

**DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT
DIVISION OF HOUSING POLICY DEVELOPMENT**

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August 17, 2011

Mr. Hasan Ikhata
Executive Director
Southern California Association of Governments
818 West Seventh Street, 12th Floor
Los Angeles, CA 90017-3435

Dear Mr. Ikhata:

RE: Regional Housing Need Assessment Determination

This letter provides the Southern California Association of Governments (SCAG) its Regional Housing Need Assessment Determination (RHNA Determination) for the projection period beginning January 2014 and ending October 2021. Pursuant to State housing element law (Government Code Section 65584, et seq.), the Department of Housing and Community Development (Department) is required to determine SCAG's existing and projected housing need.

As you know, Chapter 728, Statutes of 2008 (SB 375) strengthened coordination of housing and transportation planning and requires Metropolitan Planning Organizations (MPOs) to develop a new sustainable communities strategy (SCS) in the regional transportation plan (RTP) to achieve greenhouse gas emission reductions and ensure the SCS accommodates the RHNA Determination. Amendments to the law included revisions to the Department's RHNA schedule and methodology and also definitions addressing the RHNA projection period, housing element planning period, and coordination with updating the RTP. For SCAG, the Department's RHNA Determination is made on the basis of partial demographic data available at this time from Census 2010 complemented by the American Community Survey (ACS) data. In assessing SCAG's regional housing need, the Department considered the critical role housing plays in developing sustainable communities and supporting employment growth.

The Department has determined a range of housing need (409,060 – 438,030 units) for the period 2014-2021. This range considered the extraordinary uncertainty regarding national, State, and local economies and housing markets. For this RHNA cycle only, the Department made an adjustment to account for abnormally high vacancies and unique market conditions due to prolonged recessionary conditions, high unemployment, and unprecedented foreclosures.

The RHNA low range (409,060) reflects the Department's acceptance of SCAG's projections and assumptions as the minimum need after evaluating the reasonableness of data, assumptions and support documentation submitted by SCAG. This figure considers household growth for the projection period derived from using the 2005-2007 ACS household formation rates and includes an adjustment for projected household growth on tribal land, and for existing high unit vacancies resulting from the unusual turmoil in housing markets. The RHNA high range (438,030) considered SCAG's strong socio-economic assets and demographic trends to grow, become more diverse, and generate increased housing demand, particularly among older age groups.

SCAG's plan to distribute its RHNA must equal or exceed the minimum of the range shown in Attachment 1 for the Total and for Very-Low, Low, and Moderate income categories. The Department encourages planning for housing need above the minimum of the range, in which case the income category percentages applicable to very-low, low, and moderate households remain the same. The regional housing need to be allocated to each jurisdiction represents the minimum amount of residential development capacity to zone for and is not to be used within local general plans as the maximum amount of residential development to plan for or approve.

In assessing the RHNA for the SCAG region, the Department applied methodology and assumptions that considered all of the factors specified in Government Code Section 65584.01(c)(1). In addition, the Department consulted with SCAG and Department of Finance (DOF) staff as required by statute. A meeting with Mary Heim, DOF Chief Demographer, occurred in late February 2011 and was attended by SCAG representatives Frank Wen, Manager, Simon Choi, Chief Demographer, and Joe Carreras, Housing Project Manager. Subsequent consultation meetings, as well as correspondence, included Doug Williford, Deputy Executive Director, Huasha Liu, Director of Planning, and Joann Africa, Legal Counsel. Also consulted was Stephen Levy, Director for the Center for Continuing Study of the California Economy (CCSCE), who prepared employment, population, and household projections for SCAG.

The data, assumptions, and descriptive information provided by SCAG and CCSCE, included DOF's population estimates for 2011, American Community Survey household formation rates controlled for the 2010 Census data, and SCAG population projections. Information provided and/or discussed also included the region's relationship between jobs and housing, including information about inter- and intra-regional commute patterns, and assumptions about the rate with which existing "for sale" and "for rent" housing units will be absorbed by the beginning of the projection period in 2014.

