

Boyle Heights Community Plan Update

Draft Regulations Economic Feasibility Assessment

March 2023

AECOM



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Introduction

Project Background

The City of Los Angeles (City) has drafted an update to the Boyle Heights Community Plan (BHCP). The plan, which would update the last BHCP adopted in 1998, establishes policies, goals, and regulations for the Boyle Heights Community Plan Area (CPA) and includes zoning, land uses, and other policy recommendations. A new element in the draft plan is the Community Benefits Program (CBP), which offers density bonuses and other incentives to encourage production of affordable housing.

AECOM was retained by the City to assess the economic feasibility of the proposed benefits program and development regulations and provide feedback to help the City adjust plan parameters, as necessary. The assessment contained in this report includes a market analysis assessing growth trends of different land uses in both Boyle Heights and the surrounding area; a description of prototypical development typologies for the CPA; and an exploration of the financial feasibility of these land uses in scenarios that utilize the benefits of the proposed incentive program. In addition, the report assesses the feasibility of a mandatory inclusionary housing program and contemplates strategies that may be applicable to prevent displacement of existing small businesses. The report concludes with findings and recommendations for consideration by the City as it finalizes the BHCP.

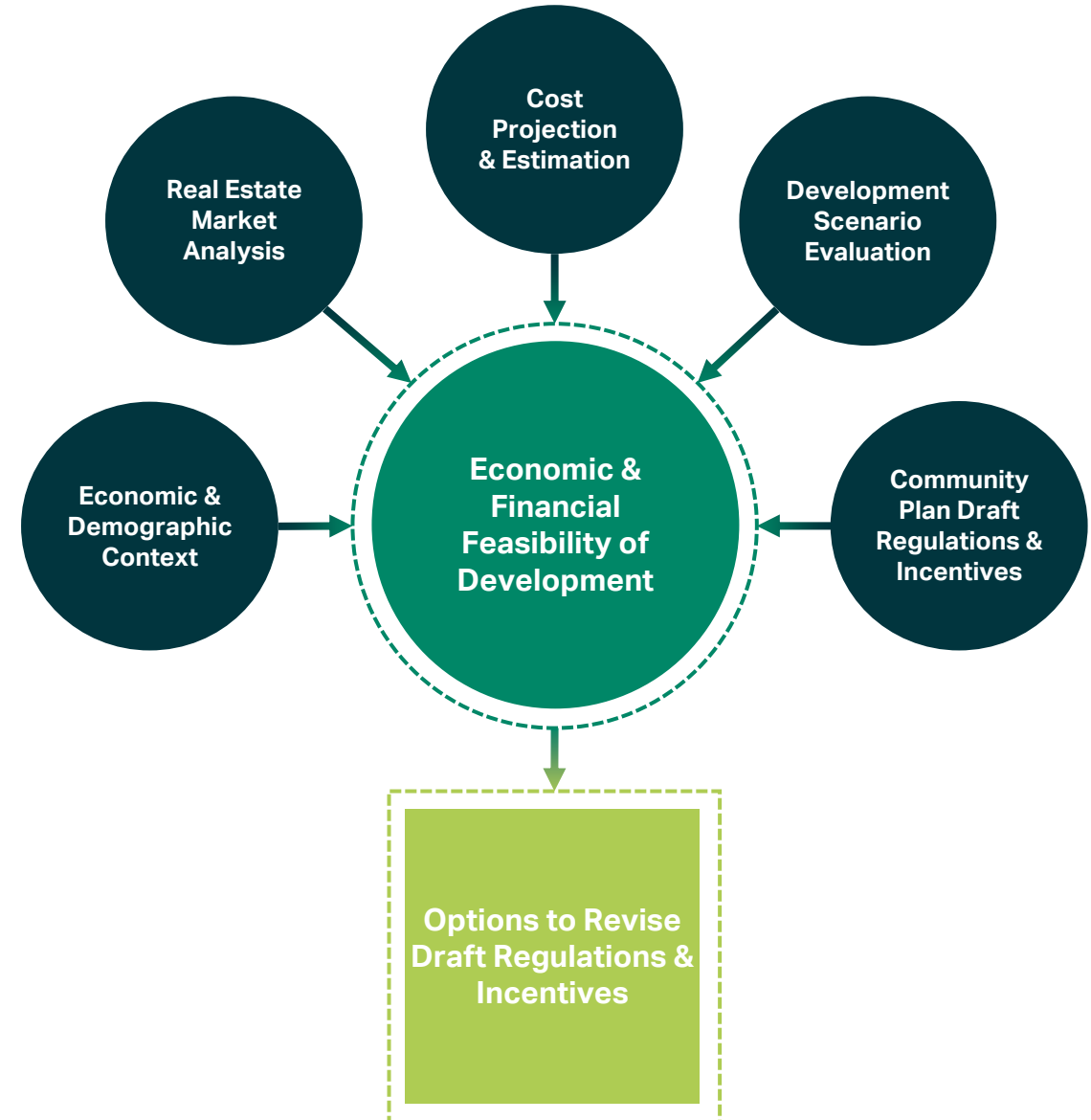


Images: S. Singh, Planning Staff.

Introduction

Approach

The study began in June 2022. To analyze development feasibility of the draft community plan, AECOM considered several factors including socioeconomic context, real estate market measures, development costs, growth scenarios, and proposed draft community plan regulations.

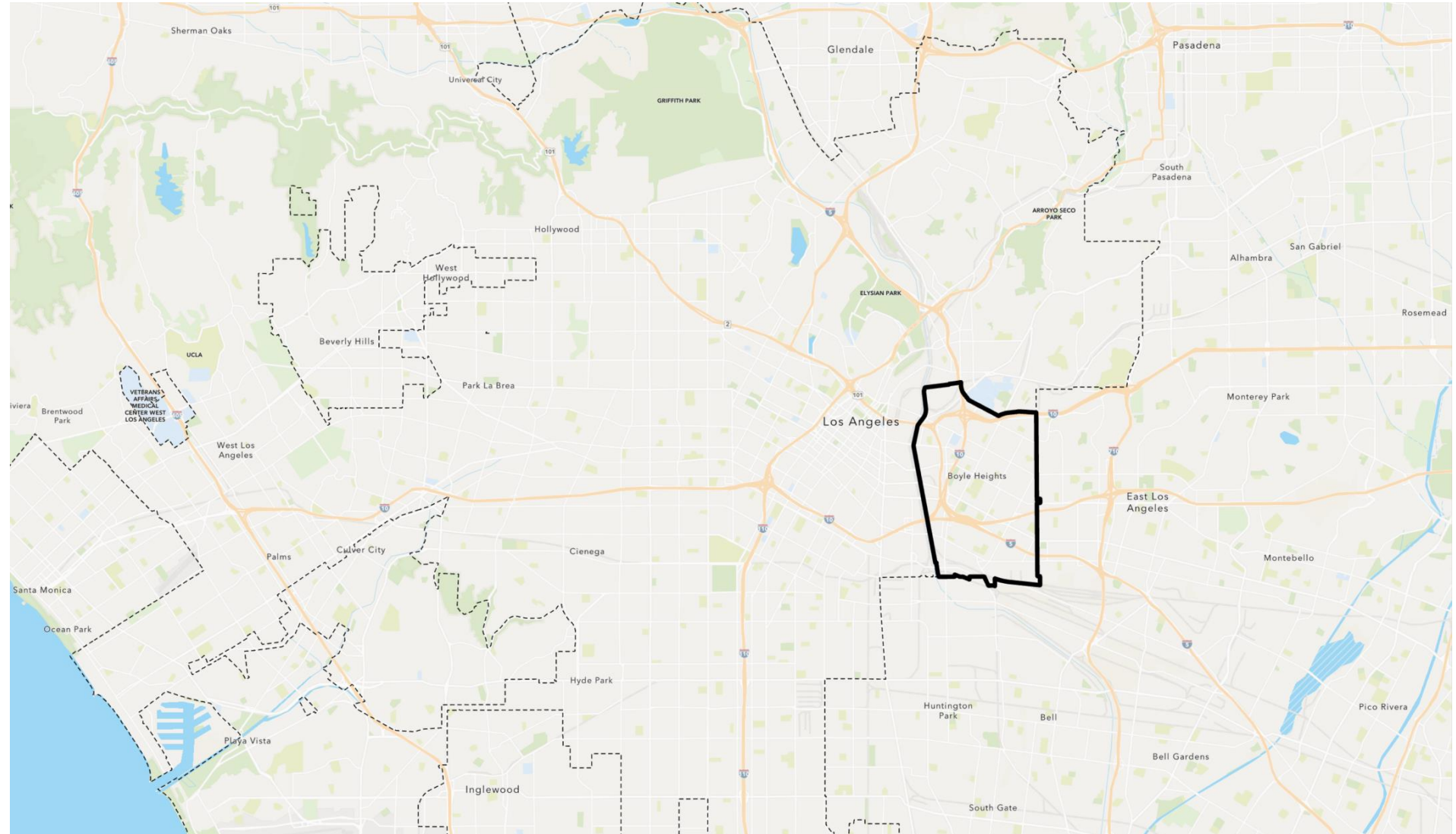



Introduction

Area Context

The map on the right shows the Boyle Heights Community Plan Area (CPA) in the context of the rest of the City of Los Angeles and greater Los Angeles Metropolitan Area.

Boyle Heights is located on the eastern edge of the City of Los Angeles, immediately adjacent to Downtown Los Angeles, 8 miles southeast of Griffith Park, 13 miles northeast of the Los Angeles International Airport, and 15 miles northeast of the nearest coastlines at Venice and Playa Del Rey.



City of Los Angeles ---
Boyle Heights CPA 

Introduction

Community Plan Update

The Boyle Heights Community Plan sets goals and policies to guide development for the future of the Boyle Heights community.

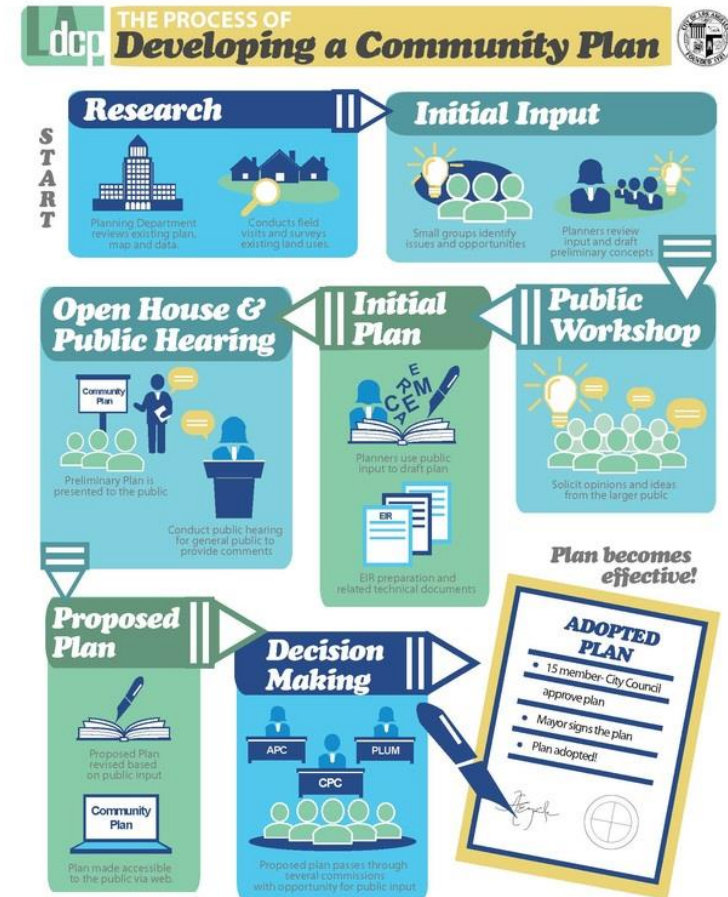
The City of Los Angeles regularly updates its 35 community plans to ensure they remain effective tools to manage growth and development as neighborhoods change and community preferences evolve. The current Community Plan Update (CPU) process began with community outreach in 2012 and is currently in the final stage of refinement before potential adoption in 2023.

The draft document of the Boyle Heights Community Plan focuses on the following goals:

- Address housing needs;
- Reinforce neighborhood identity;
- Preserve and improve industrial land;
- Preserve and foster local business; and
- Improve residents' health and safety

To pursue these goals, the Community Plan lays out the following guiding principles:

- Promote housing affordability;
- Promote vibrant neighborhood and commercial districts;
- Preserve and celebrate Boyle Heights' cultural heritage;
- Foster a thriving, healthy, and sustainable community;
- Preserve industrial land for economic stability; and
- Create a network of safe and accessible streets



Introduction

Boyle Heights Community Benefits Program

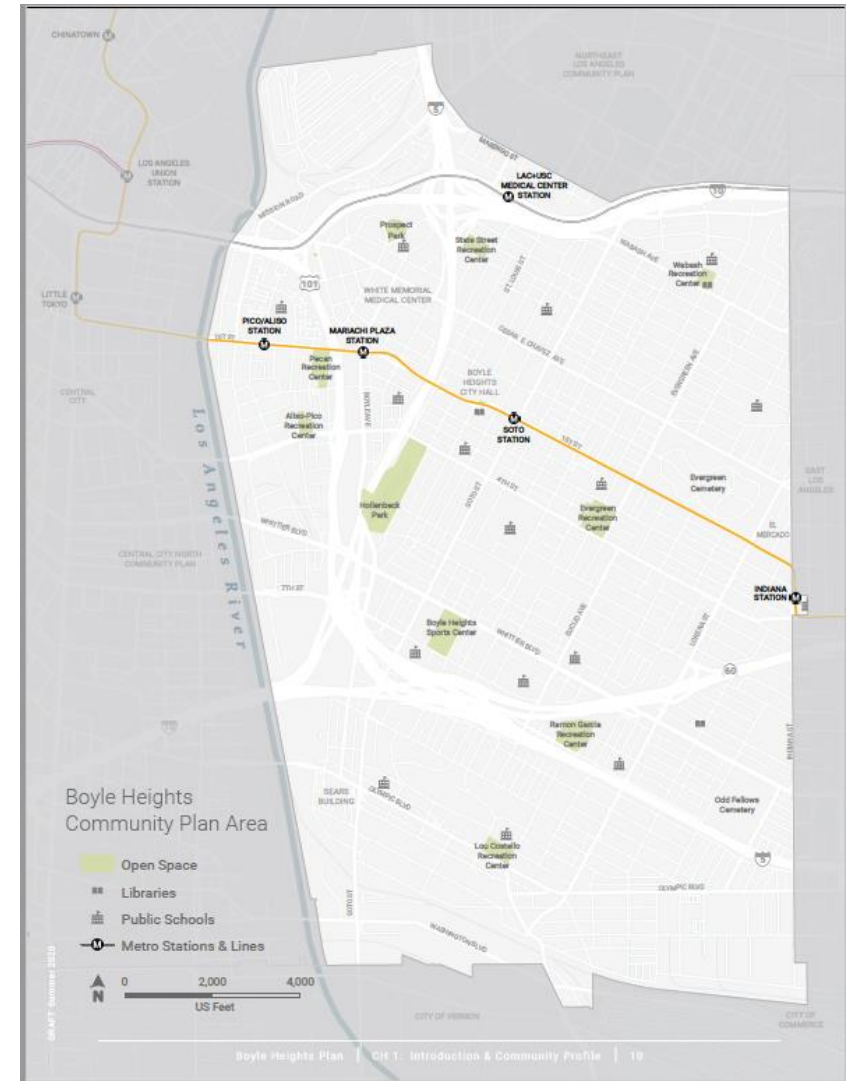
To further the Community Plan's goals to address housing needs and promote housing affordability, the draft CPU includes a Community Benefits Program that offers greater development potential in exchange for the provision of affordable housing. This program provides a menu of incentives that allow developments to supersede development standards or build beyond maximums established in the City's zoning code.

Available incentives include increases in the allowable Floor to Area Ratio (FAR), building height increases, density increases, parking reductions, building coverage increases, and lot width reductions.

To qualify for the incentives offered in the draft Community Benefits Program¹, a development must meet the following requirements:

- Include the construction or addition of at least 5 residential units on site
- Set aside Include at least 30% of all units as 2 or more bedrooms
- Set aside a portion of total housing units as affordable with a 99-year covenant. Set-aside options include:
 - 11% of units for Extremely Low Income Households (<30% of Area Median Income)
 - 15% of units for Very Low Income Households (<50% of Area Median Income)
 - 25% of units for Low Income Households (<80% of Area Median Income)

In addition, the City is also considering alternative set-aside requirements depending on their impact to feasibility, including an option for Acutely Low Income Households (<15% of Area Median Income)



Introduction

Organization of This Document

1. **Introduction.** This section contains information about the Boyle Heights Community Plan Update, the Community Benefits Program, and the purpose of the report to explore the feasibility of new regulations and incentives.
2. **Economic & Demographic Context.** This section assesses the demographic and socioeconomic trends in Boyle Heights in relation to the City of Los Angeles. It includes data on population, household income, and access to transit. This section frames the context of real estate development and potential impacts of proposed regulations.
3. **Real Estate Market Analysis.** This section assesses the trends in rents, vacancies, inventory, and other key real estate market indicators in Boyle Heights over time and in relation to the City of Los Angeles. It includes data on development patterns of various land uses, including market rate and affordable residential, retail, office, and industrial uses. It summarizes key findings and provides inputs to the development of prototypes and development feasibility testing.
4. **Regulations & Incentives.** This section contains summaries of best practice research into the various regulations and incentives as proposed in the Boyle Heights Community Plan Update and Community Benefits Program. It details peer jurisdiction approaches and suggests potential impacts on the community of Boyle Heights.
5. **Development Prototypes & Feasibility.** This section explains the process of developing prototypical sites and development typologies. It combines key findings from the real estate and market analysis with proposed zoning codes to develop proforma models for each prototype. This section includes detailed sensitivity testing of key input variables, such as rent increases, construction cost inflation and alternative affordable housing set-aside scenarios.
6. **Mandatory Inclusionary Feasibility.** This section combines analysis of the national best practices literature review with the market analysis and feasibility testing to consider the implications of a mandatory inclusionary housing program in Boyle Heights.
7. **Next Steps.** This section lays out the details of remaining tasks to complete the final report of this analysis.



Economic & Demographic Context



Economic & Demographic Context

Regional Context

It's important to consider the broader economic and demographic environment within which Boyle Heights operates.

The table on the right shows high-level population and gross domestic product (GDP) metrics for the top 20 metropolitan areas in the United States.

As shown, the Los Angeles Metro Area ranks second behind only New York in terms of the size of its population and overall economy.

However, like Chicago and New York, the Los Angeles Metro Area has been outpaced by many other metro areas in terms of growth in these metrics in recent years – it ranked 10th in terms of economic growth and 18th in terms of population growth.

Top 20 Metropolitan Areas in the U.S.									
Metro Area	Population				Economy (GDP)				
	2020	Rank	Growth 2010-2020	Rank	2019 (\$ millions)	Rank	Growth 2010-2019	Rank	
New York City, NY	20,140,470	1	7%	14	\$1,582,863	1	18%	16	
Los Angeles, CA	13,200,998	2	3%	18	\$934,771	2	25%	10	
Chicago, IL	9,618,502	3	2%	20	\$628,061	3	15%	18	
Dallas, TX	7,637,387	4	20%	2	\$487,605	6	38%	3	
Houston, TX	7,122,240	5	20%	1	\$469,349	7	22%	13	
Washington D.C.	6,385,162	6	13%	8	\$499,243	5	14%	19	
Philadelphia, PA	6,245,051	7	5%	17	\$398,157	9	11%	20	
Miami, FL	6,138,333	8	10%	10	\$326,364	12	26%	8	
Atlanta, GA	6,089,815	9	15%	6	\$386,542	10	37%	4	
Boston, MA	4,941,632	10	9%	13	\$427,272	8	25%	9	
Phoenix, AZ	4,845,832	11	16%	5	\$241,912	14	31%	6	
San Francisco, CA	4,749,008	12	10%	11	\$535,917	4	60%	1	
Riverside, CA	4,599,839	13	9%	12	\$164,450	19	27%	7	
Detroit, MI	4,392,041	14	2%	19	\$234,406	15	18%	15	
Seattle, WA	4,018,762	15	17%	3	\$378,326	11	52%	2	
Minneapolis, MN	3,690,261	16	11%	9	\$245,923	13	22%	14	
San Diego, CA	3,298,634	17	7%	15	\$214,035	16	23%	11	
Tampa, FL	3,175,275	18	14%	7	\$147,718	20	23%	12	
Denver, CO	2,963,821	19	17%	4	\$202,452	17	37%	5	
Baltimore, MD	2,844,510	20	5%	16	\$186,402	18	17%	17	

Sources: U.S. Census Bureau, U.S. Bureau of Economic Analysis, AECOM

Economic & Demographic Context

Transportation

Existing transit networks are an important factor when considering the feasibility of real estate development, as it is desirable for both commercial and residential projects to be in close proximity to transit services.

Several of the city's major highways pass through the area including the Golden State Freeway (I-5) going north-south, and the Santa Monica Freeway (I-10), Pomona Freeway (CA-60) and US 101 going east-west.

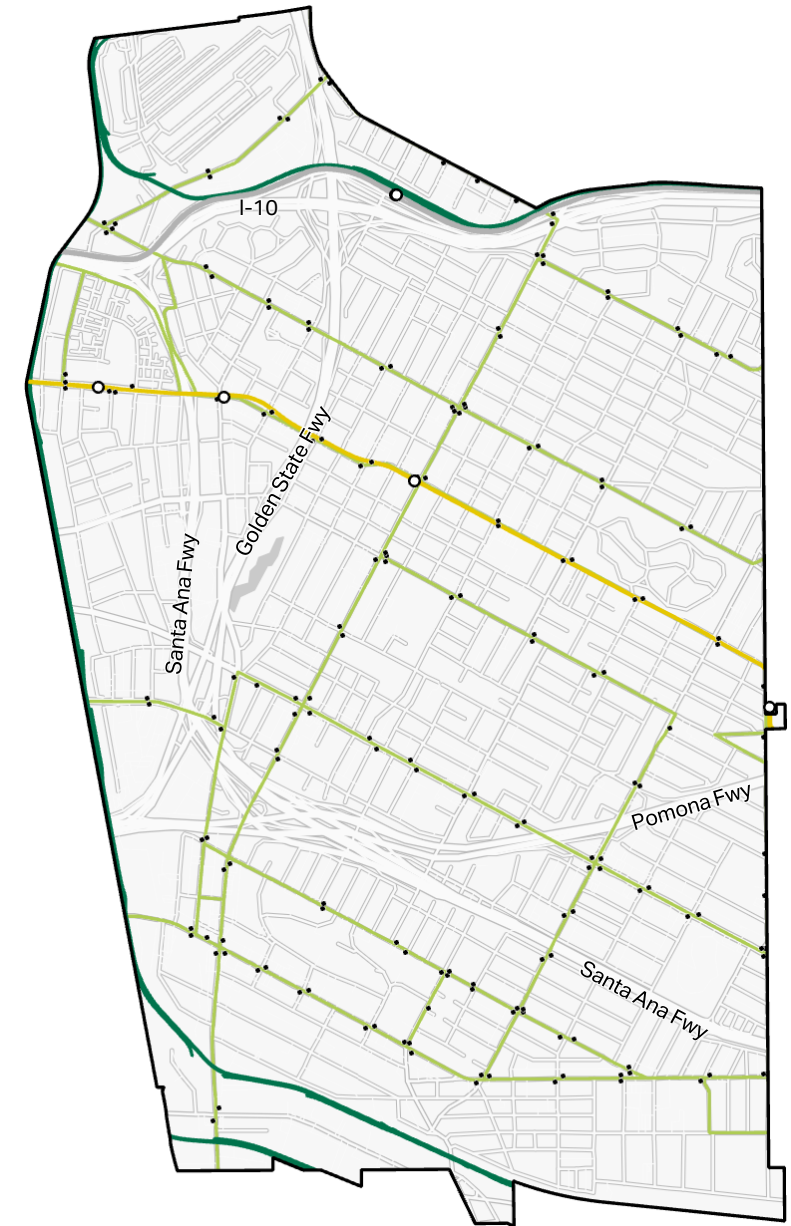
The public transit systems that serve or pass through Boyle Heights include the Metro J (Silver) and L (Gold) lines, several bus routes, and Metrolink commuter rail.

Rail accessibility is limited to the areas along the Metro L (Gold) line, with 3 stations within Boyle Heights and one additional station (1st & Indiana) just east of the CPA boundary. Bus Rapid Transit service is provided by the J (Silver) Line via the USC Medical Center station, just east of the I-10/Golden State Freeway interchange.

Metrolink is a commuter rail service that predominantly connects riders in the suburbs with jobs and other destinations in Downtown Los Angeles – so although these routes run through Boyle Heights, they do not have stops within the CPA.

Several bus routes serve Boyle Heights including routes 18, 30, 62, 66, 70, 78, 106, 251, and 605.

These transit systems provide for efficient circulation within Boyle Heights and connect it to other neighboring communities, including the region's central business district in Downtown Los Angeles.



Public Transit Systems

- Metro J Line —
- Metro L Line —
- Metrolink Lines —
- Bus Route —
- Metro Station ○
- Bus Stop ●

Sources: Metro, SCAG, AECOM

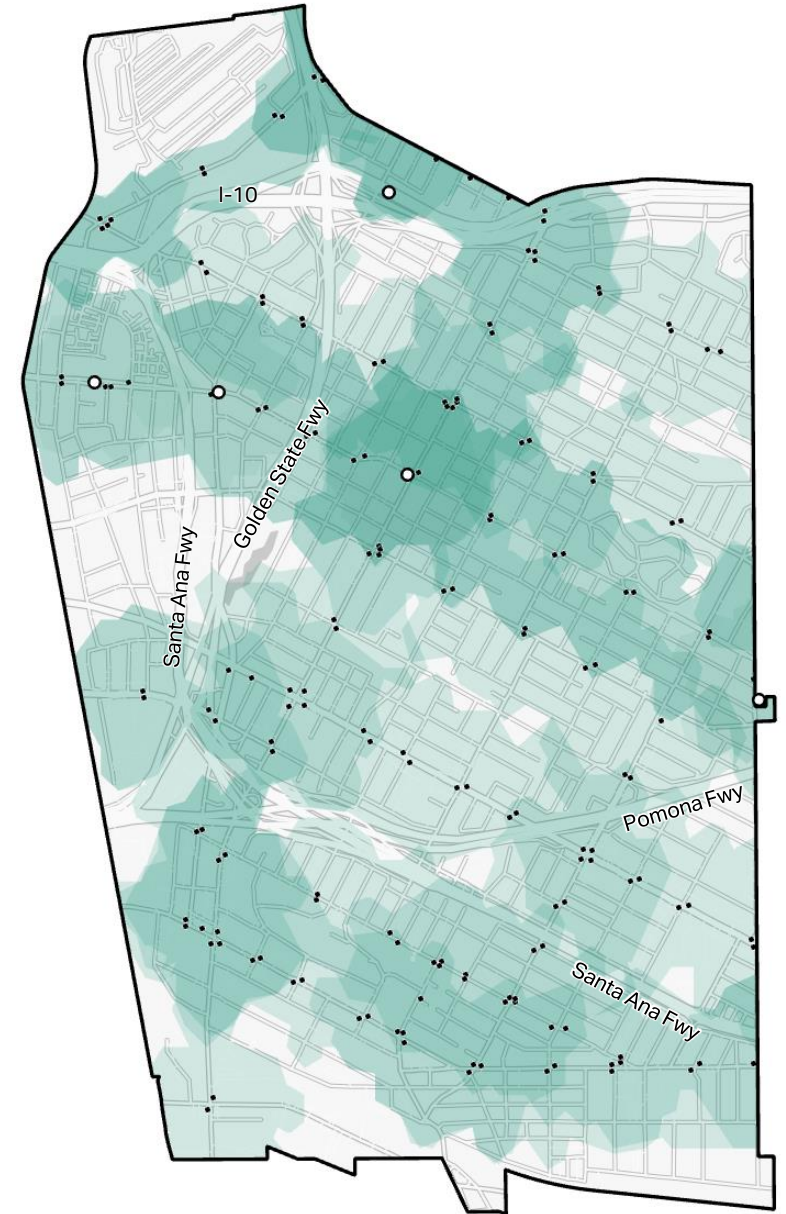
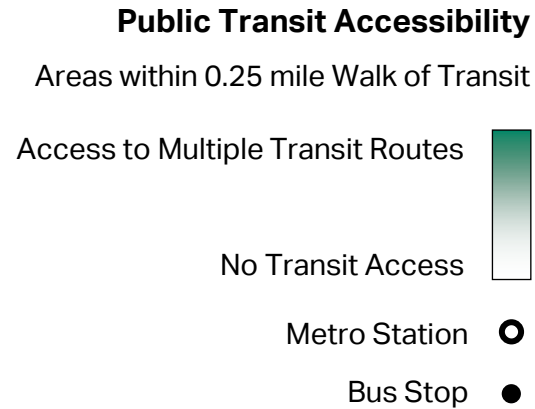
Economic & Demographic Context

Transit Accessibility

The map on the right shows 0.25-mile walking distance radii around each train and bus stop within Boyle Heights. Darker areas indicate nodes where transfers between multiple routes and systems can occur.

The majority of Boyle Heights has at least some bus accessibility, with most exceptions being the more industrial areas on the southern and western edges of the planning area. The area around the intersection of East 1st Street and Soto Street has the best transit access, being near the Metro L (Gold) Line and several bus routes running both north/south and east/west. Many other areas within the CPA have access to multiple transit routes.

It should be noted that not all transit service is created equal, as some routes may have higher frequency or longer hours of operation than others.



Economic & Demographic Context

Population Density

As of the 2020 Census, Boyle Heights had a population of nearly 82,000. The map on the right illustrates the density and distribution of population throughout Boyle Heights, with each dot representing 20 people.

These dots are not "location-specific," but are randomly generated within the boundaries of their respective census tracts. For example, if a census tract has a population of 1,000 residents, it would be shown with 50 dots that are randomly distributed within that tract's boundary. In other words, dots do not represent exact locations of where residents live but rather serve as an approximate visual representation of the population distribution throughout Boyle Heights.

As shown, the densest residential areas are located in the northern and eastern portions of the planning area, while the more commercial and industrial areas along the western and southern edges are less densely populated.

Boyle Heights Population

81,669

2020

Population Density

by Census Tract, 2020

1 Dot = 20 People ●

Sources: U.S. Census Bureau, AECOM



Economic & Demographic Context

Population Change

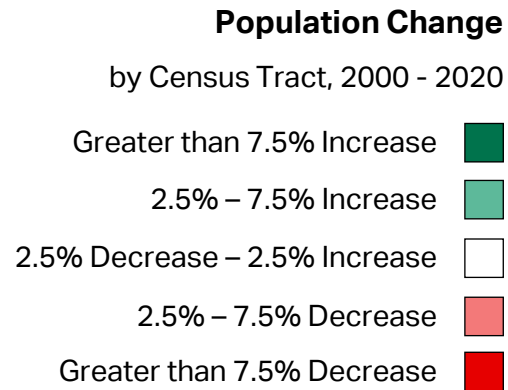
The population of Boyle Heights fell from 86,550 in 2000 to 84,636 in 2010 to 81,669 in 2020, a 5.6% decrease over 20 years. During this same 20-year period, the City of Los Angeles's population increased by 5.5%.

The southern and western portions of the planning area generally added population, while the northern and eastern areas lost population.

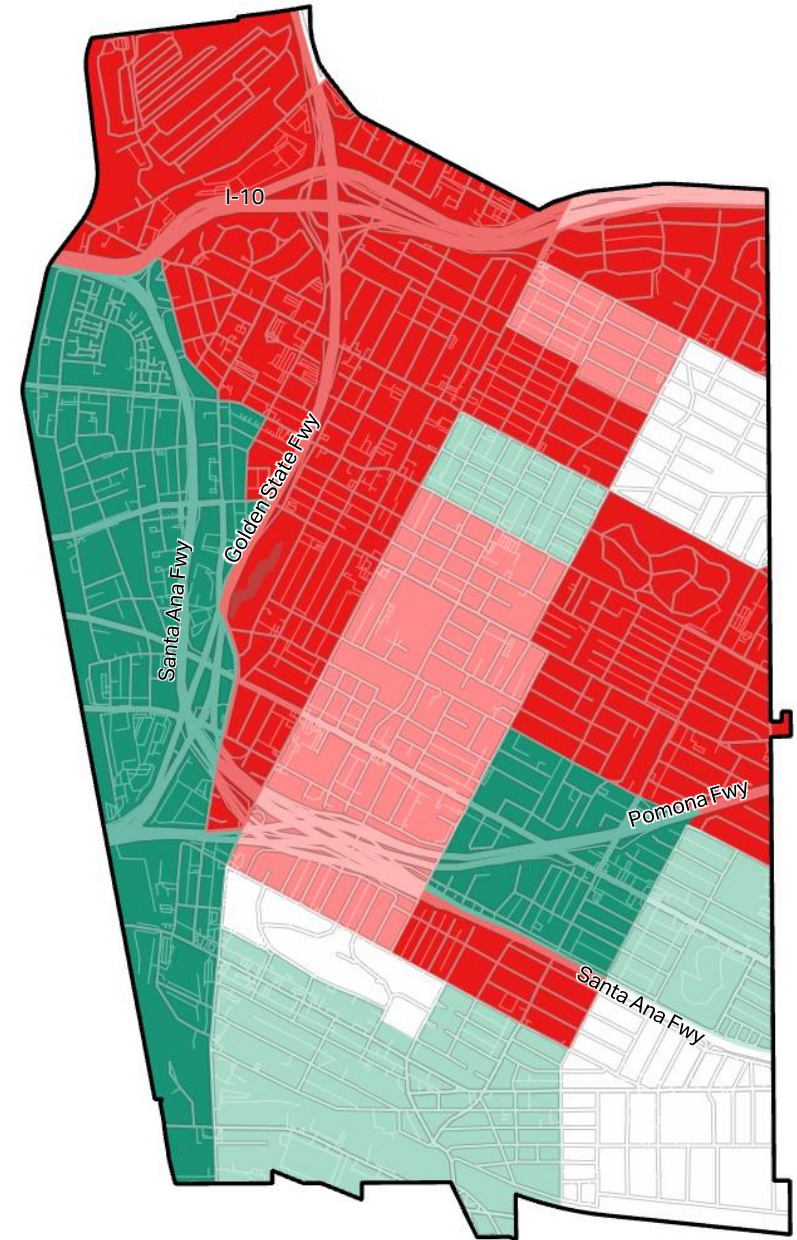
(It should be noted there have been concerns about undercounting in the 2020 census, especially in areas like Boyle Heights that have high concentrations of "hard-to-count" populations (e.g., non-English speakers, migrants, racial/ethnic minorities, houseless/transient individuals, etc.).

The population loss in Boyle Heights is likely a product of larger households (families with children or intergenerational households) being replaced by smaller households (singles or married couples with no children) and a sharp decline in immigration.

Boyle Heights Population		
	-2.2%	-3.5%
	2000 - 2010	2010 - 2020
86,550	84,636	81,669
2000	2010	2020



Sources: U.S. Census Bureau, AECOM



Economic & Demographic Context

Household Change

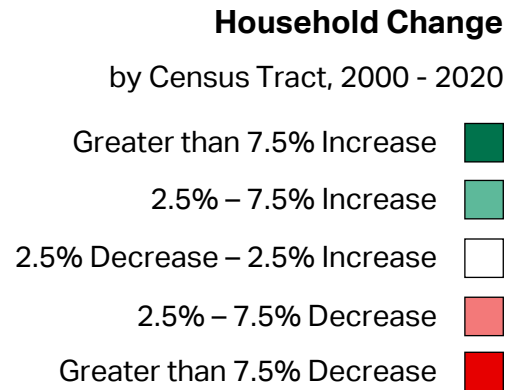
The number of households living in Boyle Heights increased from 20,921 in 2000 to 21,502 in 2010 to 23,182 in 2020, a 10.8% increase over 20 years. During this same 20-year period, the City of Los Angeles's total number of households increased by 10.6%.

As a product of the population and household numbers, the average household size in Boyle Heights decreased from 4.1 people per household in 2000 to 3.6 people per household in 2020.

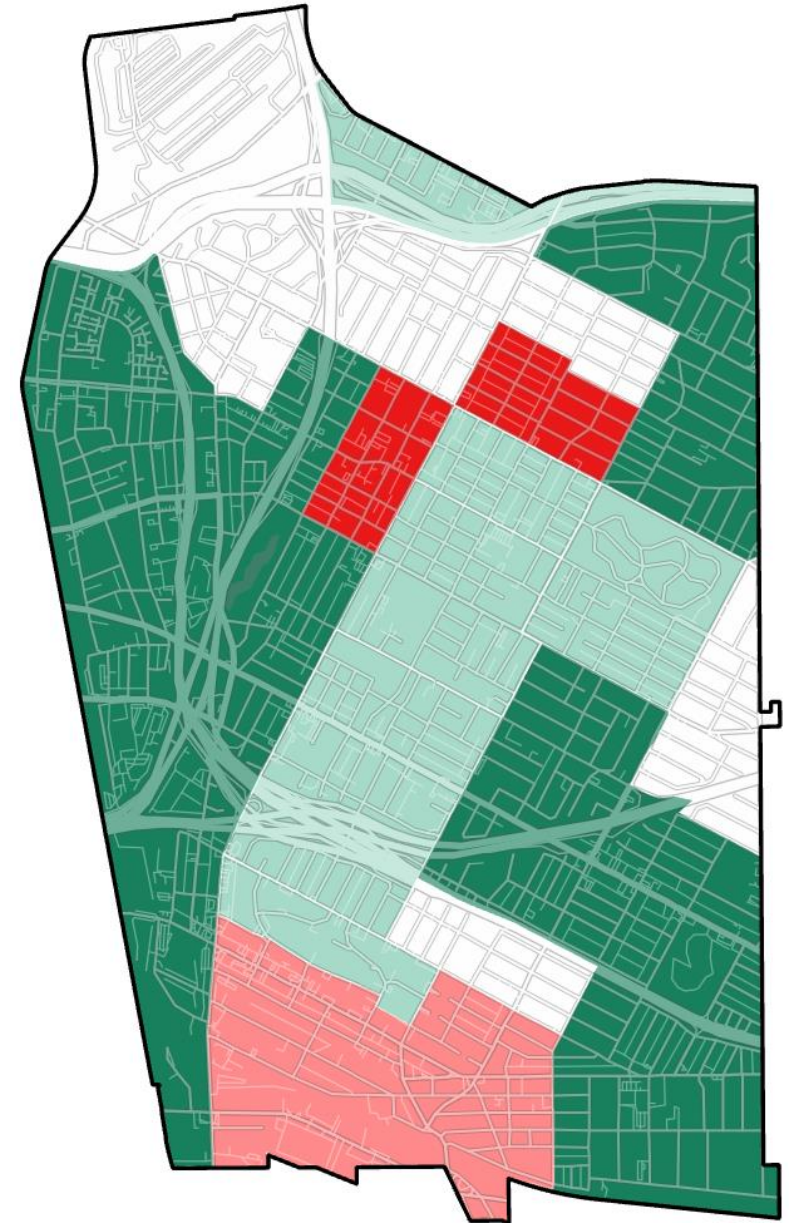
As mentioned on the previous page, the declining ratio is likely a result of households with more members being replaced by households with fewer members.

The map on the right shows that household changes occurred—with a few isolated exceptions—in nearly every census tract.

Boyle Heights Households		
+2.7%	+5.5%	
2000 - 2010	2010 - 2020	
21,135	21,703	22,903
2000	2010	2020



Sources: U.S. Census Bureau, AECOM



Economic & Demographic Context

Household Income

Median household income in Boyle Heights was \$45,894 as of 2020, which was approximately 70% of the citywide average of \$65,290.

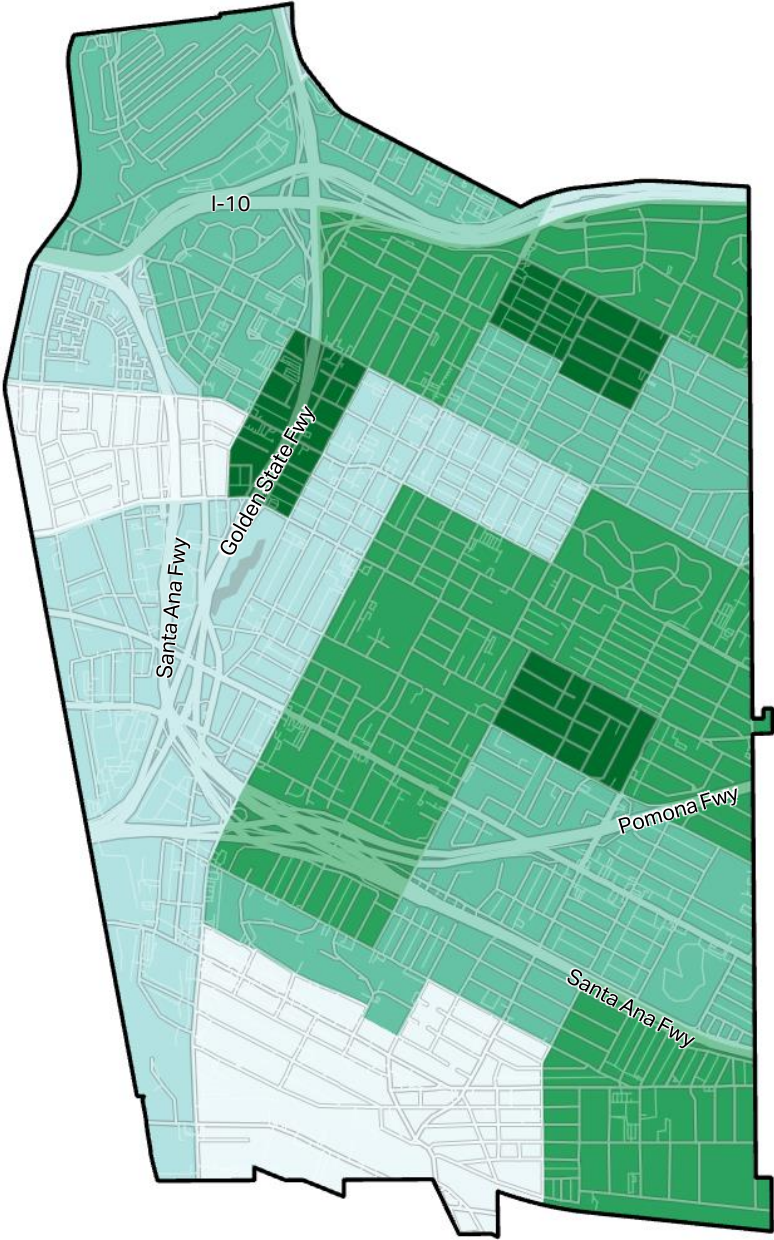
The map on the right illustrates median household income by census tract throughout the planning area, showing that the eastern portions of Boyle Heights have higher median household incomes while the western portions have lower household incomes.

