

EVERYONE'S VALLEY

inclusion and affordable housing in Silicon Valley

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WORKING PARTNERSHIPS USA
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produced in
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Acknowledgements

This report reflects discussions with many members of our community about the issues affecting working families in the region. In order to be proactive in setting an economic justice agenda for Silicon Valley, Working Partnerships has initiated the Community Blueprint that sets multi-issue policy goals to advance regional equity. Working Partnerships has been involved in a multi-year process both to analyze the most critical economic problems that are confronting the Silicon Valley community and to construct a set of proposed institutional responses. Initially, roundtable discussions were held with over 300 organizers, planners, environmentalists, and social service providers to identify issues in healthcare, economic development, transportation, neighborhood revitalization, and job training and development within the region. The policy initiatives were reviewed at a community meeting held in East San Jose in September 2000. Lastly we received input on this report when it was in draft form. *Everyone's Valley* truly represents a community effort. The following organizations have chosen to be early endorsers of this report and its content, and we thank them for their support:

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Ron Gonzales
MAYOR

June 4, 2001

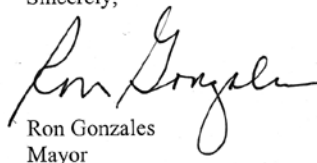
Building more affordable housing to meet the needs of families at all income ranges is a critical element for the long-term health of our community and our economy. We cannot allow ourselves to price Silicon Valley out of competition with other regions of the nation and world, and we must continue to be responsive to the full spectrum of people and families who are the true heart of this wonderful region.

San José has led the region in the creation of housing so critically needed by working families in Silicon Valley, but along with every other city, we can and must do more. We are always searching for innovative and practical ways to create more homes so that we can ensure the continuing economic prosperity and quality of life for our residents in our neighborhoods. "Everyone's Valley" produced by Working Partnerships USA is a very thoughtful and important work that will add to the many ideas already on the table to help meet our regional housing crisis. The City of San José has already made remarkable commitments to increase the supply of housing. More than 4000 new homes are built each year in San José, and we estimate that there is potential for the construction of at least 40,000 more homes under the City's current General Plan. These are homes located within our developed urban area, and we focus development where residents in both new and existing neighborhoods will be able to take advantage of transit systems that are being expanded throughout the region. This helps us sustain the livability of our city for our residents, protect open space from costly sprawl, and improve the effectiveness of our transit systems.

San José is already the largest supplier of housing in the entire region with nearly 300,000 homes in our city. We are well on track to building 6000 affordable homes that will serve nearly 20,000 more people by 2004 using more than \$300 million of local redevelopment funds that we are leveraging with state, federal, and private funds. We continue to work with developers, funding agencies, neighboring communities, businesses, and housing advocates to create more opportunities, identify additional resources, and increase the urgency of building more solutions for more affordable housing.

It is vital to the continued community health of the people of Silicon Valley that we all search for solutions. We must stand together in our commitment, both to celebrate our community's significant and continuing accomplishments, and to call for more changes and more results for providing more homes in the future. "Everyone's Valley" is a valuable contribution to our ongoing community dialogue to help make housing in Silicon Valley affordable to people at all income ranges. I look forward to working in the future with Working Partnerships USA on this critical issue as well many other endeavors that will improve the quality of life for all our residents in San José and Silicon Valley.

Sincerely,



Ron Gonzales
Mayor

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Dear Friend,

Clergy and other community leaders are well aware of the problems of housing in our valley. We encounter them daily in our pastoral and professional lives. Members of our congregations come to us with their worries: elderly people concerned about 60% rent increases, adults in less than ideal housing shares, and single mom's forced to suddenly vacate an apartment and wondering if they will be able to find housing in the same area so that their children can continue at the school they have been attending with the teachers and friends that they know. We also confront this problem whenever we try to bring on new staff, as non-profit salaries are rarely sufficient to cover local housing costs.

As a community, we have a moral obligation to make an extra effort to find ways we can respond to these ongoing issues and provide housing at a reasonable cost for all the members of our community. Working Partnerships USA offers us an in depth exploration of the dimensions of the problem and some understanding of which solutions will and will not meet our needs. Many of their proposals are controversial. Individual policy matters are questions over which people of good will can disagree. However, differences of opinion over the solutions to our problems, do not release us from responsibility for meeting the basic need for housing in our valley. This report provides a service by showing a well-reasoned package of proposals that can truly make a difference. We hope that it will stimulate discussion, counterproposals that address the scope of the housing problem, compromise regarding strategies, and action on this issue.

When we consider the affordable housing shortage, we should recognize that we are dealing with a basic issue that will define us as a community. Will we be a place where people of mixed incomes can find a home, a community with young families just starting out and elderly people depending on limited retired income? Will those who provide important community services, teachers and social workers, transportation and postal workers, be able to find a place to live?

Our traditions remind us that the dwellings we provide are a measure of the degree of civilization we have attained. How then can we be proud of communities when we continue to neglect the need for housing for so many of our neighbors?

Rabbi Melanie Aron
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by Amy B. Dean

All too often, policy analysis sets as its objective the design of a program that could solve a pressing social or political problem without focusing on whether the proposed concept meets the needs of any constituency that might actually carry it forward towards implementation. The result is a well researched and intelligently drafted document that becomes at best part of an historical footnote indicating the paths not taken.

Working Partnerships USA views the objective of policy analysis to be social and political action. Our reports are designed to provide information that working families and their organizations are seeking in order to understand the social and economic forces that affect their lives. We deliberately attempt to stimulate discussion and debate and the quest for further understanding, and we involve ourselves in this educational process. Our record demonstrates the extent to which this interactive relationship with our community can generate results.

With the publication of *Everyone's Valley*, Working Partnerships USA (WPUSA) will have completed three major analytical and

educational projects, each of them serving to expand the capacity of our community to respond to the growing lack of equity in Silicon Valley. The first project in 1998 evaluated the potential of a "Living Wage" policy. The City of San Jose subsequently adopted the highest living wage program in the country. In 2000, a second project examined the possibility of securing health insurance for every child in Santa Clara County. Following receipt of support from both county government and San Jose city government, an initiative has now been launched to make this region the first to offer universal health coverage to every resident under nineteen years of age, independent of immigration status. Housing constitutes a third, compelling equity challenge.

From an analytical perspective, Working Partnerships examines Silicon Valley as the leading example of a New Economy based on high-tech and information technology industries. Beginning in 1996, our research has striven to navigate a more dispassionate and pragmatic approach to the consequences of this developing economic paradigm than has been generated either through the boosterism of its

"Working Partnerships USA views the objective of policy analysis to be social and political action."



“the New Economy discards as many as it rewards. It tends to produce an hourglass shaped distribution of incomes”

advocates or the hostility of its critics. We are willing to acknowledge the extent to which the New Economy is becoming dominant and the extraordinary growth in production that it brings forth as well as the hardships it causes for those it excludes or abuses.

This is an economy that depends on innovation and the rapid introduction of new products to markets more than any in history. As a result, its structures and work relationships are less stable and secure, its normal employment tenure less dependable, and the requirements it places on workers more demanding. Over time, the New Economy discards as many as it rewards. It tends to produce an hourglass shaped distribution of incomes: an ever widening gulf between the rich and working poor in resources and access to the elements of a decent standard of life. Findings substantiating these conclusions can be reviewed in the key WPUSA publications noted below:

- *Shock Absorbers in the Flexible Economy*, 1996
- *Growing Together, or Drifting Apart? Working Families and Business in the New Economy*, 1998
- *Walking the Lifelong Tightrope: Negotiating Work in the New Economy*, 1999

In 1997, as this foundation research was being completed, Working Partnerships

initiated a program to more strongly involve working families and representatives from numerous sectors of life in the valley in our research on economic equity and its policy implications. The project is titled the Community Blueprint. The Blueprint process began by convening dozens of focus groups including activists, experts, leaders, representatives of local organizations, skilled workers, service providers and service recipients and more. Each group met to discuss a specific issue area – health care, the environment, neighborhood concerns, childcare, housing and others.

Out of these groups come ideas regarding priority needs and potential strategies and policies to reduce inequality. These transcripts are the seeds to which Working Partnerships policy researchers add the soil, water, and light of literature review, data accumulation, technical analysis, and strategic design. Once some preliminary understanding of causal variables, ongoing trends, and parameters of action have been established, more focused meetings can provide the community with the chance to hear and respond to the WPUSA’s information and ideas. In the case of housing, this stage was accomplished at a day-long housing conference in East San Jose in the Fall of 2000. Following the conference, groups and subgroups met to consider specific policy alternatives – such as forms of rent relief or inclusionary zoning.

This framework is somewhat distinct from civic development projects led by industry groups. It receives broader input from a wide range of points of view. It seeks out the views of those whose claim to represent organizations or constituencies is based on democratic procedures. Perhaps most of all, it attempts to determine not only what people would like to have handed to them but what they would be willing to organize and if necessary, struggle, to achieve.

The last point identifies the heart of the Community Blueprint ethic. Working Partnerships performs research and popular education. Political and social change require people to organize and act. The test of Community Blueprint projects, such as this housing report, are the extent to which and manner in which members of the community respond to the information and ideas we have generated. If they discuss the analysis, establish objectives, and organize campaigns to achieve a more just society, as they did with the living wage and children's health projects, the Blueprint model will have demonstrated its worth.

From the perspective of a commitment to democratic processes, Working Partnerships views the Blueprint as a way to help bring the disparate parts of our community together—to shape a research agenda, articulate working families' needs, and design and evaluate policy proposals. If

our goal is to improve equity in Silicon Valley, then part of our approach must be to realize equity in the way we discuss issues and develop strategies. Equity in our socio-economic life must be defined fundamentally by those who experience its absence, and proposed improvements must meet the test of support by those who they are intended to assist. To paraphrase a 1960's slogan regarding war, what if we sent out invitations to an equitable future and nobody came?

In the future, Working Partnerships plans to continue the Community Blueprint strategy, focusing on other policy areas, including child care. In addition, WPUSA is engaged in intensive efforts to develop policy tools that can help shape government decisions at various levels, always bringing equity to the fore, and directing attention towards ways to replace the gap between affluent and poor with a pattern of shared prosperity.

In this analysis of our shortage of affordable housing, Working Partnerships has employed the Blueprint process to analyze one of the most serious, complex, and intractable public policy issues that Silicon Valley confronts. Those who respond to this report with a determination to create and implement new solutions will find the road ahead to be windy, slippery, and strewn with obstacles. However, the potential positive effects of providing more affordable and secure housing for the

“the potential positive effects of providing more affordable and secure housing for the working poor of Silicon Valley justify taking the first steps down that path.”



“the unity needed to respond to the housing crisis will have to be woven by the community itself. It will have to be built from the ground up”

working poor of Silicon Valley justify taking the first steps down that path.

What our research has clearly demonstrated is that one of the primary causes of our housing shortage is the fragmentation of decision making among different levels of government and institutions in the valley. Each city seeks to maximize the strength of its own tax base, seeking commercial development rather than housing. The county is primarily a service provider; it exercises limited land use authority over urban residential areas. Redevelopment agencies have tended to focus on restoring blighted downtowns. Industry leaders and trade organizations have sought to sustain the expansion of the regional economy.

However, no major group or institution has defined affordable housing as its primary responsibility and objective.

Under these circumstances, the unity needed to respond to the housing crisis will have to be woven by the community itself. It will have to be built from the ground up –by people of faith and neighborhood associations, by unions and advocacy groups, by chambers of commerce, business associations and academia. Those who have drafted this report hope it will play a constructive role in that endeavor.



Amy B. Dean

Founder, Working Partnerships USA

June 2001

EVERYONE'S VALLEY:

inclusion and affordable housing in Silicon Valley

Everyone's Valley provides a comprehensive review of the causes of Silicon Valley's housing crisis and the serious magnitude of its impact on area residents. Through a careful inventory of our region's housing stock, and an analysis of area development and finance policies, employment data, and other indicators, it also offers a prospectus for change. In particular, *Everyone's Valley* reveals the scale of solutions necessary to make improvements to the situation. In doing so it fills a long-standing vacuum in the discussion of Silicon Valley's escalating housing shortage.

This report points out that while our community stands at the crest of the New Economy of high-tech information technologies, some of the same market forces that gave rise to Silicon Valley's growth, if unaddressed, could also prompt its decline.

As noted in earlier studies by Working Partnerships, the rise of high-tech and information technologies has fostered the growth of a local economy shaped similar to an hourglass. At one end is a growing number of well-compensated positions in management and highly skilled technical fields. However, at the other pole we see a far greater expansion of low paying service and even lesser skilled technical positions. By the year 2004, Santa Clara County will witness the creation of 32,000 new jobs in the traditionally

low-wage food service and building maintenance industries and the retail sector. Barring the creation of new public sector entitlements or the expansion of collective bargaining, there is little prospect that workers holding those new jobs will join the middle-class. This polarization is reflected in, and exacerbated by, Silicon Valley's housing market. Without policy commitments at the level noted in this report, it is increasingly doubtful that low-income working families can continue to reside within the Silicon Valley region.

Major findings of this report include:

A Contracting Housing Market:

Faced with the influx of new residents, housing in Silicon Valley is scarcer than ever.

- Last year, the Santa Clara County vacancy rate fell to a three-year low of 1.1%. Though high-income residents are able to "compete" for rental housing, moderate and low-income families are not.
- Today, over 90,000 Santa Clara County residents pay more than 30% of their incomes in rent. 43,000 residents pay more than half their income in rent.

"Without policy commitments ... it is increasingly doubtful that low-income working families can continue to reside within the Silicon Valley region."



- In 2000, only 16% of homes for purchase were affordable to average-income households in Silicon Valley.
- At least 38,000 families in San Jose live in overcrowded conditions.

Crisis Dwarfs Current Response:

The scale of the problem our community faces has overwhelmed housing programs in Silicon Valley. The response by Silicon Valley's 14 local governments has been poorly coordinated and largely ineffective.

“over 90,000 Santa Clara County residents pay more than 30% of their incomes in rent.”

High Housing Costs Worsen Traffic and Undermine Employee Retention:

The lack of affordable housing forces 133,000 Silicon Valley workers to live outside Santa Clara County.

- Traffic congestion now costs area drivers in excess of \$1.25 billion annually.
- As highly skilled professionals face a choice of staggering rents or lengthy commutes, Silicon Valley business is hampered in its efforts to attract and retain workers.

