



Memorandum

TO: COMMUNITY AND ECONOMIC
DEVELOPMENT COMMITTEE

**SUBJECT: HOUSING CATALYST TEAM
WORK PLAN STATUS REPORT**

FROM: Christopher Burton
Rosalynn Hughey

DATE: February 13, 2024

Approved

Date

2/16/24

RECOMMENDATION

- a) Accept the status report on the work to implement the Housing Catalyst Team Work Plan.
- b) Cross reference this item to the March 19, 2024, City Council meeting.

SUMMARY AND OUTCOME

Staff is providing an annual report of the Housing Catalyst Team Work Plan (Work Plan). The Work Plan contains near-term strategies, programs, and policies from the 2023-2031 Housing Element that are underway, or that staff anticipates initiating in the next two years. Certification by the California Department of Housing and Community Development (HCD) of the City's adopted Housing Element now allows staff to focus on the implementation work and strategies in the Work Plan.

BACKGROUND

To coordinate the implementation of housing production, preservation, and protection work across multiple departments, the Housing Catalyst Team was established in 2018. The team meets on a biweekly basis and is composed of staff from the Business Development team in the Office of Economic Development and Cultural Affairs, the Citywide Planning Division of the Department of Planning, Building, and Code Enforcement, the Policy and Planning Team, and the Residential Development Division of the Housing Department, and the Planning Team of the Department of Parks, Recreation, and Neighborhood Services.

On November 15, 2022, staff presented the final update on the Housing Crisis Work Plan to City Council. Understanding that much more work needed to be done to increase housing opportunity and production in 2023 and beyond, staff recommended the creation of the Housing Catalyst Team Work Plan. Development of the 2023-2031 Housing Element provided an opportunity to thoroughly assess and outline all housing-related work in the next eight years across the city. The

goal of the Work Plan is to clearly communicate the status of City staff's near-term work for the following two years related to housing production, preservation, and protection.

On June 20, 2023, City Council adopted the 2023-2031 Housing Element, which includes over 130 strategies and programs envisioned for the eight-year term of the Housing Element. The work is intended to facilitate the production and preservation of housing units in San José and facilitate the City's Regional Housing Needs Allocation (RHNA) of 62,200 units.

On June 26, 2023, staff presented the first version of the Work Plan to the Community and Economic Development Committee. On August 22, 2023, City Council accepted the report on the Work Plan, and directed staff to return to Council with a regular report on near-term work items so the community can also monitor progress. Additionally, City Council directed staff to engage identified stakeholders for each work plan item to give the community an opportunity to provide input.

On January 29, 2024, HCD certified the City's Housing Element, which was adopted by City Council on June 20, 2023. Each calendar year of the 2023-2031 Housing Element cycle, the City is required to provide an update to HCD on its progress in achieving the goals in the adopted Housing Element. This Annual Progress Report is due to HCD by April 1, 2024.

ANALYSIS

With certification of the Housing Element, the Housing Catalyst Team can shift into implementation of the 125 work strategies and programs identified within the Housing Element and included in the Work Plan.

The current Work Plan is included in **Attachment A** to this memorandum. The Work Plan is composed largely of programs and strategies included in the Housing Element. The items included in the Work Plan are those for which staff has already initiated work or intends to initiate work in the next two years. The Work Plan items are largely the same as those presented to City Council in August 2023; however, the work items now reflect the revisions made to the version of the Housing Element submitted to HCD in November 2023 and certified by HCD in January 2024.¹ Staff's ability to do significant work on many early implementation items was limited due to the need to focus on completing work to attain Housing Element certification from HCD.

As the Work Plan evolves and needs arise, staff or City Council may propose adding housing-related work items not included in the Housing Element. The timing of when these work items could be initiated would be based on staff capacity, given the ambitious workload already

¹ The Work Plan also now includes two additional items as indicated in the Housing Department's presentation to the Community and Economic Development Committee on January 22, 2024.

<https://sanjose.legistar.com/LegislationDetail.aspx?ID=6452460&GUID=E6108ECD-1EEB-46C0-9ECC-00C396B9CB83>

identified in the Housing Element from 2023 to 2031. There are a total of 125 work items in the certified Housing Element, many of them with multiple components.

To best manage resources and capacity, staff proposes an annual report on the progress of the Work Plan to the Community and Economic Development Committee in February, followed by a report to City Council each March. This report will align with the City's legally required Housing Element Annual Progress Report, due to HCD every April 1st. Staff is also working to publish a live version of the Work Plan on the City's website before the City Council meeting in March. Staff intends to post regular updates on work items in between formal annual reports.

