

## **EXHIBIT F.3:**

### **Summary of Survey of Live-Work Ordinances**

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#### **Downtown Community Plan**

CF 22-0617; CPC-2017-432-CPU; CPC-2014-1582-CA; ENV-2017-433-EIR

Recommended by the City Planning Commission on September 23, 2021

September 2022



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## MEMORANDUM

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To: Craig Weber & Brittany Arceneaux, Los Angeles Department of City Planning

From: HR&A Advisors, Inc.

Date: July 26, 2022

Re: Summary of Survey of Live-Work Ordinances

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HR&A Advisors, Inc. (HR&A) has prepared the following memorandum to assist the Los Angeles Department of City Planning (LADCP) in: 1) identifying best practices for ensuring that “Live-Work” units are used for their intended purposes; (2) evaluating indicators of demand for these units; and (3) exploring how to increase affordability of these units. Generally, the term “Live-Work” is applied to dwelling units that include both commercial and residential components within the same space, and often applied to structures in districts otherwise zoned for commercial or industrial uses. LADCP is currently in the final stages of adopting an update to the Downtown Los Angeles Community Plan (DTLA 2040) and implementing associated changes to the City’s Zoning Code, which will codify regulations related to Live-Work development projects. The proposed regulations are intended to promote expanded housing opportunities within the Downtown’s Arts District in particular, while simultaneously seeking to preserve its existing industrial character and maintaining affordability for current and future businesses and residents.

The proposed Zoning Code is composed of fifteen articles, but there are two articles that include provisions affecting the development of Live-Work units: Article 3 details aesthetic requirements through the frontage requirements, while Article 5 regulates use. Our analysis focuses on the IX-4 (Industrial Mixed Use) use provisions, which, as currently proposed, apply to the Arts District. This memorandum also includes key considerations for LADCP staff and decision makers for potentially modifying these Zoning Code components to support the objectives noted above.

## Arts District and Live-Work Overview

The City of Los Angeles has a long history of industrial development, although over time these uses have shrunk from housing one of the City's core employment sectors to comprising only nine percent of the City's 469 square mile land area.

Beginning in the 1970's, artists who were being priced out of other neighborhoods saw vacant industrial buildings in eastern Downtown as an opportunity for both affordable housing and workspaces. Underutilized warehouses that were once home to various industries represented a tremendous opportunity to create spaces where artists could both live and practice their craft. Responding to artists who were illegally occupying these spaces, the City passed the Joint Living and Work or Artist in Residence (AIR) Ordinance in 1981, to regulate safe building conversions. This action permitted the conversion of industrial buildings to accommodate artist living quarters and workspaces. As a result of this action and the re-location of the Southern California Institute of Architecture to the emerging Arts District, eating and drinking establishments as well as other commercial uses soon followed to capitalize on this new infusion of artistic population.

Over time, the Arts District attracted galleries, retail businesses, resident amenities, and a resurgence of larger employment-focused uses such as media production and technology, the culmination of which has stimulated broad-based demand for housing in the Arts District. The City then faced a dilemma about how to address demand for the construction of new housing in the area, as the AIR ordinance permitted only the conversion of existing buildings, but not new construction. To address this, in 2015, the City introduced a "Hybrid-Industrial" zoning district that would not only enable the continued conversion of industrial spaces to residential uses, but also would permit construction of new Live-Work housing that met certain design criteria.

In 2016, the Los Angeles City Council adopted the Hybrid-Industrial ordinance, but it was quickly subjected to legal challenge, because the ordinance also exempted such projects from the California Environmental Quality Act (CEQA) review process. Ultimately, the courts agreed with the plaintiffs and ordered the City to repeal the Hybrid-Industrial ordinance. Some new construction projects have, nevertheless, proceeded to use many of the Hybrid-Industrial zoning standards by utilizing zone changes and complying with CEQA, as required for such discretionary approvals.

The draft DTLA 2040 Community Plan and Zoning Code updates include new standards that would permit new construction of Live-Work housing in the newly proposed Industrial Mixed-use Zoning Districts (IX-3 and IX-4). During public review of the draft DTLA 2040, questions were raised about the relative demand for Live-Work, opportunities to support affordability, and the relative alignment of proposed policies with City and stakeholder goals.

