Floor Area Carveouts as a Policy Tool for Downtown LA

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Executive Summary:

Density bonus programs operate by granting developers the benefit of additional density in exchange for a policy goal—typically affordable housing. This density is conferred through two channels: increases to unit-area limits and floor area ratio (FAR).

Although FAR-based density regulation provides for consistent development intensity in a context like Downtown Los Angeles where mixed use development is common, it has distortionary effects on building composition with respect to the amount of space allocated to amenities, ground floor retail, and more—any use other than the developer's highest-value use.

But there exists a third channel by which policymakers can confer density to developers in exchange for development that meets policy goals—the floor area carveout. This mechanism operates within the definition of floor area, exempting classes of space that policymakers deem favorable from counting toward the applicable FAR cap, effectively allowing additional leasable space without raising the cap itself. Such exemptions stack neatly with existing density bonus programs and negate the distortionary effect imposed by the FAR cap.

The new code that applies Downtown contains only one such carveout, exempting street-fronting space dedicated to commercial and certain other uses from counting as floor area. **By allowing ground floor commercial space to be exempt in this way, the new zoning code effectively reduces the net income that space must generate to cover its development costs by an estimated 13%.** This exemption incentivizes development that provides a vibrant streetscape with dense, mixed-use frontage, a core policy goal of the new code and the Downtown Community Plan.

Why stop there?

The City of Los Angeles faces a profound shortage of low-income housing units. More than halfway through the current RHNA cycle, the city is on track to permit less than 10% of its target for housing for very low-income households (Los Angeles Department of City Planning, 2026). The current combination of market conditions, incentives, and code requirements seems insufficient to deliver the volume of low-income housing the city needs. To address this shortfall, policymakers may seek to offer additional incentives for development that provides affordable housing, and floor area carveouts present an attractive structure to meet that need.

Policymakers and the Community Plan have many priorities for new development, and floor area carveouts provide a budget-neutral mechanism for the city to incentivize development that achieves those goals.

This brief explores three proposals for additional carveouts to incentivize other desired building characteristics:

1. Affordable Housing: An exemption for deeply affordable units would increase buildable floor area for mixed-income and affordable developments in proportion to the affordable housing that they provide.

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2. Indoor Amenity Space: Building amenities for residents contribute to a richer urban living experience, and a floor area carveout would decrease the cost to developers of providing them in a targeted way.
3. Deeper Pedestrian Integration: The current law floor area exemption narrowly targets the ground floor apron of a building, incentivizing active use of that space. That approach suits the 5-over-1 building form common in new development in Los Angeles, but in a denser environment like Downtown, classic LA building forms like through-block markets (Grand Central Market) and multi-story retail podiums (The Bloc) are not similarly incentivized. This proposal loosens the current constraints to accommodate deeper pedestrian penetration into the built environment.

The structure described could be harnessed toward delivering many other policy goals, and other eligibility and carveout delivery structures could multiply the available ends that this tool could serve.

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I. Incentive Mechanism

In the Los Angeles code, residential density is regulated by either a unit-density cap (minimum lot area per unit) or a floor area ratio (FAR) limit provided by the parcel's height district. Where a unit cap is the binding constraint, uses like ground floor commercial and indoor resident amenity space do not come at the expense of leasable floor area for residential units. In building environments where floor area ratio binds, any non-leasable space necessarily trades off against leasable area, effectively placing an additional cost on developers that provide those spaces relative to identical projects where the unit cap binds. This dynamic is particularly relevant Downtown, where density is regulated only by FAR—no unit-density caps apply (Los Angeles Department of City Planning, n.d.).

Consider the market for indoor amenity space—gyms, community rooms, and similar shared facilities—in new mixed-use housing in Los Angeles. In any given multifamily housing market, renters place some value on indoor amenity spaces, which can be represented as a demand curve (Figure 1, green). The supply curve in that model represents the developers' marginal cost to provide it, which depends on which zoning constraint limits the project's density.

In many parts of Los Angeles—the R3 zone, for example—a residential-only project building the maximum number of units to the market-optimal size will have slack under the FAR cap[1]. Within that slack, developers can provide amenity spaces for residents at only the marginal cost of design and construction (Figure 1, orange).

If a limitation on floor area ratio is binding instead, space used for amenities and other non-leasable uses necessarily comes at the expense of leasable area in the form of dwelling units that generate income. That is effectively an additional cost placed on any square foot of space used for those purposes in buildings limited by FAR. Thus, for a project building to its FAR limit, the marginal cost of providing a gym for residents is not just the marginal cost of construction, but the additional cost of the revenue lost by not using that space for apartments (Figure 1, blue) as well. All else equal, that dynamic will result in less amenity space provided to residents and a higher price point for buildings that do provide it relative to a market restricted by minimum lot area.

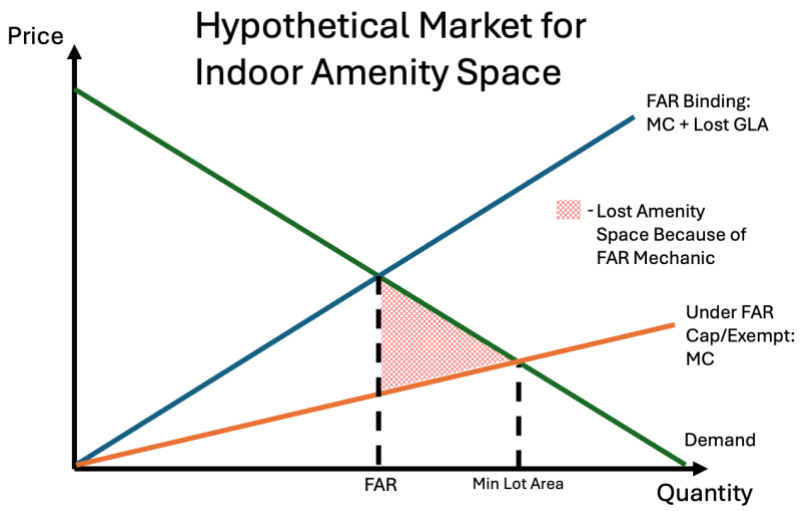


Figure 1. Graph illustrating theorized difference in indoor amenity space provided in new multifamily housing between unit limit and FAR-dictated density regulation, with the increased marginal cost of the FAR-capped system producing deadweight loss. Demonstration purposes only. Reflects no empirical data.

