



STRATEGICECONOMICS

OPPORTUNITIES AND CONSTRAINTS FOR PRODUCING AFFORDABLE HOUSING AND MITIGATING DISPLACEMENT RISK

VTA'S BART PHASE II CORRIDOR TOD STUDY

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I. INTRODUCTION

The Santa Clara Valley Transportation Authority (VTA) is leading a study to support the implementation of transit-oriented development (TOD) in VTA's planned BART Phase II Corridor extension through Downtown San José and Santa Clara. VTA's BART Phase II Corridor TOD Study will provide a comprehensive framework and recommendations for TOD in the Santa Clara, Downtown San José, and Alum Rock/28th Street station areas. This report evaluates the opportunities and constraints for preserving existing affordable housing, producing new affordable housing, and protecting existing residents from displacement in VTA's BART Phase II station areas.

Background and Study Area Boundaries

VTA is delivering a 16-mile extension to the Bay Area Rapid Transit (BART) system. Phase I of the extension is currently under construction and will add two BART stations at Milpitas and Berryessa. Phase II (referred to as VTA's BART Phase II extension in this report) will extend the system to four additional stations: Alum Rock/28th Street, Downtown San José, Diridon, and Santa Clara stations.

The TOD Study addresses three of the four stations: Alum Rock/28th Street, Downtown San José, and Santa Clara stations. The Diridon station area is the subject of a separate planning effort by the City of San José, VTA, and other transportation agencies, which will include a deeper examination of affordable housing, gentrification, and displacement than is included in this report.

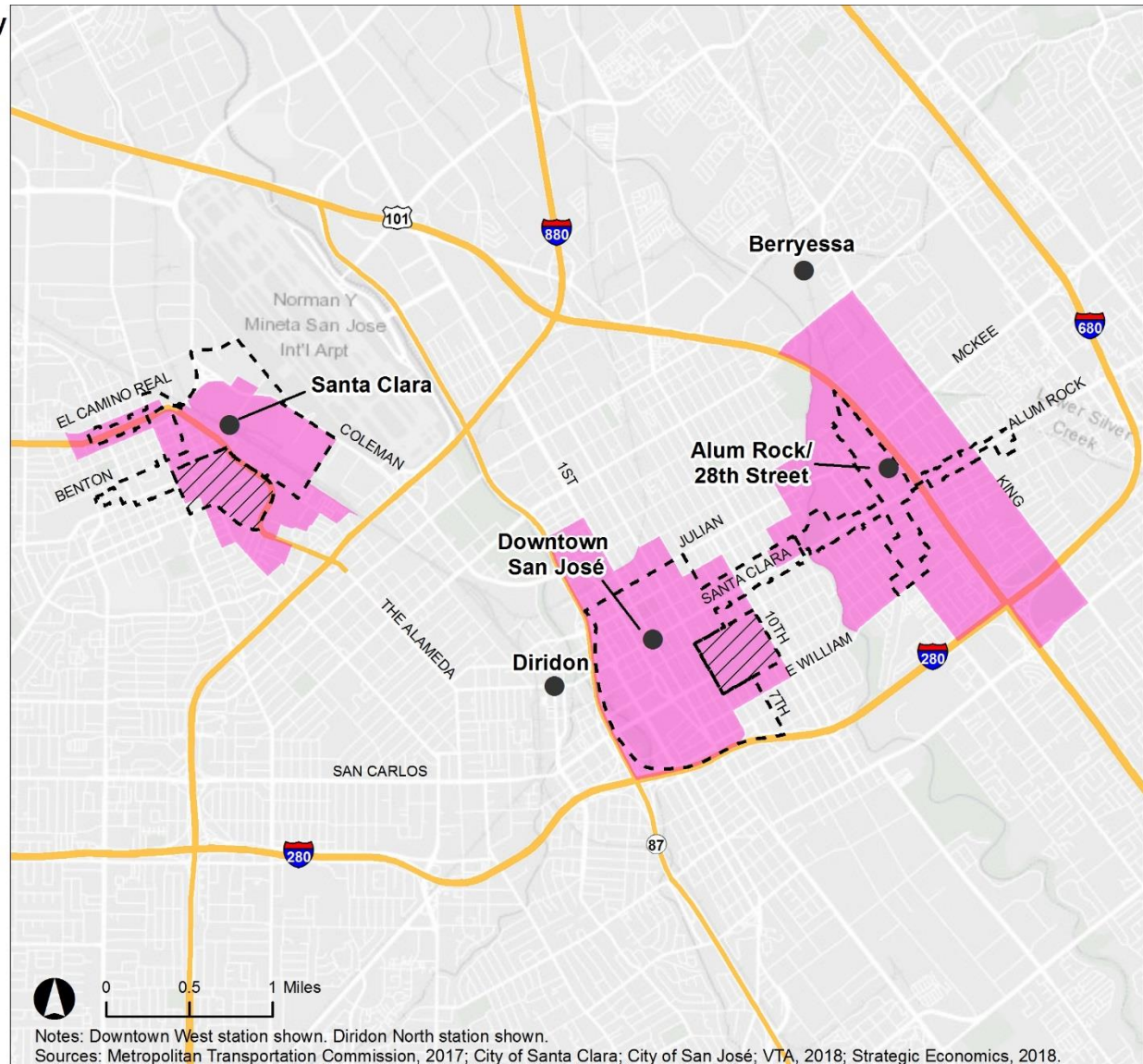
Due to data limitations, the analyses are presented for two geographies, shown in Figure I-1 and explained below:

- TOD Study Station Areas (referred to as "station areas"): The affordable housing production analysis and findings (Chapter V) refer to the station area boundaries defined for the TOD Study. In general, these station areas include the growth areas that the Cities of San José and Santa Clara have designated within a half- to one-mile walkshed of the VTA's future BART Phase II stations, as well as other major development opportunity sites.
- Affordable Housing Study Areas (referred to as "study areas"): These study areas were defined by aggregating Census Block Groups located within approximately a half-mile radius from the stations. The study areas are used in this report to assess the potential risk of gentrification and displacement in the residential neighborhoods surrounding VTA's future BART Phase II stations (Chapter IV).

FIGURE I-1. VTA'S BART PHASE II TOD STRATEGY AFFORDABLE HOUSING STUDY AREAS

**VTA's BART Phase II TOD Strategy
Affordable Housing Study Areas**

- Affordable Housing Study Area
- Station Study Areas
- Major Institutions in Station Study Areas
- Planned BART Stations



Definitions

For the purposes of this report, housing is defined as “affordable” if a household spends 30 percent or less of its gross income on housing costs. By this definition, affordable housing includes regulated units that have limits on the maximum rents or sales prices (also called deed-restricted units), as well as unregulated units that have no restrictions on rents or sales prices but are relatively low cost.

In the case of deed-restricted affordable housing, units are targeted to one of several income categories, including:

- Extremely Low-income (ELI), targeting households at 30 percent of area median income (AMI) and below
- Very Low-income (VLI), targeting households at 31 to 50 percent of AMI
- Low-income (LI), targeting households at 51 to 80 percent AMI
- Moderate-income (MOD), targeting households at 81 to 120 percent of AMI

Report Organization

Following this introduction, the report is organized in the following chapters:

- Chapter II: Summary of Key Findings, Opportunities, and Constraints
- Chapter III: Regional Housing Market Context
- Chapter IV: Displacement and Gentrification in the Station Areas
- Chapter V: Affordable Housing Production in the Station Areas
- Chapter VI: Appendix

II. SUMMARY OF KEY FINDINGS, OPPORTUNITIES, AND CONSTRAINTS

Transit investments and transit-oriented development can provide many benefits and opportunities for households at a range of incomes. To maximize these potential benefits for lower income households, strategies must be in place that accomplish the following three goals:¹

- Protect: protect and support tenants and homeowners who wish to stay in the neighborhood;
- Preserve: preserve existing housing that is affordable;
- Produce: expand the stock of affordable housing through the production of new housing units.

Anti-displacement strategies address the first two goals, while the development of new affordable housing focuses on the third goal. This chapter summarizes key data findings from this report, and synthesizes the opportunities and constraints for anti-displacement and affordable housing production in VTA's BART Phase II station areas.

Key Findings

The following is a summary of the key findings from the data analysis of gentrification, displacement, and affordable housing development in the station areas.

GENTRIFICATION AND DISPLACEMENT

- VTA's BART Phase II station areas contain many households that are vulnerable to displacement – including severely cost-burdened households² – especially in the Downtown San José and Alum Rock/28th Street station areas (see Figure II-1). The data for the Santa Clara station area are insufficient to conclude whether households are at high risk of displacement.
- The Downtown San José and Alum Rock/28th Street station areas also have a substantial supply of affordable housing stock that is at-risk of conversion to market-rate housing, as summarized in Figure II-1.

AFFORDABLE HOUSING PRODUCTION

- Based on area plans and affordable housing targets for the geographies that correspond to the station areas, the cities of San José and Santa Clara are planning for about 4,000 affordable housing units in VTA's BART Phase II station areas. After accounting for recently built projects and projects in the development pipeline,³ the station areas would need to add 3,085 new affordable units by 2040 to reach the affordable housing percentage targets that have been set in local area plans (Figure II-2).

¹ ChangeLab Solutions, 2015. Preserving, Protecting, and Expanding Affordable Housing. https://www.changelabsolutions.org/publications/affordable_housing_toolkit

² The U.S. Housing and Urban Development (HUD) defines a household as severely housing cost-burdened if more than 50 percent of household income is spent on housing costs.

³ The development pipeline data used for this calculation did not include affordable housing units that may be provided in planned market-rate housing projects as a result of the cities' inclusionary housing ordinances, because there is uncertainty about how many units may be provided on-site.

- The cost of developing one affordable housing unit is estimated at between \$600,000 to \$800,000. Local funding (city, county, and land donation contributions) is typically 30 percent of total funding, or \$173,000 per unit.
- The total local funding gap needed to meet the affordable housing goals for the Santa Clara, Downtown San José, and Alum Rock/28th Street station areas is approximately \$530 million by 2040.

FIGURE II-1. SUMMARY OF VULNERABILITY TO DISPLACEMENT INDICATORS

	Santa Clara Study Area	Downtown San José Study Area	Alum Rock/28 th Street Study Area
Neighborhood Change 1990-2015			
Urban Displacement Project Typology (a)	Unavailable (Classified as College Town)	Ongoing Gentrification/ Displacement	At-Risk of Gentrification/ Displacement
Existing Households Potentially At Risk of Displacement			
Number of Severely Housing Cost Burdened Renter Households (b)	338	1,284	1,207
Number of Severely Housing Cost Burdened Homeowner Households (with a mortgage) (b)	43	173	405
Existing Housing Stock Potentially At Risk of Conversion to Market Rate			
Deed-Restricted Units Expiring Before 2029 (c)	20	256	0
Rent-stabilized Units (c)	0	2,900	992
Mobilehome Park Units (c)	0	0	427
Naturally Occurring Affordable Housing (NOAH) Units (d)	221	2,282	1,194
Pre-World War II Housing Units (e)	420	1,884	1,778

Note: The Affordable Housing Study Areas (“study areas”) were defined by aggregating Census Block Groups located within approximately a half-mile radius from the stations. The study areas are used to assess the potential risk of gentrification and displacement in the residential neighborhoods surrounding VTA’s future BART Phase II stations. They are shown in Figure I-1.

(a) The Urban Displacement Project typology is available at: <http://www.urbandisplacement.org/map/sf>. This project is led by Miriam Zuk and Karen Chapple at the Center for Community Innovation, University of California, Berkeley.

(b) The U.S. Housing and Urban Development (HUD) defines a household as severely cost-burdened if more than 50 percent of household income is spent on housing costs. These numbers are based on U.S. Census ACS 5-year estimates, 2012-2016.

(c) Based on data provided by the cities of San José and Santa Clara. Santa Clara does not have a rent stabilization ordinance. For Downtown San José and Alum Rock/28th Street station areas, note that some rent-stabilized units may also be counted as Naturally Occurring Affordable Housing units, as explained below.

(d) CoStar, Q1 2018. One- and two-star rated multifamily rental properties as tracked by the Costar Group is used as a proxy for NOAH. For Downtown San José and Alum Rock/28th Street station areas, note that CoStar’s inventory of one- and two-star multifamily rental units likely includes rent-stabilized units.

(e) Based on U.S. Census ACS 5-year estimates, 2012-2016.

Sources: Urban Displacement Project, 2016; U.S. Census ACS 5-year estimates, 2012-2016; City of San José, 2018; City of Santa Clara, 2018; CoStar, 2018; Strategic Economics, 2018.

FIGURE II-2. LOCAL FUNDING GAP IN VTA'S BART PHASE II STATION AREAS

	Affordable Housing Units	Local Funding Gap
Per Unit Local Funding Gap (City, County, Land Donation)		\$172,702
Affordable Housing Targets (2011-2040)		
Santa Clara Station	350	\$60,417,077
Downtown San José Station	2,463	\$425,364,758
Alum Rock/28 th Street Station	273	\$47,061,265
Total VTA BART Phase II Station Areas	3,085	\$532,843,100

Source: California Tax Credit Allocation Committee Staff Reports, 2016-2018; Santa Clara County Office of Supportive Housing, 2017-2018; City of San José, 2018; City of Santa Clara, 2018; Strategic Economics, 2018.

Opportunities

The following describes the opportunities for preventing displacement and encouraging affordable housing development in the station areas.

- **New transit – accompanied by supportive policies - has the potential to provide benefits to low and moderate-income households in the station areas.** VTA's BART Phase II extension will provide high-quality transit connections to existing employment areas across the region. Since the new transit service is not expected to begin operations until 2026 at the earliest, the cities and VTA have time to implement appropriate strategies to ensure that lower-income households can realize the benefits of transit.
- **VTA's BART Phase II TOD Study can build from many ongoing efforts to prevent displacement.** Efforts include the regional Committee to House the Bay Area (CASA), as well as the City of San José's involvement in PolicyLink's All-In Cities Initiative focused on implementing anti-displacement strategies at the local level. In addition, the Diridon Station Area Advisory Group (SAAG) is currently in the process of developing affordable housing and anti-displacement strategies for the Diridon station area.
- **The City of San José recently implemented new policies to enhance tenant protections.** Recent changes strengthened San José's tenant protections and rent stabilization ordinances.
- **Based on stakeholder interviews, there are a number of ways that the cities could consider strengthening their existing policies to prevent displacement.** For example, these could include developing a proactive plan for acquisition/preservation of expiring deed-restricted projects and NOAH properties, and addressing gaps in existing tenant protections and mobilehome conversion controls.
- **The TOD Study presents an opportunity to maximize densities in the station areas, increasing the number of both affordable and market-rate housing units that can be developed.** Higher development densities can also help affordable housing developers create more efficiencies of scale; larger projects are typically easier to finance and more cost-effective to operate.
- **There is a commitment to add new affordable units in the station areas, demonstrated by local affordability targets already implemented by the City of San José, the City of Santa Clara, and VTA.** The cities have set affordable housing targets of between 15 and 25 percent that apply

to the corridor. VTA's Joint Development Policy establishes a target of 35 percent lower income units portfolio-wide for its joint development sites; individual joint development projects must include at least 20 percent lower income units. These targets demonstrate the commitment of local governments to ensure the production of new affordable housing as development activity increases around the station areas.

- **The City of San José has made a commitment to provide funding at a level of \$125,000 per affordable unit.** The City estimates that total funding capacity will be \$335 million over the next five years. To help meet its housing goals, the City of San José has placed a General Obligation Bond (Measure V) on the ballot for November 2018, which could generate approximately \$450 million for the acquisition, construction, and completion of affordable housing.
- **The City of Santa Clara has implemented new funding sources and policies to help meet its affordable housing goals.** The City's new commercial linkage fee and in-lieu fees for inclusionary units will provide new funding sources for affordable housing production. Furthermore, Santa Clara expects that on-site inclusionary housing requirements will provide new affordable housing units in the Santa Clara station area.
- **Santa Clara County's Measure A funds are an important new local funding source for affordable housing development, especially for extremely low-income households, homeless, and special needs groups.** According to affordable housing developers, Measure A is now the primary local funding source for affordable housing development in the county. Measure A funds give preference to sites near transit and publicly-owned properties.
- **There are a number of major opportunity sites in the station areas, including several large publicly-owned sites.** The station areas contain several large opportunity sites owned by public agencies, including VTA, the City of Santa Clara, and the Santa Clara County Housing Authority. Given the difficulties of acquiring new sites near transit for affordable housing development, publicly-owned sites can offer a unique opportunity to help facilitate production of affordable units near transit. Furthermore, if public agencies are able to discount the cost of the land, it can be a very effective tool for facilitating affordable housing development.
- **To meet the need for the production of more moderate-income housing, the City of San José is exploring strategies to encourage the production of units that are affordable to households at 80 percent to 120 percent of AMI.** In addition, the City of San José recently updated its code to encourage the development of accessory dwelling units (ADUs), which may create further housing development opportunities, especially in the single-family neighborhoods adjacent to the Alum Rock/28th Street station.
- **New state funding will soon be available to subsidize affordable housing programs at the local level.** In 2017, the California Legislature passed a comprehensive housing package, including two bills create new statewide funding sources for affordable housing. SB 2 is expected to raise \$250 million annually through a \$75 real estate transaction fee on refinancing and other real estate transactions (excluding new home and commercial property sales). SB 3 authorizes a \$4 billion bond measure for low-income housing, which will be on the statewide ballot in November 2018. If it is approved, SB 3 would provide \$3 billion to finance existing housing programs and state matching grants for infrastructure and affordable housing, with another \$1 billion designated to provide assistance to veterans.

Constraints

Below are the constraints to addressing displacement and developing new affordable housing units in the station areas.

- **The processes of gentrification and displacement are already underway in some station areas.** Downtown San José and Alum Rock/28th Street in particular present high vulnerability to displacement, even without the introduction of new BART stations.
- **There is limited funding available for policies and programs to prevent displacement and preserve existing affordable housing.** Like most cities, San José and Santa Clara are unable to fully cover the costs of legal counseling and representation for lower income tenants at risk of addition. There is also limited funding available to acquire and preserve naturally occurring affordable housing units, or assist lower income homeowners (e.g., in avoiding foreclosure, home repairs, etc.).
- **Rising construction costs and land costs are a challenge to new affordable housing production.** Affordable housing developers face a growing financing gap as costs escalate, and land in the station areas is difficult to acquire. High land and construction costs also make it increasingly challenging for market-rate developers to deliver new housing projects that include affordable units.
- **Stakeholders have identified uncertainties and challenges around Measure A funding.** Measure A is one of the main local funding sources currently available for affordable housing in Santa Clara County. Because it serves extremely low income households, the program relies in part on Section 8 vouchers, which are allocated by HUD to the Santa Clara County Housing Authority. Due to uncertainty about the federal budget, stakeholders have expressed concern about the availability of Section 8 vouchers. Furthermore, because Measure A specifically targets extremely low income, homeless, and special needs populations, it is not available for other types of low income housing projects.
- **There are limited funding resources for affordable housing production, and especially for moderate income housing.** Major federal, state, and county funding sources are primarily targeting households earning 80 percent or below the area median income. Households earning between 80 percent and 120 percent of area median income are often priced out of the housing market, but have few public subsidies available.
- **Small affordable housing projects in lower density suburban settings reportedly have not been competitive in obtaining state funding through the Affordable Housing for Sustainable Communities (AHSC) grant program.**⁴ Typically, smaller density projects do not score as well as larger scale, high-density urban projects because they do not have as great of an impact on reducing greenhouse gas emissions.
- **Regulatory constraints and entitlement processes reportedly present a challenge for affordable housing development.** According to affordable housing developers, the ground floor retail requirements in Urban Villages impose an additional cost burden on development projects. The cost of building the commercial component of a mixed-use affordable project is rarely eligible for subsidy, and the retail space also increases the project's operating costs.

