

Episode 13: Increasing Our Supply of Housing

Welcome to Dwellings, a podcast from the city of San Jose Housing Department, where we talk with thought leaders about ending homelessness, building affordable housing and key housing policies. I'm Jeff Scott and I'll be your host for season three of Dwellings. On today's episode, I'm joined by Vince Rocha, vice President of Housing and Community Development at the Silicon Valley Leadership Group. We're going to be discussing the economic implications of increasing or failing to increase the supply of housing in our region.

00;00;31;11 - 00;00;39;25

Jeff Scott: So we're joined today by Vince Rocha and Vince, can you tell us a little bit about the organization that you're with and the role you have at that organization?

00;00;41;03 - 00;01;02;00

Vince Rocha: Yeah, Jeff, thanks for having me again. My name is Vince Rocha, vice president of Housing and Community Development with the Silicon Valley Leadership Group. The leadership group represents our largest employers in Silicon Valley and was founded to support, enrich and drive entrepreneurial innovation here in Silicon Valley. And also really focus on issues of community concern like housing.

00;01;02;15 - 00;01;06;04

Jeff: And in your role, what do you do for SVLG?

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Vince: So daily, I get to work on housing solutions with stakeholders here in the state and region and making sure that we can make sure Silicon Valley is an affordable place for everyone to live, to raise the quality of life for all residents and ensure that we can remain competitive as an economic region from now into the future.

00;01;25;24 - 00;01;30;05

Jeff: What was it that spurred you to get involved in housing work?

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Vince: Well, for me, it's a personal story. You know, growing up in San Jose and in Santa Clara in the region, we often had to move off frequently as a kid because housing was unaffordable. And it wasn't

until we were able to get a deed restricted, affordable apartment that we finally settle in more permanently. So housing stability is a part of, I think, the success of, you know, my youth and making sure that I could become someone that went to college and could really focus on their studies because they weren't moving every year as a kid. And so I look at housing stability for our region and our residents as something to help everyone succeed and making sure that they could take advantage of the amazing economic and educational opportunities our Valley has to offer.

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Jeff: I think that's fascinating that you yourself have lived in deed restricted affordable housing. I didn't know about you, but I think that's that's wonderful that this is so personal to you and you can kind of bring some of that experience to your work. So then some people characterize the housing situation that we have in Silicon Valley right now as a crisis, meaning that there's so little housing that that we're in a crisis situation. Other people refer to it perhaps more as a as a shortage. Maybe we don't have as much housing as we'd like. Do you agree with either of those assessments or do you see things differently?

00;02;51;14 - 00;03;59;13

Vince: I agree with both. To put it simply, the crisis speaks to the economic pain people are feeling, the uncertainty about housing instability, that they need to be successful in their careers to raise a family. So certainly to most folks, it's a crisis. But the economics of it, the crisis is caused by a shortage. And so this is impacting the broader economy. It's leading to the mass migration of middle income jobs out of California. We've lost a quarter million residents since the 2020 census. So in the 2021 update, we lost a lot of residents out of California and that is mostly middle income residents, not higher income folks. And so the economy is hollowing out in the middle and you need high quality teachers and other people in the economy to keep the area vibrant and successful. So I agree with both. The crisis leads to, you know, an explanation for the shortage for people because that's how they experience it.

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Jeff: How does our supply of affordable housing in Silicon Valley compared to other large metro areas around the country?

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Vince: Well, quite frankly, we have an acute shortage of deed restricted affordable housing in our region and the need is great. And in fact, I'll just give a big picture of our region before I talk about the rest of the country. Is that, for the next regional housing needs assessment, for those of you who don't know what that means in the next eight year cycle, every city is given a number of homes they have to create. And then if you look at the entire Bay Area, they say we need to create 441,000 new homes. Well, in that assessment, when they said one of the greatest needs, they said over 57% of that 441,000 needs to

be deed restricted, affordable, not just market rate housing. But I'm going to qualify that by saying market rate housing is also needed and good. And these numbers, in my view, are a floor and not a ceiling. We could always do better than those numbers. So I'll start there. You know, it's interesting. I was looking at some data. The National Association of Realtors has a housing shortage tracker now because this is no longer a California problem. It's a national problem. And what we're seeing is what you might expect. The biggest job creating metros in the in the country are having the most acute housing shortages. And so you look at the mid-Atlantic, you know, Philadelphia, New York, D.C., you look at Miami, you look all up and down the coast of California from San Diego, straight up to San Francisco. So the areas you think would have the biggest shortages, do the places that don't actually are the middle of the country where they have much more, I would say permissive zoning laws and building policies? They basically allow housing development to happen where it's needed. There are things that could be done, I think, more, in a climate friendly way in some areas. I do think in some cases we do need to also build sustainably. But by and large there are parts of the country where folks are allowed to meet demand. Places like Austin, it's it's no wonder that city is growing fast because the city is allowing more housing to be created at a much more rapid pace than we're seeing here in many California cities.

