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Places for Homes: Where Los Angeles Can Build More Housing

Concept Paper on Redeveloping Rent Stabilized Properties in the City of Los Angeles

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Economic Roundtable
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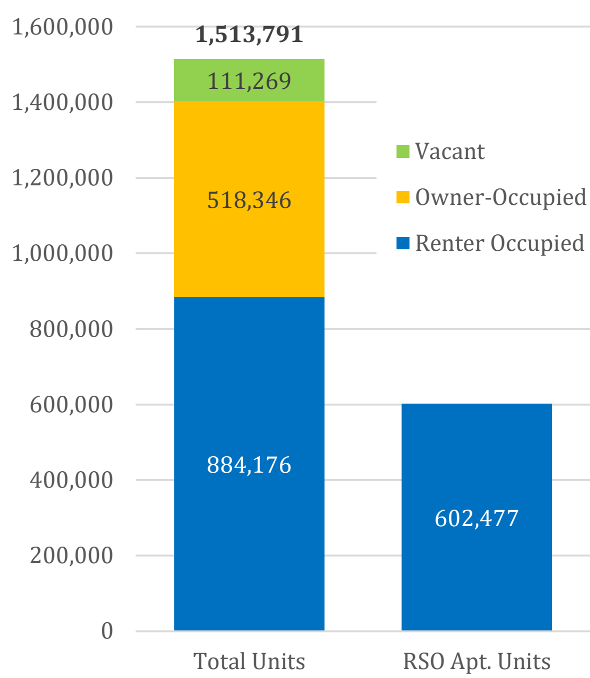
A Quarter of a Million New Homes

The State of California is requiring the City of Los Angeles to change its zoning to allow construction of 255,433 new homes, including 130,553 units for lower-income households.[1] The city is already largely built-out, with 7,683 residents per square mile,[2] so adding a quarter of a million new housing units will require greater housing density.

This concept paper explores the possibility of redeveloping existing, rent-stabilized housing sites at higher density, under the jurisdiction of the city's Rent Stabilization Ordinance (RSO). This ordinance covers rental properties with two or more units, built on or before October 1, 1978.[3]

Figure 1: City of Los Angeles Current Housing Units, by Tenure and RSO Status



Source: Economic Roundtable analysis; Los Angeles Housing Department. 2022. Report Dashboard for RSO (Inventory), https://housing.lacity.org/rso; U.S. Census Bureau. 2022. American Community Survey 5-Year Estimates Data Profiles 2020. Table DP04: Selected Housing Characteristics for the City of Los Angeles.

There are 99,170 RSO apartment properties with over 600,000 housing units under RSO jurisdiction. These RSO housing units make up 68 percent of the City's overall stock of 884,176 renter-occupied housing units, and 40 percent of its total 1.5 million housing units. The City's housing inventory and the share of rental housing units under RSO jurisdiction are shown in *Figure 1*.

Earlier research by the Economic Roundtable found that roughly half of RSO tenants had been in their units for five years or more, and that this is the break point at which rent savings become evident. This suggests that the rent paid by roughly one-fifth of LA households is below market rates because of the RSO. LA's RSO units make an important contribution to housing affordability in the City.

The initiative explored in this paper is designed to expand, not diminish, the contribution that RSO properties make to affordable housing. We project that as many as 1,444,748 additional apartments could be built on existing RSO properties, based on the current average size of RSO apartment units.

Outlook of RSO Apartment Property Owners

The idea of redeveloping existing rent stabilized sites at higher density comes from the Economic Roundtable's study of the Rent Stabilization Ordinance, carried out for the City of Los Angeles Housing Department in 2009.[4] The study included a large, random sample survey of property owners. One question was about whether they would redevelop their property at a higher density if it would be profitable:

> *"Los Angeles rent control regulations allow owners to redevelop rent controlled property and build more units if the rent-controlled units are replaced. For example, if zoning regulations permit 20 units on a site that currently has 4 units, the owner can demolish the 4 units and build 20 new units if 4 of the new units are set aside for affordable housing. This leaves 16 new units that are not under rent control. If it were profitable, would you be interested in redeveloping your rent-controlled property in this manner?"*

Thirty-four percent of landlords said they were interested, 32 percent said they were unsure, and 34 percent said they were not interested. Based on these responses, between one-third and two-thirds of RSO landlords would be interested in redeveloping their property with more units on the property.

The survey also asked landlords what kind of assistance they would need in order to be able to redevelop their property. The four most important types of help were:

- Low interest loan..83%
- Reduced relocation costs...................................65%
- Lower building permit fees................................61%
- Expedited permit processing..............................58%

The strongest argument for redeveloping RSO properties to expand the city's housing inventory is that is these projects would involve owners already in the rental housing business. Also, their properties are located in neighborhoods predominantly comprised of multi-story rental housing and where existing zoning allows greater housing density. Most RSO properties have two-story structures that are 50 to 150 years old.

Increasing the density of rental housing would not significantly change the character of most neighborhoods, making it more likely that the projects would elicit less NIMBYism and opposition to larger developments. These projects would expand the city's housing inventory, and with public subsidies could increase the supply of affordable housing.

Redeveloping RSO Sites at Higher Density

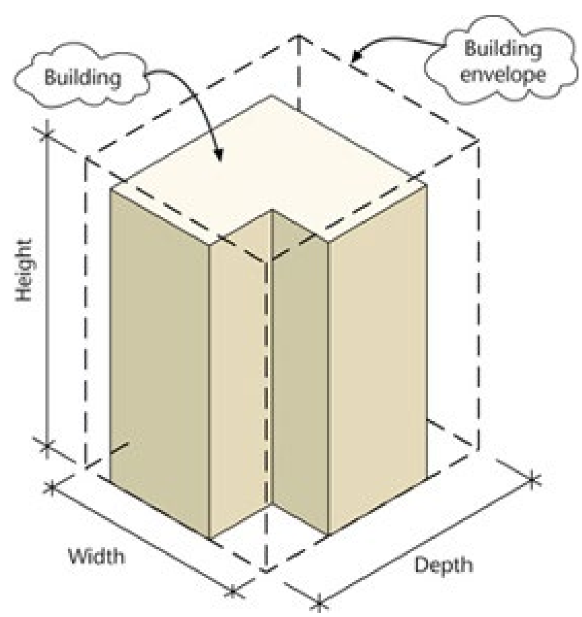
Under the City of Los Angeles Rent Stabilization Ordinance, when RSO rental units are removed (demolished), and new units are offered for rent within five years after the removal of the old units from the rental housing market, all the newly built units are subject to the RSO, regardless of whether there are more units built than were originally on the site, or fewer units.

The property owner may seek an exemption from the City of Los Angeles Housing Department if they provide at least an equal number of RSO units on the property or make 20 percent of the new units affordable, which ever number of units is greater. The newly constructed affordable units must be covenanted to remain affordable for 55 years. Otherwise, all of the units are subject to the RSO.

Housing is affordable if rent and utilities cost no more than 30 percent of the monthly household income for families and individuals with incomes of 80 percent or less than the area median income.

One possible use of some of the funds from the 'United to House L.A.' Ballot Measure, if passed by voters in November 2022, would be to negotiate subsidies that would include affordable units in addition to the existing number of RSO units in projects that redevelop with higher density on RSO sites.

Figure 2: Building Envelope



Source: New York City Planning. 2022. Glossary of Zoning Terms: Building Envelope. https://www1.nyc.gov/site/planning/zoning/glossary.page

Existing Zoning and Restrictions on RSO Properties

The redevelopment potential of RSO properties is determined by the *building envelope* on each property *(Figure 2)*. This is defined as "*the maximum three-*

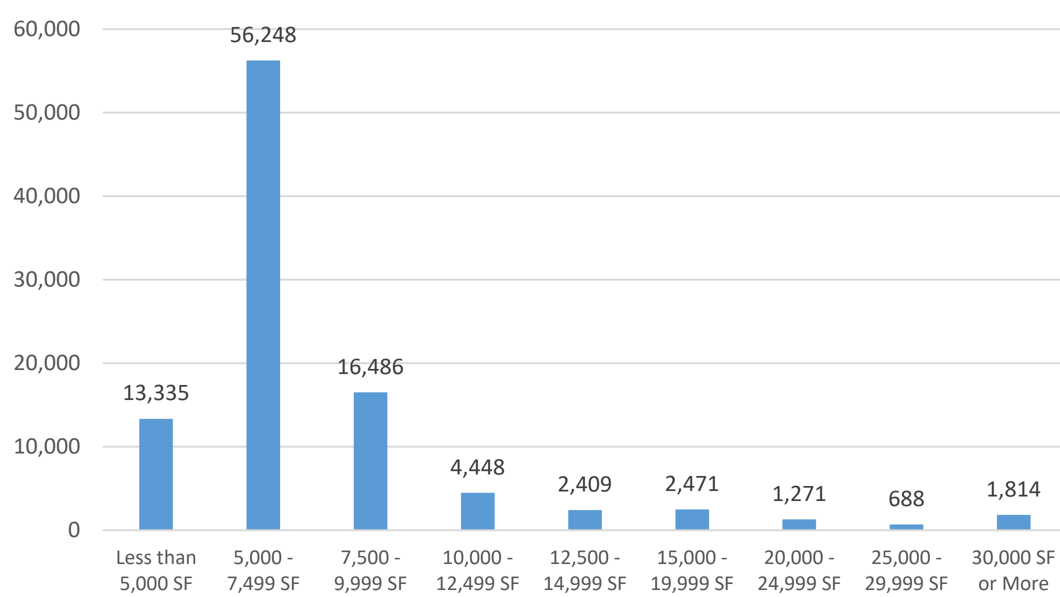
dimensional space on a zoning lot within which a structure can be built, as permitted by applicable height, setback and yard controls."[5]

