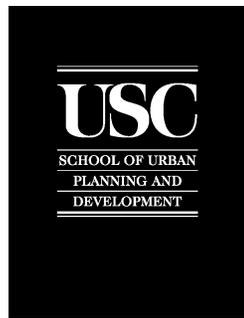


# **CITY OF WEST HOLLYWOOD HOUSING STUDY**

---

**Presented by**  
**UNIVERSITY OF SOUTHERN CALIFORNIA**  
**SCHOOL OF URBAN PLANNING AND DEVELOPMENT**



## **COMMUNITY DEVELOPMENT & DESIGN FORUM**

**Dr. Tridib Banerjee, AICP, Director**

**Deepak Bahl, Associate Director**  
**Mark Hoffman, Research Associate**  
**Kiran Laloo, Research Associate**

**Presented to**  
**CITY OF WEST HOLLYWOOD**  
**DEPARTMENT OF COMMUNITY DEVELOPMENT**

**JUNE 30, 1998**

## **Authors**

The West Hollywood Housing Study, a report for the City of West Hollywood was prepared by the Community Development & Design Forum (CDDF) in the School of Urban Planning & Development at the University of Southern California, Los Angeles.

Dr. Tridib Banerjee, Director, CDDF was the Principal Research Investigator on this project. The project was carried out under the guidance and supervision of Dr. Bill Baer, Professor, Dr. Dowell Myers, Professor and Leonard Mitchell, Director, USC Center for Economic Development at the School of Urban Planning & Development.

Deepak Bahl, Associate Director, USC Center for Economic Development & the Community Development & Design Forum was the Project Manager and co-author with Mark Hoffman, Management Consultant and Research Associate, CDDF; and Kiran Lalloo, Ph.D., Research Associate, CDDF.

June 30, 1998

---

## Acknowledgements

This study was made possible by the efforts of many individuals and groups whose assistance is greatly appreciated. The Community Development & Design Forum would like to acknowledge the help and guidance from the following individuals:

- ◆ Elana Buegoff, Development Specialist
- ◆ Lester Burg, Development Specialist
- ◆ Hal Cronkite, Director of Rent Stabilization
- ◆ Anne Ehrenthal, Project Manager, West Hollywood Community Housing Corporation
- ◆ Tim Foy, Associate Planner
- ◆ Sal Guarriello, Council Member
- ◆ Lisa Heep, Planning Manager
- ◆ John Heilman, Mayor Pro Tempore
- ◆ Marney Hull, Information/Counseling Manager
- ◆ Paul Koretz, Council Member
- ◆ Steve Martin, Mayor
- ◆ Brent Mullins, Code Compliance Manager
- ◆ John Polak, Senior Hearings Examiner
- ◆ Jeffrey Prang, Council Member
- ◆ Rey Reynolds, Director of Community Development
- ◆ Allyne Winderman, Economic Development & Housing Manager
- ◆ Paul Zimmerman, Executive Director, West Hollywood Community Housing Corporation

---

# TABLE OF CONTENTS

---

**EXECUTIVE SUMMARY**..... i- xii

## **SECTION I: COMMUNITY NEEDS ASSESSMENT**

**I. INTRODUCTION**..... I-1

**II. HOUSEHOLD CHARACTERISTICS**

2.1 Population..... I-3

2.2 Race and Ethnicity..... I-4

2.3 Age Characteristics..... I-6

2.4 Household Type..... I-8

2.5 Employment..... I-10

2.6 Household Income..... I-12

**III. Housing Characteristics**

3.1 Housing Type..... I-15

3.2 Occupancy Status..... I-17

3.3 Housing Costs..... I-19

3.4 Housing Condition..... I-22

3.5 Overcrowding..... I-24

3.6 Overpayment..... I-25

**IV. Housing Needs**

4.1 General Housing Need..... I-28

4.2 Special Household Need..... I-30

4.3 Low Income Need..... I-33

4.4 Regional Housing Needs..... I-34

4.5 Summary Housing Need..... I-37

## **SECTION II: CONSTRAINTS & OPPORTUNITIES**

### **Potential Constraints to Housing Investment**

1.1 Market Constraints..... II.A-3

1.2 Governmental Constraints..... II.A-7

1.3 Environmental Constraints..... II.A-19

### **Rent Stabilization**

1.1 Introduction..... II.B-1

1.2 Rent Stabilization: Existing Policies & Programs..... II.B-1

1.3 The Effects of Rent Stabilization..... II.B-2

1.4 The Costa Hawkins Rental Housing Act: The Effects of Vacancy Decontrol. II.B-8

---

**Affordable Housing Production & Preservation:  
West Hollywood Community Housing Corporation**

**Introduction**..... II.C-2

**Overview of the Nonprofit Housing Sector**..... II.C-3

***NONPROFIT PERFORMANCE  
INDICATORS***..... ***II.C-7***

***CITY OF WEST HOLLYWOOD***

Housing Goals and Objectives..... II.C-7

Community Profile..... II.C-8

***WEST HOLLYWOOD COMMUNITY HOUSING CORPORATION  
CHARACTERISTICS***

History..... II.C-10

Regional Housing Needs..... II.C-10

Performance Indicators..... II.C-11

Description of WHCHC Projects..... II.C-14

Affordable Housing Type, Waitlist, and Duration of Wait..... II.C-19

Property Management..... II.C-22

Enhanced Management Program..... II.C-23

Management Practices..... II.C-24

Project Finance: Sources and Uses of Funds..... II.C-25

***AFFORDABLE HOUSING CONSTRAINTS AND OPPORTUNITIES***

Affordable Housing Trust Fund..... II.C-39

New Construction versus Substantial Rehabilitation..... II.C-40

Federal Programs..... II.C-41

State Programs..... II.C-43

County Programs..... II.C-44

Local Programs..... II.C-44

Alternative Affordable Housing Finance Programs..... II.C-45

**VII. Conclusion**..... II.C-46

**SECTION III: PUBLIC PARTICIPATION**

**I Report on Interview Survey of Community Leaders and Stakeholders**

1.1 Introduction..... III-1

A. Rent Stabilization..... III-1

B. Affordable Housing Production as Preservation..... III-2

C. Zoning..... III-4

D. Market Rate Housing and New Construction..... III-4

---

E. Trends.....	III-4
F. Homeownership.....	III-5
G. NIMBY.....	III-5
<b>II Community Workshop.....</b>	<b>III-5</b>

**APPENDIX**

- A. Mallory, Richard E., Lita G. Flores and Bill Pavao. January, 1998. *Loan & Grant Programs*, Department of Housing & Community Development, Division of Community Affairs, Sacramento.
- B. \_\_\_\_\_. November, 1997. *Funding Events Calendar*, Department of Housing & Community Development, Division of Community Affairs, Sacramento.
- C. Fong, Matt, State Treasurer: Board, Authorities and Commissions. *California Tax Credit Allocation Committee (TCAC), A Description of TCAC Programs*.

---

## EXECUTIVE SUMMARY

In January 1997, the Community Development & Design Forum in the School of Urban Planning & Development at the University of Southern California was hired by the Community Development Department, City of West Hollywood (City) to conduct a housing study to prepare options for the City Council to consider for its direction in the future. This report explores the existing conditions and housing needs, identifies housing constraints and opportunities, and makes policy recommendations. The report is organized around four main themes and a number of sub-themes. Following is a brief overview of the salient points in this report.

- ◆ **Community Needs Assessment**
  - Housing Trends & Needs
- ◆ **Constraints & Opportunities**
  - Housing Constraints
  - Rent Stabilization Program
  - Affordable Housing Production & Preservation
- ◆ **Public Participation**
  - Interview Survey of Community Leaders and Stakeholders

### ◆ **COMMUNITY NEEDS ASSESSMENT**

The City of West Hollywood's housing needs are determined by the demographic, social and economic characteristics of its residents and the type of housing available to them. The existing housing stock usually cannot meet all needs within a community, because life situations change and different housing is needed at different stages of life. Therefore, this Community Needs Assessment was designed to review various factors that indicate present and future housing need as well as to identify constraints and opportunities to meet the housing needs of City residents.

### ***HOUSING TRENDS AND NEEDS***

- ***Changing Demographics:*** Over the past decade, West Hollywood residents have become more diverse in race/ethnicity due to continued immigration from Eastern Europe and a significant rise in the Hispanic population on the City's Eastside. Moreover, the City has become distinguished by its high share of households (75%) which do not fit the "traditional" definition of the family unit. These "non-family" households are comprised of older, predominantly single, and smaller sized households -- many of whom are from the gay and lesbian community.
- ***Improving Incomes:*** West Hollywood has seen an improvement in economic conditions over the decade, marked by lower unemployment and higher incomes. This is because a larger share of employed residents hold managerial, professional and "white-collar" jobs and correspondingly fewer blue-collar jobs. Currently, nonfamily households are better off financially than similarly situated ones in the region, because their median income is 10% above the County median. Family incomes also improved, but are still 15% less than the County median.

- 
- ***Aging Housing Stock:*** Because West Hollywood is almost built out, the housing stock has changed little over the past decade. The one exception is housing age. By Year 2000, however, the City's housing will approach a median age of about forty years, passing the industry standard that requires major rehabilitation. According to the 1997 Redevelopment Plan, 10% of housing on the Eastside will require rehabilitation over the next 30 years--suggesting that housing maintenance will be one of the key issues facing the City over the next decade.
  - ***Housing Costs:*** According to the 1990 Census, home values have risen 175% over the decade due to the City's proximity to jobs and entertainment amenities. As a result, the median home value of \$350,000 is 50% above the County median. The rental market has also changed dramatically. High rental housing costs have lowered the rental vacancy rate below 4%, while rent stabilization policies have caused median rent to decline 22% in real terms over the decade. However, the City's low vacancy rate coupled with vacancy decontrol legislation should place a significantly stronger pressure on rent levels in the upcoming years.
  - ***Housing Affordability:*** Changes in household types, their economic status, and the housing market have led to corresponding changes in housing overpayment. The City's median household incomes have risen by 6% in real terms from 1980 to 1990, while rental housing costs have plummeted by 22% in real dollars. As a result, renter overpayment has declined from 50% to 46% by 1990. In contrast, overpayment among homeowners has soared. Because home values have risen twice as fast as family household income (approximately 175% versus 90%), homeowner overpayment has doubled from 20% to 41% over the decade.
  - ***Special Household Needs:*** West Hollywood is home to a large number of special needs groups according to household age or composition, housing status, economic status, health conditions, or other need. According to the 1990 Census, 18% of the City's residents are elderly (65 years and older)--of which over 50% earn very low income, 56% overpay for housing, and 9% have a mobility or self care limitation. Other populations which are vulnerable include homeless persons, female-headed families with children, large household--a disproportionate share that earns very low income, live in overcrowded housing, and depend on public aid.
  - ***Persons Living With HIV/AIDS:*** West Hollywood is home to a significant number of people living with HIV/AIDS or persons supporting friends in need. Approximately 10% of the City's population has people living with HIV /AIDS. As shown later, West Hollywood and the gay and lesbian community have demonstrated continued commitment to helping the physical, health and housing needs of persons living with HIV/AIDS within the community.

- 
- **Low Income Households:** The Federal Government's Comprehensive Housing Affordability Strategy (CHAS) shows that many households in West Hollywood are in need of financial assistance; that is, they earn less than 80% of the median income for the region and pay more than 30% of their gross income for housing. According to the CHAS, 9,977 or 44% of all households are either lower income or overpaying and approximately 32% of all households (or 7,124) are defined as in need of financial assistance. Moreover, as of November 1996, approximately 13% of the City's households or 4,038 persons are dependent on public assistance.
  - **Regional Needs:** State Law requires each city to develop policies to meet its "fair share" of housing needs for all income groups within its community. This regional "fair share" concept is designed so that each city accepts responsibility for meeting existing housing needs of its residents and those resulting from projected growth in households. According to SCAG's Regional Housing Needs Assessment (1988), West Hollywood's future housing need is 668 housing units distributed across all income ranges (very low to upper) for the 1989-1997 period. Based on current planning estimates, 90% of this allocation will be satisfied by the Year 2003 -- putting the City's progress substantially above most cities in the region.

## ◆ CONSTRAINTS & OPPORTUNITIES

The following section examines housing constraints such as market, non-market constraints, environmental constraints and government regulations. It also examines opportunities such as rent stabilization, impact of vacancy de-control and rent stabilization policy recommendations. Furthermore, the report addresses issues relating to the institutional performance of the non-profit sector, particularly the West Hollywood Community Housing Corporation. A brief profile of the WHCHC is sketched in this section that includes historical background, regional housing needs and WHCHC's contribution, performance indicators, and source and uses of funds. In addition, opportunities and resources including alternative financing mechanisms available at the federal, state, county and local level are pointed out.

### HOUSING CONSTRAINTS

In meeting the housing needs of residents in West Hollywood, the following constraints arise:

- **Market Constraints:** West Hollywood faces a number of market constraints to ensure an adequate level of housing reinvestment and maintenance. High land costs, the slowdown in the real estate, high vacancy rates, and financing issues can encourage or significantly constrain the production and maintenance of housing. Many of these market factors are independent and beyond control of local policy. This is illustrated by the fact that 140 building permits have been

---

pulled in recent months but not followed through due in part to the status of the economy.

- ***Governmental Regulations:*** Governmental regulations can significantly encourage or discourage housing reinvestment in the City of West Hollywood. As noted prior in this report, West Hollywood’s land use controls, building and safety codes, most fees and exactions, and residential development standards do not appear to constrain housing reinvestment, because they are similar to those in surrounding cities. Since the cost of developing or improving multifamily housing among cities does not substantially differ, governmental regulations are not considered to be a significant constraint to housing reinvestment.
- ***Fees and Exactions:*** Although the City’s residential development fees are comparable with surrounding cities, the inclusionary housing ordinance is unique to only Santa Monica and West Hollywood. Housing in-lieu fees can raise the cost of construction significantly above the rate found in surrounding cities. Moreover, if a demolition fee is required to replace affordable housing, the costs increase even further. In fact, the developer would have to pay up to double the costs -- \$81 psf for demolition, plus \$75 psf. in construction costs to build units. These costs could effectively discourage the recycling of old multifamily units.
- ***Environmental Constraints:*** The City’s General Plan identifies a number of other environmental conditions which may affect the maintenance, improvement and development of housing. These include noise levels due to increased traffic and land use patterns, an aging infrastructure requiring additional capital investments, and a severe shortage of parks and recreation land. However, many of these constraints are addressed through the City’s fees and exactions. Thus, environmental constraints do not appear to unduly affect housing reinvestment. Moreover, blighted conditions are addressed through the redevelopment process.

## **Rent Stabilization**

Rent Stabilization has been a key component of the City of West Hollywood’s housing program since incorporation. The City has recognized the need to maintain population diversity, and to protect vulnerable sectors of the population (low/moderate income, elderly and disabled residents, in particular) from the uncertainties of wide fluctuations in rent levels. In this regard, maintaining a stock of affordable housing has been identified as an important strategy to maintain diversity. And rent control has been an important mechanism for maintaining housing affordability. The report reviews existing policies and programs of the City, examines the impacts of rent stabilization on housing affordability, and describes the implications of the Cost-Hawkins legislation on rent affordability.

- ***Rent Stabilization: Existing Policies and Programs:*** The Rent Stabilization Ordinance is the key policy instrument of the Rent Stabilization Program. It was intended to address concerns about excessive rent increases that may displace low and moderate income tenants. It aims to moderate and monitor the rate of rent

---

increases for rental housing in the City, to ensure that such housing is maintained at a reasonable standard, and to mediate differences between tenants and landlords.

- ***The Effects of Rent Stabilization:*** Rent Stabilization has had the effect of moderating rent increases, and of maintaining City rent levels below those of surrounding areas. A comparison of average rents in West Hollywood and those of seven adjacent tracts to the north and east of the City reveals that while average rents in the City exceeded those of surrounding areas in 1980, (\$334 compared to \$296), they had dropped well below the average level of surrounding areas (\$621 compared to \$691) by 1990. Moreover, average rent increases in the City for the period 1980 to 1990 were lower than those of surrounding areas (87.2% compared to 134.5%).
  - There has also been a relative improvement in housing affordability among renters in the City. In 1990 over 46% of renters in West Hollywood paid more than 30% of their incomes for gross housing costs, compared to 51% for the City of Los Angeles. Between 1980 and 1990, the percent of households that were paying more than 30% of their incomes in rent dropped from 50% to 46%.
  - Although housing affordability in the City has improved, the number of rental units, as well as the number of rent controlled (or non-exempt) units has declined. Between 1980 and 1990 the number of rental units in the City decreased by 9.9%, compared to a 5.6% decrease among the four west side cities of Santa Monica, Culver City, West Hollywood and Beverly Hills. Between 1987 and 1996, there was a 12.9% drop in the number of non-exempt units, from 18,060 to 15,737 - a loss of 2,323 rent controlled units.
  - The trend among renters in respect of length of stay in the same place has also been positive. The share of short term tenants (those in the same unit for less than a year) is decreasing (from 34% in 1980 to 25% in 1990) while the number of long term tenants (those remaining in the same unit for over 10 years) is increasing (from 13% in 1980 to 24% in 1990).
  - Rent Stabilization also had the effect of reducing the vacancy rates of rental units in West Hollywood. In 1980 the vacancy rate among rental apartments was 4.9% compared to 3.9% for LA. In 1990 the rate for West Hollywood dropped to 3.9% while the rate in LA increased to 6.6%.
- ***The Costa-Hawkins Rental Housing Act: The Effects of Vacancy De-Control:*** The Costa-Hawkins Rental Housing Act, passed in 1995, enforces gradual state-wide de-control of rent controlled housing as vacancy occurs. Thus, limits on rent increases, such as those formerly contained in the West Hollywood Rent Stabilization Ordinance, will be gradually eliminated. However, The Costa-Hawkins Act affects only those units that are voluntarily vacated, and those that become vacant through eviction for non payment of rent. Other provisions of the Rent Stabilization Ordinance remain largely intact.
  - Although it is generally accepted that the Costa-Hawkins Act will result in higher rates of rent increases, the extent and the rate of such increases is

- 
- difficult to predict because the number of units subject to de-control will depend on turn-over rates. It is likely that turnover rates will increase as landlords push to have tenants vacate units in order to implement rent increases. But these trends will, to some extent at least, be counteracted by the will of tenants to remain in place for longer periods in order to take advantage of rent control.
- The Costa-Hawkins Act will probably have a negative effect on tenant/landlord relations. Many landlords, motivated by the desire to implement rent increases upon vacancy are likely to increase pressure on tenants to vacate. However cases of harassment of landlords by tenants have also been reported.
  - Lastly, the Costa-Hawkins Act is likely to improve the quality of rental housing, maintenance and service levels because deferred maintenance will be less likely to occur as rents reach market levels.
- ***Rent Stabilization Policy Recommendations:*** It is important to bear in mind that the Costa-Hawkins Act affects vacancy de-control only. Other aspects of the Rent Stabilization Ordinance remain intact. Hence, in addition to the tasks associated with continued rent control of units that are not subject to de-control, and the tasks of monitoring across the board increases, there is still scope for pursuing the broader objectives of the Ordinance. In this regard, the City has an important role to play in ensuring quality and maintenance of all rental units, and in mediating tensions between landlords and tenants as the Costa-Hawkins legislation takes effect. Hence a key recommendation is that the existing provisions of the Ordinance should be re-examined (and modified if necessary) to ensure that the broader objectives of maintaining a stock of good quality affordable housing, and population diversity are met.

### **Affordable Housing Production & Preservation:** **West Hollywood Community Housing Corporation (WHCHC)**

Non-profits play a critical role in bringing a community based perspective to the housing development sector. They secure public and private resources and invest them in housing to revitalize these neighborhoods. While the capacity of the non-profit sector is not uniform, the advanced parts of the sector have increased pressure on local non-profits to take on broader community development goals. The WHCHC plays a pivotal role in taking on broader housing (production), and community development (non-production) functions. This is illustrated by its housing development, housing management, and the enhanced management program serving the special needs population. Following is a brief overview of the WHCHC and issues germane to production and preservation of affordable housing.

- ***History:*** The City's General Plan (1988) establishes six basic housing goals that serve as a guide to the housing policies and implementation strategies. The West Hollywood Community Housing Corporation was a direct response to meet the City's goal of affordable housing and to facilitate the development of housing for low and

---

moderate income households, and senior citizens. It is an incorporated Section 501(c)3 housing development organization whose mission is to buy, build, rehabilitate, manage and advocate for lower-income people in the City of West Hollywood. In 1986, the WHCHC was formed with a board composed of housing experts, local residents and community leaders. Since then, the WHCHC has developed and manages five projects in the City (116 units) with two projects (42 units) in pre-development and 40 units under construction.

- **Regional Housing Needs:** The City of West Hollywood has made considerable progress towards meeting its housing need allocations through the WHCHC and the Inclusionary Housing Ordinance. According to Southern California Association of Government's (SCAG's) Regional Housing Needs Allocation (RHNA), the City is required to produce 242 housing units for lower income households during the planning period 1988-97. The WHCHC has built 116 units for low and lower income households, with 40 units under construction and 42 units under pre-development. The Inclusionary Housing Ordinance has also resulted in the construction of 53 affordable units for low and moderate income households. This comes very close in accomplishing the City's goals and objectives of providing affordable housing to the lower income households.
- **Performance Measures:** The key features that distinguish WHCHC's performance along the dimensions of housing program performance include social targeting, long term retention in the housing stock, housing quality and property management.
  - The WHCHC targets affordable housing exclusively to low income (51% to 80%) households, and lower income (00% to 50%) households of the Los Angeles County median. Of the 116 units built around the City, more than 50% of the units are targeted towards the senior population and People with HIV and AIDS (PWH/As). One of the proxies of demand for affordable housing is the waiting list of applicants. Of the 415 applicants from the Los Angeles County, 59% are residents of the City. Waiting list of applicants reflect the low and the lower-income demographics of the City – approximately 47% of the applicants (N=343) have incomes below \$10,000. Due to the huge demand for affordable housing, the duration of wait by the type of unit is very long, ranging from 18 months to 5 years.
  - The units produced by the WHCHC are protected under binding agreements recorded at the County level that regulate how rents will be determined and restrict occupancy to income eligible households. Typically, the regulations allow for the housing stock to be affordable for 30 years.
  - The WHCHC has been commended for housing design and development by organizations such as American Planning Association, City of West Hollywood, City of Los Angeles and SCANPH.
  - The WHCHC manages all of its projects and ensures high quality because of its commitment to community goals. The Local Initiatives Support Corporation (LISC), a national intermediary, produces a set of standards or indicators that can be used to identify good management practices. According

- 
- to our analysis, the WHCHC meets 13 of the 14 listed criteria for ‘well managed’ property and sets a high standard of performance.
- The WHCHC uses the enhanced management approach to reduce the risk of resident’s losing their housing. The enhanced management approach combines standard property management practices with referrals of residents to community/volunteer service agencies that link support services according to resident needs.
  - ***Project Financing:*** The WHCHC finances its projects by combining private and public loans with private investment, subsidy from the City, and grants from a variety of sources. The six projects developed by WHCHC to date are all rental projects. Of the six projects, two are substantial rehabilitation, three new construction, and one a mix of new construction and rehabilitation. The projects range from 8 to 41 units. The full development cost per unit ranges from \$61,913 to \$157,560 with an average of \$118,875. City subsidy per unit varies from \$12,912 to \$48,176, while the total public subsidy which includes cash equity raised from tax credits ranges from \$48,665 to \$152,147 with an average of \$99,684 per unit. The average number of development funding sources observed per project was four.
  - ***Low Income Housing Tax Credits:*** The WHCHC has utilized the Low Income Housing Tax Credits (LIHTC) to raise equity for five of the six projects. This financing mechanism is widespread nationally; estimates suggest that in 1990, 90% of affordable housing projects, regardless of the type of sponsor, were funded by tax credits. Projects that utilized the tax credit, raised on average \$49,712 per unit in syndication proceeds. Of this amount, \$5,611 per unit was devoted to syndication costs. Therefore, on average, the net syndication proceeds accounted for \$44,101 per unit. This represents 32% of the total cash costs and compares favorably with a comparable set of 15 non-profit projects (HUD-Group). The HUD-Group raised on an average \$47,402 in syndication proceeds and devoted \$6,769 to syndication costs per unit. On an average, the HUD-Group raised \$40,663 per unit in net syndication proceeds, averaging 32% of the total cash costs which is very similar to the figures obtained for WHCHC.
  - ***Components of Development Costs:*** Among the 12 components of development costs, acquisition as a proportion of total development costs represents the largest cost category. This is due to the high land costs in the City of West Hollywood. Planning & design, as a share of costs, on average is higher for the WHCHC as compared to the HUD-Group. This may be attributable to WHCHC’s strong interest in building aesthetics, and design. Finance and carrying charges are on an average lower for all WHCHC projects when compared to the HUD-Group. Relocation costs as a proportion of all costs are near similar for both WHCHC and the HUD-Group. Construction costs in the range of \$44 to \$65 for the WHCHC compare favorably to the costs for typical industry (for-profit) market costs for the area. In preparing their 1998-2003, Housing Element Update, the City of Santa Monica surveyed contractors active in Santa Monica and found that the average

---

multi-family construction costs range from \$40 to \$75 per square foot, and up to \$64 to \$82 per square foot if one level of underground parking is required. Real estate taxes, marketing, reserves, legal and organizational costs, overhead staff as a share of development costs are very similar for both WHCHC and the HUD-Group. Developer's fee retained by WHCHC, as a share of development costs, on average is lower than the HUD-Group and less than half of the for-profit developers. Syndication costs were lower for projects done by WHCHC when compared with the HUD-Group.

- ***Inclusionary Housing Program and the Affordable Housing Trust Fund:*** The dampened real estate market has adversely impacted the City's Inclusionary Housing Program and the Affordable Housing Trust Fund. The City's Inclusionary Housing Program requires developers to set aside a portion of units in each new residential development for low and moderate income households or pay an in-lieu fee or provide a combination of units and fees. The Inclusionary Housing Program has resulted in the development of 53 housing units affordable to low and moderate income. All of the in-lieu fees generated by the program goes into a fund called the Affordable Housing Trust Fund. The Affordable Housing Trust Fund depends on a vibrant real estate market and has played a critical role in the development of affordable housing for the WHCHC. Over the last 10 years, the Affordable Housing Trust Fund has provided more than \$3.5 million in financing for WHCHC projects. However, due to high land costs, lack of availability of land, costs of financing, recession, and the consequent dampened real estate market during the last four years, the Affordable Housing Trust Fund is at an all time low. To bridge this gap in funding, subsidies that lower the costs of housing development, such as land write downs, interest subsidies, and other alternative financing techniques are needed to lessen the impact of such market conditions.
- ***New Construction versus Substantial Rehabilitation:*** The City of West Hollywood is a highly built out city with few remaining vacant properties. Only 1% of the City's total area is available for development. Demolition of existing structures (with demolition fees) and its replacement with new structure increases the cost of construction. Land costs are very high in the City, particularly due to the low supply of vacant land. These factors, among others, raise the cost of new development, and become a detriment to new construction. Substantial rehabilitation, on the other hand is a viable option for future affordable housing development. One of the major reasons is the presence of abundant supply of older housing stock that needs to be rehabbed. According to the City's 1997 Redevelopment Implementation Plan for the East Side, 55 dilapidated units will be rehabbed over the next five years, 110 units over ten years, and 500 units over the life of the Redevelopment Plan. This presents a great opportunity for future affordable housing development for the WHCHC. However, substantial rehabilitation demands caution since additional costs associated with it such as compliance with building safety, codes, standards and regulations, asbestos abatement, seismic upgrades, relocation costs, and costs associated with

---

additional parking may render the project infeasible. Hence, substantial rehab, although an opportunity requires scrutiny on a case-by-case basis.

- **Funding Opportunities:** Opportunities and resources for use towards the improvement, preservation and development of affordable housing are available from the federal, state, county and the city level. A variety of funding and regulatory programs are available to the City and the WHCHC.
  - These include federal programs such as HOME Investment Partnership, Community Development Block Grant Funds (CDBG), Section 202/811 Housing for Seniors and Disabled Persons, Housing for Persons with AIDS (HOPWA), Supportive Housing, Federal Emergency Shelter Grants, Section 8 Rental Assistance and Housing Vouchers, Home Ownership for People Everywhere (HOPE I, II & III), and the Section 108 Program.
  - State programs include the Low Income Housing Tax Credits (LIHTC), Single Family: Home Mortgage Purchase Program (HMP), Self-Help Housing Program and the Multi Family: Rental Housing Mortgage Loan Program.
  - County program includes the Mortgage Credit Certificate Program.
  - Local programs include the Redevelopment Tax Increment and the Inclusionary Housing Program; details of these programs have been elaborated in the affordable housing constraints and opportunities section.
  
- **Challenges:** Due to the decrease in federal and state program funding, and the need for additional funds to stem the loss of affordable housing due to vacancy de-control, alternative affordable housing programs should be explored by WHCHC and the City. Potential funding source includes the Tax Exempt Bonds. The WHCHC increasingly due to pressures for funding continues to be entrepreneurial in nature and has to respond to the changing imperatives of performance, efficiency and accountability. This is especially true because of the sector's greatest vulnerabilities – the burden of patchwork financing and the lack of ongoing support. The need to patch together project financing from a large number of sources increases the legal complexity and hence the cost associated with the project. This suggests the need for alternative financing mechanisms, perhaps pooling resources at higher levels and making them available to local non-profits in a simpler manner. Although government subsidies remain critical, the non-profit sector is progressing in reducing risk perceptions in the capital markets. The role of intermediaries in confidence building and the creative pooling of funding sources to reduce the risk through diversification has been an important element. However, additional efforts are warranted to expand the concept of leveraging to secure both additional private financing and to further institutional change and capacity building.

---

## ◆ PUBLIC PARTICIPATION

An Interview Survey of Community Leaders and Stakeholders was conducted to canvass their views regarding performance of the City in meeting its goals, opportunities and obstacles for future housing policies, and expected impacts of recent legislative developments and trends in the future. To facilitate dialogue on housing issues, a community workshop was held to inform and obtain feedback on housing problems and opportunities.

### Interview Survey of Community Leaders and Stakeholders

The interviewees comprised members of the City Council, and representatives of the Planning Commission, The Rent Stabilization Commission, the West Hollywood Community Housing Corporation, The Coalition for Economic Survival and the West Hollywood Concerned Citizens. The issues surveyed were organized under seven sections, namely, rent stabilization, affordable housing production and preservation, zoning, market rate housing, trends, homeownership, and NIMBYism.

- ***Rent Stabilization:*** The goals of rent stabilization were generally identified as follows: to provide and maintain a stock of affordable, good quality housing; to maintain diversity and inclusiveness; and to protect vulnerable groups from dramatic fluctuations in rent levels. Most respondents felt that the city has met these goals.
  - With reference to the effects of Costa-Hawkins legislation, the prevailing view was that rent levels will rise, but, because current rents are close to market levels, the increases will take effect gradually. Most respondents agreed that rent increases will result in gentrification as low income residents get forced out. Almost all respondents expected a deterioration in relations between landlords and tenants as evictions increase.
  
- ***Affordable Housing Production and Preservation:*** There was overwhelming agreement that the West Hollywood Community Housing Corporation has done excellent work and produces good quality projects. Many felt that the WHCHC should be given autonomy in decisions about project location and project type (i.e., new construction or rehab). Most respondents suggested that the WHCHC should do more to secure greater community participation.
  - There was a broad range of suggestions for use of Community Development Block Grants. These included suggestions that the funds be used for: streetscaping, facade improvements and better street lighting, continued production of affordable housing for low income residents and the disabled; residential rehab (as a strategy to maintain old housing stock).
  - Most respondents agreed that the Inclusionary Housing program should be retained since it is an important way for the City to meet its housing goals. While a small minority of respondents felt that the program acts as a disincentive for private sector new construction, others maintained that in a vigorous market inclusionary fees did not get in the way of new development.

- 
- **Zoning:** Suggestions for zoning improvements included: provision of greater certainty in the application process; parking reduction across the city for affordable housing; increase in height limits; investigation of zoning and lot sizes on the east side (where lots are small); upzoning from single family to multi-family residential in selected areas; an investigation of lot assemblage for redevelopment; reduction in application fees; and speeding up of the approval process.
  - **Market Rate Housing and New Construction:** Suggestions to encourage new construction included new zoning incentives, and the creation of greater zoning certainty. Some respondents proposed programs to keep the crime rate low, enhance the pedestrian character of the city, and improve parks and gardens should be supported. The proposed redevelopment program was also cited as a strategy to increase private new construction.
  - **Trends:** Most respondents anticipated that the welfare cuts will have serious negative consequences for the City as more low income households get displaced, and the homeless population increases.
  - **Homeownership:** The prevailing view was that some form of homeownership should be encouraged, but it should not detract from provision of affordable rental housing. A minority felt that low homeownership was not a problem since services already exist to encourage homeownership.
  - **NIMBY:** There was overwhelming consensus that NIMBYism exists and is a big problem in the City. Respondents stated that residents are becoming increasingly well-organized, forceful, and vocal. But there was concern that most objectors did not offer concrete solutions, tended to mask the real issues, and used coded language to hide prejudices.

### **Community Workshop**

On December 8<sup>th</sup>, 1997, a Community Workshop, *The Future of Housing in West Hollywood* was conducted by USC Community Development & Design Forum. The purpose of this workshop was two-fold: a) to inform the City Council, City staff, stakeholders, and public at large regarding the findings of this study, and b) to obtain feedback from the community regarding the various housing issues, problems and opportunities. The workshop was attended by City staff and residents. Presentations were made by Dr. Tridib Banerjee, Mark Hoffman, Kiran Lalloo and Deepak Bahl. Ms. Allyne Winderman, Economic Development & Housing Manager, presided over the community workshop.

The comments and suggestions made at the community workshop were recorded and incorporated in this report.

## TABLE OF CONTENTS

---

I.	INTRODUCTION	1
II.	HOUSEHOLD CHARACTERISTICS	
	2.1 POPULATION	3
	2.2 RACE AND ETHNICITY	4
	2.3 AGE CHARACTERISTICS	6
	2.4 HOUSEHOLD TYPE	8
	2.5 EMPLOYMENT	10
	2.6 HOUSEHOLD INCOME	12
III.	HOUSING CHARACTERISTICS	
	3.1 Housing Type	15
	3.2 Occupancy Status	17
	3.3 Housing Costs	19
	3.4 Housing Condition	22
	3.5 Overcrowding	24
	3.6 Overpayment	25
IV.	HOUSING NEEDS	
	4.1 General Housing Need	28
	4.2 Special Household Need	30
	4.3 Low Income Need	33
	4.4 Regional Housing Needs	34
	4.5 Summary Housing Need	37

---

## **SECTION I: COMMUNITY NEEDS ASSESSMENT**

### **1.0 Introduction**

West Hollywood’s housing needs are determined by a wide range of demographic, social and economic characteristics of its residents and the characteristics of the housing available to them. The existing housing stock usually cannot meet all the needs of the residents in a community. This is because situations change and different housing is needed at different stages of life. Therefore, this Community Needs Assessment is structured to analyze important demographic, housing, and special need characteristics in the City to identify present and future housing need.

This present section is organized into three parts:

- Household Characteristics: This section shows demographic and economic characteristics affecting housing need. Important demographic characteristics include population growth, race/ethnicity, age structure, and household type. Economic factors include jobs held by City residents and income earned by different households, with a focus on differences between areas in the City.
- Housing Characteristics: This section details market and household outcomes. *Market* outcomes address the supply and demand factors of housing and include changes in housing type, occupancy, and housing costs. *Household* outcomes address changes in the relative position of tenants in the housing market and include housing conditions, density, and affordability, with a special focus on spatial differences across West Hollywood.
- Housing Needs: This section summarizes the major issues affecting housing need identified earlier as well as designated special housing needs. Special needs include State-designated special need groups (such as the elderly, homeless, and disabled among others), Federally-defined lower income households, and regionally defined “fair-share” housing needs. Financial resources provided to meet their housing needs are also presented.

Taken together, this Community Needs Assessment details existing household characteristics, housing conditions and housing needs in the City of West Hollywood. With this background in mind, later sections of this report will analyze various constraints and opportunities to meeting the needs identified herein as well as suggesting future options available to the City.

---

## 1.1 West Hollywood -- Its Setting

The City of West Hollywood is relatively new, having incorporated in 1984. In terms of location, the City is located about eight miles northwest of the Los Angeles Civic Center (see Map x.x). West Hollywood is bordered to the north by Hollywood Hills, to the east by the community of Hollywood, to the south by the Fairfax District, and by Beverly Hills to the west.

**Regional Setting:** Like most cities in metropolitan areas, no individual city is an island. Changing demographic, housing, and employment patterns extend across city boundaries. West Hollywood is a particularly good example. Surrounded on all sides, West Hollywood is affected physical, economic, and demographic forces emanating from Los Angeles and in particular the westernmost portion. Thus, it is important to understand the City within its regional context.

In this regard, the Southern California Association of Governments recognizes two subregions which impact demographic, housing, economic, and transportation planning in West Hollywood. The “Westside” consists of Beverly Hills, Culver City, Santa Monica, and West Hollywood. However, one should note that the “Westside” subregion is not the Westside of Los Angeles. Secondly, the City of Los Angeles is also recognized as a subregion. Both subregions clearly influence conditions and planning decisions in West Hollywood because they surround the City. Therefore, this report will make frequent mention of West Hollywood within its regional context.

**Local Setting:** To analyze patterns and trends in West Hollywood, it is also useful to divide the City into smaller geographical subareas. The Census Bureau divides the City into five census-defined tracts. As shown below, the report will make frequent mention to each of these tracts:

- **Eastside:** This tract has about 10,500 persons and extends west from La Brea to Fairfax. From Fairfax to Gardner, this tract is medium-high density residential. East to La Brea, the land use is low-medium density residential and commercial.
- **Crescent Heights:** The Crescent Heights district has about 6,500 residents and extends from Fairfax west to Crescent Heights. The main land use is medium-high density residential, although commercial uses line its southern border.
- **Central:** This tract has about 6,000 persons and extends west from Crescent Heights to La Cienega. The primary land use is medium-high density residential, although there is a small low-medium density area south of Santa Monica Bl.
- **Northwest:** This tract has 6,000 persons and extends west from La Cienega to the City limits and south to Santa Monica. This tract has medium to high density residential areas on its eastern side, and low-medium density on its western side.
- **Melrose:** The Melrose District extends southward from Santa Monica Boulevard. This tract contains low to high density residential as well as commercial, manufacturing and institutional uses. It has a population of approximately 7,750.

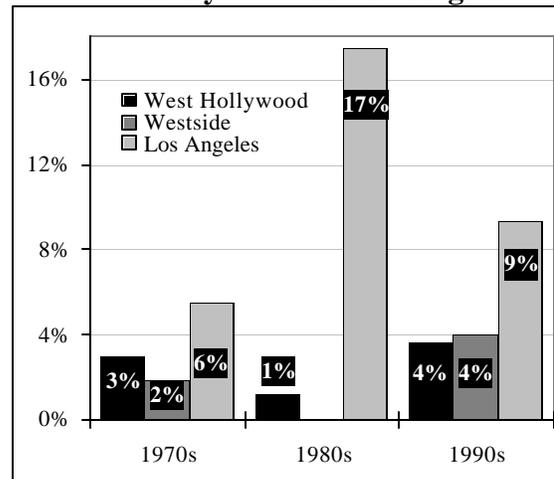
## 2.0 HOUSEHOLD CHARACTERISTICS

The household characteristics of a community have direct impact upon housing needs. Household characteristics such as race and ethnicity, population age structure, composition as well as income determine the type of housing needed, tenure, and ability to afford housing. This section briefly outlines the major characteristics of West Hollywood residents and households.

### 2.1 Population Growth

The greater Los Angeles metropolitan region continues to be ranked among the fastest growing regions in California. In the City of Los Angeles alone, total population has risen from 2.8 million in 1970 to a projected 3.8 million by 2000, with most of the growth occurring during the 1980s. Despite this regional growth, the population of the Westside subregion (comprised of the cities of Santa Monica, West Hollywood, Culver City and Beverly Hills) has increased significantly slower. In contrast, the population of the Westside subregion has increased by only 6% during the same time period, from approximately 190,900 in 1970 to a projected 201,500 by the Year 2000. This modest population growth is because most of the Westside cities are almost built out.

**Figure 1  
Population Growth  
West Hollywood and the Region**



West Hollywood's population has also remained relatively stable over the past several decades, comprising 18% of the Westside subregion. The California Department of Finance estimates that the City's population is 37,600 as of 1997, which is 1.5% above SCAG's estimates but well within a standard margin of error for mid-census estimates. However, because the City is nearly built out, minimal population growth is expected through the Year 2000 (Table 1).

**Table 1  
Population Trends Since 1970  
West Hollywood and its Region**

Jurisdiction	1970	1980	1990	2000*	%Change
Santa Monica	88,289	88,314	86,905	91,526	4%
Beverly Hills	33,416	32,367	31,971	32,696	-2%
Culver City	34,541	38,139	38,793	39,821	15%
West Hollywood	34,662	35,703	36,118	37,425	8%
Westside Subregion	190,908	194,523	193,787	201,468	6%
Los Angeles	2,811,801	2,966,850	3,485,398	3,811,247	36%

Source: 1970, 1980, 1990 U.S. Census

\*Southern California Association of Governments

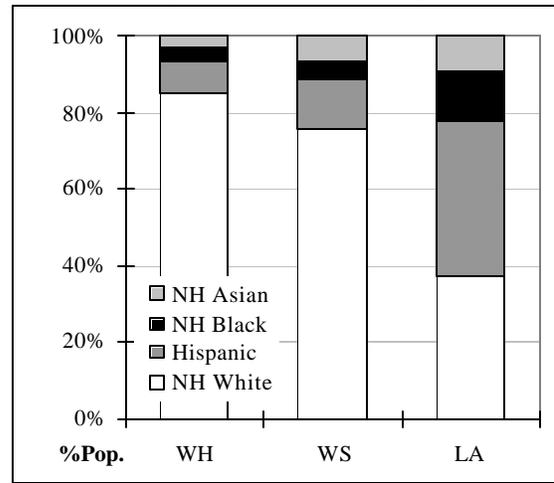
## 2.2 Race and Ethnicity

Race and ethnicity of residents in a community can affect their housing needs and preferences. Different peoples may have different household characteristics, such as family structure or linguistic ability, which affects their ability to earn sufficient income to afford suitable housing. This section details the diversity of West Hollywood’s residents and its impact on housing needs.

According to the 1990 Census, West Hollywood has a less diverse population with respect to race and ethnicity than the surrounding subregions. In West Hollywood, Whites comprise the majority of the population (85%), followed by Hispanics with 9%, and Blacks and Asians with 3% each (Table 2 and Figure 2). This ethnic distribution is similar to that of the Westside subregion, albeit the Westside has a higher share of Hispanics.

In contrast to the Westside, however, the City of Los Angeles has a more diverse population. Hispanics comprise approximately 42% of the Los Angeles’ population, followed next by Whites with 37%, Blacks with 11%, and Asians with the remaining 10% of the City’s population.

**Figure 2**  
**Race and Ethnic Composition**  
**West Hollywood and the Region (1990)**



Similar to past trends in the greater Los Angeles region, however, West Hollywood will become more diverse with respect to race and ethnicity as the Year 2000 approaches (Table 2). Based on a straight line projection, Whites are projected to decline to approximately 80% of the population, while Hispanics will increase to 13%. The majority of growth in the Hispanic population should occur in the Eastside tract. Meanwhile, the Asian population should increase to 4% of the City’s population, while the Black share of the population should remain the same.

