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COMMISSION OFFICE MANAGER  
(213) 978-1300

CITY OF LOS ANGELES  
CALIFORNIA



ERIC GARCETTI  
MAYOR

EXECUTIVE OFFICES  
200 N. SPRING STREET, ROOM 525  
LOS ANGELES, CA 90012-4801

VINCENT P. BERTONI, AICP  
DIRECTOR  
(213) 978-1271  
KEVIN J. KELLER, AICP  
EXECUTIVE OFFICER  
(213) 978-1272  
LISA M. WEBBER, AICP  
DEPUTY DIRECTOR  
(213) 978-1274

<http://planning.lacity.org>

May 2, 2018

Los Angeles City Council  
c/o Office of the City Clerk  
City Hall, Room 395  
Los Angeles, California 90012

Attention: PLUM Committee

Dear Honorable Members:

**REPORT ON MOTION 8A - AFFORDABLE HOUSING LINKAGE FEE ORDINANCE; CF 17-0274**

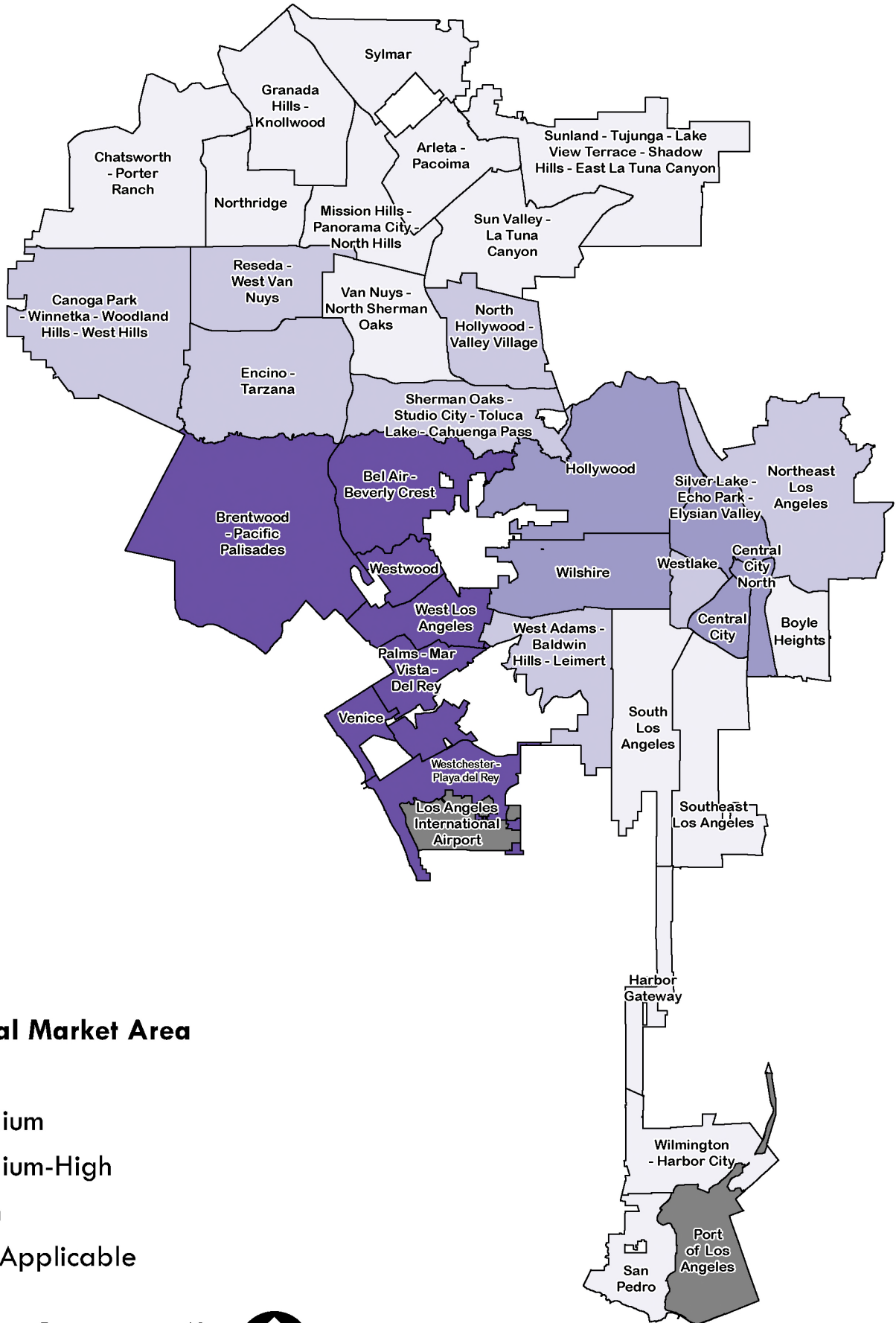
On December 13, 2018, the City Council adopted the Affordable Housing Linkage Fee (AHLF) Ordinance (185,342). As part of the approval, the Council also adopted Motion 8A, instructing the Department of City Planning (DCP) and the Housing and Community Investment Department (HCID), in consultation with the City Attorney as necessary, to prepare and present an analysis of the market impacts of increasing the fee that applies to residential uses in "High Market Areas" to \$18.

