCAC/HCD Opportunity Area Maps. Additionally, the ordinance will expand the types of zones eligible for One Hundred Percent Affordable Housing projects to “P” Parking zones and “PF” Public Facilities zones.

1.1.1 Programs Analyzed

This study analyzes four proposed incentive programs, including the **DBO** and three programs incorporated as part of the **Mixed Income Incentive Program**: the **TOIA, OC,** and **CT** programs.

These programs are proposed as incentive-based programs that require applicants proposing multi-family residential development to provide a certain percentage of set-aside affordable units. In return for providing affordable units, applicants receive development bonuses that allow greater densities, floor area ratio (FAR), and heights than are otherwise allowed by base zoning.

Within each program, different levels of incentives are available depending on the percentage of housing units dedicated to affordable housing for low income (LI), very low income (VLI), extremely low income (ELI), and moderate income (MI) households. In addition to the density, FAR, and height bonuses that are the focus of this analysis, projects can also receive other incentives related to setbacks, lot width, open space, lot coverage, and other zoning requirements. Proposed projects that remain within the pre-vetted menu of incentives would also be eligible for streamlined ministerial permit processing. All proposed programs will count above-ground parking as part of floor area ratio (FAR).

Table 1 below summarizes key elements of the DBO, TOIA, OC, and CT programs including policy goal/description; program tiers; maximum density, FAR, and height incentives; and affordable set-aside income levels and calculation methods. **The table shows incentive levels as tested for the purposes of this analysis. Note that the programs are still under development and the table below may not reflect the City’s final policy decisions.**

Table 1. Key Elements of DBO, TOIA, OC, and CT Incentive Programs (as Tested)

Program	Policy Goal/ Description	Program Tiers	Max Density Incentive	Max FAR Incentive*	Max Height Incentive	Affordable Set-Aside Income Levels & Calculation Methods
Density Bonus Ordinance Update (**DBO**)	Procedural updates and revisions to affirm consistency between the Los Angeles Municipal Code and State Density Bonus Law	N/A	100%	50% over base	Increase over base equal to density bonus percentage	VLI, LI, MI Set-asides determined by state law and may be provided through single-affordability pathways (VLI, LI, or MI only), or mixed-affordability pathways (a combination of VLI, LI, and/or MI). Set-asides calculated as share of base units.
Transit Oriented Incentive Areas (**TOIA**)	Encourage construction of affordable housing near bus and train stations. Set-aside requirements and available bonuses increase by incentive tier (T1-T4), where T1 represents the lowest level of transit service and T4 the highest.	TOIA-1	100%	3.00 FAR or 40% over base	1 story/11 feet	ELI, VLI, LI Set-aside requirements to be determined; may vary by Market Tier. Set-asides calculated as share of total dwelling units.
		TOIA-2	120%	3.50 FAR or 45% over base	1 story/11 feet	
		TOIA-3	Unlimited	4.00 FAR or 50% over base	2 stories/22 feet	
		TOIA-4	Unlimited	4.50 FAR or 55% over base	3 stories/33 feet	
Opportunity Corridors Incentive Program (**OC**)	Encourage residential development along selected commercial and residential corridors. Set-aside and incentive tiers mirror TIOA tiers, with increasing incentives available in tiers with better transit access.	OC-1	Unlimited Density within FAR and Height Allowances	3.00 FAR (R zones) 3.50 FAR (C zones)	45' (R zones) 1 story/11 feet up to 5 total stories (C zones)	ELI, VLI, LI Set-aside requirements to be determined; may vary by Market Tier. Set-asides calculated as share of total dwelling units.
		OC-2		3.50 FAR (R zones) 4.00 FAR or 45% over base (C zones)	56' (R zones) 2 story/11 feet up to 6 total stories (C zones)	
		OC-3		4.50 FAR or 50% over base (R and C zones)	3 stories/33 feet up to 7 total stories (R and C zones)	
Opportunity Corridors Transition Area Incentive Program** (**CT**)	Complement OC with adjacent lower-scale infill (or "missing middle") development. Tiers reflect proximity to OC corridor incentive areas, with increasing incentives availabile in tiers closer to OC areas.	CT-1	Up to 6 Units per Lot	1.30 FAR for 5 units per lot + 0.15 FAR for each additional unit	2 stories	ELI, VLI, LI, MI Set-aside requirements to be determined; tested 1- or 2-affordable units per lot.
		CT-2	Up to 10 Units Per Lot	1.30 FAR for 5 units per lot + 0.15 FAR for each additional unit	3 stories	

**Maximum FAR incentive calculated as greatest of the options shown.*
*** A CT project that includes a minimum of 40% of total Residential Units as 2-bedrooms or larger, shall be granted either additional Floor Area up to 0.5 FAR or an additional 11 feet in height.*
Note: The table shows incentive levels as tested for the purposes of this analysis. Note that the programs are still under development and the incentive levels tested may not reflect the City's final policy decisions.
Source: AECOM

1.2 Overview of the Approach

This section provides a brief overview of the approach used in this analysis. Additional details on the framework for the analysis and the methodology are provided in Chapters 2 and 3.

1.2.1 Analytical Framework

AECOM's Market Analysis, which was prepared and submitted in a separate report in May 2024,[1] created a framework for the CHIP Program Economic Analysis by establishing the following three structures:

- **Market Tiers**: AECOM classified the City's local housing markets into 'Market Tiers' that are used to organize and apply various underlying market factors (e.g., rents, sales prices, land costs) that contribute to development potential on residential opportunity sites throughout Los Angeles. The following four Market Tiers were defined, each characterized by their relative market strength:
    - Market Tier 1 (Low)
    - Market Tier 2 (Medium/Low)
    - Market Tier 3 (Medium/High)
    - Market Tier 4 (High)
- **Density Cohorts**: Density cohorts are logical groupings of maximum allowed density levels that represent the wide variety of general zone classes, specific zoning limitations, height districts, and other site-specific regulations and requirements that allow a great diversity of form, scale, and density of housing across Los Angeles.
- **Development Prototypes:** Development prototypes are representative real estate projects that were tested for financial feasibility in the analysis. Prototypes were generally tested under the base condition (i.e., 100%-market-rate, by-right project that does not use CHIP program incentives) and various incentive program scenarios (i.e., projects that provide affordable housing set-asides in return for corresponding density bonuses or other incentives).

1.2.2 Financial Analysis Methodology

The analysis of CHIP program economics uses a pro forma model to evaluate the impacts of proposed program parameters on project returns. The model is designed to consider programming parameters including density bonuses, height and FAR maximums, and affordable set-asides. AECOM worked closely with City Staff to develop various combinations of affordable housing set-asides and corresponding incentives for all four CHIP programs. These combinations are referred to as **incentive program scenarios** throughout this analysis and represent some of the zoning levers that can impact development feasibility.

The measure of financial return used in the analysis is **residual land value (RLV)**. RLV analysis is a common approach used in planning exercises to explore and compare financial outcomes of policy proposals. RLV is the amount that remains after estimated project cost is deducted from estimated project value and represents the amount a developer should be willing to pay for land.

[1] "Task 3: Market Analysis: Market & Economic Study for the Density Bonus Ordinance Update and RHNA Rezoning Program," developed by AECOM for LACP, May 2024.

There are two RLV standards used to gauge the expected financial outcomes of the incentive program scenarios tested in this analysis: “feasibility” and “preferability.”

- **Feasibility**. For the purposes of this analysis, feasibility is a determination of whether the incentive program scenario generates estimated **RLV that is consistent with market land value**. If a scenario generates RLV that is equivalent to or greater than the market standard, it is considered feasible.
- **Preferability**. For the purposes of this analysis, preferability tests whether the incentive program scenario generates **RLV that is greater than a base case scenario**, where the base case scenario is a 100%-market-rate, by-right project that does not use CHIP program incentives. If the incentive program scenario generates an RLV that is equivalent to or greater than the base case, it is considered preferable.

1.2.3 Limitations of the Analysis

This study aims to provide policy makers with insights into the potential economic dynamics of proposed programs and program elements, the trade-offs that may be inherent in different options, and the options that may be available to enhance them. The study is based on estimates, assumptions, and other information developed by AECOM from its independent research effort, general knowledge of the industry, and information provided by and consultations with the Client and the Client’s representatives. Every attempt has been made to broadly reflect the variety of future residential development activity that will be impacted by these programs.

Because of the wide range of development options available to residential developers (both proven options and options yet to be developed), the size and diversity of the City of Los Angeles, its submarkets, and its development opportunity sites, the findings herein represent at best a snapshot of a dynamic and changing market. Actual and future results and trends could differ materially from those set forth here due to various factors, including, without limitation, those discussed in the report. These factors are beyond AECOM’s ability to control or predict. Accordingly, AECOM makes no warranty or representation that any of the projected values or results contained in this study will be achieved.

Note that this report does not include analysis of replacement unit requirements or associated costs. The analysis assumes that development sites are acquired based on their land value, with minimal to no acquisition costs for any existing buildings, and that the scenarios would provide enough affordable housing to meet any requirements for replacement units. Actual costs to replace existing units may vary depending on lot conditions and locations, they could further impact the feasibility and attractiveness of the programs.

The findings in this report are specific to the incentive program parameters tested, as well as to the specific prototypes and site conditions tested. While the report suggests implications for policy, ultimately the appropriate tradeoff between affordability requirements and development feasibility is a policy decision for the City rather than an analytical decision.

1.3 Summary of Findings

This section describes key findings from the analysis, organized by incentive program. As general context, it is important to note the following findings:

- Incentive program scenarios tested are generally most feasible in **Market Tier 4** (high market strength)
- There is more limited feasibility for certain incentive program scenarios in **Market Tier 2** (medium/low market strength) and **Market Tier 3** (medium/high market strength).

- None of the incentive program scenarios tested were feasible in **Market Tier 1** (low market strength).

These findings are broadly consistent with current observed market activity, which indicates that under today's market conditions, development projects are generally only feasible in stronger markets. Current market conditions are particularly challenging for development, given extreme inflationary pressure on construction materials since 2020 and mortgage rates that remain above recent averages.[2]

While market conditions will change over time, as a general observation, the higher density levels associated with incentive zoning programs are more valuable in stronger residential submarkets such as those represented in Market Tiers 2, 3 and especially 4. In other words, in stronger submarkets, the additional units allowed through incentive programs can more easily generate value that exceeds the cost of setting aside additional affordable units. In weaker submarkets, the value generated by the additional units is less likely to overcome market rental or sale conditions and the cost of the affordable housing set-asides.

1.3.1 DBO Update

The City's Density Bonus Ordinance (DBO), an implementation of the State Density Bonus Law (SDBL), has been effective since 2008. Since 2008, more than a dozen state bills have significantly amended State Density Bonus Law (CA Govt. Code Sections 65915-65918). To date, these changes have been implemented in the City through a range of administrative Implementation Memorandums. The proposed update to DBO will bring the City into alignment with revisions to State Density Bonus Law. The update also incorporates density bonuses and affordability requirements available through State Assembly Bill 1287 (AB1287).

A key distinction between DBO and the three programs that comprise the Mixed Income Incentive Program is that affordability set-aside percentages required in DBO are calculated on the base number of units allowed by-right, whereas Mixed Income Incentive Program projects are calculated on the total units, including units granted by the development incentives.

Key findings about the DBO program include:

- **In Market Tiers 3 and 4, many for-rent incentive program scenarios are not only feasible, but preferable to the base case 100% market-rate scenario.** In most for-sale scenarios, the added density does not provide sufficient value to outweigh the additional costs associated with providing additional affordable set-aside units given current market conditions. However, one for-sale scenario (100% density bonus with a 15% VLI/15% MI set aside) was preferable to the base case across multiple prototypes in Market Tier 4.
- **Developers that take advantage of the DBO program in stronger markets are likely to choose set-aside pathways that provide VLI units.** VLI units generate less revenue *per unit* than LI. However, projects that provide VLI units can set aside fewer total affordable units compared to projects that include LI units. In Market Tier 4, the per unit effect of VLI units is offset by the revenue generated by additional market-rate units , compared to projects that provide LI units.[3]

[2] The ULA tax, effective since April 2023, also has an impact on returns for larger (>$5 million in value) projects, although its effect was moderated in the model by assuming that a variety of adjustments in the market would result in a 5% reduction in total costs for projects subject to the ULA.

[3] In Market Tier 1, at the other end of the spectrum, LI unit pathways generate higher residual land values compared to VLI pathways because there is a smaller gap in rents between market-rate and LI units.

1.3.2 Mixed-Income Incentive Program

The Mixed Income Incentive Program focuses on establishing mixed income housing incentives along certain major street corridors, including tools to encourage the construction of various types of “low scale/low rise” housing to create transitions between single-family homes and mid-rise apartment buildings. These “Opportunity Corridor” and “Corridor Transition” incentives will be available for projects located in the City’s High and Highest Resource Areas as defined by the CTCAC/HCD Opportunity Area Maps. Additionally, the Mixed Income Incentive Program includes the proposed TOIA program, which will codify key elements of the Transit Oriented Communities Affordable Housing Incentive Guidelines for sites near transit citywide.

Transit Oriented Incentive Area Program

TOIA provides density bonus incentives in exchange for affordable housing set-asides in mixed-income residential projects near transit nodes. Both the set-aside requirements and available bonuses increase by TOIA Tiers, where TOIA Tier 1 represents the furthest distance from a Major Transit Stop and Tier 4 the shortest distance from a Major Transit Stop.

The City is proposing to integrate this program as a local implementation of Density Bonus law, and the TOIA program aims to increase available density bonuses beyond current standards, building off recent changes to state law (AB 1287) which expanded density bonuses in the state density bonus program to up to 100 percent. The proposed TOIA also includes expanding procedures for applicants to request off-menu incentives, which is an option that is not available through the existing Transit Oriented Communities (TOC) program.

Key findings about the TOIA include:

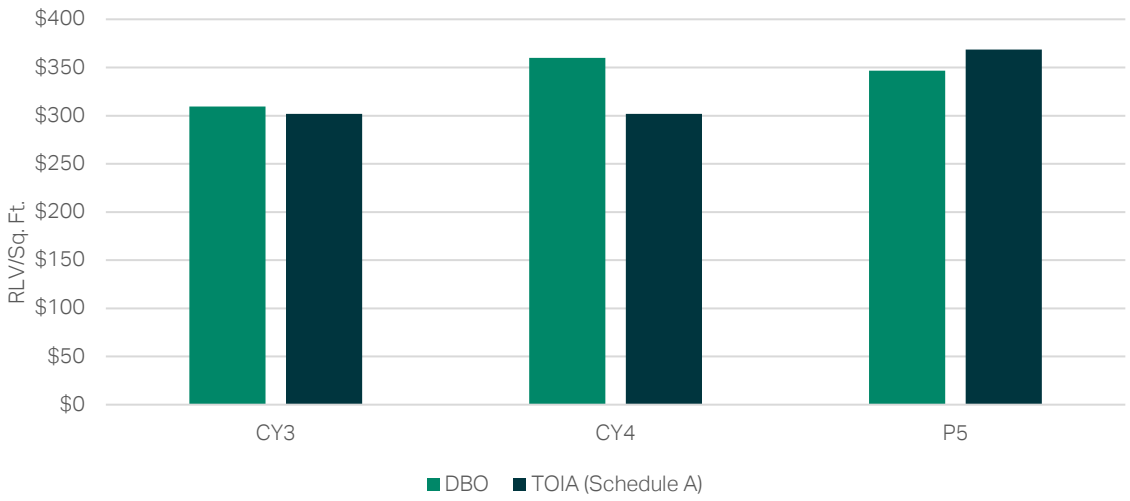
- **Overall, the TOIA incentives and associated set-aside requirements should help produce more market-rate and affordable units than would otherwise be feasible.** The analysis of proposed density bonus and affordability parameters for the City’s TOIA program show that the scheduled incentives should provide developer applicants with preferred returns in Market 4 and, to a lesser extent, Market Tier 3 areas.
- **However, the ultimate impact of the program will depend on the set-aside schedule selected.** The City is considering a variety of potential set-aside schedules, which could take the form of a single-tier program structure applied consistently across the City, or a multi-tier program structure with different set-aside requirements applied in each Market Tier. The analysis found that scenario feasibility is very sensitive to increased affordable set-asides.
- **TOIA scenarios in Market Tier 4 result in feasible prototypes across density cohorts, even with increased affordability set-aside requirements.** Under the market conditions modeled, this is the only market tier that clearly supports the higher levels of set-asides tested. Increasing set-aside requirements could result in fewer projects being built, particularly in places with weaker market conditions, offsetting some of the potential affordable housing production gains that the proposed TOIA enhancements seek to provide.
- **TOIA Schedule A – the schedule with the lowest set-asides tested – produces similar development returns compared to DBO in residential zoned areas.**[4] Figure 1 shows the highest residual land values achieved by prototype on residential zoned land in Market Tier 4 under TOIA Schedule A, compared to the DBO program. As tested, DBO projects generate higher RLVs for courtyard projects – suggesting that a profit-

[4] Note that DBO was only tested on residential zoned sites, based on an analysis of recently completed projects that showed that the majority of DBO projects occurred in residential zones (whereas projects in commercial zones were more likely to take advantage of the TOC program, the predecessor to the proposed TOIA program).

seeking developer may be more likely to take advantage of the DBO program where both are available. However, TOIA Schedule A generates higher returns for the P5 prototype.

- **While TOIA offers higher density bonuses than DBO, the financial benefit for applicants is in part offset by the method of calculating affordable set-aside units for TOIA.** The TOIA program calculates affordability set-aside requirements on the total number of units per project. This is a shift from DBO which calculates set-aside requirements as a percentage of units allowed under density limits tied to a site's base zoning condition. In other words, whereas all bonus units are market-rate under DBO, some of the bonus units are required to be set-aside as affordable under TOIA.
- **In some cases, TOIA project feasibility may also be affected by counting above-ground parking against FAR, although developers may partially offset the impact by reducing parking ratios.** TOIA projects are generally limited by FAR rather than density, so counting above-ground parking as part of FAR has a more significant impact on TOIA projects compared to the DBO program, where density is generally the limiting factor. However, reducing FAR incentives for the DBO program could affect this relationship and the relative feasibility of the two programs.

Figure 1. Highest RLV Achieved by Prototype: DBO v. TOIA Schedule A in Market Tier 4



Comparison shows rental prototypes in residential zones.
Source: AECOM

- **Developers who take advantage of the TOIA program in stronger markets are likely to build ELI units.** ELI units generate less revenue *per unit* than LI or VLI. However, ELI projects still generate higher overall returns because projects that provide ELI units are required to provide fewer affordable units, compared to projects that provide LI or VLI units. This is consistent with the City's experience that most projects that have utilized the existing TOC program have built ELI units.[5]

Opportunity Corridors Incentive Program

The City's proposed OC program advances a holistic vision for livable and sustainable communities by increasing housing capacity along major streets located in Higher Opportunity Areas. This strategy will focus new housing opportunities on major corridors, particularly those with transit access, to provide affordable housing options near transit and amenities. Incentives

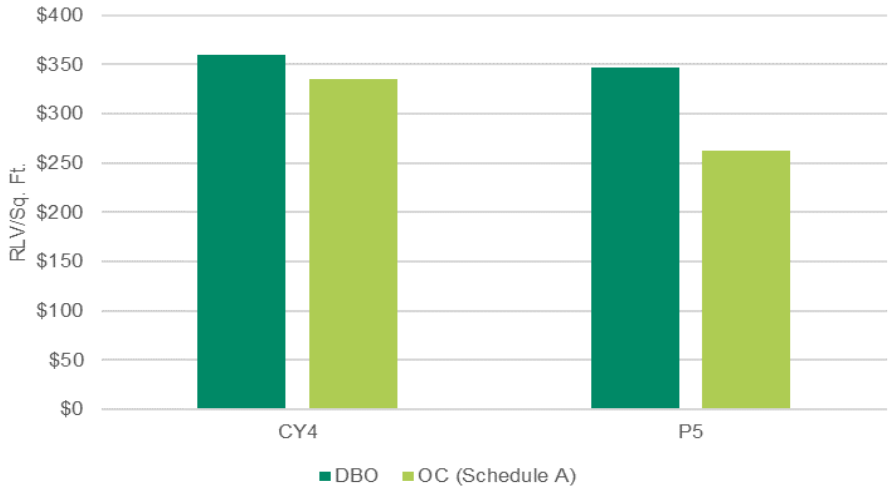
[5] In Market Tier 1, at the other end of the spectrum, ELI unit pathways generate higher residual land values compared to LI/VLI pathways because there is a smaller gap between market-rate and VLI/LI units.

available in the OC program would be provided generally in excess of incentives available in the DBO and TOIA programs.

Key findings about the OC program are described below:

- **The OC incentives and associated set-aside requirements may help produce more market-rate and affordable units than would otherwise be feasible under current market conditions.** The analysis of the proposed OC program indicates the proposed incentives create sufficient value for developer applicants to acquire and redevelop land in Market Tier 4 across OC areas – and, to a lesser extent, in Market Tier 3.
- **Similar to TOIA, the ultimate impact of the OC program will depend on the set-aside schedule selected.** For OC, the City is considering a multi-tier program structure with different set-aside requirements applied in each Market Tier. The analysis tested a variety of set-aside schedules. Similar to TOIA, scenario feasibility is sensitive to increased affordable set-asides, suggesting that increased set-aside requirements could reduce the number of projects built in lower Market Tiers, and offset the affordable housing production gains from the proposed OC enhancements. Under the scenarios and market conditions modeled, only Market Tier 4 clearly supports the higher set-aside levels tested.
- **However, in areas zoned for residential, developers may elect to pursue DBO rather than OC as currently proposed, although the decision will ultimately depend on the underlying zoning and other project specifics.** Figure 2 shows the highest residual land values achieved by prototype on residential zoned land in Market Tier 4 under OC Schedule A, compared to the DBO program. As tested, DBO projects generate slightly higher RLVs for across prototypes–suggesting that a profit-seeking developer may be more likely to take advantage of the DBO program in some cases. Similar to TOIA, while OC offers higher density bonuses than DBO, the financial benefit for applicants is in part offset by the method of calculating affordable set-aside units for OC. In addition, the FAR limits associated with OC limit the total building footprint that the prototypes can achieve, whereas the sites tested for DBO on residential parcels could generally achieve higher densities within the density and FAR bonuses allowed. Ultimately, however, the comparison between programs will depend in part on the specific zoning district where the parcel is located. For example, reducing FAR incentives for the DBO program could affect this relationship and the relative feasibility of the two programs.

Figure 2. Highest RLV Achieved by Prototype: DBO v. OC (Schedule A) in Market Tier 4



Comparison shows rental prototypes in residential zones. CY4 and P5 were tested with OC-1 and OC-2 Tiers, respectively.
Source: AECOM

- **Developers who take advantage of the OC program in stronger market areas are likely to build ELI units.** ELI units generate less revenue *per unit* than LI or VLI. However, ELI projects still generate higher overall returns in Market Tier 4 because projects that provide ELI units are required to provide fewer affordable units, compared to projects that provide LI or VLI units. This is consistent with the City's experience that most projects that have utilized the existing TOC program have built ELI units.[6]

Opportunity Corridor Transition Incentive Program

The City's proposed CT program builds on the proposed OC program's vision for livable and sustainable communities with increased housing capacity along major streets located in Higher Opportunity Areas. The proposed CT is the City's strategy for promoting a diversity of lower-scale housing typologies.

CT is an incentive-based program designed to fill the gap in housing options that exists between detached single-family homes and the type of mid-rise apartment buildings expected to be developed behind Opportunity Corridors. CT tiers generally reflect proximity to OC corridor incentive areas. CT-2 is located closer to the corridors and provides density bonuses up to 10 units per parcel. CT-1 is located farther from the corridors and provides density incentives up to 6 units per parcel.

Key findings about the CT program include:

- **The CT incentive program may produce housing products that are not commonly built in LA under current conditions.** This includes rental rowhouses and courtyard apartments–two housing typologies that have historical precedent in LA but have not been commonly built since at least 2000.[7] Analysis of the proposed Corridor Transition program indicates the proposed incentives create sufficient value for developer applicants to acquire and redevelop land in Market Tiers 3 and 4 in the CT-2 incentive area, and to a more limited extent in the CT-1 area.
- **Affordable set-asides have a bigger impact on feasibility for smaller-scale CT-1 typologies than for larger-scale CT-2 projects.** In this analysis, The CT-2 typologies (courtyard projects) typically generated higher RLVs than the CT-1 typologies (fourplexes, row houses, and townhomes). Townhomes have long been validated by the market and can be constructed efficiently without the use of structured or subterranean parking. However, it is more challenging for smaller-scale CT-1 projects to bear the cost of set-aside units. Even in Market Tier 4, CT-1 feasibility is generally limited to projects that set-aside just one MI unit.
- **To enable a relatively broad range of projects to take advantage of the CT program, the City could consider requiring set asides as follows:**
    - CT-1: 1 MI unit per lot (rental projects), or 2 MI units per lot (for-sale projects).
    - CT-2: 1 ELI unit or 2 VLI units per lot (rental projects), or 2 MI units per lot (for-sale projects)

    At these set-aside levels, prototypes are generally feasible in Market Tier 4 under current market conditions, and a more limited set of prototypes are feasible in Market Tier 2 and 3.

Note that the CT results are not directly comparable with the DBO results, because the CT prototypes are assumed to occur on different size lots (that reflect conditions on CT-eligible

[6] In Market Tier 1, at the other end of the spectrum, ELI unit pathways generate higher residual land values compared to LI/VLI pathways because there is a smaller gap between market-rate and VLI/LI units.

[7] See analysis of housing typologies in "Task 3: Market Analysis: Market & Economic Study for the Density Bonus Ordinance Update and RHNA Rezoning Program," developed by AECOM for LACP, May 2024.

parcels, rather than citywide averages) and, in the case of townhomes and rowhomes, have reduced parking ratios as a result of FAR limitations. In addition, parcels that are eligible for CT may not be eligible for DBO.

1.4 Report Organization

Following this introduction, the remainder of this report is organized as follows:

- **Chapter 2** summarizes key outcomes from the Market Analysis, which created a framework for the CHIP Program Economic Analysis by establishing Market Tiers, Density Cohorts, and Development Prototypes.
- **Chapter 3** describes the methodology used to test the expected financial outcomes of the programs.
- **Chapters 4 through 7** analyze the feasibility of a proposed update to the DBO, TOIA, OC, and CT programs, respectively.
- **Chapter 8** concludes with a discussion of key findings and policy implications.

2. Analytical Framework

Chapter 2 summarizes the methodology of AECOM's Market Analysis, which was prepared and submitted in a separate report in May 2024.[8] The Market Analysis created a framework for the CHIP Program Economic Analysis by establishing the following three structures:

- **Market Tiers**: AECOM classified the City's local housing markets into 'Market Tiers' characterized by their relative market strength. These Market Tiers are used to organize and apply various underlying market factors (e.g., rents, sales prices, land costs) that contribute to development potential on residential opportunity sites throughout Los Angeles.
- **Density Cohorts**: Density cohorts are logical groupings of maximum allowed density levels that represent the wide variety of general zone classes, specific zoning limitations, height districts, and other site-specific regulations and requirements that allow a great diversity of form, scale, and density of housing across Los Angeles.
- **Development Prototypes:** Development prototypes are representative real estate projects that were tested for financial feasibility in the analysis. Prototypes were tested under a base condition (i.e., 100%-market-rate, by-right project that does not use CHIP program incentives) and various incentive program scenarios (i.e., projects that provide affordable housing set-asides in return for corresponding density bonuses or other incentives).

Each of these frameworks is described in detail below. The categories defined within each structure are specific to this study and do not reflect categories currently defined by City regulations. The three frameworks are used throughout the report to define representative properties and streamline the analysis, to help the City understand the potential impact of the proposed incentive programs on as many property types as possible.

2.1 Market Tiers

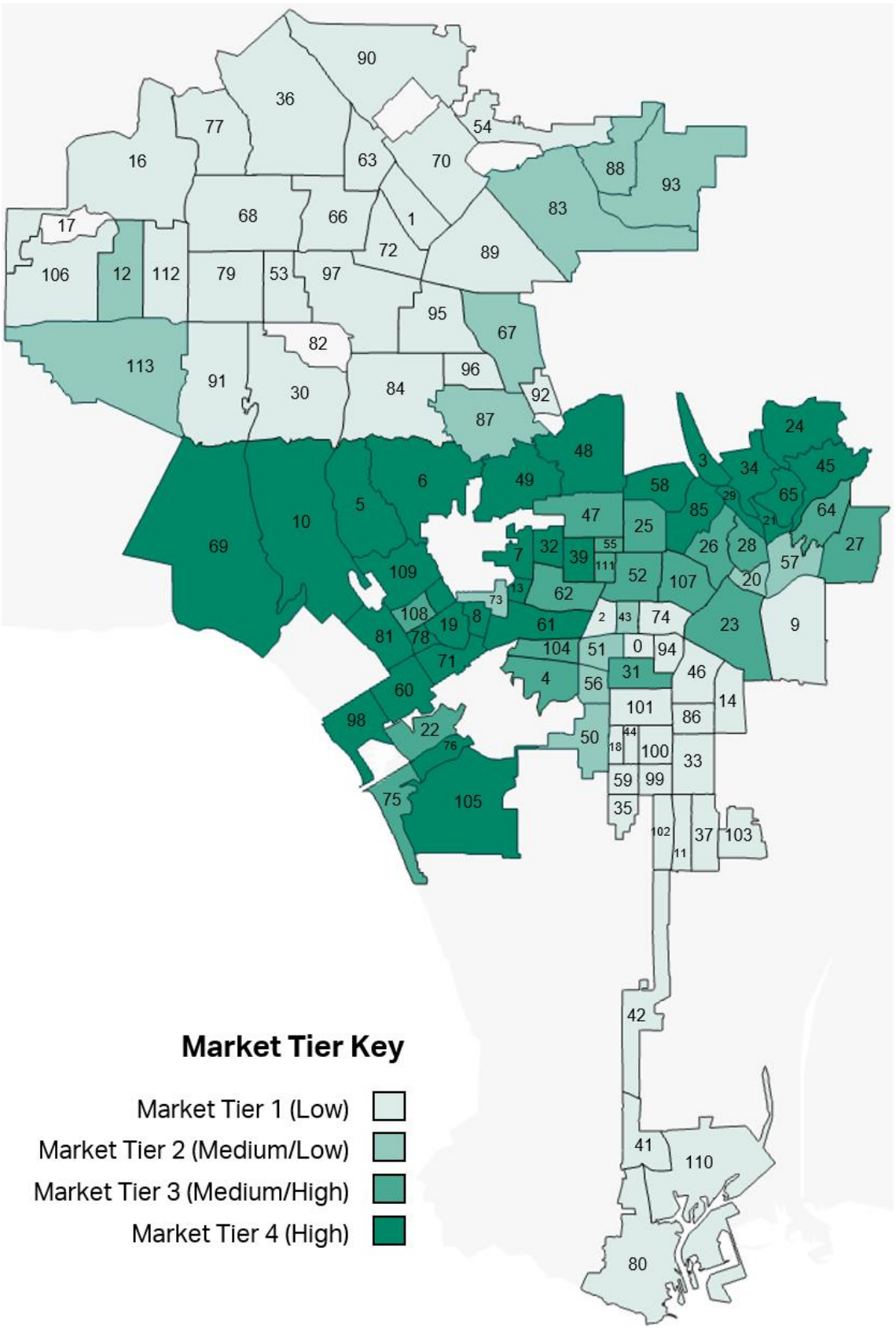
The market tier map used in the feasibility analyses is shown below, as defined in the Market Analysis produced for LACP in May 2024. The Market Analysis report defines and analyzes the following four market tiers, which range from low to high and are intended to represent the relative strength of the residential market in different geographies across the City. As described in the Market Analysis report, the market tiers are based on an index that accounts for rents and for-sale prices of recently built housing, as well as the relative production of rental and for-sale housing over the past 10 years.

