Responsible Hotel Ballot Measure, Economic and Fiscal Impact Analysis

February 2024

Beacon Economics

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Executive Summary

The following report analyzes the economic and fiscal effects of the Responsible Hotel Ballot Measure (RHBM) that had been proposed for the City of Los Angeles. The report provides an economic analysis of how the ballot measure would impact homelessness, affordable housing, the hotel and tourism industries, and City tax revenues.

There are two key components of the RHBM. First, it would provide unhoused individuals vouchers to stay the night in hotels, and hotels would be prohibited from refusing. Second, it would require most hotel development projects to obtain a land use permit and replace any demolished housing that results from its construction, with an equivalent amount of affordable housing near the project.

In summary, Beacon finds that both provisions would have an adverse impact on the health and competitiveness of the hotel industry, a negative impact on City tax revenues, and a negative economic impact. Moreover, evidence suggests that both provisions offer sub-optimal approaches to helping the unhoused and increasing affordable housing. Addressing these two issues directly, rather than through the hotel industry, would likely have greater social benefits, without causing harm to the hotel industry.

If the RHBM had been enacted, it would impact neighborhoods and hotel sectors across LA differently, however, in general it would have led to the following causal chain of economic and fiscal events:

- ◊ First, the ballot measure would increase the cost of operating a hotel by increasing the administrative burden, such as submitting daily vacancy reports, and increased financing costs as a result of higher insurance premiums.
- ◊ As a result, many hotels would be forced to raise average daily room rates (ADR) to cover these higher costs. While this amount would vary, Beacon expects it to be roughly 5% on average. Beacon conducted a survey of LA hotels, and found that roughly half of hotels planned to raise ADR if the RHBM is implemented, and 2% said they would lower prices. The rest did not know, or said ADR would stay the same.
- ◊ Higher ADR, coupled with a potential decrease in demand over traveler safety concerns, would lead to a decrease in hotel occupancy rates. Occupancy rates are slowly recovering from the pandemic, heading towards 80% over the next couple years. The RHBM would stifle this recovery, and keep occupancy rates lower, in the mid-70%.
- ◊ Because less hotels would be profitable, less hotels would be developed. This would be compounded by the increased regulatory burden caused by the RHBM's hotel development Land Use rules.
- ◊ Less hotels, and less hotel traffic would lead to a drop in tourism and visitor spending, resulting in **a decrease of $1.8 billion in economic activity** in Los Angeles City that otherwise would have occurred, from March 2024 to June 2028 (our study period). This reduction in economic activity means that the economy would support 14,100 fewer jobs across the tourism and related industries.
- ◊ Consequently, the city would **collect $279M less in taxes** than it would if the RHBM was not enacted. This is detailed in Table 1 below, and primarily due to a loss of tourism and visitor spending.

Table 1: Impact of Responsible Hotel Ballot Measure on City of Los Angeles Tax Revenues March 2024 to June 2028, Cumulative

Tax Type	Baseline Forecast	Policy Forecast	Policy Impact
Transient Occupancy Tax (TOT)	$1.902 B	$1.859 B	- $43 M
City Tourism Assessment Fee	$0.194 B	$0.189 B	- $5 M
Local Sales Tax	$3.846 B	$3.741 B	- $105 M
Local Business Tax	$4.612 B	$4.486 B	- $126 M
Total	$204.044 B	$198.539 B	**- $279 M**

The main focus of this study was to anticipate the economic and fiscal impacts of enacting the RHBM. However, we also consider the question of whether the social benefits of the RHBM outweigh the negative fiscal costs.

The lack of housing in Los Angeles, is absolutely a fundamental problem. It affects families and industries across the City. Sheltering the unhoused population is a worthy and laudable policy goal. Living without housing exposes individuals to traumatic, dangerous experiences daily. Spending public resources to help solve homelessness not only helps unhoused individuals, it also alleviates the adverse externalities caused by homelessness, such as safety concerns, crime, and increases in public spending.

However, Beacon's literature review, qualitative information gathering, and empirical analysis indicate the RHBM policies do not offer cost-effective long-term solutions to housing. For example, regarding the component of the ballot measure that addresses hotel development replacing affordable housing, we find no evidence of this occurring. In examining permit records from the Los Angeles Department of Building and Safety (LADBS) going back to 2013, no cases were found in which a hotel was built on land where a residential building had been demolished. Although there is evidence that some hotels are converted from existing structures, we found no evidence of hotels replacing housing outright. The ballot measure is not correct when it claims "Requiring new hotel developments to replace housing that has been converted or demolished will help the City address the significant shortfall in affordable housing that it faces…"[1]

Thus, this section of the ballot measure would have simply increased the administrative costs of building new hotels by adding unnecessary administrative costs through a Certificate of Occupancy and Linkage Fees, but would not increase the stock of affordable housing.

Regarding the voucher program, Beacon has concerns that its current design does not set it up for success. First, research shows that long-term housing and the certainty it provides is more beneficial for unhoused individuals than short-term. This suggests public funds would be better spent on finding more permanent housing solutions. Second, proponents of the ballot measure point to the Project Roomkey, a voucher program used during the pandemic, as a template for the RHBM. However, Project Roomkey called for voluntary participation from hotels, and more importantly, provided participants with wraparound services, including assistance with finding permanent housing. If emergency shelter is needed for unhoused individuals, Hotels do not typically have the health and safety protocols required.

Ultimately, we find that homeless policy should focus on permanent housing and wraparound service provisions, instead of temporary housing vouchers which would negatively impact the tourism industry and city revenues.

[1] https://clkrep.lacity.org/onlinedocs/2022/22-0822_ord_draft_7-21-22.pdf

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1. Introduction

Beacon Economics has been tasked with analyzing the economic and fiscal effects of the Responsible Hotel Ballot Measure (RHBM). UNITE HERE Local 11, a labor union advocating for workers in hotels, restaurants, airports, sports arenas, and convention centers, proposed the ballot measure. The ballot measure initiative petition process allows supporters to submit a petition requesting the adoption of an ordinance by the City Council. UNITE HERE Local 11 amassed sufficient signatures, compelling the Council to hold a vote on the matter. The Council could have either voted to adopt the proposed initiative ballot measure or to submit the ballot measure for a public vote in the March 5, 2024, primary election. In August 2022, the Council voted 12-0 to put the ballot measure on the March ballot, which would require a majority vote to pass.

In November 2023, the initiative sponsors agreed to pull the ballot measure with council adoption of an ordinance with similar provisions to the ballot measure. The following analysis does not address changes made in the final ordinance.

The ballot measure had four components, summarized here:

1. The proposed ballot measure would require a hotel development project of 100 or more rooms to obtain a land use permit based on factors including the market demand for the project, and the project's impact on affordable housing, transit, social services, employees, and local businesses.
2. A hotel development project of 15 or more rooms would be required to replace demolished or converted housing with an equivalent amount of affordable housing at or near the project site.
3. The ballot measure would create a program to place unhoused individuals in vacant hotel rooms, subject to funding availability. A hotel would be prohibited from refusing lodgings to program participants. The ballot measure would require each hotel to communicate daily, at 2:00 PM, with the City of Los Angeles Housing Department to report the number of vacant rooms. The Department would then assign unhoused people to that hotel. The unhoused people would pay for rooms using a City voucher, and the City would pay a "fair market" or other negotiated rate to the hotel. The ballot measure would make it unlawful for hotels to refuse homeless guests using the voucher for lodging.
4. The ballot measure would establish special police permit requirements for hotels. A hotel would need to meet specified standards, including compliance with wage theft and employment laws, to obtain a permit and avoid disciplinary action.

This study assesses the ballot measure's potential economic and revenue impacts had it gone on the ballot and received approval from voters. Section 2 provides background information on issues in the City of Los Angeles related to hotel development, the housing market, and homelessness which will provide context for the different portions of the Los Angeles

Responsible Hotel Ballot Measure. Section 3 reviews the economic literature on the hotel market, land use regulations, and homeless policies. Section 4 analyzes the current state of the lodging industry in Los Angeles and other nearby cities, and examines how the RHBM would impact hotel and short-term rental markets. Section 5 presents a forecast of how the RHBM would impact tax revenues in the City of Los Angeles. Section 6 delves into the Los Angeles housing market and examines the connection between housing issues in Los Angeles and homelessness. Policy recommendations for effectively addressing housing affordability and homelessness are provided in this section. Section 7 provides concluding remarks on the RHBM and its potential impact on Los Angeles.

2. Background

To fully understand the impact of the Responsible Housing Ballot Measure, it is important to appreciate current housing issues affecting Los Angeles. The City's scarcity of housing has led to escalating rents and an increasing number of individuals and families struggling to secure stable shelter.[2] This situation has been exacerbated by a lack of sufficient housing construction to meet the growing demand. The housing crisis in Los Angeles has had substantial socioeconomic repercussions. The shortage of affordable housing disproportionately affects vulnerable people, driving homelessness up and placing a strain on social services.

To impact unhoused individuals directly, the ballot measure seeks to use vacant rooms in current and future hotels as temporary shelter for the unhoused, and ensure hotels do not replace the current housing stock. One important question that this report asks is why hotels are included in a policy that is intended to focus on homelessness and affordable housing. As you will read below, the research shows that the hotel industry is not directly linked to these issues.

[2] https://calmatters.org/commentary/2022/03/los-angeles-is-a-microcosm-of-californias-housing-crisis/

Recent Hotel Development in Los Angeles

Since 2000, hotel development in Los Angeles has experienced notable ups and downs, driven by a combination of economic, urban planning, and tourism factors. At times, the City has witnessed a surge in hotel construction, responding to increased demand from both business and leisure travelers. This has been viewed negatively by proponents of the RHBM since they believe hotel development competes for land use with housing. However, this view ignores the fact that hotel development is necessary for an expanding tourism industry, an integral part of the Los Angeles economy for many decades and an asset to housing development.

The development of LA Live, which contributed significantly to the revitalization of Downtown Los Angeles, is a concrete example of how hotel development contributes to economic growth in surrounding neighborhoods and complements housing development.

LA Live is a sports and entertainment center built in 2007. At the time, the City did not have enough high-end hotels, causing a scramble among city officials to get hotel development underway. These officials understood that hotel development was crucial for the area's economic development, so tax breaks and subvention agreements for various projects were provided.[3]

The development of hotels such as the JW Mariott and Ritz-Carlton helped to further revitalize the neighborhood. This made residential, retail, and office development more enticing as a result, and helped spur housing investment.[4] This case demonstrates how hotels can complement other types of local development, including residential development.

Are Hotels Replacing Housing?

The second part of the ballot measure relates to hotel development and its effect on residential housing. Supporters of the ballot measure claim that hotel rooms are displacing residential units. It is crucial to determine whether this claim is true, and also if the RHBM would have any impact on residential housing units.

To understand the extent to which hotels replace or convert existing housing, Beacon Economics examined permit records from the Los Angeles Department of Building and Safety (LADBS) going back to 2013. **Zero evidence of residential housing being converted into hotels was found. Furthermore, no cases were found in which a hotel was built on land where a residential building had been demolished.** To measure the extent to which housing is demolished, we segmented demolitions in the LADBS data and matched the address of the demolition to hotels that were permitted over the last ten years. Although there is evidence that some hotels are converted from existing structures, we found no evidence of hotels replacing housing outright.

[3] https://controller.lacity.gov/audits/incentive-agreements-tax-abatements-subvention-agreements-cf-15-0850-s2

[4] https://www.hotelmanagement.net/development/how-la-live-bringing-new-life-to-los-angeles

UNITE HERE 11 claims that there is "One downtown development that would turn 57 apartments into 172 hotel rooms and another project that converted 97 apartments into hotel rooms."[5] No further details were given about these projects, but one of them seems to be an effort to convert residential units at the Continental Building at 408 S. Spring Street into a hotel.[6] However, there is no evidence that that project ever came to fruition. In fact, there still seem to be available apartments for rent at that location.[7]

There has been public discussion over the conversion of *residential hotels* into *transient hotels*, but this is not the same as typical residential units converting into hotels. These conversions involve repurposing hotel buildings designated for long-term residential occupancy into short-term lodgings for tourists and travelers. While this practice can generate significant revenue for property owners and contribute to the City's tourism industry, it comes at the expense of affordable housing for residents. Moreover, in Los Angeles, the conversion of residential hotels into transient hotels is illegal for those hotels classified as residential in a ballot measure passed in 2008[8].

As the demand for short-term accommodations soars, the conversion of residential hotels into transient hotels contributes to the City's housing crisis. It's a trend that could lead to the displacement of long-term residents who lack viable alternatives, often pushing them into homelessness. However, it is important to note that these are isolated incidents and there is already a ballot measure in place designed to address this issue. New hotel developments seldom replace existing housing units, meaning the RHBM's replacement housing component is unlikely to have much impact.

Homelessness and Voucher Programs

The third part of the RHBM creates a voucher program that would mandate hotels to report their number of vacant rooms at 2:00 PM every day and to welcome unhoused individuals who are given a voucher by the City. This part of the ballot measure is related to the increasing unsheltered homeless count in Los Angeles. There is a history of hotel vouchers being used to assist the unhoused, often through partnerships with organizations like churches and nonprofits.

Beacon Economics reached out to the Los Angeles Homeless Services Authority (LAHSA) multiple times to obtain any information they may have on the details of implementing the proposed hotel voucher program. It was presumed they would be the organization to oversee the program. Unfortunately, Beacon was not able to discuss the matter with LAHSA, so we did not

[5] https://www.unitehere11.org/la-city-council-president-krekorian-directs-city-staff-to-draft-historic--to-prioritize-housing-over-luxury-hotel-development/
[6] https://la.urbanize.city/post/heres-plan-turn-las-first-high-rise-hotel
[7] https://www.apartments.com/close-to-everything-far-from-the-ordinary-los-angeles-ca/0px5zx0/
, accessed November 10, 2023
[8] https://www.propublica.org/article/how-la-failed-stop-landlords-turning-low-cost-housing-hotels

receive important information about issues such as program costs, the number of participants, if certain hotels would be prioritized over others (lower room rate hotels compared to higher room rate hotels, for example), and other key pieces of information regarding the operationalization of the voucher program.

Through stakeholder interviews with hoteliers, Beacon Economics learned that current voucher programs are starkly different from the program proposed in the RHBM. A major distinction is that most voucher programs provide wraparound services to assist hotels in dealing with unhoused guests. If an unhoused individual requires emergency shelter, partner organizations help that individual secure a voucher and then provide support during their stay. Another major difference is that current voucher programs are voluntary. The RHBM program would require all city hotels to participate.

Project Roomkey was a voucher program used during the pandemic to provide non-congregate shelter to unhoused individuals and help mitigate the spread of COVID-19.[9] This project was deemed a great success due to the many lives it saved. With this in mind, supporters of the RHBM may believe that the proposed RHBM voucher program would have a similar effect. But it is important to point out some key differences. First, Project Roomkey called for voluntary participation from hotels. Second, individuals received wraparound services including assistance with finding permanent housing.[10] The RHBM would simply provide a nightly voucher, with no ongoing support.

Besides alluding to Project Roomkey as an inspiration for the voucher program,[11] proponents of the RHBM do not elaborate on whether there is a need for more emergency housing. And it is worth noting that a one-night stay at a hotel is unlikely to be sufficient for people in dire need of emergency shelter. Individuals requiring emergency shelter are often in vulnerable situations and need special care.[12] Hotels are not equipped to serve as emergency shelters in most cases.

Press releases and statements made by UNITE HERE 11 representatives suggest that this ballot measure is mainly about housing and admit that the voucher program would do little to solve the homelessness crisis[13]. Later in this report, Beacon Economics examines best practices for homelessness reduction and scrutinizes whether the voucher program would help.

Police Permits

[9] https://www.cdss.ca.gov/inforesources/cdss-programs/housing-programs/project-roomkey
[10] https://www.gov.ca.gov/2020/04/03/at-newly-converted-motel-governor-newsom-launches-project-roomkey-a-first-in-the-nation-initiative-to-secure-hotel-motel-rooms-to-protect-homeless-individuals-from-covid-19/
[11] https://www.cnn.com/2022/08/24/us/los-angeles-homeless-hotel-rooms-ballot measure/index.html
[12] https://homeless.lacounty.gov/interim-housing/
[13] https://www.cnn.com/2022/08/24/us/los-angeles-homeless-hotel-rooms-ballot measure/index.html

The final portion of the RHBM would have required that hotels obtain police permits to continue operations. Certain businesses already require police permits: arcades, dance halls, bowling alleys, and so on, places, in short, that traditionally require more police awareness.

The ballot measure itself cites wage theft as the reason to have police permits. If a hotel were to violate the rules outlined in the permit, then it could be stripped of the permit and forced to cease operations. Although this may seem like a reasonable requirement, it should be noted that there are already strict laws against wage theft[14].

Overall, the merit of requiring police permits for hotels is debatable. Permits have not been required in the past presumably because hotels tend not to require a regular police presence. It is worth examining, then, what kind of costs this would impose on hotel operators.

According to responses received during stakeholder interviews, there are concerns that complying with this requirement would significantly impact administrative and operating costs and increase investment risk. Unlike other businesses requiring a police permit, hoteliers typically own their businesses. This would have likely impacted hotel development because investors would be wary of making financial commitments to a hotel that might lose its permit before showing a profit.

3. Literature Review

The proposed regulations and policies of the ballot measure are unique. However, there are comparable policies worth discussing. For instance, studies of tax policies such as transient occupancy tax provide vital information on how hoteliers and guests respond to changes in room rates. Beacon Economics expects that the RHBM would have impacted the supply and demand of hotels, and subsequently room rates, throughout the City. These studies provide insight into how travelers and hoteliers might respond to these changes.

