

*This is the second post in a short series on income-targeted environmental policies. You can read the first post, introducing the concept of “Area Median Income,” [here](#).*

In this second part of my series on income-targeted environmental programs, I want to talk about affordable housing, and one particular housing program, Transit-Oriented Communities (TOC). TOC has been [billed as a double-win](#): it encourages new housing to be located near public transit—a boon for climate, local air pollution, and traffic—and it creates more “affordable housing.”

This post will focus on the affordability part of this, since that’s the income-targeted element in this policy. (For more on the details of the program, see my colleague Julia Stein’s [blogs](#) and [report](#).)

## **Affordable Housing and TOC**

There’s a lot of talk about affordable housing in the world of public policy, and it is occasionally combined with environmental programs. Some prominent examples in California are the Greenhouse Gas Reduction Fund’s [affordable-housing development](#) and the California Energy Commission’s [BUILD program](#). But the policy discourse, at least among enviros, rarely goes into detail on what “affordable” really means. This is a problem, because affordable housing is essentially a deal between the public and developers—trading money or relaxed regulations in exchange for an agreement to restrict rents on the building—and the specifics of that deal make a big difference as to whether the public is getting a fair bargain.

In this blog post, we’ll unpack some key details, including how eligibility is determined, how rents are set, and the impacts of different policy choice. We’ll explore this by looking at TOC, an LA City program designed to encourage new housing creation, and particularly affordable housing, near Metro and bus lines. Under TOC, developers can build more total floor space, include more apartments, and provide fewer parking spaces than they’d otherwise have to.

In exchange, developers must build near public transit (the “transit-oriented” part of TOC) and agree to restrict the rents that will be charged for some or all of the units in the building (the affordable-housing part). The extent of the perks they get through the program [depends on](#) how close they are to public-transit corridors, how many apartments they set aside as affordable, and whether the apartments are affordable to “low income,” “very low income,” or “extremely low income” households.

Although the program allows a minimum of 8% of the units to be affordable (if they're all for "extremely low income" households and receive the minimum incentives), about a quarter of units in TOC buildings approved in 2021 were affordable, and a majority of the affordable units were targeted at "low income" households, according to [data from LA City Planning](#).

## Enter the Area Median Income

So what is a "low income" household? This turns out to be a complicated question. As we explored [in the last blog post in this series](#), affordability is often based on the "Area Median Incomes" (AMIs) published by the US Department of Housing and Urban Development (HUD). As a brief refresher: the AMI for a given area (in our case, LA County) is the median family income for the area as measured by the US Census Bureau's American Community Survey (ACS). From there, HUD applies various adjustments to arrive at "low income," "very low income," and "extremely low income" figures for households of various sizes.

In LA County, HUD [calculates](#) AMI to be \$91,100 for a four-person household. But, because of the high cost of housing here, HUD [adjusts](#) the AMI for purposes of setting income thresholds, effectively treating the AMI as if it were about \$120,000, and leading to a "low income" threshold of [\\$95,300](#), a "very low income" threshold of [\\$59,550](#), and an "extremely low income" threshold of [\\$35,750](#)—all for four-person households. (This has the odd and somewhat perverse effect of setting "low income" higher than the measured median income.)

These thresholds are [used](#) by the California Department of Housing and Community Development as income thresholds for various state housing programs. However, the LA City Housing Department alters the HUD thresholds in various ways that have the effect of reducing them a little bit—as we'll see below.

But before we get there, it's worth noting that HUD's AMI is based on the typical income for all families. This includes homeowners, which, in LA County, [earn almost twice as much as renters](#). (It also excludes non-family households, like roommate arrangements, but for the sake of simplicity I won't get into the difference between households and families in the data.) The median income among renters alone was [about \\$52,900](#) in 2019; adjusting for inflation, this would be about \$58,800 in 2022 dollars. (Because of the rapid inflation recently, and because 2020 data is a [little weird](#), I'm going to provide a lot of inflation-adjusted numbers from 2019; when I do that, I'm using the difference between the 2019 annual CPI and the February 2022 CPI, or about 11.2%, which is [also HUD's approach](#).)

## AMI and rent

So what? Isn't it a good thing if more people are eligible for affordable housing? Perhaps so—although there is a question whether, given the limited stock of affordable housing, higher-income households might crowd out lower-income ones.

But a big problem is that *rent is also based on AMI*. Specifically, the rent cap for an affordable unit is typically set to 30% of the income threshold for that unit. This is fine for families right at the income threshold—it guarantees that they will pay no more than 30% of their income in rent, which is [generally considered](#) an affordable rent burden. But for families below that threshold, there is no such guarantee. In other words, a higher income threshold for renting a unit also means a higher rent for that unit.