⁴ Enterprise Community Partners, AHSC Round 4 Guideline Recommendations, September 17, 2018.

These requirements – as well as other requirements that apply to market-rate housing, such as the Urban Villages Implementation Framework, which requires market-rate residential development to contribute up to two percent of project value in public improvements – also make it more challenging for market-rate developers to deliver new housing products that include affordable housing units.

III. REGIONAL HOUSING MARKET CONTEXT

The impact of VTA's BART Phase II extension on neighborhoods surrounding the new stations must be viewed in light of regional market trends, specifically the housing affordability crisis impacting Santa Clara County and the Bay Area more broadly. Gentrification and displacement are already occurring in many infill neighborhoods – including in VTA's BART Phase II station areas. Furthermore, the region's economic boom has created additional obstacles to preventing displacement and building more affordable housing. For example, rising construction costs, the tight labor market, and high land costs make both affordable and market-rate residential development more challenging. Findings in this chapter draw from VTA's BART Phase II Market Analysis and Demand Projections report. Key trends are reviewed below.

There is significant pent-up demand for housing in Santa Clara County and the broader Bay Area region, as housing development has not kept up with employment growth. Since the end of the recession in 2011, employment growth has significantly outstripped housing development. Between 2009 and 2015, the number of jobs in the nine-county Bay Area increased by nearly 20 percent, while the number of housing units increased by less than four percent.⁵ Similarly, Santa Clara County added over 170,000 new jobs between 2010 and 2015, but only 29,000 new housing units.⁶ The pent-up demand for housing has led to rapid increases in rents and sales prices, as discussed below.

Rents in Santa Clara County, including in San José and the City of Santa Clara, have been rising for several years. Apartment rents accelerated beginning in 2011, as the economy emerged from the Great Recession, and continued growing at an average annual rate of nearly eight percent until 2015. Since then rents have continued to grow at a slower pace of about four percent. As of mid-2018, the average monthly rent in Santa Clara County was \$2,575 (Figure III-1). Rents in the Cities of San José and Santa Clara have followed the countywide trend, although Santa Clara rents tend to be slightly above the county average and San José rents tend to be slightly lower.

As apartment rents and vacancies have begun to plateau, multifamily ownership prices have also increased dramatically. As of April 2018, Santa Clara County's median sales price for multifamily ownership was \$743 per square foot, an increase of 37 percent since 2017 (Figure III-2). Local realtors note strong interest from first-time homebuyers – largely Millennials – who are shifting away from the region's high-rent apartment market. High sales prices can also be partially attributed to stiff competition for a limited inventory.

In the midst of this regional housing crisis, gentrification, displacement and homelessness are major concerns in Santa Clara County. As a result of rising rents and increased market speculation over the last decade, there has already been a widespread loss of residential units considered affordable to low-income households.⁷ Across the Bay Area region, “more than half of low-income households live in neighborhoods at risk of or already experiencing displacement and gentrification pressures.”⁸

⁵ MTC and ABAG, “Regional Forecast of Jobs, Population and Housing,” July 2017.

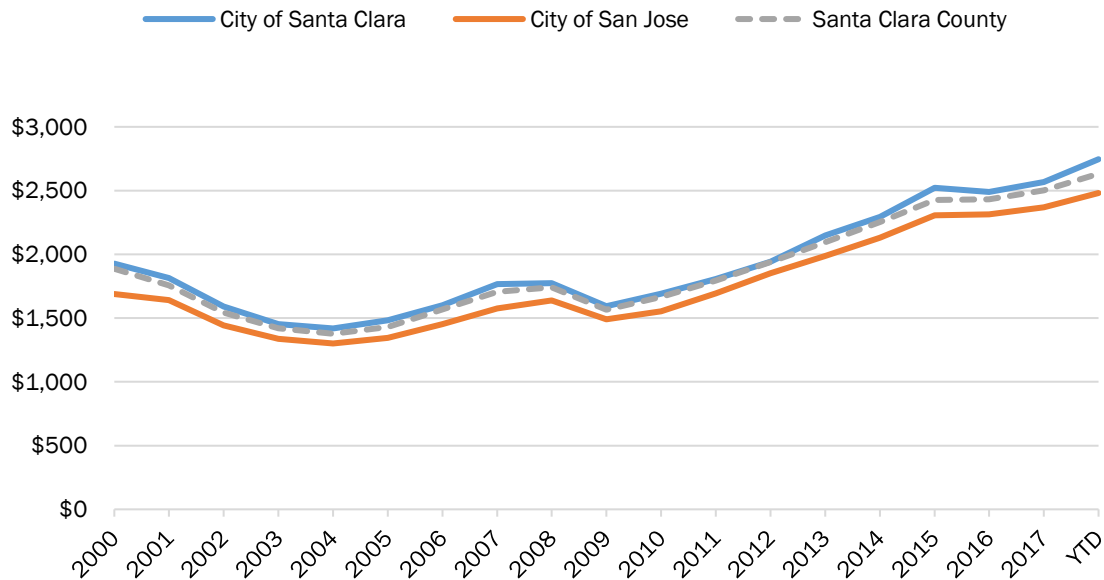
⁶ SPUR, “Room for More: Housing Agenda for San José,” August 2017.

⁷ Urban Displacement Project: Executive Summary, December 2015.

http://www.urbandisplacement.org/sites/default/files/images/urban_displacement_project_-_executive_summary.pdf

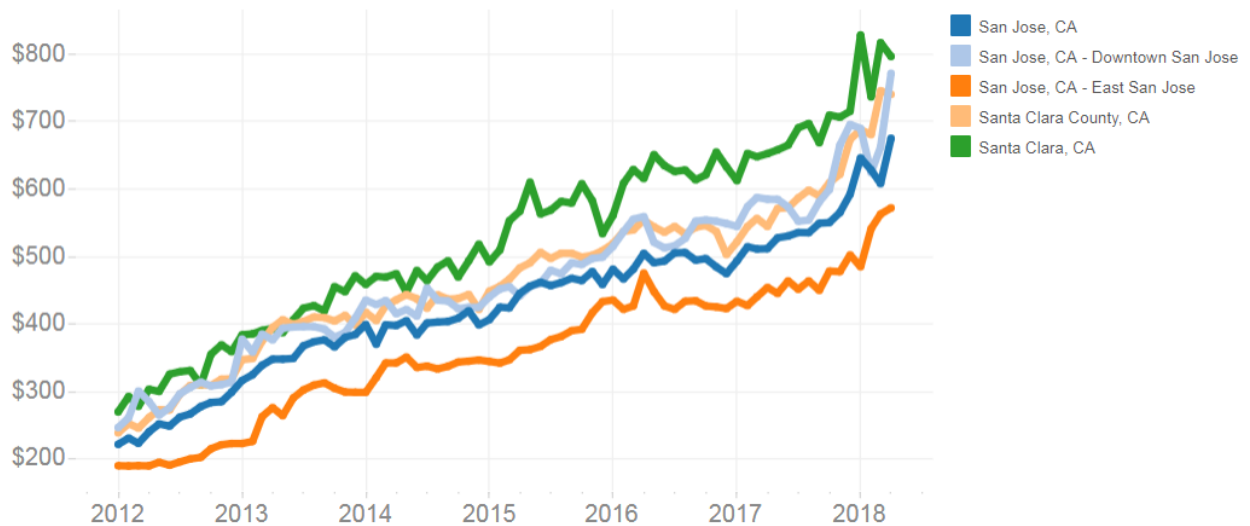
⁸ Ibid, cited on page 2.

FIGURE III-1. AVERAGE RENTS IN SANTA CLARA, SAN JOSÉ, AND SANTA CLARA COUNTY, 2000 THROUGH MID-2018



Rents for market-rate apartments, in nominal dollars.
Source: Costar, 2018; Strategic Economics, 2018.

FIGURE III-2. MULTIFAMILY OWNERSHIP MEDIAN SALES PRICE PER SQUARE FOOT: CITIES OF SAN JOSÉ AND SANTA CLARA, SELECTED SUBMARKETS, AND SANTA CLARA COUNTY, 2012-2017



Source: Redfin, 2018.

IV. GENTRIFICATION AND DISPLACEMENT IN THE STATION AREAS

New transit investment and transit-oriented development (TOD) are often associated with increased market activity and rising housing values, raising concerns about the affordability of housing in station areas, especially for low-income residents. Preserving housing affordability and avoiding displacement of low-income residents has increasingly become a concern for many Bay Area communities planning for new transit investments.

This chapter focuses on the vulnerability of the station areas to gentrification and displacement, and explores policies to protect low-income residents and preserve affordable housing units in the station areas. The first section provides a definition of gentrification and displacement, and describes the role of transit in contributing to gentrification and displacement. The second section provides an analysis of the vulnerability of the stations areas to gentrification and displacement based on key demographic and housing indicators. The third section provides an evaluation of existing policies in the cities of San José and Santa Clara to prevent displacement, and explores opportunities to implement additional strategies.

Gentrification, Displacement, and Transit Investment

The purpose of this section is to provide background on the definitions and methods used to measure gentrification and displacement. The role of new transit investment in contributing to gentrification and displacement is also examined. This section is based in large part on research conducted by the Urban Displacement Project, an extensive and ongoing effort led by Karen Chapple and Miriam Zuk at the Center for Community Innovation, at the University of California, Berkeley. Other resources that informed this section are cited throughout.

DEFINING GENTRIFICATION AND DISPLACEMENT

This report uses the following definitions of gentrification and displacement:

Gentrification is the process of change that neighborhoods experience when they begin to attract new private and public investments. Change is often observed in the neighborhood's built environment and real estate investments (such as an increase in home renovations, new construction, or real estate values), as well as the neighborhood's demographics (primarily the influx of new higher-income residents, often of a different race and higher education level).⁹

Displacement is the process through which households are forced to leave their residence in response to the economic and social pressures of gentrification.¹⁰ This report focuses on residential displacement related to the market pressures and rising housing costs associated with gentrification. Displacement may take the form of increased rates of evictions, landlord harassment, or condominium

⁹ The Urban Displacement Project, Center for Community Innovation at the University of California at Berkeley. <http://www.urbandisplacement.org/>

¹⁰ Ibid.

(footnote continued)

conversions.¹¹ It may also take the form of steep rent increases that households cannot afford, and that force them to leave the neighborhood, even if no formal eviction notice was served.

It is important to note that the body of research on this topic has not established a definitive, causal relationship between gentrification and displacement. This may be due to various data limitations, explained in more detail below, or to the difficulty of effectively capturing the timing of these changes (for example, if residents attempt to remain in a neighborhood, displacement may only occur after a longer timeframe than that used in research studies). Nonetheless, most studies find that rent appreciation is a predictor of residential displacement.

MEASURING GENTRIFICATION AND DISPLACEMENT

The most common approach to measuring gentrification is to analyze change in both real estate market conditions and demographics over time.¹² Most often, researchers combine several variables at the Census Tract or Block Group level to determine whether gentrification has occurred or not. Common variables include: relative change in income, race and ethnicity, educational attainment, tenure, household size and type, housing values, and rents. Neighborhood change is typically measured against a citywide or regional rate of change.¹³

There is no common methodology for measuring displacement, but most studies attempt to track displacement by comparing the demographic characteristics of households moving in and out of a neighborhood. Because residential displacement reflects the loss of individual households, it is very difficult to track using publicly available data sources. Researchers have analyzed resident in- and out-moves, and the reasons cited for moving, using institutional datasets, confidential Census long form data, court data on evictions, or detailed tenant surveys conducted by researchers or housing departments.¹⁴ When possible, research has also analyzed the characteristics of in-movers compared to out-movers. Studies generally find that residents *moving into* gentrifying neighborhoods have higher incomes, higher levels of education, and include a higher share of white residents compared to existing residents. Residents *moving out* of gentrifying neighborhoods tend to be lower-income, renters, and people of color. However, this type of data is difficult to obtain and time-consuming to analyze.

Researchers and cities across the country have developed methods to predict future risk of gentrification and/or displacement. A wide range of predictors have been tested in many different cities and context. They can generally be classified in the following two categories:¹⁵

- **The presence and concentration of households that are likely to be more susceptible to displacement in the face of rent increases.** This includes: renter households that are cost burdened, lower-income and less educated households, communities of color, and deed-restricted projects at risk of expiration.

¹¹ Zuk, Bierbaum, Chapple, Gorska, Loukaitou-Sideris (2017). Gentrification, Displacement, and the Role of Public Investment. *Journal of Planning Literature*.

¹² Zuk, Bierbaum, Chapple, Gorska, Loukaitou-Sideris (2017). Gentrification, Displacement, and the Role of Public Investment. *Journal of Planning Literature*.

¹³ Data-Smart City Solutions, June 2017. "Where is Gentrification Happening in Your City? Using Mapping to Understand Gentrification and Prevent Displacement." <https://datasmart.ash.harvard.edu/news/article/where-is-gentrification-happening-in-your-city-1055>.

¹⁴ Zuk, Bierbaum, Chapple, Gorska, Loukaitou-Sideris (2017). Gentrification, Displacement, and the Role of Public Investment. *Journal of Planning Literature*. Desmond and Shollenberger, 2015. "Forced Displacement from Rental Housing: Prevalence and Neighborhood Consequences." *Demography* 52 (5): 1751–72; Newman and Wily, 2006. "The Right to Stay Put, Revisited: Gentrification and Resistance to Displacement in New York City." *Urban Studies* 43 (1): 23–57.

¹⁵ Data-Smart City Solutions, June 2017. "Where is Gentrification Happening in Your City? Using Mapping to Understand Gentrification and Prevent Displacement." Los Angeles Innovation Team (i-team), in their "Los Angeles Indices of Neighborhood Change."

- **The prevalence of neighborhood characteristics that are likely to predict future reinvestment,** such as: relative proximity to a downtown, the prevalence of older, cheaper housing and/or pre-World War II housing, the presence of amenities such as parks, universities, and other civic infrastructure, low neighborhood crime rates, and proximity to nearby gentrified neighborhoods. Distance to existing rail stations or rail stations that are under construction or recently opened is also often included, as discussed in more detail below.

ROLE OF RAIL TRANSIT INVESTMENTS

Residential properties in proximity to new rail transit can experience a property value premium (rising home values and rents). The value premium of transit depends largely on the quality of service and enhanced access provided, as well as the strength of the local housing market. In the Bay Area specifically, BART station areas have attracted significant residential development as well as higher property values.¹⁶

Studies have also begun to establish a relationship between proximity to transit and the demographic changes of gentrification, although the research is not conclusive. Research focused on the causal impact of transit on gentrification has been limited. A few papers published in the last decade determined that in some cities, neighborhoods located near new transit stations experienced an influx of residents with high incomes and/or educational attainment.¹⁷ Other studies found that proximity to transit is one of several statistically significant predictors of gentrification, but not always the strongest predictor.¹⁸ Overall, the body of research on the causal effect of new transit on gentrification is still inconclusive, in part due to significant data challenges.

Gentrification and displacement may occur in the absence of new transit investment. Even prior to the introduction of new transit service, gentrification and displacement processes may already be underway due to other neighborhood locational advantages and amenities, other public or private investments, or broader regional dynamics.

Station Area Vulnerability to Gentrification and Displacement

This section assesses VTA's BART Phase II station areas' vulnerability to gentrification and displacement according to different dimensions of vulnerability. Findings are summarized at the scale of the Affordable Housing Study Areas, which are defined using Census Block Groups (see Figure I-1.). This section is organized in three parts, reflecting the various dimensions of vulnerability:

¹⁶ More information on this the impact of new transit on property values is available in the "Market Analysis and Demand Projections" report, as part of the VTA BART Phase II Corridor TOD Study.

¹⁷ Kahn, 2007, "Gentrification trends in new Transit Oriented Communities: Evidence from fourteen cities that expanded and built rail transit systems." *Real Estate Economics* 35,155-182; Pollack, Bluestone, and Billingham (Durkis Center for Urban and Regional Policy) 2010, "Maintaining diversity in America's transit-rich neighborhoods: Tools for equitable neighborhood change"; Bardaka, Delgado, and Florax, 2018, "Causal identification of transit-induced gentrification and spatial spillover effects: The case of the Denver light rail" *Journal of Transport Geography* 71, 15-31.

¹⁸ Grube-Cavers and Patterson, 2015, "Urban rapid rail transit and gentrification in Canadian urban centers: A survival analysis approach." *Urban Studies*, 52, 178-194; Barton and Gibbons, 2017. "A Stop too Far: How Does Public Transportation Concentration Influence Neighborhood Median Household Income?" *Urban Studies* 54 (2): 538-554; Chapple, Karen, 2009, "Mapping Susceptibility to Gentrification: The Early Warning Toolkit." Berkeley, CA: Center for Community Innovation.

- **Station area neighborhood change from 1990 to 2015**, to assess each station in relation to change that has already occurred over the last two decades, based on data from the Urban Displacement Project typology.
- **Station area existing demographic composition**, to assess whether households living around the stations present the characteristics of those typically vulnerable to displacement, based on data from the U.S. Census American Community Survey (ACS).
- **Station area existing affordable housing stock**, to assess whether this housing stock is at risk of conversion, or is susceptible to market speculation. This includes an analysis of expiring deed-restricted affordable units, rent stabilized units and mobilehome parks, pre-World War II housing inventory, and naturally occurring affordable housing (NOAH). Each relies on different data source, explained below.

STATION AREA NEIGHBORHOOD CHANGE OVER TIME

This section describes gentrification and displacement trends between 1990 and 2015 in VTA's BART Phase II Affordable Housing Study Areas. This analysis is based on the Urban Displacement Project typology,¹⁹ which measures the extent of gentrification and displacement in Census Tracts across the Bay Area based on a multiple demographic and real estate variables analyzed over time.²⁰ Figure IV-1 provides more information on the classification, focusing on the categories relevant to VTA's BART Phase II stations. Figure IV-2 summarizes how Census Tracts around the stations were classified.²¹ Findings for the station areas are described below.

