



# Memorandum

**TO:** HONORABLE MAYOR AND  
CITY COUNCIL

**FROM:** Vice Mayor Magdalena Carrasco  
Councilmember Sergio Jimenez  
Councilmember Raul Peralez  
Councilmember Don Rocha

**SUBJECT:** Commercial Linkage Fee

**DATE:** December 7, 2018

Approved by:

Date: 12/7/18

**RECOMMENDATION**

Approve the September 10, 2018 memorandum from Mayor Liccardo regarding the Commercial Linkage Fee (CLF) with the following modification:

1. Inclusion of a feasibility study to be pursued in tandem with the nexus study, to assess market impacts of development with variations of fee levels, geographic location, land use, and building type, such as high tech office, retail, industrial, and office.

**BACKGROUND**

On June 21, 2018, the Civil Grand Jury of Santa Clara County published a report titled "Affordable Housing Crisis: Density is Our Destiny". The report outlined many recommendations addressing the housing crisis in the County including strongly urging the City of San José to adopt a commercial linkage fee policy. Since then our council has grappled with this topic numerous times while still not finding any new streams of revenue to build affordable housing.

With the result of Measure V, our Housing staff does not have adequate resources to bridge the gap of \$541.5 million needed. We recognize the urgency for affordable housing and the consequences our community will face if we do not consider all available tools, including a commercial linkage fee.

## ANALYSIS

### *Jobs & Residential*

We are fortunate to be in the midst of a strong economic cycle that has garnered commercial development. While our General Plan supports a strong “jobs first” model, we cannot dismiss the need for new housing units, which is a glaring component of our General Plan. Looking at incoming large non-residential projects, as illustrated in *Figures 2 and 3*, we currently have 4,750,085 sq. ft of non-residential development under construction which equates to 11,841 potential new jobs, as well as, 9,919,849 sq. ft. permitted or in pre-construction, equating to 34,330 potential new jobs.

*Figure 1. Non-Residential Development in San José Under Construction as of August 2018*

	<b>Office</b> 221 sf/job (USGBC)	<b>Hotel</b> 917 sf/job (USGBC)	<b>Retail/Rest.</b> 600 sf/job (USGBC)	<b>Manufacturing Warehouse</b> 700 sf/job (USGBC)
Total Sq. Ft by Sector	1,581,552	607,298	1,527,412	1,033,823
Jobs by Sector	7,156	662	2,546	1,477
<b>Total Jobs</b>	<b>11,841</b>			

*Note: These are based on projects 10,000 sq. ft. or larger*

*Source: SV@Home*

*Figure 2. Non-Residential Development. in San José Permitted/Pre-Construction as of August 2018*

	<b>Office</b> 221 sf/job (USGBC)	<b>Hotel</b> 917 sf/job (USGBC)	<b>Retail/Rest.</b> 600 sf/job (USGBC)	<b>Manufacturing Warehouse</b> 700 sf/job (USGBC)
Total Sq. Ft by Sector	6,550,310	1,038,760	956,173	1,374,606
Jobs by Sector	29,639	1,133	1,594	1,964
<b>Total Jobs</b>	<b>34,330</b>			

*Note: These are based on projects 10,000 sq. ft. or larger*

*Source: SV@Home*

Note that these numbers do not include the potential tens of thousands of jobs slated for the Diridon Station Area. We do not deny that these are exciting numbers as more jobs will bring more economic benefits to the city. However, as illustrated in *Figure 4 and 5*, we are trailing in building both market rate and affordable units to accommodate for this growth. If we do not manage our jobs to housing balance, it will exacerbate further San

José's existing crisis of homeless encampments, displacement and exodus of long-time residents.

*Figure 3. Affordable Housing Production in San José FY 2017-2018 as of June 2018*

	#ELI Units	#VLI	#LI	#Unknown
Completed	16	46		
Under Construction	177	410		
Predevelopment	49	63	85	263
<b>Total Units</b>	<b>1109</b>			

*Source: San José Housing Department*

*Figure 4. Housing Building Permits Issued for 2017*

Market Rate Units	2622
Affordable Units	475
<b>Total Units</b>	<b>3097</b>

*Source: San José Housing Department*

### ***All The Tools***

When solving a crisis, we should be using all the tools in our toolbox. We have fortunately been able to help to slow the bleeding of residential displacement through the recent update of our Apartment Rental Ordinance, the enactment of stronger Tenant Protections and the consideration of creative approaches in streamlining our development process. During the fall, we approved ongoing efforts from Mayor Liccardo and Councilmember Jones to create a Santa Clara County Regional Housing Needs Allocation (RHNA) subregion for the the Santa Clara County Cities Association. .

A linkage fee can relieve the pressures of the housing market by generating affordable housing funds proportionate to our economic growth as well as help close the funding gap necessary to build affordable housing. As we have illustrated above, it would be naive to believe that the displacement of our most vulnerable residents is not somehow directly tied to our booming tech economy. As San José becomes a more lucrative destination for prospective employers, the demands of our housing market will continue to soar. We are pragmatic enough to understand that commercial development cannot solve our housing crisis alone, but it should contribute equitably to the overall effort.

In recent Commercial Linkage Fee nexus studies for neighboring cities such as Santa Clara, Campbell and Mountain View, varying building types such as High Tech Office

space were analyzed in addition to more traditional categories like retail, hotel, R&D, industrial and office. Because different industries create a varying demand and impact for affordable housing it is important in terms of feasibility that these factors be studied and data collected on varying impacts. For example, every technology worker creates an indirect and induced demand for 4.3 additional local service and goods producing workers, 2.58 of whom are low wage occupations. Placing a large number of workers into a smaller amount of floor area and market dynamics requiring more amenity rich commercial office spaces to attract certain workers, it is likely that every dollar of a commercial linkage fee will have a smaller overall impact on the feasibility of High-Tech office over other types of commercial product. By including varying building types among the product types examined in the study we can get a clearer picture of the impacts and feasibility of specific types of commercial development likely to be proposed in our city going forward.

### **CONCLUSION**

Just in the past year, we have seen much growth and interest in San José. Adobe, Splunk, and Roku have expanded their offices, Council just approved Google's land acquisition, and very recently a real estate investment group led by Uber founder Travis Kalanick bought a building in Downtown San José. Soon, our reputation as bedroom community will be stripped and our vision that our residents can live, work, and play in San José will be realized. However, we cannot ignore that this has the potential to further push more families to cram under one roof, become rent burdened, take on long commutes, or be pushed out of San José entirely. The Council must responsibly welcome economic growth and mitigate the gentrification and displacement. A commercial linkage fee is one powerful tool to do so.