

# Memorandum

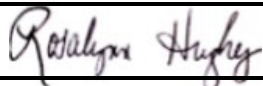
**TO:** COMMUNITY AND ECONOMIC  
DEVELOPMENT COMMITTEE

**FROM:** Nanci Klein  
Jacky Morales-Ferrand  
Chris Burton

**SUBJECT: HOUSING CRISIS WORK PLAN  
UPDATE**

**DATE:** November 9, 2021

Approved



Date

11/12/21

## **RECOMMENDATION**

Accept the report updating the Community and Economic Development (CED) Committee on progress implementing the City Council-approved Housing Crisis Work Plan, including information about the proposed update to City Council Policy 5-1: Transportation Analysis Policy and options to advance market-rate and affordable housing as a part of that effort.

## **BACKGROUND**

On September 28, 2017, the Mayor issued a memorandum entitled “Responding to the Housing Crisis.” The memorandum identified a number of items to address the housing crisis. Many items from this initial proposal were prioritized at the October 17, 2017, Council Priority Setting Session.

On June 12, 2018, staff first brought forward a proposed Housing Crisis Work Plan, (Work Plan) which proposed strategies and policy actions to enable the facilitation of 25,000 new housing units by 2023 that included 15,000 market-rate units and 10,000 affordable units.

Since 2018, staff has provided biannual updates in the spring and fall on the Housing Crisis Work Plan to the CED Committee and the City Council that provide updated Housing Production Reports to show the progress made toward the goal of 25,000 new housing units as well as status reports on Work Plan items.

On August 10, 2021, the City Council accepted the most recent update on the Housing Crisis Work Plan following a May 24, 2021 report to the CED Committee. The item had been set to be heard by the City Council in June 2021 but was deferred until after the July recess. At the August hearing, the City Council requested that staff include in the next Housing Crisis Work Plan status report an estimate of the potential impact for each Work Plan item, an assessment of impact for completed items, and an overall discussion of prioritization strategies based on learnings from completed items. Additionally, the City Council requested that staff, working with the Mayor’s

Office, identify potential barriers to construction by identifying and communicating with housing builders that have current entitlements and are not yet moving forward with construction. Staff was directed to prioritize this effort and provide a report back to the City Council.

Councilmember Peralez also requested information about how the City's Transportation Analysis Policy (Policy 5-1) could be adjusted to promote more housing development, especially affordable housing.

## **ANALYSIS**

The items contained in the Work Plan are intended to encourage housing production, or in some cases to preserve existing affordable units, with the overall goal of delivering 25,000 new housing units by 2023 with 15,000 market-rate and 10,000 affordable. Some staff work items are newly initiated and specific to the Work Plan, while some align with other planned or ongoing work. A complete summary of all Work Plan items is included in **Attachment A**.

Implementation of the Work Plan and facilitation of residential development is managed through the Housing Catalyst Team. The team meets on a biweekly basis and is composed of staff from the Office of Economic Development and Cultural Affairs' (OEDCA) Business and Economic Development Team, Planning, Building and Code Enforcement's (PBCE) Citywide Planning Division, the Housing Department's Policy and Planning and Residential Production Divisions, and Parks, Recreation and Neighborhood Services' (PRNS) Strategic Planning Team.

From its inception, the items contained in the Work Plan were prioritized based on level of effort and potential return. Following the August 10, 2021, City Council recommendation, the Housing Catalyst Team undertook an effort to better document work item prioritization and to create more defined metrics for the potential impact of work items. It is important to highlight that while staff has estimated potential impact of work items, these policies and their impacts can be difficult to measure precisely. Additionally, many work items do not have an immediate effect, and it can take months or years to understand their overall impact.

A visualization of the prioritization of all Work Plan items is contained in **Attachment B**. The items are categorized first by *impact* and then by *level of effort* required. There are also items for which more work is needed to fully understand the potential impact. The detailed definitions of *impact* and *level of effort* are included on page 2 of **Attachment B**. Overall, *impact* is defined by the estimated number of affordable or market-rate housing units that are expected to result, the likelihood that an affordable unit is preserved, or the likelihood that the item would result in a time or costs savings for a new development. *Level of effort* is defined by the amount of staff work required to fully complete a work item. Based on these concepts, the work items that are high impact and require a low level of effort are highest prioritized in the Work Plan. Items that are low impact and require a high level of effort are lowest prioritized in the Work Plan. Staff is also recommending dropping several items based on impact and effort. These items are detailed and explained later in the analysis section of this memorandum.

At the August 10, 2021, meeting, the City Council also directed staff to provide an assessment of the impact of completed Work Plan items. A concise analysis of each completed Work Plan item is contained in **Attachment C**. Along with the analysis, each completed item is also given an impact rating using the same scale used in **Attachment B**. Overall, there are items that have had a high impact on housing production such as the *Update to the Downtown Vision and EIR*. However, there are also a number of items where it is too soon to measure overall impact and success such as the *Refinements to General Plan Policy H-2.9 (the 1.5-acre rule)*. There are also items such as the *Co-Living Ordinance*, that staff initially believed would result in new construction, but have so far not fulfilled that expectation.

