



# Memorandum

**TO:** HONORABLE MAYOR  
AND CITY COUNCIL

**FROM:** Chris Burton  
Erik L. Soliván

**SUBJECT:** See Below

**DATE:** February 24, 2025

Approved

Date:

3/6/2025

**COUNCIL DISTRICT:** Citywide

**SUBJECT:** Acceptance of the Annual Progress Report on the Implementation of the San José General Plan Housing Element and the Housing Successor to the Redevelopment Agency Annual Report

## **RECOMMENDATION**

1. Accept the Calendar Year 2024 Annual Progress Report on the implementation of San José's Sixth Cycle 2023-2031 Housing Element.
2. Accept the Fiscal Year 2023-2024 Housing Successor to the Redevelopment Agency Annual Report.

## **SUMMARY AND OUTCOME**

Approval of this request will enable staff to submit both the City of San José's (City) Calendar Year 2024 Annual Progress Report (Annual Progress Report) on the Sixth Cycle 2023-2031 Housing Element and the Fiscal Year 2023-2024 Housing Successor to the Redevelopment Agency Annual Report (Housing Successor Report) to the State of California by April 1, 2025, as required. City Council's acceptance of the Annual Progress Report is required prior to submitting the report to the California Department of Housing and Community Development (HCD) and the Governor's Office of Land Use and Climate Innovation.

## **BACKGROUND**

The Housing Element establishes a comprehensive policy framework to implement San José's residential strategies and outlines the City's plan to meet its affordable and market-rate housing production goals. Determination of housing production goals through the Regional Housing Needs Allocation (RHNA) process is made by HCD, the

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California Department of Finance, and regional Councils of Government throughout the state. The state agencies calculate statewide housing needs based upon population projections and regional population forecasts used in preparing regional transportation plans. The statewide need is then distributed to regional Councils of Government throughout California, which work with cities and counties within their purview to assign each jurisdiction its share of RHNA. Each jurisdiction is then responsible for planning how to accommodate its RHNA allocation through its Housing Element.

It is to be noted that assigning housing goals to jurisdictions does not automatically result in the approval of housing entitlements or the production of homes. Building homes is dependent on developers, which are subject to market forces. Jurisdictions cannot control the market but are obligated to establish policies to encourage the development of housing.

The City is a member of the Association of Bay Area Governments (ABAG), the Bay Area's Council of Government. ABAG, which is staffed by the Metropolitan Transportation Commission (collectively, Bay Area Metro), oversees housing goals for the region's nine counties and 101 cities. Bay Area Metro is responsible for distributing RHNA goals to Bay Area governments through an allocation methodology consistent with development and growth patterns, access to high opportunity, and proximity to jobs, among other factors. **Table 1** shows San José's RHNA for the eight-year planning period from January 2023 through January 2031 is 62,200 housing units. This RHNA allocation is a 77% increase from the City's previous 2014-2023 RHNA cycle allocation of 35,080 units.<sup>1</sup> This cycle's goal equates to an annual production rate of 7,775 units.

**Table 1 – San José's 2023-2031 RHNA Allocation**

| Income Level          | 2023-2031 RHNA Allocation | % of 2023-2031 RHNA | 2015-2023 RHNA Allocation | % Change 2015-2023 to 2023-2031 |
|-----------------------|---------------------------|---------------------|---------------------------|---------------------------------|
| Very Low-Income       | 15,088                    | 24%                 | 9,233                     | 63%                             |
| Low-Income            | 8,687                     | 14%                 | 5,428                     | 60%                             |
| Moderate-Income       | 10,711                    | 17%                 | 6,188                     | 73%                             |
| Above Moderate-Income | 27,714                    | 45%                 | 14,231                    | 95%                             |
| <b>Total RHNA</b>     | <b>62,200</b>             | <b>100%</b>         | <b>35,080</b>             | <b>77%</b>                      |

In the current Housing Element cycle, RHNA is divided into four income categories that encompass all levels of housing need – very low-income, low-income, moderate-income, and above moderate-income. HCD combines extremely low-income and very

<sup>1</sup> It is worth noting that the City's percentage increase in RHNA allocation for the sixth cycle was significantly lower than for many jurisdictions throughout California.

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low-income units into the very low-income category but requires identification of the extremely low-income units in its detailed tables. Because extremely low-income is an important focus in San José, this memorandum includes all income categories, including extremely low-income, so tables and charts show five categories instead of the four categories defined by RHNA.<sup>2</sup> A significant portion of San José's current RHNA goal (38% or 23,775 units) is focused on extremely low-income, very low-income, and low-income households, as defined by HCD and shown in Table 2 below. All levels of affordability are expressed as a percentage of Area Median Income (AMI) for Santa Clara County.

**Table 2 – HCD 2024 Income Limits for Santa Clara County**

| Income Level % of AMI          | Household Size |           |           |           |           |           |           |           |
|--------------------------------|----------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
|                                | 1              | 2         | 3         | 4         | 5         | 6         | 7         | 8         |
| Extremely Low-Income (30% AMI) | \$38,750       | \$44,250  | \$49,800  | \$55,300  | \$59,750  | \$64,150  | \$68,600  | \$73,000  |
| Very Low-Income (50% AMI)      | \$64,550       | \$73,750  | \$82,950  | \$92,150  | \$99,550  | \$106,900 | \$114,300 | \$121,650 |
| Lower Income (80% AMI)         | \$102,300      | \$116,900 | \$131,500 | \$146,100 | \$157,800 | \$169,500 | \$181,200 | \$192,900 |
| Median Income (100% AMI)       | \$129,000      | \$147,450 | \$165,850 | \$184,300 | \$199,050 | \$213,800 | \$228,550 | \$243,300 |
| Moderate Income (120% AMI)     | \$154,800      | \$176,900 | \$199,050 | \$221,150 | \$238,850 | \$256,550 | \$274,250 | \$291,900 |

On January 29, 2024, HCD certified the City's Housing Element.<sup>3</sup> State law requires jurisdictions to prepare an Annual Progress Report each calendar year that details the implementation of their Housing Element and submit it to HCD and the Governor's Office of Land Use and Climate Innovation. All jurisdictions, including charter cities such as San José, must submit annual reports. With the acceptance of a completed Annual Progress Report by City Council, staff will submit the report to HCD and the Governor's Office of Planning and Research by the April 1, 2025 deadline.