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Jeff: Do you think that we're in a position where if some of our zoning laws and other sort of building and planning regulations were relaxed, that the market might be able to fill in some of that shortage itself?

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Vince: Absolutely. Absolutely. And what you see here is, as a region, we are not able to remain competitive because we're not allowing the market to fulfill what I would say is the missing middle historically. Middle income people could buy a house. Think of our grandparents generation. And that's because we allowed the market to address that through their ability to create housing as demand was rising. Now, if you want to build new housing on, say, an underutilized shopping center, it might take you 5 to 6, seven, eight years. That is no way. There's no way to keep up with demand. If you have to wait half a decade to a decade to create that housing demand continues to grow and the housing is playing catch up. And we're ten, 20, 30 years behind eventually. And so folks that say the market's not working, I actually misunderstand that we actually don't have a well-functioning market in housing creation here in California, at least because it takes so long to get your entitlements, your building permits. And by the time you receive those, it takes a long time to make sure you have the materials and labor to build that development. And so I think we need a more high functioning market it could meet. I think that missing middle and I do think the deed restricted affordable housing will always be needed for the lowest income residents, but that assistance could be more fairly targeted to the lowest income residents because right now it seems that we need to subsidize even middle income housing, which I think the market could address if we actually fixed the marketplace and how it works.

00;08;30;05 - 00;09;15;09

Jeff: I've read lately that the cost of building deed restricted affordable housing is getting extremely expensive and it has been for a while. But I saw an article, I think, in the L.A. Times the other day that said now it's routinely approaching or even exceeding \$1,000,000 per unit to build deed restricted affordable housing. And so my question for you is how realistic is it at that price for deed restricted, affordable housing to really be built out to the scale that we're talking about? I mean, is it feasible at those price points or cost points for construction for us to really scale deed restricted affordable housing into the hundreds of thousands of units?

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Vince: Now you're speaking my language. How are we going to scale our solutions to meet the needs? Because the needs are great. By some estimates, were 3.5 million units short in California of of housing units. We need to house California residents to relieve the stress on prices and create more stability, reduce displacement and so a big way to deal with scaling to meet that need is reducing costs of building housing. To your point, it could cost 600000 to \$1000000 a unit in California to build affordable housing. And really at those cost points, there is no way we can subsidize our way out of the problem. And so, you know, report after report says we need innovation, we need productivity increases. You'd be surprised to learn that the last time the housing industry had productivity increases was in the 1950s with the adoption of the nail gun. That's how far behind we are on the technology in terms of mass adoption. The really good news is we actually have solutions at hand, like mass timber, factory built housing. I'm really excited about factory OS and Vallejo and other companies like that that are starting to look at ways to not only reduce costs for building the housing, but also reduce timelines. This housing can be built in a factory and then assembled, delivered to a site and assembled and reduce construction timelines by over a year. So not only did we talk about that problem earlier, of being able to deliver the housing and it takes three, five, ten years, but we can we can shorten the timelines to deliver the housing. We can reduce costs by 25, 30%. And so I think long term, what we need to do is start looking at the state and local building codes and permitting processes to ensure that that housing can be delivered effectively and efficiently. And there are not any bureaucratic delay in factory built housing being delivered to construction sites, to different cities. The approval processes are fast, efficient, and we can really bring down those costs. That's the local solution. But you'd be surprised how widespread the challenges are. You may have read that housing materials are very expensive. The cost of wood has doubled and tripled and quadrupled. Well, you know, we have an 18% tariff on Canadian wood. I've heard that the federal government is looking at reducing that tariff down to 11%. But really, we're putting taxes on building materials that are badly needed to build both affordable and market rate housing right now when costs are skyrocketing. So really, I don't think our policies are aligned both from the national, state and local level to really ensure we can deliver on affordable housing. And so we really have to look at this economy wide. Are we making sure all the pieces fit together so that we can build housing that is affordable to everybody?

