



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Nanci Klein
Jacky Morales-Ferrand

**SUBJECT: DOWNTOWN RESIDENTIAL
HIGH-RISE PROGRAM**

DATE: November 4, 2022

Approved

Date

11/4/22

RECOMMENDATION

- (a) Accept the report on the Downtown Residential High-Rise Program.
- (b) Adopt a resolution authorizing updates and an expansion of the Downtown Residential High-Rise Program applicable to projects located in the Downtown Planned Growth Area as described in the Envision San José 2040 General Plan, that are 10 or more floors or stories in height (not including any nonresidential uses) where the highest occupied floor has a floor level elevation that is at least 150 feet above street level; and
 - (1) Reducing the in lieu fees due for those projects under the Inclusionary Housing Ordinance to the amount of \$0 for all projects obtaining building permits by June 30, 2025, and obtaining certificates of occupancy for the project before June 30, 2029;
 - (2) Reducing the adjusted in lieu fees required under the Inclusionary Housing Ordinance Section 5.08.525 to \$0 for those rental projects that include 5% of units to be affordable to households earning 100% of area median income and obtain building permits on or after July 1, 2025, obtain certificates of occupancy for the rental project before June 30, 2033.
- (c) Adopt a resolution amending the 2022-2023 Schedule of Fees and Charges (Resolution No. 72737, as amended) to reduce the Inclusionary In Lieu Fee and the adjusted in lieu fees under the San José Municipal Code Chapter 5.08 to reflect the schedule in the resolution above for qualifying Residential High-Rise Developments receiving certificates of occupancy for 80% of dwelling units by the dates specified in the resolution above.
- (d) Approve an ordinance extending a temporary 50% reduction of the Building and Structure Construction Tax and a 50% reduction of the Commercial-Residential-Mobilehome Park Building Tax for qualified residential high-rise projects located within the Downtown Planned Growth Area that obtain building permits on, or prior to, June 30, 2029 and obtain certificates of occupancy before June 30, 2033.

OUTCOME

Approval of the recommendation will result in adopting a resolution extending the building permit deadline by 30 months to June 30, 2025, for the current reduction to \$0 for the Inclusionary Housing Ordinance in lieu fee. These projects must complete construction and obtain a certificate of occupancy by June 30, 2029. Starting on July 1, 2025, residential high-rise development will be required to build 5% of units affordable to households earning 100% area median income. Under this requirement, development must receive a certificate of occupancy by June 30, 2033. The 50% reduction in construction taxes will continue until June 30, 2033.

BACKGROUND

The first Downtown Residential High-Rise Program (high-rise program) in San José was approved in 2007. Iterations have been approved in 2012, 2016, and 2019. The purpose of the program is to support new residential development in downtown to both help support transit and retail, and to compliment job growth with the understanding that the economics of high-rise residential development is more challenging than other types of residential development. This is particularly true in downtown where height limits are restricted due to the proximity to the airport. The 2007 iteration included only a parks fee reduction, and the 2012 iteration included both a parks fee reduction and a construction tax reduction.

On November 5, 2019, City Council accepted a report on downtown high-rise feasibility. City Council also extended the deadline for the Affordable Housing Impact Fee exemption and directed staff to return with the appropriate resolutions to establish a \$0 in lieu fee under the Inclusionary Housing Ordinance for downtown residential high-rise projects with annual increases starting in 2023 to transition to the full amount by June 30, 2025. City Council approved an ordinance creating 50% reductions of the Building and Structure Construction Tax and the Commercial-Residential-Mobilehome Park Building Tax for downtown residential high-rise programs with a matching deadline of June 30, 2025.

On August 25, 2020, City Council approved the resolution setting the Inclusionary Housing Ordinance in lieu fee to \$0 for high-rise projects in downtown. To qualify for the \$0 fee, a project must obtain its building permit by June 30, 2023, and receive its certificate of occupancy by June 30, 2025. The in lieu fee under the current program will increase gradually to the full amount for projects that receive their certificate of occupancy by June 30, 2025. City Council further directed staff to explore options for extending the timeline of the high-rise program and expanding the program to high-rise development outside of downtown.

On November 10, 2020, City Council received an update on the Housing Crisis Work Plan. At this time, staff proposed reviewing the high-rise program along with the planned update to the report on the Cost of Residential Development. This planned report would provide an assessment of current market conditions and feasibility for various types of residential development in different submarkets within the city sufficient to allow City Council to make a determination on extending and expanding the high-rise program.

On November 1, 2022, City Council held a Study Session on Cost of Residential Development where it received the latest report on the Cost of Residential Development. This report is included as **Attachment A** to this memorandum and provides a financial feasibility analysis for high-rise residential development in San José.

Park Impact Fees

Prior iterations of the high-rise program included reductions in park fees. However, on [December 19, 2017](#), City Council adopted a permanent Downtown Core High Rise Fee Category, reflecting lower observed occupancy of existing high-rises in downtown San José which resulted in lower park fees for high rises. With this new fee category in place, a reduction in park fees is no longer included in the high-rise program. The Department of Parks, Recreation, and Neighborhood Services is in the process of completing a parks fee study. The results of the fee study will be evaluated in a subsequent feasibility study and is expected to be available in early 2023. These reports will inform steps forward related to park fees for all housing types.

ANALYSIS

Current Downtown High-Rise Residential Program

Under the current high-rise program, three projects have had a City Council hearing related to the reduction in construction taxes and housing fees. None of these projects has started construction to date. City Council held a hearing on October 25, 2022, to consider a waiver under the current high-rise program for the project named “Scape” at 10 East Reed Street. The other two projects are 27 West at 10 S. 1st Street and The Carlyle at 51 Notre Dame Avenue. However, these developments could be challenged to meet the required June 30, 2025 completion date. Any high-rise project initiating construction in early 2023 is even more unlikely to meet the current 2025 deadline.

Feasibility of Residential High-Rise

The report on the Cost of Residential Development (**Attachment A**) analyzed the feasibility of a 22-story high-rise rental and for-sale prototype. These prototypes are consistent with the height and density seen in existing high-rise residential development in San José. The rental prototype was assessed in the multiple submarkets in the City: *Central, West, North, and Downtown*. These submarkets are consistent with the Development Fee Framework / Inclusionary Housing Ordinance areas.¹ The downtown area is a smaller subset of the *Central* submarket. The report looked at the feasibility reduction of high-rise prototypes including the provision of the current program that provides for a reduction to \$0 for the Inclusionary Housing Ordinance in lieu fee and a 50% in the Building and Structure Construction Tax and the Commercial-Residential-Mobilehome Park Building Tax. Those prototypes are noted as “waiver.” The report looked at an additional waiver scenario where the prototype would receive the 50% reduction in

¹ Map of Areas (note that submarket West is listed as West Valley on the map):
<https://csj.maps.arcgis.com/apps/webappviewer/index.html?id=8518bc095ae54f4ea025d7743c650881>

the construction taxes but be required to provide 5% of the units onsite restricted to households earning no more than 100% area median income. In only one submarket (*West*) did the current rents exceed the maximum rent permitted for 100% area median income households.

Table A: Residual Land Values Per Unit				
Rental	Central	West	North	Downtown
Without Waiver	(\$498,000)	(\$376,000)	(\$476,000)	(\$432,000)
With Waiver	(\$436,000)	(\$314,000)	(\$446,000)	(\$369,000)
5% Affordable at 100% Included		(\$316,000)		
For Sale – Without Waiver				(\$518,000)
For Sale – With Waiver				(\$479,000)

The analysis cannot anticipate all assumptions or situations. As has been noted in past reports, individual circumstances will vary, and based on those unique circumstances could permit a project to move forward. However, current City experience confirms the findings of the report. The last residential high-rise that started construction was Miro in 2017, and it is now complete. According to the report, one index of construction costs in the Bay Area region has shown a 17% increase in construction costs since the start of the COVID-19 pandemic through the second quarter of 2022. Rent growth since March 2020 has been approximately 5% to 6% in San José. This data paints a very challenging picture for high-rise residential development in San José moving forward. High-rise construction, particularly due to the materials and construction methods required, is the most expensive type of housing to construct.

Feasibility Study Compliance with City Municipal Code

Chapter 14.10 of the San José Municipal Code sets “*Minimum Labor Standards for a Private Construction Project Accepting a City Subsidy*.” This chapter defines a subsidy to include any “*reduction, permanent suspension or exemption of any fee or tax*” that applies to single or multiple projects. Construction projects receiving a City subsidy are required to pay all workers employed on the construction prevailing wage rates. These construction projects are subject to other provisions such as requiring apprenticeships and local hire, among others. There are exemptions to the definition of a subsidy that include the reduction of a fee or tax that is applied uniformly across all private construction projects within a specific subcategory of use, e.g., high-rise residential, when City Council determines based on specified criteria, that construction of the projects is not financially feasible. The specified criteria are the following:

- A. City Council must make its determination that a fee or tax reduction is not a subsidy supported by findings, following a public hearing.
- B. City Council's findings must be supported by the evidence presented at the public hearing, including a study analyzing whether construction within the subcategory of use is financially infeasible.
- C. The financial feasibility study must be performed by a consultant qualified to provide real-estate analytic services selected and retained by the City using its normal procurement process.
- D. City Council must use reasonable efforts to conduct the hearing within 90 calendar days following the completion of the financial feasibility study.

The Office of Economic Development and Cultural Affairs retained Century | Urban as its consultant following the City's procurement process. Century | Urban is a qualified consultant that provides real-estate analytic services. The Cost of Residential Development report produced by the consultant (**Attachment A**) is the required analysis of the financial feasibility of typical high-rise development in San José. The analysis included test scenarios for prototypes located in multiple areas of the City. In addition, the analysis detailed the financial impact of the tax and fee waivers and included a sensitivity analysis to various inputs into the pro forma. The report was finalized on August 19, 2022, and the City Council hearing for this action was less than 90 calendar days from the completion of the study.

The consultant study addressed the following issues as outlined further below:

	<i>Issue</i>	<i>Consultant Analysis (Attachment A)</i>
a.	Whether construction of Private Construction Projects in the specified Subcategory of Use is Financially Infeasible.	<i>"The conceptual feasibility analysis indicates that none of the prototypes support positive estimated residual land value in any of the submarkets." (pg. 12)</i>
b.	The reason(s) for any conclusion that construction of the Private Construction Projects in the specified Subcategory of Use is Financially Infeasible.	<i>"The conceptual analyses' findings indicate that residential development economics are challenging under current market conditions. Since the last analysis was prepared, the prices of construction materials and labor have increased significantly, and many construction materials are not easily available on pre-COVID construction timelines. Meanwhile, a combination of the COVID-19 pandemic, volatility and devaluations in equity markets, and expansion of remote work have impacted the demand for urban residential living." (pg. 1)</i>

c.	The anticipated duration of any condition(s) making construction of the Private Construction Projects in the specified Subcategory of Use Financially Infeasible.	<i>“The Engineering News Record (ENR) and TBD Consultants publish indices which track construction costs quarterly in the Bay Area... Both indices reflect major increases in cost since 2014 and even more significant increases since 2020. Since 2014, the total increase has been 76%. Between the first quarter of 2020, when the COVID-19 pandemic began, and the second quarter of 2022, the latest available data, TBD estimates an increase of 17%.” (pg. 14)</i>
d.	The estimated size of the financial gap between the Private Construction Projects in the specified Subcategory of Use being Financially Infeasible and financially feasible.	The report showed a negative residual land value ranging from (\$376,000) to (\$498,000), depending on the geographic submarket location without the tax and fee waiver.
e.	Options for making construction of the Private Construction Projects in the specified Subcategory of Use financially feasible, including the following: i. Providing the proposed fee or tax reduction without requiring the payment of prevailing wages; ii. Providing the proposed fee or tax reduction along with requiring the payment of prevailing wages; and iii. Any additional options, other than the proposed fee or tax reduction, that would make construction of the Private Construction Projects within the specified Subcategory of Use financially feasible, provided that any such options must comply with all applicable laws and regulations, including the City's current general plan.	<i>“To provide additional context, sensitivities were prepared to analyze the potential effect of 5% variations in hard costs, soft costs, rental rates, and sale prices by construction type. The results of these sensitivity analyses, which are summarized in Exhibit C, indicate that 5% improvements in hard costs, soft costs, rental rates, and sale prices do not bridge the feasibility gap (see below for an explanation of how the feasibility gap is calculated) for any of the prototypes.” (pg. 15)</i>
f.	Consultant's preparation of the required study will include the opportunity for stakeholder input.	There were four meetings held to receive stakeholder input during the process. Meetings were held with stakeholders and the consultant on April 18 and 22, 2022, to review the assumptions that would go into the report. The draft report was released on September 22, 2022, and meetings were held with stakeholders on October 19 and 20, 2022.

Recommended Amendments to the High-Rise Residential Program

Based on the results of the analysis in the report, staff recommends an extension of the current waiver with a transition to a new requirement to include 5% of units at 100% of area median income. The extension of the \$0 in lieu fee would allow some projects to start in the next two years under the current fee and tax rates included in their existing assumptions while giving time for future projects to include the assumption of 5% of units at 100% of area median income. While the analysis suggests that typical high-rise projects are infeasible in the current conditions, it is important that the City not add costs to new construction at this time that would further contribute to infeasibility. Additionally, while the analysis suggests that the prototypes were infeasible, there may be projects with unique circumstances that allow them to move forward in the current environment.

Table B below outlines the new timelines and requirements in the staff recommendation.

Table B: Staff Recommendation

Building Permit by	Certificate of Occupancy by	Inclusionary Requirement	Geography Limitations	Construction Taxes
June 30, 2025	June 30, 2029	\$0 in lieu fee	Downtown Planned Growth Area	50% reduction (CRMP + B&S)
July 1, 2025 - June 30, 2029	June 30, 2033	5% of units at 100% AMI and \$0 in lieu fee (OR full in lieu fee at time)	Downtown Planned Growth Area	50% reduction (CRMP + B&S)

For each phase of the program, staff recommends that the certificate of occupancy requirement be four years after the building permit issuance requirement to ensure projects will start construction, while also giving sufficient time to complete construction. Typical timelines for high-rise residential projects are about 36 months and the additional 12 months included in the program allows for the possibility of delays once construction begins.

Consideration of Expanding Program Geography

Staff was also directed to evaluate expanding the high-rise program beyond downtown. As part of the feasibility analysis, the consultant did assess the feasibility of high-rise development in the *West*, *North*, and *Central* submarkets. These results showed that high-rise developments in these areas would not be feasible. Recent development in Urban Villages and other designated growth areas has tended to be mid-rise construction. Additionally, recent entitlements have chosen to comply with the Inclusionary Housing Ordinance through the clustered on-site compliance option, which has some of the required affordable units provided in a separate building to help facilitate the financing of those affordable units. Typical high-rise developments in downtown

San José are on very small sites that do not have the ability to use the cluster compliance approach. Sites within other growth areas can be larger and have the ability to use this option.