Median Household Income

by Census Tract, 2020

- More than \$60,000
- \$50,001 - \$60,000
- \$40,001 - \$50,000
- \$30,001 - \$40,000
- \$30,000 or Less

Sources: U.S. Census Bureau, Esri, AECOM



Economic & Demographic Context

Race & Ethnicity

As of 2020, 91.5% of Boyle Heights residents identified as Hispanic or Latino/a/e. This number represents a slight decrease from 2010, when 94.5% of Boyle Heights residents identified as Hispanic or Latino/a/e.

The Hispanic or Latino/a/e population of Boyle Heights is mapped on the right, by census tract, according to the 2020 Census. As shown, although the entirety of Boyle Heights is predominantly Hispanic, the areas along the western edge of Boyle Heights (closest to Downtown Los Angeles) are less so compared to eastern portions of the planning area.

This distribution is an important consideration as the City and developers think about the potential impacts of new housing development and the importance of providing new housing to promote affordability, while also protecting existing residents from displacement.

Boyle Heights Hispanic or Latino/a/e Population

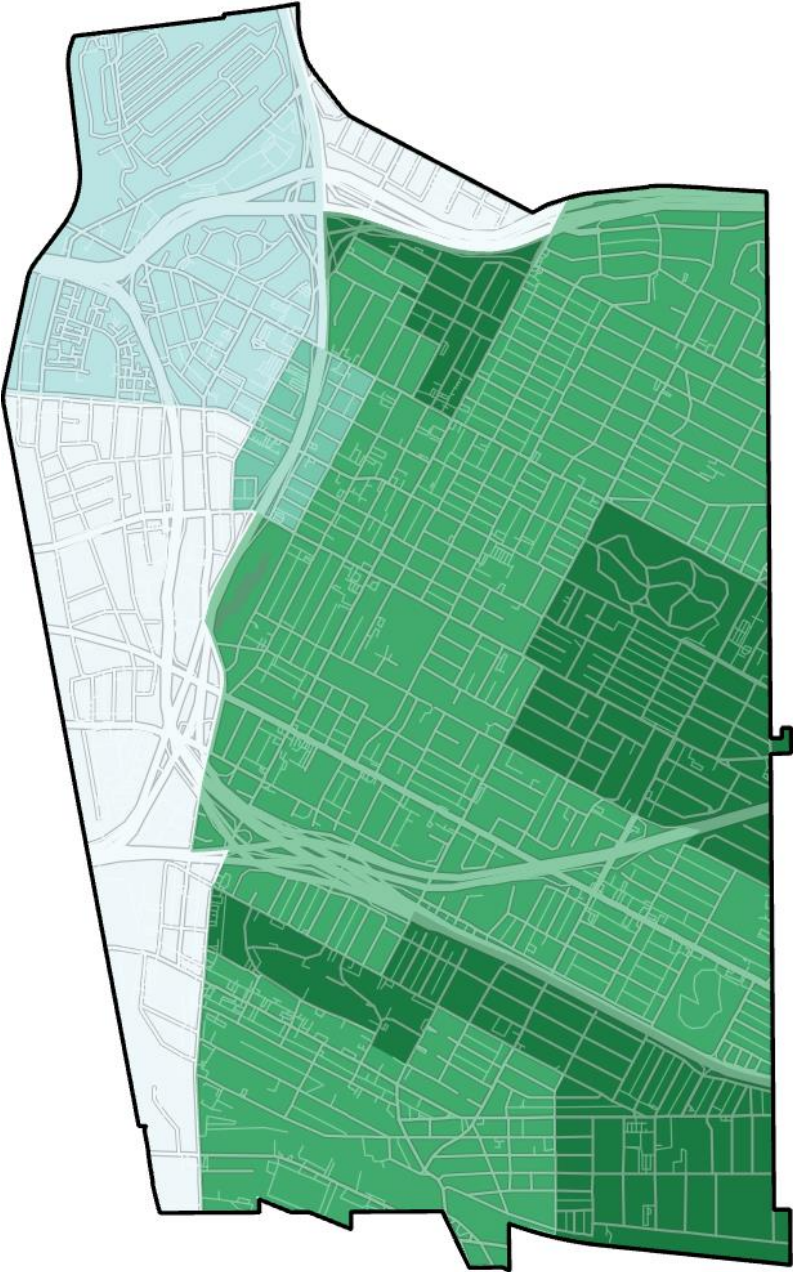
94.5% 2010 **91.5%** 2020

Hispanic or Latino/a/e Population

by Census Tract, 2020

- More than 95%
- 90% - 95%
- 85% - 90%
- 80% - 85%
- 75% - 80%

Sources: U.S. Census Bureau, Esri, AECOM



Economic & Demographic Context

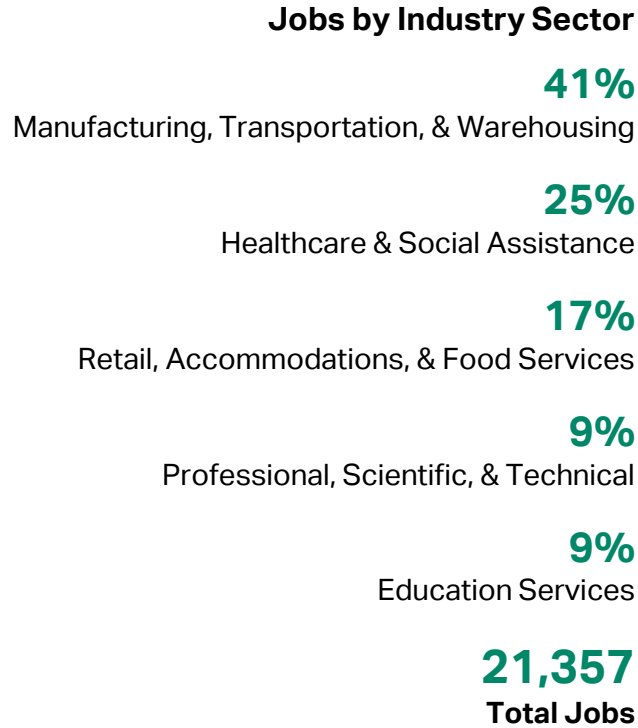
Jobs

As of 2019, there were 21,357 jobs based within Boyle Heights. The map on the right shows where these jobs are concentrated, by census block group, with each dot representing 25 jobs.

When compared to the number of households in Boyle Heights (23,182 as of 2020), the resulting ratio is 0.92 jobs for every household within the Boyle Heights CPA. Compared with the City of LA's ratio of 1.35, this indicates that in general, the planning area is primarily residential in nature, with a significant share of employees having jobs beyond outside Boyle Heights.

As shown, jobs are concentrated in the industrial areas along the western and southern edge of the planning area, at the Adventist Health White Memorial hospital site in the northwest quadrant, and along the major retail corridors throughout the rest of the planning area.

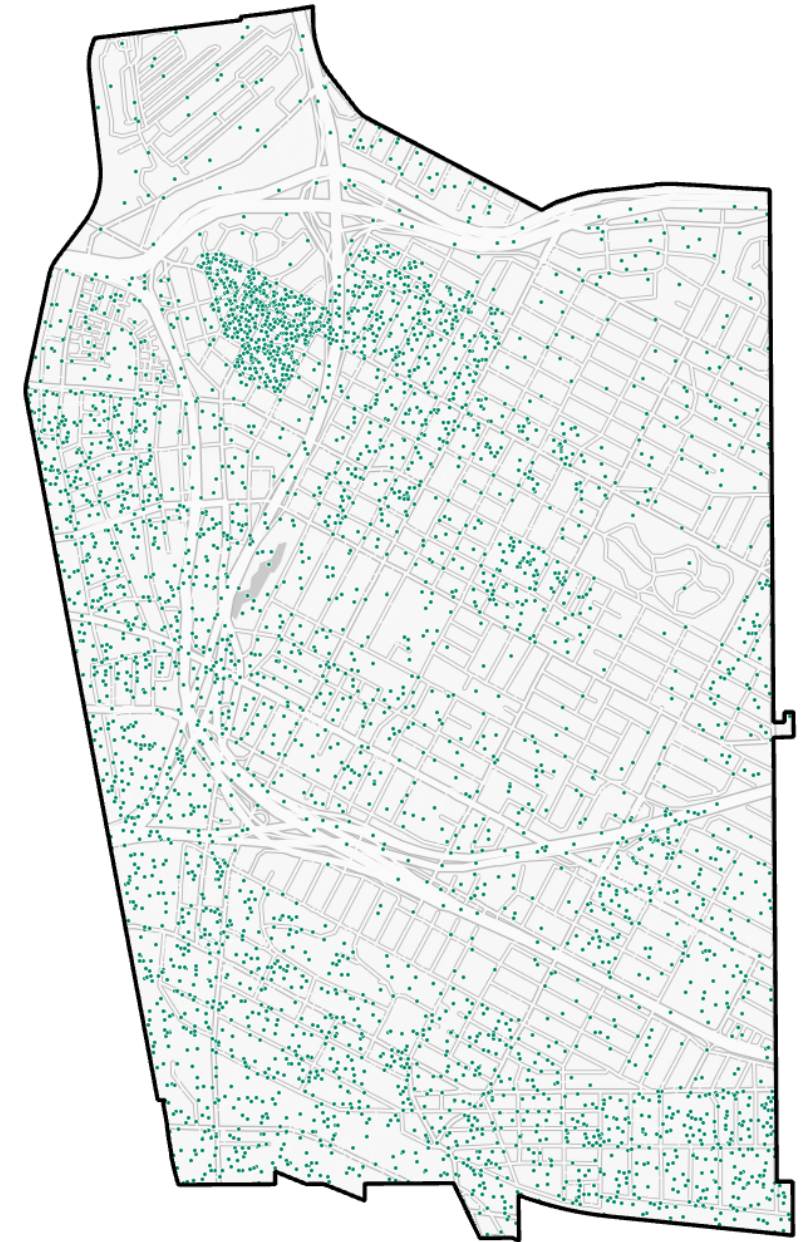
High job sector concentrations in manufacturing, transportation, warehousing (41% of jobs), and healthcare (25% of jobs) reflect the area's major highways and hospitals (Adventist Health White Memorial and County USC Medical Center just north in Lincoln Heights).



Job Distribution

by Block Group, 2019

1 Dot = 5 Jobs ●



Sources: U.S. Census Bureau, On the Map, City of Los Angeles, AECOM

Economic & Demographic Context

Jobs Change

The total number of jobs within Boyle Heights fell from 21,920 in 2010 to 21,357 in 2019, a 2.6% decrease (563 jobs) over 9 years. When compared to household numbers in Boyle Heights, this translates to a decrease in the jobs/household ratio, which fell from 1.02 in 2010 to 0.92 in 2020 – indicating that the planning area is becoming more residential and less commercial in nature overall.

The map on the right shows where these employment changes occurred – the southern and western portions of the planning area tended to grow, while the northern and eastern block groups tended to shrink.

Boyle Heights Total Jobs

-2.6%

2010 - 2019

21,920

2010

21,357

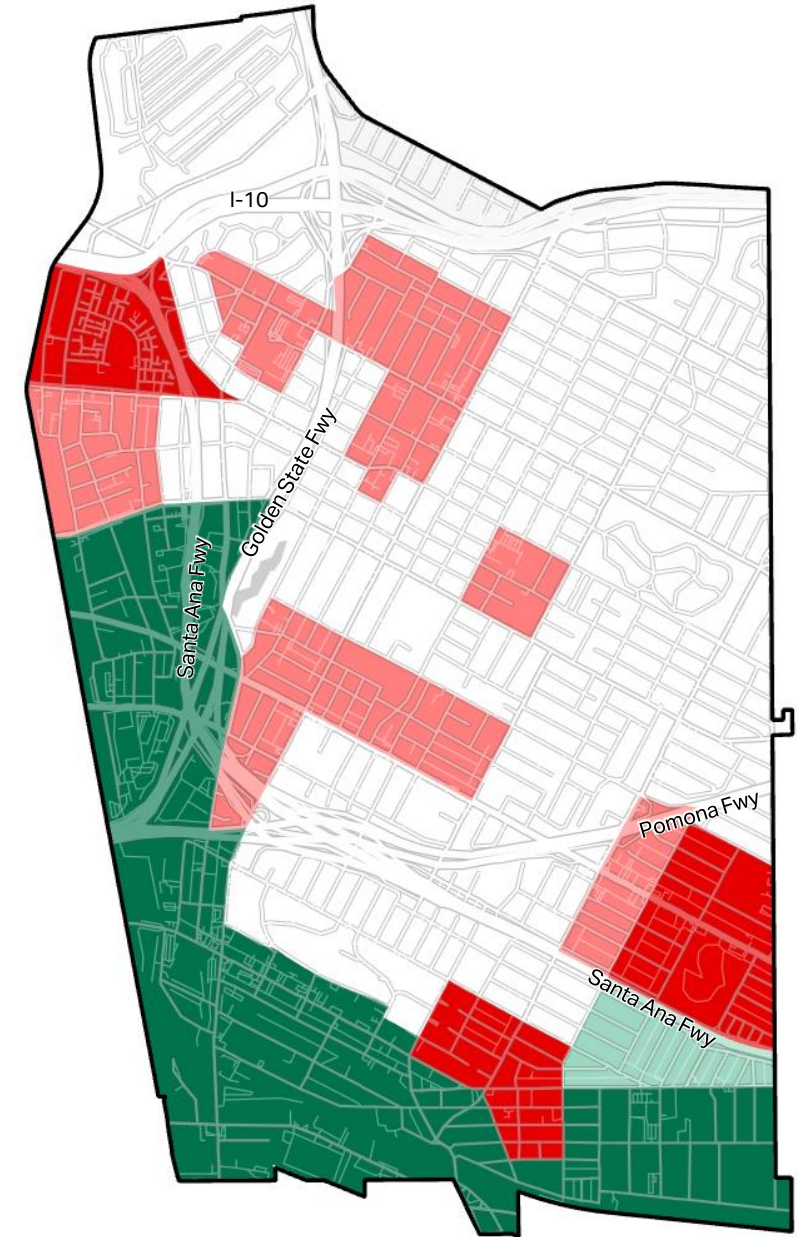
2019

Jobs Change

by Census Block Group, 2010 - 2019

- More than 150 jobs added
- 50 – 150 jobs added
- 50 jobs lost – 50 jobs added
- 50 – 150 jobs lost
- More than 150 jobs lost

Sources: U.S. Census Bureau, On the Map, AECOM



Economic & Demographic Context

Displacement & Gentrification

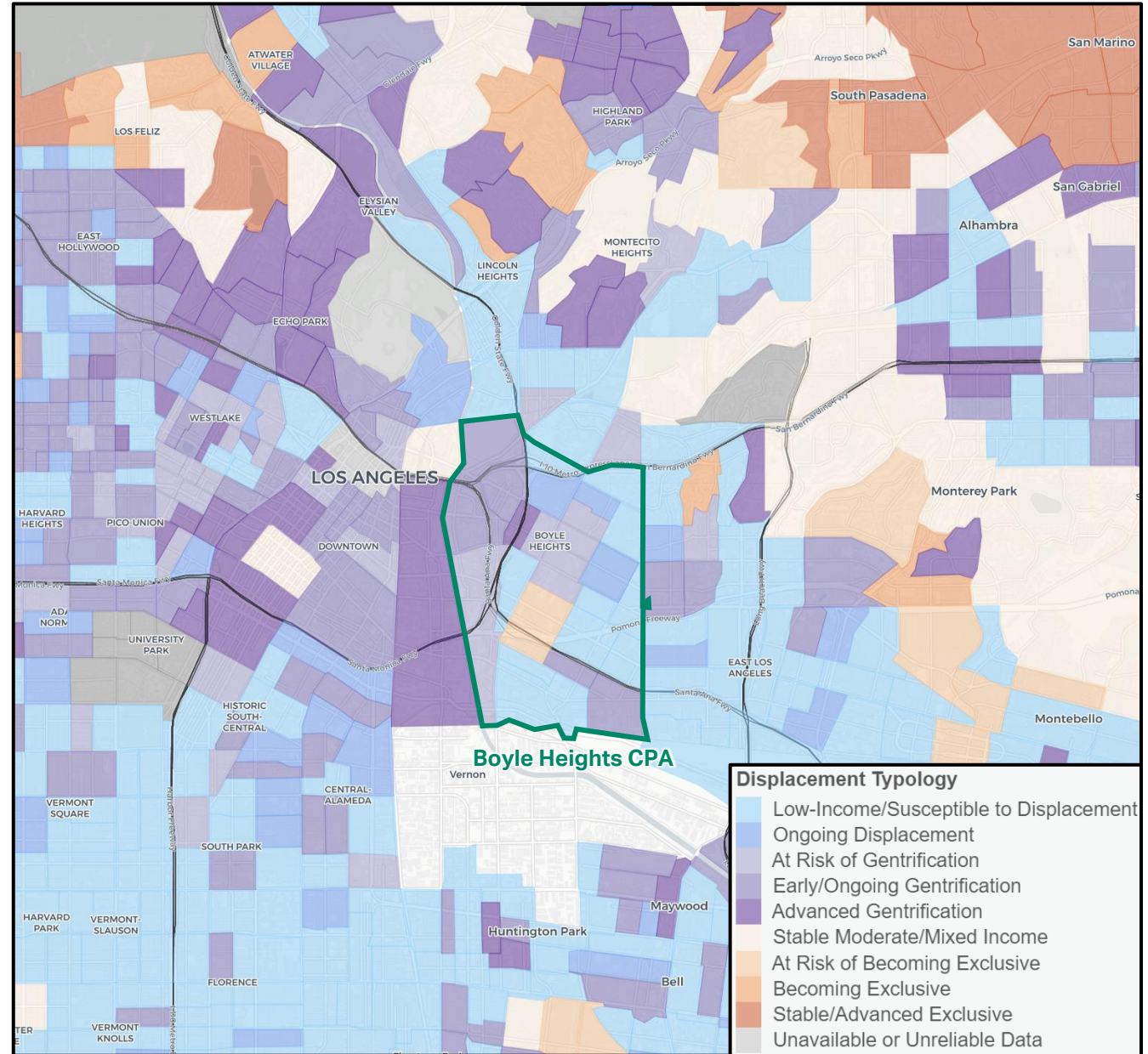
The map on the right illustrates the Urban Displacement Project's classification of census tracts in and around Boyle Heights. This system defines "displacement" and "gentrification" as follows:

- Displacement is defined by the Urban Displacement Project as a decrease in the number of low-income households with an area
- Gentrification is defined by the Urban Displacement Project as displacement plus an increase in housing prices (which signals that these lower-income households are being replaced by higher-income ones)

A more detailed description of the specific criteria for each map classification can be found on the project's website, linked [here](#).

As shown, the northern and western portions of Boyle Heights are mostly purple meaning they are at varying stages of gentrification, while the southern and eastern portions of Boyle Heights are mostly blue meaning they are at risk for displacement but have not yet begun to gentrify. Gentrification pressure has come largely from ongoing redevelopment of downtown Los Angeles from the west and Echo Park from the north.

Given current market conditions, policy mechanisms, and planning frameworks, displacement and gentrification will likely continue to expand from areas west of Boyle Heights (Arts District, Downtown, etc.) eastward to areas beyond Boyle Heights (East Los Angeles, Commerce, etc.).



Sources: Urban Displacement Project, AECOM (2018)

Economic & Demographic Context

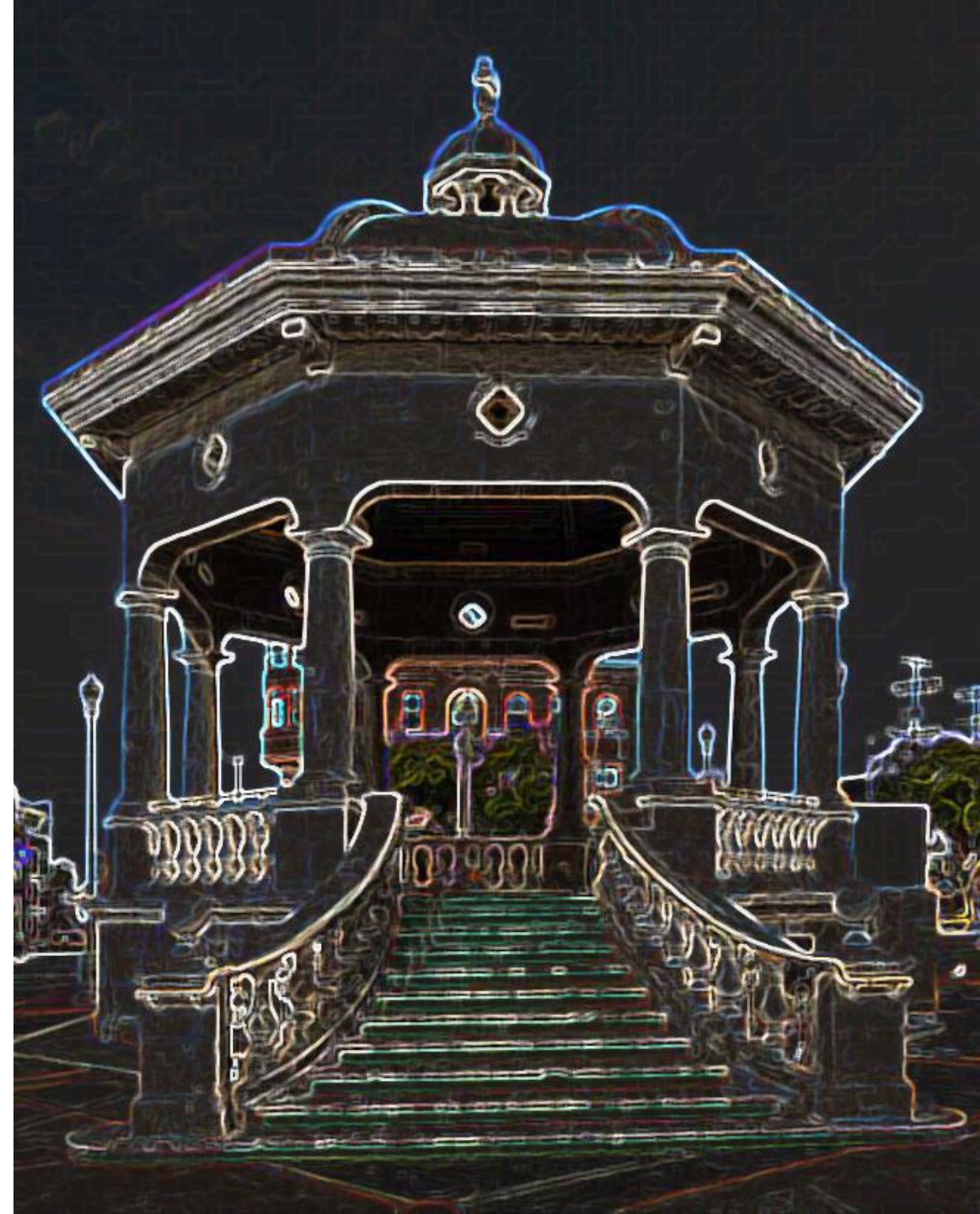
Impact of the COVID-19 Pandemic

The COVID-19 pandemic accelerated existing trends toward e-commerce and remote/hybrid work, the two biggest threats to brick-and-mortar office and retail markets nationwide.

The COVID-19 pandemic also temporarily decimated the tourism industry and forced students into online learning, both of which impacted a variety of establishments and real estate segments including hotels, retail stores, restaurants and bars, arts and cultural venues, tourist attractions, student and multifamily housing buildings, and others.

Despite this, establishments and real estate markets nationwide are in the midst of a remarkable rebound, and these types of spaces will remain a vital component of urban neighborhoods and business districts.

The following pages will highlight various datasets that illustrate the pandemic recovery trajectory in Boyle Heights specifically.



Economic & Demographic Context

Pandemic Impact – Remote Work

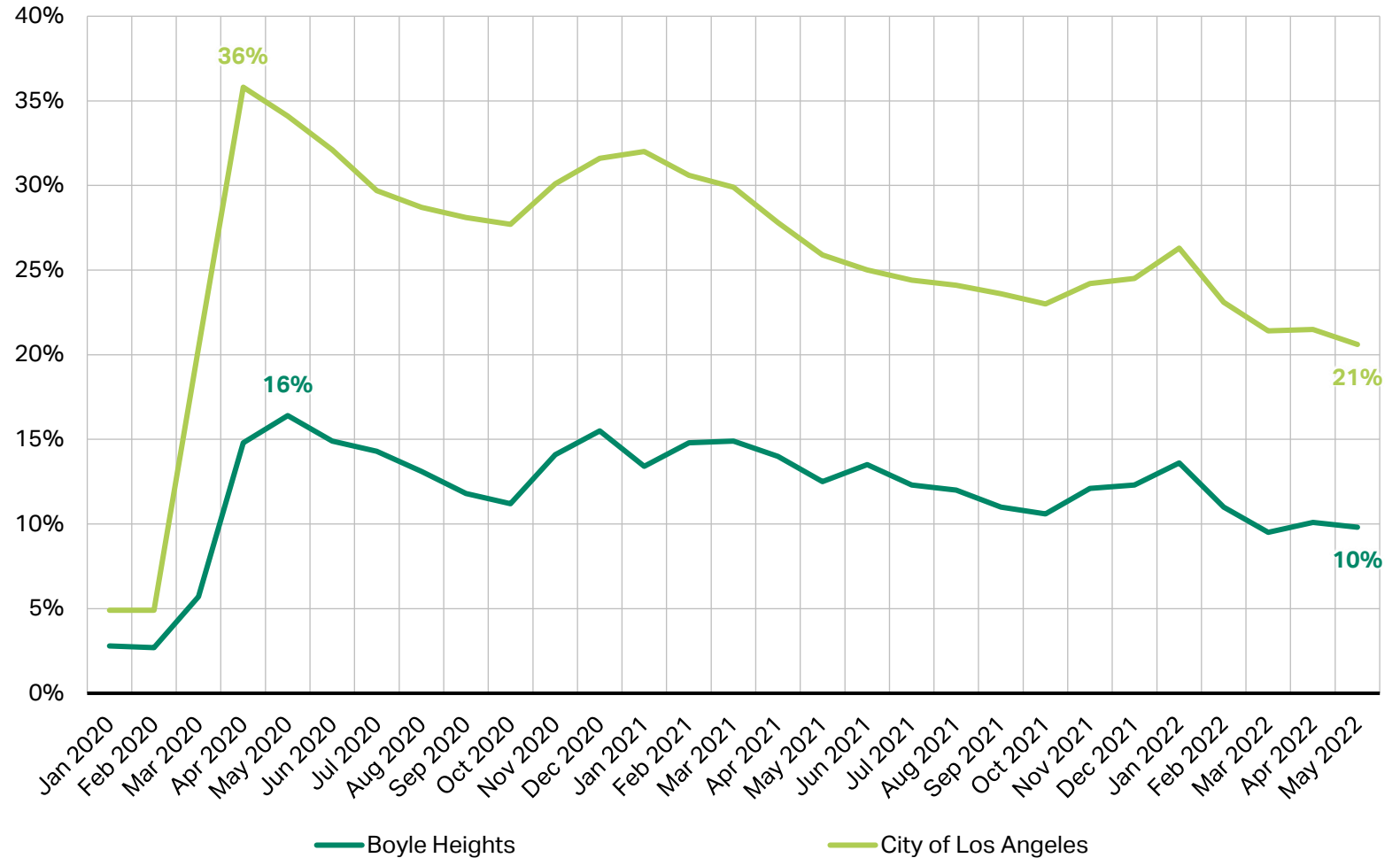
The proportion of Boyle Heights residents working remotely peaked at 16% in May of 2020 and has since decreased to about 10%, which is still more than three times higher than the pre-pandemic average of 3%.

Since the onset of the pandemic, the remote worker share in Boyle Heights has tracked at about half of the rates for the City of Los Angeles as a whole. Citywide, the remote work rate peaked at 36% in May of 2020 and has since retreated to 21% - more than four times higher than the pre-pandemic average of 5%.

This data speaks to the economic profile in the planning area, with most jobs concentrated in industries like manufacturing, transportation and warehousing, healthcare, retail, food services, and other types of essential jobs that cannot be done remotely.

This trend, along with broader economic conditions, has implications for the market feasibility of various types of commercial development in Boyle Heights. This concept will be explored further in the following pages.

Percent of Residents Working Remotely



Sources: Replica, AECOM

Economic & Demographic Context

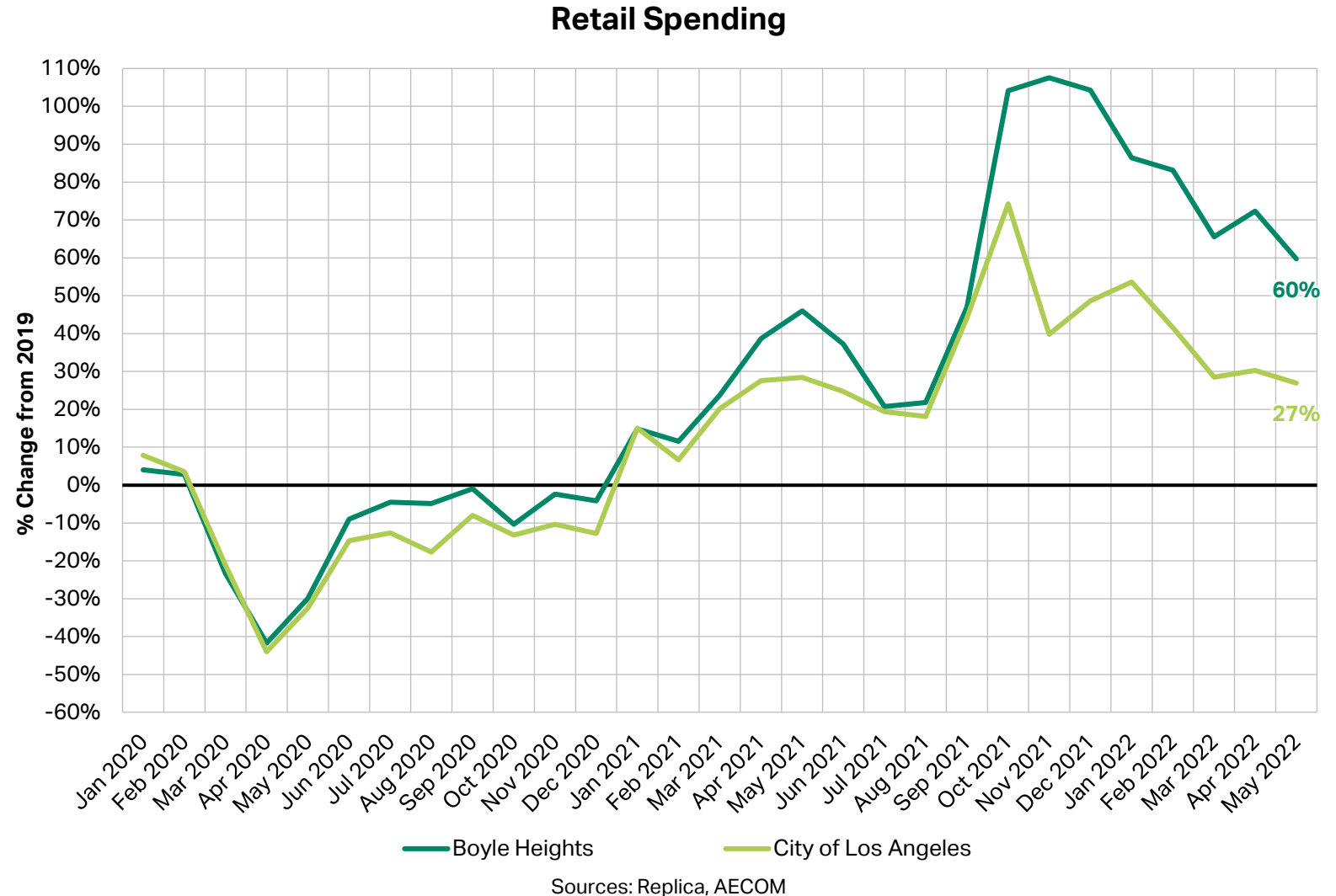
Pandemic Impact – Retail Spending

With more Boyle Heights residents staying at home during working hours rather than commuting to jobs outside the planning area comes more spending at retail establishments in Boyle Heights.

The chart on the right shows retail spending levels at businesses in Boyle Heights and throughout the City of Los Angeles in terms of their percent change from corresponding months in 2019. As shown, the pandemic initially caused a reduction in total retail spending, with a trough occurring in April 2020 at more than 40% below 2019 levels in both Boyle Heights and the City of Los Angeles as a whole.

Retail spending gradually increased in both geographies, as pandemic-related restrictions began to ease but remote working rates remained higher than pre-pandemic averages, keeping more consumers in Boyle Heights that would likely have spent elsewhere in pre-pandemic times.

In tandem with broader economic conditions, these trends accelerated relative retail spending in Boyle Heights, which peaked at 108% above 2019 levels in the fall of 2021 before declining slightly to +60% as of May 2022. This trend is more pronounced in Boyle Heights than citywide averages, which came in at just +27% in May 2022.



Economic & Demographic Context

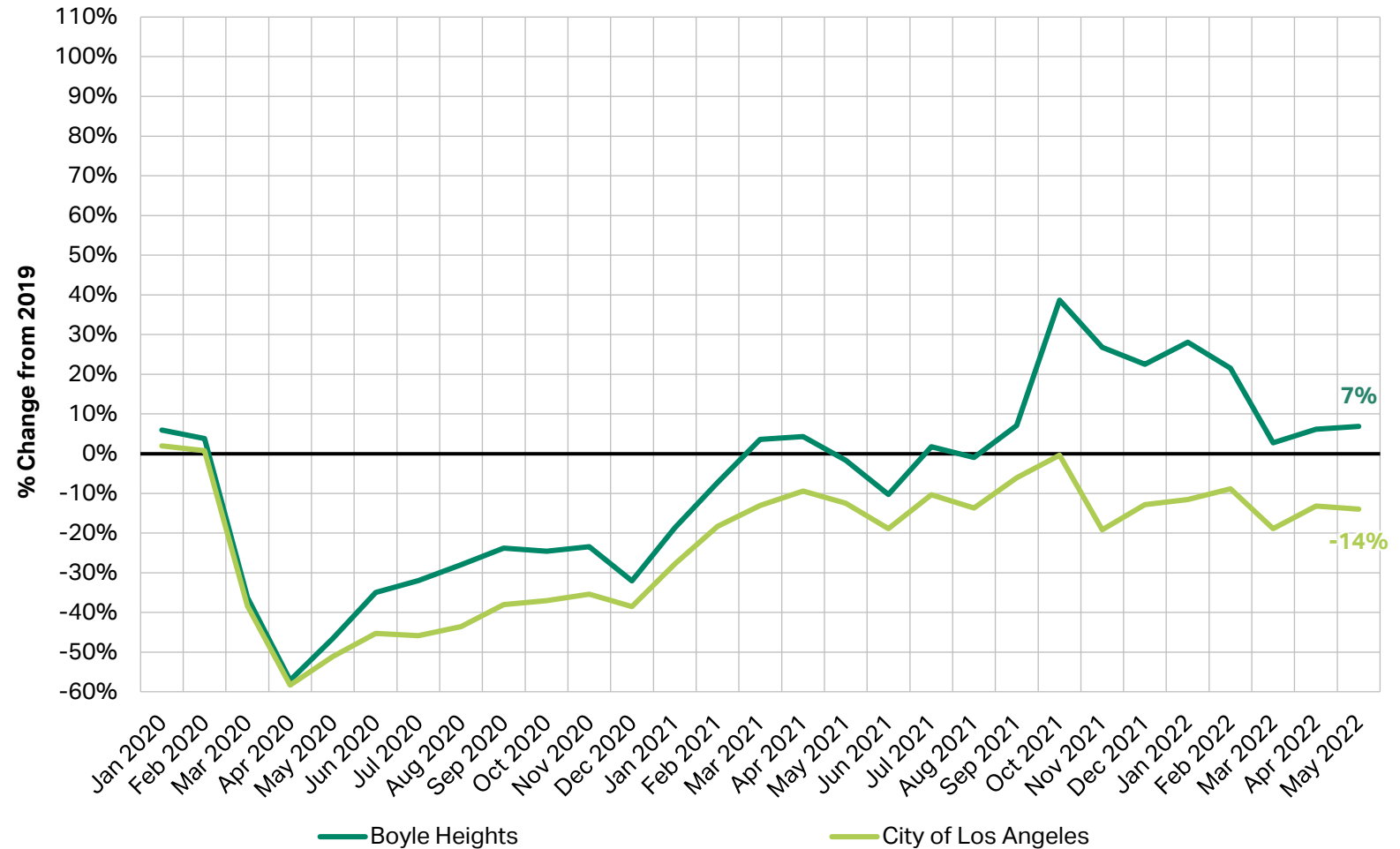
Pandemic Impact – Restaurant & Bar Spending

Likewise, restaurants and bars in Boyle Heights seem to have enjoyed a slight boost in relative spending since the fall of 2021, albeit a far less dramatic shift than in retail. One hypothesis posits that consumers during the pandemic shifted from dining out toward cooking at home, therefore shifting much of this category of spending away from restaurant and bar establishments and toward grocery stores and other retail establishments.

Peaks occurred in October of 2021 at 39% above 2019 levels for Boyle Heights and $\pm 0\%$ citywide. Since then, restaurant and bar spending has reverted slightly to +7% in Boyle Heights and -14% citywide.

Although many Boyle Heights retail and food service businesses have likely faced other challenges over the past few years like supply chain disruptions, rising costs of goods, and labor shortages, more consumers spending more time in Boyle Heights translates to more spending at businesses in the planning area. This bodes well for commercial development outlook in the long term.

Restaurant & Bar Spending



Sources: Replica, AECOM

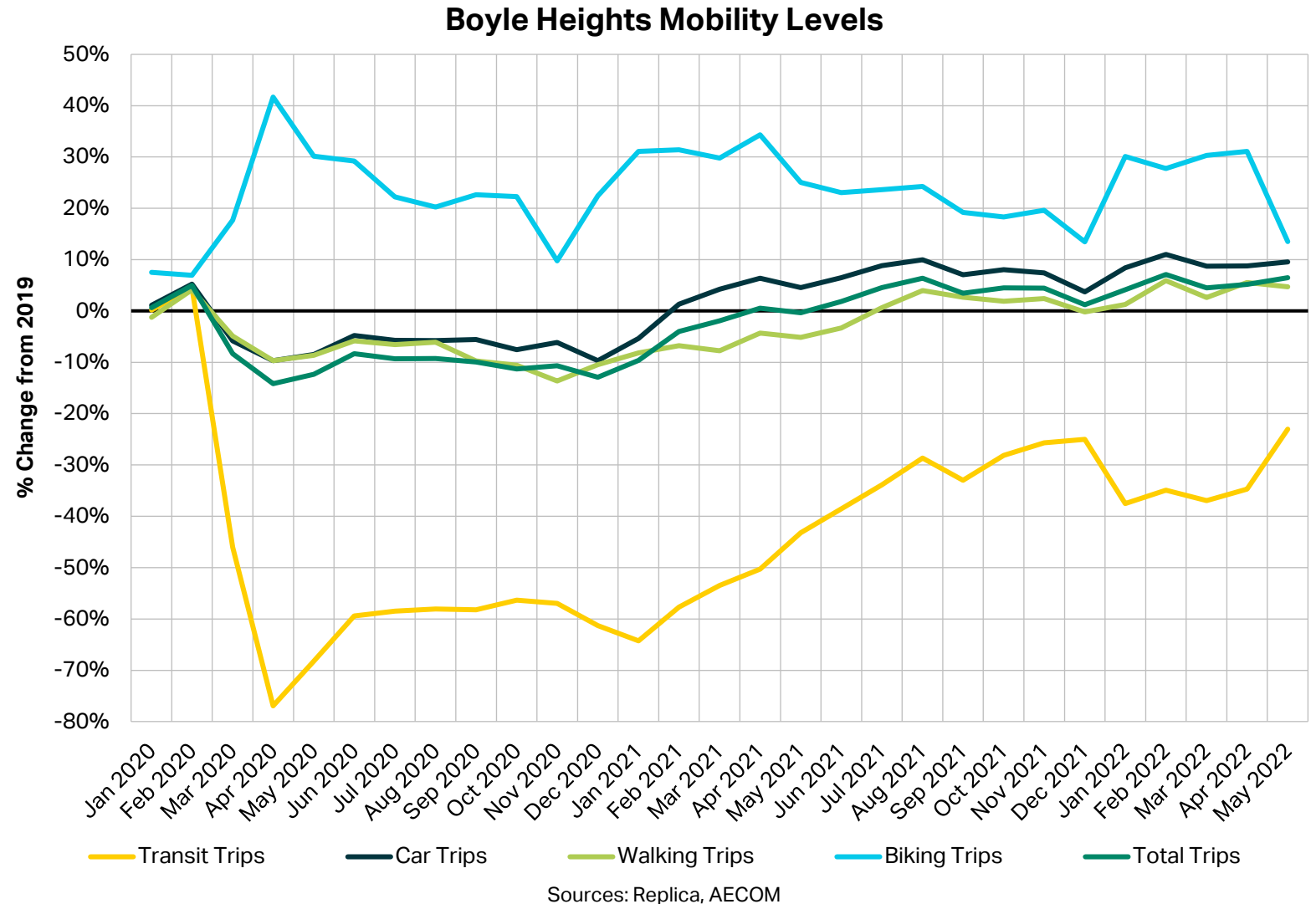
Economic & Demographic Context

Pandemic Impact – Mobility

This dashboard provides a look at the pandemic recovery trajectory of mobility levels in Boyle Heights by expressing them in terms of a percent change from their corresponding monthly levels in 2019. Each of these metrics represents the number of trips, by mode, originating within Boyle Heights.

As shown, transit trips took the biggest hit as a result of the pandemic, while biking trips actually increased after the onset of the pandemic. Car trips and walking trips initially dipped below 2019 levels but have since rebounded and have been slightly higher than 2019 levels since the summer of 2021.