- Eleven thousand families in Santa Clara County now receive public housing assistance. However, at least two and a half times as many still need assistance.
- Significant "loopholes" and weak enforcement of local rent control measures have allowed landlords to excessively boost rents and evict low-income tenants, further reducing the supply of affordable housing.
- California fiscal policies effectively reward local governments for promoting revenue "producing" commercial development over housing.
- The valley's zoning measures, which initially allowed low-density sprawl and now belatedly preserve open space, have significantly contributed to the lack of affordable housing.

An Effective Response Can Be Crafted:

Though Silicon Valley's housing crisis has been intractable, it is hardly irreversible. A careful review of the available choices suggests that, together, a series of policy alternatives can help preserve and create new affordable housing, particularly in the Mid-Coyote Valley. Silicon Valley can implement housing programs that reduce the gap between the affluent and working poor, restore equity to our community, and sustain a region in which families from diverse income levels can live together.

Increasing the Supply of Affordable Units

- Inclusionary zoning in the Mid-Coyote Valley and other infill areas would create coordinated programs, imposing obligations on both the public sector and developers, to create housing that's affordable for families and profitable to business. Approximately 8,600 units of additional housing, including thousands of units for extremely low and very low-income families, could be developed at a cost of \$1.2 billion.

- A housing "superfund" can be created to finance new affordable developments. This "superfund" could be composed of revenue generated through a temporary increase in the sales tax or the issuance of general obligation bonds. When combined with other available funds, commitments from developers, and capital generated by a marginal increase in the percentage of redevelopment agency (RDA) funds allocated to housing, the "superfund" could underwrite the cost of the entire inclusionary zoning program.

Preserving the Supply of Existing Affordable Units

- Strengthening the rights of area renters is essential to protect the existing supply of affordable housing from gradually being transformed to costlier units. This could be achieved by improving Silicon Valley's current rent control measures, enacting rent control in communities lacking protections, and establishing safeguards against unjust evictions. Cities can further prevent the loss of units by supporting a county-wide investigation to determine whether publicly financed affordable properties set for conversion actually have longer term affordability requirements.

**“Silicon
Valley can
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EVERYONE'S VALLEY:

inclusion and affordable housing in Silicon Valley

No other public policy issue has the potential of impacting so many residents of Silicon Valley in so critical a manner as the shortage of affordable housing. For the working poor, the issue is paramount. It determines whether they can have a standard of living that meets minimal levels of decency. Indeed, for many, it will be the decisive factor in their ability to remain in the valley or be forced out, often leaving neighbors, friends, family and community behind.

For others, the housing shortage can have numerous direct and indirect consequences. The lack of housing restrains the growth potential of firms that cannot attract skilled employees. Similarly, vital public institutions, such as schools and colleges, are unable to recruit needed personnel. At one meeting a few months ago, the President of San Jose State University identified his campus's three major problems as housing, housing, and housing. Neighborhood facilities may be stressed by over-use as 4 or 5 struggling families may have to live in a single dwelling unit. Older parents may have to see their children and grandchildren lose the ability to stay close enough for regular visits. And for all of us, there is the potential loss of the diversity that provides our region with much of its vitality, energy, and creativity.

With so much at stake, it is time for a policy analysis that attempts to respond to the scale of

the problem. The results will be sobering, if not daunting. Over the years, numerous groups and individuals in Silicon Valley have, to their credit, undertaken small, positive steps towards responding to the growing imbalance between housing prices and incomes. These actions should never be undervalued; providing stable and secure shelter to a single family is a worthwhile effort. However, strategies that can make a difference for tens of thousands of families will be extraordinarily more challenging. They will be demanding in terms of costs, in terms of human commitment, and in terms of a community's capacity to sustain conflict and controversy.

This study begins by defining the nature of the problem. The structure of our regional economy, a so-called New Economy based on information technology industries, is a major causal variable. Despite the trends towards globalization, the New Economy thrives in regional centers – places like Silicon Valley where skilled personnel, venture capital, a food chain of suppliers, and state-of-the-art creative thinking are readily available. Companies and jobs are attracted by these centripetal forces. However, in the New Economy, the jobs that are created are not the middle-income positions of the 1950's. Instead, Silicon Valley has developed an hourglass economy with more higher paid jobs than ever before, a declining middle class, and vast numbers of low paying, dead end service occupations.

“The lack of housing restrains the growth potential of firms that cannot attract skilled employees”



The high paid personnel bid up the price of housing. The low paid service employees struggle against impossible economic forces. Together, these two poles of the hourglass produce a crisis of gargantuan proportions.

To compound the problem, the state's public finance system discourages cities from increasing housing supplies, and a fragmented decision-making arena blocks the design of coordinated government housing strategies. Finally, legitimate environmental concerns limit the land available for future residential construction.

“If all of the strategies in *Everyone's Valley* were implemented, they would generate 8,600 affordable housing units”

As the above discussion suggests, and this report makes evident, expanding the supply of market rate housing cannot significantly lower the price of housing in this region. Demand generated by job growth and from existing commuters eager to live closer to work will be too large in relationship to any realistic assessment of the amount of available land. Responding to the housing crisis, therefore, will depend on the enactment of new public policies.

The heart of this document is a discussion and evaluation of these possible policy options. Essentially, they are divided up into two categories: policies that increase the supply of affordable units and policies that preserve existing affordable units from being lost to inflationary pressures. The need for a connection between the two is obvious. If we build 50 subsidized units and allow 50 apartments currently affordable to very low-income families to move to market rate levels, our net improvement is zero. Only addressing this net figure can actually im-

prove our situation, as opposed to simply slowing down the rate at which it becomes worse.

Policy alternatives are examined from the perspective of their ability to achieve impacts of scale relative to the size of our problem, of their impact on extremely low and very low-income families, and of their feasibility and the longevity of their benefits. The study also considers their costs and asks who will have to pay for their implementation. Policies to increase affordable housing stocks that are examined include redevelopment programs, housing trust funds, and tax increases. Programs to protect existing affordable units include rent control and rent relief policies, just cause eviction ordinances, and city policies to critically examine the validity of proposed conversions of subsidized affordable apartment complexes to market rate housing.

Following the analysis, a draft housing program is depicted. This group of strategies is not meant to be viewed as the only approach to the problem, nor are its elements unchangeable. However, it does reveal what could feasibly be accomplished in Silicon Valley if determined sectors of the community chose to make improvement in the housing crisis a serious priority. If all of the strategies in *Everyone's Valley* were implemented, they would generate 8,600 affordable housing units, and increase protections for 120,000 renter families against arbitrary eviction or excessive rent increases. Major accomplishments cannot be achieved without high costs. Approximately \$1.2 billion dollars would be required to facilitate the construction of these 8,600 affordable housing units.

A primary ethic that has shaped the selection of strategies in the draft program is the precept that these costs must be shared. In response to previous calls for inclusionary zoning, builders have often responded—why should one industry alone bear the costs of responding to a broad socio-economic problem? They are correct. Developers should not bear the total cost, but neither should they be singled out as immune from shouldering any of the burden. Both developers and landlords who enjoy substantial economic benefit from the housing shortage should yield some of their profits in response to the valley’s housing crisis. Other costs must be borne by the public at large either through the opportunity cost of using redevelopment bond proceeds for housing, or the broader distribution of public services to reach new neighborhoods, or increases in tax rates.

With the publication of this report, two characteristics of life in Silicon Valley have now been placed indelibly on the agenda of public debate. One is the fact that the future diversity of our community depends on a resolution to the housing shortage. The other is that a response that matches the scale of the problem is feasible, albeit strenuous. What remains to be added is a third characteristic—that the people of this valley have the conscience and will and unity to respond to this challenge.

**“the future
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**Affordable Housing:
Definitions & Terminology**

To determine the need for affordable housing, the population of a geographic area is often divided into the following categories based on household income in relation to the median income for that region:

- Moderate-income (**M**): 80-120% of median.
- Low-income (**LI**): 50-80% of median.
- Very low-income (**VLI**): 30-50% of median.
- Extremely low-income (**ELI**): 0-30% of median.

In Silicon Valley*, the median income for the Year 2000 is \$87,000. Applying the income categories to this median provides the following ranges:

- M: \$69,600 - \$104,400
- LI: \$43,500 - \$69,600
- VLI: \$26,100 - \$43,500
- ELI: \$0 - \$26,100

“Affordable” housing is commonly defined as housing that costs no more than 30 percent of gross household income.

* “Silicon Valley” is often synonymous with Santa Clara County; in this case, however, the median income figure refers to Santa Clara County and parts of San Mateo, Santa Cruz, and Alameda Counties.

“over 53,000 families –a full one-fifth of San Jose households– are considered extremeley low-income or very low-income”

**Baseline:
Affordable Housing Needs**

Shortage of Affordable Units

According to the 1990 Census,¹ over 53,000 families –a full one-fifth of San Jose households– are considered ELI or VLI, indicating a major need for affordable housing.

Census data indicate the following specific shortfalls:

ELI	-16,538
VLI	-9,411
LI	+8,988
Total	-16,961

During the last decade, growth in the gap between housing costs and income has dramatically increased. Therefore, the shortage of ELI and VLI units in the 2000 census should be substantially higher.

In fact, the City of San Jose’s own pre-census calculations also indicate that from 1999-2006, the need for affordable units will continue to rise:²

ELI and VLI units	5,113
LI units	2,345
Total additional 1999-2006	7,458

**Total San Jose need, 1999–2006:
24,419 affordable units**

**Total Additional County need,
1999–2006:
8,900 affordable units***

* ABAG Projections. County shortfall figures are pending release of 2000 census data. Santa Clara County’s additional need does not include existing shortfall.

"They say San Jose is going to become another Los Angeles. Believe me, I'm going to do everything in my power to make sure that comes true"

Dutch Hamann
San Jose City Manager
1950-1969

To most outside observers, Silicon Valley is the poster child for the New Economy. And not without justification. The metropolitan area today can boast that it ranks first in broadband telecommunications capacity, first in the number of commercial Internet domain names per total number of businesses, first in the number of new publicly traded companies and first in venture capital invested as a share of gross metropolitan product. With one of America's most educated workforces, the men and women of Silicon Valley are on the leading edge of every high-tech industry from biomedical services to software manufacturing.

The roots of Silicon Valley's emergence as a high-tech colossus are often traced to Stanford engineers William Hewlett and David Packard. But they were not alone. The support of local academic, financial and government leaders buoyed Hewlett, Packard and other entrepreneurial engineers. With the wholehearted support of a business-backed "Progress Committee," city officials happily worked with "eggheads" and their sponsors to promote the young electronics industry. That marriage of inventive genius and old fashion boosterism enabled a land of fruit orchards and farmworkers to transform itself into today's Silicon Valley.

However, while Silicon Valley remains a showcase for the New Economy's successes, it is also plagued by its shortcomings. Our region's commitment to high-technology has given Silicon Valley the highest median household income in the U.S. at \$87,000.³ Yet, while incomes for high-tech skilled employees have grown steadily, wage gains for other workers have been far more modest.

Housing Price vs. Income

The economy of Silicon Valley resembles an hourglass with higher paying jobs offering generous benefits growing at one end, while low-wage jobs providing few benefits grow at a far more rapid rate at the other. The California Employment Development Department estimates that from 1997-2004, four of the ten fastest growing occupations in Santa Clara County offer workers annual incomes of less than \$21,000.⁴ Projections indicate the New Economy will continue to generate low-wage work; Santa Clara County alone will add 32,000 new jobs for janitors, waiters and waitresses, office clerks and cashiers by 2004.⁵ In this "tale of two cities" the market has responded to the housing demands of higher income residents, but



TABLE 1: Jobs Paying Less than \$30,000 per year in Santa Clara County, 1999

Job Description	Mean Annual Wage	No. of People Working
Jobs paying less than \$15,000 per year		
Fast Food Cooks	\$13,830	4,510
Dining Room, Cafeteria Attendants	\$14,640	5,720
Dishwashers	\$14,700	5,620
Waiters and Waitresses	\$14,750	9,530
Total		25,380
Jobs paying \$15,001 to \$20,000 per year		
Restaurant Host and Hostesses	\$15,590	2,990
Combined Food Preparation & Serving Workers	\$15,650	22,170
Counter Attendants (cafeteria, coffee shop, concession)	\$15,870	5,190
Bartenders	\$16,460	2,230
Food Preparation Workers	\$17,240	4,500
Maids and Housekeeping Cleaners	\$17,820	4,750
Child Care Workers	\$18,010	1,790
Cashiers	\$18,500	19,420
Janitors and Cleaners (except housekeeping)	\$18,600	20,310
Hand Packers and Packagers	\$18,760	7,340
Restaurant Cooks	\$18,880	4,670
Hand Laborers and Freight, Stock and Material Movers	\$19,620	20,070
Teacher Assistants	\$19,730	6,930
Teacher Assistants	\$19,730	6,930
Counter and Rental Clerks	\$19,750	2,250
Total		131,540
Jobs paying 20,001 to \$25,000 per year		
Retail Salespersons	\$20,290	22,790
Helpers-Production Workers	\$20,990	2,960
Security Guards	\$20,210	13,040
Preschool Teachers	\$21,350	2,270
Nursing Aides, Orderlies and Attendants	\$21,600	4,380
Tellers	\$22,070	4,190
Landscaping and Groundskeeping Workers	\$24,210	6,820
Stock Clerks and Order Fillers	\$24,290	9,070
Receptionists and Information Clerks	\$24,340	7,600
Total		73,120
Jobs paying \$25,001 to \$30,000 per year		
Child, Family and Social Workers	\$25,050	1,000
Data Entry Keyers	\$25,170	2,640
Shipping and Receiving Clerks	\$25,100	8,250
Team Assemblers	\$25,290	11,200
General Office Clerks	\$25,300	15,820
Electrical & Electronic Equipment Assemblers	\$26,140	18,790
Billing and Posting Clerks	\$26,590	5,370
Inspectors, Testers, Sorters, Samplers & Weighers	\$26,700	7,770
Light Truck Drivers, Delivery Services	\$27,080	5,190
School Bus Drivers	\$27,640	3,760
Industrial Truck and Tractor Operators	\$27,970	2,320
Pharmacy Technicians	\$28,920	820
Bill and Account Collectors	\$29,180	2,620
Bus drivers, transit and intercity	\$29,650	1,780
Total		87,330
Number of Jobs listed paying less than \$30,000*		317,370
Total Number of Jobs paying less than \$30,000		365,480
Total Number of Jobs in Santa Clara County		936,300
% of total paying less than \$30,000		39.03%

*This figure is smaller than the county total of jobs paying less than \$30,000 as it excludes most jobs with 2000 or fewer workers. Total jobs paying less than \$30,000 are included in the total. Source: BLS, OES Data 1999

failed to meet even the minimal needs of virtually everyone else. With monthly rental costs now averaging \$1,900, the bidding wars that well paid workers wage for the limited supply of housing continues to have a devastating inflationary impact on the entire Silicon Valley housing market.