**ANALYSIS****Housing Market Overview**

San José remains one of the most expensive cities in the nation to rent or to buy a home. Market rents continue to be significantly out of reach for many San José workers,

<sup>2</sup> [Assembly Bill 3093 \(Wicks, 2024\)](#), which was signed into law and became effective January 1, 2025, expanded RHNA categories to also include extremely low-income and acutely low-income categories. HCD will issue guidance on future reporting and planning requirements for these two income groups by the end of 2025.

<sup>3</sup> The 2023-2031 Housing Element is posted at <https://www.sanjoseca.gov/your-government/departments-offices/planning-building-code-enforcement/planning-division/citywide-planning/housing-element>.

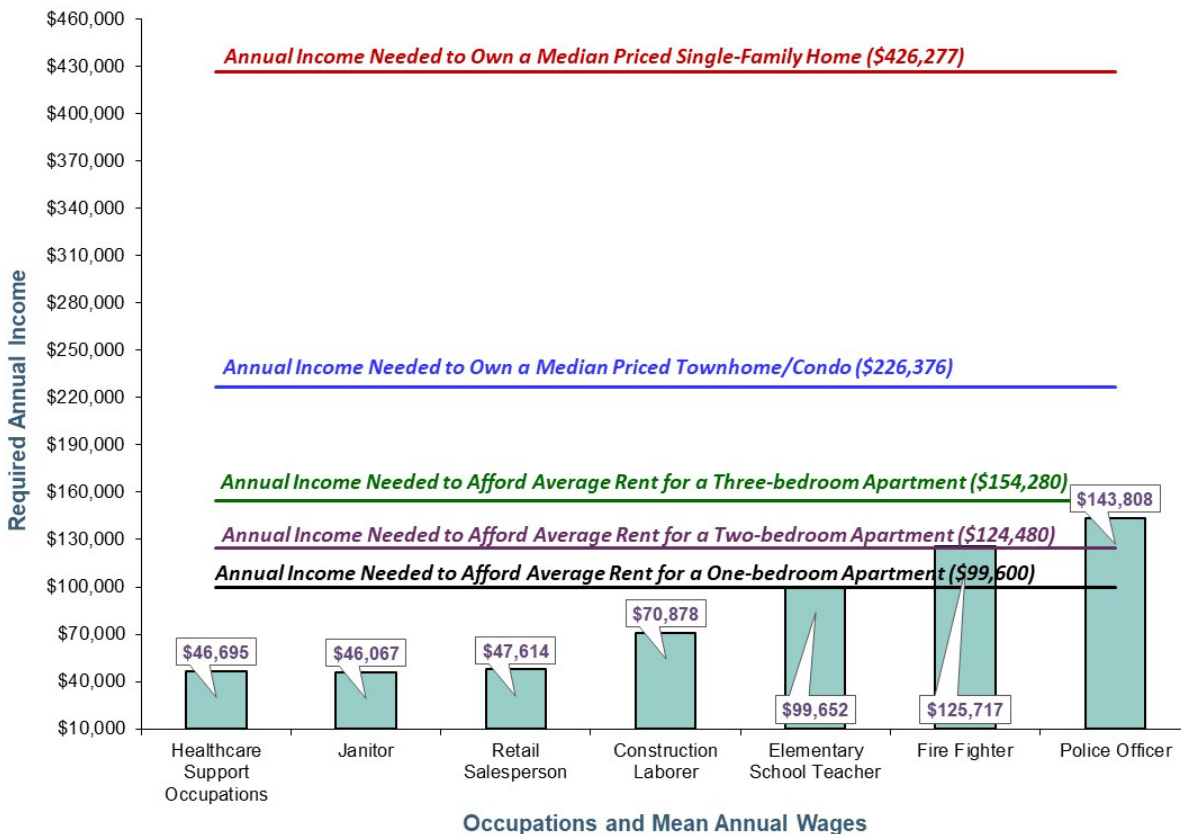
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including teachers, construction workers, and retail salespersons, as shown in Figure 1.<sup>4</sup>

**Figure 1 – Q4 2024 Housing and Rent Affordability for San José’s Workforce**



CoStar reports that San José’s average apartment rents are third highest in the nation, behind New York and San Francisco. Average effective rents in San José had increased 2.2% from 2023 to 2024. CoStar expects that San José will see stable rents and a stable vacancy rate if the economy improves, as population has been increasing and rental demand should remain strong due to high for-sale home prices. The average effective rent in 2024 in San José across all apartment classes and sizes was \$2,798,<sup>5</sup>

<sup>4</sup> Mean Annual Wages – State Employment Development Department (EDD) for San José – Santa Clara MSA – Q1 2024; Income to afford average rent calculation uses CoStar Q4 2024 Average Effective Rents, rent at 30% of income and a single-income household; Income to afford mortgage uses Santa Clara County Association of REALTORS Dec. 2024 median home sales prices; payments at 30% of income, 20% down, Dec. 2024 Freddie Mac 30-year fixed rate of 6.85%, 1.46% property tax, \$557 HOA dues for condos, and a single-income household.

<sup>5</sup> CoStar.

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up slightly from \$2,737 in 2023. **Table 3** compares rents and incomes needed to afford deed-restricted, rent-stabilized, and Class A<sup>6</sup> market-rate housing in San José.

