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# CCA White Paper

# Regional Housing Needs Assessment:

THE NEED FOR REFORM IN FUTURE CYCLES

MARCH 2018



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### **About CCA**

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Established in 1924, Central City Association of Los Angeles (CCA) is the premier advocacy organization in the region and leading visionary on the future of Downtown Los Angeles. Through advocacy, influence and engagement, CCA enhances Downtown LA's vibrancy and increases investment in the region. CCA represents the interests of 400 businesses, trade associations and nonprofit organizations that together employ more than 350,000 people in Los Angeles County.

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# –S 01

## Introduction

Through advocacy, influence and engagement, Central City Association (CCA) enhances Downtown LA's vibrancy and increases investment in the region.

As Los Angeles' center for growth, Downtown has the potential to meaningfully address the housing crisis and maximize the impact of transit investments with dense, mixed-income development in the center city area.

Downtown Los Angeles represents just one percent of the city's land area, but since 1999 it has accommodated 20 percent of LA's growth. This trend is anticipated to continue with approximately 125,000 new residents moving Downtown by 2040, along with 55,000 new jobs.

In order to address the housing crisis and to inform current and future community plan updates, including DTLA 2040, a broad-based coalition must advocate for a comprehensive approach to establishing regional housing needs. We believe this will support an educated policy conversation about production-based strategies for increasing housing availability and affordability.

## S 02

# Background

**S**ince 1980, California's regional councils of government have been required to establish housing needs projections for their local jurisdictions. The Southern California Association of Governments (SCAG) is responsible for these estimates in the six-county area including Los Angeles County. These projections are officially known as Regional Housing Needs Assessments (RHNA), and they forecast housing needs over an 8-year period. RHNA estimates are the basis for many of the planning and land use decisions at the city and county levels, including general plan and community plan updates. For that reason, these estimates play a significant role in how our cities change and develop over time—and how effectively we can respond to the housing crisis.

Many argue that projections in recent RHNA cycles have fallen far short of actual demand, and that RHNA allocations have failed to account for past shortfalls in supply. For example, the state Legislative Analyst's Office estimates that Los Angeles County under-supplied new housing by approximately 1 million total units between 1980 and 2010<sup>1</sup>. In the last completed RHNA cycle, ended in 2014, the City of Los Angeles reached only 68% of its housing production target (76,942 out of 112,876 homes) and Unincorporated LA County met only 16% (9,223 out of 57,180) of its goal<sup>2</sup>.

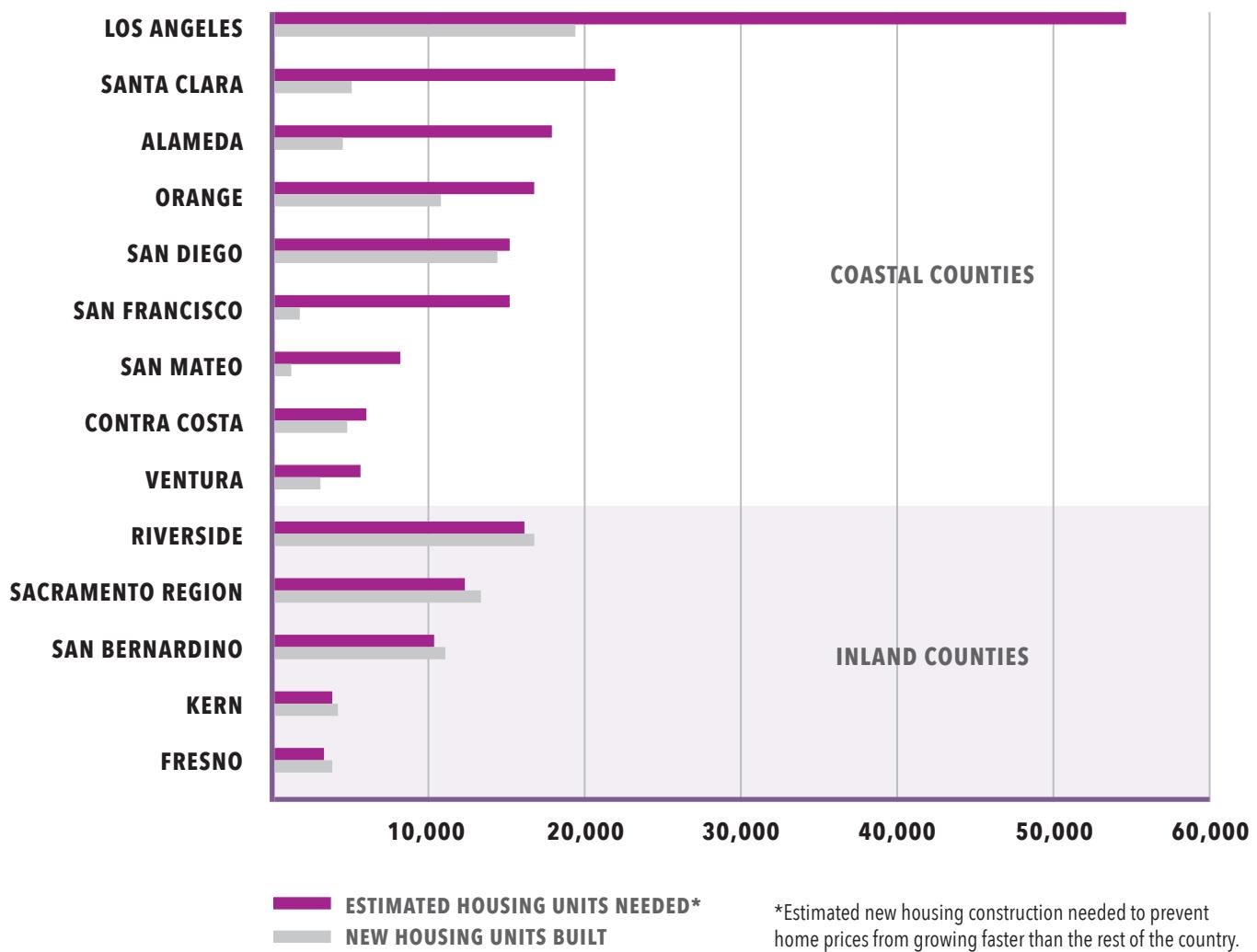
Despite these past shortfalls, the latest RHNA target for the City of Los Angeles recommended just 82,000 new homes between 2014 and 2021<sup>3</sup>. All of Los Angeles County was allocated 179,000 homes over this period. Given the shortfall that has accumulated over the past several decades and the need to stabilize high rents and housing prices, there is a strong case for reforming RHNA to significantly increase these allocations.

