



November 17, 2015

Honorable Gilbert A. Cedillo, Chair
Housing Committee
Los Angeles City Council
200 North Spring Street, Room 395
Los Angeles, CA 90012

Honorable Jose Huizar, Chair
Planning and Land Use Management Committee
Los Angeles City Council
200 North Spring Street, Room 395
Los Angeles, CA 90012

Attention: Richard Williams, Legislative Assistant
Attention: Sharon Gin, Legislative Assistant

COMMITTEE TRANSMITTAL: JOINT REPORTS BACK RELATIVE TO AFFORDABLE HOUSING POLICY OPTIONS. COUNCIL FILES 13-1389, 13-1624 and 14-1325

SUMMARY

Several recent City Council motions have highlighted the need for additional policies to address the City's mounting housing crisis. The first motion (CF 13-1624 - O'Farrell/Fuentes) called for the development of policy initiatives to encourage the development of affordable housing in close proximity to transit stops. The second motion (CF 13-1389 - Blumenfield/Bonin) requested an analysis of major policy options for the increased production of affordable housing overall. Two later City Council instructions adopted as part of last year's budget process called for an analysis of options to fund the City's Affordable Housing Trust Fund to compensate for the loss of housing funding (14-0600-S34/14-0600-S123). A more recent motion (CF 14-0361 - O'Farrell/Fuentes) called specifically for a report on a policy to earmark a percent of the tax revenue the City receives from the dissolution of the former CRA for affordable housing. Due to the overlapping subject matter of the motions, they were bundled and adopted together by City Council on October 8, 2014.

Subsequent to the introduction of these motions, in November 2014, the Mayor set forth a goal of building 100,000 units of housing by 2021 (or 12,500 units a year between 2013 and 2021). The City also recently released the *Sustainability City pLAN*, which calls for rebuilding the City's Affordable Housing Trust Fund, reducing the number of rent burdened households and increasing housing production near transit. In October 2015, the Mayor also announced a goal to build and preserve 15,000 affordable units by 2021.

There is no one magic bullet to addressing Los Angeles' longstanding housing crisis. It will require a range of policies, across a number of areas. The accompanying reports from the Department of Housing and Community Investment (HCID) and the Department of City Planning (DCP) detail the funding options available for affordable housing and identifies additional planning and land use strategies to increase the affordability of housing for all Angelenos. Both additional funding and land use tools are critical if the City is to meet the goals laid out by the Mayor and City Council.

BACKGROUND

For most of the last 25 years the City of Los Angeles, like much of coastal California, has struggled with the lack of housing affordability. Los Angeles has the dubious distinction of being the most unaffordable rental market in the nation, when comparing rents to incomes¹. The problem has recently reached levels unseen by any major City, at least in recent history. The average Angeleno household now pays close to half their income in housing costs, a level far beyond the federal standard of 30 percent of income. The problem has also spread quickly to middle-income earners. While only 11 percent of middle-income households were rent burdened in 2000, today the figure is roughly half ². Given the disparity in housing costs and incomes, Los Angeles also leads the country with the highest percentage of overcrowded units and has the highest number of unsheltered homeless persons.^{3 4}

The root cause of the affordability crisis has been identified as a mismatch in the supply and demand for housing, particularly for those with lesser means⁵. Recently, severe cuts to federal, state and local housing funding has decimated the amount of funding available for affordable housing. As a result, the production of affordable housing for low-income households has gone from 1,628 units in 2007 to less than half that in the previous two years⁶.

The affordability crisis has profound ramifications that touch the lives of nearly everybody in Los Angeles. Families leave the City to find decent schools they can afford to live near. Parents wonder whether their adult children will be forced to move away. Workers routinely suffer terrible commutes, which interferes with family life and contributes significantly to carbon emissions, traffic and worsened air quality. Businesses can't successfully compete for employees and our universities can't attract high quality faculty when people can't afford to purchase homes near work. Households who are stretched to the limit do not have the money to support local businesses and make healthier choices.

¹ Joint Center for Housing Studies of Harvard University (2014) *The State of the Nation's Housing 2014* Cambridge, MA: Joint Center for Housing Studies of Harvard University

² *Los Angeles Times*, "L.A. has a Serious Housing Crisis and it's time for City Officials to do Something About it" (Jan. 11, 2015)

³ <http://www.latimes.com/local/la-me-crowding-box-20140308-story.html>

⁴ US Department of Housing and Urban Development (2013). *The 2013 Homeless Assessment Report to Congress*. <https://www.hudexchange.info/resources/documents/ahar-2013-part1.pdf>

⁵ Ray, Rosalie; Paul Ong and Silvia Jimenez (2014) *Impacts of the Widening Divide: Los Angeles at the Forefront of the Rent Burden Crisis*. Center for the Study of Inequality UCLA Luskin School of Public Affairs

⁶ Department of City Planning, 2013 Annual Progress Report for the Housing Element.

CONCLUSION

The lack of housing affordability threatens everything that makes Los Angeles a great place to live - our diversity, livability, environment and economic competitiveness. The dire statistics cited above and in the accompanying report illustrate the need to create a multifaceted approach to addressing housing needs in the City.