## Live-Work Regulations in Other U.S. Cities

HR&A surveyed Live-Work ordinances in a selection of other cities to provide comparisons with the draft DTLA 2040. For the purpose of this analysis, we examined the following Live-Work ordinances in: Denver, Colorado; Oakland, California; Boston, Massachusetts; Seattle, Washington; and Santa Rosa, California.

As in the Arts District, Live-Work uses are generally encouraged in certain parts of each city reviewed through their respective zoning ordinances. In most cases, Live-Work is defined as an "as-of-right" permitted use. Typically, Live-Work uses are classified as a non-residential use and therefore are allowed in commercial and/or industrial zone districts, but not residential districts. Finally, most of the cities we reviewed

have business license requirements for Live-Work units.

For each city, the following provisions were analyzed and compared to those proposed by LADCP:

- Average unit sizes;
- Unit mix between standard residential and Live-Work units;
- Location of workspace within units and buildings;
- Conditions affecting natural or deed-restricted affordability;
- License and permitting requirements; and
- Mandatory or voluntary targeting of artists.

### Average Unit Sizes

Of the various cities surveyed, only Oakland and Santa Clara stipulate minimum unit sizes for Live-Work units, which are 660 SF and 1,000 SF, respectively. Typically, rather than unit size, cities regulate the allocation of space within a unit that can be occupied by residential and/or commercial uses. Seattle, for example, stipulates that the residential portion of Live-Work units may not exceed one-third of the total building area while Denver places the residential limit at 50 Percent.

The benefits of using percentages by building occupancy as opposed to minimum unit sizes is that there is greater flexibility in the floor plans for different types of work and living places. Furthermore, such regulations permit flexibility between units to align with constraints that arise when converting a building that was originally constructed for nonresidential purposes to a Live-Work space. Accordingly, the City allows for non-residential to residential conversion to meet any type of dwelling conversion without having to meet the Live-Work unit requirements.

As currently proposed, the City's zoning ordinance contemplates a minimum average unit size of 1,000 SF, putting its requirements at the upper end of the spectrum of cities that were analyzed<sup>1</sup>. It should be noted that while larger unit sizes may allow and encourage a larger range of productive activities, it will also likely come at the expensive of affordability. Given these tradeoffs, this requirement should be considered in a broader context of policy goals.

The overall intent of the Hybrid Industrial district is to encourage production and job-producing activities. In an August 21, 2021 LADCP staff report, it was noted that in conversations with stakeholders, two overarching outcomes that were desired were: to reinforce the neighborhood's industrial character; and sustain the district's legacy as a center for manufacturing, fabrication, creative and artistic pursuits. To balance these goals, the City's development of the Hybrid Industrial district allowed for the transition of previously-heavy industrial uses to a mixed-use office, production, and makers district, complemented by newly converted office space, and other commercial amenities. The provision of Live-Work units helps achieve this goal by allowing not only for adequate space for job-producing activities but also for artisans and others to reside within the district. Therefore, while affordability is a consideration on the development of zoning standards

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<sup>1</sup> For purposes of our analysis, we reviewed the Live-Work ordinances of the following cities: Boston, MA; Denver, CO; Oakland, CA; Santa Rosa, CA; and Seattle, WA. In Denver and Seattle, there was no minimum unit size. Rather, those cities limit the allocation of space to residential/non-residential activities within the building. In cities with minimum unit size requirements, Oakland requires 660 SF while Santa Rosa requires 1,000 SF, respectively.



for the Arts District, there are also other factors and larger policy goals which must be considered.

#### Unit Mix Between Standard Residential and Live-Work Units

When it comes to allowing conventional residential development alongside Live-Work units, Boston's ordinance is the only example we found in our survey that allows these two groups of uses to coincide in the same building. As noted above, it is more typical elsewhere to classify Live-Work units as a non-residential use. As such, Live-Work units are generally located only within commercial, mixed use and industrial districts.

In some instances, the distinction between standard residential and Live-Work units is driven by the fact that Live-Work units are permitted only as a conversion of existing industrial or commercial properties. This is the case in both Oakland and Santa Rosa where construction of new Live-Work units is prohibited. In Oakland, the city's zoning code states that Live-Work units are "only permitted in buildings originally designed, constructed and completed for commercial or industrial purposes."