This mechanism applies to any other category of floor area in a building as well, placing an incentive on developers

[1] The R3 zone has a minimum lot area of 800sf/unit (LAMC Ch.1 §12.10.C.4). With a FAR of 3 in Height District 1 (§12.21.1.A.1), a development built to hit both the unit area and FAR caps would have 2400 sf of applicable floor area per unit. The units themselves would be somewhat smaller than that because that average includes some non-leasable space like corridors, but those spaces make up a relatively small proportion of a floorplate (see footnote 2). The average size of a 3br apartment in Los Angeles is less than 1200sf (Apartments.com, n.d.), so it's safe to assume that multifamily developments in R3 zones will have some slack below their FAR limit.

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Downtown, where residential density is limited only by FAR, to minimize floor area allocated to non-leasable uses including corridors, lobbies, and mailrooms—effectively penalizing them for providing it. That penalty is accepted as normal, applying to all applicable floor area in projects where density is limited by FAR. This dynamic provides an opportunity for policymakers to give targeted relief from that penalty to incentivize development that meets policy objectives with no direct cost to the city.

That targeted relief would come in the form of a floor area carveout—a provision that excludes some area of a building from counting as floor area for the purposes of FAR calculation. Those provisions are common and longstanding as applied to spaces that developers have little control over, including stairways, elevator shafts, mechanical rooms, and trash rooms (Ch. 1A Sec.14.2.7.A.1.c). The same mechanic applies to spaces where developers have more discretion, and a floor area carveout can be an effective tool to alter a developer's allocation of space within a building. Because exempt floor area does not trade off against leasable space under a FAR cap, a developer's cost to provide it is simply the marginal cost of construction (Figure 1, orange). The magnitude of the incentive is thus the difference between the two: the cost of providing that space when a FAR cap binds and it trades off against leasable floor area, and the cost of providing the same space when it is exempt.

This brief addresses how policymakers could more effectively harness this tool.

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II. Floor Area Carveouts Past and Present

This structure of incentive does not currently exist for most of the city, but it has a long history in Downtown Los Angeles and continues to the present.

In 2007, the city enacted the Greater Downtown Housing Incentive Area Program (GDHIA)—a suite of density-based incentives Downtown given in exchange for set-asides for affordable and middle-income housing. Included in that package was a carveout from floor area calculations for "any public area accessible to all residents, including public common areas that serve both residential and commercial uses". (Ch. 1 Sec 12.22.A.29(c)(1)). That carveout provided an estimated 12%[2] increase in total allowable floor area for a typical building. But considering the incentive pressure on development that such a carveout provides, the target seems muddled, encouraging desirable features such as interior amenity spaces alongside corridors and lobbies, for which the policy rationale is less clear. It served its purpose as an incentive that delivered additional density around the FAR cap as part of a broader package, but the carveout itself was not shaped toward any particular policy end.

When Downtown LA switched from the old zoning code (LAMC Ch. 1) to the new form-based one (LAMC Ch. 1A) with the adoption of the DTLA 2040 community plan update in 2025, the old GDHIA program was not carried over. As such, its FAR carveout incentive no longer applies in the Downtown Community Plan Area as it had before.

The new code did not discard this policy lever entirely, however. It contains just one such floor area carveout for "active spaces" at the building façade that extend at least 30 feet into the building footprint (Figure 2) (§14.2.7.A.3.b). Active spaces are indoor spaces for "general commercial uses, public & institutional uses, or common indoor amenity spaces" (Div. 14.3), and in most modern mixed-use development, this street-facing ground floor space is commercial. As such, street-facing ground-floor commercial space does not count as floor area for the purposes of calculating FAR, allowing more leasable residential units[3] than would otherwise be allowed without the carveout (Figure 3). The new code provides this effective FAR bonus without any affordability condition.

LAMC Ch. 1A Sec.14.2.7.A.3:

"Active spaces with a minimum depth of 30 feet measured from the street-facing facade and located on the ground story are exempt from the calculation of floor area."

Figure 2. Text of the only policy-oriented floor area carveout in the new zoning code (Ch. 1A) that applies Downtown. "Active space" includes commercial, amenity, and public/institutional uses. It applies only in Development Standards District 5. The old code (Ch.1) had a floor area carveout as part of the GDHIA, but it was less targeted at a specific policy objective.

Figure 3 demonstrates how this would work, presenting a hypothetical building with a building envelope that can fit 100 equally-sized units available for any purpose—5 stories tall, ten units wide, front and

[2] In an apartment building with a typical double-loaded corridor layout, circulation spaces—corridors, stairways, and elevators—are about 13% of total floor area (Eliason, 2021, p.7). However, the code exempts stairways and elevator shafts from counting as floor area already, so the marginal impact of exempting all circulation space would be somewhat smaller, maybe 9%. Additional common areas like mailrooms and amenity spaces are perhaps another 1-5%, so a reasonable estimate of the total impact of restoring the GDHIA carveout on allowed leasable residential floor area in a new building might be 10-14% depending on the building efficiency and amenities package.

[3] This discussion focuses on mixed-use developments with commercial space below a multifamily residential development. This floor area bonus under 14.2.7 also applies to office developments that provide consumer-facing commercial space on the ground floor.

