



Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: COUNCILMEMBER
RAUL PERALEZ

SUBJECT: HOUSING CRISIS

DATE: June 11, 2018

Approved by:

Date:

6/11/18

RECOMMENDATION

For the City Manager to direct staff to prioritize the following:

1. Initiate a Nexus Study for a City-wide Commercial Linkage Fee and not a separate study specific to Diridon Station Area.
2. Ensure any feasibility analysis includes:
 - Whether all projects in the subcategory are financially infeasible.
 - The reasons why all projects in the subcategory are financially infeasible.
 - An estimate of the size of the gap between financial feasibility and infeasibility.
 - The anticipated duration that these conditions of infeasibility will persist.
 - Options available to the City and project developers to achieve feasibility.
 - Projects with various financing structures, reflecting the different types of financing being used in the real world.
 - Financial feasibility impacts of proposed incentives in the context of all tax/fee reductions being considered for that product type.

BACKGROUND

It is no secret that there is a housing crisis in San José. According to the Mercury News, “Average rent for a 2-bedroom apartment in San José is now \$2,834 per month...with Bay Area home prices at record high, more middle-income families - are forced to rent if they want to live near work.”¹ Yet, as middle-income families are forced to rent, lower-income families are being displaced. While I appreciate the Mayor recognizing we are in a Housing Crisis, it is more important that we use all the tools in our toolbox to address this issue and support our community by making good policy.

¹ Murphy, K. (2018, April 9) Housing Crisis: California bill aims to help the ‘missing middle.’ East Bay Times.

Commercial Linkage Fee

Since my inaugural year on Council, I joined my colleague, Councilmember Rocha in advocating the need for a Commercial Linkage Fee study to address our affordable housing shortage. Time and time again, our Housing Department has been under fire, when they have been under resourced and unable to comprehensively solve the housing crisis with their existing tools. Developing 10,000 units of affordable housing by 2022 in San José will not be possible without new revenue.

As the 10th largest city in the nation, San José falls behind on affordable housing and it is only expected to get worse. With the pending negotiations around the Diridon Station developments, and developments in North San José and West Valley, there are many areas within our city expected to have job growth. We should utilize those investments to ensure our City has the resources to accommodate the impacts of those new businesses on our communities. With that job growth, there will be need for housing. Therefore, it is important we have a city-wide Nexus Study for a Commercial Linkage Fee.

A commercial linkage fee is already implemented in cities across the Silicon Valley, including Santa Clara, Mountain View and Cupertino. Fees in these cities range from as high as \$35 per square foot to as low as \$8 per square foot, for commercial office space or research and development. By examining a Commercial Linkage Fee city-wide, it creates a tool flexible to the desired development while ensuring we can make progress towards our affordable housing goals.

Feasibility Analysis

The Downtown High-Rise Incentive section of the staff memo proposes additional subsidies to be granted to certain market-rate residential high-rises. I recently joined the Mayor and my Council colleagues in voting to include workforce standards and local hiring goals in any public subsidies granted to private market-rate development.

I would encourage City staff to make best efforts to include these workforce standards for projects wishing to take advantage of subsidies, before going down the path of a complex “infeasibility” process to exempt the Downtown High-Rise Incentive from any workforce standards. With affordable housing in a crisis, we do not want to tie staff up on analysis paralysis that can take much time to complete.

It is important for Council to provide a framework for any proposed feasibility analysis. Council needs to evaluate impacts of proposed incentives in the context of all tax/fee reductions being granted. Any feasibility study must reflect the different types of projects with the various types of financing structures. For example, if a certain financing structure proves feasible while another infeasible, Council should be provided the analysis for both types and how a proposed incentive contributes to the financial feasibility of the project.

Because high-rise development is complex with multiple approaches, a comprehensive analysis for a Council decision on any incentive or fee reduction can be determined accurately by having clear guidelines and parameters of the study.

Conclusion

Currently, California is the World's 5th largest economy. No doubt, Silicon Valley is a major contributor to that. However, we have seen the fastest growth in homeless population. According to the New York Times, 68% of the state's 134,000 homeless sleep outdoors.² In San José, over 4,000 of our residents are unsheltered. We can no longer depend on housing providers alone to find solutions. Today, we have the opportunity to provide more tools to create solutions to protect those most vulnerable from being displaced and without a home.

² Fuller, T. (2018, May 7th) The Pleasure and Pain of Being California, the World's 5th-Largest Economy. New York Times.