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# Housing Silicon Valley: A 20 Year Plan to End the Affordable Housing Crisis

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## A 20 Year Plan to End the Affordable Housing Crisis

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* Through a consensus-based review process, this report represents the majority opinion of the Advisory Council. However, this list is not meant to imply that each of these individuals or their organizations has given final approval of this report.

FRONT COVER (TOP): **John Burns Gardens, Santa Clara. Developed by the Housing Authority of Santa Clara County, this 96-unit development serves very low and low income seniors.**

FRONT COVER (BOTTOM): **El Paseo Studios, San Jose. Completed in 2003 by First Community Housing, a nonprofit housing developer based in San Jose, El Paseo Studios is a single room occupancy development with 98 studios for very low income persons.**

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# Executive Summary

## Introduction

Providing safe, decent and affordable housing is key to maintaining Silicon Valley's quality of life and economic prosperity. Business and civic leaders widely agree that in order to sustain its growth, the Valley needs a full range of housing options from affordable rental apartments for service workers to new homes for first time homebuyers. According to the Bay Area Council, a public-policy advocacy organization that represents more than 275 of the largest employers in the Bay Area, housing is the linchpin of sustainable development and smart growth not just in Santa Clara County, but across the Bay Area region.

Over the course of the past decade and more, great strides have been made across Santa Clara County in efforts to build an adequate supply of housing. Still, many thousands of individuals and families living or working in Silicon Valley can attest to the fact that there remains a scarcity of affordable apartments, condominiums, and detached homes. For working people at the bottom of the income scale, including the homeless or those threatened with homelessness, the affordable housing shortage in Santa Clara County is particularly serious. **The bottom line is that Silicon Valley needs 90,000 new units of affordable housing over the next 20 years to meet the needs of a growing and diverse population.**

## Study Purpose

In partnership with the Full Circle Fund and Charities Housing Development Corporation, Bay Area LISC commissioned this study to quantify the full extent of current affordable housing needs in Santa Clara County and to provide a basis for raising the capital needed to adequately house the county's diverse population. Though a variety of local jurisdictions and nonprofit organizations across the region regularly prepare housing policy reports and strategies, **this report will examine the housing crisis in Silicon Valley comprehensively and for the first time clearly delineate a solution to ending the crisis over the next 20 years.**

The major issues analyzed in this report include:

- What is the current need for affordable housing in Santa Clara County?
- How much affordable housing has been produced in recent years?
- What is the future unmet need for affordable housing?
- What are yesterday's trends and tomorrow's prospects for federal, state and local affordable housing funding?
- Are the existing funding sources sufficient to meet the future unmet need for affordable housing?
- What are the economic benefits of affordable housing?

## Housing Need and Production

Santa Clara County is the fourth most populous county in California and one of the most demographically diverse metropolitan regions in the United States. Just as the county's resident population is diverse, so too is its workforce. Even though the local economy generates many high paying jobs, 39 percent of local jobs pay less than $30,000 per year and four out of the 10 fastest growing jobs pay less than $21,000 per year. Given our region's high cost of living, these figures are particularly troublesome. According to the Low Income Housing Coalition, in 2005 the income needed to afford the fair market rent for a two-bedroom apartment in Santa Clara County was $52,080 ($25.04/hour). This means a minimum wage worker in Santa Clara County earning $6.75 an hour would have to work 148 hours per week to afford a two-bedroom apartment.[1]

1 National Low Income Housing Coalition, Out of Reach, 2005.

The lack of affordable housing has caused some residents to reside in substandard conditions, i.e. homes with physical defects and overcrowded conditions, or to move out of the county and endure arduous commutes, further taxing the transportation network. The affordability, variety and location of housing directly impact an area's economic viability and quality of life. Inadequate housing options force workers to live far from employment centers and commute long distances. The negative consequences of traffic congestion are a growing concern of employers as well, who realize how the prevailing pattern in Silicon Valley taxes the transportation network, diminishes productivity, drives up employment costs, limits family time and makes other regions more desirable to employees.

The great news is that the Silicon Valley region has developed a proven strategy for developing quality affordable housing. Indeed, to many, the last seven years represent a golden age of affordable housing development in Santa Clara County. Responding to Silicon Valley's serious housing crisis with characteristic creativity and dedication, **developers and public agencies have worked together to finance and develop over 14,500 new affordable apartments and homes serving low-income individuals and families since 1999**. Remarkably, all of this was accomplished despite a difficult economy, rising land costs, and a myriad of other challenges.

No one would argue, however, that the region's affordable housing problems have been solved. This study shows that tens of thousands of families continue to experience severe rental housing cost burdens, and many thousands of others find themselves priced out of the county's overheated homeownership market.

The affordable housing gap in Santa Clara County starts with those households who are currently over-paying for their housing and who often live in crowded conditions with other families or friends or in sub-standard units. As demonstrated by this report, those currently in need of housing include low-income workers, first-time homebuyers and individuals and families at risk of homelessness. In all, 41,404 households across the income spectrum currently experience severe housing needs in Santa Clara County.

## Future Housing Demand and Unmet Need

Over the next 20 years, through a combination of natural growth and in-migration, new households will be formed in Silicon Valley, leading to additional housing needs. This report finds that Silicon Valley will need 49,504 new apartments, condominiums and detached homes in addition to existing needs for a total of 90,908 new units required over the next 20 years, including homes for the homeless. This translates to approximately 4,500 total new units needed per year.

This may seem like a daunting figure at first, but we also expect that nonprofit developers and conventional market forces will satisfy a large portion of this need with existing financial sources and support from local jurisdictions. Once all future expected production is taken into account based on current resources and trends, **the future unmet needs gap totals 40,292 housing units or 2,000 units per year**. This represents the portion of the future need that we still need to plan for and for which we need new and stable sources of financial support.

## New Resources Needed For Affordable Housing

This study finds that **Santa Clara County needs to produce an additional 40,292 new affordable housing units over the next 20 years to alleviate current unmet housing needs and provide long-term housing choice for current and new households.** Based on current development costs and subsidy levels, this means that **Silicon Valley will require approximately $4 billion in additional resources over the next 20 years, or $200 million per year in 2005 dollars**. It is anticipated that these additional resources will come in the form of a range of solutions such as a permanent local subsidy source for affordable housing, increased Section 8 vouchers, and other strategies, the combination of which will generate all necessary resources to resolve the affordable housing crisis. In order to maximize the impact of this funding, affordable housing advocates will need to pursue every available opportunity to leverage these public dollars with additional contributions from other public and private sources. It should be noted that affordable housing resources may never be enough to solve the affordable housing crisis without a change in the development regulation system. The system, through zoning and maximum density requirements, in several cases constrains the supply of housing.

Furthermore, the current economic structure creates a disproportionate number of low wage jobs, which in turn increases demand for deeply subsidized housing units.

### Housing Silicon Valley: Major Findings

- 41,404 households in Santa Clara County currently experience severe housing needs.
- Developers and public agencies have worked together to finance and develop over 14,500 new affordable apartments and homes serving low-income individuals and families since 1999.
- The housing needs of Santa Clara County will increase substantially. Over the next 20 years, 90,000 new affordable housing units will be needed to meet demand.
- The greatest needs are housing for extremely low income households (up to 30 percent of area median income) and affordable homeownership opportunities.
- Based on current development costs and subsidy levels, Silicon Valley will require approximately $4 billion, or $200 million annually, in additional local funding over the next 20 years to meet the demand for affordable housing.
- Investment in affordable housing provides significant economic benefits to the region. An additional investment of $200 million in affordable housing subsidy would result in over $1 billion in new economic activity.

## Economic Benefits of Affordable Housing

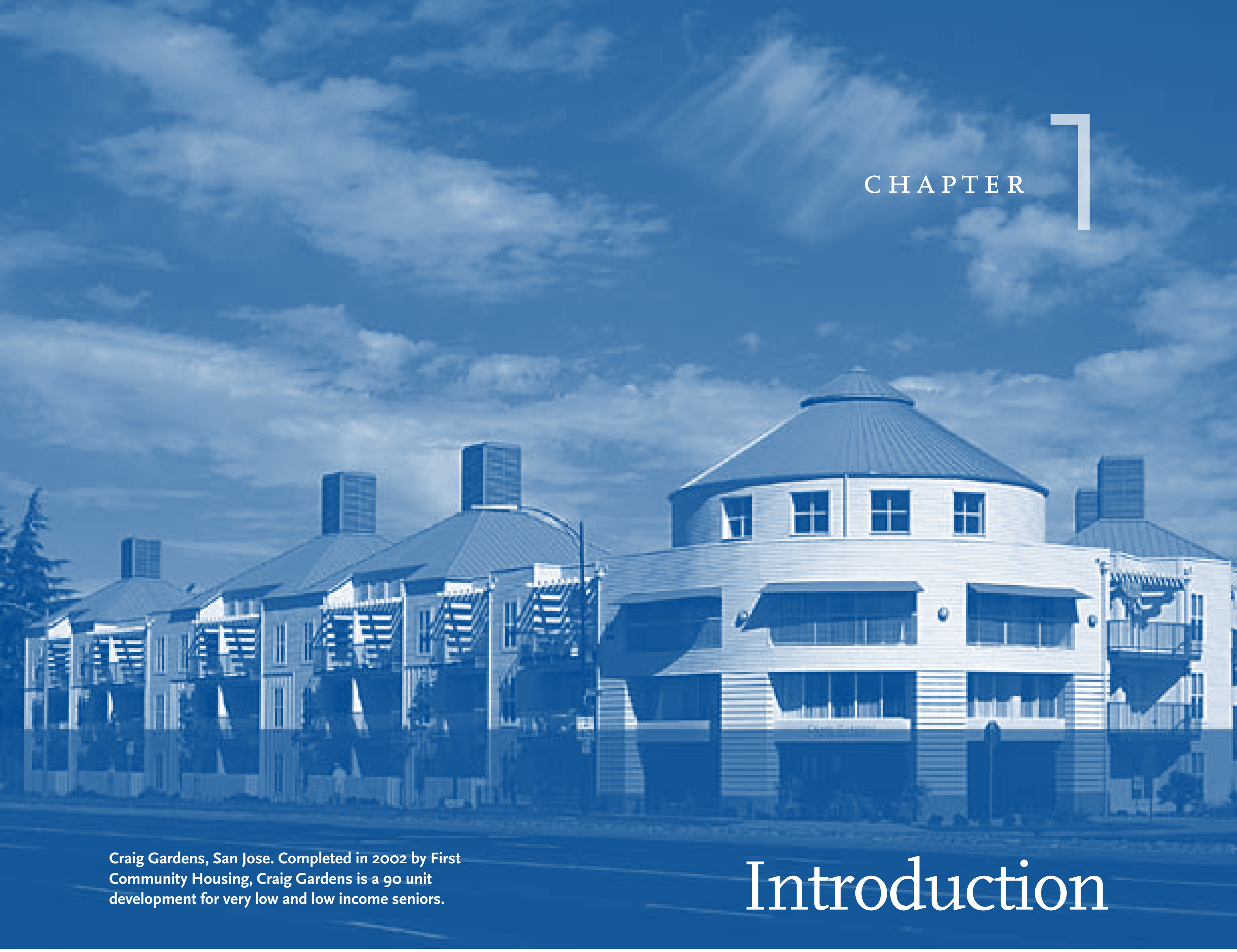
An investment of $200 million in affordable housing subsidy would not just help thousands of families, but would also leverage additional private investment and other subsidies. It would also spur further economic activity, create thousands of jobs in the region, and yield tax revenues to local and state governments. It is anticipated that an additional $200 million in annual investment would result in approximately $1.06 billion to $1.10 billion of new economic activity, create 8,500 to 10,500 new jobs, and generate $100 million to $106 million of additional tax revenues to local and state governments.

## Conclusion

Santa Clara County must approach the financing of new affordable housing with the same innovative thinking that has made it one of the most dynamic and desirable regions in the country to live. Silicon Valley has made tremendous strides in its efforts to build affordable housing over the past seven years. The challenge facing us today is to continue this record of accomplishment to ensure the region's future quality of life and economic prosperity.

Over the coming months, a top-level Blue Ribbon Commission of Silicon Valley civic leaders and housing experts will meet to develop a series of practical strategies to address the housing needs and local funding gaps identified in this report. The Blue Ribbon Commisson's work will assess a range of possible strategies including securing a permanent local source of funding for affordable housing, securing additional Section 8 vouchers for Santa Clara, methods to preserve existing affordable housing, and land use and financing tools to meet Silicon Valley's housing needs for the next 20 years.

CHAPTER 1



Craig Gardens, San Jose. Completed in 2002 by First Community Housing, Craig Gardens is a 90 unit development for very low and low income seniors.

# Introduction

Santa Clara County is home to Silicon Valley, the global leader in high-tech innovation. The county has high paying jobs, a moderate climate, and an abundance of natural amenities that support a high quality of life. Yet the same attractive climate and robust economy that make the county a desirable place to live and work also make it one of the least affordable places to live in the United States.

The county is home to a diverse and relatively well-educated population, with almost half of the residents holding a bachelor's degree or higher. There is, however, a widening gap between the county's well-educated and well-paid workers and those in lower paying occupations that support the local economy, many of whom are minorities. Against this background, the county is facing serious challenges in its efforts to provide quality affordable housing to all its residents.

Numerous public, private and non-profit organizations have joined forces to address the development and preservation of affordable housing, including the Santa Clara County Office of Affordable Housing, the Housing Authority of Santa Clara County, the City of San Jose and other municipal housing departments and redevelopment agencies, the Santa Clara County Housing Trust Fund, and several non-profit and for-profit developers.

## Study Background and Purpose

Santa Clara County has generally higher incomes than the rest of the state and the Bay Area. In 2004, the county's median household income was $74,509, compared to the state and Bay Area medians of $51,185 and $64,611, respectively. Yet Santa Clara County remains one of the most unaffordable places to live in the country, with the median single family home priced at $775,000 in May 2006 — a 190 percent increase over the 1990 price of $267,448 (see Figure B, in Appendix B).[2] Only 15 percent of the county's households can afford to buy the median priced home and equally alarming is the fact that the county's rental housing is unaffordable to 40 percent of those who seek it.[3] It is no wonder residents are becoming increasingly dissatisfied with these conditions. According to a recent poll conducted by the Bay Area Council, 40 percent of Bay Area residents have thought of moving out of the region, with 70 percent citing high housing costs as the primary reason for doing so.[4]

In addition to impacting those who need it most, the lack of affordable housing directly affects the business community as well. The annual CEO Business Climate Survey conducted by the Silicon Valley Leadership Group (SVLG) found that almost 9 out of every 10 employers believe housing costs stand well above all other challenges to Valley companies and nearly all survey respondents (97 percent) cited housing costs as the most significant challenge facing working families.[5]

The affordability, variety and location of housing directly impact an area's economic viability and quality of life. Inadequate housing options force workers to live far from employment centers and commute long distances. The negative consequences of traffic congestion are a growing concern of employers as well, who realize how the prevailing pattern in Silicon Valley taxes the transportation network, diminishes productivity, drives up employment costs, limits family time and makes other regions more desirable to employees, leading to loss in workforce population. While there have been laudable accomplishments with respect to providing affordable housing in the Valley, according to the 2006 Joint Venture Silicon Valley Index, the number of approved affordable homes in 2005 was the lowest since the survey began.[6] In other words, significant work must still be done before the affordable housing demands of the Valley are met.