The processes of gentrification and displacement are already underway in Downtown San José. As seen in Figure IV-2, Downtown San José and the neighborhoods directly surrounding it are classified as currently experiencing gentrification and displacement. Between 1990 and 2015, these neighborhoods grew in population, lost low-income households, and experienced other demographic and real estate changes typical of gentrification. Despite the net loss of low-income households, in 2015 Downtown San José still had a relatively large concentration of low-income households relative to the regional average (see Figure IV-1 for more information).

Neighborhoods around Diridon station are already in advanced stages of gentrification. This may represent a warning for Downtown San José, especially given plans for the future Google Village, Caltrain modernization, and California High-Speed Rail. The Diridon Station Area Advisory Group (SAAG) is in the process of developing strategies to prevent further displacement and gentrification in the area.²²

Neighborhoods surrounding the Alum Rock/28th Street station have not undergone significant gentrification or displacement, but are at-risk of experiencing these pressures in the future. It should be noted, however, that this analysis is based on data from 2015, so increased pressure from the regional housing crisis in the last two years may not be captured in this typology. More current risk factors are discussed in the next section.

¹⁹ Project led by Miriam Zuk and Karen Chapple at the Center for Community Innovation, University of California, Berkeley. All data and methodology shown in Figures IV-1 and IV-2 were developed by the Urban Displacement Project.

²⁰ In this typology, displacement is measured as the loss of low-income households between 2000 and 2015. Two forms of residential displacement are distinguished: (1) gentrification-related displacement, where the loss of low-income households occurs in lower income (LI) tracts; and (2) exclusion-related displacement, where the loss of low-income households occurs in a moderate or high income (MHI) tract.

²¹ Note that Census Tracts do not conform exactly to the Affordable Housing Study Areas used throughout this report, which were defined based on Census Block Groups.

²² City of San José, Diridon Station Area and Station Area Advisory Group (SAAG). <http://www.sanjoseca.gov/index.aspx?NID=6000>

There is insufficient data to conclude if the neighborhoods around the Santa Clara station have undergone gentrification and displacement. Due to data unreliability, the Urban Displacement Project typology excludes Census Tracts in which 50 percent or more of residents are college students, such as those near Santa Clara station. Conclusions regarding displacement cannot be drawn out in the same way as other places.

Overall, VTA's BART Phase II station areas do not include areas at risk of exclusion or in ongoing/advanced stages of exclusion. The Urban Displacement Project defines exclusionary displacement as places where “lower-income households no longer have the opportunity to move into the neighborhood”²³ due to excessively high rents or other barriers.²⁴ Although neighborhoods around VTA's BART Phase II stations are gentrifying and in some cases seeing lower-income households being displaced, the Urban Displacement Project found that these neighborhoods are still accessible to some lower-income households.

²³ As defined on p. 131 of a report published in 2017 by Chapple, Waddle, Chatman, Zuk, Loukaitou-Sideris, and Ong for the California Air Resources Board, “Developing a New Methodology for Analyzing Potential Displacement” (ARB Agreement No.13-310), <https://www.arb.ca.gov/research/apr/past/13-310.pdf>.

²⁴ Marcus and Zuk, 2017. Displacement in San Mateo County, California: Consequences for Housing, Neighborhoods, Quality of Life, and Health. Institute of Governmental Studies, University of California, Berkeley. http://www.urbandisplacement.org/sites/default/files/images/impacts_of_displacement_in_san_mateo_county.pdf;

FIGURE IV-1. URBAN DISPLACEMENT PROJECT TYPOLOGY IN VTA'S BART PHASE II AFFORDABLE HOUSING STUDY AREAS, 2015

VTA BART Phase II Station	Urban Displacement Typology	Description
Santa Clara	College Town	A census tract is classified as a College Town if 50 percent or more of its population consisted of college students in 2015.
Diridon	Advanced gentrification	<p>A census tract is in advanced stages of gentrification in 2015 if:</p> <ul style="list-style-type: none"> • It had the characteristics of a “vulnerable neighborhood” in 2000. This is defined as having at least three out of the following four variables greater than the regional median: share of low-income population, less-than-college educated population, renter population, or non-white population. • It was a moderate to high income (MHI) tract in 2015. • It saw an absolute loss of low-income households between 2000 and 2015. <i>And</i>, between 1990 and 2000, and/or 2000 and 2015, it experienced processes of gentrification measured as change in demographic composition (income, educational levels) and change in real estate investment (new housing construction and increased sales prices) at rates greater than the region.
Downtown San José	Ongoing gentrification/displacement	<p>A census tract is experiencing ongoing gentrification/displacement in 2015 if:</p> <ul style="list-style-type: none"> • It had the characteristics of a “vulnerable neighborhood” in 2000. See above. • It experienced an absolute loss of low-income households between 2000 and 2015, but still retained a share of low income households in 2015 higher than the regional median (LI tract); • <i>And</i> if one of the two following occurred in the same period: a reduction in the in-migration of low-income households at a rate faster than the region with signs of a hot real estate market, or gentrification measured as change in demographic composition real estate markets.
Alum Rock/ 28 th Street	At risk of gentrification/displacement	<p>A census tract is at-risk of gentrification or displacement in 2015 if:</p> <ul style="list-style-type: none"> • It had the characteristics of a “vulnerable neighborhood” in 2000. See above. • It was a lower income (LI) tract in 2015; • It did not experience gentrification or a loss of low-income households between 2000 and 2015; • If it displayed at least two of the following “risk variables”: (1) included a rail station in 2015; (2) share of pre-war housing stock greater than the region in 2015; (3) employment density in 2015 higher than the region; (4) increase in median rents or home value between 2000 and 2015 occurred at a faster rate than the region.

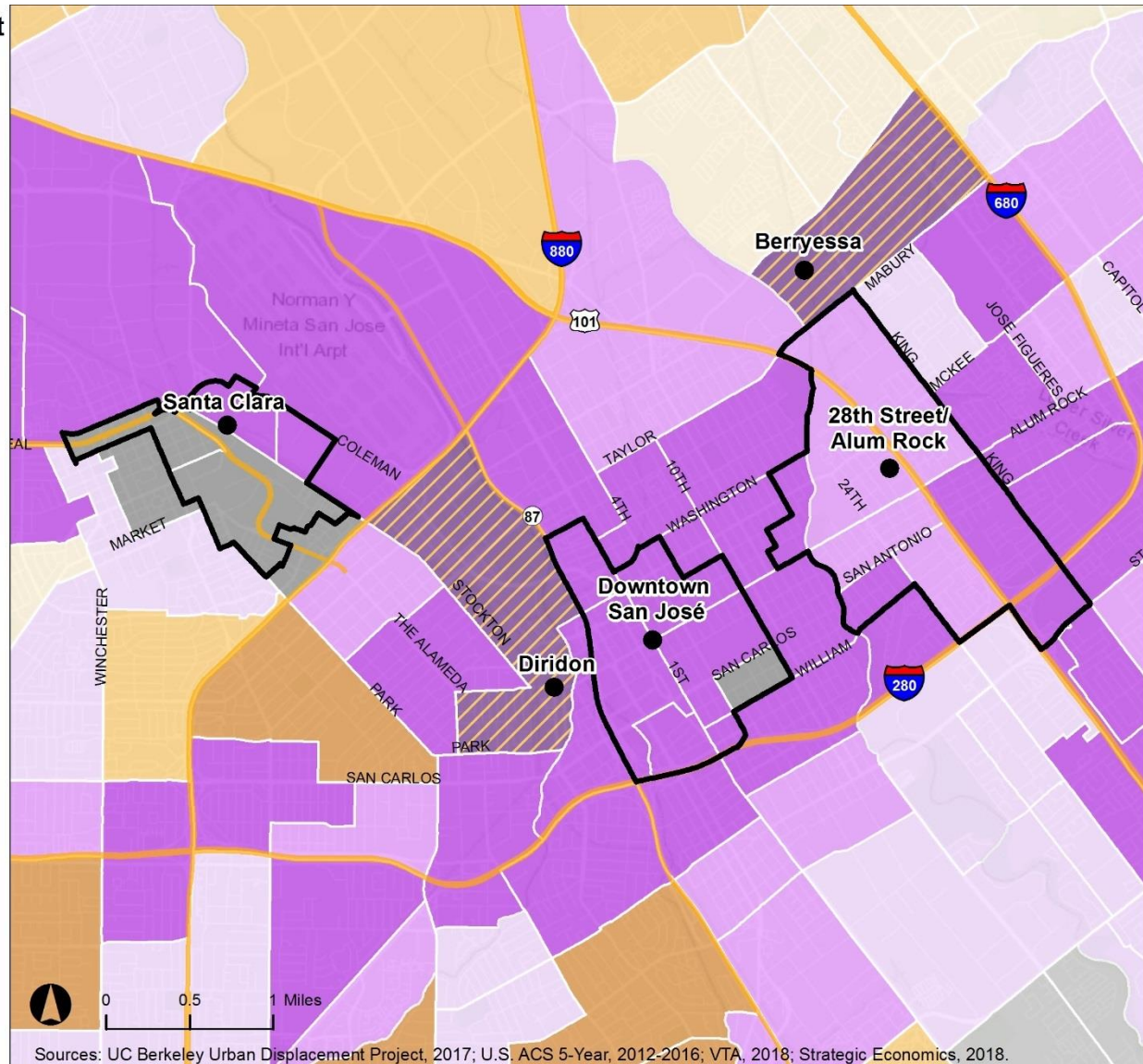
Source: Urban Displacement Project: Gentrification and Displacement Census Tract Typologies, Center for Community Innovation UC Berkeley (https://www.urbandisplacement.org/sites/default/files/images/methodology_summary.pdf); Strategic Economics, 2018.

FIGURE IV-2. URBAN DISPLACEMENT PROJECT TYPOLOGY IN VTA'S BART PHASE II AFFORDABLE HOUSING STUDY AREAS

Gentrification and Displacement Typology in VTA's BART Phase II stations

Urban Displacement Typology by Census Tract*

- LI - Not Losing LI HHs
- LI - At Risk of Gentr. and/or Displ.
- LI - Ongoing Gentr. and/or Displ.
- MHI - Advanced Gentr.
- MHI - Not Losing LI HHs
- MHI - At Risk of Exclusion
- MHI - Ongoing Exclusion
- MHI - Advanced Exclusion
- College Town
- Data Unavailable or Unreliable
- Affordable Housing Study Area
- BART Extension Stations
- Highways



*More information on the typology is provided in the report. LI refers to Lower Income tracts (more than 39% of households are considered low income) and MHI refers to Moderate to High Income tracts (less than 39% of households are considered low income).



Sources: UC Berkeley Urban Displacement Project, 2017; U.S. ACS 5-Year, 2012-2016; VTA, 2018; Strategic Economics, 2018.

STATION AREA EXISTING DEMOGRAPHIC COMPOSITION

This section examines the existing demographic composition of the Affordable Housing Study Areas (shown in Figure I-1) to assess each station's vulnerability to displacement. Based on the research presented in the first section of this chapter, and using factors that can be measured at the Census Block Group, the following characteristics are indicators of susceptibility to displacement:

- High share/number of renter households, because renters are vulnerable to evictions and are sensitive to increased rental rates.
- High share/number of severely housing cost-burdened households (paying more than 50 percent of income on housing costs). Renters that are already paying a large portion of their income may not be able to absorb rent increases, while severely cost-burdened homeowners may be at risk of losing their homes.
- High share/number of low income households, people with lower levels of education, and people of color. These communities are at risk because they are often under greater financial burden and, historically, have experienced discrimination and/or lived in disinvested neighborhoods.

Each study area's vulnerability to displacement is discussed in more detail below and summarized in Figure IV-3. Supplementary demographic information is included in Figures IV-4 to IV-7.

The mix of population groups in the Santa Clara study area suggests a relatively low vulnerability to displacement, but the data is somewhat inconclusive:

- The Santa Clara study area has a relatively small population, and more than half are Santa Clara University students (about 3,000 residents). As of 2018, the University enrolled 5,400 undergraduates: half live on-campus, and a large portion of those off-campus reside in the Old Quad neighborhood (directly north of campus) or south of campus along The Alameda.
- Approximately 340 renter households (35 percent of renter households in the study area) are severely cost-burdened. However, it is difficult to track students' income and housing cost-burden given supplemental income they may be receiving from parents.
- About one third of households are high- to very high-income homeowners (500 households).

The Downtown San José study area is home to a diverse and transitioning population, of which a sizeable portion is vulnerable to displacement:

- The study area is a majority renter area, with over 80 percent renter-occupied units. A quarter of all renters, about 1,280 households, are severely cost-burdened.
- Downtown San José has a bifurcated income distribution. A quarter of households make less than \$25,000. This likely does not include homeless populations living in Downtown San José. In contrast, nearly 20 percent of households in the study area make over \$150,000. This higher-income group likely encompasses Downtown San José's large share of highly-educated residents and young, 1- or 2-person households.
- Downtown San José is home to different racial-ethnic groups, primarily White, Hispanic-Latino, and Asian residents.

Residents of the Alum Rock/28th Street study area present many characteristics of vulnerability to displacement:

- Renters and homeowners experience a high housing cost burden: almost a third of renter households (1,207 households) and a quarter of homeowners with a mortgage (405 households) are severely cost-burdened.
- There is a concentration of low-income residents in the study area: a quarter of households make less than \$25,000 annually, and the median household income is \$50,000, half that of the County.
- The study area’s population has a low educational attainment, with only 17 percent of residents over the age of 25 having a bachelor’s degree or a higher level of education.
- Different communities of color are concentrated in the study area: households are predominantly Latino (66 percent), as well as Asian (18 percent).
- Households in the study area mostly consist of large families with children.

FIGURE IV-3. DEMOGRAPHIC CHARACTERISTICS INDICATING VULNERABILITY TO DISPLACEMENT FOR VTA’S BART PHASE II AFFORDABLE HOUSING STUDY AREAS, 2016

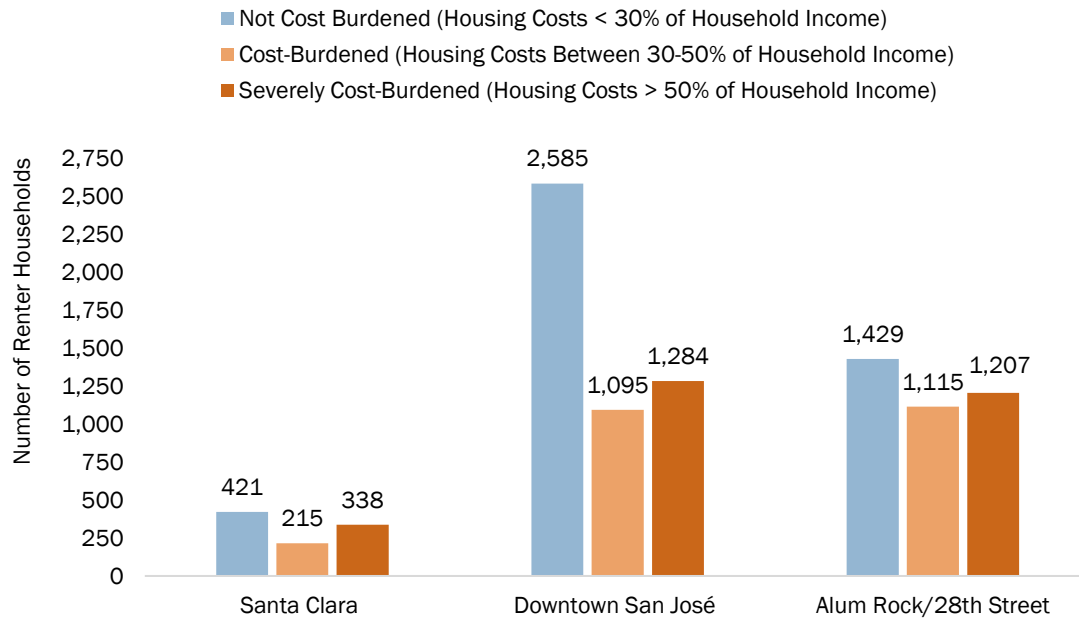
	Santa Clara	Downtown San José	Alum Rock/ 28 th Street	Santa Clara County
Population and Households				
Total Population	5,925	18,629	23,406	1,885,056
Total Households	1,492	6,509	6,437	626,579
Average Household Size	2.4	2.2	3.6	3.0
Percent Families with Children	18%	13%	46%	38%
Tenure and Housing Burden				
Number/Share of Households that are Renters	974 (65%)	5,321 (82%)	3,856 (60%)	272,324 (44%)
Number/Share of Renter Households that are Severely Cost-Burdened*	338 (35%)	1,284 (24%)	1,207 (31%)	62,139 (23%)
Number/Share of Homeowner Households with a Mortgage that are Severely Cost-Burdened*	43 (10%)	173 (17%)	405 (23%)	36,715 (14%)
Income				
Median Household Income	\$88,175	\$60,704	\$49,343	\$101,173
Share of Households Earning Under \$50,000**	30%	44%	51%	26%
Educational Attainment				
Share of Population with Bachelor's Degree or Higher	68%	54%	17%	49%
Race and Ethnicity				
Share of Population that is Non-White	50%	70%	88%	67%

*The U.S. Housing and Urban Development (HUD) defines severe cost-burden as spending more than 50 percent of household income on housing costs.

**According to California HCD, the 4-person Area Median Income for Santa Clara County in 2017 was \$113,300. Very-Low Income Household are typically measured as households earning less than 50% of AMI. Given data availability, the \$50,000 threshold is used as the closest approximation.

