



Missing Middle Housing in Santa Clara County: Creating housing opportunities for moderate Income Households (July 2019)

Missing Middle: An Introduction

As communities throughout Santa Clara County continue to wrestle with housing shortages and rising housing costs, new attention is being directed at the lack of housing choices available to families with moderate incomes - those whose incomes are too high to qualify for traditional affordable housing, but too low to pay average market-rate rents - sometimes known as the “missing middle.”

As one of many symptoms of our regional housing crisis, families that once were considered middle income, sometimes making six-figure incomes, find themselves challenged to find decent, safe, and affordable housing. This is having a profound effect on normally stable middle-income households and threatens the underpinnings of the local economy and critical services. Because the need is great, a range of solutions -- from changing the way we think about traditional residential neighborhoods to creative approaches to lower the costs of development -- are gaining traction.

Reflecting the complexity of the challenge, definitions of the “missing middle” vary. Most often, this group falls in the moderate income category with incomes between 80-120% of the Area Median Income (AMI). In Santa Clara County for 2019, this means an annual household income between \$103,900 and \$157,700 for a family of four.¹ Because most programs that fund traditional affordable housing generally do not address the affordability needs of households with incomes above 60% (AMI), strategies are also being explored to reach households earning between 60-80% of AMI.² On the other end the “missing middle” category are households with slightly higher incomes, between 120% and 150% of AMI, who are also struggling in many of our white-hot housing markets. The expanded definition, covering 60%-150% AMI, reflects an overall income range of \$73,500-\$197,100 for a family of four.³

Importantly, policy discussions also use the idea of “missing middle” to describe the **types** of housing options that are missing from many cities - the space between larger single-family homes that characterized the post-war suburban era when Silicon Valley was developing, and the higher density multi-family luxury apartments that have come to dominate recent development in the county. In the middle are housing types that are smaller, can be built more affordably without significant public subsidies, and improve the diversity of housing options to a range of incomes.⁴

¹ California Department of Housing and Community Development, 2019 Income Limits <http://www.hcd.ca.gov/grants-funding/income-limits/state-and-federal-income-limits/docs/Income-Limits-2019.pdf>

² Office of Governor Gavin Newsom, March 2019 <https://www.gov.ca.gov/2019/03/11/governor-newsom-announces-legislative-proposals-to-confront-the-housing-cost-crisis/>

³ California Department of Housing and Community Development, 2019 Income Limits, Ibid

⁴Opticos, Characteristics of Missing Middle Housing; <http://missingmiddlehousing.com/about/characteristics/>

Why is this important?

When the existing housing opportunities affordable to “missing middle” households fall short, employers have difficulty attracting and retaining even relatively well paid workers, and many families leave the region, and even the State, for areas with lower housing costs. The resulting instability of the local workforce and the increased traffic due to longer commutes into the County, pose economic and environmental problems for the entire region. Daily, there are over 390,000 workers who commute into the county for work, 120,000 more than the number of residents that leave the county for work.⁵ People in the “missing middle” span every industry. From public school teachers to emergency workers to nurses, public sector middle-income employees are finding fewer affordable housing options where they work. Construction workers and intro level tech workers face similar challenges.⁶

The cost of development in the Bay Area has continued to increase in recent years, as we have seen a steep rise in land prices and the costs of labor and materials. Due to the resultant development cost per unit, developers seek to maximize density on sites zoned for multi-family use. This higher-density development is particularly expensive given the need for structured parking and more stringent building standards.

Developers pass on these added costs to the eventual renters or owners in the form of higher rents and sales prices. Currently, no subsidies are available that enable developers to charge restricted rents that middle income households can afford, or to build medium-density housing types that would be more naturally affordable at moderate income levels.

In the current RHNA cycle, cities in Santa Clara County have completed 13% of their low and very low income housing goals, 129% of their above moderate income housing goals, but continue to fall behind on their moderate income housing goals, completing only 50% in the current cycle.⁷ Due to changes in HCD rules, cities are now able to count units that are considered affordable to moderate income levels, but do not carry deed-restrictions. While more units are allowed to be reported toward these moderate income goals today, Santa Clara County cities still continue to fall behind production in this category.

