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ITEM: 4.2

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL

FROM: Kim Walesh, Jacky Morales-Ferrand

SUBJECT: **REPORT ON THE COST OF RESIDENTIAL DEVELOPMENT IN SAN JOSE**

DATE: October 25, 2019

Approved [signature] Date 10/25/19

RECOMMENDATION

Accept staff's report on the Cost of Residential Development in San José.

OUTCOME

The purpose of this memo is to provide an analysis of the cost of residential development, including a high-level overview of the current local real estate market, a breakdown of the costs required to build both market-rate and affordable housing, and the impact of direct City costs on housing development.

BACKGROUND

On December 19, 2017, Council directed staff to convene a Council Study Session to discuss the aggregate impact of all the fees that the City imposes on housing development and construction. The goal was to provide context for multiple development-related items to be considered by City Council later that year, including the implementation and financing approach to Urban Village amenities and the transition from the administration of Affordable Housing Impact Fees to the Inclusionary Housing Ordinance.

On April 26, 2018 and May 1, 2018, the City Council held a Study Session on the Cost of Development in San José to provide City Council with a high-level overview of the local real estate market and the impact of direct City costs on housing development. Staff were joined by members of the Urban Land Institute, who provided an overview of how the development community approaches development financing and the impact of different costs, including fees and taxes, on the viability of projects. Representatives from Keyser Marston and Associates (KMA) provided information on the cost of development in San José and a conceptual pro forma analysis for residential development in the current real estate market. Staff provided a presentation on the City of San José's fees and taxes applicable to residential development.

On June 12, 2018 staff presented an initial Housing Crisis Workplan to prioritize, support, and accelerate residential development in San José. This Workplan identified the need to continue to refine and update cost of development models that were created for the study sessions earlier that year. Staff recommended that this model be used as the basis for analyzing future changes to fees.

On December 4, 2018, Council directed staff to update the April 2018 Cost of Development Study to reflect current market conditions and present updated information to the City Council.

On March 19, 2019 staff provided an update of progress on the Housing Crisis Workplan to the City Council. Exploration of the City's impact on the cost of residential development has been an ongoing body of work since the initial Housing Crisis Workplan, and in March of 2019 staff identified that earlier work on the cost of development models would be refined and updated.

ANALYSIS

As a part of undertaking the Housing Crisis Workplan, it is necessary to understand the underlying factors that influence residential development and impact the City's ability to generate 25,000 housing units by 2025. To understand the impacts of fees and costs on residential development, staff undertook a study with Keyser Marston and Associates (KMA) to look at the cost of residential development in San José and with David Rosen and Associates on an analysis of land prices for multifamily properties. As a part of the Housing Crisis Workplan staff has committed to updating this analysis of market rate rental development. Subsequent direction from Council has led staff to incorporate additional elements to the rental housing analysis including the cost of building for-sale housing, the additional costs associated with building affordable housing, and a study assessing influences on land prices.

Delivering on the City's housing goals for both market-rate and affordable housing requires private capital to make a decision to invest in San José. The means by which developers, and ultimately investors, make these decisions is through the creation of a development "pro forma" which models the assumed financial performance of the development. The initial pro forma is typically developed before the City is even aware of a potential project, and then is refined through subsequent steps of the process until the developer is ready to commit the capital and ultimately build the building. The Terner Center for Housing Innovation at UC Berkley issued a brief in August 2019 titled "*Making it Pencil: The Math Behind Housing Development*" which highlights the importance of understanding the underlying math of housing development when considering policy changes. The collection of studies and staff analyses contained in this memorandum are intended to refine a similar understanding at the very local level, assessing different submarkets within San José.

Conceptual Typology

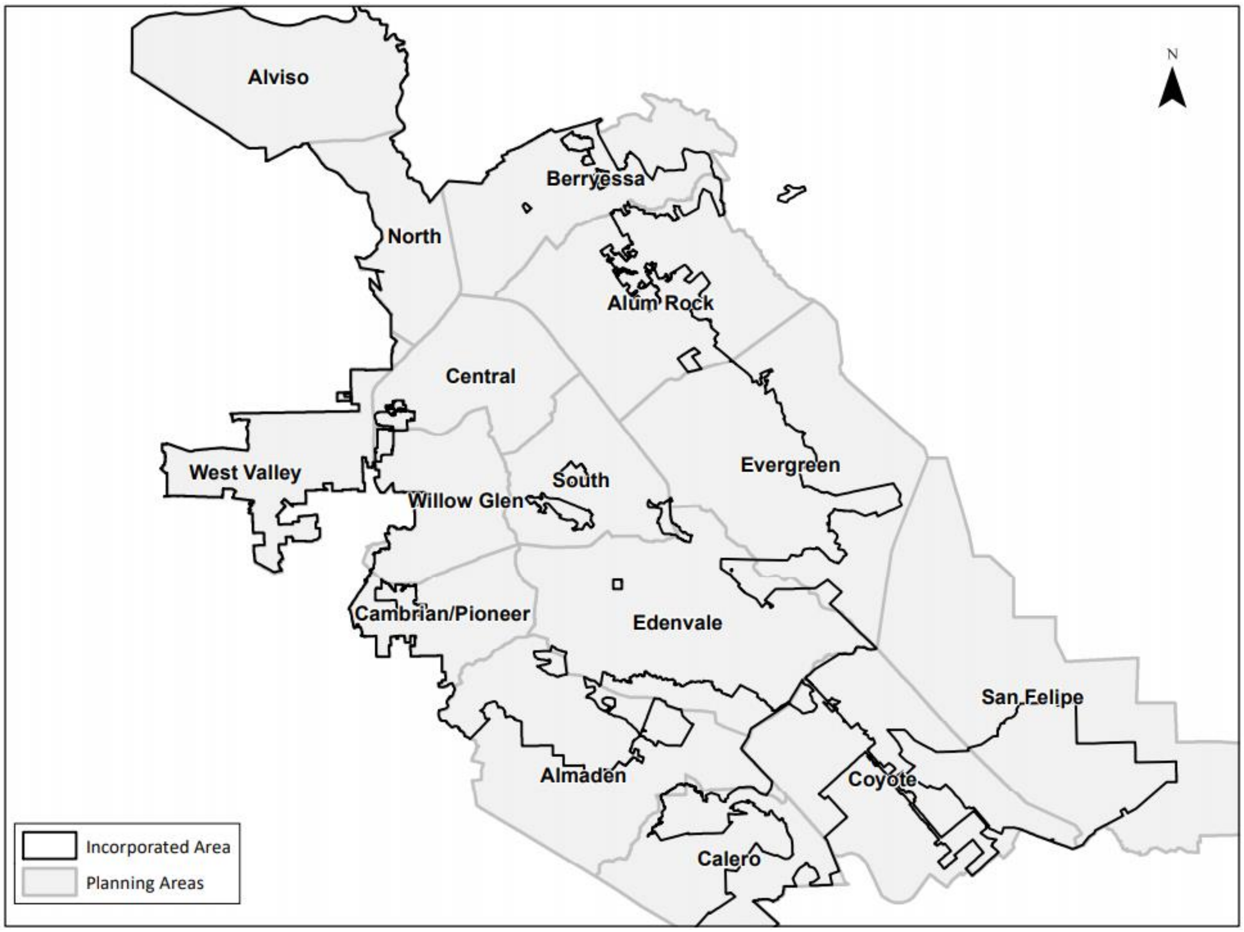
Development economics of residential projects can vary widely based on site circumstances, ownership of the land, and sources of capital, and no single project can accurately represent the current real estate development market. In order to understand the real estate market context for the City of San José, conceptual project typologies were established based on averages of recently built or approved projects. Then, conceptual pro formas were created to analyze the development economics. The financial and market assumptions of the recent projects (square footages, rents, development costs, fees, construction costs) were averaged to mitigate for the variability of site-specific development economics. The resulting model represents an indication of local development economics are performing based on an assumption of the minimum level of financial viability.

