

COST OF RESIDENTIAL DEVELOPMENT STUDY

City of San José Housing Department

December 8, 2025



**Economic & Planning
Systems, Inc.**
The Economics of Land Use

CSG
ADVISORS



Agenda & Presenters

1. Staff Overview
2. Presentation on Affordable and Market-Rate Housing Reports
3. Perspectives from Industry Experts
4. City Council Questions and Discussion

- **Erik L. Soliván** - Housing Director
- **Jason Moody** – Managing Principal – Economic & Planning Systems, Inc
- **Nicole Graham** – Co-CEO – CSG Advisors

Background

The City of San José Housing Department contracted with CSG Advisors and Economic and Planning Systems (EPS) to prepare a Residential Development Cost Study. EPS focused on the cost of developing market rate housing while CSG focused on the cost of developing subsidized affordable housing.

History and Community Outreach

- In December 2017, City Council directed staff to convene a City Council Study Session to discuss the aggregate impact of the fees and policies the City imposes on housing development and construction.
- There have been three previous iterations of the report on the Cost of Residential Development, in 2018, 2022 and 2023.
- Developer Roundtable held on November 21
- Community Meeting held on December 4
- Additional meetings conducted with key stakeholders:
 - *Working Partnerships*
 - *South Bay Labor Council*
 - *Hanover Company*
 - *Bayview Development*
 - *SV@Home*
 - *Urban Catalyst*

MARKET-RATE HOUSING

Important Context

1. The analysis draws from available public and private data
 2. Hypotheticals are created based on
 - ☐ Current market performance
 - ☐ Project costs in particular areas of San José
 - ☐ A varied set of building types
 3. Additional data and analysis is needed to further an understanding of the hard cost breakdown and according contextual analysis
1. Important tool to understand barriers to new housing construction
 2. Factors within City Control
 - ☐ City policy and programs
 - ☐ Impact fees
 - ☐ Taxes
 - ☐ Permitting
 3. Factors outside City control
 - ☐ Cost of land
 - ☐ Market financing
 - ☐ Material supply chains

EPS Study Scope and Purpose

Scope

- Evaluate the costs and feasibility of developing various residential product types in San José
 - *EPS considers 5 “generic” higher density housing building types*
- Results provided across 4 “districts” that correspond to MLS zones used in the Parks fee, consistent with previous Cost of Development studies

Purpose

- Inform City Council and public on economic feasibility of housing development in current market
- Results will inform justification of fee waivers as outlined in Section 14.10.310 in the San José Municipal Code (MC)

Analytical Framework for Results

- Data and analysis reflect 2024 - 2025 market conditions
- Revenue and cost assumptions informed by 3rd-party sources (e.g., CoStar, Redfin, Marshall + Swift) and local developer data
- Individual projects will differ from results shown due to a variety of factors (e.g., location, quality, developer capability, site conditions, etc.)

Summary of City Pro-Forms

Description	Podium and Wrap					Tower	
	EPS Pro-Forma Podium	EPS Pro-Forma Wrap	Sample Pro-Forma 1	Sample Pro-Forma 2	Sample Pro-Forma 3	EPS Pro-Forma Tower	Sample Pro-Forma 4
Rentable Sq. Ft. to Total Building Sq. Ft. Ratio	85%	85%	85%	85%	85%	80%	80%
Avg. Sq. Ft. per Unit	902	902	519	814	864	902	801
Residential Stories	5	5	7	5	6	20	11
<u>Estimated Hard Costs</u>							
per Unit	\$449,994	\$437,994	\$327,338	\$465,252	\$319,666	\$687,068	\$621,762
per Sq. Ft.	\$424	\$413	\$536	\$486	\$315	\$610	\$621

For-Sale Building Types

Townhome



Typical Building Characteristics:

- 3 - 4 stories
- Wood frame construction
- Integrated parking garage

Stacked Flats



Typical Building Characteristics:

- 3 - 4 stories
- Wood frame construction
- Integrated parking garage

Rental Building Types

Podium



Typical Building Characteristics:

- 6 - 8 stories
- Wood frame construction over concrete podium

Wrap



Typical Building Characteristics:

- 4 – 6 stories
- Wood frame construction built around concrete parking structure

Tower



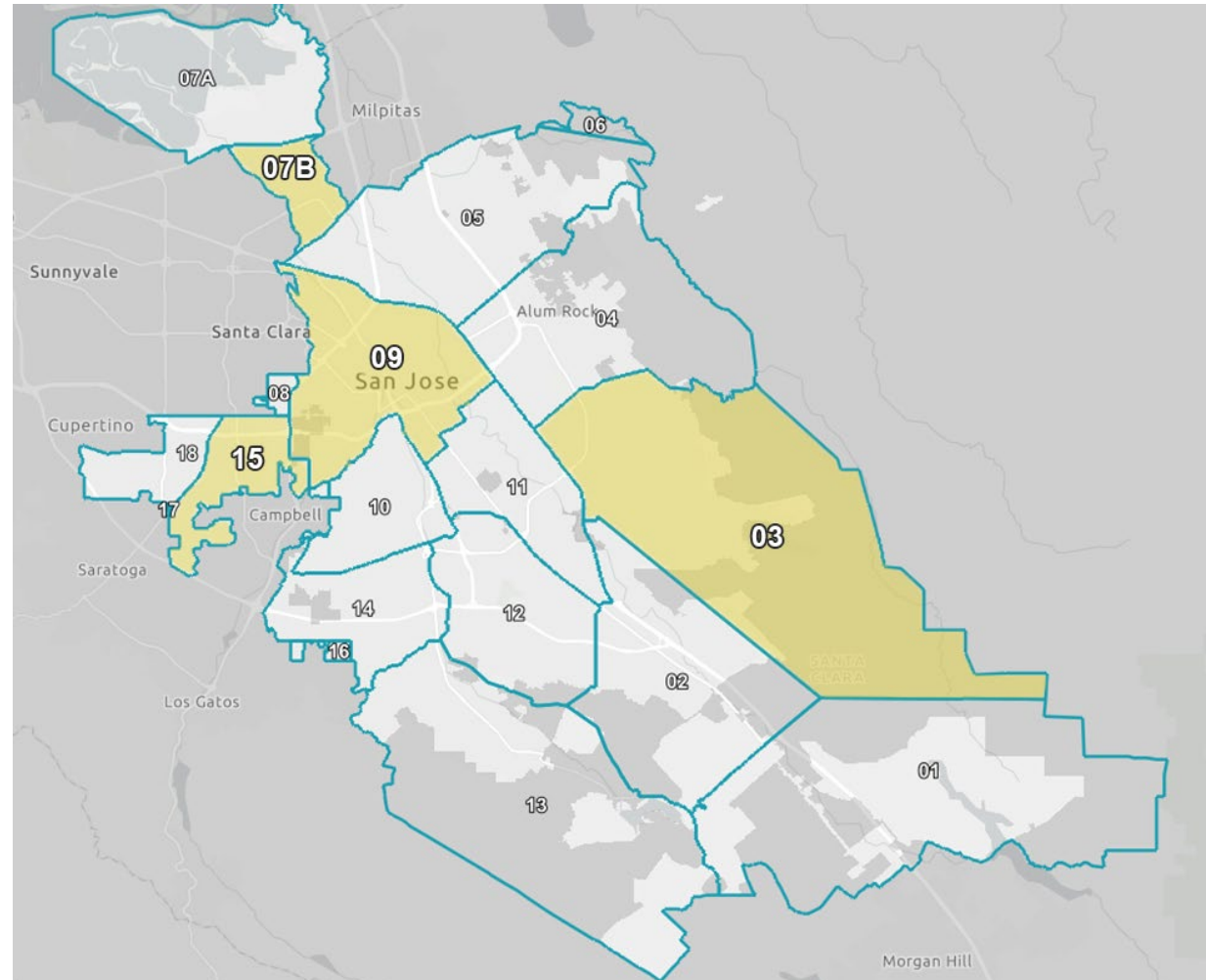
Typical Building Characteristics:

- 12+ stories
- Steel frame construction
- Podium and / or subterranean parking

Description of Building Types

Description	For Sale		Rental		
	<u>Townhome</u>	<u>Stacked Flats</u>	<u>Podium</u>	<u>Wrap</u>	<u>Tower</u>
Site Acreage	2.0	2.0	2.0	2.0	2.0
Total Housing Units	40	106	172	172	470
Stories	3	4	7	5	22
<u>Program</u>					
Density (Units per Acre)	20	53	86	86	235
Avg. Net Sq. Ft. per Unit	1,458	1,118	902	902	902
Net Sq. Ft.	58,313	118,533	155,098	155,098	423,815
Gross Sq. Ft.	72,892	139,450	182,469	182,469	529,769
Floor Area Ratio	0.84	1.60	2.09	2.09	6.08
Parking Format	Integ. Garage	Integ. Garage	Podium	Structured	Underground & Podium
Parking Ratio	2.0	2.0	1.0	1.0	0.8
Total Parking Spaces	80	212	172	172	376

Multiple Listing Service (MLS) Zones



Zones Used:

09: Downtown /
Central

15: West

07B: North

03: South and East

Factors That Can Affect Feasibility

- Key Market Value Considerations:
 - *Achievable valuation, sale prices and rent schedules*
 - *Mortgage Interest rates*
 - *Land acquisition costs*
 - *Market capitalization rates*
- Key Cost Considerations:
 - *Labor and material inputs*
 - *Construction financing terms (e.g., interest rates)*
 - *Taxes and fees*
 - *Entitlement streamlining / fast-tracking (not modeled)*
- Consultant sensitivity analysis shows how results might change with improved market conditions

Study Results

- Rationale for tax and fee waivers under Municipal Code Section 14.10.310 varies by product type
 - *For sale townhomes and stacked flats are positive (less eligible for waivers)*
 - *For rent podium, wrap, and towers are negative (may be eligible for waivers)*
- Tax and Fee waivers have and may continue to tip the scales for some projects
- Development economics varies by location due to differences in asset & liability prices & rents
- Modest improvement in market conditions can make higher density feasible
 - *Combination of modest increase in rents and/or decline in development costs can make wrap and podium feasible (e.g., 5% - 15% change)*
 - *Tower will require more substantial change in rents and/or development costs to achieve feasibility (e.g., 10% - 35% change)*

Development Feasibility Framework

- Results based on a financial model that incorporates market data (rents, sale prices, construction costs, etc.) to solve for “Residual Land Value” (RLV)
- RLV represents amount a developer could pay for a site and still have a profitable project.
- Helps us answer the question:

Is net value of a proposed project (excluding cost of land) equal or greater than existing site value?



Results By Building Type & Location

Hypothetical 2-acre site

Location	For Sale		Rental		
	<u>Townhome</u> 40 Units	<u>Stacked Flats</u> 106 Units	<u>Podium</u> 172 Units	<u>Wrap</u> 172 Units	<u>Tower</u> 470 Units
<i>Residual Land Value (2-acre site)</i>					
West	\$20,952,000	\$8,168,000	(\$6,677,000)	(\$3,988,000)	N/A
Downtown Tower	N/A	N/A	N/A	N/A	(\$134,754,000)
Central	\$2,261,000	\$2,697,000	(\$11,879,000)	(\$9,191,000)	(\$134,754,000)
North	\$10,081,000	\$17,450,000	(\$15,309,000)	(\$12,620,000)	N/A
South and East	\$5,295,000	\$2,698,000	(\$21,160,000)	(\$18,471,000)	N/A

Note: Values rounded to nearest 1,000



Hard Costs by Building Type

Description	For Sale		Rental		
	Townhome	Stacked Flats	Podium	Wrap	Tower
Stories	3	4	7	5	22
Total Housing Units	40	106	172	172	470
Site Improvement - \$10/Site sq. ft. ¹	\$871,200	\$871,200	\$871,200	\$871,200	\$871,200
Hard Costs*					
Per GSF (Excludes parking)	\$266	\$285	\$380	\$380	\$560
Total	\$19,389,183	\$39,743,357	\$69,338,103	\$69,338,103	\$296,670,752
Parking Hard Costs					
Integrated - \$13,793/space	\$1,103,440	\$2,924,116	\$0	\$0	\$0
Surface - \$9,000/space	\$0	\$0	\$309,600	\$309,600	\$0
Structured - \$35,000/space	\$0	\$0	\$0	\$4,816,000	\$0
Subterranean - \$85,000/space	\$0	\$0	\$0	\$0	\$15,980,000
Above Ground Podium - \$50,000/space	\$0	\$0	\$6,880,000	\$0	\$9,400,000
Total Parking Costs	\$1,103,440	\$2,924,116	\$7,189,600	\$5,125,600	\$25,380,000
Total Hard Costs per Unit (Excludes Land and Soft Costs)	\$534,096	\$410,742	\$449,994	\$437,994	\$687,068

[1] Standard grading and demolition. Excludes unique circumstances such as environmental mitigation.