The building envelope specified by the zoning for each property determines whether it can be redeveloped to include more units in a larger structure. Given the complexity of City of Los Angeles zoning codes for tens of thousands of RSO properties, our citywide estimates explore the *potential* for redeveloping RSO units. Other strategies are needed in tandem, such as *transfers of development rights* – transferring unused development rights from RSO properties to other sites for adding more RSO or affordable housing units, and streamlining the merger (or "assembly") of adjacent, smaller-sized RSO property lots into large properties that are more suitable for housing redevelopment.[6]

Lot Sizes of RSO Apartment Properties

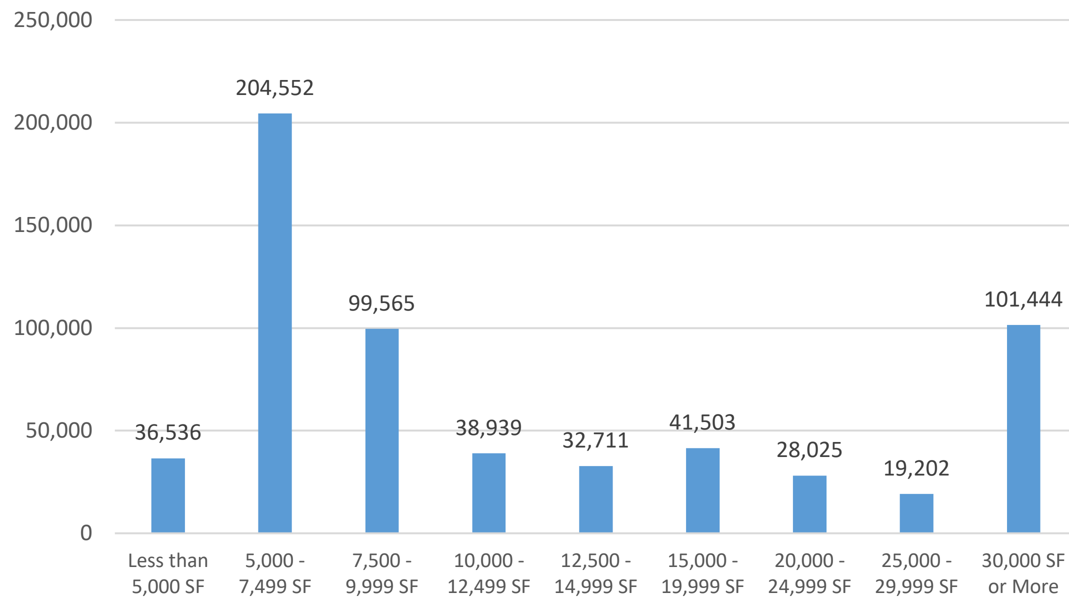
Many RSO properties were developed under old zoning standards that permitted multi-family development on small parcels. This is important to take into account if these properties are redeveloped. Among properties with two or more RSO housing units, 87 percent are under 10,000 square feet *(Figure 3)*, and these comparatively small properties have over half (57 percent) of RSO units *(Figure 4)*.

Figure 3: City of Los Angeles RSO Properties by Lot Size



Source: Economic Roundtable analysis; Los Angeles Housing Department. 2022. Report Dashboard for RSO (Inventory), https://housing.lacity.org/rso. County of Los Angeles Assessor's Office. 2022. Local Roll, public file. Note: Condominium units excluded.

Figure 4: City of Los Angeles RSO Units by Lot Size



Source: Economic Roundtable analysis; Los Angeles Housing Department. 2022. Report Dashboard for RSO (Inventory), https://housing.lacity.org/rso. County of Los Angeles Assessor's Office. 2022. Local Roll, public file. Note: Condominium units excluded.

Location and Redevelopment Potential of RSO Apartment Properties

We project that as many as 1,444,748 additional apartments could be built on existing RSO apartment properties citywide, based on the 1.919 billion unused square feet in their building envelopes citywide, and using the current average size of 832.7 square feet per RSO apartment unit.

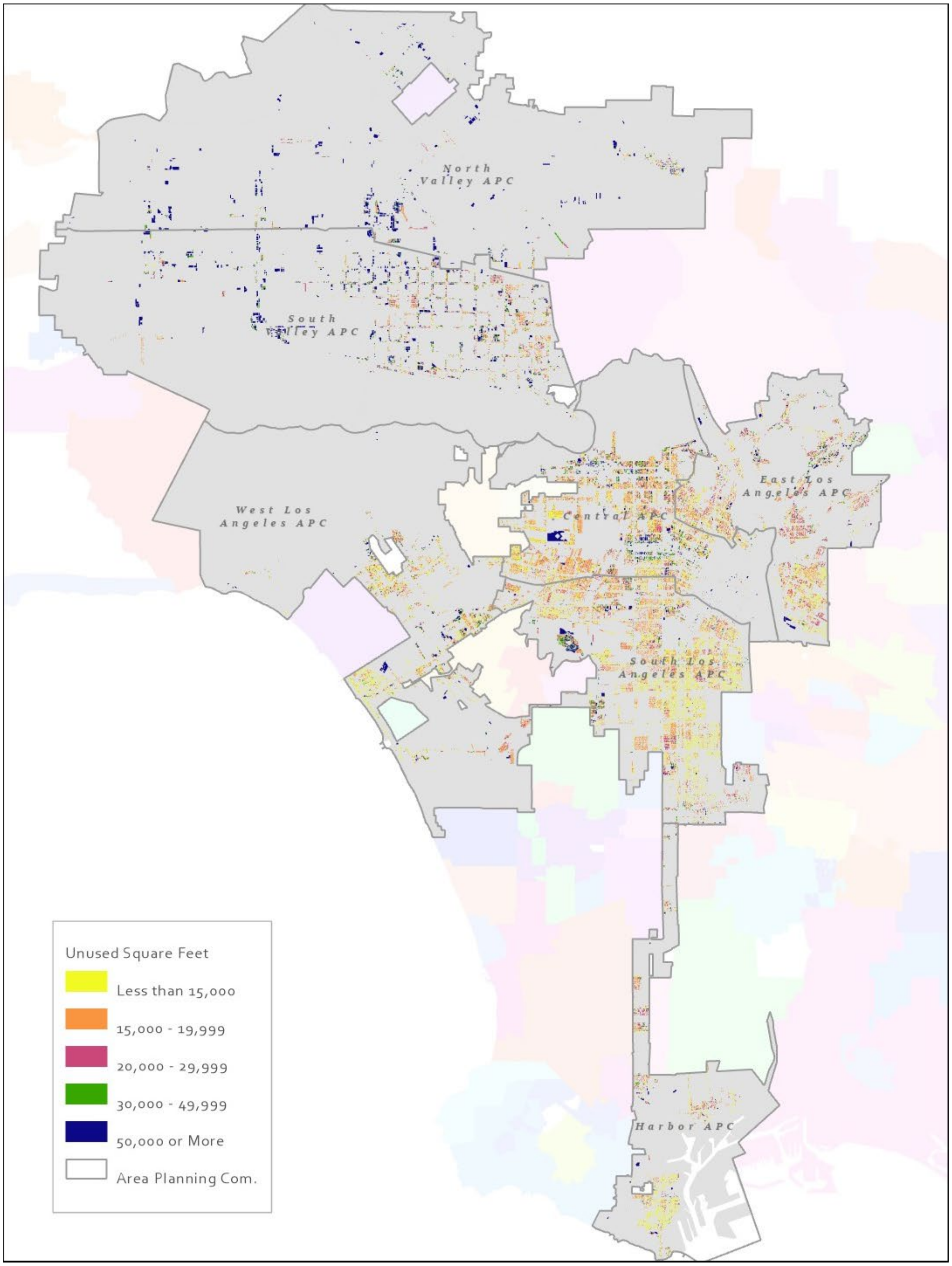
If the new units were an average of 900 square feet in size, current zoning can allow 1,322,240 additional units. If units added were 1,000 square feet in size, current zoning can allow 1,190,016 additional units.

This zoned-but-unbuilt square footage is on properties whose zoning codes are relatively 'clean,' where no explicit overlays, restrictions, or other limits are stated. Adding more units on existing RSO apartment properties is nonetheless a complex process with several barriers present – discussed after the map sections.

The following map series explores the location of unused development rights at the sites of RSO apartment properties across the city, both measured in the *amount* of additional square feet that could be built and the *ratio* of that increased square feet over the current size of improvements.