Market-rate, for-sale developments were analyzed by looking at low-rise condominiums and high-rise condominiums. Market-rate rental developments were analyzed through three prototypes: a 5-story low-rise building, a 7-story mid-rise building, and a 22-story high-rise building.

Sub-Market Areas

To account for the development economics throughout the city, the conceptual pro formas take into consideration the different submarkets within San Jose. The map below identified the 15 different sub-areas of the City. Dynamics for the sub-areas are important to consider for both costs and returns; both impact fees and project returns differ by geographic sub-area of the City Additionally, allowed project densities differ throughout the City, further diversifying development economics geographically. For this reason, the conceptual development typologies were analyzed in respect to the sub-areas where they are found. For example, a conceptual pro forma for high-rise residential projects was established only for the Downtown submarket as this is the only area in which this type of development typically occurs. The analyses were based on where projects of each type have been occurring, or are expected to occur in the future, but are not anticipated to be exhaustive.

Map of Sub-Areas



Development Assumptions

Revenues

Revenues for a project are attributed to rental prices per square foot and unit sale prices, and anticipated rates are heavily dependent on sub-area. The ability to attract capital from investors is implicitly tied to financial performance and feasibility. Due to the time involved and the unpredictable nature of real estate development (such as changing costs, requirements, fees, and construction delays) real estate investors require better returns than expected in other investment vehicles (i.e., stock market). In addition, while development is traditionally a very local business, capital is fluid and looks at development projects on a regional or even national basis. This means that development projects must provide either higher rates of return or other means of averting risk to compete in the marketplace. The *Making It Pencil* report by the Terner Center details the importance of financial feasibility and the challenges of attracting investors.

Revenue can be quantified as either profit (identified here as the difference between value and cost) or return-on-cost; both are indicators when attracting financing for the project. Financially feasible developments, or projects that are likely to attract funding and proceed with construction, are typically those whose pro formas demonstrate a minimum of a 5% return on cost, or a 10% to 15% profit. However, as discussed further in the aforementioned Terner Center report, there are additional financial indicators that lenders and equity investors will utilize when deciding whether or not to finance the project. The report's findings conclude that one of these metrics, the internal rate of return (IRR), requires an even higher return: while some investors are comfortable with an IRR of 15%, others will only invest in projects whose IRRs exceed 20%.

Costs

Costs for development projects are generally attributed to land costs, soft costs (project development, entitlement costs, city fees and taxes, and professional services such as architecture and civil engineering), hard costs (construction materials and labor costs), and financing costs. City fees and taxes include affordable housing fees (based on current requirements), park impact in-lieu fees, construction taxes, traffic impact fees (for projects within traffic impact areas), and development permits (Planning entitlement costs, and building permit costs).

Land Costs

In traditional real estate economics, land cost is the area of a pro forma that has the most elasticity. While underlying land costs are generally informed by recent transactions within a submarket, development projects that propose investment into, and redevelopment of, a property also factor in the residual land value—the amount a developer can afford to pay for the land when all other costs and revenues have been considered. Conventional thinking around residual land value suggests that while rents are high in San José, the high costs associated with construction would bring down the price of land. Land values should also take into account the increase in City fees and taxes. However, the David Paul Rosen and Associates Multifamily Land Price Analysis found that in San Jose *"no apparent correlation between the sales price trends and the City's land use and development fee regulatory actions affecting land. Rather, the trends appear to primarily reflect market and economic cycles."*

During the economic growth years leading to the Great Recession (2003-2006), average land price per square foot increased 3.2% annually. Sale prices of medium-density parcels led this trend rather than sale prices of high-density parcels, which declined during this time by 2.47%. In the recovery years after the Great Recession (2011-2015) land prices rose sharply. Even with the exclusion of two land sales that demonstrated an extreme land price rate, the overall average land price increased at an annual rate of 23.6%. During this 2011-2015 period the difference in land price between medium- and high- density parcels began to grow, and the price for high-density parcels was 22% greater than for medium-density property. From 2015 to 2019 land prices continued to increase, with high-density parcels rising in price annually more substantially than medium-density parcels. The price difference between medium- and high-density parcels also continued to grow: the average price per square foot for high density parcels (at $366 per square foot) was 51% higher than for medium-density parcels (at $136 per square foot).

Land Price Rates

Annual Compound Growth Rate in Land Prices
City of San Jose
2003 to 2019

Density	2003-2006	2006-2011	2011-2015	2015-2019	2011-2019	2003-2019
All Sales						
Medium	4.58%	-2.55	21.31%	9.16%	12.33%	5.68%
High	-2.47%	N/A	N/A	11.80%	N/A	10.89%
Average	3.20%	-1.69	39.99%	16.42%	22.41%	11.22%
Excluding Three Sales Over $400/SF						
Medium	4.58%	-2.55	15.59%	9.16%	12.33%	5.68%
High	-2.47%	N/A	N/A	22.92%	N/A	8.95%
Average	3.20%	-1.69	23.61%	19.1%	18.16%	9.27%

Medium Density: 24 to 79 dwelling units per acre. High Density: 80+ dwelling units per acre.
Source: Costar; Real Quest; City of San Jose; Old Republic Title Co.; DRA.

A number of factors affect the relative high cost of land in San José. Different ownership structures play a role, with long-term landholders less incentivized to sell because they maintain a low tax base on the property. Sometimes multigenerational or a large numbers of ownership interests can make it difficult to reach a consensus on whether to sell or at what price. In most cases, Urban Villages are undergoing a transition from primarily commercial to mixed use or residential, meaning that many properties already have businesses occupying spaces and paying rent which might mean less motivation for the seller. Lastly, the perception of a strong real estate market because of high rents or other significant changes (new transit, amenities, or major employers) may create an expectation of land value that the seller is willing to simply wait for. In these instances, developers must either choose to pay over the residual land value for the property or look for other options.