As part of developing the housing goals and strategies in the adopted Housing Element, staff included information about the origin and/or interested stakeholders for each item. Staff will continue to include this information in the Work Plan to respond to the recommendation from City Council in August 2023. The Work Plan will be updated to reflect potential stakeholders that would be included in outreach and engagement activities on the work items.

Impact and Level of Effort

All items in the Work Plan are assigned a level of effort and estimated impact by the Housing Catalyst Team. The impact reflects staff's estimate of the potential positive effect on housing production, preservation, or protection that an item would have once it is implemented. Level of effort indicates how much work it will be and how long it will take for staff to complete an item. These metrics are designed to help staff prioritize work contained in the Work Plan. For instance, if two work items have the same level of effort and timeframe, but one would have a larger positive impact, that item would be prioritized over the other. Additionally, the level of effort metric, along with estimated completion dates, provides transparency to City Council and the public, along with an understanding of the time and effort required for each item. A detailed description of the impact and level of effort is included in **Attachment B**.

Market Conditions and Challenges to Affordable Housing

San José remains one of the most expensive cities in the nation to rent or buy a home. According to Costar, Q4 2023, the average effective rent in San José across all apartment classes and sizes was \$2,708. Average rents have increased 2.8% from 2022. Rent growth has been dampened by uncertainty stemming from remote work, tech layoffs, high inflation, and high-interest rates. San José's overall rental vacancy rate was at 5.6%, up 0.1% year over year. Vacancy rates vary by apartment class. Higher-priced Class A properties had a vacancy rate of 8.3%, while vacancy rates for less expensive and often affordable Class C properties had a far lower vacancy rate of 5%.

San José's for-sale market remained strong, with median prices rising steadily despite high-interest rates. According to the Santa Clara County Association of Realtors, the Q4 2023 median single-family detached home price in San José was \$1,515,000, rising 16% yearly. Recent increases in interest rates have also made purchasing a home prohibitively expensive for many households. Thirty-year fixed interest rates rose steadily to a high of 7.79% in October 2023

before dropping to 6.61% in December 2023. However, even with higher interest rates and single-family home prices remaining well over \$1 million, homes are selling fast, with days on market remaining below one month at 28 days. This indicates an inherently strong market with a large pool of higher-income buyers able to buy homes. While for-sale homes in San José are accessible to higher-income households, only 7% are affordable to households earning the Area Median Income (AMI), according to the National Housing Opportunity Index.² As of the end of 2023, a San José household would need to earn approximately \$365,492 (202% of the AMI of \$181,300 for a family of four) and have \$303,000 saved to purchase a median-priced single-family home with a 20% down payment.³ A strong for-sale market ultimately means that the opportunity to purchase will continue to be even more challenging for middle- and lower-income households.

Attachment C contains a snapshot of the 2023 calendar year's progress in meeting the City's RHNA goal. For the Fifth RHNA cycle, the City met 65% of its RHNA goal. The City met 117% of its market-rate housing goal but only 29% of its affordable housing goal. The Sixth Cycle RHNA has set a challenging target of 62,200 units, up 77% from the Fifth Cycle goal of 35,080 units. Meeting the Sixth Cycle target is even more daunting for affordable housing. The scarcity of tax credit funding and bond allocations, the anticipated depletion of a significant affordable housing funding source (Measure A), a focus on combating homelessness with Measure E funds, reduced revenues from low- and moderate-income housing funds, and increasing development costs will make the achievement of Sixth Cycle RHNA affordable housing goals a formidable challenge.

Work Plan Highlights

City Infill Housing Ministerial Approval Ordinance (P-7) – The goal of this item is to create a new City-streamlined approval pathway for housing developments similar to existing state streamlining opportunities. Development that meets objective development standards could be approved without a public hearing and qualify for a California Environmental Quality Act (CEQA) ministerial exemption. Staff plans to begin work on this item in spring 2024, following the submission of the Housing Element Annual Progress Report. Part of the initial work on this item will be to create the specific standards that would apply to these projects, such as the amount of onsite deed-restricted affordable units that must be included to qualify for this approval pathway.

