UCLA
Reports

Title
Affordable Housing Primer

Permalink
https://escholarship.org/uc/item/8b3474n0

Author
Phillips, Shane

Publication Date
2020-05-01

eScholarship.org
Powered by the California Digital Library
University of California

UCLA Lewis Center for Regional Policy Studies

Affordable Housing Primer

May 2020

Acknowledgments

This work was supported with funding from the Randall Lewis Housing Initiative. Many thanks to Joan Ling for their valuable feedback on this brief.

About the UCLA Lewis Center For Regional Policy Studies

The Ralph & Goldy Lewis Center for Regional Policy Studies is a research center in the UCLA Luskin School of Public Affairs. The Lewis Center advances research on how people live, move, and work in the Los Angeles region, with a focus on policies and interventions that provide paths out of poverty. Since 1989, Lewis Center scholars and staff have produced high-quality research on transportation access, housing affordability, labor, immigration, and many other topics, with a focus on the policy impact on vulnerable populations. The Center produced programs and events alongside accessible publications for policymakers, public officials, students, opinion leaders, and the public.

Report Author

Shane Phillips, UCLA Lewis Center

Cover image credit

Abbie Bernet/Unsplash

Table of Contents

Introduction.. 4

Section I. Affordable Housing Categories 5

Subsidized, income-restricted, maximum rents....... 5

Unsubsidized, income-restricted, maximum rents.. 7

Rent-controlled... 9

Naturally occurring affordable housing.................. 12

Low-cost new construction 13

Section II. Affordability Levels 20

Conclusion 26

References 27

Introduction

The phrase “affordable housing” is so ubiquitous, and applied to so many different types of homes, that it sometimes feels like it’s lost any clear meaning.

When we say we want to build and preserve affordable housing, what do we mean? This primer will help policymakers, public officials, advocates, and other stakeholders answer this question — to better understand the many different types of affordable housing, what they accomplish, how they’re regulated, and who they serve. In turn, we hope that knowledge will be used to develop better-informed, more effective housing policy that improves affordability and protects against displacement.

So what is “affordable housing”? Virtually everyone agrees that homes built with public funds and reserved for low income households qualify as affordable housing. In privately financed developments, units set aside for low income (and perhaps even middle-class) residents — usually mandated by density bonus or inclusionary zoning programs — are affordable housing, too.

But what about rent-controlled housing, where rents can be high or low but only increase by a small percentage each year? Or micro-units, where total rents are low but per-square-foot rents are high? In less expensive cities should a new, unsubsidized, for-profit townhome sold for $250,000 be considered “affordable,” or should the term be reserved only for below-market housing? What distinguishes low income housing from extremely low income housing? And how about workforce housing? What even *is* workforce housing?

In this primer we will discuss five (5) **affordable housing categories**, including details about who builds them, how they’re built, who pays, and how rents are set and can change over time. We will also review six (6) **affordability levels** — that is, the restrictions on household income and other conditions that determine who can reside in a given affordable unit and how much they pay.

Affordable housing categories:

1. Subsidized, income-restricted, maximum rents
2. Unsubsidized, income-restricted, maximum rents
3. Rent-controlled
4. Naturally-occurring affordable housing (NOAH)
5. Low-cost new construction

Affordability levels:

1. Extremely low income
2. Very low income
3. Low income
4. Moderate income
5. Workforce
6. Market-rate

Section I. Affordable Housing Categories

"Affordability" is a difficult concept to pin down, in part because it's defined by the interplay of two separate metrics: the cost of housing and the incomes of renters and buyers.

A million dollar home is expensive by most people's standards, but it's well within the means of someone earning $250,000 a year. A $600-per-month apartment would be considered very inexpensive by the standards of the median American, but might still be unaffordable to a single parent earning the minimum wage or someone relying on disability insurance as their sole income. Some places have high wages and high housing costs, others have low wages and low housing costs. The most challenging cases, such as Los Angeles, have low wages but high housing costs. The relationship between cost and income shapes how we define affordability in our own communities.

Based on these local conditions, people can reasonably argue that one or more of the housing categories described below do not truly qualify as affordable. We include them because all can be within reach of lower- and middle-income households under the right conditions. Some might also define the categories differently, or choose different examples. Nonetheless, we believe these categories are instructive. Below, we describe each category and its characteristics.

Subsidized, income-restricted, maximum rents

Examples: public housing; non-profit-built housing, typically using the Low Income Housing Tax Credit or project-based housing vouchers; permanent supportive housing

This first housing type is most closely associated with the phrase "affordable housing." It has three important characteristics:

- It is built or rehabilitated with public funding, at least in part.
- It is restricted to households earning below a specific income threshold.
- Owners are prohibited from charging rents above a maximum limit determined by factors including household size, number of bedrooms, and income eligibility threshold.