The evolution of the hourglass shaped economy is not limited to Silicon Valley. The explosive growth of high-tech and information technology industries has spawned similar polarization in other communities nationwide. The New Economy does generate enormous wealth. However, absent widespread collective bargaining and other mediating institutions, new wealth is concentrated in core industries and critical occupations, potentially widening existing inequities.

Table 1 illustrates the number of workers in our region holding low-wage jobs and facing overwhelming housing costs. How many of these 311,000 workers and their families will require affordable housing? If we assume that there are 1.5 income earners for a family of four, then 20% would qualify for ELI, 79% would qualify for VLI, and 1% for LI. Even assuming there are two low wage incomes per household, 64% of the income earners listed in the table would qualify for VLI and 36% would qualify for LI.* However, many of these households would not have two full-time income earners with two children, given the difficulties and cost of arranging full-time childcare.⁶

* In our estimations, each income earner provides half of the total household income. In the first calculation, with 1.5 earners, each earner makes 75% of a low-wage salary. In the second calculation, each salary provides half of the household income, and each household earner makes 100% of a low wage salary.

The Crisis

With Santa Clara County vacancy rates falling to a three-year low of 1.1% in 2000,⁷ apartment rental costs have soared by 61% over the last three years.⁸ As a result, today over 90,000 Santa Clara County renters pay more than 30% of their income in rent while at least 43,000 renters pay *more than half* of their income in rent.⁹

Additionally, as a result of recent price increases for electricity and natural gas, many low-income families now face a choice between paying their rent or their utility bill. In January 2001, 15,000 area Pacific Gas & Electric customers lost their electricity: a 15% increase from January of last year. Electricity costs, which previously accounted for 7 to 15% of a low-income monthly family's budget now claim between 17 and 45%.¹⁰

Notwithstanding the soaring demand for affordable housing, the major federal housing assistance program has failed to offer an adequate response. The Section 8 housing assistance program offers low-income families below market-

“While Silicon Valley today remains a showcase for the New Economy’s successes, it is also plagued by its shortcomings”

rate housing. Eleven thousand families in Santa Clara County, including 7,400 households in San Jose, currently receive public housing assistance. When a waiting list for Section 8 voucher assistance was opened in 1999, 27,000 added their names. Since then the list has been closed and no new families are being added. The San Jose Housing Authority officials expect only minimal increases in the number of vouchers to be made available to this region in the future.

The Real Impact

Marcella J., 29, recently emigrated to the United States, works at a fast food restaurant for \$488 a month. Her husband, a construction laborer, may average \$1,000 a month. Because their small, two-bedroom apartment in a run-down complex costs \$1,225 a month, they live with their two children in one bedroom and rent out the other bedroom to four men, who also work. “I never thought it would be as hard as it is,” said Juarez, who is worried about crime in her neighborhood as well as how to pay her bills. “Everybody talks about how wonderful it is in America, but it’s not been easy.”

However, the Section 8 program in Silicon Valley suffers from even greater flaws. Neither the housing certificates nor vouchers offered by the program provide adequate rental payments in markets where housing is scarce. For example, a Section 8 certificate will pay no more than the difference between a “fair market rent” (FMR) that is established by the U.S. Department of Housing and Urban Development and 30% (or in some cases 40%) of the renter’s income. As of January 2001, the FMR for a two-bedroom



“When a waiting list for Section 8 voucher assistance was opened in 1999, 27,000 added their names. Since then the list has been closed and no new families are being added.”

apartment in the county was \$1,481.¹¹ This amount is well below average rents for units of that size in Silicon Valley. As a result, apartment owners have little incentive to accept Section 8 certificates until their vacancy rates increase.

Section 8 vouchers, while offering more flexibility, also have significant limitations. With a Section 8 voucher, the Housing Authority sets a payment standard to calculate the amount of rental assistance paid. The family pays the difference between that standard and the rent they can find. However, families cannot pay more than 40% of their income for rent. In addition, if the market rent is more than 120% of FMR, it is subject to an evaluation of its ‘reasonableness’ by the Housing Authority. Based on that analysis, the Housing Authority may prohibit the tenant from using the voucher for that unit.

In addition to the weaknesses in the Section 8 program, there are also threats to affordable rental housing built in the San Jose area decades ago with federal assistance.

Many of these housing projects received public subsidies in exchange for an agreement to offer below market rate rents for 30 years. Once that deadline has been reached, owners are permitted to raise rents to market levels. In Santa Clara County, 9,074 units are in danger of conversion to market-rate in the near future.¹²

Silicon Valley’s housing crisis does not end with its costly rental housing market: that is only where it begins. Home ownership is valuable in

promoting neighborhood stability and helping low-income families join the middle-class. However, for low-wage workers, the dream of owning a home of their own has become more elusive than ever.¹³

From 1997-2000, median home prices in Santa Clara County skyrocketed from \$311,146 to \$513,950: an increase of 65%.¹⁴

The Real Impact

After working in several computer chip factories, James M., 28, was laid off and was forced to turn to a temporary help agency, which found him a stockroom job. As a temp he earns much less than the full-time worker he replaced, and his job provides no health insurance. He has to work nights and weekends as a waiter as well. Even then he ends up living with a friend, with whom he shares a barely functioning car, since he doesn’t earn enough to rent an apartment of his own. He wants to get a college degree so he can return to chip manufacturing, but he has no time to attend classes. He also doesn’t have enough money to get both the eyeglasses and help with his dyslexia that he needs. He would like to think of himself as becoming part of the middle class but feels stuck indefinitely in poverty, even with two jobs.

Consequences

The lack of affordable, quality housing has generated a series of externalities impacting Silicon Valley.

Public Health

Many of Silicon Valley's housing units are old and decaying. An estimated 10% of housing in Santa Clara County is "substandard," a category that includes units built before 1940 and structures with inadequate plumbing, heating, or sewage disposal. Public health advocates also warn that Santa Clara County has the fifth highest percentage in California of housing likely to contain significant amounts of lead, at 60,621 units.¹⁵ In San Jose, at least 38,000 families are living in overcrowded conditions.¹⁶ The 2000 Census actually shows a much higher population per dwelling unit figure in the East Side of San Jose. This indicates that high compaction is concentrated in low-income areas.

Transportation

Last year, Silicon Valley generated four times as many jobs as new housing units. In the northern part of Silicon Valley, job growth outpaced housing construction by 16:1.¹⁷ The severe imbalance between the number of new jobs created and the supply of available housing has forced 133,000 Silicon Valley workers to live outside Santa Clara County.¹⁸ On average, San Jose traffic operates at less than freeflow speeds for 1/3 of the day, and during congested periods, travel takes an average of 56% longer than it would at the speed limit. This figure is significantly higher than the average increased

The Real Impact

Magdalena A., 50, gets up early to take her two children to school, cleans houses most of the day, sleeps a couple of hours in the afternoon, then cleans a high-tech company's offices from 6 p.m. to 2:30 a.m. "My children always ask, 'Mommy, when is your weekend?'" she said. "I don't see them so often." She is buying a small, \$180,000 condo that costs her about \$1,400 a month. It was built with public subsidies in the east San Jose neighborhood long known as Sal Si Puedes-- "escape if you can." She shares it with her sister and brother-in-law and their three children. "I don't think I'll be able to work all my life at two jobs," she said. "Imagine, paying for this house for 40 years and working two jobs. It's too difficult."

travel time of 40% tabulated for 68 US cities studied. The report also estimates that San Jose traffic congestion in 1999 cost area drivers \$1.25 billion.¹⁹

The price of these daily commutes can be measured in Silicon Valley's worsening air pollution and costly highway and parking expansion projects. More difficult to gauge is the societal impact of workers devoting less time to family and community activities due to lengthier commutes to and from their workplace.

Employee Recruitment and Retention

The housing crisis also hurts the economy, as employers are less able to attract and retain talented workers in the area. Area school districts know this well. Faced with an average monthly rent of \$1,760 for a one-bedroom apartment in the county, a beginning teacher earning \$40,500

"Employers increasingly understand that highly skilled young professionals today are far more concerned about 'quality of life' issues when choosing where to work"



“Despite many warnings of a growing housing crisis, the past response by former county policymakers and Silicon Valley’s 14 local governments have failed to develop a coordinated response”

would have to devote 73% of her take-home pay to rent.* Not surprisingly, teacher retention has become one of the most urgent problems facing schools in Silicon Valley.

Other communities attempting to replicate Silicon Valley’s success often stress lower housing costs as a chief asset. Employers increasingly understand that highly skilled young professionals today are far more concerned about "quality of life" issues when choosing where to work. The Washington-based Progressive Policy Institute summed it up well when it reported that "because they are in greater demand and have some ability to be picky about who they work for and where they work, knowledge workers can afford to choose locations that provide more than just a good job and a good income."

* A salary of \$40,500 yields a take-home pay of \$28,970. A monthly rent of \$1,760 represents 52% of a teacher’s *gross* pay (before taxes).

A Crisis of Our Own Making?

As previously noted, Silicon Valley’s housing crisis is fueled by job growth. It has also resulted from the failure of policymakers to develop coordinated housing strategies. Over the course of several decades, city, county and state officials helped subsidize economic growth by offering a wide range of financial incentives and building the infrastructure necessary to attract new business. This public-private partnership succeeded in encouraging the creation of new research and manufacturing facilities. However, despite many warnings of a growing housing crisis, former county policymakers and Silicon Valley’s 14 local governments have failed to develop a coordinated response to a housing crisis that touches every community. The effectiveness of cities individually to meet the need ranges widely. San Jose stands out as the city with the greatest sense of regional responsibility towards responding to the valley’s housing needs.

One effect of producing a higher number of housing units is that San Jose’s jobs/housing ratio is much lower than those of other cities.** Thus, San Jose does less to cause housing price inflation and does more to mitigate the effects of high housing costs than its neighboring cities. Nonetheless, individual strategies alone cannot resolve a vast regional problem. Unlike the approaches local leaders have embraced for combating air pollution and promoting mass transit, they have been unable to develop a

** See Appendix, **Table 7**, for ratio of jobs to housing. San Jose’s ratio is three times smaller than that of Palo Alto, for example.

The Real Impact

Hermenegilda G., 60, a former electronics worker and now a home care aide, lives precariously, never knowing how many hours of work she will have each week and thus how much she will make. When her car broke down, she couldn’t afford another. But when she had to rely on the bus, with its infrequent schedules, it became harder for her to reach clients and put in enough hours each week to survive and to qualify for health insurance coverage. It also became impossible for her to continue her earlier part-time work as a waitress. She is unable as well to rent her own apartment and pays for a room in the house of a friendly family. To make matters worse, more of her clients now can’t afford to live in Silicon Valley and are moving out, leaving “less clients, and more people who want to work.”

coordinated regional housing strategy that lessens the growing imbalance between supply and demand.

With demand rapidly escalating, restrictions on supply have also exerted enormous inflationary pressure on housing markets. Prohibitions on developing land that would otherwise be suitable for housing, such as San Jose’s Urban Growth Boundary, may serve legitimate environmental objectives. However, by limiting land availability, they also contribute to the rise of housing prices.*

Neighborhood opposition to new housing development is another key factor in Silicon Valley’s housing shortage. Though empirical evidence to support their worries fails to exist, homeowner concern that the introduction of affordable housing in their neighborhoods will diminish property values has bolstered opposition to needed development. This “not in my backyard” sentiment has been a major obstacle to the expansion of affordable housing in San Jose.

Additionally, California’s public finance system works to discourage new housing development by denying cities the tax revenues necessary to pay for the basic services new residents require.

For example, the total amount of property taxes received by the City of San Jose for FY 99-00 totaled \$66,684,000. These revenues constituted less than half of the police department’s operating budget alone, \$175,092,408. Given these

* The UGB encourages “smart-growth” strategies to address the jobs-housing imbalance and related stress on our infrastructure. One such strategy is to build housing along transit corridors.

limitations, it is little surprise that municipalities often regard new housing less as an asset than as a source of new expense. On the other hand, sales taxes, which are generated through retail and industrial development, generate the bulk of the revenue that fills city coffers. A 1999 survey by the Public Policy Institute of California substantiated the effect of this logic, noting that the state’s city managers placed far more value on generating new sales tax revenue than filling the need for affordable housing.**

By allowing fiscal policy to drive land use choices, city officials make decisions that appear financially prudent, but cause lasting damage to the community. Some state leaders now recognize the dangers of “fiscalizing” land use, but have had difficulty overcoming resistance by local officials to change.

“By allowing fiscal policy to drive land use choices, city officials make decisions that appear financially prudent, but cause lasting damage to the community.”

TABLE 2: Meeting the Need: Affordable Housing Produced as Percentage of Need 1988-1998 ⁽¹⁾

	0-50% of Median Income	50-80% of Median Income
San Jose	46%	39%
Palo Alto	18%	9%
Santa Clara	11%	14%
Mountain View	8%	23%

1. The percentages are based on ABAG’s estimated need for affordable units between 1988 and 1995 in relation to affordable units actually produced from 1988 to 1998. Source: ABAG, Bay Area Council Fair Share Housing Inventory.

** See Appendix **Table 7**. Despite the fiscal disincentives for housing construction, it is important to note that different cities in the region vary significantly in the extent to which they allow these pressures to limit their commitment to the production of affordable housing. As **Table 7** demonstrates, San Jose stands out as the city with the greatest sense of regional responsibility towards responding to the valley’s housing needs. Not only is San Jose’s jobs/housing ratio much lower than those of other cities, it also produces a higher percentage of subsidized units. Thus, San Jose does less to cause housing price inflation and does more to mitigate the effects of high housing costs than its neighboring cities.



