



Attachment A – Cost of Development by Century | Urban

Century | Urban

Strategic Real Estate Advisory Services

Conceptual Feasibility Analysis

Presented to:

City of San Jose

October 18, 2023



CONCEPTUAL FEASIBILITY ANALYSIS

TO: City of San Jose, Office of Economic Development
FROM: Century Urban, LLC
SUBJECT: Conceptual Feasibility Analysis
DATE: October 18, 2023

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, 2019, and 2022 to provide a perspective on the general development economics of high-density residential development in the current market and to fulfill the requirements of 14.10.310 of the San Jose Municipal Code (see [Legislative Background](#) below for additional detail). The prototypes are analyzed across a range of City submarkets, projects sizes, and construction types, among other factors.

The conceptual analyses’ findings indicate that similar to the findings in 2022, residential development economics are challenging under current market conditions. Since the last analysis was prepared, the cost of construction has continued to increase, while rising interest rates have increased capital costs, along with target returns for achieving feasibility. Rental rates and condominium sale prices have increased since the last analysis, but the magnitude of these increases is insufficient to offset the effect of higher development costs.

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 or more 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 developer, 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 third quarter of 2023. Appropriate assumptions for the prototypes will likely evolve over time as market conditions change.

In 2023, residential real estate markets experienced a significant drop in transaction volume. CBRE projected in its mid-year 2023 that commercial real estate investment volume will drop 37% year over year in 2023, and Green Street Advisors estimated that transaction volume during the second quarter of 2023 was down approximately 50% compared with the same time last year. In some respects, this trend is mirrored in San Jose residential real estate; the City has seen limited new project starts, completions, and sales, as well as limited land sales for new development projects. As a result, certain analysis assumptions such as land prices and target returns are estimated based on the limited available data and incorporate qualitative feedback from market participants.

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 E), 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 construction 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, 2019, and 2022 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 based on its Inclusionary Housing Ordinance Areas (see [Exhibit G](#)) 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 (i.e., net square feet as a percentage of gross square feet) 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 the 2022 analysis.

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 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	Construction Type		Rental	Sale
Low-Rise	Type V		\$438	\$468
Mid-Rise	Type III		\$498	NA
High-Rise	Type I		\$558	\$594

Parking Hard Costs Per GSF				
Size	Type	Parking Type	Rental	Sale
Low-Rise	Type V	Above-grade	\$108	\$112
Mid-Rise	Type III	Above-grade	\$112	NA
High-Rise	Type I	Below-grade	\$267	\$272

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 32% to 40% of hard costs and ranged from approximately \$133 to \$185 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	32%	40%	NA	NA	NA
Mid-Rise	Type III	NA	39%	38%	33%	NA
High-Rise	Type I	NA	37%	37%	32%	36%

¹ Excluding "waiver" scenarios.



Soft Costs as % of Hard Costs - Sale Prototypes

Size	Type	South & East	Central & West	North	Downtown
Low-Rise	Type V	32%	33%	34%	NA
High-Rise	Type I	NA	NA	NA	31%

Average Soft Costs Per GSF

Size	Type	Rental	Sale
Low-Rise	Type V	\$133	\$134
Mid-Rise	Type III	\$153	NA
High-Rise	Type I	\$185	\$168

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 in 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 \$4.55 to \$4.79 per square foot) are assessed per residential gross square foot based on the applicable submarket location and school district.
- The City is continuing to re-examine 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 a portion of 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> Range
Construction Taxes	\$7,900 to \$9,900
Parkland In-Lieu Fees	\$9,800 to \$20,800
School Fees	\$5,100 to \$6,900
Planning/Building Fees	\$3,100 to \$7,700
Inclusionary In-Lieu Fees	\$24,500 to \$57,700
Total Fees	\$53,600 to \$92,800

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, many Class A projects were offering four weeks of free rent in association with a twelve-month lease. As a result, effective rents are generally lower than asking rents.

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. Monthly rental rates are rounded to the nearest \$10.



Rent Per SF/Month	<u>South & East</u>	<u>Central</u>	<u>West</u>	<u>North</u>	<u>Downtown</u>
Type V	\$3.42	\$3.60	NA	NA	NA
Type III	NA	\$3.60	\$4.10	\$3.40	NA
Type I	NA	\$3.60	\$4.10	\$3.40	\$3.87

Rent Per Unit/Month	<u>South & East</u>	<u>Central</u>	<u>West</u>	<u>North</u>	<u>Downtown</u>
Type V	\$3,080	\$3,240	NA	NA	NA
Type III	NA	\$3,240	\$3,690	\$3,060	NA
Type I	NA	\$3,240	\$3,690	\$3,060	\$3,480

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 for Santa Clara County (“AMI”) as determined by the U.S. Department of Housing and Urban Development (“HUD”) with adjustments by the California Department of Health and Community Development (“HCD”). AMI is often used to determine the affordability level of below-market rate housing. For example, very low-income households earn no more than 50% of AMI, and low-income households earn no more than 80% of AMI. Housing affordable to households earning 100% of AMI would generally be considered as targeting moderate-income households. Based on an assumed unit mix, the estimated average affordable rent at this AMI tier was \$4.15 per square foot or \$3,734 per unit per month. This rental rate is higher than the estimated market rate rental rates for all Type I prototype submarkets in the analysis. Accordingly, inclusion of a 5% onsite affordability requirement at 100% AMI would not affect projected revenues and the results of the analysis.

Sales Prices

Estimated sale prices for the for-sale prototypes are based on research regarding sales comparables with adjustments for building age in the prototype submarkets. For preceding period from October 2022 to September 2023, over 900 sales comparables were reviewed. The average sales prices per square foot reflected in these sales comparables are summarized by submarkets in the table below. Similar to rental rates, sales prices vary across submarkets and product types.

Condominium Sales Comparables Prior 12 Months	<u>South & East</u>	<u>Central & West</u>	<u>North</u>	<u>Downtown</u>
Average Sale Price PSF	\$620	\$690	\$690	\$730



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

Average Sales Price PSF	South & East	Central & West	North	Downtown
Type V	\$775	\$725	\$700	NA
Type I	NA	NA	NA	\$775

Average Sales Price Per Unit	South & East	Central & West	North	Downtown
Type V	\$891,250	\$833,750	\$805,000	NA
Type I	NA	NA	NA	\$736,250

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 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 5.75%.

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. There have been limited land sale transactions for multifamily residential developments since the 2022 analysis; as a result, land values are estimated to be the same as the estimated land values in the 2022 analysis.