As currently proposed, the City's zoning ordinance contemplates that all units within the IX4 Use District are Live-Work units, and standard residential units are not permitted. In addition to the average unit size requirements discussed above, and the workspace location requirements discussed below, the City's proposed zoning ordinance stipulates that Live-Work units must be built to a commercial occupancy standard (to accommodate up to five employees) and must have open floor plans. However, 100 percent affordable housing projects are permitted by right and are not required to comply with Live-Work development standards within the Arts District.

#### Location of Workspace Within Units and Buildings

Because Live-Work units can have a storefront presence and serve to activate the streetscape, some cities have requirements which regulate the location of workspaces within the units and buildings. Cities such as Seattle and Oakland accomplish this with requirements dictating that "work" portions of Live-Work units must be on the street-facing side and on the ground floor of the respective building. Such approaches are more stringent than those proposed for DTLA 2040.

On the other hand, because Live-Work units are inherently flexible spaces, other cities seek to promote flexibility of use over time in their regulations. Santa Rosa, for example, requires that living and working spaces may not be separated within the unit and discourages the use of partition walls. Boston takes this approach one step further by allowing for the consolidation of the workspaces within Live-Work units to a single floor, corridor, or portion of the building rather than requiring the spaces to be distributed within Live-Work units. Such examples demonstrate that locational requirements of workspaces can be used to either limit or promote flexibility within projects.

As currently proposed, the City's zoning ordinance contemplates that the workspace associated with a Live-Work unit would be between 48% and 50% of the unit's floor area, which is consistent with Building Code requirements related to commercial occupancy within such units.

#### Conditions Affecting Natural or Deed-Restricted Affordability

The combination of zoning and building requirements directly has an impact on affordability. In general, imposing minimum average unit sizes, in-unit workspace requirements, occupancy standards practicalities relating to construction types most suitable for the type of mixed-use buildings required in certain Industrial

Mixed-Use districts can impact the market's ability to deliver units at affordable prices.

Requiring larger unit sizes translates into greater construction costs on a per unit basis which dictates the price at which a unit is rented or sold. Furthermore, minimum unit sizes at a given floor area ratios (FAR) set by zoning requirements or other practical (i.e. height) limitations, act to limit the number of units that can be built, and limit the ability of developers to spread fixed costs (e.g., land and design costs) over more units, increasing per-unit costs.

From a practical perspective, developers in IX-4 Use District are required to both meet commercial occupancy standards for Live-Work units, and to provide at least 1.5 FAR of productive (i.e., creative office or production) uses. While this mix of uses may be possible to provide in podium buildings, they are most frequently delivered in mixed-use concrete or steel-frame buildings. Building materials have a direct impact on affordability, particularly at a time that construction cost escalation has adversely impacted feasibility for multifamily projects. In general, less durable wood frame construction has lower overall construction cost per square foot than concrete, steel or to a lesser extent, heavy timber construction.

#### License and Permitting Requirements

The surveyed cities had mixed requirements regarding whether business licenses are required to occupy a Live-Work unit. All cities reviewed require business licenses for commercial activity to ensure business owners pay business license or sales taxes for products sold or created at the location. In places such as Oakland and Seattle, Live-Work units must produce a tax certificate to lease a Live-Work unit.

Some cities also require additional licensing for both the residential as well as nonresidential portion of the building. Denver has a specific permit that is issued exclusively for Live-Work units while Boston has an artist certification process that Live-Work units must go through before they can be occupied. The purpose of the license requirement in Boston is to ensure that residents are in fact artists—the targeted industry for Boston's ordinance. As part of this process, prospective tenants are required to submit documentation to the City of Boston's Artist Resource Manager demonstrating their body of work for consideration of an Artist Certificate. It is this certification that enables individuals with this documentation to occupy Live-Work units.

As currently proposed, the City's zoning ordinance does not contemplate a stipulation that inhabitants of Live-Work units have established business licenses, nor would it stipulate that specified work, production, or artistic activities ensue within the units. Rather, it seeks to ensure that the capacity for such activities is accommodated.

#### Mandatory or Voluntary Targeting of Artists

Of the cities surveyed, only Boston explicitly and specifically targets its Live-Work program to artists. Boston's Live-Work program is open only to artists who are certified through an application process with the city. This process is to ensure the continued presence and viability of the artist community in Boston, which the city has identified as a priority policy goal.

More common is the incidental targeting of artists by permitting artist galleries and art-related uses as a permitted Live-Work commercial activity. For example, in Denver the city permits an "artist studio" as a permitted commercial use; in industrial districts only art studios are permitted as the "work" function in Live-

Work units. In this way, cities implicitly promote the use of Live-Work units for artists by permitting arts-related uses as permitted “work” functions within Live-Work units.

