August 21, 2017

Members of the City Council:

We are writing with comments about the City's proposed linkage fee for affordable housing, and particularly in response to the Staff Report recently released about the fee. We have expressed skepticism in the past about the linkage fee—we worry it will not support enough housing construction, that it might undermine private market construction, and that it misrepresents the cause of our housing crisis and misplaces responsibility for it. The Staff Report attempts to address some of these concerns, but we believe problems remain.

We are strong proponents of increased housing affordability in Los Angeles, and our primary concern is that the City raises enough money to build a substantial amount of subsidized housing. A good financing mechanism for subsidized affordable housing has four elements: it will raise enough money to build a lot of units; it will do so without deterring private market construction; it will do so in a way that is fair and makes sense conceptually; and it will do in a way that is politically feasible. The linkage fee meets only the last of these criteria. Without question, it is the easiest measure to implement politically.

Political feasibility, of course, is no small thing, and we realize that for political reasons a linkage fee may seem like the City's only viable path. With that in mind, and because we have already expressed our reservations about the fee itself, our main purpose is to suggest four amendments that would reduce the fee's potential harms. After that, in Part II below our signatures, we reiterate our concerns about a linkage fee. In a perfect world, we would pursue a policy that meets all four criteria, such as a parcel tax or a real estate recording tax.

I. BENEFICIAL AMENDMENTS TO A LINKAGE FEE

1. ***Reverse the Commercial/Residential Burden:*** As proposed, the linkage fee is $5 per square foot for commercial development, and $12 per square foot for residential. If we must have a linkage fee, we should recognize that LA does not a have a commercial development crisis, but it does it have a housing crisis. So it may be wise to levy a steeper fee on commercial development than residential development. Reduce the residential fee and increase the commercial one.
2. ***Increase the Fee for Detached Single Family Homes*:** The fee as written treats all residential developments the same, and charges them $12 per square foot. But most multifamily development increases LA's housing stock, while most detached single-family development does not – single family construction is often a 1:1 replacement of an existing home (and often replaces a smaller, less expensive unit with a bigger, more

expensive one). The prevalence of detached single family homes substantially contributes to LA's housing crisis. These homes inefficiently use valuable land, and are far beyond the means of the vast majority of Angelinos. Detached single family homes today account for about 37 percent of LA's housing stock, but occupy 75 percent of the city's land area. The city does not need more of them, and construction that does not increase the net amount of housing in LA does nothing for affordability. We recommend that the residential fee be higher for single family homes.

3. ***Make the Fee Higher if a Project Does Not Increase Net Production:*** Similar to the above: if a multifamily project will result in a net loss of units (for example, if 30 apartments are going to be replaced by 20 condos) the fee should be higher. A sliding scale fee structure can accomplish this goal.
4. ***Put in a Circuit Breaker*:** A simple way to ensure that the linkage fee does no harm is to include a provision in it that says the fee is suspended if citywide housing production falls below a certain number. Given the Staff Report's confidence that development fees only manifest in land value, this seems like a risk-free step. If the Staff Report is correct, the circuit breaker will never be used. If the fee does deter development, however, the circuit breaker gives fee has a built-in escape valve that will stop it from exacerbating the housing crisis.

We are eager and willing to work with the City and any other stakeholders to help design of any of these amendments.

Michael Manville
UCLA Department of Urban Planning

Paavo Monkonnen
UCLA Department of Urban Planning

II. CONTEXT – LOGIC AND CONSEQUENCES OF A LINKAGE FEE

Would the Linkage Fee Build a Lot of Housing? The City's Fee Nexus Study suggests that a linkage fee would raise $100 million per year, and that affordable housing in Los Angeles costs an average of $448,000 per unit. The independent contribution of the linkage fee to affordable housing is therefore the equivalent of 225-250 units of average affordable housing. The Staff Report disputes this arithmetic by noting that that money from the linkage fee could be used to leverage other funds, and that in combination these funds could provide closer to 1,000 housing units. But those other funds are available to *any* form of local match. The City could combine

$100 million from a linkage fee with these other funds, but it could also combine $200 million from a real estate recording tax, or $287 million from a flat dollar-a-day parcel tax, with these other funds. They are *other funds*, not funds from the linkage fee. At the end of the day, the linkage fee raises $100 million. Many other policy instruments would raise much more.