There were two key takeaways from the assessment of the impact of completed Work Plan items. The first is that it takes a considerable amount of time to fully understand the impact of changes to housing policy – the feedback is not immediate. Second, the highest impact items to date are generally those that require a very high level of effort. This is reflected in the highest priority items of the current Work Plan, where almost all high impact items also require a high level of effort. As Work Plan items are completed, staff will provide an initial assessment on their effectiveness and outlook. The lessons learned from previous items will continue to inform the addition and of new Work Plan items.

### ***Housing Market and Housing Production Report***

From January to October 2021, San José had seen month-over-month rent growth since January 2021. Rents in San José, however, declined 0.4% in October 2021 compared to the previous time period, according to data from Apartment List.<sup>1</sup> This trend matches national trends in which rent growth has started to level off. San José rents are still 4% below pre-pandemic levels (March 2020) but remain high overall compared to other major cities. Median rent at the beginning of November 2021 for a one-bedroom is \$1,946 and \$2,297 for a two-bedroom unit.

Despite this positive rent growth, new construction for market-rate multifamily development has remained very slow with only one significant market-rate construction project starting in 2021. Affordable housing, less directly tied to market conditions, has seen new construction continue the positive growth pattern seen in 2020. In 2021, five new affordable projects have started construction, with a total of 481 units combined, and several more projects are anticipated to start before the end of the calendar year. The most recent Housing Production Report that includes the third quarter of 2021 is provided in **Attachment D**.

The Housing Catalyst Team has been working with the Development Services Transformation Team to develop a housing production dashboard that displays the most up-to-date housing production numbers and tracks overall progress toward the goal of 25,000 housing units by 2023.

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<sup>1</sup> <https://www.apartmentlist.com/ca/san-jose#rent-report>

Staff anticipates that the dashboard will launch by early 2022.

Accessory Dwelling Unit (ADU) production has continued to grow with 411 total ADU units permitted in 2021 through the end of October. This total exceeds all other years tracked by the City. More complete data and tracking can be found the [ADU Permit Activity Dashboard](#).<sup>2</sup>

### ***Report on Barriers to Housing Construction***

The Housing Catalyst Team has initiated work on this request and has conducted individual interviews with many of the affordable housing developers with projects recently approved and at or near start of construction in San José. Staff intends to hold additional outreach meetings with affordable developers before the end of the year. Staff will return to the City Council in January 2022 with the feedback received, along with potential recommendations to address any issues identified. Following this report on affordable housing, staff plans to initiate a similar effort for market-rate housing in 2022. This information will also be used for the forthcoming Housing Element's required assessment of barriers to housing.

### ***Housing Crisis Work Plan Update***

**Attachment A**, the Housing Crisis Work Plan Summary Chart, summarizes all Work Plan items with anticipated timelines. The chart is broken into three sections: Work Plan Items Completed, Work Plan Items Initiated or Underway, and Work Plan Items to be Initiated. The Summary Chart is also enumerated with the ranking listed from **Attachment B**. Staff is also proposing to drop several items from the Work Plan. Key highlights from the Work Plan are outlined below.

- Highlights from Completed Work Plan Items
  - San José Housing Site Explorer – The San José Housing Site Explorer combines many City and external data sources into one place that allows members of the development community or others to look for potential sites to develop housing. Feedback received on the tool has been positive, and staff will continue to add and update data sources moving forward. Staff will also continue to look for ways to promote this tool. **Link:** <https://san-jose-housing-ca.tolemi.com/>
- Highlights from Ongoing Work Plan Items
  - Commercial Linkage Fee Implementation – Staff has continued work on implementation of the Commercial Linkage Fee (CLF) adopted by the City Council on September 1, 2020. This includes technical work with the Department of Planning, Building, and Code Enforcement and the Information Technology Department concerning the administration of the timing and collection of payment, especially for the phased option of payment for office and industrial uses over 100,000 square feet. Staff was directed to explore adding credits for the CLF that could include creating

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<sup>2</sup> <https://www.sanjoseca.gov/your-government/departments-offices/planning-building-code-enforcement/planning-division/data-and-maps/development-monitoring/permit-statistics/adu-permits/>

affordable housing, incorporating on-site historic preservation, or utilizing sustainability standards in the development. Significant challenges have been identified in implementing the Commercial Linkage Fee as approved by the City Council. Staff is contemplating changes to the timing of the payment to increase the collectability of the fee and incorporate the fee into our existing technology systems. Staff is currently conducting outreach on these updates to the ordinance and resolution and has drafted guidelines for implementation. All these items will be brought to the City Council in early 2022.