Local solutions, local action

Modest multi-unit infill housing

Missing middle housing types increase density while blending in with existing single-family neighborhoods. There are a range of strategies for developing housing that is naturally affordable within the private market (often referred to as Naturally Occurring Affordable Housing or NOAH). It is almost always faster and less expensive to build missing middle income housing types than high density multi-family housing, as development tends to be only 2-3 stories at maximum which allows for traditional

⁵ Based on 2015 LODES LEHD Inflow outflow data.

⁶ Working Partnerships, The Google Rent Hike: What Google’s San José mega-campus could cost renting families — and what Google can do about it. June 2019 <https://www.wpusa.org/files/reports/GoogleRentHike.pdf>

⁷ California Department of Housing and Community Development, Annual Progress Reports 2019 <http://www.hcd.ca.gov/community-development/housing-element/index.shtml>

wood frame construction and can rely on existing city infrastructure, decreasing expensive site development costs.

Most recently, in response to housing shortages that reflect growing populations and limited remaining land for adding new homes, cities including Portland, Seattle, Minneapolis, and Vancouver have changed zoning rules to allow for 2-4 unit structures to be built in neighborhoods previously restricted to single family homes.⁸ The State of Oregon just became the first state to eliminate single-family zoning in cities with more than 25,000 residents, upzoning much of the state.⁹ Modest density housing types are not new, but housing of this type has not been developed at a significant rate in California for many decades. In cities like San Jose, where over 90% of all residential land is zoned exclusively for single-family homes, there is a real opportunity to both expand housing availability and create more affordable options for a diverse workforce.¹⁰ While often instituted city-wide, this moderate increase in neighborhood density can also be attractive as a way of transitioning from single family neighborhoods to higher density development particularly along transit routes.¹¹ Local action can make a difference.

ADUs

Another approach to the same underutilized land opportunities is the expansion of accessory dwelling units (ADU) built in backyards or above garages of single family homes. Because ADUs are smaller than single family homes and can tap into existing utility infrastructure, construction costs are significantly lower, and these new homes can provide affordable options for middle-income households without public subsidies. Recent State legislation lowering barriers and costs, and local efforts to streamline development, have increased attention to the benefits of ADUs as part of a broader response to the housing crisis and have seen permits double year over year in Santa Clara County. Continued innovation of pre-fabricated or ready-made units also make increased ADU development more affordable and feasible for homeowners.

Building smaller apartments

Market approaches are also gaining traction in new multi-family development with a trend towards integrating a broader range of unit types. Smaller, less expensive apartments are providing housing options for “missing middle” households in otherwise exclusive markets. This trend is most visible in the new attention to radically new approaches to urban living including micro units, which are designed to fit 3-4 bedrooms into the space of a traditional 1 bedroom apartment, and co-living developments where individual bedrooms units share a common kitchen and living space.¹² Recent co-living developments in

⁸ New York Times: Cities Across America Question Single Family Zoning, June 2019

<https://www.nytimes.com/interactive/2019/06/18/upshot/cities-across-america-question-single-family-zoning.html?mtrref=www.google.com&gwh=8F3366C98D6AF00EF78946B2557CF073&gwt=pay>

⁹ CityLab, July 2019 https://www.citylab.com/equity/2019/07/oregon-single-family-zoning-reform-yimby-affordable-housing/593137/?utm_campaign=citylab-daily-newsletter&utm_medium=email&silverid=%25%25RECIPIENT_ID%25%25&utm_source=newsletter

¹⁰ New York Times: Cities Across America Question Single Family Zoning, June 2019

<https://www.nytimes.com/interactive/2019/06/18/upshot/cities-across-america-question-single-family-zoning.html?mtrref=www.google.com&gwh=8F3366C98D6AF00EF78946B2557CF073&gwt=pay>

¹¹ Parolek, Daniel; Opticos; Missing Middle Housing, Responding to the Demand for Walkable Urban Living

<http://missingmiddlehousing.com/dev/wp-content/uploads/2015/04/Missing-Middle-Housing-Responding-to-the-Demand-for-Walkable-Urban-Living-by-Daniel-Parolek.pdf>, The City of San Jose will be studying a version of this in its General Plan Four Year Review in 2020.

¹² CityLab: The Largest Co-Living Building in the World Is Coming to San Jose, June 2019

<https://www.citylab.com/life/2019/06/cohousing-san-jose-room-for-rent-starcity-coliving-housing/590731/>

Oakland and San Jose are not necessarily more affordable than a traditional studio apartment. However, they allow moderate income households to have access to amenities they would otherwise not be able to in the traditional rental market.