Would the Linkage Fee Reduce Private Market Housing Development? The authors of the Staff Report suggest that the answer to this question is no. We are less sanguine. There is reason to believe, both conceptually and empirically, that in a dense city with little open land a linkage fee will reduce the supply of market-rate housing and result in higher housing prices.

The Staff Report argues that linkage fees will not deter housing development because "the costs associated with housing impact fees are either absorbed into land prices or reductions in developer profits …Typically, the "cost" of fees gets factored in through lower land sales prices as developers may be unable to pay the same amount for land as they could before the fee."

It is true that a fee can, in some circumstances, be capitalized primarily into land values, rather than development costs. But this is most likely to occur when the development is on undeveloped land that earns little or no income—i.e., in suburbs and exurbs. An exurban developer buying vacant greenfield land can pass the cost of the impact fee onto a landowner. To the developer, one patch of greenfield land might be the same as another, while the landowner knows that if he or she does not sell the land they earn no income.

This situation does not describe Los Angeles. LA has very little vacant land, and land parcels in LA are not interchangeable to developers. Most landowners in LA are already earning income from their land, and if a developer offers them a lower price because of an impact fee, they might simply choose not to sell. Were this to happen, the cost of the fee would be pushed back onto the developer, and housing development would slow, resulting in higher housing prices.

Note that both the Staff Report and the Nexus Study tacitly acknowledge this possibility. As-written, the linkage fee exempts affordable housing projects and some projects subject to Measure JJJ. Both the Staff Report and the Nexus Study also discuss varying the linkage fee by neighborhood, so it will not discourage development in lower-income places. But if an impact fee simply reduces land values, and does not deter development, there is be no reason for these exemptions.

The Staff Report also cites the academic literature to support the notion that affordable housing fees or requirements do not deter housing development. But only a handful of studies have been carried out about linkage fees and inclusionary requirements, and the studies often include suburban areas that have more greenfield development. Even then, the results tend to be noisy. The Staff Report summarizes some of these studies, but does not discuss their limitations.

Moreover, the Staff Report is selective in the academic results it presents. For example, the Report includes a study of inclusionary policy in California (Bento et al 2009) in its bibliography, but never discusses it in the text. The conclusion of that study reads, in part:

> "The imposition of inclusionary requirements was strong enough … to cause a rise in housing prices and a reduction in housing size. Price effects were larger in high-priced markets … These results are fully consistent with economic theory and demonstrate that inclusionary zoning policies do not come without cost. In robust housing markets, such as those of California during the 1990s, inclusionary zoning requirements were not strong enough to slow the rate of housing production, although they did cause housing prices to rise and housing size to fall."[1]

We emphasize that we are *not* predicting with certainty that a linkage fee would deter market rate development. But this possibility should also not be treated as near-zero. There is reason to think, conceptually and empirically, that fees will be paid by housing consumers.

Is a Linkage Fee Fair and Conceptually Coherent? Why charge the people who build housing, and no one else, for affordable housing? Does building housing make housing more expensive? The City's Nexus study argues that it does. The Nexus study contends that market rate housing increases the need for below-market housing because new housing attracts high-income people, who spend money locally and create jobs for lower-income people. These lower-income people then become rent-burdened, because their new jobs do not pay enough to let them afford housing in Los Angeles.