A large share of subsidies for this housing type come from Low-Income Housing Tax Credits (LIHTC), a federal program that lets businesses reduce their tax liability by investing in affordable

housing. Another common source of federal funds is project-based housing vouchers, allocated through local housing authorities' Housing Choice Voucher program (formerly known as Section 8). Federal funds are typically complemented by state/local matching funds, philanthropy, and private lending, among other sources. In LA County there are approximately 100,000 housing vouchers (Monkkonen & Kuai, 2018) and 70,000 LIHTC affordable units. Many LIHTC residents pay for a part of their rent with housing vouchers, so there are probably considerably fewer than 170,000 households receiving one or both of these benefits in LA County (O'Regan & Horn, 2013).

The median cost of a LIHTC-funded unit in Los Angeles, for buildings completed 2011-2015, was $401,000 (Government Accountability Office, 2018). Costs have grown significantly since 2015 (Raetz et al., 2020), with the cost of subsidized housing in the city now frequently exceeding $500,000 per unit (Galperin, 2019).

Affordable developments that depend on subsidies typically reserve 100% of their units for low income households, often with the exception of one or more market-rate units reserved for on-site management. They are most often built by non-profit developers, although some 100%-affordable housing developers are structured as for-profit entities. (They still rely on the same sources of public funds.) Public housing, in contrast to non-profit and for-profit development, is affordable housing built and owned by the government. It differs in some ways from other subsidized, income-restricted, rent-capped housing, but is similar enough to be put into the same category for the purposes of this primer.

A subsidized affordable housing development in Santa Monica.
Retrieved from https://www.archdaily.com/503233/broadway-housing-kevin-daly-architects

Such units are income-restricted, meaning that households with incomes above specified limits cannot live there. For example, a household cannot earn more than 80% of area median income (AMI) to be eligible for a low income affordable housing unit. Very low income units only permit households earning 50% of AMI or less, extremely low income units are reserved for households earning up to 30% of AMI, and so on.

Affordability requirements are mandated by a legal contract known as a covenant, and when this covenant expires the affordability requirements also end. Cities can often extend affordability covenants through financial subsidies paid to property owners, but owners are generally not obligated to accept these offers. This means that cities are always losing some homes from their affordable housing stock even as they subsidize and build new ones. In Los Angeles and throughout California, affordability requirements on new subsidized housing usually last for 55 years, and the Lewis Center has advocated for making these requirements permanent or increasing them to 99 years (Phillips, 2020). Affordability requirements in most of the rest of the country last for only 15 to 30 years.

Finally, the owners of these units cannot charge above a maximum allowable rent for as long as the affordability covenant is in effect. Rents are generally set based on units' income thresholds, so units reserved for residents with lower incomes will also charge lower rents. For example, in LA the maximum rent for a 1 bedroom very low income unit is $731 per month, and the maximum for an extremely low income unit is $439 a month. Further details about affordability levels and maximum permissible rents and household incomes, ranging from extremely low income to workforce and market-rate housing, are described in **Section II.**

Unsubsidized, income-restricted, maximum rents

Examples: units required by inclusionary zoning programs; units required by density bonus programs, including city of LA Transit-Oriented Communities (TOC)

Units that are income-restricted and set maximum rents, but are unsubsidized by public funds, are also increasingly common. In Los Angeles such units now account for a large share of the new income-restricted homes being built. This is largely thanks to the Transit-Oriented Communities (TOC) program, established in late 2017, which allows larger developments if some units are reserved for low income tenants.

City permit data through March 2020 shows that approximately 20,000 units have been permitted or are having their permits reviewed as part of the TOC program, 3,570 of which are income-restricted. Of these affordable units, nearly two-thirds, or 2,340, are in "mixed-income" developments — projects with a mix of market-rate and affordable units, built by for-profit developers. These developments cross-subsidize the cost of affordable units (which are built

A proposed mixed-income development in Hollywood which would replace two single family homes with 21 new apartments, including two for extremely low income households. Source: Bittoni Architects

and operated at a financial loss) with the profits earned on additional market-rate units, rather than relying on public funding. There is a limit to how many affordable units a for-profit building can cross-subsidize, which is why affordability requirements rarely apply to more than 10-20% of units in such projects. For density bonuses like LA's TOC program, the ability to divide the cost of land between a larger number of units also creates savings that help offset the cost of income-restricted homes.

Income-restricted units in mixed-income developments operate in the same way as those in subsidized 100% affordable developments. They are still limited to households earning below a specific income threshold and their maximum rents are still based on income level and unit size.

These developments require no public funding, meaning they are a complement to 100% affordable projects and other programs, such as direct rental assistance, that benefit low income households. Subsidized affordable housing, in contrast, requires approximately $300-500 million in public funding for every 1,000 units built. This cost varies significantly depending on local land and construction costs, and in the LA region the public cost of subsidized housing is at the higher end of this range.

Rent-controlled

Examples: housing subject to the city of LA's rent stabilization ordinance (RSO), i.e. multifamily rentals built before October 1, 1978; housing subject to the state anti-gouging law, AB 1482

Rent-controlled housing is characterized primarily by its limitations on annual rent increases.