Based on this, staff recommends the program remain downtown. However, staff is recommending that the boundary for downtown for the Inclusionary Housing Ordinance be expanded to include the Downtown Planned Growth Area defined in the Envision San José 2040 General Plan. Previously, the Inclusionary Housing Ordinance downtown area used a definition of “Downtown Core” that included only the areas east of highway 87. The Downtown Planned Growth Area includes a majority of the Diridon Station Area and Downtown West. **Attachment B** is a map of the Downtown Planned Growth Area and Downtown Core Area boundaries.

CONCLUSION

This policy update will extend the City’s efforts to encourage high-rise development that adds new housing units, increases transit use, and minimizes the City’s carbon footprint. While City fees are not the sole reason for development infeasibility, they are a contributing factor that is within the City’s control. Given the results of the City’s feasibility analysis, it is important that no additional costs be added to the new development of high rises in the downtown. There is a significant public benefit to increasing the availability of housing in downtown San José. In addition to contributing to the vibrancy and economic success of the area, new high-rise developments will deliver more residential capacity consistent with the City’s Housing Crisis Work Plan. This action will encourage high-rise residential developments in downtown to move forward.

EVALUATION AND FOLLOW UP

Staff intends to update the report on the Cost of Residential Development in fall 2023 to continue to understand the feasibility of various types of housing, including high-rises, in San José.

As part of the Inclusionary Housing Ordinance implementation process, residential developments are required to submit an Affordable Housing Compliance Plan application and obtain approval before scheduling a public hearing for entitlement. Prior to the issuance of a building permit, the Housing Department coordinates with the developer to record an Inclusionary Housing Agreement, specifying which fees and/or requirements apply to the development. The Inclusionary Housing Ordinance in lieu fees may be paid at any time after the Inclusionary Housing Agreement has been recorded but prior to issuing a certificate of occupancy.

As a part of the construction tax reduction, staff will develop Project Completion Agreements with high-rise project developers intending to benefit from the tax reduction. As a condition of the fee and tax waiver, the developer will provide the information requested by City staff for compliance with Government Code Section 53083, and City Resolution No. 77135, for public disclosure of fee waivers and any required hearing shall have occurred.

CLIMATE SMART SAN JOSE

The recommendation in this memorandum aligns with one or more Climate Smart San José energy, water, or mobility goals by helping to facilitate high-density new development in identified growth areas.

PUBLIC OUTREACH

Staff hosted virtual public meetings on October 19 and 20, 2022, to discuss the recommendations in this memorandum and receive public feedback. This memorandum will be posted on the City's website for the November 15, 2022, City Council meeting.

COORDINATION

This memorandum has been coordinated with the City Attorney's Office, City Manager's Budget Office, and Department of Parks, Recreation, and Neighborhood Services.

COMMISSION RECOMMENDATION/INPUT

No commission recommendation or input is associated with this action. An update on this policy recommendation will be shared with the Housing and Community Development Commission as a part of the Director's Report at the November 10, 2022, regular meeting.

COST SUMMARY/IMPLICATIONS

Due to the program being based on time rather than on a specific development, the entire fiscal impact of the program will not be fully understood until development moves forward in the construction process. Pursuant to California Government Code Section 53083, the City must disclose information related to any fee waiver over \$100,000 through a public hearing, and pursuant to City Resolution No. 77135, must also disclose any fee waiver over \$1,000,000 through a public hearing. These disclosures must include detailed information on the estimated total amount of expenditure of public funds or revenue lost, and project tax revenue resulting from the project. Staff will bring back these disclosures for individual projects in conjunction with the required Project Completion Agreement.

The Inclusionary Housing Ordinance In Lieu Fee for any residential developments adding 20 or more units is \$45.26 per square foot per rental unit in Strong Market Areas and \$26.32 per square foot for for-sale units.² Although these changes would result in less fees collected on the

² Ordinance and Fees: <https://www.sanjoseca.gov/home/showpublisheddocument/89253/637980715724370000>

high-rise developments, these fees are already considered foregone and are not included in budget projections or in the Five-Year Affordable Housing Investment Plan.

The Building and Structure Construction Tax is based on the valuation of the building at a tax rate of 1.54% for residential. The Commercial-Residential-Mobilehome Park Construction Tax is also based on building valuation at a rate of 2.42% for residential. Although these changes would result in less tax revenue collected on the high-rise developments, these revenues are already considered foregone and are not included in projections included in the 2023-2027 Traffic Capital Improvement Program.

CEQA

Not a Project, File No. PP17-008, General Procedure and Policy Making resulting in no changes to the physical environment.

/s/
JACKY MORALES-FERRAND
Director, Housing

/s/
NANCI KLEIN
Director of Economic Development and
Cultural Affairs

For questions, please contact Jerad Ferguson, Housing Catalyst, Office of Economic Development and Cultural Affairs, at jerad.ferguson@sanjoseca.gov or (408) 535-8176; or Rachel VanderVeen, Deputy Director, Housing Department, at rachel.vanderveen@sanjoseca.gov or (408) 535-8231.

Attachments:

Attachment A – Report on the Cost of Residential Development

Attachment B – Downtown Planned Growth Area Boundary and Downtown Core Area Boundary

Attachment A



Century | Urban

Strategic Real Estate Advisory Services

Conceptual Feasibility Analysis

Presented to:

City of San Jose

August 19, 2022



FINANCIAL PLAN REVIEW

TO: City of San Jose, Office of Economic Development
FROM: Century Urban, LLC
SUBJECT: Conceptual Feasibility Analysis
DATE: August 19, 2022

CONFIDENTIAL AND PRIVILEGED

Summary

The City of San Jose, Office of Economic Development (the “City”) has engaged Century Urban, LLC (“Century | Urban”) to prepare a conceptual feasibility analysis for five residential rental and sale development prototypes. The analysis is intended to update conceptual prototype feasibility analyses prepared in 2018 and 2019 and to provide a perspective on the general development economics of high-density residential development in the current market. The prototypes are analyzed across a range of City submarkets, projects sizes, and construction types, among other factors.

The conceptual analyses’ findings indicate that residential development economics are challenging under current market conditions. Since the last analysis was prepared, the prices of construction materials and labor have increased significantly, and many construction materials are not easily available on pre-Covid construction timelines. Meanwhile, a combination of the COVID-19 pandemic, volatility and devaluations in equity markets, and expansion of remote work have impacted the demand for urban residential living.

The analyses conclusions are not intended to imply that every residential development is equally challenged in San Jose. Actual projects may differ from the prototype assumptions and may be less challenged.

Analysis Qualifications

The analysis referenced in this memorandum utilizes prototypical projects representing high-level average or median project types and high-level project assumptions prevalent at the time the analysis was prepared. Though there may be similarities, prototype projects do not correspond to any actual specific project or the actual economics of any particular development. While prototypes were designed to represent actual or median projects, any given actual project



may reflect different costs, rental rates, sale prices, or other details driven by the circumstances of that project such as its sponsor, history, site conditions, contractor, business plan, and/or other factors. Moreover, the criteria and assumptions utilized in selecting and analyzing the prototypes may be specific to the time during which the analysis was prepared and the research was conducted. Research was conducted and data was gathered for this report during the first quarter of 2022. Appropriate assumptions for the prototypes will likely evolve over time as market conditions change.

Legislative Background

This conceptual feasibility analysis has been prepared to analyze whether construction of Private Construction Projects within the residential Subcategory of Use is Financially Infeasible as specified in Section 14.10.310 of the San Jose Municipal Code, which specifies that A) the City Council must make a determination whether a fee or tax reduction is not a Subsidy, supported by findings, following a public hearing; B) the Council's findings must be based on evidence presented at the public hearing including a study on whether relevant Private Construction Projects are Financially Infeasible; and C) the financial feasibility study must be performed by a qualified consultant retained through the City's normal procurement process. The study must address a specific set of issues (see Exhibit F), and preparation of the study will include the opportunity for stakeholder input. The Council is also directed to use reasonable efforts to conduct the required public hearing within 90 calendar days following completion of the study. Capitalized terms used in this paragraph are defined in Chapter 14.10 of the San Jose Municipal Code.

Construction Types

The residential development prototypes to be analyzed fall into three common residential construction types: Type V, Type III, and Type I. Each of these construction types has multiple subtypes and requirements specified by building code, but in general, the lower the construction type number, the greater the fire-life-safety requirements.

- Type V construction refers to a building type in which the interior and exterior structural materials of the building are permitted to be “combustible”. This means that wood may be used as a core structural material in the building's design including for framing, walls, floors and roofs. Wood-framed building is often used for single-family homes, as well as smaller apartment and retail buildings. Wood frame construction is often lower cost than other construction methods.
- Type III construction refers to a building in which exterior walls are “non-combustible” but other elements (framing, floors, ceilings) may be designed with combustible materials such as wood. Walls are typically constructed from concrete block, precast panels, or other



non-combustible materials. This type of construction is generally used in larger apartment buildings, schools and other medium-sized commercial buildings.

- Type I construction refers to a building in which all structural materials are non-combustible. In a Type I building, walls, floors, and roofs are constructed with materials such as concrete and steel. This construction type is generally utilized with high-rise residential and commercial buildings and tends to be the most expensive of the three construction types.

In addition to limiting construction materials for each building type, the International Building Code and most local building codes also limit the maximum height and building stories for a project depending on its construction type.

The three construction types utilized in the prototype analysis are intended to reflect a range of building types and sizes developed by residential developers in the City.

Prototypes

The prototypes reviewed in this conceptual analysis are based on prototypes previously analyzed in 2018 and 2019 to allow comparison to these prior analyses and are intended to represent a range of residential development projects.

Building Heights/Density

For rental prototypes, the analysis includes a Type V project of five stories with a density of 65 units per acre, a Type III project of seven stories with a density of 90 units per acre, and a Type I project of 22 stories with a density of 350 units per acre. The for-sale prototypes include a Type V project of five stories with a density of 50 units per acre and a Type I project of 22 stories with a density of 350 units per acre.

Prototype Building Height and Density					
Prototype Size	Low-Rise	Mid-Rise	High-Rise	Low-Rise	High-Rise
Rental/Sale	Rental	Rental	Rental	Sale	Sale
Construction Type	Type V	Type III	Type I	Type V	Type I
Height/Stories	5	7	22	5	22
Density / Acre	65	90	350	50	350

Two versions of the Type I rental and sale prototypes were analyzed – one version, which reflects standard City requirements for payment of an inclusionary in-lieu fee and construction taxes, and a “waiver” version, which reflects a waiver of payment of the inclusionary in-lieu fee and 50% reduction of select construction taxes.

Submarkets



The prototypes were reviewed and applied in submarkets including “South & East”, “Central”, “West”, “North” and “Downtown.” The City provided boundaries to guide the geographical definition of each submarket. Century | Urban researched each prototype and submarket to estimate the property income, expenses, sales prices, costs, fees, and land cost assumptions appropriate for the prototype or submarket.

Prototype Submarkets					
Prototype Size	Low-Rise	Mid-Rise	High-Rise	Low-Rise	High-Rise
Rental/Sale	Rental	Rental	Rental	Sale	Sale
Construction Type	Type V	Type III	Type I	Type V	Type I
Submarkets	South & East, Central	Central, West, North	Central, West, North, Downtown	South & East, Central & West, North	Downtown

Average Unit Sizes

The prototypes assume an average unit size of 900 net square feet for all rental prototypes, 1,150 net square feet for the Type V sale prototype, and 950 net square feet for the Type I sale prototype. Assumed building efficiencies ranged from 78% to 80% resulting in average gross square feet per unit of 1,125 to 1,438.

Prototype Unit Sizes and Efficiencies					
Prototype Size	Low-Rise	Mid-Rise	High-Rise	Low-Rise	High-Rise
Rental/Sale	Rental	Rental	Rental	Sale	Sale
Construction Type	Type V	Type III	Type I	Type V	Type I
Avg Unit Size Net SF	900	900	900	1,150	950
Efficiency	80%	80%	78%	80%	78%
Avg Unit Size Gross SF	1,125	1,125	1,154	1,438	1,218

Parking Ratios

Assumed parking ratios are 1 per unit for the Type V and Type III rental prototypes, 0.8 per unit for the Type I rental prototypes, and 1.1 per unit for the Type V and Type I sale prototypes.

Prototype Parking Ratios					
Prototype Size	Low-Rise	Mid-Rise	High-Rise	Low-Rise	High-Rise
Rental/Sale	Rental	Rental	Rental	Sale	Sale
Construction Type	Type V	Type III	Type I	Type V	Type I
Parking Ratio	1.0	1.0	0.8	1.1	1.1



The prototypes described above are summarized in [Exhibit A](#). To allow comparison to prior analysis, the prototype assumptions are consistent with prototype assumptions used in prior analysis with the exception of the efficiency factors for the Type V rent and sale prototypes in the South & East submarket, which have been reduced from 85% to 80% to be consistent with the other Type V prototypes.

Assumptions

Assumptions for the conceptual analysis, which are detailed in [Exhibit D](#), include the following:

- ❖ All prototypes except Type I rental and sale prototypes assume above-grade structured parking. Type I prototypes assume below-grade structured parking.
- ❖ Project construction timelines are estimated to range from 20 to 30 months.
- ❖ Inclusionary requirements are assumed to be fulfilled through the payment of the in-lieu fee, which in the case of “waiver” scenarios is assumed to be waived as discussed below.
- ❖ Construction is assumed to be open shop.

Development Costs

Development costs include “hard costs”, which represent the labor and materials associated with building construction, and “soft costs”, which represent costs related to items such as architecture and engineering, financing, City fees, insurance, property taxes, overhead, legal, accounting and marketing.

As noted above, development costs for a given project may vary by project design, size, location, construction type, site specific conditions, and other factors. For this analysis, an average project with a flat or relatively flat site and no unusual environmental, soils, infrastructure, or off-site conditions is assumed.

Although this analysis reflects a specific point-in-time, construction costs in the San Francisco Bay Area have increased significantly over time and will likely continue to change. The sensitivity analysis described below reflects the effect on feasibility of changes in development costs.

Hard Costs

Building hard costs were estimated separately from parking hard costs, which varied based on the type of parking assumed in each prototype.



Building Hard Costs Per GSF (excluding parking)				
Size	Type		Rental	Sale
Low-Rise	Type V		\$393	\$420
Mid-Rise	Type III		\$447	NA
High-Rise	Type I		\$502	\$535

Parking Hard Costs Per GSF					
Size	Type	Parking Type		Rental	Sale
Low-Rise	Type V	Above-grade		\$97	\$100
Mid-Rise	Type III	Above-grade		\$101	NA
High-Rise	Type I	Below-grade		\$240	\$245

The assumptions utilized for prototype hard costs were generated by a cost estimating consultant. Total hard costs also include a 5% hard cost contingency.

