



Memorandum

TO: COMMUNITY & ECONOMIC
DEVELOPMENT COMMITTEE

FROM: Leslye Corsiglia
Joseph Horwedel

SUBJECT: SEE BELOW

DATE: September 12, 2013

Approved

Date

9/12/13

**SUBJECT: POTENTIAL FOR MOTEL AND HOTEL CONVERSIONS AND THE
USE OF VACANT BUILDINGS TO HOUSE THE HOMELESS**

RECOMMENDATION

It is recommended that the Community and Economic Development Committee (CEDC):

1. Accept the staff report on the potential for hotel and motel conversions and vacant building reuse to house the homeless.
2. Provide feedback on a staff proposal to convert a Successor Agency-owned hotel into a Single Room Occupancy (SRO) property for the purposes of housing the homeless.

BACKGROUND

At the October 9, 2012 Priority Setting Study Session, in response to concerns about the need to house the City's homeless residents, the Mayor and City Council added the review of hotel and motel conversions and investigating the potential for reuse of vacant buildings to the City's FY 12-13 Workplan.

On March 25, 2013, staff provided the CEDC with initial research and information on the topic of hotel and motel conversions. Following the Committee discussion, staff agreed to conduct further research, develop relevant case studies, and present findings at an upcoming meeting.

At the September 10, 2013 Priority Setting Study Session, the Council reiterated its interest in these topics, including them in the City's Top Ten priorities.

ANALYSIS

As noted at the March CEDC meeting, the City has provided financing for the conversion of commercial buildings, including hotels and motels, to housing in past years. Examples include

the Vintage Towers Apartments, located across the street from City Hall, a former medical building that was converted to affordable apartments, and Markham Terrace, a former Rodeway Inn on Monterey Highway, which was converted from a motel to permanent supportive housing for the homeless.

Challenges

One of the challenges associated with conversion of non-housing buildings to housing can be seen with these two examples. Oftentimes these commercial or industrial buildings are not built to last, and aren't as conducive to permanent residential occupancy. Vintage Towers has been rehabilitated twice, once at the time of the initial conversion, and again in 2004. Markham Terrace was rehabilitated twice, once at the time of conversion, and again in 1996. It has since been demolished, and we are working to assemble the financing needed to rebuild.

Other challenges include:

1. **Cost**—In some cases, the cost to acquire and rehabilitate a building can be less than building from the ground up. But that isn't always the case when the building being rehabilitated is converting from non-housing to housing use, or when the building is older. The cost to rehabilitate a motel or hotel can be expensive. The motel/hotel rooms must be updated to meet current residential Building and Zoning Codes. Fire walls and meters need to be installed. Accessibility improvements would need to be included. And, in most cases, kitchen facilities and appliances need to be added. The same is true for conversion of vacant commercial and industrial properties to residential use.
2. **Timing**—The time needed to convert non-residential property to residential will not necessarily be shorter than building from scratch, particularly if General Plan and zoning changes are required. In order to house the homeless, which requires that property be debt free, it is still necessary to access funding through typical affordable housing programs, and thus would be subject to the deadlines associated with those funding sources.
3. **General Plan Designation and Zoning**—Most motels and hotels in the City are zoned for commercial use. As a result, a developer seeking to convert a motel or hotel to permanent housing may be required to obtain approval for a General Plan Amendment (GPA) to change the Envision San Jose 2040 General Plan land use designations on the subject site to one that supports high-density residential or residential/commercial-mixed-use development. The same is true for any other type of commercial or industrial property. Currently, the General Plan Goals and Policies for preservation of employment lands and improving the City's jobs/housing ratio discourage changing non-residential land use designations to residential. If the City Council approves the GPA, a rezoning would likely be needed, and then applicants would likely be required to obtain a Conditional Use Permit or Special Use Permit for a Single-Room Occupancy (SRO) Living Unit Facility. Note that these same concerns are present when considering master-leasing a hotel/motel to house the homeless for more than 30 days at a time.

4. **Funding**—With the loss of redevelopment funding, the City’s budget for development has been significantly reduced. There are several pipeline development projects, with land purchased and entitlements in place, that have been waiting years for City financing. We have thus far prioritized these developments for available funding. All of these developments will include some units set aside for Extremely Low-Income households, and we can require that units be set aside for the homeless as a condition of funding. As a result, unless the City wanted to keep these projects on hold in order to fund motel/hotel or vacant building conversions, there is little funding available to pursue such a project.