To this end, the reports that follow detail the housing tools that are currently being employed, as well as those that could be developed and make a significant contribution to more affordable housing. Please note that DCP and HCIDLA have bifurcated the report; planning and land use tools will be discussed in a report prepared by DCP. Similarly, financial and legislative approaches will be discussed in a report prepared by HCIDLA. However, the discussions, analysis and recommendations, as a collective, have been vetted and are the recommendations of both departments.


FUNDING FOR AFFORDABLE HOUSING OPTIONS

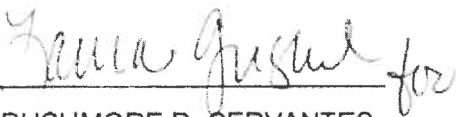
- Instruct the City Administrative Officer to identify the source of funds to develop a new Affordable Housing Benefit Fee study in the Department of City Planning in close coordination with the Housing and Community Investment Department and to transfer funds to the Department of City Planning in the next Financial Status Report.

PLANNING/LAND USE RECOMMENDATIONS

- Support DCP and HCIDLA's efforts for long-range community planning to create new capacity for housing where appropriate and to study new incentives and funding mechanisms for affordable housing.

Sincerely,


for MICHAEL J. LOGRANDE
Director of Planning


RUSHMORE D. CERVANTES
General Manager
Housing + Community Investment Department

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**COMMITTEE TRANSMITTAL: REPORT BACK RELATIVE TO AFFORDABLE HOUSING POLICY
OPTIONS. COUNCIL FILES 13-1389, 13-1624, 14-0361 and 14-1325**

SUMMARY

In response to several Council motions on affordable housing listed in the accompanying joint letter, the Department of City Planning (DCP) presents a report recommending a comprehensive work program to address housing needs. This list of strategies ranges from longer-term planning activities to zoning code modifications that can be implemented in the near term. Together, they represent a two-pronged approach to ensure: 1) that land use regulations provide the appropriate foundation to facilitate residential development in appropriate locations; and 2) that policies and incentives support both the production and protection of existing affordable housing.

Planning and land use policies around affordable housing have become even more important given the dramatic decline in available subsidies in recent years. With fewer dollars available to assist in the production of affordable units, the DCP is committed to ensuring that current incentive programs are working efficiently and that new strategies to maximize affordable housing in market rate developments are realized.

To support this approach, DCP proposes the implementation of 23 specific strategies. The strategies are grouped in the second half of this report and have been identified as furthering one of the following four objectives:

1. Increase overall housing supply (S)
2. Provide incentives for affordable housing in market rate development (I)
3. Establish Public Benefit Zoning strategies (Value Capture) (VC)
4. Preserve affordable housing (P)

Most of the concepts presented here are described in the Los Angeles Housing Element of the General Plan, which was adopted by the City Council in December 2013. The Housing Element was developed with input from a Task Force of housing experts from 45 different organizations representing a wide spectrum of viewpoints and perspectives on housing. Therefore, many of the ideas expressed here have been previously vetted by housing experts, building industry representatives, and housing advocates. It is also worth noting that many of the ideas are also reflected in the recently released Sustainable City pLAn as well as multiple City Council motions.

BACKGROUND

1. Insufficient Supply of Housing

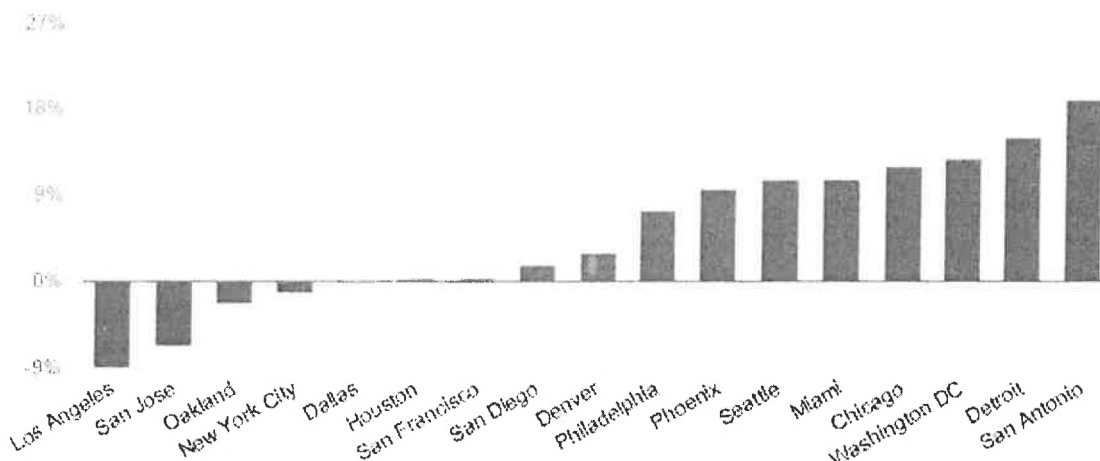
In no other major city in the United States is the cost of housing so out of proportion to the income of its residents as it is in Los Angeles¹. While many factors help explain the situation, the basic mismatch between housing supply and demand is likely the central cause². Over time, the supply of new housing has been insufficient to meet rising demand due to growth. From 1980 to 2010, the rate of population growth was nearly 50% higher than the rate of housing unit production in the City. This mismatch between new housing and population is the highest of any other major city in the United States (see Figure 1 below).