City Fees and Taxes

City fees are relatively similar across prototypes, with sub-area having the biggest influence in difference charges. Parks fees and traffic fees are based on the location of the project and therefore can see the biggest change among the fees associated with each prototype. Construction taxes are based on a percentage of the construction valuation of the unit and thus also present some variability in the city fees; single family detached homes have a greater valuation per unit than higher density projects, so the construction taxes are higher for these prototypes.

For projects throughout most of the City, these fees and taxes account for between 6% and 9.6% of the total development costs of the project. Within North San José City fees and taxes for rental projects account for 12.6% of project costs due to the higher rate for park impact in-lieu fees in the area. In Downtown, City fees and taxes comprise 5.9% of project costs for high-rise rental projects without any incentive program, and 3.0% of project costs with a tax and affordable housing incentive program.

For-sale projects within the city had a smaller spread. City fees and taxes comprised between 6.5% and 8.2% of project costs throughout the city, with low-density multi-family projects in the Central, West, and North sub-areas having the highest percentage of project costs attributed to city fees and taxes, and townhomes throughout the city having the least.

In addition to the amount of these costs, the timing of when these fees are due, predictability, and transparency of these fees impact the development pro forma. These costs are further discussed in the Development Fee Framework Memo.

How San Jose Stacks Up Regionally

In the past the City of San José has engaged with other area cities to examine development costs area- and region-wide. This work has included a survey of applicable fees and taxes for various development prototypes. These surveys have been limited to which cities responded to this request for information. In the coming year a similar survey will be conducted by the Silicon Valley Economic Development Alliance, and staff will analyze these results with comparable product rents. In the past years, residential rents were found to be 30-35% higher in Cupertino and Sunnyvale than within areas of San José, and as such the development economics in other cities were able to sustain higher city development fees. In the analysis conducted in 2018, San José's development costs (without the Inclusionary Housing Ordinance fee) were found to be in line with fees and taxes of surrounding cities; however, city fees have been in flux over the past year as cities consider inclusionary housing fees since changes to state law. Many cities were also charging commercial developments affordable housing fees which potentially provides greater latitude on how residential developments are assessed fees.

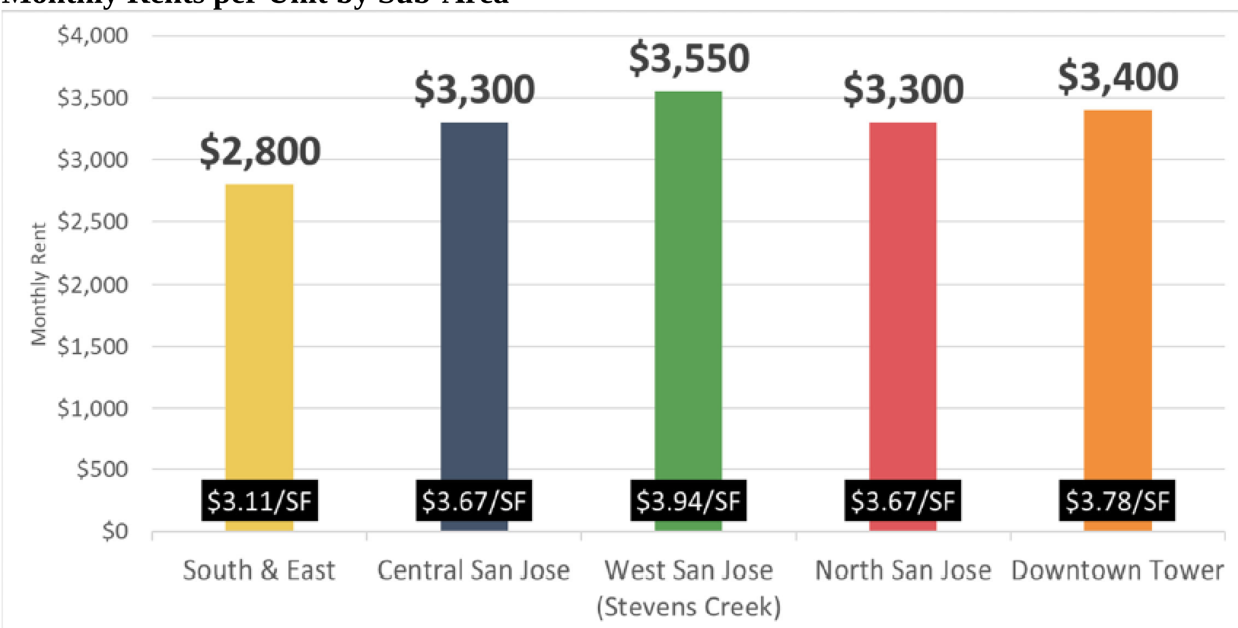
Rents have risen, but are significantly lower than in nearby cities.

KMA found that San José rents are strong in comparison to historical standards, and recorded particularly strong growth between 2013 and 2015 when annual growth was at an average rate of 7% per year. Still, San Jose rents remain less than rents received for recently built projects in nearby cities. (While all San Jose average rents were below $4/SF, equivalent 900 SF rents in Sunnyvale and Campbell were above $4.30/SF, and in Mountain View reached $4.94.)

Estimated Regional Rents Per Square Foot for a 900sf Apartment

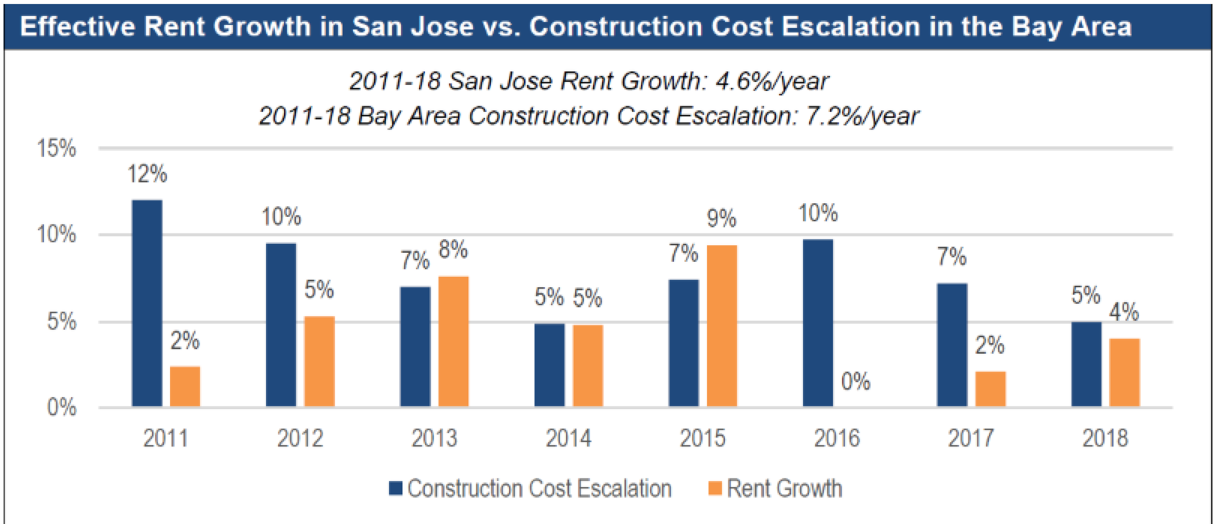
Sunnyvale	$4.33
Campbell	$4.38
Mountain View	$4.94
San Jose	
South & East	$3.22
Central	$3.67
West	$3.94
North San Jose	$3.67
Downtown	$3.78

