



Memorandum

TO: COMMUNITY AND ECONOMIC
DEVELOPMENT COMMITTEE

FROM: Nanci Klein
Jacky Morales-Ferrand
Chris Burton

SUBJECT: SEE BELOW

DATE: May 10, 2022

Approved

Date

5/15/22

**SUBJECT: HOUSING CRISIS WORK PLAN PRIORITIZED ITEMS STATUS
REPORT**

RECOMMENDATION

Accept a status report on the implementation of prioritized items in the Housing Crisis Work Plan.

BACKGROUND

On September 28, 2017, Mayor Liccardo issued a memorandum entitled “Responding to the Housing Crisis.” The memorandum identified a number of items to address the housing crisis. Many items from this initial proposal were prioritized at the October 17, 2017, Council Priority Setting Session. On June 12, 2018, staff first brought forward a proposed Housing Crisis Work Plan (Work Plan), which proposed strategies and policy actions to enable the facilitation of 25,000 new housing units by 2023 that included 15,000 market-rate units and 10,000 affordable units.

Since 2018, staff has provided biannual Work Plan updates in the spring and fall to the Community and Economic Development (CED) Committee and the City Council that provide updated Housing Production Reports to show progress made toward the City’s goal of 25,000 new housing units as well as status reports on Work Plan items.

On November 22, 2021, the CED Committee received the last update on the Work Plan. This report included an update on the proposed changes to City Council Policy 5-1: Transportation Analysis Policy that is intended to provide options for advancing housing. Staff also provided an assessment of the impact for completed items, and a prioritization of the work items based on this assessment.

ANALYSIS

Future of the Housing Crisis Work Plan

Since its inception, the Work Plan has contained an evolving list of strategies and policy work intended to encourage housing production, or in some cases to preserve existing affordable units, with the overall goal of delivering 25,000 new housing units by 2023 with 15,000 market-rate and 10,000 affordable. The City is currently in the final year of the timeline with the goal of 25,000 housing units. Based on the latest production report detailed further below, the City has met its goal for market-rate units with over 15,000 units with planning approval, under construction, or completed. However, the City is well short of its goal of 10,000 affordable units. Although the 15,000 market-rate unit goal was met, there is still more that the City must continue to do to encourage the production of market-rate housing, and there is even more work that must be done to continue to build more affordable housing in the City.

Staff will bring forward a formal closeout report for the Housing Crisis Work Plan to the City Council in fall 2022. Following the final report, staff will propose the current work items be included in a new *Housing Catalyst Team Work Plan* that will also incorporate the work items contained in the City's Housing Element. Staff will provide an annual report to the CED Committee and the City Council on the Housing Element and the *Housing Catalyst Team Work Plan*. As a part of the annual update, the team will report on progress made toward the City's Regional Housing Needs Allocation (RHNA). The City's RHNA identifies the number of housing units needed across all income levels in the City for an eight-year period. The next eight-year cycle begins in 2023.

Housing Crisis Work Plan Accomplishments

Numerous items on the Housing Crisis Work Plan are complete and opening new opportunities for both market-rate and affordable housing development across the City. Additionally, the exercise of compiling the Work Plan itself has been useful to organize and align the work being done across the City Administration. It also provided an opportunity for regular updates to the City Council and the public on all the individual policy work related to housing production. The Housing Crisis Work Plan is dynamic in nature, allowing staff to evaluate items over time. Items are removed if no longer relevant and other items are added as new priorities emerge. The dynamic nature of the report has contributed to its value.

Implementation of the Work Plan is managed through the Housing Catalyst Team. The team meets on a biweekly basis and is composed of staff from the Office of Economic Development and Cultural Affairs' (OEDCA) Business and Economic Development Team; Planning, Building and Code Enforcement's (PBCE) Citywide Planning Division; the Housing Department's Policy and Planning and Residential Development Divisions; and Parks, Recreation and Neighborhood Services (PRNS) Strategic Planning Team. The creation of the interdepartmental Housing Catalyst Team has led to greater collaboration and a way to pool knowledge and resources around individual issues.