Small Multifamily Housing (P-35) – The goal of this item is to identify opportunities for missing middle housing of four to 10 units in locations throughout the City. As indicated in the Housing Element, this could potentially include areas adjacent to Urban Villages and residential areas along major streets. The work to complete this item will be a multi-year effort. Staff proposes conducting an economic analysis of missing middle housing types in the next Cost of

² National Association of Home Builders (NAHB) Housing Opportunity Index Q3 2022.

³ Santa Clara County Association of Realtors, Dec. 2023. Reasonable cost is defined as a household paying no more than 30% of their income for housing. Income to mortgage calculations assume payments at 30% of income, 20% down, 6.61% interest rate, 1.1% property tax.

Development Report. Understanding development feasibility and economics will serve to inform the future policy work on this item to understand what areas and housing types are realistic.

CEQA Analysis for Urban Villages (P-37) – The Housing Element Strategy P-37 states, “to the extent funding and capacity exist, conduct program-level CEQA analysis as part of the process of developing or updating Urban Village plans to help speed developments' timelines on all sites, including those not needed to accommodate the RHNA, and remove barriers to housing production.” A March 2022 audit of PBCE’s CEQA processes by the City Auditor also recommended that the City proactively prepare program Environmental Impact Reports (EIRs) as part of the preparation of an Urban Village plan. The completion of programmatic EIRs can shorten the entitlement process for development by allowing developers to “tier off” this analysis when they conduct environmental analyses for their proposed projects. This tiering means an individual project may have a shorter environmental review timeline since parts of its analysis may already be covered or addressed in the earlier programmatic EIR. EIRs are very expensive to prepare, typically costing between \$350,000 and \$400,000 each. In addition, funding would need to be identified for additional planning staff on the Environmental Review team to manage the preparation of these EIRs, as no such funding currently exists.

Historically, the City has relied on grants to pay for the preparation of Urban Village plans. Staff plans to continue to seek such funding opportunities. However, these grants typically do not provide enough funding to pay for both the preparation of a plan and an EIR. Going forward, the City will likely need to fund EIRs from its own funding sources, as was done last fiscal year for an EIR for the Saratoga Urban Village planning process. Given EIR costs and limited City resources, the staff’s approach will be to focus available funding on the preparation of EIRs on planning processes for “market ready” Urban Villages, where it is anticipated that market-rate housing development could be financially feasible in the near term. Funding for these EIRs would be proposed as part of the City’s budget process. However, if funding is limited, staff recommends completing Urban Village plans for multiple areas over completing an Urban Village EIR and planning for fewer Urban Villages, to open up more areas of the City for market-rate housing. While an EIR could create a faster entitlement process, it in and of itself does not create new housing capacity or opportunities.

Evaluate Urban Village Planning Process (P-40) –Many of the previously approved Urban Village plans have taken much longer than the timelines established in the General Plan. This was often due to large scopes of work, large planning areas, the departure of project managers, and, in some instances, extensive community engagement. Completion timeframes from process initiation to Council approval were often two and a half years or more. The General Plan envisioned the Urban Village planning process to take no more than one year unless there was a need for a longer process to conduct sufficient community engagement.

Until the Growth Horizons were eliminated as part of the Four-Year Review of the General Plan process in 2021, the Envision San José 2040 General Plan did not support completing many Urban Village plans in quick succession and instead only supported the completion of Urban Villages plans that were in the current Growth Horizon. With the acceleration of the housing crisis, the focus has shifted to completing Urban Village plans quickly to facilitate market-rate

housing being built in more locations throughout San José; policy amendments to the General Plan now allow affordable housing to be built in urban villages citywide without the preparation of an urban village plan.

To expedite the completion of more urban villages, the Housing Element includes Strategy P-40. The objective of this strategy is to streamline the development of urban village plans and unlock more sites for housing beyond those sites needed to accommodate the City's RHNA. The strategy commits staff to "evaluate the General Plan's Urban Village strategy beginning in November 2024 and adopt amendments and/or modify practices identified in the report in 2025."

The strategy includes, as examples, potential opportunities for streamlining that should be considered. One approach is to tailor the planning process and approach based on an urban village's scale and location. For example, urban villages that are larger and located in key transit locations or historically disinvested areas might require a more extensive community planning and engagement process, while smaller scale urban villages that do not have strong transit connections could have a more streamlined planning and outreach process.