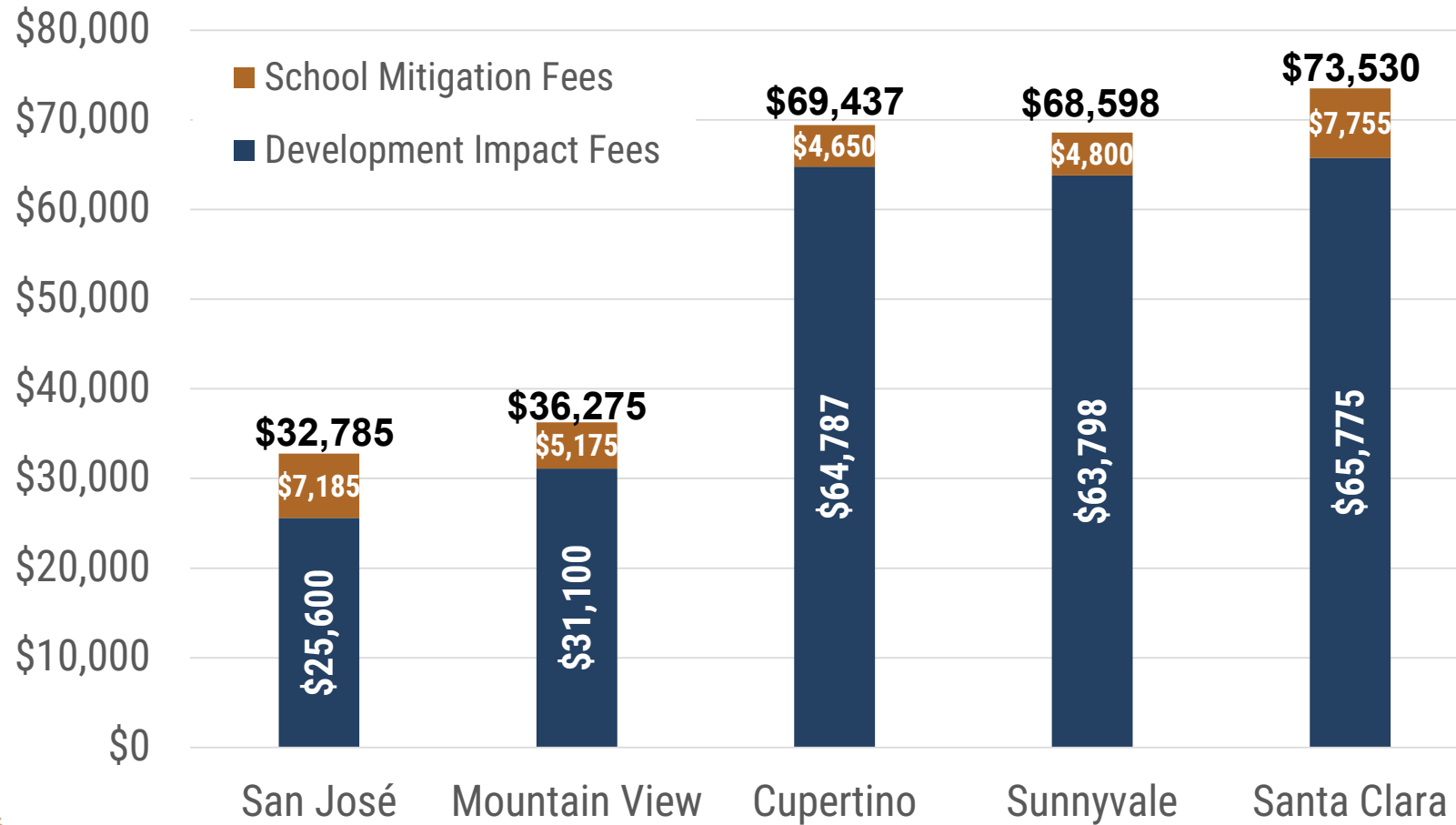
*Hard Cost Breakdown

Materials and Supplies	65% - 70% of all Hard Costs
Labor	30% - 35% of all Hard Costs

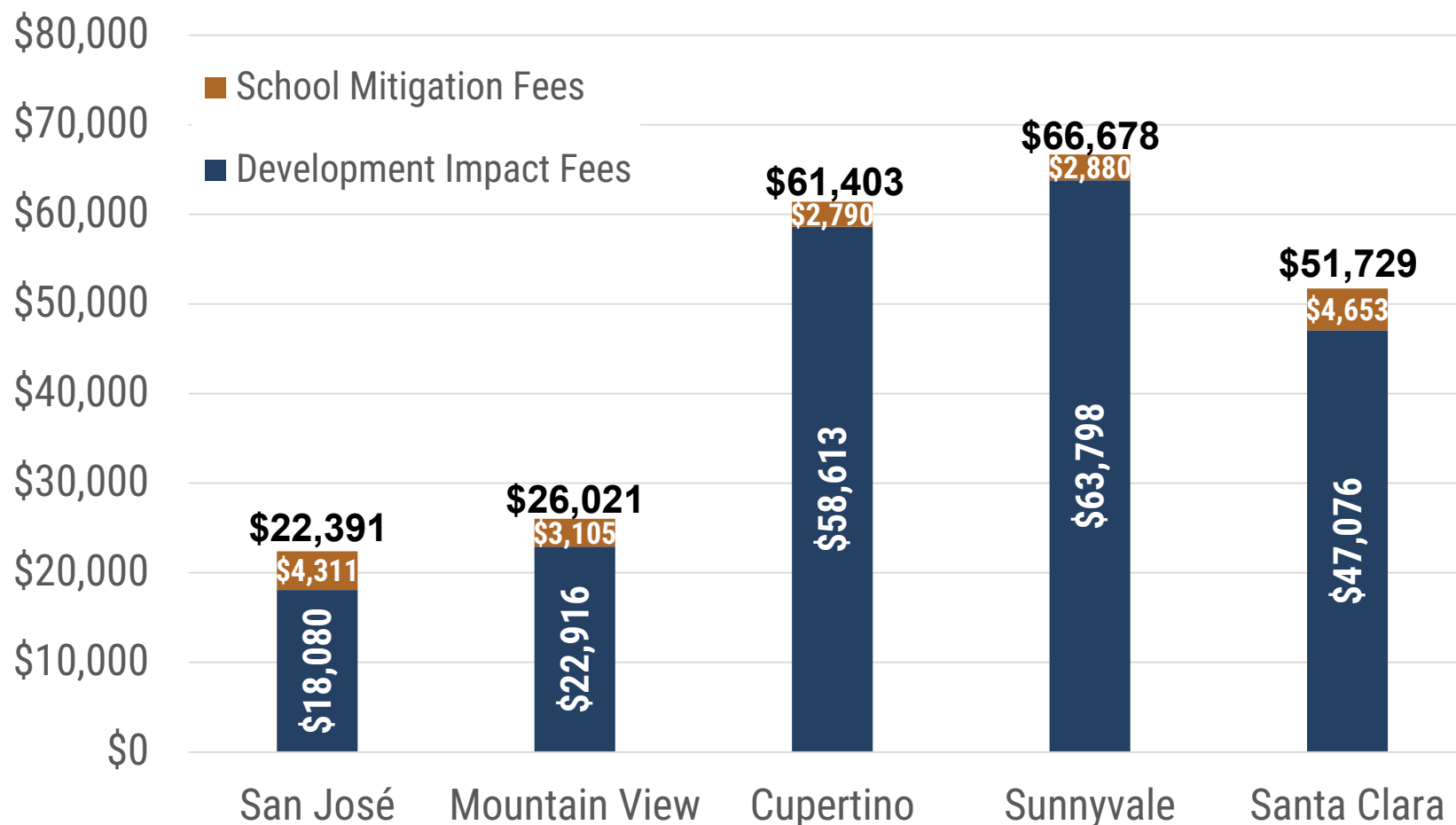
City Impact Fees and Construction Taxes

City Impact Fees and Taxes (Rental)	Range Per Unit
Construction taxes	\$6,400 – \$6,800
Parkland in lieu fees	\$11,000 – \$20,000
Inclusionary Housing In Lieu Fees	\$21,000 – \$49,600
% Of Total Unit Costs	5.5% – 10.2%
Total City Impact Fees and Taxes	\$37,000 – \$72,000

Development Taxes & Impact Fees per Unit – City Comparison (Townhomes)



Development Taxes & Impact Fees per Unit – City Comparison (Podium, Wrap, Tower)



Results By Building Type & Location – All Taxes and Impact Fees Waived

Assumes 100% waiver of: Construction Taxes and Inclusionary and Parkland Impact Fees

Location	For Sale		Rental		
	Townhome 40 Units	Stacked Flats 106 Units	Podium 172 Units	Wrap 172 Units	Tower 470 Units
<i>Residual Land Value (2-acre site)</i>					
West	\$25,231,000	\$16,672,000	\$4,858,000	\$7,547,000	N/A
Downtown Tower	N/A	N/A	N/A	N/A	(\$105,156,000)
Central	\$6,690,000	\$11,481,000	\$110,000	\$2,798,000	(\$105,156,000)
North	\$13,723,000	\$22,892,000	(\$7,694,000)	(\$5,005,000)	N/A
South and East	\$7,651,000	\$7,334,000	(\$14,852,000)	(\$12,164,000)	N/A

Note: Values rounded to nearest 1,000



Cost of Development Study – Market Rate Housing

Townhomes & Stacked Flats Appear Financially Feasible in Current Market

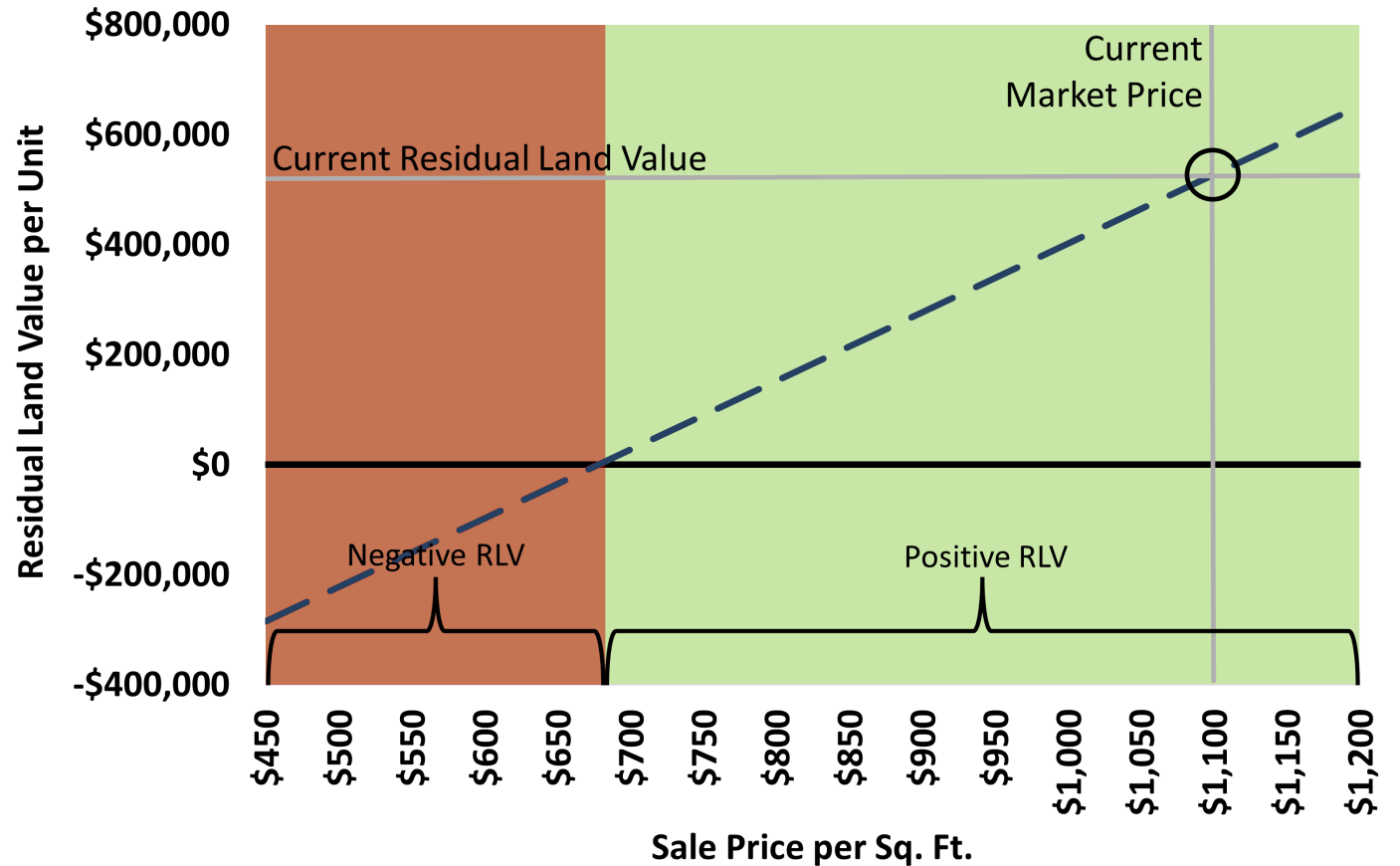
Townhome Results:

- \$1,100 / Sq. Ft. Sale Price
- \$525k RLV / Unit

Stacked Flat Results:

- \$760 / Sq. Ft. Sale Price
- \$80k RLV / Unit

Townhome Results by Price Point
West San José (No Tax and Fee Waivers)



Note: Sale price at time of land acquisition
Cost of Development Study – Market Rate Housing

Higher Density Building Types unlikely to be Financially Feasible in Current Market

Podium Results:

- \$3.89 / Sq. Ft. rent
- -\$70k RLV / Unit

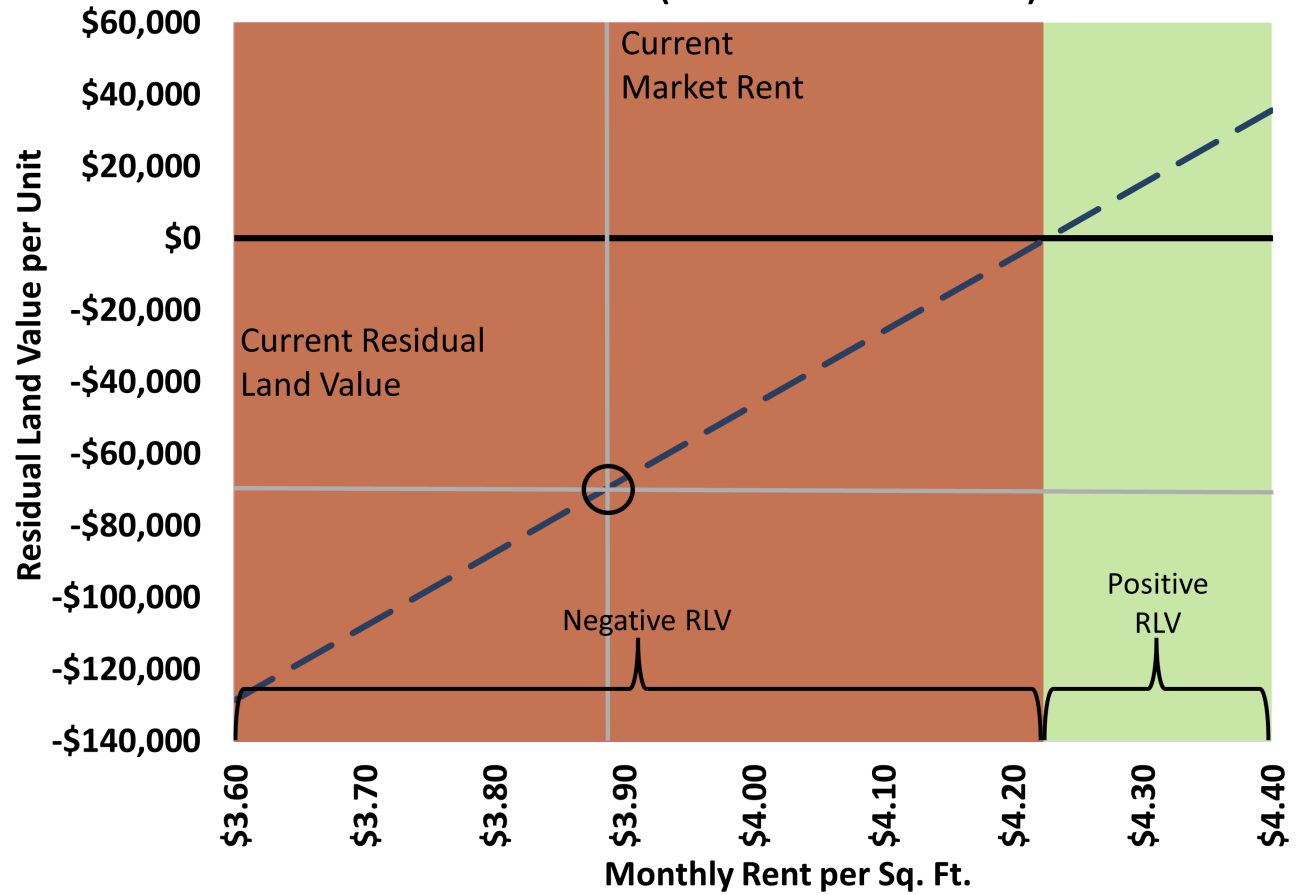
Wrap Results:

- \$3.89 / Sq. Ft. rent
- -\$50k RLV / Unit

Tower Results:

- \$4.30 / Sq. Ft. rent
- -\$285k RLV / Unit

Podium Results by Rental Rate
Central San José (No Tax and Fee Waivers)



Note: Rent at time of land acquisition

Cost of Development Study – Market Rate Housing

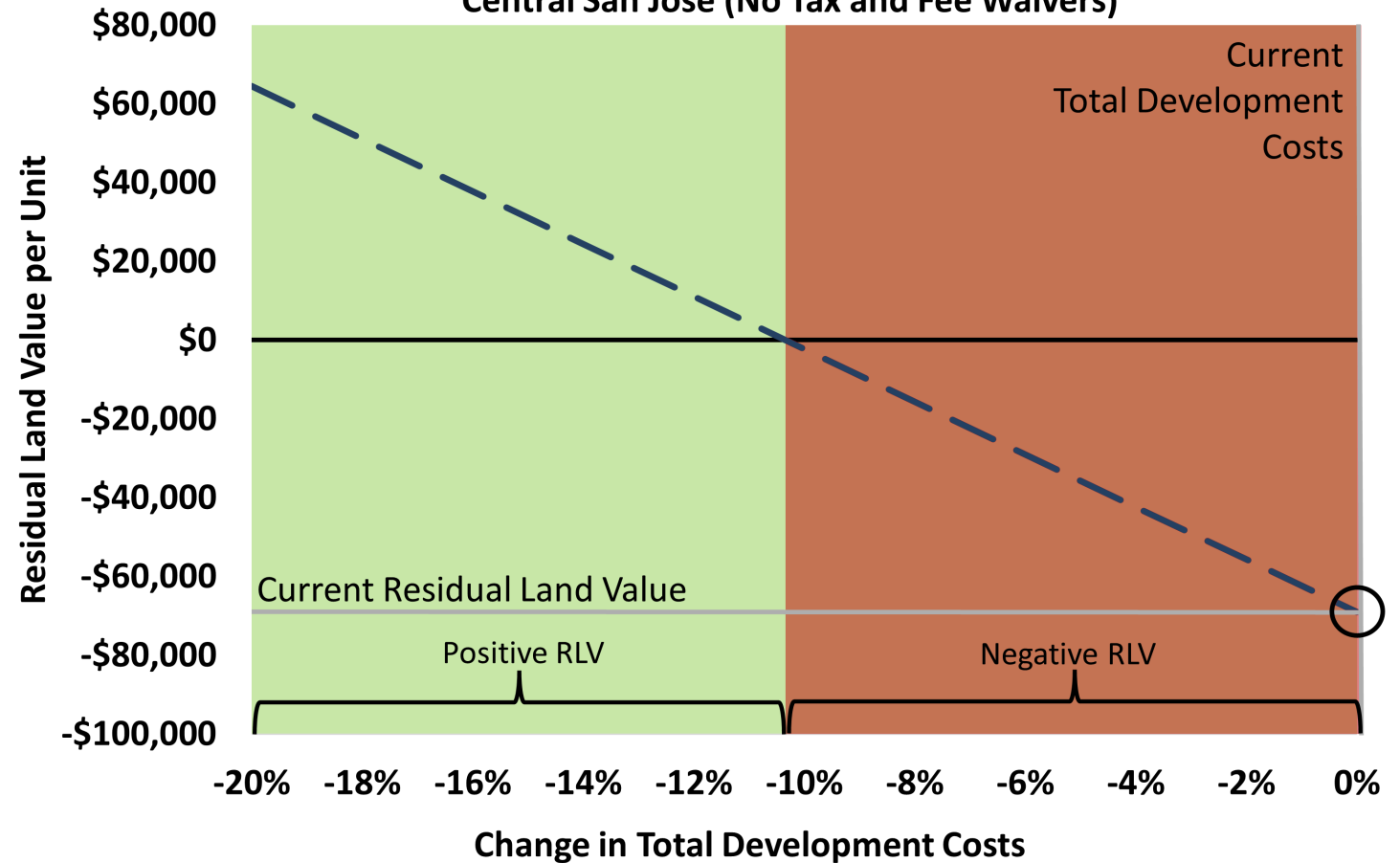
Reductions in Costs Could Make Podium & Wrap Buildings Feasible

Cost Reduction for Feasibility

- Podium: -10%
- Wrap: -8%
- Tower: -30%

Podium Results by Total Development Costs

Central San José (No Tax and Fee Waivers)



Note: Excludes land acquisition.

Cost of Development Study – Market Rate Housing

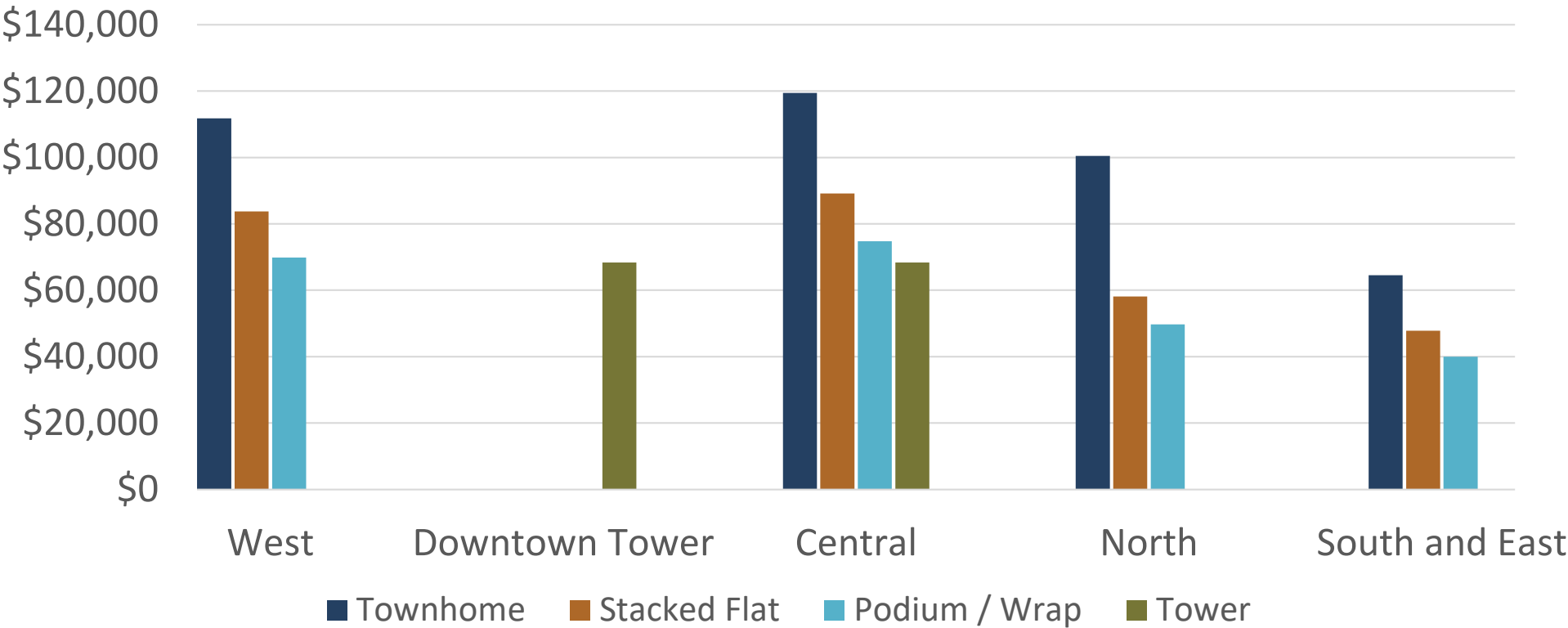
City Development Taxes and Impact Fees by MLS Zone

Description	West	Downtown Tower	Central	North	South and East
<u>Inclusionary in-Lieu</u>					
Amount (per Net Sq. Ft.)	\$49.91	\$49.91	\$49.91	\$21.71	\$21.71
District	<i>West Valley</i>	<i>Central</i>	<i>Central</i>	<i>North</i>	<i>Evergreen</i>
<u>Parkland in-Lieu¹</u>					
Townhome Amount (per Unit)	\$21,840	N/A	\$25,600	\$47,040	\$14,880
Multifamily Amount (per Unit)	\$15,440	N/A	\$18,080	\$18,080	\$10,480
Tower Amount (per Unit)	N/A	\$10,950	\$10,950	N/A	N/A
District (MLS Zone)	<i>15-Campbell</i>	<i>9-Downtown</i>	<i>9-Downtown</i>	<i>North San José</i>	<i>3-Evergreen</i>
<u>School</u>					
Amount (per Gross Sq. Ft.)	\$4.20	\$4.79	\$4.79	\$5.17	\$4.47
School District	<i>Campbell Union School + High School Districts</i>	<i>San José Unified School District</i>	<i>San José Unified School District</i>	<i>Santa Clara Unified School District</i>	<i>Evergreen + East Side Union High School Districts</i>
<u>Construction Taxes (per Unit)</u>					
Townhome	\$12,367				
Stacked Flats	\$8,974				
Podium	\$6,617				
Wrap	\$6,617				
Tower	\$7,020				

[1] Assumes qualification for 20% Parkland in-Lieu Fee reduction for townhome and multifamily projects, and 25% reduction for Tower projects for providing on-site open space amenities (e.g. balconies, rooftop amenities).