Housing Element Update is the Focus of Work

The City's Planning Division and Housing Department are currently working on the Housing Element update for the 2023-2031 cycle. The Housing Element must include specific components pursuant to state law. For the first time—in response to AB 686, the "Affirmatively Further Fair Housing" law—the update must include an assessment of fair housing, a site inventory that helps dismantle housing segregation, and programs that "affirmatively further fair housing." In addition, Housing Element law requires there be a diligent effort to include public participation from all economic segments of the community going beyond simply giving the public an opportunity to provide input. Staff has held two online large community meetings, launched two online surveys in multiple languages, and coordinated multiple working groups and focus groups to assist in the development of policies and programs to address the City's housing needs. These efforts add to many months of outreach that the Housing Department staff conducted for its Assessment of Fair Housing work. To ensure a high-quality product, staff from the Housing Catalyst Team have made the Housing Element work their highest priority this year. Other work plan items may need to be put on hold or delayed until staff has the capacity and resources to engage in other work.

Housing Market and Housing Production Report

Market rate production recovered slightly in 2021 from the sharp decline in 2020 due to the pandemic. That recovery continued into 2022, with building permits issued in the first quarter of 2022 exceeding those in all of 2020. The first quarter of 2022 was driven by one large multifamily project starting construction and Accessory Dwelling Units (ADUs). Overall, the City's housing production in 2021 trailed significantly behind pre-pandemic levels and was assisted by new ADU production that continued to grow to its highest level ever with 464 ADUs permitted in 2021. **Table 1** below shows building permits issued for new market-rate housing units, which indicates the start of construction. **Attachment C** to this memorandum includes the complete housing production for market-rate and affordable units.

Rent remains high in San José with median rents at \$2,033 for a one-bedroom apartment and \$2,414 for a two-bedroom in April 2022, according to Apartment List. This is a 14.3% increase from last year. San José and San Francisco are the only two metro markets where median rents are still slightly below pre-pandemic levels. However, San José is just 1% below March 2020 and is likely to soon surpass that mark. The continued positive rent growth is a positive for the potential of new market-rate construction, but construction costs have continued to escalate significantly. These underlying factors continue to make new market-rate production a challenge. The second chart in **Attachment C** tracks overall progress toward the 25,000 housing unit goal. The City has met its goal of 15,000 market-rate units that have received planning approval, are under construction or are completed. In 2020 and 2021, the number of affordable units starting construction surpassed 2018 and 2019. However, the City has not yet met its goal of 10,000 affordable units.