Soft Costs

Soft costs are estimated by soft cost category for each prototype as further detailed in [Exhibit D](#). In total, soft costs equated to 30% to 39% of hard costs and ranged from approximately \$110 to \$175 per gross square foot depending on the prototype¹. Variations in soft costs among the prototypes of the same construction type are driven primarily by the range of City fees, particularly parkland and inclusionary in-lieu fees, which vary by submarket.

Soft Costs as a % of Hard Costs - Rental Prototypes						
Size	Type	South & East	Central	West	North	Downtown
Low-Rise	Type V	31%	39%	NA	NA	NA
Mid-Rise	Type III	NA	37%	37%	32%	NA
High-Rise	Type I	NA	35%	35%	31%	34%

Soft Costs as % of Hard Costs - Sale Prototypes						
Size	Type	South & East	Central & West	North	Downtown	
Low-Rise	Type V	31%	33%	33%	NA	
High-Rise	Type I	NA	NA	NA	30%	

Average Soft Costs Per GSF				
Size	Type		Rental	Sale
Low-Rise	Type V		\$115	\$117
Mid-Rise	Type III		\$132	NA
High-Rise	Type I		\$158	\$143

¹ Excluding "waiver" scenarios.



The tables above do not include the Type I “waiver” scenarios in which 50% of Building and Structure (“B&S”) and Commercial, Residential, Mobile Home Park (“CRMP”) construction taxes and 100% of inclusionary in-lieu fees are waived.

Further detail regarding development cost assumptions is provided in Exhibit D.

City Fees

City fees for each prototype are estimated based on the prototype’s location and size, among other factors. City fees include the following:

- Construction taxes, which include the following six categories: B&S; CRMP; Construction Taxes; Residential Construction Tax; Strong Motion Instrumentation Program Assessment (“SMIPA”); and Building Standards Administration Special Revolving Fund (“BSARSF”). The latter two categories are collected on behalf of the State. The amounts of these taxes are calculated based on a percentage of building construction valuation or on a per unit basis. The “waiver” scenarios for certain Type I prototypes analyze the potential effect of waiving 50% of the B&S and CRMP taxes addition to the inclusionary in-lieu fee described below.
- Parkland In-Lieu Fees, which are assessed for each prototype project based on its location. All prototypes are assumed to receive a 25% parkland fee credit based on the provision of onsite open space.
- School Fees (ranging from \$2.13 to \$3.48) are assessed per residential gross square foot based on the applicable submarket location and school district.
- At the time of this analysis, the City is in the process of revising its traffic fees. As a result, estimated traffic fees have not been included in the analysis. As part of the traffic fee revisions, the City is defining centrally-located “growth areas” where new development may not be assessed traffic fees based on vehicle mile traveled (“VMT”).
- Inclusionary In-Lieu Fees are assessed per square foot depending on the project size and submarket location. The “waiver” scenarios for certain Type I prototypes analyze the potential effect of waiving this fee in addition to the construction taxes described above.
- Other City planning and building permit fees are assessed based on project size, number of units, and other factors. These fees include the costs of the City’s land use and site plan approvals, planning review, and building department fees, among other fees.

The total City Fees per unit for each prototype are estimated to be in the ranges shown in the table below. Further detail is provided in Exhibit D.



Total City Permits & Fees Per Unit	<u>Approximate</u> <u>Range</u>
Construction Taxes	\$6,400 to \$8,000
Parkland In-Lieu Fees	\$9,800 to \$21,000
School Fees	\$2,400 to \$5,000
Planning/Building Fees	\$2,800 to \$7,000
Inclusionary In-Lieu Fees	\$21,000 to \$50,000
Total Fees	\$45,000 to \$81,000

Rental Rates

For the rental prototypes, Century | Urban conducted research regarding the effective rental rates at properties similar to each prototype in each applicable submarket. Effective rental rates reflect actual in place rental revenue taking into account concessions or other deductions. As an example, at the time of this writing, asking rents at one Class A Type I project were among the highest in the market but the project was also offering eight weeks of free rent. As a result, the project's effective rents are substantially lower than the project's asking rents and lower than the asking rents of other projects.

Based on this research, the following effective monthly rental rate assumptions for each prototype and applicable submarket, shown on both a per rentable square foot and per unit basis, are utilized in the conceptual feasibility analysis.

Rent Per SF/Month	<u>South & East</u>	<u>Central</u>	<u>West</u>	<u>North</u>	<u>Downtown</u>
Type V	\$3.05	\$3.35	NA	NA	NA
Type III	NA	\$3.35	\$4.15	\$3.30	NA
Type I	NA	\$3.35	\$4.15	\$3.30	\$3.75

Rent Per Unit/Month	<u>South & East</u>	<u>Central</u>	<u>West</u>	<u>North</u>	<u>Downtown</u>
Type V	\$2,745	\$3,015	NA	NA	NA
Type III	NA	\$3,015	\$3,735	\$2,970	NA
Type I	NA	\$3,015	\$3,735	\$2,970	\$3,375

The City also requested analysis of the effect on Type I "waiver" scenarios of requiring that 5% of total onsite units be affordable to households earning no more than 100% of Area Median Income ("AMI"). Based on an assumed unit mix, the estimated average affordable rent at this AMI tier was \$3.86 per square foot or \$3,471 per unit per month.



This rental rate is higher than the estimated market rate rental rates for all Type I prototype submarkets with the exception of the West submarket. As a result, the analysis of a 5% onsite affordability requirement was conducted only for the West submarket.

Sales Prices

Estimated sale prices for the for-sale prototypes are based on research regarding comparable sales of units at recently-built projects in the prototype submarkets. Similar to rental rates, sales prices vary across submarkets and product types.

The tables below summarize the assumed average sales prices on a per-square-foot and per-unit basis based on the research conducted.

Average Sales Price PSF	<u>South & East</u>	<u>Central & West</u>	<u>North</u>	<u>Downtown</u>
Type V	\$585	\$700	\$630	NA
Type I	NA	NA	NA	\$725

Average Sales Price Per Unit	<u>South & East</u>	<u>Central & West</u>	<u>North</u>	<u>Downtown</u>
Type V	\$672,750	\$805,000	\$724,500	NA
Type I	NA	NA	NA	\$688,750

Brokerage commissions, warranty reserves, and sales costs are subtracted from gross sale proceeds to estimate net sale proceeds for each prototype.

Developer Return

Developers require a return on their investment in order to undertake the risks involved with a development project. The required return for a specific project may vary based on the project's specific characteristics, as well as market/economic conditions including specifically capital market conditions. The prototype feasibility analyses include an estimate of the return that developers would require to proceed with project development.

For the rental prototypes analysis, the required return is estimated using a Return-on-Cost ("ROC") metric. This return metric is commonly used for rental projects. The appropriate target ROC is established based on a project's perceived risks, which include the uncertainty of project costs, schedule, revenues, and economic conditions upon completion. The target ROC assumed for the rental prototypes is 5.25%.



For the sale prototypes analysis, the required return is estimated based on a Profit Margin metric. Like the ROC for rental projects, the Profit Margin metric is commonly used for for-sale projects, and the appropriate target Profit Margin is based on the project's perceived risks. The target Profit Margin used for the sale prototypes is 20%.

Land Costs

Land costs are estimated based on research of comparable land sale transactions in each submarket. Land sale prices vary substantially even within each submarket and are affected by location, topography, site and soil conditions, parcel configuration, neighboring uses, access, noise, entitlement and permit status, among other factors. The estimated land costs per unit for each submarket are summarized in the table below.

Land Prices Per Unit	<u>South & East</u>	<u>Central</u>	<u>West</u>	<u>North</u>	<u>Downtown</u>
Low	\$40,000	\$40,000	\$65,000	\$25,000	\$25,000
High	\$65,000	\$65,000	\$75,000	\$85,000	\$85,000

The land costs per unit shown in the table above are compared to the estimated residual land values for the applicable prototypes in each submarket, as further discussed below.

Feasibility Analysis

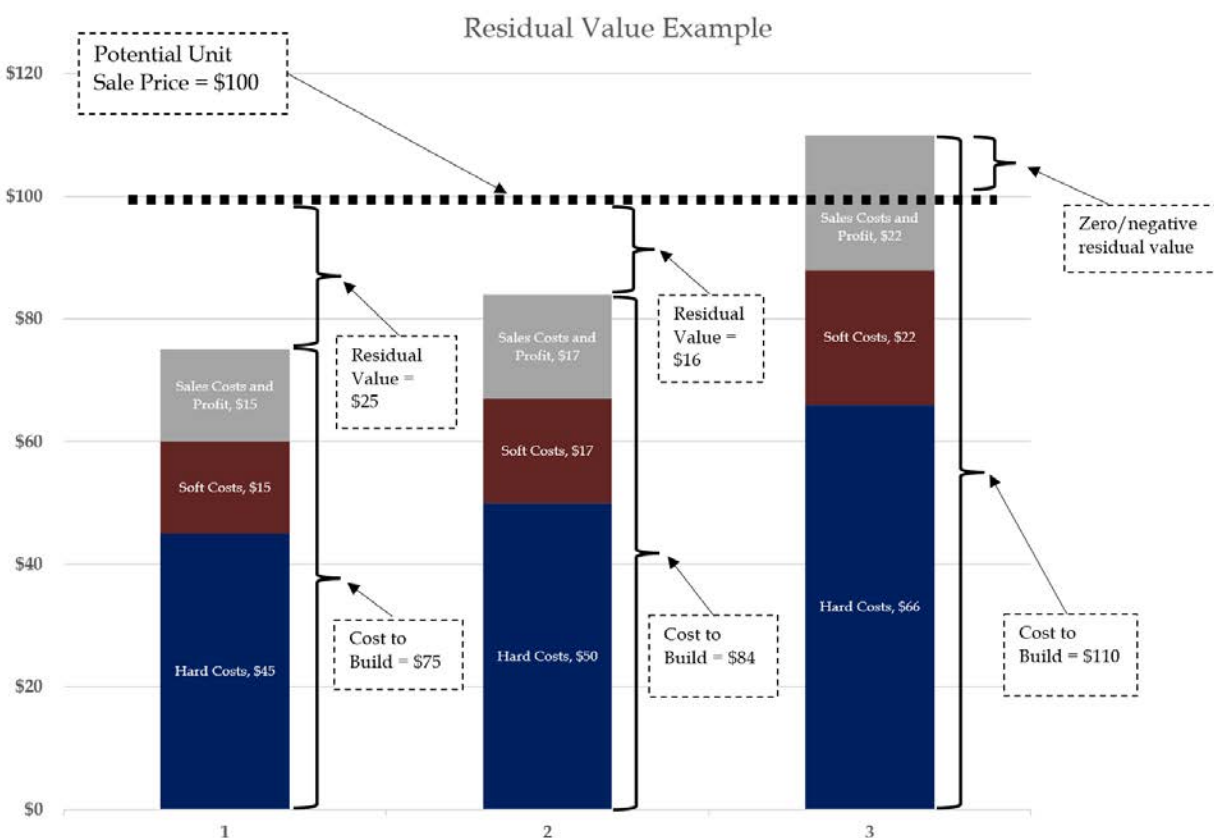
To evaluate the potential feasibility of each prototype, Century | Urban prepared an analysis to estimate each prototype's residual land value and then compared that residual land value to the estimated market price of land in each submarket based on comparable land sale transactions.

The residual land value represents the amount that a developer estimates that it can pay for a development site and still achieve its target return. If the residual land value is greater than the market price of land, then this is an indication that new development projects are feasible, land for development is more likely to transact, and new projects are more likely to be developed. If residual land value is less than the market price of land, then this is an indication that new development projects are not feasible, land for development is less likely to transact, and new projects are less likely to be developed.

The example shown in the chart below demonstrates the concept of residual value for three individual units in three hypothetical projects. In this example, a unit can be sold for \$100. In example 1 (on the left), the hard costs, soft costs and target developer return required to build the unit total \$75. In this case, the remaining "residual land value" is \$100 (sales price) minus \$75 (total development cost, developer return, and sales costs) = \$25 per unit. If the developer were to pay more than \$25 a unit for land, then the total cost to build would exceed \$100 and the



developer would not recover its costs or receive its target return. Therefore, in example 1, new development is likely to occur in a market where land can be purchased for \$25 per unit or less. In example 2, shown in the middle, total development cost, developer return, and sales costs are \$84 and residual land value is \$100 (sales price) minus \$84 = \$16 per unit. This example reflects that as development costs increase, the price a developer can pay for land decreases (from \$25 per unit in example 1 to \$16 per unit in example 2) assuming that sales prices remain constant. In example 3 on the right, the total development cost, developer return, and sales costs of \$110 exceed the sale price per unit, which results in zero or “negative” residual land value. In this scenario, development is unlikely to occur.



Feasibility Results

The conceptual feasibility analysis indicates that none of the prototypes support positive estimated residual land value in any of the submarkets. These results suggest a challenging environment for ground-up residential development projects similar to the prototype projects in the selected submarkets. The conceptual feasibility assumptions and resulting residual land values for each prototype are shown in [Exhibit B](#).



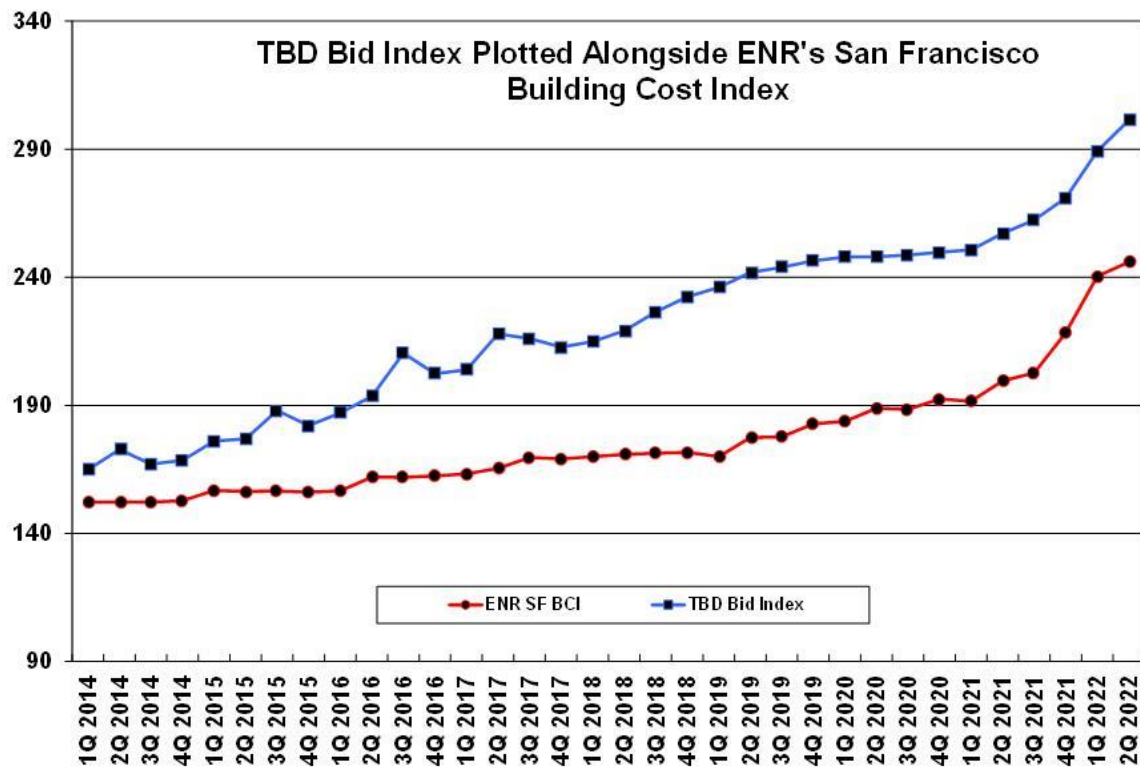
As noted above, the “Waiver” scenarios in the tables below reflect a waiver of 50% of certain construction taxes and 100% of inclusionary in-lieu fees for Type I rental prototypes. The “Type I – Waiver Affordable” scenario in the table below reflects a 5% of total units at 100% AMI onsite affordability requirement, which as mentioned above was only analyzed for the Type I rental prototype in the West submarket.

