

# Room for More



SPUR's Housing Agenda  
for San Jose

## Acknowledgments

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# Room for More

SPUR's Housing Agenda for San Jose

# Executive Summary



The Silicon Valley economic miracle has become a housing nightmare. We aren't building enough housing for all the people who want to live here. As rents and home prices continue to rise, our economic growth, our diversity and our climate are threatened.

SPUR believes that the actions of local governments are critical to addressing the housing shortage. Cities can make decisions that will help alleviate this shortage by zoning for dense housing near transit, allowing the creation of secondary units in existing single-family neighborhoods and supporting funding for affordable housing. Or they can make the housing shortage worse by not allowing multifamily apartments to be built within neighborhoods, by making it hard to site and fund affordable housing that families need, and by stalling important transit projects that help connect the region, forcing people into long commutes from less expensive housing to the places where jobs are located.

This report focuses on steps that the City of San Jose can take to address the housing shortage, but the recommendations we make in this report can be applied to many of the cities in Santa Clara County. San Jose has historically been a top producer of housing for the region, and as the largest city in the

Bay Area it has a special responsibility to lead on innovative housing solutions.

SPUR proposes two ideas to guide San Jose's housing policy:

**Use planning and zoning tools to build 120,000 new housing units — both market-rate and affordable — over the next 30 years.**

**Find new resources to support affordable housing development.**

The first idea makes use of the key tool that local governments have: the ability to change zoning codes to allow for more housing. Cities that close the doors on new residents not only hurt the people who want to live in their city; they hurt the entire Bay Area by worsening the imbalance between housing supply and demand. This causes those who can't afford steep home prices to move far away from where they work, to crowd into apartments meant for fewer people or to leave the area entirely. San Jose has done a great job of adding housing over the past decades, but there is still more it can do. Other cities that have historically not allowed new housing to be

Photos by Sergio Ruiz

built need to begin doing their part too, or we will all suffer the consequences.

The second idea is one that continues to bedevil cities, the region and the entire state. Affordable housing requires public investment. Without it, the people who make this region work — teachers, nurses, bus drivers, service workers — will be priced out. Each layer of government has a responsibility to find ways to support the creation of affordable housing.

In order to make these ideas a reality, our report provides five key strategies:

1. Make it possible to build more housing in walkable neighborhoods and in neighborhoods near transit by using zoning and other planning tools.
2. Enable greater production of housing that is affordable by design. Make it possible to build housing with less parking in places where parking isn't needed, and make it easier to build in-law units and other smaller living spaces.
3. Make great places for people to live, work and play. Reform existing plans and codes to create neighborhoods with a mix of housing, commercial spaces and public places, creating a

virtuous cycle that will achieve the city's goal of attracting both new jobs and residents.

4. Improve the city's development approvals process, aligning planning with the city's values by supporting good urban design and environmental review processes that look at how congestion impacts people and not just cars. Making these changes will help create the type of housing the city wants more quickly.
5. Create more funding for affordable housing, developing resources at the state, regional and local levels and reducing costs for affordable projects.

It is our hope that by taking these steps, San Jose can help address the chronic housing shortage and continue to lead in Silicon Valley.

INTRODUCTION

# Silicon Valley's Housing Problem

**FIGURE 1**  
Home prices have exploded in many parts of Santa Clara County

Median home value in 2016 dollars for the 10 largest cities in Santa Clara County, plus California and the United States

While home prices are high in San Jose, they have remained relatively affordable compared to most other cities in Santa Clara County.

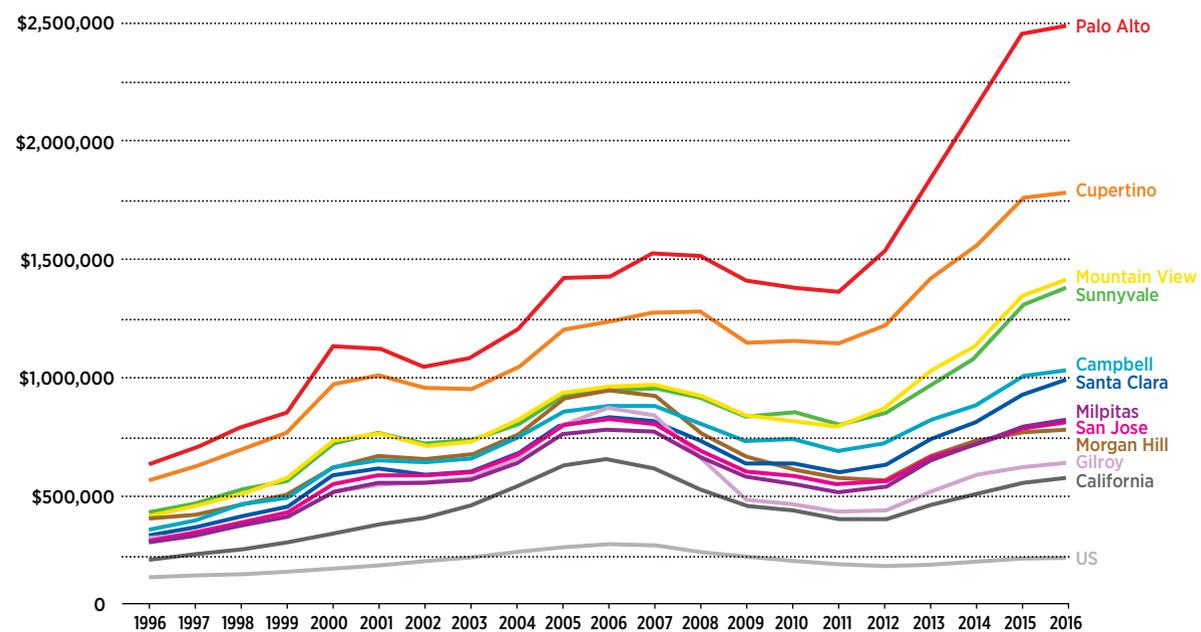
Source: SPUR analysis of Zillow's Median Home Value Index for all homes, <http://www.zillow.com/research/data/#median-home-value>

Bay Area housing costs too much, and the South Bay is no exception. High housing costs are an environmental issue (housing scarcity in urban centers leads to sprawl), an equity problem (people with less money are hurt by expensive housing and may be forced to find lower-cost alternatives in other places) and an economic problem (the high cost of housing makes it difficult to bring new talent to the Bay Area and is perhaps the leading constraint on the sustained growth of the Bay Area's economy).

The causes of the Bay Area's affordability problem are straightforward: We have created a long-term, structural undersupply of housing and made it difficult for the housing supply to grow as the economy grows. The communities of Silicon Valley — including Santa Clara, Sunnyvale, Cupertino, Mountain View and Palo Alto — are home to fabled, dynamic and growing companies that help propel

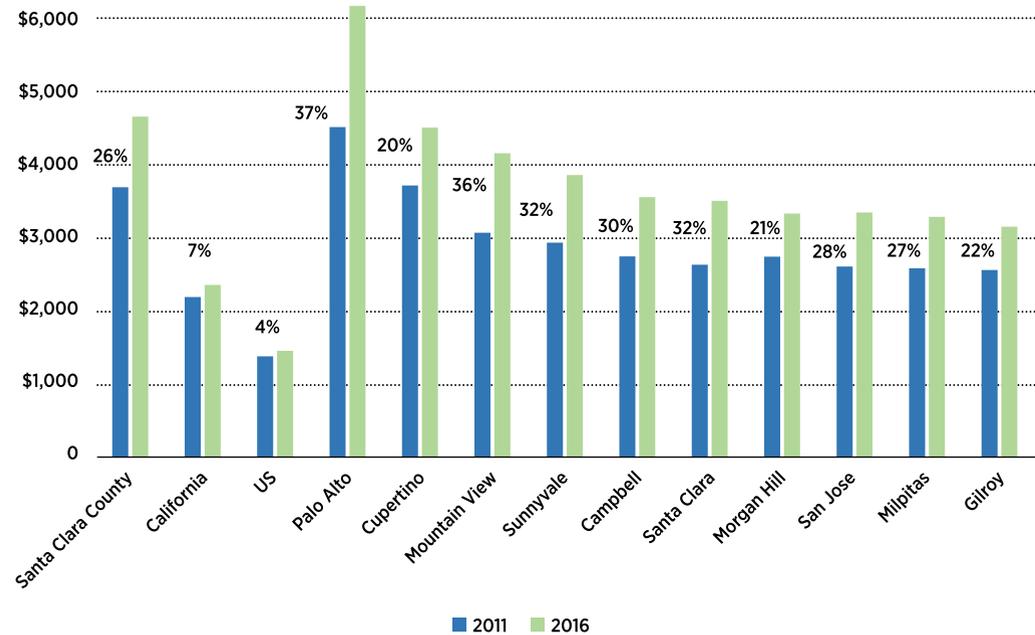
the economic engine of the world. But these same communities — and many others across the Bay Area — are not adding housing supply in proportion to jobs. The result is a classic “tragedy of the commons”: each community, pursuing its own interests as expressed by its voters, decides to go slow on housing growth. The result is a place that betrays its own values by becoming an enclave for the wealthy while undermining the viability of the region as a location for future innovation.

We must take a nuanced view of the housing dynamics in San Jose. The Bay Area housing shortage has been exacerbated by almost all of the cities in the region. While most of Silicon Valley has a jobs-housing imbalance, with many more jobs than housing units, San Jose has the opposite problem: It is the only large city in the country to actually lose



High housing costs have made affordable housing projects like Donner Lofts an even more critical part of San Jose's housing supply.

Photo by Sergio Ruiz



**FIGURE 2**  
**San Jose rents have increased more in the last five years than Santa Clara County averages, but less than some of the other cities in Santa Clara County**  
**Median rents in 2011 and 2016, in 2016 dollars**  
 San Jose's median rent increased by 28 percent between 2011 and 2016, compared to much larger increases across other cities in Santa Clara County.  
 Source: SPUR analysis of Zillow's Rent Index (ZRI), <http://www.zillow.com/research/data/#median-home-value>

population during the daytime,<sup>1</sup> because more of its residents work outside the city itself. At the same time, San Jose has the unique potential — in terms of infrastructure, land and political will — to be part of the solution for what is clearly a region-wide housing shortage.

This report lays out SPUR's housing agenda for San Jose, informed by our understanding of the Bay Area's housing market dynamics, our belief in using development as a tool for place-making and our appreciation of the need for a well-funded local government. SPUR has a hundred-year history of working on housing issues, dating back to its founding as the San Francisco Housing Association after the 1906 earthquake. We have done in-depth work at the local, regional and state levels. This report focuses on San Jose for the simple reason that it is one of the three cities where SPUR works, and because we believe the city will benefit from adopting our recommendations.

Our philosophy is that there are two key ways to address the high cost of housing. The first is to use local planning tools to increase the housing supply, enabling San Jose to meet its target of building

120,000 housing units by 2040.<sup>2</sup> The second is to make it possible to build more affordable housing. This report covers both strategies.

We hope the analysis and recommendations in this report can help define a progressive housing agenda for San Jose — making a real contribution to the regional housing supply while also improving quality of life and fiscal health for the city. At the same time, many of the ideas in this report can be replicated across the region, and we look forward to working with neighboring communities in Silicon Valley as they address their own housing needs.

## The South Bay Housing Picture

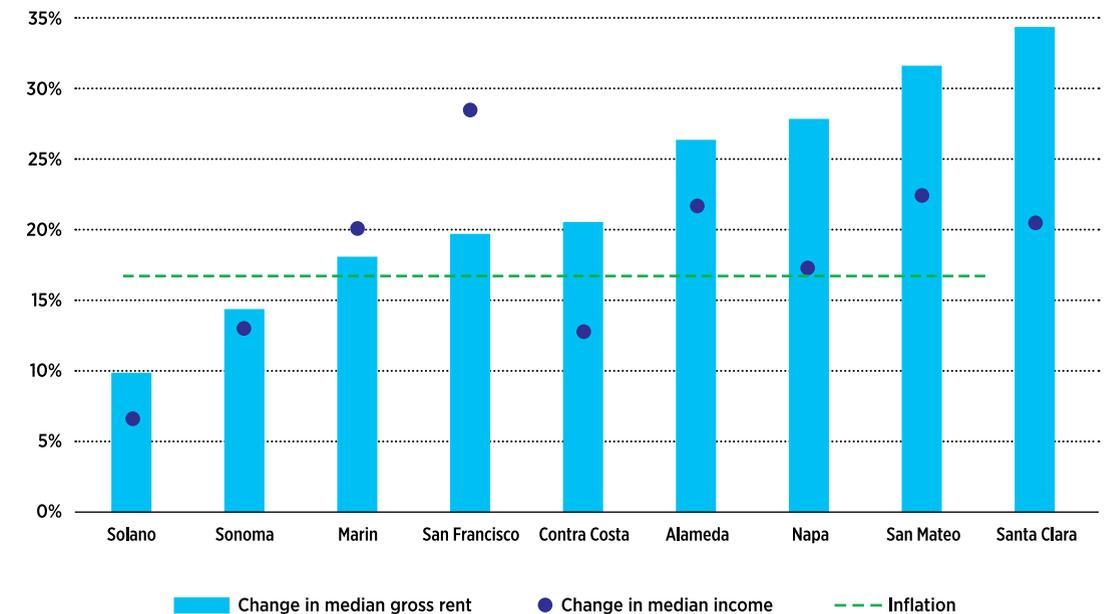
### Housing Affordability Today

Silicon Valley's chronic housing shortage has been exacerbated by a lack of sufficient housing construction coupled with extraordinary job growth. Over the last 20 years, home prices have risen 153

<sup>2</sup> Envision San Jose 2040 General Plan, adopted November 1, 2011, page 59; and "City-Initiated General Plan Text Amendments Associated with the Envision San Jose 2040 General Plan Four-Year Review," Memorandum from Planning Commission to Honorable Mayor and City Council, November 22, 2016. [http://sanjose.granicus.com/MetaViewer.php?view\\_id=8event\\_id=2662&meta\\_id=604932](http://sanjose.granicus.com/MetaViewer.php?view_id=8event_id=2662&meta_id=604932), accessed on July 13th, 2017

<sup>1</sup> Harry Freitas and Kim Walesh, "Memorandum, City Council Study Session on the History of Employment Land Conversions in San Jose and the Fiscal Impact of Land Use," April 3, 2015, <http://sanjoseca.gov/DocumentCenter/View/41977> (accessed on September 15, 2016).

**FIGURE 3**  
**Median rents have grown faster than median incomes in most counties since 2010, especially in Santa Clara County**  
**Change in median gross rent compared to median incomes across each of the Bay Area's nine counties, 2010-2015**  
 The median cost of rent and utilities (gross rent) has risen more quickly than income in every county except San Francisco and Marin since 2010. Median rents in San Francisco are held down by the more than two-thirds of units that are rent controlled. This unequal growth in rents and incomes across the region exacerbates affordability problems. Growth in top incomes (not shown here) has likely also contributed to median rents rising above normal inflation.



Source: American Community Survey 1-year estimates from 2010 to 2015 for median gross rent (Table B25064) and median income (Table S1903), <http://factfinder.census.gov/faces/nav/jsf/pages/searchresults.xhtml?refresh=t>; Inflation from Bureau of Labor Statistics CPI-U for San Francisco-Oakland-San Jose, CA, <https://data.bls.gov/cgi-bin/survey/most?cu>

percent above inflation in San Jose, 293 percent in Palo Alto and 237 percent in Mountain View.<sup>3</sup>

The unprecedented, rapid increase in home values has created winners and losers. For existing homeowners, the increase in median home value shown in Figure 1 likely represents a boost in personal wealth. For aspiring home buyers, however, the escalation in housing values represents a growing barrier to ownership.<sup>4</sup>

**While rental prices have risen in Santa Clara County, incomes have not kept pace.** Of the nine Bay Area counties, four have seen median rents grow far above and beyond inflation (Alameda, Napa, San Mateo and Santa Clara). (See Figure 3.) Santa Clara has seen the largest gap between the growth in its median rent and growth in its median income. This means that unless market trends change, residents who live and work in Santa Clara County are less likely to be able to afford median rental costs.

### The intense pressure of the housing market affects low-income households the most.

This plays out in several ways. First, many people who would like to move to the Bay Area are locked out by the high costs. Secondly, low-income households experience the threat of displacement and/or homelessness. Thirdly, low-income households pay a

<sup>3</sup> All figures based on Zillow's median Home Value indices for January through August 2016, <http://www.zillow.com/research/data/#rental-data> (accessed October 2016).

<sup>4</sup> Nicolas Retsinas and Eric Belsky, eds., Homeownership Built to Last, Brookings Institution Press, 2004, <https://www.brookings.edu/book/homeownership-built-to-last>

disproportionate percentage of their income on rent. Finally, low-income households face overcrowding as a means to deal with rising housing costs.

### Housing costs impact different racial and ethnic groups in different ways, with Hispanic renters more likely to be severely burdened by rental costs than any other group.

