

Exhibit C Need
[City of San José]

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Efforts to Identify, Address, Mitigate or Remove Barriers

State Efforts to Remove Barriers to Affordable Housing

Given the scale of the housing crisis in California, several landmark state bills were passed in the last two years that removed many barriers that had made progress in San José difficult. These bills support housing departments across the state to push forward reforms that were stymied in the past. These laws include the following:

- SB 6, approved in September 2022, which fast-tracks affordable housing permitting;
- SB 9, approved in September 2021, upzoning single family lots;
- SB 35, approved in September 2017, streamlining environmental reviews and allowing California communities to bypass CEQA processes for housing approval if they are not meeting their Regional Housing Needs Allocation (RHNA) targets.

Local Efforts to Remove Barriers to Affordable Housing

Faced with both conditions which gave rise to the statewide housing crisis and local pressures from its unique position as the capital of Silicon Valley, San José has adopted several bold changes that are leading the way across the state. San José's efforts include:

Conducting Research and Analysis: San José conducted an Assessment of Fair Housing as part of the work to update the City's recently-approved Housing Element. The Assessment thoroughly identifies the history, nature and extent of housing and development patterns which have stemmed from and reinforced segregation. This extensive analysis identifies the City's Racially/Ethnically Concentrated Areas of Poverty (RE/CAPs), Racial Concentrated Areas of Affluence (RCAAs), rent and cost burdens, disparities in housing stock, affordable housing loss, and challenges facing specifically vulnerable populations, providing a strong foundation from which to develop policy initiatives to address challenges to affordable housing.

Urban Villages: Beginning in 2011, as the City prepared its Envision San José 2040 General Plan, San José adopted the Urban Villages strategy to increase density in residential development through a network of mini urban centers emanating from a downtown zoned for high-rise buildings. Urban villages are principally located along arterial roads (called 'Grand Boulevards') but otherwise evenly distributed across San José's neighborhoods. These urban villages effectively introduce medium density housing and development to formerly sprawled, low-density neighborhoods with optimal job access.

Expedited Permitting: San José also expedited the permitting process for several types of housing, including building accessory dwelling units and infill housing. For large stand-alone projects, the city created a blanket environmental impact review process that removes individual studies at each site which in turn pre-approved more than 14,000 new

homes. This reduces the permitting process for large projects to six months, in contrast to the years it takes in most California cities.

Minimum Parking Requirement: In December 2022, San José dropped the minimum parking requirements on new construction to encourage both transit oriented development and new housing construction. In particular, this change will support the development around Diridon Station, where more than 25 buildings are planned around the all-electric light rail.

Local Gap Financing Funds: The City of San José has attempted to address the scarcity of affordable housing through raising additional local funds. San José first adopted the multi-dimensional Housing Crisis Workplan in 2018 that laid out a set of goals and steps to increase support for affordable housing. Then in 2020 voters passed Measure E, a real property transfer tax that provides an estimated \$40-\$50 million annually for affordable housing development, preservation, and related supportive services. In addition, in 2021 San José updated their inclusionary zoning policy to require 15% of units to be affordable. Between 2018 and 2021, San José granted \$242 million to affordable housing projects supporting the delivery of 2,130 units. San José also has a long-standing program to preserve existing income-restricted housing.

2020-2025 Community Plan to End Homelessness: The plan focused on the whole county with a framework to address the root causes of homelessness, expand prevention, and improve quality of life for unsheltered individuals. San José has responded by providing a 72 room motel, 42 supportive parking spaces, and 15 resource centers. The plan emphasized that protecting residents from evictions, displacement, and housing discrimination were the primary means of preventing homelessness.

As a result of these shifts, San José made significant progress in delivering new units. In 2015, San José adopted a plan to produce more than 35,000 housing units. The city exceeded their market rate goals but did not meet their affordable housing goals due to difficulty assembling financing. For example, over the 5th cycle period there were only enough Low-Income Housing Tax Credits to meet approximately 14% of California's aggregate affordable housing needs much less the need in San José. As a result, San José fell significantly short of its affordable housing goals, approving only around 25% of its combined low- and middle-income housing target of more than 20,800 units. Nonetheless, San José continues to experience large scale displacement of low-income minority households. San José is losing both subsidized and unsubsidized affordable housing at an alarming rate. Between 2016 and 2021, nearly 39,000 units, or 43% of rental units, were filtered up to rents above \$2,000.