Price Elasticity of Demand

Overall, research on tax incidence is mixed, but does provide some interesting results that are relevant to the RHBM's potential repercussions. Hiemstra and Ismail (1992,2001) study transient occupancy taxes and find that they can significantly affect hotel demand.

Hiemstra and Ismail (1993) delve into the diversity of hotels based on various sizes and price ranges, revealing that smaller hotels (150 rooms or fewer) and high-end hotels exhibit significantly higher price elasticity of demand compared to others. This means that the demand for smaller hotels and expensive hotels is highly susceptible to price changes.

[14] https://www.dir.ca.gov/dlse/governor_signs_wage_theft_protection_act_of_2011.html

Although there are several uncertainties around how the program would have been managed,[15] Beacon suspects that vouchers would mostly be used at lower-priced hotels since the program would be subject to funding availability. The result from Hiemstra and Ismail (1993) suggests that the effect on demand might be smaller than expected since lower-priced hotels tend to have lower price elasticities across the different class sizes.

Bonham and Gangnes (1996) used Hawaii's introduction of a 5% hotel room tax in 1987 to estimate how the subsequent increase in room rates affects hotel revenues. The authors find no significant impact from the tax on hotel room demand. The takeaway from this is that the price increase is a negligible portion of the total expense incurred by taking a vacation in Hawaii. However, a major factor in this result is that other competing markets were also implementing similar taxes. This is important since the proposed ballot measure is unique and so might have a significant impact on Los Angeles' competitive edge as a travel and convention destination. Another important insight from this paper is that even if demand is inelastic (i.e., consumers are not very responsive to price changes), guests may substitute higher room expenditures for other expenditures that would benefit the tourism industry. For instance, if lodging expenses increase in Los Angeles, visitors to the City are likely to spend less on other goods and services such as restaurants.

A more recent study examines the effects of a room tax in the State of Georgia. Collins and Stephenson (2018) find that the tax increased room rates, causing a decrease in hotel occupancy. For every 1% increase in room rates, demand dropped 0.7%. This is known as inelastic demand because the demand decreases slightly less than the price increases.

Sharma et al. (2022) shed light on the disparate effects that policies can have on hoteliers. The authors find that lodging taxes have a more negative impact on hotel performance for group bookings (rooms sold to groups involving 10 or more rooms) than for transient bookings (rooms sold to individuals and groups of fewer than 10 rooms).[16] This suggests that demand for group bookings is more responsive compared to individual bookings. If the RHBM leads hoteliers to increase room rates, then group bookings are more likely to drop than individual bookings.

In sum, the literature on tax incidence for the hotel market provides a lot of interesting insights. We have learned that generally individual lodgers tend to be price inelastic and that the impact of taxes on demand depends on the hotel and the booking type. Next, attention turns to research on how land use regulations can impact the hotel industry.

[15] Beacon Economics reached out to LAHSA for an interview to gather more information about how voucher programs are administered, but the request was not received with any response.

[16] As measured by revenue per available room (RevPAR)

Hotel Land Use Regulations

One policy with land use regulations similar to the proposed ballot measure is a plan in New York City that requires hotel developers to obtain special permits.[17] This plan has some similarities to the first part of the RHBM. Hotel developers in New York City must now apply for special permits to build a hotel, submitting to an extensive review procedure, with approval requiring a city council vote. This has drastically restricted hotel development in New York. One year after the plan was approved, zero building permits had been sought or issued for hotels subject to the permit requirement.[18] Supporters of the law maintain that the hotel market was oversaturated since tourism had fallen off. However, according to an analysis conducted by the City (shared with the *New York Times*, but not publicly released), tourism is expected to rebound by 2025 and this policy will cause a shortage of more than 5,000 rooms.[19] The analysis also found that this shortage of hotel rooms could cost New York up to $7 billion in lost tax revenue.

One of the major components of the proposed ballot measure involves increased land use restrictions that would significantly change the nature of hotel development. Suzuki (2013) examines how land use regulations affect firm entry and costs in the hotel industry. Using microdata on mid-sized chain hotels in Texas, the author finds that land use regulations significantly increase hoteliers' costs. Operating costs increase by 8%, and entry costs by 6%, when land use regulations become more stringent. These costs raise room rates for guests, according to Suzuki (2013).

Given the adverse effects these policies have on the hotel industry, it is important to determine how they affect the transition of unhoused individuals into stable housing. To determine this, the focus shifts toward the literature concerning homelessness assistance and reduction.

Policies that Address Homelessness

One of the most lauded policies for addressing homelessness is Housing First. This policy underpins the Biden administration's latest plan to prevent and end homelessness.[20] Unlike traditional methods that require individuals to meet certain criteria or address underlying issues before obtaining housing, Housing First prioritizes immediate access to stable housing. This not only provides a basic human need but also serves as a stable platform from which individuals can address other challenges they may face, such as mental illness, substance abuse, or unemployment. By providing a secure and reliable living situation, Housing First creates a strong foundation for individuals to rebuild their lives and regain a sense of stability and dignity. Additionally, Tsai (2020) reports that numerous studies have demonstrated that this approach

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[17] https://www.nyc.gov/site/planning/plans/citywide-hotel/citywide-hotel-overview.page
[18] https://therealdeal.com/new-york/2022/12/09/how-special-are-these-permits-no-one-got-any/
[19] https://www.nytimes.com/2021/04/27/nyregion/hotels-tourism-new-york-covid.html
[20] https://www.whitehouse.gov/briefing-room/statements-releases/2022/12/19/fact-sheet-biden-harris-administration-announces-plan-to-prevent-and-end-homelessness/

leads to substantial reductions in homelessness rates, as well as a significant decrease in emergency service use and associated costs.

In tandem with the Housing First approach, wraparound services play a pivotal role in reducing homelessness. These services encompass a range of support systems, including mental health counseling, substance abuse treatment, job training, and access to health care. By providing comprehensive, personalized assistance, wraparound services address the underlying issues that contribute to homelessness. This holistic approach not only increases the odds of an individual achieving housing stability but also empowers them to build a sustainable future. Research consistently affirms the positive impact of wraparound services. Therefore, integrating wraparound services into Housing First creates a powerful and comprehensive strategy for preventing and reducing homelessness.

However, some question the efficacy of Housing First policies. Calder and Gygi (2023) recently published evidence that Housing First has done little to ease homelessness in Utah and California. In California, homeless programs are required to follow Housing First policies to receive funding. This has been expensive, and yet homelessness does not appear to have lessened. Still, the authors admit that it is possible that the Housing First policies reduced homeless counts over a counterfactual in which the policies did not get implemented. In other words, although homelessness has not decreased in Utah and California after the introduction of Housing First policies, it is possible that homelessness would have been even worse in the absence of these policies.

One successful Housing First case study comes from the City of Houston.[21] Most of its success is attributed to an abundant housing supply that expands in response to rising demand in the city. Access to low-cost housing makes Housing First policies more cost-effective, and more likely to succeed, according to the study. **This means that policies that help increase the housing supply should precede Housing First policies.** This will help homeless programs provide housing for unhoused individuals and will also avert homelessness by increasing affordability.

It is noteworthy that the Responsible Hotel Ballot Measure does not help to achieve the goals of Housing First and does not provide wraparound services. Housing First emphasizes the need for *permanent* housing. Providing housing vouchers for a one-night stay will not provide stable housing for unhoused individuals. Moreover, the ballot measure does not stipulate wraparound services for unhoused individuals participating in the voucher program. In short, it is unlikely this ballot measure would help address the homelessness crisis in Los Angeles, but it would have negative ramifications for hoteliers and visitors to Los Angeles.

[21] https://calmatters.org/housing/2023/06/california-houston-homeless-solutions/

Overall, the literature shows that the current design of the RHBM voucher program is not designed accordance with evidence-based best practices for addressing homelessness. Literature does show that the increase in administrative costs would increase room rates, and decrease hotel demand, and that the land use regulations would make it more expensive to develop new hotels. We now take a more specific look at the lodging industry in Los Angeles, and examine if these general findings are still applicable in this context.

4. Lodging Industry Outlook

Los Angeles Lodging Industry Post-Pandemic Recovery

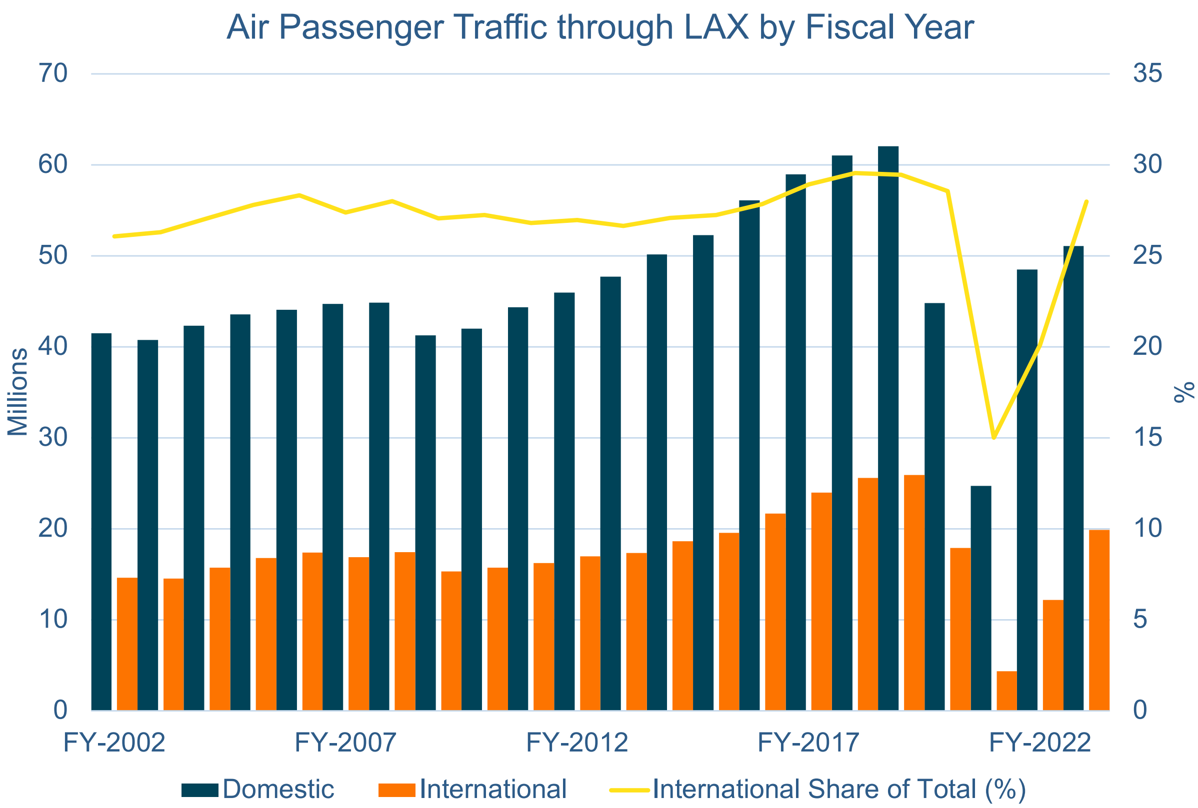
The Los Angeles lodging industry has struggled to recover from the COVID-19 pandemic due to its reliance on tourism and business travel. With lockdowns in place and restrictions on travel, demand plummeted, leaving many Los Angeles hotels empty.

Even as the pandemic waned, business travel took longer to recover compared to leisure travel. Companies adopted a cautious approach, delaying non-essential travel and prioritizing the safety of their employees.

Leisure travel to Los Angeles remains below its pre-pandemic levels due to several lingering factors. Firstly, ongoing concerns about public health and safety continue to influence travel decisions. Despite vaccination drives, some travelers remain cautious about potential exposure to the virus, particularly in densely populated areas like Los Angeles.

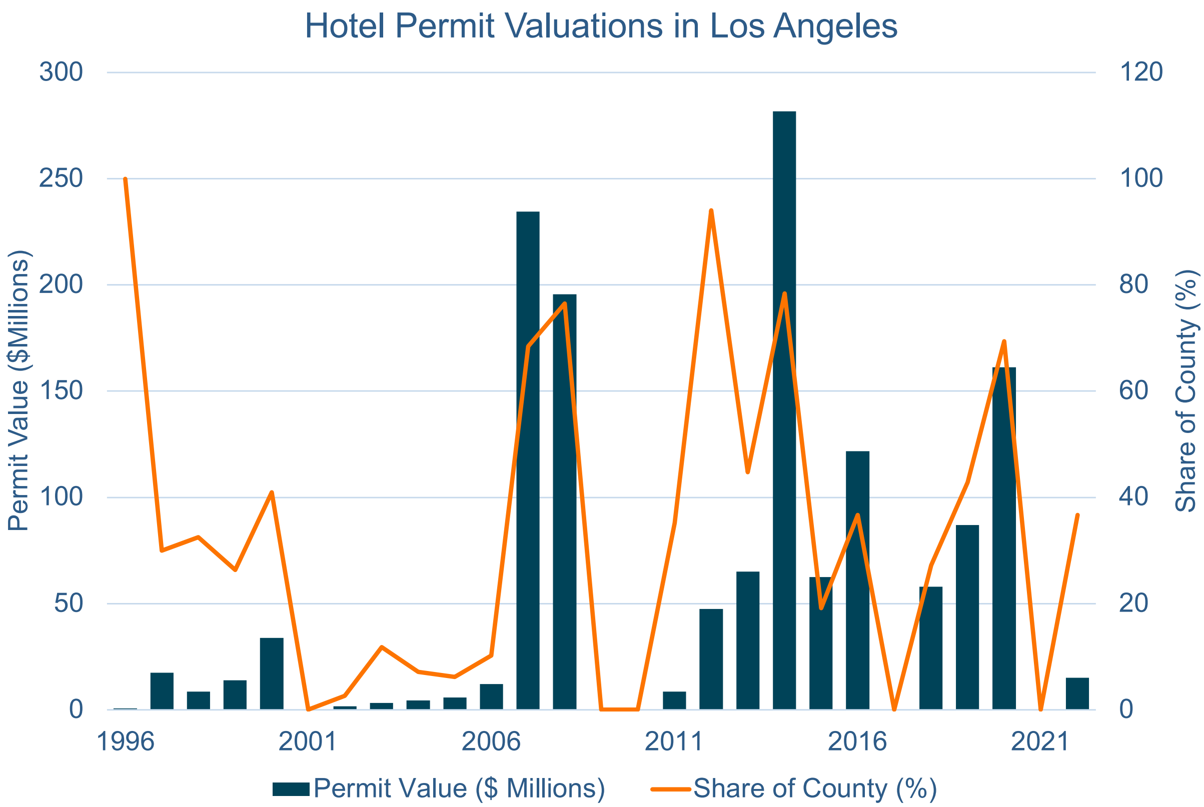
Despite this, Los Angeles is one of the best-performing large urban markets in terms of tourism and business travel in the post-pandemic period.[22] Domestically, Los Angeles is a popular market and is among the top three U.S. destinations for international travelers. International tourism is steadily picking up and is expected to rebound as the pandemic recovery continues. International travelers tend to spend two-and-a-half to three times as much as domestic travelers,[23] so visitor spending will likely receive a boost in the coming years as the pandemic recovery continues around the world.

[22] https://www.costar.com/article/1220721174/strong-but-uneven-recovery-underway-among-hardest-hit-us-urban-hotel-markets
[23] https://www.latimes.com/business/story/2023-05-04/la-fi-tourism-mostly-back-except-biggest-spenders



Source: Los Angeles World Airports (LAWA)

The demand for hotels is expected to pick up in the coming years, but it is apparent that the pandemic was very disruptive for hotel development. According to data from the California Build Industry Association (CIRB), the value of hotel permits greatly decreased following the onset of the pandemic, as illustrated in the figure below.



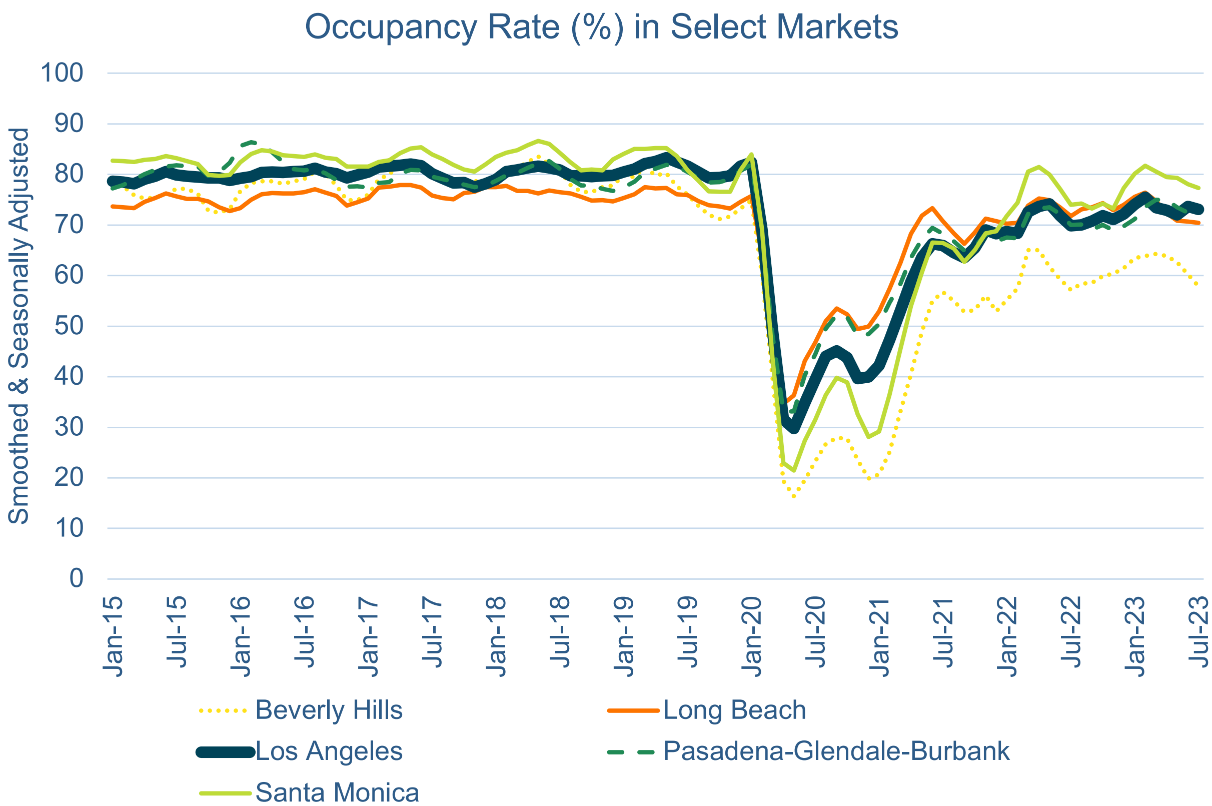
Source: CIRB

More restrictive land use regulations would hamper hotel development, which could cause problems if leisure and business travel continue to increase.

