



# Commercial Linkage Fee

September 1, 2020

City Council Item 8.2

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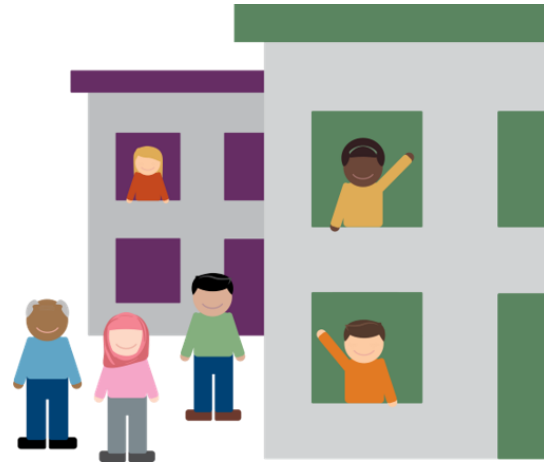
# Commercial Linkage Fee balances Lack of Affordable Housing & Economic Uncertainty



# Enable Non-residential Development while Generating New Funding for Affordable Housing



**Create new jobs**



**Provide homes for  
diverse communities**



**Make San José more  
accessible & vibrant**

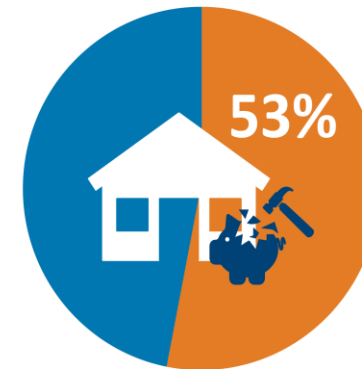


# Unmet Need for Affordable Housing

Only **18%** of RHNA affordable housing goal met while City has met **94%** of its market-rate housing goal



To meet City's goal of 10,000 new affordable homes....



**53% of all renter households are rent burdened in San José**

# Assessment from Various Studies to Establish Nexus



Establishes the nexus/link between new commercial development and the need for affordable housing



Establishes Maximum Commercial Linkage Fee Levels

## **Nexus Study Result**

Maximum fee levels based on cost to provide needed affordable housing for workers



# Nexus Study Findings

Building Type	Nexus Maximum Fee (\$/SF)
Office	\$137.70
Office, High-Tech	\$151.30
Retail	\$176.70
Hotel	\$61.60
Industrial	\$131.90
Research & Development	\$108.80
Warehouse	\$45.90
Residential Care	\$44.60

Cities typically adopt fees well below maximums

# Nexus & Feasibility Study Findings

Building Type	Nexus Maximum Fee (\$/SF)	Feasibility	
		Downtown	Rest of City
Office	\$137.70	\$25/SF mid-rise \$30/SF high-rise	\$0 to \$20/SF
Office, High-Tech	\$151.30		
Retail	\$176.70		\$0
Hotel	\$61.60	\$10/SF; \$6,000/rm	\$5/SF; \$3,000/rm to \$15/SF; \$9,000/rm
Industrial	\$131.90		\$0 to \$7.50/SF
Research & Development	\$108.80		
Warehouse	\$45.90		\$5/SF to \$10/SF
Residential Care	\$44.60		

# Nexus & Feasibility Study Findings with Recommendations

Building Type	Nexus Maximum Fee (\$/SF)	Feasibility		Recommendation	
		Downtown	Rest of City	Fee Category	
				< 100K SF	≥ 100K SF
Office	\$137.70	\$25/SF mid-rise \$30/SF high-rise	\$0 to \$20/SF	\$3/SF	\$10/SF for Downtown \$5/SF Rest of City
Office, High-Tech	\$151.30				
Retail	\$176.70		\$0	No Fee (\$0)	\$3/SF
Hotel	\$61.60	\$10/SF; \$6,000/rm	\$5/SF; \$3,000/rm to \$15/SF; \$9,000/rm	\$5/SF (approx. \$3,300 per rm)	
Industrial	\$131.90		\$0 to \$7.50/SF	No Fee (\$0)	\$3/SF
Research & Development	\$108.80				
Warehouse	\$45.90		\$5/SF to \$10/SF		\$5/SF
Residential Care	\$44.60				\$18.70/SF



# Market Context and COVID Impact

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- **Leasing volume is down** – hampers ability to understand where the market is and suggests slowing momentum.
- **Sublease availability increasing** (a leading indicator of market weakness)
- **Deal sizes have been unusually small** (only one new office lease over 20,000 SF)
- **Insufficient data points** on Class A rents for new development
- **Limited recent construction starts:** Adobe, Santana Row, N1st and Brokaw Campus, Coleman Highline, and Platform 16.



