



Memorandum

TO: COMMUNITY AND ECONOMIC
DEVELOPMENT COMMITTEE

FROM: Chris Burton
Rosalynn Hughey
Jacky Morales-Ferrand

**SUBJECT: HOUSING CRISIS
WORKPLAN UPDATE**

DATE: February 11, 2019

Approved

Date

2/15/19

RECOMMENDATION

Accept staffs report updating the Committee on staffs' progress implementing the City Council approved Housing Crisis Workplan. Staff will provide details on policy actions underway and completed, an update on the Housing Catalyst team, and market-rate and affordable housing production.

BACKGROUND

On September 28, 2017 the Mayor issued a memorandum entitled "Responding to the Housing Crisis." This memo identified a large number of items to address the housing crisis and directed staff to identify which items could be implemented within an existing work programs, which items required additional resources and prioritization at the October 17, 2017 Priority Setting Session, and which items would consume undue staff time, public cost or risk that would outweigh their likely benefit.

On October 12, 2017, Staff wrote a supplemental memo to City Council which identified 1) which items were "green light" items that staff would add to their department workplans; 2) which items were "yellow light" items that should be prioritized, and 3) which items would consume undue staff time, public cost or risk that would outweigh their likely benefit.

On October 17, 2017, City Council voted on those items that were considered "yellow" light as part of the Council Priority Setting Session. Of the seven "yellow" light items, two moved forward to prioritization and five did not receive sufficient votes to move forward (these items are detailed for reference in the attached copy of the original memorandum to Council on the Housing Crises Workplan). The update to the Accessory Dwelling Unit and Garage Conversion ordinance was ranked as Council Priority #9.

On April 23, 2018, staff presented the Affordable Housing Investment Plan to the Community and Economic Development (CED) Committee. The Affordable Housing Investment Plan memorandum included potential strategies to help support the development of affordable housing.

On June 12, 2018, staff brought forward the proposed Housing Crisis Workplan, which incorporated strategies from the Affordable Housing Investment Plan. At that time, the City Council approved the Housing Crisis Workplan and directed staff to return with an update to the full City Council through the Community and Economic Development Committee in February 2019.

ANALYSIS

The work contained in the Housing Crisis Workplan (the Workplan) balances the development of policies and programs that encourage housing development, with the need to support implementation and deliver housing units. The Workplan contains a variety of projects— some are newly initiated, and others align with other work already underway. For the purposes of tracking progress, staff is presenting the Committee with an update on the policy and programmatic changes included in the Workplan that are either completed, in-progress, or waiting to be initiated. In addition, this report provides an update on affordable and market-rate housing production since this work began, to provide context and assess any potential impacts of the changes undertaken. For the purposes of this reporting, housing production is being measured from January 1, 2018 to align with reporting to the State Housing and Community Development Department (HCD) on the City's Regional Housing Needs Allocation (RHNA). A copy of the original memorandum prepared for the City Council, and additional details on each of the items included in the Workplan, are attached for reference.

In addition to providing on-going Workplan updates to the Community and Economic Development Committee, staff will report on housing production to the Ad Hoc Committee for Housing Construction and Development Services.

Housing Market Context

Through the latter stages of the current economic cycle, the San José housing market has continued to mature and slow due to increases in the costs associated with new construction, and the flattening of rents relative to these increased costs. Within this context, development remains challenging in many parts of San José, but some projects already in the pipeline are proceeding in the near-term.

During the April 26, 2018 City Council Cost of Development Study Session, staff presented an average permit cost for multi-family residential development, and a series of residential development models based on a Conceptual Pro Forma Analysis prepared for the April 26th Study Session by Keyser Marston Associates

(<https://sanJosé.legistar.com/View.ashx?M=F&ID=6209078&GUID=035FC9E3-3066-4071-8666-28BA80D7AE33>).

Staff will refine and update the cost of development models created for the study session and will make them available to the Council and the community upon completion later this spring (item #16 from the original workplan). In addition, staff has completed additional analysis on high-rise residential development in the Downtown to explore the impacts associated with the continuation of the Downtown Highrise Incentive (item #16 from the original workplan). While extension of the Highrise Incentive has not been brought to Council (due to additional consideration related to Council direction on workforce standards for private projects receiving a public subsidy), staff has attached the additional analysis completed by Keyser Marston in September 2018 as a way of providing additional context on the current economic conditions for high-rise residential development.