Hotel Trends in Los Angeles and Nearby Cities

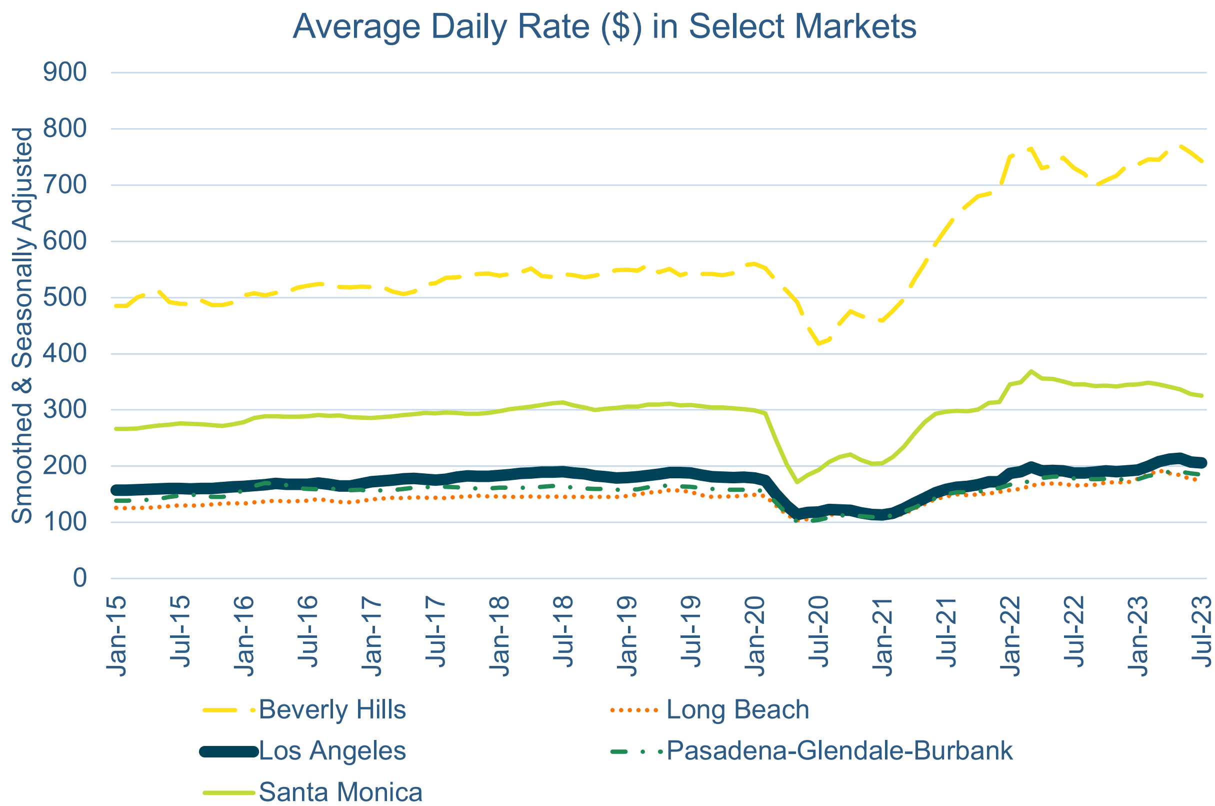
To better understand how the Los Angeles hotel industry is recovering, it is useful to look at some key metrics and compare them to other select markets.[24] Overall, most of the markets are still below their pre-pandemic levels in key metrics. Occupancy rates are far above their low point but have yet to fully recover from the pandemic. While an occupancy rate around 80% was the norm in Los Angeles before the pandemic, that figure now hovers around 70%.

[24] The markets used for comparison are Pasadena-Burbank-Glendale, Beverly Hills, Santa Monica, and Long Beach.



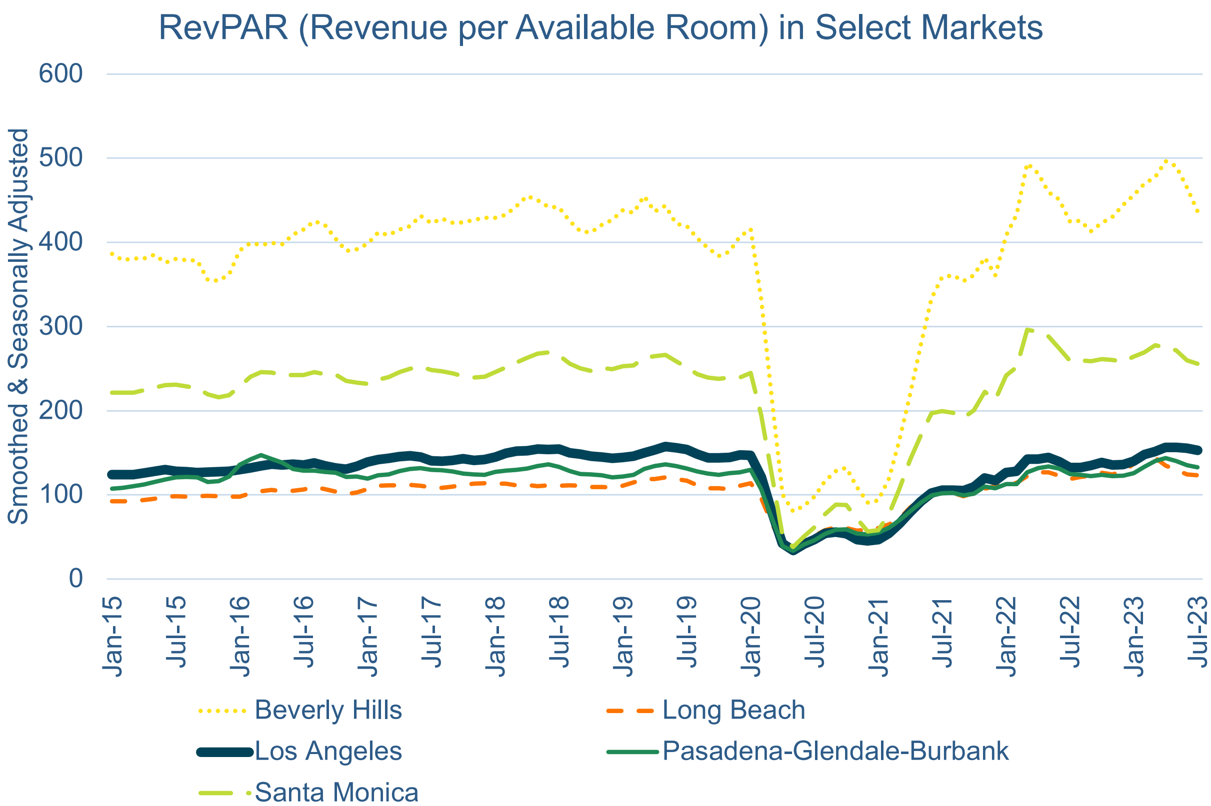
Source: CoStar Group, Los Angeles Tourism

Rates vary from city to city, but Beverly Hills has struggled most to bring occupancy rates back to pre-pandemic levels. This is related to the fact that both Beverly Hills and Santa Monica are charging higher average daily room rates (ADR) than before the pandemic.



Source: CoStar Group, Los Angeles Tourism

Although their occupancy rates are lower, Beverly Hills and Santa Monica have been able to achieve higher revenue per available room (RevPAR) levels than before the pandemic because of their higher ADR. Broadly speaking, Los Angeles hotels have been unable to match this level of success. The Los Angeles area market is characterized by extensive sprawl which lessens its reliance on a central business district. Consequently, competition among neighboring cities is fierce. Long Beach and Pasadena/Glendale/Burbank tend to have an average daily rate (ADR) slightly lower than Los Angeles, meaning changes in Los Angeles ADR could drive tourists to across city borders.



Source: CoStar Group, Los Angeles Tourism

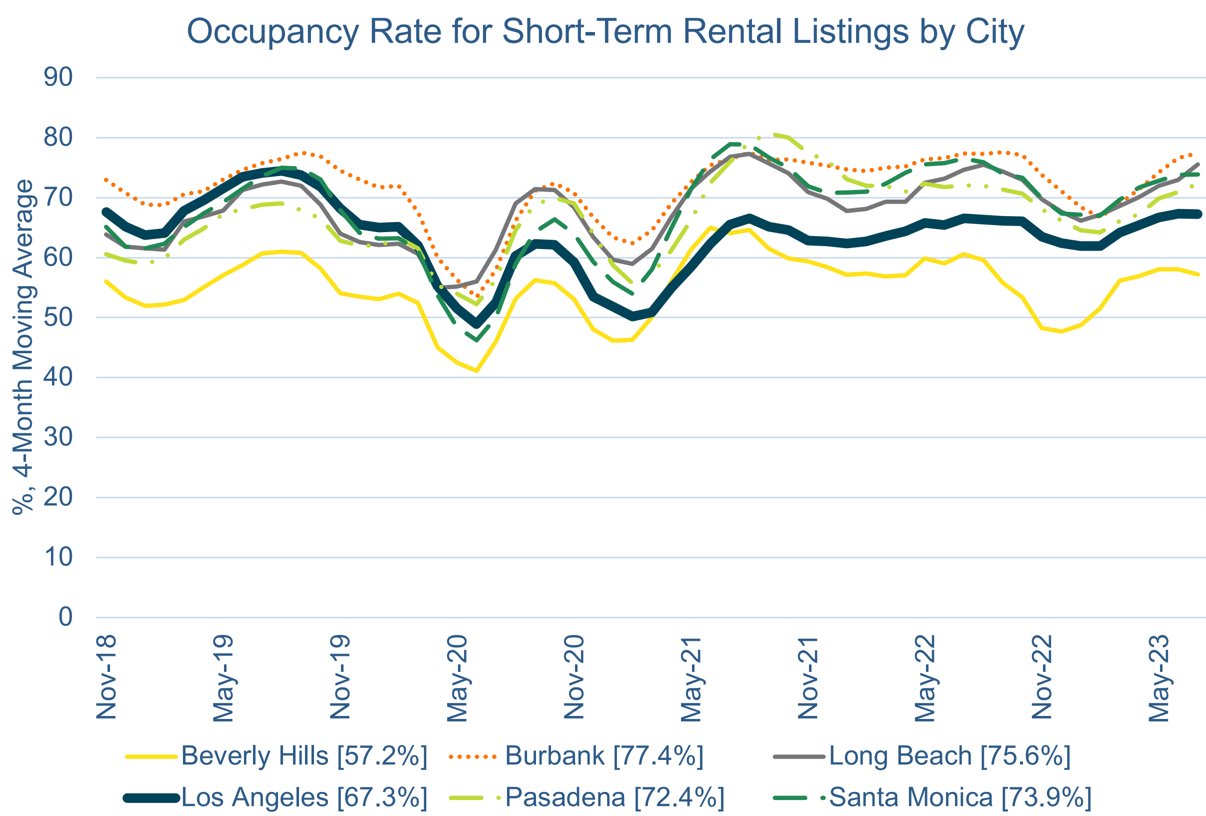
The RevPAR data provides further evidence that the Long Beach and Pasadena/Glendale/Burbank markets remain competitive with Los Angeles City hotels. For most of the five years preceding the pandemic, Los Angeles RevPar was slightly higher than in these two markets. The gap is now smaller due to both a convergence of ADR and occupancy rates in these markets. This is an important consideration since Beacon expects the RHBM to weaken the competitiveness of the Los Angeles hotel market. Based on these trends and assumptions about the effects of the RHBM, Beacon Economics expects some tourists to choose lodging in other markets instead of Los Angeles. Another source of competition for Los Angeles hotels would come from short-term rentals.

Short-Term Rental Competition

Many people believe that short-term rentals have emerged as formidable competition for traditional hotels. The appeal of short-term rentals is self-evident – kitchens, living rooms, greater flexibility, competitive prices, and so on – but they do not completely replace traditional hotels. Instead, they cater to a different set of preferences and a different type of visitor. Yang et al. (2021) provide a meta-analysis of 33 studies focusing on the impact of short-term rentals on the hotel industry. Their findings suggest that the impact is moderate at best, but that low-end hotels bear the brunt of it.

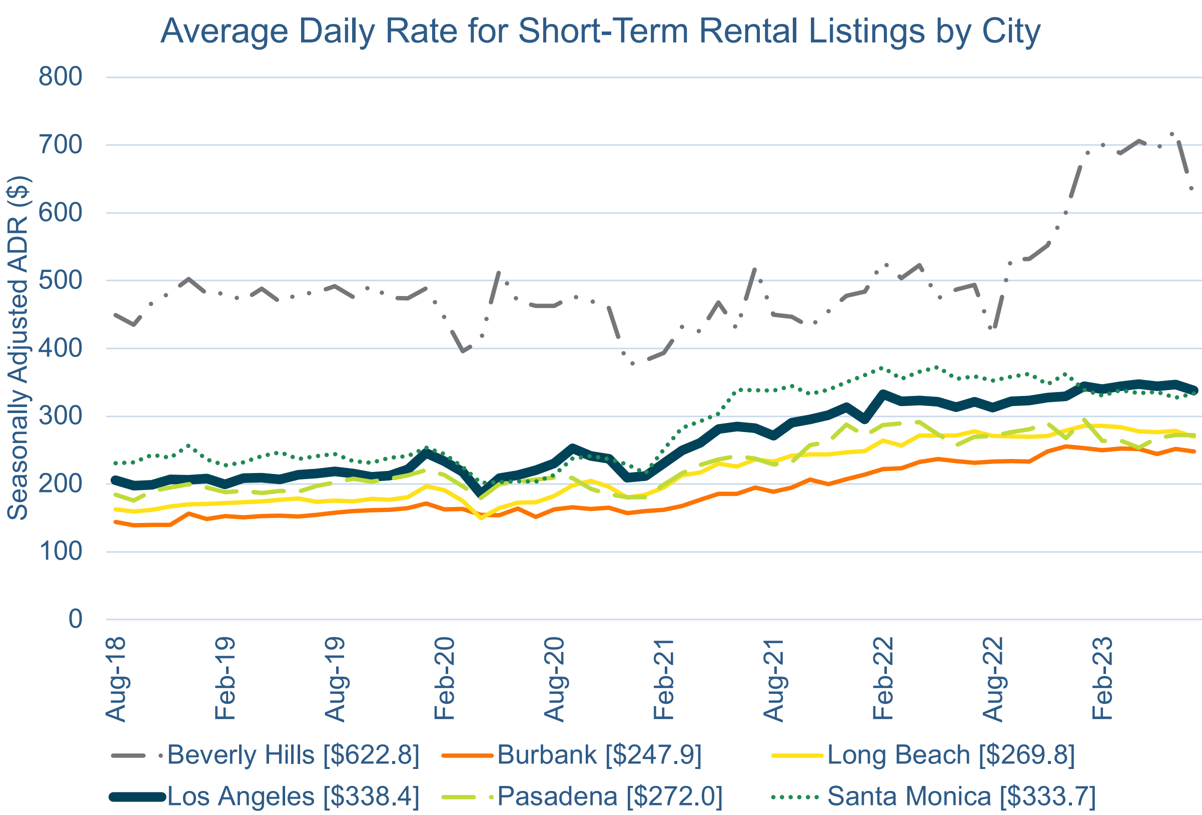
The number of short-term rentals in Los Angeles fell significantly following the Home Sharing Ballot Measure, passed in 2019. This reduced supply should lessen any adverse effects that short-term rentals have on the hotel industry.

However, this may change if the Responsible Hotel Ballot Measure decreases the supply of hotel rooms in Los Angeles. The decrease in short-term rental supply in Los Angeles has led to a nearly 20% increase in ADR from July 2021 to July 2023. The occupancy rate is roughly back to pre-pandemic levels as seen in the graphs below. The higher ADR and decrease in listings would make short-term rentals within Los Angeles less competitive with hotels.