## LAHD's approach

LAHD also uses HUD's AMI to calculate rent caps for LA City's affordable housing. However, as teased above, LAHD applies its own adjustments that have the general effect of reducing the rents in their programs. These are contained in several "schedules" which set out both eligibility thresholds and maximum rents for different sizes of apartments and different affordability levels. For TOC buildings, there are three possible schedules:

- [Schedule 1](#) (also called "HUD Gross"), which uses 60% of HUD's adjusted AMI for the "low income" rent caps and income thresholds, but is otherwise the same as HUD's numbers. This essentially reduces rents for "low income" households by 25% compared to HUD's standard calculations.
- [Schedule 6](#) (also called "HCD Net"), which uses HUD's income thresholds for eligibility but sets rent based on the original AMI (i.e., the actual median family income of LA County), minus a few thousand dollars to account for certain expenditures. Like Schedule 1, Schedule 6 also uses 60% instead of 80% of AMI to calculate the "low income" rent caps (but not household eligibility). Because this approach ignores HUD's high-housing-cost adjustment, it has substantially lower rent caps than Schedule 1 across all income categories—about 36% less in 2021.
- [Schedule 7](#) (also called "HCD Gross"), which uses the same calculations as Schedule 6 but without the reduction to AMI for purposes of calculating maximum rents. Schedule 7 has exactly the same eligibility thresholds as Schedule 6, but slightly (about 6%) higher rent caps.

As an initial note, even with the reduction from HUD levels, Schedule 1 rents are higher

than would be affordable for the typical renting household (let alone renters with below-average income): as noted above, a typical renting household in LA County has an income of \$58,800, and can therefore only afford a rent of \$1,470 or lower. Assuming the household is looking for a two-bedroom (the average household in LA County [has roughly three people](#)), even “low income” rents under Schedule 1 would be unaffordable at \$1,596.

Schedules 6 and 7, however, do a somewhat better job of managing rents. The same two-bedroom “low income” apartment that has a maximum rent of \$1,596 under Schedule 1 has a maximum rent of \$1,018 under Schedule 6 and \$1,080 under Schedule 7, both of which would be affordable to the typical LA County renting household, or even one that earned substantially less.

## Where TOC projects are built

But TOC projects probably aren't, generally speaking, located in typical neighborhoods. It looks like the typical TOC project is located in an area that has substantially lower median income than LA County as a whole: specifically, among the projects designated as being built with TOC benefits from 2018-2020 (obtained from California's [Department of Housing and Community Development](#) and matched to tracts using the [Census Bureau's geocoder](#)), the median TOC project is built in a census tract that had a median household income of about \$46,900 in 2019, and a median income among renting households of \$42,600 (per the [2019 five-year ACS](#)); applying the same inflation numbers that HUD uses translates those figures to about \$52,100 overall and \$47,400 among renters in 2022 dollars—far less than the \$91,100 that HUD considers to be the area median income and less even than the \$58,800 median income for renting households discussed above.

Schedule 1 “low income” rents may, therefore, be insufficient for providing housing to the typical household that lives in the areas where TOC projects are built. If a typical renting household in these areas has a household income of \$47,400, then it will be able to afford a rent of \$1,185 monthly. But the Schedule 1 rent for a “low income” two-bedroom apartment is \$1,596. In fact, even the “very low income” rent under Schedule 1 is \$1,330 monthly, out of reach for a typical renting household in these areas. (And these rents are likely to increase substantially in July, when LAHD updates its schedules to account for the new HUD AMI for LA, which increased from \$80,000 to \$91,100 this year.)

For Schedules 6 and 7, however, the “low income” rent caps are at least within reach for the typical renting household: a “low income” two-bedroom unit under Schedule 6, for example, is capped at \$1,018.

(The geographic data in this section is a little shakier than the rest of this post, for a couple of reasons. Perhaps the largest of these is that much of this is from my own calculations, and [I'm a lawyer](#). But it's also important to note that the data for individual groups of people at the census-tract level have quite high margins of error, because they're dealing with only a few hundred households. Nevertheless, this result makes sense given the parameters of TOC: it must be built near public transit, which is far more prevalent in the denser, downtown areas of LA that also have lower-income households. Therefore, I think there's a strong argument for believing that TOC is located in areas with substantially lower incomes than the affordability guidelines account for.)

## **A brief case study: 7807 South Broadway**

As an example of how this plays out in practice, take 7807 South Broadway, a recently approved TOC project in South LA. In exchange for a density bonus (i.e., permission to build or larger units than the area would otherwise allow) and a reduction in the number of parking spots required, the developers of 7807 agreed to subject all 20 of the building's units to [affordability restrictions](#). Two of these units are one-bedrooms designated for "extremely low income" households under Schedule 6, two are two-bedrooms for "very low income" households under Schedule 6, and fourteen are one-bedrooms for "low income" households under Schedule 1.

The median income of the census tract where 7807 South Broadway is located—which covers the area from roughly 76th St. to 79th St., and from the 110 to San Pedro St.—was about \$38,300 in 2019, and the median income for households that rent was about \$32,000 (per the [5-year ACS](#)); we'll call that \$35,600 to account for inflation. The highest rent that is affordable for the average household, therefore, is \$890.

