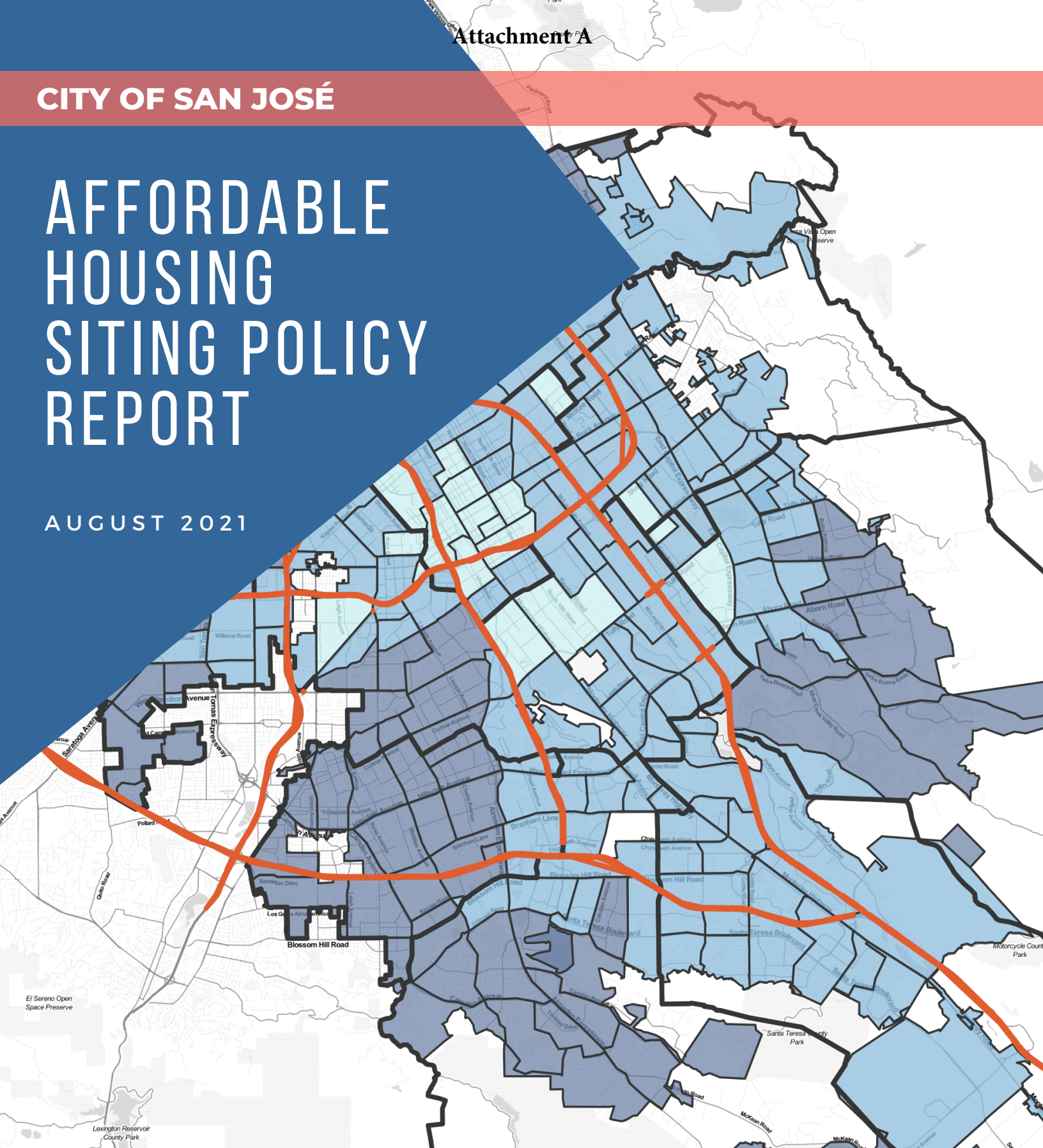


CITY OF SAN JOSÉ

AFFORDABLE HOUSING SITING POLICY REPORT

AUGUST 2021



**California
Housing
Partnership**
California's Experts on Affordable
Housing Finance, Advocacy & Policy



**Othering
& Belonging
Institute**

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ABOUT THE AUTHORS

The California Housing Partnership and the Othering & Belonging Institute at UC Berkeley completed this report for the City of San José under a contract to conduct analysis and propose recommendations for design and implementation of an affordable housing siting policy.

About the California Housing Partnership

The California Housing Partnership is a state-created, nonprofit technical assistance organization that helps to preserve and expand the supply of homes affordable to low-income households in California. The Partnership does this by providing technical assistance, training and policy research to nonprofit and government housing organizations throughout the state. The Partnership’s efforts have helped partner organizations leverage approximately \$20 billion in private and public financing to preserve and create more than 75,000 affordable homes for low-income households. For more information, visit chpc.net/about-us.

About the Othering & Belonging Institute

The Othering & Belonging Institute at UC Berkeley brings together researchers, organizers, stakeholders, communicators, and policymakers to identify and eliminate the barriers to an inclusive, just, and sustainable society in order to create transformative change. We are a diverse and vibrant hub generating work centered on realizing a world where all people belong, where belonging entails being respected at a level that includes the right to both contribute and make demands upon society and political and cultural institutions. For more information, visit belonging.berkeley.edu.

INTRODUCTION

This report contains recommendations and supporting analysis for an Affordable Housing Siting Policy for the City of San José.

BACKGROUND

Beginning in 1988, the Housing Department at the City of San José (“the City”) applied a Dispersion Policy to the City’s investments in affordable housing. This policy, which evolved over time, sought to achieve balance in locating affordable housing across the city.

The City paused its Dispersion Policy in 2017 in order to begin development of a new siting policy better suited to San José’s evolving planning and development climate and with new state and federal affirmatively furthering fair housing (AFFH) requirements related to the siting of affordable housing. AFFH law requires the City to take meaningful actions to reverse patterns of segregation, increase access to opportunity, and transform racially and ethnically concentrated areas of poverty into areas of opportunity. Affordable housing is one of several policy areas critical for advancing AFFH at the local level.

In its new Affordable Housing Siting Policy (“Siting Policy”) the City seeks to affirm the value affordable housing provides in all San José neighborhoods—including both higher- and lower-income communities¹—while advancing the following specific objectives:

1. Aligning with Federal and State affirmatively furthering fair housing (AFFH) laws and obligations;
2. Increasing affordable housing in higher opportunity neighborhoods of choice;
3. Mitigating displacement; and
4. Creating a Siting Policy that is easily administered by City staff and understood by developers.

The Siting Policy would apply to most activities that increase the stock of permanent affordable housing in San José, including: new construction affordable housing created with public financing, including but not limited to developments directly funded by the City and those financed with tax-exempt bonds regardless of the issuer; acquisition and rehabilitation of existing market-rate housing that is converted to affordable housing; and affordable housing created through the City’s Inclusionary Housing Ordinance when a developer elects to build this housing off-site. However, the Siting Policy would not apply to

¹ The literature on affordable housing has demonstrated that its impact is primarily on the residents themselves, including effects on critical life outcomes from lower housing costs, improved housing quality and stability, reduced overcrowding, access to supportive services, and the characteristics of the neighborhood where the housing is located. Studies have generally found that affordable housing financed with Low Income Housing Tax Credits—which comprises nearly all new affordable housing created in San José—has minimal and often positive effects on surrounding property values, poverty rates, and crime rates. See, for example: Diamond, Rebecca and McQuade, Tim (2019). “Who Wants Affordable Housing in Their Backyard? An Equilibrium Analysis of Low-Income Property Development.” *Journal of Political Economy* 2019 127:3, 1063-1117; Ellen, et al (2016). “Poverty concentration and the Low Income Housing Tax Credit: Effects of siting and tenant composition.” *Journal of Housing Economics*, Vol 34, Pages 46-59; and Freedman, Matthew and Owens, Emily G. (2011). “Low-income housing development and crime.” *Journal of Urban Economics*, Vol 7, Issue 2-3, Pages 115-131.

acquisition and rehabilitation of existing deed-restricted affordable housing, temporary shelters or to affordable homes created through the City's inclusionary housing ordinance (except in cases where the developer elects to build this housing off-site).

PROCESS FOR DEVELOPING THE SITING POLICY RECOMMENDATIONS

The Siting Policy recommendations included in this report are aligned with the City's goals and were informed by data and policy analysis, stakeholder engagement, and input from the Housing Department, as described below.

Data and Policy Analysis. The consultant team completed the following analysis to inform the Siting Policy recommendations:

- A review of academic research related to shaping affordable housing siting patterns in alignment with AFFH goals, and a review of policies in comparably sized cities across the country that have sought to advance these goals.
- An assessment of citywide and spatial data on demographic (e.g., race and ethnicity, income) and housing indicators (e.g., rent burden, overcrowding, home values) in San José.
- An assessment of citywide and spatial data on existing and planned affordable housing (e.g., by population served) and market-rate housing in San José.
- A review of academic research on neighborhood characteristics that affect resident outcomes and other factors related to the City's siting policy goals, and a proposal for organizing the city's neighborhoods into categories based on these characteristics.
- An assessment of availability of land and parcels zoned at density that would allow development of affordable housing across the city's neighborhoods.

Much of the data included in these areas of analysis are presented in this report, and all of it ultimately informed the enclosed recommendations for the Siting Policy. Definitions and data sources used in this analysis are listed and described in Appendix B.

Stakeholder Engagement. The Housing Department and consultant team has also hosted eleven listening sessions with more than 250 residents, advocates, developers, and affordable housing residents across the city in February through May 2021 to solicit input on the Siting Policy and identify additional areas of analysis.

Themes in feedback received during listening sessions included: addressing inequality and promoting access to affordable housing across all San José neighborhoods; mitigating displacement of low-income people and communities; potential challenges low-income families could face when moving out of high-poverty neighborhoods, including loss of support systems and culture; the importance of increasing affordable housing in high-opportunity neighborhoods; the importance of continuing to support affordable housing development in low-income communities; encouraging the Siting Policy to consider neighborhood characteristics and existing affordable housing investments, including instances of high concentrations of affordable housing; concerns about phasing in the new policy since developers have already invested in acquiring sites; and transparency in implementation of the siting policy.

Housing Department Input. Staff from the Housing Department helped shape the analysis and recommendations in this report. The proposed Siting Policy thus reflects the Department’s vision for the policy and the reality of its operating environment for implementing the policy in partnership with developers, other City departments, and affordable housing residents.

CATEGORIZING SAN JOSÉ’S NEIGHBORHOODS FOR THE AFFORDABLE HOUSING SITING POLICY

A proposal for organizing San José’s neighborhoods into categories to guide the Siting Policy is presented below, along with information on the academic research that informed these categories and data on how the city’s residents and existing affordable housing are currently distributed across neighborhood categories.

NEIGHBORHOOD CHARACTERISTICS TO INFORM THE SITING POLICY

Proposed neighborhood characteristics to inform categorization of neighborhoods for the Siting Policy were selected based on the strength of the literature demonstrating their association with critical outcomes for affordable housing residents and their relevance to the Housing Department’s goals for the Siting Policy. They were also informed by input from the Housing Department and feedback provided in listening sessions with residents, affordable housing developers, and advocates.²

Proposed criteria are listed in Table 1 and described in further detail below:

TABLE 1: NEIGHBORHOOD CHARACTERISTICS TO INFORM THE SITING POLICY

Characteristic	Share of City
Resource-Rich	73 census tracts, comprising 34% of tracts citywide
High-Poverty	9 census tracts, comprising 4% of tracts citywide
Highest Rates of Violent Crime	11 census tracts, comprising 5% of tracts citywide

Resource-Rich Areas. Resource-rich neighborhoods have characteristics shown through research to be associated with upward mobility, educational attainment, physical and mental health, and other positive outcomes, particularly for children.³ Seventy-three census tracts meet this definition in San José, comprising 34 percent of tracts citywide.

² The vast majority of research on neighborhood effects has been conducted using census tract-level data as a proxy for neighborhoods. As a result, opportunity mapping efforts almost always use tract-level data, except in rare cases such as in rural areas, where block group-level data may more accurately capture neighborhood-level dynamics due to the size of tracts in these areas. For this reason, neighborhood criteria presented here are for the most part tract-level measurements other than cases where other measurements are more appropriate, such as in measuring proximity to transit.

³ Chetty, Raj, John N. Friedman, Nathaniel Hendren, Maggie R. Jones, Sonya R. Porter. (2020). “The Opportunity Atlas: Mapping the Childhood Roots of Social Mobility.” Opportunity Insights. Website: https://opportunityinsights.org/wp-content/uploads/2018/10/atlas_paper.pdf.

Tracts are defined as resource-rich if they are categorized as High Resource or Highest Resource in the TCAC/HCD Opportunity Map, meaning they rank in the top 40 percent of non-rural tracts in the nine-county San Francisco Bay Area region according to an index of evidence-based indicators shown to be associated with critical economic, educational, and health outcomes for residents.⁴ This definition aligns with the one state agencies use to inform incentives to develop affordable housing in resource-rich areas. Using the State's definition of resource-rich neighborhoods in the Siting Policy acknowledges the reality that affordable housing developers must account for incentives in state programs in order to be competitive for funding necessary to create this housing in San José.

High-Poverty Areas. High-poverty areas are neighborhoods with poverty rates above 20 percent, which is the threshold at which point research has demonstrated negative effects on critical outcomes for people of all ages begin to appear.⁵ Accordingly, tracts are defined as high-poverty if the share of the population living below the federal poverty line is above 20 percent.⁶ Nine census tracts meet this definition, comprising four percent of tracts citywide.

Highest Rates of Violent Crime Areas. Highest rates of violent crime areas are neighborhoods where exposure to violent crime is especially high relative to the rest of the San José. Research has shown that proximity to violent crime negatively affects a range of critical outcomes, particularly for children.⁷ Tracts are defined as having highest rates of violent crime if they rank above the 95th percentile in violent crime rate per 1,000 people in San José from 2018-2020⁸ for the four violent crime categories tracked by the San José Police Department— rape, homicide, robbery, and aggravated assault—which align with the Federal Bureau of Investigation's Uniform Crime Reporting (UCR) program and most studies examining the association between violent crime and resident outcomes: rape, homicide, robbery, and aggravated assault.⁹ Eleven census tracts meet this definition, comprising five percent of tracts citywide.

