



June 6, 2017

Councilmember José Huizar, Chair
Planning and Land Use Management Committee
200 N. Spring Street
Los Angeles, CA 90012

Re: **Item 9, Affordable Housing Linkage Fee**

Dear Councilmember Huizar,

The Central City Association (CCA) advances policies and initiatives that promote Downtown's vibrancy and increase investment in the region. Downtown is the region's center for growth and it has the potential to meaningfully address the housing crisis with high-density mixed-income housing. By locating housing in Downtown we are maximizing the impact of public transit investments and creating a more sustainable city.

The Affordable Housing Linkage Fee (AHLF) should be viewed as an initial step toward addressing the housing crisis; it will not solve the crisis on its own. The city must balance this action with incentives and streamlined procedures to encourage economic growth. CCA requests that the AHLF be adopted in a manner that will minimally disrupt housing production and the creation of new jobs.

In this letter we make recommendations regarding the implementation of the AHLF and provide ideas to support job growth and increase housing production at a broad range of income levels.

Recommendations for Citywide AHLF Implementation:

The AHLF is a completely new concept in Los Angeles and is being applied to almost all new development. The proposed fee of \$12 per square foot (SF) for residential projects and \$5 per SF for non-residential projects should be phased in over a multi-year period. The city provided a two-year phase-in for the recently adopted Park Fee and it was not a completely new fee; we recommend a three-year phase-in to ease the transition from no fee to a significant fee. We believe this will provide time for land prices to adjust, which will help mitigate potential negative impacts on housing and job creation.

CCA asks that the City reverse the City Planning Commission's (CPC) changes to the way the fee amount is calculated. City Planning staff recommended that the AHLF be based on the leasable/saleable square footage, and CPC changed it to total building square footage. We believe that City Planning staff had this right: Hallways, janitor rooms, and common areas do not contribute to residential or non-residential demand, and therefore should not be counted toward the AHLF calculation.

We also ask that the city delay payment of the AHLF to issuance of the certificate of occupancy versus at issuance of building permit, similar to the required timing for payment of park fees for non-subdivision projects. This will reduce carrying costs and avoid unnecessary interest accrual, reducing the cost of new housing and making housing development feasible in more areas of the city.

CCA believes the thresholds for projects subject to the fee should only apply to residential projects with 50 units or more, and non-residential projects with more than 50,000 SF. This will allow for the mid-market, “Missing Middle” housing projects to still be built. According to a USC study from 2015, buildings with 2-49 units account for over 20% of the nation’s housing supply and are the most likely to provide unsubsidized affordability.¹ Without this exemption, many of these projects—especially those planned in less expensive LA housing markets—will become financially infeasible and we will lose out on thousands of units of “naturally affordable” market-rate housing. We also believe exempting non-residential projects with less than 50,000 SF will help Los Angeles remain the nation’s largest market for small business creation.

We ask that the city consider exempting non-residential square footage from the fee calculation when it is required by the city through a specific plan or other planning requirement. This modification will align city policies and avoid competing priorities.

In addition, CCA encourages including a provision within the ordinance that suspends the fee in the event of an economic downturn. We also ask that the ordinance contain language that the AHLF must be used for affordable housing purposes defined as 30-150% AMI. It must be abundantly clear that these funds cannot be used for other purposes.

Finally, we ask that the AHLF ordinance include a hardship exemption and require annual reports to the City Council on the use of the AHLF.

CCA appreciates your consideration of these modifications and we feel strongly that they will go a long way toward mitigating potential negative impacts.

Recommendations for Downtown AHLF Implementation:

Downtown is like no other place in the City of Los Angeles. This is evidenced by a variety of unique characteristics and policies, including its skyline of high-rise buildings, unlimited residential density, and the Transfer of Floor Area Rights (TFAR) ordinance. The TFAR ordinance allows projects to purchase additional development rights from the LA Convention Center in exchange for a transfer payment and a public benefit payment. The public benefit payment can be used to support a broad array of priorities, from park space to transportation infrastructure to affordable housing.

We ask that the AHLF calculation only be applied to square footage allowed by a parcel’s base FAR limit—that is, what can be built without the TFAR allocation. This will align city policies and avoid creating a disincentive for projects to utilize the TFAR ordinance, which is an important tool for Downtown’s growth and the provision of community benefits.