When a household moves into a rent-controlled unit, their rent from that point onward can only be increased by a set percentage each year, often tied to the inflation rate. Some cities limit annual rent increases to a percentage of inflation. Santa Monica, for example, limits rent increases to 75% of inflation, so if inflation is 3% then the maximum allowable rent hike in rent-controlled units for that year will be 2.25%. The city of Los Angeles currently allows rent increases of at least 3% per year, even when the inflation rate is lower — though we argue in a previous brief that this should change (Phillips, 2019).

Rent control is enacted through government policy, not subsidies. Typically, a state or local government will dictate that all housing beyond a certain age — often restricted only to multifamily buildings — is subject to rent control. This is an imposition on property owners that is intended to balance tenant stability with landlords' expectations of an acceptable return on their investment.

There are several types of rent control, but for the purposes of this explainer we'll focus on the most prominent distinction: programs with **vacancy control** and those with **vacancy decontrol**.

Rent-stabilized apartments in Koreatown. Retrieved from Google Street View.

Vacancy-controlled units retain their rent limitations even when there's a change of tenancy (i.e., when one household moves out and a new one moves in), whereas rents in vacancy-decontrolled units may be reset to market rates when tenancy changes. As a result, vacany-decontrolled units are more likely to rent near market-rate than controlled units. The ability to increase rents to market rates also increases the incentive for landlords to push out long-term tenants.

For a variety of reasons, vacancy control fell out of favor decades ago. In California it was prohibited by law with the passage of the Costa-Hawkins Rental Housing Act in 1995. Today, all California cities with rent control must allow rents to return to market rates when tenancy changes.

Vacancy control has regained some popularity in recent years: Proposition 10, the statewide ballot initiative voted on in 2018, would have repealed the Costa-Hawkins bill and allowed cities to once again enact local vacancy control (it failed to pass); in November 2020 a new initiative will be put before voters allowing (but not mandating) a milder form of vacancy control rather than repealing Costa-Hawkins entirely.

One concern with vacancy control is that it reduces a property owner's incentive — or even their ability — to maintain and improve their building over time. Even when a tenant moves out, or if upgrades are made, rent increases are restricted — often sharply. Another uncertainty is how below-market units would be allocated: wait lists, under-the-table agreements, and/or non-financial forms of discrimination might be more commonplace when units are not allocated by willingness and ability to pay.

A concern with vacancy decontrol, on the other hand, is that it can encourage landlords to push out long-term tenants — those who benefit most from rent control. This can be especially problematic because long-term tenants also tend to have lower incomes. In Los Angeles, for example, the median annual household income for tenants who've lived in the same rent-stabilized unit for less than 5 years is around $50,000; it's approximately $35,000 for those living in the same unit 10-19 years and $27,000 for tenants in the same unit for 30 years or longer (2018 American Community Survey 1-year IPUMS data). Over time, as the gap grows between market rate and a long-term tenant's rent, the incentive to push tenants out in favor of higher-paying renters also increases. "Just cause" protections, which limit the reasons for which tenants can be evicted, are intended as a protection against such profit-maximizing evictions.

Rental units can be taken off the market through owner-occupancy, condo conversions, or redevelopment, and rent control (of either type) has been demonstrated to accelerate the loss of rental housing by these and other mechanisms (Diamond et al., 2019). Nonetheless, the benefits they confer to existing renters, especially those who live in the same unit for long durations, are clear.

There are other important aspects of rent control policy, including:

- The age of buildings subject to rent control — e.g., housing of all ages, or only buildings over 20 years old. Rent control is usually limited to older buildings to avoid discouraging new development in general, and rental housing development in particular. If rent control were applied to newly-opened buildings, a development completed during an economic downturn might be locked into such low rental rates that it could never earn a profit over any time horizon. If investors have a choice between building rent-controlled apartments or uncontrolled condos, on the margin they will tend toward the latter. In either case the development of rental housing is depressed, leading to higher rents, a short supply of rentals, or both. In Los Angeles, the city's rent stabilization ordinance only applies to housing built before October 1, 1978.
- The types of buildings subject to rent control — e.g., all single-family and multifamily, or only multifamily with 5 or more units. Single-family homes are often excluded from rent control regulations, including in California. In Los Angeles, most multifamily housing opened before October 1978, including single-room occupancy (SRO) hotel rooms, is subject to rent control.

Neutra, Richard (Work: 1937, Image Date: 1982). Landfair Apartments.
Retrieved from https://library.artstor.org/asset/SS7732236_7732236_12905427

It's important to note that rent control is not synonymous with affordable rents. It's common, especially in cities with vacancy decontrol and a shortage of housing, for rent-controlled units to rent for high prices, sometimes $2,000 or $3,000 per month or more. While annual rent increases are limited in such units, they may still be inaccessible to low income and working class households. Predictability and protections against eviction have their own value to renters, but these benefits are distinct from affordability.

This is why calls for blanket protection of rent-controlled housing can be counter-productive. For example, it would be better, for both low income renters and the overall housing affordability, to replace a $3,000-per-month-per-unit duplex with a 20-unit building that includes three income-restricted units, even if the original building is rent-controlled and the latter is not. If the same 20-unit building replaces a 10-unit rent-controlled apartment with multiple low income tenant households, the project may do more harm than good. Policies seeking to preserve the stock of rent-controlled housing should be sensitive to these different circumstances and respond accordingly. Programs such as right of return with temporary rent assistance for displaced households can be employed to mitigate harms from redevelopment and make "edge case" developments prohibitively expensive to pursue. Upzoning higher-income single-family neighborhoods can also direct more development toward locations where involuntary displacement is much less likely.