**Table 2**  
**Changes in Race and Ethnicity**  
**City of West Hollywood (1980-2000)**

Ethnicity	1980		1990		2000	
	Nos.	Pcnt.	Nos.	Pcnt.	Nos.	Pcnt.
Hispanic	2,006	6%	3,153	9%	4,944	13%
NH White	31,286	88%	30,596	85%	29,847	80%
NH Black	1,270	4%	1,155	3%	1,048	3%
NH Asian	740	2%	1,066	3%	1,532	4%
NH Other	401	1%	148	0%	54	0%
<i>Total</i>	35,703	100%	36,118	100%	37,425	100%

*Source: 1980, 1990 U.S. Census*

## Foreign-Born Population

Although West Hollywood's population is relatively homogenous with respect to race and ethnicity, a significant share consists of households who are foreign born and recent immigrants. Currently, *one-third* of the City's residents are foreign-born, with representation from well over 85 other countries. As shown below, the City's high share of foreign-born population is an important factor affecting housing needs, especially with respect to linguistic isolation.

Since the Fairfax District in Los Angeles is home to a well-established East European community, the largest immigrant group in West Hollywood is of Russian descent. According to the 1990 Census, Russians makeup one-third of the City's immigrant population and an estimated 15% of the City's total population. Western Europeans are the next largest group, comprising 25% of immigrants. The majority of Western Europeans originated from Hungary, Poland, and other former Eastern-Bloc countries (Table 3). The third largest group is from Asia (17%), half of which are from the Middle East. Immigrants from South/Latin America, Mexico, and Central America comprise 14% of immigrants, while all other countries comprise under 10%.

**Table 3**  
**Place of Birth of Immigrants**  
**City of West Hollywood (1990)**

Country of Birth	Nos.	Share
Russia	4,052	33%
West Europe	3,189	26%
Asia	2,100	17%
So. & Latin America	1,724	14%
Canada	382	3%
Africa	298	2%
All Other	537	4%
<i>Total Persons</i>	12,282	100%
<i>City Population</i>	36,118	n/a
<i>%Foreign Born</i>	34%	n/a

Source: 1990 U.S. Census

**Table 4**  
**Languages Spoken At Home**  
**City of West Hollywood (1990)**

Language Spoken at Home	Persons	Share of Total
Russian	3,689	31%
Spanish	2,430	21%
French	853	7%
Other W.European	1,643	14%
Indo-European	1,003	9%
Other	1,011	9%
Yiddish	639	5%
Asian	422	4%
<i>Total</i>	11,690	100%

Source: 1990 U.S. Census

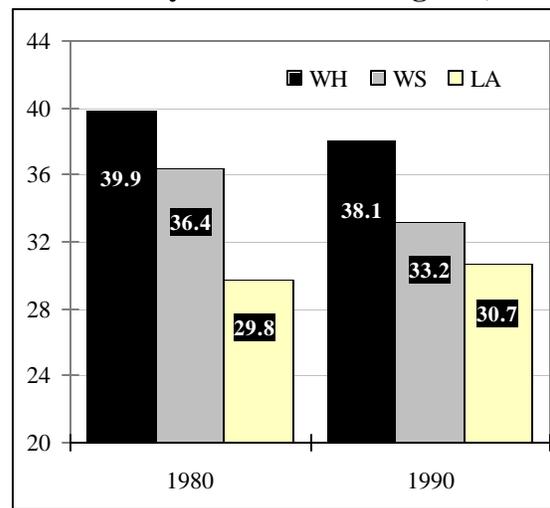
The large share of foreign-born population, makes linguistic ability an important issue. Linguistic ability can determine whether or not persons secure adequate paying employment and thus afford suitable housing. In some cases, linguistic isolation can prevent immigrants from accessing needed social services, health care, and public assistance. According to the 1990 Census, *one-third* of all persons age five years and over speak another language than English at home. As shown in Table 4, the most prevalent foreign languages are either Russian (31%) or Spanish (21%). Of the City's foreign-born population, 4,486 persons or 37% are linguistically isolated.

## 2.3 Population Age Structure

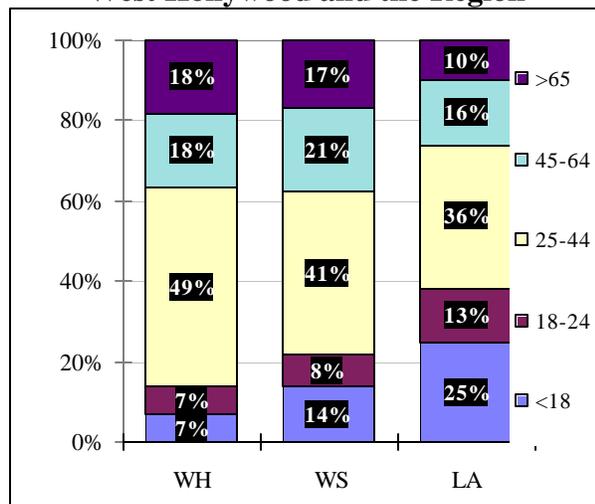
Housing need in a community is largely determined by population age structure and the life cycle of households, because people require different types of housing at different stages in their life. For example, while younger single adults prefer smaller rentals, families with children often prefer larger homes for their children. However, as children leave home, seniors may begin to trade in their larger homes for smaller and more accessible homes. Therefore, this section discusses the age structure of West Hollywood residents and its impact on housing needs.

In comparison to the region, West Hollywood’s population has several distinctive characteristics. First, the City’s residents are generally older than residents in the surrounding region. According to the 1990 Census, the median age of West Hollywood residents is 38.1, which is older than the Westside subregion (33.2) as well as the City of Los Angeles (30.7) (see Figure 3). Secondly, while the region’s population has grown older over the past decade, the opposite is true of the Westside and West Hollywood. Lastly, the median age of West Hollywood residents has declined slower than the Westside. As a result, the City’s population is younger than a decade ago, but older in comparison with the Westside. These trends are explained below.

**Figure 3**  
**Population Median Age**  
**West Hollywood and the Region (1990)**



**Figure 4**  
**Population Age Distribution**  
**West Hollywood and the Region**



Reviewing the age distribution of West Hollywood residents shows why they are much older than the surrounding region. First, the City has a very low (7%) share of children and a high share of seniors (18%) in comparison with the entire region (Figure 4). Coupled with the fact that the majority of the City’s population is between ages 25 and 44, the City’s population is older than the region. Meanwhile, the Westside subregion has a similar age distribution to West Hollywood, except for having twice the share of children. Lastly, the City of Los Angeles has a completely different age distribution, with three times the share of children and half the share of seniors as does West Hollywood.

West Hollywood's decline in median age is due to three inter-related factors -- a change in household composition, the "bright-lights" theory, and the aging of residents. In brief, families and seniors have gradually left the City and been replaced by younger single person households. This influx of single adults has been due to the "bright lights" of West Hollywood -- namely its close proximity to employment, cultural, and entertainment outlets attractive to younger adults. As a result, households between ages 25-44 have increased 11% over the past decade while seniors over age 55 have declined from 34% to 27% of the City's population (Table 5).

Further analysis of changes in cohort membership suggests that the City's household composition will continue to gradually change through the Year 2000. First, the significant increase in young adult ages 25 to 34 over the past decade will likely continue as young adults attracted to the "bright lights" of urban life move into West Hollywood. Secondly, there should continue to be an increase in adults between ages 30 to 50 due to the gradual aging of young adults who moved into the City during the 1980s. Lastly, cohort analysis suggests a gradual decline in residents over age 50 as they near retirement and seek housing suited to their needs.

As a result, West Hollywood will continue to have a significantly older population than the region in the Year 2000, but slightly younger population on average as compared to 1990. This pattern suggests a continued demand for smaller and affordable rental housing units suited to single and younger households between ages 20 to 34, a stronger demand for affordable owned housing (perhaps condominiums) for longer term residents ages 30 to 50 who accumulated wealth over the past decade, and a general decline in housing demand for seniors over age 65. Table 5 below summarizes changes in the population age structure of City residents.

**Table 5**  
**Changes in Population Age Structure**  
**City of West Hollywood (1980-1990)**

Age	Number		Share of Persons		Change	
	1980	1990	1980	1990	Nos.	Share
0-14	1,840	2,202	6%	6%	+362	0%
15-24	4,360	2,864	12%	8%	-1,496	-4%
25-34	9,379	10,364	26%	29%	+985	+3%
35-44	4,659	7,453	13%	21%	+2,794	+8%
45-54	3,488	3,540	10%	10%	+52	0%
55-64	3,928	3,088	11%	9%	-840	-2%
65-74	4,831	3,085	14%	9%	-1,746	-5%
75+	3,218	3,522	9%	9%	+304	0%
<i>Total</i>	35,703	36,118	100%	100%	100%	100%

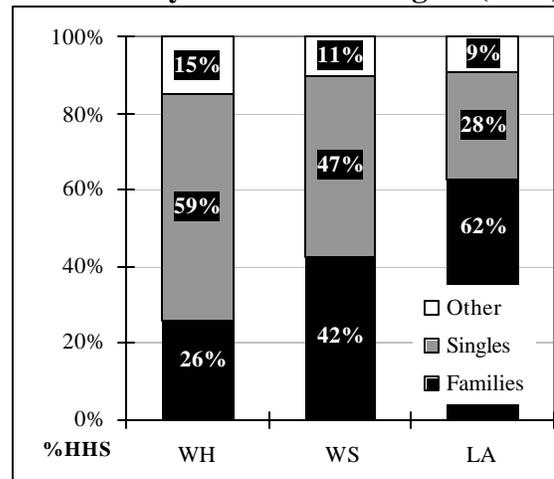
*Source: 1980, 1990 U.S. Census*

## 2.4 Household Type and Size

Household characteristics often affect housing preferences and housing need in a community. For instance, families may require larger housing due to children, the elderly may require improved accessibility due to mobility limitations, and younger households typically prefer smaller rentals due to their small household size and lower income. Therefore, this section details the major characteristics of households residing in West Hollywood.

The Census Bureau defines a household as all persons who share the same housing unit. Families are a subset of households and include persons related through blood, marriage or adoption. Single households refer to persons living alone, except for those in group quarters. Other nonfamily households consist of two or more unrelated individuals. According to the State Department of Finance, West Hollywood has 22,805 households in 1997 and consists primarily of singles (59%), followed by families (26%), and all other nonfamilies (15%). This distribution is similar to households in the Westside, but opposite to Los Angeles (Figure 5). The small share in “group quarters” refer to persons living in (non)institutionalized quarters.

**Figure 5**  
**Comparison of Household Types**  
**West Hollywood and the Region (1990)**



West Hollywood has seen dramatic changes in its household composition. Over the 1980s, the share of family households has fallen from 31% to 26% and been replaced by nonfamily households. For instance, 1-person households have increased to 59% of all households, while all other nonfamily households have increased to a 15% share. Both nonfamily households are also projected to continue to increase through the Year 2000 (Table 6).

**Table 6**  
**Change in Household Types**  
**City of West Hollywood (1980-1990)**

Type	Number of HHS			Percent of HHS		
	1980	1990	2000	1980	1990	2000
Population	35,703	36,118	37,425	n/a	n/a	n/a
-- In Group Qtrs	251	414	683	n/a	n/a	n/a
Families	6,948	5,818	4,792	31%	26%	21%
Singles	12,409	13,375	14,180	56%	59%	62%
Other HHS	2,795	3,375	4,009	13%	15%	17%
Total HHS	22,152	22,568	22,981	100%	100%	100%
HHS Size	1.60	1.58	1.63	n/a	n/a	n/a

Source: 1980, 1990 U.S. Census

## Household Type and Size

As briefly illustrated earlier, the City of West Hollywood's has a household type and composition unlike the surrounding region in that many do not fit the traditional definition of the family unit. West Hollywood's households are generally made up of nonfamilies, which are predominantly single, older, and smaller in size than Los Angeles County or the Westside. In fact, 75% of the City's households are nonfamilies, primarily singles (Table 7). As a result, the City's average household size (1.6) is the smallest size throughout Los Angeles County.

The large number of nonfamily households in West Hollywood is unique throughout the County. According to the Census, this category typically includes unrelated persons living together, such as roommates, unmarried partners, and other housing arrangements between unrelated persons. However, the large share of nonfamily households residing in West Hollywood is also attributable to the significant size of the City's gay and lesbian community. According to the Census Bureau, domestic partnerships among gays and lesbians are not included under the "family" category, thus resulting in a higher share of nontraditional or "nonfamily households."

Although the majority of households in West Hollywood are nonfamilies and generally smaller than the regional average, they appear to fit reasonably well with the City's housing stock. As discussed later, the "typical" home in West Hollywood is small, averages 3.3 rooms, and consists of one or two bedroom units with a kitchen, bathroom and living room. Therefore, the City's relatively smaller-sized households appear to fit well with the majority of the housing stock.

**Table 7**  
**Household Characteristics**  
**City of West Hollywood (1980-1990)**

Household Type	Nos. of HHS		% of Households		Change	
	1980	1990	1980	1990	Nos.	Share
Families W/Child	1,511	1,704	7%	8%	+193	+1%
Families N/Child	5,437	4,114	24%	18%	-1,323	-6%
NonFamily Single	12,409	13,375	56%	59%	+966	+3%
NonFamily Other	2,795	3,375	13%	15%	+580	+2%
<b>Householder Age</b>						
<34	8,040	7,615	36%	34%	-425	-2%
35-64	8,562	10,172	39%	45%	+1,610	+6%
65+	5,550	4,781	25%	21%	-769	-4%
<b>Household Size</b>						
1 (Single)	12,409	13,375	56%	59%	+966	+3%
2 Persons	7,373	6,714	33%	30%	-659	-3%
3-4	2,117	2,155	10%	10%	+38	0%
5+	253	324	1%	1%	+71	0%

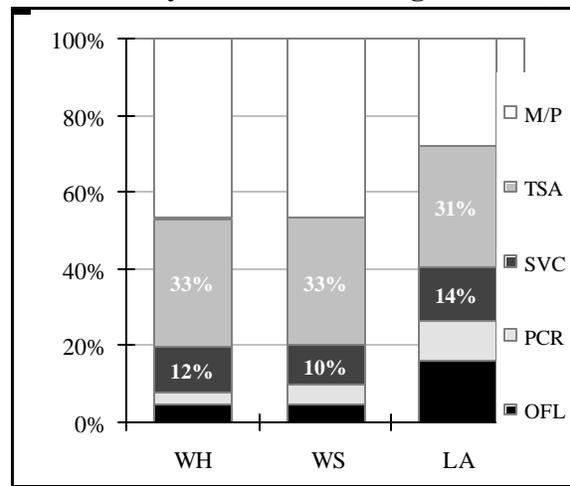
Source: 1980, 1990 U.S. Census

## 2.5 Employment Profile

Employment characteristics also affect housing needs of residents within West Hollywood. Different occupations often translate into different wages levels -- therefore affecting one's ability to afford certain types of housing. This section discusses employment characteristics of City households, while the next section discusses its impact upon household income levels.

According to the 1990 Census, West Hollywood has a civilian labor force estimated at 23,721 with a 7.0% unemployment rate. The City's unemployment rate is slightly below that of Los Angeles (7.4%), but above the Westside (5%). Although their unemployment rate differs, West Hollywood and Westside residents hold similar types of jobs. As shown in Figure 6, 80% of jobs held by residents are professional/managerial or technical, sales, and administrative in nature. In comparison to Los Angeles, however, West Hollywood residents hold almost twice the share of managerial/professional jobs but only one-third the labor jobs (8% vs. 26%).

**Figure 6**  
**Share of Jobs Held by Residents**  
**West Hollywood and the Region (1990)**



Like the entire Los Angeles region, West Hollywood's labor force has become more "white collar" over the past decade (Table 8). As an increasing number of "blue-collar" jobs (such as production, repair, and labor positions) have left the Los Angeles region, they have declined from a 14% to 8% share of jobs held by City residents. Meanwhile, white collar jobs have increased from a 35% to 47% share, while service occupations have declined from 40% to 33%.

**Table 8**  
**Changes in Jobs Held By City Residents**  
**West Hollywood and the Region**

Code	Occupation Definition	Nos. of Jobs		Share of Jobs		
		1980	1990	1980	1990	Change
M/P	Managerial & Professional	7,325	10,169	35%	47%	+12%
TSA	Technical, Sales & Admin.	8,292	7,198	40%	33%	-7%
SVC	Service Occupations	2,345	2,584	11%	12%	+1%
PCR	Production, Craft and Repair	1,435	654	7%	3%	-4%
OFL	Operator, Fabricator, Laborer	1,461	1,031	7%	5%	-2%
	All Other Occupations	109	114	<1%	<1%	<1%
	<i>Total Jobs</i>	20,967	21,750	100%	100%	100%

Source: 1980, 1990 U.S. Census

## 2.6 Household Income

West Hollywood is committed to ensuring that all residents, regardless of economic status, have access to adequate and affordable housing opportunities. The two primary factors affecting access to housing are household income and the availability and affordability of housing. This section documents changes in the economic status of the residents of West Hollywood. Later sections of this needs assessment will address the availability and affordability of housing.

To measure the economic status of households in any given community, the State government references a standard -- typically the median household income for the County. According to the 1990 Census, the City's median household income is \$29,314 (Table 9) -- which is 15% below the median (\$34,965) for Los Angeles County and the Westside (\$35,036). Furthermore, the City's poverty rate (9.3%) is lower than the region as a whole (11.9%), but higher than the Westside (7.7%). However, these measures provide only the most general snapshot of the economic status of households within a community.

**Table 9**  
**Comparison of Income**  
**West Hollywood and the Region (1990)**

Med. Income	City	County	Westside
Household	\$29,314	\$34,965	\$35,036
Family	\$33,657	\$39,035	\$50,290
NonFamily	\$26,976	\$24,961	\$27,541
% of County			
Household	85%	100%	100%
Family	85%	100%	129%
NonFamily	108%	100%	110%
% Poverty	9.3%	11.9%	7.7%

*Source: 1990 U.S. Census*

Although household income is oftentimes used to measure the financial status of a community, it is a very limited measure because it fails to account for differences among communities. The comparison implicitly assumes that each community has the same composition of households. This is not the case with West Hollywood. West Hollywood has a significantly higher share of younger, retired, and one-person households than Los Angeles County and the Westside, which could partially account for differences in median income between the City and County.

Because West Hollywood has a different composition of households than the surrounding region and because household income varies by household age and type, it is important to compare only *similarly-situated* households. Based on this new comparison, the City's median *nonfamily* household income of \$27,000 is 15% higher than the County median and equals the median nonfamily income for Westside (Table 9). Secondly, the City's median *family* income is only 85% of the County, and significantly below the Westside subregion as a whole.

This analysis suggests several important points. First, West Hollywood's nonfamily households earn less income than families in the City, but are still relatively better off than most nonfamily households in the region; their income is 15% higher than the regional median. And secondly, although West Hollywood's family households earn more than nonfamilies in the City, they are still relatively worse off financially than family households living in the surrounding region. Therefore, the remainder of this section will focus on differences in income by household type.

### ***Income Distribution***

While aggregate measures of household income provide a useful comparison of economic status, the distribution of income is also important. To show this distribution, the Department of Housing and Community Development uses four groups: very low (below 50% of the County median), low (51% to 80%), moderate (81% to 120%), upper (121%-200%) and high (200%+). For purposes here, the upper income category as been split into two categories -- from 121% to 200% and over 200% of the County median, because it is more useful for planning purposes.

- **Family Income:** Family households in West Hollywood are generally *poorer* than those in the surrounding region (Table 10). The City has a larger share of lower income families (46%) than the Westside (29%) and the County (40%). This is due to the large number of poorer households living on the City's eastside. In contrast, the Westside subregion is by far the wealthiest area, with nearly one-third of families earning very high income. Third, Los Angeles County has a similar family income distribution to the City, except for a larger share of upper income families and a smaller share of very low income families.
- **Nonfamily Income:** Although West Hollywood's nonfamily households earn significantly less income than family households, the City's nonfamily households fare much better in comparison to *similarly-situated* households in the region. This finding is significant given that 75% of the City's households are nonfamily. Moreover, the City's nonfamily households have approximately the same income distribution as the Westside. Meanwhile, the County has by far the poorest nonfamilies, with the largest share of lower income nonfamily households (41%) and the smallest share of upper-high income nonfamilies (42%).

**Table 10**  
**Income Distribution by Family Type**  
**West Hollywood and the Region (1990)**

Income Category %Region Median		Family Income			NonFamily Income		
		WH	WS	LAC	WH	WS	LAC
High	over 200%	<b>16%</b>	<b>32%</b>	<b>17%</b>	<b>23%</b>	<b>25%</b>	<b>19%</b>
Upper	121- 200%	19%	24%	24%	23%	25%	23%
Moderate	81 - 120%	19%	17%	19%	18%	17%	17%
Lower	below 80%	<b>46%</b>	<b>29%</b>	<b>40%</b>	<b>36%</b>	<b>33%</b>	<b>41%</b>
Low	51 - 80%	18%	13%	17%	14%	12%	14%
Very Low	00 - 50%	<b>28%</b>	<b>16%</b>	<b>23%</b>	<b>22%</b>	<b>21%</b>	<b>27%</b>

*Source: 1990 U.S. Census (Distribution is Interpolated)*

## *Income Differences by Neighborhood*

In analyzing the economic status of households in a community, it is important to identify neighborhoods where low income households are disproportionately concentrated. This section discusses the economic status of the City's five neighborhoods. As summarized below in Table 11, the City's neighborhoods fall into three categories according to their economic status.

- **Low:** The Eastside neighborhood is the poorest section of West Hollywood. The median household income of \$21,501 is only 60% of the County median, 61% of the households earn "lower income," and the household poverty rate of 12.6% is the highest. This neighborhood is poorer, because residents hold the highest share of labor and service jobs (30%), hold the lowest share of managerial and professional jobs, and have the highest unemployment rate.
- **High:** The Central and Northwest tracts are the wealthiest in West Hollywood. The median family income of \$48,000 is 120% of the County median, the median nonfamily income of \$32,000 is 128% of the County median, and the household poverty rate of 8% is the lowest. These tracts are wealthy, because over half the employed residents hold well-paid managerial or professional jobs while only 15% hold labor and service related employment.
- **Middle:** The Crescent Heights and Melrose tracts fall between the other two. Households earn more than those in the Eastside but less than the Central and Northwest tracts. Moreover, the household poverty rate of 9% is higher than the Eastside, but lower than the Central and Northwest tracts. Lastly, the distribution of jobs held by residents falls between the other three tracts.

**Table 11**  
**Comparison of Income Levels by Tract**  
**City of West Hollywood (1990)**

<b>HHS Income Category</b>	<b>East</b>	<b>CrHght</b>	<b>Central</b>	<b>Melrose</b>	<b>NWest</b>	<b>Total</b>
Household	\$21,501	\$28,506	\$34,886	\$29,421	\$34,678	\$29,314
Family	\$27,479	\$32,143	\$47,297	\$31,923	\$48,077	\$33,657
Nonfamily	\$18,071	\$27,029	\$32,017	\$28,227	\$31,718	\$26,976
% County HHS median	61%	82%	100%	84%	99%	84%
% County Family med.	70%	82%	121%	82%	123%	86%
% County NFamily med.	75%	108%	128%	113%	127%	108%
HHS Poverty Rate	12.6	7.8	7.3	10.3	8.0	9.3
Managerial/Profess.	32%	46%	52%	46%	55%	47%
Technical/ Admin	38%	32%	33%	33%	27%	33%
Service Occupations	13%	14%	8%	10%	12%	12%
Labor Occupations	17%	8%	7%	5%	6%	9%

*Source: 1990 U.S. Census*

## Income Changes Over the Decade

The most important question affecting housing policy is whether West Hollywood residents have improved their economic standing over time. Unfortunately, this comparison is not possible, because the Census does not show whether changes in household income are due to the influx/exit of residents or changes in current residents. Nonetheless, the Census does show in aggregate how the median economic status of West Hollywood residents has changed over time.

As shown in Figure 7, household incomes have increased faster (113%) than the region (98%). The median income for all households has risen from \$13,742 to \$29,314. Even by type, the City's family income has risen faster (101%) than the County (85%) over the decade, from \$16,722 to \$33,657. Lastly, the City's nonfamily income has risen at the same rate (109%) as the County, from \$12,910 to \$26,976 during the decade.

This improvement has been due to employment changes, whereby the share of managerial and professional jobs held by residents has increased from 35% to 47%, while the share of labor intensive jobs has declined from 14% to 8%. These economic trends are expected to gradually continue through at least the Year 2000.

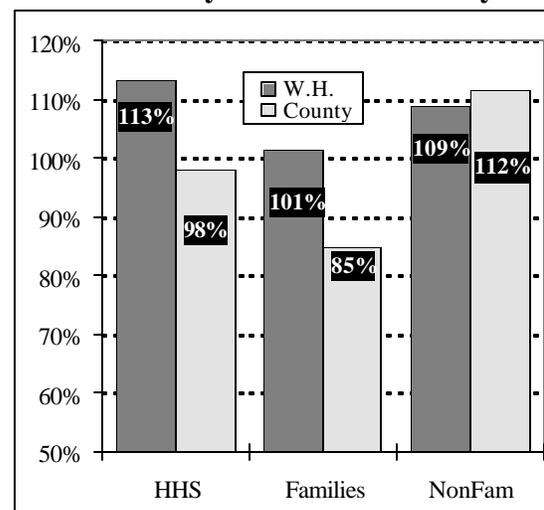
Because the City's median family income is

**Table 12**  
**Changes in Family Income**  
**West Hollywood (1980-1990)**

Tract	Families		% County	
	1980	1990	1980	1990
East End	\$12,245	\$27,479	58	70
CrHght	\$14,863	\$32,143	70	82
Central	\$22,689	\$47,297	107	121
Melrose	\$18,399	\$31,923	87	82
NWest	\$22,272	\$48,077	105	123
Total	\$16,722	\$33,657	79	86
County	\$21,125	\$39,035	100	100

Source: 1980, 1990 U.S. Census

**Figure 7**  
**% Change in Income 1980-1990**  
**West Hollywood versus County**



much lower than the regional median, Table 12 specifically looks at changes across the City. Family households in four of the City's five neighborhoods have improved faster than the surrounding region, with nominal income rising from about 75% to 125% over the past decade versus an average of 85% for the County. Despite these increases, only the Central and Northwest tracts exceed the County median income by 25%. Meanwhile, families in the other three tracts earn 18% to 30% lower than the County median. No equivalent data over the same time period is available for nonfamily households.

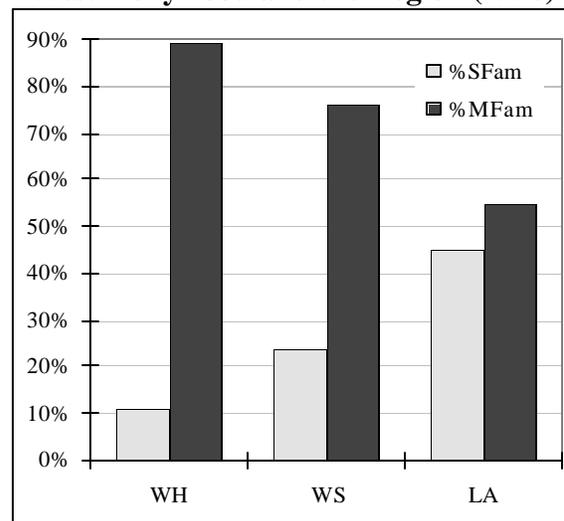
### 3.0 HOUSING CONDITIONS

This section details changes in housing conditions affecting market and household outcomes. *Market* outcomes address the supply and demand factors of housing and typically include changes in the City’s housing composition, occupancy (tenure and vacancy), and housing costs. *Household* outcomes address the relative position of tenants and homeowners in the housing market and include housing conditions, density/overcrowding, and affordability.

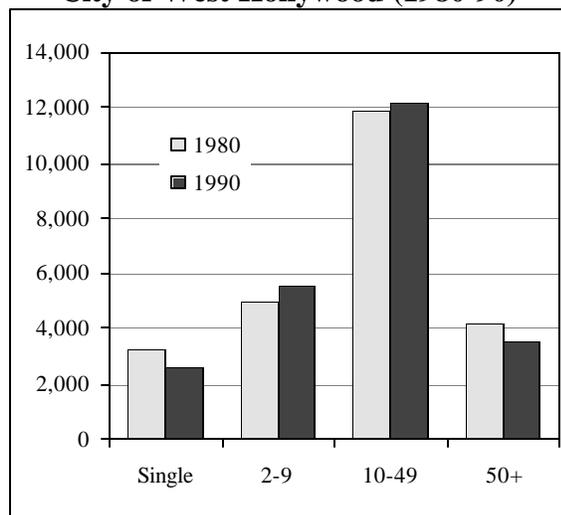
#### 3.1 Housing Type and Size

Because West Hollywood incorporated in 1984, the City inherited a housing stock largely shaped by its proximity to regional employment and entertainment centers in addition to previous planning efforts by the County of Los Angeles. High demand for scarce land has resulted in a very dense and compact urban environment consisting largely of multifamily apartments. In Figure 8, West Hollywood has a high share of multifamily units (90%) followed by the Westside (74%) and Los Angeles (55%). Similarly, West Hollywood also has the lowest share of single family units (11%) than either the Westside (26%) or Los Angeles (45%). The predominance of multifamily units has certain size and tenure characteristics shown later.

**Figure 8**  
**Composition of Housing Type**  
**West Hollywood and the Region (1990)**



**Figure 9**  
**Changes in Housing Units by Type**  
**City of West Hollywood (1980-90)**



Because West Hollywood is almost built-out, the housing stock has changed little over the past decade. Total housing units have declined by a modest 2% to 23,821 since 1980 (Table 14). Moreover, the shares of housing by unit type have also remained stable during the same time. As shown in Figure 9, the City’s housing stock still consists primarily of large multifamily units with more than 10 units (66%), followed by smaller multifamily units with less than 10 units (24%), and single family one unit homes (10%). Because the City is nearly built out, the housing composition will likely remain stable, although redevelopment plans for the Eastside may result in the demolition of dilapidated units and construction of a modest number of new units.

Over the past decade, two major changes have occurred with respect to the City’s housing stock.

As shown in Table 13, single family homes have declined from 13% to 10%. Given only modest levels of new construction activity during the same period, the decline in single family homes was mainly due to irregularities in the Census enumeration before the City's incorporation. Meanwhile, condominiums have increased from 9% to 19% and the number of large apartment units have decreased correspondingly due to condominium conversion permits approved by Los Angeles County prior to the City's incorporation. After the Census, 473 more conversions were completed, raising the share of condominiums to 21% of the housing stock.

**Housing Size:** Due to the predominance of multifamily units in West Hollywood, the average

**Table 13**  
**Housing Stock Characteristics**  
**City of West Hollywood (1990)**

Units	No. of Units		Share of Units		Change		
	1980	1990	1980	1990	Nos.	Pcnt.	Share
1 Unit	3,278	2,571	13%	10%	-707	-22%	-3%
2 to 9	4,967	5,595	21%	24%	+628	+13%	+3%
10 to 49	11,877	12,124	49%	51%	+247	+2%	+2%
50 +	4,154	3,255	17%	14%	-899	-22%	-3%
Other	23	276	0%	1%	+253	--	+1%
<i>Total</i>	24,299	23,821	100%	100%	-478	+2%	---
<i>Condos</i>	2,127	4,453	9%	19%	+2,236	+105%	+10%

*Source: 1980, 1990 U.S. Census*

home is smaller than those found in more suburban communities. As shown in Table 14, the "typical" home averages 3.3 rooms, 1.3 bedrooms and 1.0 bathroom and is characterized by a one or two bedroom units, with a kitchen, living room, and bathroom.

However, even though the average home is generally small, it still fits reasonably well with the City's households, of which almost 90% consist of two or less persons. As shown later, this match between household size and housing size results in one of the lowest overcrowding rates in the County.

**Table 14**  
**Housing Size Characteristics**  
**City of West Hollywood (1990)**

Nos.	Share of Total		
	Rooms*	Bedr*	Baths**
0	--	9%	2%
1	7%	52%	80%
2	16%	34%	18%
3	33%	4%	n/a
4	26%	<1%	n/a
5+	18%	<1%	n/a
<i>Mean</i>	3.3	1.3	n/a

\* 1990 U.S. Census

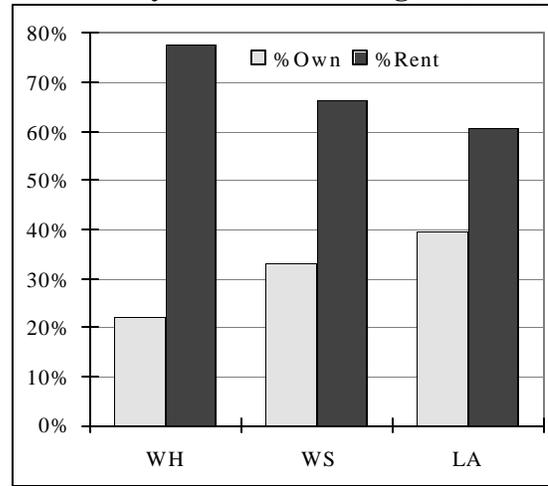
\*\* 1980 U.S. Census

### 3.2 Housing Occupancy

Housing occupancy simply refers to whether the unit is owned, rented, or vacant. Occupancy is an important issue because it reflects the relative income of residents, the cost and affordability of housing, as well as the interaction of market forces of supply and demand of housing. This section addresses housing occupancy characteristics of West Hollywood residents.

**Tenure:** Housing tenure refers to whether inhabitants of a unit own or rent the housing unit. Tenure is generally considered an indicator of community well-being, because it is a reflection of the “American Dream” of homeownership. Moreover, tenure is usually the result of the interaction of household income and housing costs. Figure 10 compares housing tenure in West Hollywood with that of the surrounding region. According to the 1990 Census, West Hollywood has one of the highest renter-owner ratios in the County, with a renter-owner ratio of 78% to 22%. In contrast, the Westside subregion consists of 33% renters versus 67% homeowners, while Los Angeles has a 60-40% renter-to-homeowner mix.

**Figure 10**  
**Share of Housing By Tenure**  
**West Hollywood and the Region (1990)**



Despite the highest renter-owner ratio in the region, West Hollywood has seen significant changes in tenure over the decade (Table 15). The homeownership rate has nearly doubled from 12% to 22% during the 1980s due to an increase in home ownership (40% to 49%), while condominium ownership has risen from 76% to 79%. These trends are due to condominium conversion permits issued by L.A. County prior to the City’s incorporation and rent-control.

**Table 15**  
**Changes in Housing Tenure**  
**City of West Hollywood (1980-1990)**

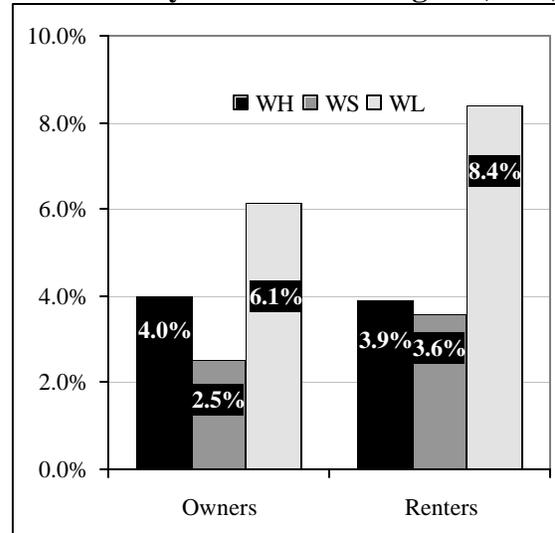
Bldg Type	1980 Census			1990 Census			Change in Ownership
	Rented	Owned	Total	Rented	Owned	Total	
SF Units	60%	40%	100%	51%	49%	100%	+9%
Condos	24%	76%	100%	21%	79%	100%	+3%
<i>Total</i>	88%	12%	100%	78%	22%	100%	+10%
SF Units	1,844	1,206	3,050	1,184	1,157	2,341	n/a
MF Units	17,624	1,478	19,102	16,355	3,872	20,227	n/a
-- Condos	326	1,052	1,378	894	3,268	4,162	n/a
<i>Total</i>	19,468	2,684	22,152	17,539	5,029	22,568	n/a

Source: 1980, 1990 U.S. Census

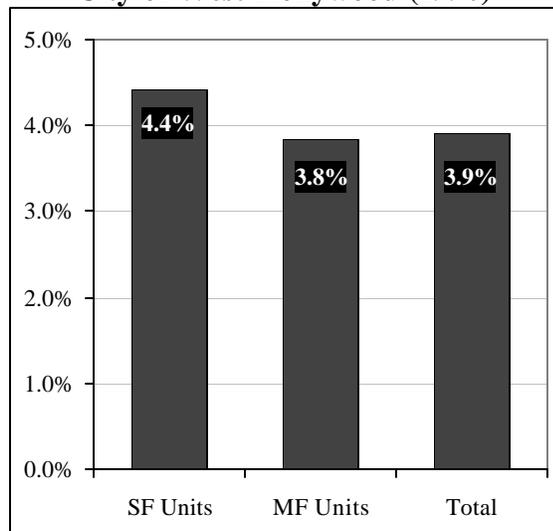
**Vacancy:** Vacancies, another aspect of housing occupancy, indicate the demand and availability of housing. In an unregulated market, low vacancy rates are indicative of a housing shortage, which usually restricts residential mobility, increases housing costs, and leads to overcrowding. On the other hand, high vacancies often lead to rent deflation and greater housing affordability, but may erode property values, lower profits for rentals, and discourage maintenance and repair.

According to the 1990 Census, West Hollywood has a 4.0% vacancy rate for owner occupied housing (Figure 11). The vacancy rate is generally lower than the Westside due to the Westside's proximity to jobs and coastal areas, but lower than the Wilshire area (in Figure 13 as WL) because of the City's higher quality of life. According to the 1990 Census, West Hollywood has a 3.9% rental vacancy rate -- which is similar to the 3.6% rental vacancy rate in Westside, but only one-half that in the adjacent Wilshire and Hollywood area. The difference in vacancy rates is attributable to the City's rent control regulations, which generally holds rents below market value, encourages residents to stay longer, and therefore keeps the vacancy rate lower than in surrounding communities.

**Figure 11  
Vacancy Rates by Tenure  
West Hollywood and the Region (1990)**



**Figure 12  
Vacancy Rates by Unit Type  
City of West Hollywood (1990)**



SCAG's Regional Housing Needs Assessment states that an optimal vacancy rate is 2% for owner-occupied housing and 5-6% for rentals. In an unregulated market, this level of vacancy is assumed to ensure sufficient residential mobility and housing choice while providing sufficient financial incentive for landlords or owners to adequately maintain and repair their homes. As shown in Figure 12, the City's estimated vacancy rate for single family units (4.4%) is higher than optimal due to the high cost of housing and the higher demand for small rentals. Meanwhile, the City's vacancy rate for multi-family units (3.8%) is below SCAG's standard. This is due to the City's rent control ordinance and proximity to job centers, which offers high quality of life for below market housing costs.

### 3.3 Housing Costs

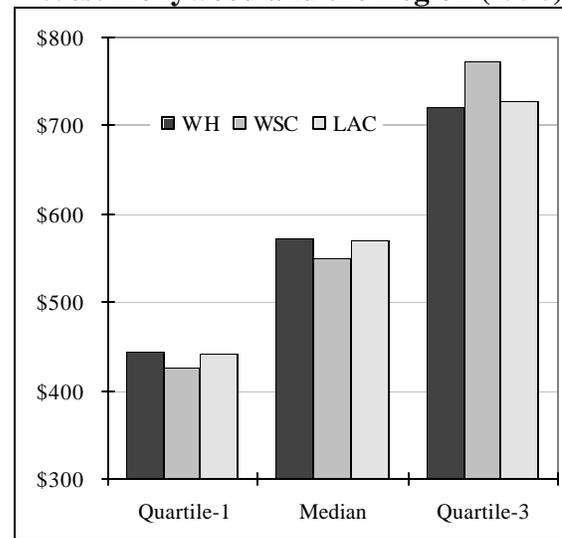
West Hollywood is committed to ensuring that all residents, regardless of economic status, have access to adequate and affordable housing opportunities. The two factors affecting access to housing are household income and housing cost. Building upon previous sections of this report which documented household income, this section addresses housing costs in West Hollywood.

**Rental Market:** The Census Bureau uses contract rent to describe the basic cost of rental housing. Contract rent is defined as the rent charged to the tenant exclusive of utilities, trash, or other fees. In contrast, gross rent includes all housing costs, such as utilities, insurance, and mortgage, and is frequently used to measure housing cost burden. This section refers to contract rent levels only.

As of 1990, the City's contract rents are comparable with the Westside and Los Angeles County (Figure 13). The City's lower quartile rent of \$445 and the median rent (\$573) both slightly exceeds the County and Westside. However, by the third quartile, the City's contract rent of \$721 is significantly below the Westside and slightly below that of Los Angeles County.

Although the City's rents are comparable with those on the Westside (because 3 of the 4 cities have similar rent control provisions), they are *lower* than adjacent Wilshire and Hollywood areas because these areas operate under less restrictive rent stabilization provisions in Los Angeles. For example, the average contract rent of adjacent tracts is \$690 per month and is significantly higher (almost 25%) than similar units in West Hollywood. The difference is due to the City's rent control regulations, which keep rent below market levels existing in adjacent tracts.

**Figure 13**  
**Comparison of Contract Rent Levels**  
**West Hollywood and the Region (1990)**



**Table 16**  
**Comparison of Contract Rents**  
**West Hollywood and the Region**

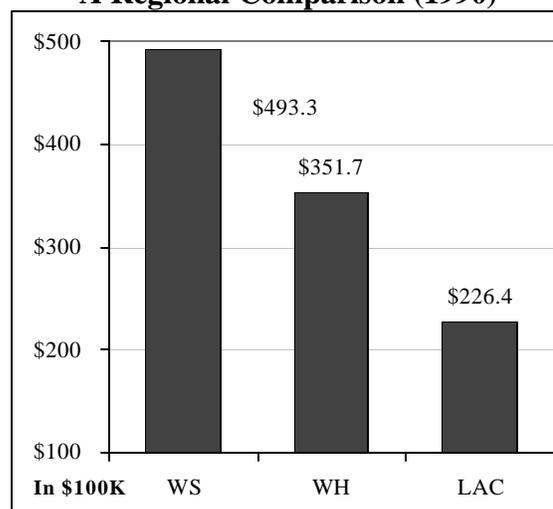
Tract	Quartile Rents		
	1st	Med.	3rd
Eastside	\$387	\$504	\$612
Cr.Hghts	\$451	\$566	\$718
Central	\$506	\$629	\$791
Melrose	\$480	\$623	\$790
Northwest	\$524	\$648	\$801
<i>Total</i>	\$445	\$573	\$721

Source: 1990 U.S. Census

Contract rent levels differ widely by location. The Eastside tract has the lowest contract rents of any neighborhood; rents are 12-15% below the median for West Hollywood (Table 16). Contract rent levels in the Crescent Heights area are the second lowest in West Hollywood, but are closest to the city median. In contrast, the Northwest tract has the highest rent levels, ranging from 12% to 18% above the median for West Hollywood. Lastly, rent levels in both the Central and Melrose tracts are similar and fall between the other tracts.

**Owner Market:** The Southern California region is known across the nation for its extremely high housing values. According to the National Association of Realtors, the 1991 median sales price for a single family home in Los Angeles County is \$214,900 compared to a national average of only \$100,300. This differential is also pronounced for home values, especially for homes located in the Westside area (Figure 14). According to the 1990 Census, the *median* home value on the Westside (WS) is an astronomical \$493,000 -- roughly 217% of the median home value of \$226,000 in Los Angeles County. The exorbitant home values indicate why most households on the Westside cannot afford to own homes and instead choose smaller rental units.

