**Chamber's Task Force on Housing Policy**

**Inclusionary Housing Ordinance Study and**
**Report on Zoning Implications**
**August 12, 2004**

## BACKGROUND

The Hollywood Chamber of Commerce appointed a special task force to review the Inclusionary Housing Ordinance being considered by the city council to determine how it would effect housing production in Los Angeles. This report presents the findings of the task force and our recommendations regarding the implementation of Inclusionary Zoning in Los Angeles.

## DEFINITION OF INCLUSIONARY ZONING

Inclusionary Zoning is an affordable housing strategy in which a city grants developers incentives (e.g. density bonuses, parking reductions, height change, expedited review, and other incentives) in exchange for dedicating or setting aside a certain number of units for targeted income groups at below-market rates.

Such policies can be optional or mandatory, apply to rental and/or for-sale units, specify the number of units to be set aside as affordable, define the income categories to be targeted, and offer in-lieu fees and other options to the developer.

## PURPOSE

The primary goals of the proposed ordinance are to find ways to increase production of affordable housing with emphasis on those earning less than the median income and to devise a policy that would spread the placement of this housing evenly throughout the city.

The policy promotes efficient land use and attempts to make land use more predictable and uniform by changing land use controls so they more closely reflect the needs and capabilities of the community and rely less on exceptions. Increased density promotes increased housing production and reduced traffic. It also pays for low income set asides. The current density bonus of 25% is to be made more effective by increasing height limits for most "low rise" apartment zones. Two story areas are to become three stories zones and three story areas will be redefined as six story zones.

In addition to the 25% density bonus mandated by state law, an additional density bonus of 10% is currently available in transportation corridors. The proposed ordinance will increase this by another 15% increase in density for a total density bonus of 50%. Projects in transportation corridors will also have reduced parking requirements.

**ANALYSIS**
The Hollywood Chamber of Commerce feels reasonable rezoning is long overdue and supports the goals of the Inclusionary Zoning proposal made by council members Garcetti and Reyes. However, the proposed economic benefits must make sense and the resulting height limits must conform to local specific plans. Added density needs to be carefully managed. The devil, of course, is in the details.

Key Questions To Consider
1. Why is our current land use policy not producing the desired results?
2. Are the proposed benefits achievable and useable in the real world?
3. Will they make a project profitable enough to attract development?
4. Will they produce the desired results of increased housing and a fair distribution?

**CASE STUDY FINDINGS**
The task force has analyzed the effects of the proposed ordinance on overall housing production as well as the production of work force housing in Hollywood and throughout the city. We developed a comprehensive computer model using the Rosen Report as our guide and used this model to study several specific Hollywood sites currently being considered for residential development. We also used this model to analyze the financial impacts of changes that could be made to the proposed ordinance to make it work.

The two properties studied are slated for apartment or condominium development. One site is occupied by an older, two story apartment building and is surrounded by older four and five story apartment buildings. The other site is about the same size but is located in a less expensive, lower density, one-story bungalow neighborhood that is being transformed into an area of three story apartment buildings.

The number of units allowed on both sites is more restricted than one would imagine. In the case of Cherokee, current law limits new construction to 45 units. The result would again be a two-story building even though the site is surrounded by four and five story structures. Carlton Way would be limited to 35 units even though it could accommodate 50 units at the current height limit.

This "under zoning" is a result of special "Q-conditions" placed on the properties in the late 1980s to bring them into conformance with the Los Angeles general plan. This obviously does not reflect the capacity or the character of their location. The community has changed, but the zoning has not. For instance, the nearby subway system and rapid buses are up and running however the allowed density has not been changed. We have been told this "under zoning" is the case for most of Los Angeles and results in almost every parcel in the city being subject to a variance if reasonable results are to be achieved. This leads to endless public hearings and subsequent political pressures. This practice often causes numerous problems and must be changed.

**CONCERNS**
Our primary concern with the proposed ordinance is that it is often impossible to achieve the allowed increase in density proposed by the ordinance. Even when achieved, the added units often do not allow for enough income increase to offset the cost to the developer for the set-aside units. Neither of the two sites we studied would have enough profit to attract a developer under the terms of the proposed ordinance.