Table 1: Market Rate Housing Units Receiving Building Permits

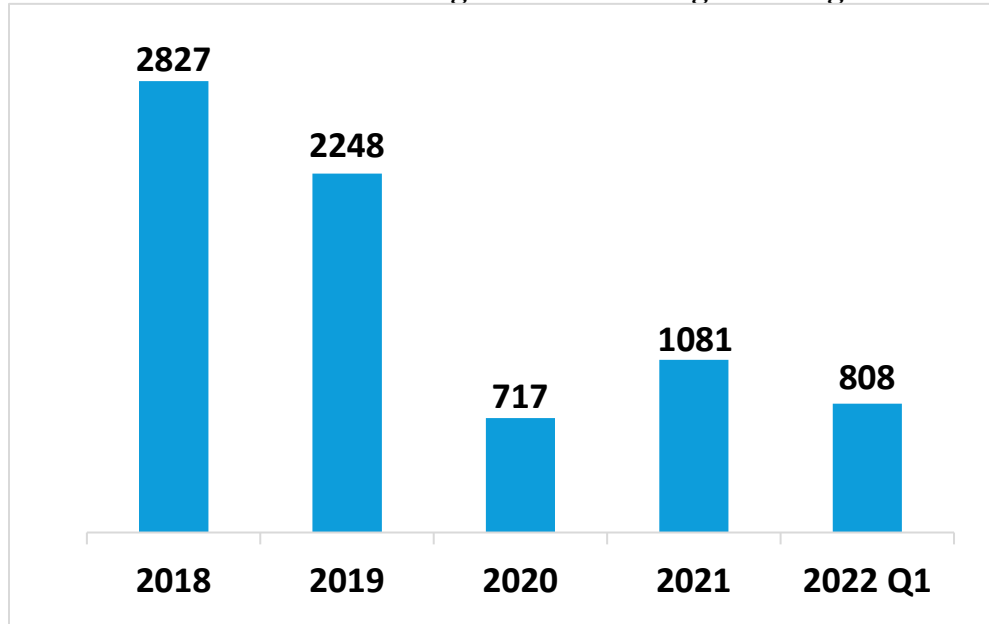
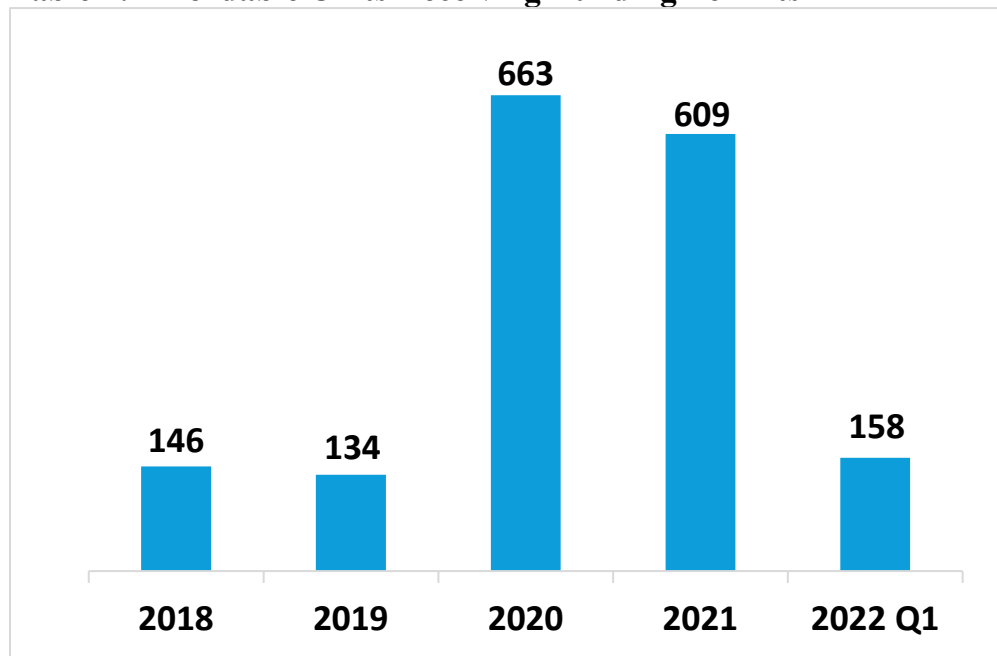


Table 2: Affordable Units Receiving Building Permits



Housing Crisis Work Plan Update Highlights

Attachment A, the *Housing Crisis Work Plan Summary Chart*, summarizes all Work Plan items with their latest status update with anticipated timelines. The chart is organized by three sections:

Work Plan Items Completed, Work Plan Items Initiated or Underway, and Work Plan Items to be Initiated. The Summary Chart is also enumerated with a ranking based on the prioritization outlined in **Attachment B**. A detailed summary of the prioritization method is included in the November 22, 2021 staff memorandum to the CED Committee.¹ Items requiring a more in-depth discussion are highlighted below.

Highlights from Completed Work Plan Items

- **Further implementation of Commercial Linkage Fee (CLF)** – In March 2022, the City Council approved a credit towards the CLF for commercial development that provides affordable housing, and approved changes to the timing of payment of the CLF. The City Council provided additional direction regarding the timing of an updated feasibility study that would be triggered in 18 months *or* once there is one million square feet in executed leases of new construction over 100,000 square feet in the Downtown over more than one building, whichever happens first. Given these actions, the current work item is now complete, and a new work item has been added to track the future feasibility study when the trigger is met.
- **Explore changes to Commercial Space Requirements for Affordable Developments** – As part of the General Plan Four-Year Review, the City Council directed that there be no commercial space replacement requirement for 100% affordable development utilizing Policy IP-5.12 which allows 100% affordable to proceed in Urban Villages without adopted plans. Additionally, the City Council directed staff to remove any commercial requirement in 100% affordable developments throughout the City. Staff intends to bring forward the necessary General Plan amendment in fall 2022, and a new work item has been added to track this work.
- **Reimagine Underutilized Business Corridors to Allow the Integration of Housing** – As a part of the General Plan Four-Year Review, the City Council approved allowing housing in certain business district corridors. Staff will bring forward a Zoning Ordinance update to implement this item and has been added as a new work item.