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

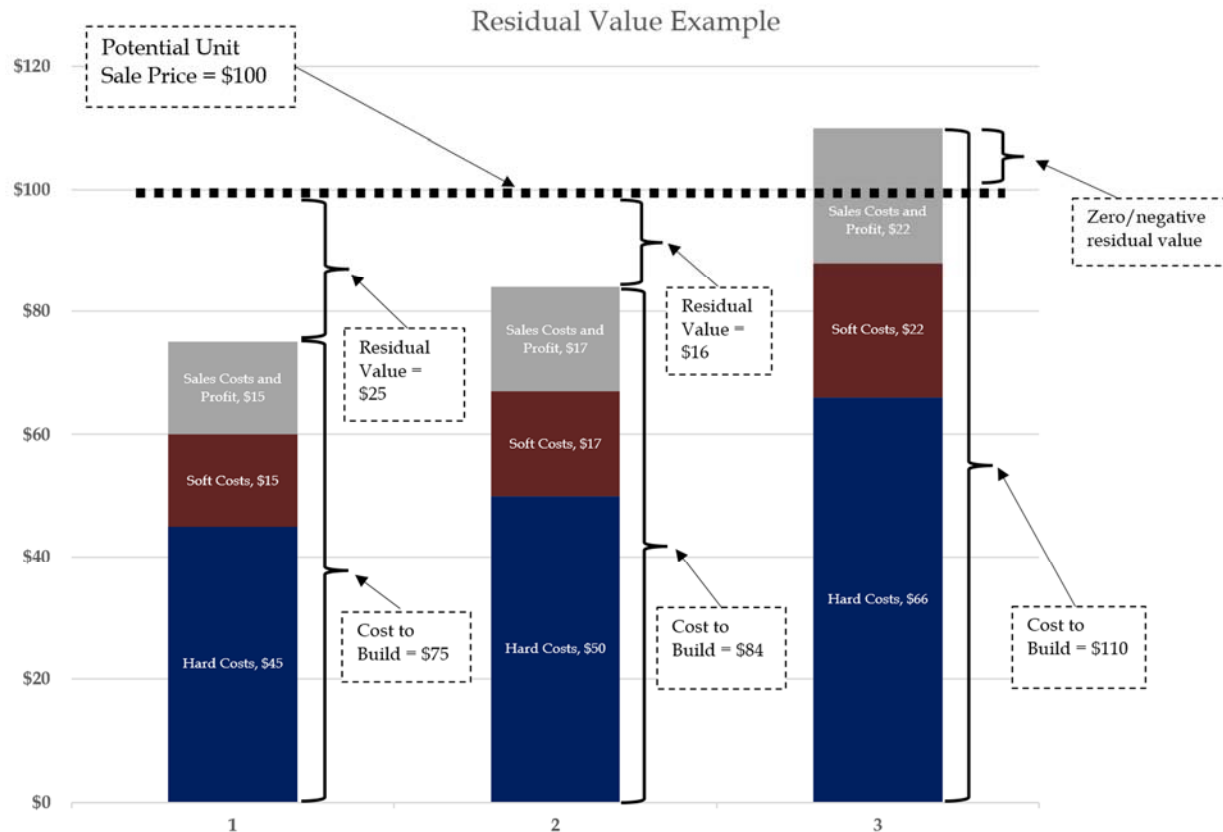
To evaluate the potential feasibility of each prototype, Century | Urban prepared an analysis to estimate each prototype's residual land value and then compared that residual land value to the estimated market price of land in each submarket based on comparable land sale transactions.

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 prototypes.

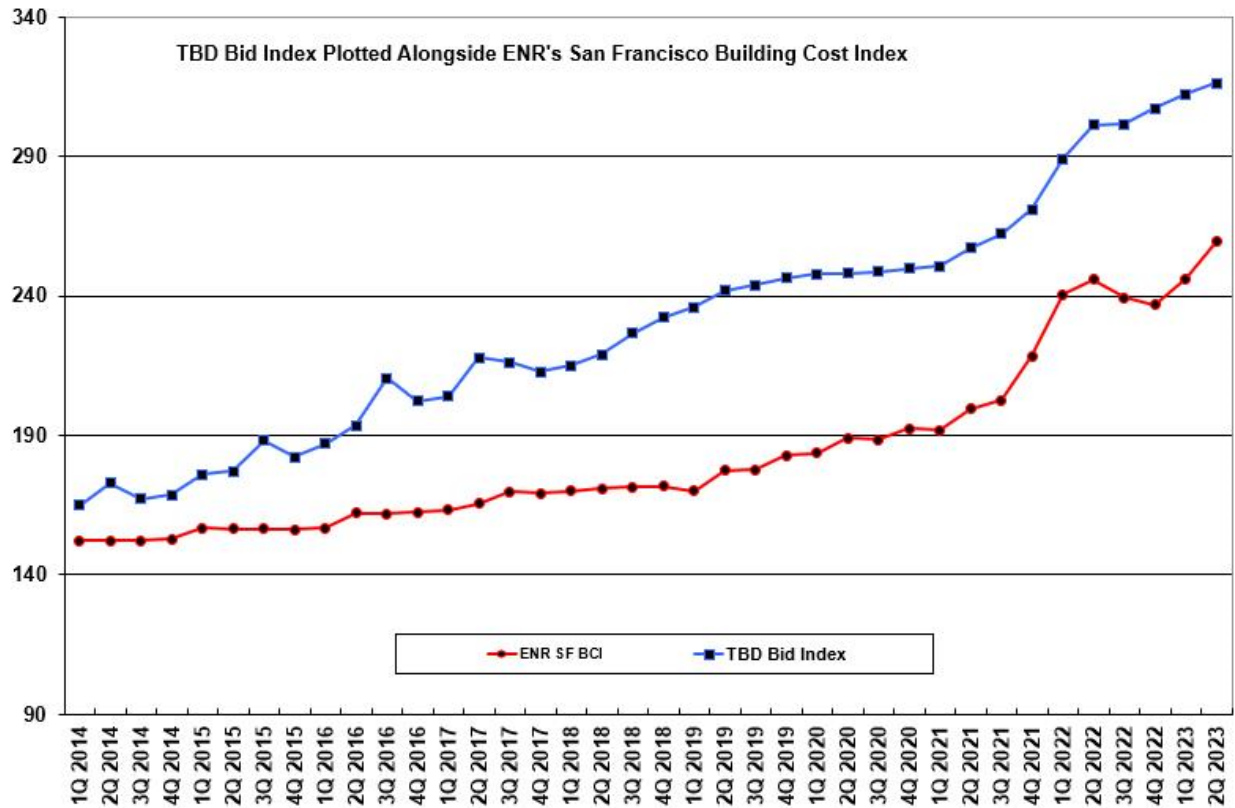


Residual Values Per Unit - For Rent					
Submarket	South & East	Central	West	North	Downtown
Type V	(\$323,000)	(\$343,000)	NA	NA	NA
Type III	NA	(\$435,000)	(\$363,000)	(\$429,000)	NA
Type I	NA	(\$614,000)	(\$542,000)	(\$607,000)	(\$568,000)
Type I - Waiver	NA	(\$540,000)	(\$469,000)	(\$572,000)	(\$495,000)

Residual Values Per Unit - For Sale				
Submarket	South & East	Central & West	North	Downtown
Type V	(\$342,000)	(\$394,000)	(\$419,000)	NA
Type I	NA	NA	NA	(\$611,000)
Type I - Waiver	NA	NA	NA	(\$570,000)

Macroeconomic Context

In general, the Bay Area features a diverse economy with 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. However, even though demand is strong, 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 over 200%. Between the first quarter of 2020, when the COVID-19 pandemic began, and the second quarter of 2023, the latest available data, TBD Consultants estimates an increase of 27%. To a limited 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 over 2,200 condominiums in the active sale inventory in Silicon Valley. In August 2023, there were under 1,500 such listings. During the period from 2015 to 2023, there was an average of 63 new construction sales month. In comparison, new construction sales averaged 35 units per month over the 18-month period from March 2022 to August 2023 and 31 units per month over the 12-month period from September 2022 to August 2023. To a certain extent, these changes can be attributed to the rise in interest rates. Since the writing of last year's report, interest rates for 30 year fixed-rate mortgages have more than doubled, as shown in the following chart from Freddie MAC:



Given continued demand for housing, the market for leasing and sales remains active, but the increased cost of debt, affecting both residential condominium buyers and commercial apartment investors, has, compared with 2022 and previous years, increased debt service payments, putting downward pressure on property prices. In addition, the Federal Reserve has indicated that further rate increases are still likely, adding speculation that further negative asset price movement is possible. These trends, plus increased development costs have negatively affected project feasibility, and made it more difficult for developers to attract lenders and investors to their 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 \$332,000 per unit and the estimated market land cost per unit is approximately \$52,500 per unit, so the estimated feasibility gap is approximately \$384,500 per unit for this prototype (rounded to \$390,000 in Exhibit C). In other words, the residual land value for this prototype would have to increase by \$384,500 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 \$390,000 to \$360,000.