Naturally occurring affordable housing

Naturally occurring affordable housing, or NOAH, is privately-owned, unsubsidized, and non-income-restricted housing that is nonetheless affordable to lower- and middle-income residents. Its affordability derives from its characteristics: It is typically older, out of fashion, lower quality, and/or in less desirable locations, but still meets basic health and habitability standards. NOAH is easier to find in cities where housing is abundant, rather than scarce — this abundance limits landlords' ability to raise rents for fear of competition from other available units.

Because it is not subsidized with public funds, some do not consider NOAH to be "affordable housing." However, the vast majority of low-income Americans live in housing that is privately owned and neither subsidized, income-restricted, nor rent-controlled. In many places and in many circumstances, residents of such housing pay less than 30% of their income on rent, the threshold above which renters are considered "cost-burdened."

Naturally occurring affordable housing is important because it serves so many people and does so without public subsidy. It is in ever-shorter supply in cities like Los Angeles that have underbuilt housing, relative to demand, for decades. Normally, homes built in the 1980s and 90s would now be aging into greater affordability. But because few homes were built during this period, the city's growing population is instead seeking accommodations in older homes in lower-income and

working class neighborhoods, driving up rents and home values in the process. Housing shortages short-circuit the process of "downward filtering," instead causing prices for older homes to "filter up" and out of reach over time (Liu, et al., 2020).

Low-cost new construction

The final "affordable housing" type discussed here is low-cost new construction. This is housing that is affordable because of how it's designed, the materials it uses, or the way it's built.

Common low-cost building types discussed here include: micro-units, co-living, and accessory dwelling units; modular and prefabricated housing; "missing middle" small multifamily; parking-free or parking-lite developments, and mobile homes.

MICRO-UNITS, CO-LIVING, AND ACCESSORY DWELLING UNITS

Micro-units are small multifamily homes that typically range from around 150 to 400 square feet in size. At the upper end of this range, micro-units can be fully self-contained, including a kitchen, bathroom, and even a washer and dryer. Smaller micro-units often share certain facilities with neighbors; residents may have their own bedroom with a bathroom, small refrigerator, and microwave, for example, but share a full kitchen and living room with others on their floor. Such buildings are often referred to as "co-living" apartments and hearken back to the pre-WWII era when boarding rooms, single-room occupancy hotels, and other inexpensive housing options were much more common — though newer iterations tend to be of considerably higher quality and less deeply affordable.

Interior of the Carmel Place micro-units in New York City. Photo by Pablo Enriquez for the New York Times.

Micro-units and co-living buildings manage lower per-unit costs by reducing the space devoted to each individual resident or household. They may also reduce costs by providing little or no on-site parking. They are typically located in walkable, dense neighborhoods where residents can augment their living space with parks, restaurants, bars, libraries, and other destinations within walking distance. While not for everyone, they can appeal to one-person households that might otherwise be unable to afford a home in a desirable location, those looking for a more communal style of living, or those who simply don't put a premium on having a lot of living space, among others.

An accessory dwelling unit in Portland, Oregon, which sold for $205,000. Source: Redfin.

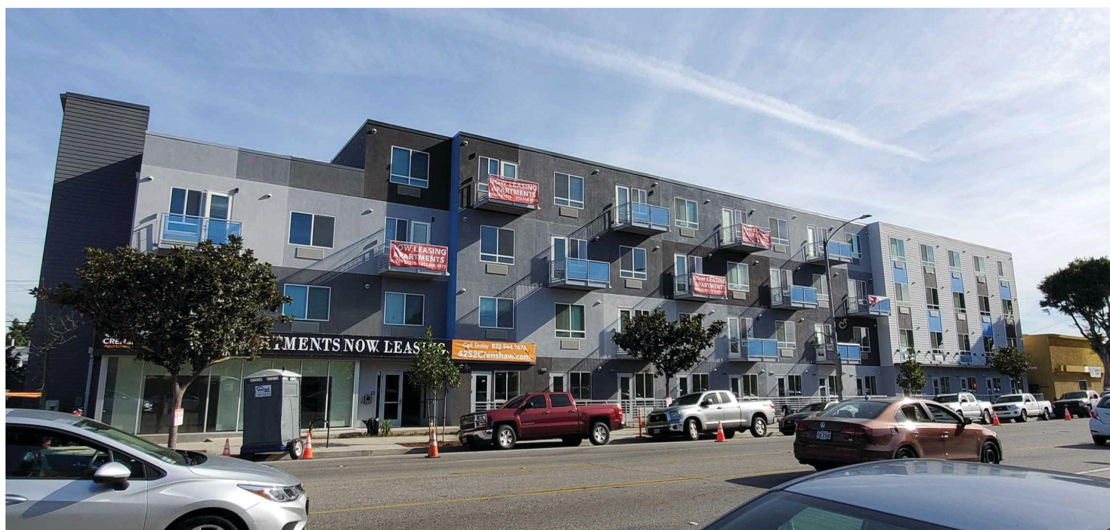
Accessory dwelling units, or ADUs, are another type of small-space living that is usually built as a standalone building sharing a parcel with a larger home. (Sometimes they are converted from a garage or adjoined to a larger home with a separate entrance.) Following the passage of several laws easing their approval, ADUs have become popular in California as a way to provide relatively low-cost new housing that can be built, owned, and managed by an individual homeowner. Los Angeles is now approving several thousand ADUs each year.