For a number of reasons, this argument is hard to follow. First, new housing doesn't attract people and jobs. Jobs attract new people, and new people bid up the price of existing housing, if the city doesn't respond to new people with new building. Imagine what it would mean if housing *did* attract jobs and investment. We could make LA less expensive by *not* building, or even by taking existing housing down. For that matter, if new housing were really a magnet for jobs and people, we could revitalize Detroit and Cleveland by simply covering them in luxury towers.

Second, while it is true that high-income people spend money, and that their spending creates lower-wage jobs, there is no reason to think this spending is caused by the type of housing they live in. Does a resident of a new apartment who makes $150,000 really spend more than someone with the same income who lives in a historic home, or someone who makes $175,000 but lives in a ten-year-old apartment? It seems hard to see why that would be case. Moreover, if

[1] Bento, Antonio, Scott Lowe, Gerrit-Jan Knaap, and Arnab Chakraborty. 2009. "Housing Market Effects of Inclusionary Zoning." Cityscape, 11:2.

we really believe that retail spending makes housing less affordable, we should tax retail sales, not housing development.

Third, since when is creating jobs for low-income people a bad thing? Low-income workers definitely struggle to afford rent, but it's hard to imagine their lives being easier if they were unemployed. The Nexus Study implicitly assumes that every low-income person who takes a low-wage job that is created from new housing moves into the city specifically to take that job. But this idea—that no one currently living in the city would benefit from low-wage employment growth—strains credulity. The City of LA already has a large number of unemployed and underemployed low-income workers. For that very reason, the City government has programs that *subsidize* job creation for low-wage workers. Yet the linkage fee, by its own logic, would tax the same behavior that the city's employment development programs subsidize.

Making matters more confusing, the Staff Report argues that "failure to implement the proposed Linkage Fee ordinance will exacerbate the housing crisis and affect local businesses in the form of loss demand for goods and services as well as the loss of talented and highly skilled workers." Yet the Nexus Study that justifies the fee argues that the housing crisis is *caused* by the *presence* of these "highly skilled workers" and their "demand for goods and services." So the argument for the fee takes two contradictory positions: the linkage fee helps us attract wealthy, talented, free-spending people, but also protects us from them.

This semi-coherence arises because justifying the linkage fee requires obscuring the true cause of the housing crisis. Our housing crisis is not caused by newcomers, and it is not caused by new development. Housing prices are high because we don't build enough housing. This failure to build, moreover, does not benefit developers or newcomers—it benefits existing property owners (some of whom, of course, are developers). Because we haven't built enough housing, the wealth of people who own homes already has grown, and through no action of their own (other than, perhaps, blocking new housing). Housing scarcity has also given landlords (most of whom are *not* developers) more power to raise rents, even if they don't improve their units.

If we acknowledge this reality, it becomes clear that asking those who have benefited from housing scarcity to help mitigate its burdens means asking existing property owners, not just new developers, to help pay for affordable housing. The Staff Report and Nexus Study choose not to address this reality, and instead advance a narrative that says new people and new buildings have caused the housing crisis. This narrative is both comforting and destructive. It is comforting because it suggests affordable housing can always be someone else's problem, and it is destructive for precisely the same reason. The linkage fee logic says that new housing and new people are a source of problems, not opportunity, for our City. This is a troubling message for the City to send. Given the need to update our Community Plans, and City's need for new housing, planning policies that further institutionalize suspicion and hostility toward housing development will only harm Los Angeles in the long run.

Linkage Fees, Parcel Taxes, and Affordable Housing

Benjamin Pezzillo Aug 21, 2017 9:42 AM
Posted in group: **Clerk-PLUM-Committee**

View this email in your browser

Pactriglo™

Fellow Angelenos,

The Linkage Fee and Parcel Tax being bounced around City Hall will not solve our city's affordable housing crisis.

Look at cities with linkage fees for evidence. San Francisco, Boston, Seattle, and Palo Alto all implemented expensive linkage fees without a resulting change in the trajectory of housing affordabilty.