**Table 3 – Comparison of Incomes and Rents<sup>7</sup>**

|  | 1-Bedroom (2 people) |                        | 2-Bedroom (3 people) |                        |
|--|----------------------|------------------------|----------------------|------------------------|
| <b>Income Category and Rent Level</b>          | <b>Max Income</b>    | <b>Affordable Rent</b> | <b>Max Income</b>    | <b>Affordable Rent</b> |
| Extremely Low-Income (30% AMI)                 | \$44,250             | \$1,106                | \$49,800             | \$1,245                |
| Very Low-Income (50% AMI)                      | \$73,750             | \$1,843                | \$82,950             | \$2,073                |
| Low-Income (60% AMI)                           | \$88,440             | \$2,211                | \$99,540             | \$2,488                |
| Low-Income (80% AMI)                           | \$116,900            | \$2,922                | \$131,500            | \$3,287                |
| Moderate-Income (110%)                         | \$162,140            | \$4,053                | \$182,490            | \$4,562                |
| Moderate-Income (120%)                         | \$176,900            | \$4,422                | \$199,050            | \$4,976                |
|  |                      |                        |                      |                        |
| <b>Average Rents for</b>                       |                      | <b>Rent</b>            |                      | <b>Rent</b>            |
| Rent Stabilized Apartments (per Rent Registry) |                      | \$1,920                |                      | \$2,341                |
| Average 2024 Effective Rent Class A            |                      | \$3,090                |                      | \$3,848                |

\* Note: The definition of affordable rent limit under state law includes a 30% housing cost standard plus a reasonable utility allowance by unit type. As the affordable rent limits also include a reasonable utility allowance, direct comparisons with rent stabilized and market-rate rents should be further adjusted by the cost of utilities.

Table 3 indicates that average Class A rents for both one- and two-bedroom apartments were well below the affordable rent limit for moderate-income residents as of the end of 2024. It also indicates that average effective rents for rent-stabilized apartments were affordable to a significant portion of low-income renters.<sup>8</sup>

San José's overall average residential rental vacancy rate for 2024 was 4.6%, down slightly from 2023's average vacancy rate of 5.1%. Vacancy rates for higher-priced Class A apartments remain higher than for lower-priced housing. Class A properties had an average rental vacancy rate of 6.4% in 2024, while average vacancy rates for less

<sup>6</sup> Housing Class/Star Rating is defined by CoStar and is based on building characteristics such as location, size, quality of construction and materials, and amenities. See Attachment C for details.

<sup>7</sup> Maximum Income and Affordable Rents from San José 2024 Income and Rent Limits at <https://www.sanjoseca.gov/home/showpublisheddocument/115074/638640691798600000>; Average 2024 Effective Rents Class A Rents from CoStar; Rent Stabilized Apartment rents as of Dec. 2024 from City's Rent Registry data.

<sup>8</sup> However, note that as these observations are based on averages, there also are many higher rents out of range for these residents' income levels.

expensive and often affordable Class C housing were lower at 4.1%. These figures compare to 2023's slightly higher averages of 6.7% for Class A and 4.5% for Class C. As a 'healthy' vacancy rate is considered to be 5%, this illustrates continuing and increasing demand for less expensive Class C. (Definitions for CoStar building classes are included in **Attachment A**).

San José's for-sale market remains expensive, with stubbornly high median prices despite heightened interest rates. Even though home prices cooled a bit towards the end of the year, the median single-family detached home price in San José was \$1,650,000 as of December 31, 2024. This constituted a 9% increase year-over-year. Home sales were up 27% from the prior year. Days-on-market rose slightly from 19 days in Q4 2023 to 23 days in Q4 2024.<sup>9</sup>

The Federal Open Market Committee's interest rates began to drop in summer 2024; however, 10-year Treasury Yields continued to increase towards 5%, a record high, thereby mitigating the impact of the Federal Open Market Committee's rate reductions on the cost of residential mortgage interest rates. The 30-year fixed-rate mortgage<sup>10</sup> dropped to 6.08% in October 2024 before rising to 6.85% in December 2024 because of inflationary pressures on the 10-year Treasury Yield.

Despite higher interest rates, single-family home prices in San José as of 2024 Q4 increased year-over-year with sale timelines under one month. This indicates an inherently strong market with a large pool of higher-income buyers able to buy homes.

The national Cost of Housing Index<sup>11</sup> confirms that local for-sale prices are very high relative to local incomes. It identified the San Jose-Sunnyvale-Santa Clara Metropolitan Area as the most cost-burdened market for home purchases in the U.S., with mortgage payments on a median-priced new single-family home constituting about 87% of median family income. This ratio is over twice the national average of 38% of average household income that would be spent on mortgage costs for a median-priced new single-family home. San José's expensive for-sale market ultimately means that the opportunity to purchase will continue to be even more challenging for middle- and lower-income households and will continue to produce significant demand for rental apartments and for affordable homeownership product.

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<sup>9</sup> Santa Clara County Association of Realtors, Dec. 2024.

<sup>10</sup> Freddie Mac 30-year Fixed Rate Mortgage; [10-Year Treasury Yield](#)

<sup>11</sup> [National Association of Home Builders \(NAHB\) / Wells Fargo Cost of Housing Index](#) for 4th quarter 2024. National calculations are based on a national median income of \$97,800 and a median new home price of \$420,400. San José Metro Area calculations are based on a median income of \$184,300 and a median new home price of \$1,900,000.

**Summary of Residential Applications and Approvals in 2024**

Site entitlement permit applications received in 2024 are summarized in **Table 4**. As noted in Table 4, in 2024, 788 applications for residential development were submitted to the City's Planning and Building Divisions of the Planning, Building, and Code Enforcement Department for the development of 7,556 units, of which 63% were market-rate and 37% were affordable. Among those applications, applicants submitted 651 building permit applications for accessory dwelling units (ADUs) and 43 were Planning applications. Compared to 2023, there were an approximately 2,000 additional units that were submitted. A majority of these additional units were submitted through state Builder's Remedy law.