Cost of Development Study – Market Rate Housing

Total Development Taxes and Impact Fees / Unit By Building Type & Location



Note: Includes Construction Taxes and Inclusionary, Parkland, and School Impact Fees

Other Soft Costs

Soft Cost Category	Assumption	Average Soft Costs per Unit				
		For Sale		Rental		
		Townhome	Stacked Flats	Podium	Wrap	Tower
Architecture and Engineering	4% of Hard Cost	\$21,364	\$16,430	\$18,000	\$17,520	\$27,483
Other Soft Costs	2% of Hard Cost	\$10,682	\$8,215	\$9,000	\$8,760	\$13,741
Permits and Fees	1% of Hard Cost	\$5,341	\$4,107	\$4,500	\$4,380	\$6,871
Taxes	1% of Hard Cost	\$5,341	\$4,107	\$4,500	\$4,380	\$6,871
Financing	8% of Hard Cost	\$40,057	\$30,806	\$33,750	\$32,850	\$51,530
<u>Insurance</u>						
For-Sale	4% of Hard Cost	\$21,364	\$16,430	N/A	N/A	N/A
For-Rent	2% of Hard Cost	N/A	N/A	\$9,000	\$8,760	\$13,741
<u>Marketing/Leasing</u>						
For-Sale	5% of Hard Cost	\$26,705	\$20,537	N/A	N/A	N/A
For-Rent	2% of Hard Cost	N/A	N/A	\$9,000	\$8,760	\$13,741
Developer Fee	4% of Total Development Cost	\$30,352	\$23,298	\$23,778	\$23,204	\$35,577
Developer Contingency	5% of Total Development Cost	\$37,940	\$29,123	\$29,722	\$29,005	\$44,471

Note: Assumptions are industry standard amounts based on EPS observations of developer pro-formas.

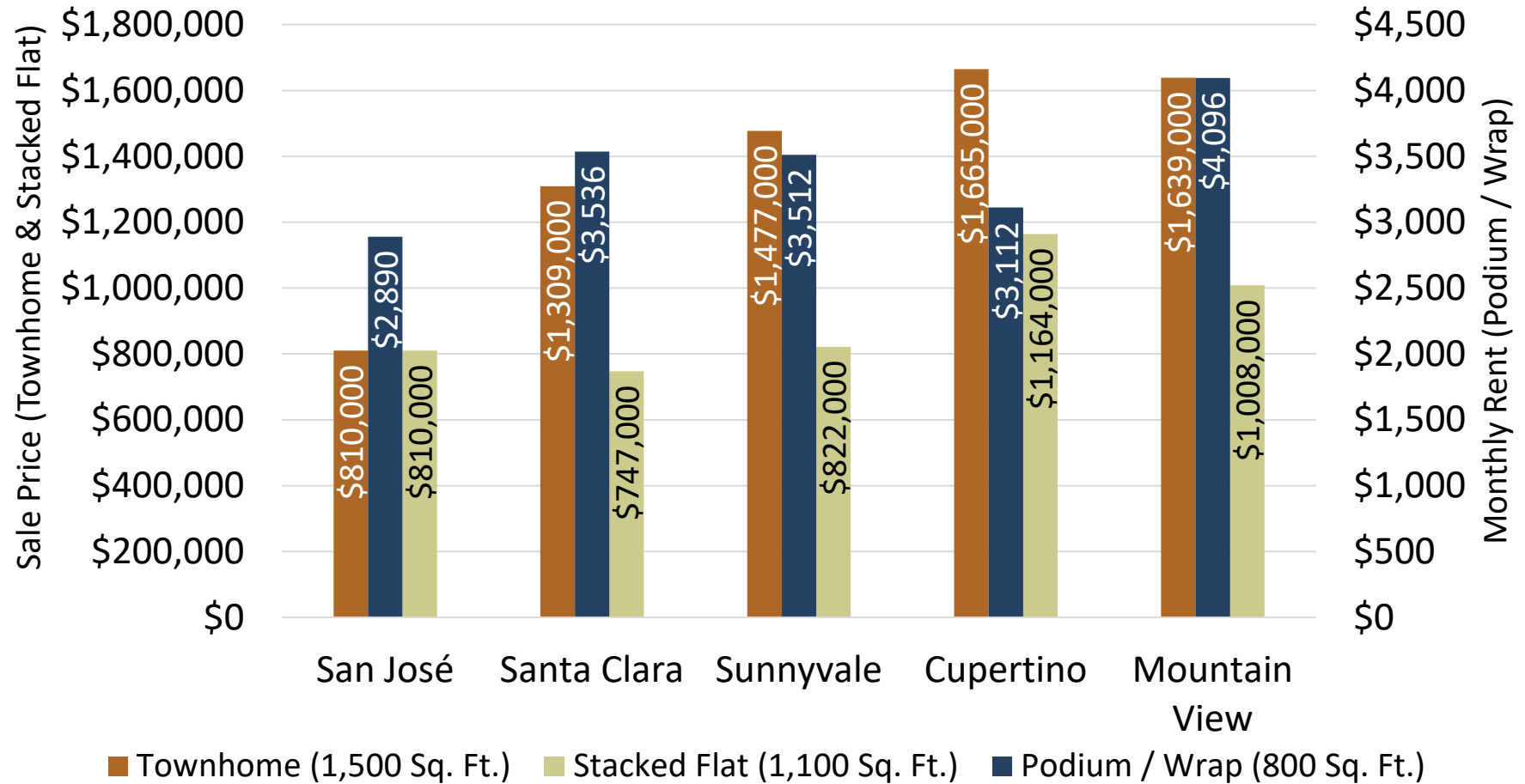
Avg. Rents & Sale Prices by MLS Zone

	Central	West	Downtown Tower	North	South and East	Citywide Q2 2025 Average
<u>Sale Price per Net Sq. Ft.¹</u>						
Townhome	\$730	\$1,100	-	\$870	\$745	
Stacked Flat	\$710	\$760	-	\$820	\$665	
<u>Typical Sale Price</u>						
Townhome (1,500 Net Sq. Ft.)	\$1,095,000	\$1,650,000	-	\$1,305,000	\$1,117,500	\$810,000
Stacked Flat (1,100 Net Sq. Ft.)	\$781,000	\$836,000	-	\$902,000	\$731,500	
<u>Monthly Rent per Net Sq. Ft.²</u>						
Tower	\$4.30	-	\$4.30	-	-	\$3.82
Podium / Wrap	\$3.89	\$4.02	-	\$3.66	\$3.45	
<u>Typical Monthly Rents</u>						
Tower (800 sq. ft.)	\$3,440	-	\$3,440	-	-	\$2,890
Podium / Wrap (800 sq. ft.)	\$3,112	\$3,216	-	\$2,928	\$2,760	

[1] For-sale prices reflects past year average sale price plus 10% new construction premium.

[2] Rents reflect units built in last 10 years.

Avg. Rents & Sale Prices – Neighboring City Comparison



Key Takeaways – Market Rate Housing

- ▶ Townhome and stacked flats are feasible under current market conditions.
- ▶ Multifamily (podium, wrap, tower) are infeasible under current market conditions.
 - But fee waivers may make some projects feasible.
- ▶ Overall, San José remains cost competitive relative to neighboring jurisdictions.

OFFICE TO RESIDENTIAL CONVERSIONS

Key Drivers of Feasibility for Office to Residential Conversion

- 1. Building's Physical Attributes**
- 2. Market and Financial Factors**
- 3. Local Regulatory Framework**

Key Physical Determinants

- Floorplate depth
- Window access
- Floor-to-floor height ratio
- Column spacing / structure rhythm
- Façade / envelope with operable openings
- Parking ratio
- Year built

Good vs Challenging Candidates



*Bank of Italy Building
30 S 1st St (1926)*

- Narrow floorplates support high % of units on the window line (fewer interior “dead zones”)
- Punched, operable windows on multiple façades allow natural ventilation and bedroom planning
- Taller ceiling heights provide flexibility for residential MEP distribution and soffits
- Regular structural grid makes plumbing stacks and unit stacking efficient
- Strong street presence supports active ground-floor retail and placemaking



*Sobrato Tower
488 Almaden Blvd
(2002)*

- Deep floorplates create large interior areas too far from windows for viable unit layouts
- Curtain wall façade is costly to modify and limits operable windows for ventilation
- Center-core layout results in inefficient unit shapes and long double-loaded corridors
- Lower ceiling heights (relative to pre-war buildings) constrain residential system routing
- Weak street activation from a glass-box façade that doesn't support engaging retail edges.

Image source: CoStar

Market and Financial Factors

- Office building acquisition costs too high to be feasible
- Financial condition of existing owner(s)
- High risk, limited precedent
- Submarket context matters

Policy Framework and Levers

Office and residential spaces are governed by different city and state building codes / standards (especially life safety), many of which cannot be relaxed.

But local policy levers can move the needle on feasibility, including:

1. Impact and linkage fee reductions or deferrals
2. Parking reductions
3. Open space / amenity requirement flexibility
4. Streamlined approvals

Key Takeaways – Office Conversions



Difficult to make broad conclusion about feasibility of office-to-residential conversions due to wide variation in circumstances.



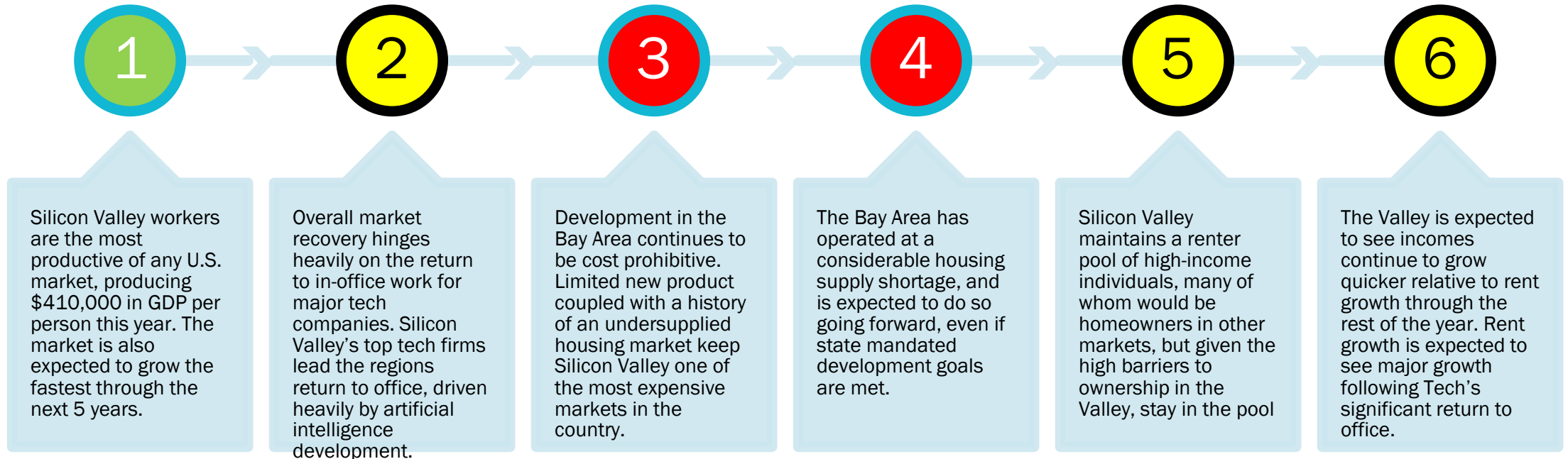
Targeted policy interventions can make some building conversions feasible.



Identifying and quantifying specific opportunities in San José will require additional analysis.

