



HERMOSA BEACH
CHAMBER *of* COMMERCE
and VISITORS BUREAU

October 24, 2023

City of Hermosa Beach
1315 Valley Drive
Hermosa Beach CA 90254

RE: Mixed-use and Land Value Recapture

Dear City Council and Mayor:

The Hermosa Beach Chamber of Commerce and Visitors Bureau supports mixed-use development in our non-recreational commercial zones, which we believe will enhance vibrancy, foot traffic, and investment into our commercial corridors throughout the year. As an advocate body of Hermosa Beach's business community, which include commercial property owners, we request revisions to our city's Housing Element Land Value Recapture (LVR) Program due to the disproportionate constraints and inhibiting effects on mixed-use development on small downtown lots.

The Land Value Recapture (LVR) Program described in the city's adopted Policy Plan occurs "when land is rezoned to allow higher-intensity uses, the value of that property typically increases." The LVR Program is intended to "capture" added land value based on rezoning actions. As stated in the October 10 staff report, the city "secured Kosmont Companies to evaluate a potential fee for the LVR Program based on current land values for residential development, construction costs, and similar fees in other jurisdictions. Included in this evaluation was an analysis to ensure that the presence of a LVR Program would not disincentivize the development of residential development." Based on the findings from the feasibility report, we have the following concerns:

1) **Construction costs and adverse impacts not measured.** As stated in the October 10 staff report, construction costs were supposed to be included in the study. The Summary of Baseline Assumptions and Methodology did not include this section. If these costs were included in the analysis, the information was not provided to the public. In a feasibility study, it is important to show what fee levels will NOT adversely impact development. In order to ensure the fee does not create additional barriers for our small lots a careful examination of relevant factors should be included in the study. Therefore, we recommend the city request an updated feasibility study and/or conduct a proper Residual Land Value Analysis.

2) **Density bonus does not pertain to lots allocated one residential unit.** According to Density Bonus Law it applies to developments with five or more units. Most small downtown

lots on the inventory site map are under single ownership and do not have the ability to consolidate. In addition, with 30 foot height restrictions and parking requirements (two parking spaces + one guest space per dwelling unit), building five units is not an option. Therefore, the assumptions made in determining the LVR fee impose constraints on small lots under single ownership which cannot be offset by density bonus incentives.

3) **The disincentive of the land value recapture (LVR) fee on small lots.** In order to incentivize mixed-use development on our small lots we need to make sure we are creating incentives not disincentives. If the LVR fee is not carefully calculated it will act as a barrier and inhibit mixed-use development. Historically, our small commercial property owners have had the opportunity to build a second story office but the parking-in-lieu fee has constrained development. With the proposed LVR fee of \$76 per square foot on 2 units and under; \$104 per square foot on 3 units and more; the fee would act as a disincentive by levying a disproportionate amount on development. Because small projects (1-2 units), cannot blend the average of the market rate units with the affordable units the average rental rate is significantly less, thus making projects infeasible.

4) **City increased land value recapture (LVR) fee without study.** The LVR fee proposed by Kosmont Companies in their feasibility report was \$60 per net square foot of residential development. Staff had recommended a more conservative \$50 per square foot for space occupied by non-residential units and excluding the 1-2 units in order to prevent it from becoming a barrier to development. City Council decided to create a two-tiered LVR fee structure that increased the amount levied on mixed-use development without proper study. In the current staff report, Kosmont Companies is in the process of assessing the impact of this fee increase. Again, we recommend careful examination before adopting a fee that has the potential to inhibit mixed-use development and include relevant costs that have the potential to pose a barrier.

5) **Similar fees in other jurisdictions.** The October 10 staff report included other cities that have programs to require or incentivize affordable housing. These jurisdictions recognized the inhibitory effect of adding “in-lieu” fees to small projects because they can make them infeasible and exacerbate the problem it is trying to solve.

- Rancho Palos Verdes exempts projects of four (4) units or fewer;
- Santa Monica’s exempts single unit projects;
- Long Beach exempts projects of nine (9) units or fewer;
- Laguna Beach exempts projects that build units to the affordability allocated;
- Huntington Beach exempts the one (1) and two (2) units

Both Manhattan and Redondo Beach do not have a Land Value Recapture fee on mixed-use development, thus this program as described places our city at a competitive development disadvantage.

We appreciate our partnership with the City and support our economic development strategies that seek to revitalize our commercial corridors and spur economic activity. One potential vehicle for revitalizing our city is mixed-use development, which is a tool that can significantly aid in maximizing our potential by adding more resident consumers to live, shop, and work in our downtown. In order for this new type of development to become a reality, our local government has to avoid barriers to residential development.

We believe the City's approach to encourage private investment by working with our commercial properties is vital to stimulating reinvestment. A poorly-tailored Land Value Recapture (LVR) Program may actually increase prices and decrease production of housing. We therefore recommend the city adopt staff's original recommendation of exempting small, 1-2 unit projects from the Land Value Recapture (LVR) fee as it imposes a significant barrier to development. At minimum, reduce fees to a nominal amount until a thorough feasibility study including relevant costs to ensure the LVR fee does not impose a significant barrier to mixed-use development on our small lots.

Thank you for your consideration,

Board of Directors
Hermosa Beach Chamber of Commerce & Visitors Bureau