As seen in the first column of Figure 5 on page 10, San Jose's households are roughly one-third Asian, one-third Hispanic, slightly less than one-third white, 3 percent African American, and 3 percent "other."<sup>5</sup> Hispanic households are slightly more likely to rent and Asian households are more likely to be owner-occupied.<sup>6</sup> Hispanic renters are disproportionately likely to be burdened by rental costs and even more likely to be severely burdened by rental costs. In the 2010 census, Hispanic households were also more crowded and were home to four or more people on average, while Asian households were home to three, and African American and white households were home to under three.<sup>7</sup>

<sup>5</sup> "San Jose's 2016-2017 Proposed Budget in Brief: San Jose at a Glance," page 2, <http://www.sanjoseca.gov/DocumentCenter/View/56484>

<sup>6</sup> Nearly 60 percent of San Jose households are owner-occupied. This is higher than San Jose's big-city peers in the Bay Area. Over 60 percent of households in Oakland and San Francisco rent instead of own their homes. For source info, see Figure 5.

<sup>7</sup> 2010 U.S. Census, "Average household size by race and ethnicity," <https://www.census.gov/prod/www/decennial.html>

INCOME LEVEL	PERCENT OF SAN JOSE RENTERS	PERCENT OF RENTERS WHO ARE RENT-BURDENED	PERCENT OF RENTERS WHO ARE SEVERELY RENT-BURDENED
Extremely low-income (Less than 30% AMI)	29%	13%	68%
Very low-income (Between 30% and 50% AMI)	17%	49%	31%
Low-income (Between 50% and 80% AMI)	16%	44%	6%
Median-income (Between 80% and 100% AMI)	9%	28%	2%
Moderate-income and above (More than 100% AMI)	29%	5%	0%

**FIGURE 4**

**Lower-income households are more likely to be rent-burdened in San Jose**

**Percentage of San Jose renters by area median income (AMI) who are burdened or severely burdened by rent**

Almost a third of San Jose's renters are concentrated in the lowest income bracket.

Roughly 80 percent of renters in the extremely low and very low income brackets are either burdened (paying more than 30 percent of their income toward rent) or severely burdened (paying more than 50 percent of their income toward rent).

Source: SPUR analysis of U.S. Department of Housing and Urban Development's Comprehensive Housing Affordability Strategy 5-year average (2009 to 2013), <https://www.huduser.gov/portal/datasets/cp.html>

RACE/ETHNICITY	PERCENT OF POPULATION	PERCENT WHO RENT	SHARE OF RENT-BURDENED	SHARE OF SEVERELY RENT-BURDENED
Hispanic	33%	36%	39%	44%
White	28%	29%	28%	24%
Asian	32%	27%	24%	24%
Black	3%	5%	6%	5%
Other	3%	2%	2%	2%

**FIGURE 5**

**Hispanic households in San Jose are more likely to be severely burdened by housing costs**

**Distribution of rental-cost burden by race and ethnicity**

While Hispanic residents make up only 36 percent of San Jose's total renters, they represent 39 percent of renters who pay more than one-third of their household income on rent

and 44 percent of renters who pay more than half their household income on rent.

Source: SPUR analysis of various data sources. The first two columns were created using American Community Survey 5-year estimates (2009-2013), Tables B03002 and B25003, respectively, <https://factfinder.census.gov/faces/nav/jsf/pages/searchresults.xhtml?refresh=t>. The second two columns were created using U.S. Department of Housing and Urban Development's Comprehensive Housing Affordability Strategy 5-year average (2009-2013), <https://www.huduser.gov/portal/datasets/cp.html>

**The Growth of San Jose and Silicon Valley**

How did the City of San Jose and Santa Clara County find themselves in a housing shortage? Part of the answer has to do with the history of growth in this area.

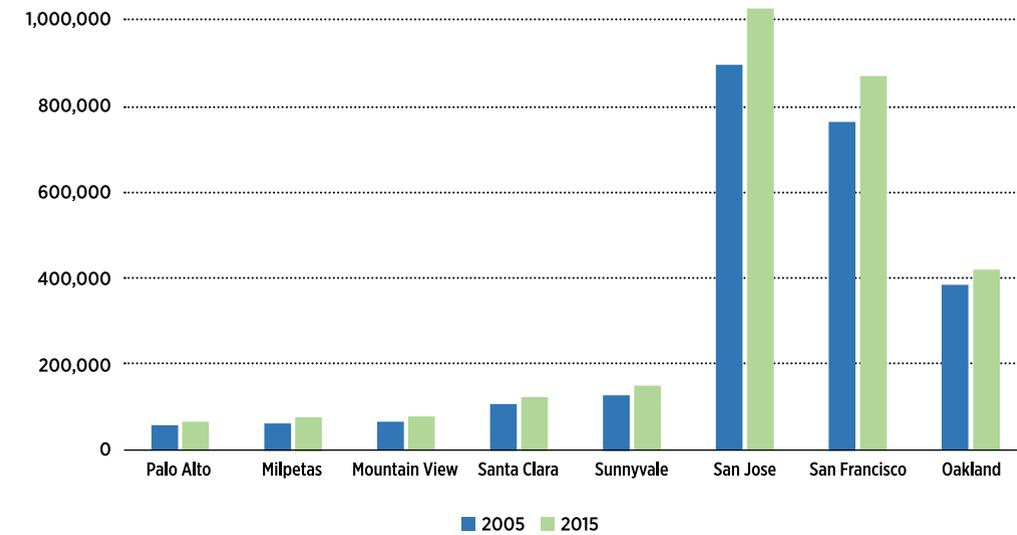
Currently, San Jose is the third-largest city in California and the largest city in the Bay Area. It is home to slightly over 1 million people, comprising roughly 54 percent of the population of Santa Clara County.<sup>8</sup>

Until the 1950s, San Jose was predominantly an agricultural center with a small downtown that served the commercial needs of surrounding farmers. By the early 1960s, a pro-growth coalition ushered in a period of rapid expansion that continued into

<sup>8</sup> 2015 U.S. Census estimates, as of July 1, 2015, [https://factfinder.census.gov/faces/nav/jsf/pages/community\\_facts.xhtml#](https://factfinder.census.gov/faces/nav/jsf/pages/community_facts.xhtml#)

the '70s. The city added an astonishing 132 square miles to its boundaries by approving roughly 1,400 annexations between 1950 and 1970.<sup>9</sup> San Jose's growth was fueled in part by a lax regulatory environment governing development, but also by external factors such as the industrial cluster forming in Silicon Valley, federal defense contracts for Silicon Valley businesses, highway expansion in the form of highways 101, 280 and 880 that connected San Jose to the rest of the Bay Area, and federal housing

<sup>9</sup> Philip Trounstine and Terry Christensen "Flashback: A Short Political History of San Jose", page 10. Excerpted from *Movers and Shakers*, New York: St. Martin's Press, 1982. [http://www.sjsu.edu/polisci/docs/faculty\\_links/Terry%20San%20Jose%20Political%20History%20to%201970-1.pdf](http://www.sjsu.edu/polisci/docs/faculty_links/Terry%20San%20Jose%20Political%20History%20to%201970-1.pdf), accessed on July 17th, 2017



**FIGURE 6**

**San Jose has added more residents than other cities over the last 10 years**

**Population in 2005 and 2015 for the six largest cities in Santa Clara County and the three largest Bay Area cities**

The largest city in the Bay Area, San Jose is home to over half the residents in Santa Clara County.

Source: U.S. Census Bureau American Community Survey 1-year estimates for 2005 and 2014, Table B01003, <http://factfinder.census.gov/faces/nav/jsf/pages/searchresults.xhtml?ref=geo&refresh=t&tab=map&rc=bkml>

policies that fostered the creation of single-family homes.

Between 1950 and 1970, San Jose's population exploded from 95,000 to 446,000.<sup>10</sup> Over the same time period, the city grew from 17 square miles to 137 square miles, resulting in a 40 percent decline in gross density (from nearly 5,600 residents per square mile in 1950 to less than 3,400 in 1969).<sup>11</sup> Once a relatively small city serving an agricultural area, San Jose had become a city of low-density suburban tract homes. In fact, San Jose is the only city of 500,000 people or more in the country with more employed residents than jobs.<sup>12</sup>

By the 1970s, the leaders of San Jose began moving toward policies to limit development in outlying areas while building more densely in the core part of the city, a strategy that continued through the '80s and '90s. The city also shifted toward trying to capture more jobs, adding housing at a more modest pace.<sup>13</sup> The 2020 General Plan (adopted in 1994) and the 2040 General Plan (adopted in 2010) helped carry out these goals. We describe the role of the 2040 General Plan in greater detail on page 18.

By 1998, the number of permits for new multifamily housing units outstripped the number

of permits for single-family units, as seen in Figure 14 on page 8. But overall, San Jose still has more single-family homes than other big cities in the Bay Area. Roughly two-thirds of San Jose's housing units are either stand-alone single-family homes or townhouses, as seen in Figure 7 on page 13.

The postwar building boom led San Jose to have the lowest number of residents per square mile among the three big cities in the Bay Area. San Jose has roughly 5,800 people per square mile, as opposed to 7,500 per square mile in Oakland and 18,500 per square mile in San Francisco.<sup>14</sup> This sprawling pattern is more common among the cities in Santa Clara County, where the number of housed people per square mile doesn't vary much from city to city. In recent decades, San Jose has pivoted to building significantly more multifamily housing than single-family housing (see Figure 8), which will increase the city's density over time.

While San Jose was adding land in the 1950s, '60s and '70s, the area that is now known as Silicon Valley was experiencing substantial economic growth. With Stanford University serving as an engine of new ideas, the region started adding technology companies in concentric circles around the campus. The northern part of Santa Clara County (including Stanford's home, Palo Alto, as well as Mountain View, Sunnyvale and eventually Santa Clara) welcomed major new companies such as Hewlett Packard, Intel

<sup>10</sup> U.S. Census figures as reported by the Association of Bay Area Governments, <http://www.bayareacensus.ca.gov/cities/SanJose50.htm> and <http://www.bayareacensus.ca.gov/cities/SanJose70.htm>

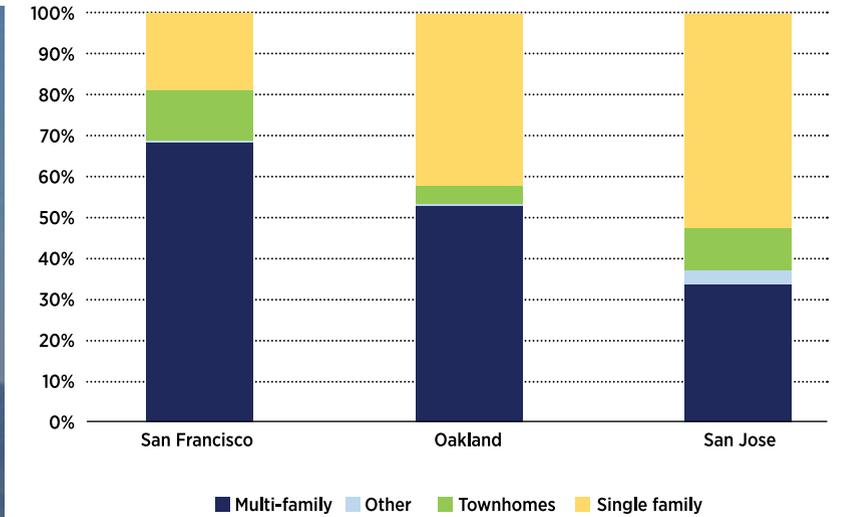
<sup>11</sup> SPUR, "Back in the Black: A Fiscal Strategy for Investing in San Jose's Future" SPUR, page 26. [http://www.spur.org/sites/default/files/publications\\_pdfs/SPUR\\_Back\\_in\\_the\\_Black.pdf](http://www.spur.org/sites/default/files/publications_pdfs/SPUR_Back_in_the_Black.pdf)

<sup>12</sup> Supra note 1.

<sup>13</sup> Supra note 11, pages 26-27.

San Jose's growth was dominated by low-density housing development in the 1950s and '60s. In recent decades the city has used planning tools to concentrate growth in downtown and other transit-accessible areas.

Photo by flickr user the\_tahoe\_guy



**FIGURE 7**  
**San Jose has the greatest share of single-family homes compared to other big cities in the Bay Area**

**Percentage of 2015 housing stock by type of housing**

San Jose's share of single-family homes is larger than San Francisco's or Oakland's. In absolute terms, San Jose has over 30,000 more single-family homes than the two other cities combined.

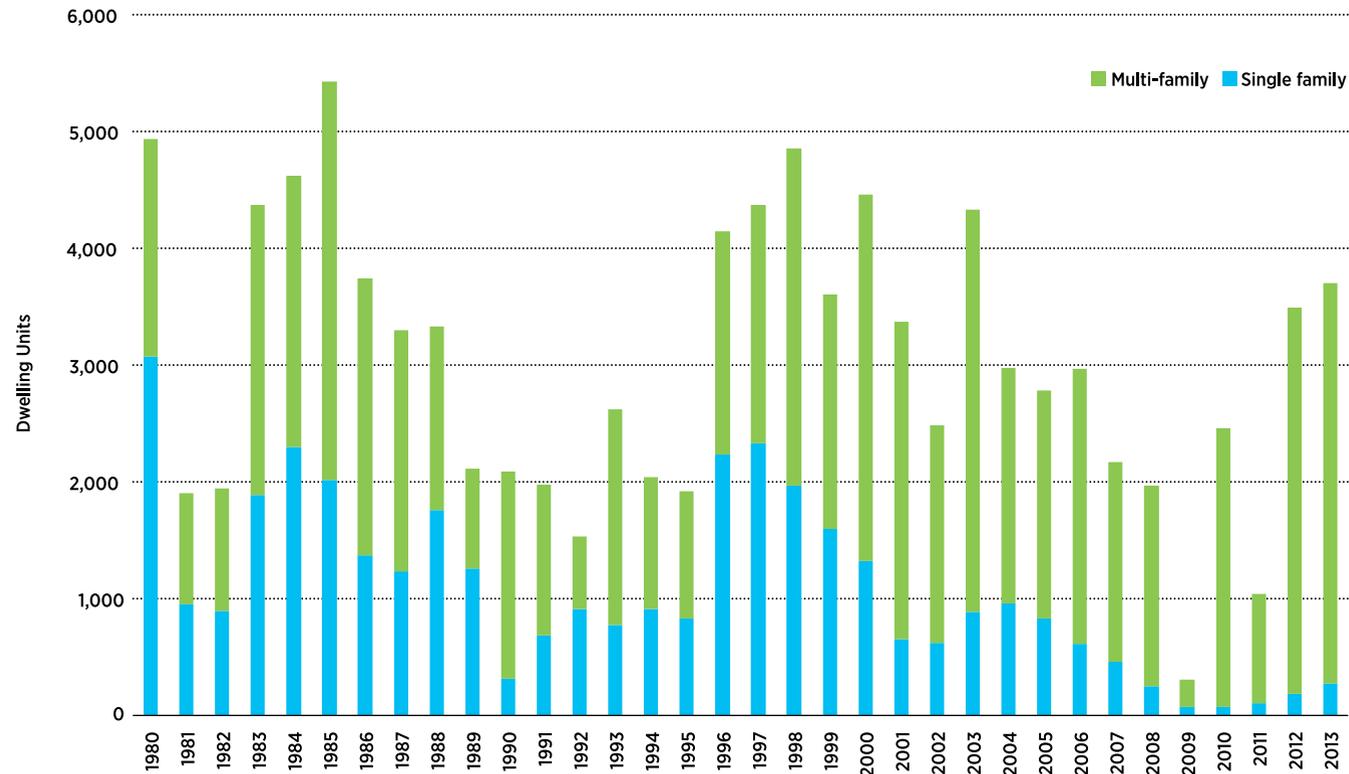
Source: SPUR analysis of U.S. Census Bureau 2015 American Community Survey 1-year estimates, Table B25024, <http://factfinder.census.gov/faces/nav/jsf/pages/searchresults.xhtml?refresh=t>

and Oracle. While the tech cluster eventually reached San Jose (Cisco, Adobe and eBay all located in San Jose in the 1990s), the most recent boom has made its way north to Menlo Park, Redwood City, San Bruno and San Francisco.

Cities in the northern part of Santa Clara County continue to add a substantial number of jobs while limiting the growth of housing. Short-run booms in jobs — coupled with resistance to new housing, particularly in wealthier suburbs — exacerbates the Bay Area's lack of affordability.

Santa Clara County, like the rest of the Bay Area, is experiencing high housing costs due to decades of underbuilding. The region's ongoing imbalance between housing demand and housing production has been compounded in recent years by a sharp spike in demand. Between 2010 and 2015, the nine-county Bay Area added 546,000 jobs but only 62,600 housing units, or nearly nine times more jobs than housing units.<sup>15</sup> In the same period, Santa Clara County added roughly 171,000 jobs and 29,000 housing units, nearly six times more jobs than

<sup>15</sup> SPUR analyzed the latest five years of data because it illustrates how a short-run escalation in jobs has not been met with an equivalent increase in housing production. Over the long run, the impact of high prices on demand is dynamic: Certain households leave the region because of their inability to afford housing; others never arrive at all. The short-term snapshot in Figure 9 clearly illustrates the imbalance between job growth and housing supply, which corresponds with the enormous uptick in housing prices over the same years, illustrated in Figure 1.



housing units.<sup>16</sup> While some of these new workers did not require new housing, this level of job growth without a commensurate growth in housing supply has contributed to a spike in housing costs in Silicon Valley and beyond.<sup>17</sup>

Relatively speaking, San Jose's jobs-housing imbalance during the 2010 to 2015 period was much less severe than either Santa Clara County's or the region's. Between 2010 and 2014, the City of San Jose added roughly 40,000 jobs and nearly 11,000

<sup>16</sup> Jobs numbers were analyzed using the Bureau of Labor Statistics Quarterly Census of Employment and Wages, <http://www.bls.gov/cew/datatoc.htm>. Housing units were analyzed using the U.S. Census Bureau American Community Survey 1-year estimates, Table B25001, <http://factfinder.census.gov/faces/nav/jsf/pages/searchresults.xhtml?refresh=t>

<sup>17</sup> Another way to look at the need for housing is to compare the number of building permits with housing needs created by new residents and changes in demographics, as is done by Silicon Valley Community Foundation and the Center for Continuing Study of the California Economy (May 2017), page 4, <https://www.siliconvalleycf.org/sites/default/files/publications/housing-brief-spring.pdf>

housing units, or almost four times as many jobs as housing units.<sup>18</sup>

It's also important to note that San Jose has historically been a top producer of housing for the South Bay. Sixty percent of housing built in Santa Clara County since 1980 has been added in San Jose, or roughly 107,000 of the 177,000 total units countywide.