**Figure 14**  
**Median Home Values**  
**A Regional Comparison (1990)**



According to the 1990 Census, the median values of homes in the Westside range from a low \$328,900 in Culver City to over \$500,000 in Beverly Hills and Santa Monica. The median home in West Hollywood is valued at \$351,700 or 155% of the median home value for the County. Condominiums are less expensive and range from \$175,900 (94% of the regional median) in Culver City to \$473,400 in Beverly Hills. West Hollywood condominiums are valued at \$215,100, which are 115% of the median condo value for the City of Los Angeles (Table 17).

Because of the region's high home values, monthly housing payments are equally high. Housing payments include the sum of all debt on the property, taxes, property insurance, utilities and fuel, and homeowner fees. According to the 1990 Census, the monthly cost for a mortgaged home ranges from \$1,348 in Culver City (119% of the regional median) to over \$2,000 in Beverly Hills. West Hollywood homes cost \$1,598 a month, which are 141% of the County median.

**Table 17**  
**Estimated Median Home Value and Cost**  
**West Hollywood and the Region (1990)**

Jurisdiction	Home Values		Condo Values		Monthly Cost *	
	Median	% LAC	Median	%LAC	Median	%LAC
Beverly Hills	>\$500,000	>221%	\$473,400	253%	>\$2,000	>175%
Culver City	\$328,900	145%	\$175,900	94%	\$1,348	119%
Santa Monica	>\$500,000	>221%	\$348,500	186%	\$1,945	171%
West Hollywood	\$351,700	155%	\$215,100	115%	\$1,598	141%
L.A County	\$226,400	100%	n/a	n/a	\$1,137	100%

Source: 1990 U.S. Census \* Mortgaged Units only

## Changes in Housing Costs

Having detailed housing costs for owners and renters in West Hollywood, the most important question affecting housing policy is whether housing costs have increased faster than the region. This is key to understanding the impact of the City's rent stabilization ordinance. This section discusses changes in rental costs, while later sections address its effect on housing burdens.

**Rental Market:** Figure 15 illustrates changes in median rents over the past decade. Specifically shown are the median rents in West Hollywood and the surrounding region as a share of the median in Los Angeles County. Also shown are eight tracts east of West Hollywood in the Wilshire and Hollywood communities of Los Angeles (referred to in Figure 15 as WL). Although median rent in West Hollywood rose from \$302 to \$573 from 1980 to 1990, it fell from 123% to 101% of the County median. The same trend occurred in the Westside due to rent-stabilization policies enacted in 3 of the 4 cities in the Westside. In contrast, median rents for non-stabilized housing in Wilshire and Hollywood areas rose from 110% to 116% of the County median.

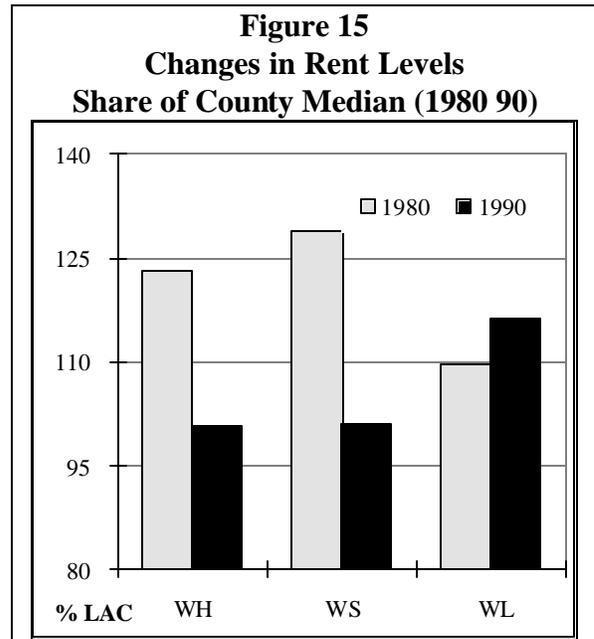


Table 18 details changes in rents in nominal levels and as a share of the County median rent. Over the past decade, the median rent in West Hollywood increased in nominal terms, rising 82% in the Central tract to a high of 103% in the Eastside tract. However, West Hollywood rent levels fell in comparison to the surrounding region, falling 13% to 31% of the County median. This decline is due in part to rent stabilization, which has limited rent increases since 1985.

**Table 18**  
**Changes in Contract Rent Levels**  
**City of West Hollywood (1980-1990)**

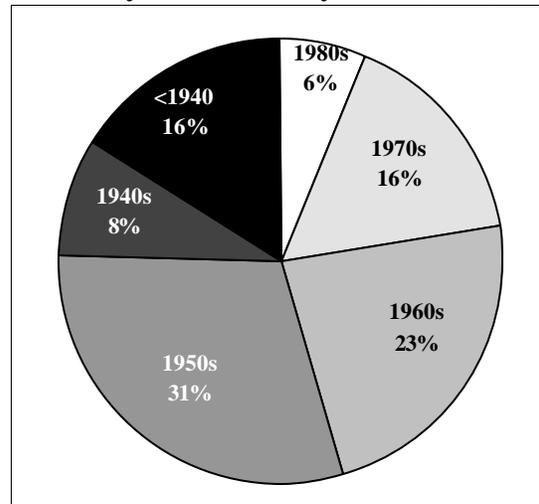
Tracts	Rent Levels			% County Median		
	1980	1990	%Diff	1980	1990	Change
Eastside	\$248	\$503	103%	101%	88%	↓ 13%
Cr.Heights	\$280	\$566	102%	114%	99%	↓ 15%
Central	\$345	\$629	82%	141%	110%	↓ 30%
Melrose	\$333	\$623	87%	136%	109%	↓ 27%
Northwest	\$354	\$648	83%	144%	114%	↓ 31%
<i>Total</i>	\$302	\$573	90%	123%	101%	↓ 22%
<i>County</i>	\$245	\$570	133%	100%	100%	

### 3.4 Housing Age and Condition

The condition of housing is an important indicator of needs within a community. Like any tangible asset, housing deteriorates over time. If not checked, declining housing conditions can depress property values, discourage reinvestment, and lower the community's quality of life. This section specifically addresses the age and condition of the City's housing stock.

**Housing Age:** Figure 16 and Table 19 details the age of West Hollywood's housing stock. Several points are particularly noteworthy. First, West Hollywood's housing stock is aging; the median age of housing is 30 as of the 1990 Census and will be 40 years by the Year 2000. This is very similar to the region as a whole. Figure 18 shows the age distribution of housing. Approximately 25% of the City's housing was constructed before the 1950s, 30% during the 1950s, and 23% during the 1960s. This means that the vast majority (80%) of the City's housing will exceed 30 years by the Year 2000. As shown later, the very large share of older housing has important implications with respect to housing condition and maintenance.

**Figure 16**  
**Year Structure Built**  
**City of West Hollywood (1990)**



Housing age also varies significantly by location in West Hollywood. According to the 1990 Census, the median age of housing ranges from a high of 36 years in the Crescent Heights district to a low of 25 years in the Melrose District (Table 19). More importantly, the share of housing older than 30 years ranges from 37% in the Northwest tract to 75% in the Crescent Heights tract. This has important implications with respect to housing condition and maintenance.

**Table 19**  
**Housing Age by Tract**  
**City of West Hollywood (1990)**

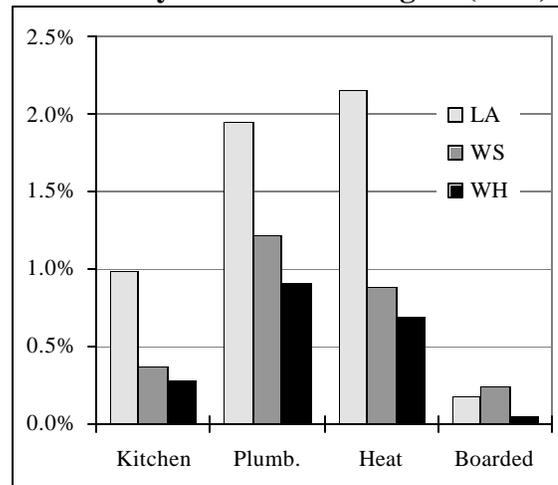
Tract	Units	Median	Decade of Construction					
			<1940	1940s	1950s	1960s	1970s	1980
Eastside	5,855	1957	15%	9%	40%	26%	4%	6%
Cr. Heights	4,407	1954	21%	12%	42%	14%	5%	5%
Central	4,108	1963	10%	9%	25%	21%	29%	5%
Melrose	3,610	1957	28%	8%	19%	22%	19%	4%
Northwest	5,841	1965	11%	5%	21%	28%	25%	9%
<b>Total</b>	<b>23,821</b>	<b>1959</b>	<b>3,865</b>	<b>2,009</b>	<b>7,143</b>	<b>5,469</b>	<b>3,817</b>	<b>1,518</b>
Share	n/a	n/a	<b>16%</b>	<b>8%</b>	<b>30%</b>	<b>23%</b>	<b>16%</b>	<b>7%</b>

Source: 1990 U.S. Census

**Housing Condition:** Typically, the best way to assess housing condition is to survey residents, visually inspect and document repairs needed at each site, or examine building code violations. In lieu of a survey, this section infers housing condition from two measures -- legal definition and housing age -- used by the State and other cities. These measures, however, do not include indicators of structural defects (such as leaking roofs, holes in walls, floors or ceilings, broken or missing windows, unsound foundations, or violations of applicable health codes). Nonetheless, these measures do provide insight into one of the more important housing issues facing the City.

In terms of law, the Code of Federal Regulations (24 CFR 882.219f) defines substandard housing as units without complete plumbing, without complete kitchens, or with unvented heaters. According to this definition, West Hollywood has a smaller share of substandard units than the region (Figure 17). Assuming that each “substandard” unit has only one major defect, no more than 2% of the City’s housing stock is considered substandard. Thus, the City has a-third less share of substandard units than the Westside (2.75%) and one-half less share than that of the City of Los Angeles (5.25%). The difference is due in part to the predominance of multifamily housing in West Hollywood and fewer illegal garage conversions which are common in cities with more singlefamily homes.

**Figure 17**  
**Share of Substandard Housing**  
**West Hollywood and the Region (1990)**



In contrast, HCD often uses building age as a proxy for the condition of housing. Residential buildings generally show signs of deterioration after 30 years old and require replacement of roofing, plumbing, HVAC, electrical, and other major components. At this juncture, landlords must decide between making costly reinvestments, allowing the structure to decline, or selling the property to another investor. Structures built before 1940 are assumed to have exceeded their useful life and, unless rehabilitation has occurred, the units are either dilapidated or obsolete.

**Table 20**  
**Housing Quality Indicators**  
**City of West Hollywood (1990)**

Indicator	Nos.	Pcnt.
Lack Complete Plumbing	67	.3%
Lacking Complete Kitchen	217	.9%
No Heat or Unvented Heaters	165	.7%
Boarded-up Buildings	11	--
Housing Built Before 1940	3,829	16%

Source: 1990 U.S. Census

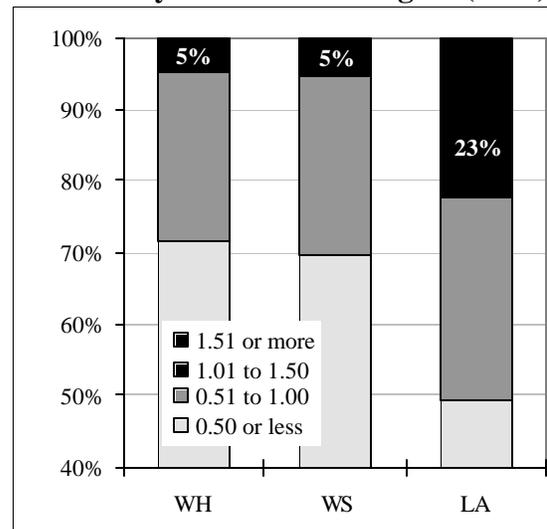
Based on HCD’s “housing age” standard, over 75% of the City’s housing stock will be older than 30 years by the Year 2000, thus raising important issues with respect to the need for routine maintenance and repair as well as major rehabilitation. Moreover, 16% of the City’s housing stock was built before 1940 and, unless major rehabilitation has occurred, the units would be assumed obsolete and be candidates for demolition. Table 20 summarizes various housing conditions indicators for West Hollywood.

### 3.5 Occupancy Density

Although societal standards change over time and differ from place to place, the idea has emerged that adequate living space is critical to obtaining a satisfactory level of housing service. This has led to standards of measuring housing space, such as housing density and overcrowding. Occupancy density is also important due to link with the rate of housing deterioration. This section discusses the density of occupancy of households in West Hollywood.

Housing density is a neutral term and simply refers to the number of persons per room (ppr). However, crowding is defined by a standard. Overcrowding begins with more than 1 ppr, while moderate overcrowding occurs with over 1.5 ppr. Based on this standard, neither West Hollywood nor the Westside has serious overcrowding (Figure 18). Over 95% of the City's households have fewer than one ppr., while only 5% are overcrowded. This very low overcrowding rate is largely due to the City's smaller household size, of which nearly 90% have two or fewer members. However, the Eastside has a 10% overcrowding rate, because households there earn less income. Still, the City's overcrowding rate is minor in comparison with Los Angeles, where nearly one-quarter of households are overcrowded.

**Figure 18**  
**Overcrowding Rates**  
**West Hollywood and the Region (1990)**



**Table 21**  
**Density of Occupancy**  
**City of West Hollywood (1990)**

Density in Persons/Room	Owned Units	Rented Units	Total Units
0.50 or less	4,121	12,051	16,172
0.51 to 1.00	798	4,496	5,294
1.01 to 1.50	57	385	442
1.51 to 2.00	45	411	456
2.01 or more	8	196	204
Occupied Units	5,029	17,539	22,568
#OverCrowded	110	992	1,102
%Crowded	<b>2.2%</b>	<b>5.7%</b>	<b>4.9%</b>

Source: 1990 U.S Census

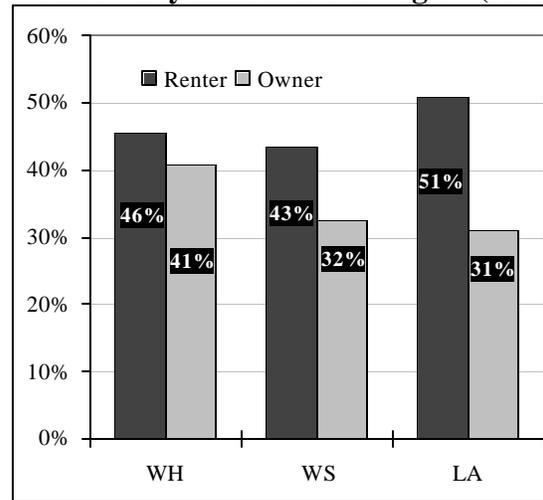
Table 21 summarizes the density of housing occupancy by tenure for the City's households. According to the 1990 Census, the City has 1,102 overcrowded households for an overcrowding rate of only 4.9%. This is significantly below the regional average. However, overcrowding in West Hollywood varies significantly by tenure. Overcrowding is much more prevalent for renter households (5.7%) than owners (2.2%) due to differences in household income. Despite differences in tenure and location, West Hollywood has a relatively minor problem with overcrowding in comparison with the surrounding region.

### 3.6 Housing Affordability

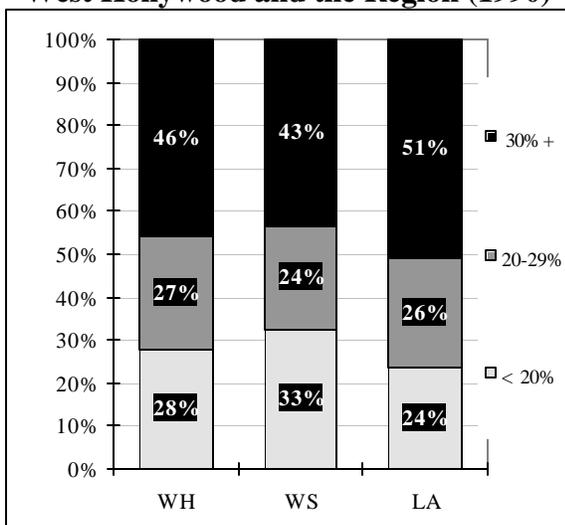
Perhaps the most important indicator of housing need in a community is housing affordability. Housing affordability is a reflection of the match between housing costs and household income. Households which pay too much of their income for housing have limited remaining financial resources to afford other basic necessities of life, such as food, clothing, and health care. This section therefore details trends in housing affordability for West Hollywood residents.

The Federal Government has set specific standards for determining housing affordability based upon an income-to-housing cost ratio. Households paying over 30% of their income for gross housing costs are considered to be overpaying for housing. Gross housing costs include either mortgage or rental payments as well as property insurance, taxes, and utilities. According to the 1990 Census, 46% of West Hollywood's renter households overpay for housing versus 43% for the Westside and 51% in Los Angeles (Figure 19). West Hollywood also has the highest share of overpayment for owners (41%) compared to 31% in the Westside and Los Angeles. However, since fewer than one-quarter of the City's households are owners, the number of overpaying households is small.

**Figure 19**  
**Housing Overpayment by Tenure**  
**West Hollywood and the Region (1990)**



**Figure 20**  
**Housing Cost Burden for Renters**  
**West Hollywood and the Region (1990)**



While aggregate measures of housing affordability provide a useful picture of the financial condition of residents, they do not reflect the degree of housing affordability. Figure 20 shows a distribution of housing cost burdens by jurisdiction for renter households. Renters on the Westside have the least problem with housing affordability, followed next by West Hollywood and the City of Los Angeles. The main difference is the share of households paying below 20% of their income or over 30% of their income for housing costs. Los Angeles has the smallest share of households paying below a 20% housing cost burden, while the Westside has the largest. Los Angeles also has the highest share overpaying for housing, followed by West Hollywood and the Westside.

**Overpayment by Tenure and Location**

Housing overpayment varies significantly by tenure and location in West Hollywood (Table 22). According to the 1990 Census, 45% of West Hollywood’s renters overpay for housing. This finding is expected since renters earn significantly less income and have much less financial reserves than homeowners. In contrast, homeowners appear to fall into two categories -- wealthy or not. A large share of homeowners (45%) appears wealthy, because they pay under 20% of their income for housing. On the other hand, an equally large share (41%) of homeowners is overpaying for housing. It is also notable that approximately one in five households are severely overpaying, (over 50% of their income) for housing.

**Table 22  
Housing Cost Burden  
City of West Hollywood (1990)**

<b>Cost Burden</b>	<b>Total</b>	<b>Renters</b>	<b>Owners</b>
Under 20%	5,202	4,664	538
20-29%	4,608	4,447	161
30%-49%	4,356	4,081	275
50%+	3,798	3,589	209
<b>Overpay</b>	<b>8,154</b>	<b>7,670</b>	<b>484</b>
<b>Cost Burden</b>	<b>%Total</b>	<b>%Rent</b>	<b>%Own</b>
Under 20%	29%	28%	45%
20-29%	26%	27%	14%
30%-49%	24%	24%	23%
50%+	21%	21%	18%
<b>%Overpay</b>	<b>45%</b>	<b>45%</b>	<b>41%</b>

Source: 1990 U.S. Census

The share of renters overpaying for housing ranges from 43% to 47% across the City (Table 23). This uniformity is unexpected since renters on the Eastside earn 61% of the County median income. However, rents on the Eastside are much lower than other areas in West Hollywood. For homeowners, the results are also puzzling. Contrary to expectations, homeowners on the Eastside and Central tracts have the lowest overpayment rate despite their lower financial status. Wealthier areas (i.e., the Melrose and Northwest tracts) have much higher rates of overpayment. This is because housing on the Westside is of higher quality and costs more than on the Eastside. Moreover, wealthier households on the Westside are still better able to afford housing, despite overpayment, because they have a larger absolute amount of disposable income.

**Table 23  
Housing Overpayment by Tract  
City of West Hollywood (1990)**

<b>Tract</b>	<b>Households</b>		<b>HHS Overpaying</b>		<b>% Overpaying</b>	
	<b>Renter</b>	<b>Owner</b>	<b>Renter</b>	<b>Owner</b>	<b>Renter</b>	<b>Owner</b>
East	4,986	254	2,363	85	47%	33%
CrHght	3,590	56	1,656	30	46%	54%
Central	2,589	34	1,175	12	45%	35%
Melrose	2,417	454	1,044	182	43%	40%
NWest	3,191	379	1,432	169	45%	45%
Total	16,773	1,177	7,670	478	46%	41%

Source: 1990 U.S. Census

Totals may differ from above due to sampling differences

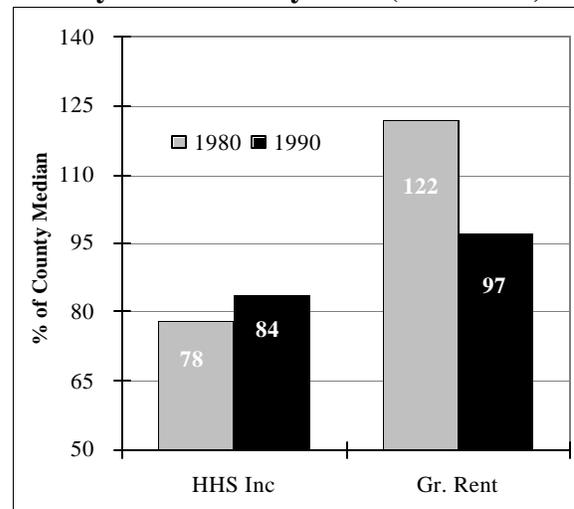
Owner totals exclude condominiums, mobile homes, duplexes, etc.

## Changes in Housing Affordability

The most critical question affecting future housing policy is whether or not housing affordability has improved for City residents since 1980. This also has important implications with respect to the success of the City's rent stabilization ordinance. To understand changes in housing affordability, this section discusses changes in household income and rent levels since 1980.

The City's housing affordability has significantly improved since 1980 due to two trends: (1) rent control, which has held rent increases below the regional median; and (2) household income, which has risen faster than the regional median. Since 1980, the median household income in West Hollywood increased from a 78% to 84% share of the County median household income (Figure 21). During the same period, median gross rent in West Hollywood increased slower than the region, falling from 118% to 97% of the County median. As a result, the share of housing overpaying fell from 50% to 46% over the past decade. The Year 2000 Census should show greater improvement in housing affordability due to rent stabilization.

**Figure 21**  
**Changes in Rental Affordability**  
**City of West Hollywood (1980-1990)**



As shown in Table 24, the Eastside saw a significant decline in housing overpayment from 58% in 1980 to only 47% by 1990 due to sharp decline in gross rent as a share of the County median. The second largest decline occurred in the Crescent Heights district, where housing affordability fell from 51% to 46%. The Central tract saw a modest decline in affordability from 48% to 45%. The Melrose and Northwest tract remained unchanged, despite relative declines in rent levels.

**Table 24**  
**Changes in Rental Housing Affordability**  
**City of West Hollywood (1980-1990)**

Tracts	HHS Income as % County Median		Gross Rent as % County Median		% Households Overpaying		
	1980	1990	1980	1990	1980	1990	%Diff
Eastside	57%	61%	100%	84%	58%	47%	↓11%
Cr. Heights	70%	82%	110%	96%	51%	46%	↓ 5%
Central	91%	100%	132%	106%	48%	45%	↓ 3%
Melrose	90%	84%	129%	103%	41%	43%	↑ 2%
Northwest	95%	99%	134%	108%	45%	45%	0%
<i>Total</i>	78%	84%	118%	97%	50%	46%	↓ 4%

Source: 1980, 1990 Census

---

## 4.0 HOUSING NEEDS

The previous sections have defined and analyzed the range of demographic, economic and housing conditions in West Hollywood in order to identify present and future housing needs. With this background in mind, this last section summarizes the key findings and general housing needs identified earlier, with a special focus on identifying and analyzing housing needs of State-defined “special” needs group, low income households, and regional “fair-share” needs.

### 4.1 Summary of Issues

As stated earlier, this Community Needs Assessment has analyzed a broad range of demographic, economic and housing characteristics to identify present and future housing needs. This section summarizes the major issues affecting housing need in the City of West Hollywood, while later sections will discuss programs designed to meet needs. These trends are as follows:

- ***Changing Demographics:*** The demographic section uncovered several characteristics of West Hollywood residents which may affect housing needs. First, West Hollywood residents have become more diverse in race and ethnicity. This trend is due to increased levels of immigration during the 1980s and 1990s as well as a significant increase in the Hispanic population on the City’s Eastside. As a result, more than one in ten residents of West Hollywood are linguistically isolated.

The second major demographic trend involves the composition of households. Over the past decade, there has been a gradual change in household types, whereby most today do not fit the “traditional” definition of the family unit. Approximately 75% of the City’s households are “non-family” households, which are typically older, predominantly single, and smaller than the regional average. This trend suggests a continued demand for smaller and more affordable rentals.

- ***Improving Incomes:*** West Hollywood has seen an improvement in economic conditions, marked by a lower unemployment rate and higher household incomes. Moreover, a larger share of employed residents holds managerial or professional jobs and correspondingly fewer labor and administrative/sales positions. This improvement in the overall economy and a shift from more “blue-collar” to “white collar” employment has resulted in higher incomes for most households.

Currently, nonfamily households in West Hollywood (comprising 75% of households) are better off financially than similarly situated nonfamilies in the region, because their median income is 10% higher than the County median. Family incomes have also improved, but they are still worse off financially than the region, because their median income is 15% below the County median. The Year 2000 Census will likely show even greater improvement in this area.

- 
- ***Aging Housing Stock:*** Because West Hollywood is almost built out, the housing stock has changed little over the past decade. The one exception is housing age. Much like any tangible physical asset, the City's housing has aged over time. By Year 2000, the City's housing will approach a median age of about 40 years. Based upon industry standards for housing deterioration and useful life expectancies, rental housing older than 30 years often requires major rehabilitation and costly reinvestments to maintain the quality of buildings.

An example of the critical need for housing rehabilitation is evident from the City's 1997 Redevelopment Implementation Plan. Approximately 10% of the total housing units on the Eastside (Tract 7001) or 500 units require rehabilitation over the next 30 years. Rehabilitation estimates are unavailable for housing units on the Westside, although the Countywide average is about 5%. These statistics suggest that one of the most important housing issues facing the City over the next decade will be ensuring maintenance and repair to the City's housing stock.

- ***Housing Costs:*** Even more dramatic changes have occurred in the housing market with respect to homeowner costs. According to the 1990 Census, home values have risen 175% over the decade due to the City's proximity to employment and entertainment amenities. As a result, the median home value is estimated at \$350,000 or 50% above the County median home. This has resulted in a high demand for rental housing, lowering the vacancy rate to below 4%.

Rent stabilization has also resulted in noticeable changes in the rental market. West Hollywood's median contract rent has risen 78% in nominal dollars over the past decade, but has risen *slower* than the regional median. As a result, the City's median rent has actually declined 22% in real terms, ranging from 13% on the Eastside to 30% in the Central and Northwest tracts. In terms of future trends, the City's low vacancy rate coupled with vacancy decontrol should place a significantly stronger pressure on rent levels in the upcoming years.

- ***Housing Affordability:*** Changes in household types, their economic status, and the housing market have led to corresponding changes in housing overpayment. The City's median household incomes have risen 6% in real terms from 1980 to 1990, while rental housing costs have fallen 22% in real dollars. As a result, housing overpayment for renters has actually declined from 50% to 46% by 1990. This trend should continue due to accumulated benefits of rent stabilization.

In contrast, overpayment among homeowners has soared due to exorbitant home prices valued at a median of \$350,000 or about 50% above the County median. Because housing prices have risen twice as fast as family income (175% versus 90%), housing overpayment has doubled from 20% to 41% over the decade. Given the desirable location of West Hollywood, the Year 2000 Census should show that homeowners continue to have a high rate of housing overpayment.

## 4.2 Special Needs Households

---

State housing law recognizes that certain households have more difficulty in finding decent and affordable housing due to special circumstances, including, but not limited to the following: economic status, age and disability, household size and type, and various other conditions. This section details housing needs and resources for special need groups in West Hollywood.

***Seniors and Elderly:*** Seniors and the elderly have special housing needs due to their fixed income, higher health costs, and physical limitations. Because of these limitations, seniors and the elderly are less able to afford major home repairs or large rent increases. Moreover, the physical limitations of seniors, coupled with the cost of retrofits or home care, make it more difficult to afford housing. The 1990 Census shows that 18% of West Hollywood's population or 6,607 persons are over 65 years old. Of this total, over 50% of elderly households earn very low income, 56% overpay for housing, and 25% suffer from physical limitations.

***Disabled Persons:*** According to the 1990 Census, a disability exists if a person has a health condition, either physical or mental, which lasts for over six months. A mobility limitation makes it difficult to go outside alone. A self-care limitation makes it difficult to take care of one's personal needs. A work disability restricts the kind of work done, one's choice of jobs, or the ability to work full-time. According to the 1990 Census, 9% or 2,895 persons in West Hollywood have a mobility or self care limitation -- slightly higher than the 8% Countywide average. The City's also has 1,875 persons or 7% with a work disability, which is approximately equal to that of Los Angeles County as a whole. No data is available on persons with other types of disabilities, such as mental illness.

***Persons on Public Assistance:*** Persons receiving welfare assistance are considered to need special housing assistance. With the recent passage of the 1996 Welfare Reform Act, many welfare recipients must now move from welfare to work within a prescribed period. Thus, welfare recipients may become one of the most pressing special needs group in the future. As of November 1996, the L.A. County DPSS estimates that 13% of the City's households or 4,038 persons receive public aid -- 2.3% receive general relief, 7.8% receive Medi-Cal only, under 1% receive Food Stamps only, and 2.1% receive AFDC. Unfortunately, the number of households to be affected by Welfare Reform is unknown.

***Homeless Persons:*** Homelessness continues as one of the most visible reminders of the pressing needs facing families and individuals in marginal economic, housing, and health conditions. This population consists of a wide range of persons and families suffering from domestic violence, mental illness, substance abuse, joblessness among a number of other conditions. According to the 1990 Census, approximately 156 homeless persons currently reside within the City. Services to meet the needs of homeless persons are detailed later in this section.

***Female Headed Families with Children:*** According to the 1990 Census, West Hollywood is home to 389 female-headed families with children or 2% of all households. Despite their small number, their financial need is very clear. Their household poverty rate of 27% is about three times the citywide average and a

large majority of them comprise the estimated 472 households receiving AFDC. Single mothers have special difficulties becoming more self sufficient due to lack of affordable child care, health care, and work requirements for public assistance. New welfare reforms promise even tougher restrictions on receiving public aid.

**Large Households:** Large households (those with over 5 members) have special needs due to the limited availability of adequately sized and affordable housing. Because of the shortage of affordable larger housing, lower-income large households are forced to live in smaller housing units, often leading to overcrowding and accelerated deterioration of the unit. Therefore, large households are often considered to be in need of special housing assistance. According to the 1990 Census, West Hollywood is home to 312 large families. Of this total, 60% are considered lower income households, approximately 40% overpay for housing, and well over 90% live in overcrowded housing conditions.

**Persons Living With HIV/AIDS:** Persons living with HIV or AIDS have special housing needs due to unique circumstances. The health needs of this population are numerous as are the costs of pharmaceuticals, health care, and assisted living. The exorbitant medical costs associated with HIV/AIDS eventually consumes one's entire financial resources, even those necessary for basic housing. According to the City's Community Needs Assessment, approximately one in ten households in West Hollywood have a person who is living with AIDS or HIV.

Table 25 below summarizes the special needs populations in West Hollywood. A total is not provided since many of the categories may overlap with one another.

**City Services:** The City of West Hollywood is committed to providing financial assistance to help meet the needs of vulnerable members of its community. The City funds much of its housing related services through contract service providers. For FY 1996-97, the City earmarked \$2.5 million in assistance to provide services for special housing need groups. Table 26 is a partial list of services provided.

**Table 25**  
**Special Needs Populations**  
**City of West Hollywood (1990)**

<b>Special Needs Group</b>	<b>Nos.</b>	<b>Share</b>
Elderly Households (age 65 or over)	4,781	21%
Large Households (5+ members)	312	1.4%
Persons Living With a Disability	6,802	20%
Homeless Persons	156	<1%
Female Headed Family W/Children	389	1.7%
Persons Living With HIV/AIDS	3,760	10%
Households Receiving Public Aid	4,038	18%

*Source: 1990 U.S. Census and CHAS  
1994 City Community Needs Assessment  
1996 Los Angeles County Dept of Public Social Services*

In addition to the aforementioned services, the City also provides other more direct forms of housing assistance for very low and low income populations. The West Hollywood Community Housing Corporation owns eight housing projects

**Table 26**  
**Summary of Housing Related Services**  
**City of West Hollywood (1997)**

Special Need Population	Inventory of Housing Related Services	FY 96-97 Funding
HIV/AIDS	Financial assistance for rent, utilities, pharmaceuticals, food, home healthcare, dental, insurance and benefits, public education, and counseling	\$903,616
Elderly	Counseling, roommate matching, placement in congregate living, congregate meals, home delivered meals, nutrition education, recreation and education.	\$637,480
Homeless	Emergency shelter for the homeless population plus transitional housing, counseling, 12-step program, job training and assistance, referrals, and other services.	\$422,182
FH Families General Poor Large Family	Preschool, child care, home visits and enhancement training to child care providers at home, job training and placement, medical services for the poor, etc.	\$225,631
Disabled	Assistance for persons with Alzheimers, counseling and case management for general disabilities, mental health care, and recovery services for substance abuse	\$112,999
<i>Total</i>		\$2,472,641

*Source: West Hollywood Human Services Department (1997)*

providing approximately 116 assisted units for lower income households, persons living with disabilities, and the elderly. An additional 42 units are in construction. Moreover, West Hollywood is home to two public housing projects serving 250 elderly persons and a Section 8 project serving another 100 elderly persons.

### 4.3 Low Income Population

Prior sections of this report have documented trends in the economic status of West Hollywood residents, households overpaying for housing, and the general number of needy households. However, given funding limitations, a precise definition of housing need is required to determine eligibility for federal housing assistance. To assist cities in this effort, the Federal Government has prepared the Comprehensive Housing Affordability Strategy (CHAS) for such a purpose. This section discusses financial need of West Hollywood residents based on the 1990 CHAS.

The CHAS is a special run of the 1990 Census that identifies housing need by four household types -- elderly, small families, large families, and other households. Elderly households consist of one or two persons, related or not, where householder or spouse is over 62 years of age. Small related families refer to nonelderly households with two to four members, and large families have five or more members. Other households refer to one or more persons of unrelated persons. These definitions of household types are slightly different than in typical Census products.

The CHAS also identifies the number of households that are eligible for financial assistance. To be considered in need of financial assistance, the Federal Government requires that households must be lower income (defined as earning less than 80% of the median income for the region) and overpaying for housing (paying in excess of 30% of their gross income for housing costs). According to the CHAS, 9,977 or 44% of all households are either lower income or overpaying. However, only 32% of all households (or 7,124) are defined as in need of financial assistance.

Housing overpayment disproportionately affects renters (36%) versus homeowners (15%) and differs by household type (Table 27). The elderly and all other nonfamily households have by far the largest number of households overpaying for housing. However, housing overpayment appears to affect a disproportionate share of elderly (47%), followed by large families (39%), large nonfamily households (28%), and small families (22%). Moreover, elderly renters and large family owners appear to have the highest rates of overpayment of all households.

**Table 27**  
**Households Overpaying by Tenure**  
**City of West Hollywood (1990)**

Households	Households by Tenure			# Overpayment by Tenure		
	Renters	Owners	Total	Renters	Owners	Total
<b>Total</b>	11,961	1,696	13,657	---	---	---
<b><i>In Need</i></b>	6,392	732	7,124	36%	15%	32%
Elderly	2,281	277	2,558	56%	21%	47%
Small Family	736	62	798	27%	7%	22%
Large Family	103	13	116	38%	43%	39%
All Others	3,272	380	3,652	31%	14%	28%

*Source: 1990 Comprehensive Housing Affordability Strategy database*  
*Owner Totals Include all owned housing units*

---

## 4.4 Regional Housing Needs

The California State Legislature recognizes that each city is responsible for the housing needs of its residents. As a result, State Housing Element Law requires each city to develop policies and programs to meet its “fair share” of housing needs for all income groups within its community. This “fair share” concept is designed so that each city accepts responsibility for meeting the existing housing needs of its residents as well as projected needs from future population growth. This section discusses West Hollywood’s progress in meeting its “fair-share” housing needs.

To assist communities in meeting their “fair share” housing need, the Southern California Association of Governments prepared a Regional Housing Needs Assessment (RHNA) in 1988. At that time, cities were assigned their “fair-share” and given five years to meet their obligation. In 1993, SCAG was scheduled to evaluate the progress made by local governments in meeting their advisory allocations and prepare another RHNA. However, the State Legislature did not provide funding and instead extended the housing element deadline several times to 1998.

Currently, the State Legislature is considering Assembly Bill 438, which will fund the third RHNA in 1998 and extend the deadline for housing element submission to June 30, 1999. However, because the State Legislature has extended the deadline for housing element submission, SCAG has not made new housing allocations. Therefore, this Community Needs Assessment assumes that the “fair-share” allocation made for the planning period of 1989-1994 applies to 1998 or until the State Legislature funds another round of housing need allocations. The remainder of this section discusses SCAG’s determination of existing and future housing needs and West Hollywood’s progress in meeting its “fair-share” housing obligations.

***Existing Need:*** The RHNA identifies existing housing need in terms of two key criteria: housing overpayment and lower income households. The definition of overpayment is consistent with the Federal standard and is defined as households which pay over 30% of their annual income for housing costs. To be considered in financial need, however, households must be lower income, earning no more than 80% of the County median household income. “Existing housing need” is therefore defined as all households earning less than 80% of the County median household income and who also pay over 30% of their annual income for housing.

According to the 1988 RHNA, West Hollywood has approximately 11,484 lower income households, of which 4,296 or 37% are overpaying for housing. Of this total, 3,253 households earn very low income (below 50% of the County median) while 1,043 households earn low income (51% to 80% of the County median). Due to the predominance of multifamily units, it is not unexpected that the majority of the City’s households overpaying for housing are renters (98%). However, it should be noted that the RHNA results may be inconsistent with findings from the 1990 Census, because the RHNA does not adjust income or overpayment for differences in household size, family type, or cost of housing.

***Future Needs:*** The RHNA also determines future housing needs in a community. In brief, a community’s “fair-share” housing allocation is the number of housing units that need to be constructed to meet projected growth in households, replace

---

expected demolitions of housing units, and achieve an ideal vacancy rate that allows for the healthy functioning of the market. This figure is also adjusted to avoid undue impact of low income persons within any particular community.

The RHNA also requires that newly constructed housing units be affordable to all economic segments of any community according to four income levels. The four groups are as follows: very low income households earning below 50% of the County median, low income households earning 51% to 80% of the County median, moderate income households earning 81% to 120% of the County median, and upper income households earning over 121% of the County median.

According to SCAG's housing allocations, the City of West Hollywood is required to produce 668 housing units over the 1989-1997 planning period. Of this total, the new housing units should be allocated to households by income level as follows: 102 units that are affordable to very low income households, 140 that are affordable to low income households, 120 units affordable to moderate income households, and the remaining 307 units for upper income households.

***Progress Made:*** West Hollywood has made considerable progress toward meeting its housing need allocations through the efforts of the West Hollywood Community Housing Corporation and the City's Inclusionary Zoning Ordinance. During the planning period, WHCHC has built 116 units for eligible lower income households, with plans for another 82 units over the next five years. Moreover, the Inclusionary Zoning Ordinance has also resulted in the construction of 53 affordable units for low and very low income households.

Of the remaining housing units constructed during the 1989-1997 planning period, City building records show that 62 apartments were constructed. These apartment units are considered to be affordable to moderate income households. This allocation is based on the assumption that new households moving to West Hollywood probably earn moderate levels of household income (the median of \$29,314 in 1990) and pay approximately the median rent levels (\$573 in 1990). As a result, households pay no more than 30% of their income for housing costs.

In addition, City building records also show that 127 condominiums, single family homes, duplexes and townhomes were built during the 1989-97 period. Based on 1990 Census data indicating a median value of \$350,000 for a home and \$215,000 for a condominium/townhouse and because these homes require significant downpayments and higher monthly mortgages, all of these housing units built are considered to be affordable only to upper income households. Progress made toward satisfying RHNA allocations is shown in Table 28.

***Deficit:*** To date, the City of West Hollywood has satisfied half of its regional housing need allocation, with a deficit of 228 units needing to be constructed -- most of which must be affordable to moderate and to upper income households. To satisfy this advisory allocation, West Hollywood could take several avenues --

recent legislation, redevelopment funds, and market rate construction. These avenues are described below and a sample scenario is shown in Table 28.

The State Legislature is considering a bill (AB438), which allows cities to satisfy 25% of the future housing needs by rehabilitating dilapidated housing and making them affordable to low and moderate income households. This bill offers a better approach for built-out communities like West Hollywood to achieve regional housing goals while also contributing to local goals of revitalization. If passed, the City could satisfy much of its remaining need through rehabilitated housing, depending on the distribution of moderate versus low income units provided.

According to the 1997 Redevelopment Implementation Plan, West Hollywood will pursue extensive redevelopment activities on its eastside portion. Specifically, an estimated 70 housing units will be built over the next five years, a total of 140 units over the next ten years, and 420 units over the thirty year life of the Plan. Moreover, 55 dilapidated units will be rehabilitated over the next five years, 110 over ten years, and 500 units over the life of the Redevelopment Plan. Taken together, 125 units could be constructed or rehabed between 1998-2003.

Lastly, market forces should account for the remainder of housing units needed to satisfy the moderate and upper income categories of housing need. As of January 1998, there are a number of building permits (an estimated 140) that have been taken out in past years, but not started due to poor economic conditions. Should these units be built, the City should satisfy its regional needs by 2003.

**Table 28**  
**Regional Housing Needs Allocation**  
**Housing Built (1988-1997) and Future Housing till 2003**

<b>Income Group</b>	<b>Future Need<sup>1</sup></b>	<b>Market Units<sup>2</sup></b>	<b>WHCHC Units<sup>3</sup></b>	<b>Inclus. Units</b>	<b>Other Units<sup>4</sup></b>	<b>Deficit</b>
Very Low	102	0	116		0	0
Low Income	140	0	82	30	0	0
Lower	242	0	198	30	*min.14	0
Moderate	120	62	0	23	*min.35	0
Upper	307	127	0		160**	20
<b>Total Need</b>	<b>668</b>	<b>189</b>	<b>198</b>	<b>53</b>	<b>210</b>	<b>20</b>

- Source:*
1. *Regional Housing Needs Assessment (1988)*
  2. *New Construction During the Planning Period (1988-1997)*
  3. *WHCHC's affordable housing units built and planned.*
  4. *Future Units (\* redevelopment+ \*\*market rate)*

## 4.5 Summary of Housing Need

West Hollywood has demonstrated significant commitment to ensure the availability of safe, decent, and adequate housing opportunities for all segments of its community. To implement this broad goal, the previous community needs assessment has analyzed a range of demographic, economic, and housing stock characteristics to identify present and future need. Later portions of this report will review the City's policies and programs used to meet its housing needs.