Residual Values Per Unit - For Rent					
Submarket	South & East	Central	West	North	Downtown
Type V	(\$261,000)	(\$257,000)	NA	NA	NA
Type III	NA	(\$338,000)	(\$216,000)	(\$317,000)	NA
Type I	NA	(\$498,000)	(\$376,000)	(\$476,000)	(\$432,000)
Type I - Waiver	NA	(\$436,000)	(\$314,000)	(\$446,000)	(\$369,000)
Type I - Waiver - Affordable	NA	NA	(\$316,000)	NA	NA

Residual Values Per Unit - For Sale				
Submarket	South & East	Central & West	North	Downtown
Type V	(\$394,000)	(\$307,000)	(\$369,000)	NA
Type I	NA	NA	NA	(\$518,000)
Type I - Waiver	NA	NA	NA	(\$479,000)

Macroeconomic Context

The economy in the San Francisco Bay Area is generally strong and features low unemployment, a large and diverse range of employers, and significant demand for housing by prospective renters and homebuyers at a variety of income levels. Despite these positive forces, housing development remains challenging. One of the primary challenges is the high cost of construction. The Engineering News Record (“ENR”) and TBD Consultants publish indices which track construction costs quarterly in the Bay Area. The chart below shows the change in these indices since 2014. Both indices reflect major increases in cost since 2014 and even more significant increases since 2020. Since 2014, the total increase has been 76%. Between the first quarter of 2020, when the COVID-19 pandemic began, and the second quarter of 2022, the latest available data, TBD estimates an increase of 17%. To some extent, these hard cost increases have been offset by rental rate and sale price growth, but construction cost growth has outpaced rental rate and sale price growth.



Other macro-economic factors have also impacted residential feasibility. Increases in interest rates and borrowing costs driven in part by inflation and corresponding policy reactions have caused a decrease in market transaction volume. In July 2019, Polaris Pacific tracked listings for 1,414 resale condominiums and 804 new construction condominiums in Silicon Valley. In July 2022 there were listings for only 882 resale condominiums and 664 new construction condominiums. In addition, the market values of numerous large publicly-traded Silicon Valley companies have declined significantly since the beginning of the year, affecting household income and wealth, and consequently spending on housing. As of this writing, compared with six months ago, Meta's value is down approximately 29%, Alphabet's value is down 18%, Cisco's value is down 17% and Apple's value is down 4%.

To be clear, the current market for leasing and sales is relatively steady, but potential rental rate and sale price declines due to the factors discussed above and continued construction cost increases may affect investor and developer perceptions regarding the feasibility of new development projects.

Sensitivity Analysis

As previously noted, the assumptions used in the prototype analysis are based on research regarding current development costs, rents, sale prices and underwriting inputs. However, these



assumptions are intended to reflect average projects and may shift over time as market conditions change.

To provide additional context, sensitivities were prepared to analyze the potential effect of 5% variations in hard costs, soft costs, rental rates, and sale prices by construction type. The results of these sensitivity analyses, which are summarized in Exhibit C, indicate that 5% improvements in hard costs, soft costs, rental rates, and sale prices do not bridge the feasibility gap (see below for explanation of how the feasibility gap is calculated) for any of the prototypes.

The feasibility gap amounts shown in the Exhibit C charts represent the sum of the absolute amount of the estimated negative residual land value per unit for each prototype plus the estimated market cost of land per unit for such prototype. For example, the average projected residual land value for the Type V rental prototypes is approximately negative \$270,000 per unit and the estimated market land cost per unit is approximately \$52,500 per unit, so the estimated feasibility gap is approximately \$322,500 per unit for this prototype. In other words, the residual land value for this prototype would have to increase by \$322,500 to yield a residual land value of positive \$52,500 per unit that corresponds to estimated market land costs, thereby indicating a potentially feasible project.

The leftmost column in each chart in Exhibit C shows the average feasibility gap per unit for each rental or sale prototype across all relevant submarkets analyzed for such prototype. The columns to the right of this column show the effect on the average feasibility gap of varying hard costs, soft costs, rental rates or sale prices by 5%. For example, for the first Type V rental prototype chart shown in Exhibit C, a 5% reduction in hard costs would decrease the feasibility gap by \$30,000 from \$310,000 to \$280,000.

An additional sensitivity analysis was prepared to review the potential effect of deferring the payment of development impact fees from the commencement of project construction (i.e., upon building permit issuance) to the completion of construction (i.e., upon certificate of occupancy issuance). The effect of this change in payment timing is projected to range from approximately \$1,000 to \$4,000 per unit depending on the prototype, which does not appear to materially affect feasibility.

Community Review

In connection with the preparation of this analysis, the City invited a group of local developers and a group of local stakeholders to separate virtual meetings to provide feedback regarding draft underwriting assumptions for the feasibility prototypes. Feedback from the meetings was reviewed with the City and is summarized in Exhibit E.



Conclusions

This conceptual analysis reviewed a set of residential development prototypes to assess the potential feasibility of new rental and sale development projects in the City.

The analysis indicates negative estimated residual land values across the reviewed prototypes and suggests that development of residential projects would be challenging in the current market. This conclusion is not intended to suggest that every development project in the City is challenged, as projects may have cost structures or target rental rates or sale prices that vary from the prototypes. However, the results do suggest a challenging development environment for projects similar to the prototypes. Even with 5% variations in development costs or rental rates and sales prices, the prototype projects still appear to be challenged.

**Exhibit A**

Prototype	1	2	3	4	5
Rental/Sale	Rental	Rental	Rental	Sale	Sale
Construction Type	Type V	Type III	Type I	Type V	Type I
Height/Stories	5	7	22	5	22
Avg Unit Size Net SF	900	900	900	1,150	950
Efficiency	80%	80%	78%	80%	78%
Avg Unit Size Gross SF	1,125	1,125	1,154	1,438	1,218
Density/Acre	65	90	350	50	350
Parking Ratio	1.0	1.0	0.8	1.1	1.1
Parking SF Per Stall	400	400	400	400	400
Parking Type	Above-grade	Above-grade	Below-grade	Above-grade	Below-grade
Submarkets	South & East, Central	Central, West, North	Central, West, North, Downtown	South & East, Central & West, North	Downtown

**Exhibit B****San Jose Residential Feasibility Analysis - Exhibit B***Per unit costs rounded to nearest '00; per unit residual values rounded to nearest '000, monthly pro-forma values rounded to nearest '0*

Submarket:	South & East
Prototype:	Type V
Tenure	Rental
Item	Amount
Average Unit Size (Net Rentable SF)	900
Stories	5.00
Density (du/ac)	65
Efficiency	80%
Parking Ratio	1
Construction Months	20
Construction Costs	<i>Per Unit</i>
Hard Costs	
Building Hard Costs	\$442,100
Parking Hard Costs	\$38,800
Contingency/Other Hard Costs	<u>\$24,000</u>
Total Hard Costs	\$505,000
Soft Costs	
Architectural and Engineering	\$30,300
Financing Costs	\$24,200
City Fees and Permits	\$45,300
Other Soft Costs	\$47,200
Soft Cost Contingency	<u>\$7,400</u>
Total Soft Costs	\$154,400
Total Hard and Soft Costs	\$659,400
Pro-Forma	<i>Per Unit</i>
Revenue	
Average Rent Per Square Foot Per Month	\$3.05
Average Rent Per Month	\$2,750
Other Income Per Month	\$170
Vacancy / Credit Loss at 5% Per Month	<u>\$150</u>
Total Revenue Per Month	\$2,770
Operating Expenses	
General Operating Expenses Per Month	\$550
Taxes Per Month	<u>\$470</u>
Total Annual Operating Expenses Per Month	\$1,020
Net Operating Income Per Month	\$1,740
Net Operating Income Per Year	\$20,900
Residual Analysis	<i>Per Unit</i>
Residual Value	
Total Supportable Cost	\$398,000
Total Hard and Soft Costs	<u>\$659,000</u>
Residual Value	(\$261,000)
Feasibility Gap	(\$313,000)
Market Land Cost	
2019-2021 Indicative Land Cost - Low	\$40,000
2019-2021 Indicative Land Cost - High	\$65,000

**San Jose Residential Feasibility Analysis - Exhibit B***Per unit costs rounded to nearest '00; per unit residual values rounded to nearest '000, monthly pro-forma values rounded to nearest '0*

Submarket:	Central
Prototype:	Type V
Tenure	Rental

Item	Amount
Average Unit Size (Net Rentable SF)	900
Stories	5.00
Density (du/ac)	65
Efficiency	80%
Parking Ratio	1
Construction Months	20

Construction Costs	<i>Per Unit</i>
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Hard Costs

Building Hard Costs	\$442,100
Parking Hard Costs	\$38,800
Contingency/Other Hard Costs	<u>\$24,000</u>
Total Hard Costs	\$505,000

Soft Costs

Architectural and Engineering	\$30,300
Financing Costs	\$25,700
City Fees and Permits	\$81,300
Other Soft Costs	\$49,100
Soft Cost Contingency	<u>\$9,300</u>
Total Soft Costs	\$195,800

Total Hard and Soft Costs	\$700,700
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Pro-Forma	<i>Per Unit</i>
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Revenue

Average Rent Per Square Foot Per Month	\$3.35
Average Rent Per Month	\$3,020
Other Income Per Month	\$170
Vacancy / Credit Loss at 5% Per Month	<u>\$160</u>
Total Revenue Per Month	\$3,020

Operating Expenses

General Operating Expenses Per Month	\$560
Taxes Per Month	<u>\$520</u>
Total Annual Operating Expenses Per Month	\$1,080

Net Operating Income Per Month	\$1,940
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Net Operating Income Per Year	\$23,300
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Residual Analysis	<i>Per Unit</i>
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Residual Value

Total Supportable Cost	\$444,000
Total Hard and Soft Costs	<u>\$701,000</u>
Residual Value	(\$257,000)

Feasibility Gap	(\$310,000)
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Market Land Cost

2019-2021 Indicative Land Cost - Low	\$40,000
2019-2021 Indicative Land Cost - High	\$65,000

**San Jose Residential Feasibility Analysis - Exhibit B***Per unit costs rounded to nearest '00; per unit residual values rounded to nearest '000, monthly pro-forma values rounded to nearest '0*

Submarket: Central
Prototype: Type III
Tenure: Rental

Item	Amount
Average Unit Size (Net Rentable SF)	900
Stories	7.00
Density (du/ac)	90
Efficiency	80%
Parking Ratio	1
Construction Months	24

Construction Costs *Per Unit***Hard Costs**

Building Hard Costs	\$502,900
Parking Hard Costs	\$40,400
Contingency/Other Hard Costs	<u>\$27,200</u>
Total Hard Costs	\$570,400

Soft Costs

Architectural and Engineering	\$34,200
Financing Costs	\$33,600
City Fees and Permits	\$80,700
Other Soft Costs	\$52,900
Soft Cost Contingency	<u>\$10,100</u>
Total Soft Costs	\$211,500

Total Hard and Soft Costs \$781,900

Pro-Forma *Per Unit***Revenue**

Average Rent Per Square Foot Per Month	\$3.35
Average Rent Per Month	\$3,020
Other Income Per Month	\$170
Vacancy / Credit Loss at 5% Per Month	<u>\$160</u>
Total Revenue Per Month	\$3,020

Operating Expenses

General Operating Expenses Per Month	\$560
Taxes Per Month	<u>\$520</u>
Total Annual Operating Expenses Per Month	\$1,080

Net Operating Income Per Month \$1,940

Net Operating Income Per Year \$23,300

Residual Analysis *Per Unit***Residual Value**

Total Supportable Cost	\$444,000
Total Hard and Soft Costs	<u>\$782,000</u>
Residual Value	(\$338,000)

Feasibility Gap (\$391,000)

Market Land Cost

2019-2021 Indicative Land Cost - Low	\$40,000
2019-2021 Indicative Land Cost - High	\$65,000

**San Jose Residential Feasibility Analysis - Exhibit B***Per unit costs rounded to nearest '00; per unit residual values rounded to nearest '000, monthly pro-forma values rounded to nearest '0*

Submarket: West
Prototype: Type III
Tenure: Rental

Item	Amount
Average Unit Size (Net Rentable SF)	900
Stories	7.00
Density (du/ac)	90
Efficiency	80%
Parking Ratio	1
Construction Months	24

Construction Costs *Per Unit***Hard Costs**

Building Hard Costs	\$502,900
Parking Hard Costs	\$40,400
Contingency/Other Hard Costs	<u>\$27,200</u>
Total Hard Costs	\$570,400

Soft Costs

Architectural and Engineering	\$34,200
Financing Costs	\$33,500
City Fees and Permits	\$78,100
Other Soft Costs	\$52,800
Soft Cost Contingency	<u>\$9,900</u>
Total Soft Costs	\$208,600

Total Hard and Soft Costs **\$779,000**

Pro-Forma *Per Unit***Revenue**

Average Rent Per Square Foot Per Month	\$4.15
Average Rent Per Month	\$3,740
Other Income Per Month	\$170
Vacancy / Credit Loss at 5% Per Month	<u>\$200</u>
Total Revenue Per Month	\$3,710

Operating Expenses

General Operating Expenses Per Month	\$580
Taxes Per Month	<u>\$670</u>
Total Annual Operating Expenses Per Month	\$1,240

Net Operating Income Per Month **\$2,460**

Net Operating Income Per Year **\$29,600**

Residual Analysis *Per Unit***Residual Value**

Total Supportable Cost	\$563,000
Total Hard and Soft Costs	<u>\$779,000</u>
Residual Value	(\$216,000)

Feasibility Gap **(\$286,000)**

Market Land Cost

2019-2021 Indicative Land Cost - Low	\$65,000
2019-2021 Indicative Land Cost - High	\$75,000