While San Jose has produced the bulk of housing in Santa Clara County over the past several decades, there is more the city can do to reach its goal of producing 120,000 new units by 2040. In the recommendations that follow, we lay out some of the steps we think the city should take. While these actions are specific to San Jose, other cities in Santa Clara County and beyond should also seek to increase market-rate and affordable housing production to address our regional housing shortage.

<sup>18</sup> Calculated from the U.S. Census LODES Workplace Area Characteristics data, <https://lehd.ces.census.gov/data>. Housing figures are 1-year estimates from the American Community Survey, Table B25001.

**FIGURE 8**  
San Jose is now building significantly more multifamily housing than single-family housing

Throughout the 1950s and '60s, San Jose's growth was dominated by low-density sprawl and land annexation. In more recent decades, the city changed course by encouraging denser, multifamily development.

Source: "Residential Construction, New Units by Type," City of San Jose, Department of Planning, Building and Code Enforcement, <http://www.sanjoseca.gov/index.aspx?nid=2754> (accessed on June 22, 2017).

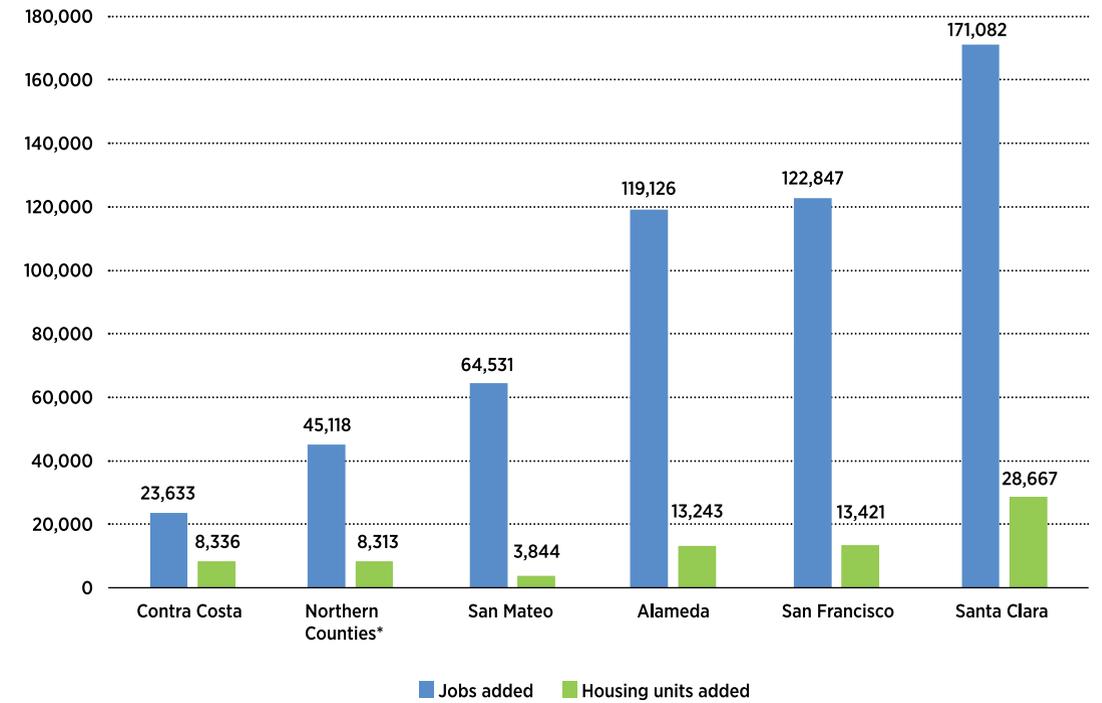
**FIGURE 9**  
Housing production over the last six years has significantly lagged behind job creation across the Bay Area

**Change in total jobs and total housing units by county between 2010 and 2015**

Since 2010, every county in the Bay Area has added substantially more jobs than housing. While existing residents have taken some of the new jobs, the region still hasn't built enough housing for new workers in an already limited housing market.

\*Northern Counties include Marin, Napa, Solano and Sonoma counties.

Sources: Jobs numbers were analyzed using the Bureau of Labor Statistics Quarterly Census of Employment and Wages, <http://www.bls.gov/cew/datatoc.htm>. Housing units were analyzed using the U.S. Census Bureau American Community Survey 1-year estimates, Table B25001, <http://factfinder.census.gov/faces/nav/jsf/pages/searchresults.xhtml?refresh=t>

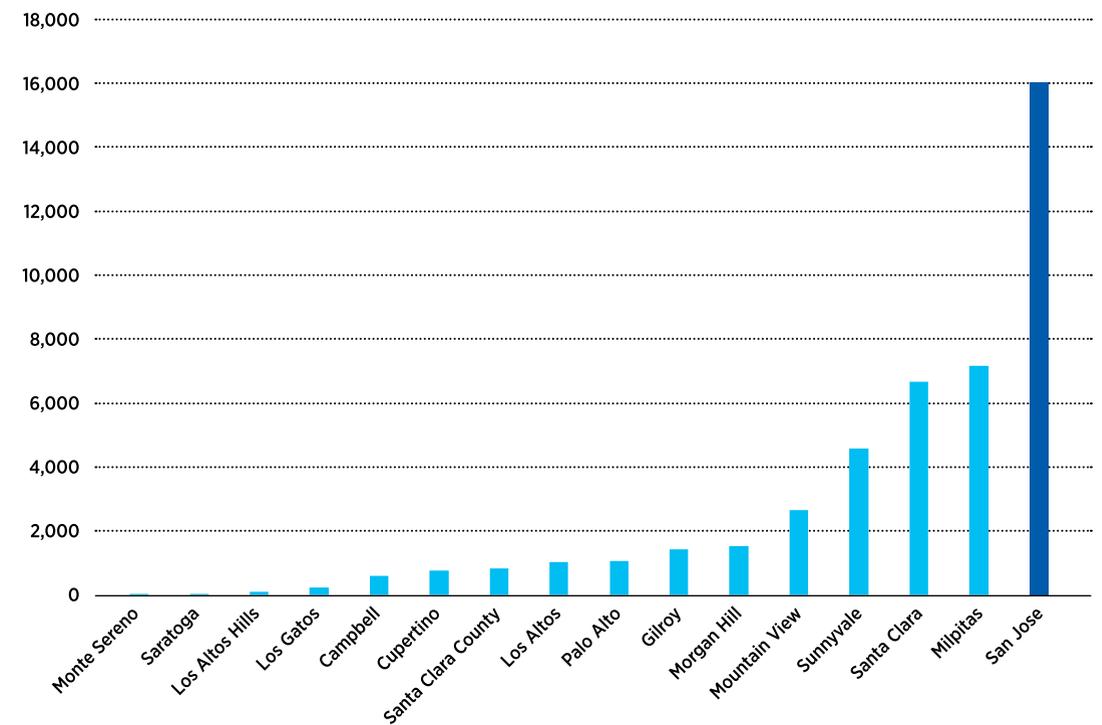


**FIGURE 10**  
Between 2007 and 2014, San Jose produced at least twice as much housing as other cities in Santa Clara County

**Housing units built in Santa Clara County, 2007-2014**

Between 2007 and 2014, San Jose built nearly 40 percent of the total housing units produced in the county. San Jose, along with San Francisco and Oakland, has accepted very high housing production targets for regional planning purposes relative to the other cities of the Bay Area.

Source: SPUR analysis of Association of Bay Area Governments Regional Housing Needs Allocation figures.



# Recommendations

There are many steps San Jose can take to address the housing shortage. We lay out five overarching strategies that we believe would bring down the price of housing:

- 1 Make it possible to build more housing in walkable neighborhoods and in neighborhoods near transit** by using zoning and other planning tools.
- 2 Enable greater production of housing that is affordable by design.** Make it possible to build housing with less parking where parking isn't needed, and allow the construction of in-law units and other smaller living spaces.
- 3 Make great places for people to live, work and play.** Reform existing plans and codes to create neighborhoods with a mix of housing, commercial spaces and public places, creating a virtuous cycle that will achieve the city's goal of attracting both new jobs and residents.
- 4 Improve the city's development approvals process,** aligning planning with the city's values by supporting good urban design and environmental review processes that look at how congestion impacts people and not just cars. Making these changes will help create the type of housing the city wants more quickly.
- 5 Create more funding for affordable housing,** developing resources at the state, regional and local levels and reducing costs for affordable projects.

Each strategy includes specific recommendations of actions the city can take now to help make San Jose more affordable and livable for everyone.

## STRATEGY 1

### Make it possible to build more housing in walkable neighborhoods and in neighborhoods near transit.

Between 1990 and 2007, more than 1,400 acres of San Jose's employment land, such as industrial land, was converted to other uses. Today just 9 percent of the city's total land is devoted to employment uses.<sup>19</sup> In 2007, San Jose adopted policies to prevent the further conversion of employment lands to other uses, including housing.<sup>20</sup> The city's employment land preservation policy protects San Jose's existing industrial lands and helps the city retain its overall employment capacity.

SPUR believes that it is sound urban planning policy for the City of San Jose to preserve the vast majority of its existing employment lands. At the same time, we also support the city's goal of adding to its housing supply in appropriate locations. Particularly in areas that the city has already designated for housing (including housing developments that contain shops or offices, i.e., "mixed-use" housing), we believe that the production of that housing should not be delayed in an effort to support commercial development.

San Jose's vision for future growth can be found in its general plan, formally called the Envision San Jose 2040 General Plan (see sidebar). This plan was passed in 2011 and updated in 2016. The plan accommodates 120,000 new housing units and 382,000 jobs<sup>21</sup> between now and 2040 and provides a vision for where this growth

<sup>19</sup> "Proposed Framework for Preservation of Employment Lands," Memorandum from Mayor Chuck Reed to San Jose City Council, October 19, 2007.

<sup>20</sup> Framework for the Preservation of Employment Lands, adopted October 23, 2007, <http://www.sanjoseca.gov/DocumentCenter/Home/View/417> (accessed on March 30, 2017).

<sup>21</sup> "City-Initiated General Plan Text Amendments Associated with the Envision San Jose 2040 General Plan Four-Year Review," Memorandum from Planning Commission to Honorable Mayor and City Council, November 22, 2016.



Developments such as the Pierce, located in downtown's SoFA District, show how well-designed housing helps strengthen neighborhoods.

Photo by Sergio Ruiz

can occur within the city. Our recommendations focus on the steps the city should take to build these 120,000 units in a timely fashion.

A core goal of the general plan is to prioritize job growth in future land use development. The desire to support job growth in part stems from the fact that San Jose has historically been the bedroom community for Silicon Valley and is the only major city in the country with more employed residents than jobs. The desire for job growth is also rooted in the belief that job-generating land uses are more fiscally beneficial to the city than housing. In the wake of ongoing budget stresses — recovery from the Great Recession and growing retirement and service costs, coupled with somewhat low property and sales tax bases — the city has taken its "jobs first" position seriously by incorporating policies into its general plan that protect industrial lands and incentivize commercial growth.

To incentivize commercial development, the city has sought to use planning in two ways: to limit housing as a competing use and to require new housing developments to include commercial uses. For example, housing cannot move forward in an Urban Village plan area unless the plan area is in the current horizon, while commercial development can move forward at any time. (See page 18 for an explanation of Urban Villages and horizon planning.) Under some area plans, housing cannot be built without an implementation

financing plan in place, but this is not required of commercial development.<sup>22</sup> Additionally, some of the mixed-use designations in Urban Villages require more commercial square footage to be incorporated into new developments than is commonly required by other communities. This has made it very difficult for new housing to be built outside of downtown San Jose (which is more permissive of housing development). It has had the unintended consequence of creating pressure on existing sites that are currently home to low-density rental apartments but that have valuable multifamily zoning, making them ripe targets for demolition and rebuilding. It also exacerbates gentrification more generally by not allowing for more housing construction to help moderate housing prices.

The following recommendations, if implemented, will strengthen San Jose's ability to add housing in appropriate

<sup>22</sup> The City of San Jose website states: "Even though Horizon I is open, residential development may not occur...until the City Council has approved an Implementation Financing Plan for each Village. ...Urban Villages that are in later Horizons will be available for residential mixed use development with the approval of an Implementation Financing Plan and the opening of its respective Horizon." See <http://www.sanjoseca.gov/index.aspx?NID=4032> (accessed on April 20, 2017).

## The Envision 2040 General Plan

The 2040 plan sets forth San Jose's vision for future growth, outlining a number of policies that impact where, when and how new housing may move forward. These include the following:

→ **Focusing development in designated growth areas and limiting housing development outside of these areas.** These growth areas include downtown San Jose, North San Jose, areas where the city has already adopted a specific plan<sup>23</sup> and designated Urban Villages, described below. The city also allows for job growth (but not housing development) on its employment lands.

→ **Creating new Urban Villages where most of the new housing and job growth will occur.** Urban Villages are designated planning areas beyond downtown and North San Jose where the city hopes to direct future housing and job growth. Urban Villages fall into one of four categories: Regional Transit Urban Villages (located near major regional transit such as BART and Caltrain), San Jose Transit Urban Villages (located along light rail or bus rapid transit), Commercial Center Urban Villages (containing underutilized commercial sites) and Neighborhood Urban Villages (which help strengthen existing neighborhoods by adding retail, mixed-use development and parks or plazas).<sup>24</sup> There are roughly 70 Urban Villages throughout San Jose. Each Urban Village has been allocated a certain number of housing units and jobs in order to meet the city's jobs and housing targets.

The city has sought to develop implementation financing strategies in Urban Village plans before the plans are adopted.<sup>25</sup> These strategies describe infrastructure improvements to be undertaken in the plan areas, as well as the funding mechanisms to support them.

→ **Establishing different time frames for residential development in different Urban Villages.** Commercial development can occur in any Urban Village at any time, but residential development in Urban Villages is slated to occur in three "horizons" or planning time frames. Under this policy, proposed housing developments can only move forward if they are in an



The Alameda Urban Village Plan

adopted Urban Village that's in the current planning horizon. Additionally, in some urban villages, the commercial portion of a new development must be developed at the same time as the residential portion. The first horizon, now in process, primarily includes Urban Village plans that are already underway or have been adopted. The second horizon, which is not yet open, mostly includes transit villages and transit corridors. The third or final horizon, also not yet open, mostly includes areas where future transit is planned, as well as neighborhood commercial centers. The use of horizons is one of the ways San Jose phases housing production. The city allows a few exceptions, which are discussed below.

→ **Creating a faster process for mixed-use developments that meet certain requirements and that have the potential to catalyze development in a particular area.** "Signature projects" are one type of mixed-use housing project that can move forward ahead of the current horizon. To qualify for this distinction, a project must catalyze new development in the Urban Village plan area by being prominently located and including good urban design and high-quality architecture. Signature projects must conform with the land use designation for the site, include more commercial square footage than the average density of jobs per acre planned for the developable part of the Urban Village, and provide higher-density housing than the average for the plan area. Signature projects need to be approved by the San Jose City Council, and the housing units must come from the "residential pool" described below.

→ **Establishing a "residential pool" policy that allows for limited housing development in future Urban Villages.** The San Jose City Council can approve up to 5,000 units of housing in any area within an adopted Urban Village, even if it's in a later horizon, provided the project conforms to the land use designation for the site. Signature projects also pull from this pool of 5,000 housing units.

<sup>23</sup> A specific plan is a special area plan that sets out where and what kind of growth may occur within the plan boundaries.

<sup>24</sup> Envision San Jose 2040 General Plan, pages 29-30. Note, the nomenclature for Urban Village categories differs slightly in more recent city documents. The memorandum "City-Initiated General Plan Text Amendments Associated with the Envision San Jose 2040 General Plan Four-Year Review," dated November 22, 2016, refers to San Jose Transit Villages as "Local Transit Urban Villages" and "Commercial Center Villages" as "Commercial Center Villages and Corridors."

<sup>25</sup> "Envision San Jose 2040 General Plan Annual Review," Memorandum from Mayor Chuck Reed, Vice Mayor Madison Nguyen, Councilmember Sam Liccardo and Councilmember Rose Herrera, October 22, 2013.

Plan courtesy City of San Jose

Photo by Benjamin Benschneider, courtesy Olson Kundig

Art Stable, located in Seattle, is a strong example of the type of infill housing that the city is trying to encourage in its newly developing South Lake Union neighborhood.

locations, removing unnecessary restrictions to housing production while continuing to support job growth.