BROADER CONTEXT FOR MARKET RATE HOUSING

Challenges and Opportunities In the Region



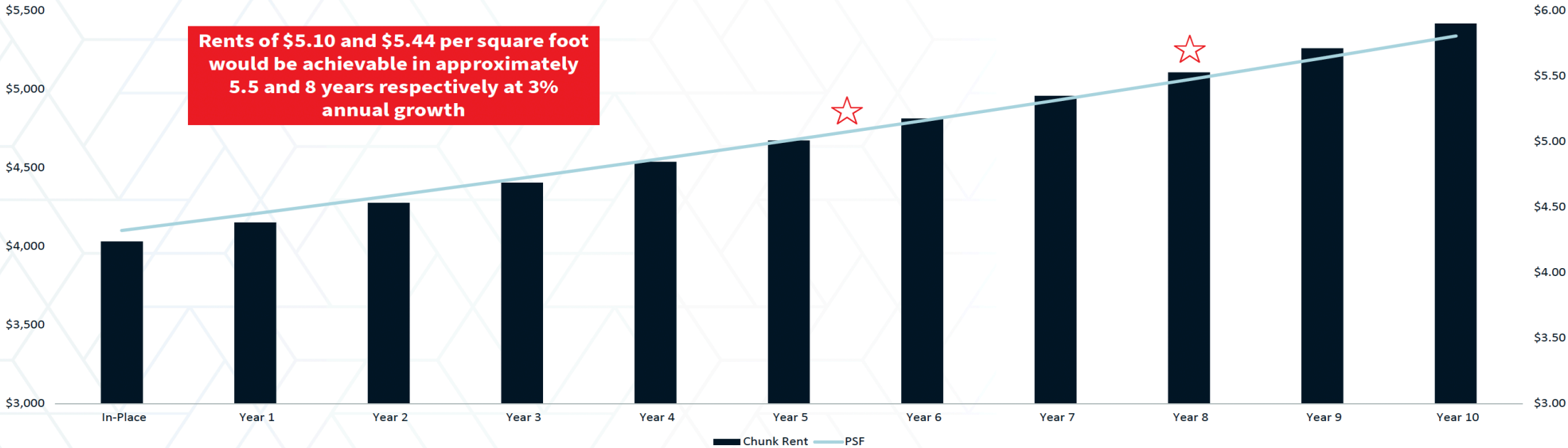
Estimated Replacement Cost (Wrap)

Estimated Replacement Cost	\$50k/Unit Land Value			\$100k/Unit Land Value		
	Amount	Per Unit	PSF	Amount	Per Unit	PSF
Land	\$31,500,000	\$50,000	\$54	\$63,000,000	\$100,000	\$107
Hard Costs	\$279,163,675	\$443,117	\$475	\$279,163,675	\$443,117	\$475
Soft Costs (35% of Hard Costs)	\$97,707,286	\$155,091	\$166	\$97,707,286	\$155,091	\$166
Est. Replacement Cost	\$408,370,961	\$648,208	\$695	\$439,870,961	\$698,208	\$748

	\$50k/Unit Land Value	\$100k/Unit Land Value
Midpoint Value	\$392,500,000	\$392,500,000
Discount to Replacement Cost (\$)	\$15,870,961	\$47,370,961
Discount to Replacement Cost (%)	4%	11%
Rent growth required to achieve 6.25% UROC	18%	26%

*Soft Costs to include Developer Fee

At 6.25% return on cost, new development needs \$5.10 to \$5.44 per square foot rents



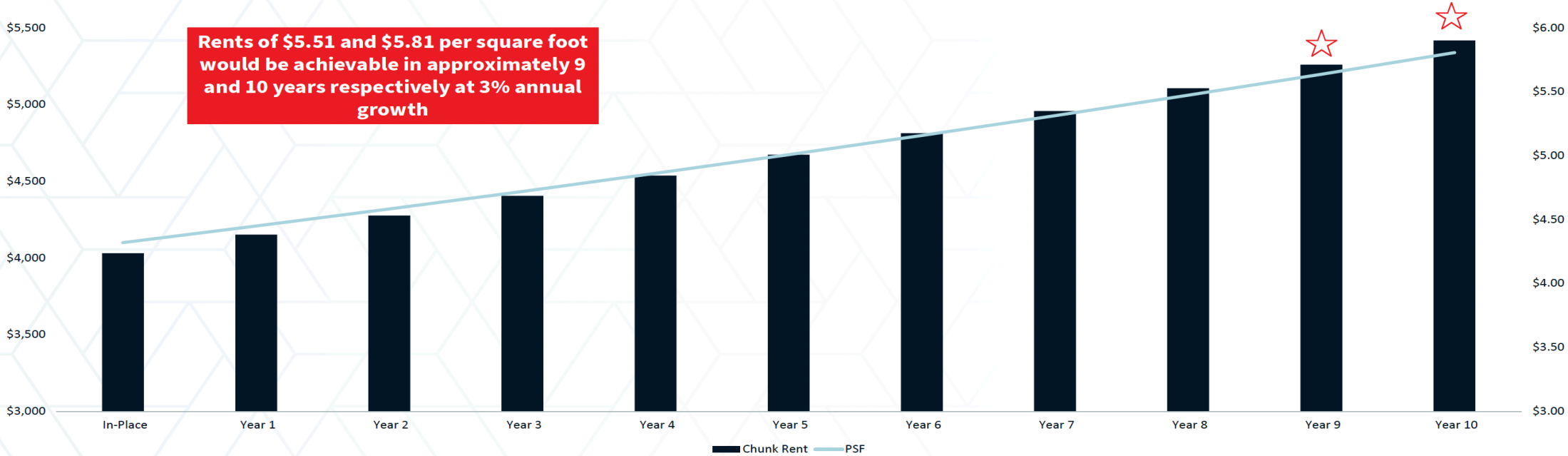
Estimated Replacement Cost (Podium)

Estimated Replacement Cost	\$50k/Unit Land Value			\$100k/Unit Land Value		
	Amount	Per Unit	PSF	Amount	Per Unit	PSF
Land	\$31,500,000	\$50,000	\$54	\$63,000,000	\$100,000	\$107
Hard Costs	\$308,549,325	\$489,761	\$525	\$308,549,325	\$489,761	\$525
Soft Costs (35% of Hard Costs)	\$107,992,264	\$171,416	\$184	\$107,992,264	\$171,416	\$184
Est. Replacement Cost	\$448,041,589	\$711,177	\$762	\$479,541,589	\$761,177	\$816

	\$50k/Unit Land Value	\$100k/Unit Land Value
Midpoint Value	\$392,500,000	\$392,500,000
Discount to Replacement Cost (\$)	\$55,541,589	\$87,041,589
Discount to Replacement Cost (%)	12%	18%
Rent growth required to achieve 6.25% UROC	28%	34%

*Soft Costs to include Developer Fee

At 6.25% return on cost, new development needs \$5.51 to \$5.81 per square foot rents



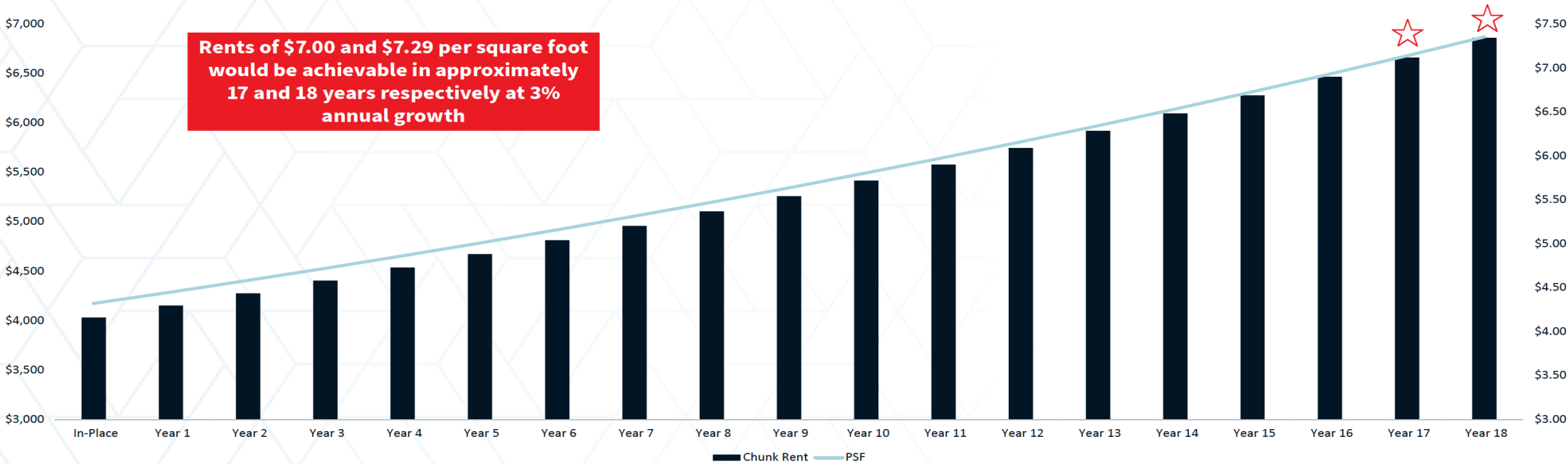
Estimated Replacement Cost (High-Rise)

Estimated Replacement Cost	\$50k/Unit Land Value			\$100k/Unit Land Value		
	Amount	Per Unit	PSF	Amount	Per Unit	PSF
Land	\$31,500,000	\$50,000	\$54	\$63,000,000	\$100,000	\$107
Hard Costs	\$426,091,925	\$676,336	\$725	\$426,091,925	\$676,336	\$725
Soft Costs (35% of Hard Costs)	\$149,132,174	\$236,718	\$254	\$149,132,174	\$236,718	\$254
Est. Replacement Cost	\$606,724,099	\$963,054	\$1,032	\$638,224,099	\$1,013,054	\$1,086

*Soft Costs to include Developer Fee

	\$50k/Unit Land Value	\$100k/Unit Land Value
Midpoint Value	\$392,500,000	\$392,500,000
Discount to Replacement Cost (\$)	\$214,224,099	\$245,724,099
Discount to Replacement Cost (%)	35%	39%
Rent growth required to achieve 6.25% UROC	62%	69%

At 6.25% return on cost, new development needs \$7.00 to \$7.29 per square foot rents



Policy Context

- ▶ 4-year review of the Envision San José 2040 General Plan
- ▶ Updates to the Inclusionary Housing Ordinance and Residential Incentive Programs
- ▶ Continue Work on Focus Areas
 - Land Use, Policy, and Regulation
 - Development Services Process
 - Linking Land and Capital

AFFORDABLE HOUSING



CSG
ADVISORS



Interpreting Findings For Affordable Housing in San José



- ▶ San José's affordable housing costs are consistent with Bay Area norms
- ▶ Smaller average units drive higher costs/net square foot, not higher underlying construction costs
- ▶ Per-unit costs reflect scale efficiencies and City fee policies
- ▶ San José represents significant share of affordable housing proposed throughout the Bay Area

Important Context

- Data sourcing was at time of tax credit application
 - *Does not reflect cost at financial closing (up to 12 months later)*
 - *Does not reflect cost at project completion (up to 24 months later)*
- Tax credit application budgets can vary up to 10% from the actual development costs
 - *There can be significant variations between estimates made at application submittal and final costs*
- San José, because of Santa Clara County Measure A Policy, built smaller units at a higher per square foot costs

Affordable Housing Dataset

194 new construction developments based upon 2023–2025 tax credit applications



Scope of Data

- **194 new construction developments** included in the dataset from available funding applications:
 - New construction application data included for:
 - Santa Clara County from 2023-2025 YTD, comprised of 28 projects and 4,298 units – providing a robust sample of proposed development activity.
 - Bay Area (9-county), Sacramento, Los Angeles, and San Diego from 2024-2025 YTD*



Data Collected

- **Project details:** city/county and housing type (Large Family, Special Needs, Single-room Occupancy (SRO), etc.)
- **Unit mix:** number of units per bedroom size, square footage by bedroom type
- **Development budget categories:** hard costs, soft costs, financing fees, reserves, developer fee, etc.
- **22 additional projects (2016–2022) were excluded** to maintain focus on current cost environment

*No new construction applications were submitted for Marin County in 2024-2025

Methodology & Key Context

Application-stage data provides a consistent baseline for comparing San José to peer metros

This analysis uses data from tax credit applications for new construction affordable housing projects across major California metros.

The dataset captures projected development costs, funding sources, and key details at the time of application such as bedroom and unit mix, building square feet and other key attributes.



Application data (vs. closed project data) was used to **generate a larger sample size** for more robust regional comparisons.



Projects budgets represent amounts **at the application stage** — costs often **increase between application and closing, so actual costs are likely higher for all areas.**

Methodology & Key Context Cont.

Application-stage data provides a consistent baseline for comparing San José to peer metros

- ✓ Development costs from prior to 2025 were adjusted upward by 3% per year to allow comparisons in terms of 2025 dollars
- ✓ Acquisition costs were excluded from the analysis because:
 - 1) these costs are treated inconsistently in CDLAC applications and
 - 2) excluding acquisition provides more consistent comparison to the market rate methodology presented by EPS
- ✓ Reported costs **do not include additional fees** that may be triggered by **City funding contributions**