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back, arranged along double-loaded corridors. Five of these units are taken up by the stair and elevator blocks, highlighted in brown. Another four are taken by amenity space, shown here as a gym, and one for a lobby, leaves a gross leasable area of 90 units. This building has 9 units of street-fronting commercial space that receive the current law exemption and don't count toward FAR, allowing bonus of 9 units' worth of floor area—10% of GLA—for the developer's highest-value use.

That carveout—narrowly targeted at enhancing streetscape activation through the ground floor space along the building facade—furthers the goals of the zoning code and the Downtown Community Plan by incentivizing a consumer-oriented streetscape where the ground floor façade space contributes to the activation of the neighborhood. In the new code, development standards districts regulate site design, access, landscaping, and parking. The new carveout only applies in Development Standards District 5 (DSD 5), which includes almost all of Downtown. The intent section of the statute defining District 5 emphasizes the importance of a "dynamic and walkable environment" with "pedestrian access from the public realm to the interior of buildings". Similarly, the floor area carveout for street-facing active space aligns with the land use goals of the Downtown Community Plan, including to "require active ground floors and street frontages that improve walkability and connectivity" (LU 11.1) and to "encourage development that is well integrated with the public realm" (11.2) (Los Angeles Department of City Planning, 2025). The carveout in the current code furthers those goals.

The magnitude of the incentive provided by these carveouts is significant, but they only come into play in projects that build to the applicable FAR cap. In submarkets where optimal project size is below the FAR cap, the value of the exemption is zero.

The value of a floor area carveout in a given project is the residual land value per square foot at the margin multiplied by the amount of additional buildable floor

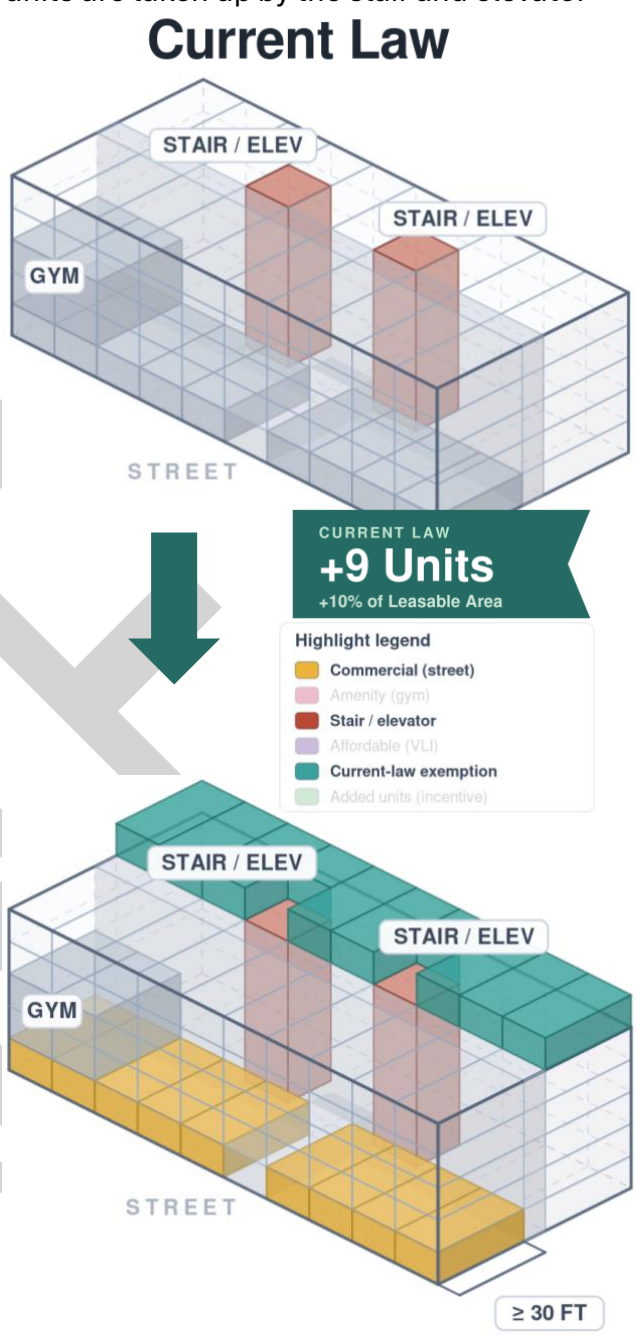


Figure 3. Demonstrates the floor area carveout mechanic under current law for a simplified hypothetical Downtown building with space for 100 units. 10 units of space is taken up by the gym, the stair/elevator blocks, and the lobby, leaving a GLA of 90 units. In this simplified example, the current law exemption adds 9 units' worth of additional buildable area under the applicable FAR cap, corresponding to the 9 units of commercial space on the ground floor, a bonus of 10% of GLA.

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area. For otherwise feasible projects in Downtown LA, a 2022 development feasibility report from HR&A Advisors implies a residual land value of roughly $75 per buildable square foot.[4]

By allowing the additional income stream that produces that value, the current law carveout makes the exempted ground-floor retail more feasible. Assuming that a TDC for ground floor retail of $500/SF, the retail space must support not only that development cost, but the $75/SF of margin associated with the displaced residential units as well. Exempting the ground floor retail from floor area calculations removes the requirement that the retail space compensate for that opportunity cost, leaving just the cost of construction to cover, a difference of 13%.

Use of this tool to achieve policy ends is not common but not unprecedented. For example, New York City offers carveouts from the definition of floor area for building features like rooftop greenhouses and amenity spaces, as well as a carveout for certification as an energy-efficient building worth 5% of floor area (ZR Art. 1 Ch. 2 §12-10 (l)). Seattle gives exemptions for amenity areas and childcare centers in addition to more technical exclusions (SMC §23.45.510.D). Santa Monica makes extensive use of this tool to incentivize the kinds of developments they want to see, with exemptions for ADUS, rooftop restaurants, indoor atria, arcades, and paseos (SMMC §9.04.080). In contrast, municipal codes in many large cities—Chicago and San Francisco, for example— contain technical exclusions like mechanical rooms and stairways and operate separate density bonus programs that include FAR increases, but don't use the floor area carveouts themselves as a tool to achieve policy ends.