⁴ The TCAC/HCD Opportunity Map and methodology are available at www.treasurer.ca.gov/ctcac/opportunity.asp.

⁵ Galster, George, Roberto G. Quercia, Alvaro Cortes, Ron Malega. (2003). "The Fortunes of Poor Neighborhoods." *Urban Affairs Review*, Volume: 39 issue: 2, page(s): 205-227.

⁶ The American Community Survey's tract-level poverty rate estimates are based on those living in occupied housing units, including those living in shelters, missions, and group homes. Some group quarters categories aren't included in poverty rate estimates, including correctional facilities, nursing homes, mental hospitals, dorms, and military housing. Those experiencing street homelessness are also not accounted for in these estimates.

⁷ See, for example: Sharkey, Patrick, Amy Ellen Schwartz, Ingrid Gould Ellen, and Johanna Lacoe. (2014). "High stakes in the classroom, high stakes on the street: The effects of community violence on students' standardized test performance." *Sociological Science*. 1: 199-220; and Sharkey, Patrick and Gerard Torrats-Espinosa. (2017). "The Effect of Violent Crime on Economic Mobility." *Journal of Urban Economics* 102: 22-33.

⁸ The threshold for highest rates of violent crime was selected based on an analysis of the distribution of tract-level violent crime rates in San José from 2018 to 2020. During this period, the difference in violent crime rates between tracts five percentage points apart in the citywide distribution (e.g., 50th percentile violent crime rate tracts compared to 45th percentile tracts) was modest and represented incremental change, up to the 90th percentile. However, the violent crime rate for 95th percentile tracts was substantially higher than 90th percentile tracts, suggesting that tracts in the top five percent in the citywide distribution experienced meaningfully higher rates of violent crime than the rest of the city, including even tracts in the 90th percentile.

⁹ Data provided by the San José Police Department Crime Analysis Unit on January 21, 2021. Analysis shows a substantial difference in violent crime rates between these eleven census tracts and the remainder of the city's

Criteria for Prioritization Within Neighborhood Categories. Proposed criteria for prioritization within neighborhood categories are presented below. These criteria are relevant to Siting Policy goals but were determined to be more appropriate as priorities for siting affordable housing across all neighborhoods than as factors determining categorization of neighborhoods in the policy (i.e., resource-rich, high-poverty, and highest rates of violent crime). These criteria were informed by a review of the literature, input from the Housing Department, and feedback provided in listening sessions with residents, affordable housing developers, and advocates.

Transit-Accessible Areas. Transit-accessible areas are neighborhoods within walking distance of high-frequency transit, upon which low-income people are more likely to rely than those with higher incomes, and access to which has been linked to improved health.¹⁰ Areas are considered transit-accessible if they are located within ½-mile of an existing major transit stop (rail or ferry) or high-quality transit stop (bus stop with 15-minute headways during peak hours).¹¹ Transit-accessible areas comprise 41 percent of the city's land area, intersecting with 167 census tracts comprising 77 percent of tracts citywide.

Displacement and Exclusion Risk Areas. Displacement and exclusion risk areas are neighborhoods where low-income households are experiencing displacement, are at high risk of displacement, or where they already represent a small share of the population. Tracts are defined as displacement and exclusion risk areas if they are categorized in the UC Berkeley Urban Displacement Project map as any tract other than "Low-Income/Susceptible to Displacement," which are defined as low-income areas where displacement and gentrification have not been documented, or if tracts are categorized as having "High Student Population" or "Unavailable or Unreliable Data."¹² All other tracts in the city are defined as areas experiencing ongoing displacement of low-income households, at risk of or experiencing gentrification, stable moderate/mixed income, or areas identified as exclusionary or at risk of becoming exclusionary to lower income households; these categories represent areas where low-income residents are at highest risk of displacement or

neighborhoods. Crime incidents in this data source include only those reported to the Police Department; as such, it may not fully capture violent crime rates in communities less likely to report these incidents. The consultant team understands City may wish to explore supplementing this methodology for identifying highest rates of violent crime areas with additional data, such as those collected by the Mayor's Gang Prevention Task Force.

¹⁰ See, for example: Center for Neighborhood Technology. (2015). "Income, Location Efficiency, and VMT: Affordable Housing as a Climate Strategy." <http://bit.ly/2LHUBg4>; Zhou, X and Zolnik, E. (2013). "Transit-Oriented Development and Household Transportation Costs." Transportation Research Record: Journal of the Transportation Research Board 2357: 86–94. <https://journals.sagepub.com/doi/10.3141/2357-10>; Saelens, Brian, Sallis, James, and Frank, Lawrence. (2016). "Environmental Correlates of Walking and Cycling: Findings from the Transportation, Urban Design, and Planning Literatures." Annals of Behavioral Medicine 25(2), 80–91. https://doi.org/10.1207/S15324796ABM2502_03.

¹¹ Data provided by the Santa Clara Valley Transportation Authority on January 5, 2021. This definition is consistent with state guidance on evaluating vehicle miles traveled impacts of developments near transit in alignment with SB 743. State of California Governor's Office of Planning and Research. (2018). "Technical Advisory on Evaluating Transportation Impacts on CEQA." Website: https://opr.ca.gov/docs/20190122-743_Technical_Advisory.pdf.

¹² Zuk, Miriam, et al. 2020. "The Urban Displacement Replication Project: A Modified Gentrification and Displacement Methodology." October. Website: https://www.urbandisplacement.org/sites/default/files/images/udp_replication_project_methodology_10.16.2020-converted.pdf.

exclusion. One hundred eighty-six (186) census tracts in the city, comprising 86 percent of tracts citywide, meet the displacement or exclusion risk criteria.

Growth Areas. Growth Areas are neighborhoods identified in the Envision San José 2040 General Plan as appropriate for concentrated jobs and housing growth. As directed by City staff, specific Growth Areas to be prioritized should include Urban Villages, the Downtown Growth Area, Specific Plan Areas, and the North San José Transit Employment Residential Overlay.

Criteria Considered but Not Included. Proximity to neighborhood amenities, particularly those of importance to the wellbeing of seniors and supportive housing populations—such medical clinics, community centers, libraries, and grocery stores—is already incentivized in state affordable housing funding programs upon which developments in San José rely. These incentives are strong enough that affordable housing developers in San José are essentially required to select sites located near relevant amenities for the given population. For this reason, amenities incentivized in state programs—apart from proximity to transit—are not proposed to be included as neighborhood criteria in the City’s Siting Policy. As described above, transit is separately proposed as a priority across neighborhood categories due to the literature supporting its importance to the wellbeing of many low-income households.

Accounting for Different Populations. Affordable housing serves a range of populations, including families with children, special needs populations such as those exiting homelessness, and seniors, among others. However, the proposed geographic criteria to be included in the Siting Policy do not vary by population served for several evidence-based and practical reasons.

From an evidence-based perspective, the proposed criteria generally apply to all populations served in affordable housing. For example, exposure to violent crime and concentrated poverty has been shown to negatively affect outcomes for both children and adults.¹³ Although the methodology used to identify resource-rich areas includes measures of school quality, which relate most directly to households with children, two thirds of the total score for each census tract determining whether it is categorized as resource-rich relates to neighborhood characteristics associated with outcomes for both children and adults, such as exposure to pollution and measures of economic resources and opportunity. Resource-rich neighborhoods are thus defined holistically, across several key dimensions of resources and opportunity, and for multiple populations. In addition, as noted above, other state incentives and requirements help ensure that developments are sited near resources and services of particular importance to the populations served.

From a practical perspective, applying a single set of neighborhood criteria to multiple populations aligns with state funding program incentives, which encourage both family-serving housing and special needs

¹³ For example, evaluators of the federal Moving to Opportunity experiment, which helped low-income families move to lower-poverty neighborhoods, hypothesized that increased feelings of safety and lower levels of stress among adults could have been “the key mechanisms” for substantial reductions in obesity and diabetes among adults who moved to lower-poverty areas, when compared to adults in families not offered this opportunity. Source: Sanbonmatsu, et al. (2011). “Moving to Opportunity for Fair Housing Demonstration Program: Final Impacts Evaluation.” Prepared for the U.S. Department of Housing and Urban Development, Office of Policy Development & Research. National Bureau of Economic Research.

housing in resource-rich neighborhoods. Aligning the Siting Policy with geographic incentives in state funding programs would help ensure competitiveness for resources, from states programs, upon which developers rely to create affordable housing in San José. In addition, using a single set of geographic criteria for all populations would help reduce complexity in administration of the Siting Policy, aligning with the City's goal for the policy to be "easily administered by City staff and understood by developers."

The City could consider modifications to the geographic criteria used in the Siting Policy in the future if, for example, new evidence emerges about the association of certain neighborhood characteristics with outcomes for different populations, or if state funding programs change to such a degree that they no longer align with the Siting Policy. In addition, as described in recommendation 4a later in this report, the City should ensure representation of each affordable housing development type (family, senior, special needs, other) in each neighborhood category.

PROPOSAL FOR NEIGHBORHOOD CATEGORIES

A proposal for categorizing San José's neighborhoods to guide the Siting Policy is presented below. Categories are presented in rank order based on their characteristics' association with positive outcomes for residents—meaning Category 1 neighborhoods have characteristics most associated with positive outcomes, followed by Categories 2 and 3, respectively.

Category 1. Category 1 areas are resource-rich areas. Transit-accessible areas and Growth Areas should be prioritized within this geography (all tracts in this category are displacement and exclusion risk areas). Thirty-four (34) percent of census tracts in San José are Category 1 areas.

Category 2. Category 2 areas do not meet the criteria for resource-rich areas, but they are neither high-poverty nor highest rates of violent crime. Displacement and exclusion risk areas, transit-accessible areas, and Growth Areas should be prioritized within this geography. Fifty-nine (59) percent of census tracts in San José are Category 2 areas.¹⁴

Category 3. Category 3 areas are high-poverty, highest rates of violent crime, or both. Displacement and exclusion risk areas and Growth Areas should be prioritized within this geography (all tracts in this category are transit-accessible). Seven (7) percent of census tracts in San José are Category 3 areas.

A map of proposed neighborhood categories is shown in Figure 1 below.

¹⁴ Substantial planned investment in transit infrastructure, housing development, and office and commercial development in the Diridon Station Area Plan in the coming years could increase resources and opportunity for residents. The plan area currently falls into both Category 2 and Category 3 census tracts. Although the map informing the Siting Policy should be updated over time to account for underlying changes in neighborhood conditions (see Recommendation 4a), the City may wish to immediately classify the entire Diridon Station Area Plan boundary as Category 2 in anticipation of these future changes and to align the Siting Policy with current investment priorities for the area. A map of the Siting Policy categories with the Diridon Station Area Plan shown entirely as Category 2 is available in Appendix A.

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DISTRIBUTION OF EXISTING AND PIPELINE AFFORDABLE HOUSING

The distribution of affordable homes in San José's existing and pipeline affordable developments¹⁵ across neighborhood categories is shown in Table 2 below. Only nine (9) percent of affordable homes are located in Category 1 neighborhoods, which comprise 34 percent of census tracts in San José.¹⁶ Although most affordable homes in Category 1 neighborhoods are in developments categorized by the Housing Department as serving families, homes in developments categorized as serving seniors have proportionally higher representation in these neighborhoods (17 percent) relative to the share of homes in senior developments across the entire City, when compared to the respective shares of affordable homes in family developments (8 percent) and special needs developments (1 percent) in these neighborhoods.¹⁷

The share of affordable homes in Category 2 neighborhoods (68 percent) is somewhat higher than the share of citywide tracts in this category (59 percent), though this varies by population served. The share of affordable homes in family developments located in Category 2 neighborhoods (71 percent) is higher than the shares for affordable homes in special needs developments (66 percent) and affordable homes in senior developments (61 percent). Although Category 3 neighborhoods comprise only seven (7) percent of tracts, they contain 23 percent of the City's affordable housing, including 33 percent of homes in special needs developments. Twenty-one (21) percent of affordable homes in family developments and 22 percent of affordable homes in senior developments are located in Category 3 neighborhoods.

TABLE 2: DISTRIBUTION OF AFFORDABLE HOMES IN EXISTING AND PIPELINE* AFFORDABLE DEVELOPMENTS ACROSS NEIGHBORHOOD CATEGORIES

Neighborhood Category	Share of Citywide Census Tracts	Total Affordable Homes		Affordable Homes in Family Developments		Affordable Homes in Senior Developments		Affordable Homes in Special Needs Developments	
		Homes	%	Homes	%	Homes	%	Homes	%
Category 1	34%	1,847	9%	1,073	8%	650	17%	21	1%
Category 2	59%	13,864	68%	9,736	71%	2,325	61%	1,766	66%
Category 3	7%	4,569	23%	2,833	21%	839	22%	897	33%

Data Source: City of San José Housing Department and California Housing Partnership Preservation Database. Totals do not sum because 140 affordable homes for the "Other" housing type are not shown in this table.

** Pipeline developments include those with funding commitments from the City and/or awards of Low Income Housing Tax Credits.*

¹⁵ Includes affordable housing created with local, state, and federal subsidy, which comprises the universe of housing that would be subject to the City's siting policy. Pipeline affordable housing includes developments with funding commitments from the City and/or awards of Low Income Housing Tax Credits.

¹⁶ Census tracts by definition have similar population sizes. For this reason, the share of San José's population in each neighborhood category is almost exactly the same as the share of citywide tracts in each category. For additional data, see Table A in Appendix A.

¹⁷ This analysis of the distribution of affordable homes by population served relies on how the Housing Department categorizes developments as a whole: family, senior, special needs, and other. Due to data limitations, this analysis does not account for a mixture of populations within developments, nor does it distinguish the small number of homes which are rapid re-housing from permanent homes.