Encouraging high-rise housing in Downtown should remain a city priority. It creates the most construction jobs, best leverages public transit investments, and creates a significant number of new housing units. Unfortunately, the AHLF Nexus Study by BAE Urban Economics does not analyze Type I/high-rise construction. The study also falls short in analyzing construction loans. According to our members who work in the development industry, it is unheard of to receive a construction loan for 85% of construction costs, and a 6% interest rate is unobtainable. We point this out to highlight the fact that the study does very little to illuminate how the Downtown Los Angeles market will react to a new fee. We believe the only way to mitigate this uncertainty is to phase the fee in over a

¹ <http://www.enterprisecommunity.org/resources/small-and-medium-multifamily-housing-units-affordability-distribution-and-trends-19323>

multi-year period, create compatibility with the TFAR ordinance, and retain a fee structure that is predictable and clear.

Recommendations to Increase Housing Production & Preservation:

CCA strongly believes that LA’s regional housing shortage is the root cause of our affordability crisis, but we also must continue to subsidize housing for homeless and extremely low income individuals. We are pleased that there has been significant action to create new, broad-based revenues to support homeless housing including Proposition HHH, Measure H, and the No Place Like Home initiative. About 9,000 homeless residents were housed over the last two years, yet we still had a 20% increase in homelessness in the city. This shows that new people are falling into homelessness every day, and we need to provide more diverse and flexible ways to solve the housing crisis.

The current draft ordinance calls for the establishment of a Housing Impact Trust Fund and we believe this is a good opportunity to create targeted solutions for many Angelenos who cannot afford current market rents but do not qualify for city subsidized housing. These are the people who are at-risk of becoming homeless. The Housing Impact Trust Fund could be used to purchase existing buildings and covenant the units for moderate income households, and also to broaden the city’s existing program that helps families with down payment assistance to put a mortgage within reach. Both of these programs directly address tenant displacement and could be used as tools to help people stay in their communities.

In order to truly address the housing crisis the city must complement public revenues with new approaches that require little or no public subsidy. We believe Downtown is the place to try pilot programs and welcome its use as a testing laboratory for the rest of Los Angeles. One smart approach is to create flexibility in the zoning code and building code—to let developers build housing that encompasses the entire range of lifestyles that LA residents choose to live.

For example, research performed at UCLA has shown that reducing or eliminating parking requirements results in significantly less expensive and more diverse housing options, and this finding was based on research done in Downtown LA itself.² CCA also believes we should target expensive and wasteful garage standards, such as driving aisle requirements: aisle widths are 28 feet in Los Angeles, but only 22 feet in Seattle. Another building efficiency that should result in greater affordability is eliminating the requirement for 30 feet between stairwells, and replacing it with a redundant two-hour rating requirement to promote public safety.

In general, affordability would improve with less prescriptive standards when it comes to matters of preference: We should be uncompromising in our expectations for health and safety in our buildings, but we should allow for a greater variety of unit types including those without a parking space, private bathroom, or full-sized kitchen. These kind of efficiencies can yield greater affordability and put more desirable neighborhoods within the reach of more people. Right now, our codes prevent those types of options from being provided. Similarly, requirements such as minimum unit size, above-average ceiling heights, and setback requirements can all increase costs in ways that narrow the range of choices available to renters and reduce the availability of housing for workforce and moderate-income households.

CCA also recognizes that there are new housing typologies emerging. New building materials such as cross-laminated timber, shared housing opportunities, corporate housing, as well as temporary and modular housing

² Michael Manville. Parking Requirements and Housing Development. Access Magazine Number 44, Spring 2014.

that can be easily constructed and moved are all typologies that the City must embrace. We ask that you request City Planning, LADBS and HCID to report to your committee on challenges and solutions to locating new housing typologies in LA.

We encourage the city to utilize existing opportunities to increase housing production. For example, the House LA legislative package contains valuable ideas to support new housing construction and should be advanced to help offset the fee's cost and minimize its impacts on housing production. We are particularly interested in increasing the threshold for site plan review. It is currently 49 units, impacting almost every project in Downtown by imposing an artificially low threshold for additional review. CCA also encourages the city to complete the Permanent Supportive Housing Ordinance and to update the Density Bonus Ordinance. Both of these items will help to streamline approvals of housing.

The Bicycle Parking Ordinance code amendment is currently pending at your committee. As drafted it requires one bike parking space per residential unit, which unfairly burdens large projects. We believe a tiered approach—one in which the spaces per unit declines as the number of units increases—would continue to meet the need for bike parking while encouraging larger residential projects to move forward without delay or unnecessary cost. The ordinance also contains very strict requirements for bike parking locations that negatively impact active ground floor uses, and it misses many opportunities to promote shared resources such as Metro's Bike Share program in lieu of single-purpose, tenant-only amenities like parking. Many projects are forced to request a variance to comply with these provisions and we ask that the ordinance be modified to provide greater flexibility while still supporting increased bicycling.