Since 1980, the difference between new housing and population growth has resulted in a “deficit” of approximately 100,000 units in the City. This is the number of housing units that would have been required to house the new population without leading to increased overcrowding, “doubling up” and reducing vacancy rates below where they were in 1980. Addressing the supply question means creating enough housing for future demand (about 10,000 units a year) and chipping away at the historic deficit. The Mayor’s goal of producing 100,000 housing units by 2021 (or 12,500/year) takes this into account.

¹ Joint Center for Housing Studies of Harvard University (2014) The State of the Nation’s Housing 2014 Cambridge, MA: Joint Center for Housing Studies of Harvard University

² State of California’s Legislative Affairs Office. California’s High Housing Costs – Causes and Consequences. March 2015. <http://www.lao.ca.gov/reports/2015/finance/housing-costs/housing-costs.pdf>.

Figure 1 - Percentage Change in Housing Units vs. Population, 1980-2010, by Major Cities



The City regulates the development of new housing largely through the zoning code, building code and land use established in local community plans and specific plans. In these efforts, the DCP works with local communities to respond to specific conditions and plan comprehensively for local needs, of which housing is a critical piece. The amount and type of residential development permitted by these plans is referred to as "residential capacity." Increasing or lowering the residential capacity can significantly impact the amount of new housing production.

Since the early 1970s, the residential capacity in the City has declined significantly. In 1970, the City had a theoretical maximum build-out capacity of roughly four times its current population level (10 million person capacity vs. 2.5 million population)³. Today, the capacity figure is less than one and one-half times our current population level (5.5 million person capacity vs. 4 million population).⁴ Using more realistic estimates of residential zoning capacity, the City is believed to have capacity for about 200-300,000 additional housing units⁵; however, much of it is located in areas where the market has shown little interest in building or where other development constraints exist.

Another factor that impacts the ability to add to housing supply is the dominance of single-family zoning in Los Angeles. Eighty-six percent of all of residentially zoned land in the City is zoned for single-family or two-family use only, which is a somewhat an anomaly among major world cities. Combined with the significant down-zonings described above, the remaining areas where multiple-family housing can be built have become very desirable. This has significantly increased the price of this land, making new housing very expensive to build.

The result of relatively low zoning capacities and high land costs is that most significant multi-family housing requires at least one kind of discretionary review to be built. Discretionary reviews require public

³ Department of City Planning. 1972. *Density Adjustment Study*.

⁴ Much of the downzoning over time was required by a voter-approved measure (Proposition U - 1986) and State Law (AB 283 - 1978).

⁵ The figure of approximately 200,000 and 300,000 units of reasonable capacity is derived independently from two separate methodologies - the Housing Element inventory of sites (see Chapter 3) and by adding up the "realistic capacity" figures in each of the 35 Community Plans. These analyses assume that most commercial sites will not redevelop to residential. The lower 200,000 Housing Element capacity figure assumes residential zoned parcels will not increase their number of housing units unless sufficient redevelopment potential exists.

hearings, findings, appeals and mandatory CEQA compliance - all of which introduce considerable uncertainty and risk for a developer. This discourages many would-be developers and is another reason for the lower housing production during the last 25 years compared to the 1970s and 80s, when more housing could be built by-right.

To rebuild housing capacity in a way that is compatible with community character, the DCP's two-pronged approach focuses first on expanding capacity at strategic transit-rich locations and second on making adjustments to the zoning code.

A major factor influencing current planning efforts in Los Angeles is the unprecedented growth in its public transit system. In just a few years, the City will have 15 new Metro rail transit stations within its borders, for a total of 72. The significant investment by Metro in the region's public transit system presents an unprecedented asset and a strategic opportunity for new housing investment to achieve City goals while protecting single-family neighborhoods.

As established in the General Plan, Los Angeles pursues a sustainable approach to meeting housing needs by directing growth to higher-intensity areas in proximity to high-quality transit. Rail, transitways and rapid bus stops, in particular, are key to this "smart growth" vision of a more livable and sustainable Los Angeles. Locating high-density housing near transit improves mobility, lessens vehicle miles traveled and, therefore, reduces air pollution and regional congestion associated with growth.

The DCP is currently in the process of creating 10 new Community Plans and Transit Neighborhood Plans for approximately 30 rail transit station areas. Together, the plans cover approximately 40% of the total population of the City and will create new tailored development regulations around approximately 60 of the station areas. Significant capacity for new housing is expected to be created in new transit-oriented neighborhoods at strategic locations through these plans.

The *re:code LA* zoning code revision and the citywide *Development Reform* processes offer great opportunities to improve zoning/permit regulations and procedures that are not working as well as they could. *re:code LA* is moving towards creating a new zoning code that will unbundle building form from land use and will contain more and better development standards to enable projects that comply with the applicable standards to be built by-right. In addition, *re:code LA* will create new and expanded residential typologies to accommodate new housing types, such as micro units and accessory dwelling units, to increase opportunities for providing additional housing that is more affordable. The *re:code LA* effort will also reexamine ways to expand, improve, or integrate current provisions, such as adaptive re-use and transfer of floor area, to encourage increased production of affordable housing.

2. Affordable Housing

As market rate housing becomes increasingly expensive, the importance of creating and preserving income-restricted affordable housing is heightened. Unfortunately, after years of cuts in funding, the production of affordable housing units has been cut by more than half. Despite the recent California Supreme Court decision upholding San Jose's inclusionary zoning policies on for-sale residential development, the ability for cities in California to require affordable housing in rental housing developments remains out of reach until there is a legislative action or another Court decision⁶. Given

⁶ California Building Industry Association vs. the City of San Jose et al. [S212072](#) (H038563; Santa Clara County Superior Court – CV167289)

the losses in funding and limited zoning tools, maximizing land use strategies and incentives for both producing and preserving affordable housing has become even more critical.