Options For Change

Creating and Protecting
Affordable Housing
in Silicon Valley

The experience of Silicon Valley demonstrates that relying on market forces alone is no solution to our community's housing crisis. In fact, the relatively minor investor returns for developing lower and middle income housing suggests a far different scenario: a continued emphasis on building expensive residential and commercial properties...and a continued decay of neighborhood life.

Increased urban sprawl is another of the high prices paid for relying on the marketplace alone to respond to Silicon Valley's housing crisis. By "swallowing up" much of the available land for low-density development, sprawl has increased the need to build higher density projects on infill sites. Additionally, but no less important, sprawl places costly new demands on public services, including schools and sewers.

While the value of affordable housing to lower and middle income families is self-evident, every resident—regardless of wealth—stands to gain by increasing the supply.

- *For labor and business*, increased access to affordable housing will ease the economic strain on workers and help employers attract—and retain—employees.
- *For current residents*, an expanding supply of affordable housing will strengthen local neighborhoods and family life. Retailers and consumer services will also be less likely to abandon the city for suburban areas.
- *For future generations*, affordable housing in Silicon Valley diminishes the need for lengthy commutes and resultant traffic congestion.

A variety of strategies that rely on united community efforts to address the housing problem have already been implemented. For example, San Jose Mayor Ron Gonzales created the Housing Production Team to produce more market rate housing units. Santa Clara County Board of Supervisors Chair Jim Beall has created a task force to try to increase the supply of affordable units with particular attention to special needs populations. Broad coalitions that include the public sector, labor, community groups, the faith community and business, are essential to reaching meaningful solutions to the housing crisis.

In determining the best choices for Silicon Valley, it is necessary to evaluate each option in relation to both its feasibility and ability to impact a crisis on the scale of the one presently being experienced. Similarly, it is crucial to recognize the need not only for *long-term* solutions to create affordable, owner-occupied housing, but also for *immediate* strategies to ease the enormous economic burden faced by renters and their families.

“The experience of Silicon Valley demonstrates that relying on market forces alone is no solution to our community's housing crisis.”

Creating New Housing: Option 1

Inclusionary Zoning

Inclusionary zoning ensures that a portion of the region's housing production is dedicated to creating affordable units. Essentially, inclusionary zoning ordinances, or below market rate (BMR) programs, use municipal authority over land use to require developers to dedicate a percentage of units for moderate-, low-, very low-, or extremely low-income families.

In practice, these measures set an "inclusionary requirement" often ranging between 10 and 30% for each development. Some ordinances allow developers to pay an "in-lieu" fee to an affordable housing fund as an alternative to building below market rate units.

Cities can create mixed-income communities in a variety of settings by applying inclusionary zoning to developments of single family homes and condominiums, as well as apartment complexes. Although most ordinances require developers to meet the inclusionary requirement on projects greater than 10 or 20 units, some restrict inclusionary zoning to larger projects of 50 units or more. In order to capitalize on the potential for affordable units in large projects, cities may apply inclusionary zoning to units built on large, so-called "in-fill" sites (vacant or underutilized land in urbanized areas) and land reserves.

Inclusionary zoning ordinances often include a variety of components to assist developers in meeting their requirements. A number of these are listed below:

Density bonuses

This practice allows builders to achieve densities higher than normally accepted in a residential zone. For example, the City of Sunnyvale allows developers to apply for a 15% density "bonus" if they provide units below market rate. One recently approved project on Mary Ave. in Sunnyvale expanded from 28 to 32 units as a result of a density bonus.²⁰ The sale or rental of these "extra" units can help offset the cost to developers of marketing some units at below market-rates.

Fast track

Projects with below market rate units are allowed to move through the city's planning and review process at an accelerated rate, thereby reducing the holding costs to the developer. For example, Monterey County offers an accelerated review process to builders who set aside 25% of new units as affordable.²¹

"Inclusionary zoning ensures that a portion of the region's housing production is dedicated to creating affordable units."



“Inclusionary zoning is in widespread use in California. By 1994, 64 cities and counties in the state had adopted some form of it.”

Fee waivers

As an incentive to develop below market rate units, fees normally assigned to developments may be reduced or waived entirely. For example, although the City of San Jose has not enacted an inclusionary zoning ordinance, it does waive a number of construction fees, park fund dues and other taxes for affordable housing projects.

Design flexibility

Inclusionary zoning programs may allow a builder greater flexibility in regard to design requirements, such as length of setbacks or parking spaces required per unit. For example, in Montgomery County, MD, flexibility may derive from reduced closet space, unfinished basements, cheaper materials, and off-curb-parking in lieu of covered garages for affordable units.

Direct subsidies

As an added incentive to produce affordable housing, cities may provide direct payments for infrastructure, affordable housing grants or financing at reduced rates. They may also assist developers to secure funds from applicable state programs.

Inclusionary zoning is in widespread use in California. By 1994, 64 cities and counties in the state had adopted some form of it. To date, these efforts have produced more than 23,000 new affordable units statewide.²²

One example of a successful program is in Irvine, which enacted a 25% inclusionary requirement

in 1984. In the first ten years, the program generated a total of approximately 3,000 affordable units. Since 1994, the City of Irvine has lowered its inclusionary goal to 15% and generated 390 additional new housing units for very low-income families. Because some affordable units have been converted to market rate units, the total now approximates 3,200.²³

The inclusionary housing policy in Petaluma in Sonoma County requires 10 to 15% of all single and multifamily developments of five units or more to be affordable. Since the adoption of the ordinance, 1,400 affordable units have been created for low-, very-low, and moderate-income families. Petaluma's program offers developers four options: they can produce affordable units; provide land for developing the units; pay an in-lieu fee; or present an “innovative idea” for some other form of contribution.²⁴

Another example of a successful inclusionary zoning program can be found in Montgomery County, which is near Washington, DC. In 1974, county officials enacted a 15% inclusionary requirement. In 25 years since, the program generated over 10,500 units of affordable homes, townhouses and apartments for sale and rental. The qualifying household income ranges from \$16,000 to \$40,000.

The county's housing commission owns many of the homes rented to extremely low-income families. These houses were sold to the housing commission by the developer at cost (roughly one half of sale price). Land cost is not included in these cost calculations due to a 15% density

bonus offered to the developer. To secure subsidies for these homes, Montgomery County often takes advantage of low-income housing tax credits, as well as state and county bonds. While there are no construction subsidies provided to apartment unit developers, there are ongoing subsidies to maintain affordability requirements on apartments in the form of property tax relief for the affordable units. To provide rental houses to extremely low-income households, the program leverages Section 8 subsidies.²⁵

Today, eight out of Silicon Valley's 14 municipalities, including Sunnyvale, Los Gatos, Palo Alto and Cupertino, have implemented below market rate housing programs. Sunnyvale adopted an inclusionary zoning ordinance in 1980. It requires that 10% of new housing be built for moderate-income, LI, and VLI households. The program has already created 774 affordable units.*

Inclusionary zoning can have only limited benefit if it is applied to jurisdictions that are close to build-out. If only a small number of units remain to be constructed in a city, then developing 15% or even 20% of those units as affordable housing will have only a minor impact. However, the possibility exists of applying inclusionary zoning to San Jose's Mid-Coyote Urban Reserve. City officials believe that the Mid-Coyote Valley has the capacity to become an "urban village" of 25,000 households. If San Jose adopted an inclusionary requirement of 20%, that urban reserve could generate 5,000 much-needed affordable housing units.

"If San Jose adopted an inclusionary requirement of 20%, that urban reserve could generate 5,000 much-needed affordable housing units."

* 578 rental, 196 ownership.



TABLE 3: Condominium capital gap vs. developer profit for 100 unit complexes

Mid-Coyote	80 Market rate, 20 VLI	80 Market rate, 10 VLI, 10 LI
Capital gap for 100-unit complex (1)	-\$3,323,540	-\$2,343,540
Net profit for 100-unit complex assuming the developer pays for half the capital gap	\$2,656,790	\$3,146,790
Profit on sales (2)	8.3%	9.9%

Infill	80 Market rate, 20 LI
Capital gap for 100-unit complex	-\$2,057,840
Net profit for 100-unit complex assuming the developer pays for half the capital gap	\$1,664,520
Profit on sales	5.2%

1. Capital gap is calculated in Table 12.
 2. Refers to the profit in relation to the sale price, not the investment.
 For the VLI and LI units, development cost is used instead of sales price.

Evaluation

Public Costs

With the exception of administrative expenses, inclusionary zoning ordinances do not require city expenditures. However, policymakers could choose to assist developers in meeting the ordinance’s requirements. Such public expenditures can be justified if an inclusionary zoning policy attempts to reach extremely low-income households. For example, the City of San Jose’s current policy of fee waivers for affordable housing projects might result in lost revenue of approximately \$1,000,000 for a 100-unit affordable apartment project. A city can also directly subsidize units as part of an inclusionary zoning program with redevelopment or other funds. For example, in the Mid-Coyote Valley the resources

per unit provided by either private or public sources needed to produce an apartment affordable to an ELI household are \$179,946.* If the City of San Jose elected to use RDA resources to subsidize 50% of those costs and the program produced 1,677 ELI units, then the cost to the RDA program would be \$149,984,991.

Private Costs

Independent of any public incentives offered, inclusionary zoning requires developers to absorb costs associated with the generation of specified numbers and types of affordable units.

While the details of individual projects will vary, **Tables 3** and **4** reflect the costs and profit or investment return for projects with inclusionary zoning requirements. **Table 3** illustrates a 100 unit, two-bedroom condominium complex, and **Table 4** shows a 100 unit, two-bedroom apartment complex. The tables also indicate how these costs will vary depending on the mix of income levels the program is designed to benefit. Examples of both an in-fill project and a project in the Mid-Coyote Urban reserve are included.**

* See Appendix, **Table 10**, for the analyses used to estimate the capital gap. “Capital gap” is the difference between the development cost and the affordable rent or mortgage over the loan period.

** See Appendix, **Tables 11** and **12** for condominium project calculations and **Tables 9** and **10** for apartment project calculations. **Table 11** estimates the cost of a condominium, the sale price, and the difference as profit. The development cost is used in **Table 12** to determine the “capital gap”, which is the difference between the tenant’s possible contribution and the development cost. The cumulative capital gaps are consequently used to determine the overall subsidies required for the entire inclusionary zoning proposals. Similarly, **Tables 9** and **10** estimate the cost of an apartment and the capital gap. **Tables 13** and **14** illustrate the cash on cash analysis for a single market rate unit and various projects in Mid-Coyote. A cash on cash analysis typically demonstrates the initial cash return on developer cash expenditure.

Scale

When inclusionary zoning policies apply to in-fill sites, they are often limited to larger projects of 50 units or more. Based on this criterion, the adoption of inclusionary zoning for in-fill sites would generate nearly 3,000 units in San Jose and 660 in Santa Clara, the two major cities that currently lack inclusionary zoning programs.²⁶

The City of Milpitas receives substantial funds for affordable housing from its Redevelopment Agency. The Fair Share Housing Inventory in 1998 indicates that between 1988 and 1998, Milpitas produced affordable units that satisfied 24% of VLI need and 59% of LI need. These efforts leave room for significantly increasing the production of affordable units. The city should assess available vacant land and current need to evaluate inclusionary zoning as one strategy for generating affordable housing.

As noted, if the San Jose Urban Reserve is developed as a higher density "urban village," it may include as many as 25,000 units. As a result, a 20% inclusionary zoning requirement would thereby generate 5,000 affordable units. If the inclusionary zoning policy divided those units equally amongst ELI, VLI, and LI households, the majority of those units would necessarily be apartments or condominiums.

Longevity of Benefits

Inclusionary zoning measures may require deed restrictions that assure continuing affordability for 20 to 30 years or on a permanent basis. For example, Palo Alto's program preserves the affordability of an ownership unit for 59 years. If, during that time, the property is sold, the affordability is extended for another 59 years. If the occupant sells the property after 59 years, affordability is not preserved.

TABLE 4: Apartment capital gap vs. profit for 100-unit complexes

Mid-Coyote	20 ELI units, 80 market rate	10 ELI, 10 VLI, 80 market rate
Capital gap for complex	-\$4,654,680	-\$4,127,350
Present value of cash flow from rents ⁽¹⁾	\$10,787,498	\$10,939,548
Present value of sale price of complex after 25 years ⁽²⁾	\$17,351,048	\$17,664,936
Sum of revenue from sale price and 25 years of rent cash flow ⁽³⁾	\$104,789,296	\$106,524,472
Annual rate of return	13.27%	13.89%
Infill	20 ELI units, 80 market rate	10 ELI, 10 VLI, 80 market rate
Capital gap for complex	-\$5,874,520	-\$5,347,190
Present value of cash flow from rents ⁽¹⁾	\$11,748,023	\$12,248,081
Present value of sale price of complex after 25 years ⁽²⁾	\$19,992,251	\$20,306,139
Sum of revenue from sale price and 25 years of rent cash flow ⁽³⁾	\$118,202,304	\$121,233,478
Annual rate of return	12.76%	13.30%

1. From separate cash flow chart, not shown.
 2. Sale price of complex is the net operating income in year 25, divided by a capital rate of 8%. The capital rate for a complex ranges from 6.5% to 8%; the latter produces more conservative results.
 3. See Appendix, **Table 10**, for the analyses used to estimate the capital gap. "Capital gap" is the difference between the development cost and the affordable rent or mortgage over the loan period.



**TABLE 5: Resources needed
for 5,000 affordable units in Mid-Coyote**

Units	Total capital gap
1667 ELI apartments	\$299,969,982
833 VLI apartments	\$105,968,429
833 VLI condominiums	\$138,425,441
1667 LI condominiums	\$113,651,059
Total resources	\$658,014,911

“non-profit developers in the Bay Area have won at least 16.5 million dollars in federal credits in the last two years.”

Benefit to ELI and VLI Residents

Inclusionary zoning policies may target any income level. For example, **Table 5** describes a plan for Mid-Coyote that would produce 1,667 ELI, 1,666 VLI, and 1,667 LI units. However, economic analysis will indicate those levels at which it is unreasonable to expect developers to absorb the full costs of the affordable units and still maintain profitability. In **Table 5**'s plan, construction of affordable units will require packages that include significant incentives and external subsidies as well as developer contributions.

