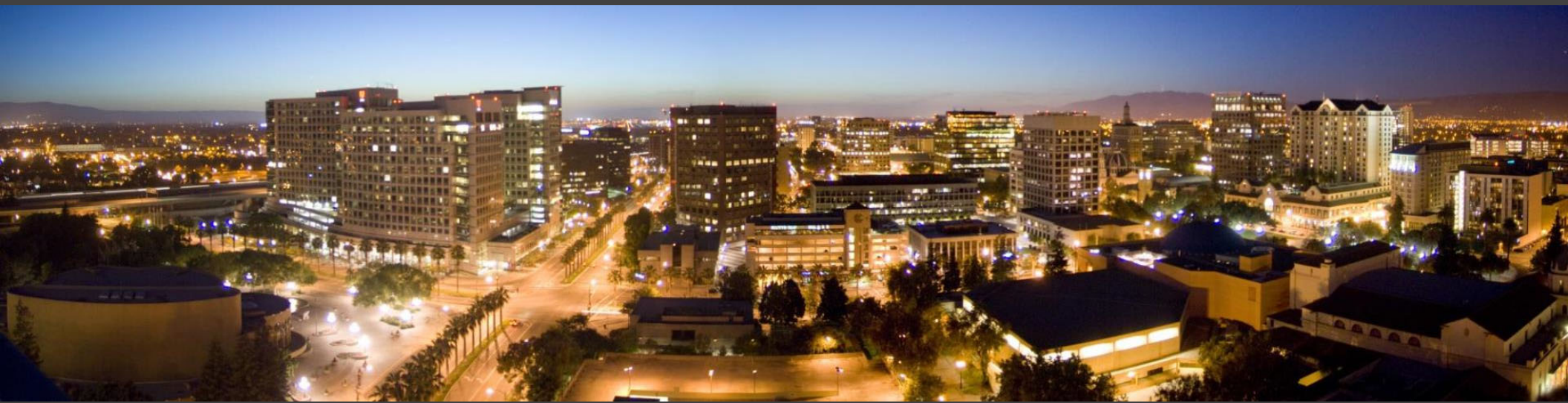


Affordable Housing Development Cost Study



Presented to City of San Jose

October 26, 2023





Affordable Housing Cost Study Objectives / Overview

- Provide annual update to study completed in 2022.
- Evaluate cost of developing affordable housing in San Jose through review of all major development cost components. Identify trends/factors that contribute to high costs.
- Compare to other cities with similar construction typology and identify cost variances to San Jose projects and specific cost drivers.
- Costs and other project data are obtained from tax credit applications for projects that received tax credit award since last study was completed.