### RECOMMENDATION 1

**Base planning decisions on strong planning values, creating great places where people want to live, where companies want to invest and where all residents can enjoy themselves.**

**Responsible Party:** San Jose Department of Planning, Building and Code Enforcement

San Jose has many important assets: a growing transit network, a diverse population, a downtown

with great bones and thriving neighborhoods with strong identities. Planning decisions should support these great assets and enable the city to grow by adding jobs in the places that make the most sense and allowing housing to move forward in other infill locations (i.e., underused parcels in areas that are already largely developed).

San Jose's "jobs first" policy is a tool that helps the city to more firmly establish its standing as a regional employment center. In the decades when San Jose expanded its boundaries, it converted a significant amount of its industrial land for housing, eroding the amount of land available for new job growth. Because housing values have escalated, housing development can outbid commercial and industrial uses for land. This creates significant market pressure to continue converting commercial and industrial land to housing. In light of the various market pressures, reserving land for jobs makes sense.

However, SPUR is concerned about the influence of other factors on planning decisions — such as the fiscal impact of land use decisions on the city's budget. We are also concerned about political pressure on decision-makers to undermine the vision in the Envision 2040 Plan in two ways: by converting industrial lands to low-density housing development in areas not well served by transit and/or by not adhering to the city's urban design standards when approving new development. We believe that land use decisions must be based on a strong vision for the future of city. Having a vision and making land use decisions that support that vision has the potential to create a virtuous cycle: More people will want to live and work in San Jose, which will make it possible for shops and restaurants to be successful in more locations, which will add to the tax base, which will attract more residents and employers.

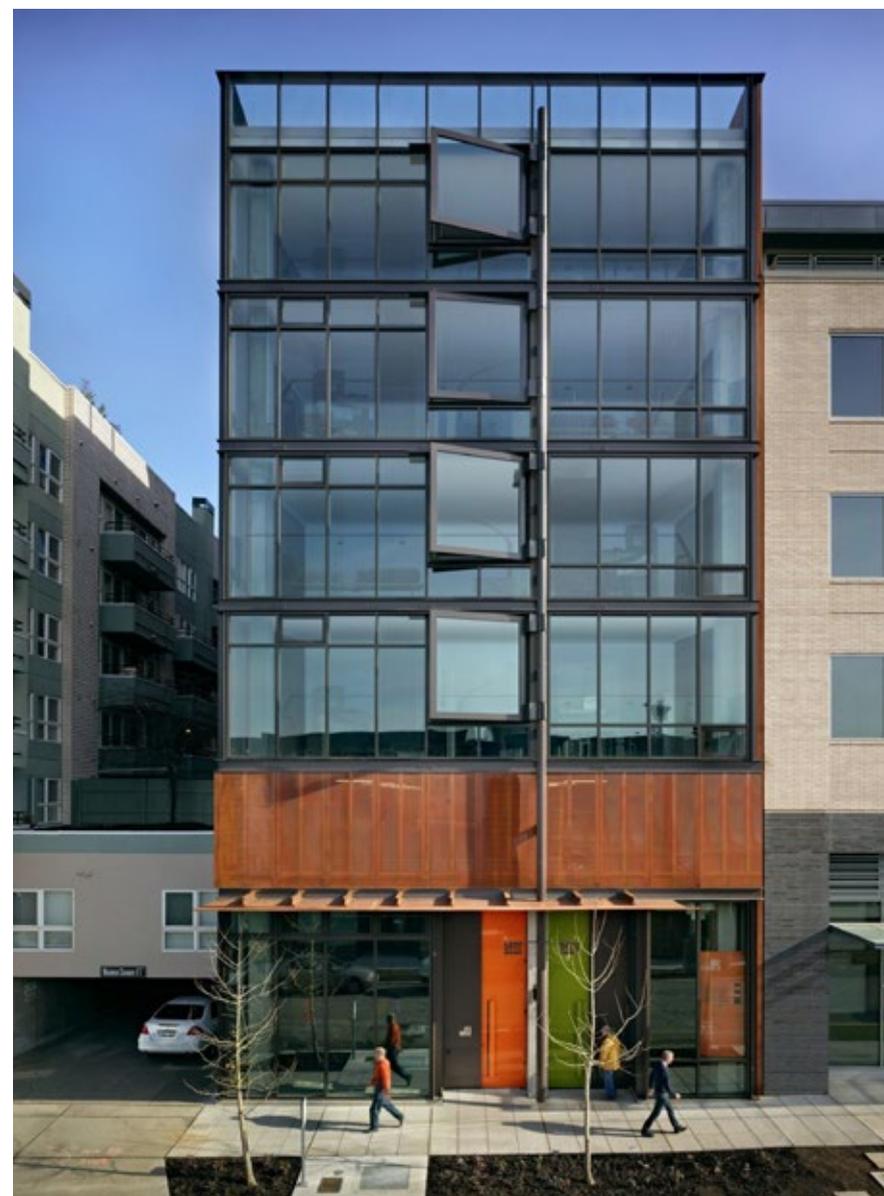
San Jose has taken many steps toward realizing this vision. However, there are a number of policies that slow the production of dense, well-designed housing in the places where the city has already determined housing should go. Recommendations 2 through 6 would remove impediments and allow housing planned in the Urban Villages to move forward in a more timely fashion.

### RECOMMENDATION 2

**As new Urban Villages are approved, adopt the zoning needed to implement those plans.**

**Responsible Party:** San Jose Department of Planning, Building and Code Enforcement

San Jose is different from the other large cities in the Bay Area in that its general plan, not the zoning code, is the controlling document that defines what the city





These two San Francisco developments (388 Fulton, left, and Richardson Apartments, right) are in the Market and Octavia Plan Area. 388 Fulton is market-rate housing and Richardson Apartments is housing for the formerly homeless. The Market and Octavia Plan included a rezoning that allowed for greater residential density in certain areas and included strong urban design requirements.

will allow to be built on a given parcel. The general plan includes information about what types of land use the city wants to see on each parcel. Once an Urban Village is approved, the Urban Village updates the general plan. Developers of new housing need to apply to change the zoning on their parcels in order to conform to the land use designations called out in the Urban Village plan.

This dynamic creates a number of problems. It has the potential to politicize the approval of every new development, since each development requires legislative action to move forward. It subjects new housing projects to individual negotiations with the city and neighbors to determine, on a project-by-project basis, how much is appropriate for the developer to contribute to public benefits such as affordable housing and parks. Under this system, the developer does not know what the ultimate public benefit costs are going to be for the project and cannot factor the cost of those benefits into what he or she pays for land (the one flexible cost in the construction process). This creates uncertainty in the development process, which ultimately can impact the ability of the city to add new housing.

At the same time, because the role of new development in paying for public benefits has not yet been clearly defined and publicly supported, the city can lose out on public benefits it might have otherwise received if politically savvy developers are able to obtain approvals without having to pay for certain public benefits.

Adopting zoning for an entire Urban Village during the approval process would also have the

benefit of creating certain legal protections for new housing. Projects that conform to zoning are more likely to successfully fend off referendums.<sup>26</sup> They are also protected under the Permit Streamlining Act and the Housing Accountability Act. The Permit Streamlining Act creates timelines for when local governments must act to approve or deny a permit. The Housing Accountability Act limits the authority of local governments to substantially reduce the size and density of a project. Despite the fact that some jurisdictions do not regularly follow these state laws, they do provide a measure of legal protection for housing.

SPUR recommends that zoning be adopted at the same time as each Urban Village is adopted.<sup>27</sup> This would allow projects that conform with zoning to move forward regardless of whether the project is a commercial development or housing.<sup>28</sup>

### RECOMMENDATION 3

**Set fees, infrastructure requirements and other community benefits based on financial feasibility as part of the plan adoption process or a larger citywide study. Do not negotiate one-off agreements with each developer as a condition of rezoning.**

**Responsible Party:** San Jose Department of Planning, Building and Code Enforcement

Setting housing impact fees at the appropriate level is crucial to supporting the creation of housing at all income levels. Fees on new housing can generate important public benefits like affordable housing,

<sup>26</sup> Cases that confirm that all rezonings, regardless of size, can be subject to referendum include: Arnel Development Co. v. City of Costa Mesa (1980) 28 Cal.3d 511, 516-17 [169 Cal.Rptr. 904, 906-07, 620 P.2d 565, 567-68] and Merritt v. City of Pleasanton (2001) 89 Cal.App.4th 1032, 1035 [107 Cal.Rptr.2d 675, 678]. Cases where the court has struck down referendums that downzoned a specific parcel after the zoning had already been approved include Merritt v. City of Pleasanton (2001) 89 Cal.App.4th 1032, 1036-37 [107 Cal.Rptr.2d 675, 678-79] and Arnel Development Co. v. City of Costa Mesa (1981) 126 Cal.App.3d 330, 337-38 [178 Cal.Rptr. 723, 727-28].

<sup>27</sup> In order to accomplish this, the city would first need to create general form-based zoning districts that meet the intent of the Urban Villages and then adapt them to the geographies of the Urban Villages. Form-based districts regulate the height, bulk and setbacks of buildings and can be used to require good urban design, such as requiring parking to be wrapped by a building or built underground.

<sup>28</sup> San Jose has started to recommend rezoning Urban Villages, but as of the writing of this report the city has adopted a plan-level rezoning at the time of Urban Village approval. Additionally, San Jose has recommended rezoning the commercial parcels only, which still leaves housing vulnerable to political and legal challenges as mentioned above.

Photo Sergio Ruiz



Photo courtesy TCA Architects

The mixed-use AVA development in the Little Toyko neighborhood of Los Angeles includes an active ground floor with housing above.

parks, complete streets and better transportation options. If fees are set too low, cities get less money for important public improvements. But if fees are set too high and the development is rendered financially infeasible, then no public benefits are generated *and* no housing is created. Cities should conduct financial feasibility analyses prior to setting new fees, and such analyses should look at all the fees being assessed on new housing.

As part of the Urban Village implementation financing plan, the city can develop a proposal for what public benefits are needed in a plan area and which of those benefits can and should be financed by new construction. The city should review its existing fee requirements for parks, transit and housing and update those fees to reflect the ability of new development to pay for improvements. Since new housing construction is largely confined to Urban Villages, updating the fee schedule citywide would effectively be the same as coming up with new standard fees for all the Urban Villages. One option would be for the city to create zones with different fees based on financial feasibility, similar to how impact fees are assessed in Oakland.

Alternatively, the city could conduct feasibility analyses on an individual basis and set different fees for each Urban Village based on market conditions in each neighborhood and on the value being created through changes in zoning. But this approach would be very labor-intensive and time-consuming.

By defining and adopting new fees up front (either citywide or by zone), the city could create a more transparent process that provides certainty to

both the community and developers while increasing the city's ability to plan for needed improvements.

In the past, San Jose has hesitated to levy impact fees on commercial development out of concern that these fees might compel employers to locate elsewhere. However, SPUR believes that financial feasibility analyses should study the ability of both residential and commercial uses to pay impact fees. The fees for residential and commercial uses can differ based on the results of the feasibility analyses.

### RECOMMENDATION 4

**Revise mixed-use designations to make sure they are all economically feasible to build.**

**Responsible Party:** San Jose Department of Planning, Building and Code Enforcement

Many of San Jose's Urban Village land use designations require that new housing developments include commercial uses as well. (Examples include the "Urban Village" and "Mixed Use Commercial" designations.) Requiring a mixture of uses is a common practice in many cities. Generally, in mixed-use buildings, retail businesses such as restaurants, shops, grocery stores and drycleaners are built on the ground floor to create more life on the street, and housing is built above.

In some Urban Village mixed-use designations, however, the amount of commercial development required is based on maintaining a ratio of jobs to housing that is sometimes too high, and not on what building types make sense or are commonly constructed. For example, the zoning designation "Mixed Use Commercial" requires more commercial square footage than is typically built in a mixed-use project,<sup>29</sup> which in practice could create unusable (or un-financeable) commercial space on the second floor. Additionally, ground-floor retail may not be viable in some locations. If it is clear that ground-floor retail is unlikely to be leased over the long term, the city may instead wish to allow active residential uses that enhance the street through the creation of stoops, etc.

This feasibility analysis should also apply to signature projects, which are required to include more commercial square footage than the average density of jobs per acre planned for the developable part of the Urban Village. In practice, the existing policy may lead to fewer signature project proposals than the city wants, or to proposals that include the creation of commercial square footage that may ultimately be difficult to lease.

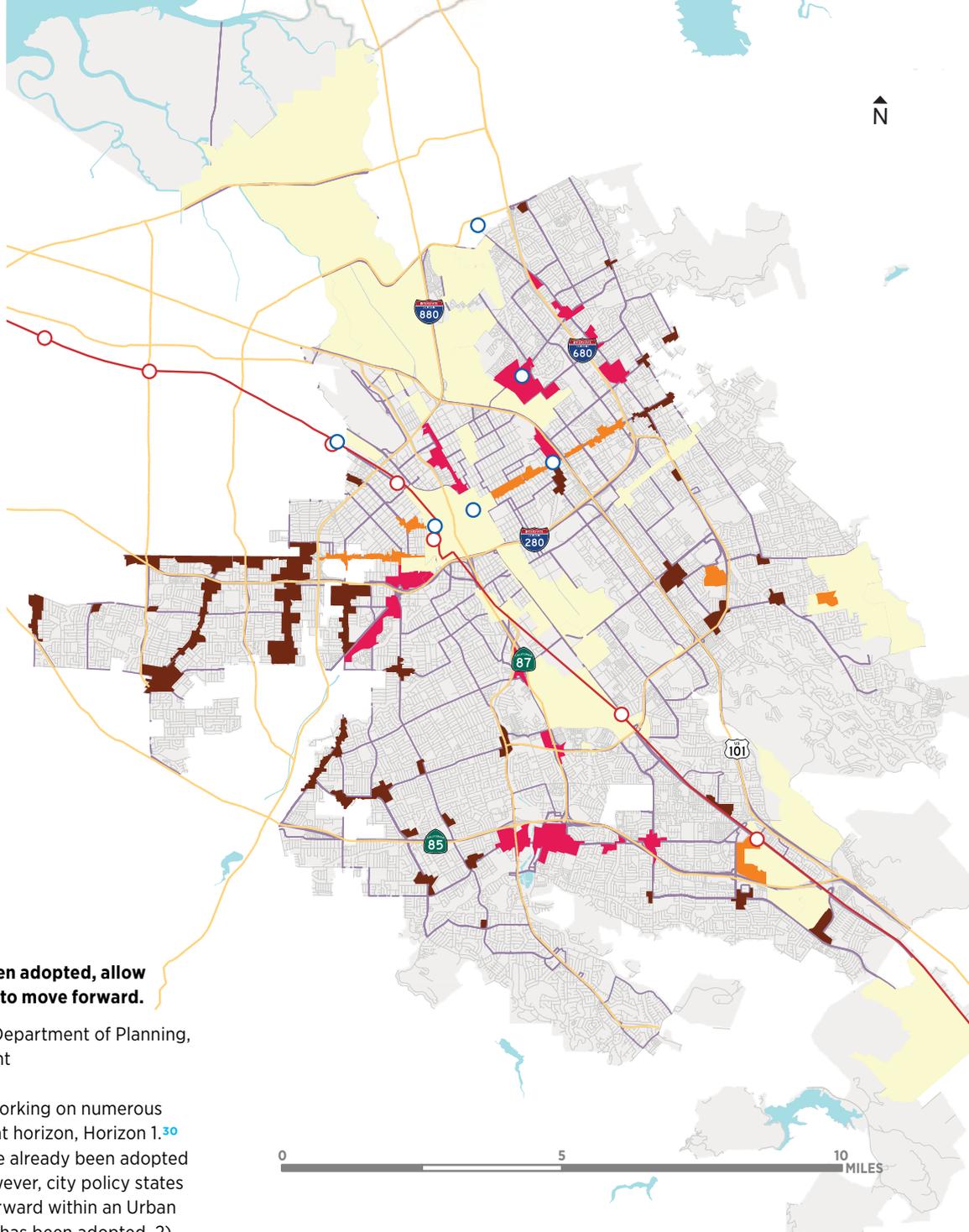
<sup>29</sup> Mixed Use Commercial districts often require a 0.5 Floor Area Ratio (FAR) of commercial space.

**FIGURE 11**

**San Jose's Urban Villages**

San Jose's Urban Villages are divided into different horizons. Housing may only move forward in adopted Urban Villages that are in the current horizon (Horizon 1), while commercial development may move forward in any Urban Village at any time, effectively limiting the amount of housing that can be developed.

Source: SPUR map with data from the City of San Jose



- Urban Village, Horizon 1
- Urban Village, Horizon 2
- Urban Village, Horizon 3
- Other development areas
- Future BART stations
- Caltrain stations
- Caltrain
- VTA transit
- Highways
- City of San Jose

**RECOMMENDATION 5**

**Once an Urban Village has been adopted, allow housing in that Urban Village to move forward.**

**Responsible Party:** San Jose Department of Planning, Building and Code Enforcement

Currently, the city is actively working on numerous plans that are not in the current horizon, Horizon 1.<sup>30</sup> Additionally, several plans have already been adopted that are not in Horizon 1.<sup>31</sup> However, city policy states that housing may not move forward within an Urban Village plan unless: 1) the plan has been adopted, 2) an implementation plan has been developed and 3) the plan is within the current horizon. An exception can be made if the city council proactively draws on the residential pool. (See sidebar “The Envision 2040 General Plan” on page 18.)

