



Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Councilmember Jimenez

SUBJECT: Commercial Linkage Impact Fee

DATE: August 28, 2020

Approved:

Date: 08/28/20

RECOMMENDATION

Approve the memo authored by Councilmember Peralez with the following modifications:

1. Implement a phased fee schedule based on the supportable fees identified in the feasibility analysis. To reflect a recovering economy, the fee will be 50% of the supportable fee in the first year, 75% in the second year, and 100% in the third year of implementation:

	Downtown & Nearby (mid-rise / high-rise)	North SJ & Nearby, Edenvale	West SJ	South & East SJ
Year 1	\$12.50 / \$15 per SF	\$5 per SF	\$10 per SF	\$0 per SF
Year 2	\$18.75 / \$22.50 per SF	\$7.50 per SF	\$15 per SF	\$0 per SF
Year 3	\$25 / \$30 per SF	\$10 per SF	\$20 per SF	\$0 per SF

2. For Office and R&D projects exceeding 1 million square feet, adopt the supportable fee identified in the feasibility study. (The fee schedule for Office and R&D projects exceeding 1 million square feet will be the same as Year 3 in Recommendation 1, without the phase-in period.)

BACKGROUND

I appreciate the work by staff to bring forward both the recommendation and analysis for the commercial linkage fee study. We know we desperately need additional resources to meet the ambitious affordable housing goals that Council has adopted. At the same time, we must be sensitive to the economic uncertainty created by the pandemic. Phasing in a commercial linkage fee addresses both concerns; it establishes a new source of revenue for

affordable housing that mitigates the impact created by new commercial development, and it allows time for the economy to heal.

The feasibility study must serve as the basis for our decision-making, as it uses the best data available to us and is comprehensive in its analysis. While the pandemic has created uncertainty, tech and office jobs have proven more resilient than retail and hotel uses. As Councilmember Peralez has recommended, we should phase in the fee and conduct another feasibility analysis after a few years to see whether future adjustments are appropriate. Phasing in the fee also provides an incentive for commercial developers to proceed with their projects and break ground quickly. Fee levels not tied to the feasibility study risk being arbitrary and not justifiable based on objective standards and analysis.

Table 4-14. Supportable Fee Levels Per Square Foot of Gross Floor Area, Excluding Parking Based on Development Economics of Prototype Projects and Pre-Pandemic Market Conditions						
	Downtown & Nearby	North SJ & Nearby	West SJ	Edenvale	Monterey Corridor	South & East SJ
Office / R&D ⁽¹⁾	\$25/SF mid-rise \$30/SF high-rise <i>Reflects unproven market expectations for achievable rents downtown 40%-50% over averages for existing space ⁽²⁾</i>	\$10/SF	\$20/SF	\$10/SF		None
Neighborhood Retail		None	None	None		None
Hotel ⁽¹⁾	\$10/SF \$6,000/rm	\$15/SF \$9,000/rm	\$10/SF \$6,000/rm	\$5/SF \$3,000/rm		
Warehouse		\$10/SF		\$7.50/SF	\$5/SF	
Light Industrial / R&D		\$7.50/SF		None	None	

(Page 46, Keyser Marston Associates Feasibility Analysis)

Finally, very large commercial developments, like the Google project, are generally not speculative proposals. These projects do not depend on commanding a particular rent in order to be financially feasible; rather, they are constructed to address the productivity needs of major employers. For this reason, a phase-in period is not necessary, and we can safely implement a supportable fee based on the feasibility analysis.