Anti-displacement and Preservation

In 2020, San José adopted an anti-displacement strategy. The Citywide Residential Anti-Displacement Strategy provides 10 recommendations upon which the City should take action. The Strategy was based on extensive community engagement and local research and an analysis of gaps in San José's current anti-displacement policies and programs. The strategy also drew upon the City's participation in PolicyLink's Anti-Displacement Network and its subsequent

report, Ending Displacement in San José: Community Strategy Report. on the report and Network participation also drew upon the lived experiences and input of residents.

Recommendations in the strategy included:

1. Support Equitable COVID-19 Recovery and Impact Mitigation Measures for Renters and Homeowners
2. Establish a Neighborhood Tenant Preference for Affordable Housing
3. Explore a Community Opportunity to Purchase Program/Ordinance (COPA)
4. Increase Equitable Representation of Historically Underrepresented Communities on City Commissions
5. Create a Role for Local Government in State Tenant Protections
6. Increase Housing Quality and Prevent Code Enforcement-related Displacement
7. Create a Preservation Report and Policy
8. Develop YIGBY Land Use – Yes in God’s Backyard
9. Optimize Urban Villages for Affordable Housing Development and Anti-Displacement
10. Establish New Sources of Funding for Affordable Housing and Anti-Displacement

To begin implementation, the City began work on the first three recommendations. In particular, city staff worked with community representatives to explore a COPA. While city council did not support the ultimate ordinance, community engagement revealed that a policy to purchase would be ineffective without a clear policy for preservation and additional sources of funding. The process revealed that there were limited opportunities for tenant engagement in the current funding process and that there were no means of community groups engaging in affordable housing preservation beyond advocacy. As a result, in October 2023 San José released the first tranche of funding to support the acquisition and rehabilitation of existing unrestricted affordable housing.

Do you have acute demand for affordable housing? What are your remaining affordable housing needs and how do you know?

San José Housing Need

The City of San José, at slightly over a million people, is the tenth largest city in the U.S and serves low-income residents from across Santa Clara County. It is the population center of Silicon Valley, where the economy grew significantly even during the pandemic. The strength of the San José economy over the last thirty years has led to a significant housing crisis throughout Santa Clara County. In 2021, San José produced just 317 housing units for every 1,000 jobs, compared to 419 housing units for the rest of the metro area.¹ The surrounding communities are comprised of primarily single-family homes with limited supply of housing to accommodate a range of incomes. As a result, San José accounts for half of the county’s housing units, nearly all the cost burdened renters in the county, and two thirds of the homeless population.² In other words, San José serves renters and low-income residents from across the County. Commuting patterns further support this central role with just 12 percent of workers both living and working

¹ Bureau of Labor Statistics (BLS); Building Permit Survey, US Census Bureau; and HR&A Analysis

² <https://www.census.gov/quickfacts/fact/table/sanjosecitycalifornia,santaclaracountycalifornia,US/PST045222>

in San José and more than 30,000 workers commuting to each of the following communities in the County: Santa Clara, Sunnyvale, Milpitas, Fremont, Menlo Park and Palo Alto.³ San José's housing market is clearly a key driver of both the housing problems and potential solutions in Santa Clara County.⁴ Therefore, given that Santa Clara County was designated a HUD Priority Geography with the housing affordability and housing problems factor well above national the threshold, addressing the housing needs in San José are also a high priority.

San José has long been one of the most expensive places to live in the country, with median housing prices and rents out of reach for residents. The median home value in San José peaked in January 2022, but a year later the median value still stood at \$1.3 million.⁵ San José's median home sales price is 8.5 times the median income of its residents, which makes it the eighth most expensive for-sale housing market in the world, ahead of San Francisco and London.⁶ Over the last ten years most census tracts in San José have seen a more than 170 percent increase in home values.⁷ The situation is no better for renters with the median gross rent of \$3,026 per month and an increase of \$1,600, or 117 percent, from 2011 to 2023.⁸ These housing costs are unaffordable for workers who are essential for the continued functioning of our economy and society. For example, in 2021, the median rent affordable to the typical San José renter was \$2,239, while the affordable median rent was \$2,737.⁹ As a result, in 2021 over half of San José renters were considered cost-burdened, spending more than 30 percent of their income on housing, which accounts for most of the cost burdened households in the County.¹⁰ This reflects an increase from around 40 percent of renters in 2010.¹¹ This has led to many households doubling up with nearly 10 percent of San José's households living in overcrowded situations.¹² These trends indicate that the risk of displacement is rising for many households suggesting a critical need to develop near-term strategies to preserve affordable housing while continuing to build additional housing.