The City aims to produce and preserve affordable housing across the City, however current housing policies (in the Housing Element) place particular emphasis on areas with high quality transit. Low-income households are much more likely to actually use public transit and, therefore, tend to amplify the benefits of a transit-oriented growth strategy. However community members have raised concerns that concentrating development in certain areas of the City could lead to increases in housing costs and displace lower income households. Beyond the individual hardship associated with displacement, demographic change also may lead to population decline due to drops in the numbers of persons per household as larger families are replaced with smaller households. Lower population density and fewer transit riders is sometimes the unfortunate result. Without policies to mitigate unintended impacts, the benefits of smart growth policies in transit areas could be lessened.

The DCP's primary method to create affordable housing is by offering smart incentives for including such units in new development. This can be done by improving existing programs such as density bonus, as well as thinking creatively about new incentives such as CEQA streamlining, trip credits and entitlement fees/processing. A related topic often called "value capture" is being considered by a number of cities as a way to generate public benefits, such as affordable housing, in response to entitlement actions that increase the value of land. Finally, it is important to keep preservation of existing affordable housing at the forefront of any comprehensive approach to housing solutions.

DISCUSSION - SPECIFIC STRATEGIES

The background discussion above lays forth the basis for a two-pronged approach to expand the overall supply of housing in Los Angeles and focuses particular attention on new incentives to retain and expand the supply of affordable housing. Below is a list of specific housing strategies the Department is currently pursuing as well as additional strategies that could be effective in achieving the City's housing goals. Many of the strategies will be incorporated into the existing *re:code LA* project. Strategies are categorized around Housing Supply (S), Affordable Housing Incentives (I), Value Capture policies (VC) and/or Preservation tools (P).

1. Affordable Housing Benefit Fee

Most new development in the City creates an impact on the local housing stock, as new jobs increase the demand for living in the area. Today, Los Angeles is one of only a handful of major cities that does not either assess a linkage fee on new development or require affordable housing as the result of residential development (i.e. inclusionary zoning). On October 23, 2015 Mayor Garcetti pledged support for the idea of pursuing the adoption of a linkage fee on certain types of new development. This concept is discussed in much greater detail in the accompanying report by the Housing and Community Investment Department (HCID).

Status: The Department will undertake the development of an up-to-date Affordable Housing Benefit Fee nexus study.

2. Long Range Planning (S/I)

Community planning efforts are the most effective way to update local land use policies and plan for community needs such as housing. Planning for housing needs takes different forms in LA's diverse neighborhoods. Sometimes it requires upzoning at strategic transit-rich locations, while other times, leaving zoning designations alone or even lowering them will be the appropriate strategy to conserve

neighborhood character and maximize affordable housing.

The Sylmar Community Plan was recently adopted by City Council, and is now in effect. Nine Community Plans are currently in development, with seven already released in draft form, and three of those having received a City Planning Commission recommendation of approval. Together the seven draft plans would create new residential capacity for nearly 50,000 housing units at targeted locations. Communities played a key role in determining the appropriate location of the new housing areas. Similarly, several newly developed Specific Plans have added about 30,000 units of residential capacity, while also including incentives to encourage the development of affordable housing.⁷

Status: The Department is studying long-range community planning efforts to create new capacity for housing where appropriate.

3. Transit Neighborhood Planning (S/I)

The City and Metro have critical stakes in ensuring the optimization of land use in future and existing transit accessible neighborhoods. DCP has recently been awarded nearly \$7.5 million in grants from Metro to develop Transit Neighborhood Plans that will create new tailored development regulations around 26 of the newest station areas. The 10 Community Plans in various stages of development will likely rezone properties around almost as many stations⁸. DCP aims to align its land use strategies and incentives to ensure that goals around housing production and preservation are met. Many of the separate sections below also touch on transit-oriented housing strategies, including density bonus, CEQA, accessory dwelling units, parking, micro units, etc.

Status: The Department is analyzing various opportunities for creating residential capacity and/or new incentives for affordable housing near transit stations through the planning process.

4. Modified Parking Standards (S/I)

Affordable housing and housing near transit has been demonstrated to require less parking than comparable development. Today's uniform parking standards do not reflect significant differences in location, context and user behavior that significantly impacts the cost of housing in Los Angeles. Constructing parking spaces in Los Angeles often costs more than \$30,000 per space. With most units requiring at least two spaces, the cost of parking as a portion of the overall housing construction is significant and often prevents additional units from being built. Therefore, getting parking standards correct, or "right-sizing" them, is a high priority.

Currently the City offers limited parking reductions to affordable housing projects and for projects near transit. There may be additional opportunities to reduce and/or eliminate parking requirements based on selected criteria, including but not limited to development type, specific zones and proximity to transit. One of the recent House LA motions, introduced by Councilmember Cedillo (CF 15-1002), requests that the DCP prepare and present a report with recommendations on vehicular parking regulatory reform as well as prepare an ordinance that promotes shared vehicles for buildings located near transit.

