Boyle Heights Community Plan Update

Draft Regulations Economic Feasibility Assessment: Additional Considerations

Addendum to the Boyle Heights Economic Feasibility Study

June 2023

AECOM

Additional Considerations

Introduction

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 the production of affordable housing.

In May of 2022, AECOM was retained by the City to assess the economic feasibility of the proposed benefits program and development regulations, and to provide feedback to help the City adjust plan parameters. The study began in June of 2022 and a final report was delivered by AECOM in February of 2023.

In April of 2023, the City Planning Commission considered and recommended for approval the Proposed Boyle Heights Community Plan. In that meeting and subsequent discussions with the public and elected officials, two additional considerations arose that the City has decided to analyze before the Proposed Plan is presented to the Planning & Land Use Management Committee and full City Council later in 2023. These two additional considerations are:

- **Family-Sized Unit Requirement:** The Proposed Plan requires housing projects wishing to use the incentives in the Community Benefits Program (density bonus, FAR bonus, height bonus, parking reduction, etc.) to include at least 30% of total units as units with 2 or more bedrooms. The City wishes to evaluate the possibility of increasing that requirement from 30% to 40%.
- **Exemptions to the Family-Sized Unit Requirement:** The Proposed Plan provides an exemption to the family-sized unit requirement for 100% affordable projects (i.e., 100% affordable projects can use the incentives without satisfying the requirement). The City wishes to evaluate the possibility of narrowing this exemption to only include certain types of 100% affordable projects, such as Permanent Supportive Housing, Veteran Housing, and Senior Housing, as these types of housing are known to have higher demand for smaller unit types like studios and 1-bedrooms.

The City and AECOM expanded the scope of work within their existing contract in May of 2023 to include supplemental due diligence pertaining to these two additional considerations. The following pages outline AECOM's analysis and findings related to this work. This addendum is intended to accompany the Boyle Heights Community Plan Update Economic Feasibility Analysis delivered to the City in February of 2023.

Market Assessment

Market Assessment

Household Size and Unit Size

AECOM's market assessment builds upon findings provided in the initial deliverable (Phase 1) while providing additional insight into housing supply and demand dynamics related to unit and household sizes. This data reveals the following:

- Boyle Heights lost 4.8% of its households (and occupied housing units) between 2011 and 2021, despite 5.5% growth citywide.
- Average household and unit size decreased in Boyle Heights and citywide, and the decrease was more severe in Boyle Heights.
- Boyle Heights has a higher average number of persons per bedroom at 1.71 than the City of LA at 1.24Z.
- The average number of persons per bedroom decreased in Boyle Heights and citywide between 2011 and 2021, and the decrease was more severe in Boyle Heights.

Household Size[1]

	City of Los Angeles						Boyle Heights					
# of Persons	**2011**		**2021**		**Change**		**2011**		**2021**		**Change**	
in Household	**#**	**%**	**#**	**%**	**#**	**%**	**#**	**%**	**#**	**%**	**#**	**%**
1 person	392,423	30%	423,225	31%	30,802	7.8%	3,831	16%	4,359	19%	528	13.8%
2 persons	364,133	28%	396,002	29%	31,869	8.8%	4,595	19%	4,856	22%	261	5.7%
3 persons	200,660	15%	214,156	15%	13,496	6.7%	3,397	14%	3,990	18%	593	17.5%
4 persons	178,137	14%	181,911	13%	3,774	2.1%	4,675	20%	3,493	16%	-1,182	-25.3%
5 persons	95,805	7%	93,620	7%	-2,185	-2.3%	3,241	14%	2,716	12%	-525	-16.2%
6 persons	43,616	3%	40,704	3%	-2,912	-6.7%	1,885	8%	1,447	6%	-438	-23.2%
>6 persons	38,209	3%	35,223	3%	-2,986	-7.8%	1,975	8%	1,606	7%	-369	-18.7%
Total	**1,312,983**		**1,384,851**		**71,858**	**5.5%**	**23,599**		**22,467**		**-1,132**	**-4.8%**
Weighted Avg*	**2.62**		**2.56**		**-0.06**	**-2.4%**	**3.53**		**3.27**		**-0.26**	**-7.2%**

Source: US Census Bureau; ACS; 2021 and 2011 ACS 5-Year Estimates, Census Table B25009, Housing Element Table 1.10

** The Census Bureau aggregates counts for all households with more than 6 persons into a single category. For the calculation, AECOM conservatively used 7 persons*

Unit Size

	City of Los Angeles						Boyle Heights					
# of Bedrooms	**2011**		**2021**		**Change**		**2011**		**2021**		**Change**	
in Unit	**#**	**%**	**#**	**%**	**#**	**%**	**#**	**%**	**#**	**%**	**#**	**%**
0 bedrooms	112,145	9%	146,452	11%	34,307	30.6%	2,793	12%	2,246	10%	-547	-19.6%
1 bedroom	331,333	25%	323,778	23%	-7,555	-2.3%	5,734	24%	5,690	25%	-44	-0.8%
2 bedrooms	414,896	32%	428,669	31%	13,773	3.3%	8,134	34%	8,354	37%	220	2.7%
3 bedrooms	301,863	23%	317,624	23%	15,761	5.2%	4,826	20%	4,480	20%	-346	-7.2%
4 bedrooms	114,435	9%	127,429	9%	12,994	11.4%	1,648	7%	1,394	6%	-254	-15.4%
>4 bedrooms	38,311	3%	40,899	3%	2,588	6.8%	464	2%	303	1%	-161	-34.7%
Total	**1,312,983**		**1,384,851**		**71,868**	**5.5%**	**23,599**		**22,467**		**-1,132**	**-4.8%**
Weighted Avg*	**2.07**		**2.06**		**-0.01**	**-0.6%**	**1.92**		**1.91**		**-0.01**	**-0.7%**

Source: US Census Bureau; ACS; 2021 and 2011 ACS 5-Year Estimates, Census Table B25042, Housing Element Table 1.18

** The Census Bureau aggregates counts for all housing units with more than 5 persons into a single category. . For the calculation, AECOM conservatively used 5 bedrooms*

Persons per Bedroom

	City of Los Angeles				Boyle Heights			
	2011	**2021**	**Change**		**2011**	**2021**	**Change**	
			#	**%**			**#**	**%**
Weighted Avg	1.27	1.24	-0.02	-1.8%	1.83	1.71	-0.12	-6.6%

(1) The weighted average differs from data presented in Phase 1 and on the following pages because of the updated source (2017-2021 ACS vs. 2020 Census), and because of the nature of the data that classifies Household and Unit Size in tranches with maximum values (6 persons and 5 bedrooms). This analysis is focused on assessing the compatibility for household and unit sizes, and potential gaps in the current housing inventory.

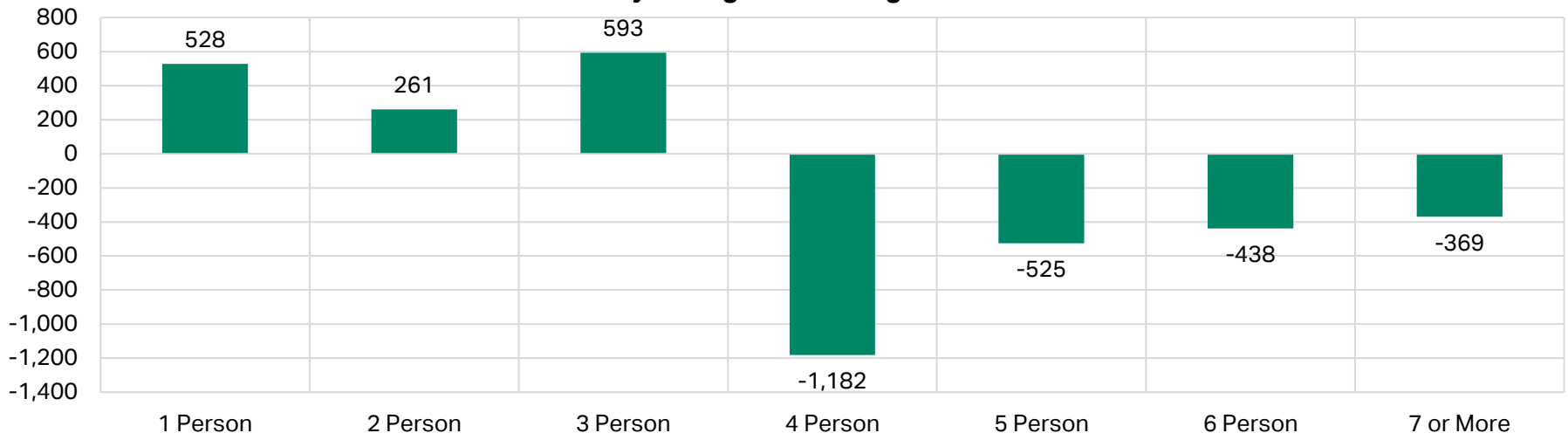
Market Assessment

Household Size

As shown in the map on the right, the average size of households across Boyle Heights census tracts all exceed 3 persons with the lowest being 3.49 persons (CT 2036.02) and the highest being 4.78 persons (CT 2041.10). These numbers are higher than the weighted averages on the previous page, which are intended to provide comparability with unit sizes rather than accurately represent average family sizes.