City of Los Angeles Overview

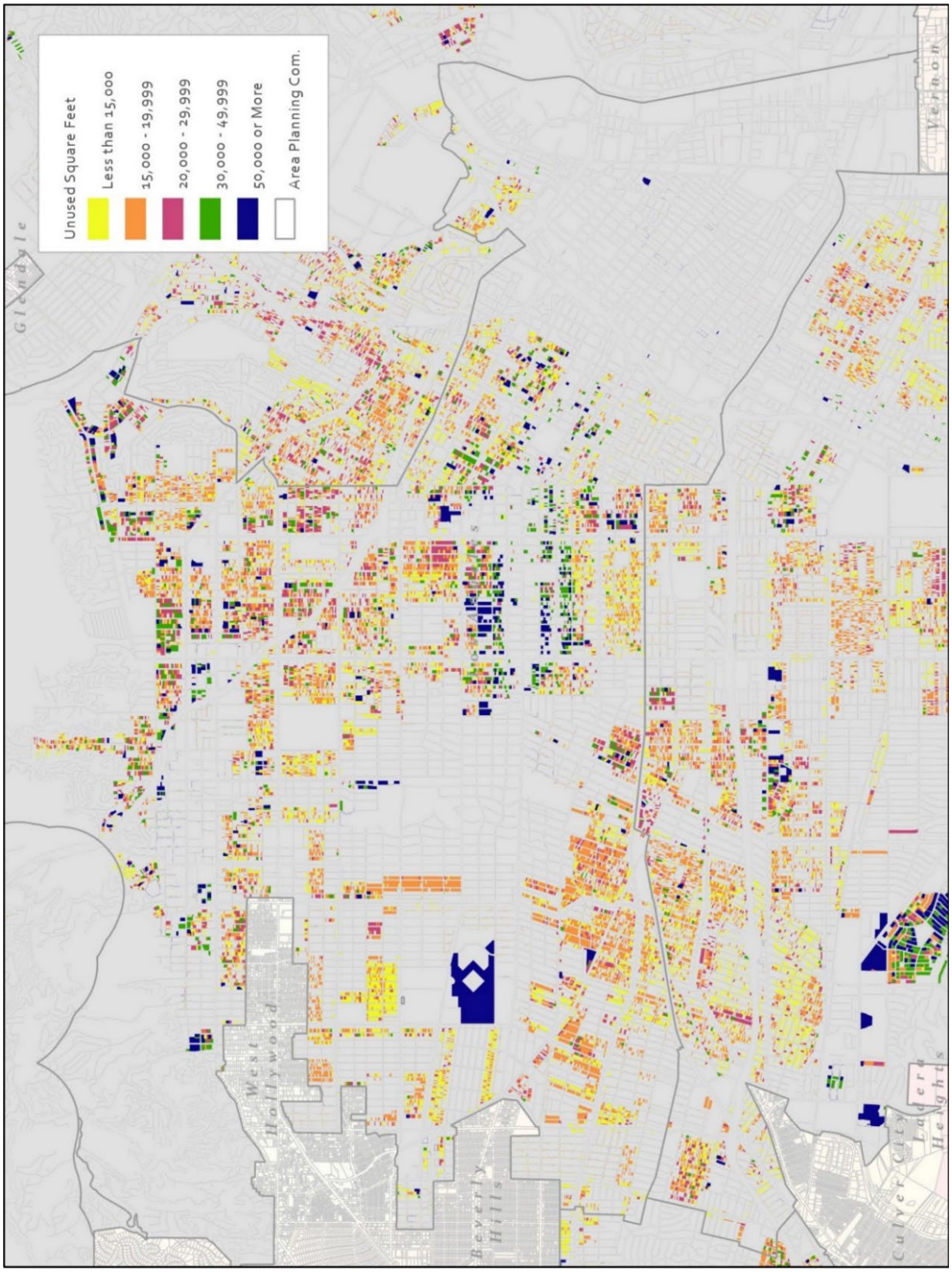
Figure 5: Unused Square Feet of Floor Area per RSO Parcel, City of Los Angeles



Source: Economic Roundtable analysis; Los Angeles Housing Department. 2022. Report Dashboard for RSO (Inventory), https://housing.lacity.org/rso. County of Los Angeles Assessor's Office. 2022. Local Roll, public file.

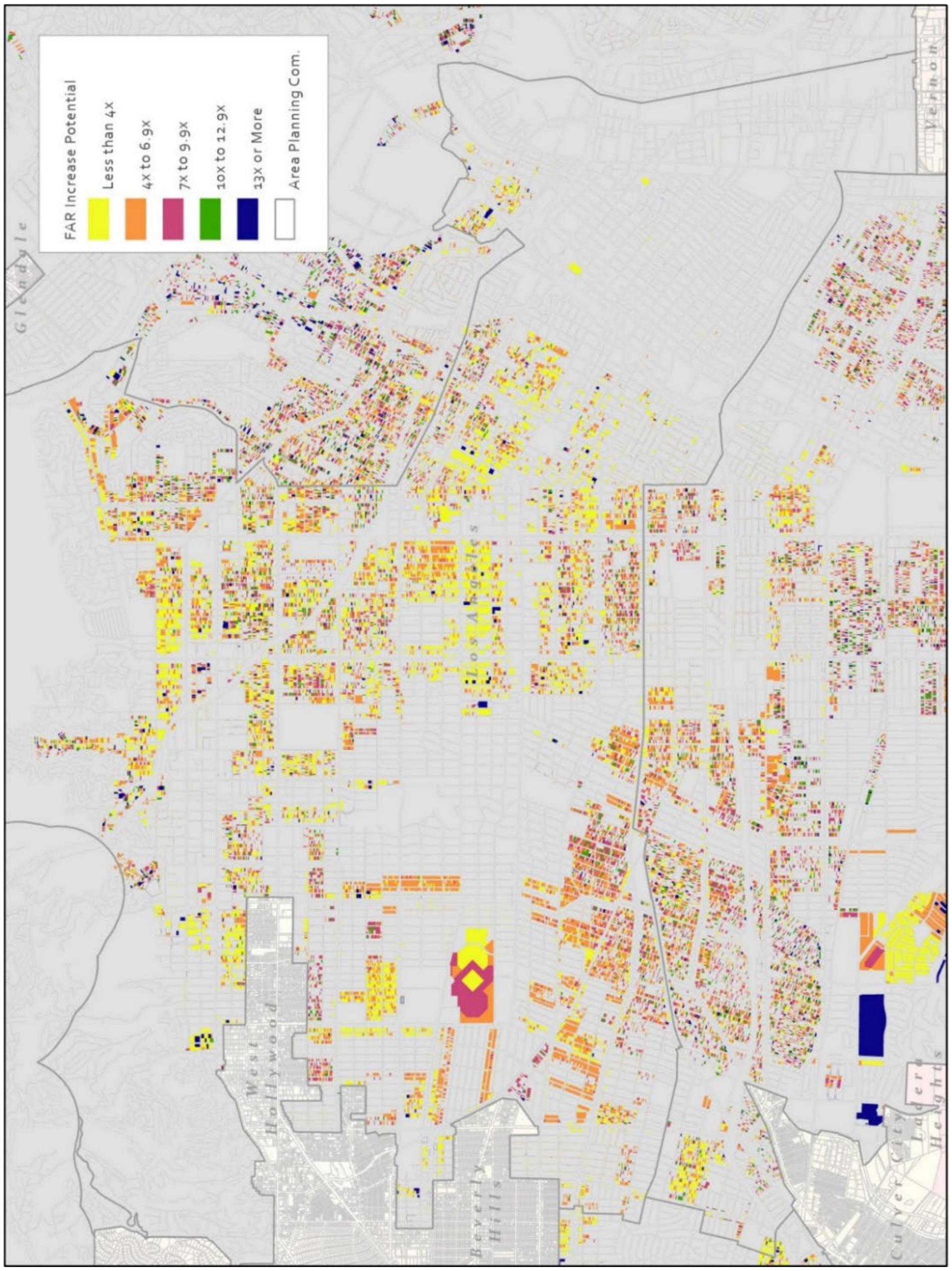
Central Los Angeles Planning Area

Figure 6: Unused Square Feet of Floor Area per RSO Parcel, Central Los Angeles Area



Source: Economic Roundtable analysis; Los Angeles Housing Department. 2022. Report Dashboard for RSO (Inventory), https://housing.lacity.org/rso. County of Los Angeles Assessor's Office. 2022. Local Roll, public file.

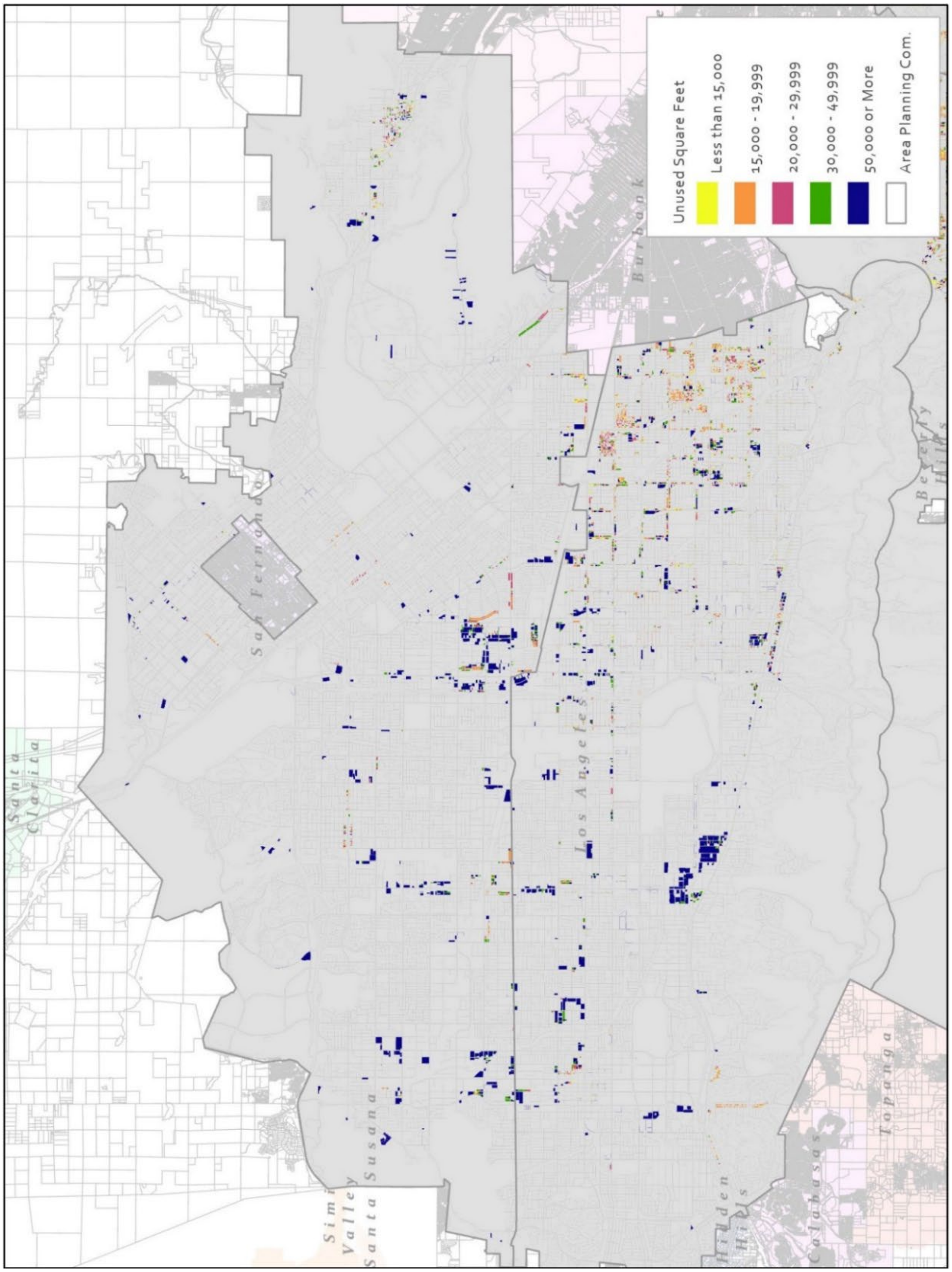
Figure 7: Potential Increased FAR for RSO Apartment Properties, Central Los Angeles Area