Monthly Rents per Unit by Sub-Area



Construction Costs Remain High, and Outpace Rent Growth

Unfortunately, high construction costs affect the region, while returns vary across localized subareas. This results in a competitive disadvantage for San José developers and investors with a shorter investment return horizon (which necessitates a higher short-term return, indicated by rents). Further compounding the return vs cost equation is the escalation of costs in respect to rents: during 2013 and 2015 when rent was increasing by 7%, construction costs had an average 6% annual growth. Since 2016, rents have stabilized to about 2% annual growth while construction cost escalation has averaged 7% per year. This rate of construction cost increase during the current economic cycle is roughly double the historical average of the Bay Area per a local cost consultancy. Forecasts indicate that construction cost escalation will continue to outpace rent growth for another year, but the rate of escalation may subside and in subsequent years may bring cost and rent growth back to more balanced rates.



Rent growth source: Costar for market rate properties built since 2005.
Construction cost escalation source: San Francisco Bid Index by TBD Consultants.

Project Feasibility Varies Throughout the City

The development economics of higher density residential development are challenging in the current real estate market. Low-rise, for-sale projects within the Central/West/North subareas see a marginal profit per unit of 8%. However, low-rise, for-sale projects in the South and East subareas do not show a profit from the conceptual pro forma. Higher density rental projects have a similar relationship with sub-area in the determination of profitability; low-rise rental projects within West San José show an expected profit of 17%, which exceeds the targeted profit threshold of 10% to 15% and thus has a higher likelihood of being financed. Low density rental projects in other subareas have a much lower profit expectation (5% to 7%) and neither for-sale or rental projects within the South & East subarea are projected to achieve a profit at all.

The highest density projects allowed in the City are similarly unsupported by current market dynamics. High-rise residential development within the Downtown subarea is projected to have a minimal profit with incentives (2% for for-sale condominiums and 3% for rental apartments) and is not anticipated to have any projected profit without incentives (neither for-sale nor rental).

2019 Summary of Conceptual Pro Formas of Rental Projects by Sub-Market

	South & East Low-Rise	**Central Low-Rise**	**Central Mid-Rise**	**West San José Mid-Rise**	**North San José Mid-Rise**	**Downtown High-Rise** (no incentives)	**Downtown High-Rise** (with incentives)
Average Rent	$3.22/SF	3.67	3.67	3.94	3.67	3.78	3.78
Density	65 du/A	65	90	90	90	350	350
Per Unit City Fees	$48,800	55,200	55,200	51,800	72,400	48,400	20,100
Per Unit Construction Costs	$336,500	353,100	376,500	376,500	376,500	462,000	462,000
Per Unit Land Costs	$56,600	73,500	53,300	57,800	47,800	60,000	60,000
Total Cost per Unit	$529,300	574,000	579,800	580,900	592,000	689,300	659,300
Total Value per Unit	$488,400	616,200	616,200	677,300	622,900	697,100	679,100
Estimated Profit Per Unit (minimum 15% target)	n/a	42,200 (7%)	36,400 (6%)	96,400 (17%)	30,900 (5%)	-10,200 (0%)	19,800 (3%)

Costs and Returns Vary Between Rental and For-Sale Projects

While the KMA analysis is based on the available data of recent for-sale projects within the City, this data is limited due to the relatively few (only five) for-sale multi-family projects that have been built within the City in recent years. To analyze the highest density projects, assumptions needed to be based on three projects that were completed before 2010. The smaller data set indicates that for-sale projects simply aren't being built and this may result in a more dramatic shift in the future in prices and assumptions as additional for-sale projects are built, such as the under-construction project at 188 West Saint James.

While the City-related costs associated with the project are the same between for-sale and rental projects, the ultimate amount of these fees varies. For-sale and rental projects typically differ in unit square footage size and will have different square footages associated with open space, which influence taxes and parks fees. Affordable housing fees differ between rental and for-sale projects, and the KMA pro forma studies differ in what was studied (based on the needs of the information and the data available).

Cost of Development for Affordable Housing

KMA's research identified unique factors that led to the higher costs particular to the construction of affordable housing. Part of KMA's research looked at the cost of building affordable housing in the City of San José and benchmarking those costs against other cities across California. In order to better understand these factors and the associated costs, KMA reviewed a total of 16 affordable developments — ten affordable developments built in San José and twelve affordable developments built in other California cities.

Since 2014, the majority of affordable housing being built in San José has been constructed more densely, or with six or more floors. This type of construction requires Type III steel and/or concrete and is more expensive than less dense wood-frame construction. Wood-frame construction is typical for projects that are fewer than five floors and, according to KMA's research, a majority of other cities outside of San José are choosing to build less dense affordable developments, and essentially fewer units. KMA's research indicates that the City of San José was building more densely, with approximately 56% of the housing built since 2014 being six or more stories, compared to other cities that show none of their affordable housing being six or more stories for the same period.

KMA's research also found that the City of San José has built more single-room occupancy (SRO) or special needs units compared to other cities from the report, while the other cities concentrated on constructing more senior- and large, family-type units.