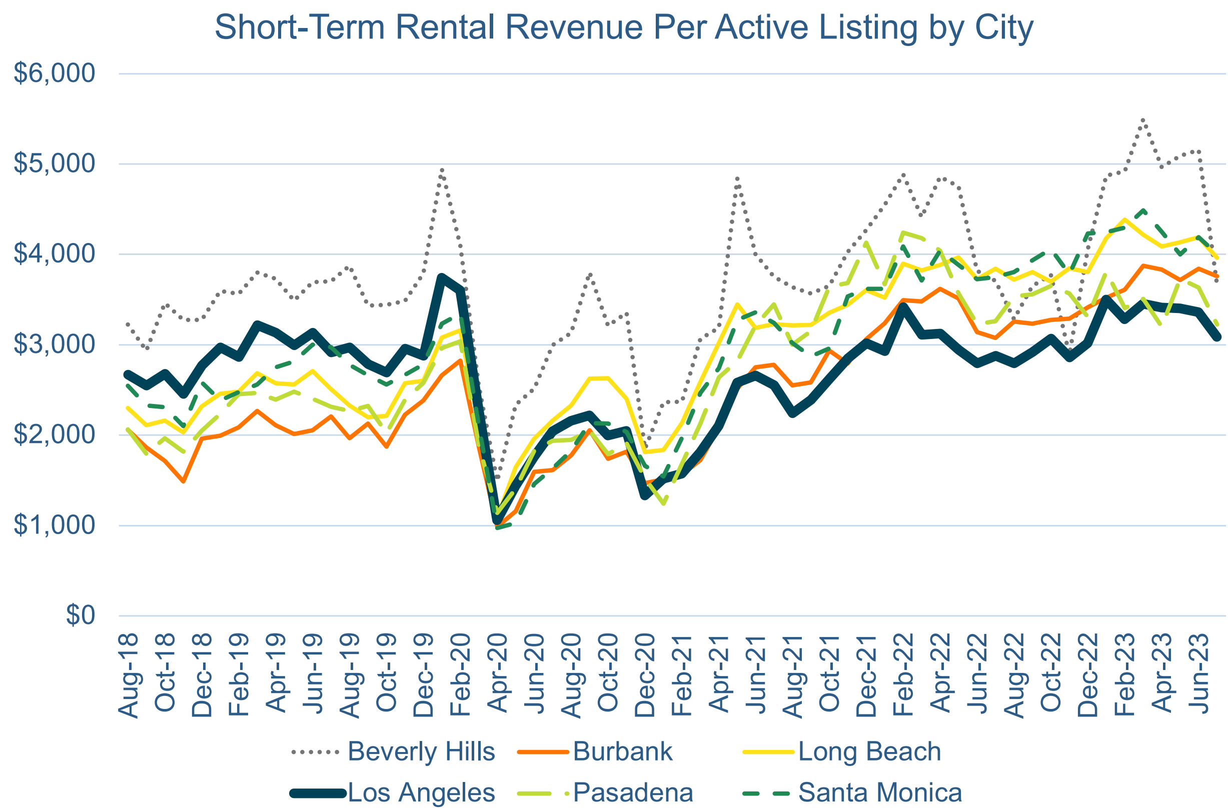


Source: AirDNA

Burbank, Long Beach and Pasadena have the lowest rates, and attract the most price sensitive travelers.



Source: AirDNA



Source: AirDNA

One potential side effect of the proposed Responsible Hotel Ballot Measure, considering the sharply decreased short-term rental supply under the existing Home Sharing Ballot Measure, is that it might increase incentives to illegally list short-term rentals. This would be detrimental to City tax revenue since transient occupancy taxes may not be collected on illegal listings.

Short-Term Rental Noncompliance

Illegal short-term rental listings have become a pressing issue in Los Angeles in recent years. These listings operate outside of established regulatory frameworks, which means they avoid being properly monitored and taxed. According to Wachsmuth (2022), 45% of short-term rental listings in Los Angeles are illegal. This not only raises concerns about safety and security for both guests and neighbors but also exacerbates the City's already challenging housing crisis. Many property owners are converting residential units into short-term rentals, reducing the availability of long-term housing for residents. Efforts to tackle this issue have included stricter enforcement, increased penalties, and the implementation of registration systems to track and regulate short-term rental activity. Balancing the economic benefits of short-term rentals with the need for affordable housing remains a significant challenge for Los Angeles policymakers.

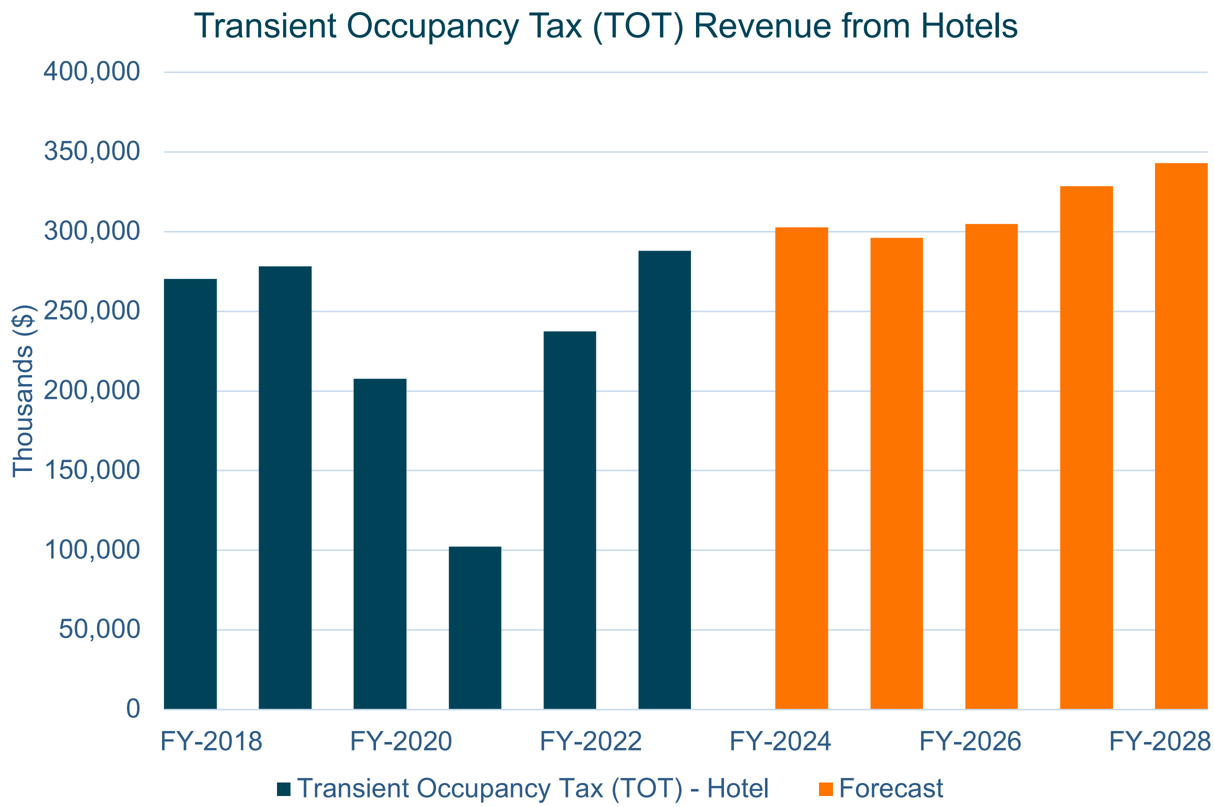
Short-term rentals, particularly in popular tourist destinations like Los Angeles, can yield significantly higher rental income than traditional, long-term leases, and property owners may be enticed by the potential for lucrative returns. Since the Responsible Hotel Ballot Measure is expected to increase the ADR for hotels, some travelers may forego hotel stays for short-term rentals, which are currently in low supply. This would further increase the ADR of short-term rentals which may entice property owners to list illegally. This effect coupled with lenient enforcement of the Home Sharing Ballot Measure – as reported in Wachsmuth (2022) – is likely to increase short-term noncompliance beyond its current level. This would negatively impact the transient occupancy tax revenue for the City since some travelers would be switching from a Los Angeles hotel (and paying tax) to an illegal short-term rental (and not paying tax). Next, we explore the full extent of the economic and fiscal impact that the Responsible Hotel Ballot Measure would have on the City of Los Angeles.

5. Fiscal Baseline Forecast

To analyze the impact of the RHBM on a number of industry and fiscal metrics, we must first forecast the base case scenario for comparison's sake. That is, we model a counterfactual scenario in which the RHBM is not implemented, to enable us to see the difference if the RHBM is implemented.

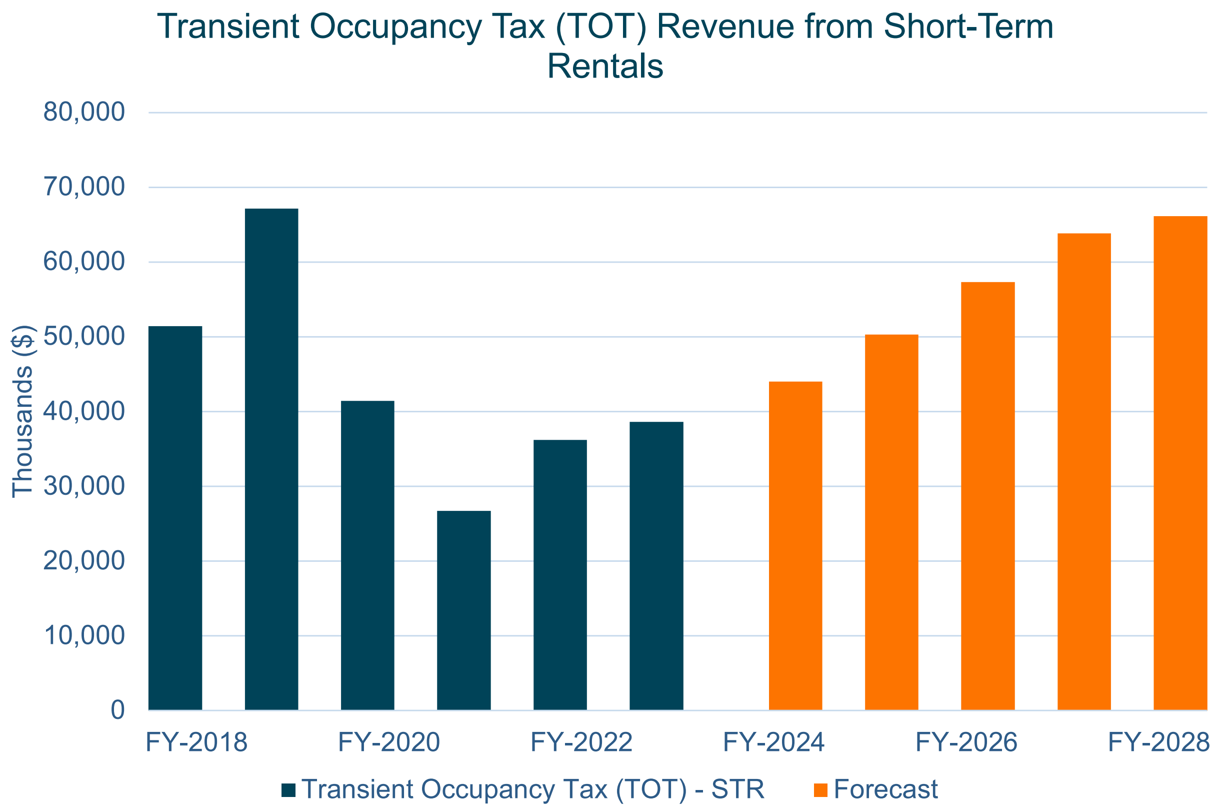
The baseline projections are based on a model that incorporates macroeconomic trends at the state and national level, with trends in the local economy. For example, our baseline forecast for sales tax in Los Angeles is derived from our proprietary models for the countywide economy. Local sales tax revenues are derived from Beacon's projections for countywide taxable sales and unemployment, which are determined within our Los Angeles County model. Beacon's modeling approach is hierarchical, where national and state trends are treated as external factors that drive local indicators.

Below we see that without any change to the status quo, hotel demand will remain subdued for the next couple of years but will rebound in later years. The transient occupancy tax revenue will increase accordingly.



Source: City of Los Angeles. Analysis by Beacon Economics

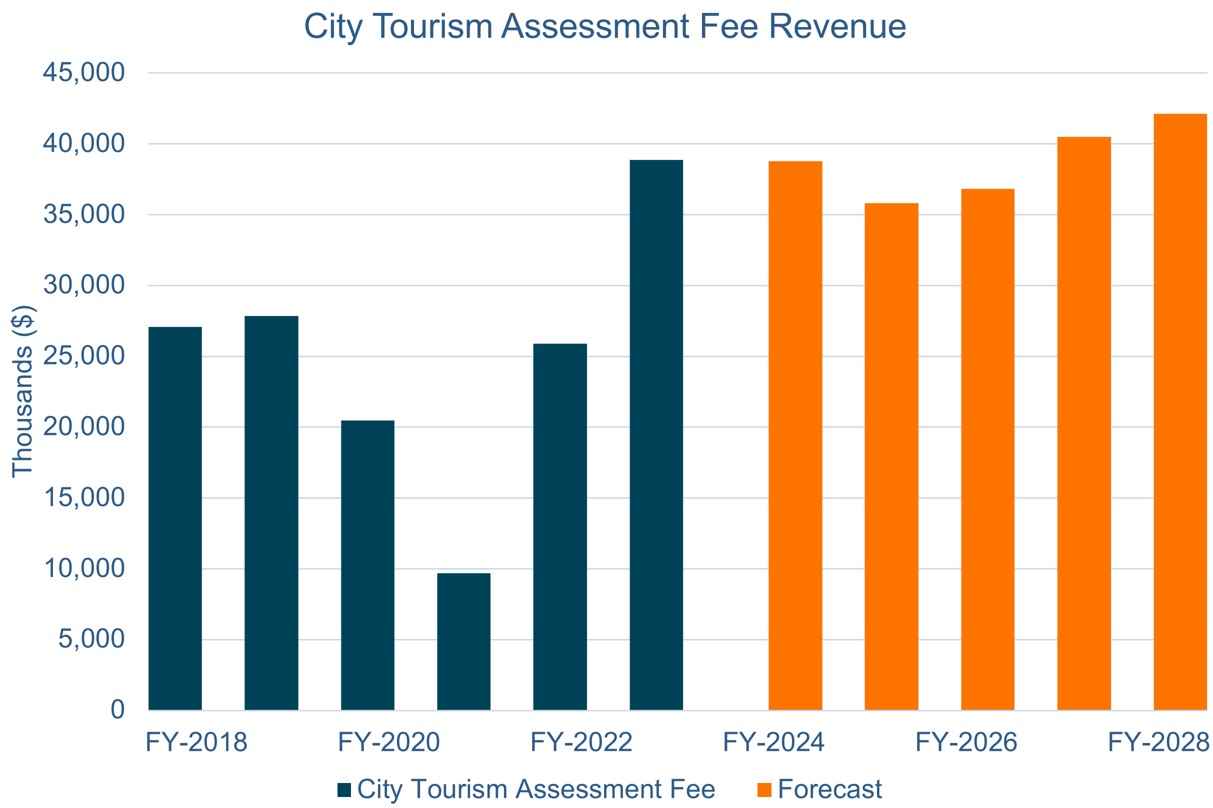
The decreased supply of short-term rentals greatly reduced transient occupancy tax revenue for the City. However, as demand for lodging continues to rebound, short-term rentals will continue to serve a certain type of traveler, and so Beacon Economics forecasts that transient occupancy tax revenues from short-term rentals will continue to increase from 2024 to 2028.



Source: City of Los Angeles. Analysis by Beacon Economics

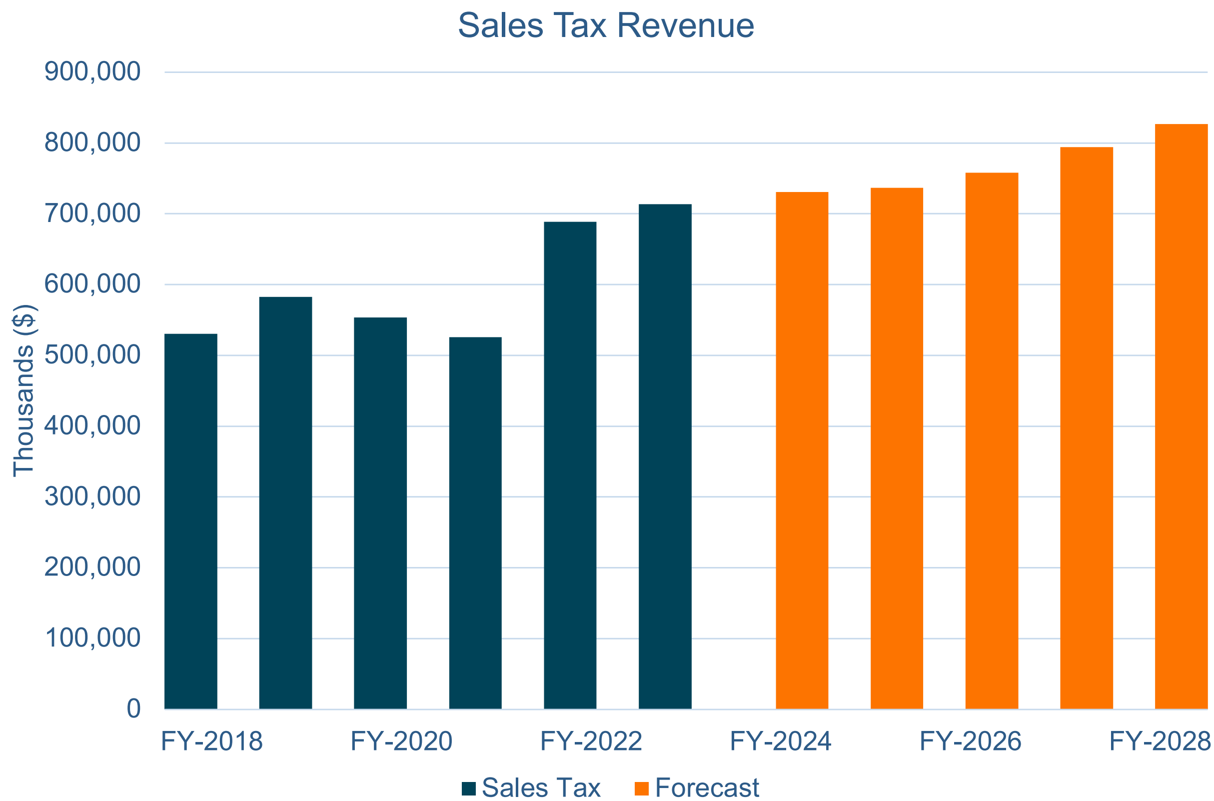
The tourism assessment fee is an additional 2% tax that is paid when a room is booked. The revenue is used by the Los Angeles Tourism Marketing District (LATMD) to promote tourism in Los Angeles.[25] Since this is a tax on the room rate, it follows a trend like the transient occupancy tax. Technically, it has been extended until 2025, but for our analysis, it is assumed it will be renewed until 2028.