- Market Tier 1 (Low)
- Market Tier 2 (Medium/Low)
- Market Tier 3 (Medium/High)
- Market Tier 4 (High)

The legend below the map shows the name of each neighborhood that corresponds to the number labels used in the map, as well as the Community Planning Area (CPA) that each neighborhood falls primarily within. Additional information about the market tier analysis including the geographic unit of analysis, underlying methodology used to define the market tiers, and key findings can be found in the Market Analysis report[9].

[8] "Task 3: Market Analysis: Market & Economic Study for the Density Bonus Ordinance Update and RHNA Rezoning Program," developed by AECOM for LACP, May 2024.

Figure 3. Market Tiers by Neighborhood Area Map



Source: Los Angeles Times, AECOM

Figure 4. Market Tiers by Neighborhood Area Key

#	Neighborhood	Primary CPA
0	Adams-Normandie	South Los Angeles
1	Arleta	Arleta - Pacoima
2	Arlington Heights	West Adams - Baldwin Hills - Leimert
3	Atwater Village	Northeast Los Angeles
4	Baldwin Hills/Crenshaw	West Adams - Baldwin Hills - Leimert
5	Bel-Air	Bel Air - Beverly Crest
6	Beverly Crest	Bel Air - Beverly Crest
7	Beverly Grove	Wilshire
8	Beverlywood	West Los Angeles
9	Boyle Heights	Boyle Heights
10	Brentwood	Brentwood - Pacific Palisades
11	Broadway-Manchester	Southeast Los Angeles
12	Canoga Park	Canoga Park - Winnetka - Woodland Hills - West Hills
13	Carthay	Wilshire
14	Central-Alameda	Southeast Los Angeles
15	Century City	West Los Angeles
16	Chatsworth	Chatsworth - Porter Ranch
17	Chatsworth Reservoir	Chatsworth - Porter Ranch
18	Chesterfield Square	South Los Angeles
19	Cheviot Hills	West Los Angeles
20	Chinatown	Central City North
21	Cypress Park	Northeast Los Angeles
22	Del Rey	Palms - Mar Vista - Del Rey
23	Downtown	Central City
24	Eagle Rock	Northeast Los Angeles
25	East Hollywood	Hollywood
26	Echo Park	Silver Lake - Echo Park - Elysian Valley
27	El Sereno	Northeast Los Angeles
28	Elysian Park	Silver Lake - Echo Park - Elysian Valley
29	Elysian Valley	Silver Lake - Echo Park - Elysian Valley
30	Encino	Encino - Tarzana
31	Exposition Park	South Los Angeles
32	Fairfax	Wilshire
33	Florence	Southeast Los Angeles
34	Glassell Park	Northeast Los Angeles
35	Gramercy Park	South Los Angeles
36	Granada Hills	Granada Hills - Knollwood
37	Green Meadows	Southeast Los Angeles
38	Griffith Park	Hollywood
39	Hancock Park	Wilshire
40	Hansen Dam	Arleta - Pacoima
41	Harbor City	Wilmington - Harbor City
42	Harbor Gateway	Harbor Gateway
43	Harvard Heights	South Los Angeles
44	Harvard Park	South Los Angeles
45	Highland Park	Northeast Los Angeles
46	Historic South-Central	Southeast Los Angeles
47	Hollywood	Hollywood
48	Hollywood Hills	Hollywood
49	Hollywood Hills West	Hollywood
50	Hyde Park	West Adams - Baldwin Hills - Leimert
51	Jefferson Park	West Adams - Baldwin Hills - Leimert
52	Koreatown	Wilshire
53	Lake Balboa	Reseda - West Van Nuys
54	Lake View Terrace	Sunland - Tujunga - Lake View Terrace - Shadow Hills - East La Tuna Canyon
55	Larchmont	Wilshire
56	Leimert Park	West Adams - Baldwin Hills - Leimert
57	Lincoln Heights	Northeast Los Angeles
58	Los Feliz	Hollywood
59	Manchester Square	South Los Angeles
60	Mar Vista	Palms - Mar Vista - Del Rey
61	Mid-City	West Adams - Baldwin Hills - Leimert
62	Mid-Wilshire	Wilshire
63	Mission Hills	Mission Hills - Panorama City - North Hills
64	Montecito Heights	Northeast Los Angeles
65	Mount Washington	Northeast Los Angeles
66	North Hills	Mission Hills - Panorama City - North Hills
67	North Hollywood	North Hollywood - Valley Village
68	Northridge	Northridge
69	Pacific Palisades	Brentwood - Pacific Palisades
70	Pacoima	Arleta - Pacoima
71	Palms	Palms - Mar Vista - Del Rey
72	Panorama City	Mission Hills - Panorama City - North Hills
73	Pico-Robertson	Wilshire
74	Pico-Union	South Los Angeles
75	Playa del Rey	Westchester - Playa del Rey
76	Playa Vista	Westchester - Playa del Rey
77	Porter Ranch	Chatsworth - Porter Ranch
78	Rancho Park	West Los Angeles
79	Reseda	Reseda - West Van Nuys
80	San Pedro	San Pedro
81	Sawtelle	West Los Angeles
82	Sepulveda Basin	Encino - Tarzana
83	Shadow Hills	Sunland - Tujunga - Lake View Terrace - Shadow Hills - East La Tuna Canyon
84	Sherman Oaks	Sherman Oaks - Studio City - Toluca Lake - Cahuenga Pass
85	Silver Lake	Silver Lake - Echo Park - Elysian Valley
86	South Park	Southeast Los Angeles
87	Studio City	Sherman Oaks - Studio City - Toluca Lake - Cahuenga Pass
88	Sunland	Sunland - Tujunga - Lake View Terrace - Shadow Hills - East La Tuna Canyon
89	Sun Valley	Sun Valley - La Tuna Canyon
90	Sylmar	Sylmar
91	Tarzana	Encino - Tarzana
92	Toluca Lake	Sherman Oaks - Studio City - Toluca Lake - Cahuenga Pass
93	Tujunga	Sunland - Tujunga - Lake View Terrace - Shadow Hills - East La Tuna Canyon
94	University Park	South Los Angeles
95	Valley Glen	Van Nuys - North Sherman Oaks
96	Valley Village	North Hollywood - Valley Village
97	Van Nuys	Van Nuys - North Sherman Oaks
98	Venice	Venice
99	Vermont Knolls	South Los Angeles
100	Vermont-Slauson	South Los Angeles
101	Vermont Square	South Los Angeles
102	Vermont Vista	South Los Angeles
103	Watts	Southeast Los Angeles
104	West Adams	West Adams - Baldwin Hills - Leimert
105	Westchester	Los Angeles International Airport
106	West Hills	Canoga Park - Winnetka - Woodland Hills - West Hills
107	Westlake	Westlake
108	West Los Angeles	West Los Angeles
109	Westwood	Westwood
110	Wilmington	Wilmington - Harbor City
111	Windsor Square	Wilshire
112	Winnetka	Canoga Park - Winnetka - Woodland Hills - West Hills
113	Woodland Hills	Canoga Park - Winnetka - Woodland Hills - West Hills

Source: Los Angeles Times, AECOM

2.2 Density Cohort Framework

This analysis uses a framework of density cohorts as a basis for organizing site conditions in a way that generally reflects housing typologies allowed by base zoning conditions.

This organizing framework is helpful in simplifying the wide variety of general zone classes, specific zoning limitations, height districts, other site-specific regulations, requirements and their many combinations, that allowed such a great diversity of form, scale, and density of housing types across the City .The density cohorts are designed to represent categories of typical density ranges (dwelling units per acre, or DU/AC) allowed by base zoning classes across Los Angeles. The specific density ranges for each cohort are based on the density groups identified in Chapter 3 of the City's Framework Element (Policy 3.7.1), as well as an analysis of maximum allowed densities for parcels identified in the City's Housing Element Site Inventory.

Table 2 below shows the five density cohorts explored in this report, which include: Low Medium I, Low Medium II, Medium, High Medium, High. For context on the prevalence of each density cohort within the City, Table 3 also shows the total land area and estimated unbuilt capacity on Housing Element sites by density cohort. The "Other" Cohort includes parcels that do not have a specified maximum density in the site inventory (e.g., MU zones) or are located in zones that are not necessarily for residential uses (e.g., OS zones).

Table 2. Density Cohorts and City of LA Housing Element Site Inventory Distribution

Density Cohort	Max Base Density Range (DUAC)	Land Area (AC)	% of Land Area of Total	Unbuilt Capacity (Units)	Unbuilt Capacity %
Low Medium I	10 - 17	5,693	18.1%	42,465	3.4%
Low Medium II	18 - 29	6,442	20.4%	93,554	7.5%
Medium	30 - 55	5,922	18.8%	190,473	15.3%
High Medium	56 - 109	8,840	28.0%	886,182	71.1%
High Medium	110 - 218	148	0.5%	27,939	2.2%
Others	N/A	4,483	14.2%	5,776	0.5%
Total		31,528	100.0%	1,246,389	100.0%

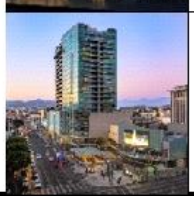
Source: City of Los Angeles Department of City Planning (LACP), AECOM

2.3 Development Prototypes

As part of the previous Market Analysis, AECOM created an inventory of housing typologies based on various types of housing currently being developed in the City. This inventory was supplemented by housing concepts more common in other parts of the country (e.g., row houses, triple decker), aspirational housing developments found in other parts of southern California (e.g., medium-density courtyard-style apartments emerging from Pasadena's City of Gardens Ordinance), as well as various historical forms and use concepts more reminiscent of different eras of LA's past (e.g., bungalow courts, "dingbat" apartments).

AECOM worked closely with City staff to distill these housing concepts into a shortlist of housing typologies to consider for feasibility testing. Table 3 below shows the final list of prototypes selected with the City for testing, organized by density cohort. The typologies were selected to be broadly representative of the types of housing development likely to be built in the near future based on recent development trends, real estate trends, and an understanding of the design guidelines, desired built form, proposed program parameters, and policy goals of the CHIP incentive programs analyzed in this report.

Table 3. Overview of Prototypes Tested by Program

Prototype Overview							
Density Cohort (Density Range)	Prototype			CHIP Program Testing by Tenure			
	Representative Image	Abbreviation Description (Typical Density)	Parking Strategy (Parking Ratio)	DBO	TOIA	OC	CT
Low Medium II (18-29 DUAC)		4D Plex Style (10-35 DUAC)	Attached Garage & Surface parking (2 Spaces/Unit)		For Rent		For Rent
		TH Townhomes (15 - 30 DUAC)	Tuck-Under Garage (2 Spaces/Unit)	For Sale			For Sale
		RH Rowhouse (15 - 30 DUAC)	Tuck-Under Garage (0.4 Spaces/Bedroom)	For Rent			For Rent
Medium (30-55 DUAC)		CY3 3-Story Courtyard (35 - 75 DUAC)	Subterranean Parking (0.6 Spaces/Bedroom)	For Rent	For Rent		For Rent & For Sale
		CY4 4-Story Courtyard (50 - 105 DUAC)		For Rent	For Rent	For Rent	
High Medium (56-109 DUAC)		P5 5/6-Story Podium (80 - 170 DUAC)	Podium Parking &Subterranean Parking (0.9/BR)	For Rent	For Rent	For Rent	
High (110-218 DUAC)		P7 Single-Use/Mixed-Use 7-Story Podium[1] (155 - 200 DUAC)		For Rent	For Rent	For Rent	
		TW Single-Use/Mixed-Use Tower[1] (110 - 218 DUAC)	Podium Parking &Subterranean Parking (0.9/BR)	For Rent	For Rent		

**Note that the TW prototype is limited to a height of 28 stories. Based on discussion with City staff, this represents the maximum height limit likely to be achieved outside of Downtown Los Angeles.*
Source: AECOM

In finalizing the list of prototypes for testing, a primary goal was to test at least one prototype in each density cohort. This approach ensured that the final list of prototypes is broadly representative of the base conditions present in the City, as well as the range of multifamily development expected to be developed in the City over the next eight years. Note, however, that in some cases the typical density ranges for each prototype span several density cohorts. These prototypical density ranges represent the typical, market-supported range of densities that each prototype can accommodate while maintaining the main characteristics of its base form. Identifying a prototype density range allows flexibility to be built into the model as some prototypes may be able to accommodate additional units associated with an incentive program while retaining the main characteristics of the underlying prototype.

Table 4 below shows the typical unit sizes and unit mixes assumed for each prototype. Note that for CY3, CY4, and P5 prototypes, two versions of each prototype are provided based on market research and the assumption that as allowable density increases, developers prioritize design changes (e.g., smaller unit size or smaller units in the unit mix to achieve a higher density product) rather than construction type changes to improve profitability while keeping the same construction method and associated costs.

Under state law, developer applicants that utilize the DBO are entitled to reduce parking below required minimums. However, in recent general practice developers frequently do not take full advantage of this incentive because of concerns about securing competitive financing for under-parked projects given typical debt and equity underwriting requirements, as well as the ability to market these properties once constructed. Consequently, AECOM's analysis generally reflects typical market parking ratios rather than statutory minimum parking requirements. Parking ratio assumptions (Table 5) were determined by analyzing the same database used to derive the proforma test typologies.[9] Above-ground parking was counted in the FAR for all projects.

Table 4. DBO, TOIA, and OC Parking Assumptions by Prototype

Parking Assumptions							
	4D	TH	CY3	CY4	P5	P7	TW
Associated Density Cohort	Low-Med.II	Low-Med.II	Medium	Medium	High-Med.	High	High
Typology Description	Plex-Style	Townhome	3-story Courtyard-style	4-story Courtyard-style	5/6-Story Podium	7/8-Story Podium	Tower
Use Program	Residential	Residential	Residential	Residential	Residential	Residential	Residential
Parking Strategy	Surface &Tuck-Under	Tuck-Under	Underground	Underground	Underground &Podium	Underground &Podium	Underground &Podium
Parking Ratio (spaces/bedroom)	2 per Unit	2 per Unit	0.60	0.60	0.90	0.90	0.90

For CT, reduced parking assumptions were tested for townhouse and rowhouse prototypes.
Source: CoStar, AECOM

Chapter 3 discusses the methodology for "stepping up" from the base case for each prototype (i.e., 100%-market-rate, by-right projects that do not use CHIP program incentives), to incentive program scenarios (i.e., projects that provide affordable housing set-asides in return for corresponding incentives).

For each incentive program, a subset of relevant prototypes were selected, and the prototypes are assigned a specific site size and zoning designation that represents where the incentive programs are most likely to be utilized. Note that additional adjustments to the prototypes were made during the analysis for each respective CHIP incentive program, to reflect the typical site conditions of properties that are most likely to take advantage of the different programs. These

[9] It should be noted that most examples in the database from which parking assumptions were derived are DBO and TOC projects, and that the parking rates used by these projects were no different from the non-DBO and non-TOC examples. Reduced parking assumptions were tested for rowhouses and townhouses for the CT program; see Section 7.3.3 for discussion.

adjustments are discussed in the following chapters, and detailed information on site sizes and zoning designations by prototype and incentive program is provided in Chapters 4-7.

Table 5. Typical Unit Size (Square Feet) and Mix (Percent of Total Unit Count)

Prototype	Typical Density Range	Unit Size						Unit Mix				
		Avg	0BR	1BR	2BR	3BR	4BR	0BR	1BR	2BR	3BR	4BR
4D	10-35	1,250			1,050	1,200	1,400			20%	40%	40%
TH/RH	15-30	1,720			1,600	1,800				40%	60%	
CY3 (Low Density)	35-50	1,320			1,200	1,600				70%	30%	
CY3 (High Density)	50-75	880	600	800	1,100			20%	40%	40%		
CY4 (Low Density)	50-80	1,190			1,100	1,400				70%	30%	
CY4 (High Density)	80-105	900		700	1,100				50%	50%		
P5 (Low Density)	80-135	1,000		700	1,100	1,400			40%	40%	20%	
P5 (High Density)	105-170	800	600	700	1,100			20%	50%	30%		
P7	155-200	700	500	700	1,000			30%	50%	20%		
TW	110-218	850	600	800	1,200			25%	50%	25%		

Source: AECOM

3. Financial Analysis Methodology

Chapter 3 describes the methodology used to test the likely financial outcomes of the incentive programs. The chapter begins with a discussion of pro forma analysis, including the measures of return used to gauge financial outcomes and the design of the model. The chapter then describes the key inputs and assumptions used in the model.

3.1 Pro Forma Analysis

The analysis of CHIP program development economics uses a pro forma model to evaluate the impacts of proposed program parameters on project returns. The model is designed to consider programming parameters including density bonuses, height and FAR maximums, and affordable set-asides. AECOM worked closely with City Staff to develop various combinations of affordable housing set-asides and corresponding incentives for all four CHIP programs. These combinations are referred to as “incentive program scenarios” throughout this analysis and represent some of the zoning levers that can impact development feasibility.

A pro forma model is a representation of the financial returns of a hypothetical real estate project. The pro forma model includes assumptions about development costs, operating costs and revenues, and typical return expectations for a developer considering investment. The impacts and financial feasibility of different incentive scenarios can be explored through adjusting various model inputs.

The analyses of the various CHIP programs employ a “static” pro forma approach which calculates potential project value at an assumed point of project stabilization. This calculation is made at the assumed year that a for-sale project is fully sold or that a rental project achieves stabilized occupancy and can be sold to an investor who will value based on project cash flows. Static pro forma analysis is a commonly accepted approach to planning-level analysis where comparisons between multiple projects and policy options must be made.[10]

3.1.1 Measures of Return

The measure of financial return used in the analysis is **residual land value (RLV)**. RLV is a common approach used in planning exercises to explore and compare financial outcomes of policy proposals. RLV is the amount that remains after estimated project cost is deducted from estimated project value and represents the amount a developer should be willing to pay for land.

There are two RLV standards used to gauge the expected financial outcomes of the incentive program scenarios tested in this analysis: “feasibility” and “preferability.”

- **Feasibility**. For the purposes of this analysis, feasibility is a determination of **whether the incentive program scenario generates RLV that is consistent with market land value**. If a scenario generates RLV that is equivalent to or greater than the market standard, it is considered feasible.
- **Preferability**. Preferability tests **whether the incentive program scenario generates RLV that is greater than a base case scenario**, where the base case scenario is a 100%-

[10] While a developer may use static pro formas to initially assess a project opportunity, project underwriting by investors and lenders requires a discounted cash flow approach, which estimates project costs and revenues over time up to and past the point of stabilization. A discounted cash flow analysis allows different investor returns and return expectations as well as the time value of money factors to be considered. However, while necessary for investor decision-making, a cash flow model is too sensitive to investor-specific assumptions and in general too complex to allow for efficient comparison of policy options.

market-rate, by-right project that does not use CHIP program incentives. If the incentive program scenario generates an RLV that is equivalent to or greater than the base case, it is considered preferable.

Table 6 summarizes the market land value thresholds used in the pro forma testing by Market Tier and incentive program. As described further in Section 3.3.2, these thresholds are derived from market research on land costs from sets of recent transactions that are relevant to each respective program. When the model resulted in a higher RLV than the market land value, the project is assumed to be feasible. If the model resulted in a lower RLV than the market land value, the project is assumed to be infeasible under current market conditions.

Table 6. Market Land Value ($/Sq. Ft. of Land) Threshold for Feasibility by Program

RLV Baseline				
	DBO	TOIA	OC	CT
Market Tier 1				
Residential	$140	$140	$140	$90
Commercial	-	$115	$115	-
Market Tier 2				
Residential	$145	$145	$145	$160
Commercial	-	$170	$170	-
Market Tier 3				
Residential	$175	$175	$175	$215
Commercial	-	$185	$185	-
Market Tier 4				
Residential	$230	$230	$230	$225
Commercial	-	$240	$240	-

Source: Redfin, CoStar, AECOM

3.1.2 Pro Forma Model Design

The pro forma model developed for this analysis was designed to test the financial impact of various levels of affordable housing set-asides and corresponding incentive levels (the "incentive program scenarios"). The model's workflow involves three general components for each development prototype:

1. **Calculating the built capacity of the base case scenario** for each prototype (for DBO and TOIA only).[11]
2. **"Stepping up" the prototype** to calculate the built capacity of each incentive program scenario, i.e. the maximum unit count assuming the project provides a given level of affordable housing set-aside and takes advantage of corresponding incentives.
3. **Calculating the financial outcomes** of the base case and incentive program scenarios.

[11] For OC, there is no base case because the analysis modeled the feasibility of prototypes that achieved the maximum densities within each incentive area (limited by height and FAR), rather than "stepping up" from a base. For CT, there is no base case calculation because the CT program will primarily be applied to redevelopment of single-family lots or similarly scaled, low-density residential uses. Since the market land value is based on recent transactions of single-family lots, "feasibility" and "preferability" are effectively the same for CT.

These steps are described in more detail below.

Step 1. Calculating the built capacity of each base case scenario

As an initial step of the process, the model determines the likely unit count developed in the base case. This initial built capacity is determined by a combination of zoning regulations, including allowable density, FAR, and building heights based on specific zoning programs, as well as the capacities of the prototypes themselves.

For example, in the DBO program, the CY4 prototype is assumed to be developed on a 15,000 sq ft parcel in R3-1 zone (see Table 20). The lower-density CY4 can accommodate up to 27 units on this site size based on its height and density design. Under the zoning requirement of R3-1, a CY4 prototype can build up to 30 units with a FAR of 3.0, up to 18 units based on an allowable density of 54.45 DUAC, or up to 35 units with a maximum height of 45 feet. Therefore, considering all the restrictions mentioned, the base scenario for a CY4 development would be 18 units. In this case, the "limiting factor" of the built capacity is the allowable density set by the zoning regulations.

Throughout the model, above ground parking square footage is counted towards overall FAR limits, consistent with the City's proposed policies for the CHIP programs.

Step 2. "Stepping up" the prototype

In the second step of the process, the model calculates the total capacity that the developer can access by making use of a given incentive program and picks the corresponding prototype that would result.

When the incentive program scenarios enable more density than what the prototypes at the base can provide, then the model looks for the next tier of prototypes, also called the "stepping up mechanism" in this report. When the scenario "steps up" from one prototype to a higher density one, the model assumes the site dimensions of the new higher density prototype but same underlying zoning.[12] For scenarios involving unlimited density, such as those seen in TOIA and OC projects, the ultimate cap on density is assumed to be a TW height limit of 28 stories.

For example, for a project for which the base scenario is a lower-density CY4 prototype, when the incentive program scenario exceeds 78 DUAC, which is the limit of its density capacity, the model, before upgrading to the prototype to P5, first steps up to a higher density version of CY4 with smaller unit sizes (reduced from 1,190 sf to 900 sf) and a different unit mix (changed from 70% two-bedroom and 30% three-bedroom to 50% one-bedroom and 50% two-bedroom). When the incentive program scenario exceeds 105 DUAC, the project then steps up to a CY5 prototype. In the case of upgrading from one prototype to a completely different prototype (e.g., from CY4 to P5), the site being tested will increase from 15,000 sq ft to 22,500 sq ft, while the underlying zoning remains the same (i.e., R3-1, as used for CY4).

Step 3. Calculating the financial outcomes of each incentive program scenario

In the third step of the process, the model calculates the financial outcomes of base case scenario and each incentive program scenario.

To do this, the model first calculates the set-aside requirement, i.e. the number of affordable units by income level.[13] All fractional calculations are rounded up. For example, the same

[12] Reflects ingenuity of developers for finding adequate development sites, either through site consolidation and/or market knowledge of sites appropriate for prototypes that can accommodate higher densities

[13] For the DBO program, the calculation of the set-aside requirement is based on maximum permissible by-right units—i.e., total potential units before application of a density bonus. For example, for a project in a zone allowing 100 units seeking a 50-unit 50% density bonus and setting aside 10% as affordable, the set-aside requirement is 10

density bonus applied to a project with a base of 75 units results in a total unit count of 112.5, which is rounded to 113. The 8% set-aside requirement then computes to 9.04 units, which is rounded up to 10.

Next, the model incorporates market-tier-specific assumptions (such as rent, cap rate, vacancy rates, etc.) and prototype-specific assumptions (such as construction costs, parking requirements, etc.) to calculate project revenues and costs. The key inputs and assumptions used to calculate revenues and costs are described below in Section 3.2.

Finally, the model deducts the estimated project cost from the estimated property value to arrive at the RLV. As described above, if a scenario generates RLV that is equivalent to or greater than the market standard, it is considered feasible. If the incentive program scenario generates a RLV that is equivalent to or greater than the base case scenario, it is considered preferable.

3.1.3 Incentives Tested

This analysis tests the impact of density, height, and FAR incentives (sometimes referred to as “base incentives”) that are being considered by the City. The specific incentives tested for each respective program are described in Chapters 4-7, below.

Note that in addition to density, height, and FAR incentives, the DBO and Mixed Income Incentive Program also include incentives related to setbacks, lot width, open space, lot coverage, and other zoning requirements that are not tested in this analysis. It is assumed that the development projects tested may take advantage of additional incentives to maximize density, height, and FAR.

3.2 Key Inputs and Assumptions

This section describes the key revenue and cost inputs used in the pro forma analysis.

3.2.1 Revenues

Market-rate Rents

Table 7 shows the market-rate rent assumptions used in the analysis by typology, market tier, and bedroom count. Market rents are based on analysis of recent asking rent rates from CoStar data on 1,407 multifamily projects constructed since 2018 in Los Angeles. To reflect likely rent appreciation that will occur from construction through project stabilization, a 5% premium has been added to the market-based findings.[14]

units (10% of 100) and not 15 units (10% of 150). This is the approach used by the current adopted DBO and the State Density Bonus Law. For the TOIA and OC program, the set-aside requirement is based on total project units including density bonus units. For example, for a project with 100 base units and a 50% density bonus requiring that 8% of units be set aside as Extremely Low Income (ELI), there are 150 total units (50 density bonus units added to the 100 base) of which 12 (8% of 150) are set aside as ELI.

[14] For the CT program analysis, the parking ratio for the prototypes is reduced and the rent is assumed to decrease by 5% from typical market rates based on market research.

Table 7. Market Rent

	$/Sq.Ft.				$/Unit				
Typology	Market Tier 1	Market Tier 2	Market Tier 3	Market Tier 4	Sq.Ft./ Unit	Market Tier 1	Market Tier 2	Market Tier 3	Market Tier 4
4D									
Studio	$3.15	$3.40	$4.45	$5.25	550	$1,730	$1,880	$2,450	$2,890
1-BR	$3.15	$3.40	$4.45	$5.25	700	$2,210	$2,390	$3,120	$3,680
2-BR	$2.90	$3.15	$4.20	$4.75	1,050	$3,030	$3,310	$4,410	$4,960
3-BR	$2.65	$2.90	$3.70	$4.45	1,200	$3,150	$3,470	$4,410	$5,360
4-BR	$2.35	$2.65	$3.40	$4.20	1,400	$3,310	$3,680	$4,780	$5,880
TH/RH									
1-BR	$3.15	$3.40	$4.45	$5.25	800	$2,520	$2,720	$3,560	$4,200
2-BR	$2.90	$3.15	$4.20	$4.75	1,250	$3,625	$3,938	$5,250	$5,938
3-BR	$2.65	$2.90	$3.70	$4.45	1,550	$4,108	$4,495	$5,735	$6,898
4-BR	$2.35	$2.65	$3.40	$4.20	1,900	$4,465	$5,035	$6,460	$7,980
CY3									
Studio	$2.90	$4.20	$4.75	$5.00	600	$1,730	$2,520	$2,840	$2,990
1-BR	$2.65	$3.95	$4.20	$4.45	800	$2,100	$3,150	$3,360	$3,570
2-BR	$2.35	$3.70	$3.95	$4.20	1,200	$2,840	$4,410	$4,730	$5,040
3-BR	$2.10	$3.15	$3.40	$3.70	1,600	$3,360	$5,040	$5,460	$5,880
4-BR	$2.10	$3.15	$3.40	$3.70	1,900	$3,990	$5,990	$6,480	$6,980
CY4									
2-BR	$2.35	$3.70	$3.95	$4.20	1,100	$2,600	$4,040	$4,330	$4,620
3-BR	$2.10	$3.15	$3.40	$3.70	1,400	$2,940	$4,410	$4,780	$5,150
4-BR	$2.10	$3.15	$3.40	$3.70	-	-	-	-	-
P5									
Studio	$3.15	$4.20	$4.45	$5.00	600	$1,890	$2,520	$2,680	$2,990
1-BR	$2.90	$3.95	$4.20	$4.45	700	$2,020	$2,760	$2,940	$3,120
2-BR	$2.65	$3.70	$3.95	$4.20	1,100	$2,890	$4,040	$4,330	$4,620
3-BR	$2.35	$3.40	$3.70	$3.95	1,400	$3,310	$4,780	$5,150	$5,510
P7									
Studio	$3.35	$4.40	$4.75	$5.25	500	$1,680	$2,210	$2,360	$2,630
1-BR	$3.05	$4.10	$4.40	$4.75	700	$2,130	$2,870	$3,090	$3,310
2-BR	$2.75	$3.90	$4.10	$4.40	1,000	$2,730	$3,890	$4,100	$4,410
3-BR	$2.50	$3.55	$3.90	$4.10	1,400	$3,530	$5,000	$5,440	$5,730
4-BR	$2.20	$3.35	$3.55	$3.90	1,700	$3,750	$5,710	$6,070	$6,600
TW									
Studio	$3.15	$3.95	$4.20	$5.25	600	$1,890	$2,360	$2,520	$3,150
1-BR	$2.90	$3.70	$3.95	$5.00	800	$2,310	$2,940	$3,150	$3,990
2-BR	$2.65	$3.40	$3.70	$4.75	1,200	$3,150	$4,100	$4,410	$5,670
3-BR	$2.35	$3.15	$3.40	$4.45	1,700	$4,020	$5,360	$5,800	$7,590
4-BR	$2.35	$2.90	$3.40	$4.45	2,000	$4,730	$5,780	$6,830	$8,930

Source: CoStar, AECOM

Market-rate For-Sale Pricing

Market for-sale pricing is based on a set of 405 recent residential sales transactions drawn from Redfin/MLS. Table 8 shows pricing assumptions categorized by Market Tier, prototype, and bedroom. To reflect likely value appreciation that will occur from construction through project stabilization, a 5% premium has been added to the market-based findings.