Status: The Department is preparing a report pursuant to CF 15-1002 with recommendations on parking

⁷ These include the Cornfield Arroyo Seco Specific Plan, the Warner Center Specific Plan and the Jordan Downs Specific Plan.

⁸ Community Plans are underway for the following Community Plans that have rail stations: Southeast, South, West Adams-Baldwin Hills-Leimert, Hollywood, Boyle Heights, Central City and Central City North.

reform. The report will explore the opportunity to enact custom parking standards through the creation of the following: new zones as part of the *re:code LA* process, new Modified Parking Requirements Districts, the Density Bonus ordinance and/or new community planning efforts.

5. Transitional Height (S/I) (*re:code LA*)

Transitional Height requirements (LAMC 12.21.1.A.10) impose strict height limitations for projects on commercial corridors (zoned C) that border single family zones. The regulations are uniform, regardless of the project type or location within the City, treating a suburban area the same as an urban one. While the uniform height standards help to protect single-family areas that border commercial zones, they also discourage growth on corridors well served by transit where plans and policies normally encourage growth. *re:code LA* is looking at revising the transitions between single-family and commercial or multiple-family properties in order to better customize adjacency standards depending on a range of factors, including proximity to high quality transit. The provision of affordable housing could also be a basis for requiring different transitional height requirements.

Status: The Department is developing context-specific transitional height standards through the *re:code LA* effort.

6. Site Plan Review (S) (*re:code LA*)

Site Plan Review requirements were imposed in 1990 to promote orderly development and mitigate significant environmental impacts. The process requires that residential projects with a net increase of 50 units or more undergo a discretionary review, even if no other planning entitlements are needed⁹. The process requires that a CEQA review takes place and that projects are properly related to its site and compatible with its neighbors. Although it serves an important role in project review, the process forces otherwise "by-right" projects to undergo a time-consuming, costly and unpredictable review process that is subject to appeal. Many projects choose to reduce their allowable density below 50 units to avoid the process altogether. Therefore, this practice results in a cumulative effect on the availability of new housing units.

Similar to the Transitional Height issue above, there may be ways to achieve the same important objectives and outcomes, while ensuring the process itself does not become a barrier to quality housing projects. Recently, several Specific Plans have included their own design and CEQA review processes that largely exceed the types of objective standards required under Site Plan Review. In those areas, projects that meet all of the required regulations receive an administrative clearance by Planning staff, achieving many of the same goals of the traditional Site Plan Review process. One of the recent House LA motions introduced by Councilmember Cedillo (CF 15-1003) requests that the DCP prepare and present a report with recommendations to amend the site plan review ordinance, increasing the threshold from 50 residential units and establishing an administrative zoning clearance process for projects below this threshold as a strategy to increase the City's affordable housing production. Also, *re:code LA* is looking for areas to improve the effectiveness of existing procedures, as well as establish better development standards that can be incorporated into zoning regulations that can be administratively cleared by Planning staff.

⁹ Exemptions are included for projects located in a Specific Plan area, for which an EIR was certified in the past 6 years, as well as projects downtown subject to the Downtown Design Guide.

Status: The Department is studying the feasibility of amending the site plan review ordinance in a way that achieves the same important environmental and site design outcomes as Site Plan Review through other methods.

7. Transfer of Floor Area Ratios (S/P/I) (re:code LA)

The City currently allows transfers of development rights in the downtown area through the Transfer of Floor Area Ratios (TFAR) Ordinance, as well as in Central City West and the Cornfield Arroyo Specific Plans. The TFAR Ordinance established a TFAR benefit fee payment, with proceeds to be used for different types of public benefits within two miles of Central City (affordable housing is one of the 12 designated types of public benefits).

The TFAR concept, if applied strategically in other areas of the City, could benefit citywide housing supply. TFAR policies can also be modified to create a tool to advance other citywide policies such as historic preservation or affordable housing. Other cities allow density transfers from historic landmark buildings and 100% affordable housing sites, as well as major open spaces and arts facilities. The funding can be used to sustain these socially beneficial uses, while also ensuring that development rights are utilized.

Status: The Department, as part of *re:code LA*, is considering locations where the use of TFAR may be appropriate to achieve citywide objectives.

8. Accessory Dwelling Units (S/I) (re:code LA)

Accessory Dwelling Units (ADUs), also known as granny flats or backyard homes, can provide an important housing option to both potential renters and homeowners. ADUs typically cost less than other types of housing, add to the diversity of housing opportunities and can contribute to greater walkability and sustainability for neighborhoods. However, due to the variety of lot sizes and neighborhoods throughout the City, an ADU may not be appropriate for many sites.

In 2002, State legislation (AB 1866) encouraged the provision of ADUs by providing a general set of State standards that would apply unless cities developed their own regulations. Without a local ordinance, the City relies on the statewide standards that do not necessarily account for City priorities. For example, the current rules constrain the establishment of secondary units in many of the most urban, transit-friendly neighborhoods in the City, while permitting them in most (larger) lots in the San Fernando Valley. The *re:code LA* process calls for improving regulations for ADUs. A recent motion by Councilmember Cedillo (15-0027-S1) calls for greater facilitation of ADUs, including the preservation of existing unapproved secondary units, as well as the creation of an ADU Ordinance pursuant to AB 1866. Piloting accessory dwelling units in certain neighborhoods that “opt-in” is another idea.

Status: The Department is studying the opportunity to develop local zoning and design standards as part of the *re:code LA* effort to facilitate the development of compatible ADUs, where appropriate.