The City Attorney has prepared a draft amendment to the AHLF Ordinance that would change the linkage fee amount in High Market Areas from \$15 to \$18 (see attached). An analysis of the market impacts of increasing the fee is presented below.

**Analysis of Potential Market Impacts of Increasing the Fee in High Market Areas**

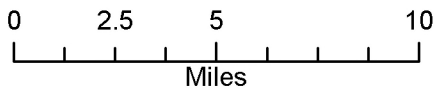
The AHLF Ordinance uses real estate market price information by Community Plan Area to divide the City into four residential Market Areas, each with its own residential fee amount (\$8, \$10, \$12 and \$15 per square foot). The AHLF ordinance places the highest fee (\$15) on residential projects in the High Market Area. The High Market Area includes the community plan areas of Brentwood-Pacific Palisades, Bel-Air-Beverly Crest, Westwood, West Los Angeles, Palms-Mar Vista-Del Rey, Venice and Westchester-Playa Del Rey (see map on following page).

# Affordable Housing Linkage Fee Residential Market Areas



## Residential Market Area

-  Low
-  Medium
-  Medium-High
-  High
-  Not Applicable



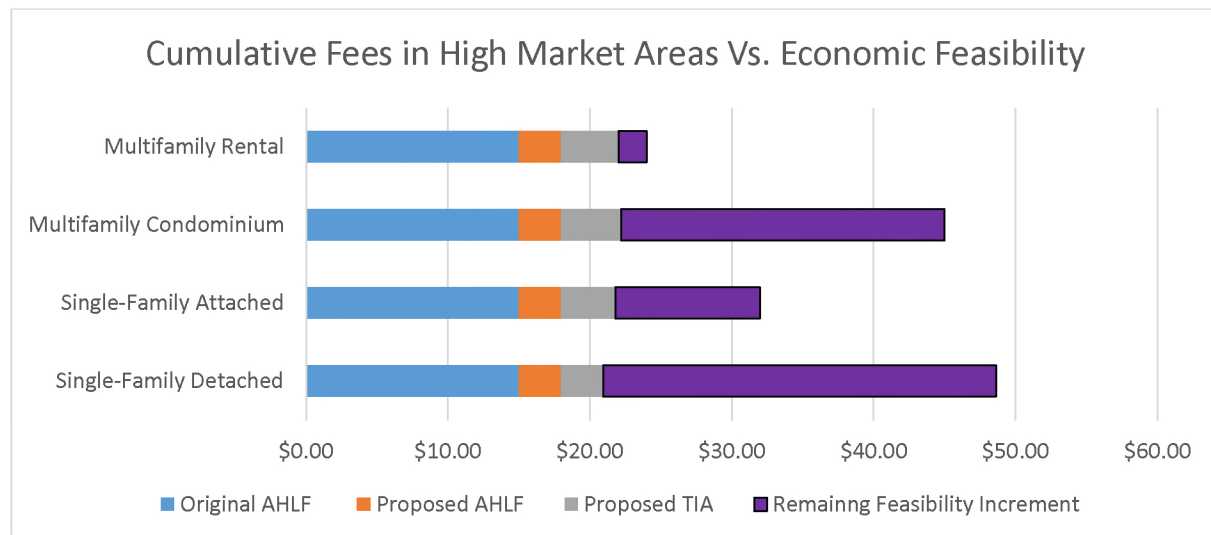
The fee amounts established by the AHLF Ordinance were informed by real estate market analysis designed to minimize the impact on economic development, housing, and job creation. The AHLF Nexus Study conducted by BAE Economics includes extensive analysis of development project feasibility to ensure that fees are set at levels that do not constrain otherwise viable projects. The Nexus Study created pro-formas for 11 types of different commercial and residential land uses across three market conditions (low, medium, high). To ensure all relevant factors were considered, the economic feasibility analysis also included the proposed update to the Westside Transportation Impact Assessment (TIA) fee program, which would increase transportation fees on residential projects in two West Los Angeles Specific Plan communities (the Coastal Transportation Corridor and West LA Transportation Improvement and Mitigation Specific Plans).