Table 8. Market Sale Prices

Typology	$/Sq.Ft.				$/Unit				
	Market Tier 1	Market Tier 2	Market Tier 3	Market Tier 4	Sq.Ft./ Unit	Market Tier 1	Market Tier 2	Market Tier 3	Market Tier 4
4D									
2BR	$475	$550	$625	$650	1,050	$498,750	$577,500	$656,250	$682,500
3BR	$450	$525	$575	$600	1,200	$540,000	$630,000	$690,000	$720,000
4BR	$375	$475	$525	$550	1,400	$525,000	$665,000	$735,000	$770,000
TH/RH									
2BR	$500	$575	$700	$975	1,500	$750,000	$862,500	$1,050,000	$1,462,500
3BR	$450	$525	$650	$925	1,800	$810,000	$945,000	$1,170,000	$1,665,000
CY3									
Studio	$675	$800	$900	$1,150	600	$405,000	$480,000	$540,000	$690,000
1BR	$650	$750	$875	$1,050	800	$520,000	$600,000	$700,000	$840,000
2BR	$625	$725	$850	$1,025	1,200	$750,000	$870,000	$1,020,000	$1,230,000
3BR	$550	$650	$750	$1,000	1,600	$880,000	$1,040,000	$1,200,000	$1,600,000
CY4									
2BR	$625	$725	$850	$1,025	1,100	$687,500	$797,500	$935,000	$1,127,500
3BR	$550	$650	$750	$1,000	1,400	$770,000	$910,000	$1,050,000	$1,400,000
P5									
Studio	$675	$825	$950	$1,150	600	$405,000	$495,000	$570,000	$690,000
1BR	$650	$800	$925	$1,125	700	$455,000	$560,000	$647,500	$787,500
2BR	$625	$750	$900	$1,100	1,100	$687,500	$825,000	$990,000	$1,210,000
3BR	$600	$700	$875	$1,075	1,400	$840,000	$980,000	$1,225,000	$1,505,000
P7									
Studio	$675	$825	$950	$1,150	500	$337,500	$412,500	$475,000	$575,000
1BR	$650	$800	$925	$1,125	700	$455,000	$560,000	$647,500	$787,500
2BR	$625	$750	$900	$1,100	1,000	$625,000	$750,000	$900,000	$1,100,000
3BR	$600	$700	$875	$1,075	1,400	$840,000	$980,000	$1,225,000	$1,505,000
TW									
Studio	$625	$725	$850	$1,100	600	$375,000	$435,000	$510,000	$660,000
1BR	$600	$700	$825	$1,000	800	$480,000	$560,000	$660,000	$800,000
2BR	$525	$625	$725	$900	1,200	$630,000	$750,000	$870,000	$1,080,000

Source: Redfin, AECOM

Affordable Rents

Assumed affordable rents are based on the City's published schedules.[15] and the utility allowance schedule published by the Housing Authority of the City of Los Angeles (HACLA) based on Area Median Income (AMI).[16] The analysis includes Very Low Income (VLI at 50% of AMI), Low Income (LI at 80% AMI), and Moderate Income (MI at 120% AMI) units. The calculations for supportable affordable rents by income tier are shown in Table 9.

Table 9. Affordable Rents

Supportable Affordable Rents (Monthly)				
	ELI 30% AMI	VLI 50% AMI	LI 80% AMI	MI 120% AMI
Allocated Housing Cost(1)				
1-Person Household (Studio)	$663	$1,104	$1,766	$2,406
2-Person Household (1BR)	$758	$1,261	$2,019	$2,750
3-Person Household (2BR)	$853	$1,419	$2,271	$3,093
4-Person Household (3BR)	$946	$1,576	$2,523	$3,437
5-Person Household (4BR)	$1,023	$1,703	$2,725	$3,713
Utilities(2)				
1-Person Household (Studio)	$171	$171	$171	$171
2-Person Household (1BR)	$228	$228	$228	$228
3-Person Household (2BR)	$287	$287	$287	$287
4-Person Household (3BR)	$347	$347	$347	$347
5-Person Household (4BR)	$436	$436	$436	$436
Total Available for Rent Payment				
1-Person Household (Studio)	$492	$933	$1,595	$2,235
2-Person Household (1BR)	$530	$1,033	$1,791	$2,522
3-Person Household (2BR)	$566	$1,132	$1,984	$2,806
4-Person Household (3BR)	$599	$1,229	$2,176	$3,090
5-Person Household (4BR)	$587	$1,267	$2,289	$3,277

Source: Housing Authority of the City of Los Angeles (HACLA); California Housing and Community Development (HCD), AECOM
Notes: (1) Area Median Income limits for Extremely Low, Very Low, Low income, and Moderate tiers from California Department of Housing and Community Development (HCD) - Land Use Schedule VI Effective Date: August 1, 2023. AMI is $98,200.
(2) LACDA Utility Allowance Schedule, effective 12/01/2023; AECOM assumes trash collection is excluded from tenant costs.

Affordable For-Sale Pricing

Assumed pricing for affordable for-sale prices are based on an estimated monthly household cost calculated using the City's published schedules,[17] the utility allowance schedule published by the Housing Authority of the City of Los Angeles (HACLA),[18] and estimates for HOA fees, homeowner insurance, and property tax. Supportable for-sale value is derived after assuming a 5% down payment, which is a typical required minimum for affordable units. The calculations for affordable for-sale pricing are shown in Table 10.

[15] HCD Net Schedule 6: https://housing2.lacity.org/partners/land-use-rent-income-schedules

[16] https://www.hacla.org/sites/default/files/Section%208/S8%20Forms/2022-25a%20Utility%20Allowance%20Schedule%20Forms.pdf

[17] HCD Net Schedule 6: https://housing2.lacity.org/partners/land-use-rent-income-schedules

[18] https://www.hacla.org/sites/default/files/Section%208/S8%20Forms/2022-25a%20Utility%20Allowance%20Schedule%20Forms.pdf

Table 10. Affordable Sale Prices

Supportable Affordable Sales Prices	ELI 30% AMI	VLI 50% AMI	LI 80% AMI	MI 120% AMI
Allocated Housing Cost[1]				
1-Person Household (Studio)	$7,950	$13,245	$21,195	$28,875
2-Person Household (1BR)	$9,090	$15,135	$24,225	$33,005
3-Person Household (2BR)	$10,230	$17,025	$27,255	$37,118
4-Person Household (3BR)	$11,355	$18,915	$30,270	$41,248
Utilities[2]				
1-Person Household (Studio)	$2,052	$2,052	$2,052	$2,052
2-Person Household (1BR)	$2,736	$2,736	$2,736	$2,736
3-Person Household (2BR)	$3,444	$3,444	$3,444	$3,444
4-Person Household (3BR)	$4,164	$4,164	$4,164	$4,164
HOA[3]				
1-Person Household (Studio)	$628	$1,046	$1,674	$2,280
2-Person Household (1BR)	$727	$1,211	$1,938	$2,640
3-Person Household (2BR)	$826	$1,376	$2,202	$3,000
4-Person Household (3BR)	$909	$1,514	$2,422	$3,300
Home Owners Insurance[4]				
1-Person Household (Studio)	$1,007	$1,007	$1,007	$1,007
2-Person Household (1BR)	$1,150	$1,150	$1,150	$1,150
3-Person Household (2BR)	$1,330	$1,330	$1,330	$1,330
4-Person Household (3BR)	$1,853	$1,853	$1,853	$1,853
Property Tax[5]				
1-Person Household (Studio)	$774	$1,660	$2,989	$4,273
2-Person Household (1BR)	$812	$1,823	$3,341	$4,807
3-Person Household (2BR)	$841	$1,974	$3,682	$5,328
4-Person Household (3BR)	$804	$2,068	$3,964	$5,797
Available for Mortgage Payment				
1-Person Household (Studio)	$3,489	$7,481	$13,473	$19,263
2-Person Household (1BR)	$3,665	$8,216	$15,061	$21,672
3-Person Household (2BR)	$3,789	$8,901	$16,597	$24,016
4-Person Household (3BR)	$3,626	$9,317	$17,868	$26,134
Supportable Mortgage[6]				
1-Person Household (Studio)	$61,275	$131,366	$236,603	$338,273
2-Person Household (1BR)	$64,365	$144,276	$264,483	$380,587
3-Person Household (2BR)	$66,535	$156,308	$291,465	$421,735
4-Person Household (3BR)	$63,675	$163,619	$313,773	$458,935
Supportable Sales Price (rounded)				
1-Person Household (Studio)	$64,500	$138,300	$249,100	$356,100
2-Person Household (1BR)	$67,800	$151,900	$278,400	$400,600
3-Person Household (2BR)	$70,000	$164,500	$306,800	$443,900
4-Person Household (3BR)	$67,000	$172,200	$330,300	$483,100

Source: Housing Authority of the City of Los Angeles (HACLA); California Housing and Community Development (HCD), AECOM
Notes: (1) Area Median Income limits for Extremely Low, Very Low, Low income, and Moderate tiers from California Department of Housing and Community Development (HCD) - Land Use Schedule VI Effective Date: August 1, 2023. AMI is $98,200.
(2) LACDA Utility Allowance Schedule, effective 12/01/2023; AECOM assumes trash collection is excluded from tenant costs.
(3) AECOM estimate assuming developer indexes HOA fees to affordability.
(4) Calculated as 0.19% of market value of the unit (derived from medians for home value and insurance rates, 2021 California).
(5) 1.2% of sales price.
(6) 30-year mortgage, 3.95% rate (based on annual average 2013-7/22/2022).
(7) A 5% down payment is a typical minimum for affordable for-sale units.

Exit Capitalization Rates

The assumed capitalization rate for a rental project at stabilization is 4.5%, based on data from CBRE and CoStar.

3.2.2 Costs and Expenses

Hard (Direct) Costs

Assumptions used in the scenario pro forma models for vertical improvement costs were developed from several sources including RS Means, developer interviews, recent completed comparable projects, and selected inputs from AECOM cost estimators. Table 11 summarizes construction costs for building structures and parking structures. The hard costs are universal across different programs.

It is important to note that construction costs have been greatly impacted by inflation since 2020 stemming largely from the global pandemic and the Ukraine war. According to Federal Reserve Economic data (FRED) construction cost index, from 2020 through September 2023, construction costs have inflated at 10% annually resulting in costs that in September 2023 were 42% higher than in January 2020. The costs assumed in the scenario pro forma analysis are based on 2022 RS Means data, escalated by 10% to estimate 2023 costs.

Table 11. Hard Costs

Prototype Code	4D-R	TH	CY3	CY4	P5	P7	TW
Site Improvement Work (Per Site SF)	$5	$10	$10	$10	$10	$10	$10
Building Hard Cost (Per Bldg SF)	$233	$215	$220	$208	$202	$238	$209
Parking Hard Costs (Per Space)							
Surface	$2,500	$2,500	$2,500	$2,500	$2,500	$2,500	$2,500
Tuck-Under	$23,900	$23,200	$23,800	$22,400	$21,800	$25,700	$22,600
Podium	$10,000	$10,000	$36,600	$36,600	$36,600	$34,300	$33,000
Underground	$10,000	$10,000	$49,000	$47,300	$43,600	$44,100	$41,300

Source: RS Means, AECOM

Soft (Indirect) Costs

Soft (indirect) costs include all other necessary expenses required to complete the development process. Indirect costs are generally calculated as a percentage of hard (direct) costs using the assumptions shown in Table 12.

Table 12. Indirect Costs

Indirect Costs	
Architecture and Engineering Fee	6% of all direct costs
Permits and Fees	$35 per gross sf
Legal, Insurance, Warranty	2% of all direct costs
Marketing	$2,000 per unit
General and Administrative	1% of all other indirect costs
Developer Fee	4.5% of all direct costs
Soft Cost Contingency	5% of all other indirect costs

Source: AECOM

Land Costs

Land cost assumptions are based on a market review of recent transactions and used to establish a basis for financial feasibility.[19]

For the DBO, TOIA, OC programs, the land transaction set consists of 278 comparable land transactions drawn from CoStar that occurred in the City of Los Angeles between January 2021 and September 2023.[20] The dataset was filtered to exclude transactions with incomplete data, transactions for sites smaller than 0.11 acres (5,000 square feet) and transactions for sites larger than 5 acres. The size filtering is intended to eliminate outliers, non-standard, and non-representative land transactions from the set. To adjust the nominal value of transactions that took place in 2021 and 2022 to 2023 values, AECOM normalized the dataset by applying County annual land value growth rates based on assessor data.

To assess scenario feasibility, the land value basis is set at the first quartile measure from the transaction set, an approach that sets the threshold for feasibility below the measured median land cost. This is intended to reflect the wide range of land costs observed in each market tier and to generate findings that are broadly representative of the area assessed. Both first quartile and median land values are shown in the tables below.

Table 13. DBO, TOIA and OC Land Costs

		$/Land Square Foot[2]	
	n[1]	1st Q	Median
Market Tier 1			
Residential	24	$140	$160
Commercial	40	$115	$140
Market Tier 2			
Residential	31	$145	$175
Commercial	27	$170	$230
Market Tier 3			
Residential	34	$175	$215
Commercial	17	$185	$405
Market Tier 4			
Residential	56	$230	$275
Commercial	49	$240	$375
Citywide			
Residential	145	$165	$220
Commercial	133	$145	$220

Sources: Redfin, CoStar
(1) Transactions in the City of Los Angeles between 1/1/2021 and 9/2023 on residentially zoned sites tagged as "land" and filtered to exclude transactions with incomplete data and on parcels less than 5,000 sq.ft. or greater than 5 acres.
(2) In $2023. Transactions that took place in 2021 and 2022 normalized to 2023 by applying County annual land value growth rates (from Assessor Data).
(3) The DBO program is only tested on residential parcels.

[19] Assumes minimal or no acquisition costs for the existing building are assumed; the development site is acquired based on its land value. The analysis also assumes that replacement unit requirements do not apply to the tested scenarios, or if any replacement units are required the scenarios would provide enough affordable housing to meet the minimum requirements stipulated in SEC. 151.28 of the Los Angeles Municipal Code.

[20] The ULA tax has been in effect since April 2023. It has been hypothesized that ULA could apply downward pressure on land values. However, in the assessed land transaction set (which includes a relatively low number of land transactions since 4/1/23), there is no evidence that any softening of land values has yet occurred.

For the CT program, land cost assumptions are based on a market review of recent transactions of eligible CT sites. The approach assumes that the CT program will primarily be applied to redevelopment of single-family lots or similarly scaled, low-density residential uses.

AECOM estimated land costs using a set of recent single-family home sales, sourced from Redfin, consisting of 51 transactions in the City between January 2021 and September 2023. These transactions were cross-referenced with a set of eligible CT sites provided by City staff. The set was further filtered to exclude transactions of sites smaller than 4,000 square feet. The size filtering is intended to eliminate outliers, non-standard, and non-representative land transactions from the set.

Single family homes and similar properties found throughout Los Angeles vary widely in parcel size, quality of existing buildings, and type of location. These factors contribute to a wide range of land costs observed in each market tier. To account for this wide range, this analysis uses the median price (sales price/land square feet) of the recent transactions to broadly represent the market value of land in each market tier and determine project feasibility. The median land values for each market tier are shown in the table below. The first quartile of land values is also shown for reference and to indicate redevelopment potential at the lower end of the price range.

The median rather than the first quartile value was used for CT because the program is designed to encourage redevelopment of single-family uses and similarly small-scaled low-density residential uses within Higher Opportunity Areas. Decades of limited development coupled with a scarcity of land suitable for single-family development have led to high single-family home values and a high threshold for feasibility for CT projects.

Table 14. CT Land Costs

MM Land Values		$/Land Square Foot	
	n1	1st Q	Median
Market Tier 1	8	$90	$120
Market Tier 2	2	$160	$170
Market Tier 3	10	$215	$220
Market Tier 4	31	$225	$320
Citywide	51	$195	$235

(1) Transactions of single-family houses in the City of Los Angeles between 03/2022 and 04/2023 on the lots above 4,000 sq.ft.

(2) All numbers are rounded off to the nearest 5

Source: Redfin, AECOM

Financing Costs

Assumptions for construction loan financing are as follows, reflecting typical underwriting assumptions: 65% loan to cost (LTC), 50% average loan balance, 2.5% loan fees, 7.5% interest rate, and a 2-year construction period.

Return Threshold

The assumed threshold yield on cost used is 12-13% of total costs before land depending on tenure types and prototypes or 10% of total costs after including land. While actual threshold return expectations may vary widely by project, by investor, by market, and by perceived risk, this yield on cost threshold is commonly assumed in planning-level analysis.

3.2.3 Policy and Regulatory Costs

Affordable Housing Linkage Fee

The City's Affordable Housing Linkage Fee (AHLF) charges a fee on market-rate development, which is used to fund the creation of affordable housing across the City. As specified in Municipal Code Section 19.18, residential projects dedicate at least 40% of units to MI households, or at least 20% of units to LI households, or at least 11% of units to VLI households, or at least 8% of total units to ELI units, are exempt from the AHLF.

Linkage fees are applied to the base case (100% market-rate) scenarios, assuming fees are drawn from the schedule effective as of July 1, 2023. All TOIA and OC incentive program scenarios are exempt from the AHLF because these programs are structured so that projects achieve affordability levels that meet the AHLF program exemptions.

For DBO and CT, some incentive program scenarios meet the AHLF program exemptions and others do not. This is determined for each scenario based on the percentage of units dedicated to affordable housing by income level.[21]

Under the existing DBO program, City staff have observed that developers will sometimes contribute an additional affordable unit or minimum number of units required to qualify a project for a Linkage Fee exemption. City staff also noted informal feedback from the development community suggesting that paying the Linkage Fee (not qualifying for an exemption) presents enough of a burden on DBO project economics to cause applicants to withdraw proposals. **This analysis assumes the developer would opt to pay the linkage fee rather than build more units or otherwise restructure the project to qualify for exemptions.** Although analyzing the impacts of the Linkage Fee on project economics was not a component of this study, exploratory testing suggests that Linkage Fee payments have a relatively small impact on typical project feasibility.[22]

ULA Tax

The ULA tax became effective in the City on April 1, 2023, and is applied to all transactions valued at over $5 million. The tax rate for transactions between $5 and $10 million is 4% and 5.5% for transactions over $10 million. The impacts of the tax on development costs are complex and will affect different projects differently. For example, a project that includes an initial land acquisition, improvements to the site, and sale of the finished project could incur the ULA tax twice: first on the land sale and second on the sale of the improved project. On the other hand, projects that are valued at less than $5 million will never incur the tax. The tax also does not affect owner-operators directly since it is only incurred upon sale.

The analysis assumes the seller pays the ULA tax but does not "pass it on" to the buyer. For example, on the initial land transaction, the seller absorbs the tax, resulting in a land value that is effectively lower than the market rate for the seller but not the buyer. Likewise, for the transaction of a finished project, the seller absorbs the tax, which again effectively lowers project value for the seller but not the buyer.

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[21] Note that for the DBO program, the set-aside calculation is based on the base density. Therefore, some projects have nominal set-asides that suggest they would be eligible for the AHLF exemption, but may still be subject to the fee based on the actual percentage of affordable units provided. For example, a project with a 50% density bonus and a 15% VLI set-aside may seem to be exempt from the linkage fee. However, after applying the density bonus, VLI units could account for only 10% of the total units built and the developer would be required to pay the linkage fee. It is also important to note that linkage fee exemption thresholds are based on projects offering single-affordability pathways set-asides and are not designed to give partial credit for meeting the exemption standards using set-asides for mixed-affordability pathways.

[22] For example, for the DBO base case scenarios, linkage fees make up an average of 1.3-3.5% of total project costs.

Developers are reportedly contemplating various strategies for offsetting the impact of ULA on project economics. Anecdotally, these include (but are not limited to): longer-term holds that allow owners to pay down debt through cashflow growth; increased use of condominium tract maps to reduce transaction values to below the $5 and $10 million thresholds; and strategies to reduce development and construction costs. It is possible ULA will also apply downward price pressure on land costs (although at the time of this analysis, this land cost decrease had not been observed).

To model the impact of ULA on development economics, the analysis assumes project applicants will deploy a variety of strategies to lower costs for projects that trigger ULA. To reflect this assumption, for project values that trigger compliance with ULA, the analysis assumes a 5% reduction in costs compared to a project that does not trigger ULA compliance.

4. Density Bonus Ordinance (DBO) Incentive Program

4.1 Overview

Chapter 4 tests the economics of the City's Density Bonus Ordinance (DBO), which serves as the City's primary mechanism for implementing California's State Density Bonus Law. Proposed changes to the City's local DBO include procedural updates as well as revisions that will affirm consistency between the Los Angeles Municipal Code and State Density Bonus Law (SDBL).[23] This chapter outlines the major changes to the SDBL and how the City's proposed DBO update aims to incorporate these new legal parameters. The chapter then provides a description of the incentive program scenarios that were tested, and a discussion of the results of the analysis. The chapter concludes with a summary of findings about the proposed DBO update.

4.2 Proposed DBO Update

The City's DBO, an implementation of the SDBL, has been effective since 2008. Since 2008, more than a dozen state bills have significantly amended the SDBL (CA Govt. Code Sections 65915-65918). To date, these changes have been implemented in the City through a range of administrative Implementation Memorandums. The proposed update to DBO will bring the City's local Density Bonus program into full alignment with the current SDBL and will incorporate the most recent changes to the affordable set-aside schedule and additions to the density bonus structure that went into effect on January 1, 2024 under recent legislation, including CA State Assembly Bill 1287 (AB1287). AB 1287 amended SDBL to increase the production of housing units set-aside for Very Low Income and Moderate Income households by enabling additional density bonuses above 50% (the maximum previous to AB 1287) for projects providing additional restricted affordable units.

Under the proposed DBO update, applicants can achieve varying levels of density bonus by providing different set asides of VLI, LI, or MI units. For the purposes of this analysis, the methods of calculating set asides and corresponding density bonuses are organized into two types of "affordability pathways:"

- Single-Affordability Pathways: These projects provide set-aside units at one income level (VLI, LI, *or* MI). By providing the maximum of 25% VLI Incomes units, single-affordability pathway projects will be able to reach a maximum of 88.75% density bonus.
- Mixed-Affordability Pathways: These projects provide a mix of set-aside units at different income levels. By adding MI units to a project that also includes VLI or LI units under a mixed-affordability pathway, projects can achieve density bonuses up to 100%.

Table 15 shows examples of pathways that applicants can take to achieve various levels of density bonus. Note that the set-aside options shown in Table 15 are only a selection of the possible set-aside percentages and associated density bonuses. In many cases there are multiple single- and mixed-affordability pathways for achieving the same level of density bonus.

[23] Note that the City's Value Capture Ordinance (VCO), effective since 2018, complements and extends provisions of DBO by awarding additional density bonus in exchange for additional affordable set-aside. Projects that utilize VCO would be required to obtain a Conditional Use Permit requiring approval from the City Planning Commission, which is a discretionary planning process. The analysis that follows is based on state law and does not consider use of the VCO.

Depending on the affordable set-asides selected, applicants can achieve a density bonus of anywhere from 5% to 100%.

Table 15. Examples of Density Bonuses Available Under the Proposed DBO Update

Density Bonus	Type of Affordability	Aggregated Set Aside %		
		VLI	LI	MI
5%	Single-Affordability			10%
35%	Single-Affordability	11%		
35%	Single-Affordability		20%	
35%	Single-Affordability			40%
50%	Single-Affordability	15%		
50%	Single-Affordability		24%	
50%	Single-Affordability			44%
70%	Single-Affordability	20%		
70%	Mixed-Affordability	5%	24%	
70%	Mixed-Affordability	5%		44%
70%	Mixed-Affordability	15%		5%
70%	Mixed-Affordability		24%	5%
70%	Mixed-Affordability			49%
88.75%	Single-Affordability	25%		
88.75%	Mixed-Affordability	10%	24%	
88.75%	Mixed-Affordability	15%		12%
88.75%	Mixed-Affordability		24%	12%
100%	Mixed-Affordability	15%		15%
100%	Mixed-Affordability		24%	15%

Note: Aggregated set-aside includes the standard density bonus (from pre-AB 1287 SDBL) and the additional density bonus available under AB 1287.
Source: SDBL, AB 1287, AECOM

4.3 Density Bonus Scenarios Tested

To explore the economic feasibility of the proposed updated DBO for projects in the City of Los Angeles, AECOM tested a set of scenarios that covers a wide range of the potential affordability pathways and density bonus combinations allowed. This set of scenarios include increases in density bonuses up to 100%. In all, nearly twenty scenarios were tested consisting of single-affordability pathway, mixed-affordability pathway, for-rent, and for-sale scenarios. The scenarios were selected to reflect a broad range of density bonus and affordable set-aside applications. At the City's request, nearly all the scenarios achieve density bonuses of 50% or greater.[24]

All DBO scenarios assume an FAR incentive of up to 50% over the base, and height incentives matching the density bonus percentage.[25]

[24] There is one tested scenario that features a density bonus less than 50%: Scenario 7-R, which is eligible for a 35% density bonus. This scenario was selected to increase the number of LI-tested scenarios in the set.
[25] Note that the program is still under development and the incentives tested in this report may not reflect the City's final policy decisions.

4.3.1 For-Rent Scenarios

Single Affordability Pathway For-Rent Scenarios

Five for-rent scenarios featuring a single affordability pathway were tested. These are numbered 1-R to 5-R for reference.

Table 16. Single-Tier Affordability For-Rent Density Bonus Scenarios Tested

Scenario		Density Bonus	Affordability			
			Total Set Aside	VLI	LI	MI
1-R	50.0% DB / 15.0% VLI Set-Aside	50.00%	15%	15%	-	-
2-R	70.0% DB / 20.0% VLI Set-Aside	70.00%	20%	20%	-	-
3-R	88.75% DB / 25.0% VLI Set-Aside	88.75%	25%	25%	-	-
4-R	35.0% DB / 20.0% LI Set-Aside	35.00%	20%	-	20%	-
5-R	50.0% DB / 24.0% LI Set-Aside	50.00%	24%	-	24%	-

Source: AECOM

Mixed Affordability Pathway For-Rent Scenarios

Ten for-rent scenarios featuring mixed-affordability pathways were tested.

Table 17. Mixed Affordability For-Rent Density Bonus Scenarios Tested

Scenario		Density Bonus	Affordability			
			Total Set Aside	VLI	LI	MI
6-R	70.0% DB / 5.0% VLI / 24.0% LI Set-Aside	70.00%	29%	5%	24%	-
7-R	85.0% DB / 9.0% VLI / 24.0% LI Set-Aside	85.00%	33%	9%	24%	-
8-R	70.0% DB / 15.0% VLI / 5.0% MI Set-Aside	70.00%	20%	15%	-	5%
9-R	80.0% DB / 15.0% VLI / 9.0% MI Set-Aside	80.00%	24%	15%	-	9%
10-R	88.75% DB / 15.0% VLI / 12.0% MI Set-Aside	88.75%	27%	15%	-	12%
11-R	100.0% DB / 15.0% VLI / 15.0% MI Set-Aside	100.00%	30%	15%	-	15%
12-R	70.0% DB / 24.0% LI / 5.0% MI Set-Aside	70.00%	29%	-	24%	5%
13-R	80.0% DB / 24.0% LI / 9.0% MI Set-Aside	80.00%	33%	-	24%	9%
14-R	88.75% DB / 24.0% LI / 12.0% MI Set-Aside	88.75%	36%	-	24%	12%
15-R	100.0% DB / 24.0% LI / 15.0% MI Set-Aside	100.00%	39%	-	24%	15%

Source: AECOM

4.3.2 For-Sale Scenarios

Single Affordability Pathway For-Sale Scenarios

Two for-sale scenarios featuring a single-affordability pathway were tested, called 1-S, and 2-S. Per the State Density Bonus Law, for-sale projects are only eligible for participation if providing Moderate Income (MI) set-asides.

Table 18. Single Affordability For-Sale Density Bonus Scenarios Tested

Scenario		Density Bonus	Affordability			
			Total Set Aside	VLI	LI	MI
1-S	50.0% DB / 44.0% MI Set-Aside	50.00%	44%	-	-	44%
2-S	72.5% DB / 50.0% MI Set-Aside	72.50%	50%	-	-	50%

Source: AECOM

Mixed Affordability Pathway For-Sale Scenarios

Finally, two mixed affordability, for-sale scenarios were tested. Note that in practice, developers may choose to rent the lower-income units in for-sale projects at designated affordable rent limits, rather than sell them at sales price limits tied to predefined VLI and LI housing allowances. For the purposes of this analysis, all units in for-sale projects were assumed to be for-sale.

Table 19. Mixed Affordability For-Sale Density Bonus Scenarios Tested

Scenario		Density Bonus	Affordability			
			Total Set Aside	VLI	LI	MI
3-S	100% DB / 24% LI / 15% MI Set-Aside	100.00%	39%	-	24%	15%
4-S	100% DB / 15% VLI / 15% MI Set-Aside	100.00%	30%	15%	-	15%

Source: AECOM

4.3.3 Sites and Prototypes Tested

Table 20 shows the sites and prototypes that were tested. The prototypes were selected to represent a wide range of likely development projects that could occur across the City. Note that DBO was only tested on residential zoned sites, based on an analysis of recently completed projects that showed that the majority of DBO projects occurred in residential zones (whereas projects in commercial zones were more likely to take advantage of the TOC program, the predecessor to the proposed TOIA program).[26]

[26] Commercial lots generally have smaller underlying FARs than residential lots, and therefore projects on commercial lots may be more likely to take advantage of TOIA in part because the TOIA program offers better FAR incentives compared to DBO.

