RULES COMMITTEE: 10-03-12
ITEM: G.3

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO: **RULES & OPEN GOVERNMENT COMMITTEE**

FROM: Councilmember Sam Liccardo

SUBJECT: **HOTEL & MOTEL CONVERSIONS**

DATE: September 27, 2012

APPROVED 9-27-12

RECOMMENDATION

Include on the list of referrals for council consideration at the Priority Setting Session on October 9th a directive to determine whether and how the City should facilitate the conversion of hotels/motels to residential apartments and/or offices, with the suggestion that we:

a. Invite input and discussion from any consultants, brokers, industry experts, economists or hotel/motel owners who could provide the council with insights regarding the feasibility of hotel/motel conversions.
b. Identify the practical, legal, and zoning-related impediments preventing the conversion of hotels/motels to residential apartments or office buildings.

DISCUSSION

Recent media accounts have highlighted the rise in prostitution activity in several motels in areas throughout the City, but generally just outside of the Downtown core. Along Monterey Road, North 1st Street, North 13th Street, and the Alameda, we hear widespread complaints about prostitution and related criminal activity, including drug dealing and assault.

Although our Police Chief and City Attorney are employing their scarce resources creatively and assertively to address the problem, we are playing a game of "whack-a-mole" with a problem that will readily relocate as enforcement attention moves from neighborhood to neighborhood. All too often we get so focused on fighting the alligators that we fail to consider how we might drain the swamp.

With crime prevention analyst Mini Le and Captain Dave Knopf, we've convened several meetings of managers of motels and hotels near the Airport, to focus on how we can collectively address the surge in prostitution and related criminality. Several of the owners and managers have diligently attempted to collaborate with each other and with the police—such as by installing cameras, exchanging "do not lease" lists, and requiring credit card payments-- and have implemented a range of measures to reduce the flow of prostitution traffic. Their resources are limited also, however, as is their capacity to implement many changes.

At a recent meeting, I spoke with a couple of motel owners, who complained about the low margins in the business, and the additional burdens of policing their properties. I suggested the idea of converting their motel to single-room-occupancy apartments, and both expressed a strong interest. Neither were sophisticated in development issues, however, nor experienced in dealing with city processes.

Concurrent with the surge in prostitution activity, we see large increases in residential rents, and a corresponding growth in homelessness. The costs of building a single-room-occupancy apartment—at $250,000 or $300,000 or more per unit—likely pales in comparison with the more modest cost of retrofitting a hotel/motel room for apartment use, such as by installing an SRO-sized modular kitchen unit. It seems likely that we could substantially boost the supply of affordable apartments at a small fraction of the cost of building a new apartment unit.

At the same time, some motels, such as those near the Airport, may more ideally provide office space after conversion. As lease rates surge in North County, and as more freelancers and entrepreneurs look for low-cost office space, demand for scalable office space and office "condos" may drive redevelopment of hotels/motels in a different direction.

Concerns may arise regarding the potential loss of transit-occupancy-tax (TOT) dollars to the General Fund, but many of the more marginal hotel and motel businesses generate relatively little tax, and (as we've learned from our recent investigation of several motel operators) evade paying their share of TOT.

Ultimately, the market will dictate whether hotel/motel conversions are viable, whether for office or for residential apartments. Public affordable housing funds could help influence that outcome, particularly if conversion appears vastly more cost-effective than new construction. Regardless, if we see an opportunity to reduce hotel and motel-related impacts in many communities, and we're able to create more housing for the working poor, we should aggressively explore this option.