Housing Production

The Housing Crisis Workplan is intended to focus staff's efforts on delivering housing units by creating focused resources, providing clarity and consistency within the regulatory framework, and creating an economic environment that supports the development of new residential development. These efforts are intended to move projects to construction in the near term, increase the number of housing entitlements approved by the City, and position developers and their projects to be able respond quickly to market conditions. As part of the recurring update on the Workplan, staff is monitoring five key performance indicators that are within the control of the City:

- residential development capacity (measured in housing units) made readily available through the creation of new, or modification of existing, policies and regulations;
- the number of residential units that receive approval through the development review process (planning approvals);
- the number of units that receive approval through the issuance of building permits;
- the number of affordable units contained in approved Affordable Housing Compliance Plans; and
- the number of units reaching completion through the receipt of a Certificate of Occupancy.

These indicators are intended to demonstrate the ongoing effect of the efforts contained in the Workplan by demonstrating the link between policy development, regulatory streamlining, and housing production.

The following table includes work completed and housing production data between January 1, 2018 and December 31, 2018.

Housing Production (January 2018 – December 2018)

Type of Housing	Capacity Made Readily Available Through Policy Work	Units Receiving Planning (entitlements) Approvals	Units Receiving Building Permits	Units Receiving Occupancy
Market Rate	--	112	2,827	797
Affordable	--	352	563	31
Total	14,255	193	2,973	827

Between the years of 2010 and 2017, an average of 2,800 units were built per year. Building permits issued for new residential units exceeded that average in 2018; however, less than 200 units received Planning entitlements. Entitlements for new residential units are expected to increase in 2019, as over 4,500 units are pending Planning approval. In December 2018, City Council approved shifting the Winchester, Santana Row/Valley Fair, Stevens Creek, and South Bascom (North) Urban Villages from Horizon 3 to Horizon 1 (item # 12 from the original workplan), making 10,255 units available to be entitled. City Council also approved in December 2018, the shift of 4,000 housing units from Horizon 3 Urban Villages to the Downtown as part of the Downtown Strategy 2040 (item # 5 from the original workplan), effectively making a total of 14,255 new units available for development. The 14,255 units could be developed as new market rate or affordable housing units.

The Housing Department recently published its Production and Preservation Report which details the status of affordable housing developments in San José and its progress to reaching the 10,000-unit affordable housing goal. The Report includes information about multifamily affordable housing developments and preservation activity of existing deed-restricted affordable units in San José. Between January 1 and December 31, 2018 946 affordable housing units were completed, under construction, or entitled. There are an estimated 2,441 prospective affordable units that are anticipated to be entitled and added to the pipeline. If the proposed projects complete their entitlement processes and receive funding commitments, this would bring the City more than a quarter of the way to the 10,000-unit affordable housing goal.

Housing Catalyst Team Update

The City's role in regulating and facilitating residential development requires collaboration between all the departments involved in the Community and Economic Development City Service Area (CED CSA), and especially those that make up Development Services. In addition, a cross-functional team has been established to manage the Housing Crisis Workplan, and act as a catalyst to drive new housing entitlement and production. Staff from OED's (Office of Economic Development) Business and Economic Development Team, PBCE's (Planning, Building & Code Enforcement) Citywide Planning Division, and the Housing Department's Policy and Planning Team have formed the Housing Catalyst Team which comprises 10 FTEs

drawn from a combination of existing staff resources and new positions included in the FY 2018-2019 budget.

In addition to developing the policy framework outlined in the Workplan, the Housing Catalyst Team is working to facilitate and promote both market rate and affordable housing opportunities throughout San José. This Team works to assist housing developers with site selection, and helps navigate the City's permitting and entitlement process. This Team's scope of work also includes proactively identifying and marketing housing sites or opportunities to potential developers and investors. In partnership with the Office of Civic Innovation and Digital Strategy, the Team is working to develop a spatial database of housing opportunity sites.