As currently proposed, the City’s zoning ordinance allows for a broad range of artistic, production, and work activities within Live-Work units.

## **Market Feedback**

To ground our analysis of issues related to Live-Work Spaces within the Arts District, we supplemented HR&A’s experience and ongoing conversations with market experts about development in Downtown Los Angeles in the Arts District, with a formal interview with Linear City, a company with extensive and long-standing experience delivering Live-Work housing product<sup>2</sup>. In our discussion, some of the key considerations that were identified were:

- Flexibility of Live-Work space for differing types of uses over time; and
- Desire to temper market trends that could make certain development less feasible.

### Flexibility of Live-Work Space

Preservation of loose requirements related to work uses in Live-Work units and flexibility in the allocation of space within the units were top issues. We heard concerns about regulating the share of space that should be allocated to work and living functions. Comments reflected a desire to set a minimum size standard to ensure Live-Work spaces can be used for work, without a definition of the Live-Work space allocation, which is currently set at range of 48-50 percent of the total unit size. It was observed that use evolves over time, both between tenants and as tenants’ businesses potentially grow or shrink over time; definitions such as the Live-Work space allocation or permitted “work” uses were found to be overly prescriptive and limiting to a narrow scope of professions. However, minimum Live-Work unit sizes were seen as an opportunity to support a range of different businesses of different types and stages over time. The minimum unit size is perhaps even more relevant for consideration in the wake of the COVID-19 pandemic, which has made Live-Work ubiquitous in every residential setting, as workers and businesses increasingly seek work space in proximity to their own homes.

### Market Trends, Land Values & Development Feasibility

We heard a strong desire for the City to maintain minimum standards for unit size and occupancy standards as proposed. In addition to the reasons for setting minimum unit sizes listed above, interviewees sought greater uniformity in the types and sizes of units that were delivered to the market as well as their quality of construction. The variation in product type was observed to allow some developers to produce an inferior product marketed as Live-Work but not usable as such. The addition of this housing product to the market increased land values due to strong demand for housing in the Arts District, challenging the feasibility of other product types (including Live-Work/adaptive reuse).

## **Demand Drivers**

To examine the drivers of demand for Live-Work units, HR&A sampled existing Live-Work buildings located within the Arts District that have similarly large unit sizes as contemplated by the proposed code; these

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<sup>2</sup> On March 15, 2022, HR&A interviewed Yuval Bar-Zemer

buildings are largely for-sale condominiums. While there are many newer Type III-B (“podium”) in the Arts District, these buildings (which are generally rental apartments) have smaller average unit sizes and are less reflective of the code’s intent. As such, we focused on sale trends for existing condominium buildings for the purpose of this analysis. For each property, we evaluated sales transactions from the last five years as well as business license data. Combined, these datasets allowed us to examine the following questions:

- What is the relative demand for Live-Work units in the Arts District? Do the trends indicate increasing or decreasing demand?
- Are business starts in Live-Work units increasing or decreasing?
- Are units being utilized as workspaces and if so, what types of businesses occupy them?
- Do homebuyers prefer units smaller or larger than the proposed minimum unit size?