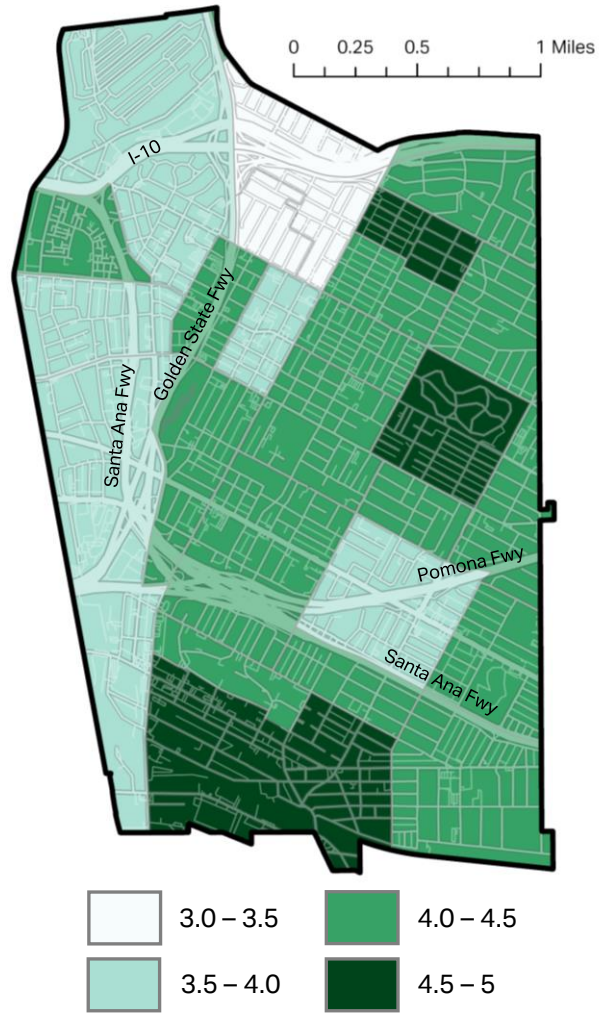
Although household sizes are larger than citywide averages in Boyle Heights, the chart below highlights data from the previous page that shows why average household sizes in Boyle Heights have decreased. Between 2011 and 2021, Boyle Heights added a combined 1,382 smaller households (1 – 3 persons) and lost a combined 2,514 larger households (4 persons or more). This trend is the result of a few potential factors: 1) larger households are moving out of Boyle Heights and being replaced by smaller households, and/or 2) existing Boyle Heights households are becoming smaller as children graduate and move out, as people pass away, and/or as intergenerational households separate into multiple housing units.

Change in Households by Size, 2011 to 2021
Boyle Heights, Los Angeles, CA



Average Family Size by Census Tract

Boyle Heights, Los Angeles (2021)



Source: US Census Bureau; ACS; 2021 ACS 5-Year Estimates, Table S1101

Market Assessment

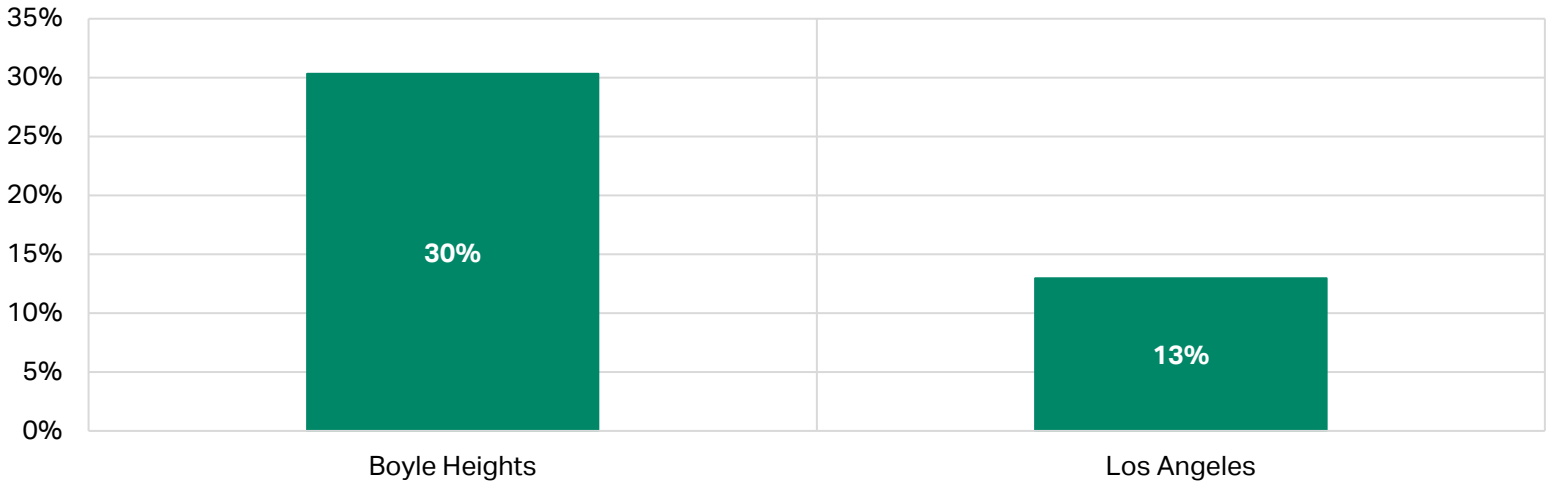
Measuring Overcrowded Units in Boyle Heights and Los Angeles

"Overcrowding" in the context of housing is defined by the Census Bureau and City of Los Angeles' Housing Element as instances where there are more than 1.01 household members per room (including bedrooms, kitchens, and living spaces, but not bathrooms).

Despite the decrease in average household size in Boyle Heights, the neighborhood's "overcrowding rate" is still twice as high as the City's. Thirty percent of Boyle Heights households live in units in which there are more than 1.01 persons per room, compared to 13% citywide. The map on the right shows how this metric varies throughout the census tracts that comprise Boyle Heights.

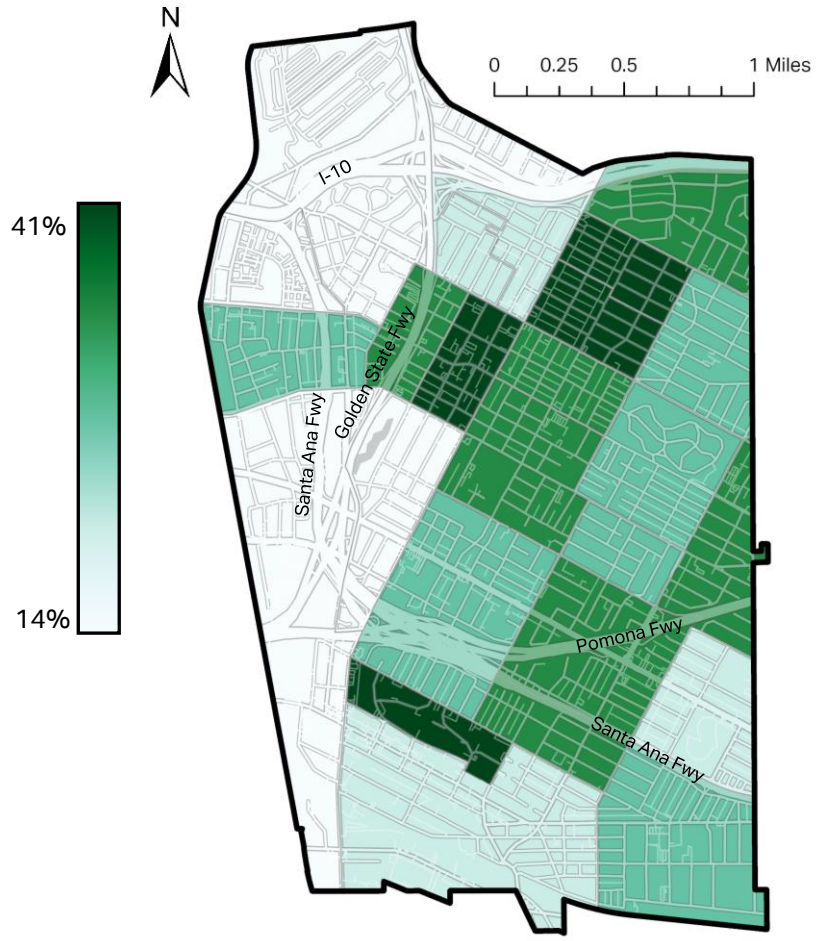
This indicates that more housing is needed in Boyle Heights, especially larger housing units with multiple bedrooms.