2350 S. Bascom, San Jose, CA



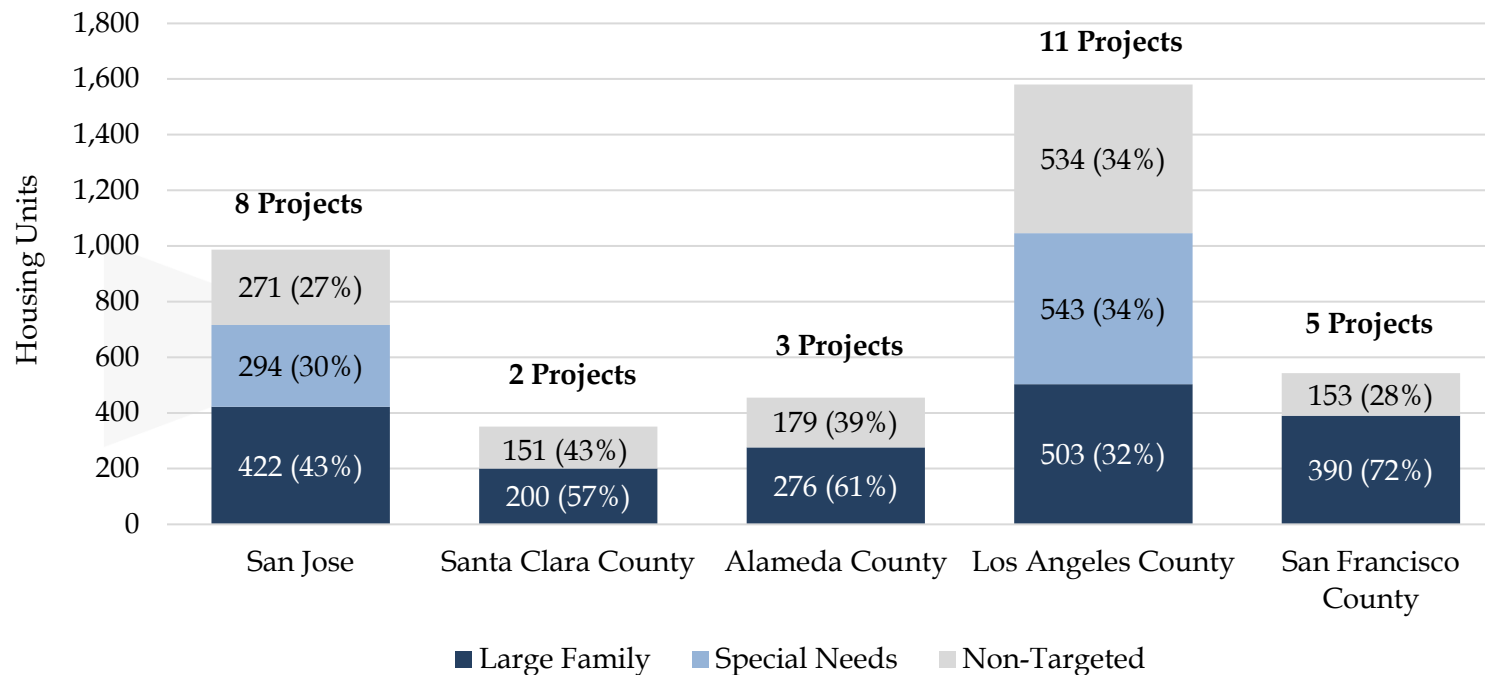
Alum Rock Multifamily, San Jose, CA



Affordable Housing Cost Study Methodology

- Analyzed projects that received tax credit awards in first round of 2022 through first round of 2023
- Included 8 projects located in City of San Jose totaling 987 units
- Included 21 projects with a similar construction typology located outside of City totaling 2,929 units

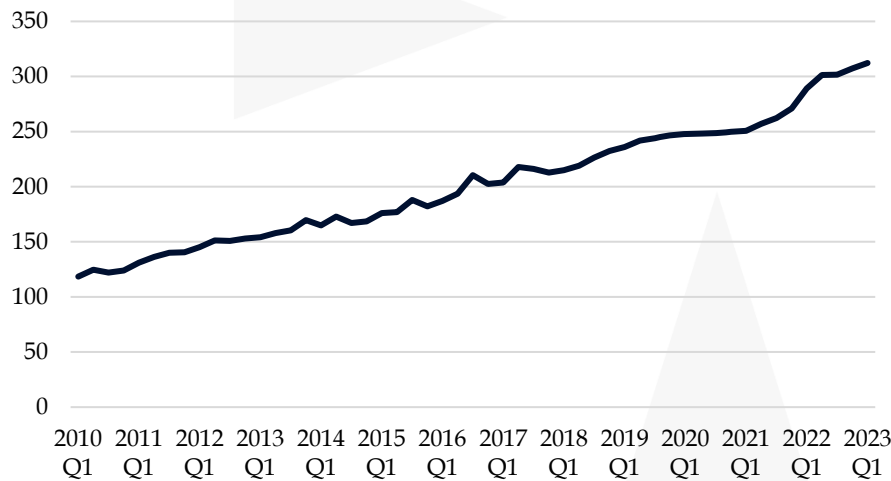
Projects by Location and Housing Type



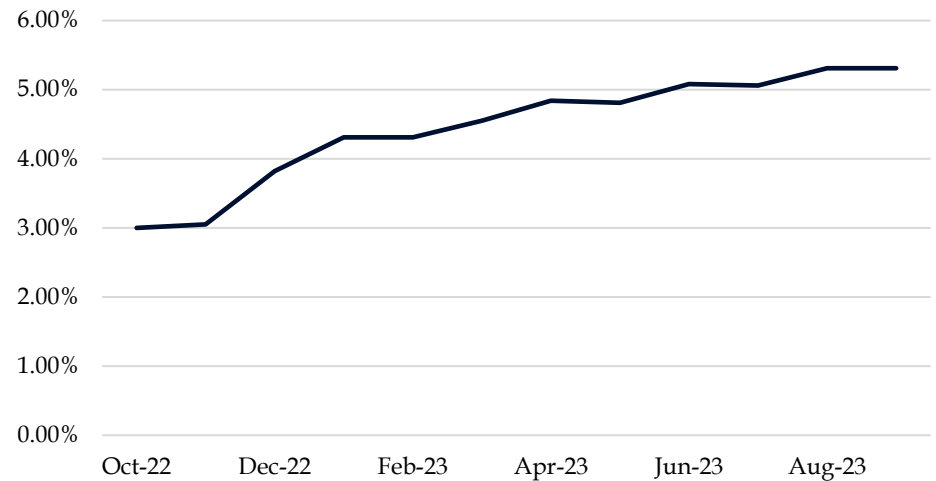


- 25% increase in construction cost bid index since start of 2021.
- Interest rates have doubled over past 12 months with construction interest rates hovering above 8.00%. Rates have not only increased due to increases in underlying Secured Overnight Financing Rate (“SOFR”) benchmark, but have also increased due to increases in required spread to SOFR.
- Per Turner Center report and L.A. Times article, affordable housing project costs in Bay Area exceed project costs in other areas of State with some projects in Bay Area costing over \$1M per unit.