The Attachments to this letter describe the RHNA methodology used by the Department and the income category distribution to be used by SCAG in allocating among all local governments within the region at least the minimum total RHNA and minimum amounts for very-low, low, and moderate income categories. The projection period (also described in the Attachments) was determined pursuant to Government Code Section 65588(e)(6), to coordinate housing and transportation planning based on notification from SCAG of its *estimated* RTP adoption date of April 5, 2012. As you know, if the actual RTP adoption date significantly differs from the estimated date, the RHNA determination and projection period will not change, however the housing element due date, and implicitly the planning period, would change.

SCAG is responsible for developing a RHNA distribution methodology and adopting a RHNA Plan for the period beginning January 1, 2014 and ending October 1, 2021. Housing element law (Section 65584, et.seq.) requires SCAG's methodology and RHNA Plan be consistent with the following objectives:

- (1) increasing the housing supply and mix of housing types, tenure, and affordability;
- (2) promoting infill development and socioeconomic equity, protecting environmental and agricultural resources, and encouraging efficient development patterns;
- (3) promoting an improved intraregional relationship between jobs and housing;
- (4) balancing the distribution of households by income category.

Pursuant to Government Code Section 65584.05(h), within three days of adopting the Plan, SCAG is required to submit its RHNA Plan to the Department for approval. Once the Department has approved the RHNA Plan, local governments must be notified of their share of the regional housing need, by income category, for use in updating the housing element for the *planning* period, anticipated to be from October 2013 until October 2021. In updating their housing elements, local governments may credit units permitted since the January 1, 2014 start date of the RHNA projection period. The element must describe the methodology for crediting units to different income categories such as based on the actual or projected sale price or rent level.

The Department commends SCAG for its leadership and efforts in fulfilling its important role in advancing the State's housing, transportation, and environmental goals. SCAG's successful Compass Blueprint has played a tremendous role in leading local organizations to improve community planning to expand housing and transportation choices.

The Department especially thanks Doug Williford, Huasha Liu, Frank Wen, and Simon Choi for their efforts and assistance. The Department looks forward to its continued partnership with SCAG and its member jurisdictions and assisting SCAG in its planning efforts to accommodate the region's share of housing need. If the Department can provide any assistance, or answer any questions, please contact me or Anda Draghici, Senior Housing Policy Specialist, at (916) 445-4728.

Sincerely,



Glen A. Campora
Assistant Deputy Director

Enclosures

ATTACHMENT 1

HCD REGIONAL HOUSING NEED DETERMINATION: SCAG

Projection Period: January 1, 2014 through October 1, 2021

<u>Income Category</u>	<u>Percentage</u>	<u>Range of Housing Unit Need (Rounded)</u>		
		<u>(1)</u>		<u>(2)</u>
Very-Low	24.4%	99,810	-	106,880
Low	15.8%	64,630	-	69,210
Moderate	17.5%	71,590	-	76,650
Above-Moderate	42.3%	173,030	-	185,290
Total	100.0%	409,060	-	438,030

- ¹ The 409,060 low end of the range (see Attachment 2) reflects SCAG's projected minimum housing need (rounded), using 2005-2007 household formation rates from the American Community Survey (ACS) controlled for 2010 census household population. This column represents the rounded minimum housing need that SCAG's RHNA Plan must address in total and the minimum percentage and amount for very-low, low, and moderate income categories.
- ² The 438,030 high end of the range (see Attachment 3) reflects HCD's determined higher housing need (rounded), using the 2005-2007 ACS household formation rates controlled for 2010 Census household population and applied to SCAG's population projections. In planning for RHNA above the low range, income category percentages for very-low, low, and moderate income households remain the same.
- ³ The income category percentages reflect the minimum percentage to apply against the total RHNA chosen by SCAG (at or above the minimum range) in determining housing need for very-low, low, and moderate income households.
- ⁴ For this RHNA cycle only (due to unique conditions not expected to recur to impact future RHNA cycles), two downward adjustments were made: (1) projected households were adjusted (-2,810) for household growth on tribal land as tribal housing data had not been requested by Department of Finance in its annual survey to local jurisdictions regarding housing unit change, and (2) housing need was adjusted by -75,390 units at the low range (Attachment 2) and by -25,130 units at the high range (Attachment 3) to account for different absorption estimates for unprecedented high vacancies in existing stock due to extraordinary conditions including high foreclosures and recession uncertainties.