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Jeff: There are also some fees, charges, taxes, whatever you'd like to call it. They're placed on developers locally as they try to build. And these these fees cover a lot of things. They help pay for

infrastructure and they help pay for parks and schools. So there are there are a lot of very good reasons and very, very good or very important benefits to these fees. But my question is, if we are in such a deficit and we need to get more housing built and we need to do it sooner rather than later, does it makes sense for us to maybe rethink the fees that we layer on that we're asking builders to pay? Because ultimately those fees will frequently be passed on to either the renter or the buyer of the home. Right. Which is making the that housing more expensive. So my question is, does it make sense for us to maybe rethink some of these fees to try to lower the costs for the builder?

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Vince: Absolutely. And we need to look at this holistically. So when you look at the fees you charge for, say, parks or other amenities, those are necessary and good things that city government does. They want to provide amenities to their residents. However, when you're putting a fee on a new development, you not only are raising the cost of that housing, but potentially you're making that development infeasible. So potentially that housing never gets built. So no one gets to have those new units to live in and the city gets zero fees if it doesn't get built. So we need to find that balance. And what I think cities should be doing in this region is looking at the full stack of fees as one so that if you raise one fee, you should probably lower another so that it's all one full stack. And in terms of feasibility for new housing being created right now, you mentioned something kind of interesting and I'm going to pull one of your comments out. You mentioned schools. There's actually a state mandated formula for what developers pay in terms of school fees. But you also may know that schools themselves are funded largely on a per pupil basis. On average, daily attendance at our public and charter schools in San Jose, in Silicon Valley is down and this is pre-pandemic trend over the last seven years. Silicon Valley at home released a report. Over the last seven years. Attendance is down anywhere from 15 to 30% and if you look at the funding for per pupil funding at the state level on the state budget, I think it's double per pupil than what it was ten years ago. So even though funding has really gone up in the state budget, you're looking at some schools because they have a 30% loss of enrollments. They are losing money right. And so I would argue that new housing in the region, especially new affordable housing, really is going to help with our school enrollment so that students and families can stay here in San Jose, in the Bay Area, in Silicon Valley. So you've got to think about most folks will say new housing may negatively impact schools. They may think that our schools are overcrowded, but they actually don't understand that our schools are closing. If you look at schools in Alum Rock School district, in other school districts across the city of San Jose, they're closing schools. So it's the opposite. In fact, they are not overcrowded. We could use the new housing. It could hopefully bring in some new students and bring that funding back and so that we could have stable communities with open schools. So I think that we're when you look at this holistically, housing touches so many other areas. And if we don't have good schools, right, that's the economic pipeline to keep our valley competitive. We have the best universities in the region and the best and most innovative employers. And so housing can impact that pipeline of making sure our schools are solid and to make sure our economy and our workforce is solid.

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Jeff: So, Vince, for for some people who may be skeptical of of our need for more housing, skeptical of the fact that we have a shortage or a crisis of housing or of affordable housing, what would you say to them as you look out ten or 20 years in our region, in Silicon Valley, if we don't take steps to try to address the shortage of housing and of affordable housing, what do you think Silicon Valley is going to look like economically 10 to 20 years out from now?

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Vince: So I'll start with there's nothing written in stone that says we will be the economic center of innovation forever. Like I said before, we have world class universities, amazing venture capital investment and an agglomeration of talent that is really sticky in terms of keeping us competitive. All of these things have kept Silicon Valley really competitive. What really concerns me is if the current trends continue, we will hollow out the middle and you will hollow out the middle income worker who's ability to stay in this region. And those middle income workers are teachers. We're going to lose our top teachers. We're going to lose more construction workers who need to build the housing. Really, you may have a top heavy economy that is not sustainable because you need people with all skill sets here in this valley. So it is not just the knowledge workers, but it's about every worker, every person being welcome here. And so when you're building more housing, you're building a Silicon Valley for everybody. And to me, that's the biggest concern. You know, are we going to make room for our children in our neighborhoods? Are we going to make room for a growing economy? And by the way, if you think that the economy has grown too fast, I think that other regions would beg to differ. They would love the kind of economic development we're seeing here. Right. And there's no reason these other regions don't want to be just as competitive as us. They're trying to grow their economies because there's a lot of upside. There's a lot of great investment we're making in the community because we are growing. And so I just would say that there's tremendous opportunity in the next 10 to 20 years, but we need to harness it and make sure that we utilize all of the interest and in that growth here and making sure that we welcome new housing.

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Jeff: Do you see any new models of funding emerging for affordable housing again, given the given the cost of building housing and, you know, given the kind of finite resources, the finite amount of times we can ask the taxpayers to dig into their wallet, do you see any any innovation in financing that might help make affordable housing more affordable to build?