CONCENTRATION OF EXISTING AND PIPELINE AFFORDABLE HOUSING

The underlying data informing the Siting Policy neighborhood categories already account for potential concentrations of poverty and other place-based characteristics that affect resident outcomes, as previously described. In addition, studies assessing the effects of affordable housing on surrounding neighborhoods have generally found it has minimal and often positive effects on poverty rates, crime, and property values (see footnote 1). However, concentration of affordable housing in individual neighborhoods could be concerning from the perspective of providing a meaningful range of location choices across the city's neighborhoods for affordable housing residents.

Concentration patterns. San José contains approximately 309,000 housing units, approximately 20,000 (six percent) of which are existing or pipeline deed-restricted and affordable to low-income households (for more detail, see Table H in Appendix A). Figure 2 below shows the share of each census block group in San José's housing stock that is deed-restricted affordable housing, both existing and pipeline.¹⁸ Assessment at the block group level allows a finer-grained approach to identifying possible instances of concentration than tract-level assessment, even if broad patterns of concentration are similar at the census tract level (see footnote 18).¹⁹

In a city where approximately 46 percent of existing households would qualify for affordable housing²⁰ and its draft Regional Housing Need Allocation would require planning for 23,775 new affordable homes for very low- and low-income households during the next planning cycle,²¹ 78 percent of block groups do not contain any existing or pipeline deed-restricted affordable homes. Affordable homes represent between one percent and 49 percent of the total housing stock in 19 percent of block groups (114) in San José. Only ten block groups, comprising two percent of block groups in the city, have 50 percent or more of its housing stock comprised of affordable homes.²²

¹⁸ Concentration of affordable housing is calculated by comparing the County Assessor's dataset of existing homes with the City's data on existing and pipeline affordable homes. The Assessor's data contains several developments with an ambiguous number of homes, such as "51-100 units." In all such cases, we use the minimum number (e.g., 51) in that development as the number of homes. Excluded from this analysis are all block groups with no housing – affordable or market-rate – according to the Assessor's and City's data

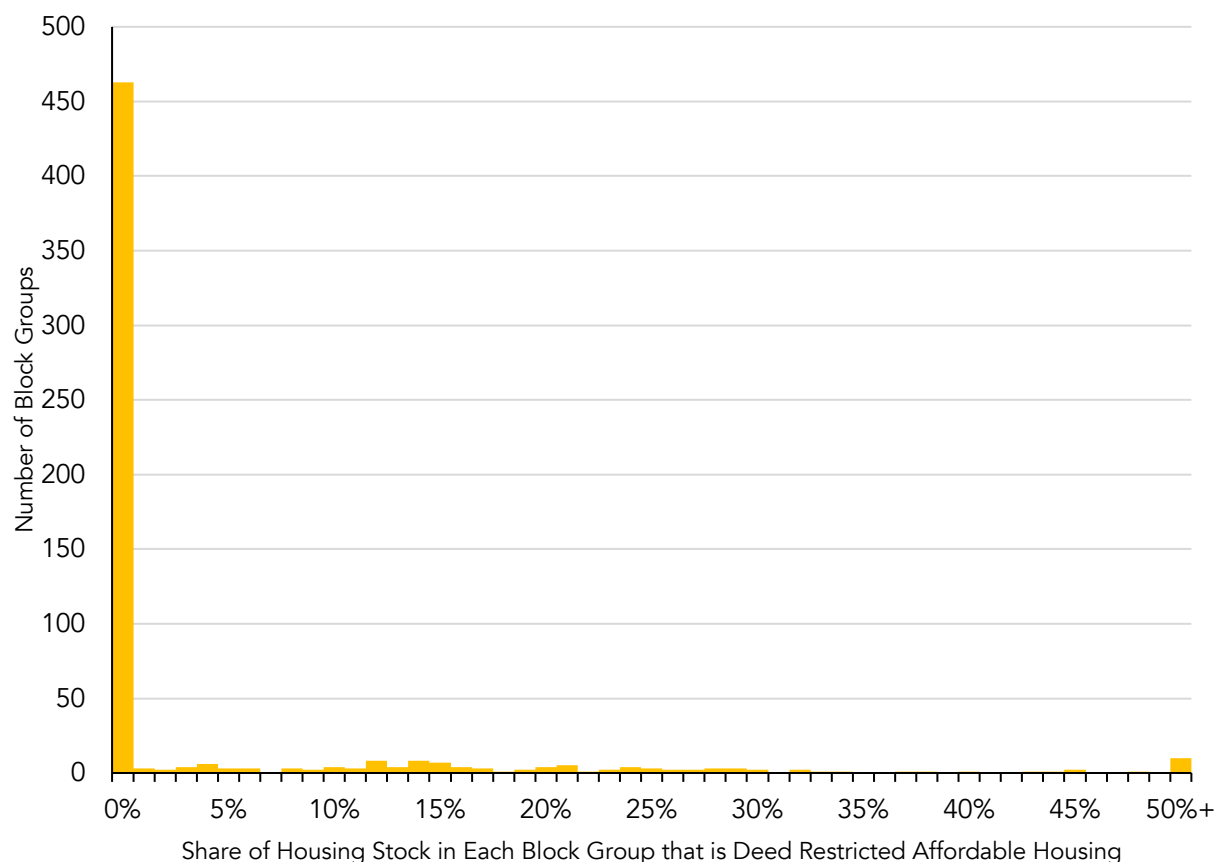
¹⁹ On average, each census tract in San José (including those only partially located within city limits) contains 2.8 block groups. The median population of tracts in San José is approximately 4,897 and the median population of block groups in San José is 1,658. In addition, the median number of homes in each census tract in San José is 1,295 and the median number of homes in each block group is 437.

²⁰ Income-qualifying households are defined as those annual income below \$100,000. \$100,000 is a proxy for Low-Income (LI) households in San José with incomes at or below 80 percent of area median income, whose income limits are \$100,950 and \$112,150 for three- and four-person households, respectively. Source: City of San José Housing Department Income and Rent Limit Tables, Effective Date: June 1, 2020.

²¹ Draft Regional Housing Needs Assessment for the City of San José. Source: Association of Bay Area Governments (2021) "Regional Housing Needs Allocation Draft Methodology: San Francisco Bay Area, 2023-2031." February. Website: https://abag.ca.gov/sites/default/files/documents/2021-02/ABAG_Draft_RHNA_Methodology_Report_2023-2031.pdf.

²² Broadly, these trends hold true for a census tract-level analysis of affordable housing concentration: the majority of tracts have less than 1% of its housing stock comprising deed restricted affordable housing and only 1% of tracts (2) have 50% or more of its housing stock comprised of affordable housing.

FIGURE 2: SHARE OF EACH CENSUS BLOCK GROUP'S TOTAL HOMES THAT ARE DEED-RESTRICTED AFFORDABLE HOMES



Source: City of San José Housing 2020; Office of the Assessor, County of Santa Clara, September 2020.

Defining areas of high concentration. The literature does not offer precedent for defining areas with high concentration of affordable housing. Based on the results of the concentration analysis above, and in an effort to use a threshold that is legible to Housing Department staff and to the public, areas of high concentration areas are defined in this analysis as block groups where 50 percent or more of the housing stock is deed-restricted affordable housing. In addition, to guard against block groups exceeding the 50 percent threshold partly due to low housing density (e.g., if market rate homes are predominantly detached single-family), high concentration is only considered to occur if at least 200 affordable homes are located in the block group. The median number of homes in block groups in San José is 437.

Location of areas of high concentration. Nine block groups, comprising two percent of all block groups in San José, currently meet the above definition of high concentration. Six of these block groups are located in Category 2 neighborhoods and three are located in Category 3 neighborhoods. Four of the high-concentration block groups (all in Category 2) are partially overlapping with Growth Areas, and one block group (in Category 3) is located entirely within a Growth Area. Three block groups, including two of the block groups partially within Growth Areas, are located within Displacement and Exclusion Risk areas (all in Category 2).

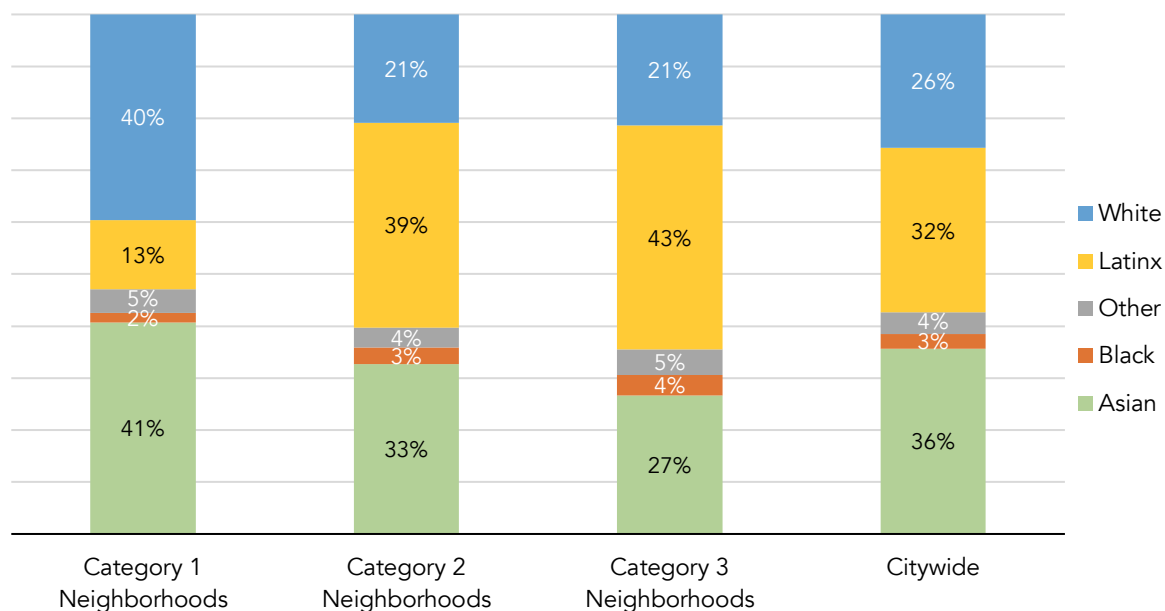
The five block groups that meet these criteria for high concentration and are not located within Displacement and Exclusion Risk areas or entirely within a Growth Area are places where it could be reasonable to be concerned about over-concentration from the perspective of providing a meaningful range of location choices to affordable housing residents. A map of these areas is included in Appendix A.

High concentration by housing type. The overwhelming majority of affordable homes in the nine block groups that meet the threshold for high concentration (including those located in Displacement and Exclusion Risk areas) are in developments categorized by the Housing Department as Family, Senior, or Other. Only three of these block groups contain any Special Needs housing, including both developments categorized as Special Needs and permanent supportive homes in developments not categorized as Special Needs. Of these three block groups, Special Needs/permanent supportive homes account for between 14 percent and 27 percent of the block's group total housing and between 18 percent and 38 percent of the block group's affordable homes. Overall, Special Needs housing does not disproportionately contribute to high concentration of affordable housing at the block group level in San José, as defined in this analysis.

NEIGHBORHOOD DEMOGRAPHICS

The racial and ethnic composition of San José as a whole, as well as for each proposed neighborhood category, is shown in Figure 3 below. White and Asian residents are overrepresented in Category 1 neighborhoods and underrepresented in Category 2 and 3 neighborhoods relative to their respective shares of the city's population, while the opposite is true for the city's Latinx and Black residents.

FIGURE 3: RACIAL AND ETHNIC DEMOGRAPHICS IN SAN JOSÉ (ALL INCOMES)

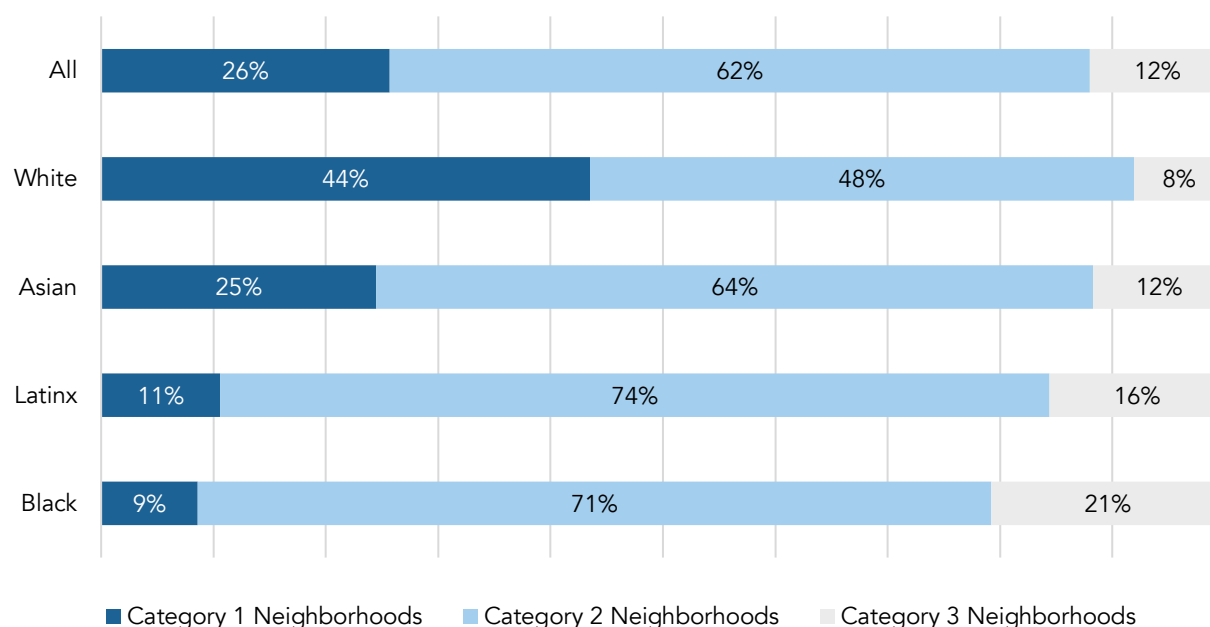


Data Source: American Community Survey 5-year Estimates, 2015-2019. White residents are non-Hispanic and Latinx residents are those of any race who identify as Latino or Hispanic ethnicity. Asian residents do not include Pacific Islander residents, who are included in the Other category (not displayed).