Table 20. DBO Sites and Prototypes Tested

DBO Base Case Site and Prototype Assumptions											
Base Housing Typology	**TH-S**	**CY3-R**	**CY3-S**	**CY4-R**	**CY4-S**	**P5-R**	**P5-S**	**P7-R**	**P7-S**	**TW-R**	**TW-S**
Description	Townhouse	3-story Courtyard-style		4-story Courtyard-style		5/6-Story Podium		7/8-Story Podium		Tower	
Use Program	Residential	Residential		Residential		Residential		Residential		Residential	
Parking Strategy	Tuck-Under	Underground		Underground		1-level podium		2-level podium		4-level podium	
Assumed Density Cohort	**Low-Med.II**	**Medium**		**Medium**		**High-Med.**		**High**		**High**	
Housing Tenure	**For Sale**	**Rental**	**For Sale**	**Rental**	**For Sale**	**Rental**	**For Sale**	**Rental**	**For Sale**	**Rental**	**For Sale**
Zone Class of Base Zone	**RD1.5**	**R3**	**R3**	**R3**	**R3**	**R4**	**R4**	**R5**	**R5**	**R5**	**R5**
Assumed Height District	1	1	1	1VL	1VL	1	1	2	2	4	4
Base Zone Maximum Height (ft)	45	45	45	50	45	Unlimited	Unlimited	Unlimited	Unlimited	Unlimited	Unlimited
Base Zone Maximum FAR	3.0	3.0	3.0	3.0	3.0	3.0	3.0	6.0	6.0	13.0	13.0
Base Zone Minimum Lot Area/Unit (SF)	1,500	800	800	800	800	400	400	200	200	200	200
Base Zone Max Density (DUAC)	29.0	54.5	54.5	54.5	54.5	108.9	108.9	217.8	217.8	217.8	217.8
Site Area											
Land Area (SF)	15,000	7,500	7,500	15,000	15,000	22,500	22,500	30,000	30,000	44,000	44,000
Residential - Gross Building Area (SF)	15,480	11,880	11,880	21,420	21,420	50,000	14,500	68,533	68,533	131,429	131,429
Unit Count and Mix	**9**	**9**	**9**	**18**	**18**	**50**	**50**	**135**	**135**	**219**	**219**
Typical Unit Mix (Lower Density)											
Avg. Unit Size (Lower Density)	**1,720**	**1,320**	**1,320**	**1,190**	**1,190**	**1,000**	**1,000**	**700**	**700**	**850**	**850**
0BR	0%	0%	0%	0%	0%	0%	0%	30%	30%	25%	25%
1BR	0%	0%	0%	0%	0%	40%	40%	50%	50%	50%	50%
2BR	40%	70%	70%	70%	70%	40%	40%	20%	20%	25%	25%
3BR	60%	30%	30%	30%	30%	20%	20%	0%	0%	0%	0%
4BR	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Denser Unit Mix Alternative											
Avg. Unit Size	**NA**	**880**	**880**	**900**	**900**	**800**	**800**	**NA**	**NA**	**NA**	**NA**
0BR		20%	20%	0%	0%	20%	20%				
1BR		40%	40%	50%	50%	50%	50%				
2BR		40%	40%	50%	50%	30%	30%				
3BR		0%	0%	0%	0%	0%	0%				
4BR		0%	0%	0%	0%	0%	0%				
Parking											
Residential Parking Ratio (spaces/BR)	2 Per Unit	0.60	0.60	0.60	0.60	0.90	0.90	0.90	0.90	0.90	0.90
Total Parking Spaces	18	12	12	25	25	81	81	145	145	246	246
Surface/Tuck Under	18	0	0	0	0	0	0	0	0	0	0
Ground level parking (L1)	0	0	0	0	0	33	33	45	45	74	74
Above-ground podium (L2, L3, L4)	0	0	0	0	0	0	0	60	60	172	172
Subterranean parking (levels)	0	12	12	25	25	48	48	40	40	0	0

Source: AECOM

4.4 Results

4.4.1 Base Case Scenarios

The base case scenarios represent residential prototypes allowed under an assumed range of base zoning conditions. These scenarios test prototypes that maximize by-right unit potential under base zoning, with 100% market-rate units and no density bonus or incentives. Base case residual land values provide a basis of comparison for the incentive program scenarios to follow.

The table below shows estimated residual land values (RLV) for each base case prototype, the assumed market land value threshold for each Market Tier, and a determination of "feasibility" (F), i.e., whether the base case generates RLV that is equal to or greater than the market threshold.

As shown, all prototypes generate negative RLV in Market Tier 1 and all are not feasible. In Market Tier 2, RLVs are mostly positive, and some typologies meet the market value threshold (shown in the "Market Land Value/Sq.Ft." rows in the table) for feasibility. In Market Tiers 3 and 4, most typologies meet the market land value thresholds and are feasible. These findings are broadly consistent with observed market activity, which indicates that under today's market conditions, most development projects are only feasible in stronger markets (or with projects that command rents and sale prices typical of stronger markets). CY4-R is the only prototype not feasible in Market Tier 4; however, its RLV ($224/sq. ft.) is just below the market threshold ($230/sq. ft.).

Table 21. DBO Base Case Residual Land Value Estimates

DBO Base Case: Estimated Residual Land Value											
Prototype (Sale and Rent)	TH-S	CY3-R	CY3-S	CY4-R	CY4-S	P5-R	P5-S	P7-R	P7-S	TW-R	TW-S
Density Cohort	Low Med.	Medium	Medium	Medium	Medium	High Med.	High Med.	High	High	High	High
Market Tier 1											
RLV/Land Sq.Ft.	($11)	($295)	($42)	($269)	($20)	($400)	($86)	($542)	($254)	($642)	($415)
Market Land Value/Sq. Ft.	$140										
Feasibility (RLV > Market)											
Market Tier 2											
RLV/Land Sq.Ft.	$61	$84	$108	$84	$118	$94	$185	$187	$186	$100	($5)
Market Land Value/Sq. Ft.	$145										
Feasibility (RLV > Market)							F	F	F		
Market Tier 3											
RLV/Land Sq.Ft.	$183	$163	$287	$155	$279	$212	$512	$366	$590	$326	$474
Market Land Value/Sq. Ft.	$175										
Feasibility (RLV > Market)	F		F		F	F	F	F	F	F	F
Market Tier 4											
RLV/Land Sq.Ft.	$450	$238	$576	$224	$551	$313	$937	$628	$1,190	$1,217	$1,232
Market Land Value/Sq. Ft.	$230										
Feasibility (RLV > Market)	F	F	F		F	F	F	F	F	F	F

Note: "P" indicates preferable scenarios, "F" indicates feasible scenarios, and blank indicates infeasible scenarios.
All RLVs are rounded, and the determination of feasibility is based on the actual numbers before rounding.
Source: AECOM

4.4.2 Density Bonus Scenarios

The incentive scenarios described in Section 4.3. were applied to each of the base case prototypes, each resulting in a higher density prototype based on the stepping up mechanism described in Section 3.1.2.[27] The tables below show the results from this testing using

[27] For the DBO program, the calculation of the set-aside requirement is based on maximum permissible by-right units—i.e., total potential units before application of a density bonus. For example, for a project in a zone allowing 100 units seeking a 50-unit 50% density bonus and setting aside 10% as affordable, the set-aside requirement is 10

measures of residual land value, feasibility, and preferability. The RLV of each density bonus prototype is evaluated against the market cost of land for feasibility and against the base case prototype RLV for preferability.

DBO Scenario Feasibility: For-Rent Prototypes

The updated DBO demonstrated broad feasibility across the prototypes tested in all market tiers except for Market Tier 1, where achievable rents and sales prices are generally lower than in higher market tier neighborhoods. Market Tier 1 produced negative residual land values in nearly all of the scenarios tested (Table 22).

In Market Tier 2 (Table 23), several incentive scenarios in the Medium density cohort (base densities 30-55 DUAC) produced financial returns that are preferable to the base case.

In Market Tier 3, all residual land values are positive, resulting in feasibility in every density cohort and for both single-affordability and mixed-affordability pathway scenarios. Feasibility in Market Tier 3 extends to include typologies in the High Medium (base density up to 109 DUAC) and High (base density greater than 109 DUAC) density cohorts. Approximately half of the scenarios tested are preferable when comparing their RLVs to the base case.

In Market Tier 4, residual land values are all positive, resulting in feasible scenarios in 32 (80%) of single-affordability scenarios tested and 53 (96%) of multi-affordability scenarios tested. In addition to covering a broader range of feasible scenarios, Market Tier 4 results differ from Market Tier 3 mainly by also yielding feasibility of the TW (tower) typology in the High density cohort. Most of the scenarios are preferable as well as feasible.[28]

units (10% of 100) and not 15 units (10% of 150). This is the approach used by the current adopted DBO and the State Density Bonus Law.

[28] Note that between the podium prototypes, P5 generates lower residual land values compared to P7 in most scenarios. This is largely because the P7 prototype includes two stories of podium parking, while P5 includes one story of podium parking with the remaining parking spaces underground (and underground parking is more expensive than podium parking).

Table 22. DBO For-Rent Scenarios Market Tier 1 Residual Land Value and Feasibility

Market Tier 1 (Market Land Value: $140 Per Sq. Ft.)											
Scenario		DBO Residual Land Value					DBO Feasibility				
Base Case Typology		CY3-R	CY4-R	P5-R	P7-R	TW-R	CY3-R	CY4-R	P5-R	P7-R	TW-R
Single Affordability Pathways		Medium	Medium	High Med.	High	High	Medium	Medium	High Med.	High	High
Base	*No DB / No Set-Aside*	*($295)*	*($269)*	*($400)*	*($542)*	*($642)*					
Scenario 1-R	50.0% DB / 15.0% VLI Set-Aside	($212)	($278)	($666)	($1,049)	($1,117)					
Scenario 2-R	70.0% DB / 20.0% VLI Set-Aside	($240)	($309)	($662)	($1,222)	($1,245)					
Scenario 3-R	88.75% DB / 25.0% VLI Set-Aside	($274)	($335)	($689)	($1,393)	($1,427)					
Scenario 4-R	35.0% DB / 20.0% LI Set-Aside	($225)	($401)	($469)	($914)	($960)					
Scenario 5-R	50.0% DB / 24.0% LI Set-Aside	($194)	($257)	($641)	($1,014)	($1,065)					
Mixed Affordability Pathways											
Scenario 6-R	70.0% DB / 5.0% VLI / 24.0% LI Set-Aside	($231)	($300)	($668)	($1,188)	($1,260)					
Scenario 7-R	85.0% DB / 9.0% VLI / 24.0% LI Set-Aside	($255)	($333)	($697)	($1,323)	($1,415)					
Scenario 8-R	70.0% DB / 15.0% VLI / 5.0% MI Set-Aside	($232)	($304)	($658)	($1,182)	($1,248)					
Scenario 9-R	80.0% DB / 15.0% VLI / 9.0% MI Set-Aside	($256)	($302)	($659)	($1,249)	($1,316)					
Scenario 10-R	88.75% DB / 15.0% VLI / 12.0% MI Set-Aside	($253)	($311)	($655)	($1,309)	($1,372)					
Scenario 11-R	100.0% DB / 15.0% VLI / 15.0% MI Set-Aside	($228)	($464)	($651)	($1,383)	($1,438)					
Scenario 12-R	70.0% DB / 24.0% LI / 5.0% MI Set-Aside	($214)	($283)	($633)	($1,148)	($1,196)					
Scenario 13-R	80.0% DB / 24.0% LI / 9.0% MI Set-Aside	($238)	($281)	($634)	($1,215)	($1,264)					
Scenario 14-R	88.75% DB / 24.0% LI / 12.0% MI Set-Aside	($235)	($290)	($629)	($1,275)	($1,321)					
Scenario 15-R	100.0% DB / 24.0% LI / 15.0% MI Set-Aside	($217)	($460)	($625)	($1,348)	($1,386)					

Notes: Feasibility rows are blank because all projects tested were infeasible. All RLVs are rounded, and the determination of feasibility is based on the actual numbers before rounding.
Source: AECOM

Table 23. DBO For-Rent Scenarios Market Tier 2 Residual Land Value and Feasibility

Market Tier 2 (Market Land Value: $145 Per Sq. Ft.)											
Scenario		**DBO Residual Land Value**					**DBO Feasibility**				
Base Case Typology		CY3-R	CY4-R	P5-R	P7-R	TW-R	CY3-R	CY4-R	P5-R	P7-R	TW-R
Single Affordability Pathways		Medium	Medium	High Med.	High	High	Medium	Medium	High Med.	High	High
Base	*No DB / No Set-Aside*	*$84*	*$84*	*$94*	*$187*	*$100*				F	
Scenario 1-R	50.0% DB / 15.0% VLI Set-Aside	$106	$137	$30	$2	($104)					
Scenario 2-R	70.0% DB / 20.0% VLI Set-Aside	$136	$156	$17	($42)	($100)		P			
Scenario 3-R	88.75% DB / 25.0% VLI Set-Aside	$140	$165	($31)	($91)	($170)		P			
Scenario 4-R	35.0% DB / 20.0% LI Set-Aside	$133	$28	($28)	$12	($84)					
Scenario 5-R	50.0% DB / 24.0% LI Set-Aside	$115	$130	$18	$5	($103)					
Mixed Affordability Pathways											
Scenario 6-R	70.0% DB / 5.0% VLI / 24.0% LI Set-Aside	$124	$140	($33)	($40)	($182)					
Scenario 7-R	85.0% DB / 9.0% VLI / 24.0% LI Set-Aside	$148	$121	($84)	($80)	($253)	P				
Scenario 8-R	70.0% DB / 15.0% VLI / 5.0% MI Set-Aside	$134	$165	$17	($1)	($114)		P			
Scenario 9-R	80.0% DB / 15.0% VLI / 9.0% MI Set-Aside	$158	$162	($5)	($7)	($132)	P	P			
Scenario 10-R	88.75% DB / 15.0% VLI / 12.0% MI Set-Aside	$144	$176	($4)	($10)	($139)		P			
Scenario 11-R	100.0% DB / 15.0% VLI / 15.0% MI Set-Aside	$14	$54	($15)	($8)	($138)					
Scenario 12-R	70.0% DB / 24.0% LI / 5.0% MI Set-Aside	$142	$159	$5	$3	($114)		P			
Scenario 13-R	80.0% DB / 24.0% LI / 9.0% MI Set-Aside	$166	$156	($17)	($3)	($131)	P	P			
Scenario 14-R	88.75% DB / 24.0% LI / 12.0% MI Set-Aside	$152	$169	($15)	($6)	($138)	P	P			
Scenario 15-R	100.0% DB / 24.0% LI / 15.0% MI Set-Aside	$20	$36	($27)	($4)	($138)					

Note: "P" indicates preferable scenarios, "F" indicates feasible scenarios, and blank indicates infeasible scenarios. All RLVs are rounded, and the determination of feasibility is based on the actual numbers before rounding.
Source: AECOM

Table 24. DBO For-Rent Scenarios Market Tier 3 Residual Land Value and Feasibility

Market Tier 3 (Market Land Value: $175 Per Sq. Ft.)											
Scenario		DBO Residual Land Value					DBO Feasibility				
Base Case Typology		CY3-R	CY4-R	P5-R	P7-R	TW-R	CY3-R	CY4-R	P5-R	P7-R	TW-R
Single Affordability Pathways		Medium	Medium	High Med.	High	High	Medium	Medium	High Med.	High	High
Base	*No DB / No Set-Aside*	*$163*	*$155*	*$212*	*$366*	*$326*			F	F	F
Scenario 1-R	50.0% DB / 15.0% VLI Set-Aside	$167	$214	$195	$321	$204		P	F	F	F
Scenario 2-R	70.0% DB / 20.0% VLI Set-Aside	$206	$247	$184	$317	$259	P	P	F	F	F
Scenario 3-R	88.75% DB / 25.0% VLI Set-Aside	$216	$261	$132	$304	$225	P	P		F	F
Scenario 4-R	35.0% DB / 20.0% LI Set-Aside	$209	$112	$76	$293	$180	P			F	F
Scenario 5-R	50.0% DB / 24.0% LI Set-Aside	$174	$202	$173	$314	$186		P		F	F
Mixed Affordability Pathways											
Scenario 6-R	70.0% DB / 5.0% VLI / 24.0% LI Set-Aside	$190	$222	$117	$308	$143	P	P		F	
Scenario 7-R	85.0% DB / 9.0% VLI / 24.0% LI Set-Aside	$223	$205	$60	$297	$96	P	P		F	
Scenario 8-R	70.0% DB / 15.0% VLI / 5.0% MI Set-Aside	$202	$252	$177	$358	$229	P	P	F	F	F
Scenario 9-R	80.0% DB / 15.0% VLI / 9.0% MI Set-Aside	$235	$248	$149	$370	$226	P	P		P	F
Scenario 10-R	88.75% DB / 15.0% VLI / 12.0% MI Set-Aside	$217	$266	$151	$384	$234	P	P		P	F
Scenario 11-R	100.0% DB / 15.0% VLI / 15.0% MI Set-Aside	$71	$177	$136	$407	$254		P		P	F
Scenario 12-R	70.0% DB / 24.0% LI / 5.0% MI Set-Aside	$208	$240	$156	$351	$211	P	P		F	F
Scenario 13-R	80.0% DB / 24.0% LI / 9.0% MI Set-Aside	$242	$236	$127	$363	$208	P	P		F	F
Scenario 14-R	88.75% DB / 24.0% LI / 12.0% MI Set-Aside	$224	$253	$129	$377	$216	P	P		P	F
Scenario 15-R	100.0% DB / 24.0% LI / 15.0% MI Set-Aside	$75	$154	$114	$400	$236				P	F

Note: "P" indicates preferable scenarios, "F" indicates feasible scenarios, and blank indicates infeasible scenarios. All RLVs are rounded, and the determination of feasibility is based on the actual numbers before rounding.
Source: AECOM

Table 25. DBO For-Rent Scenarios Market Tier 4 Residual Land Value and Feasibility

Market Tier 4 (Market Land Value: $230 Per Sq. Ft.)											
Scenario		DBO Residual Land Value					DBO Feasibility				
Base Case Typology		CY3-R	CY4-R	P5-R	P7-R	TW-R	CY3-R	CY4-R	P5-R	P7-R	TW-R
Single Affordability Pathways		Medium	Medium	High Med.	High	High	Medium	Medium	High Med.	High	High
Base	*No DB / No Set-Aside*	*$238*	*$224*	*$313*	*$628*	*$1,217*	F		F	F	F
Scenario 1-R	50.0% DB / 15.0% VLI Set-Aside	$222	$283	$337	$1,580	$1,415		P	P	P	P
Scenario 2-R	70.0% DB / 20.0% VLI Set-Aside	$269	$339	$347	$1,730	$1,659	P	P	P	P	P
Scenario 3-R	88.75% DB / 25.0% VLI Set-Aside	$286	$360	$290	$1,862	$1,760	P	P	F	P	P
Scenario 4-R	35.0% DB / 20.0% LI Set-Aside	$270	$194	$166	$1,398	$1,217	P			P	F
Scenario 5-R	50.0% DB / 24.0% LI Set-Aside	$227	$266	$307	$1,528	$1,323		P	F	P	P
Mixed Affordability Pathways											
Scenario 6-R	70.0% DB / 5.0% VLI / 24.0% LI Set-Aside	$249	$296	$246	$1,675	$1,417	P	P	F	P	P
Scenario 7-R	85.0% DB / 9.0% VLI / 24.0% LI Set-Aside	$291	$281	$184	$1,779	$1,470	P	P		P	P
Scenario 8-R	70.0% DB / 15.0% VLI / 5.0% MI Set-Aside	$263	$331	$315	$1,772	$1,580	P	P	P	P	P
Scenario 9-R	80.0% DB / 15.0% VLI / 9.0% MI Set-Aside	$305	$326	$282	$1,854	$1,632	P	P	F	P	P
Scenario 10-R	88.75% DB / 15.0% VLI / 12.0% MI Set-Aside	$284	$347	$283	$1,934	$1,697	P	P	F	P	P
Scenario 11-R	100.0% DB / 15.0% VLI / 15.0% MI Set-Aside	$120	$282	$265	$2,040	$1,793		P	F	P	P
Scenario 12-R	70.0% DB / 24.0% LI / 5.0% MI Set-Aside	$268	$314	$285	$1,720	$1,487	P	P	F	P	P
Scenario 13-R	80.0% DB / 24.0% LI / 9.0% MI Set-Aside	$310	$309	$252	$1,802	$1,539	P	P	F	P	P
Scenario 14-R	88.75% DB / 24.0% LI / 12.0% MI Set-Aside	$289	$330	$253	$1,882	$1,604	P	P	F	P	P
Scenario 15-R	100.0% DB / 24.0% LI / 15.0% MI Set-Aside	$123	$255	$235	$1,988	$1,701		P	F	P	P

Note: "P" indicates preferable scenarios, "F" indicates feasible scenarios, and blank indicates infeasible scenarios. All RLVs are rounded, and the determination of feasibility is based on the actual numbers before rounding.
Source: AECOM

DBO Scenario Feasibility: For-Sale Prototypes

Feasibility results for the four for-sale prototypes tested are shown for each market tier in Table 26. Residual land values steadily increased with each market tier, starting with Market Tier 1 which produced nearly all negative RLVs, to Market Tier 4 which produced feasible results in every scenario for all but one prototype. However, incentive program scenario preferability is limited, because in most scenarios, the incentive scenarios generate RLVs that fall below the base case RLVs.

For example, in Market Tier 4, where $230/square foot is the typical market land value, the CY3 base case produces a RLV of $576 per land square foot – making the base case feasible. However, all four incentive scenarios return RLVs around $400, which is significantly higher than the market cost of land, but falls short of the $576 threshold. A developer looking for the highest rate of return would in theory elect to develop the base case (100% market-rate) scenario rather than a larger project incorporating affordable set-asides and density bonuses.

Table 26. DBO For-Sale Scenarios Residual Land Value and Feasibility by Market Tier

Scenario		Residual Land Value/Sq.Ft.						Feasibility					
	Base Case Prototype	TH-S	CY 3-S	CY 4-S	P5-S	P7-S	TW-S	TH-S	CY 3-S	CY 4-S	P5-S	P7-S	TW-S
	Density Cohort	Medium	Medium	Medium	High Med.	High	High	Medium	Medium	Medium	High Med.	High	High
Market Tier 1 (Market Land Value: $140 Per Sq. Ft.)													
Base Scenario	*No DB / No Set-Aside*	*($11)*	*($42)*	*($20)*	*($86)*	*($254)*	*($415)*						
Scenario 1-S	50.0% DB / 44.0% MI Set-Aside	($191)	$7	($12)	($274)	($713)	($782)						
Scenario 2-S	72.5% DB / 50.0% MI Set-Aside	($226)	$16	($6)	($302)	($836)	($916)						
Scenario 3-S	100% DB / 24% LI / 15% MI Set-Aside	($285)	($84)	($172)	($315)	($1,020)	($1,134)						
Scenario 4-S	100% DB / 15% VLI / 15% MI Set-Aside	($264)	($88)	($151)	($295)	($1,025)	($1,136)						
Market Tier 2 (Market Land Value: $145 Per Sq. Ft.)													
Land Cost		$145											
Base Scenario	*No DB / No Set-Aside*	*$61*	*$108*	*$118*	*$185*	*$186*	*($5)*				F	F	
Scenario 1-S	50.0% DB / 44.0% MI Set-Aside	($142)	$111	$105	$29	($210)	($347)						
Scenario 2-S	72.5% DB / 50.0% MI Set-Aside	($177)	$134	$130	($15)	($253)	($412)						
Scenario 3-S	100% DB / 24% LI / 15% MI Set-Aside	($219)	$43	$95	($0)	($291)	($470)						
Scenario 4-S	100% DB / 15% VLI / 15% MI Set-Aside	($182)	$43	$127	$42	($272)	($434)						
Market Tier 3 (Market Land Value: $175 Per Sq. Ft.)													
Base Scenario	*No DB / No Set-Aside*	*$183*	*$287*	*$279*	*$512*	*$590*	*$474*	F	F	F	F	F	F
Scenario 1-S	50.0% DB / 44.0% MI Set-Aside	($84)	$243	$251	$388	$378	$161		F	F	F	F	
Scenario 2-S	72.5% DB / 50.0% MI Set-Aside	($120)	$282	$300	$323	$427	$177		F	P	F	F	F
Scenario 3-S	100% DB / 24% LI / 15% MI Set-Aside	($144)	$196	$418	$381	$553	$304		F	P	F	F	F
Scenario 4-S	100% DB / 15% VLI / 15% MI Set-Aside	($87)	$199	$468	$456	$598	$383		F	P	F	P	F
Market Tier 4 (Market Land Value: $230 Per Sq. Ft.)													
Base Scenario	*No DB / No Set-Aside*	*$450*	*$576*	*$551*	*$937*	*$1,190*	*$1,232*	F	F	F	F	F	F
Scenario 1-S	50.0% DB / 44.0% MI Set-Aside	$15	$422	$451	$859	$1,309	$965		F	F	F	P	F
Scenario 2-S	72.5% DB / 50.0% MI Set-Aside	($20)	$483	$532	$766	$1,504	$1,109		F	F	F	P	F
Scenario 3-S	100% DB / 24% LI / 15% MI Set-Aside	($1)	$394	$837	$876	$1,890	$1,530		F	P	F	P	P
Scenario 4-S	100% DB / 15% VLI / 15% MI Set-Aside	$84	$404	$908	$990	$1,976	$1,678		F	P	P	P	P

Note: "P" indicates preferable scenarios, "F" indicates feasible scenarios, and blank indicates infeasible scenarios. All RLVs are rounded, and the determination of feasibility is based on the actual numbers before rounding.
Source: AECOM

4.5 Summary and Implications

This analysis of the proposed updated DBO Incentive Program suggests the program creates sufficient incentives to generate broad potential feasibility—with some key considerations.

- **Feasibility is limited in Market Tiers 1 and 2.** The DBO program does not create financially feasible outcomes in Market Tier 1. Base case (100% market-rate) scenarios are also infeasible in Market Tier 1 under current market conditions. Some for-rent projects are feasible–and preferable to the base case–in Market Tier 2, but only for sites with Medium base densities (i.e., 55 DUAC and below), which are typically associated with prototypes that have lower construction costs relative to higher density prototypes.
- **In Market Tiers 3 and 4, most density cohorts meet the market land value thresholds of feasibility, and many for-rent incentive program scenarios are preferable to the base case – consistent with recent development trends**. These findings are broadly consistent with observed market activity, which indicates that under current market conditions, development projects are generally only feasible in stronger markets (or with projects that command rents and sale prices typical of stronger markets). Higher density levels are also more valuable in stronger markets, where the value created by the additional units can more easily exceed the cost of setting aside additional affordable units.
- **Developers that take advantage of the DBO program in stronger markets are likely to choose set-aside pathways that provide VLI units.** VLI units generate less revenue *per unit* than LI. However, in Market Tier 4, the per unit effect on RLV is outweighed by the fact that projects that provide VLI units are required to provide fewer affordable units, compared to projects that provide LI units.[29]
- **There is no clear pattern in how single- versus mixed-affordability pathway projects compare in terms of feasibility or preferability.** The relative RLVs generated by single-tier versus mixed-affordability pathway projects vary by prototype, Market Tier, and the exact combination of income levels and percentages selected, with no single pattern emerging from this analysis. The City is likely to see development projects selecting a variety of strategies, based on site-specific characteristics that will determine for individual projects the tradeoff between the value of increased density, and the cost of providing different affordable set asides.
- **One for-sale scenario (100% density bonus with a 15% VLI/15% MI set aside) was preferable to the base case across multiple prototypes in Market Tier 4.** In most for-sale scenarios, the added density does not provide sufficient value to outweigh the additional costs associated with providing additional affordable set-aside units. However, in Market Tier 4, Scenario 4-S – which included a 100% density bonus and 15% VLI/15% MI set aside – was preferable to the base case across multiple prototypes.
- **Most DBO scenarios tested were limited by density, rather than the other potential limiting parameters built into the model, such as FAR and height**. In other words, most DBO scenarios tested had sufficient FAR available to allow higher density prototypes, so the associated density bonuses tended to be the key factor in determining the ultimate form of the bonus prototype. Exploratory testing found that since DBO scenarios were mostly limited by density rather than FAR, counting above-grade parking towards FAR had minimal impacts on the feasibility of tested scenarios. Note that this finding reflects the specific FAR

[29] In Market Tier 1, LI unit pathways generate higher residual land values compared to VLI pathways because there is a smaller gap between market-rate and LI units.

and height limits tested and could change depending on the FAR and height limits in the final ordinance.

5. Transit Oriented Incentive Areas (TOIA)

5.1 Overview

The Transit Oriented Incentive Area program (TOIA) provides density bonus incentives in exchange for affordable housing set-asides in mixed-income residential projects near transit nodes. Both the set-aside requirements and available bonuses increase by TOIA Tiers, where TOIA Tier 1 (T-1) represents the furthest distance from a Major Transit Stop and Tier 4 (T-4) the shortest distance from a Major Transit Stop. The program was previously known as the Transit Oriented Communities (TOC) program. It was initially created after voters passed Measure JJJ in 2016 and became effective in September 2017.

The City is proposing to integrate this program as a local implementation of Density Bonus law, and the TOIA program aims to increase available density bonuses beyond current standards, building off recent changes to state law (AB 1287) which expanded density bonuses in the state density bonus program to up to 100 percent. The proposed TOIA also includes expanding procedures for applicants to request off-menu incentives, which is an option that is not available through the existing TOC program. In addition, the City is contemplating increasing set-aside requirements in higher market tiers.

5.2 TOIA Incentive Program

The proposed TOIA schedule will allow for 100% density bonuses in Tier 1, 120% in Tier 2, and unlimited density bonuses in Tiers 3 and 4..[30] The City is considering a variety of potential set-aside schedules, which could be applied as either:

- A single-tier program structure with set-aside requirements that apply consistently across the City; or
- A multi-tier program structure with different set-aside requirements applied in each Market Tier.

Table 28 shows a potential structure for a single-tier program. For example, under this structure, a program could provide 8% ELI units, 11% VLI units, or 20% Li units to achieve a 100% density bonus in Tier 1. Table 29 shows a potential structure for a multi-tier program. Note that these programs are still under development and the final set-aside schedule may differ from those shown here.

Note that TOIA program calculates affordability set-aside requirements based on the total number of units per project. This is a shift from DBO which calculates set-aside requirements as a percentage of units allowed under density limits tied to a site's base zoning condition.

[30] Previously, the TOC program allowed for a 50% density bonus in Tier 1, 60% in Tier 2, 70% in Tier 3, and 80% in Tier 4.

