



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Jacky Morales-Ferrand

SUBJECT: SEE BELOW

DATE: June 26, 2017

Approved

D. D. SyL

Date

6/26/17

COUNCIL DISTRICTS: 1, 6

SUPPLEMENTAL

**SUBJECT: WINCHESTER AND SANTANA ROW/VALLEY FAIR URBAN VILLAGE
PLAN BASELINE AFFORDABLE HOUSING STOCK ANALYSIS**

REASON FOR SUPPLEMENTAL

Pursuant to direction received at the City Council meeting on June 6, 2017, the Housing Department prepared this supplemental analysis regarding affordable housing stock in the Winchester Boulevard and the Santana Row/Valley Fair Urban Village Plans (“Urban Village Plans” or “Plans”) areas.

OUTCOME

This supplemental memorandum will inform the City Council and the public of baseline housing affordability data in the Winchester Boulevard, Santana Row/Valley Fair Plan. This analysis clarifies future affordable housing production strategies, identifies gentrification risks, and promotes better understanding of the applicability of the City’s new tenant-related ordinances. Consideration of this analysis may also serve as a basis for the City Council to further direct to staff to develop Plan area-specific affordable housing strategies or recommend housing implementation policies.

BACKGROUND

In San José, 38% of the City's households have incomes that qualify as Extremely Low-Income, Very Low-Income, or Low-Income. However, only 6% of the City's current residential inventory is income-restricted affordable housing.¹

On December 13, 2016, the City Council added new goals to General Plan 2040 with the objective of building income-restricted affordable housing in Urban Village areas. Goal IP 5.1.7 established an Urban Village-wide goal that, with full build-out of the planned housing capacity of the given Village, 25% or more of the units built would be income-restricted affordable housing, with 15% of the units targeting households with incomes below 30% of Area Median Income.

On April 25, 2017, the City Council adopted the Ellis Act Ordinance. This ordinance applies to all apartments covered by the Apartment Rent Ordinance. It provides requirements for landlords removing rent-stabilized apartments from the rental housing market. In San José, the most frequent use of the Ellis Act Ordinance is likely to be the demolition and redevelopment of existing rent-stabilized housing. The Ellis Act Ordinance provides the following requirements:

- 1) Noticing – All households must be provided with a minimum of 120 days' notice. Special populations, including residents over the age of 62, disabled, terminally/catastrophically ill, and residents with school-aged children, may request up to one-year's notice.
- 2) Relocation Benefits – All tenants are eligible to receive relocation benefits. Special populations, including low-income residents, residents over the age of 62, disabled, terminally/catastrophically ill, and residents with school-aged children, are eligible for additional relocation benefits.
- 3) Right to Return – If the apartments return to the rental market within 10 years, tenants have a right to return to their apartments. If the apartment is demolished and rebuilt, the right to return does not apply.
- 4) Subject to the Apartment Rent Ordinance – If a property owner demolishes existing rent-controlled apartments, all new apartments built and rented within five years of the date of withdrawal of the original building from the market will be subject to the City's Apartment Rent Ordinance.

Additional information regarding the Ellis Act Ordinance can be found on the Housing Department's website.²

¹ Includes households with incomes less than 80% of Area Median Income adjusted for family size. Excludes homeless shelters and temporary housing. (HUD CHAS Data, 2007-2011)

² <http://www.sanjoseca.gov/index.aspx?NID=5517>

On May 9, 2017, the City Council approved the Tenant Protection Ordinance, effective immediately. The Tenant Protection ordinance requires that any properties with three or more apartments provide a just cause for eviction when asking a tenant to leave an apartment. Additionally, relocation benefits are required for tenants displaced as a result of substantial rehabilitation to the apartment building.

