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Business Defeats Santa Monica Building Measure

DEVELOPMENT: City of L.A. voters pass initiative on subsidized housing.

Defeat of Santa Monica measure may offer blueprint for business groups going forward. Development by ballot box delivered mixed results for developers last week.



Towering Defeat: Beverly Hills voters rejected Beny Alagem's condo project.

Los Angeles, Beverly Hills, Santa Monica, and Calabasas all had development-related measures on the ballot: Developers prevailed in Santa Monica but lost in the other three cities.

Santa Monica developers and their business allies successfully fought off an attempt to clamp down on building projects. Measure LV, which was defeated by a margin of 56-44, would have required all projects at least three stories tall to be put to voters.

But in Los Angeles, developers and business groups were unable to stop a laborbacked measure requiring most major projects to set aside up to 20 percent of units as subsidized housing and to pay construction workers union-scale wages. Measure JJJ passed with 64 percent approval.

Beverly Hills and Calabasas voters resoundingly rejected actual development projects placed on the ballot. In Beverly Hills, developer Beny Alagem's Hilton condominium towers project garnered only 44 percent support, while a Calabasas project calling for a three-story hotel and 67 homes fared even worse, getting only 35 percent support.

"Tuesday's results made abundantly clear that if you try to use the ballot box to get you through the entitlement process, that's fraught with peril," said Edward Casey, partner with the land-use practice in the downtown L.A. office of Alston & Bird. "That's why developers fought so hard to beat back the Santa Monica measure."

Affordable housing concerns

Opponents of Santa Monica's Measure LV used the other major theme to emerge from last week's development by ballot measures: support for affordable housing.

"We made the case that the initiative's main unintended consequence was to undercut the city's ability to achieve affordable housing," said Dave Rand, partner with West L.A. land-use law firm Armbruster Goldsmith & Delvac, which represented developer clients in the opposition campaign.

"Most affordable housing in the city comes along with market rate projects," Rand said. "If you need voter approval, those projects may not happen."

Affordable housing was also the centerpiece of the two city of L.A. measures on the ballot. Measure HHH, a \$1.2 billion bond to fund the building of 10,000 units of housing for the homeless, had broad support from the Los Angeles Area Chamber of Commerce, Central City Association, and other business groups. It coasted to victory with 75 percent of the vote.

The other affordable housing measure, JJJ, was placed on the ballot by labor unions and affordable housing advocates. Their argument: The most efficient way to create more affordable housing in the city is to require most major projects to provide it.

Developers, of course, opposed that measure, arguing that the subsidized housing set-aside would force prices up for the remaining units and that adhering to union pay scales would dramatically increase costs for most wood-frame projects.

Bigger fish

Developers and their business allies decided to hold most of their fire, however, according to Dale Goldsmith, founding partner at Armbruster Goldsmith. That's because they are saving their resources for what's expected to be a titanic campaign battle over the Neighborhood Integrity Initiative on the March ballot in the city of Los Angeles. That measure would place a two-year moratorium on all projects requiring zoning changes and make it much more difficult to get approvals for those projects going forward.

But passage of Measure JJJ is already having an impact. Goldsmith said his firm has processed applications for 15 projects over the last four months, more than double the traditional load. Projects with applications certified before last Tuesday's vote will almost certainly be grandfathered in.

Joel Miller, vice president for land-use entitlements at downtown engineering firm Psomas, said his firm has experienced a similar increase in applications.

"Our clients want this added layer of protection," Miller said. "Otherwise, they fear the new requirements will make their project no longer financially viable."

Miller and Goldsmith said union-scale wages are typically about 30 percent higher than the nonunion work done on wood-frame projects. The workforce for skyscrapers and other large projects containing steel and concrete is largely union.

Now that JJJ has passed, developers say they are going to be more cautious about pursuing projects in Los Angeles, and doubly so if the Neighborhood Integrity Initiative passes in March.

"We had already started looking at more nonresidential projects in anticipation that this or the Neighborhood Integrity Initiative might pass," said Howard Kotzoff, managing partner at Agora Partners in West Los Angeles.

Given the increased cost to build, Kotzoff said, for projects to pencil out requires cheaper land elsewhere. That brings up a whole host of other issues and opposition surrounding gentrification.

Another developer said it might be harder to obtain parcels for development in many parts of Los Angeles now that JJJ has passed.

"If a project needs zoning amendments, then this increased cost makes the land less valuable," which in turn makes land owners less willing to sell, said Bill Shopoff, chief executive of Shopoff Realty Investments of Irvine. About one-third of Shopoff's projects are in the city of Los Angeles.

Looking ahead to March's battle over the Neighborhood Integrity Initiative, developers and their representatives took some solace from last week's results. The defeat of the Santa Monica initiative showed that voters believed the measure went too far. Also, the argument that it could curtail affordable housing might carry some weight with voters.

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