Despite higher costs to develop, projects in High Market Areas were determined to be able to absorb the highest levels of fees without economic feasibility being significantly impacted. Fee amounts set for High Market Areas, in particular, were set well below what was considered economically feasible. For example, residential projects in High Market Areas were shown in the Nexus study to be able to support a linkage fee of the following amounts:

- \$21 for multifamily apartments, inclusive of the proposed TIA fees
- \$26 for single-family attached, inclusive of the proposed TIA fees
- \$40 for condominium, inclusive of the proposed TIA fees
- \$45 for single-family detached, inclusive of the proposed TIA fees

Since this time, the proposed TIA fees have been slightly adjusted as well as formally released for public consideration. The proposed TIA fee structure was recommended for approval by the City Planning Commission on March 8, 2018 and is currently pending City Council consideration. To further assess the cumulative economic feasibility of the proposed \$3 AHLF fee increase for residential projects in High Market Areas, the currently proposed TIA fees have been incorporated into an updated analysis illustrated in Chart 1 below. The remaining feasibility increment is the difference between what Nexus Study found to be economically feasible for each project type and the cumulative impact of the TIA and AHLF fees, as proposed in this report.

**Chart 1. Cumulative Fees in High Market Areas (Per Square Foot) Vs. Economic Feasibility**



As seen above, a proposed increase from \$15 to \$18 per square foot in High Market Areas is within the range of economic feasibility for all types of residential development. However, it is worth noting that the remaining feasibility increment margin for multifamily apartments, inclusive of the proposed TIA fees, is considerably reduced. This could be a factor in weaker submarkets of the TIA area.

Some neighboring communities impose higher impact fees than those under consideration by this report. This includes the cities of Pasadena, Santa Monica and West Hollywood, which have residential housing impact fees averaging \$38, \$33 and \$20 per sq. ft. respectively (see Chart 1 below). A recent study completed by Keyser Marston Associates, on behalf of the California Community Foundation, found that housing production had increased in all three cities after the fee was imposed. The study suggests that an \$18 square foot fee on the Westside of Los Angeles would not slow housing production.

**Chart 2. Proposed AHLF High Market Residential Fee (Per Square Foot) – Comparison to Other Cities\***



\*Some of these figures represent the equivalent in-lieu fee amount based on an inclusionary housing requirement.

It is also important to note that, because the AHLF was intentionally designed to be coupled with incentives for the production of new housing supply and affordable units, many projects will not be subject to the fee. The ordinance includes exemptions and deductions for adaptive reuse, density bonus, small multifamily structures and accessory dwelling units. The Department recently launched the Transit Oriented Communities (TOC) Affordable Housing Incentive Program in September 2017 and is currently proposing new affordable housing incentives for portions of the Westside through the Expo Transit Neighborhood Plan (TNP). Both represent significant new housing incentives in many High Market communities. If a project takes part in those programs to receive significant development bonus incentives, they will include on-site restricted affordable units at a level that will render the projects completely exempt from the AHLF.

An increase in the fee on residential floor area from \$15 to \$18 would likely result in approximately \$6.3 million in additional annual linkage fee revenue.