Another approach is to consolidate proximate or similar types of urban villages into one planning process. An example of this approach, which staff plans to implement, is to consolidate all the urban villages along the Capitol Avenue light rail line in Council Districts 4 and 5 into one planning process. The urban villages along this line are relatively small, ranging from urban villages with one or two properties to urban villages with commercial properties abutting a major intersection on all four corners. Conducting one community engagement process and preparing one plan document for proximate urban villages would save significant time and staffing resources than conducting individual planning processes for each.

In addition to this approach, staff will explore developing a policy framework for Council consideration that would allow market-rate housing in all similar urban villages, particularly smaller urban villages such as neighborhood villages. Such a process would not be as place-specific, and the policy framework would have broad applicability, establishing policies for medium- and high-density residential development while maintaining and potentially expanding commercial development.

Another streamlining approach identified in the Housing Element is a reevaluation of the typical components included in previous urban village plans to identify components that could be reduced or eliminated while still providing an effective policy framework to guide new development. This strategy has already been partially addressed by creating Citywide Design Standards and Guidelines. Instead of developing specific design guidelines for each urban village plan, each plan now references the Citywide Guidelines. Place-specific design guidelines are only developed if design issues are unique to a given urban village. The North First Street Urban Village Plan and the recently adopted Capital Caltrain Urban Village Plan are examples of plans that were able to reduce the scope of work and focus primarily on land use, circulation, open space, and urban design issues unique to the plan area, by relying on the Citywide Guidelines for overall development guidance. Reflecting a reduction in the scope of work, these plan documents are significantly shorter than prior plans completed. Going forward, staff will continue to identify how components of the urban village process and plan could be reduced further to focus on the key land use and design issues related to new development.

An additional constraint identified for housing development in urban villages is the lack of a regular funding source for the preparation of urban village plans. While grants are available for such efforts, and the City routinely applies for such grants, these grant opportunities are limited. Furthermore, some of these grants include criteria not aligned with the market-ready urban villages that still need completed plans. Given these funding limitations, Strategy P-40 in the Housing Element includes an action item for staff to recommend that City Council amend General Plan Policy IP-5.15 in 2024 to encourage the City to identify a stable, internal funding source to cover most of the costs for urban village planning processes. The current funding approach is to submit an annual budget proposal for allocating Citywide Planning funds to cover the preparation of one urban village plan; Citywide planning funds are generated through the Citywide Planning permit fee. Staff is monitoring Citywide fee revenue, which is currently down. As a result, Citywide Planning fees are not likely to be a regular source of funding in the near term, and other funding sources will need to be identified.

Housing on Public/Quasi Public Lands (P-24) – As directed, staff will be returning later in the spring with changes to the zoning ordinance to clarify that 100% affordable housing development with at least 25% of units designated for permanent supportive housing (PSH) is considered a PSH project. PSH is permitted in the Public/Quasi Public zoning district. However, the current definition in the zoning ordinance requires 100% of units to be PSH to be considered a PSH development. The definition change for PSH aligns with state law on the matter and will allow greater flexibility for developers to advance development with mixed populations to proceed more efficiently. Passage of Senate Bill (SB) 4 creates a pathway for affordable housing on properties owned by a religious institution or nonprofit college that largely accomplishes the goals previously envisioned for allowing housing on Public/Quasi Public lands.

Prohousing Designation (P-23, P-40) – In late June 2023, staff submitted a Prohousing application to the state after obtaining City Council approval on the application on June 20, 2023. In September 2023, HCD asked for additional information, and staff submitted a revised application on February 7, 2024, after shifting from focusing on obtaining Housing Element certification. The Prohousing Designation would enable the City to access new funding from HCD and strengthen applications for other state funding programs, such as the Affordable Housing and Sustainable Communities (AHSC) Program.

Key Anti-Displacement Work Items

The Citywide Residential Anti-Displacement Strategy is a work plan adopted by City Council in September 2020. An update on this work plan was provided at the January 22, 2024, Community and Economic Development Committee. Work items from the Anti-Displacement Strategy were integrated into the Housing Element and, therefore, into this Work Plan so they can be prioritized along with staff's other work. Selected updates on key strategies from the Anti-Displacement Strategy and items directly related to anti-displacement work are as follows.

Establish a Preservation NOFA (R-2) – The Housing Department issued a Notice of Funding Availability (NOFA) of \$5 million for Acquisition and Rehabilitation on October 23, 2023. To

issue the NOFA, staff completed underwriting guidelines with help from a consultant. Guidelines and program priorities were informed by loan programs of other cities and nonprofit lenders. The staff is in the process of reviewing applications for feasibility and anticipates a possible award in early 2024.

