ATTACHMENT C

December 14, 2020

Metro Joint Development Affordable Housing Policy Paper

Harnessing Metro’s real estate portfolio to create plentiful, equitable, and high-quality transit-oriented housing.

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INTRODUCTION

Metro's Joint Development (JD) Program is the real estate development program through which Metro collaborates with developers to build transit-oriented developments on Metro-owned properties. JD sites are a gateway to the Metro transit system and hold unique potential to advance community development goals while attracting new riders to the Metro system.

The JD Program is guided by Policy and Process documents, which were substantially revised in 2015, responding to a moment marked by the end of redevelopment agencies in California, new Metro leadership, and an awakening to the deeper potential in the relationship between transportation infrastructure and its host communities. That Policy set forth a goal for affordable housing production (35% of the portfolio) and a provision to discount property (up to 30%, matching affordable unit percentage). At the time of its adoption, the Policy was groundbreaking and established a template that other agencies around the country would follow.

Today, in the depths of a regional housing crisis which is exacerbating structural racial inequities[1], updating the JD Policy provides an important opportunity to focus the Agency's commitment to delivering inclusive, high-quality affordable housing on its land. This paper lays the groundwork for an updated policy that will rise to the occasion, laying out the principals and goals against which specific interventions are measured and analyzing the potential policies and tools against this framework.

Metro's JD portfolio will grow rapidly over the next decade with the acquisition of properties for new transit lines throughout LA County. It is anticipated that more than 40 new sites will join the JD portfolio, effectively doubling its size. Each JD site holds the potential to augment unique communities. Taken as whole, Metro may use the entire portfolio to lead the region in progressive, innovative, community-serving housing and other inclusive community benefits.

Angelenos pay nearly half of their income to rent, on average.

Housing costs depress LA County GDP by nearly 5% or over $30 billion per year.

LA County would need to build housing 4.5 times faster than current rates to meet its current RHNA requirements.

McKinsey Global Institute. Ward, T., Woetzel, J., Peloquin, S., & Arora, S. (2019). Affordable housing in Los Angeles Delivering more—and doing it faster.

This paper focuses on what Metro can do with its own properties to improve the quality of life in station areas and contribute to solving the housing crisis. After a short summary defining the housing problem, this paper looks at the performance and outcomes derived from the JD Program under the current policy; the landscape of existing policies and funding sources that impact the JD Program; and, the policies, programs and methods of similar JD programs nationwide. The second half of the paper goes on to identify objectives that the JD Program would like to achieve and evaluates potential policy and process changes that may be put into place to support these objectives.

[1] Los Angeles Homeless Services Authority. (2020). *2020 Homeless County Key Messages*. https://www.lahsa.org/documents?id=4561-2020-homeless-count-key-messages

METHODOLOGY

These policies and tools were evaluated through an integrated process that combined feedback from a cross-section of stakeholders, precedent research and technical feasibility testing.

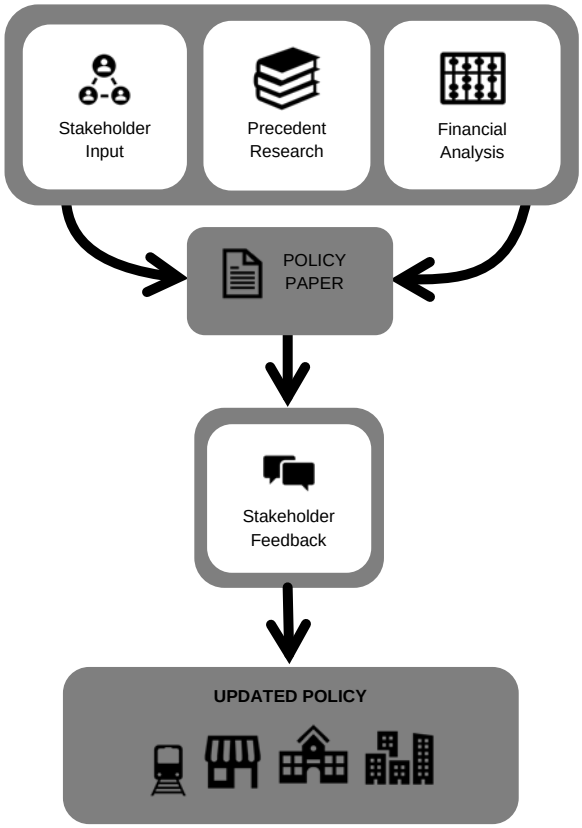

Figure 1: Methodology Diagram

Stakeholder Input

Over the course of 2020, staff collected more than 150 ideas from Metro Board members, community stakeholders, advocates, industry experts, and colleagues as a collective "brainstorm" of tools and policies that may help to advance the vision for an equitably housed Los Angeles.

Precedent Research

In addition, staff performed an extensive review of academic literature and precedent policies throughout the nation. This research surveyed transit agency policies to identify the prevailing policy landscape on several issue areas important to stakeholders.

Financial Analysis

The team also performed a financial analysis, which consisted of a custom financial model that calculated the total unit yield of the JD portfolio for market rate and affordable sites based on specific policy tools tested. The model is based on existing JD sites, as well as likely future JD sites, which were estimated based on current understanding of future corridor alignments and acquisitions. Many sites analyzed were sample sites used to mirror the variety of the sites in the portfolio. The model is therefore not a comprehensive or completely conclusive analytical tool, but it is helpful in seeing the high-level impacts of potential policy interventions. Additional detail about the financial model methodology is included in Appendix A, and the findings from the model are contained within the Potential Policy Tools section.

Each of these important steps helped the team reframe and reevaluate the overarching program goals, which in turn led to the identification of a collection of policies that could achieve optimal outcomes when measured against these updated program goals.

POLICY VALUES

At the center of this policy is the understanding that the people impacted most by this housing affordability crisis are historically marginalized communities.[2] Metro's core riders are often the same historically marginalized communities that are most impacted by the housing crisis.[3] Therefore, the overarching values guiding the evaluation of policies and tools serve a greater interest to help Metro advance equity and reduce disparities while also supporting transit ridership and Metro's mission of world-class transportation in LA County.

1. **INCLUSION:** Increase opportunity to for people at all income levels to live, work, and shop near transit;

2. **ACCESS:** Prioritize access to opportunity for those who need it most;

3. **PERFORMANCE:** Strategically leverage the JD portfolio to deliver units as soon as possible, with the least environmental impact possible, and measure outcomes; and

4. **INNOVATION:** Lead the region in innovations around housing.

This paper groups and analyzes potential policy and process tools among a set of objectives aimed at supporting these values. Together the tools are evaluated in order to achieve a single overarching, guiding goal:

> **GUIDING GOAL:** Prioritize the creation of as many units of high-quality housing near transit as possible, for those who need it the most, as soon as possible.

[2] Los Angeles Homeless Services Authority. (2020). *2020 Homeless County Key Messages*. https://www.lahsa.org/documents?id=4561-2020-homeless-count-key-messages ;

McKinsey Global Institute. Ward, T., Woetzel, J., Peloquin, S., & Arora, S. (2019). *Affordable housing in Los Angeles Delivering more—and doing it faster*. https://www.mckinsey.com/~/media/McKinsey/Industries/Public%20and%20Social%20Sector/Our%20Insights/Affordable%20housing%20in%20Los%20Angeles%20delivering%20more%20and%20doing%20it%20faster/MGI-Affordable-housing-in-Los-Angeles-Full-report-vF.pdf

[3] Los Angeles County Metro. (2019). *Metro Research On-board Customer Satisfaction Survey.* https://www.metro.net/news/research/

BACKGROUND

The Need for Stronger Policies and Tools

The need for more housing in Los Angeles County is clear. The State-mandated Regional Housing Needs Assessment (RHNA) prepared by the Southern California Association of Governments found that Los Angeles County currently has a 350,000 unit deficit, as shown in the table below. Of the needed units, over 100,000 of them are required for people earning less than 50% of AMI and over 50,000 units for people earning between 50 and 80% of AMI. Interestingly, nearly 150,000 units are needed for people earning *more* than 120% of AMI, demonstrating the need for market rate units in addition to subsidized units.[4]

Despite the recognized need for new housing units, the local economy is failing to provide it. Only 1.4% of the County's total housing stock was built between 2010 and 2018, and over 60% of the County's housing stock is over 50 years old. In the City of Los Angeles' present housing market "the economics do not work for developers to build standard units that are affordable for households earning less than 120 percent of the area median income,"[5] meaning that all units for households earning less than 120% of the median income will need subsidies, incentives or both.

2020 Los Angeles County Regional Housing Needs Assessment (RHNA)

Housing Need by Income	Units Needed	Percent of LA County RHNA
Very-low Income (<50% of AMI)	101,816	28%
Low Income (50-80% of AMI)	54,547	15%
Moderate Income (80-120% of AMI)	56,588	16%
Above moderate Income (>120% of AMI)	144,552	40%
Total	**357,503**	**100%**

Housing shortages contribute to severe negative consequences for LA County residents. 56% of Los Angeles households spend more than 30% of their income on housing. In last year's homeless count, individuals experiencing homelessness in the County increased 12% to nearly 60,000 individuals. Many low-income households are forced to live in overcrowded dwellings, which has exacerbated disparities in rates of COVID-19 infection. Other low and moderate-income households have moved out of the region due to high housing costs. Transit ridership in Los Angeles has declined in areas where housing costs

[4] Southern California Association of Governments. (2020). *SCAG Final RHNA Methodology 030520*. http://www.scag.ca.gov/programs/Documents/RHNA/SCAG-Final-RHNA-Methodology-030520.pdf

[5] McKinsey Global Institute. Ward, T., Woetzel, J., Peloquin, S., & Arora, S. (2019). *Affordable housing in Los Angeles Delivering more—and doing it faster*. https://www.mckinsey.com/~/media/McKinsey/Industries/Public%20and%20Social%20Sector/Our%20Insights/Affordable%20housing%20in%20Los%20Angeles%20delivering%20more%20and%20doing%20it%20faster/MGI-Affordable-housing-in-Los-Angeles-Full-report-vF.pdf

have increased, so lack of housing affordability and supply have also challenged and undermined Metro's mission.[6]

Affordable Housing Context

The majority of affordable housing in Los Angeles County is provided through government subsidies from federal, state, and local governments as well as loans from community development finance institutions and traditional banks. Affordable housing developers generally purchase land in the private real estate market and pay market value for the land. These affordable housing units are then covenanted with requirements to reserve the units for people earning less than a specified income. Depending on the funding sources and the target population, residents will need to qualify by earning less than a certain percentage of the Area Median Income (AMI) for the county in which the project is built (see chart below for LA County). Residents then pay monthly rent which is set at a portion of their qualifying income, to ensure they are not burdened by the rent. The rent goes to pay the operating expenses for the building and to pay back the lenders for the project.

Current JD Policy and Approach

The existing JD Policy defines "affordable housing" as housing units for people earning 60% or less than the LA County Area Median Income (AMI) as defined by the California Tax Credit Allocation Committee (TCAC). The current Policy has a portfolio-wide goal that 35% of housing units are affordable to households that earn less than or equal to 60% of the AMI. There is currently no site-specific affordability requirement. The Policy also allows for land discounting of up to 30% of the market value of the land in order to accommodate affordable units.

Income and Rent Limits for a 3-person Household to Live in a 2-bedroom Affordable Unit in Los Angeles County in 2020*

Income Level	% of AMI	Equivalent Annual Income	Max Allowable Monthly Rent
Extremely Low Income	30%	$30,420	$760
Very Low Income	60%	$50,700	$1,267
Low Income	80%	$81,120	$2,028
Moderate Income	100%	$101,400	$2,534
Moderate Income	120%	$121,680	$3,041

**California Tax Credit Allocation Committee Income and Rent Limits for Los Angeles County projects post April 1, 2020*

https://www.treasurer.ca.gov/ctcac/rentincome/20/income/13-income-limits-pis-post-042420.pdf
https://www.treasurer.ca.gov/ctcac/rentincome/20/rent/14-rent-limits-pis-post-042420.pdf

To date, the JD Program has generated nearly 2,200 housing units, 34% of which are restricted to households earning less than 60% of AMI. The current pipeline, when completed, would increase the count to 4,700 units, (housing approximately 11,500 individuals), of which 37% would be available to households earning less than 60% of AMI. The success of the current policy is

[6] http://www.scag.ca.gov/committees/CommitteeDocLibrary/rttac093020fullagn.pdf

chiefly measured by progress toward the 35% goal, focusing less on the absolute number of affordable units delivered or the public benefits derived.

Metro Affordable Transit Connected Housing (MATCH) Loan Fund

In 2017, Metro partnered with the California Community Foundation, the Local Initiatives Support Coalition (LISC), the Low Income Investment Fund (LIIF), and Enterprise Community Partners to create a transit-oriented loan fund, which provides an additional source of local funding to contribute to affordable housing subsidies. Metro committed $9 million in funding which was used to leverage a total fund value of $75 million. Loans are available to mission-driven, non-profit affordable housing developers with projects that are within a half mile of high-quality transit. As of May 2020, MATCH had made loans to help build 523 new affordable housing units and preserve 32 existing affordable units (a total of 555 units) with a $6 million contribution from Metro.

The Value of the JD Portfolio

While it is difficult to estimate the true market value of the JD portfolio, our analysis identifies more than 100 acres of future joint development sites along new Metro transit lines, equating to as much as $1 billion in potential value. Strategic, thoughtful stewardship of this public asset will ensure that it is leveraged it for the largest possible benefit. While policy thresholds, standards and criteria are essential, so too is flexibility to creatively respond to each site condition with an eye toward maximizing the total performance of the program.

Competing Forces

Metro JD sites are subject to myriad competing forces and pressures that whittle away at the development opportunity and disburse the potential benefits (illustrated on the right). Navigating these competing demands makes clear direction and swift delivery of projects difficult and can result in compromised outcomes.

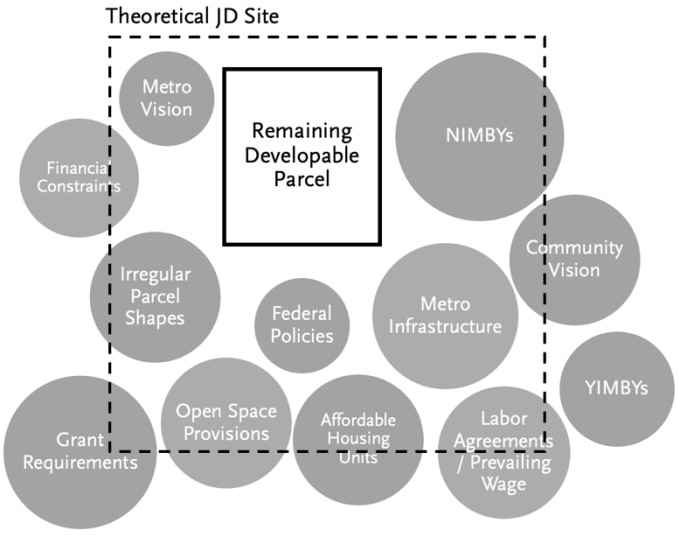

Figure 2: Competing Forces Diagram

Applicable Local, State, and Federal Policies

The State of California, Los Angeles County and several cities, including Los Angeles, Long Beach, West Hollywood, Glendale and Pasadena among others have implemented density bonus policies that incentivize affordable housing on an inclusionary basis. This means that the developers are granted additional permitted units, and/or parking reductions if they include a certain percentage of affordable housing units in their projects.

City of Los Angeles

The City of Los Angeles Department of City Planning implemented the Transit Oriented Communities Incentive Program in 2017, which awards density bonuses for transit-oriented developments that include a minimum threshold of affordable units. These thresholds range from 11% of units at 30% AMI up to 25% of units at 80% AMI. Since its inception, the City's TOC Program has generated over 32,000 homes, over 7000 of which are affordable. Over these, 44% of discretionary affordable units approved have been at the 80% AMI level, 12% at the 60% AMI level and 44% at 30% AMI. [7]

County of Los Angeles

The five County Supervisors signed a draft Inclusionary Housing Ordinance in August 2020, instructing County Counsel to draft a final ordinance. The LA County's draft Inclusionary Housing ordinance requires new rental housing developments in unincorporated LA County with five or more dwelling units to set aside 5 - 20% of all units for low, very low, and extremely low-income households. The set asides vary based on the units' affordability levels and the project size. In addition, rental covenants will be extended from 55 to 99 years unless the project is part of the County's density bonus program. The ordinance will also require for-sale projects with five or more units to set aside units for moderate-income households at a percentage based on the project's submarket. Developers can also elect to build offsite affordable units to meet the inclusionary requirements if the affordable project meets certain qualifications, such as: the project is in proximity to an area with demonstrated displacement risk; or the project is in a certain TCAC high resource area.[8]

State of California

The California State Density Bonus Law (Cal. Gov. Code 65915 - 65918) provides density bonuses for projects including a range of income restricted units, from projects including as few as 5% of units at 0-50% AMI, up to projects with 100% of units at 0-80% AMI. The law was amended in 2020 with Assembly Bill 1763, to incentivize higher density for affordable projects, providing up to 80% bonuses for 100% affordable projects around transit hubs.

