



October 2023

City of San Jose Residential Feasibility Analysis



CENTURY|URBAN

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Residential Feasibility Analysis - General Findings

- Relative to 2022 residential feasibility analysis findings, residential development economics are more challenged under current market conditions.
- Since 2022 study, construction costs, interest rates, and target returns have increased.
 - Total estimated costs across the prototypes studied increased approximately 12-13% on average since prior study, completed approximately 18 months ago.
 - Interest rates have doubled over past 12 months. Construction interest rates are hovering above 8.0%.
 - Rental rates and sales price have also increased, but increase amounts are insufficient to offset increases in costs and target returns.
- Challenged feasibility was reflected across residential prototypes analyzed and was also reflected in sensitivity analyses, which evaluated 5% changes in rental rates, condominium prices, and development costs.



Prototypes

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



Type I Scenarios

Type I Scenarios						
		Type	Central	West	North	Downtown
For Rent	Type I		Market, Waiver	Market, Waiver, Affordable	Market, Waiver	Market, Waiver
For Sale	Type I		NA	NA	NA	Market, Waiver

Market Scenarios assume that all units are leased or sold at market rental rates/sale prices and all statutory inclusionary in-lieu fees and construction taxes are paid.

Waiver Scenarios assume that all units are leased or sold at market rental rates/sale prices, 100% of statutory inclusionary in-lieu fees are waived, and 50% of Building and Structure and Commercial/Residential/Mobile Home Park (CRMP) construction taxes are waived.

Affordable Scenarios assume that 95% of units are leased or sold at market rental rates/sale price, 5% of units are leased at 100% AMI, 100% of statutory inclusionary in-lieu fees are waived, and 50% of Building and Structure and Commercial/Residential/Mobile Home Park (CRMP) construction taxes are waived.



Apartment Rental Rate Assumptions

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	\$3,078	\$3,240	NA	NA	NA	
Type III	NA	\$3,240	\$3,690	\$3,060	NA	
Type I	NA	\$3,240	\$3,690	\$3,060	\$3,483	