Preservation and Community Development Capacity Building (N-4) – The Housing Department issued a NOFA for \$1 million for Nonprofit Capacity Building on September 15, 2023. Eight applications were received. Staff is in the process of reviewing applications for awards in early 2024.

Mobilehome Park General Plan Designation for Remaining Mobilehome Parks (R-6) – Staff completed General Plan land use designation amendments for 13 mobilehome parks that were determined to have the greatest potential risk of conversion by staff. The General Plan amendments for the remaining mobilehome parks will be completed by June 2024.

Tenant/Landlord Resource Centers and Code Violations Reporting (S-1) – Staff is working to identify space in various community and neighborhood centers to host weekly mobile tenant resource days, rotating monthly or every two months at different locations, beginning the summer of 2024. Rent Stabilization and Eviction Prevention staff members will be on-site at the mobile resource center to provide information on tenants' rights, obligations, and protections. Housing staff will coordinate with Code Enforcement to train resource center staff members on how to support tenants who wish to file code complaints.

Eviction Prevention - Housing Collaborative Weekly Eviction Prevention Court Clinic, Eviction (S-12) – Staff continues the City's partnership with the Santa Clara County Superior Court and Self-Help Center and other community partners to conduct a weekly workshop at the courthouse that offers a spectrum of resources to all parties involved in residential eviction actions. Resources include rental assistance, social services referral, and mediation. Funding was secured from a state earmark to continue these eviction diversion efforts in fiscal year 2024-2025.

Eviction Diversion Program (S-12) – The court-based eviction intervention program is on track to help keep over 125 households stably housed in fiscal year 2023-2024. The Eviction Diversion Program was awarded a \$2 million earmark in the State's 2023 budget. With no other funding source available, only a portion of the \$2 million will be available as rental assistance for eviction interventions. Some of that funding will cover staffing and other program operating costs in fiscal year 2024-2025.

Local Enforcement of State Tenant Protections (S-32) – The Governor signed into law SB 567 (Durazo) (2023), which enhanced existing protections for renters against steep rent increases and evictions without cause. The final version of the law, which takes effect April 1, 2024, strengthens tenant eviction protections and gives cities and counties the authority to enforce existing rent increase caps and just cause provisions. The City advocated for the bill's passage, and staff requested earmark funding for efforts to educate and inform residents and property owners about state renter protections. The rent cap provisions apply to at least 50,000 rental units

not covered by the City's Apartment Rent Ordinance, and the just cause provision applies to rental units not covered by the City's Tenant Protection Ordinance (e.g., duplexes, single-family homes, and condominiums with corporate ownership interests). The Rent Stabilization Program is a cost-recovery program funded by fees charged to units subject to the Apartment Rent Ordinance, the Tenant Protection Ordinance, and the Mobilehome Rent Ordinance. The fees are limited to providing outreach, information and education, and producing information about those ordinances. Staff time and other costs related to education and enforcement of state laws cannot be covered by Rent Stabilization Program fees.

EVALUATION AND FOLLOW-UP

Staff is providing the first annual status report on the Work Plan to the Community and Economic Development Committee. This item is recommended to be cross-referenced to the March 19, 2024, City Council meeting to be heard jointly with the Housing Element Annual Progress Report. Staff will provide annual updates to the Community and Economic Development Committee and City Council in February and March. As discussed, staff will implement a live version of the Work Plan on the City's website that can be updated throughout the year by Housing Catalyst Team members as needed to reflect the latest information on individual work items. Additionally, individual work items requiring City Council approval will be brought forward separately when work is completed.

COORDINATION

This memorandum has been coordinated with the City Attorney's Office, the Department of Parks, Recreation, and Neighborhood Services, and the Office of Economic Development and Cultural Affairs.

COMMISSION RECOMMENDATION AND INPUT

This item will be considered at the March 14, 2024, meeting of the Housing and Community Development Commission. A subsequent update on the Commission discussion and any recommendations will be provided to City Council through a supplemental memorandum.

CEQA

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

PUBLIC SUBSIDY REPORTING

This item does not include a public subsidy.

/s/

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/s/

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ATTACHMENTS

ATTACHMENT A: Housing Catalyst Team Work Plan

ATTACHMENT B: Impact and Level of Effort Definitions

ATTACHMENT C: Progress on Housing Development