MODULAR AND PREFABRICATED

Modular and prefabricated housing is typically manufactured off-site, shipped to its construction location, then assembled by workers into a complete structure. Modules can consist of entire housing units, as with a recent 111-unit apartment project built on Crenshaw Blvd by Universal Standard Housing (Sharp, 2019), or specific elements, such as the prefabricated bathrooms installed in each of the Downtown LA Wilshire Grand hotel's 698 guest rooms.

One of the main selling points of modular and prefab construction is schedule savings: Because much of the work takes place off-site, potentially even before the project is fully approved, on-site construction can move quickly and shave months off a project's schedule. This not only delivers housing more quickly, it also saves money by reducing the amount of time that costs accrue on loans and equity investments. Over time, standardization and economies of scale may help reduce costs even further.

Though modular and prefabricated development has been around for decades, it appears to be growing in popularity and acceptance by regulators. Thus far it has yet to prove itself as significantly less expensive than traditional construction in most cases, but it's hoped that costs will begin to fall more dramatically as manufacturers and construction workers gain experience, and as local governments grow more comfortable permitting such projects.



A parking-free 111-unit modular housing development at 4252 Crenshaw Blvd. Source: Urbanize LA.

MISSING MIDDLE

This housing type consists of smaller multifamily buildings in the "middle" between single-family homes and large condo and apartment projects. Missing middle housing was once common in the U.S. but is now rarely built — hence, "missing." There's no set definition for missing middle housing, but it may include anything from duplexes up to 3-4 story apartment buildings.

There are several characteristics that make missing middle housing naturally more affordable than larger or smaller projects. First, its structure can be constructed entirely from wood, which is much less expensive than the concrete and steel structures required for taller buildings. Parking can often be provided outside or in a ground-floor structure, further reducing costs. Second, its construction requires less highly skilled (and therefore highly paid) labor. Third, it can be built more quickly, reducing carrying costs and allowing an earlier and faster lease-up. Fourth, missing middle is able to spread the cost of land between multiple homes, but not at such high densities that material and labor costs overwhelm these savings. Fifth, and finally, missing middle housing tends to be light on luxuries: Unlike single-family housing, it doesn't provide a large amount of private land for a single household; unlike many larger multifamily developments, it rarely provides amenities like gyms, pools, and movie rooms for residents.

([n.d.]). Los Angeles: Dingbat residential structure. Retrieved from https://library.artstor.org/asset/ARTSTOR_103_41822000251007

The Don Carlos Court bungalow court in Pasadena. Photo by Adrianne Wadewitz.

Townhome-style "missing middle" condos in Las Vegas, priced at around $250,000 to $300,000. Source: Redfin.

PARKING-FREE OR PARKING-LITE

Another way to save money on new housing is to limit parking. Parking in above- and below-ground garages can cost $30,000 or even $50,000 or more per space. Providing one space per unit in such structures can increase the cost of housing by upward of $200 per month — much more than many households would be willing to pay for a space if the cost were paid separately from their rent. In practice, parking is frequently provided "free" to residents or at a nominal price below what it cost to build; this cost is hidden by "bundling" it into rents or sale prices instead.

Parking can also physically crowd out housing, further increasing costs. A given parcel might be able to accommodate 10 apartment units if no parking is provided, but only 6 or 7 if space needs to be made for a garage. This means less revenue for the builder and higher construction costs, limiting the feasibility of new housing development only to projects that can secure very high rents or sale prices.

Many households will still desire parking despite these costs, and developers will still provide it in many projects even if it's not required. LA's TOC program allows for reduced or zero parking in some locations and most projects still provide parking, often more than one space per unit. Some others build less than one space per unit, and a limited few build no parking at all. These latter projects are less expensive to build and appeal to people who don't want to pay extra for parking spaces that they may rarely or never use.

A proposed 202-unit modular apartment development in Hollywood, with zero on-site parking. Source: Steinberg Hart.

MOBILE HOMES

Mobile homes are a type of manufactured housing that is often considerably more affordable than rental or ownership alternatives. Despite the name, modern mobile homes are not commonly moved after being delivered to their destination. Unlike other types of housing, they're also "constructed according to a code administered by HUD [the U.S. Department of Housing and Urban Development] instead of according to state, local, or regional codes" (Andrews, 2018). This allows mobile homes to avoid some of the regulations cities establish to discourage other types of low-cost housing.