- **Transit Trips** – post-pandemic peak occurred in May 2022 at **23% below** 2019 levels
- **Car Trips** – post-pandemic peak occurred in February 2022 at **11% above** 2019 levels
- **Walking Trips** – post-pandemic peak occurred in February 2022 at **6% above** 2019 levels
- **Biking Trips** – post-pandemic peak occurred in April 2020 at **42% above** 2019 levels
- **Total Trips** – post-pandemic peaks occurred in February 2022 at **7% above** 2019 levels



Economic & Demographic Context

Pandemic Impact – Tourism

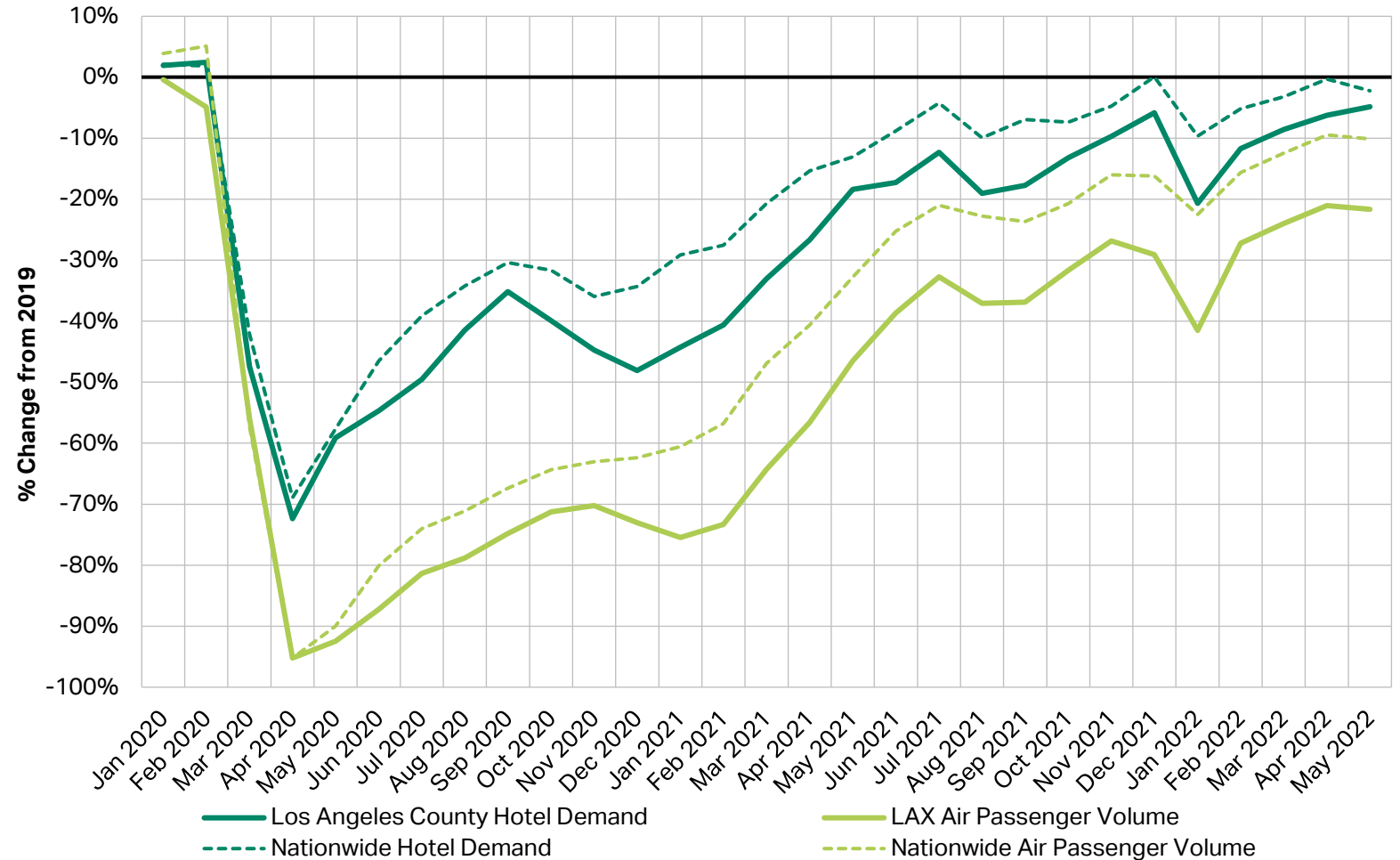
The chart on the right provides a look at the Los Angeles tourism industry's recovery trajectory by expressing two key indicators in terms of percent change from their corresponding monthly levels in 2019.

- **Hotel Demand:** represents the number of hotel rooms sold at all hotels within Los Angeles County – post-pandemic peak occurred in May 2022 at **5% below 2019 levels.**
- **Airport Passenger Volume:** represents the total volume of passengers boarding or departing from Los Angeles International Airport (LAX) – post-pandemic peak occurred in April 2022 at **21% below 2019 levels**

The chart also compares local and nationwide metrics. As shown, the Los Angeles market tended to track 8 – 10% behind nationwide averages for both indicators. This is not surprising given Los Angeles's more cautious approach to pandemic-related restrictions.

These numbers, although not specific to Boyle Heights, help to frame the broader economic dynamics at play in Los Angeles and help to evaluate demand for certain types of commercial development in the market.

Los Angeles Tourism Volume



Sources: CoStar, Bureau of Transportation Statistics, AECOM

Economic & Demographic Context

Key Findings

- A strong network of **transit options** in Boyle Heights, coupled with a generally walkable scale, provide resources to support transit-oriented development and potentially lower demand for parking.
- The decline in recorded population likely reflects census undercounting but also a decline in overcrowding due to the departure of households for whom **options for reasonably affordable multiple-bedroom housing in Boyle Heights is limited.**
- **Household income is low in Boyle Heights** relative to the Los Angeles average.
- **The planning area is primarily residential in nature**, with a significant share of employees having jobs beyond outside Boyle Heights.
- **High job sector concentrations in manufacturing, transportation, warehousing (41% of jobs), and healthcare (25% of jobs)** reflect the area's major highways and hospitals (Adventist Health White Memorial and County USC Medical Center just north in Lincoln Heights).
- **Boyle Heights is experiencing significant gentrification pressure** from ongoing redevelopment of downtown Los Angeles from the west and Highland Park/Lincoln Heights/El Sereno from the north.
- At the peak of the pandemic, 16% of Boyle Heights workers worked remotely, less than half the 36% rate for the City of Los Angeles. The variance reflects **the area's concentration of essential jobs**—such as those in manufacturing and healthcare—that cannot be done remotely.
- Retail and restaurant and bar spending in Boyle Heights has **bounced back strongly** since the pandemic

Real Estate Market Analysis



Real Estate Market Analysis

Housing Development Pressure— Recent Construction

This map illustrates multi-unit housing built since 2010 in the vicinity of the BHCPA, according to the City of Los Angeles's building permit data.

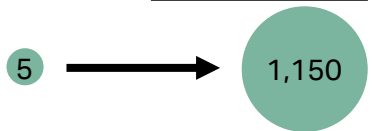
While permitting in the Plan Area appears to be relatively low compared to Downtown Los Angeles and areas west and northwest, the direction of development (further illustrated by the pipeline map on the following page) helps illustrate the development pressure faced by Boyle Heights. The LA River has long separated the Boyle Heights and downtown communities physically and economically, but increasing redevelopment in the Arts District west of Boyle Heights will continue to lower this barrier.

New Multi-Unit Housing Built since 2010

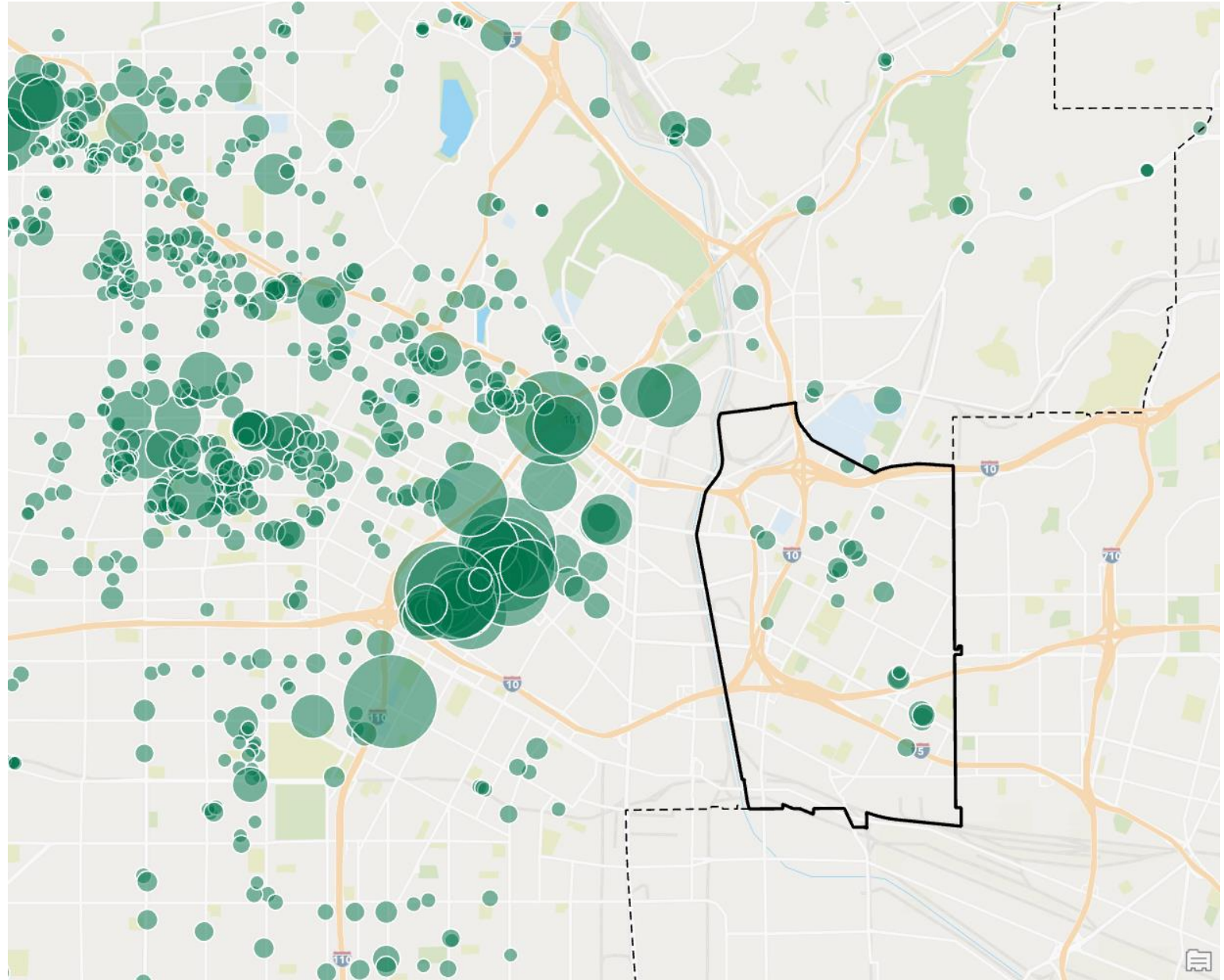
City of Los Angeles ---

Boyle Heights CPA □

Number of Units



Sources: City of Los Angeles, AECOM



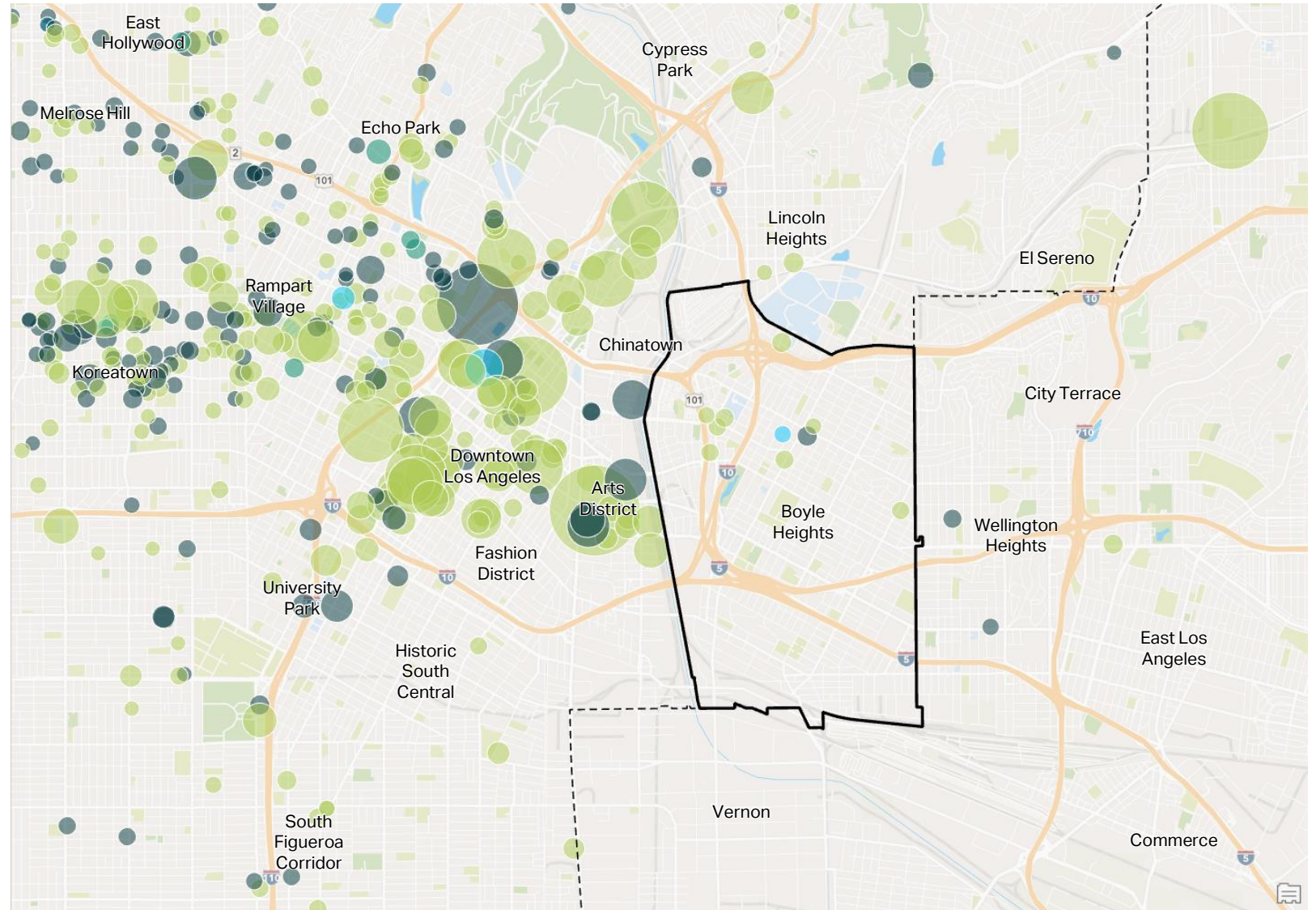
Real Estate Market Analysis

Housing Development Pressure Pipeline

The map on the right illustrates the pipeline of multi-unit housing developments in and around Boyle Heights, with circles sized according to the number of units in the project and colored according to the current status of the project.

As shown, Boyle Heights is one of the areas closest to downtown that is still within the City of Los Angeles and has access to Metro rail. Upcoming multi-unit housing projects are heavily concentrated in Downtown, the Arts and Fashion Districts, Chinatown, and many of the areas along metro rail lines to the west like Koreatown, Rampart Village, and East Hollywood.

Boyle Heights has not seen the volume of new projects mentioned in the areas mentioned above and the areas east of city limits have very little new multi-unit development occurring.

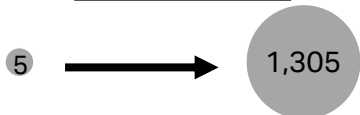


Multi-Unit Housing Pipeline

- City of Los Angeles
- Boyle Heights CPA

- Under Construction ●
- Under Renovation ●
- Final Planning ●
- Proposed ●

Number of Units



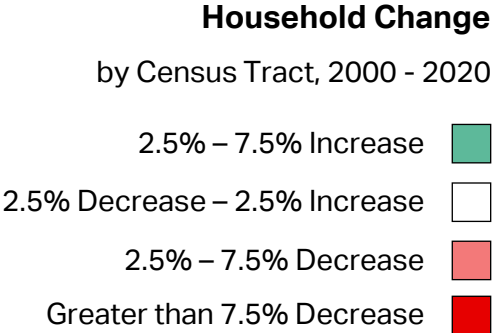
Sources: CoStar, AECOM

Real Estate Market Analysis

Residential Building Permit Data

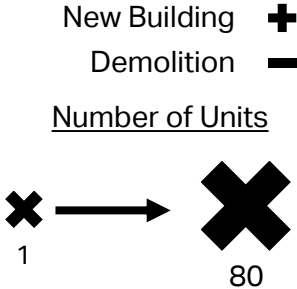
The map on the right illustrates the distribution of residential building permits since 2010, with minus symbols (-) indicating demolitions and plus symbols (+) indicating new buildings, with symbols sized according to the number of units. This permit data is overlaid on top of the 2010-2020 household change data from the previous section of this report, showing that the census tracts where new residential permits were issued correspond to the areas that showed an increase in total households. Similarly, census tracts that saw a lot of demolitions also showed decreases in their total household count.

A total of 1,071 new housing units were built in Boyle Heights, including 36 accessory dwelling units (ADUs), since 2010. This was partially offset by the demolition of 200 housing units, for a net gain of 871 units.

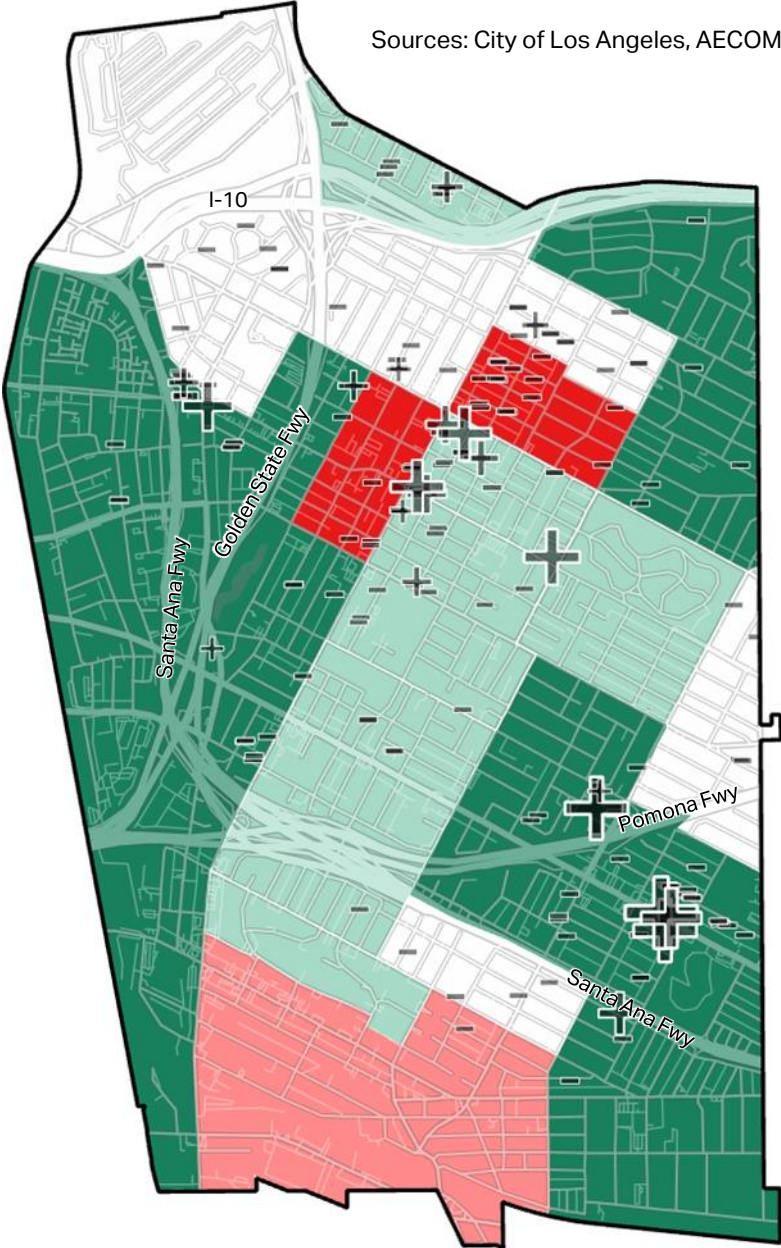


Sources: U.S. Census Bureau, AECOM

Residential Building Permits since 2010



Sources: City of Los Angeles, AECOM



Sources: City of Los Angeles, AECOM

Real Estate Market Analysis

Multi-Unit Housing Rental Market

Sources: CoStar, AECOM

Boyle Heights is home to approximately 496 existing multi-unit rental housing buildings accounting for about 7,414 existing units. In addition, there are 402 units listed as “proposed” and 109 units listed as “under construction.”

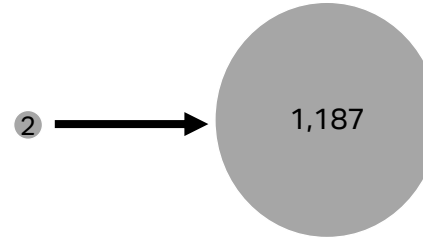
The map on the right illustrates the distribution of rental housing properties throughout the planning area, with circles sized according to the rentable square footage of the building and colored according to status.

As shown, rental housing is relatively evenly distributed across the planning area except for the industrial areas along the southern and western edges.

Most of the apartment projects currently under construction or being proposed are in the north/central portions of Boyle Heights – the areas with the best transit access. Transit access increases attractiveness to potential tenants and allows developers to tap into density bonus programs and other development incentives.

7,414
Total Existing Units

Number of Units



- Existing ●
- Under Construction ●
- Proposed ●
- Demolished (since 2000) ●

Real Estate Market Analysis

Multi-Unit Housing Rental Market

Boyle Heights is home to approximately 1.6% of Los Angeles's apartment units.

The number of leased rental housing units in Boyle Heights has increased by 31% since 2000, which is higher than citywide growth of 18%.

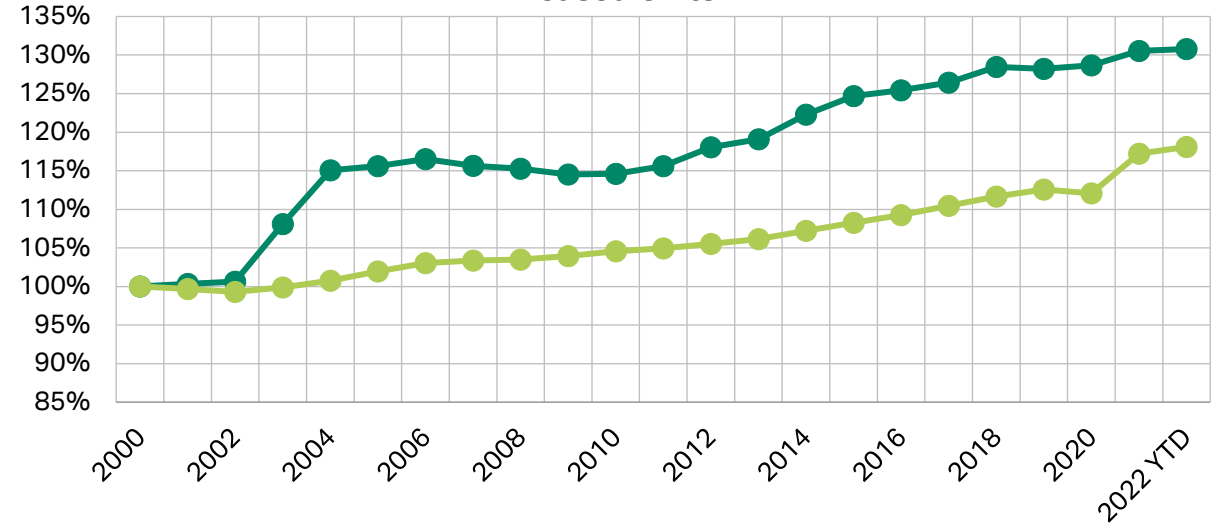
Rental housing vacancy in Boyle Heights has consistently tracked below citywide levels and was less affected by the pandemic. Current vacancy rates are extremely low at just 1.8%.

Boyle Heights rents are 30% lower than citywide averages but are growing at a faster rate, increasing by 97% since 2000 compared to 61% citywide.

The vacancy rate in Boyle Heights has tracked below the citywide average since 2000, contributing to recent increases in rent.

Sources: CoStar, AECOM

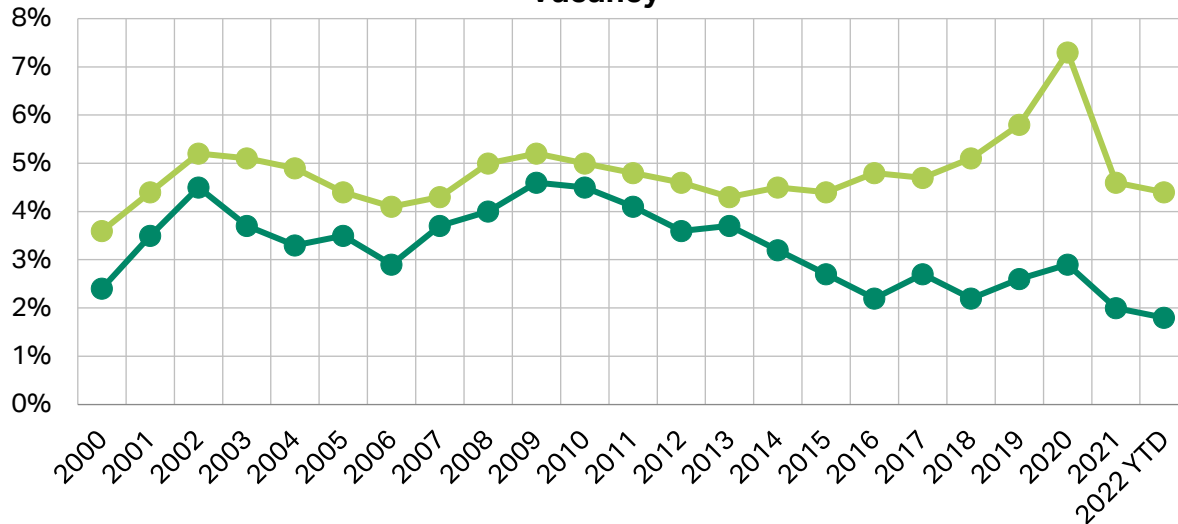
Leased Units



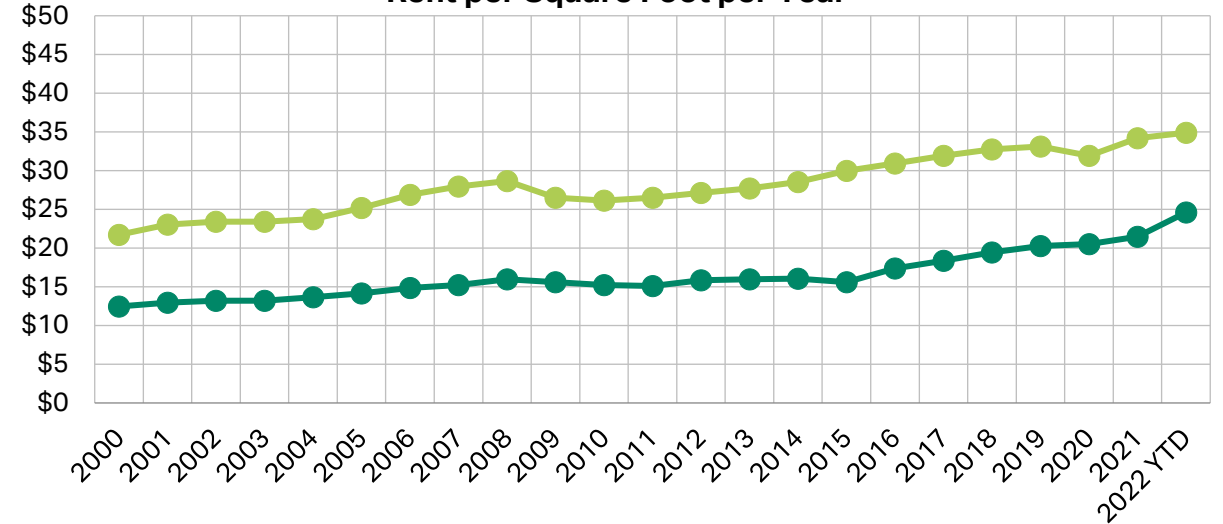
● Boyle Heights

● City of Los Angeles

Vacancy



Rent per Square Foot per Year



Real Estate Market Analysis

Multi-Unit Housing Rental Market

Sources: CoStar, AECOM

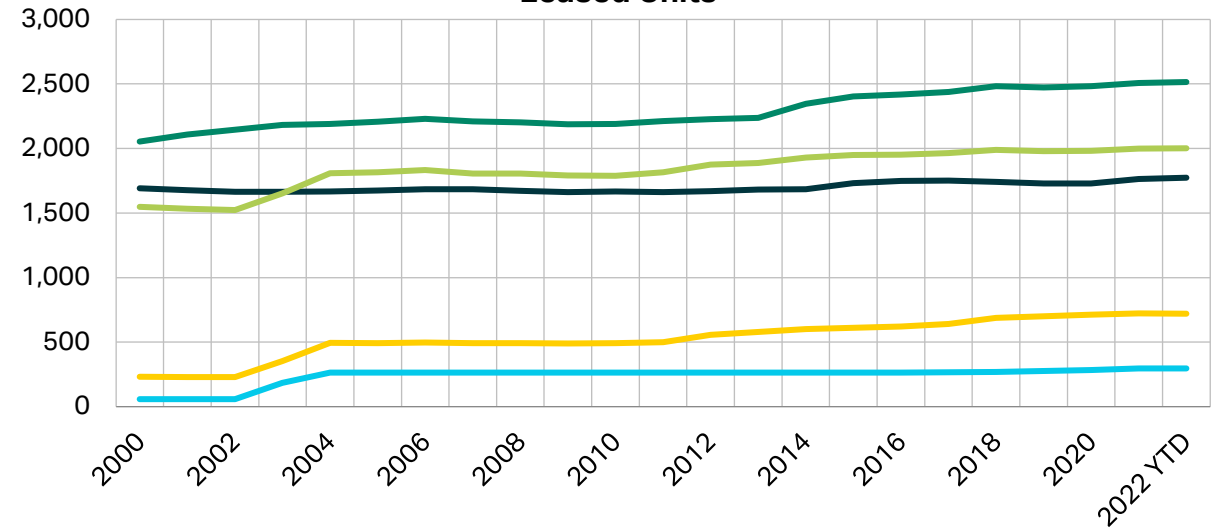
Since 2000, Boyle Heights has added 82 studio units, 461 one-bedrooms, 452 two-bedrooms, 487 three-bedrooms, and 238 four+ bedrooms.

The existing rental multi-unit housing stock in Boyle Heights is 24% studios, 34% one-bedrooms, 27% two-bedrooms, 10% three-bedrooms, and 4% four+ bedrooms.

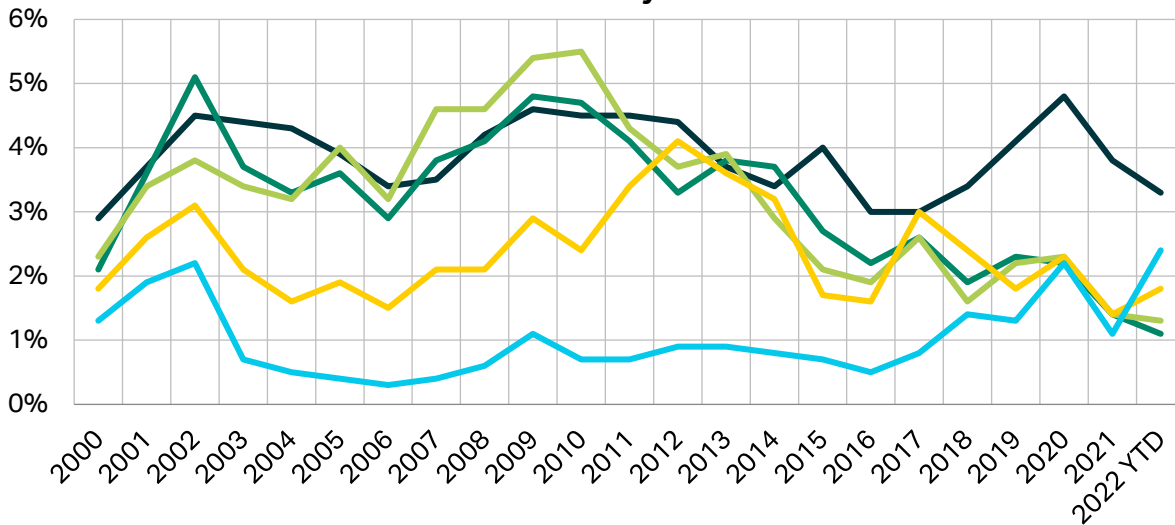
Larger unit types tended to have lower vacancy rates in recent decades, but vacancy numbers for all bedroom categories have since converged.

On a per-square-foot basis, rental rates for smaller unit types are higher and have grown faster than for larger unit types.

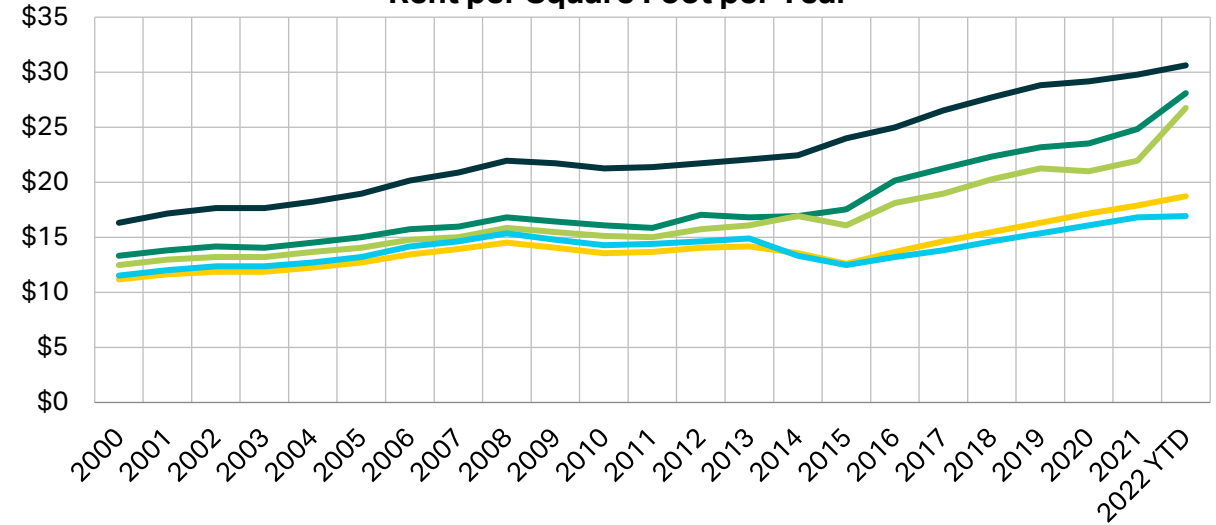
Leased Units



Vacancy



Rent per Square Foot per Year



Real Estate Market Analysis

Owner Housing Market

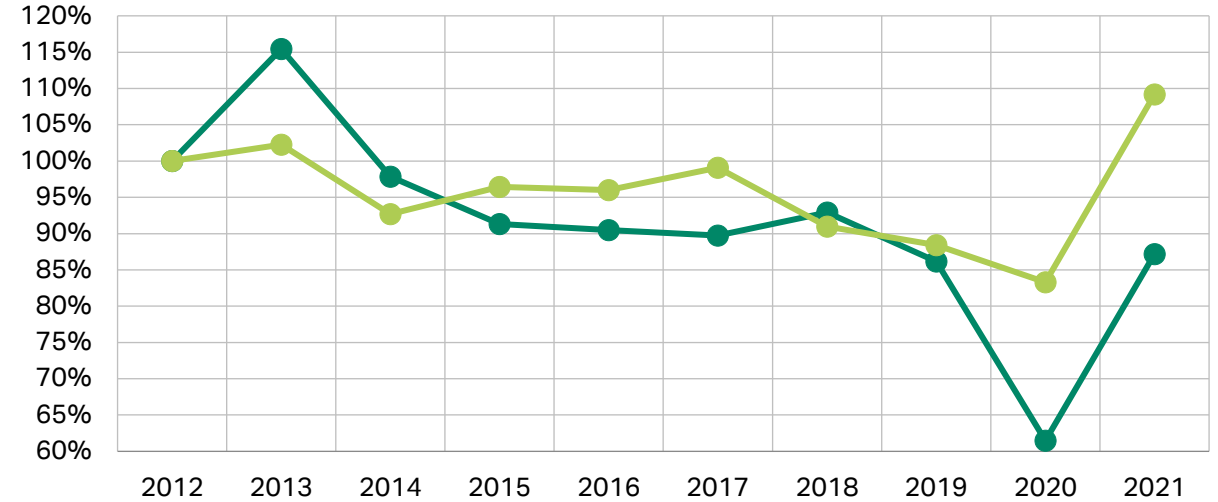
The number of homes sold trended downward in both Los Angeles and Boyle Heights from 2012 to 2020 but spiked in 2021 likely due to low interest rates and increased ability to relocate due to pandemic-related remote work.

Boyle Heights sales prices per square foot have lagged citywide averages and are 28% lower as of 2022, but they are growing at a faster rate, increasing by 206% since 2000 compared to 171% citywide.

Sale prices as a percent of list prices (sale-to-list ratios) have increased dramatically since 2019 in Boyle Heights and citywide – both were below 100% in 2019 and have since increased to 103% and 104%, respectively, indicating a competitive market where demand exceeds supply.

Sources: Redfin, AECOM

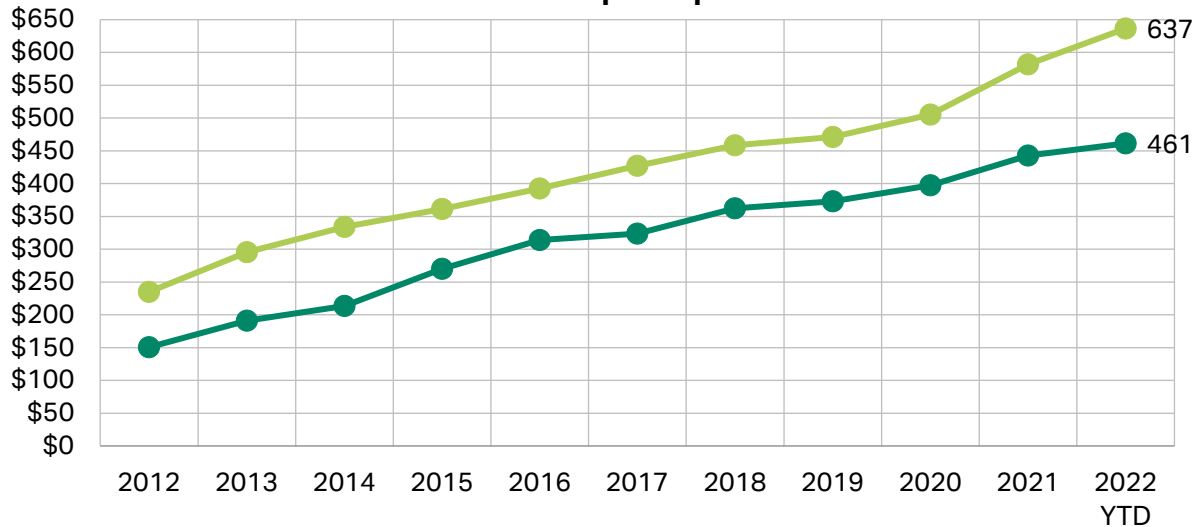
Number of Homes Sold



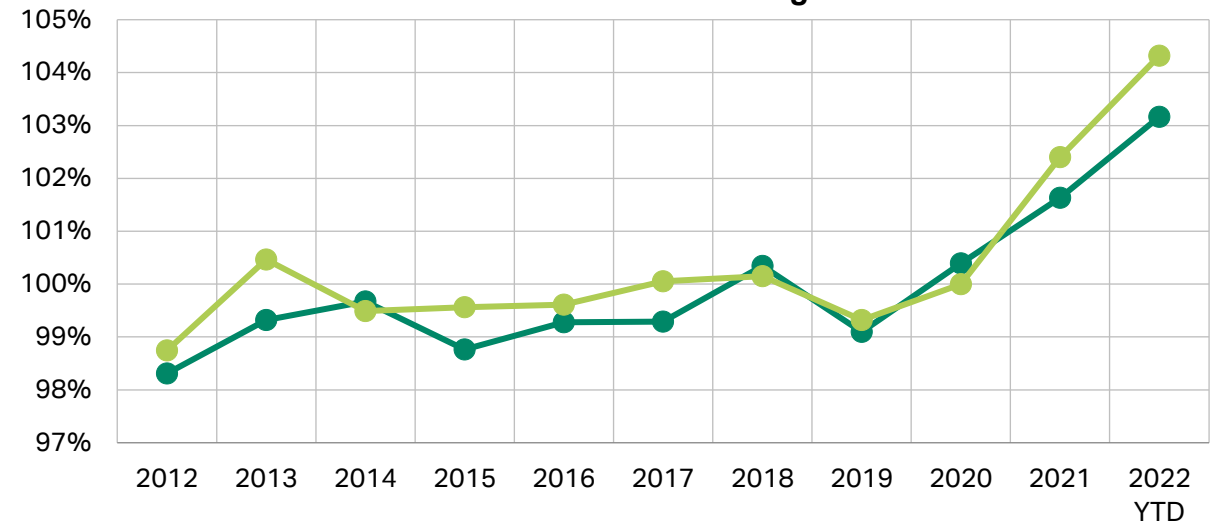
—●— Boyle Heights

—●— City of Los Angeles

Median Sale Price per Square Foot



Sale Price as Percent of Listing Price

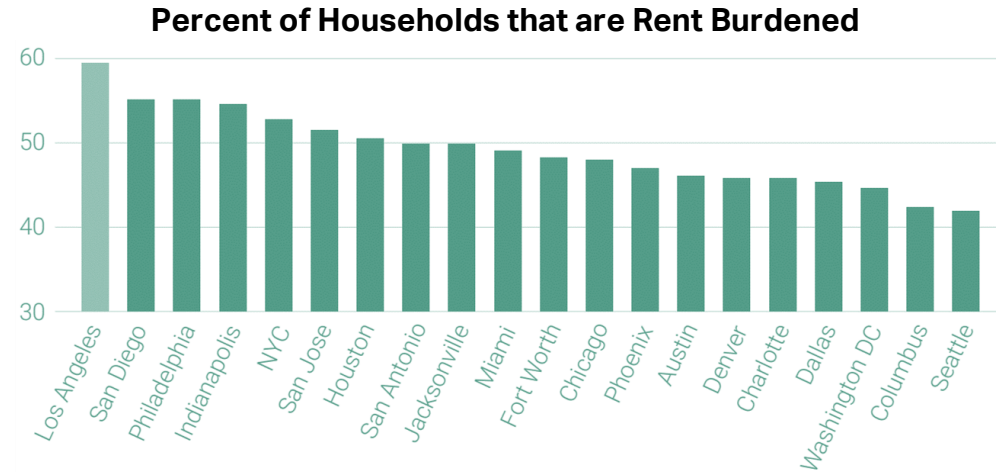


Real Estate Market Analysis

Affordable Housing Market

Los Angeles, as shown on the chart on the right, has the highest share of renter households that are cost burdened of any major U.S. city. (A burdened household is one where housing spending exceeds 30% of household income.)