The purpose of this study is to document long-term housing production and finance trends in Santa Clara County, and to inform efforts to create adequate housing opportunities for Silicon Valley's growing population. Though a variety of local jurisdictions and non-profit organizations across the region regularly prepare housing policy reports and strategies, this is the only study to pull together information from across the county, and document long-term housing production and finance trends. Starting with an accounting of how many units are needed for the next 20 years and what it will cost to build them, this report will provide a practical business plan for meeting the Valley's long-term housing needs.

The study provides an estimate of the demand for owner-occupied and rental housing, examines the recent supply of affordable housing to determine the

2 Data obtained from CA Association of Realtors.
3 40% of the renters have to pay more than 30% of their gross income toward rent. U.S. Census 2000.
4 http://eastbay.bizjournals.com/eastbay/stories/2006/02/27/daily1.html
5 Silicon Valley Leadership Group CEO Business Climate Survey, 2006, http://www.svlg.net/Related%20Docs/CEOSurvey06.pdf
6 Joint Venture Silicon Valley Network, Index of Silicon Valley, 2006, http://www.jointventure.org/PDF/Index%202006.pdf

## MARIA

Maria, 44, is a single mother of two teenage boys working a low wage, medical claims billing job. Her annual income is $38,927 (child support included). Because she lives in affordable housing developed and owned by a nonprofit organization, she is able to stay in Silicon Valley and see her children through high school. She plans to purchase a home sometime soon.

county's unmet affordable housing needs, and quantifies the multiple economic benefits of investing in affordable housing. The major issues analyzed in the study include:

- What is the current need for affordable housing in Santa Clara County?
- How much affordable housing has been produced in recent years?
- What is the future unmet need for affordable housing?
- What are yesterday's trends and tomorrow's prospects for federal, state and local affordable housing funding?
- Are the existing funding sources sufficient to meet the future unmet need for affordable housing?
- What are the economic benefits of affordable housing?

## Study Process

In partnership with the Full Circle Fund and Charities Housing Development Corporation, Bay Area LISC commissioned the Institute for Metropolitan Studies at San José State University (SJSU) to collect and analyze data to address the questions listed above. Information collected includes project data regarding past and future affordable housing construction and rehabilitation, demographic data regarding household incomes and household size, and published literature regarding funding patterns for affordable housing.

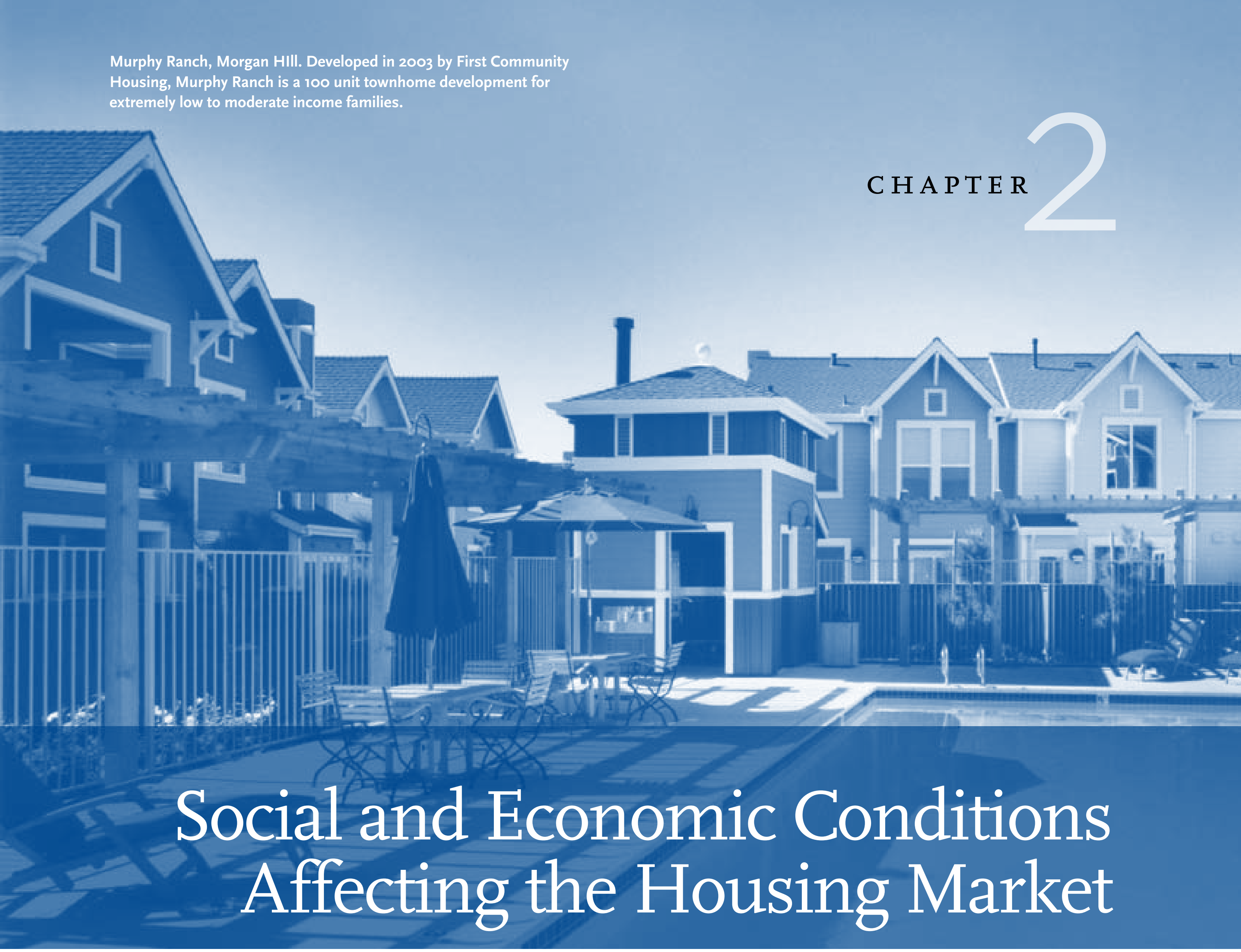
To oversee the study process, a top-level advisory council of community leaders and housing experts was convened in September, 2005 and has been meeting regularly since that time. The draft study received extensive comments and suggestions, which were incorporated where possible.

During 2007, a top-level Blue Ribbon Commission of Silicon Valley civic leaders and housing experts will meet to develop a series of practical strategies to address the housing needs and local funding gaps identified in this report.

## Report Structure

This report is structured as follows:

- **Chapter 2:** Social and Economic Conditions Affecting the Housing Market — This chapter provides an overview of household demographics, tenure, and income. It also compares Santa Clara County with seven similar counties throughout the country.
- **Chapter 3:** Affordable Housing Need and Demand — This chapter estimates need for affordable rental housing and demand for affordable ownership homes.
- **Chapter 4:** Affordable Housing Supply and Funding — This chapter summarizes a comprehensive database developed for this report that documents affordable homes produced, replaced, rehabilitated, and preserved in Santa Clara County from 1999 through 2005, as well as known "pipeline" projects. It also reviews the types of funding that were used to create and preserve affordable housing during this period.
- **Chapter 5:** Future Funding: Expected Streams and Funding Gaps — This chapter discusses future threats to continued production due to declining federal, state, and local resources. It also estimates the additional funding that will be required to meet the county's unmet demand for affordable housing.
- **Chapter 6:** Economic Impact of Affordable Housing — This chapter identifies the exact magnitude of several economic benefits of investing in affordable housing. These benefits include an increase in economic activity, job creation, and the generation of tax revenues.



Murphy Ranch, Morgan HIll. Developed in 2003 by First Community Housing, Murphy Ranch is a 100 unit townhome development for extremely low to moderate income families.

CHAPTER 2

# Social and Economic Conditions Affecting the Housing Market

This chapter provides a demographic and economic overview of Santa Clara County as compared with the state of California and seven competitive high-tech regions across the country.

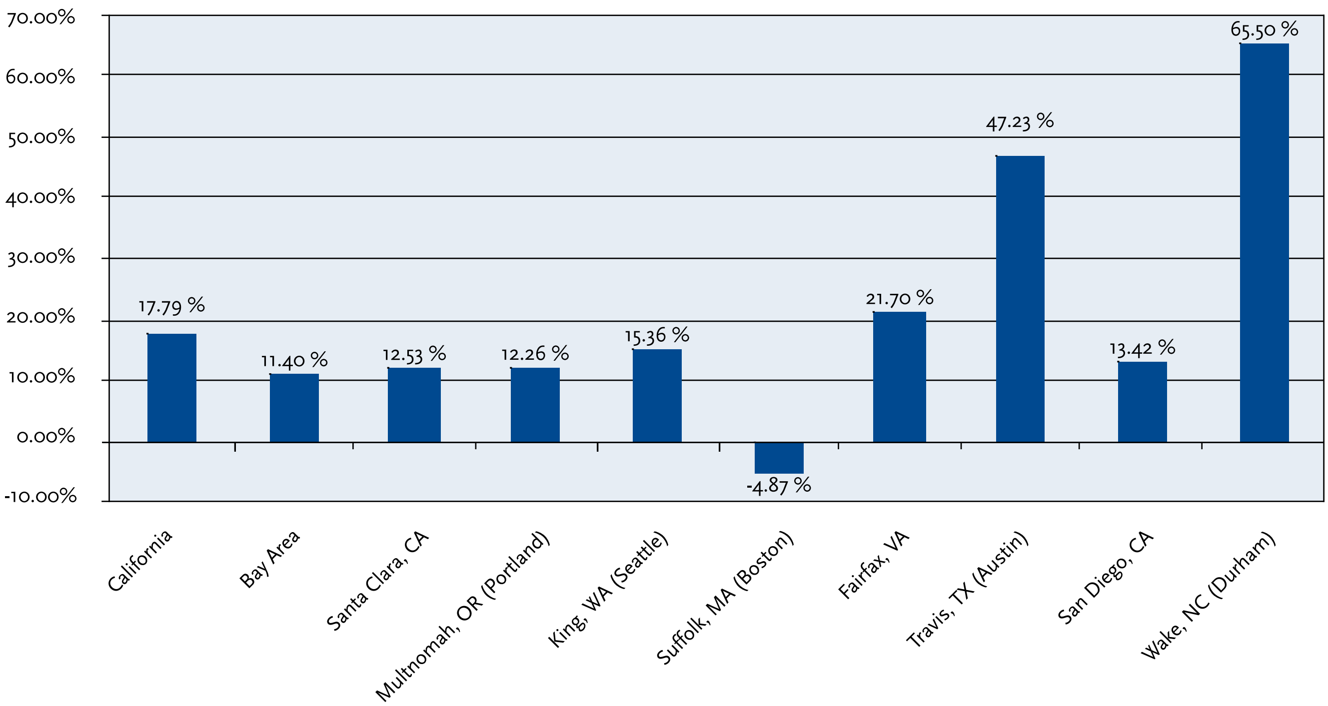
## Population and Household Growth

Santa Clara County's population of nearly 1.7 million is one of the largest in the state, preceded only by Los Angeles, San Diego and Orange counties, and is the largest of the nine Bay Area counties. It grew 12.53 percent between 1990 and 2004 from 1,497,577 to 1,685,188 residents and today its residents constitute about one-fourth of the Bay Area's total population.

More importantly for the purpose of analyzing the housing market, more than 44,000 new households were formed in Santa Clara County during the 1990s, an increase of 8.6 percent for the period. These growth rates lag behind the state's overall growth, which registered an increase in population of 17.8 percent and an increase in households of 15.3 percent during the same period.

The Silicon Valley Leadership Group (SVLG) compares Silicon Valley with seven other high-tech regions around the country: Portland, Seattle, Boston, Fairfax, Austin, San Diego and the Raleigh-Durham metropolitan area. These regions share the Valley's same high-tech industries and provide a baseline by which to conduct

FIGURE 1: **Population Change: 1990–2004**




comparisons. Silicon Valley may lose its attractiveness to employers if its quality of life decreases relative to these regions. In fact, five of these seven comparable regions across the country had a population growth rate higher than Santa Clara County from 1990–2004 (see Figure 1).

## Household Tenure

In Santa Clara County, of the 564,670 households accounted for in the 2000 Census, a total of 343,633 were owners and 221,037 were renters. Ownership rates in the county — and the state — represent some of the lowest in the nation. Owner tenure in Santa Clara County, at 59.1 percent of all households in 1990 and 60.9 percent in 2004, remained virtually stable. At the state level, owner tenure increased marginally from 55.6 percent in 1990 to 58.6 percent in 2004.

## Age Distribution

The age distribution trends of Santa Clara County indicate future demand for senior housing. These trends also highlight the need to provide a wide range of housing choices for children, presently below 15 years of age, who will enter the housing market upon reaching adulthood. It is absolutely critical to keep the next generation in mind as we formulate any housing policy, especially considering the fact that the county has lost a substantial portion of its population ages 20 to 34.

## Demand for Housing: Income, Jobs, Population and Mortgage Rates

Changes in income, jobs, population and mortgage rates naturally affect housing demand. Both the county and the Bay Area region bore the brunt of the region's recent downturn in the economy. The Bay Area lost 6.3

percent of its employment base between 2000 and 2005 (from 3,753,460 to 3,516,960), while Santa Clara County lost 13.44 percent of its jobs (from 1,044,130 to 903,840).[7] Between 2000 and 2004, the unemployment rate of the region and the county increased from 4.5 percent to 7.6 percent and from 3.9 percent to 7.7 percent, respectively. During the same period the population of the county and the Bay Area region decreased by 1.57 percent and 1.08 percent respectively, while that of the state increased by 3.49 percent. As of June, 2006, the unemployment rate stabilized in Santa Clara County at approximately 5.0 percent, and the area's population also stabilized thanks primarily to an increase in international immigration and a decrease in outward emigration from the region.

From 2000 to 2004, mortgage rates fell from 8.06 percent[8] to 5.47 percent.[9] The decrease in mortgage rates, along with increased availability of a wide variety of mortgage products, overshadowed the region's economic downturn and powered a rapid increase in home prices. Recently, interest rates have once again begun to climb, and as of July, 2006 the average 30-year fixed rate stood at 6.8 percent.