For streamlined land use permit processing for restricted affordable housing, there were five planning permit applications – six under Senate Bill (SB) 423 (2023) totaling 434 units. SB 423, a new law that updated SB 35, allows for streamlined ministerial review of residential or mixed-use projects that meet specific affordability levels and other criteria and do not require CEQA clearance, community meetings, discretionary review, or public hearings, thereby reducing Planning Division staff's review times by an average of two months compared to other affordable housing projects. There was a decrease in the number of units that utilized this streamlining process. In 2023, six applications for 1,011 units applied using SB 423. Planning Division staff anticipates that ministerial applications will continue to increase as developers seek time savings. In December 2024, City Council approved a new local ministerial ordinance to streamline certain multifamily infill projects. This new process provides applicants an additional option for a streamlined review process. Applicants also submitted eight applications under SB 9 for duplexes and 25 applications for SB 9 lot split. Although SB 9 lot splits do not have proposed units associated with the application, they show future single-family and duplex applications that will be submitted after the lot split.

**Attachment B, Table A** provides project-specific details on residential applications.

**Table 4 – Residential Applications Received in 2024**

| <b>Application Type</b>             | <b># of Applications</b> | <b>Total Units</b> |
|-------------------------------------|--------------------------|--------------------|
| Planning permit                     | 43                       | 6,832              |
| ADU (Building)                      | 651                      | 651                |
| Single Family Residences (Building) | 59                       | 59                 |
| Duplex (Building)                   | 2                        | 4                  |
| SB 9 Duplex (Building)              | 8                        | 10                 |
| SB 9 Lot Split (Public Works)       | 25                       | 0                  |
| <b>TOTAL</b>                        | <b>788</b>               | <b>7,556</b>       |

Approvals in 2024 are indicated in **Table 5**. Staff approved planning permit applications for 3,263 housing units in 2024, of which 2,144 were market-rate and 1,119 were



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affordable. As compared to 2023, this is a 33% decrease of 4,903 housing units entitled (when 3,152 were market-rate and 1,751 were affordable). Of all units entitled in 2024, 101 units (3%) were in urban villages. This proportion is significantly lower than in 2023 when 42% of entitled units were in urban villages. This low proportion is due to the absence of large multifamily developments in the total unit count, as ADUs are more likely to be built in single-family neighborhoods outside of urban villages. In 2023, staff approved two SB 423/SB 5 applications. There was a decrease in approval of these streamlining applications over 2023 when seven ministerial applications were approved. **Attachment B, Table A2** provides details on completed permit applications.

**Table 5 – Residential Planning Permits Approved, Units**

| Project Type | 2024 Units   | 2024 %      |
|--------------|--------------|-------------|
| Market-rate  | 2,144        | 66%         |
| Affordable   | 1,119        | 34%         |
| <b>TOTAL</b> | <b>3,263</b> | <b>100%</b> |

**Summary of Building Permit Activity in 2024**

In 2024, the City issued building permits for 2,075 new residential units. This was a 29% decrease from 2023. Of the building permits issued, 184 units were market-rate while 2,023 were affordable. **Table 6** illustrates this 2023 activity by income category.

**Table 6 – Residential Building Permits Issued, Units**

| Project Type | 2024 Units   | 2024 %      |
|--------------|--------------|-------------|
| Market-rate  | 184          | 8%          |
| Affordable   | 1,891        | 92%         |
| <b>TOTAL</b> | <b>2,075</b> | <b>100%</b> |

Figure 2 below shows that the City was able to meet 5% of its annual market-rate permit goals and 47% of its affordable housing permit goals in 2024. Affordable units are those offering rents affordable to extremely low-, very low-, low- and moderate-income households (as detailed in Table 2 above).

Per California Government Code 65400.2, for purposes of the housing element portion of the annual report, 25 percent of a jurisdiction's moderate-income regional housing need allocation may include the number of units in an existing multifamily building that were converted to deed-restricted rental housing for moderate-income households by the imposition of affordability covenants and restrictions for the unit. Modera, located at 787 The Alameda, met the above criteria. Catalyst Housing Group purchased the development from Mill Creek Residential Trust. Catalyst recorded 75-year affordability restrictions to the benefit of the City in February 2024. The restrictions require 132 units



be affordable to households earning up to 80% AMI with rents set at an 80% AMI rent level (which falls in the moderate-income rents range). The 132 units are included in the affordable permits data above.