Condominium Sale Price Assumptions

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

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



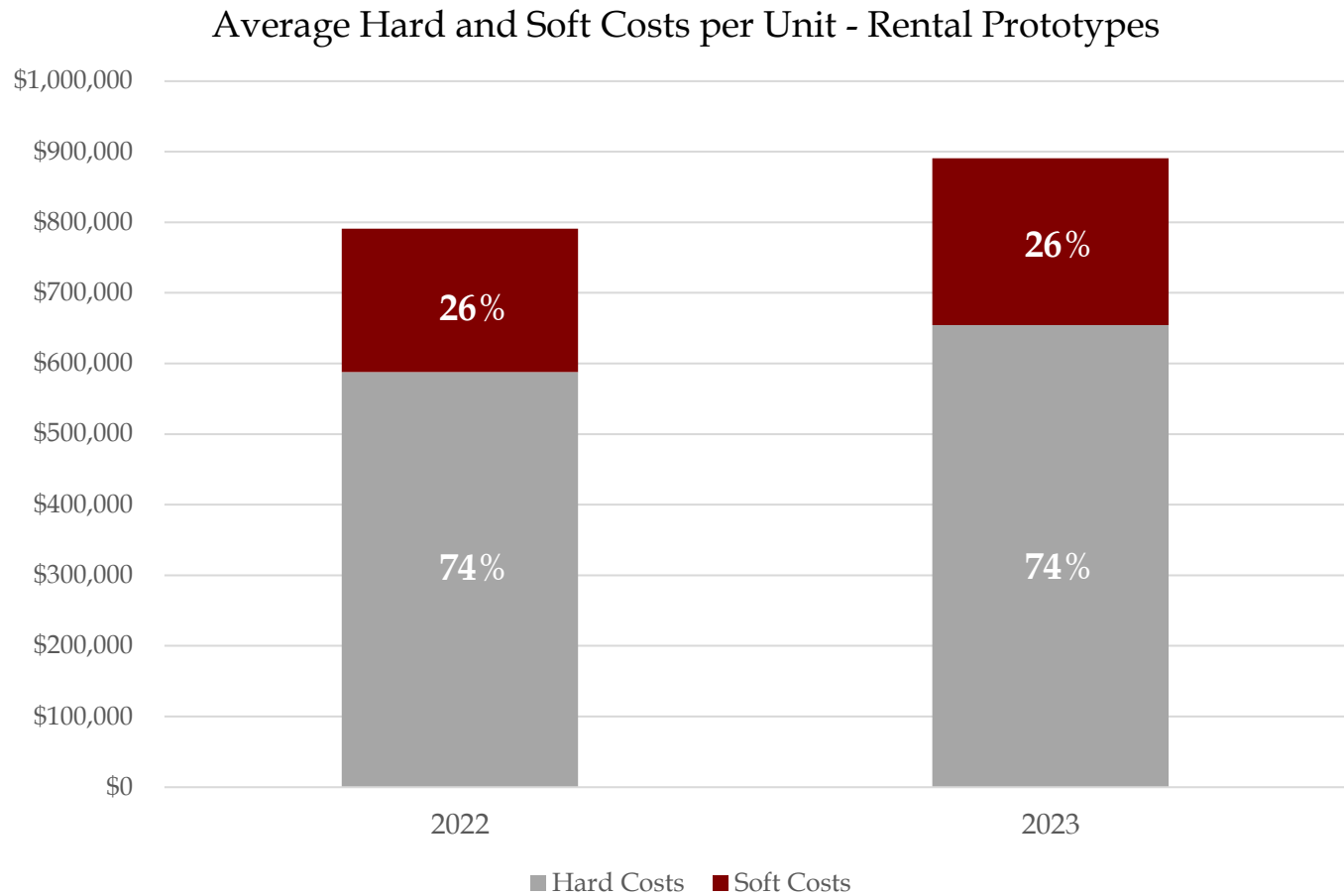
Total Hard and Soft Costs Assumptions

Prototype Costs Per Unit					
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, Central, West, North
Average Hard Costs	\$563,000	\$635,000	\$766,000	\$758,000	\$885,000
Average Municipal Fees *	\$73,000	\$82,000	\$82,000	\$76,000	\$60,000
Other Soft Costs	\$130,000	\$151,000	\$190,000	\$175,000	\$218,000
Total Hard and Soft Costs	\$765,000	\$869,000	\$1,038,000	\$1,009,000	\$1,163,000

* Includes in-lieu affordable fees, construction taxes, parkland fees, planning and building fees, and school fees in addition to other fees.

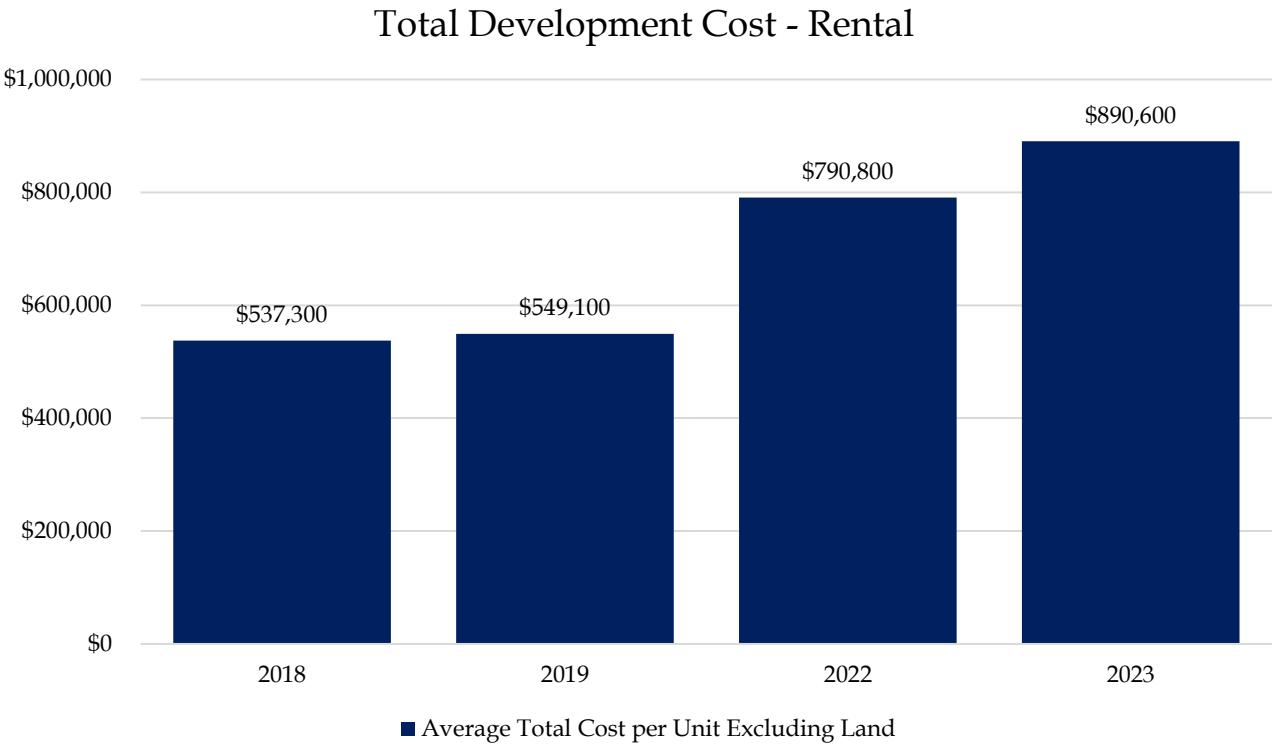
Figures rounded to nearest \$1,000. Averages shown for Market Scenarios only.