Notes:

Housing Need Determination

Refer to Attachments 2 and 3 for a description and explanation of methodology.

The Department and SCAG staff acknowledge important differences between the "projection" methodology specified in statute to determine housing need and the methodology SCAG uses in developing its Integrated Forecast for purposes of its Regional Transportation Plan and Sustainable Community Strategy. The statutory planning objective of the RHNA is to accommodate housing "capacity" for projected household growth.

Income Categories

Each category is defined by Health and Safety Code (Section 50093, et seq.). Percentages are derived from Census-reported household income brackets, from the 2005-2009 American Community Survey's number of households by income over 12 months, by County. Housing unit need under each income category is derived from multiplying the portion of households per income category against the total RHNA determination.

ATTACHMENT 2

HCD REGIONAL HOUSING NEED DETERMINATION (LOW RANGE): SCAG

HCD Determined Population, Households, & New Housing Need: January 1, 2014-October 1, 2021 (7.75 years)				
1	Population: October 1, 2021 (SCAG Projection)			19,730,980
2	<i>less: Group Quarters Population (SCAG's estimate)</i>			-347,750
3	Household (HH) Population			19,383,230
	Household Formation Groups	HH Population	HH Formation or Headship Rate (ACS)	Households
	Age Groups (DOF)	19,383,230		6,516,345
	Under 15	4,103,915	-	-
	15 - 24 years	2,625,930	8.31%	218,223
	25 - 34 years	2,825,093	38.62%	1,091,002
	35 - 44 years	2,494,520	49.16%	1,226,416
	45 - 54 years	2,380,969	52.39%	1,247,429
	55 - 64 years	2,236,911	53.97%	1,207,223
	65 and older	2,715,892	56.19%	1,526,052
4	Projected Households			6,516,345
5	<i>less: Households at Beginning of Projection Period (January 1, 2014, interpolated)</i>			-6,044,940
6	<i>less: Household Growth on Tribal Lands</i>			-2,810
7	Household Growth: 7.75 Year Projection Period (New Housing Unit Need)			468,595
8	Vacancy Allowance	Owner	Renter	Total
	Tenure Percentage	54.39%	45.61%	
	HH Growth (New Unit Need)	254,869	213,726	468,595
	Vacancy Rate (SCAG)	1.50%	4.50%	
	Vacancy Allowance	3,825	9,620	13,445
9	Replacement Allowance (minimum)	0.50%		482,040
10	<i>less: Adjustment for Absorption of Existing Excess Vacant Units</i>			
	Estimate 10% Absorbed, 90% Not Absorbed by 2014	Effective Vacant Units	Healthy Market Units	Differential
	Derived (2010 Census, HH Growth, & Vacancy Rate)	(252,023)	175,240	-76,783
	Total 2011 Housing Stock	6,348,741		
	Existing Vacant Unit (Others) Adjustment	1.39%	1.28%	
	Total Adjusted Existing Vacant Units (Others)	(88,247)	81,264	-6,984
	Estimated Units (Others) Not Absorbed by 2014	90%		-83,766
				-75,390
	FINAL REGIONAL HOUSING NEED DETERMINATION (Low Range of New Housing Unit Need)			409,060

Explanation and Data Sources

- Population:** Population reflects SCAG's October 2021 projection. Pursuant to Government Code 65584.01(b), SCAG's 2021 population projection was compared to the 2021 population derived from Department of Finance (DOF) 2011 Interim Projections P3 for 2020 and DOF's E5 estimate for 2011. Based on SCAG's population projection being within 3% of the DOF Population Interim projections and consultation with SCAG, SCAG's population projection was used in determining housing need for the region. As such, this number reflects SCAG's October 2021 population projection.
- Group Quarter Population:** Figure is SCAG's estimate of persons residing in group home / institution / military / dormitory quarters that is 1.76% of total population (DOF estimate for 2010 was 1.78%) in which proportion is maintained constant throughout the projection period. As this population doesn't constitute a "household" population generating demand for a housing unit, the group quarter population is excluded from the calculation of the household population, and is not included in the housing need.
- Household (HH) Population:** The population projected to reside in housing units after subtracting the group quarter population from total projected population.