The table below highlights many of the affordable housing development projects that have recently been completed or are currently being proposed in Boyle Heights. As shown, these projects comprise 773 units in total and include a variety of unit types and target populations. On average in 2022, the total development cost of these projects was in the ballpark of \$530 per square foot or \$579,000 per unit. These benchmarks will inform the feasibility models that will be presented later in this report.



Affordable Housing Development in Boyle Heights

Project	Location	Affordable Units	Market Units	Total Units	# of Stories	Permit Year	Unit Mix	Target Population	Construction Type	Commercial Sq. Ft.	Total Sq. Ft.	Project Cost / Sq. Ft.	Project Cost / Unit
Lorena Heights	3327 Sabina St	112	0	112	6	2010	2 & 3 Bed	Family	5	0	154,060	\$337	\$462,950
Las Alturas	3535 Whittier Blvd	78	0	78	5	2013	1 Bed	Senior	5	0	75,148	\$450	\$433,415
La Veranda	2420 E Cesar Chavez Ave	77	0	77	4	2021	2 & 3 Bed	Families	5	8,000	76,853	\$766	\$764,831
Los Lirios Apartments	113 S Soto St	64	0	64	5	2022	Studio-3 Bed	Individuals/Families	5	2,443	77,945	\$618	\$753,039
3552 Whittier Blvd	3552 Whittier Blvd	64	0	64	5	2022	Studio	Individuals	5	0	70,000	\$457	\$500,360
The Whittier	3555 Whittier Blvd	60	0	60	5	2012	1-3 Bed	Families	5	0	87,273	\$332	\$482,775
Mariachi Plaza	1724 Pennsylvania Ave	60	0	60	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD
Sol y Luna Apartments	2917 E 1st St	53	0	53	5	2013	1-3 Bed	Families	5	0	69,338	\$405	\$530,140
Cielito Lindo Phase I	2423 E 1st St	50	0	50	5	2016	1-3 Bed	Families	5	3,200	59,054	\$483	\$569,911
Lorena Plaza	1st and Lorena	49	0	49	4	2022	Studio-3 Bed	Individuals/Families	5	10,000	90,000	\$379	\$697,010
La Guadalupe	100 S Boyle	44	0	44	5	2021	Studio-2 Bed	Individuals/Families	3	7,100	40,552	\$701	\$645,843
Beswick Senior Apartments	3553 E Beswick	33	0	33	3	2013	1 & 2 Bed	Seniors, Veterans	5	0	20,616	\$769	\$480,105
Cielito Lindo Phase II	2407 E 1st	29	0	29	4	2018	1 & 2 Bed	Families	5	0	27,463	\$663	\$628,278
Average												\$530	\$579,055

Real Estate Market Analysis

Affordable Housing Market

The table on the right analyzes data from the California Tax Credit Allocation Committee (CTCAC) and shows how total development costs for affordable housing projects have increased dramatically in recent years. As shown for Los Angeles County, development costs have increased at an average rate of 5.6% per year for new construction projects and 9.9% per year for rehabilitation projects – far higher than the average annual inflation rate of 1.9% per year during that time period according to the Consumer Price Index. These surging costs have strained affordable housing funding programs and have resulted in a large backlog of projects that are ready to build but unfunded.

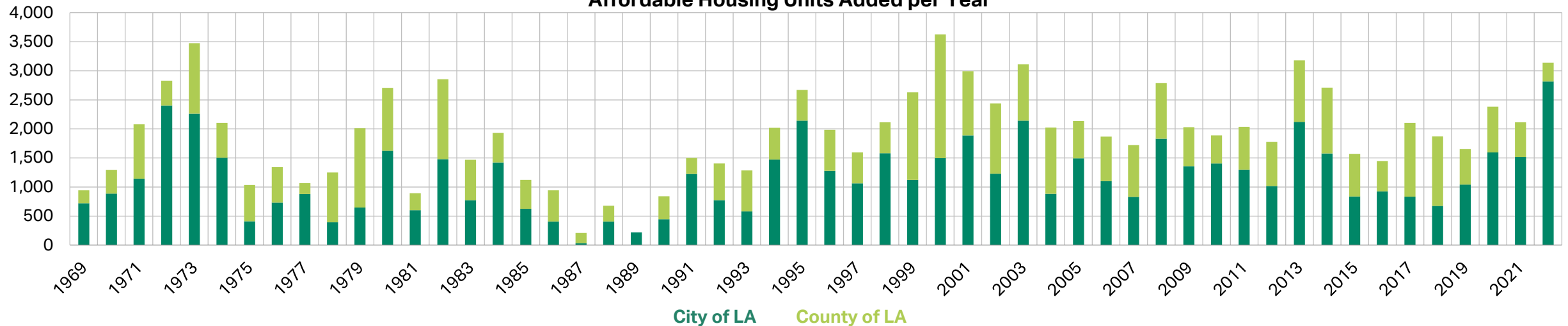
The chart below shows the total number of income-restricted affordable housing units added within the City and County of Los Angeles since 1969 – as shown, with the recent influx of state and federal funding for affordable housing, 2022 is shaping up to be a productive year. The City of Los Angeles, despite accounting for just 40% of the County's population, has produced 63% of the County's total affordable housing units since 2010.

Affordable Housing Average Development Cost per Unit in LA County

	2013	2021	Annual Increase
New Construction	\$354,475	\$549,905	+5.6%
Rehabilitation	\$205,334	\$436,406	+9.9%

Sources: CTCAC, AECOM

Affordable Housing Units Added per Year



Sources: California Housing Partnership, AECOM

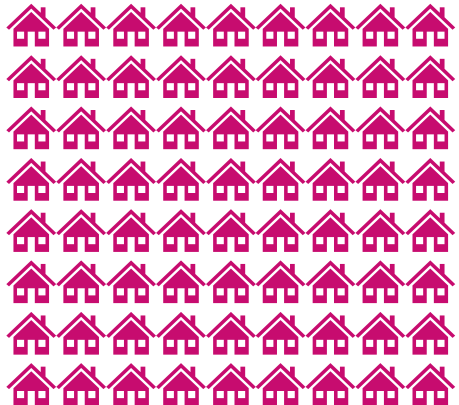
Real Estate Market Analysis

Impact of Short-Term Rentals

There are a total of 107 total short-term rental (STR) units in Boyle Heights – 64 of which are entire units, while the remainder are private or shared rooms. This analysis focuses on the entire unit segment, as it has the most impact on the long-term housing market in Boyle Heights.

Of the 64 “entire unit” STRs, 70% are unlicensed or claimed as exempt from the City of Los Angeles’s regulations, meaning that they don’t pay certain fees or taxes that would normally fund programs aimed at mitigating negative externalities of STRs. The most relevant impact of STRs within the context of this study is the degree to which they reduce the housing stock available to long-term residents, thereby increasing rents and decreasing the availability of affordable housing options. These 64 units represent 0.3% of the total housing stock in Boyle Heights, and could house approximately 230 permanent residents assuming the current average household size of 3.83 people.

A 30-night minimum stay is the most common way to claim an exemption – 42% of STRs in Boyle Heights and 56% of STRs throughout Los Angeles have these minimum lengths of stay. In addition, nearly half of all hosts that operate STRs within Boyle Heights have 10 or more listings, indicating that they are operating a larger scale business rather than just renting out a property or two that they own.



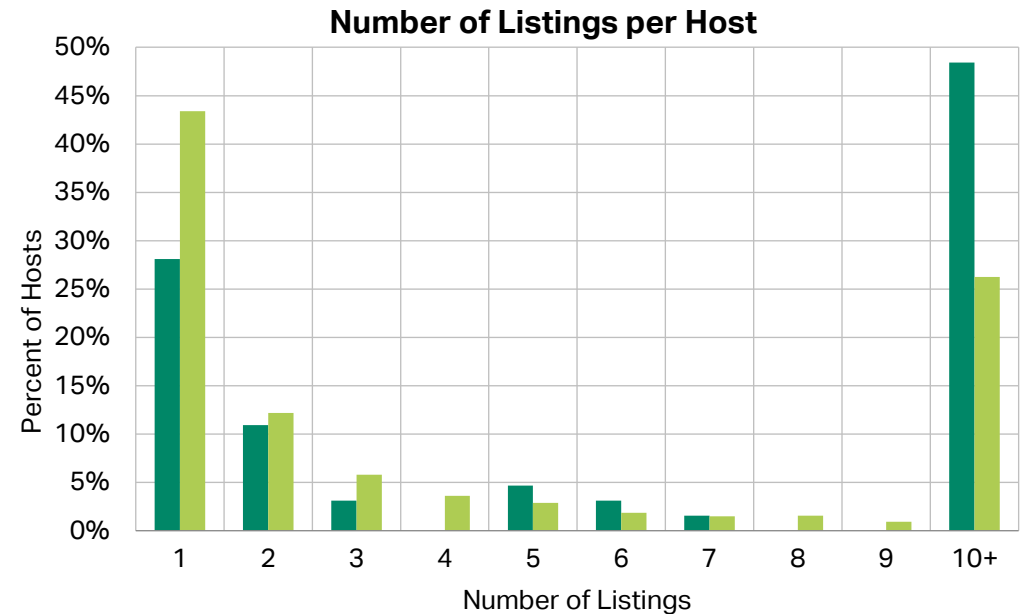
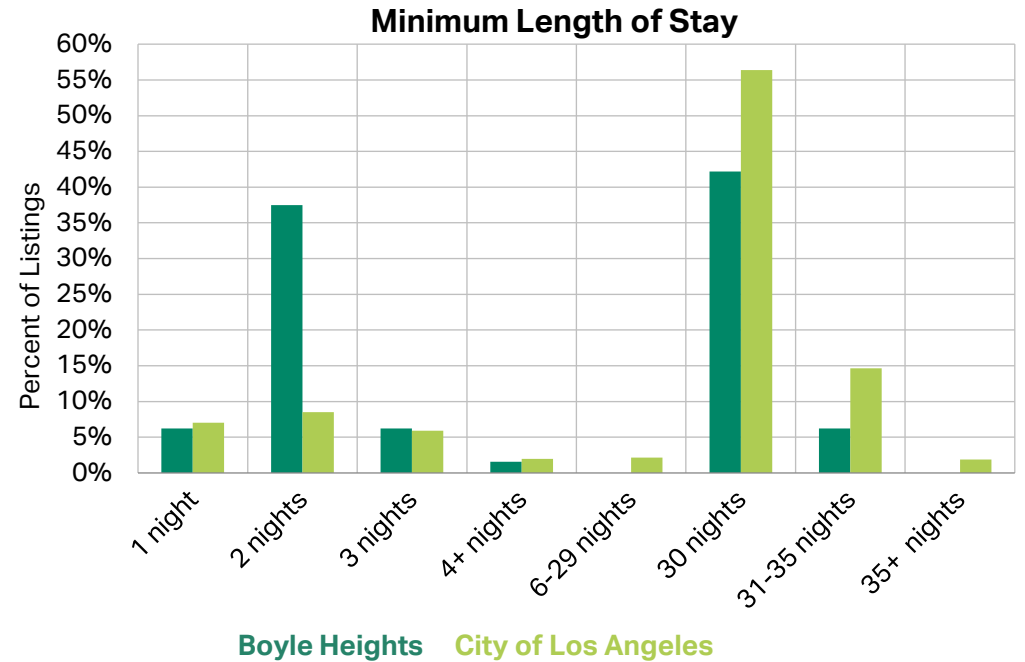
64
Entire Homes in Boyle Heights

0.3%
of total housing stock

230
permanent residents replaced

\$147
Average Price Per Night

70%
Unlicensed or Claimed as Exempt



Real Estate Market Analysis

Retail Market

Boyle Heights is home to approximately 477 existing retail properties, accounting for 2.5 million square feet of existing retail space. In addition, there is 2,600 square feet of space listed as "proposed" and no space listed as "under construction."

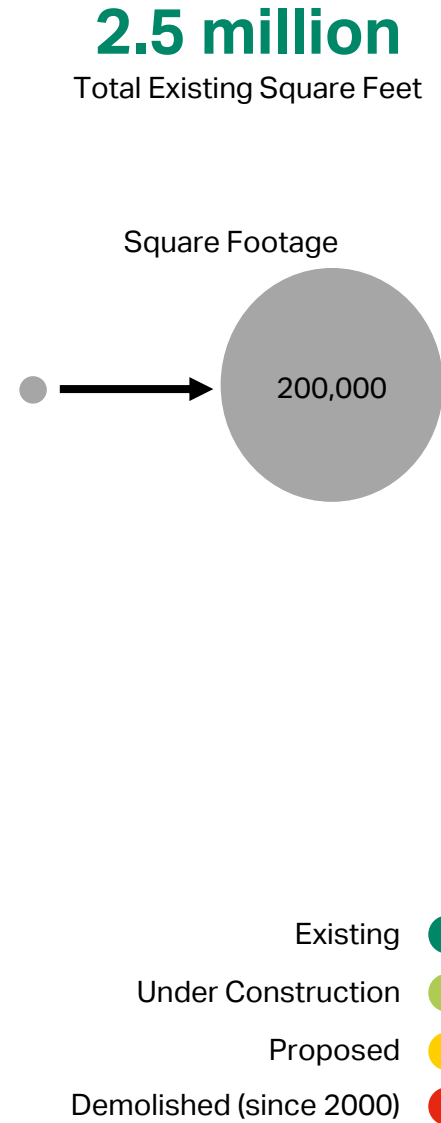
The map on the right illustrates the distribution of retail properties throughout the planning area, with circles sized according to the rentable square footage of the building.

As shown, retail space is concentrated along major roadways and transit corridors and is predominantly made up of small-format storefronts. The average retail property in Boyle Heights is approximately 5,200 square feet. The largest retail property, symbolized as the large green circle in the southeast corner of the CPA, is Angelus Grand Plaza, which includes tenants like CVS, Food 4 Less, Jungle Boys, and Lucy's LaundryMart.

Retail (including restaurants, bars, and traditional retail stores) thrives in areas close to resident population density, employment density, student population density, and tourism density.

The following slides provide insight into the performance of the Boyle Heights retail market by comparing it to citywide averages and trends.

Sources: CoStar, AECOM



Real Estate Market Analysis

Sources: CoStar, AECOM

Retail Market

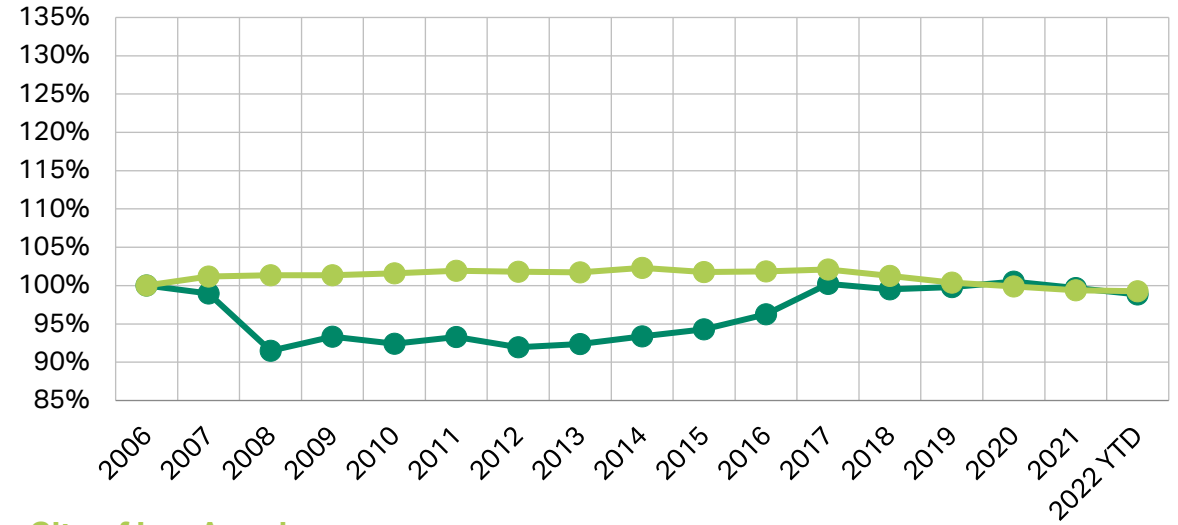
Boyle Heights is home to approximately 2.5% of the total retail space within the City of Los Angeles.

Since 2006, the volume of leased retail square footage has shrunk slightly – decreasing by 1.2% in Boyle Heights and 0.7% citywide. The total inventory of retail space decreased by 0.6% in Boyle Heights compared to an increase of 1.4% citywide.

Retail vacancy rates in Boyle Heights peaked in 2008 and have since improved significantly and are currently below citywide averages.

Retail rental rates in Boyle Heights have hovered around \$25 per square foot per year in recent years, equating to about 60% of citywide averages between \$40-45.

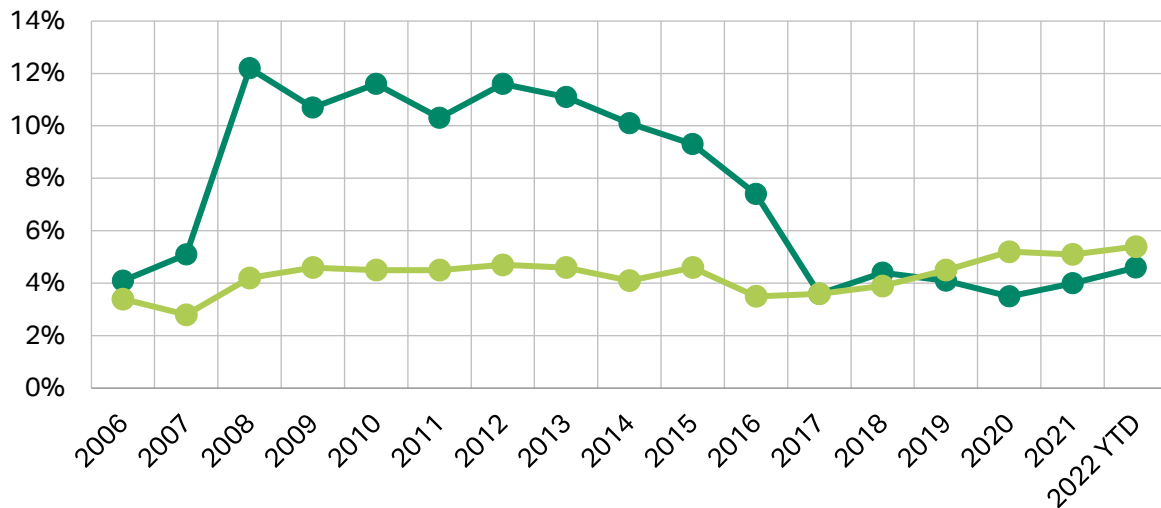
Square Feet of Leased Space



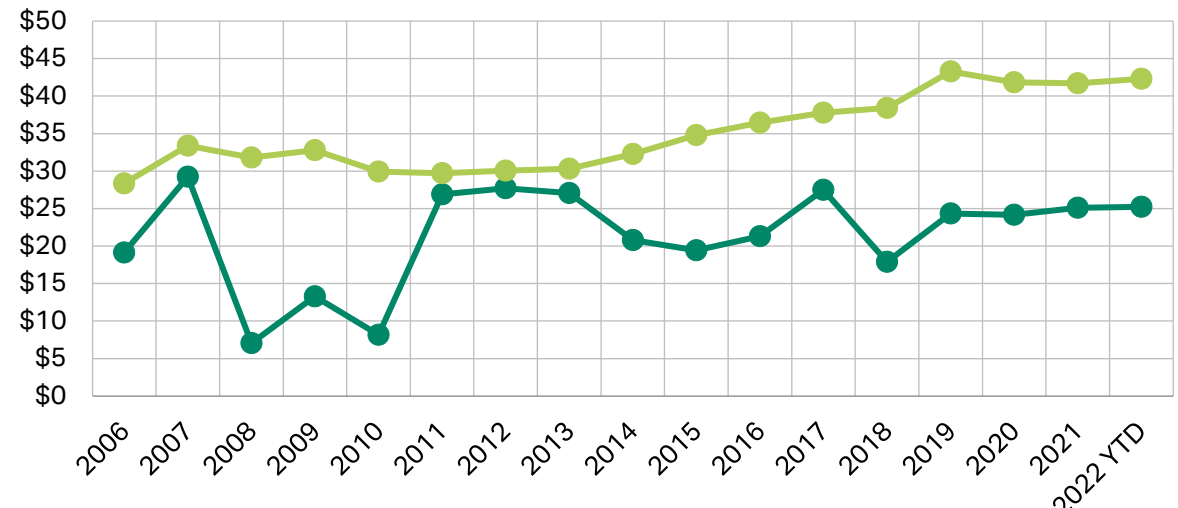
—●— Boyle Heights

—●— City of Los Angeles

Vacancy



Rent per Square Foot per Year



Real Estate Market Analysis

Office Market

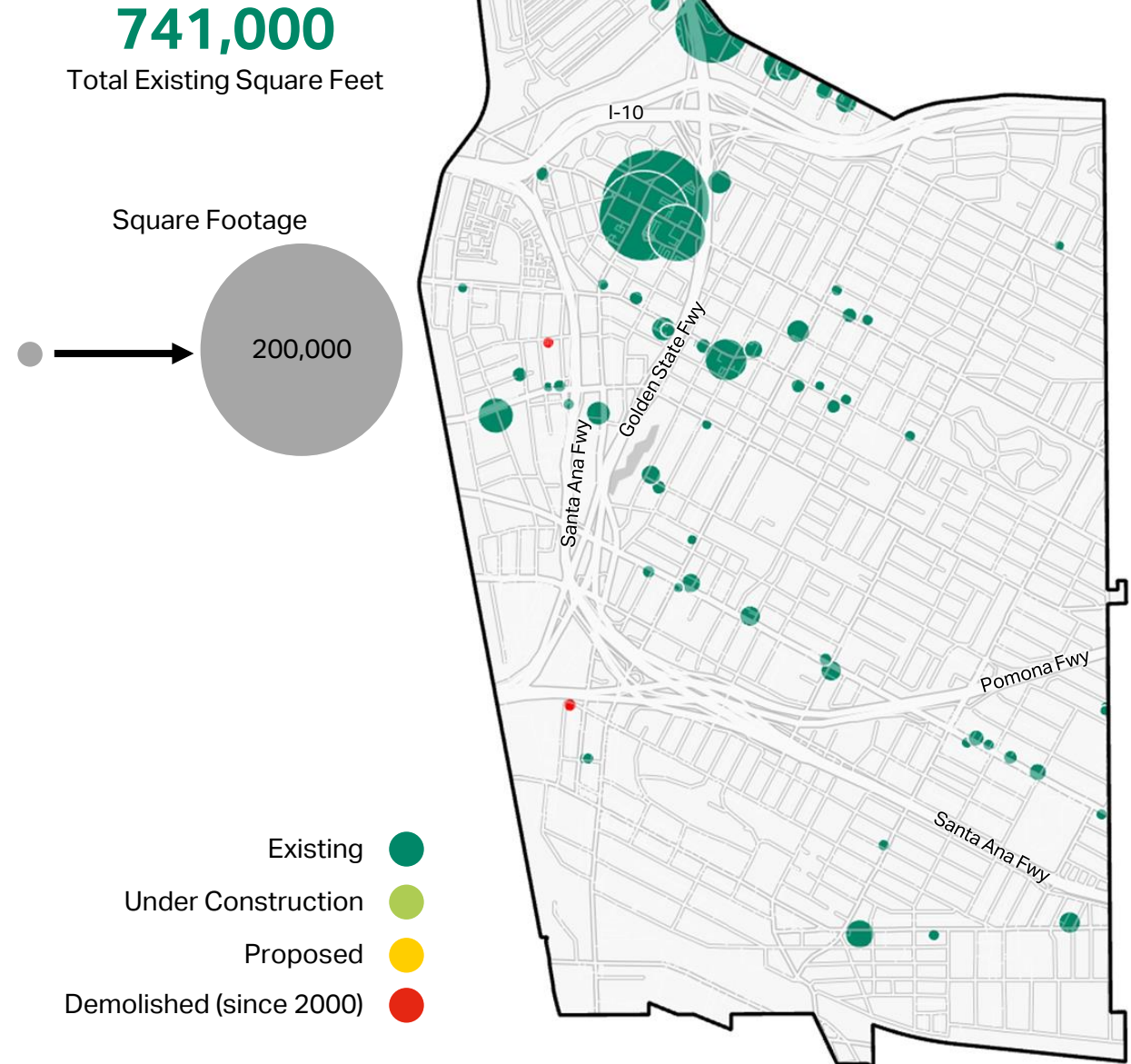
Boyle Heights is home to approximately 65 existing office properties accounting for about 741,000 square feet of existing office space. There is no office space listed as "proposed" or "under construction."

The map on the right illustrates the distribution of office properties throughout the planning area, with circles sized according to the rentable square footage of the building.

As shown, office space is concentrated in the northwest quadrant of the planning area (nearest to the hospital, Downtown Los Angeles, and major freeway interchanges).

The following slides provide insight into the performance of the Boyle Heights office market by comparing it to citywide averages and trends.

Sources: CoStar, AECOM



Real Estate Market Analysis

Office Market

Boyle Heights is home to approximately 0.5% of Los Angeles's office space.

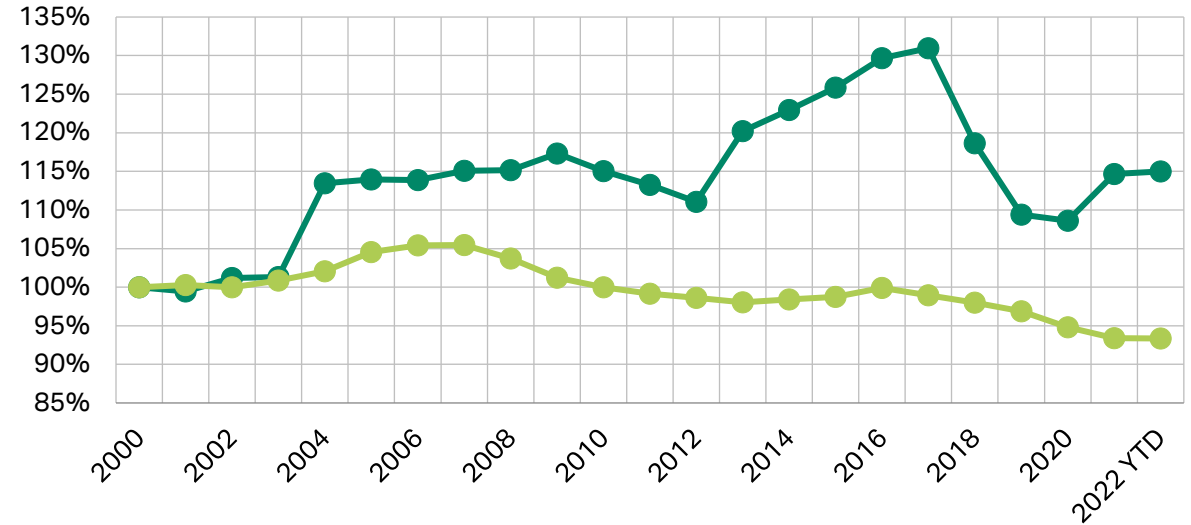
The volume of leased office space in Boyle Heights peaked in 2017 at 807,000 SF (or 131% of 2000 levels) but has since dipped to 708,000 SF (or 115% of 2000 levels), while the volume of leased office space citywide has been gradually decreasing since 2007 and is currently at 93% of 2000 levels.

Office vacancy rates in Boyle Heights consistently tracked below citywide averages, and have rebounded after peaking at 10% in 2020.

Office rental rates in Boyle Heights have tracked slightly below citywide averages and currently average around \$35 per square foot.

Sources: CoStar, AECOM

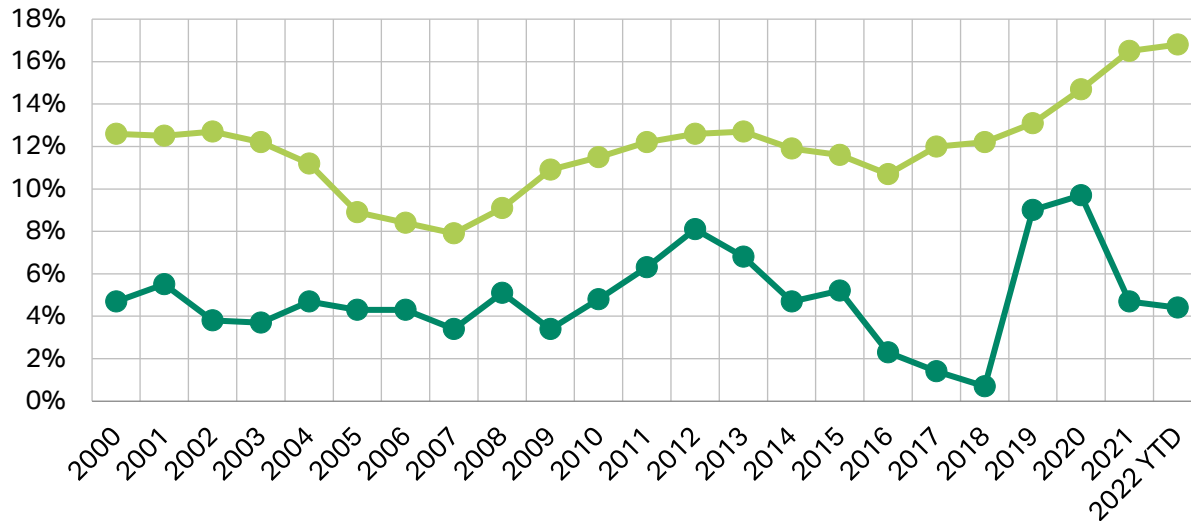
Square Feet of Leased Space



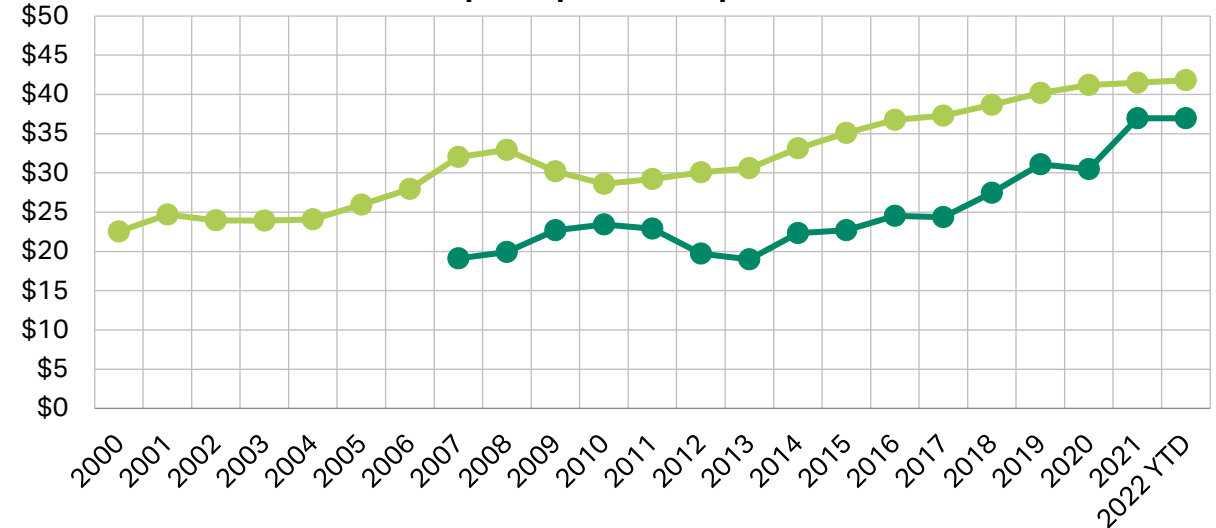
—●— Boyle Heights

—●— City of Los Angeles

Vacancy



Rent per Square Foot per Year



Real Estate Market Analysis

Industrial Market

Boyle Heights is home to approximately 684 existing industrial properties accounting for about 14.8 million square feet of space. There is no industrial space listed as "proposed" or "under construction."

The map on the right illustrates the distribution of industrial properties throughout the planning area, with circles sized according to the rentable square footage of the building.

As shown, industrial space is heavily concentrated in the areas along the southern and western edges of the planning area, which are near freight rail infrastructure and the Los Angeles River.

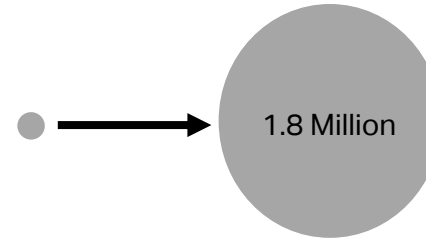
The following slides provide insight into the performance of the Boyle Heights industrial market by comparing it to citywide trends.

Sources: CoStar, AECOM

14.8 million

Total Existing Square Feet

Square Footage



- Existing ●
- Under Construction ●
- Proposed ●
- Demolished (since 2000) ●



Real Estate Market Analysis

Industrial Market

Sources: CoStar, AECOM

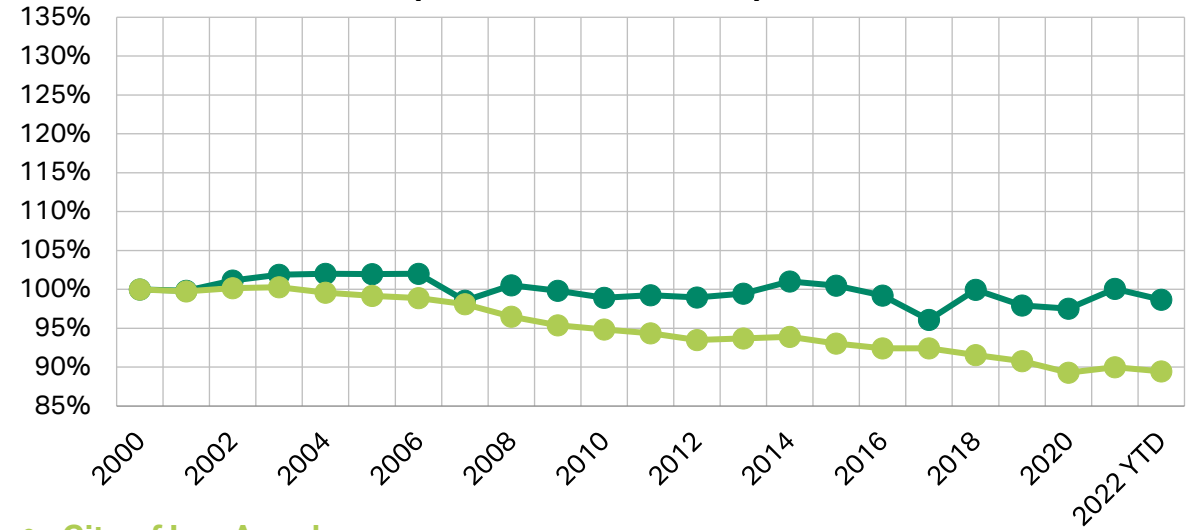
Boyle Heights is home to approximately 11.2% of Los Angeles's industrial space.

The volume of leased industrial space in Boyle Heights peaked in 2006 at over 14.7 million SF (or 102% of 2000 levels) but has since dipped to less than 14.3 million SF (or 99% of 2000 levels). Since 2000, the total supply of industrial space decreased by 12% in Boyle Heights compared to a 10% decrease citywide.

The notable drop in industrial vacancy in 2017 is likely due to the Sears building being removed from the industrial rental market as the owner pursued different opportunities for housing and commercial development.

Industrial rental rates in Boyle Heights have closely mirrored citywide averages and currently average around \$18 per square foot per year.

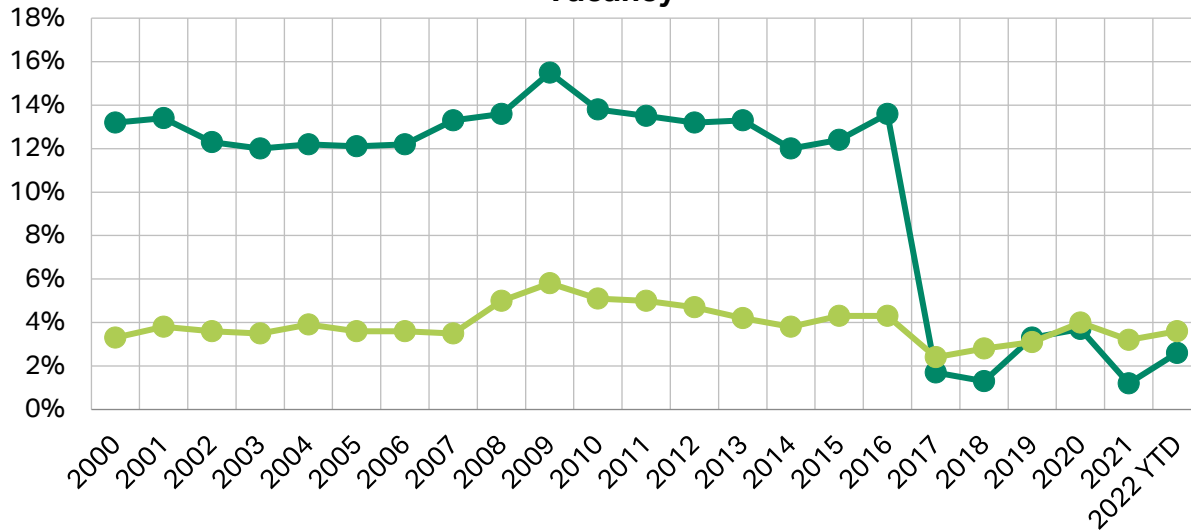
Square Feet of Leased Space



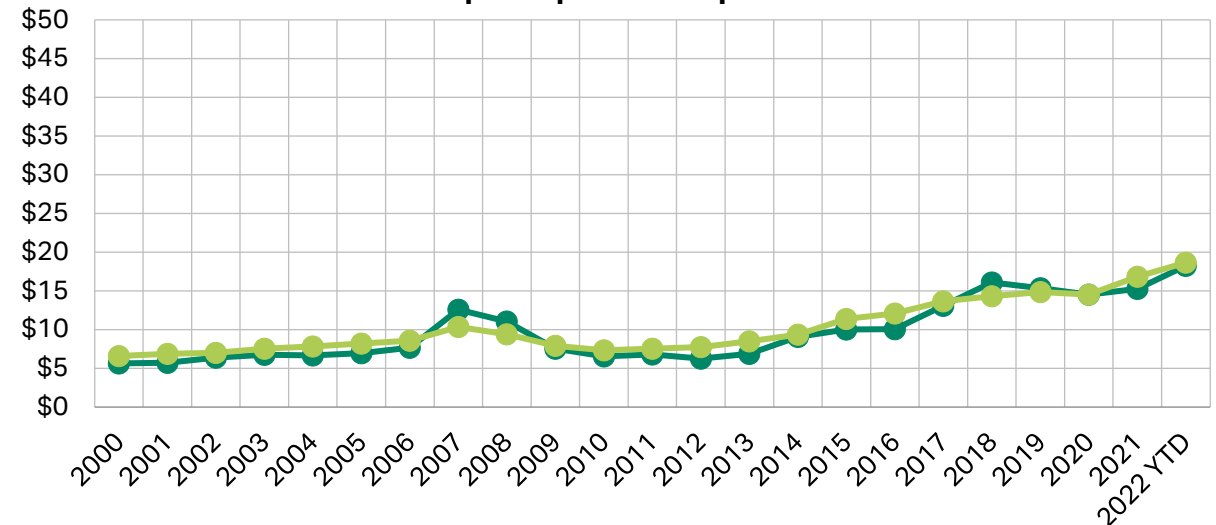
—●— Boyle Heights

—●— City of Los Angeles

Vacancy



Rent per Square Foot per Year



Real Estate Market Analysis

Hotel Market

There are a total of just 116 existing hotel rooms within Boyle Heights and there is one additional 81-room hotel currently under construction – the Hampton by Hilton at 1030 N Soto Street near the LAC + USC Medical Center and I-10.

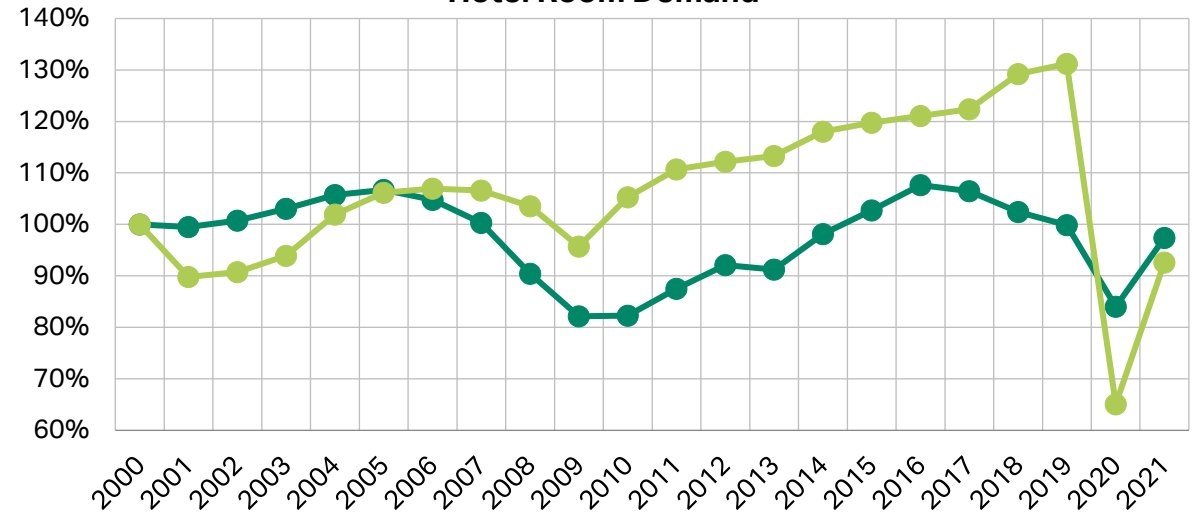
Static supply reflects limited hotel demand in Boyle Heights, as shown on the top right, despite broader growth in the Los Angeles hospitality market.