Table 29 summarizes total housing need by particular need group: housing overpayment, special need groups, household or new construction growth, and rehabilitation or replacement need. In interpreting this data, however, total housing need is *not* determined by either combining or summing each category. This is because several categories will naturally overlap, such as the elderly and disabled. Thus, housing need should only be interpreted for each category separately.

**Table 29**  
**Summary of Housing Need**  
**City of West Hollywood (1990)**

Existing Household Needs		Projected Housing Need	
<b>Overpaying Households<sup>1</sup></b>		<b>Household Growth<sup>3</sup></b>	
Total	7,124	* Very Low Income	102
* Renter	6,392	* Low Income	140
* Owner	732	* Moderate Income	120
		* Upper Income	307
<b>Special Need Groups<sup>2</sup></b>		<b>Need of Replacement<sup>4</sup></b>	
* Elderly Households	4,781	* Substandard Units Total	500
* Large Families	312	-- Need Moderate Rehab	318
* Female Head Families w/child.	389	-- Need Extreme Rehab	191
* Persons with HIV/AIDS	3,760		
* Homeless Persons	156		
* Disabled Persons	6,082		

*Notations: (1) Overpaying Households are based upon the 1990 CHAS  
 (2) Special Needs Groups based upon State defined categories  
 (3) Household Growth based upon 1988 RHNA future housing needs  
 (4) Housing need based upon 1997 Redevelopment Implementation Plans*

---

## **SECTION II: CONSTRAINTS AND OPPORTUNITIES**

The City of West Hollywood's ability to ensure the provision of decent and affordable housing for its residents is affected by market conditions, governmental regulations, and local programs. Taken together, these factors interact to constrain and encourage the development, improvement, and maintenance of adequate housing opportunities for all income levels. Building upon the findings discussed in the previous Community Needs Assessment, this section analyzes a range of constraints, opportunities, and successes in providing decent and affordable housing.

This section discusses the following topics:

- Housing Constraints: This section analyzes potential constraints on the maintenance, improvement or development of housing for all income levels, including the availability of financing, land and construction costs, land use controls, building codes, site improvements, fees and exactions among others.
- Rent Stabilization Program: This section specifically addresses the impact of rent stabilization on rent levels and housing affordability over the past decade. Moreover, this section also analyzes the impact of recent legislation on the rent stabilization program in general and special housing needs in the City.
- Affordable Housing Production & Preservation: This section analyzes the policies, programs, and accomplishments of the West Hollywood Community Housing Corporation, the Inclusionary Housing Program, Federal public housing programs, and other programs providing affordable housing to City residents. It also analyzes the institutional context of affordable housing at the State and Federal level. Of particular interest is the analysis of governmental programs, cooperative public-private partnerships, and other means to increase and maintain the supply of affordable housing.

---

## 1.0 POTENTIAL CONSTRAINTS TO HOUSING INVESTMENT

State Law periodically requires cities to examine potential and actual governmental and non-governmental constraints to the maintenance, improvement and development of housing for all income levels of their community and incorporate such an analysis into a Housing Element. Potential constraints vary by community but typically include market factors, governmental regulations, and environmental factors which increase the cost of housing. This section evaluates the impact of these constraints on the production, maintenance, and improvement of housing.

Before making an assessment of whether a constraint exists, it is important to first define what constitutes a constraint. Many possible definitions exist. For instance, Santa Monica has defined an *actual* governmental housing constraint as any program, individually or in combination with others, which has a significantly adverse impact on the City's ability to meet its "fair share" regional housing needs set forth by the Southern California Association of Governments. Specifically, this has been interpreted as any procedures and/or substantive requirements that add an extra scale of time or cost that adversely affects the financial feasibility of *new* housing.

In West Hollywood's case, there are also governmental programs which affect the production, maintenance, and improvement of housing. Land use controls, development standards, building codes, and fees and exactions all raise the cost of housing reinvestment and therefore may serve as potential constraints to housing investment. Moreover, market conditions may also constrain development, such as the real estate crash of 1989-1992. Plummeting real estate values forced landlords to postpone housing reinvestment, because they could not reap a competitive rate of return during the crash. Lastly, environmental conditions such as "blight" may also serve to unduly constrain the development, improvement and maintenance of housing.

However, the existence of a governmental program, market or environmental condition does not mean that there is a undue constraint to housing reinvestment. The aforementioned condition must also exceed a threshold. However, defining such a threshold is difficult given that property owners differ in their experience, ability to raise capital, and skill in overcoming development obstacles and therefore one condition may be a constraint to one developer and not to another. Therefore, to avoid such a "case-by-case" assessment, this section considers that an actual constraint ( as opposed to potential) occurs when it increases housing costs so high that it makes an otherwise reasonable project infeasible. As a result, property owners would forego normal housing reinvestments while new developers would divert their resources to other jurisdictions.

Taken together, this section defines an actual housing constraint as any condition, whether due to market, governmental, or environmental factors, which *significantly* interferes with a property owner's decision to maintain, improve, or produce existing or new housing. In some cases, governmental regulations preclude the normal functioning of market mechanisms by preventing the property owner from achieving an otherwise normal return on their reinvestment. In other cases, a market for new housing may not exist due to depressed economic conditions. Either way, these constraints would make projects infeasible so that property owners would forego reinvestments and new developers would divert their financial resources to other jurisdictions.

### 1.1 Market Constraints

The City of West Hollywood is impacted by various market constraints which affect the maintenance and improvement of the City's existing housing stock, the construction of affordable housing, and the preservation of the City's existing affordable housing. The three market constraints facing property owners -- land availability, construction costs, financing, and vacancy rates -- and their impact on the housing market are discussed below.

Land Availability: Because of its proximity to desirable employment and entertainment opportunities, West Hollywood is one of the most densely developed cities in California. As shown below in Table 30, 70% of the City's residential areas are zoned for high density use with a maximum of 50 housing units per acre. This density is much higher than surrounding cities. Moreover, West Hollywood is almost completely built out, with only 1% of the City's total area or 8 acres still available for development.

**Table 30**  
**Housing Development By Zone**  
**City of West Hollywood**

<b>Zone</b>	<b>R1</b>	<b>R2</b>	<b>R3</b>	<b>R4</b>	<b>Total</b>
Acreage in Zone	101.6	50.5	168.8	282.6	603.5
Max. Allowable Density/ Acre	14	22	36	50	
Estimated Number of Units	1,421	3,175	9,158	14,128	24,299
Total Vacant Square Footage	9,200	63,119	159,656	127,908	359,883
Vacant Land in Acreage	<1	1.5	3.7	2.9	8.3
Max. Allowable Units Possible	3	32	133	148	316

*Source: 1989 West Hollywood Housing Element*

The lack of vacant land in West Hollywood is likely a deterrent to housing investment. First, nearly all land in the City contains existing structures, which thus increases its cost. Second, developers must usually demolish the existing older structures and then replace them with new buildings, which again raises the total cost of developing the property. This condition becomes less of a constraint if the developer can increase housing density on the lot and therefore earn more income per acre than before. However, this is often not possible, since much of the City's property is at maximum density limits.

Land unavailability can thus become a constraint to development, especially when combined with other governmental programs. Housing development may only be feasible for under-developed properties which have few structures. Then the developer can afford to demolish the buildings, replace them with higher density units, and thus earn an acceptable rate of return on investment. However, as discussed in later sections of this report, the demolition fee must then be taken into account. Parcels with higher-density dilapidated buildings are less profitable, because the developer must either raise rent levels or increase housing density -- both which are limited by City ordinances.

Construction Costs: Construction costs typically consist of three major components -- land costs, hard construction or building costs, and also soft construction costs. These

---

costs are typically uniform across cities and not a constraint to the development, improvement, and maintenance of housing. In some cases, however, local factors (such as shortage of land, environmental constraints, building and safety codes, exactions, or other similar factors) may raise construction costs and constrain housing investment. This section provides an overview of typical building costs in West Hollywood.

Estimating the cost of new housing construction in West Hollywood is problematic. Most of the available land already has existing buildings on it. Therefore, any new construction plans and cost estimates must take into account needed demolition costs. Moreover, if affordable units are to be demolished, demolition fees are incurred. These fees vary depending on the number of units to be demolished and/or replaced. The lack of on-street parking also necessitates building off-street or underground parking, which depends on the building's density. Lastly, new construction costs must take into account inclusionary requirements, which affects the number of units on a particular site.

Santa Monica recently evaluated the cost of new housing in their new Housing Element. This analysis showed that land costs ranged from \$45 to \$70 psf. with improvements. Although land costs appear high, building costs are usually the largest component of new development and depend on the size of unit, stories/height, and quality of amenities. According to the City of Santa Monica's survey of real estate professionals, however, the average construction costs for a 22,500 square foot building is \$64 per square foot and up to \$73 psf. if underground parking is required. Since West Hollywood has not implemented building codes that are stricter than surrounding cities, housing cost estimates in Santa Monica should apply equally to those in West Hollywood.

The last component of construction costs -- other costs - include a range of "soft" costs such as developer profit, government fees and taxes, insurance/bonds, engineering and architectural fees, and other soft construction costs. These soft construction costs represent approximately 10% of total construction costs. Unlike land costs which vary by location and construction costs which vary by quality, these soft construction costs are assumed to be generally the same across jurisdictions. However, there are exceptions. In some cases, soft construction costs may vary among jurisdictions, especially if a particular city has additional fees or exactions that are higher than surrounding cities.

Taken together, it is estimated that new housing construction in West Hollywood costs between approximately \$120 to \$153 per square foot. This includes \$45 to \$75 per square foot for land, \$64 to \$75 per square foot for construction costs, and an additional 10% for soft costs. However, as noted above, demolition fees may add significantly higher construction costs -- up to \$80 per square foot. Therefore, if all units in a demolished building were previously affordable, the City's demolition fees could raise costs of new construction from 50% to 66% above the cost of building on vacant land.

Taxes/Financing: During the 1980s, the real estate markets have seen changes which have affected the development, improvement and maintenance of housing. For instance, lending practices have become stricter due to the recession and savings and loan scandal.

---

Priorwise, developers could receive loans exceeding the estimated future project value. Today, however, construction loans are usually not available for more than 75% of the future project value, thus requiring the developer to front at least 25% of project value. The developer may have to contribute more if the total cost exceeds 75% of the estimated future project value or if net operating income is under 1.15 times the loan payment.

Unfortunately, there is no concrete threshold for determining exactly how much equity contribution is sufficient to make a project infeasible. This is because developers vary greatly in their experience, ability to raise capital, and skill in overcoming obstacles. However, one can assume that the higher the proportion of equity required above 25%, the more unlikely a project will be infeasible. For instance, if a higher equity contribution is required, the developer would have to front significantly more cash and the project would have to achieve a higher value at completion in order to generate the net cash flow needed to meet the minimum acceptable threshold for cash-on-cash return.

The 1980s Tax Reform Acts greatly affected the real estate market for apartments. Enacted to stimulate a depressed economy, the 1981 TRA reduced the presumed useful life of an apartment from 40 to 15 years and relaxed the depreciation provisions, thus allowing a higher deduction against property income and providing a good tax shelter. However, the 1986 TRA reversed this trend by doubling the presumed useful life expectancy of rental properties to 27.5 years, replacing the accelerated cost depreciation method with a straight line method, increasing the capital gains tax by 10% to 28%, and dropping the marginal income tax rate from 45% to 28%. Thus, the 1986 TRA helped depress the market for new apartments, because it lowered the potential rate of return.

Mortgage and home improvement financing also significantly affects housing investment. Loans for new homes can usually be secured for an interest rate of 8% to 9% assuming a 30 year-term fixed rate loan. Of course, the interest rate fluctuates with the economy and can significantly impact housing costs and affordability. For instance, a 1% increase in interest rates can cause monthly home payments to increase \$250, thus reducing the number of households qualifying to purchase a home. Small increases in the interest rate can also cause homeowners to postpone normal routine maintenance and repair work.

In brief, housing investment has been greatly affected by changes over the decade. The 1986 TRA, savings and loan scandal, and economic recession significantly reduced the attractiveness of new apartment construction. On the other hand, the market for homes became tighter given stricter lending practices instituted after the S & L scandal. However for the resale market, homes values have plummeted in recent years and interest rates are relatively low, thus making it significantly more affordable to purchase a home.

---

Vacancy Rate: Even if the developer could purchase land and secure construction financing, one must consider whether there is sufficient market demand to absorb new housing or whether an adequate rate of return is possible on maintenance or improvement. This consideration is particularly salient given the recent real estate crash of 1989-1992 and the resulting plummet in home values and rent levels during that time. In assessing the current condition of the housing market, perhaps the best indicator of the match between the supply and availability of housing is the vacancy rate.

The vacancy rate works several ways to impact housing reinvestment and affordability. In an unregulated market, low vacancy rates are indicative of a housing shortage, which results in higher housing costs, reduced affordability, and even overcrowding. On the other hand, high vacancies lead to rent deflation and housing affordability, but may also erode property values, lower profits for rentals, and discourage maintenance and repair. SCAG states that a rental vacancy rate of 5%-6% is needed to ensure sufficient mobility and housing choice for residents while providing sufficient incentive to maintain housing.

The City's rental vacancy rate of 3.9% is below the standard of the Southern California Association of Governments pursuant to their Regional Housing Needs Assessment. Moreover, with the exception of Santa Monica, West Hollywood's rental vacancy rate is lower than the surrounding jurisdictions. For example, Beverly Hills had a rental vacancy rate of 6.2% and Culver City had a rental vacancy rate of 5.4%, and tracts in the adjacent Wilshire area had an even higher rental vacancy rate of 8.4%. The City's low vacancy rate is due to the City's rent stabilization policies and higher quality of life, which control increases in housing costs yet simultaneously increase demand for housing.

The effect of the City's low rental vacancy rate is uncertain given the lack of hard data. In theory, with the absence of governmental regulations, the City's low vacancy rate or oversupply of tenants could provide landlords less incentive to maintain housing because there would always be other tenants who would rent the units regardless of the condition. However, the tendency to lower maintenance is offset by City housing ordinances requiring that landlords not reduce the level of housing services paid for by tenants. In the absence of more definitive data, the overall effect of vacancy rates is unknown but should continue to be monitored given the phasing in of the Costa-Hawkins Act.

In summary, a combination of market constraints has resulted in an unusually low level of construction activity over the past decade. Over the past decade, less than 200 new housing units have been built -- although 350 units have received building permits. This lack of construction activity is due in part to the downturn in economy, lack of and high cost of land, and flat real estate market affecting the entire southern California region. These factors essentially lowered the rate of return on new construction and maintenance/improvement versus other more attractive investment instruments. Governmental programs also played an important part as discussed in the next section.

## 1.2 Governmental Constraints

Governmental regulations are often cited as constraints to the maintenance, improvement, and development of housing, because governmental regulations typically raise housing costs and a portion of the costs is inevitably passed down to consumers. This section discusses the impact of land use controls, development standards, building codes, and fees/taxes on the maintenance, improvement, and production of housing.

**Land Use Controls:** Like all communities, West Hollywood regulates the type, location, density, and scale of residential development through a range of land use/zoning codes. These ordinances are designed to balance the need to provide housing opportunities for all economic segments of the community, while still protecting the general health and safety of residents and preserving the character and integrity of existing neighborhoods. Based on the City’s 1997 Zoning Ordinance, residential development is currently allowed within five general districts. Permitted residential uses are shown below in Table 31.

- R1: Low Density Residential, with a maximum of 3 units per lot.
- R2: Low Density Residential, with a maximum of 3 units per lot.
- R3: Medium Density Multiple Family, with a maximum of 3 stories
- R4: High Density Multiple Family Residential
- C: All Commercial Zones collectively

**Table 31**  
**Residential Development by Zoning District**  
**City of West Hollywood (1997)**

Land Uses	C1-3	R1	R2	R3	R4
Single Family	NP	P	P	P	P
Multiple Family	NP	P	P	P	P
Mixed Use	P	NP	NP	NP	NP
Res. Care Facility =/ $<$ 6 units	P	P	P	P	P
7-12 units	MC	MC	MC	MC	MC
12+ units	C	C	C	C	C
2nd Residential Unit	NP	P	P	P	P
Senior Housing	NP	P	P	P	P
Artist Loft	MC	NP	NP	MC	MC

NP = Not permitted      MC = Minor Conditional Use Permit Required  
P = Permitted Use      C = Conditional Use Permit Required

In comparison with surrounding jurisdictions, West Hollywood is zoned at much higher residential housing densities and has a relatively permissive ordinance with respect to mixed residential/commercial land uses. Moreover, opportunities exist for housing special need households in all residential areas. Therefore, zoning laws are not considered to be a constraint to the development, maintenance and improvement of housing.

**Residential Development Standards:** The City’s residential development standards contain provisions which affect housing costs and affordability such as lot coverage

---

limits, building height limitations, densities, setbacks, parking requirements, open space, and other similar requirements. These requirements affect new development, because they regulate the number and size of housing units per acre. As a result, these requirements affect the return on reinvestment possible from the development project. This section briefly evaluates the impact of the City's residential development standards.

*Density Limits:* Due to its proximity to employment and entertainment opportunities, West Hollywood has developed into one of the most dense residential areas in the State. To help preserve its single family neighborhoods, West Hollywood has enacted a 8.7 du/ac standard for its single family areas which is generally comparable to Santa Monica and Culver City, but lower than Manhattan Beach and Redondo Beach. Secondly, the City's low density limit of only 14 du/acre is much lower than all five cities surveyed. Meanwhile, West Hollywood's medium density areas (36 du/ac) is equal to Santa Monica (35 du/ac), but significantly higher than all other surveyed cities. Moreover, the City allows the highest density development (50 du/ac). The only exception is the City of Los Angeles, which allows higher density development for all residential zones.

*Structural Limits:* West Hollywood has also enacted regulations affecting the size of buildings, such as minimum lot sizes, lot areas and height. A comparison of surrounding cities (Santa Monica, Redondo Beach, Manhattan Beach, Culver City) shows that West Hollywood has less restrictions for lot coverage and story limitations. For instance, the City's minimum lot size of 5,000 square feet is nearly identical to all other cities surveyed. With the exception of Los Angeles, the City requires a smaller minimum lot area per unit (ranges from 872-2,500 square feet) than all cities surveyed. Lastly, the City's height limitations also appear to be less restrictive than all other cities surveyed. Taken together, the City's structural limitations are more relaxed than other cities and therefore allow developers to build larger and more dense housing than other cities.

*Parking Standards:* Onsite parking space requirements can also serve as a constraint to housing development, because they necessarily reduce the maximum number of units that can be constructed on an acre, the potential revenue per acre, and therefore reduce the rate of return on investment. In West Hollywood's case, parking standards vary according to the size of the housing unit. For multifamily units, one (1) space is required for a studio, one and one-half (1.5) spaces for a 1-bedroom unit, two (2) spaces for a 2-bedroom unit, and an additional one (1) space for each additional bedroom. For single family detached units, the City requires two (2) spaces of enclosed or covered parking. These standards are comparable to Santa Monica, but lower than Manhattan Beach, Culver City, and Redondo Beach, and Los Angeles and thus not an actual constraint to new development.

*Open Space:* Open space requirements can also constrain housing development, because it reduces the total amount of livable space that can be constructed per acre and therefore

---

lower the possible amount of revenue available from the property. Analysis of the City's open space requirements shows a mixed picture. On the one hand, the City's open space requirements appear not to be specified for low density zones and thus cannot be compared with surrounding cities. However, West Hollywood's open space requirement for medium density areas (133 sf/efficiency unit and 350 sf for all other units) is triple that of Santa Monica (100 sf/du), 50% above Manhattan Beach's requirements (220 sf/du), and comparable to Redondo Beach (400 sf/du). For high density development, West Hollywood's open space requirements are 1.22 times higher than all other cities.

*Yard Setbacks:* Setback requirements are another method for providing for landscaping and open space for residential development. Like open space requirements, setbacks can also constrain housing development if an unusually large amount of space is required, because the requirements limit the building square footage that can be built on the lot. As shown on the following page, the City requires a greater setback in low density residential area -- generally more than Santa Monica, Redondo Beach, and Culver City. For medium density areas, the City requires greater amount of setback than Redondo Beach, Manhattan Beach and Culver City, but less than Santa Monica. In contrast to low and medium density residential development, the City requires the smallest yard setbacks for high density areas than all other cities including Los Angeles.

*VariANCES:* Currently, the City of West Hollywood does not provide for an explicit waiver of the aforementioned property requirements by Ordinance. However, the City's Zoning Code allows the Development Director the authority to grant modifications of the residential development standards by up to 10% without a public hearing. Residential development standards include parking, height, yard and lot area requirements. However, variances exceeding 10% must be decided upon by the Planning Commission.

Taken together, the City's residential development standards do not appear to significantly constrain housing development in comparison to standards in nearby cities. Although the City's open space and yard setback requirements are generally equal to or higher than the cities surveyed, they appear to be offset by less restrictive density and structural limitations. The City allows for higher densities, has relatively fewer structural limitations, and the City's parking requirements are comparable with surrounding cities. Practically, this means that developers can still construct higher buildings with a greater FAR than surrounding cities and therefore earn a higher return on their investment. Thus, residential development standards do not appear to constrain housing development.

**Multifamily Development Standards  
West Hollywood and the Region (1997)**

<b>Jurisdiction</b>	<b>Zone</b>	<b>Max. Density</b>	<b>Min. Lot Size</b>	<b>Min Lot Area/du</b>	<b>Height</b>	<b>Setback (Fr-Rr)</b>	<b>Open Space</b>
<b>LOW DENSITY</b>							
<b>West Hollywood</b>	R1B	14 du/ac	5,000 sf	specific	2 st - 25 ft	15 : 15 ft	NS
	R2	depends	5,000 sf	specific	2 st - 25 ft	15 : 15 ft	NS
<b>Santa Monica</b>	R2R	29 du/ac	3,000 sf	1,500 sf	2 st - 33 ft	10 : 15 ft	100 sf/du <6 du
	R2	29 du/ac	5,000 sf	1,500 sf	2 st - 30 ft	20 : 15 ft	50 sf/du >6 du
<b>Redondo Beach</b>	R2	14.6 du/ac	5000 sf	3,000 sf	2 st - 30 ft	15 : 10 ft	SF - 800 sf/du
	R3	17.5 du/ac	5000 sf	2,500 sf	2 st - 30 ft	14 : 10 ft	CO 400 sf/du
	R3A	17.5 du/ac	5000 sf	2,500 sf	2 st - 30 ft	14 : 10 ft	MF 375 sf/du
<b>Manhattan Beach</b>	Not Designated						
<b>Culver City</b>	R2	17.4 du/ac	5,000 sf	2,500 sf	2 st - 26 ft	15 : 10 ft	NS
	R3	15 du/ac	NS	2,900 sf	2 st - 30 ft	10 : 15 ft	NS
	R3A	15 du/ac	NS	2,900 sf	3 st - 40 ft	20 : 15 ft	NS
<b>Los Angeles</b>	R2	17.4 du/ac	5,000 sf	2,500 sf	3 st - 45 ft	20 : 15 ft	NS
<b>MEDIUM DENSITY</b>							
<b>West Hollywood</b>	R3A	36 du/ac	5,000 sf	1,210 sf	2 st - 25 ft	15 : 15 ft	133 sf/eff. du
	R3B	36 du/ac	5,000 sf	1,210 sf	3 st - 35 ft	15 : 15 ft	350 sf/ unit
	R3C	36 du/ac	5,000 sf	1,210 sf	4 st - 45 ft	15 : 15 ft	
<b>Santa Monica</b>	R3	35 du/ac	5,000 sf	1,250 sf	3 st - 40 ft	20 : 15 ft	same as R2
<b>Redondo Beach</b>	R1M D	23 du/ac	5,000 sf	1,870 sf	2 st - 30 ft	12 : 10 ft	MF- 400 sf/du
<b>Manhattan Beach</b>	RM-1	11.6 du/ac	7,500 sf	3,750 sf	2 st - 26 ft	20 : 10 ft	220 sf/du <2333 sf
	RM-2	18.9 du/ac	4,600 sf	2,300 sf	2 st - 26 ft	20 : 10 ft	350 sf/du >2333sf
	RM-3	32.3 du/ac	2,700 sf	1,350 sf	3 st - 30 ft	5 : 5 ft	
<b>Culver City</b>	R4	29.0 du/ac	NS	1,500 sf	2 st - 30 ft	10 : 5 ft	NS
City of West Hollywood Los Angeles Housing Study	R3	36-54 du/ac	5,000 sf	HA-10 800- 1200	3 st - 45 ft	15 : 15 ft	Constraints and Opportunities: Housing Constraints NS USC - Community Development and Design Forum

---

**Codes and Enforcement:** West Hollywood has adopted various building and safety codes to protect the health and safety of its residents by ensuring the construction, maintenance, and rehabilitation of housing that is safe, decent, and affordable. However, since building codes and their enforcement naturally increase housing costs, they also have the potential to negatively impact the production of housing opportunities. This section briefly outlines the city codes affecting housing production and maintenance.

West Hollywood has adopted California's Uniform Building Code (UBC), 1994 edition, by Ordinance. By adopting the UBC, the City subsequently adopts the latest Uniform Plumbing Code, Uniform Fire Code, National Electrical Code, Mechanical Code, and Title 24 and 25 of State Energy Insulation Regulations, and all following amendments. These building and safety codes are considered to be the minimum codes necessary to protect the public health, safety and welfare are adopted by all cities in California.

In addition to the Uniform Building Codes, West Hollywood must also comply with federal regulations pertaining to the Americans with Disabilities Act (ADA). In brief, ADA provisions require that a minimum percentage of units in new housing developments built after 1989 to be fully accessible to the physically disabled. However, most of the City's current housing was built before 1989 is therefore exempt. Still, like the UBC, all communities are required to enforce ADA laws by the federal government.

Compliance with the City's building, safety, and accessibility codes and standards does increase the cost of housing. However, since West Hollywood is almost built out, these regulations have a greater impact the rehabilitation, rather than construction, of housing. For instance, most housing was built over 40 years ago, well before the adoption of current codes, and thus are exempt provided the building is not materially changed. Therefore, a landlord must decide whether rehabilitation of existing structures is a viable option if a building must be upgraded to meet current building and safety codes.

In addition to building, safety and accessibility codes and standards, the City has enacted seismic retrofitting codes pursuant to Chapter 96 of the WHMC and State law (1990). These regulations require seismic upgrades in order to reduce the potential of earthquake hazards in unreinforced masonry buildings and protect the public's health and safety. Because these improvements benefit tenants, however, the City allows landlords to apply for a rent increase to pay for the capital improvements resulting from seismic upgrades. Thus, landlords can potentially recover the full costs of their capital improvements.

Although the City's building, safety and accessibility standards increase the cost of housing, they are not considered to be a significant housing constraint. All cities in California area adopt nearly identical building and safety codes; and therefore, all developers and property owners face basically the same constraints regardless of location. Since the City has not adopted more stringent codes than other cities, they are not a significant constraint to the maintenance, improvement, and development of housing.

**Fees and Taxes:** State law authorizes communities to charge developers for providing specific services as well as meeting the resulting service impacts from new development.

---

These development fees are often cited as a constraint to the maintenance, improvement, and development of housing, because they raise development costs and a portion of these costs are passed down to consumers in the form of higher housing costs. This section addresses whether these fees constrain housing reinvestment in the City.

Like all other cities throughout California, West Hollywood levies various charges to support new residential development. The two largest fees charged by West Hollywood - service fees and development impact fees -- are described as follow:

(1) *Service fees* -- are charged to recover the costs of providing development services of planning/zoning approvals, subdivision map approvals, environmental review, engineering and plan checks, and building permits among others.

(2) *Impact fees* -- are charged are levied as a condition for the approval of a new development project and are used to offset the future impact that development will have on City schools, parks, housing, and other basic services.

In evaluating West Hollywood's service and impact fees, it should be noted that the City obviously levies other charges which also raise the cost of housing development, such as business licenses, building permits and many others. Also, benefit assessments for street maintenance, library services, and other services also raise the cost of development. Notwithstanding, this section is designed to outline only the major development fees. Additional and more comprehensive studies can be done to fully assess the cumulative financial impact of the total amount of fees charged for residential development.

Assessing whether a city fee or tax constitutes a constraint to housing development is difficult given that each developer has a different threshold for absorbing the extra cost. However, two general rules provide such a guideline: first, whether the fee is reasonably related to service costs or the impact caused by development; and second, whether the fee is reasonable in comparison to adjacent cities. If either criteria is not met, builders may develop housing elsewhere where the rate of return on investment is higher. If both criteria are met, the City's fees are not considered to be a constraint to development.

To form a comparative base of industry benchmarks from which to compare with practices in West Hollywood, the cities of Santa Monica, Culver City, Redondo Beach, Los Angeles, and Manhattan Beach were surveyed. In addition, information was also obtained from the Los Angeles County Sanitation District, Los Angeles Unified School District, and other agencies which charge service and impact fees for new residential development. Lastly, the Government Codes were consulted for statutory requirements for fees. The remaining portion of this section discusses the results of this survey.

Service Fees: As stated above, the City charges service fees to recover the costs of providing specific services to developers. These include fees to recover the costs of planning and zoning approvals, subdivision map act approvals, environmental review, engineering and plan check services, and building permits among others. On an annual basis, the City reviews these fees relative to the costs of providing service and compares them to fees charged in neighboring jurisdictions to ensure they remain competitive.

To determine whether the City’s service fees are a constraint to development, State law provides clear guidelines. California Government Codes specifically require that locally-imposed fees must not exceed the estimated reasonable cost of providing the service. Since all cities are basically prohibited from making a profit on services, only the minimum fee amount should be charged to developers. This does not mean that fees are uniform across all cities, since each have different capacities to provide services in a cost-effective manner. Rather, the fee must approximate the cost of providing service.

Secondly, West Hollywood’s fees also do not appear to be unreasonable compared with fees charged in surrounding jurisdictions. Table 33 compares West Hollywood’s fees with those charged in Santa Monica, Redondo Beach, Manhattan Beach, and Culver City. As shown below, the City’s fees generally fall within the normal range of other cities. West Hollywood’s fees are generally lower or fall within the middle of the range. The only exception is building fees, which are generally higher than other cities.

**Table 33  
Residential Development Fees  
Comparison of Surrounding Cities**

<b>Fees</b>	<b>Santa Monica</b>	<b>Redondo Beach</b>	<b>Manhattan Beach</b>	<b>West Hollywood</b>	<b>Culver City</b>
Dev. Agreement	\$10,000	\$1,439	-----	\$1,260	\$2,578
Tract/Parcel Map	\$2,287	\$1,083	\$1,018	\$660	\$558
Site Plan	\$3,399	\$1,439	\$2,870	\$---	\$425
PlanCheck (Apt \$100k)	\$1,590	\$1,052	\$1,059	\$1,508	\$478
Building Permit	\$652	\$1,052	\$1,059	\$1,905	\$686
Conditional Use	\$2,053	\$1,024	\$2,098	\$1,445	\$1,001

*Source: City of Santa Monica 1997 Housing Element*

In summary, the City’s application fees for residential development appear to be reasonable in comparison with surrounding jurisdictions. Although there are slight differences among jurisdictions, the variation appears to be due to the normal differences in the cost of providing services. Moreover, State law also requires that fees be reasonably related to costs -- a requirement which is also supported by the survey. As a result, service fees alone do not appear to constrain housing investment.

**Development Impact Fees:** As stated above, the City of West Hollywood, Los Angeles County, Los Angeles Unified School District, and the County of Los Angeles charge a range of residential impact fees to offset the future impact that development will have on existing infrastructure, city services (such as public safety), schools, and other services. In West Hollywood, developer are assessed fees for public art, parks and recreation, public schools, traffic mitigation, sanitation, and inclusionary housing among others.

To determine whether the City’s service fees are a constraint to housing development, State law provides clear guidelines for developing and assessing an impact fee. State Government Codes require that all impact fees must have a substantial nexus to the development and that the dedication per project be roughly proportional to its impact. This does not mean that impact fees are uniform for all cities, since cities differ in their capacity to accommodate additional demands on their service system. However, it does mean that fees and exactions must be reasonably related to the service impact.

The second question of whether residential development impact fees are comparable to other cities is summarized below for a sample 10-unit building valued at \$1.25 million. As shown in Table 34, impact fees average \$44,000, with a high of \$85,000 in West Hollywood to a low of \$25,000 in Santa Monica. Although the City’s fees are twice the survey average, they are similar to nearby Culver City. Therefore, the City’s impact fees (excluding in-lieu housing) do not appear to significantly constrain housing reinvestment.

However, the picture changes significantly when inclusionary housing fees are added. As shown below, the addition of in-lieu housing fees raises housing costs in Santa Monica and West Hollywood by approximately 250% above the average of the four cities without inclusionary housing requirements. (Note: Santa Monica’s fees are undergoing revision). Therefore, based on this survey, it appears that the City’s in-lieu housing fees may constrain housing reinvestment. This topic is more fully addressed later in this section.

**Inclusionary Housing:** The State Legislature has declared that a severe housing shortage

**Table 34  
Residential Development Impact Fees  
Comparison of Surrounding Cities**

<b>Impact Fees</b>	<b>Santa Monica</b>	<b>Redondo Beach</b>	<b>Manhatt Beach</b>	<b>West Hollywd</b>	<b>Los Angeles</b>	<b>Culver City</b>
Park Fee	\$2,000	\$4,000	\$16,090	\$33,230	\$14,570	\$45,000
Art Fee	none	none	none	\$12,500	none	\$12,500
School Fee	\$18,400	\$18,400	\$18,400	\$18,400	\$18,400	\$18,400
Transportation	n/a	n/a	n/a	\$4,480	n/a	n/a
Sanitation	\$5,200	\$8,460	\$8,460	\$16,680	\$5,200	\$5,200
Subtotal	\$25,600	\$30,860	\$42,950	\$85,290	\$38,170	\$81,100
Housing In-lieu	\$150,000	n/a	n/a	\$84,525	n/a	n/a
Total	\$170,400	\$30,860	\$42,950	\$169,815	\$38,170	\$81,100

*Note: Scenario assumes 10 unit multifamily building for an estimated value of \$1.25 million*

*Other impact fees may apply. The fees shown are only a representative sample.*

---

exists statewide and that cities have a responsibility to provide housing for all income levels of their community. To ensure cities further this goal, the Legislature has adopted mandatory requirements pursuant to State Redevelopment law and advisory requirements pursuant to the Regional Housing Needs Assessment. Moreover, several cities have also adopted other programs to encourage and maintain affordable housing, such as inclusionary housing and rent stabilization. This section addresses the City's inclusionary housing program, while other parts of this report address rent stabilization.

Like 64 cities in California, West Hollywood has implemented inclusionary housing requirements to “encourage low and moderate income housing, and housing for the disabled and older residents” (WHMC, Section 9401). Since its inception, this program has generated \$4.0 million in in-lieu fees for 53 units affordable to low and moderate income housing. In recent years, however, the sparse building activity in the City, postponement of 143 new housing units, and \$2.3 million in unpaid in-lieu fees (fees that could have been raised if permit applicants built units) has raised the question of whether the Program has aspects that constrain housing reinvestment in light of market conditions.

**City Practices:** Inclusionary housing programs are not a particularly common method utilized by cities to encourage the production and maintenance of affordable housing. Based upon a 1994 survey conducted by the California Coalition for Rural Housing Project, only 65 cities or 12% of the nearly 500 cities in California have inclusionary housing requirements. The majority of programs are found in the Bay Area or southern California. *In Los Angeles County, however, only 4 of 88 cities* (i.e., Santa Monica, Burbank, West Hollywood and Agoura Hills) maintain an inclusionary housing program.

The City's Inclusionary Housing Program requires developers to set-aside a portion of units in each new residential development for low and moderate income households. The set-aside requirement is 20% for projects of 11 or more units and 10% for projects with 10 or fewer units. For projects with 20 or fewer units, developers may pay a fee, provide units, or provide a combination of units and fee ranging from \$5.74 psf for a 1-unit project to \$11.47 psf for projects of 10 or more. If rent-stabilized units need to be demolished, however, the developer must either replace all the demolished housing units on a one-to-one basis or pay an alternative demolition fee ranging from \$41 to \$82 psf.

In evaluating West Hollywood's Inclusionary Housing Program, several elements are key: (1) minimum project threshold; (2) set-aside requirement; (3) affordability controls; (4) target population group; (5) eligibility criteria for households; (6) diversity of funding sources; (7) offsets/incentives for developers; and (8) alternatives to onsite construction. The source of the industry benchmarks for a comparison with West Hollywood's Program is the 1994 survey conducted by the California Coalition of Rural Housing Project. A summary of this comparison is shown on the following page in Table 35.

**Table 35**  
**Inclusionary Housing Practices**  
**Survey of Cities Across California**

Program Element	Practices of Comparable Cities with Inclusionary Housing Programs	City of West Hollywood
<i>Project Threshold</i>	3 The majority of cities have a low minimum threshold. About <b>48%</b> of cities have a minimum project threshold of equal to or less than 5 units, 45% of cities use a 6-10 unit threshold, and 7% of cities use a 10+ unit threshold.	-0- units
<i>Set-Aside Requirement</i>	3 Approximately 40% of cities have a 10% set-aside requirement, 20% of cities have a 15% set-aside requirement, and 28% of cities have a 20% requirement. Over 90% of cities range between 10% to 20%.	10% - 20%
<i>Affordability Controls</i>	3 About 17% of cities require units to remain affordable for equal to or less than 20 years, 30% of cities require 30 years, 17% of cities require 40+ years, while <b>one-third</b> (36%) require permanent affordability.	Permanent
<i>Target Group</i>	3 Most cities target low to moderate income households and 40% of cities which require a specific mix of units require that one half be eligible to low income, while the other half be eligible to moderate income households.	Same
<i>Eligibility</i>	3 Low income is defined as income below 50% of the regional median. Low income is defined as below 80%, and moderate income is defined from 80% to 120%. 3 66% of cities adopt the federal standard of overpayment, while the remainder use either 25% or 35% of income.	Same, except that MOD is 80%-100% Same
<i>Funding Mix</i>	3 50% of cities uses non-local subsidies to build units, CDBG (36%), State/Federal Tax Credits (21%), HOME (19%), Rental Housing Construction Program (10%) 3 58% of cities use local subsidies to build units, including Housing Trust Funds (34%), Redevelopment Set-Asides (32%), and local bonds (8%) among other sources.	No subsidy
<i>Incentives</i>	3 Cities offer various incentives to encourage the production of affordable housing units. The top four incentives are density bonus (94%), fee waivers or deferrals (56%), priority processing (42%), and regulatory relief (39%).	State mandated density bonus program only Waivers
<i>Alternatives</i>	3 Alternatives to on-site development of affordable units include in-lieu fees (61%), land dedication (35%), off-site development (54%), and credit transfers (10%). 3 In-lieu fee ranges from low of \$18,330 or \$1,833/unit to \$91,760 or \$9,176/unit with an average of \$45,000 per unit. <b>No</b> city had a separate and higher demolition in-lieu fee. 3 39% of cities have hardship or exemption provisions	In-lieu fee off-site if >21 units highest of all \$460,240 no hardship exemption

*Source: California Coalition for Rural Housing Project (1994)*

---

As summarized below, the City of West Hollywood's Inclusionary Housing Program has similar requirements for multifamily units to similar programs found in other comparable cities across California. Specifically, West Hollywood is:

- Among a plurality of cities (48%) with a low minimum project threshold of equal to or less than five units;
- Among the majority of cities (90%) which have a set-aside requirement for new multifamily housing units ranging from 10% and 20%;
- Among a plurality of cities (36%) requiring permanent affordability controls;
- Among the majority of cities which target low and moderate income households for inclusionary housing eligibility;
- Among a majority of cities (66%) that use the federal standard of affordability (30% of household income) to define affordable rent levels; and
- Among a majority of cities allowing developers alternatives (such as in-lieu fees and off-site construction) to the production of affordable units.

**Fee Provisions:** Despite the similarity of the City's Inclusionary Housing Program with those found in other cities, there are three notable differences -- in-lieu fees, demolition fee, and hardship exemption -- which differ from practices of other cities. As stated earlier, developers of projects with fewer than 20 units have the option of providing affordable units, paying an in-lieu fee ranging from \$5.74 psf. to \$11.47 psf., or providing a combination of units and fees. If rent-stabilized units are demolished, however, the developer must replace all the units or pay a demolition fee ranging from \$41 to \$82 psf. Unlike 40% of other cities, the City does not have a hardship exemption.

The City's in-lieu fee structure is based on the size of the building and is calculated with the goal that an average five unit project should yield a target subsidy of \$35,000 -- or one-third the average costs of an affordable unit. The in-lieu housing fee is calculated as follows:  $\$35,000 = 5 \text{ units} \times 1,000 \text{ sf.} \times \text{fee}$ ; where 1,000 is the average sf. per unit. Using \$7.00 psf. as a base, the fee is raised 10% per unit for projects above 5 units, and decreased 10% for projects below 5 units. The demolition fee is also based on the rationale that the developer should provide at least \$35,000 for each rent-stabilized unit. The base demolition fee of \$35 psf is then raised \$5 psf. per additional unit demolished.

To evaluate West Hollywood's in-lieu housing fee, a survey was taken of cities with successful inclusionary housing programs according to the California Coalition for Rural Housing as well as other jurisdictions in the immediate vicinity of West Hollywood. Sample fees were then calculated based upon a hypothetical 10-unit apartment building. As shown in Table 36, the survey revealed three conclusions: (1) the City's fee was the highest and double the average of surveyed cities; (2) no city charged a separate in-lieu fee for demolitions and the City's fee of \$41-\$82 psf actually *exceeds* the hard costs of new construction (\$40-\$75 psf); and (3) the City does not offer a hardship exemption.

These findings have clear implications with respect to reinvestment in the City's housing. As discussed prior in the Needs Assessment, the City's housing stock is gradually aging,

**Table 36**  
**Inclusionary Housing Fee Survey**  
**Sample of Surveyed Cities**

	<b>County</b>	<b>Fee Basis</b>	<b>Sample</b>	<b>Demo</b>
Santa Monica	Los Angeles	\$51,000/unit*	\$510,000*	none
West Hollywood	Los Angeles	\$5.64-\$11.27 psf	\$91,760	\$460,240
Carlsbad	San Diego	\$4,515/unit	\$45,150	none
Coronado	San Diego	\$7,000/unit	\$70,000	none
Petaluma	Sonoma	\$2,400/unit	\$24,000	none
Davis	Sacramento	\$20,400/unit	\$71,400	none
Livermore	Alameda	\$1,833 per unit	\$18,330	none
Palo Alto	Santa Clara	5% gross sales	\$40,000	none
<b>Other Westside Cities</b>				
Redondo Beach	Los Angeles	none	none	none
Manhattan Beach	Los Angeles	none	none	none
Los Angeles	Los Angeles	none	none	none
Culver City	Los Angeles	none	none	none

*Notes: \* Currently under substantial revision*  
*Based on hypothetical 10-unit building*

with approximately 75% over 40 years old -- the threshold for when a multifamily unit needs substantial rehabilitation. Furthermore, 16% of the City’s housing stock was built before 1940, the industry standard for when an unmaintained home becomes dilapidated. Finally, an estimated 2% of the City’s housing stock is currently substandard. Practically, this means that ensuring adequate maintenance and improvement may become the most important housing issue facing West Hollywood over the next decade.

However, the City’s current “in-lieu” fee, in its present structure, appears to significantly constrain the development, maintenance, and improvement of housing. For instance, assuming average hard construction costs of \$75 psf., the City’s in-lieu fee would raise the hard construction costs for a sample 10-unit apartment by \$11.47 psf. or by 15%. More importantly, if a developer wanted to demolish a 10 unit dilapidated, rent-stabilized unit, the demolition fee would increase construction costs by \$81 psf. or by 108%.