Table 27. Proposed TOIA Density Bonuses and Potential Set-Aside Requirements: Single-Tier Program Structure

Proposed TOIA					
Potential Set Aside Schedules	TOIA Tier	Density Bonus	Affordability		
			ELI	VLI	LI
Single-Tier Program Structure	1	100%	8%	11%	20%
	2	120%	9%	12%	21%
	3	unlimited	10%	14%	23%
	4	unlimited	11%	15%	25%

Source: City of Los Angeles, AECOM

Table 28. Proposed TOIA Density Bonuses and Potential Set-Aside Requirements: Multi-Tier Program Structure

Proposed TOIA					
Potential Set Aside Schedules	TOIA Tier	Density Bonus	Affordability		
			ELI	VLI	LI
Market Tier 1	1	100%	9.0%	12.5%	21.0%
	2	120%	10.0%	13.0%	22.0%
	3	unlimited	11.0%	14.0%	23.0%
	4	unlimited	12.0%	15.0%	25.0%
Market Tier 2	1	100%	10.0%	13.0%	21.0%
	2	120%	11.0%	14.0%	22.0%
	3	unlimited	12.0%	15.0%	24.0%
	4	unlimited	13.0%	16.0%	26.0%
Market Tier 3	1	100%	11.0%	14.0%	22.0%
	2	120%	12.0%	15.0%	23.0%
	3	unlimited	13.0%	16.0%	25.0%
	4	unlimited	14.0%	17.0%	27.0%
Market Tier 4	1	100%	12.0%	15.0%	23.0%
	2	120%	13.0%	16.0%	24.0%
	3	unlimited	14.0%	17.0%	25.0%
	4	unlimited	16.0%	19.0%	29.0%

Source: City of Los Angeles, AECOM

In addition to density incentives, the proposed program increases parking and FAR incentives. As shown in Table 29, the Proposed TOIA Schedule adds an additional 0.25 FAR bonus for each TOIA Tier and eliminates the parking minimum, consistent with Assembly Bill 2097 (AB 2097).

Table 29. FAR, Height, and Parking Requirements: Proposed TOIA Programs

Proposed TOIA Incentive Structure				
TOC Tier	Parking	FAR Maximum of:		Add'l Height (above Base)
TOIA 1	No Minimum	3.00 FAR	40% over base	1 story/11 feet
TOIA 2	No Minimum	3.50 FAR	45% over base	1 story/11 feet
TOIA 3	No Minimum	4.00 FAR	50% over base	2 stories/22 feet
TOIA 4	No Minimum	4.50 FAR	55% over base	3 stories/33 feet

Source: City of Los Angeles, AECOM

5.3 TOIA Scenarios Tested

AECOM explored the development feasibility of four potential set-aside schedules, shown in Table 30. [31] The density bonus incentives remain the same across all of the schedules tested, but the affordability set-aside is increased incrementally with each scenario.

Each incentive program scenario indicated by the schedule in Table 30 is tested for feasibility with height and FAR parameters governed by TOIA standards shown in Table 29.

Table 30. TOIA Incentives and Set-asides Tested

TOIA Incentives Tested					
Potential Set Aside Schedules	TOIA Tier	Density Bonus	Affordability		
			ELI	VLI	LI
Schedule A	1	100%	8%	11%	20%
	2	120%	9%	12%	21%
	3	Unlimited	10%	14%	23%
	4	Unlimited	11%	15%	25%
Schedule B	1	100%	9%	12%	21%
	2	120%	10%	13%	22%
	3	Unlimited	11%	15%	24%
	4	Unlimited	12%	16%	26%
Schedule C	1	100%	10%	13%	22%
	2	120%	11%	14%	23%
	3	Unlimited	12%	16%	25%
	4	Unlimited	13%	17%	27%
Schedule D	1	100%	11%	14%	23%
	2	120%	12%	15%	24%
	3	Unlimited	13%	17%	26%
	4	Unlimited	14%	18%	28%

Source: City of Los Angeles, AECOM

[31] Note that Schedule A aligns with the set asides of the proposed single-tier program structure shown in Table 28. Schedules B, C, and D respectively align with the set-asides of the proposed multi-tier program structure for Market Tiers 1, 2, and 3 shown in Table 29.

5.3.1 Sites and Prototypes Tested

Table 31 shows the sites and prototypes that were tested. The prototypes were selected with City staff to represent a range of density cohorts likely to be developed in transit-oriented areas (i.e., excluding some of the lower-density prototypes tested for DBO), and include a set of 5 distinct typologies, of which 3 are tested assuming a residential base zone and 4 assuming a commercial base zone. Only rental prototypes are tested.

Where an unlimited density bonus is available, AECOM assumed densities increase until either the maximum FAR was reached, or until a 28-story tower was reached (i.e., the maximum density project for which a prototype is available within the framework for this analysis).

Table 31. TOIA Test Site and Prototype Assumptions

TOIA Site and Prototype Assumptions								
	TOIA Residential Zones				TOIA Commercial Zones			
Base Housing Typology	**4D**	**CY3**	**CY4**	**P5**	**CY4**	**P5**	**P7**	**TW**
Description	2-Duplex buildings	3-story Courtyard-style	4-story Courtyard-style	5/6-Story Podium	4-story Courtyard-style	5/6-Story Podium	7/8-Story Podium	Tower
Use Program	Residential	Residential	Residential	Residential	Residential	Residential	Mixed-Use	Mixed-Use
Parking Strategy	Surface & tuck-under	Under-ground	Under-ground	1-level podium	Under-ground	1-level podium	2-level podium	4-level podium
Associated Density Cohort	**Low-Medium**	**Medium**	**Medium**	**High-Medium**	**Medium**	**High-Medium**	**High-Medium**	**High-Medium**
Zone Class of Base Zone	**RD1.5**	**R3**	**R3**	**R4**	**C1, CM**	**C2, C4, C5**	**C2, C4, C5**	**C2, C4, C5**
Assumed Height District	1	1	1VL	1	1VL	1	2	4
Base Zone Maximum Height (ft)	45	45	50	Unlimited	45	Unlimited	Unlimited	Unlimited
Base Zone Maximum # of Stories	Unlimited	Unlimited	Unlimited	Unlimited	3	Unlimited	Unlimited	Unlimited
Base Zone Maximum FAR	3.0	3.0	3.0	3.0	1.5	1.5	6.0	13.0
Base Zone Minimum Lot Area/Unit (SF)	1,500	800	800	400	400	400	400	400
Base Zone Max Density (DUAC)	29.0	54.5	54.5	108.9	108.90	108.9	108.9	108.9
Site Area								
Land Area (SF)	7,500	7,500	15,000	22,500	15,000	22,500	30,000	44,000
Residential - Gross Building Area (SF)	5,000	11,880	21,420	50,000	4,850	14,500	68,533	131,429
Retail - Gross Building Area (SF)	0	0	0	0	0	0	6,000	9,900
Total Gross Building Area (SF)	5,000	11,880	21,420	50,000	4,850	14,500	74,533	141,329
Unit Count and Mix	**4**	**9**	**18**	**50**	**15**	**25**	**74**	**109**
Typical Unit Mix (Lower Density)								
Avg. Unit Size (Lower Density)	**1,250**	**1,320**	**1,190**	**1,000**	**1,190**	**1,000**	**700**	**850**
0BR	0%	0%	0%	0%	0%	0%	30%	25%
1BR	0%	0%	0%	40%	0%	40%	50%	50%
2BR	20%	70%	70%	40%	70%	40%	20%	25%
3BR	40%	30%	30%	20%	30%	20%	0%	0%
4BR	40%	0%	0%	0%	0%	0%	0%	0%
Denser Unit Mix Alternative								
Avg. Unit Size	**NA**	**880**	**900**	**800**	**900**	**800**	**NA**	**NA**
0BR		20%	0%	20%	0%	20%		
1BR		40%	50%	50%	50%	50%		
2BR		40%	50%	30%	50%	30%		
3BR		0%	0%	0%	0%	0%		
4BR		0%	0%	0%	0%	0%		
Parking Strategy								
Residential Parking (spaces/BR)	2 per unit	0.60	0.60	0.90	0.60	0.90	0.90	0.90
Total Parking Spaces	8	12	25	81	20	41	103	162
Surface/Tuck Under	8	0	0	0	0	0	0	0
Ground level parking (L1)	0	0	0	33	0	33	30	49
Above-ground podium (L2, L3, and L4)	0	0	0	0	0	0	60	113
Subterranean parking	0	12	25	48	20	8	13	0

Source: AECOM

5.4 Results

5.4.1 Base Case Feasibility

The base case is a test of each typology with 100% market-rate units and no density bonus. Base case residual land values provide a basis of comparison with the incentive scenarios to follow. Table 32 below shows estimated residual land value (RLV) for each typology, the assumed market land value threshold for each Market Tier (shown in the “Market Land Value/Sq.Ft.” row in the table), and a determination of whether the scenario is “feasible,” i.e., whether the base case generates RLV that is equal to or greater than the market threshold.

As shown, nearly all typologies generate negative RLV in Market Tier 1. In Market Tier 2, RLVs are more positive but none meet the market value threshold for feasibility. In Market Tier 3, all but the TW-based sites and density cohorts generate positive RLVs, and the High Medium site in the residential zone is feasible with the RLV of $212 exceeding the $175 threshold. Notably, two additional residential sites in the Medium density cohort (CY3 and CY4) generate RLVs that are close to meeting the benchmark threshold.

In Market Tier 4, all base typologies generate positive RLV, two meet the market land value thresholds and are feasible (P5 and TW), and two more are close to meeting the benchmark threshold (CY3 and CY4).

Table 32. TOIA Base Case Prototypes Feasibility

Prototype	4D-R	CY3-R	CY4-R	P5-R	CY4-R	P5-R	P7-R	TW-R
Site Zoning	Residential				Commercial			
Density Cohort	Low Med II	Medium	Medium	Med. High	Medium	Med. High	High	High
Market Tier 1								
RLV/Land Sq.Ft.	$7	($295)	($269)	($400)	($222)	($201)	($456)	($484)
Market Land Value/Sq.Ft.	$140	$140	$140	$140	$115	$115	$115	$115
Feasibility (RLV > Market)								
Market Tier 2								
RLV/Land Sq.Ft.	$62	$84	$84	$94	$72	$46	($55)	($113)
Market Land Value/Sq.Ft.	$145	$145	$145	$145	$170	$170	$170	$170
Feasibility (RLV > Market)								
Market Tier 3								
RLV/Land Sq.Ft.	$173	$163	$155	$212	$131	$104	$43	($1)
Market Land Value/Sq.Ft.	$175	$175	$175	$175	$185	$185	$185	$185
Feasibility (RLV > Market)				F				
Market Tier 4								
RLV/Land Sq.Ft.	$255	$238	$224	$313	$188	$155	$161	$408
Market Land Value/Sq.Ft.	$230	$230	$230	$230	$240	$240	$240	$240
Feasibility (RLV > Market)	F	F		F				F

Note: "F" indicates feasible scenarios, and blank indicates infeasible scenarios. All RLVs are rounded, and the determination of feasibility is based on the actual numbers before rounding.
Source: AECOM

5.4.2 TOIA Scenario Feasibility

This section summarizes the feasibility results of the TOIA incentive program schedules described in Section 5.3. The tables below show the results using measures of residual land value, feasibility, and preferability, where the RLV of each density bonus prototype is evaluated against the market cost of land for feasibility and against the base case prototype RLV for preferability. Results are presented by Market Tier.

None of the scenarios tested were feasible in Market Tiers 1 and 2 and RLVs are generally negative (Table 33 and Table 34). Increasing the set-aside requirements makes the RLVs more negative (i.e., RLVs are more negative for Schedule B compared to Schedule A, and so on).

Table 35 shows the results for Market Tier 3, organized by residential versus commercial prototype, set aside schedule, TOIA Tier, and affordability level selected to achieve the density bonus. Under Schedule A, several scenarios are feasible (compared to the market and value) and/or preferable (compared to the base case scenario) – representing an improvement over the base case scenario where only the residential-zoned P5-R prototype was feasible. Under Schedules B and C, only one tested scenario is feasible/preferable.

Table 36 shows the results for Market Tier 4. In Market Tier 4, the higher density prototypes are broadly feasible and in many cases preferable, even with increased standards up to Schedule C and D. Some lower and medium density projects are also feasible/preferable. Given current market conditions and the prototypes modeled, Market Tier 4 appears to be the only market tier that can support these higher set aside schedules.

Table 33. TOIA Scenario Residual Land Value and Feasibility Market Tier 1

TOIA Incentives Tested (Residential) - Market Tier 1			Residual Land Value/Sq.Ft.				Feasibility			
Base Typology			4D-R	CY3-R	CY4-R	P5-R	4D-R	CY3-R	CY4-R	P5-R
			Residential							
Residential			Low Med.	Medium	Medium	Med. High	Low Med II	Medium	Medium	Med. High
Market Land Value/Sq.ft.			$140							
Potential Set Aside Schedules	TOIA Tier	Affordability								
Base Case Scenario	-	-	$7	($295)	($269)	($400)				
Schedule A	1	8% ELI	($396)	($499)	($499)	($596)				
	2	9% ELI	($396)	($541)	($541)	($617)				
	3	10% ELI	($694)	($631)	($631)	($617)				
	4	11% ELI	($702)	($668)	($668)	($626)				
	1	11% VLI	($382)	($499)	($499)	($593)				
	2	12% VLI	($423)	($538)	($538)	($609)				
	3	14% VLI	($701)	($623)	($623)	($625)				
	4	15% VLI	($707)	($660)	($660)	($630)				
	1	20% LI	($381)	($481)	($481)	($579)				
	2	21% LI	($381)	($523)	($523)	($587)				
	3	23% LI	($673)	($583)	($583)	($596)				
	4	25% LI	($673)	($612)	($612)	($597)				

TOIA Incentives Tested (Commercial) - Market Tier 1			Residual Land Value/Sq.Ft.				Feasibility			
			Commercial							
Base Typology			CY4-R	P5-R	P7-R	TW-R	CY4-R	P5-R	P7-R	TW-R
Density Cohort			Medium	Med. High	High	High	Medium	Med. High	High	High
Market Land Value/Sq.ft.			$115							
Potential Set Aside Schedules	TOIA Tier	Affordability								
Base Case Scenario	-	-	($209)	($189)	($436)	($459)				
Schedule A	1	8% ELI	($433)	($433)	($851)	($882)				
	2	9% ELI	($526)	($526)	($813)	($968)				
	3	10% ELI	($392)	($617)	($860)	($1,709)				
	4	11% ELI	($634)	($626)	($916)	($1,739)				
	1	11% VLI	($438)	($438)	($844)	($883)				
	2	12% VLI	($523)	($523)	($813)	($961)				
	3	14% VLI	($401)	($625)	($863)	($1,716)				
	4	15% VLI	($629)	($630)	($913)	($1,743)				
	1	20% LI	($427)	($427)	($803)	($861)				
	2	21% LI	($500)	($500)	($780)	($932)				
	3	23% LI	($361)	($596)	($824)	($1,632)				
	4	25% LI	($586)	($597)	($871)	($1,654)				

Note: "P" indicates preferable scenarios, "F" indicates feasible scenarios, and blank indicates infeasible scenarios. All RLVs are rounded, and the determination of feasibility is based on the actual numbers before rounding.
Source: AECOM

Table 34. TOIA Scenario Residual Land Value and Feasibility Market Tier 2

TOIA Incentives Tested (Residential) - Market Tier 2			Residual Land Value/Sq.Ft.				Feasibility			
Base Typology			4D-R	CY3-R	CY4-R	P5-R	4D-R	CY3-R	CY4-R	P5-R
			Residential							
Residential			Low Med.	Medium	Medium	Med. High	Low Med II	Medium	Medium	Med. High
Market Land Value/Sq.ft.			$145							
Potential Set Aside Schedules	TOIA Tier	Affordability								
Base Case Scenario	-	-	$62	$84	$84	$94				
Schedule A	1	8% ELI	($54)	$21	$21	$52				
	2	9% ELI	($54)	$25	$25	$17				
	3	10% ELI	($59)	($140)	($140)	$17				
	4	11% ELI	($72)	($159)	($159)	$4				
	1	11% VLI	($40)	$6	$6	$40				
	2	12% VLI	($122)	$13	$13	$11				
	3	14% VLI	($95)	($147)	($147)	($18)				
	4	15% VLI	($104)	($170)	($170)	($28)				
	1	20% LI	($80)	($18)	($18)	($0)				
	2	21% LI	($80)	($27)	($27)	($21)				
	3	23% LI	($123)	($148)	($148)	($46)				
	4	25% LI	($127)	($165)	($165)	($50)				

TOIA Incentives Tested (Commercial) - Market Tier 2			Residual Land Value/Sq.Ft.				Feasibility			
			Commercial							
Base Typology			CY4-R	P5-R	P7-R	TW-R	CY4-R	P5-R	P7-R	TW-R
Density Cohort			Medium	Med. High	High	High	Medium	Med. High	High	High
Market Land Value/Sq.ft.			$170							
Potential Set Aside Schedules	TOIA Tier	Affordability								
Base Case Scenario	-	-	$89	$62	($31)	($82)				
Schedule A	1	8% ELI	$32	$32	($85)	($184)				
	2	9% ELI	$26	$26	($206)	($208)				
	3	10% ELI	$125	$17	($225)	($329)				
	4	11% ELI	($144)	$4	($255)	($372)				
	1	11% VLI	$11	$11	($98)	($203)				
	2	12% VLI	$14	$14	($224)	($218)				
	3	14% VLI	$91	($18)	($250)	($385)				
	4	15% VLI	($159)	($28)	($275)	($428)				
	1	20% LI	($17)	($17)	($119)	($234)				
	2	21% LI	($5)	($5)	($234)	($250)				
	3	23% LI	$89	($46)	($260)	($407)				
	4	25% LI	($158)	($50)	($289)	($456)				

Note: "P" indicates preferable scenarios, "F" indicates feasible scenarios, and blank indicates infeasible scenarios. All RLVs are rounded, and the determination of feasibility is based on the actual numbers before rounding.
Source: AECOM

Table 35. TOIA Scenario Residual Land Value and Feasibility Market Tier 3

TOIA Incentives Tested (Residential)			Residual Land Value/Sq.Ft.				Feasibility			
Base Typology			4D-R	CY3-R	CY4-R	P5-R	4D-R	CY3-R	CY4-R	P5-R
			Residential							
Residential			Low Med.	Medium	Medium	Med. High	Low Med II	Medium	Medium	Med. High
Market Land Value/Sq.ft.			$175							
Potential Set Aside Schedules	TOIA Tier	Affordability								
Base Case Scenario	-	-	$173	$163	$155	$212				F
Schedule A	1	8% ELI	$21	$150	$150	$213				P
	2	9% ELI	$21	$166	$166	$175				
	3	10% ELI	$98	($15)	($15)	$175				
	4	11% ELI	$85	($30)	($30)	$161				
	1	11% VLI	$35	$130	$130	$197				F
	2	12% VLI	($56)	$150	$150	$164				
	3	14% VLI	$55	($27)	($27)	$131				
	4	15% VLI	$45	($46)	($46)	$122				
	1	20% LI	($13)	$95	$95	$142				
	2	21% LI	($13)	$95	$95	$117				
	3	23% LI	$12	($39)	($39)	$88				
	4	25% LI	$8	($53)	($53)	$84				
Schedule B	1	9% ELI	$21	$136	$136	$175				
	2	10% ELI	$21	$128	$128	$175				
	3	11% ELI	$85	($21)	($21)	$161				
	4	12% ELI	$47	($46)	($46)	$124				
	1	12% VLI	($56)	$130	$130	$164				
	2	13% VLI	($56)	$117	$117	$131				
	3	15% VLI	$45	($40)	($40)	$122				
	4	16% VLI	$13	($50)	($50)	$89				
	1	21% LI	($13)	$95	$95	$117				
	2	22% LI	($13)	$95	$95	$113				
	3	24% LI	$12	($44)	($44)	$88				
	4	26% LI	($17)	($66)	($66)	$59				
Schedule C	1	10% ELI	$21	$136	$136	$175				
	2	11% ELI	$21	$128	$128	$161				
	3	12% ELI	$47	($43)	($43)	$124				
	4	13% ELI	$9	($58)	($58)	$86				
	1	13% VLI	($56)	$121	$121	$131				
	2	14% VLI	($56)	$117	$117	$131				
	3	16% VLI	$13	($59)	($59)	$89				
	4	17% VLI	$13	($68)	($68)	$89				
	1	22% LI	($13)	$91	$91	$113				
	2	23% LI	($82)	$71	$71	$88				
	3	25% LI	$8	($52)	($52)	$84				
	4	27% LI	($17)	($74)	($74)	$59				
Schedule D	1	11% ELI	$21	$99	$99	$161				
	2	12% ELI	($84)	$115	$115	$124				
	3	13% ELI	$9	($58)	($58)	$86				
	4	14% ELI	$9	($74)	($74)	$86				
	1	14% VLI	($56)	$121	$121	$131				
	2	15% VLI	($56)	$85	$85	$122				
	3	17% VLI	$13	($62)	($62)	$89				
	4	18% VLI	$3	($81)	($81)	$79				
	1	23% LI	($82)	$66	$66	$88				
	2	24% LI	($82)	$71	$71	$88				
	3	26% LI	($17)	($65)	($65)	$59				
	4	28% LI	($42)	($87)	($87)	$34				

TOIA Incentives Tested (Commercial)			Residual Land Value/Sq.Ft.				Feasibility			
			Commercial							
Base Typology			CY4-R	P5-R	P7-R	TW-R	CY4-R	P5-R	P7-R	TW-R
Density Cohort			Medium	Med. High	High	High	Medium	Med. High	High	High
Market Land Value/Sq.ft.			$185							
Potential Set Aside Schedules	TOIA Tier	Affordability								
Base Case Scenario	-	-	$152	$124	$73	$35				
Schedule A	1	8% ELI	$148	$148	$108	$36				
	2	9% ELI	$163	$163	($16)	$31				
	3	10% ELI	$246	$175	($26)	$105	P			
	4	11% ELI	($21)	$161	($48)	$58				
	1	11% VLI	$123	$123	$88	$10				
	2	12% VLI	$147	$147	($39)	$14				
	3	14% VLI	$206	$131	($59)	$32	P			
	4	15% VLI	($40)	$122	($76)	($16)				
	1	20% LI	$84	$84	$51	($41)				
	2	21% LI	$117	$117	($65)	($39)				
	3	23% LI	$194	$88	($86)	($29)	P			
	4	25% LI	($52)	$84	($111)	($87)				
Schedule B	1	9% ELI	$110	$110	$64	($12)				
	2	10% ELI	$125	$125	($63)	($28)				
	3	11% ELI	$195	$124	($73)	($6)	P			
	4	12% ELI	($58)	$86	($95)	($53)				
	1	12% VLI	$90	$90	$39	($28)				
	2	13% VLI	$114	$114	($64)	($39)				
	3	15% VLI	$176	$89	($98)	($55)				
	4	16% VLI	($62)	$89	($115)	($108)				
	1	21% LI	$80	$80	$30	($66)				
	2	22% LI	$67	$67	($91)	($76)				
	3	24% LI	$174	$84	($112)	($87)				
	4	26% LI	($65)	$59	($137)	($149)				
Schedule C	1	10% ELI	$110	$110	$80	$8				
	2	11% ELI	$125	$125	($43)	($0)				
	3	12% ELI	$215	$161	($53)	$58	P			
	4	13% ELI	($43)	$124	($68)	($6)				
	1	13% VLI	$123	$123	$70	($13)				
	2	14% VLI	$147	$147	($41)	($23)				
	3	16% VLI	$202	$122	($82)	($16)	P			
	4	17% VLI	($59)	$89	($99)	($55)				
	1	22% LI	$80	$80	$38	($50)				
	2	23% LI	$92	$92	($82)	($60)				
	3	25% LI	$194	$88	($96)	($61)	P			
	4	27% LI	($65)	$59	($127)	($112)				
Schedule D	1	11% ELI	$97	$97	$37	($42)				
	2	12% ELI	$111	$111	($91)	($47)				
	3	13% ELI	$163	$86	($100)	($53)				
	4	14% ELI	($70)	$86	($115)	($100)				
	1	14% VLI	$90	$90	$36	($51)				
	2	15% VLI	$81	$81	($80)	($63)				
	3	17% VLI	$176	$89	($121)	($108)				
	4	18% VLI	($80)	$79	($138)	($146)				
	1	23% LI	$55	$55	$17	($82)				
	2	24% LI	$67	$67	($107)	($85)				
	3	26% LI	$165	$59	($122)	($112)				
	4	28% LI	($78)	$34	($153)	($175)				

Note: "P" indicates preferable scenarios, "F" indicates feasible scenarios, and blank indicates infeasible scenarios. All RLVs are rounded, and the determination of feasibility is based on the actual numbers before rounding.
Source: AECOM

Table 36. TOIA Scenario Residual Land Value and Feasibility Market Tier 4

TOIA Incentives Tested (Residential)			Residual Land Value/Sq.Ft.				Feasibility			
Base Typology			4D-R	CY3-R	CY4-R	P5-R	4D-R	CY3-R	CY4-R	P5-R
			Residential							
Residential			Low Med.	Medium	Medium	Med. High	Low Med II	Medium	Medium	Med. High
Market Land Value/Sq.ft.			$230							
Potential Set Aside Schedules	TOIA Tier	Affordability								
Base Case Scenario	-	-	$255	$238	$224	$313	F	F		F
Schedule A	1	8% ELI	$101	$275	$275	$368		P	P	P
	2	9% ELI	$101	$302	$302	$327		P	P	P
	3	10% ELI	$251	$145	$145	$327	F			P
	4	11% ELI	$236	$135	$135	$313	F			P
	1	11% VLI	$116	$251	$251	$349		P	P	P
	2	12% VLI	$16	$282	$282	$313		P	P	P
	3	14% VLI	$200	$126	$126	$277				F
	4	15% VLI	$190	$113	$113	$266				F
	1	20% LI	$59	$205	$205	$280				F
	2	21% LI	$59	$214	$214	$252				F
	3	23% LI	$143	$100	$100	$219				
	4	25% LI	$138	$90	$90	$214				
Schedule B	1	9% ELI	$101	$260	$260	$327		P	P	P
	2	10% ELI	$101	$261	$261	$327		P	P	P
	3	11% ELI	$236	$138	$138	$313	F			P
	4	12% ELI	$195	$118	$118	$272				F
	1	12% VLI	$16	$251	$251	$313		P	P	P
	2	13% VLI	$16	$246	$246	$277		P	P	F
	3	15% VLI	$190	$112	$112	$266				F
	4	16% VLI	$154	$108	$108	$230				F
	1	21% LI	$59	$205	$205	$252				F
	2	22% LI	$59	$214	$214	$247				F
	3	24% LI	$143	$93	$93	$219				
	4	26% LI	$110	$74	$74	$186				
Schedule C	1	10% ELI	$101	$260	$260	$327		P	P	P
	2	11% ELI	$101	$261	$261	$313		P	P	P
	3	12% ELI	$195	$114	$114	$272				F
	4	13% ELI	$154	$105	$105	$231				F
	1	13% VLI	$16	$241	$241	$277		P	P	F
	2	14% VLI	$16	$246	$246	$277		P	P	F
	3	16% VLI	$154	$91	$91	$230				F
	4	17% VLI	$154	$88	$88	$230				F
	1	22% LI	$59	$200	$200	$247				F
	2	23% LI	($19)	$186	$186	$219				
	3	25% LI	$138	$84	$84	$214				
	4	27% LI	$110	$64	$64	$186				
Schedule D	1	11% ELI	$101	$219	$219	$313				P
	2	12% ELI	($13)	$246	$246	$272		P	P	F
	3	13% ELI	$154	$97	$97	$231				F
	4	14% ELI	$154	$87	$87	$231				F
	1	14% VLI	$16	$241	$241	$277		P	P	F
	2	15% VLI	$16	$210	$210	$266				F
	3	17% VLI	$154	$87	$87	$230				F
	4	18% VLI	$143	$73	$73	$220				
	1	23% LI	($19)	$172	$172	$219				
	2	24% LI	($19)	$186	$186	$219				
	3	26% LI	$110	$69	$69	$186				
	4	28% LI	$82	$49	$49	$158				

Note: "P" indicates preferable scenarios, "F" indicates feasible scenarios, and blank indicates infeasible scenarios. All RLVs are rounded, and the determination of feasibility is based on the actual numbers before rounding.
Source: AECOM

TOIA Incentives Tested (Commercial)			Residual Land Value/Sq.Ft.				Feasibility			
			Commercial							
Base Typology			CY4-R	P5-R	P7-R	TW-R	CY4-R	P5-R	P7-R	TW-R
Density Cohort			Medium	Med. High	High	High	Medium	Med. High	High	High
Market Land Value/Sq.ft.			$240							
Potential Set Aside Schedules	TOIA Tier	Affordability								
Base Case Scenario	-	-	$219	$184	$206	$463				F
Schedule A	1	8% ELI	$260	$260	$354	$830	P	P	P	P
	2	9% ELI	$295	$295	$674	$895	P	P	P	P
	3	10% ELI	$388	$327	$695	$1,677	P	P	P	P
	4	11% ELI	$138	$313	$702	$1,614		P	P	P
	1	11% VLI	$231	$231	$327	$779			P	P
	2	12% VLI	$276	$276	$625	$853	P	P	P	P
	3	14% VLI	$341	$277	$631	$1,536	P	P	P	P
	4	15% VLI	$112	$266	$642	$1,469		P	P	P
	1	20% LI	$182	$182	$268	$653			P	P
	2	21% LI	$235	$235	$537	$714			P	P
	3	23% LI	$315	$219	$533	$1,322	P		P	P
	4	25% LI	$84	$214	$525	$1,230			P	P
Schedule B	1	9% ELI	$218	$218	$323	$793			P	P
	2	10% ELI	$254	$254	$637	$854	P	P	P	P
	3	11% ELI	$354	$313	$659	$1,614	P	P	P	P
	4	12% ELI	$114	$272	$676	$1,529		P	P	P
	1	12% VLI	$231	$231	$307	$747			P	P
	2	13% VLI	$276	$276	$623	$801	P	P	P	P
	3	15% VLI	$335	$266	$599	$1,469	P	P	P	P
	4	16% VLI	$91	$230	$610	$1,414			P	P
	1	21% LI	$177	$177	$252	$637			P	P
	2	22% LI	$207	$207	$512	$682			P	P
	3	24% LI	$315	$219	$517	$1,271	P		P	P
	4	26% LI	$69	$186	$500	$1,188			P	P
Schedule C	1	10% ELI	$218	$218	$306	$767			P	P
	2	11% ELI	$254	$254	$611	$817	P	P	P	P
	3	12% ELI	$332	$272	$632	$1,529	P	P	P	P
	4	13% ELI	$97	$231	$639	$1,466			P	P
	1	13% VLI	$195	$195	$272	$725			P	P
	2	14% VLI	$240	$240	$591	$779			P	P
	3	16% VLI	$306	$230	$577	$1,414	P		P	P
	4	17% VLI	$87	$230	$588	$1,341			P	P
	1	22% LI	$177	$177	$242	$611			P	P
	2	23% LI	$179	$179	$496	$656			P	P
	3	25% LI	$293	$214	$492	$1,230	P		P	P
	4	27% LI	$68	$186	$484	$1,131			P	P
Schedule D	1	11% ELI	$204	$204	$275	$726			P	P
	2	12% ELI	$240	$240	$574	$791			P	P
	3	13% ELI	$298	$231	$596	$1,466	P		P	P
	4	14% ELI	$83	$231	$613	$1,403			P	P
	1	14% VLI	$195	$195	$267	$693			P	P
	2	15% VLI	$204	$204	$568	$744			P	P
	3	17% VLI	$306	$230	$545	$1,341	P		P	P
	4	18% VLI	$67	$220	$556	$1,286			P	P
	1	23% LI	$149	$149	$226	$586				P
	2	24% LI	$179	$179	$471	$640			P	P
	3	26% LI	$282	$186	$476	$1,188	P		P	P
	4	28% LI	$52	$158	$458	$1,090			P	P