Finally, the AHLF Nexus Study was structured to comply with the California Mitigation Fee Act. This means this study demonstrates the direct relationship (“nexus”) between commercial and market-rate housing development projects, the new employment generated, the new worker households and an estimate of those households that will need affordable housing. The proposed

fee increase is well below the range of "maximum legal fees" for residential projects as determined by the Nexus Study (\$42 to \$74).

**Conclusion**

The Department does not anticipate that there would be significant impacts to development with an increase of the proposed AHLF in High Market areas from \$15 to \$18 per square foot. If you have any questions, please contact Matthew Glesne of the Department of City Planning at (213) 978-2666 or [matthew.glesne@lacity.org](mailto:matthew.glesne@lacity.org).

Sincerely,

VINCENT P. BERTONI, AICP  
Director of Planning



KEVIN J. KELLER, AICP  
Executive Officer

KJK:AV:MG:mn

**RESOLUTION**

**WHEREAS**, the City Council of the City of Los Angeles (“Council”) recognizes that the City of Los Angeles (“City”) is facing a housing crisis, and further acknowledges the need to facilitate the availability of housing products at different levels of affordability in order to address the housing needs of the entire community;

**WHEREAS**, on December 13, 2017 the Council adopted the Affordable Housing Linkage Fee Ordinance, Los Angeles Municipal Code (“LAMC”) Section 19.18, *et seq.* (“Affordable Housing Linkage Fee”), in order to help address the increased need for affordable housing connected with new commercial development and the development of new market rate residential units;

**WHEREAS**, on the same date, the Council also adopted Motion 8A, instructing the Department of City Planning and the Housing and Community Investment Department to prepare and present an analysis of the market impacts of increasing the fee that applies to residential uses in “High Market Areas” to \$18 per square foot;

**WHEREAS**, the Council has caused a study to be prepared that analyzes whether there is a reasonable relationship between the development of commercial projects and new market rate residential units and the need to increase the supply of new affordable housing;

**WHEREAS**, that study, prepared by BAE Urban Economics, entitled “Los Angeles Affordable Housing Linkage Fee Nexus Study” dated September 2016 (“Nexus Study”), demonstrates that such a nexus exists, and that the use of an Affordable Housing Linkage Fee for the purposes of increasing the supply of affordable housing in the City is justified;

**WHEREAS**, as discussed in a May 2, 2018 report prepared by the Department of City Planning, the Nexus Study further demonstrated that a residential Linkage Fee amount of \$18 per square foot in “High Market Areas” would be consistent with the California Mitigation Fee Act as well as economically feasible for all types of residential development;

**WHEREAS**, pursuant to the Affordable Housing Linkage Fee Ordinance, the City Council must adopt by resolution a Linkage Fee schedule based on analysis of the cost of mitigating the impact of the additional demand for affordable housing caused by Development Projects; and

**WHEREAS**, pursuant to the Affordable Housing Linkage Fee Ordinance, the City Council must also adopt, by resolution, a map establishing the respective market areas throughout the City that inform the amount of the Linkage Fee to be assessed for a given Development Project;