The inter-departmental Housing Catalyst Team consists of the following staff:

Planning, Building & Code Enforcement:

- Michael Brilliot, Deputy Director
- Jared Hart, Division Manager
- Planner IV (hiring) - Housing Catalyst Team lead and Housing Crisis Workplan Planner
- Ruth Cueto, Destination: Home Homeless/Affordable Housing Planner
- Planner II/III (hiring) - Housing Policy Planner

Housing Department:

- Rachel VanderVeen, Deputy Director
- Kristen Clements, Division Manager
- Amy Chen, Inclusionary Housing Manager

Office of Economic Development:

- Chris Burton, Deputy Director
- Housing Catalyst/Executive Analyst (hiring).

Last year, the Housing Department received a \$540,000 grant from Destination: Home Silicon Valley, a local public/private partnership focusing on solving homelessness, to fund a Homeless/Affordable Housing Planner position in PBCE for three years. The Destination: Home planner will become an integral part of the Housing Catalyst Team, focused on expediting affordable housing applications that have at least a 30% set-aside for permanent supportive apartments for homeless residents or extremely low-income residents. Currently in process, there are 12 affordable developments with over 1,500 units that may meet this definition.

In addition, the City Council approved through the budget process an additional Executive Analyst position in OED to act as concierge service. This position will provide services similar to those currently provided to businesses and developers but will be focused exclusively on housing development. Due to staff turnover throughout the Office of Economic Development, the recruitment of this position was delayed through the first half of the fiscal year. The hiring process was begun prior to the end of 2018 and is currently ongoing.

The Planning Division portion of the Housing Catalyst team will reside under Citywide Planning led by Deputy Director Michael Brilliot and Division Manager Jared Hart. The Team consists of three full-time positions: A Planner IV and two Planners II/III's. In addition to managing the completion of the Housing Crisis workplan items, the Planner IV will provide predevelopment/pre-application assistance to both market rate and affordable housing developers, will evaluate, and provide input on pending State legislation related to housing, and will oversee implementation of new State laws that have passed, including streamlined permitting for eligible affordable housing developments. One of the new Planner positions on the team is the Destination: Home position discussed above. The other is a Planner II/III position that will focus on Housing Policy and completing the Housing Crisis Workplan items, including ordinance and General Plan amendments.

Lea Simvoulakis was in the process of transitioning from the Ordinance and Policy team to the Housing Planner IV position but left the City and the area in January. Staff are currently recruiting for the Planner IV and the Housing Crisis Workplan Planner positions and anticipate filling both positions in March.

Workplan Updates

The following table outlines the status of the work items included in the Council-approved Housing Crisis Workplan. The items are broken into three categories: Work Items Completed, Work Items Initiated or Underway, and Work Items to be Initiated.

Additional details on each of the items included in the Workplan can be found in the attached copy of the original memorandum prepared for the City Council (<https://sanJose.legistar.com/LegislationDetail.aspx?ID=3512944&GUID=52ABE23F-BABE-427E-A995-68DD0F4932DC&Options=&Search>) .

Housing Crisis Workplan

Item	Lead Department	Month Completed
<i>I. Work Items Completed</i>		
Transition Traffic Analysis from LOS to VMT:	DOT/PBCE	Feb. 2018
Continue to implement Urban Villages:	PBCE/OED PBCE	May 2018
a. Implementation Framework:		Dec. 2018
b. Move Horizon II Light Rail Villages into Horizon I		
Update the Accessory Dwelling Unit and Garage Conversion ordinance	PBCE	June 2018
Complete the Downtown Vision and EIR	PBCE	Dec. 2018
Move-up Tri-Village Urban Villages to Horizon I	PBCE	Dec. 2018

Engage CASA on regional housing production – CASA Compact Report https://mtc.ca.gov/sites/default/files/CASA_Compact.pdf	Housing	January 2019
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II. Work Items Initiated and Underway