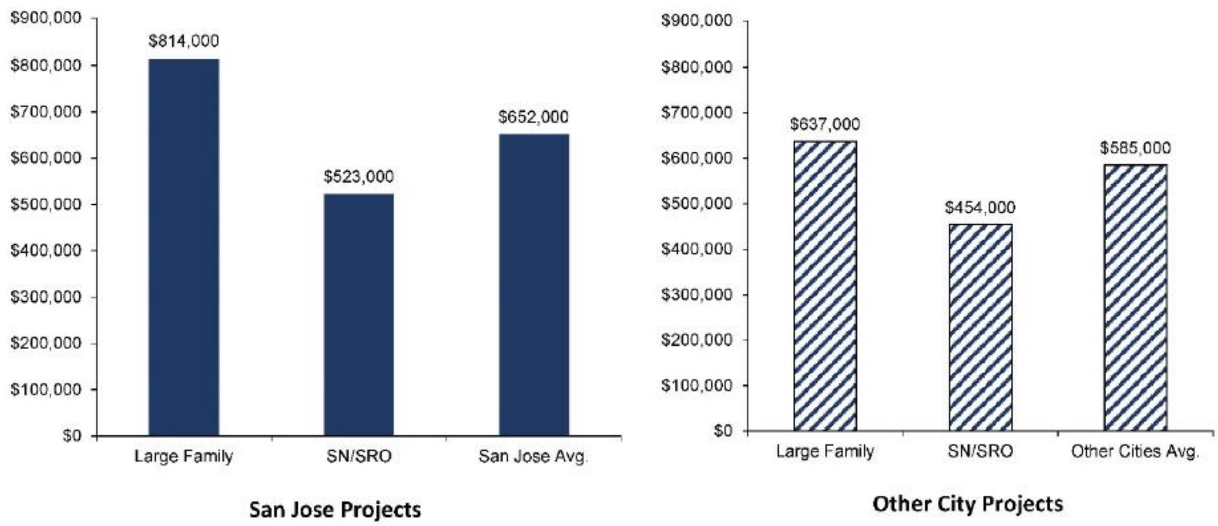
Type of Project	San Jose Projects		Other Projects Outside of San Jose	
	Number of Projects	*Number of Units*	*Number of Projects*	*Number of Units*
Special needs / single room occupancy	5 (56%)	565	2 (29%)	295
Large Family	4 (44%	291	5 (71%)	382
Total	9 (100%)	856	7 (100%)	677
Average Density (units per acre)		96		65
% Units in 1 to 5 story bldgs.		44%		100%
% Units in 6+ story bldgs.		56%		0%

To construct any type of unit, affordable or market rate, there are common factors for both that fall into three main categories: land costs, direct/hard costs, and indirect/soft costs. Those categories are the difference between the cost for the delivery of an affordable unit versus a market rate unit. The sum of those costs represents the total cost to deliver a unit.

Total Delivery Costs

The average cost of delivery in the City of San José is $652,000 for all unit types. KMA categorized affordable units into three basic unit types, or categories, that we typically see for affordable housing units: large family, senior, and SRO (supportive or special needs).

Average Total Development Cost Per Affordable Housing Unit (2019 $'s)



Total Development Costs, Average Per Affordable Housing Unit (2019 $'s)

	San Jose Select Projects	Other Cities Select Projects	All 16 Projects	San Jose Cost Difference
All Projects	$652,000	$585,000	$623,000	11%
Large Family	$814,000	$637,000	$716,000	28%
Special Needs	$523,000	$454,000	$503,000	15%

Land Costs

According to KMA's analysis, on average, all developers will have to pay approximately $76,000 per unit (or $153 per square foot) for land for projects built in the City of San José. For this cost category the total delivery of a housing unit, whether affordable or market, was the same. However, KMA's research determined that per-unit land costs in San José were typically less than land costs in other cities.

Site Acquisition Costs, Per Unit and Per SF of Site Area (2019 $'s)

	San Jose Select Projects	Other Cities Select Projects	All 16 Projects	San Jose Unit Cost Difference
All Projects	$68,000 ($178 psf)	$86,000 ($125 psf)	$76,000 ($153 psf)	-21%
Large Family	$86,000 ($158 psf)	$89,000 ($96 psf)	$88,000 ($123 psf)	-3%
Special Needs	$54,000 ($186 psf)	$79,000 ($199 psf)	$61,000 ($190 psf)	-32%

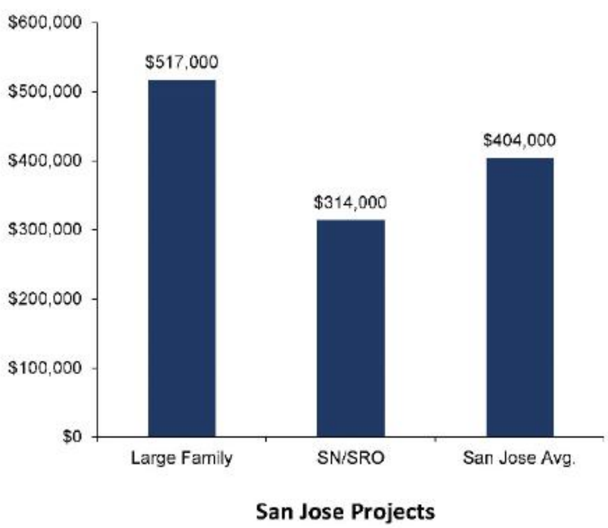
Direct/Hard Costs: San Jose Builds Higher Density Affordable Housing, Which Increases Costs

According to UC Berkeley's Terner Center for Housing Innovation, "*The cost of building a 100-unit affordable project in California increased from $265,000 per unit in 2000 to almost $425,000 per unit in 2016,"* with respect to hard or direct costs only.

In comparison to the Terner Center's report, KMA's research found that direct costs to build a 96-unit (average size) affordable project in the City of San José will cost $404,000 per unit.

When comparing hard costs for building affordable units in San José compared to other California cities, San José was shown to have higher direct/hard costs. The report found that the per-unit direct costs for all of the affordable developments in the report averaged $385,000. However, for units built in San José, the average cost was $404,000. KMA's research attributed this premium to higher density and the higher cost of materials and labor associated with the San José region. Three of the 16 affordable developments used in the report were located in Southern California, and had significantly lower regional market premiums than the Bay Area in general.

Average Hard Costs Per Affordable Housing Unit (2019 $'s)



Total Direct Development Costs, Average Per Affordable Housing Unit (2019 $'s)