As noted above, City Permits and Fees including construction taxes, parkland in-lieu fees, schools fees, planning and building fees and inclusionary in-lieu fees are estimated to total approximately \$30,000 to \$90,000 per unit depending on the prototype, with the lowest totals being associated with the waiver scenarios. Given feasibility gaps which range from approximately \$370,000 to approximately \$670,000 per unit, a reduction or even waiver of all such fees would not eliminate the estimated feasibility gap.

The estimated feasibility gaps will likely be bridged by improvements in the relationship between development costs and project revenues. In addition, there may be proposed development projects that are closer to feasibility than the prototypes studied for purposes of this analysis, whereby smaller reductions in development costs or improvements in revenues may render such projects feasible.

An additional sensitivity analysis was prepared to estimate 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 \$2,200 to \$5,500 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 held virtual meetings on September 28th and October 12th to review the underwriting assumptions and findings for the feasibility prototypes with stakeholders such as local developers, brokers, and other industry professionals. High-level feedback was provided during the September 28th meeting, and more specific



feedback was provided during the October 12th meeting. A summary of the feedback provided during the October 12th meeting is provided in [Exhibit F](#). With the exception of a few comments regarding estimated development costs being potentially higher than development costs observed by some participants in the meeting, the effect of the feedback provided would be to further increase the estimated feasibility gaps in this analysis.

Conclusion

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

The analysis indicates negative estimated residual land values across the reviewed prototypes and suggests that, similar to the conclusions in 2022, development of residential projects is challenging in the current market. As noted at the beginning of this report, since the time when the 2022 study was prepared, the cost of construction has continued to increase, while rising interest rates have increased capital costs and target returns for achieving feasibility. Rental rates and condominium sale prices have increased since the 2022 analysis, but the amount of these increases is insufficient to offset the effect of higher development costs and target returns.

The conclusion that development of residential projects is challenging in the current market is not intended to suggest that no residential development in the City will occur, as projects may have cost structures or target rental rates or sale prices that vary from the prototypes. However, the results do suggest a difficult 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 *Per Unit***Hard Costs**

Building Hard Costs	\$492,800
Parking Hard Costs	\$43,200
Contingency/Other Hard Costs	<u>\$26,800</u>
Total Hard Costs	\$562,700

Soft Costs

Architectural and Engineering	\$33,800
Financing Costs	\$31,600
City Fees and Permits	\$53,600
Other Soft Costs	\$52,300
Soft Cost Contingency	<u>\$8,600</u>
Total Soft Costs	\$179,800

Total Hard and Soft Costs *\$742,600*

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

Average Rent Per Square Foot Per Month	\$3.42
Average Rent Per Month	\$3,080
Other Income Per Month	\$180
Vacancy / Credit Loss at 5% Per Month	<u>\$160</u>
Total Revenue Per Month	\$3,100

Operating Expenses

General Operating Expenses Per Month	\$590
Taxes Per Month	<u>\$490</u>
Total Annual Operating Expenses Per Month	\$1,080

Net Operating Income Per Month *\$2,010*

Net Operating Income Per Year *\$24,200*

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

Total Supportable Cost	\$420,000
Total Hard and Soft Costs	<u>\$743,000</u>
Residual Value	(\$323,000)

Feasibility Gap *(\$375,000)*

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>
<i>Hard Costs</i>	
Building Hard Costs	\$492,800
Parking Hard Costs	\$43,200
Contingency/Other Hard Costs	<u>\$26,800</u>
Total Hard Costs	\$562,700
<i>Soft Costs</i>	
Architectural and Engineering	\$33,800
Financing Costs	\$33,600
City Fees and Permits	\$92,800
Other Soft Costs	\$54,400
Soft Cost Contingency	<u>\$10,700</u>
Total Soft Costs	\$225,200
Total Hard and Soft Costs	\$787,900
Pro-Forma	<i>Per Unit</i>
Revenue	
Average Rent Per Square Foot Per Month	\$3.60
Average Rent Per Month	\$3,240
Other Income Per Month	\$180
Vacancy / Credit Loss at 5% Per Month	<u>\$170</u>
Total Revenue Per Month	\$3,250
Operating Expenses	
General Operating Expenses Per Month	\$590
Taxes Per Month	<u>\$520</u>
Total Annual Operating Expenses Per Month	\$1,120
Net Operating Income Per Month	\$2,130
Net Operating Income Per Year	\$25,600
Residual Analysis	<i>Per Unit</i>
Residual Value	
Total Supportable Cost	\$445,000
Total Hard and Soft Costs	<u>\$788,000</u>
Residual Value	(\$343,000)
Feasibility Gap	(\$395,000)
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 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	<i>Per Unit</i>
Hard Costs	
Building Hard Costs	\$560,300
Parking Hard Costs	\$44,800
Contingency/Other Hard Costs	<u>\$30,300</u>
Total Hard Costs	\$635,300
Soft Costs	
Architectural and Engineering	\$38,100
Financing Costs	\$44,200
City Fees and Permits	\$92,000
Other Soft Costs	\$58,800
Soft Cost Contingency	<u>\$11,700</u>
Total Soft Costs	\$244,800
Total Hard and Soft Costs	\$880,100
Pro-Forma	<i>Per Unit</i>
Revenue	
Average Rent Per Square Foot Per Month	\$3.60
Average Rent Per Month	\$3,240
Other Income Per Month	\$180
Vacancy / Credit Loss at 5% Per Month	<u>\$170</u>
Total Revenue Per Month	\$3,250
Operating Expenses	
General Operating Expenses Per Month	\$590
Taxes Per Month	<u>\$520</u>
Total Annual Operating Expenses Per Month	\$1,120
Net Operating Income Per Month	\$2,130
Net Operating Income Per Year	\$25,600
Residual Analysis	<i>Per Unit</i>
Residual Value	
Total Supportable Cost	\$445,000
Total Hard and Soft Costs	<u>\$880,000</u>
Residual Value	(\$435,000)
Feasibility Gap	(\$487,000)
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	<i>Per Unit</i>
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Hard Costs

Building Hard Costs	\$560,300
Parking Hard Costs	\$44,800
Contingency/Other Hard Costs	<u>\$30,300</u>
Total Hard Costs	\$635,300

Soft Costs

Architectural and Engineering	\$38,100
Financing Costs	\$44,100
City Fees and Permits	\$90,700
Other Soft Costs	\$58,700
Soft Cost Contingency	<u>\$11,600</u>
Total Soft Costs	\$243,200

Total Hard and Soft Costs	\$878,500
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Pro-Forma	<i>Per Unit</i>
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Revenue

Average Rent Per Square Foot Per Month	\$4.10
Average Rent Per Month	\$3,690
Other Income Per Month	\$180
Vacancy / Credit Loss at 5% Per Month	<u>\$190</u>
Total Revenue Per Month	\$3,680

Operating Expenses

General Operating Expenses Per Month	\$610
Taxes Per Month	<u>\$600</u>
Total Annual Operating Expenses Per Month	\$1,210

Net Operating Income Per Month	\$2,470
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Net Operating Income Per Year	\$29,600
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Residual Analysis	<i>Per Unit</i>
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Residual Value

Total Supportable Cost	\$515,000
Total Hard and Soft Costs	<u>\$878,000</u>
Residual Value	(\$363,000)

Feasibility Gap	(\$434,000)
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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	<i>Per Unit</i>
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Hard Costs

Building Hard Costs	\$560,300
Parking Hard Costs	\$44,800
Contingency/Other Hard Costs	<u>\$30,300</u>
Total Hard Costs	\$635,300