Highlights from Ongoing Work Plan Items

- **Allow Affordable Housing on Assembly Use Sites** – This policy would enable any site containing assembly uses (including but not limited to houses of worship) with a Public/Quasi Public General Plan designation to develop 100% deed-restricted affordable housing as a secondary use in conjunction with the primary assembly use of the property. On September 22, 2020, as part of its approval of the Citywide Residential Anti-Displacement Strategy (Recommendation 8), the City Council directed staff to work on this as resources become available. Staff began work on this policy in summer 2021, conducting targeted

¹ <https://sanjose.legistar.com/View.ashx?M=F&ID=9964347&GUID=75B07AFC-02E7-4BFA-ABE2-4A5FA9A7E76F>

outreach to affordable housing developers and assembly site owners. A community meeting was also held to introduce the policy proposal to the public and receive initial feedback.

Subsequent to the initial round of outreach, staff began to refine the proposal and work to secure a consultant to prepare the California Environmental Quality Act (CEQA) analysis. During this process, it became clear that streamlining bills that provide for review and approval of certain types of affordable housing projects without any project-level CEQA analysis (such as Senate Bill 35) requires the City to prepare a more in-depth CEQA analysis of the policy than has been required in the past. For this policy update specifically, the more extensive work required on the transportation analysis has resulted in an estimated Council hearing date of late 2022 or early 2023. Staff is working to refine the project description to reduce the scope of analysis required in order to shorten the timeline while still producing a policy that provides adequate opportunities for affordable housing to be constructed on assembly sites.

- **Explore Policy for Housing on Public School Lands** – As directed by the City Council in February 2021, this work will explore policy changes for public school land conversions that could provide more opportunities for housing and revenue for public school districts. Staff initiated meetings with the school districts to discuss the proposed policy in spring 2021. The school districts expressed concern with the timing of this work as they needed to focus their resources on the return to in-person learning during the pandemic, so staff temporarily paused outreach with the intention to resume work later in 2021. However, staff resources have been shifted to the prioritized Housing Element work plan item, and work on the policy for housing on public school lands currently remains on hold. Staff anticipates returning to this work once the work item related to Affordable Housing on Assembly Use Sites is complete.
- **Apply the Mobile Home Park Land Use Designation through City-initiated General Plan Amendments to the Remaining 56 Mobilehome Parks** – In March 2020, the City Council approved the creation of a new General Plan land use designation entitled “Mobilehome Park” and applied this designation to two mobilehome parks. These two parks had a land use designation of Urban Residential that allows for multifamily residential development and were considered to be most at risk of conversion. Staff did not recommend General Plan amendments for the remaining 56 mobilehome parks, as there was marginal benefit provided through such a change. A General Plan amendment would generally already be needed, or desired, prior to any potential redevelopment of the current mobilehome parks. Since 2015, the City has undertaken several substantial actions to preserve mobilehome parks, including the adoption of Zoning Code amendments, General Plan text amendments, and the adoption of City Council Policy 6-33.

At the March 2020 meeting, the City Council directed staff to apply the new land use designation to all remaining mobilehome parks. Staff conducted a workload analysis at that time and determined that undertaking the General Plan land use amendments for all remaining parks would be a timely and costly process, requiring additional resources. That

overall estimate for 2020 is included below in **Table 3**. The City Council did not allocate resources to initiate this work in the Fiscal Year 2021-2022. This work item continues to remain on the Work Plan until further resources are allocated or additional staff bandwidth can be dedicated to this effort. Staff costs from 2020 would need to be updated if an accurate cost estimate were desired. At this time, staff is unaware of any efforts to convert a mobilehome park in the City, and there are no applications on file.