In 2018, California Senate Bill 35 amended certain sections of California Government Code to further streamline processing for qualifying infill projects in cities that have not met their regional housing need. In the City of LA, SB 35 allows projects to bypass time consuming discretionary CEQA reviews if the project contains at least 50% affordable units. In the 18 months after the adoption of the law, eight 100% affordable projects in the City of LA filed for streamlining under Senate Bill 35.[9] One JD project, which is also 100% affordable, is currently using the CEQA streamlining advantages made possible by Senate Bill 35.

The California Surplus Land Act (Cal. Gov Code Secs. 54220-54234) was amended in 2019, creating additional requirements on dispositions of government-owned land. Additional guidance on the new law will be published by the implementing agency in early 2021, which will provide more information on

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[7] Los Angeles Department of City Planning. (2020). Housing Progress Report. https://planning.lacity.org/resources/housing-reports

[8] Los Angeles County Department of Regional Planning. (2020). HEARING ON THE INCLUSIONARY HOUSING ORDINANCE [Draft Ordinance]. https://file.lacounty.gov/SDSInter/bos/supdocs/147366.pdf

[9] Los Angeles City Planning Performance Management. (2019). *Housing Progress Quarterly Report: April - June 2019*. https://planning.lacity.org/odocument/c795255d-9367-4fdf-9568-0a34077720ef

how it may impact the JD program. Staff is also engaging with the implementing agency and monitoring related developments statewide to determine its impacts.

Federal Transit Administration

When a JD project is to be built on land that was acquired with federal funds, Federal Transit Administration approval is required. Guidance issued by the Federal Transit Administration (FTA) in August 2020 provides that FTA will no longer reserve the right to withhold approval of a JD project if it does not generate revenue for the transit agency. Metro will still be required to "document its reasonable determination that the terms and conditions of the JD improvement (including the share of revenue for public transportation which shall be provided thereunder) are reasonable and fair."[10] In addition, the FTA needs to concur with any proposed development on land acquired for an FTA-funded project.

Federal Opportunity Zone Program

Opportunity Zones (OZs) were created through the 2017 tax reform law and provide significant tax benefits for investors willing to deploy capital in designated, economically disadvantaged areas. Five of Metro's current JD projects are in OZs (North Hollywood, Vermont/Santa Monica, Mariachi Plaza, Little Tokyo/Arts District Station and Westlake/MacArthur Park station), not including Union Station. With respect to Metro's future corridors, staff analysis found that while there is some overlap with OZs, many of the anticipated high-quality transit station locations that are poised for redevelopment and sit in lower income communities do not fall within designated OZs.

[10] Federal Transit Administration Circular FTA C 7050.1B, Rev. 2, August 14, 2020

PRECEDENTS

Across the US, transit-oriented development and joint development policies share many common policy goals around affordable housing, anti-displacement efforts and community benefits. Staff researched affordable housing and transit-oriented development policies nationwide in order to collect potential tools for analysis. A more in-depth description of those precedent policies is included as Appendix D and a summary of key findings from the most exemplary policies are described below.

Equity

SCAG RHNA Equity Multiplier

The Southern California Association of Governments (SCAG) published its sixth cycle Regional Housing Needs Assessment (RHNA) methodology in March of 2020. The methodology includes a social equity adjustment calculation in order to distribute affordable units across the county, not only in the areas that already have a disproportionately high portion of affordable units or lower-income households. The calculations give additional weight to high resourced areas which provide greater access to opportunity.[11]

Chicago Equitable Transit Oriented Development Policy Plan

In September of 2020, the City of Chicago released an Equitable Transit Oriented Development (eTOD) Policy Plan which calls for increased attention to issues of equity by building capacity and embedding equity priorities across the city's departments. The Policy Plan relied on extensive outreach efforts and stakeholder engagement through a workgroup that met to discuss shared values and priorities.

Boston Green Ribbon Commission

In the Carbon Free Boston Social Equity Report, the Boston Green Ribbon Commission establishes a social vulnerability index in order to understand where needs and risks are greatest, which is where residents also have the most to gain.[12]

Seattle Equitable Development Initiative

The City of Seattle's Office of Planning and Economic Development established the Equitable Development Initiative aimed at advancing economic mobility and opportunity, preventing residential, commercial, and cultural displacement, and enabling equitable access to all neighborhoods. The initiative has invested about $20 million of loans and grants in community development, cultural community projects, and anti-displacement efforts. [13]

> **TAKEAWAY: Across the country, government agencies are using a variety of tools to measure, understand, and combat issues of inequity.**

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[11] *SCAG Final RHNA Methodology 030520*

[12] Green Ribbon Commission Carbon Free Boston. (2019). *Carbon Free Boston: Social Equity Report 2019*. https://www.greenribboncommission.org/wp-content/uploads/2019/05/CFB_Social_Equity_Report_WEB.pdf

[13] Seattle Office of Planning and Community Development. (2020). *Equitable Development Initiative*. https://www.seattle.gov/opcd/ongoing-initiatives/equitable-development-initiative

Affordable Minimum or Goal

Several transportation agencies have begun to experiment with a minimum affordable housing requirement for all projects. These policies have not been in place long enough to know what the outcome associated with them will be.

BART

The Bay Area Rapid Transit District (BART) amended its Transit Oriented Development Policy in April 2020 to include "a District-wide target of 35% of all units to be affordable, with a priority to very low (<50% of AMI) and low (51-80% of AMI) income households and/or transit-dependent populations".[14]

Caltrain

In February 2020, the Caltrain Board of Directors adopted a Rail Corridor Use Policy and Transit Oriented Development (TOD) Policy requiring that 30% of housing units within each individual project be affordable, with 10% targeted at Very Low Income, Low Income and Moderate-Income households, respectively.[15]

MARTA

Metropolitan Atlanta Rapid Transit Authority (MARTA) has a goal of 20% affordable for each JD project, which may include rental units serving households earning up to 80% of AMI, senior housing, or for-sale affordable housing for households earning up to 100% of AMI. Projects are reviewed on a project by project basis.[16]

MBTA

Massachusetts Bay Transportation Authority (MBTA) requires JD projects with at least 15 units to build 20% of units for households at or below 100% of AMI and will work with municipalities to determine project feasibility and adjust this requirement to as low as 10%.[17]

Sound Transit

Sound Transit in the Seattle area gives local governments, housing authorities and non-profits the first offer on 80% of Sound Transit-owned land deemed surplus and suitable for housing, whether through sale, long term lease, or transfer. If the qualified entity accepts the offer, it is required to construct housing in which 80% of the units are affordable for households below 80% of AMI. Sound Transit's

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[14] San Francisco Bay Area Rapid Transit District. (2020b). *Transit-Oriented Development Policy, Amended 2020-04-23*. https://www.bart.gov/sites/default/files/docs/BART%20Transit-Oriented%20Development%20Policy_Amended2020-04-23.pdf

[15] Caltrain. (2020). *Transit Oriented Development Policy*. https://www.caltrain.com/Assets/__Agendas+and+Minutes/JPB/2020/Item+$!239a+TOD+Presentation.pdf

[16] MARTA. (2010). *MARTA TOD Implementation Policies*. https://www.itsmarta.com/uploadedFiles/More/Transit_Oriented_Development/MARTA-TOD-Implementation-Policies-Adopted-Text-November-2010.pdf

[17] Massachusetts Bay Transportation Authority, & Massachusetts Department of Transportation. (2017). *MBTA TOD Policies and Guidelines*. https://www.mass.gov/files/documents/2017/10/17/TOD_Policy.pdf

policy emphasizes flexibility to optimize equitable outcomes by using portfolio-wide goals and by considering individual property characteristics to evaluate site suitability for affordable housing.[18]

> **TAKEAWAY: Some transit agencies are implementing an affordable minimum, and others are instead using an affordable goal in order to provide flexibility and avoid restricting the potential of JD sites. Another approach is to set aside certain sites, which will first be offered to affordable housing developers.**

Land Discount

BART

The San Francisco Bay Area Rapid Transit (BART) District's Draft 10-year Joint Development Workplan includes a goal to deliver between 10,700 to 13,100 homes through joint development between 2020-2030. BART has committed to providing up to a 60% discount from fair market value ground rent for projects with at least 35% affordable housing (or at least 30% affordable for high-rise projects). The BART discount begins at an 80% AMI affordability level and BART will deepen the discount as the affordability levels decrease from 80%.

Sound Transit

Sound Transit allows property discounts based on financial assessments demonstrating the project's funding gap, and the financial needs of Sound Transit's corridor and system expansion. Sound Transit considers value capture across TOD projects to support affordable housing, including "allowing cross-subsidy across a master development site or through transfer of development rights to a market-rate site generating revenue to support affordable housing development."

> **TAKEAWAY: Some transit agencies are allowing discounting to their land, usually with flexibility to allow site by site decisions based on market factors.**

Loan Funds and Grants

Sound Transit

To make affordable housing more feasible near transit stations and fill the gaps in affordable housing finance across the region, Sound Transit created the Affordable Housing Revolving Loan Fund. Sound Transit is incorporating $4 million per year for 5 years and leveraging additional funding contributions from public and private sources. The specifics of the loan products are still in development, but the fund will seek to finance affordable housing on Sound Transit properties and minimize displacement around Sound Transit investments.[19]

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[18] Sound Transit. (2018). *Resolution No. R2018-10 Adopting an Equitable Transit Oriented Development Policy.* https://www.soundtransit.org/st_sharepoint/download/sites/PRDA/FinalRecords/2018/Resolution%20R2018-10.pdf

[19] Local Initiatives Support Corporation. (April 2020). *Sound Transit Affordable Housing Revolving Loan Fund Needs Assessment.* https://www.soundtransit.org/sites/default/files/documents/revolving-fund-needs-assessment-20200616.pdf

Bay Area Metropolitan Transportation Commission - Transit Oriented Affordable Housing

The San Francisco Bay Area Metropolitan Transportation Commission (MTC), which is the Metropolitan Planning Organization for the San Francisco nine-county bay area, launched the Transit Oriented Affordable Housing (TOAH) program in 2012 with a $10 million investment. In 2017, the fund was relaunched as a $40 million "TOAH 2" fund, with a wider range of loan products and a streamlined underwriting process. TOAH 2 can be used by for-profit and nonprofit developers to help finance projects in transit priority areas that can be developed or redeveloped with affordable housing and with critical services such as childcare centers, health clinics, fresh food outlets or other retail space.[20]

San Francisco Bay Area Metropolitan Transportation Commission – Housing Incentive Pool (HIP)

In addition to the TOAH loan fund, MTC has created an incentive program that will reward cities and counties for producing the largest number of affordable units in transit priority areas. MTC will distribute $71 million in HIP grants on a per-unit basis to the 15 jurisdictions that issue certificates of occupancy for the greatest number newly built and preserved affordable units between 2018 and 2022.

> **TAKEAWAY: Affordable housing loan and grant funds can leverage resources to attract additional investments and create affordable housing units beyond JD properties.**

Parking

The cities of Portland, San Francisco, Boston, and Seattle have set parking maximum policies in response to the added costs parking places on housing. A Seattle study of 23 multifamily complexes demonstrated that 15% of tenant's rent was attributed to parking costs, even as 37% of parking spots remained vacant at peak hours.[21]

In 2019, the City of San Diego began requiring that parking spaces within Transit Priority Areas be "unbundled" from housing development, so parking is optional and paid separately from the rent or home sale price. The policy was based on a city study on parking costs, that found that a single parking spot adds between $35-90K in construction costs per unit.[22] Another study from The Victoria Transport Policy Institute estimates that a single parking space increases the price of a housing unit by 12.5%.[23]

> **TAKEAWAY: Reducing parking construction through parking maximums or other incentives can make housing less expensive to build.**

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[20] Metropolitan Transportation Commission. (2018, October 30). Metropolitan Transportation Commission Affordable Housing. https://mtc.ca.gov/our-work/fund-invest/investment-strategies-commitments/focused-growth/affordable-housing

[21] Sightline Institute. (2013, December 12). Who Pays for Parking? The hidden costs of housing. https://www.sightline.org/research_item/who-pays-for-parking/

[22] The City of San Diego Planning Department. (2019). Parking Standards in Transportation Priority Area Fact Sheet. https://www.sandiego.gov/sites/default/files/tpa_fact_sheet_updated_04.24.19_final_onwebpage.pdf

[23] Litman, J. (2020). Parking Requirement Impacts on Housing Affordability. Victoria Transportation Policy Institute. https://vtpi.org/park-hou.pdf

POTENTIAL POLICY & PROCESS TOOLS

The precedent analysis, stakeholder engagement and financial analysis generated both a set of values for the updated policy as well a list of potential policy and process tools for evaluation. These tools were compared against the overarching values for assessment. The following analysis groups tools for policy and process according to the objective that they support, explores the rationale and potential outcomes, and offers a recommended strategy for Metro's JD Policy (shown in blue at the beginning of each section). The policy evaluation matrix on page 33 summarizes the assessment of each tool against the policy values and outcomes described earlier, noting whether the tool is supportive, indifferent or potentially detrimental to the values and goals.

Policy Tools

A.1 DELIVER Housing for everyone

A.1.1 Affordable First

- **Require that all JD sites first be pursued for development of 100% income-restricted, excepting (a) large "district" sites and sites where zoning and economics allow for mid- or high-rise construction may be developed as mixed-income properties, and (b) sites that are deemed infeasible for affordable housing may be excepted by a Board action.**

Perhaps one of the boldest steps that may be taken toward increasing the supply of affordable housing near transit would be to explicitly prioritize all future JD sites for affordable housing. However, some exceptions exist where the scale of the development opportunity is more appropriate for mixed-use and mixed-income development. Without these exceptions, the portfolio would yield fewer affordable housing units as well as overall units. Most, but not all of the anticipated future JD sites are appropriate for the development of affordable housing.

Sites that can support more than 300 units in one location (estimated to be fewer than 10 among 50 future sites), could be explored for mixed use, mixed-income projects instead of affordable, because as mixed-use "districts" they may better be developed as complete communities supporting broader TOC goals.

Sites that are neither able to support 300 units or a 100% affordable project, could be evaluated on a case-by-case basis with recommendations presented to the Board along with the development guidelines.

A.1.2 Affordability Levels

- **Expand the definition of "affordable" to include households earning up to 80% of (AMI)in order to leverage the land value created by state and local density bonuses.**

- **Create a new definition of "moderate income housing" to include households earning between 80% to 120%.**
- **Use "neighborhood AMI" to inform affordability targets for each project to ensure affordability levels are appropriate for the community.**

The current JD Policy defines affordable housing as housing for residents earning 60% of AMI or less as defined by TCAC. While the need is high among households below 60% of AMI, CHP data also suggest the need to provide housing at the low- and moderate-income levels (serving households earning between 80 to 120% of AMI). . The Los Angeles County RHNA identifies that 16% of the housing need is in the 80 to 120% AMI range, and 15% is in the 50 to 80% AMI range (see table on page 6) which are not fully captured in the existing JD Policy definition of affordable housing. Expanding the definition to 80% and creating a new definition of moderate income housing will allow the JD Program to provide homes to a broader range of people and more fully address the regional housing need.

Expanding the affordable housing definition to 80% AMI also allows JD projects to take advantage of State and local density bonuses, which can increase the value of JD sites and allow them to provide additional affordable units, *without any public subsidy*.

Furthermore, diversifying the supply of housing to serve a mix of income levels at the neighborhood scale creates strong "ladder" allowing households to "trade up" as their incomes increase without having to leave their neighborhood. The above potential tools are intended to ensure that the highest need populations are served while also laying the groundwork to respond to the specific needs of neighborhoods surrounding future JD sites.

However, since income restrictions for affordable housing are typically expressed as a percentage of the Los Angeles County AMI they often may not align with actual median income of the neighborhood in which the project is being built. In low-income neighborhoods, especially, existing residents may be effectively "priced out" by using a County AMI level that is higher than the local neighborhood AMI. In addition, one of the key provisions for countering displacement is to ensure the continued availability of housing at current rent levels. The site feasibility process could look closer at the incomes and the prevailing market rents for the neighborhoods in which the projects are proposed and seek units that would be affordable to people who live in the neighborhood.

A.1.3 Minimum Affordability Requirements

- **Require mixed-income projects to achieve an "affordability score" equivalent to at least 25% of units set aside for households earning 80% of AMI and below.**

Sites that are not developable as 100% affordable projects still present opportunities to incorporate affordable units as "mixed-income" (or "inclusionary") projects. The State and City of Los Angeles density bonus programs use a tiered approach to incentivize affordable housing production for such projects, with a greater percentage of units required for higher-income brackets, up to 80% of AMI. Aligning the JD Policy with the State and City incentives unlocks hundreds of affordable units at no cost to Metro. Increasing affordability requirements beyond 25% in mixed-income projects is predicted to result in fewer affordable and market rate homes. An effective policy would preserve the ability to work within state and local density bonus structures, while maintaining a threshold requirement for affordability equivalent to the most restrictive tier, which is 25% of units for households earning 80% of AMI and below. An "affordability score" can be used to standardize the requirement across different unit mixes and targeted income brackets. (See sidebar, "Affordability Score" for more information.)