The residential location of households with annual incomes below \$75,000—a proxy for very low-income households with incomes below 50 percent of median income—is shown in Figure 4 below. Although the overall share of these households living in Category 1 neighborhoods (26 percent) is only somewhat lower than these neighborhoods’ share of citywide tracts (34 percent), trends diverge by race and income. Specifically, white low-income households live in Category 1 neighborhoods at substantially higher rates (44 percent) than low-income Latinx (11 percent) and Black (9 percent) households. Meanwhile, low-income Latinx and Black households are more likely to live in Category 3 neighborhoods (16 percent and 21 percent, respectively) than low-income white (8 percent) and Asian (12 percent) households.

These disparities could exist for several reasons, including discrimination in the housing market, information gaps about available affordable homes and neighborhood amenities in Category 1 neighborhoods among the City’s Latinx and Black low-income residents, fewer affordable housing opportunities in Category 1 neighborhoods, and a desire among some to remain in areas where they have stronger community networks.

FIGURE 4: RESIDENTIAL LOCATION OF HOUSEHOLDS IN SAN JOSÉ WITH ANNUAL INCOMES BELOW \$75,000*



Data Source: American Community Survey 5-year Estimates, 2014-2018. White households are non-Hispanic and Latinx households are those of any race who identify as Latino or Hispanic ethnicity. Asian households do not include Pacific Islander households. Due to data limitations, race or ethnicity of the head of household is assumed to apply to the entire household.

* \$75,000 is a proxy for Very Low-Income (VLI) households in San José, whose income limits are \$71,100 and \$78,950 for three- and four-person households, respectively. Source: City of San José Housing Department Income and Rent Limit Tables, Effective Date: June 1, 2020.

AVAILABILITY OF LAND FOR AFFORDABLE HOUSING DEVELOPMENT

Affordable housing siting patterns are shaped by regulations on building development defined in the general plan and zoning code, particularly the availability of residential land with allowable densities high enough to support feasibility of affordable housing and other multifamily housing.

Table 3 below shows the distribution of residential parcels across San José by neighborhood category, including those which allow densities high enough for affordable housing.²³ Sixty-one percent of the city's land allows for residential development, but only nine percent of that residential land is zoned at a density capacity that would allow affordable housing development. In addition, land that would allow affordable housing is not distributed evenly across the city, as only three percent of Category 1 residential land is zoned to allow development of affordable housing, compared to 43 percent in Category 3 neighborhoods.

The distribution of places where affordable housing is allowed is also represented in the number of land parcels, regardless of area. Although Category 1 neighborhoods contain 39 percent of the city's residential parcels, it only contains 14 percent of the city's parcels that would allow affordable housing. Category 2 neighborhoods contain 53 percent of the city's residential parcels and 64 percent of the city's parcels that are zoned to allow affordable housing; and Category 3 neighborhoods contain only eight (8) percent of city's residential parcels, but 22 percent of the city's parcels zoned to allow affordable housing.

As shown in Table 3, the citywide share of residential parcels that allow affordable housing in each neighborhood category are similar to the share of existing affordable housing in each category (see Table 2), suggesting that allowable density plays an important role in shaping siting patterns in San José.

²³ Minimum density for affordable housing development is defined in this analysis of allowing at least 30 homes per acre, which aligns with the State-mandated minimum density required for identifying low-income housing sites in the City's Housing Element. This analysis is intended to provide a broad sense of the distribution of multifamily housing sites across the city and does not assess whether parcels are available for affordable housing development or factors that could impact their likelihood to be developed (e.g., if they are vacant or for sale).

TABLE 3: DISTRIBUTION OF RESIDENTIAL LAND THAT ALLOWS AFFORDABLE HOUSING ACROSS NEIGHBORHOOD CATEGORIES

Land Area	Category 1		Category 2		Category 3		Citywide
	Share of Category	Share of City	Share of Category	Share of City	Share of Category	Share of City	
% of total land that is residential	81%	58%	45%	39%	41%	3%	61%
% of residential land area that allows AH	3%	19%	16%	67%	43%	14%	9%

Parcels	Category 1		Category 2		Category 3		Citywide
	Within Category	Share of City	Within Category	Share of City	Within Category	Share of City	
# of residential parcels	2,839	39%	3,905	53%	610	8%	7,354
# of residential parcels that allow AH	206	14%	909	64%	311	22%	1,426
% of residential parcels that allow AH	7%	14%	23%	64%	51%	22%	19%

Data source: City of San José Planning Department. Allowing affordable housing in this analysis is defined as allowing residential densities of at least 30 homes per acre, consistent with State requirements for identifying low-income housing sites in the city's Housing Element.

Data on additional demographic and housing indicators, both citywide and by neighborhood category, is provided in Appendix A. Highlights from this data include the following:

- Median household incomes and home values are substantially higher in Category 1 neighborhoods than in Category 2 and 3 neighborhoods;
- Category 3 neighborhoods have much higher shares of renters and rates of overcrowding when compared to the rest of the city; and
- Category 1 neighborhoods score substantially higher than Category 2 and 3 neighborhoods according to indices of school quality, environmental pollution, and economic opportunity.

RECOMMENDATIONS FOR THE AFFORDABLE HOUSING SITING POLICY

Siting Policy recommendations are presented below. These recommendations draw from the previously described data-driven analysis, stakeholder engagement, and input from the Housing Department. They also reflect the perspective that the City should support development of affordable housing in each of San José's neighborhoods, given the pressing need for quality affordable homes, the small share of the overall housing stock that affordable housing represents in each district (even where it is concentrated relative to other areas of the city),²⁴ and the benefits that this housing provides to its residents. Furthermore, low-income San José residents who participated in the listening sessions expressed the importance of providing affordable housing in both high-income and low-income areas in the city in order to simultaneously increase access to resource-rich neighborhoods, prevent displacement as formerly low-income neighborhoods undergo change, and provide quality affordable housing in areas where many low-income people already live.

However, given that such a small share of San José's affordable housing is located in its resource-rich neighborhoods where low-income families—particularly those who are Latinx and Black—are underrepresented, advancing the City's Siting Policy objectives will require a rebalancing of where affordable housing is developed in the city, ultimately leading to a greater balance in availability of quality affordable homes across the city's neighborhoods.

To achieve the City's Siting Policy objectives of affirmatively furthering fair housing, increasing access to opportunity, and mitigating displacement, the recommendations propose to do the following: establish goals for increasing the share of the city's future affordable housing in resource-rich neighborhoods relative to historical patterns, setting aside funding for this purpose, and making it easier to develop in these areas through zoning changes and developer incentives; tracking progress and adjusting course as needed during a transition period in order to increase success long-term; supporting affordable housing development in high-poverty and highest rates of violent crime neighborhoods in conjunction with other investments that bring resources and opportunity to these areas; and coordinating the Siting Policy with other policies within and outside of the City of San José. More detail on each recommendation is provided below.

HIGH-LEVEL GOALS

Recommendation 1: The City should adopt the following high-level goals for the Siting Policy, which identifies the share of future affordable homes created in San José that should be located in each neighborhood category to achieve the City's objective for the policy to promote housing choice and development of affordable housing throughout San José.

²⁴ As previously noted, studies have generally found that affordable housing financed with Low Income Housing Tax Credits has minimal and often positive effects on surrounding property values, poverty rates, and crime rates.

Phase One: During a three-year transition period, locate 30 percent of affordable homes in Category 1 neighborhoods, 50 percent in Category 2 neighborhoods, and 20 percent in Category 3 neighborhoods. During this period, prioritize developments with signed purchase agreements dated before September 24, 2019, when the City announced that affordable housing would be directed to Growth Areas until the City Council adopts the new Siting Policy.

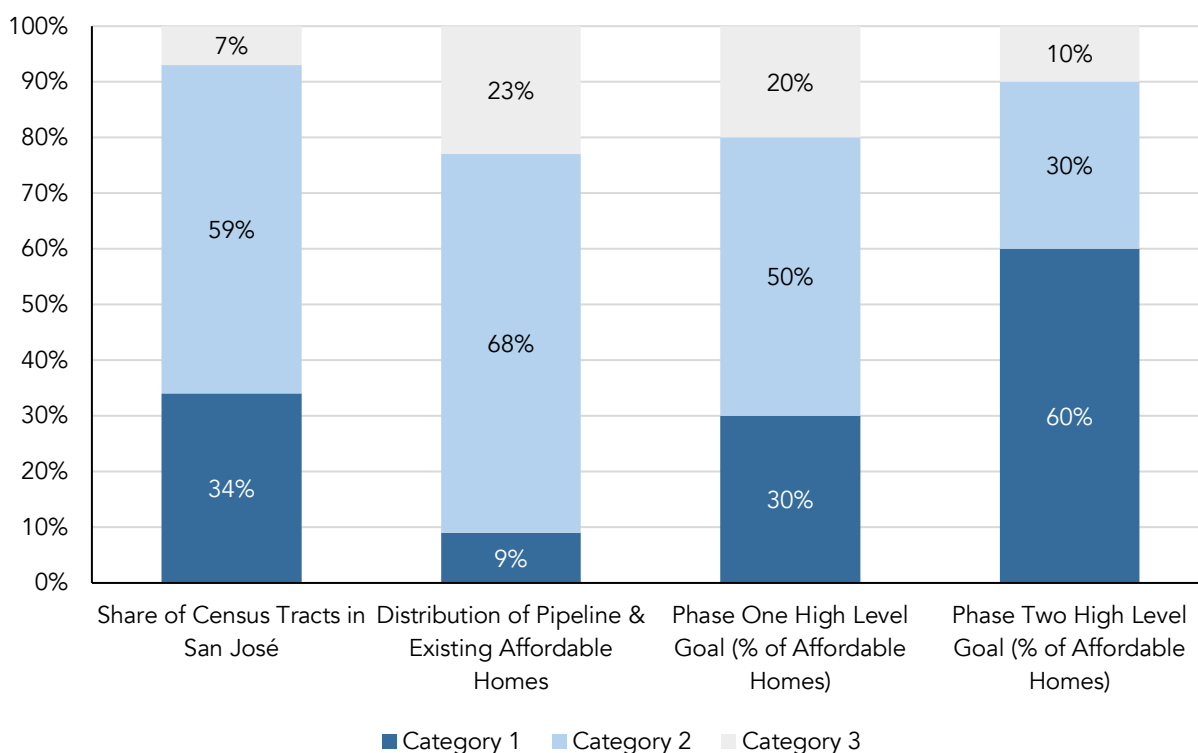
Phase Two: After Phase One concludes, locate 60 percent of affordable homes in Category 1 neighborhoods, 30 percent in Category 2 neighborhoods, and 10 percent in Category 3 neighborhoods.

Affordable homes should be counted in tracking progress toward high-level goals for each neighborhood category if they are located in developments that have met any of the following milestones: a City funding commitment; a bond issuance; a Low Income Housing Tax Credit Award; and/or and a County funding commitment.

Background: The transition period high-level goals would increase the share of affordable homes in Category 1 neighborhoods when compared to historical patterns while also acknowledging that prospective affordable housing developments that have not yet received City funding awards or other critical state funding are currently concentrated in Category 2 and 3 neighborhoods, and that development pipelines would generally need time to adjust to the new Siting Policy. In many cases, developers have already invested substantial resources acquiring land and moving through the entitlement process in these areas. As described further below, the Phase One period would also allow the City to track progress, adjust course as needed, and implement supporting policy changes (such as in land use and zoning) in order to increase the likelihood of achieving the Siting Policy's high-level goals during implementation of the second phase.

The Phase Two high-level goals for each neighborhood category would represent a substantial shift from historical siting patterns in San José and reflect the desire among the Housing Department and many stakeholders who participated in listening sessions to dramatically increase access to resource-rich areas. Accordingly, the Phase Two high-level goals increase the share of affordable housing in Category 1 neighborhoods and reduces the share in Category 2 and 3 neighborhoods while continuing to support housing development in these areas. Figure 5 shows the Phase One and Phase Two high-level goals alongside the distribution of existing and pipeline affordable homes in San José and the share of citywide census tracts in each neighborhood category.

FIGURE 5: SITING POLICY HIGH-LEVEL GOALS



Note: As shown in Table A of Appendix A, the share of citywide census tracts in each neighborhood category corresponds almost exactly to the share of citywide population.

The following considerations contributed to formulation of Phase Two high-level goals:

- Despite the shift they would represent, the Phase Two high-level goals would need to be implemented over decades in order for affordable housing to be proportionally distributed across the city. If the Siting Policy's high-level goals were adopted and current funding levels were maintained,²⁵ it would still take 71 years for the share of affordable housing in Category 1 neighborhoods to be the same as the share of the city's tracts in these areas (34 percent). Even if 100 percent of future affordable housing were located in Category 1 neighborhoods moving forward, it would take 28 years for the share of affordable housing in Category 1 neighborhoods to be same as the share of the city's tracts these areas. The Housing Department also considered less aggressive high-level goals, including locating 50 percent of future affordable housing in Category 1 neighborhoods and 34 percent in these areas (to align with the share of citywide tracts). After reviewing modeling results, the Department expressed the most support for locating 60 percent of future affordable housing in Category 1 neighborhoods because it would take even longer for the share of affordable housing to match the proportion of tracts in each neighborhood category under these less aggressive scenarios.

²⁵ This modeling assumes \$35 million in City funding is available each year, and per-unit loan limits of \$125,000. The number of affordable homes created under these assumptions is conservative because it does not account for affordable housing created without City subsidy.

- Although the Phase Two high-level goals for Category 2 and 3 neighborhoods are smaller than historical shares for these areas, they would still comprise 40 percent of future affordable housing in San José—the relative reduction in share would be similar across Category 3 neighborhoods (10 percent goal compared to 23 percent historically) and Category 2 neighborhoods (30 percent compared to 68 historically). Listening sessions with residents and Housing Department staff have cited several reasons for the City to continue to fund and support development of affordable housing in these areas, including providing a range of location choices across San José for low-income households, preventing displacement as formerly low-income neighborhoods undergo change, and providing quality affordable housing in high-poverty areas where many low-income people live.