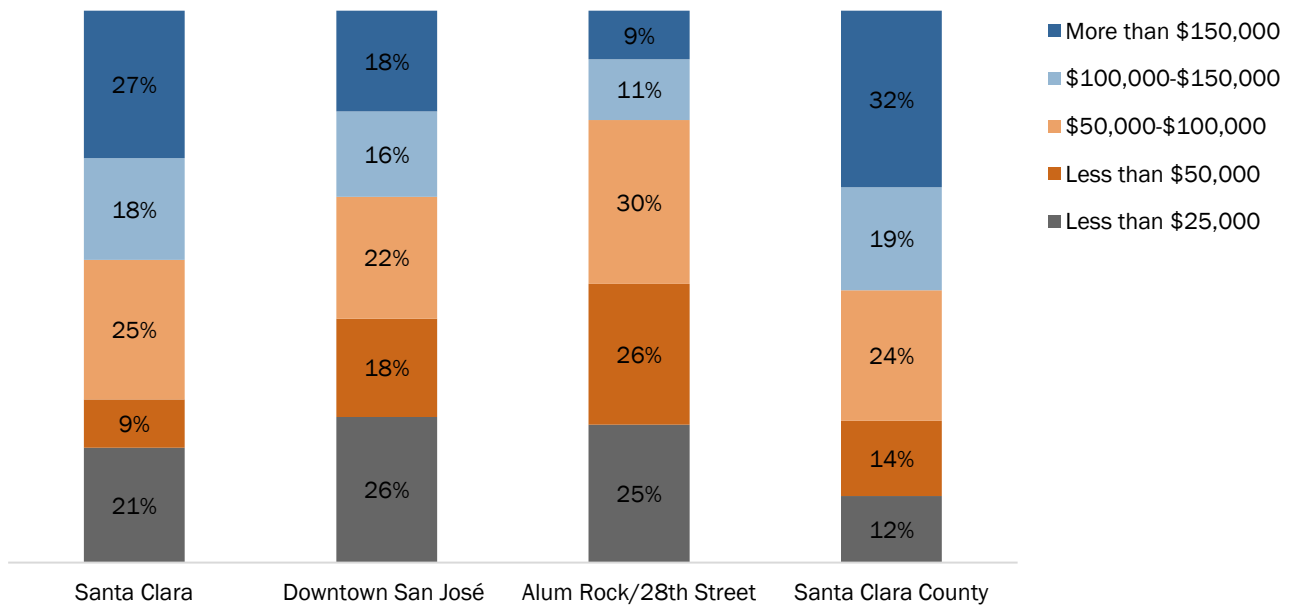
Source: U.S. Census ACS 5-year estimates, 2012-2016.

FIGURE IV-4. RENTER HOUSEHOLDS BY HOUSING COST BURDEN IN VTA'S BART PHASE II AFFORDABLE HOUSING STUDY AREAS, 2016



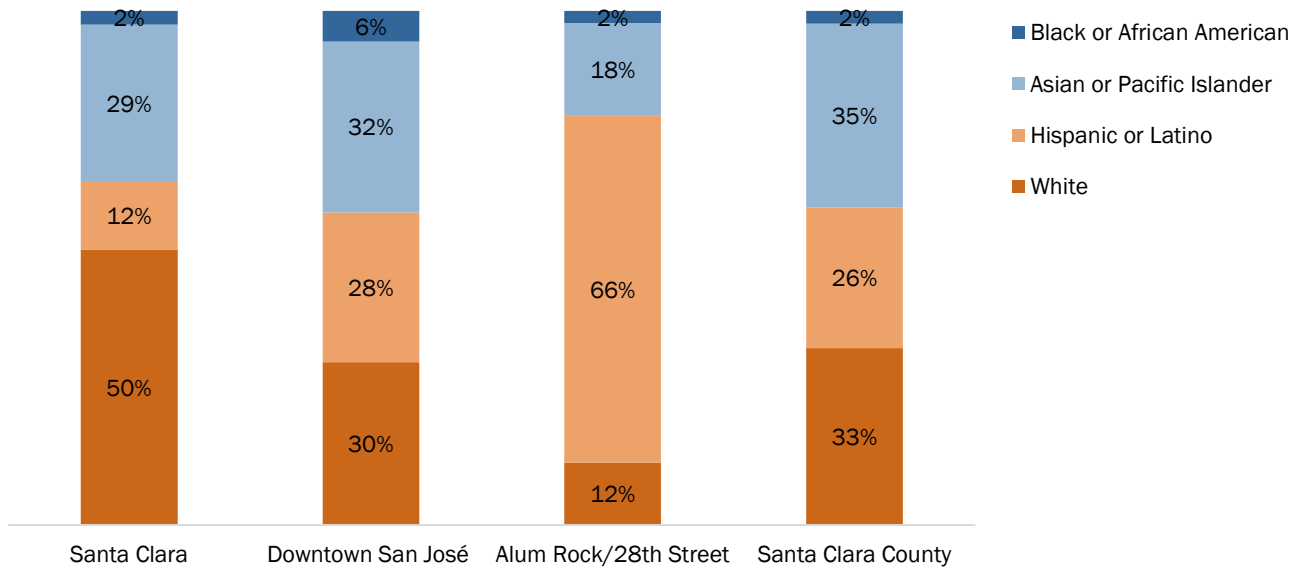
Source: U.S. Census ACS 5-year estimates, 2012-2016.

FIGURE IV-5. HOUSEHOLDS BY INCOME IN VTA'S BART PHASE II AFFORDABLE HOUSING STUDY AREAS, 2016



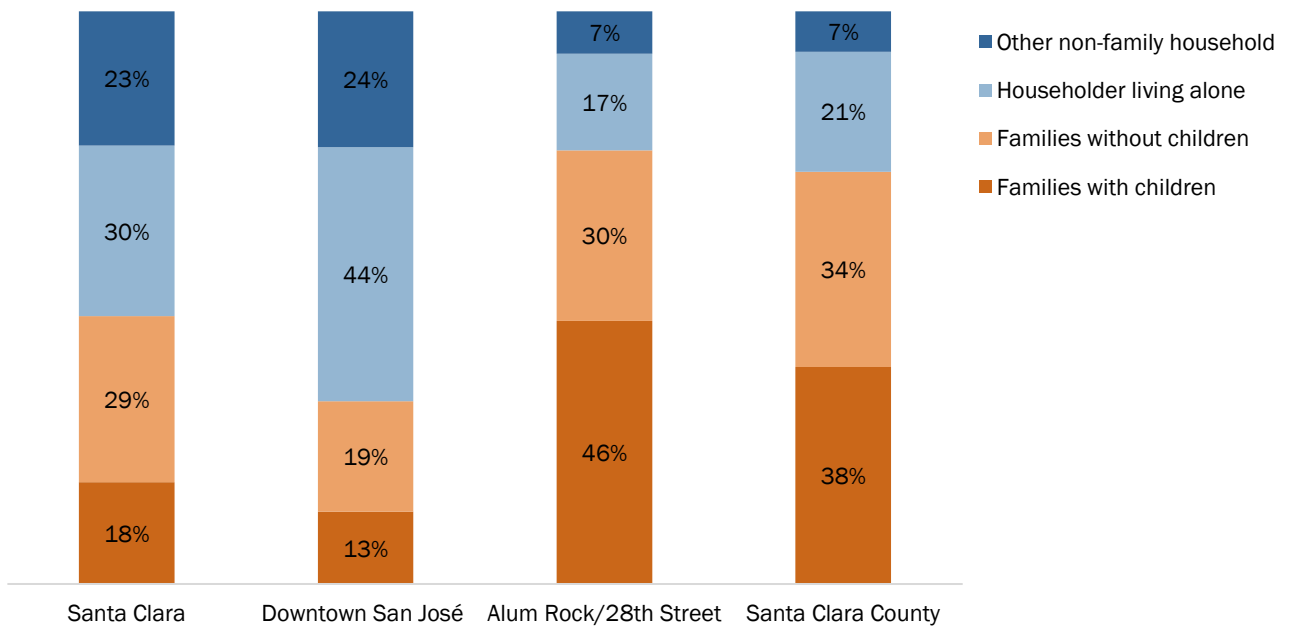
Source: U.S. Census ACS 5-year estimates, 2012-2016.

FIGURE IV-6. RACE AND ETHNICITY IN VTA'S BART PHASE II AFFORDABLE HOUSING STUDY AREAS, 2016



Source: U.S. Census ACS 5-year estimates, 2012-2016.

FIGURE IV-7. HOUSEHOLD TYPE IN VTA'S BART PHASE II AFFORDABLE HOUSING STUDY AREAS, 2016



Source: U.S. Census ACS 5-year estimates, 2012-2016.

STATION AREA EXISTING AFFORDABLE HOUSING STOCK

A neighborhood's vulnerability to gentrification and displacement depends not only on household characteristics as described above, but also on the qualities of that neighborhood's affordable housing stock. As defined in Chapter I, housing is "affordable" if a household spends 30 percent or less of its gross income on housing costs. By this definition, affordable housing includes regulated units that have limits on the maximum rents or sales prices, as well as unregulated units that have no restrictions on rents or sales prices but are relatively low cost.

This section summarizes the prevalence of four types of affordable units in the Affordable Housing Study Areas, with a focus on units vulnerable to market speculation (in the case of non-regulated units) or to conversion from affordable to market-rate (in the case of regulated units.) These include:

- **Deed-restricted affordable housing units expiring within the next ten years.** Deed-restricted units are regulated units with controls on the maximum rents or sales prices that could be charged. These affordable units may be at risk of conversion if the term of the deed restriction expires and is not renewed. Maintaining the affordability of expiring units requires subsidy.
- **Rent stabilized units, including mobilehome parks.** Rent-stabilized units may be at risk of market speculation. Rent stabilization ordinances limit the rate at which rents can be increased for a given tenant, but a state policy known as "vacancy decontrol" gives landlord full discretion to reset initial rents when a new tenancy begins. The City of San José's rent stabilization ordinance regulates rents for buildings constructed prior to 1979 and mobilehomes. The City of Santa Clara does not have a rent stabilization ordinance.
- **Pre-World War II housing units.** Studies have found that a concentration of pre-World War II housing is often a predictor of gentrification. These units may be at risk of market speculation, as they are considered attractive to higher income households looking for housing with historical and architectural character.
- **Naturally occurring affordable housing (NOAH).** These units may be at risk of market speculation. NOAH is defined as older, privately-owned, non-subsidized rental housing offering relatively affordable rents in comparison to newer units. NOAH units are not regulated or deed-restricted. The relative affordability of NOAH properties is often due to poorer conditions, less convenient locations, or lack of amenities. The acquisition and preservation of NOAH, especially of larger properties, is one possible strategy in the face of growing market pressure. In this report, one- and two-star rated multifamily rental properties, as tracked by the Costar Group, is used as a proxy for NOAH.²⁵

Vulnerability characteristics of the housing stock are summarized by study area below, and in Figures IV-8 through IV-11. More detailed information is provided in the Appendix.

²⁵ Projects given a 1- or 2-star rating in CoStar are typically older (built 40 or more years ago), have limited amenities and an obsolete design, and are in need of renovations. Note that in San José, CoStar's inventory of 1- and 2-star multifamily rental properties may include rent-stabilized properties. Several studies have adopted this methodology to track NOAH, including: Urban Land Institute and CoStar, October 2016. *New CoStar Data Reveal a Vast National Inventory of Naturally Occurring Affordable Housing—and an Untapped Opportunity.* <https://urbanland.uli.org/economy-markets-trends/new-costar-data-reveal-vast-national-inventory-naturally-occurring-affordable-housing-untapped-opportunity/>; Sung and Bates (Toulan School of Urban Studies and Planning, Portland State University), November 2017. *Preserving Housing Choice and Opportunity: A Study of Apartment Building Sales and Rents;* <https://www.portlandoregon.gov/bps/article/663250>

The Santa Clara study area has a limited number of affordable units at risk of conversion or loss:

- Santa Clara station has one small deed-restricted affordable project expiring in 2023.
- About 400 units were built prior to 1950 (a quarter of total units in the study area); a majority of these older units are single-family homes. In contrast, almost half of the housing stock was built after 2000, consisting primarily of new multifamily apartments and condominiums.
- A third of the multifamily units tracked by Costar, about 200 units, are considered naturally occurring affordable housing (NOAH). Units are mostly in small buildings with 5 to 20 units.

The Downtown San José study area has a significant number of all four types of affordable housing units that are vulnerable to loss of affordability restrictions and/or to market speculation:

- Six deed-restricted affordable projects are expiring in the next 10 years. They account for 20 percent of Downtown San José's stock of 1,260 deed-restricted units. Furthermore, several projects have unknown expiration dates, which may be an obstacle to effective preservation.
- Downtown San José has a large pool of rent-stabilized units: nearly 3,000 units are clustered south of San José State University between San Salvador and Reed Street, and east of North 4th Street. This represents about 40 percent of all units in the study area.
- A quarter of units in Downtown San José (1,800 units) date to the pre-World War II era. This includes both single-family and smaller multifamily buildings, as well as units located in historic residential neighborhoods on the outer edges of the study area, such as the Hensley district.
- Downtown San José has a large inventory of NOAH. CoStar tracks 5,300 multifamily units in the study area, of which 45 percent are NOAH. These buildings are mostly located south of San José State University. They include a mix of small and medium-sized properties as well as a dozen larger buildings with 20 or more units.

The housing stock in the Alum Rock/28th Street study area is at risk of losing affordability, especially due to its inventory of rent-stabilized units, mobilehomes, and NOAH:

- There are about 1,000 rent-stabilized units in the study area, or 15 percent of total units. They are distributed in different clusters throughout the area (e.g. on East Santa Clara Street/Alum Rock Ave, north of McKee Road, and closer to Highway 280.)
- A large share of San José's mobilehome units are concentrated in or near the Alum Rock/28th Street station: there are five mobilehome parks (430 units) in the study area, and two additional parks are located just outside the study area boundary.²⁶
- Most of the study area's housing stock is relatively old: a quarter of units were built prior to 1950, and nearly 30 percent between 1950 and 1970. This inventory consists primarily of small single-family residences. Limited new construction has taken place since 2000.

²⁶ The five mobilehome parks located in the Affordable Housing Study Area are: Hilton Mobile Park (62 units), Bella Rosa Mobilodge (64 units), Mobilehome Manor (81 units), Foothills Mobilodge (100 units), and Arbor Point (120 units). The two mobilehome parks located outside the study area boundary are: Sunset Mobile Manor (58 units) and San José Trailer Park (99 units). Overall, the City of San José tracks approximately 11,000 mobilehome units citywide.

(footnote continued)

- About 70 percent of the 1,700 multifamily units tracked by Costar are considered NOAH. This includes several large properties with 20 or more units. The concentration of older units also reflects the limited amount of multifamily rental construction that has occurred in the area.

As part of this analysis, the prevalence of eviction notices in the study areas was also examined, based on data from the City of San José.²⁷ Based on the one year of available data, the study areas showed a similar prevalence of eviction notices compared to San José’s citywide average. However, the lack of longitudinal data makes it difficult to determine whether this represents an increase in eviction notices over time. Furthermore, although eviction notices may be used as a proxy for formal evictions, they do not capture the occurrence of informal evictions (e.g., rent increases in non-rent stabilized units that cause tenants to leave).

²⁷ San José’s Tenant Protection Ordinance (TPO) was adopted in May 2017. Among other stipulations, the TPO requires landlords to submit a copy of their eviction notices to the city. This ordinance applies to rental units in buildings with three or more units, including guest rooms in guesthouses and unpermitted units. Deed-restricted affordable units are exempted from the ordinance. Although being served an eviction notice does not necessarily imply that an eviction took place, it does indicate increased risk and vulnerability to eviction.

FIGURE IV-8. AFFORDABLE HOUSING STOCK VULNERABILITY IN VTA'S BART PHASE II AFFORDABLE HOUSING STUDY AREAS

	Santa Clara	Downtown San José	Alum Rock/ 28th Street
Overview (a)			
Total Housing Units	1,614	7,087	6,581
Total Occupied Housing Units	1,492	6,509	6,437
Share of Renter-Occupied Units	65%	82%	60%
Share of Owner-Occupied Units	35%	18%	40%
Deed-Restricted Units (b)			
Existing Units, Expiring Before 2029	20	256	0
Existing Units, Unknown Expiration	81	387	237
Existing Units, No Risk of Expiration	72	330	202
Under Construction/Proposed	0	288	150
<i>Total Deed-Restricted Units</i>	<i>173</i>	<i>1,261</i>	<i>589</i>
Rent Stabilization (c)			
Rent-Stabilized Units (c)	0	2,900	992
Mobilehome Park Units (d)	0	0	427
Age of Housing Stock (a)			
Built After 2000	47%	32%	14%
Built 1980 - 2000	15%	20%	17%
Built 1970 - 1980	6%	9%	13%
Built 1950 - 1970	5%	12%	28%
Built 1950 or Before	26%	27%	27%
Naturally Occurring Affordable Housing (e)			
Total Multifamily Housing Units (CoStar)	623	5,354	1,759
NOAH Units	221	2,282	1,194
NOAH Units, as a percent of total	35%	43%	68%

Note: More detailed information and data on these various housing types is provided in the Appendix.

(a) Based on U.S. Census ACS 2012-2016 5-year estimates.

(b) Based on data provided by the City of San José and the City of Santa Clara.

(c) Based on data provided by the City of San José. The City of Santa Clara does not have a local rent stabilization ordinance, and Santa Clara station does not have any mobilehome parks. For Downtown San José and Alum Rock/28th Street station areas, note that some rent-stabilized units may also be counted as Naturally Occurring Affordable Housing units, as explained below.

(d) Units in the Alum Rock/28th Street Affordable Housing Study Area are distributed in five mobilehome parks: Hilton Mobile Park (62 units), Bella Rosa Mobilodge (64 units), Mobilehome Manor (81 units), Foothills Mobilodge (100 units), and Arbor Point (120 units).

(e) Based on CoStar data from Q1 2018. For Downtown San José and Alum Rock/28th Street station areas, note that CoStar's inventory of one- and two-star multifamily rental units likely includes rent-stabilized units.

Source: City of San José, 2018; City of Santa Clara, 2018; CoStar, 2018; U.S. Census ACS 2012-2016 5-year estimates; Strategic Economics, 2018.