TBD Construction Bid Index



SOFR Rate Over Prior 12 Months





Study Findings

- Prior study included projects awarded tax credits from December 2019 through December 2021.
- Shift in San Jose project housing types from prior study with greater proportion of Large Family projects and lower proportion of Special Needs, Non-Targeted, and Senior projects.
- Building height for San Jose projects decreased to average of 6 stories from prior average of 7 stories.
- Average unit sizes for San Jose projects increased due to higher proportion of Large Family projects, which are required to provide at least 25% 3-bedroom or larger units.

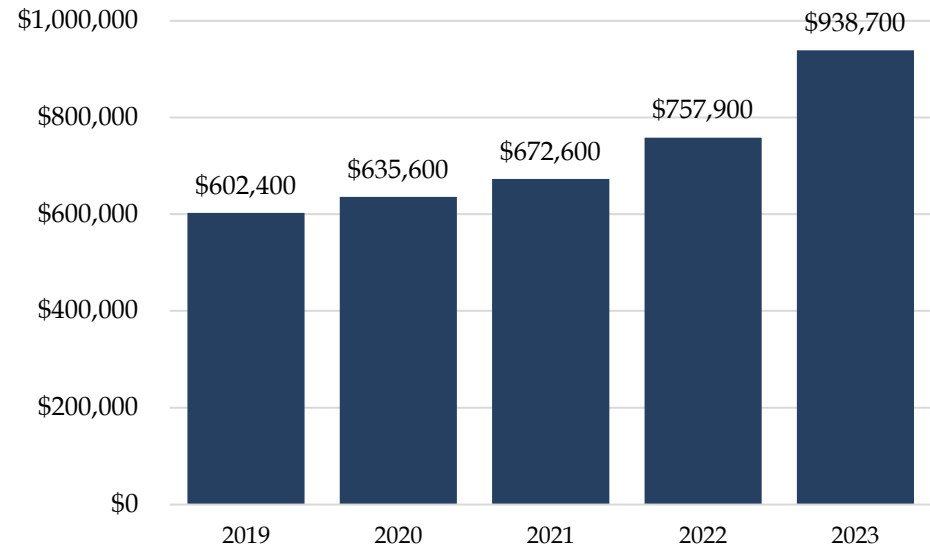
Housing Type	Current Study			2022 Study		
	Number of Projects	Number of Units	% of Total	Number of Projects	Number of Units	% of Total
Special Needs	3	294	30%	9	795	45%
Large Family	4	422	43%	0	0	0%
Non-Targeted	1	271	27%	5	655	37%
Seniors	0	0	0%	1	301	17%
Total	8	987	100%	15	1,751	100%
<i>Avg. Building Height</i>		6			7	



Study Findings

- Total development costs per unit increased by approximately 13% from 2021 to 2022 and 24% from 2022 to 2023.
- Cost increase is primarily due to larger units in current study, which averaged 1,171 SF as compared to 962 SF in prior study.
- Higher costs due to larger average unit size was partially offset by lower number of Special Needs projects, which generally have higher costs.
- 5 out of 8 San Jose projects included 50% or more Extremely Low-Income (“ELI”) units as compared to just 3 out of 21 projects in other cities.
- Projects with higher percentage of ELI units generally have higher development costs.