Mobile homes are very common in the U.S., representing about 6.1% of the nation's housing stock — 8.5 million units. They are less common locally, accounting for roughly 3.7% of homes in California, 1.6% of those in Los Angeles County, and 0.6% in the city of LA (2018 American Community Survey 1-year data).

A mobile home for sale in Harbor City, near Long Beach, priced at $130,000. Source: Redfin.

The low-cost housing designs discussed above are not all mutually exclusive. For example, a new building might include modular micro-units with limited parking, or a missing middle project might be built with zero parking. Many of these features are complementary, with each adding more cost savings and deeper potential affordability.

Section II. Affordability Levels

Of the affordable housing types described above, only the income-restricted, rent-capped, and subsidized or unsubsidized categories (the first two categories) are means-tested. That is, only households earning below specific income thresholds are eligible to live in them.

These are the housing types most commonly associated with the term “affordable housing,” so understanding their income restrictions and how their rents are set is very important. But before that, we must review the metric on which they’re all based: the area median income, or AMI.

AMI is the median household income for a given “Metro Fair Market Rent (FMR) Area,” as defined by the U.S. Department of Housing and Urban Development (HUD). For 2019, AMI for a four-person household in the Los Angeles-Long Beach-Glendale, CA HUD Metro FMR Area was $73,100. Area median income is adjusted for household size: LA’s one-person household AMI is $51,150 and its seven-person household AMI is $90,650, for example. AMIs for every FMR Area in the country can be found here: https://www.huduser.gov/portal/datasets/il.html.

All income-restricted affordability levels are defined by their relationship to the area median income. There are five income-based affordability levels. These are:

- **Extremely low income, or ELI (30% of AMI)**
- **Very low income, or VLI (50%)**
- **Low income (80%)**
- **Moderate income (120%)**
- **Workforce (150%)**

A final “affordability level” is **market-rate housing**, distinct from the others and more common than all of them combined. Market-rate housing lacks income restrictions or maximum rents and varies in affordability depending on unit characteristics and local conditions.

The maximum incomes for each affordability level, with the exception of workforce housing, are listed in **Table 1**. Note that there are two different regulating authorities, the California Tax Credit Allocation Committee (TCAC) and the City of Los Angeles Housing and Community Investment Department (HCID), and that the income thresholds vary slightly between the two — and they vary dramatically at the median income (100% AMI) level. This “income adjustment” becomes important when calculating maximum rents.

Units are subject to TCAC income limits and maximum rents if they were funded by the Low-Income Housing Tax Credit. Income-restricted units in privately funded developments, including those that utilize the TOC program or state density bonus, are subject to HCID income limits and maximum rents. In cases where LIHTC-funded projects receive bonuses from the TOC program or state density bonus, the "base" units are subject to TCAC limits and the "bonus" units are subject to HCID limits.

Table 1.

Maximum qualifying income thresholds based on affordability level, regulating authority, and household size, Los Angeles, 2019.

	Regulating	Household size							
Income Level (AMI)	Authority	One	Two	Three	Four	Five	Six	Seven	Eight
Extremely low (30%)	TCAC	$21,930	$25,080	$28,200	$31,320	$33,840	$36,360	$38,850	$41,370
	HCID	$21,950	$25,050	$28,200	$31,300	$33,850	$36,350	$39,010	$43,430
Very low (50%)	TCAC	$36,550	$41,800	$47,000	$52,200	$56,400	$60,600	$64,750	$68,950
	HCID	$36,550	$41,800	$47,000	$52,200	$56,400	$60,600	$64,750	$68,950
Low (80%)	TCAC	$58,480	$66,880	$75,200	$83,520	$90,240	$96,960	$103,600	$110,320
	HCID	$58,450	$66,800	$75,150	$83,500	$90,200	$96,900	$103,550	$110,250
Median (100%)	TCAC	$73,100	$83,600	$94,000	$104,400	$112,800	$121,200	$129,500	$137,900
	HCID	$51,150	$58,500	$65,800	$73,100	$78,950	$84,800	$90,650	$96,500
Moderate (120%)	HCID	$61,400	$70,150	$78,950	$87,700	$94,700	$101,750	$108,750	$115,750

Table adapted from City of Los Angeles Land Use Schedule VII and California Tax Credit Allocation Committee Maximum Income Levels.

Whatever a unit's income restrictions, its rent is set at 30% of that income level, but the starting figure used for calculating maximum rents differs between TCAC- and HCID-regulated units. Take, for example, a very low income (50% AMI) three-person household seeking a two-bedroom affordable unit. If the unit is regulated by HCID we start with the median income figure in **Table 1**, which for a three-person household is $65,800, then multiply this by 50% (because it's a VLI household) for a result of $32,900. Thirty percent of $32,900 is $9,870, or $822 per month, which is the maximum allowable rent for a two-bedroom VLI unit subject to HCID rules.