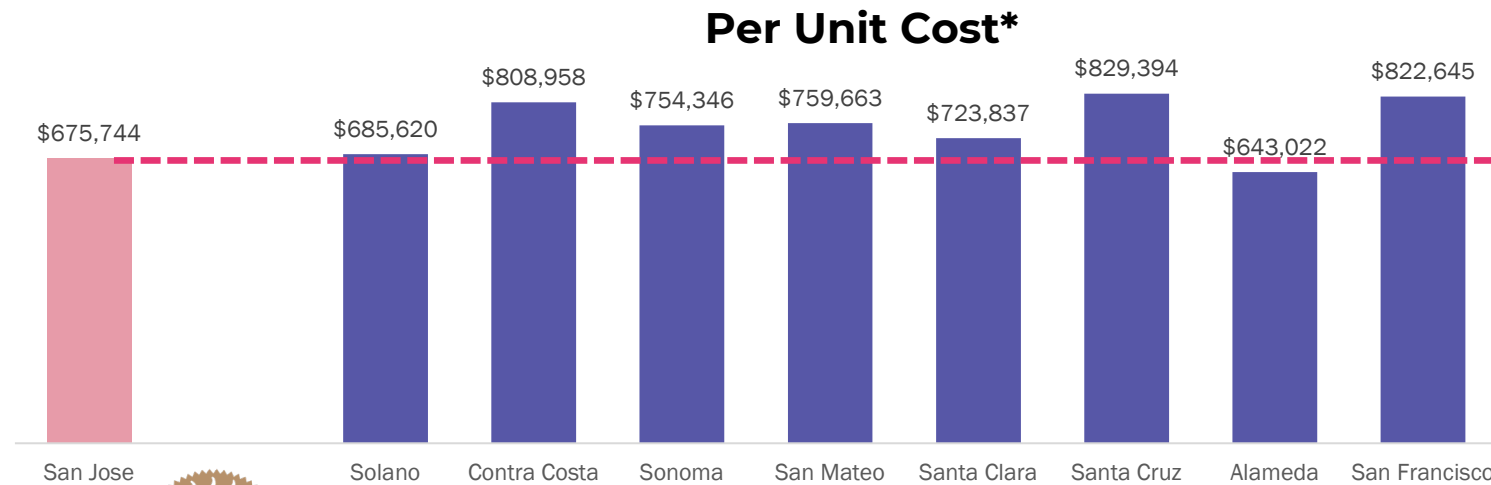
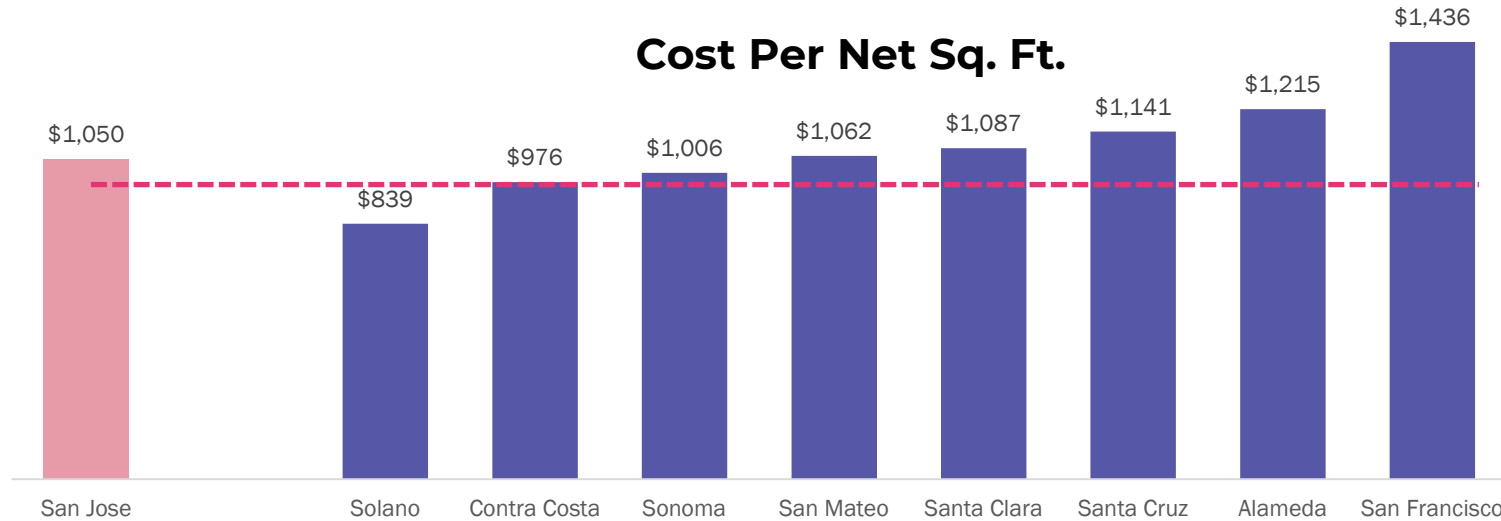
AFFORDABLE HOUSING COST FINDINGS



CSG
ADVISORS



San José in Bay Area Context



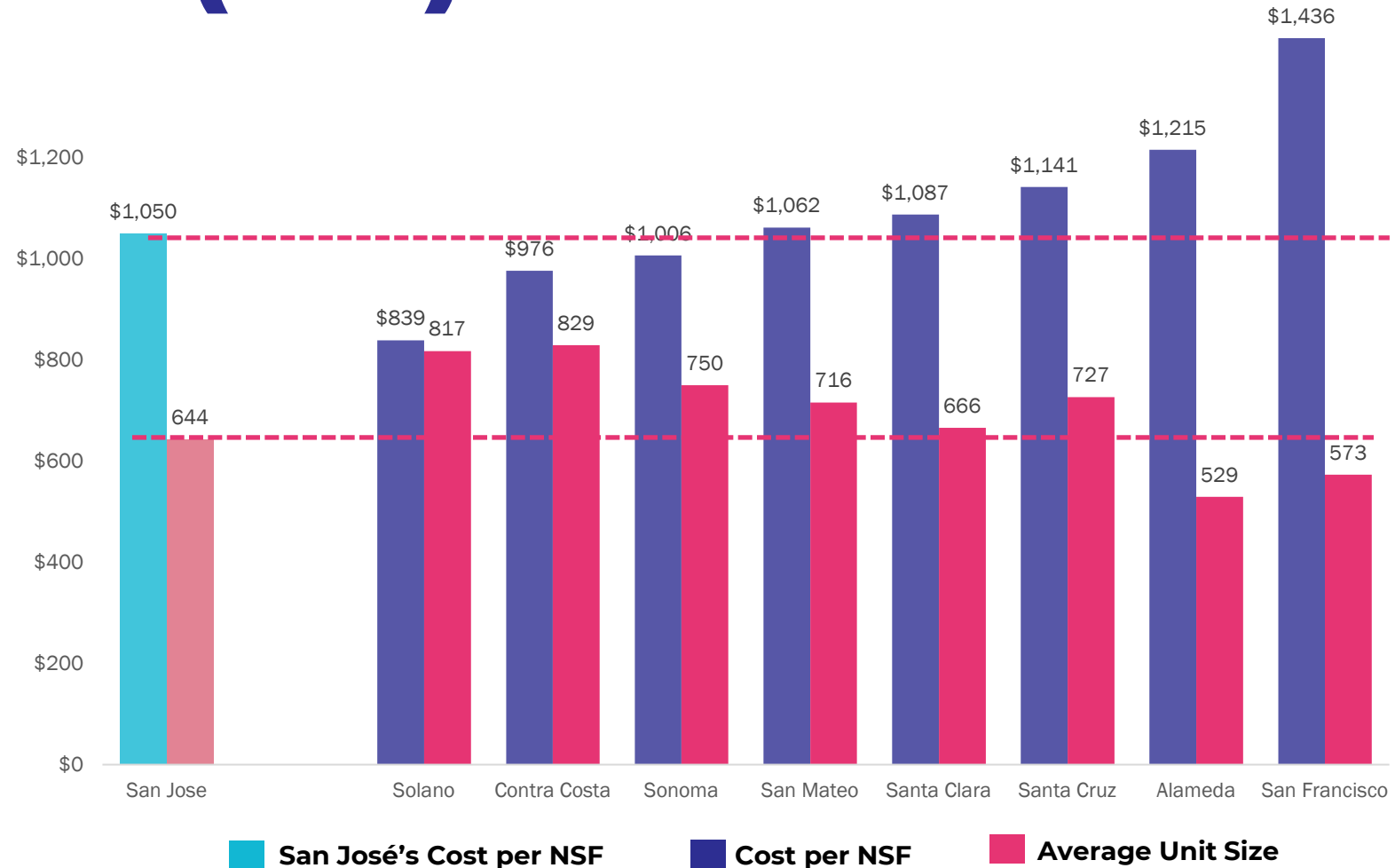
(no applications were submitted for Marin County in 2024 or 2025YTD)

- Projected development costs across counties indicate that both unit size and development type drive total costs more than geography alone.
- *Per Unit Cost at application, acquisition costs excluded

Smaller Units Drive Higher Costs Per Net Square Foot (NSF)

Cost Per Net Square Foot and Average Unit Size

- **Higher costs per NSF align with smaller units** — counties with the smallest average unit sizes tend to show the highest cost per net square foot.
- **San José's costs are consistent with peers** — development costs generally track other Bay Area counties with comparable unit sizes.
- **Regional differences are wide** — cost per net square foot ranges from about **\$840 in Solano** to **\$1,366 in San Francisco**, underscoring the Bay Area's construction cost gradient.



(No applications were submitted for Marin County in 2024 or 2025 YTD)

Cost of Development Study - Affordable Housing

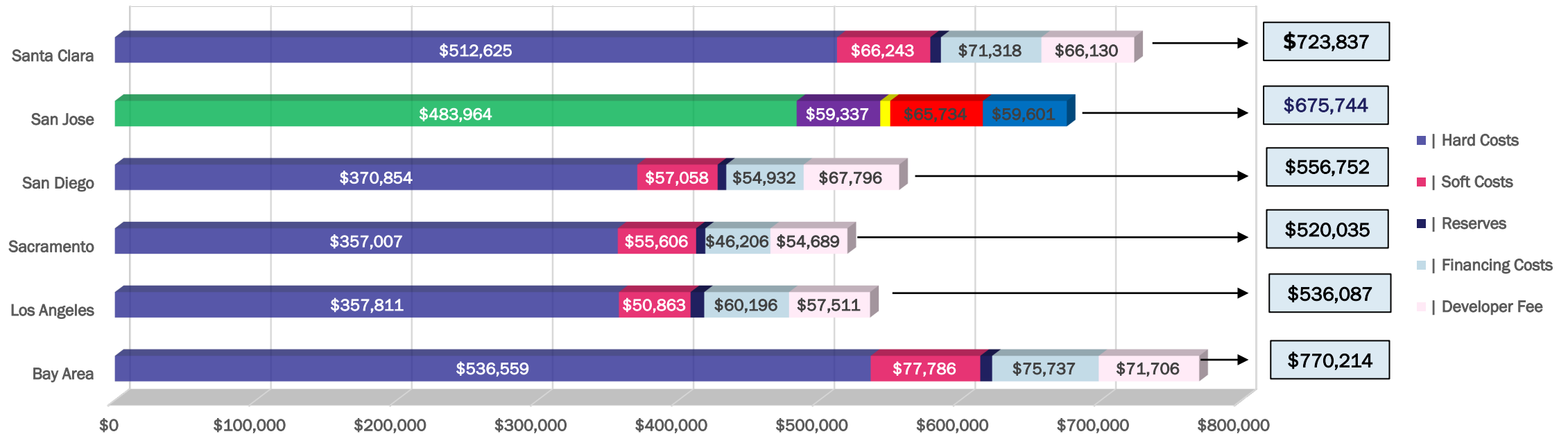
San José Developments Have More Units and Fewer Bedrooms

	City of	County of	Major Metro Areas				
	San José	Santa Clara	Bay Area	Sacramento	Los Angeles	San Diego	Total/Avg
Total Properties	19	28	70	10	72	28	180
Total Units	3,287	4,298	7,835	1,071	8,203	3,249	20,358
Units Per Project	173	154	112	107	114	116	113
			38%	5%	36%	14%	100%
Unit Distribution by Bedroom							
Studios	27%	26%	25%	17%	19%	16%	21%
1-Bedroom	39%	35%	30%	47%	49%	36%	40%
2-Bedroom	22%	24%	26%	21%	21%	26%	23%
3-Bedroom	12%	15%	18%	14%	10%	22%	15%
4-Bedroom	0%	0%	1%	0%	2%	0%	1%

Findings from funding applications:

- **More units per development:**
 - 173 units vs. 154 in Santa Clara and 112 Bay Area average.
- **Fewer Bedrooms:**
 - 66% of units are Studios/1-BRs in San José vs. 55% Bay Area.
 - 34% 2–3 BRs in San José vs. 44% Bay Area.

San José in California Context: Development Costs Per Unit



- San José's total cost **per unit of \$675K** driven by developments comprised of more units and smaller unit sizes.
- **Hard Costs** in San José's \$484K align with dominant product types (larger projects comprised of studios and 1-bedrooms).
- **Developer fees and financing costs** reflect San José's scale efficiencies as well as City policy related to development fees

Development Cost/Net Square Foot by Housing Type

Cost per NSF by Type	City of San José	County of Santa Clara	Bay Area and Key Counties				Total/Avg
			Bay Area	Sacramento	Los Angeles	San Diego	
Large Family	\$938	\$1,027	\$1,089	\$655	\$744	\$729	\$908
Homeless/Special Needs	\$1,303	\$1,477	\$1,397	\$1,012	\$1,433	\$1,111	\$1,375
Seniors	\$1,499	\$1,499	\$1,747	\$917	\$1,164	\$815	\$1,238
Non-Targeted	\$1,100	\$1,100	\$1,248	\$860	\$697	\$915	\$877
SRO	-	-	\$3,129	-	-	\$1,544	\$2,083
Net Square Feet by Type	San José	Santa Clara	Bay Area	Sacramento	Los Angeles	San Diego	Total/Avg
Large Family	951,563	1,622,236	3,679,720	416,840	1,676,900	1,593,543	7,367,003
Homeless/Special Needs	32,234	107,420	337,959	77,246	1,175,401	180,617	1,771,223
Seniors	103,624	103,624	219,136	40,237	116,189	212,809	588,371
Non-Targeted	1,027,978	1,027,978	911,451	195,988	1,910,201	260,827	3,278,467
SRO*	-	-	11,375	-	-	22,066	33,441
Total NSF	2,115,399	2,861,258	5,159,641	730,311	4,878,691	2,269,862	13,038,505

- **San José's cost per square foot is lower than Bay Area average**, with the largest gap in Senior housing (\$1,499 vs. \$1,747 Bay Area).
- **Non-Targeted housing (\$1,100/nsf) and Large Family housing (\$938/nsf)** drive San José's cost profile, comprising 94% of total SF in applications.
- San José comprises 100% of applications for Senior and Non-Targeted projects in Santa Clara County.
- San José projects exhibit higher costs per square foot than Sacramento and Southern California.