The Los Angeles Municipal Code's use of this tool in the new zoning code to further the policy goals of the code itself and the Downtown Community Plan invites broader use of the floor area carveout mechanism to advance those and other policy goals. The remainder of this brief will present and discuss three policy options that would use floor area carveouts to incentivize different features of new construction Downtown.

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[4] Author's calculation from HR&A Advisors (2022), Appendix D. Value of a marginal SF of GBA estimated by dividing the change in RLV between the two hypothetical developments of the same construction type by the change in GBA for the submarkets for which developments of the same type were compared—Chinatown and the Fashion District. RLV is capitalized project NOI less TDC other than land, net of developer profit. Projects from Chinatown prototypes imply a value of $88 per added SF of GBA. Projects from the Fashion District $61. This brief uses the midpoint, $75 in 2022$. Current values may be lower as construction costs have risen with inflation since 2022 and downtown rents have stagnated.

III. Example Incentives

III. A. Exempt Space Dedicated to Affordable Housing to Incentivize its Provision

The City of Los Angeles is running far behind its targets for affordable housing production. More than halfway through the current RHNA cycle, the city is on pace to permit about two-thirds of the market-rate housing units that the housing element planned for through 2029 (Los Angeles Department of City Planning, 2026). In contrast, the city is on track to permit less than 10% of its RHNA target for housing for very low-income households. Providing a floor area carveout for very low-income housing would be a budget-neutral[5] way to further incentivize developers to provide a higher share of affordable housing units beyond the incentives they already face.

Under a traditional FAR cap, units of affordable housing trade off against market-rate residential or commercial space under the FAR limit. The current law floor area carveout for active space at the street frontage for DSD 5 punctures that limit, allowing a denser project than would otherwise be allowed to incentivize street activation. This proposal applies the same incentive mechanism to affordable housing, providing a carveout from the definition of floor area for any space devoted to units restricted to very low-income (VLI) households (<50% AMI).

Figure 4 illustrates this mechanism. The affordable units, highlighted in violet, are excluded from the calculation of floor area. That exclusion provides additional space under the applicable FAR cap for additional market-rate or affordable units. That added available floor area is shown in green. In this simplified example, the building has 81 residential units, 20 of which (24.7%) are affordable. The building is thus provided an additional 20 units' worth of floor area beyond the applicable FAR cap (Figure 4, green)—not accounting for corridors and common spaces—on top of the 9 units' worth it receives under current law (Figure 4, blue). This incentive mechanism would operate the same way that the current law does for ground-floor commercial space, but toward the objective of affordable housing provision instead of street activation.

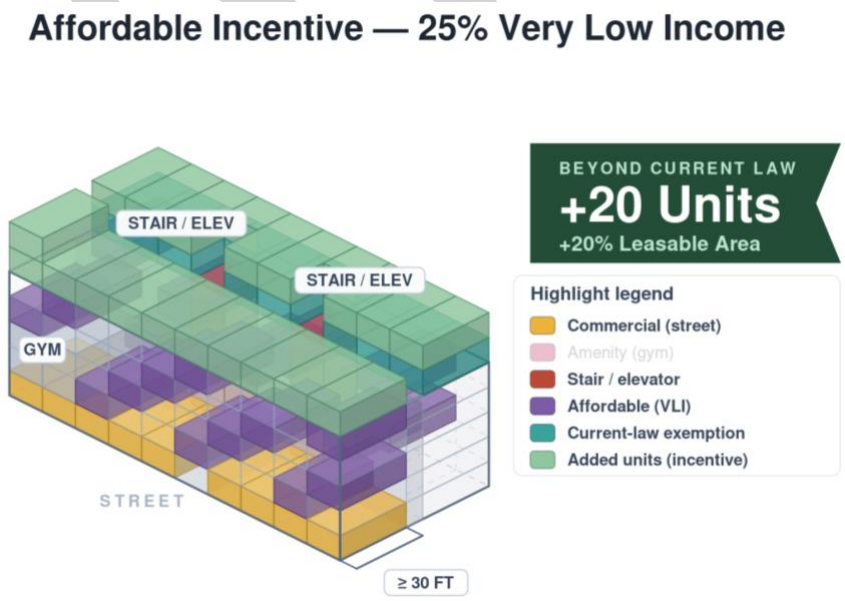


Figure 4. Shows the additional impact of a floor area carveout for deeply affordable units. The base building has space for 81 residential units after subtracting commercial, amenity, and circulation space, so 20 affordable units makes the building 24.7% affordable. The proposed exemption would give an additional 20 units of bonus floor area beyond current law. In this simplified hypothetical building, the GLA under current law is 99 units, so the 20 additional units that the exemption would provide represents a 20.2% increase in GLA.

This carveout requires a binding constraint on exempt floor area to avoid introducing a loophole that would allow a nearly unlimited density bonus for 100% VLI projects or mixed-income projects looking to add additional VLI units. The proposed amendment below limits the carveout at half of the floor area given by the

[5] Although this incentive and others like it would require no direct outlay from the city, the additional development intensity allowed by these carveouts would produce associated costs in terms of demand for city services, as well as shadow impacts from taller projects than would otherwise have been allowed. Depending on the magnitude of the incentives provided, these impacts may trigger CEQA processes that are outside the scope of this brief.

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base FAR—effectively a roughly 45% bonus[6] in buildable floor area relative to the base FAR of the zone depending on building efficiency.