Soft Costs

Architectural and Engineering	\$38,100
Financing Costs	\$42,500
City Fees and Permits	\$64,100
Other Soft Costs	\$57,200
Soft Cost Contingency	<u>\$10,100</u>
Total Soft Costs	\$212,100

Total Hard and Soft Costs	\$847,400
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Pro-Forma	<i>Per Unit</i>
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Revenue

Average Rent Per Square Foot Per Month	\$3.40
Average Rent Per Month	\$3,060
Other Income Per Month	\$180
Vacancy / Credit Loss at 5% Per Month	<u>\$160</u>
Total Revenue Per Month	\$3,080

Operating Expenses

General Operating Expenses Per Month	\$590
Taxes Per Month	<u>\$490</u>
Total Annual Operating Expenses Per Month	\$1,080

Net Operating Income Per Month	\$2,000
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Net Operating Income Per Year	\$24,000
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Residual Analysis	<i>Per Unit</i>
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Residual Value

Total Supportable Cost	\$418,000
Total Hard and Soft Costs	<u>\$847,000</u>
Residual Value	(\$429,000)

Feasibility Gap	(\$485,000)
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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	\$643,800
Parking Hard Costs	\$85,400
Contingency/Other Hard Costs	<u>\$36,500</u>
Total Hard Costs	\$765,800

Soft Costs

Architectural and Engineering	\$45,900
Financing Costs	\$63,600
City Fees and Permits	\$91,700
Other Soft Costs	\$68,300
Soft Cost Contingency	<u>\$13,500</u>
Total Soft Costs	\$283,000

Total Hard and Soft Costs **\$1,048,800**

Pro-Forma *Per Unit*

Revenue

Average Rent Per Square Foot Per Month	\$3.60
Average Rent Per Month	\$3,240
Other Income Per Month	\$200
Vacancy / Credit Loss at 5% Per Month	<u>\$170</u>
Total Revenue Per Month	\$3,270

Operating Expenses

General Operating Expenses Per Month	\$670
Taxes Per Month	<u>\$510</u>
Total Annual Operating Expenses Per Month	\$1,180

Net Operating Income Per Month **\$2,080**

Net Operating Income Per Year **\$25,000**

Residual Analysis *Per Unit*

Residual Value

Total Supportable Cost	\$435,000
Total Hard and Soft Costs	<u>\$1,049,000</u>
Residual Value	(\$614,000)

Feasibility Gap **(\$666,000)**

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	\$643,800
Parking Hard Costs	\$85,400
Contingency/Other Hard Costs	<u>\$36,500</u>
Total Hard Costs	\$765,800

Soft Costs

Architectural and Engineering	\$45,900
Financing Costs	\$59,200
City Fees and Permits	\$29,900
Other Soft Costs	\$64,700
Soft Cost Contingency	<u>\$10,000</u>
Total Soft Costs	\$209,600

Total Hard and Soft Costs **\$975,400**

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

Average Rent Per Square Foot Per Month	\$3.60
Average Rent Per Month	\$3,240
Other Income Per Month	\$200
Vacancy / Credit Loss at 5% Per Month	<u>\$170</u>
Total Revenue Per Month	\$3,270

Operating Expenses

General Operating Expenses Per Month	\$670
Taxes Per Month	<u>\$510</u>
Total Annual Operating Expenses Per Month	\$1,180

Net Operating Income Per Month **\$2,080**

Net Operating Income Per Year **\$25,000**

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

Total Supportable Cost	\$435,000
Total Hard and Soft Costs	<u>\$975,000</u>
Residual Value	(\$540,000)

Feasibility Gap **(\$666,000)**

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	<i>Per Unit</i>
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Hard Costs

Building Hard Costs	\$643,800
Parking Hard Costs	\$85,400
Contingency/Other Hard Costs	<u>\$36,500</u>
Total Hard Costs	\$765,800

Soft Costs

Architectural and Engineering	\$45,900
Financing Costs	\$63,500
City Fees and Permits	\$90,100
Other Soft Costs	\$68,200
Soft Cost Contingency	<u>\$13,400</u>
Total Soft Costs	\$281,100

Total Hard and Soft Costs	\$1,046,800
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Pro-Forma	<i>Per Unit</i>
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Revenue

Average Rent Per Square Foot Per Month	\$4.10
Average Rent Per Month	\$3,690
Other Income Per Month	\$200
Vacancy / Credit Loss at 5% Per Month	<u>\$190</u>
Total Revenue Per Month	\$3,700

Operating Expenses

General Operating Expenses Per Month	\$690
Taxes Per Month	<u>\$590</u>
Total Annual Operating Expenses Per Month	\$1,280

Net Operating Income Per Month	\$2,420
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Net Operating Income Per Year	\$29,000
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Residual Analysis	<i>Per Unit</i>
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Residual Value

Total Supportable Cost	\$505,000
Total Hard and Soft Costs	<u>\$1,047,000</u>
Residual Value	(\$542,000)

Feasibility Gap	(\$612,000)
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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	\$643,800
Parking Hard Costs	\$85,400
Contingency/Other Hard Costs	<u>\$36,500</u>
Total Hard Costs	\$765,800

Soft Costs

Architectural and Engineering	\$45,900
Financing Costs	\$59,100
City Fees and Permits	\$28,400
Other Soft Costs	\$64,600
Soft Cost Contingency	<u>\$9,900</u>
Total Soft Costs	\$207,900

Total Hard and Soft Costs \$973,600

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

Average Rent Per Square Foot Per Month	\$4.10
Average Rent Per Month	\$3,690
Other Income Per Month	\$200
Vacancy / Credit Loss at 5% Per Month	<u>\$190</u>
Total Revenue Per Month	\$3,700

Operating Expenses

General Operating Expenses Per Month	\$690
Taxes Per Month	<u>\$590</u>
Total Annual Operating Expenses Per Month	\$1,280

Net Operating Income Per Month \$2,420

Net Operating Income Per Year \$29,000

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

Total Supportable Cost	\$505,000
Total Hard and Soft Costs	<u>\$974,000</u>
Residual Value	(\$469,000)

Feasibility Gap (\$612,000)