On June 6, 2017, Housing staff presented the Affordable Housing Investment Plan to the City Council. In a memorandum dated June 2, 2017, Mayor Liccardo and Councilmember Rocha directed staff to analyze baseline data on existing affordable and rent stabilized housing in Urban Village areas. The direction was incorporated into the City Council's approval of the Housing Department's Affordable Housing Investment Plan, which identified anticipated funding commitments in fiscal year 2017-18 and related policy issues. This Supplemental Memorandum was written in response to this direction. It also addresses requests to receive additional data on existing housing conditions in Urban Villages from stakeholders interested in fair housing issues during the City's recent Analysis of Impediments outreach process.

The draft Plans ("Plans") include a count of existing housing stock. However, the Plans do not specify the existing mix of income-restricted affordable, rent-stabilized, mobilehomes, and market-rate housing within the Plan area. In addition, the Plans do not calculate the number of new income-restricted apartments that would be needed to meet the 25% affordability goal if the Urban Village were built to its maximum residential capacity. This supplemental information provides that context, which will better guide future development in these Plan areas.

ANALYSIS

Winchester Urban Village Area Housing Analysis

The analysis below provides specific information relating to the following factors for the Winchester Urban Village Plan area:

- Existing housing stock
- Planned housing
- Affordable housing goals
- Rental housing market
- For-sale housing market
- Vulnerability of residents, and
- Ellis Act and Tenant Protection Ordinances' relevance.

Existing Housing Stock

Table A summarizes the existing stock of housing within the Winchester Boulevard Urban Village boundary. It indicates that this area contains a much higher proportion of apartments that

are subject to the Apartment Rent Ordinance (84%) then the Citywide proportion overall (33%). The area also contains a modest amount of income-restricted affordable apartments.

Table A: Existing Housing Stock

Type of Housing	Residences	Percentage
Rent-stabilized Housing	3,072	84%
Income-restricted Affordable Housing	499	14%
Market Rate Housing (Single Family and Multifamily)	77	2%
Rent-stabilized Mobilehome Housing	0	0%
Total Existing Housing Units	3,648	100%

Planned Housing

Table B indicates that land use entitlements for nearly 20% of the residential capacity in the Winchester Boulevard Urban Village has already been approved.

Table B: Planned Housing³

Status of Residences Planned	Residences
Planned Housing Units	2,200
Approved Housing Units – Market-rate	441
Approved Housing Units – Known Income-restricted Affordable	0
Remaining Housing Capacity	1,759

Affordable Housing Goals

Table C quantifies the income-restricted affordable housing goal as proposed in the draft Plan. Over 30% of the remaining housing capacity would need to be income-restricted to meet the 25% affordable housing goal.

³ Appendix 5 of the General Plan updated December, 2017.

Table C: Income-restricted Affordable Housing Goal

Affordable Housing Requirements	Residences
Affordable Housing Goal (total of 25% of planned housing)	550
Extremely Low-income Housing (15%) – At or below 30% of AMI	330
Other Affordable Housing (10%) – At or below 120% of AMI	220
Remaining Housing Capacity	1,776
Proportion of Remaining Capacity to be Income-restricted Affordable	31%

Rental Housing Market

Table D summarizes recent asking rents, effective rents, and vacancy levels for apartments in the Plan area. A 5% vacancy rate is considered the indicator of a healthy housing market, but the average vacancy rate in this sample is only 3.9%. This indicates that the Winchester Boulevard Plan area has a tight rental market.

Table D: Average Rents and Vacancy by Apartment Size in Plan Area⁴

Size of Apartments	# Units	Asking Rent	Effective Rent	Vacancy
Studio	127	\$1,383	\$1,377	5.0%
1 Bed	1,339	\$1,550	\$1,530	3.6%
2 Bed	1,099	\$1,752	\$1,741	4.0%
3 Bed	162	\$1,899	\$1,890	3.0%
4+ Beds	8	\$1,583	\$1,575	3.8%
All Apartments	3,644	\$1,635	\$1,620	3.9%

For-sale Housing Market

Table E summarizes estimated single family home values in the vicinity of the subject Urban Village. The chart below indicates that home values in this area are well above the estimated current citywide median home value, according to Zillow.com.