Table 3: 2020 Workload Analysis to process General Plan Amendments

Work Task	Staff Resources and Costs	CEQA and Consultant Costs	Public Noticing and Outreach Costs	Total Costs	Timeframe
General Plan Land Use Amendments to Mobile home Park Designation on all sites	<ul style="list-style-type: none"> • 1.0 FTE – Planner III, PBCE (\$125,500-\$188,300) • 0.5 FTE – Development Officer, Housing (\$70,300) 	Negative Declaration Addendum to the General Plan EIR, or Environmental Impact Report depending on outcome of Initial Study (\$110,000)	\$13,000 (assumes 8 community meetings)	\$318,800 to \$381,600	12 to 18 months

EVALUATION AND FOLLOW-UP

Staff will continue to work on the individual items outlined in the memorandum and **Attachment A**. The next update on the Work Plan will be brought directly to the City Council in fall 2022 and will include recommendations to close out the *Housing Crisis Work Plan* and establish the *Housing Catalyst Team Work Plan* beginning in calendar year 2023 that will align the work with the strategies that will be included in the upcoming update to the City's Housing Element.

COORDINATION

This memorandum was coordinated with the Department of Parks, Recreation and Neighborhood Services, the Department of Transportation, and the City Attorney's Office.

COMMISSION RECOMMENDATION/INPUT

This update was presented to the Housing and Community Development Commission at its

meeting on May 12, 2022. The Commission did not take any action on the item, but Commissioners provided comments and asked questions of staff that is summarized below.

Chair O'Connell expressed strong support for staff completing work to apply the Mobilehome Park land use designation to all remaining parks as soon as possible, noting that it had been two years since the City Council had voted to support this work. She disagreed with the analysis and language in the staff report on the item, stated that the changes did not all need to be done at once, and disagreed with the 2020 staffing estimate in the report.

Commissioners Wheeler, Tran and Navarro also expressed support that staff complete work to apply the General Plan designation to all remaining mobilehome parks. Commissioner Wheeler recommended the City Council allocate funding for staff resources now, so that staff could do the work before any future conversion requests may be filed.

Vice Chair Jasinsky stated that the City has done a good job in protecting mobilehome parks through its policy changes and encouraged people to focus on the strength of existing protections.

Commissioner Moore asked questions related to ADU and housing production. She spoke in favor of sufficient parking in affordable housing developments as tenants may require parking for vehicles related to their work.

Commissioner Tran asked about the progress on affordable production and the differences in production rates, noting significant progress made on affordable production in the last couple of years.

Commissioner Navarro stated that all City departments should prioritize equity in thinking about its policies and priorities and noted that promoting equity is not the same thing as treating everyone equally.

Commissioner Shoor encouraged staff and the City to focus on RHNA goals and agreed with the staff proposal to use RHNA goals in the new Housing Catalyst Team Work Plan. He also asked what more was being done around streamlining the entitlement permitting process.

Commissioner Dawson commented that it was remarkable what staff has completed especially given the pandemic. She expressed disappointment at the small number of State housing bills on which the City officially advocates and expressed interest in ACA 14 to create ongoing State budget funding for homelessness and affordable housing. She supported using RHNA in future reports and working with the Bay Area Housing Financing Authority (BAHFA), which is expected to have future Bay Area-wide bond resources to distribute. She also stated support for the City's forthcoming Affordable Housing Siting Policy and frustration that the Community Opportunity to Purchase work had to be delayed.

May 10, 2022

Subject: Housing Crisis Work Plan Update

Page 9

Other commissioners asked clarifying questions. In addition, two members of the public provided comments to the Commission. Both were strongly in support of applying the Mobilehome Park General Plan Land Use Designation to all remaining mobilehome parks in the City as soon as possible, noting residents' concerns about displacement.

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Attachments:

Attachment A – Housing Crisis Work Plan Summary Chart

Attachment B – Housing Crisis Work Plan Prioritization and Impact Summary

Attachment C – Housing Production Report