FIGURE IV-9. DEED-RESTRICTED AFFORDABLE HOUSING UNITS BY STATUS IN VTA'S BART PHASE II AFFORDABLE HOUSING STUDY AREAS

Deed-Restricted Affordable Housing Units by Status in VTA's BART Phase II Stations

Affordable Housing Units by Status

- Existing, Expiring Before 2029
- Existing, Unknown Expiration
- Existing, Expiring After 2029
- Under Construction/Proposed
- Planned BART Stations
- Affordable Housing Study Area

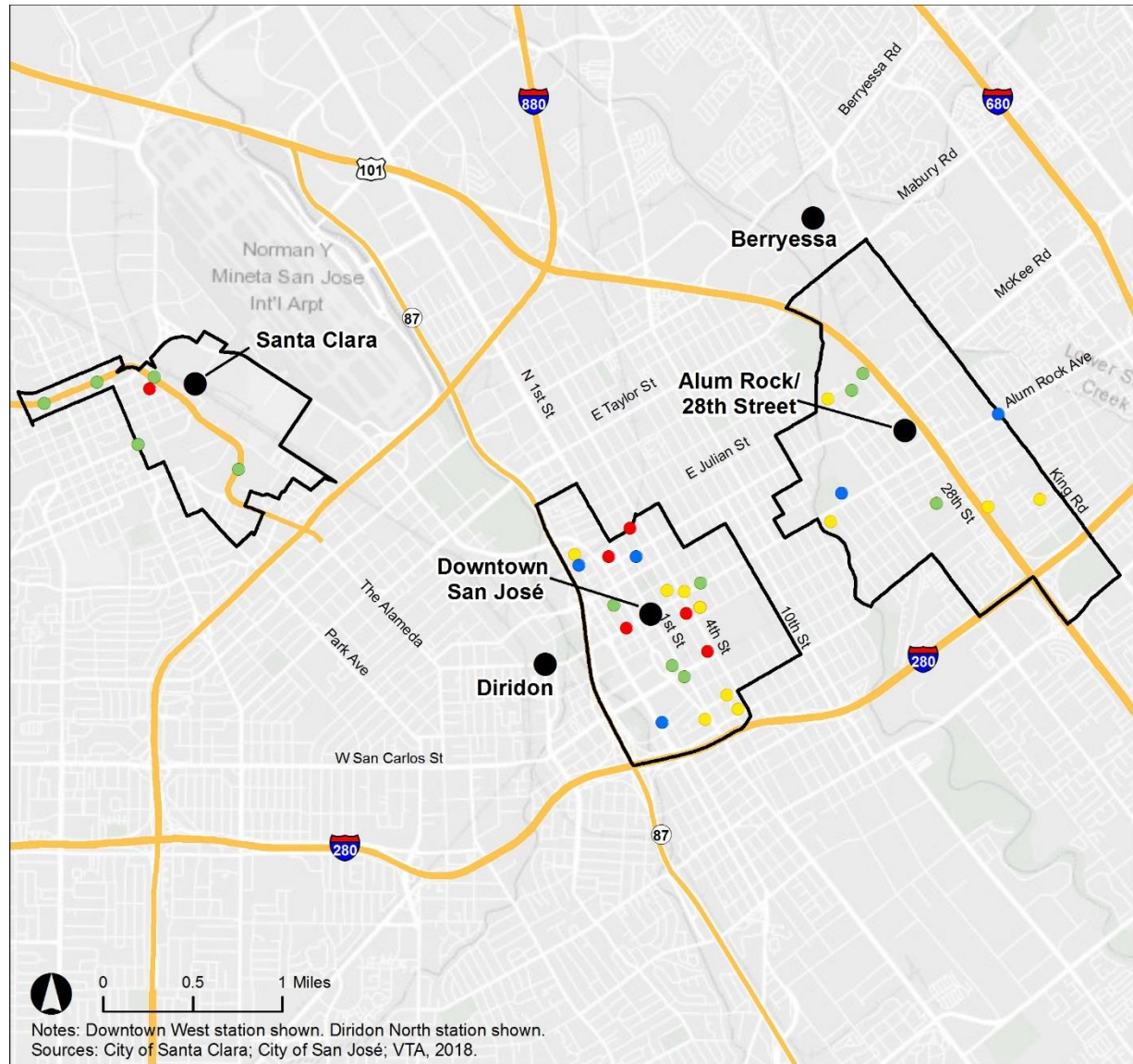
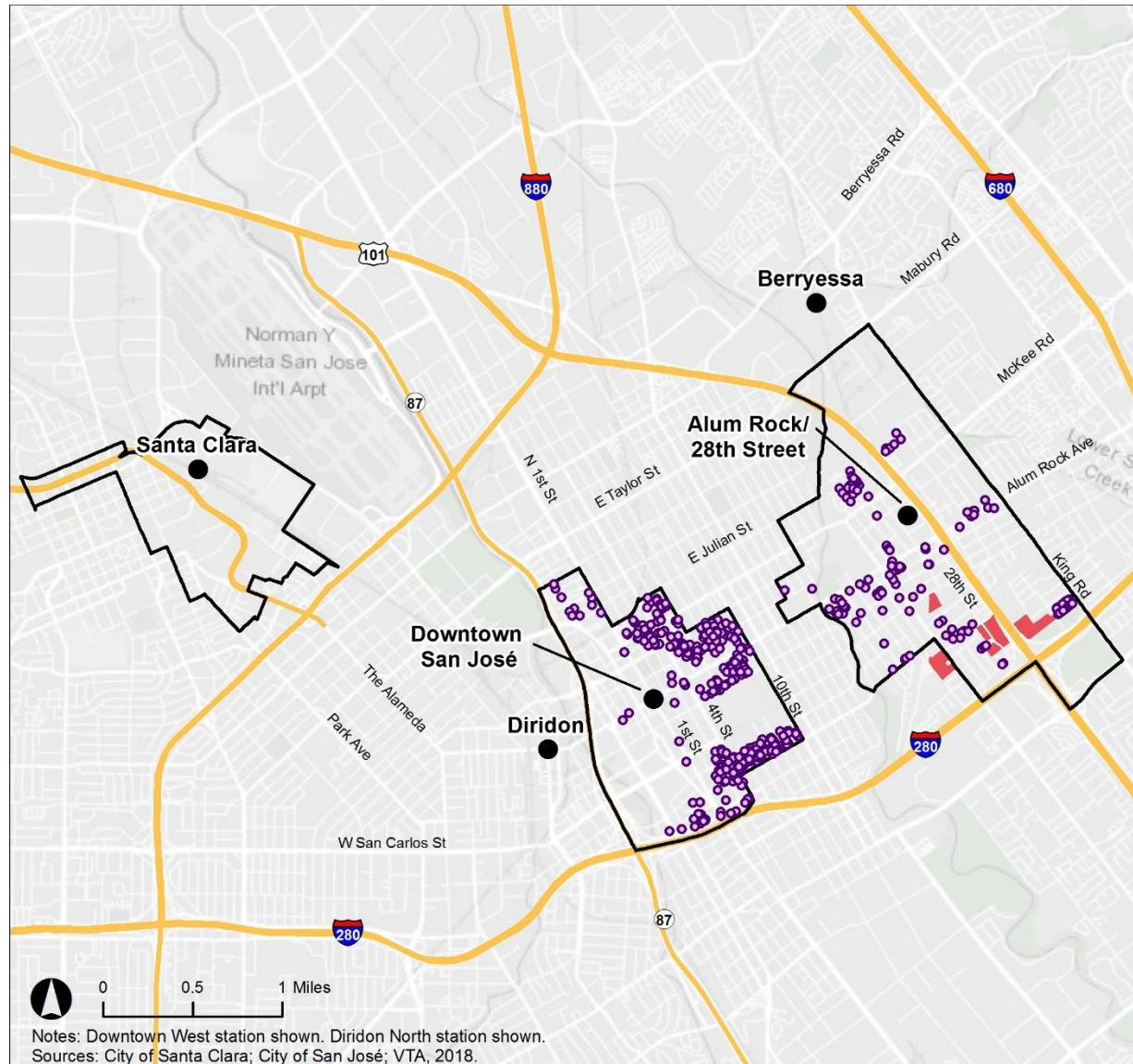


FIGURE IV-10. RENT-STABILIZED UNITS AND MOBILEHOME PARKS IN VTA'S BART PHASE II AFFORDABLE HOUSING STUDY AREAS

Rent Stabilized Units and Mobile Home Parks in VTA's BART Phase II Stations

- Rent Stabilized Units*
- Mobile Home Parks
- Planned BART Stations
- Affordable Housing Study Area



*City of San José only. The City of Santa Clara does not have rent stabilized units or mobilehome parks.

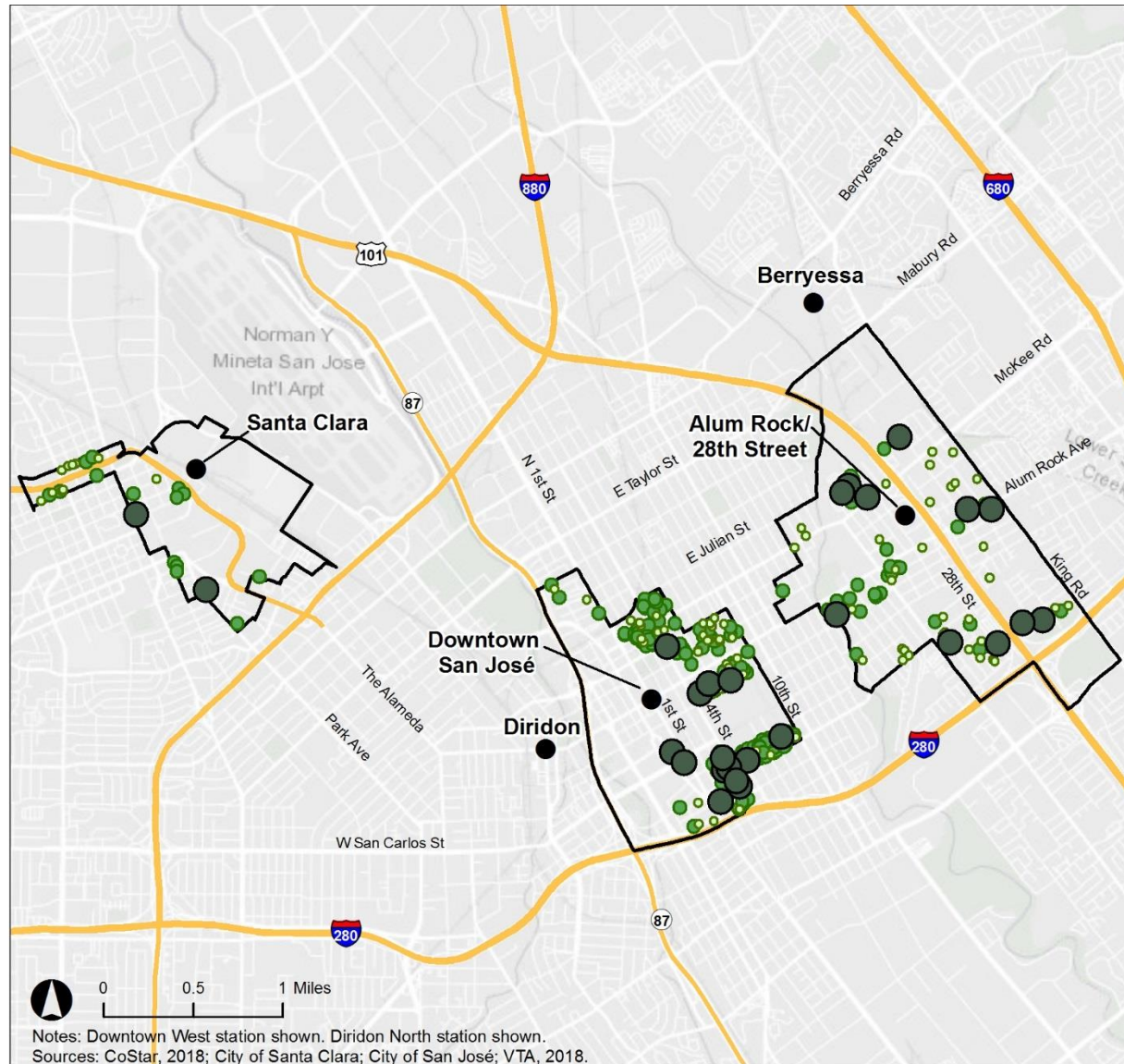


FIGURE IV-11. NATURALLY OCCURRING AFFORDABLE HOUSING IN VTA'S BART PHASE II AFFORDABLE HOUSING STUDY AREAS

**VTA's BART Phase II Stations:
Naturally Occuring Affordable
Housing (NOAH)**

**Naturally Occuring Affordable
Housing, by Number of Units**

- Under 5 Units
- 5 - 20 Units
- Over 20 Units
- Planned BART Stations
- Affordable Housing Study Area



Evaluation of Local Anti-Displacement Policies

Affordable housing and anti-displacement policies general aim to address one of three major goals:

- Protect: protect and support tenants and homeowners who wish to stay in the neighborhood;
- Preserve: preserve existing housing that is affordable;
- Produce: expand the stock of affordable housing through the production of new housing units.

This section reviews existing policies in San José and Santa Clara that focus on protecting residents and preserving existing affordable housing. Policies focused on the production of affordable housing are discussed in the following chapter. This section also identifies additional potential strategies to prevent displacement, based on a review of best practices and stakeholder interviews.²⁸ A more detailed description of best practices and existing policies is provided in the Appendix and in the TOD Study Background Conditions Report.

Key findings are described below.

CITY OF SAN JOSÉ

San José has adopted and strengthened several anti-displacement policies over the years. A rent stabilization ordinance (the Apartment Rent Ordinance), which limits annual rent increases to five percent per year, has been in place in San José since 1979. More recently, San José has implemented additional tenant protections. In 2017, City Council adopted two new ordinances, the Tenant Protection Ordinance and Ellis Act Ordinance, which require landlords to provide a just cause to terminate tenancies, as well as compensation in the case of certain evictions. San José has also initiated efforts to explore new strategies to prevent displacement. These include PolicyLink's All-In Cities Initiative,²⁹ of which San José is one of 10 participating cities, and the Diridon Station Area Advisory Group, which has designated a "Housing and Displacement Solution Group."³⁰

Major policies focused on protecting residents and preserving affordable housing in San José include:

- **Apartment Rent Ordinance.** Rent increases for existing tenants in rental units built before 1979 are limited to no more than 5 percent a year. Landlords have full discretion to reset the initial rent when a new tenancy begins (due to "vacancy decontrol" policies required by state law).
- **Tenant Protection Ordinance.** Landlords of multifamily dwellings may only terminate tenancies for 13 "just causes". For evictions that result from a landlord's decision, the landlord is required to provide relocation benefits. The ordinance also includes anti-retaliation protections for tenants, and resources for dispute mediation and arbitration.

²⁸ Best practices were derived using a variety of sources: SPUR, "Room for More: Housing Agenda for San José," August 2017. California Housing Partnership, 2014, "Preservation of Affordable Homes Near Transit Toolkit" <https://1p08d91kd0c03rlxhmtydpr-wpengine.netdna-ssl.com/wp-content/uploads/2015/11/10-CHPCPreservationToolkit.pdf>; Causa Justa, 2014, "Development without Displacement: Resisting Gentrification in the Bay Area" <http://cjjc.org/wp-content/uploads/2015/11/development-without-displacement.pdf>; Civil Grand Jury of Santa Clara County, 2018, "Affordable Housing Crisis: Density is our Destiny" http://www.scsccourt.org/court_divisions/civil/cgj/2018/BMRH%20Rpt%202018-06-19%20REVISED%20FINAL.pdf; CSB Consulting, 2018, "Protecting, Preserving, & Increasing Production of Affordable Housing in Silicon Valley", <https://www.packard.org/wp-content/uploads/2018/04/Affordable-Housing-In-Silicon-Valley-Philanthropic-Opportunities.pdf>

²⁹ PolicyLink, All-In Cities Initiative. <http://allincities.org/about-aic>

³⁰ City of San José, Station Area Advisory Group (SAAG). <http://www.sanjoseca.gov/index.aspx?NID=6000>

- **Ellis Act Ordinance.** This ordinance implements protections for tenants affected by eviction from a rental property that is to be demolished or permanently withdrawn from the market. Protections include tenant relocation assistance, as well as a “right to return” if units are returned to the rental market within ten years. This ordinance also requires new apartment units built to replace existing rent-controlled units to either be deed-restricted affordable units, or be subject to San José’s Apartment Rent Ordinance.
- **Mobilehome Rent Ordinance, and Mobilehome Park Protection/Conversion Ordinance.** The Mobilehome Rent Ordinance limits annual rent increases for mobilehomes to 75 percent of the San Francisco-Oakland All Urban Consumers CPI, with a minimum of 3 percent and a maximum of 7 percent a year. In most cases, rents may not be increased when the mobilehome is sold or transferred. The Mobilehome Park Protection/ Conversion Ordinance provides tenant protections in the case of mobilehome park closures, including advance notice requirements and right of first refusal.
- **Residential Condominium and Community Apartment Project Regulation.** Tenant protections are in place in the case of condominium conversions, including advance notice requirements, right of first refusal, and relocation assistance.
- **Tenant-based rental assistance.** Assistance with rental payments is available to formerly homeless individuals in need of rapid rehousing.
- **Homeowner assistance programs.** Down-payment assistance for low-income homebuyers is available through a partnership with Housing Trust Silicon Valley, funded partly through Measure A.

CITY OF SANTA CLARA

Santa Clara has four policies in place that address anti-displacement, described below.

- **Landlord-tenant dispute resolution.** Voluntary dispute resolution services are available to Santa Clara tenants, landlords, and roommates. Services are provided through a partnership with a nonprofit organization called Project Sentinel.
- **Community Ownership Conversion Tenant Protections.** In the case of condominium conversions, landlords are required to provide tenant protections, including advance notice requirements, right of first refusal, and relocation assistance.
- **Tenant-based rental assistance.** Under certain conditions, rental assistance is available to households earning below 60 percent of AMI at risk of homelessness. This service is provided through a partnership with a nonprofit organization called Adobe Services.
- **Neighborhood Conservation and Improvement Program.** The City of Santa Clara provides funds for emergency home repairs to certain low-income homeowners.

GAPS IN EXISTING POLICIES

Based on stakeholder interviews and a review of best practices, some of the gaps in existing policies to prevent displacement include:

- **Lack of funding for acquisition/preservation of expiring deed-restricted projects and NOAH properties.** The cities could develop a proactive plan to assist developers with

the purchase of these properties to preserve as permanently affordable, deed-restricted units.

- **Gaps in existing tenant protections.** In particular, Santa Clara has limited tenant protections currently in place. There may also be opportunities to strengthen the City of San José's policies to offer additional protections.
- **Limited legal resources for tenants at risk of eviction.** Like most cities, San José and Santa Clara are unable to fully cover the costs of legal counseling and representation for tenants.
- **Limited funds for homeowner assistance.** In both San José and Santa Clara, assistance for lower income homeowners (e.g. avoiding foreclosure, home repairs, etc.) could be expanded.³¹
- **Inadequate protections for mobilehome parks.** San José's Mobilehome Park Protection/Conversion Ordinance imposes tenant protections, but does not prevent the conversion or closure of mobilehome parks. The City of San José is currently considering changes to this ordinance.

³¹ SPUR, 2017. Room for More: SPUR's Housing Agenda for San José.

V. AFFORDABLE HOUSING PRODUCTION IN THE STATION AREAS

This chapter examines existing conditions, opportunities, and constraints for the production of new deed-restricted affordable housing in VTA's BART Phase II station areas. This chapter is organized in three sections:

- **Station Area Planned Housing Development and Affordability Targets:** Includes a review of planned housing capacity in the station areas, affordable housing targets set by local jurisdictions that apply to each station area, and progress made towards these goals based on recent development activity.
- **Estimate of the Local Funding Gap:** Includes a review of the typical costs and major funding sources for affordable housing in Santa Clara County, and an estimate of the local funding gap needed to meet the station areas' affordability goals.
- **Evaluation of Local Resources to Meet Affordable Housing Goals:** Includes a review of funding sources for affordable housing production in San José, Santa Clara, and Santa Clara County, to evaluate how existing resources can help meet the station areas' affordable housing goals.

Station Area Planned Housing Development and Affordability Targets

This section estimates planned residential development, including affordable housing production targets, in VTA's BART Phase II station areas.