## Housing Affordability

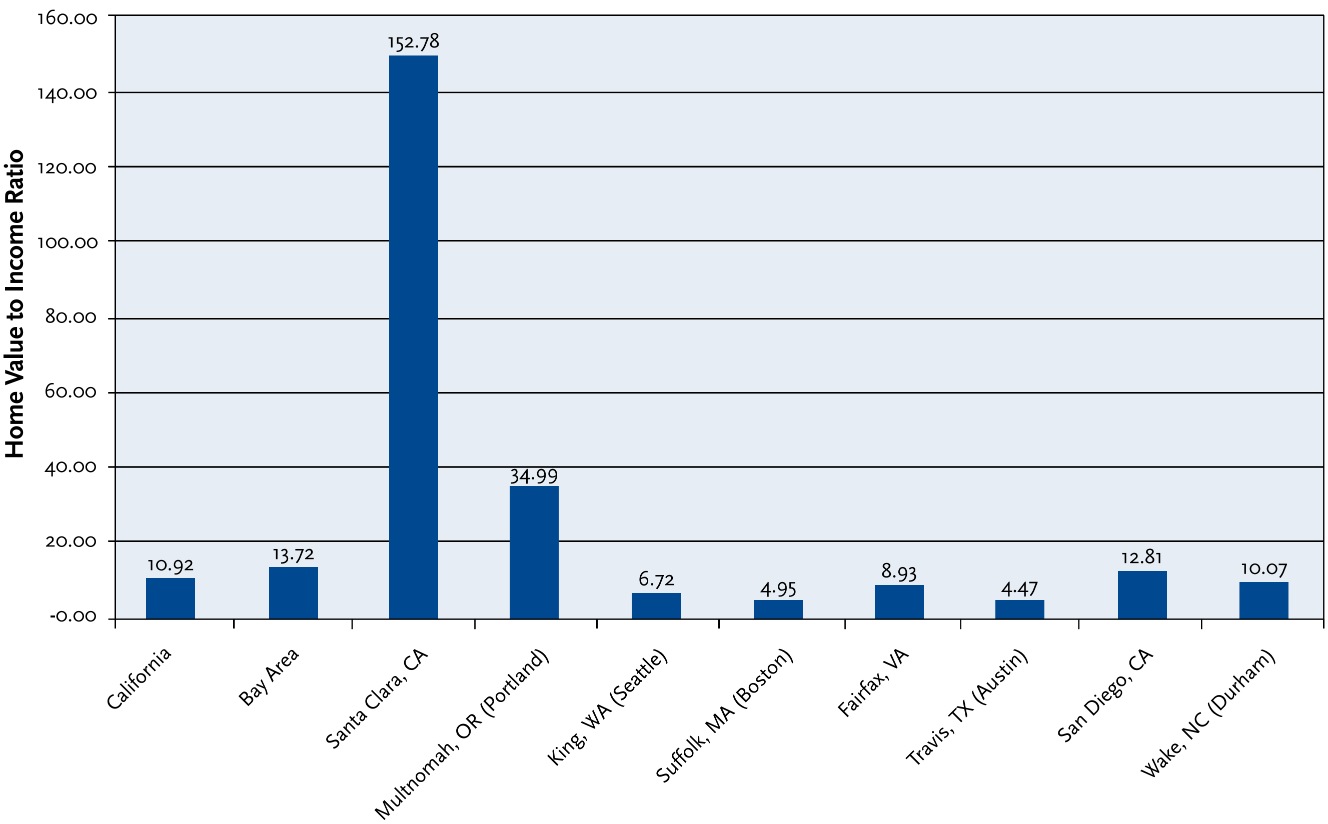
Between 2000 and 2004, the affordability of owner-occupied housing worsened in Santa Clara County while rental housing became marginally more affordable. The median home value increased 35 percent (from $446,000 to $602,727) while median household income only increased by 0.23 percent (from $74,335 to 74,509). Thus the home value to income ratio[10] was 152.78 — much larger than for the state, the Bay Area or any other comparison county (see Figure 2). Simply put, this means incomes did not keep pace with the increase in home prices, leading to a decrease in opportunities for potential homebuyers. At the same time, rental rates fell while incomes increased, leading to a slight increase in housing opportunities for some potential renters.

Although housing affordability may have, on average, improved for some renter households since 2000, Joint Ventures Silicon Valley reports a 12 percent decrease in rental housing affordability between 1994 and 2004 due mainly to rapid increases in rental rates compared to modest average wage gains.

The affordability of rental housing in Santa Clara County marginally increased. The rent-to-income ratio was -1.44 because the median rent decreased 0.34 percent (from $1,185 to $1,181) while income increased

7 ABAG 2005 Projections
8 Federal Reserve Bank
9 http://www.hsh.com/natmo2004.html
10 "The *change in affordability* of renter and owner occupied housing for median income households is assessed by creating two data relationships, a 'rent to income ratio' and a 'house value to income ratio.' The rent to income ratio is the ratio of percentage change in median gross rent to the percentage change in median household income; a ratio above one indicates lessened affordability while a ratio below 1 indicates increased affordability. For example if the median gross rent increased from $500 to $1000 (a 100% increase) and the median household income increased from $50,000 to $75,000 (a 50% increase) from 1990 to 2000, then the 'rent to income ratio' is 100/50 or 2. This means that median gross rent rose twice as much as median household income, a lessening of affordability. Similarly, the house value to income ratio is the ratio of percentage change in the median value of owner occupied housing to the percentage change in the median household income. For example, if the median house value increased from $100,000 to $170,000 (a 70% increase) while the median income increases from $50,000 to $75,000 (a 50% increase), then the 'house value to income ratio' is 70/50 or 1.4, also a lessening of affordability." Source: Page 28, Chapter 2, by Daniel Carlson and Shishir Mathur in Anthony Downs ed. Growth Management and Affordable Housing: Do They Conflict?

FIGURE 2: **Home Value to Income Ratio: 2000–2004**

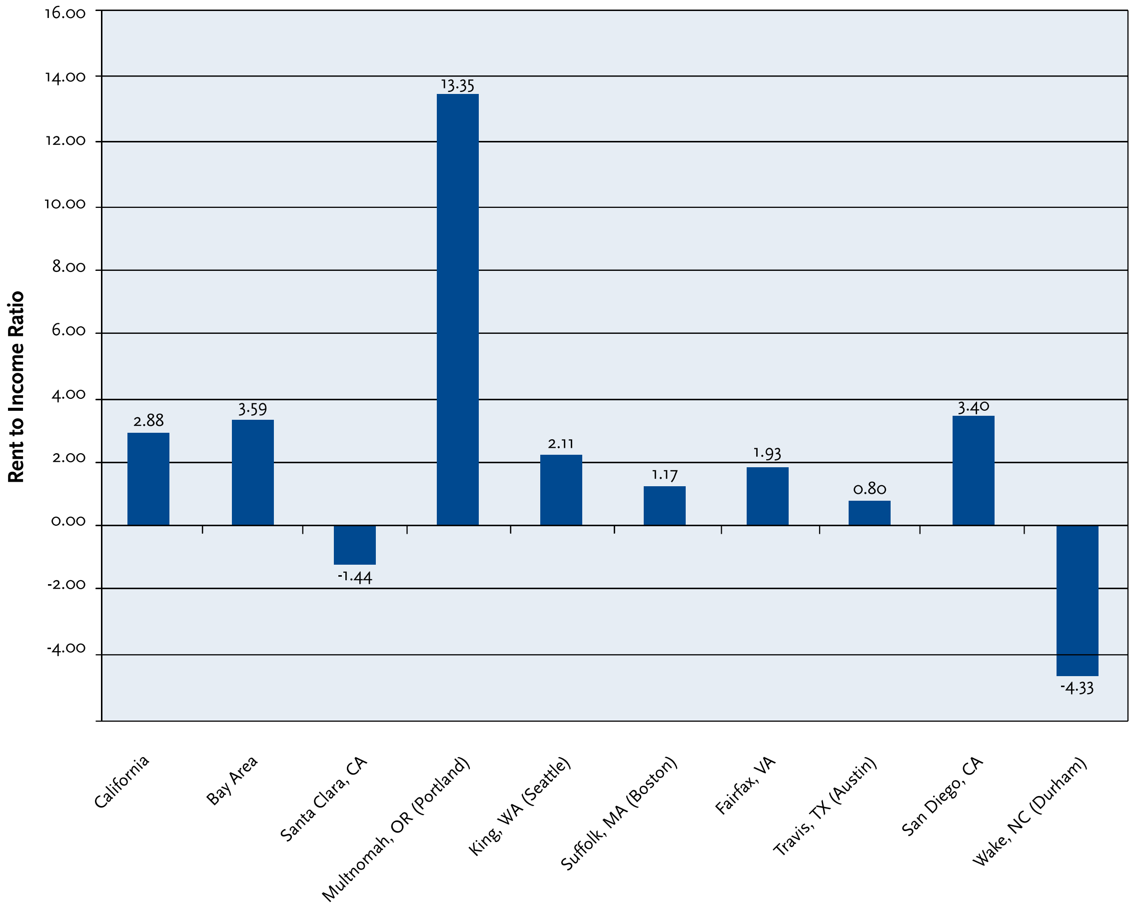



by 0.23 percent (see Figure 3). During the same time period the affordability of rental housing worsened in the Bay Area and California. In the Bay Area the percentage increase in the median rents was three and one half times more than the percentage increase in median income. The affordability of rental housing decreased in all the other comparison counties, with the exception of Wake County, NC.

## Jobs and Housing Imbalance

Striking a balance between jobs and housing is important for sustainable metropolitan growth. An urban area with more jobs than housing will encounter significant pressure on its existing housing stock. Santa Clara County has a jobs/housing imbalance, with more jobs than homes to house its workers. The jobs-to-employed resident ratio is an indicator of the job housing balance. In Santa Clara County this ratio is 1.23, which means the county has 23 percent more jobs than employed residents. Both the number of jobs and the number of employed residents decreased during the period 2000 to 2005. However, the decrease in employed residents was higher than the decrease in jobs. As a result, the jobs-to-employed residents ratio marginally increased from 1.21 to 1.23 during this period despite the economic downturn. For the Bay Area region the ratio remained constant at 1.09.

FIGURE 3: **Rent to Income Ratio: 2000–2004**

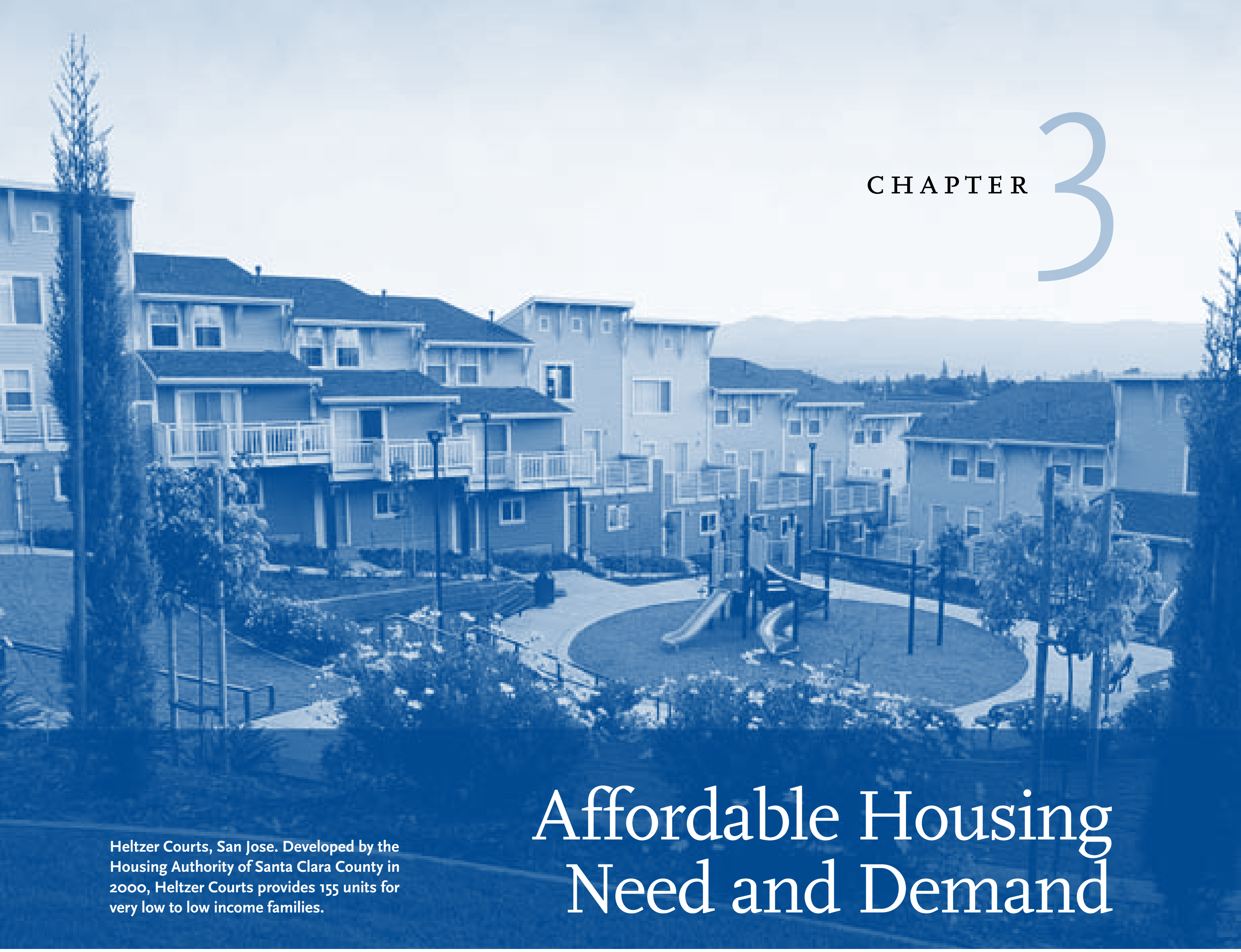



## Demographic and Economic Overview: The Implications for Housing

- Santa Clara County has 343,633 owner households and 221,037 renter households.
- Santa Clara County lost 13.44 percent of total jobs between 2000 and 2005.
- The median home value increased by more than 35 percent between 2000 and 2004.
- Santa Clara County experienced aging trends similar to those of the state, gaining children and losing young adults. Between 1990 and 2004, Santa Clara County lost 22.0 percent of its 20–34 year old population, compared to an 8.4 percent loss for the state. This significant loss of the workforce population is alarming and sends a signal that the jobs/housing imbalance is threatening the economic health of the region. The county's under 15 population increased by 17.2 percent while the state's increased by 21.5 percent. This will lead to increased pressure on housing supply in the next decade as this population group ages and enters the housing market.
- Although Santa Clara County has generally higher incomes than the state, 39 percent of local jobs pay less than $30,000 per year and four out of 10 of the fastest growing jobs pay less than $21,000 per year, thus creating a widening income gap between high income and low income residents.
- Between 2000 and 2004, the value of the median home in Santa Clara County increased by 35 percent while the county's median rent decreased by 0.34 percent. The rapid appreciation of home values has not kept pace with residents' income gains and has resulted in an extremely expensive housing market that most residents simply cannot afford.