**Figure 2 –2024 RHNA Residential Building Permit Performance**

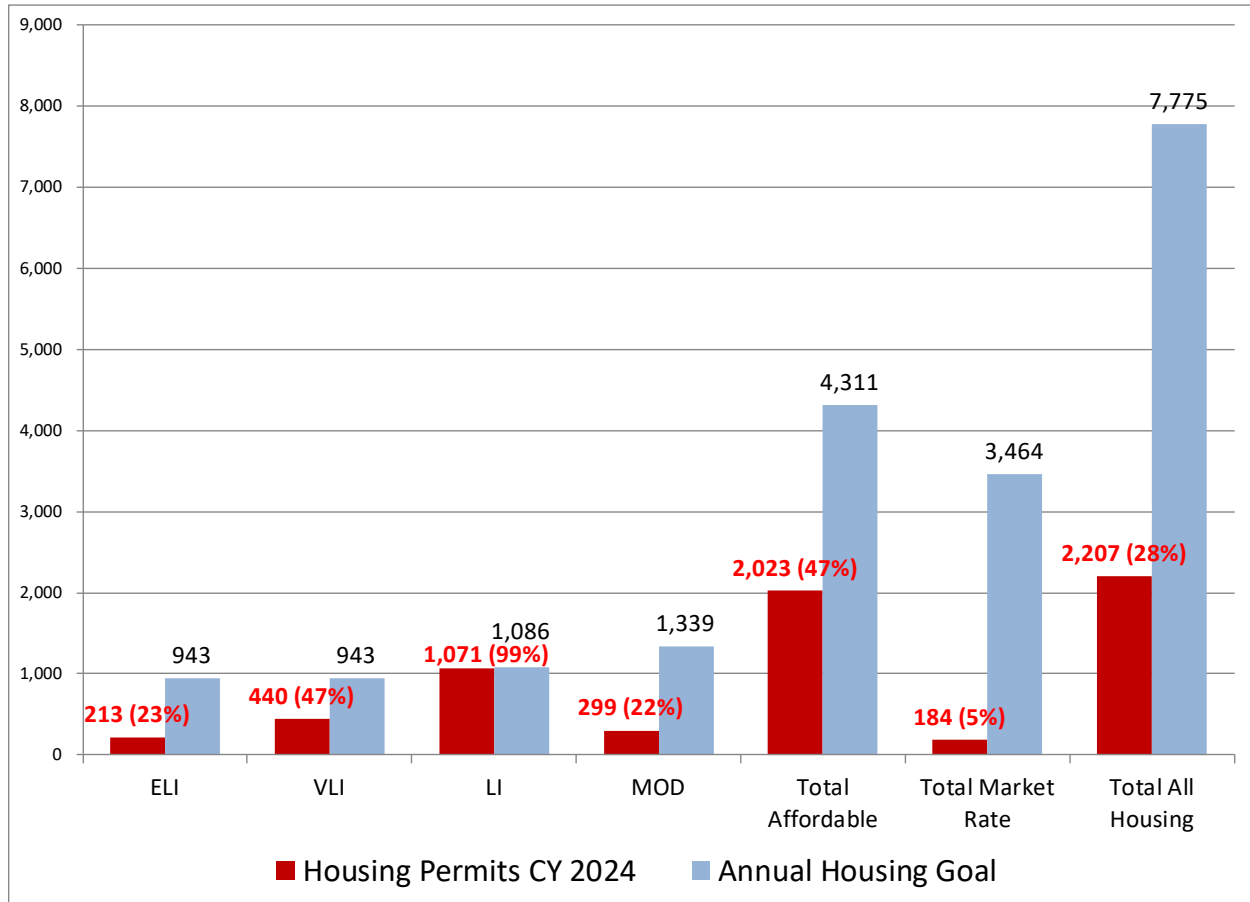
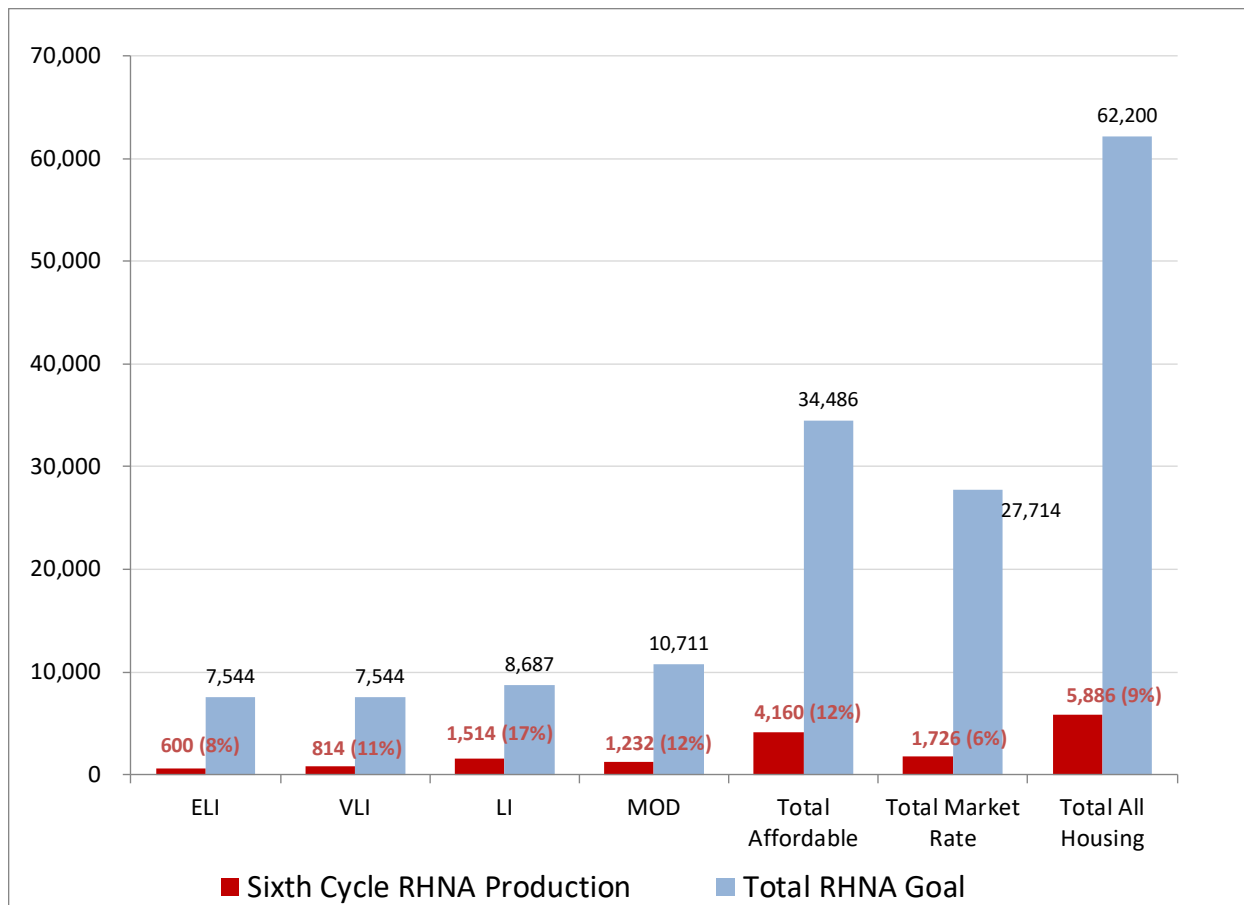


Figure 3 below shows that the City has met 6% of its market-rate permit goals and 12% of its affordable housing permit goals at the end of two years into its eight-year RHNA cycle.