It's essential that affordable housing advocates and public sector officials understand the real estate industry is not a limitless piñata. At best, the proposed new costs will be passed along to the buyers or tenants. At worst, these new fees and taxes signal to the world that Los Angeles is unfriendly to private sector real estate development.

At a time when government should be embracing the private sector as a partner in addressing the affordable housing crisis, these proposals make that alignment increasingly difficult. For only the private sector has the access to capital and production capacity to build new housing units at the volume and speed needed to solve the problem.

One reason I started Pactriglo is because the housing crisis is so severe it requires new ideas and new thinking. Linkage fees and parcel taxes are neither.

Sincerely,

Benjamin Pezzillo
Pactriglo

Pactriglo, Inc
900 N Alameda St Unit 2204
Los Angeles CA, 90086 - US
Telephone: (213) 448-8266

HOLLYWOOD
CHAMBER OF COMMERCE

August 21, 2017

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

Re: Proposed **Affordable Housing Linkage Fee (CF 17-0274)**

Dear Councilmember Huizar:

On behalf of the Hollywood Chamber of Commerce and our over 800 members, I am writing to express the Chamber's concerns with the proposed Affordable Housing Linkage Fee (AHLF) as currently drafted.

The Hollywood Chamber takes our housing crisis very seriously and recognizes that finding workable solutions is of paramount importance to all Angelinos and the overall sustainability of our great City. The Hollywood Chamber has actively worked with the City to address homelessness and affordable housing issues in our Community. As a testament of what can be done when we focus our collective efforts, we were able to pass Measure HHH, Measure H and successfully defeat Measure S, which if enacted would have been devastating to housing and job development in Los Angeles. The same spirit of unity must be applied to finding solutions to address our housing shortage. ***However, the proposed Linkage Fee is not the answer to the City's housing crisis.***

The Hollywood Chamber believes the current linkage fee proposal would significantly increase housing costs for everyone except a very small percentage of households – doing virtually nothing to address the underlying housing crisis. To add insult to injury – those being effected by this would be those who most need relief – our teachers, firefighters, police, nurses, service employees in the public and private sector, minorities, and millennials. Albeit unintentionally, this ill-conceived proposal will only increase inequality in Los Angeles. It will discourage the growth of commercial and manufacturing jobs in Los Angeles. Ultimately the linkage fee has the potential to make our housing supply and affordability crisis worse.

LA City Controller Ron Galperin himself recently stated, "I'm not convinced that the way that you create more housing is by making it more expensive to build…. Los Angeles already is one of the most expensive cities in the country to build anything." The Chamber whole-heartedly agrees with the Controller's sentiments. It makes little sense for the City to think that it needs to drive up the cost of market rate housing in order to provide affordable housing.

Even under the most optimistic circumstances, the linkage fee would produce no more than 613 units annually. Similar programs in San Francisco, Boston and Chicago produced 86, 100 and 55 units per year respectively. This is a drop in the bucket compared to the housing investments that would need to happen in order to alleviate the housing stock shortage and provide true and measurable relief to the City's residents.

As you know, voters have recently passed Measure JJJ to help address this same issue. The Chamber believes it premature to pose an additional fee on the developers until we have had an opportunity to determine what the effects of Measure JJJ will be on housing. A linkage fee at this time might at worst exacerbate the ill effects of Measure JJJ or at best stymie it potential positive impacts. We cannot solve our major issues by tackling them in isolation. It will take a comprehensive look at our system and how we approach community vitality that will ultimately resolve decades of misguided policy developed in silos.

Rather than passing an ineffective and costly measure that threatens further harm to the most vulnerable Angelenos, we ask that the City perform careful analysis examining all alternate proposals to increase housing production and improve affordability. Thank you in advance for your time and consideration of these important recommendations. The Hollywood Chamber of Commerce looks forward to working with your Committee and the full City Council to find workable solutions to our City's Housing emergency.