The Affordability Score

Many granting agencies such as TCAC and HCD evaluate affordable housing projects for funding based on the number of affordable units created and the depth of affordability. To standardize the comparison of projects these agencies rely on a score which is typically evaluated based on the number of bedrooms and the income targets. *For example:*

10 2-bedroom units restricted to households earning up to 80% AMI would receive a score of 25 points:

$$10 \times 2 \times \frac{1}{80\%} = 25$$

While 15 1-bedroom units @ 30% AMI, would receive a score of 50 points:

$$15 \times 1 \times \frac{1}{30\%} = 50$$

Metro could use a similar method to standardize the requirements for mixed-income projects and the evaluation of developer proposals.

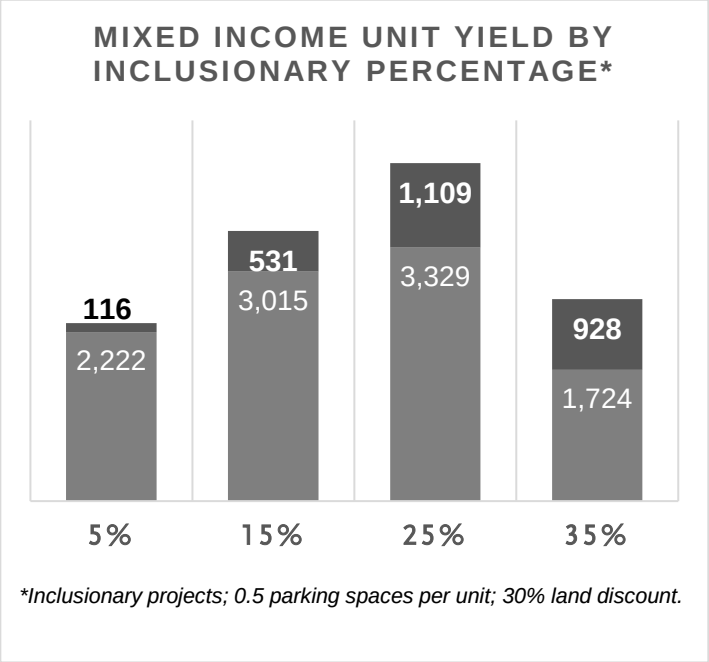


Figure 3: Mixed Income Unit Yield by Inclusionary Percentage

A.2 MAXIMIZE the public benefit derived from the JD portfolio

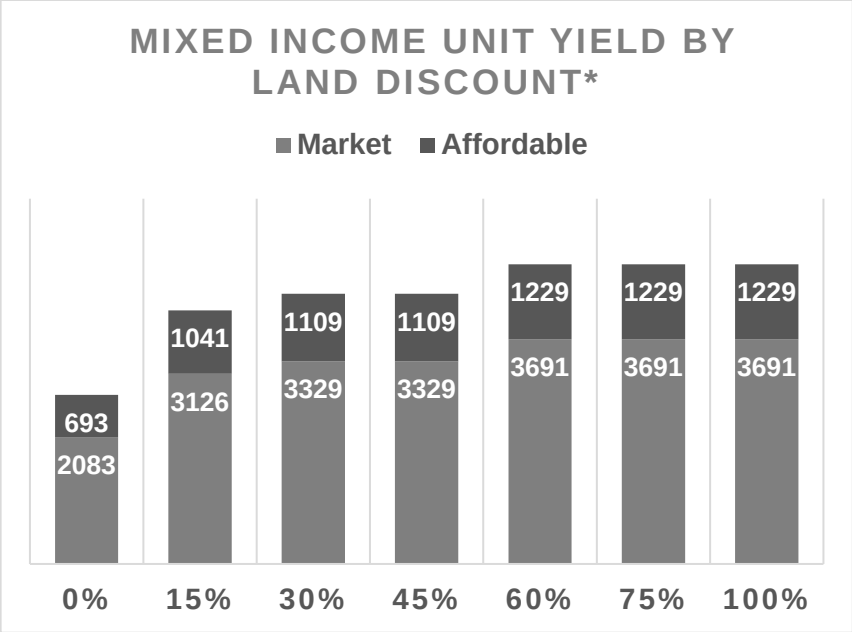
A.2.1 Leverage land value

- **Adjust JD Policy so that a land discount, expressed as a dollar value of subsidy from the fair market value of a property (as opposed to a percentage of land discount), may be applied where it may be clearly demonstrated that a) a subsidy is absolutely required to offset additional costs to provide affordable units, deeper affordability levels of the units, or other benefits, such as open space or transit facilities and b) no other subsidies are reasonably available to meet this need.**

A land discount can be an important subsidy to enable more affordable units and achieve other policy objectives. The JD portfolio financial model suggests that this subsidy can be especially useful to ensure the feasibility of mixed-income development projects that are on the precipice of feasibility and, with some discount, may be able to generate more affordable units. However, a land discount may be one of the most expensive ways for Metro to produce more affordable units and, for 100% affordable projects, may simply displace other available public subsidies.

Affordable housing projects are typically funded through a stack of different funding sources with loans and grants that originate from federal, state, and local funds. In many cases, but not all, these subsidies are adequate to include the costs of acquiring land, especially in areas with lower land value. In such cases, a Metro subsidy intended to provide for affordable housing, may not be necessary, and in fact may simply displace other state and federal subsidies. The foregone revenue from discounting the land may be better spent on other housing investments, such as contribution to the MATCH loan fund (which is a revolving resource) or mobility assets for project residents, such as pedestrian improvements, bicycle infrastructure, or incentivizing reduced parking.

Subsidizing beyond a 30% discount is not usually helpful in creating more units or deeper affordability because the land is already a smaller component of overall project costs. (See Figure 3.) Many projects, whether 100% affordable or inclusionary, may achieve a variety of the policy goals contained herein but are on the threshold of feasibility. In lieu of an automatic land discount, Metro could instead analyze each project to determine if a Metro subsidy may help to achieve that project. If so, such subsidy should be disclosed as a dollar amount to the Board along with the terms and a clear valuation and explanation of the use of the subsidy.



**Inclusionary projects; 25% of units affordable at 80% AMI; 0.5 parking spaces per unit.*

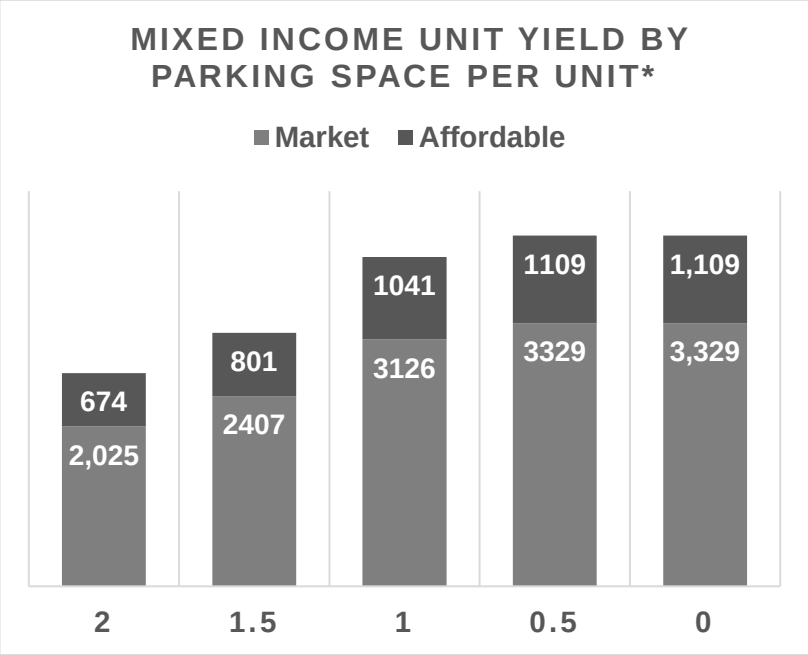
Figure 4: Mixed Income Unity Yield by Land Discount

A.2.2 Parking Policies

- **Require unbundled parking on all sites and ensure that tenants pay the cost of parking utilized.**
- **Allow a maximum of 0.5 parking spaces per bedroom in Metro JD projects; if land use regulations require higher parking rates, the developer would not be permitted to park at a rate any higher than the local minimum; additional parking may be provided if shared with other uses including for weekday Metro rider parking.**

Compared to discounting land, reducing the number of required parking spaces in a JD project can have a more significant impact on project feasibility, allowing mixed-income projects to deliver more affordable units. Reducing parking ratios by even half a space per unit may make several more sites economically viable, result in larger unit yields, and free up more developer funding for affordable housing. While developers insist that the market demands parking spaces, and that providing such parking is a critical component of financial underwriting, research completed for Metro by a national transportation planning and research firm has shown that on average transit-oriented developments nationwide are overparked by 30%. That is, demand is 70% of the built capacity.

The model prepared by Metro's financial consultant included the ability to adjust assumed parking ratios for future Metro JD projects. The model predicts that, due to the outsized per-stall cost and space required for parking, even small changes in the parking ratio may yield large changes in unit yield—a parking ratio decrease from 1.0 to 0.5 can increase total unit count by 34%. While modeling analysis is based on parking spaces per unit, the potential tool uses parking spaces per bedroom to accommodate the varying project unit sizes.



**Inclusionary projects; 25% of units affordable at 80% AMI; 30% land discount.*

Figure 5: Mixed-Income Unit Yield by Parking Space per Unit

A.2.3 Use of Joint Development Proceeds

- **Reinvest proceeds from JD projects in an affordable housing trust fund; a strategic acquisition fund; and the Metro Housing Lab.**

Proceeds from JD could be invested into a strategic TOC fund that could support transit-oriented affordable housing. Currently, these funds are deposited into Metro's General Fund. While revenues from JD projects are modest compared to the larger Metro budget, these unrestricted funds are well-positioned to support reinvestment in TOC activities, including the strategic site acquisition as discussed above, the implementation of the TOC Policy, and housing supportive programs such as the MATCH loan fund. A portion of these funds could also be used as a seed funds for pilot programs and housing typologies to be tested as part of the Metro Housing Lab, further described in Recommendation 4.1.

A.2.4 Strategic Acquisition

- **Working with Corridor planning, Real Estate and Program Management, review proposed transit project property acquisitions for JD potential before the acquisition footprint is established and cleared during environmental review.**

The process of acquisition and transit corridor construction often results in remainder properties that are not ideal for development. To control new transit corridor costs, Metro typically only

acquires the properties or fractions of properties required for construction, resulting in remnant properties that are irregularly shaped or undersized for JD projects. Such sites are difficult to market and are likely to sit undeveloped. Expanding the area of acquisition only slightly in certain instances may lead to far more viable JD sites, which can help achieve transit-oriented communities goals surrounding the station areas, unlock long-term value, and decrease the cost of providing affordable housing.

A.3 RESPECT communities by counteracting displacement and delivering benefits

A.3.1 Small Business Tenants

- **Ensure that developers prioritize ground floor retail in JD projects for community-serving, local, legacy businesses or community serving non-profits, and require developers to provide flexibility for those tenants to ensure ongoing tenancy and viability.**

Mixed-use projects are often funded almost entirely through the rents generated by the housing units and may not require additional revenue from ground-floor retail spaces to underwrite the project. Furthermore, locating community serving businesses near transit makes riding more convenient and efficient, and occupied storefronts make street safer for pedestrians[24]. Therefore, accommodating opportunities for small business tenants with tools such as flexible lease terms, favorable rental prices, or other incentives can help stabilize the local economy and provide a transit benefit. To the extent that neighborhood change is applying pressures to existing legacy businesses in surrounding neighborhoods, preference could be granted to such businesses in ground floor retail spaces.

A.3.2 Sustainability

- **Require baseline sustainability features for all projects; explore options to include additional features where possible.**

Given the increasing incidences of extreme weather events such as the hot, dry, windy conditions that led to unprecedented wildfires in California this year, the mandate for sustainable construction is apparent in all of Metro's work. To the extent that JD projects can include sustainable design that can conserve resources and reduce operating budgets without burdening the project or increasing the cost of affordable housing, JD projects should require such features. These features could include:

- Native and drought-tolerant landscaping;
- Generous shade canopies to reduce the heat island effect;
- All electric utilities (no natural gas); and
- Efficient building design that reduces heat and cooling costs.

[24] US Department of Housing and Urban Development. *Creating Walkable & Bikeable Communities.* https://www.huduser.gov/portal/sites/default/files/pdf/Creating-Walkable-Bikeable-Communities.pdf

Where possible on flagship sties, or through the Metro housing lab, innovative sustainability features beyond these can be piloted.

A.3.3 Labor Agreements

- **Retain labor policy as-is, requiring all JD projects greater than 60 units to comply.**

Currently, JD projects that plan to provide more than 60 units of housing are subject to Metro's Project Labor Agreement (PLA) and Construction Careers Policy (CCP) to encourage construction employment, training opportunities, living wages, jobs for the local community and for disadvantaged workers. Developers have pointed toward these requirements as contributing to the increasing cost of developing affordable housing. Preliminary estimates indicate that such policies result in 8 to 15% cost premium on project hard construction costs.

The additional cost may create an incentive to limit projects to less than 60 units, undermining the production of affordable housing (two of the seven JD sites advanced since this policy was put in place are 60-unit projects seeking to avoid the PLA/CCP premium).

On the other hand, the PLA/CCP policy is essential to building a strong ladder for job training and career advancement and relaxing this requirement would contradict other efforts in the County to strengthen provisions for workforce development. Future pipeline project sizes are projected to be evenly distributed, and there are no apparent natural break points in the distribution, therefore there is no evidence that a different threshold would be warranted.

A.3.4 Mobility Benefits

- **Prioritize community benefits focused on mobility and transit ridership while balancing the need to dedicate resources to affordable housing units.**

As JD projects are envisioned and evolve with the input of a variety of stakeholders, many opportunities arise to package additional community benefits such as open space, community rooms, and other community amenities with the JD projects. Such benefits distinguish JD projects and make Metro a better neighbor in communities wary of transportation investment. However, such benefits naturally come with additional costs, which may make a project infeasible without additional subsidy.

The financial model developed with this policy analysis allowed staff to test the portfolio-wide effects of additional community benefits. The model indicates that as additional costs are layered on through the projected JD portfolio, projects become infeasible and the total unit yield of the portfolio declines. Adding development requirements may also add project risk and raise return requirements and may add various legal and transactional considerations related to issues such as procurement and environmental clearance, which are not modeled in this calculation. There may be potential for Metro to discount the land price in order to finance these additional requirements, but this would be at a direct cost to Metro in lost revenues that could otherwise be more strategically aligned with Metro goals for affordable housing and transit-oriented communities. Community benefits should be included when the benefits increase mobility, encourage transit

ridership, or enhance the transit experience in some way. However, any individual benefits under consideration should be carefully evaluated to confirm that such additional costs are aligned with Metro's strategic goals. In any case, grant funding should be pursued before a subsidy is provided for such a benefit in the form of a land discount or otherwise.

A.3.5 Free Transit Passes

- **Await outcome of FSI study before pursuing potential pilot test requiring transit passes for JD projects.**

A key JD goal is to increase transit ridership by encouraging individuals to drive less and ride transit more. Providing free TAP cards for patrons living on Metro-owned land is a natural way to incentivize use of the system, serve as a further rationale to reduce the parking ratios in Metro JD projects and leverage our properties to promote transit ridership. Like the existing Metro employer and university pass programs, the pass could be renewed and distributed monthly with tenancy. The pass also presents an opportunity for affordable projects to gain a competitive edge in funding applications, making Metro JD sites more competitive to funders.

Depending on the outcome of Metro's Fareless System Initiative (FSI), this amenity may not cost anything to implement. If Metro services do not require fares in the future, this program will not be required. If fares remain in place, this housing transit pass program could be used to pilot a fareless program on *existing* JD projects and to collect data on the results. Future JD projects could be required to provide free transit passes in a program similar to the existing employer and university pass programs in order to encourage transit use.