Without significant changes the proposed ordinance will prevent most housing projects from penciling-out and drive developers away from the City of Los Angeles and the Hollywood area-at the very time new housing is most needed. This can be remedied by taking a close look at the structure of the ordinance and eliminate the major factors contributing to unnecessary costs. These include parking, the inability to fully use the allowable building envelope, and the requirement for patios and recreation rooms, referred to as "in-building" open space.

**RECOMMENDATIONS**

We realize that every site and every neighborhood is different. We also know that no one can predict with certainty the effects of this proposal. Therefore we recommend an evolutionary approach rather than a wholesale revolution. We believe the city should set goals and implement a series of measured steps with annual reviews to make sure policy is meeting the needs. We support implementation of the proposed ordinance (and matrix) with the following changes.

1. The plan must be optional, not mandatory. This is the only way we can assure the result is an incentive and not a disincentive to development. If the ordinance offers an incentive it will be used.

2. Any specific plans or hillside ordinances now in effect should take precedent. This issue is not addressed in the proposed plan and has caused a lot of concern and negative reaction drawing attention away from the merits of the proposal.

3. The ordinance should apply to developments of ten (10) units or more, not five (5) or more.

4. All for sale units should be offered at market price without regulation. It makes no sense to set aside ownership units at a regulated price for the developer or the owner. Regulating sales prices tied to the AMI does not allow the buyer to enjoy the major benefit of home ownership-appreciation. Our analysis shows a properly designed buyers assistance program similar to the GI Bill would make it possible for the targeted income groups to purchase a market rate home of average price in any building anywhere in the city.

5. All for sale construction should be charged an in-lieu fee equal to 8% of the total construction cost if they choose to use the IZ options. This fee will be optional for rental property. This fee would be approximately $26,000 for every new unit constructed.

6. All In-Lieu fees should go to the Housing Trust Fund to be invested in same council district for the construction of low income housing through the existing network of not-for profit developers or purchase assistance programs.

The Housing Trust Fund needs a steady source of funding. The above policy would yield approximately $234 million dollars a year for the fund assuming housing production doubles to 18,000 units per year and ½ of all new units are for sale units. This, in turn, would fund 4,680 low to moderate rental units by funneling these funds into the existing network of not-for-profit developers. Using tax credits and other state and federal programs allows these developers leverage each $50,000 into a low-income rental unit with a construction value between $250,000 and $300,000.

In addition to funding the construction of new low-income rental stock, we recommend that the Housing Department dedicate a portion of the in-lieu fees to create and/or expand buyers assistance programs. Hard-working citizens would then be able to purchase a home and reap all the rewards of home ownership including equity appreciation.

7. Transportation corridor should be defined as any parcel within the two (2) city blocks on either side of a major transportation line as currently defined by the City Planning Department. While we believe many areas, including most of Hollywood, would benefit from the above designation, we know of other areas that would not. Therefore we are recommending a go-slow approach in this regard. It will be much easier and less damaging to expand this coverage later than it would be to reduce it as time passes.

8. Reduce "in-building" open space requirements (e.g. court yards, patios and recreation rooms) for buildings in transportation corridors. Quimby Park fees are now being collected in the amount of $2,508 on every

for sale unit being built specifically for this purpose. Pocket parks and other community accessible areas are the best way to provide real open space for all to enjoy.

9. Parking requirements for all new construction in transportation corridors should be changed to those currently in existence for apartments with the addition of ½ parking space per unit for guests. This will make apartment and condominium parking requirements uniform at least in transportation corridors. The developer may choose to build more but should not be required to do so.

10. Change the proposed 12% set aside requirement for the 50% of AMI income level back to the 10% now in effect. There is no reason we know of to change this requirement at this time and believe this change just muddies the waters.

11. Density requirements (as well as FAR requirements) should be eliminated for new construction within the transportation corridor. Current zoning policy does not allow for an efficient utilization of our land. "Height" and "set-backs" should prevail in all cases, not "Floor Area Ratios" and "Density." In other words new construction should be allowed to fill the envelope defined by height and setback requirements.