Percent Overcrowded (>1.01 Persons per Room)



Percentage of Units Overcrowded (>1.01 Persons per Room)

Boyle Heights, Los Angeles (2021)



Source: US Census Bureau; ACS; 2021 ACS 5-Year Estimates, Table S1101

Market Assessment

Incomes Needed to Achieve Rent by Unit Size

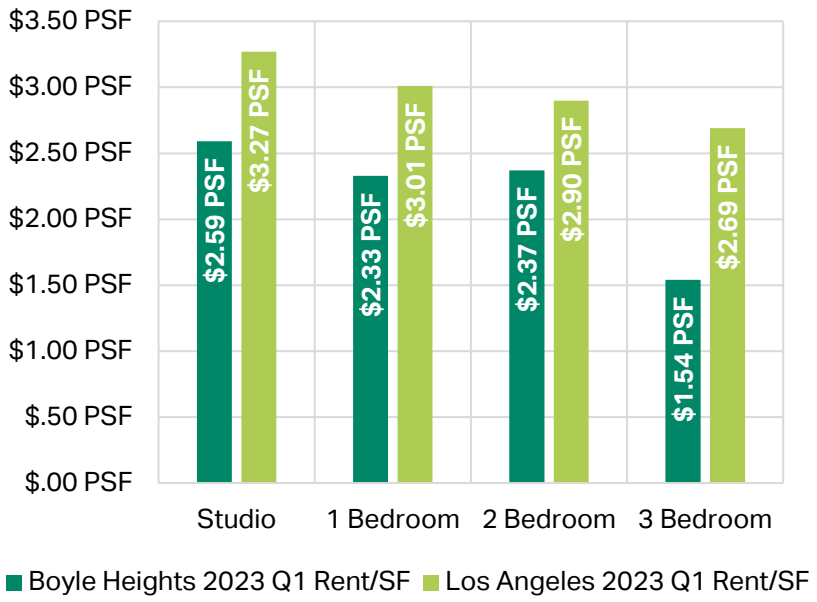
The table below quantifies the annual income that is needed to afford average rents within Boyle Heights and the City of LA. This analysis assumes that households spend 30% of their income on housing expenses, which aligns with HUD's definition of housing cost burdens – in other words, households that spend more than 30% of their income on housing are considered to be cost burdened. This creates challenges for households as they attempt to cover other costs, such as healthcare, education, groceries, clothing, and other living expenses.

As of 2023, the median household income for Boyle Heights households was $52,349 (ESRI Business Analyst). Contextualized with the most recent data from CoStar on current market asking rents (as shown in the chart on the right), this implies the following rental cost-burden, by unit type[1]:

- Studio → 22%
- 1 Bedroom → 31
- 2 Bedroom → 40%
- 3 Bedroom → 45%

Given the large average household size in Boyle Heights (approximately 3.8 persons/HH), the cost burden of the studios and 1 Bedroom units underplay the severity of the cost burden many households face.

Market Rents in Boyle Heights and Los Angeles city, 2023 Q1



Rental Rates vs Income Needed to Afford Rent

# of Bedrooms	City of Los Angeles 2023 Avg Rent	Rent / Income	Annual Income Needed to Afford Rent	Boyle Heights 2023 Avg Rent	Rent / Income	Annual Income Needed to Afford Rent
Studio	$1,599	30%	$63,960	$979	30%	$39,160
1 bedroom	$1,999	30%	$79,960	$1,366	30%	$54,640
2 bedrooms	$2,804	30%	$112,160	$1,745	30%	$69,800
3 bedrooms	$3,372	30%	$134,880	$1,968	30%	$78,720

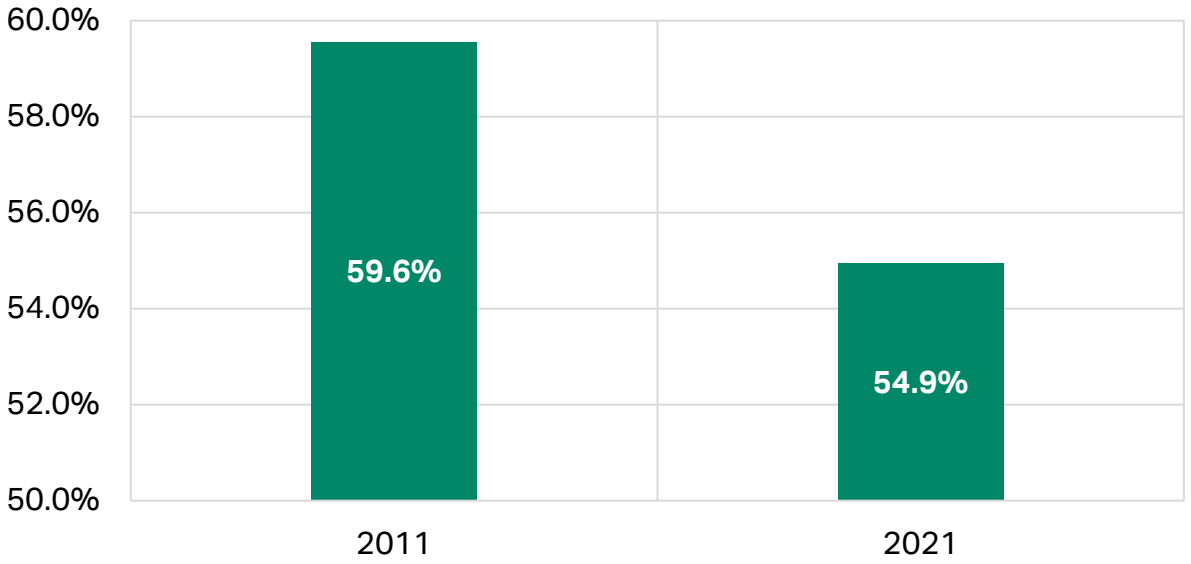
Source: CoStar - Los Angeles city, CA (USA) Multi-Family, Housing Element Table 1.25

(1) While the 30% of household income for housing costs is HUD's standard for assessing cost-burden, many rental agreements do not include utility costs. As such, the cost-burden is often higher than what the prevailing rent indicates.

Market Assessment

Boyle Height's Rental Cost-Burden

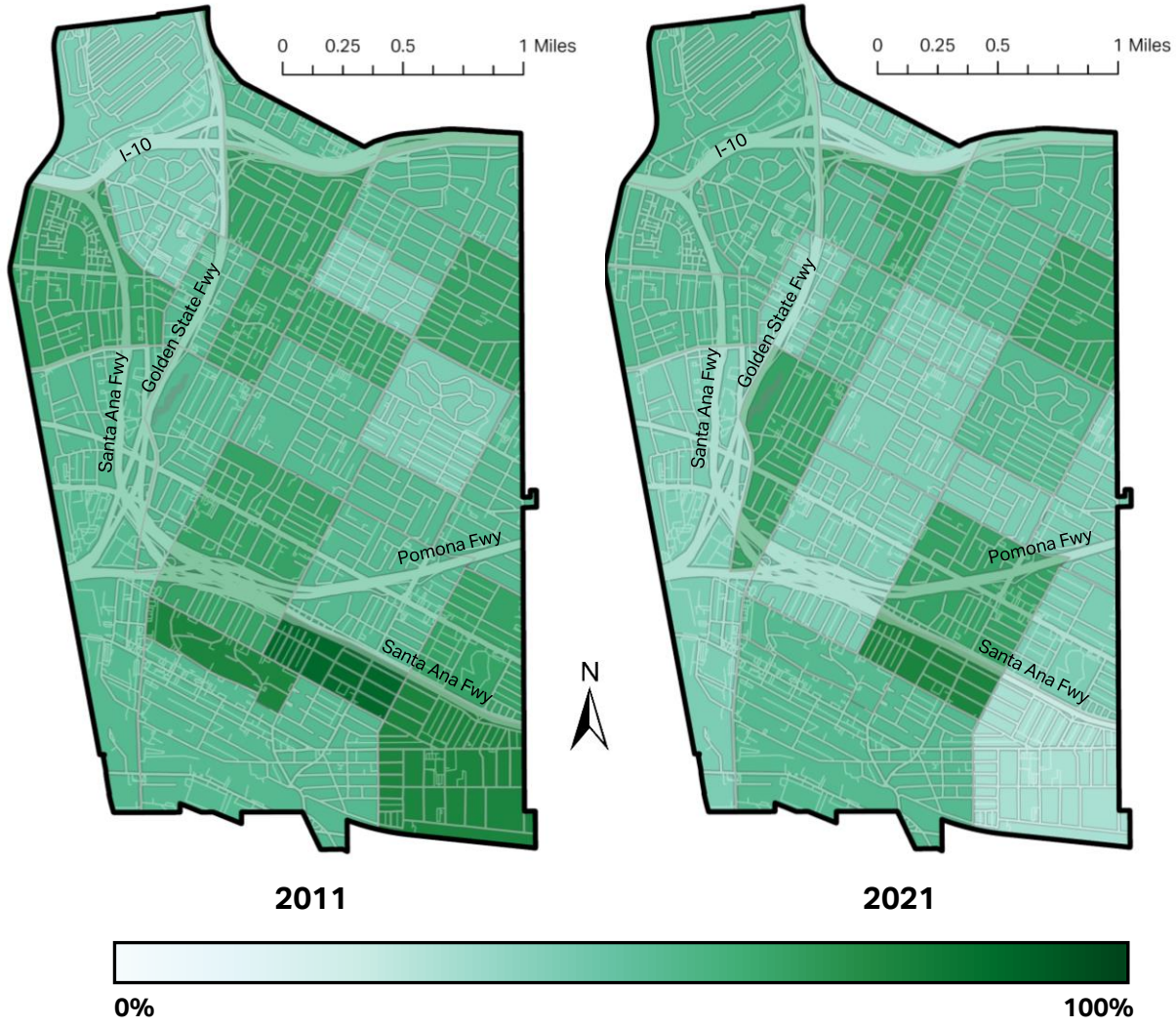
Share of Renter-Occupied Units with a housing-cost burden >30% Boyle Heights, Los Angeles (2011 - 2021)