***New Items Not Previously Included in the Work Plan***

- **Update to Council Policy 5-1: Transportation Analysis Policy** – The City Council adopted San José’s Transportation Analysis Policy (Council Policy 5-1) in 2018 to shift from level of service to vehicle-miles traveled for evaluating transportation impacts of development and transportation projects under the California Environmental Quality Act (CEQA). The Transportation Analysis Policy Update effort reviews how effective the policy has been in advancing Climate Smart Plan and General Plan land use and transportation goals during the last three years of implementation. City staff will then recommend modifications to the policy for Council consideration as they relate to CEQA thresholds, screening criteria, and transportation analysis requirements. As part of this work, the City is exploring potential updates to further streamline the transportation review process for housing, especially affordable housing. At the November 22, 2021, CED Committee meeting, staff will seek feedback on potential strategies for accomplishing a streamlined process, along with the benefits and tradeoffs of each strategy. Staff intends to bring the full Transportation Analysis Policy Update to Council for consideration in spring 2022.

***Items to be Dropped from the Work Plan***

There are two work items that staff is proposing to drop from the Work Plan following the prioritization effort undertaken by the Housing Catalyst Team. Since the November 22, 2021 update of the Work Plan is not cross-referenced to City Council, staff will recommend that these items be formally dropped from the Work Plan in spring 2022 at the next update.

- **Explore Public/Private Parking opportunities** – The goal of this work item was to explore opportunities for special parking arrangements that would help new housing development. While there could be opportunities for parking arrangements related to specific housing projects, those opportunities would arise on a case-by-case basis. Many affordable housing developers take advantage of reduced parking requirements through California’s density bonus law on an individual basis. Based on the prioritization effort for the Work Plan, staff believes that development of any broader policy is unlikely to result in any significant amount of new housing units and would require a high level of staff effort.
- **Pursue changes to the GP to allow Infill in Problem Properties** – This work item was included early on in the Work Plan and was also considered as a part of the first General Plan Four-Year Review. As was noted in the analysis done through the first General Plan Four-

Year Review, uses such as massage parlors and liquor stores are allowed in San José in specified zoning districts and within the regulations established by City ordinance. These uses in and of themselves are not necessarily undesirable. Staff believes that using the City's Code Enforcement and policing tools is the most appropriate and effective approach to addressing nuisance or undesirable uses in a neighborhood. Allowing infill housing or mixed-use development for properties considered problematic could have the effect of rewarding "bad behavior." Additionally, as shown in the prioritization effort done by the Housing Catalyst Team, staff expects that this item is unlikely to result in the creation of many housing units and would require a significant amount of staff time.

- **Update Downtown Zoning requirements to establish minimum height and density and eliminate parking requirements** – This item includes two distinct work items. The work item related to eliminating parking requirements in the Downtown is moving forward as part of the American Cities Climate Challenge (ACCC) grant funded work to develop new parking strategies to reduce greenhouse gas emissions. This work item is **not** proposed to be dropped; Council will consider staff's recommendation on this body of work in the winter of 2022. Staff is proposing to drop the work item related to establishing minimum heights and densities in Downtown. Under current market conditions and trends, staff does not see a threat of low or medium density housing being developed in Downtown and completion of this item would not likely result in more housing units Downtown. If trends emerge for low or medium density housing in locations where the City desires higher densities, then staff would propose a new work item. This work item would require a more nuanced approach, that would define place-specific appropriate minimum heights and densities in various portions of Downtown, and not a one blanket policy approach for all Downtown. For example, there are portions of Downtown adjacent to historic and/or lower density neighborhoods where transitional heights and densities would need to be established, with extensive community and stakeholder engagement.

### ***Ongoing Work Plan Items***

Several items have consistently been included as Work Plan items and were classified as ongoing. These items fit broadly within the work and priorities of the Housing Catalyst Team, and do not contain a specific goal with an end date. Given these factors, the following items are proposed to be removed from the Work Plan, but will remain guiding principles of the work conducted by the Housing Catalyst Team:

- Advocate for State legislation that supports housing development
- Encourage private, public, and nonprofit investments
- Leverage private dollars for affordable housing

### **EVALUATION AND FOLLOW-UP**

Policy items from the Work Plan that require City Council approval will be brought forward for

consideration pursuant to the noted timelines. Staff will also continue to provide biannual progress reports on the Work Plan to the CED Committee; the next progress report will be in spring 2022.

## **COORDINATION**

The report was coordinated with the Department of Parks, Recreation and Neighborhood Services and the Department of Transportation.

## **COMMISSION RECOMMENDATION/INPUT**

This update will be presented to the Housing and Community Development Commission at its meeting on November 18, 2021.

/s/  
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## **Attachments:**

Attachment A – Housing Crisis Work Plan Summary Chart  
Attachment B – Housing Crisis Work Plan Prioritization and Impact Summary  
Attachment C – Impact and Discussion of Completed Work Items  
Attachment D – Housing Production Report