**ADDITIONAL CONSIDERATIONS**

In addition, consideration should be given to the following:

1. Additional income levels should to be included in the option matrix. These choices should be cost neutral to the economics of the project.

2. Eliminate front setback requirements for those properties facing a major transportation corridor or in a commercial zone.

3. Limit appeals to one. Area Planning Commission decisions should be final and non-appealable.

4. Dedicate a portion of the in-lieu fees to the Planning Department to up-date the city's general plan and to work on a more proper rezoning of all city areas.

5. The method of calculated subsidized rents and how buyer assistance programs are to be structured must be included in the discussions.

Respectfully submitted,
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## Appendix

### Current Housing Production Facts

The housing element of the general plan calls for the production of approximately 8,000 units a year. From that aspect we are doing well. However, we have a critical housing shortage and need to increase housing production. Rents are the highest in California. Only 28% of our citizens can afford to own a home. The latest figures from the mayor's office indicate that 30% (some say 44%) of all housing now being produced is for lower income families. We are making progress, but we have a long way to go.

**Los Angeles: Housing Production 2000-2004**

| Year | Total Multifamily Permits Issued | Adaptive Reuse | Mutlifamily in R Zones | Multifamily in C Zones | Single Family | Total | Goal |
|---|---|---|---|---|---|---|---|
| 2000 | 3505 | 29 | 2516 | 960 | 1163 | 4668 | 8037 |
| 2001 | 5199 | 163 | 3106 | 1930 | 1663 | 6862 | 8037 |
| 2002 | 6856 | 1859 | 2730 | 2267 | 1298 | 8154 | 8037 |
| 2003 | 6436 | 1440 | 2987 | 2009 | 1159 | 7595 | 8037 |
| 2004 | 9000* | | | | | | |

**2004 projected*
*Source, Sharon Meyer, Department of Planning and Safety*

### SUMMARY OF THE INCLUSIONARY HOUSING ORDINANCE PROPOSAL

***Set Aside Requirements***

Developers must choose one of the following options:

| | | | |
|---|---|---|---|
| 10% set aside | 30% of AMI | $23,800 a year income | $284 a month rent* |
| 12% set aside | 50% of AMI | $38,080 a year income | $522 a month rent |
| 20% set aside | 80% of AMI | $57,120 a year income | $133,178 home |
| 40% set aside | 120% of AMI | $114,280 a year income | $209,926 home |

**Or those eligible for Section 8.*
*Family of 2 in a 1 bedroom apartment or house, increased by 25% for family of 4 or 2 bedrooms. Home value determined at 6.5% including MI and 5% down.)*

***Incentives Granted***

In return the following bonuses are allowed "by right":

| | |
|---|---|
| Get | 25% increase in density **(Current Law)** |
| Plus | 10% more density if within 1500' of a major transit corridor **(Current Law)** |
| Plus | 15% more density if within 1500' of a major transit corridor |
| Plus | FAR exempt (small to no effect) |
| Plus | 1VL (currently 45' height limit); proposed 66' |
| Plus | 1XL (currently 30' height limit); proposed 41' |
| Plus | Only 1 parking space per affordable unit and no guest parking |

**CURRENT LAW AND POLICY**
The state started the ball rolling in the late 1980s and by 1995 the city offer the following density bonus program:

| | | | |
|---|---|---|---|
| 10% set aside | 50% of AMI | $23,800 a year income | $522 a month rent |
| 20% set aside | 80% of AMI | $38,080 a year income | $879 a month rent |

**Other options including 5% for SSI and 20% condos for 120% (10 year limit, 10% bonus)*

In return, the developer was allowed a 25% increase in density plus other benefits for both rental and sale properties. In 2002 the city added another 10% density bonus for those properties within 1,500 feet of a major transit line, resulting in a cumulative bonus of 35%.

**ECONOMICS**
The Housing Department income number of $59,500 is not the classic AMI provided by HUD. It is an ADJUSTED figure. HUD AMI for 2004 is $53,100 for a family of 4. The State Tax Credit Allocation Committee (Treasurer's office) takes the HUD AMI and adjusts it for Los Angeles and other counties to reflect higher income and cost of living.

