

Multifamily Housing Incentive Program and North San José Parks Fee Realignment

City Council

Item 8.2

December 10, 2024

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Background

- City Council direction in June 2024:
 - Return with recommendations to unblock multifamily housing projects within Growth Areas throughout the City.
 - Scope the potential incentive program to project applications that were deemed complete by the Planning, Building, and Code Enforcement Department by the end of June 2022.
 - Explore changes to the North San José Park Impact Fees for multi-family housing.



681 E. Trimble

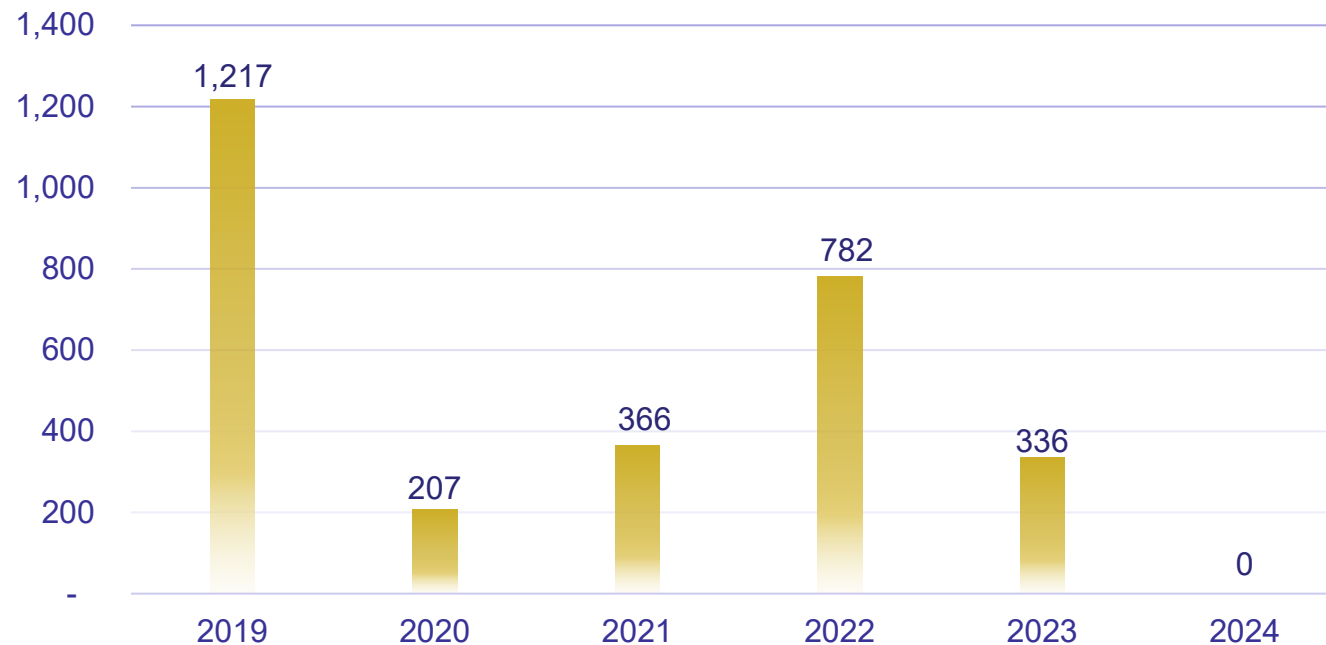


14200 Union Ave.

Why Facilitate Housing Production?

- Current economic conditions remain a barrier to the construction of new housing, especially market rate units.
- Multifamily Housing Incentive Program should signify to the market at large that San José is fostering a pro-housing development environment.

MARKET-RATE MULTIFAMILY UNITS* STARTING CONSTRUCTION



* Projects with 20 or more units

Proposed Program Considerations and Objective

- Careful consideration needed given City's multiple objectives.
- Significant concerns weighed against the need to spur multifamily housing production:
 - Loss of funds for park development/improvements and deferred infrastructure and maintenance
 - Reduction in construction taxes for transportation projects and staffing
 - Reduction of funds needed to match other public and private sector grants
 - Continued waiver of funding and support to produce affordable housing
- Administration's objective is to balance reduction of City costs while still maintaining support for transportation, affordable housing, and parks-related commitments.

Proposed Program Components and Universe of Projects

■ Construction Taxes

- Taxes associated with some projects are projected in the current 5-year Capital Budget.
- Reduced revenue could impact Vision Zero program, pedestrian safety improvements, accessibility projects, new development and planning data collection.

■ Inclusionary Housing

- Community and Economic Development CSA priority is housing production.