ATTACHMENT 2

HCD REGIONAL HOUSING NEED DETERMINATION (LOW RANGE): SCAG (continued)

4. **Projected Households (HHs):** Calculated by applying (to the 2021 HH population) SCAG's HH formation rates from DOF rates per 2005-2007 American Community Survey (ACS) controlled for the 2010 Census household population. HH formation rates were evaluated for reasonableness in conjunction with ACS HH formation rates for the region provided by DOF and with the vacancy assumptions as described below.
5. **Households at Beginning of Projection Period:** For the first time since inception of RHNA, the baseline number of households at the beginning of the projection period (January 2014) must be projected, as a direct effect of amendment to Section 65588(e)(6), specifying the new projection period to start on either June 30 or December 31 whichever date most closely precedes the end of the current housing element period (June 30, 2014 for SCAG). As such, the January 1, 2014 household number was calculated as an interpolation between the DOF E5 Estimate for 2011 and the projected 2021 number of households.
6. **Household Growth on Tribal Land:** For this RHNA cycle only, an adjustment (-2,810) was made for household growth on tribal land as tribal housing data had not been requested by Department of Finance in its annual survey to local jurisdictions regarding housing unit change. Calculated based on 2000 and 2010 Census and SCAG's Draft 2012 RTP Growth forecast.
7. **Household (HH) Growth:** This figure reflects projected HH growth and need for new units.
8. **Vacancy Allowance:** An allowance (unit increase) is made to facilitate availability and mobility among owner and renter units. Owner/Renter % is based on Census 2010 data. A smaller rate is applied to owner units due to less mobility than for renter households. Information from a variety of authoritative sources supports an acceptable range of 1 to 4% for owner units and 4 to 8% for renter units depending on market conditions.
9. **Replacement Allowance:** Rate (0.5%) reflects housing losses that localities annually reported to DOF each January for years 2000-2010, or 0.5%, whichever is higher.
10. **Adjustment for Absorption of Existing Excess Vacant Units:** For this RHNA cycle only (due to extraordinary uncertainty regarding conditions impacting the economy and housing market not expected to similarly impact future RHNA cycles), a new 1-time adjustment was made to account for unprecedented high vacancies in existing stock, due to unusual conditions including high foreclosures and recession uncertainties. A slow absorption rate of 10% of existing excess vacant units is assumed to occur in shrinking current excess vacant units before the start of 2014 RHNA projection period resulting in applying a 90% adjustment to account for units not absorbed that decreases new housing need by -75,390 units. Existing housing stock consists of two components: (1) housing units for sale and rent in existing housing stock that are above the housing units required to maintain the healthy market condition, calculated as the number of units in housing stock (for sale+for rent+sold, not occupied+rented, not occupied + occupied units), (2) housing units in the "vacant units others" category of existing housing stock above the simple average of 1.28% calculated based on Census data from 1980 to 2010. To evaluate the reasonableness of vacancy adjustments proposed by SCAG to account for the unprecedented economic downturn, the Department used 2010 Census Demographic profile data (DP-1) and desirable "normal" vacancy rates by tenure, in conjunction with the region's household growth and proposed household formation rates. The proposed vacancy adjustment is limited to not exceed the differential between the 2010 Census vacant units and the healthy market vacant units rate associated with the region's annual household growth. As the adjustment was below the differential, the vacancy adjustment was applied in calculating the low RHNA range.

RHNA Projection Period January 1, 2014 to October 1, 2021: Per SB 375, the start of the *projection* period (in effect January 1, 2014) was determined pursuant to GC 65588(e)(6), which requires the new projection period to start on June 30 or December 31 whichever date most closely precedes the end of the current housing element period, which for SCAG region is June 30, 2014. The end of the projection period was determined pursuant to GC 65588(e)(5) to be the end of the housing element planning period. *Note: For projection purposes the end of the projection period is rounded to the nearest start/end of the month.*

Housing Element Planning Period October 1, 2013 to October 1, 2021: Per SB 375, the start of the *planning* period was determined pursuant to GC 65588(e)(5), 18 months from the estimated adoption date of the SCAG's Regional Transportation Plan per SCAG's notice to the Department (April 5, 2012) with the date rounded to the nearest start/end of month for projection purposes. The end of the planning period was calculated pursuant to GC 65588(e)(3)(A), 18 months after the adoption of the second RTP, provided that it is not later than eight years from the adoption of the previous housing element. If the actual RTP adoption date differs from the estimated date, the RHNA determination and the projection period will not change, however the housing element due date, and implicitly, the planning period would change.