LA Housing Department used this income measure and called it AMI for simplification in their overview of proposed policy at the Area Planning commissions. Technically, this figure represents the "maximum income limit." LA Housing Dept. uses these figures when financing affordable housing projects that get Tax Credit dollars. Steven Brady of Housing Department confirmed this information. We used the same income calculation method as the Housing Department, as Council will probably use this measure, unless otherwise specified.

Rent Limits
http://www.treasurer.ca.gov/ctcac/rentincome/limits04.pdf

Income Limits
http://www.treasurer.ca.gov/ctcac/rentincome/max_income04.pdf

**RENT SCENARIOS**
Typical market and subsidized rents for 1850 N. Cherokee where 12% of the units are reserved for a family of two earning $23,800 a year and a family of 4 earning $29,750.

Monthly Rent

| | |
|---|---|
| Market Rate 1 Bedroom 1 Bath | 1,634 |
| Market Rate 2 Bedroom 2 Bath | 2,267 |
| Subsidized 1 Bedroom 1 Bath | 522 |
| Subsidized 2 Bedroom 2 Bath | 663 |

**FOR SALE SCENARIOS**

When constructing homes for sale, one proposed option requires 20% of the units to be reserved for a family of two earning $38,080 or a family of 4 earning $47,600. With a 5% down payment this would limit the purchase price to $133,178 and $167,177 when 35% of income is allowed for housing as proposed.

**For Sale Scenario 1**

| | | | | |
|---|---|---|---|---|
| Market Rate 1 Bed. 1 Bath | $266,000 | | | |
| Market Rate 2 Bed. 2 Bath | $369,075 | Monthly Payment | Taxes | HOA |
| Subsidized 1 Bed. 1 Bath | $133,178 | $800 | $133 | $178 |
| Subsidized 2 Bed. 2 Bath | $167,177 | $1,004 | $167 | $217 |

**Based on:**

| | |
|---|---|
| 5% | Down payment |
| 6.50% | Interest rate |
| 35% | Income to housing |

Increasing the down payment to10% lowers the interest rate and increases the regulated value of the unit. This makes projects more feasible as shown.

**For Sale Scenario 2**

| | | | | |
|---|---|---|---|---|
| Market Rate 1 Bed. 1 Bath | $266,000 | | | |
| Market Rate 2 Bed. 2 Bath | $369,075 | Monthly Payment | Taxes | HOA |
| Subsidized 1 Bed. 1 Bath | $169,800 | $916 | $170 | $178 |
| Subsidized 2 Bed. 2 Bath | $213,022 | $1,150 | $213 | $217 |

**Based on**:

| | |
|---|---|
| 10% | Down payment |
| 6.0% | Interest rate |
| 40% | Income to housing |

By increasing the allowable income spent on housing to 50%, which is closer to the Southern California norm, the regulated price of the unit increases to within 6% of the market price of the home. We recognize that some buyers in this income class will needed down payment assistance. We believe this need is best served by other programs, such as the Housing Trust Fund, if it includes an expanded first-time buyer program.

**For Sale Scenario 3**

| | | | | |
|---|---|---|---|---|
| Market Rate 1 Bed. 1 Bath | $266,000 | | | |
| Market Rate 2 Bed. 2 Bath | $369,075 | Monthly Payment | Taxes | HOA |
| Subsidized 1 Bed. 1 Bath | $251,404 | $1,142 | $251 | $178 |
| Subsidized 2 Bed. 2 Bath | $315,146 | $1,432 | $315 | $217 |

**Based on:**

| | |
|---|---|
| 20% | Down payment |
| 5.50% | Interest rate |
| 50% | Income to housing |

We propose using in-lieu fees for all condominiums and other for sale developments and use this money to fund the Housing Trust Fund. This would allow this owner to purchase at market rate and realize the benefits of appreciation. The Fund can also develop the needed rental stock by expanding the existing not-for-profit network of developers without requiring the Department of Housing to regulate and monitor this segment of the market. Both programs require approximately $50,000 per subsidized unit.