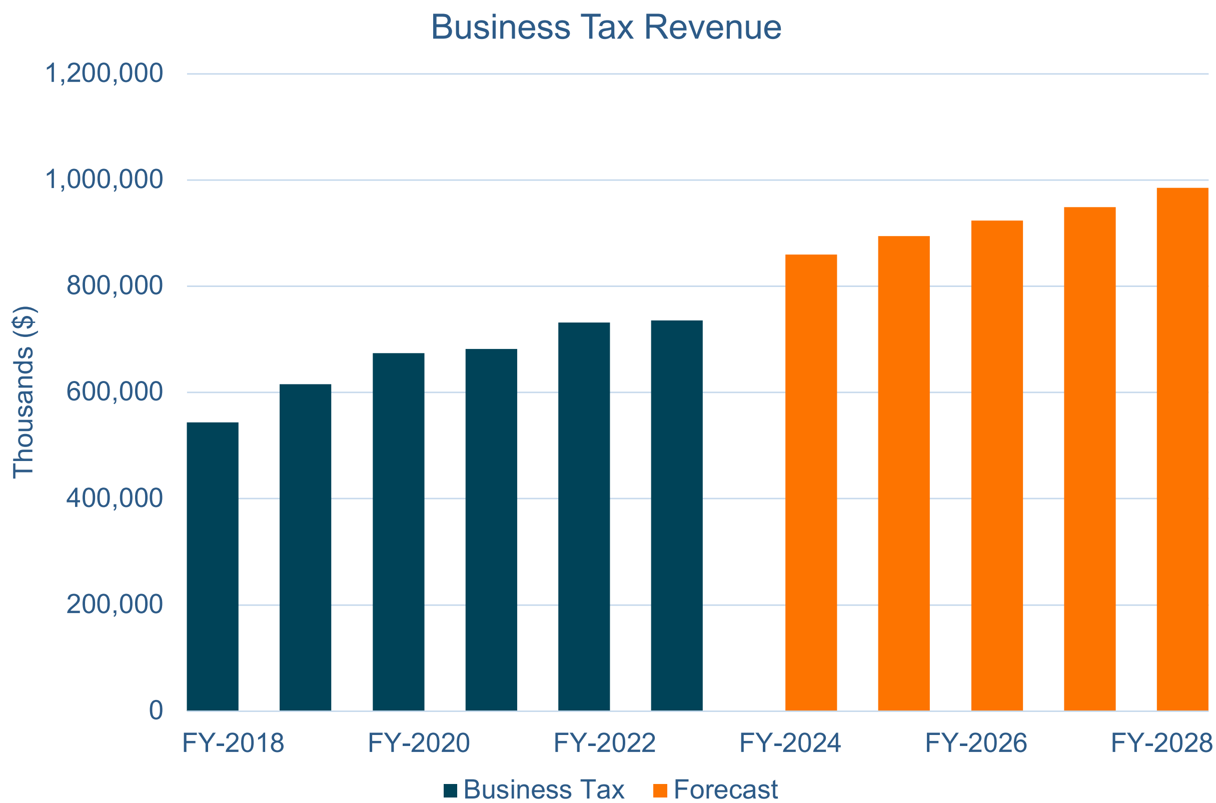
[25] https://www.discoverlosangeles.com/tmd/latmd-overview



Source: City of Los Angeles. Analysis by Beacon Economics

As the economy continues to grow over the next few years, and inflation begins to subside, consumer confidence will remain steady. In light of this, it is expected that sales and business tax revenues will remain stable. Consistent demand for goods and services along with stable employment rates will continue to bolster sales tax revenue. This will also encourage investment and new business ventures, leading to increasing business tax revenues.


Sales Tax Revenue
900,000
800,000
700,000
600,000
500,000
400,000
300,000
200,000
100,000
0
Thousands ($)
FY-2018
FY-2020
FY-2022
FY-2024
FY-2026
FY-2028
Sales Tax
Forecast



Source: City of Los Angeles. Analysis by Beacon Economics

6. Impact of the Responsible Hotel Ballot Measure

If the RHBM had been implemented, it would impact the hotel industry and the City's tax revenue through a number of related causal chain of events. We first describe our key assumptions, before explaining the resulting effect on the economy and tax revenue.

Conceptual Framework

Beacon Economics was provided with city-level data on key metrics for hotels, short-term rentals, and city tax revenue data. Given the available data, we focus on how the RHBM would impact supply and demand in the lodging market, and how these impacts would be reflected in key lodging metrics and tax revenues.

The voucher program is the only component of the RHBM that would directly impact demand for hotels in Los Angeles. Beacon Economics contacted LAHSA multiple times for information on how a voucher program might be administered but did not receive a response. Therefore, Beacon assumes that hotels that are forced to participate in the program would never agree to a rate below the fair market rate. Furthermore, we assume that if the voucher program received funding, then the goal of the Los Angeles Housing Department would be to place as many unhoused individuals as possible in vacant hotel rooms. This means that lower-priced hotels would house a disproportionate number of voucher users. In other words, few voucher users would be staying at high-end hotels like the Ritz-Carlton, since it is not cost-effective.

The limited funding for the voucher program means that vouchers would mostly be used for lower-price hotels offering limited services. Beacon Economics expects this is likely to disproportionately reduce demand for this segment of hotels due to a perception of the Los Angeles hotel industry among visitors. Still, group booking demand tends to be very responsive to taxes and other related policies that impact room rates. This means that higher-end hotels that provide amenities for group bookings are likely to also face reduced demand due to a perception of the Los Angeles hotel industry among visitors, even though it is unlikely that housing vouchers would be provided for such hotels. That said, based on stakeholder interviews and peer-reviewed research, Beacon expects the RHBM would have a greater impact on supply than demand.

Most components of the RHBM would have affected hotel supply. The voucher program was expected to partly affect supply through increased costs for hoteliers. Administrative costs would increase since hoteliers would need to count and report vacant rooms every day at 2:00 p.m. Moreover, the ballot measure provides no wraparound services, so hotel workers would be adversely affected as they are not trained to provide necessary support to unhoused individuals. Hoteliers may need to provide training or could face labor shortages.

Another important issue is the effect that housing vouchers would have on insurance costs. Many insurers would terminate a policy if the hotelier were participating in a housing voucher program. A recent *LA Times* article[26] cites an insurance industry representative who claims that insurance carriers are unsure how to underwrite risks that involve unhoused individuals, so they simply pull coverage if a hotelier accepts housing vouchers. This may cause significant problems for hoteliers that are unable to self-insure and would likely cause some hotels to close. Hoteliers who participate in existing voucher programs can buy insurance because they partner with organizations such as churches and nonprofits that provide wraparound services. Since the RHBM does not call for the provision of wraparound services, Beacon expects insurance costs would have adversely affected hoteliers if the RHBM had been approved.

More stringent land use regulations are expected to increase the cost of developing a hotel in Los Angeles, and Beacon Economics expects that hotel permits and construction would not recover from the decline caused by the pandemic. This means that very few hotels would enter the construction pipeline as tourists continue to return to Los Angeles. This barrier to hotel

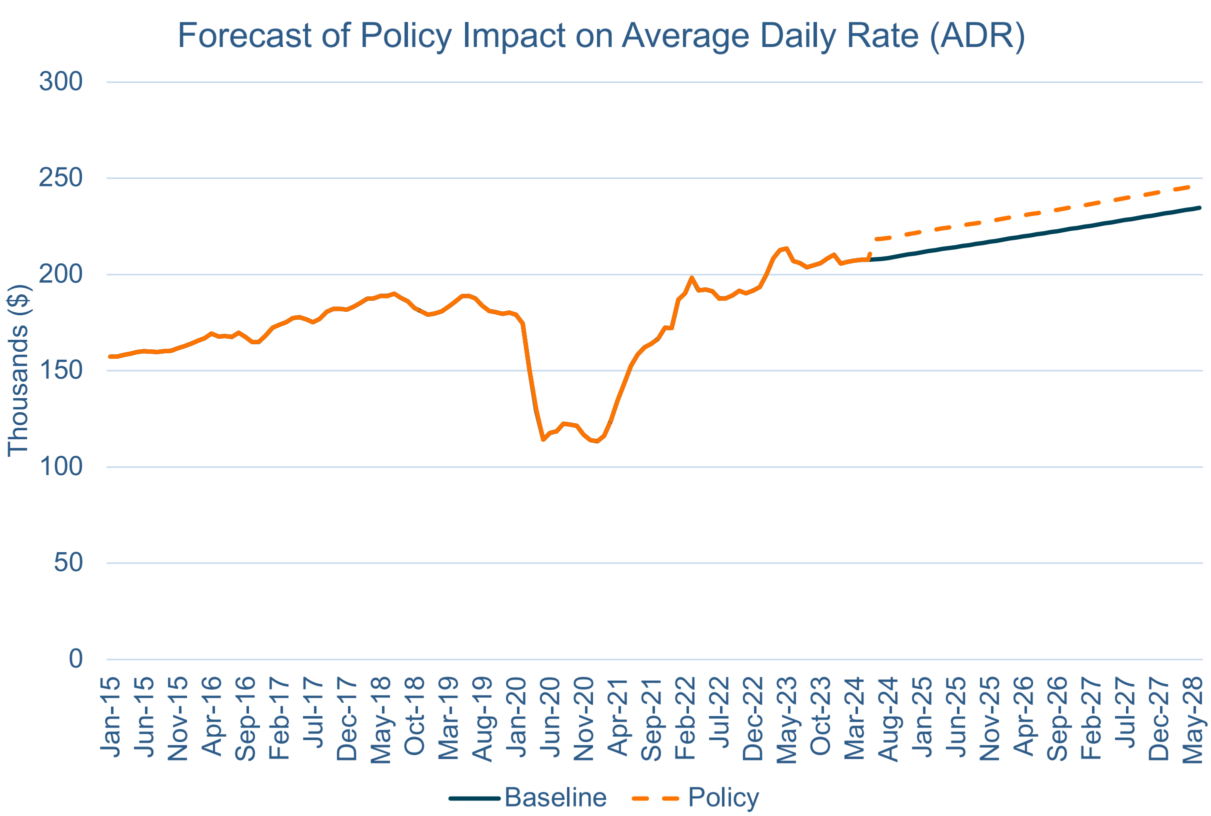
[26] https://www.latimes.com/california/story/2022-08-05/initiative-would-require-l-a-hotels-to-provide-rooms-to-homeless-people

development would reduce entry and increase market power in the hotel industry, which would allow hotels to increase room rates.

Finally, we assume administrative costs would increase in hotels because of the RHBM. Using empirical modeling, based on research by Suzuki, J. (2013), we estimate their costs would increase by 6% to 8%. These costs would have stemmed from the regulatory burden of reporting vacancy numbers every day, special police permits, and managing the homeless voucher program. Based on the literature review and demand analysis for the City, we know that hotels cannot pass all of these additional costs on to guests, and would likely raise ADR by roughly 5%.

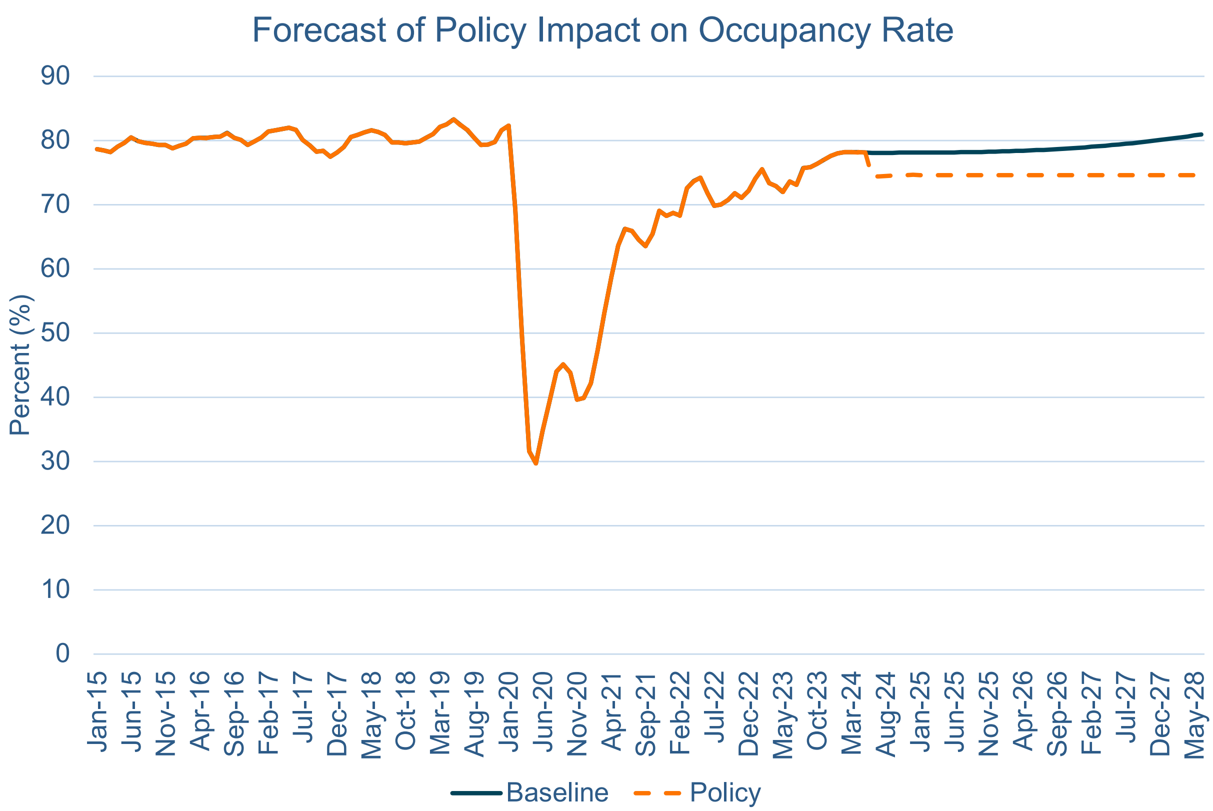
RHBM Economic Impacts

The below chart shows the historical ADR for Los Angeles, the baseline projection without the RHBM (the blue projection line), and then the 5% increase in ADR (the orange projection line).



Source: CoStar Group; Analysis by Beacon Economics

The occupancy rate is expected to be lower relative to our baseline scenario, in which hotel occupancy gradually drifts up toward pre-pandemic levels. In our modeling of the ballot measure, hotel occupancy rates stabilize below pre-pandemic levels, as many travelers stay in neighboring cities. The occupancy rate would remain around its current level of low- to mid-70% for the foreseeable future, thus failing to recover to pre-pandemic levels as expected in the baseline forecast.



Source: CoStar Group; Analysis by Beacon Economics

Ultimately, this decrease in occupancy would not only affect hotels. A decrease in visitors staying in Los Angeles, means that there would be a drop on visitor spending, which impacts the entire tourism industry. Beacon did take into account the fact that some travelers would stay just outside of Los Angeles and travel into the City. Still, we estimate the **total drop in tourism spending in Los Angeles would be $1.76 billion,** between March 2024 and June 2028. About a quarter of this, or $439 billion, would be a loss to hotels themselves, and the rest would be to food services, food stores, transportation, gas, and events/art.

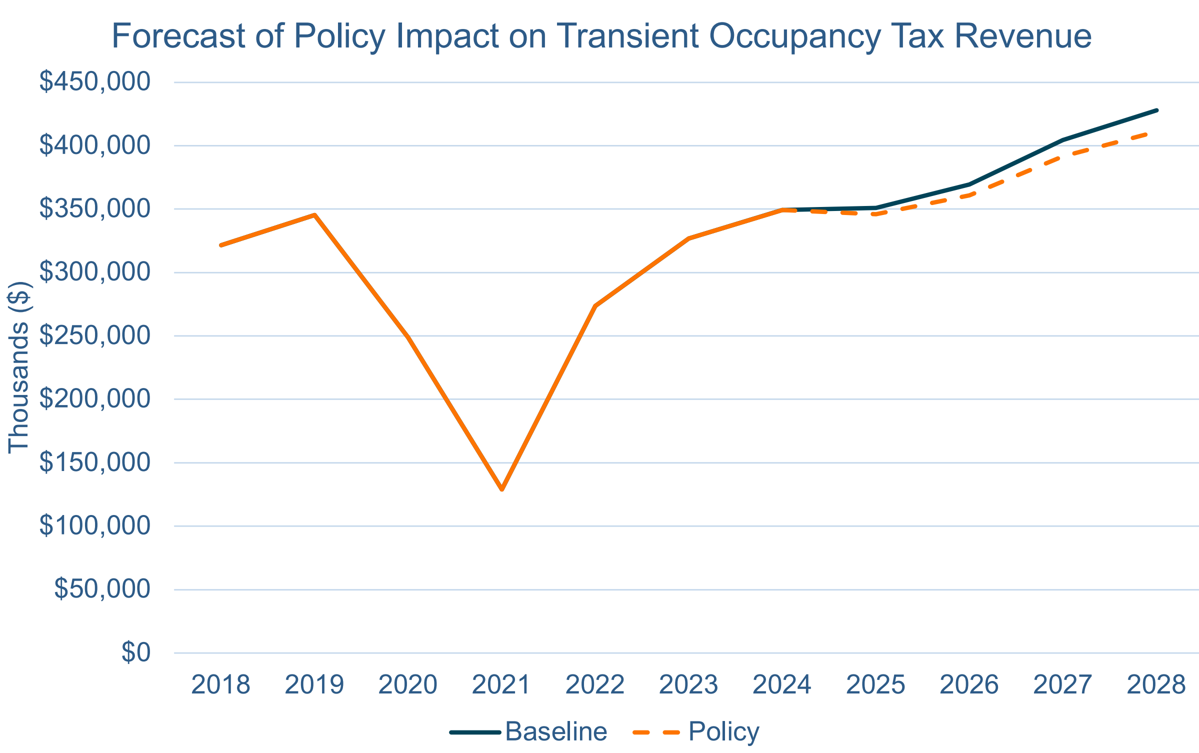
Further, this loss in economic activity would result in **14,100 fewer jobs** being supported in Los Angeles, across all of the industry sectors mentioned above.