Expanding options through inclusionary zoning

More and more cities are using the opportunities afforded by rezoning large areas from commercial/industrial to residential through area Specific Plans or major developments, to leverage moderate-income homes beyond the lower-income units required by their existing Inclusionary Housing programs. Because the cities rezoning increases land values and development opportunities, large scale development can often accommodate the modest costs of including deed-restricted moderately priced units as a public benefit, thus expanding the range of housing options in the local market.¹³ This is similar to existing density bonuses provided to developers if they include more affordable units in their projects. Some local governments are experimenting with Inclusionary Housing Ordinances that set affordable requirements at an average AMI, which allows developers to provide some moderate income units mixed with some targeting lower-income families.

Creating funding for new construction and acquisition of market rate developments

While there are opportunities to build “missing middle” housing through zoning and regulatory actions by cities, the continued challenges and the magnitude of the need is generating creative ideas about how local and state government entities can facilitate public/private financing opportunities to lower the capital costs of development in return for modest affordability requirements. Current approaches under consideration include publicly supported loan funds with below-market rates and modest returns for investors, and innovative government-backed, low-risk bonds for either new-construction or acquisition of homes affordable to moderate income households.¹⁴

Finally, new initiatives at the State level are expanding the possibility of public investment in “missing middle” housing. Recent rule changes to the California Low-Income Housing Tax Credit program expand housing options to address the needs of households with incomes between 61% and 80% of AMI, and Governor Newsom has proposed a State fund that could leverage local investment similarly targeted housing production.

Make Missing Middle Housing types feasible.

“Missing-middle” housing solutions are key to both increasing the range of affordable opportunities, and responding to the more general shortage of housing within the County. In most cases “missing middle” housing does not face the same obstacles as larger scale developments, and does not require public financial support. But, most of the solutions do require local action and proactive attention. The point of greatest local leverage is updated zoning that allows for both modest increases in density in traditional single family neighborhoods, and demands higher density development of a diversity of housing types along transit routes and major growth areas.

Challenges remain, but the demand is growing and the benefits are substantial -- more efficient use of scarce land; environmentally beneficial shorter commutes, densities to maintain and expand high

¹³ Current examples include North Bayshore in Mountain View, and Diridon Station Area Plan in San Jose

¹⁴ San Jose City Council Discussion of Moderate Income Housing Strategies, June 2019
http://sanjose.granicus.com/MediaPlayer.php?view_id=2&clip_id=11143

performing transit, and walkable neighborhoods; and stable communities that provide affordable options to a range of income levels. By building more, and building less expensively, the region can respond to the challenge of housing affordable to the “missing middle.”

SV@Home supports policies that increase opportunities for Missing Middle housing development. There are a variety of mechanisms that address obstacles to feasibility, discussed below.

Conclusion: Expanding the production of Missing Middle Housing types

Providing housing that is accessible at every income level creates economic stability for both households and the local economy. Individuals are able to live in the same communities where they work, and have the same access to highly valued community assets including open space, retail centers, and public services. Increased supply of “missing middle” housing is an immediate need, as housing costs continues to outstrip incomes. This is a relatively new challenge, as traditionally the market has been able to provide a variety of options to middle income households. As we continue to develop a toolkit of diverse policy solutions to combat the housing crisis, more must be done to address the needs of the “missing middle.”

SV@Home’s Best Practices for the Missing Middle

Actions that allow for modest sized homes:

Recommendation	Rationale
Zoning at higher densities on single family lots that encourages smaller units	Adapting zoning codes to higher densities that encourage ADU development or redevelopment of sites to build at medium density levels. ¹⁵ Allows for transitional densities, lowers site development costs and allows residents access to high value community amenities.
Improve the functionality of existing tools, such as Accessory Dwelling Unit ordinances.	423 ADUs were permitted throughout Santa Clara County in 2018. ¹⁶ This is a significant increase in production from previous years largely due to changes in State legislation that led to ordinance updates. More can be done to continue to incentivize development and streamline the process for interested homeowners. Additional incentives, including impact fee relief substantially reduce costs for homeowners interested in building an ADU.
Incorporate smaller units affordable to middle income households in larger developments.	Unlike traditional affordable housing development, Missing Middle housing should be able to be established without requiring ongoing, long-term subsidies. By easing zoning restrictions on unit sizes and configuration, cities can promote higher density housing that incorporates a mix of unit sizes including units targeted for middle income households.