**Figure 3 – Cumulative RHNA Residential Building Permit Performance**

In 2024, the City issued 558 building permits for ADUs, compared to 441 in 2023. ADU building permits issued increased 26% in the last year. In the last few years, the building permit volume for ADUs had been around 400-450 yearly. ADU building permit issuances significantly increased following Zoning Ordinance updates approved by the City Council in 2016 and 2018 to comply with state law, as well as permit process enhancement efforts to encourage the construction of ADUs.

In 2024, ABAG shared that it had determined with HCD that jurisdictions should utilize actual or anticipated affordability of ADUs for affordability assumptions and Annual Progress Reports. However, if the information was not available, jurisdictions were able to utilize the ADU affordability assumptions from ABAG's ADU affordability methodology for Annual Progress Reports covering calendar years 2023 and 2024. The methodology sets the affordability levels at: 30% very low-income, 30% low-income, 30% moderate-income, and 10% above moderate-income. **Table 7** and **Figure 2** include ADUs as affordable units based on this methodology. Since the methodology only applies to the first two years of the Housing Element cycle, staff created a voluntary survey in March

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2024 to collect data on affordability levels for ADUs. The survey was sent to applicants who submitted or obtained an ADU permit within the 2024 calendar year. Thus far, staff has received 66 responses. Staff will continue to collect data to determine future affordability levels and continue to work with the Association of Bay Area Governments to determine future ADU affordability methodology.

**Table 7 – ADU Units by Affordability**

| <b>Affordability Levels</b> | <b>Ratio of Units Assumed</b> | <b>Issued</b> | <b>Final</b> |
|-----------------------------|-------------------------------|---------------|--------------|
| Very Low-Income             | 30%                           | 167           | 110          |
| Low-Income                  | 30%                           | 167           | 110          |
| Moderate-Income             | 30%                           | 167           | 109          |
| Above Moderate-Income       | 10%                           | 57            | 36           |
| <b>Totals</b>               | <b>100%</b>                   | <b>558</b>    | <b>365</b>   |

Of the units with building permits issued in 2024, 1,164 units (53%) were located in urban villages. In 2023, 36% of building permits issued were in urban villages. While this is an increase, 1,052 units are for affordable multifamily developments. The remaining units are townhomes and ADUs. In 2024, no major market-rate multifamily developments were approved in urban villages. Production in urban villages is challenged by multiple factors. These include an ongoing market weakness in Class A residential due to current interest rates, increasing construction costs, and slowed rent growth. As these factors are likely to continue in the near-term, it is important that the City consider other development strategies that respond to these constraints and produce needed housing.

**Building Permit Type and Location**

In 2024, the City saw a 41% decrease in permits for multifamily units year-over-year (from 2,498 to 1,472) and a 19% increase for ADUs (from 470 to 558). As shown in **Table 8**, 71% of units permitted were multifamily and 27% were ADU units. As shown in Table 6, the City issued building permits for 1,708 affordable multifamily units. This was a 268% increase from 2022 when 464 affordable units were issued building permits.

**Table 8 – Share of Units Receiving Building Permits by Property Type**

| <b>Year</b> | <b>Multifamily</b> | <b>ADUs</b> | <b>Single-Family Detached</b> | <b>Single-Family Attached</b> | <b>Duplexes</b> | <b>Total*</b> |
|-------------|--------------------|-------------|-------------------------------|-------------------------------|-----------------|---------------|
| <b>2024</b> | 71%                | 27%         | 1%                            | 0.8%                          | 0.2%            | 100%          |
| <b>2023</b> | 81%                | 15%         | 2%                            | 2%                            | 0.1%            | 100%          |

Note: Totals may not add to 100% due to rounding.

**Attachment C** contains a map illustrating where 2024 multifamily and ADU building permits are located.

### *Certificates of Occupancy*

In 2024, the City issued certificates of occupancy for 1,480 residential units, a 14% increase from 2023. Of the 1,480 units that received certificates of occupancy, 595 (40%) were market-rate and 885 (60%) were affordable. Approximately 73% (1,081 units) of the units that received certificates of occupancy were in multifamily developments and approximately 25% (365 units) were ADUs. The remaining units were single-family homes and duplexes. Of the five largest multifamily projects that received certificates of occupancy in 2024, three were affordable housing developments – Blossom Hill Senior Apartments (147 apartments), Virginia Street Studios (301 apartments), and Kelsey Ayer Station (115 apartments) – and two were market-rate housing developments – Almaden Terrace Condominiums (96 condos) and Miro (304 apartments). Details on certificates of occupancy are in **Attachment B, Table A2**.

### *Progress on Programs and Policies*

In addition to reporting on housing production, HCD requires annual updates on the City's programs and policies that support housing production. **Attachment B, Table D** provides a comprehensive progress update for 2024.

### *Units Rehabilitated, Preserved, and Acquired*

**Attachment B, Table F** summarizes the units that were preserved or rehabilitated in 2024. Preservation and rehabilitation only count toward RHNA goals in very narrow circumstances, and San José developments do not qualify under the state's rules. However, it is important to note that the City took action to preserve and extend affordability restrictions for two existing affordable housing developments for a total of 222 apartments to ensure their continued long-term affordability. The City also assisted in the rehabilitation of 2,532 apartments by funding Code Enforcement activities and rehabilitation through Rebuilding Together and Habitat for Humanity.

### *Units Lost to Expiring Affordability Restrictions*

In 2024, affordability restrictions expired on one restricted affordable housing development, Kimberly Woods Apartments, that had offered 42 apartments affordable to low-income renters earning 60% AMI.