A.4 LEAD the region and nation by driving innovation around housing

A.4.1 Housing Lab

- **Explore innovative pilot projects through a "Metro Housing Lab."**

While delivering on its core program, Metro may also explore housing innovations on a pilot basis, to test new methods for achieving outcomes quicker, more cost-effectively, and more equitably. Metro could partner with academic and private sector interests, other non-profit partners and legal advisors to form a "Housing Lab" to test and evaluate strategies, which may include, but are not limited to the following:

<u>Recapturing Investments</u>

- Land banking – working with partners to facilitate early acquisition of key property along transit corridors
- Community land trusts and other types of shared equity and inclusive development models

<u>Alternative financing</u>

- Partnerships with public (e.g., Freddie Mac) and private entities (e.g., large employers or pension funds) to provide equity or debt (including mezzanine debt) to facilitate the preservation or construction of moderate-income housing
- Social housing (all tenants pay % of income towards rent)

Alternative construction

- Modular / prefab
- Rehab of existing units on Metro sites
- Mid-rise / mass timber construction
- 3-D printed units

Alternate typologies

- Micro units
- Co-housing
- Live/Work
- Interim use

Supportive programs

- Affordable housing discount transit pass
- Transit demand management program

Sustainability

- Passive house or net zero standards
- Building or district level geothermal

Promoting innovation

- Design contests
- Publications
- Conferences
- Start-ups incubation

Process Tools

B.1 PRIORITIZE communities with the deepest need

More than 40 new JD sites will become available for development and will be added to the JD pipeline over the next 10 years, which will likely lead to a queue of available sites for JD projects that will need to be prioritized. The JD workplan should prioritize projects according to the following:

B.1.1 Neighborhood Stabilization

- **Prioritize projects located in areas at higher risk of displacement.**

While many communities are concerned about gentrification, certain characteristics may be used to predict which communities are most vulnerable. Using data collected by the County or others such as the UCLA-UB Berkeley Urban Displacement Project, JD sites within areas at higher risk of displacement could be prioritized for affordable housing to create an early increase in the supply of affordable housing before displacement occurs. In addition, the Metro TOC Implementation Plan will include baselining activities in coordination with LA County that will provide additional information about neighborhood change.

Urban Displacement Project

The Urban Displacement Project is an initiative of UC Berkeley and UCLA to document and analyze the nature of gentrification and displacement in LA County and other regions around the country. The team has developed a neighborhood change database to show where neighborhood transformations are occurring and to identify areas that are vulnerable to gentrification and displacement. The team has prepared a modeling tool to predict where gentrification may occur. JD sites within areas at higher risk of gentrification could be prioritized for affordable housing to create an early increase in the supply of affordable housing before displacement occurs.

Metro Equity Focus Communities

In 2019, Metro's Board of Directors adopted a definition for "Equity Focus Communities," that allows decisionmakers to evaluate and prioritize where key transportation investments and policies can have the greatest impact on increasing access to opportunity. Equity Focus Communities (EFCs) are defined by census tracts with populations meeting at least two of the following thresholds:

- > 80% non-white
- > 40% low-income
- > 10% no-car

Figure 6: Equity Focus Communities

B.1.2 Equity Focus Communities

- **Prioritize catalytic projects that fall within the Equity Focus Community geographies which have experienced divestment.**

As part of the Long Range Transportation Plan, Metro has mapped communities that match characteristics of disinvestment and disenfranchisement, called Equity Focus Communities (EFCs). To the extent that JD projects provide catalytic investments in communities, they should be prioritized in these high-need areas.

B.1.3 Access to Opportunities

- **Prioritize projects that would build affordable units in areas with greater access to opportunities.**

In addition, given Los Angeles' vast geography, part of ensuring access to opportunity for all requires ensuring that JD efforts are geographically distributed. Consideration of new project starts can take into account the communities and jurisdictions in which the proposed projects will be located, and the existing supply and demand for affordable housing in those communities. Locating affordable housing in neighborhoods with a high concentration of amenities and opportunities allows residents of affordable units with improved access to these opportunities. [25]

[25] California Fair Housing Task Force. (April 2020). Methodology for the 2020 TCAC/HCD Opportunity Map. https://www.treasurer.ca.gov/ctcac/opportunity/draft-2020-tcac-hcd-methodology-december.pdf

TCAC/HCD Opportunity Maps

The HCD and TCAC created a Fair Housing Task Force which creates annual Opportunity Maps to "visualize place-based characteristics linked to critical life outcomes, such as educational attainment, earnings from employment, and economic mobility." The Task Force identifies indicators and measures for each of these domains to categorize census tracts into designations ranging from "high segregation & poverty" to "highest resource." Higher resourced areas are preferred locations for tax credit financed affordable housing projects.

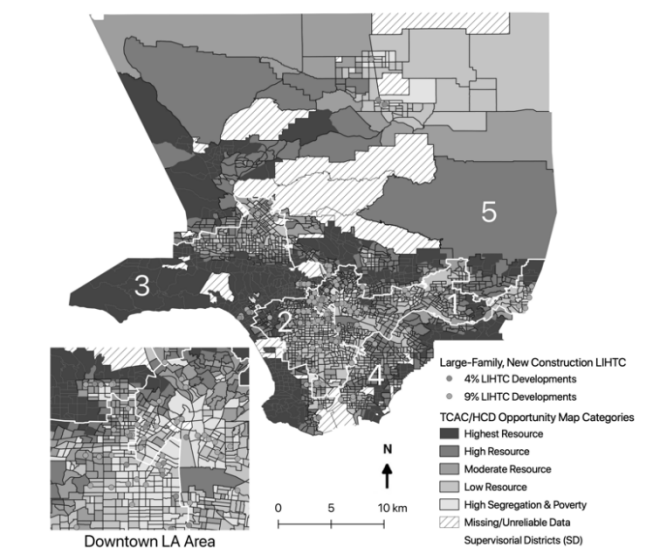


Figure 7: TCAC/HCD Opportunity Maps

B.2 STREAMLINE process for faster project delivery

B.2.1 Feasibility

- **Prioritize projects that may be delivered fastest, with the least cost to Metro.**

Some projects may face more challenges than others. For example, a project that must accommodate Metro infrastructure can face additional construction costs and engineering challenges and will likely require more time and resources to deliver. Others may face political or regulatory headwinds that could delay implementation. Community-supported projects that meet JD program and site-specific goals can be prioritized over projects without support which are likely to be more time-consuming and expensive to implement.

B.2.2 Site Analysis and Development Guidelines

- **Determine what kind of project a site can support.**

At the outset of the site selection process, zoning and market analysis can reveal the potential capacity of a JD site for housing units and revenue projections. This initial analysis can inform the outreach and RFP process to ensure a realistic conversation about the tradeoffs and decision points. Neighborhood-level income analysis should dictate the threshold of income levels and rents that should be targeted for affordable sites. If the site needs market rate housing in order to be viable, the optimal inclusionary scenario can be determined with a financial feasibility study. This key information could be the starting off point for the community conversations and the RFP.

- **Determine what infrastructure costs will be required and if the land value can support them or if additional subsidy would be required.**

Developing some JD sites requires upgrades to existing transit infrastructure to facilitate development, such as reinforcing the station to support construction, or adding a new entrance. These costs could be estimated at the outset of the project visioning so that Metro and the development community can obtain a realistic picture of site feasibility. If the cost of infrastructure required to make the site feasible exceeds the value of the land, then the costs and benefits should be weighed with this important information. The site could be subsidized by revenues from other JD projects, grants, or coordination with separate Metro capital projects, but that decision should be made transparently.

- **Create a Development Guidelines Checklist to accelerate project readiness.**

While every community is distinct, there are similarities across many JD sites which can be used to scope projects more efficiently. Transit-oriented developments are always expected to be walkable, human-scaled, and supportive of alternative transportation modes, among other attributes. These attributes can create a somewhat standardized baseline for the Development Guidelines which could allow lessons learned from one site to be transferred to another and can save valuable time and resources to allow more sites to come online faster.

B.2.3 Community Engagement

- **Focus community input on upfront visions to ensure projects are responsive to communities yet create reasonable, predictable, timeframes for project delivery.**

As the housing crisis worsens and communities' fear of displacement and gentrification is commensurately validated, the challenge of balancing community interests with regional and state mandates for more affordable housing only becomes more complex and elusive. Rather than shy away from this tension, processes may be formalized to make the tradeoffs clearer and recognize that the "community" voice is rarely singular.

Outreach should focus on upfront visioning to avoid difficult conversations later in the project when changes may no longer be viable. Strengthening the clarity and transparency of these deliberations can help to ensure that all stakeholders are operating from a common platform. Broadening outreach methods, including formally engaging key community-based organizations, deploying distributed methods for feedback, and, where appropriate, forming advisory committees to distribute information and collect input can help to ensure all voices are heard. Ultimately, these methods can increase confidence in decision-making even where there may not be perfect alignment, which in turn may accelerate the speed at which the JD team is able to deliver projects, in order to address the regional housing needs.

B.2.4 Expedited Procurement Processes

- **Consolidate process steps under JD team to create efficiencies and accelerate timeframes.**

JD proposals are unique in that they are constrained by the parcel footprint and have physical impacts on the communities around them but do not usually contain trade secrets or other sensitive information. Because of these distinctions from traditional public procurements, time

and resources can be saved by streamlining solicitations and the unsolicited proposals processes within the JD team.

B.2.5 Unsolicited Proposals

- **Limit unsolicited proposals to developers who have site control of property adjacent to a Metro property and offer a unique property development proposal that Metro could not otherwise procure.**

Metro's unsolicited proposals process is intended to invite innovative but pragmatic solutions to Metro's mobility and capital program goals, usually relying on a proprietary method, technology or resource not already in place or in procurement at Metro. Unsolicited proposals for joint development, however, almost always come from adjacent property owners for sites that without adjacent property are otherwise undevelopable. Adjacent properties can turn awkward and infeasible development sites into more efficient, viable site for more housing units and an improved pedestrian experience. However, without an adjacent property, it is unlikely that an unsolicited proposer would have any unique advantage that would warrant a deviation from the traditional RFP process.

Since the JD Unsolicited Proposals Process has been in place, 11 unsolicited proposals have been received, 6 have advanced to a Phase 2, and one has been negotiated into an entitled project. Reviewing unsolicited proposals diverts scarce resources away from the regular JD work program. Making control of adjacent property a prerequisite for submitting an unsolicited proposal would streamline the review process, reduce the number of unsuccessful proposals that must be reviewed and create greater clarity for would-be proposers.

- **Increase transparency in the unsolicited proposals process to ensure alignment between local municipality, community and proposed project vision.**

The existing Unsolicited Proposal Process does not allow sufficient communication between JD staff, local jurisdictions and community members. Protecting the privacy and integrity of the procurement process needs to be balanced with transparency. The Process should be updated to formalize a communication and input process that allows community stakeholders to understand and respond to the proposed project.

B.3 EVALUATE and select the most inclusive projects.

In addition to the typical proposal evaluation process which scores project submissions based on qualifications of the team, approach, and the vision presented, the following evaluation metrics can aid the JD team in selecting a project proposal and project developer that align with the values and outcomes identified in this paper.

B.3.1 Affordability Scoring

- **Evaluate JD proposals based on an "affordability score" that indexes the number of affordable homes proposed and the target income levels served.**

To prioritize development of affordable housing on Metro-owned land, the proposal evaluation team may consider the number of affordable units and the depth of project affordability in developer selection. For 100% affordable projects, the depth of affordability and/or the compatibility with the income levels of the surrounding neighborhood should be considered. For mixed income properties, the depth and quantity of affordable units can be evaluated in the selection process as well.

B.3.2 Economic Development Scoring

- **Formally evaluate proposals based on small business contractors, racial inclusion, and community-based organizations in developer selection criteria.**

Metro procurement policies seek to promote equity, applying subcontracting targets for Small Business Enterprises (SBE), Disadvantaged Business Enterprises (DBE), Disadvantaged Veteran Business Enterprises (DVBE) and Minority and Women Business Enterprises (MWBE) to compete for and participate in all aspects of procurement and contracting. While the current JD Policy encourages SBE, DBE, and DVBE participation in forming teams, SBE utilization is not formalized in the scoring process. Moving forward, points could be awarded to teams that consist of SBE, DBE, DVBE and MWBE members. Engaging community-based organizations (CBOs) as part of the development process and as formal members of the development team could also be evaluated in the scoring process.

B.3.3 Community-informed Evaluation Criteria

- **Solicit input from stakeholders on evaluation criteria for development proposals.**

Development Guidelines are created in collaboration with community members through an in-depth outreach process and in turn used to inform the selection of a developer. Yet ultimately, developers are selected based on their adherence to the evaluation criteria in the RFP, which further details expectations regarding developer qualifications and their approach to the work. The evaluation criteria assign point values to specific proposal attributes, not just a vision for the ideal JD project. Therefore, community members should be invited to provide input on the evaluation criteria as part of the development guidelines, so that the ultimate determining factors for selection are transparently communicated before a JD solicitation. This transparency must continue to bear in mind that that the JD solicitation process is designed to avoid undue influence in the selection process, and a certain degree of opacity is required to maintain that.

B.3.4 Expedient Delivery Scoring

- **Assign points to projects that lay forth a path for expedient permits and approvals and demonstrated community support.**
- **Establish blanket authorization to enter into ENAs with highest scoring proposal if project meets key Board-established criteria.**

Given track record of long JD project delivery timeframes, and the urgency of the housing crisis, scoring should favor projects that include a streamlined entitlements path. Projects that are by-

right and do not require discretionary local actions should be favored over those that do not. Projects with fewer environmental impacts that require less intensive analysis and can be delivered faster should receive higher scores. Likewise, projects with demonstrated community support that are less likely to be delayed by opposition could be prioritized.

To help address the housing crisis, California policy makers have established state and local laws that allow developments to proceed if they will build a minimum percentage of affordable housing. Metro could adopt its own by-right process by giving CEO authority to enter exclusive negotiations with developers that a) have the highest scoring proposal based on Board-approved evaluation criteria, and b) the final proposal meets certain objective affordability and transit-supportive standards.

B.3.5 Sustainability Scoring

- **Assign points to projects that that promote environmental stewardship, reduce greenhouse gas emissions, and conserve or restore natural resources.**

In alignment with the Moving Beyond Sustainability, the JD team would work with the Environmental Compliance and Sustainability Department to establish criteria for evaluating a project's long-term economic, environmental, and social sustainability. Such measures may include: hardscaping and landscaping to limit the urban heat island effect and irrigation requirements; energy efficiency in designing the building envelope, mechanical and lighting systems; incorporating passive and active systems to manage the buildings energy use; and other cutting edge approaches toward meeting and exceeding CALGreen standards. Evaluation would also consider developers' commitment to diligent management and maintenance to assure continued environmental performance.

B.4 MEASURE outcomes against policy objectives

B.4.1 Metrics and Outcome Tracking

- **Report and promote the performance of the JD portfolio via a regularly updated dashboard of projects.**
- **Require developers to allow Metro to conduct annual tenant surveys in order to report metrics to Metro for ongoing monitoring.**

The metric in the current JD Policy is a goal that 35% of the JD Program's housing units be affordable to households that earn less than or equal to 60% of the AMI. This metric is useful for setting a goal that can be achieved irrespective of market conditions and project delays, however it does not take into account total number of units, the speed at which they are delivered, and other outcomes such as job-generation and community benefits.

Modeling shows that the affordable first approach can potentially achieve as many as 50% affordable units portfolio-wide, though in order to pursue such a goal, flexibility on a site-by-site basis will be critical in order to maximize the number of units that are delivered.

Therefore, JD will create a specific goal of an absolute number of units, both market-rate and affordable that JD will aim to build by a certain year. In addition, a more nuanced system of metrics would be valuable in creating targets and measuring outcomes of the JD Policy. Metrics could include:

- People housed
- Low-income households
- Open space provided
- Small businesses contracting and subleasing
- Construction jobs created
- Permanent employment
- First-last mile connections built

Consistent with pillar one of the Equity Platform, requiring ground lessees to allow Metro to conduct an annual tenant survey would enable JD to track concerns such as transit use, demographic data (as allowed/feasible), car ownership, move in/move out information, and qualitative data on the tenant satisfaction to help inform features of our projects (e.g., design issues, amenities, desired ground floor services, parking, and unit design).

B.4.2 Long-Term Affordable Housing

- **If fee disposition of Metro property is necessary for a JD project, place a covenant on the property requiring that any affordable units developed remain affordable into perpetuity.**

Affordable housing developed on land owned in fee is typically subject to affordability covenants that expire after 55 years, after which time the properties become eligible for conversion to market rate housing. While 55 years may seem like a long time at the outset of a project, currently, the Los Angeles region is experiencing a wave of expiring affordable housing covenants, exposing residents relying on affordable housing to displacement and threatening the supply of affordable housing in the region. A recent report by the Los Angeles Housing and Community Investment Department (HCID) found that 11,771 rent-restricted units in the City of Los Angeles alone are at high or very high risk of being converted to market rate in the next five years. Perpetual covenants recorded on the land could eliminate this concern. However, recent developer stakeholder interviews have indicated that this may create challenges to operating, refinancing and rehabilitating projects over time. In addition, housing needs, financing sources, and affordability standards change over time and some degree of flexibility may be in the best interests of Metro and future low-income residents

Practically speaking, expiration of affordability covenants should not be a concern for Metro JD projects because projects are typically constructed on ground leased land where Metro retains the underlying fee ownership – and consequently long-term control over its use. This retained control ensures that Metro can continue affordability requirements when ground leases are extended, or new ground leases are created. In very rare cases, disposition of Metro's fee interest may be required to make a JD project feasible. In such cases, a perpetual affordability covenant could be placed on the disposed property.

