



Memorandum

TO: RULES AND OPEN GOVERNMENT COMMITTEE **FROM:** Kim Welsh

SUBJECT: SEE BELOW

DATE: February 1, 2017

Approved D. DSYL

Date 2/1/18

SUBJECT: SET A STUDY SESSION OF THE CITY COUNCIL REGARDING THE COST OF DEVELOPMENT IN SAN JOSE

RECOMMENDATION

Set a City Council Study Session for Thursday, April 26, 1:30-4:30 p.m. in City Council Chambers on *The Cost of Development in San Jose* to cover the following topics and approve the draft agenda:

- Residential and mixed-use real estate economics – understanding factors that affect costs and returns of development;
- Cost of development in San Jose – breakdown of fees and taxes charged by the City on new development; and
- Residential development models – examples of development prototypes and projects, with a discussion of how total City fees and taxes can affect financial visibility.

PURPOSE

On December 19, 2017, City Council directed staff to convene a Council study session prior to June 30, 2018 to discuss the aggregate impact of all the fees (to fund parks, affordable housing, transportation improvement, and other needs) that the City imposes on housing development and construction. The study session should enable the Council to:

- a. Understand the fundamentals of how residential and mixed-use development is financed and how many different factors affect a project's financial feasibility;
- b. Assess and compare fees across the most commonly constructed building types;
- c. Assess and compare fees from other comparative cities in the region or state;
- d. Identify and bring transparency to the pro formas of housing projects that developers report are "not financeable" or "won't pencil;"

- e. Address the question of whether the City should assess fees (including inclusionary fees) on a square footage basis, rather than per-unit basis, to properly account for the substantial distinction between building 800 square foot studios and a 2,100 square foot single-family homes;
- f. Utilize financial information drawn from actual housing developers, lenders, and contractors, vetted by a trusted independent consultant. Given the concerns about proprietary financial data becoming a public record, explore working with a competent and trusted third party, such as SPUR or a local university, to guide the work and collect the data.

Recent legislative changes at both the State and City level have led to transitions in the way fees and taxes (impact fees in particular) affect development in San Jose. Over the past 12 months, staff has brought forward changes related to park impact and in-lieu fees, rental affordable housing requirements or in-lieu fees, and construction taxes for downtown high rises. Over the next 12 months more transitions will occur relating to implementation of Urban Villages, and the transition from "Level of Service" traffic analysis to "Vehicle Miles Travelled."

While staff's analysis generally considers the impact any change may have on development, modifications are often brought for Council consideration on an individual basis without broader reference to the total cost of development that is subject to residential and mixed-use development.

To ensure that the City Council has a strong understanding of the various city-imposed requirements and their impact on development projects, staff will provide detailed information to inform future considerations.

Staff is working with independent consultants and representatives from the development community to support some of the analysis, and to participate with City staff in the presentations and discussion.

A draft study session agenda is attached for approval.

/s/

KIM WALES
Deputy City Manager
Director of Economic Development

For questions please contact Chris Burton, Deputy Director, at (408) 535-8114.

Attachment: Study Session Agenda

CITY COUNCIL STUDY SESSION AGENDA

COST OF DEVELOPMENT IN SAN JOSE

APRIL 26, 2018
1:30 P.M. to 4:30 P.M.
COUNCIL CHAMBERS

Purpose

Discuss the total cost of development in San Jose and how different fees and taxes impact the ability of development projects to move forward.

Outcome

Provide the City Council with a greater understanding of the aggregate impact of all the fees that the City imposes on housing development and construction

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Call to Order and Roll Call

CITY COUNCIL STUDY SESSION

1:30 p.m. – 4:30 p.m., Council Chambers

1. **Cost of Development**
 - (a) **Residential and mixed-use real estate economics**
 - (b) **Breakdown of fees and taxes**
 - (c) **Residential Development Models**
 - (d) **Potential future considerations**
2. **Public Comments**
3. **Adjourn**