The *Central Los Angeles* area is home to 183,853 RSO units in non-condominium buildings, 30 percent of the citywide total and fitted onto 10 percent of the city's land area. They are concentrated along the Wilshire Boulevard corridor from the Pico-Robertson neighborhood to Downtown Los Angeles, and from Koreatown up through Hollywood. These multi-family properties have a combined 151,751,665 square feet of improvements, just over 31 percent of the citywide RSO total. Under current zoning Floor Area Ratio (FAR) restrictions, these properties could accommodate an additional 381,126,929 square feet of development, which is 22 percent of the citywide potential.

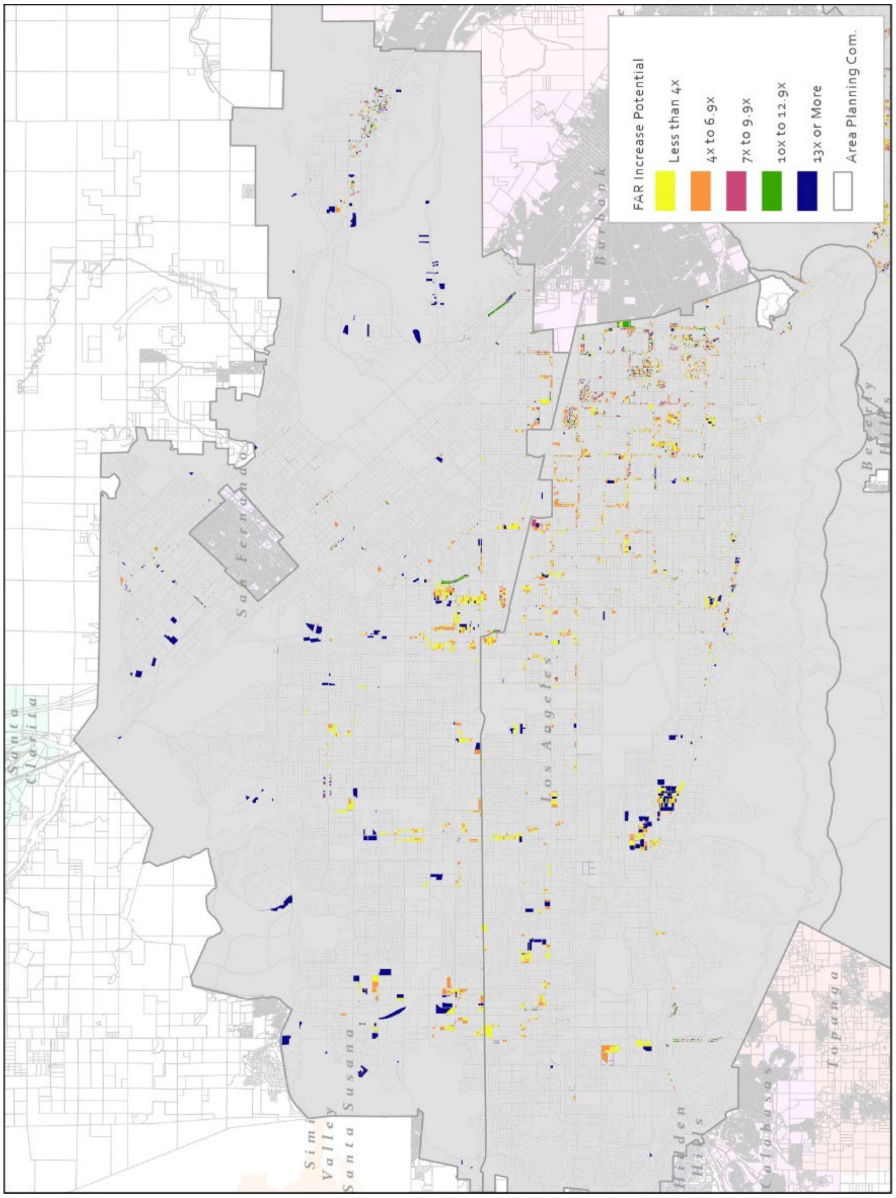
San Fernando Valley Planning Areas

Figure 8: Unused Square Feet of Floor Area per RSO Parcel, San Fernando Valley



Source: Economic Roundtable analysis; Los Angeles Housing Department. 2022. Report Dashboard for RSO (Inventory), https://housing.lacity.org/rso. County of Los Angeles Assessor's Office. 2022. Local Roll, public file.

Figure 9: Potential Increased FAR for RSO Apartment Properties, San Fernando Valley

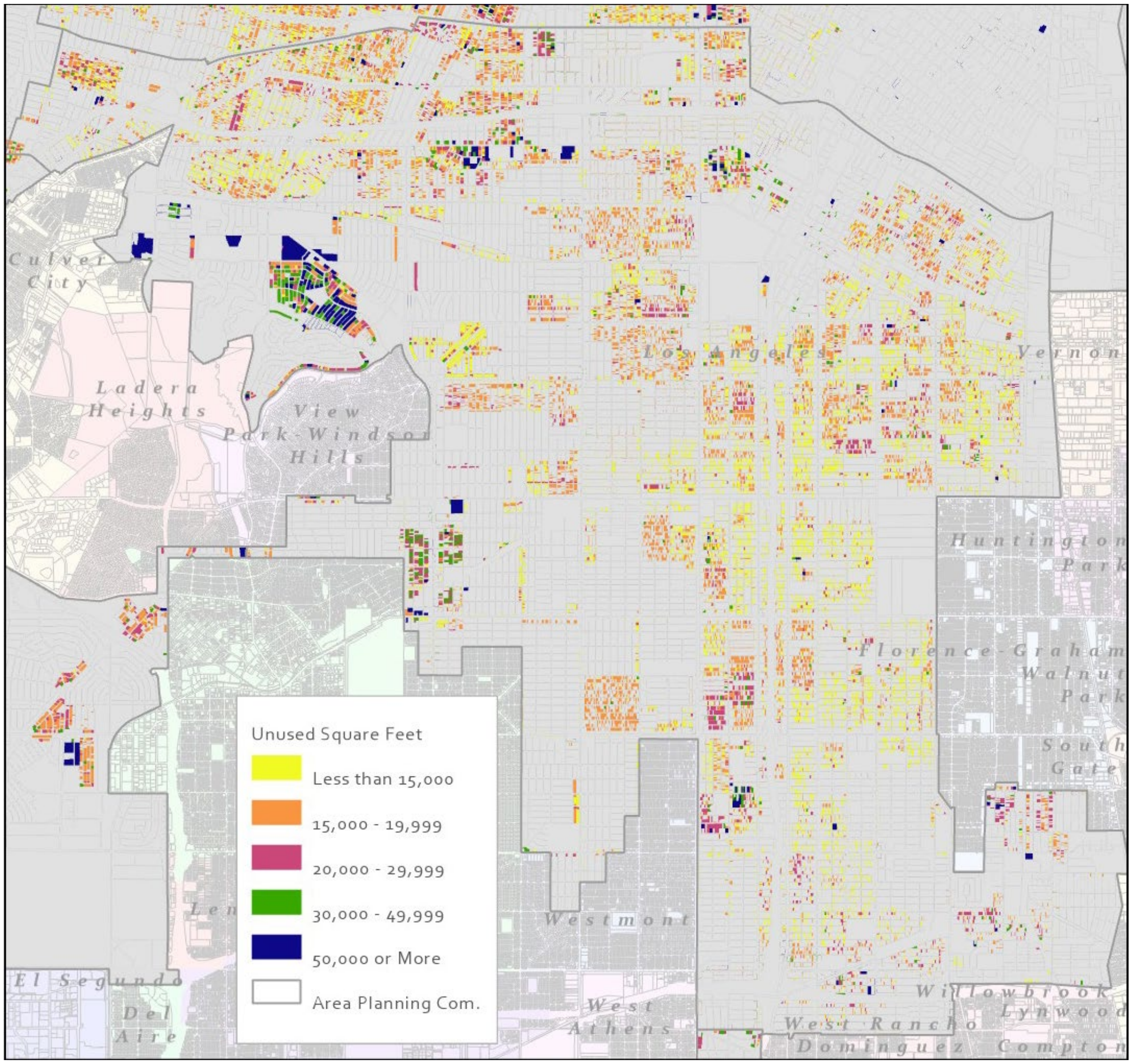


The *North San Fernando Valley* area of the city has 41,257 non-condo RSO units – seven percent of the city total – but built upon 27 percent of the city's land area. They are most concentrated in the Northridge, North Hills, Panorama City, Sun Valley and Tujunga neighborhoods. These RSO properties have 31,766,550 square feet of improvements, about six percent of the citywide RSO total. Under current Zoning FAR restrictions, an additional 149,788,255 square feet of development could be accommodated, which is nine percent of the citywide potential.