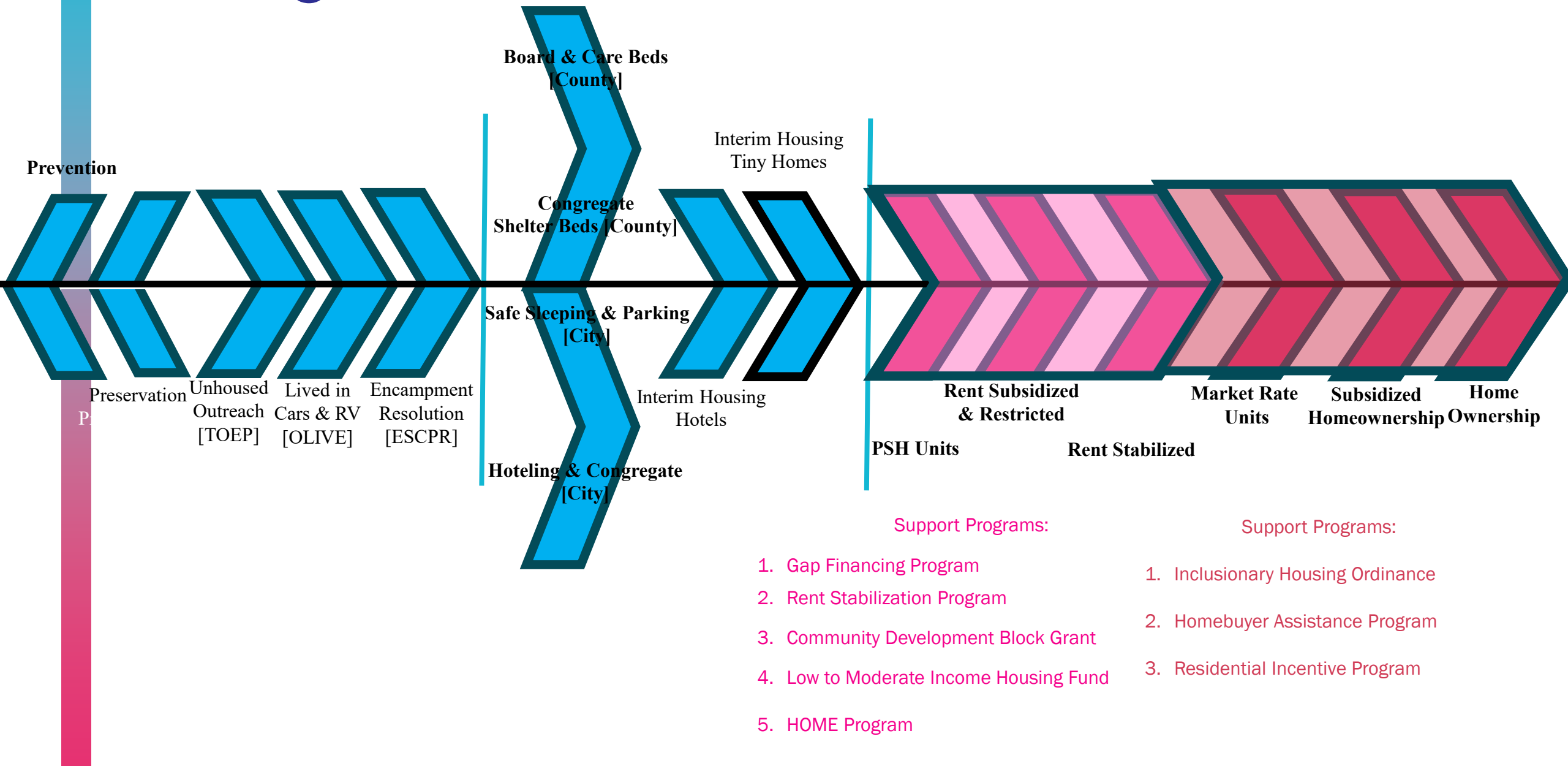
*Findings for this segment may be skewed due to limited sample size of two projects.

Key Takeaways

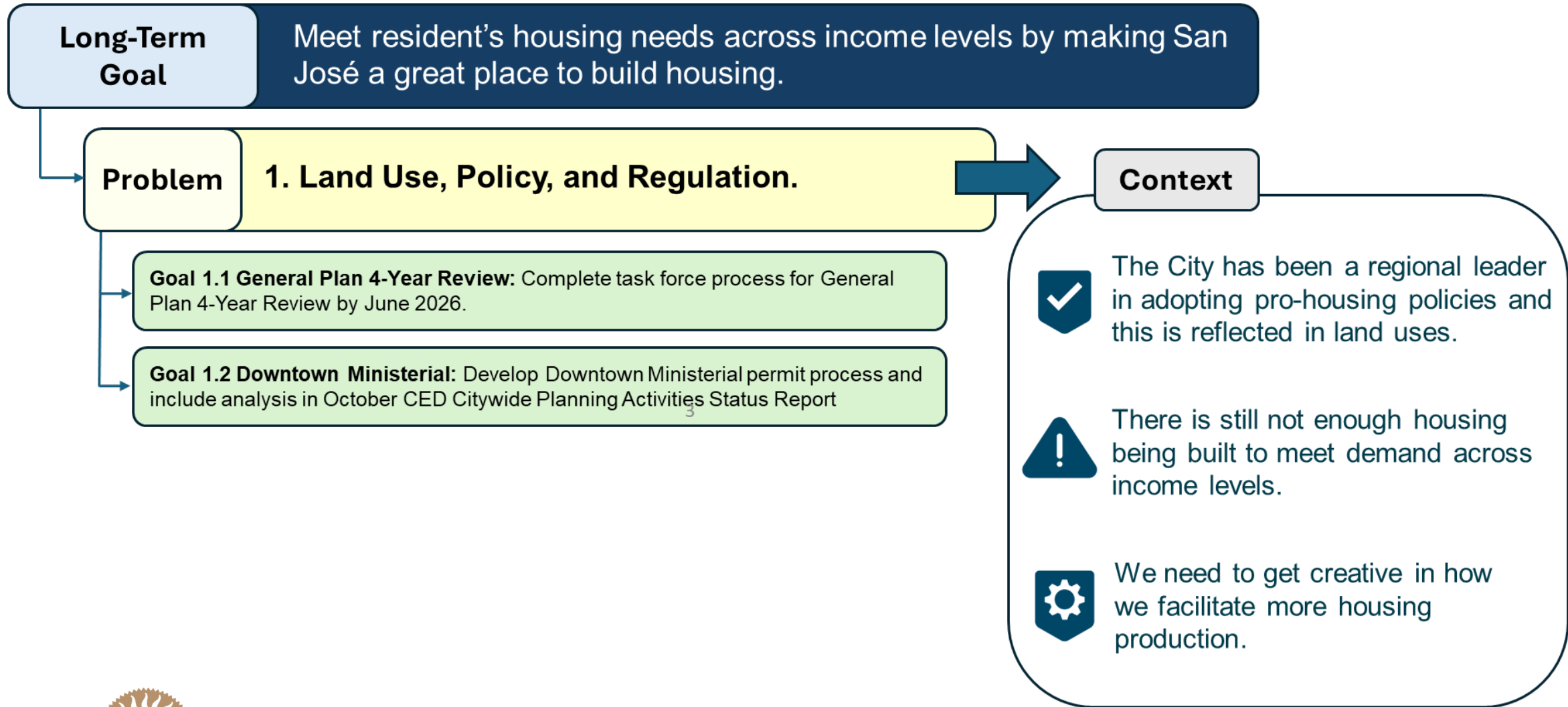
Affordable Housing Development

- ▶ Cost of affordable housing development in San José tracks comparable Bay Area counties
- ▶ High cost per net square foot are driven by smaller average unit size in San José
- ▶ San José represents a large share (42%) of affordable housing developments planned in the Bay Area

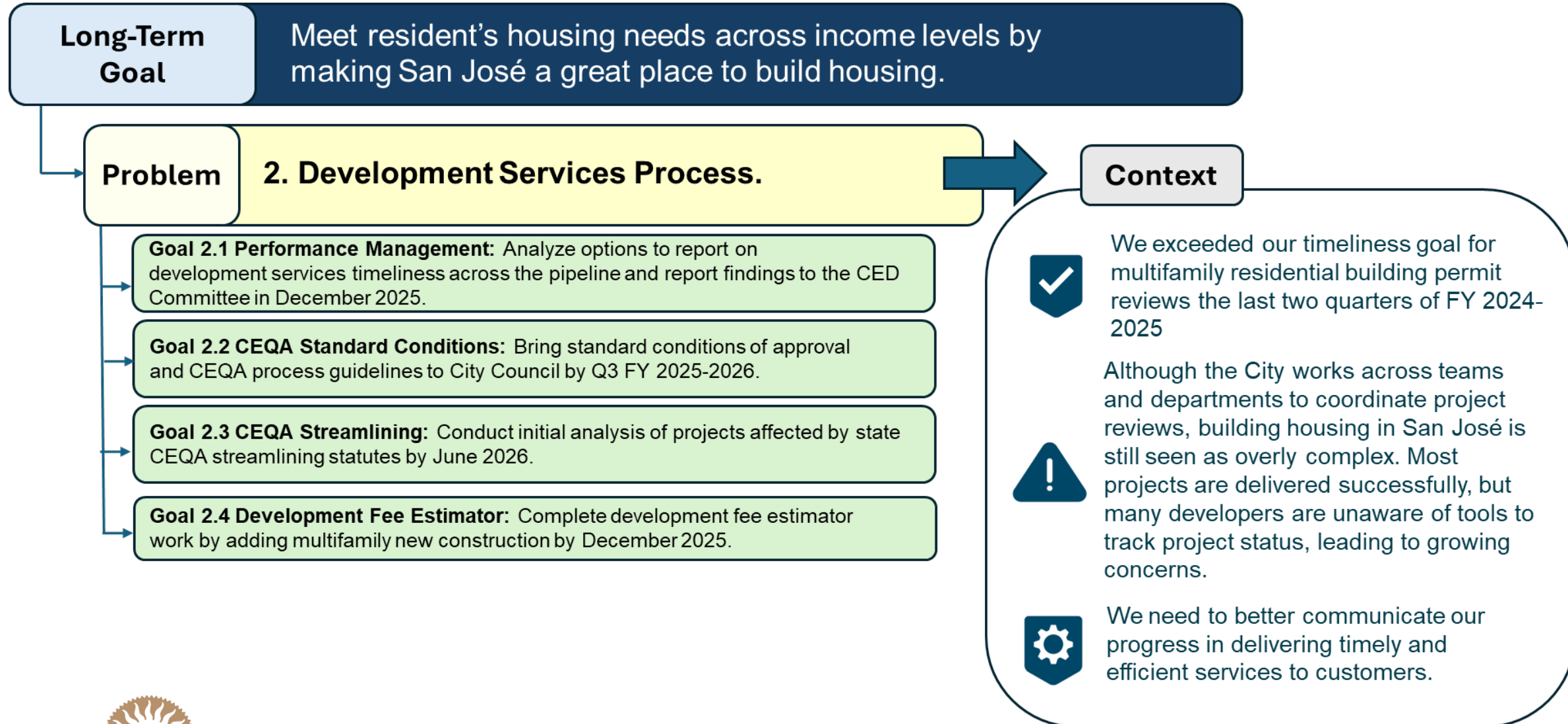
Policy Context



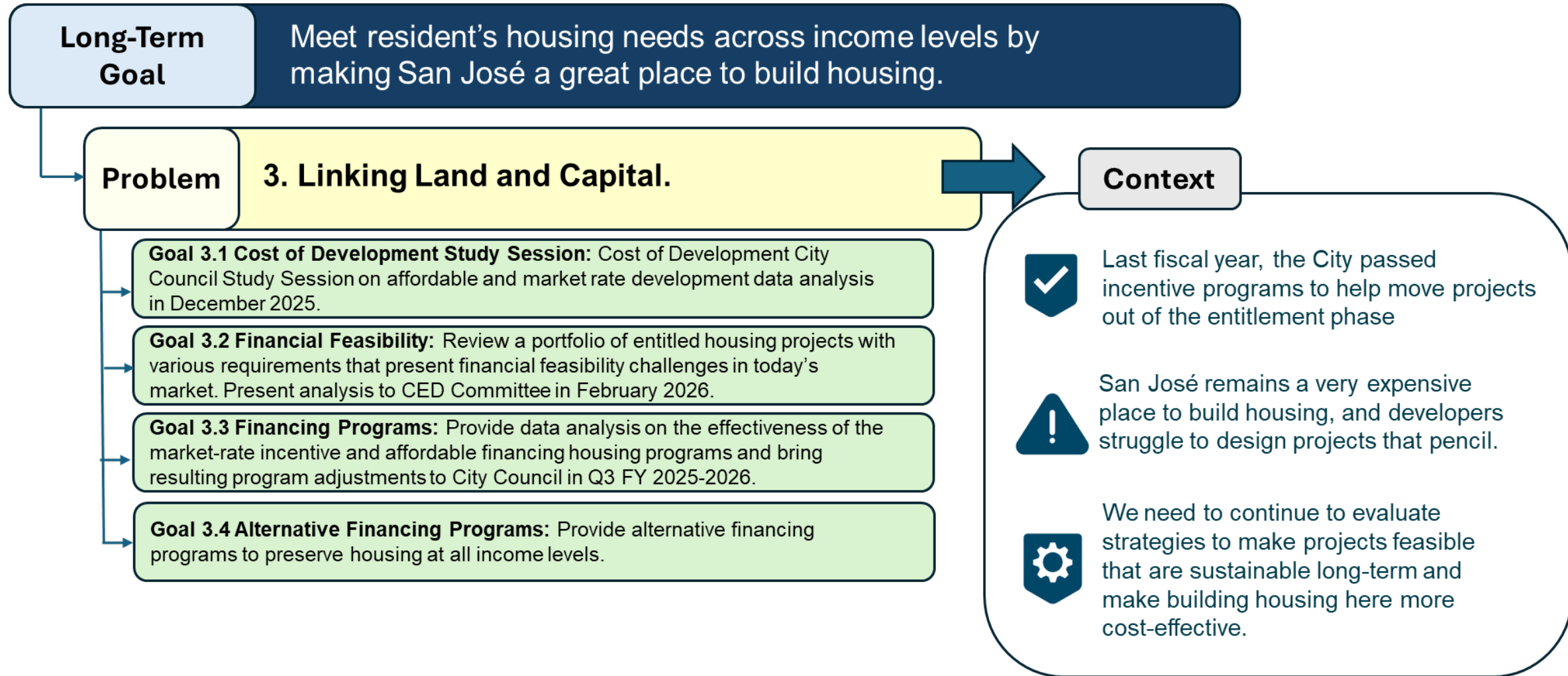
Building More Housing Focus Area



Building More Housing Focus Area



Building More Housing Focus Area



Timeline of Council Items

- January 2026: Inclusionary Housing Ordinance Updates, Residential Incentive Programs, Multifamily Housing Bond Policy
- Spring 2026 Focus Area update
- June 2026: General Plan Four-Year Review Task Force Process Concludes
- August 2026: Planning Commission Transmits Recommendation on General Plan Four-Year Review to City Council