**San Jose Residential Feasibility Analysis - Exhibit B***Per unit costs rounded to nearest '00; per unit residual values rounded to nearest '000, monthly pro-forma values rounded to nearest '0*

Submarket: North
Prototype: Type III
Tenure: Rental

Item	Amount
Average Unit Size (Net Rentable SF)	900
Stories	7.00
Density (du/ac)	90
Efficiency	80%
Parking Ratio	1
Construction Months	24

Construction Costs *Per Unit***Hard Costs**

Building Hard Costs	\$502,900
Parking Hard Costs	\$40,400
Contingency/Other Hard Costs	<u>\$27,200</u>
Total Hard Costs	\$570,400

Soft Costs

Architectural and Engineering	\$34,200
Financing Costs	\$32,400
City Fees and Permits	\$55,700
Other Soft Costs	\$51,500
Soft Cost Contingency	<u>\$8,700</u>
Total Soft Costs	\$182,600

Total Hard and Soft Costs **\$753,000**

Pro-Forma *Per Unit***Revenue**

Average Rent Per Square Foot Per Month	\$3.30
Average Rent Per Month	\$2,970
Other Income Per Month	\$170
Vacancy / Credit Loss at 5% Per Month	<u>\$160</u>
Total Revenue Per Month	\$2,980

Operating Expenses

General Operating Expenses Per Month	\$560
Taxes Per Month	<u>\$520</u>
Total Annual Operating Expenses Per Month	\$1,070

Net Operating Income Per Month **\$1,910**

Net Operating Income Per Year **\$22,900**

Residual Analysis *Per Unit***Residual Value**

Total Supportable Cost	\$436,000
Total Hard and Soft Costs	<u>\$753,000</u>
Residual Value	(\$317,000)

Feasibility Gap **(\$372,000)**

Market Land Cost

2019-2021 Indicative Land Cost - Low	\$25,000
2019-2021 Indicative Land Cost - High	\$85,000

**San Jose Residential Feasibility Analysis - Exhibit B***Per unit costs rounded to nearest '00; per unit residual values rounded to nearest '000, monthly pro-forma values rounded to nearest '0*

Submarket: Central
Prototype: Type I
Tenure: Rental

Item	Amount
Average Unit Size (Net Rentable SF)	900
Stories	22.00
Density (du/ac)	350
Efficiency	78%
Parking Ratio	1
Construction Months	30

Construction Costs *Per Unit***Hard Costs**

Building Hard Costs	\$579,200
Parking Hard Costs	\$76,800
Contingency/Other Hard Costs	<u>\$32,800</u>
Total Hard Costs	\$688,800

Soft Costs

Architectural and Engineering	\$41,300
Financing Costs	\$47,800
City Fees and Permits	\$80,200
Other Soft Costs	\$61,400
Soft Cost Contingency	<u>\$11,500</u>
Total Soft Costs	\$242,300

Total Hard and Soft Costs **\$931,100**

Pro-Forma *Per Unit***Revenue**

Average Rent Per Square Foot Per Month	\$3.35
Average Rent Per Month	\$3,020
Other Income Per Month	\$190
Vacancy / Credit Loss at 5% Per Month	<u>\$160</u>
Total Revenue Per Month	\$3,040

Operating Expenses

General Operating Expenses Per Month	\$630
Taxes Per Month	<u>\$510</u>
Total Annual Operating Expenses Per Month	\$1,150

Net Operating Income Per Month **\$1,890**

Net Operating Income Per Year **\$22,700**

Residual Analysis *Per Unit***Residual Value**

Total Supportable Cost	\$433,000
Total Hard and Soft Costs	<u>\$931,000</u>
Residual Value	(\$498,000)

Feasibility Gap **(\$551,000)**

Market Land Cost

2019-2021 Indicative Land Cost - Low	\$40,000
2019-2021 Indicative Land Cost - High	\$65,000

**San Jose Residential Feasibility Analysis - Exhibit B***Per unit costs rounded to nearest '00; per unit residual values rounded to nearest '000, monthly pro-forma values rounded to nearest '0*

Submarket: Central - Waiver
Prototype: Type I
Tenure: Rental

Item	Amount
Average Unit Size (Net Rentable SF)	900
Stories	22.00
Density (du/ac)	350
Efficiency	78%
Parking Ratio	1
Construction Months	30

Construction Costs *Per Unit***Hard Costs**

Building Hard Costs	\$579,200
Parking Hard Costs	\$76,800
Contingency/Other Hard Costs	<u>\$32,800</u>
Total Hard Costs	\$688,800

Soft Costs

Architectural and Engineering	\$41,300
Financing Costs	\$44,600
City Fees and Permits	\$27,300
Other Soft Costs	\$58,200
Soft Cost Contingency	<u>\$8,600</u>
Total Soft Costs	\$180,100

Total Hard and Soft Costs **\$868,900**

Pro-Forma *Per Unit***Revenue**

Average Rent Per Square Foot Per Month	\$3.35
Average Rent Per Month	\$3,020
Other Income Per Month	\$190
Vacancy / Credit Loss at 5% Per Month	<u>\$160</u>
Total Revenue Per Month	\$3,040

Operating Expenses

General Operating Expenses Per Month	\$630
Taxes Per Month	<u>\$510</u>
Total Annual Operating Expenses Per Month	\$1,150

Net Operating Income Per Month **\$1,890**

Net Operating Income Per Year **\$22,700**

Residual Analysis *Per Unit***Residual Value**

Total Supportable Cost	\$433,000
Total Hard and Soft Costs	<u>\$869,000</u>
Residual Value	(\$436,000)

Feasibility Gap **(\$551,000)**

Market Land Cost

2019-2021 Indicative Land Cost - Low	\$40,000
2019-2021 Indicative Land Cost - High	\$65,000

*Waiver scenarios assume a waiver of inclusionary fees and a 50% reduction in CRMP and B&S Construction Taxes

**San Jose Residential Feasibility Analysis - Exhibit B***Per unit costs rounded to nearest '00; per unit residual values rounded to nearest '000, monthly pro-forma values rounded to nearest '0*

Submarket:	West
Prototype:	Type I
Tenure	Rental

Item	Amount
Average Unit Size (Net Rentable SF)	900
Stories	22.00
Density (du/ac)	350
Efficiency	78%
Parking Ratio	1
Construction Months	30

Construction Costs *Per Unit***Hard Costs**

Building Hard Costs	\$579,200
Parking Hard Costs	\$76,800
Contingency/Other Hard Costs	<u>\$32,800</u>
Total Hard Costs	\$688,800

Soft Costs

Architectural and Engineering	\$41,300
Financing Costs	\$47,700
City Fees and Permits	\$77,700
Other Soft Costs	\$61,200
Soft Cost Contingency	<u>\$11,400</u>
Total Soft Costs	\$239,300

Total Hard and Soft Costs *\$928,100***Pro-Forma** *Per Unit***Revenue**

Average Rent Per Square Foot Per Month	\$4.15
Average Rent Per Month	\$3,740
Other Income Per Month	\$190
Vacancy / Credit Loss at 5% Per Month	<u>\$200</u>
Total Revenue Per Month	\$3,720

Operating Expenses

General Operating Expenses Per Month	\$660
Taxes Per Month	<u>\$650</u>
Total Annual Operating Expenses Per Month	\$1,310

Net Operating Income Per Month *\$2,420***Net Operating Income Per Year** *\$29,000***Residual Analysis** *Per Unit***Residual Value**

Total Supportable Cost	\$552,000
Total Hard and Soft Costs	<u>\$928,000</u>
Residual Value	(\$376,000)

Feasibility Gap *(\$446,000)***Market Land Cost**

2019-2021 Indicative Land Cost - Low	\$65,000
2019-2021 Indicative Land Cost - High	\$75,000

**San Jose Residential Feasibility Analysis - Exhibit B***Per unit costs rounded to nearest '00; per unit residual values rounded to nearest '000, monthly pro-forma values rounded to nearest '0*

Submarket: West - Waiver
Prototype: Type I
Tenure: Rental

Item	Amount
Average Unit Size (Net Rentable SF)	900
Stories	22.00
Density (du/ac)	350
Efficiency	78%
Parking Ratio	1
Construction Months	30

Construction Costs *Per Unit*

Hard Costs

Building Hard Costs	\$579,200
Parking Hard Costs	\$76,800
Contingency/Other Hard Costs	<u>\$32,800</u>
Total Hard Costs	\$688,800

Soft Costs

Architectural and Engineering	\$41,300
Financing Costs	\$44,500
City Fees and Permits	\$24,800
Other Soft Costs	\$58,100
Soft Cost Contingency	<u>\$8,400</u>
Total Soft Costs	\$177,100

Total Hard and Soft Costs **\$865,900**

Pro-Forma *Per Unit*

Revenue

Average Rent Per Square Foot Per Month	\$4.15
Average Rent Per Month	\$3,740
Other Income Per Month	\$190
Vacancy / Credit Loss at 5% Per Month	<u>\$200</u>
Total Revenue Per Month	\$3,720

Operating Expenses

General Operating Expenses Per Month	\$660
Taxes Per Month	<u>\$650</u>
Total Annual Operating Expenses Per Month	\$1,310

Net Operating Income Per Month **\$2,420**

Net Operating Income Per Year **\$29,000**

Residual Analysis *Per Unit*

Residual Value

Total Supportable Cost	\$552,000
Total Hard and Soft Costs	<u>\$866,000</u>
Residual Value	(\$314,000)

Feasibility Gap **(\$446,000)**

Market Land Cost

2019-2021 Indicative Land Cost - Low	\$65,000
2019-2021 Indicative Land Cost - High	\$75,000

*Waiver scenarios assume a waiver of inclusionary fees and a 50% reduction in CRMP and B&S Construction Taxes

**San Jose Residential Feasibility Analysis - Exhibit B***Per unit costs rounded to nearest '00; per unit residual values rounded to nearest '000, monthly pro-forma values rounded to nearest '0*

Submarket: West - Waiver/ Aff
Prototype: Type I
Tenure: Rental

Item	Amount
Average Unit Size (Net Rentable SF)	900
Stories	22.00
Density (du/ac)	350
Efficiency	78%
Parking Ratio	1
Construction Months	30
Construction Costs	<i>Per Unit</i>
Hard Costs	
Building Hard Costs	\$579,200
Parking Hard Costs	\$76,800
Contingency/Other Hard Costs	<u>\$32,800</u>
Total Hard Costs	\$688,800
Soft Costs	
Architectural and Engineering	\$41,300
Financing Costs	\$44,500
City Fees and Permits	\$24,800
Other Soft Costs	\$58,100
Soft Cost Contingency	<u>\$8,400</u>
Total Soft Costs	\$177,100
Total Hard and Soft Costs	\$865,900
Pro-Forma	<i>Per Unit</i>
Revenue	
Average Rent Per Square Foot Per Month	\$4.15
Average Rent Per Month	\$3,720
Other Income Per Month	\$190
Vacancy / Credit Loss at 5% Per Month	<u>\$200</u>
Total Revenue Per Month	\$3,710
Operating Expenses	
General Operating Expenses Per Month	\$660
Taxes Per Month	<u>\$650</u>
Total Annual Operating Expenses Per Month	\$1,310
Net Operating Income Per Month	\$2,410
Net Operating Income Per Year	\$28,900
Residual Analysis	<i>Per Unit</i>
Residual Value	
Total Supportable Cost	\$550,000
Total Hard and Soft Costs	<u>\$866,000</u>
Residual Value	(\$316,000)
Feasibility Gap	(\$446,000)
Market Land Cost	
2019-2021 Indicative Land Cost - Low	\$65,000
2019-2021 Indicative Land Cost - High	\$75,000

*Waiver scenarios assume a waiver of inclusionary fees and a 50% reduction in CRMP and B&S Construction Taxes

**San Jose Residential Feasibility Analysis - Exhibit B***Per unit costs rounded to nearest '00; per unit residual values rounded to nearest '000, monthly pro-forma values rounded to nearest '0*

Submarket:	North
Prototype:	Type I
Tenure	Rental

Item	Amount
Average Unit Size (Net Rentable SF)	900
Stories	22.00
Density (du/ac)	350
Efficiency	78%
Parking Ratio	1
Construction Months	30

Construction Costs *Per Unit***Hard Costs**

Building Hard Costs	\$579,200
Parking Hard Costs	\$76,800
Contingency/Other Hard Costs	<u>\$32,800</u>
Total Hard Costs	\$688,800

Soft Costs

Architectural and Engineering	\$41,300
Financing Costs	\$46,300
City Fees and Permits	\$54,600
Other Soft Costs	\$59,900
Soft Cost Contingency	<u>\$10,100</u>
Total Soft Costs	\$212,100

Total Hard and Soft Costs \$901,000**Pro-Forma** *Per Unit***Revenue**

Average Rent Per Square Foot Per Month	\$3.30
Average Rent Per Month	\$2,970
Other Income Per Month	\$190
Vacancy / Credit Loss at 5% Per Month	<u>\$160</u>
Total Revenue Per Month	\$3,000

Operating Expenses

General Operating Expenses Per Month	\$630
Taxes Per Month	<u>\$500</u>
Total Annual Operating Expenses Per Month	\$1,140

Net Operating Income Per Month \$1,860**Net Operating Income Per Year** \$22,300**Residual Analysis** *Per Unit***Residual Value**

Total Supportable Cost	\$425,000
Total Hard and Soft Costs	<u>\$901,000</u>
Residual Value	(\$476,000)

Feasibility Gap (\$531,000)**Market Land Cost**

2019-2021 Indicative Land Cost - Low	\$25,000
2019-2021 Indicative Land Cost - High	\$85,000

**San Jose Residential Feasibility Analysis - Exhibit B***Per unit costs rounded to nearest '00; per unit residual values rounded to nearest '000, monthly pro-forma values rounded to nearest '0*

Submarket: North - Waiver
Prototype: Type I
Tenure: Rental

Item	Amount
Average Unit Size (Net Rentable SF)	900
Stories	22.00
Density (du/ac)	350
Efficiency	78%
Parking Ratio	1
Construction Months	30

Construction Costs	<i>Per Unit</i>
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Hard Costs

Building Hard Costs	\$579,200
Parking Hard Costs	\$76,800
Contingency/Other Hard Costs	<u>\$32,800</u>
Total Hard Costs	\$688,800

Soft Costs

Architectural and Engineering	\$41,300
Financing Costs	\$44,800
City Fees and Permits	\$29,700
Other Soft Costs	\$58,400
Soft Cost Contingency	<u>\$8,700</u>
Total Soft Costs	\$182,900

Total Hard and Soft Costs	\$871,700
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Pro-Forma	<i>Per Unit</i>
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Revenue

Average Rent Per Square Foot Per Month	\$3.30
Average Rent Per Month	\$2,970
Other Income Per Month	\$190
Vacancy / Credit Loss at 5% Per Month	<u>\$160</u>
Total Revenue Per Month	\$3,000

Operating Expenses

General Operating Expenses Per Month	\$630
Taxes Per Month	<u>\$500</u>
Total Annual Operating Expenses Per Month	\$1,140