The *South San Fernando Valley* area of the city is home to 92,667 non-condo RSO units, 15 percent of the citywide total, built on 22 percent of Los Angeles' land area. The neighborhoods of Van Nuys, Encino, Sherman Oaks, and Tarzana are home to most of these units, and they are spread out among a sea of single-family homes. RSO units in this area have 75,850,814 square feet of improvements, about 15 percent of the citywide total, while 221,475,182 square feet could be added under current FAR, or 13 percent of the citywide potential.

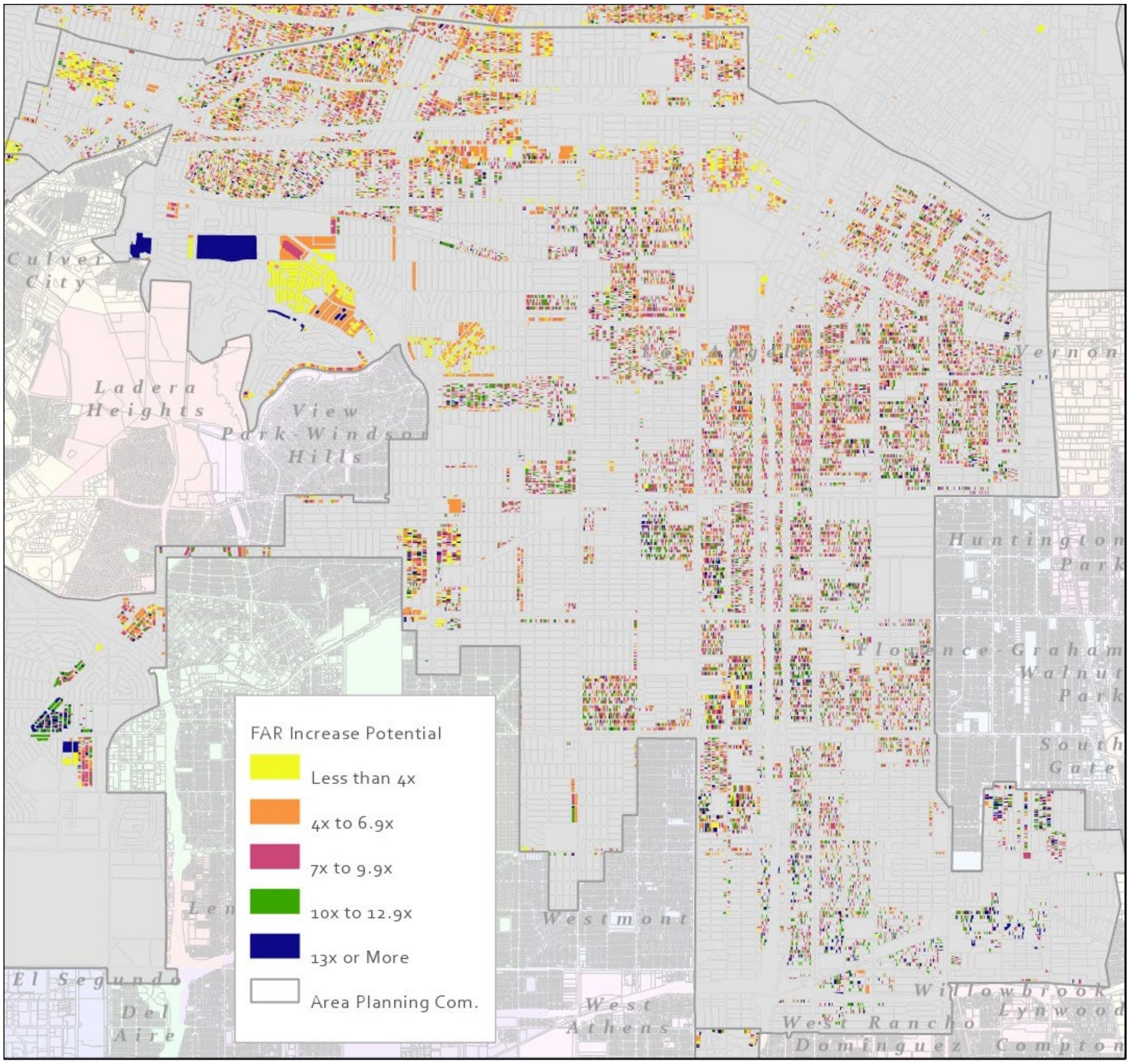
South Los Angeles Planning Area

Figure 10: Unused Square Feet of Floor Area per RSO Parcel, South Los Angeles



Source: Economic Roundtable analysis; Los Angeles Housing Department. 2022. Report Dashboard for RSO (Inventory), https://housing.lacity.org/rso. County of Los Angeles Assessor's Office. 2022. Local Roll, public file.

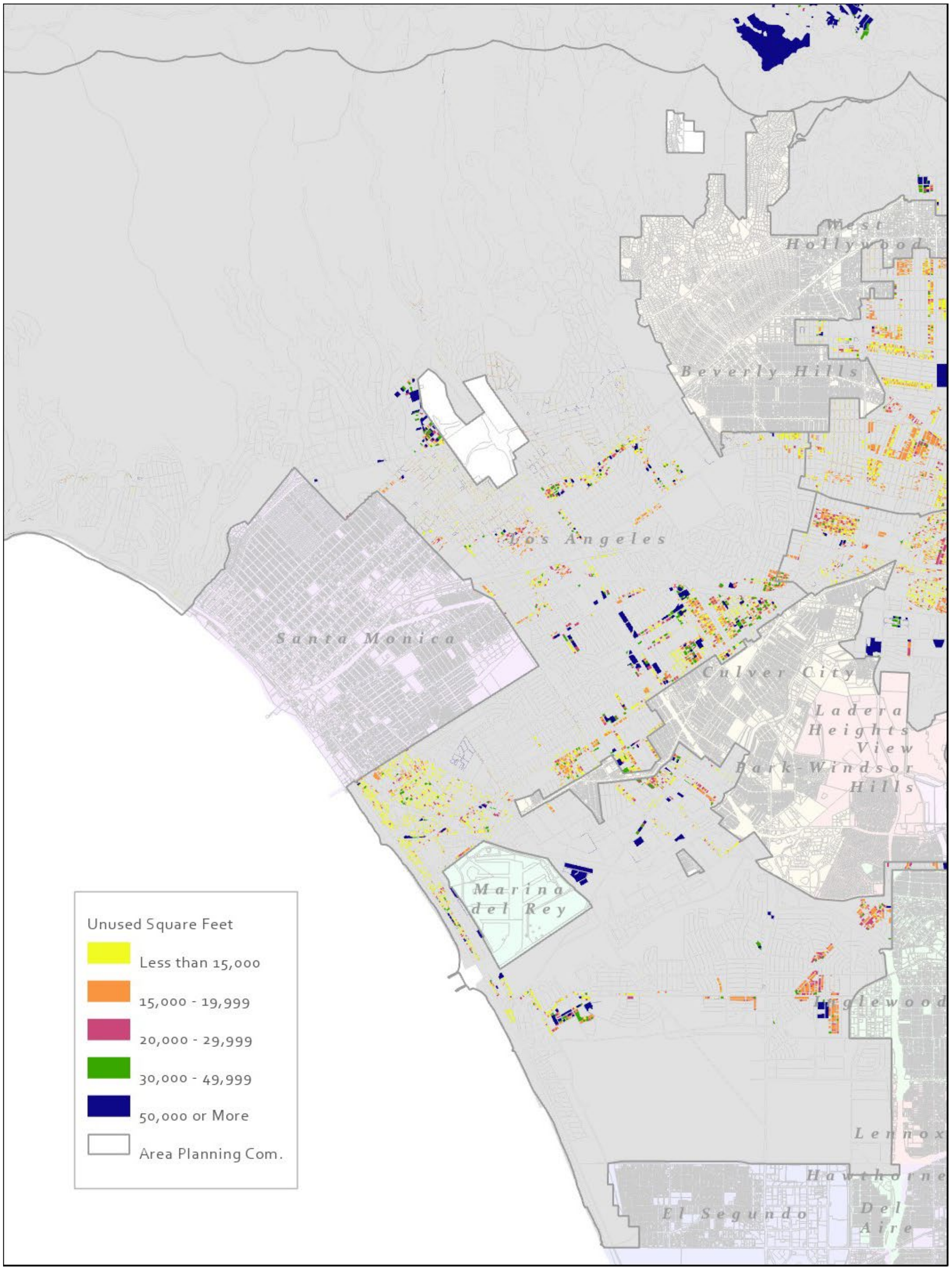
Figure 11: Potential Increased FAR for RSO Apartment Properties, South Los Angeles



The *South Los Angeles* area is home to the plurality of the city's non-condo RSO units, 126,146 of them or 21 percent of the citywide total, on 9 percent of the city's land area. These are spread out across a large number of low-rise neighborhoods, including: South Park, Vermont Knolls, Vernon-Slauson, Hyde Park, Crenshaw, Exposition Park, Adams-Normandie, Jefferson Park, Manchester Square, and Watts. There is 103,112,199 square feet of improvements on these RSO properties, 21 percent of the citywide total. Under current Zoning FAR restrictions, an additional 482,348,793 square feet – 28 percent of the citywide potential – could be added.