Forecast for Select Tax Revenues

The drop in economic activity explained above would translate to a decrease in City taxes. These decreases are summarized in the below table and then detailed further in the following graphs.

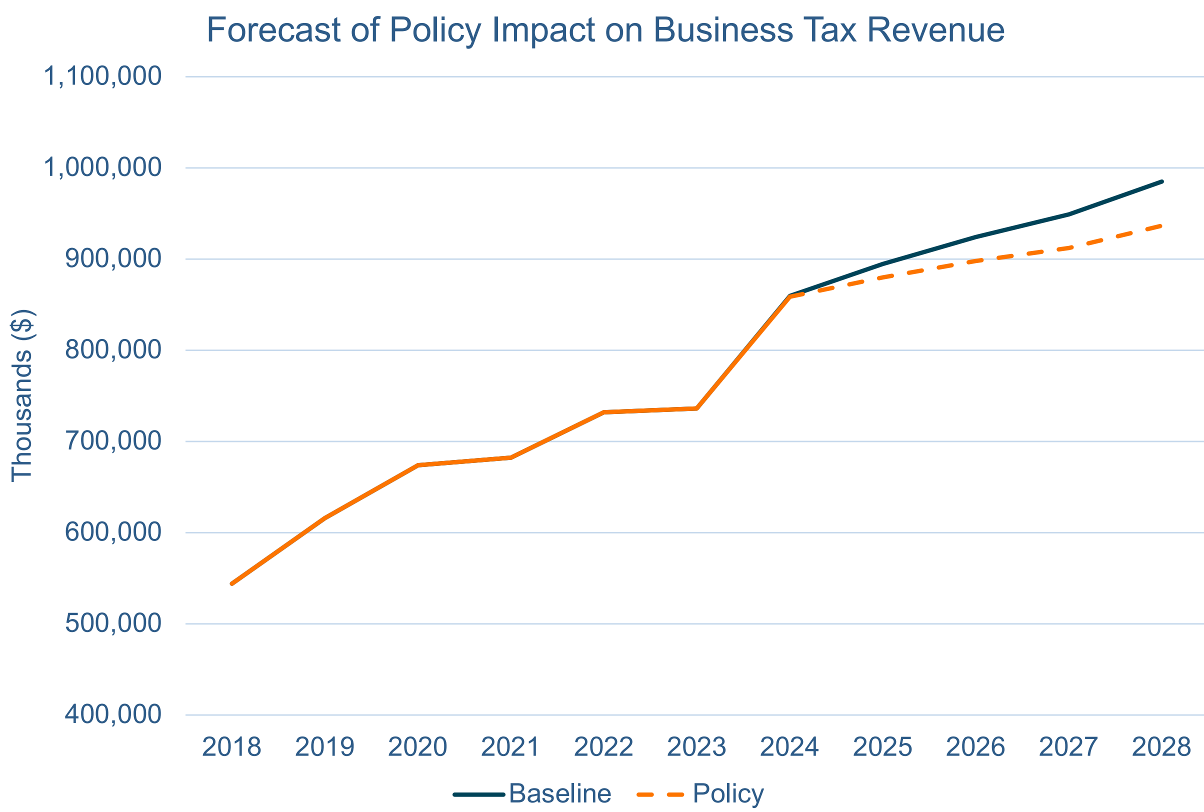
Impact of Responsible Hotel Ballot Measure on City of Los Angeles Tax Revenues March 2024 to June 2028, Cumulative			
Tax Type	Baseline Forecast	Policy Forecast	Policy Impact
Transient Occupancy Tax (TOT)	$1.902 Billion	$1.859 Billion	- $43 Million
City Tourism Assessment Fee	$0.194 Billion	$0.189 Billion	- $5 Million
Local Sales Tax	$3.846 Billion	$3.741 Billion	- $105 Million
Local Business Tax	$4.612 Billion	$4.486 Billion	- $126 Million
Total	$204.044 Billion	$198.539 Billion	**- $279 Million**
Source: City of Los Angeles. Analysis by Beacon Economics			

The drop in hotel occupancy caused by the RHBM would decrease total TOT revenue by $43 million cumulatively from March 2024 to June 2028 when compared to the baseline forecast.

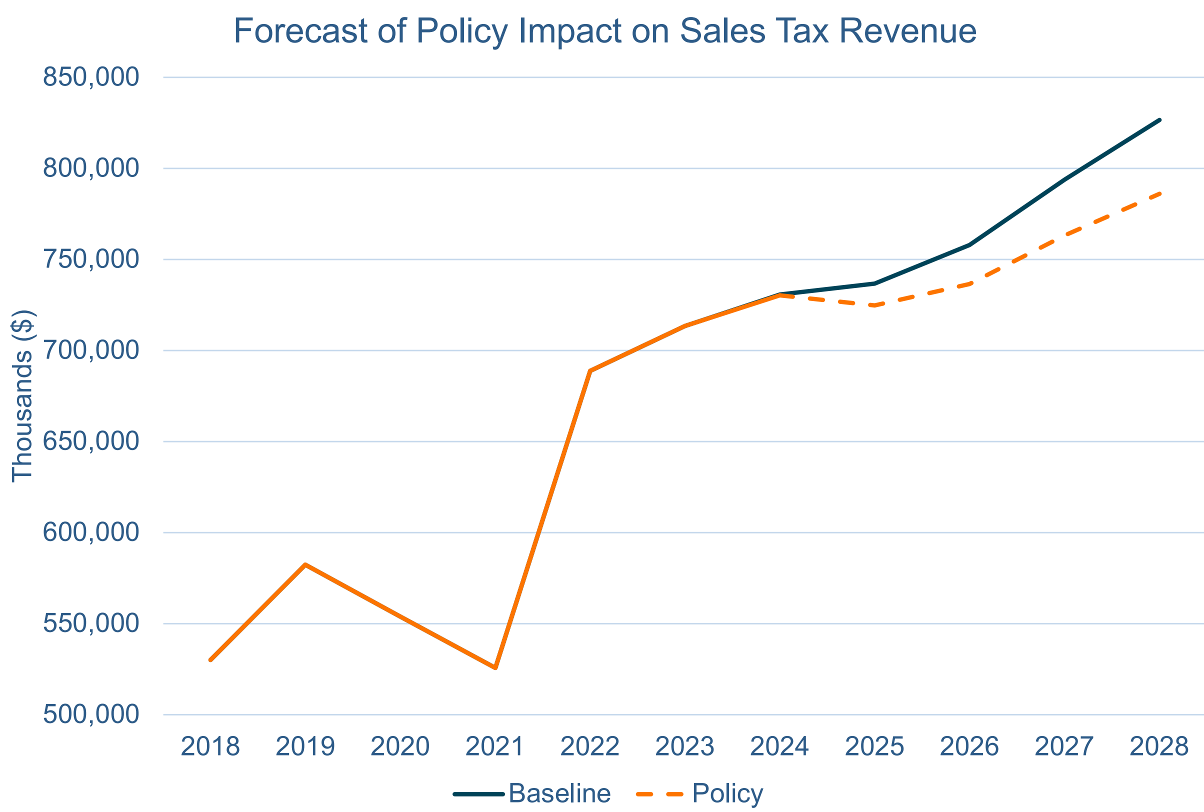


Source: City of Los Angeles, Analysis by Beacon Economics

The decrease in visitor spending – shopping, dining out, attending events, using public transport, exploring tourist attractions, and so on – means a decrease in business tax revenue. This tax realizes the largest fiscal decline of all taxes considered,- $126 Million.



Source: City of Los Angeles, Analysis by Beacon Economics



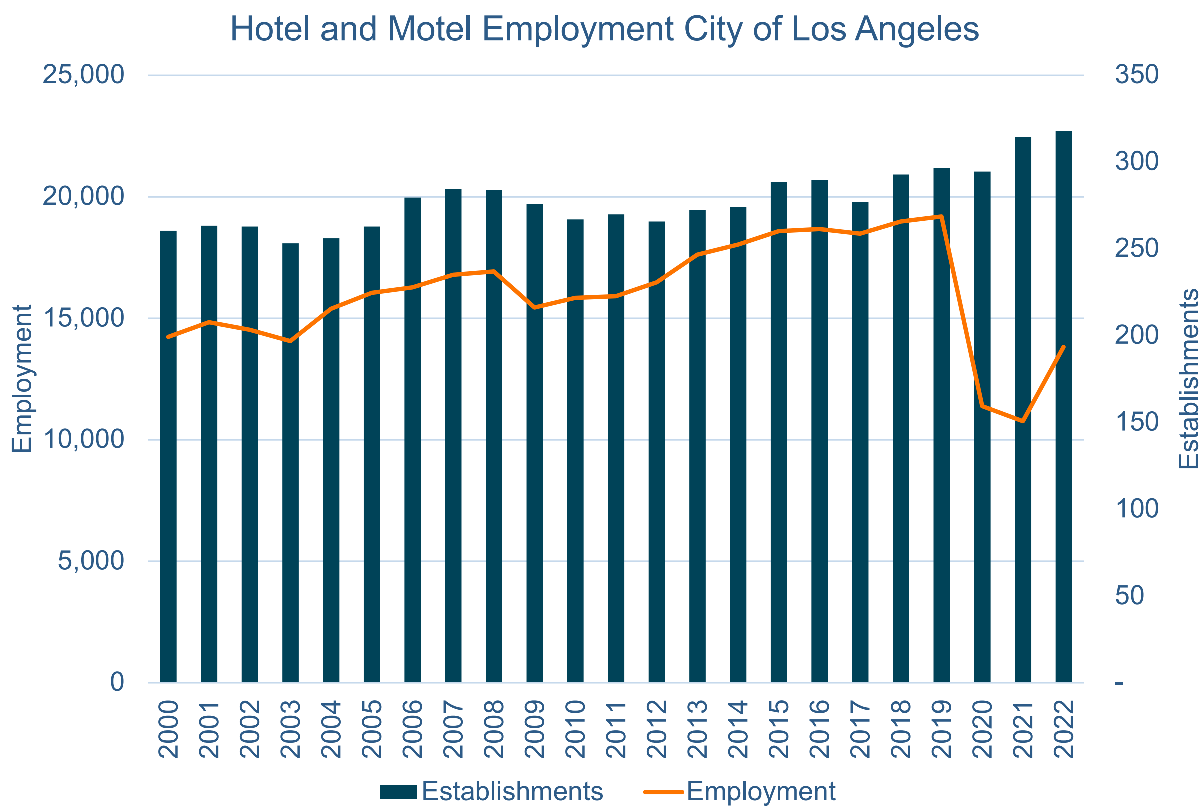
Source: City of Los Angeles, Analysis by Beacon Economics

The hospitality sector and other related industries are major contributors to the Los Angeles economy. The RHBM would keep occupancy rates from returning to pre-pandemic levels and this would hurt sales and business tax revenues. Beacon Economics forecasts that **sales tax revenue would decline by $105 million** cumulatively from March 2024 to June 2028 when compared to the baseline forecast.

Impact of the Responsible Hotel Ballot Measure on Employment

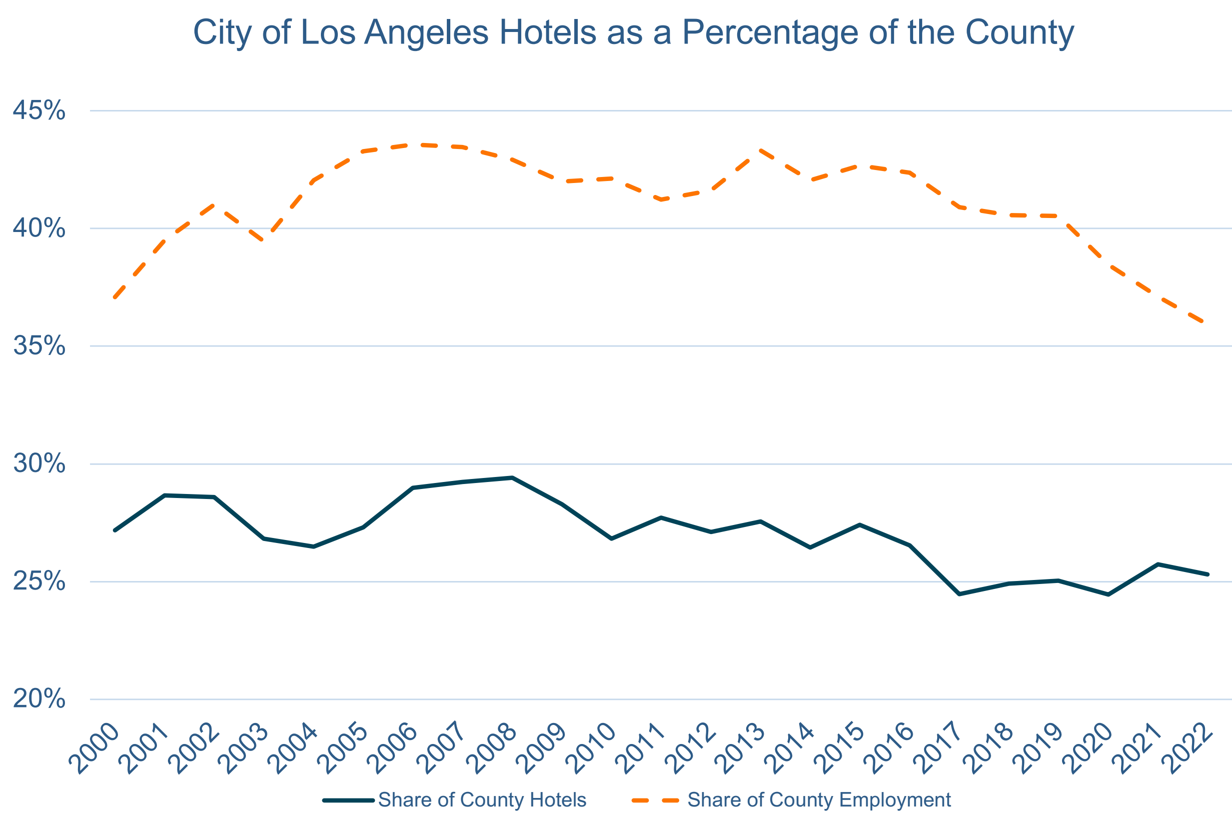
As mentioned, the loss in economic activity resulting from the RHBM would translate into **14,100 fewer jobs being supported, and $677 million less in earned wages** over the 4.25 year period. To contextualize these numbers, the following section explores current employment trends in the Los Angeles.

Hotel employment remains below pre-pandemic levels. At the national level hotel employment was down 9.4% in the first quarter of 2023 (the latest available figures) compared to the first quarter of 2020, which marks the pre-pandemic peak of employment in the industry. The recovery at the state level has also been slower compared to the national trend, with employment down 10.8%. Los Angeles has lagged both the state and national trends with hotel employment 15% below pre-pandemic levels. City-level employment figures for the City of Los Angeles are not publicly available but were derived from the Census' ZIP Codes Business Patterns data, which provide annual statistics for businesses at the zip code level. To estimate industry-level employment, Beacon employed the same framework outlined in Glaeser (2001) and forecast the data based on trends in the County to drive 2022 figures.