Net Operating Income Per Month	\$1,860
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Net Operating Income Per Year	\$22,300
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Residual Analysis	<i>Per Unit</i>
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Residual Value

Total Supportable Cost	\$426,000
Total Hard and Soft Costs	<u>\$872,000</u>
Residual Value	(\$446,000)

Feasibility Gap	(\$531,000)
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Market Land Cost

2019-2021 Indicative Land Cost - Low	\$25,000
2019-2021 Indicative Land Cost - High	\$85,000

*Waiver scenarios assume a waiver of inclusionary fees and a 50% reduction in CRMP and B&S Construction Taxes

**San Jose Residential Feasibility Analysis - Exhibit B***Per unit costs rounded to nearest '00; per unit residual values rounded to nearest '000, monthly pro-forma values rounded to nearest '0*

Submarket: Downtown
Prototype: Type I
Tenure: Rental

Item	Amount
Average Unit Size (Net Rentable SF)	900
Stories	22.00
Density (du/ac)	350
Efficiency	78%
Parking Ratio	1
Construction Months	30

Construction Costs *Per Unit***Hard Costs**

Building Hard Costs	\$579,200
Parking Hard Costs	\$76,800
Contingency/Other Hard Costs	<u>\$32,800</u>
Total Hard Costs	\$688,800

Soft Costs

Architectural and Engineering	\$41,300
Financing Costs	\$47,400
City Fees and Permits	\$74,200
Other Soft Costs	\$61,000
Soft Cost Contingency	<u>\$11,200</u>
Total Soft Costs	\$235,200

Total Hard and Soft Costs **\$924,100**

Pro-Forma *Per Unit***Revenue**

Average Rent Per Square Foot Per Month	\$3.75
Average Rent Per Month	\$3,380
Other Income Per Month	\$190
Vacancy / Credit Loss at 5% Per Month	<u>\$180</u>
Total Revenue Per Month	\$3,380

Operating Expenses

General Operating Expenses Per Month	\$650
Taxes Per Month	<u>\$580</u>
Total Annual Operating Expenses Per Month	\$1,230

Net Operating Income Per Month **\$2,150**

Net Operating Income Per Year **\$25,900**

Residual Analysis *Per Unit***Residual Value**

Total Supportable Cost	\$492,000
Total Hard and Soft Costs	<u>\$924,000</u>
Residual Value	(\$432,000)

Feasibility Gap **(\$487,000)**

Market Land Cost

2019-2021 Indicative Land Cost - Low	\$25,000
2019-2021 Indicative Land Cost - High	\$85,000

**San Jose Residential Feasibility Analysis - Exhibit B***Per unit costs rounded to nearest '00; per unit residual values rounded to nearest '000, monthly pro-forma values rounded to nearest '0*

Submarket: Downtown - Waiver
 Prototype: Type I
 Tenure: Rental

Item	Amount
Average Unit Size (Net Rentable SF)	900
Stories	22.00
Density (du/ac)	350
Efficiency	78%
Parking Ratio	1
Construction Months	30
Construction Costs	<i>Per Unit</i>
<i>Hard Costs</i>	
Building Hard Costs	\$579,200
Parking Hard Costs	\$76,800
Contingency/Other Hard Costs	<u>\$32,800</u>
Total Hard Costs	\$688,800
<i>Soft Costs</i>	
Architectural and Engineering	\$41,300
Financing Costs	\$44,300
City Fees and Permits	\$21,300
Other Soft Costs	\$57,900
Soft Cost Contingency	<u>\$8,200</u>
Total Soft Costs	\$173,000
Total Hard and Soft Costs	\$861,800
Pro-Forma	<i>Per Unit</i>
Revenue	
Average Rent Per Square Foot Per Month	\$3.75
Average Rent Per Month	\$3,380
Other Income Per Month	\$190
Vacancy / Credit Loss at 5% Per Month	<u>\$180</u>
Total Revenue Per Month	\$3,380
Operating Expenses	
General Operating Expenses Per Month	\$650
Taxes Per Month	<u>\$580</u>
Total Annual Operating Expenses Per Month	\$1,230
Net Operating Income Per Month	\$2,150
Net Operating Income Per Year	\$25,900
Residual Analysis	<i>Per Unit</i>
Residual Value	
Total Supportable Cost	\$493,000
Total Hard and Soft Costs	<u>\$862,000</u>
Residual Value	(\$369,000)
Feasibility Gap	(\$424,000)
Market Land Cost	
2019-2021 Indicative Land Cost - Low	\$25,000
2019-2021 Indicative Land Cost - High	\$85,000

*Waiver scenarios assume a waiver of inclusionary fees and a 50% reduction in CRMP and B&S Construction Taxes

**San Jose Residential Feasibility Analysis - Exhibit B***Per unit cost and pro-forma values rounded to nearest '00, per unit residual values rounded to nearest '000*

Submarket:	South & East
Prototype:	Type V
Tenure	Sale
Item	Amount
Average Unit Size (Net Saleable SF)	1,150
Stories	5
Density (du/ac)	50
Efficiency	80%
Parking Ratio	1.1
Construction Months	20
Construction Costs	<i>Per Unit</i>
Hard Costs	
Building Hard Costs	\$603,800
Parking Hard Costs	\$44,000
Contingency/Other Hard Costs	<u>\$32,400</u>
Total Hard Costs	\$680,100
Soft Costs	
Architectural and Engineering	\$40,800
Financing Costs	\$30,300
City Fees and Permits	\$63,800
Other Soft Costs	\$67,100
Soft Cost Contingency	<u>\$10,100</u>
Total Soft Costs	\$212,100
Total Hard and Soft Costs	\$892,300
Pro-Forma	<i>Per Unit</i>
Revenue	
Average Price Per Net Saleable Square Foot	\$585
Average Price	\$672,800
Sales Costs Including Warranty Reserve	\$40,400
Profit	<u>\$134,600</u>
Total Net Supportable Cost	\$497,800
Residual Analysis	<i>Per Unit</i>
Residual Value	
Supportable Cost	\$498,000
Total Hard and Soft Costs	<u>\$892,000</u>
Residual Value	(\$394,000)
Feasibility Gap	(\$447,000)
Market Land Cost	
2019-2021 Indicative Land Cost - Low	\$40,000
2019-2021 Indicative Land Cost - High	\$65,000

**San Jose Residential Feasibility Analysis - Exhibit B***Per unit cost and pro-forma values rounded to nearest '00, per unit residual values rounded to nearest '000*

Submarket:	Central & West
Prototype:	Type V
Tenure	Sale
Item	Amount
Average Unit Size (Net Saleable SF)	1,150
Stories	5
Density (du/ac)	50
Efficiency	80%
Parking Ratio	1.1
Construction Months	20
Construction Costs	<i>Per Unit</i>
Hard Costs	
Building Hard Costs	\$603,800
Parking Hard Costs	\$44,000
Contingency/Other Hard Costs	<u>\$32,400</u>
Total Hard Costs	\$680,100
Soft Costs	
Architectural and Engineering	\$40,800
Financing Costs	\$30,600
City Fees and Permits	\$72,900
Other Soft Costs	\$67,600
Soft Cost Contingency	<u>\$10,600</u>
Total Soft Costs	\$222,500
Total Hard and Soft Costs	\$902,600
Pro-Forma	<i>Per Unit</i>
Revenue	
Average Price Per Net Saleable Square Foot	\$700
Average Price	\$805,000
Sales Costs Including Warranty Reserve	\$48,300
Profit	<u>\$161,000</u>
Total Net Supportable Cost	\$595,700
Residual Analysis	<i>Per Unit</i>
Residual Value	
Supportable Cost	\$596,000
Total Hard and Soft Costs	<u>\$903,000</u>
Residual Value	(\$307,000)
Feasibility Gap	(\$359,000)
Market Land Cost	
2019-2021 Indicative Land Cost - Low	\$40,000
2019-2021 Indicative Land Cost - High	\$65,000

**San Jose Residential Feasibility Analysis - Exhibit B***Per unit cost and pro-forma values rounded to nearest '00, per unit residual values rounded to nearest '000*

Submarket: North
Prototype: Type V
Tenure: Sale

Item	Amount
Average Unit Size (Net Saleable SF)	1,150
Stories	5
Density (du/ac)	50
Efficiency	80%
Parking Ratio	1.1
Construction Months	20

Construction Costs *Per Unit*

Hard Costs

Building Hard Costs	\$603,800
Parking Hard Costs	\$44,000
Contingency/Other Hard Costs	<u>\$32,400</u>
Total Hard Costs	\$680,100

Soft Costs

Architectural and Engineering	\$40,800
Financing Costs	\$30,700
City Fees and Permits	\$74,900
Other Soft Costs	\$67,700
Soft Cost Contingency	<u>\$10,700</u>
Total Soft Costs	\$224,800

Total Hard and Soft Costs \$905,000

Pro-Forma *Per Unit*

Revenue

Average Price Per Net Saleable Square Foot	\$630
Average Price	\$724,500
Sales Costs Including Warranty Reserve	\$43,500
Profit	<u>\$144,900</u>
Total Net Supportable Cost	\$536,100

Residual Analysis *Per Unit*

Residual Value

Supportable Cost	\$536,000
Total Hard and Soft Costs	<u>\$905,000</u>
Residual Value	(\$369,000)

Feasibility Gap (\$424,000)

Market Land Cost

2019-2021 Indicative Land Cost - Low	\$25,000
2019-2021 Indicative Land Cost - High	\$85,000

**San Jose Residential Feasibility Analysis - Exhibit B***Per unit cost and pro-forma values rounded to nearest '00, per unit residual values rounded to nearest '000*

Submarket:	Downtown
Prototype:	Type I
Tenure	Sale
Item	Amount
Average Unit Size (Net Saleable SF)	950
Stories	22
Density (du/ac)	330
Efficiency	78%
Parking Ratio	1.1
Construction Months	30
Construction Costs	<i>Per Unit</i>
Hard Costs	
Building Hard Costs	\$651,600
Parking Hard Costs	\$107,800
Contingency/Other Hard Costs	<u>\$38,000</u>
Total Hard Costs	\$797,400
Soft Costs	
Architectural and Engineering	\$47,800
Financing Costs	\$49,100
City Fees and Permits	\$56,100
Other Soft Costs	\$73,300
Soft Cost Contingency	<u>\$11,300</u>
Total Soft Costs	\$237,600
Total Hard and Soft Costs	\$1,035,000
Pro-Forma	<i>Per Unit</i>
Revenue	
Average Price Per Net Saleable Square Foot	\$725
Average Price	\$688,800
Sales Costs Including Warranty Reserve	\$48,300
Profit	<u>\$123,900</u>
Total Net Supportable Cost	\$516,600
Residual Analysis	<i>Per Unit</i>
Residual Value	
Supportable Cost	\$517,000
Total Hard and Soft Costs	<u>\$1,035,000</u>
Residual Value	(\$518,000)
Feasibility Gap	(\$573,000)
Market Land Cost	
2019-2021 Indicative Land Cost - Low	\$25,000
2019-2021 Indicative Land Cost - High	\$25,000

**San Jose Residential Feasibility Analysis - Exhibit B***Per unit cost and pro-forma values rounded to nearest '00, per unit residual values rounded to nearest '000*

Submarket:	Downtown - Waiver
Prototype:	Type I
Tenure	Sale
Item	Amount
Average Unit Size (Net Saleable SF)	950
Stories	22
Density (du/ac)	330
Efficiency	78%
Parking Ratio	1.1
Construction Months	30
Construction Costs	<i>Per Unit</i>
<i>Hard Costs</i>	
Building Hard Costs	\$651,600
Parking Hard Costs	\$107,800
Contingency/Other Hard Costs	<u>\$38,000</u>
Total Hard Costs	\$797,400
<i>Soft Costs</i>	
Architectural and Engineering	\$47,800
Financing Costs	\$47,200
City Fees and Permits	\$22,000
Other Soft Costs	\$71,300
Soft Cost Contingency	<u>\$9,400</u>
Total Soft Costs	\$197,700
Total Hard and Soft Costs	\$995,100
Pro-Forma	<i>Per Unit</i>
Revenue	
Average Price Per Net Saleable Square Foot	\$725
Average Price	\$688,800
Sales Costs Including Warranty Reserve	\$48,300
Profit	<u>\$123,900</u>
Total Net Supportable Cost	\$516,600
Residual Analysis	<i>Per Unit</i>
Residual Value	
Supportable Cost	\$516,000
Total Hard and Soft Costs	<u>\$995,000</u>
Residual Value	(\$479,000)
Feasibility Gap	(\$573,000)
Market Land Cost	
2019-2021 Indicative Land Cost - Low	\$25,000
2019-2021 Indicative Land Cost - High	\$25,000

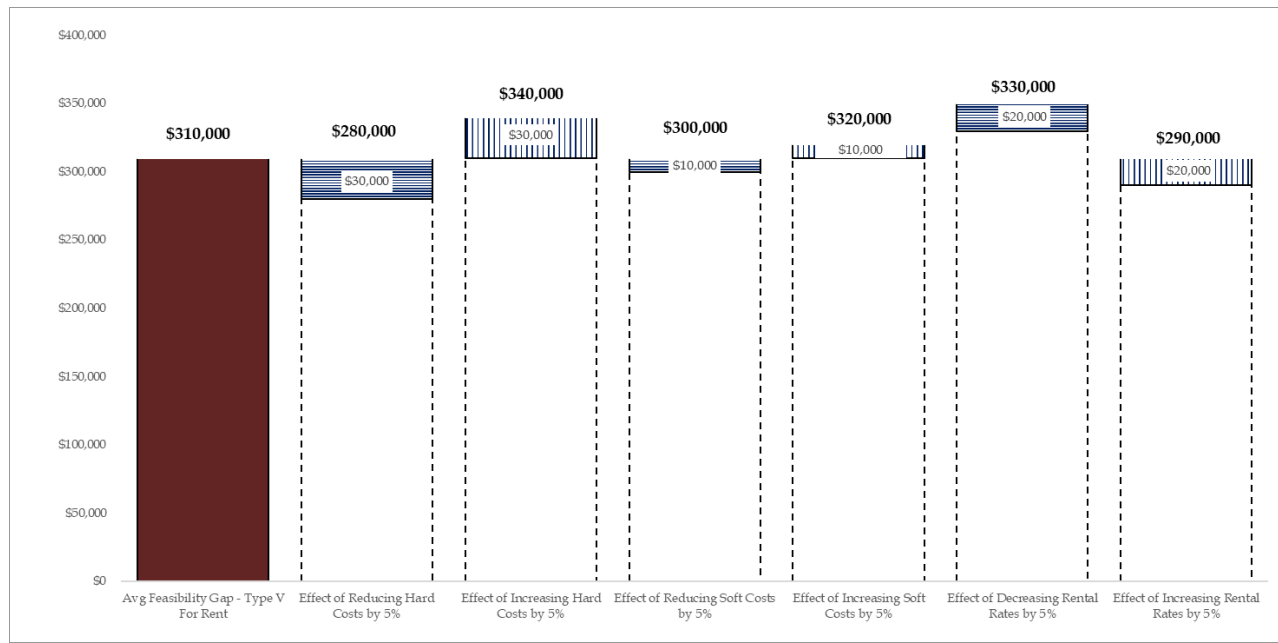
*Waiver scenarios assume a waiver of inclusionary fees and a 50% reduction in CRMP and B&S Construction Taxes