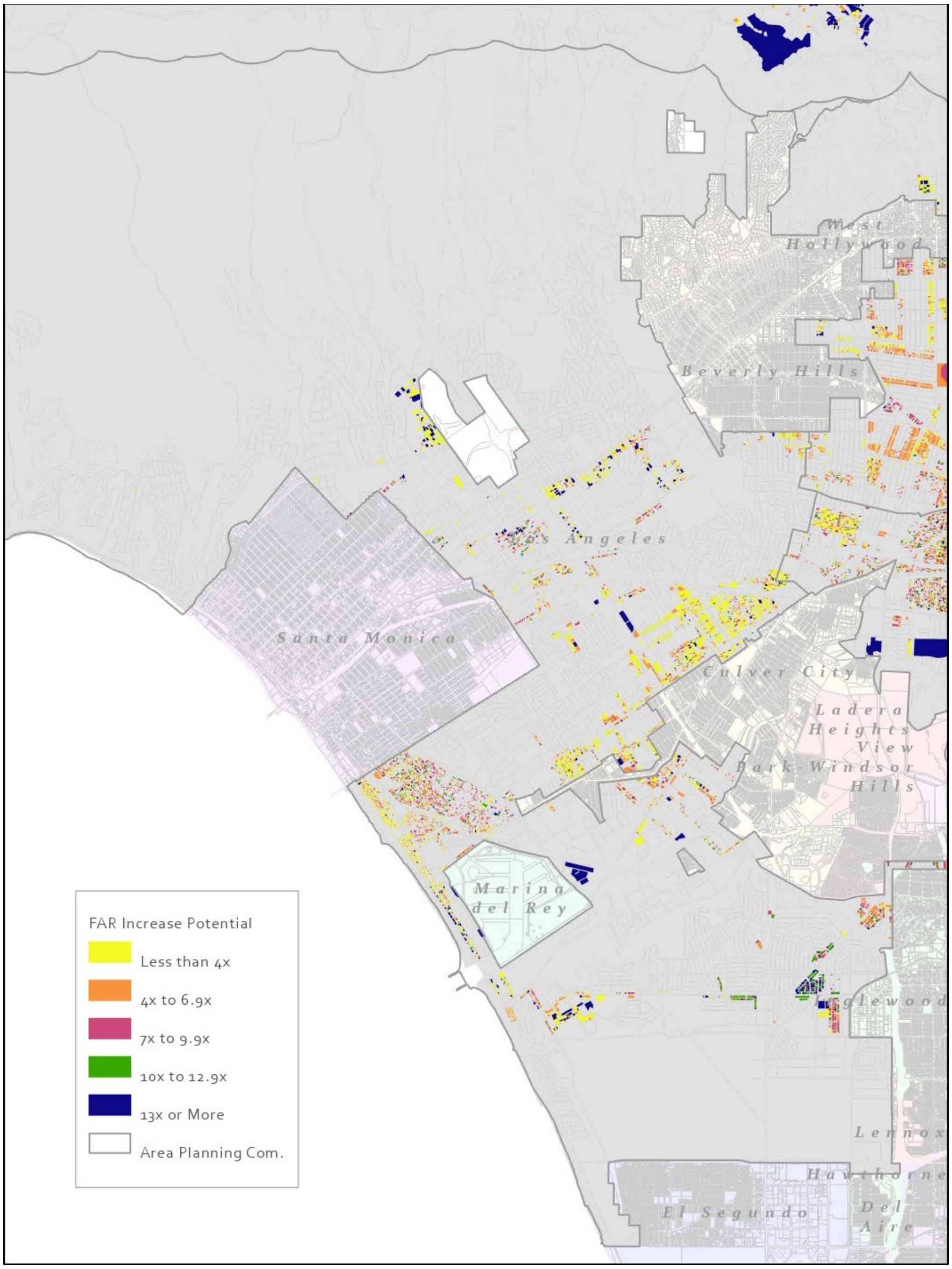
West Los Angeles Planning Area

Figure 12: Unused Square Feet of Floor Area per RSO Parcel, West Los Angeles



Source: Economic Roundtable analysis; Los Angeles Housing Department. 2022. Report Dashboard for RSO (Inventory), https://housing.lacity.org/rso. County of Los Angeles Assessor's Office. 2022. Local Roll, public file.

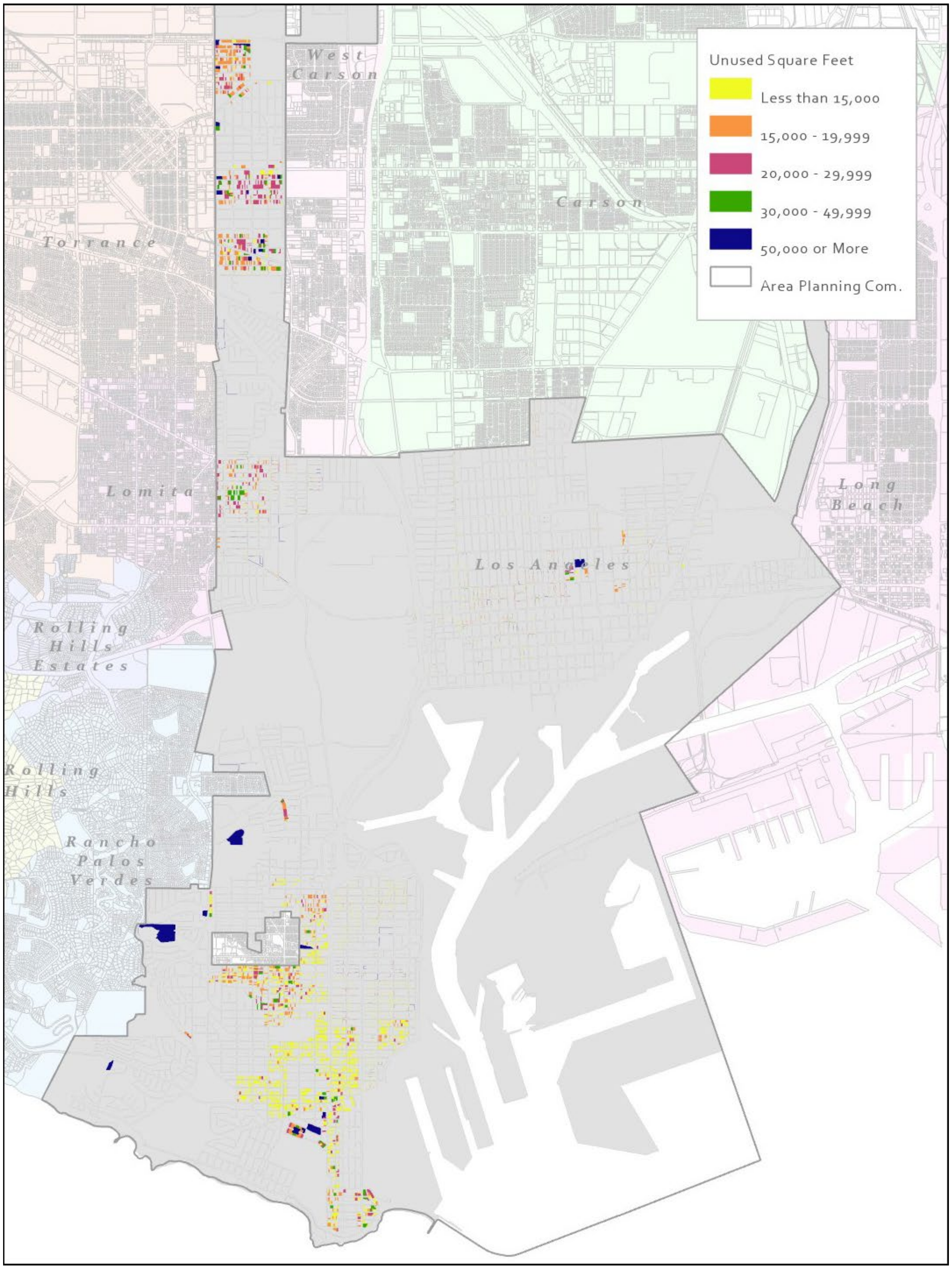
Figure 13: Potential Increased FAR for RSO Apartment Properties, West Los Angeles



The *West Los Angeles* area has 67,714 non-condo RSO units, 11 percent of the citywide total, on 17 percent of the city's land area. They are predominantly located in the Sawtelle, Palms, Venice and Westwood neighborhoods. These multi-family properties have a combined 58,164,547 square feet of improvements, 12 percent of the citywide total. An additional 139,597,148 square feet – about eight percent of the citywide total, could potentially be added under current zoning FAR restrictions.