9. Adaptive Re-Use (S) (re:code LA)

The adaptive reuse program has been remarkably successful in expediting the renovation of older office or other commercial buildings for new housing. Almost 14,000 units (most of which are located downtown) have been created through the program since 2006. Affordable housing developers have taken advantage of the program and adaptive reuse units have been found to be slightly cheaper than

comparable new units¹⁰. At the same time, use of the program has slowed over time, as the number of suitable buildings for conversion becomes smaller. The *re:code LA Evaluation Report* calls for rethinking the eligibility date, minimum unit size and possibly expanding the concept beyond the current five *Adaptive Reuse Incentive Areas*.

Status: The Department is evaluating the opportunity to allow for the expansion of adaptive reuse projects through the *re:code LA* effort.

10. Micro Units/Tiny Houses - (S/I) (re:code LA)

Many point to changing lifestyles and demographics to promote the idea that smaller (and therefore more affordable) housing units should be part of the response to the housing crisis. Smaller unit sizes help to provide a diversity of housing types and costs as well as increase density in areas where it may be desired. Several cities have recently passed legislation to broaden the opportunity for small efficiency apartments, better known as micro-units or tiny homes. Unlike some other cities, the major limitation in Los Angeles is not any citywide minimum unit size¹¹. Instead, density limits and parking requirements appear to be primary barriers.

Councilmember Cedillo, under the House LA initiative, has proposed a motion (CF 15-1004) that requests that the DCP, in consultation with HCID, to prepare and present a report that would evaluate strategies around the production of micro-units, the potential impact micro-units can have on our affordable housing needs, and the benefit of expanding this model to apply to other geographic areas of the City.

Status: The Department is evaluating opportunities through the Zoning Code (through *re:code LA*) to reduce barriers for smaller units near major transit stops, particularly when tied to the provision of affordable housing.

11. CEQA Streamlining (S/I)

The State has passed several CEQA-related bills in recent years that provide incentives for certain transit-oriented and infill developments (SB 375, SB 226 and SB 743). A new process was created that streamlines (without weakening) CEQA review for qualified projects. Another new type of project is exempted from regular CEQA review if it is near transit and includes affordable housing or significant open space. Despite their promise to reward more sustainable development patterns, the tools are still new and have not been widely used in Southern California. Several barriers have been identified that impede effective implementation of these new State laws. The City has recently been awarded grants from the Southern California Association of Governments (SCAG) and Strategic Growth Council to work on alleviating the major constraints. The work on both projects has recently begun.

Status: The Department is studying opportunities for creating internal processes and procedures to implement CEQA-based incentives in areas targeted for housing growth and incentivize affordable housing.

12. Zoning Entitlements (S/I)

Despite improvements in recent years, the often complicated process of obtaining zoning entitlements

¹⁰ Manville, Michael. 2010. Parking Requirements as a Barrier to Housing Development: Regulation and Reform in Los Angeles": UCLA, University of California Transportation Center. Accessed from <https://escholarship.org/uc/item/1qr84990>

¹¹ The Los Angeles Building Code (based on the International Building Code) allows unit sizes as low as 190 square feet.

remains a barrier to the production of more housing. Additional improvements to the system are on the way as part of the 2011 *Development Reform Strategic Plan*, which offered a comprehensive set of citywide solutions to create a more efficient, predictable and transparent City permitting process¹².

While the development reform process should improve the permitting and entitlement process across the board, opportunities may exist to further incentivize certain types of projects through the fast-tracking of the entitlement process or waiver/deferment of planning fees. The Mayor's recent Executive Directive #13 instructs City departments to expedite projects that include more than 20 percent affordable units. Councilmember Cedillo's recent House LA motion (CD 15-1005) asks departments to report back on what "use fees" could potentially be deferred and collected until the issuance of a Certificate of Occupancy for a residential development.

Status: The Department is responding to the Mayor's Executive Directive No. 13 to expand the utilization of expedited case processing for housing development projects with more than 20 percent of the units dedicated as affordable.

13. Density Bonus Program (S/I) (re:code LA)

The state's density bonus program allows for certain zoning incentives (adjustments to height, FAR, yards, etc) for residential developments that include affordable housing. To align local procedures with the State legislation, Los Angeles adopted its own density bonus program in 2008. The program has proven increasingly popular. However, over time some issues have arisen with regards to interpretation and implementation of the program, particularly as recent changes to the state law¹³ have not been incorporated into the local ordinance. New, more tailored incentives can also be developed as part of the program, including those to increase more affordable housing near high quality transit.

In response to these issues, the DCP began an intra-departmental review process to identify areas where density bonus provisions could be clarified and improved upon. Based upon this internal discussion, updates to the Density Bonus Ordinance, as well as the associated Affordable Housing Incentives Guidelines, are logical next steps. The recently adopted Housing Element provides some policy guidance for any updates to the density bonus policies (Program 54)¹⁴.

Status: The Department is evaluating opportunities to update the City's Density Bonus Ordinance and Affordable Housing Incentives Guidelines to better achieve City objectives.