<sup>30</sup> These include South Bascom (Horizon 3), Stevens Creek (Horizon 3), Valley Fair/Santana Row (Horizon 3), Winchester Boulevard (Horizon 3), Blossom Hill and Snell (Horizon 2).

<sup>31</sup> Five Wounds BART Station (Horizon 2) and 24th and William (Horizon 3).

SPUR recommends that once an Urban Village plan has been adopted, housing should be allowed to move forward regardless of horizon, as long as the proposed projects conform with the plan. It does not make sense to hold back housing once a plan has been adopted.

Alternatively, the city may wish to adopt an interim set of form-based requirements (where buildings are regulated by height, bulk and setback, not by the type of uses that are allowed or by restrictions on residential density) for all Urban Village plans while it completes its detailed Urban Village work. In this case, housing that meets both the requirements laid out in the general plan's land use/transportation diagram and the interim form-based requirements should be allowed to move forward in the same time frame as all other allowable uses.

**RECOMMENDATION 6**

**Identify which Urban Villages are best suited to become job centers over time. In those Urban Villages that prove ill suited as job centers, allow for some conversions of commercial land in certain limited situations.**

**Responsible Party:** San Jose Department of Planning, Building and Code Enforcement

SPUR has strongly supported the city's goal of creating job centers near regional rail, including downtown and in the Diridon Station area. We also support the city's employment lands policy. However, we believe that commercial development may not be economically viable over the long term in some Urban Villages. If these areas do not produce commercial development after at least one full economic cycle, the city may wish to modify its existing requirements, either to allow for trades of commercial and residential uses within and across Urban Villages or to redesignate some commercial parcels for housing over time.

Creating new job centers and supporting existing ones is very important to the future of San Jose. Some Urban Villages are well suited to add to the city's job base because of their proximity to existing jobs and retail uses and/or to regional transit, such as BART, high-speed rail and Caltrain. The relationship to regional transit is particularly important to meeting San Jose's environmental goals, because commuters are less likely to drive alone to work if their jobs are close to high-quality regional transit that is cost- and time-competitive with driving. The city should identify which Urban Villages are most likely to be successful job centers.

In Urban Villages that are unlikely to be successful job centers, the city should consider modifying its existing requirements. SPUR

recommends that San Jose explore the possibility of creating a market mechanism to allow for “trades” of commercial and residential uses in and across Urban Village plans in areas that are not likely to become job centers. This could include allowing a developer who wants to build a housing development on a site designated for commercial use to swap uses with another developer who wants to build commercial on a residential site or who would be interested in adding bonus commercial square footage to a project on a commercial/mixed-use site. Trades could happen if a developer chose to subsidize the creation of additional commercial square footage in a commercial development or create a “catalytic” investment that would allow an otherwise infeasible development to move forward. The density of jobs that could be created in the commercial development should be another factor in determining whether a trade could occur.

Additionally, the city should review commercial sites outside of job-center Urban Villages and consider redesignating some commercial land for housing. Urban Village planning is going to take place over many, many years, across many business cycles. Over the next several decades, it may become clear that some of the areas currently designated for commercial development are not viable for that use. In these cases, the city may wish to consider changing some of these land use designations to allow for housing or mixed-use development.

**STRATEGY 2**

**Enable greater production of housing that is affordable by design.**

Lowering the cost of construction through design choices is one way to provide housing for middle-income households that don't qualify for income-restricted affordable housing and can't afford market-rate housing. Affordability by design often takes the form of smaller, more efficiently designed units, reduced or eliminated parking, fewer amenities, or more shared living space. Such homes can include in-law units, micro-units, student housing, co-housing, and modular or prefabricated housing. These housing types are often particularly appropriate for childless households, including seniors and young adults — the age groups projected to grow the most between now and 2040.<sup>32</sup>

<sup>32</sup> Center for the Continuing Study of the California Economy, “Appendix B, Projections of Jobs, Population and Households For the City of San Jose,” <https://www.sanjoseca.gov/DocumentCenter/View/3326>

## Affordable by Design Housing Types



### In-Law Units

An in-law unit (also referred to as a secondary unit, an accessory dwelling unit or a granny flat) is a housing unit added to an existing residential building, often by converting space in the backyard, basement, attic or garage. Such units can add to the housing supply and increase density in residential neighborhoods with little to no impact on the neighborhood. They are inherently flexible and provide several opportunities over a household's life cycle: They can house in-home caregivers for children or seniors, they can provide an apartment for an adult child and they can offer rental income in times of death, divorce or other life-changing circumstances. San Jose has had a secondary unit ordinance on the books since 2005, when the City Council approved a pilot program to allow in-law units in response to a 2003 change in state law. San Jose's ordinance was made permanent in 2008, but fewer than 200 legal in-law units were created between 2009 and 2014.<sup>33</sup> In 2016, San Jose passed some improvements to the ordinance to make the construction of in-law units more attractive to homeowners. (For more, see Recommendation 10.)



### Micro-Units

Micro-units, or micro-apartments, are small efficiency dwelling units that average around 300 to 500 square feet. They are typically aimed at young, professional single adults who expect to spend more of their time out of the house at work and play. They may also appeal to couples and older, single empty-nesters. While the cost per square foot may be higher than typical residential development, micro-units may be more attainable on an absolute cost basis because of the smaller construction footprint. San Jose does not regulate micro-units other than setting minimum sizes for rooms (150 square feet) and units (220 square feet for an efficiency unit, 150 square feet for a single-room occupancy unit) per city and state building codes.<sup>34</sup> There are currently no micro-units in San Jose, but it appears that this is more likely due to market conditions than to regulatory barriers.<sup>35</sup>



### Smaller Units With Fewer Amenities

SPUR believes that designing and building smaller units that are more efficient and provide just the basics can be an effective affordable-by-design strategy. These small, efficiently designed units (500 to 750 square feet) would come without high-end amenities, top-of-the-line finishes and/or parking. One example of smart, efficient design is "nested units" that interlock two separate units within the same square footage as a typical two-bedroom unit (pictured above). One unit is a one-bedroom, and the second is a junior one-bedroom that's more livable than a standard studio.



### Modular or Prefabricated Housing

Modular housing, also known as prefabricated ("prefab"), factory-built or off-site construction, holds promise to lower construction costs for multifamily housing development. With modular housing, units are built and permitted at a factory and then installed on site, where the infrastructure and foundations have been constructed. Modular housing is said to cut construction time by 25 to 30 percent, which also contributes to savings on carrying costs such as land and loan interest. The off-site modular components can be constructed at the same time that site infrastructure and building foundation work are happening on site, saving time on construction sequencing. Modular housing is built in a controlled, indoor factory setting, which is not subject to weather events and enables consistent construction quality. In addition, modular housing is often less expensive, as it is usually built in factories located in markets with less expensive labor.

Images Sergio Ruiz, Panoramic Interests, David Baker Architects, courtesy of BRIDGE Housing Corporation

SPUR's 2007 report *Affordable by Design*<sup>36</sup> studied ways to implement these ideas in San Francisco. Though the details differ from city to city, many of the principles apply to San Jose as well.

In San Jose, as in many high-cost areas with high demand for housing, it is becoming increasingly difficult to produce housing that meets the needs of moderate- and middle-income households. Between 2007 and 2014, San Jose only produced 2 percent of the moderate-income units it needed<sup>37</sup>, according to the Regional Housing Needs Allocation, a state-mandated process to identify the total number of housing units that each jurisdiction must accommodate.<sup>38</sup> Overall, Santa Clara County and the cities within it only produced 22 percent of their needed moderate-income housing.<sup>39</sup> It is clear that the projected demand for housing at that moderate-income level is not being met either by the market or by housing development subsidy programs.

Encouraging housing that is affordable by design involves reducing regulatory barriers and finding other ways to incentivize these types of construction.

While SPUR sees opportunities for a larger inventory of housing that is affordable by design, this approach is not a cure-all. Because of the smaller square footage of most of these housing types, they will not be a natural fit for large or extended families. However, our cities need a wide range of housing types to meet the needs of all kinds of households at different points in life. A healthy number of smaller, more efficient units can help serve smaller households, younger households and senior households, freeing up larger units in the housing supply for families and bigger households.

In addition, just because it's less costly to construct a unit that's affordable by design, it does not mean that the unit will be priced or rented at a commensurately lower amount. Developers can and will charge what the market can bear. However, the lower cost of construction can allow a developer to rent or sell a unit at a lower price and still make a profit, which makes these types of units more likely to be proposed, financed and built in the first place. SPUR believes that if affordability by design can get more projects across the threshold of financial feasibility, we will be able to address the housing shortage more quickly and see housing prices stabilize or taper over time.

<sup>36</sup> SPUR, *Affordable by Design*, November 2007, <http://www.spur.org/publications/spur-report/2007-11-20/affordable-design>

<sup>37</sup> Moderate-income households are defined by the Association of Bay Area Governments as those earning 81 to 120 percent of the area median income.

<sup>38</sup> Association of Bay Area Governments, RHNA Progress Report 2007-2014, September 2015, page 6, [http://www.abag.ca.gov/files/RHNAProgress2007\\_2014\\_082815.pdf](http://www.abag.ca.gov/files/RHNAProgress2007_2014_082815.pdf)

<sup>39</sup> *Ibid.*, page 1.

## Can Modular Housing Reduce Housing Costs?

While the development industry has been interested in modular construction for decades, there are still barriers to rapidly ramping it up in the Bay Area. Few manufacturers in the region have consistent long-term experience with multifamily modular construction. In cities where there is a strong labor and/or union voice, there is likely to be opposition to competition that assembles building components in another city, state or country where the price of labor may be lower.<sup>40</sup> While the quality of factory-built housing holds great promise, developers report mixed consumer perceptions.

The steep learning curve for developers, general contractors, subcontractors and cities also presents a significant challenge. The design, permitting and construction processes for modular housing look different from the traditional development process. The design of a unit has to be constructable by the plant and must be in line with standard module dimensions, which involves extra up-front coordination with the manufacturer. Permitting of factory-built modules is overseen by the state's Housing and Community Development Department, and site-built work is overseen by the city, which means the permitting and inspection path is new to many developers and requires more complex coordination for all parties.

Nevertheless, since construction prices rarely decline very much over time, developers and contractors continue to see promise in modular. UC Berkeley's Turner Center for Housing Innovation has indicated that cost savings of up to 20 percent and time savings of between 40 and 50 percent are possible.<sup>41</sup> The development industry should come together to realize that promise by educating the public, sharing information and collectively working with fabricators to address some of the barriers to implementation. Two modular projects have been completed in San Jose to date, and one is under construction at the time of this writing, but there is much more opportunity. The city's Planning, Building and Code Enforcement Department should actively encourage and facilitate the use of modular construction by smoothing the regulatory path and approaching modular proposals with a "can-do" outlook.

<sup>40</sup> The Northern California Carpenters Regional Council has accepted off-site construction if the factory uses union labor.

<sup>41</sup> UC Berkeley Turner Center for Housing Innovation, *Building Affordability by Building Affordably: Exploring the Benefits, Barriers, and Breakthroughs Needed to Scale Off-Site Multifamily Construction*, March 2017. <https://turnercenter.berkeley.edu/offsite-construction>

<sup>33</sup> For the 2008 action, see [http://www3.sanjoseca.gov/clerk/Agenda/040808/040808\\_04.03.pdf](http://www3.sanjoseca.gov/clerk/Agenda/040808/040808_04.03.pdf). The planning department estimates that there are a hundreds of "junior in-law" units that are not included in this count. These junior in-laws

are completed as renovations that add a master bedroom suite with a bathroom and wet bar with sink. They do not trigger special fees and the overall costs remain lower than formal in-law unit applications. This may show a demand for in-law units that is being satisfied in other ways due to cost and code barriers.

<sup>34</sup> 2013 California State Building Code R304-5, San Jose 17.20.270, "Room dimensions."

<sup>35</sup> One market-rate micro-unit development has been approved in San Jose, and one is in the pipeline. For a city of San Jose's size, with a population that is projected to include more small households (young single adults and seniors) in the future, it seems there may be latent demand that has not yet been tapped.

598 South 1st Street in the SoFA district downtown will have 0.75 parking spaces per unit, less than the city typically requires.



## RECOMMENDATION 7

### Reform parking requirements.

**Responsible Parties:** San Jose Department of Planning, Building and Code Enforcement; San Jose Department of Transportation

SPUR recommends that San Jose reform its parking requirements as a strategy to facilitate the development of less expensive units. In a region where land is at a premium, dedicating space to parking is a costly decision. While costs vary widely according to location and construction type, a parking spot can cost anywhere from \$25,000 to \$50,000 (or even more, if below ground) to create. Without a parking space, the cost to build a single housing unit drops significantly, reducing the threshold price at which the project is feasible. Perhaps more importantly, those resources — and that physical space — could be dedicated to additional housing units, affordable housing units, open space or any number of other important public benefits.

At the baseline, San Jose requires 1.25 to 2 parking spaces per one- to three-bedroom unit, depending on the size of the unit.<sup>42</sup> Lower requirements exist in a few specific locations, and the code also allows for reductions of up to 50 percent if the project meets certain conditions.<sup>43</sup>

According to the work of the nonprofit group Transform, approximately 20 percent of parking in new San Jose market-rate developments is going unused, representing significant foregone

<sup>42</sup> San Jose Zoning Ordinance, Chapter 20.90.060, Tables 20-210 and 20-211; Chapter 20.90.220, [https://library.municode.com/ca/san\\_jose/codes/code\\_of\\_ordinances?nodeId=TIT20ZO\\_CH20.90PALO](https://library.municode.com/ca/san_jose/codes/code_of_ordinances?nodeId=TIT20ZO_CH20.90PALO)

<sup>43</sup> In downtown, residential uses require one parking space per unit (Table 20-140), and for some small parcels/buildings, no parking may be required (20.70.370B). In pedestrian-oriented zoning districts (Alum Rock Main Street is the only such district so far), the city establishes a minimum parking requirement of 1.25 spaces per unit (any size unit) and a maximum parking ratio of 2.0 spaces per unit. Reductions of up to 50 percent are possible if a project is located in certain areas, if it provides bicycle parking and if it implements a certain number of transportation demand management measures like car-sharing, unbundled parking and free transit passes.

opportunity and requiring higher rents to make a project work.<sup>44</sup> Reforming parking requirements to allow, encourage and eventually require less parking will result in better land utilization and remove one cause of high housing prices.

#### → Remove parking minimum requirements citywide.

Let developers decide on the minimum amount of parking needed to satisfy consumer demand; given the cost to build, they have an incentive to accurately estimate the demand for parking. Some argue that lenders and investors still perceive San Jose as a wholly suburban place and that they are requiring higher levels of parking than the city requires. Even if this is true, it is not a reason for the city itself to require minimum amounts of parking. Market demand for parking is shifting downward more rapidly than city code can keep up with, and the city should not be in a position of mandating more space for automobiles than is needed.<sup>45</sup>

In areas like downtown, where frequent and rapid transit is available, the city should set limits on the amount of parking that can be provided. As we recommended in our white paper *Cracking the Code*,<sup>46</sup> cities can use parking maximums as a tool to help loosen people's dependency on cars.

#### → Actively encourage shared parking across commercial and residential uses.

When people are parking at different peak hours (i.e., commercial users during weekday business hours, residents at night and over weekends), shared parking can be a smart way to maximize the efficient use of parking spaces. A single parking space can serve multiple uses over the course of a day or week and eliminate the need for constructing double the amount of parking. Shared parking should be implemented whenever complementary uses are being developed together or are in close proximity. For example, in four of the city's main garages (a total of 3,500 spaces), even during peak evening hours, between 33 and 81 percent of each garage's parking spaces go unused and could be used by residents when they return home at night.<sup>47</sup>

#### → Make garages convertible to other uses in the future.

With driverless cars and other transportation innovations on the horizon, there may be drastically less demand for parking in the future. The rise of driverless cars could lead to more

<sup>44</sup> TransFORM's GreenTRIP Parking Database provides data for nine market-rate developments in San Jose, and in those the overall ratio for provided parking is 1.47 spaces per unit and the parking used is 1.18 spaces per unit. Twenty percent of parking in these developments is going unused, for an estimated waste of nearly \$22 million (nearly \$49,000 per unit). For today's buyer, that means paying approximately \$225 per month more than it would cost to buy a unit without parking.

<sup>45</sup> According to developer interviews in 2017, the South Bay market currently wants to provide somewhere between 1 and 1.8 parking spaces per unit, which is already a shift down from the ratio of 2 to 2.3 parking spaces per unit that was typical a few years ago.

<sup>46</sup> SPUR, *Cracking the Code*, November 2015, page 31, <https://www.spur.org/publications/white-paper/2015-11-13/cracking-code>

<sup>47</sup> City of San Jose, Department of Transportation, "June 2016 Average Occupancy by Hour."

Photo courtesy BDE Architecture for the Core Companies

Photo © Gensler, the MOD Breaking the Box of Parking



Architecture firm Gensler has designed a hypothetical cultural center to demonstrate how parking garages might be adapted for future reuse.

mobility with less individual vehicle ownership. To hedge against early obsolescence, we recommend San Jose study the possibility of requiring developers to design above-ground parking garages that can be converted to other uses in the future. While there are some similarities between the floor plans and structural needs of office buildings and garages, the city should study design and cost considerations, including flat floor plates with discrete ramps (rather than sloped floors), sufficient ceiling heights for either residential or office uses, column spacing and exterior treatments. Examples of proposed conversion-ready parking garages include AvalonBay Communities' planned 475-unit mixed-use development in the Arts District of Los Angeles and the World Trade Center Denver campus.<sup>48</sup>

An added benefit of higher ceiling heights in garages is that they can accommodate parking stackers, which fit multiple levels of parking spots within a single parking space. This reduces the parking footprint over the long term but allows for additional parking now if needed.