Opportunities

There are ways to address some of the challenges mentioned above, so that some motel/hotel or vacant building conversions to permanent housing may be possible.

Addressing Zoning Concerns: Senate Bill 2 (SB 2) requires all jurisdictions to identify at least one zoning district in which emergency shelters, transitional housing, and supportive housing can be located without discretionary review of the proposed use. As a result, except for a jurisdiction that demonstrates it has sufficient housing for its homeless population, if a new housing project for the homeless is proposed on a site that is zoned to allow that use, then it must approve the housing use by-right.

To facilitate compliance with requirements of SB 2, the City established a new CIC-Combined Industrial/Commercial Zoning District that allows Emergency Residential Shelters with 50 beds or fewer by right. Because many of the City’s hotels are small, SB 2 may provide the City with a way to effectively use hotels as Emergency Residential Shelters with up to 50 beds to serve the homeless if such sites are already zoned Combined Industrial/Commercial.

Transitional housing is defined as a residential use in Title 20 of the San Jose Municipal Code (the Zoning Code) and is a Permitted Use in conventional Residential Zoning Districts. Supportive housing is a Permitted Use wherever Residential Care Facilities or Residential Service Facilities are identified as Permitted Uses in the Zoning Code, including but not limited to facilities that comprise six or fewer persons in conventional Residential Zoning Districts. Larger supportive housing facilities are allowed as a Conditional Use in the R-M Multiple Residence Zoning District, in all conventional Commercial Zoning Districts, and in the Downtown Zoning Districts.

Possible Pilot Conversion Project—The Housing Department has identified the Successor Agency-controlled Plaza Hotel, located at 96 South Almaden Avenue as a potential pilot conversion project. This 49-unit hotel was initially acquired by the former San Jose Redevelopment Agency in 2008 when it was assembling property for a larger development. This property, like all others owned by the Successor Agency, must be included in the Long Range Property Management Plan (LRPMP). Staff has toured the site, and believes this to be a very good candidate.

The property located at 96 South Almaden Avenue is currently designated Downtown in the General Plan and zoned DC-Downtown Commercial. To operate the property as an SRO, a Special Use Permit would be required.

Possible Pilot Master-Leasing Project—Assuming a willing motel/hotel owner could be found, the City could partner with a nonprofit service provider by providing a financial subsidy to assist with initial improvements and ongoing rental subsidies. The service provider would master-lease rooms from the owner, as well as manage a lease with each subtenant. Depending on the underlying zoning, the owner may be required to obtain City approvals prior to moving forward with the conversion. In the CP-Commercial Pedestrian, CN-Commercial Neighborhood, or CG-Commercial General Zoning Districts, the owner would be required to obtain a Conditional Use Permit to lease a block of rooms if the rooms are SRO residential hotel units or SRO living units. In the Downtown Commercial Zoning Districts, a Special Use Permit would be required. The criteria in the Zoning Ordinance for SRO living unit facilities and residential hotels would likely need to be revised to add more flexibility for size of units and maximum allowable length of stay to make such projects viable.

Possible Vacant Building Conversions—Housing Department staff worked with Real Estate staff to review City-owned buildings and the potential for re-use as residential. As the City has been successful at disposing of or re-using property in recent years, no suitable sites were identified. Code Enforcement maintains a list of vacant properties in the City, including those that are bank owned. Earlier this year, staff reviewed this list and did not identify suitable properties for housing the homeless; many of the properties on the list were single-family homes in residential neighborhoods. We will continue to review this list, as it does change over time, to determine any future opportunities.

Case Studies

At the March CEDC meeting, the Committee requested that staff present case studies to illustrate the cost associated with motel/hotel options. Following are two examples.

Master-leasing Agreement

This motel has 88 rooms, and was built in the early 1970s. The motel's occupancy rate ranges from 50-70%, and the property has been subject to criminal activity, including prostitution, drug dealing, and armed robberies. The property is located in a commercial Planned Development Zoning District, and is designated in the General Plan as a Transit Employment Center within the North San Jose Development Policy Area. Residential use of the property would require a GPA to redesignate the site to Urban Residential (30-95 DU/AC), rezoning the site from A (PD) to A (PD) Planned Development Zoning District to allow residential uses, and approval of a Planned Development Permit to allow the residential uses on the site.