IMPLEMENTATION APPROACH

Recommendation 2: The City should set aside funding for each neighborhood category in proportion to the high-level goals and provide point-score incentives to locate affordable housing within each category's priority areas in the City's funding competition (as described in the "Proposal for Neighborhood Categories" section).²⁶ During Phase Two, these set-asides could occur at any point within five-year implementation periods, at the City's discretion (the implementation period during Phase One would be three years). Implementation periods during Phase Two would renew every five years.

Background: Funding set-asides would provide a strong incentive for developers to attempt to build affordable housing in Category 1 neighborhoods, where they may face greater barriers, such as availability of land, higher costs, and stronger local opposition than in other areas of San José. An alternate approach could be to provide point-score incentives to locate in Category 1 neighborhoods in the City's funding competition. However, this kind of incentive does less to guarantee the intended outcome when compared to set asides, as developers may continue to predominantly locate in Category 2 and 3 neighborhoods because they face fewer barriers in these areas.

Allowing the City flexibility to set aside funding amounts proportional to high-level goals at any point within five-year implementation periods is an acknowledgment that annual set asides in proportion to the high-level goals may not be possible given annual funding levels and per-development subsidy requirements. For example, if the Phase Two goal is to locate ten percent of affordable housing in Category 3 neighborhoods and \$35 million in funding is available annually, totaling \$175 million over the five-year implementation period, \$17.5 million (ten percent of \$175 million) should be set aside for Category 3 developments over the course of this period. However, this could happen over one or two funding rounds, rather than dividing this amount over five funding rounds, which may result in awards too small to support feasibility of individual developments. Re-starting implementation periods every five years would ensure availability of funding for affordable housing within each neighborhood category on a periodic basis.

²⁶ As described in the "Proposal for Neighborhood Categories" section, priority areas for each neighborhood category include transit-accessible areas (Category 1 and 2), displacement and exclusion risk areas (Category 2 and 3), Growth Areas (Categories 1, 2 and 3).

Providing point-score incentives to locate affordable housing within each category's priority areas in the City's funding competition would increase the likelihood that developments are located in these areas while advancing the Siting Policy's high-level goals.

Recommendation 3: To ensure affordable housing residents have a meaningful range of location choices across a broad set of neighborhoods, the City should consider limiting funding for future affordable housing developments in block groups where 50 percent or more of existing homes are deed-restricted affordable (existing + pipeline) and the block group contains 200 or more affordable homes, unless:

- The block group is located within a Displacement and Exclusion Risk census tract, where low-income people could struggle to remain (or move in) without the benefit of new affordable housing; or

The block group overlaps with a Growth Area (GA), where new housing production could reduce affordable housing's share of the overall housing stock over time. In these cases, potential limits on new funding for affordable housing should not apply to the portion of the block group that overlap with a GA.

A map of the five block groups that currently meet these criteria is included in Appendix A.

This policy should only apply to block groups that already meet these criteria and should not limit the size of new affordable housing developments in block groups that do not, even if they would lead to the block group exceeding the threshold for high concentration once placed in service. As with the rest of the Siting Policy mapping and data analysis, the mapping of areas of block groups with high concentration of affordable housing should be updated over time.

Background: The Siting Policy should be designed to ensure a meaningful range of location choices for affordable housing residents. Limiting City funding of future affordable housing development to areas where this housing is not already concentrated could help ensure developments are more geographically dispersed both within and across Siting Policy neighborhood categories.

PROGRESS TRACKING AND COURSE CORRECTION

Recommendation 4a: The City should track key Siting Policy performance indicators on an annual basis and adjust course based on results. Performance indicators should include, but not be limited, to the following:

1. *High-level goals:* The City should track progress toward high-level Siting Policy goals for each neighborhood category;
2. *Affordable housing populations:* The City should track representation of each affordable housing development type (family, senior, special needs, other) in each neighborhood category, noting where affordable housing populations are over- or under-represented;
3. *Costs:* The City should track affordable housing development costs in Category 1 relative to costs in other parts of San José;

4. *Race and ethnicity:* The City should track tenancy data to ensure affordable housing across the city is serving residents who reflect San José's racial and ethnic demographics;
5. *Non-City funded developments:* The City should track location of developments that do not require funding from the City (e.g., County-funded developments), so that the City can adjust its funding priorities in accordance with high-level Siting Policy goals for each neighborhood category; and
6. *Map changes:* The City should update the Siting Policy map over time and track whether neighborhood-level changes are contributing to substantial changes to map.

Recommendation 4b: City should commission an evaluation of the Siting Policy's transition phase (Phase One) before Phase Two begins to assess progress and recommend changes in implementation in order to achieve its high-level goals during the second phase.

Background: The high-level Siting Policy goals for both Phase One and Phase Two represent a substantial shift in the geographic distribution of affordable housing in San José. Successful implementation of the Siting Policy may require adjusting approaches over time based on performance. Background on each proposed performance indicator is included below:

- *High-level goals:* The City's progress toward high-level goals during Phase One and Phase Two represent perhaps the key indicator of success in implementation of the Siting Policy. Since high-level goals are percentages of total affordable homes and it is not possible to know at the outset of each implementation period exactly how many affordable homes will meet milestones necessary to be 'counted' in tracking progress toward high-level goals, the City will need to generate an estimate (e.g., based on projected available funding) and adjust course over time if conditions change.
- *Affordable housing populations:* High-level Siting Policy goals apply to all affordable homes and not to individual populations or development types, in order to provide modest flexibility to the City in implementing the policy. However, the City should ultimately aim to achieve proportional representation for all affordable housing populations and development types across neighborhood categories to the degree possible. To this end, the City may wish to impose policy adjustments, such as point-score incentives to serve specific populations in specific neighborhood categories, if those populations are over- or under-represented in specific neighborhood categories.
- *Costs:* Development costs may be higher in Category 1 neighborhoods—perhaps due to higher land costs—and could prove to be an impediment to financially feasible development in these areas. If costs prove to be higher, the City could explore remedies such as ensuring per-unit loan limits are sufficiently sized to support financial feasibility.
- *Race and ethnicity:* Increasing the share of affordable housing in Category 1 neighborhoods would not automatically ensure these homes would be occupied by San José's low-income Latinx and Black households, who are concentrated in Category 2 and 3 neighborhoods. If these groups are underrepresented among Category 1 affordable housing residents, the City may consider remedies such as: 1) adjustments to its forthcoming online application portal to ensure residents

have access to timeline information about affordable housing opportunities in Category 1 neighborhoods; and 2) providing priority access to a share of affordable homes in Category 1 neighborhoods to residents of Category 3 neighborhoods.

- *Non-City funded developments:* Affordable housing that can be developed without the City acting as funder should be welcomed in San José considering the need for this housing far outstrips supply. However, in order to advance the Siting Policy objectives, the City should track the location of these developments and adjust its funding targets in response. For example, it may wish to establish lower targets for Category 1 neighborhoods if bond-only developments are concentrated in these areas. In addition, depending on results, the City may wish to explore modification to its policy for the issuance of multifamily housing revenue bonds in order to align with Siting Policy goals (see Recommendation 7b).
- *Map changes:* The City should update the Siting Policy map as more recent data becomes available, which may result in some tracts changing categories. The TCAC/HCD Opportunity Map upon which the Category 1 definition is based is updated on an annual basis, indicators underlying the high-poverty and highest rates of violent crime designations could be updated either annually or a less frequent basis, and other indicators such as transit proximity and displacement and exclusion risk could be updated when more recent data becomes available.

If a substantial number of tracts shift categories as the Siting Policy map is updated over time, the City may consider adjusting high-level goals to reflect these changes. For example, if poverty rates in Category 3 neighborhoods continue to drop and many fewer census tracts meet the definition of high-poverty, the City may consider lowering the high-level goal for Category 3 neighborhoods.

To avoid situations where a developer acquired a site and then the underlying tract changed categories as a result of a map update, jeopardizing access to funding and feasibility of the development, the City should take the same approach as the California Tax Credit Allocation Committee and allow developers flexibility to claim the tract category either at the time site control was obtained or at the time of application for funding.

INCREASING AFFORDABLE HOUSING IN CATEGORY 1 NEIGHBORHOODS

Recommendation 5: The City should explore a range of strategies to increase affordable housing production in Category 1 neighborhoods in alignment with the Siting Policy's high-level goals, including but not limited to the following:

Recommendation 5a: The City should complete an assessment of potential barriers to achieving the Siting Policy's high-level goals for Category 1 neighborhoods.

Background: Developers may face challenges creating affordable housing in Category 1 neighborhoods at a scale necessary to achieve the Siting Policy's Phase One and Phase Two high-level goals, which represent a substantial increase in the share of San José's affordable housing created in these areas when compared to historical siting patterns. For example, developers may face difficulty acquiring land and moving through the entitlement process in Category 1 neighborhoods, which are relatively affluent and contain many fewer sites that allow affordable

housing when compared to the rest of the city, as described elsewhere in this report. The City's assessment should identify potential barriers and solutions for overcoming them, including but not limited to Recommendations 5b and 5c below.

Recommendation 5b: The City should use the Housing Element update process to ensure adequate supply of residential sites in Category 1 neighborhoods that would allow development of affordable housing.

Background: As described earlier in this report, the share of residential land and parcels in Category 1 neighborhoods zoned to allow affordable housing is substantially lower than in Category 2 and 3 neighborhoods. San José's Housing Element update for the 2023-2031 planning period, which is required to be completed by January 2023, will provide an opportunity to increase allowable density in Category 1 neighborhoods so that the City can meet its Siting Policy objectives while accommodating its Regional Housing Needs Allocation. The California Department of Housing and Community Development's new guidance around incorporating AFFH in Housing Element updates generally encourages affordable housing sites to be located in high-opportunity areas, such as those which would qualify as Category 1 in the Siting Policy.²⁷

Recommendation 5c: The City should support nonprofit developers seeking to create affordable housing in Category 1 neighborhoods by providing access to predevelopment funding and capacity-building grants.

Background: As noted above, developers may face difficulty creating substantially higher amounts of affordable housing in Category 1 neighborhoods when compared to historical patterns. Given these potential challenges, developers seeking to create affordable housing in these neighborhoods may benefit from additional support in the form of predevelopment funding and capacity-building grants. The City could provide access to this funding, potentially in partnership with other funders, by establishing a new fund through an outside entity, such as the Housing Trust of Silicon Valley.²⁸ The predevelopment funding could be structured to provide grant funding to developers seeking to create affordable housing in Category 1 neighborhoods up to a specified amount or share of total predevelopment costs (e.g., 50 percent).

²⁷ California Department of Housing and Community Development, "Affirmatively Furthering Fair Housing: Guidance for All Public Entities and for Housing Elements (April 2021 Update)." *Website:* https://hcd.ca.gov/community-development/affh/docs/affh_document_final_4-27-2021.pdf.

²⁸ Predevelopment funding could be structured as a grant that converts to a 0 percent loan under the Low Income Housing Tax Credit partnership agreement, similar to the California Department of Housing and Community Development's Infill Infrastructure Grant (IIG) program. Capacity grants could be modeled on similar grants recently provided by Destination:Home to help developers create pipelines of permanent supportive housing developments in Santa Clara County.

INCREASING RESOURCES AND OPPORTUNITY IN CATEGORY 3 NEIGHBORHOODS

Recommendation 6: The City should explore a range of strategies to increase resources and opportunity in Category 3 neighborhoods, including but not limited to the following:

Recommendation 6a: The City should explore requiring affordable housing developments in Category 3 neighborhoods to incorporate additional measures to support the wellbeing of its residents and the surrounding community.

Background: Category 3 neighborhoods by definition have high rates of poverty and/or violent crime, and for this reason may benefit from additional investments and services which support wellbeing and provide opportunity for both affordable housing residents and those who live nearby. The City could allow developers to choose from a menu of options to fulfill this requirement, potentially including: providing space for a neighborhood nonprofit or community serving business and providing on-site services that meet the City's standards established in its Education and Digital Literacy Strategy (EDL).²⁹ To avoid imposing undue cost on affordable housing developments, the City should consider limited uses of Measure E and Community Development Block Grant funding, when appropriate, to support the cost of these requirements.

Recommendation 6b: The Housing Department should work with other City agencies to coordinate investments in Category 3 neighborhoods in order to increase resources and opportunity while avoiding displacement of low-income residents.

Background: The duty to AFFH requires the City to actively reverse patterns of segregation, increase access to opportunity, and transform racially and ethnically concentrated areas of poverty into areas of opportunity. As such, the City should both increase access to existing resource-rich neighborhoods—through the Siting Policy and other measures—as well as increase resources and opportunity in Category 3 neighborhoods and other low-income communities of color in San José. The latter strategy should involve coordinated investments across City agencies as well as other public entities such as school districts and transit agencies.

ALIGNMENT WITH OTHER POLICIES

Recommendation 7: The City should coordinate with other policies and ensure their alignment with the Siting Policy, as described below:

Recommendation 7a: Establish an agreement with the County to make funding decisions that align with the City's high-level Siting Policy goals.

Background: As referenced in Recommendation 3d, the City should account for County-funded developments in tracking progress toward Siting Policy high-level goals. Ideally, the County would make funding decisions that already align with the Siting Policy (e.g., 60 percent of

²⁹ For more information, see the website for the Education and Digital Literacy Strategy: www.sjpl.org/education

affordable housing in Category 1 neighborhoods) so the City can avoid having to course correct in response to these decisions.

Recommendation 7b: The City should explore whether modifications to its policy for the issuance of multifamily housing revenue bonds are both needed and feasible in order to advance Siting Policy goals.

Background: As previously noted, the Siting Policy high-level goals would apply to new construction affordable housing created with public financing, including developments financed with tax-exempt bonds issued by the City as well as other issuers. If tracking data over time shows these developments to be spatially distributed in a way that does align with Siting Policy goals (see Recommendation 4), the City should explore whether these patterns could be modified through changes to its policy for the issuance of multifamily housing revenue bonds.