So how far did the TOC program push 7807 South Broadway toward making housing in the area affordable? Well, the four units that are set aside for "extremely low income" and "very low income" households under Schedule 6 are within the affordability range for the median renting household, at \$452 and \$754, respectively. But the sixteen remaining units—the majority of the building—have a rent cap of \$1,419; in other words, they would cost the typical renting household in the area almost half of their income. Things get even worse when you consider that the typical renting household in the area [has four members](#)—and the \$1,419 apartment is only a one-bedroom.

It's also worth noting that the "low income" units don't seem to be improvements on the rent that households in the area pay now. The typical "gross rent" (i.e., [rent plus all fuel and](#)

[utility costs not included in the rent](#)) paid by households in this area was [\\$1,171 in 2019](#), or about \$1,302 in 2022 dollars, and the median gross rent for one-bedrooms was even lower: [\\$997 in 2019](#), or about \$1,109 in 2022. That's hundreds of dollars *lower* than the \$1,419 "low income" rent that the majority of the 7807 South Broadway units carry.

In other words, it seems like the typical household living nearby 7807 South Broadway isn't going to be able to afford or fit in the majority of the new units in that project, and they probably pay less in rent anyway. Which leaves us with a more basic question: who is it that TOC's "affordable" units are meant to serve?

## **For whom should housing be affordable?**

The affordability levels for a program implicitly set the scope of that program in addressing housing. A program that houses people that have an average income for LA is very different from one that provides housing at lower income levels, and will have a different effect on the city.

It seems to me that this is a qualitative, and not just quantitative, difference. Adding a new apartment in South LA that is affordable to the families living in the immediate area could give those families new, higher-quality housing and, in gentrifying areas, allow at least some of the people that are in the area to remain as market rents increase.

On the other hand, housing that is only "affordable" when viewed from the perspective of the entire city might have a different impact. This housing will be attractive to people in other, higher-income areas of the city that are leaving those areas—maybe to be closer to good transit options, maybe because rents in the higher-income areas of the city are also rising. This is important for those families and effective as a means of providing housing for *some* people in the city that is near transit. But it does not protect the people already living in the poorer neighborhoods where housing is getting built—in fact, it might even encourage gentrification by creating new housing in very low-income neighborhoods for higher-income (albeit "low income" in affordable-housing speak) people. This possibility is exemplified by the 7807 South Broadway "low income" units, which will likely have much higher rents than families in the area are currently paying.

The difficulty of providing for affordable housing for all parts of the city through an AMI-based program highlights the need for stronger affordability programs. These could include "deep affordability" that would have rent caps and eligibility threshold targeted toward much lower incomes. Another important option to consider is income-based rent, where instead of setting citywide rent caps, unit rents are based on the income of the households



that occupy them—typically setting rent at or around 30% of the tenant household’s income. This is the approach taken by the federal [Section 8 program](#) and federally supported public housing, like the properties owned by the [Housing Authority of the City of Los Angeles](#).

Needless to say, deep affordability is much more expensive than the “low income” housing provided by TOC (which, in a certain sense, costs the city nothing at all). It probably cannot be supported by the standard financing model for privately owned affordable housing, because lenders and investors for those properties want a guaranteed flow of rental income. The answer may need to involve [very large commitments of public money](#), along the lines of the investments made in public housing in the middle of the twentieth century. While this is politically difficult, or maybe impossible, it is important to understand how far short our current affordability programs fall.

## Takeaways

There’s a lot of details and numbers in here, but here are some basic takeaways, as I see them:

- “Affordable” doesn’t always mean affordable. Because the same affordability criteria and rent structures are used for all of LA County, they will not reflect the actual needs of low-income people in the areas where affordable housing is being built.
- That said, affordability varies widely depending on the particular implementing rules—HUD’s default “low income” thresholds, if used to set rents, would be far too high for even the average household in LA. LAHD’s Schedule 1 is better, but still too high for a typical renting household. Schedules 6 and 7 are at least in reach for a typical household, even given the tendency for TOC projects to be built in lower-income areas.
- This means that advocates and policymakers should carefully scrutinize the level of affordability being provided—it’s not enough to say that “affordable housing” is being built, or “low-income housing,” or even “60% AMI housing”; we need to think about the actual rents being provided.
- Even if we’re careful about rent structures, we need to recognize that any rents based on the average income for an area are leaving behind a large number of people. If rent is set to the median household in an area, that means that it is unaffordable for half of that area’s households. It seems to me that affordability needs to go much further—renting many more units at the “extremely low” level under LAHD’s Schedule 6, for example—and that income-based rental programs, like the federal Section 8 program or publicly owned housing, need to be expanded.

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Whew! That's enough housing talk for now. Next post will move on to talking about the income-based set-asides in the Greenhouse Gas Reduction Fund, and issues that come with using AMIs to target state-level policies. See you there!