Leveraging Other Resources

In order to offset the costs of building and maintaining affordable units, inclusionary zoning may be combined with a wide variety of other programs. Included among them are the following:

Section 8:

Families that receive Section 8 vouchers or certificates can be offered access to units constructed through an inclusionary zoning program. Some vouchers may be attached to specific affordable units created through inclusionary zoning, thereby assuring that a

federal subsidy will be continuously available to the apartment complex.

Low Income Housing Tax Credit (LIHTC):²⁷

The federal government provides states with a credit of \$1.25 per capita. This money is earmarked for projects with 20% affordability of VLI or below. While there may be competition among programs within the state, non-profit developers in the Bay Area have won at least 16.5 million dollars in federal credits in the last two years.²⁸ These credits, while often unused by for-profit developers, exist as an incentive for those that choose to build affordable units.

State of California:

Recognizing the high cost of developing housing in California, the legislature authorized a state low-income housing tax credit program to augment the federal tax credit program. The state credit is only available to projects which previously received, or are currently receiving, federal tax credits.²⁹ Bay Area non-profit developers have won at least 12.7 million dollars in state credits in the last two years.

In addition to California's LIHTC program, California voters have, in the past, approved general obligation bonds for low-income housing development. Though approval is unlikely during the present electricity crisis, those measures could receive a favorable response from voters in the future. The

California Department of Housing and Community Development also operates a \$60 million multi-family rental and transitional housing program, which could be accessed for affordable housing in Silicon Valley.

RDA:

As previously noted, state law requires that 20% of RDA funds be used to provide subsidies for below market rate housing. While much of that money is earmarked for current programs, additional funding may be available as tax increment levels increase to subsidize part of the cost of affordable housing. Together with state bonds, these funds could be directed to the housing most difficult to subsidize –units at affordability of 30% of median, or ELI.

Housing Trust of Santa Clara County:

HTSCC has dedicated one third of its resources to help finance affordable units in San Jose. Given the large subsidies these units require, the HTSCC’s program of gap financing can fill the "holes" between affordable rents and development costs that other subsidies may not completely cover.

Feasibility

As noted, inclusionary zoning programs have been adopted in over 60 jurisdictions in California and eight in Silicon Valley. The strategy has a proven track record, and a number of model ordinances are available for review and/or modification.

**“Together
with state
bonds, RDA
funds could be
directed to the
housing most
difficult to
subsidize”**



Creating New Housing: Option 2**Increasing Supplies of
Market Rate Housing**

“To meet growing demand, the report recommends changing land use policies to accommodate more units”

Theoretically, a massive increase in the supply of market rate housing would cause prices to fall, increasing affordability. However, this market dynamic is extremely unlikely to occur in Silicon Valley. First, future job growth will dwarf all projections of housing growth. The Association of Bay Area Governments (ABAG) projections indicate that Santa Clara County will see approximately 231,000 more jobs created by the year 2020.³⁰ However, housing construction is expected to increase by only 74,300 units in Silicon Valley, defined as Santa Clara County and parts of Santa Cruz, San Mateo, and Alameda Counties.³¹ Secondly, since the remaining land available for residential development is relatively small, even rapid development of vacant parcels will fail to have a major impact on the price of the much larger developed base.

Comparing the possible construction of new units to the increased demand for housing reveals that reliance on market forces alone will

exacerbate the housing crisis for the next two decades. In 1999, the Silicon Valley Manufacturing Group and Greenbelt Alliance evaluated the amount of land available for residential construction in Silicon Valley. Given current land use regulations, it was projected that 74,300 units could be added before "build-out" occurs. An increase of that kind will be valuable to a portion of the region's growing workforce, permitting economic expansion to continue and offsetting price inflation. However, with demand for housing projected at 112,000 to 146,000 units over the next 20 years, this gain would meet only 50 to 65% of projected need. To meet growing demand, the report recommends changing land use policies to accommodate more units. These changes could produce an additional 36,700 units: an improvement, but one that barely meets the predicted demand. In consequence, it cannot reduce the existing shortage or bring down excessive prices associated with it.

Evaluation

Public Costs

Market rate housing is built without direct public subsidy. However, because California's public finance system severely limits taxes on real estate, housing development cannot pay for the basic municipal services required of a unit's residents. For example, as noted in the previous section "A Crisis of Our Own Making", the total property tax for San Jose in 2000 equaled half of the police department's operating budget. As a result, expanding the market rate housing supply requires indirect subsidies either in the form of taxes on other activities (retail sales, use of utilities, etc.) or in a reduction in per capita levels of public services.

Private Costs

Private sector firms provide market rate housing through their own investments and financing strategies. Through fees, these units pay for public infrastructure directly related to new developments.

Scale

Given current land use policies, no more than 74,300 new units could be developed in Silicon Valley.

Longevity of Benefits

The price of market rate units varies with the dynamics of supply and demand. Although these will rise and decline to some extent in relationship to business cycles, the severe structural imbalance between supply and demand in the region suggests that prices will continue to rise.

Benefit to Extremely Low-Income and Very Low-Income Residents

Market rate units are priced at levels well above the incomes of extremely low-income and very low-income residents. Even a family at the upper end of the VLI range, earning 50% of median income (\$43,500) would spend over 50% of its gross pay for an average apartment.*

Leveraging Other Resources

Increasing the supply of market rate units does not leverage resources for affordable housing in any area except Redevelopment Project areas that employ tax increment financing. In those areas, 20% of property tax increment is reserved for affordable housing.

Feasibility

Opposition to market rate housing developments tends to derive from two sources. As previously noted, city governments are discouraged from approving new developments because of their tax consequences. In addition, neighborhood groups often oppose new developments, particularly those of higher density, fearing impacts such as traffic congestion, increased library and park usage, etc. These pressures may reduce the actual amount of new construction below the Silicon Valley Manufacturing Group/Greenbelt Alliance's estimate.

**"expanding
the market
rate housing
supply
requires
indirect
subsidies"**

* Average rent on an apartment in Santa Clara County in December 2000 was \$1,903, or \$22,836 annually. Average rent includes below market rate and rent controlled apartments. New two bedroom apartments may start at \$2,500.



Creating New Housing: Option 3

Subsidized Housing

“the San Jose Housing Department to allocate \$240 million to fund the construction of 6,000 affordable units by 2004.”

The provision of subsidized housing from either public or private sources is the principal strategy currently used in Silicon Valley. Increasing our community's reliance on it further hinges on the extent to which new subsidies can be generated. The major current sources for subsidies are noted below.

Redevelopment Agencies

Redevelopment agencies, or RDAs, are mandated to eradicate blight in California's cities. They do so by accumulating property taxes in Redevelopment Project Areas, bonding these revenues and investing the bond proceeds in new buildings and infrastructure. Under state law, RDAs must allocate 20% of the tax increment they receive for low- and moderate- income housing. Using these resources, over the past 13 years, the City of San Jose and its local redevelopment agency have invested \$317 million to build more than 10,000 units of affordable housing. More than 85% of these units went to families earning less than 64% of the median local income. Because they seek to leverage the RDA investment, during the past six years alone, local officials have also secured almost \$175 million in tax credits and \$3.7 million in tax exempt bond authority for affordable housing development.

In FY 2000, San Jose's RDA produced annual tax increment in excess of \$140 million. In addition to 20% of this annual tax increment, the San Jose City Council allocated another \$10 million in RDA resources for affordable housing. When combined with a small amount of federal and state support, these resources will enable the San Jose Housing Department to allocate \$240 million to fund the construction of 6,000 affordable units by 2004.³²

Other cities in the region also have RDAs. Their tax increment, however, is much smaller. In FY 1999-2000, the RDA tax increment revenues of other cities in the county in millions of dollars reached the following levels:

Milpitas	24.2
Santa Clara	17.4
Morgan Hill	14.1
Campbell	2.4
Mountain View	1.58
Sunnyvale	2.08
Los Gatos	2.017

Based on the legal requirement that 20% of tax increment must be allocated for affordable housing, these cities together could generate \$12.28 million for affordable housing development.*

* \$12.28 million is derived from 20% of the total RDA tax increment for all cities.

Two factors inhibit availability of San Jose's RDA funds. First, current San Jose tax increment revenue has already been bonded to secure the funds needed to meet the city's 6,000-unit target. As a result, the 20% of tax increment funds –funds earmarked for affordable housing for the next 30 years– have already been allocated. Additionally, since the RDA is legally required to issue no future debt after 2004, the City of San Jose cannot commit tax increment funds above 20% after 2005.

However, there is another strategy available to secure RDA money for affordable housing. Currently, RDA practice dedicates 25% of tax increment to affordable housing; raising this level to 30% or greater could generate over \$8 million annually. The mechanism of increasing funding as well as the amount should depend on the rate of growth of tax increment dollars. If the growth rate is projected to be consistently high, then a percentage of tax increment could be allocated directly to housing. However, if growth is sluggish, more revenue could be generated by taking the additional 5% from the proceeds after the city bonds tax increment growth. Either way, for the additional 5% to be available after 2005, legislation must be introduced to allow the RDA to collect tax increment funds for an additional period of years.*

Against this backdrop, the potential for significant RDA resources in the future clearly exists.

* See Appendix, **Table 15**, for RDA projections and calculations. Column 6 illustrates the cumulative revenue available from an additional 5 percent of tax increment over 10 years.

Evaluation

Public Costs

All RDA revenues are public funds. Since they can be used for other capital projects which benefit blighted areas, RDA dollars allocated for housing that exceed the legally mandated 20% impose an opportunity cost on the community.

Private Costs

Private housing developments in redevelopment areas are required to provide 15% of their units for low-to-moderate income households. Also, the RDA can seek to negotiate subsidies for affordable housing from private developers when it invests public funds in their projects.

While subsidized housing projects vary in their costs, San Jose's RDA strives to use its investments to encourage developers to create as many affordable housing units as possible. Based on past experience, for every \$10 million of RDA resources allocated, the city is likely to generate either 254 LI units or 209 VLI units. The economics of ELI units are more complex. Because affordable housing payments by ELI families are so low, the combined financing sources in a project are often inadequate to cover the needed subsidy. Under these circumstances, the number of units generated will depend on the specific characteristics of a project.

Benefit to VLI and ELI Residents

RDA funds can be targeted towards VLI and ELI residents. However, in the absence of additional funding, there is an inverse relationship between the number of ELI units constructed and the total number of affordable units developed. For

**“raising the
tax increment
to 30% or
greater could
generate
over \$8
million
annually.”**



example, \$10 million could generate 209 VLI units. Based on average city subsidies for ELI units (other than single room occupancy), if one third of that subsidy were allocated for housing affordable to ELI families, the total number of units created would drop to 169.* In the past, the RDA has placed little emphasis on creating units affordable to ELI residents. This year, however, the San Jose City Council chose to increase funding for housing for ELI families for a one-year period.

“\$10 million could generate 209 very low-income units.”

Leveraging Other Resources

RDA funds are often combined with tax credits or other sources of capital to increase the number of affordable units in a project. On average, the San Jose Housing Department achieves a leverage ratio of three. In many cases, a major source of additional financing is federal and state low-income tax credits. In 2001, the State's first-round allocation of tax credits for multi-family projects indicated \$393.87 million would be available. Total applications exceeded \$660 million. Despite stiff competition, over the last six years San Jose has secured \$176 million in tax credits.

Feasibility

An extension of the bonding capacity of the San Jose RDA beyond 2004 depends on state legislative action. If the extension is granted, it could include an expansion of the portion of the RDA tax increment used for affordable housing. Both state legislators and Santa Clara County officials may press to increase it beyond the current 20% requirement.

The Housing Trust

The Housing Trust of Santa Clara County (HTSCC) is a public/private partnership, coordinated by the County of Santa Clara, Silicon Valley Manufacturing Group, the Collaborative on Housing and Homelessness and Community Foundation Silicon Valley for the purpose of raising funds for affordable housing. Over the past 21 months, HTSCC has raised \$19.1 million on its way toward an initial \$20 million goal, with two-thirds coming from the private sector and the remainder from public funds.

HTSCC leaders plan to allocate these funds equally to address the following three different housing priorities: the construction of new, affordable rental units; assisting first-time home buyers through low-interest loan opportunities; and offering homeless people transitional assistance and longer-term placement in more stable housing. With \$6.67 million, HTSCC estimates its "First-Time Homebuyers" program can assist as many as 800 families achieve home ownership. Another \$6.67 million will provide funding for the development of transitional housing and shelter for roughly 1,000 homeless persons.

It should be noted that the Housing Trust does not intend to be the primary funder for building new, affordable housing. Instead, it will focus on "gap" financing exclusively for non-profit developers, using its resources to make up the difference between funds generated from other sources and the full cost of the project. HTSCC estimates it can provide this type of "gap"

* \$39,000 for LI; \$47,700 for VLI; \$116,000 for ELI; figures from San Jose Housing Department.

financing to help complete approximately 3,000 units. With available funding of \$6.67 million, 3,000 units would receive an average subsidy per unit of approximately \$2,250. For this strategy to be effective, it will be necessary for other sources to provide the substantial subsidies needed to construct apartments affordable to ELI households.

Evaluation

Public Costs

The Housing Trust has received contributions from the following public entities:

County of Santa Clara	\$2,500,000
City of San Jose	\$1,000,000
City of Milpitas	\$500,000
City of Palo Alto	\$500,000
City of Sunnyvale	\$500,000
City of Campbell	\$250,000
City of Cupertino	\$250,000
Town of Los Gatos	\$250,000
City of Santa Clara	\$500,000
City of Morgan Hill	\$100,000
Town of Monte Sereno	\$15,000

Private Costs

Corporations have contributed \$12.8 million to the HTSCC. Adobe Systems, Advanced Micro Devices, Applied Materials, Cisco Systems, Hewlett Packard, Intel and Knight-Ridder have each contributed at least \$1 million.

Scale

By using \$6.67 million to provide “gap” financing, the HTSCC provides low/no interest loans to a large number of units.

Longevity of Benefits

Since the HTSCC is not a primary funder for apartment construction, it does not attempt to stipulate the length of time projects will remain affordable.

Benefit to VLI and ELI Residents

The HTSCC intends to target its funds for new construction towards 3000 individuals and families with 40 to 60% of median income. Its homeless assistance program will benefit approximately 1,000 extremely low-income people.