## Conclusion

The county's demographics indicate both the challenge and the cost of unaffordable housing. The large number of workforce age individuals leaving the county is, in part, due to the lack of affordable housing. At the same time there has been an increase in both younger and older populations, which will pose new challenges to the housing stock. Although the county boasts a very high household income, the relative cost of housing is far higher. This affordability issue is particularly problematic for the increasing number of individuals in low wage jobs.



CHAPTER 3

# Affordable Housing Need and Demand

**Heltzer Courts, San Jose. Developed by the Housing Authority of Santa Clara County in 2000, Heltzer Courts provides 155 units for very low to low income families.**

There is a striking need for affordable housing in Santa Clara County due to the high cost of living in the area. According to the Low Income Housing Coalition, in 2005 the income needed to afford the fair market rent for a two-bedroom apartment in Santa Clara County was $52,080 ($25.04/hour) compared with $45,950 ($22.09/hour) state-wide. A minimum wage worker in Santa Clara County earning $6.75 an hour would have to work 148 hours per week to afford a two-bedroom apartment.[11] Moreover, 39 percent of local jobs in the county pay less than $30,000 per year and four out of the 10 fastest growing jobs pay less than $21,000 per year.[12] The lack of affordable housing has caused some residents to reside in substandard conditions, i.e., homes with physical defects and overcrowded conditions, or to move out of the county and endure arduous commutes, further taxing the region's transportation network.

The need for affordable housing in Santa Clara County is critical. This chapter examines the affordable housing needs of the homeless and "rent burdened" and estimates the demand for affordable homes for moderate income renters who wish to become home owners.

11 National Low Income Housing Coalition, Out of Reach, 2005.
12 County of Santa Clara Housing Task Force: Report, 2002.

## Housing Needs of the Homeless

The 2004 Santa Clara County Homeless Census and Survey found 7,646 homeless people in the county based on a point-in-time survey of persons living on the streets and in emergency shelters in December 2004. Those surveyed cited the loss of employment, alcohol or drug use, inability to pay the rent or mortgage, argument with family or friends, and recent release from jail as the primary reasons for homelessness. The study also found that females constituted at least 16 percent of the homeless population, while another 16 percent were in families and 11 percent were accompanied by children under the age of 18. Sixty four percent of the homeless people were unsheltered. This translates into an additional need of approximately 4,900 homes with associated support services that could be in the form of permanent supportive housing; these units are included in the total need quantified in this report. See Table A-4 in Appendix A for a jurisdiction-level breakdown of the homeless population.

Permanent supportive housing for the homeless is both cost effective and logical. It costs taxpayers an estimated $61,000 annually to cover the cost of emergency room services and incarceration for one chronically homeless person.[13] Yet it would cost only $16,000 per year to provide permanent supportive housing including treatment and care for the same person. Providing the homeless with permanent supportive housing would save Santa Clara County taxpayers millions of dollars per year and present a tremendous opportunity to break the vicious cycle of homelessness.

In May 2005 the *10 Year Plan to End Chronic Homelessness in Santa Clara County* was finalized with broad public and private sector support from across the Silicon Valley community. Implementing the recommendations in this blueprint for solving homelessness is a crucial part of any comprehensive housing strategy.

## Affordable Rental Housing Need in 2000

According to U.S. Department of Housing and Urban Development (HUD) standards, renter households paying more than 30 percent of their gross income for housing costs are considered "rent burdened." Those paying more than 50 percent of gross income are considered "severely rent burdened."

The true impact of these terms is best understood, however, when you consider what they mean to ***real*** people doing ***real*** work in the Valley.

For example, the cashier at your local grocery store or the janitor at the local elementary school earns less than $29,000 a year (see box on page 13). Considered "extremely low income," he or she would need to work 148 hours per week in these minimum wage ($6.75/hour) jobs to afford the county's average fair market rent of $1,302 for a two-bedroom apartment.[14]

In 2000, of the 219,894 renter households analyzed, more than 87,000 households, or about 40 percent of all renter households in Santa Clara County, experienced some degree of rent burden, including:

- **34,000 (88 percent) extremely low income households (ELI)** — those earning up to 30 percent AMI.
- **23,400 (76 percent) very low income households (VLI)** — earning 31 to 50 percent AMI.
- **20,500 (48 percent) low income households (LI)** — earning 51 to 80 percent AMI (see Figure 4).

13 The San Francisco Plan to Abolish Chronic Homelessness, 2005.
14 National Low Income Housing Coalition, Out of Reach, 2005.

## Income Levels in Santa Clara County

### 0%–30% AMI — Extremely Low Income
### A family of 3 earning $0 to $28,650

Jobs Paying Less Than $28,650

| | |
|---|---|
| Restaurant Host and Hostess | $18,441 |
| Cashier | $23,002 |
| Restaurant Cooks | $23,104 |
| Janitor and Cleaner | $23,804 |
| Taxi Driver | $25,932 |

### 31%–50% AMI — Very Low Income
### A family of 3 earning $28,651 to $46,750

Jobs Paying $28,651 to $46,750

| | |
|---|---|
| Preschool Teacher | $29,383 |
| Emergency Paramedic | $32,268 |
| Rehabilitation Counselor | $35,292 |
| Travel Agent | $38,317 |
| Construction Laborer | $40,776 |
| Property Manager | $41,189 |

### 51%–80% AMI — Low Income
### A family of 3 earning $46,751 to $76,400

Jobs Paying $46,751 and $76,400

| | |
|---|---|
| Middle School Teacher | $47,669 |
| Landscape Architect | $55,650 |
| Paralegal and Legal Assistant | $57,130 |
| Psychologist | $66,988 |
| Physical Therapist | $75,453 |

Source: BLS, OES Data 2005 3rd Quarter

Single-person households account for approximately one-third of all rent burdened households, while two-person households represent an additional 25 percent.

Households with "severe rent burden" (those paying more than 50 percent of their income on rent) are those in critical need of housing assistance. In 2000, of the 219,894 renter households analyzed more than 40,300 households, or about 18 percent of all renter households in Santa Clara County, experienced severe rent burden. These included nearly:

- 28,000 extremely low income households (those earning up to 30 percent AMI).
- 9,000 very low income households (earning 31 to 50 percent AMI).
- 3,200 low income households (51 to 80 percent AMI). See Figure 5.

Looking at the proportion of households under each income category, we find that 82 percent of the 0 to 30 percent AMI, 29 percent of the 31 to 50 percent AMI, and 8 percent of the 51 to 80 percent AMI households are severely rent burdened.

Single-person households account for approximately 40 percent of all severely rent burdened households, while two-person households account for an additional 20 percent of such households.

Of the 28,000 **extremely low income households** facing severe rent burden:

- 11,000 (39 percent of total households) are one-person households whose housing needs could be met with single room occupancy (SROs) or one-bedroom apartment homes.
- 5,400 (19 percent of total households) are two-person households and their needs could be met with one- or two-bedroom apartment homes.
- 3,400 (12 percent of total households) are three-person households whose need could be met with two-bedroom apartment homes.
- 3,900 (14 percent of total households) are four-person households whose needs could be met with two- or three-bedroom apartment homes.
- 4,300 (15 percent of total households) are households with more than four people and their needs could be met with three- or more bedroom apartment homes.

FIGURE 4: **Households With Rent Burden** (Paying More Than 30% of Income in Rent)

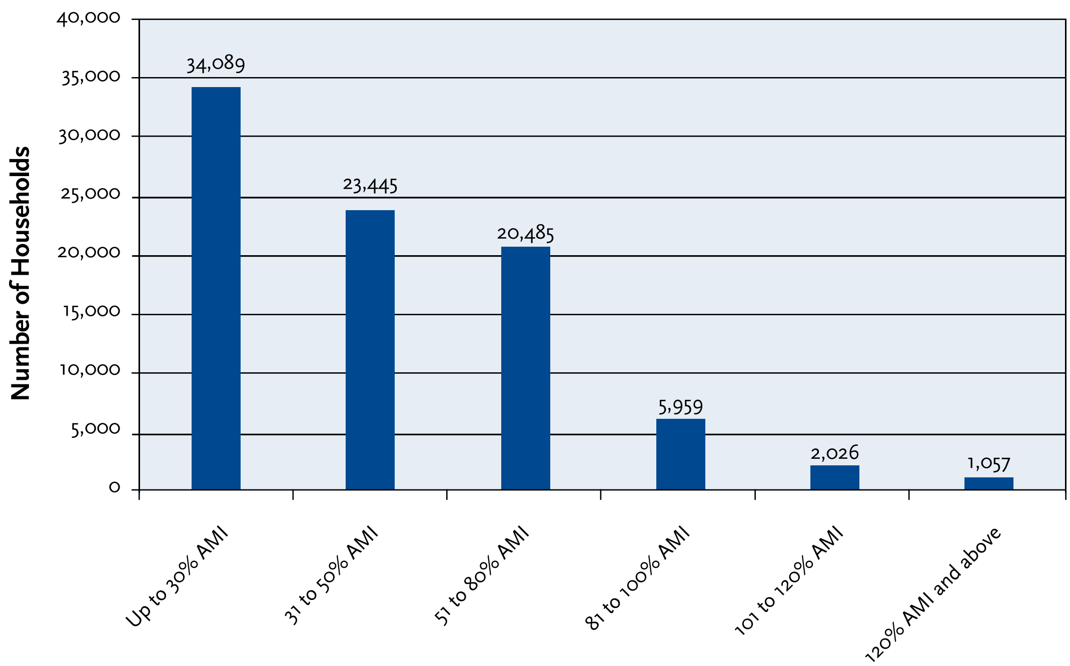
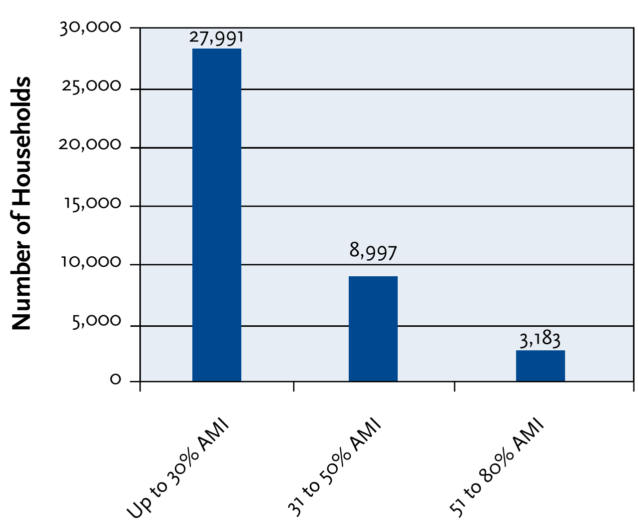



FIGURE 5: **Households With Severe Rent Burden** (Paying More Than 50% of Income in Rent)




Of the 9,000 **very low income households** facing severe rent burden

- 3,400 (38 percent of total households) are one-person households whose housing needs could be met with studio or one-bedroom apartment homes.
- 2,400 (27 percent of total households) are two-person households and their needs could be met with one- or two-bedroom apartment homes.
- 1,300 (14 percent of total households) are three-person households whose needs could be met with two-bedroom apartment homes.
- 1,200 (13 percent of total households) are four-person households whose needs could be met with two- or three-bedroom apartment homes.
- 700 (8 percent of total households) are households with more than four people and their needs could be met with three- or more bedroom apartment homes.

# JEAN

Jean has been able to live independently in an affordable senior development in Gilroy since 1982. Her annual income of $9,017 from social security is insufficient to pay market rent in Gilroy. Jean pays $126 a month for a one bedroom unit. She has lived in Gilroy her whole life and without affordable housing she would have to move away from the city and the Bay Area. In addition, the complex offers social events and counseling keeping her connected with the community.

## Additional Need Due to Potential Loss of Housing Units

The potential loss of existing subsidized or assisted rental housing needs to be taken into account when assessing the need for affordable rental housing. HUD, through project-based Section 8 rental certificates and below-market rate loans to developers, has subsidized thousands of such houses within Santa Clara County. The California Housing Partnership (CHP), based on information provided by HUD, tracks these developments and is currently working to preserve the affordability of these homes as the term limits on their rent restrictions expire. As shown in Appendix A, Table A-6, 2,902 homes are identified as at risk;[15] 2,628 homes are "lower risk;"[16] and another 1,334 homes are under the "low risk"[17] category. A total of 1,674 homes have been lost to conversion while 2,209 homes have been preserved.

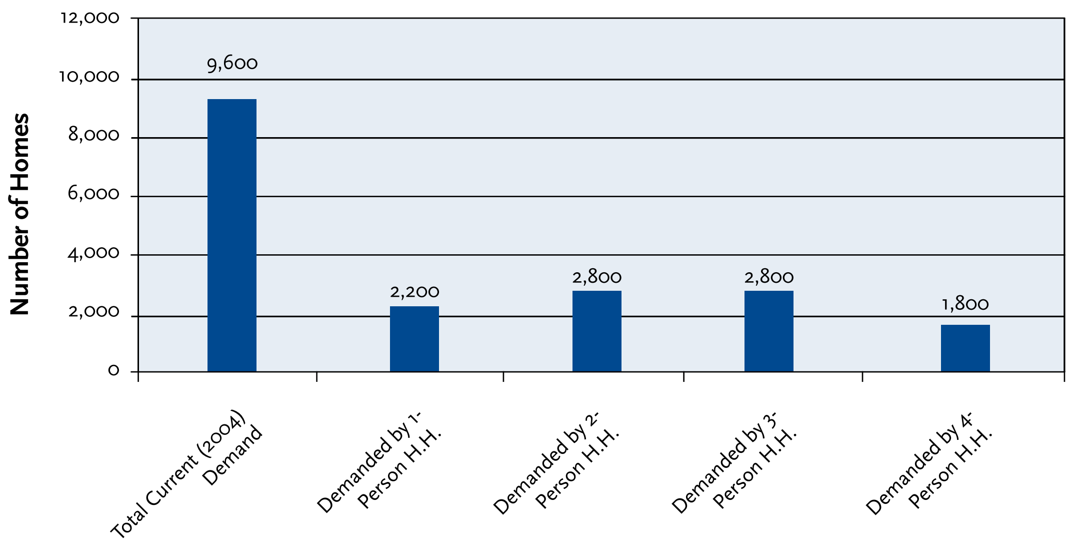
Other homes that may be at risk of loss in the near future include those in projects built in the late 1980s using Low Income Housing Tax Credits (LIHTC). These homes are not inventoried for this report.

## Current Demand for Affordable Owner-Occupied Housing

Homeownership is virtually synonymous with the American dream, and many people see owner-occupied housing as not just a housing solution but also a major lifetime investment. The national homeownership rate in 2004 was 67 percent. In California, it was lower — 59 percent, while it was 61 percent in Santa Clara County. Extremely high home values in Santa Clara County make it almost impossible for even those households earning 81 to 120 percent AMI to buy a home. Some residents choose to buy homes in more affordable areas that are often farther from where they work, resulting in long commutes that contribute to the growing transportation burdens of Santa Clara County and the Bay Area. Others seek both employment and housing in other areas creating a brain drain that makes the county less desirable to businesses.