OVERARCHING THEMES

This paper has gathered research, input and analysis in order to inform an update to the Metro JD Policy with respect to affordable housing. The case is clear for accelerating the delivery of housing near transit, focusing first on increasing the supply of affordable housing, and invigorating the development of new models for housing delivery. The analysis contained herein highlights the complications and tensions in delivering quality, affordable housing.

Flexibility is Critical

Flexibility is key because conditions vary widely from site to site. An internal policy framework should be established for identifying specific catalytic sites that may require deviations from policy.

Because there are needs at every income level, the definition of *affordable* should be broadened to include covenant-controlled housing targeting households earning up to 120% AMI. While priority would be given to projects supporting the lowest AMI households, certain sites may require additional flexibility to remain feasible or to deliver other benefits. It should be noted that in some areas placing a covenant requiring that housing remain affordable to households earning 100 or even 120% of AMI can be a powerful anti-displacement tool that does not require subsidy.

And because the supply of housing is so constrained, urgent production of all units, market and affordable is essential. A minimum requirement of 25% affordable units at 80% AMI can align with existing density bonuses in order to maximize market rate and affordable units on Metro property. In addition, an "equivalent" minimum should also be permitted, (such as a 15% of units at 30% AMI, to be further laid out in an affordability scoring system).

The Metro JD Program should leverage the private market to achieve plentiful, quality housing near transit. Metro can capture proceeds on JD sites and reinvest those proceeds into affordable housing or other community benefits. JD should take advantage wherever the private market can achieve the desired policy outcomes and reserve a subsidy for another project.

Time is of the Essence

As the housing affordability crisis worsens and the homelessness crisis grows, it is obvious that action is needed immediately. Development is time consuming and requires lengthy, often expensive planning, permitting, outreach, financing and design processes. The sooner projects can begin and the more streamlined the process, the better.

The development market is currently indicating enough capacity for our projects with frequent unsolicited proposals, and the housing market is in need of additional supply.

The close involvement that Metro has taken in the development process of these sites is also time intensive. As gateways into the Metro system, it is important to take care to create quality, community friendly projects, but the reality remains that this is a time-consuming pursuit which may be limiting the timely production of additional units.

Innovation is Vital

The housing crisis calls for solutions from any and all available resources. Acceleration and cost reduction in construction, financing, or permitting will only strengthen our ability to respond. As such, Metro can use its asset of key development sites and its role as a leader and convener of regional planners and experts to encourage and catalyze housing innovation. Just as Metro is using innovation to advance transportation solutions, so should Metro innovate around housing. There is additional liberty to innovate around the delivery of a unit as small as a building, as compared to the scale of a major infrastructure project, as most of Metro's work requires. The region is flush with academic expertise, entrepreneurial knowhow and leading policy thinkers. To a large extent, housing is already an area where many potential partners are innovating and advancing the policy and delivery conversations. Metro can participate in these discussions already underway and convene and incentivize collaboration with partners who are eager to advance housing innovation and work together to find collective solutions to a shared and looming dilemma.

APPENDICES

A. Potential Policy and Process Tools Evaluation Matrix
B. Technical Memo: Affordable Housing Policy Implications
C. Stakeholder Input Summary
D. Precedents Analysis

APPENDIX A: Potential Policy and Process Tools Evaluation Matrix

● Policy value achieved ◑ Policy value not impacted ○ Policy value negatively impacted

Potential Policy Tools				
A.1 DELIVER Housing for everyone	**INCLUSION**	**ACCESS**	**PERFORMANCE**	**INNOVATION**
A.1.1 Affordable First				
• Require that all JD sites first be pursued for development of 100% income-restricted, excepting (a) large "district" sites and sites where zoning and economics allow for mid- or high-rise construction may be developed as mixed-income properties, and (b) sites that are deemed infeasible for affordable housing may be excepted by a Board action.	●	●	○	●
A.1.2 Affordability Levels				
• Expand the definition of "affordable" to include households earning up to 80% of (AMI)in order to leverage the land value created by state and local density bonuses.	●	●	◑	◑
• Create a new definition of "moderate income housing" to include households earning between 80% to 120%.	●	●	◑	●
• Use "neighborhood AMI" to inform affordability targets for each project to ensure affordability levels are appropriate for the community.	●	●	◑	●

A.1.3 Minimum Affordability Requirements				
• Require mixed-income projects to achieve an "affordability score" equivalent to at least 25% of units set aside for households earning 80% of AMI and below.				

A.2 MAXIMIZE the public benefit derived from the JD portfolio	INCLUSION	ACCESS	PERFORMANCE	INNOVATION
A.2.1 Leverage land value				
• Adjust JD Policy so that a land discount, expressed as a dollar value of subsidy from the fair market value of a property (as opposed to a percentage of land discount), may be applied where it may be clearly demonstrated that a) a subsidy is absolutely required to offset additional costs to provide affordable units, deeper affordability levels of the units, or other benefits, such as open space or transit facilities and b) no other subsidies are reasonably available to meet this need.	●	●	●	●
A.2.2 Parking Policies				
• Require unbundled parking on all sites and ensure that tenants pay the cost of parking utilized.	●	●	●	●
• Allow a maximum of 0.5 parking spaces per bedroom for market rate housing units in Metro JD projects; if land use regulations require higher parking rates, the developer would not be permitted to park at a rate any higher than the local minimum; additional parking may be provided if shared with other uses including for weekday Metro parking.	●	●	●	●
A.2.3 Use of Joint Development Proceeds				
• Reinvest proceeds from JD projects in an affordable housing trust fund; a strategic acquisition fund; and the Metro Housing Lab.	●	●	●	●

A.2.4 Strategic Acquisition				
• Working with Corridor planning, Real Estate and Program Management, review proposed transit project property acquisitions for JD potential before the acquisition footprint is established and cleared during environmental review.				
A.3 RESPECT communities by counteracting displacement and delivering benefits	**INCLUSION**	**ACCESS**	**PERFORMANCE**	**INNOVATION**
A.3.1 Small Business Tenants				
• Ensure that developers prioritize ground floor retail in JD projects for community-serving, local, legacy businesses or community serving non-profits, and require developers to provide flexibility for those tenants to ensure ongoing tenancy and viability.				
A.3.2 Sustainability				
• Require baseline sustainability features for all projects; explore options to include additional features where possible.				

A.3.3 Labor Agreements				
• Retain labor policy as-is, requiring all JD projects greater than 60 units to comply.				
A.3.4 Mobility Benefits				
• Prioritize community benefits focused on mobility and transit ridership while balancing the need to dedicate resources to affordable housing units.				
A.3.5 Free Transit Passes				
• Await outcome of FSI study before pursuing potential pilot test requiring transit passes for JD projects.				
A.4 LEAD the region and nation by driving innovation around housing	**INCLUSION**	**ACCESS**	**PERFORMANCE**	**INNOVATION**
A.4.1 Housing Lab				
• Explore innovative pilot projects through a “Metro Housing Lab.”				

Potential Process Tools				
B.1 PRIORITIZE communities with the deepest need	**INCLUSION**	**ACCESS**	**PERFORMANCE**	**INNOVATION**
B.1.1 Neighborhood Stabilization				
• Prioritize projects located in areas at higher risk of displacement.	●	●	◑	◑
B.1.2 Equity Focus Communities				
• Prioritize catalytic projects that fall within the Equity Focus Community geographies which have experienced divestment.	●	●	◑	◑
B.1.3 Access to Opportunity				
• Prioritize projects that would build affordable units in areas with greater access to opportunities.	●	●	◑	◑
B.2 STREAMLINE process for faster project delivery	**INCLUSION**	**ACCESS**	**PERFORMANCE**	**INNOVATION**
B.2.1 Feasibility				
• Prioritize the projects that may be delivered fastest, with the least cost to Metro.	●	●	●	●
B.2.2 Site Analysis and Development Guidelines				

• Determine what kind of project a site can support.	◑	◑	●	●
• Determine what infrastructure costs will be required and if the land value can support them or if additional subsidy would be required.	◑	◑	●	●
• Create a Development Guidelines Checklist to accelerate project readiness.	◑	◑	●	●
B.2.3 Community Engagement				
• Focus community input on upfront visions to create reasonable, predictable, timeframes for project visioning and delivery.	●	●	●	●
B.2.4 Expedited Procurement Processes				
• Consolidate process steps under JD team to create efficiencies and accelerate timeframes.	◑	◑	●	●
B.2.5 Unsolicited Proposals				
• Limit unsolicited proposals to developers who have site control of property adjacent to a Metro property and offer a unique property development proposal that Metro could not otherwise procure.	◑	◑	●	●
• Increase transparency in the unsolicited proposals process to ensure alignment between local municipality, community and proposed project vision.	●	●	●	◑

B.3 EVALUATE and select the most inclusive projects.	INCLUSION	ACCESS	PERFORMANCE	INNOVATION
B.3.1 Affordability Scoring				
• Evaluate JD proposals based on an "affordability score" that indexes the number of affordable homes proposed and the target income levels served.	●	●	◑	◑
B.3.2 Economic Development Scoring				
• Formally evaluate proposals based on small business contractors, racial inclusion, and community-based organizations in developer selection criteria.	●	●	◑	◑
B.3.3 Community-informed Evaluation Criteria				
• Solicit input from stakeholders on evaluation criteria for development proposals.	●	●	◑	◑
B.3.4 Expedient Delivery Scoring				
• Assign points to projects that lay forth a path for expedient permits and approvals and demonstrated community support.	◑	◑	●	●
• Establish blanket authorization to enter into ENAs with highest scoring proposal if project meets key Board-established criteria.	◑	◑	●	●

B.3.5 Sustainability Scoring				
• Assign points to projects that that promote environmental stewardship, reduce greenhouse gas emissions, and conserve or restore natural resources.	◑	◑	◑	●
B.4 MEASURE outcomes against policy objectives	**INCLUSION**	**ACCESS**	**PERFORMANCE**	**INNOVATION**
B.4.1 Metrics and Outcome Tracking				
• Report and promote the performance of the JD portfolio via a regularly updated dashboard of projects.	●	●	◑	◑
• Require developers to allow Metro to conduct annual tenant surveys in order to report metrics to Metro for ongoing monitoring.	●	●	◑	●
B.4.2 Long-Term Affordable Housing				
• If fee disposition of Metro property is necessary for a JD project, place a covenant on the property requiring that any affordable units developed remain affordable into perpetuity.	●	●	◑	◑

Appendix B - Financial Model Methodology

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AFFORDABLE HOUSING CALCULATOR POLICY IMPLICATIONS

Contents

Introduction

HR&A Advisors, Inc. (HR&A) has built an affordable housing feasibility calculator for Los Angeles Metro's Joint Development team (Metro) as part of their 2020 joint development policy update. The calculator tests the feasibility of development based on key development assumptions and is designed to be a tool to facilitate rapid policy tests across Metro's joint development portfolio. Metro's sites are an important public asset that can play a pivotal role in expanding housing affordability in Los Angeles County. Towards that end, the calculator supports a housing policy discussion that balances market feasibility, affordability, total unit count and other public policy goals. **The primary purpose of this calculator is to evaluate policy impacts on portfolio-wide outcomes.** Additionally, HR&A has built a site-specific calculator to test specific assumptions and evaluate nuanced policy variable impacts on a single site.

Approach

To calculate the feasibility impacts of policy interventions, the calculator solves for Return on Cost (ROC) based on policy inputs and compares it to the baseline expected returns with the highest residual land value, based on the typology and market.

The Metro team identified 48 potential pipeline sites along existing and future transit lines. John Kaliski Architects (JKA) and HR&A then evaluated the sites based on physical and market development potential. HR&A further grouped sites into **market tiers** based on proximity and market strength, in order to gather and assign development assumptions such as rents and capitalization rates, with Tier 1 having the highest rents and Tier 5 with the lowest rents. The calculator evaluates feasibility of inclusionary units but allows the user to choose whether to assign each site as 100 percent affordable or inclusionary.

Users can toggle policy variables related to parking, on-site amenities, PLA/CCP requirements, affordability mix, and Metro's land value discount, to see how the policy environment they constructed affects the total unit output on joint-development sites, along with the total number of feasible projects and affordable units.

Dashboard

The following inputs are available to users on the calculator dashboard:

INPUTS: Inclusionary

Adjust the inputs in this section to test different policy variables across all inclusionary projects.

Parking spaces per unit	1	Total number of spaces required per unit
Amenities Contribution	$0 /unit	Contribution from developer for on-site amenities
PLA CCP Unit Limit	200 units	Unit limit at which PLA/CCP wage regulations apply
PLA CCP Hard Costs Premium	8%	Hard cost premium applied for projects that are subject to the PLA/CCP premium.
Land Value Discount	0%	Share of land value discounted by Metro

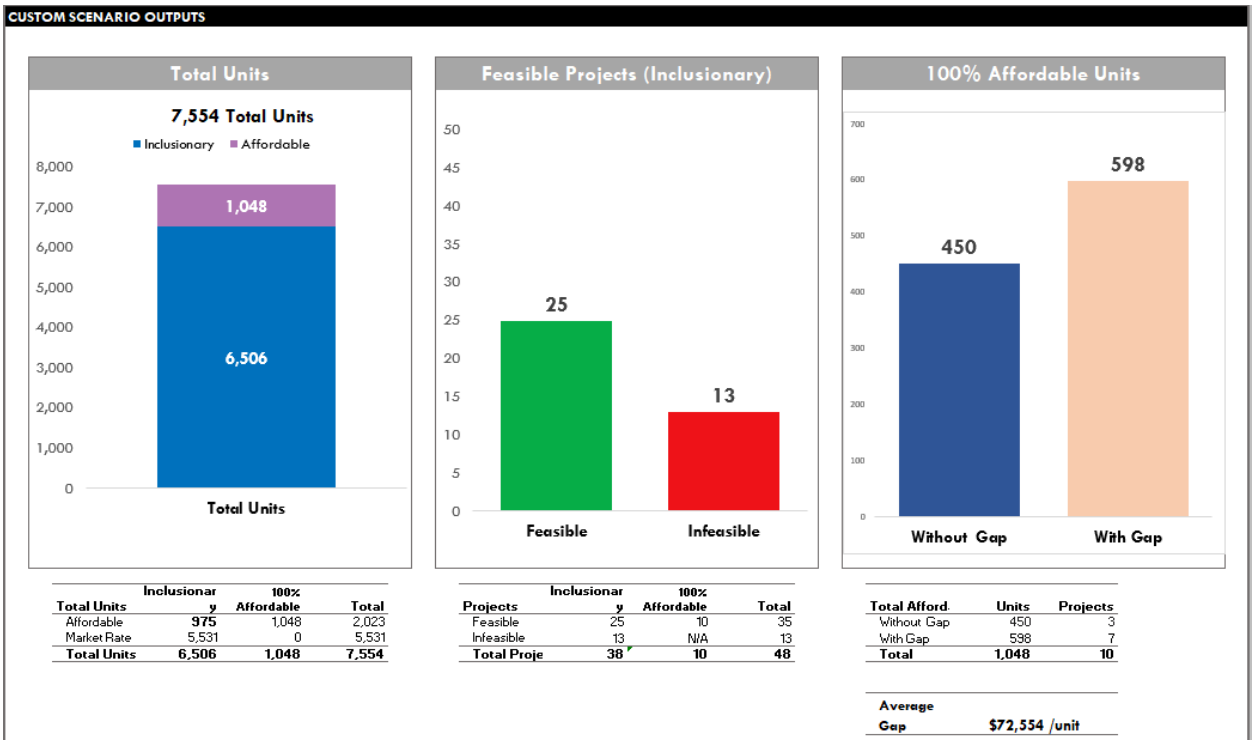
Unit Mix		
30% AMI (TOC: 11%)	0%	Unit mix and affordability share across every project in the portfolio
50% AMI (State Bonus: 11% / TOC: 15%	0%	
60% AMI (State Bonus: 20% / TOC: 25%	0%	
80% AMI (State Bonus: 20% / TOC: 25%	25%	
100% AMI	0%	
120% AMI	0%	
Affordable Units	**25%**	
Market Rate Units	75%	
Total	**100%**	

INPUTS: Affordable

Parking spaces per unit	1	
Amenities Contribution	$0 /unit	
PLA CCP Unit Limit	60 units	
Land Value Discount	0%	
Maximum 9% LIHTC projects per time horizon	2	Total number of 9% LIHTC projects allowed per time horizon. (All other affordable projects default to 4% credits).
Additional Gap Financing	$0 /unit	Additional public funding (city, state, federal, Metro) provided for to fill capital gap for affordable deals.
Share of Lost Land Value (as a result of policies)	**0%**	Change in land value for proposed set of policies as a delta from the highest-and-best use land value.

Note: Lost land value may be lower than discount amount of custom scenario adds additional value.