Other limits could be just as easily justified, such as the building's applicable FAR after incentive programs are applied, or the amount of the FAR bonus given by housing incentive programs such as the State Density Bonus Program in Ch. 1A §9.2.1 or the Community Benefits Program in Div. 9.3 or some fraction thereof. The proposal described here is simplified for demonstration purposes, but more complex incentive structures could have different limits depending on the depth of affordability provided in the deed-restricted units, or even different conversion rates for exempt floor area—one-to-one for <50% AMI units, one to two for <80% AMI units, etc.—to provide graduated incentives similar to the State Density Bonus Program framework.

Proposed Amendment:
Added **~~Removed~~** Current
LAMC Ch. 1A Sec. 14.2.7 – Floor Area
A. Measurement
…

3. Development Standards District 5

In a lot with an applied Development Standards District 5 (Sec. 4B.2.2.), the following rules apply:

a. All covered, above-grade parking areas located on a lot zoned with Development Standards District 5 (Sec. 4B.2.2.) are included in the calculation of floor area.

b. Active spaces with a minimum depth of 30 feet measured from the street-facing facade and located on the ground story are exempt from the calculation of floor area.

c. The floor area of restricted affordable units reserved for very low income households is exempt from the calculation of floor area. Floor area excluded under this subparagraph shall not exceed one half of the maximum floor area permitted by the base floor area ratio of the applied Form District.

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[6] In the case of a 100% affordable project with, for simplicity's sake, no commercial space, this carveout would give a floor area bonus equivalent to 50% of the base GLA. But a bonus of 50% of GLA does not translate to a 50% increase in leasable floor area because any new leasable area needs corridors, stairways, maintenance closets, etc. to support it. Most of those spaces are exempt under law from counting as floor area (Ch. 1A §14.2.7) but corridors and common indoor amenity spaces are not. As discussed in footnote 2, corridors make up maybe 9% of a typical floorplate and amenities could add another 1-5%. A 100% affordable housing project is likely to have little indoor amenity space if any at all, so a typical floorplate would include perhaps 10% non-exempt, non-leasable areas. In that case, an exemption worth 50% of base GLA would lead to a roughly 45% increase in leasable area, depending on building efficiency.

III. B. Exempt Interior Amenity Space to Enrich the Urban Living Experience

The code's current floor area exemption carves out "active spaces" from the definition of floor area if they are on the ground floor, facing the street, and if the space extends at least 30 feet in from the street frontage. In a Downtown context where mixed-use development is dominant, that typically means commercial space, though interior resident amenity spaces are included in the definition of active space. Under current law, interior amenity spaces outside that narrow sliver—a second-floor gym, an interior community room, an enclosed pool-adjacent grilling space—come at the expense of leasable unit space. That additional cost disincentivizes provision of those interior spaces that deliver residents a richer and more enjoyable urban living experience (Figure 1).

The City of Los Angeles is mostly (74%) zoned for single-family homes (Menendian et al., 2022). Because Downtown has no single-family zoning (Los Angeles Department of City Planning, n.d.), it stands to produce a disproportionate share of affordable multifamily buildings. While tenants of market-rate and mixed-income housing are often willing to pay for interior amenity spaces like resident gyms, tenants of income-restricted units are less able to do so. Because the FAR-based density regulation places additional costs on the provision of nonleasable interior amenity spaces, Downtown could, over time, develop a housing stock that lacks these spaces on a systematic scale.

A targeted floor area carveout would make it more attractive for developers to provide amenity packages at a lower price point. Such a carveout would be a targeted way to incentivize new development to provide more enjoyable and community-building spaces to their residents with no public subsidy.

Figure 5 demonstrates this mechanic in a simplified hypothetical building. An amenity space that takes up 4% of GLA, shown here as a gym and highlighted in pink, produces corresponding bonus floor area of in the same amount, shown in green.

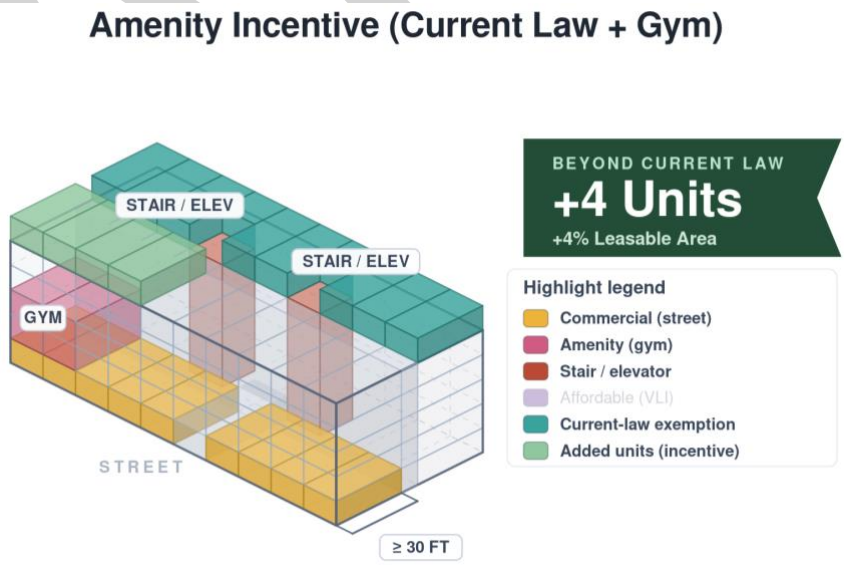


Figure 5. Diagram shows the effect of the proposed floor area carveout to incentivize provision of interior amenity spaces. The amenity space in this diagram takes up 4% of GLA for demonstration purposes. The carveout therefore adds 4 units worth of additional buildable area above the current law in DSD 5, or 13-units worth of space more than an identical project built outside of DSD 5. Actual bonus amount would depend on building amenity offerings.