Item	Lead Department	Planned Completion
Create a cross-departmental Housing Catalyst Team	OED/PBCE/ Housing	Spring 2019
Hire a Planner III to manage entitlements for affordable housing that includes permanent supportive or extremely low-income apartments		Completed Feb. 2019
Make additional residential units available in North San José	DOT/OED/ Planning/Housing	Spring 2019
Develop Anti-Displacement and Dispersion Strategies	Housing	Fall 2019
Advocate for State legislation that supports housing development	CMO/Housing	Ongoing
Explore the City's impact on the cost of residential development, including: <ul style="list-style-type: none"> the deferral of fees to Certificate of Occupancy the appropriate level of fees and the use of incentives the impact of permit and entitlement timelines the predictability and transparency of City development and impact fees 	OED	Ongoing
Complete the PDO/PIO Fee Study	PRNS/CMO	Winter 2020
Encourage private, public, and nonprofit investments	Housing	Ongoing
Explore options for a Commercial Impact Fee	CMO/OED/ Housing	Spring 2020
Refine General Plan Policy H-2.9 (the "1.5-acre rule")	PBCE/Housing	Partially Completed Fall 2018 Fully Complete Summer 2019
Explore changes to Commercial Space Requirements for Affordable Developments	OED/PBCE/ Housing	Start Fall 2019 (GP 2040 Four-year Review)
Affordable Housing Land Acquisition Sites Database	Public Works /PBCE/Housing/ OED	On hold due to lack of funding

Leverage private dollars for affordable housing	Housing	In progress
Explore the creation of a Land Trust	Housing	Research underway, to be completed mid-2019
Explore interim housing solutions on Caltrans Sites	Housing	In Process

III. Work Items To Be Initiated

Item	Lead Department	Planned Initiation
Update Downtown Zoning requirements to establish minimum height and density and eliminate parking requirements	PBCE	Fall 2019
Amend the Zoning Ordinance to allow for 100% Affordable	PBCE	Summer 2019
Explore allowing mixed-income development ahead of Urban Village Plans through the GP 2040 Four-year Review	PBCE	Initiate Fall 2019
Explore Public/Private Parking opportunities	OED	To Be Initiated
Expand the Downtown boundary	PBCE	Spring 2020
Explore CFDs for payment of fees	OED	To Be Initiated
Reimagine Underutilized Business Corridors to allow the integration of housing	PBCE	Fall 2019
Pursue changes to the GP to allow infill on problem properties	PBCE	Fall 2019
Allow infill housing on isolated employment lands	PBCE	Fall 2019
Identify non-viable commercial or office sites for housing	OED	Fall 2019
Housing conversions without City Consent	PBCE	Fall 2019
Explore the creation of a Land Acquisition Loan Fund	Housing	To be Initiated

Additional Information on Items in the Work Program

The Housing Crisis Workplan is intended to respond to the difficult development conditions by looking for opportunities to accelerate “shovel-ready” development projects to move forward during the current cycle and ensure that development projects are poised to respond to any changes in economic conditions. Items have been added or are under consideration through the Council prioritization process to support new development, including development of a new ordinance to facilitate co-living communities, and aligning the zoning code with the General Plan to facilitate new housing and jobs development.

Expand the Downtown Boundary – Staff met with the Office of the Mayor and City Council District 3 to discuss potential strategies to expand housing in the Downtown area by expanding the existing boundary of Downtown and/or through other policy amendments that would allow additional housing to be built outside of the existing boundary of Downtown. As a result of staff analysis and the discussion at this meeting, a number of work items were identified. These items included 1) exploring modifying the Martha Gardens Specific Plan to allow high density mixed uses along Keyes Street and to allow higher density residential uses along both sides of South First Street South of 280 highway, and 2) exploring opportunities for the integration of additional high-density residential or mixed-use development in the neighborhoods surrounding San José State, including exploring opportunities along South 10th and 11th Street and on existing commercial properties within the University Neighborhoods. These items have been added to the Housing Crisis workplan. Given the identified opportunities and constraints, this work item does not include expanding the boundary of the Downtown in the General Plan, but instead focuses on policy changes to allow additional housing development outside and adjacent to Downtown.

New Items Not Previously Included in the Workplan

Aligning the Zoning with the General Plan – In the approved budget for FY 18-19, direction was given to PBCE to undertake work to align the City's zoning code with the General Plan to facilitate development consistent with the General Plan. Funding was provided for one year for a Planner I/II/III to undertake Phase I of this project, which included a comprehensive review of the zoning ordinance to identify needed amendments to bring about consistency with the General Plan. Phase II includes strategically rezoning private properties consistent with the General Plan to facilitate housing and jobs development. As part of the current budget cycle, Staff has submitted a budget proposal to fund this work in FY 20-21 and FY 21-22.