14. Affordable Housing Incentives Downtown (I) (re:code LA)

The Greater Downtown Housing Incentive Area (GDHIA) was established in 2007 to encourage the construction of housing in the downtown area¹⁵. It removed density limits and modified parking, yard and open space requirements as incentives to build housing downtown. To encourage affordable housing,

¹² Results from the Development Reform Strategic Plan includes the Development Services Case Management system, the overhaul of the zoning code through the *re:code LA* process, Community Plan update program and the *Build LA* permitting technology platform.

¹³ AB 2280 (2008 - Saldana) clarified a number of issues in density bonus law, modified some provisions and fundamentally changed the process for waiving or modifying development standards.

¹⁴ The Housing Element calls for increasing affordable housing at transit stops, as well as encouraging more diversity of incomes, as well as more family and senior units. Additional incentives could also be included for 100% affordable projects or those that exceed the minimum number of affordable units.

¹⁵ The Ordinance applies between the 110 freeway on the west, the 101 freeway to the north, Alameda Street to the east and the 10 freeway to the south.

the ordinance allows for up to a 35% increase in floor area in exchange for the provision of affordable units.

Since its inception, the GDHIA has helped spur housing development; however, it has not led to any significant amount of affordable housing in mixed-income projects. Only a couple of projects have requested the additional floor area in exchange for affordable housing. Applicants needing additional floor area tend to utilize the TFAR program (see #7 above), which does not require the provision of affordable housing. The net effect of the "competition" between the TFAR and GDHIA program is that the housing boom downtown has yielded relatively little affordable housing in market rate developments.

Status: The Department is evaluating opportunities to revise the incentives for affordable housing downtown as part of the *re:code LA* process to ensure the development of more affordable housing.

15. Trip Credits (I)

Recent studies have shown that low income households drive approximately half as many miles as the average market rate household¹⁶. Yet today, a 100% low income project is only given a 5% trip credit reduction in the City's Traffic Study Guidelines. The DCP recently received a grant from the Strategic Growth Council to study vehicle trips created by different types of housing development. Greater recognition of the traffic benefits of affordable housing through the CEQA transportation analysis process would create an incentive to provide affordable units.

Status: The Department is studying the opportunity to adjust the trip credits for affordable housing in the City's Traffic Study Guidelines.

16. Traffic Impact Fees (I)

Several areas of the City have adopted traffic impact fees to provide a mechanism for new development to pay for traffic infrastructure improvements. Similar to trip credits, traffic impact fees should be adjusted for affordable housing units in recognition of the significant difference in traffic impacts between very low-income households and wealthy households. One such opportunity for this is the update to the Westside Mobility Plan, which is currently reconfiguring traffic impact fees for most of the westside of Los Angeles.

Status: The Department is studying the reduced trip impacts of lower-income households.

17. Project-Based Value Capture (VC)

Value capture refers to a regulatory environment that generates public benefits in relation to the value of land use policies, changes in zoning, development agreements or other public actions that contribute to increases in private real estate value. Currently there is no citywide mechanism, outside of the City's density bonus program, to require affordable housing in developments that receive density increases or other zoning relief. A motion by Councilmember O'Farrell (CF 14-1325) calls for a report back to further analyze this concept.

The City Planning Commission recently recommended adoption of the Master Planned Development (MPD) Ordinance, which would require that affordable housing be provided in proportion to the density

¹⁶ Transform CA and California Housing Partnership Corporation, May 2014. *Why Creating and Preserving Affordable Homes Near Transit is a Highly Effective Climate Protection Strategy*.

increase received through a zoning action. A policy could be created to treat other types of significant zoning relief similarly. Several cities including Chicago, Honolulu, Vancouver and Boston, require affordable housing (or funding) when approving major zoning concessions.

Status: The Department is analyzing the feasibility of amending the zoning code to include a provision to require the inclusion of affordable housing (or equivalent funding) in projects that obtain significant increases in residential density, and when permitting a residential use not previously allowed.

18. Plan-Based Value Capture (VC)

Like the project-based value capture approach above, a plan-based approach ties community benefits to specific increases in the intensity of development. This approach establishes a base level of development in a plan, while also establishing clear procedures to increase building envelopes for development beyond the base as long as the desired public benefits are provided.

The Cornfield Arroyo Specific Plan and recently released draft Transit Neighborhood Plans for the Expo Line Phase II station areas on the west side of Los Angeles use this approach. The plans produce mechanisms whereby zoning is carefully calibrated to achieve certain goals around job-producing uses, streetscape improvements, open space and affordable housing.

Status: The Department is studying opportunities to establish tiered zoning where additional capacity is permitted in exchange for public benefits (affordable housing, parks, etc.)

19. Expand AB 2222's Replacement Housing Provisions (P/VC)

The DCP and HCIDLA are beginning to implement AB 2222, a 2014 density bonus amendment that requires the one-for-one replacement of affordable housing lost due to developments that utilize the density bonus law. To maintain consistency between various zoning regulations there has been discussion of amending the code to extend the AB 2222 housing replacement requirements to other types of zoning increases such as zone changes and general plan amendments. A recent Council Motion (15-0728 – Koretz/O'Farrell) asked the DCP and HCIDLA to report back to the Council on recommendations to adapting this concept to other types of projects.

Status: The Department is analyzing the feasibility of expanding the housing replacement concept of AB 2222 to other discretionary actions that result in increased density or buildable area.