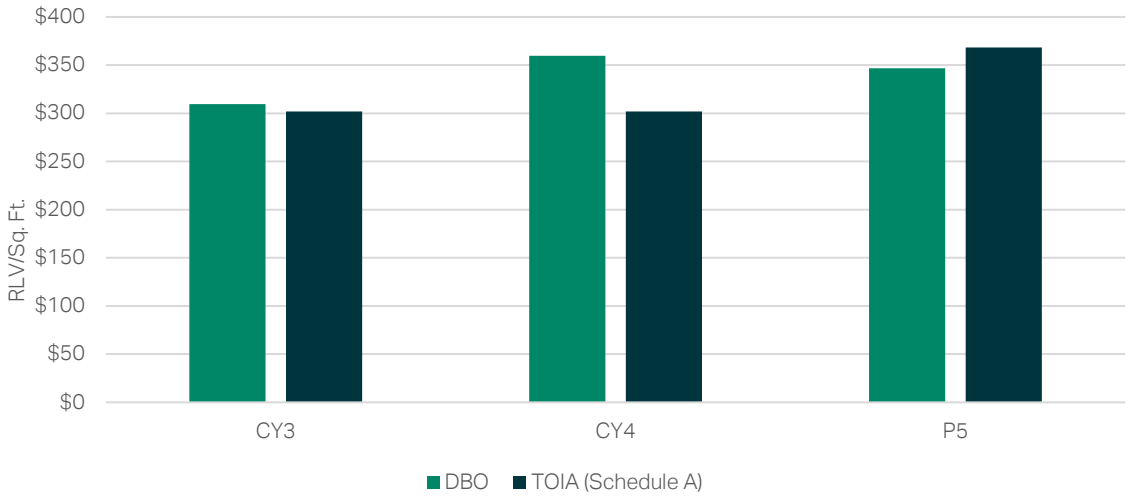
Note: "P" indicates preferable scenarios, "F" indicates feasible scenarios, and blank indicates infeasible scenarios. All RLVs are rounded, and the determination of feasibility is based on the actual numbers before rounding.
Source: AECOM

5.5 Summary and Implications

Findings and implications for policy are summarized below:

- **Overall, the TOIA incentives and associated set-aside requirements should help produce more market-rate and affordable units than would otherwise be feasible.** The analysis of proposed density bonus and affordability parameters for the City's TOIA program show that the scheduled incentives should provide developer applicants with preferred returns in Market 4 and, to a lesser extent, Market Tier 3 areas.
- **Scenario feasibility is very sensitive to increased affordable set-asides.** Based on current market conditions, no scenarios tested in Market Tiers 1 and 2 were feasible. In Market Tier 3, the number of feasible scenarios decreases quickly in schedules where higher levels of affordable set-asides are required.
- **TOIA scenarios in Market Tier 4 result in feasible prototypes across density cohorts, even with increased affordability standards.** Under the market conditions modeled, this is the only market tier that clearly supports higher levels of set-asides (up to Schedule C/D). Increasing set-aside requirements could result in fewer projects being built, particularly in places with weaker market conditions, offsetting some of the potential affordable housing production gains that the proposed TOIA enhancements seek to provide.
- **In residentially zoned areas, TOIA Schedule A produces similar development returns compared to DBO.** Figure 5 shows the highest residual land values achieved by prototype on residential zoned land in Market Tier 4 under TOIA Schedule A, compared to the DBO program. As tested, DBO projects generate higher RLVs for courtyard projects – suggesting that a profit-seeking developer may be more likely to take advantage of the DBO program where both are available. However, TOIA Schedule A generates higher returns for the P5 prototype.[32]

Figure 5. Highest RLV Achieved by Prototype: DBO v. TOIA Schedule A in Market Tier 4



Comparison shows rental prototypes in residential zones.
Source: AECOM

- **While TOIA offers higher density bonuses than DBO, the financial benefit for applicants is in part offset by the method of calculating affordable set-aside units for**

[32] DBO projects were not tested on sites with commercial zoning so cannot be compared.

TOIA. The TOIA program calculates affordability set-aside requirements on the total number of units per project. This is a shift from DBO which calculates set-aside requirements as a percentage of units allowed under density limits tied to a site's base zoning condition. In other words, whereas under DBO, all bonus units are market-rate, under TOIA some of the bonus units are required to be set-aside as affordable.

- **In some cases, TOIA project feasibility may also be affected by counting above-ground parking against FAR, although developers may partially offset the impact by reducing parking ratios**. TOIA projects are generally limited by FAR rather than density, so counting above-ground parking as part of FAR has a more significant impact on TOIA projects compared to the DBO program, where density is generally the limiting factor. This analysis assumes that projects will provide parking ratios consistent with the parking ratio of projects recently developed under the existing TOC program.[33] These parking ratios reflect an assumption that parking will be provided as a function of both market demand for parking spaces (which impacts a project's achievable rents, overall marketability, competitive position, etc.) as well as underwriting practices that favor parking standards of previous successful projects that lenders see as market-proven concepts (which impacts a project's ability to attract favorable financing). In some cases, developers may chose to further reduce parking ratios to maximize living area.[34]
- **Developers who take advantage of the TOIA program in strong market tiers are likely to build ELI units.** ELI units generate less revenue *per unit* than LI or VLI. However, ELI projects still generate higher overall returns because projects that provide ELI units are required to provide fewer affordable units, compared to projects that provide LI or VLI units. This is consistent with the City's experience that most projects that have utilized the existing TOC program have built ELI units.[35]

[33] Recently developed projects under the former TOC program served as the basis for development comparables.

[34] The financial implications of reducing parking vary. On a per-space basis, parking is assumed in this analysis to cost approximately $50,000 per underground space and $35,000 per above-ground podium space. Reducing underground parking results in direct cost savings (although the market rents that the developer may achieve may decline slightly as well), so generally increases overall project feasibility. For P5, P7, and TW, where a podium is provided, the developer could replace the parking spaces with additional residential uses to enhance the revenue stream. However, building residential space entails its own construction costs (as well as revenues), and in some cases the building may need to be redesigned to accommodate appropriate residential areas.

[35] In Market Tier 1, at the other end of the spectrum, ELI unit pathways generate higher residual land values compared to LI/VLI pathways because there is a smaller gap between market-rate and VLI/LI units.

6. Opportunity Corridors (OC) Incentive Program

6.1 Overview

The City's proposed Opportunity Corridors incentive program (OC) advances a holistic vision for livable and sustainable communities by increasing housing capacity along major streets located in Higher Opportunity Areas. This strategy will focus new housing opportunities on major corridors, particularly those with transit access, to provide affordable housing options near transit and amenities. Incentives available in the OC program would be provided generally in excess of incentives available in the DBO and TOIA programs.

The proposed OC program is intended to help the City fulfill Affirmatively Further Fair Housing (AFFH) requirements by creating substantial new housing capacity in Higher Opportunity Areas and in Racially Concentrated Areas of Affluence.

6.2 Opportunity Corridor Incentive Program

OC encourages more dense housing development along major thoroughfares located in jobs-rich and transit-rich locations in Higher Opportunity Areas, providing density in exchange for affordable housing set-asides. Given that corridors include commercial and residential zoned areas with varying scales and site considerations, the strategy proposes a tiered incentive-based approach, with incentives designed to reflect differences in commercially (C) zoned stretches compared to residential (R) zoned areas, as well as to reflect the importance of transit-rich locations.

The OC program proposes two main criteria for site eligibility: proximity to transit and location within High or Highest Resource Areas designated by the California Tax Credit Allocation Committee (CTCAC). Eligible sites are categorized into three OC incentive tiers with affordability requirements and FAR and height incentives that largely mirror those available in the proposed TOIA program. Density bonuses for each tier are limited by development standards such as FAR and height regulations. OC site eligibility requirements are shown in Table 37, and key incentive options are shown in Table 38.

Table 37. Opportunity Corridors Incentive Area Eligibility Requirements

OC Area Eligibility Requirements			
Incentive Area	Site Requirements[a]	Eligible Underlying Zones[b]	TCAC Opportunity Areas
OC-1	Sites fronting on corridors with Frequent Bus Service	Commercial Zones and Residential Zones (R2, RD6, RD5, RD4, RD3, RD2, RD1.5, RW2, R3, RAS3, R3, RAS4, R5)	High and Highest Resource Areas
OC-2	Sites fronting on High Quality Transit Service Corridors[b]		
OC-3	Sites fronting on an Avenue or Boulevard and located within a ≤ 2640 ft (0.5 mile) radius from intersection of Metro Rail and Rapid Bus Station[c]		

Notes:
a. To be an eligible Opportunity Corridor Housing Development, the project must be located on a lot, any portion of which, must meet the eligibility criteria in Section 2, Paragraph (g), including transit eligibility and site requirements, which require a lot to be fronting or have direct pedestrian access to the eligible Opportunity Corridor. Sites that are contiguous or have a lot tie with lots that meet the aforementioned criteria are eligible to receive the Opportunity Corridor Incentives.
b. Frequent Bus Service. Corridors with bus lines that have a 30 minute or less service frequency during peak hours.
c. Corridors within one-half mile (2,640 ft) from a major transit stop or a transit corridor with 15 minutes or less service frequency during peak commute hours.
Source: City of Los Angeles

Table 38. Proposed Opportunity Corridor Program Incentives

Proposed OC Program Base Incentives						
OC Area	OC-1		OC-2		OC-3	
Base Zone	Residential	Commercial	Residential	Commercial	Residential	Commercial
FAR Maximum of:	3.00 FAR	3.50 FAR	3.50 FAR	4.00 FAR	4.50 FAR	
				45% over base	50% over base	
Add'l Height (above Base)	Up to total 45'	1 story/11 feet up to 5 total stories	Up to total 56'	2 stories/22 feet up to 6 total stories	3 stories/33 feet up to 7 total stories	
DUAC Bonus	Unlimited		Unlimited		Unlimited	
Parking	No minimum required		No minimum required		No minimum required	

Source: City of Los Angeles, AECOM

6.3 Incentive Program Scenarios and Prototypes

As noted above, the proposed OC program uses the TOIA incentive structure as a framework, and the City proposes to align OC set-aside requirements to TOIA set-aside requirements as well. AECOM explored the feasibility of four potential OC set-aside schedules, shown in Table 39.

AECOM tested one prototype in a commercial zone and one prototype in a residential zone for each of the three OC incentive areas. The prototypes were selected to represent the housing typologies that maximizes building envelope under the incentives offered for each OC inventive area and zoning category. OC-1 is modeled as CY4 in residential zones and P5 in commercial zones, OC-2 as P5 in residential zones and P6 in commercial zones, and OC-3 as P7 in both residential and commercial zones. Each typology reflects the maximum height and FAR allowed for its respective tier and zoning designation. The prototypes and associated sites for each of these six scenarios are shown in Table 40.

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Table 39. Proposed OC Incentives Tested

OC Incentives Tested					
Potential Set Aside Schedules	OC Tier	TOIA Tier*	Affordability		
			ELI	VLI	LI
Schedule A	1	2	9%	12%	21%
	2	3	10%	14%	23%
	3	4	11%	15%	25%
Schedule B	1	2	10%	13%	22%
	2	3	11%	15%	24%
	3	4	12%	16%	26%
Schedule C	1	2	11%	14%	23%
	2	3	12%	16%	25%
	3	4	13%	17%	27%
Schedule D	1	2	12%	15%	24%
	2	3	13%	17%	26%
	3	4	14%	18%	28%

Note: See Table 38 for incentives associated with each OC tier.
**None of the proposed OC tiers are proposed to align with TIOA Tier 1.*
Source: City of Los Angeles

Table 40. Sites and Prototypes Tested by OC Tier

Opportunity Corridor (OC) Testing Prototypes Assumptions						
Opportunity Corridor (OC) Incentive Area	**Residential Zones**			**Commercial Zones**		
	OC-1	**OC-2**	**OC-3**	**OC-1**	**OC-2**	**OC-3**
Maximum FAR (includes base incentives only)	3.0	3.5	4.5	3.5	4.0	4.5
Maximum # stories	4	5	7	5	6	7
Resulting Development Prototype						
Typology	**CY4**	**P5**	**P7**	**P5**	**P6**	**P7**
Description	4-story Courtyard-style	5-Story Podium	7-Story Podium	5-Story Podium	6-Story Podium	7-Story Podium
Use Program	All Residential	All Residential	All Residential	All Residential	All Residential	Mixed-Use
Parking Strategy	Underground parking	1-level podium parking	2-level podium parking	1-level podium parking	1-level podium parking	2-level podium parking
Site Area						
Land Area (SF)	6,500	13,000	19,500	10,000	15,000	20,000
Gross Building Area (SF without Parking)	16,875	37,333	59,733	28,800	50,133	65,600
Gross Building Area (SF with Parking)	17,330	45,133	87,033	34,800	59,133	89,600
Net Leasable Area (NLA, unit space only)	13,500	28,000	44,800	21,600	37,600	46,200
Unit Count and Mix						
Total Number of Units	**15**	**35**	**64**	**27**	**47**	**66**
Unit Mix						
0BR	0	7	19	5	9	20
1BR	8	18	32	14	24	33
2BR	8	11	13	8	14	13
3BR	0	0	0	0	0	0
4BR	0	0	0	0	0	0
Approximate Mix as a % of Total						
0BR	0%	20%	30%	20%	20%	30%
1BR	50%	50%	50%	50%	50%	50%
2BR	50%	30%	20%	30%	30%	20%
3BR	0%	0%	0%	0%	0%	0%
4BR	0%	0%	0%	0%	0%	0%
Density and Intensity						
Effective Density (DUAC)	101	117	143	118	136	144
Effective FAR (Without Parking)	2.6	2.9	3.1	2.9	3.3	3.3
Effective FAR (With Parking)	2.7	3.5	4.5	3.5	3.9	4.5
Affordable Set-Aside Level	**Equivalent to TOIA-2**	**Equivalent to TOIA-3**	**Equivalent to TOIA-4**	**Equivalent to TOIA-2**	**Equivalent to TOIA-3**	**Equivalent to TOIA-4**
Parking	**Underground**	**Podium & Underground**	**Podium & Underground**	**Podium & Underground**	**Podium & Underground**	**Podium & Underground**
Residential Parking (spaces/BR)	0.6	0.9	0.9	0.9	0.9	0.9
Total Parking Spaces	20	63	76	48	84	95
Above-Ground Podium	0	19	68	15	22	60
Underground	20	44	8	33	62	35

Source: AECOM

6.4 Results

This section describes the results of the OC analysis. For the OC analysis, no base case was tested because the analysis modeled the maximum densities within each incentive area (limited by height and FAR) that each prototype could achieve, rather than "stepping up" up from a base. A feasible scenario is one that generates a residual land value that is consistent with the observed market values.

In Market Tiers 1 and 2 (Table 41), all scenarios generate fail to meet the land value standard for feasibility. Increasing the set aside requirements further reduce the RLV.

Table 41. OC Scenario Residual Land Value and Feasibility in Market Tier 1 and 2

OC Incentives Tested - Market Tier 1				RLV	Feasibility	RLV	Feasibility
				Residential		Commercial	
Market Land Value/Sq.ft.				$140		$115	
Potential Set Aside Schedules	OC Tier	TOIA Tier	Affordability				
Schedule A	OC-1	2	9% ELI	($557)		($530)	
			12% VLI	($527)		($534)	
			21% LI	($518)		($498)	
	OC-2	3	10% ELI	($550)		($628)	
			14% VLI	($549)		($628)	
			23% LI	($524)		($589)	
	OC-3	4	11% ELI	($460)		($646)	
			15% VLI	($449)		($636)	
			25% LI	($400)		($585)	

OC Incentives Tested - Market Tier 2				RLV	Feasibility	RLV	Feasibility
				Residential		Commercial	
Market Land Value/Sq.ft.				$145		$170	
Potential Set Aside Schedules	OC Tier	TOIA Tier	Affordability				
Schedule A	OC-1	2	9% ELI	$40		$19	
			12% VLI	$72		($6)	
			21% LI	($3)		($3)	
	OC-2	3	10% ELI	($4)		$2	
			14% VLI	($24)		($22)	
			23% LI	($52)		($26)	
	OC-3	4	11% ELI	$14		($161)	
			15% VLI	$8		($167)	
			25% LI	$18		($155)	

Note: "F" indicates feasible scenarios, and blank indicates infeasible scenarios. All RLVs are rounded, and the determination of feasibility is based on the actual numbers before rounding.
Source: AECOM

Table 42 shows the results for Market Tier 3, organized by residential versus commercial zoned prototypes, set aside schedule, OC tier, and affordability level selected to achieve the density bonus. Under Schedule A and B, OC-1 (tested with CY4 prototype) is feasible on residential zoned parcels.

Table 42. OC Scenario Residual Land Value and Feasibility in Market Tier 3

OC Incentives Tested - Market Tier 3				RLV	Feasibility	RLV	Feasibility
				Residential		Commercial	
Market Land Value/Sq.ft.				$175		$185	
Potential Set Aside Schedules	OC Tier	TOIA Tier	Affordability				
Schedule A	OC-1	2	9% ELI	$166		$155	
			12% VLI	$198	F	$124	
			21% LI	$106		$119	
	OC-2	3	10% ELI	$132		$157	
			14% VLI	$106		$128	
			23% LI	$65		$113	
	OC-3	4	11% ELI	$135		($38)	
			15% VLI	$124		($49)	
			25% LI	$124		($49)	
Schedule B	OC-1	2	10% ELI	$166		$155	
			13% VLI	$198	F	$124	
			22% LI	$106		$119	
	OC-2	3	11% ELI	$132		$137	
			15% VLI	$89		$114	
			24% LI	$65		$76	
	OC-3	4	12% ELI	$135		($38)	
			16% VLI	$119		($54)	
			26% LI	$124		($69)	
Schedule C	OC-1	2	11% ELI	$166		$155	
			14% VLI	$106		$124	
			23% LI	$106		$63	
	OC-2	3	12% ELI	$66		$137	
			16% VLI	$89		$114	
			25% LI	$65		$76	
	OC-3	4	13% ELI	$111		($62)	
			17% VLI	$119		($81)	
			27% LI	$104		($69)	
Schedule D	OC-1	2	12% ELI	$166		$85	
			15% VLI	$106		$51	
			24% LI	$106		$63	
	OC-2	3	13% ELI	$66		$81	
			17% VLI	$89		$114	
			26% LI	$22		$69	
	OC-3	4	14% ELI	$111		($95)	
			18% VLI	$91		($81)	
			28% LI	$104		($81)	

Note:
1. "F" indicates feasible scenarios, and blank indicates infeasible scenarios. All RLVs are rounded, and the determination of feasibility is based on the actual numbers before rounding.
2. The sites of OC-1, OC-2, and OC-3 are tested with the prototypes of CY4, P5, and P7 respectively.
Source: AECOM

Table 43 shows the results for Market Tier 4. In Market Tier 4, many scenarios are feasible across potential set-aside schedules and OC tiers. In general, ELI projects generate the highest RLVs, suggesting that developers will choose options to build fewer ELI units v. more VLI or LI units.

Table 43. OC Scenario Residual Land Value and Feasibility in Market Tier 4

OC Incentives Tested - Market Tier 4				RLV	Feasibility	RLV	Feasibility
				Residential*		Commercial*	
Market Land Value/Sq.ft.				$230		$240	
Potential Set Aside Schedules	OC Tier	TOIA Tier	Affordability				
Schedule A	OC-1	2	9% ELI	$303	F	$287	F
			12% VLI	$335	F	$251	F
			21% LI	$222		$237	
	OC-2	3	10% ELI	$263	F	$309	F
			14% VLI	$232	F	$274	F
			23% LI	$177		$247	F
	OC-3	4	11% ELI	$290	F	$119	
			15% VLI	$274	F	$103	
			25% LI	$259	F	$87	
Schedule B	OC-1	2	10% ELI	$303	F	$287	F
			13% VLI	$335	F	$251	F
			22% LI	$222		$237	
	OC-2	3	11% ELI	$263	F	$287	F
			15% VLI	$213		$258	F
			24% LI	$177		$205	
	OC-3	4	12% ELI	$290	F	$119	
			16% VLI	$267	F	$96	
			26% LI	$258	F	$64	
Schedule C	OC-1	2	11% ELI	$303	F	$287	F
			14% VLI	$235	F	$251	F
			23% LI	$222		$174	
	OC-2	3	12% ELI	$191		$287	F
			16% VLI	$213		$258	F
			25% LI	$177		$205	
	OC-3	4	13% ELI	$263	F	$92	
			17% VLI	$267	F	$66	
			27% LI	$234	F	$64	
Schedule D	OC-1	2	12% ELI	$303	F	$211	
			15% VLI	$235	F	$170	
			24% LI	$222		$174	
	OC-2	3	13% ELI	$191		$225	
			17% VLI	$213		$258	F
			26% LI	$129		$197	
	OC-3	4	14% ELI	$263	F	$56	
			18% VLI	$236	F	$66	
			28% LI	$234	F	$50	

Note:
1. "F" indicates feasible scenarios, and blank indicates infeasible scenarios. All RLVs are rounded, and the determination of feasibility is based on the actual numbers before rounding.
2. The sites of OC-1, OC-2, and OC-3 are tested with the prototypes of CY4, P5, and P7 respectively.
Source: AECOM

6.5 Summary and Implications

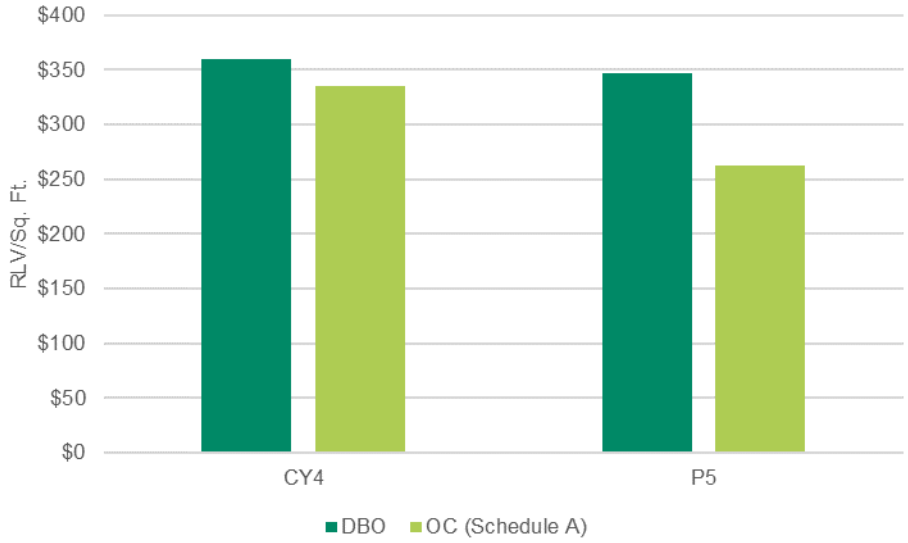
Findings and implications for policy are summarized below:

- **The OC incentives and associated set-aside requirements may help produce more market-rate and affordable units than would otherwise be feasible.** The analysis of the proposed OC program indicates the proposed incentives create sufficient value for developer applicants to acquire and redevelop land in Market Tier 4 across OC areas – and, to a lesser extent, in Market Tier 3.
- **OC scenarios in Market Tier 4 result in feasible prototypes across OC tiers, even with increased affordability standards.** Under the market conditions modeled, only Market Tier

4 clearly supports higher levels of set-asides (up to Schedule C/D). Similar to TOIA, scenario feasibility is sensitive to increased affordable set-asides, suggesting that increasing set-aside requirements could result in fewer projects being built in areas with less optimal market conditions, offsetting some of the potential affordable housing production gains that the proposed OC enhancements seek to provide.

- **However, in areas zoned for residential, developers may choose to take advantage of DBO rather than OC as currently proposed, although the decision will ultimately depend on the underlying zoning and other project specifics.** Figure 6 shows the highest residual land values achieved by prototype on residential zoned land in Market Tier 4 under OC Schedule A, compared to the DBO program. As tested, DBO projects generate slightly higher RLVs for across prototypes–suggesting that a profit-seeking developer may be more likely to take advantage of the DBO program in some cases. Similar to TOIA, while OC offers higher density bonuses than DBO, the financial benefit for applicants is in part offset by the method of calculating affordable set-aside units for OC. In addition, the FAR limits associated with OC limit the total building footprint that the prototypes can achieve, whereas the sites tested for DBO on residential parcels could generally achieve higher densities within the density and FAR bonuses allowed. Ultimately, however, the comparison between programs will depend in part on the specific zoning district where the parcel is located.[36]

Figure 6. Highest RLV Achieved by Prototype: DBO v. OC (Schedule A) in Market Tier 4



Comparison shows rental prototypes in residential zones. CY4 and P5 were tested with OC-1 and OC-2 Tiers, respectively.
Source: AECOM

- **Developers who take advantage of the OC program in stronger market areas are likely to build ELI units.** ELI units generate less revenue *per unit* than LI or VLI. However, ELI projects still generate higher overall returns in Market Tier 4 because projects that provide ELI units are required to provide fewer affordable units, compared to projects that provide LI

[36] The P7 prototype was also tested under both OC-3 and DBO. However, the results are not directly comparable because the OC-3 project is limited to a total of 7 stories, while the DBO project was assumed to step up to a 28-story tower in the model. This level of density will not be possible on all sites. DBO projects in commercial zoning districts were not tested.

or VLI units. This is consistent with the City's experience that most projects that have utilized the existing TOC program have built ELI units. [37]

[37] In Market Tier 1, at the other end of the spectrum, ELI unit pathways generate higher residual land values compared to LI/VLI pathways because there is a smaller gap between market-rate and VLI/LI units.

7. Opportunity Corridor Transition (CT) Incentive Area Program

7.1 Overview

This chapter focuses on the development economics and financial feasibility of housing typologies envisioned to be developed through the City's proposed Opportunity Corridor Transition Incentive Area Program (CT). CT builds on the proposed Opportunity Corridor program's vision for livable and sustainable communities with increased housing capacity along major streets located in Higher Opportunity Areas. This strategy will incentivize new low-rise housing opportunities in areas in parcels behind the Opportunity Corridor Incentive Areas, allowing higher densities than would be permitted under base zoning conditions in exchange for providing affordable units.

The proposed CT is the City's strategy for promoting lower scale housing typologies, also known as "missing middle housing." Missing middle is a term used to refer to the gap in housing options between detached single-family homes and mid-rise apartment buildings. Examples of missing middle typologies include bungalow courts, multiplex buildings (duplex/triplex to six-plex), townhomes, courtyard-style apartments, and walk-up rowhouses. Many of these were commonly built before the 1950s and already exist in various places throughout the Los Angeles area, but there are also areas in the City where they are not currently found. Over the years, fewer missing middle housing options were developed due to more restrictive zoning requirements, changes in market conditions, and increased single-family home development.

CT is an incentive-based program designed to fill the gap in housing options that exists between detached single-family homes and the type of mid-rise apartment buildings expected to be developed along Opportunity Corridors. CT takes a form-based approach that removes limitations to facilitate missing middle construction, while ensuring new development respects the scale of existing neighborhoods.

7.2 Corridor Transition Incentive Program

CT promotes low-scale, medium-density housing development in Higher Opportunity Areas. The incentive program proposes increasing allowable density in exchange for affordable housing set-asides. CT builds on the proposed Opportunity Corridor program, using a similar tiered incentive-based approach, with incentives designed to reflect differences in distance between more dense mid-rise development along corridors and less dense single-family homes.

The CT program proposes three main criteria for site eligibility: proximity to Opportunity Corridor Incentive areas, base zone designation, and location within CTCAC-designated High or Highest Resource Areas. Eligible sites are categorized into two CT incentive areas, with CT-1 being the lower incentive tier and CT-2 offering more generous incentives. Density bonuses for each tier are limited to 6 units per parcel in CT-1 and 10 units per parcel in CT-2. Additional FAR is awarded commensurate with the number of units built, but new development is constrained by height limits. The City is also considering allowing increased height and/or FAR for projects with more than 40% two-bedroom units. CT site eligibility requirements are shown on Table 44 and key incentive options are shown on Table 45.

Table 44. Corridor Transition Incentive Area Eligibility Requirements

CT Area Eligibility Requirements		
	CT-1	CT-2
Site Requirements	350 ft buffer from sites eligible Opportunity Corridor Incentives except RC-1	150 ft buffer from sites eligible for Opportunity Corridor Incentives except RC-1
Eligible Underlying Zones	Residential properties in R2 and RD zones	
TCAC Opportunity Areas	Within High and Highest Resource Areas	

Source: City of Los Angeles, AECOM

Table 45. Proposed Corridor Transition Incentives

Proposed CT Program Incentives		
	CT-1	CT-2
FAR	1.30 FAR for 5 units (per lot) + 0.15 FAR for each additional unit	
Density Bonus	Up to 6 units per lot	Up to 10 units per lot
Max Height	2 stories	3 stories
Parking	No requirement	

Note: A Project that includes a minimum of 40% of total Residential Units as 2-bedrooms or larger, shall be granted either additional Floor Area up to 0.5 FAR or an additional 11 feet in height.

Source: City of Los Angeles, AECOM

7.3 CT Program Scenario Tested

7.3.1 Incentive Areas

The analysis is organized by the two proposed CT incentive areas. CT-1 areas are allowed up to 6 units per parcel, and CT-2 areas up to 10 units per parcel. The program parameters allow for CT projects to take a variety of forms. For example, CT-1 projects could include a single-lot project with 6 units, or a double-lot project with 12 units. A C-2 project could include a single-lot project with 8 units or a double-lot project with 16 units. Other key parameters include a 2-story limit for CT-1 and a 3-story limit for CT-2. Both CT-1 and CT-2 allow up to a maximum number of units within an FAR that is commensurate to the number of units provided (Table 45).