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	<i>Per Unit</i>
Hard Costs	
Building Hard Costs	\$643,800
Parking Hard Costs	\$85,400
Contingency/Other Hard Costs	<u>\$36,500</u>
Total Hard Costs	\$765,800
Soft Costs	
Architectural and Engineering	\$45,900
Financing Costs	\$61,500
City Fees and Permits	\$62,600
Other Soft Costs	\$66,600
Soft Cost Contingency	<u>\$11,800</u>
Total Soft Costs	\$248,500
Total Hard and Soft Costs	\$1,014,300
Pro-Forma	<i>Per Unit</i>
Revenue	
Average Rent Per Square Foot Per Month	\$3.40
Average Rent Per Month	\$3,060
Other Income Per Month	\$200
Vacancy / Credit Loss at 5% Per Month	<u>\$160</u>
Total Revenue Per Month	\$3,100
Operating Expenses	
General Operating Expenses Per Month	\$670
Taxes Per Month	<u>\$480</u>
Total Annual Operating Expenses Per Month	\$1,150
Net Operating Income Per Month	\$1,950
Net Operating Income Per Year	\$23,400
Residual Analysis	<i>Per Unit</i>
Residual Value	
Total Supportable Cost	\$407,000
Total Hard and Soft Costs	<u>\$1,014,000</u>
Residual Value	(\$607,000)
Feasibility Gap	(\$662,000)
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>
Hard Costs	
Building Hard Costs	\$643,800
Parking Hard Costs	\$85,400
Contingency/Other Hard Costs	<u>\$36,500</u>
Total Hard Costs	\$765,800
Soft Costs	
Architectural and Engineering	\$45,900
Financing Costs	\$59,400
City Fees and Permits	\$33,600
Other Soft Costs	\$64,900
Soft Cost Contingency	<u>\$10,200</u>
Total Soft Costs	\$214,000
Total Hard and Soft Costs	\$979,800
Pro-Forma	<i>Per Unit</i>
Revenue	
Average Rent Per Square Foot Per Month	\$3.40
Average Rent Per Month	\$3,060
Other Income Per Month	\$200
Vacancy / Credit Loss at 5% Per Month	<u>\$160</u>
Total Revenue Per Month	\$3,100
Operating Expenses	
General Operating Expenses Per Month	\$670
Taxes Per Month	<u>\$480</u>
Total Annual Operating Expenses Per Month	\$1,150
Net Operating Income Per Month	\$1,950
Net Operating Income Per Year	\$23,400
Residual Analysis	<i>Per Unit</i>
Residual Value	
Total Supportable Cost	\$408,000
Total Hard and Soft Costs	<u>\$980,000</u>
Residual Value	(\$572,000)
Feasibility Gap	(\$662,000)
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 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	<i>Per Unit</i>
Hard Costs	
Building Hard Costs	\$643,800
Parking Hard Costs	\$85,400
Contingency/Other Hard Costs	<u>\$36,500</u>
Total Hard Costs	\$765,800
Soft Costs	
Architectural and Engineering	\$45,900
Financing Costs	\$63,200
City Fees and Permits	\$85,400
Other Soft Costs	\$67,900
Soft Cost Contingency	<u>\$13,100</u>
Total Soft Costs	\$275,600
Total Hard and Soft Costs	\$1,041,300
Pro-Forma	<i>Per Unit</i>
Revenue	
Average Rent Per Square Foot Per Month	\$3.87
Average Rent Per Month	\$3,480
Other Income Per Month	\$200
Vacancy / Credit Loss at 5% Per Month	<u>\$180</u>
Total Revenue Per Month	\$3,500
Operating Expenses	
General Operating Expenses Per Month	\$680
Taxes Per Month	<u>\$550</u>
Total Annual Operating Expenses Per Month	\$1,230
Net Operating Income Per Month	\$2,260
Net Operating Income Per Year	\$27,200
Residual Analysis	<i>Per Unit</i>
Residual Value	
Total Supportable Cost	\$473,000
Total Hard and Soft Costs	<u>\$1,041,000</u>
Residual Value	(\$568,000)
Feasibility Gap	(\$624,000)
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 *Per Unit***Hard Costs**

Building Hard Costs	\$643,800
Parking Hard Costs	\$85,400
Contingency/Other Hard Costs	<u>\$36,500</u>
Total Hard Costs	\$765,800

Soft Costs

Architectural and Engineering	\$45,900
Financing Costs	\$58,700
City Fees and Permits	\$23,700
Other Soft Costs	\$64,300
Soft Cost Contingency	<u>\$9,600</u>
Total Soft Costs	\$202,300

Total Hard and Soft Costs **\$968,100**

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

Average Rent Per Square Foot Per Month	\$3.87
Average Rent Per Month	\$3,480
Other Income Per Month	\$200
Vacancy / Credit Loss at 5% Per Month	<u>\$180</u>
Total Revenue Per Month	\$3,500

Operating Expenses

General Operating Expenses Per Month	\$680
Taxes Per Month	<u>\$550</u>
Total Annual Operating Expenses Per Month	\$1,230

Net Operating Income Per Month **\$2,260**

Net Operating Income Per Year **\$27,200**

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

Total Supportable Cost	\$473,000
Total Hard and Soft Costs	<u>\$968,000</u>
Residual Value	(\$495,000)

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

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	\$672,800
Parking Hard Costs	\$49,300
Contingency/Other Hard Costs	<u>\$36,100</u>
Total Hard Costs	\$758,100
Soft Costs	
Architectural and Engineering	\$45,500
Financing Costs	\$42,700
City Fees and Permits	\$69,900
Other Soft Costs	\$74,200
Soft Cost Contingency	<u>\$11,600</u>
Total Soft Costs	\$243,900
Total Hard and Soft Costs	\$1,002,000
Pro-Forma	<i>Per Unit</i>
Revenue	
Average Price Per Net Saleable Square Foot	\$775
Average Price	\$891,300
Sales Costs Including Warranty Reserve	\$53,500
Profit	<u>\$178,300</u>
Total Net Supportable Cost	\$659,500
Residual Analysis	<i>Per Unit</i>
Residual Value	
Supportable Cost	\$660,000
Total Hard and Soft Costs	<u>\$1,002,000</u>
Residual Value	(\$342,000)
Feasibility Gap	(\$395,000)
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	\$672,800
Parking Hard Costs	\$49,300
Contingency/Other Hard Costs	<u>\$36,100</u>
Total Hard Costs	\$758,100
Soft Costs	
Architectural and Engineering	\$45,500
Financing Costs	\$43,000
City Fees and Permits	\$77,400
Other Soft Costs	\$74,600
Soft Cost Contingency	<u>\$12,000</u>
Total Soft Costs	\$252,500
Total Hard and Soft Costs	\$1,010,700
Pro-Forma	<i>Per Unit</i>
Revenue	
Average Price Per Net Saleable Square Foot	\$725
Average Price	\$833,800
Sales Costs Including Warranty Reserve	\$50,000
Profit	<u>\$166,800</u>
Total Net Supportable Cost	\$617,000
Residual Analysis	<i>Per Unit</i>
Residual Value	
Supportable Cost	\$617,000
Total Hard and Soft Costs	<u>\$1,011,000</u>
Residual Value	(\$394,000)
Feasibility Gap	(\$446,000)
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	\$672,800
Parking Hard Costs	\$49,300
Contingency/Other Hard Costs	<u>\$36,100</u>
Total Hard Costs	\$758,100

Soft Costs

Architectural and Engineering	\$45,500
Financing Costs	\$43,200
City Fees and Permits	\$81,200
Other Soft Costs	\$74,800
Soft Cost Contingency	<u>\$12,200</u>
Total Soft Costs	\$257,000

Total Hard and Soft Costs **\$1,015,100**

Pro-Forma *Per Unit*

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 *Per Unit*

Residual Value

Supportable Cost	\$596,000
Total Hard and Soft Costs	<u>\$1,015,000</u>
Residual Value	(\$419,000)

Feasibility Gap **(\$474,000)**

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	\$723,500
Parking Hard Costs	\$119,700
Contingency/Other Hard Costs	<u>\$42,200</u>
Total Hard Costs	\$885,300
Soft Costs	
Architectural and Engineering	\$53,100
Financing Costs	\$70,500
City Fees and Permits	\$59,800
Other Soft Costs	\$81,200
Soft Cost Contingency	<u>\$13,200</u>
Total Soft Costs	\$277,900
Total Hard and Soft Costs	\$1,163,200
Pro-Forma	<i>Per Unit</i>
Revenue	
Average Price Per Net Saleable Square Foot	\$775
Average Price	\$736,300
Sales Costs Including Warranty Reserve	\$50,000
Profit	<u>\$134,000</u>
Total Net Supportable Cost	\$552,200
Residual Analysis	<i>Per Unit</i>
Residual Value	
Supportable Cost	\$552,000
Total Hard and Soft Costs	<u>\$1,163,000</u>
Residual Value	(\$611,000)
Feasibility Gap	(\$666,000)
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 *Per Unit***Hard Costs**

Building Hard Costs	\$723,500
Parking Hard Costs	\$119,700
Contingency/Other Hard Costs	<u>\$42,200</u>
Total Hard Costs	\$885,300