15 At risk units may be converted to market rate within 5 years.
16 "Lower Risk" units may be converted to market rate within 5 to 10 years.
17 "Low Risk" units may be converted to market rate after 10 years.

FIGURE 6: **Demand for Affordable Owner-Occupied Housing**




Estimating the demand for affordable owner-occupied housing is a difficult task. The methodological approach[18] adopted in this report rests upon two assumptions, namely:

a) Owner-occupied affordable housing will be developed for first-time home buyers, who in the case of Santa Clara County are primarily those in the 81 to 120 percent AMI category; and

b) Since not all households in the 81 to 120 percent AMI category will demand owner-occupied housing, it is assumed that this group's desire to own a house will match that of the 150 to 175 percent AMI group.[19]

The Census PUMS 2000 dataset was used to calculate the demand for owner-occupied housing.[20] As shown in Appendix A, Table A-7 and Figure 6, a total of approximately 9,608 additional owner-occupied houses would be required to meet the demand in Santa Clara County. This equates to:

- 2,200 houses (23 percent of total houses) for one-person households with household income between $59,400 and $88,619. This demand could be met with the construction of one-bedroom condominiums.
- 2,800 houses (29 percent of total houses) for two-person households with household income between $67,900 and $101,275. This demand could be met through the construction of one- or two-bedroom condominiums and townhomes.

18 We would like to acknowledge that this methodological approach was developed by Bay Area Economics and used to estimate the demand for affordable owner-occupied housing for San Francisco. The report is titled "Building for the Future: Affordable Housing Need and Development in San Francisco: 1996–2003."

19 The homeownership rate of the 150 to 175 percent AMI group also closely matches the national homeownership rate.

20 The homeowner data was categorized by household size and income level. Then the 2000 incomes were inflated to 2004 using the regional Consumer Price Index (CPI). The demand for owner-occupied housing was calculated by estimating the additional housing units required to make the homeownership rate of the 81 to 120 percent AMI renter households equal to those of the 150 to 175 percent AMI households.

- 2,800 houses (29 percent of total houses) for three-person households with household income between $76,400 and $113,939. This demand could be met with the construction of two- or three-bedroom condominiums, townhomes or single family homes,
- 1,800 houses (19 percent of total houses) would be required to meet the demand by four-person households with household income between $91,650 and $126,599. This demand could be met with the construction of three- or four-bedroom condominiums, townhomes or single family residences.

## Conclusion

Santa Clara County currently needs an additional 9,600 units of affordable owner-occupied housing. The need for affordable rental housing is much more critical, with a need for approximately 28,000 rental homes for extremely low income households; 9,000 units for the very low income; and an additional 3,200 units for low income households (see Figure 5). These current shortfalls will only be exacerbated by future demands for both owner-occupied and rental affordable housing. In the next chapter we will document the production of affordable housing during the period 1999 and 2005 and examine the current and future unmet need for the various types of affordable housing.

**Paseo Senter, San Jose. Currently under construction in the Rockspring neighborhood of San Jose, Paseo Senter will be comprised of 218 units affordable to extremely low and very low income families. Charities Housing is developing Paseo Senter, with completion projected in 2008.**

**Los Arroyos II, Gilroy. Developed by South County Housing, a nonprofit developer based in Gilroy, Los Arroyos II is comprised of 84 single family homes. Completed in 2002, prices for the homes started at $420,000.**

CHAPTER 4

# Affordable Housing Supply and Funding

In Santa Clara County, local governments, public agencies and non-profit and for-profit developers have come together to effectively address a portion of the community's affordable housing needs. This chapter inventories affordable housing — both owner-occupied and rental — produced in the county between January, 1999 and September, 2005.

## Methodology

The housing supply data was collected from various sources, including:

- Santa Clara County Office of Affordable Housing
- Housing Authority of Santa Clara County
- Housing Trust Fund of Santa Clara County
- City Planning and/or Housing departments
- Individual developers

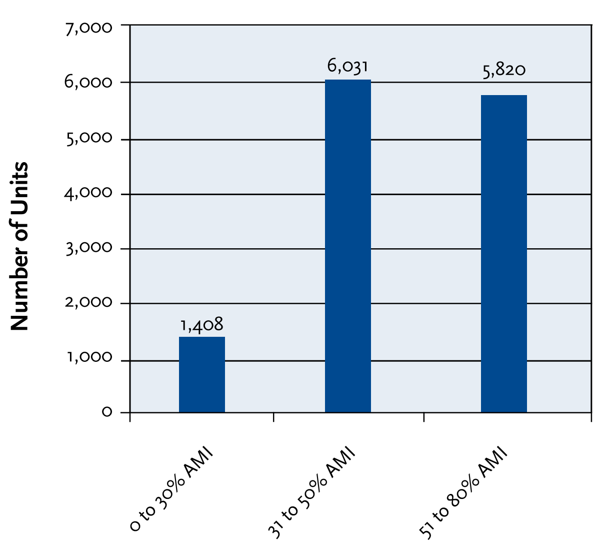
A survey was sent out to various public agencies in the county and city governments (the survey instrument is included in Appendix C) to gather information for each affordable housing development that came on-line during the period 1999 through September, 2005. In one of the most ambitious studies of its kind undertaken in Santa Clara County, we collected information by housing development, funding sources, number of bedrooms in each house, and number of houses under each AMI level. The result is one of the most accurate and complete affordable housing inventories ever conducted for Santa Clara County.

The data was cross-checked through non-profit and for-profit developer surveys, the HousingSCC.org website, and numerous phone calls to apartment complexes. A few agencies did not fill out the survey but provided public documents that contained some of the information requested in the survey.[21]

## Supply of Affordable Rental Housing

Table A-8 in Appendix A provides an inventory of affordable rental housing supplied from 1999 through September, 2005. During the study period, a total of **13,259 affordable rental homes were supplied** via new construction or acquisition and rehabilitation and do not include homes that are still in the pipeline. Of these, **1,408 homes targeted the extremely low income, 6,031 targeted very low income, and 5,820 targeted low income households** (see Figure 7).

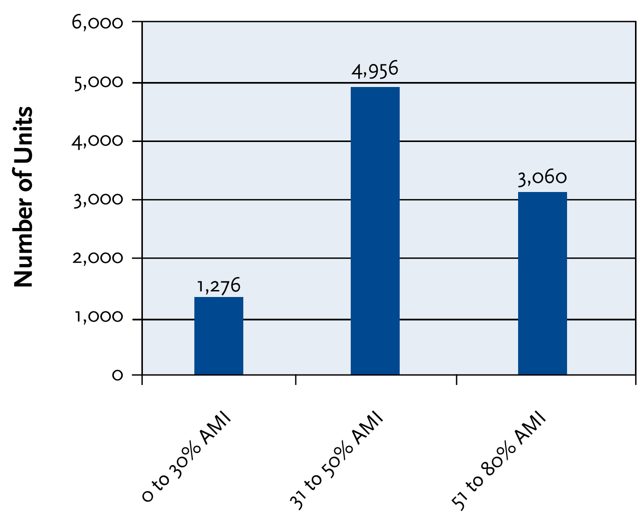
FIGURE 7: **Total Number of Affordable Rental Homes Supplied From 1999 to 2005**




### New Construction

New construction produced 9,292 of the 13,259 affordable rental homes supplied during the study period. Of these, 1,276 homes targeted the extremely low income, 4,956 targeted very low income, and 3,060 targeted low income households (see Figure 8).

FIGURE 8: **Total Number of Affordable Rental Homes Supplied Through New Construction From 1999 to 2005**




### Acquisition and Rehabilitation (Preservation)

In addition to new construction, 3,967 affordable rental homes were acquired, rehabilitated and made or kept affordable during the study period. Of these, 132 homes targeted extremely low income households and 1,075 targeted very low income households (see Table 1).

21 The cities of San Jose, Sunnyvale, Mt. View and Gilroy responded with updates to their information. San Jose and Sunnyvale updated their subsidy information. Mt. View updated both their subsidy and unit count information. Gilroy updated their unit count information.

TABLE 1: **Affordable Rental Units Supplied Through Acquisition and Rehabilitation**

| | 0–30% AMI | 31–50% AMI | 51–80% AMI | Total |
|---|---|---|---|---|
| Acquisition & Rehabilitation | 132 | 1,075 | 2,760 | **3,967** |

### Funding

The primary subsidy sources that funded the new construction, acquisition and rehabilitation of affordable homes included Low Income Housing Tax Credits, HOME funds, CDBG funds, city (municipal) funds, redevelopment agency funds, city and county housing trust funds, and funds from the County Office of Affordable Housing. Other funds such as mortgage revenue bonds, and Affordable Housing Program (AHP) funds, among others, were also common. Another crucial source of support for new rental construction from 2002 though September, 2005 was the State Multifamily Housing Program (MHP). In addition, many of the units counted in this survey were provided through inclusionary zoning programs which required developers to set aside a certain number of affordable units in otherwise market-rate developments.

## Affordable *Rental* Housing Pipeline

The pipeline for affordable rental housing represents homes under construction, or approved for construction. As of 2005, a total of 2,941 rental homes are in the pipeline. Of these, 515 homes will target extremely low income households and 1,448 homes will target very low income households (see Figure 9). See Appendix A, Table A-10 for the jurisdiction-specific number of homes in the pipeline.

## Supply of Affordable *Owner-Occupied* Housing

Tables A-11 to A-13 in Appendix A inventory the 1,493 units of affordable owner-occupied housing developed from 1999 through September, 2005. These homes were supplied through new construction, acquisition and rehabilitation. Of these, four homes targeted extremely low income households, 75 targeted very low income households, 262 targeted low income households and 1,152 targeted moderate income households (81 to 120 percent AMI.) See Figure 10. Because of high land values and construction costs, it was almost impossible to provide affordable ownership housing to the county's very low and extremely low income households.

FIGURE 9: **Total Number of Affordable Rental Units in Pipeline**

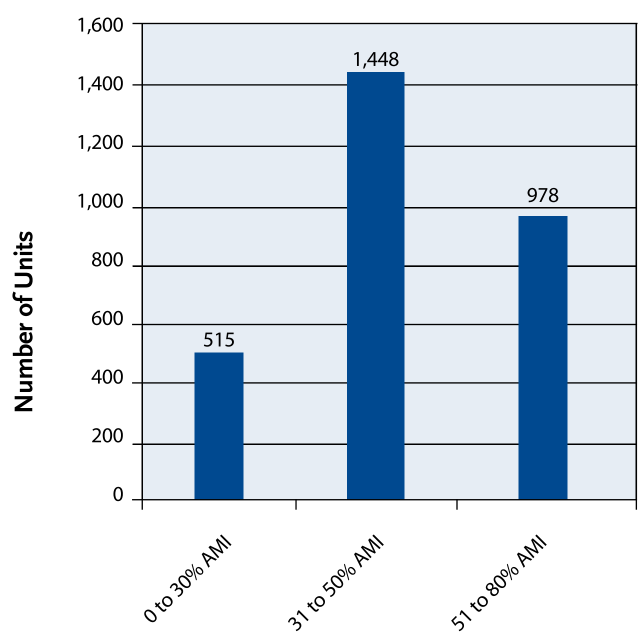
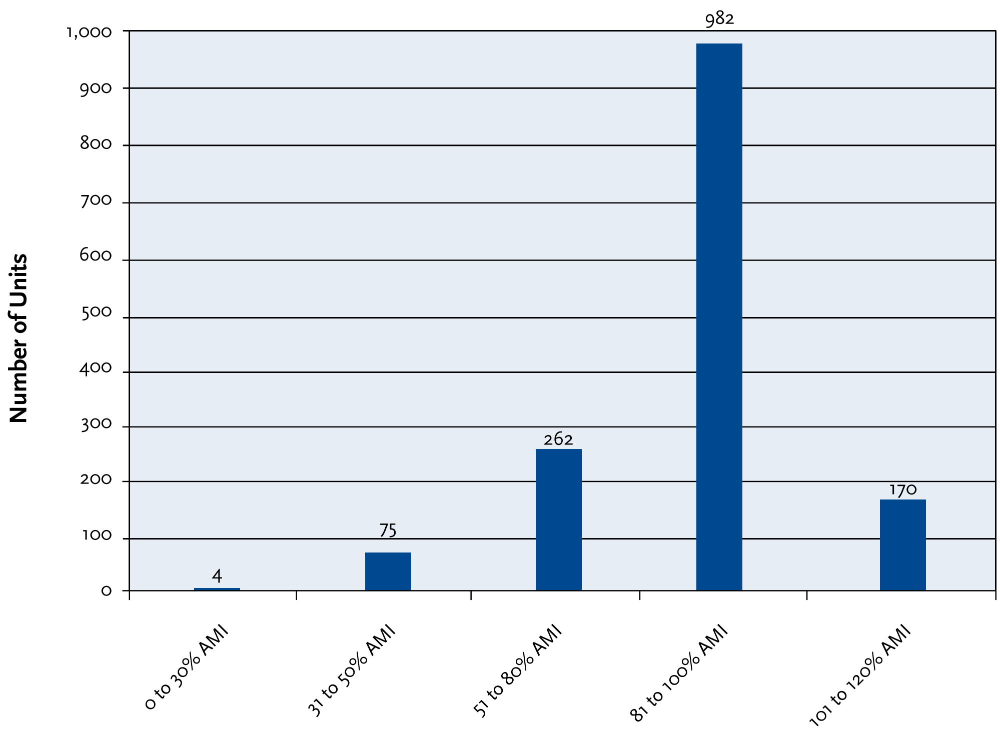


FIGURE 10: **Total Number of Affordable Owner-Occupied Homes Supplied From 1999 to 2005**




## New Construction

During the study period, new construction accounted for nearly all (1,485 out of 1,493) owner-occupied housing units created in the county. Of these, 1,149 homes targeted moderate income (81 to 120 percent AMI) households, 261 homes were for low income households, and 75 were for very low income households.