**Case Study Analysis**
Both 1850 Cherokee and 6038 Carlton Way had very similar results. Without a variance, neither site proved to have enough profit to attract a developer. This was true of apartment and a condominium project models. In fact, they did not even come close. Only when the property was fully built-out did an apartment model pencil out. When the site was fully built-out, in-building open space requirements were eliminated and parking requirements were relaxed, the condominium model became feasible.

**6038 Carlton Way, Hollywood, CA**
**Cost Per Foot $88**

| | Bonus Taken | Market Land Value | Residual Land Value | ROI | Total Units | Subsidized Units | In-Lieu Fee |
|---|---|---|---|---|---|---|---|
| Rent 0% | 0% | $100 | $69 | 10% | 35 | 0 | |
| Rent 50% | 50% | $100 | $80 | 27% | 52 | 6 | |
| Rent Max Out | 74% | $100 | $91 | 36% | 60 | 7 | |
| Rent ALL GIVE | 86% | $100 | $148 | 69% | 64 | 6 | |
| Rent In-Lieu 110% | 50% | $100 | $41 | 1% | 52 | 0 | $1,690,364 |
| Rent In-Lieu 40% | 80% | $100 | $120 | 50% | 62 | 0 | $596,270 |
| Rent In-Lieu 40% ALL GIVE | 50% | $100 | $96 | 36% | 52 | 0 | $610,719 |
| Sale 0% | 0% | $100 | $14 | -19% | 35 | 0 | |
| Sale 50% | 50% | $100 | -$16 | -17% | 52 | 10 | |
| Sale Max Out | 54% | $100 | -$16 | -16% | 53 | 11 | |
| Sale All Give | 88% | $100 | $184 | 83% | 65 | 13 | |
| Sale In-Lieu 110% | 48% | $100 | -$155 | -69% | 51 | 0 | $3,702,638 |
| Sale In-Lieu 15% | 48% | $100 | $11 | -3% | 51 | 0 | $497,547 |
| Sale In-Lieu 15% & Parking | 76% | $100 | $113 | 47% | 50 | 0 | $519,679 |
| Sale In-Lieu 40% ALL GIVE | 84% | $100 | $102 | 41% | 50 | 0 | $1,396,452 |

**Density**
Density regulations keep population in balance with the area infrastructure including transportation, schools, services and open space. The number of units allowed on a property is determined by dividing the gross site area by the square feet allowed per unit.

**Floor Area Ratio and Height Limits**
Floor Area Ratio (FAR) regulation controls the "bulk" of the building in relation to the area of the parcel of land it occupies. Floor space dedicated to parking has no effect on density and is not added to the allowable building area when calculating the FAR. FAR is calculated on the build able site area (after required setbacks are deducted) but does not work for apartments and is only used for low-rise R4-1VL apartment zones. There is a Minimum Lot Area calculation in the Planning code that affects density.
Density for R4 zoned property has traditionally been one unit for every 400 feet of site area, with a FAR of 3 to 1. Around 1986 the "Q-conditions" were added to make zoning comply with the City's general plan. These Q-conditions reduced the number of units by 33% in most, if not all, of Hollywood and many areas of Los Angeles.

**Parking Requirements**
Current parking requirements for an apartment building are as follows:

| | | |
|---|---|---|
| 1 | <3 rooms | Single Apartments and 1s with open kitchen lr areas |
| 1.5 | 3 rooms | 1 Bedroom Apartments and 2s with open kitchen lr areas |
| 2 | >3 rooms | 2 Bedroom Apartments and over |

no guest parking

Condominiums require 2 parking spaces per unit regardless of size.
Plus .5 per unit for guest parking in congested areas
Plus .25 per unit for guest parking in un-congested areas
*Per Sally Richmond, guest parking is not required by law but is routinely added by the City when a developer applies for a conditional use permit or zoning variance.