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Vince: Yeah. So I see, two opportunities here. One opportunity is streamlining the ability of affordable housing developers to apply for financing, whether that's tax credit, financing or otherwise. There are discussions at the state level and the regional level about creating a one stop application. What people don't realize is affordable housing often has anywhere from 6 to 10 funding streams, and an affordable housing developer may spend as much or more time applying to those funding streams as they do

figuring out how they're going to build that new housing. So really, we want developers to focus on what they're good at, which is creating high quality communities, not mired in paperwork, applying for affordable housing funds. So we could do a lot more on the public side to align and streamline the application process for funding. The second opportunity is I've seen in the state in the region is the creation of joint powers authorities that are acquiring market rate housing and deed, restricting it to middle income, affordable housing. And really what that does is it protects the current tenants and renters long term. It gives folks the stability and knowledge that they can stay in that housing. And these JPA's are not financed with capital affordable housing dollars. They're privately financed. And what they receive in return for lowering rents and keeping rents down over time is a exemption for property taxes. Now we have to ask ourselves, is that worth the tradeoff? And I would argue under the current environment where it costs us 600000 to \$1000000 per unit to create new affordable housing, that it in fact is worth the tradeoff to forgo the property taxes do deed restrict certain market rate communities to permanently affordable communities. So this JPA model is a really, I think, tremendous and interesting model and has tremendous opportunity for stabilizing communities. And to be clear, when we look at any affordable housing in this state, they're all tax exempt. So this isn't a special thing for that. It's just acquiring a market rate community using private financing that does not take away from the great funds that we have raised locally, such as Measure E in the city of San Jose or Measure A and Santa Clara County.

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Jeff: And you alluded to this at the top of our conversation. But many cities right now around California and in Silicon Valley are updating the housing elements of their general plans. What would you like to see if you could talk to these cities directly and perhaps you do in your role? What would you like to see? Cities do to get out in front of the housing crisis?

00;21;56;00 - 00;24;14;01

Vince: So number one, I have two pieces of advice is that cities should overshoot the number of sites in your housing element because not all of them will be developed. And we know that from past history that it's hard to ascertain which sites the market will want to develop on the private sector side and which sites will be suitable for affordable housing on the public sector side. So we really have to identify more sites than you think you will need because the market's unpredictable. Second, we really have to consider affirmatively furthering fair housing in the state of California is really looking at these housing elements and they will not approve them if they do not believe cities are doing their best to affirmatively further fair housing. And what does that mean? It means that cities are planning for all types of housing in all parts of their city, planning for affordable housing, near good schools, good jobs, parks, libraries, amenities. So you can't just say we're going to build housing in this one little corner of the city that's not near any of the amenities that our city has to offer. And what that means is you may have sites that are near existing neighborhoods. And I know existing neighborhoods often don't like new construction. Change can feel difficult for many neighborhoods, but I do believe we can start looking at the upsides we talked about. One earlier, which is our declining enrollment in sports, that new housing can bring students into these schools, losing 15, 20, 30% of their students over the past seven years. The

other exciting opportunity is it can revitalize our commercial districts. Really? How many vacant storefronts do we see on our shopping centers where there's not enough customers or restaurants, can't find enough clients to come in and keep them open? So, you know, really, I think that new residents can revitalize our commercial sectors as well. And often these new housing sites are mixed use right on top of our commercial sector. So I think that existing residents should welcome these sites because they're going to bring amenities to your community, more vibrancy. You really want to have fair housing. And fair housing means a lot of things to a lot of people, but it has some definitions in state law. And I would advise cities, look very closely at that.

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Jeff: As you look around either throughout California or even in other regions in the country. Have you seen some of these strategies implemented successfully elsewhere that might be a model for Silicon Valley to emulate?