Implementing a master-lease program will require: 1) initial room modifications, 2) rental subsidies, 3) an administration fee for the nonprofit service provider, and 4) the associated costs to prepare each room for occupancy. Staff estimates that roughly \$3,500 would cover the costs of providing new beds, carpet and paint for each room. In preliminary conversations, some motel

owners stated they would be willing to lower the current daily rate of \$35-\$55 if a larger number of rooms are leased.

Following is the initial cost and the annual cost for master leasing 20 hotel rooms in this hotel:

Budget for Case Study #2 - Master Leasing 20 Hotel Rooms			
Item	Description	Cost	Total cost year 1
Initial room modifications	Cost to clean room and to provide for a new bed/carpet	\$3,500 (one time)	\$70,000
Rental subsidies	Daily cost to house a homeless person in a hotel	\$45 per day	\$328,500
		Total	\$398,500

At \$398,500, the first-year cost per person housed would be \$19,925; future costs would be \$16,425, plus allowances for inflation.

Case Study of a Purchase and Rehabilitation of a Privately-owned Hotel/Motel:

A two-story, 24-room building constructed in the early 1990s, this motel has an occupancy rate of between 30-40%. The property has been subject to criminal activity, including prostitution, drug dealing, and armed robberies. The property is zoned CP-Commercial Pedestrian, and has a General Plan designation of Mixed Use Commercial. On this site an SRO hotel may be allowed with approval of a Conditional Use Permit, or an SRO living unit facility occupying less than 50% of the units may be allowed with approval of a Conditional Use Permit. Fifty percent or greater occupancy by an SRO living unit facility would require a GPA to change the land use designation to Urban Residential (30-95 DU/AC), and approval of a Conditional Use Permit to allow the SRO living unit facility on the site.

If the City were to move forward with this project or a similar project, we would not propose that 50% of the development be permanent housing and the remainder operate as a hotel. Thus, the GPA change would be needed.

Following is the cost of acquiring and rehabilitating this 24-unit property:

Budget for Case Study #1 – Acquisition/Rehab			
Item	Description	Cost (per unit)	Total project cost
Acquisition of property	Cost to acquire the property	\$100,000	\$2,400,000
Rehabilitation of property	Cost to rehabilitate 24 hotel rooms into housing units	\$80,000	\$1,920,000
		Total	\$4,320,000

At \$4,320,000, the cost per homeless unit would be \$180,000. Some of this cost could be obtained from other sources, so the total City outlay would be less. Typically, the City leverages funds by a 3:1 margin, however, for a 100% ELI development, it is sometimes closer to 2:1.

With both of these cases, it will be necessary to also fund on-site case management services.

NEXT STEPS / RECOMMENDED ACTIONS

Funding is the largest impediment to implementing either an acquisition/rehabilitation or master-leasing project. Due to the loss of 20% Low and Moderate Income Housing funds, and constraints on other funding sources, there are few options to fund such efforts. And, in addition to the hard costs shown above, it is anticipated that at least \$120,000 in annual operating costs would be needed to provide services and case management for every 20 units.

Therefore, our recommendation is to pursue the SARA owned hotel, which may be obtained at a lower cost than other private sale transactions. In pursuing this option, the Housing Department would:

1. Work with SARA staff to retain this property for affordable housing purposes.
2. Work with the Planning, Building and Code Enforcement Department to ensure all Planning and Building requirements are met.
3. Evaluate the cost of necessary rehabilitation to bring the property up to livable standards.
4. Identify funding for the rehabilitation effort, including funding from private sources.
5. Identify funding for the provision of services that the residents will need on site to support their successful housing situation.

Additionally, staff can continue to investigate opportunities for other motel/hotel purchases, vacant property conversions, and master leasing opportunities, evaluating each possibility according to the unique circumstances.

We will be available at the CED meeting to discuss this further and respond to any questions the Committee members may have.

For questions, please contact Leslye Corsiglia, Director of Housing at (408) 535-3851.

/s/
LESLYE CORSIGLIA
Director of Housing

/s/
JOSEPH HORWEDEL, Director
Planning, Building and Code Enforcement