Hotel occupancy rates in Boyle Heights tracked slightly below citywide numbers for most of the past couple of decades, but less adversely affected by the pandemic.

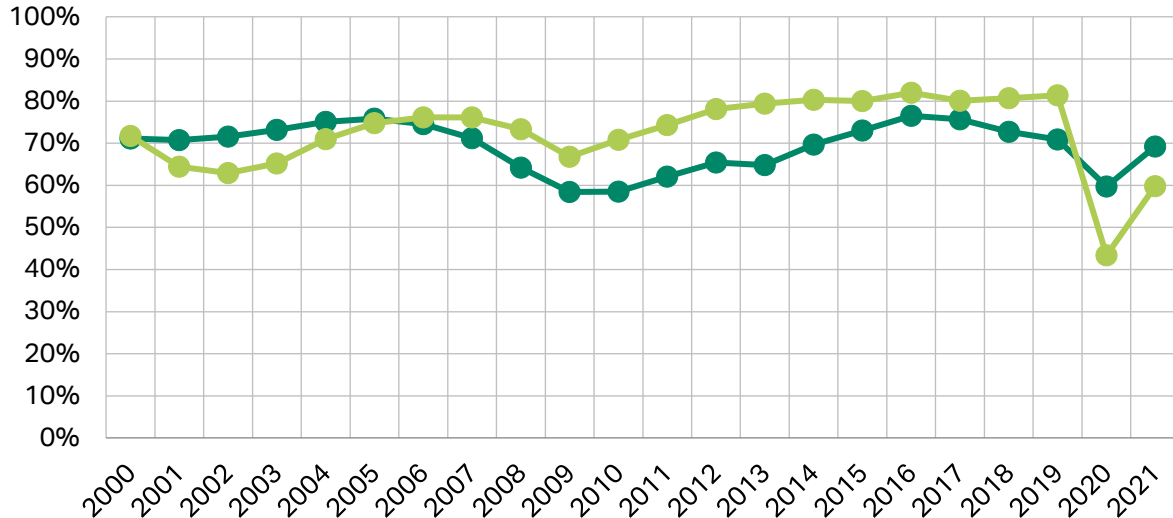
Stagnant hotel supply has also restricted growth in average daily rates in Boyle Heights, which are currently about half of citywide averages.

Sources: CoStar, AECOM

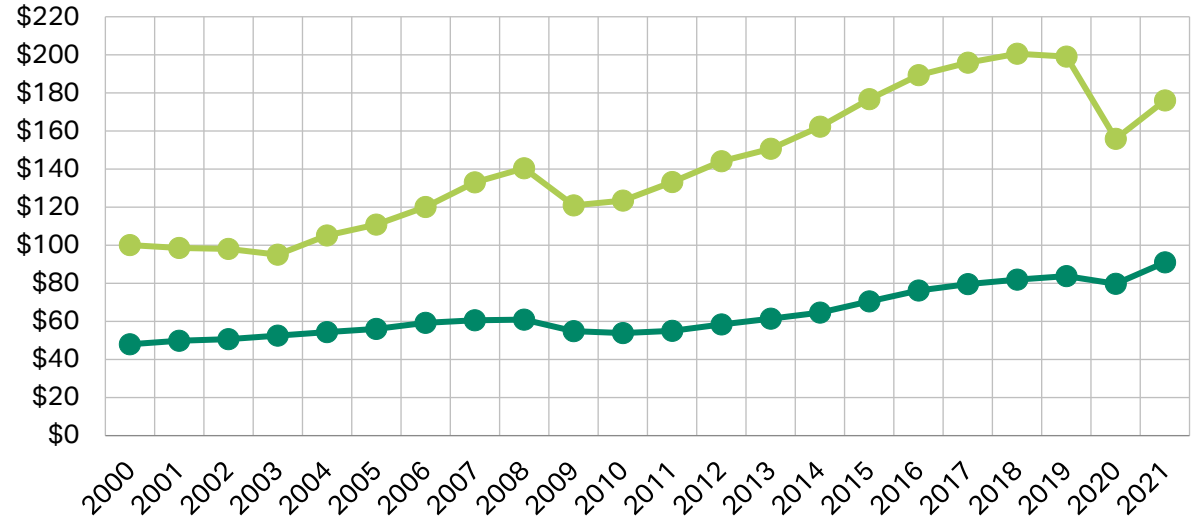
Hotel Room Demand



Hotel Occupancy



Hotel Average Daily Rate



Real Estate Market Context

Key Findings

- Boyle Heights is experiencing **development pressure from strong residential development trends from Downtown LA and the Arts District to the west.**
- Most apartment projects currently under construction or being proposed are in the north/central portions of Boyle Heights – **the areas with the best transit access.**
- Boyle Heights contributes 1.6% of Los Angeles’s apartment units. **Since 2000, the number of occupied rental units has increased 31%, compared to 18% citywide.**
- **Boyle Heights rents are 30% lower than citywide averages** but are growing at a faster rate, increasing by 97% since 2000 compared to 61% citywide.
- **Boyle Heights sales prices per square foot have lagged citywide averages and are 28% lower as of 2022,** but they are growing at a faster rate, increasing by 206% since 2000 compared to 171% citywide.
- The cost of developing affordable housing projects has increased more quickly than the availability of funding, resulting in a **large backlog of affordable housing projects that are approved but unfunded.**
- The City of Los Angeles, with 40% of the County population **has produced 63% of the County’s total affordable housing units** since 2010.
- Since 2006, the amount of leased **retail square footage has contracted,** decreasing by 1.2% in Boyle Heights and 0.7% citywide.
- **Retail rents in Boyle Heights lag** citywide averages significantly.
- **Office demand in Boyle Heights had grown more quickly than citywide,** growing 15% since 2000 compared to a 7% citywide contraction. However, demand peaked in 2017 (31% over 2000) and appears to be in decline.
- Both office vacancy rates and rents in Boyle Heights **track below citywide averages.**
- Boyle Heights is a major contributor to the City’ industrial space inventory with approximately **11.2% of Los Angeles’s industrial space.**
- Total **industrial demand peaked in 2006** at over 14.7 million SF (or 102% of 2000 levels) but has since dipped to less than 14.3 million SF (or 99% of 2000 levels).
- **Industrial rental rates in Boyle Heights have closely mirrored citywide averages** and currently average around \$18 per square foot per year.
- There are 116 hotel rooms within Boyle Heights and one additional 81-room hotel currently under construction.
- Hotel occupancy rates and ADRs in Boyle Heights **track below citywide averages.**

A thick, bright green arc curves from the top left towards the center of the image, framing the title text.

Regulations & Incentives



Regulations & Incentives

Introduction

The Boyle Heights Community Plan (BHCP) proposes a variety of policies for the Boyle Heights Community Plan Area (CPA). Within the scope of this study, the City of Los Angeles called out certain proposed regulations and incentives for AECOM to examine in greater detail, including:

- **Fire District 1 Expansion:** The City has proposed expanding the Fire District 1 boundaries, which currently include Downtown Los Angeles and other high-density corridors to the west, to include Boyle Heights and other moderate density areas. Fire District 1 imposes stricter standards related to fire prevention and mitigation.
- **Commercial Anti-Displacement:** The City and Boyle Heights community seek to prevent the displacement of existing local business in the area. While the BHCPU already proposes a retail tenant size limit for this purpose, this section examines a variety of additional policies that could provide additional means to this end.
- **Retail Tenant Size Limit:** The BHCPU proposes a 5,000 square foot retail size limit for certain corridors within Boyle Heights, with the intent of limiting the development of big box, formula, and national chain retailers which could displace existing small businesses in the area..
- **Community Benefits Program (CBP):** The BHCPU proposes a menu of incentive programs within its CBP that allow for additional residential density in exchange for the inclusion of affordable housing units.
- **Site Plan Review (SPR) Threshold:** While not currently considered in the BHCPU, AECOM assessed the impact of increasing the size threshold that triggers SPR from 50 to 100 units, meaning that more residential development projects would be able to avoid the time-consuming SPR process.

In this section, AECOM summarizes key elements, conducts a literature review and summarizes best practices, assesses the high-level economic feasibility implications, and provides feedback to help the City adjust the proposed policies, as necessary.

Non-Residential Regulations & Incentives

Fire District 1 Expansion

The City of Los Angeles has proposed expanding the boundaries of Fire District 1, which is currently limited to areas with highest-density construction as shown in the map on the following page. Boyle Heights, which is not currently within Fire District 1, would be included in the expanded boundaries.

Fire District 1 designation includes higher fire safety standards than what is required outside of the District. Fire District 1 restrictions bar the use of Type V (wood frame) construction, allowing only Type I, II, and III. Type V construction is preferred by developers for low-rise and some mid-rise projects because of its cost efficiency and the wide availability of skilled tradespeople that specialize in it. A summary of construction types, as defined by the California Building Code, is provided below.

Construction Types	Sub-Types	Materials	Description	Maximum Height	Maximum Floor Area
Type I (Most Fire Resistant)	Type IA	Concrete, fire-protected steel	Non-combustible only	Unlimited	Unlimited
	Type IB	Concrete, fire-protected steel	Non-combustible only	180 feet / 12 stories	Unlimited
Type II	Type IIA	Fire-protected steel	Non-combustible only	85 feet	72,000 SF
	Type IB	Bare steel	Non-combustible only	75 feet	48,000 SF
Type III	Type IIIA	Fire-protected light wood frame with masonry/steel/concrete exterior walls	Non-combustible exterior, combustible interior	85 feet	72,000 SF
	Type IIIB	Fire-protected light wood frame with masonry/steel/concrete exterior walls	Non-combustible exterior, combustible interior	75 feet	48,000 SF
Type IV	Type IV	Heavy timber	Non-combustible exterior, heavy timber interior	85 feet	61,500 SF
Type V (Least Fire Resistant)	Type VA	Protected wood frame	Combustible allowed	70 feet	36,000 SF
	Type VB	Unprotected wood frame	Combustible allowed	60 feet	21,000 SF

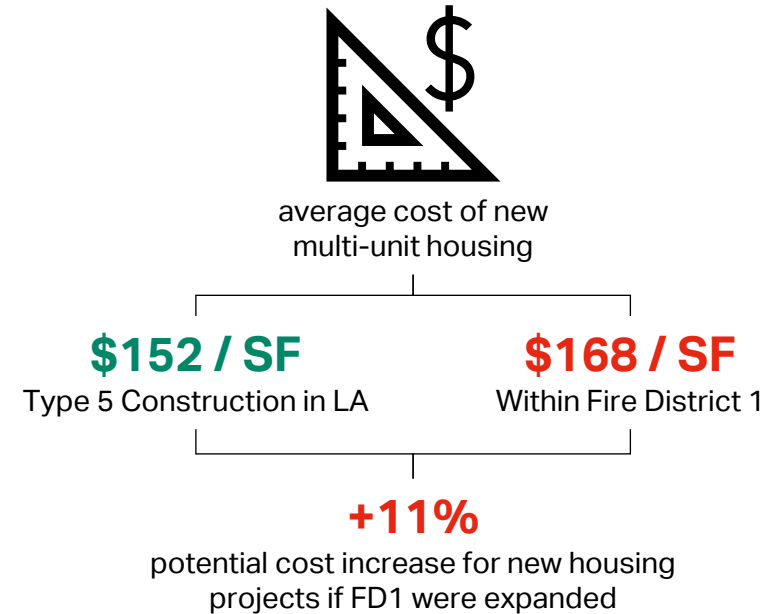
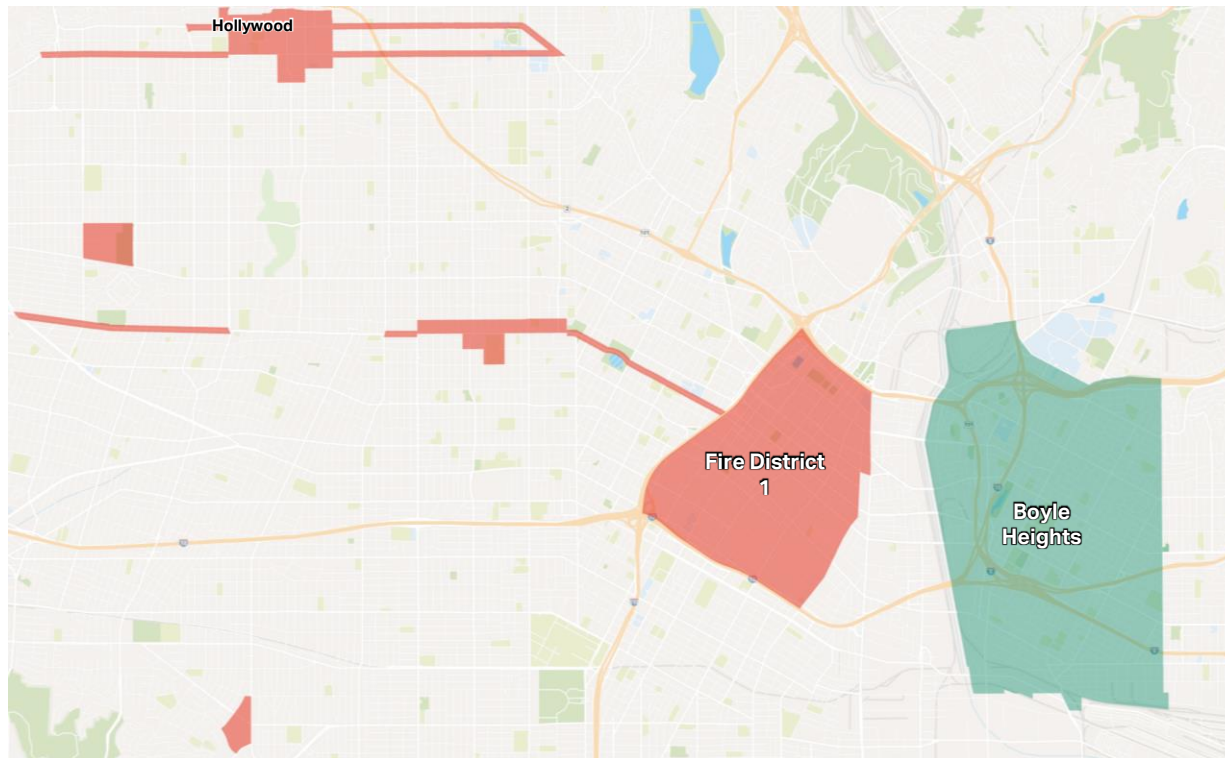
Non-Residential Regulations & Incentives

Fire District 1 Expansion

According to City of Los Angeles Permit data, 89% of new multi-unit housing construction in Boyle Heights since 2010 has been Type V construction.

Within the existing Fire District 1, roughly half of new multi-unit housing construction is Type I and the other half is Type III. According to City of Los Angeles Building Permit data, these projects had average costs of \$168 per square foot, which is nearly 11% higher than the \$152 per square foot average for Type V projects outside of Fire District 1.

For the Boyle Heights submarket, which has not supported new market-rate development for some time, an 11% increase in cost is likely to make the already challenging economics of development even more challenging. A [report](#) prepared by the City of Los Angeles on this matter made similar conclusions.



Non-Residential Regulations & Incentives

Commercial Anti-Displacement

In addition to the specific aforementioned non-residential regulations and incentives, AECOM conducted a high-level assessment of a wide variety of policies and programs aimed at preventing commercial displacement. Factors to be evaluated for each policy/program include implementation examples, applicability to Boyle Heights, potential effectiveness to prevent commercial displacement, implementation partners and timelines.

Category	Policy	Example(s)	Applicability to Boyle Heights	Potential to Prevent Displacement	Implementation	Timeframe
Commercial Preservation	Technical & Merchandising Assistance	Portland Thriving Small Business Loan Program	High	Medium	Local, State	Short Term
	Relocation Assistance	CA HSR Uniform Relocation Assistance Program; Vancouver Commercial Tenant Assistance Program	High	Medium	Local	Medium
	Rent Control / Stabilization (Banned in California)	NYC Commercial Rent Stabilization (pending)	Not Applicable	Not Applicable	State	Long Term
	Affordable Workspace Requirements	London Boroughs of Hackney, Wandsworth, & Newham	High	Medium	Local	Medium Term
Community Ownership	Community Land Trusts (CLTs)	Fideicomiso Comunitario Tierra Libre	High	Medium	Local	Medium Term
	Cooperatives & Incubators	La Cocina Incubator Kitchen San Francisco	High	Medium	Local	Medium Term
Tenant Protections	Landlord/Tenant Mediation or Anti-Harassment	NYC Intro 851	Medium	Low	Local	Short Term
	Construction Disturbance Assistance	Twin Cities Central Corridor Business Assistance Program	Low	Medium	Local	Short Term
	Rental Assistance Programs	Oregon Commercial Rent Relief Program (COVID)	High	High	Local, State	Short Term
	Eviction Restrictions	Oakland Commercial Tenant Eviction Moratorium (COVID)	Medium	Low	Local, State	Medium Term
Local Hiring/Entrepreneurial Support	Local Training & Hiring Program	Skills for Life in Detroit	Medium	Medium	Local, Federal	Short Term
	Community Benefits Agreements	Detroit Community Benefits Ordinance	Medium	Low	Local	Short Term
Funding & Incentives	Capital Improvement Grants	Chicago's Small Business Improvement Funds	High	Medium	Local	Short Term
	Legacy Business Programs	Los Angeles Legacy Business Program	High	Medium	Local	Short Term
	Property Acquisition Funds	Minneapolis Northside Real Estate Revolving Loan Fund	Medium	Low	Local, State	Short Term
	Real Estate Transfer Taxes	Los Angeles Homelessness & Housing Solutions Tax	High	Low	Local	Short Term
	Real Estate Tax Abatements	Falls Church, VA Commercial Rehab Tax Abatement	Medium	Medium	Local	Medium Term
Place-Based Management	Business Improvement Districts (BIDs)	Greater Lincoln Heights BID	High	Medium	Local	Short Term
	Business Associations & Chambers of Commerce	Boyle Heights Chamber of Commerce	High	Low	Local	Medium Term
	Tax Increment Financing (TIF)	Chicago TIF Districts	Low	Medium	Local, State	Medium Term
	Enhanced Infrastructure Financing Districts (EIFDs)/Community Revitalization Authorities (CRIAs)	West Carson EIFD; Victorville CRIA	High	Medium	Local, State	Long Term
Planning & Zoning	Reduced Parking Minimums	King County's Right Size Parking Project	Medium	Low	Local	Short Term
	Permit & Entitlement Streamlining	TBD	Medium	Low	Local	Short Term
	Retail Tenant Size Limits	San Francisco Neighborhood Tenant Size Limits	High	Medium	Local	Short Term
	Change of Use Permitting	Seattle Small-Scale Commercial Pockets	High	High	Local	Long Term

Non-Residential Regulations & Incentives

Commercial Anti-Displacement

Technical & Merchandising Assistance

Technical assistance programs seek to provide training and connect business owners to key resources and services, such as business planning, taxes and accounting, license applications, marketing, legal advice, and financial counseling. These programs may be coupled with lending programs that offer discounted interest rates to those who participate in the training elements.



Implementation

- Often administered by business development entities, community organizations, or Community Development Financing Institutions (CDFIs) and other lenders
- Administrative entities should decide what types of businesses they seek to assist and tailor their program offerings accordingly



Strengths

- Builds long-term skills that are helpful to start or grow a business, generating income and wealth building opportunities for owners
- Breaks down barriers faced by BIPOC and immigrant business owners and helps to promote equitable outcomes



Challenges

- Skills do not inherently translate to funding for businesses unless these programs have integrated lending services
- Programs must employ highly skilled, multi-lingual staff which can be costly on an ongoing basis

Affordable Workspace Requirements

These programs are essentially the commercial equivalent of inclusionary housing, requiring new development projects to provide a specified amount of commercial space at below-market rents. Affordable spaces are often leased by a government-selected, non-profit “provider” entity that then subleases the space to targeted businesses for affordable rents.



Implementation

- Have not yet been adopted in the U.S., but would likely be best implemented at the neighborhood or local level at first
- Require effective coordination between City, provider entity, developers, and lenders to ensure success



Strengths

- Provides affordable commercial space for small and diverse businesses that could be at risk for displacement
- “Provider” middle-man protects developers from risks associated with prolonged vacancy of market rate spaces



Challenges

- Can be difficult to restrict eligibility of businesses to participate
- Affordable commercial rents likely need to be subsidized with market rate housing to ensure feasibility, so conflicts with inclusionary housing programs may arise

Non-Residential Regulations & Incentives

Commercial Anti-Displacement

Community Land Trusts (CLTs)

Commercial CLTs are typically non-profit entities whose purpose is to acquire, hold, and convey property to other entities for redevelopment. CLTs often target small, local businesses and convey land via a long-term ground lease at below-market rate prices, which helps to ensure affordability and combat displacement.

Implementation



- First step is establishing the CLT as a non-profit organization and engaging with local business owners
- CLT entity should have a mission that aligns with the planning and policy goals of the broader community

Strengths



- Combats gentrification and displacement pressures caused by private, profit-driven real estate speculation
- Can provide the means to development of cooperatives, incubators, or other affordable brick-and-mortar solutions

Challenges



- Require land to be available for acquisition and significant funding to acquire, develop, and/or maintain that land
- Require highly skilled staff or contractors to carry out property acquisition/disposition and asset management functions

Cooperatives & Incubators

Commercial cooperatives and incubators are similar strategies with unique approaches. Cooperatives are owned by their members, who often share common goals of community preservation. Incubators are owned by non-profits, universities, or private corporations. Both approaches often involve flexible leasing options and affordable rents relative to market rate commercial spaces.

Implementation



- These facilities may arise on their own if sufficient community support and capital exists, or they may need support from the City
- Most effective when sustainable funding mechanism exists, such as BID, TIF, or other designated fee/tax revenues

Strengths



- Provides more flexible and affordable commercial leasing options for businesses that may otherwise be vulnerable to displacement
- Most effective when they offer technical assistance programs and have industry-specific focuses (food, manufacturing, retail, etc.)

Challenges



- Require significant upfront capital funding and oftentimes ongoing subsidies to cover operating expenses
- Can be difficult to secure private financing due to unique business model

Non-Residential Regulations & Incentives

Commercial Anti-Displacement

Capital Improvement Grants (CIGs)

CIGs include a variety of programs aimed at providing funding (matching funds, loans, grants, etc.) for small business owners and/or commercial landlords to make improvements to their buildings. Such programs can target specific geographic areas (historic districts, neighborhoods, etc.) or types of improvements (facades, disaster resilience, energy efficiency, etc.).

Implementation



- Grant programs are often administered by local governments, community/economic development agencies, or BIDs
- Typically funded with general funds, state/federal grants, and/or other special tax mechanisms

Strengths



- Have potential to improve performance of business/property itself as well as adjacent business/properties, with catalyzing effects
- Most effective when paired with design and technical assistance programs or resources

Challenges



- Business owner must get approval from property owner, who may want to increase rent after the improvements occur
- Improvements may require permits, adherence to design standards, or other complex and costly processes

Legacy Business Programs

Legacy Business Programs are often implemented at the neighborhood or municipal level and are intended to support businesses that are critical to that jurisdiction's history and character. Such support can include grants, technical assistance, marketing and branding services, or other professional services to commercial landlords and/or small businesses themselves.

Implementation



- Often started by local governments and then administered by business associations or non-profit community organizations

Strengths



- Provides support for businesses that may otherwise be forced to close or relocate
- Targets small, local businesses with diverse ownership that are most vulnerable to displacement

Challenges



- Time, staffing, and language barriers can inhibit small business participation in these efforts
- Funding scarcity often means that demand exceeds supply, making business owners hesitant to waste their time with applications

Non-Residential Regulations & Incentives

Commercial Anti-Displacement

Real Estate Tax Abatements

Tax abatements, especially at the local level, often reduce or eliminate the property tax burden for qualifying commercial properties. These abatements are almost always temporary, lasting a few months or a few years. Many abatement programs have varying requirements related to tenant size/ownership, capital improvements to buildings, or other stipulations.



Implementation

- Must be enacted by local or state governments, who must weigh the costs and benefits of offering such incentives that may reduce funding streams for other things like schools or social services



Strengths

- Helps commercial landlords reduce the operating expenses of their properties, which can prevent future rent increases



Challenges

- Difficult to use at larger scales due to the drain it places on already-strained local government funding streams
- Can accelerate gentrification if they are not specifically targeted to small, local landlords and/or business owners
- Benefit to property owner, not necessarily to local business

Business Improvement Districts (BIDs)

These special taxing districts are unique from other taxing districts in that they impose an additional tax on themselves in order to fund public facilities, capital improvements, beautification, marketing, or other improvements and services. BIDs are similar to other mechanisms like Community Development Corporations and Community Improvement Districts.



Implementation

- BIDs are established by a vote of commercial property owners within the geographic district, with approval from local government
- State and local legislation often governs the process by which BIDs are formed and operated as quasi-public entities



Strengths

- Creates long-term, sustained funding mechanisms to achieve various community goals and promote growth and prosperity
- Allows the district to determine its own goals and priorities, while providing agency for local leaders to implement solutions



Challenges

- Requires support and buy-in of local business owners, which can be very difficult to achieve
- Support of business owners may be compromised over time as funding decisions are made that they may/may not agree with

Non-Residential Regulations & Incentives

Commercial Anti-Displacement

EIFD / CRIA

Enhanced Infrastructure Financing Districts (EIFDs) and Community Revitalization and Investment Authorities (CRIAs) are mechanisms of tax increment financing that permit jurisdictions finance a project by freezing base property taxes in the project's district and diverting increases in tax revenues anticipated as a result of the project's improvements from the jurisdiction to fund the project or repay bonds.

Implementation



- Jurisdictions must cede authority to oversee tax increment and bond issuance to state entity
- Requires 55% voter approval and allows for multiple public hearings before approval

Strengths



- Creates long-term funding mechanism to further a jurisdiction's goals
- Creates a fund to further multiple goals, including business development and affordable housing

Challenges



- Difficult to guide resources towards an individual project, most effective at large scale investment
- Complex financial arrangement that requires local voter approval, community hearings, and the issuing of public bonds.

Rental Assistance Programs

Rental Assistance Programs provide subsidies to small businesses that have experienced hardship associated with a historical event, such as the recent economic downturn caused by the COVID-19 pandemic. Jurisdictions are awarded federal grants through programs such as the American Rescue Plan Act (ARPA) that are distributed based on competitive bids.

Implementation



- Jurisdictions are awarded federal and state grants based on demonstrable impacts from wider economic events.
- Qualifying businesses apply through a competitive bid process to receive subsidies on rent or related businesses expenses.

Strengths



- Funds are funneled directly to business owners to pay expenses, benefiting both the business and the local landlord
- The process is relatively simple and transparent, encouraging participation and execution of grand monies.

Challenges



- Programs may be perceived to aid landlords more than small business owners
- Qualifications for competitive bid may preclude the businesses most in need of assistance.

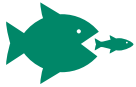
Non-Residential Regulations & Incentives

Tenant Size Limit

In general, the underlying rationale for retail tenant size limits are:



Protecting existing small businesses – Stores with a larger physical footprint tend to generate more sales, therefore consuming a larger share of the local retail market than their smaller counterparts. Although some of this spending could be net new spending if residents from surrounding areas are attracted, large stores tend to cause a decrease in sales at other smaller stores in their general vicinity.



Maintaining a healthy level of competition – Once the larger retailer has achieved a dominant market position over other smaller retailers in the area, some of these smaller retailers could be forced to close. This could allow the larger retailer to raise prices without the risk of losing market share, since it has eliminated some of its competition.



Promoting a more diverse mix of products, businesses, and owners – The majority of larger retailers are owned by national or global firms, meaning that much of the money spent at these establishments leaves the local economy. In general, limiting the footprint of retailers provides opportunities for local ownership and increases the likelihood that the products sold at such establishments will reflect the culture and history of the local area.



Improving land use sustainability – Retailers with a larger physical footprint tend to attract customers from a larger geographic area, increasing the chances that customers will drive cars instead of walking, biking, or using transit. From a land use perspective, having more smaller retailers is better than having fewer larger retailers if the goal is reducing the average distance customers must travel to get to the store.



Preserving local character – Larger footprint retail storefronts are often out of proportion with historical development patterns in established urban areas like Boyle Heights. Allowing larger stores often leads to such retailers demolishing multiple adjacent buildings in order to make way for a single, larger format building. Such redevelopment diminishes the historical character of the neighborhood and displaces existing businesses and residents.



Potential Risks – Local businesses could struggle to survive even after limits are enacted (especially if neighboring jurisdictions don't set limits), creation of food deserts if local grocers close and are not replaced, hindrance of job growth especially for working class residents, reduction or inhibition of sales or property tax revenue for local governments

Non-Residential Regulations & Incentives

Tenant Size Limit

For context, the table below shows the average physical footprint of various types of retailers, with examples of well-known national chains in each category.

Type of Retailer	Examples	Average Square Footage
Suburban Supermarket	Wal-Mart, Target	150,000 – 250,000
Home Improvement	Home Depot, Lowe's, Menards	100,000 – 150,000
Grocery Store	Ralph's, Vons, Whole Foods	50,000 – 100,000
Sporting Goods	Dick's, Academy, Nike Factory	30,000 – 80,000
Department Store	Kohl's, T.J. Maxx, Marshalls	30,000 – 60,000
Urban Supermarket	Wal-Mart, Target, Whole Foods	20,000 – 50,000
Pet Store	PetSmart, Petco	12,000 – 20,000
Pharmacy	Walgreens, CVS, Rite Aid	12,000 – 15,000
Specialty Grocery	Trader Joe's, ALDI	10,000 – 15,000
Dollar Store	Dollar General, Dollar Tree, Family Dollar	7,000 – 10,000
Fast Food	McDonald's, Taco Bell, Popeye's	3,000 – 5,000
Local Retailer	<i>Market Specific</i>	2,000 – 5,000
Coffee Shop	Starbucks, Dunkin'	1,500 – 2,500

Non-Residential Regulations & Incentives

Tenant Size Limit

In evaluating the feasibility of the 5,000 square foot cap within certain portions of Boyle Heights, AECOM began by profiling the existing businesses within Boyle Heights. Overall, 85% of the 386 retail establishments listed in Boyle Heights are estimated to be less than 5,000 square feet.

However, as shown in the table on the right, average establishment size varies significantly depending on the type of establishment. Many establishment types appear to be **"generally compatible"** with the 5,000 square foot cap, with average sizes of 2,000 square feet or smaller among existing Boyle Heights establishments. Some establishment types are **"somewhat compatible"** with the cap, with average sizes ranging from 2,500 square feet to 3,750 square feet – indicating that most establishments in these categories would comply but some may not.

And finally, some establishment types appear to be **"incompatible"** with the cap, with average sizes exceeding 5,000 square feet. This includes grocery stores and supermarkets, general merchandise stores, clothing stores, cosmetics and beauty stores, and some other types of establishments. These types of businesses would likely be prevented from opening new locations within the areas subject to the 5,000 square foot cap in Boyle Heights and would instead need to look within other areas designated for commercial/mixed uses.

Compatibility with Tenant Size Limit	NAICS Classification	# of Establishments	Estimated Avg Square Footage
Not Compatible	453310 Used Merchandise Stores	1	30,000
	443142 Electronics Stores	1	15,000
	445110 Grocery Stores & Supermarkets	25	14,950
	452319 General Merchandise Stores	18	13,264
	4481XX Clothing Stores	51	8,451
	424810 Beer Wholesalers	1	7,500
Somewhat Compatible	446120 Cosmetics & Beauty Stores	4	5,688
	711110 Theater Companies & Dinner Theaters	1	3,750
	713940 Fitness & Recreational Centers	1	3,750
	448210 Shoe Stores	5	3,450
	451110 Sporting Goods Stores	3	3,417
	444130 Hardware Stores	2	2,875
	811192 Car Washes	7	2,750
Generally Compatible	445120 Convenience Stores	10	2,625
	72251X Restaurants	120	2,538
	611691 Exam Preparation & Tutoring	1	2,000
	722410 Bars & Drinking Places	2	2,000
	453920 Art Dealers	8	1,688
	311811 Retail Bakeries	6	1,667
	447190 Gas Stations	14	1,589
	517312 Wireless Telecommunications Carriers	11	1,295
	453110 Florists	11	1,091
	722515 Snack & Beverage Establishments	18	1,083
	8111XX Auto Body, Paint, Repair	22	864
	81211X Beauty, Barber, & Nail Salons	33	826
445310 Alcohol Stores	4	750	
453220 Gift, Novelty, & Souvenir Stores	3	750	
812910 Pet Care Services	1	750	

Non-Residential Regulations & Incentives

Tenant Size Limit

Numerous counties, municipalities, and neighborhoods have implemented retail tenant size limits over the course of the past several decades. The table on the right shows many of these examples, focusing on policies that set caps at or below 60,000 square feet.

City and countywide ordinances are typically aimed at preventing suburban-style big box retailers and national chains, setting caps between 25,000 and 100,000 square feet.

Neighborhood or corridor-level policies, like what is proposed in the BHCPU, are a more targeted approach in which stricter size limits (10,000 square feet or less) can be justified given the smaller geographic area. These types of regulations have been implemented in places like San Francisco’s North Beach, Castro Street, and West Portal Avenue neighborhoods; Downtown Mendon and Victor, New York; and Kansas City’s Brookside Business District. Care should be taken when crafting such ordinances to ensure that community benefits are balanced with risks. Many of these policies allow for flexibility on a case-by-case basis, such as:

- **Exceptions for Use Types:** exceptions or looser restrictions for certain desirable uses such as grocery stores, childcare, educational facilities, religious facilities, social services, philanthropic entities, non-profit entities, etc.
- **Loopholes:** processes that allow for conditional circumvention of size limits, such as conditional use applications or appeals processes
- **Additional Regulations:** additional regulations beginning at a smaller size threshold than the outright limit shown on the right - for example, a city may have a limit of 100,000 SF but begin imposing additional development standards/design guidelines at 50,000 SF

The map on the following page shows a complete list of jurisdictions within the continental U.S. that have enacted such policies.

Location	Applicable Jurisdiction	Commercial Limit
San Francisco, CA	North Beach Neighborhood	4,000
San Francisco, CA	Castro Street Neighborhood	4,000
San Francisco, CA	West Portal Avenue Neighborhood	4,000
Mendon, NY	Downtown / Business District	5,000
Powell, OH	Citywide	10,000
Victor, NY	Downtown / Business District	10,000
Kansas City, MO	Brookside Business District	10,000
Southampton, NY	Citywide	15,000
Guilford, CT	Citywide (Varies)	15,000 - 60,000
Warner, NH	Citywide	20,000
Mequon, WI	Citywide	20,000
British Columbia, Canada	Sunshine Coast Regional District	25,000
San Francisco, CA	Regional Commercial District	25,000
Boxborough, MA	Citywide	25,000
Old Saybrook, CT	Citywide (Varies)	25,000 - 88,000
Hailey, ID	Citywide	36,000
Exeter, RI	Citywide	40,000
North Elba, NY	Citywide	40,000
Walpole, NH	Citywide	40,000
Ashland, OR	Citywide	45,000
Charlevoix, MI	Citywide	45,000
Homer, AK	Citywide	45,000
Skaneateles, NY	Citywide	45,000
Mt. Shasta, CA	Citywide	50,000
Lincoln City, OR	Citywide	60,000
Milford Township, PA	Citywide	60,000
Cottage Grove, WI	Citywide	60,000
Agoura Hills, CA	Citywide	60,000
Neptune Beach, FL	Citywide	60,000
Warwick, NY	Citywide	60,000
Westford, MA	Citywide	60,000
Tuolumne County, CA	Countywide	60,000

Residential Regulations & Incentives

Site Plan Review Threshold

As shown below, the entitlements process for the City of Los Angeles has three different pathways. Site Plan Review is usually a part of the Discretionary pathway:

Entitlement Pathway	Trigger	Requirements	Speed
By-Right / Ministerial	Compliance with zoning code and development standards	By-Right / Ministerial approvals	Days
Administrative	Compliance with zoning code and development standards but subject to Plan Overlay (i.e., Boyle Heights CPIO)	Administrative approvals	Weeks
Discretionary	Non-compliance with zoning code or development standards, or specific trigger (size, use, location, etc.)	Discretionary approvals, site plan review , environmental analysis, & public hearing	Months or Years

On average, Administrative approvals were issued within 13 days of submission – 14.7 times faster than the average time required for a Discretionary approval which takes 6 months or longer. Site Plan Review is part of the reason for that significant time delay, especially if the first submission is denied and subsequent Reviews are required. According to Los Angeles Municipal Code Chapter 1, Article 6.1, Section 16.05, the City of Los Angeles currently requires a Site Plan Review for “any development project which creates, or results in an increase of, 50 or more dwelling units or guest rooms, or a combination thereof.” The scope of this study includes evaluating a proposal to increase the Site Plan Review threshold mentioned above from 50 to 100 units. In particular, the City of Los Angeles seeks to understand how this could impact the feasibility of new housing development projects.

Entitlement approvals processes, of which Site Plan Review is a part, can cause significant time delays for housing development projects. These delays add uncertainty to development timelines, can force the project to incur additional staff and professional fee costs, and can increase the project’s holding costs during the waiting period. Numerous plans and studies have cited the time delays caused by such entitlement processes as a contributor to rapid housing development cost increases, and several pieces of federal, state, and local legislation have aimed to remedy this issue. When the cost to develop housing increases for the developer, so too does the cost to rent or purchase that housing for residents upon its completion.

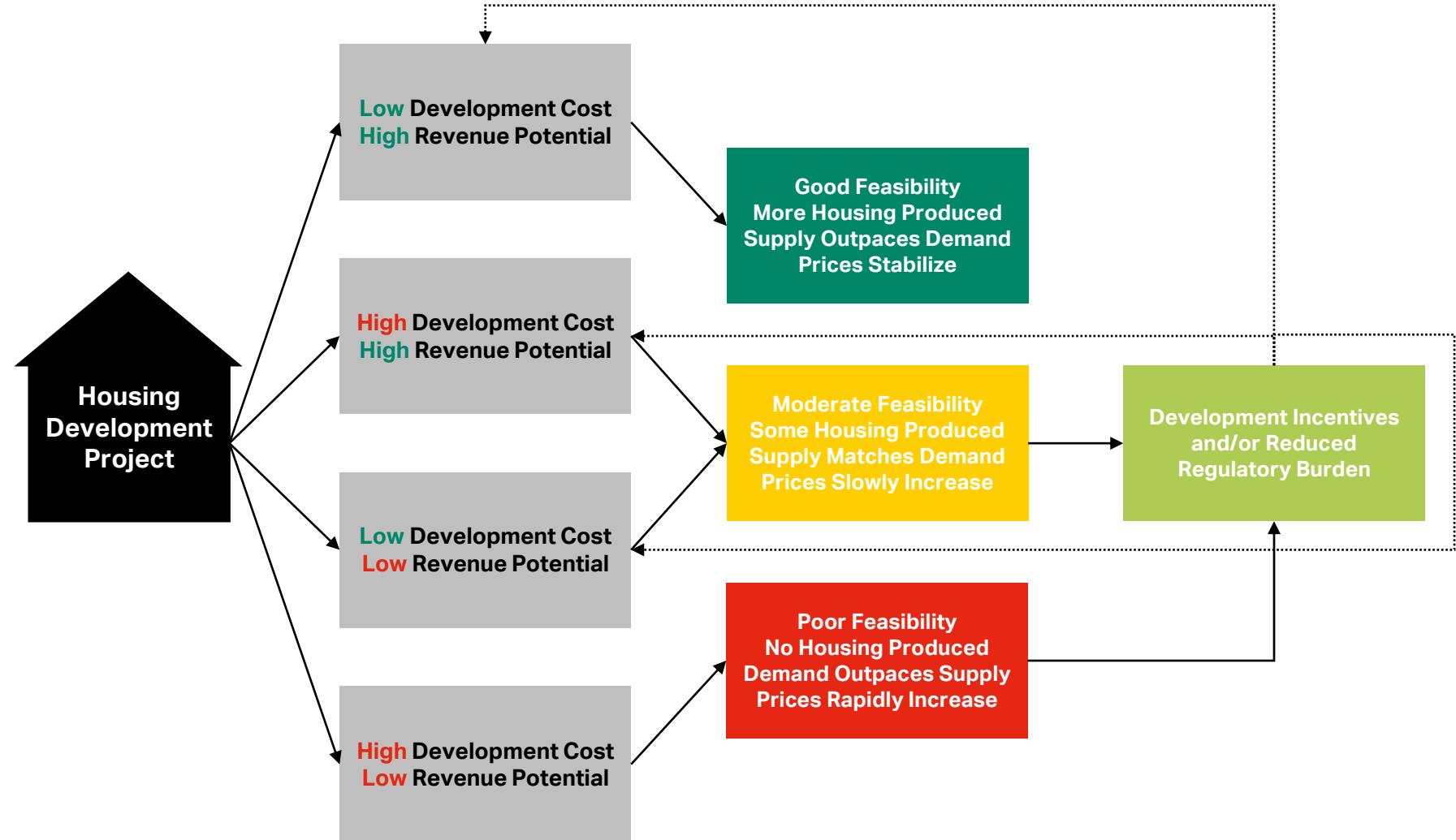
Residential Regulations & Incentives

Site Plan Review Threshold

The general rationale underlying the proposal to increase the size threshold for Site Plan Review is simplified in the flowchart on the right. A housing development project must reach a certain balance between development costs and revenue potential in order to achieve feasibility and get built.

When too many projects are falling into the poor and moderate feasibility categories, an insufficient amount of new housing is produced. In a market like Los Angeles with strong housing demand, this results in a housing shortage, which causes prices throughout the market to increase. Households that can pay the highest price will get the unit, while others are priced out.

In order to remedy the shortage, more housing must be produced by shifting projects from the red to yellow or yellow to green feasibility categories. Local governments can achieve this by offering development incentives (such as the Density Bonus, TOC, and those envisioned in the BHCPU) and/or reducing the regulatory burden (such as raising the size threshold for Site Plan Review).



Residential Regulations & Incentives

Community Benefits Program

The BHCPU's Community Benefits Program (CBP) contains residential incentives that go beyond those offered under existing incentive programs like the State Density Bonus Law and the City's Transit-Oriented Communities program.

This approach promotes housing affordability more strongly than existing incentives by 1) permitting higher densities and 2) requiring additional affordable units as a part of that increased density.