City Planning has initiated DTLA 2040, which is the merging and update of the Central City and Central City North Community Plan areas. We believe DTLA 2040 is the perfect opportunity to advance a mixed-income Downtown through increased density and public investments. We support removing balconies from FAR calculations, eliminating parking requirements, allowing the transfer of air rights between private properties, and adopting flexible zoning to respond to changing and emerging needs. Aggressively promoting increased density in Downtown will advance two important citywide goals: ameliorating the housing shortage and creating new affordable housing resources. Increased residential capacity will allow Downtown to play an outsize role in addressing the housing shortage that is at the heart of the region's affordability crisis.

As DTLA 2040 progresses, CCA will continue to engage stakeholders and push for maximizing residential construction in the area, and for tying those increases to an effective value capture mechanism that is invested back into the community for the benefit of local residents and businesses. A key consideration is to ensure that the value captured by community benefit requirements does not exceed the value created by zone changes. If that occurs, property owners will actually be disincentivized from investing in redevelopment, and we will be left with less market-rate *and* less affordable housing, in addition to ongoing shortages of open space, mobility improvements, and other community investment priorities. We also must ensure that any value capture benefits required by DTLA 2040 are compatible with the AHLF. This is the same balance we are trying to strike with the AHLF and existing community benefit requirements.

Recommendations to Increase Job Producing Uses:

Housing affordability isn't just about the cost of homes, but also the incomes of a city's residents. Much of LA's housing crisis can be explained by a lack of good, well-paying jobs despite increases in the minimum wage: Home prices have continued to climb even as our unemployment rate remains above state and national levels, and average wages have been stagnant for more than a decade. Compared to other high-cost coastal cities like San

Francisco, Seattle, and New York, Los Angeles has among the lowest median incomes in the country. When crafting policies to promote housing affordability, we must ensure that we aren't creating new burdens on the creation and retention of jobs—the two goals must be pursued in tandem as part of a holistic economic development strategy.

Just as we believe the city must make it easier to build housing, we also believe the city should take a more active role in supporting job creators. While we understand many of the suggestions we are providing are outside of the purview of your committee, there nonetheless must be a greater focus on zoning for business start-up, promotion, attraction, and growth. The Ad Hoc Jobs Committee chaired by Councilmember Kerkorian has done a great job of setting the course for the city to become more of an economic development partner, and we hope the city will use this opportunity to consider planning strategies focused on job creation.

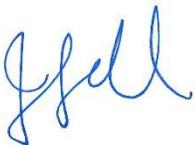
For example, we know private car ownership is declining in urban areas like Los Angeles, and we need to be ready to repurpose parking garages. Additionally, retail is rapidly evolving and more retailers are looking for ways to convert existing structures into a greater mix of uses. We encourage the city to start thinking about flexible strategies for the conversion of parking garages and retail spaces to new and innovative uses.

Next Steps:

CCA understands the uncertainty of the federal budget and what impact the elimination of HOME and/or CDBG funds would mean for the Affordable Housing Trust Fund, and we share your concerns. We ask that this uncertainty not drive the conversation regarding the AHLF and that you continue to take a thoughtful approach to this significant citywide policy. We urge you to keep this item in your committee for additional dialogue as this complex issue is considered by businesses, residents, and stakeholders from across the city.

We greatly appreciate your consideration and value our continued partnership to build a stronger and more vibrant community in Downtown LA.

Sincerely,



Jessica Lall
President & CEO

Cc: Mayor Garcetti,
Council President Wesson,
Councilmember Harris-Dawson, Vice Chair,
Councilmember Cedillo,
Councilmember Englander,
Councilmember Price

Summary of AHLF Recommendations

- Introduce a three-year phase-in of the fee, to allow land prices to adjust and mitigate negative impacts on housing and job creation.
- Calculate the linkage fee based on leasable space rather than total square footage, which aligns with the nexus between new housing and increased affordable housing demand.
- In Downtown, apply the linkage fee calculation to base FAR only. Do not double-assess additional FAR purchased through the TFAR program.
- Require payment of the AHLF at issuance of the certificate of occupancy rather than issuance of the building permit. This will reduce carrying costs to make new housing more affordable and make development feasible in more areas of the city.
- Exempt the first 50,000 square feet of jobs-producing uses from the fee.
- Exempt residential uses with 50 units or less from the fee to avoid discouraging “naturally affordable” Missing Middle housing from being built.
- Exempt non-residential square footage from the fee when it is required through a City specific plan or other planning requirement.
- Include a provision within the ordinance that will suspend the fee in the event of an economic downturn.
- Include a hardship exemption from the fee.
- Include a provision within the ordinance that the AHLF must be used for affordable housing purposes defined as 30-150% AMI. It must be abundantly clear that these funds cannot be used for other purposes.
- Require annual reports to City Council on the collection and use of the AHLF.