Estimated average total hard and soft costs per unit for rental prototypes increased by approximately 12.6% over 18-month period between 2022 and 2023 studies.





Source of 2018 and 2019 data: Memoranda from Keyser Marston Associates to City of San Jose



Residual Values Per Unit

Residual Values Per Unit - For Rent					
Submarket	South & East	Central	West	North	Downtown
Type V	(\$322,000)	(\$343,000)	NA	NA	NA
Type III	NA	(\$435,000)	(\$364,000)	(\$430,000)	NA
Type I	NA	(\$614,000)	(\$542,000)	(\$607,000)	(\$569,000)
Type I - Waiver	NA	(\$540,000)	(\$469,000)	(\$573,000)	(\$496,000)
Type I - Waiver - Affordable	NA	NA	(\$469,000)	NA	NA

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	(\$569,000)

Figures rounded to nearest \$1,000.



At meetings coordinated by City staff, stakeholders such as developers, brokers, and other industry professionals provided feedback regarding feasibility analysis assumptions and findings.

Key Takeaways:

- With exception of comments regarding estimated development costs being higher than development costs observed by some participants in the meeting, stakeholder feedback generally suggested larger feasibility gaps than estimated in feasibility analysis.
- Comments that would likely have more material negative impact on feasibility included:
 - Target Return-on-Cost should be higher – 6.0%-6.5%
 - Rents are too high by \$0.20 to \$0.80 per square foot per month
 - Operating expenses have increased substantially, especially insurance
- Comments on costs varied and included that hard costs were too high, in the correct range, and too low
- Stakeholders also noted that waiving impact fees would help feasibility, but would be insufficient to spur housing production. Several stakeholders suggested that waiving annual property taxes for a period of time would have more substantial beneficial effect.