The practical implications of these additional costs are predictable. Unless the housing market is strong, developers have incentive to build elsewhere to avoid the 15% increase in costs. The effect is even more dramatic for development requiring demolition. Few developers would be willing to absorb an extra 100% in construction costs. And without a method to determine whether a financial hardship exists, the in-lieu fee likely constrains housing development -- especially in the marginal housing market of today.

---

### 1.3 Environmental Constraints

Environmental constraints can also have a detrimental impact on the maintenance, improvement, and development of housing. These include physical, economic, and social conditions of blight as well as other environmental constraints which discourage reinvestment. This section assesses the major environmental constraints to housing reinvestment in West Hollywood.

***Blighted Conditions:*** Blighted conditions, whether physical or economic, is often credited with discouraging reinvestment in housing. A blighted area is characterized by the existence of structures or buildings which are unfit or unsafe to occupy for their intended purposes and are conducive to ill health, transmission of disease, infant mortality, juvenile delinquency, crime and other social and economic ills. These blighted conditions cause a reduction of, or lack of, proper utilization of the area and place a burden on the community which could not reasonably be expected to reverse itself or alleviated by private enterprise acting alone without public redevelopment activity.

Sections 33031 and 33032 of the California Redevelopment Law provide a more detailed definition of blight. Physical conditions that cause blight include unsafe and unhealthy buildings, factors hindering the economic use of buildings or lots, nearby uses which are incompatible, and subdivided lots of irregular shape which have multiple ownership. Economic conditions causing blight include: depreciated or stagnant property values; areas with high vacancies, high turnover rates, or abandoned buildings; lack of necessary commercial facilities normally found in neighborhoods; residential overcrowding and excess of “adult-oriented businesses; and a high crime rate that threatens public safety.

According to a recent analysis, “Preliminary Report for the Eastside Project Area,” significant blighting conditions were identified on the Eastside of West Hollywood which were deemed to require redevelopment activity in order to ameliorate these conditions. A study conducted by RSG identified 1,893 instances of physical blighting conditions, which include dilapidation and deterioration of buildings, inadequately sized lots, lack of parking, incompatible land uses, and substandard design of buildings and lots. The most common conditions were deferred maintenance (34% of all parcels), security bars (48%) vegetation problems (21% of parcels), and lack of parking (16% of parcels).

The Eastside also suffers from the existence of excessive economic blighting conditions. For example, after the real estate crash in 1989, single family homes on the Eastside sell for only 60% of their peak post-crash price, while homes on the Westside sell for 90%. Moreover, the Eastside’s apartment turnover rate of less than 1% annually is characteristic of a marketplace where economic expectations exceed market realities. The Eastside also suffers from a 10% overcrowding rate -- twice the Citywide average. Lastly, Santa Monica Boulevard is characterized by a transient population, various adult-oriented entertainment uses, and a high crime rate for narcotics and prostitution. The City is now considering ways to improve its physical, economic, and social conditions.

**Other Conditions:** There are also other environmental conditions which affect the market for the maintenance, improvement, and development of housing in the City. The City’s

---

1988 General Plan identifies three major constraints to housing development-- noise levels due to traffic and land use patterns, an aging infrastructure requiring capital improvements, and a severe shortage of parks and recreation land.

*Noise:* The City has identified many residential areas located adjacent to heavily congested arterials which are exposed to unacceptable ambient noise. Specifically, areas most affected to unacceptable noise levels are along the following streets: Fountain, San Vincent, Fairfax, Crescent Heights, and Doheny. These areas are affected by high traffic volumes, noise from adjacent commercial land uses, short term construction projects, and other noise generating activities. However, the City has instituted various noise mitigation measures to maintain the quality of life in the affected residential areas.

*Infrastructure:* The City's General Plan identifies infrastructure issues affecting housing. Most importantly, these include an aging storm drain system in need of repair and an overloaded sewer system causing groundwater infiltration and backups. Furthermore, the City is currently at its contractual limit for connection to the Hyperion Sewage Treatment Plant. Lastly, the water system is also aging and in need of substantial rehabilitation over the next decade. The City's General Plan also provides for a set of policies and implementation programs to meet the demands caused by aging infrastructure.

*Parks and Recreation:* The City's General Plan also identifies a severe shortage of parks. Although this shortage does not directly impact housing development and maintenance, it should be considered if the City decides to pursue densification policies. Using National Recreation and Parks Association standards as a benchmark, there is a severe shortage of local parks and recreational facilities in West Hollywood. At the same time, there is also very little available land for new parks as well as adequate public recreational facilities. The City's General Plan identifies policies and programs to meet the current deficiency.

---

## **1.0 RENT STABILIZATION**

### **1.1 Introduction**

Rent Stabilization has been a key component of the City of West Hollywood's housing program since incorporation. The City has recognized the need to maintain population diversity, and to protect vulnerable sectors of the population (low/moderate income, elderly and disabled residents, in particular) from the uncertainties of wide fluctuations in rent levels. In this regard, maintaining a stock of affordable housing has been identified as an important strategy to maintain diversity. And rent control has been an important mechanism for maintaining housing affordability. This section of the Housing Study will review and analyze existing policies and programs, and determine the impact of rent stabilization on affordability. It will also examine the implications of the Cost-Hawkins legislation on rent affordability.

### **1.2 Rent Stabilization: Existing Policies and Programs**

The need for rent stabilization in the City of West Hollywood was a major reason behind the push to have the City incorporated in late 1984. There was widespread concern that because of the shortage of rental units in the City, rent levels were rising at an excessive rate. The shortage was, for the most part attributed to the low rate of construction of new units due to high interests rates, high land, and high construction costs prevailing at the time. Prior to incorporation, rents were regulated by the County of Los Angeles which was about to implement deregulation. It was felt that such measure would have led to excessive rent increases and the forced displacement of low and moderate income tenants. Moreover, the City had a substantial number of elderly residents who paid a large portion of their incomes on rent. In the face of excessive rent increases, displaced low and moderate income and elderly tenants would have experienced extreme difficulty finding affordable housing in the City. As a response to these concerns, the Rent Stabilization Ordinance was passed shortly after incorporation.

The Rent Stabilization Ordinance is essentially an instrument to moderate and monitor the rate of rent increases for rental housing in the City, to ensure that such housing is maintained at a reasonable standard, and to mediate differences between tenants and landlords, particularly those related to maintenance and services, rent increases/decreases, termination of tenancy, and evictions. In this regard, it should be noted that the Ordinance is not limited to addressing issues of rent control only. Rather it attempts to mediate a broad range of issues pertaining to landlord/tenant relationships in respect of rental housing.

In terms of the Ordinance, a Rent Stabilization Commission was established to implement the Ordinance, hear appeals, and report to the City Council. Rent control is generally applicable to rental housing constructed before July 1, 1979 (Ord. 6406(a)4). Because substantial rent increases were imposed during 1984 prior to incorporation and in anticipation of rent control measures, the Base Rent was rolled back, for most units, to the rent that was in effect in April 1984 (Ord. 6402(a)). After September 1985 annual general (across the board) rent increases were allowed without application to the City, and were limited to 75% of the increase in the CPI during the preceding twelve months (Ord. 6409). Under special circumstances both landlords and tenants are allowed to apply to the City Council for rent adjustments. Landlords may apply for adjustments based on Fair Net Operating Incomes as specified in the Ordinance and building improvement increases(Ord. 6411(c)1, 2). Tenants may apply

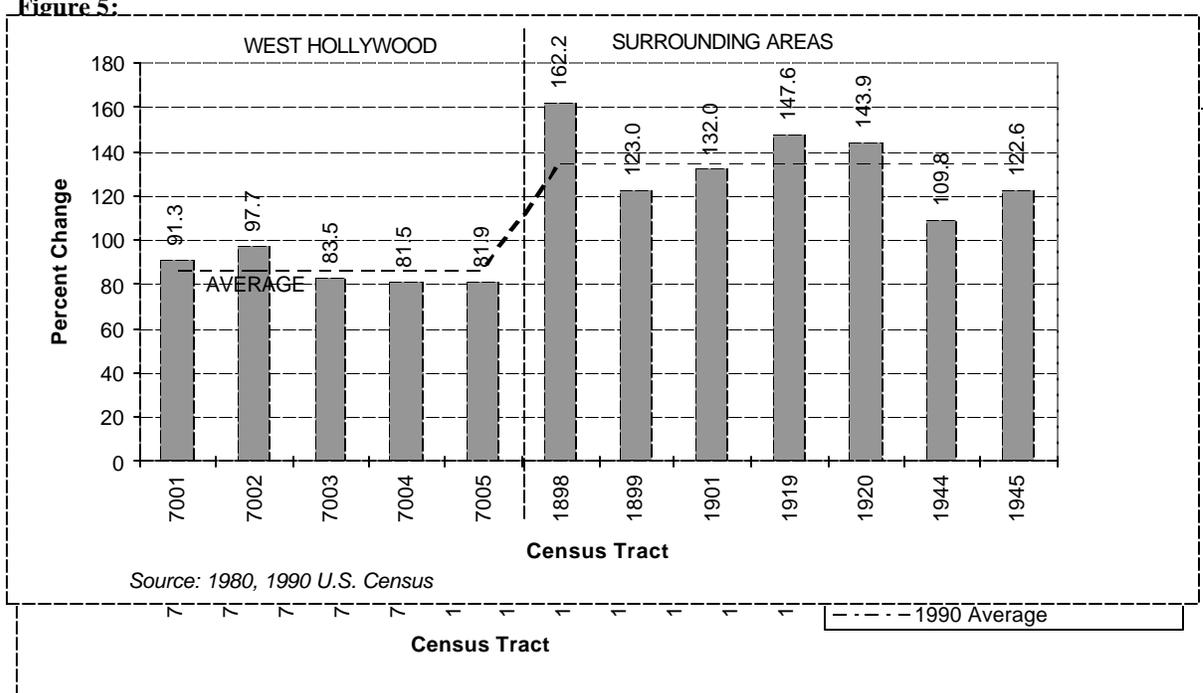
for rent adjustments if there has been a discontinuance or reduction of housing services without a reduction in rent, if stipulated maintenance has not been performed, or if the landlord has charged rent in excess of the maximum permitted (Ord 6411(d)). The Ordinance specifies minimum maintenance standards for rental all rental units (Ord. 6412), as well as permissible reasons for terminating or refusing to renew a tenancy (Ord. 6413). Under certain circumstances landlords are required to pay tenants a relocation fee for termination of tenancy ( Ord. 6413(b)).

### 1.3 The Effects of Rent Stabilization

Rent Stabilization has had the effect of moderating rent increases and maintaining rent levels in the City below those of surrounding areas. Figure 1 shows the median rent for 1980 and 1990 for the five census tracts of the City of West Hollywood (Tracts 7001, 7002, 7003, 7004, and 7005) and seven adjacent tracts to the north and east of the City (Tracts 1898, 1899, 1901, 1919, 1920, 1944, and 1945). The 1980 average for the five West Hollywood tracts is \$334, while that for the seven surrounding tracts is \$38 lower at \$296. However, the effects of rent stabilization become evident with the 1990 figures. The average rent for the five West Hollywood tracts is \$621, some \$70- dollars below the average rent for the seven surrounding tracts, which is \$691.

Figure 6:

Percent Change in Median Rent 1980 - 1990 for West Hollywood and Surrounding Areas



These differences are further illustrated by the change in rental between 1980 and 1990. Figure 2 shows the increase of 1990 rents over 1980 rents, expressed as a percent. All five census tracts of the City of West Hollywood display an increase of less than 98% over the ten

year period (the range being 81.9 - 97.7%). All seven surrounding tracts had an increase in excess of 109% for the same period (the range being 109.8 - 162.2%). The average increase for the five City tracts was 87.2%, compared to 134.5% for the seven surrounding tracts.

Maximum rent chargeable for non-exempt units in the City are limited by the Maximum Allowable Rent (MAR). The data described above give some indication of these rent levels in relation to surrounding areas. However comparisons within the city between the MAR of non-exempt units and actual rents received rents for exempt units would help establish the extent of differences (if any) between MAR levels and “market” rentals charged for non-exempt units (although factors such as building age and condition would still have to be factored in). Since such data is not readily available, a comparison of MAR levels and average or median rentals would give some indication of this relationship, provided three important limitations are borne in mind. First, it should be noted that the average MAR levels apply to non-exempt units only. Second, MAR is merely an upper limit that should not be exceeded and is not necessarily a reflection of actual rents charged. And third, the average or median rentals are based on rents for exempt as well as non-exempt units, and therefore do not reflect market rental because the averages are “suppressed” by the MAR levels applicable to non-exempt units.

The average MAR and the average rentals for 1985 and 1990 for the five census tracts of the City of West Hollywood are tabulated in Table 1. The differences between average rentals and MAR for these years are indicated in figure 3. In 1985 average rents for the five census tracts in the City were \$23 dollars above the MAR. In 1990 the median gross rents for the five census tracts in the City were \$59 below the MAR.

**Table 1:**

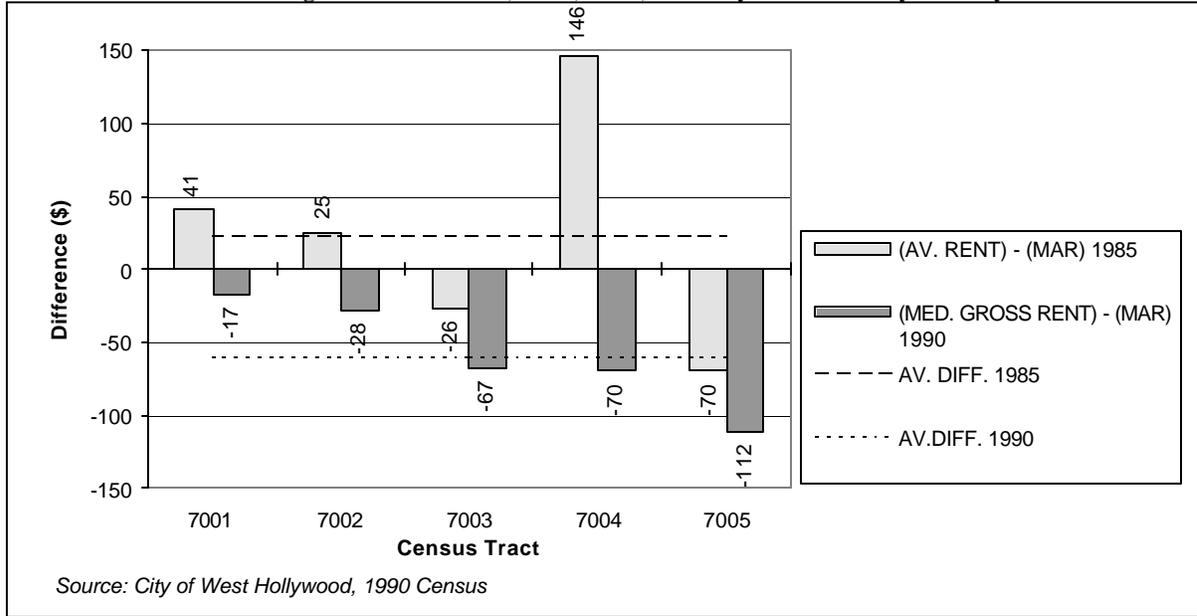
**MAR and Average Rents 1985, 1990 and 1996 for City of West Hollywood by Census Tract**

	CENSUS TRACT				
	7001	7002	7003	7004	7005
1985 AV. RENT	\$473	524	556	710	530
1985 MAR	\$432	499	582	564	600
(AV. RENT) - (MAR) 1985	\$41	25	-26	146	-70
1990 MED. GROSS RENT	\$528	601	666	646	673
1990 MAR	\$545	629	733	716	785
(MED. GROSS RENT) - (MAR) 1990	\$-17	-28	-67	-70	-112
1996 MAR	\$637	728	838	854	910

Source: City of West Hollywood, 1990 U.S. Census

Figure 7:

Difference Between Average Rent and MAR, 1985, 1990, For City of West Hollywood by Census Tract



---

Housing affordability in general has been discussed in the Community Needs Assessment section of this report. Figure 23 in that section shows the burden of rent for West Hollywood, the West Side, and the City of Los Angeles. In terms of Federal Government Standards, households that pay over 30% of their income for gross housing costs are considered to be overpaying. In this regard, according to the 1990 U.S Census, over 46% of renters in West Hollywood are overpaying, compared to 51% for the City of Los Angeles. At the other end of the spectrum, 28% of households in West Hollywood are paying less than 20% of their incomes for gross rent, compared to 24% for the City of Los Angeles. The effect of rent stabilization is more evident in the fact that between 1980 and 1990, the percent of households that were paying more than 30% of their incomes in rent dropped by 4%, from 50% in 1980 to 46% in 1990 (see also Chart 25).

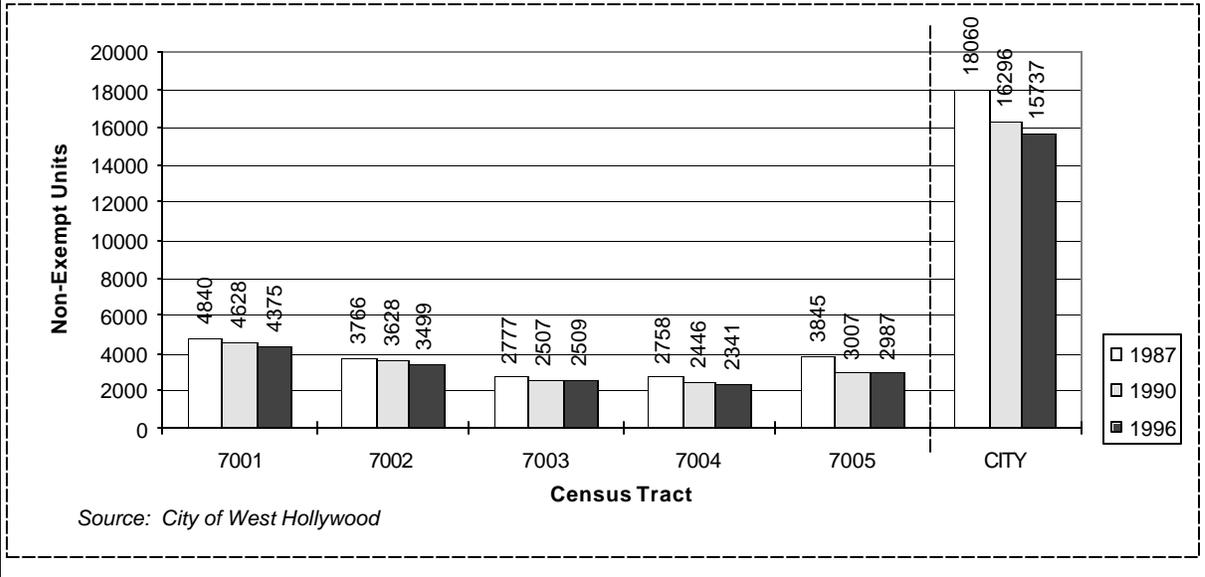
Although Rent Stabilization improved housing affordability in the City, the number of rental units, as well as the number of rent controlled (or non-exempt) units declined. During the 1980 - 1990 period there was a decrease in the number of renter occupied units. According to the U.S. Census, the number of units in the City of West Hollywood decreased by 9.9% from 19468 in 1980 to 17539 in 1990. By comparison, the four west side cities of Santa Monica, Culver City, West Hollywood and Beverly Hills as a group experienced a 5.6% decrease from 69,312 units in 1980 to 65,429 in 1990. In West Hollywood, a large portion of this decrease is attributable to an increase in conversions from rental units to condominiums in response to rent control. Thus, although rent stabilization largely achieved the objective of moderating rent increases, it may have also contributed to a decrease in the rental stock.

There has also been a decrease in the number of rent controlled (or non-exempt) units. These generally occur when units are demolished, converted to hotels or other commercial or non rental use, when rental units get occupied by owners or their relatives, or when rental units are converted to condominiums. Between 1987 and 1996, there was a 12.9% drop in the number of non-exempt units, from 18,060 to 15,737. Figure 4 shows the distribution of non-exempt units among the five census tracts of the City and the change in number of units from 1987, to 1990 to 1996.

The decrease in the number of non-exempt units is also illustrated in figure 5. The greatest decrease occurred during the period 1987 to 1990, that is shortly after the Rent Stabilization Ordinance took effect. During this period the City of West Hollywood experienced a decrease of 1,764 units, a 9.8% drop over a three year period. The rate of decrease has, however, dropped substantially during the 1987 to 1996 period, to 559 units, a 3.4% drop over a six year period. Most of the decrease in non-exempt units occurred in the west side of the City. The two west side census tracts, 7004 and 7005 accounted for 55 % of the decrease (1275 units) over the 1987-1996 period. Also, most of the decrease took place during the 1987-1990 period - a decrease of 1020 units representing 90% of the units lost during the 1987-1996 period. The east side tract (7001) accounted for the second largest share of reduction in non-exempt units. During the six year period it experienced a loss of some 465 non-exempt units. This represented 20% of all units lost during this period.

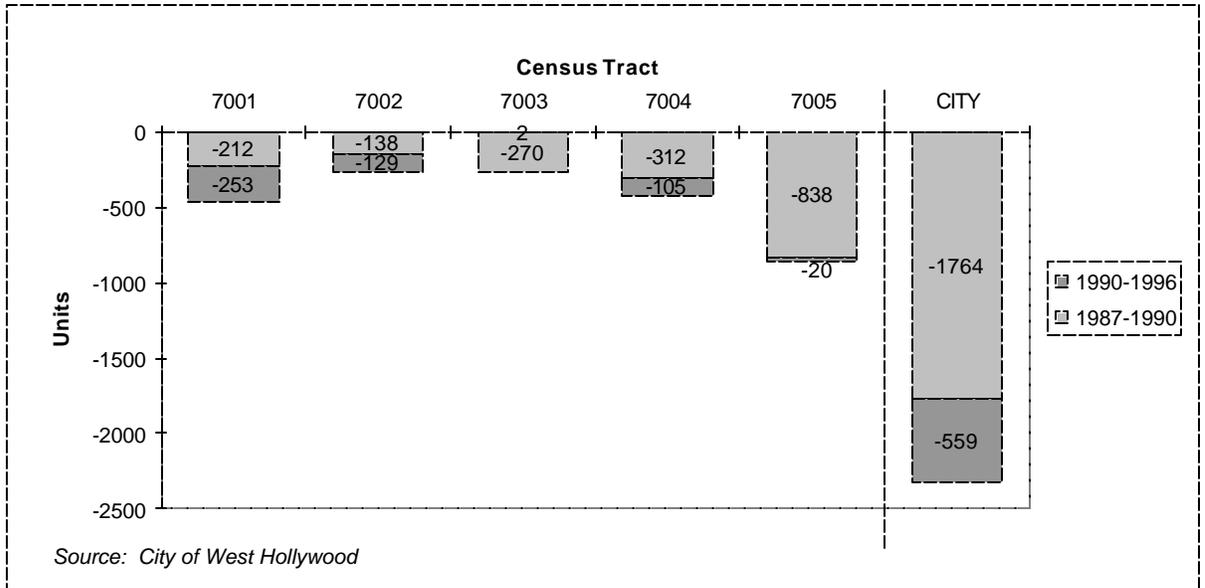
**Figure 8:**

**No. of Non-Exempt Units by Census Tract for the City of West Hollywood, 1987, 1990, 1996**



**Figure 9:**

**Change in Number of Non-Exempt Units in The City of West Hollywood, 1987-1990, 1990-1996**

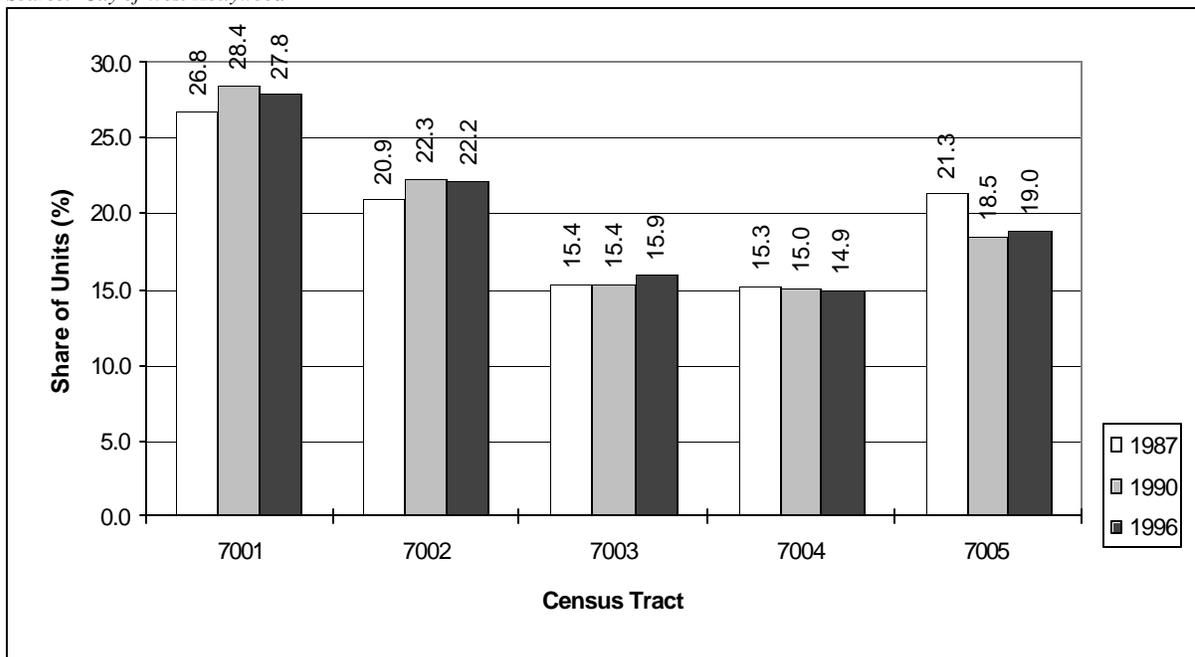


The share of non-exempt units by census tract for the City of West Hollywood for the years 1987, 1990 and 1996 is illustrated in Figure 6. The two east side tracts, 7001 and 7002 have the greatest share of non-exempt units and have maintained this position throughout the period. In 1996 these tracts contained 50% of all non-exempt units in the City, a slight (2%) increase over their 1987 share of 48%. The west side tract, 7005, on the other experienced a 2% drop in its share from 20.3% in 1987 to 19% in 1996. The two central tracts remained more or less steady at around 15% each. This indicates a slight shift in the concentration of non-exempt units towards the east side of the City, but is, at best a negligible trend.

**Figure 10:**

**Share of Non-Exempt Units by Census Tract for City of West Hollywood**

Source: City of West Hollywood



Many community leaders interviewed indicated that a key objective of the rent stabilization programs was to ensure a more settled population. The effects of the programs on length of stay are illustrated in Table 2 below. In West Hollywood, the share of renters who remained in place for less than a year decreased from 34% in 1980 to 25% in 1990. By comparison, this figure remained constant at 36% in The City of Los Angeles during the same period. At the other end of the spectrum, there was also a positive trend towards a more stabilized population in West Hollywood. Between 1980 and 1990 the share of renters who had remained in place for more than 10 years increased from 13% to 24%. Los Angeles experienced a more modest increase from 11% in 1980 to 16% in 1990.. This confirms that in 1980 and 1990 the renter population in West Hollywood enjoyed longer tenures than the population of Los Angeles. More importantly, the figures confirm that the share of short term tenants in West Hollywood decreased, while the share of long term tenants increased. This indicates trend towards lower mobility in West Hollywood.

**Table 2:**

**Length of Stay of Renters in West Hollywood and Los Angeles City, 1980, 1990**

LENGTH OF STAY (YRS)	WH 1980		LA CITY 1980		WH 1990		LA CITY 1990	
	UNITS	%	UNITS	%	UNITS	%	UNITS	%
<=1YR	6653	34	243120	36	4424	25	262171	36
>1YR, <=5YRS	7204	37	260664	38	5736	33	253663	34
>5YRS, <=10YRS	3120	16	97645	14	3211	18	105460	14
>10YRS	2491	13	76416	11	4168	24	116367	16
TOTAL RENTER OCCUP. UNITS	19468	100	677845	100	17539	100	737661	100

*Source: 1980, 1990 U.S. Census.*

Rent Stabilization also had the effect of reducing the vacancy rates of rental units in West Hollywood during the 1980-1990 period. Table 3 compares the vacancy rates for this period for West Hollywood and the City of Los Angeles. The vacancy rate was calculated by expressing the number of vacant units for rent as a percent of the number of vacant units for rent plus the number of occupied rental units. The vacancy rate of rental units in West Hollywood dropped from 4.9% in 1980 to 3.9% in 1990. In terms of actual numbers this represented a decrease from 995 to 708. For the same period, Los Angeles experienced an increase in the vacancy rate from 3.9% in 1980 to 6.6% in 1990.

**Table 3:**

**Vacancy Rates of Rental Units in West Hollywood and City of Los Angeles, 1980, 1990**

	1980		1990	
	WH	LA CITY	WH	LA CITY
VACANCY RATES	4.9%	3.9%	3.9%	6.6%

*Source: 1980, 1990 U.S. Census*

## **1.4 The Costa-Hawkins Rental Housing Act: The Effects of Vacancy De-Control**

In 1995 the California State Legislature passed, and Governor Pete Wilson duly signed, the Costa-Hawkins Rental Housing Act. The Act enforces gradual state-wide de-control of rent controlled housing as vacancy occurs. Thus, limits on rent increases, such as those formerly contained in the West Hollywood Rent Stabilization Ordinance, will be gradually eliminated. Upon voluntary vacation of a unit by the tenant, or upon eviction for non-payment of rent, landlords will be permitted to phase in rent increase. The phased format requires that the number of rent increases between 1996 and 1999 be restricted to no more than two, and that each increase not be allowed to exceed the greater of 15% of the prevailing MAR at the time, or 70% of the Fair Market Rent in Los Angeles County. The Fair Market Rent is established

---

by the Federal Government. After the beginning of January 1999, there will be no limits on the amount of rent increases for those units vacated voluntarily by the tenant and those that become vacant through eviction for non payment of rent. Following the establishment of a rent rate upon such vacancy, limits on rent increases during the tenancy are permitted, and in the case of West Hollywood generally follow the old “annual general” (or across the board) increase provisions. Thus, the Costa-Hawkins Act affects vacancy de-control only, and other provisions of the Rent Stabilization Ordinance remain largely intact. The City of West Hollywood has already incorporated the requirements of the Costa-Hawkins Act through Ordinance 6410.

Although it is generally accepted that the Costa-Hawkins Act will result in higher rates of rent increases, the extent and the rate of such increases is difficult to predict. Since increases (except across the board increases) will only be permitted upon vacancy, tenant turnover rates will determine the number of units that will be subject to de-control over time. Past turnover rates cannot be used to determine future trends because of the changing dynamic introduced by, among other things, the de-control act itself. As Table 3 illustrates, the City of West Hollywood presently enjoys a lower turnover rate than Los Angeles. For example, in 1990 only 25% of renters had been living in a unit for less than a year, compared to 36% for Los Angeles, and 24% had been living in a unit for more than 10 years compared to 16% for Los Angeles. The table also reflects the trend that the share of short term tenants (those in the same unit for less than a year) is decreasing while the number of long term tenants (those remaining in the same unit for over 10 years) is increasing. It is likely that turnover rates will increase as landlords push to have tenants vacate units in order to implement rent increases. As rent de-control takes effect, it is also likely that turnover rates will more closely resemble those of Los Angeles which has already implemented de-control. But these trends will, to some extent at least, be counteracted by the will of tenants to remain in place for longer periods in order to take advantage of rent control.

The extent of rent increases will also be affected by a complex range of factors. Increases permitted until December 1998 depend on the number of units that become vacant during this period and will be limited to the two increases, each being the greater of 15% of the prevailing MAR or 70% of the Fair Market Rate. The increases applied to these units as well as those that become vacant after 1999 will depend on the difference between present rent levels and the projected market rent levels. Although average rentals in the City are below those of the surrounding areas (see figure 1), the actual difference between City rentals and market rentals is not clear. The fact that in 1990 MAR levels were some \$59 below the median gross rents may indicate that in some cases at least, the MAR are higher than actual rents. (Many community leaders and stakeholders interviewed also subscribe to this view). This indicates that in these kinds of cases, vacancy de-control will result in minimal or no rent increases. This will, of course, depend on the number of non-exempt units which are presently renting below Mar and at or close to market rents.

The Costa-Hawkins Act will probably have a negative effect tenant/land lord relations. Community leaders and stakeholders interviewed have already reported cases of harassment and intimidation by both groups. Many landlords, motivated by the desire to implement rent increases upon vacancy are likely to increase pressure on tenants to vacate. For instance, since non payment of rents is grounds for eviction, they are likely to become less flexible in accommodating minor payment defaults. Other forms of harassment - such as over-zealous

---

observance of nuisance regulations, submission of illegal or unjustified notices to tenants to vacate, and so forth are also likely to increase. On the other hand, at least one community leader has expressed concerns over retaliatory tenant intimidation of landlords.

Lastly, the Costa-Hawkins Act is likely to have an effect on the quality of rental housing, maintenance and service levels. Although the Rent Stabilization Ordinance contains provisions to enforce maintenance and repairs to maintain a reasonable standard of rental housing, and although these provisions may have had a positive effect overall, there have been cases of “renegade” landlords who have deferred maintenance. This has also been confirmed through interviews with community leaders and stakeholders. In many cases rent control has often been cited as the reason for deferred maintenance. It can be expected, therefore, that vacancy de-control will have a positive effect on maintenance of quality accommodation. Since the provisions of the Rent Stabilization Ordinance regarding maintenance requirements remain intact, these could still be used to enforce standards.

---

## Table of Contents

I.	Introduction.....	2
II.	Overview of the Nonprofit Housing Sector.....	3
III.	Nonprofit Performance Indicators.....	7
IV.	City of West Hollywood.....	7
4.1	Housing Goals and Objectives.....	7
4.2	Community Profile.....	8
V.	West Hollywood Community Housing Corporation Characteristics.....	10
5.1	History.....	10
5.2	Regional Housing Needs.....	10
5.3	Performance Indicators.....	11
5.4	Description of WHCHC Projects.....	14
5.5	Affordable Housing Type, Waitlist, and Duration of Wait.....	19
5.6	Property Management.....	21
5.7	Enhanced Management Program.....	22
5.8	Management Practices.....	23
5.9	Costs and Funding Framework.....	24
VI.	Affordable Housing Constraints and Opportunities.....	38
6.1	Affordable Housing Trust Fund.....	38
6.2	New Construction versus Substantial Rehabilitation.....	39
6.3	Federal Programs.....	40
6.4	State Programs.....	42
6.5	County Programs.....	43
6.6	Local Programs.....	43
6.7	Alternative Affordable Housing Finance Programs.....	44
VIII.	Conclusion.....	45
Appendix:		
A.	Coyle, Timothy L. and Richard B. Nelson. January, 1995. <i>Loan &amp; Grant Programs</i> , Department of Housing & Community Development, Division of Community Affairs, Sacramento.	
B.	_____. November, 1997. <i>Funding Events Calendar</i> , Department of Housing & Community Development, Division of Community Affairs, Sacramento.	
C.	Fong, Matt, State Treasurer: Board, Authorities and Commissions. <i>California Tax Credit Allocation Committee (TCAC), A Description of TCAC Programs</i> .	

---

## 1.0 Affordable Housing Production & Preservation: West Hollywood Community Housing Corporation

### I. Introduction

In January 1997, the Community Development & Design Forum, School of Urban Planning & Development at the University of Southern California (USC) was hired by the Community Development Department, City of West Hollywood (City) to conduct a housing study to prepare options for the City Council to consider for its direction in the future. A key element of this study was to examine affordable housing production and preservation within which the “policies, practices and accomplishments of the West Hollywood Community Housing Corporation (WHCHC)” would be studied. The following report addresses issues relating to institutional performance of the nonprofit sector and more specifically the West Hollywood Community Housing Corporation.

This report is organized into five parts:

- **Overview of the Nonprofit Housing Sector:** This section provides a summary overview of the nonprofit housing sector. It briefly reviews the characteristics of recent affordable housing production and identifies the key elements of federal and other sources of support for the nonprofit sector since the 1980s.
- **Nonprofit Performance Indicators:** This section summarizes the major indicators of housing program performance. These indicators include social targetin g, long term affordability, housing quality, and housing management.
- **City of West Hollywood:** This section outlines the Housing Goals and Objectives of the City of West Hollywood, and as they relate to the production of affordable housing. In addition, the section provides a summary of the community profile, including household characteristics, housing characteristics, and housing need.
- **West Hollywood Community Housing Characteristics:** A detailed profile of the WHCHC is sketched in this section that includes: brief historical background of the nonprofit; regional housing needs and WHCHC’s contribution; performance indicators; description of the WHCHC projects; affordable housing type, waitlist, and duration of wait; property management indicators and enhanced management program; management practices; and sources and uses of funds. A comparative analysis has been conducted for the category ‘sources and uses of funds’; WHCHC projects have been compared with a select group of nonprofit's studied by HUD (HUD-Group).
- **Constraints and Opportunities:** While details of constraints to housing have been discussed in Section III, *Potential Constraints to Housing Investment*, this section discusses the issues surrounding the Affordable Housing Trust Fund, and the debate regarding New Construction versus Substantial Rehabilitation. In addition, opportunities and resources (including alternative financing mechanisms) available at the federal, state, county, and local level are detailed in this section.
- **Conclusion:** The last section of this report raises questions regarding the future options for the nonprofit sector, in general. It summarizes issues that need attention by the affordable housing developers in the changing institutional environment.

---

## II. Overview of the nonprofit housing sector

The non-profit housing delivery system is a complex system consisting of producers, funders, and technical assistance providers in the public, private non-profit, and private for-profit sectors, at the national, state, and local levels. Non-profit developers like WHCHC take on direct production tasks such as, site selection, acquisition, and rehabilitation or new construction. Production may range from a few units produced by a neighborhood development organization each year to organizations at national scale that sponsor thousands of units annually. Funding for the non-profit sector comes from a myriad of sources that may include the federal, state and local governments, private sector financial institutions and intermediaries, and special purpose non-profit community development banks. Technical assistance providers include national organizations that provide fee for service to local government bodies that assist the non-profits throughout the development process. The non-profit sector encompasses a wide variety of organizational forms, development environments, resource availability and technical sophistication. As a result, comparisons across the sector are difficult.

With the passage of the National Affordable Housing Act (NAHA) in 1990, the U.S. Congress has formalized the role of the non-profit sector in the delivery of federal housing programs. A measure to further increase non-profits' involvement is preferential access to a number of programs that subsidize housing development or dispose of publicly owned and assisted housing. As mentioned above, non-profit housing producers are organizationally, functionally, and geographically diverse. They can be classified into four types according to their form of governance:

- Neighborhood/community-based non-profits – organizations that serve single neighborhoods or groups of neighborhoods, with local residents holding strong positions on their governing boards;
- Church-affiliated organizations – organizations that are tied through their governing boards or target populations to certain congregations or groups of congregations;
- Regional corporations – organizations with boards tied to private corporations and financial institutions that normally service metropolitan areas or cities;
- Government-affiliated organizations – organizations that are created by local governments, redevelopment or housing authorities.

A recent survey conducted by the National Congress for Community Economic Development (NCCED) in 1991 of the Community Development Corporations (CDCs) which includes both the first and second category listed above estimates that there are 2,000 CDCs nationwide, 91% of which were housing producers. Experts suggest that the number of regional corporations and government affiliated organizations is small; they account for 15-25 % of the total CDCs. The NCCED survey found that the non-profit housing developers produce an impressive number of units annually – total housing production (new construction and rehabilitation) averaged 30,000 units per year during 1989-91. This accounts for about 17 percent of total federally assisted production, slightly higher than the comparable averages for the 1960-90 period. Like all federally assisted production, non-profit production peaked in the 1970s with high funding levels and declined when funding levels dropped in the 1980s.

---

Following is a brief review of characteristics of recent production, according to NCCED data (Urban Institute 1995, 1-32):

- A majority of the CDC production is sponsored by relatively few organizations and displays an uneven production level. A hundred or more units were produced per year by 4.4% of all CDCs that accounted for almost 40 percent of all production between 1988 and 1990. Ten units or fewer were produced by nearly 50 percent of the CDCs that accounted for only 7.9 percent of the sector output.
- For-profit builders comparable to non-profit builders exhibit a similar uneven level of production, although not as marked. Sixteen percent (16%) of for-profit 'land developers' (own and build housing for sale) produce more than 100 units per year as compared to 4.4% for non-profit developers.
- Larger organizations tend to be high volume producers. Thirty nine (39%) percent of the CDCs with more than 10 full-time personnel produced 53% of CDC sponsored units, while 44 % of CDCs with 5 or fewer staff produced 24% of the units.
- An indicator of high production capacity appears to be the diversification of funding sources. Large producers tend to tap into more sources than smaller producers.
- Non-profit housing production is concentrated in large cities. Cities with a population exceeding 900,000 account for 23% of U.S. population but 39% of the CDC production; while cities with population less than or equal to 200,000 account for 55% of the population, yet only 22% of the units.
- Geographically, CDC housing production is concentrated in the East and the Far West. The Middle Atlantic and Pacific Census regions contribute 50% of the estimated production while East North Central, South Atlantic and New England contribute another 33%.
- Since the last decade there has been an emergence of numerous new sources of financing for affordable housing production, with clear preferences mandating non-profit housing development. One of the most important source of financial support is the Federal government, although most federal funds are passed through the state and local governments that select projects for funding.

Following are the key elements of federal support for the non-profit sector since the 1980s:

- ***The Low Income Housing Tax Credit (LIHTC)***  
LIHTC was enacted in 1986, and has become the largest source of federal support for low income housing production from 1987 to 1991. It provided between one and three billion dollars per year in tax subsidies, and financed the production of 100,000 units annually. A minimum 10 percent set-aside for non-profits was required by the law. Evidence suggests that non-profits received less than their share in the late 1980s, however, now they may be moving above that level.

- **THE SECTION 202 PROGRAM**

The program produced non-profit housing for the elderly, and continued throughout the 1980s. It provided \$462 million in support for non-profits in 1990, and helped complete 7,300 units.

---

- ***Community Development Block Grant Entitlement Program (CDBG)***

CDBG's support for non-profits, particularly for rehabilitation increased over the 1980s. CDBG funds provided \$101 million for the urban portion in 1990 accounting for 24,200 units, about 50% more than the 1974-90, 15,800 unit annual average.

- **THE HOME PROGRAM**

The HOME Program was enacted in 1990, and has tremendously increased federal support for non-profit developers. State and local participating jurisdictions have committed \$419 million or 27.7 percent of all HOME funds to non-profits.

- **SMALLER FEDERAL PROGRAMS**

Section 221(d)(3), Nehemiah, Farmers Home Administration (FmHA) programs and Rental Rehab provided \$97 million and accounted for approximately 4,600 non-profit units in 1990. However, this represented a drop from their 1960-90 annual average of over 11,000 units.

- ***Federal Home Loan Bank Board (FHLBB)***

FHLBB requires since 1989 that the Board provide 5 percent of its annual income, or at least \$50 million, to its member institutions in below-market, long term loans for affordable housing.

- ***Resolution Trust Corporation (RTC)***

RTC's requirements state that non-profits and public agencies should be given preferential access to the properties that RTC markets. Due to RTC's preference for bulk sales and since most of its properties are located in the suburbs and the Southwest, actual non-profit access has been limited. However, the non-profits presence seems to be growing where the RTC's are strong, such as New England.