San Jose Projects Total Development Costs per Unit by Year



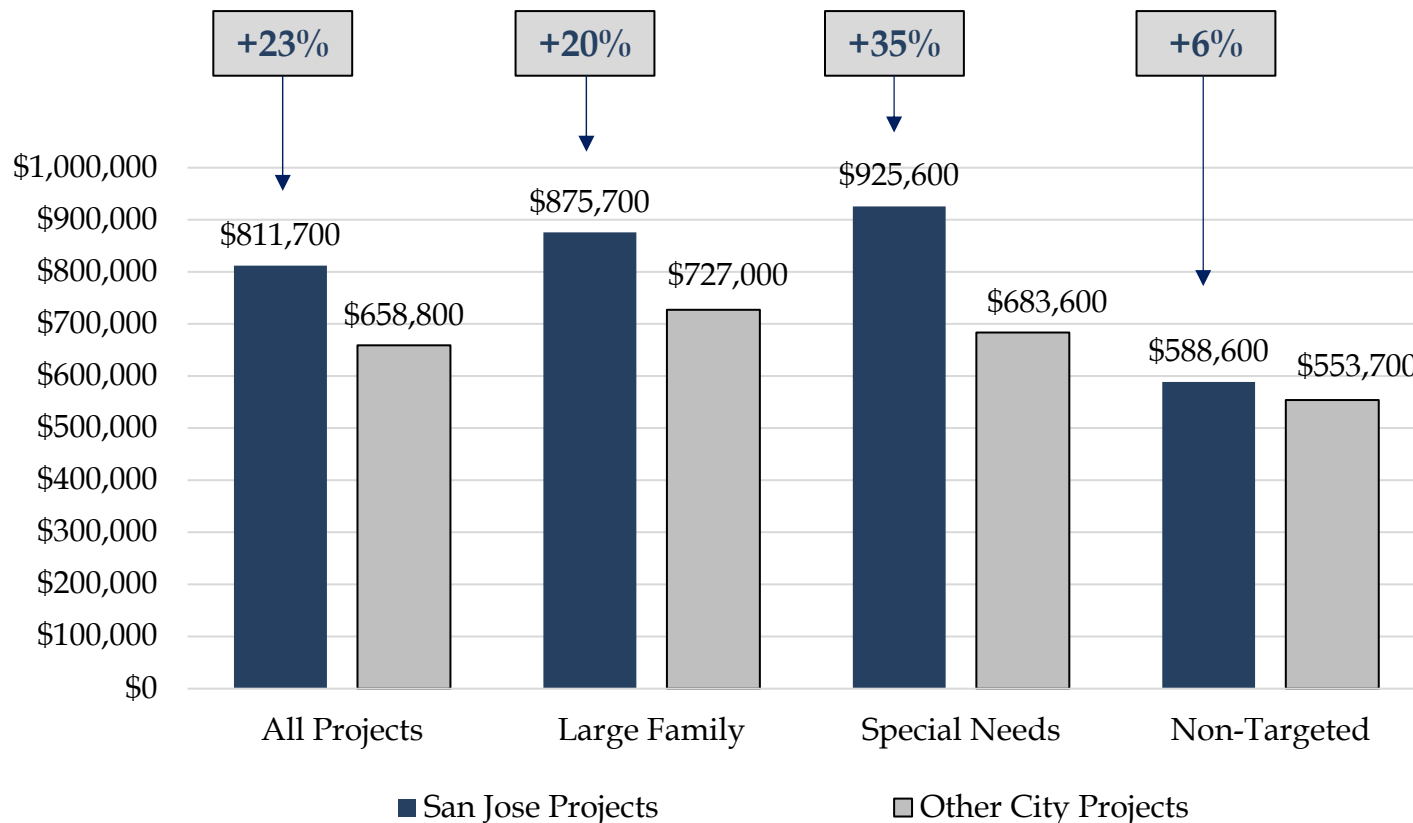
YOY % Change	2019	2020	2021	2022	2023
	NA	6%	6%	13%	24%

Year	Number of Projects	Average Building Height	Wtd Avg TDC per Unit	% Change Prior Year	Cost per SF
2019	1	8	\$602,400	NA	NA
2020	7	5	\$635,600	6%	\$809
2021	7	8	\$672,600	6%	\$677
2022	6	6	\$757,900	13%	\$703
2023	2	6	\$938,700	24%	\$735

*Costs above are shown by year of application submission. Current study includes projects shown in year 2022 and 2023.



- San Jose projects average per unit costs exceed average per unit cost of projects located in other cities.
 - Costs of San Jose projects average \$811,000 per unit compared to \$658,800 per unit for other city projects, a 23% difference.
 - Only costs of San Francisco projects, which top \$1M per unit, exceed costs of San Jose projects.
 - Cost of Special Needs projects in San Jose average 35% more than costs for comparable projects in other cities.





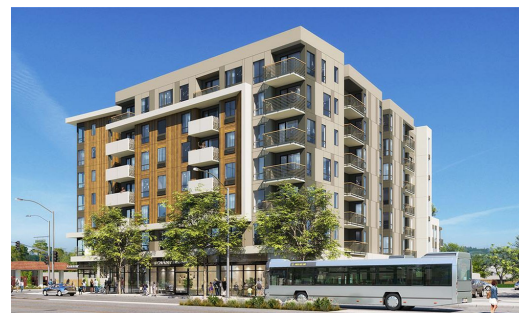
Unit Sizes

- Average unit size for San Jose projects is larger than average unit size for projects in other cities.
- Average unit size for Special Needs projects in San Jose are notably larger than comparable average unit size in other cities.