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Vince: Honestly, I think the rest of the country is catching up to us. I think we were the first to experience the acute housing shortage and were the first to really develop large scale solutions to it. For instance, in California just a few years ago, we passed a statewide law allowing for accessory dwelling units to be built by right. These are these so-called granny units in your backyard. My understanding, cities like San Jose are approving about four or 500 of these a year now. And so what you're seeing is, is states like New York are now like wondering if they could approve laws like we did four or five years ago around accessory dwelling units creating that, you know, affordable small unit housing in people's backyards that fits really great into existing communities. Our laws here, while they haven't fully been implemented, I think we're actually on the cutting edge in the state of California on housing policy. That policy, though, we've we've been in a housing shortage 30, 40 years in the making. We're not going to get out of it in three or four years. So I'm confident and optimistic about the future here because we really are passing really good policies, whether that's finding more funding for affordable housing, reforming our zoning and building laws, and and other states are starting to take notice. A couple of things in terms of reform. I'd be remiss if I didn't mention that the Silicon Valley Leadership Group is co-sponsoring legislation with the Housing Action Coalition this year to bill AB 2234. It's being authored by Assembly member Robert Rivas. And really what that's going to do is bring reform to the building permit process. So we've had a lot of legislation streamlining the entitlement process, but once you get your entitlement, which says you are allowed to build, you then have to submit plans for the building permit. And our bill says that you have to do a few simple things, like you have to provide a checklist to builders on your website of what they should submit for a complete application. You should tell them their application is complete within 15 business days or respond saying, No, you're missing some materials. Send in new materials. These simple things, such as having a checklist and reasonable timelines to get responses on what new materials are needed for applications. They can reduce the building permit process times by 70%, and this helps applicants and the city because the city says we expect this of you developer to submit to us on time these materials so we can approve your building permits. And the developer goes in knowing full well what they need to do, what the timelines are. So this bill right now

has received unanimous support in every committee. It's been heard in the legislature. I really hope we can get it to the governor's desk this year and see the streamlining of the creation of housing at the building permit phase.

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Jeff: But to existing homeowners now in San Jose, throughout the Bay Area who are concerned a significant development of affordable housing near them might hurt their property values. What would you say to those existing homeowners to maybe alleviate some of that concern?

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Vince: First, I'll say I empathize and understand with the concerns that change is difficult in our communities. But when it comes to property values, the research shows that new housing, new affordable housing does not decrease existing property values. And I'd actually recommend some of the great research done by our public universities here in the state of California. The UCLA Lewis Center has amazing research on the impact of housing, on how it can stabilize communities, how it brings amenities to communities. And the UC Berkeley Turner Center is also doing amazing research on housing policy. So when I say the research bears out the fact that new housing will not harm existing property values, that's based on some of the best knowledge of our most prestigious universities in the state of California.

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Jeff: So right before the pandemic, we opened up a couple of affordable housing developments in downtown San Jose. One is called Villas in the Park that you might know it's by St James Park that's right in the middle of downtown San Jose. And it is a beautiful building. It is a truly architecturally, it is a beautiful building. And frankly, I think that affordable housing development probably enhanced the value of that neighborhood or enhanced kind of the quality of life in that neighborhood because instead of blight there, it was a building and instead of just a functional building, it was a beautiful building. And I don't think anybody walking or driving by the building would have any idea that it's even affordable housing. It just it looks beautiful.

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Vince: I would agree that especially as we're building in our cities, were often building on infill underutilized sites. So new housing, whether it's affordable housing or market rate, housing, is often building on it on a vacant lots or vacant building. And so it really is enhancing the community to create more housing. And a lot of our infill sites in cities throughout the region.

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Jeff: Well, that's great. Vince, I appreciate so much of your insight. This has been a fascinating conversation for me. You've certainly educated me on a lot of things that I was unaware of. Are there any is there anything you'd like to to share with our our listeners before we wrap it up, just based on your experience?

00;29;44;16 - 00;30;36;07

Vince: Yes. Well, thanks, Jeff. I've really enjoyed the conversation today. And the thing I would like to share with people is really get involved in your community in supporting housing and be involved in the process in a very positive way and engage with decision makers talking about the community needs you have. And we want to make sure that Silicon Valley is a place our children can continue to live in. Our friends and neighbors can afford to stay here, and that we can have a growing economy and all the benefits that has as well. We want to remain economically competitive, a vibrant region, and make sure our schools are not closing. There's so many benefits to housing that I just want to remind everyone that, you know, engaging constructively in the process can really have a lot of positive outcomes for everybody.

00;30;37;11 - 00;31;34;00

Jeff: Thanks so much, Vince, for joining me on today's show. To learn more about the Silicon Valley Leadership group, please visit SVLG.org. Thanks for listening to Dwellings, the City of San José Housing Department podcast. Our theme music is "Speed City," composed and performed by Ettaine Charles. Thanks to San José Jazz for letting us use your music. If you like the show, please subscribe and share with your friends and family. If you're looking for more ways to get involved with housing and homelessness response, please check out the show notes. You can follow the Housing Department on social media. We're on Twitter and Facebook at S J city housing. If you have questions or comments about today's episode, please send them to housingcomms@sanJoseca.gov. Our artwork is by Chelsea Palacio. Dwellings is produced by me, Jeff Scott and Jose Chavez and the Housing Department.