Displacement Pressure

Despite a thriving and growing economy and decades of population growth, the most recent U.S. census data indicates that the City has lost population in the past few years. In community outreach and engagement, City staff heard from many community members who want to continue to live in San José but worry about being priced out of the market, and who report that family and neighbors have already been displaced.¹³ This is reflected in the displacement risks across the city where 39 percent of Latino/a/x residents are at risk of displacement and another 7 percent are in gentrifying areas.¹⁴ This contrasts with white residents of whom 14 percent face risk of displacement and 4 percent gentrification. This also reflects that the City is highly

³ US Census Bureau, LEHF Origin Destination Employment Statics (LODES)

⁴ Note that the place San José City was not listed as a priority geography but given that the City's housing market clearly serves the whole county which was ranked as high priority.

⁵ Zillow Research, Zillow Home Value Index, All Homes Time Series

⁶ Romem, Issi; Kneebone, Elizabeth; Disparity in departure: who leaves the bay area and where do they go? <https://turnercenter.berkeley.edu/disparity-in-departure>

⁷ American Communities Survey, 2021

⁸ Zillow Research 2023 and American Communities Survey 2021

⁹ ACS, Zillow

¹⁰ PUMS, HUD

¹¹ American Community Survey and Bay Area Equity Atlas

¹² Housing Element, Needs Assessment

¹³ Housing Element, Needs Assessment

¹⁴ Housing Element, Needs Assessment

segregated with most of the Latino/a/x population living in the central and eastern portions of the city, while a majority of the non-Hispanic white population lives in the southwestern part of the city.¹⁵ Other minority groups face similar challenges.

As a result, displacement disproportionately impacts communities of color. The two largest minority groups in San José are Latino/a/x and Southeast Asians. There is a distinction in San José between people who came from Southeast Asian countries largely as refugees and Asian Indian and Chinese who more often arrive via institutional visas that has led to different economic outcomes and housing opportunities.¹⁶ As a result, Latino/a/x and Southeast Asians tend to live in areas of low opportunity. That is, 54 percent of the City's Latino/a/x residents and 50 percent of the Southeast Asian residents live in areas designated as low income, compared to just 13 percent of the non-Hispanic white population.¹⁷

Although data does not exist to calculate the exact number of San José residents displaced in recent years, there are clear indications of large-scale ongoing displacement. The regional trends are clearer and are cause for concern. From 2010 to 2016, approximately 1.5 million residents, or 1 in 5 people, moved out of the Bay Area. Those that left were mostly low income Latinx and Black residents. This trend is confirmed by evidence throughout Silicon Valley from 2018 that indicates that more than half of displaced renters left their city of residence for more distant parts of the county and five percent became homeless.¹⁸ In San José, these trends translate to Southeast Asian and Latino/a/x households being the most vulnerable to displacement, which is also reported by community-based organizations.¹⁹ Recent population trends do show that since 2017, San José's Latino/a/x had an average net loss of 4,000 people per year.²⁰ The result is that despite being the capital of Silicon Valley, many households face high costs, lack of opportunity and housing insecurity.

Despite the segregation and loss of minority residents, San José accounts for a large share of Silicon Valley's diversity thus the displacement pressure has regional ramifications. Other surrounding jurisdictions are a majority non-Hispanic white resulting in lower segregation measures. As a result, formerly redlined neighborhoods have become locations for speculative investment due to relative affordability. The intense market pressures in San José present an enormous risk to diversity for the entire region and increasing exclusion throughout the South Bay.

Homelessness

One outcome of displacement is rising homeless populations. While the growth of individuals who are unhoused has many individual causes, lack of affordable housing and increasing rents is a clear cause in California and San José specifically. The homeless population in San José increased dramatically with the onset of the COVID-19 pandemic to nearly 6,600 people in 2022

¹⁵ Assessment of Fair Housing, 2023

¹⁶ Assessment of Fair Housing, 2023, B-164

¹⁷ Anti-displacement strategy? Fair Housing Assessment?