Housing Type	San Jose Projects Average Unit Size	Other City Projects Average Unit Size	% Difference
Large Family	1,018	1,187	-17%
Special Needs	1,293	974	25%
Non-Targeted	1,275	1,123	12%
All Projects	1,171	1,125	4%



Tamien Station
 135 Units
 Special Needs Housing Type
 52% of Units are 2+ Bedrooms



Alum Rock
 60 Units
 Special Needs Housing Type
 50% of Units are 2+ Bedrooms



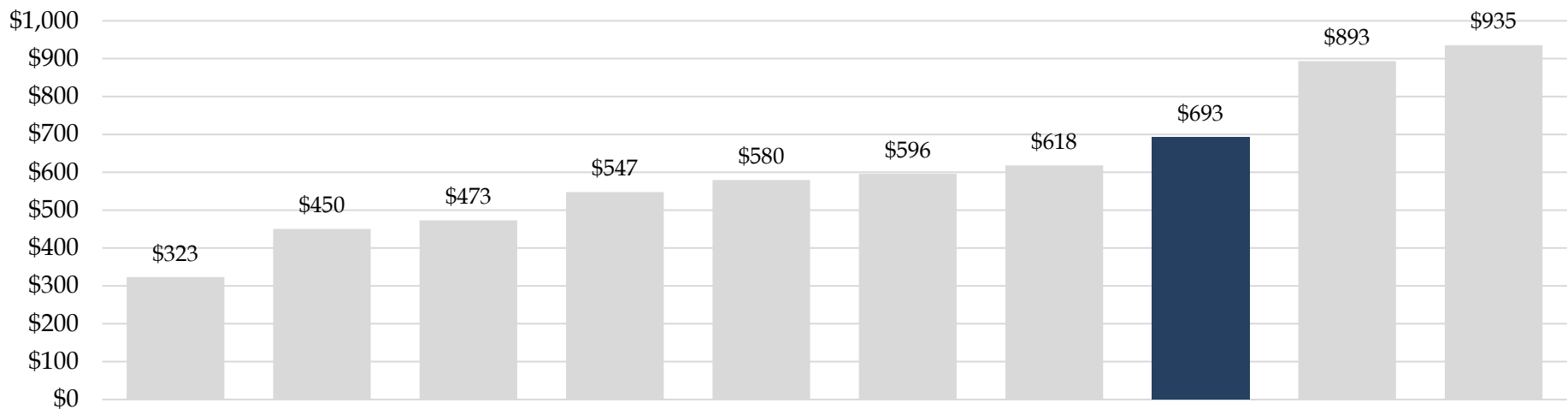
The Charles
 99 Units
 Special Needs Housing Type
 51% of Units are 2+ Bedrooms



Total Development Cost per Square Foot

- San Jose projects generally cost more per square foot than projects in other cities.
- The City of Burbank project is an outlier with acquisition costs averaging approximately \$95,000 per unit and developer fees averaging approximately \$115,000 per unit.

Total Development Cost PSF



City	Glendale	Alhambra	Fremont	Santa Monica	Los Angeles	Hayward	Santa Clara	San Jose	San Francisco	Burbank
County	Los Angeles	Los Angeles	Alameda	Los Angeles	Los Angeles	Alameda	Santa Clara	Santa Clara	San Francisco	Los Angeles
Projects	1	4	2	1	4	1	2	8	5	1
Total Units	340	525	279	57	510	176	351	987	543	148
Average Unit Size	1,361	1,196	1,176	956	1,105	907	1,010	1,171	1,139	860



Cost per Square Foot by Cost Component

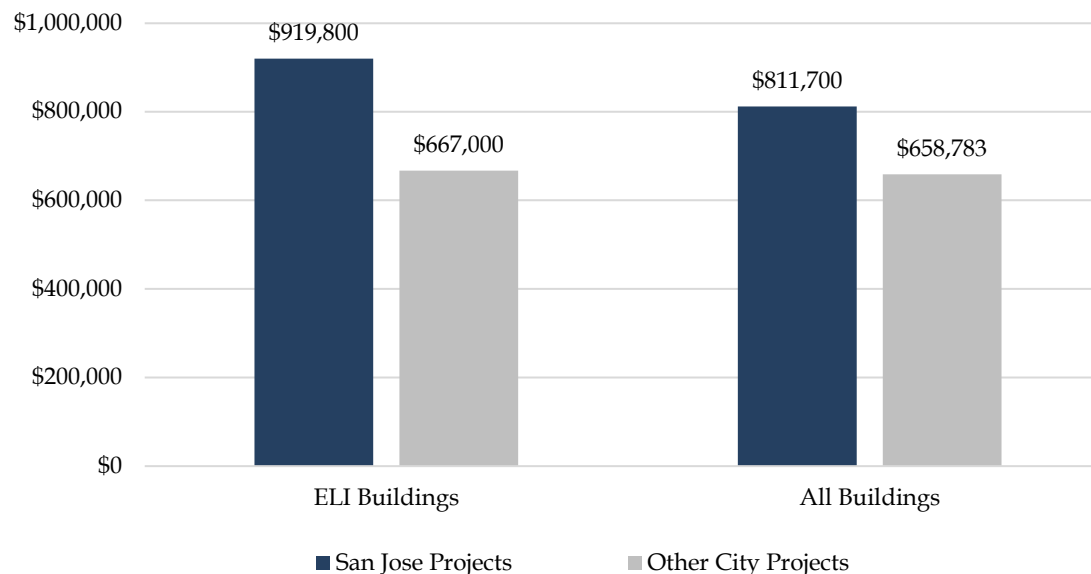
- Construction hard costs are approximately 17% higher in San Jose than other jurisdictions.
- Permits and third-party costs are approximately 18% higher in San Jose than other jurisdictions.
- Financing costs, which are driven by construction costs are approximately 18% higher in San Jose than other jurisdictions.
- Overall, San Jose Projects have a 15% higher average cost per square foot than the average of all other city projects.