The table below shows how these incentives compare for a hypothetical Boyle Heights site. CBP permits higher FAR, maximum floor area, and residential density while eliminating parking minimums. To access these incentives, developers must include more affordable units and at least 30% of units must include 2 or more bedrooms.

The feasibility of the CBP will be analyzed in the following section.

Incentive Program Comparison Example				
	Base Zoning	State Density Bonus Law (SDBL)	Transit-Oriented Communities (TOC)	BHCPU Community Benefits Program (CBP)
Affordability Requirements <i>% of project's total units</i>	N/A	Extremely Low Income: N/A Very Low Income: 11% Lower Income: 20%	Extremely Low Income: 10% Very Low Income: 14% Lower Income: 23%	Acutely Low Income: 10% Extremely Low Income: 11% Very Low Income: 15% Lower Income: 25%
Maximum Floor to Area Ratio <i>building area / lot area</i>	1.50	3.00	3.75	4.00
Maximum Floor Area <i>square feet</i>	30,000	60,000	75,000	80,000
Density Bonus <i>% increase from Base</i>	N/A	35%	70%	80%
Maximum Density <i>total # of residential units</i>	50	68	85	90
Affordable Units Produced <i># of very low/ low income units</i>	0	6 - 10	12 - 20	14 - 23
Minimum Parking Ratio <i>stalls per residential unit</i>	0.25	0.25	0.25	0
Parking Minimum <i># of stalls</i>	13	17	22	0

Assumptions: 20,000 SF site with zoning [LM6-SH3-4][CX2-4] in a Tier 3 TOC area

Residential Regulations & Incentives

Site Plan Review Threshold

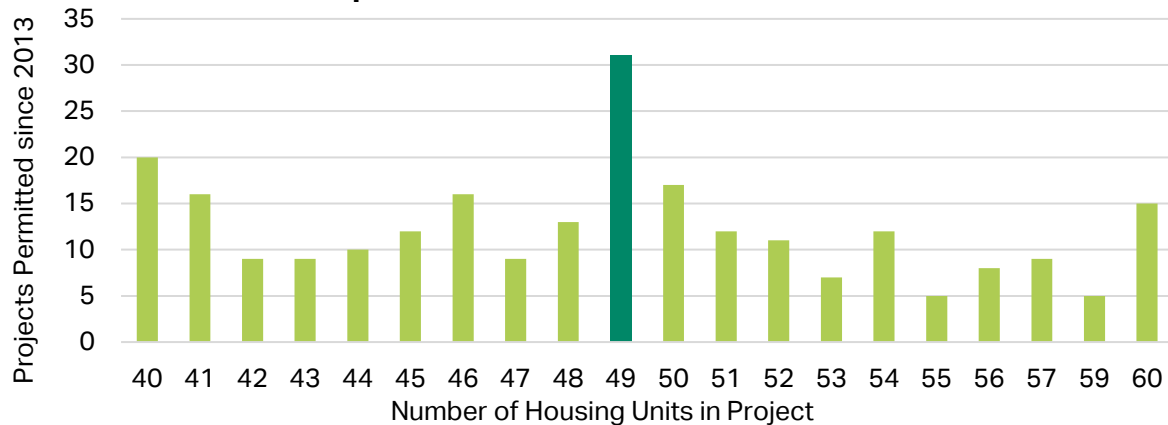
Several of the Development Prototypes envisioned within this Study would fall below the current 50-unit threshold in their “Base” scenario (therefore avoiding the Site Plan Review trigger) but would exceed the threshold in the “Bonus” scenario (therefore triggering Site Plan Review). This could reduce the attractiveness of the development incentives in the Boyle Heights Community Benefits Program (“Bonus” scenario) and may cause developers to choose to choose the “Base” scenario instead, reducing the overall number of market rate units produced and eliminating any production of affordable units within the project.

As shown below, there is evidence that some developers will build 49-unit projects to avoid triggering Site Plan Review, even when the site’s size and zoning regulations would allow for more. This results in less housing production overall as well as higher per-unit acquisition and construction costs as shown on the bottom right, making housing less affordable overall. This data suggests that per-unit hard costs for 90-99 unit projects have been 11% less, on average, than that of 40-49 unit projects. Raising the threshold from 50 to 100 units would likely cause developers to build more units per project, increasing housing production and improving affordability.

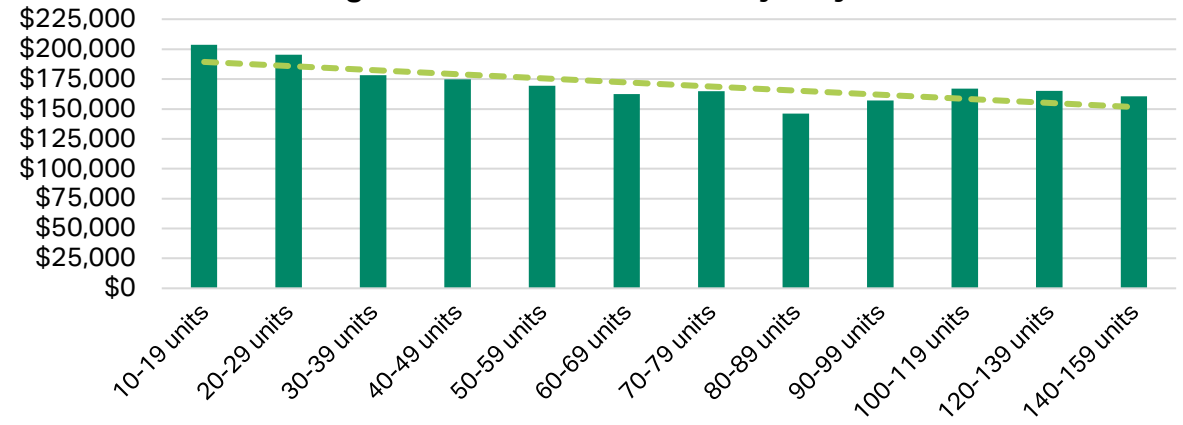
Given that the Site Plan Review size threshold is relatively arbitrary, it seems unlikely that the increased unit counts in the “Bonus” scenarios alone would cause negative externalities significant enough to justify the increased time and costs associated with Site Plan Review. To be clear, these additional costs and delays are shouldered by both the developer (who is paying staff to prepare the Review submission) and the City (who is paying staff to evaluate the Review submission).

The overwhelming consensus of literature on this subject recommends pursuing any and all reasonable measures to reduce time delays associated with entitlement processes in order to counteract further increases in development costs, and therefore improve housing production and affordability overall.

Impact of Site Plan Review Threshold



Average Permit Valuation / Unit by Project Size



Regulations & Incentives

Key Findings

The key findings of this section, as pertaining to the proposed policies' impact on the feasibility of new development in Boyle Heights, are as follows:

- **Fire District 1 Expansion:** The strict building standards imposed by Fire District 1 would likely result in **construction cost increases**, which would have a **detrimental impact on the economic feasibility of new development projects** in Boyle Heights. Some projects that are feasible under current conditions could be rendered infeasible if required to adhere to Fire District 1 standards.
- **Commercial Anti-Displacement:** There are a wide variety of policies that have been contemplated to prevent commercial displacement in Boyle Heights. The matrix summarizes the applicability and potential impact for the Boyle Heights CPA. Programs assessed to be, "High," in both categories are the most likely to protect local businesses and prevent their dislocation. Several of these programs already exist in the City of Los Angeles. Increased information about and assess to these programs could benefit local businesses and the community at large.
- **Retail Tenant Size Limit:** The proposed 5,000 square foot commercial cap would exclude big-box stores and other "category killers" that often outcompete "Main Street" retail. However, the cap **may also exclude several desirable retail categories** that typically operate at that scale or greater. These include grocery stores, general merchandise stores, clothing stores, and cosmetics/beauty stores. Best practice implementation of the cap suggests that **exceptions for certain use types should be made** to not exclude desirable uses such as grocery stores, childcare, educational facilities, religious facilities, social services, philanthropic entities, and non-profit entities.
- **Community Benefits Program (CBP):** The CBP **promotes housing affordability more strongly than existing incentives** like the State Density Bonus and Transit-Oriented Communities program by 1) permitting higher densities and 2) requiring additional affordable units as a part of that increased density. Due to the number and complexity of provisions included within the CBP, its feasibility impacts are assessed in the following section.
- **Site Plan Review (SPR) Threshold:** There is evidence that **some developers have built 49-unit projects to avoid triggering SPR**, even when the site's size and zoning regulations would allow for more. Given that the threshold is relatively arbitrary, it is unlikely that increasing the threshold from 50 to 100 units would cause negative externalities significant enough to justify the increased burdens of SPR. The **overwhelming consensus of literature** on this subject recommends pursuing any and all reasonable measures to **reduce time delays** associated with entitlement processes in order to counteract further increases in development costs, and therefore **improve housing production and affordability** overall.

Development Prototypes & Feasibility



Development Prototypes & Feasibility

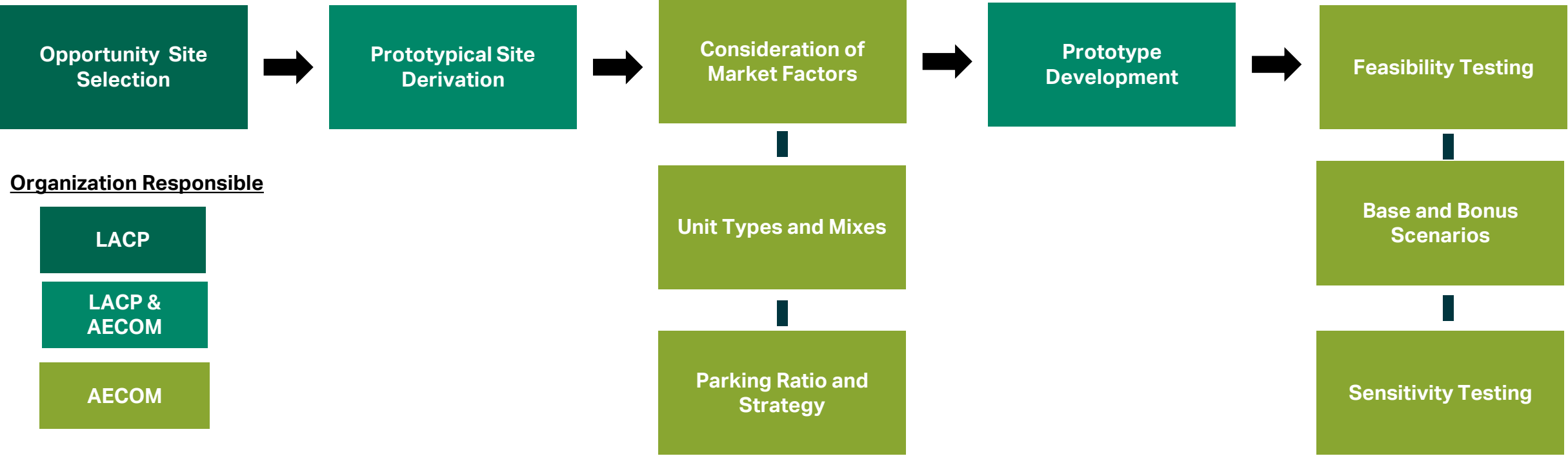
Analytical Process

In order to evaluate the feasibility of development incentives established within the BHCPU and test calibration with current market conditions in Boyle Heights, AECOM analyzed a set of representative Development Prototypes under different incentive scenarios.

As a foundation of this analysis, the City provided an initial list of opportunity sites within the CPA, which AECOM sorted into categories based on shared traits. From these, AECOM derived four representative prototype sites differing primarily in terms of lot size, allowable uses, and allowable density.

The prototypes were based on the proposed zoning codes in the BHCPU with modifications to accommodate market forces, including unit types, unit mixes, and parking scenarios.

The prototypes were then tested for development feasibility under all-market-rate (base case) scenarios and in bonus scenarios that utilize the incentive density bonuses proposed in the draft BHCP. Finally, further testing was conducted to explore the sensitivity of different scenarios to variables such as affordable housing set-aside percentage, market rate rents, alternative affordable rents, construction costs, and parking provision.



Development Prototypes & Feasibility

Parking Scenarios

The number of parking stalls to include in a new development is contingent on several variables and considerations. Parking is expensive to construct but also adds value to the development. The City's zoning codes indicate how many stalls must be included based on land use designation and proximity to transit access, as well as the number of bedrooms per dwelling unit and square footage of commercial space. While the proposed Community Benefits Program allows for new development to exclude all parking requirements, market analysis of residential and mixed-used development and conversations with both City staff and stakeholders in the development community suggested that no-parking scenarios were highly unlikely for market-rate residential development. Based on this analysis and feedback, AECOM developed two sets of prototypical developments for each of the four sites:

- **Full Parking** – 1 parking stall per dwelling unit and 1 parking stall per 1,000 SF of commercial space (although this varies depending on the commercial use). This results in a parking ratio of between 1.0 and 1.3 stalls/unit and has wide market-validated support in comparable projects. This parking ratio is maintained for both the Base and Bonus scenarios.
- **Reduced Parking** – Between 0.25 to 0.5 parking stalls per unit and between 0.75-1.5 parking stalls depending on requirements of the zoning code according to the table below. These ratios were maintained for both the Base and Bonus scenarios. This parking ratio also has precedent in the comparable projects.

Base Case Required Parking Minimums		
	Development Standards District	
	District 3	District 4
Residential (stalls per unit)		
Studio	0.50	0.25
1 bedroom	0.50	0.25
2 bedroom	0.50	0.25
3 bedroom	0.50	0.25
Commercial (stalls per 1,000 SF)		
	1	0.5
Parking Structure Design		
Primary St	Wrapped	Wrapped
Side St	Screened	Wrapped

Recent MF Projects from Nearby Areas				
Project	Units	Avg SF	Parking Stalls	Parking Ratio
Full Parking Projects				
695 S Santa Fe Ave Arts District	320	879	390	1.22
849 N Bunker Hill Ave Chinatown	37	1170	38	1.03
905 E 2nd St Little Tokyo	320	1170	350	1.09
Reduced Parking Projects				
691 Mill St. Little Tokyo	57	1150	27	0.47
930 E 3rd St. Arts District	472	858	200	0.42
900 N Broadway Chinatown	238	879	60	0.25

Source: Costar, AECOM

Development Prototypes & Feasibility

Prototype Summary: Full Parking Scenario

LACP provided an initial list of 17 opportunity sites within the CPA, which AECOM sorted into four categories based on shared traits. From these, AECOM derived four representative prototype sites differing primarily in terms of lot size, allowable uses, and allowable density.

AECOM developed four series of prototypes with the following designations – **Small Lot Mixed Use, Large Lot Mixed Use, Small Lot Multifamily, Large Lot Multifamily**. Each prototype has several iterations depending on parking ratio and strategy that could apply to the development to understand the impact of parking on design, massing, and development feasibility.

For each site, AECOM developed a residential land use prototype. The prototypes are based on recently constructed (i.e., market-validated) precedents found elsewhere in the greater market area. Notably, these precedents are fully parked. The prototypes are further configured to maximize the physical building envelope within assumed regulatory constraints.¹

Each prototype features a “Base” scenario reflecting all regulations applicable under the base zoning code and a “BHCPU Bonus” scenario that utilizes the Local Affordable Housing Incentive Program outlined in LAMC CH 1A Section 9.3.2 and the BHCPU Community Benefits Program. Key findings from these analyses are summarized on the following pages.

Site and Land Use Assumptions				Assumed Zoning Classifications						FAR				Density (DU/AC)				Parking Ratio (Stalls/DU)			
Proto- type	Use	Retail Space	Lot Size	Form	Frontage	Develop- ment Standards	Use	Density	TOC	Base Maximum	Base Tested*	Max BHCPU Bonus	Bonus Tested*	Base Maximum	Base Tested*	Max BHCPU Bonus	Bonus Tested *	Base Required	Base Tested*	BHCPU Bonus	Bonus Tested *
1	Small Lot Mixed Use	2,000	15,000	LM6	SH3	4	CX2	4	Tier 3	1.5	1.5	4.0	4.0	108	64	194	180	0.35	1.1	0	1.1
2	Large Lot Mixed Use	5,000	32,000	LM6	SH3	4	CX2	4	Tier 3	1.5	1.5	4.0	4.0	108	63	194	180	0.32	1.3	0	1.0
3	Large Lot Multifamily	0	23,000	LM4	G2	3	CX2	4	Tier 3	1.5	1.5	3.0	3.0	108	70	194	140	0.5	1.3	0	1.0
4	Small Lot Multifamily	0	13,000	VN2	MU3	3	RX2	8	Tier 2	1.0	1.0	1.5	1.5	54	47	90	70	0.5	1.0	3	1.0

*AECOM developed physical test-fit models for each prototype based on site and market parameters and attempted where physically possible to meet the maximum allowable thresholds for both Base and Density Bonus Scenarios

Development Prototypes & Feasibility

Prototype 1: Small Lot Mixed-Use

Base Scenario

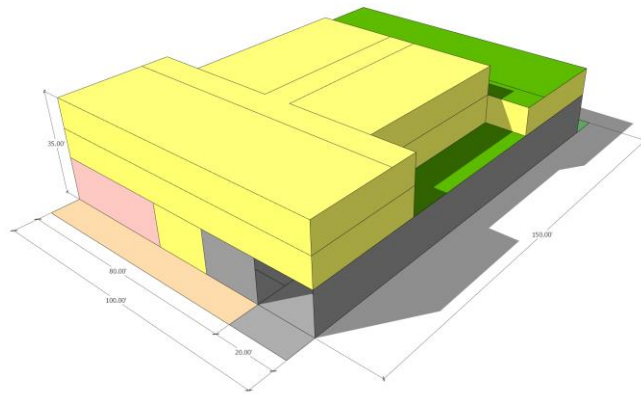
FAR: 1.5
Density (Lot SF/Unit): 682
Units: 22
Residential GFA: 20,800 SF
Commercial GFA: 2,000 SF
Parking: 24 spaces (1/ unit + 2 commercial)
Parking Strategy: Structure and Subterranean

Assumptions

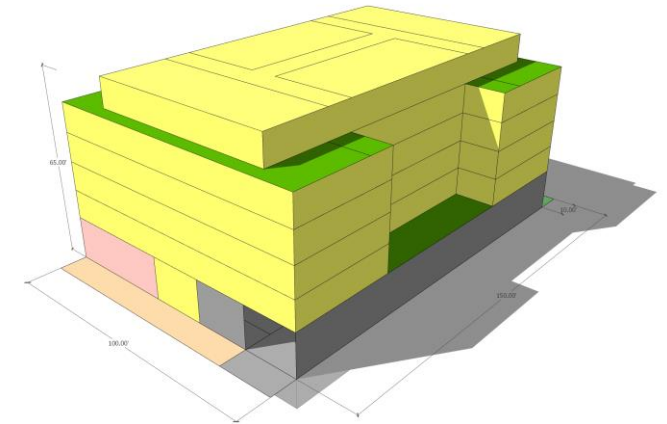
Zoning: [LM6-SH3-4] [CX2-4]
Lot Size: 15,000 SF
Lot Dimensions: 100 x 150 ft

Bonus Scenario

FAR: 4.0
Density (Lot SF/Unit): 242
Units: 62 (6-16 Affordable)
Residential GFA: 58,000 SF
Commercial GFA: 2,000 SF
Parking: 68 spaces (1/ unit + 4 commercial)
Parking Strategy: Structure and Subterranean



- Residential
- Commercial
- Parking
- Setback
- Open Space
- Sidewalk



Development Prototypes & Feasibility

Prototype 2: Large Lot Mixed use

Base Scenario

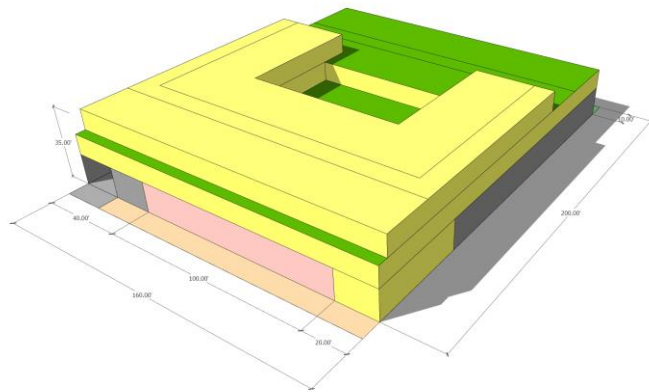
FAR: 1.5
Density (Lot SF/Unit): 696 SF
Units: 46
Residential GFA: 43,00 SF
Commercial GFA: 5,000 SF
Parking: 57 spaces (1/ unit + 9 commercial)
Parking Strategy: Structure

Assumptions

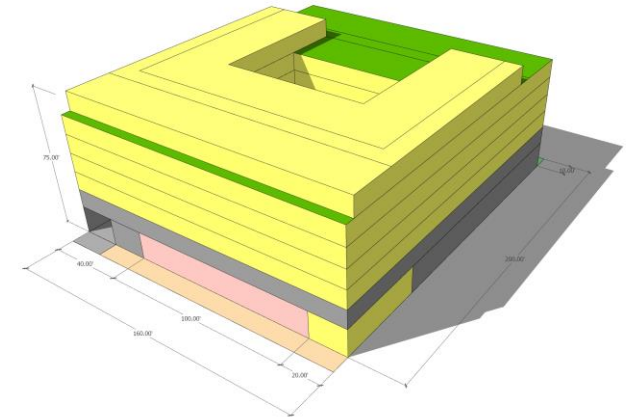
Zoning: [LM6-SH3-4] [CX2-4]
Lot Size: 32,000 SF
Lot Dimensions: 160 x 200 ft

Bonus Scenario

FAR: 4.0
Density (Lot SF/Unit): 242
Units: 132 (13-33 Affordable)
Residential GFA: 123,000 SF
Commercial GFA: 5,000 SF
Parking: 137 spaces (1/ unit + 5 commercial)
Parking Strategy: Structure



- Residential
- Commercial
- Parking
- Setback
- Open Space
- Sidewalk



Development Prototypes & Feasibility

Prototype 3: Large Lot Multifamily

Base Scenario

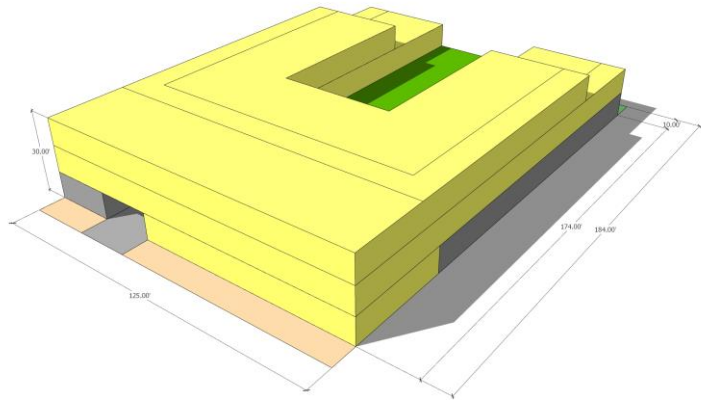
FAR: 1.5
Density (Lot SF/Unit): 622
Units: 37
Residential GFA: 34,500 SF
Commercial GFA: 0 SF
Parking: 48 spaces (1.3 / unit)
Parking Strategy: Structure

Assumptions

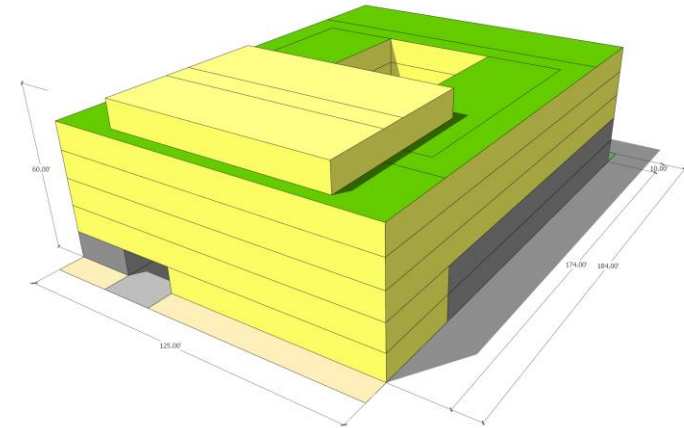
Zoning: [LM4-G2-4] [CX2-4]
Lot Size: 23,000 SF
Lot Dimensions: 125 x 184 ft

Bonus Scenario

FAR: 3.0
Density (Lot SF/Unit): 311
Units: 74 (7-19 Affordable)
Residential GFA: 68,930 SF
Commercial GFA: 0 SF
Parking: 75 spaces (1 / unit)
Parking Strategy: Structure



- Residential
- Commercial
- Parking
- Setback
- Open Space
- Sidewalk



Development Prototypes & Feasibility

Prototype 4: Small Lot Multifamily

Base Scenario

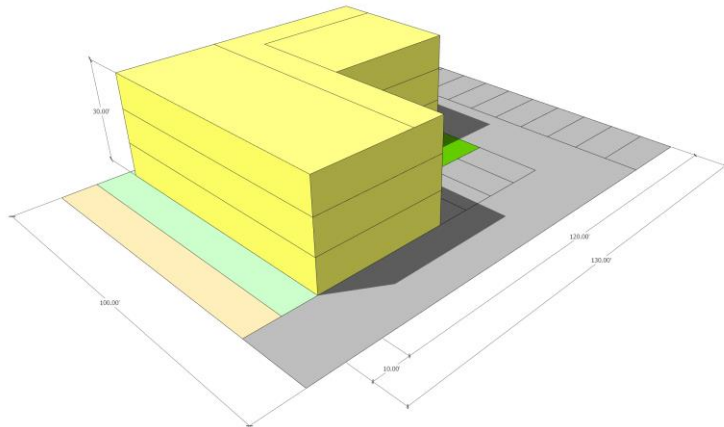
FAR: 1.0
Density (Lot SF/Unit): 929
Units: 14
Residential GFA: 13,033 SF
Commercial GFA: 0 SF
Parking: 14 spaces (1 / unit)
Parking Strategy: Surface

Assumptions

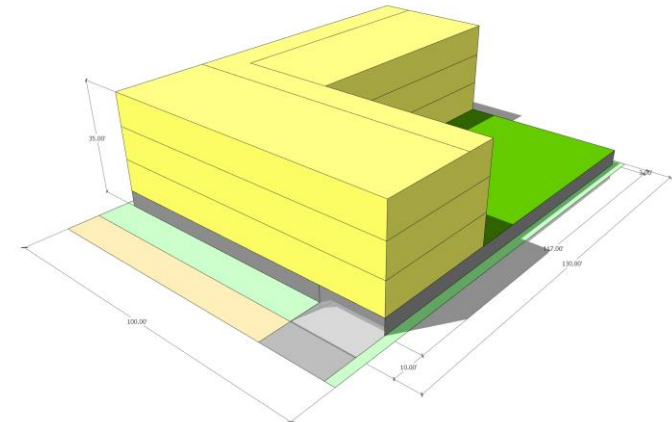
Zoning: [VN2-MU3-3] [RX2-8]
Lot Size: 13,000 SF
Lot Dimensions: 100 x 130 ft

Bonus Scenario

FAR: 1.5
Density (Lot SF/Unit): 619
Units: 21 (2-5 Affordable)
Residential GFA: 19,600 SF
Commercial GFA: 0 SF
Parking: 22 spaces (1 / unit)
Parking Strategy: ½ Subterranean



- Residential
- Commercial
- Parking
- Setback
- Open Space
- Sidewalk



Development Prototypes & Feasibility

Methodology

AECOM carried out pro-forma financial analysis to test the development feasibility of the four prototypes shown on the previous pages. The feasibility analysis is based on a static pro-forma model, which simulates the economic conditions a developer would consider in deciding whether to pursue a project. The model includes typical direct and indirect costs a developer would incur, market revenue potential, and a standard rate of return a developer would expect as compensation. Total estimated projects costs are subtracted from estimated project value to arrive at a net residual land value. If residual land value is positive and high enough to pay for land at current market rates, the project is considered financially feasible. The approach generates a broad estimate of development feasibility, which is acceptable for planning level analysis.

Residual Land Value Feasibility Analysis



Development Prototypes & Feasibility

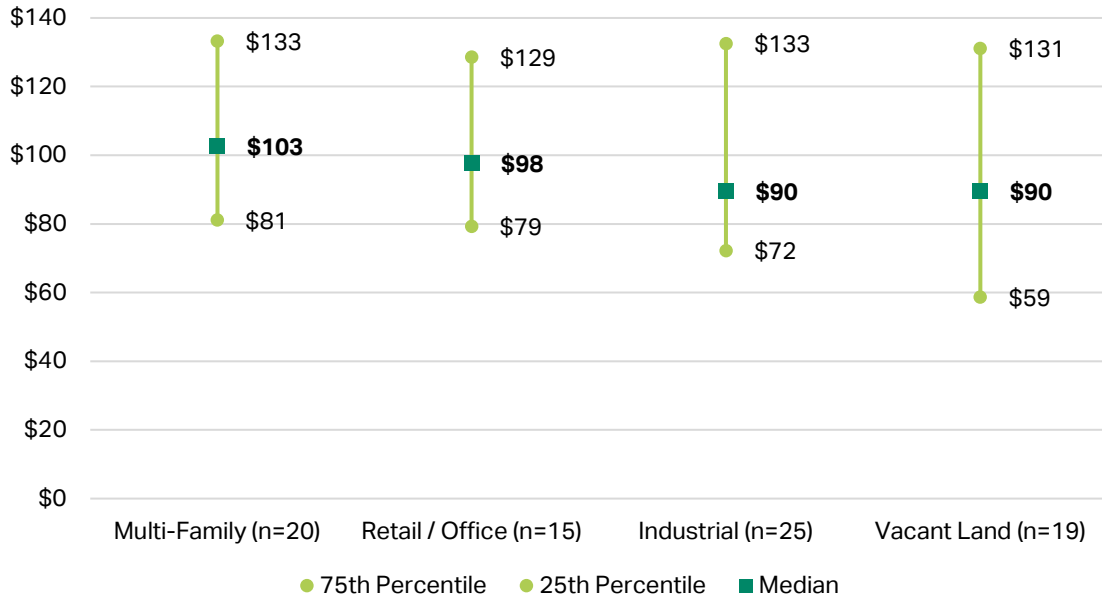
Market Land Value Assumptions

For a project to be feasible as tested, estimated residual land value must be compared to the market value of the land. A feasible project generates a value that is high enough to acquire the land.

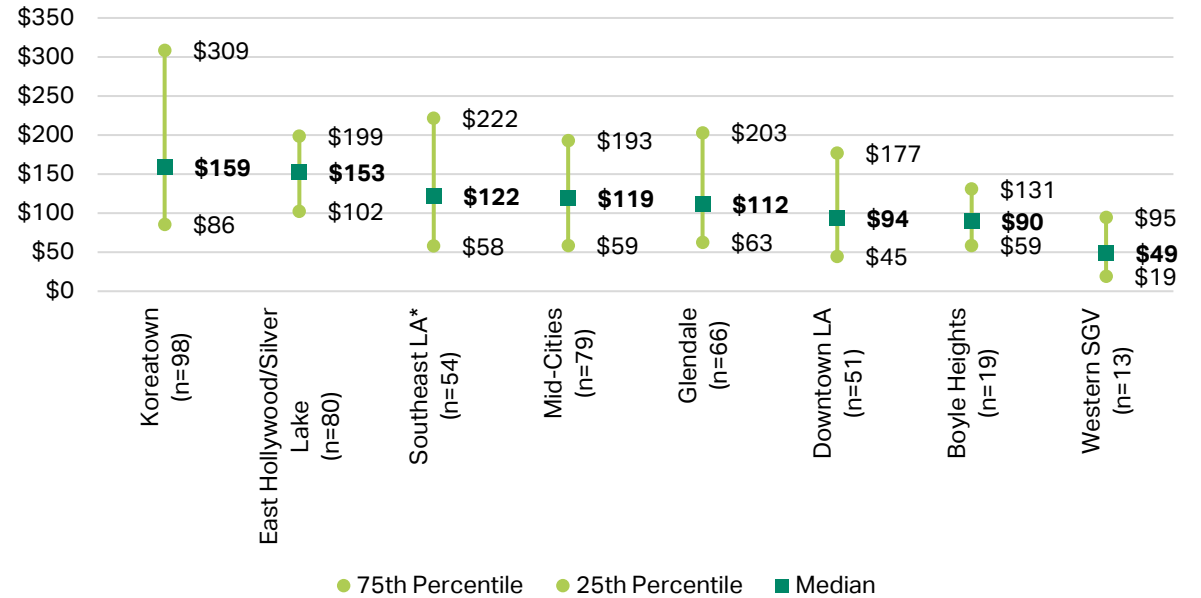
An analysis of recent land transactions in Boyle Heights indicates a land value range from \$133 per land square foot at the 75th percentile to \$59 per square foot at the 25th percentile

AECOM also considered land transactions in nearby sub-areas and found an even greater range of land value from \$309 per square foot at the 75th percentile in Koreatown to \$19 per square foot at the 25th percentile in Western SGV

Sales Prices per SF in Boyle Heights



Land Prices per SF Based on Recent Market Transactions



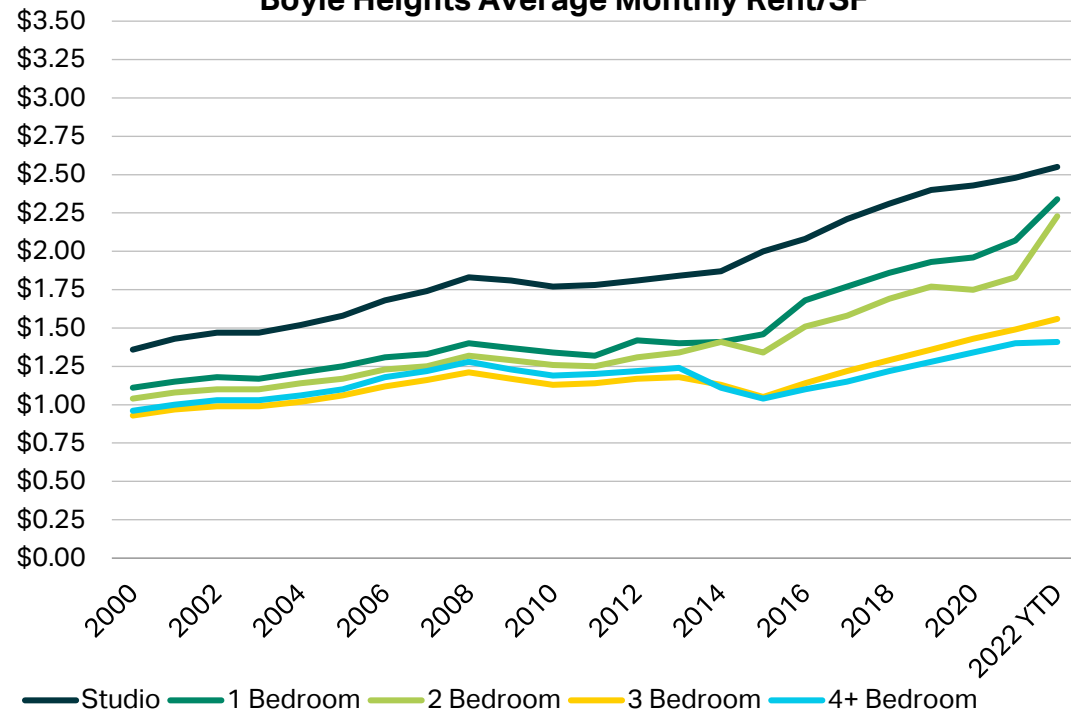
Development Prototypes & Feasibility

Market Rate Rent Assumptions

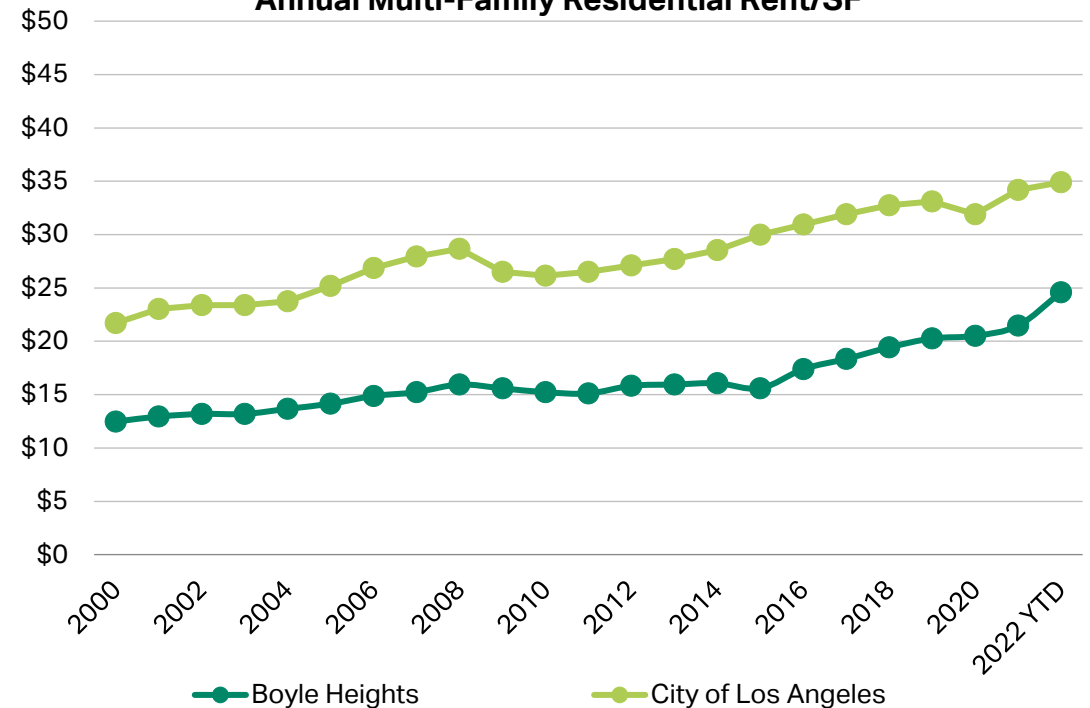
Housing rents in Boyle Heights are lower than citywide averages but are growing at a faster rate, increasing by 97% since 2000 compared to 61% citywide.

Current average market rate rents in Boyle Heights are 65%-75% of the city-wide average depending on the unit type

Boyle Heights Average Monthly Rent/SF



Annual Multi-Family Residential Rent/SF



Development Prototypes & Feasibility

Market Rate Rent Assumptions

To test the feasibility of the Community Benefits Program, AECOM modelled three different sets of market rate rents:

- **Low:** Based on current average rent/SF by unit type in the Boyle Heights CPA. The "low" rent assumption is supportable by a household income of \$99,000 (20% of BH CPA).
- **Medium:** Based on comparable market rate projects in adjacent neighborhoods with a 65%-75% discount by unit type derived from historical trends. The "medium" rent assumption is supportable by a household income of \$125,000 (13% of BH CPA).
- **High:** Based on grossing up the Medium rents by 10% as developments begin to achieve comparable rents to the market rate comps. The "high" rent assumption is supportable by a household income of \$138,000 (10% BH CPA).