Soft Costs

Architectural and Engineering	\$53,100
Financing Costs	\$68,000
City Fees and Permits	\$24,800
Other Soft Costs	\$79,100
Soft Cost Contingency	<u>\$11,300</u>
Total Soft Costs	\$236,300

Total Hard and Soft Costs **\$1,121,600**

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

Average Price Per Net Saleable Square Foot	\$775
Average Price	\$736,300
Sales Costs Including Warranty Reserve	\$50,000
Profit	<u>\$134,000</u>
Total Net Supportable Cost	\$552,200

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

Supportable Cost	\$552,000
Total Hard and Soft Costs	<u>\$1,122,000</u>
Residual Value	(\$570,000)

Feasibility Gap **(\$666,000)**

Market Land Cost

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

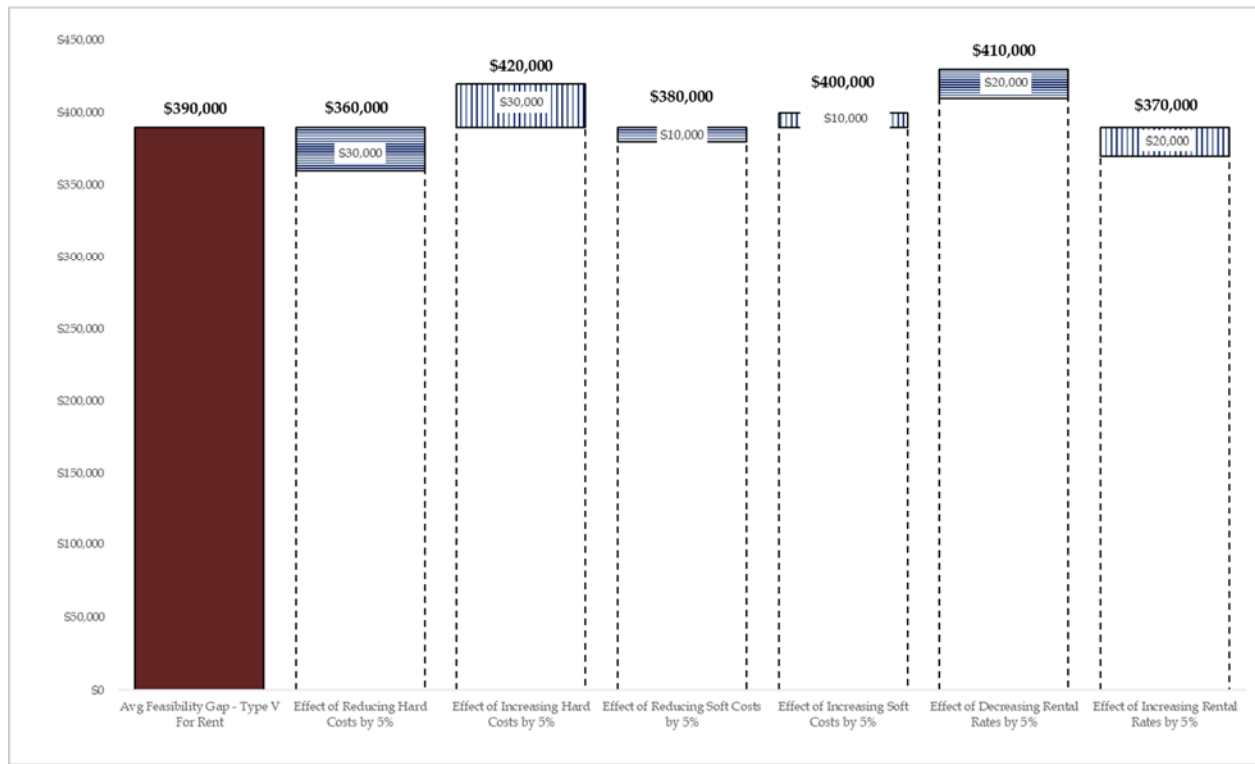
*Waiver scenarios assume a waiver of inclusionary fees and a 50% reduction in CRMP and B&S Construction Taxes



Exhibit C

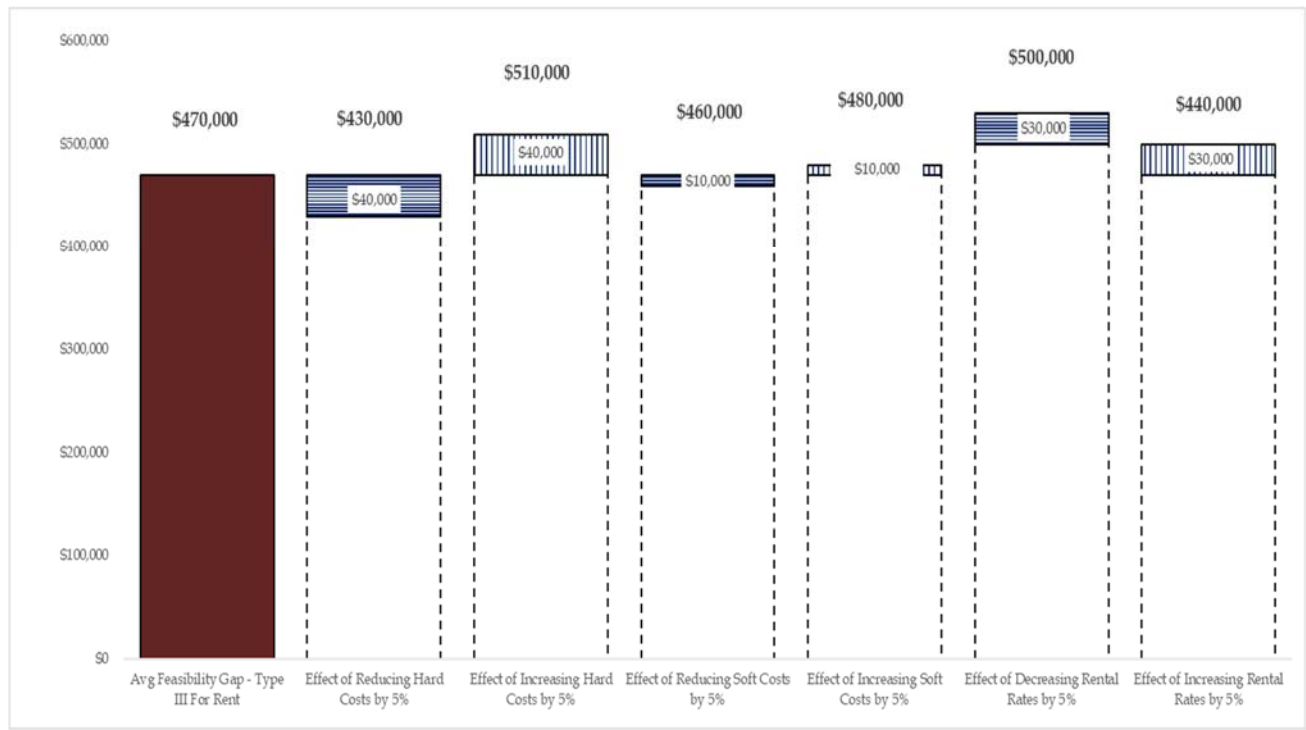
Effect Per Unit on Feasibility Gap of Varying Hard Costs, Soft Costs, and Rental Rates by 5%