APPENDIX A

Market Rate Pro-Formas

Example Cash Flow 1

Central podium

Description		Assumption / Factor	Total
Site Acreage			87,120
Stories			7
Program			
Density (DU/AC)			86
Total Dwelling Units			172
Avg. NSF / DU			902
NSF			155,098
GSF			182,469
FAR			2.09
Parking Format			Podium
Parking Ratio			1.0
Total Parking Spaces			172
Project Value			
Monthly Rent	\$3.89	per NSF	\$7,239,993
Gross Potential Monthly Parking Income	\$200	per Month	\$34,400
Losses to Vacancy (Market Only)	7.00%		-\$506,799
Gross Residential Revenue			\$6,767,593
Operating Expenses	\$10,000	per DU	-\$1,720,000
Net Operating Income (NOI)			\$5,047,593
Estimated Development Value	5%	Cap Rate	\$100,951,864

Example Cash Flow 1 – cont.

Central podium

Project Costs			
Construction Costs			
Site Work	\$10	per Land Sq. Ft.	\$871,200
Building Direct Cost	\$380	per GSF	\$69,338,103
Parking Costs			
Surface	\$9,000	per Parking Spot	\$309,600
A.G. Podium	\$50,000	per Parking Spot	<u>\$6,880,000</u>
Parking Direct Costs			\$7,189,600
Total Construction Costs			\$77,398,903
Soft Costs			
Park Impact Fees	\$18,080	per DU	\$3,109,760
Inclusionary in-Lieu Fees	\$49.91	per NSF	\$7,740,961
School Impact Fees	\$4.79	per GSF	\$874,025
City Construction Taxes			
Building & Structure	1.54%	of Building Valuation	\$431,563
Commercial Residential, Mobile Home Park	2.42%	of Building Valuation	\$678,170
Construction	\$75	per Unit	\$12,900
Residential Construction	\$90	per Unit	\$15,480
Architecture and Engineering	4%	of Construction Cost	\$3,095,956
Other Soft Costs	2%	of Construction Cost	\$1,547,978
Permits and Fees	1%	of Construction Cost	\$773,989
Taxes	1%	of Construction Cost	\$773,989
Insurance	2%	of Construction Cost	\$1,547,978
Financing	8%	of Construction Cost	\$5,804,918
Marketing/Leasing	2%	of Construction Cost	\$1,547,978
Total Soft Costs			\$27,955,644
Other Project Costs			
Builder Fee	4%	of All Costs	\$4,214,182
Development Contingency	5%	of All Costs	\$5,267,727
Total Project Costs			\$114,836,455
Residual Land Value			-\$13,884,591
RLV per Land Sq. Ft.			-\$6,942,295

Example Cash Flow 2

West San José Townhome

Description		Assumption / Factor	Total
Site Acreage			87,120
Stories			3
Program			
Density (DU/AC)			20
Total Dwelling Units			40
Avg. NSF / DU			1,458
NSF			58,313
GSF			72,892
FAR			1
Parking Format		Integ. Garage	
Parking Ratio			2
Total Parking Spaces			80
Project Value			
Market Rate Sale Value		\$1,100 per NSF	\$64,144,667
Sale Cost		1.5% per DU	-\$962,170
Net Building Value			\$63,182,497
Supportable Development Value		15% Return on Cost (Unlevered, exlcudes land)	\$72,659,871

Example Cash Flow 2 – cont.

West San José Townhome

<u>Project Cost</u>			
Construction Costs			
Site Work	\$10	per Land Sq. Ft.	\$871,200
Building Direct Cost	\$266	per GSF	\$19,389,183
<u>Parking Costs</u>			
Integrated Garage	\$13,793	per Parking Spot	<u>\$1,103,440</u>
Parking Direct Costs			\$1,103,440
Total Construction Costs			\$21,363,823
Soft Costs			
Park Impact Fees	\$21,840	per DU	\$873,600
Inclusionary in-Lieu Fees	\$49.91	per NSF	\$2,910,418
School Impact Fees	\$2.65	per GSF	\$193,163
<u>City Construction Taxes</u>			
Building & Structure	1.54%	of Building Valuation	\$189,809
Commercial Residential, Mobile Home Park	2.42%	of Building Valuation	\$298,271
Construction	\$75	per Unit	\$3,000
Residential Construction	\$90	per Unit	\$3,600
Architecture and Engineering	4%	of Construction Cost	\$854,553
Other Soft Costs	2%	of Construction Cost	\$427,276
Permits and Fees	1%	of Construction Cost	\$213,638
Taxes	1%	of Construction Cost	\$213,638
Insurance	4%	of Construction Cost	\$854,553
Financing	8%	of Construction Cost	\$1,602,287
Marketing/Leasing	5%	of Construction Cost	\$1,068,191
Total Soft Costs			\$9,705,998
<u>Other Project Costs</u>			
Builder Fee	4%	of All Costs	\$1,242,793
Development Contingency	5%	of All Costs	\$1,553,491
Total Project Costs			\$33,866,105
<u>Residual Land Value</u>			\$38,793,766
RLV per Land Sq. Ft.			\$19,396,883

APPENDIX B

Comparison of 2023 and 2025
Affordable Housing Cost Studies

Topic	2023 Study	2025 Study	Comment
Projects in Dataset:	Total – 29 San Jose – 8 Rest of Bay Area - 10 Other Cities – 11	Total – 194 San Jose – 19 Rest of Bay Area - 65 Other Cities – 110	Narrow data set limited validity of 2023 Study conclusions, particularly as cut into smaller categories. For example, conclusions about cost increases in San José between 2022 and 2023 were based upon just 2 projects.
Units in Dataset:	Total – 3,916 San Jose – 987 Rest of Bay Area – 1,349 Other Cities – 1,580	Total: 22,479 San Jose – 3,287 Rest of Bay Area – 6,764 Other Cities – 12,523	
Per-Unit Cost Trends	Found that total development costs in San José rose sharply—about 24% year-over-year—reaching ~\$939K per unit for 2023 projects, primarily due to larger family and special needs housing.	Dataset shows some projects near ~\$950K/unit, but several larger San José developments fall between \$500K–\$700K. Weighted averages suggest overall 2023 per-unit cost closer to \$700K.	Broader dataset indicates 2023 study's per-unit average was inflated by small high-cost projects. Across the 19 San Jose applications reviewed, TDC averaged \$676K per unit (\$706K including acquisition costs).
San José vs. Peer Cities Cost Gap	Reported that San José projects averaged 23% higher per-unit cost than those in other large California cities, with a 35% differential for special needs housing.	Dataset shows comparable or higher costs in some peer Bay Area and Southern California projects; several outside San José exceed \$900K–\$1M per unit.	San José remains high cost but not an outlier in 2023–2025 dataset.

Tracking Key Findings from the 2023 and 2025 Affordable Housing Development Cost Studies

Topic	2023 Study	2025 Study	Comment
Unit Size and ELI Share	Unit size differences were not major cost drivers except in special needs housing, where San José's units averaged 1,293 SF vs. 974 SF elsewhere. 54% of San José's units were in ELI buildings versus 8% in other cities.	Special needs and ELI projects in San Jose differ from other development types. Overall, Net SF/Unit in San Jose is 644. This is 658 for Special Needs projects – nearly 20% higher than Bay Area average of 560 for Special Needs units. Note that this shifts when looking at Gross SF – here San Jose averages 755 Gross SF/unit compared with 797 SF/unit across the Bay Area. On a cost/unit basis, San Jose's average cost of \$857K per special needs unit would rank 3rd highest behind Santa Clara and Alameda.	While unit sizes are larger among San Jose's special needs projects compared with the Bay Area, total project square feet per unit balances this out. Overall differences are unremarkable.
Land Acquisition Costs	Found land costs stable at ~\$41K–\$52K per unit, similar to other cities; not a primary driver of cost increases.	Acquisition excluded from TDC in current study due to varied treatment in applications (about 20% of projects have nominal values of under \$10K/unit, which constrains averages).	Acquisition costs average \$30K per unit among San Jose projects, compared with \$40K per unit across all projects in the dataset and \$46K per unit across Bay Area projects.
Soft Costs and Fees	Identified higher soft costs and impact fees in San José, averaging \$19.9K/unit (23% above peer cities).	Total soft costs reported among San Jose projects average \$59K, lower than the \$72K average across all Bay Area projects.	New finding revealed by broader dataset.

Tracking Key Findings from the 2023 and 2025 Affordable Housing Development Cost Studies

Topic	2023 Study	2025 Study	Comment
Scale Economies and Project Size	Not addressed.	Larger San José projects (150+ units) show markedly lower per-unit costs than smaller projects. Projects of 200+ units often achieve costs under \$600K/unit due to shared infrastructure and soft cost efficiencies.	New finding revealed by broader dataset; not a shift but previously unobserved relationship.
Regional Cost Outliers	Not addressed.	Dataset reveals smaller Santa Clara County cities (e.g., Palo Alto, Los Altos) with project costs exceeding \$1.1M/unit—higher than any San José project.	New insight from expanded dataset; earlier report lacked regional coverage to identify this pattern.
Recent Cost Stabilization	Not addressed.	2024 San José projects show average per-unit costs in the \$500K–\$800K range, lower than 2022–23 highs.	TBD construction bid index indicates slower growth in costs since 2023.
Subsidy Requirements and Deep Affordability	Reported City subsidies averaging \$84K/unit, higher for family and special needs (\$117K–\$115K) and up to \$141K for City-funded projects.	City subsidies average about \$29K per unit for San Jose projects, with wide variation by project type. Among Large Family projects, subsidies are up to \$50K per unit, while Special Needs units averaged \$148K per unit. Across the Bay Area, city subsidies average \$68K per unit, with the highest levels in San Francisco (\$181K per unit) and Alameda County (\$118K on average, with \$240K per unit for Large Family and \$150K for Special Needs).	City subsidies vary widely by product type but remain high – similar to the most urban counties of the Bay Area.

Tracking Key Findings from the 2023 and 2025 Affordable Housing Development Cost Studies

Topic	2023 Study	2025 Study	Comment
Fee Policy and Incentives	Acknowledged partial fee reductions but noted San José's affordable housing pays a greater share of market-rate fees than peers.	Development impact fees average about \$19K per unit for San Jose projects, a bit higher than the Bay Area average of \$17K per unit. San Francisco, Alameda, and Santa Cruz counties all show lower fees per unit for affordable projects at \$1,800, \$10,700, and \$16,600, respectively. Highest fee counties include San Mateo, Solano, and Sonoma, which all top \$26K per unit.	Fee waivers continue to play a critical role in spurring affordable housing development.
Soft Cost Containment and Process Delays	Cited multiple funding layers and extended entitlement processes as drivers of soft cost inflation.	Multiple funding layers continue to characterize affordable housing across geographies in the dataset.	Compared to the rest of the Bay Area, San Jose projects are characterized by higher permanent loans and lower state funding as a percent of total funding sources.
Parking, Design, and Density Requirements	Suggested local design, parking, and environmental standards contribute to higher costs relative to market-rate projects.	Dataset shows lower-cost projects tend to feature smaller units and higher total unit counts; parking ratios not directly reported.	
Financing Costs and Interest Rates	Identified rapidly rising interest rates and financing complexity as major contributors to higher total costs.	Dataset shows high financing costs across 2023–2025 (about \$74K per unit on average for the Bay Area and \$66K per unit for San Jose projects).	