APPENDIX A: ADDITIONAL DEMOGRAPHIC AND HOUSING INDICATORS

TABLE A: DISTRIBUTION OF RESIDENTS AND CENSUS TRACTS ACROSS NEIGHBORHOOD CATEGORIES

	Category 1	Category 2	Category 3	Citywide
Population	379,037	666,698	86,037	1,027,690*
Share of Population	33%	59%	8%	100%
Share of Census Tracts	34%	59%	7%	100%

Data Source: Analysis of American Community Survey 5-year Estimates, 2015-2019.

** Category 1, 2, and 3 data in this row do not sum to the citywide total because they include data from census tracts that fall partly outside the city boundary. For more information on census tract-level analysis, see Appendix B.*

TABLE B: RACIAL AND ETHNIC COMPOSITION OF EACH NEIGHBORHOOD CATEGORY (ALL INCOMES)

Race and Ethnicity	Category 1	Category 2	Category 3	Citywide
Asian	41%	33%	27%	36%
Black	2%	3%	4%	3%
Latinx	13%	39%	43%	32%
White	40%	21%	21%	26%
All Other Racial Groups	5%	4%	5%	4%
Total	100%	100%	100%	100%

Data Source: Analysis of American Community Survey 5-year Estimates, 2015-2019. White residents are non-Hispanic and Latinx residents are those of any race who identify as Latino or Hispanic ethnicity. Asian residents do not include Pacific Islander residents, who are included in the All Other Racial Groups category.

TABLE C: RACIAL AND ETHNIC DEMOGRAPHICS* IN SAN JOSÉ BY HOUSEHOLD INCOME AND NEIGHBORHOOD CATEGORY

Income	Race/Ethnicity	Share of Group Living in Category 1	Share of Group Living in Category 2	Share of Group Living in Category 3	Share of Citywide Households
Household Income Under \$45,000**	Asian	22%	64%	14%	32%
	Black	10%	63%	27%	5%
	Latinx	10%	71%	19%	30%
	White	44%	47%	9%	31%
	All	25%	61%	14%	100%
Household Income Under \$75,000**	Asian	25%	64%	12%	29%
	Black	9%	71%	21%	5%
	Latinx	11%	74%	16%	33%
	White	44%	48%	8%	31%
	All	26%	62%	12%	100%
Household Income Under \$100,000**	Asian	26%	64%	11%	29%
	Black	11%	72%	18%	5%
	Latinx	12%	74%	14%	33%
	White	44%	48%	8%	31%
	All	27%	62%	11%	100%

Data Source: Analysis of American Community Survey 5-year Estimates, 2015-2019. White households are non-Hispanic and Latinx households are those of any race who identify as Latino or Hispanic ethnicity. Asian households do not include Pacific Islander households. Due to data limitations, race or ethnicity of the head of household is assumed to apply to the entire household.

** Due to sample size constraints, data is not available for every race and ethnic group. Therefore, columns do not perfectly sum to 100%.*

*** \$45,000 is a proxy for Extremely Low-Income (ELI) households in San José with incomes at or below 30 percent of area median income, whose income limits are \$42,650 and \$47,250 for three- and four-person households, respectively; \$75,000 is a proxy for Very Low-Income (VLI) households in San José with incomes at or below 50 percent of area median income, whose income limits are \$71,100 and \$78,950 for three- and four-person households, respectively; and \$100,000 is a proxy for Low-Income (LI) households in San José with incomes at or below 80 percent of area median income, whose income limits are \$100,950 and \$112,150 for three- and four-person households, respectively. Source: City of San José Housing Department Income and Rent Limit Tables, Effective Date: June 1, 2020.*

TABLE D: MEDIAN HOUSEHOLD INCOME BY RACE AND ETHNICITY AND NEIGHBORHOOD CATEGORY

Race and Ethnicity	Category 1	Category 2	Category 3	Citywide
Asian	\$172,188	\$125,187	\$44,083	\$133,853
Black	\$99,731	\$66,185	\$39,789	\$70,123
Latinx	\$105,198	\$75,898	\$52,956	\$78,734
White	\$147,582	\$114,991	\$98,095	\$123,708
All	\$148,973	\$102,053	\$74,756	\$109,593

Data Source: Analysis of American Community Survey 5-year Estimates, 2015-2019. White households are non-Hispanic and Latinx households are those of any race who identify as Latino or Hispanic ethnicity. Asian households do not include Pacific Islander households. Due to data limitations, race or ethnicity of the head of household is assumed to apply to the entire household.

TABLE E: SHARE OF RENTER HOUSEHOLDS IN EACH NEIGHBORHOOD CATEGORY BY RACE AND ETHNICITY

Housing Indicator	Category 1	Category 2	Category 3	Citywide
Asian	27%	40%	71%	37%
Black	78%	83%	96%	69%
Latinx	54%	59%	77%	60%
White	26%	39%	63%	34%
All	30%	47%	72%	43%

Data Source: Analysis of American Community Survey 5-year Estimates, 2015-2019. White households are non-Hispanic and Latinx households are those of any race who identify as Latino or Hispanic ethnicity. Asian households do not include Pacific Islander households. Due to data limitations, race or ethnicity of the head of household is assumed to apply to the entire household.

TABLE F: RESIDENT-BASED HOUSING INDICATORS BY NEIGHBORHOOD CATEGORY

Housing Indicator	Category 1	Category 2	Category 3	Citywide
Median Rent	\$2,292	\$2,030	\$1,873	\$2,107
Median Home Values	\$1,145,123	\$737,978	\$731,240	\$864,600
% Rent Burdened Households	44%	52%	58%	52%
% Overcrowded Households	11%	17%	18%	16%
Median Rent as a Percentage of Income	29%	31%	34%	31%

Data Source: Analysis of American Community Survey 5-year Estimates, 2015-2019.

TABLE G: CHARACTERISTICS OF EACH NEIGHBORHOOD CATEGORY

Housing Indicator	Category 1	Category 2	Category 3	Citywide
Highest Rates of Violent Crime Areas	0%	0%	69%	5%
High-Poverty Areas	0%	0%	56%	4%
Displacement & Exclusion Risk Areas	100%	81%	63%	86%
% Residential Land That Allows Affordable Housing	3%	16%	43%	9%
% Tracts That Contain Areas Which Are Transit-Accessible	51%	90%	100%	77%
Resource-Rich Areas	100%	0%	0%	34%
TCAC/HCD Opportunity Map Economic Score	72	41	33	51
TCAC/HCD Opportunity Map Education Score	82	37	28	51
TCAC/HCD Opportunity Map Environmental Score	29	18	15	22

Data Sources: Violent crime data provided by the San José Police Department Crime Analysis Unit on January 21, 2021. Crime categories included as "violent crime" include rape, homicide, robbery, and aggravated assault. Rates are calculated as violent crimes per 1,000 people from 2018 to 2020. Displacement & Exclusion Risk Areas data source: Urban Displacement Project SF Bay Area – Gentrification and Displacement map: <https://www.urbandisplacement.org/san-francisco/sf-bay-area-gentrification-and-displacement>. Transit accessibility data source: data provided by the Santa Clara Valley Transportation Authority on January 5, 2021. Resource-Rich Areas and TCAC data source: TCAC/HCD Opportunity Map: <https://www.treasurer.ca.gov/ctcac/opportunity.asp>.

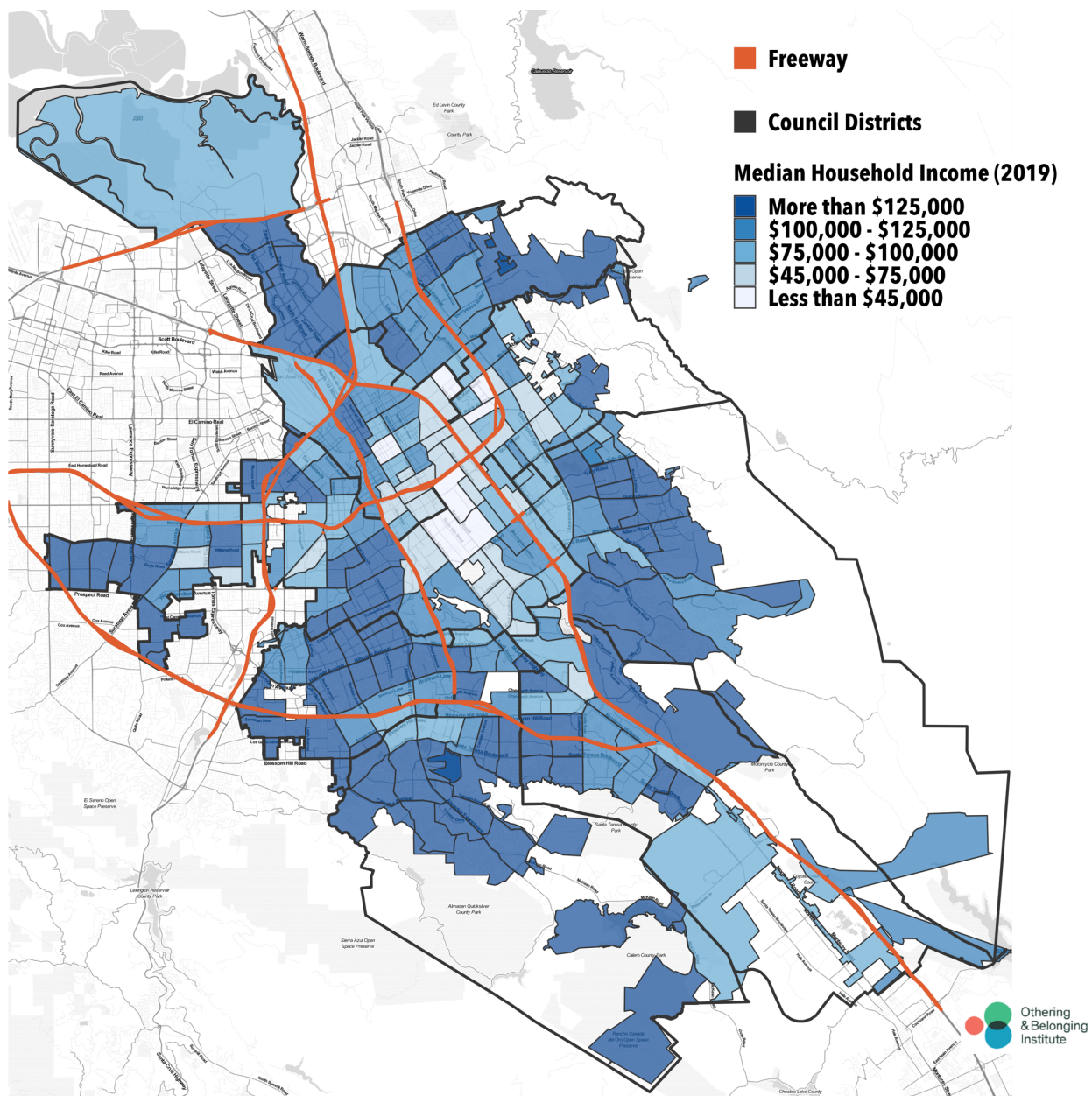
TABLE H: DISTRIBUTION OF EXISTING AND PIPELINE AFFORDABLE HOUSING ACROSS NEIGHBORHOOD CATEGORIES

Housing Indicator	Category 1	Category 2	Category 3	Citywide
Total Homes (County Assessor Data)	104,692 34%	178,887 58%	25,583 8%	309,162
Total Existing Affordable Homes	1,759 10%	12,024 71%	3,148 19%	16,931
Extremely Low-Income Homes*	161 9%	1,118 60%	576 31%	1,855
Very Low-Income Homes*	1,042 13%	5,554 68%	1,520 19%	8,116
Low-Income Homes*	306 5%	4,539 78%	965 17%	5,810
Total Pipeline Affordable Homes	88 3%	1,840 55%	1,421 42%	3,349
Total Existing & Pipeline Affordable Homes	1,847 9%	13,864 68%	4,569 23%	20,280

Data Sources: City of San José Housing Department. California Housing Partnership Preservation Database, April 2021.