The share of renter-occupied households with a housing cost burden greater than 30% in Boyle Heights decreased by roughly 5% between 2011 and 2021. However, the minimum share of households experiencing this cost-burden by census tract is still significant at 41% (CT 2041.10) in 2011 and 39% (CT 2049.20) in 2021. As evidenced by the most recent 5-year estimates from the ACS, fewer Boyle Heights renters are experiencing a significant cost-burden, but those renters who do experience a significant cost-burden are concentrated in a few census tracts.

Share of HHs with a Rental Cost Burden >30% by Census Tract

Boyle Heights, Los Angeles (2011 – 2021)



Source: US Census Bureau; ACS; 2021 and 2011 ACS 5-Year Estimates, Table B25070

Market Assessment

Market Rate vs Affordable Housing

The proposed BHCPU Community Benefits Program (CBP) is intended to shape future development trends of both mixed-income and affordable housing. The table below summarizes some of the supply and demand dynamics for both types of housing in Boyle Heights, both in general and as pertaining to unit sizes.

As shown, CoStar data estimates that 44% of Boyle Heights' multi-unit housing stock has 2 or more bedrooms. This share is higher among affordable/mixed-income properties (45%) than it is for entirely market rate properties (36%), which is unsurprising given that many affordable housing funding programs already incentivize projects that provide more of these larger unit types.

Vacancy rates tend to be higher for studio/1-bedroom units compared to larger unit types, supporting the notion that the larger unit types are most severely undersupplied. Rental rates also highlight why the market tends to undersupply larger unit types – as unit size increases, rent per square foot tends to decrease.

Total Boyle Heights Multi-Unit Housing Stock

	Studios	1 Bedrooms	2 Bedrooms	3 Bedrooms	4+ Bedrooms	2+ Bedrooms	Total Units
Inventory (#)							
All Multi-Unit Buildings	**1,186**	**3,152**	**2,503**	**677**	**218**	**3,398**	**7,736**
Affordable & Mixed-Income Buildings	432	706	404	338	174	916	**2,054**
Market Rate Buildings	1,411	1,860	1,512	249	53	1,814	**5,085**
Inventory (%)							
All Multi-Unit Buildings	**15%**	**41%**	**32%**	**9%**	**3%**	**44%**	**100%**
Affordable & Mixed-Income Buildings	21%	34%	20%	16%	8%	45%	**100%**
Market Rate Buildings	28%	37%	30%	5%	1%	36%	**100%**
Vacancy							
All Multi-Unit Buildings	**4.0%**	**1.8%**	**1.7%**	**1.4%**	**0.7%**		**2.3%**
Affordable & Mixed-Income Buildings	1.4%	0.6%	0.4%	0.5%	0.1%		**0.7%**
Market Rate Buildings	4.8%	2.2%	2.0%	2.7%	1.9%		**2.9%**
Rent per Square Foot							
All Multi-Unit Buildings	**$2.60**	**$2.35**	**$2.44**	**$1.51**	**$1.50**		**$2.17**
Affordable & Mixed-Income Buildings	$1.39	$1.49	$1.26	$1.11	$1.40		**$1.30**
Market Rate Buildings	$2.91	$2.88	$2.90	$2.53	$2.37		**$2.85**

Source: CoStar

Market Assessment

Affordable Housing – LIHTC Projects

The table below provides insight into the unit mix of Low-Income Housing Tax Credit (LIHTC) projects that have been constructed in Los Angeles County and Boyle Heights since 2010. The chart on the following page also summarizes this same data. As shown, these projects account for a total of nearly 48,000 housing units throughout LA County and 1,487 units in Boyle Heights. In LA County and Boyle Heights, 38% and 53% of these units have 2 or more bedrooms, respectively. The higher share of larger units in Boyle Heights is not surprising given the demographics and strong advocacy surrounding this issue and the fact that many of these projects were likely seeking to compete within CTCAC's "Large Family" set-aside. This category requires projects to include 25% of units with 2 or more bedrooms and an additional 25% of units with 3 or more bedrooms.

However, unit mixes are not uniform across all housing types. Permanent Supportive Housing and Senior housing project unit mixes are heavily skewed toward smaller unit types (studios and 1-bedroom units). This is also true (albeit to a lesser extent) with Veteran housing projects. This trend is complicated by the fact that many housing developments have units at multiple income levels or multiple target populations, underscoring the need for the BHCPU's Community Benefits Program to be flexible in order to maximize effectiveness. These data highlight the potential relevance of providing exemptions to the BHCPU's Family-Sized Unit Requirement for projects that provide Permanent Supportive, Senior, Veteran, and other types of housing that target households at or below 30% AMI.