# Larger buildings drive employment growth



1143 Coleman Ave – 163k SF



60 E Brokaw Rd – 117k SF



120 Holger Way – 120k SF

**100,000 SF THRESHOLD** — — — — —



300 Santana Row – 79k SF



2077 Gold St – 24k SF



1133 Minnesota Ave – 16k SF

# <100k SF supports small, diverse businesses



750 Ridder Park – 182k SF



5087 Disk Dr – 162k SF



6212 Hellyer Ave – 150k SF

## 100,000 SF THRESHOLD



527 Charcot Ave – 32k SF



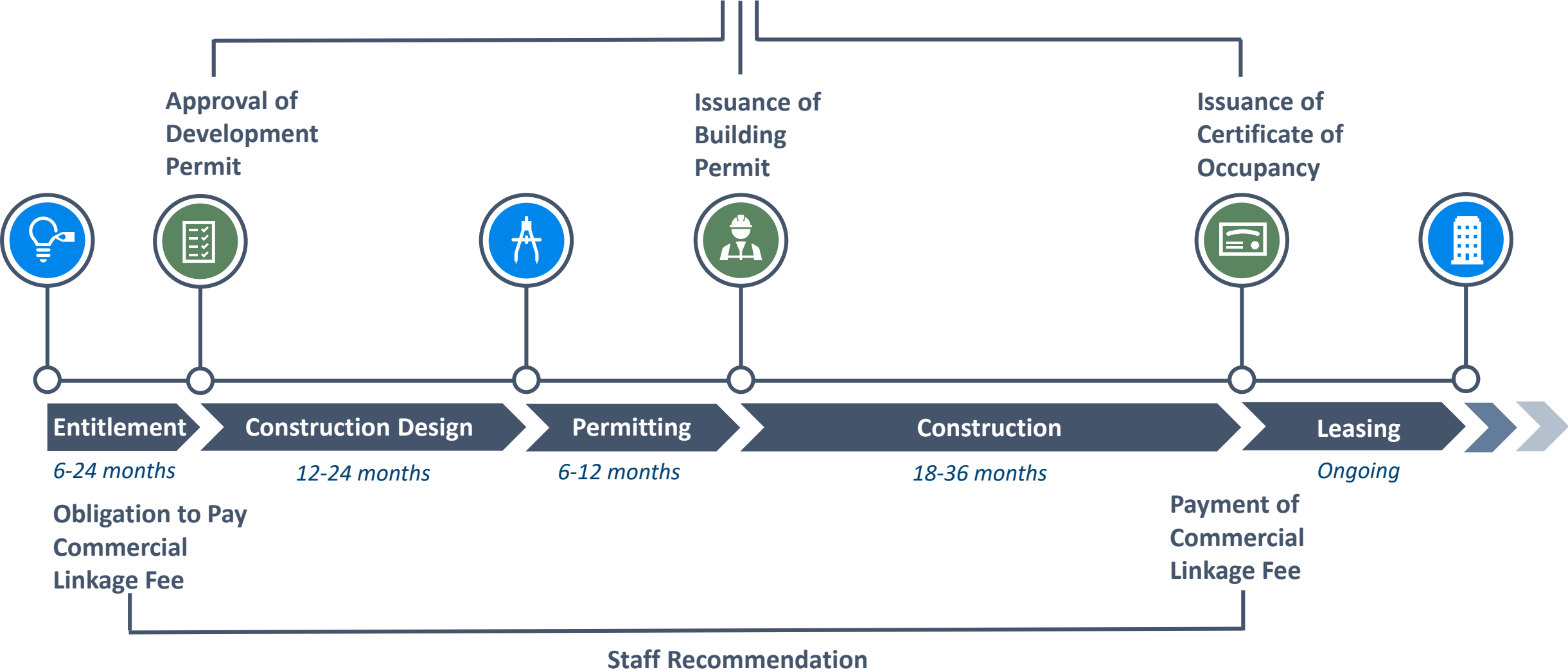
260 Leo Ave – 27k SF



236 McEvoy St – 20k SF

# Development Process Outline

## Typical City Control Points for Assessing Fees



# Additional Considerations

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- **Credits/Incentives** - Are not related to the production of affordable housing and is inconsistent with the purpose of the fee
- **Distinctions based on size** – Needs further analysis and findings to align with Nexus Study

# Revised Recommendation and Ordinance Clarifications

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1. Residential Care Facilities fee reduced to **\$6** per square foot on commercial space
2. Applies to all commercial developments that had a **conditions of approval** in their development permit to pay the Commercial Linkage Fee (effective since October 2019)
3. Fee **set at building permit** and escalator is applied until payment is made



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