ATTACHMENT 3

HCD REGIONAL HOUSING NEED DETERMINATION (HIGH RANGE): SCAG

HCD Determined Population, Households, & New Housing Need: January 1, 2014-October 1, 2021 (7.75 years)				
1	Population: October 1, 2021 (SCAG Projection)			19,730,980
2	<i>less: Group Quarters Population (SCAG's estimate)</i>			-347,750
3	Household (HH) Population			19,383,230
	Household Formation Groups	HH Population	HH Formation or Headship Rate (ACS)	Households
	Age Groups (DOF)	19,383,230		6,487,790
	Under 15	4,103,915	-	-
	15 - 24 years	2,625,930	7.42%	194,964
	25 - 34 years	2,825,093	37.48%	1,058,923
	35 - 44 years	2,494,520	49.52%	1,235,224
	45 - 54 years	2,380,969	52.74%	1,255,834
	55 - 64 years	2,236,911	54.03%	1,208,550
	65 and older	2,715,892	56.49%	1,534,295
4	Projected Households			6,487,790
5	<i>less: Households at Beginning of Projection Period (January 1, 2014, interpolated)</i>			-6,036,970
6	<i>less: Household Growth on Tribal Lands</i>			-2,810
7	Household Growth: 7.75 Year Projection Period (New Housing Unit Need)			448,010
8	Vacancy Allowance	Owner	Renter	Total
	Tenure Percentage	54.39%	45.61%	
	HH Growth (New Unit Need)	243,673	204,337	448,010
	Vacancy Rate (SCAG)	1.50%	4.50%	
	Vacancy Allowance	3,655	9,195	12,850
9	Replacement Allowance (minimum)	0.50%		460,860
10	<i>less: Adjustment for Absorption of Existing Excess Vacant Units</i>			
	Estimate 70% Absorbed, 30% Not Absorbed by 2014	Effective Vacant Units	Healthy Market Units	Differential
	Derived (2010 Census, HH Growth, & Vacancy Rate)	(252,023)	175,240	-76,783
	Total 2011 Housing Stock	6,348,741		
	Existing Vacant Unit (Others) Adjustment	1.39%	1.28%	
	Total Adjusted Existing Vacant Units (Others)	(88,247)	81,264	-6,984
	Estimated Units (Others) Not Absorbed by 2014	30%		-83,766
				-25,130
	FINAL REGIONAL HOUSING NEED DETERMINATION (High Range of New Housing Unit Need)			438,030

Explanation and Data Sources

- Population:** Pursuant to Government Code Section 65584.01(b), SCAG's 2021 population projection was compared to the 2021 population derived from Department of Finance (DOF) 2011 Interim Projections P3 for 2020 and DOF's E5 estimate for 2011. Based on SCAG's population projection being within 3% of the DOF Population Interim projections and consultation with SCAG, SCAG's population projection was used in determining housing need for the region. As such, this number reflects SCAG's October 2021 population projection.
- Group Quarter Population:** Figure is SCAG's estimate of persons residing in group home / institution / military / dormitory quarters that is 1.76% of total population (DOF estimate for 2010 was 1.71%) in which proportion is maintained constant throughout the projection period. As this population doesn't constitute a "household" population generating demand for a housing unit, the group quarter population is excluded from the calculation of the household population and is not included in housing need.
- Household (HH) Population:** The portion of population projected to reside in housing units after subtracting the group quarter population from total projected population.