**Figure 1: Locations of Live-Work Units Analyzed within the Arts District**



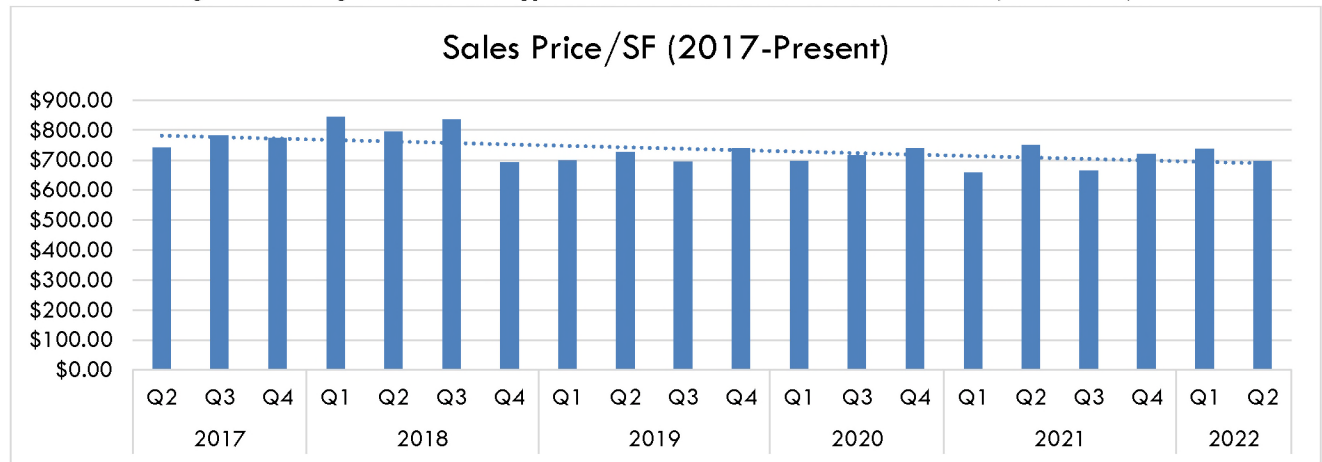
Source: Redfin

## Live-Work Demand

To determine the demand for Live-Work units, we examined the 5-year historical sales price per square foot as well as the number of units sold as a percentage of the total sample size inventory within the Arts District. Although there are some Live-Work units for rent in smaller buildings, historical data is inconsistent. There are also newer, larger rental buildings in the Arts District, but these properties do not reflect the minimum unit size requirements and construction type requirements included in the draft DTLA 2040. As such, we focus our analysis primarily on for-sale units.



**Figure 2: Average Sales Price of Type I and II Live-Work Units in the Arts District (2017-2022)**

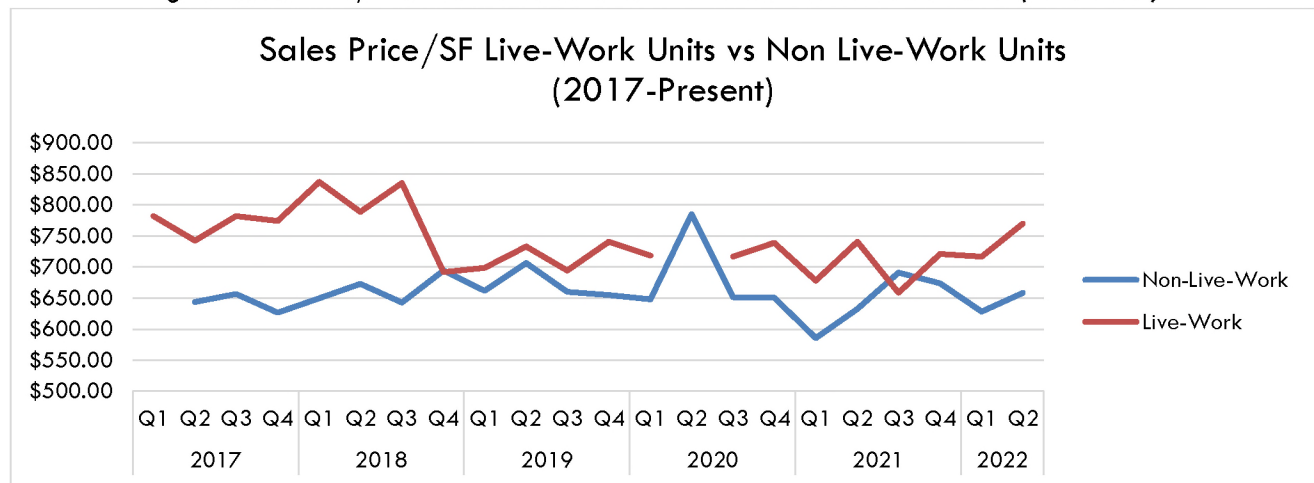


Source: Redfin

Overall, the average price of Live-Work units has slightly declined over the last five years, in contrast to average condominium sale prices across the City, which increased by 43 percent (to \$617/SF from \$430/SF) over the same period. As shown in Figure 2, from 2017 to 2022, the average sales price decreased approximately five percent (to \$732/SF from \$772/SF). This trend may reflect the fact that Arts District units are larger and more expensive, and limited inventory of more-affordable units has driven up prices for value-oriented buyers. However, it also indicates that the Arts District and Type I and II Live-Work units are not as desirable as other typologies in different markets.