#### → Require the "unbundling" of parking by separating the price of parking from the price of a housing unit.

We recommended unbundling parking in our 2013 report *Getting to Great Places*.<sup>49</sup> Transparently separating the costs of parking and housing allows residents to choose whether to have parking or not and incentivizes them to make a choice aligned with the city's environmental and planning goals.

<sup>48</sup> Roger Vincent, "When Car Ownership Fades, This Parking Garage Will Be Ready for Its Next Life," *Los Angeles Times*, April 16, 2017, <http://www.latimes.com/business/la-fi-car-future-real-estate-20170405-story.html>; Emilie Rusch, "Denver Developers Have Seen the Future of Parking, and It Is No Parking at All," *Denver Post*, October 15, 2016, <http://www.denverpost.com/2016/10/15/denver-developers-future-parking-self-driving-cars>

<sup>49</sup> SPUR, *Getting to Great Places*, December 2013, page 64, <https://www.spur.org/publications/spur-report/2013-12-12/getting-great-places>

#### → Encourage developers to pool parking or use existing garages, as there is excess parking capacity downtown and around Diridon Station.

In downtown San Jose, there are roughly 30,000 to 35,000 off-street parking spaces in 80-odd parking lots and garages.<sup>50</sup> In the city garages mentioned earlier (the same 3,500 spaces), between 16 and 65 percent of parking spaces go unused even at the peak daytime hour.<sup>51</sup> Nearby new development should be able to take advantage of existing parking capacity instead of building new parking spaces. When projects are reviewed during the approvals process, planners should encourage developers to make use of existing capacity and/or connect with nearby existing or proposed projects. Lenders and investors may also need to be educated on the viability of this model.

#### → Remove minimum requirements for motorcycle parking.

As with automobile parking, the best practice for motorcycle parking is to remove minimum requirements and allow developers to provide parking as they deem necessary. Somewhat unusually, San Jose requires one motorcycle parking space for every four units. Developers report that the vast majority of motorcycle parking in San Jose goes unused. While the amount of square footage affected may not be large, this is one more requirement that adds to construction costs and takes up valuable space that could be dedicated to bicycle parking, storage or other uses.

<sup>50</sup> Of those 35,000 spaces, approximately 10,000 parking spaces are in publicly owned lots/garages, 20,000 are in privately owned lots/garages (15,000 publicly accessible) and 5,000 are for San Jose State University. Source: San Jose Department of Transportation, Downtown and Diridon Parking Map.

<sup>51</sup> Supra note 47.

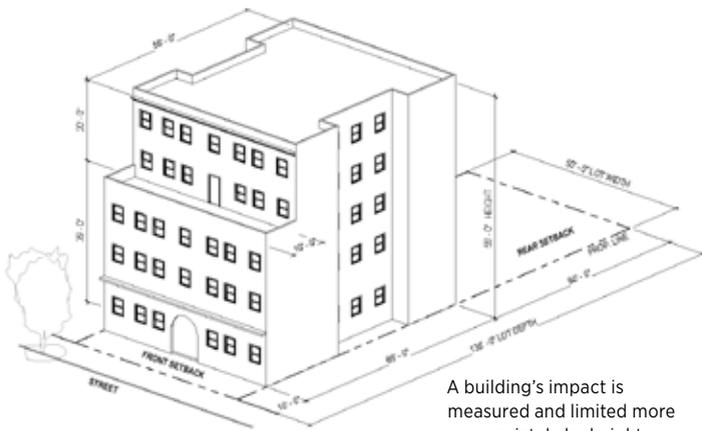
### RECOMMENDATION 8

**Use form requirements such as height, bulk and setbacks, rather than density maximums, to determine the size and shape of development projects.**

**Responsible Party:** San Jose Department of Planning, Building and Code Enforcement

The city has clearly established its preference for a denser, more urban development pattern in the future, so density maximums based on numbers (such as dwelling units per acre) should not be a measure of whether new development is appropriate. Requirements that dictate a building's form, maximum height, bulk and setbacks more directly address the impacts that neighbors often worry about.<sup>52</sup>

<sup>52</sup> Density maximums can be calculated off form-based requirements (height, bulk, setbacks) to meet the metrics needed for the state's density bonus law, which allows developers to build additional space beyond what is zoned in return for providing additional affordability.



A building's impact is measured and limited more appropriately by height, bulk, setback and massing requirements rather than by a number of units per lot size.

### RECOMMENDATION 9

**Apply impact fees on a per-square-foot basis rather than a per-unit basis.**

**Responsible Parties:** San Jose Department of Planning, Building and Code Enforcement; San Jose Department of Parks, Recreation and Neighborhood Services

Often the fees a city charges on new development are calculated per unit. This gives developers an incentive to produce fewer, larger units, thereby reducing the potential number of housing units created. We recommend removing this incentive by charging fees by the square foot instead. San Jose's housing impact fee is already calculated on a per-square-foot basis, so this recommendation applies to the city's parkland dedication and park impact fees, future Urban Village amenity fees and other impact fees that may be created later.

### RECOMMENDATION 10

**Make it easier to build in-law units by modifying development standards and parking requirements, reviewing fees, and reducing information, process and financing barriers for property owners.**

**Responsible Party:** San Jose Department of Planning, Building and Code Enforcement

San Jose, like many cities, has created zoning requirements that make it difficult to physically fit an in-law unit on a site. Cities have also allowed high fees (including those required by non-city agencies) to accumulate, making it financially difficult to construct these units. Minimum lot sizes, rear- and side-yard setbacks and parking requirements have been among the chief barriers to in-law unit production broadly and in San Jose specifically. In general, the fact that few people have used the secondary unit ordinance in the past is a good indication that more flexible requirements and a more streamlined process should be tested. The city therefore initiated and passed changes to the code in 2016. These changes have increased homeowner interest, but we recommend that the city take further steps, such as eliminating minimum lot size

Form-based code was used to help get community buy-in for the Pleasant Hill BART station master plan.



requirements altogether or allowing multiple in-law units on a lot as long as the structures conform to form and setback requirements.

It would also be worthwhile to create an education and outreach campaign to property owners to make a case for investing in in-law units and to help them move through the permitting process. New financing tools to enable the construction of in-law units are also needed; the city could play a role in working with the mortgage industry to create a useful loan program.

### STRATEGY 3

## Make great places for people to live, work and play.

This strategy connects our call to add more housing with San Jose's other goals: When part of a well-designed mix of uses, denser housing supports commercial development and job growth. SPUR's report *Getting to Great Places* made a broad case for designing and building walkable and people-friendly places in San Jose. Great places provide a multitude of benefits: They encourage people to walk or bike instead of drive, which is good for the environment and public health, and they foster the kinds of fortuitous interactions that help cultivate community. Great places



Above: Ground floor active uses need not be retail. Residential stoops, lobbies and other amenities still make for better places for people.

Below: Well-designed ground floors and active uses attract people and economic activity.





Sunnyvale's five-story Loft House Apartments, across from Caltrain and near downtown, includes 7,000 square feet of ground-floor retail.

Photo by Sergio Ruiz

are denser and have a mix of uses, creating more street life, which in turn makes retail more viable, boosting sales taxes and creating a positive feedback loop. Many of today's Silicon Valley workers report that they prefer to live and work in dense, walkable environments with urban amenities, and San Jose should facilitate the creation of more of these places within its borders.

#### RECOMMENDATION 11

**Require good design and active uses on the ground floor.**

**Responsible Party:** San Jose Department of Planning, Building and Code Enforcement

A well-designed ground floor with active uses makes places more attractive for people. On the other hand, blank walls, frequent driveways or garage openings, and low ceiling heights contribute to unpleasant streetscapes that discourage walking or spending time in public spaces. Active ground-floor uses such

as retail, lobbies, residential stoops and even building entrances invite activity and make for higher-quality environments where people want to spend time.

Creating an inviting ground-floor environment requires reforms to the zoning code and area plans. These reforms would require adequate ground-floor heights and depths to attract viable retailers and create a human-scaled environment at the sidewalk. They would also limit any forms of vehicle access that cross the sidewalk, thereby prioritizing people over cars. SPUR's white paper *Cracking the Code*<sup>53</sup> lays out a set of detailed recommendations for how this might be incorporated into the zoning code in downtown San Jose and other urban growth areas. We recommend requiring active uses<sup>54</sup> and transparent

<sup>53</sup> Supra note 46.

<sup>54</sup> Note that "active use" includes but is not limited to retail use. SPUR defines an "active use" space as any occupiable space that is directly accessed by pedestrians from the sidewalk. Retail uses are desirable but not always viable at the time of development; the intention is to build spaces that could be converted to retail when the market is there.

frontages instead of blank walls, building the edge of a building out to the sidewalk, increasing the number of building entrances for people and reducing them for cars, and keeping parking hidden from view.

These design priorities create a virtuous cycle, attracting people who want to spend time in a welcoming neighborhood and businesses and retailers that want to be a part of creating such a community. This translates into more economic activity and sales tax revenue, which then leads to even more demand from residents, employees and businesses.

#### RECOMMENDATION 12

**Require sufficient residential densities in transit-oriented locations to help support ground-floor retail.**

**Responsible Party:** San Jose Department of Planning, Building and Code Enforcement

Great places around the world are made possible when there are enough people in close proximity to support retail business. Studies show that walkable business districts can be successful where there is higher residential density, good mass transit, an anchor store such as a supermarket and a critical mass of diverse businesses.<sup>55</sup> San Jose's existing residential and commercial areas are generally too thinly populated to support this vision. Future development can and should be different. More new residents can help build the pool of likely shoppers for an existing or planned neighborhood shopping area and also help support the local economy.

Often the City of San Jose has encouraged and allowed higher density and more height, but developers have not always taken advantage of what is allowed. We therefore recommend requiring sufficient densities in these key locations, with the acknowledgment that there may be some locations that remain undeveloped until a later date.

#### STRATEGY 4

### Improve the city's development approvals process.

An efficient and effective process for approving new development helps to ensure that high-quality housing development can get built in a timely way.

<sup>55</sup> G. Hack, *Business Performance in Walkable Shopping Areas*, Active Living Research, a National Program of the Robert Wood Johnson Foundation, 2013.

Why does this matter? A slow, unpredictable and ever-changing entitlements process increases the cost of development and delays the production of much-needed housing. The longer a project takes, the higher the cost of loan interest, land payments, property taxes and legal and other consulting expenses. In addition, the cyclical nature of the economy and the resulting ups and downs of the real estate industry mean that a slow approval process can delay a project to the next real estate cycle or even kill it.

In San Jose, the entitlements process is often shorter than in other large jurisdictions, and the department is responsive, if understaffed. Future SPUR analysis of department operations may generate additional recommendations for added certainty and efficiency, especially in the plan check and building inspection processes. The recommendations that follow tackle some changes that would improve the environmental review and entitlements phase of the planning process.

#### RECOMMENDATION 13

**Complete plan area environmental impact reports whenever possible.**

**Responsible Party:** San Jose Department of Planning, Building and Code Enforcement

The California Environmental Quality Act requires local jurisdictions to study the environmental impact of development projects and set forth steps to mitigate that impact if needed. Most housing projects require at least an initial study to see if there is "significant" environmental impact, which includes impacts on air, soil and water quality as well as aesthetics, noise and traffic. If there is significant impact, the project may require an environmental impact report (EIR), which can be a very expensive and lengthy process.

A program-level EIR studies the impact of maximum development potential on many or all sites within a specified area and provides an early and comprehensive look at the possible impacts of a plan. In San Jose, when major area plans or Urban Village plans are completed, the city should do program-level EIRs so that individual projects can be approved in a much shorter time frame and will not need to complete their own environmental review process. This will help streamline and incentivize future development that is in compliance with the city's plans. The city has completed program-level EIRs for many of its priority planned development areas. SPUR believes that this has worked well in the past and should be a priority task for Urban Village plan implementation as well.

Environmental studies should consider that streets can carry more people with less congestion if travelers are making trips on foot, by bike or on transit, rather than by car.



#### RECOMMENDATION 14

**Change the way that the transportation impacts of new development are analyzed. Retire the existing method, which looks at how new development delays automobiles, and adopt a new method that elevates more sustainable travel modes like transit, walking and bicycling.**

**Responsible Parties:** San Jose Department of Planning, Building and Code Enforcement; San Jose Department of Public Works; San Jose Department of Transportation

Historically, the most common way to measure the impact of new development on transportation has been based on projected auto congestion (known as level of service or LOS). This is a flawed way to analyze environmental impact if the goal is to reduce vehicle use and greenhouse gas emissions. Measuring environmental impact through modeling the average number of vehicle miles traveled (VMT) that a proposed development is expected to generate is more aligned with the state's climate change goals. Recent legislation (SB 743) required the state to update its guidance to cities and remove auto congestion as an environmental impact; the state's Office of Planning and Research is in the process of finalizing this change. SPUR supports this shift.

However, the state's guidance will not require San Jose to completely shift from LOS to VMT analysis, nor will it require San Jose to use VMT at

all. In fact, if San Jose does shift to VMT, the city will need to take a hard look at some of its planned auto-centric transportation projects that have been tied to congestion impacts. At the same time, the city will also need to make sure that whatever standard is adopted effectively funds future multimodal projects and makes it easier to build infill housing.

Automobile LOS analysis is one of the more expensive and time-intensive parts of environmental review. If San Jose is truly on a path to a more urban and sustainable future, the city will make this tough choice and shift away from LOS to VMT analysis. Once the city develops and adopts a VMT metric, it should stop analyzing impacts under automobile LOS. Requiring both types of analyses would take additional time and cost additional funds, undermining the construction of new housing and potentially forcing new development to pay for auto-related improvements that are at odds with the city's vision for the future. San Jose should take the bold step soon, but the city doesn't have to go it alone. A consistent regional approach to analyzing transportation impacts would help build housing in the right places.

#### RECOMMENDATION 15

**Find new resources to pay for current and long-range planning.**

**Responsible Party:** San Jose Department of Planning, Building and Code Enforcement

Photo by Noah Christman

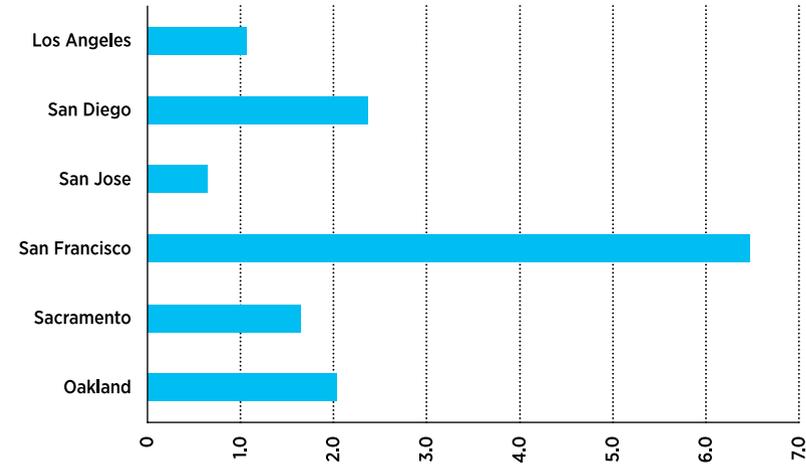


FIGURE 12

**San Jose has fewer long-range planners per capita than other large California cities**

**Long-range planning staff per 100,000 residents**

Source: SPUR analysis of city budget data for fiscal year 2016-17.

Through Envision 2040, San Jose has set out an ambitious planning vision for itself. There are nearly 70 Urban Village plans and several other projects and plans in the works, on top of a healthy pipeline of development projects currently undergoing review. Unfortunately, the Planning Division of the Department of Planning, Building and Code Enforcement, like most other city departments, does not have sufficient resources to review all of these plans and implement San Jose's vision. Existing staff members are smart, knowledgeable and responsive, but there are simply not enough of them available to make the city's planning goals a reality. Further, hiring and retention have become increasingly difficult in this expensive housing market. It was not until the end of 2016, five years after Envision 2040 was approved, that any Urban Village plans were completed and approved for residential development to move forward.<sup>56</sup>

We looked at several other large California cities — San Francisco, Oakland, Los Angeles, San Diego and Sacramento — to understand the big picture of budgeting and staffing city planning functions. The San Jose Planning Division's resources are smaller per capita than those of several other large California cities, no matter whether the funding comes from the general fund, grants or departmental fee revenues.<sup>57</sup>

In fiscal year 2016-17, San Jose's Planning Division had fewer than seven full-time employees

<sup>56</sup> Four Urban Village plans that came out of the city's Five Wounds/Brookwood Terrace Strong Neighborhoods Initiative Plan were approved in November 2013 but included provisions that housing could not be approved in those plan areas until an implementation finance strategy was approved by the City Council. As of July 2017, those implementation finance strategies are not yet approved. The Alameda (East) Urban Village Plan was approved in December 2016.

<sup>57</sup> SPUR analysis of city budget data for fiscal year 2016-17.

working on long-range planning efforts, which encompass the Envision 2040 General Plan and its 70 Urban Villages, any updates to the 17 area plans/policies and specific plans already in place (e.g., downtown, North San Jose), updates to the zoning code and more. This leaves little room for proactive, forward-thinking projects.