**CONSTRUCTION COSTS**
Based on our interviews with builders we will be using the following hard costs:

| | |
|---|---|
| Type V Apartment | $88 a square foot (of gross building area) |
| Type III Apartment | $120 a square foot (of gross building area) |
| Type V Condo | $110 a square foot (of gross building area) |
| Type III Condo | $140 a square foot (of gross building area) |

Parking will be no more than two stories underground and, if necessary, part of the ground floor and is priced separately at $44 a square foot for the ground floor and $55 a foot for each of the two underground floors, allocating 350 feet for each parking space.

Sales costs will be 6.5%. Efficiency will be 80%. Minimum leveraged return will be 38%.

**Dreyfuss Construction**
Dreyfuss Construction supplied the following hard costs for a townhouse style apartment building with one floor of commercial and average finish Type V construction. The parking was one level underground and ½ of a second level. These are supported by actual subcontractor quotations and include 3% supervision and an 11% contractor profit. They reported:

| | |
|---|---|
| Apartment Type V | $80 a square foot (of gross building area) |
| Commercial | $17 a square foot |
| Parking | $63 a square foot |

**Marty Shelton**
Marty Shelton, of NAI Capital, has researched construction costs and has supplied two completed buildings for us to use. One is a 500 unit, Type III condo construction and the other is a Type V apartment building. The costs included parking in an overall figure. These are rather large projects and average size project costs would be higher.

| | |
|---|---|
| Type V Apartment | $92 a square foot (of gross building area) 72% efficiency |
| Type III Apartment | $130 a square foot (of gross building area) 72% efficiency |

$6,500 per space for a separate structure ($18 a foot) and $15,000 ($43 a foot), when integrated into the building. 350 feet per parking space.
A large developer weighed in with the following:

$110 per net rentable square foot for the living area if the average new apartment finished (carpet, vinyl, laminate counters and cabinets). (Ed. $88 gross Type V if 80% efficiency.) Add $15 for average new condo finishes (hardwood or stone floors, granite counters, stained wood cabinets) ($103). Add 20% to living area cost if Type III instead of Type V ($105 apartment and $123 condo).

$15,000 per underground stall, whether one or two stories below grade. (Ed. $42 a foot at 350 feet a stall.) Same price if at grade with units above and ½ price if standalone parking with no units overhead.

**The Kosmont Report** (commissioned by the CCA and BIA) lists:

| | |
|---|---|
| Type V Apartment | $80 a square foot (of gross building area) covered at grade |
| Type III Apartment | $140 a square foot (of gross building area) 2 levels ug parking |
| Type V Condo | $125 a square foot (of gross building area) 2 levels ug parking |

**The Rosen Report** (commissioned by the City and supporting the policy) lists:

| | |
|---|---|
| Type V Apartment | $65 a square foot (of gross building area) covered at grade |
| Type III Apartment | $110 a square foot (of gross building area) 2 levels ug parking |
| Type V Condo | $85 a square foot (of gross building area) 2 levels ug parking |

Both reports allocate 12% of total costs less land as a minimum profit. Assuming 30% of the total cost is in land and a loan of 75% of this, the leveraged return is 38%. This is the method and percent return we used as well.

**Architectural Design Considerations**
Christi Van Cleve, Principal at Roschen Van Cleve Architects, reports:

Parking depends on the density, footprint, access ramps, etc., but two floors for this project sounds tight for parking. The 1.75 stalls per unit average are probably ok. (Ed. Both the Rosen Report and Kosmont use 90% efficiency)

Open space usually has a big effect, and increased setbacks become more of an issue as the building gets taller. These requirements reduce the number of units one can build on a site.

-10 ft. floor to floor is doable for residential.

-Parking Level does take 11 to 12 ft. floor to floor.

-Type V can only go 4 stories (50 ft. maximum), Type III (65 ft. maximum) can go 5 stories plus the garage which can be subterranean, partially subterranean, or above grade. But, if the total uses go over 75 ft. above the lowest point on the site, that pushes the project into High Rise construction.

-General rule of thumb for parking is 350 SF per space. Tandem is not allowed by code, but may be permissible with an affidavit and garage attendant. It would add another 200 sq. ft. per tandem space or 275 sq. ft. average.