### Important Legislation

As in previous years, the California State Legislature passed many new laws related to housing in the 2024 legislative session. Some bills of note that became law in 2024 included:

- **AB 3093 (Ward, 2024):** This new law creates two new income categories, Acutely Low Income and Extremely Low Income, in the RHNA process and throughout Housing Element law. AB 3093 stems from the alarming increase in homelessness across California and ensures that jurisdictions' housing planning processes are inclusive of the most vulnerable Californians – those experiencing, and at risk of, homelessness. Guidance for how HCD will expect jurisdictions to plan for acutely low-income and extremely low-income populations should be issued by 2026 for use in the seventh Housing Element cycle.
- **AB 2667 (Santiago, 2024):** This new law requires the utilization of a standard reporting format to be developed by HCD for the seventh and subsequent revisions of the Housing Element. It requires a draft inventory of sites to be made available to HCD and the public, posted to the jurisdiction's website, and announced via email to individuals and organizations that previously requested notices. Posting and notification must occur at least 90 days prior to initial adoption and at least seven days prior to subsequent adoption submittals if changes to inventory occurred. The bill also requires that the portion of reporting indicating the number of units approved or disapproved include the following subcategories for each opportunity area: acutely low income, extremely low income, very low income, lower income, moderate income, and above moderate income. HCD, upon review, will notify jurisdictions if they are not in substantial compliance with any statutes.
- **AB 2663 (Grayson, 2024):** This bill requires local agencies that have a website and collect inclusionary housing in-lieu fees post annually the amount of fees collected in the previous year and whether those fees are intended to be used for housing developments. The law takes effect on January 1, 2026. Every five years thereafter, the local agency must also post on its website the amount of fees collected within the past five years and on which residential developments those fees were used.

### Need for Funding and Resources

The City of San José continues to face significant budget shortfalls and a growing population of persons experiencing homelessness requiring immediate shelter. These conditions have resulted in difficult decisions to invest in the expansion of shelter capacity while making continuing, though limited, investments in housing development.

In addition, the cost of developing affordable housing continues to rise as per unit loan subsidies from the City exceed \$225,000, while state resources for affordable housing production from low-income housing tax credit financing and caps to private activity bonds remain hyper-competitive.

At this time of need for significantly more restricted affordable homes, most of the City's funding sources to subsidize affordable housing have been negatively impacted by current economic conditions. The Housing Department has several funding sources where the development of affordable housing is an allowable use: Low-and Moderate-Income Housing Asset Fund (LMIHAF), Inclusionary Fee Fund (Inclusionary Housing Ordinance fees), Commercial Linkage Fees, Measure E Real Property Transfer Tax (Measure E), and federal HOME Investment Partnership Program (HOME) and Community Development Block Grant funds.

The City's LMIHAF revenues are projected to be \$14.5 million per year in the near future. Revenues from City loan repayments are down because high interest rates have continued to discourage affordable housing owners from refinancing their properties' senior bank loans. In addition, properties' operating costs have increased significantly due to much higher insurance costs and higher utility costs. LMIHAF revenue decreases both reduce the ability for the City to recycle existing loan repayments to new affordable housing properties and strain the Housing Department's ability to support its staffing levels.

Measure E, the real property transfer tax approved in March 2020, is the City's other major source of funding for affordable housing. Measure E generated \$50.5 million in its first year and \$110 million in its second year, with three-quarters being used to support the production of affordable housing. Actual Measure E revenues totaled \$50.7 million in 2023-2024 and are estimated to total \$50 million in 2024-2025 due to the continued slow-down in the local real estate market, but the Administration is estimating an average of \$64 million in annual Measure E revenues in the 2026-2030 Five-Year Forecast. In addition, the continuing rise in the City's unsheltered homeless population balance against continuing operating deficits has pushed additional Measure E funds into interim housing solutions, while the City has also taken advantage of the state's streamlining the production of interim housing units.

In May 2023, the City projected it would receive approximately \$2 million total in Inclusionary Housing Ordinance in-lieu fee payments over the next five years. This estimate is significantly depressed under the current economic and labor cost environment having curtailed construction starts. In addition, City Council has authorized rate and tax reduction incentive programs for multifamily housing production in the Downtown and the growth areas around the City in an effort to balance the high costs of development and spur housing production at all income levels.

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The City Council also approved a Commercial Linkage Fee on new commercial spaces to fund affordable housing in 2020. As of the end of 2023-2024, the Commercial Linkage Fee had generated \$4.9 million in total revenue. Given that the commercial space development market is likely to continue its focus on rehabilitating existing buildings, it is anticipated that the City will continue to receive minimal payments of Commercial Linkage Fees over the next five years.

Another important local source for affordable multifamily housing – Santa Clara County Measure A – is exhausted. As of January 2025, San José affordable housing developments have received \$415 million in Measure A funds to build and renovate 3,278 affordable units.<sup>12</sup>

From the sources listed above, the Housing Department periodically issues NOFAs to subsidize new affordable housing developments. **Table 9** provides details on the City's most recent NOFAs.

**Table 9 – Recent City of San José Affordable Housing New Construction NOFAs**

| NOFA Issue Date | NOFA Amount (\$ Millions) | Amount Committed to Date* (\$ Millions) | # Affordable Units Committed | # Affordable Units Construction Completed to Date | # Affordable Units to be Completed in 2025-2026 | # Affordable Units to be Completed in 2026-2027 |
|-----------------|---------------------------|---|------------------------------|---|---|---|
| August 2018     | \$100                     | \$92                                    | 831                          | 831   |   |   |
| June 2021       | \$75                      | \$0                                     | -                            | -   | -   |   |
| December 2021   | \$150                     | \$169                                   | 1,043                        |   | 593   | 351   |
| October 2023    | \$50                      | \$22                                    | 152                          |   | 103   |   |
| <b>Total</b>    | <b>\$375</b>              | <b>\$283</b>                            | <b>2,026</b>                 | <b>831</b>  | <b>696</b>                                      | <b>351</b>                                      |

\*Note: Any uncommitted funds from a given round were rolled into the following round's amount available.

