

Downtown Residential High-Rise Program

City Council
Item 8.2

June 18, 2024

Blage Zelalich
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Housing Department
Department of Transportation
Department of Parks, Recreation, and Neighborhood Services
Department of Planning, Building, and Code Enforcement
Office of Economic Development and Cultural Affairs

Background

October 2023 Cost of Residential Development Study Session:

- Escalating costs = financial infeasibility
 - Between 2020 and 2023, total estimated costs across prototypes increased approximately 30%.
 - Between Q1 2020 and Q4 2024, average asking rent across San José increased 8%.
- Council Comments/Discussion
 - Explore fee reductions and different timing options for fee payment.
 - Analyze the impact of any reduction in City fees.
 - Analyze how recurring revenues from new development offsets one-time fee loss.
 - Consider steps to expedite residential development approvals/CEQA/permits.
 - Explore incentive program in areas outside of Downtown.

Policy Considerations and Tradeoffs

- **Abundant Housing Stock:** In alignment with the City Council “Attracting Investment in Jobs and Housing” Focus Area, housing production is a priority.
 - Housing Element/Regional Housing Needs Allocation = 62,200 units
 - Downtown Vibrancy = more residents living, shopping, gathering
- **Priority Tensions:** City fees and taxes associated with housing production reflect multiple policy values including parks, transportation infrastructure and maintenance, and staffing.
- **Costs to Build:** By trying to address several values at once, the City adds costs that contribute to making housing too expensive to build under current economic conditions.
- **Balancing Priorities:** Reducing City fees and taxes to facilitate housing production and “create momentum in the market” while still maintaining support for parks, transportation infrastructure, and staffing.
- **Timing Investments:** Stagnant high interest rates are tempering supply production triggering an opportunity to offer an incentive at a value level that catalyzes the development pro forma.

Current vs Proposed Program Parameters

	CURRENT PROGRAM	PROPOSED TWO-PHASE PROGRAM	
HEIGHT / BUILDING TYPE	150 feet / 10 stories	150 feet / 10 stories	
GEOGRAPHY	Downtown Growth Area	Downtown Growth Area	
INCLUSIONARY HOUSING	\$0 in-lieu fee	<u>Phase 1</u> \$0 in-lieu fee	<u>Phase 2</u> \$0 in-lieu fee
CONSTRUCTION TAXES	50% reduction of CRMP and B&S	<u>Phase 1</u> 100% reduction of CRMP and B&S	<u>Phase 2</u> 50% reduction of CRMP and B&S
PARKS FEES	Not included - special category for high-rise is \$14,600/unit (able to reduce up to 50% with private recreation credits)	<u>Phase 1</u> 50% reduction - \$7,300/unit (private recreation credits up to 50% against the reduced fee allowed)	<u>Phase 2</u> 30% reduction - \$10,220/unit (private recreation credits up to 50% against the reduced fee allowed)
PROGRAM HORIZON	Building permit by June 2025 Certificate of Occupancy by June 2029	<u>Phase 1</u> 1,000 units with building permit issued by December 31, 2025, and first inspection passed within 12 months of building permit issuance.	<u>Phase 2</u> Up to 3,078 units with building permits issued in the 12 months following Phase 1, and the first inspection passed within 12 months of building permit issuance (January – December 2026).
TIMING OF PAYMENT	<u>Taxes</u> at Certificate of Occupancy <u>Parks Fees</u> at Permit Issuance	<u>Taxes and Parks Fees</u> at Certificate of Occupancy or 5 years from the date the Building Permit is issued, whichever is sooner.	

Stakeholder Outreach

- **Stakeholder Advocates**

- Transportation, Housing, and Parks – February and May 2024
- Parks & Recreation Commission – June 5, 2024

- **Labor Leadership**

- South Bay Labor Council – November 2023 and May 2024
- NorCal Carpenters Union – May 2024

- **Development Community**

- Developers – December 2023 and June 2024
- Developers and Construction Roundtable – May 2024

Staff Recommendation

- **Extend the Downtown High-Rise Program with the following modifications:**
 - Include up to 4,078 units
 - Two phase Program
 - Additional reduction of construction taxes
 - Reduction in Parks Fee obligation
 - Program update to City Council in August 2025
- **Obtain City Council direction to explore a residential development incentive program in growth areas outside of Downtown**
 - Conduct analysis and return to City Council with recommendations by December 2025

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