All LIHTC Projects Built Since 2010

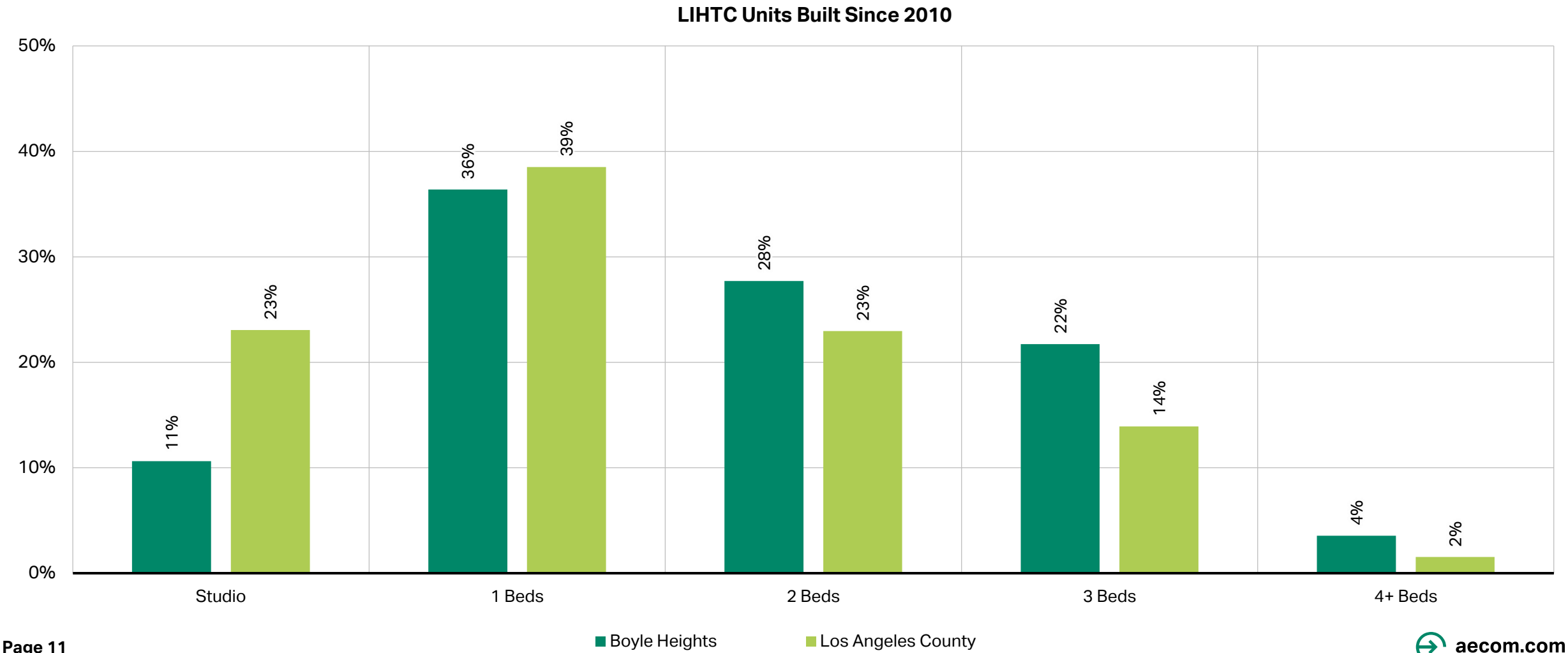
	Los Angeles County							Boyle Heights						
	Studios	1 Beds	2 Beds	3 Beds	4+ Beds	2+ Beds	Total Units	Studios	1 Beds	2 Beds	3 Beds	4+ Beds	2+ Beds	Total Units
Inventory (#)														
All Projects	**11,029**	**18,428**	**10,986**	**6,654**	**735**	**18,375**	**47,832**	**158**	**541**	**412**	**323**	**53**	**788**	**1,487**
Projects with 0-49% PSH units	7,394	14,309	9,661	5,935	729	16,325	**38,028**	37	438	328	265	53	646	**1,121**
Projects with 50-95% PSH units	2,062	3,092	1,144	691	6	1,841	**6,995**	34	90	78	58	-	136	**260**
Projects with 95-100% PSH units	1,573	1,027	181	28	-	209	**2,809**	87	13	6	-	-	6	**106**
Senior	2,134	6,465	613	2	-	615	**9,214**	7	179	12	-	-	12	**198**
Veteran	304	145	114	73	-	187	**636**	-	-	-	-	-	-	**-**
Inventory (%)														
All Projects	**23%**	**39%**	**23%**	**14%**	**2%**	**38%**	**100%**	**11%**	**36%**	**28%**	**22%**	**4%**	**53%**	**100%**
Projects with 0-49% PSH units	19%	38%	25%	16%	2%	43%	**100%**	3%	39%	29%	24%	5%	58%	**100%**
Projects with 50-95% PSH units	29%	44%	16%	10%	0%	26%	**100%**	13%	35%	30%	22%	0%	52%	**100%**
Projects with 95-100% PSH units	56%	37%	6%	1%	0%	7%	**100%**	82%	12%	6%	0%	0%	6%	**100%**
Senior	23%	70%	7%	0%	0%	7%	**100%**	4%	90%	6%	0%	0%	6%	**100%**
Veteran	48%	23%	18%	11%	0%	29%	**100%**	-	-	-	-	-	-	-

Source: CTCAC

Market Assessment

Affordable Housing – LIHTC Projects

The chart below summarizes the data on the previous page, showing that LIHTC projects in Boyle Heights have included more units with multiple bedrooms than the countywide average since 2010.

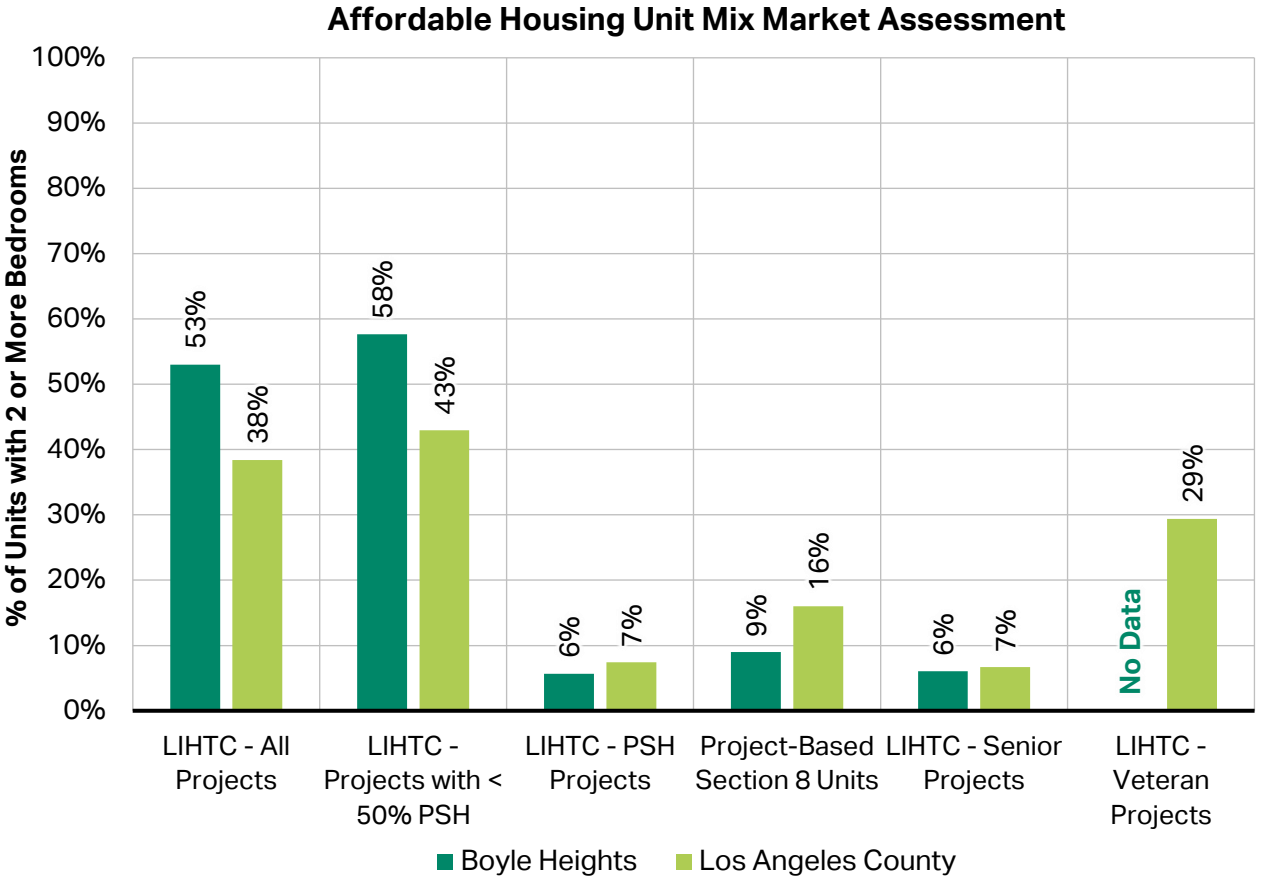


Market Assessment

Affordable Housing Unit Mix Summary

AECOM also consulted Project-Based Section 8 (PBS8) data from HUD to assess the potential impact of exempting certain housing types from the BHCPU's Family-Sized Unit Requirement. As shown below, there are over 19,000 PBS8 units throughout Los Angeles County, 851 of which are in Boyle Heights. Just 16% of Los Angeles County and 9% of Boyle Heights PBS8 units have 2 or more bedrooms, well below the 30% or 40% that could be required by the BHCPU's CBP. The vast majority of PBS8 units serve households at or below 30% of the AMI.

The chart on the right summarizes the affordable housing unit mix data from the previous 2 pages for both Boyle Heights and Los Angeles County. While the proposed 30% or 40% family-sized unit requirement may be appropriate for certain types of housing in Boyle Heights, it does not seem relevant for certain types of affordable housing – namely, Permanent Supportive Housing (PSH) projects, Senior Housing projects, Veteran Housing projects, and other projects in which a majority of units serve households at or below 30% AMI.



All Project-Based Section 8 Units (Contract Active: HAP or PRAC) as of 5/31/2023

Inventory (#)	**Studios**	**1 Bedrooms**	**2 Bedrooms**	**3 Bedrooms**	**4+ Bedrooms**	**2+ Bedrooms**	**Total Units**
Los Angeles County	8,873	7,406	2,137	715	174	**3,026**	**19,305**
Boyle Heights	184	593	56	10	8	**74**	**851**
Inventory (%)							
Los Angeles County	46%	38%	11%	4%	1%	**16%**	**100%**
Boyle Heights	22%	70%	7%	1%	1%	**9%**	**100%**

Source: HUD

Market Assessment (Work in Progress)

Developer Interviews

As a part of the market assessment for this analysis, AECOM conducted interviews with developers of market rate, affordable, and mixed-income housing projects in Boyle Heights and throughout the Los Angeles region. During these interviews, AECOM summarized the proposed BHCPU and its Community Benefits Plan (CBP), explained the family-sized unit requirement and potential exemptions that are currently being considered, and solicited feedback from developers on these specific elements of the plan. Key takeaways that we heard during these sessions are summarized below and on the following page. These points do not necessarily reflect the opinion of the City or AECOM and may or may not align with the findings of the rest of this analysis. This is merely a summary of what was heard during these discussions.