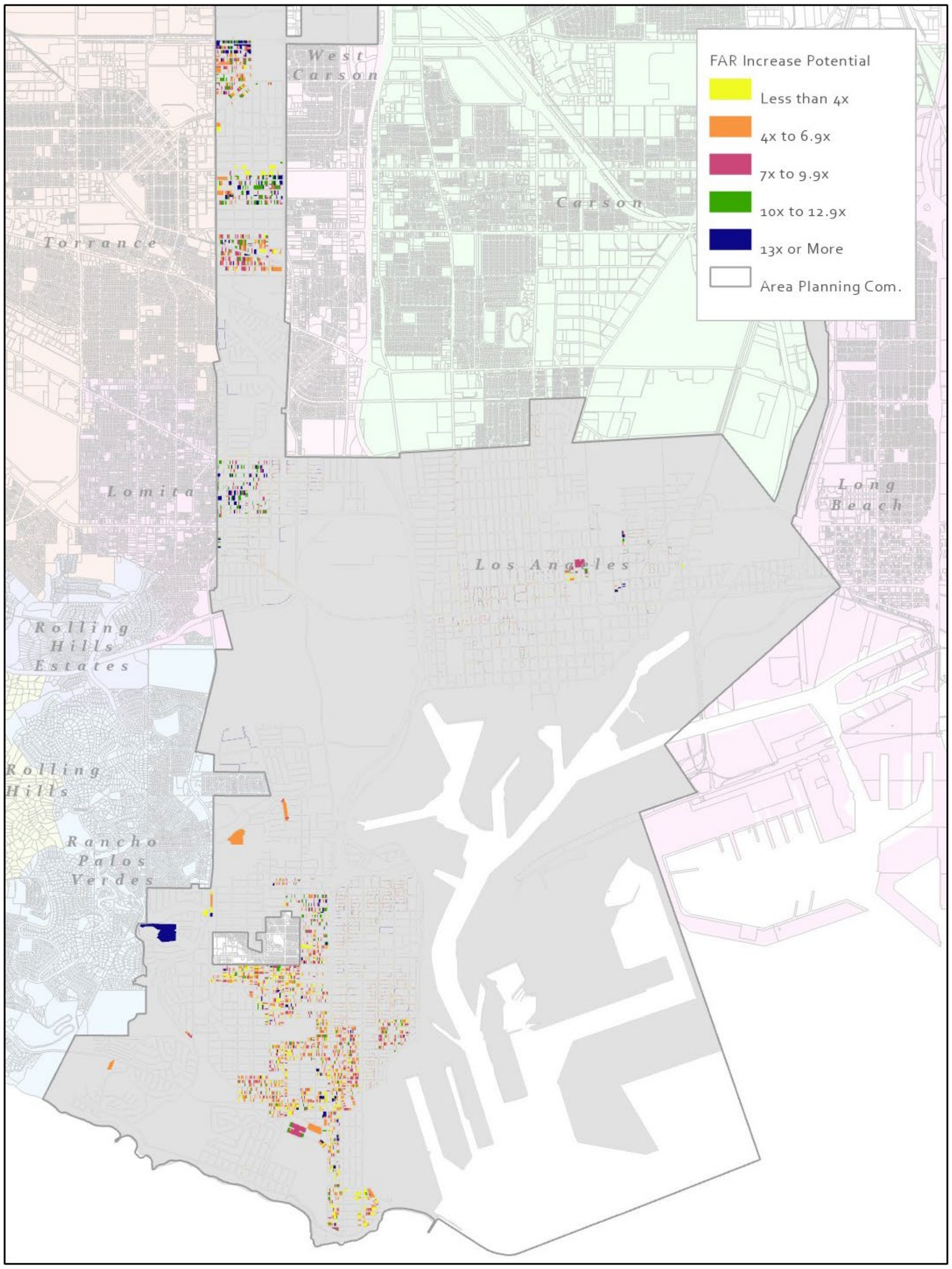
Harbor Planning Area

Figure 14: Unused Square Feet of Floor Area per RSO Parcel, Harbor Area



Source: Economic Roundtable analysis; Los Angeles Housing Department. 2022. Report Dashboard for RSO (Inventory), https://housing.lacity.org/rso. County of Los Angeles Assessor's Office. 2022. Local Roll, public file.

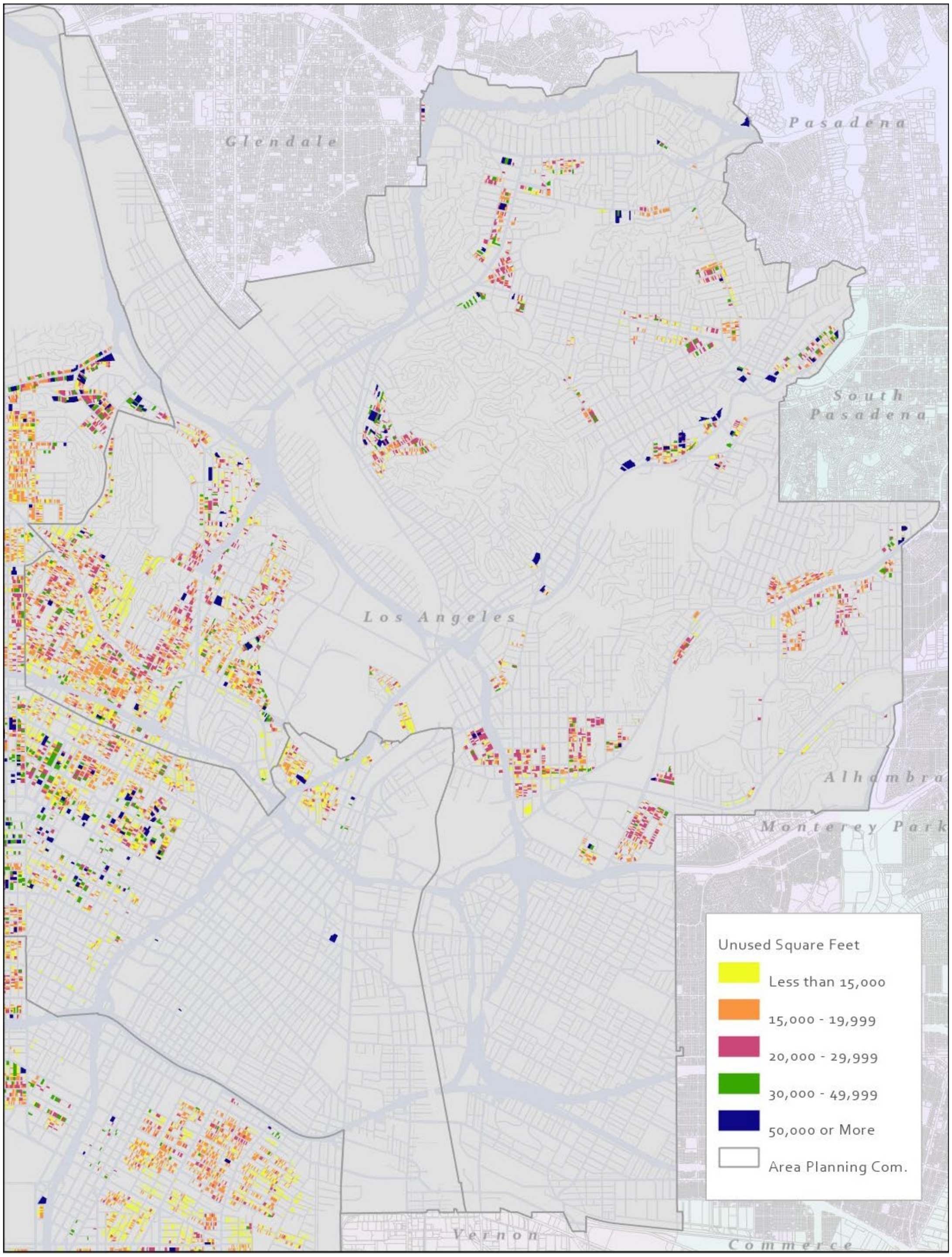
Figure 15: Potential Increased FAR for RSO Apartment Properties, Harbor Area



The *Harbor* area has just 26,073 non-condo RSO units, or 4 percent of the city total, on under seven percent of its land area. Most units are located in the San Pedro, Wilmington and Harbor City neighborhoods, as well as some in the Harbor Gateway shoestring neighborhood. Non-condo multi-family properties in this area have a combined 19,467,653 square feet of improvements, four percent of the citywide total. Current zoning FAR restrictions could allow an additional 80,908,535 square feet of living space, five percent of the city total.