Source: U.S. Census Bureau County Business Patterns. Analysis by Beacon Economics

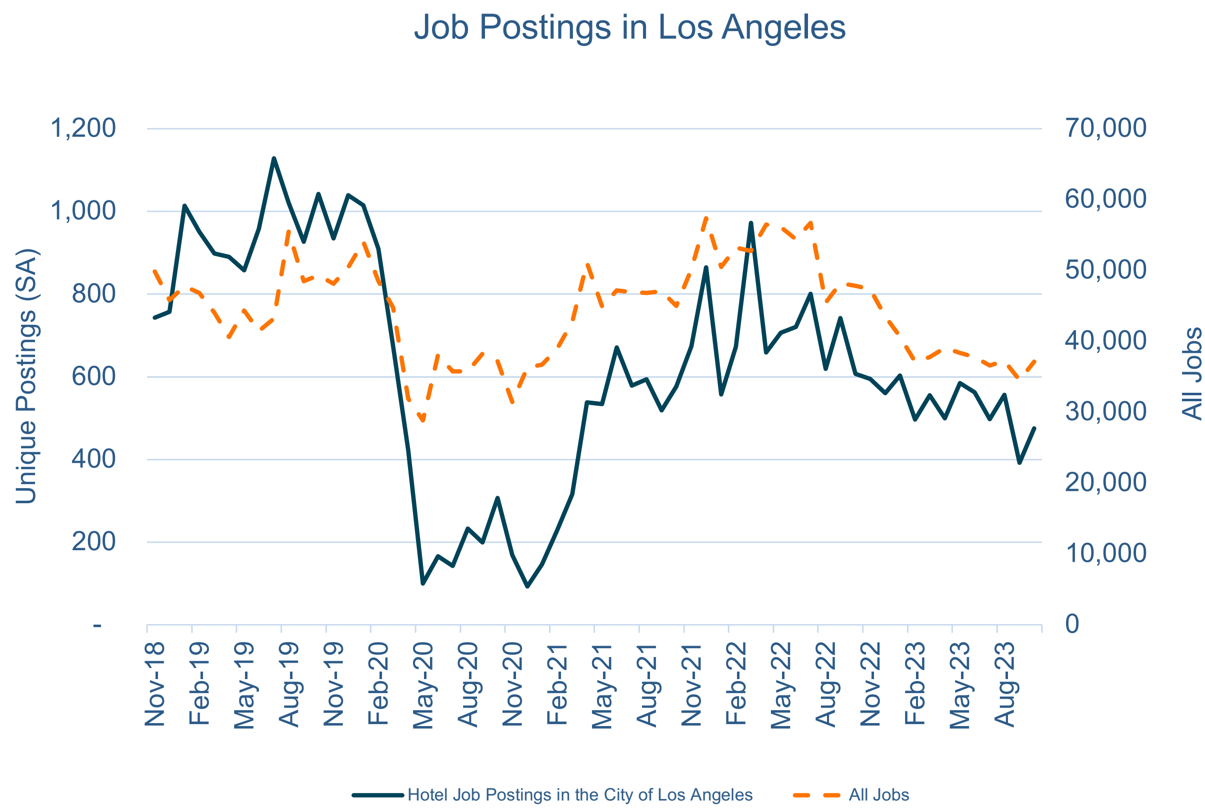
Hotel employment in the City of Los Angeles mirrors regional trends, namely a steady increase in the number of establishments over time, but a weak post-pandemic recovery that can be traced back to labor shortages. The number of hotel establishments has continued to increase, despite a rise in the home-sharing market. This suggests that home sharing has not cannibalized the market but has acted as more of a complement to the broader hotel industry. The City does appear to be losing ground to competition elsewhere in the county, marked by declines in the City's share of countywide employment and hotel establishments. Although the City accounts for more than a third of all hotel employment in the county, Los Angeles accounts for only a quarter of hotels countywide, suggesting that – perhaps unsurprisingly – hotels in the City tend to employ more people on average.



Source: Bureau of Labor Statistics and U.S. Census Bureau

Although employment has lagged, there has been no decline in the number of hotels operating. The sluggish recovery in hotel employment seems to be more closely tied to a scarcity of labor rather than a decline in demand for lodging. A survey released by the American Hotel & Lodging Association confirms that hotels are struggling with a scarcity of labor. The findings from a survey conducted in 2023 found that 82% of respondents experienced staffing shortages and 87% said they were unable to fill positions.[27] However, the hotel industry is taking steps to attract and retain employees, such as offering higher wages and benefits, providing more flexible working hours, and investing in training and development programs.

[27] https://www.ahla.com/news/82-surveyed-hotels-report-staffing-shortages



Source: Lightcast

While labor remains in short supply, data provided by Lightcast suggests that hoteliers have scaled back efforts to recruit employees, a trend that has played out at the aggregate level as well. As shown in the chart above, job postings peaked in mid-2022 but have since moderated, partially due to fears of a looming recession and an aggressive Federal Reserve.

A more granular look at the data suggests that the workers in short supply tend to be lower-skilled and entry-level positions such as maids, waiters, and desk clerks. Collectively these three occupations account for roughly 28% of the job postings in 2023 through October.

Occupation	Total Postings (Jan 2023 - Oct 2023)	Unique Postings (Jan 2023 - Oct 2023)	Median Posting Duration
Maid / Housekeeping Staff	2,128	520	29 days
Waiter / Waitress	1,083	371	30 days
Hotel Desk Clerk	1,277	310	29 days
Restaurant / Food Service Manager	655	221	35 days
Cook	604	191	36 days
Bartender	586	190	32 days
Business Development / Sales Manager	646	175	32 days
Busser / Banquet Worker / Cafeteria Attendant	427	156	32 days
Host / Hostess	373	128	32 days
Restaurant / Food Service Supervisor	388	123	31 days
Hotel Manager	312	106	32 days
Chef	246	104	30 days
Housekeeping / Environmental Services Supervisor	373	101	33 days
Night Auditor	295	89	28 days
Office / Administrative Assistant	299	84	29 days
Source: Lightcast			

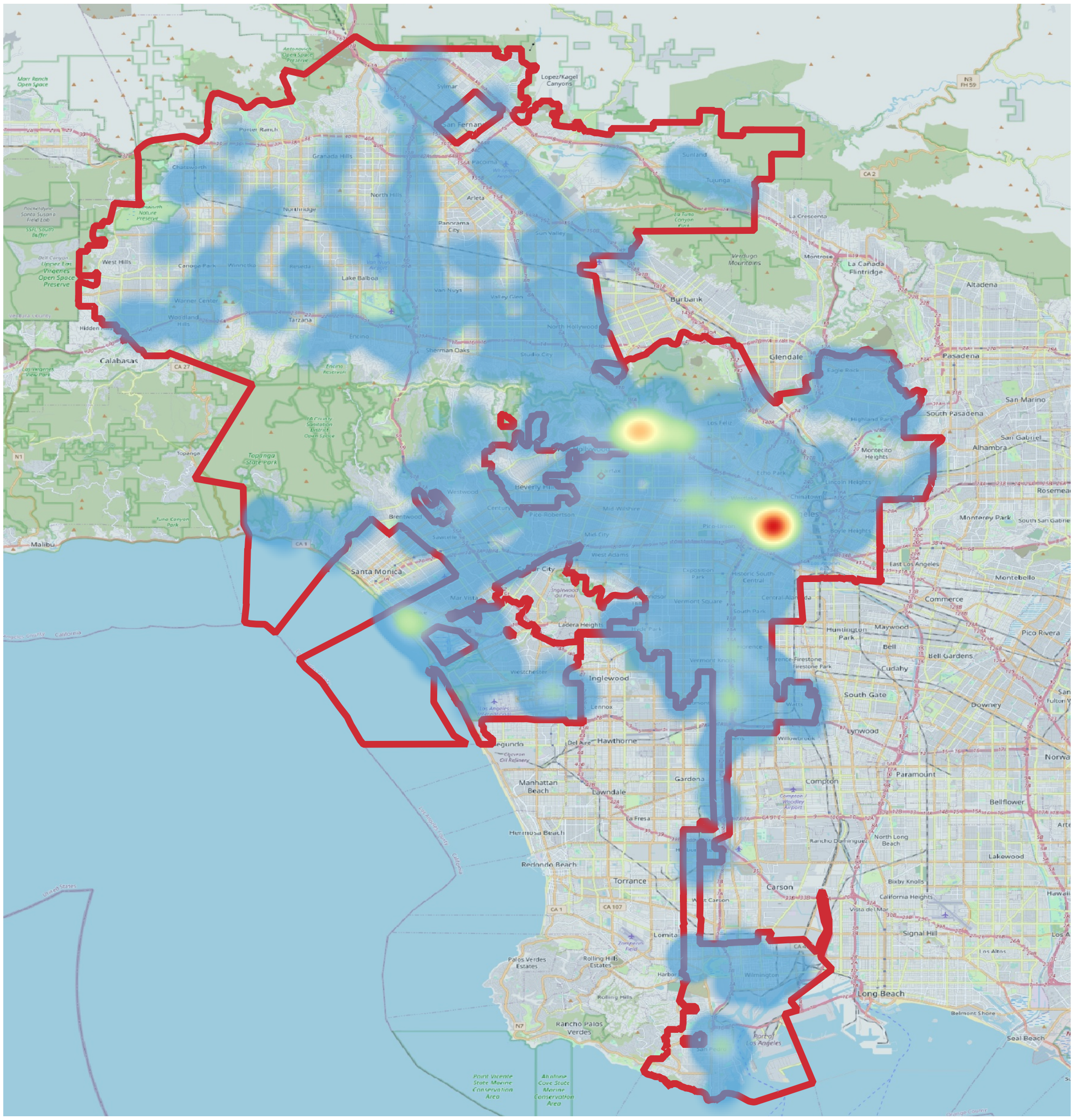
The Reallocation of Hotel Activity

While the provisions of the RHBM would lead to an increase in the cost of hotel operations, which could be partially passed onto consumers in the form of a moderate room-rate increase, a natural extension is to consider the impact of rate increases on surrounding markets. It is reasonable to assume that a modest increase in hotel rates could lead to increased demand in other markets. However, Beacon estimates that the aggregate impact of the RHBM on average daily rates in Los Angeles would be minimal, and therefore have a minimal effect on other markets as hotel demand tends to be somewhat inelastic.[28]

Although demand for hotel accommodation may not be highly elastic, there is the possibility of substitution effects, whereby consumers opt for alternative lodgings, such as short-term rentals, or cheaper hotels. In other words, consumers may opt for lower-priced hotels in the City rather than stay at higher standard, but cheaper, hotels elsewhere. If they do choose more affordable hotels outside the City, visitors would still have to pay for transportation to attractions and amenities within Los Angeles. This is primarily due to the City's status as a major tourist destination and its proximity to many popular tourist attractions and amenities. Many of Los Angeles’s hotels are clustered near Downtown, LAX, and Hollywood.

[28] Canina and Carvell (2005).

Hot Spots of Hotels in the City of Los Angeles



Source: City of Los Angeles. Analysis by Beacon Economics

Since business and shopping play important roles in determining hotel locations, it is unlikely that the RHBM would have had a sizable impact on consumer preferences in the aggregate.

Given the adverse effects of these policies on the hotel industry and the significant fiscal impact, it is important to determine if these policies would have helped to address the housing affordability and homelessness issues in the way that supporters of the ballot measure claimed.

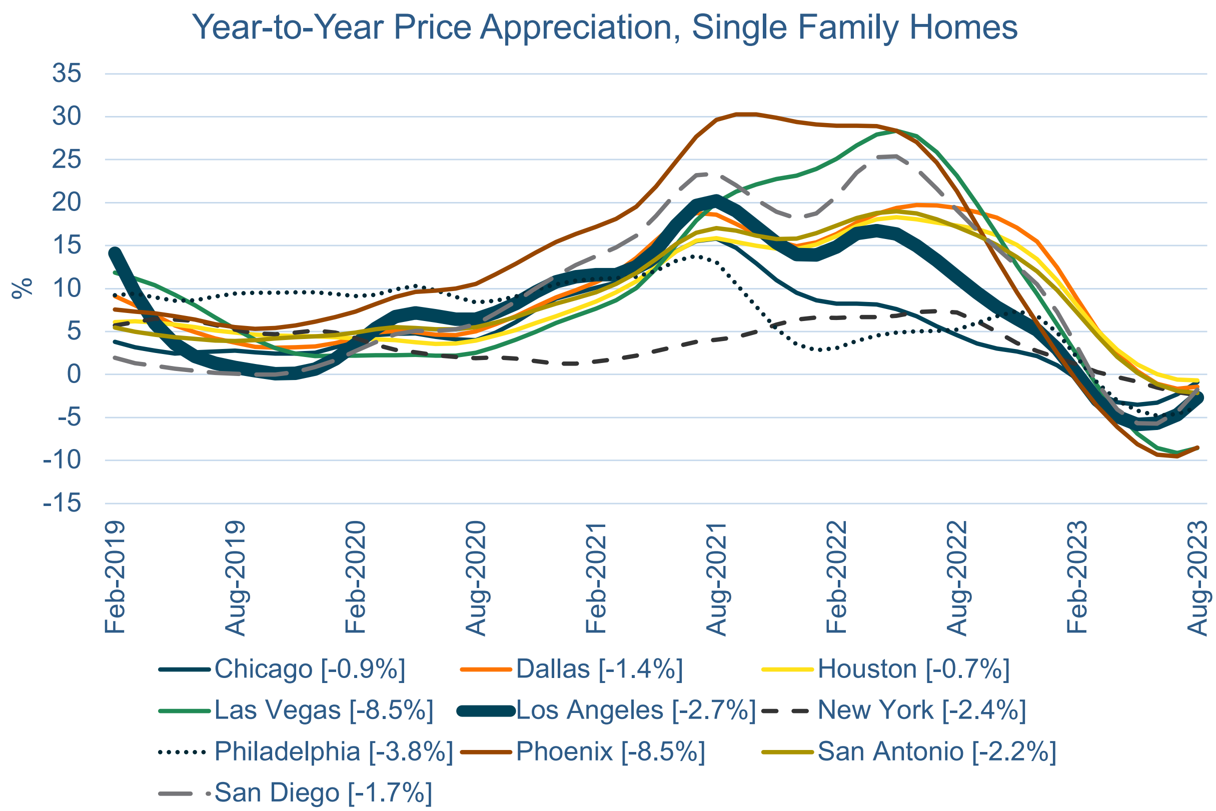
It is essential to determine if the decline in tax revenue would help achieve public policy goals and to consider whether other policies might be a more effective use of public funds.

7. Housing Affordability and Homelessness

Housing Market in Los Angeles

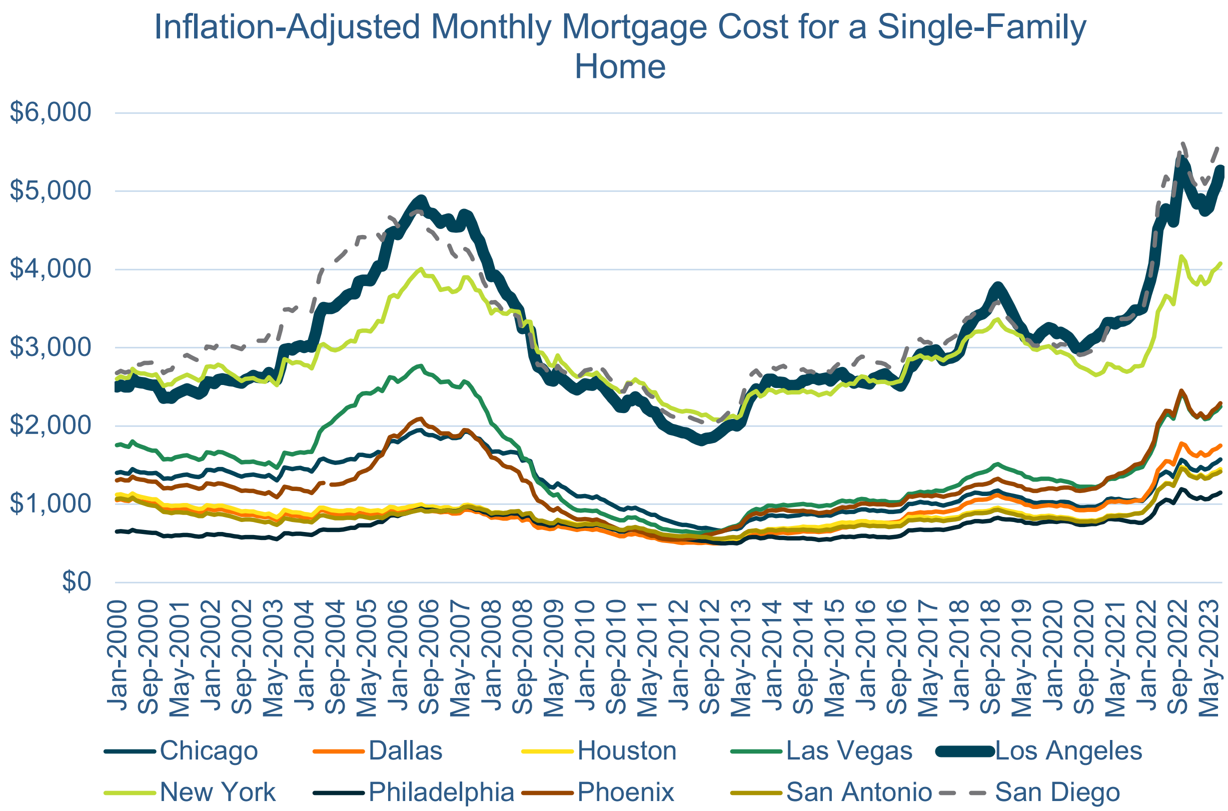
The housing market continues to show persistent signs of weakness. Rising interest rates have taken a toll on the market, making mortgages more expensive and sidelining would-be homeowners. As a result, home price appreciation has rapidly decelerated, and there has been little relief in terms of new housing production or new inventory of homes on the market. Home price data from Zillow shows a synchronized decline in home price growth, with many of the nation's largest housing markets starting to see negative year-over-year growth in home prices.

In July 2023, home prices in Los Angeles showed a 3.5% decline compared to a year ago. At this time last year, home price growth was in double-digit figures. As it stands, there are very few homes to buy. Many homeowners opted to refinance when mortgage rates hit an all-time low during the onset of the pandemic. Since then, the cost of owning a home has risen rapidly, shrinking the number of buyers who can afford to enter the market.