Leveraging Other Resources

As a result of the substantial subsidies required for affordable ELI and VLI units, levels of direct subsidy from HTSCC would represent only 1.25% of the total subsidy needed for ELI units and 1.8% of the total subsidy for VLI.* Apart from subsidies, the HTSCC intends to leverage its resources by combining its funds with tax credits and subsidies from local, state and federal government sources. For example, they are leveraging funds to enable non-profit developers to purchase land more quickly and thus match the flexibility to buy land that market developers have. They have also received commitments regarding a \$150 million state housing bond to provide loan products to first-time home buyers.

Feasibility

With \$19.1 million already in hand, the feasibility of the HTSCC reaching its \$20 million dollar goal is excellent.

* Percentages based on WPUSA calculation of the capital gap. See Appendix, Table 10, for calculations.

“the Housing Trust of Santa Clara County intends to leverage its resources by combining its funds with tax credits and subsidies from local, state and federal government sources”

Creating New Housing: Option 4**Tax Increases for Affordable Housing Development**

“Over the course of approximately four years a half cent tax could generate over \$600 million for housing development.”

Additional revenues for affordable housing could be secured by raising sales taxes, utility taxes, conveyance taxes or by issuing general obligation bonds which can be paid for through property taxes. The state constitution requires such measures to be placed on the ballot and approved by a two-thirds vote.

Evaluation**Public Costs**

By definition, any tax increase strategy generates funds from private sources for public purposes. The government acts as a conduit, managing the expenditure of funds. Minor administrative costs are associated with tax increases. If the tax is placed on the ballot at a regularly scheduled election the costs of adoption will be minimal.

Private Costs

In order to determine the potential size of a tax increase for affordable housing construction, it is necessary to establish the desired target number of units and calculate the costs of subsidies for those units. For the purposes of this analysis, the goal will be equal to the number of units that might be generated in Mid-Coyote Valley through inclusionary zoning. Based on those estimates, a target can be set as follows:

<u>Units</u>	<u>Gap</u>
Apartments	
1667 ELI apartments	\$299,969,982
833 VLI apartments	\$105,968,429
Condos	
833 VLI condos	\$138,425,441
1667 LI condos	\$113,651,059
5000 total units	\$658,014,911

The discussion below evaluates the ability of various tax strategies to raise this amount of capital.

Utility taxes

San Jose's utility tax of 5% on gas, electric, and inter-state phone bills generated revenues of \$53,426,000 in 1999. This amount is expected to increase substantially as a result of rapidly rising prices for electric power and natural gas bills. In order to generate \$658 million, the tax would have to increase to approximately 11%. A tax of that scale would generate an additional \$65.8 million, which, if used as debt service for revenue bonds, could produce \$658 million in capital for housing development.

Sales tax

The sales tax in Santa Clara County is 8%. On a county-wide basis, taxable sales generated \$30,348,644,000 in 1999.³³ A county-wide increase in the sales tax by a half of 1% would generate \$151,743,220. Over the course of approximately four years a half cent tax could generate \$606,972,880 for housing development.

Conveyance tax

San Jose's conveyance tax on real estate transactions produces \$1.65 for every \$500 of value transferred. Tax receipts vary over time. While the number of properties sold changes in accordance with business cycles, the value of real property in the region tends to increase steadily. Assuming that the current tax rate will generate an average of \$20 million a year, the tax would have to be increased to \$6.60 for every \$500 to produce an additional \$65 million. That amount, in turn, could be bonded to secure a total of \$650 million.

General Obligation Bonds - property taxes

Property taxes can be increased to pay for General Obligation bonds. As prescribed by Proposition 13, property taxes are fixed at 1% of assessed valuation, \$677 million in 2000. To issue a 30-year countywide General Obligation bond for \$658 million in capital, debt service payments of \$52,530,000 will be required annually. This amount would require an increase in taxes of 7.76 cents for every \$100 of assessed value (or about \$310 annually for the average homeowner).

Scale

The number of units constructed would vary with the size of the tax increase. The sample tax rates just described would generate 5,000 affordable units.

Longevity of Benefits

Through deed restrictions, subsidized units can remain affordable for any specified period or indefinitely.

Benefit to ELI and VLI Residents

The taxing agency can specify the proposed benefits to ELI and VLI residents in the measure placed before the voters. The program noted above would produce 1,667 ELI apartments, 873 VLI apartments, 873 VLI condominiums and 1,667 LI condominiums.

Feasibility

The feasibility of singular tax increases of this size being approved by two-thirds of the electorate must be considered problematic. For example, to reach the \$658 million target, conveyance taxes would need to be increased four times. Regarding utility tax increases, skyrocketing electricity rates makes an increase in residential utility bills politically unfeasible.

However, as demonstrated by last year's approval of property tax-based bonds for parks, libraries and flood control, San Jose voters are clearly willing to invest in the betterment of their community. This is particularly true among middle and higher income homeowners who value the deductibility of property taxes from their federal income taxes. It would be an error to "sell short" Silicon Valley families and their commitment to improving quality of life.

In a similar vein, the most popular form of local levy, Santa Clara County's sales tax, is only slightly above the statewide average. Last year, sales tax dropped statewide by a quarter of a cent. Silicon Valley voters could consider a temporary, four-year half cent county sales tax –that alone would generate enough capital to fund almost the entire project.

“It would be an error to ‘sell short’ San Jose families and their commitment to improving the quality of life in Silicon Valley.”



Protecting Existing Housing: Option 1

“Enactment of rent control ordinances in Mountain View, Palo Alto, Sunnyvale, and Santa Clara could cover approximately 58,557 households.”

Rent Control

Where their enactment is permitted, sensible rent controls can effectively protect large numbers of tenants against excessive rent increases. By doing so, they prevent the existing number of affordable housing units from being reduced due to price inflation. In this sense, while rent controls do not “create” new housing, they allow those programs that do construct new affordable units to increase the “net” supply of affordable housing in the region.

San Jose first enacted rent control over 20 years ago. However, the city’s ordinance exempts all single family homes, duplexes, and apartment units built after 1979. Still, rent control protects residents of approximately 44,000 apartments and 10,000 mobile home spaces. In general, the ordinance limits rent increases to 8% for apartments and 3% for mobile homes. In stark contrast, last year rent increases for exempt units averaged 37%.*

State legislation prohibits San Jose from extending rent control to units built after 1979. Other cities that have never adopted rent regulations cannot apply rent control to any housing built after 1995. In most Silicon Valley cities, the vast majority of rental housing was built prior to 1995 offering the potential of restricting escalation in the housing costs for many renters.**

Evaluation**Public Costs**

The costs of rent control laws are limited to administrative expenses and occasional legal expenses associated with litigation against local ordinances. Fees on rental units generally cover administrative costs.

Private Costs

The private costs of rent control are principally the loss of excessive rent increases. Conceptually, these increases represent the difference between market rents and the rent levels established in the local ordinance. Constitutionally, rent control laws must provide property owners with a fair and reasonable return on their investment.

Scale

Rent controls can cover substantial numbers of tenants even within the limits of state law. Enactment of rent control ordinances in Mountain View, Palo Alto, Sunnyvale, and Santa Clara could cover approximately 58,557 households.***

Longevity of Benefits

Though rent control policies may be overturned by future city councils or by voters through the initiative process, their popularity once enacted in Santa Clara County is beyond question. In fact, no local rent control measure has ever been revoked or overturned. Rent control can be modified by state law or by court decisions that

* Rents increased 70 percent from 1996-2000; Source: REALFACTS.

** Costa Hawkins bill adopted in 1995.

*** See Appendix, Table 16, for explanation of household figure.

modify previous interpretations of the constitutional protections afforded to property owners.

In addition, state law mandates that local rent control laws must include vacancy decontrol provisions. Vacancy decontrol permits owners to raise rents to market levels whenever a tenant voluntarily vacates a unit. Thus, over time, an increasing percentage of units move towards market levels.

Benefits to VLI and ELI Residents

The majority of VLI and ELI residents of Silicon Valley communities are renters. For these families, rent control offers the only safeguard against being forced to compete for the extremely small number of new affordable units.

However, rent ordinances have several limitations. First, it is difficult for rent control laws to reduce rents, as opposed to simply restricting increases. If controls are enacted after rents are already prohibitively high in relation to ELI and VLI resident incomes, they can do no more than stop a difficult economic situation from becoming even worse.* Second, in San Jose and some other cities, the burden for enforcing rent control rests with the tenant. Unless renters are educated of their rights under rent control, landlords can easily increase rent beyond the legally mandated 8% per year with little fear of legal reper-

* Rent controls have only a limited ability to offer special protection to low income tenants. The US Supreme Court upheld provisions in San Jose's rent policy to take into consideration "hardship" to tenants when establishing a legal rent level. However, this "hardship clause" could only be considered after the property owner had been assured a rent increase sufficient to provide a fair and reasonable return on his investment [Pennell v. City of San Jose, 108 S. Ct. 849 (1988)]. Therefore, significant increases could still be approved even if the resulting rents were beyond a tenant's ability to pay.

cussions. In addition, by exempting units from rent control after they become vacant, state law creates an incentive to force long term tenants to leave their units.

Leveraging of Other Resources

Rent controls do not normally attract additional resources for the development of affordable housing. Some opponents have claimed that rent control discourages private investment in new rental housing. This assertion has little validity given the State's prohibition on rent control for units built since 1995. Additionally, all of the urban cities without rent control in Silicon Valley (Palo Alto, Mountain View, Santa Clara, and Sunnyvale) are approaching build-out. It is estimated that only 5,200 apartment rental units can be built on remaining vacant land.

Feasibility

Despite the financial clout of the rental housing industry, the broad appeal of rent control makes its defeat anything but certain. Rent control ordinances have been beaten in elections in Palo Alto, Mountain View, and Sunnyvale, while city councils in San Jose and Los Gatos have each approved apartment rent control. The Cities of San Jose, Milpitas, Gilroy, and Morgan Hill have mobile home rent control ordinances, and the City of Campbell has a Mediation Ordinance that discourages "excessive" rent increases and retaliatory evictions and provides mediation services to resolve rent disputes.³⁴ On two occasions in the past twenty years, industry campaigns to prohibit rent controls on apartments or mobile parks throughout California have been placed on the statewide ballot. Both measures were soundly defeated.

"no local rent control measure has ever been revoked or overturned."



Protecting Existing Housing: Option 2

Just Cause Eviction

“Eviction can become a de facto sentence to homelessness or even leaving the region.”

Under California law, a landlord is not required to have justification for terminating a tenancy. If a renter challenges an eviction in court, the property owner, with few exceptions, need only demonstrate that proper notice has been given, the notice has expired, and the tenant is still on the premises.

For a tenant facing eviction, the consequences are enormous. In a tight housing market, the task of finding another unit in a brief period of time is often insurmountable. To compound the problem, most landlords will automatically refuse to rent an apartment to anyone who has recently been evicted. Therefore, eviction can become a de facto sentence to homelessness or even leaving the region.

However, there is another consequence to evictions that impacts our entire community. Since property owners are not required to reveal reasons for evictions, it is difficult to prove what their true motives may be. However landlords may be evicting low-income tenants in order to raise the rent. As previously noted, this rationale for eviction is increasingly likely in the wake of state law requiring the rent "decontrol"

of units that have been voluntarily vacated. Though San Jose's rent control ordinance specifies that rent cannot be raised if the former tenant was evicted, this restriction has proven to be essentially unenforceable. In this respect, through evictions landlords gradually transform badly needed affordable units into more costly ones.

To respond to this concern, at least twelve jurisdictions in California have adopted a "just cause" eviction policy.* While these measures may differ in detail, they have as a core element the requirement that evictions may only be executed for enumerated reasons. These just causes include, but are not limited to: failure to pay rent, breach of a legal lease clause, use of the premises for an illegal purpose, nuisance behavior, unauthorized subletting and occupancy by the owner or an owner's relative. The goal of the ordinance is to provide owners with the ability to remove tenants when they have legitimate reasons for doing so. At the same time, renters are offered some minimal level of security in their apartment if they pay the rent promptly and abide by the stipulated rules.

* These include Berkeley, Beverly Hills, East Palo Alto, Hayward, Los Angeles, San Francisco, Santa Monica, and West Hollywood.

Evaluation

Public Costs

Just cause eviction ordinances impose administrative costs on local government. For example, owners must be informed of the provisions of the measure. Enforcement of the measure is ultimately the responsibility of the courts. However, to the extent the measure is clearly drafted, it can discourage violations.

Private Costs

Although landlords often claim they will lose their ability to evict renters, in truth they will retain their right to issue evictions for any reason that imposes costs on the property. Therefore, private costs must be considered negligible.

Scale

The following cities in Santa Clara County have large numbers of apartment renters:³⁵

San Jose	173,800
Palo Alto	12,689
Mountain View	34,189
Sunnyvale	50,572
Santa Clara	38,477
Total	309,727

If just cause eviction measures were adopted by all of these cities, then 309,727 tenants would achieve greater levels of economic security.

Attempts to calculate the number of renters actually subject to eviction each year, and hence the number immediately likely to benefit from these ordinances, is hampered by inadequate record keeping on this subject. The Santa Clara

County Superior Court reports that between 250 and 350 unlawful detainer actions are filed each month. Interviews with Legal Aid Society attorneys in San Jose suggest that between 10% and 25% of 30 day notices to vacate result in unlawful detainer filings. In that light, it is estimated that anywhere from 12,000 to 42,000 households experience eviction each year. In light of the region’s small inventory of vacant apartments, even the lower figure indicates large numbers of families experiencing serious hardship.

In comparison, San Francisco, which has enacted a just cause eviction ordinance, reported 2,761 evictions in 1999-2000. Adjusted for population differences, that would have produced 6,275 evictions in Santa Clara County, a figure almost half the current number.

Longevity of Benefits

Just cause measures are established by local ordinance. Unless the ordinance has a sunset clause, it will remain in place unless overturned by the city council.

Benefit to ELI and VLI Residents

Just cause ordinances provide the same protections to all renters covered by the measure, regardless of their income level. However, the effects of these measures are particularly beneficial to ELI and VLI families who generally have fewer housing alternatives.

Feasibility

As noted, just cause ordinances have been adopted in a dozen jurisdictions in the state, including four in the Bay Area. No obstacles to their enactment have been identified.

“it is estimated that anywhere from 12,000 to 42,000 households experience eviction each year.”