- Regardless of unit sizes or percentages, many developers do not like unit mix requirements because it limits their flexibility and therefore their ability to achieve feasibility for certain projects
- Many public funding programs for affordable housing, including LIHTC, already incentivize the inclusion of larger unit types. Adding additional layers of regulations and requirements only makes these projects more challenging, time consuming, and costly to develop.
- Adding requirements for the inclusion of larger unit types doesn't necessarily mean that these units would serve the large/intergenerational families that most housing activists are advocating for. Many market rate developers that build units with 2 or more bedrooms are targeting roommate households rather than families because roommates tend to each have their own source of income, whereas families often depend on just 1 or 2 incomes. Therefore, roommates can often afford to pay more for the same units.
- As requirements to access the CBP are made stricter, the number of projects/developers that will use the CBP will decrease. If the goal of the CBP is to create more housing for all unit types at all affordability levels, it needs to be more flexible. Otherwise, developers will likely choose to use other programs like the Density Bonus instead.
- Some developers of modular housing may have difficulty making projects with a wider range of unit types work with their business model, which relies on off-site assembly of standardized unit types in order to reduce costs and maintain affordability.
- Many developers believe that less housing will be built overall with these sorts or restrictions/requirements in place compared to without them, which seems to be contradictory to the City's stated objectives in various planning documents and the RHNA.
- The census data for Boyle Heights shows that the majority of households have 3 or more persons, so it makes sense that every building make an effort to serve the people who live there by providing units with 2 or more bedrooms.

Market Assessment (Work in Progress)

Developer Interviews

- Affordable housing projects that target formerly homeless tenants are often funded by vouchers of some type, which are more attractive because they bring in more rental income than most LIHTC rents. However, undocumented households are not eligible for voucher-supported units and are therefore discriminatorily excluded from these programs.
- Some developers who have Veteran housing properties are having problems leasing up these units because many of these tenants want to live closer to the Westside VA. These projects tend to serve veterans who are were formerly living on the west side rather than veterans who are already living in Boyle Heights.
- Senior housing may be a valid exemption to the family-sized unit requirement, but even senior housing units at 60% AMI would exclude most of the existing senior population of Boyle Heights.
- Fair Housing laws prevent prioritization of existing Boyle Heights residents over households from other areas in most cases. Some developers have been able to work around these obstacles by making agreements with other entities who provide referrals, such as the LA Unified School District. But this isn't always possible depending on the project, and requires more coordination, time, and legal risk.
- Many affordable housing funding programs place limitations on the number of people that can live in units they fund. This may limit the ability of subsidized affordable housing projects to accommodate intergenerational families with 8 or more people, given that very few projects are able to produce units with 4 or more bedrooms. Under these restrictions, even 2- and 3-Bedroom units cannot accommodate many households in Boyle Heights.
- In addition to the 3 types of affordable housing that the City is already considering exempting from the family-sized unit requirement (Senior, Permanent Supportive, and Veteran), Transition-Aged Youth may be another category worthy of exemption given that the vast majority of these households have only one member.
- An alternative to providing exemptions to the family-sized unit requirement could be to create new or enhance existing funding incentives to help offset the financial roadblocks of including family-sized units in new housing development projects. There are several costs that the City has some form of control over that can really increase costs per unit (therefore decreasing feasibility), such as bond counsel / bond issuance fees, real estate taxes during construction, deputy inspections (geotechnical, structural, etc.), developer impact fees, city permit fees, energy and accessibility consultants, prevailing wage requirements, and utility connection fees.
- In general, stricter requirements will decrease project feasibility and inhibit development.

Key Findings (Work in Progress)

Market Analysis and Developer Interviews

- The demographic patterns in Boyle Heights indicate that residents of the CPA live in **households that are larger** than the citywide average. At the same time, **housing units are smaller** on average than Los Angeles at large. This results in **a large proportion of households that live in units that are overcrowded**. These data indicate an unmet need for larger housing units in Boyle Heights.

- **Existing multifamily stock in Boyle Heights is currently comprised of approximately 44% 2-Bedroom units or larger**. The proportion is larger for affordable units (45%) than it is for market rate units (36%). The multifamily market in Boyle Heights has traditionally been oriented towards larger households and larger housing units. However, market rate production of multifamily has been slow since 2010.

- While larger affordable units are highly desirable for families, there is **less demand for larger units among certain subcategories of affordable housing**, specifically Permeant Supportive Housing, Seniors, Veterans, and Transition-Aged Youth. Particularly among affordable housing developments in which a majority of units serve households at or below 30% of the AMI, there are very few precedent projects with at least 30% of units having 2 or more bedrooms.

- The absence of new market rate multifamily development in Boyle Heights since 2010 indicates a number of potential impediments to development in Boyle Heights (highlighted in Phase 1). **Further requirements to qualify for the incentives in the CBP are unpopular with market rate and some affordable developers** and could further complicate market rate and mixed-income housing development in Boyle Heights.

- There are different funding and financing models for various types of affordable housing. **Organizations whose business model differs from standard income based and family affordable housing types are generally opposed to a family-sized unit requirement**.

Financial Feasibility Analysis

(Phase 2)

Development Prototypes & Feasibility

Prototype Summary: Additional Considerations for 40% Large Unit Requirement

The Proposed Community Benefits Program (CBP) offers a suite of incentives (density bonus, FAR bonus , parking reduction, etc.) to encourage the production of affordable housing if the development includes minimum set asides of affordable housing and family-sized units (2 or more bedrooms).

In response to public comments, the City has retained AECOM to assess the potential to raise the current requirement of family-sized units from 30% to 40% of the total units in new residential and mixed-use developments. To isolate the potential impact of this increased requirement, AECOM has altered the prototypes described in Phase 1 of the BHCPU Draft Regulations Economic Feasibility Assessment to include 30% 2-Bedroom and 10% 3-Bedroom units (40% total) while maintaining the previous assumptions in the proforma analysis (cost inputs, market rate rents, financing assumptions, etc.).

In Phase 1 of the Analysis, AECOM developed residential land use prototypes based on recently constructed (i.e., market-validated) precedents found elsewhere in the greater market area. These prototypes were then altered in Phase 2 to meet the proposed increase in family-sized units. 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. The proforma analysis includes feasibility testing for the Initial Run (current market rates and construction costs) and the Preferred Scenario (previously referred to as Sensitivity Test 5 that includes appreciation of both market rate rents and construction costs). The table below summarizes the applicable zoning codes and development assumptions.

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	61	194	168	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	59	194	170	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	64	194	131	0.5	1.3	0	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 (40% 2+BR Units)

Base Scenario

FAR: 1.5

Density (Lot SF/Unit): 714

Units: 21

Residential GFA: 20,800 SF

Commercial GFA: 2,000 SF

Parking: 23 spaces (1/ unit + 3 commercial)

Parking Strategy: Structure

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): 259

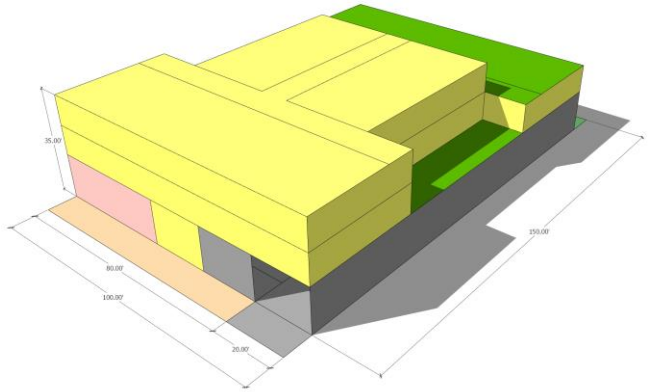
Units: 58 (6-15 Affordable)

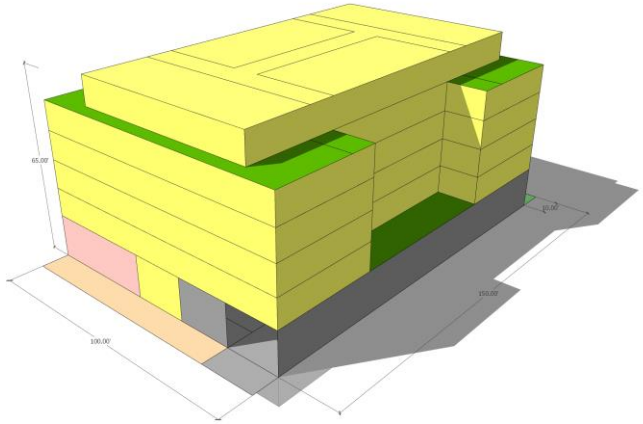
Residential GFA: 58,300 SF

Commercial GFA: 2,000 SF

Parking: 64 spaces (1/ unit +6 commercial)