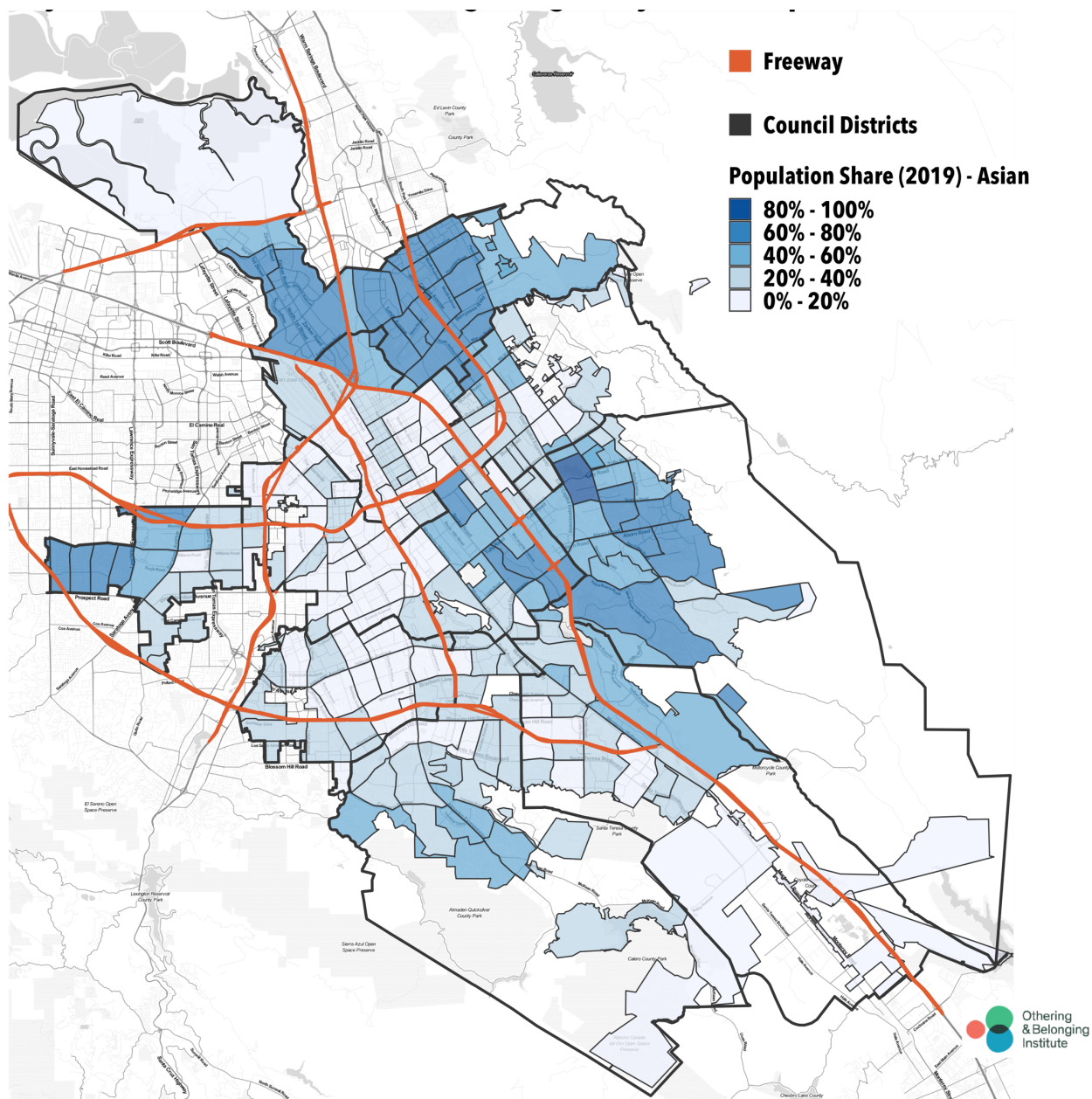
** 1,150 existing affordable homes in the Housing Department's data do not have an identified income limit. For this reason, affordable homes for Extremely Low-Income, Very Low-Income, and Low-Income households do not sum to the total for existing affordable homes.*

FIGURE A: HOUSEHOLD MEDIAN INCOME IN SAN JOSÉ CENSUS TRACTS



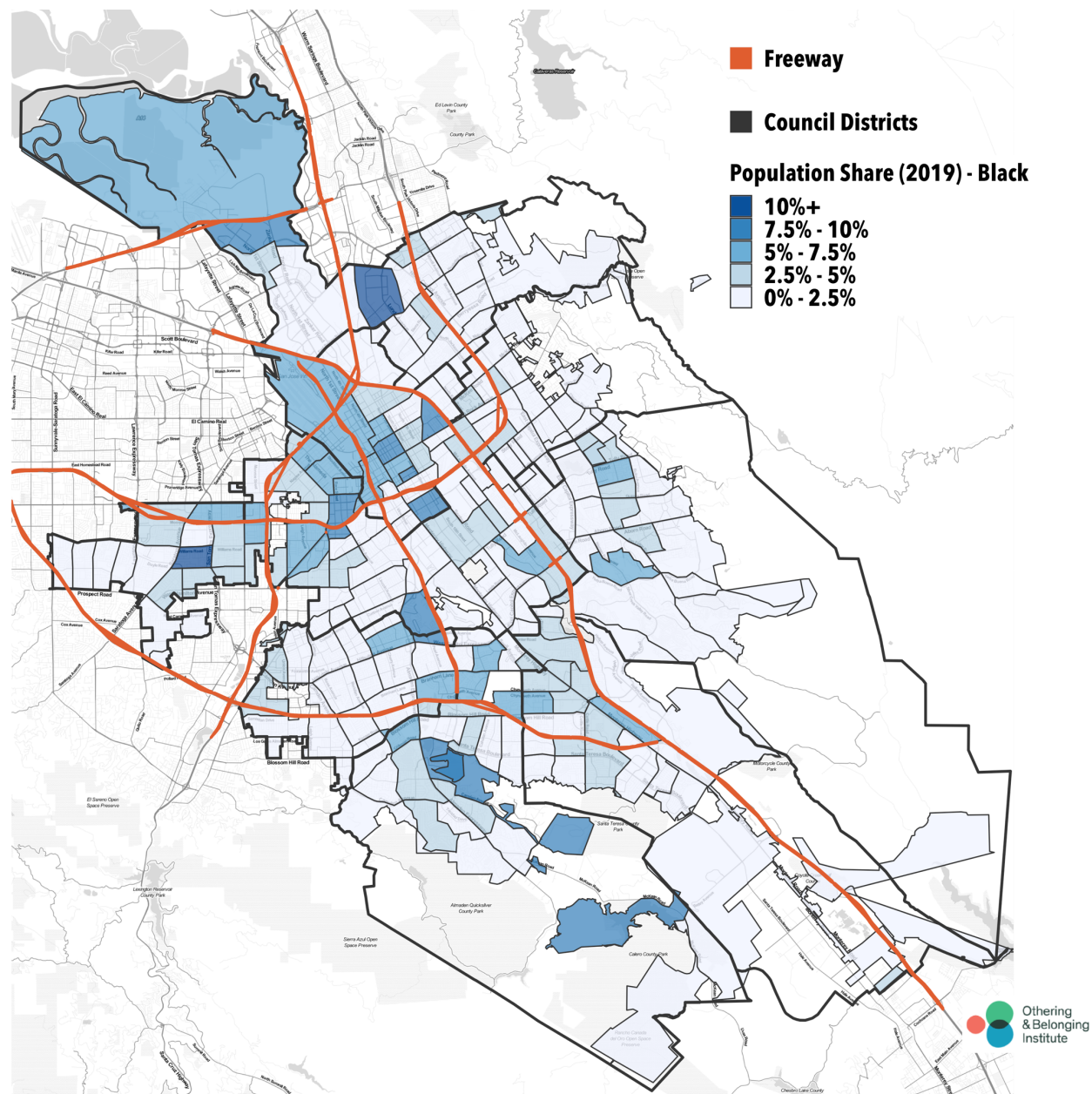
Data Source: Analysis of American Community Survey 5-year Estimates, 2015-2019.

FIGURE B: SHARE OF CENSUS TRACT POPULATION THAT IS ASIAN



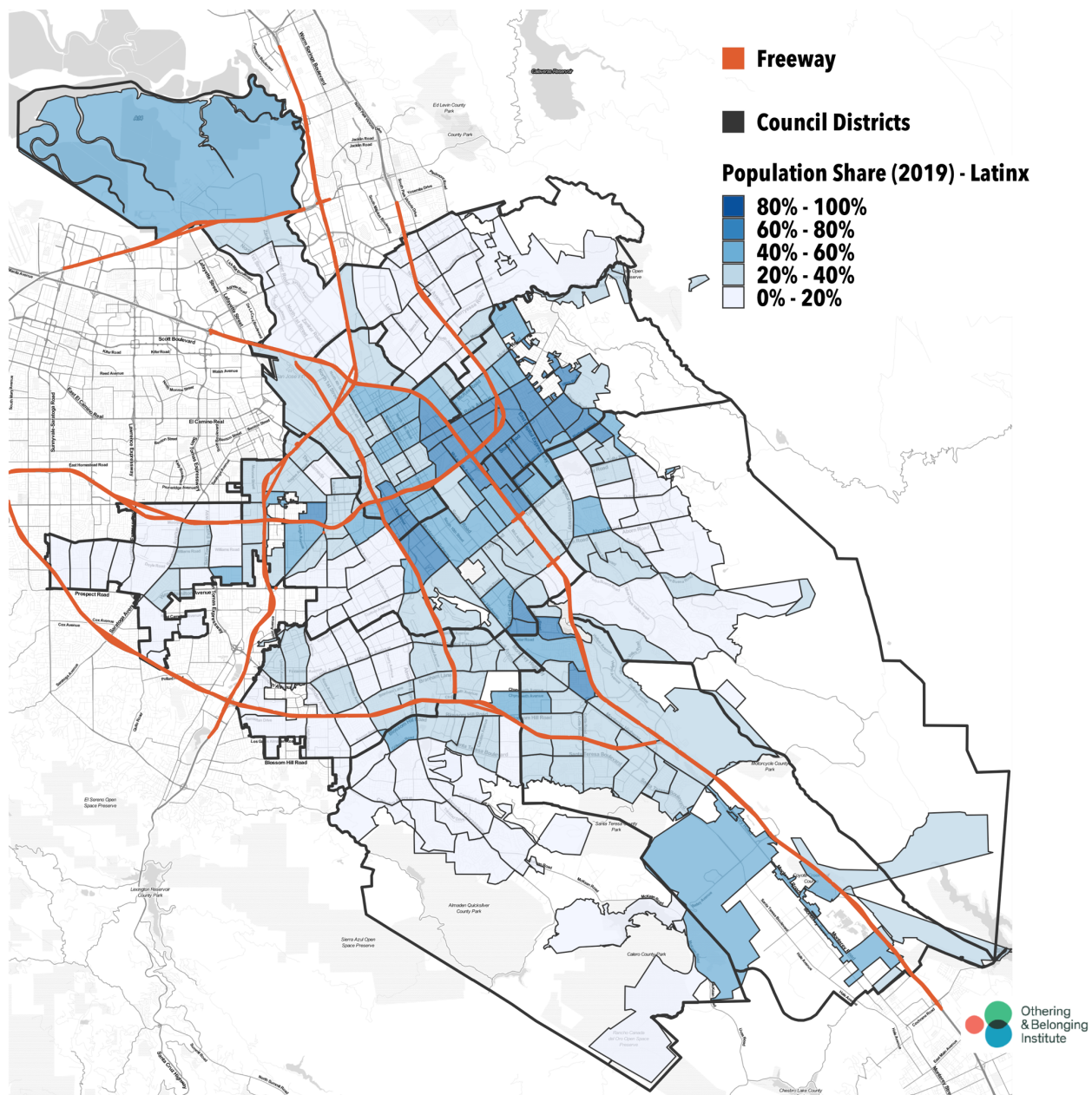
Data Source: Analysis of American Community Survey 5-year Estimates, 2015-2019. Pacific Islander residents are not included in the Asian category.

FIGURE C: SHARE OF CENSUS TRACT POPULATION THAT IS BLACK



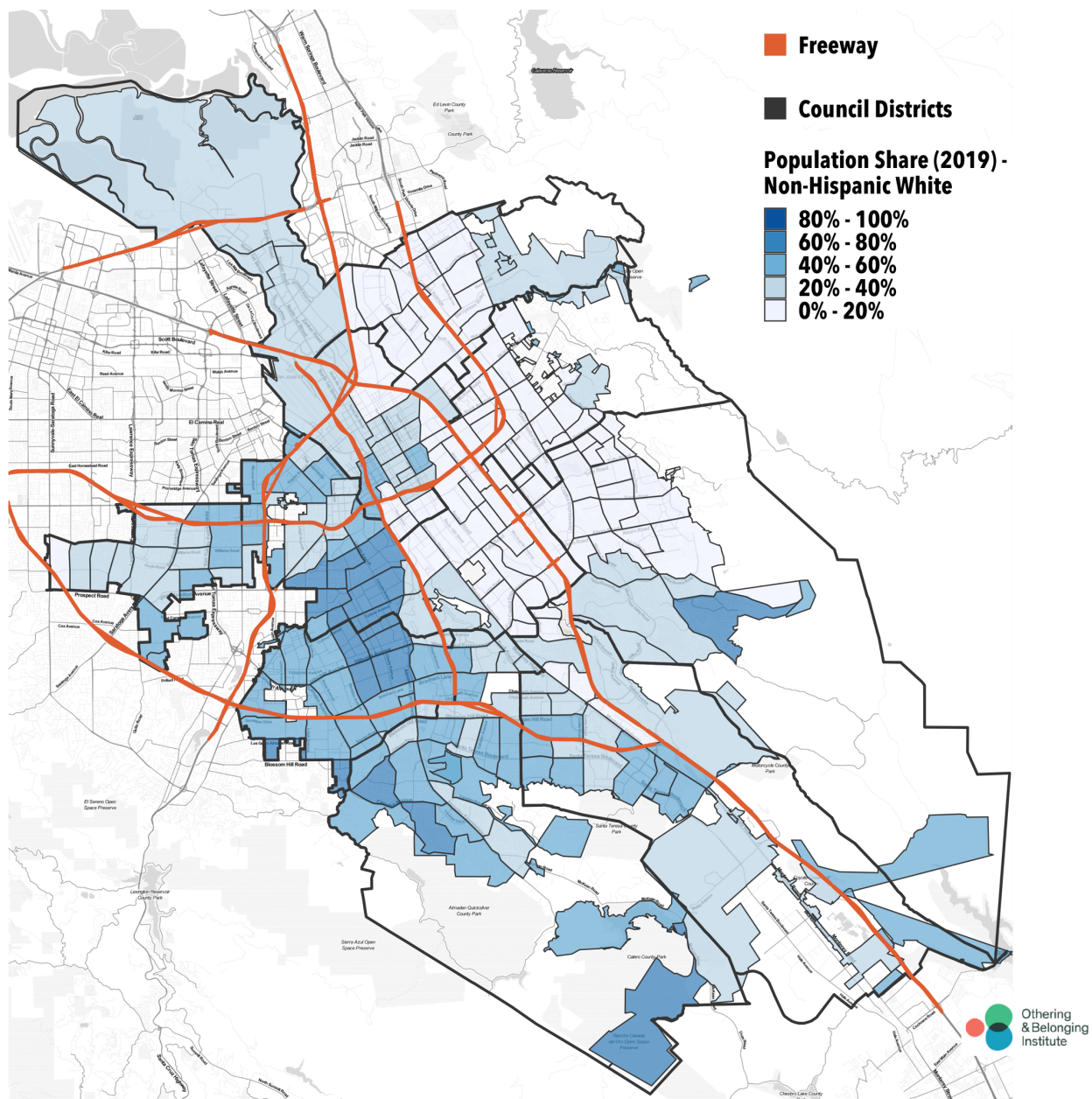
Data Source: Analysis of American Community Survey 5-year Estimates, 2015-2019.

