

Real Estate/Development Memo

Renew Conditional Use Permits (CUPs) & Extend Entitlements

Automatically renew Conditional Use Permits (CUPs) for restaurants, bars and other hospitality and entertainment venues. These establishments must obtain CUPs to serve alcohol and have live entertainment and dancing. The CUP process is costly and can take up to two years to process. Alcohol service and live entertainment are the largest profit areas for these venues and the COVID-19 pandemic has greatly reduced or all together eliminated these revenue sources. Most CUP's have a discontinuance provision that would support automatic renewal.

On March 21, Mayor Garcetti issued the Executive Order "Tolling Deadline Prescribed in the Municipal Code."¹ We recommend that this action be built upon to include existing CUPs to support restaurant, bar and other hospitality and entertainment venues that have been closed or their business greatly reduced due to necessary public health orders as a response to the COVID-19 pandemic.

We also believe other entitlements included in this Executive Order should be extended for an additional 12 months to allow projects to move forward and support our economy by creating jobs and increasing the tax base. We believe the Executive Order could be amended after consultation and guidance from City Attorney.

Hospitality businesses provide jobs for about 171,000 people, making up almost 10% of all jobs in the City of LA.² We recommend that the extension be for 24 months following the lifting of the emergency order to give these businesses the support they will need to reopen and employ people.

This action may be opposed by neighborhood associations, neighborhood councils and those that believe CUPs must be reviewed constantly. The city has made good progress at streamlining the CUP process by removing time limits from newer cases and establishing the Restaurant Beverage Program and this action would align older CUP cases with new city thinking. There is widespread support for the hospitality industry at this juncture as the public realizes the enormous economic impact of COVID-19.

Allow "P" (parking) Zoned Parcels to Utilize Adjacent/Abutting Zone

Retail centers have been dramatically impacted due to the COVID-19 pandemic and need support to adapt for future uses. Many retail centers and commercial properties which have a "C" zone currently could be redeveloped for higher and better uses but are limited to the area of the existing building and the parking areas which have a "P" zone and cannot be redeveloped without a zone change. Obtaining a zone change is a lengthy, costly, and uncertain process.

We recommend utilizing state law and adding another use to the city's P zone. This would maintain the integrity of the P zone but allow for the zone to absorb the adjacent or abutting zone. This zone update could be initiated by Mayor Garcetti and done by City Planning in a targeted manner. City Planning and the City Attorney need to be consulted to determine if this action would require environmental review which would impact timeline.

The city has taken similar actions to rezone P zone parcels both in the Permanent Supportive Housing (PSH) Ordinance and the TOC guidelines to allow P zoned parcels to use adjacent/abutting zone. Specifically, the PSH ordinance states, "Any joint public and private development that is a Qualified

¹ <https://www.lamayor.org/sites/g/files/wph446/f/page/file/EmergencyOrderTollTimelines.pdf>

² <https://onthemap.ces.census.gov>

Real Estate/Development Memo

Permanent Supportive Housing Project developed pursuant to Section 14.00 A.11 of this Code, utilizing the uses and standards permitted by the least restrictive adjoining zone. The phrase ‘adjoining zones’ refers to the zones on properties abutting, across the street or alley from or having a common corner with the subject property.”

This action would primarily impact commercial corridors so opposition should be minimal as these properties can be redeveloped now under the “C” zone but are limited by the “P” zone. However, there may be concerns raised by people who are focused on maintaining a single-occupancy vehicle culture in LA. There would likely be support from urbanists, environmental groups, and business community interests.

Clarify Active Ground Floor Rules for Mixed-Use Buildings

Certain planning documents across the city call for active ground floor uses in mixed-use buildings which generally means retail uses. In Downtown Los Angeles, the Downtown Design Guidelines allow for active uses to be defined broadly and include uses like residential lobbies, gyms, and other common areas. This provision should be expanded citywide and could be implemented via Zoning Administrator Interpretation (ZAI).

City Planning should be consulted to draft this ZAI and it could be issued quickly.

We know retail has been dramatically impacted by COVID-19 and we must make it easier for those building new housing to meet city requirements. This is a simple, common sense action that will help support the construction industry which employs approximately 48,000 people in the city.³

It is unlikely this clarification would generate opposition. It would be supported by housing developers.

