

MEMORANDUM

To: Reena Brilliot, City of Santa Clara

From: Darin Smith and Kate Traynor, Economic & Planning Systems, Inc.

Subject: Citywide Affordable Housing Ordinance Stakeholder Outreach
- Summary of Stakeholder Comments

Date: March 16, 2021

The Economics of Land Use



As the City of Santa Clara explores the potential to amend the Citywide Affordable Housing Ordinance, staff organized an online Stakeholder Outreach meeting hosted by the City of Santa Clara on March 12, 2021. The City invited members of the development community to weigh in as stakeholders who may be directly affected by amendments to the ordinance. In addition to City staff and consultants, roughly 30 individuals representing numerous development companies and related interests participated in the discussion. EPS presented at the beginning of the meeting and shared the housing prototypes being analyzed for feasibility with the current affordable housing ordinance and potential changes that would increase the number or depth of affordability the City could consider. The following questions and ensuing comments summarize the primary points made during breakout room discussions. Note that in some cases the comments of one participant are inconsistent with those of others, but EPS has endeavored to represent the full range of comments below.

1) Do the housing prototypes represent a reasonable range of housing that might be expected in Santa Clara?

- The prototypes are broadly representative, but the City may consider adding Type II (mass timber at 125-140 units/acre) as this construction type is likely to become more popular.
- Type I construction (high-rise, steel and concrete, 200+ units/acre) doesn't make sense in Santa Clara, but Types III and V do (woodframe over podium parking).
- Community concern may hinder development along El Camino.
- Anything above four stories will be a problem along El Camino. Even a by-right approval process could be subject to political pressure.

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- El Camino won't densify like it should because of political pressure.
- Densities studied in the prototypes may not be accurate if you assume smaller units. Type V prototype should be studied at 100 DU/Ac if units are 800 sq ft. The intermediate prototype should be studied at 125 DU/Ac.
- Is the City studying density increases in single-family neighborhoods? (Answer: At this time, no.)

2) What else should we consider about market expectations?

- Market appears to be recovering from pandemic effects, including increased interest in Type I projects. Pandemic has had a small impact on risibility of development.
- Type I construction only feasible with long-term hold investor. Current construction costs require \$10/SF in rent to cover. Rents in Santa Clara are not this high.
- Rents dropped around 15% in pandemic but are starting to recover, and leasing concessions are shrinking.
- Market has trended toward lower density rather than higher, as construction costs increase with density and larger units with private lots are commanding premiums.
- Price of land has not declined despite the recent decline in market demand.
- There is some evidence of downward movement in land values and price expectations as a result of the pandemic and still-high construction costs.
- Market expectations for the old ordinance might not be priced in yet.
- Tying increased affordable requirements to observable market improvements may make sense.
- Developers are generally in a "wait and see" mindset at present, given market disruptions including rent reductions and rapid but hopefully temporary increases in lumber costs.
- New development is always competing against the existing use and the value it represents.
- Would the City consider microunits, without deed restrictions to qualify for an affordable unit as they are naturally more affordable?
- Need to find out what is the floor of the residual land value for sites with existing buildings that could continue use and not redevelop.
- Developers expect subsidy in exchange for providing affordable housing, such as a reduction in fees or land dedications.

3) What do you imagine would happen if the City increased the affordability requirements?

- Any increase in the burden on development will decrease feasibility of projects in Santa Clara.

- Too much increase in requirements will stop development.
- The current 100% AMI average is a good approach. Provides flexibility – developers can provide units at 80% AMI and subsidize them with units at 120% AMI.
- Rents in Santa Clara are not as strong in other cities being used for comparison.
- Because of income-level averaging in Santa Clara, bar chart should indicate that Santa Clara's current policy produces Low and Moderate units.
- Opportunities for partnership / consolidation of units into 100% affordable projects which can access tax credits, etc., represent a 'win-win' scenario for the City and developers. Continue this flexibility per current policy.
- Affordable housing is a front-end cost. Apartment projects don't pencil now. Increasing the affordability requirement increases the time lag before new housing comes to market.
- New affordability requirements should be linked with additional incentives.
- Too much increase in requirements will depress housing production overall.
- Construction costs are very high now.
- With enough notice and ability to reflect new expectations in financial deals, developers should be able to make modest increases in affordability work. However, there will likely be near-term effects that slow down or even cancel some development plans.

4) Do you agree that the State density bonus represents a significant opportunity and value for new development?

- There are several areas where higher density is allowed, but is not being used because the financially efficient point for the construction type is reached at a lower density.
- Density bonuses are great; but only work if developer can add units without changing construction type.
- Does size of units factor in?
- The additional value generated by the state density bonus provisions have generally gone to the landowners, as opposed to developers.
- Density bonuses are sometimes helpful but often the increase in density requires more costly construction type and does not lead to overall project profitability.
- Developers have increasingly utilized State density bonus because it does add value and profitability through additional market-rate units.
- In some cases, developers have voluntarily exceeded cities' inclusionary requirements because they maximize profitability by gaining more density bonus units.

5) Are there certain considerations around pipeline projects that the City should take into account?

- Pipeline projects should be grandfathered in so as to not upend existing project proformas

- Helpful if City allows fees to be deferred until Certificate of Occupancy when project is generating income. (Not sure if this applies to an inclusionary requirement, but for other fees it could help with overall project feasibility).
- Parking is a huge cost. It would be helpful if the City relaxes parking requirements.
- Specific Plans are underway and are likely to represent a significant amount of the City's housing capacity. Any ordinance amendment should keep in mind the other expectations for development in Specific Plan areas.
- If the rules change, that's difficult.
- Advocate for some type of grandfathering for development projects.
- The pipeline determination process needs to be open and transparent.
- Application on file by a certain date?
- Grandfathering of existing requirements for projects that receive determinations of completeness by a specific date.

6) Are there particular incentives the City could offer that could enhance the feasibility of development?

- Several variables could be tweaked in multifamily projects, for example waiving/decreasing other fees.
- Feasibility is a zero-sum game – if the City wants greater affordability, consider reducing other fees. Park fees in particular seem high vs. the benefit they bring. Projects will include a significant number of amenities and the developer doesn't see much benefit from the park fees. The City needs to determine its priorities.
- Reduction in fees, especially Park fees
- Reduction of Traffic Impact fees
- CEQA streamlining
- Approval streamlining that decreases entitlement time and risk.
- Allow density bonus concessions, similar to State Density Bonus law
- City of San Jose's newly adopted affordable housing ordinance might provide ideas for incentives.

EPS and City staff will consider these stakeholder comments in any analysis that may be requested or directed by City Council for amending the current Affordable Housing Ordinance.