The incentive provided by this carveout would be naturally limiting. The market (Figure 1) will only bear so much amenity space, beyond which the cost to provide more amenity space—even without the FAR cap penalty—would surpass the amount of additional rent that space could produce.

Implementing this incentive would align with the goals of the existing policy regimes. The Downtown Community Plan's land use goal 4 stipulates that development Downtown should support a "diversity of housing options" and "Promote shared on-site amenities" (LU 4.3) (Los Angeles Department of City Planning, 2025). Under current law, that goal carries no policy behind it—a floor area carveout for amenity space would begin to deliver on that commitment.

Proposed Amendment:
Added **~~Removed~~** Current

LAMC Ch. 1A Sec. 14.2.7 – Floor Area
A. Measurement
...

3. Development Standards District 5

In a lot with an applied Development Standards District 5 (Sec. 4B.2.2.), the following rules apply:

...

c. Common indoor amenity spaces, regardless of their location in the building, are exempt from the calculation of floor area.

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III. C. Extend Active Space Exemption Across the Floorplate and Above the Ground Floor to Deepen Pedestrian Permeation into the Built Environment

As previously described, §14.2.7.A.3.b exempts "active spaces," including commercial use, from counting as floor area, but only on the ground floor, only at the street-facing facade, and only for spaces at least thirty feet deep. This proposal loosens those restrictions, with some key constraints, to promote additional street activation, consistent with the intent of DSD 5 and the Downtown Community Plan. Loosening the current restrictions would facilitate two building forms the current code does not: a multi-story commercial podium below a residential or office tower, and the through-block market or arcade. Both are familiar to Downtown residents.

The rationales for incentivizing this kind of commercial density are simple and well founded in urban design literature around retail agglomeration and streetscape activation. These building forms, with pedestrian-oriented frontage flowing continuously from the street to building interiors, multiply the amount of pedestrian-accessible commercial frontage available per unit area. The density and diversity of use that these spaces enable—with a mix of different types and sizes of businesses—promotes public safety, increases economic vitality, and builds neighborhood community (Jacobs, 1961). High-quality active retail frontage increases pedestrian activity and public perception of safety, comfort, and interest (Heffernan et al., 2014), and retail businesses benefit significantly from agglomeration effects (Kickert & vom Hofe, 2018; Yuo et al., 2003). The increased variety of commercial use that this proposal incentivizes has been linked to increased pedestrian dwell time and spending (Hahm et al., 2019). Because of these agglomeration effects, a denser retail environment could potentially produce not only more shopping and dining options for customers but a more fruitful business climate than most retail space in Downtown LA currently enjoys.

Where the current exemption targets that narrow apron, this proposal would allow for pedestrian-accessible commercial space to be exempted from floor area wherever it lies on the floorplate, up to the fifth story.

Figure 6 shows how this would work in a simplified model building. The example building had commercial use taking up the ground and second floors—37 units of commercial space. The current law exemption would exempt just the nine with street frontage from the floor area calculation. The proposed exemption would carve out the rest as well—an additional 28 units' worth of exempt space. This increase in exempt floor area produces a bonus worth 28% of GLA.

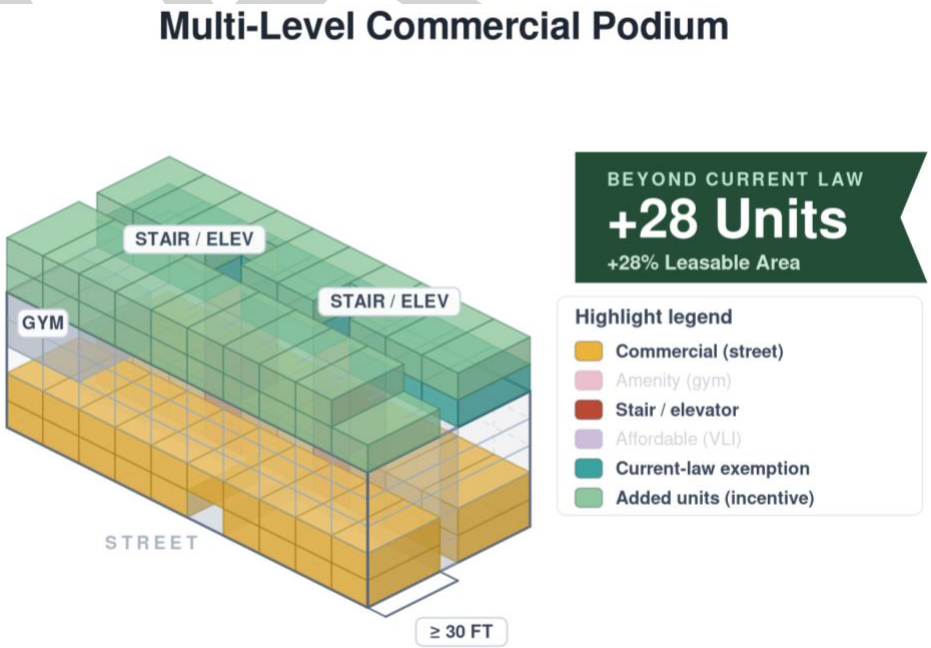


Figure 6. Demonstrates the mechanics of the proposal to exempt commercial space across the floor plate and beyond the ground floor. In the modeled building, a two-story commercial podium uses 37 units of space. Under the proposed exemption, an equivalent amount of floor area—37 units' worth—would be given as a bonus compared to just 9 units exempted under current law, a difference of 28 units.