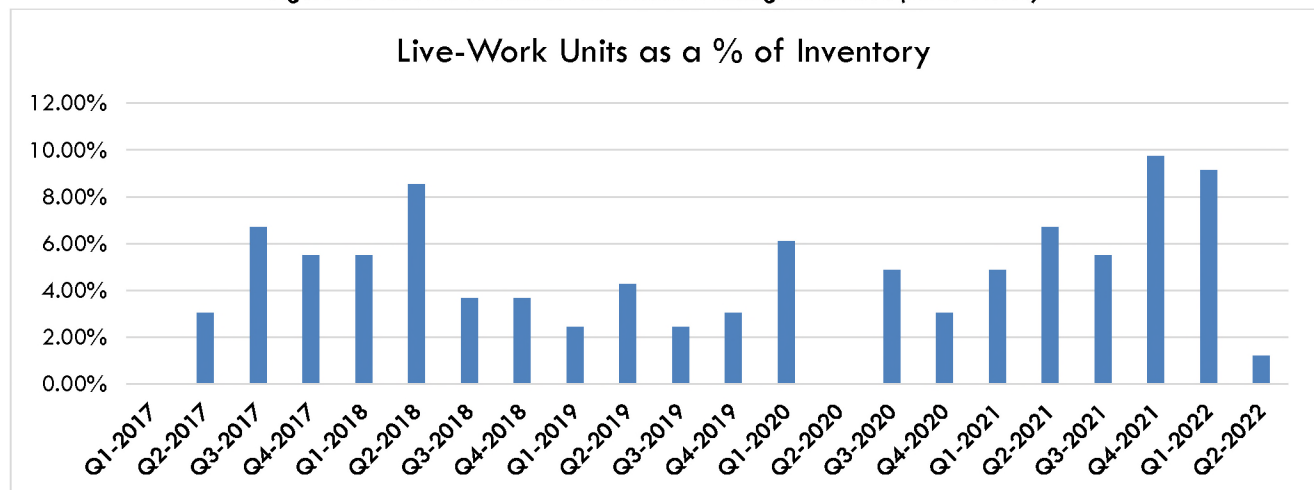
As shown in Figure 3, compared to all units sold within the Arts District over the same period, the sales price per square foot for Live-Work units is greater than non Live-Work units in every quarter except Q4 2018 and Q3 2021, reflective in part of the higher-quality (largely through adaptive re-use) construction.

**Figure 3: Sales Price/SF of Live-Work Units vs Non Live-Work Units in the Arts District (2017-2022)**



Source: Redfin

**Figure 4: Turnover of Units in Arts District Buildings Evaluated (2017-2022)**



Source: Redfin

There was a considerable uptick in turnover for Live-Work units beginning in Q1 2021 continuing through Q1 2022 when compared to historical rates, reflecting in part a frozen real estate market during the initial months of the COVID-19 pandemic in 2020.

Although transactions have increased, stagnant sale prices suggest that there may be limited demand for Live-Work units in comparison to smaller, more affordable units, which are increasing rapidly in value citywide.

### How the “Work” Function of Live-Work Units is Utilized

We further examined historic business license data for the same units we performed our sales analysis to understand business (vs. exclusively resident) demand for Live-Work units. It is worth noting the limitations of this dataset, as it indicates only new business starts and not closures. Therefore, it is not possible to know