⁴ Source: CoStar, May 24, 2017. CoStar tracks most but not all of the homes in the Plan area.

Table E: Home Sales Prices

Zip Code	Zillow Home Value Index Zip Code⁵	Zillow Home Value Index Citywide	Amount Above (Below) Citywide	Percentage Above (Below) Citywide
95128	\$907,300	\$870,700	\$36,600	4.2%
95117	\$1,076,200	\$870,700	\$205,500	23.6%
95050	\$1,001,200	\$870,700	\$130,500	15.0%

Vulnerability of Residents

The Urban Displacement Project is a research initiative of University of California at Berkeley in collaboration with researchers at University of California at Los Angeles, community-based organizations, regional planning agencies, and the State of California Air Resources Board. The Project developed a gentrification index. The index characterizes places that historically housed vulnerable populations but have since experienced significant demographic shifts as well as real estate investment.

Staff analyzed the Winchester Boulevard Urban Village Area using the Urban Displacement Project mapping tool.⁶ The tool explores displacement and gentrification at the Census tract level. The tool indicates that areas within the Winchester Urban Village area have experienced “advanced gentrification” or are “undergoing displacement.” This indicates current residents may be at a greater than average risk of being displaced from future development.

Ellis Act and Tenant Protection Ordinances’ Relevance

Due to the high number of rent-stabilized apartments in this Urban Village, Ellis Act Ordinance requirements will impact many tenants living in this area if their properties are rehabilitated and/or redeveloped. Tenants could be eligible for relocation benefits if displaced by apartment buildings’ demolition and redevelopment. However, displacement would still likely occur.

Due to the high proportion of apartments in this Urban Village, the Tenant Protection Ordinance is also likely to affect many tenants and landlords in this area. Existing residents will be able to stay in their homes and will be protected from no-cause evictions, despite the changing housing market.

⁵ Estimated median home values accessed on June 12, 2017 from <https://www.zillow.com/burbank-ca-95128/home-values/>

⁶ <http://www.urbandisplacement.org/map/>

Santana Row/Valley Fair (“SRVF”) Urban Village Plan Area

The analysis below provides specific information relating to the following factors for the SRVF Urban Village Plan area:

- Existing housing stock
- Planned housing
- Affordable housing goals
- Rental housing market
- For-sale housing market
- Vulnerability of residents, and
- Ellis Act and Tenant Protection Ordinances’ relevance.

Existing Housing Stock

Table A summarizes the existing stock of housing within the SRVF Urban Village boundary. It indicates that this area contains mostly market-rate housing and some mobilehomes. The proportion of apartments subject to the Apartment Rent Ordinance (5%) is much lower than the Citywide proportion overall (33%). There are no income-restricted affordable apartments in this area.

Table A: Existing Housing Stock

Type of Housing	Residences	Percentage of Total Stock
All Other Housing (Single Family and Multifamily)	704	82%
Mobilehome Housing	111	13%
Rent-stabilized Housing	47	5%
Income-restricted Affordable Housing	0	0%
Total Existing Housing Units	862	100%

Planned Housing

Table B indicates that land use entitlements for 725 residential units (28% of planned residences) have been approved in the SRVF Urban Village.

Table B: Planned Housing⁷

Status of Residences Planned	Residences
Planned Housing Units in this Urban Village	2,635
Approved Housing Units – Market-rate	725
Approved Housing Units – Known Income-restricted Affordable	0
Remaining Housing Capacity	1,910

Affordable Housing Goals

Table C quantifies the income-restricted affordable housing goal as proposed in the draft Plan. As 27% of residential land use entitlements are approved per the Plan, 35% of the future housing capacity would need to be income-restricted to meet the overall 25% affordable housing goal.