Meeting the Need for Affordable Housing

Few problems in America are as costly as the need to develop affordable housing; but almost none are more expensive to ignore. As this report described, the housing crisis in Silicon Valley grew from a series of policy choices during an era where the San Jose area was transformed from a quiet cannery town to the center of the new, global economy.

Our challenge as a community isn't to find any one solution to the housing crisis. There isn't one. Instead, it is to identify the components of a solution: options that enable Silicon Valley to be-

gin to answer the two most pressing aspects of the crisis we face: maintaining the viability of the affordable housing we have, while creating the new affordable housing we need.

Clearly, some problems are beyond the scope of action by our community alone. For example, state fiscal policies that discourage cities from promoting housing development in favor of strip malls can only be addressed by lawmakers in Sacramento. However, there is much that our community can do to preserve and expand affordable housing for Silicon Valley's families.

“The two most pressing aspects of the crisis we face: maintaining the viability of the affordable housing we have, while creating the new affordable housing we need.”

Our review of the available options suggests that a successful strategy to develop affordable housing in Silicon Valley must include the following elements:

Creating New Housing

- Implementing Inclusionary Zoning
- Increasing the Percentage of RDA Tax Increment Allocated to Affordable Housing
 - Creating an Affordable Housing Superfund

Protecting Existing Housing

- Preservation of HUD Financed Affordable Housing
 - Enacting Rent Controls in Urban Communities
- Enacting a Just Cause Eviction Ordinance for Cities in Santa Clara County and Establishing a Rent Relief Task Force for San Jose



Creating New Housing

Implementing inclusionary Zoning

Mid-Coyote Valley

“The relatively low land costs in the urban reserve will allow developers to absorb much of the price of an inclusionary requirement.”

Inclusionary zoning in Mid-Coyote offers the opportunity to achieve much larger numbers of affordable units than virtually any other feasible strategy. Assuming build-out is 25,000 units, a 20% requirement equally distributed amongst income categories would generate 1,667 ELI, 1,666 VLI, and 1,667 LI units.

The relatively low land costs in the urban reserve will allow developers to absorb much of the price of an inclusionary requirement. The average cost of land purchased since 1990 is only \$40,000 an acre, while the cost of residential land in central San Jose is approximately \$1,100,000 an acre.* Thus, even including the substantial infrastructure expenses associated with opening the region to development, the land costs per dwelling unit are \$8,768 compared to \$22,000 per unit in more developed areas.

While land costs in the Mid-Coyote Valley are relatively low, the price of homes that can be built on that land has risen dramatically. The cost of constructing a condominium equals

\$276,018.** The market price of such a unit is at least \$330,000. Under this scenario a developer would enjoy a surplus of \$53,982 per unit. If half the capital gap for 20 VLI units in a 100 unit complex was subsidized with tax credits and the other half with developers' profits, 20 units could be offered to VLI families with the developer still earning 8.3% profit on sales.***

Given that the urban reserve is undeveloped, developers can be offered greater flexibility in design and density to offset some of the costs of the affordable units. If density bonuses may not be of value in the region (because of the initial high densities planned for the area), another incentive may be to link the inclusionary requirement for VLI or ELI families to the opportunity to build single family detached housing in the urban reserve. Single family detached housing would likely be included in the "urban village," and the opportunity to participate in those developments could be targeted at those who have met the inclusionary requirement.

* This excludes land purchased prior to 1990 at even lower prices. In fact, between 15-20% of the land in Mid-Coyote Valley was purchased over 20 years ago. 50% of the land was purchased in 1995 or earlier, according to County Assessor records.

** See Appendix, **Tables 8** and **11**, for land calculations and condominium costs. Cost to construct condos includes management and development fees at 18% of sale price.

***See **Table 3** (p20) for calculations of developer profit on condominiums.

Despite the relatively low land costs in Mid-Coyote, it is not reasonable to expect developers to fully absorb the costs of ELI units, all of which are likely to be apartments. **Table 5** (p.22) indicates that the total resources needed for 1,667 ELI units will be \$299,969,982. If the city chose to accept the obligation for half this amount, it would need to commit \$150 million to the ELI program.*

The remainder of the cost of ELI units would be generated from Section 8 projects, the California Multi-Family Housing Program or other forms of state assistance, tax credits, HTSCC contributions and reductions in developer cash flow.

TABLE 6: Resources needed for 3,600 infill apartments and condominiums in San Jose and Santa Clara

Units	Total capital gap
720 ELI apartments ⁽¹⁾	\$156,031,200
1440 VLI apartments	\$236,126,880
1440 VLI condominiums	\$154,788,480
Total resources	\$546,946,560

1. ELI units are 20% of the total here (as opposed to 1/3 in the Mid-Coyote proposal) due to the much higher cost of ELI infill construction.

San Jose and Santa Clara

Inclusionary zoning is more difficult to implement on in-fill sites because projects must be compatible with existing infrastructure and neighborhood characteristics. As a result, it is prudent to apply inclusionary zoning on large sites where the potential scale of affordable units generated justifies the challenge of this strategy.

San Jose has nearly 60 sites that can accommodate 50 units or more. A 20% inclusionary requirement could generate 2,958 affordable housing units. Santa Clara has eight such sites; a 20% requirement applied to them would produce 660 units. As indicated in **Table 6**, the cost of this approach would approximate \$540,322,560.**

The cost for developing 5,000 units in Mid-Coyote Valley would be \$658 million. When combined with the \$540 million, the cost of developing 3,600 units in infill areas, the total cost for an inclusionary zoning initiative would be \$1.2 billion.

“it is prudent to apply inclusionary zoning on large sites where the potential scale of affordable units generated justifies the challenge of this strategy.”

* Assuming Redevelopment is extended to year 2010, and projecting moderate rates of growth, bonding the projected increase of tax increment revenue for that decade would generate approximately \$660 million. A city commitment of \$150 million is 25% of this amount.

** This estimate is based on the following housing unit allocation: 20% ELI apartments, 40% VLI apartments, and 40% LI condominiums. See Appendix, **Table 10**, for figures used to calculate gap.

“Affordable housing will only be recognized as a necessary investment if public officials and other opinion leaders address it as such.”

Increasing the Percentage of RDA Tax Increment Allocated to Affordable Housing

Redevelopment agencies are likely to remain the primary source of funds available for affordable housing in the region. San Jose already allocates nearly 25% of its tax increment to affordable housing, but it could be raised to 30%. This increase is particularly important given the city's new and much needed emphasis on housing for extremely low-income residents.

As noted in *Option 3, Subsidized Housing*, a number of other cities in the region also have redevelopment agencies, albeit much smaller than San Jose's. Increasing the housing allocation from 20% to 30% in each of these cities would produce a total of \$19.1 million a year in tax increment for affordable housing.

An evaluation of the extent to which the RDA allocation could be increased should be related to the anticipated growth of tax increment. An increase to 30% could be sustained even if tax increment growth stabilized at 5% per year. If growth were to be higher, as it has been during peak periods in the history of San Jose's RDA, it would warrant an increase above 30%.

Creating an Affordable Housing Superfund

As described earlier, financing an affordable housing initiative on a scale necessary to ease the Silicon Valley's housing crisis would require what would amount to an affordable housing "superfund" of \$1.2 billion. Sources capable of financing 50% of this fund *have already been identified*: developer contributions would provide approximately \$200 million; RDA funds from all cities with agencies could offer an additional \$200 million; while tax credits could contribute another \$200 million. The source for the other half of the fund, \$600 million, could be provided through a range of temporary fiscal measures.

As noted earlier, San Jose and area residents have demonstrated a clear willingness to provide support for necessary public investments. However, it is also evident that affordable housing will only be recognized as a necessary investment if public officials and other opinion leaders address it as such.

Protecting Existing Housing

Preservation of HUD Financed Affordable Housing

In order to protect the thousands of low-income units in apartment complexes that may be converted to market rates, the cities of Santa Clara County should assign staff to investigate carefully all proposed conversions to determine if any prior subsidy or land use decision had been premised on a commitment of longer term affordability. In addition, San Jose could make clear that all of such units constructed before 1979 will be immediately subject to the San Jose rent ordinance as soon as the contract with HUD has been terminated.

Enacting Rent Controls in Urban Communities

Though options for expanding the pool of affordable housing clearly exist, the current structural imbalance between supply and demand of housing continues to make spiraling rental costs inevitable. Through the enactment of reasonable rent controls, including just cause eviction guarantees, rent increases can be limited to those justified by cost increases and a fair rate of return to owners. As previously noted, rent controls would protect 58,500 households if applied to rental units in the major urban cities lacking ordinances: Palo Alto, Mountain View, Santa Clara and Sunnyvale. Since the number of additional rental units likely to be built in these cities is small, the potential loss of new units resulting from the imposition of controls must be considered minimal.

To reduce the extent to which these measures produce inconvenience or costs for property owners, the cities noted could take pains to involve both tenants and owners represented to assist in all aspects of designing fair rent control and just cause eviction policies.

**“rent controls
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Enacting a Just Cause Eviction Ordinance for Cities in Santa Clara County and Establishing a Rent Relief Task Force in San Jose

Under state law, San Jose is prohibited from extending rent control to additional new housing units. However, that city can still take significant steps to increase the security of tenants, reduce the hardship associated with escalating rents, maintain housing quality, and discourage excessive rent increases.

“Tenant protection measures are only effective to the degree renters are cognizant of them.”

By enacting a just cause eviction measure, all cities in Santa Clara County can prevent unfair evictions and slow down the transformation of affordable rental units to high-priced apartments. In addition, San Jose can prevent evictions in rent controlled units for the purpose of increasing rents, an action that is already prohibited by San Jose’s rent control law, but which is largely unenforceable. Such a measure would also extend protection to renters in units that are exempt from rent control.

In addition, San Jose can establish a rent relief task force with the mission of crafting strategies to improve the economic conditions of the city’s tenants despite the restrictions of state law. As is the case in other cities, the task force should include representation from both owners and tenant advocates. Tenant protection measures are only effective to the degree that renters are cognizant of them. Therefore, a primary focus of the task force could be to determine ways that the protections under San Jose’s current rent

control law can be more firmly guaranteed and expanded. For example, the city could initiate widespread education programs to inform renters of their right to contest high rent increases. Also, the City could aggressively enforce the current provisions of the ordinance, particularly the prohibition against rent increases on units from which the prior tenant had been evicted. A full review of the current ordinance is also needed to determine the extent to which the level of rent increases permitted under its provisions should be adjusted downward. Other possible strategies to be evaluated might include mandating code enforcement inspections when rent increases grow beyond a predetermined level, or assisting tenants to pay the high initial costs of renting an apartment (an amount that often exceeds \$5,000).

As noted earlier, tenant protection measures are only effective to the degree renters are cognizant of them. For example, though residents of HUD projects built prior to 1979 are protected by San Jose’s rent control measure, scant effort has been made in the past to inform them of the ordinance’s potential benefits. This illustrates the significance of incorporating an educational component into any renters’ rights measures enacted locally.

Beginning a Dialogue. . .and Crafting a Solution

“While some of San Jose’s growth was inevitable, much of it was consciously brought about by the very interests that benefited the most from it...Their policy was growth. Their tool was city government.”

Philip J. Trounstein and Terry Christensen
Movers and Shakers

Silicon Valley is often characterized as the community that high technology built. But long before there was high-tech, there were business leaders who believed that, with the support of government and academia, the Santa Clara Valley could become the industrial hub of the West. It was a strategy that enabled this region to move quickly to take advantage of a changing economy. However, it was also a strategy that failed to enfranchise the working families who would be most affected by it.

Now our community faces what is arguably its most difficult challenge ever: protecting and creating affordable housing for a new generation of Santa Clara County families. This report has presented a series of options that can help achieve that goal. However, we will be unable to craft any solution to Silicon Valley’s housing crisis if we replicate the decision-making process that helped create it.

Business clearly has a vital role to play in helping to shape sensible choices for housing development. In fact, current business leadership has advocated affordable housing and rejected the policies of sprawl embraced by their predecessors. But these are not choices to be made by business or any other institution alone. Before Silicon Valley can build new housing we must first reach a new consensus. Reaching that consensus begins with a discussion that engages and involves us all: labor, business, the faith community, neighborhood associations and other concerned citizens.

Our community prides itself as one of the world’s best educated. It’s now time we begin to educate ourselves to the choices we face to guarantee that all our families have a home of their own in a place and community that’s truly one valley for all.