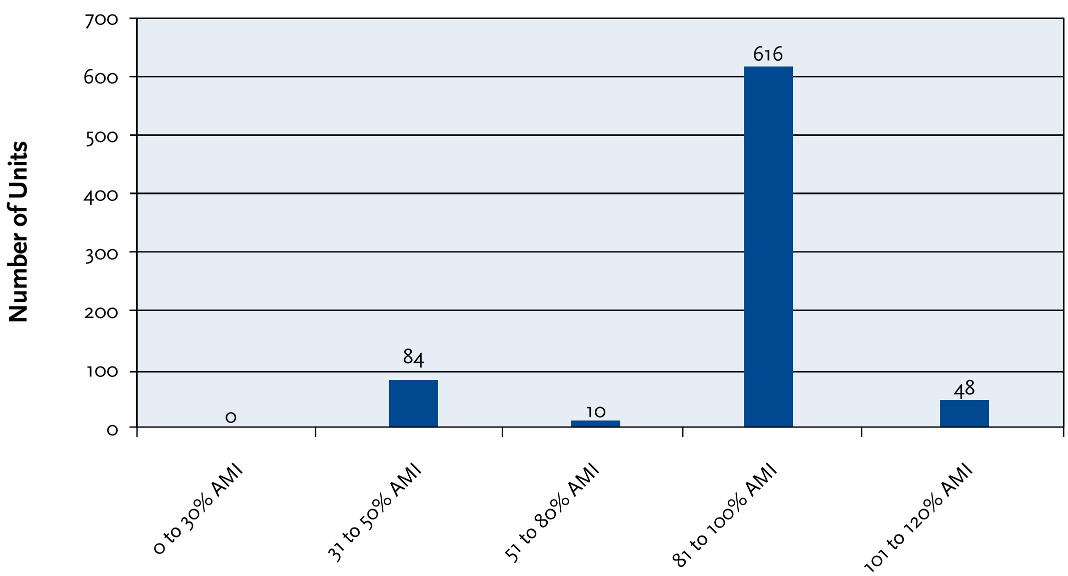
The primary subsidies that funded newly constructed affordable owner-occupied homes during the study period included funds from CalHFA, CDBG, HOME, the Housing Trust of Santa Clara County, local municipalities and redevelopment agencies. See Tables A-14 though A-31 in Appendix A for jurisdiction-specific funding data.

## Acquisition and Rehabilitation (Preservation)

Only eight owner-occupied homes (four in 0 to 30 percent AMI, one in 51 to 80 percent AMI, and three in the 101 to 120 percent AMI category) were supplied through acquisition and rehabilitation. The acquisition and rehabilitation funds primarily went toward the preservation of existing homes with expiring HUD restrictions and thus may not have resulted in a net increase in the county's housing supply. However, their role in preserving the existing affordable rental housing is noteworthy since the California Housing Partnership notes that a total of 2,209 rental homes were preserved during the period.

CDBG, HOME, municipal and redevelopment agency funds were the primary funding sources for acquisition and rehabilitation of owner-occupied homes. See Tables A-14 through A-31 in Appendix A for jurisdiction-specific funding data.

FIGURE 11: **Total Number of Affordable New Construction Owner-Occupied Homes in the Pipeline**




## Affordable *Owner-Occupied* Housing Pipeline

The pipeline for affordable owner-occupied housing represents homes under construction, or approved for construction. A total of 758 affordable owner-occupied homes are in the pipeline. Of these, the majority — 664 homes — will target 81 to 120 percent AMI households. The balance will target 84 very low income households and 10 low income households (see Figure 12). See Appendix A, Table A-13 for the jurisdiction-specific number of homes in the pipeline.

## Unmet Affordable Housing Need

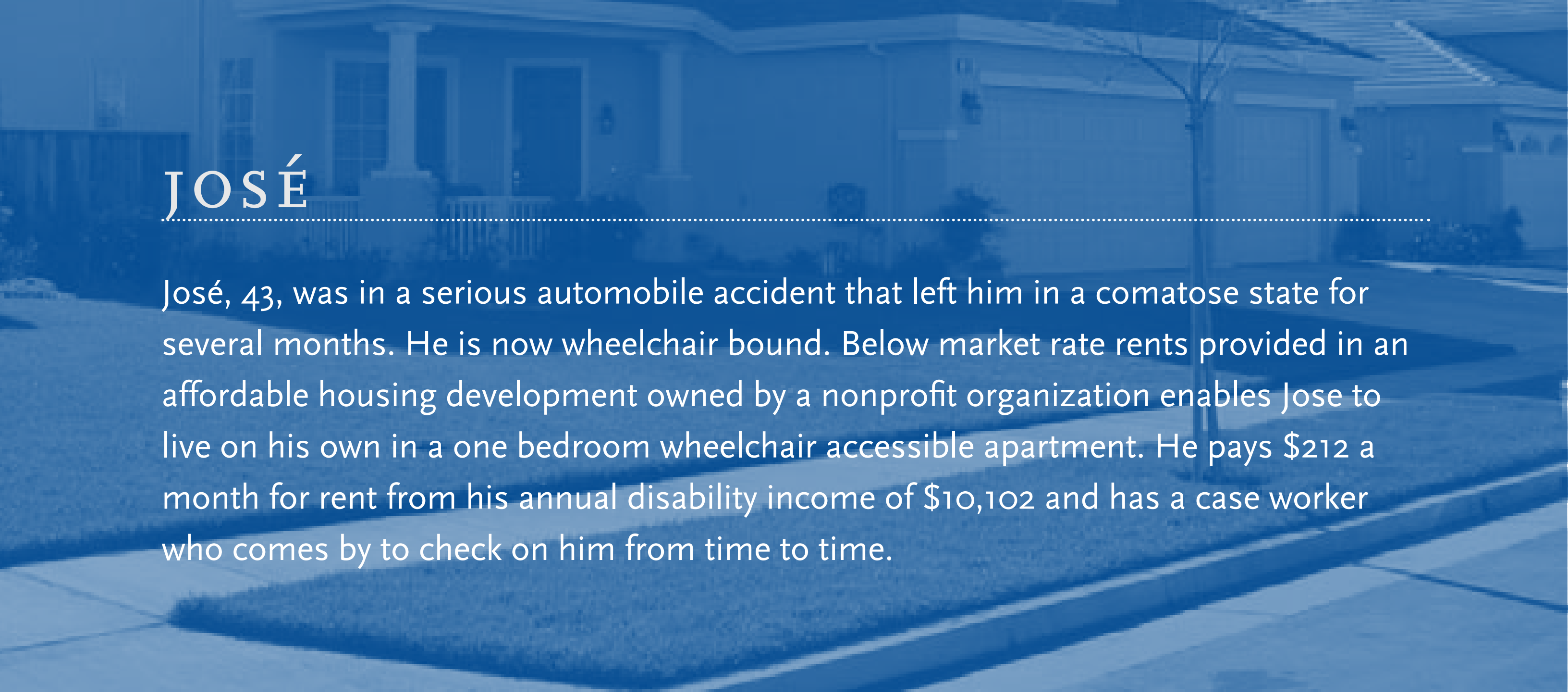
Santa Clara County's local governments and housing developers have made impressive progress in the last six years in the production of affordable rental and owner-occupied housing. Yet much remains to be accomplished.

Based on the data gathered for this report, the county's affordable housing needs can be grouped into three categories:

- Housing for the homeless
- Rental housing for extremely low and very low income households
- Affordable owner-occupied housing for moderate income households

Table 2 details Santa Clara County's unmet affordable housing needs over the next two decades by calculating current unmet demand, less the number of new or soon-to-be-completed homes and the projected 20-year shortfall for each income category. See Table A-32, Appendix A for methodological details.

**These numbers reveal that Santa Clara County will experience a net shortage of 40,292 affordable homes during the next 20 years**.



# JOSÉ

José, 43, was in a serious automobile accident that left him in a comatose state for several months. He is now wheelchair bound. Below market rate rents provided in an affordable housing development owned by a nonprofit organization enables Jose to live on his own in a one bedroom wheelchair accessible apartment. He pays $212 a month for rent from his annual disability income of $10,102 and has a case worker who comes by to check on him from time to time.

## Conclusion

While perhaps a daunting figure at first glance, we believe the net shortage of 40,292 affordable homes over the next 20 years can be met through innovative thinking and a continued commitment from the public and private sectors to tackle the affordable housing issue head-on. It is a belief based not on optimism and rhetoric but on a proven record of success: since 1999, developers and public agencies have worked together to finance and develop more than 14,500 new affordable apartments and owner-occupied homes for low-income individuals and families in Santa Clara County.

In order to achieve the same level of success over the next 20 years, we must continue to have a steady supply of local funding that will enable us to leverage support from other public and private sources, as well as innovative local land use and planning policies.

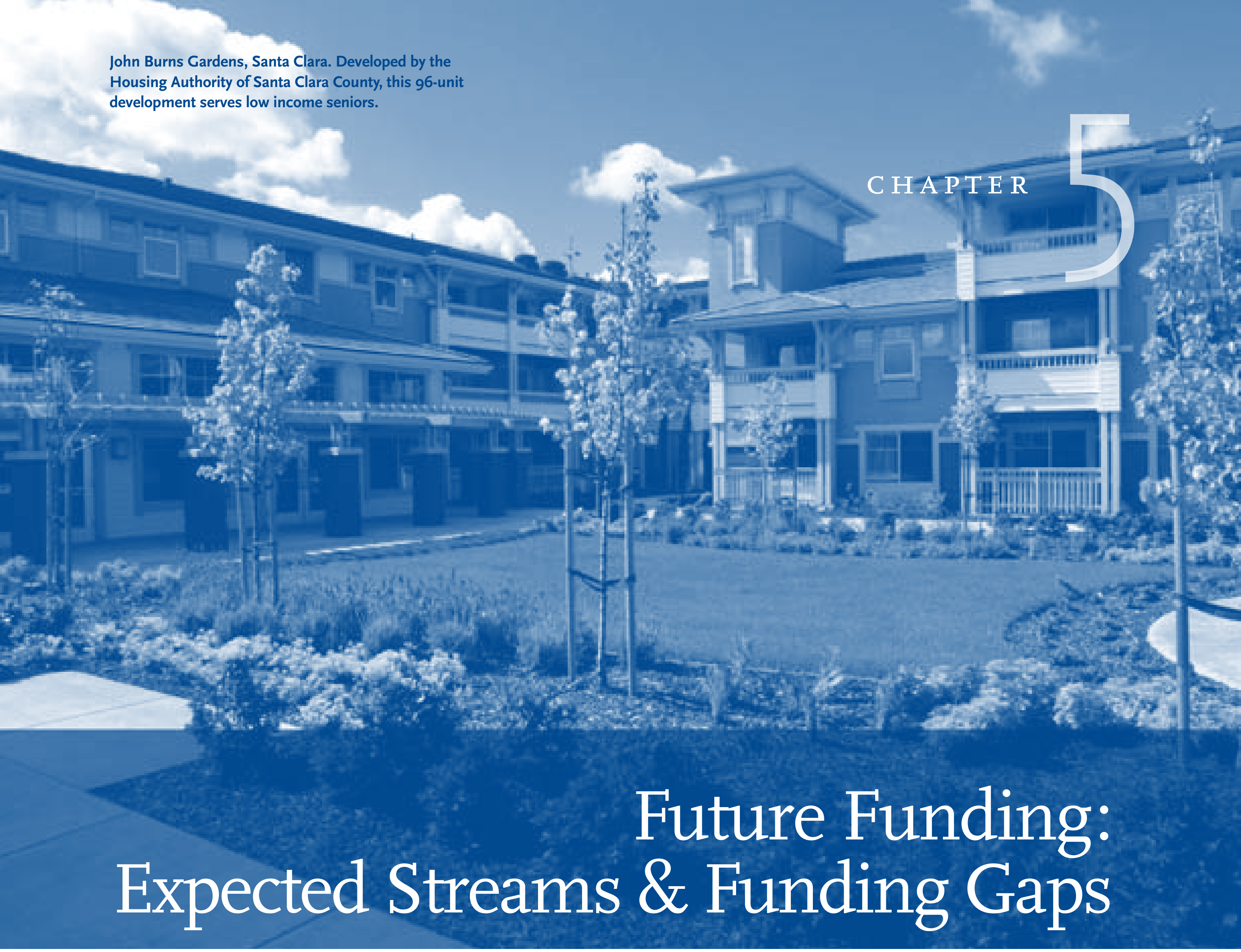
TABLE 2: **Housing Need and Funding, 2005–2024**

| | ELI (0–30% AMI) | VLI (31–50% AMI) | LI (51–80% AMI) | MOD (81–120% AMI) | Total |
|---|---|---|---|---|---|
| **Gross/Total Need** | 42,483 | 12,978 | 13,260 | 22,187 | **90,908** |
| **Planned Production** | 8,119 | 10,148 | 16,237 | 19,089 | **50,616** |
| **Unmet Need** | 34,364 | 2,830 | - | 3,098 | **40,292** |
| **Funding Gap*** | **$3,780,040,000** | **$198,100,000** | **$0** | **$154,900,000** | **$4,133,040,000** |

*The funding gap is the additional local subsidy required over the next 20 years to develop a sufficient number of affordable units to meet the unmet need.
Sources: San Jose State University, The Institute for Metropolitan Studies, 2005; US Census, 2004.


Home Safe II, San Jose. Completed in 2003 by Charities Housing Development Corporation, a nonprofit housing developer based in San Jose, Home Safe II consists of 24 units of co-housing for survivors of domestic violence, a childcare facility, and a resident manager's unit. The units are affordable to very low income persons.

San Antonio Place, Mountain View. Developed by Charities Housing in 2006, San Antonio Place provides 120 units of affordable housing for extremely low and very low income households.



John Burns Gardens, Santa Clara. Developed by the Housing Authority of Santa Clara County, this 96-unit development serves low income seniors.

CHAPTER 5

# Future Funding: Expected Streams & Funding Gaps

Developing housing to meet the needs of Santa Clara County's diverse population requires a variety of federal, state and local resources. As mentioned earlier, we anticipate that market forces will address a portion of Silicon Valley's unmet affordable housing needs over the next 20 years. To some extent, this will require a change in the way that many local jurisdictions plan for housing, but actively planning for and funding an adequate supply of affordable housing for extremely low and very low income households will allow the market to work more effectively.

Continued support will be needed from federal (Section 8, HOME and CDBG), state (Proposition IC, Multi-Family Housing and CalHOME) and local (tax increment financing and municipal support) programs in order to effectively leverage private sector support and maximize affordable housing production.

This chapter describes the layered affordable housing finance system and tracks changes in national, state and local spending. Finally, building on Chapter Four, it identifies funding gaps and estimates the local funding required to meet Santa Clara County's housing needs over the next 20 years.

## Federal Funding

Historically, the federal government, through the Department of Housing and Urban Development (HUD), has provided the majority of financial support for affordable housing. Federal spending on affordable housing programs peaked in the 1970's but has declined dramatically in recent years. For example, in 1976 HUD's budget was $86.8 billion; it was $34.7 billion in 2004 — a 60 percent decrease. In 2005, funding for Section 8 vouchers — the primary means of providing rental assistance to low income households — was $570 million less than 2004 levels. This reduction is equivalent to funding for 80,000 rental vouchers.[22] In addition, HUD's outlays are predicted to decrease by 36 percent by 2009.