Appendix



Average Prototype Change 2022 / 2023 - For Rent

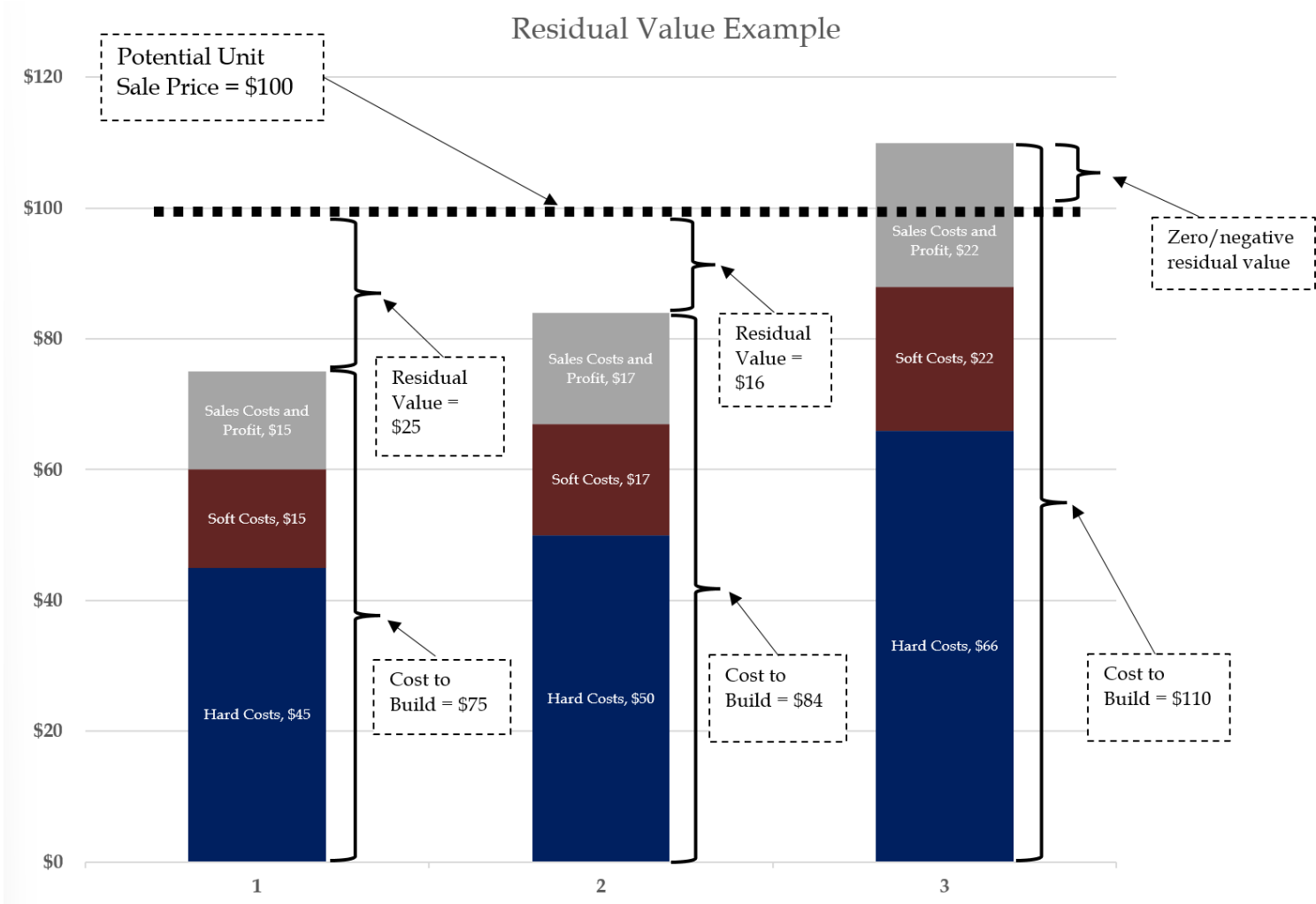
Item	2022	2023	% Change	% Effect on Residual Value
Hard Cost PGSF	\$435	\$484	11%	-19%
Soft Costs Incl. City Fees PGSF	\$131	\$153	17%	-9%
City Fees PGSF	\$33	\$38	14%	-2%
<i>Total Hard and Soft Costs PGSF</i>	<i>\$566</i>	<i>\$636</i>	<i>12%</i>	<i>-28%</i>
Rent PNSF	\$3.58	\$3.69	3%	6%
Target ROC	5.25%	5.75%	10%	-11%
Residual Value Per Unit	(\$370,800)	(\$494,800)	-33%	-33%

Average Prototype Change 2022 / 2023 - For Sale

Item	2022	2023	% Change	% Effect on Residual Value
Hard Cost PGSF - Sale	\$422	\$469	11%	-19%
Soft Costs Incl. City Fees PGSF	\$122	\$142	16%	-8%
City Fees PGSF	\$31	\$33	8%	-1%
<i>Total Hard and Soft Costs PGSF</i>	<i>\$544</i>	<i>\$611</i>	<i>12%</i>	<i>-27%</i>
Condo Price PNSF	\$682	\$752	10%	13%
Residual Value Per Unit	(\$425,800)	(\$485,600)	-14%	-14%



Residual Value Example



Each construction type 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.