**“Before
Silicon Valley
can build new
housing we
must first
reach a new
consensus.”**



Appendix

1. See San Jose's 2000-2005 Consolidated Plan's analysis of Census data. While this data from the 2000 Census will not be released until Spring, 2002, the explosive regional job growth over the last decade will likely result in numbers that surpass previous housing shortfalls for low income families. An article in the Wall Street Journal indicates that Census predictions are underestimating the number of households and hence the demand for housing units. Additionally, while housing production usually grows at a rate of one home per 1.5 new jobs, since the mid 1990s California has only been adding one home for every five new jobs. "Census 2000: The New Demographics: Looming Need for Housing a Big Surprise." WSJ, Patrick Barta, May 15, 2001.
2. See San Jose's 2000-2005 Consolidated Plan.
3. Joint Venture's 2001 Index of Silicon Valley.
4. <http://www.calmis.ca.gov/FILE/OCCPROJ/santcTB6.XLS>. These jobs include service positions such as waitresses, cooks, housekeepers and janitors, as well as social service positions such as teacher assistants, child care workers, nursing aides, preschool teachers, and school bus drivers.
5. www.calmis.ca.gov
6. "Housing solutions for Silicon Valley: housing solutions report, 1999." Greenbelt Alliance and Silicon Valley Manufacturing Group. 1.58 average number of people per household, 2000, p. 12.
7. Third Quarter 2000, from California Department of Finance. Fourth quarter figures marked an increase to 2.6%.
8. Realfacts; "Districts get serious about teacher housing," San Jose Business Journal, December 29, 2000
9. California Budget Project's May 2000 report, "Locked out: California's Affordable Housing Crisis."
10. "Relief agencies overwhelmed," San Jose Mercury News, 3/21/01.
11. <http://www.hud.gov/local/sfc/sfcfmr.html>
12. California Budget Project's May 2000 report, "Locked out"
13. "The percent of homes that are affordable for the average middle-income family plunged from ... 34% to 18% in San Jose. So, despite a booming economy, California is the only state in the nation where home ownership is falling." Silicon Valley/San Jose Business Journal, September 7, 2000. Joint Ventures cites 16% of affordable units to average income families for 2000.
14. http://www.penwest.com/HousingStats/1997_99/santaclaracounty.htm and <http://www.penwest.com/HousingStats/current/santaclaracounty.htm>
15. State of California, FY 2000-2005, State Consolidated Plan. May, 2000. Prepared by the State of California Department of Housing and Community Development
16. City of San Jose 2000-2005 Consolidated Plan.
17. Joint Venture's 2001 Index of Silicon Valley.
18. Valley Transportation Plan 2020 Draft, September 2000.
19. Texas Transportation Institute 2001 Urban Mobility Study
20. <http://www.ci.sunnyvale.ca.us/pc2000/reports/00-0175.htm>.
21. <http://www.townofcary.org/agenda/ds00113C2.htm>
22. "Creating affordable communities: inclusionary housing programs in California" November 1994, prepared by the California Coalition for Rural Housing; City of Irvine Community Development Department.
23. Ibid.
24. Conversations with Petaluma's housing administrator.
25. Source: "The Moderately Priced Dwelling Unit Program," Montgomery County, Md. Housing Commission, 1999-2000, conversations with staff.
26. Vacant land sites zoned for residential development were identified in the 1998 San Jose Vacant Land Inventory and the Vacant Residential Parcel Inventory: City of Santa Clara Pilot Study prepared for the Home Builders Association of Northern California, January 2001.
27. <http://www.treasurer.ca.gov/ctcac/ctcac.htm>
28. <http://www.treasurer.ca.gov/ctcac/ctcac.htm>, 2000 Funded Contact List, 1999 Awarded Projects
29. <http://www.treasurer.ca.gov/ctcac/ctcac.htm>
30. Job projections derived by Association of Bay Governments, at <http://www.abag.ca.gov/abag/overview/pub/p2000/summary.html>
31. "Housing solutions for Silicon Valley: housing solutions report, 1999." Greenbelt Alliance and Silicon Valley Manufacturing Group.
32. As reported by local Redevelopment Agencies.
33. California Board of Equalization.
34. <http://www.incomeprop.com/resources/rco/campbell-mediation.htm>
35. Estimates based on 2000 Census and information from local planning departments.

TABLE 7: Ratio of jobs to housing

	Palo Alto	Santa Clara	Sunnyvale	San Jose
Population (1)	61,505	102,895	133,215	923,591
Employed residents, 2000 (2)	39,330	66,550	84,560	497,360
Number of jobs, 2000 (3)	106,690	135,370	131,140	410,990
Jobs to housing ratio	2.7	2.0	1.6	0.8

1. California Department of Finance projections; January, 2001.
2. <http://www.calmis.ca.gov>
3. Association of Bay Area Governments (ABAG) job projections.

TABLE 8: Improved land costs in Mid-Coyote Valley (1)

a) Developable acres					
Total acres in Mid-Coyote	Acres reserved for drainage and flood plain	Acres reserved for schools and parks	Acres reserved for streets (2)	Total developable acres	Developable acres as % of total
1,700	250	25	214	1,211	71.25
b) Costs					
Cost per acre (3)	Carrying costs, insurance, other costs per acre	Total land cost per acre	Total land cost per developable acre (4)	Total infrastructure costs	Infrastructure costs per developable acre
40,000	40,000	80,000	112,281	100,000,000	82,559

Total cost per developable acre (5) 194,840

1. Estimates for land costs will vary as land is sold and assessed land values change. These cost changes may be offset by an increased sale price at the time of development. Furthermore, inclusionary zoning provides various ways to lower the cost on affordable units, including design flexibility and density bonuses. This is underscored by the fact that in other inclusionary zoning programs (such as Montgomery County) land costs for affordable units are dropped from development costs by increasing units per acre through density bonuses.
2. Acres reserved for streets equals 15% of total acreage minus acres reserved for flood plain and schools.
3. Cost per acre of land is calculated based on average land value, as recorded by the County Assessor, for land parcels purchased as of June 2000.
4. Calculated by dividing 80,000/acre by 0.71 (proportion of total that is developable), thereby passing on land costs to the developable parcels.
5. Total land cost per acre plus total infrastructure cost per acre.

TABLE 9: Apartment capital cost per 2 bedroom, 2 bath unit

	Mid-Coyote single unit in 100-unit complex, 35 units/acre, 4.5 acres, on-grade parking (0.5 acre)	Infill single unit in 100-unit complex, 50 units/acre, 2 acres, below-ground parking
Size in square feet:	1,150	1,150
Improved land cost ⁽¹⁾	\$8,768	\$22,000
Hard construction costs ⁽²⁾	\$138,000	\$157,550
Public fees	\$20,000	\$20,000
Soft costs ⁽³⁾	\$20,700	\$23,633
Contingency fund ⁽⁴⁾	\$5,750	\$5,750
On-site improvement ⁽⁵⁾	\$9,661	\$10,711
Total cost	\$202,879	\$239,643

1. See **Table 8** for calculation of improved land cost.

2. Hard construction costs are estimated to be \$120/sq. ft. in Mid-Coyote.

For infill units, hard construction costs are \$137/sq. ft. due to underground parking and costs associated with higher multi-story construction.

3. Assumed to equal 15% of hard costs. Soft costs include architectural, engineering, contractor and developer overhead, financing, and sales/marketing costs.

4. Contingency funds are \$5.0/sq.ft.

5. On-site improvements are estimated as 5% of all other costs.

TABLE 10: Apartment capital cost vs. supportable debt

Per unit monthly costs	ELI	VLI	Market rate I ⁽¹⁾	Market rate II
Gross Operating Income (Monthly rent)	653	1,088	2,200	2,500
Utility	75			
Vacancy allowance (5% of GOI)	33	54	110	125
Effective Operating Income (EOI)	545	1,034	2,090	2,375
Operating expenses (\$4000/year per unit)	333	333	333	333
Net operating income (NOI)	212	700	1,757	2,042
Debt service (NOI/1.2)	177	584	1,464	1,701
Reserves (5% of EOI)	27	52	105	119
Net cash flow	8	65	188	222

Capital gap per unit - Mid-Coyote

	ELI	VLI	Market Rate
Supportable debt (assumes 8.0% interest rate, 25 year loan period)	22,933	75,666	189,682
Development cost per unit ⁽²⁾	202,879	202,879	202,879
Capital gap per unit	-179,946	-127,213	-13,197

Capital gap per unit - Infill

	ELI	VLI	Market Rate
Supportable debt 22,933 (assumes 8.0% interest rate, 25 year loan period)	75,666	220,389	
Development cost per unit ⁽²⁾	\$239,643	\$239,643	\$239,643
Capital gap per unit	-216,710	-163,977	-19,254

1. Market rate I refers to apartments in Mid-Coyote; Market rate II refers to apartments downtown or in other infill sites.

2. Calculated in **Table 9**.

Note: No LI apartments are proposed for Mid-Coyote or infill sites. All LI units proposed are condominiums.

TABLE 11: Cost per condominium unit, 2 bedroom, 2 bath

	Mid-Coyote single unit: in 100 unit project on 4.5 acres; 25 units per acre; on-grade parking (0.5 acre)	Infill single unit: in 100 unit project on 2 acres; 50 units per acre; below-ground parking
Size in square feet	1,150	1,150
Improved land cost ⁽¹⁾	8,768	22,000
On-site improvement ⁽²⁾	16,500	17,500
Hard construction costs ⁽³⁾	138,000	157,550
Public fees	20,000	20,000
Soft costs ⁽⁴⁾	20,700	23,633
Contingency fund ⁽⁵⁾	5,750	5,750
Reserves ⁽⁶⁾	6,900	6,900
Developers fees and construction management ⁽⁷⁾	59,400	63,000
Total cost	\$276,018	\$316,333
Sale price	\$330,000	\$350,000
Profit	\$53,982	\$33,668

1. Improved land cost refers to land cost plus some factor for infrastructure costs. See **Table 8** for calculations.
2. On-site improvements are estimated as 5% of the sales price.
3. Hard construction costs are estimated to be \$120/sq. ft. for Mid-Coyote. They are \$137/sq. ft. for infill units, due to the greater costs of underground parking and higher multi-story construction.
4. Assumed to equal 15% of hard costs. Soft costs include architectural, engineering, contractor and developer overhead, financing, and sales/marketing costs.
5. Contingency funds are \$5.0/sq.ft.
6. Reserves are \$6.0/sq. ft.
7. Developers fees and construction management are 18% of the sales price; development fees are 15%, construction management is 3%.

TABLE 12: Condo affordability gap per unit

a) Mid-Coyote			
	30% (ELI upper-bound)	50% (VLI upper-bound)	80% (LI upper-bound)
Affordable mortgage over 30 years (1)	27,356	93,341	191,341
Down payment (2)	16,500	16,500	16,500
Total owner contribution	43,856	109,841	207,841
Total development cost (3)	276,018	276,018	276,018
Gap	-\$232,162	-\$166,177	-\$68,177
b) Infill			
	30% (ELI upper-bound)	50% (VLI upper-bound)	80% (LI upper-bound)
Affordable mortgage over 30 years (1)	27,356	93,341	191,341
Down payment (4)	17,500	17,500	17,500
Total owner contribution	44,856	110,841	208,841
Total development cost (3)	316,333	316,333	316,333
Gap	-\$271,477	-\$205,492	-\$107,492

1. Assumes 7.0% interest rate.
2. Down payment is 5% of market rate sale price of \$330,000.
3. See **Table 11** for calculation of development cost. Total development cost equals construction costs plus developer fees and construction management.
4. Down payment is 5% of market rate sale price of \$350,000.

TABLE 13: Cash on cash analysis per market rate unit (1)

Developer's Expenditures		Amount of Construction Loan	
Improved land cost	8,768	Total development costs	276,018
On-site improvements	16,500	Subtotal of developer's expenditures	87,956
25% of all other costs	62,688	Construction loan	\$188,063
Sub-total	87,956		
Carrying costs of construction loan (2)	5,459		
Total	\$93,414		
Developer's Return			
Sale price	330,000		
Construction loan	188,063		
(Sale price - construction loan)	141,938		
Total developer expenditures	93,414		
Cash on cash return	52%		

1. Cash on cash analysis compares the cash return against the developer's cash expenditures.
2. Carrying costs equal 2% of the borrowed amount plus 9.5% interest over two years.

TABLE 14: Cash on cash analysis per 100 unit complex in Mid-Coyote

80 units at market rate, 20 units at VLI	
Revenue to developer after paying off construction loan (developer pays half of capital gap for affordable units)	11,452,370
Developer's cash expenditures	9,341,400
Cash on cash return	23%
80 units at market rate, 10 units at VLI and 10 units at LI	
Revenue to developer after paying off construction loan (developer pays half of capital gap for affordable units)	11,942,370
Developer's cash expenditures	9,341,400
Cash on cash return	28%
80 units at market rate, 20 units at LI	
Revenue to developer after paying off construction loan (developer pays half of capital gap for affordable units)	12,432,370
Developer's cash expenditures	9,341,400
Cash on cash return	33%

TABLE 15: Additional 5% of San Jose RDA revenue available, 2006-2010

	TIF ⁽¹⁾	Growth in TIF	80% of growth	20% of growth	20% of growth bonded ⁽²⁾	Additional 5% of TIF ⁽³⁾
01-02 (base year)	\$149,055,072					
02-03	\$162,392,494	\$13,337,422	\$10,669,938	\$2,667,484	\$23,195,517	\$8,119,624.70
03-04	\$173,315,543	\$10,923,049	\$8,738,439	\$2,184,610	\$18,996,607	\$8,665,777.15
04-05	181,659,454	\$8,343,911	\$6,675,129	\$1,668,782	\$14,511,150	\$9,082,972.70
05-06	190,742,427	\$9,082,973	\$7,266,378	\$1,816,595	\$15,796,474	\$9,537,121.34
06-07	200,279,548	\$9,537,121	\$7,629,697	\$1,907,424	\$16,586,298	\$10,013,977.40
07-08	210,293,525	\$10,013,977	\$8,011,182	\$2,002,795	\$17,415,613	\$10,514,676.27
08-09	220,808,202	\$10,514,676	\$8,411,741	\$2,102,935	\$18,286,394	\$11,040,410.09
09-10	231,848,612	\$11,040,410	\$8,832,328	\$2,208,082	\$19,200,713	\$11,592,430.59
Total	\$1,720,394,877	\$82,793,540	\$66,234,832	\$16,558,708	\$143,988,765	\$78,566,990

1. TIF estimates from RDA 2002-2004; Annual growth 2004-2010 estimated using 5% average growth rate per year

2. Includes 1.15 coverage ratio

3. To reach this amount, funds could be taken from bonded proceeds (column 4), or, if TIF growth is substantially higher than these projections, from 80% of growth in tax increment funds directly (column 5)

TABLE 16: Rent control and potential new rental units

a) Number of potential beneficiaries of rent control

	Current No. of apartments ⁽¹⁾	Estimate of No. of apartments built before 1995 ⁽²⁾	Average No. of persons per household as of 2000 ⁽³⁾	No. of renters potentially covered by rent control
Mountain View	17,000	15,470	2.21	34,189
Palo Alto	7,274	6,474	1.96	12,689
Santa Clara	16,439	15,453	2.49	38,477
Sunnyvale	23,000	21,160	2.39	50,572
Total	63,713	58,557		135,927

b) Number of potential new rental apartments before build-out 4

Mountain View	1159	
Palo Alto	1000	
Santa Clara	219	
Sunnyvale	2825	
Total	5203	

1 Estimates of the current number of apartments units in each city were obtained from Planning or Housing Dept. personnel in each city and California Dept. of Finance projections. All numbers are approximate.

2 Assuming the proportion of the current stock of multifamily housing built before 1995 equals the proportion of the current stock of apartments built before 1995; data on new multifamily construction is from the Construction Industry Research Board. Because of the Costa-Hawkins law, only apartments built before 1995 would be covered by a rent control ordinance.

3 According to the 2000 Census.

4 Estimated for Sunnyvale and Mountain View assuming that the current proportion of apartments will remain constant through the production of new units. Estimate for Palo Alto is from the Palo Alto Planning Dept. The figure for Santa Clara is estimated using the January, 2001, vacant land survey prepared for the Home Builder's Association of Northern California. According to the survey, the only vacant parcel zoned for high density residential development is expected to hold 219 units.