Along with these inputs, the following outputs are available to users:



Total Units	Inclusionary	100% Affordable	Total
Affordable	975	1,048	2,023
Market Rate	5,531	0	5,531
Total Units	**6,506**	**1,048**	**7,554**

Projects	Inclusionary	100% Affordable	Total
Feasible	25	10	35
Infeasible	13	N/A	13
Total Proje	**38**	**10**	**48**

Total Afford.	Units	Projects
Without Gap	450	3
With Gap	598	7
Total	**1,048**	**10**

Average Gap	**$72,554 /unit**

Total Units: The total potential units produced on joint development sites, further subdivided into **inclusionary projects** (with conventional financing) and 100% affordable projects (with tax-credit financing).

Feasible Projects: The number of inclusionary projects that are feasible (based on return on cost metrics) given the user's policy environment.

100% Affordable Units: The number projects with and without a gap in their capital stack. This gap is listed below and can be filled by a combination of public, private, and philanthropic capital.

Key Takeaways

The calculator's findings indicate that Metro's policies can have a significant impact on building affordable and market-rate housing across Los Angeles County. Metro has an opportunity to build a policy structure that aligns with their core policy values of inclusion, access, performance, and innovation.

The calculator additionally shows the potential tradeoffs between different policy goals and can help Metro work towards a balanced policy. These tradeoffs can include:

- **The location of 100% affordable (tax-credit) projects.** If affordable sites were distributed equitably across all submarkets, there would be almost 500 fewer units than the default scenario in which all 100% affordable sites are concentrated in Tier 5 locations. If 100% affordable sites were concentrated in Tier 1 and Tier 2 sites, there would be almost 900 fewer units than the default scenario. However, Metro may be willing to make that tradeoff, given the higher access to opportunities and amenities that households may have living in the higher tiered submarkets.
- The number of **total affordable units** versus the **depth of affordability per unit.** In many instances, a higher depth of affordability results in less units. For instance, a 2-bedroom unit that rents for 80% of AMI, affordable to households earning below $54,000, is far cheaper for a developer to provide compared to a 2-bedroom 50% AMI unit, which are affordable to households earning below $32,000 annually. If a policy required 15% at 50% AMI inclusionary, the model outputs **735 potential inclusionary affordable units**. At 25% affordable for 80% AMI, the model outputs **1,042 potential inclusionary units—305 more units.**
- The number of **total affordable inclusionary** units versus **the number of total units** (both market-rate and inclusionary. In some instances, a policy that yields a higher number of total units can have fewer affordable units compared to a policy that yields a higher number of inclusionary affordable units.

Additionally, HR&A conducted sensitivity analyses for each policy lever, detailed in the findings section. Based on this analysis, the following policy variables can have an outsized impact on affordable unit yield:

- **Parking spaces per unit** is one of Metro's most powerful tools in determining project feasibility, especially on higher density sites, as they can cost more than $40,000 per space. **A parking ratio from 1 to 0.5, conservatively, increases total potential unit yield by 34%.**
- **Discounting land value** can be a key factor to facilitate more affordable development. However, this is most useful on sites in stronger submarkets where land is a large proportion of total development costs. Requiring significant affordability on lower value sites will require additional public subsidy, not just significant land value discount. **Flexibility in the land value discount percentage across different submarkets will allow Metro to most effectively use public land value to invest in affordable housing units.**
- **PLA / CCP requirements increase the cost of construction and can have a significant impact on total unit yield, but more project evidence is required to quantify the direct impact.** Assuming that the PLA/CCP requirements create an 8% impact on hard costs can decrease development by up to 3,000 units assuming no changes or land discounts.

Findings

This section outlines the calculator's findings for each policy variable, holding the remaining variables constant. This is intended to provide an idea of the relative sensitivity of the outputs to each of the policy inputs. Policy variables include parking spaces per unit, additional development requirements, PLA/CCP requirements, affordability and unit mix, land value, and varying affordable sites.

Varying Affordable Housing Sites

Although not an input on the primary dashboard, the calculator allows additional flexibility to change the sites designated 100% affordable through the site selector worksheet. By default, the calculator selects sites in Tier 5, the market tier with the lowest market rents as 100% affordable projects (categorized as 100% of units at 60% of AMI). However, there may be various policy goals that result in a different distribution of affordable units.

For example, if affordable sites were distributed **equitably across all submarkets**, two sites from each tier would be designated 100% affordable, as a tax credit project. In a scenario with 25% inclusionary rate at 80% AMI for the inclusionary projects, no land discount, and a parking ratio of 1, an equitable distribution of affordable sites would result in 4,708 units, 520 units less than the default scenario. Another option to drive at equity may be to concentrate affordable units in **high-opportunity areas**, Tier 1 and 2 submarkets with access to community amenities, jobs, and high-quality schools. This would reduce the total unit count to 4,650 units but concentrate 1,028 units of affordable housing at 60% AMI in Tier 1 and Tier 2 markets. However, given the high land value of these sites Metro would need to discount a larger share or land value or the project would need substantially more subsidy to fill the capital gap on these projects.

Instead, a policy could target submarkets with rapidly increasing rents, to combat displacement. In this example, the 100% affordable projects are concentrated in Tiers 4 and 5 (which are currently seeing the fastest increase in rents), resulting in 4,650 total units, 580 fewer units overall than the default scenario.

Varying Affordable Housing Sites and Impact on Total Units

Affordable Project Scenarios	Total Units	Share of Inclusionary Affordable Units	Share of 100% Affordable Units	Share of Market Rate Units
Default: Tier 5 100% affordable	5,228	1,046 (20%)	1,046 (20%)	4,182 (80%)
Distributed: 2 sites per tier 100% affordable	4,708	942 (20%)	1,036 (22%)	3,776 (80%)
Anti-Displacement: 100% affordable concentrated in Tier 4 and Tier 5	4,650	884 (19%)	1,023 (22%)	3,767 (81%)
Areas of Access: 100% affordable concentrated in Tier 1 and Tier 2	4,371	830 (19%)	1,005 (23%)	3,541 (81%)

Affordability and Unit Mix

Affordability level and unit mix are two key metrics that govern the calculator's outputs. Changing these metrics can trigger two development incentives—the state density bonus and the transit-oriented communities (TOC) density bonus in the City of Los Angeles. These bonuses yield two broad outcomes:

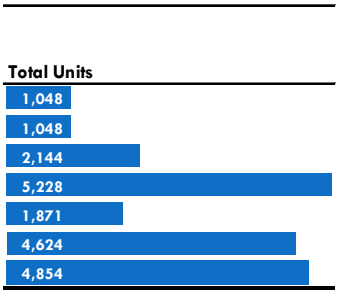
- **The highest unit yield does not result from keeping all units at market-rate.** In the example below, an inclusionary rate of 25% at 80% AMI results in 20% greater units as the state density bonus and TOC bonus is triggered.
- **Due to the bonus structures, having an inclusionary rate at lower AMIs that trigger the bonus yields more units than those that do not.** In the example below, a 25% inclusionary rate at 60%

AMI leads to 280 more units than 25% at 100% AMI. While 100% AMI units result in higher rents per unit, having a 60% AMI delivers far greater units through the bonus.

An effective policy will need to take advantage of both density bonus incentive structures to maximize the total number of affordable units.

Total Units by AMI Level at 25% Affordable

AMI (with 25% units affordable)	Total Units	Total Units difference from baseline	Market Rate Units	Inclusionary Affordable Units
30% AMI	1,048	-4,180	0	0
50% AMI	1,048	-4,180	0	0
60% AMI	2,144	-3,084	822	274
80% AMI	**5,228**	**+0**	**3,138**	**1,042**
100% AMI	1,871	-3,357	618	205
120% AMI	4,624	-604	2,684	892
100% Market Rate	4,854	-374	3,806	3,806

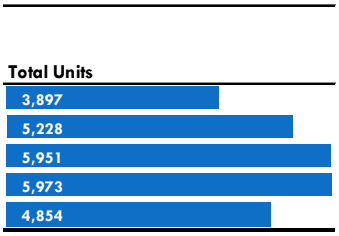


Model Assumptions: Land value discount is 0%. PLA/CCP Cost Premium is 0%. Parking Ratio is 1.
Note: Total units include 1,048 100% Affordable units in all scenarios

There is a significant tradeoff between depth of affordability (AMI) and number of affordable units (required inclusionary share). Since the density bonuses are triggered at lower levels with deeper affordability, a 11% inclusionary rate at 50% AMI results in 745 more units than 25% at 80% AMI.

Total Units by Various AMI Levels and Inclusionary Shares

AMI and set-aside	Total Units	Total Units difference from baseline	Market Rate Units	Inclusionary Affordable Units
20% at 80% AMI	3,897	-1,331	2,279	570
25% at 80% AMI	**5,228**	**+0**	**3,138**	**1,042**
15% at 50% AMI	5,951	+723	822	274
11% at 50% AMI	**5,973**	**+745**	**3,138**	**1,632**
100% Market Rate	4,854	-374	3,806	3,806



Model Assumptions: Land value discount is 0%. PLA/CCP Cost Premium is 0%. Parking Ratio is 1.
Note: Total units include 1,048 100% Affordable units in all scenarios. These scenarios were selected because they perform best.

Land Value

Discounting land value is one of Metro's strongest tools to facilitate more affordable housing on joint-development sites. On average, land value represents 22% of total development cost for the inclusionary projects modeled. For stronger submarkets, it represents an even greater share of development cost, at 38% for Tier 1—as average land values range from more than $700 per square foot in Tier 1, to $40 in Tier 5.

Land Value by Tier

Market Tier	Land Value as a share of Development Cost	Average Land PSF	Total Land Value	Share of Metro Total Land Value
Tier 1	38%	$718	$691,897,652	60%
Tier 2	28%	$351	$159,150,292	14%
Tier 3	27%	$203	$129,390,459	11%
Tier 4	14%	$84	$154,062,410	13%
Tier 5	10%	$38	$22,056,951	2%

As a result of these disparate land values across tiers, 60% of Metro's total land value is in Tier 1, while less than 15% are in Tiers 4 and 5. This indicates that land value discounts are most helpful to projects in higher submarkets to drive feasibility, **but are also the most costly for Metro to provide.**

As an example, consider two similarly sized projects: 17th St/Santa Monica Station (Tier 1) and Reseda Station (Tier 4), at approximately 350 units. If Metro requires a 30% inclusionary rate at 60% of AMI, they are both infeasible. However, since land is a much larger portion of the project's cost basis, the returns on SMC Station increase rapidly with more land discount, until the project is deemed feasible at a 25% land discount. For Reseda station however, a larger discount does little to increase the project's return on cost and remains infeasible even at a significant 40% land discount.

Feasibility by Land Value Discount

	17th St./SMC Station	Reseda Station
Minimum Return on	**4.70%**	**5.25%**
Land Value Discount (%)	Difference from Minimum (in basis points)	
0	50 bps	78 bps
5	42	76
10	33	74
15	24	72
20	14	70
25	4	68
30	-6	66
35	-17	64
40	-30	52
45	-44	50
50	-58	48
55	-73	45
60	-88	43
65	-105	41
70	-122	38
75	-140	36

This indicates two key takeaways:

- **Requiring significant affordability on lower value sites will require additional public subsidy, not just significant land value discount.**
- **Flexibility in the land value discount percentage across different submarkets will allow Metro to most effectively use public land value to invest in affordable housing units.**

Nevertheless, due to the large Tier 1 and Tier 2 sites, land value discounts drive total unit yields up sharply. At 25% at 80% AMI and 11% at 50% AMI, the total number of units increases by 2,309 units and 970 units, respectively.

Land Value Discount	AMI and Set-Aside	Total Units		Market Rate Units	Inclusionary Affordable Units
0%	25% at 80% AMI	5,228		3,138	1,042
	11% at 50% AMI	5,973		4,381	544
25%	25% at 80% AMI	7,587	**(+2,359)**	4,907	1,632
	11% at 50% AMI	6,943	**(+970)**	5,234	650

Given the skewed benefits of the land value discount, there are diminishing marginal benefits of the tool when used across the entire portfolio. The initial 25% discount leads to 2,360 new units—following that initial bump however, only between 2 to 3 projects are made feasible with an additional 25% in land value.

Total Units at 25% at 80% AMI

Land Value Discount	Total Units	
0%	5,228	
25%	7,587	**(+2,359)**
50%	8,026	**(+439)**
75%	8,779	**(+753)**
100%	9,094	**(+315)**

Parking Spaces per Unit

Parking is one of the largest cost drivers in multifamily units. Each parking spot typically costs between $2,000 to $40,000 per space, depending on parking type (surface, podium, underground). Additionally, there is often an opportunity cost for surface and podium parking—as more units could have been built in place of parking. Note that the current calculator does not account for the additional units that could be constructed in place of the parking, so our findings are somewhat conservative. Even from these estimates. the calculator is highly sensitive to changes in the parking ratio—**a parking ratio decrease from 1.0 to 0.5 can increase total unit count by 34%.**

Parking Ratio	Total Units		Market Rate Units	Inclusionary Affordable Units	Total Units
2.00 spaces / unit	3,377	-1,851	1,748	581	3,377
1.75	3,377	-1,851	1,748	581	3,377
1.5	3,435	-1,793	1,792	595	3,435
1.25	3,435	-1,793	1,792	595	3,435
1	5,228	+0	3,138	1,042	5,228
0.75	6,904	+1,676	4,395	1,562	6,904
0.5	7,006	+1,778	4,471	1,487	7,006
0.25	7,231	+2,003	4,640	1,543	7,231
0	7,502	+2,274	4,843	1,611	7,502

Model Assumptions: 25% of units at 80% AMI. Land value discount is 0%. PLA/CCP Cost Premium is 0%.

Note: Total units include 1,048 100% Affordable units in all scenarios

PLA / CCP Requirements

Metro has adopted project labor agreement (PLA) and construction careers policy (CCP) to encourage construction employment, training opportunities, and pay workers fair wages for all projects larger than 60 units. It is too early to find empirical data for the cost premium that these requirements place on projects. Preliminary estimates place this cost premium at about 8-15 percent on project hard construction costs. The calculator allows users to change both the PLA / CCP unit limit (Project size in units) and construction cost premium, which are set at 200 units and 8 percent respectively, by default. The calculator produces the highest total unit yield in a scenario with a 0 percent premium and high project size. As project size decreases, and premium increases, the total feasible unit count decreases.

Project Size of Premium Applications

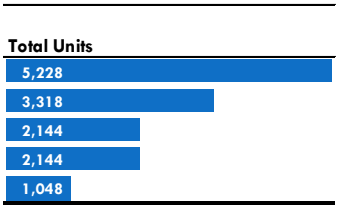
Premium	Project Size (in units) 0	60 *(existing policy)*	120	180	200	240
0%	5,228	5,228	5,228	5,228	5,228	5,228
5%	2,486	2,585	3,265	3,695	3,877	3,877
8%	2,144	2,243	2,923	3,353	**3,535**	3,535
10%	1,048	1,147	1,827	2,257	2,439	2,439
15%	1,048	1,147	1,827	2,257	2,439	2,439
20%	1,048	1,147	1,827	2,257	2,439	2,439
25%	1,048	1,147	2,257	2,257	2,439	2,439

Model Assumptions: 25% of units at 80% AMI. Land value discount is 0%. Parking Ratio is 1.
Note: Total units include 1,048 100% Affordable units in all scenarios

Additional Development Requirements

Adding additional development requirements, such as infrastructure or community amenities, adds additional costs to a project. Additional development costs may occur if a developer is asked to construct complex infrastructure as part of a joint development agreement—adding to the overall risk of a project. In other cases, additional development requirements may be used to negotiate programmed open space, subsidized retail, or privately owned public spaces, as a community amenity. Additional costs initially drops total unit yield drastically, and then stabilizes at a lower number. This is because many projects are modeled at baseline to be just barely feasible, paying as much as possible towards land costs at the highest potential best use. Adding development requirements may also add project risk and raise return requirements, which are not modeled in this calculation.

Additional Development	Total Units		Market Rate Units	Inclusionary Affordable Units
$0	5,228	+0	3,138	1,042
$10,000	3,318	-1,910	1,704	566
$20,000	2,144	-3,084	822	274
$30,000	2,144	-3,084	822	274
$40,000	1,048	-4,180	0	0



Model Assumptions: 25% of units at 80% AMI. Land value discount is 0%. PLA/CCP Cost Premium is 0%. Parking Ratio is 1.
Note: Total units include 1,048 100% Affordable units in all scenarios

Methodology

Approach

HR&A used a development pro forma approach to evaluate market feasibility of inclusionary housing projects. The calculator has two components:

- A portfolio aggregator which evaluates policy impacts on feasibility across a portfolio of sites; and
- A site-specific calculator which tests specific assumptions and evaluates nuanced policy variable impacts on a single site.

The portfolio aggregator allows the user to input and adjust site assumptions and policy variables to test impacts of various scenarios. The calculator evaluates feasibility of inclusionary housing projects based on return on cost (ROC) which measures developer's stabilized-year financial return. Return on cost assumptions range between 4.95% and 5.65%, depending on project submarket and tier.[26] Each variable (described in the findings section) impacts the project's ROC from a baseline, depending on the project's revenue, total construction costs, and land costs, based on the project's highest and best use. If the ROC falls below the minimum allowance (based on submarket tier), a project is classified as **infeasible**. If the ROC is at or above the allowance, the project is classified as **feasible**.