Type V Rental Prototype



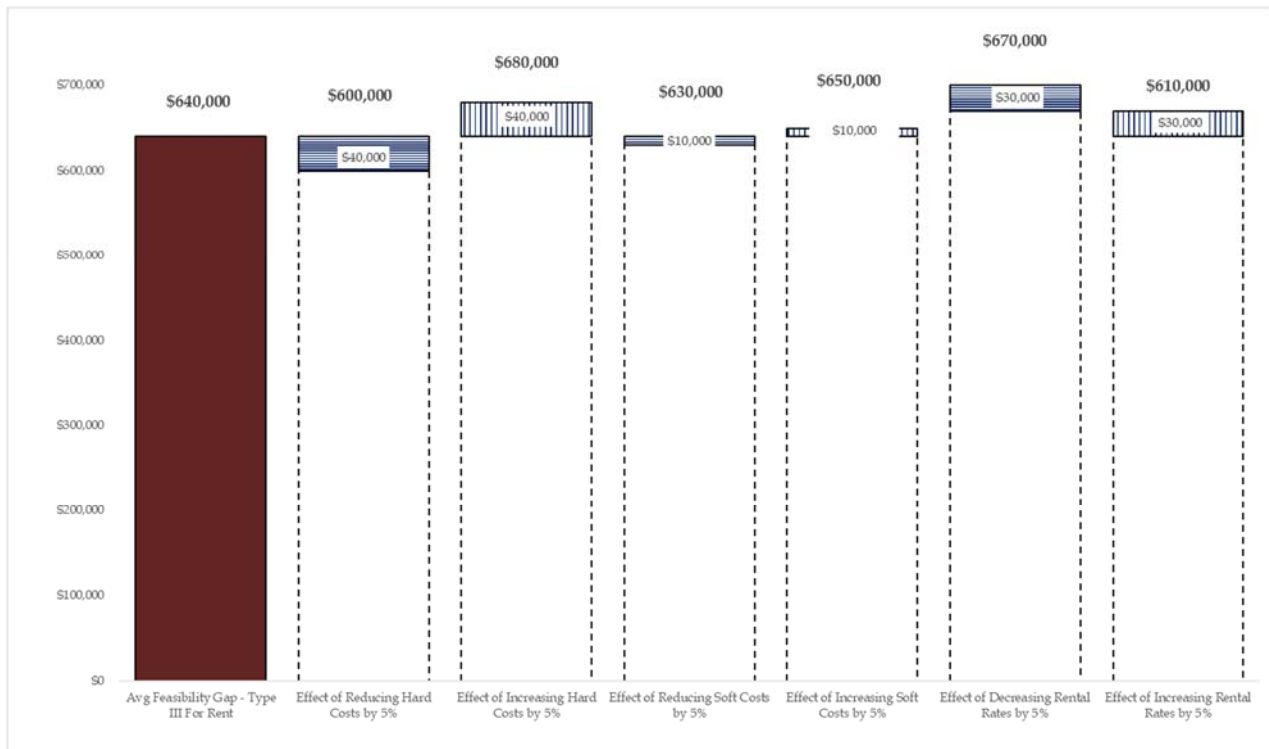


Type III Rental Prototype





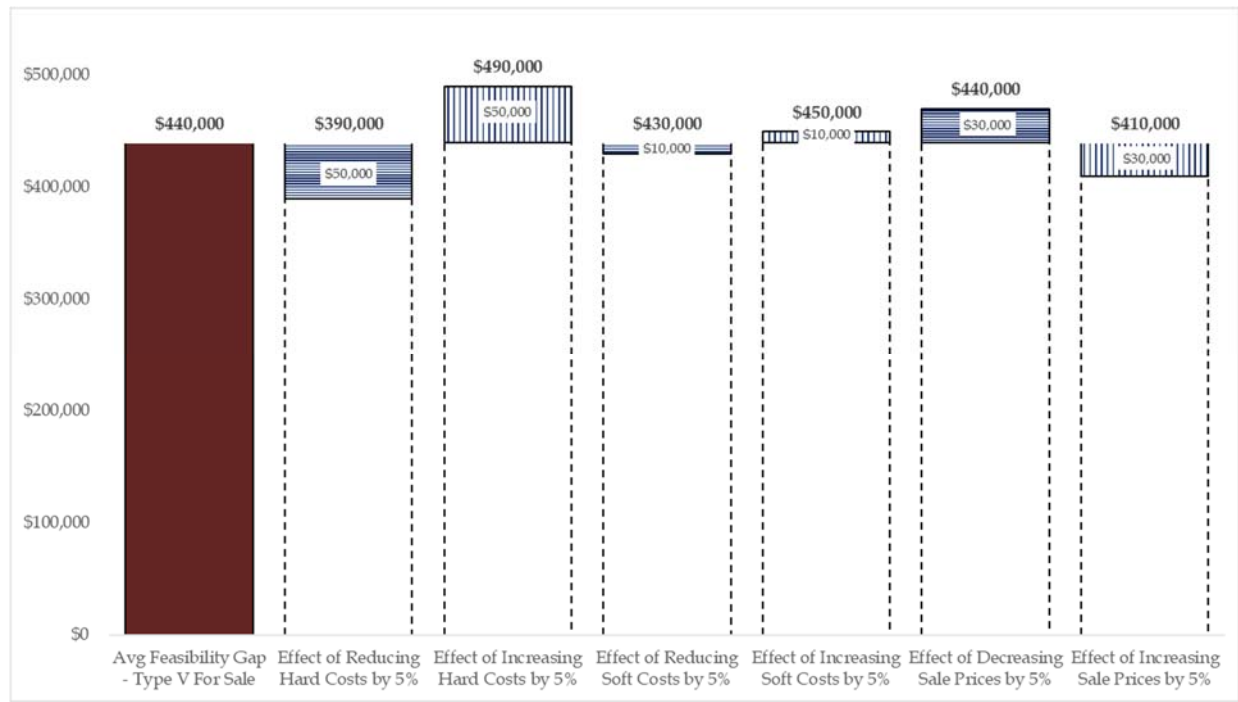
Type I Rental Prototype



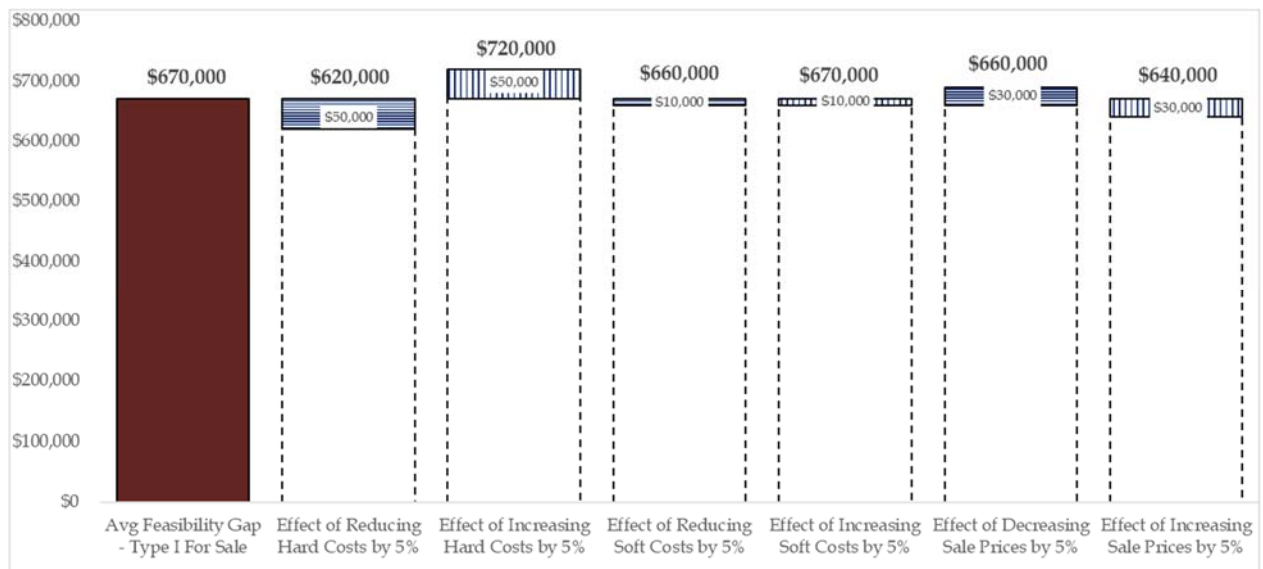


Effect Per Unit on Feasibility Gap of Varying Hard Costs, Soft Costs, and Sale Prices by 5%