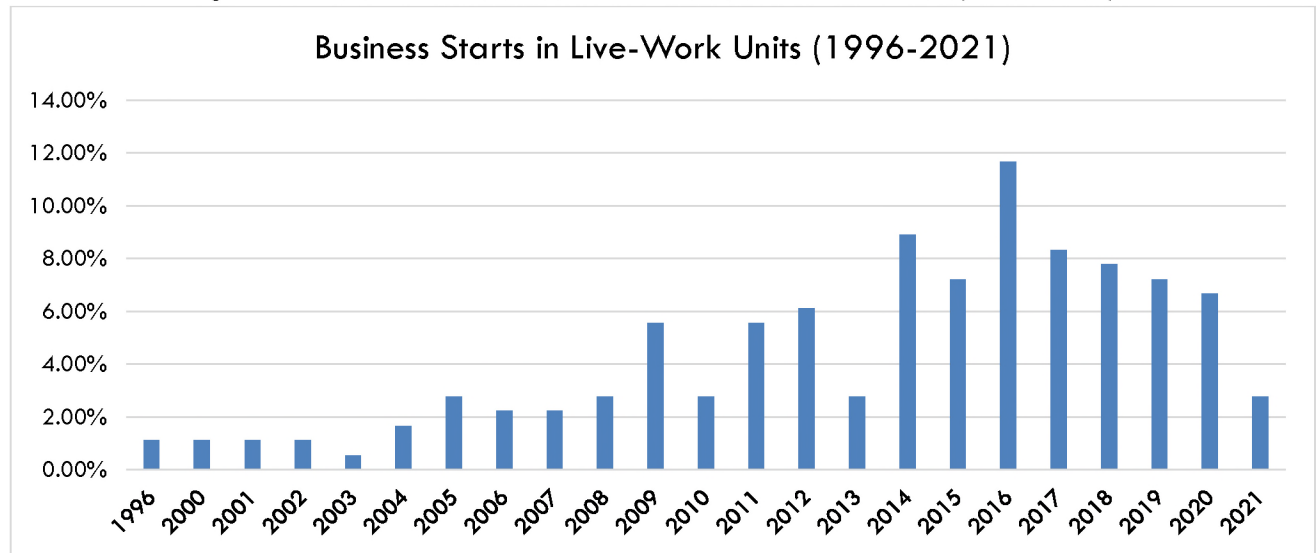
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whether the number of new businesses is cumulative or is replacing other businesses. Nonetheless, it is still a relevant proxy for utilization of Live-Work units as a workspace.

We first considered the number of business starts registered to addresses of the selected units between 1996 and 2021. Overall, there is an upward trend when considering the relatively few business licenses issued prior to 2013. The number of business licenses peaked in 2016 but held steady between 2017-2020, with a noticeable dip in 2021. Combining the relatively few business starts in 2021 with the comparatively higher number of sales transactions depicted in figure 5, it is likely that the increased number of transactions in 2021 was driven by buyers intending to use their units primarily for living, not work.

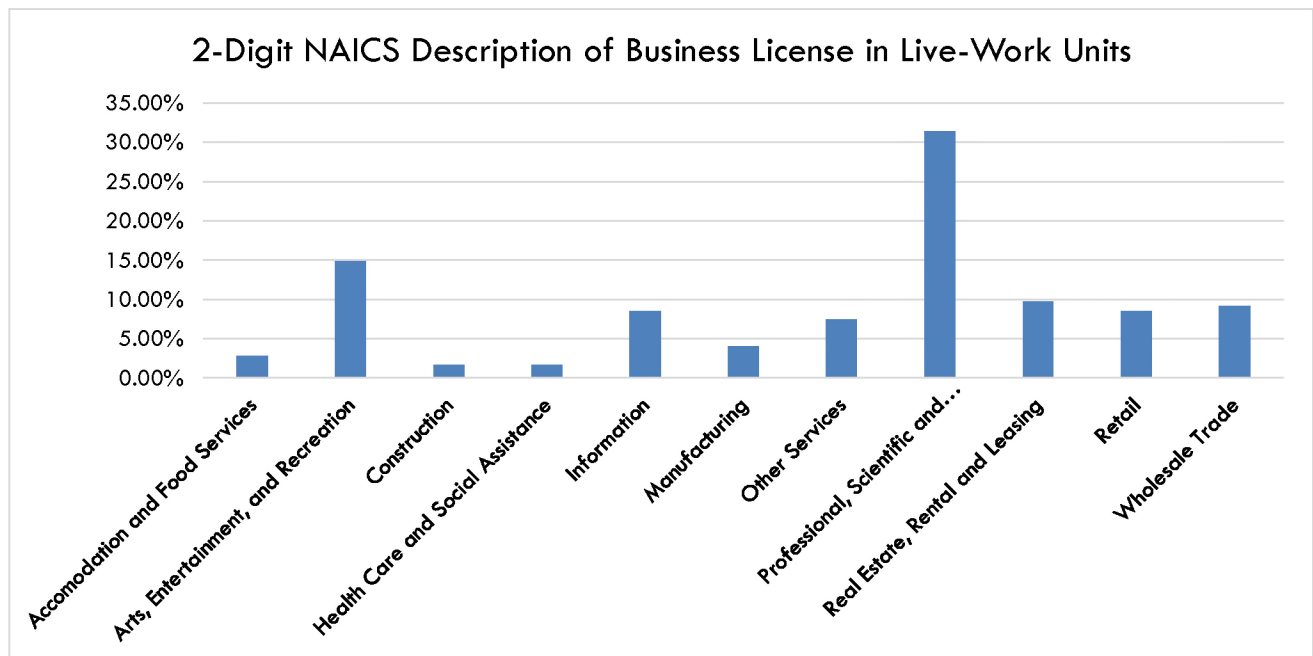
**Figure 5. Business Starts Within Selected Live-Work Units in the Arts District (1996-Present)**