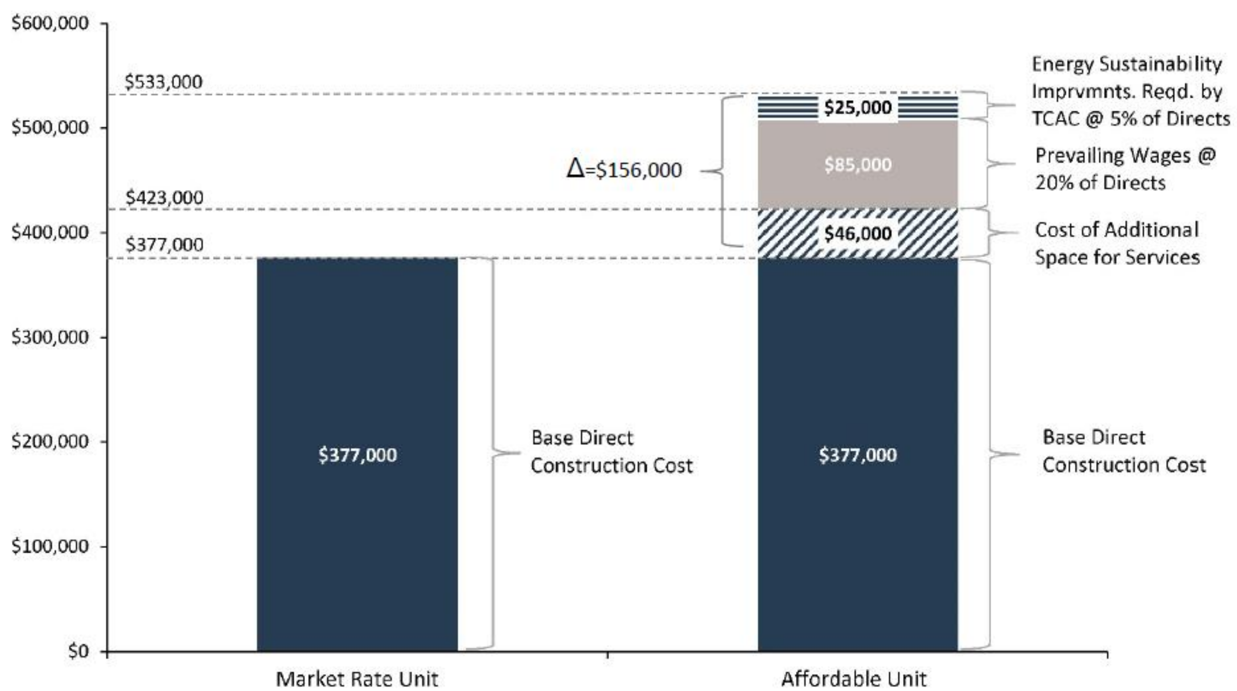
	San Jose Select Projects	Other Cities Select Projects	All 16 Projects	San Jose Cost Difference
All Projects	$404,000	$361,000	$385,000	+12%
Large Family	$517,000	$398,000	$451,000	+30%
Special Needs	$314,000	$269,000	$301,000	+17%

Direct Cost Comparison: Additional Community Space, Wage Requirements and Energy Improvements in Affordable Housing Developments

Through KMA's research, the Housing Department concluded that the primary factors directly affecting per-unit hard costs are costs that are typical requirements of projects with federal, state, or local funding: creating community space and/or space for supportive services; paying prevailing wage; and implementing energy sustainability improvements for affordable developments receiving tax credit funding.

Federal and state funding sources for affordable projects often require the payment of prevailing wages or the execution of project labor agreement. KMA used the California Tax Credit program (TCAC) which considers a standard cost premium of 20% for projects that are subject to prevailing wage requirements. In the chart below, a 20% premium has been assumed for the increased costs related to prevailing wages.

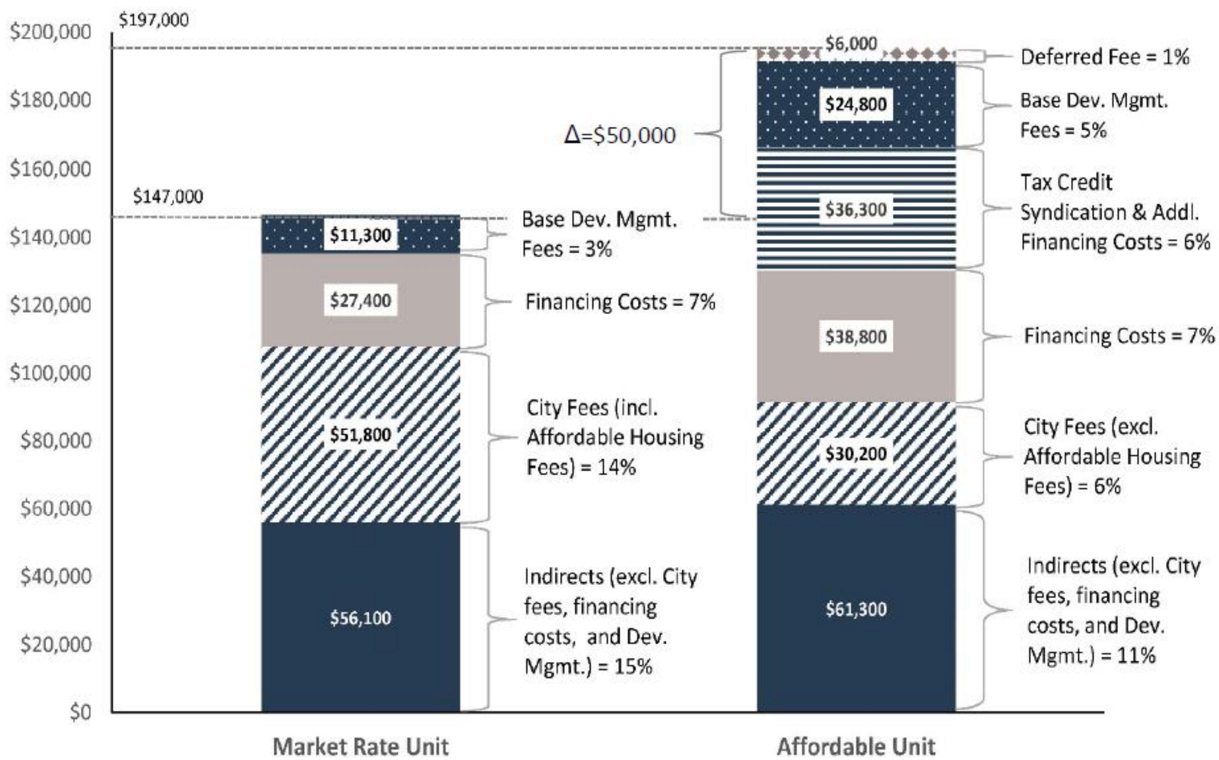
Direct Costs per Affordable Housing Unit



Indirect/Soft Costs Comparison: Multiple and Specialized Funding Sources Increase Costs

There are also factors that will increase indirect, or soft, costs for affordable units such as the cost of seeking multiple financing sources from lenders, and specialized tax credit investors and meeting additional auditing, asset management, and property management compliance requirements. These increased indirect costs increase the total development budget and will affect the overall profit for developers, the development, and ultimately, property cash flow available with which to operate the development.