- **FANNIE MAE AND FREDDIE MAC**

Requirements mandated in 1992 expanded purchases of low, moderate income and central city residential mortgages. Recent program links to Local Initiative Support Corporation (LISC) equity syndication and the Enterprise Foundation promise to increase funding for non-profit housing developers.

---

- **MCKINNEY ACT PROGRAMS**

This program was enacted in 1987 and subsequently expanded, supports local efforts to provide shelter and allied services to homeless persons. The program relies heavily on non-profit providers of emergency and transitional housing.

State and local governments have provided support to affordable housing over the past decade through direct outlays for housing subsidies, state tax credits that piggy back on Federal LIHTC, and bond-financed mortgage lending programs. However, the prospects are troubling since the robust fiscal environment of the 1980s has given way to budget cuts and a period of austerity. California and Massachusetts have restricted or eliminated support for many of the programs they had recently developed. Other sources that support affordable housing development include:

- **HOUSING TRUST FUNDS**

Housing trust funds had been established in 25 states and 29 localities (cities and counties) by mid-1992 that dedicated specific revenue sources to capitalize affordable housing construction and rehabilitation. Explicit preferences for these monies have been given to non-profit housing developers.

- **FOUNDATIONS**

There is increasing support for community development including affordable housing through foundations. Contributions amounted to \$65 million in 1989, and have been increasing since then.

- **HOUSING PARTNERSHIPS**

These are governed by corporate, public, and non-profit appointed boards. Since the early 1980s, 37 have emerged with approximately one-third offering core operating support and over one-half offering pre-development and project financing.

- ***Community development loan funds (CDLFs)***

Most of the housing related loans to non-profits are made by CDLFs capitalized from public monies and private contributions. Between 1986 and 1990, \$39.2 million that accounted for 69 percent of housing lending went to the non-profits.

- **PRIVATE LENDING INSTITUTIONS AND PRIVATE CORPORATIONS**

These institutions have recently become more active as both lenders and equity investors in the development of affordable housing.

---

- ***Intermediaries***

One of the most significant development of the 1980s was the establishment and maturation of a national intermediaries support network for non-profits that helps overcome barriers to affordable housing. These intermediaries link providers of subsidy to non-profit project sponsors. The expansion of intermediary activities was supported by a change in the foundations' policies; increases in foundation support for housing and community development and redirection of investments through intermediaries. Intermediaries such as Local Initiatives Support Corporation (LISC), the Enterprise Foundation, the Neighborhood Reinvestment Corporation (NRC), and the Housing Assistance Council (HAC) have assisted nonprofits in following ways:

1. Mobilized capital, including project, operating support and pre-development finance, and assisted in financial packaging. These organizations have extended considerable financial support to non-profits; loan and grant total amounted to \$38.6 million compared with \$114 million in CDBG assistance in 1991, plus additional LIHTC equity investments of \$215 million. These organizations have provided vital financial packaging services in channeling loan, grants and LIHTC support to non-profits' development activities.
2. Provided technical assistance in both project development and local-institution building. This has included assistance with human resource problems like staff training, recruitment, retention and professional development.
3. Enhanced technical competence by reducing risk to both public and private funders

### **III. Non-Profit Performance Indicators**

Support of preferential access to a number of programs for the non-profits, as a part of the nation's housing delivery system is based on the claims of non-profits' superior performance in achieving several aspects of housing and non-housing national objectives. These are legitimate and necessary preferences because national housing policies should support other social, community development, and non-housing objectives. The superior non-profit performance is claimed along three dimensions of housing program performance namely social targeting, long term affordability, housing quality and property management.

- ***Social targeting***

Non-profits produce units more likely to be affordable to low and very-low income households than those sponsored by for-profit organizations, because nonprofits respond to a set of moral incentives to serve the poor. Overall community development has gained increasing acceptance among policy analysts and local housing and community development planners (Urban Institute 1995, 1-32). In the same vein, subsidized housing is expected to promote other non-housing goals such as improved human services delivery, low-income economic self sufficiency, and neighborhood renewal.

- ***Long term affordability***

The ownership of housing by the non-profits ensures its long term retention in the affordable housing stock. Due to an indifference in the market rates of return, portions of this housing stock will remain sheltered from future housing preservation crises that may result from owner opt-outs.

---

- ***Property Management and Housing Quality***

Management by the non-profits' ensure high quality maintenance of affordable housing units because of the commitment to meet community goals. It also ensures long term ownership of the affordable housing product. To achieve these goals, non-profits are more willing than for-profit organizations to absorb the costs of blending multiple sources of finance.

Before we describe the City's non-profit housing development corporation, the West Hollywood Community Housing Corporation (WHCHC), it is important to understand the City's housing goals and objectives, the context in which this non-profit operates, its service area, and the community profile of the City.

#### **IV CITY OF WEST HOLLYWOOD**

### **4.1 HOUSING GOALS AND OBJECTIVES**

The City's General Plan (1988) establishes six basic housing goals that serve as a guide to the housing policies and implementation strategies. The intent of these goals is to promote the production and maintenance of housing in order to satisfy housing needs of City's residents and to maintain high quality residential neighborhoods. The six housing goals are listed below:

- i. Encourage the provision of adequate housing in the City with a special emphasis on maintaining residential neighborhood stability and supply a housing mix for all residents with due consideration for individuals and households with special needs.
- ii. Promote equal opportunity for all residents to reside in housing of their choice.
- iii. Provide the opportunity for affordable housing units to be available throughout the City.
- iv. Encourage housing design standards that will optimize accessibility to units by the handicapped and the elderly.
- v. Maintain and enhance the quality of residential neighborhoods.
- vi. Ensure that housing availability is addressed regionally.

To meet these goals, and to provide for the adequacy and availability of housing for its residents, the City has initiated six housing programs: (i) rent stabilization ordinance, (ii) condominium conversion ordinance, (iii) housing rehabilitation program, (iv) inclusionary zoning ordinance, (v) housing development corporation, and (vi) a program for the homeless. The housing development corporation, i.e. the West Hollywood Community Housing Corporation was a direct response to meet the City's goal of affordable housing and to facilitate the development of housing for low and moderate income households, and senior citizens which is compatible with and complements adjacent uses located in close proximity to public and commercial services.

The next section sketches a community profile of the City in which the WHCHC operates. For a detailed discussion on the community needs, refer to Section I (Community Needs Assessment) of this report.

---

## 4.2 THE COMMUNITY PROFILE

- The City of West Hollywood with an area of 1.9 square miles has a population of 36,118 residents according to the 1990 Census. It is expected to grow to 37,425 by the Year 2000 according to the estimate of Southern California Association of Governments (SCAG). The City has a less diverse population with respect to race and ethnicity as compared to surrounding areas. Non-Hispanic Whites comprise the majority of the population with 85%, followed by Hispanics with 9%, and Blacks and Asians with 3% each. While the City is homogenous with respect to race and ethnicity, a significant share (34%) of the population is foreign born. Russians comprise one-third of the City's immigrant population, and an estimated one-seventh of the City's total population followed by Western Europeans (25% of foreign born) who originated from Hungary, Poland and other Eastern-Bloc countries. The two widely used languages are Russian and Spanish, and the large share of foreign born population makes linguistic ability/isolation an important issue.
- The City has a very high share of seniors (18%), and a very low share of children (7%), as compared to the entire region. Approximately half of the population is grouped between the ages 25 to 44. It is expected that the City will continue to have a significantly older population than the surrounding region in the Year 2000, but a shade younger as compared to 1990. The pattern suggests i) a continued demand for smaller affordable rental housing units suited to single and younger households between ages 20 to 34; ii) a strong demand for affordable owned housing for long term residents, ages 30 to 50; and, iii) a general decline in housing demand for seniors above the age of 65. Of the total households in the City, a majority of them are single (59%), followed by families (26%), and other non-families (15%).
- The City's median household income is \$29,314, 85% of the Los Angeles County median household income. The City consists primarily of 75% non-family households with the remaining 25% family households. Surprisingly, the City's non-family household income is 108% of the County median, while the family median income is 85% of the County's median family income. This implies that the non-family households earn less absolute income than family households but are still relatively better than their counterparts in the LA County region.
- The income distribution for families and non-families is divided into four categories by the State Department of Housing and Community Development: very low (below 50% of the County median), low (51% to 80%), moderate (81% to 120%), upper (121% to 200%), and high (200%+). Family households in the City are poorer than the surrounding region; 46% are lower income families composed of 18% low and 28% very low-income families in the City as compared to the County where 40% are lower income families composed of 17% low and 23% very-low income families. Non-family households do much better in comparison with similarly situated households in the region; 36% are lower income non-families composed of 14% low and 22% very low-income non-families in the City as compared to the County where 41% of the non-families are lower income comprising of 14% low and 27% very low-income non-families. This observation is of significance since three-quarters of the households in the City are non-family.

- 
- The majority of the City's housing stock (66%) consists of large multi-family units (10+ units) followed by (24%) smaller multi-family units (<10 units), and 10% single family units. Seventy-eight (78%) percent of the City's units are renter-occupied, while the remaining 22% are owner occupied. This is in sharp contrast to the County where there are 60% renters and 40% owners. The overall homeownership rate in the City has nearly doubled during the 1980s with an increase in ownership of both homes and condominiums.
  - Households paying over 30% of their income for gross housing costs (mortgage or rental payments, property insurance, taxes, and utilities) are considered to be overpaying for housing. In the City of West Hollywood, 46% of the renter households overpay for housing while 41% of the owners over pay for housing. In comparison, 51% of the renter households and 31% of the owners over pay for housing in the Los Angeles County.
  - Housing affordability has improved considerably since 1980 due to the following trends. First, rent control has held rents below the regional median. Second, household income has risen faster than the regional median. While median household income increased from 78% to 84% share of the County median, since 1980; median gross rents rose slowly as compared to the region and thus fell from 118% to 97% of the County median. A consequence of this is the decline in housing overpayment from 50% to 46% over the past decade.
  - The City's special needs population are particularly vulnerable and include the elderly, disabled persons, persons on public assistance, homeless persons, female headed families with children, large households, and persons living with HIV/AIDS. Approximately one-fifth of the City's households are comprised of senior citizens, 50% of whom have very low income, 56% overpay for housing and 25% suffer from physical limitations. Seven percent (7%) of the population has a physical disability, while 9% has a mobility self-care limitation. Thirteen percent (13%) of the households are on the public welfare system with 2.3% receiving general relief, 7.8% Medi-Cal, less than 1% receive Food Stamps, and 2.1% receive AFDC assistance. According to the 1990 Census, there were 156 homeless persons in the City. Two percent (2%) of all the households are female headed families with children whose poverty rate is three times the City average. The City is also home to 312 large households (those with over 5 members). Sixty percent (60%) of these are lower income households, around 40% overpay for housing and more than 90% live in overcrowded conditions. It is estimated that there are 5,000 to 7,000 people sero-positive for the HIV virus with 550 individuals living with AIDS.

## V. WEST HOLLYWOOD COMMUNITY HOUSING CORPORATION CHARACTERISTICS

### 5.1 HISTORY

The West Hollywood Community Housing Corporation is an incorporated Section 501(c)3 housing development organization. The primary purpose of this non-profit is to buy, build, rehabilitate, manage and advocate for lower-income people in the City of West Hollywood (WHCHC Quarterly Report 1996, 1). The City of West Hollywood was incorporated on November 29, 1984. During its first few months of incorporation, the City Council focused on

rent control, the gay agenda, and social service provision for senior citizens in areas such as public transportation discounts, affordable housing programs, nutritious meals, and legal services (Moos 1989, 362-63). Following this initial stage, a housing task force was created that recommended the creation of a non-profit development organization. In 1986, the West Hollywood Community Housing Corporation was formed with a board composed of local residents and community leaders with a history of involvement in local housing issues, and professionals with experience in the affordable housing sector (WHCHC Quarterly Report 1996, 1). Since then, the WHCHC has developed and manages five projects in the City (116 units) with two projects (42 units) in pre-development and 40 units under construction.

## 5.2 REGIONAL HOUSING NEEDS

The City of West Hollywood has made considerable progress towards meeting its housing need allocations through the efforts of the West Hollywood Community Housing Corporation and the Inclusionary Housing Ordinance. The Southern California Association of Governments prepared a Regional Housing Needs Assessment (RHNA) in 1988 to assist communities in meeting their “fair share” housing need. This “fair share” concept, within the State Housing Element law requires each city to accept responsibility for meeting the existing housing needs of its residents and projected needs from future population growth for all income groups within the community. Table 1 summarizes the RHNA allocation and the progress made by the City during the period 1988-97.

**Table 1**  
**Regional Housing Needs Allocation**

Income Group	Percentage of County Household Median Income	Future Need <sup>1</sup>	New Units <sup>2</sup> (1988-97)	WHCHC <sup>3</sup> (1988-97)	Inclusionary Housing <sup>4</sup> (1988-97)	Deficit
Very Low	00%-50%	102	0	116	0	0
Low Income	51%-80%	140	0	82 <sup>5</sup>	30	0
Lower Income	00%-80%	242	0	198	30	-14
Moderate Income	81%-120%	120	62	0	23	-35
Upper Income	121% +	307	127	0	0	-180
<b>Total</b>		<b>669</b>	<b>189</b>	<b>198</b>	<b>53</b>	<b>-229</b>

- Source: 1. Regional Housing Needs Assessment (1988)  
 2. New Construction during the Planning Period  
 3. WHCHC - Production  
 4. Inclusionary Housing Ordinance – Production  
 5. 40 units under construction and 42 units are under predevelopment

According to SCAG’s housing allocations, the City is required to produce 242 housing units for lower income households during the planning period, 1988-97. The WHCHC has built 116 units for eligible lower income households, with plans for another 82 units over the next five years. In

addition, the Inclusionary Zoning Ordinance has also resulted in the construction of 53 affordable units for lower and moderate income households. This comes very close in accomplishing the City’s goals and objectives of providing affordable housing to the lower income households.

To say that the City has made considerable progress is fair, however, to say that the demands for affordable housing have been met could be misleading since SCAG’s RHNA calculations are a decade old. In 1993, SCAG was scheduled to evaluate the progress made by local governments in meeting their advisory allocations and prepare another RHNA. However, the State Legislature did not provide funding and instead extended the housing element deadline several times till 1998. Therefore, this analysis assumes that the “fair share” allocation made for the period of 1989-94 applies to 1998 or until the State Legislature funds another round of housing needs allocation. Given this, one would expect an increased future need for affordable housing in the City, per revised RHNA allocations.

### 5.3 PERFORMANCE INDICATORS

The key features that distinguish WHCHC’s performance along the dimensions of housing program performance include:

**Social targeting:** The West Hollywood Community Housing Corporation’s primary goal is to provide affordable housing by combining private and public loans with private investments, as well as grants from various sources for each project to provide rents that are affordable to people whose income is less than 50 percent of the Los Angeles County median. The non-profit has accomplished this goal by targeting affordable housing exclusively to lower income households (low income – 51% to 80%, and lower income – 00% to 50% of the County median). The non-profit has completed five projects totaling 116 units, and is currently engaged in the production of another 82 units in three other projects. Refer Table 2 for characteristics of rental housing projects developed by the WHCHC.

**TABLE 2  
RENTAL HOUSING PROJECTS DEVELOPED AND OWNED BY WHCHC**

Property Name and Address	# of Units	Low-income Set-aside Units	Unit Mix	Amenities	Total Cost	Total Cost Per Unit	Yr. Occ.	Development Approach/Phase	WHCHC Role
Fountain Avenue Partnership 7292 Fountain Avenue West Hollywood, CA 90046	28	28 (100%) - Allowed Rent Lvl.: 60% Med. Income Lvl.	26 single & 2 one-bedroom apartments	On grade parking, laundry room	\$1.7 million	\$61,913	1988	Substantial Rehab/ Occupied	Co-General Partner Developer
Detroit Bungalows 1123-26 N. Detroit Street West Hollywood, CA 90046	8	8 (100%) - Allowed Rent Lvl.: 60% Med. Income Lvl.	8 singles	Front decks, laundry room	\$0.5 million	\$64,387	1989	Substantial Rehab/ Occupied	Owner Developer
Harper Avenue Partners 1276-80 N. Harper Avenue West Hollywood, CA 90046	17	17 (100%) - Allowed Rent Lvl.: 60% Med. Income Lvl.	1 Single, 2 two-bedroom, & 14 one-bedroom apartments	Common room, courtyard, garage, vegetable garden, balconies, laundry	\$1.9 million	\$118,754	1990	New Construction and Rehab/ Occupied	General Partner Developer

Harper Community Limited Partnership 1260 N. Harper Avenue West Hollywood, CA 90046	22	22 (100%) - Allowed Rent Lvl.: 50% Income Lvl. (20 units); 60% Inc. Lvl. (2 units)	4 two-bedroom, 18 one-bedroom apartments	Common room, courtyard, garage, library, balconies, laundry	\$3.3 million	\$156,723	1992	New Construction / Occupied	General Partner Developer
Laurel-Norton Limited Partnership 1217 N. Laurel Avenue	41	41 (100%) - Allowed Rent Lvl.: 60% Med. Income Lvl.	13 three-bedroom, 28 one-bedroom apartments	Common room, courtyard, garage, community kitchen, balconies, laundry	\$6.4 million	\$157,560	1994	New Construction / Occupied	General Partner Developer
<b>Total Completed</b>	<b>116</b>								
980 N. Palm Avenue West Hollywood, CA 90069	40	40 (100%) - Allowed Rent Lvl.: 60% Med. Income Lvl.			\$5.8 million	\$153,912	1998	New Construction / Under Construction	Owner Developer
1433-37 N. Havenhurst Avenue	22				N/A			Pre-Development	Owner Developer
1151-53, 1155, 1212 N. Detroit Street	20				N/A			Pre-Development	Owner Developer

Source: West Hollywood Community Housing Corporation, Quarterly Report, 1996.

**Long term retention in the housing stock:** Units produced by the non-profit are protected under each projects' governing regulatory agreements. These binding agreements are recorded at the County level and regulate how rents will be determined and restrict occupancy to income eligible households. Typically, these regulations allow the housing stock to be affordable for a period of 30 years. However, lenders who make soft loans currently demand a restriction for 55 years. This ensures the long term retention of affordable housing in the City's building stock.

**Housing quality:** The buildings built or rehabilitated by WHCHC distinguish themselves through their architectural designs. They are attractive, and in harmony with existing neighborhood buildings. A reflection of this quality is the awards given to WHCHC by various organizations. Following is a list of the awards and sources in chronological order:

**Table 3**  
**WHCHC AWARDS**

No.	SOURCE	Title	Date
1.	City of West Hollywood	<i>Certificate of Commendation</i>	November 28, 1984
2.	SCANPH	<i>Affordable Housing Award: Non Profit Developer of the Year</i>	October 1, 1993
3.	American Planning Association	<i>Low-Income Housing Development Planning Project Award for 1217</i>	June 24, 1995

---

		<i>North Laurel Avenue</i>	
4.	City of Los Angeles	<i>Certificate of Tribute</i>	September 13, 1995

Source: West Hollywood Community Housing Corporation

***Property management:*** A high standard of property management is maintained by WHCHC by managing its own projects. The non-profit's management ensures high-quality maintenance of affordable housing units because of its commitment to community goals. In addition, WHCHC's enhanced management program is an innovative approach to reduce the risk of residents losing their housing, particularly people with special needs, the elderly and/or disabled or other residents who need social and medical services. The enhanced management approach combines standard property management practices with referrals of residents to community/volunteer service agencies, links support services according to resident's needs, and promotes community building activities.

---

#### 5.4 Description of WHCHC Projects

Following is a brief description of the completed projects of WHCHC:

- **FOUNTAIN AVENUE APARTMENTS/FOUNTAIN AVENUE LIMITED PARTNERSHIP**

WHCHC's first development was the acquisition and rehab of a 28 unit apartment building at 7292 Fountain Avenue. It is an early 1920s building and consists of two 1-bedroom apartments, twelve singles with full kitchens, and fourteen single units with kitchenettes. The project was funded in early 1988, and was completed by September 1988. The rents are targeted to low income people whose income is below 60% of the County median. Low Income Housing Tax Credits syndicated to the National Equity Fund raised the equity while project cash flow was supported by conventional loan from Citibank, a second position, deferred interest loan from the County of Los Angeles, and a third position loan from the City of West Hollywood. The total development cost was \$1.7 million. Rents are below the rates allowed by tax credit regulations, City of West Hollywood's Maximum Allowable Rents (MAR), a regulatory agreement with the City.



**FOUNTAIN AVENUE APARTMENTS**

---

- **DETROIT STREET/WHCHC**

The second development project of the WHCHC was the acquisition and rehabilitation of 1123-1125 1/2 North Detroit Street, a bungalow court built during the 1920s. It consists of eight singles with kitchens. The project was completed in 1989. The project is targeted towards residents whose income is below 50% of the County median and was financed by a conventional loan from Citibank, a loan from the City's Affordable Housing Trust Fund and County Rental Rehab Funds. The total project cost was \$500,000. Rents for the apartments are governed by a regulatory agreement with the City.



## **DETROIT STREET APARTMENTS**

- **HARPER AVENUE APARTMENTS/HARPER AVENUE LIMITED PARTNERSHIP**

The third project located at 1276-80 N. Harper Avenue consists of 17 units, and mixes the rehab of six units with the construction of eleven one-bedroom senior units. The project was completed in 1990. The project is targeted towards households whose income is 60% or below the County median. Financing for the project came through a conventional loan from Citibank, syndication bridge financing from the Bank of America, and a loan from the City of West Hollywood's Affordable Housing Trust Fund. Equity was raised by syndicating Low Income Housing Tax Credits to the California Equity Fund. The total development cost for the project was \$1.9 million.



## **HARPER AVENUE APARTMENTS**

- **HARPER COMMUNITY APARTMENTS/HARPER COMMUNITY LIMITED**

### **PARTNERSHIP**

This is the fourth project of the WHCHC, and is located at 1260 N. Harper Avenue. Completed in 1992, the project provides 22 units of new construction with four two-bedroom, and 18 one-bedroom units. The project is targeted to very low-income (less than 40% of County median) disabled residents and gives a preference to people with AIDS (PWAs). Financing of the project came through proceeds from tax credit syndication of 41 individual investors, construction financing from the Low Income Housing Fund, First Nationwide Bank, and permanent financing from the City's Affordable Housing Trust Fund, State Rental Housing Construction Program and the Century Freeway Housing Program. The total project development cost was \$3.3 million. Maximum rents allowed are governed by the regulatory agreement with the State of California.



## **HARPER COMMUNITY APARTMENTS**

- **LAUREL/NORTON INTER-GENERATIONAL COMMUNITY/LAUREL-NORTON LIMITED PARTNERSHIP**

WHCHC's fifth project is a new construction project with 41 units located at 1217 N. Laurel Avenue. The project was completed in 1994, and combines 28 low and very low-income senior one-bedroom units with 13 low income three-bedroom units for families. The site includes a 49 car subterranean garage. It also provides common spaces that support recreational and community building activities. The project is geared towards households whose income is below 50% of the County median. Project financing came from tax credit syndication with the California Equity Fund, construction financing from the Wells Fargo Bank and permanent financing from the City's Trust Fund, the Century Freeway Housing Program, a conventional loan from the Citibank and the Federal Home Loan Bank. The total development cost for the project was \$6.4 million.



## **LAUREL/NORTON INTER-GENERATIONAL COMMUNITY APARTMENTS**

The non-profit has three more projects for a total of 82 units in pipeline for development. This includes the development of 40 units at 980 N. Palm Avenue, 22 units at 1433-37 N. Havenhurst Avenue, and 20 units at 1151-53, 1155, 1212 N. Detroit Street.

For a detail of the rental housing projects developed and owned by WHCHC, refer to Table 2. An evidence of social targeting is the targeted residents' income for the projects, and the rents charged by the WHCHC. Rent rolls provided by the WHCHC clearly illustrate that the targeted household income for all the projects falls below 60% of the County median. Furthermore, the rents determined by the regulatory agreements with the City and by the tax credit regulations are well below the average market rent.

### 5.5 Affordable Housing Type, Waitlist, and Duration of Wait

Of the 116 affordable housing units in the 5 projects around the City, more than half of all the units are targeted towards the senior population and People with HIV and AIDS (PWH/As). Table 4 shows the breakdown by the type of units. It is obvious that the one-bedroom apartment and the single unit are the predominant type of units built by WHCHC.

**Table 4**

**West Hollywood Community Housing Corporation Complete and Occupied Units by Type**

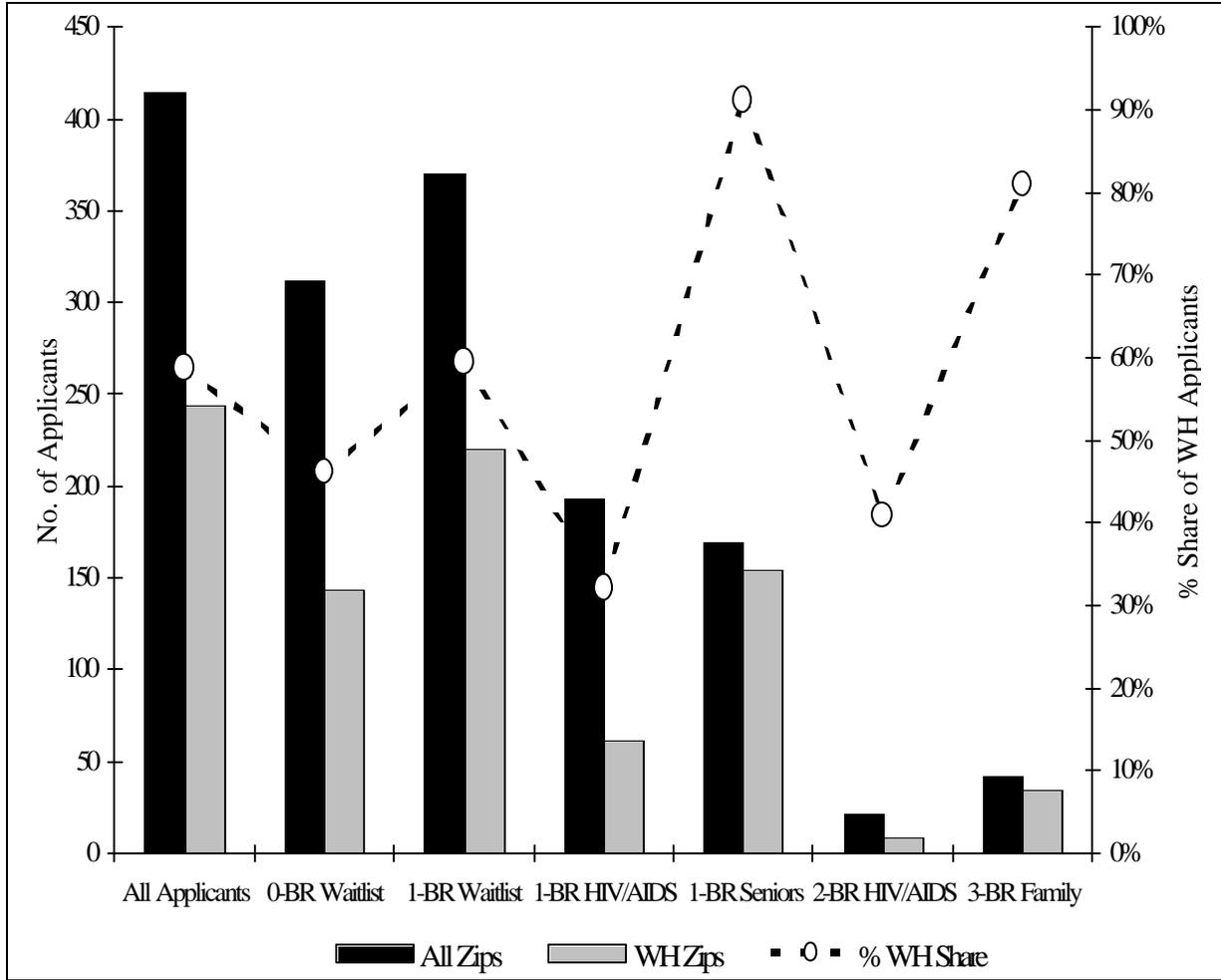
Population	Number of Units	Percent	Type of Unit	Number of Units	Percent
Senior	39	34%	One-bedroom	39	34%
			PWH/ As	22	19%
			Two-bedroom		
Other	55	47%	Single	35	30%
			One-bedroom	5	4%
			Two-bedroom	2	2%
			Three-bedroom	13	11%
<b>Total</b>	<b>116</b>	<b>100%</b>		<b>116</b>	<b>100%</b>

Source: West Hollywood Community Housing Corporation

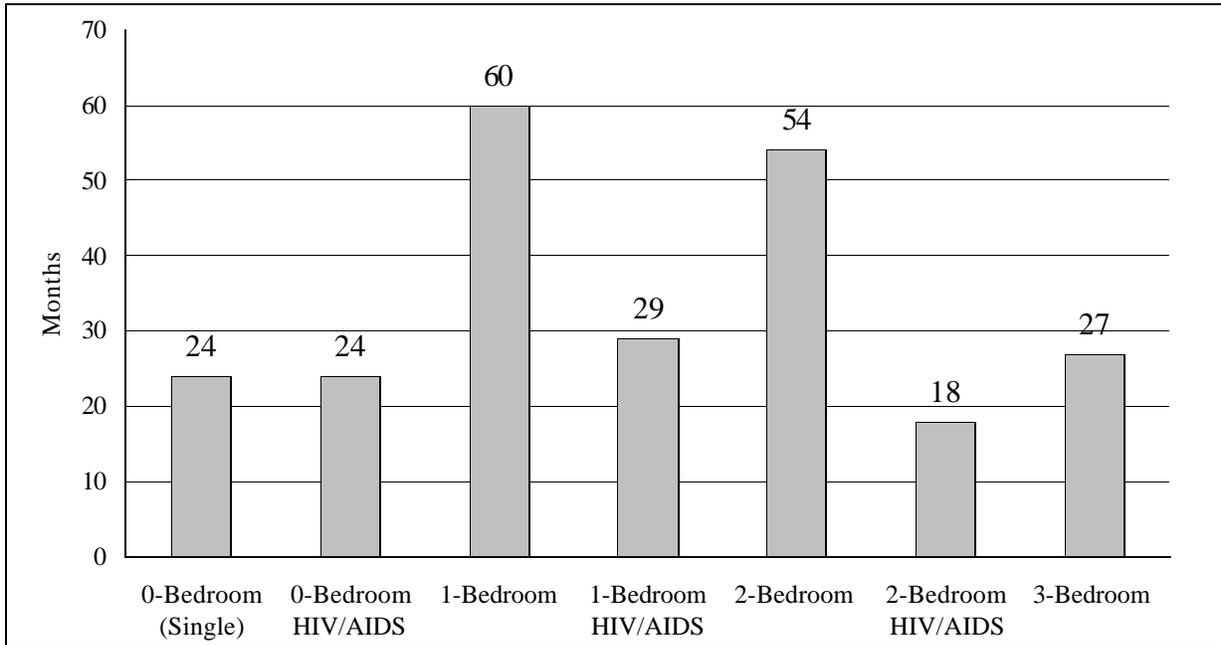
One of the proxies of demand for affordable housing is the waiting list of applicants (Figure 1). Of the 415 applicants on the waiting list from the region that includes the Los Angeles County, approximately 59% of the applicants are residents of the City of West Hollywood (applicants from zip codes 90046, 90048, and 90069). The percentage share of West Hollywood applicants of all applicants, for one-bedroom, seniors is 91%, followed by 81% for three-bedroom family, 59% for one-bedroom, 46% for single, 41% for two-bedroom HIV, and 32% for one-bedroom, HIV units for each respective category.

Waiting list applicants reflect the low and the very low-income demographics of the City of West Hollywood as mentioned in the community profile section above. For approximately 47% of the applicants (N=343), the annual household income is below \$10,000; for 31% of the applicants, it is between \$10,000 to \$15,000 while the remaining 22% have incomes over \$15,000 (Figure 3). Due to the huge demand for affordable housing, the duration of wait by the type of unit is very long, ranging from 18 months to 60 months (Figure 2).

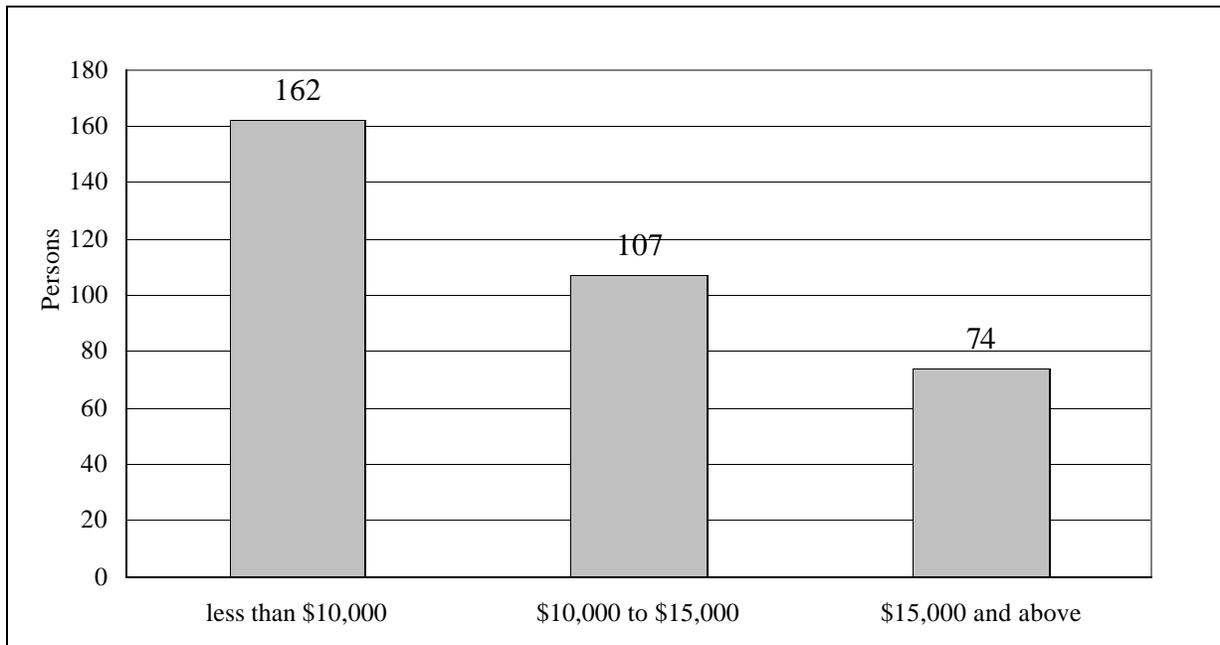
**FIGURE 1**  
**AFFORDABLE HOUSING APPLICANTS BY UNIT TYPE**  
 West Hollywood Zipcodes include 90046, 90048 and 90069 Applicants



**Figure 2**  
**WHCHC Housing Wait List, Duration of Wait, by Unit Type Desired**



**Figure 3**  
**WHCHC Wait List by Annual Household Income**



## 5.6 Property Management

The question as to how the non-profit's manage their housing development is of paramount importance. Both internal and external factors affect housing management. Internal factors include the level of organizational capacity, clarity of roles between the owner (board and the staff) and the management entity, and the willingness and ability of the non-profit to embrace the notion that property management demands a business orientation with a social mission. External factors include financial constraints, neighborhood characteristics, and the local institutional environment.

The Local Initiatives Support Corporation, a national intermediary that helps overcome barriers to affordable housing and links providers of subsidy to non-profit project sponsors has produced a guide for Community Development Corporations that articulates detailed guidelines guiding non-profits towards good property management if they choose to self-manage. This guide also has a set of standards or indicators, that can be used to identify good management. Since WHCHC manages all its properties, we have put to test the organization based on these criteria. Table 5 summarizes the results of this analysis.

**Table 5**  
**Property Management Indicators**

No.	Criteria	Observations
1.	On average, 95 percent of the rent roll is collected each month	0 Rents have been collected for 95% of the rent roll each month
2.	The average occupancy level of the development is 95 percent	0 The vacancy rate has ranged between 0% to 6.7% for all properties <sup>1</sup> during the last three years (1994-96). During the last year, vacancy rates were below 5% for all properties (0.5% to 3.8%) giving an effective occupancy rate of more than 95%
3.	The expenditures for all operating costs equal the budget for the period (neither substantially over or under)	0 Over the past 5 years (1991 to 1996), operating revenues <u>equal</u> operating expenditures
4.	Not more than 12 percent of the units have a change in occupancy in a given year	0 The turnover rate is comparatively very low
5.	Vacant apartments are repaired and leased within 14 working days	0 The management ensures that the apartments are readied promptly when vacant
6.	Management inspects every dwelling unit at least once a year, and other parts of the building and grounds, as necessary	0 The Residential Managers are available for any minor repair/maintenance, and follow set procedures laid out in the Property Management Policies, Procedures and Reporting Forms to solve the problem
7.	Operating reserves are equal to between 20 percent and 40 percent of the annual operating budget	^ There is a general disagreement with the percentage share of operating reserve – the number is considered to be too high by WHCHC
8.	Resident folders are complete and document that all tenants have been selected according to the tenant selection plan or relevant regulations	0 Resident folders are complete and a file is maintained on each tenant. Tenant selection is done according the policies and procedures and follows strict regulations. There are at least two interviews with the WHCHC staff before a prospective renter becomes a tenant
9.	There is no substantial evidence of vandalism, graffiti or neglect of the buildings or grounds	0 The buildings do not exhibit such characteristics  <i>Cont'd.</i>

10.	There have been no instances of default on the mortgage payment for the past two years	Ø WHCHC has not experienced any defaults on mortgage payments or foreclosures on its project
11.	There is no significant criminal activity at the site	Ø That is true except for an occasional petty crime
12.	Fewer than 5 percent of the residents are delinquent in their rents by more than 30 days	Ø Prolonged delinquency can lead to eviction as set forth in the policy manual
13.	Residents report general satisfaction with the management	Ø Direct interviews with the residents are beyond the scope of this study, however, secondary sources indicate that the residents are highly satisfied
14.	Management organization can supply the information necessary to answer the above questions	Ø The management has been prompt in providing the information needed to answer these questions, and the information is readily available

Source: WHCHC's Property Management Policies, Procedures and Reporting Forms, Lease Agreement, House Rules and Regulations and interviews with the Executive Director and Associate Director, Development & Property Management

Note: 1. Properties reviewed include Fountain Avenue Partnership, Harper Avenue Partners, Harper Community Limited Partnership, and Laurel-Norton Limited Partnership.

The WHCHC management meets 13 of the 14 listed criteria for a well managed property. According to the standards set up LISC, it is evident from the above analysis that the non-profit manages its properties very well and sets a very high standard of performance.

## 5.7 ENHANCED MANAGEMENT PROGRAM

The WHCHC serves a large number of disabled residents in its buildings, and has developed and maintains an Enhanced Management Program that combines traditional property management tasks with procedures and personnel that link residents to support from outside agencies. The Enhanced Management model provides coordinated services that offer independent living for low-income people with HIV and AIDS (PWH/As). The WHCHC has joined forces with two community development organizations, Project New Hope, and the Hollywood Community Housing Corporation to create the Los Angeles Consortium for Service Coordinated HIV/AIDS Housing. The enhanced management model for housing the very low income PWH/As maximizes the social and economic benefits of independent living by improving the delivery of support services, and thus reduces the risk that clients will lose their housing and become institutionalized. The programmatic goals of enhanced management include:

1. Provision of permanent, stable housing for low-income PWH/As throughout the changing phases of illness
2. Improve the working relationship among housing providers and service agencies
3. Create independent housing for harder to serve residents including the homeless, and or dual/diagnosed clients, and
4. Provide services that encourage residents to achieve a greater level of economic self-sufficiency (Los Angeles Consortium for Service Coordinated AIDS Housing's "Enhanced Management Model Project", May 1996)

The Enhanced Management approach has enabled people to live independently, for a longer period of time. A Resident Manager is present at each site who not only takes care of the normal property management responsibilities, but also keeps an eye out for residents who are struggling with day-to-day chores. In addition, a Resident Services Coordinator visits disabled residents,

---

monitors their needs for social services, and links them with community service providers when necessary.

The Consortium's Enhanced Management approach, a non-production role for the WHCHC has been very successful, and is being used at six sites (at Harper Community Apartments for WHCHC), and will be eventually turned into a model suitable for national dissemination and replication. The program was funded for three years by the HUD's Housing Opportunities for Persons with AIDS Program (HOPWA) with a \$1,000,000 grant. The Enhanced Management program is being evaluated by Dr. Jon Pynoos, Dean and Professor of the Gerontology Department, USC. Preliminary results from his study indicate very favorable results in terms of the performance by WHCHC and its management approach. According to him, WHCHC has definitely *'created a niche'* in delivering housing services to PWH/As that will eventually become a model to be replicated by other agencies. Undoubtedly, WHCHC has become a leader in the delivery of such specialized affordable housing which is a notable accomplishment for this organization.

## **5.8 MANAGEMENT PRACTICES**

WHCHC management practices and programs are possible due to a clear vision, articulation of the goals, mission and direction of the organization, strong leadership, capacity of the organization (skills and training of the staff), clear articulation of duties, transparency in operations, fiscal responsibility, accountability, and open/established channels of communication between the staff and management. The WHCHC demonstrates these qualities and they are manifest in its projects.

### **• VERTICAL INTEGRATION**

One can observe that the nonprofit is very well vertically and horizontally integrated. The vertical integration of WHCHC can be seen in terms of staff roles, delegation of duties, responsibilities, line of authority and the ways operations are clearly spelled out and followed by all WHCHC staff. The Associate Director oversees the implementation of all property management practices and procedures, while the Property Management Director is responsible for overseeing all aspects of property management operations including supervision of the Resident Managers. The Resident Manager's are responsible for day-to-day management of the project site while the Occupancy Specialist manages all waiting lists, certifies resident's initial income and creates, maintains and closes out residents' files. Resident Service Coordinators assess and monitor residents' need for outside support, refer and advocate for residents with service agencies, and present information about support services to residents.

### **• Horizontal Integration**

The WHCHC has collaborated and partnered with other agencies to leverage resources and to obtain additional funding to carry out its mission. This horizontal integration of the WHCHC has manifest itself in its partnership with community development corporations and collaboration with the other organizations. The Enhanced Management model is a basis of partnering with two other organizations, Project New Hope, and Hollywood Community Housing Corporation to leverage additional funding to service the disabled population. Due to its expertise and development experience, WHCHC is also developing a property in the City of Glendale. This venture promises to increase the visibility of WHCHC in the Los Angeles Basin.

---

## 5.9 PROJECT FINANCE: SOURCES AND USES OF FUNDS

The WHCHC finances its projects by combining private and public loans with private investment, subsidy from the City, and grants from a variety of sources. The goal is to secure enough subsidized financing for each project to provide rents that are affordable to eligible lower income households (median income less than 80% of the Los Angeles County). The following section discusses project finance, costs of nonprofit housing development and sources and uses of funds, and is divided into two parts:

- The first part describes the basic characteristics of rental housing projects developed by WHCHC, including the full development cost per unit, subsidy from the City of West Hollywood and total public subsidy. It also presents funding sources for each project developed by WHCHC, including a breakdown among cash equity and debt financing, and a discussion on tax credit syndication proceeds and costs.
- The second part describes the uses of funds, i.e. the various components of development costs including planning and design, acquisition, finance and carrying charges, relocation costs, construction costs, real estate taxes, marketing, reserves, legal and organizational costs, staff overhead costs, developer's fee, and syndication costs.