¹⁸ Marcus, Justine; Disruption in Silicon Valley – The Impacts of Displacement on Resident' Lives; December 2018
<https://www.urbandisplacement.org/blog/displacement-impacts-santa-clara>

¹⁹ Urban Displacement Project

²⁰ Assessment of Fair Housing, 2023, p B-36

or 66 percent of the homeless population in Santa Clara County.²¹ Due to increasing investments in permanent supportive housing and shelters the 2023 point in time count revealed a 5 percent drop in homeless residents in San José²². These results reveal the importance of near-term strategies like the interim housing and permanently affordable housing. They also suggest it is important to prevent homelessness through offering tenants additional support to remain in their homes. This is particularly important because people of color are at the highest risk of displacement and are also over-represented in the population of people experiencing homelessness. For example, in 2019 the unhoused population was 19 percent African American and 43 percent Latino/a/x compared to 3 percent and 32 percent of the whole population respectively.²³ These trends suggest an acute need for additional solutions to affordable housing in San José.

What key barriers still exist and need to be addressed to produce and preserve more affordable housing?

Key Barriers to Produce and Preserve Affordable Housing

Production of New Units

San José, the largest city in the Bay Area, has led the region in housing production over the past several decades but displacement is still occurring. Since 2010, San José produced 2,820 units per year on average, more than any other city in the region.²⁴ As discussed, a series of state legislative actions and local reforms have led to rapid increases in the production of housing. This is not to deny that the cost of housing remains high but much of this is driven by construction, labor and financing costs that are beyond the control of the San José City government. As a result, noted earlier, the costs of developing affordable housing are prohibitive due to land costs and current financing conditions.

Preservation of Existing Units

Unfortunately, while San José has long been a place where middle-income families and individuals could afford a high quality of life, that has begun to shift in recent years. Although there is no exact estimate of the number of households displaced, the City's population has been declining, losing diversity, and becoming wealthier. The increases in wealth do not reflect residents' increasing income, in fact wages have been lagging, but rather the replacement of low-income residents with higher income residents.

The rapid loss of affordable housing reflects a subsidy process that is unresponsive to housing preservation. To change this process there are four key barriers that need to be overcome:

1. **Gap Financing Application Process:** The single biggest barrier to affordable housing is assembling necessary financing resulting in large financing gaps and long delays. The average affordable unit in San José costs close to \$1 million to deliver due to a

²¹<https://osh.sccgov.org/sites/g/files/exjcpb671/files/documents/2022%20PIT%20Report%20Santa%20Clara%20County.pdf>

²² <https://news.santaclaracounty.gov/news-release/county-santa-clara-and-city-san-jose-release-preliminary-results-2023-point-time>

²³ Housing Element, 2023, p. 2-15

²⁴ City of San José, "Residential Construction – New Units by Type," <http://www.sanjoseca.gov/index.aspx?nid=2754>

combination of land, construction, and labor costs. As a result, the cost to deliver a new affordable unit is nearly equivalent to a market rate unit but without the rents to support the financing. As a result, project financing gaps increased rapidly over the last decade.

2. **Uses of Gap Financing:** The gap financing process has traditionally focused on providing funding for new units which has offered funding for construction and less support for pre-development and renovation. The uses of gap financing would need to be adjusted to focus on supporting the initial evaluation of a building, working with tenants to determine the best path forward and making necessary improvements to the building. This is a new set of uses than the traditional new construction project.
3. **Rehabilitation Process:** Developers have repeatedly mentioned that the cost and process of rehabilitating buildings with support from the City of San José is prohibitive. There needs to be more support and rapid reimbursement of costs that will encourage developers to participate in housing preservation.
4. **Involvement of Tenants and Community Groups:** The final barrier is the capacity of local developers and community groups to support the provision of affordable housing. There are several community groups and local nonprofits that lack the capacity to develop or manage affordable housing assets. Most neighborhoods in the Bay Area oppose new development. Current neighbors often feel they have little to gain, and future neighbors are not yet a part of the planning conversation. San José neighborhoods are no exception to this rule. Without ample investment in outreach and education, many residents can't picture the potential benefits of new development — or the often-invisible downsides of maintaining the status quo. Historically, white, higher-income homeowners with more time and resources have been overrepresented in the land use and planning dialogue in cities across the country. The voices of those who are familiar and comfortable with the public input process, and who have time to attend meetings and hearings, are not balanced by those who have historically been denied a voice: renters, low-income residents, people of color and people who have not yet moved to the city.