This section begins by summarizing planned housing capacity in the station areas, based on growth areas designated in San José and Santa Clara's General Plans and Housing Elements.³² In some cases, cities have also set targets for the percentage of housing that should be made affordable to VLI, LI, and MOD households for growth areas located in, or overlapping with, the station areas, as described in more detail below. Therefore, affordability targets relevant to the station areas are summarized to estimate overall affordable housing targets for each station area. These targets are then compared to the station areas' affordable housing development pipeline to measure the extent of progress made towards these goals.

STATION AREA PLANNED HOUSING CAPACITY

Based on existing local plans, VTA's BART Phase II station areas can accommodate nearly 20,000 new units between 2011 and 2040. Various areas have been designated for future housing growth in San José and Santa Clara's General Plans and Housing Elements. The growth areas substantially located within VTA's BART Phase II station areas are listed in Figure V-1. More information on these growth area designations is provided in VTA's BART Phase II TOD Study Background Conditions Report.

³² This analysis is based on growth areas identified in San José's and the City of Santa Clara's general plans. Growth areas were selected to match the station areas as closely as possible – more information on growth areas and this methodology can be found in the Background Conditions Report.

The Santa Clara station area is planned to accommodate about 2,600 new housing units at buildout. The Downtown Santa Clara, El Camino Real, and the Santa Clara Station Focus Areas are all within the BART Phase II corridor. This estimate accounts for the fact that only part of the El Camino Real Focus Area falls within the Santa Clara station area. These numbers are not growth caps, but estimates of the area's capacity.

The Downtown San José growth area, which also includes the Diridon Station Area Urban Village, is expected to allow up to 15,600 new housing units. The Downtown Strategy 2040 EIR, which is still pending, would allow the development of 4,000 units in addition to the 11,160 units currently permitted in Downtown.³³ There are no constraints on the timing of this housing development.

The Urban Villages included in the Alum Rock/28th Street station area allow approximately 2,000 new housing units. Four Urban Villages fall substantially within the Alum Rock/28th Street station area. Roosevelt Park and Little Portugal allow approximately 1,000 units, which could be developed in the short term because these Urban Villages are in Growth Horizon 1.³⁴ The Five Wounds BART and 24th and Williams Street Urban Villages allow an additional 1,000 units, but they are designated in Growth Horizons 2 and 3, respectively. In these Urban Villages, housing development may only proceed if it meets specific criteria laid out in the General Plan.³⁵

³³ The Downtown San José growth area, as included in San José's General Plan, includes both Downtown and Diridon VTA BART stations. See the Background Conditions Report for more information.

³⁴ However, before housing can move forward in any of the four Urban Villages, implementation plans that comply with the City's Urban Villages Implementation Framework must be in place.

³⁵ Projects may be eligible to apply as a Signature Project or under the Residential Pool program, which allows them to move forward ahead of Horizons. One hundred percent affordable housing projects may also be expedited ahead of these requirements. In each case, specific criteria must be met.

FIGURE V-1. PLANNED HOUSING CAPACITY IN VTA’S BART PHASE II STATION AREAS

Station/Growth Areas	Growth Area Type and City	Planned Total Capacity, Net New Housing Units (a)
Santa Clara Station		
Santa Clara Station	Focus Area, Santa Clara	1,650
Downtown Santa Clara	Focus Area, Santa Clara	400
El Camino Real, Eastern Portion (b)	Focus Area, Santa Clara	549
Santa Clara/Airport West (FMC)	Employment Area, San José	0
Subtotal (c)		2,599
Downtown San José Station		
Downtown/Diridon Station Area Urban Village (d)	Growth Area, San José	15,160
Subtotal		15,160
Alum Rock/28th Street Station		
Roosevelt Park	Horizon 1 Urban Village, San José	650
Little Portugal	Horizon 1 Urban Village, San José	310
Five Wounds BART	Horizon 2 Urban Village, San José	845
24 th and Williams Street	Horizon 3 Urban Village, San José	217
Subtotal		2,022
Total VTA BART Phase II Station Areas		19,781

(a) For San José, numbers are for 2010-2040, based on Appendix 5 (updated December 2017) of the Envision San José General Plan; for Santa Clara, numbers are for 2008-2035 based on Strategic Economics' review of City of Santa Clara planning documents related to various growth areas.

(b) The El Camino Real Focus Area extends 3 miles, and about a quarter of this corridor (0.7 mile) falls within the Santa Clara station area. Therefore, it is assumed that a quarter of the total planned residential growth capacity would fall within the station area, that is, 549 units out of a total 2,274 units planned for the El Camino Real Focus Area.

(c) The City of Santa Clara's General Plan does not cap growth. This number is an estimate of expected capacity.

(d) Includes Appendix 5 "Downtown Sub-Total" and an additional 4,000 housing units, under review as part of The Downtown Strategy 2040 Environmental Impact Report (EIR) update.

Source: Strategic Economics' review of City of San José and City of Santa Clara planning documents.

STATION AREA AFFORDABLE HOUSING TARGETS AND DEVELOPMENT PIPELINE

This section summarizes local affordability targets implemented in San José and Santa Clara’s growth areas and their implications for VTA’s BART Phase II station areas. These targets are then compared to affordable housing development activity in the station areas.

The City of San José and City of Santa Clara’s affordability goals set a combined target of 4,000 new affordable units in VTA’s BART Phase II station areas by 2040. This estimate is based on applying station-specific targets set by the Cities of San José and Santa Clara to the planned growth capacity for each station (see calculation in Figure V-2). Specifically, the estimate assumes:

- An overall goal of 15 percent affordable housing for the Santa Clara station area, to reflect Santa Clara’s recently adopted inclusionary housing ordinance.³⁶

³⁶ The City of Santa Clara requires all rental and for-sale residential projects with ten or more units to at least 15 percent of the units at prices or rents that are affordable to lower income households.

(footnote continued)

- A goal of 20 percent affordable housing for the Downtown San José station area, to match the target set in the Downtown Strategy 2000 EIR. The EIR states that 20 percent of new residential development should be affordable to households of various income levels.
- A goal of 25 percent affordable housing for the Alum Rock/28th Street station area, to reflect San José’s policy for 25 percent affordable housing in Urban Villages, including a 15 percent set-aside for extremely low income households.³⁷

There are about 842 affordable units already in the pipeline in the station areas. Figure IV-3 lists the affordable housing projects recently completed, under construction, and proposed in the station areas. Most of the recent and planned development is in the Alum Rock/28th Street and Downtown San José station areas. Assuming all these projects are completed, 20 percent of the affordable housing target across the station areas has already been met. This leaves an additional 3,085 affordable units needed in the station areas by 2040 to reach the station areas’ affordability targets, as seen in Figure IV-2. On an average annual basis, this represents 147 new affordable units per year for the next 21 years (2019 to 2040). Note that the development pipeline data shown in Figure IV-2 and IV-3 do not include potential future on-site inclusionary affordable units, as explained in more detail below.

San José and Santa Clara have inclusionary housing requirements that will likely generate some on-site affordable units in the station areas. Both cities recently updated their inclusionary requirements to apply to for-sale and rental residential development.³⁸ Given the extent of market-rate development planned in the station areas, it can be expected that some affordable units will be generated from these inclusionary requirements. However, the number of units built through inclusionary requirements will depend on a variety of factors including market conditions and the relative cost of providing units on-site compared to paying an in-lieu fee. The two cities also have different expectations about the extent to which developers will comply with inclusionary requirements by providing units on-site, as opposed to paying the in-lieu fee. In particular:

- The City of San José expects that most developers will chose to pay in-lieu fees instead of providing units on-site.³⁹
- The City of Santa Clara expects most developers to comply with the inclusionary policy by providing on-site, moderate income units. However, as the ordinance is being phased in, requirements will apply differently in the short-term, depending on the timing of project approval. The Santa Clara station area includes several market-rate residential projects currently in the pipeline, and the City is in the process of negotiating the mix of on-site units and in-lieu payments that will be provided.

In addition to local targets outlined above, VTA’s Joint Development Policy requires that 35 percent of units in its overall joint development portfolio are affordable to lower income households. VTA’s policy also requires individual joint development projects to provide a minimum of 20 percent affordable units at no more than 60 percent of AMI. The policy requires at least half of affordable units to be targeted to extremely low and very low-income households (50 percent of AMI or less).⁴⁰

³⁷ As implemented in the General Plan Four-Year Review.

³⁸ See detailed description of the two cities’ inclusionary requirements the TOD Study Background Conditions Report.

³⁹ See City of San José, Affordable Housing Investment Plan, 2018-2022.

⁴⁰ VTA’s Joint Development policy also states that the target for affordable housing across VTA’s JD portfolio is 35 percent, at no more than 60 percent of AMI.

FIGURE V-2. AFFORDABLE HOUSING TARGETS AND DEVELOPMENT PIPELINE FOR VTA'S BART PHASE II STATION AREAS

Station Area	Planned Total Capacity, Net New Housing Units (a)	Affordable Housing Target, Percent (b)	Affordable Housing Target, Units (c)	Affordable Units Built Since 2011, Under Construction, and Proposed (d)	New Affordable Units Needed to Meet Target	Percent of Affordable Housing Target Met
Santa Clara	2,599	15%	390	40	350	10%
Downtown San José	15,160	20%	3,032	569	2,463	19%
Alum Rock/28th Street	2,022	25%	506	233	273	46%
Total Station Areas	19,781		3,927	842	3,085	21%

(a) Figure V-1 explains how these numbers were calculated.

(b) Affordable housing targets are based on the various local plans corresponding to the growth areas specific to each station. For Santa Clara, the overall target is based on the City of Santa Clara's Inclusionary Housing Ordinance; for Downtown San José, the target is based on the Downtown Strategy 2000 EIR; for Alum Rock/28th St Station, it is based on the citywide target for Urban Villages of 25% affordable units.

(c) Calculated as the total planned capacity multiplied by the Affordable Housing Target percent.

(d) Figure V-3 explains how these numbers were calculated. Units in acquisition/rehabilitation projects completed since 2011 are not included in the development pipeline, because they do not represent net new affordable units added to the inventory. Inclusionary units provided on-site as part of residential market rate projects are not included because of the uncertainty around how these projects will comply with local inclusionary housing policies.

Source: City of Santa Clara, 2018; City of San José, 2018; Strategic Economics, 2018.

FIGURE V-3. AFFORDABLE HOUSING DEVELOPMENT RECENTLY COMPLETED, UNDER CONSTRUCTION, AND PROPOSED IN VTA'S BART PHASE II STATION AREAS

Station Area/Project Name	Address	Status	Affordable Units
Santa Clara			
Presidio El Camino	1450 El Camino Real, Santa Clara	Completed in 2012	40
Subtotal Completed Since 2011			40
Downtown San José (Including Diridon)			
Donner Lofts	158 E. St. John St., San José	Completed in 2016	101
Subtotal Completed Since 2011			101
Villas on the Park	278 N 2nd St., San José	Under Construction	83
Laurel Grove	777 Park Ave, San José	Under Construction	81
Park Avenue Senior Apartments	Park and Sunol, San José	Under Construction	99
Subtotal Under Construction			263
North San Pedro Studios	201 Bassett St., San José	Proposed	134
226 Balbach	226 Balbach, San José	Proposed	71
Subtotal Proposed			205
Total Downtown San José			569
Alum Rock/28th Street			
Brookwood Terrace	1346 E San Antonio St., San José	Completed in 2012	83
Subtotal Completed Since 2011			83
Quetzal Gardens	1695 Alum Rock Ave, San José	Proposed	70
Roosevelt Park Apartments	E Santa Clara & N 21st St, San José	Proposed	80
Subtotal Proposed			150
Total Alum Rock/28th Street			233

Note: Units in acquisition/rehabilitation projects completed since 2011 are not included in the development pipeline, because they do not represent net new affordable units added to the inventory. Inclusionary units provided on-site as part of residential market rate projects are not included because of the uncertainty around how these projects will comply with local inclusionary housing policies.

Source: City of San José, 2018; City of Santa Clara, 2018; Strategic Economics, 2018.

Estimate of the Local Funding Gap

This section estimates the local funding gap needed to meet the station areas' affordability targets quantified in the previous section. The section includes an explanation of typical affordable housing development costs, followed by an overview of funding sources typically used to fund affordable housing. Findings in this section are based on a sample of twelve recently built affordable housing projects (new construction) located in San José, Santa Clara, and Milpitas, supplemented by interviews with local affordable housing developers. More information on the sample projects is included in the Appendix.

TYPICAL AFFORDABLE HOUSING DEVELOPMENT COSTS

Affordable housing development costs in San José and Santa Clara were approximately \$600,000 per unit, based on data from the last three years. As seen in Figure V-4, the average cost of development for an affordable housing unit built between 2016 and 2018 was \$573,600. These costs include land, hard costs, soft costs, developer fees, and contingency. Developers emphasized the rapid increase in construction and land costs in recent years. Local affordable housing developers working in San José and Santa Clara estimated that development costs are now between \$600,000 to \$800,000 per unit.

Land costs represent 11 percent of affordable housing development costs. As seen in Figure V-4, land acquisition costs amounted to about \$60,000 per unit, or 11 percent of total costs. Developers noted land costs around \$7 million per acre or higher in San José and Santa Clara. The rising costs and competition for land, especially land near transit, was repeatedly mentioned by developers as well.

FIGURE V-4. AFFORDABLE HOUSING DEVELOPMENT COSTS FOR A SAMPLE OF RECENT SANTA CLARA COUNTY PROJECTS

	Average Per Unit Cost	Average Share of Total Cost
Land Acquisition Costs	\$61,181	11%
Hard Costs (Including Contingency and Relocation)	\$358,006	62%
Soft Costs	\$71,976	13%
Developer Fees	\$38,186	7%
Other*	\$44,737	8%
Total	\$573,610	100%

Note: This analysis is based on a sample of twelve affordable housing projects located in San José, Santa Clara, and Milpitas, dating from 2016 to 2018. More information on the sample is available in the Appendix.

*Includes unspecified reserves and other unspecified costs.

Source: Santa Clara County Office of Supportive Housing, 2018; California Tax Credit Allocation Committee, 2016-2018; Strategic Economics, 2018.

MAJOR FUNDING SOURCES FOR AFFORDABLE HOUSING IN SANTA CLARA COUNTY

Housing targeted to extremely low, very low, and low-income households is typically funded by stitching together an array of sources. These include conventional loans from banks, federal and state tax credits, and a variety of federal, state, county, city, and private subsidies and/or loans. Major funding sources for the sample of projects in Santa Clara County are summarized in Figure V-5 on a per unit basis, and described below:

- **Permanent financing from private banks.** These loans are backed by the rental income received from tenants, and if applicable, by subsidies received from Section 8 (described below). The average contribution from this source varies depending on the income level of the

populations served. In this sample, permanent financing (including Section 8) represented 15 percent of total costs.

- **Section 8.** Section 8 is a federal rental assistance program that provides rental payments directly to landlords, and can also be leveraged for affordable housing development.
- **Low-Income Housing Tax Credit (LIHTC) equity.** The LIHTC program gives investors close to a dollar-for-dollar reduction in their federal tax liability, in exchange for providing equity financing for affordable housing development projects. LIHTC tax credit equity is often the largest source of subsidy for affordable housing production. In this sample, 36 percent of total funding came from tax credit equity, or \$207,000 per unit. The average contribution from this source is higher if the projects are awarded the highly competitive 9 percent tax credits, compared to the 4 percent tax credits.
- **Other federal sources.** These include federal programs such as HOME and the Affordable Housing Program (AHP). Projects in Santa Clara County can also leverage funding opportunities from the federal Moving to Work (MTW) program given that the Santa Clara County Housing Authority (SCCHA) is a federally-designated Moving to Work demonstration agency.
- **California's Affordable Housing and Sustainable Communities (AHSC).** This program provides grants and loans for affordable housing projects that reduce greenhouse gas emissions. Currently, AHSC is California's only major state funding source for affordable housing, although new sources are expected to become available soon (described in Chapter II). Across the sample of projects, the average contribution from AHSC was only about 4 percent. However, for the four projects that received AHSC awards, AHSC contributed an average of 12 percent of costs. According to affordable housing advocates in the Bay Area, lower density suburban infill projects are typically less competitive for AHSC awards than higher density urban projects, which can have a greater impact on reducing greenhouse gas emissions.
- **Santa Clara County Measure A.** Measure A is a countywide affordable housing general obligation bond that was approved by Santa Clara County voters in 2016. The measure allows the County to borrow up to \$950 million in bonds to create and/or preserve affordable housing, with a focus on reducing homelessness and addressing the needs of the poorest and most vulnerable households. In line with these goals, the guidelines for the use of funds allocate \$700 million to assist ELI households and \$100 million for VLI households. A smaller share of the bond proceeds – up to \$150 million – may be used to assist moderate income households.

Issued in September 2017, Measure A's first Notice of Funding Availability (NOFA) includes \$215 million in development capital funding, as well as Section 8 vouchers and subsidies for supportive services.⁴¹ To be eligible for Measure A, projects must meet very specific criteria related to serving extremely low income households, which means that projects will receive limited rental income from their tenants. For this reason, supplementary Section 8 funding and subsidies for supportive services are necessary to make the projects pencil. So far, \$97 million of Measure A funds have been granted to ten projects across the county.

Seven out of twelve projects in the sample received Measure A funds; across the sample, the average contribution was for 15 percent of total costs.

⁴¹ The inclusion of Section 8 vouchers combined with Measure A development capital funding was made possible through a collaboration with the Santa Clara County Housing Authority (SCCHA), which is the designated agency at the federal level for disbursing Section 8 vouchers.

- **City subsidies, loans, and/or waived fees.** These contributions vary significantly by project and by city. They can take one of two forms: direct subsidies or loans, usually from revenues collected from impact fees or General Fund appropriations; or waivers of local development impact fees. In this sample, the cities of San José and Milpitas contributed 12 percent of total costs on average, or \$70,000 per unit.
- **Land Donation.** A discount or donation of land can be a significant source of subsidy for affordable housing. In this sample, only three projects received land donations, from either the City of San José or the County of Santa Clara.

Funding for affordable housing targeted to moderate-income households is much more limited. There are virtually no federal or state funding sources that directly subsidize rental moderate income housing. Most of the funding sources listed above, namely the federal tax credits and most other federal and state sources, are only accessible to fund ELI, VLI, and LI units. Many local jurisdictions encourage the production of moderate-income housing through land use policies and zoning incentives rather than through direct subsidies.