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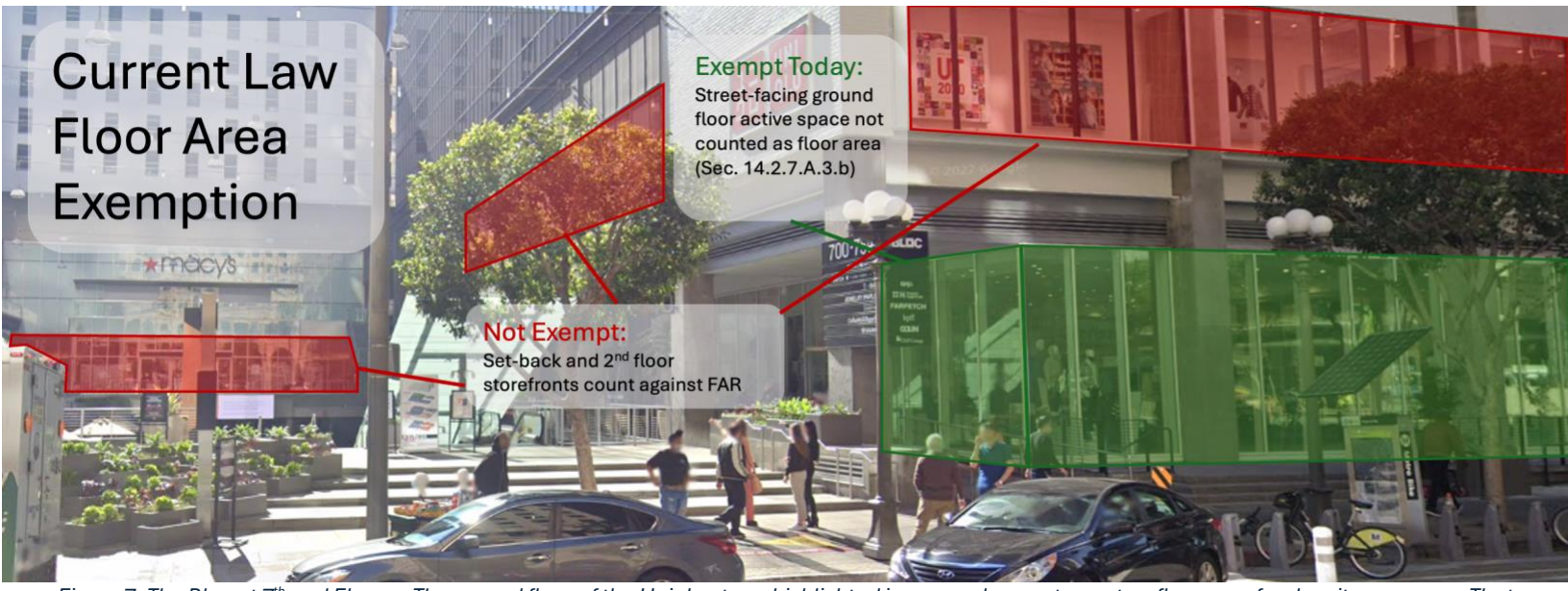


Figure 7. The Bloc at 7th and Flower. The ground floor of the Uniqlo store, highlighted in green, does not count as floor area for density purposes. That carveout incentivizes developers to build those spaces because the marginal cost of doing so is lowered by not having to compete with other uses under the FAR-imposed cap. The other commercial space in the back of the bowl, shown here with the old Macy's, is not similarly exempted, nor is the Alamo Drafthouse on the second floor, or the upper space of the Uniqlo store, highlighted here in red.

The Bloc at 7th and Flower, which puts office towers above 3 levels of pedestrian-oriented commercial space alongside a multi-story parking garage, provides an instructive example of how the exemption would work (Figure 7). The current code seeks to incentivize commercial integration with the street and would, if this project were built today, exempt some of the retail space from counting against the lot's maximum buildable floor area, but only the part with street frontage. The Uniqlo on the corner (Figure 7, green), but not the old Macy's at the back of the bowl or the Alamo Drafthouse on the 2nd floor (Figure 7, red). This proposal would exempt all of those publicly-accessible commercial spaces from counting toward FAR (Figure 8).

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Extending the exemption to these forms would not be a new policy direction. Doing so would extend DSD 5's stated intent to prioritize the pedestrian experience and to facilitate "pedestrian access from the public realm to the interior of buildings through frequent, direct and convenient access to building



Figure 8. Showing The Bloc at 7th. and Flower with the proposed floor area exemption. Exempting pedestrian-oriented commercial floor area set in from the street and not at ground level would facilitate a greater diversity of uses and promote street activation in areas where the market will support increased commercial density.

entrances," producing "a dynamic and walkable environment" (Sec.4B.2.2.A). Multi-level and interior commercial—access into the building, not merely along its edge—is exactly the experience DSD 5 describes; the current floor-area rule rewards only the street wall and taxes anything set in from the street.

Limiting the proposal to the fifth story prevents it from opening a path to unlimited commercial entitlement. Restricting eligibility to public-facing enterprises such as restaurants, retail, and personal services prevents office space that does not provide the same activating pedestrian traffic from qualifying.

Through-block malls are another staple of the Downtown LA built environment, from Grand Central Market on Broadway to the through-block flower markets off San Pedro. That form of development largely does not align with the floor area carveout in current law, which only targets the building apron with street frontage. Those through-block commercial spaces are cornerstones of the community that facilitate intense pedestrian integration with the built environment. By exempting such spaces from the calculation of floor area, the code could more effectively facilitate their provision in new construction.

The exemption also pulls development in the same direction as another special provision for DSD 5—that above-grade parking is counted against floor area (§14.2.7.A.3.a). Taxing parking area and exempting ground floor commercial both push pedestrian-accessible space toward pedestrian-oriented use, and this proposal merely extends that logic, allowing more leasable area above in exchange for socially beneficial uses below.

Proposed Amendment:
Added ~~**Removed**~~ Current
Sec. 14.2.7

...