Parking Strategy: Structure and Subterranean





Development Prototypes & Feasibility

Prototype 2: Large Lot Mixed use (40% 2+BR Units)

Base Scenario

FAR: 1.5

Density (Lot SF/Unit): 744 SF

Units: 43

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): 258

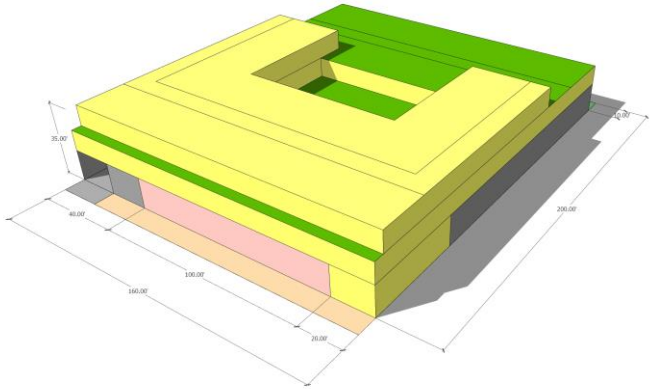
Units: 124 (13-32 Affordable)

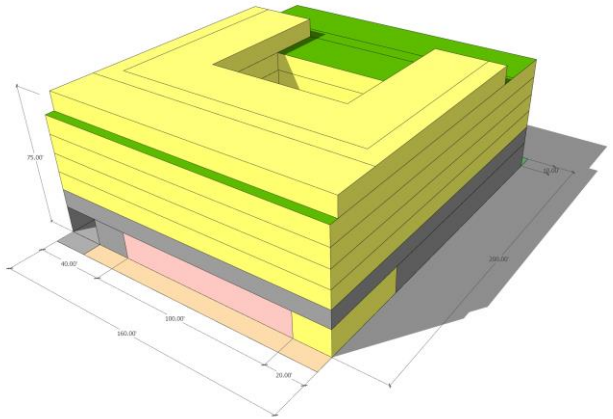
Residential GFA: 123,400 SF

Commercial GFA: 5,000 SF

Parking: 133 spaces (1/ unit + 9 commercial)

Parking Strategy: Structure





Development Prototypes & Feasibility

Prototype 3: Large Lot Multifamily (40% 2+BR Units)

Base Scenario

FAR: 1.5

Density (Lot SF/Unit): 676

Units: 34

Residential GFA: 34,500 SF

Commercial GFA: 0 SF

Parking: 44 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): 333

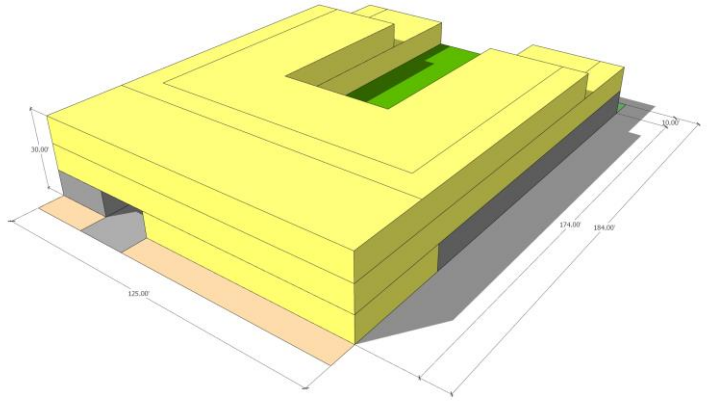
Units: 69 (7-19 Affordable)

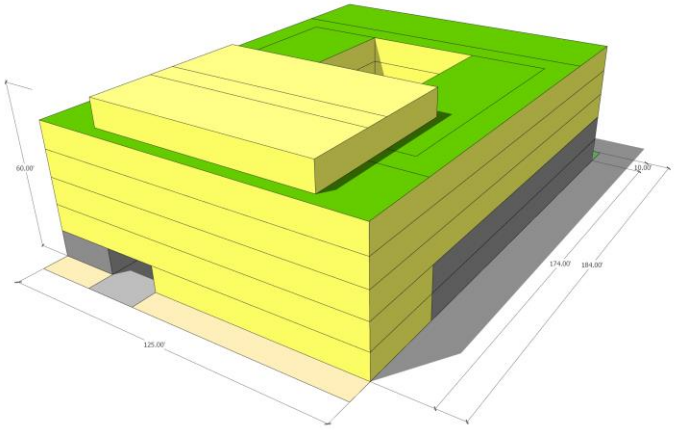
Residential GFA: 69,1900 SF

Commercial GFA: 0 SF

Parking: 70 spaces (1 / unit +1)

Parking Strategy: Structure





Development Prototypes & Feasibility

Methodology

AECOM carried out pro-forma financial analysis to test the development feasibility of the three prototypes shown on the previous pages. The feasibility analysis is based on a static pro-forma model, which stimulates 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—Prototype 1 (40% 2+BR Units)

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 space/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 but fall short of the potential feasibility threshold (equivalent of the 25th percentile of land sales transactions or above)
- The 25% L density bonus scenario performs worse than the Base Case and yields 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	21		52		51		49		43	
Affordable Units	0		6 AL		7 EL		9 VL		15 L	
Total Units	**21**		**58**		**58**		**58**		**58**	
Residual Land Value	**Total**	**/Unit**	**Total**	**/Unit**	**Total**	**/Unit**	**Total**	**/Unit**	**Total**	**/Unit**
Total Revenues	$9,294,467	$442,594	$22,101,837	$381,066	$22,099,922	$381,033	$22,078,927	$380,671	$21,242,127	$366,244
Total Costs before Land	$8,631,290	$411,014	$21,234,242	$366,108	$21,234,242	$366,108	$21,234,242	$366,108	$21,234,242	$366,108
RLV Total	**$663,177**	**$31,580**	**$867,595**	**$14,959**	**$865,680**	**$14,926**	**$844,684**	**$14,564**	**$7,885**	**$136**
RLV/ Land SF	**$44**		**$58**		**$58**		**$56**		**$1**	
RLV % Change from Base			**31%**		**31%**		**27%**		**-99%**	
Sales per Land SF (MFR)		**$/Lot**		**$/Lot**		**$/Lot**		**$/Lot**		**$/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	**-201%**		**-130%**		**-130%**		**-136%**		**-25202%**	
Median	**-133%**		**-78%**		**-78%**		**-83%**		**-19495%**	
25th Percentile	**-83%**		**-40%**		**-40%**		**-44%**		**-15309%**	
Feasibility	Infeasible		Infeasible		Infeasible		Infeasible		Infeasible	

Development Prototypes & Feasibility—Prototype 2 (40% 2+BR Units)

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 space/unit

Findings

- As tested, the Base Case generates a residual land value that is **below** market-observed rates
- The 10% AL and11% EL generates a **feasible** residual land value (yielding a value near the median comparable land transaction in Boyle Heights), 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		3.7		3.7		3.7		3.7	
Market Rate Units	43		112		111		104		92	
Affordable Units	0		12 AL		13 EL		20 VL		32 L	
Total Units	**43**		**124**		**124**		**124**		**124**	
Residual Land Value	**Total**	**/Unit**	**Total**	**/Unit**	**Total**	**/Unit**	**Total**	**/Unit**	**Total**	**/Unit**
Total Revenues	$19,436,050	$452,001	$45,716,125	$368,678	$45,902,486	$370,181	$45,271,103	$365,090	$43,688,863	$352,330
Total Costs before Land	$18,303,838	$425,671	$42,730,602	$344,602	$42,730,602	$344,602	$44,617,169	$359,816	$42,730,602	$344,602
RLV Total	**$1,132,212**	**$26,331**	**$2,985,524**	**$24,077**	**$3,171,884**	**$25,580**	**$653,934**	**$5,274**	**$958,261**	**$7,728**
RLV/ Land SF	**$35**		**$93**		**$99**		**$20**		**$30**	
RLV % Change from Base			164%		180%		-42%		-15%	
Sales per Land SF (MFR)		**$/Lot**		**$/Lot**		**$/Lot**		**$/Lot**		**$/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	**-276%**		**-43%**		**-34%**		**-551%**		**-344%**	
Median	**-191%**		**-10%**		**-4%**		**-404%**		**-244%**	
25th Percentile	**-129%**		**13%**		**18%**		**-296%**		**-170%**	
Feasibility	Infeasible		Low		Low		Infeasible		Infeasible	

Development Prototypes & Feasibility—Prototype 3 (40% 2+BR Units)