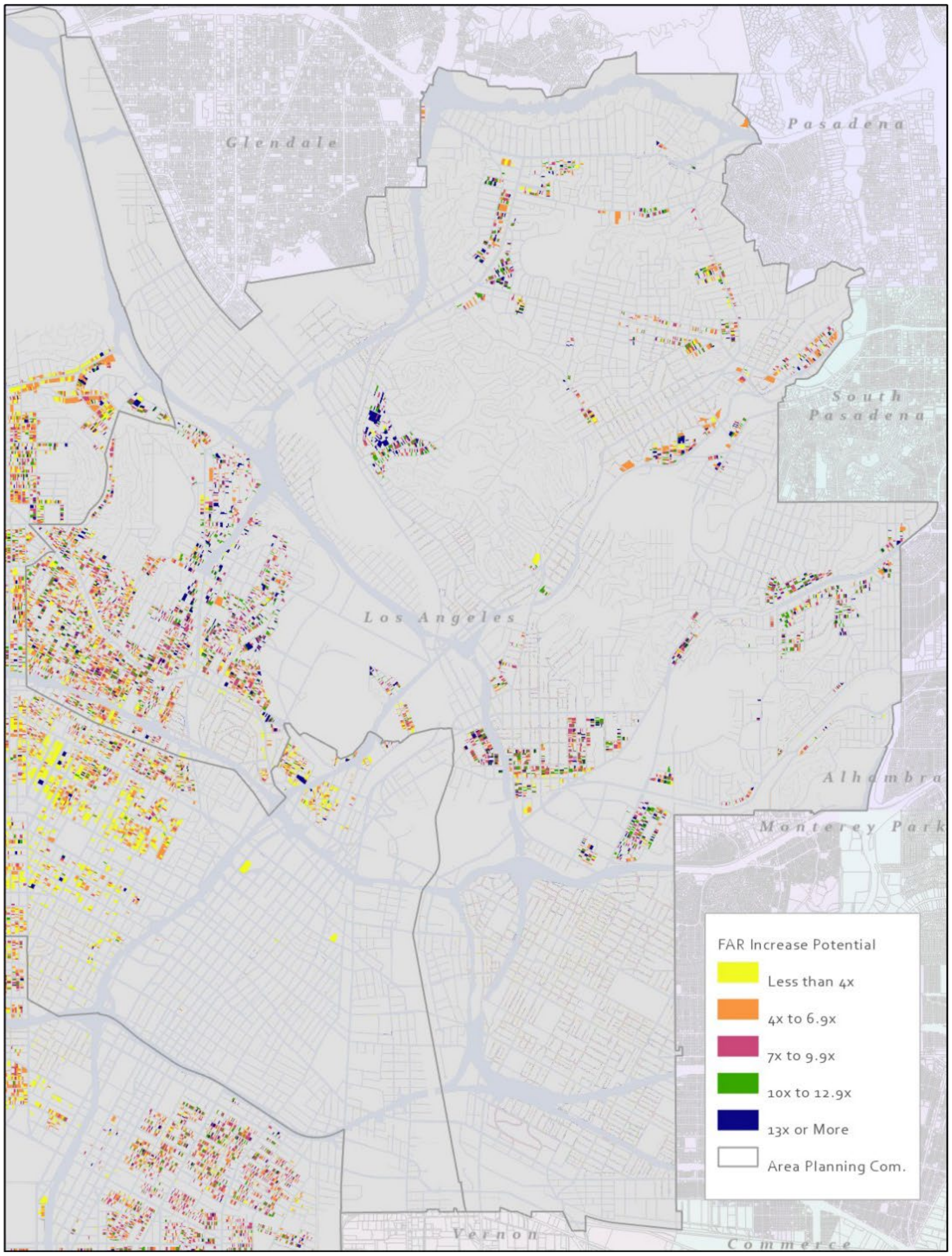
East Los Angeles Planning Area

Figure 16: Unused Square Feet of Floor Area per RSO Parcel, East Los Angeles Area



Source: Economic Roundtable analysis; Los Angeles Housing Department. 2022. Report Dashboard for RSO (Inventory), https://housing.lacity.org/rso. County of Los Angeles Assessor's Office. 2022. Local Roll, public file.

Figure 17: Potential Increased FAR for RSO Apartment Properties, East Los Angeles Area



The *East Los Angeles* area is home to 65,652 non-condo RSO units, 11 percent of the city total, built on approximately 8 percent of the city's land area. They are clustered in Boyle Heights, Silver Lake / Echo Park, and Lincoln Heights neighborhoods, followed by clusters in the Northeast Los Angeles neighborhoods of Glassell Park, Highland Park, El Sereno and Eagle Rock. These multi-family properties have a combined 52,980,540 square feet of improvements, 11 percent of the citywide total. Additional construction under existing zoning could add 243,567,732 more square feet of living space, 14 percent of the citywide potential.

Public Interests and Alienable Zoning

The Economic Roundtable has not undertaken research in regard to what steps should be required to modify zoning codes applicable to infill units. Lot coverage, height, and setback and other zoning requirements should not be seen as set in stone. Instead, consideration should be given to the benefits of particular requirements compared with their costs in terms of a reduction in the number of housing units produced. Zoning and building codes should be critically reviewed. For example, setback requirements which may have had very little impact on the housing supply when they were adopted many decades ago, at a time when the land supply was plentiful, may have far different consequences today. Some requirements may be very costly while yielding insignificant benefits in terms of health and safety or public interests.

Also, we would like to mention a concept that has been rarely used – "alienable" zoning. Often the most substantial impacts of changes in zoning requirements and/or new construction projects are on the properties adjacent to the property impacted by new development. In other words, when the waiver or variance from a particular zoning requirement may not have any real impact on the neighborhood, but could have a severe impact on the adjacent properties, one solution may be to allow owners of adjacent properties to agree to reduced setbacks in return for compensation. This could be a win-win situation for two adjacent property owners.

As an advocate of this type of policy explained:

> *In cases where incumbent homeowners are not supportive of a proposed change, such as in the case of the replacement of a single-family house with a four-unit dwelling, they might nevertheless be willing to permit it if they realized a cash payment, reciprocal waiver, or some other mutually agreed upon compensation. Such an arrangement could also benefit project proponents willing to pay for exceptions to onerous regulations, especially those who would be spared the costs and delays related to a lengthy (and political) public review process and potential litigation. Ultimately, where a proposed change to the neighborhood status quo could benefit both project proponents and potential NIMBY homeowners…*[7]

Policy Challenges

This initial citywide analysis identifies RSO properties where current zoning allows larger structures, as well as neighborhoods where new development will have the least impact on the character of the community. This information can be helpful for avoiding community opposition arising from:

- Neighbors opposing perceived changes in the fabric of their neighborhood
- Historical preservation
- Renter advocates concerned about triggering gentrification and rising rents

- Affluent neighbors and property owners opposed to increased density

Jan Breidenbach, an affordable housing expert, pointed out that neighborhood opposition to individual projects is not generally based on the funding source, but rather who is going to live there and how big the building will be. Redevelopment of RSO properties to provide mixed-income housing in neighborhoods that are already predominantly multi-story rental housing may be a strategy that minimizes community opposition.[8]

Rent stabilized properties may be the most promising large-scale opportunity to expand Los Angeles' housing supply, however there are multiple challenges to redeveloping these properties. City policies to facilitate redevelopment will be required to achieve large-scale increases in the housing inventory through this strategy. These are five of the challenges:

1. *Landlord vs. developer:* Los Angeles is a complex and closely regulated urban setting. Obtaining approvals for new construction and carrying projects through to completion requires a different skill set than being a landlord. Necessary skills include understanding of the economy, the real estate market, the planning process, building construction, and finance. Many landlords, particularly landlords with smaller property holdings, may lack these skills as well as the resources to complete the steps necessary to get through the planning process.[9]

2. *Small parcels:* Minimum lot size per dwelling is a major constraint that precludes increasing the number of units on many small parcels. Professor Anthony Orlando, an applied microeconomist who focuses on real estate, finance, and public policy, analyzed a small sample of RSO properties and found that minimum lot area requirements under current zoning would preclude development on most parcels smaller than 10,000 square feet. Possible solutions are to change zoning to reduce the minimum lot size required per unit or to consolidate properties. Property consolidation by public agencies would increase the cost of redevelopment.[10]

3. *Relocating tenants while new construction is underway*: Tenants would have to be relocated while their old apartment was being demolished and the site redeveloped. Some tenants would want the right to return to the property after redevelopment. Relocation is expensive and difficult, including finding temporary or permanent relocation sites adequately close to jobs and schools.

4. *Public subsidies*: New development that includes affordable units as well as tenant relocation may require public subsidies. The availability of public funds will depend on the will of voters, as well as city priorities for how available funds should be used.

5. *Housing Department approval*: Under current city regulations and state Ellis Act rules, if RSO units are removed, all rental units built on the site are subject to the RSO. This does not apply if the new units are not offered for rent for at least five years after the removal of the old units from the rental housing market. Landlords can

seek an exemption from the Los Angeles Housing Department's requirement if they increase the number of RSO units on the property or make 20 percent of the new units affordable. Housing is affordable if rent and utilities cost no more than 30 percent of the monthly household income for families and individuals with incomes of 60 percent or less than the area median income. Otherwise, all of the units are subject to the RSO.[11]

About the Economic Roundtable

The Economic Roundtable is a nonprofit urban research organization formed in 1991 to conduct research and implement programs that contribute to the sustainability of individuals and communities. Dr. Kenneth Baar is an attorney and urban planner, mainly specializing in consulting to local governments in California. With Fulbright Fellowships, he taught about housing and planning issues at the Budapest University of Economic Sciences for three years in the 1990s and at the Polytechnic University of Tirana, Albania from 2001 through 2003.

Endnotes

[1] California Department of Housing and Community Development letter to Vincent Bertoni, Director, Department of City Planning, "RE: City of Los Angeles 6th Cycle (2021-2029) Adopted Housing Element," (June 29, 2022), https://planning.lacity.org/odocument/c30f832f-9f91-47ff-bcc0-69f33b197a11/LACityAdoptedIN062922.pdf

[2] USA.com, "California Population Density City Rank," http://www.usa.com/rank/california-state--population-density--city-rank.htm

[3] City of Los Angeles Housing Department, *RSO Overview*, (2022), https://housing.lacity.org/residents/rso-overview

[4] By Daniel Flaming, Patrick Burns, Michael Matsunaga, Mirna Ponce, Ken Baar, Raphael Bostic, and Malcolm Bennett, *Economic Study of the Rent Stabilization Ordinance (RSO) and the Los Angeles Housing Market,* (August 1, 2009), https://economicrt.org/publication/economic-study-of-the-rent-stabilization-ordinance-rso-and-the-los-angeles-housing-market/

[5] New York City Planning. 2022. Glossary of Zoning Terms: Building Envelope. https://www1.nyc.gov/site/planning/zoning/glossary.page

[6] Anthony Orlando recommended the review of urban land assembly and barriers to it:
Leah Brooks and Byron Lutz. 2016. "From Today's City to Tomorrow's City: An Empirical Investigation of Urban Land Assembly." *American Economic Journal: Economic Policy* Vol. 8(3), pages 69–105. http://dx.doi.org/10.1257/pol.20130399

[7] Michael Casey Gleba, Toward Alienable Zoning, Journal of Law, Property, and Society, Vol. 6, p. 51 – 143, (September 2021) (https://www.alps-law.org)

[8] Jan Breidenbach is a member of the Economic Roundtable board of directors and teaches at Occidental College: https://economicrt.org/about/board-of-directors/

[9] Yasmin Tong, a member of the Economic Roundtable board of directors and founder of CTY Housing, identified this issue: https://ctyhousing.com/about

[10] Anthony Orlando, unpublished research, https://www.cpp.edu/cba/finance-real-estate-and-law/faculty-staff/bios/anthony-orlando.shtml

[11] Los Angeles Housing Department, https://housing.lacity.org/rental-property-owners