

# WORKING PARTNERSHIPS USA

November 7, 2022

Honorable Mayor and City Council  
City of San José  
200 E. Santa Clara Street  
San Jose, CA 95113

RE: Nov. 9<sup>th</sup> Rules Committee, Item A.1 – Review Final Agenda *and* Nov. 15, 2022 City Council, item 8.1 – Downtown Residential High-Rise Program

Dear Mayor Liccardo, Vice Mayor Jones, and Councilmembers Jimenez, Esparza, Cohen, Davis, Foley, Peralez, Carrasco, Mahan, and Arenas:

In Item 8.1 on the draft Nov. 15th City Council agenda, “Downtown Residential High-Rise Program,” the City is considering once again expanding and extending the Downtown High-Rise Incentive. This subsidy to a select group of developers was first introduced as a temporary measure in 2007. In the ensuing 15 years, the Council has repeatedly extended and expanded this subsidy.

Not once has there been any reckoning of the impacts that this policy has had since 2007 on the labor market and workplace standards in downtown San Jose residential construction. As a result, downtown San José housing development now has a reputation for low wages, health and safety issues, and worker exploitation. In 2018 City Council attempted to bend this curve by approving minimum workplace standards for projects receiving City subsidies, but a loophole in that legislation has meant that downtown high-rise projects receiving subsidies have continuously been exempted from those protections.

Nor has there been any accounting of the cumulative effects over the past 15 years that this policy has had on the City’s affordable housing production and preservation. As you are aware, in the last RHNA cycle San Jose met only 17% of its goal for producing affordable housing. The Downtown High-Rise Subsidy was in place for that entire RHNA cycle.

There has not even been an evaluation of whether the subsidy has been effective in its primary goal of spurring development leading to a Downtown housing market where adequate housing is available to families at all income levels. On the contrary - the consultant report now claims that every type of dense housing development in San José is now infeasible.

If we’ve been trying this same approach for fifteen years, and this is where it’s gotten us, isn’t it time to step back, assess, and consider a different approach?

# WORKING PARTNERSHIPS USA

For example, the Turner Center for Housing Innovation at UC Berkeley recently published a brief analyzing six policy options to encourage new housing development, reflecting the six options outlined by the State's Prohousing Designation Program, and modeling their potential impacts if implemented in Los Angeles. Of the six policies tested, lowering development fees had the **least** projected impact, increasing total expected units by only 2.3%. The policy changes with the greatest impact were (1) increasing allowable density for multifamily rental projects, and (2) increasing allowable height and FAR while reducing setbacks; both of these policies gave a projected increase in units of at least 16%. Other policies including (3) streamlining the entitlement process and (4) increasing density bonuses near transit had positive impacts of 9.8% more units and 8.1% more units respectively. Finally, (5) reducing parking minimums had a smaller impact at 6.9%, but was still three times more impactful than lowering fees.

While the results for Los Angeles may well be different than for San José, the approach of identifying a wide range of potential actions and analyzing their long-term impacts, singly or in combination, is one that could greatly benefit our city.

Unfortunately, the consultant study ("Conceptual Feasibility Analysis") underlying this item was not designed to surface or analyze solutions. As described on page 3 of the study under 'Legislative Background', and in Exhibit F, the consultant study was prepared with the specific purpose of providing findings to support a continued fee and tax reduction for certain types of market-rate development.

Consequently, when numerous stakeholders suggested in public input meetings on the Cost of Residential Development that the study should analyze potential new strategies for improving the feasibility of dense residential development, those suggestions were dismissed. The consultant study does not provide analysis of the impacts of any potential strategies or approaches other than providing subsidies in the form of tax and fee reductions and exemption from affordable housing requirements.

Further, this study reaches conclusions that are contradicted by their own data. For example, the study claims that direct construction costs are higher in San Jose than other comparable cities – a claim that was repeated in the Nov. 1 study session. Yet on p. 11 of the consultant's Affordable Housing Development Cost Study (which uses real-world data from actual projects via the California Tax Credit Allocation Committee database, unlike the pro forms in the study that rely on assumptions), it shows that direct construction costs for non-targeted projects in San Jose are the same as in other cities. For affordable senior housing projects, direct construction costs in San Jose are 7% lower than in other cities. The only construction type for which direct construction costs are shown to be higher in San Jose is when we're building special needs housing. It is disappointing to see the data being ignored.

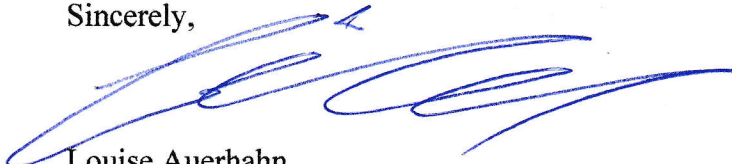
The consultant study also does not consider the future effects of recent and future changes affecting development conditions, such as the passage of new State laws (AB

# WORKING PARTNERSHIPS USA

2011 and others) intended to expedite dense housing development, as well as Google's planned Downtown West development, BART to downtown San José and High Speed Rail. While the impact of these combined trends may be hard to predict, we should not be locking in policy for the next 10 years that completely ignores them. Assuming that development conditions during the worst years of the COVID pandemic (which is the analysis period primarily covered by the consultant study) will be representative of conditions in San José for the next decade does not seem a solid foundation for policymaking,

The extended subsidy recommendations coming out of the consultant study are planned to come to City Council for approval on Nov. 15. **We urge the Rules and Open Government Committee to defer that vote, and ask the City Council to instead take a step back to look more comprehensively at how the City can help support dense residential development, now and for the long term, to meet our needs for good jobs, a local workforce pipeline, and building enough housing for our neighborhoods and families at all income levels.**

Sincerely,



Louise Auerhahn  
Director of Economic and Workforce Policy