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January 2018

IS A PROPOSED DEVELOPMENT ‘LINKAGE’ FEE THE ANSWER TO LA’S AFFORDABLE HOUSING CRISIS?

By Jon Goetz, Principal, Meyers Nave in Los Angeles

The City of Los Angeles is considering adoption of a “linkage” fee on both commercial and residential development projects, which would be used by the city to fund the creation of affordable housing within Los Angeles. The proposed linkage fee would represent a substantial increase in the level of development fees charged by Los Angeles for real estate development projects. This has attracted opposition from many in the business and real estate community who are concerned the fees will slow down construction and increase housing costs.

The proposal under consideration by the city would impose a tiered fee schedule with rates for housing projects ranging from an $8 per square foot fee in “low market” areas of the city, such as South Los Angeles and the San Fernando Valley, to a $15 per square foot fee in “high market” areas, such as the more affluent Westside of the city. Smaller attached projects with five or fewer units would be charged a lower fee of $1 per square foot. Fees for commercial projects would range from $3 to $5 per square foot. Some housing and commercial projects would be exempt from the fee, including projects that include affordable units. The linkage fee proposal was approved by a city council committee in August, and is waiting consideration by the full city council at a future date.

The city estimates that the fee could generate up to $100 million annually, which could subsidize the creation of up to 1,500 affordable units per year. Fees would be used for a variety of affordable housing programs, including new construction, preservation of existing affordable units, rehabilitation and homeownership down payment programs.

The Los Angeles linkage fee proposal comes as the California legislature recently adopted a flurry of new legislation intended to combat the increasingly unaffordable price of housing in the state. The Los Angeles fee is designed to generate matching funds to enable the city to successfully com-pete for other state funding resources available for the creation of affordable housing. The linkage fee differs from the “inclusionary zoning” approach taken by many of California’s cities and counties, in which a specified percentage of affordable housing units are required in each new housing development. Several other large cities in the state have also adopted linkage fees, including San Francisco, Oakland and San Diego.

It is unclear who would actually bear the costs of the new fee. Developers would probably be constrained by market forces from passing along the entire amount of the fee to the tenants and buyers of their development projects. Landowners might also be affected by the fee if it causes a reduction in the prices that landowners can charge developers to acquire their properties. In the end, the cost will likely be absorbed by a combination of builders, land sellers and end users of the affected development projects.

The adoption of the linkage fee may provide a financial incentive for developers to build in neighboring cities, or in areas of Los Angeles with the lower fee rates, such as the San Fernando Valley and South Los Angeles. Builders may also shift to projects that are not required to pay the fee, such as the acquisition and rehabili-tation of existing buildings without expansion. The fee may encourage development of smaller housing projects with five or fewer units, which would be subject to the lower $1 per foot fee. The fee may also make density bonus projects more attractive to developers, in which a portion of the housing units are restricted as affordable units in exchange for additional building density and other incentives. These projects may be able to take advantage of the fee exemption for projects providing a minimum level of affordable units.

Jon Goetz, Prinicipal
Meyers Nave

email: jgoetz@meyersnave.com