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 space/unit

Findings

- As tested, the Base Case generates a residual land value that is **below** market-observed rates
- The 10% AL and11% 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	34		62		62		58		51	
Affordable Units	0		7 AL		7 EL		11 VL		18 L	
Total Units	**34**		**69**		**69**		**69**		**69**	
Residual Land Value	**Total**	**/Unit**	**Total**	**/Unit**	**Total**	**/Unit**	**Total**	**/Unit**	**Total**	**/Unit**
Total Revenues	$13,599,885	$399,997	$25,305,716	$352,748	$25,541,870	$370,172	$25,233,367	$365,701	$24,195,879	$350,665
Total Costs before Land	$13,232,844	$389,201	$24,193,954	$333,515	$24,193,954	$350,637	$24,193,954	$350,637	$24,193,954	$350,637
RLV Total	**$367,041**	**$10,795**	**$1,111,763**	**$19,233**	**$1,347,916**	**$19,535**	**$1,039,413**	**$15,064**	**$1,925**	**$28**
RLV/ Land SF	**$16**		**$48**		**$59**		**$45**		**$0**	
RLV % Change from Base			203%		267%		183%		-99%	
Sales per Land SF (MFR)		**$/Lot**		**$/Lot**		**$/Lot**		**$/Lot**		**$/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	**-733%**		**-175%**		**-127%**		**-194%**		**-158815%**	
Median	**-545%**		**-113%**		**-76%**		**-128%**		**-122970%**	
25th Percentile	**-408%**		**-68%**		**-38%**		**-79%**		**-96683%**	
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 highest-density prototype (Prototype 2) and 10% EL and 11% EL set-asides.
- No prototype is feasible for the 15% VL or 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	infeasible	infeasible	infeasible	infeasible
Prototype 2	infeasible	***likely feasible***	***likely feasible***	infeasible	infeasible
Prototype 3	infeasible	infeasible	infeasible	infeasible	infeasible

Development Prototypes & Feasibility

Residual Land Value Summary—*Preferred Scenario: Higher Construction Costs and Market Rents*

Scenario Parameters—Preferred Scenario (Sensitivity Test 5):
High market rents, Schedule VI affordable rents, higher 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.
- According to CBRE, construction costs are predicted to increase 14% by the end of 2023 over 2022[1]. 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.
- Results from this model yield likely feasible and feasible results for Prototypes 1 and 2 under the 10% AL and 11% EL scenarios.

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

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

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

- Proforma analysis from Phase 1 (30% Requirement) yielded RLV's that range from $6 to $114, while the results of Phase 2 (40% requirement) ranged from near $0 to $102
- The increase from 30% to 40% results in an impact on RLV's that range from a 2% increase to a 100% decrease.

Comparison of Residual Land Values for "Initial Run"					
	Base Case	**10% AL**	**11% EL**	**15% VL**	**25%L**
Prototype 1					
30% Req.	$48	$78	$78	$85	$11
40% Req.	$44	$58	$58	$56	$1
Change(%)	**-8%**	**-26%**	**-26%**	**-34%**	**-91%**
Prototype 2					
30% Req.	$38	$114	$107	$44	$54
40% Req.	$35	$102	$99	$20	$30
Change(%)	**-8%**	**-11%**	**-7%**	**-55%**	**-44%**
Prototype 3					
30% Req.	$17	$62	$60	$44	$6
40% Req.	$16	$52	$50	$45	$0
Change(%)	**-6%**	**-16%**	**-17%**	**2%**	**-100%**

Development Prototypes & Feasibility

Residual Land Value Summary—*Preferred Scenario: Higher Construction Costs and Market Rents*

Scenario Parameters—Preferred Scenario (Sensitivity Test 5):
High market rents, Schedule VI affordable rents, higher construction costs, full parking

- Proforma analysis from Phase 1 (30% Requirement) yielded RLV's that range from -$5 to $132, while the results of Phase 2 (40% requirement) ranged from near -$6 to $122
- The increase from 30% to 40% results in an impact on RLV's that range from a 3% increase to a 50% decrease.

Comparison of Residual Land Values for "Preferred Scenario"					
	Base Case	**10% AL**	**11% EL**	**15% VL**	**25%L**
Prototype 1					
30% Req.	$56	$103	$89	$91	-$4
40% Req.	$56	$77	$74	$67	-$6
Change(%)	**0%**	**-25%**	**-17%**	**-26%**	**-50%**
Prototype 2					
30% Req.	$47	$132	$119	$37	$43
40% Req.	$37	$118	$122	$28	$28
Change(%)	**-21%**	**-11%**	**3%**	**-24%**	**-35%**
Prototype 3					
30% Req.	$32	$83	$73	$46	-$5
40% Req.	$29	$64	$64	$54	-$5
Change(%)	**-9%**	**-23%**	**-12%**	**17%**	**0%**

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

Development Prototypes & Feasibility

Summary of Findings for the Proposed Increase from 30% to 40% family-sized requirement

- The results of the proforma analysis for Phase 2 feasibility testing yield results that are generally consistent with those of Phase 1 in that the program as designed would **encourage development with the provision of affordable housing** in community center and neighborhood center areas. **Except for the 25% Low Income set-aside scenario, the impact of the CBP on development feasibility is positive**.

- Nonetheless, **the increase in requirement for family-sized units from 30% to 40% of the total has an adverse impact on the potential feasibility of residential and mixed-use projects**. Studio and 1-Bedroom apartments command a higher market rate rent than 2 and 3-Bedroom units, with the latter having a notable discount in achievable rent per square foot. The result of substituting studios for 3-Bedroom units results in fewer total units and a lower average rent for the combined residential uses. Because Phase 1 yielded many Residual Land Values that were marginally feasible at best, **reducing monthly revenue negatively impacts the capitalized value and pushes many prototype scenarios from likely feasible to infeasible.**

- As described in Phase 1, the Preferred Scenario (higher market rate rents and construction costs) is the mostly likely scenario for development in Boyle Heights in the near future**. The increase from 30% to 40% of family-sized units reduces the number of feasible scenarios to those with the highest density and the lowest total set-aside (10% Acutely Low and 11% Extremely Low).** The results indicate that the proposed change would lower feasibility in general and reduce the ability of developments to provide a variety of affordable housing on a range of potential future development.

- Ignoring feasibility, **the impact of increasing the family-sized unit requirement from 30% to 40% would have a varying impact on total family-sized unit yield depending on project size**. The smallest prototype (Prototype 1, 58 units) would yield an additional 5 family-sized units (30%=18 units, 40%=23 units) while the largest prototype (Prototype 2, 124 units) would yield an additional 12 family-sized units (30%=38 units, 40%=50 units).

- **The impact of the increased family-sized unit requirement lowers the feasibility for mixed-income development in Boyle Heights.**

- The net impact on the number of affordable and family-sized affordable units is more ambiguous. Because fewer total units are produced when the requirement is raised to 40%, **fewer affordable units are produced (0 to 3 fewer units)**. However, in general **more family-sized affordable units are produced (0 to 2 more units)**. Therefore, the requirement for at least 40% 2-Bedroom or larger units produces fewer overall units in exchange for a larger proportion of family sized units. This holds true for both the market-rate and affordable units.

Development Prototypes & Feasibility

A note on Measure ULA

- **Measure ULA, which went into effect April 1, 2023, is a new real property transfer tax** that collects an additional percentage of the value of the property being transferred above the base tax applicable throughout the City of Los Angeles.

Measure ULA Property Transfer Tax Schedule			
Value of Property Conveyed	**Base Rate**	**ULA Rate**	**Applicable Tax Rate**
≤ $5,000,000	$2.25 / $500	0%	0.45%
$5,000,000 - $10,000,000	$2.25 / $500	4%	4.45%
≥ $10,000,000	$2.25 / $500	5.50%	5.95%
Source: City of Los Angeles Department of Finance			

- **Feasibility calculations in this report were carried out prior to the application of Measure ULA.** There is great uncertainty regarding ULA's potential impact on the price and rate of land transactions. Once the impacts become clearer, the results of this study may need to be revisited, with additional considerations regarding developer business models and the costs and revenues of real estate development.
- Some initial considerations of the impact of ULA on the real estate market:
    - Property transfer taxes represent additional costs that must be absorbed by one or more party. While the law stipulates that the seller must pay the tax, market dynamics will adjust sales prices, and property owners will likely pass some or all of the additional cost to the buyer.
    - The buyer could cover the additional costs in a variety of ways, including: increasing rent or for-sale pricing; "value-engineering" projects to lower construction costs and/or reduce amenities and quality; building smaller projects that skirt the tax thresholds; subdividing projects into condominiums with sales prices below the tax thresholds; accepting lower returns on cost; adopting business models to hold rather than sell stabilized projects.
    - The new law will likely cause short-term disruptions to the market and decelerate development of multifamily and commercial properties until the market adjusts to a new equilibrium in the long term.