FIGURE V-5. MAJOR FUNDING SOURCES FOR A SAMPLE OF RECENT SANTA CLARA COUNTY PROJECTS

	Average Per Unit Funding Amount	Percent of Total Per Unit Cost
Permanent Financing		
Conventional Loans and Section 8 Loans	\$87,116	15%
Federal		
LIHTC Tax Credit Equity	\$206,979	36%
Moving to Work (a)	\$26,183	5%
Other Federal Sources (b)	\$11,201	2%
<i>Subtotal</i>	\$244,363	43%
State of California		
Affordable Housing and Sustainable Communities (AHSC)	\$23,687	4%
Other State Sources (c)	\$21,218	4%
<i>Subtotal</i>	\$44,905	8%
Santa Clara County		
Measure A	\$84,555	15%
Other County Sources (d)	\$8,668	1%
<i>Subtotal</i>	\$93,223	16%
City		
Grants/Loans	\$65,223	11%
Waived City Fees	\$4,077	1%
<i>Subtotal</i>	\$69,300	12%
Land Donation (e)	\$10,179	2%
Deferred Developer Fees	\$15,388	3%
Other (f)	\$8,967	2%
Total Per Unit Cost	\$573,441	100%
Permanent Financing, Federal, State, Developer	\$400,739	70%
Per Unit Local Funding Contribution	\$172,702	30%

Note: This analysis is based on a sample of twelve affordable housing projects located in San José, Santa Clara, and Milpitas, dating from 2016 to 2018. More information on the sample is available in the Appendix.

(a) Only available for projects funded by the Santa Clara County Housing Authority.

(b) Other federal sources leveraged by these projects include Affordable Housing Program (AHP) and HOME.

(c) Other state sources leveraged by these projects include the California Department of Housing and Community Development Infill Infrastructure Grant (IIG) and Transit-Oriented Development (TOD) program, but these have since expired. Successor agency funding was also used in some projects.

(d) Other county sources leveraged by these projects include the Affordable Housing Fund of the County of Santa Clara, which was created in 2002 with an initial investment of \$18.6 million.

(e) In this sample, three projects received land donations or discounts. In two cases, land was donated by the City of San José, and in one case it was donated by Santa Clara County.

(f) Includes deferred interest, General Partner contributions, or sources marked as “unknown”.

Source: California Tax Credit Allocation Committee Staff Reports, 2016-2018; Santa Clara County Office of Supportive Housing, 2017-2018; Strategic Economics, 2018.

THE LOCAL FUNDING GAP IN SANTA CLARA COUNTY

The local funding gap – funding obtained from the city, county, and land donations – is often the most difficult to fill. Contributions from the city, county, and the value of land donations/discounts frequently represent the missing gap needed to make projects work, beyond what can be more easily obtained from federal and state sources, tax credits and permanent financing. With the loss of redevelopment funds in 2012, cities in California lost their primary source of local funding. This created a significant

challenge for affordable housing funding in at the local level. In recent years, cities and counties have started seeking out new funding sources, for example with the adoption of inclusionary requirements, impact fees, or local housing bonds.

In this sample of projects, the local funding gap (city, county, and land donation) averaged \$173,000 per unit, or 30 percent of total costs. As explained above, projects in this sample received on average a 12 percent contribution from cities (in this case, San José and Milpitas), a 16 percent contribution from the county, and a 2 percent contribution from land donations.

Measure A plays a major role in affordable housing funding in Santa Clara County. The seven sample projects that were awarded Measure A funds received on average \$145,000 per unit from this source, or 25 percent of their total project costs, with contributions ranging from 12 percent to 50 percent of total costs for individual projects.⁴² This represents a significant portion of the total local funding gap. A more in-depth discussion of the opportunities and challenges associated with Measure A is provided in a later section.

Projects in the sample that did not receive Measure A funds had to secure other funding sources. Non-Measure A projects were able to attract more permanent financing than Measure A projects on average, likely because non-Measure A projects target a greater mix of income levels and therefore receive more rental income from tenants. Overall, non-Measure A projects also secured greater tax credit equity. In some cases, non-Measure A projects were able to leverage discounts on land costs, or took advantage of other county sources, such as the SCCHA's Moving to Work funding.

Most projects in the sample received some form of city contribution. Only three projects did not receive any city contribution (either as grants/loans, waived fees, or land donations). A more in-depth discussion of the amount and type of funding available in San José and Santa Clara is provided in a later section.

LOCAL FUNDING GAP FOR VTA'S BART PHASE II STATION AREAS

This section estimates the total dollar amount of local funding that would be needed to support the affordable housing targets in VTA's BART Phase II station areas.

A total local funding gap of \$530 million will be needed to meet the affordable housing goals that currently apply to VTA's BART Phase II station areas. Assuming that each affordable unit requires \$173,000 in local funding, adding 3,085 new affordable housing units in the station areas by 2040 would require \$532 million in local funding dollars over this time period (Figure V-6). The bulk of the need is in Downtown San José, with an estimated \$425 million, given the large number of units planned. The local funding gap is \$47 million for the Alum Rock/28th Street station area, and \$60 million for the Santa Clara station area.

This represents a high-level estimate for VTA's BART Phase II corridor overall. A more detailed financial analysis would be needed to estimate this gap for specific sites. This number does not account for funding and cost differences between units targeted at various AMI levels, and assumes that all affordable units require a local funding contribution. Furthermore, these estimates likely do not fully

⁴² The seven projects in this sample that received Measure A funds are: North San Pedro Apartments in San José (\$53,300 per unit, or 12% of total costs); Villas on the Park in San José (\$85,700 per unit, or 19% of total costs), Quetzal Gardens in San José (\$138,000 per unit, or 20% of total costs), Sango Court in Milpitas (\$157,000 per unit, or 22% of total costs), Page Street Apartments in San José (\$170,700 per unit, or 34% of total costs), Leigh Avenue Senior Apartments in San José (\$211,000 per unit, or 27% of total costs), and Corvin Apartments in Santa Clara (\$198,600 per unit, or 51% of total costs).

reflect the rising cost of development in the Bay Area, which has continued to escalate in the last year, and presume that federal subsidies will continue to be available at the same level as in the past.

On an average annual basis, the local funding gap is approximately \$25 million per year. This assumes that the production of new affordable units is evenly distributed over the next 21 years (2019 to 2040), with 147 new units per year on average.

FIGURE V-6. LOCAL FUNDING GAP IN VTA'S BART PHASE II STATION AREAS

	Affordable Housing Units	Local Funding Gap
Per Unit Local Funding Gap (City, County, Land Donation)		\$172,702
Affordable Housing Targets (2011-2040)		
Santa Clara Station	350	\$60,417,077
Downtown San José Station	2,463	\$425,364,758
Alum Rock/28th Street Station	273	\$47,061,265
Total VTA BART Phase II Station Areas	3,085	\$532,843,100

Note: The affordable housing unit target does not account for units that could be provided as on-site inclusionary units.

Source: California Tax Credit Allocation Committee Staff Reports, 2016-2018; Santa Clara County Office of Supportive Housing, 2017-2018; City of San José, 2018; City of Santa Clara, 2018; Strategic Economics, 2018.

Evaluation of Local Resources to Meet Station Area Affordable Housing Goals

Santa Clara County, San José, and Santa Clara have resources that can help meet the local funding gap described above. This section summarizes these various funding sources. Note that these sources apply citywide/countywide, and are not specific to the station areas.

SANTA CLARA COUNTY MEASURE A

Measure A is one of the only large funding sources for new affordable housing in Santa Clara County. Although San José and Santa Clara both have dedicated funds for affordable housing, these funds likely will not fill the entire per unit local funding gap, and these funds are insufficient to meet the total need for affordable housing. Given these limitations, Measure A represents a central resource in the county, including for projects in the station areas.

The scoring criteria for Measure A gives preference to projects located near transit and projects that leverage underutilized public land. This is an opportunity for sites near VTA's BART Phase II stations.

Measure A is a targeted funding source specifically focused on housing for homeless populations, special needs groups, and extremely low-income households. Measure A is part of the county's ongoing efforts to reduce homelessness and provide housing opportunities for the most vulnerable residents in Santa Clara County. In line with these goals, the current NOFA is only open to projects that commit at least half of their units to Permanent Supportive Housing (PSH) or Rapid Rehousing (RRH), or projects that have an average affordability of 45 percent of AMI, with at least a third of units as

PSH/RRH and one third for ELI.⁴³ Affordable projects in the pipeline are increasingly adapting to these guidelines in order to be competitive for Measure A funding.

Given Measure A's focus on ELI, VLI, and homeless populations, the local funding gap for new LI and MOD housing may be difficult to fill. Other than Measure A's \$150 million for moderate income households and the cities' funding sources, low and moderate-income housing serving households between 51 and 120 percent of AMI do not have a dedicated funding source.

There are concerns about the long-term ability of Measure A to effectively fund ELI and VLI units given the need for Section 8 vouchers. Given the strict eligibility requirements, Measure A projects are likely to have very limited rental income. This makes permanent financing difficult to obtain. To remove this barrier, Santa Clara County has partnered with the Housing Authority of Santa Clara County to provide Section 8 vouchers in tandem with Measure A capital funding. Although this has been a successful solution for projects awarded so far, developers are concerned about the long-term availability of Section 8 funds, given fluctuations in the federal budget and general uncertainty in the overall supply of vouchers.

CITY OF SAN JOSÉ

The City of San José has various revenue sources dedicated to the production of affordable housing at various income levels, but funds are not specific to the station areas. Figure V-7 summarizes San José's major funding sources, revenues, and projected affordable unit production based on the city's Affordable Housing Investment Plan (AHIP) for 2018-2022. The city forecasts \$335 million in revenues for affordable housing between 2018 and 2022, which could fund up to 2,275 new affordable units citywide in this time period.⁴⁴ Major revenue sources are as follows:

- **Low and Moderate Income Housing Fund**, which consists of the income generated from loan repayments from the city's portfolio of projects funded by the former redevelopment agency.
- **The Inclusionary Housing Ordinance (IHO)**, Chapter 5.08 of the San José Municipal Code, was adopted on January 12, 2010. The IHO applies to market rate residential developments of twenty or more units, and provides the requirement for such developments to either build affordable housing as part of the overall development or to comply with other compliance options including paying an in-lieu fee to the City to build the affordable units elsewhere. The adopted IHO applies to all developments with 20 or more units, for-sale or rental. Although the Ordinance was operative on January 1, 2013, its implementation was prevented by an injunction imposed by the Santa Clara County Superior Court, resulting from a challenge submitted by the California Building Industry Association (CBIA), in *California Building Industry Association v. City of San José*. That injunction was terminated when the Superior Court's decision invalidating the ordinance was overturned by the 6th District Court of Appeal, the ordinance was held to be valid, and the case was remanded to the Superior Court to render a decision consistent with the decision of the Appellate Court. The CBIA filed a petition for a writ

⁴³ "Permanent Supportive Housing (PSH) provides rental subsidies, medical, behavioral, health, and other supportive services to residents. It is targeted to homeless and disabled individuals and their families with the highest barriers to finding or retaining housing and the longest time spent homeless." "Rapid Rehousing (RRH) is an evidence-based supportive housing strategy that quickly moves families and individuals who are experiencing homelessness into permanent housing and provides a time-limited rental subsidy and supportive services to obtain and maintain stable housing. This intervention is designed to support families and individuals experiencing episodic, rather than long-term, homelessness." Santa Clara County, 2017. Ending Homelessness: The State of the Supportive Housing System in Santa Clara County. Available at: <https://www.sccgov.org/sites/osh/ContinuumofCare/ReportsandPublications/Documents/EndingHomelessness2017.pdf>

⁴⁴ This estimate excludes 1,099 units that already received funding commitments in FY 2017-2018.

of certiorari with the U.S. Supreme Court seeking review of the California Supreme Court's unanimous ruling that upheld the City's Ordinance. On February 29, 2016, the Supreme Court declined to hear that petition and the IHO on for-sale developments of 20 or more units became effective on July 1, 2016. The IHO was suspended with respect to rentals due to another court case: *Palmer v. City of Los Angeles*.

- Affordable Housing Impact Fee. While the *Palmer* case suspended application of the IHO to rentals, the Housing Department had a Residential Nexus Analysis prepared by Keyser Marston Associates, Inc. (KMA) to support the creation of an Affordable Housing Impact Fee (AHIF). The Nexus Study established a reasonable relationship between the development of market-rate rental housing and the increased need for affordable housing. On November 18, 2014, the City Council adopted the AHIF Resolution, establishing the AHIF Program which required rental developments with three (3) or more units to pay an AHIF at Building Permit issuance. The AHIF was based on a \$17 per square foot fee and included a 2.4% escalator (increasing the fee by 2.4% at the start of each fiscal year). On September 29, 2017, the Governor signed Assembly Bill (AB) 1505, clarifying the State Legislature's intent to supersede the court decision in *Palmer v. City of Los Angeles*, thus allowing the IHO requirements to apply to rental residential developments effective January 1, 2018.
- On December 19, 2017 the City Council adopted resolution 78473 amending the Housing Impact Fee Resolution to provide a framework for a transition process between the existing AHIF and the IHO between January 1, 2018 and June 30, 2018 for projects with 20 or more rental units. Staff also clarified that rental developments with three (3) to nineteen (19) units are still subject to the AHIF and that for-sale projects with nineteen (19) or fewer units are exempt from both the IHO and AHIF.
- Currently only \$1.6 million has been collected under the AHIF program. Affordable Housing Impact Fees are due before issuance of building permits. According to the AHIP, an estimated \$13 million will be collected by 2020.
- Under the IHO, if the in-lieu fee option is chosen, fees are due prior to Certificate of Occupancy. So far, no IHO in-lieu fees have been collected, but according to the AHIP, over \$100 million in in-lieu fees is expected to be collected by 2022 (as shown in Figure V-7).
- **HOME and SB2.** As seen in Figure V-7, San José's AHIP lists HOME and SB 2 in the city's local funding. These are federal and state sources that are administered by the city. San José estimates \$1 million annually in HOME funds for the construction of new multifamily housing. SB 2, the Building Jobs and Homes Act, is a new state source that was enacted by the State of California in 2017. It imposes a \$75 recording fee on real estate transactions to finance the creation and preservation of affordable housing. Beginning in 2019, seventy percent of funds will be allocated to local governments. Staff estimates that San José will receive an allocation of \$2 million in the first year, and \$3 million annually in subsequent years.

Moving forward, the City of San José will cap its affordable housing contribution at \$125,000 per unit. As indicated in the AHIP, a cap of \$125,000 per unit will apply regardless of target income and population. This does not cover the entire local funding gap of \$173,000 estimated from the sample projects, implying that other funding sources will be required, such as Measure A.

The City of San José has determined preliminary criteria that will be prioritized in the allocation of its funding for affordable housing. The city is scheduled to release a Notice of Funding Availability of \$87.5 million for new multifamily affordable rental housing. Projects with the following criteria will be given priority: (1) ability to apply for California’s AHSC funding, which among other criteria prioritizes projects located near high-quality transit; (2) use of cost savings techniques, such as modular construction; (3) inclusion of units targeted to homeless populations, and (4) general project readiness. Furthermore, the city estimates that it will contribute to over 90 percent of Measure A projects.

In November 2018, the City of San José will be placing a general bond obligation on the ballot (Measure V). If it passes, the bond measure would generate \$450 million for acquisition, construction, and completion of affordable housing.

CITY OF SANTA CLARA

Santa Clara has approximately \$20 million in matching funds dedicated to the production of new affordable housing. This funding originates from the following sources:

- **City Affordable Housing Fund**, which consists of revenues from the city’s new commercial linkage fee and from in-lieu fees paid to comply with the inclusionary housing ordinance. This source is expected to grow in the coming years as more fees are collected from the new ordinance. Funds can be used for ELI, VLI, LI and MOD housing.
- **Housing Successor Agency Program**, which consists of the income generated from loan repayments from the city’s portfolio of projects funded by the former redevelopment agency. Loan repayments can be used for ELI, VLI, and LI housing.

The City of Santa Clara expects to provide between \$50,000 and \$100,000 per affordable unit. City staff mentioned that in the short-term, developers could expect a City contribution of less than \$100,000 per unit. Assuming a total local gap of \$173,000, a significant amount would be left to fill with other sources, such as Measure A.

A City-owned site in the Santa Clara station area is planned to accommodate new affordable housing. The City of Santa Clara is planning to issue a Request for Proposals (RFP) for a site at 1021-1031 El Camino Real. The City expects this site to include affordable housing units for a mix of VLI, LI, and MOD households. Having access to publicly-owned sites allows affordable housing development to occur without competing for land in prime locations.

FIGURE V-7. CITY OF SAN JOSÉ FIVE-YEAR AFFORDABLE HOUSING REVENUE AND NEW UNIT PROJECTION

	FY 2017-2018 Committed Projects	FY 2017-2018 Available for Development	FY 2018-2019 Estimated	FY 2019-2020 Estimated	FY 2020-2021 Estimated	FY 2021-2022 Estimated	Total
Low and Moderate Income Housing Fund	\$27,574,000	\$51,960,000	\$41,500,000	\$5,500,000	\$5,500,000	\$5,500,000	\$137,534,000
Affordable Housing Impact Fees	\$0	\$1,197,000	\$11,995,000	\$46,000	\$0	\$0	\$13,238,000
Inclusionary Housing Policy In-Lieu Fees	\$0	\$11,400,000	\$10,322,000	\$13,800,000	\$0	\$0	\$35,522,000
Inclusionary Housing Ordinance In-Lieu Fees	\$0	\$0	\$3,251,000	\$25,000,000	\$55,991,000	\$25,000,000	\$109,242,000
Housing Authority Litigation Award	\$0	\$19,000,000	\$0	\$0	\$0	\$0	\$19,000,000
HOME (a)	\$1,500,000	\$4,000,000	\$3,100,000	\$1,000,000	\$1,000,000	\$1,000,000	\$11,600,000
SB 2 State Housing Trust Fund (b)	\$0	\$0	\$0	\$2,000,000	\$3,000,000	\$3,000,000	\$8,000,000
Total Revenue	\$29,074,000	\$87,557,000	\$71,168,000	\$47,346,000	\$65,491,000	\$34,500,000	\$335,136,000
Estimated Affordable Housing Units	1,099	528	569	379	524	276	3,375

(a) HOME is a federal funding source administered by the City of San José.

(b) SB 2 is a new state source that will be administered locally by the City of San José.

Source: City of San José AHIP 2017-2022; June 2018.

VI. APPENDIX

This appendix includes the following supplementary information:

- Figure VI-1 includes a review of best practices for preventing displacement and existing anti-displacement policies in San José and Santa Clara.
- Figure VI-2 includes a summary of existing deed-restricted affordable housing projects in the Affordable Housing Study Areas by year of expiration, as well as projects that are currently under construction and proposed.
- Figure VI-3 includes detailed information on the type and age of the housing stock in the Affordable Housing Study Areas, based on U.S. Census data.
- Figure VI-4 includes detailed information on multifamily rental housing units considered “naturally occurring affordable housing” (NOAH) in the Affordable Housing Study Areas, based on CoStar data.
- Figure VI-5 provides information on the sample of twelve recent affordable housing projects in Santa Clara County, as described in Chapter V.