Table C: Income-restricted Affordable Housing Goal

Affordable Housing Requirements	Residences
Affordable Housing Goal (25% of Planned Housing)	659
Extremely Low-income Housing (15%) - at or below 30% of AMI	395
Other Affordable Housing (10%) - at or below 120% of AMI	264
Proportion of Remaining Capacity to be Income-restricted Affordable	35%

Rental Housing Market

Table D summarizes recent asking rents, effective rents, and vacancy levels for apartments in the Plan area. A 5% vacancy rate is considered the indicator of a healthy housing market. The average vacancy rate in this sample, 4.9%, is slightly below that threshold. This indicates that the Plan area has a competitive but generally healthy rental market at this time.

⁷ Appendix 5 of the General Plan updated December, 2017.

Table D: Average Rents and Vacancy by Apartment Size⁸

Size of Apartments	# Units	Asking Rent	Effective Rent	Vacancy
Studio	30	\$2,819	\$2,818	4.3%
1 Bed	269	\$2,900	\$2,895	4.4%
2 Bed	259	\$4,251	\$4,248	5.0%
3 Bed	78	\$4,691	\$4,684	7.4%
4+ Beds	10	\$5,730	\$5,730	7.0%
All Apartments	769	\$3,706	\$3,702	4.9%

For-sale Housing Market

Table E summarizes estimated single family home values in the vicinity of the subject Urban Village. The chart below indicates that home values in this area are well above the estimated current citywide median home value, according to Zillow.com.

Table E: Home Sales Prices

Zip Code	Zillow Home Value Index Zip Code ⁹	Zillow Home Value Index Citywide	Amount Above (Below) Citywide	Percentage Above (Below) Citywide
95128	\$907,300	\$870,700	\$36,600	4.2%
95117	\$1,076,200	\$870,700	\$205,500	23.6%
95050	\$1,001,200	\$870,700	\$130,500	15.0%

Vulnerability of Residents

Staff analyzed the Santana Row/Valley Fair Urban Village Area using the University of California at Berkeley Urban Displacement Project mapping tool.¹⁰ The tool explores displacement and gentrification at the Census tract level. The tool indicates that areas within the Santana Row/Valley Fair Urban Village areas have an array of conditions. Some sub-areas have experienced “advanced gentrification,” some are “undergoing displacement,” and others are “not losing low-income households” currently. This variety of designations indicates that some residents may be at a greater than average risk of being displaced from future development, but the effect may be localized or not pronounced at this time.

⁸ Source: CoStar, May 24, 2017. Includes most but not all of the homes in the Plan area.

⁹ Estimated median home values accessed on June 12, 2017, from <https://www.zillow.com/burbank-ca-95128/home-values/>.

¹⁰ <http://www.urbandisplacement.org/map/>.

June 26, 2017

Subject: Winchester, Santana Row/Valley Fair Urban Village - Affordable Housing Baseline

Page 10

Ellis Act and Tenant Protection Ordinances' Relevance

Due to the scarcity of rent-stabilized apartments in this Plan area, Ellis Act Ordinance requirements will not be relevant to local tenants if their properties are rehabilitated and/or redeveloped. The Tenant Protection Ordinance will apply to tenants and landlords in this Plan area located in rental buildings with three or more apartments. Existing residents will be able to stay in their homes and will be protected from no-cause evictions, despite the changing housing market.

EVALUATION AND FOLLOW-UP

Staff has prepared the above analyses for the City Council's consideration when Council considers the adoption of the Winchester and SRVF Urban Village Plans. Due to time constraints, this memorandum does not include analysis of expiration dates for recorded restrictions on income-restricted affordable apartments. This information will be included in future affordable housing baseline analyses. The Housing Department will prepare similar analyses for Council consideration when future Urban Village Plans are presented for adoption to the City Council in accordance with Council's direction on the Housing Investment Plan, Item 4.3 at the June 6, 2017, City Council meeting.

COORDINATION

This memo has been coordinated with the Department of Planning, Building and Code Enforcement, and the City Attorney's Office.

/s/

JACKY MORALES-FERRAND
Director of Housing

For questions, please contact Adam Marcus, Policy and Planning Manager, at (408) 975-4451.