



Honorable Chair and Members of the Hermosa Beach Planning Commission

**DISCUSSION OF LAND VALUE RECAPTURE ORDINANCE A PROGRAM OF THE
2021-2029 CERTIFIED HOUSING ELEMENT**

(Planning Manager Alexis Oropeza)

Recommended Action:

Staff recommends the Planning Commission:

1. Receive a staff report and solicit public input; and
2. Provide a recommendation to City Council.

Executive Summary:

At its March 25, 2025, City Council meeting, the City Council directed staff to have the Planning Commission review the Land Value Recapture Ordinance as it pertains to “small lots.” Staff recommends that the Planning Commission consider, discuss, and provide a recommendation to the City Council.

Background

Land Value Recapture (LVR) policies are founded on the principle that properties gain value from specific city actions, such as infrastructure improvements or rezoning. As a result, a portion of the increased value should be captured and used for public benefit.

Land Value Recapture is one of the policy programs established in the City’s 2021-2029 Housing Element to support the development of affordable housing (**Attachment 1**). The City Council adopted the corresponding Zoning Text Amendment (ZTA) Ordinance No. 24-1474 to implement the LVR program on January 23, 2024, and it went into effect on August 1, 2024, when the Housing Element was certified by the California Housing and Community Development (HCD)(**Attachment 2**). In its certification letter to the city, HCD emphasized the importance of the city’s timely and effective implementation of all adopted programs, including, but not limited to, LVR. Furthermore, HCD established an expectation that the LVR program would be evaluated biennially (every two years)(**Attachment 3**).

Past Board, Commission, and Council Actions

Meeting Date	Description
<u>November 16, 2021</u>	Planning Commission Consideration of a comprehensive amendment to the HE for the 2021-20219 planning period, including Land Value Recapture
<u>December 21, 2021</u>	City Council conducted a public hearing, adopted the 2021-2029 Housing Element, and authorized submission to HCD
<u>July 18, 2023</u>	Planning Commission Study Session discussing Housing Element-related Zone Changes and Zone Text Amendments
<u>August 8, 2023</u>	City Council adopt Housing Element and associated changes to the Land Use Element of the General Plan
<u>August 15, 2023</u>	City Council Study Session discussing Housing Element-related Zone Changes and Zone Text Amendments
<u>September 19, 2023</u>	Planning Commission recommended approval of the General Plan Amendment, Map Changes, and Zone Text amendment, including Land Value Recapture
<u>October 10, 2023</u>	City Council Discussion of Land Value Recapture
<u>October 17, 2023</u>	Planning Commission adopted a Resolution reflecting Zone Text Amendments to effectuate the Housing Element programs
<u>October 24, 2023</u>	City Council consideration of General Plan Amendment, Zone Changes and Zone Text Amendments to effectuate programs of the 2021-2019 Housing Element
<u>December 12, 2023</u>	City Council consideration of Zone Text Amendment adding Land Value Recapture and amending criteria for affordable housing and Resolution establishing fees
<u>January 23, 2024</u>	City Council adoption of ZTA adding the LVR and amending the criteria for affordable housing

At the March 25, 2025, meeting, the City Council directed staff to schedule the Planning Commission’s review of the Land Value Recapture program as it pertains to “small lots.” As of August 2025, the LVR Ordinance has been in effect for one year.

Discussion:

The City’s Land Value Recapture Ordinance is structured to capture a portion of the land value gained from adding residential development capacity to properties that were previously zoned for non-residential uses only. The LVR ordinance applies to properties on the Housing Element Inventory list that benefited from the rezoning of the property with the Housing Element Overlay (HE-) zone (**Attachment 4**). The HE overlay expanded the allowed uses on the rezoned parcels to include residential and mixed-use uses. However, the property is exempt from the fee if the proposed residential development includes 15 percent very-low-income, 15 percent low-income, or 25 percent moderate-income units. The City Council established a two-tiered fee structure aimed at providing a lower fee for “smaller lots” or lots that would accommodate a minimum density of four (4) or fewer residential units (Tier 1) and a higher fee for larger lots where a minimum density of five (5) or more residential units could be developed.

LVR Exemption Tiers	Fee
Tier 1 – Minimum Density 4 or fewer residential units	\$76/per square foot
Tier 2 – Minimum Density 5 or more residential units	\$104/per square foot

The LVR fee was calculated to be the equivalent cost of creating affordable residential units on-site, on non-residentially zoned properties that can now include residential development. Fees collected from Land Value Recapture would then be used to develop affordable housing locally. This could take the form of development subsidies for constructing affordable housing or funding for converting existing units into affordable housing. Additionally, funding could be used to support the South Bay Regional Housing Trust Fund. Contributing to the Housing Trust Fund is another strategy to create affordable housing and is incorporated into the Housing Element as Program 8.

The City’s Land Value Recapture regulations were structured to incentivize the construction of affordable housing rather than the payment of the exemption fee. For this reason, the City Council elected to study and ultimately impose a cost greater than originally proposed in the Land Value Recapture analysis prepared by Kosmont Companies (**Attachments 5 and 6**). In addition to evaluating the equivalent value, the market analysis assessed the market’s tolerance of the LVR fee. The pro forma for the small lot showed a return on investment of approximately 12.3 percent, which was deemed financially viable for a typical developer.

As of August 2025, the Housing Element has been certified for a year, and we are in the fifth year of implementation of the 6th Cycle (2021-2029) Housing Element. The city has continued to make progress in developing new housing units, although all new units remain at market rate. To date, no entitlement applications have been submitted on HE Overlay sites that include the development of affordable units or developments necessitating the payment of LVR fees.

The small lots comprise 24.6 percent of the 558 residential units the city is responsible for planning for during the 2021-2029 Housing Element.

RHNA and LVR TIER 1 (“Small Lots”)					
	Income Category				
	Very Low	Low	Moderate	Above Moderate	Total
RHNA (2021-2029)	232	127	106	93	558
LVR Tier 1 (“Small Lots”)	16	27	84	10	137

When the LVR Ordinance was adopted, the City Council and staff recognized the importance of periodically reevaluating it, as numerous factors impact housing production. As the Planning Commission discusses Land Value Recapture and “small lots” ability to support affordable housing, staff recommend that the Planning Commission consider the following possible recommendations to the City Council:

- A. Recommend the City Council maintain the current regulations without any change and commit to a reevaluation next fall with an updated economic feasibility analysis;
- B. Recommend the City Council exempt smaller lots, with a minimum density of 1-2 units from any LVR fee;
- C. Recommend the City Council direct staff to assess the economic feasibility of and establish additional fee tiers with the small lots category (lots with a minimum density of 4 or fewer units);
- D. Recommend the City Council direct staff to explore zoning regulations that could encourage development of residential units on “small lots” on the Housing Inventory List; or
- E. Recommend that the City Council implement a temporary fee reduction for 18 months for any project building to the minimum required density on small lots and promote the program to affected property owners.

The Planning Commission may also make an alternative recommendation to those above.

Next Steps:

Staff will present the recommendation to the City Council as an item for discussion at a future meeting of the City Council.

Public Notification:

No public notification was required for this item. However, an eblast was sent to individuals who have signed up for updates.

Attachments:

1. Housing Element (HE) 2021-2029
2. Ordinance 24-1474
3. Housing Community Development Letter Dated August 1, 2024
4. HE Sites Inventory List and Map
5. Land Value Recapture Analysis dated October 2023
6. Land Value Recapture Analysis dated December 2023

Respectfully Submitted by: Alexis Oropeza, Planning Manager

Approved: Alison Becker, AICP, Community Development Director