FIGURE VI-1. ANTI-DISPLACEMENT BEST PRACTICES AND EXISTING POLICIES IN SAN JOSÉ AND SANTA CLARA

Strategy/Tool	Description	City of San José	City of Santa Clara
Tenant Protections and Support			
Rent Stabilization	Limit the escalation of rents paid by existing tenants, typically to once per year with increases tied to the rate of inflation or a fixed percentage. Ordinances generally allow landlords to raise rents higher to cover certain costs, such as capital improvements.	Apartment Rent Ordinance. Rent increases for existing tenants in rental units built before 1979 are limited 5 percent a year. Landlords have full discretion to reset the initial rent when a new tenancy begins (due to "vacancy decontrol" policies required by state law).	
Mobilehome Park Rent Control	Limit the escalation of rents paid by mobilehome residents on the land rented, or on the mobilehomes themselves.	Mobilehome Rent Ordinance. Annual rent increases for mobilehomes and mobilehome lots are limited to 75 percent of the San Francisco-Oakland All Urban Consumers CPI, with a minimum of 3 percent and a maximum of 7 percent a year. In most cases, rents may not be increased when the mobilehome is sold or transferred.	
Just-Cause Eviction and Harassment Protections	Protect tenants from eviction by restricting evictions to specific "just causes" (e.g., failing to pay rent, damaging the property, violating the rental agreement terms, etc.) and requiring notice, documentation, and justification for evictions. Just cause policies are often combined with additional measures to protect tenants from landlord harassment and/or mandate relocation assistance for "no fault" evictions - see below.	Tenant Protection Ordinance. Landlords of multifamily dwellings may only terminate tenancies under one of 13 "just cause" reasons. For causes based on landlord decisions, the landlord is required to provide relocation benefits. The ordinance also includes anti-retaliation protections for tenants.	
Tenant/Landlord Mediation	Require or offer a mediation process between a tenant and landlord before a landlord is allowed to increase rent above a certain threshold.	Tenant Protection Ordinance. The ordinance also includes resources for dispute mediation and arbitration.	Project Sentinel. Santa Clara funds Project Sentinel, a nonprofit organization, to provide voluntary dispute resolution services to tenants, landlords, and roommates.
Tenant Legal Counseling	Provide free or subsidized legal services or other professional counseling for low-income tenants at-risk of displacement.	The City funds pro bono legal services to help enforce the Tenant Protection Ordinance.	
Relocation Assistance	Require landlords to provide financial assistance to tenants in the case of "no-fault" evictions. Benefits may include moving expenses, security deposit, first month rent of the new apartment, etc.	The Tenant Protection Ordinance, the Ellis Act Ordinance, and the Residential Condominium and Community Apartment Project Regulation all have relocation assistance requirements.	The Community Ownership Conversion Tenant Protections (see below) requires tenants to be given a moving allowance in the case of condominium conversions.

Strategy/Tool	Description	City of San José	City of Santa Clara
Right of First Refusal	Require landlords to offer existing tenants the option to purchase units at fair market value before the landlord is allowed to enter into a transaction with a third party.	The Mobilehome Park Protection/Conversion Ordinance and the Residential Condominium and Community Apartment Project Regulations both require tenants to be offered a “right of first refusal” at the time of mobilehome or condominium conversion.	The Community Ownership Conversion Tenant Protections (see below) requires tenants to be offered a "right of first refusal" in the case of condominium conversions.
Right of Return	Allow tenants displaced by redevelopment or demolitions to return at prior or regulated rental rates if the units re-enter the rental market.	Ellis Act Ordinance. This ordinance implements protections for tenants affected by eviction from a property that is to be demolished or permanently withdrawn from the rental market. Included in these protections is the “right to return” for tenants, if units are returned to the rental market within 10 years.	
Rental Assistance	Provide financial assistance to low income tenants at risk of homelessness or to individuals experiencing homelessness.	Tenant Based Rental Assistance. This program is available to formerly homeless individuals in need of rapid rehousing.	Tenant Based Rental Assistance. The City of Santa Clara has an agreement with Adobe Services, a nonprofit organization, to provide rental assistance to households earning below 60% of AMI who are at risk of homelessness.
Proactive Code Enforcement	Enforce local building and fire codes on at-risk properties owned by for-profit owners to ensure quality of living conditions.	The City of San José has been working on improving the efficiency and effectiveness of the Multiple Housing Program, the city's building code enforcement inspection program for apartments and emergency shelters.	
Limit Discrimination Based on Source of Income	Ban discrimination of tenants based on the source of their income and/or incentivize landlords to rent to Section 8 voucher holders, for example through educational programs for landlords.	An ordinance is currently under consideration by City Council which would prohibit discrimination against tenants based on the source of their income.	
Preservation of Existing Affordable Housing Units			
Condominium Conversion Controls and Tenant Protections	Impose restrictions on the ability to convert apartments to condominiums and/or implement protections for existing tenants.	Residential Condominium and Community Apartment Project Regulation. Regulations are centered on tenant protections, including: advance notice requirements, right of first refusal, and relocation assistance. Developers are also required to submit an application for a conditional use permit in order to proceed with the conversion.	Community Ownership Conversion Tenant Protections. Regulations are centered on tenant protections, including: advance notice requirement, right of first refusal, relocation assistance, and certain limitations on rent increases if the tenant returns.

Strategy/Tool	Description	City of San José	City of Santa Clara
Mobilehome Park Conversion Controls and Tenant Protections	Impose restrictions on the ability to convert or redevelop mobilehome parks into a different use, and/or implement protections for existing tenants.	Mobilehome Park Protection/Conversion Ordinance. Regulations are primarily centered on tenant protections, including: advance notice requirements and tenants' right of first refusal. The City is in the process of revisiting this ordinance.	
Single-Room Occupancy Conversion Controls	Impose restrictions on the ability to convert Single Room Occupancies (SROs), and/or implement incentives to help create them. SROs are a type of multifamily housing with one to two-person units with shared bathrooms and/or kitchens.	While the City of San José does not have specific laws controlling the conversion of SROs, it has attempted to facilitate the construction of new SROs through changes in the zoning code.	
Acquisition/ Preservation of Deed-Restricted Units	Track expiration date of existing deed-restricted units and provide resources for their acquisition and rehabilitation. Additional funding sources, such as the Low Income Housing Tax Credit, may be available.	The City of San José produces quarterly reports to track projects at-risk of expiration. The City uses available funding to refurbish aging development and extend the terms of affordability.	The City of Santa Clara tracks expiration dates and works with public and nonprofit housing developers to preserve assisted multifamily units at-risk of being converted to market-rate housing.
Acquisition/ Preservation of "Naturally Occurring" Affordable Housing"	Track existing "naturally occurring" affordable units and provide resources for their acquisition and rehabilitation. Programs may exist at the municipal level (for example, the Small Sites Acquisition Program in San Francisco and Measure KK Acquisition Program in Oakland) or regional level (such as the Bay Area Pilot Preservation Fund).		
Demolition Restrictions	Impose restrictions on the demolition of existing housing units, such as limiting demolitions to certain locations or requiring an overall increase in number of housing units. Also often associated with tenant relocation assistance.	Ellis Act Ordinance. In the case of a demolition/ permanent removal of rent-stabilized units from the rental market, the ordinance requires the greater of option (a) or (b) to be subject to the Apartment Rent Ordinance: (a) 50% of new apartment units built, or (b) the number of rent-stabilized apartments removed from the market. Some exceptions may apply if new apartments if units on-site are deed-restricted.	
Community Land Trust	Nonprofit, community-based organization, usually supported by the local city or county, whose mission is to provide affordable housing in perpetuity. Most often, the CLT owns the land, and either sells or rents properties on the land to low-income families at affordable rates.		

Strategy/Tool	Description	City of San José	City of Santa Clara
Short-term Rental Restrictions	Regulate short-term rental platforms, such as Airbnb or VRBO, to ensure housing stock remains available and affordable to residents. Regulations may include tracking of listings; imposing requirements such as business licenses for landlords, transient-occupancy taxes, minimum/maximum rental periods; or restricting short-term rentals to certain areas.	Various regulations apply, including a Transient-Occupancy Tax.	Transient-Occupancy Tax.
Seismic Retrofit Programs	Provide financial assistance to landlords retrofitting soft-story buildings in order to minimize the financial impact on low- and moderate-income residents. Soft-story buildings are multi-story buildings with open parking or commercial space on the ground floor, which makes them prone to collapse in a major earthquake.		
Homeowner Support			
Homeowner Assistance Programs	Provide financial assistance to low income homeowners for downpayment, closing costs, etc.	Down-payment assistance for low-income homebuyers is available through a partnership with Housing Trust Silicon Valley, funded partly through Measure A.	
Housing Rehabilitation Funds	Provide financial assistance to low income homeowners in need of emergency home repairs or other home rehabilitation.	Rebuilding Together Silicon Valley and Habitat for Humanity. The City of San José dedicates funds to two nonprofit organizations to operate an emergency minor repair program for low income homeowners.	Neighborhood Conservation and Improvement Program (NCIP). This program provides funding to income-qualified households for emergency repairs and upgrades.

Note: Best practices were derived using various sources, including: The Urban Displacement Project Policy Tools; SPUR, “Room for More: Housing Agenda for San José,” August 2017. California Housing Partnership, 2014, “Preservation of Affordable Homes Near Transit Toolkit”; Causa Justa, 2014, “Development without Displacement: Resisting Gentrification in the Bay Area”; Civil Grand Jury of Santa Clara County, 2018, “Affordable Housing Crisis: Density is our Destiny”; CSB Consulting, 2018, “Protecting, Preserving, & Increasing Production of Affordable Housing in Silicon Valley.”

Source: City of San José, 2018; City of Santa Clara, 2018; Strategic Economics, 2018.

FIGURE VI-2. EXISTING, UNDER CONSTRUCTION, AND PROPOSED DEED-RESTRICTED AFFORDABLE HOUSING PROJECTS IN THE AFFORDABLE HOUSING STUDY AREAS

Project Name	Address	Status	Year Placed in Service	Expiration Year	Affordable Units
Santa Clara Station					
Homesafe Santa Clara	611 El Camino Real	Existing	2000	2055	25
Quetzal House	884 Lafayette Street	Existing	2003	2033	8
Domicillio (Sobrato I)	431 El Camino Real	Existing	2006	2034	31
Quetzal House	884 Lafayette Street	Existing	2003	2033	8
Gateway Santa Clara Sr. Housing	1000 El Camino Real	Existing, Unknown Expiration	2002	Unknown	41
Presidio El Camino	1450 El Camino Real	Existing, Unknown Expiration	2011	Unknown	40
Runaway Youth Shelter	3490 The Alameda	Existing, Expiring Before 2029	1992	2023	20
Total Deed-Restricted Units					173
Downtown San José Station					
Donner Lofts	158 E. St. John St.	Existing	2016	2068	101
Casa del Pueblo	200 S. Market Street	Existing	2016	2029	163
Vintage Tower	235 East Santa Clara St	Existing	2007	2064	59
St. Claire Apartments	311 S.First Street	Existing	2008	2063	7
Plaza Maria	115 East Reed Street	Existing, Unknown Expiration	1995	N/A	52
Sobrato House	496 S. Third St	Existing, Unknown Expiration	2006	N/A	19
Market Gateway Apartments	535 S.Market St	Existing, Unknown Expiration	2000	N/A	22
San Pedro Square Apts.	155 W. Santa Clara St.	Existing, Unknown Expiration	Unknown	N/A	32
Fountain Plaza	190 Ryland Street	Existing, Unknown Expiration	Unknown	N/A	46
Town Park Towers	60 North 3rd Street	Existing, Unknown Expiration	Unknown	N/A	216
Jeanne D'Arc Manor	85 S. 5th Street	Existing, Unknown Expiration	Unknown	N/A	0
101 San Fernando	101 E.San Fernando St	Existing, Expiring Before 2029	2001	2028	65
Masson Building Rehabilitation Project	161 West Santa Clara St	Existing, Expiring Before 2029	Unknown	2027	4
Colonnade	201 S 4th Street	Existing, Expiring Before 2029	Unknown	2028	16
Villa Torino	29 West Julian Street	Existing, Expiring Before 2029	Unknown	2025	85
YWCA Third Street	375 South 3rd Street	Existing, Expiring Before 2029	1993	2023	62
Giovanni	85 S. 5th Street	Existing, Expiring Before 2029	1987	2028	24
Villas on the Park	278 N 2nd St	Under Construction			83
North San Pedro Studios	201 Bassett St	Proposed			134
226 Balbach	226 Balbach	Proposed			71
Total Deed-Restricted Units					1,261

Project Name	Address	Status	Year Placed in Service	Expiration Year	Affordable Units
Alum Rock/28th St Station					
Hacienda Creek Senior	399 East Court	Existing	2003	2057	79
Hidden Brooks	Family	Existing	2011	2038	40
Brookwood Terrace Family Apartments	1346 E San Antonio St	Existing	2012	2064	83
Homebase	865 Calhoun St.	Existing, Unknown Expiration	Unknown	N/A	12
Fairways at San Antonio	305 San Antonio Court	Existing, Unknown Expiration	Unknown	N/A	86
Villa Hermosa	1640 Hermocilla Way	Existing, Unknown Expiration	Unknown	N/A	99
Parkside Terrace	463 Wooster Ave	Existing, Unknown Expiration	Unknown	N/A	40
Quetzal Gardens	1695 Alum Rock Avenue	Proposed			70
Roosevelt Park	E Santa Clara & N 21st St	Proposed			80
Total Deed-Restricted Units					589

Source: City of San José; City of Santa Clara; Strategic Economics, 2018.

FIGURE VI-3. HOUSING STOCK TYPE AND AGE IN THE STATION AFFORDABLE HOUSING STUDY AREAS, 2016

	Santa Clara	Downtown San José	Alum Rock/ 28 th Street	Santa Clara County
Total Housing Units	1,614	7,087	6,581	651,905
Units in Structure (Percent of Total Units)				
Single Family	49%	11%	59%	63%
Multifamily	51%	89%	35%	34%
2-4 Units	3%	13%	9%	7%
5 - 19 Units	12%	23%	12%	11%
20 or More	35%	54%	14%	15%
Mobile Home, Van, Etc.	0%	0%	6%	3%
<i>Total</i>	<i>100%</i>	<i>100%</i>	<i>100%</i>	<i>100%</i>
Year Built (Percent of Total Units)				
Built After 2000	47%	32%	14%	12%
Built 1980 - 2000	15%	20%	17%	23%
Built 1970 - 1980	6%	9%	13%	23%
Built 1950 - 1970	5%	12%	28%	34%
Built 1950 or Before	26%	27%	27%	9%
<i>Total</i>	<i>100%</i>	<i>100%</i>	<i>100%</i>	<i>100%</i>

Source: U.S. Census ACS 5-year estimates, 2012-2016.

FIGURE VI-4. MULTIFAMILY HOUSING CONSIDERED NATURALLY OCCURRING AFFORDABLE HOUSING IN THE AFFORDABLE HOUSING STUDY AREAS

	Properties with Less than 5 Units			Properties with 5-20 Units			Properties with Over 20 Units			All Properties		
	NOAH	Total	NOAH Percent of Total	NOAH	Total	NOAH Percent of Total	NOAH	Total	NOAH Percent of Total	NOAH	Total	NOAH Percent of Total
Santa Clara												
Building Count	10	10	100%	15	18	83%	2	5	40%	27	33	82%
Unit Count	36	36	100%	128	156	82%	57	431	13%	221	623	35%
Average Building Size (Units)	3.6	3.6		8.5	8.7		28.5	86.2		8.2	18.9	
Downtown San José												
Building Count	43	44	98%	135	140	96%	15	33	45%	193	217	89%
Unit Count	175	180	97%	1,343	1,394	96%	764	3,780	20%	2,282	5,354	43%
Average Building Size (Units)	4.1	4.1		9.9	10.0		50.9	114.5		11.8	24.7	
Alum Rock/28th Street												
Building Count	35	35	100%	42	43	98%	11	16	69%	88	94	94%
Unit Count	91	91	100%	392	406	97%	711	1,262	56%	1,194	1,759	68%
Average Building Size (Units)	2.6	2.6		9.3	9.4		64.6	78.9		13.6	18.7	

*Estimated as all 1- and 2-star rated units tracked by CoStar.

**Estimated as all multifamily units tracked by Costar. This number is smaller than the actual number of units in the area because CoStar data excludes single-family homes, condominiums, and some small multifamily buildings.

Source: CoStar, 2018; Strategic Economics, 2018.

FIGURE VI-5. SAMPLE OF RECENT AFFORDABLE HOUSING PROJECTS IN SANTA CLARA COUNTY

Project	Address	City	Total Units	Measure A	4% or 9% Tax Credits	Funding Year	Status	Developer	Type
Park Avenue Senior Housing	777 Park Ave	San José	100	No	4%	2016	Under Construction	Santa Clara County Housing Authority	Senior
Laurel Grove Family Apartments	777 Park Ave	San José	82	No	4%	2016	Under Construction	Santa Clara County Housing Authority	Non-Targeted
Second Street Studios	1140 S 2nd St	San José	135	No	9%	2016	Under Construction	First Community Housing	Homeless/Formerly Homeless
Met South	2128 Monterey Rd	San José	31	No	9%	2016	Under Construction	Charities Housing	Large Family
Villas on the Park	278 N. 2nd St	San José	84	Yes	9%	2017	Under Construction	Affirmed Housing and PATH	Homeless/Formerly Homeless
Leigh Ave Senior Apartments	1030 Leigh Ave	San José	64	Yes	4%	2017	Proposed	First Community Housing	Homeless and Special Needs Seniors
Quetzal Gardens	1695 Alum Rock	San José	71	Yes	4%	2017	Proposed	Resources for Community Development	Homeless, Extremely Low and Low-Income
Renascent Place	2500 Senter Rd	San José	162	No	4%	2017	Under Construction	Charities Housing	Homeless/Formerly Homeless
North San Pedro Apartments	201 Basset St	San José	135	Yes	4%	2018	Proposed	First Community Housing	Homeless Veterans, Special Needs, and Very Low-Income
Corvin Apartments	2904 Corvin Dr	Santa Clara	146	Yes	9%	2018	Proposed	Allied Housing	Homeless/Formerly Homeless, Special Needs, and Very-Low Income
Page Street Apartments	329-353 Page St	San José	82	Yes	4%	2018	Proposed	Charities	Homeless/Formerly Homeless, Special Needs, and Very-Low Income
Sango Court	355 Sango Ct	Milpitas	102	Yes	4%	2018	Proposed	Resources for Community Development	Homeless/Formerly Homeless, Special Needs, Extremely Low-Income and 60% AMI

Source: California Tax Credit Allocation Committee Staff Reports, 2016-2018; Santa Clara County Office of Supportive Housing, 2017-2018; Strategic Economics, 2018.