

December 7, 2016

Dear Hon. Mayor and City Council:
San Jose City Hall
200 E. Santa Clara
San Jose, CA 95113

Re: Actions Related to the Extension of Downtown High-Rise Incentive Program (Item 4.4 on December 13, 2016)

Dear Hon. Mayor Liccardo, Councilmember Peralez and San Jose City Council

Thank you for the opportunity to comment on the proposed Extension of the Downtown High-Rise Incentive Program. As an urban policy think tank and downtown business, SPUR cares deeply about downtown's success. In 2014 we published *The Future of Downtown San Jose*, which recommended a number of strategies to make that happen.

We recognize the current need to continue the high-rise incentive program. While we believe that downtown must have a large concentration of jobs, it is also important to get a critical mass of mixed-use residential development downtown. Residential development and placemaking are an increasingly important part of a city's economic development strategy.¹ Talent increasingly wants to live in great urban neighborhoods near transit and employers follow the talent. College educated people ages 25-34 are more than twice as likely than all other groups to live in urban neighborhoods.² Getting high-quality, well-designed housing can help attract talent and jobs to downtown.

However, we have reservations about this policy approach in the long-run. We have two recommendations to spur more development in the downtown and San Jose.

1. Address the underlying challenges that have made development difficult to build *earlier* in the cycle, such as the city's fee structure. To that end, we recommend that San Jose update its citywide fee schedule and define new fees clearly. Specifically:

- Develop a proposal for what public benefits such as streetscape improvements or community facilities are needed downtown and other growth areas, and identify which of those benefits can and should be financed by new construction. This should be as specific as possible—for example: retrofitting street crossings and

¹ <http://www.spur.org/news/2016-09-29/two-things-all-successful-cities-do>

² <http://cityobservatory.org/wp-content/uploads/2014/10/YNR-Report-Final.pdf>

signals to make them more pedestrian-oriented or maintaining Plaza de Cesar Chavez Park.

- Review existing fee requirements for parks, transit and housing and conduct a feasibility analysis to determine the appropriate fee levels. Set new fees at the maximum levels based on this feasibility analysis.
- Analyze fees on a regular basis. Often, impact fees are set at the top of the market and aren't financially feasible either at the beginning of an up cycle (when land is less expensive and rents are lower) or at the end of a cycle (when land is expensive but rents might be lower).
- Update the transit fee as the city moves from an old measurement of transportation impact that focused on the ability of automobiles to move through the city quickly (Auto Level of Service) to one that seeks to reduce driving (Vehicle Miles Traveled or VMT). Because the new metric (VMT) looks to reduce driving, public benefits such as bike lanes and pedestrian improvements may also be paid for through fees on new housing. This is also important to support BART's success.
- We need more resources for affordable housing but we also need to set the fees at the right level to make sure that the city gets new market rate housing and gets funding for affordable housing. We recommend setting impact fees on a per square foot basis, rather than on a per unit basis. The current structure incentivizes developers to produce fewer, larger units and penalizes developers that build smaller units (and can't charge higher rents).
- Our downtown parks will become increasingly important as new residents and workers arrive. We are pleased to see that the city is going to study how to align the fee structure more closely with potential impacts. We are happy to provide benchmarks from other cities in the Bay Area.

2. We think that projects that benefit from this type of direct public subsidy should be of exceptional quality. Incentives should be used to encourage the best kind of development and to support those who are most in need. A ranking system could be established to make sure that new buildings that receive the incentive offer the best kind of urban design that support walkability (most appealing streetscapes) in the downtown and inclusion (affordable units in downtown).

Finally, we are concerned that San Jose's citywide land use policies are sending mixed signals. While we need more residents downtown, we also need a large concentration of jobs in the downtown. It is the likeliest place, other than North San Jose, for new jobs to locate and it is the only way to make BART to San Jose a success.

The urban villages are the right place to develop mixed-use buildings that add housing and create vibrant neighborhood retail districts. However, the city's land use policies seem to be making mixed-use development extremely difficult in urban villages. Specifically, the planning horizons, a high jobs goal, high commercial requirements for mixed-use buildings, and various other rules hold back mixed-use development in urban villages (even once a plan is adopted).

Coupled together, the permissive downtown zoning (allowing either jobs or residential development), housing incentive and restrictive urban village plans have distorted the market and effectively made downtown the only place where it is possible to build housing—in the exact place where we also need lots of jobs.

In summary, we recognize the need for this incentive in the near-term to get a critical mass of housing in downtown. We ask that the city make sure that projects that receive this incentive are providing the highest quality development and to readjust its fee structure so that development can occur earlier in the cycle. At the same time, it is critical that the city work to consider the land use policies and incentives that will make downtown more attractive for jobs.

Thank you for your leadership and commitment to downtown San Jose. We look forward to working with you to continue working to make downtown successful.

Sincerely,

A handwritten signature in cursive script that reads "Teresa Alvarado". The signature is written in black ink on a light-colored background.

Teresa Alvarado
San Jose Director