20. Community Revitalization Authority and Enhanced Infrastructure Finance Districts (VC)

Another way to amplify the value of new development in a particular area is the (now defunct) redevelopment model of tax increment financing, whereby newly local property taxes are diverted back into the community from where they are derived. The Governor has signed legislation in 2014 and 2015 creating two similar types of tools called Enhanced Infrastructure Finance Districts (EIFDs) and Community Revitalization. In 2015, the Governor. The revenue generated in an EIFD can be fronted through the issuance of a bond and be used for a variety of things such as transit projects, mixed-income/mixed-use developments, sidewalks and bike paths. Council Motion 14-1349 (O'Farrell/Blumenfeld) asks the City to look into the establishment of an EIFD along the length of the Los Angeles River and the City is exploring interest in other areas.

Status: The Department is looking to work with the Employment and Workforce Development Department to explore the creation of new EIFDs in strategic areas, especially those where affordable housing is

needed.

21. Clarify Condo Conversions Rules (P)

The City enforces LAMC Section 12.95.2(F), which provides required findings for the conversion of rental properties to condominiums. The findings state that a condo conversion cannot be approved if the area has a vacancy rate of less than 5% and the cumulative impact of multiple conversions would result in a significant effect on the rental housing market of the area. Additional criteria are provided to make this determination; however, these do not make clear what exactly constitutes a cumulative impact on the area rental market, leading to a risk of inconsistent interpretations.

Status: The Department is considering updating the Condo Conversion findings in 12.95.2(F) to make the implementation of the "cumulative effect of the rental housing market in the planning area" finding more clear to decision makers.

22. Mello Act Implementation Ordinance (I/P)

The Mello Act is a state law that went into effect in January, 1982 to help protect and increase the supply of affordable housing in California's Coastal Zone. The Mello Act consists of two primary rules. One, if existing housing units occupied by low or moderate income households are converted or demolished, they must be replaced one-for-one with new affordable units. Two, a new housing development must provide affordable units. Exceptions are allowed based on feasibility.

As a result of a settlement agreement that resolved a lawsuit filed against the City in 1993, the City has been operating under a set of interim administrative procedures since 2000. The agreement planned for the interim procedures to be replaced with a permanent implementation ordinance. A permanent ordinance would address various policy questions that are not settled by the current procedures, such as whether to include an in-lieu payment option and whether to allow the conversion of market-rate units to affordable units to meet the affordability requirements.

Status: The Department is interested in studying a permanent Mello Act implementation ordinance for Los Angeles that results in replacement of loss of affordable housing.

23. Short-Term Rental Policy (P)

New technology has made the short-term rental of housing significantly easier in recent years, leading to rapid growth in this sector in Los Angeles. While there are certainly many positive benefits to both owners and renters of this kind of "shared housing," a lack of regulations has also led to some negative impacts in residential neighborhoods. What began as a way for homeowners to share their home when away or rent out an extra bedroom has grown into a commercial enterprise in many areas. The rapid growth of short-term rentals threatens a local rental market already severely stressed by lack of supply, by taking units and rooms out of the long-term rental market. Moreover, most short-term rental "hosts" do not pay the required Transient Occupancy Tax, which means the City is losing out on millions of dollars in revenue.

A recent City Council motion (14-1635 - Bonin/Wesson) addresses short-term rentals and asks that City staff review regulations recently adopted or proposed by other cities and to work with stakeholder groups as a basis for preparing an ordinance regulating and governing the legal operation of short-term rentals in Los Angeles. The Mayor's proposed budget calls for using the projected \$5 million in Transient Occupancy Tax (TOT) receipts from short-term rentals to fund the Affordable Housing Trust Fund, once

an agreement with the hosting platforms has been put in place. Work has begun on preparing a short term rental ordinance and on reaching a TOT agreement.

Status: The Department is developing an ordinance that better regulates short term rental properties.

24. Preservation of Unapproved Dwelling Units (P)

There are estimated to be tens of thousands of dwellings in the City that are being occupied but not considered legal because they have not received a building permit. Most of these are believed to exist on single-family lots, in converted garages, attics, rear additions, and in small backyard homes. A smaller subset exists in multi-family buildings, in converted recreation rooms, storage rooms or illegally subdivided apartments. In both situations, the greatest impediment to legalization often times lies with zoning limitations rather than building code violations. When non-permitted units are discovered, owners must choose to remove the unit or attempt to have it permitted. The vast majority of property owners choose to remove the unit, resulting in a loss of housing supply.

Council Motion 14-1150 (Funetes/Koretz) directed HCIDLA and DCP to report-back to Council with an analysis of policy options for preserving unapproved housing units in multifamily buildings. Any policy changes will need to balance the integrity of the zoning code and protection of neighborhoods with the desire to retain badly needed housing units. On June 24, 2015 the City Council voted to approve the DCP report on policy options and directed staff to draft an Ordinance. The Ordinance is currently in development.

Status: The Department is developing an Ordinance to preserve more of the unapproved housing stock in multifamily buildings.

Conclusion

Many of the items on the list of specific housing strategies presented above are structured to be within the Department of City Planning's existing work program (community planning, re:code LA, etc.). However, many of the more significant strategies will require significant preparatory work to develop ordinance changes and/or implement effectively. The DCP is submitting, as part of its mid-year budget package, a request for three positions to form a "housing unit" to work on these issues.

If you have any questions about the topics in this report, please contact Matthew Glesne in the Citywide Policy section of the Department of City Planning at (213) 978-2666 or matthew.glesne@lacity.org.

Sincerely,



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