In 2018, the California Legislature passed SB 1333 as another measure to facilitate housing in the State. SB 1333 includes a requirement that Charter Cities, like San José, bring their zoning maps into conformance with their general plans' land use diagrams. As a Charter City, San José previously had not been required to have consistency between the zoning and the General Plan land use designation of properties, and the zoning of thousands of properties in San José is inconsistent with the General Plan. Staff are currently evaluating the implications of this bill for San José, and what additional resources will be needed to meet its requirements.

Co-living Ordinance – Since the adoption of the Workplan, Staff have been approached by developers who want to build co-living housing projects in Downtown San José. Co-living is a new living concept for San José, where individuals or couples rent a bedroom and then share a kitchen, living space and amenities with other residents of the building. These developments are more upscale, than typical Single Room Occupancy properties. To facilitate this new housing type, staff have prepared zoning code amendments, which went to Planning Commission for a recommendation on January 30, 2019 and will be coming to City Council for its consideration on February 26, 2019.

Opportunity Zones – The new Federal Opportunity Zone program represents an opportunity to attract new investment into less developed parts of the city. San José has the largest number of designated Opportunity Zones in the Silicon Valley region. Per the Federal tax law's requirements, the City's 11 Zones are census tracts where household income or poverty rates met certain thresholds, and which also showed promise for business expansion or development. San José's zones exhibit geographical, economic, and demographic diversity, with areas including urban neighborhoods, light and heavy industrial clusters, commercial pockets, suburban office parks and small-business corridors. Staff will be providing an update on the program and its potential to the Community and Economic Development Committee at the February 25th meeting.

SB 35 (2017) Streamlining for Affordable Housing – Last year, the state legislature passed SB 35, which provides for a streamlined approval process for housing projects in those cities that not meeting their RHNA housing production goals. For San José, this provides a streamlining opportunity for housing developments that include 50 percent of the units as restricted affordable and are proposed for certain types of sites. Staff has evaluated one request for SB 35 streamlining and has developed a response format that reviews the requirements. While that submission was unsuccessful in meeting all requirements, staff is implementing the requirements of the legislation. An additional work item for the Planning Housing team is to develop a process for processing housing projects requesting SB 35 streamlining. This work item has not yet been initiated but will be initiated following the filling of the Planning IV Housing position.

SB 2162 (2018) Streamlining for Supportive Affordable Housing – Similar to SB 35, the State Legislature passed SB 2162, which provides for a streamlined entitlement process for affordable housing developments that include a minimum percentage of supportive housing units. With the filling of the Planner IV Housing position, staff will also develop this streamlining process. Staff is not aware of any applications that have tried to use SB 2162 streamlining yet.

Workplan Items Dropped

West San José Urban Village EIR – The primary purpose of the West San José EIR was to provide a project level environmental clearance for traffic level of service (LOS) impacts for projects proposed in the Santana Row/Valley Fair, Stevens Creek, Winchester, South Bascom and West San Carlos Urban Villages. With the passage of SB 743 and the City's adoption of Transportation Council Policy 5-1, the City no longer uses LOS as a CEQA threshold for transportation impacts, and now uses Vehicle Miles traveled. During the process of developing Council Policy 5-1, preliminary VMT analyses of potential developments consistent with the five West San José Urban Village plans were not projected to have unmitigable VMT impacts, thereby precluding the need to prepare an EIR or special development policy for the West San José Urban Villages. Staff therefore, is not proposing to prepare an EIR for West San José and is dropping this item from the Housing Crisis workplan.

EVALUATION AND FOLLOW-UP

Policy items from the Workplan that require City Council approval will be brought forward for consideration per the proposed Workplan timelines. Staff will also provide semi-annual progress reports on the progress of ongoing policy work to the Community and Economic Development Committee, and will provide updates on the development of housing units through the Ad Hoc Committee for Housing Construction and Development Services.

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Attachments:

Housing Crisis Workplan Council Memo dated June 1, 2018

Keyser Marston Associates Draft Memo on Downtown Incentives dated September 27, 2018