Compared with other large California cities, San Jose's level of staffing for long-range planning falls far short. (See Figure 12.) For a city of San Jose's size and population, let alone its ambitions, this is insufficient staff capacity.

In order for San Jose to realize its ambitions, it will need more resources and staff. Plan Bay Area and the housing element of San Jose's general plan both rely on the Urban Villages and other growth areas to accommodate the bulk of the city's residential growth, and the City of San Jose needs more funding to complete this work properly.

The 2016 business tax reform measure is one example of a new revenue source that has funded new staff positions. The city needs more sources like this. Without more funding from the general fund or other sources,<sup>58</sup> the Urban Village plans will languish and delay the creation of more housing in San Jose.

#### RECOMMENDATION 16

**Update the city's design guidelines to reflect its existing policies and best practices.**

**Responsible Party:** San Jose Department of Planning, Building and Code Enforcement

San Jose has several sets of design guidelines (for residential development, commercial development, historic buildings and the downtown area, among others) that date from the 1990s and early 2000s. While some include good principles that are still relevant today, others are outdated and contradict the city's current vision for future growth. Guidelines could help smooth the development process if they were updated to best practices that the city already supports. Developers and designers would then be best positioned to propose projects that meet the city's policies and expectations of new development.

<sup>58</sup> SPUR letter, October 2016, <http://www.spur.org/publications/policy-letter/2016-10-27/>

[spur-proposes-spending-framework-san-jose-business-tax](http://www.spur.org/proposes-spending-framework-san-jose-business-tax)

**RECOMMENDATION 17**

**Allow impact-fee deferrals for development projects.**

**Responsible Parties:** San Jose Department of Planning, Building and Code Enforcement; San Jose Housing Department

If San Jose were able to defer the point at which it collects the impact fee to as late a date as possible — for example, when the building department determines a building is ready for occupancy rather than when the developer pulls the building permit to start work — it could pass along meaningful construction interest savings to development projects and help with project feasibility.

**STRATEGY 5**

**Create more funding for affordable housing.**

“Affordable housing” commonly refers to housing where rents are restricted to levels that low- and moderate-income households can afford to pay. To qualify for a unit, residents must prove that their income and assets fall below a required limit. Since there is not nearly enough affordable housing to house everyone who qualifies, applications must almost always be processed through a lottery system.

Building affordable housing requires public subsidy. This subsidy comes from local, state and federal resources, as well as from private philanthropy. Affordable housing is expensive in the short term, but it is crucial to creating an equitable and diverse population in the Bay Area. The amount of up-front subsidy needed varies from project to project and depends on the construction

Photo by Bernard Andre for First Community Housing

cycle, but in the Bay Area the subsidy cost ranges from \$200,000 to \$600,000 per unit.<sup>59</sup> Most affordable housing is structured to avoid operating subsidies, but housing for extremely low-income households, the formerly homeless and other high-need populations may require additional ongoing funding.

Affordable housing comes in many forms: It can be rental or owned property; it can include supportive services or very few resident services; it can target households with no income all the way up to households that earn up to 120 percent of area median income (approximately \$95,000 for a one-person household or nearly \$136,000 for a four-person household in Santa Clara County).

Between the early 1980s and 2012, San Jose produced a substantial amount of affordable housing by creating more than 18,000 permanently affordable rental units,<sup>60</sup> as well as more than 2,100 affordable homeownership opportunities.<sup>61</sup> The city continues to benefit from this housing stock.

Before 2012, redevelopment agencies throughout California had the ability to borrow against future property tax revenue in order to finance capital projects and address blight. A minimum of

<sup>59</sup> Association of Bay Area Governments, “Affordable Housing Funding Gap Analysis,” April 30, 2014, [http://www.planbayarea.org/sites/default/files/pdf/prosperity/research/Affordable\\_Housing\\_Funding\\_Gap\\_Analysis.pdf](http://www.planbayarea.org/sites/default/files/pdf/prosperity/research/Affordable_Housing_Funding_Gap_Analysis.pdf)  
<sup>60</sup> “Affordable Housing Investment Plan (FY 2016/17–FY 2017/18),” Memorandum to the Community and Economic Development Committee, May 8, 2017, page 3. <http://www.sanjoseca.gov/DocumentCenter/View/69125>  
<sup>61</sup> Correspondence with city housing staff.

**FIGURE 13**  
**Area median incomes for Santa Clara County**

Median income for a family of four in Santa Clara County is roughly \$113,000 a year.

Source: State of California, Housing and Community Development Department, “Memorandum, State Income Limits for 2017,” <http://www.hcd.ca.gov/grants-funding/income-limits/state-and-federal-income-limits/docs/inc2k17.pdf>

AREA MEDIAN INCOME (AMI) LEVEL	AMI FOR A ONE-PERSON HOUSEHOLD	AMI FOR A FOUR-PERSON HOUSEHOLD
Extremely low-income 30% of AMI	\$25,100	\$35,800
Very low-income 50% of AMI	\$41,800	\$59,700
Low-income 80% of AMI	\$59,400	\$84,900
Median-income 100% of AMI	\$79,300	\$113,300
Moderate-income 120% of AMI	\$95,150	\$135,950

**FIGURE 14**  
**San Jose housing units by ownership type**

Unlike San Francisco or Oakland, San Jose is a majority-homeowner (57 percent) city.

Source: City of San Jose Housing Department, December 2015 (data from American Community Survey 2014).

	RENTAL	OWNERSHIP	TOTAL
Total occupied housing units	133,441	178,786	312,227
Units with Housing Department assistance (including shelters)	18,198	1,600	19,798
Rent-controlled units	48,600		48,600
Mobile home units	10,836		10,836
Adult group homes	1,689		1,689
Market-rate units	54,118	177,186	231,304

**How Is Affordable Housing Funded?**

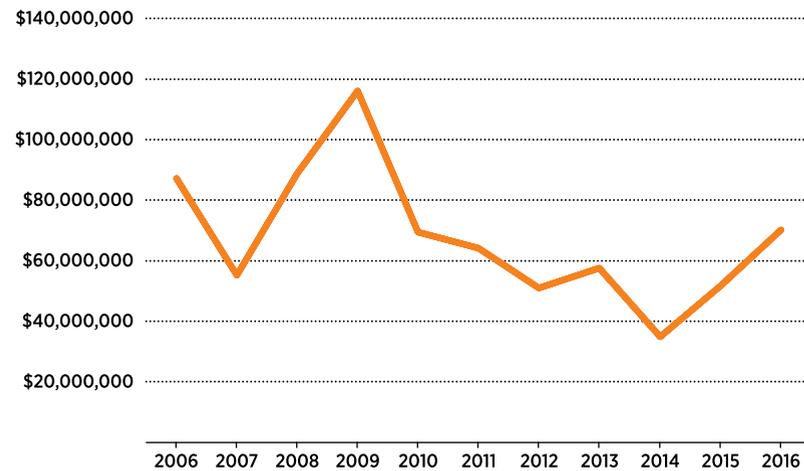
Most affordable housing is created by private developers (typically nonprofit organizations) that specialize in assembling public and private financing to build developments that are 100 percent restricted to households of certain incomes.<sup>62</sup> Affordable housing is financed through a combination of loans, grants and private equity (usually in exchange for government tax credits). Since resident incomes and rents are restricted, rental income can only support small long-term loans for affordable projects, if it can support debt at all. The gap is filled by several sources, primarily equity from corporations or banks that contribute cash to the project in return for access to federal and state tax credits, but also by grants or “soft” loans (which don’t need to be repaid unless a property converts from affordable housing to market-rate housing) from public or philanthropic sources that support the mission of creating affordable housing.<sup>63</sup>

Due to the complex financing of and public investment in these projects, this industry is highly regulated. Affordable housing projects are subject to strict rules and regulations by numerous lenders and investors, which are both public and private entities. Binding legal agreements govern how money is spent, how buildings are operated and who is allowed to live in affordable housing.

<sup>62</sup> For example, some nonprofit affordable housing developers include First Community Housing, BRIDGE Housing Corporation, Charities Housing, MidPen Housing and Eden Housing. Some for-profit developers who develop affordable housing include The Core Companies, Related and ROEM.  
<sup>63</sup> “Soft” loans are typically long-term low-interest loans that are repaid only to the extent that cash flow is available.



San Jose dedicated federal HOME funds to the Japantown Senior Apartments, a subsidized affordable housing development completed in 2015.

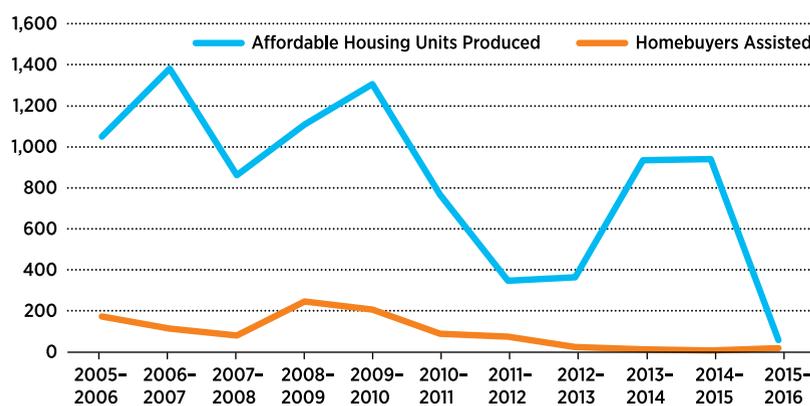


**FIGURE 15**  
Housing department revenue has steadily decreased over the last several years

**Total revenue for the City of San Jose's Housing Department, 2006–2016**

Revenue has gone down due to the loss of redevelopment and a reduction in resources from the federal and state government. In recent years, efforts to refinance older affordable projects have generated more revenue for the department.

Source: City of San Jose Housing Department data.



**FIGURE 16**  
Affordable housing production in San Jose plunged with the dissolution of redevelopment

**Households assisted by the City of San Jose's Housing Department, fiscal year 2005–06 to fiscal year 2015–16**

Source: City of San Jose Housing Department data.

20 percent of gross tax increment had to be dedicated to housing for low- and moderate-income households. In 2012, due to state budgetary concerns and some examples of abuse, the state dissolved all redevelopment agencies, taking away a major financing tool for affordable housing. San Jose, a major user of redevelopment funds, lost \$40 million in annual financing for affordable housing.<sup>64</sup> In the same time period, drastic cuts to federal and state housing programs further reduced resources for affordable housing in the county. Santa Clara County's annual affordable housing funding has been reduced by \$85 million (an 80 percent reduction) since 2008.<sup>65</sup>

Typical funding for affordable housing in San Jose comes from several sources:

- Loan repayments from the city's existing affordable housing portfolio
- Inclusionary In-Lieu Fee (paid by market-rate ownership projects)
- Affordable Housing Impact Fee (paid by market-rate rental projects)
- Federal funding
- Miscellaneous (for example, the city's general fund, litigation proceeds, etc.)

At the time of this writing, the city foresees little opportunity in the future to fund additional affordable housing beyond what it has already identified in the pipeline. In fiscal years 2015–16 and 2016–17, the city managed to generate \$103.5 million to devote to affordable housing. However, \$83.3 million of that total came from the repayment of city loans on existing affordable housing projects, which is not a reliable stream of financing like redevelopment. The remaining \$20 million in funding came from federal and state resources like the Community Development Block Grant (CDBG) Program (\$3 million) and the HOME Program (\$7 million), as

well as local resources like revenue from negotiated agreements with developers or the inclusionary housing program in former redevelopment areas.

Unfortunately, at the time of this writing, the federal administration has proposed to eliminate both the HOME and CDBG programs, and it is unclear what the city will be able to rely on in the future. In addition, the city does not foresee any future major loan repayments that might bolster its housing fund.

Future revenue is expected from the city's inclusionary housing in-lieu fee program and the \$17-per-square-foot affordable housing impact fee, both of which took effect in mid-2016. But the small number of market-rate condos in the pipeline — and exemptions for rental projects already in the pipeline and for downtown high-rise rental projects that are completed by June 2021 — mean that these fees won't contribute much for the next few years.

In 2016, the voters of Santa Clara County passed a \$950 million bond for affordable housing focused on addressing homelessness and housing the county's lowest-income residents. In addition, increased coordination between city and county agencies that provide housing has also helped align resources around key funding priorities. San Jose's Housing Department, the Santa Clara County Housing Authority and the County Office of Supportive Housing are coordinating to address homelessness, which has surfaced as a top priority of the county, the City of San Jose and other cities in the county. It is important to note that while this is a significant investment by the taxpayers of Santa Clara County, the lion's share of these funds will go to the most needy households and the chronically homeless, so funding for lower-income, moderate-income and middle-income households is still needed.

Moderate- and middle-income households have not traditionally been the focus of housing programs other than homeownership programs. But the increasingly tight housing market in the Bay Area has put pressure on a segment of the population that has not typically needed assistance, as core members of the workforce are now finding it difficult to afford living in the Bay Area. Few funding sources from any level of

government focus on serving moderate- and middle-income households. A gap has opened between the households that qualify for subsidy and households that can compete in the housing market.

**State and Federal Funding for Affordable Housing**

As mentioned above, funding at the federal and state level has been shrinking and remains under threat. California's funding for affordable housing has historically come from periodic voter-approved bonds for the Multifamily Housing Program and other housing assistance programs. In 2016, there was no available or projected future funding from the Multifamily Housing Program. The state also allocates revenue from the cap-and-trade program to support infill development projects that reduce greenhouse gas emissions through the Affordable Housing and Sustainable Communities Program. In 2016, the City of San Jose and two developers were awarded \$27.9 million through the cap-and-trade program. This funding will help build 300 deeply affordable apartments and sustainable transportation improvements. Cap-and-trade funds will next be made available in 2017, though the amount has not yet been determined and the cap-and-trade program's future is uncertain with the passage of AB 197.<sup>66</sup> In the fall of 2016, a \$2 billion package for permanent supportive housing for people with mental illness was also signed into law. This package repurposes unspent funds from the Mental Health Services Act. At the time of this writing, there are at least three legislative proposals for the 2017 state budget that would create affordable housing funding sources.

Federal funding for affordable housing has come in the form of federal tax credits, funding for vouchers and public housing, and large block grant programs such as the Community Development Block Grant funds. Santa Clara County's Housing Authority has

<sup>66</sup> AB 197 directs the California Air Resources Board to consider non-market and non-revenue-raising alternatives to cap and trade in order to meet state greenhouse gas pollution targets, though it is not yet clear how the agency will interpret and implement this law. See [https://leginfo.ca.gov/faces/billNavClient.xhtml?bill\\_id=201520160AB197](https://leginfo.ca.gov/faces/billNavClient.xhtml?bill_id=201520160AB197)

**Why SPUR Supports Inclusionary Housing Done Right**

Cities often require developers to pay impact fees to support new affordable housing, parks, infrastructure and other community facilities. Cities may also require developers to include a certain number of affordable units within new market-rate developments (known as "inclusionary housing"). These types of requirements can support inclusive, mixed-use, mixed-income communities with great amenities and infrastructure.

SPUR supports inclusionary housing and housing impact fees and has been a vocal advocate for setting these policies thoughtfully in order to get the most benefit. Some of SPUR's guiding principles for doing this include:

**Feasibility:** It's important to set requirements at feasible levels. Set them too low and communities miss out on opportunities, but set them too high and new projects won't move forward — nor will the associated benefits. Financial feasibility studies can help determine how high requirements can be set before they start to inhibit development.

**Certainty:** If requirements remain consistent and are not constantly in flux, they provide certainty to the city, community and project sponsor. Landowners and developers can factor the cost into expectations of land value early on, increasing the likelihood that a project will happen.

**Options:** We believe it's best if sponsors have options for how they implement requirements and fees: onsite affordable units, offsite affordable units, a per-unit fee or land dedication. As long as the value of the options remains roughly equivalent, cities benefit from a mix of approaches.

Archer Studios in San Jose used affordable housing funds from the city and county to serve 42 extremely low- and very low-income households.



Photo courtesy Charities Housing

approximately 17,000 housing vouchers, the second-largest source of affordable housing in the county after San Jose's affordable rental stock. However, many of the vouchers are going unused because housing prices are so high that people cannot find housing where their voucher would be enough to fill the gap.

Unfortunately, given changes at the federal level, the status of these funding resources is uncertain, and therefore other solutions, such as local funding sources, need to be found.

#### RECOMMENDATION 18

##### Create new resources for affordable housing at the local, regional and state levels.

*SPUR's Agenda for Change*<sup>67</sup> calls for investing in permanently affordable housing. The most significant barrier to the development of more affordable housing is the lack of funding and the relatively high cost of affordable housing compared to other public goods. Acquiring land and designing and constructing buildings are expensive activities, and affordable rents often are not sufficient to cover a mortgage and operating expenses.

There are certainly other barriers to creating affordable housing: Land in the Bay Area can be expensive and difficult to come by, and it is a fixed and limited resource. However, significant land opportunities remain in the South Bay for infill development or intensification of uses.

<sup>67</sup> SPUR, *SPUR's Agenda for Change*, February 2016, <https://www.spur.org/publications/spur-report/2016-02-01/spurs-agenda-change>

In some cities and towns, political opposition or NIMBY ("Not in My Back Yard") attitudes can pose a threat to the development of affordable housing, but in larger cities like San Jose, San Francisco and Oakland, affordable housing typically prevails. We note that NIMBY opposition to homeless housing remains fierce nearly everywhere. The PATH homeless housing development in downtown San Jose required two years and more than 150 individual and group meetings to gain sufficient neighborhood support. This is important to recognize since 2016's Measure A funds are primarily targeted to meet the needs of the homeless population. These upcoming projects should be prepared to face NIMBY opposition.