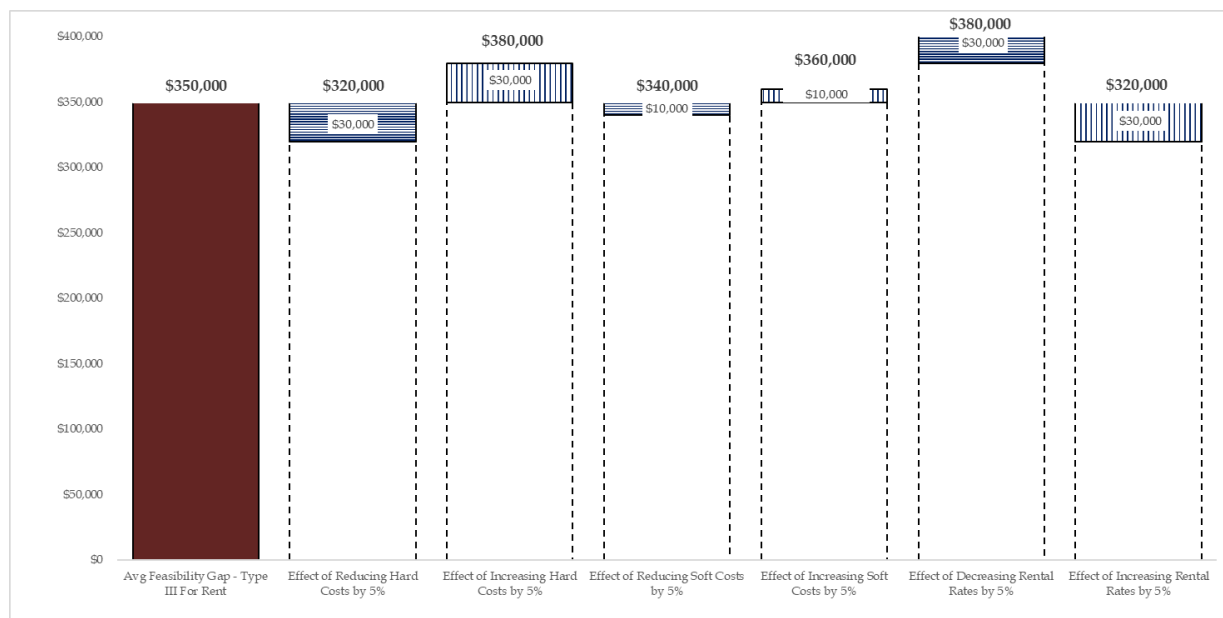
Exhibit C

Effect Per Unit on Feasibility Gap of Varying Hard Costs, Soft Costs, and Rental Rates by 5%

Type V Rental Prototype

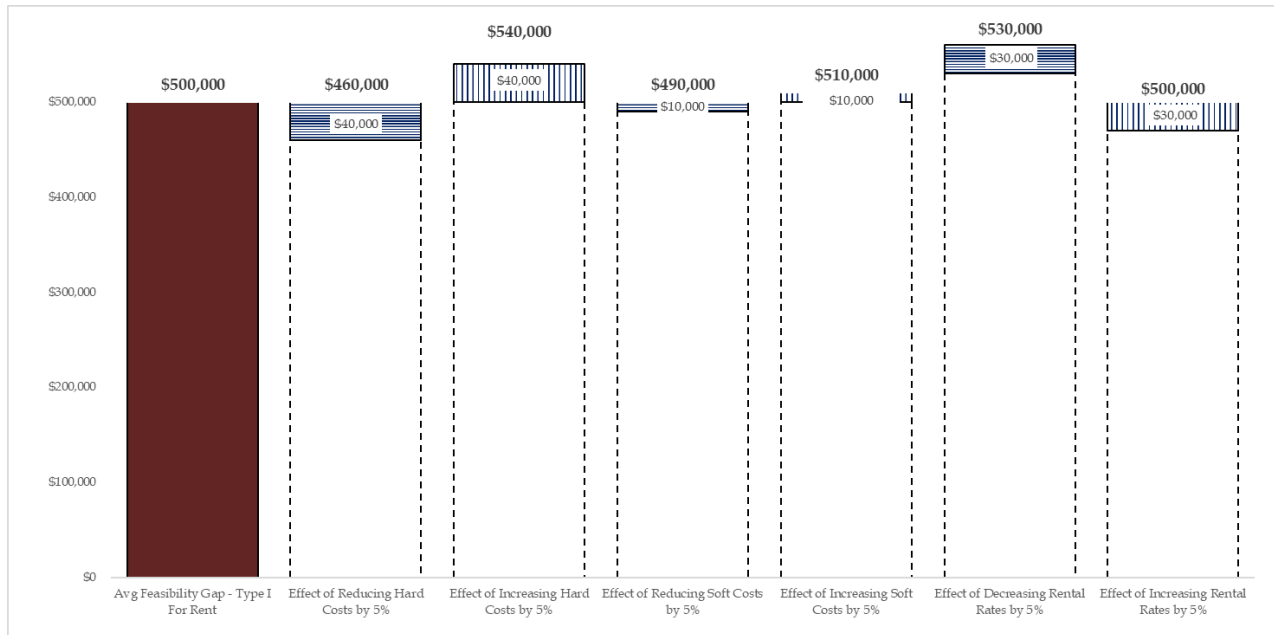


Type III Rental Prototype





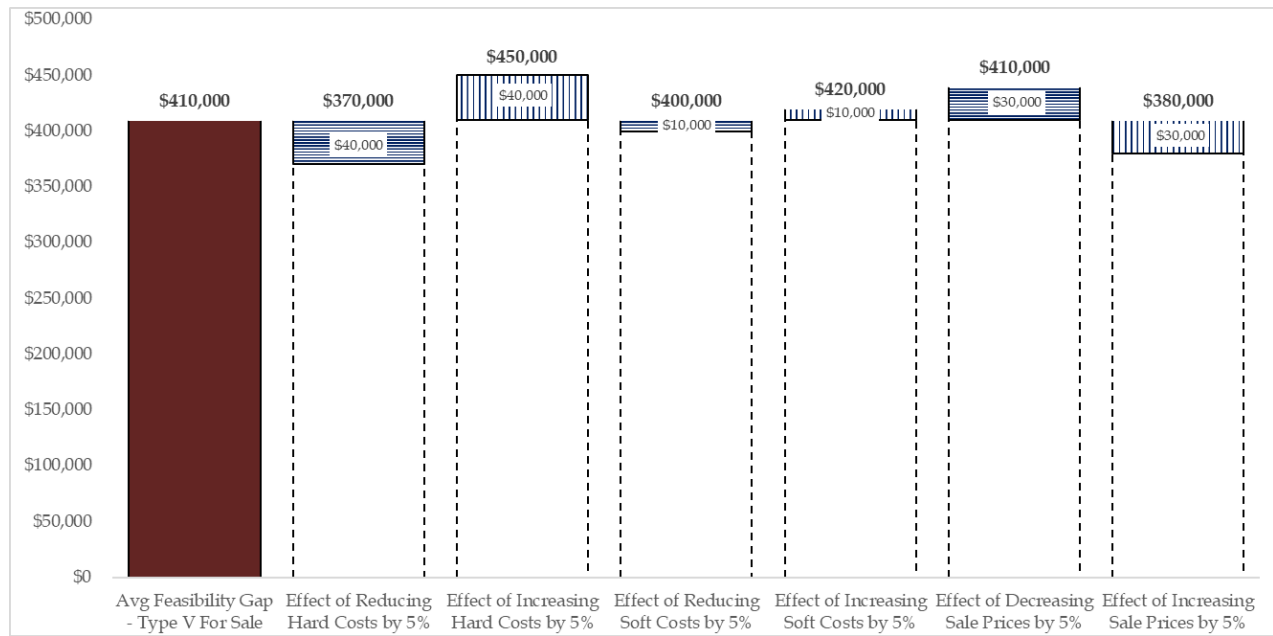
Type I Rental Prototype



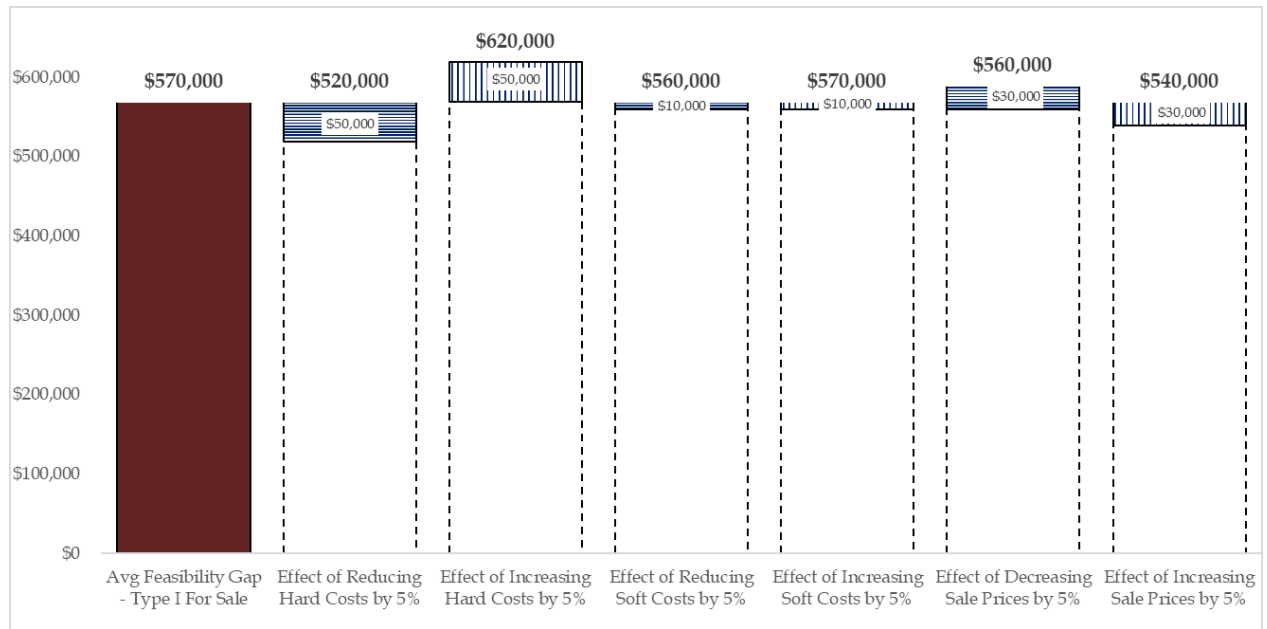


Effect Per Unit on Feasibility Gap of Varying Hard Costs, Soft Costs, and Sale Prices by 5%

Type V Sale Prototype



Type I Sale Prototype



**Exhibit D****Development Costs**

Building Hard Costs Per GSF		<u>Rental</u>	<u>Sale</u>
	Type V	\$393	\$420
	Type III	\$447	NA
	Type I	\$502	\$535
Parking Hard Costs Per GSF		<u>Rental</u>	<u>Sale</u>
<i>Above grade pricing for Type V and Type III, below grade pricing for Type I.</i>	Type V	\$97	\$100
	Type III	\$101	NA
	Type I	\$240	\$245
Hard Cost Contingency		<u>Rental</u>	<u>Sale</u>
		5.00%	5.00%
Entitlement Professional Fees		<u>Rental</u>	<u>Sale</u>
<i>e.g. CEQA-related and pre-entitlement prof. fees City Fees calculated separately</i>	Type V	\$500,000	\$500,000
	Type III	\$500,000	
	Type I	\$1,000,000	\$1,000,000
Post Entitlement A&E / Prof Fees		<u>Rental</u>	<u>Sale</u>
<i>of Hard Costs</i>		6.00%	6.00%
Insurance		<u>Rental</u>	<u>Sale</u>
<i>of Hard Costs</i>		1.00%	1.50%
Developer Fee		<u>Rental</u>	<u>Sale</u>
		4.00%	4.00%
Financing		<u>Rental</u>	<u>Sale</u>
Interest Rate		5.50%	5.50%
Loan to Cost		65.00%	60.00%
Fees		1.00%	1.00%
Soft Cost Contingency		<u>Rental</u>	<u>Sale</u>
		5.00%	5.00%

**Rental Prototype Assumptions**

Market Rent Per Unit / Month	<u>South & East</u>	<u>Central</u>	<u>West</u>	<u>North</u>	<u>Downtown</u>
Type V	\$2,745	\$3,015			
Type III		\$3,015	\$3,735	\$2,970	
Type I		\$3,015	\$3,735	\$2,970	\$3,375

Market Rent Per SF / Month	<u>South & East</u>	<u>Central</u>	<u>West</u>	<u>North</u>	<u>Downtown</u>
Type V	\$3.05	\$3.35			
Type III		\$3.35	\$4.15	\$3.30	
Type I		\$3.35	\$4.15	\$3.30	\$3.75

Other Income Per Unit / Month

<i>(Incl parking)</i> Type V	\$167
Type III	\$167
Type I	\$185

Vacancy/Credit Loss 5.00%

Operating Expenses Per Unit / Month (not including property taxes)

Type V	\$6,596
Type III	\$6,688
Type I	\$7,619

Target Return on Cost

Type V	5.25%
Type III	5.25%
Type I	5.25%

Sale Prototype Assumptions

Market Sale Price PSF	<u>South & East</u>	<u>C, W, N</u>	<u>Downtown</u>
Type V	\$585	\$700	
Type I			\$725

Sales Costs Including Warranty Reserve 5%-6%

Target Profit Margin	<u>South & East</u>	<u>C, W, N</u>	<u>Downtown</u>
Type V	20%	20%	
Type I			20%

**City Permits and Fees - Rental Prototypes***Total fees and per unit fees rounded to nearest '00*

<u>Prototype</u>	<u>Type V</u>	<u>Type V</u>	<u>Type III</u>	<u>Type III</u>	<u>Type III</u>
	<u>South & East</u>	<u>Central</u>	<u>Central</u>	<u>West</u>	<u>North</u>
Residential Value Per GSF	\$120.47	\$120.47	\$120.47	\$120.47	\$120.47
Residential Value Per Unit	\$135,500	\$135,500	\$135,500	\$135,500	\$135,500
Parking Value Per GSF	\$53.83	\$53.83	\$67.97	\$67.97	\$67.97
Parking Value Per Unit	\$21,500	\$21,500	\$27,200	\$27,200	\$27,200
Total Valuation Per Unit	\$157,100	\$157,100	\$162,700	\$162,700	\$162,700
<u>Construction Tax Assumptions</u>					
Building and Structure	1.54% of value				
CRMP	2.42% of value				
Construction Tax	\$75.00 per unit				
Residential Construction Tax	\$90.00 per unit				
SMIPA	0.01% of value				
BSARSF	0.004% of value				
Total Construction Tax Per Unit	\$6,400	\$6,400	\$6,600	\$6,600	\$6,600
Parkland In-Lieu Fees	\$13,100	\$22,600	\$22,600	\$20,800	\$27,700
Parkland Credit	<i>Note 1</i> 25%	25%	25%	25%	25%
Total Parkland In Lieu Fees Per Unit	\$9,800	\$17,000	\$17,000	\$15,600	\$20,800
School Fees Per Residential GSF	\$2.13	\$3.48	\$3.48	\$2.45	\$2.24
School Fees Per Unit	\$2,400	\$3,900	\$3,900	\$2,800	\$2,500
Planning and Building Fees Per Unit	\$5,700	\$5,700	\$4,800	\$4,800	\$4,800
Inclusionary In-Lieu PSF	\$18.70	\$43.00	\$43.00	\$43.00	\$18.70
Inclusionary Fee Per Unit	<i>Note 2</i> \$21,000	\$48,400	\$48,400	\$48,400	\$21,000
Total Permits and Fees Per Unit	\$45,300	\$81,300	\$80,700	\$78,100	\$55,700

Note 1

Adjustment to reflect assumed amount of parkland provided within project.