In Santa Clara County, the Section 8 program is administered by the Housing Authority of County of Santa Clara and is one of the largest housing subsidy programs the Housing Authority administers.[23] The Section 8 housing subsidy encompasses tenant- and project-based rental assistance. Tenant-based voucher subsidies provide assistance to tenants that they can use at privately owned rental units. These vouchers are tied to the family, not the unit. In 2005, the tenant-based Section 8 voucher program served 13,699 households[24] and the waiting list for additional households is closed. Project-based rental assistance is tied to the unit. If a family moves, the subsidy stays with the unit and is available for another eligible family. Project-based rental assistance enables owners of private rental housing to apply to the Housing Authority (when request for proposals are announced) to have Section 8 subsidy vouchers attached to certain units. Some Santa Clara Housing Authority owned developments also participate in the project-based Section 8 program. In 2005, 249 households[25] were served by project-based Section 8. An increase in the number of vouchers allocated to Santa Clara County could make a huge difference in alleviating the housing affordability crisis for the county's extremely low-income households.

Compounding the reduced funding for HUD programs, there has also been a shift away from production programs towards tax incentives such as homeowners' mortgage interest deductions and investor deductions for tax-exempt housing bonds and low income housing tax credits.[26] The benefits of these programs, however, do not reach all ends of the affordable housing spectrum. For instance, the mortgage interest deduction benefits those at the upper ends of the low income scale, i.e., 80 percent AMI and above. In order for tax-exempt bonds and low income housing tax credits to benefit those at the lower end of the low income scale, additional subsidies from other sources, such as State MHP funds, are necessary. Programs that would benefit lower income households, such as the Section 8 voucher program and Community Development Block Grants (CDBG), are being severely reduced.[27] Even these programs that specifically target the lower income population typically do not provide deep enough subsidies to reach those in extremely low income categories (i.e., 0–30% AMI).

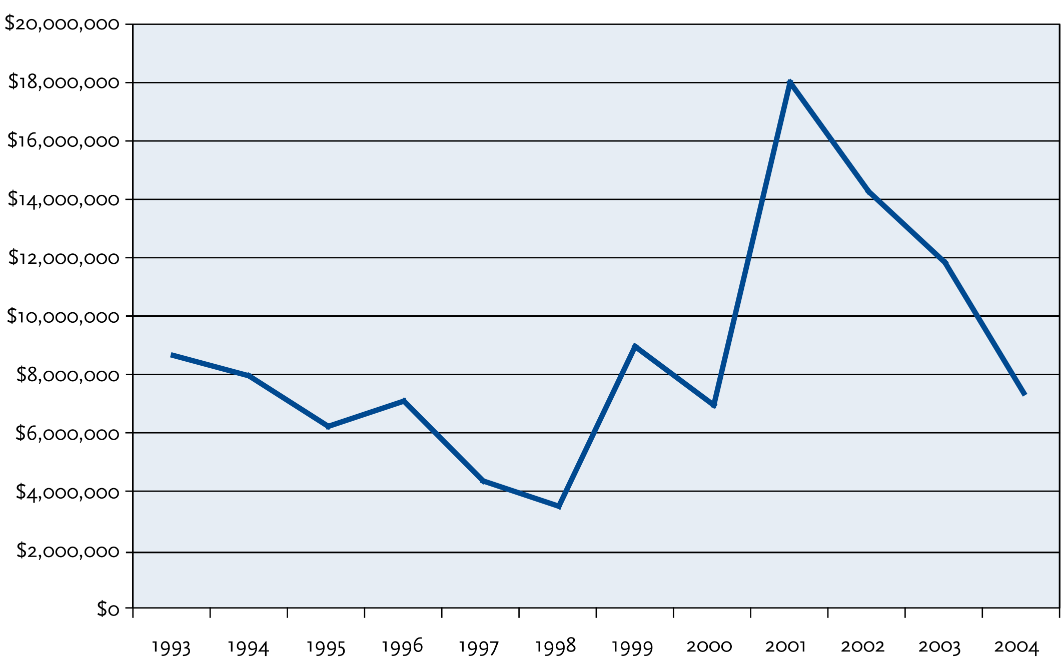
The report *Locked Out 2004: California's Affordable Housing Crisis* documents the decrease in federal funding for the state's affordable housing programs. It notes that California has lost more than 26,000

22 Center on Budget and Policy Priorities, Appropriations Shortfall Cuts Funding for 80,000 Housing Vouchers This Year. February 2005, http://www.cbpp.org/2-11-05hous.htm
23 Housing Authority of the County of Santa Clara. 2005. Demographics and Statistics. <http://www.hacsc.org/demographics_&_statistics.htm>
24 Ibid.
25 Ibid.
26 National Low Income Housing Coalition, Changing Priorities: The Federal Budget and Housing Assistance 1976–2005 October 2004.
27 Ibid.

affordable homes and that Congress has allowed landlords to pre-pay HUD assisted mortgages, further threatening the number of affordable homes. According to the California Budget Project, California received fewer federal housing assistance dollars in 1999 for its poor than all but one of the 10 largest states. The average federal spending for each person in poverty was $286, while the average for Californians was only $171.[28] Silicon Valley also receives less federal assistance per capita for housing and poverty programs than the national average.

Low Income Housing Tax Credits (LIHTC), Community Development Block Grants (CDBG) and HOME funds are the three primary sources of federal housing funds used to support affordable housing in Santa Clara County. LIHTC funds are primarily used to acquire, rehabilitate or construct new affordable rental housing while CDBG funds can be used to create housing as well as to support services that enhance the quality of life for low income families. HOME funds can be used to acquire, rehabilitate or build affordable rental or owner-occupied housing or to provide rental assistance. All three sources have declined in the last few years. As shown in Figure 13, total LIHTC awards to Santa Clara County peaked in 2001 and since then have decreased by 59 percent (in 2004 constant dollars). The CDBG allocations to the county peaked in 1995 and since then have decreased by 29 percent in 2004 constant dollars (see Figure 14). The HOME allocations peaked in 2003 and then decreased marginally in 2004 constant dollars (see Figure 15).

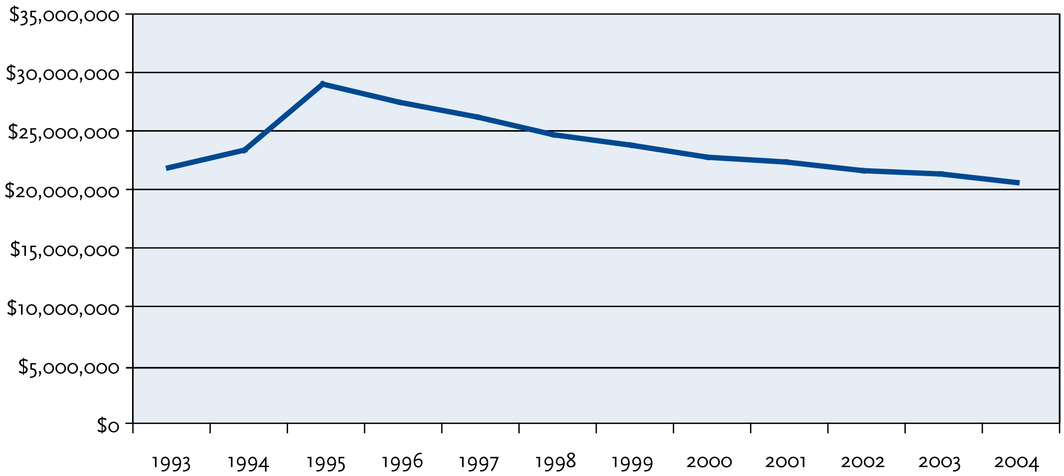
FIGURE 12: **LIHTC Funds Allocation: Santa Clara County**




Source: California Tax Credit Allocation Committee.

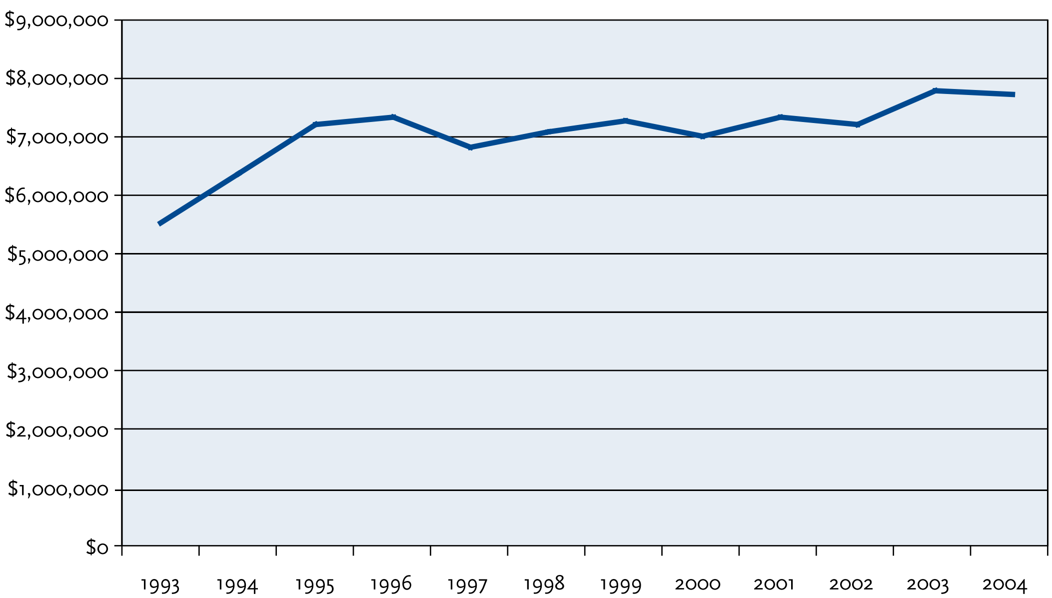
28 California Department of Housing and Community Development, California's Deepening Housing Crisis October 2006.

FIGURE 13: **CDBG Funds Allocation: Santa Clara County**




Source: HUD Budget History available http://www.hud.gov/offices/cpd/about/budget/history/historical04to93.xls

FIGURE 14: **HOME Funds Allocation: Santa Clara County**




Source: HUD Budget History available http://www.hud.gov/offices/cpd/about/budget/history/historical04to93.xls

## State Funding

In November 2002 voters passed Proposition 46, the Housing and Emergency Shelter Trust Fund Act of 2002, which authorized $2.1 billion in general obligation bonds to support affordable housing programs. California's Department of Housing and Community Development (HCD) is responsible for administering the majority of Prop 46 funds as well as overall housing policy, various grant and loan programs, migrant farm worker housing, and regulatory compliance for housing programs. Proposition 46 funds have become a major source of state funding for local governments (for example, in the recent past San Jose received over $50 million of Proposition 46 funds). However, all Proposition 46 funds administered by HCD will be awarded by 2007.[29] California recently passed Proposition 1C which will fund HCD for the next two years. An intensive statewide effort is already under way to create a permanent source of funding at the state level. **The success of this effort is absolutely essential if we are to address the affordable housing crisis in Silicon Valley.**

In addition to HCD, other major players that administer housing programs in the state include:[30]

- The California Housing Finance Agency (CalHFA), which supports the needs of renters and first-time home buyers by acting as the state's affordable housing bank making below-market rate loans to finance single- and multi-family housing.
- The California Tax Credit Allocation Committee (TCAC), which allocates state and federal low-income housing tax credits to finance multi-family housing.
- California Debt Limit Allocation Committee (CDLAC), which allocates tax-exempt bonds for housing and other purposes.

## How Affordable Housing is Financed Locally

In addition to CDBG and HOME funds other major funding sources for cities include their redevelopment agencies' tax increment funds and the cities' general funds. Municipalities use these funds for a host of programs and projects including first-time home buyer assistance, affordable rental housing, and acquisition and rehabilitation of affordable housing. During the period 1999 to 2005, redevelopment contributed more than $350 million towards affordable housing in the county (see Table 3).

In light of reduced federal and state funding, local stakeholders have acted proactively to garner local funding for affordable housing. The Santa Clara County Office of Affordable Housing was instituted in 2003 by the County Board of Supervisors and provided with $18.6 million to assist the development of affordable housing for low income and special needs populations.

In 1999, various supporters of affordable housing — including the Community Foundation Silicon Valley, Silicon Valley Leadership Group (then Silicon Valley Manufacturing Group), the County Collaborative on Housing and Homelessness, and the County of Santa Clara — came together to create the Housing Trust of Santa Clara County.[31] Since then, the Trust has generated more than $30 million to support affordable rental housing, first time home buyer assistance, and housing for the homeless with special needs. To date, $21 million of this funding has been expended.

Below market rate programs and inclusionary public policies such as those that require developers to designate 15 to 20 percent of new construction as affordable are additional efforts to address the housing crisis. Although they provide some relief, the income target is

29 California Department of Housing and Community Development, Loan and Grant Programs Annual Report 2004–05 December 2005.
30 California Budget Project, Budget Backgrounder July 2005.
31 The Housing Trust of Santa Clara County web site.

### TABLE 3: City Reported Redevelopment Agency Funding for Affordable Housing: 1999 to 2005

| Jurisdiction | New Rental | Rental Rehab | New Owner | Owner Rehab | Total |
|---|---|---|---|---|---|
| **Cupertino** | - | $490,000 | - | | **$490,000** |
| **San Jose** | $233,123,855 | $18,918,500 | $11,649,542 | $26,451,958 | **$290,143,855** |
| **Milpitas** | $6,700,000 | $200,000 | $23,900,560 | | **$30,800,560** |
| **Santa Clara*** | | | | | **$34,620,554** |
| **Total**** | **$239,823,855** | **$19,608,500** | **$35,550,102** | **$26,451,958** | **$356,054,969** |

*Breakdown by subcategories not provided
**Total is not the sum of all subcategories because the breakdown by subcategories for the City of Santa Clara is not known
Note: Gilroy, Sunnyvale, Palo Alto, and Mountain View did not report use of redevelopment agency funds, although these cities use other sources of funds for affordable housing.
Source: City subsidy information from 2005 affordable housing questionnaire

typically 80 percent AMI and above for ownership units and 50 to 80 percent AMI for rental units.

## Funding Outlook and Gaps

The future of affordable housing programs in Santa Clara County is threatened by reduced federal, state and local government budgets, shifting priorities and the conversion of affordable homes to market rate. The funding outlook for the coming years looks bleak. Cities and counties do not anticipate any increase in federal funding and many fear it will decline.

At the state level, Proposition 46 funds, a primary source of state funding, are expected to be depleted by the summer of 2007. Proposition 1C, approved by state voters in November 2006, authorizes a $2.85 billion bond measure to support housing for the homeless and low income households. The passage of Proposition 1C creates a significant new source of support for affordable housing in California.

At the county level, approximately $4 million remains in the County's Affordable Housing Fund.[32] Although the County's Office of Affordable Housing has identified two funding sources,[33] the future of affordable housing funding remains uncertain. The Valley's cities project modest or no growth in their redevelopment agencies' affordable housing funds and in some cases the funding may even decline in constant dollar terms.