Recent MF Projects from Nearby Areas (Basis for "Medium" Rent Assumptions)						
Project	Unit Type	Units	% Total	Avg SF	Rent/Unit	Rent/SF
695 S Santa Fe Ave Arts District	Studio	80	25%	660	\$2,889	\$4.38
	1BR	194	61%	846	\$3,526	\$4.17
	2BR	46	14%	1338	\$4,852	\$3.63
	<i>Total/Avg</i>	320		879	\$3,557	\$4.09
930 E 3rd St. Arts District	Studio	73	15%	571	\$2,853	\$5.00
	1BR	316	67%	855	\$3,724	\$4.36
	2BR	83	18%	1119	\$4,670	\$4.17
	<i>Total/Avg</i>	472		858	\$3,756	\$4.38
905 E 2nd St Little Tokyo	Studio	78	24%	494	\$2,370	\$4.80
	1BR	179	56%	732	\$3,409	\$4.66
	2BR	63	20%	1033	\$3,736	\$3.62
	<i>Total/Avg</i>	320		1170	\$3,220	\$3.92
232 E 2nd St Little Tokyo	Studio	51	21%	550	\$2,232	\$4.06
	1BR	112	47%	715	\$2,837	\$3.97
	2BR	77	32%	1143	\$3,793	\$3.32
	<i>Total/Avg</i>	240		817	\$2,951	\$3.61
1836 Sichel St Lincoln Heights	3BR	27	100%	1044	\$2,707	\$2.59
Average	Studio		22%	569	\$2,586	\$4.56
	1BR		58%	787	\$3,374	\$4.29
	2BR		21%	1158	\$4,263	\$3.68
	3BR		NA	1044	\$2,707	\$2.59

Source: Costar, AECOM 2022

Rent/Unit Assumptions			
	Low	Medium	High
Studio	\$1,275	\$1,550	\$1,722
1BR	\$1,544	\$1,947	\$2,163
2BR	\$2,007	\$2,574	\$2,860
3BR	\$2,028	\$2,684	\$2,982

Source: Costar, AECOM 2022

Market Rent/SF Assumptions			
	Low	Medium	High
Studio	\$2.55	\$3.10	\$3.44
1BR	\$2.34	\$2.95	\$3.28
2BR	\$2.23	\$2.86	\$3.18
3BR	\$1.56	\$2.44	\$2.71

Source: Costar, AECOM 2022

Development Prototypes & Feasibility

Affordable Rent Assumptions

To test the feasibility of the Community Benefits Program, AECOM modelled two different sets of affordable rents:

- **Schedule VI:** Current applicable affordable rent schedule for TOC/Density Bonus and Incentive projects. To afford a 3 Bedroom apartment available to Low Income households, a four-person household would need to earn approximately \$71,000 a year (approximately 35% of households in the Boyle Heights CPA earns \$71,000 or more)
- **Schedule I:** Potential applicable affordable rent schedule for discretionary projects (generally 50% higher than Schedule VI. To afford a 3 Bedroom apartment available to Low Income households, a four-person household would need to earn approximately \$90,000 a year (approximately 24% of households in the Boyle Heights CPA earns \$90,000 or more)

City of Los Angeles Household Income and Estimated Rent 2022: Schedule VI & I								
Household Income (% AMI)	Maximum Estimated Monthly Rents by Unit Type							
	Schedule VI				Schedule I			
	Studio	1 BR	2 BR	3 BR	Studio	1 BR	2 BR	3 BR
Acutely Low (Up to 15%) ¹	\$313	\$357	\$402	\$447	\$313	\$357	\$402	\$447
Extremely Low (15 to 30%) ²	\$461	\$527	\$592	\$658	\$626	\$715	\$805	\$894
Very Low (31-50%)	\$768	\$878	\$987	\$1,097	\$1,043	\$1,191	\$1,340	\$1,489
Low (51-80%) ³	\$921	\$1,053	\$1,185	\$1,316	\$1,251	\$1,430	\$1,608	\$1,786
(1) According to HUD Methodology, calculated by multiplying the Very Low Income Limit by 30%								
(2) Approximately 30%, normalized by the federal poverty line adjusted for local conditions								
(3) According to LAHD, "80% median income exceeding median income is an anomaly just for this county due to HUD historical high cost adjustments"								
Source: California Department of Housing and Community Development (HCD), Los Angeles Housing & Community Investment Department (LAHD), 2022 AECOM								

Development Prototypes & Feasibility—Prototype 1

Residual Land Value Analysis (Medium Market Rent and Schedule VI Affordable)

Key Assumptions

- 10% developer required return on cost
- “Medium” market rent (discounted 65-75% from comp projects outside of Boyle Heights)
- Parking ratio of ~1 spaces/unit

Findings

- As tested, the Base Case generates a residual land value that is below the 25th percentile and **likely infeasible**
- The 10% AL, 11% EL, and 15% VL density bonus scenarios **improve** returns over the Base Case and would be **likely feasible**
- The 25% L density bonus scenario generates an **infeasible return**

Prototype 1: Small Lot Mixed-Use Residential										
	Base Case		Density Bonus							
	Market Rate		10% Acutely Low		11% Extremely Low		15% Very Low		25% Low	
Program										
Lot Size (SF)	15,000		15,000		15,000		15,000		15,000	
Density Bonus	0%		80%		80%		80%		80%	
FAR	1.5		4.0		4.0		4.0		4.0	
Market Rate Units	22		56		55		53		46	
Affordable Units	0		6 AL		7 EL		9 VL		16 L	
Total Units	22		62		62		62		62	
Residual Land Value	Total /Unit		Total /Unit		Total /Unit		Total /Unit		Total /Unit	
Total Revenues	\$9,373,154	\$426,052	\$22,785,189	\$367,503	\$22,775,377	\$367,345	\$22,890,002	\$369,194	\$21,773,639	\$351,188
Total Costs before Land	\$8,660,538	\$393,661	\$21,611,001	\$348,565	\$21,611,001	\$348,565	\$21,611,001	\$348,565	\$21,611,001	\$348,565
RLV Total	\$712,616	\$32,392	\$1,174,188	\$18,939	\$1,164,376	\$18,780	\$1,279,001	\$20,629	\$162,638	\$2,623
RLV/ Land SF	\$48		\$78		\$78		\$85		\$11	
RLV % Change from Base			65%		63%		79%		-77%	
Sales per Land SF (MFR)	\$/SF \$/Lot		\$/SF \$/Lot		\$/SF \$/Lot		\$/SF \$/Lot		\$/SF \$/Lot	
75th Percentile	\$133	\$1,995,000	\$133	\$1,995,000	\$133	\$1,995,000	\$133	\$1,995,000	\$133	\$1,995,000
Median	\$103	\$1,545,000	\$103	\$1,545,000	\$103	\$1,545,000	\$103	\$1,545,000	\$103	\$1,545,000
25th Percentile	\$81	\$1,215,000	\$81	\$1,215,000	\$81	\$1,215,000	\$81	\$1,215,000	\$81	\$1,215,000
Difference from RLV										
75th Percentile	-180%		-70%		-71%		-56%		-1127%	
Median	-117%		-32%		-33%		-21%		-850%	
25th Percentile	-70%		-3%		-4%		5%		-647%	
Feasibility	Infeasible		Low		Low		Low		Infeasible	

Development Prototypes & Feasibility—Prototype 2

Residual Land Value Analysis (Medium Market Rent and Schedule VI Affordable)

Key Assumptions

- 10% developer required return on cost
- “Medium” market rent (discounted 65-75% from comp projects outside of Boyle Heights)
- Parking ratio of ~0.5 spaces/unit

Findings

- As tested, the Base Case generates a residual land value that is **below** market-observed rates
- The 10% AL and 11% EL generates a **feasible** residual land value, while the 15% VL, and 25% Low density bonus scenarios are positive but still **below the threshold of feasibility**

Prototype 2: Large Lot Mixed-Use Residential										
	Base Case		Density Bonus							
	Market Rate		10% Acutely Low		11% Extremely Low		15% Very Low		25% Low	
Program										
Lot Size (SF)	32,000		32,000		32,000		32,000		32,000	
Density Bonus			80%		80%		80%		80%	
FAR	1.5		4.0		4.0		4.0		4.0	
Market Rate Units	46		119		117		112		99	
Affordable Units	0		13 AL		15 EL		20 VL		33 L	
Total Units	46		132		132		132		132	
Residual Land Value	Total /Unit		Total /Unit		Total /Unit		Total /Unit		Total /Unit	
Total Revenues	\$19,765,549	\$429,686	\$48,579,620	\$368,027	\$48,356,518	\$366,337	\$48,368,623	\$366,429	\$46,667,408	\$353,541
Total Costs before Land	\$18,552,783	\$403,321	\$44,941,449	\$340,466	\$44,941,449	\$340,466	\$46,944,906	\$355,643	\$44,941,449	\$340,466
RLV Total	\$1,212,767	\$26,364	\$3,638,171	\$27,562	\$3,415,068	\$25,872	\$1,423,717	\$10,786	\$1,725,959	\$13,075
RLV/ Land SF	\$38		\$114		\$107		\$44		\$54	
RLV % Change from Base			200%		182%		17%		42%	
Sales per Land SF (MFR)	\$/SF \$/Lot		\$/SF \$/Lot		\$/SF \$/Lot		\$/SF \$/Lot		\$/SF \$/Lot	
75th Percentile	\$133	\$4,256,000	\$133	\$4,256,000	\$133	\$4,256,000	\$133	\$4,256,000	\$133	\$4,256,000
Median	\$103	\$3,296,000	\$103	\$3,296,000	\$103	\$3,296,000	\$103	\$3,296,000	\$103	\$3,296,000
25th Percentile	\$81	\$2,592,000	\$81	\$2,592,000	\$81	\$2,592,000	\$81	\$2,592,000	\$81	\$2,592,000
Difference from RLV										
75th Percentile	-251%		-17%		-25%		-199%		-147%	
Median	-172%		9%		3%		-132%		-91%	
25th Percentile	-114%		29%		24%		-82%		-50%	
Feasibility	Infeasible		Moderate		Moderate		Infeasible		Infeasible	

Development Prototypes & Feasibility—Prototype 3

Residual Land Value Analysis (Medium Market Rent and Schedule VI Affordable)

Key Assumptions

- 10% developer required return on cost
- “Medium” market rent (discounted 65-75% from comp projects outside of Boyle Heights)
- Parking ratio of ~0.5 spaces/unit

Findings

- As tested, the Base Case generates a residual land value that is **below** market-observed rates
- The 10% AL and 11% EL density bonus scenario generated **borderline-feasible** residual land values
- The 15% VL and 25% Low density bonus scenarios generate **infeasible** residual land values

Prototype 3: Medium Lot Multifamily Residential										
	Base Case		Density Bonus							
	Market Rate		10% Acutely Low		11% Extremely Low		15% Very Low		25% Low	
Program										
Lot Size (SF)	23,000		23,000		23,000		23,000		23,000	
Density Bonus			80%		80%		80%		80%	
FAR	1.5		3.0		3.0		3.0		3.0	
Market Rate Units	37		67		66		62		55	
Affordable Units	0		7 AL		8 EL		12 VL		19 L	
Total Units	37		74		74		74		74	
Residual Land Value	Total /Unit		Total /Unit		Total /Unit		Total /Unit		Total /Unit	
Total Revenues	\$14,147,569	\$382,367	\$26,103,386	\$352,748	\$26,059,006	\$352,149	\$25,693,947	\$347,215	\$24,825,181	\$335,475
Total Costs before Land	\$13,751,487	\$371,662	\$24,680,125	\$333,515	\$24,680,125	\$333,515	\$24,680,125	\$333,515	\$24,680,125	\$333,515
RLV Total	\$396,082	\$10,705	\$1,423,260	\$19,233	\$1,378,881	\$18,634	\$1,013,821	\$13,700	\$145,055	\$1,960
RLV/ Land SF	\$17		\$62		\$60		\$44		\$6	
RLV % Change from Base			259%		248%		156%		-63%	
Sales per Land SF (MFR)	\$/SF \$/Lot		\$/SF \$/Lot		\$/SF \$/Lot		\$/SF \$/Lot		\$/SF \$/Lot	
75th Percentile	\$133	\$3,059,000	\$133	\$3,059,000	\$133	\$3,059,000	\$133	\$3,059,000	\$133	\$3,059,000
Median	\$103	\$2,369,000	\$103	\$2,369,000	\$103	\$2,369,000	\$103	\$2,369,000	\$103	\$2,369,000
25th Percentile	\$81	\$1,863,000	\$81	\$1,863,000	\$81	\$1,863,000	\$81	\$1,863,000	\$81	\$1,863,000
Difference from RLV										
75th Percentile	-672%		-115%		-122%		-202%		-2009%	
Median	-498%		-66%		-72%		-134%		-1533%	
25th Percentile	-370%		-31%		-35%		-84%		-1184%	
Feasibility	Infeasible		Infeasible		Infeasible		Infeasible		Infeasible	

Development Prototypes & Feasibility—Prototype 4

Residual Land Value Analysis (Medium Market Rent and Schedule VI Affordable)

Key Assumptions

- 10% developer required return on cost
- “Medium” market rent (discounted 65-75% from comp projects outside of Boyle Heights)
- Parking ratio of ~0.5 spaces/unit

Findings

- As tested, the Base Case generates a residual land value that is **below** market-observed rates
- The 10% AL, 11% EL, 15% VL, and 25% Low density bonus scenarios generate negative and **infeasible** residual land values

Prototype 4: Small Lot Multifamily Residential										
	Base Case		Density Bonus							
	Market Rate		10% Acutely Low		11% Extremely Low		15% Very Low		25%Low	
Program										
Lot Size (SF)	13,000		13,000		13,000		13,000		13,000	
Density Bonus			70%		70%		70%		70%	
FAR	1.0		1.5		1.5		1.5		1.5	
Market Rate Units	14		19		19		18		16	
Affordable Units	0		2 AL		2 EL		3 VL		5 L	
Total Units	14		21		21		21		21	
Residual Land Value	Total /Unit		Total /Unit		Total /Unit		Total /Unit		Total /Unit	
Total Revenues	\$5,350,675	\$382,191	\$7,304,098	\$347,814	\$7,372,121	\$351,053	\$7,365,312	\$350,729	\$7,176,729	\$341,749
Total Costs before Land	<u>\$4,534,716</u>	<u>\$323,908</u>	<u>\$7,522,722</u>	<u>\$358,225</u>	<u>\$7,522,722</u>	<u>\$358,225</u>	<u>\$7,522,722</u>	<u>\$358,225</u>	<u>\$7,522,722</u>	<u>\$358,225</u>
RLV Total	\$815,959	\$58,283	-\$218,624	-\$10,411	-\$150,601	-\$7,171	-\$157,411	-\$7,496	-\$345,993	-\$16,476
RLV/ Land SF	\$63		-\$17		-\$12		-\$12		-\$27	
RLV % Change from Base			-127%		-118%		-119%		-142%	
Sales per Land SF (MFR)	\$/SF \$/Lot		\$/SF \$/Lot		\$/SF \$/Lot		\$/SF \$/Lot		\$/SF \$/Lot	
75th Percentile	\$133	\$1,729,000	\$133	\$1,729,000	\$133	\$1,729,000	\$133	\$1,729,000	\$133	\$1,729,000
Median	\$103	\$1,339,000	\$103	\$1,339,000	\$103	\$1,339,000	\$103	\$1,339,000	\$103	\$1,339,000
25th Percentile	\$81	\$1,053,000	\$81	\$1,053,000	\$81	\$1,053,000	\$81	\$1,053,000	\$81	\$1,053,000
Difference from RLV										
75th Percentile	-112%		N/A		N/A		N/A		N/A	
Median	-64%		N/A		N/A		N/A		N/A	
25th Percentile	-29%		N/A		N/A		N/A		N/A	
Feasibility	Infeasible		Infeasible		Infeasible		Infeasible		Infeasible	

Development Prototypes & Feasibility

Residual Land Value Summary—*Initial Run*

Scenario Parameters—Initial Run:

Medium market rents, Schedule VI affordable rents, current construction costs, full parking

- Feasibility is limited to the higher-density prototypes and 11% EL and 15% VL set-asides.
- No prototype is feasible for the 25% L set-aside.
- Not one of the prototypes is feasible in the Base Case, a finding that is consistent with recent development trends in Boyle Heights, where no new market-rate housing has been built for some time.

	Base Case	10% AL	11% EL	15% VL	25% L
Prototype 1	infeasible	<i>likely feasible</i>	<i>likely feasible</i>	<i>likely feasible</i>	infeasible
Prototype 2	infeasible	<i>feasible</i>	<i>feasible</i>	infeasible	infeasible
Prototype 3	infeasible	infeasible	infeasible	infeasible	infeasible
Prototype 4	infeasible	infeasible	infeasible	infeasible	infeasible

Development Prototypes & Feasibility

Residual Land Value Summary—Sensitivity Test 1: Alternative #2 Set-Asides

Scenario Parameters—Sensitivity Test 1:

Alternative Set-asides, Medium market rents, Schedule VI affordable rents, current construction costs, full parking

- Lower set-asides increase feasibility compared with the Initial Run, particularly for the lower-density Prototypes 3 and 4.
- No prototype is feasible for the 20% L set-aside.
- As with the Initial Run, not one of the prototypes is feasible in the Base Case

	Base Case	7% AL	8% EL	11% VL	20% L
Prototype 1	infeasible	likely feasible	likely feasible	<i>likely feasible</i>	infeasible
Prototype 2	infeasible	<i>feasible</i>	<i>feasible</i>	infeasible	infeasible
Prototype 3	infeasible	<i>likely feasible</i>	<i>likely feasible</i>	<i>likely feasible</i>	infeasible
Prototype 4	infeasible	<i>likely feasible</i>	infeasible	infeasible	infeasible

Development Prototypes & Feasibility

Residual Land Value Summary—Sensitivity Test 2: Schedule I Maximum Affordable Rents.

Scenario Parameters—Sensitivity Test 2:

Medium market rents, Schedule I affordable rents, current construction costs, full parking

- Schedule 1 Affordable rents, which are approximately 50% higher than Schedule VI rents, increase feasibility slightly compared with the Initial Run. This increased feasibility will also mean higher housing costs for qualifying affordable households.
- However, as with the Initial Run, the lower-density Prototypes 3 and 4 remain infeasible.
- Also as with the Initial Run, not one of the prototypes is feasible in the Base Case

	Base Case	10% AL	11% EL	15% VL	25%L
Prototype 1	infeasible	<i>likely feasible</i>	<i>likely feasible</i>	<i>likely feasible</i>	<i>likely feasible</i>
Prototype 2	infeasible	<i>feasible</i>	<i>feasible</i>	<i>likely feasible</i>	<i>likely feasible</i>
Prototype 3	infeasible	infeasible	infeasible	infeasible	infeasible
Prototype 4	infeasible	infeasible	infeasible	infeasible	infeasible

(1) Because neither Schedule I nor Schedule VI include Acutely Low Income, both schedules have the same maximum rent derived from HUD methodology for the County of Los Angeles.

Development Prototypes & Feasibility

Residual Land Value Summary—Sensitivity Test 3: High Market Rate Rents

Scenario Parameters—Sensitivity Test 3:

High market rents, Schedule VI affordable rents, current construction costs, full parking

- “High” Market Rate Rents increase in feasibility significantly over the Initial Run. While the “High” rents are 10% higher than the “Medium” rents, they remain slightly lower than market rents for equivalent prototypes in nearby neighborhoods that have supported recent residential development growth. Consequently, the “High” rents are likely achievable in Boyle Heights for new projects.
- Notably, the high rents make all prototypes feasible in the Base Case scenario.
- However, as with the other sensitivity tests, the performance of lowest-density Prototype 4 lags the other prototypes.

	Base Case	10% AL	11% EL	15% VL	25%L
Prototype 1	<i>likely feasible</i>	<i>feasible</i>	<i>feasible</i>	<i>feasible</i>	<i>feasible</i>
Prototype 2	<i>likely feasible</i>	<i>feasible</i>	<i>feasible</i>	<i>feasible</i>	<i>feasible</i>
Prototype 3	<i>likely feasible</i>	<i>feasible</i>	<i>feasible</i>	<i>feasible</i>	<i>likely feasible</i>
Prototype 4	<i>likely feasible</i>	infeasible	infeasible	infeasible	infeasible

Development Prototypes & Feasibility

Residual Land Value Summary—Sensitivity Test 4: Higher Construction Costs

Scenario Parameters—Sensitivity Test 4:

Medium market rents, Schedule VI affordable rents, higher construction costs, full parking

- According to CBRE, construction costs are predicted to increase 14% by the end of 2022 over 2021¹. If this occurs, and rents remain at current market rates, all prototypes and set-asides become infeasible in the short term. Hopefully, over time, this short-term disequilibrium will stabilize with commensurate income and rent growth.

	Base Case	10% AL	11% EL	15% VL	25%L
Prototype 1	infeasible	infeasible	infeasible	infeasible	infeasible
Prototype 2	infeasible	infeasible	infeasible	infeasible	infeasible
Prototype 3	infeasible	infeasible	infeasible	infeasible	infeasible
Prototype 4	infeasible	infeasible	infeasible	infeasible	infeasible

(1) <https://www.cbre.com/insights/books/2022-us-construction-cost-trends>

Development Prototypes & Feasibility

Residual Land Value Summary—Sensitivity Test 5: Higher Construction Costs and Market Rents

Scenario Parameters—Sensitivity Test 5:

High market rents, Schedule VI affordable rents, higher construction costs, full parking

- Combining the higher construction costs from Sensitivity Test 4 and the high market rents from Sensitivity Test 3 indicates that some of the feasibility lost due to construction cost increases can be offset by reasonable rent growth.
- As with the Initial Run, the 25% L set-aside option remains infeasible.

	Base Case	10% AL	11% EL	15% VL	25%L
Prototype 1	infeasible	<i>likely feasible</i>	<i>likely feasible</i>	<i>likely feasible</i>	infeasible
Prototype 2	infeasible	<i>feasible</i>	<i>feasible</i>	<i>likely feasible</i>	infeasible
Prototype 3	infeasible	<i>likely feasible</i>	<i>likely feasible</i>	infeasible	infeasible
Prototype 4	infeasible	infeasible	infeasible	infeasible	infeasible

Development Prototypes & Feasibility

Prototype Summary: Reduced Parking

A major consideration for development feasibility is parking, as the type and number of parking stalls can have a significant impact on construction costs.

For each of the prototypical site, AECOM developed an alternative prototype that reduces parking from 1.0 stall per unit (approximately) to between 0.35 and 0.66 stalls per unit. While the provision of parking is crucial for both the economic feasibility (not having a parking stall could lower the market rate achievable for any given project, reducing revenues) and political feasibility (residents are unlikely to support new development that does not include parking), there are numerous projects in Boyle Heights and adjacent neighborhoods that were built with this ratio of parking. These projects often enjoy locations with sufficient access to transit and other amenities and were able to be built with less parking.

The reduced parking ratios often result in projects looking significantly different from the first set of prototypes as the building masses change to accommodate the additional parking, whether that is achievable through surface, structured, or underground parking. The reduced parking lowers construction costs and impacts feasibility. The following table shows the key parameters of the reduced parking prototypes.

Assumptions				Assumed Zoning Classifications						FAR				Density (DU/AC)				Parking Ratio (Stalls/DU)			
Proto-type	Use	Retail Space	Lot Size	Form	Frontage	Develop-ment Standards	Use	Density	TOC	Base Maximum	Base Tested*	Max BHCPU Bonus	Bonus Tested*	Base Maximum	Base Tested*	Max BHCPU Bonus	Bonus Tested *	Base Required	Base Tested*	BHCPU Bonus	Bonus Tested *
1.B	Small Lot Mixed Use	2,000	15,000	LM6	SH3	4	CX2	4	Tier 3	1.5	1.5	4.0	4.0	108	64	194	180	0.35	0.5	0	0.5
2.B	Large Lot Mixed Use	5,000	32,000	LM6	SH3	4	CX2	4	Tier 3	1.5	1.5	4.0	4.0	108	63	194	180	0.32	0.5	0	0.5
3.B	Large Lot Multifamily	0	23,000	LM4	G2	3	CX2	4	Tier 3	1.5	1.5	3.0	3.0	108	70	194	140	0.5	0.65	0	0.65
4.B	Small Lot Multifamily	0	13,000	VN2	MU3	3	RX2	8	Tier 2	1.0	1.0	1.5	1.5	54	47	90	70	0.5	0.6	0.4	0.4

*AECOM developed physical test-fit models for each prototype based on site and market parameters and attempted where physically possible to meet the maximum allowable thresholds for both Base and Density Bonus Scenarios

Development Prototypes & Feasibility

Prototype 1.B: Small Lot Mixed Use

Base

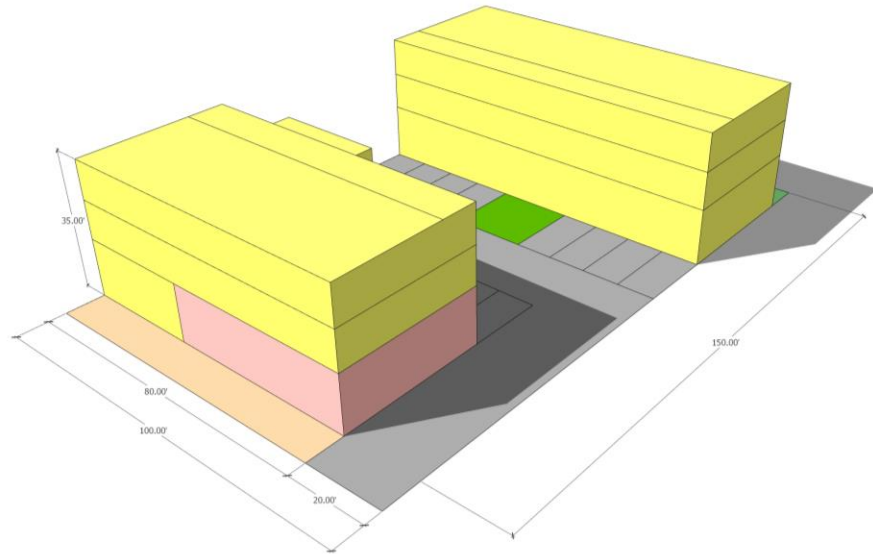
FAR: 1.5
Density (Lot SF/Unit): 682
Units: 22
Residential GFA: 20,800 SF
Commercial GFA: 2,000 SF
Parking: 13 spaces (0.5 / unit + 2 commercial)
Parking Strategy: Surface

Assumptions

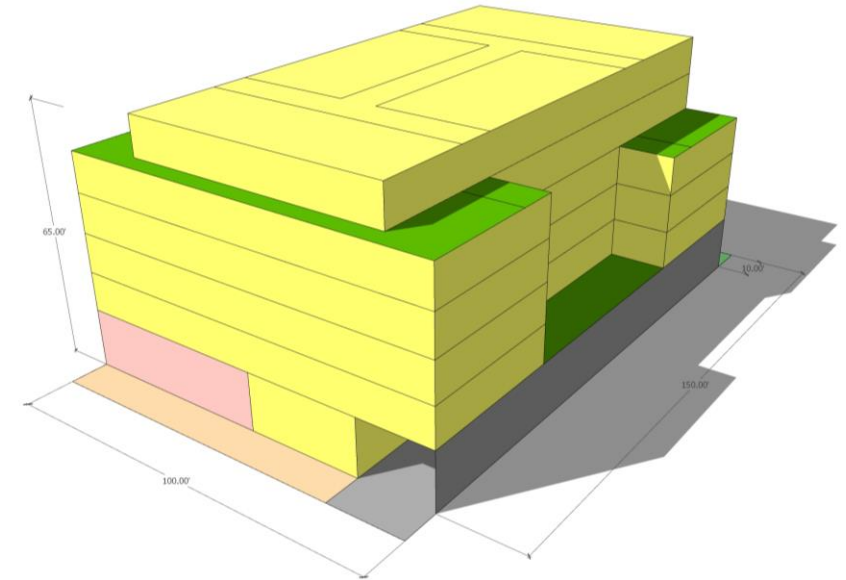
Zoning: [LM6-SH3-4] [CX2-4]
Lot Size: 15,000 SF
Lot Dimensions: 100 x 150 ft

Bonus

FAR: 4.0
Density (Lot SF/Unit): : 242
Units: 62 (6-16 Affordable)
Residential GFA: 58,000 SF
Commercial GFA: 2,000 SF
Parking: 24 spaces (0.35 / unit + 2 commercial)
Parking Strategy: Structure



- Residential
- Commercial
- Parking
- Setback
- Open Space
- Sidewalk



Development Prototypes & Feasibility

Prototype 2.B: Large Lot Mixed Use

Base

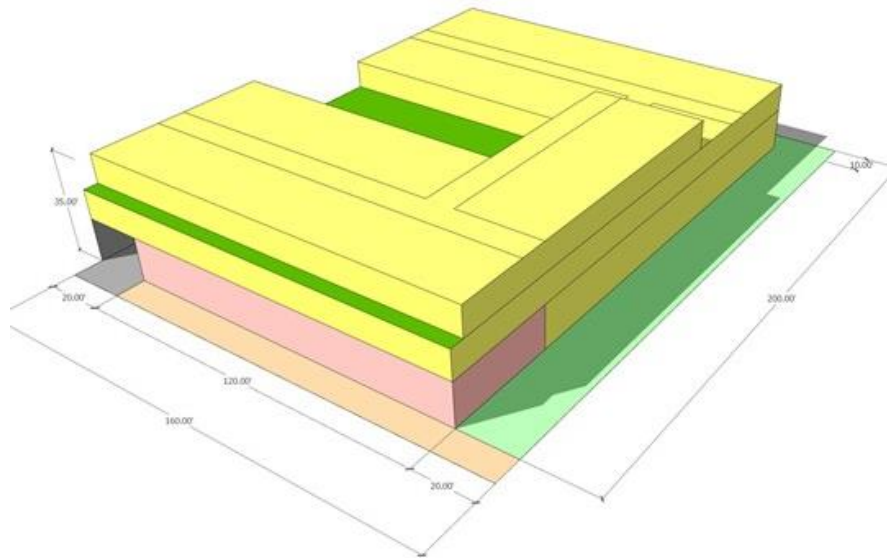
FAR: 1.5
Density (Lot SF/Unit): : 696
Units: 46
Residential GFA: 43,00 SF
Commercial GFA: 5,000 SF
Parking: 27 spaces (0.43 / unit + 7 commercial)
Parking Strategy: Structure

Assumptions

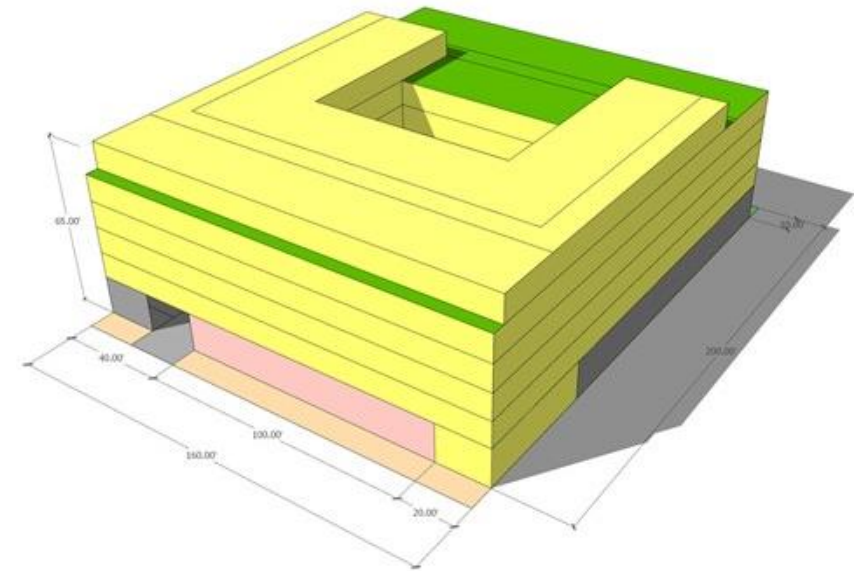
Zoning: [LM6-SH3-4] [CX2-4]
Lot Size: 32,000 SF
Lot Dimensions: 160 x 200 ft

Bonus

FAR: 4.0
Density (Lot SF/Unit): : 242
Units: 132 (13-33 Affordable)
Residential GFA: 123,000 SF
Commercial GFA: 5,000 SF
Parking: 67 spaces (0.45 / unit + 7 commercial)
Parking Strategy: Structure



- Residential
- Commercial
- Parking
- Setback
- Open Space
- Sidewalk



Development Prototypes & Feasibility

Prototype 3.B: Large Lot Multifamily

Base

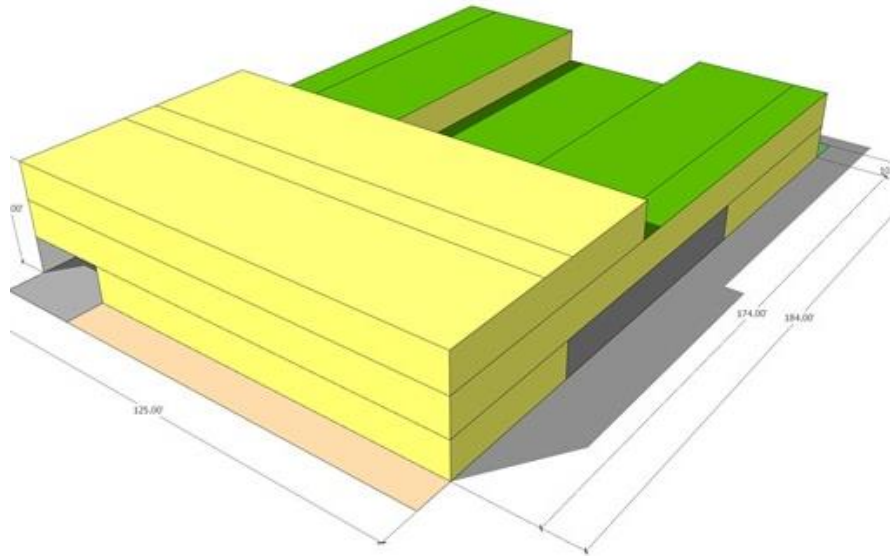
FAR: 1.5
Density (Lot SF/Unit): : 622
Units: 37
Residential GFA: 34,500 SF
Commercial GFA: 0 SF
Parking: 24 spaces (0.65 / unit)
Parking Strategy: Structure

Assumptions

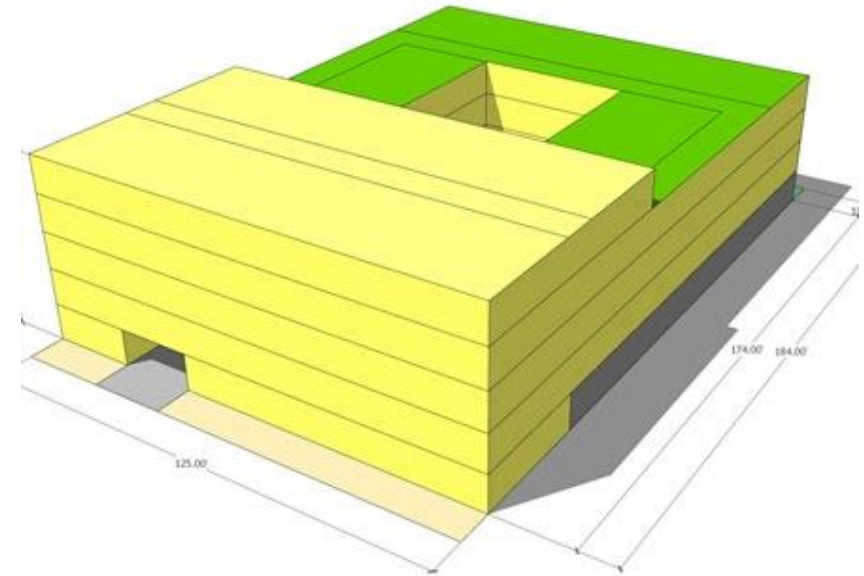
Zoning: [LM4-G2-4] [CX2-4]
Lot Size: 23,000 SF
Lot Dimensions: 125 x 184 ft

Bonus

FAR: 3.0
Density (Lot SF/Unit): : 311
Units: 74 (7-19 Affordable)
Residential GFA: 68,930 SF
Commercial GFA: 0 SF
Parking: 48 spaces (0.65 / unit)
Parking Strategy: Structure



- Residential
- Commercial
- Parking
- Setback
- Open Space
- Sidewalk



Development Prototypes & Feasibility

Prototype 4.B: Small Lot Multifamily

Base

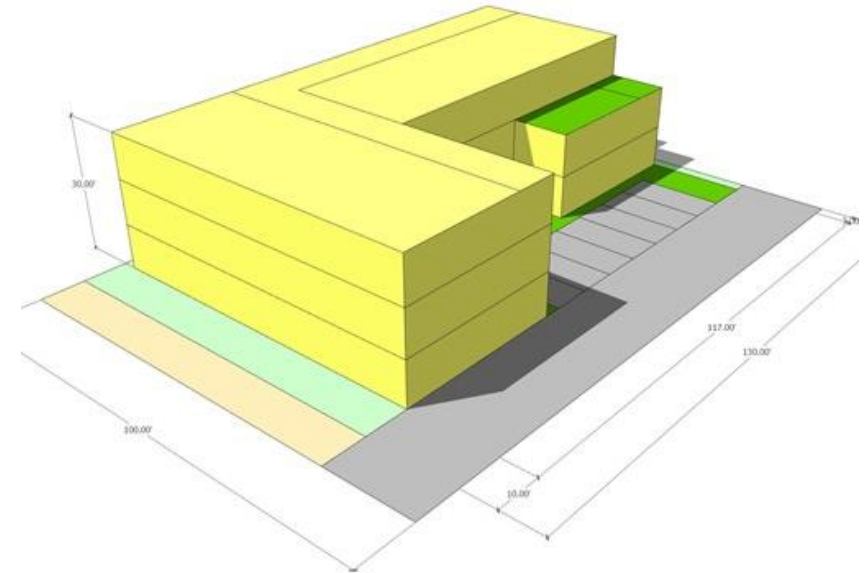
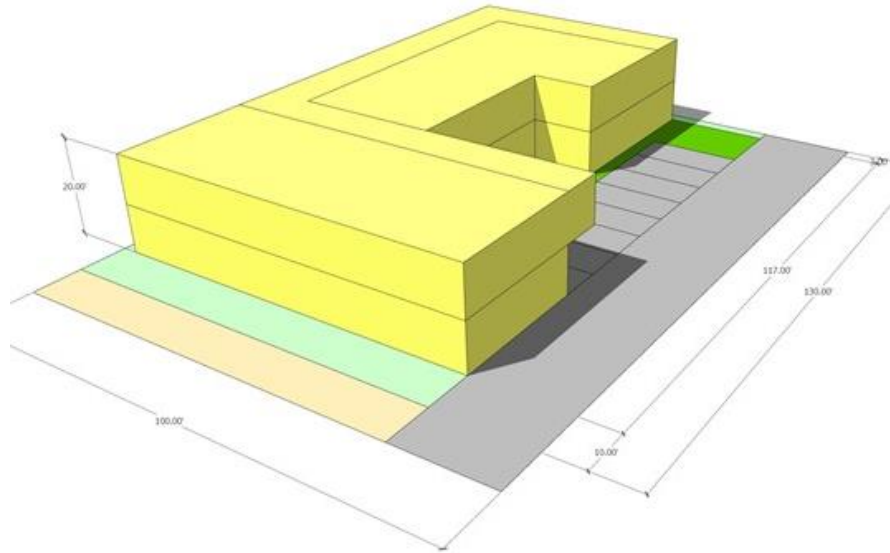
FAR: 1.0
Density (Lot SF/Unit): : 929
Units: 14
Residential GFA: 13,033 SF
Commercial GFA: 0 SF
Parking: 8 spaces (0.57 / unit)
Parking Strategy: Surface

Assumptions

Zoning: [VN2-MU3-3] [RX2-8]
Lot Size: 13,000 SF
Lot Dimensions: 100 x 130 ft

Bonus

FAR: 1.5
Density (Lot SF/Unit): : 619
Units: 21 (2-5 Affordable)
Residential GFA: 19,600 SF
Commercial GFA: 0 SF
Parking: 8 spaces (0.38 / unit)
Parking Strategy: Surface



- Residential
- Commercial
- Parking
- Setback
- Open Space
- Sidewalk

Development Prototypes & Feasibility—Prototype 1.B

Residual Land Value Analysis (Medium Market Rent and Schedule VI Affordable)

Key Assumptions

- 10% developer required return on cost
- “Medium” market rent (discounted 65-75% from comp projects outside of Boyle Heights)
- Parking ratio of ~0.5 spaces/unit

Findings

- As tested, the Base Case generates a **feasible** residual land value
- The 10% AL, 11% EL, 15% VL and 25% L density bonus scenarios **improve** returns over the Base Case

Prototype 1B: Small Lot Mixed-Use Residential										
	Base Case		Density Bonus							
	Market Rate		10% Acutely Low		11% Extremely Low		15% Very Low		25% Low	
Program										
Lot Size (SF)	15,000		15,000		15,000		15,000		15,000	
Density Bonus	0%		80%		80%		80%		80%	
FAR	1.5		4.0		4.0		4.0		4.0	
Market Rate Units	22		56		55		53		46	
Affordable Units	0		6 AL		7 EL		9 VL		16 L	
Total Units	22		62		62		62		62	
Residual Land Value	Total	/Unit	Total	/Unit	Total	/Unit	Total	/Unit	Total	/Unit
Total Revenues	\$9,373,154	\$426,052	\$22,785,189	\$367,503	\$22,775,377	\$367,345	\$22,890,002	\$369,194	\$21,773,639	\$351,188
Total Costs before Land	\$7,384,537	\$335,661	\$19,192,523	\$348,565	\$19,192,523	\$309,557	\$19,192,523	\$309,557	\$19,192,523	\$309,557
RLV Total	\$1,988,617	\$90,392	\$1,174,188	\$18,939	\$3,582,853	\$57,788	\$3,697,478	\$59,637	\$2,581,115	\$41,631
RLV/ Land SF	\$133		\$240		\$239		\$246		\$172	
RLV % Change from Base			81%		80%		86%		30%	
Sales per Land SF (MFR)	\$/SF	\$/Lot	\$/SF	\$/Lot	\$/SF	\$/Lot	\$/SF	\$/Lot	\$/SF	\$/Lot
75th Percentile	\$133	\$1,995,000	\$133	\$1,995,000	\$133	\$1,995,000	\$133	\$1,995,000	\$133	\$1,995,000
Median	\$103	\$1,545,000	\$103	\$1,545,000	\$103	\$1,545,000	\$103	\$1,545,000	\$103	\$1,545,000
25th Percentile	\$81	\$1,215,000	\$81	\$1,215,000	\$81	\$1,215,000	\$81	\$1,215,000	\$81	\$1,215,000
Difference from RLV										
75th Percentile	0%		44%		44%		46%		23%	
Median	22%		57%		57%		58%		40%	
25th Percentile	39%		66%		66%		67%		53%	
Feasibility	Moderate		High		High		High		High	

Development Prototypes & Feasibility—Prototype 2.B

Residual Land Value Analysis (Medium Market Rent and Schedule VI Affordable)

Key Assumptions

- 10% developer required return on cost
- “Medium” market rent (discounted 65-75% from comp projects outside of Boyle Heights)
- Parking ratio of ~0.5 spaces/unit

Findings

- As tested, the Base Case generates a residual land value that is **likely feasible**, as it falls within the range of sales prices found in the Boyle Heights market
- The 10% AL, 11% EL, 15% VL, and 25% Low density bonus scenarios generate a **feasible** residual land value

Prototype 2B: Large Lot Mixed-Use Residential										
	Base Case		Density Bonus							
	Market Rate		10% Acutely Low		11% Extremely Low		15% Very Low		25%Low	
Program										
Lot Size (SF)	32,000		32,000		32,000		32,000		32,000	
Density Bonus			80%		80%		80%		80%	
FAR	1.5		4.0		4.0		4.0		4.0	
Market Rate Units	46		119		117		112		99	
Affordable Units	0		13 AL		15 EL		20 VL		33 L	
Total Units	46		132		132		132		132	
Residual Land Value	Total /Unit		Total /Unit		Total /Unit		Total /Unit		Total /Unit	
Total Revenues	\$19,765,549	\$429,686	\$48,579,620	\$368,027	\$48,356,518	\$366,337	\$48,368,623	\$366,429	\$46,667,408	\$353,541
Total Costs before Land	\$16,870,817	\$366,757	\$41,241,125	\$312,433	\$41,241,125	\$312,433	\$43,244,582	\$327,610	\$41,241,125	\$312,433
RLV Total	\$2,894,732	\$62,929	\$7,338,495	\$55,595	\$7,115,393	\$53,904	\$5,124,041	\$38,818	\$5,426,283	\$41,108
RLV/ Land SF	\$90		\$229		\$222		\$160		\$170	
RLV % Change from Base			154%		146%		77%		87%	
Sales per Land SF (MFR)	\$/SF \$/Lot		\$/SF \$/Lot		\$/SF \$/Lot		\$/SF \$/Lot		\$/SF \$/Lot	
75th Percentile	\$133	\$4,256,000	\$133	\$4,256,000	\$133	\$4,256,000	\$133	\$4,256,000	\$133	\$4,256,000
Median	\$103	\$3,296,000	\$103	\$3,296,000	\$103	\$3,296,000	\$103	\$3,296,000	\$103	\$3,296,000
25th Percentile	\$81	\$2,592,000	\$81	\$2,592,000	\$81	\$2,592,000	\$81	\$2,592,000	\$81	\$2,592,000
Difference from RLV										
75th Percentile	-47%		42%		40%		17%		22%	
Median	-14%		55%		54%		36%		39%	
25th Percentile	10%		65%		64%		49%		52%	
Feasibility	Moderate		High		High		High		High	

Development Prototypes & Feasibility—Prototype 3.B

Residual Land Value Analysis (Medium Market Rent and Schedule VI Affordable)

Key Assumptions

- 10% developer required return on cost
- “Medium” market rent (discounted 65-75% from comp projects outside of Boyle Heights)
- Parking ratio of ~0.5 spaces/unit

Findings

- As tested, the Base Case generates a residual land value that is **below** market-observed rates
- The 10% AL, 11% EL and 15% VL density bonus scenario generated a **likely feasible** residual land value
- The 25% Low density bonus scenarios generate **infeasible** residual land values

Prototype 3B: Medium Lot Multifamily Residential										
	Base Case		Density Bonus							
	Market Rate		10% Acutely Low		11% Extremely Low		15% Very Low		25%Low	
Program										
Lot Size (SF)	23,000		23,000		23,000		23,000		23,000	
Density Bonus			80%		80%		80%		80%	
FAR	1.5		3.0		3.0		3.0		3.0	
Market Rate Units	37		67		66		62		55	
Affordable Units	0		7 AL		8 EL		12 VL		19 L	
Total Units	37		74		74		74		74	
Residual Land Value	Total /Unit		Total /Unit		Total /Unit		Total /Unit		Total /Unit	
Total Revenues	\$14,147,569	\$382,367	\$26,103,386	\$352,748	\$26,059,006	\$352,149	\$25,693,947	\$347,215	\$24,825,181	\$335,475
Total Costs before Land	\$12,405,915	\$335,295	\$23,166,356	\$313,059	\$23,166,356	\$313,059	\$23,166,356	\$313,059	\$23,166,356	\$313,059
RLV Total	\$1,741,654	\$47,072	\$2,937,029	\$39,690	\$2,892,650	\$39,090	\$2,527,590	\$34,157	\$1,658,824	\$22,417
RLV/ Land SF	\$76		\$128		\$126		\$110		\$72	
RLV % Change from Base			69%		66%		45%		-5%	
Sales per Land SF (MFR)	\$/SF \$/Lot		\$/SF \$/Lot		\$/SF \$/Lot		\$/SF \$/Lot		\$/SF \$/Lot	
75th Percentile	\$133	\$3,059,000	\$133	\$3,059,000	\$133	\$3,059,000	\$133	\$3,059,000	\$133	\$3,059,000
Median	\$103	\$2,369,000	\$103	\$2,369,000	\$103	\$2,369,000	\$103	\$2,369,000	\$103	\$2,369,000
25th Percentile	\$81	\$1,863,000	\$81	\$1,863,000	\$81	\$1,863,000	\$81	\$1,863,000	\$81	\$1,863,000
Difference from RLV										
75th Percentile	-76%		-4%		-6%		-21%		-84%	
Median	-36%		19%		18%		6%		-43%	
25th Percentile	-7%		37%		36%		26%		-12%	
Feasibility	Low		Moderate		Moderate		Moderate		Infeasible	

Development Prototypes & Feasibility—Prototype 4.B

Residual Land Value Analysis (Medium Market Rent and Schedule VI Affordable)

Key Assumptions

- 10% developer required return on cost
- “Medium” market rent (discounted 65-75% from comp projects outside of Boyle Heights)
- Parking ratio of ~0.5 spaces/unit

Findings

- As tested, the Base Case generates a residual land value that is **below** market-observed rates
- The 10% AL, 11% EL, 15% VL, and 25% Low density bonus scenarios generate **infeasible** residual land values but are very close to falling within the 25th percentile range.