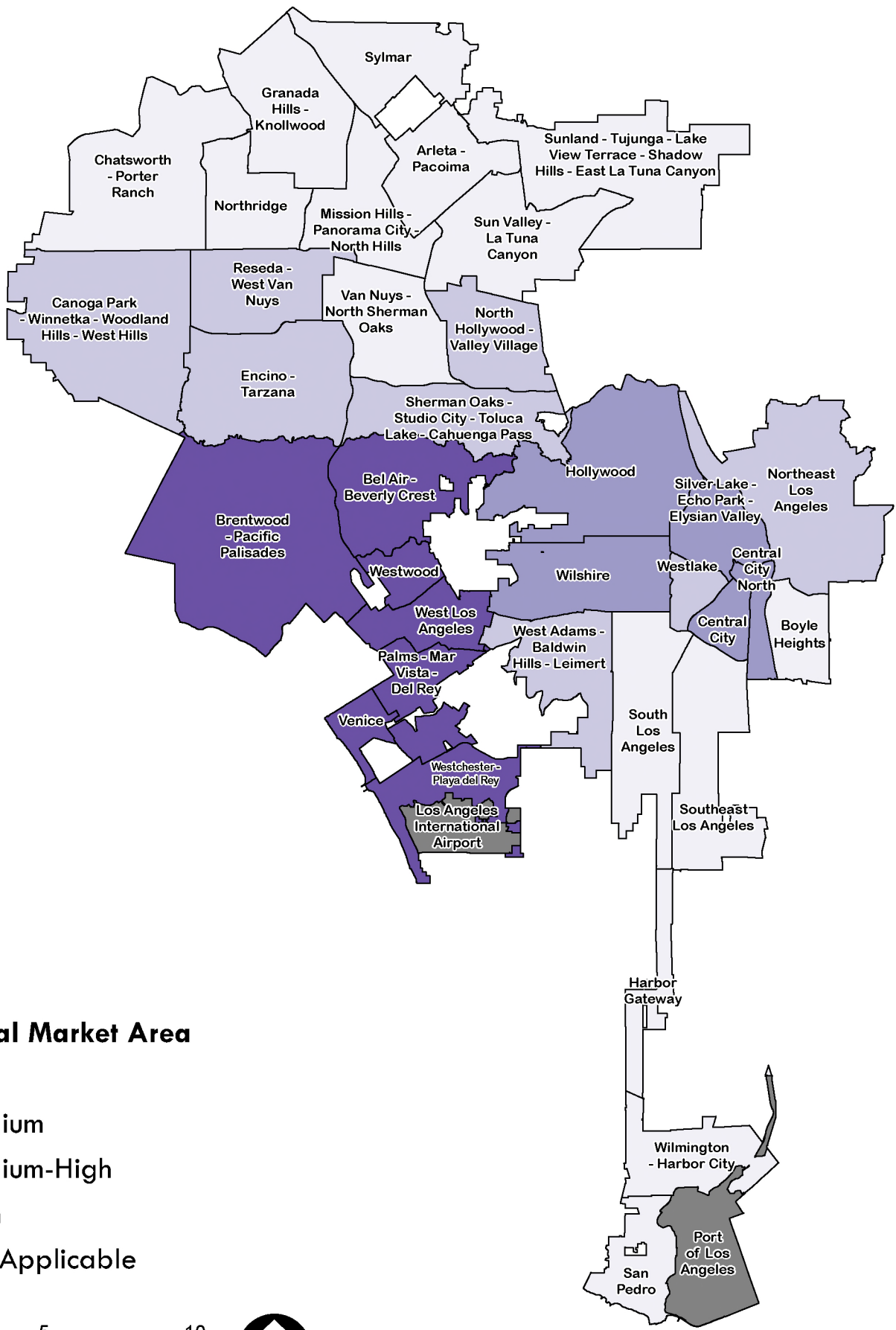
**NOW, THEREFORE, BE IT RESOLVED** that the City Council adopts the following fee schedule for the assessment of a Linkage Fee on eligible projects pursuant to LAMC Section 19.18, *et seq.*:

DRAFT FEE RESOLUTION

Type of Use	Low Market Area	Medium Market Area	Medium-High Market Area	High Market Area
Type of Use	Fee Per Square Foot			
Nonresidential Uses including Hotels	\$3	\$4	n/a	\$5
Residential Uses (6 or more units in a Development Project)	\$8	\$10	\$12	\$18
Residential Uses (2-5 units in a Development Project)	\$1	\$1	\$1	\$18
Residential Uses (single-family detached home)	\$8	\$10	\$12	\$18
Development Projects that Result in a Net Loss of Housing Units (in addition to any other fees)	\$3	\$3	\$3	\$3

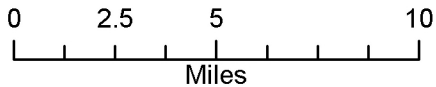
**AND BE IT FURTHER RESOLVED** that the City Council adopts the following maps establishing the respective market areas throughout the City that informs the amount of Linkage Fee to be assessed for a given Development Project:

# Affordable Housing Linkage Fee Residential Market Areas



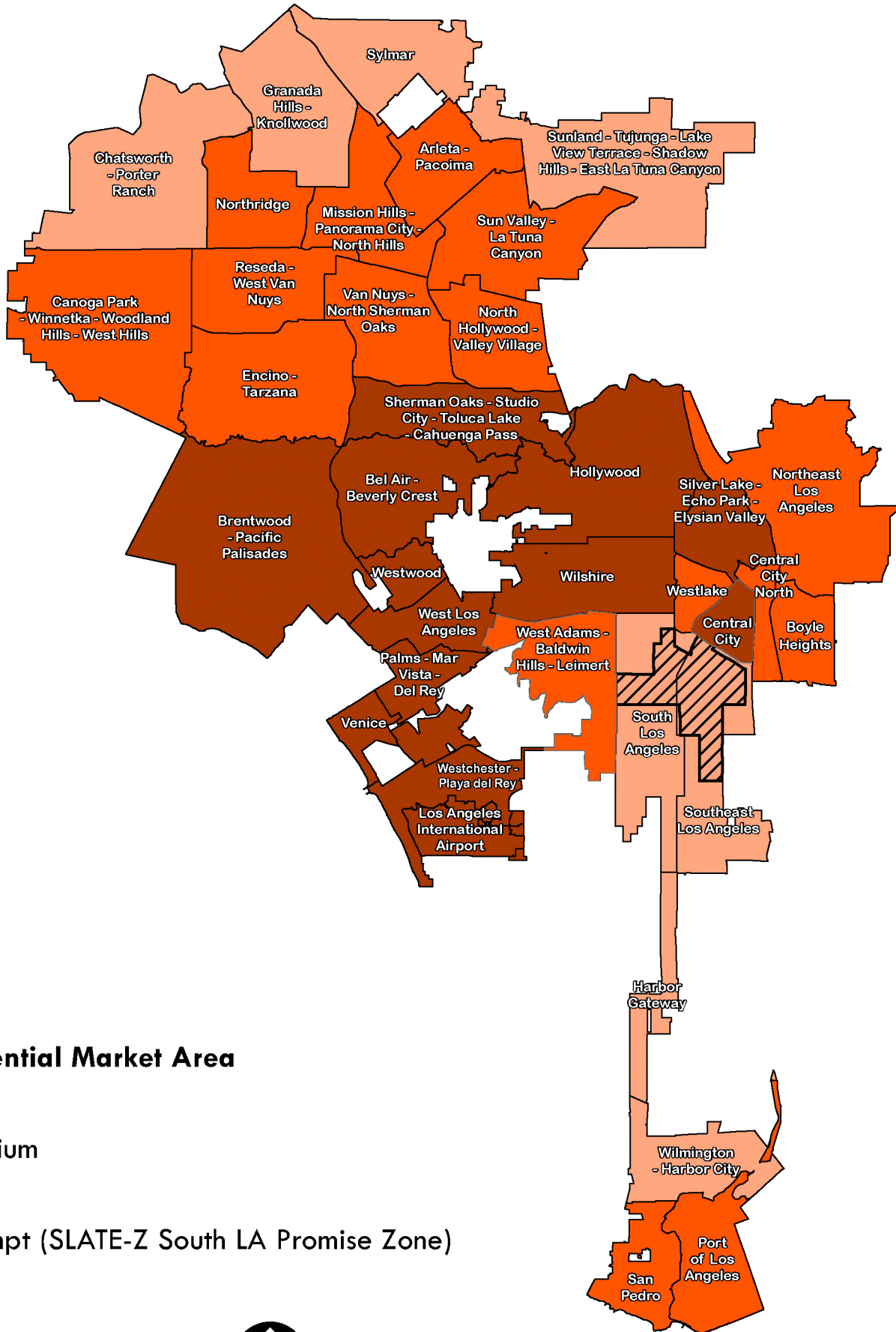
## Residential Market Area

- Low
- Medium
- Medium-High
- High
- Not Applicable





# Affordable Housing Linkage Fee Nonresidential Market Areas



## Nonresidential Market Area

- Low
- Medium
- High
- Exempt (SLATE-Z South LA Promise Zone)