### COMPARISON GROUP – HUD GROUP

The *Nonprofit Housing: Costs and Funding, Final Report* (1993, Volume I-Findings) prepared by Abt Associates, Inc. and Aspen Systems, Inc. for the U.S. Department of Housing & Urban Development (HUD) serves as a backdrop of comparative information to this analysis and is presented in each of the aforementioned parts. The study prepared for HUD facilitates a cross-project comparison, and puts in perspective the cost and funding framework of the 15 nonprofit housing projects to the six projects developed by the WHCHC with respect to cash equity, debt financing, full development costs, syndication proceeds and costs and uses of funds.

The limited, non-representative group of 15 projects of HUD study or the six projects of WHCHC do not permit statistically valid generalizations about the universe of nonprofit housing development, or even about the behavior of nonprofits in the selected areas. However, the cross-project comparisons allow a degree of benchmarking (given the lack of data on nonprofit housing and costs) and permit observations that may suggest patterns which, if found to be representative, may have policy implications.

The projects selected for study by HUD, referred to in this study as the *HUD-Group* are located in five Metropolitan Statistical Areas (MSAs): Boston, Washington, D.C., Chicago, Kansas City (Missouri), and San Francisco/Oakland. Three affordable housing projects (affordable to households under 80% of the median income for at least half of the units) were examined in each MSA. Twelve of the 15 were rental housing projects, while 3 were cooperatives. Of the 12 rental projects, five were new construction, while seven were substantial rehabilitation effort. Of the three cooperatives, one was new construction, one substantial rehabilitation, and the third mixed new construction and rehabilitation. The projects selected for the study ranged from 15 to 151 units with a mean of 59.3 and a median of 43 units. Majority of the projects (12 out of 15) were Low Income Housing Tax Credit projects. The majority of the nonprofit organizations examined (11 out of 15) had a neighborhood base while one had a city-wide focus and three had

---

a metropolitan (county-wide) focus. For a summary of the characteristics of nonprofit sponsors and projects, refer Table 6.

## Table 6

### Characteristics of Non-Profit Sponsors and Projects (5 MSA's) – HUD-Group

Project/Nonprofit Sponsor (* indicates new construction)	Year Completed	No. of Units	Low Income. Set-aside Units	Ownership Type	Dev. Approach	Subsidy Type		Full Development Cost Per Unit
						Federal	NON-FEDERAL	
<b>BOSTON MSA</b>								
1. Langham Court Coop. - Four Corners Dev. Corp.*	1991	84	55 (65%)	Coop.	New Const.	Tax Credit, CDBG	State HFA, State grant, City	\$264,664
2. Washington/Columbia (I) - Codman Square Hous. Dev. Corp.	1990	151	151 (100%)	Rental	Sub. Rehab	HUD co-insured, Section 8, Tax Cr.	State HFA	\$107,845
3. La Concha Apartments - Neustra Comunidad Dev. Corp.	1990	97	97 (100%)	Rental	Sub. rehab	Section 8, CDBG, Tax Credit	State HFA, City, public and private grants	\$128,240
<b>WASHINGTON, D.C. MSA</b>								
4. Dorsey Moore Coop. - Manna, Inc.* (and rehab)	1991	41	41 (100%)	Coop.	New Const. and rehab	CDBG, Section 8	LISC, City, public and private grants	\$73,081
5. Florian Gardens Coop. - Project WISH	1990	43	22 (51%)	Coop.	Sub. rehab	CDBG, RRP	National Coop. Bank Loan, City, LISC	\$43,402
6. Renaissance Apartments - Muscle, Inc.	1989	36	19 (51%)	Rental	Sub. Rehab	CDBG, FNMA loan	Charitable Grants	\$54,031
<b>CHICAGO MSA</b>								
7. Washington Blvd. Apts. - Bethel New Life, Inc.	1990	51	51 (100%)	Rental	Rehab	Tax Credit, RRP, Section 8	LISC, Enterprise	\$70,315
8. Plaza on the Park II - Urban Dev. Corp.	1989	57	57 (100%)	Rental	Rehab	Tax Credit, Section 8, CDBG/RRP	City and State	\$63,376
9. Borinquen Apartments - LUCHA, Inc.	1991	37	37 (100%)	Rental	Rehab	Tax Credit, Section 8, CDBG/RRP	State, LISC	\$76,843
<b>KANSAS CITY MSA</b>								
10. Blue Hills Take Part I - Blue Hills Home Corp.	1990	18	18 (100%)	Rental	Sub. rehab	Tax Credit, CDBG	LISC, State, HFA, Foundations	\$47,682
11. Signal Hills Townhomes - Westside Housing Organization, Inc.*	1989	15	15 (100%)	Rental	New Const.	Tax Credit, CDBG	LISC, State, HFA, City	\$90,132
12. Quality Height Homes - Kansas City Neighborhood Alliance*	1988	40	39 (98%)	Rental	New Const.	Tax Credit, HODAG	LISC, State, HFA, City	\$72,923
<b>SAN FRANCISCO/OAKLAND MSA</b>								
13. Baywood Apartments - Eden Housing, Inc.*	1990	82	66 (80%)	Rental	New Const.	Tax Credit	City Loans	\$111,435
14. Maria Alicia Apartments - Mission Housing Dev. Corp.*	1989	20	20 (100%)	Rental	New Const.	Tax Credit, HODAG, CDBG	City Loans and Grants, MHDC loan	\$222,767
15. Frank Mar Community Housing - East Bay Asian Local Dev. Corp.*	1990	119	119 (100%)	Rental	New Const.	Tax Credit, HODAG	City Loans	\$141,428
<b>MINIMUM</b>		15						\$43,402
<b>MAXIMUM</b>		151						\$264,664
<b>AVERAGE</b>		59						\$104,520

---

Source: Nonprofit Housing Costs and Funding: Final Report Volume I - Findings prepared for U.S. Dept. Of Housing and Urban Development by Abt Associates, Nov. 1993

---

Table 7 summarizes the characteristics of rental housing projects developed by WHCHC. The six projects developed (Palm View under construction) to date are all rental projects. Of the six projects, two are substantial rehabilitation projects, three new construction and one a mix of new construction and rehabilitation. The projects range from 8 to 41 units with a mean of 26 units and a median of 25 units. The full development cost per unit ranges from \$61,913 to \$157,560 with a mean of \$118,875. City subsidy per unit ranges from \$12,912 to \$48,176 with a mean of \$29,449, while the total public subsidy (that includes cash equity raised from Low Income Housing Tax Credits) ranges from \$48,665 to \$152,147 with an average of \$99,684 per unit. Five of the six projects are Low Income Tax Housing Credit projects. The following analysis breaks the funding format into two additional sections: costs for substantial rehabilitation, and costs for new construction.

An account of the project's funding sources is elaborated in Table 8.

### **Full Development Cost or Total Development Cost (TDC)**

- *SUBSTANTIAL REHABILITATION*

The total development cost for the WHCHC projects ranged from \$61,913 for Fountain Avenue to \$64,387 for Detroit Street, per unit. The average development cost was \$63,150 per unit. In comparison, the HUD-Group projects total development cost ranged from \$43,402 to \$128,240 with a mean of \$73,922 per unit.

- *New Construction*

The full development cost for the WHCHC projects ranged from \$118,754 for Harper Avenue to \$157,560 for Laurel-Norton, per unit. The average development cost per unit was \$146,737. In contrast, the HUD-Group projects ranged from \$72,923 to \$264,664 with an average of \$139,490 per unit.

### **CASH EQUITY**

- *Substantial Rehabilitation*

Cash equity for the WHCHC projects was raised through the syndication proceeds associated with the Low Income Housing Tax Credits. Cash equity in WHCHC projects ranged from \$0 (0% of full development cost) for Detroit Street to \$8,831 (14% of full development cost) for Fountain Avenue, per unit. The average cash equity was \$4,415 per unit, or mean percentage of 7% of full development costs. In comparison, cash equity in the *HUD-Group* ranged from \$539 (1% of full development cost) to \$22,877 (33% of full development cost) per unit. The average cash equity was \$13,717 per unit or an average of 18% of the full development costs.

- *New Construction*

Cash equity in WHCHC projects ranged from \$48,059 (31% of full development cost) for Palm View to \$50,732 (43% of full development cost) for Harper Avenue, per unit. The average cash equity was \$49,712 per unit, or mean percentage of 34% of full development costs. In contrast, cash equity for the *HUD-Group* ranged from \$5,219 (7% of full development cost) to \$122,463 (55% of the full development cost) per unit. The average cash equity was \$46,692 per unit or a mean percentage of 33% of the full development costs.

**TABLE 7**  
**Characteristics of the Rental Housing Projects Developed by WHCHC**

PROJECT	Year Completed	No. of Units	Low-income Set-aside Units	Ownership Type	Dev. Approach	Subsidy Per Unit		Full Development Cost Per Unit
						Total Public Subsidy**	City of WH Subsidy	
1. Fountain Ave	1988	28	28 (100%) - Allowed Rent Lvl.: 60% Med. Income Lvl.	Rental	Sub. Rehab	\$48,665	\$24,942	\$61,913
2. Detroit St	1989	8	8 (100%) - Allowed Rent Lvl.: 60% Med. Income Lvl.	Rental	Sub. Rehab	\$63,012	\$29,000	\$64,387
3. Harper Ave	1990	17	17 (100%) - Allowed Rent Lvl.: 60% Med. Income Lvl.	Rental	New Const. & Rehab	\$98,909	\$48,176	\$118,754
4. Harper Comm.	1992	22	22 (100%) - Allowed Rent Lvl.: 50% Income Lvl. (20 units); 60% Inc. Lvl. (2 units)	Rental	New Const.	\$152,147	\$12,912	\$156,723
5. Laurel-Norton	1994	41	41 (100%) - Allowed Rent Lvl.: 60% Med. Income Lvl.	Rental	New Const.	\$138,593	\$38,537	\$157,560
6. Palm View	1998	40	40 (100%) - Allowed Rent Lvl.: 60% Med. Income Lvl.	Rental	New Const.	\$96,779	\$23,125	\$153,912
<b>MINIMUM</b>		8				\$48,665	\$12,912	\$61,913
<b>MAXIMUM</b>		41				\$152,147	\$48,176	\$157,560
<b>AVERAGE</b>		26				\$99,684	\$29,449	\$118,875

\*\* Total Public Subsidy includes cash equity raised through Low Income Housing Tax Credits

Source: West Hollywood Community Housing Corporation, Quarterly Reports

**Table 8**  
**Sources of Funds for Nonprofit Projects (per unit amount)**

Name of Project	Full Development Cost Per Unit	Cash Resources						Non-Cash Contributions and Donations	% Full Dev. Cost	Public Sources as Percent of Full Dev. Cost**
		Cash Equity	% Full Dev. Cost	Debt Financing	% Full Dev. Cost	Total Cash Resources	% Full Dev. Cost			
<b>WHCHC Projects (Sub. Rehab)</b>										
1. Fountain Ave	\$61,913	\$8,831	14%	\$52,003	84%	\$60,834	98%	\$	0%	64%
2. Detroit St	\$64,387	\$0	0%	\$63,012	98%	\$63,012	98%	\$	0%	98%
<b>WHCHC Projects (New Const.)</b>										
3. Harper Ave	\$118,754	\$50,732	43%	\$58,241	49%	\$108,973	92%	\$	0%	41%
4. Harper Comm.	\$156,723	\$50,000	32%	\$103,087	66%	\$153,087	98%	\$	0%	65%
5. Laurel-Norton	\$157,560	\$50,057	32%	\$105,610	67%	\$155,667	99%	\$	0%	56%
6. Palm View	\$153,912	\$48,059	31%	\$96,435	63%	\$144,493	94%	\$	0%	32%
<b>WHCHC's Project Summary (Sub. Rehab)</b>										
<b>MINIMUM</b>	\$61,913	\$0	0%	\$52,003	84%	\$60,834	98%	\$	0%	64%
<b>MAXIMUM</b>	\$64,387	\$8,831	14%	\$63,012	98%	\$63,012	98%	\$	0%	98%
<b>AVERAGE</b>	\$63,150	\$4,415	7%	\$57,507	91%	\$61,923	98%	\$	0%	81%
<b>HUD-Group's Summary (Sub. Rehab)</b>										
<b>MINIMUM</b>	\$43,402	\$539	1%	\$30,211	49%	\$40,581	67%	\$2,029	4%	28%
<b>MAXIMUM</b>	\$128,240	\$22,877	33%	\$63,357	88%	\$86,234	96%	\$42,006	33%	76%
<b>AVERAGE</b>	\$73,922	\$13,717	18%	\$47,280	68%	\$60,985	86%	\$12,925	14%	52%
<b>WHCHC's Project Summary (New Const.)</b>										
<b>MINIMUM</b>	\$118,754	\$48,059	31%	\$58,241	49%	\$108,973	92%	\$	0%	32%
<b>MAXIMUM</b>	\$157,560	\$50,732	43%	\$105,610	67%	\$155,667	99%	\$	0%	65%
<b>AVERAGE</b>	\$146,737	\$49,712	34%	\$90,843	61%	\$140,555	96%	\$	0%	48%
<b>HUD-Group's Summary (New Const.)</b>										
<b>MINIMUM</b>	\$72,923	\$5,219	7%	\$38,750	34%	\$58,700	77%	\$4,581	4%	22%
<b>MAXIMUM</b>	\$264,664	\$122,463	55%	\$152,410	83%	\$204,869	96%	\$59,795	23%	65%
<b>AVERAGE</b>	\$139,490	\$49,692	33%	\$71,820	55%	\$121,512	88%	\$17,978	12%	46%

\*\* Public Sources as a Percent of Full Development Cost exclude Cash Equity raised from Low Income Housing Tax Credit

Source: West Hollywood Community Housing Corporation, Quarterly Reports

Nonprofit Housing Costs and Funding: Final Report Volume I - Findings prepared for U.S. Dept. Of Housing and Urban Development by Abt Associates, Nov. 1993

---

## **Debt Financing**

- *Substantial Rehabilitation*

As seen in Table 8, debt financing in WHCHC projects ranged from \$52,003 (84% of full development cost) for Fountain Avenue to \$63,012 (98% of full development cost) for Detroit Street, per unit. The average debt financing was \$57,507 per unit or an average of 91% of the full development costs. In contrast, debt financing for the HUD-Group ranged from \$30,211 (49% of full development cost) to \$63,357 (88% of full development cost) with an average of \$47,280 (68% of the full development cost), per unit.

- *New Construction*

Debt financing for WHCHC projects ranged from \$58,241 (49% of full development cost) for Harper Avenue to \$105,610 (67% of full development cost) for Laurel-Norton, per unit. The average debt financing was \$90,843 per unit or 61% of the full development costs. In contrast, debt financing for the HUD-Group ranged from \$38,750 (34% of full development cost) to \$152,410 (83% of full development cost) per unit. The average debt financing was \$71,820 per unit or 55% of the full development cost.

Among the WHCHC projects, the average number of development funding sources observed per project was four. Source of debt financing for WHCHC projects, including the principal, interest rate and the term are listed in Table 9. In contrast, for the HUD-Group, average number of funding sources observed per project was nearly double (7.8).

## **Public Sources as a Share of Development Cost**

- *Substantial Rehabilitation*

Public sources (excluding cash equity raised from Low Income Housing Tax Credits) as a percent share of total development costs in WHCHC projects ranged from 64% for Fountain Avenue to 98% for Detroit Street with an average of 81%, per unit. In contrast, the HUD-Group's public sources as a percentage share of total development cost per unit ranged from 28% to 76% with a mean of 52%.

- *New Construction*

For the WHCHC projects, public sources of funding as a percentage share of total development costs ranged from 32% for Palm View to 65% for Harper Community with an average of 48%, per unit. This is very similar to the HUD-Group where the share of public funding sources as a percentage of total development cost ranged from 22% to 65% with an average of 46% per unit.

**Table 9**  
**Source of Funding: Rental Housing Projects Developed and Owned by WHCHC**

Project Name	No. of Units	Source of Funding	Principal	Term	Interest	Amortized Residual Receipts Prin./Int. Deferred	Dvlpt. Phase	WHCHC Role
1. Fountain Ave	28	Citicorp Savings	\$327,143	30 Years	10.5%	Amortized	Occupied	Co-General Partner , Developer
		County of L.A. - Rental Rehab Program	\$417,000	30 Years	5.0%	Residual Receipts		
		City of West Hollywood	\$692,944	35 Years	10.0%	Prin./Int. Deferred		
2. Detroit St	8	Citicorp Savings	\$69,560	30 Years	10.5%	Amortized	Occupied	Owner Developer
		Dept. Of Hsg. & Comm. Dvlpt. - DPRLP	\$80,000	10 Years	3.0%	Prin./Int. Deferred		
		County of L.A. - Rental Rehab Program	\$18,008	15 Years	5.0%	Amortized		
		County of L.A. - Rental Rehab Program	\$116,100	10 Years	0.0%	Deferred*		
		City of West Hollywood	\$232,000	30 Years	6.0%	Prin./Int. Deferred*		
3. Harper Ave	17	Citicorp Savings	\$251,375	30 Years	8.4%	Amortized	Occupied	General Partner, Developer
		City of West Hollywood	\$749,000	40 Years	6.0%	Prin./Int. Deferred**		
		City of West Hollywood	\$70,000	40 Years	6.0%	Prin./Int. Deferred**		
		Local Initiatives Support Corporation	\$113,754	6 Years	8.0%	Residual Receipts		
		Local Initiatives Support Corporation	\$52,801	6 Years	8.0%	Residual Receipts		
4. Harper Comm.	22	Dept. Of Hsg. & Comm. Dvlpt. - RHCP	\$1,013,000	40 Years	3.0%	Residual Receipts	Occupied	General Partner, Developer
		City of West Hollywood	\$304,754	39 Years	8.1%	Prin./Int. Deferred		
		Dept. Of Hsg. & Comm. Dvlpt. - CFHP	\$875,500	30 Years	3.0%	Residual Receipts		
		1st Nationwide Bank - AHP	\$74,660	30 Years	1.0%	Residual Receipts		
5. Laurel-Norton	41	Citicorp Savings	\$700,000	30 Years	7.0%	Amortized	Occupied	General Partner, Developer
		Dept. Of Hsg. & Comm. Dvlpt. - CFHP	\$2,049,253	30 Years	3.0%	Residual Receipts		
		City of West Hollywood	\$1,504,575	40 Years	3%	Prin./Int. Deferred		

Source: West Hollywood Community Housing Corporation, Quarterly Reports

NOTES: The Dept. Of Hsg. & Comm. Dvlpt. Is the California Dept. Of Housing and Community Development. Programs noted include:

DPRL Deferred Payment Rehabilitation Program

RHCP Rental Housing Construction Program

CFHP Century Freeway Housing Program

County of L.A. Is the Community Development Commission of the County of Los Angeles

NEF is the National Equity Foundation, a subsidiary of Local Initiatives Support Corporation

CEF is the California Equity Foundation, an affiliate of NEF for investments in California

\* These notes are subject to a principal forgiveness provision at the end of their terms

\*\* These notes are subject to an interest forgiveness provision at the end of their terms.

Defaults and Foreclosures: WHCHC has not experienced any defaults or foreclosures on its projects.

---

## TAX CREDIT SYNDICATION PROCEEDS AND COSTS

The most common way of raising equity for the projects was syndication proceeds associated with the Low Income Housing Tax Credits. Among WHCHC, five of the six projects utilized tax credits, while 12 of the 15 projects utilized tax credits for the HUD-Group. The prominent use of tax credits/syndication proceeds in other MSAs reflects the widespread use of this financing mechanism nationally. Estimates suggest that in 1990, 90% of affordable housing projects, regardless of type of sponsor, were funded by tax credits (Stevens and Tracy, 1992). This financing mechanism is widely used because most non profits do not have sufficient cash resources on hand and lack alternative ways to raise the cash necessary to leverage debt funding for their projects. In addition, syndication proceeds can be used to cover the costs of development related expenses, such as allowances for pre-development expenses, profits for contractors, and adequate developer's fee that may not be "mortgageable" by other funding sources. Hence, the availability of tax credits is a critical as a catalyst for affordable housing development.

An approach to examining the importance of Tax Credits in raising equity is to calculate the net amount contributed to the project after costs of syndication. In the following analysis, we have discussed only the new construction projects, because just one substantial rehabilitation project of the WHCHC utilized tax credits.

- *New Construction*

As indicated in Table 10, projects of the WHCHC that utilized the LIHTC, raised on average \$1,484,281 per project (\$49,712 per unit) in syndication proceeds. Of this amount, an average of \$127,829 per project (\$5,611 per unit) was devoted to syndication costs. Syndication costs include any combination of syndication commissions and fees, partnership acquisitions for two-tier partnerships, costs of partnership administration, net worth accounts, and accounting expenses. On an average syndication costs as a percentage of the syndication proceeds account for 11% across the projects. Once these syndication costs are subtracted from the syndication proceeds, the Tax Credit raised on an average \$1,356,452 net syndication proceeds per project (\$44,101 per unit). This net syndication proceed averages 32% of the total cash costs (equity+debt-non cash contributions). The project with the highest percentage of syndication costs, Harper Community (22%) had the smallest share of actual cash costs borne by net syndication proceeds (25%).

In comparison, projects for the HUD-Group that used the Tax Credits, raised on average \$3,184,222 per project (\$47,402 per unit) in syndication proceeds. Of this amount an average of \$368,695 per project (\$6,769 per unit) was devoted to syndication costs. The syndication costs, on an average account for 17% of the syndication proceeds. After subtracting the syndication costs from the syndication proceeds, the Tax Credit raised on an average \$2,815,527 of net syndication proceeds per project (\$40,663 per unit). This net syndication proceed averages 32% of the total cash costs which is very similar to the figures obtained for WHCHC.

**Table 10**  
**TAX CREDIT SYNDICATION PROCEEDS AND COSTS**

PROJECT	Syndication Proceeds	Proceeds Per Unit	Syndication Costs	Syndication Costs Per Unit	Syndication Costs as Percentage of Proceeds	Net Syndication Proceeds	Total Cash Costs	Net Proceeds as Percentage of Total Cash Costs
<b>WHCHC Projects (Sub. Rehab)</b>								
1. Fountain Ave	\$247,265	\$8,831	\$41,688	\$1,489	17%	\$205,577	\$1,703,338	12%
2. Detroit St (N/A)	-	-	-	-	-	-	-	-
<b>WHCHC Projects (New Const.)</b>								
3. Harper Ave	\$862,448	\$50,732	\$140,130	\$8,243	16%	\$722,318	\$1,852,547	39%
4. Harper Comm.	\$1,100,000	\$50,000	\$242,681	\$11,031	22%	\$857,319	\$3,367,914	25%
5. Laurel-Norton	\$2,052,333	\$50,057	\$71,074	\$1,734	3%	\$1,981,259	\$6,382,333	31%
6. Palm View	\$1,922,344	\$48,059	\$57,432	\$1,436	3%	\$1,864,912	\$5,779,726	32%
<b>WHCHC's Project Summary (Sub. Rehab)</b>								
	\$247,265	\$8,831	\$41,688	\$1,489	17%	\$205,577	\$1,703,338	12%
<b>HUD-Group's Summary (Sub. Rehab)</b>								
<b>MINIMUM</b>	\$277,851	\$12,930	\$88,428	\$2,615	16%	\$189,423	\$821,759	15%
<b>MAXIMUM</b>	\$2,724,611	\$20,928	\$926,055	\$6,694	34%	\$1,798,546	\$11,824,170	24%
<b>AVERAGE</b>	\$1,244,182	\$17,691	\$355,672	\$4,591	26%	\$888,509	\$5,061,546	20%
<b>WHCHC's Project Summary (New Const.)</b>								
<b>MINIMUM</b>	\$862,448	\$48,059	\$57,432	\$1,436	3%	\$722,318	\$1,852,547	25%
<b>MAXIMUM</b>	\$2,052,333	\$50,732	\$242,681	\$11,031	22%	\$1,981,259	\$6,382,333	39%
<b>AVERAGE</b>	\$1,484,281	\$49,712	\$127,829	\$5,611	11%	\$1,356,452	\$4,345,630	32%
<b>HUD-Group's Summary (New Const.)</b>								
<b>MINIMUM</b>	\$422,129	\$18,699	\$99,171	\$833	1%	\$299,622	\$1,222,229	20%
<b>MAXIMUM</b>	\$8,076,466	\$67,869	\$887,000	\$10,560	29%	\$7,977,295	\$17,209,025	50%
<b>AVERAGE</b>	\$3,184,222	\$47,402	\$368,695	\$6,769	17%	\$2,815,527	\$8,252,075	32%

Source: West Hollywood Community Housing Corporation, Quarterly Reports  
 Nonprofit Housing Costs and Funding: Final Report Volume I - Findings prepared for U.S. Dept. Of Housing and Urban Development by Abt Associates, Nov. 1993

---

One can observe that the various costs and fees paid with the net proceeds of syndication were necessary to produce the project, hence, the Tax Credits are indeed a critical element in the financing of these projects. However, it raises the question whether an alternative means of raising equity would involve equally high transaction costs. Literature on this subject shows that the full development cost per unit for non-tax credit projects is lower than the ones that utilize tax credits, although by no means conclusively (and out of scope for this study). But it may suggest that the use of Tax Credits creates a large source of available funds and consequently allows for higher total project costs. Moreover, syndication proceeds are not available up-front; state credit agencies that allocate credit cannot process applications for Tax Credits until all of the other financing to be used in the development is shown in the application. Therefore, the nonprofit sponsor/limited partnership must usually secure bridge financing to cover expenses until the receipt of limited partner contributions. The costs of bridge financing that may include interest, fees, transaction costs, and added collateral, in addition to syndication costs (establishing the partnership, maintaining the net worth account, general partner overhead, servicing investors etc.) also increases the total development costs.

### **COMPONENTS OF DEVELOPMENT COSTS: USES OF FUNDS**

This section describes the types and magnitude of development costs among the WHCHC projects. Table 11 presents the allocation of costs among 12 cost categories and shows the percentage distribution of cost components. This data is compared with the HUD-Group cost allocations. Once again, the reader is reminded that there is potential for error in these comparisons, since the source documents did not provide sufficient detail to break out individual cost components.

#### **1. PLANNING & DESIGN**

This category includes architecture and engineering costs, in addition to pre-development expenses for planning, design or feasibility studies.

- *Substantial Rehabilitation*  
On average, planning and design accounted for 3.8% of the total development cost for WHCHC projects as compared to 2.3% for the HUD-Group.
- *New Construction*  
On average, planning and design accounted for 5.2% of the total development cost for WHCHC projects as compared to 3.0% for the HUD-Group.

The larger share of planning and design costs for WHCHC may reflect the nonprofits strong interest in building aesthetics, planning and design.

#### **2. Acquisition**

This category includes the purchase price of land and improvements, and generally the closing costs or other acquisition related expenses.

- *Substantial Rehabilitation*  
On average, acquisition accounted for 50.8% of the total development cost for WHCHC projects while the HUD-Group's share was 16.8%. This category represents the largest cost category for WHCHC projects.

**Table 11**  
**Components of Development Costs: Uses of Funds**

Project	Total Development Cost	Planning & Design	Acquisition	Finance & Carrying Costs	Relocation Costs	Construction Costs	Real Estate Taxes	Marketing	Reserves	Legal & Organizational Costs	Overhead Staff	Developer's Fee	Syndication Costs	Additional Costs Incurred
<b>WHCHC Projects (Sub. Rehab)</b>														
1. Fountain Ave	\$1,733,561	\$70,165 4.0%	\$835,000 48.2%	\$7,508 0.4%	\$12,885 0.7%	\$585,227 33.8%	\$5,219 0.3%	\$2,000 0.1%	\$26,646 1.5%	\$67,020 3.9%	\$0 0.0%	\$49,980 2.9%	\$41,688 2.4%	\$30,223 1.7%
2. Detroit St	\$515,329	\$18,341 3.6%	\$275,000 53.4%	\$1,845 0.4%	\$13,000 2.5%	\$187,674 36.4%	\$1,719 0.3%	\$0 0.0%	\$0 0.0%	\$6,750 1.3%	\$0 0.0%	\$0 0.0%	\$0 0.0%	\$11,000 2.1%
<b>WHCHC Projects (New Const.)</b>														
3. Harper Ave	\$2,018,823	\$78,500 3.9%	\$510,000 25.3%	\$6,054 0.3%	\$22,000 1.1%	\$959,451 47.5%	\$6,375 0.3%	\$0 0.0%	\$18,813 0.9%	\$21,500 1.1%	\$0 0.0%	\$170,000 8.4%	\$140,130 6.9%	\$86,000 4.3%
4. Harper Comm.	\$3,427,334	\$242,500 7.1%	\$850,000 24.8%	\$81,663 2.4%	\$25,000 0.7%	\$1,685,864 49.2%	\$9,350 0.3%	\$0 0.0%	\$27,776 0.8%	\$17,500 0.5%	\$0 0.0%	\$165,000 4.8%	\$242,681 7.1%	\$80,000 2.3%
5. Laurel-Norton	\$6,545,948	\$286,193 4.4%	\$1,330,000 20.3%	\$164,750 2.5%	\$143,640 2.2%	\$4,023,918 61.5%	\$17,166 0.3%	\$500 0.0%	\$73,212 1.1%	\$49,495 0.8%	\$0 0.0%	\$300,000 4.6%	\$71,074 1.1%	\$86,000 1.3%
6. Palm View	\$6,156,485	\$332,950 5.4%	\$822,931 13.4%	\$425,200 6.9%	\$132,000 2.1%	\$3,829,296 62.2%	\$12,000 0.2%	\$0 0.0%	\$82,580 1.3%	\$62,096 1.0%	\$0 0.0%	\$400,000 6.5%	\$57,432 0.9%	\$0 0.0%
<b>WHCHC's Project Summary (Sub. Rehab)</b>														
<b>MINIMUM</b>	\$515,329	3.6%	48.2%	0.4%	0.7%	33.8%	0.3%	0.0%	0.0%	1.3%	0.0%	0.0%	0.0%	1.7%
<b>MAXIMUM</b>	\$1,733,561	4.0%	53.4%	0.4%	2.5%	36.4%	0.3%	0.1%	1.5%	3.9%	0.0%	2.9%	2.4%	2.1%
<b>AVERAGE</b>	\$1,124,445	3.8%	50.8%	0.4%	1.6%	35.1%	0.3%	0.1%	0.8%	2.6%	0.0%	1.4%	1.2%	1.9%
<b>HUD-Group's Summary (Sub. Rehab)</b>														
<b>MINIMUM</b>	\$858,282	1.3%	1.1%	3.4%	0.0%	44.3%	0.1%	0.0%	0.0%	0.7%	0.0%	1.5%	0.0%	n/a
<b>MAXIMUM</b>	\$16,284,522	4.4%	30.1%	10.7%	2.0%	75.7%	0.8%	0.7%	3.7%	3.4%	3.3%	11.7%	10.3%	n/a
<b>AVERAGE</b>	\$5,461,470	2.3%	16.8%	6.3%	0.6%	59.1%	0.4%	0.2%	1.4%	1.8%	1.6%	5.3%	4.4%	n/a
<b>WHCHC's Project Summary (New Const.)</b>														
<b>MINIMUM</b>	\$2,018,823	3.9%	13.4%	0.3%	0.7%	47.5%	0.2%	0.0%	0.8%	0.5%	0.0%	4.6%	0.9%	0.0%
<b>MAXIMUM</b>	\$6,545,948	7.1%	25.3%	6.9%	2.2%	62.2%	0.3%	0.0%	1.3%	1.1%	0.0%	8.4%	7.1%	4.3%
<b>AVERAGE</b>	\$4,537,148	5.2%	20.9%	3.0%	1.5%	55.1%	0.3%	0.0%	1.1%	0.8%	0.0%	6.1%	4.0%	2.0%
<b>HUD-Group's Summary (New Const.)</b>														
<b>MINIMUM</b>	\$1,351,984	2.0%	1.5%	2.6%	0.0%	51.9%	0.0%	0.0%	0.0%	0.6%	1.5%	0.6%	0.0%	n/a
<b>MAXIMUM</b>	\$22,231,764	3.9%	13.6%	9.9%	0.0%	72.9%	1.0%	2.0%	10.8%	6.2%	4.0%	18.8%	9.1%	n/a
<b>AVERAGE</b>	\$8,559,998	3.0%	7.5%	6.1%	0.0%	62.8%	0.5%	0.5%	3.2%	2.2%	2.5%	7.2%	4.4%	n/a

Source: West Hollywood Community Housing Corporation, Quarterly Reports  
Nonprofit Housing Costs and Funding: Final Report Volume I - Findings prepared for U.S. Dept. Of Housing and Urban Development by Abt Associates, Nov. 1993

---

- *New Construction*

On average, acquisition accounted for 20.9% of the total development cost for WHCHC projects as compared to 7.5% for the HUD-Group.

Acquisition costs as a proportion of development costs are much higher in both new construction and substantial rehab projects for WHCHC when compared to the HUD-Group. This is not surprising because of the high land costs in the City of West Hollywood and the possibility of nonprofit projects of the HUD-Group in severely distressed areas where there was otherwise little private investment occurring or competing positive uses for the land.

### **3. Finance and Carrying Charges**

This category includes the actual development period interest and related charges.

- *Substantial Rehabilitation*

On average, finance and carrying charges accounted for 0.4% of the total development cost for WHCHC projects as compared to 6.3% for the HUD-Group.

- *New Construction*

On average, finance and carrying charges accounted for 3% of the total development cost for WHCHC projects as compared to 6.1% for the HUD-Group.

Finance and carrying charges are lower on average for all WHCHC projects as compared to the HUD-Group.

### **4. Relocation Costs**

This category includes costs associated with relocation of tenants due to the disruption caused by construction.

- *Substantial Rehabilitation*

Relocation costs accounted for 1.6% of the total development cost, on average for WHCHC projects and 0.6% for the HUD-Group.

- *New Construction*

On average, relocation costs accounted for 1.5% of the total development cost for WHCHC projects and zero percent for HUD-Group.

Relocation costs seem to be modest across all the cases.

### **5. Construction Costs**

This category also known as the ‘brick and mortar’ category includes demolition, site work, the construction contract, fees and permits and other hard costs.

- *Substantial Rehabilitation*

Construction cost accounted for 35.1% of the total development cost, on average for WHCHC projects and 59.1% for the HUD-Group. It seems that acquisition costs (50.8%) are offsetting some of the construction costs in the case of WHCHC.

- *New Construction*

On average, construction cost accounted for 55.1% of the total development cost for WHCHC projects and 62.8% for the HUD-Group. Ideally, a higher share of construction costs as a percentage of the total development costs is preferred by public agencies since

it implies a greater share in construction (brick and mortar, materials, quality etc.) than any of the other competing components of development costs.

For a detailed account of construction costs per square foot, refer Table 12.

**Table 12**  
**Construction Costs: Rental Housing Projects Developed by WHCHC**

ITEM	FOUNTAIN AVE	DETROIT ST	HARPER AVE	HARPER COMM.	LAUREL-NORTON	PALM VIEW
No. of Units	28	8	17	22	41	40
Sq. Ft. (Residential)	11,608	2,880	16,063	22,422	45,520	39,967
Sq. Ft. (Residential + Garage)	11,608	3,264	21,588	31,522	63,824	58,798
Projected Total Development Cost	\$1,703,338	\$504,095	\$1,932,823	\$3,367,914	\$6,459,948	\$6,156,485
Actual Total Development Cost	\$1,733,561	\$515,095	\$2,018,823	\$3,447,914	\$6,459,948	\$6,156,485
Construction Costs	\$585,227	\$187,674	\$959,451	\$1,685,864	\$4,023,918	\$3,829,296
Per Unit Cost	\$61,913	\$64,387	\$118,754	\$156,723	\$157,560	\$153,912
Actual Total Development Cost per Sq. Ft. (Residential)	\$149	\$179	\$126	\$154	\$142	\$154
Actual Total Development Cost per Sq. Ft. (Residential + Garage)	\$149	\$158	\$94	\$109	\$101	\$105
Construction Cost/Sq. Ft. (Residential + Garage)	\$50	\$57	\$44	\$53	\$63	\$65

Source: West Hollywood Community Housing Corporation, Quarterly Reports

Construction costs (hard costs) per square foot in the range of \$44 to \$65, in the case of WHCHC compare favorably to the costs for typical industry (for-profit) market costs for the area. In preparing their 1998-2003, Housing Element Update, the City of Santa Monica surveyed contractors active in Santa Monica and found that the average multi-family construction costs range from \$40 to \$75 per square foot, and up to \$64 to \$82 per square foot if one level of underground parking is required.

## 6. Real Estate Taxes

Taxes during construction accounted for less than 1% of full development costs for both WHCHC and HUD-Group projects.

## 7. Marketing

On average, marketing and lease-up costs accounted for less than 1% of full development costs for both WHCHC and HUD-Group projects. It is obvious that the demand for affordable housing outstrips the supply, and the consequent long waiting list of applicants as in the case of the City of West Hollywood requires no additional marketing efforts.

---

## **8. Reserves**

This category is intended to measure pre-funded project reserves. Reserves, on an average accounted for 1% of full development costs for WHCHC projects while they accounted for approximately 2% of full development costs for HUD-Group projects.

## **9. Legal and Organizational Costs**

Legal and organizational costs accounted for 2% or less for majority of the projects for both WHCHC and HUD-Group.

## **10. Overhead Staff**

Staff time was not explicitly reimbursed by the project budget in the WHCHC projects. In the new construction projects of the HUD-Group, overhead staff costs accounted for 2.5% of the full development cost.

## **11. Developer's Fee**

The amount of fee retained by the developer, WHCHC, on average accounts for 1.4% (for rehab) to 6.1% (for new construction) of full development costs. In contrast, the developer's fee for HUD-Group accounted for 5.3% (for rehab), and 7.1% (for new construction). In a study of Tax Credit projects (Evaluation of LIHTC, 1991), 91% of which were pure-for-profit developers, developers received an average fee of 9.5%. It is therefore interesting to contrast the report's 9.5% with the 3.75% (average of rehab and new construction) of WHCHC where less than half of the for-profit-developers was retained as developer's fee.

## **12. Syndication Costs**

Syndication costs, as mentioned earlier include expenses related to the sale of tax credits (legal costs, consultants, tax credit application fees), partnership management fees and interest on any bridge loans that are ultimately repaid from investor contributions.

- *Substantial Rehabilitation*  
Syndication costs, on average accounted for 2.4% of full development costs for WHCHC projects, and 4% for HUD-Group projects.
- *New Construction*  
On average, syndication costs accounted for 4% of full development cost for WHCHC projects, and 4.4% for HUD-Group projects.

In general, costs of syndication were lower for projects done by WHCHC when compared with the HUD-Group.

---

## **VI. AFFORDABLE HOUSING CONSTRAINTS AND OPPORTUNITIES**

The supply of adequate and affordable housing is affected by both market conditions, and government programs and regulations. The potential market constraints include the price of land, the cost of construction and the availability of financing. The potential government constraints include land use controls, building codes and their enforcement, site improvement fees and other exactions, and local processing and permitting procedures. High land and construction costs, the lack of availability of land, costs of financing, combined with a dampened real estate market are a primary constraint to the development of affordable housing in the City. These factors and others presented in detail in Section II-6.0 *Potential Constraints to Housing Investment* hinder the construction of new and affordable units. This section, however, discusses two issues pertinent to the development of affordable housing: i) the Affordable Housing Trust Fund, and ii) New Construction versus Substantial Rehabilitation.

### **6.1 AFFORDABLE HOUSING TRUST FUND**

The dampened real estate market has adversely impacted the City's Inclusionary Housing Program and its Affordable Housing Trust Fund which depends on a vibrant real estate development market. The City's Inclusionary Housing Program requires residential developers to set aside a portion of units in each new residential development for low and moderate income households. This set-aside is 20% for projects with over 10 units, and 10% for projects with 10 or fewer units. For projects with 20 or fewer units, however, developers may pay an in-lieu fee or provide a combination of units and fee ranging in 1997 from \$5.74 per sq. ft. for a 1-unit project to \$11.47 per sq. ft. for projects of 10 or more. If rent-stabilized units need to be demolished, the developer must either replace all the units on a one-to-one basis or pay an alternative demolition fee ranging from \$41 to \$82 per sq. ft.. Since its inception in 1986, the Inclusionary Housing Program has resulted in the construction of 53 housing units affordable to low and moderate income housing.

All of the in-lieu fee generated by the program goes into a fund, called the City of West Hollywood's Affordable Housing Trust Fund that provides financing for affordable housing projects throughout the City. Over the last 10 years, the Affordable Housing Trust Fund has played a critical role in funding projects of the West Hollywood Community Housing Corporation. On the five projects of the WHCHC, excluding Palm View, the Affordable Housing Trust Fund has provided financing of \$3,553,273 that represents a 36.6% share of all debt financing (principal equal to \$9,711,427) for all projects. The funding provided to WHCHC includes a combination of notes that are subject to either principal forgiveness or interest forgiveness at the end of their terms. Thus, the Inclusionary Housing Program and the Affordable Housing Trust Fund have played a key role in the patchwork financing required for the development of affordable housing. However, due to the recession and the consequent depressed real-estate market during the last four years, the Affordable Housing Trust Fund is at all time low and nearly depleted. To meet this gap in funding, subsidies that lower the costs of housing development, such as land write downs, interest subsidies, and other alternative financing techniques are needed to lessen the impact of such market conditions.

Besides the market conditions, funding from the public sector has also been on the decline. This includes a trend of decline in the Community Development Block Grant (CDBG) funds available to the City. CDBG funds, available to City through HUD have been used in only one project of

---

the WHCHC. In addition, the State's Low Income Housing Tax Credits, used in 5 of 6 projects of WHCHC to raise equity have become increasingly competitive.

## **6.2 NEW CONSTRUCTION VERSUS SUBSTANTIAL REHABILITATION**

As a highly built out City, West Hollywood has few remaining vacant properties. Only 1% of the City's total area or 8 acres is still available for development allowing for a maximum of 316 units under the present zoning (1989 West Hollywood Housing Element). Land unavailability thus becomes a constraint. Demolition of existing older structures causes relocation, and its replacement with a new structure increases the total costs of developing the property. One could argue that by increasing the density of the new development, the developer could earn higher returns. However, this is not very likely to happen since much of the City's property is at maximum density limits. Furthermore, land costs are very high in the City, particularly because of the low supply of vacant land. Land acquisition, as a component of development cost, as shown earlier in the analysis is the largest single cost category of total development cost. These factors, among others raise the cost of new development, and become a detriment to new construction. The full development cost per unit for the new construction projects (4) built by WHCHC ranges from \$118,754 to \$157,560 with an average cost of \$146,737.

Given these conditions, substantial rehabilitation, on the other hand, is a desirable option for future affordable housing development. One of the reasons is the presence of abundant supply of older housing stock that needs to be rehabilitated. According to the City's 1997 Redevelopment Implementation Plan for the East Side, 55 dilapidated units will be rehabilitated over the next five years, 110 units over ten years and 500 units over the life of the Redevelopment Plan. This presents a great opportunity for WHCHC to take leadership in developing these sites. The full development cost per unit for substantial rehabilitation projects (2) ranges from \$61,913 to \$64,387 with an average cost of \$63,150.

However, substantial rehabilitation projects demand caution since they may have additional costs associated with them that may make the project financially unfeasible. The City has adopted California's Uniform Building Code, 1994 edition by Ordinance, and subsequently the latest Uniform Plumbing Code, National Electric Code, Mechanical Code and Title 24 and 25 of State Energy Insulation Regulations and all its amendments. These building and safety codes are designed to protect the public health, safety and welfare, and are adopted by all cities in California. In addition, the City must also comply with federal regulations pertaining to the Americans with Disabilities Act (ADA) that requires a minimum percentage of units in new housing developments built after 1989 to be fully accessible to the physically disabled. Moreover, the City has enacted seismic retrofitting codes pursuant to Chapter 96 of the WHMC and State Law (1990) that require seismic upgrades in order to reduce the potential of earthquake hazards in unreinforced masonry buildings.