AECOM developed prototypes that reflect the allowable range of unit counts, i.e., 5 and 6 units per lot for CT-1 and 8 and 10 units per lot for CT-2. These are shown in Table 46. It should be noted that while these prototypes are examples of the forms that CT projects map take, they are not a comprehensive set of possible applications.

7.3.2 Affordable Set-Aside Requirements

To explore the amount of affordability that can be supported by the CT program, AECOM tested a range of affordable set-aside options. Given the small-scale nature of missing middle typologies and the round-up methodology for fulfilling affordable set-aside requirements

described in California State Law, the set-aside analysis uses a set-aside schedule tied to a specific number of units rather than the percentage-based approach used for the other incentive programs.

As shown in Table 46, 1-unit and 2-unit set aside options were tested. Each set-aside level is tested at each affordability level (i.e., ELI, VLI, LI, and MI rental projects and MI for-sale projects). As shown, this results in effective set-aside percentages (calculated as affordable units divided by total units) that range from 11% to 20% in scenarios tested for CT-1, and 20% to 40% for scenarios tested for CT-2.

Table 46. CT Test Scenarios

Corridor Transition	Effective Set-Aside (% of total)					
Incentive Area	CT-1			CT-2		
Prototype (Rent or Sale)	4D-R	RH-R	TH-S	CY3-R	CY3-S	CY3-R
Lot Configuration	1	2	2	2	2	1
Units per Lot	5	6	6	8	8	10
Total Units	5	12	12	16	16	10
Set-Aside Scenarios	**Effective Set-Aside (% of total)**					
1-Unit Set-Aside Per Lot						
Moderate (For Sale)	-	-	17%	-	13%	-
Moderate (For Rent)	20%	17%	-	13%	-	10%
LI	20%	17%	-	13%	-	10%
VLI	20%	17%	-	13%	-	10%
ELI	20%	17%	-	13%	-	10%
2-Unit Set-Aside Per Lot						
Moderate (For Sale)	-	-	33%	-	25%	-
Moderate (For Rent)	40%	33%	-	25%	-	20%
LI	40%	33%	-	25%	-	20%
VLI	40%	33%	-	25%	-	20%
ELI	40%	33%	-	25%	-	20%

Source: AECOM

7.3.3 Sites and Prototypes Tested

The CT prototypes and site sizes are shown in Table 47. Prototypes were selected in coordination with City staff to align with the envisioned scale of CT projects and typical eligible lot size.

The specific parameters of the proposed CT program have some implications for development that require adjustments to the prototypes compared to those used for the analysis of other programs. Specifically, under the CT program, the proposed FAR allowances require the RH-R and TH-S prototypes to provide reduced parking ratios.[38] For-sale townhomes (TH-S) are assumed to provide 1.0 parking spaces per unit and rental rowhomes (RH-R) have an average parking ratio of 0.83, meaning that some units would not have an assigned parking space.

[38] Note: above-ground parking is included in the FAR across all programs. For other prototypes and programs, however, the FAR allowances generally do not pose a significant constraint on the parking ratios tested.

Reduced parking ratios are expected to have a negative impact on rents. A review of existing, comparable real estate projects showed that small-scale rental properties with less than 1.0 space per unit typically achieve rents ranging from 2 to 8 percent less compared to projects with more typical parking ratios. For the purposes of this analysis, it is assumed that the RH-R prototype with reduced parking would command 5% lower rents compared to the typical market rents shown in Chapter 3, Table 7.

The impact of reduced parking on for-sale products is less conclusive. Based on a review of comparable projects, existing ownership townhomes with 1.0 space per unit in Los Angeles are generally built in high-value places where land is priced at a premium, and development has lower-than-average unit sizes and commands a higher sales price per square foot. Based on this observation, no change was made to for-sale revenues compared to the typical for-sale prices shown in Chapter 3, Table 8.

In addition to FAR, the maximum height is a limiting factor for the CT program. The most typical townhome in Los Angeles is three stories; as shown in Table 45, the maximum height in CT-1 is two stories, requiring a slightly reduced unit average unit size and more living space to be provided on the ground-floor than in a typical townhome. In the CT-2 zone, the FAR and height limitations are expected to require parking to be provided below ground, which significantly increases costs and affects feasibility. The City's proposed multi-bedroom unit incentive – which would grant projects either an additional Floor Area up to 0.5 FAR or an additional 11 feet in height if they provide a minimum of 40% of total Residential Units as 2-bedrooms or larger – could help alleviate these constraints.

Table 47. Corridor Transition Sites and Prototypes

Corridor Transition Sites and Prototypes						
	CT Incentive Area 1			CT Incentive Area 2		
	CT1-5-R	CT1-6-R	CT1-6-S	CT2-8-R	CT2-8-S	CT2-10-R
	4D-Rent 2-Duplex	RH-Rent Row House	TH-Sale Townhome	CY3-Rent 3-Story Courtyard	CY3-Sale 3-Story Courtyard	CY3-Rent 3-Story Courtyard
Development Configuration						
Lot configuration	Single-lot	Double-lot	Double-lot	Double-lot	Double-lot	Single-Lot
Number of Units per Lot	5	6	6	8	8	10
Total Number of Units	5	12	12	16	16	10
Site Size AC	0.14	0.28	0.28	0.25	0.25	0.13
Site Size SF	6,000	12,000	12,000	11,000	11,000	5,500
Resulting Prototype						
Net Leaseable/Sellable Area SF*	6,850	14,850	15,900	17,800	18,350	10,600
Building Efficiency Ratio	95%	95%	100%	95%	97%	96%
Gross Building Area SF	7,179	16,832	17,340	18,737	18,918	11,042
Maximum FAR allowed with Bonus	1.30	1.45	1.45	1.75	1.75	2.00
Effective FAR	1.20	1.40	1.45	1.70	1.72	2.01
Effective Density (DUAC)	36	44	44	63	63	79
Height (stories)	2	2	2	3	3	3
Avg Unit Size	1,250	1,238	1,325	1,113	1,147	1,060
0BR	0	0	0	0	0	0
1BR	700	800	800	800	950	800
2BR	1,050	1,250	1,250	1,200	1,200	1,200
3BR	1,200	1,550	1,550	1,500	1,500	1,500
4BR	1,400	1,900	1,900	1,900	1,900	1,900
Unit Mix	5	12	12	16	16	10
0BR	0	0	0	0	0	0
1BR	0	3	0	5	7	5
2BR	1	5	9	9	6	3
3BR	2	4	3	2	3	2
4BR	2	0	0	0	0	0
Parking	10	10	12	17	17	10
Spaces Per BR	0.63	0.40	0.44	0.59	0.61	0.59
Spaces per Unit	2.00	0.83	1.00	1.06	1.06	1.00
Parking Strategy	Surface &Tuck-Under	Tuck-Under	Tuck-Under	Underground	Underground	Underground

Source: AECOM

7.4 Results

This section describes the results of the feasibility testing. Note that for the CT program, only one RLV standard ("feasibility") is used to gauge the expected financial outcomes of the incentive program scenarios. This is because the CT program will primarily be applied to redevelopment of single-family lots or similarly scaled, low-density residential uses. Accordingly, the market land value assumptions are based on recent transactions of single-family family lots. The base case (100% market-rate) scenario would also most likely be a single-family home, so "feasibility" and "preferability" are effectively the same for the CT analysis.

7.4.1 Residual Land Value and Feasibility Analysis

The following four tables summarize tested residual land value and feasibility for each CT incentive area in Market Tiers 1 through 4. A feasible scenario is one that generates a residual land value that is consistent with observed market values.

In Market Tier 1, residual land values are mostly negative and none of the scenarios meet the $120 market land value threshold for feasibility (Table 48).

Table 48. CT Scenario Residual Land Value and Feasibility (Market Tier 1)

Market Tier 1 (Market Land Value: $140 Per Sq. Ft.)												
	Residual Land Value ($/Land SF)						Feasibility					
Incentive Area	CT-1			CT-2			CT-1			CT-2		
Prototype	4D-R	RH-R	TH-S	CY3-R	CY3-S	CY3-R	4D-R	RH-R	TH-S	CY3-R	CY3-S	CY3-R
Units per Lot	5	6	6	8	8	10	5	6	6	8	8	10
Total Units	5	12	12	16	16	10	5	12	12	16	16	10
Market Land Value ($/SF)	$120											
1-Unit Set-Aside Per Lot												
Moderate (For Sale)			$1		$86							
Moderate (For Rent)	($68)	$20		($174)		($148)						
LI	($92)	($4)		($199)		($172)						
VLI	($117)	($19)		($208)		($197)						
ELI	($135)	($35)		($225)		($194)						
2-Unit Set-Aside Per Lot												
Moderate (For Sale)			($18)		$41							
Moderate (For Rent)	($95)	$12		($165)		($146)						
LI	($148)	($31)		($201)		($179)						
VLI	($203)	($83)		($252)		($233)						
ELI	($239)	($117)		($286)		($268)						

Note: Feasibility rows are blank because all scenarios are infeasible. All RLVs are rounded, and the determination of feasibility is based on the actual numbers before rounding.
Source: AECOM

In Market Tier 2 (Table 49), several courtyard (CY) scenarios with one affordable set-unit unit are feasible. The 10-unit CY3-R prototype is also feasible with two MI or LI set-aside units.

Table 49. CT Scenario Residual Land Value and Feasibility (Market Tier 2)

Market Tier 2 (Market Land Value: $170 Per Sq. Ft.)												
Market Tier 2	**Residual Land Value ($/Land SF)**						**Feasibility**					
Incentive Area	**CT-1**			**CT-2**			**CT-1**			**CT-2**		
Prototype	**4D-R**	**RH-R**	**TH-S**	**CY3-R**	**CY3-S**	**CY3-R**	**4D-R**	**RH-R**	**TH-S**	**CY3-R**	**CY3-S**	**CY3-R**
Units per Lot	**5**	**6**	**6**	**8**	**8**	**10**	**5**	**6**	**6**	**8**	**8**	**10**
Total Units	5	12	12	16	16	10	5	12	12	16	16	10
1-Unit Set-Aside Per Lot												
Moderate (For Sale)			$72		$229						F	
Moderate (For Rent)	$37	$90		$197		$284				F		F
LI	$12	$64		$171		$259				F		F
VLI	($16)	$50		$165		$233						F
ELI	($34)	$33		$147		$241						F
2-Unit Set-Aside Per Lot												
Moderate (For Sale)			$39		$165							
Moderate (For Rent)	($4)	$72		$162		$231						F
LI	($61)	$28		$128		$201						F
VLI	($119)	($28)		$74		$146						
ELI	($158)	($65)		$38		$109						

Notes: "F" indicates feasible scenarios, and blank indicates infeasible scenarios. All RLVs are rounded, and the determination of feasibility is based on the actual numbers before rounding.
Source: AECOM

In Market Tier 3 (Table 50), CT-2 courtyard prototypes are feasible across a broader range of set-aside scenarios. The RH-R prototype is also feasible with one MI set-aside unit.

Table 50. CT Scenario Residual Land Value and Feasibility (Market Tier 3)

Market Tier 3 (Market Land Value: $220 Per Sq. Ft.)												
Market Tier 3	**Residual Land Value ($/Land SF)**						**Feasibility**					
Incentive Area	**CT-1**			**CT-2**			**CT-1**			**CT-2**		
Prototype	**4D-R**	**RH-R**	**TH-S**	**CY3-R**	**CY3-S**	**CY3-R**	**4D-R**	**RH-R**	**TH-S**	**CY3-R**	**CY3-S**	**CY3-R**
Units per Lot	**5**	**6**	**6**	**8**	**8**	**10**	**5**	**6**	**6**	**8**	**8**	**10**
Total Units	5	12	12	16	16	10	5	12	12	16	16	10
1-Unit Set-Aside Per Lot												
Moderate (For Sale)			$193		$399						F	
Moderate (For Rent)	$178	$235		$271		$376		F		F		F
LI	$153	$209		$244		$350				F		F
VLI	$126	$197		$242		$324				F		F
ELI	$141	$180		$224		$338				F		F
2-Unit Set-Aside Per Lot												
Moderate (For Sale)			$134		$311						F	
Moderate (For Rent)	$132	$182		$227		$313				F		F
LI	$74	$139		$196		$286						F
VLI	$15	$83		$141		$231						F
ELI	($24)	$46		$105		$194						

Notes: "F" indicates feasible scenarios, and blank indicates infeasible scenarios. All RLVs are rounded, and the determination of feasibility is based on the actual numbers before rounding.
Source: AECOM

In Market Tier 4 (Table 51), there are multiple feasible projects across each prototype tested in CT-1 and CT-2. In particular, two MI set-aside units per lot is feasible across all for-sale prototypes. One MI set-aside unit per lot is feasible for all CT-1 rental prototypes, and one LI set-aside unit is feasible for 4D-R. One ELI unit or two VLI units is feasible for the highest density rental CT-2 projects.

Table 51. CT Scenario Residual Land Value and Feasibility (Market Tier 4)

Market Tier 4 (Market Land Value: $320 Per Sq. Ft.)												
	Residual Land Value ($/Land SF)						Feasibility					
Incentive Area	CT-1			CT-2			CT-1			CT-2		
Prototype	4D-R	RH-R	TH-S	CY3-R	CY3-S	CY3-R	4D-R	RH-R	TH-S	CY3-R	CY3-S	CY3-R
Units per Lot	5	6	6	8	8	10	5	6	6	8	8	10
Total Units	5	12	12	16	16	10	5	12	12	16	16	10
1-Unit Set-Aside Per Lot												
Moderate (For Sale)			$458		$675				F		F	
Moderate (For Rent)	$322	$339		$359		$489	F	F		F		F
LI	$326	$313		$332		$463	F			F		F
VLI	$299	$308		$341		$436				F		F
ELI	$281	$290		$323		$464				F		F
2-Unit Set-Aside Per Lot												
Moderate (For Sale)			$343		$554				F		F	
Moderate (For Rent)	$235	$262		$307		$415						F
LI	$180	$223		$286		$401						F
VLI	$156	$166		$230		$344						F
ELI	$116	$129		$192		$306						

Notes: "F" indicates feasible scenarios, and blank indicates infeasible scenarios. All RLVs are rounded, and the determination of feasibility is based on the actual numbers before rounding.
Source: AECOM

7.4.2 Summary and Implications

Key policy implications of this analysis include:

- **The CT incentive program may produce housing products that are not currently commonly built in LA today.** These products include rental rowhouses and courtyard apartments–two housing typologies that have historical precedent in LA but have not been commonly built since at least 2000.[39] Analysis of the proposed Corridor Transition program indicates the proposed incentives create sufficient value for developer applicants to acquire and redevelop land in Market Tiers 3 and 4 in the CT-2 incentive area, and to a more limited extent in the CT-1 area.
- **Affordable set-asides have a bigger impact on feasibility for smaller-scale CT-1 typologies than for larger-scale CT-2 projects.** In this analysis, The CT-2 typologies (courtyard projects) typically generated higher RLVs than the CT-1 typologies (fourplexes, row houses, and townhomes). Townhomes have long been validated by the market and can be constructed efficiently without the use of structured or subterranean parking. However, it is more challenging for smaller-scale CT-1 projects to bear the cost of set-aside units. Even in Market Tier 4, CT-1 feasibility is generally limited to projects that set-aside just one MI unit.
- **To enable a relatively broad range of projects to take advantage of the CT program, the City could consider requiring set asides as follows:**
  - CT-1: 1 MI unit per lot (rental projects), or 2 MI units per lot (for-sale projects).

[39] See analysis of housing typologies in "Task 3: Market Analysis: Market & Economic Study for the Density Bonus Ordinance Update and RHNA Rezoning Program," developed by AECOM for LACP, May 2024.

- CT-2: 1 ELI unit or 2 VLI units per lot (rental projects), or 2 MI units per lot (for-sale projects)

At these set-aside levels, prototypes are generally feasible in Market Tier 4 under current market conditions, and a more limited set of prototypes are feasible in Market Tiers 2 and 3.

Note that the CT results are not directly comparable with the DBO results, because the CT prototypes are assumed to occur on different size lots (that reflect conditions on CT-eligible parcels, rather than citywide averages) and, in the case of townhomes and rowhomes, have reduced parking ratios as a result of FAR limitations.

8. Conclusion

This analysis tested key elements of the City of Los Angeles' Rezoning Program, which is intended to create additional housing capacity and expand housing production. The updated DBO program is likely to expand housing opportunities across the City by enabling a broad range of different development types. The Mixed-Income Incentive Program is intended to complement DBO by incentivizing housing development near transit and encouraging the construction of various types of "low scale/low rise" housing.

This report offers analysis that is intended to inform City policy decisions about the appropriate tradeoff between affordability requirements and development incentives in different parts of the City. Key conclusions from the analysis include:

- **The updated DBO program and the Mixed-Income Incentive Program will create new opportunities for market-rate and affordable housing development across the City.** In many scenarios and Market Tiers, development projects that utilize the programs are likely to be feasible and preferable to base case projects.
- **The feasibility of incentive program scenarios varies significantly by Market Tier.** Incentive program scenarios tested are generally most feasible in Market Tier 4 (high market strength). There is more limited feasibility in Market Tier 3, and some scenarios are feasible under the DBO and CT programs in Market Tier 2 (medium/low market strength). None of the incentive program scenarios tested were feasible in Market Tier 1 (low market strength).
- **The ultimate impact of the Mixed-Income Incentive Program will depend on the set-aside schedules selected.** In general, scenario feasibility is sensitive to increased affordable set-asides, particularly in Market Tiers 2 and 3. Under the scenarios and market conditions modeled, only Market Tier 4 clearly supports the higher set-aside levels tested.
- **In addition to set-aside levels, other program parameters such as the methodology for calculating set-asides and FAR have a significant effect on project feasibility.** In particular, while TOIA and OC offer higher density bonuses than DBO, the financial benefit for applicants is in part offset by the method of calculating affordable set-aside units for TOIA and OC based on the total number of units per project. This is a shift from DBO which calculates set-aside requirements as a percentage of units allowed under density limits tied to a site's base zoning condition. Based on the incentive program parameters tested, TOIA and OC project feasibility may also be more affected than DBO project feasibility by counting above-ground parking against FAR. However, developers may partially offset the impact of this policy by reducing parking ratios.
- **Ultimately, the program that individual developers elect to pursue will depend in part on base zoning and other factors specific to the site.** Sites that are eligible for the Mixed-Income Incentive Program will also be eligible for DBO. This report finds that under the program parameters tested, DBO may offer higher RLVs than TOIA or OC for some projects on residentially zoned sites.[40] However, the relative benefits of each program will depend in part on the underlying zoning districts. For example, commercially zoned lots generally have smaller underlying FARs than residentially zoned lots, and therefore projects on commercial lots may be more likely to take advantage of TOIA in part because the TOIA program offers better FAR incentives compared to DBO.

[40] The CT results were not directly comparable with the DBO results, because the CT prototypes are assumed to occur on different size lots (that reflect conditions on CT-eligible parcels, rather than citywide averages) and, in the case of townhomes and rowhomes, have reduced parking ratios as a result of FAR limitations.

Task 11. Rent Stabilization Ordinance (RSO) Housing Analysis

Additional Analysis of the Impact of Increased RSO Replacement Requirements on Development Feasibility

City of Los Angeles Planning Department

September 20, 2024

Delivering a better world

FINAL CONSULTANT DELIVERABLE

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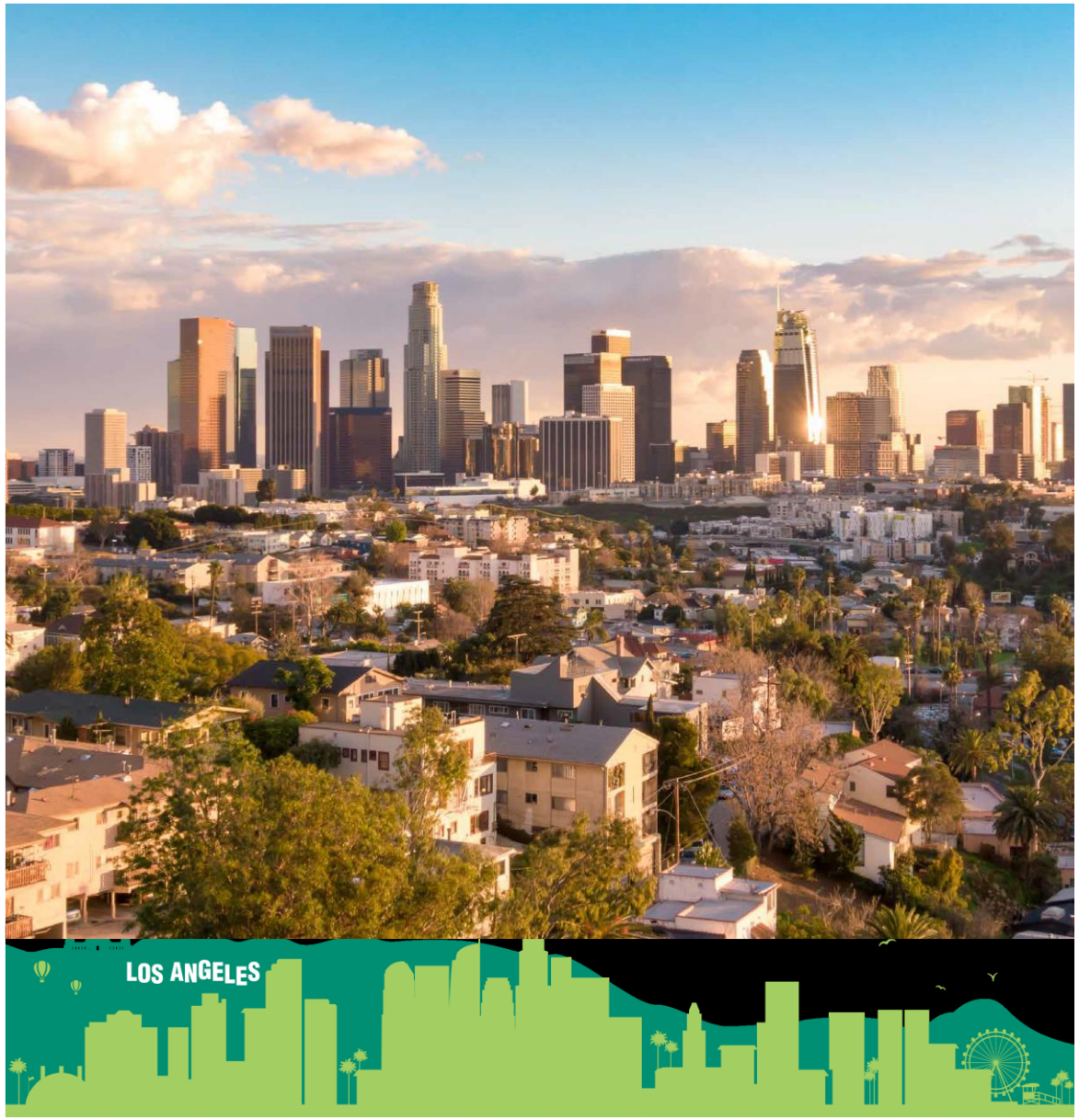


1. Overview and Approach

Overview

Purpose

The City of Los Angeles Department of City Planning (LACP) engaged AECOM to prepare **a high-level analysis of the potential impact of increasing the replacement requirement for affordable housing units to demolished Rent Stabilization Ordinance (RSO) Units**. The analysis and findings are intended to show how increasing the replacement ratio might affect the feasibility of RSO redevelopment projects. This document summarizes the approach and findings from the study. A technical report, currently under development, will provide additional detail on the methodology and implications.

Current Policy

In general, redevelopment projects that involve demolition of RSO units and other protected units are required to either extend the RSO to all new rental units or provide covenanted affordable housing units as stipulated by the following two policies:

Pursuant to LAMC Section 151.281, if a building with housing units covered by the Rent Stabilization Ordinance is redeveloped with new housing units that are rented within five years of the pre-existing units' withdrawal from the market, the RSO will apply to all newly constructed rental units on that property. Alternatively, if the new development provides covenanted affordable units at least equal in number to the pre-existing RSO units or 20% of the new development's total units (whichever is greater), the newly constructed affordable units can apply for an exemption from the RSO, but any remaining market-rate units will be subject to RSO provisions.

Pursuant to The Housing Crisis Act of 2019, as amended by SB 8 and AB 1218 (California Government Code Section 66300 et seq.), new housing development projects must replace any existing, demolished or removed protected units, which include units that have either been: subject to an affordability covenant within the past five years; subject to rent or price control within the past five years; occupied by lower or very low income households within last five years; or withdrawn from rent or lease per the Ellis Act within the past 10 years.

The replacement ratio of existing RSO or protected units to new affordable housing units depends on whether the income levels of residents is known or unknown.

If the current tenants' incomes are *known* (e.g., a tenant submits their income information and exercises their right to return), developments replacing protected units (including RSO units) must include at least the same number of units of equivalent size (number of bedrooms) made affordable at the same or lower income category as the existing households at the time the units were occupied.

If the income level of current tenants is *unknown*, a percentage of replacement units must be made affordable in accordance with the citywide percentage of low-income households reported in the CHAS database (69% as of September 5, 2023).

RSO redevelopment projects generally use one of the City's incentive zoning programs, Density Bonus Ordinance (DBO) and Mixed-Income Incentive Programs (MIIP) (Suite of programs that includes the Transit Oriented Incentive Area (TOIA), Opportunity Corridor Incentive (OC), and Corridor Transition (CT) Programs) to maximize density in return for providing affordable set-aside units.

Scenarios Tested

Additional Policy Scenarios Tested

This analysis tested sixteen RSO replacement ratio scenarios, that range from current requirements to higher replacement ratios with additional affordable housing set-asides. The **RSO replacement ratio** represents the number of newly constructed affordable units built for each pre-existing RSO unit in an RSO redevelopment project.

This analysis tested the following scenarios, which represent a range of options for the City's consideration:

Scenarios 1A through 1F: Under these scenarios, the number of affordable housing units is based on the replacement ratio. This ranges from 0.69:1 replacement ratio (Scenario 1A; current effective policy) to 2:1 (Scenario 1F). Thus, under Scenario 1A, if 100 RSO units were demolished, 69 affordable housing units would be required in the redevelopment project. Under Scenario 1F, the redevelopment project would be required to include 200 affordable units.

Scenarios 2A through 2F: These scenarios represent the same range of replacement ratios (0.69:1 in Scenario 2A to 2:1 in Scenario 2F). However, these scenarios assume that RSO replacement units would not count towards the affordable housing set-aside requirements associated with incentive zoning programs.

Scenarios 3A through 3B and **Scenarios 4A through 4B:** In these scenarios, different RSO replacement ratios are applied based on whether the demolished RSO units are assumed to be vacant or occupied, either 1:1, 1.5:1, or 2:1.

See Section 3 for additional information on these sixteen scenarios.

Table 1. Scenarios Tested

	Scenarios	RSO Replacement Ratio	Application of Incentive Programs
Scenario 1	Scenario 1A	.69:1	RSO replacement units count towards set-asides for incentive programs.
	Scenario 1B	1:1	
	Scenario 1C	1.25:1	
	Scenario 1D	1.5:1	
	Scenario 1E	1.75:1	
	Scenario 1F	2:1	
Scenario 2	Scenario 2A	.69:1	RSO replacement units do not count towards set-asides for incentive programs. Total set-asides calculated as the sum of RSO replacement units and incentive program set-asides.
	Scenario 2B	1:1	
	Scenario 2C	1.25:1	
	Scenario 2D	1.5:1	
	Scenario 2E	1.75:1	
	Scenario 2F	2:1	
Scenario 3	Scenario 3A	Vacant units replaced at 1:1; 69% of occupied units at 1.5:1	RSO replacement units count towards set-asides for incentive programs.
	Scenario 3B	Vacant units replaced at 1:1; 69% of occupied units at 1.5:1; 31% of occupied units at 1:1	
Scenario 4	Scenario 4A	Vacant units replaced at 1:1; 69% of occupied units at 2:1	RSO replacement units count towards set-asides for incentive programs.
	Scenario 4D	Vacant units replaced at 1:1; 69% of occupied units at 2:1; 31% of occupied units at 1:1	

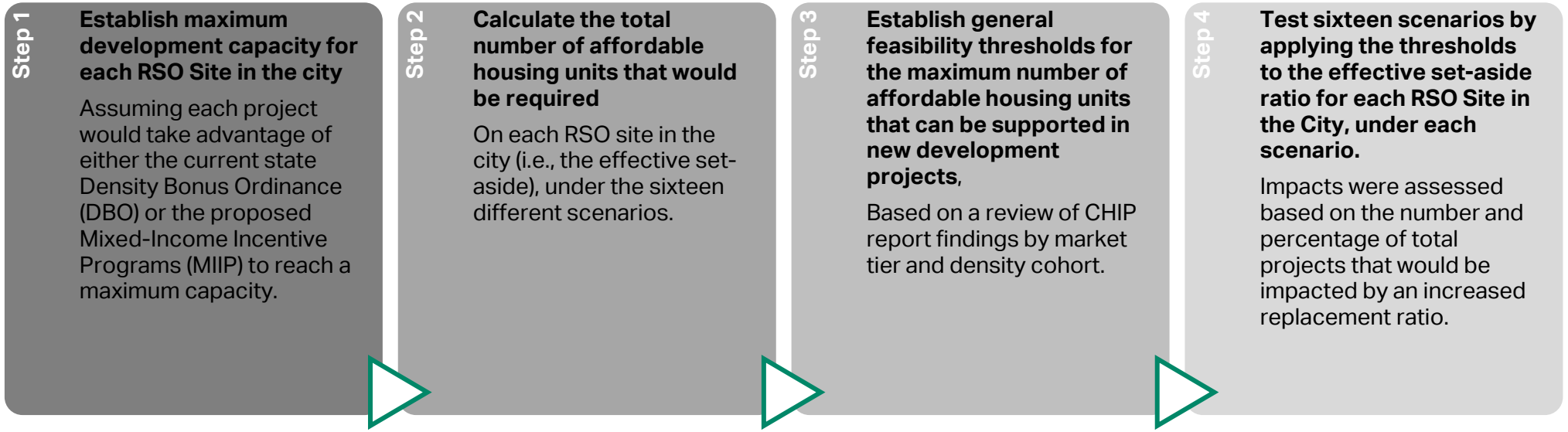
Analysis Steps

Dataset

LACP provided AECOM with a database of all properties in the City that have existing RSO units and are eligible for incentive programs, including information on market tier, density cohort and incentive program.

Analysis Steps

The analysis followed four general steps and was based upon the "Economic and Feasibility Analysis for the Citywide Housing Incentive Program DBO, TOIA, OC, and CT Strategies" report ("CHIP Report") submitted by AECOM to LACP in 2024 that analyzed potential affordable housing set-aside requirements and development incentives for several City programs.