	Acquisition Costs	Residential Hard Costs	A&E	Permits/Third- Party Costs	Financing Costs	Reserves	Developer Fees	Soft Cost Contingency	Total Develo- ment Cost
San Jose	\$36	\$479	\$17	\$35	\$63	\$6	\$53	\$4	\$693
Santa Clara County	\$49	\$402	\$13	\$50	\$51	\$7	\$44	\$3	\$618
Alameda County	\$34	\$330	\$8	\$37	\$36	\$5	\$60	\$3	\$513
Los Angeles County	\$47	\$302	\$13	\$24	\$51	\$4	\$49	\$4	\$494
San Francisco County	\$4	\$728	\$27	\$21	\$70	\$10	\$28	\$6	\$893
Weighted Average	\$37	\$397	\$15	\$29	\$52	\$6	\$46	\$4	\$586
Variance \$ Amount	-\$2	\$82	\$2	\$6	\$11	\$1	\$7	\$0	\$107
Variance %	-5%	17%	13%	18%	18%	8%	13%	0%	15%



Impact of Projects Serving Extremely Low-Income Populations on Overall Costs

- Extremely Low-Income ("ELI") households are defined as those earning no more than 30% of Area Median Income ("AMI").
- 5 out of 8 projects comprising 54% of all units in San Jose projects had 50% or more of their units set-aside for ELI households ("ELI Buildings").
- In contrast, only about 8% of units in projects in other cities are located within ELI Buildings.
- Development costs for ELI Buildings are generally higher than costs for buildings targeting higher AMI levels due to need for increased subsidies, amenities and office space, higher operating reserves, and greater support services.
- Even after accounting for differences in average unit size, costs for San Jose ELI Buildings still surpass cost of ELI Buildings in other cities.





Labor Costs

- Labor costs typically comprise 55-60% of total construction costs.
- According to TBD Consultants, San Jose labor costs are on average 2% higher than Berkeley/Oakland labor costs and 1% higher than San Mateo labor costs.
- Prevailing wage is often required by cities as condition of funding and may result in increase of 10%-20% (or more) in construction costs.
- San Jose projects that reported prevailing wage in their TCAC applications attributed 16% of construction costs to prevailing wage.
- Prevailing wage is determined by California Department of Industrial Relations by County and is updated twice per year.

San Jose Projects Prevailing Wage

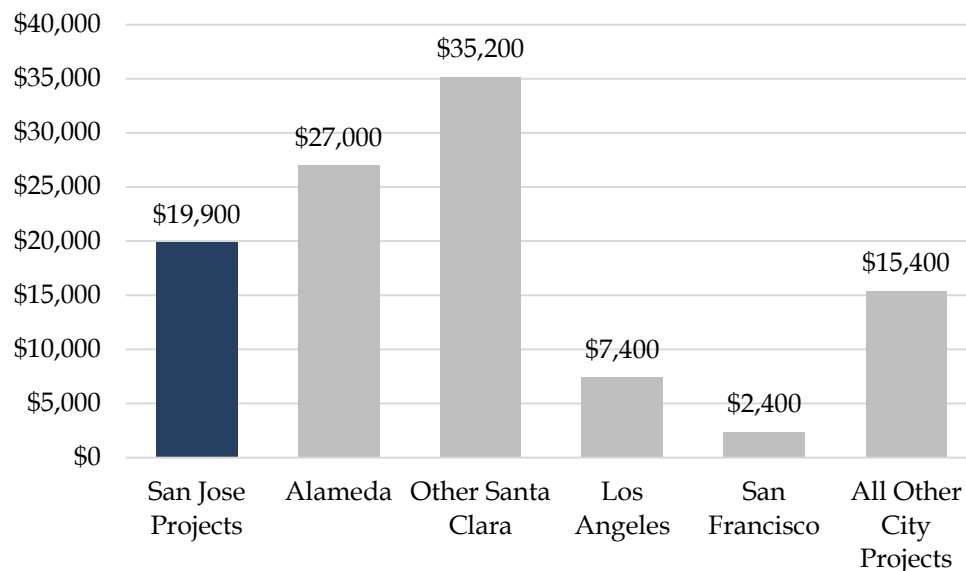
Project	Total Construction Costs	Prevailing Wage Cost	% Prevailing Wage of Total
Dry Creek Crossing	\$41.5M	\$6.1M	15%
777 West San Carlos	\$99.8M	\$12.1M	12%
Tamien Station Affordable	\$92.7M	\$20.0M	22%
Total	\$234.0M	\$38.1M	16%