32 $14.5 million has been spent to date. This fund is administered by the Santa Clara County Office of Affordable Housing.
33 The two sources include:

1) Board of Supervisor (BOS) Policy Regarding Sale of Surplus Property
The BOS has prioritized increasing the supply of affordable housing in the County by approving an amendment to the Board's Policy manual allocating 30 percent of the proceeds from the sale or lease of County owned property to be deposited in the affordable housing fund. The funds will be used to support the administration of the affordable housing program and fund affordable housing projects.
2) Collaborative Efforts to House the Homeless and Mentally Ill
To build upon existing collaborative efforts between the County Office of Affordable Housing and the County Mental Health Department as well as to tap into additional tax revenue available to counties by the passage of the Proposition 63 in 2004, the California Mental Health Services Act (MHSA), the County Office of Affordable Housing established a $4 million Housing the Homeless Mentally Ill Fund. The Fund combines $2 million of MHSA one-time money matched with $2 million from the Affordable Housing Fund. The $4 million Fund is reserved for projects providing housing for the mentally ill homeless, and is administered by the County Office of Affordable Housing. In addition, the MHSA provides rental subsidies under the the Full Service Partnership program. This program allows for rental subsidies up to $9 million for up to 750 units of supportive housing across Santa Clara County.

## Development of Affordable Housing and its Funding Implications

Chapter 4 identified the unmet current and future need for affordable housing in Santa Clara County. This section estimates the local funding needed to leverage other federal, state and private sources to build this housing.

## Local Funding for Affordable Housing in Santa Clara County, 1999–2005

We collected affordable housing funding data from local jurisdictions for the period from 1999 to 2005. The survey data is presented in its entirety in Appendix A and includes complete information on federal, state and local financing resources dedicated to affordable housing production and rehabilitation over the survey period.

**A record of local accomplishment** — Despite declining federal and state resources, our research reveals that local jurisdictions dedicated tens of millions of dollars to affordable housing every year from 1999 to 2005 and helped support the construction or rehabilitation of more than 14,500 new affordable housing units. Despite a difficult economy, rising land costs and a myriad of other obstacles, local government and developers (both non-profit and for-profit) worked hand-in-hand to deliver much needed housing to Santa Clara County families at all stages of the income spectrum. In total, local resources dedicated to affordable housing from 1999 to 2005 equaled approximately $70 million per year, primarily in the form of redevelopment agency tax increment financing.

To meet the county's unmet and future housing needs, it is imperative that local agencies build upon this record of accomplishment. The additional local funding needed to meet current and future affordable housing needs, though a significant amount, is not outside the means of this innovative and prosperous region.

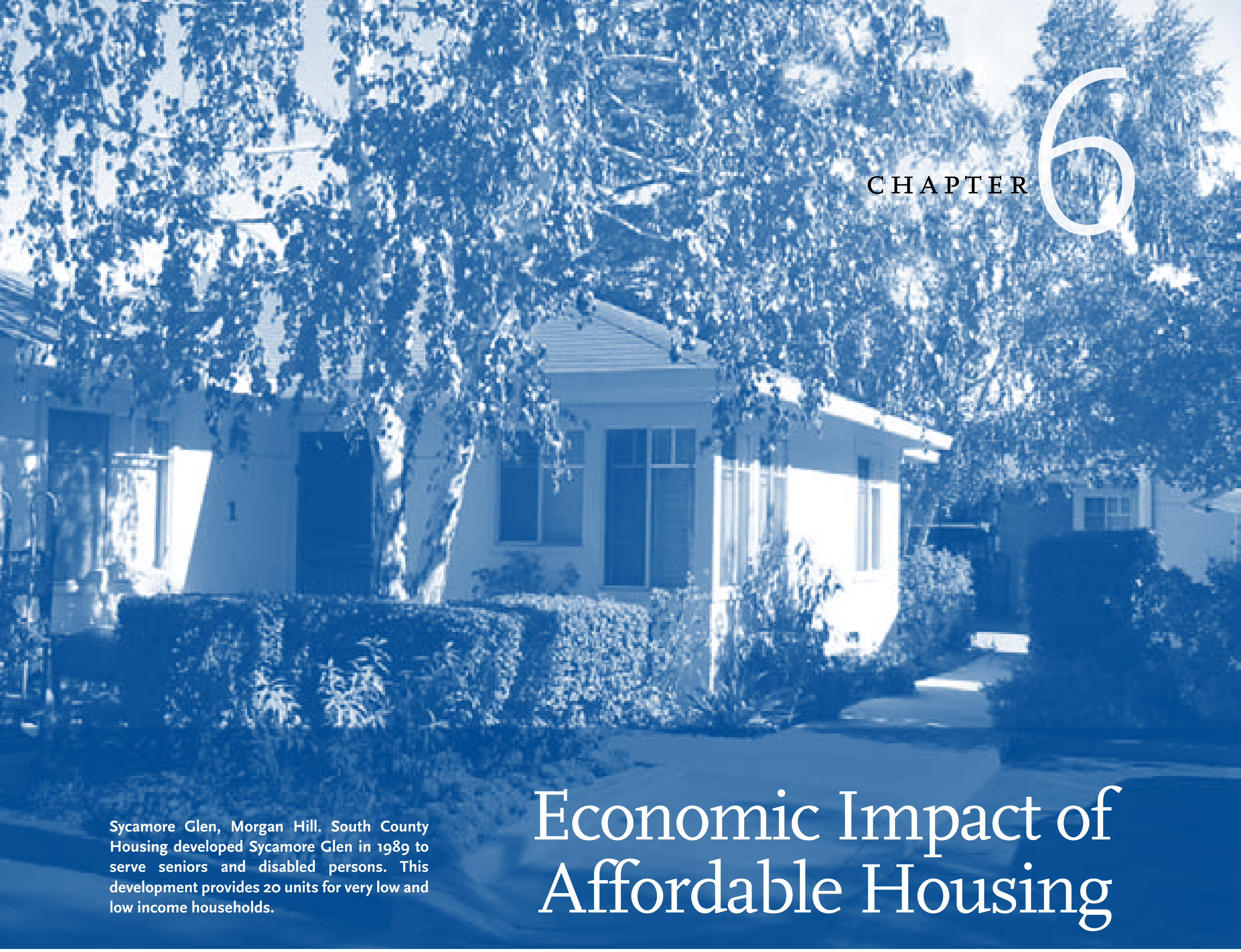
Local jurisdictions and housing developers surveyed for this study report that the local per unit funding subsidy needed to leverage other sources is approximately $50,000 to $150,000 per unit depending on affordability level and unit type. Indeed, the average per unit subsidy amount reported by local jurisdictions for the period from 1999 to 2005 was approximately $110,000 and $70,000 for extremely low income and very low income rental homes, respectively, and approximately $50,000 for owner-occupied homes that were affordable to moderate income households. Assuming the current trend of flat or negative growth in other sources of financing at the federal and state levels, local funding will need to continue at these current levels well into the future and will likely need to increase.

## Additional Local Funding for the Next 20 Years

As documented in Chapter Four, and summarized in Table A-32, Appendix A of this report, Santa Clara County needs to provide subsidies for approximately 34,364 extremely low income homes, 2,830 very low income rental homes, and 3,098 moderate income owner-occupied homes over the next 20 years (see Column 7 of Table A-32, Appendix A). The extremely low income homes include 4,900 permanent units for the homeless. Using $110,000 as the benchmark for extremely low income (including permanent homes for homeless) rental homes, $70,000 for very low income rental homes and $50,000 for owner-occupied homes, this means the county will need approximately $4 billion in additional local (city and county) funding over the next 20 years, or $200 million per year in 2005 dollars (see Column 8, Table-A32, Appendix A) to continue its efforts to address the community's affordable housing shortage.

## Conclusion

Santa Clara County must approach the financing of new affordable housing with the same innovation that has made it one of the most dynamic and desirable regions in the country. The county has made tremendous progress in affordable housing production during the past seven years. The challenge facing us today is to continue this record of accomplishment and do what is required to ensure the region's future quality of life and economic prosperity.



CHAPTER 6

# Economic Impact of Affordable Housing

**Sycamore Glen, Morgan Hill. South County Housing developed Sycamore Glen in 1989 to serve seniors and disabled persons. This development provides 20 units for very low and low income households.**

Investment in affordable housing provides homes to targeted income groups and increases economic activity throughout the region. This chapter calculates the impacts of an investment in affordable housing in Santa Clara County. Results of this analysis reveal that a local source affordable housing subsidy would leverage public and private investment as well as stimulate the regional economy by creating new jobs and generating tax revenue for state and local government. Additional social benefits and long-term community benefits are also closely linked with the provision of affordable housing.

IMPLAN,[34] a regional input-output modeling program, was used to calculate the impact of investment in affordable housing. Input-output models describe the relationships between businesses and households by estimating changes in economic activity due to investment in an industry. Investment in a particular industry creates successive waves of economic activity. As the primary industry expands production in response to the initial investment, it requires inputs from supplier and service industries, which in turn stimulates employment and spending within these industries. The cycle continues as employees spend their money on goods and services.

34 IMPLAN (Impact Analysis for PLANning), was developed by the Minnesota IMPLAN Group

IMPLAN was selected to build a model to describe the economic impact of investment in affordable housing development in Santa Clara County due to its flexibility and predictive power. IMPLAN is supported by a database of all U.S. economic sectors and uses data from the U.S. Bureau of Labor and the U.S. Bureau of Economic Analysis. The model captures three categories of economic activity: direct, indirect and induced impacts. Direct impacts constitute initial spending. Indirect and induced impacts measure the multiplier effects. Indirect impacts account for the increased activity in supplier firms in response to direct spending. Induced impacts account for expenditures made by households and governments as a result of receiving direct and indirect income.[35]

## Methodology

As reported in Chapter 4 of this report, there is an unmet need of approximately 40,000 homes in Santa Clara County over the next 20 years — or 2,000 homes annually. The scenario used to calculate the impact of investment in affordable housing to meet this need assumes a 20 percent in-migration factor. That is, 400 of the 2,000 units produced annually would go to people currently living outside the county.

## Results of $200 million Investment in Affordable Housing

Chapter 5 of this report showed that over the next 20 years, the county would require approximately $4 billion in additional local source funding, or $200 million per year to meet the unmet need for affordable housing development. This $200 million annual local source affordable housing subsidy will leverage public and private investment and stimulate economic activity. Results from the IMPLAN model show that a $200 million investment in affordable housing would create new jobs, and generate state and local tax revenues. Additional social benefits result from providing affordable housing that IMPLAN does not calculate but have been listed in this chapter.

### Leverage of Public and Private Investment

A $200 million local source affordable housing subsidy would leverage public and private investment thereby stimulating new economic activity. Each $1 of a local source housing subsidy will attract $2.50 in private investment and other subsidies. This $3.50 total leverage ($1 local source housing subsidy and $2.50 of private and other investment) will generate $5.31 in new economic activity. Thus, a $200 million annual affordable housing subsidy will result in a total annual investment of $700 million (3.5 times $200 million) and generate $1.08 billion in new economic activity throughout the region.

An investment in affordable housing is comparable to an investment in ground transportation. Each $1 in local transportation investment will generate $5.2 in new economic activity assuming a 3.5 leverage factor, the equivalent of the affordable housing subsidy leverage factor.

### Employment Impact

Investment in affordable housing creates employment in two principal ways: direct employment of workers in the residential construction industry and indirect employment of workers in associated industries. The direct and indirect impact on employment of a $200 million annual affordable housing subsidy would create nearly 9,500 new jobs

35 MIG, Inc. "IMPLAN Introductory Workshop." [Online Slideshow] <http://www.implan.com/library/pdf_files/Introduction%20to%20IMPLAN%20Workshop%202003.pdf >

TABLE 4: **Economic Impact of $200 Million Annual Affordable Housing Subsidy**

| Scenario | Total Economic Activity | Jobs Created | State & Local Government Tax Revenues |
|---|---|---|---|
| **20% in-migration** | $1.08 billion | 9,500 | $103 million |

### State and Local Government Tax Revenue

A $200 million affordable housing subsidy will generate $103 million in tax revenue for state and local governments. The increase in tax revenue is due primarily to the increase in sales, property, and personal income taxes that result from the additional economic activity. Another way to view the tax impact is to consider that because the affordable housing subsidy generates tax revenue, the burden on local government of providing the housing subsidy in the first place is reduced as some of the $200 million subsidy is returned back to the local government in the form of tax revenue. Table 4 summarizes the above discussed economic impacts of affordable housing.

## Other Benefits of Affordable Housing

Quality affordable housing helps keep the cost of living and doing business reasonable, thus protecting the competitive edge of a region. The Silicon Valley economy is concentrated in knowledge-based occupations, so the ability to attract and retain highly skilled employees is essential to maintaining the area's competitive edge. However, exorbitant housing costs contribute to the high cost of living which forces many talented professionals out of the area. The annual CEO Business Climate Survey conducted by the Silicon Valley Leadership Group (SVLG) found that almost 9 out of every 10 employers believe housing costs stand well above all other challenges to Valley companies and nearly all survey respondents (97 percent) cited housing costs as the most significant challenge facing working families.[36]

In addition, the provision of many public services is enhanced when people have their basic human need for shelter met through quality affordable housing. Adequate housing can reduce the demand for and improve the cost effectiveness of public service delivery.

Additional benefits of affordable housing include:[37]

- Reduces risk of homelessness using an approach of supportive, permanant housing for the homeless and permanant housing for low income families
- Improves family self-sufficiency as reduced housing costs enable low-income households to spend more on other necessities such as food
- Cultivates safe communities with an improved quality of life for residents
- Fosters social inclusion by reducing displacement of low paid workers from the communities in which they work

36 Silicon Valley Leadership Group CEO Business Climate Survey 2006, http://www.svlg.net/Related%20Docs/CEOSurvey06.pdf
37 Benefits of affordable housing research references: M. Cubed. 2003. *The Economic and Fiscal Impacts of Affordable Housing, A Santa Clara County Perspective*; Bay Area Council. 2003. *Bay Area Housing Profile: A Report Card on the Supply and Demand Crisis*; Oregon Housing and Community Services. *Housing as an Economic Stimulus: The Economic and Community Benefits of Affordable Housing Development*; Nari Rhee and Dan Acland. 2005. *The Limits of Prosperity: Growth, Inequality and Poverty in the North Bay*, (New Economy Working Solutions Paper).

- Employees with affordable housing near the workplace spend less time commuting and have more time for their families and communities
- Improves school performance and reduces drop-out rates as families achieve a stable living environment
- Increases motivation and better behavior among children
- Improves health status as families achieve stability and access to higher incomes and public health services

## Conclusion

**In sum, all evidence suggests that investment in affordable housing makes strong economic sense. It is critical to maintaining the productivity lead of the region, stimulating economic activity and creating healthy, stable communities.**

Appendices are available online at **www.bayarealisc.org**

BACK PAGE: **Rivertown Apartments, Santa Clara. Developed by the Housing Authority of Santa Clara County, this 100 unit development serves low income families.**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