A. Measurement

3. Development Standards District 5

a. All covered, above-grade parking areas located on a lot zoned with Development Standards District 5 (Sec. 4B.2.2.) are included in the calculation of floor area.

b. Active spaces below the sixth story ~~**with a minimum depth of 30 feet measured from the street-facing facade and located on the ground story**~~ are exempt from the calculation of floor area.

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IV. Discussion

This brief describes a framework to more effectively use floor area carveouts as an incentive for development that advances policy ends.

This policy tool requires no additional city expense and layers neatly with existing density bonus programs. The form-based code enacted in 2025 was a crucial step toward a land use regime that will support a more vibrant Los Angeles for decades to come. The task before policymakers today is to understand the new policy levers at their disposal and tune the code toward abundant development of the kind they seek. Numerous other programs in the code do exactly that, facilitating affordability and transit-oriented development through density-based incentives.

This tool provides the same result—more units—by a different means that sidesteps the limits on FAR imposed by the applicable form district and other incentive programs and avoids the distortionary impact of the FAR cap on the composition of the interior space (Figure 1).

This is a general-purpose, budget-neutral incentive structure that city and state law barely touch, made newly relevant by the new code implemented in 2025, which left Downtown density regulated only by FAR.

Whereas the previous code's floor-area carveout was one piece of a broader affordability bonus program that did not need to be targeted to be effective, the current law ground floor active space carveout (LAMC Ch.1A Sec. 14.2.7.A.3.b) and the incentives proposed here are narrowly directed at specific objectives—enabling additional affordable housing, incentivizing resident amenities, and expanding pedestrian space beyond the streetscape. Like other density bonus programs, these incentives require limits to prevent abuse and ensure that the resulting development meets policymakers' objectives.

While this brief illustrates how this mechanism works to incentivize particular use patterns, the incentive structures proposed and the eligibility cutoffs are intentionally simplified and could be easily fine-tuned to meet policymakers' intent. For example, the affordability incentive described above provides an exemption for floor area devoted to units available to households at <50% AMI at a one-to-one exchange. A more nuanced bonus delivery structure could provide different bonuses for different levels of affordability such that floor area dedicated to <30% AMI units gets a 2-to-1 bonus instead of 1-to-1, <50% AMI floor area—1.5-to-1, etc. The use of these carveouts

20 Story Build-Out with All Proposed Exemptions

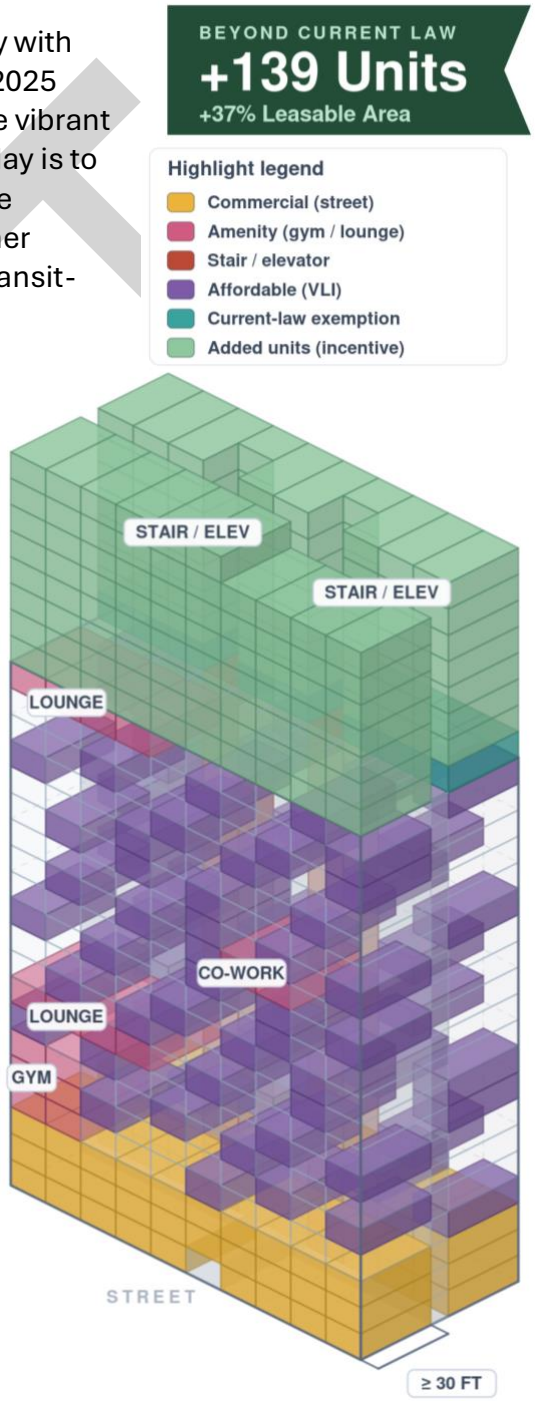


Figure 9. Showing an example 20-story (379-unit) project and the density added by implementing all of the floor area carveouts discussed. Base building is 25% affordable with 4% amenity space and a 3-level podium. Taken together, these bonuses would increase the allowable density by almost 50%.

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in other cities indicates the broad range of spaces that floor area carveouts are used to incentivize, from childcare centers (Seattle) to rooftop restaurants (Santa Monica).

Although the use of the floor area carveout mechanism for delivering density incentives is widespread and longstanding, at least in Los Angeles, there remains significant uncertainty about whether these incentive structures work. The theoretical advantage of a floor area carveout over a FAR bonus are clear—it delivers a density bonus in exchange for policy goals without the distortionary impact of a FAR cap on building composition—but searches of Google Scholar and USC libraries were unable to surface any academic literature on the effectiveness of carveout-based incentives. Although it is well established that the type of density control has effects on the form of development that's completed (Kulka et al., 2022), the compositional impact of a FAR cap specifically on developments' internal space allocation remains unstudied to date.

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