Indirect / Soft Costs Per Affordable Housing Unit



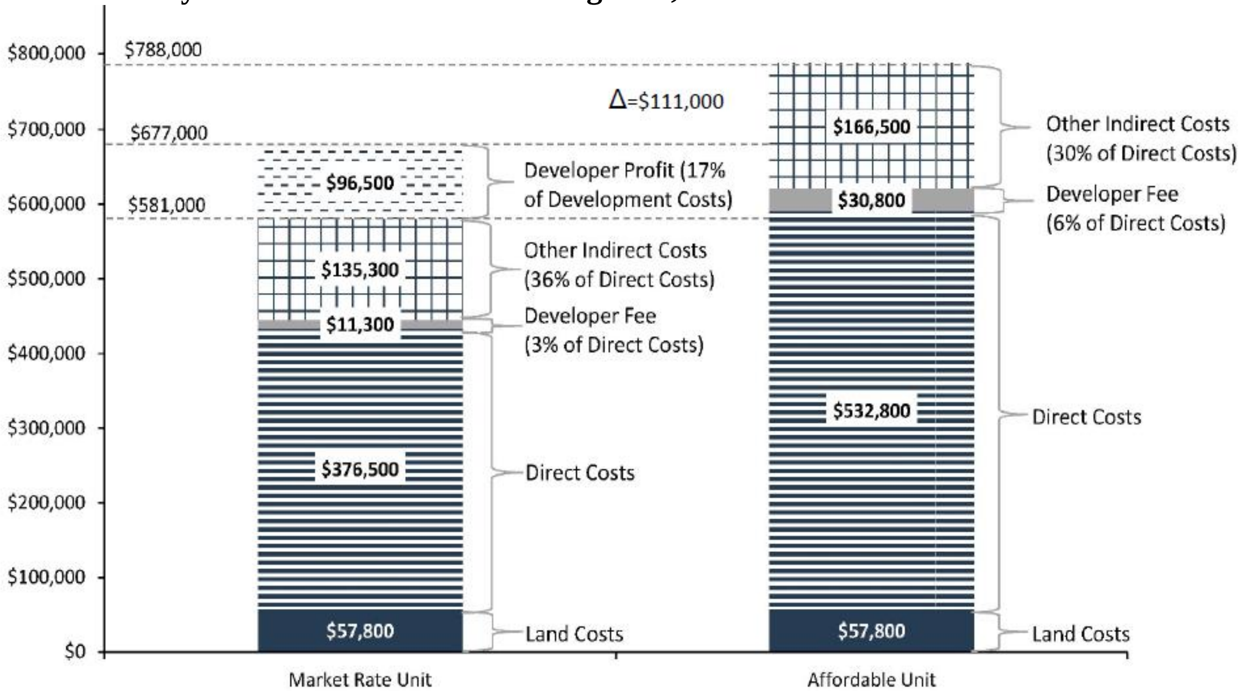
Developers usually defer their up-front profit, or fee, until the project becomes operational, allowing for that fee to be paid over a period of time from a portion of the development's net cash flow.

Comparison: Affordable and Market Rate

When attempting to make a direct comparison of development costs for both affordable and market-rate development, the KMA research found that the factors unique to affordable development are not necessarily comparable, on scale, to market-rate development.

To better understand this complex comparison, in addition to the 16 affordable developments, data was also collected from 32 market-rate developments. KMA assumed a prototypical project, for both affordable and market. The table below shows a sample comparison between a market-rate unit and a mid-rise, comparable prototype with Type III construction being built in the West San José area. This market-rate prototype would typically cost $677,000 per unit. However, if that same unit were built as an affordable unit, it would cost $788,000 per unit. The difference in total costs associated with the delivery of an affordable housing unit versus that of a market rate unit is an average of $111,000.

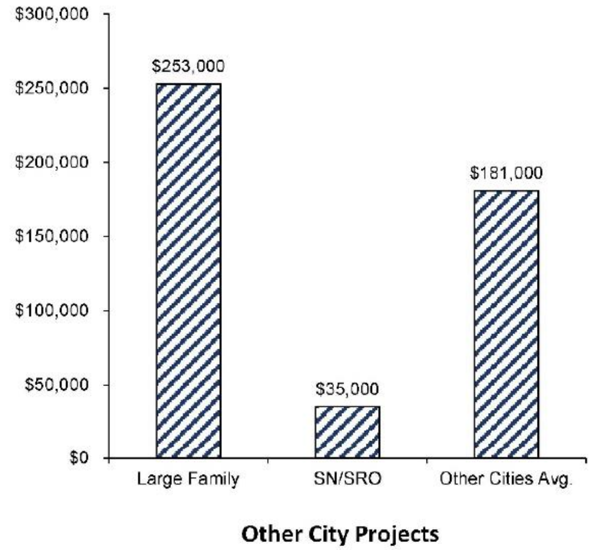
Total Delivery Cost Per Affordable Housing Unit, Midrise Construction



Funding of Affordable Units

KMA determined that the average subsidy provided by municipalities for affordable developments is $115,000 per unit. For the City of San José, the average subsidy was $119,000 per unit, and for other California cities it was $181,000.

Average City Subsidy Funding Per Affordable Housing Unit (2019 $'s)



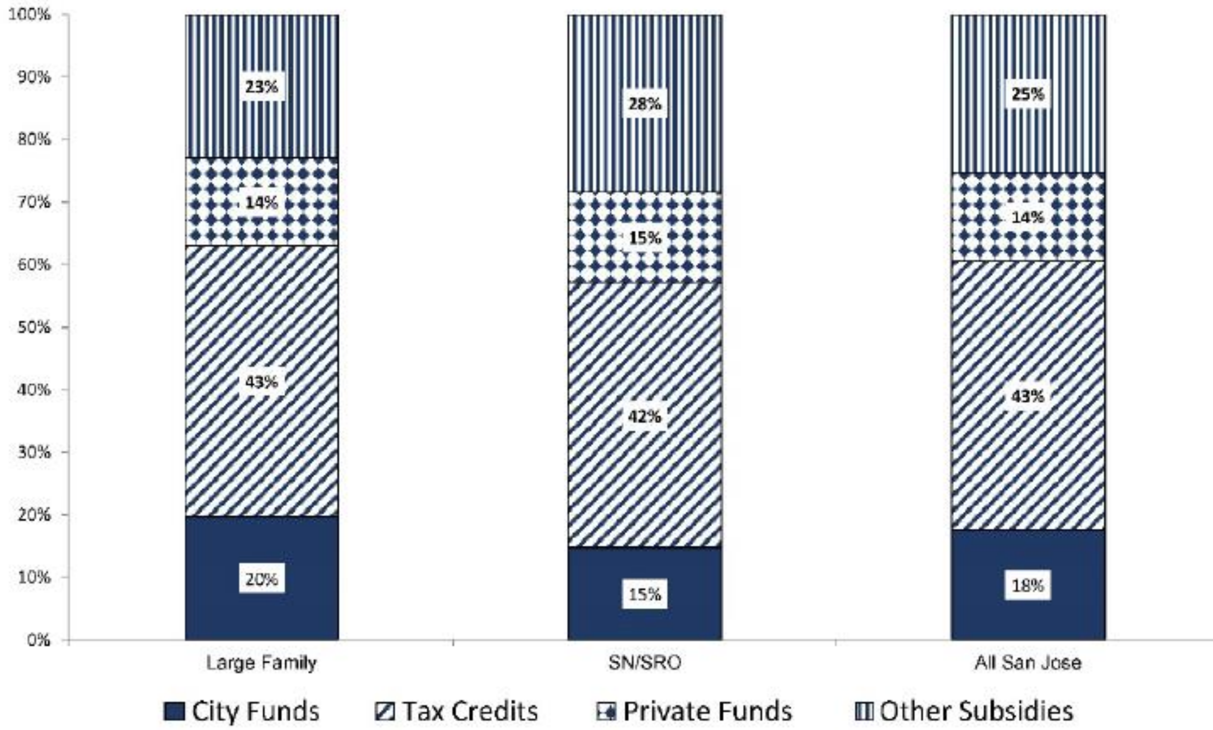
City Subsidy Amount, Averaage Per Affordable Housing Unit, (2019 $'s)