Warmest Regards,

Leron Gubler
President & CEO

Los Angeles/Ventura Chapter

August 21, 2017

Dear Councilman Huizar:

<u>WE CAN'T AFFORD TO MAKE HOUSING MORE EXPENSIVE!</u>

BIA-LAV writes to express our strong opposition to the proposed Linkage Fee, a fee of $12.00 per square foot on new homes and $5.00 per square foot on commercial development.

The joint report dated Aug. 18, 2017 from the LA Department of City Planning (LADCP) and the LA Housing and Community Investment Department (HCID) has some fatal flaws which contradict its proposed logic:

<u>Landowners Not Likely to Sell at Lower Land Prices</u>

On p. 16, the report says that "Typically, the 'cost' of fees gets factored through lower land sales prices as developers may be unable to pay the same amount for land as they could before the fee." However, nowhere does the report mention that the overwhelming majority of land in Los Angeles has an existing use and that by adding the linkage fee, a developer will be unable to pay the landowner enough to exceed the cashflow from the existing use. Therefore, <u>projects simply will not be built</u>. Where there is no production, there is no fee collection, no homes built, higher home prices and more people on the street. This is where the BAE Report failed. The report only considered greenfield property, omitting the typical cases: redevelopment of existing uses. In the case of greenfields, the purchaser can factor additional forthcoming fees into the price of the land, and the landowner may choose to sell since vacant land is not profitable. However, most landowners in LA are already earning income from their land, and if a developer offers them a lower price due to anticipated fees, they will choose not to sell. A developer would not be interested in paying a higher cost for that land, knowing that the added cost would render him unable to obtain financing, and make the project financially infeasible.

<u>Linkage Fee Study Paints False Picture of Land Costs</u>

The BAE study only considered feasibility impacts on *land* transactions. The study specifically omitted redevelopment of existing low-intensity uses with more efficient uses. The report looked over three years in four cities just to find 23 land transactions considered representative. Commercial comps on Sherman Way in the Valley and only one industrial land transaction in the City are not indicative of the entire market. The report's authors had access to extensive databases which should have provided a more complete perspective on property transactions. Instead, the report works backwards, using hand-picked, non-representative transactions in order to come to a desired conclusion.

Linkage Fee Will Have Impact on Overall Rate of Production

A fatal flaw of the department report dated August 18, 2017, is the conclusion on p. 18 that "these policies [have] no discernable impact on the overall rate of production…no clear cut evidence of impacts to housing", and yet, on p. 20, the new report acknowledges "potential impacts of the fee on low-market areas" as being "the most negatively impacted by the fee". These conclusions lead new staff recommendations to two tiered fee structures that correspond with geographic area. Why would this be considered if it is assumed that there will be no impact to housing production?

The Missing Middle

Due to the extreme cost increase, developers will be less likely to build new housing, especially housing for middle-income residents. The Linkage Fee will likely serve to further increase the divide between the poor and the wealthy by eliminating the middle. We ask that the PLUM Committee reexamine other forms of revenue sources that do not create additional burden on lower and middle income households, such as expanding short-term rental TOT revenue and implementing an affordable housing surcharge on short-term rentals, as cited in the proposal. In a study published by the Los Angeles Alliance for a New Economy, it is estimated that more than 7,000 houses and apartments have been taken off the rental market in metro Los Angeles for use as short-term rentals[1]. A stronger nexus exists between adversely affecting the housing market and removing rental units than the very businesses creating them.