■ City Revenue

- City will generate annual property tax and utility user tax, as well as business license tax and sales tax in mixed-use projects.

■ Universe of Projects

- 35 projects: 7,357 market-rate and 2,276 affordable units. Total = 9,633 units.

Housing Data Analysis

- Housing Department collected data and developed a Fiscal Impact Model to size the incentive program and determine the appropriate term.
- Compared six housing projects three market-rate projects with restricted affordable units and three 100% affordable projects which benefit from the construction tax reductions.
- Maximum monthly affordable rent at 100% AMI is lower than market rate for an average San José household of three.
- More affordable units will be developed from the fee waiver than the total number of units supported by the collection and reallocation of the fee on a per unit basis.
- Anticipate at least two projects will be catalyzed into construction in 2025.

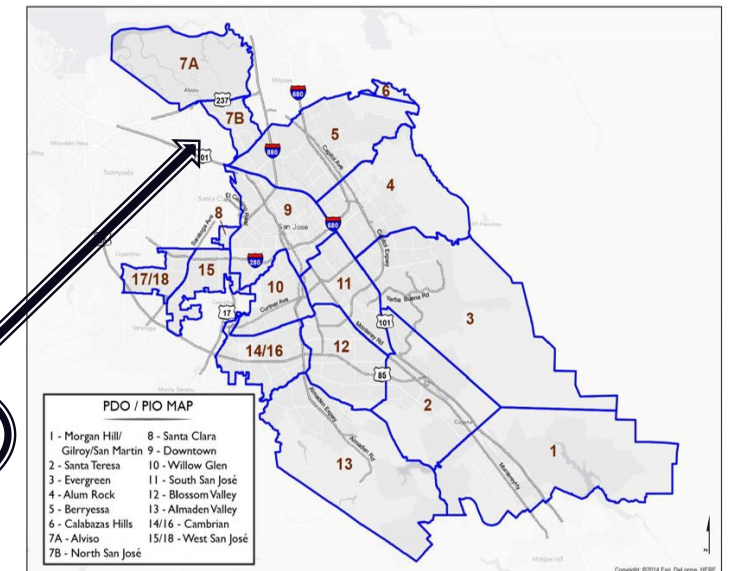
Proposed Program vs Current Status

DENSITY	Portions of multifamily projects with 50+DU/acre		N/A
GEOGRAPHY	Designated Growth Areas		N/A
CONSTRUCTION TAXES	<u>Phase 1</u> 50% reduction in B&S and CRMP tax for up to 1,500 units that must also obtain a building permit no later than December 31, 2025.	<u>Phase 2</u> Starting January 1, 2026, 25% reduction in B&S tax for remaining units on the eligible projects list.	B&S tax charged at 1.54% of project valuation. CRMP tax charged at 2.42% of project valuation.
INCLUSIONARY HOUSING	\$0 in-lieu fee and 5% of units at up to 100% Area Median Income, unless a higher level of obligation has already been negotiated.		<u>Strong Market</u> : \$49.99 sq. ft. <u>OR</u> 5% of units at 100% AMI and \$21.74 under mixed compliance. <u>Moderate Market</u> : \$21.74 sq. ft. <u>OR</u> 5% of units at 100% AMI and \$13.80 under mixed compliance.
TIMING OF PAYMENT	At first Certificate of Occupancy		Paid at Building Permit
PROGRAM HORIZON	Expiration of valid entitlement – Max of 4 years from initial entitlement for projects with project applications deemed completed by December 31, 2022.		N/A

North San José Parks Fee Realignment

- Current North San José MLS 7B park fee is \$41,600/unit with private recreation credits up to 50% allowed.
- Affordable units receive a 50% per unit reduction, with the ability to further reduce the fee through the development of on-site recreational amenities for an additional 50% fee reduction.
- Realignment of parks fees in MLS 7B for market-rate units to \$22,600/unit with private recreation credits up to 50% against the reduced fee allowed.
- Realignment brings MLS 7B fee equal to next highest fee in the City (MLS 9 Downtown).
- No change in how affordable units are handled.

MLS 7B



Stakeholder Outreach and Engagement

■ Labor Leadership

- Working Partnerships (9/4, 10/17, 10/25)
- NorCal Carpenter's Union (10/17, 10/25, 12/6)

■ Development Community

- Developers (9/16, 11/22)
- Developers & Construction Roundtable (9/26)
- SJ Chamber Land Use Committee (11/21)

■ Stakeholder Advocates

- Transportation, Housing and Parks (9/17)
- MLS 7B community meeting (10/28)
- Housing (11/26)



1312 El Paseo de Saratoga



71 Vista Montana

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