Address Site Plan Review Thresholds

Currently, development projects in the City of Los Angeles with more than 50 housing units or guest rooms (as well as commercial projects of a certain size) must undergo Site Plan Review (SPR), a discretionary action which also triggers review under the California Environmental Quality Act (CEQA), even if a project otherwise conforms to a site’s zoning. This process needlessly slows the production of housing, increases costs and exposes zoning compliant projects to time consuming legal challenges, creating increased risk and uncertainty in the development process. It also has the unintended impact of limiting project size to avoid it.

SPR is strictly a city-imposed requirement and the 50-unit threshold is arbitrary; it was established decades ago because of lawsuit and no longer reflects the City’s vision of sustainable growth. Even before the COVID-19 pandemic, housing was the most important issue facing our state and the pandemic has highlighted this even more as there have been great efforts through Project Roomkey and emergency interim shelter to house the most vulnerable populations living on the street. We also know from this year’s point-in-time homeless count that more people are becoming homeless for the first time while chronic homelessness is also rising. We need more housing and we need it fast. Removing SPR as a barrier is a positive step forward.

The city has recognized SPR as an impediment for housing development; the Adaptive Reuse Ordinance exempts projects from SPR, for example. In the addition, the Permanent Supportive Housing ordinance

³ <https://onthemap.ces.census.gov>

Real Estate/Development Memo

raises SPR thresholds as follows, “qualified Permanent Supportive Housing Project developed pursuant to Section 14.00 A.11 of this Code and containing no more than 120 units, or no more than 200 units if it is located in the Greater Downtown Housing Incentive Area or on a lot with a general plan land use designation of Regional Center Commercial, Regional Commercial, or Regional Mixed Commercial.”

The city has received a grant from the state to update its Density Bonus ordinance and this presents a good opportunity to incorporate increasing or waiving SPR as an on-menu incentive for mixed-income residential projects. City Planning is working on this now and must be supported to continue the work. This will take time and there will be a robust community engagement process. The Density Bonus ordinance has always generated significant interest. In addition, as the City has not met its RHNA goals, the City should also consider ways of waiving SPR to streamline housing development pursuant to Senate Bill 35.

Expand Adaptive Reuse Ordinance

The Adaptive Reuse Ordinance (ARO) was adopted in 1999 to support the conversion of commercial buildings built before 1975 into housing. The ordinance was piloted in Downtown LA and then expanded to Hollywood and Koreatown. It can be used citywide however, other areas require CUP which does not provide a clear pathway for redevelopment. It can also be used for buildings built post-1975 but those projects must present economic hardship findings to the city which is unclear and has never been utilized.

The COVID-19 pandemic is ushering in a new era of working from home that will likely continue to an extent after the pandemic. Many existing office and commercial buildings may be better suited for conversion to residential or other uses. Updating the ARO to allow newer buildings by-right unlocks the potential to more ably respond to quick changes in demand for space and can be a useful tool for the provision of new housing and other uses whereas many of these existing spaces might otherwise sit vacant.

CoStar estimates that about 75% of office workers can work from home, and many major companies have already announced plans to shift large swaths of their workforce to remote work. There will likely be tremendous impacts to office buildings, and meaningful decreases in office demand and increases in vacant office space. We should begin planning now to allow our city to nimbly respond to these changes to avoid greater economic and fiscal damage.

The ARO is one of the best tools at our disposal and has been a key element of DTLA’s resurgence as the thriving heart of the city by allowing obsolete office and bank buildings to be converted to housing. However, the ARO is currently very limited – it primarily applies to buildings built before 1975 and virtually exclusively in DTLA. The ARO currently applies to about half of the office space in DTLA, and about 20 percent of all office space in the City. Nearly 30,000,000 square feet of office space in DTLA was built 1975 or later, meaning there is a major opportunity for expanding the ARO to more recently constructed buildings in DTLA.

There is an additional approximately 100,000,000 square feet of office space in the rest of the City of LA that could benefit from the ARO. Proactively unlocking more office space for conversion to housing or other uses can help bolster our economy and tax revenues, while also addressing our housing crisis.

The following table illustrates the amount of office space throughout the city.

Real Estate/Development Memo

| Office Profile Summary | | |
|--|------------|-------------|
| | DTLA | City of LA |
| Total Buildings | 391 | 4,055 |
| Total Square Footage (Rentable) | 60,289,938 | 155,000,000 |
| Age | | |
| Office Buildings pre-1975 | 249 | 3,083 |
| Office Buildings post-1975 | 128 | 875 |
| <i>Office buildings w/o year built</i> | 14 | 97 |
| Office SF | | |
| Office SF pre-1975 | 28,764,815 | 81,800,000 |
| Office SF post-1975 | 27,829,390 | 69,200,000 |
| <i>Office SF w/o year built</i> | 3,695,733 | 4,000,000 |
| Vacancy | | |
| Vacancy Rate | 14% | 12% |
| Total Vacant Square Footage | 8,440,591 | 18,600,000 |
| Vacancy Rate for pre-1975 | 18.5% | 12.8% |
| Vacancy Rate for post-1975 | 12.7% | 11.7% |

Source: CoStar Group Inc.