Note 2

Traffic fees currently being revised

**City Permits and Fees - Rental Prototypes***Total fees and per unit fees rounded to nearest '00*

<u>Prototype</u>	<u>Type I</u>	<u>Type I</u>	<u>Type I</u>	<u>Type I</u>
	<u>Central</u>	<u>West</u>	<u>North</u>	<u>Downtown</u>
Residential Value Per GSF	\$120.47	\$120.47	\$120.47	\$120.47
Residential Value Per Unit	\$139,000	\$139,000	\$139,000	\$139,000
Parking Value Per GSF	\$89.90	\$89.90	\$89.90	\$89.90
Parking Value Per Unit	\$28,800	\$28,800	\$28,800	\$28,800
Total Valuation Per Unit	\$167,800	\$167,800	\$167,800	\$167,800
<u>Construction Tax Assumptions</u>				
Building and Structure	1.54% of value			
CRMP	2.42% of value			
Construction Tax	\$75.00 per unit			
Residential Construction Tax	\$90.00 per unit			
SMIPA	0.01% of value			
BSARSF	0.004% of value			
Waiver Scenario B&S, CRMP Reduction	50% Waiver Scenarios Only			
Total Construction Tax Per Unit	\$6,800	\$6,800	\$6,800	\$6,800
Parkland In-Lieu Fees	\$22,600	\$20,800	\$27,700	\$14,600
Parkland Credit	25%	25%	25%	25%
Total Parkland In Lieu Fees Per Unit	\$17,000	\$15,600	\$20,800	\$11,000
School Fees Per Residential GSF	\$3.48	\$2.45	\$2.24	\$3.48
School Fees Per Unit	\$4,000	\$2,800	\$2,600	\$4,000
Planning and Building Fees Per Unit	\$2,800	\$2,800	\$2,800	\$2,800
Inclusionary In-Lieu PSF	\$43.00	\$43.00	\$18.70	\$43.00
Inclusionary Fee Per Unit	\$49,600	\$49,600	\$21,600	\$49,600
<i>Note: Inclusionary Fees Waived in Waiver Scenarios</i>				
Total Permits and Fees Per Unit	\$80,200	\$77,700	\$54,600	\$74,200

Note 1

Adjustment to reflect assumed amount of parkland provided within project.

Note 2

Traffic fees currently being revised

**City Permits and Fees - Sale Prototypes***Total fees and per unit fees rounded to nearest '00*

<u>Prototype</u>	<u>Type V</u>	<u>Type V</u>	<u>Type V</u>	<u>Type I</u>
	<u>South & East</u>	<u>Central & West</u>	<u>North</u>	<u>Downtown</u>
Residential Value Per GSF	\$120.47	\$120.47	\$120.47	\$120.47
Residential Value Per Unit	\$173,200	\$173,200	\$173,200	\$173,200
Parking Value Per GSF	\$53.83	\$53.83	\$53.83	\$89.90
Parking Value Per Unit	\$23,700	\$23,700	\$23,700	\$23,700
Total Value Per Unit	\$196,900	\$196,900	\$196,900	\$196,900
<u>Construction Taxes</u>				
Building and Structure	1.54% of value			
CRMP	2.42% of value			
Construction Tax	\$75.00 per unit			
Residential Construction Tax	\$90.00 per unit			
SMIPA	0.01% of value			
BSARSF	0.004% of value			
Waiver Scenario B&S, CRMP Reduction	50% Waiver Scenarios Only			
Total Construction Tax Per Unit	\$8,000	\$8,000	\$8,000	\$7,600
Parkland In-Lieu Fees Per Unit	\$13,100	\$22,600	\$27,700	\$14,600
Parkland Fees Credit	25%	25%	25%	25%
Total Parkland In Lieu Fees Per Unit	\$9,800	\$17,000	\$20,800	\$11,000
School Fees Per Residential GSF	\$2.13	\$3.48	\$2.24	\$3.48
School Fees Per Unit	\$3,100	\$5,000	\$3,200	\$4,200
Planning and Building Fees Per Unit	\$7,000	\$7,000	\$7,000	\$2,900
Inclusionary In-Lieu Per GSF	\$25.00	\$25.00	\$25.00	\$25.00
Inclusionary In-Lieu Per Unit <i>Note 2</i>	\$35,900	\$35,900	\$35,900	\$30,400
<i>Note: Inclusionary Fees Waived in Waiver Scenarios</i>				
Total Permits and Fees Per Unit	\$63,800	\$72,900	\$74,900	\$56,100

Note 1

Adjustment to reflect assumed amount of parkland provided within project.

Note 2

Traffic fees currently being revised



Exhibit E

Developer & Stakeholder Feedback

The City invited a group of local developers and a group of local stakeholders to separate virtual meetings to provide feedback regarding draft underwriting assumptions, which had been developed based on the prior analysis, market research and information provided by the City. The following feedback was provided by developers and stakeholders during these meetings. While some topics were mentioned by multiple participants, it was not clear for any given feedback whether the comment was shared by other participants beyond the speaker. Certain changes were made to the analysis as result of the feedback, which are reflected in the analysis described above.

- Type I garages should be more inefficient (e.g., 500 SF per stall)
- Type III projects should have more density – 125 units per acre or even 180+ units per acre downtown
- For Type V construction, only seeing 4-story projects
- Parking ratio for Type V could be higher
- Type III average unit size is currently more like 800 SF instead of 900 SF
- Type I hard costs should be increased by 7-10% (hard cost estimates in general are low).
- Parking costs above grade should be \$60,000-\$70,000 per stall
- Pre-entitlement professional fees should be \$1 million -\$3 million per project
- 6% for professional fees may be high – overall professional fees including entitlement costs for Type III & V projects should be \$20,000-\$24,000 per unit
- A&E costs for for-sale projects should be higher due to liability risk
- Insurance should be modeled at 2-3% of hard costs
- Add 1% mortgage broker fee to upfront financing costs (i.e., resulting in total upfront lender fees of 2.0%)
- 5.5% construction loan interest rate may be high for today's market but probably a good over/under number
- VMT mitigation expenses can be \$2 million for a large project or \$2,000-\$5,000 per unit in certain areas
- 30% parkland credit is too high- should be 20-25%
- There should be less variation on rents between North, Central and Downtown submarkets and other income should be the same for all projects
- Operating expenses for Types III & V projects should be \$2,000 per unit higher than shown – for Type I projects operating expenses should be \$8,500 to \$9,000 per unit
- For-sale condominiums need to be sold at \$1,200 per SF to pencil
- Target return on cost for Type I projects should be 5.25% (i.e., same as Types III & V) instead of 5.0%.



- Capitalization rates for Type III should be same as Type I.
- Downtown land costs should be higher - \$50k per unit or more (e.g., same as West submarket)
- Look at published indexes (e.g., Association of General Contractors, National Homebuilders, California Construction) for potential construction cost data
- Scenarios with mass timber / pre-fabricated modular construction should be considered
- Prototype results should be subject to “ground truthing” – comparing results with data from actual projects. In past, certain projects proceeded even though analysis generally concluded that development was infeasible.
- Can the City utilize numbers from its own projects (separate affordable housing cost study is being prepared)?
- The current market is too volatile and dynamic to make any kind of analysis like this useful
- Assumed 22-story high rise height could be higher
- Please review a white paper on parking ratios
- Align parking ratios with City policy on required minimum parking
- Request for sensitivity analysis on various assumptions (e.g., above- vs. below-grade parking)
- Is this exercise useful for any type of policy making?
- Land costs can vary widely
- Should these analyses consider a commercial FAR requirement?



Exhibit F

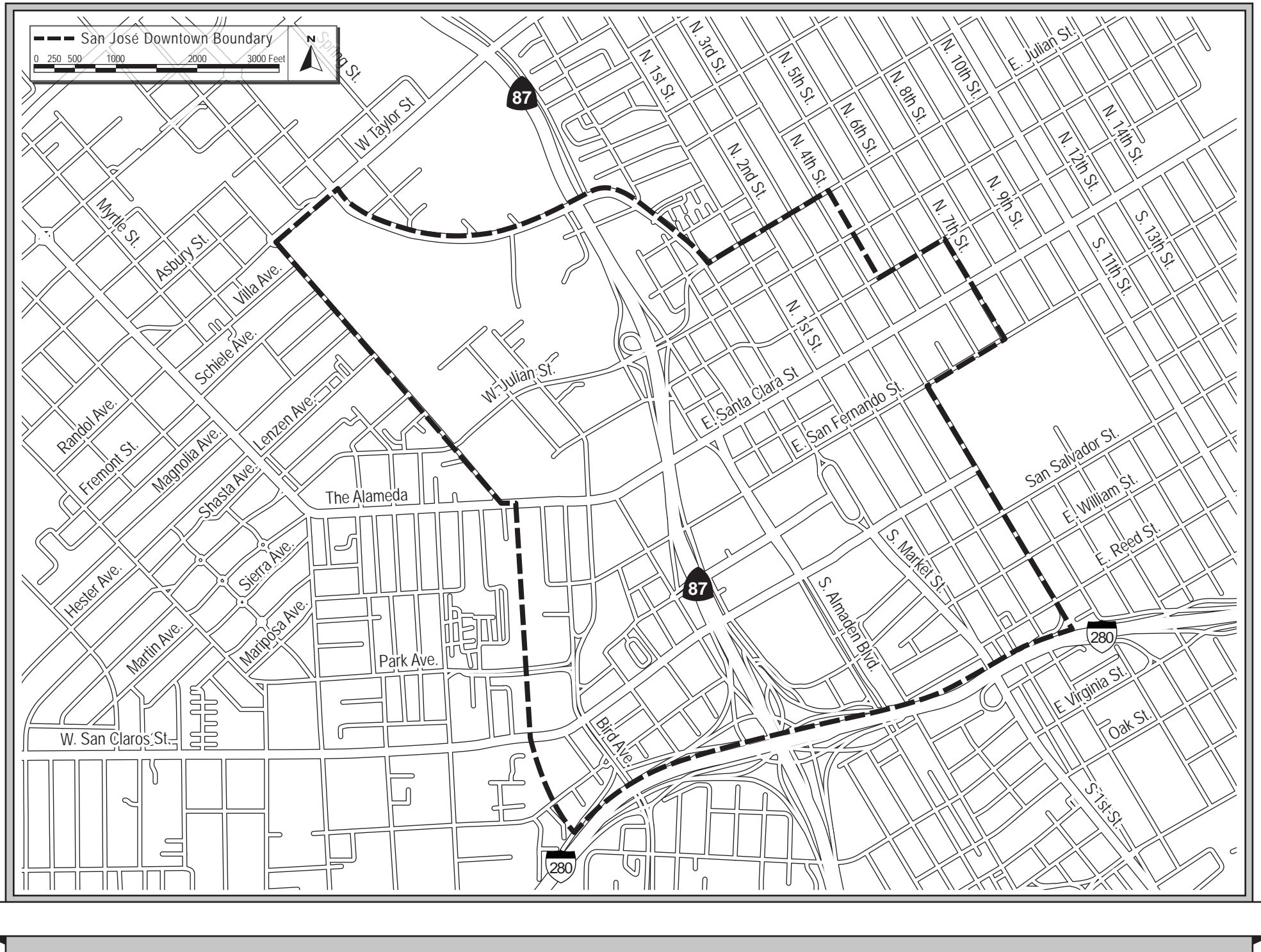
14.10.310 Financially Infeasible.

A fee or tax reduction applied uniformly to all Private Construction Projects within a specified Subcategory of Use is not a Subsidy if the Council determines, in accordance with the requirements of this Section, that construction of the projects is Financially Infeasible.

- A. The Council must make its determination that a fee or tax reduction is not a Subsidy, supported by findings, following a public hearing.
- B. The Council's findings must be supported by evidence presented at the public hearing, including a study analyzing whether construction of the Private Construction Projects within the specified Subcategory of Use is Financially Infeasible.
- C. The financial feasibility study referenced in Subsection B of this Section 14.10.310 must be performed by a consultant qualified to provide real-estate analytic services.
 1. The City will select and retain the consultant using its normal procurement process.
 2. The required consultant study must address the following issues:
 - a. Whether construction of the Private Construction Projects in the specified Subcategory of Use is Financially Infeasible;
 - b. The reason(s) for any conclusion that construction of the Private Construction Projects in the specified Subcategory of Use is Financially Infeasible;
 - c. The anticipated duration of any condition(s) making construction of the Private Construction Projects in the specified Subcategory of Use Financially Infeasible;
 - d. The estimated size of the financial gap between the Private Construction Projects in the specified Subcategory of Use being Financially Infeasible and financially feasible;
 - e. Options for making construction of the Private Construction Projects in the specified Subcategory of Use financially feasible, including the following:
 - i. Providing the proposed fee or tax reduction without requiring the payment of prevailing wages;
 - ii. Providing the proposed fee or tax reduction along with requiring the payment of prevailing wages; and
 - iii. Any additional options, other than the proposed fee or tax reduction, that would make construction of the Private Construction Projects within the specified Subcategory of Use financially feasible, provided that any such options must comply with all applicable laws and regulations, including the City's current general plan.
 3. Consultant's preparation of the required study will include the opportunity for stakeholder input.
 4. The Council will use reasonable efforts to conduct the required public hearing within ninety (90) calendar days following the completion of the study referred to in Subsections B and C of this Section 14.10.310.

(Ord. 30292)

Attachment B - Downtown Planned Growth Area Boundary



Attachment B - Downtown Core Area Boundary