For TCAC units, we start with the income threshold at our income level of interest in **Table 1**. Again looking at a three-person VLI household, we see that the 50% AMI income level is $47,000. We again multiply by 30% for a result of $14,100. Divide this by 12 months and we have a maximum rent of $1,175 per month, which is the maximum allowable rent for a two-bedroom VLI unit subject to TCAC regulations. The maximum rents based on income level, regulating authority, and unit size are listed below in **Table 2**. Note that TCAC does not provide income levels or maximum rents for units above 100% of AMI.

Table 2.

Maximum rents based on affordability level, regulating authority, and unit size, Los Angeles, 2019.

Rent Level	Regulating Authority	Unit size					
		Studio	1 BR	2 BR	3 BR	4 BR	5 BR
Extremely low	TCAC	$548	$587	$705	$814	$909	$1,002
	HCID	$384	$439	$493	$548	$592	$636
Very low	TCAC	$913	$979	$1,175	$1,357	$1,515	$1,671
	HCID	$640	$731	$822	$914	$987	$1,060
Low	TCAC	$1,462	$1,567	$1,880	$2,172	$2,424	$2,674
	HCID	$768	$877	$987	$1,097	$1,184	$1,272
Moderate	HCID	$1,407	$1,608	$1,809	$2,010	$2,171	$2,332

"Baseline" units funded by LIHTC are subject to TCAC maximum rent limits; income-restricted units built in privately-funded developments that utilize the TOC program or state density bonus, or "bonus" units in LIHTC projects, are subject to HCID maximum rent limits. Table adapted from City of Los Angeles Land Use Schedule VII and California Tax Credit Allocation Committee Maximum Rents.

A brief description of each affordability level follows. The maximum allowable rents and income levels listed below are specific to the Los Angeles area and will differ in other parts of the country.

EXTREMELY LOW INCOME

Extremely low income (ELI) housing is limited to households earning up to 30% of area median income. As of mid-2019, a three-person household with an annual income up to $28,200 qualified as ELI in Los Angeles.

Maximum rents for ELI units are the product of 30% of 30% of AMI. Because of the TCAC income level adjustment, rents are higher for TCAC-regulated affordable units than for HCID-regulated units. For a three-person household living in a two-bedroom home, maximum rent would be $705 per month for a TCAC unit or $493 for an HCID unit.

TCAC maximum rent calculation: the TCAC income threshold for a three-person ELI household is $28,200 per year. This is multiplied by 30% to represent the share of the ELI household's income that should be spent on rent (30% * $28,2000 = $8,460), then divided by 12 to determine the maximum monthly payment ($8,460 / 12 months = $705/month). A three-person household is expected to require a two-bedroom home; thus, the maximum monthly rent for a two-bedroom extremely low income unit is $705 per month.

HCID maximum rent calculation: the HCID median household income for a three-person ELI household is $65,800. This is multiplied by 30% to arrive at the ELI income threshold (30% * $65,800 = $19,740), again multiplied by 30% to represent the share of the ELI household's

income that should be spent on rent (30% * $19,740 = $5,922), then divided by 12 to determine the maximum monthly payment ($5,922 / 12 months = $493/month). A three-person household is expected to require a two-bedroom home; thus, the maximum monthly rent for a two-bedroom extremely low income unit is $493 per month.

VERY LOW INCOME

Very low income (VLI) housing is limited to households earning up to 50% of area median income. A three-person household with an annual income up to $47,000 qualifies as VLI in Los Angeles.

Maximum rents for VLI units are the product of 30% of 50% of AMI. Because of the TCAC income level adjustment, rents are higher for TCAC-regulated affordable units than for HCID-regulated units. For a three-person household living in a two-bedroom home, maximum rent would be $1,175 per month for a TCAC unit or $822 for an HCID unit.

Refer to the example calculations of maximum rents for extremely low income units, above, to see how VLI rents are calculated for TCAC- and HCID-regulated affordable units.

LOW INCOME

Low income housing is limited to households earning up to 80% of area median income. A three-person household with an annual income up to $75,200 qualifies as low income in Los Angeles.

Maximum rents for low income units are the product of 30% of 80% of AMI for TCAC-regulated units, and 30% of 60% of AMI for HCID-regulated units. For a three-person household living in a two-bedroom home, maximum rent would be $1,880 per month for a TCAC unit or $987 for an HCID unit.

Refer to the example calculations of maximum rents for extremely low income units, above, to see how low income rents are calculated for TCAC- and HCID-regulated affordable units. Because maximum rents for HCID-regulated units are based on 60% of AMI rather than 80%, the difference in maximum rents for low income and very low income housing is quite small. And because TCAC-regulated units set maximum rents based on 80% of AMI and use a higher adjusted area median income than HCID-regulated units, the difference in maximum rents between low income TCAC units and low income HCID units is quite large.

MODERATE INCOME

Moderate income housing is limited to households earning up to 120% of area median income. A three-person household with an annual income up to $78,950 qualifies as moderate income.

Maximum rents for moderate income units are the product of 30% of 110% of AMI. For a three-person household living in a two-bedroom home, maximum rent for an HCID-regulated unit would be $1,809. Note that this is lower than the maximum rents permitted for low income TCAC-regulated units. TCAC does not report maximum rents for moderate income units.