Source: City of Los Angeles

We also reviewed the types of businesses that have been established within Live-Work units. Using business license data from the City, the following table summarizes the businesses based in live-work units by 2-digit North American Industry Classification System (NAICS) designation.

**Figure 6. Business Licenses of Selected Live-Work Units, Top 10 Industries (1996-Present)**



Source: City of Los Angeles

The most popular use of Live-Work units was for professional, scientific and technical services businesses (31%) followed by art, entertainment, and recreation (14%) and real estate, rental and leasing (9%) businesses. Information, retail and wholesale trade accounted for significant numbers of business licenses. The use of Live-Work units for these purposes aligns with the overall trend as a result of the pandemic's work-from-home trends associated with desk-focused businesses.

### **Key Considerations for Optimizing City Objectives for Live-Work Provisions**

Based on HR&A's experience and previous analysis of Live-Work programs, we recommend greater consideration should be given to unit size requirements, as well as the location of work spaces relative to the residential units. While such provisions may achieve certain policy goals to maintain a land use focus on employment activities in the Arts District, taken together, the provisions run counter to the City's objectives for producing housing that is affordable to households at different income levels. Greater flexibility of these provisions (outlined below) could help the City achieve its dual goals of appropriately scaled Live-Work units and housing affordability.

#### Location of Workspace Within Units and Buildings

As proposed in the current ordinance, the average Live-Work unit must be no smaller than 1,000 SF, and each unit must have a ratio of 48-50% workspace. As was noted in the survey of other cities' Live-Work ordinances, this places Los Angeles' minimum unit size at the top end of the range. While minimum unit size requirements can help to ensure that Live-Work units are large enough to function for both living and working, other approaches identified can help maintain this balance while also helping the space to remain affordable.

Examples of alternative approaches include Boston's flexibility in allowing the consolidation of workspaces in a portion of the building while remaining separate from the living space. According to Boston's ordinance regulating Live-Work spaces, workspaces may be integrated within the living quarters, a portion of a floor's corridor, or a separate floor altogether. This flexible approach of decoupling the Live-Work function requirement from the unit itself to the entire structure could allow for more efficient use of space within existing buildings and allow for property owners to yield additional units, both of which can reduce rents and sales prices of units by removing artificial cost minimums on a per-unit basis associated with the additional floor area.

HR&A recommends exploring the addition of an exemption to the Live/Work standards of the IX4 use district that would allow for the decoupling of workspace from residential units, such that when the space is decoupled there is no longer an average unit size minimum for residential units. There should be minimum size workspaces (potentially 300 square feet), and further requirements that workspaces be equipped with necessary infrastructure for the type of productive uses desired by LADCP (i.e., water/sinks, appropriate ventilation, electrical capacity, etc.). Furthermore, these spaces should be designed to accommodate an equivalent number of smaller businesses/sole proprietors as would be accommodated in Live-Work units. Such an exemption could be allowed for all projects, or can be qualified to apply only when a requisite number of conventional Live/ have been provided (e.g., 25 Live-Work units). The City may also wish to consider whether the floor area dedicated to decoupled workspace pursuant to Live-Work obligations can also be credited toward the 1.5:1 FAR obligation for larger-scale employment space that is also required in the IX4 use district.



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#### Permitted Uses

As currently permitted in the zoning ordinance, only the following uses are permitted to be in the workspaces of Live-Work units: office, personal services, light manufacturing, and artistic and artisanal light manufacturing uses. HR&A recommends that permitted workspace uses should be expanded to also include limited retail uses.

*Conclusion:* Live-Work provisions in zoning ordinances can be a valuable tool for promoting work-from-home and small-business growth in a post-COVID world. However, to achieve affordability goals, LADCP should consider reducing minimum unit sizes or permitting workspaces to be decoupled from Live-Work units under certain conditions.