RHNA reform can now have a much greater impact since the approval of Senate Bill (SB) 35, one of more than a dozen bills signed into law in 2017 to begin unwinding the housing crisis. SB 35 adds an enforcement mechanism to RHNA by allowing streamlining of the development approval process in jurisdictions where RHNA targets are not being met. Left unaddressed, inadequate RHNA projections will lead to underutilization of SB 35 and, as a result, continued under-production of housing at all income levels.

The next RHNA cycle will set production targets for 2021 through 2028, and public engagement is expected to begin in 2019. Now is the time to begin building a coordinated coalition of public and private stakeholders who support

## Housing Needs Vary Considerably Across Counties

Average Annual Number of New Housing Units Built by County, 1980-2010



Between 1980 and 2010, Los Angeles County built approximately 35,000 fewer homes each year, or more than 1 million homes overall, than were needed to prevent home prices from growing faster than the rest of the country.

This graph was adapted from a figure in LAO, California's High Housing Costs: Causes and Consequences, 2015

changes to RHNA. A starting point for this coalition-building can be discussions about how to change the RHNA methodology and related growth forecasts, which may be the most effective way to increase production targets without overhauling the entire state-mandated planning and environmental review process.

Housing is the most important issue we can tackle to support livability and investment in Los Angeles. Far too many

Angelenos are rent burdened, and thousands of residents are being pushed into homelessness each year by rising rents and home prices. When businesses are looking to invest or expand in our region, housing accessibility for their employees is a primary concern. The housing crisis impacts everyone, and reforming RHNA to establish reality-based housing goals is an essential component of an effective and comprehensive solution.

## § 03

# Existing Methodology & Proposed Reforms

**A** SCAG presentation from 2011<sup>4</sup> summarizes the RHNA process and includes key considerations in the RHNA methodology. Allocations are largely determined by three factors:

- Projected household growth
- Healthy market vacancy need
- Housing replacement need

These factors are discussed below, in addition to other considerations that CCA believes should be included in future RHNA estimates.

### ***Projected household growth***

The most influential factor in the RHNA methodology is projected household growth. By law, this projection must be consistent with the integrated growth forecast found in the Regional Transportation Plan/Sustainable Communities Strategy document (RTP/SCS), and therefore advocacy in the development of the RTP/SCS will be very important. The next RTP/SCS will be released in 2020, so the opportunity for engagement in its development is fast approaching.

The housing allocations in the 2014-2021 RHNA cycle are based on the 2012 RTP/SCS growth forecast. This forecast projected annual household growth in the SCAG region of just 0.9% per year from 2010 to 2035, down from 1.2% between 1990 and 2010, and 2.9% between 1960 and 1990.