ATTACHMENT 3

HCD REGIONAL HOUSING NEED DETERMINATION (HIGH RANGE): SCAG (continued)

4. **Projected 2021 Households (HHs):** Projected HHs are derived by applying (to 2021 HH population) the regional 2005-2009 American Community Survey (ACS) household formation rates as provided by DOF controlled for the 2010 household population. HH formation or headship rates reflect the propensity of different population groups (age, racial and ethnic) to form households.
5. **Households at Beginning of Projection Period:** For the first time since inception of RHNA, the baseline number of households at the beginning of the projection period (January 2014) must be projected, as a direct effect of amendment to Section 65588(e)(6) specifying the new projection period to start on either June 30 or December 31 whichever date most closely precedes the end of the current housing element period (June 30, 2014 for SCAG). As such, the January 1, 2014 household number was calculated as an interpolation between the DOF E5 Estimate for 2011 and the projected 2021 number of households.
6. **Household Growth on Tribal Land:** For this RHNA cycle only, an adjustment (-2,810) was made for household growth on tribal land as tribal housing data had not been requested by Department of Finance in its annual survey to local jurisdictions regarding housing unit change. Calculated based on 2000 and 2010 Census and SCAG's Draft 2012 RTP Growth Forecast.
7. **Household (HH) Growth:** This figure reflects projected HH growth and need for new units.
8. **Vacancy Allowance:** An allowance (unit increase) is made to facilitate availability and mobility among owner and renter units. Owner/Renter % is based on Census 2010 data. A smaller rate is applied to owner units due to less frequent mobility than for renter households. Information from a variety of authoritative sources supports an acceptable range of 1 to 4% for owner units and 4 to 8% for renter units depending on market conditions.
9. **Replacement Allowance:** Rate (0.5%) reflects the housing losses that localities annually reported to DOF each January for years 2000-2010, or 0.5%, whichever is higher.
10. **Adjustment for Absorption of Existing Excess Vacant Units:** For this RHNA cycle only (due to extraordinary uncertainty regarding conditions impacting the economy and housing market not expected to similarly impact future RHNA cycles), a new 1-time adjustment was made to account for unprecedented high vacancies in existing stock due to unusual conditions including high foreclosures and recession uncertainties. A fast absorption rate of 70% of existing excess vacant units is assumed to occur in shrinking current excess vacant units before start of 2014 RHNA projection period resulting in applying a 30% adjustment to account for units not absorbed that decreases new housing need by -25,130 units. Existing housing stock consists of two components: (1) housing units for sale and rent in existing housing stock that are above the housing units required to maintain the healthy market condition, calculated as the number of units in housing stock (for sale+for rent+sold, not occupied+rented, not occupied + occupied units), (2) housing units in the "vacant units others" category of existing housing stock above the simple average of 1.28% calculated based on Census data from 1980 to 2010. To evaluate the reasonableness of vacancy adjustments proposed by SCAG to account for the unprecedented economic downturn, the Department used 2010 Census Demographic profile data (DP-1) and desirable "normal" vacancy rates by tenure, in conjunction with the region's household growth and proposed household formation rates. The proposed vacancy adjustment is limited to not exceed the differential between the 2010 Census vacant units and the healthy market vacant units rate associated with the region's annual household growth. As the adjustment was below the differential, the adjustment was applied in calculating the high RHNA range.

RHNA Projection Period January 1, 2014 to October 1, 2021: Per SB 375, the start of the *projection* period (in effect January 1, 2014) was determined pursuant to GC 65588(e)(6), which requires the new projection period to start on June 30 or December 31 that most closely precedes the end of the current housing element period, which for SCAG region is June 30, 2014. The end of the projection period was determined pursuant to GC 65588(e)(5) to be the end of the housing element planning period. *Note: For projection purposes the end of the projection period is rounded to the nearest start/end of the month.*

Housing Element Planning Period October 1, 2013 to October 1, 2021: Per SB 375, the start of the *planning* period was determined pursuant to GC 65588(e)(5), 18 months from the estimated adoption date of the SCAG's Regional Transportation Plan per SCAG's notice to the Department (April 5, 2012) with the date rounded to the nearest start/end of month for projection purposes. The end of the planning period was calculated pursuant to GC 65588(e)(3)(A), 18 months after the adoption of the second RTP, provided that it is not later than eight years from the adoption of the previous housing element. If the actual RTP adoption date differs from the estimated date, the RHNA determination and the projection period will not change, however the housing element due date, and implicitly, the planning period would change.