Prototype 4B: Small Lot Multifamily Residential										
	Base Case		Density Bonus							
	Market Rate		10% Acutely Low		11% Extremely Low		15% Very Low		25%Low	
Program										
Lot Size (SF)	13,000		13,000		13,000		13,000		13,000	
Density Bonus			70%		70%		70%		70%	
FAR	1.0		1.5		1.5		1.5		1.5	
Market Rate Units	14		19		18		18		16	
Affordable Units	0		2 AL		3 EL		3 VL		5 L	
Total Units	14		21		21		21		21	
Residual Land Value	Total /Unit		Total /Unit		Total /Unit		Total /Unit		Total /Unit	
Total Revenues	\$5,350,675	\$382,191	\$7,304,098	\$347,814	\$7,372,121	\$351,053	\$7,365,312	\$350,729	\$7,176,729	\$341,749
Total Costs before Land	\$4,499,925	\$321,423	\$6,335,669	\$301,699	\$6,335,669	\$301,699	\$6,335,669	\$301,699	\$6,335,669	\$301,699
RLV Total	\$850,750	\$60,768	\$968,429	\$46,116	\$1,036,452	\$49,355	\$1,029,643	\$49,031	\$841,060	\$40,050
RLV/ Land SF	\$65		\$74		\$80		\$79		\$65	
RLV % Change from Base			14%		22%		21%		-1%	
Sales per Land SF (MFR)	\$/SF \$/Lot		\$/SF \$/Lot		\$/SF \$/Lot		\$/SF \$/Lot		\$/SF \$/Lot	
75th Percentile	\$133	\$1,729,000	\$133	\$1,729,000	\$133	\$1,729,000	\$133	\$1,729,000	\$133	\$1,729,000
Median	\$103	\$1,339,000	\$103	\$1,339,000	\$103	\$1,339,000	\$103	\$1,339,000	\$103	\$1,339,000
25th Percentile	\$81	\$1,053,000	\$81	\$1,053,000	\$81	\$1,053,000	\$81	\$1,053,000	\$81	\$1,053,000
Difference from RLV										
75th Percentile	-103%		-79%		-67%		-68%		-106%	
Median	-57%		-38%		-29%		-30%		-59%	
25th Percentile	-24%		-9%		-2%		-2%		-25%	
Feasibility	Infeasible		Infeasible		Low		Low		Infeasible	

Development Prototypes & Feasibility

Residual Land Value Summary—Sensitivity Test 6: Initial Run with Reduced Parking

Scenario Parameters—Sensitivity Test 6:

Medium market rents, Schedule VI affordable rents, current construction costs, reduced parking

- Reducing the parking ratio increases feasibility significantly compared with fully-parked prototypes 1,2, and 3.
- The lowest-density Prototype 4, as with the fully-parked version, remains infeasible.

	Base Case	10% AL	11% EL	15% VL	25%L
Prototype 1.B	<i>feasible</i>	<i>feasible</i>	<i>feasible</i>	<i>feasible</i>	<i>feasible</i>
Prototype 2.B	<i>likely feasible</i>	<i>feasible</i>	<i>feasible</i>	<i>feasible</i>	<i>feasible</i>
Prototype 3.B	infeasible	<i>likely feasible</i>	<i>likely feasible</i>	<i>likely feasible</i>	infeasible
Prototype 4.B	infeasible	infeasible	infeasible	infeasible	infeasible

Development Prototypes & Feasibility

Residual Land Value Summary—Sensitivity Test 7: Alternative 2 Set Asides and Reduced Parking

Scenario Parameters—Sensitivity Test 7:

Alternative Set-asides, Medium market rents, Schedule VI affordable rents, current construction costs, reduced parking

- Lower set-asides increase feasibility compared with the Initial Run, particularly for the lowest-density Prototypes 4.

	Base Case	7% AL	8% EL	11% VL	20%L
Prototype 1.B	<i>likely feasible</i>	<i>feasible</i>	<i>feasible</i>	<i>feasible</i>	<i>feasible</i>
Prototype 2.B	<i>likely feasible</i>	<i>feasible</i>	<i>feasible</i>	<i>feasible</i>	<i>feasible</i>
Prototype 3.B	infeasible	<i>feasible</i>	<i>feasible</i>	<i>feasible</i>	<i>likely feasible</i>
Prototype 4.B	infeasible	<i>likely feasible</i>	<i>likely feasible</i>	infeasible	infeasible

Development Prototypes & Feasibility

Residual Land Value Summary—Sensitivity Test 8: Reduced Parking and Schedule I Affordable Rents

Scenario Parameters—Sensitivity Test 8:

Medium market rents, Schedule I affordable rents, current construction costs, reduced parking

- Schedule I Affordable rents, which are approximately 50% higher than Schedule VI rents, increase feasibility slightly compared with the Initial Run primarily by supporting the lowest-density use (Prototype 4) in the set.

	Base Case	10% AL ¹	11% EL	15% VL	25%L
Prototype 1.B	<i>feasible</i>	<i>feasible</i>	<i>feasible</i>	<i>feasible</i>	<i>feasible</i>
Prototype 2.B	<i>likely feasible</i>	<i>feasible</i>	<i>feasible</i>	<i>feasible</i>	<i>feasible</i>
Prototype 3.B	infeasible	<i>likely feasible</i>	<i>feasible</i>	<i>feasible</i>	<i>likely feasible</i>
Prototype 4.B	Infeasible	infeasible	<i>likely feasible</i>	<i>likely feasible</i>	<i>likely feasible</i>

(1) Because neither Schedule I nor Schedule VI include Acutely Low Income, both schedules have the same maximum rent derived from HUD methodology for the County of Los Angeles.

Development Prototypes & Feasibility

Residual Land Value Summary—Sensitivity Test 9: Reduced Parking and Higher Market Rate Rents

Scenario Parameters—Sensitivity Test 9:

High market rents, Schedule VI affordable rents, current construction costs, reduced parking

- “High” Market Rate Rents combined with reduced parking makes every prototype under every set-aside scenario either feasible or likely feasible.

	Base Case	10% AL	11% EL	15% VL	25%L
Prototype 1.B	<i>feasible</i>	<i>feasible</i>	<i>feasible</i>	<i>feasible</i>	<i>feasible</i>
Prototype 2.B	<i>feasible</i>	<i>feasible</i>	<i>feasible</i>	<i>feasible</i>	<i>feasible</i>
Prototype 3.B	<i>feasible</i>	<i>feasible</i>	<i>feasible</i>	<i>feasible</i>	<i>feasible</i>
Prototype 4.B	<i>likely feasible</i>	<i>feasible</i>	<i>feasible</i>	<i>feasible</i>	<i>likely feasible</i>

Development Prototypes & Feasibility

Residual Land Value Summary—Sensitivity Test 10: Higher Construction Costs and Reduced Parking

Scenario Parameters—Sensitivity Test 10:

Medium market rents, Schedule VI affordable rents, higher construction costs, reduced parking

- Assuming reduced parking and construction cost appreciation forecast by CBRE¹, only the highest-density prototypes indicate potential feasibility. This suggests that in a cost-inflationary environment where incomes and rents remain stagnant, the best path to feasibility is for the developer to take a chance that a project with reduced parking will be marketable.

	Base Case	10% AL	11% EL	15% VL	25%L
Prototype 1.B	<i>likely feasible</i>	<i>likely feasible</i>	<i>likely feasible</i>	<i>likely feasible</i>	infeasible
Prototype 2.B	infeasible	<i>likely feasible</i>	<i>likely feasible</i>	infeasible	infeasible
Prototype 3.B	infeasible	infeasible	infeasible	infeasible	infeasible
Prototype 4.B	infeasible	infeasible	infeasible	infeasible	infeasible

Development Prototypes & Feasibility

Residual Land Value Summary—Sensitivity Test 11: High Construction Costs, High Market Rents, Reduced Parking

Scenario Parameters—Sensitivity Test 11:

High market rents, Schedule VI affordable rents, higher construction costs, reduced parking

- Combining the higher construction costs from Sensitivity Test 9 and the high market rents from Sensitivity Test 10 indicates that some of the feasibility lost due to construction cost increases can be offset by reasonable rent growth.

	Base Case	10% AL	11% EL	15% VL	25%L
Prototype 1.B	<i>feasible</i>	<i>feasible</i>	<i>feasible</i>	<i>feasible</i>	<i>feasible</i>
Prototype 2.B	<i>likely feasible</i>	<i>feasible</i>	<i>feasible</i>	<i>feasible</i>	<i>feasible</i>
Prototype 3.B	<i>likely feasible</i>	<i>feasible</i>	<i>feasible</i>	<i>likely feasible</i>	infeasible
Prototype 4.B	infeasible	<i>likely feasible</i>	<i>likely feasible</i>	<i>likely feasible</i>	infeasible

Development Prototypes & Feasibility

Findings from Sensitivity Test 5

The assumptions used in **Sensitivity Test 5** reflect a **reasonably conservative and optimistic view of development potential in Boyle Heights** for the near- and mid-term for the following reasons:

- The assumed **“high” market rents**, while higher than any currently seen within the CPA, are nonetheless discounted from rents of newer projects found in nearby neighborhoods like the Arts District and Little Tokyo. As the path of residential development continues east through the Arts District and other strong residential neighborhoods adjacent to Boyle Heights, market-rate rent appreciation for new multifamily housing is likely to follow. This represents a continuation of recent trends in multifamily housing over the past 10 years (see pages 34-35). New construction does not cause market-rate rents to rise for the existing housing stock. Rather, new development is likely to occur in markets where rents are rising due to demand outpacing supply, which occurs due to the interaction of various macroeconomic conditions.
- Assuming near-term **higher construction costs** is a reasonable hedge in the current inflationary environment.
- The **Schedule VI affordable rents** are a better fit than the higher Schedule I rents for the income needs of Boyle Heights families.
- **Higher parking ratios** than needed under current regulations reflect preference by market-rate developers in Los Angeles, who are generally reluctant to risk having an under-parked project in all but the most transit-supported sites.

Sensitivity Test 5 Key Findings:

- Only higher-density prototypes (e.g., Prototype 1 and Prototype 2) that can take full advantage of the available density bonus generate feasible returns.
- The 10% AL, 11% EL, and 15% VL set-aside options are feasible while 25% L is not.
- The expanded density bonuses in the draft BHCP are necessary incentives to support feasible development of market-rate units in the CPA.

Factors that may lead to increased feasibility over Sensitivity Test 5 include:

- Slower construction cost inflation (as modeled in the Initial Run and Sensitivity Tests 1-3 and 6-9).
- Adoption of lower set-aside requirements (as modeled in Sensitivity Tests 1 and 7).
- Adoption of higher affordable rent requirements (as modeled in Sensitivity Tests 2 and 8).
- Developer willingness to reduce parking (as modeled in Sensitivity Tests 6-11).

Factor that may lead to decreased feasibility over Sensitivity Test 5 include:

- “Medium” rather than “High” rent appreciation in Boyle Heights (as modeled in the Initial Run and Sensitivity Tests 1-2,4, 6-8,10).

Development Prototypes & Feasibility

Findings for Residential and Mixed-Use Zoned Sites

- The Market Analysis indicates that **market-rate multifamily housing development in Boyle Heights has been stagnant** for many years, and residential development activity in Boyle Heights has been confined mainly to 100% affordable housing projects that rely on local, state, and federal funding sources to construct and operate.
- Conversations with the development community reveal that several proposed projects in Boyle Heights never broke ground due to **concerns about achievable market rents, local opposition to development, and negative externalities** such as the COVID-19 economic downturn.
- The prototypes developed by AECOM to represent GPU-code-compliant residential uses test as infeasible under current market conditions (i.e., at current low rents and growing construction costs). However, the density bonus available through the Community Benefits Program for sites in community center and neighborhood center areas increases revenue enough to make these projects financially feasible. This suggests that the **Community Benefits Program as designed will help achieve goals of encouraging development and providing affordable housing in community center and neighborhood center areas.**
- On the other hand, **sites outside the community center and neighborhood center areas that use the Community Benefits Program as tested do not achieve financial feasibility.** Lower-density residential units remain infeasible under nearly all scenarios tested. Without revisions to the Community Benefits Program that increase available density bonus, these uses are unlikely to achieve feasibility under current market conditions.
- **In summary, the likely outcome of the Community Benefits Program as tested is it will encourage denser development and increased housing production in sub-areas and corridors zoned for community center and neighborhood center, and less dense residential neighborhoods will see far less development.**

Development Prototypes & Feasibility

Findings for Public Facilities Sites

Public facilities sites owned by the City of Los Angeles provide a potential resource for production of market-rate and affordable housing. The sites can be well-located, large, unencumbered by massing and density restrictions, and potentially available at subsidized cost. At the same time, disposition (either as a sale or long-term ground lease) triggers California's Surplus Land Act (SLA), which may complicate the conveyance process, as follows:

- Land must be declared as “surplus” or “exempt surplus” at regular public meeting
- Notice of Availability (NOA) must be sent to all interested CalHFA housing sponsors and certain local public entities (counties, school districts, housing authorities, redevelopment entities, etc.)
- 60 days must pass to allow NOA recipients to submit a Notice of Interest (NOI) to develop the land
- Review NOI(s) received and move forward with NOI that includes most affordable units at deepest affordability levels
- Negotiate in good faith for 90 days, attempt to reach agreement on disposition pricing and terms
- If an agreement cannot be reached, proceed to the next NOI; if there are no other NOIs, issue a Request for Proposals
- Send proposed disposition to HCD for review
- Address any HCD findings as needed
- Dispose of the land and record affordability covenant

Development Prototypes & Feasibility

Findings for Public Facilities Sites (cont.)

Options for exemption from the standard SLA process, allowing applicants to avoid the associated paperwork, delays, and costs, are summarized below and compared with requirements for BHCPU’s CBP.

Additional Considerations for Public Facilities Sites					
BHCPU Community Benefits Program (CBP)	Surplus Land Act				
	No Exemption	Exemption A Sec. 54221(f)(1)(F)(i)	Exemption B Sec. 54221(f)(1)(F)(ii)	Exemption C Sec. 54221(f)(1)(A)	
Affordability Requirements	Must satisfy one of the following in order to use incentives: - Extremely Low Income: 11% of units - Very Low Income: 15% of units - Lower Income: 25% of units	25% of units for Lower Income households , drops to 15% if no deal can be achieved after 60-day NOA period or 90-day negotiation period	At least 75% of units for Lower Income households and remainder for Moderate Income households	At least 25% of units for Lower Income households	40% of units for households at or below 60% of AMI, half of which must be for Very Low Income households
Other Requirements	Project must have at least 5 residential units in total and 30% of units must have 2 or more bedrooms in order to use incentives	N/A	N/A	Project must have at least 300 residential units in total and site must be at least 1 acre in size	At least 80% of site area must be used for housing

- As shown, Exemption B is a plausible option for larger Public Facilities sites. This option stipulates the same 25% Lower Income housing requirement as the BHCPU CPB.
- Smaller Public Facilities sites could also consider Exemptions A or C, although these have stricter affordability requirements that would likely require additional funding sources or subsidies to enable project feasibility. Alternatively, such projects could elect to move forward by adhering to the SLA without an exemption.

Development Prototypes & Feasibility

Findings for Public Facilities Sites (cont.)

Redevelopment of Public Facilities sites for residential and mixed uses provides the City with the opportunity to identify large, developable parcels and partner with the private and/or non-profit sectors to provide affordable housing. The formation of a public private partnership typically provides the following advantages:

- Access to Technology and Knowledge
- Improved Project Design and Performance
- Project Acceleration
- Reduced Risk to the Public Sector

The use of Public Facilities land in Boyle Heights for the conversion to residential and mixed use provides the City with the opportunity to develop affordable housing through the formation of a public private partnership. This allows the City to develop underutilized lands without significant financial risk, while providing a private partnership with access to cheaper land. The proforma analysis considers land acquisition and demolition costs. If there are no significant remediation costs (explained in more detail in the next several pages), a project could be considered feasible as long as the RLV is positive.

The SLA requirements on the previous page dictate specific terms and exemptions, but projects should typically provide at least 25% of units at affordable rates. Whether or not more affordable housing could be provided beyond the requirements of the Community Benefits Program could vary depending on the size and location of the parcels, requirements from the SLA, and the details of the public private partnership. These arrangements are likely best considered ad hoc for site-specific considerations. Nonetheless, the financial analysis suggests that development of public facilities land should be able to sustain the higher end of the affordable housing set-asides tested in the analysis.

Development Prototypes & Feasibility

Findings for Industrial Land Conversion

There are approximately 140 acres of industrially zoned land on the western edge of the Boyle Heights CPA, bordered by the LA River to the west, the 101 freeway to the east, 1st Street to the north, and 7th Street to the south. The City is considering an option of changing the zoning of these parcels to allow for the conversion from industrial uses to mixed use and residential land uses. Given the relatively higher value of land for parcels zoned for multifamily residential and mixed uses, there could be potential for the City to capture a portion of this value if the parcels were to be rezoned and redeveloped as mixed-income housing. There are several considerations to assess this potential:

- **Remediation Costs:** The redevelopment of industrial land to other uses typically requires environmental remediation to protect the local environment and community from potentially hazardous materials from the industrial site and improvements. These costs can range considerably depending on the previous tenants and building type and proposed future land use, from a few dollars per square foot above standard demolition costs to several million dollars per site if conditions mandate. These costs must be factored into the project feasibility of redevelopment sites. The cost of environmental remediation depends on site-specific conditions including Soil Management for Construction, Long-term Soil Factors, Groundwater Management for Construction, Long-term Groundwater Factors, Soil Vapor, and Geotechnical considerations.
 - While there is extreme variability in the direct costs of industrial conversion, numerous local and national studies have tracked and analyzed these costs. An academic survey of industrial conversion studies found an average remediation cost of \$338,000 per site, lowering property values by 10%-50% depending on site-specific characteristics¹. Another study from the DTSC in California, found an average cost of approximately \$250,000 per site for industrial sites orphaned to the state². As such, the economic logic of site conversion from industrial to residential and mixed uses varies depending on the costs associated with current and proposed land uses, and an environmental assessment of each site.
- **Current and Future Demand for Industrial Space:** While industrial land is often considered incompatible with other land uses, it also provides necessary services and the potential source of growth in employment and economic output. Unlike other land uses, the industrial land in Boyle Heights has commanded market rate rents that have trended in parallel to the city at large. This indicates a comparative advantage over residential and commercial land uses relative to the citywide average. Furthermore, industrial land has experienced a resurgence in demand throughout Southern California, as emerging businesses seek flex land uses to develop creative engineering and design spaces.
- **Relative Land Values:** Recent land sales transactions (refer to page 78) show that median land values for industrial land in Boyle Heights have sold for a median of \$90 per square foot compared to \$103 for multifamily residential and \$98 for retail/office. The 25th percentile at \$72 per square foot is also below that of \$81 for multifamily and \$79 for retail/office. The feasibility testing of mixed uses and residential prototypes under sensitivity scenarios with High market rent for Boyle Heights yield RLV ranging from \$200-\$300 per square foot. As such, the Community Benefits Program provides the potential incentives to make the conversion of public facilities/industrial land uses into mixed use and residential land uses feasible. This increase in land value could be captured by the City in the form of the provision of community benefits, while also helping a developer's bottom line.

(1) Environmental Contamination and Industrial Real Estate Prices, Jackson, Thomas (2002)

(2) 2018 Report on Estimated Direct Site Remediation Costs for National Priorities List and State Orphan Sites

Development Prototypes & Feasibility

Findings for Industrial Land Conversion (cont.)

The Center for Community Innovation at the University of California Berkeley carried out an assessment of industrial land conversion in the Bay Area that analyzed the industrial inventory and projected future demand for industrial land uses in 9 counties in the Bay Area Metro. The authors designed a diagnostic to guide jurisdictions through the decision-making process of converting from industrial land uses to residential or other commercial uses.

Diagnostic for Industrial Land Preservation and Conversion		
	Retain as Industrial	Convert to Residential
Transportation	Proximity to Freight and Port Facilities Low VMT for workers on industrial land	Proximity to Transit High VMT for workers on industrial land
Economy	Production or related employment Proximity to business clusters and markets Critical Supplier to local businesses Industry stable or growing	High-density non-production employment Proximity to markets/customers Limited linkages to local economy Industry in decline
Equity	Offers middle-wage jobs for workers	Potential for affordable housing
Land Use and Zoning	Surrounded by medium/heavy industrial zoning	Adjacent to residential land uses
Environment	Brownfield site, remediation infeasible	Environmental health hazard for surrounding communities
Adequacy of Supply	In areas with projected deficit of industrial land Low vacancy rates for industrial buildings	In areas with projected surplus of industrial land High vacancy rates for industrial buildings

Source: Center for Community Innovation, UC-Berkeley 2017

Development Prototypes & Feasibility

Findings for Industrial Land Conversion (cont.)

There is considerable uncertainty regarding the costs of industrial conversion, and the potential value of the land as residentially zoned parcels also depends not only on these real and perceived threats, but also to the land's desirability for residential development. The diagnostic on the previous page offers insight into the desirability of industrial land conversion for Boyle Heights, including the following opportunities and challenges:

- **Opportunities:** Conversion to residential and mixed uses could yield higher land values, higher rents, and value capture of upzoning and new development. The buildings being replaced could be older, contaminated, or hazardous. The industrial parcels could also be occupying space that is highly desirable for other land uses. Industrial properties benefit from proximity to transportation infrastructure, ports, logistical points of distribution. Their location near center of city, with views of downtown and access to river amenities and adjacent residential/commercial neighborhoods make them highly desirable for residential conversion. There is a strong demand for housing and other uses that rival or exceed that of industrial. The financial feasibility analysis yields potential RLV's for multifamily that are higher than the current market for industrial land.
- **Challenges:** The past few years have seen a steady increase in demand for industrial uses. There is a cluster of industrial lands in Boyle Heights that provides services, produces or distributes goods, and generates employment. If all the buildings do not convert to nonindustrial uses, then the desirability to build residential in an industrial zone would be minimal. There is risk in creating non-compatible uses between the parcels that convert and those that retain industrial uses, as industrial zoning typically have higher thresholds for noise, larger lots, deeper setbacks, and the allowance of heavy traffic. Office and retail uses remain in a slump post-COVID, while industrial properties are in high demand for multiple purposes.^{1 2} The market analysis found that industrial land prices and rents in Boyle Heights are high relative to other land uses, suggesting a comparative advantage for industrial land uses compared to the lower residential land values relative to the city-wide average.

There are numerous arguments to support the conversion of industrial land to residential and mixed uses. There are also numerous arguments against this conversion. The diagnostic reveals strong points for both, given the potential demand for and desirability of both industrial and residential uses in Boyle Heights. The mechanism for the City to capture a portion of this value through rezoning is not clear, as the potential costs vary significantly because of site-specific characteristics. For this reason, existing City processes for General Plan Amendments or other mechanisms to change land use designations or zoning codes, along with the proposed Community Benefits Program, offer the best mechanisms to allow for the conversion of industrial to mixed uses and the provision of affordable housing without mandating additional requirements. The City could enshrine the flexibility to convert or retain through the Community Plan Update, which would allow market forces to dictate whether these conversions are feasible to individual landowners and developers.

(1) Industrial Insight Q4 2022, JLL, Los Angeles Industrial Outlook (2023)
(2) The Future of the Industrial Real Estate Market, Deloitte (2019)

Mandatory Inclusionary Program Feasibility



Mandatory Inclusionary Program Feasibility

National Trends

Inclusionary housing programs promote production of affordable housing by requiring market-rate projects to set aside a portion of units as covenanted affordable. Typically, an inclusionary housing program will include incentives that help offset revenue loss associated with the affordable units. These incentives can include density bonuses or other concessions such as relief from parking or other formal requirements. Most inclusionary programs include alternative compliance mechanisms to providing affordable units onsite. These may include providing offsite units, converting market-rate units to affordable, and paying linkage or in-lieu fees, which generate revenue to support other affordable housing projects.

The first inclusionary housing program to be successfully implemented in the United States was in Fairfax County, Virginia in 1971. Since then, over 1,000 such programs have been implemented in 31 states. The following statistics are drawn from a survey conducted in 2019 and published in 2021, which includes broad data on inclusionary housing programs nationwide, including both mandatory and voluntary programs and inclusionary and linkage/impact fee programs.

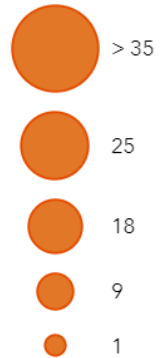
- 1,019 total inclusionary housing programs within 734 jurisdictions and 31 states nationwide as of 2019
- Nearly three quarters of programs are in New Jersey (28%), Massachusetts (23%), and California (22%)
- Average of 19 new inclusionary housing programs per year nationwide between 2011 and 2019
- 258 programs reported creating a total of 110,000 affordable units – 64% of these units were rental, 28% for sale, and 8% unknown tenure
- Average set-aside is 16% of a project’s total units designated as affordable, with 29% of programs requiring 20% affordable units or more
- 71% of programs are mandatory, while 29% are voluntary
- 71% of programs offer incentives, such as density bonuses (57%), zoning variances (24%) fee reductions/waivers (17%), expedited permitting (13%), etc.
- 62% of programs apply to the entire jurisdiction, while 32% apply to certain areas, and 6% apply to the entire jurisdiction with varying requirements
- 41% of programs require on-site affordable units while 49% allow other compliance options, such as in-lieu fees (49%), off site units (42%), etc.

Mandatory Inclusionary Program Feasibility

National Trends (cont.)

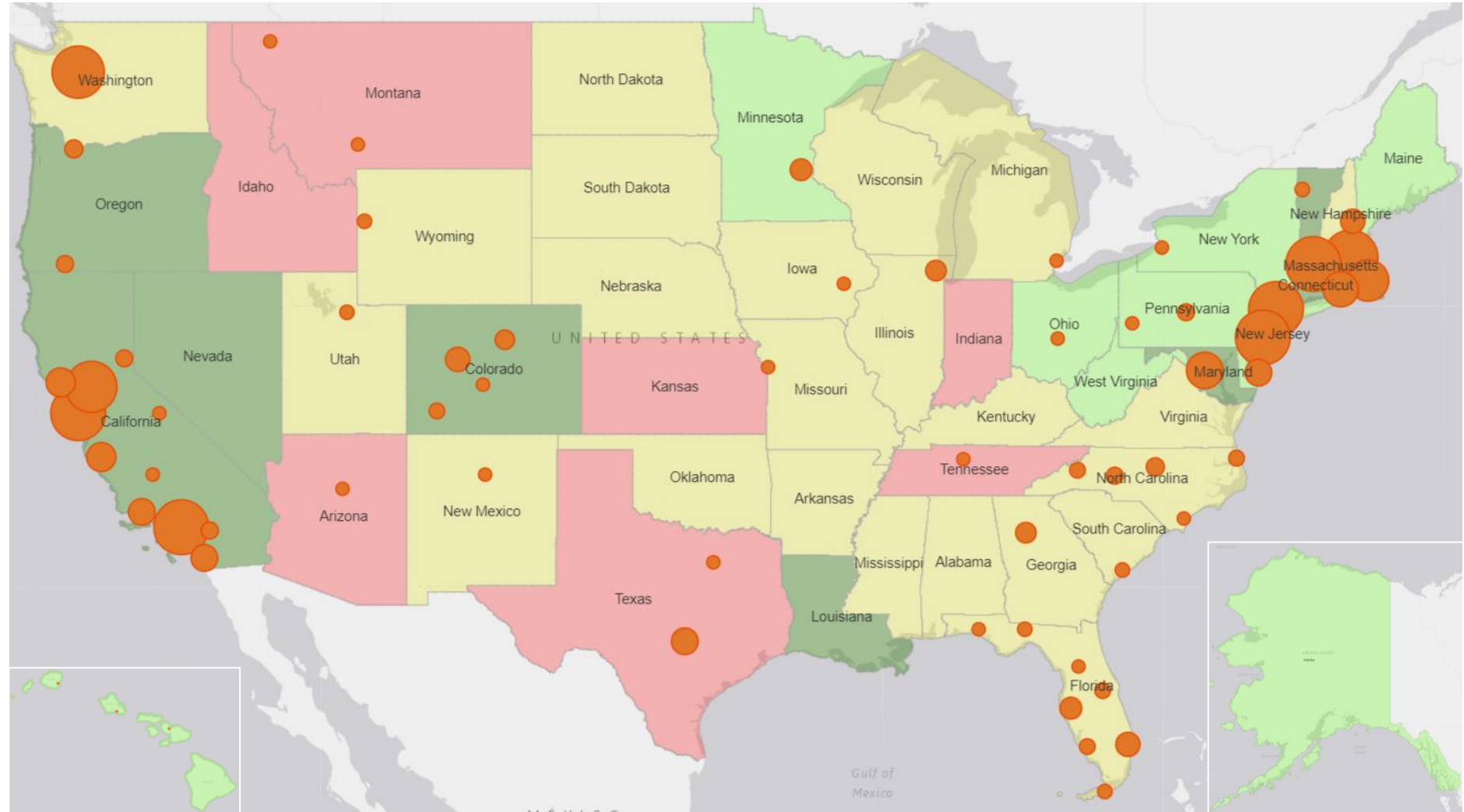
Inclusionary Housing Programs

Number of features



State Legal Frameworks for Inclusionary Housing Policies

- **IH PERMITTED:** All types of inclusionary housing policies are explicitly permitted by legislation.
- **NO BARRIERS TO IH:** The state is a "home rule" state and rent control is not prohibited nor are there other potential sources of risk under state law.
- **BARRIERS MAY EXIST TO IH:** Legal barriers may exist to local inclusionary housing policies (particularly mandatory policies that do not allow developers to "opt out" of the program), e.g. state law limits local rent control provisions or the state is a "Dillon's Rule" state and no statute expressly authorizes inclusionary housing measures.
- **IH PROHIBITED:** At least some form of local inclusionary housing policies (typically mandatory policies) are clearly prohibited for both ownership and rental housing, either by statute or by court decision.



Mandatory Inclusionary Program Feasibility

Challenges to Determining Best Practices

Several issues make it difficult to compare the performance of existing inclusionary housing programs to determine best practices. These issues include:

- **Different motivations and goals between jurisdictions:** While the impetus in some jurisdictions for inclusionary housing comes from communities demanding more housing diversity and affordability, other jurisdictions do so from regulatory pressures to encourage more affordable housing production, which can result in a program designed more to satisfy legal requirements than generate affordable units.
- **Non-standard classification and inconsistent record-keeping:** Inclusionary housing is typically one of many programs a jurisdiction will employ to encourage affordable housing production. While jurisdictions usually track affordable housing inventory, they do not often attribute the source of new units to one program or another. Furthermore, because incentives from many sources may be combined to help fund production (e.g.: in-lieu fees and Low-Income Housing Tax Credits may be combined to help finance a 100% affordable project), attribution to one program or another is difficult.
- **Different underlying market conditions between jurisdictions and over time:** Because inclusionary housing policies rely heavily on private market investment, program success often tracks market conditions. For example, a program established in 2008 or 2009 during the Great Recession would likely have underperformed compared to a program established during the market rebound in 2010 or 2011. Also, demand for housing and certain housing types is the result of economic conditions exogenous to housing policy. While a policy might be well tailored to a housing market, several factors impact demand for and supply of new residential development.

Mandatory Inclusionary Program Feasibility

Best Practices

As a body of evidence from long-established programs has formed, several general themes for successful programs have emerged:



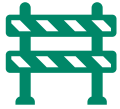
Tailor program to area-specific market and regulatory conditions: Inclusionary housing programs closely calibrated to a jurisdiction's market & regulatory conditions and—where applicable—to distinctions between sub-areas do best in producing affordable units without having adverse impacts on housing production. This typically entails, at minimum, conducting an economic feasibility study before establishing set-aside requirements. Periodic updates to reflect changing market conditions are also recommended.



Flexible compliance options: Programs that offer a wide range of alternative compliance options such as in-lieu fees, off-site development, land dedications, or a range of set-aside AMI tiers typically perform better than those that don't, because flexibility allows developers to pursue a wider and more creative range of strategies to satisfy policy goals.



Provide incentives and offsets: Programs that offer a broad range of options that help developers recoup revenues lost to rent-restricted units show little evidence of having an adverse impact on overall housing production, whereas evidence exists that programs lacking incentives may suppress overall production. These can include reduced or waived permitting fees, expedited or ministerial entitlement and approvals, and density bonuses.



Reductions in regulatory barriers to development: Regulatory barriers may increase development costs or limit flexibility to use offsets and incentives for affordable housing development that, if lowered, can help inclusionary housing programs be more effective. For example, height limits present challenges to applying density bonuses where building taller represents the only feasible means of applying them. Lengthy discretionary approval processes may discourage developers from seeking offsets and incentives to which they are otherwise entitled. Building parking in a residential development is costly, and high mandatory parking requirements increase the development cost burden.



Alternative and complementary affordable housing programs within jurisdiction: Jurisdictions that offer a wide range of tools to support affordable housing production typically have more effective inclusionary housing programs, because the alternatives give developers additional resources to help fund development. Furthermore, key stakeholders in these jurisdictions are typically more committed to the goals of housing affordability, which leads to stronger community support, a more knowledgeable development community, and better Staff capability to leverage all available financing tools.



Phasing: A phasing-in of program parameters and/or minimum thresholds may help ensure a smooth transition for transactions and projects currently under development or in process.

Mandatory Inclusionary Program Feasibility

Implementation Challenges

- **Legal and Political Challenges:** While Inclusionary Housing has a long history in the state of California, several legal decisions have challenged or confirmed a jurisdiction's legal ability to enforce a mandatory inclusionary housing program. In 2009, *Palmer/Sixth Street Properties L.P. v. City of Los Angeles* challenged and overturned a mandatory inclusionary housing program for rental properties, while *CBIA v. City of San Jose* in 2015 reaffirmed the legality of mandatory inclusionary housing programs and eliminated the need for a clear nexus between market rate housing production and the need for affordable housing. To clarify the legal issue and establish clear guidelines for jurisdictions, the State of California adopted AB 1505 in 2017 which legalized mandatory inclusionary programs statewide so long as certain criteria were met. One such condition is that the inclusionary housing program does not unduly constrain housing production in that housing market. While this clause is open to speculation and customization by individual housing markets, the majority of jurisdictions with mandatory inclusionary programs find a compromise with their development communities that a program should not lower RLV or the Return on Cost (ROC) below an established threshold. Because the financial feasibility testing in Boyle Heights found market rate development at base density to be mostly infeasible, an additional affordable set-aside requirement would be a strong impediment to future housing development in this housing market. While the Community Benefits Program generally increases feasibility across the prototypes tested, a jurisdiction cannot mandate a developer use a density bonus beyond what is permitted by the zoning code. Therefore, a mandatory inclusionary housing program specific to the Boyle Heights Community Plan Area would likely be counterproductive to housing production and encounter legal and political challenges from the development community.
- **Management Overhead:** One of the demonstrated challenges that the State Density Bonus Law has faced since its inception is the burden it places on staff to process, qualify, and implement the program on a project-by-project basis. A mandatory inclusionary program in Boyle Heights would take its place among several other mostly complementary but sometimes conflicting pro-housing programs, adding management overhead burden to implementation of the State Density Bonus Law, Transit Oriented Communities, and the Affordable Housing Overlay among other programs.
- **Alignment of Land Use Regulations with Density Bonus Incentives:** The effectiveness of density bonus incentives can differ depending on underlying zoning and site conditions. For example, where existing zoning allows high density, a density bonus may not make a meaningful difference in project feasibility. Alternately, the parcel pattern in a low-density area may present challenges to assembling enough land to achieve the scale necessary to properly take advantage of a density bonus.

Mandatory Inclusionary Program Feasibility

Boyle Heights Recommendation

- **Current Market Conditions May not be Strong Enough:** In general, mandatory inclusionary programs are most effective when they are implemented in strong markets where market rate development tends to be financially feasible without incentives or subsidies. Rental rates in multi-unit buildings are 30% lower in Boyle Heights compared to the City of Los Angeles as a whole. This is further evidenced by the fact that most new development in Boyle Heights has been affordable housing rather than market rate housing, as affordable projects can be feasible as a result of subsidy funding in areas where market rate development would not be feasible. In this market circumstance, it may be arguable that rather than have its own inclusionary policy, Boyle Heights should be granted an exception to complying with the city-wide program.
- **Development Prototypes Under Current Market Conditions are Infeasible:** As tested earlier in this report, the residual land values in base case (all market) scenarios generally fall below Boyle Heights land values. This reflects the generally low rents that the market currently supports. Adding the additional burden of setting aside a portion of units as affordable will only make these returns worse and further impede development. Preliminary testing of the baseline prototype with set-aside requirements offered in the Community Benefits Program yield RLVs that are negative or close to zero, all of which fall short of the industry standard for feasible requirements in a housing market.
- **Many other Pro-housing Programs Concurrently Under Development.** The City is in the process of implementing a new citywide zoning code, studying a citywide mandatory inclusionary policy, and exploring options to revise its value capture ordinance and affordable housing overlay areas among other policy initiatives. In order that policy in Boyle Heights mesh with citywide policies, it is prudent that these be fully understood before undertaking a mandatory inclusionary program in the CPA. **A wait-and-see approach** should help in crafting an inclusionary policy for Boyle Heights that is fully integrative.

Mandatory Inclusionary Program Feasibility

Boyle Heights Recommendation

- **Mandatory vs Voluntary Inclusionary Housing Program:** Nationwide, approximately 70% of inclusionary programs are mandatory, and 30% are voluntary. Depending on the regulatory and market conditions of the jurisdiction, there are reasons a mandatory or voluntary program would create the most potential impact on the development of affordable and market-rate housing. Historically, mandatory programs have created more affordable housing at all levels of affordability. However, mandatory programs are more common in jurisdictions with already strong housing markets. Recent data from a comprehensive national analysis found that 8 out of 20 of the most productive programs were voluntary (Wang and Balachandran 2021). While a mandatory program ensures that new development will include affordable housing set-asides or their equivalents, it also raises the costs of development and creates a disincentive to market-rate housing production. Where the market is weak, mandatory programs are likely to lower the rate of both market housing, and by consequence, affordable housing. While voluntary programs do not guarantee that new development includes affordable housing, incentives can offer powerful benefits to developers, most commonly through density bonuses, that often improve the development's bottom line and increase the production of both market-rate and affordable housing. In markets with strong demand and development track records, a mandatory program is likely to yield positive results for affordable housing production. In weaker markets, voluntary programs will not further burden stagnant market-rate development and are likely to produce affordable housing as well. Development and implementation of an inclusionary housing program should be tailored to these underlying conditions and considerations of future development. Given the recent track record in Boyle Heights, a voluntary program is a better fit.
- **Potential Impact of Community Benefits Program:** Because of the lack of recent market-rate development in Boyle Heights and results of the pro-forma financial feasibility testing that yield infeasible results for prototypes in the base case, a mandatory program appears to be the wrong policy to encourage new market-rate and mixed income development. The density bonus scenarios as designed in the Community Benefits Program increase feasibility of the prototypes tested and offer a suite of incentives that should encourage development. It is likely that most development in the future would utilize the density bonus and provide the City and Boyle Heights CPA with community benefits in the form of affordable housing. The result would be a de-facto mandatory inclusionary program wherein new development is only feasible using the Community Benefits Program. The result would be increased market-rate and affordable housing development without the complexities and legal battles of implementing a mandatory program. As currently proposed, the voluntary incentive-based program in the Community Benefits Program is likely to be more effective to advance the Community Plan's housing goals.