Because of how heavily we rely on growth forecasts in our city planning, projections for a consistently declining growth rate are likely to be a self-fulfilling prophecy. If we forecast less growth, our cities will zone for less capacity, land and development opportunities will remain scarce (and expensive), SB 35 will have a limited impact on our ability to streamline development, and less housing will be built. As a result, housing prices and rents will continue to rise, pushing out existing families and jobs and deterring others from moving to California. Projections for limited growth will ensure limited growth.

To escape this cycle, SCAG and the state must change its perspective on growth forecasting. This should take several forms:

- First and most importantly, **SCAG and the state Department of Housing and Community Development**

**(HCD) should increase their projections for housing growth (REC#1)**, targeting an aggressive goal that would increase vacancy rates and reduce housing prices. This is in contrast to the current practice of estimating growth based on past performance, which all but ensures continued declines in housing production. Encouragingly, State Senator Scott Wiener has proposed a bill, SB 828, that would require future RHNA allocations to account for historic underproduction and to zone for more growth than RHNA anticipates<sup>5</sup>.

- Second, the forecast must recognize that if a region builds more housing, prices are likely to stabilize or even fall, further increasing demand for housing. **The forecast should dynamically account for the price impacts of high levels of production and the interaction between price and demand (REC#2)**.

## Healthy market vacancy need

Target vacancy rates also have a significant impact on housing production targets. If current vacancy rates are low and the vacancy target is higher, extra housing development is needed to make up for the existing deficit—before accounting for population growth. Additionally, more overall production is needed because it's assumed that a greater

METRO AREA	VACANCY RATE
SEATTLE	3.4%
FRESNO	3.8%
SAN JOSE	3.8%
SAN FRANCISCO	4.0%
<b>LOS ANGELES</b>	<b>4.2%</b>
BOSTON	4.5%
NEW YORK	4.8%
CHARLOTTE	5.6%
ATLANTA	6.3%
PHOENIX	6.5%
MIAMI	6.8%
LAS VEGAS	7.0%
DALLAS	7.3%
CHICAGO	7.7%

2017 average rental vacancy rates in select U.S. metro areas. Metro areas with higher vacancy rates are typically much more affordable than those with lower vacancy rates. Among the 15 metro areas with the lowest rental vacancy rates, 6 are in California (4 are listed here). Source: U.S. Census Bureau.

share of new units will be vacant at any given time.

For the latest RHNA cycle in the SCAG region, “healthy market vacancy” rates were estimated to be 1.5% for owner-occupied housing and 4.5% for rental housing. Both of these are far too low. The rental vacancy target is below the rate at which rent prices stabilize—typically in the range of 5% to 6%. Vacancy rates in the LA metro area are currently at historic lows of approximately 1% for owner-occupied housing and 4% for rental housing. In California, where many renters have suffered from stagnating wages and increasing prices, a more balanced vacancy target is called for.

With that in mind, **we recommend a target rental vacancy rate of 7-8% and an owner-occupied vacancy rate target of 3-4% (REC#3)**. Placing these targets slightly above “stabilizing” levels will make housing more affordable and easier to find for would-be tenants, and is in line with current vacancy rates in more affordable markets like Dallas, Miami, Chicago, Phoenix, and Atlanta. A higher target will also account for margins of error by erring on the side of more renter- and buyer-friendly rates.

**These target vacancy rates should also be used to calculate the existing housing deficit, and this deficit should be added to the RTP/SCS growth projection (REC#4)**. For example, in the City of LA where there are approximately 800,000 rental homes and a 4% rental vacancy rate, 32,000 homes are vacant at any given time. A goal of 7.5% would call for increasing that number to 60,000 on average, for a net additional need of 28,000 units—in addition to the RTP/SCS growth projection. This improved methodology will inform policy makers about the housing deficit and spur production-based solutions to create more housing while stabilizing rents.

## Housing replacement need

Housing replacement need is an estimate of the number of housing units that must be demolished in order to accommodate new housing. This is an acknowledgement that net housing production, not gross, is what matters in a housing market.

In a built-up city like Los Angeles where most development opportunities are on infill sites, and many projects require the replacement of existing buildings, some amount of demolition is inevitable to accommodate growth. According to a recent analysis of development from 2014 to 2016 by

the UCLA Lewis Center, one unit is demolished for every approximately 14 units of new development in LA<sup>6</sup>. This means that a growth projection of 300,000 new homes would need to offset the demolition of roughly 21,400 units by adding them to the production target, for a total of 321,400.

Unfortunately and inexplicably, the 2014-2021 RHNA cycle does not provide for any housing replacement need in the City of LA, and estimates just 2,416 replacement units needed throughout the entire SCAG region<sup>7</sup>. This equates to just one unit demolished for every 170 new units projected. This is clearly inaccurate.