In an effort to streamline housing production and financing, the Housing Department has revised and synchronized the project financing regulations for City loan subsidies with CTCAC. It also aligned the timing of financing with Santa Clara County Office of Supportive Housing and the Santa Clara County Housing Authority to extremely low-income and very low-income units in affordable housing projects. The regulatory and financing alignment will reduce the time to build and cost of the project; thereby, ultimately, reducing public subsidies.

<sup>12</sup> Memo to County of Santa Clara Board of Supervisors, Jan. 28, 2025, [https://files.santaclaracounty.gov/exjcpb1571/2025-01/housing-bond-report-25.pdf?VersionId=kZQ\\_5wB6swh4MfrVemKtFyxtSGVdpCwt](https://files.santaclaracounty.gov/exjcpb1571/2025-01/housing-bond-report-25.pdf?VersionId=kZQ_5wB6swh4MfrVemKtFyxtSGVdpCwt).



The City's affordable RHNA goals require an average of 2,972 affordable homes be issued building permits each year. **Table 9** illustrates the use of all of available City's revenues to create affordable housing, yet NOFA competitions over six years fell well short of the City's new goal for just one year.

### *Housing Successor to Redevelopment Agency Annual Report*

The Housing Successor Report is included as **Attachment D**. The Housing Successor Report is based on the fiscal year and is required to be submitted with the Annual Progress Report. The City is the Housing Successor for the former San José Redevelopment Agency. The Housing Successor Report provides information on receipts and expenditures in the Low- and Moderate-Income Housing Asset Fund (LMIHAF, Fund 346), which contains repayments of loans made with original redevelopment funds for affordable housing.

LMIHAF is the City's major asset related to redevelopment. At the end of 2023-2024, the City as Housing Successor had \$716,154,479 in total LMIHAF assets comprised of cash, loan receivables, and real property owned by the Housing Successor. Besides information on aggregate expenditures, the Housing Successor Report includes several expenditures tests that the Housing Successor must meet. The City met all of them in 2023-2024.

### *Excess Surplus Test*

The excess surplus test requires that the Housing Successor cannot have unencumbered funds that exceed the aggregate amount deposited into the fund during the preceding four fiscal years. If a Housing Successor fails to meet the excess surplus test, it may be required to transfer excess LMIHAF funds to the state. The Housing Successor Report indicates that the aggregate amount deposited into the fund during the four prior years was \$158.2 million, while the unencumbered amount at the end of 2023-2024 was \$80.3 million. Therefore, the Housing Successor met this test because the balance does not exceed the aggregate amount deposited for the test period.

### *Senior Housing Test*

Redevelopment law places a limit on the number of affordable housing units funded for senior citizens, as many jurisdictions focused on using most of their redevelopment funds for affordable housing to create homes for this uncontroversial population. The rule is, if this percentage exceeds 50% of units assisted over the last 10 years, the Housing Successor cannot expend future LMIHAF funds on new senior housing until it has reduced this percentage to 50% or below. The Housing Successor Report indicates that 31% of the City-assisted housing over the last 10 years (2014-2024) was for senior

affordable housing. Therefore, the City, as Housing Successor, met the senior housing test and can continue to fund senior affordable housing with LMIHAF funds.

### **Income Tests**

Redevelopment dissolution law put in place two five-year income-related tests for the use of LMIHAF funds. First, at least 30% of LMIHAF funds must be spent for the development of rental housing affordable to extremely low-income households earning at or below 30% AMI. This City met this test by spending 39.5% in the 2019-2024 time-period. The City is next scheduled to report on this test in 2029.

Second, no more than 20% of LMIHAF funds can be spent for the development of rental housing affordable to and occupied by households earning between 60% and 80% of AMI. The City last satisfied the test by spending 3.3% of LMIHAF on households earning 61% to 80% AMI during the 2019-2024 time period. The City is next scheduled to report on this test in 2029.

### **EVALUATION AND FOLLOW-UP**

After City Council accepts the Annual Progress Report and the Housing Successor Report, staff will submit the approved documents to HCD and the Governor's Office of Land Use and Climate Innovation by the state-mandated April 1, 2025 deadline.

### **COORDINATION**

This memorandum was coordinated with the City Attorney's Office and the City Manager's Budget Office.

### **PUBLIC OUTREACH**

This memorandum will be posted on the City's Council Agenda website for the March 18, 2025 City Council meeting.

### **COMMISSION RECOMMENDATION AND INPUT**

This memorandum will be heard by the Housing and Community Development Commission on March 13, 2025. Due to the timing of the submission of this report and

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strict submission deadlines, a summary of the Housing and Community Development Commission's feedback will be included in the presentation for this item.

## **CEQA**

Not a Project, File No. PP17-009, Staff Reports, Assessments, Annual Reports, and Informational Memos that involve no approvals of any City action.

## **PUBLIC SUBSIDY REPORTING**

This item does not include a public subsidy as defined in section 53083 or 53083.1 of the California Government Code or the City's Open Government Resolution.

/s/

ERIK L. SOLIVÁN, DIRECTOR  
Department of Housing

/s/

CHRIS BURTON, DIRECTOR  
Department of Planning, Building, and Code  
Enforcement

For planning-related questions, please contact Jerad Ferguson, Principal Planner, Planning, Building, and Code Enforcement Department, at [jerad.ferguson@sanjoseca.gov](mailto:jerad.ferguson@sanjoseca.gov) or (669) 223-1160. For housing-related questions, please contact Kristen Clements, Division Manager, Housing Department, at [kristen.clements@sanjoseca.gov](mailto:kristen.clements@sanjoseca.gov) or (408) 535-8236.

## **ATTACHMENTS**

**Attachment A:** CoStar Building Class & Star Rating Definitions

**Attachment B:** San José Housing Element Annual Progress Report for CY 2024 (Tables A-J)

**Attachment C:** Map of Building Permits Issued in 2024

**Attachment D:** Housing Successor to Redevelopment Agency Annual Report FY 2023-2024