FIGURE D: SHARE OF CENSUS TRACT POPULATION THAT IS LATINX



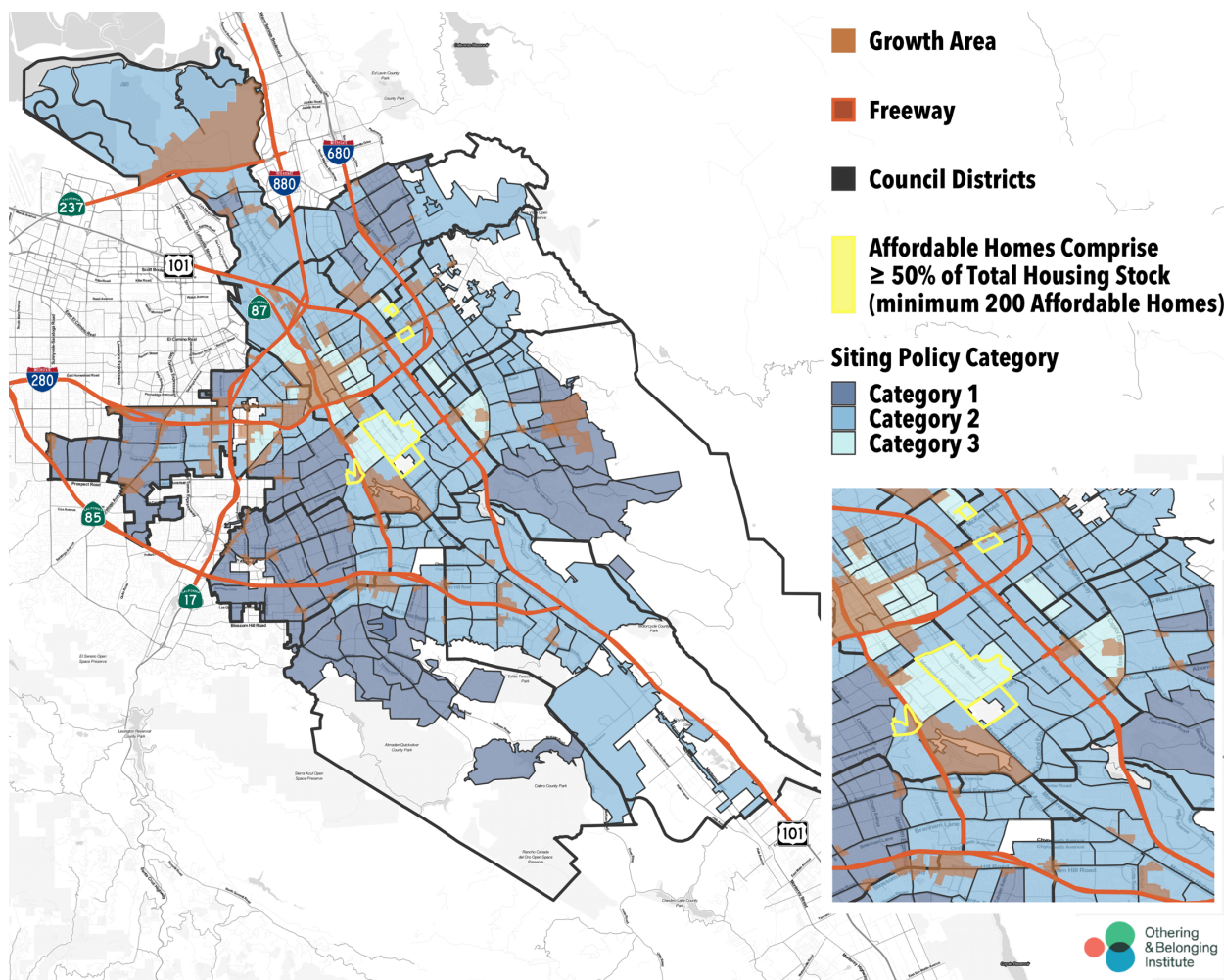
Data Source: Analysis of American Community Survey 5-year Estimates, 2015-2019. Latinx residents are those of any race who identify as Latino or Hispanic ethnicity.

FIGURE E: SHARE OF CENSUS TRACT POPULATION THAT IS WHITE



Data Source: Analysis of American Community Survey 5-year Estimates, 2015-2019. White residents are non-Hispanic.

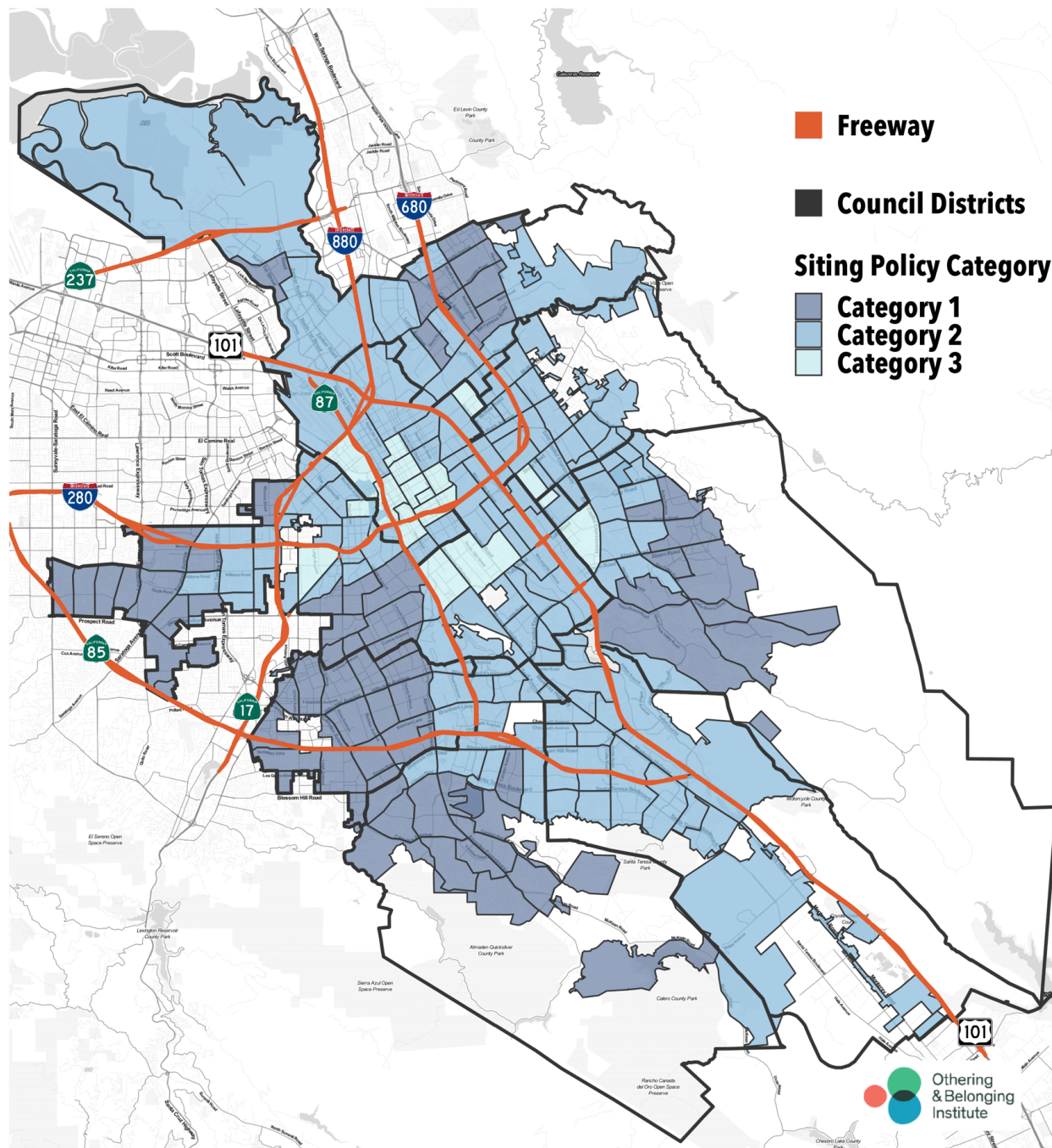
FIGURE F: BLOCK GROUPS WITH HIGH CONCENTRATION OF AFFORDABLE HOUSING



Data Sources: Analysis of American Community Survey 5-year Estimates, 2015-2019; City of San José Housing Department; and California Housing Partnership Preservation Database, April 2021.

Note: Block groups that meet the threshold for high concentration of affordable housing located entirely within Displacement and Exclusion Risk areas or Growth Areas are not shown.

FIGURE G: SITING POLICY MAP SHOWING ALL OF THE DIRIDON STATION AREA PLAN AS CATEGORY 2



APPENDIX B: DATA SOURCES AND METHODOLOGY

DATA SOURCES

Data sources used in the analysis for this report are included below.

AFFORDABLE HOUSING DATA

- *Existing and pipeline affordable homes:* City of San José Housing Department and California Housing Partnership Preservation Database.
- *Prospective affordable homes:* City of San José Housing Department.

DEMOGRAPHIC AND HOUSING INDICATOR DATA

- American Community Survey 5-year Estimates, 2015-2019.

DATA ON ALLOWABLE HOUSING DENSITY

- City of San José Planning Department.

NEIGHBORHOOD CHARACTERISTIC DATA

- *Highest rates of violent crime areas:* San José Police Department Crime Analysis Unit, provided on January 21, 2021.
- *Displacement and exclusion risk areas:* Urban Displacement Project SF Bay Area – Gentrification and Displacement map, available at <https://www.urbandisplacement.org/san-francisco/sf-bay-area-gentrification-and-displacement>.
- *High-poverty areas:* American Community Survey 5-year Estimates, 2015-2019.
- *Resource-rich areas* and *TCAC/HCD Opportunity Map* scores: 2021 TCAC/HCD Opportunity Map, available at www.treasurer.ca.gov/ctcac/opportunity.asp.
- *Transit-accessible areas:* Santa Clara Valley Transportation Authority, provided on January 5, 2021.

METHODOLOGY

A summary of the methodology used in the analysis for this report is included below.

ERROR THRESHOLD IN AMERICAN COMMUNITY SURVEY DATA

Because American Community Survey (ACS) data is a representative survey based on population samples, some data reported by ACS for smaller geographic areas, such as census tracts, have high margins of error due to small sample size. The U.S. Census Bureau recommends data users apply a reliability

threshold to ensure that interpretations between two measures are valid and significant.³⁰ This analysis applied a sample size minimum threshold of 100 observations per indicator. All census tract variable estimates that are derived from samples of less than 100 observations are removed from analysis, and not included in analysis across neighborhood categories (e.g., Category 1 tract demographics). Measures reported here for citywide demographics rely on census place estimates and not the sum of tract-based estimates and are therefore not affected by this data reliability threshold.

CENSUS TRACTS INCLUDED IN THIS ANALYSIS

Census tract boundaries do not perfectly align with the jurisdictional boundary for San José. A census tract is included in the analysis if it overlaps with the city boundary and the population-weighted centroid (the spatial average point of population distribution) falls within the city boundaries. If the population-weighted centroid falls within city boundaries, all of the tract population and corollary demographic data is included in this analysis. All census tracts included in this analysis contain the census block groups included in the analysis of affordable housing concentration.

AFFORDABLE HOUSING DESIGNATIONS

Affordable housing data was primarily provided by the City of San José Housing Department and supplemented with data provided by the California Housing Partnership's Preservation Database, and separated into three categories, as described below: Existing, Pipeline, and Prospective.

- *Existing:* Affordable homes in developments that are currently in operation, have converted to permanent housing but are not yet in operation, or which have completed construction.
- *Pipeline:* Affordable homes in developments with City funding commitments, Low Income Housing Tax Credit awards, or which are under construction.
- *Prospective:* All other affordable housing not yet under construction, which the Housing Department has deemed prospective.

Existing and pipeline affordable homes are designated by the Housing Department by population served: Family, Senior, Special Needs, and Other.

AVAILABILITY OF LAND FOR AFFORDABLE HOUSING DEVELOPMENT

To isolate areas where affordable housing can legally be developed in the city, we referred to the city of San José's General Plan designations and density limits by parcel, on the Planning Department's direction that General Plan regulations are more up-to-date and supersede the zoning code. Specific Urban Village plan designations and densities were applied to parcels within Urban Village boundaries if they differed from the General Plan, based on the current Urban Village plans provided by the Planning Department. "Residential Land" was defined as any parcel with a use designation that allows for housing, including Residential Neighborhood, Rural Residential, Mixed Use, Downtown and Agriculture. "Allowing Affordable Housing" land was defined as any residential parcel with a maximum density capacity of 30 homes per

³⁰ United States Census Bureau (2020). "Understanding and Using American Community Survey Data: What All Data Users Need to Know." Issued September 2020.

acre, which aligns with the State-mandated minimum density required for low-income housing sites in the City's Housing Element generally reflects the minimum density needed for developments financed with Low Income Housing Tax Credits to be financially feasible.

RACE AND ETHNICITY

Due to sample size constraints in census tract-level analysis using ACS data described above, reliable data is not available for every race and ethnic group in the City of San José. For this reason, data is only presented for the following individual groups: Asian, Black, Latinx, and White. Data for all other racial and ethnic groups available in the ACS—American Indian and Alaska Native, Native Hawaiian and Other Pacific Islander, and Other Race and Multiple Races—are combined in an "Other" category. We use the gender-inclusive term Latinx in place of the ACS category of "Hispanic or Latino of any race."

Groups are non-overlapping in analysis that does not account for income, meaning data is shown for non-Latinx members of a given group (e.g., Asian alone/non-Latinx). In analysis that accounts for both race/ethnicity and income at the tract level, only White alone/non-Latinx is available in the ACS, meaning data for other races includes those who also identify as Latinx. For household-level data, race or ethnicity refers to that of the householder (the person who answered the ACS).