Sincerely,

Tim Piasky

Building Industry Association of Southern California, Los Angeles / Ventura Chapter

Cc: The Honorable Eric Garcetti, Mayor
The Honorable Gil Cedillo, Councilmember
The Honorable Paul Krekorian, Councilmember
The Honorable Bob Blumenfield, Councilmember
The Honorable David Ryu, Councilmember
The Honorable Paul Koretz, Councilmember
The Honorable Nury Martinez, Councilmember
The Honorable Monica Rodriguez, Councilmember
The Honorable Marqueece Harris-Dawson, Councilmember
The Honorable Curren Price, Councilmember
The Honorable Herb Wesson, Council President
The Honorable Mike Bonin, Councilmember
The Honorable Mitchell Englander, Councilmember
The Honorable Mitch O'Farrell, Councilmember
The Honorable Joe Buscaino, Councilmember
Greg Good, Office of Mayor Eric Garcetti
Ben Winter, Office of Mayor Eric Garcetti

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[1] Los Angeles Times, March 11, 2015, *Airbnb & Other Short-Term Rentals Worsen Housing Shortage, Critics Say*
http://www.latimes.com/business/realestate/la-fi-airbnb-housing-market-20150311-story.html

MINORITY APARTMENT ASSOCIATION

August 21, 2017

Dear Councilman Huizar:

The organizations listed below write to express our strong opposition to the proposed Linkage Fee, a fee of $12.00 per square foot on new homes and $5.00 per square foot on commercial development. With the current crisis of housing undersupply and exploding unaffordability, it is troubling that the City has proposed a strategy that would significantly increase housing costs for everyone except a very small percentage of those households. This would disproportionately impact teachers, firefighters, police, nurses, service employees in the public and private sector, minorities, and millennials. This can only increase inequality in Los Angeles.

The Cities optimistic analysis estimates that the linkage fee will produce $75-92 million annually. According to the City's own 2016 Linkage Fee Study conducted by BAE Urban Economics, the average affordable unit development cost in the City of Los Angeles is $448,479. The city's contribution, in a best-case scenario, for the affordable unit would be around $150,000. Even assuming an unlikely ideal situation, the Linkage Fee would produce about 613 units annually. Similar programs in San Francisco, Boston and Chicago produced 86, 100 and 55 units per year respectively[1].

Even if the City were to somehow massively out produce these other large urban cities, it would be of little consolation to the overwhelming majority of the 652,879 households in Los Angeles that make less than $50,000 per year[2] and are already housing cost burdened. Considering that 52,834 of these households live in subsidized units[3], there are still 600,045 households competing for scarce non-subsidized housing. This proposed linkage fee will help at best a 0.1% of that number per year (613 units out of 600,045 households).

Conversely, the remaining 99.9% will likely see higher rents and home prices due to the increased cost on market-rate housing to compensate for the increased subsidy of the 0.1% that will receive the benefit of the linkage fee program. Overall housing production is also likely to decrease because fewer projects will be financially feasible and/or sellers of land will be unwilling to sell since they have cash-flowing properties that are more financially viable than absorbing the necessary decrease in their land value.

This proposal is akin to filling an ocean with a garden hose, and will make no real progress toward alleviating the housing crisis. The Los Angeles housing market will likely become further stagnated and

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[1] Los Angeles Affordable Housing Linkage Fee Nexus Study Prepared by BAE Urban Economics, September 21, 2016

[2] https://censusreporter.org/profiles/16000US0644000-los-angeles-ca/

[3] https://affordablehousingonline.com/housing-search/California/Los-Angeles

begin to suffocate under the weight of the program.

It is for these reasons that we voice our ardent opposition to this measure, and ask the City to go through a similar successful process that was used to address the homelessness crisis. The City should perform careful analysis examining all alternate proposals to increase housing production and improve affordability.

Sincerely,

Building Industry Association of Southern California, Los Angeles / Ventura Chapter
Action Apartment Association, Inc.
Apartment Association of California Cities
Apartment Association of Greater Los Angeles
Building Owners and Managers Association of Greater LA
California Apartment Association
California Small Business Alliance
Los Angeles Area Chamber of Commerce
Los Angeles County Business Federation
Minority Apartment Association
National Association of Industrial and Office Properties
Southland Regional Association of REALTORS
Valley Industry & Commerce Association
The Warner Center Association

Cc: The Honorable Eric Garcetti, Mayor
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