

Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Nanci Klein

**SUBJECT: DOWNTOWN RESIDENTIAL
HIGH-RISE PROGRAM
EXTENSION**

DATE: June 12, 2024

Approved 

Date
6/12/24

COUNCIL DISTRICT: 3

SUPPLEMENTAL

REASON FOR SUPPLEMENTAL

This supplemental memorandum provides additional feedback and summarizes all feedback from stakeholder engagement conducted for the Downtown Residential High-Rise Program that will be heard by the City Council on June 18, 2024.

ANALYSIS

Since the memorandum was posted for the Downtown Residential High-Rise Program (High-Rise Program) on May 31, 2024, staff conducted additional meetings with stakeholders. The following incorporates feedback from those meetings and summarizes all stakeholder feedback since fall 2023:

- South Bay Labor Council (November 2023 and May 2024) and NorCal Carpenters Union (May 2024):
 - Expressed the importance of ensuring that construction jobs on residential high-rise projects abide by appropriate labor standards, maximizing worker benefits;
 - City should ensure that Project Completion Agreements continue to be executed for any projects in the High-Rise Program;
 - Suggested enhanced support for construction-related workers in Project Completion Agreements (i.e., additional health care provisions, right to private action around wage theft); and
 - Suggested the City require developers to meet with the South Bay Labor Council representatives to discuss financing pro forma and development partnership opportunities.

- Transportation, Housing, and Parks Stakeholder Advocates (February and May 2024):
 - Concerned about a deeper discount to the Downtown Parks Fee, which was reduced from \$22,600 in 2017;
 - Questioned the tradeoff of reducing the Downtown Parks Fee versus the delayed utilization of these funds for City services;
 - Concerned that the significantly reduced Downtown Parks Fee would not provide the City's Parks, Recreation and Neighborhood Services Department sufficient funding to purchase land or meet infrastructure commitments;
 - Wanted to ensure that a cost-benefit analysis for individual projects in the High-Rise Program is made public;
 - Concerned about reduced City revenue without a backfill strategy or clarity on whether projects will move forward with the proposed program modifications;
 - Suggested that the City reduce parking requirements for projects to help reduce development costs – especially those in a transit-rich environment; and
 - Concerned about the effect of a potential High-Rise Program expansion outside of Downtown as the potential number of units qualifying for a reduction in fees and taxes across the City will likely be larger, resulting in significantly greater foregone revenue to implement City programs and services.
- Downtown Developers (December 2023 and June 2024) and Developers and Construction Roundtable Meeting (May 2024):
 - City should consider reducing the definition of “high-rise” to building code height;
 - Investors look for higher return rates of 6.25% to 7% on their investments versus 5.75% assumed in the October 2023 cost of development study;
 - High-Rise Program can be considered an anti-displacement tool as it keeps high-wage earners focused on high-rise housing options versus older 1970s, 1980s, and 1990s housing stock;
 - Recommendations are incremental but impactful and send a message to the financing community that the City of San José is invested in the development of Downtown; and
 - The addition of currently entitled developments could bring up to 10,000 new residents to Downtown, which would represent a significant step toward increasing the vibrancy of the City's urban core and generating other positive impacts, such as progress toward the City's 2023-2031 Regional Housing Needs Allocation and increased revenue to the City through taxes such as property tax, utility user tax, business tax, and on-site sales tax.

Staff provided an update on the staff recommendation to the Parks and Recreation Commission at its June 5, 2024, meeting as a part of the Director's Report. After discussion, the Commission voted (5-3-1-2; Commissioner Barocio abstained; Commissioners Campbell and Morrow absent) to submit a letter to the City Council requesting that it reject staff's recommendation to include a reduction in the Parkland In-Lieu Fee for the High-Rise Program and to reject studying any reduction of the fee outside of Downtown on multi-family residential development.

HONORABLE MAYOR AND CITY COUNCIL

June 12, 2024

Subject: Downtown Residential High-Rise Incentive Program Extension

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/s/

NANCI KLEIN

Director of Economic Development
and Cultural Affairs

For questions, please contact Blage Zelalich, Deputy Director, Office of Economic Development and Cultural Affairs, at blage.zelalich@sanjoseca.gov or (408) 535-8172.