Developing Key Assumptions

Metro provided HR&A with a list of 48 development sites located across Los Angeles County, ranging from 19,500 square feet to 558,000 square feet in land area. Based on the sites, HR&A and John Kaliski Architects (JKA) assigned a development typology and number of units to each site, from high-rise to suburban garden style apartments, illustrating the diversity of Metro-owned sites in across the County.

[26] CoStar, 2020.

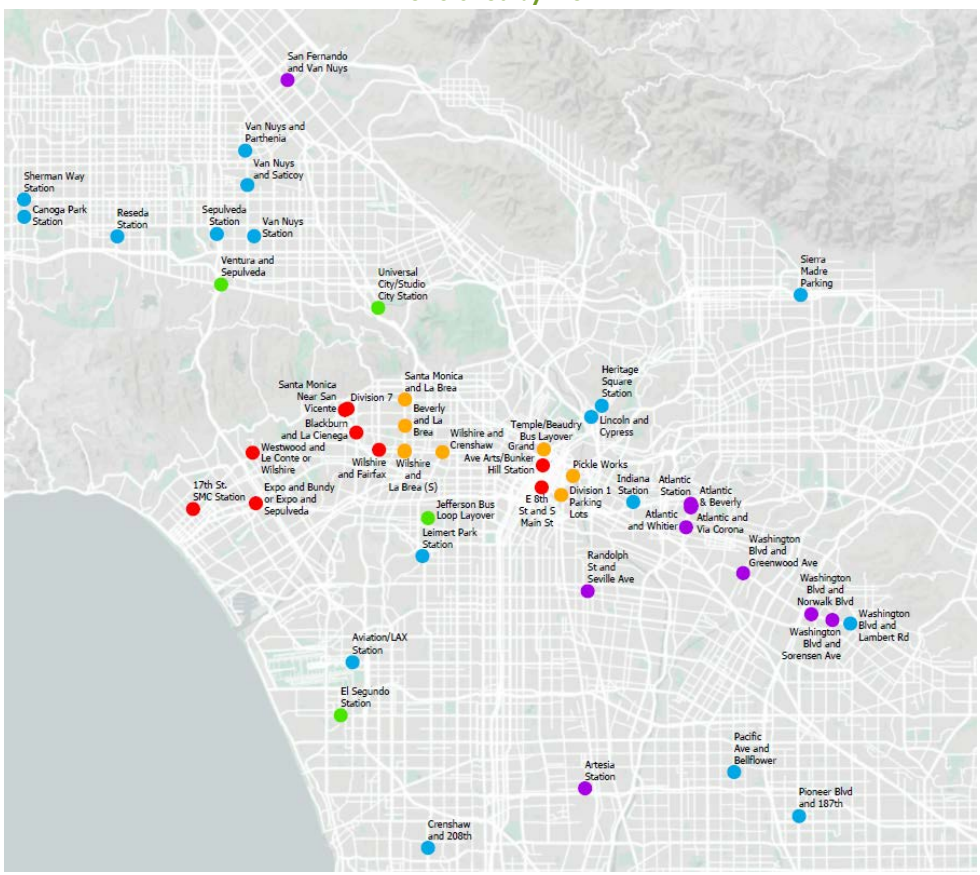
Typology	Average Unit Size (GSF)	Net to Gross	Resi HC per GSF	Retail HC	TI / LC (GSF)
High-Rise (25 to 39 stories)	1,000 SF	78%	$376/SF	$376/SF	$30/SF
High-Rise (13 to 24 stories)	1,000 SF	79%	$336/SF	$336/SF	$30/SF
High-Rise (8 to 12 Stories)	1,000 SF	79%	$286/SF	$286/SF	$30/SF
High-Medium Multifamily	1,000 SF	80%	$228/SF	$228/SF	$30/SF
Medium Multifamily	1,000 SF	80%	$226/SF	$226/SF	$30/SF
Low-Medium Multifamily	1,000 SF	82%	$226/SF	$226/SF	$30/SF
Urban Garden Apartments	1,500 SF	85%	$227/SF	$227/SF	$30/SF
Suburban Garden Apartments	1,500 SF	85%	$226/SF	$226/SF	$30/SF

Source(s): JKA, HR&A, Craftsman 2020 Construction Costs, CoStar 2020

Typology	Retail?	Stories	Parking / space	Avg Units/ Acre
High-Rise (25 to 39 stories)	1	30	$40,000	-
High-Rise (13 to 24 stories)	1	15	$40,000	200
High-Rise (8 to 12 Stories)	1	10	$40,000	150
High-Medium Multifamily	1	6	$35,000	76
Medium Multifamily	0	5	$35,000	75
Low-Medium Multifamily	0	3	$35,000	82
Urban Garden Apartments	0	2	$0	31
Suburban Garden Apartments	0	2	$0	30

HR&A then organized each site into one of five market tiers. **Tier 1** is the most competitive market area, with the highest rents and lowest capitalization rate. **Tier 5** is the least competitive market area, with the lowest rents and highest capitalization rates. This categorization was based on existing rents and market strength of each site and can be changed on the site inputs tab as sites become more or less valuable for residential development.

Metro Sites by Tier



Tier	Multifamily Rents	Retail Rents	Parking Rents	Cap Rate	Return on Cost	MF Vacancy	Retail Vacancy
TIER 1	$4.75 /NSF	$70 /NSF	$175 /Mo	3.7%	4.95%	10%	10%
TIER 2	$4.00 /NSF	$45 /NSF	$175 /Mo	3.8%	5.05%	7%	15%
TIER 3	$3.50 /NSF	$40 /NSF	$100 /Mo	4.1%	5.35%	5%	10%
TIER 4	$3.00 /NSF	$30 /NSF	$100 /Mo	4.4%	5.65%	5%	10%
TIER 5	$2.75 /NSF	$30 /NSF	$100 /Mo	4.4%	5.65%	5%	10%

Affordable rent assumptions are based on City of Los Angeles 2019 Income and Rent Limits. 100 percent affordable sites use land use schedule one rents and income limits. Inclusionary sites use schedule six rents and income limits.

Los Angeles 2019 Schedule 1 Rents (100% Affordable)

Category	Studio	1-BR	2-BR	3-BR	4-BR	5-BR
30% AMI	$549	$626	$705	$783	$846	$909
50% AMI	$914	$1,045	$1,175	$1,305	$1,410	$1,515
60% AMI	$1,096	$1,254	$1,410	$1,566	$1,693	$1,818
80% AMI	$1,461	$1,670	$1,879	$2,088	$2,255	$2,423
100% AMI	$1,828	$2,090	$2,350	$2,611	$2,820	$3,030
120% AMI	$2,193	$2,508	$2,820	$3,133	$3,384	$3,636

Los Angeles 2019 Schedule 6 Rents (Inclusionary)

Category	Studio	1-BR	2-BR	3-BR	4-BR	5-BR
30% AMI	$372	$426	$479	$532	$575	$617
50% AMI	$621	$710	$798	$887	$958	$1,029
60% AMI	$745	$851	$958	$1,064	$1,149	$1,235
80% AMI	$1,056	$1,206	$1,357	$1,458	$1,628	$1,749
100% AMI	$1,366	$1,561	$1,756	$1,851	$2,107	$2,263
120% AMI	$1,862	$2,129	$2,395	$2,661	$2,873	$3,086

The model uses these assumptions to develop three different return scenarios in the *Calculation Table*. This tab calculates return on cost for each site and selects one of three scenarios that yields the highest return: 1) by-right; 2) California state density bonus; and 3) City of LA Transit Oriented Communities (TOC)-style density bonus. This model does not calculate feasibility for 100% affordable projects; however, average gap per unit can be used as a proxy for feasibility (projects with high financing gap per unit are less likely to be built). These calculations are then used for the outputs table on the *Portfolio Aggregator* worksheet:

Variable Descriptions for Detailed Results Table

Column	Description
Intersection	Site Name
Affordable?	Affordable or Inclusionary (based on input on Site Inputs)
Land SF	Total Land Square Feet (Metro figures)
Site Number	Model internal site number
Submarket	HR&A assigned submarket
Municipality	Municipality in LA County
Time Horizon	Time horizon for development (based on input on Site Inputs, can be changed)
Baseline Scenario	The scenario that yields the highest returns (between by-right, state density bonus, or TOC). If the site is affordable, reverts to Affordable RLV).
Baseline Units	Total units built at baseline scenario
Baseline MR	Market rate units at baseline
Baseline Aff	Inclusionary or 100% affordable units at baseline.
Baseline RLV	Baseline residual land value based on optimized scenario
Baseline RLV / SF	Baseline RLV by total land SF
Baseline Feasible	1 if baseline scenario is feasible, 0 if not
UI Units	Total units yielded based on user input scenario
UI MR Units	Total Market Rate Units
UI Aff Units	Total Affordable Units
Custom RLV	Residual Land Value based on user input
UI RLV	Maximum or Baseline RLV and Custom RLV
Adjusted RLV	Adjusted UI RLV based on land discount input
UI RLV / SF	Adjusted RLV by total Land SF
Target ROC	Target ROC based on Submarket (from Revenue & Cost Assumptions)
UI ROC	Return on Cost from custom scenario
Minimum Land Value	Minimum Land Value (only used if land value is negative) from Revenue and Cost Assumptions
Difference	Difference between UI ROC and Target ROC in basis points
UI Feasible?	1 if UI scenario is feasible, 0 if not
Affordable Gap	Gap in capital stack if unit is 100% affordable
Aff Units	Total 100% Affordable Units
Anticipated Infrastructure Costs	Anticipated infrastructure costs (from Site Inputs)

Caveats and Qualifications

HR&A developed this calculator to measure the relative impacts of multiple policy scenarios in order to estimate the tradeoffs between various policy interventions. The functionality of the calculator is limited by the following:

- The calculator includes typology and total unit assumptions that should not be adjusted independently. When modifying the total number of units for one site, the user must also modify the development typology.
- The parking ratio lever only accounts for the construction costs associated with additional parking and does not consider revenue from additional apartments when the parking ratio is reduced. It is possible that revenue is under counted in scenarios with low parking ratios.
- Market assumptions are based on recent market conditions and do not reflect the future impacts of the COVID-19 pandemic or other economic factors. Market factors should be adjusted to keep the model current.

Appendix C - Stakeholder Input Summary

Metro Internal Working Group

On June 24, 2020, Metro's JD team convened an internal working group of Metro experts from several departments to discuss the JD Policy. In a presentation of the JD Policy on affordable housing, the team introduced the regional context for affordable housing, an overview of the existing Metro JD Policy, the scope and process for the Policy update, and solicited feedback on proposed outcomes and tools.

Participants were asked: How would you measure success? What performance outcomes should we prioritize? Which tools do you think would be most successful? In response, we heard a few recurring themes such as: prioritize need and equity, evaluate the potential outcomes, and consider other tools. The comments are summarized below.

Prioritize need and equity

- Consider how Metro can prioritize providing housing for those most in need.
- We are hearing some voices suggesting moderate income housing, but we need to show where the prioritized needs are in LA County.
- How are we defining need? What are the targets that this program will help address?
- Think about transit propensity and who uses transit the most.
- Build affordable housing in historically underbuilt areas.
- Instead of just maximizing investments in equity focused communities, disperse affordable housing throughout LA County. We do not want to concentrate affordable housing solely in low income communities.

Evaluate potential policy outcomes

- Evaluate the push and pull of developing the most units vs developing 100% affordable. Consider doing a mix of both. Metro's mixed income projects are the biggest projects with the most units. Many heavy rails sites are trying to maximize units around transit, which often means the development is not 100% Affordable Housing.
- Metro should consider the gaps in the affordable housing subsidy landscape. Subsidy availability differs for the population being housed.
- Consider how Metro uses land value to fund housing. Discounting Metro land to incentivize affordable housing is a symbolic way of giving back to Angelenos.
- Metro needs to consider how the policies can put existing businesses and residents at risk of displacement. We also need to consider how acquisition of existing businesses for Metro property can cause displacement. Does this align with Metro's commitments to taxpayers through Measure R and Measure M?

- We need to think differently about relocating businesses and residents, especially in major capital projects where a community is paying substantial money for housing, and certain demographics are particularly at risk of displacement.
- Consider how procurement of projects could offer more opportunities for Metro Joint Development.

Consider other tools and models

- The JD policy should remove barriers to delivering units, such as parking policies that add costs, or unnecessary discretionary review. Think of ways to expedite projects, possibly by packaging them together for Metro Board approval.
- Consider what other jurisdictions are working on and communicate with those jurisdictions.
- Land value capture is a strong tool to consider and may be more effective than setting a minimum required percentage of affordable units in each project.
- Consider the European social housing model where the tenant's income doesn't matter, instead every household pays 30% of their income to subsidize the building. Is there a way to try this out in Metro?
- Consider the San Francisco model where market units have a parking maximum, and affordable housing units do not, since often low-income folks were not working near transit centers and needed to commute to work by car.

External Stakeholder Roundtable

On July 29th, 2020, Metro JD convened a roundtable of external stakeholders to inform the JD policy. Participants came from agencies across the county, academia, housing development, and non-profit community organizations. After providing a primer on the existing JD Program and policy on affordable housing, the team led a discussion on the outcomes, tools, and next steps for the policy. A summary of the feedback received is provided below.

Focus on goals

- Employ a variety of policy tools to create a diversity of impacts and outcomes.
- Since Metro owns land in various sizes and geographies, consider a policy that sets a baseline number of units at each station. Look at how much affordable housing exists around each station and adjust baseline based on need.
- At large Metro sites subdivide land so that affordable housing developers can have smaller sites to build 100% affordable projects, rather than having a portion of the units built rely on market rate units.
- Cross subsidizing properties is a critical concept for economic development. The economic development of mixed-use projects can be very challenging in low income neighborhoods. Metro should use cross-subsidy from higher-income areas to offer deeper land discounts in low-income neighborhoods.
- Focus on requiring higher percentages of affordable housing in each JD project and focus on housing extremely low-income households.

- Consider the sizes of projects that can qualify for CEQA streamlining and get built fast. Maximizing zoning at sites may allow for the maximum number of units, but the tradeoff is that these projects may take three times as long as smaller projects that go through CEQA streamlining.
- Use housing preservation as an anti-gentrification measure in the JD Program. Areas near transit that are getting built up with additional resources may experience increases in land values. Use preservation as a counterbalance to transit investment.
- Work with smaller cities and developers to take advantage of AB 1763, which allows for TOC-like density bonuses for affordable housing developers near transit and allows for cross subsidy of low to moderate income housing as well.
- Metro should work with cities to push for legislation and advise surrounding land use authorities to increase density.
- One challenge with cross-subsidization of mixed-income properties is that it isn't always obvious to the community that the market rate units are subsidizing affordable housing and freeing up public resources.
- Inclusionary policies are needed since 80/20 financing deals are not always feasible for affordable developers. Affordable housing needs a variety of tools, including Metro's land discount to achieve housing.
- Consider a permutation of the MATCH Program for housing preservation.

Performance Outcomes

- Measure not only units but number of beds or people housed. All one bedrooms aren't equal. Look at the difference between market rate rent in an area and asked affordable rent. Think and report on the totality of benefit, including community benefit.
- Think about revenue in terms of benefit – community benefits are a balance or concession to expectations around revenue.
- Build affordable housing across the region, not just concentrated in certain areas.
- Consider equity and create opportunities for people of color.
- Consider gender and racial equity in developer selection, address equity in structural and systemic barriers. Increase transparency around methods for developer selection. Provide access for companies of color and woman-run businesses and run the developer selection process through the equity platform.
- JD should be run through equity platform to address past unintended consequences and provide the most opportunity to the most vulnerable populations, especially to Metro core riders.
- The commercial retail piece of many of Metro's RFPs is often challenging for affordable housing developers. The affordable housing component of the proposal is met but the commercial spaces that are built either don't meet the community's needs, or the retail rent isn't affordable enough for community businesses. It is often challenging to find tenants for the commercial portion of the JD projects.
- Consider proposals for walkable retail, where retail on the bottom floor wouldn't require parking. Consider other community activation strategies outside of retail.

- Consider removing the limits to Metro's land discount policy.
- Boost impact of Metro's JD Program by incentivizing (or requiring) that mixed-use projects include commercial space that is appropriate for and accessible to small businesses, social enterprises, and community cultural spaces. In addition to relocation assistance, establish First Right of Refusal to commercial space on Metro-owned land and marketing space of the transit project for legacy small business and/or MBE/WBE/DBE/DVBE that is directly displaced by a Metro project and displaced due to construction impacts.
- Advance strategic land acquisition to help build affordable transit-oriented developments, through both JD projects on Metro-owned land, as well as non-profit development on transit-adjacent land.

How should Metro gather input on the policy?