While these factors play a role, limited subsidy is the primary constraint on affordable housing production in San Jose. We have several recommendations for increasing potential resources at all levels of government.

##### → Develop an ongoing target for how much affordable housing funding is needed at the regional, countywide and local level.

**Responsible Parties:** San Jose Housing Department, Santa Clara County, Metropolitan Transportation Commission, Association of Bay Area Governments

The region, county and city should each determine how much annual funding is needed to accomplish their affordable housing goals. One calculation (using Regional Housing Needs Allocation numbers, typical affordable housing costs, supportable mortgages and subsidies) estimates a roughly \$1.45 billion annual subsidy gap for the nine-county Bay

Area.<sup>68</sup> Setting concrete targets for the city, the county and the region will help coalesce support for needed new funding sources.

##### → Support the creation of new local resources for affordable housing.

**Responsible Parties:** San Jose Housing Department, San Jose City Council

SPUR supported a \$950 million countywide affordable housing bond (Measure A) that voters approved in 2016. This bond will fund the acquisition and construction of affordable or supportive housing for vulnerable populations, ranging from the formerly homeless to moderate-income first-time homebuyers. This was part of a coordinated regional effort to pass multiple county bond measures for affordable housing.<sup>69</sup>

In the future, the city should consider proposing its own affordable housing funding sources (such as a local bond) to support the acquisition, construction and rehabilitation of affordable housing.

##### → Support the creation of new regional resources for affordable housing.

**Responsible Parties:** San Jose Housing Department, San Jose Office of Economic Development, Santa Clara County, Metropolitan Transportation Commission, Association of Bay Area Governments

At the regional level, both the Association of Bay Area Governments and the Metropolitan Transportation Commission have been diving more deeply into regional responses to the housing shortage. Historically, there has been very limited funding available at the regional level; the \$50 million revolving Bay Area Transit-Oriented Affordable Housing Fund is one example of a regional pot of funds available for affordable housing. In 2016, the Metropolitan Transportation Commission also created a \$30 million grant program to reward jurisdictions that produce the most affordable housing in desired locations.<sup>70</sup>

A few ideas for funding a regional housing trust include:

- **A county-level or region-wide transfer tax imposed on higher-end property transactions.** This would tax high-value residential transfers (perhaps of \$1.5 million and more) at a higher rate. The higher rate would operate as a surcharge above the existing tax rate.

<sup>68</sup> Strategic Economics and Novin Development Consulting for the Great Communities Collaborative, "Funding Affordable Housing Near Transit in the Bay Area Region," May 2017 [http://www.greatcommunities.org/wp-content/uploads/Funding-Affordable-Housing-Near-Transit-in-the-Bay-Area-Region\\_5917.pdf](http://www.greatcommunities.org/wp-content/uploads/Funding-Affordable-Housing-Near-Transit-in-the-Bay-Area-Region_5917.pdf)

<sup>69</sup> San Francisco passed a \$310 million bond in November 2015, Alameda County passed a \$580 million bond in November 2016, and San Mateo County extended its half-cent sales tax for 20 years (\$85 million annually) in November 2016.

<sup>70</sup> Metropolitan Transportation Commission, "OBAG 2," <http://mtc.ca.gov/our-work/fund-invest/federal-funding/obag-2>

- **A region-wide jobs-housing linkage fee assessed to new commercial development.** This has been discussed at the Metropolitan Transportation Commission and could be structured in such a way that rates are higher in the cities that have added jobs the most aggressively within the region or that have not developed their share of affordable housing.

Additionally, any funding ideas that fail at the state level (see following item) could be pursued as possible solutions at the regional level.

##### → Support the creation of new state resources for affordable housing.

**Responsible Parties:** San Jose Housing Department, State of California

There has been a long-standing effort to create a permanent source for affordable housing at the state level. Instead of relying on periodic bonds that must be taken to the ballot and require extensive campaign resources and voter support, California should have a steady, permanent funding source that supports this ongoing need.

At the time of this writing, a proposed \$75 document-recording fee would generate an estimated \$250 million annually to fund affordable housing.<sup>71</sup> We believe that a fee like this would not stifle real estate transactions and is logically connected to the real estate market.

Another major proposal would eliminate the state mortgage interest tax deduction on second homes and instead increase the state low-income housing tax credit allocation. This could divert \$300 million annually toward the construction or acquisition and rehabilitation of housing units.

Both of these ideas would contribute significantly to an increased affordable housing supply.

#### RECOMMENDATION 19

##### Make existing buildings that house low-income households permanently affordable.

**Responsible Parties:** San Jose Housing Department, Santa Clara County Housing Authority, Metropolitan Transportation Commission, affordable housing developers and owners

Thousands of the housing units that house low- and moderate-income families in the Bay Area are not subsidized affordable housing. These units may be more affordable because they are older, smaller, in poorer condition or in less desirable or less convenient locations. These buildings are an underappreciated resource and they are threatened by shifting and growing demand for housing in the Bay Area.<sup>72</sup>

SPUR recommends finding ways to preserve these units as a resource for low- and moderate-income households. Some

<sup>71</sup> See 2012 SB 1220, 2014 SB 391, 2015 AB 1335.

<sup>72</sup> California Housing Partnership Corporation, *Preservation of Affordable Homes Near Transit Toolkit*, November 2015, <http://chpc.net/wp-content/uploads/2015/11/10-CHPCPreservationToolkit.pdf>



**Before:** Originally built in 1959, Garland Plaza in Sunnyvale was acquired in 2007 by nonprofit MidPen Housing.

Photo (before) courtesy MidPen Housing; Photo (after) by Craig Sherod for MidPen Housing



**After:** With the help of federal and local affordable housing funds, Garland Plaza was rehabilitated and preserved as affordable housing for Sunnyvale low-income households in 2013.

state and regional resources should be set aside to encourage the acquisition of these existing non-subsidized units and the conversion of these properties to permanently affordable homes for low-income households.<sup>73</sup>

Government and nonprofit partnerships could preserve this housing supply in a few ways. For example, they could acquire properties with minimal capital needs and operate them as is, with minimal capital investment and more flexible affordability restrictions. These properties could allow moderate- or middle-income households to qualify, which could help cross-subsidize the lower-income households. This approach would allow for shallower subsidy and would stretch the region's housing dollars further. If done in the places where market rents are projected to rise, nonprofits could in theory raise rents more slowly than the market so that these unrestricted or lightly restricted properties would still be significantly below-market, without the help of the deep subsidies typically required today.

While this idea is conceptually appealing, there are still several challenges, including:

- The need to relocate some residents due to renovation, overcrowding and household income limits (an expensive, complicated and staff-intensive process)

<sup>73</sup> Nonprofit housing developers have done this across the region for some time, and the thinking on this has recently deepened through San Francisco's Small Sites Program, Oakland Mayor Libby Schaaf's focus on NOAHs ("Naturally Occurring Affordable Housing") in the Oakland at Home report, and the Metropolitan Transportation Commission's look at the role it has to play in the regional housing discussion.

- High acquisition prices in hot markets (exactly where these units are most endangered)
- The need to compete with institutional investors on price and to act quickly to make and close on an offer in the private market
- Particular characteristics of many acquisition opportunities (extensive capital needs, small typical building size)
- The need for a patient source of capital that will accept a below-market return
- The need to address capital gains tax liability for sellers

We see two ways to pursue this idea:

**1. Invest more resources in the preservation of existing housing through acquiring properties and converting them to permanent affordability.**

Several new local loan funds are focusing on this concept. The Metropolitan Transportation Commission is developing a pilot regional revolving loan fund that would focus on making these preservation opportunities possible. Similar to San Francisco's Small Sites Program, it might have more flexible affordability targets (including both low- and moderate-income households to target an *average* level of affordability rather than specifically restricting each unit) and might not necessarily involve major building rehabilitation. The San Francisco Housing Accelerator Fund, Housing Trust Silicon Valley's TECH Fund, Enterprise Community Partners and others are also

creating new tools focused on helping nonprofit developers compete for acquisition opportunities (both land and existing housing). These are great first steps, but even more funding sources and long-term financial tools will be needed in order to scale up preservation around the region.

**2. In the future, deploy Section 8 vouchers at the project level to enable these acquisition/conversions to happen.**

The Santa Clara County Housing Authority has thousands of Section 8 vouchers in hand that are not functional because local market rents are so high. The value of the vouchers, established and funded by the U.S. Department of Housing and Urban Development (HUD), is currently insufficient to fill the gap between 30 percent of household incomes (what HUD asks households to contribute) and asking rents. Sometimes housing vouchers are allocated to affordable housing projects, and sometimes they are allocated directly to individual households. These vouchers could be deployed to projects to help convert existing unrestricted buildings to permanent affordability. Additional benefit is derived when nonprofit housing organizations are able to borrow against the ongoing voucher income from HUD for up-front acquisition or capital needs.

At the time of this writing, the Housing Authority currently prioritizes the most vulnerable and lowest-income populations and is planning to pair its project-based vouchers with Measure A funds for new construction of affordable housing. This is a smart approach that we support. We also

believe that vouchers could play a different role in the future, depending on federal housing funding in the coming years.

The shortage of existing housing and the relatively slow pace of building new housing (compared to the Bay Area's rate of job growth) means that existing housing continues to become ever more valuable. We will continue to see market-rate housing move further out of reach for lower-income households if we do not create more housing and invest in retaining some of it for those with fewer resources.

**RECOMMENDATION 20**

**Reduce costs for affordable projects.**

The City of San Jose may have limited opportunities to generate new funds for affordable housing, but it can help on the cost side in order to reduce the funding required per unit and stretch its dollars further. This may take the form of cutting carrying costs or using zoning to reduce land costs.

- **Speed up the development process for all development, and prioritize 100 percent affordable housing projects that are in the pipeline.**

**Responsible Parties:** San Jose Department of Planning, Building and Code Enforcement; San Jose Housing Department

The city can do its part to reduce the length of the housing development process for all housing projects and thereby reduce carrying costs. In addition, in the planning process,



Photo courtesy MidPen Housing

104 units were recently added to a 1970s-era project in Mountain View, increasing the project density by 70 percent.

the city should prioritize affordable housing projects during entitlements and permitting and should take advantage of all existing opportunities to exempt affordable housing from lengthy environmental review processes.

→ **Extend the standard entitlements period for 100 percent affordable projects to four years instead of the typical two years.**

**Responsible Parties:** San Jose Department of Planning, Building and Code Enforcement; San Jose Housing Department

Planning approvals usually have an expiration date in order to encourage developers to move projects forward. When approved, the entitlements for most development projects in San Jose remain in place for two years, after which a single two-year extension can be administratively approved.

But 100 percent affordable projects typically take longer to develop since financing needs to be assembled from multiple sources that have their own timelines for award and approval. Local funding is also limited, so projects may have to remain in the queue for several years until sufficient subsidy is available. Extending the entitlements period for these projects will reduce bureaucratic constraints and is unlikely to discourage affordable housing developers from moving forward as quickly as they can.

→ **Search for opportunities to intensify properties that already have existing affordable housing.**

**Responsible Parties:** San Jose Department of Planning, Building and Code Enforcement; San Jose Housing Department; affordable housing developers and owners

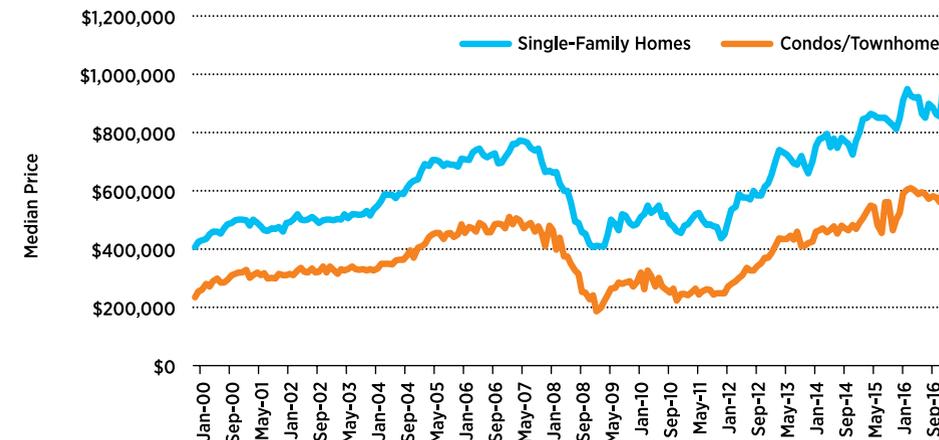
Many older multifamily properties include large swaths of landscaping and/or parking that could be redeveloped, with the potential addition of new buildings. For example, when it opened in 1973, MidPen Housing's affordable development Paulson Park included 149 units on 8 acres in Mountain View. More recently, MidPen was able to incorporate another 104 units on underutilized space at the site, increasing the density by 70 percent without sacrificing livability. MidPen is currently replacing Shorebreeze, an existing housing complex in Mountain View, with a larger building (with some of the housing remaining in operation throughout construction). In 2016, San Francisco's Tenderloin Neighborhood Development Corporation added a new 98-unit building (the Willie B. Kennedy Apartments) to the parking lot of the Rosa Parks apartments, a former public housing project (198 units dating from 1962), increasing the site's density by 49 percent.

Greater use of air rights is another viable approach to make more efficient use of limited land; developers may be able to acquire the right to build affordable housing above other uses. Because of structural limitations, this may be

## Using Zoning to Prioritize Affordable Housing on Private Land

2016 changes to the Envision 2040 General Plan made land available for affordable housing — and not market-rate housing — and may create land acquisition opportunities at a more affordable price. With these changes, some commercial sites may (under some conditions) be converted to housing, but only if that housing is 100 percent affordable. This will keep the land value lower than if

market-rate housing were allowed. In addition, the city now allows 100 percent affordable housing projects to proceed in Urban Village areas ahead of the designated growth horizon and approval of the Urban Village plan. SPUR believes that giving affordable housing advantages through zoning is one way to keep land prices lower for affordable projects.



**FIGURE 17**  
**For-sale home prices in San Jose, 2000-2015**

With some public assistance, condominiums in San Jose may be within reach for middle-income households.

Source: Santa Clara County Association of Realtors via the City of San Jose, prices not adjusted for inflation.

most feasible in new construction settings, but building over existing buildings and parking lots should certainly be explored, especially in historic districts or when historic buildings are involved.

Projects like those described above would make better use of valuable public or nonprofit-owned land and would be in line with San Jose's goals to move toward a more urban footprint. While affordable housing subsidy is still needed for construction costs, the cost of land can be shrunk significantly.

→ **Grow the city's first-time homebuyer down-payment assistance program.**

**Responsible Parties:** San Jose Housing Department, Housing Trust Silicon Valley

In general, SPUR believes that direct public subsidy, a limited resource, should be focused on housing those most in need: individuals and families with the lowest incomes who cannot afford market-rate housing. The federal mortgage interest tax deduction already provides a significant subsidy for those who can qualify to purchase a home. But for those in expensive markets like the Bay Area, there will never be enough subsidy to support a significant number of moderate- and middle-income households with the ongoing costs of homeownership.

There is an opportunity, however, to help moderate- and middle-income households get over the barrier of high down-payment costs. In San Jose, a condo at the median home price (\$465,000) may have a low enough monthly mortgage payment to be affordable to many moderate-income households if they had access to down-payment assistance. In a majority-homeowner city like San Jose, where 57 percent of homes are owner-occupied, it may be appropriate to encourage the development of more condos and support those who need an extra boost to get into a market-rate homeownership opportunity.

The City of San Jose offers limited down-payment assistance programs, typically for purchasers of affordable homeownership opportunities provided within market-rate developments through inclusionary requirements. Housing Trust Silicon Valley also runs homeownership assistance

programs, offering deferred loan programs of up to \$50,000 to low-income households (payments are due only upon sale/refinance) and offering second mortgages of up to \$80,000 to moderate-income households; the second mortgage is also amortized over time, requiring the homebuyer to make additional monthly payments.

We suggest that San Jose's middle-income market could be served by a program that provides slightly larger deferred loans (potentially \$80,000) to moderate- and middle-income households and connects them to the existing lower-priced housing opportunities that would be within their reach. This would be best implemented through partnerships with nonprofits, such as Housing Trust Silicon Valley, that specialize in working with homeowners and have the flexibility to respond to local homeownership market conditions.

## Conclusion

There are many things that the City of San Jose and the region can do to build more housing at all income levels. However, it is important to note that even if the city did everything within its powers to build more housing, the region would still be experiencing a housing shortage. This is because the shortage is fueled by the collective decisions of all of the cities in Santa Clara County and the rest of the region to accommodate a significant number of jobs while not creating sufficient housing to meet the demand over a long period of time.

In the preceding pages, we have provided many recommendations for local policy-makers in San Jose to consider. We hope that the other cities in Santa Clara County and throughout the region will also spend time thinking about what they can do to help contribute to the solution. We also hope state officials will consider the many steps they can take to incentivize housing production, such as rewarding cities that build in infill locations with infrastructure funding and other resources, making certain types of housing possible to build without extensive and time-consuming review processes, and reforming our state tax system. It is only when all these steps are taken in concert that we will truly be able to address our housing shortage.



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