Leveraging opportunities in large scale development:

Recommendation	Rationale
Leverage zoning changes in Specific Area Plan and major developments.	Through specific plan processes, or significant General Plan amendments, there is an opportunity to leverage public benefits, beyond standard inclusionary housing requirements, for “missing middle” housing. More expensive market rate units, made possible by rezoning, can subsidize the lower priced units. Incorporating middle income units should be considered as an addition, and not in-lieu of, existing inclusionary requirements that are targeted to lower-income households. Alongside zoning changes, other incentives such as fee waivers, proximity to transit, could help make moderate income development feasible.
Allow mid-rise development by right within ½ mile of transit corridors.	Mid-rise development, such as apartment or condominium complexes generally no higher than four stories, can serve as a transitional density between single-family neighborhoods and higher density development directly adjacent to transit corridors. Action should be considered at both the State and local level to create streamlining and by-right zoning

¹⁵ Opticos, How to Regulate; <http://missingmiddlehousing.com/about/how-to-regulate/>

¹⁶ SV@Home; ADUs Permitted in Santa Clara County 2017 vs. 2018; <https://siliconvalleyathome.org/resources/#secondary-dwelling-units>

	opportunities for this type of missing middle housing when located in areas near transit. ¹⁷
Prioritize affordable development on surplus or underutilized public land	Public land is a valuable resource for additional housing development. When jurisdictions sell or lease land, they are required by the State to first offer the land to affordable housing developers. ¹⁸ Multifamily, mixed income buildings are a key type of development that would be appropriate and have units set aside for incomes between 80-150% of AMI. There are also multiple local initiatives by school boards to build housing for teachers and staff on underutilized property. ^{19 20}

Flexible Funding:

Recommendation	Rationale
Identify opportunities to promote new public/private financing at moderate income levels	Funding sources are needed to encourage “missing middle” housing development. However, these initiatives should not come at the expense of other affordable housing programs targeted at lower income households. New funding sources should be established targeted at this group in addition to existing programs for low, very-low, and extremely-low income households.
Reinforce existing homeownership programs	The “missing middle” covers a diverse section of the population and efforts need to be made to create both rental and ownership opportunities at this income level. Homeownership down payment assistance programs have been an important financing tool for the “missing middle” historically, and efforts should be made to build these programs up especially in this expensive market. Programs exist currently at both the State and local level. CalHFA has a variety of loan programs to support homeownership. The Housing Trust of Silicon Valley provide homeownership assistance, and the City of San Jose has also dedicated \$10 million to Missing Middle housing solutions including homeownership.
Increase Funding Sources at the Local Level	Accessing adequate funding is an effective incentive to spur additional middle income housing development. While some funding sources exist, they are limited in their scope, and additional opportunities need to be considered to adequately address the needs of the “missing middle.” Measure A was passed in Santa Clara County in 2016. As part of the funding package, \$150

¹⁷ Committee to Housing the Bay Area, Casa Compact, December 2018 <https://mtc.ca.gov/our-work/plans-projects/casa-committee-house-bay-area/casa-meeting-schedule>

¹⁸ [California Surplus Land Law \(Section 54220-54232 of the California Government Code\)](#)

¹⁹ Kendal, Marisa 2018; Turn schools into teacher housing? Unique Idea; Mercury News <https://www.mercurynews.com/2018/10/06/turn-schools-into-teacher-housing-bay-area-community-up-in-arms-over-unique-idea/>

²⁰ <http://www.supportteacherhousing.org/#work>

	million of the \$950 million bond is to be used for rental and ownership housing for moderate income households (50%-120% AMI). ²¹
Target State Funding that Incentivizes Underdeveloped Housing Types	The State creates funding opportunities through new and existing programs. One option is subsidies for the creation of underdeveloped housing types such as duplexes and cottages. In addition, a current proposal in the State legislature hopes to amend the tax code to provide a property tax exemption for properties of five or more units that commit to restricting rents between 80% and 120% of AMI. ²²

²¹ Building Homes, Changing Lives 2016 Measure A Affordable Housing Bond, 2018
https://www.sccgov.org/sites/osh/HousingandCommunityDevelopment/AffordableHousingBond/Documents/2016MeasureAImplementationSummary_Sept2018.pdf

²² State of California, Assembly Bill 1734, 2019; http://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=201920200AB1734