- A town hall meeting by regions may be best. The panel format is useful, but we may need to have the input of the Metro board as well.
- Regional breakouts could be great and would be great to do simultaneously with the TOC Implementation Plan rollout. Prioritize areas based on equity platforms and supporting community groups. Have Metro coordinate with community groups on JD policy and TOC implementation plan rollout simultaneously.
- Give people the ability to digitally comment and make a repository of goals after events is very helpful. Ask that community submit and prioritize outcomes. Create physical mailings and digital methods to reach out to people that aren't turning out or speaking at events.
- Transit riders need to be interacted with and consulted on this policy. Text people the Zoom link to future outreach meetings. Create a mass texting text list.
- Convene both large groups and focus groups by stakeholders (homeowners, tenants, small businesses, street vendors, etc.). Follow up with digital or paper feedback so people know what will impact their lives
- Offer a formal process for organizations to provide feedback on the policy development.

Metro Policy Advisory Council (PAC)

On September 15, 2020, Metro JD staff presented the Affordable Housing Policy update to Metro's Policy Advisory Committee. Following a presentation of the policy update and context, the JD team requested feedback on three questions: What should we prioritize? Which tools do you think would be most successful? How would you measure success? The discussion is summarized below.

What should we prioritize?

- Consider how the policy could address intergenerational housing.
- The existing JD program accomplishments are impressive. Metro should take pride in the work you have done building the current units across LA county and receive

commendation for a policy that will soon deliver 5,000 units. The new policy feels like the same as the old one and Metro should emphasize what is different.
- Emphasize that the new policy is providing a deeper impact on racial equity. The new policy should provide additional benefits, including tactics to reach sustainability goals and providing additional green space. Make sure to mention climate goals in your tradeoffs. The climate policies are not a tradeoff but an imperative. Get credit for the benefits you are offering.

Which tools do you think would be most successful?

- Do you see Metro's JD policy goals as applying beyond the JD program? Metrolink is interested in seeing TODs around our stations. Usually the property around stations is owned by cities. Consider the impacts of the policy outside of Metro.
- Make sure to address the tradeoff between parking and development. Availability of parking may be needed to attract ridership in certain areas.
- Affordability for residents is an important consideration. Consider what a policy emphasizing maximum units would mean for cities. One of the key constraints cities have is having enough revenue to provide services.
- This policy currently makes no mention of tax increment financing. Consider value capture strategies.
- Metro is going to have to look at a replacement for redevelopment agencies, but that has to be done in partnership with the local cities. Hopefully in partnership with local cities, Metro can create a similar program.

How would you measure success?

- Provide metrics on how each JD project impacts metro ridership. How many new transit riders are you creating with these developments? How many more trips are generated?
- Consider how minority for profit developers will get a foothold on these projects. Is that an issue that gets consideration?
- The TOC baselines are an opportunity to leverage data on missing community amenities. Start with that data as you go to communities.
- List the metrics for JD projects and TOC baseline assessment.
- Consider how to best engage the PAC.

Metro TOC Town Hall

A TOC Town Hall will be scheduled for early 2021. The virtual town hall will be open to the public.

Appendix D – Precedents Analysis

City of Los Angeles TOC Incentive Program and Density Bonus Program

The City of Los Angeles Department of City Planning (DCP) offers two development incentive programs that provide housing developers additional benefits in exchange for developing affordable (covenanted, income-restricted housing) units within their projects, The Transit Oriented Communities Incentive Program and the State Density Bonus.

Collectively in 2020, the TOC and Density Bonus programs generated 62% of the City of LA's planning approved units, and over two thirds of the City's affordable units. In the City of LA, the TOC incentive program has approved 30,721 housing units including 6,497 affordable units since its inception, while the density bonus has generated 28,300 units including 6,303 affordable units since 2015.[27]

The Transit Oriented Communities (TOC) Incentive Program was initiated in 2016 by City of LA voters with ballot Measure JJJ. The program offers building incentives to housing developments that incorporate certain percentages of affordable housing near high-volume transit stops.

Projects closer to high volume transit stops are placed in higher "tiers", which determine the amount of incentives and affordability thresholds a project must meet to qualify. Base incentives such as density and floor area ratio increases as well as parking decreases are given to residential projects incorporating affordable (income-restricted) units within a ½ mile of qualifying transit stops. Developers can elect to build affordable units for low-income (80% area median income), very low (50% AMI), or extremely low-income (30%) tenants.

Qualifying projects that only apply for the base incentives can apply directly for a building permit without City Planning review, providing housing developers time savings that result in faster project delivery and lower total development costs. Additional TOC incentives, like exceptions to height, setback, open space or lot coverage requirements are available for projects that meet DCP's discretionary approval.[28] Between 2018 – 2020, 69% of approved TOC projects chose additional incentives, churning out more units than the by-right path, and resulting in a higher percentage of affordable units. As seen on the LA City DCP Housing Progress Dashboard, between 2018 – 2020, 6,481 units applied for by-right TOC permits, foregoing additional incentives. 20% of these units were affordable. During the same time period 14,676 housing units were approved via TOC discretionary incentives, 24% which were affordable.[29]

The California State Density Bonus Law was initiated in 1976 to encourage the development of affordable housing with building density incentives. The contemporary Density Bonus program SB

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[27] https://planning.lacity.org/resources/housing-reports

[28] Los Angeles City Planning. (2018). *Transit Oriented Communities Affordable Housing Incentive Program Frequently Asked Questions and Answers*. https://planning.lacity.org/odocument/87b0f2c2-8422-4767-a104-b7cd323ee26f/Transit-Oriented_Communities_-_Affordable_Housing_Incentive_Program_(FAQ).pdfv

[29] Derived from data listed on 2020 data listed on *Housing Progress Dashboard*. Housing Progress Reports. https://planning.lacity.org/resources/housing-report

1818 was passed in 2004 and updated in 2020 to provide larger density bonuses for a greater range of projects with affordable units.

Comparison of affordable unit income levels across TOC and Density Bonus Programs

As shown in the table below, the majority of approved TOC applications 2018-2020 were in the low-income and extremely low-income categories, with far fewer units approved in the very low-income category. In 2020, the majority of affordable units approved through TOC were in the low-income category, accounting for 57% of by-right, and 52% of discretionary approvals. In contrast to the TOC program, the majority of approved Density Bonus applications from 2015 – 2020 were for very low-income units, followed by low-income. In 2019, the majority of applications shifted towards low income, followed by very low-income.

Income level of approved affordable housing via TOC Program 2018 – 2020[30]

	2018		2019		2020		3 year average	
	By-Right (BR)	Discretionary (Discr.)	BR	Discr.	BR	Discr.	BR	Discr.
Low Income ($54,250)	15%	45%	59%	39%	57%	52%	44%	45%
Very Low ($33,950)	13%	11%	6%	10%	19%	15%	13%	12%
Extremely Low ($20,350)	72%	44%	35%	52%	24%	32%	44%	43%

SB 35 Streamlining Affordable Housing

In 2018, California Senate Bill 35 provided further streamlined processing for projects that contain at least 50% affordable units.[31] In the City of LA, SB 35 allows projects to bypass timely discretionary CEQA reviews if the project contains at least 50% affordable units. In the 18 months after the adoption of the law, eight 100% affordable projects in the City of LA filed for streamlining under SB 35. SB 35 currently plays a role in entitling active JD projects.[32] As of June 2019, four of the eight SB 35 projects were approved in an average of 77 days.

Expanding TOC

[30] Los Angeles City Planning. (2020). *Housing Progress Dashboard.* Housing Progress Reports. https://planning.lacity.org/resources/housing-reports

[31] *Housing Progress Quarterly Report: April - June 2019.*

[32] Los Angeles City Planning Performance Management. (2019). *Housing Progress Quarterly Report: April - June 2019.* https://planning.lacity.org/odocument/c795255d-9367-4fdf-9568-0a34077720ef

To expedite housing production and address the housing crisis in housing in Los Angeles, LAplus & UC Berkeley's College of Environmental Design recommend expanding TOC, by
A) "Raising the threshold for site plan review to 100 units," to avoid triggering costly CEQA review for infill projects;
B) "Allowing at least 6 FAR and a 120% density bonus for Tier 4 projects that propose a development taller than 85 feet," to allow more expensive construction types to become financially feasible;
C) "Allowing use of Tier 1 within 750 feet of a bus stop with frequency of at least 15 minutes during rush hour," to incorporate intersect high volume bus lines that don't necessarily intersect a second bus line.[33]

Review of Transit Agency Affordable Housing Policies

BART Transit Oriented Development Affordable Housing Policy

The San Francisco Bay Area Rapid Transit District TOD Policy has many similarities to that of LA Metro, including affordability goals for the TOD portfolio, and offering land discounts for housing developments based upon the percentage of affordability. In April 2020, BART amended its TOD policy with further clarity on land discounting. TOD Policy Strategy E, Invest Equitably, states:

"... aim for a District-wide target of 35% of all units to be affordable, with a priority to very low (<50% AMI), low (51-80% AMI) and/or transit-dependent populations. To aid in achieving BART's 35% affordability goal, provide ***up to a 60% discount*** *in ground lease for projects with at least 35% affordable housing (30% for projects with a high rise)."*

The Draft Framework to Determining Financial Return from Affordable Housing illustrates BART's tiered discount to the property's appraised fair market value, where residential projects with at least 35% affordable units are given deeper discounts when the affordable units have lower average Area Median Incomes.

For example,

- "A low discount of **10 to 20%** will be considered for affordable housing projects with units restricted to an average of 61% - 80% of AMI"
- "A standard discount of **20 to 30%** will be considered for affordable housing projects with units restricted to an average AMI of 46% - 60%."
- "A high discount of **30 to 60%** will be considered for affordable housing projects with units restricted to an average AMI of 45% or below."

Discretionary exceptions are made for desired projects in high rises that help BART reach affordability goals. Each project's discount is subject to BART's conditions, one of which states that in order to reach a maximum discount, projects should pursue "eligible sources of revenue that provide

[33] LAPlus & The Real Estate Development & Design Program, College of Environmental Design, University of California Berkeley, Vallianatos, M., Smith, M., Morrow, G., Mendel, J., & Jessie, W. (2019). *Measure JJJ: An Evaluation of Impacts on Residential Development in the City of Los Angeles*. https://wordpressstorageaccount.blob.core.windows.net/wp-media/wp-content/uploads/sites/867/2019/06/2019-Measure-JJJ-An-Evaluation-of-impacts-on-residential-development-in-City-LA.pdf

additional funding to transportation or infrastructure on BART property, such as Affordable Housing & Sustainable Communities or the Infill Infrastructure Grant." [34] BART states that in addition to advancing the goals of BART's TOD Policy, the financial return expectations of any affordable project considers the following baseline conditions: A) Fair Market Value; B) Sources of Revenue from TOD; C) Net Ridership Gains and D) Parking Revenue.[35]

Lastly, BARTs 10-year Workplan focuses on equity and the priority areas where BART intends to pursue Transit Oriented Development. Following its completion of current pipeline projects, one of the top priority strategies in the near term (2020-2025) is to: "Advance racial and economic equity by prioritizing housing for lower-income residents in areas experiencing displacement, and high-opportunity communities in the core of the system. "

Sound Transit

In the Seattle area, Sound Transit gives local governments, housing authorities and non-profits the first offer to bid on 80 % of land deemed surplus and suitable for housing, whether through sale, long term lease, or transfer. If the qualified entity accepts the offer, they are required to construct housing where 80% of the units are affordable for households below 80% AMI. Property discounts are provided based on financial assessments demonstrating the project's gap funding and financial needs of Sound's corridor and system expansion. Sound Transit considers value capture across TOD projects to support affordable housing, including "allowing cross-subsidy across a master development site or through transfer of development rights to a market-rate site generating revenue to support affordable housing development."[36]

To make affordable housing more feasible near transit stations and fill the gaps in affordable housing finance across the region, Sound Transit created the Affordable Housing Revolving Loan Fund. Sound Transit is incorporating $4 million per year for 5 years and leveraging additional funding contributions from public and private sources. Much like Metro's MATCH fund, the fund is a self-replenishing, utilizing interest and principal payments on old loans to issue new ones. To maximize the fund's application and serve unmet local needs, Sound conducted an Affordable Housing Needs Assessment with Local Initiatives Support Corporation (LISC). LISC used a mixed methods approach, including affordable housing "stakeholder interviews, focus groups, a review of 15 LIHTC project proformas, extensive analysis of public policies and resources that affect affordable housing, and an analysis of the funding gaps that exist." [37]

MARTA Transit Oriented Development

[34] San Francisco Bay Area Rapid Transit District. (2020a). *BART TOD Framework for Determining Financial Return from Affordable Housing*. https://www.bart.gov/sites/default/files/docs/Att%202%20-%20BART%20TOD%20Draft%20FR%20Framework%20-%20v7%202020-04-13.pdf

[35] San Francisco Bay Area Rapid Transit District. (2020a). *BART TOD Policy*

[36] Sound Transit. (2018). *Resolution No. R2018-10 Adopting an Equitable Transit Oriented Development Policy*.

[37] Local Initiatives Support Corporation (LISC). (2020, April). *Sound Transit Affordable Housing Revolving Loan Fund Needs Assessment*. https://www.soundtransit.org/sites/default/files/documents/revolving-fund-needs-assessment-short-20200616.pdf

MARTA in Atlanta sets a goal of having 20% of each project's units as "affordable units", where affordable housing includes 1) housing affordable to seniors with low, moderate, or fixed incomes and persons with disabilities; 2) rental workforce housing (60-80% AMI); and 3) for-sale workforce housing for households earning 80% to 100% of AMI. Projects containing more than 10 units are required to meet affordability goals and will be reviewed on a project to project basis.[38]

Massachusetts Bay Transportation Authority

MBTA requires JD projects with at least 15 units to build 20% of its units as affordable (up to 60% AMI) or workforce housing (61% - 100 AMI), but will work with municipalities to determine project feasibility and adjust inclusionary requirements to as low as 10%.[39]

Caltrain

As of February 2020, Caltrain requires new housing projects to offer below market rate rents for 30% of their units. Of those below market rate units, 10% must be reserved for households <50% AMI, 10% for households <80% AMI, and the remainder of units will be offered to households making no more than 120% of AMI.[40]

Unbundling Parking Costs

In 2019, the City of San Diego began requiring all parking spaces within Transit Priority Areas (TPA) be "unbundled" from housing development, so parking is optional and paid separately from the rent or home sale price. The policy was based on a city study on parking costs that found that a single parking spot adds between $35-90,000 in housing costs per unit.[41] Another study from the Victoria Transport Policy Institute estimates that a single parking space increases the price of a housing unit by 12.5%.[42]

Parking unbundling can be done in a variety of ways, as outlined by the Victoria Transport Policy Institute:

- "*Parking spaces are not included in the base rent/purchase cost and are rented by the tenant/owner separately.*
- *Landlords/condo associations can provide a discount to renters/owners who do not want to use the standard number of parking spaces.*

[38] MARTA. (2010). *MARTA TOD Implementation Policies*. https://www.itsmarta.com/uploadedFiles/More/Transit_Oriented_Development/MARTA-TOD-Implementation-Policies-Adopted-Text-November-2010.pdf

[39] Massachusetts Bay Transportation Authority, & Massachusetts Department of Transportation. (2017). *MBTA TOD Policies and Guidelines*. https://www.mass.gov/files/documents/2017/10/17/TOD_Policy.pdf

[40] Caltrain. (2020). *Transit Oriented Development Policy*. https://www.caltrain.com/Assets/__Agendas+and+Minutes/JPB/2020/Item+$!239a+TOD+Presentation.pdf

[41] The City of San Diego Planning Department. (2019). Parking Standards in Transportation Priority Area Fact Sheet. https://www.sandiego.gov/sites/default/files/tpa_fact_sheet_updated_04.24.19_final_onwebpage.pdf

[42] Litman, J. (2020). Parking Requirement Impacts on Housing Affordability. Victoria Transportation Policy Institute. https://vtpi.org/park-hou.pdf

- *Landlords/condo associations can create a secondary market for parking by renting unused spaces out as a separate commodity.*
- *Unbundling can be used as a municipal code tool that allows developers to reduce the amount of parking they are required to provide.* "[43]

Parking Minimums and Maximums

San Diego's Transit Priority Area policy also removed parking minimums for multifamily units around Transit Priority Areas, or neighborhoods located ½ mile from a major transit stop, to allow developers to provide parking in accordance with perceived market demand. This builds off of Seattle and Portland's successful removal of parking requirements for multifamily units, which resulted in "decreased automobile ownership, increased transit use, and greater housing production and affordability."[44] In 2006, San Francisco replaced parking requirements with maximums of 1 parking space for every 4 housing units in certain downtown commercial zones, in addition to policies on unbundling parking and car-sharing.

[43] *Parking Requirements & Unbundling.* (Accessed September 26, 2020). ParkingPolicy.com

[44] The City of San Diego Planning Department. (2019). Parking Standards in Transportation Priority Area Fact Sheet. https://www.sandiego.gov/sites/default/files/tpa_fact_sheet_updated_04.24.19_final_onwebpage.pdf