The DTLA 2040 Community Plan update is contemplating updates to the ARO that could be used as a road map for a citywide ARO update. City Planning is actively working on DTLA 2040 and while the city is facing deep financial constraints, we need to support this important work and make sure that it continues.

Amending the ARO would require staff resources from City Planning but would spur new housing and associated construction jobs. Additionally, adaptive reuse presents less community opposition as it repurposes existing structures thereby having less impacts than new construction.

Support Microunits

Microunits are an innovative housing typology that can help to meet demand that has been further exacerbated by the COVID-19 pandemic. Recently, City Council adopted a motion⁴ introduced by Councilmember Cedillo requesting City Planning to report on barriers to developing microunits in the city. The primary barriers are density limitations, parking requirements and fees based on number of units, like the park fee and tree requirements, versus the occupancy of units or per square foot.

City Planning is currently working on this report and it will likely be released by Fall 2020. The report will likely enumerate the challenges with building microunits and provide examples that could be addressed through a Microunit enabling ordinance. It would be ideal to have Mayor Garcetti to make this work a priority for City Planning.

⁴ <https://cityclerk.lacity.org/lacityclerkconnect/index.cfm?fa=ccfi.viewrecord&cfnumber=19-0999>

Real Estate/Development Memo

This will require a new ordinance which takes time and requires broad input, but micro-units can be a useful and naturally affordable housing type appropriate for the city's most walkable and transit-rich areas.

Extend the Seismic Retrofit Requirement

Currently, Mayor Garcetti's Executive Order regarding tolling entitlements pauses the clock on time limits related to seismic improvement while it is in place. However, we believe it may be beneficial to give apartment owners an additional 12 months after the emergency order is lifted to meet seismic upgrade requirements (this 12 month window parallels the time allowed to tenants to pay back rent). We believe this could be done by amending the existing order.

City Attorney should be engaged to review this item.

There may be some concerns about earthquake safety, but property owners would likely welcome the extension and it may help some remain solvent.

Upgrade City Systems to Allow Electronic Case Processing for Plan Submittal

The City needs to continue to improve its systems to allow for electronic case processing. This will save city resources and expedite development projects, which are two important goals to address the current economic reality. Like so many other items, this need was highlighted by the COVID-19 pandemic where plans must be physically placed in a drop box for submittal.

Mayor Garcetti may consider working with relevant City departments to issue an RFI for this work building upon existing city efforts through Build LA.

This modernization is a practical tactic for the city to undertake that should receive wide-spread support.

Advocate for State Legislation to Exempt Long-Range Planning from Environmental Review

The city is amid several long-range planning efforts such as updating the Housing Element of the General Plan and all of its Community Plans. To complete the state-mandated Housing Element the city must also do an Environmental Impact Report which will cost a great amount of City resources while having no environmental review efficiency for individual housing developments. This is also often the case with Community Plans. Given the COVID-19 pandemic and its impact on the City's budget and importance of housing the city should seek legislation that exempts long-range planning documents like the Housing Element and Community Plans from environmental review.

The state has recently done some legislation in line with this thinking including:

- AB 1515, passed in 2019 -- Prohibits a court from invalidating a development approval that was granted based on a community plan that meets specified criteria, if the development was approved or had a complete application prior to the community plan being challenged in court over the community plan's compliance with CEQA.
- AB 3194, passed in 2018 -- Provides that a proposed project is not inconsistent with applicable zoning standards, and shall not require a rezoning, if the project is consistent with objective general plan standards but the local agency's adopted zoning for the project site is inconsistent with the general plan. Where the zoning is consistent with the general plan, a local agency may require a proposed project to comply with the objective standards of that zoning, but those

Real Estate/Development Memo

standards must be applied to facilitate development at the density allowed on the site by the general plan.

Exempting long-range planning documents may concern unions, environmental groups and neighborhood groups that feel a part of the review process is being bypassed. Groups such as urbanists, YIMBYs and those that want greater housing production will likely support legislation.