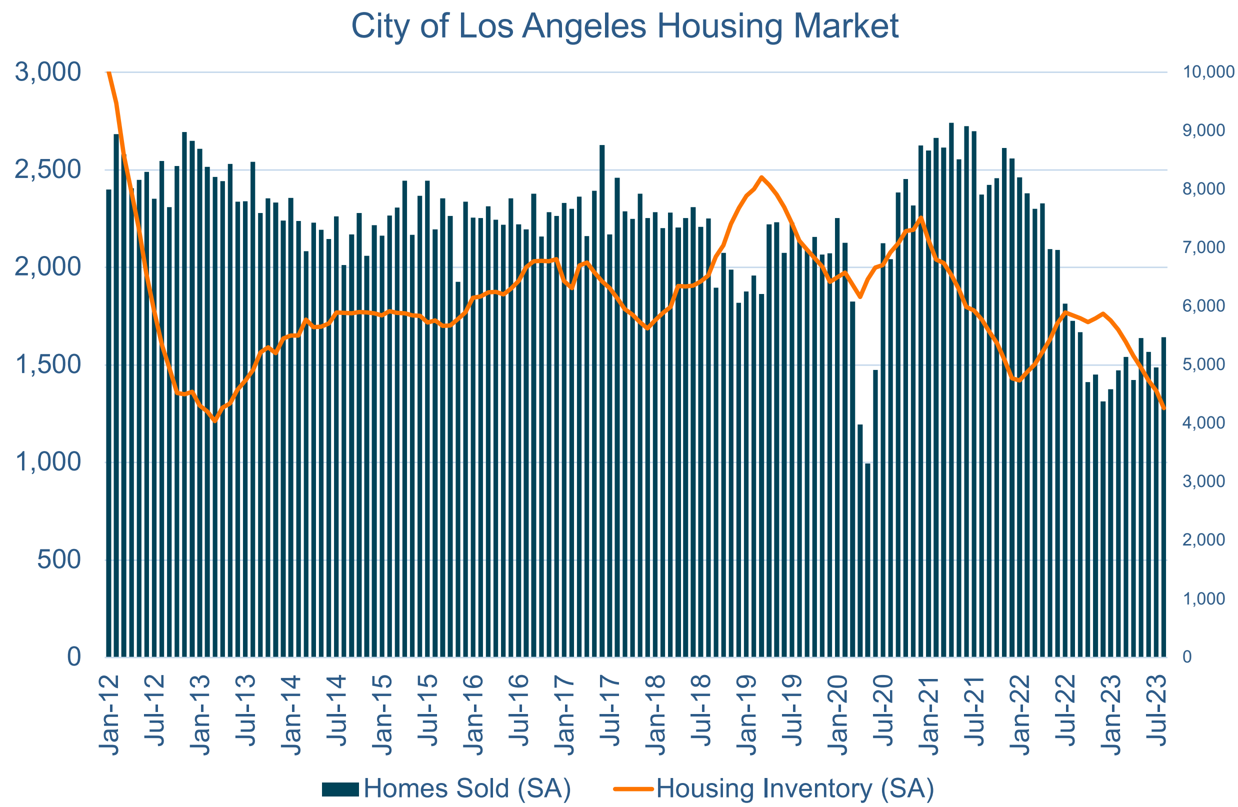
Source: Zillow

A dwindling supply of homes on the market has helped to keep prices from completely collapsing. However, rising mortgage rates continue to take buyers out of the market, softening the demand for housing. During the pandemic, the 30-year fixed rate mortgage average in the U.S. hit an all-time low of 2.65%, but rates have since leaped to 7.0%. The decline in home prices may offer prospective buyers some much-needed relief, but the cost of purchasing a home has never been higher, even when adjusting for inflation. The chart below shows the inflation-adjusted cost of servicing a mortgage in current dollars assuming a 20% down payment. Among the ten largest cities in the county, Los Angeles ranks second behind the City of San Diego. It should be noted that the difference in cost between San Diego and Los Angeles is negligible, but both have a prohibitively higher cost compared to other cities, with the cost of servicing a median-priced single-family home exceeding $5,000 a month.



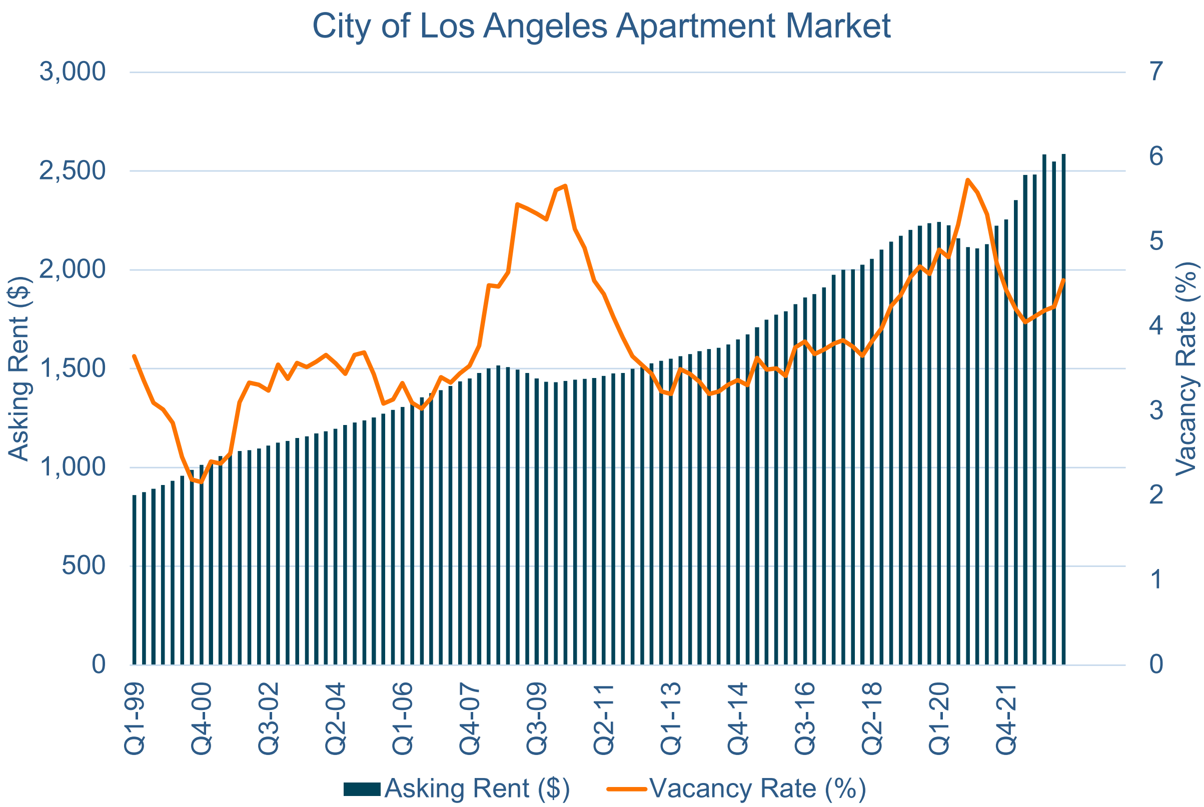
Source: U.S. Bureau of Labor Statistics, Zillow, Freddie Mac

The major problem for new housing is the ultra-low mortgage rates homeowners currently enjoy. Anyone who sells now will have to go from a sub-3 rate to something in the 5+ category. That is not a move most homeowners make – unless they truly must. The "move-up" market is essentially frozen and will continue to be so until rates begin to decline, something that seems unlikely. According to the National Mortgage Database provided by the Federal Housing Finance Agency, 30% of outstanding mortgages in California have a mortgage rate of less than 3%, and nearly 70% of outstanding mortgages have an outstanding rate of less than 4%. But there is ongoing and pent-up demand to enter the housing market by those ready to leap into ownership. Unfortunately, most first-time buyers aren't qualified to buy a new home and instead buy less expensive existing homes, which is difficult today given how many owners are locked into those low rates. Put simply, a scarcity of homes on the market is driving up prices, making it difficult for buyers to find a home. And this is because many homeowners refinanced their mortgages at ultra-low rates during the pandemic.



Source: Redfin

Another interesting development affecting the housing market is population decline. According to the latest estimates produced by the California Department of Finance, Los Angeles' population peaked in 2018 and has since declined by more than 230,000. In other words, despite a nearly 6% decline in population, housing is still exorbitantly expensive. By early 2023, the population of the City stood at 3.76 million, *lower* than the previous year. Moreover, while the population level in 2023 is near 2007 levels, the number of occupied housing units in the City is currently at an all-time high. In short, residents didn't leave en masse, the average household just got smaller.



Source: REIS

The high cost of ownership is pushing people into the rental market, which is leading to steady increases in apartment rents. Rising home prices, coupled with rising mortgage rates, have made it increasingly difficult for people to afford to buy a home. As a result, more and more people are choosing to rent. This increased demand for rental properties is driving up rents across the state. As it stands, the asking rent for an apartment in the City is currently at an all-time high. Before the pandemic, Los Angeles had seen a steady rise in apartment vacancies due largely to an uptick in multifamily construction. At the height of the pandemic, the vacancy rate for apartments reached 5.7% but has since retrenched to 4.5%.

A look at the submarkets that comprise the City of Los Angeles reveals mixed performance. While some individuals and families initially sought less densely populated areas during the pandemic, demand for apartments in areas that offer amenities and services within walking distance, such as Downtown Los Angeles, has picked up. Asking rents have also increased since the pandemic's trough, indicating a recovery in a hard-hit market. Many of the increases in vacancy rates can be traced back to new stock coming online (new completions) as opposed to existing stock becoming vacant (negative net absorption). Net absorption has been positive in all but two of the City's apartment submarkets.

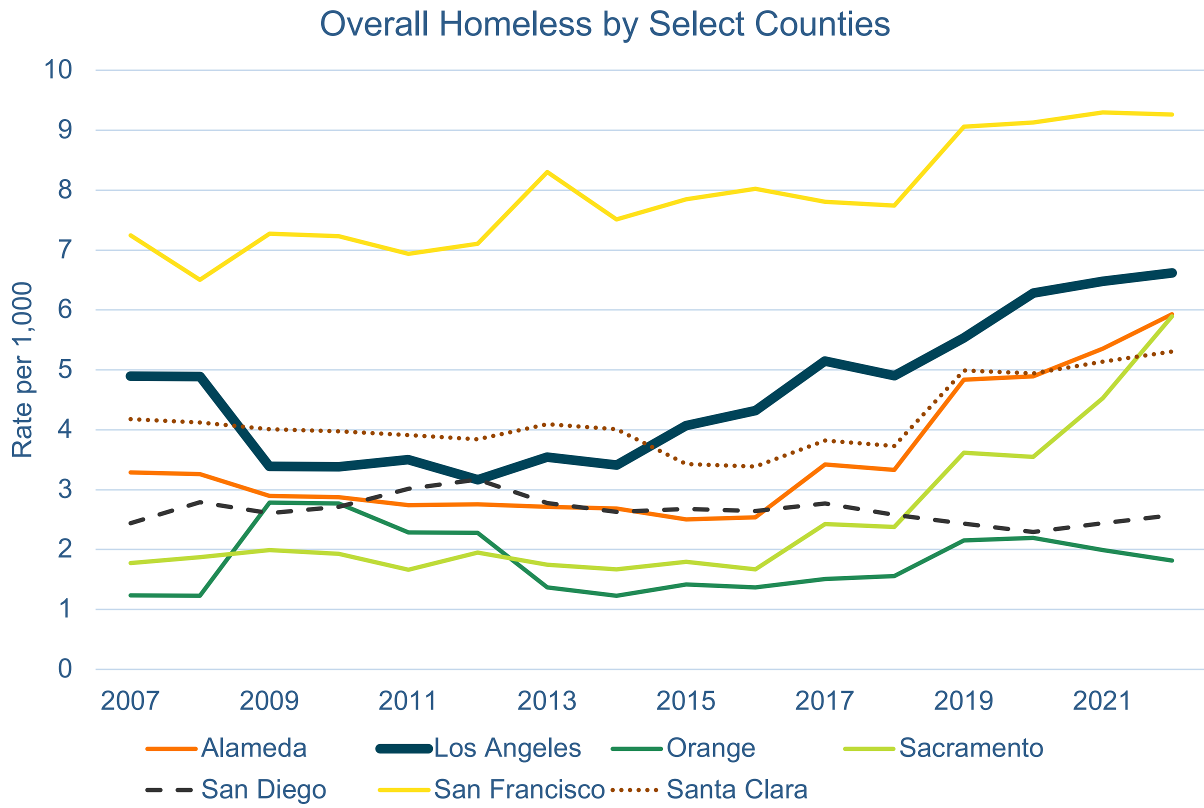
City of Los Angeles Apartment Submarkets, Q2-23				
		Change from 2020-Q1		
Submarket	Vacancy Rate	pp change	Completions	Net Absorption
Carson/San Pedro/E. Torrance/Lomita	4.4	+1.4	+1,030	+746
Chatsworth/Canoga Park	5.9	-0.1	+1,488	+1,292
Downtown	12.8	-5.2	+3,276	+3,803
Granada Hills/Northridge/Reseda	2.7	+0.4	+685	+575
Hollywood/Silver Lake	6.0	+0.6	+3,867	+3,152
Marina del Rey/Venice/Westchester	4.3	-2.4	+1,707	+2,296
Mid-City/West Adams/Pico Heights	3.3	+0.2	+616	+472
Panorama Hills/San Fernando/Pacoima	1.2	+0.2	0	-42
Sherman Oaks/Studio City/N. Hollywood	2.7	-0.9	+1,204	+1,487
South Glendale/Highland Park	3.7	-0.6	+28	+276
South/Central LA	1.4	+0.1	0	-20
Van Nuys/North Hollywood	2.8	+1.1	+992	+641
West LA/Westwood/Brentwood	4.2	+0.7	+707	+480

Source: REIS, Inc.

Rising home prices and asking rents are symptomatic of insufficient supply, a persistent problem in Los Angeles exacerbated by the pandemic and beset with critical policy problems. The City is simply not producing enough housing, and the subsequent increase in housing costs is one of the major causes of Los Angeles' homelessness surge.

Reducing Homelessness in Los Angeles

The housing issues described above are intimately linked to the recent surge in homelessness in Los Angeles. A recent study conducted by Zillow[29] revealed a strong relationship between rising rents and increasing homelessness in many of the country's metropolitan areas. Los Angeles has a large homeless population and that has grown substantially in the aftermath of the pandemic.



Source: United States Department of Housing and Urban Development, California Department of Finance

[29] https://www.zillow.com/research/rents-larger-homeless-population-16124/

Source: United States Department of Housing and Urban Development, California Department of Finance

As discussed previously, Housing First, which provides permanent housing for unhoused individuals, is, according to studies, one of the most effective policy instruments for addressing homelessness. Wraparound services are also essential to helping unhoused individuals by providing them with comprehensive support tailored to their specific needs, including mental health counseling, substance abuse treatment, job training, and access to healthcare. This approach improves the likelihood of maintaining stable housing and empowers individuals to build a sustainable future. Gilmer et al. (2015) assert that Housing First and wraparound services can be effective when provided in tandem. Permanent housing leads to better treatment outcomes from the wraparound services.

Peng et al. (2021) find that Housing First programs reduce homelessness by 88% and improve housing stability by 41% when compared to Treatment First programs.

It is important to underscore at this point that the Responsible Hotel Ballot Measure does not provide either permanent housing or wraparound services and therefore is unlikely to have any material impact on homelessness. Moreover, the ballot measure would have only a negligible effect on the housing supply since hotels and residential housing do not really compete in terms of land use. Ultimately, public funds can be used more effectively to provide meaningful help to the unhoused and others in Los Angeles who are affected by the housing affordability crisis.

Policy Considerations

Ensuring a resilient housing inventory is a cornerstone of any community development plan striving to promote social mobility and equity. However, viable measures to enhance housing availability are currently nonexistent in Los Angeles.[30] The City has grappled with a severe housing deficit for decades. To foster sustained economic development, and combat homelessness, the City of Los Angeles needs to embrace policies and practices that support the development of more housing and promote economic opportunity.

This report finds that the Responsible Hotel Ballot Measure would not improve housing affordability and homelessness issues. Hotels and residential housing do not compete for land use as some claim, and mixed-used developments with hotel and residential units are becoming more popular.[31] While hindering hotel development, land use regulations proposed by the RHBM would have no impact on residential housing development. Moreover, the RHBM proposes a haphazard voucher scheme that would divert public funds from more efficient and effective programs.

Conclusion

This economic analysis finds that the Responsible Hotel Ballot Measure (RHBM) presented an unsound approach to addressing the housing crisis in the City of Los Angeles with little evidence that residential housing was being destroyed in hotel development. By leveraging land use regulations and using hotel vouchers for unhoused individuals, the ballot measure aims to alleviate the strain on affordable housing and social services. However, it is crucial to acknowledge that the policies that the RHBM proposed do not align with the economic literature on land use, housing affordability, or homelessness reduction.

Furthermore, the RHBM introduced unnecessary challenges for the lodging industry. The stringent land use regulations and police permit requirements would deter new hotel development, leading to reduced competition in the market. Additionally, the introduction of housing vouchers would negatively affect demand for city hotels, particularly for group bookings. This would have extensive ramifications for the Los Angeles economy which relies heavily on tourism. Decreased spending by tourists would impact revenues from the transient occupancy tax (TOT), tourism assessment fee, sales tax, and business tax. Beacon Economics forecasts that if

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[30] See Calder and Gygi (2023) for a discussion on land use regulation, housing supply, and housing affordability.
[31] For instance, The Conrad (305-room hotel) and the Grand (436 residential units) recently opened as a part of the same development. https://www.related.com/press-releases/2022-07-14/related-companies-celebrates-opening-grand-las-conrad-los-angeles-and

the RHBM had been approved, then the cumulative reduction in tax revenue from March 2024 to June 2028 would total $279 million, with 14,100 fewer jobs and $677 million less in earned wages.

In light of these considerations, stakeholders must weigh the potential benefits and drawbacks of the Responsible Hotel Ballot Measure. While it attempts to address the critical issues of housing and homelessness, its ability to provide lasting solutions is implausible. As the City of Los Angeles grapples with these complex challenges, a comprehensive and nuanced approach is essential to crafting policies that effectively support both residents and the hospitality industry.

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