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	\$438	\$468
	Type III	\$498	NA
	Type I	\$558	\$594
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	\$108	\$112
	Type III	\$112	NA
	Type I	\$267	\$272
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 professional fees City Fees calculated separately</i>	Type V	\$531,000	\$531,000
	Type III	\$531,000	
	Type I	\$1,062,000	\$1,062,000
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		8.00%	8.00%
Loan to Cost		55.00%	55.00%
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	\$3,080	\$3,240			
Type III		\$3,240	\$3,690	\$3,060	
Type I		\$3,240	\$3,690	\$3,060	\$3,480

Market Rent Per SF / Month	<u>South & East</u>	<u>Central</u>	<u>West</u>	<u>North</u>	<u>Downtown</u>
Type V	\$3.42	\$3.60			
Type III		\$3.60	\$4.10	\$3.40	
Type I		\$3.60	\$4.10	\$3.40	\$3.87

Other Income Per Unit / Month

<i>(Incl parking)</i> Type V	\$180
Type III	\$180
Type I	\$200

Vacancy/Credit Loss 5.00%

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

Type V	\$7,080
Type III	\$7,080
Type I	\$8,040

Target Return on Cost

Type V	5.75%
Type III	5.75%
Type I	5.75%

Sale Prototype Assumptions

Market Sale Price PSF	<u>South & East</u>	<u>C, W, N</u>	<u>Downtown</u>
Type V	\$775	\$725	
Type I			\$775

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%

Note 1

Monthly unit rents and annual unit operating expenses are rounded to the nearest \$10.

**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	\$149.80	\$149.80	\$149.80	\$149.80	\$149.80
Residential Value Per Unit	\$168,500	\$168,500	\$168,500	\$168,500	\$168,500
Parking Value Per GSF	\$68.12	\$68.12	\$85.19	\$85.19	\$85.19
Parking Value Per Unit	\$27,200	\$27,200	\$34,100	\$34,100	\$34,100
Total Valuation Per Unit	\$195,800	\$195,800	\$202,600	\$202,600	\$202,600
<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	\$7,900	\$7,900	\$8,200	\$8,200	\$8,200
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	\$4.55	\$4.79	\$4.79	\$4.79	\$4.79
School Fees Per Unit	\$5,100	\$5,400	\$5,400	\$5,400	\$5,400
Planning and Building Fees Per Unit	\$6,200	\$6,200	\$5,300	\$5,300	\$5,300
Inclusionary In-Lieu PSF	\$21.74	\$49.99	\$49.99	\$49.99	\$21.74
Inclusionary Fee Per Unit	\$24,500	\$56,200	\$56,200	\$56,200	\$24,500
Total Permits and Fees Per Unit	\$53,600	\$92,800	\$92,000	\$90,700	\$64,100

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	\$149.80	\$149.80	\$149.80	\$149.80
Residential Value Per Unit	\$172,800	\$172,800	\$172,800	\$172,800
Parking Value Per GSF	\$112.22	\$89.90	\$89.90	\$89.90
Parking Value Per Unit	\$35,900	\$28,800	\$28,800	\$28,800
Total Valuation Per Unit	\$208,800	\$201,600	\$201,600	\$201,600
<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	\$8,500	\$8,200	\$8,200	\$8,200
Parkland In-Lieu Fees	\$22,600	\$20,800	\$27,700	\$14,600
Parkland Credit <i>Note 1</i>	25%	25%	25%	25%
Total Parkland In Lieu Fees Per Unit	\$17,000	\$15,600	\$20,800	\$11,000
School Fees Per Residential GSF	\$4.79	\$4.79	\$4.79	\$4.79
School Fees Per Unit	\$5,500	\$5,500	\$5,500	\$5,500
Planning and Building Fees Per Unit	\$3,100	\$3,100	\$3,100	\$3,100
Inclusionary In-Lieu PSF	\$49.99	\$49.99	\$21.74	\$49.99
Inclusionary Fee Per Unit	\$57,700	\$57,700	\$25,100	\$57,700
<i>Note: Inclusionary Fees Waived in Waiver Scenarios</i>				
Total Permits and Fees Per Unit	\$91,700	\$90,100	\$62,600	\$85,400

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	\$149.80	\$149.80	\$149.80	\$149.80
Residential Value Per Unit	\$215,300	\$215,300	\$215,300	\$215,300
Parking Value Per GSF	\$68.12	\$68.12	\$68.12	\$112.22
Parking Value Per Unit	\$30,000	\$30,000	\$30,000	\$30,000
Total Value Per Unit	\$245,300	\$245,300	\$245,300	\$245,300
<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	\$9,900	\$9,900	\$9,900	\$9,400
Parkland In-Lieu Fees Per Unit	\$13,100	\$22,600	\$27,700	\$14,600
Parkland Fees Credit <i>Note 1</i>	25%	25%	25%	25%
Total Parkland In Lieu Fees Per Unit	\$9,800	\$17,000	\$20,800	\$11,000
School Fees Per Residential GSF	\$4.55	\$4.79	\$4.79	\$4.79
School Fees Per Unit	\$6,500	\$6,900	\$6,900	\$5,800
Planning and Building Fees Per Unit	\$7,700	\$7,700	\$7,700	\$3,200
Inclusionary In-Lieu Per GSF	\$25.00	\$25.00	\$25.00	\$25.00
Inclusionary In-Lieu Per Unit	\$35,900	\$35,900	\$35,900	\$30,400
<i>Note: Inclusionary Fees Waived in Waiver Scenarios</i>				
Total Permits and Fees Per Unit	\$69,900	\$77,400	\$81,200	\$59,800

Note 1

Adjustment to reflect assumed amount of parkland provided within project.

Note 2

Traffic fees currently being revised



Exhibit E

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)



Exhibit F

Feedback from Developers, Brokers and Other Industry Professionals

From Zoom Meetings held on October 12, 2023

- Agree with conclusion that development is generally infeasible under current market conditions.
- Parking ratio too low – need at least 1.4 spaces per unit.
- Average unit size should be 675-750 SF for rental.
- Type V rental hard costs before contingency should be \$485-\$490 per net square foot.
- Type I hard costs appear to be in correct range.
- Developers are electing not to pay in-lieu fees.
- Target Return on Cost should be approximately 6.5% with 6.0% at minimum.
- Construction Loans – 50% LTC with 8.5%-9% interest rate
- Waiving impact fees helps, but is insufficient. Waiving annual property taxes would have more substantial beneficial effect.
- Generally, total development costs per unit appear to be approximately 10% high.
- Downtown projects have some of lowest rents in City – low rents are needed to incentivize people to live Downtown – approximately \$3.00 per square foot (PSF).
- Rents approximately \$0.20 PSF/month too high for South & East submarkets and \$0.80 PSF/month too high for Downtown submarket; north rents appear to be in appropriate range.
- Other comment: rents \$0.30 PSF/month too high in Center submarket – seeing rent in low \$3.00 PSF range
- Operating expenses have increased substantially since last year.
- Insurance costs have gone up 3x since last year, now \$2,000-\$2,250 per unit excluding earthquake coverage.
- Operating expenses have exceeded \$3,900 per unit for Type III excluding RE taxes, insurance and management.
- Estimate low rise total development cost per unit cost to be \$750,000 as compared to \$869,000.



Exhibit G

City of San Jose Inclusionary Housing Ordinance Areas