	San Jose Select Projects	Other Cities Select Projects	All 16 Projects	San Jose Difference
All Projects	$119,000	$181,000	$115,000	-34%
Large Family	$155,000	$253,000	$161,000	-39%
Special Needs	$83,000	$35,000	$61,000	+137%

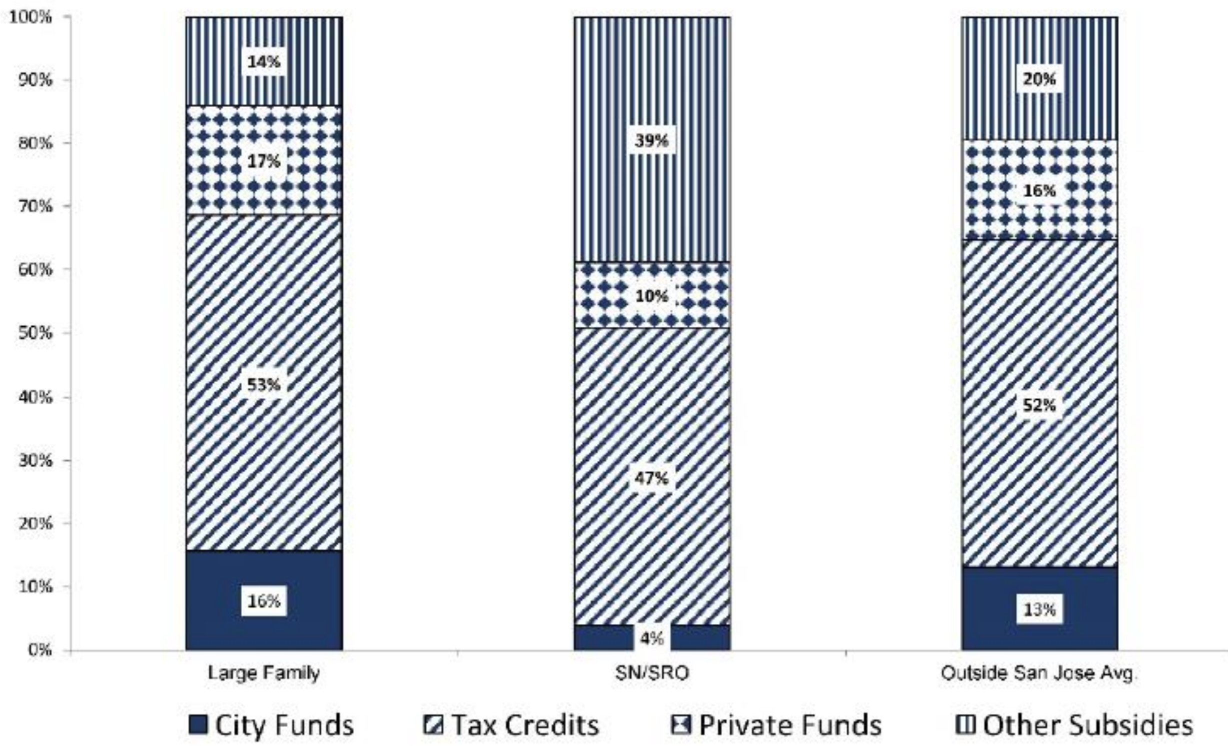
* Excluding one project in San Jose and four projects in other cities without a reported city subsidy.

Overall, tax credit equity is the largest source of funding for affordable development both in and outside of San José.

Composition of Sources of Funds ($/Unit): San Jose Affordable Projects



Composition of Sources of Funds ($/Unit): Other City Affordable Projects



Conclusion

The most significant barrier to residential development remains the high cost of construction coupled with revenues that are lower than surrounding submarkets. Costs remain largely the same across many parts of the South Bay and Silicon Valley, but the variability in rents has a significant effect. Projects in San José are competing with these and other national markets to attract capital and deliver projects.

EVALUATION AND FOLLOW-UP

Staff will continue to update and refine the cost of development models to support the Housing Crisis Workplan.

PUBLIC OUTREACH

The Office of Economic Development and Department of Housing met with residential and mixed-use developers, development industry professionals, stakeholders and housing advocates on March 23 and 29, 2019. The Office of Economic Development met with development industry professionals on May 29, 2019 and June 12, 2019 to discuss the development economics of high-rise construction within the Downtown sub-area. On October 18 and October 22, the

Housing Department and the Office of Economic Development met with housing development industry professionals, stakeholders, and advocates to discuss preliminary findings of the cost of development studies.

This report will be made available to the public on October 25, 2019 on the City of San José website and in hard copy in the City Clerk's office, prior to the City Council meeting scheduled for November 5, 2019.

COORDINATION

Preparation of this Study Session and this staff report has been coordinated with the Departments of Planning Building and Code Enforcement, Housing, Transportation, Parks, Recreation and Neighborhood Services, Public Works, and the City Attorney's Office.

COMMISSION RECOMMENDATION/INPUT

No commission recommendation or input is associated with this action.

CEQA

Not a Project, File No PP17-009, Staff Report, Assessment, Annual Reports and Informational memos that involve no approval of City action.

/s/
KIM WALESH
Deputy City Manager
Director of Economic Development

/s/
JACKY MORALES-FERRAND
Director of Housing

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

Attachments: Conceptual Pro Forma Analysis of High-Density Apartment Development (KMA)
Conceptual Pro Forma Analysis of High-Density For-Sale Residential Development (KMA)
Affordable Housing Development Costs (KMA)
Multifamily Land Cost Analysis (DRA)
Cost of Development Staff Memo April 20, 2018