

City Council Meeting December 12, 2023

LAND VALUE RECAPTURE ORDINANCE AND FEE



Background

- 2021-2029 Housing Element
- February 20, 2021 - City Council/Planning Commission discussion – housing strategies
- Land Value Recapture – capturing increased value of land upzoned or intensified
- Housing Element Sites Inventory – residential on non-residential properties



Background

- August 8, 2023 – Housing Element adopted LVR Program included as Program #7
- City to perform LVR feasibility analysis
- Completion of zoning changes required for State certification
- LVR must accompany property zoning changes to be effective



Background

- Planning Commission discussions
 - June 20, July 18, and August 15, 2023
 - Requirements for properties with minimum density of 4 or fewer units
- Planning Commission recommendation
 - September 19, 2023

Background

- City Council discussion – October 10
 - Kosmont Companies Analysis – October
 - Evaluate two-tier fee; higher proposed fee
- City Council public hearing – October 24
 - Adopted Housing Element-related rezoning
 - Deferred LVR; higher affordability tiers
- Updated LVR Analysis



Background

- City's very-low and low income RHNA is > 63% of allocation
- City currently has no affordable housing.

6th Cycle RHNA by Income Category—Hermosa Beach

Income Level	Very Low	Low	Moderate	Above Moderate	Total
Units	232	127	106	93	558
Percentage	41.6%	22.8%	19%	16.6%	100%



Land Value Recapture Program

Applies to Housing Element Sites Inventory Sites (--HE)

- Captures portion of value from City rezoning actions that allow development previously not allowed
- Housing Element-related rezoning would allow residential development where previously only non-residential development is allowed
- Residential development tends to have higher value in market; reflected in development interest and activity
- LVR Program feasibility analysis must demonstrate that LVR fees do not render development infeasible



Applicability

- Applies to:
 - Housing Element Sites Inventory Sites
 - Future non-residential sites where residential is allowed
- Non-residential projects are exempt
- Mixed use projects are pro-rated
- Fee based on square foot (sq. ft.) of market rate residential development



Initial Land Value Recapture Analysis

- Considerations: land cost, capitalization rate, operating cost, cost of housing for different income levels, ability to use density bonus program, value impact per sq. ft.; etc.
- \$66 – 94 per sq. ft. generally economically equivalent to developer providing affordable housing
- Suggested \$60 per sq. ft. due to program infancy; economic uncertainty



Updated LVR Analysis

- Same methodology, updated to reflect increased thresholds of affordability required
- Additional information for different hypothetical development sizes (unit counts)
- Evaluation of market feasibility
- “Tests” the requested potential LVR fees against development costs and property value



Updated LVR Analysis

- Provides hypothetical development pro formas
- Evaluates feasibility based on “return on cost”
- Feasible “return on cost” for hypothetical development evaluated at 8% - 10%
 - Smaller sites – likely to pay the LVR fee
 - Medium sites – more likely to build affordable
 - Larger sites – more likely to build affordable



Updated LVR Analysis

- Feasibility considerations
 - Return on cost
 - Property owner business considerations
 - Existing revenue and costs
 - Length of tenure / ownership / debt
 - Market certainty / risk tolerance
 - Site fit

Proposed Exemption Tiers

- Dependent on HE Sites Inventory Minimum Density
- Sites with 4 or fewer units must include development to minimum density and 1 affordable unit (any level)
- Sites for 5 or more units (eligible for density bonus) must include 15% very low-, 15% low-, or 25% moderate-income units
- Otherwise, subject to respective fee

LVR Proposed Fee

- Two-tier fee program
 - Tier 1 - \$76 per square foot
 - Tier 2 - \$104 per square foot
- \$86 – 92 per sq. ft. – generally economically equivalent to developer providing affordable housing (based on 15% / 15% / 25%)
- LVR to motivate affordable housing



Proposed Ordinance Changes

- Add 17.39.050 to the HBMC for the program structure, including affordability tiers
- Amend 17.42.100(A)(3) to ensure that affordable units in a development are comparable to other units in size and bedroom count
- Amend 17.42.100(B)(2) to allow for moderate-income rental units to utilize density bonus (currently allowed for sale)



Proposed Fee Resolution

- Amends the City Master Fee Schedule to create:
 - LVR Fee (Tier 1) = \$76 per square foot
 - LVR Fee (Tier 2) = \$104 per square foot



Other Types of Programs

- 30% of California cities have programs to result in creation of affordable housing. Most are inclusionary programs.

Affordable Housing Programs

Jurisdiction	Inclusionary	Affordability Threshold	Fee	Fee Unit
Rancho Palos Verdes	Yes	5–10%	\$308,716	Unit
Santa Monica	Yes	5–30%	\$41.39– \$48.35	Sq. Ft.
Long Beach	Yes	11%	\$37.90– \$38.50	Sq. Ft.
Newport Beach	Yes	7%	\$33.80– \$36.60	Sq. Ft.
Laguna Beach	Yes	25%	\$247,317– \$348,197	Unit
Huntington Beach	Yes	10%	\$3–\$36	Sq. Ft.

Use of LVR Fees

- Must be used to create affordable housing
- Development subsidies for new construction or conversion
- May contribute to housing trust fund
- City would need to create a housing program for administration

Environmental Review

- Pursuant to CEQA, the City evaluated and determined that Housing Element-related actions are consistent with PLAN Hermosa Environmental Impact Report (EIR)
- LVR Program was included in Housing Element
- Addendum to the PLAN Hermosa Final EIR
- Pursuant to CEQA, the establishment of the LVR Fee is statutorily exempt.



THANK YOU!

Contact us.

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