To resolve this issue, **we propose establishing a housing replacement ratio for each county and large city based on empirical development data, including projects completed or proposed in the past 5 years (REC#5)**. Over time, increasing urbanization will reduce the availability of redevelopment sites where no demolition is required, so the housing replacement need estimate should be set at a level somewhat above the ratio identified by empirical data. The housing replacement ratio would account for new units as well as units lost to demolition, and would ensure that the RHNA projection is targeting net production, not gross.

This will not undermine one-for-one replacement of existing affordable units and units that are subject to the Rent Stabilization Ordinance in LA. Rather, it will provide more accurate metrics for local decision-makers and recognize the need for policies that mitigate the displacement impacts of redevelopment.

**We recommend that SCAG and partner governments study the demographic characteristics of younger residents and the tenants of new developments, and use the results to better estimate how much housing is needed to accommodate future population growth as well as changes in existing household composition (REC#6).** This should include additional homes needed to reduce crowding—an important consideration for a region described as the nation's "epicenter of overcrowded housing"<sup>9</sup>.

RHNA must also address the changing nature of residential development in the SCAG region, and in Los Angeles in particular. The characteristics of housing units vary dramatically, from 250 sq ft micro-units and congregate housing, to McMansions and 3,000 sq ft penthouse condominiums. Each unit type has different average household sizes, and therefore each will vary in its ability to help our region absorb continued growth.

To refine RHNA projections, **we propose including a modifier to the tracking of housing progress, with larger units counting for greater than 1 "unit" of production, and smaller units counting for less than 1 (REC#7)**. For example, studios under 600 sq ft might count as 0.75 units, while homes with 3 bedrooms or more might count as 1.3 units. This would acknowledge that the goal of RHNA is not simply to deliver a set number of units, but ultimately to accommodate a growing population. Different unit types and sizes achieve this to different degrees, and our metrics should reflect that.

## ***Demographics and unit characteristics***

Finally, we believe that RHNA estimates should do a better job of accounting for demographic changes and the characteristics of modern housing units.

Our cities are faced with more than simply accommodating projected population growth; we must also build enough to offset shrinking household sizes, which places additional strain on the housing supply. The Hollywood community plan area is an excellent example of this phenomenon, as it is a community where the number of homes has increased significantly over the past few decades but the population has actually declined slightly<sup>8</sup>. Meanwhile, the City of LA overall continues to grow, indicating that current production in the Hollywood area is only sufficient to keep up with changing demographics.

## S 04

# Conclusion

**W**ith the 2017 legislative approval of SB 35, RHNA finally has an enforcement mechanism that will push cities to achieve their housing production goals. So long as those goals remain inadequate, however, SB 35 will be limited in its ability to alleviate the housing crisis. Even if the current RHNA goals are met, the housing shortage will persist and rents will continue their unsustainable climb.

By enacting the reforms recommended above, SCAG and our state government will set a new standard by which housing production goals match housing need, helping to stabilize prices and improve the availability of housing for Angelenos. With appropriate housing goals SB 35 will be able to work as intended, holding cities to production goals that will help residents at all income levels, as well as businesses that depend on an affordable housing market to attract and retain great workers.

RHNA's role in solving our housing crisis—or exacerbating it—has been overlooked for too long, and we're encouraged by recent state-level attention it has received from Senator Wiener and others. Alongside the reforms proposed in SB 828, CCA believes that the recommendations included in this paper will bolster our ability to create the homes needed to resolve the housing crisis. We also believe that these common-sense proposals are both politically and technically feasible.

Now, while housing affordability is a top priority for lawmakers across California, is the time to fix this long-broken system, and we urge our elected leaders to support these reforms and work for their adoption at the state and local levels.

## **S 05**

# **Summary of Recommendations**

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**REC#1:** Increase California HCD and RTP/SCS projections for housing growth.

**REC#2:** Account for the price impacts of high levels of production, and the additional demand that will result from lower/stabilized rents and home prices.

**REC#3:** Set a rental vacancy rate target of 7-8% and an owner-occupied vacancy rate target of 3-4%.

**REC#4:** Use updated target vacancy rates to calculate the existing housing deficit, and add this deficit to the HCD and RTP/SCS growth projection.

**REC#5:** Establish housing replacement needs for each county and large city based on empirical development data, including projects completed or proposed in the past 5 years.

**REC#6:** Study the demographic characteristics of younger residents and the tenants of new developments, and use the results to better estimate how much housing is needed to accommodate future population growth as well as changes in existing household composition.

**REC#7:** Include a modifier to the tracking of housing progress, with larger units counting for greater than 1 "unit" of production, and smaller units counting for less than 1.

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