For the purposes of this analysis, AECOM did not evaluate other factors that may affect redevelopment feasibility, such as specific site conditions or existing tenant incomes.

Feasibility Thresholds

Establishing Feasibility Thresholds

Findings from the CHIP Report suggest that DBO projects within Market Tier 4 can set aside as much as **25% of base units as affordable housing** (for VLI households), while MIIP projects within Market Tier 4 can set aside as much as **15% of total units for affordable housing** (for VLI households). These set-asides were used to establish the thresholds for the replacement ratios to be applied to the RSO data set. In general, projects in Market Tier 3 can support slightly lower set-asides. To reflect this difference in market conditions, the thresholds for feasibility in Market Tier 3 were assumed to be 5% lower than in Market Tier 4.

The following thresholds were used for the corresponding programs and Market Tiers:

- **DBO Market Tier 4: 25% Effective Set Aside Ratio**
- **DBO Market Tier 3: 20% Effective Set Aside Ratio**
- **MIIP Market Tier 4: 15% Effective Set Aside Ratio**
- **MIIP Market Tier 3: 10% Effective Set Aside Ratio**

For the purposes of this analysis, RSO sites in Market Tiers 1 and 2 and density cohorts Low, Low Medium I, and Low Medium II were excluded. The CHIP Report found that new development is generally infeasible under current market conditions in Market Tiers 1 and 2 and Low Medium II density cohorts. The CHIP Report did not include analysis of Low Medium I and II density cohorts, so it was not possible to establish feasibility thresholds for projects in those density cohorts.

See Section 3 for more information on the findings from the CHIP Report that informed this analysis.

Key Terms

Definitions

Rent Stabilization Ordinance (RSO). Chapter XV, Article 1 (Sections 151.00 to 151.35) of the Los Angeles Municipal Code. The ordinance regulates rent increases and evictions on certain rental properties (generally multifamily units built on or before October 1, 1978, and new rental units replacing pre-existing units covered under RSO).

RSO sites. Parcels that contain or have contained a building with residential units subject to the provisions of the RSO within the past five years. For the purpose of this analysis, "RSO sites" also refers to sites with units withdrawn from rent or lease per the Ellis Act within the past 10 years.

RSO redevelopment projects. Also referred to as **RSO projects.** Projects that necessitate the removal or demolition of existing RSO units on the site of the new development, or projects located on RSO sites (as defined above).

RSO-affordable replacement ratio (replacement ratio). The number of newly constructed affordable units built for each pre-existing RSO unit in an RSO redevelopment project. Commonly expressed as a ratio "e.g., 1:1" in which the first number represents the number of required affordable units, and the second number represents one pre-existing RSO unit. Sometimes expressed as a percentage, representing the affordable units as a percentage of pre-existing RSO units.

Effective set-aside ratio. The number of affordable housing units that would be required on redeveloped RSO sites relative to the maximum total units, determined by the replacement ratio and affordable housing set-aside requirements by relevant scenario and incentive program.

RSO replacement units. Housing units within a redevelopment project that are fulfilling replacement requirements such as affordability to lower income residents.

Affordable units. For the purposes of this analysis, "affordable units" refers specifically to units that are subject to a recorded covenant, ordinance, or law that restricts rents to levels affordable to persons and families of lower or very low income.

Market tier. This analysis draws upon previous findings from the Market Analysis Report associated with the CHIP Report that defines and analyzes four market tiers that range from low to high and are intended to represent the relative strength of the residential market in different geographies across the City based on an index that accounts for rents and for-sale prices of recently built housing, as well as the relative production of rental and for-sale housing over the past 10 years. Market Tier 1 is the weakest market, while Market Tier 4 is the strongest. See Section 3 for map of neighborhoods by Market Tier.

Density cohort. This analysis uses a framework of density cohorts as a basis for organizing site conditions in a way that generally reflects housing typologies allowed by base zoning conditions. The following designations are used to delineate the possible densities and corresponding typologies analyzed in this memo:

Table 2. Density Cohorts

Density Cohort	Base Density Range
Low Medium I	10-17 DU/AC
Low Medium II	18-29 DU/AC
Medium	30-55 DU/AC
High Medium	56-109 DU/AC
High	110-218 DU/AC

2. Key Findings

Interpreting Results

Interpreting Results

It is important to note that many other factors not tested in this analysis could affect actual project feasibility, including existing site conditions, neighborhood/location, and the specific affordability pathway selected by the developer.

These findings are based on analysis of incentive zoning programs[1], assuming mixed-income, unsubsidized development. The analysis is based on maximum development capacity under the respective incentive programs, but projects might choose not to build to maximum capacity or otherwise unable to do so due to other project or site-specific constraints.

Additionally, this analysis did not consider redevelopment of residential typologies found at densities below 10 DU/AC or projects with fewer than 5 DU.

[1] Different incentive programs can support different set-aside levels, in part because of the differing way that the incentives are calculated. Specifically, the DBO program calculates set-aside units as a percentage of base total units according to zoning specifications of a particular parcel. The MIIP program calculates set-asides as a percentage of total units, including additional market rate units made available through density bonus incentives.

Key Findings: RSO Redevelopment Feasibility

Potential Impacts on RSO Development Feasibility

Using the thresholds for maximum affordable set-asides established based on the CHIP Report, the analysis determined the number and percentage of RSO sites that would be feasible to redevelop under these requirements. Table 3 shows the number and percentage of sites in each scenario whose replacement ratios fall above or below the threshold. Out of 66,744 sites in the RSO data set, 16,191 (or ~24%) were located in Market Tiers 3 and 4 and density cohorts Medium, Medium High, and High Projects in the RSO data set, and thus included in the analysis.

Under current policy (Scenario 1A), 3,393 sites accounting for 21% of all RSO sites that are eligible for incentive programs are below the feasibility threshold, and potentially feasible. This suggests that redevelopment of these sites is potentially feasible based solely on the number of affordable units required compared to the maximum development capacity. As noted above, many other factors not tested in this analysis could affect actual project feasibility.

More stringent requirements further reduce the percentage of projects that are likely to be feasible. For example, in Scenario 1F (2:1 replacement ratio), redevelopment of 458 sites or 3% of RSO sites analyzed is potentially feasible. In Scenario 2A-2F, which assume that RSO replacement units would not count towards the affordable housing set-aside requirements associated with incentive zoning programs, fewer than 1% of sites fall below the threshold for feasibility. In Scenarios 3 and 4, where different RSO replacement ratios are applied based on whether the demolished RSO units are assumed to be vacant or occupied, approximately 10% of sites fall below the threshold for feasibility.

Table 3. RSO Sites by Scenario and Likely Feasibility

	Scenario 1						Scenario 2						Scenario 3		Scenario 4	
	1A Replace RSO .69:1	1B Replace RSO 1:1	1C Replace RSO 1.25:1	1D Replace RSO 1.5:1	1E Replace RSO 1.75:1	1F Replace RSO 2:1	2A Affordable + RSO .69:1	2B Affordable + RSO 1:1	2C Affordable + RSO 1.25:1	2D Affordable + RSO 1.5:1	2E Affordable + RSO 1.75:1	2F Affordable + RSO 2:1	3.A	3.B	4.A	4.B
Possibly Feasible (Below Threshold)	3,393	2,537	1,052	852	475	458	63	53	24	19	16	14	1,808	1,479	1,697	1,435
Unlikely Feasible (Above Threshold)	12,798	13,654	15,139	15,339	15,716	15,733	16,128	16,138	16,167	16,172	16,175	16,177	14,383	14,712	14,494	14,756
% Possibly Feasible (Below Threshold)	21.0%	15.7%	6.5%	5.3%	2.9%	2.8%	0.4%	0.3%	0.1%	0.1%	0.1%	0.1%	11.2%	9.1%	10.5%	8.9%
% Unlikely Feasible (Above Threshold)	79.0%	84.3%	93.5%	94.7%	97.1%	97.2%	99.6%	99.7%	99.9%	99.9%	99.9%	99.9%	88.8%	90.9%	89.5%	91.1%

Sources: LACP and AECOM, 2024.

Key Findings: Maximum Capacity

Potential Impacts on Maximum Capacity

Table 4 shows the total maximum units that could be built on the RSO sites analyzed. Total maximum units represents the maximum buildout capacity of each site based on zoning and maximum program incentives.

Out of 1,301,922 total maximum units in the RSO data set, 426,471 (or ~33%) were located in Market Tiers 3 and 4 and Density Cohorts Medium, Medium High, and High Projects in the RSO data set, and thus included in the analysis.

Under current policy (Scenario 1A), approximately 104,259 units accounting for 24% of the potential maximum capacity on the RSO sites tested are potentially feasible based on this analysis. In comparison, **under Scenario 1F, approximately 24,752 units are potentially feasible**, representing a decline of more than 75% in the total maximum units that could be built on the RSO sites considered in this analysis. **Scenario 2A-2F would represent a greater decline in maximum capacity, while the impact of Scenarios 3 and 4 on potential maximum capacity is more moderate**.

Table 4. Total Maximum Units on RSO Sites by Scenario and Likely Feasibility

	Scenario 1						Scenario 2						Scenario 3		Scenario 4	
	1A Replace RSO .69:1	1B Replace RSO 1:1	1C Replace RSO 1.25:1	1D Replace RSO 1.5:1	1E Replace RSO 1.75:1	1F Replace RSO 2:1	2A Affordable + RSO .69:1	2B Affordable + RSO 1:1	2C Affordable + RSO 1.25:1	2D Affordable + RSO 1.5:1	2E Affordable + RSO 1.75:1	2F Affordable + RSO 2:1	3.A	3.B	4.A	4.B
Below Threshold (Potentially Feasible)	104,259	76,652	42,829	35,764	25,874	24,752	14,160	13,692	1,315	1,114	1,020	970	60,631	51,475	56,660	49,333
Above Threshold (Unlikely Feasible)	322,212	349,819	383,643	390,708	400,598	401,720	412,312	412,780	425,157	425,358	425,452	425,502	365,840	374,997	369,812	377,139
% Below Threshold (Potentially Feasible)	24.4%	18.0%	10.0%	8.4%	6.1%	5.8%	3.3%	3.2%	0.3%	0.3%	0.2%	0.2%	14.2%	12.1%	13.3%	11.6%
% Above Threshold (Unlikely Feasible)	75.6%	82.0%	90.0%	91.6%	93.9%	94.2%	96.7%	96.8%	99.7%	99.7%	99.8%	99.8%	85.8%	87.9%	86.7%	88.4%

Sources: LACP and AECOM, 2024.

Key Findings: RSO Unit Preservation

Potential Impacts on RSO Unit Preservation

Table 5 shows the number and percentage of RSO units on the RSO sites analyzed. These represent the existing protected units on the sites considered for this study.

Out of 401,881 RSO units in the RSO data set, 142,220 (or ~35%) were located in Market Tiers 3 and 4 and Density Cohorts Medium, Medium High, and High Projects in the RSO data set, and thus considered in this analysis.

Under current policy (Scenario 1A), **approximately 13,291 RSO units, representing 9% RSO units analyzed, are on sites that could potentially be redeveloped** based on the thresholds applied**. More stringent requirements would further reduce the number of RSO units on sites that may be feasible for redevelopment.**

Table 5. Potentially Impacted RSO Units by Scenario and Likely Feasibility

	Scenario 1						Scenario 2						Scenario 3		Scenario 4	
	1A Replace RSO .69:1	1B Replace RSO 1:1	1C Replace RSO 1.25:1	1D Replace RSO 1.5:1	1E Replace RSO 1.75:1	1F Replace RSO 2:1	2A Affordable + RSO .69:1	2B Affordable + RSO 1:1	2C Affordable + RSO 1.25:1	2D Affordable + RSO 1.5:1	2E Affordable + RSO 1.75:1	2F Affordable + RSO 2:1	3.A	3.B	4.A	4.B
RSO Units that could potentially redevelop (Below Threshold)	13,291	8,070	3,790	2,866	1,949	1,818	1,170	1,077	65	49	35	23	6,079	5,108	5,532	4,833
RSO Units unlikely to redevelop (Above Threshold)	128,929	134,150	138,430	139,354	140,271	140,402	141,050	141,143	142,155	142,171	142,185	142,197	136,141	137,112	136,688	137,387
% RSO Units that could potentially redevelop (Below Threshold)	9.3%	5.7%	2.7%	2.0%	1.4%	1.3%	0.8%	0.8%	0.0%	0.0%	0.0%	0.0%	4.3%	3.6%	3.9%	3.4%
% RSO Units unlikely to redevelop (Above Threshold)	90.7%	94.3%	97.3%	98.0%	98.6%	98.7%	99.2%	99.2%	100.0%	100.0%	100.0%	100.0%	95.7%	96.4%	96.1%	96.6%

Sources: LACP and AECOM, 2024.

3. Appendix

Takeaways from the CHIP Report

CHIP Report Findings

To establish a threshold of feasibility by which to assess the impact of the current baseline and potentially increased Replacement Ratios, AECOM analyzed the results of the CHIP report by market tier, density cohort, and incentive program. Takeaways from the CHIP report include:

- **There are substantial differences in feasibility based on incentive programs, density cohorts, market tiers, and effective set-aside ratios.**
- **Under current market conditions, very few projects tested in Market Tiers 1 and 2 were found to be feasible.** Note that these findings reflect historically high construction prices and interest rates, among other factors, and only reflect the feasibility of typical prototypes tested. Historically, RSO redevelopment projects have occurred throughout the City, including in Market Tiers 1 and 2, as detailed in "Potential Impact of RSO-Affordable Replacement Requirement Report" ("RSO Report") submitted by AECOM to LACP on July 31, 2024.
- **Under current market conditions, very few projects tested in low/low medium density cohorts (under 30 Dwelling Units/Acre) were found to be feasible.**
- **Different incentive programs can support different set-aside levels, in part because of the differing way that the incentives are calculated.** Specifically, the DBO program calculates set-aside units as a percentage of base total units according to zoning specifications of a particular parcel. The MIIP program calculates set-asides as a percentage of total units, including additional market rate units made available through density bonus incentives.

The CHIP report tested a wide variety of potential development projects with varying set aside percentages. In addition to set aside percentage (i.e. the percent of units set aside as affordable units), the tested projects also reflected variations in the affordability level of the set-aside units, density cohort, incentive program, and market tier. The tables to the right show the **percent of tested projects that were found to be financially feasible** for selected affordability pathways in Market Tier 4 by incentive program (DBO v. MIIP), set aside percentage, and density cohort. The tables focus on a select set of affordability pathways – setting aside Very Low Income, or VLI units – that were generally found to be most feasible.

Table 6: Percentage of Projects Found Financially Feasible for VLI-Only Pathways, by Set-Aside Level and Density Cohort in Market Tier 4: DBO v. MIIP Programs

DBO Market Tier 4 (VLI-Only Pathways)				
% Set Aside	Percentage of Projects Found Feasible			
	Low-Med II	Med	High Med	High
0%	0%	71%	86%	100%
5%	0%	100%	100%	100%
9%	0%	100%	0%	100%
15%	0%	80%	100%	100%
20%	0%	100%	100%	100%
25%	0%	100%	100%	100%

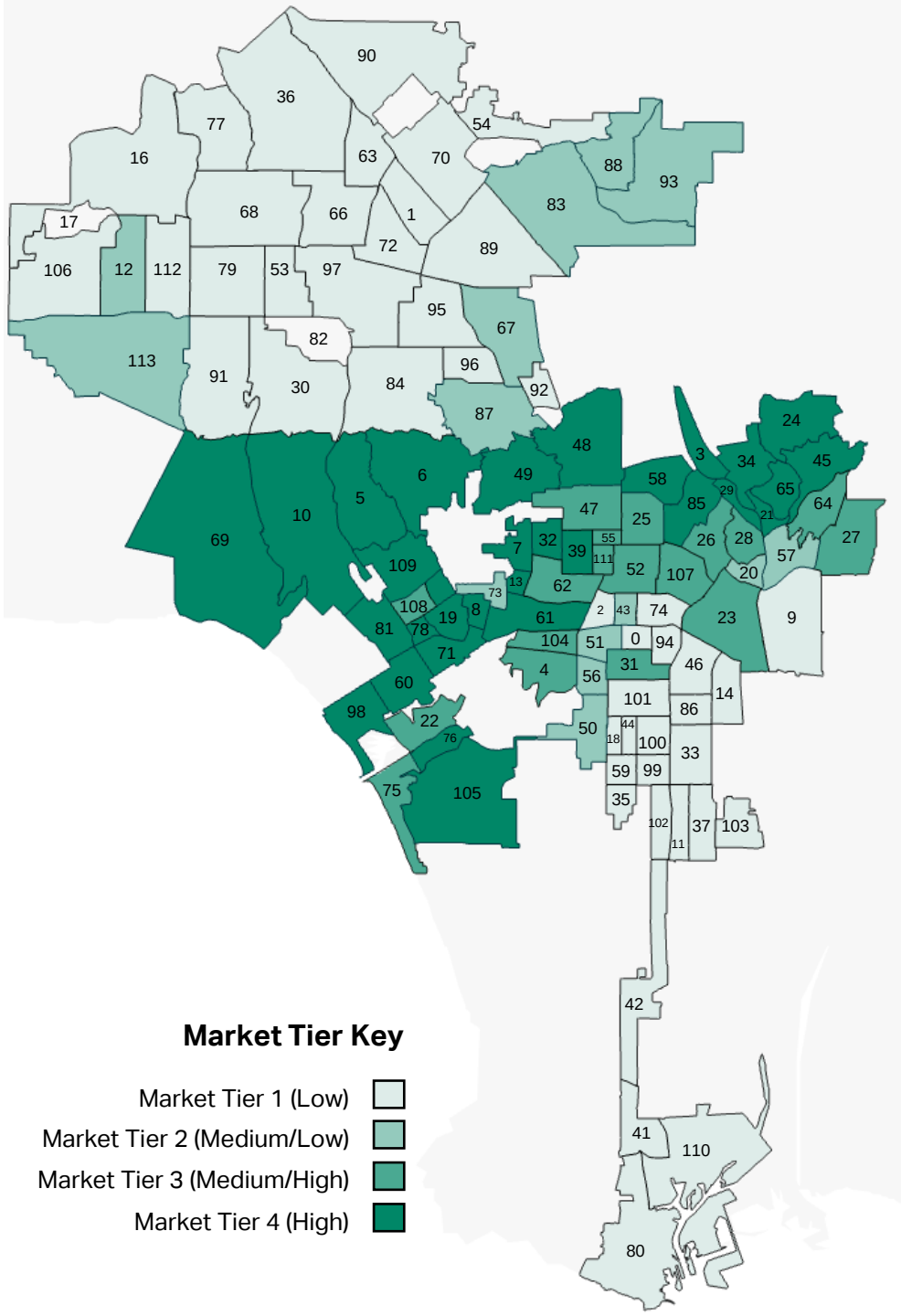
MIIP Market Tier 4 (VLI-Only Pathways)				
% Set Aside	Percentage of Projects Found Feasible			
	Low-Med II	Med	High Med	High
0%	3%	15%	27%	26%
10%	0%	50%	0%	0%
11%	0%	50%	50%	50%
12%	0%	58%	50%	33%
13%	0%	57%	43%	29%
14%	0%	35%	60%	30%
15%	0%	8%	50%	29%
16%	0%	6%	38%	31%
17%	0%	6%	33%	28%
18%	0%	0%	0%	38%
20%	0%	25%	0%	0%
25%	0%	0%	0%	0%
33%	0%	0%	0%	0%
40%	0%	0%	0%	0%

Source: AECOM, 2024.

Market Tiers by Neighborhood

The map on the right shows the market tier classifications for each neighborhood that was used for the purposes of this analysis. The legend below shows the name of each neighborhood that corresponds to the number labels used in the map, as well as the CPA that each neighborhood falls primarily within. For more information on the market tier methodology, see AECOM's "Task 3: Market Analysis" submitted to LACP on June 28, 2024.

#	Neighborhood	Primary CPA
0	Adams-Normandie	South Los Angeles
1	Arleta	Arleta - Pacoima
2	Arlington Heights	West Adams - Baldwin Hills - Leimert
3	Atwater Village	Northeast Los Angeles
4	Baldwin Hills/Crenshaw	West Adams - Baldwin Hills - Leimert
5	Bel-Air	Bel Air - Beverly Crest
6	Beverly Crest	Bel Air - Beverly Crest
7	Beverly Grove	Wilshire
8	Beverlywood	West Los Angeles
9	Boyle Heights	Boyle Heights
10	Brentwood	Brentwood - Pacific Palisades
11	Broadway-Manchester	Southeast Los Angeles
12	Canoga Park	Canoga Park - Winnetka - Woodland Hills - West Hills
13	Carthay	Wilshire
14	Central-Alameda	Southeast Los Angeles
15	Century City	West Los Angeles
16	Chatsworth	Chatsworth - Porter Ranch
17	Chatsworth Reservoir	Chatsworth - Porter Ranch
18	Chesterfield Square	South Los Angeles
19	Cheviot Hills	West Los Angeles
20	Chinatown	Central City North
21	Cypress Park	Northeast Los Angeles
22	Del Rey	Palms - Mar Vista - Del Rey
23	Downtown	Central City
24	Eagle Rock	Northeast Los Angeles
25	East Hollywood	Hollywood
26	Echo Park	Silver Lake - Echo Park - Elysian Valley
27	El Sereno	Northeast Los Angeles
28	Elysian Park	Silver Lake - Echo Park - Elysian Valley
29	Elysian Valley	Silver Lake - Echo Park - Elysian Valley
30	Encino	Encino - Tarzana
31	Exposition Park	South Los Angeles
32	Fairfax	Wilshire
33	Florence	Southeast Los Angeles
34	Glassell Park	Northeast Los Angeles
35	Gramercy Park	South Los Angeles
36	Granada Hills	Granada Hills - Knollwood
37	Green Meadows	Southeast Los Angeles
38	Griffith Park	Hollywood
39	Hancock Park	Wilshire
40	Hansen Dam	Arleta - Pacoima
41	Harbor City	Wilmington - Harbor City
42	Harbor Gateway	Harbor Gateway
43	Harvard Heights	South Los Angeles
44	Harvard Park	South Los Angeles
45	Highland Park	Northeast Los Angeles
46	Historic South-Central	Southeast Los Angeles
47	Hollywood	Hollywood
48	Hollywood Hills	Hollywood
49	Hollywood Hills West	Hollywood
50	Hyde Park	West Adams - Baldwin Hills - Leimert
51	Jefferson Park	West Adams - Baldwin Hills - Leimert
52	Koreatown	Wilshire
53	Lake Balboa	Reseda - West Van Nuys
54	Lake View Terrace	Sunland - Tujunga - Lake View Terrace - Shadow Hills - East La Tuna Canyon
55	Larchmont	Wilshire
56	Leimert Park	West Adams - Baldwin Hills - Leimert
57	Lincoln Heights	Northeast Los Angeles
58	Los Feliz	Hollywood
59	Manchester Square	South Los Angeles
60	Mar Vista	Palms - Mar Vista - Del Rey
61	Mid-City	West Adams - Baldwin Hills - Leimert
62	Mid-Wilshire	Wilshire
63	Mission Hills	Mission Hills - Panorama City - North Hills
64	Montecito Heights	Northeast Los Angeles
65	Mount Washington	Northeast Los Angeles
66	North Hills	Mission Hills - Panorama City - North Hills
67	North Hollywood	North Hollywood - Valley Village
68	Northridge	Northridge
69	Pacific Palisades	Brentwood - Pacific Palisades
70	Pacoima	Arleta - Pacoima
71	Palms	Palms - Mar Vista - Del Rey
72	Panorama City	Mission Hills - Panorama City - North Hills
73	Pico-Robertson	Wilshire
74	Pico-Union	South Los Angeles
75	Playa del Rey	Westchester - Playa del Rey
76	Playa Vista	Westchester - Playa del Rey
77	Porter Ranch	Chatsworth - Porter Ranch
78	Rancho Park	West Los Angeles
79	Reseda	Reseda - West Van Nuys
80	San Pedro	San Pedro
81	Sawtelle	West Los Angeles
82	Sepulveda Basin	Encino - Tarzana
83	Shadow Hills	Sunland - Tujunga - Lake View Terrace - Shadow Hills - East La Tuna Canyon
84	Sherman Oaks	Sherman Oaks - Studio City - Toluca Lake - Cahuenga Pass
85	Silver Lake	Silver Lake - Echo Park - Elysian Valley
86	South Park	Southeast Los Angeles
87	Studio City	Sherman Oaks - Studio City - Toluca Lake - Cahuenga Pass
88	Sunland	Sunland - Tujunga - Lake View Terrace - Shadow Hills - East La Tuna Canyon
89	Sun Valley	Sun Valley - La Tuna Canyon
90	Sylmar	Sylmar
91	Tarzana	Encino - Tarzana
92	Toluca Lake	Sherman Oaks - Studio City - Toluca Lake - Cahuenga Pass
93	Tujunga	Sunland - Tujunga - Lake View Terrace - Shadow Hills - East La Tuna Canyon
94	University Park	South Los Angeles
95	Valley Glen	Van Nuys - North Sherman Oaks
96	Valley Village	North Hollywood - Valley Village
97	Van Nuys	Van Nuys - North Sherman Oaks
98	Venice	Venice
99	Vermont Knolls	South Los Angeles
100	Vermont-Slauson	South Los Angeles
101	Vermont Square	South Los Angeles
102	Vermont Vista	South Los Angeles
103	Watts	Southeast Los Angeles
104	West Adams	West Adams - Baldwin Hills - Leimert
105	Westchester	Los Angeles International Airport
106	West Hills	Canoga Park - Winnetka - Woodland Hills - West Hills
107	Westlake	Westlake
108	West Los Angeles	West Los Angeles
109	Westwood	Westwood
110	Wilmington	Wilmington - Harbor City
111	Windsor Square	Wilshire
112	Winnetka	Canoga Park - Winnetka - Woodland Hills - West Hills
113	Woodland Hills	Canoga Park - Winnetka - Woodland Hills - West Hills



Scenario Details: Scenarios 1A-1F

Scenarios 1A-1F: Increased Replacement Ratios

LACP provided AECOM with a database of all DBO and MIIP eligible sites with RSO units sorted by market tier, density cohort and incentive program. After conducting data cleaning and analysis, the following sixteen scenarios were tested based on maximum RSO units and incentive program:

Scenario 1: Increased Replacement Ratios

Scenario 1 determines the number of RSO replacement units required to be built based on (1) existing RSO units to be replaced and (2) affordable set-asides for a particular project and incentive program. RSO units are assumed to count towards the incentive program set-asides, reflecting current policy.

- **Replace RSO .69:1:** Assumes replacement of 69% of all RSO units with affordable housing units in a development. This replacement ratio reflects general current practice.
- **Replace RSO 1:1:** 100% of all RSO units replaced with affordable housing units in a development.
- **Replace RSO 1.25:1:** 125% of all RSO units replaced with affordable housing units in a development.
- **Replace RSO 1.5:1:** 150% of all RSO units replaced with affordable housing units in a development.
- **Replace RSO 1.75:1:** 175% of all RSO units replaced with affordable housing units in a development.
- **Replace RSO 2:1:** 200% of all RSO units replaced with affordable housing units in a development.

Scenario Details: Scenarios 2A-2F

Scenarios 2A-2F: Increased Replacement Ratios + Incentive Units Counted Separately

Scenario 2 assumes that replacement units do not count towards affordable units required by the incentive program, meaning affordable units will be provided due to the RSO replacement ratio, as well as set-asides from each incentive program. Affordable units provided in exchange for density bonuses and other incentives will not count towards RSO replacement units. Affordable units set-asides are calculated for each incentive program (DBO, TOIA & OC, and CT). For CT, the analysis assumes a feasible approach of one moderate unit for each of the three programs. Additionally, it assumes that DB projects are maximizing density and providing the commensurate affordability, with 15% allocated to Very Low Income (VLI) and 15% to Moderate Income (Mod)[2]. These incentive programs units are then added to the number of RSO replacement units for each scenario.

- **Affordable + RSO .69:1:** 69% of all RSO units replaced with affordable housing units + affordable unit set-aside from respective incentive program.
- **Affordable + RSO 1:1:** 100% of all RSO units replaced with affordable housing units + affordable unit set-aside from respective incentive program.
- **Affordable + RSO 1.25:1:** 125% of all RSO units replaced with affordable housing units + affordable unit set-aside from respective incentive program.
- **Affordable + RSO 1.5:1:** 150% of all RSO units replaced with affordable housing units + affordable unit set-aside from respective incentive program.
- **Affordable + RSO 1.75:1:** 175% of all RSO units replaced with affordable housing units + affordable unit set-aside from respective incentive program.
- **Affordable + RSO 2:1:** 200% of all RSO units replaced with affordable housing units + affordable unit set-aside from respective incentive program.

[2]See next page for details on affordability assumptions.

Affordability Assumption Table

Program	Market Tier	ELI Set-Aside	VLI Set-Aside	Mod Set-Aside
RC1	4	11%		
	3	11%		
	2	9%		
	1	9%		
RC2	4	11%		
	3	11%		
	2	9%		
	1	9%		
RC3	4	11%		
	3	11%		
	2	9%		
	1	9%		
TOIA	4	11%		
	3	11%		
	2	9%		
	1	9%		
DB	N/A		15%	15%
CT1	N/A			1 unit
CT2	N/A			2 units
CT3	N/A			3 units

Scenario Details: Scenarios 3A-4B

Scenarios 3A-3B and 4A-4B: Increased Replacement Ratios Based on Occupancy

Scenarios 3 and 4 determine the number of RSO replacement units by randomly classifying projects into vacant (48%) and occupied (52%) units. This split is based on data for vacant vs. occupied RSO units proposed for redevelopment from LAHD Replacement Unit Determinations data between January 2022 and August 2024. After classifying the projects as vacant or occupied, different replacement ratios are then applied to each scenario.

Scenario 3: Vacant vs Occupied; 1.5:1 Replacement Ratios

- **3.A:** Determines the number of RSO replacement units by replacing 100% of vacant units at a ratio of 1:1 and replacing 69% of occupied units at 1.5:1
- **3.B:** Determines the number of RSO replacement units by replacing 100% of vacant units at a ratio of 1:1 and replacing 69% of occupied units at 1.5:1 and 31% of occupied units at 1:1

Scenario 4: Vacant vs Occupied; 2:1 Replacement Ratios

- **4.A:** Determines the number of RSO replacement units by replacing 100% of vacant units at a ratio of 1:1 and replacing 69% of occupied units at 2:1
- **4.B:** Determines the number of RSO replacement units by replacing 100% of vacant units at a ratio of 1:1 and replacing 69% of occupied units at 2:1 and 31% of occupied units at 1:1

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