Refer to the example calculations of maximum rents for extremely low income units, above, to see how moderate income rents are calculated for affordable units. As with HCID-regulated low income (80% AMI) affordable housing, maximum rents for moderate income housing are not set based on the upper limit of the maximum qualifying income level, which is 120% in this case. A multiple of 110% of AMI is used instead.

WORKFORCE HOUSING

Workforce housing is limited to households earning up to 150% of area median income. A three-person household with an annual income up to approximately $98,700 qualifies for workforce housing.

Maximum rents for workforce units are the product of 30% of 150% of AMI. For a three-person household living in a two-bedroom home, maximum rent for an HCID-regulated unit would be roughly $2,450. TCAC does not allow workforce units.

In LA, the workforce housing category is rare and exists primarily in unsubsidized housing developments — those built without public funds but providing income-restricted units as part of an agreement with the city, typically when special zone changes are requested for a project. Workforce housing is not used in subsidized affordable housing projects, nor are they an option for meeting the requirements of the state density bonus or local Transit-Oriented Communities program. In practice, the maximum allowable rents for workforce housing are not dramatically different from market-rate rents in many locations.

MARKET-RATE

Market-rate housing is not income-restricted but it can be affordable under the right conditions. “Market rate” simply means that landlords (or sellers) are able to charge as much as tenants (or buyers) are willing to pay; they can charge what the market will bear. Where incomes are higher or housing is in short supply, or both, market prices will be high. Natural amenities, such as good weather and easy access to mountains and beaches, which Los Angeles certainly enjoys, will further increase what households are willing to pay, all else equal. Household incomes in LA are low compared to peer cities, but natural amenities, a relatively strong economy, and a decades-long housing shortage have made us one of the most unaffordable cities in the nation.

"Market rate affordable" townhomes for sale in Houston, Texas, priced under $300,000. Source: Redfin.

Rowhouse condos for sale in Portland, Oregon for under $400,000 per unit. Source: Redfin

Conclusion

Housing affordability is a complex topic, and "affordable housing" is a term with many valid meanings. Seeking to improve housing affordability and provide affordable housing begins with a clear understanding of what these terms represent and the trade-offs required for each. We hope that this primer has helped clarify some of their most common uses and will lead to better-informed stakeholders and more effective housing policy.

References

Andrews, J. (Jan 29, 2018). HUD to explore deregulating manufactured housing. *Curbed*. https://www.curbed.com/2018/1/29/16946126/hud-deregulating-manufactured-housing

Diamond, R., McQuade, T., & Qian, F. (2019). The effects of rent control expansion on tenants, landlords, and inequality: Evidence from San Francisco. *American Economic Review*, 109(9), 3365-94. https://www.aeaweb.org/articles?id=10.1257/aer.20181289

Galperin, R. (2019). *High Cost of Homeless Housing: Review of Proposition HHH*. City of Los Angeles City Controller. https://lacontroller.org/wp-content/uploads/2019/10/The-High-Cost-of-Homeless-Housing_Review-of-Prop-HHH_10.8.19.pdf

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

Monkkonen, P., & Kuai, Y. (2018). *Federal Housing Assistance in Los Angeles County is Primarily for High-Income Neighborhoods*. UCLA Lewis Center for Regional Policy Studies. https://www.lewis.ucla.edu/federal-housing-assistance/

O'Regan, K. M., & Horn, K. M. (2013). What can we learn about the low-income housing tax credit program by looking at the tenants? *Housing Policy Debate*, 23(3), 597-613. https://www.tandfonline.com/doi/full/10.1080/10511482.2013.772909

Phillips, S. (2019). *Revisiting LA's Rent Stabilization Ordinance and "Allowable Rent Increases."* UCLA Lewis Center for Regional Policy Studies. https://www.lewis.ucla.edu/2019/11/06/revisiting-las-rent-stabilization-ordinance-and-allowable-rent-increases/

Phillips, S. (2020). *Increasing the Duration of Affordability Requirements for New Affordable Housing*. UCLA Lewis Center for Regional Policy Studies. https://escholarship.org/uc/item/9fs1m0tt

Raetz, H., Forscher, T., Kneebone, E., & Reid, C. (2020). *The Hard Costs of Construction: Recent Trends in Labor and Materials Costs for Apartment Buildings in California*. UC Berkeley Terner Center for Housing Innovation. http://ternercenter.berkeley.edu/uploads/Hard_Construction_Costs_March_2020.pdf

Sharp, S. (Jun 12, 2019). Modular Apartment Building Takes Shape in Leimert Park. *Urbanize LA*. https://urbanize.la/post/modular-apartment-building-takes-shape-leimert-park

U.S. Government Accountability Office. (2018). *Low Income Housing Tax Credit: Improved Data and Oversight Would Strengthen Cost Assessment and Fraud Risk Management*. GAO-18-637. https://www.gao.gov/products/GAO-18-637

UCLA Lewis Center
for Regional Policy Studies

2381 Public Affairs Building, Los Angeles, CA 90095
lewiscenter@luskin.ucla.edu
lewis.ucla.edu
© 2020