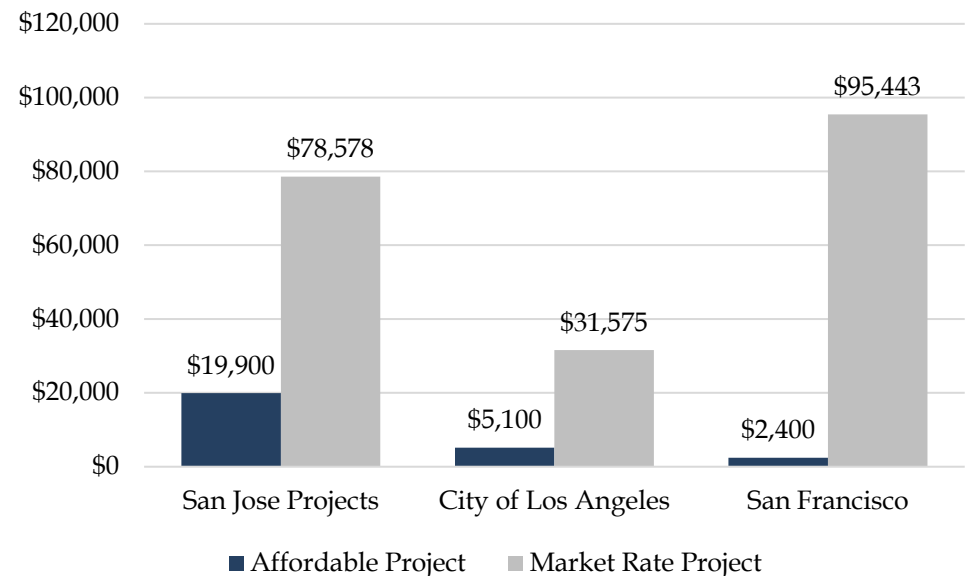
Impact Fees

- San Jose project impact fees averaged \$12,100 per unit in prior study and \$19,900 per unit in current study. This average impact fee amount is higher than other cities, some of which provide impact fee waivers or exemptions for affordable housing.
- San Francisco and Los Angeles projects were assessed impact fees that equated to 3% and 16% respectively of impact fee amounts for comparable market rate projects in these cities. In comparison San Jose projects were assessed impact fees equal to 25% of impact fee amounts for comparable market rate projects.

Impact Fees per Unit



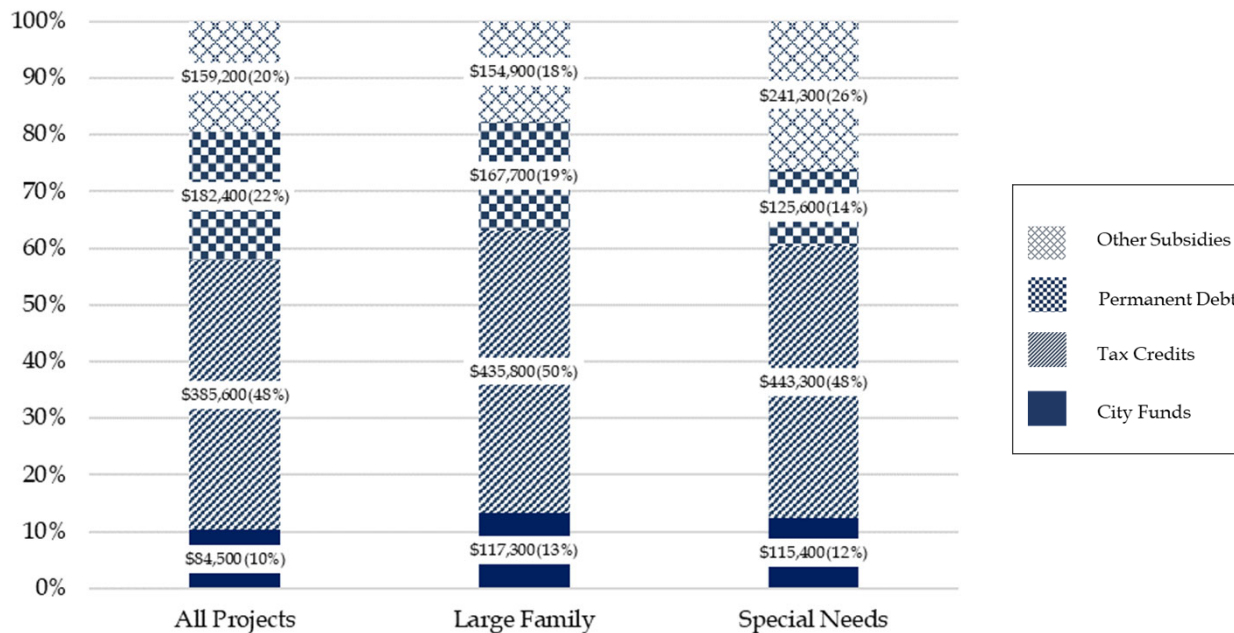
Affordable Housing Impact Fees per Unit Comparison to Market Rate Impact Fees





