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REPURPOSING COMMERCIAL REAL ESTATE TO SUPPORT HOUSING

The COVID-19 pandemic has had a tremendous impact on the physical, mental, and financial health of millions of residents of Los Angeles County (County). Dozens of industries and thousands of businesses that make up the beating heart of the County's economic engine have had to pause, restart, adapt, and evolve as the pandemic has continued on and our communities are adapting to this new normal.

One such industry that has had to adapt, but faces an uncertain future, is commercial real estate. The pandemic has forced the closure of restaurants, gyms and retail stores, and has impacted hotels as travel patterns have nearly halted and reduced commercial office space occupancy.

In addition, emerging technologies and an emergency need have spurred a quick transition to remote work, allowing office-based businesses and many industries to pivot to teleworking and other business strategies that reduce their need for physical space. Many of these companies are now considering a future in which they are able to downsize their physical footprints, to reduce overhead costs and to also offer more flexible work opportunities to their employees.

The results of the pandemic's economic outlook for traditional retail commercial centers and the increased reliance on telework for traditional office functions may have unintended consequences for the commercial real estate sector. Recent reports by Bloomberg and the University of California at Berkeley, Terner Center for Housing Innovation, describe potential challenges and opportunities facing the industry.

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The Bloomberg report notes that lenders have granted months of forbearance to struggling building owners. It further notes that it is anticipated that next year, many property owners who’ve fallen behind on debt are going to have to put more money into their buildings, sell at distressed prices or return properties to banks, as roughly $430 billion in commercial and multifamily real estate debt matures in 2021.

Commercial real estate not only supports multiple industries, but commercial property is a significant component of the local property tax base, which funds general services provided by the County.

However, just as this pandemic has brought on significant challenges, continued resilience and adaptation can lead to unforeseen solutions. The UC Berkeley report notes that residential reuse of land zoned for retail and office presents an opportunity to revitalize this sector, repurpose existing commercial real estate, and address some of the significant challenges that local jurisdictions face with the rising cost of housing, especially in the face of the financial impact of the pandemic. The report highlights this very opportunity:

> “The COVID-19 pandemic and the resulting economic fallout is accelerating this decline and is accelerating remote work trends that may influence the need for office space. Allowing new homes and mixed-use projects to be built on these sites can serve as a catalyst for new economic growth while at the same time addressing California’s ongoing housing shortage.
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> This form of redevelopment also advances infill development goals, bringing residents closer to jobs, amenities, and transit, thus reducing greenhouse gas emissions from personal automobile use.”

The report finds that contrary to conventional wisdom, the bulk of commercial real estate is not centered in major urban centers. In fact, the report notes “commercial land is concentrated along thoroughfares and in clusters, and housing that would emerge from its residential redevelopment may therefore be similarly concentrated.”

The Greater Los Angeles region has approximately 191,000 acres of commercially zoned land, as well as significant clustering of commercial corridors. As these individual sites try to reinvent themselves, it may provide opportunities to create new affordable and interim housing.

The County is currently facing a housing crisis, borne out of a myriad of root causes. In response, the County has taken a number of concrete steps to streamline housing development and boost the production of housing across all income levels, including approving an ordinance in September 2020 that allows by-right mixed use development projects in certain commercial zones. This by-right ordinance will encourage infill development opportunities through streamlined development review and will help the County meet its share of housing units as identified in the Regional Housing Needs Assessment (RHNA) in its upcoming Housing Element Update.

The foundation for the Housing Element is the Regional Housing Needs Allocation (RHNA), in which the State estimates each region's housing needs for the upcoming eight years. In our region, this estimate is further broken down by Southern California Association of Governments, or SCAG, through a collaborative process with local jurisdictions. Jurisdictions must report to HCD annually on their progress toward meeting the RHNA. The assigned RHNA allocation for the unincorporated areas for 2021-2029 is nearly 90,000 units, which is the largest allocation the County has ever received.

However, as the County has declared an emergency shelter crisis, and continues to see a rapid increase in the population of persons experiencing homelessness (PEH), it is critical to ensure that the County is investigating all pathways to providing additional housing options, including the establishment of public-private partnerships to repurpose privately owned land and buildings.

WE, THEREFORE, MOVE that the Board of Supervisors direct the Chief Executive Officer, in coordination with the Executive Director of the Los Angeles County Development Authority, and the Department of Regional Planning, to assemble a list of underutilized commercial real estate properties which are ideally suited for interim and permanent affordable housing strategies, and report back in 90 days.

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