Compliance with the codes, regulations, and standards does increase the costs of development of housing. It impacts substantial rehabilitation projects even more than new construction because most of the City's housing was built over 40 years ago, and well before the adoption of the current codes. This older housing stock is exempt provided the building is not materially changed, however, with substantial rehabilitation, the structure has to be updated to the current codes which drives up the development costs. Other costs associated with substantial

---

rehabilitation include the relocation of residents, asbestos abatement costs, and costs associated with additional parking requirements. Therefore, substantial rehabilitation is a viable option but only on a case-by-case basis.

Given these conditions, special circumstances are generally required to make a project financially feasible, such as unusually low land cost, unusually high rent/sale prices, below market rate financing, and/or significant reductions in construction or other development costs. The following section describes opportunities and resources for use towards the preservation, improvement and development of affordable housing. There are a variety of funding and regulatory programs available to the City and the WHCHC from the federal, state, county and city level. These resources are described below.

## **6.3 FEDERAL PROGRAMS**

### **1. HOME Investment Partnership (HOME)**

The HOME program created by the NAHA Act of 1990 by HUD, awards funds to localities on the basis of a formula which takes into account tightness of the local housing market, inadequate housing, poverty, and housing production costs. Based on HUD's distribution formula, localities must qualify for at least half million dollars to receive direct allocation of funds, or can apply to the state or combine with adjacent jurisdictions. The funding is provided to localities to assist either rental housing or home ownership through acquisition, construction, reconstruction, and or rehabilitation of affordable housing. Under the program, it is possible to fund tenant-based rental assistance, property acquisition, site improvements, and other expenses related to the provision of affordable housing, and other expenses related to special needs population. It is required that the local jurisdiction make matching contributions to affordable housing under HOME.

### **2. Community Development Block Grants (CDBG)**

These grants administered through HUD are awarded to the City on a formula basis for housing activities, including acquisition, rehabilitation, home buyer assistance, economic development, homeless services, and public services. The grants benefit primarily persons/households with incomes not exceeding 80% of the County Median Family Income (MFI). CDBG funds were provided to WHCHC for site acquisition and pre-development for a 20 unit housing project on Detroit Street. This funding was a loan to WHCHC in the amount of \$454,000.

### **3. Section 202/811 Housing for Seniors and Disabled Persons**

HUD's Section 202/811 program is designed to assist nonprofit organizations and consumer cooperatives to receive no interest capital advances for the construction of very low income (50% of MFI) rental housing for senior citizens and disabled persons. The program also provides project based rental assistance. Section 811 can be utilized to develop group homes, independent living facilities, and intermediate care facilities. Section 202 is especially appropriate for the City of West Hollywood due to its large low and limited income elderly population.

### **4. Housing Opportunities for Persons with AIDS (HOPWA)**

The HOPWA program provides competitive grants, entitlements for housing assistance and supportive services for persons with AIDS. These funds can be used for acquisition,

---

rehabilitation, lease, repair of facilities, new construction, project based or tenant based rental assistance, planning, supportive services, operating costs, short term rent, mortgage and utility payments, and administrative expenses. HOPWA funds of one million dollars for a period of three years were awarded jointly to the WHCHC, Project New Hope, and Hollywood Community Housing Corporation to create the Los Angeles Consortium for Service Coordinated HIV/AIDS Housing. The Consortium's Enhanced Management approach has been successful and is being used at six sites (at Harper Community Apartments for WHCHC), and will be eventually turned into a model suitable for national dissemination and replication.

## **5. Supportive Housing**

To promote the development of supportive housing and services, HUD provides grants to public and private non profit entities. Grants provided under this program are competitive in nature, and may be used for acquisition of property, rehabilitation, new construction although under certain limitations, leasing of structures, to meet operating and supportive services costs. While grants for operative costs may be for up to 75% for the first two years and 50% for the subsequent three years, grants for other activities require matching funds from the recipient.

## **6. Federal Emergency Shelter Grants (FESG)**

The FESG program provides funds to nonprofits to improve the quality of existing shelters and/or to increase the number of new shelters for the homeless. The funds may be used for acquisition, new construction, and rehabilitation of homeless facilities, and provision of support services.

## **7. Section 8 Rental Assistance and Housing Vouchers**

The Section 8 Rental Assistance (Certificates) and Housing Vouchers provide rent subsidies to very low income households (below 50% of MFI). The Certificate program per HUD's schedule combines rent and utility allowance, and is guaranteed not to exceed 30% of the tenant's monthly income. Rent and utilities for the unit must conform to the HUD-mandated Fair Market Rent (FMR) for the particular unit size and geographic area, and the unit must meet the HUD Housing Quality Standard (HQS). Under the Voucher program, the rent subsidy is based on the difference between a payment standard determined by the Housing Authority and 30% of the tenant's adjusted gross income. Tenants with Section 8 Vouchers can rent units beyond the FMRs, however, they must pay the difference between the actual rents and the payment standard.

## **8. Home Ownership for People Everywhere (HOPE)**

### **HOPE I (Public Housing Homeownership) Program**

The Hope I program provides grants to assist residents of public and Indian housing to become homeowners. These grants are of two kinds: planning and implementation. While the planning grants may be up to \$200,000 and do not require matching funds, the implementation grants support the actual cost of developing, acquiring, and/or rehabilitating the housing. Implementation grants have no limits, however, they do require local matching funds from non-federal sources.

---

### **HOPE II (Homeownership of Multifamily Units) Program**

The program provides grants to assist low-income persons become homeowners through use of multi-family rental properties. These funds like the HOPE I grants are for planning and implementation. While planning grants may not exceed \$200,000 and do not require matching funds, the implementation grants may not exceed 120 times the FMR, and require a non-federal match of at least 33%.

### **HOPE III (Homeownership for Single-family Homes) Program**

The HOPE III program provides grants to assist low income persons to achieve homeownership. Planning and implementation grants are available on a competitive basis with applicants for planning grants competing in a national pool, while applicants for implementation grants compete in a regional pool. The maximum amount for planning grant is \$100,000 and implementation grant is \$3,000,000.

## **9. Section 108 Program**

Section 108 is the loan guarantee provision of the CDBG program designed to provide communities with a source of financing for a variety of housing and economic development activities. The projects and activities must primarily benefit the low and moderate income persons, aid in the elimination or prevention of slums and blight, or meet the urgent needs of the community. The Section 108 loan guarantee program limits the funds to 5 times the applicant's most recently approved CDBG amount, less prior Section 108 commitments. Eligible activities under this program include economic development activities eligible under CDBG, acquisition of real property, rehabilitation of publicly owned real property, housing rehabilitation eligible under CDBG program; construction, reconstruction, or installation of public facilities; related relocation, clearance and site improvements; payment of interest on the guaranteed loan and issuance costs of public offerings, debt service reserves; and, public works and site improvements. These are secured loans and repaid by pledges of current and future CDBG funds. Additional security requirements may also be imposed on a case by case basis.

## **6.4 STATE PROGRAMS**

### **1. Low Income Housing Tax Credits (LIHTC)**

The program allows individuals and corporations to earn tax credits by investing in low income rental housing. The credits are usually sold to corporations or persons with a high tax liability. The funds generated by the sale of these credits are then used to create housing. The application for LIHTC is competitive since each state is allowed a finite amount annually. For California, award recipients are selected by the Tax Credit Allocation Committee (TCAC). A description of the TCAC programs is detailed in Appendix C. As mentioned earlier, five of the six WHCHC projects have used Tax Credits to raise equity and have played a critical role in the financing of the projects.

### **2. California Housing Finance Agency (CHFA)**

The agency provides below market interest rate mortgage capital through the sale of tax-exempt notes and bonds.

---

## **Single-Family**

### *Home Mortgage Purchase (HMP) Program*

CHFA sells tax-exempt Mortgage Revenue Bonds to provide below-market rate financing through approved private lenders to first time homebuyers for the purchase of new or existing homes.

### *Self-Help Housing Program*

CHFA assists nonprofits which acquire land, provide building plans, and package loans for self-help housing. Under the supervision of nonprofit housing developers, families provide the majority of construction labor. The agency makes commitments to self-help corporations for low-interest mortgages and provides credit enhancements to lenders who provide construction financing and preferential interest rates.

## **Multi-Family**

### *Rental Housing Mortgage Loan Program*

The program finances the construction or substantial rehabilitation of projects containing 20 or more units. Twenty percent of the units in the projects must be set aside for low income tenants at affordable rents for the greater of 15 years or as long as the mortgage is outstanding.

## **6.5 COUNTY PROGRAM**

### **1. Mortgage Credit Certificate Program**

The Los Angeles Community Development Corporation (CDC) administers a Mortgage Credit Certificate (MCC) program to assist low and moderate income (up to 115% of median income) first time homebuyers to obtain homeownership. The MCC awards the holder federal income tax credit. Qualified applicant may take a credit against federal income taxes of up to 80% of the interest paid on the first year of the mortgage.

## **6.6 LOCAL PROGRAMS**

### **1. Redevelopment Tax Increment**

The 1997 Redevelopment Implementation Plan on the East Side of the City will create significant new housing opportunities in areas where housing was not feasible due to site limitations, ownership, or market unfeasibility. Redevelopment creates a significant amount of locally controlled funds for the development of affordable housing. State law requires that at least 20% of all property tax increments in a redevelopment area be set aside to subsidize new, existing, or rehabilitated low and moderate income housing. It also enables the City to issue bonds and finance housing construction, and acquire land for new housing. According to the 1997 Redevelopment Plan (5-Year Implementation Plan), the City shall build 70 units over the next five years, and a total of 140 units over 10-year period, and 420 units over the 30-year life of the Plan. Moreover, 55 dilapidated units will be rehabilitated over the next five years, 110 units over ten years and 500 units over the life of the Redevelopment Plan.

---

## **2. Inclusionary Housing Program**

In an effort to expand the supply of affordable housing within its jurisdiction, the City like 64 communities across California has implemented inclusionary housing requirements. The Inclusionary Housing Ordinance adopted by the City in 1986 “encourages low and moderate income housing, and housing for the disabled and older residents (West Hollywood Municipal Code, Section 9401). As mentioned before, the City’s Inclusionary Housing Program has been adversely impacted due to a recession induced dampened real estate market. The Inclusionary Housing program requires residential developers to set aside a portion of units in each new residential development for low and moderate income households. This set-aside is 20% for projects with over 10 units, and 10% for projects with 10 or fewer units. For projects with 20 or fewer units, however, developers may pay an in-lieu fee or provide a combination of units and fee ranging from \$5.74 per sq. ft. for a 1-unit project to \$11.47 per sq. ft. for projects of 10 or more. If rent-stabilized units need to be demolished, the developer must either replace all the units on a one-to-one basis or pay an alternative demolition fee ranging from \$41 to \$82 per sq. ft.. Since its inception, the Inclusionary Housing Program has resulted in the construction of 53 housing units affordable to low and moderate income housing. It has also contributed \$3.6 million to the Affordable Housing Trust Fund collected through in-lieu fees; which have been put to use in partially financing all of the WHCHC projects.

### **6.7 ALTERNATIVE AFFORDABLE HOUSING FINANCE PROGRAMS**

Due to the decrease in Federal and State program funding, and the need for additional funds to stem the loss of affordable housing due to vacancy de-control, alternative affordable housing finance programs should be explored by WHCHC and the City. Potential funding mechanisms include:

- Tax Exempt Bonds and State Low Income Housing Tax Credits, where loans are made to property owners in exchange for deed-restricting 20% of the units to households earning no more than 50% of the median county income, or 40% of the units are deed restricted for households earning no more than 60% of the median county income.
- HUD Section 108 Program (mentioned above), whereby loans are made using future CDBG funds as collateral.
- Mortgage Credit Certificates, (mentioned above), where first-time homebuyers earning up to 120% of the median county income may be credited with up to 80% of the interest paid on taxes during the first year of the mortgage.
- A working relationship with private lenders to leverage City funds, and public-private partnerships that yield a value added product.

---

## VII. CONCLUSION

Nonprofits play a critical role in bringing a community based perspective to the housing development sector. They secure public and private resources and invest them in housing to stabilize these neighborhoods. Over the years, a cadre of experienced community housing developers has been created supported by a network of public agencies, private funders, corporate givers, and local executive and legislative bodies. While the capacity of the nonprofit sector is not uniform, the advanced parts of the sector have increased pressure on local nonprofits to take on broader community development roles. The West Hollywood Community Housing Corporation plays a pivotal role in taking on broader housing (production) and community development (non-production) functions. This is illustrated by its housing development, housing management, and the enhanced management program serving the special needs population. Supporters of the nonprofit sector argue that compared to for-profit firms, nonprofits i) have the potential to provide more effective management and maintenance of housing they have developed; ii) are more likely to produce or rehabilitate housing that accomplishes the goals of broader community revitalization, and iii) are more likely to establish and sustain needed services for low income residents. These activities, some of them which are already being carried out by WHCHC include counseling residents, organizing community residents, advocating community reinvestment, providing homeless housing, emergency food assistance or training residents for employment.

Expanding the role of nonprofits is necessary and inevitable. The motivation is that good housing cannot be sustained in environment that is clouded by high unemployment, crime, neglect and social isolation. The new thinking among foundation supporters, at Federal, State and local level is to support comprehensive approaches to community revitalization that build linkages and partnerships with the private sector to enhance institutional capacity. This concept also informs the Federal Empowerment Zone/Enterprise Communities (EZ/EC) initiative and embodies the core principles of the President's agenda that combines Federal tax incentives with direct funding for physical improvements and social services. These initiatives cut across human services, health, economic development and housing domains, and strongly emphasize community participation in policy formulation and implementation. The funding is designed to assist residents, businesses and organizations for a broad range of activities, including workforce preparation and job creation efforts linked to welfare reform; neighborhood development; support for financing of capital projects; financing of projects in conjunction with the Section 108 loan guarantee program and other economic development projects; support for project based rental assistance; financing other housing activities; community policing; and health care. The idea of comprehensiveness with a view to making appreciable impacts is not a new one, for example Model Cities was defined by that concept. Issues that surround such EZ/EC initiatives transcend the role of nonprofit developers but a good number of questions pertain to their future role.

- Among them, how can nonprofit developers enhance their capacity by the creation of new collaborative arrangements (with the City, other nonprofits and the private sector)?
- What institutional arrangements to provide services (enhanced management, workforce training, health care) appear to be most effective and efficient?
- What special organizational demands does service integration place on nonprofit sponsors?

- 
- What opportunities exist for developers such as WHCHC to engage in community building, community organizing, workforce training and economic development activities?
  - What are the barriers in the nonprofit sector to staff recruitment, retention, training, career development and upward mobility? What can local intermediaries, other collaborative institutions, and other sector supporters do to compensate for these barriers?

Nonprofits, increasingly due to pressures for funding need to be entrepreneurial in nature and respond to the changing imperatives of performance, efficiency, and accountability. This is especially true because of the sector's greatest internal vulnerabilities – the burdens of patchwork financing and the lack of ongoing operating support. The need to patch together project financing from a large number of sources increases the legal complexities and hence the costs associated with the project. This suggests the need for creating alternative financing instruments, perhaps pooling resources at higher levels and making them available to local nonprofits in a simpler manner.

While government subsidies remain critical, the nonprofit sector is progressing in reducing risk perceptions in private capital markets. The role of intermediaries in confidence building and the creative pooling of funding sources to reduce the risk through diversification has been an important element. However, additional efforts are warranted to expand the concept of leveraging to secure both additional private financing and to further institutional change and capacity building.

---

## **1.0 REPORT ON INTERVIEW SURVEY OF COMMUNITY LEADERS AND STAKEHOLDERS**

### **1.1 Introduction**

The survey is a component of a Housing Study conducted by the University of Southern California, School of Urban Planning and Development for the City of West Hollywood. The purpose of the Housing Study is to explore the existing housing needs, conditions, opportunities, policies, and practices of the City of West Hollywood, and to highlight options for the City Council to consider for its direction in the future. As a component of the Study, this Interview Survey of Community Leaders and Stakeholders seeks to canvass their views regarding performance of the City in meeting its goals, opportunities and obstacles for future housing policies, and expected impacts of recent legislative developments and trends in the future.

The interviewees comprised members of the City Council, and representatives of the Planning Commission, The Rent Stabilization Commission, the West Hollywood Community Housing Corporation, The Coalition for Economic Survival and the West Hollywood Concerned Citizens. The interviews were conducted between May and August 1997.

The issues surveyed were organized under seven sections, namely, rent stabilization, affordable housing production and preservation, zoning, market rate housing, trends, homeownership, and NIMBYism

The report is presented as summaries of prevailing views, commonalties, and differences in respect of each question.

### **A. Rent Stabilization**

#### ***1. HOW HAS RENT STABILIZATION HELPED THE CITY MEET ITS GOALS?***

The goals of rent stabilization were generally identified as follows: to provide and maintain a stock of affordable, good quality housing in a safe environment; to maintain diversity and inclusiveness particularly in terms of low income groups, seniors, immigrants and minorities; and to protect these groups from dramatic fluctuations in rent levels.

Most respondents felt that the city has met these goals. Although the location of the city makes it susceptible to gentrification, rent stabilization has, to a large extent, prevented this. Affordable and decent housing has helped maintain diversity in the population mix. Seniors, low income residents and minorities have not been forced out, and housing has been provided for the disabled. The rent stabilization code makes provision for property maintenance, and although there are a few “renegade” landlords, enforcement levels have been good, and the number of tenant-landlord conflicts have been kept low.

One respondent maintained that the beneficiaries of rent stabilization are young singles with high incomes rather than seniors and low income residents, and that rent stabilization has created the problem of deferred maintenance of units.

A common perception was that, due to the current “soft” market, rents, in many cases, are lower than the Maximum Allowable Rent (MAR), but will rise as soon as the market improves.

---

***WHAT WILL BE THE EFFECT OF RECENT LEGISLATION ON THE RENT STABILIZATION PROGRAM, INCLUDING THE IMPACT ON AFFORDABILITY AND LIVING.***

The prevailing view was that rent levels will rise, but, because current rents are close to market levels, the increases will take effect gradually. The fact that increases will only take effect when a unit is vacated was also cited as a reason for a gradual increase.

Most respondents agreed that rent increases will result in gentrification as low income residents get forced out. Some believed that gentrification will take place in pockets, while others felt it would be more widespread. Many respondents maintained that the city will also suffer a loss in diversity along age lines as the elderly population decreases. Landlords will give preference to younger tenants because their higher mobility (turn-over) will facilitate application of rent increases. One respondent stated that vacancy de-control will have no effect on the elderly as long as they stay in place. In general, there was consensus that the city will face greater difficulties in maintaining its stock of affordable housing.

Almost all respondents expected a deterioration in relations between landlords and tenants. It was felt generally that evictions will increase as landlords, in order to secure higher rentals upon vacancy, will apply overt and covert pressure on tenants to move out. There will be lower tolerance among landlords for non/late payments, and nuisance. One respondent pointed out that the City has passed some legislation to address these kinds of problems.

**B. Affordable Housing Production and Preservation**

***1. THE WEST HOLLYWOOD COMMUNITY HOUSING CORPORATION (WHCHC) HAS DEVELOPED UNITS OF AFFORDABLE HOUSING INCLUDING UNITS OF NEW CONSTRUCTION. DOES THE NON-PROFIT PRODUCE A QUALITY PROJECT? WHAT SUGGESTIONS DO YOU HAVE FOR THE NON-PROFIT - E.G. LOCATION OF PROJECTS, REHAB VS. NEW CONSTRUCTION, PRODUCTION, ETC.***

There was overwhelming agreement that the WHCHC has done excellent work and produces good quality projects. It was pointed out that some of their projects have won design awards. Many felt that the CHC should be given autonomy in decisions about project location and project type (i.e., new construction or rehab). Respondents also emphasized the need for more support for the CHC. Some suggested an increase in exactions from new projects and greater allocations from the general fund. Others proposed that the city look for bonds and individual investors as funding sources.

Preferences about whether the CHC should pursue rehab or new construction in the future varied. Most agreed that it should make these decisions on a case by case basis. There was concern that the amount of land available for new projects is limited, that new projects are more expensive (both in capital and management costs), and that new construction depletes the stock of existing rent controlled units. Some felt that new construction should be left to private developers and the CHC should focus on rehab projects. There was also concern that

---

rehab projects displace existing tenants, and that these projects could be more expensive, especially if earthquake retrofitting and removal of lead paint is required.

Most respondents suggested that the CHC should do more to secure greater community participation on all its future projects, and cited the King’s Road project as an example of its failure to do so.

***2. COMMUNITY DEVELOPMENT BLOCK GRANTS CURRENTLY FUNDS MINOR AND SUBSTANTIAL REHAB OF HOMES AND APARTMENTS, WITH AN EMPHASIS ON THE EAST SIDE (RESIDENTIAL REHAB LOANS, HOME SECURE, LIGHTS ON CRIME, HANDYWORKER, HOMES AND GARDENS (NEW PROGRAM). WHAT SUGGESTIONS DO YOU HAVE FOR THESE FUNDS?***

There was a broad range of suggestions for use of these funds. These included suggestions that the funds be used for: streetscaping, facade improvements and better street lighting, particularly on the east side; continued production of affordable housing for low income residents and the disabled; residential rehab (as a strategy to maintain old housing stock); and social service programs that are threatened under the present City Council (i.e., the bus pass program, the nightline shuttle and seasonal closure of the swimming pool).

Use of these funds for CHC purchase of land for affordable housing were noted and supported. It was also suggested that the programs receive more publicity in future.

***3. INCLUSIONARY HOUSING: THE CITY’S INCLUSIONARY HOUSING PROGRAM REQUIRES DEVELOPERS OF MARKET-RATE HOUSING TO INCLUDE AFFORDABLE HOUSING WITHIN THEIR PROJECT OR PAY AN IN-LIEU FEE. SINCE INCEPTION IT HAS PRODUCED 53 RENT RESTRICTED UNITS AND FUNDS TO DEVELOP AFFORDABLE HOUSING PROJECTS. DO YOU HAVE ANY COMMENTS ABOUT THE PROGRAM.***

Most respondents agreed that the Inclusionary Housing program should be retained since it is an important way for the City to meet its housing goals.

Preference for inclusionary housing or in-lieu fees varied. Those in favor of inclusionary housing stated that it helps reduce spatial segregation of low income projects. To this end, there were suggestions that greater incentives be provided for inclusionary housing. Those opposing inclusionary housing in favor of in-lieu fees stated that the former is difficult to administer since it requires a good “oversee” program on the part of the City.

While a small minority of respondents felt that the program acts as a disincentive for private sector new construction, others maintained that in a vigorous market inclusionary fees did not

---

get in the way of new development. The fact that higher fees in Santa Monica did not stifle development was cited.

### **C. Zoning**

***WEST HOLLYWOOD'S ZONING REGULATIONS ARE DESIGNED TO PRODUCE QUALITY HOUSING AND MAINTAIN NEIGHBORHOOD INTEGRITY. ARE THERE WAYS THE ZONING CAN BE DEFINED TO IMPROVE THESE GOALS? DO THESE REGULATIONS HAVE AN IMPACT ON THE ABILITY TO DEVELOP MARKET-RATE AND/OR AFFORDABLE HOUSING?***

A variety of suggestions for zoning improvements were made. These included: provision of greater certainty in the application process; parking reduction across the city for affordable housing; increase in height limits; investigation of zoning and lot sizes on the east side (where lots are small); upzoning from single family to multi-family residential in selected areas; an investigation of lot assemblage for redevelopment; reduction in application fees; and speeding up of the approval process by meeting developers and their consultants around a conference table (e.g. Glendale/Burbank).

A minority of respondents felt that current bonuses are quite generous and should not be increased, and that the current approval process is slow, but necessary in order to safeguard the interests of local communities.

There was also concern that zoning changes (if any) should not interfere with the pedestrian character of the city.

### **D. Market rate Housing and New Construction**

***SHOULD INCENTIVES BE DEVELOPED TO ENCOURAGE NEW CONSTRUCTION? WHAT MIGHT THEY BE?***

Generally suggestions for zoning incentives (while still leaving inclusionary housing component intact), and greater zoning certainty were proposed as strategies to encourage new construction. Some respondents stated that because the quality of life in the City is a major incentive for new development, programs that keep the crime rate low, enhance the pedestrian character of the city, and improve parks and gardens should be supported. The proposed redevelopment program was also cited as a strategy to increase private new construction. One respondent felt that disincentives such as the in-lieu fees and density restrictions should be removed in order to encourage more private development.

### **E. Trends**

***WEST HOLLYWOOD HAS HISTORICALLY SUPPORTED PRODUCTION OF AFFORDABLE HOUSING FOR SENIORS AND PERSONS WITH HIV/AIDS. HOW DO YOU SEE DEMOGRAPHIC***

---

***TRENDS AND CHANGES TO “WELFARE REFORM” AFFECTING  
THE CITY’S PRIORITIES?***

Most respondents anticipated that the welfare cuts will have serious negative consequences for the City as more low income households get displaced, and the homeless population increases. It was felt that immigration reform will impact older people as well as other legal residents who will lose their disability and old age benefits as they age. Hence Hispanics and Russians will be affected as well.

There was some agreement that the number of people with HIV/AIDS will increase as protease inhibitors and other new forms of treatment will allow them to live longer. Some felt that they will grow less dependent on the City as they will be able to remain at work longer, while other felt that they will live longer but still remain chronically disabled and hence dependent on the City.

There was disagreement about the future size of the senior population as well. Some felt that the population will increase because seniors will be able to live longer, while others felt that it will decrease as the availability of low income housing for seniors gets reduced.

While most respondents expressed the need for the City to continue its housing programs for low income and disabled residents, a small minority proposed reduction in subsidies in favor of more private sector housing.

**F. Homeownership**

***WEST HOLLYWOOD HAS A VERY HIGH PERCENTAGE OF  
RENTAL HOUSING. SHOULD PROGRAMS BE DEVELOPED TO  
ENCOURAGE FIRST TIME HOMEOWNERSHIP?***

The prevailing view was that some form of homeownership should be encouraged, but it should not detract from provision of affordable rental housing. Proponents of homeownership felt that it adds to the number of available housing options, and homes for larger families will help maintain diversity. Suggestions to encourage homeownership included the initiation of a pilot project, and conversion/rehab of apartment buildings into condos. A minority felt that low homeownership was not a problem since services already exist to encourage homeownership.

**G. NIMBY**

***HAS NIMBYISM (NOT IN MY BACK YARD) AFFECTED THE  
WILL TO DEVELOP NEW HOUSING PROJECTS THROUGHOUT  
THE CITY, BUT NOT LIMITED TO AFFORDABLE HOUSING?***

There was overwhelming consensus that NIMBYism exists and is a big problem in the City. Respondents stated that residents are becoming increasingly well-organized, forceful, and vocal. But there was concern that most objectors did not offer concrete solutions, the real issues are masked behind false issues (for example at Kings Road the problem of traffic increase was cited when the real objection was about low income housing), and coded language is used to hide real prejudices. It was felt that the City should speak strongly against discriminatory comments and should determine the legitimacy of the issues raised by

---

objectors. In general, respondents felt that NIMBYism should not preclude the development of low income housing in the city.

## **2.0 Community Workshop**

On December 8<sup>th</sup>, 1997, a Community Workshop, *The Future of Housing in West Hollywood* was conducted by USC Community Development & Design Forum. The purpose of this workshop was two-fold: a) to inform the City Council, City staff, stakeholders, and public at large regarding the findings of this study, and b) to obtain feedback from the community regarding the various housing issues, problems and opportunities.

The workshop was attended by City staff and residents. Presentations were made by Dr. Tridib Banerjee, Mark Hoffman, Kiran Laloo and Deepak Bahl. Ms. Allyne Winderman, Economic Development & Housing Manager, presided over the community workshop.

The comments and suggestions made at the community workshop were recorded and incorporated in this report. A copy of the report prepared for the community workshop is available from the City of West Hollywood.

---

## California Tax Credit Allocation Committee (TCAC) A Description of TCAC Programs

Matt Fong, State Treasurer: Board, Authorities & Commissions  
Source: <http://www.treasurer.ca.gov/tcprog.htm>

The California Tax Credit Allocation Committee ("Committee" or "TCAC") administers two low-income housing tax credit programs -- a federal program and a state program. Both programs were authorized to encourage private investment in rental housing for low -and lower-income families and individuals.

### **The Committee**

The Committee has seven members, three of whom are voting members and the four that serve as advisors. The voting members include the State Treasurer, who serves as chairman, the State Controller, and the Governor. At the Governor's discretion, either the Governor or the Director of the Department of Finance may serve on the Committee.

The non-voting advisors are the Executive Director of the California Housing Finance Agency, the Director of the Department of Housing and Community Development, and two representatives from local government. One local representative must be associated with a city and is appointed by the Speaker of the Assembly. The other member is a county representative appointed by the Senate Rules Committee.

### **The Federal Program**

The federal program ("Credit program") was authorized by Congress in 1986. It replaced traditional housing tax incentives, such as accelerated depreciation, with a tax credit that enables low-income housing sponsors and developers to raise project equity through the sale of tax benefits to investors.

The Credit program is contained in the federal tax code and is administered by the Internal Revenue Service which is part of the U.S. Treasury Department. Internal Revenue Code Section 42 specifies that, in each state, the state legislature designates the "housing credit agency" to administer the Credit program. In California, responsibility for administering the program was assigned to the California Tax Credit Allocation Committee, first by a February 1987 gubernatorial proclamation, and later by enactment of SB 113, Chapter 658, Statutes of 1987.

The federal tax credit was granted permanent status with passage of the Omnibus Budget Reconciliation Act of 1993. Prior to receiving permanent program status, Congress authorized the Credit program on an annual basis.

### **The State Program**

Recognizing the high cost of developing housing in California, the legislature authorized a state low income housing tax credit program to augment the federal tax credit program. Authorized by Chapter 1138, Statutes of 1987, the state credit is only available to a project which has previously received, or is concurrently receiving, an allocation of federal credits. The state program does not stand alone, but instead, supplements the federal tax credit program.

---

Each state is allowed an annual housing credit ceiling of \$1.25 per capita,



---

national pool comprised of states' unused credits. Also, any credits returned to a state from a credit recipient can be allocated to new projects. From the total ceiling amount available to California, the Committee allocates credit amounts based upon assessments of eligible project costs, as defined by IRC Section 42. The housing sponsor uses or sells ten times the allocation amount, since the annual credit can be taken by investors each year for a ten-year period. Although the credit is taken over a ten-year period, the Internal Revenue Code requires that the project remain in compliance for at least 15 years.

#### **Annual State Credits Available**

The annual state credit ceiling is currently set at \$1.25 per capita; however, the state ceiling cannot exceed \$35,000,000 per year (in addition to any unused or returned credits from previous years).

The state credit is taken by investors over a four-year period in contrast to the ten-year federal allocation period. The full four-year state credit allocated to a project is deducted from the ceiling, while only the annual federal credit allocated to a project is deducted from the federal ceiling.

#### **Eligible Projects**

Only rental housing projects are eligible for tax credits in both the federal and state programs. Credits can be allocated to new construction projects or projects undergoing rehabilitation. Credits must be allocated on a competitive basis so that those meeting the highest housing priorities, as determined by the Committee, have first access to credits. Those utilizing tax credits must own the project for which the credits are awarded. Tax credits are allocated based on the cost basis of the project, including hard and soft development costs associated with building the project. Land costs cannot be included in determining the amount of credits needed.

#### **Rent and Income Restrictions**

The Credit program has both rent and income restrictions. Since 1989, rents on tax credit units cannot exceed 30% of an imputed income based on 1.5 persons per bedroom (i.e., in a two-bedroom unit, the income of a three-person household is used to calculate rent, regardless of the actual family size of the household). For projects allocated credits from ceilings before 1990, rents must be at or below 30% of the qualifying income of the household occupying a unit.

Initial incomes of households in tax credit units cannot exceed either 60% or 50% of the area median income, adjusted for household size. When a project developer or sponsor applies for tax credits, he or she irrevocably elects one of the following minimum federal set-aside requirements:

- \* a minimum of 40% of the units must be both rent-restricted and occupied by households whose incomes are 60% or less of the area median gross income, adjusted for family size, or
- \* 20% of the units must be both rent-restricted and occupied by households whose incomes are 50% or less of the area median gross income, adjusted for family size.

Despite this minimum set-aside election, project sponsors typically designate all of the units in a project for occupancy by low-income households, since credits are allocated only for restricted units. For

---

instance, if a developer builds a project in which half of the units are market-rate and half are affordable, only half of the eligible project costs would be considered when determining how much credit may be allocated. Additionally, as described later, sponsors generally target a certain number of units to tenants with incomes below 60% or 50% of median to compete successfully.

#### **Long Term Affordability**

Under federal law, credit projects must remain affordable for at least 15 years; however, California law requires a minimum of 30 years compliance. Furthermore, all projects competing in targeted housing type categories must meet a threshold requirement of maintaining affordability for 55 years. Land use agreements are recorded against each credit project to ensure compliance.

#### **Determination of Credit Need**

As required by federal law, the Committee must perform feasibility analyses on every project to ensure that allocations do not exceed the amount required for project feasibility. While a project's qualified basis determines a maximum credit allocation, only the amount needed to fill the financing shortfall can actually be allocated. The Committee must consider the sources and uses of funds and the total financing planned for the development, including the proceeds expected to be generated by tax credits. The Committee must also determine the reasonableness of estimated development, operational and intermediary costs. For each project, the amount of credits needed must be determined at least three times, at application, allocation, and placed-in-service.

#### **How Credit Amounts Are Calculated**

As required by federal law, the maximum credit amount that may be allocated to a project is based on the project's qualified basis. First, total project cost is calculated. Secondly, eligible basis is determined by subtracting non-depreciable costs, such as land, permanent financing costs, rent reserves and marketing costs. The project developer may also voluntarily reduce the requested eligible basis in order to gain a competitive advantage. If the development is located in a HUD designated high cost area (HCA), the eligible basis receives a 130% HCA adjustment. Finally, to determine the qualified basis, the eligible basis is multiplied by the applicable fraction, which is the smaller of, (1) the percentage of low income units to total units, or, (2) the percentage of square footage of the low income units to the square footage of the total units, to arrive at the qualified basis.

The qualified basis is multiplied by the federal tax credit rate, published monthly by the IRS, to determine the maximum allowable tax credit allocation. For projects that are new construction or rehabilitation, which are not financed with a federal subsidy, the rate is approximately 9%. For projects involving a federal subsidy (including projects financed more than 50% with tax exempt bonds), the rate is approximately 4%. The 9% and 4% rates are used to determine a project's initial tax credit reservation. A project's final (placed-in-service) tax credit allocation is based on actual project sources and uses of funds, the financing shortfall and the actual applicable federal rate. The rate applicable to a project is the rate published for the month each building is placed in service or in an earlier month elected by the sponsor. The allocation cannot exceed the initial reservation amount and may be reduced if an analysis determines that the maximum allowable amount would generate excess equity proceeds to

---

the project.

### **Raising Syndication Proceeds**

Most credits are sold to corporate or individual investors through public or private syndication. Investors benefit from the tax credit by purchasing an ownership interest in one or more tax credit housing projects. In turn, investors take a dollar-for-dollar credit against their tax liability over a ten-year period. The partnership contributes equity to the project which typically finances 30-60% of the capital costs of project construction.

The net amount of equity proceeds contributed to a project is based on investor contributions (the present value of the ten-year credit) less syndicator overhead and fees and other syndication-related costs. The Committee uses the net tax credit factor (net proceeds divided by the total 10-year tax credit allocation) to determine the reasonableness of the pay-in and the credit amount needed. This net tax credit factor typically ranges from \$0.50 to \$0.60 per dollar of tax credit.

### **Differences Between the State and Federal Programs**

California's tax credit program was structured to mirror the federal program with certain exceptions. In addition to the state credit only being available to projects which also receive a federal credit, other major differences include:

- \* TCAC gives priority for state credit allocations to projects not located in a designated high cost area and those using HOME funds to finance eligible costs.
- \* The applicable percentage to be applied to the qualified basis for determining the amount of state credits is 30% for projects which are not federally subsidized, and 13% for projects which are federally subsidized, in contrast to 9% and 4% for the federal credit.
- \* State credits are not available for acquisition costs, except for projects that qualify as "at-risk" of being converted to market rate.
- \* The state program has a rate of return limitation. Any surplus revenues generated above the limitation must be used to reduce rents.

### **State Credits in Designated High Cost Areas**

The authorizing legislation that created the state tax credit prohibited credit allocations to projects located in federally-designated high cost areas (HCAs). The prohibition was included to recognize that additional federal credits, in amounts derived by increasing eligible basis by 130%, are awarded to projects in HCAs, and thereby reduce the need for state credits. Once the HCAs were identified, it was noted that a significant portion of the state was deemed an HCA. In response, the legislature enacted Chapter 1485, Statutes of 1990 (AB 374), allowing state credit allocations in HCAs, but only if the federal credit is not increased above 100% of eligible basis. The state credit and the federal credit may be used together up to an amount that does not exceed the amount of federal credit that would be available after increasing eligible basis to 130%.

### **The Qualified Allocation Plan (QAP)**

---

Section 42 of the Internal Revenue Code governs the use of the federal tax credit. In 1989, the Internal Revenue Code was revised to require that allocating agencies design and implement a Qualified Allocation Plan ("QAP") that establishes priorities in allocating the credit based on state and local needs. Section 42 requires allocating agencies to hold public hearings to consider public input on the QAP.

Federal law defines a QAP as a document which:

1. sets forth selection criteria to be used to determine housing priorities of the housing credit agency which are appropriate to local conditions;
2. gives preference in allocating housing credit dollar amounts among selected projects to -
  - (a) projects serving the lowest income tenants, and
  - (b) projects obligated to serve qualified tenants for the longest period; and,
3. provides a procedure that the agency will follow in monitoring projects for noncompliance according to the provisions of IRC Section 42 and in notifying the IRS of such noncompliance.

Section 42 also requires that the QAP include the following selection criteria:

- \* project location
- \* housing needs characteristics
- \* project characteristics
- \* sponsor characteristics
- \* participation of local tax-exempt organizations
- \* tenant populations with special housing needs
- \* public housing waiting lists

Title 4, Chapter 17 of the California Code of Regulations ("Regulations") also sets forth the policies and procedures governing the Committee's management of the Credit Program. In 1996, the Committee revised the Regulations to include the QAP by reference.

#### **Threshold Criteria**

State law and the Committee's Regulations require that projects meet certain readiness criteria at the time an application is filed. If these are not met, an application is rejected. These criteria effectively dissuade applicants from applying too soon before they are ready to build their project. Federal law imposes unforgiving deadlines both for allocating agencies and project sponsors to meet. Failure to meet these deadlines jeopardizes the Committee's ability to allocate all credits and could cause sponsors to lose credits. Threshold criteria require that the applicant show the following:

- (a) the type of housing proposed is needed and affordable to the targeted population within the community in which it is to be located;
- (c) enforceable financing commitments of at least 50% of the total estimated financing need;
- (d) control of the site;
- (e) compliance with all applicable local land use and zoning ordinances;
- (f) development team experience and financial capacity to ensure project

---

completion and operation for the extended use period;  
(g) financial viability throughout the compliance period of the project;  
(h) minimum construction standards;  
(i) all deferred-payment financing, grants, and subsidies be "committed" at application; and  
(j) with the exception of tax-exempt bond projects, project size is limited to no more than 200 units for non-rural set-aside applications, and 80 units for rural set-aside applications.

In addition, targeted projects must meet additional threshold requirements as applicable to the targeted population. These additional threshold requirements can be found in the Regulations.

#### **Application Cycles and TCAC Review Process**

State law requires the Committee to hold two or more application cycles each year, unless circumstances warrant a reduction in the number of cycles. The first cycle is generally held in the first few months of the year, with a second cycle following in the late spring.

#### **Application Process**

TCAC has prepared an application package that is intended to assist applicants to present clearly the characteristics of their project. Staff reviews the application to determine the reasonableness of project costs, the maximum allowable tax credit allocation, and the amount of credit needed for financial feasibility. The process is as follows:

- (a) Applicants declare the competition, set-aside, and housing type within which they wish to compete.
- (b) Staff will hold a public meeting to assign a random lottery number to each project.
- (c) Staff verifies each applicant's self-score, and establishes a ranking of the applications based on the applicant's score and the lottery number. Applications considered in the Affordability and Credit Utilization competitions will be scored and ranked against other applications within that particular competition.
- (d) Beginning with the top-ranked application from the Affordability competition, and alternating in rank order with applications from the Credit Utilization competition, the Non-profit, Rural, and Small Development set-asides will be exhausted by temporarily designating amounts of federal tax credits from the set-asides to applications from the competitions.
- (e) A list will be established consisting of applications receiving a temporary allotment of federal credits. State tax credits will then be allotted as requested by these applicants until available state credits are exhausted.
- (f) Staff will review each application receiving a temporary credit allotment to determine project eligibility.
- (g) If the project is complete and eligible, a financial feasibility analysis is performed.
- (h) Complete, eligible and feasible project applications of sufficiently high rank are recommended to the Committee for reservation of tax credits.

The application review process generally takes about seventy-five days to complete.

#### **Stages of Tax Credit Reservation**

Federal law has stringent requirements for making allocations and placing projects in service. A slip in timing could cause the state to lose credits

---

and not be able to access unused credits from other states. It is for this reason that the Committee has established progress requirements that ensure California is in compliance with federal law.

1. Preliminary Reservation - Generally, when applications are submitted to TCAC, projects are not yet ready to begin construction and the applicant seeks a Preliminary Reservation. An applicant has 270 days from the date of reservation to meet all milestones for a Final Reservation and to commence construction.
2. Final Reservation - Project sponsors receive a Final Reservation when all conditions of the Preliminary Reservation have been met. The construction loan must be funded, permanent financing and any other financing required to complete the project must be committed, and a partnership agreement must be executed. A second feasibility analysis is completed. This reservation is in effect during the project's construction period.
3. Carryover Allocation - An applicant may obtain a Carryover Allocation prior to or after a Final Reservation, depending upon the time constraints imposed by federal law. Currently, federal law requires that a Carryover Allocation be obtained if a project will not be placed-in-service in the same year the project receives a reservation. To qualify for a Carryover Allocation, an applicant must incur more than 10% of the project's anticipated basis upon completion by December 31st of the year of the Carryover Allocation. TCAC generally imposes an earlier deadline and requires applicants to purchase the land or execute a land lease. A financial feasibility analysis will also be performed before the allocation is made. Once a Carryover Allocation is made, federal law allows project owners 24 months from the year a Carryover Allocation is made to place the project in service.
4. Issuance of Tax Forms - This is accomplished when conditions of the Final Reservation have been met and the project is placed in service. TCAC issues IRS Form 8609 (and the state Form FTB 3521A, if applicable) after performing a final feasibility and cost reasonableness analysis to determine the requisite amount of tax credits needed. The final analysis is based on an audited cost certification prepared by the owner's accountant. One tax form will be issued for each residential building in a project.

Before the tax forms are issued, the applicant must enter into a regulatory agreement with TCAC. This agreement is recorded against the land and holds the project owner to the specifications and characteristics of the project on which the tax credit reservation was awarded (rent and income restrictions, selection criteria, preference points and other requirements).

#### **Compliance Monitoring**

The Committee administers a compliance monitoring program involving all projects with an allocation of federal or state credits. Projects are monitored according to the requirements of Section 42, IRS regulations, and the terms of the regulatory agreement entered into between the owner and the Committee.