Funding Sources

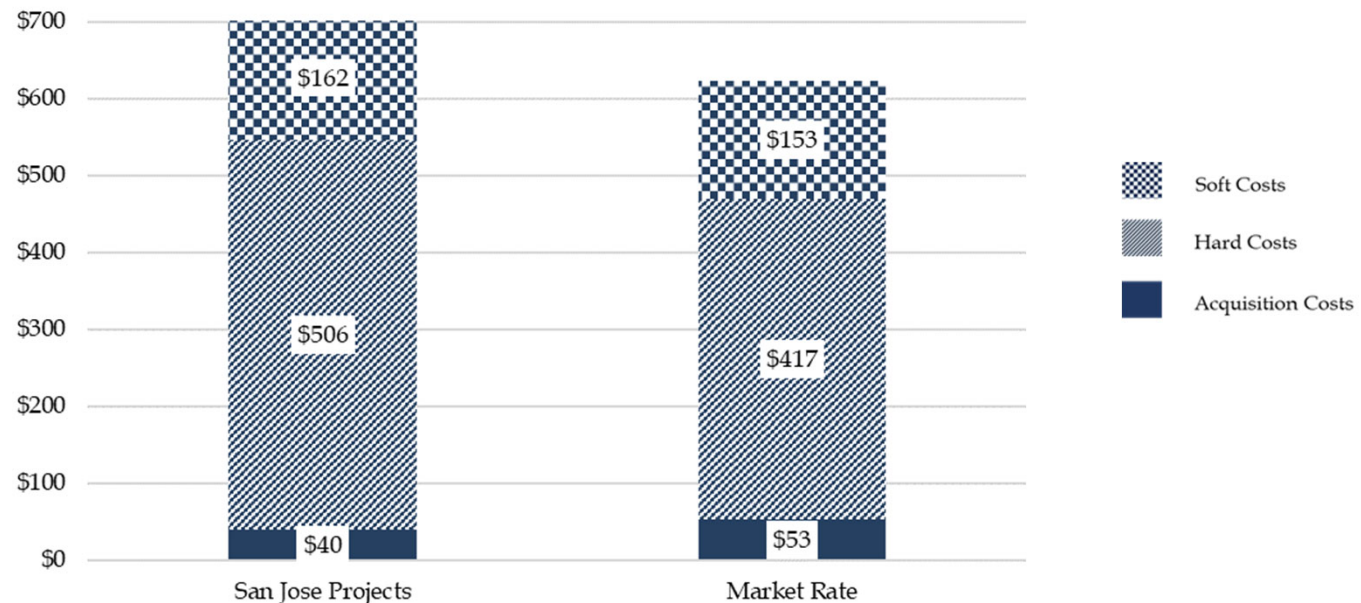
- Affordable housing projects require multiple layers of funding.
 - San Jose projects averaged approximately 6 funding sources with 2 projects requiring 8 funding sources, while projects in other cities averaged just under 5 funding sources.
 - More funding sources may cause delays, which may lead to increasing development costs.
- City subsidies in San Jose averaged \$84,500 per unit, increase from prior study subsidy amount of \$74,000 per unit. Projects in other cities averaged \$72,800 per unit in local subsidies.
- Projects comprising 60% of units received City of San Jose funding, where as projects comprising 50% of units received local funding in other cities, indicating higher reliance on local funding in San Jose.





Affordable Housing vs. Market Rate Housing

- Development costs for affordable housing and market rate housing were compared on per square foot basis to adjust for differences in unit sizes.
- Market rate development costs for Type III construction projects were analyzed to be consistent with construction types for affordable projects reviewed in this study.
- Total development costs for San Jose affordable projects exceed estimated total development costs for market rate projects by approximately \$85 per gross square foot or approximately 14%. This represents increase to prior study differential of \$51 per gross square foot or approximately 8%.





- High inflation and interest rates have resulted in significant increase in affordable housing costs since prior study.
- Affordable housing projects cost more to develop in City of San Jose than most other cities evaluated in this study.
- City prioritizes development of ELI units with 40% of most recent Notice of Funding Availability (“NOFA”) allocated to ELI units. ELI units have higher development costs and operating expenses.
- San Jose affordable housing projects require more funding sources, which may result in higher soft costs.
- Impact fees are higher in City of San Jose than other large cities.
- Prevailing wage is more common in affordable housing projects than market rate housing projects and may result in increase of 10% - 20% (or more) in construction costs.