

# Housing

# Day 2

**November 5, 2019**  
**City Council**

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# | INTRODUCTION

## **Desired Outcomes:**

1. Get more planned housing actually built, both market-rate and affordable.
2. Achieve more mixed-income housing within neighborhoods.
3. Minimize displacement from San Jose.

# | INTRODUCTION

**Reality:**

**Housing production depends on  
decisions by developers and investors**

**Market conditions must be right**

# | INTRODUCTION

4.2 Cost of Residential Development (provides context)

4.3 Development Fee Framework (seek feedback on progress report)

4.4 Inclusionary Housing Ordinance (seek direction to revise ordinance)

4.5 Ellis Act Ordinance (seek direction to revise ordinance)

4.6 IHO Downtown High-Rise (seek direction to set the fee)

# Cost of Residential Development

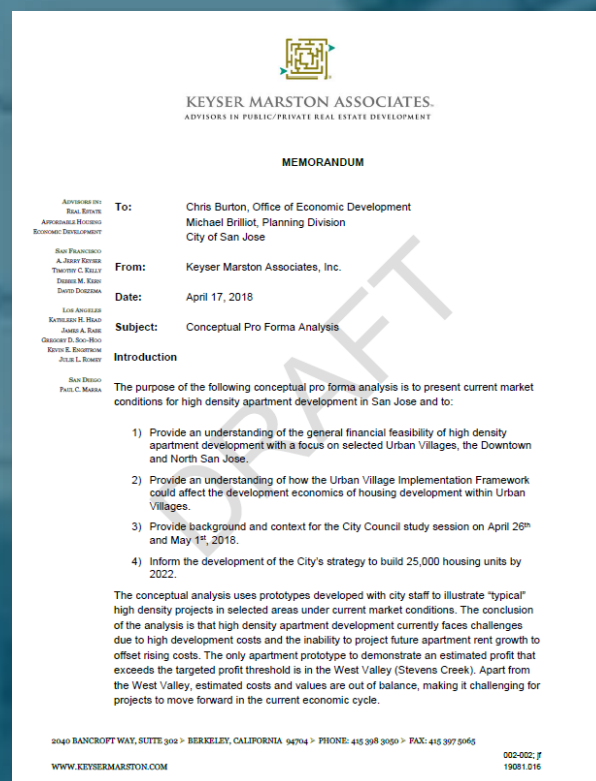
| November 5, 2019  
**City Council**

| **Chris Burton**  
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| **Rachel VanderVeen**  
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# | BACKGROUND

April 2018



November 2019





# | MARKET RATE:

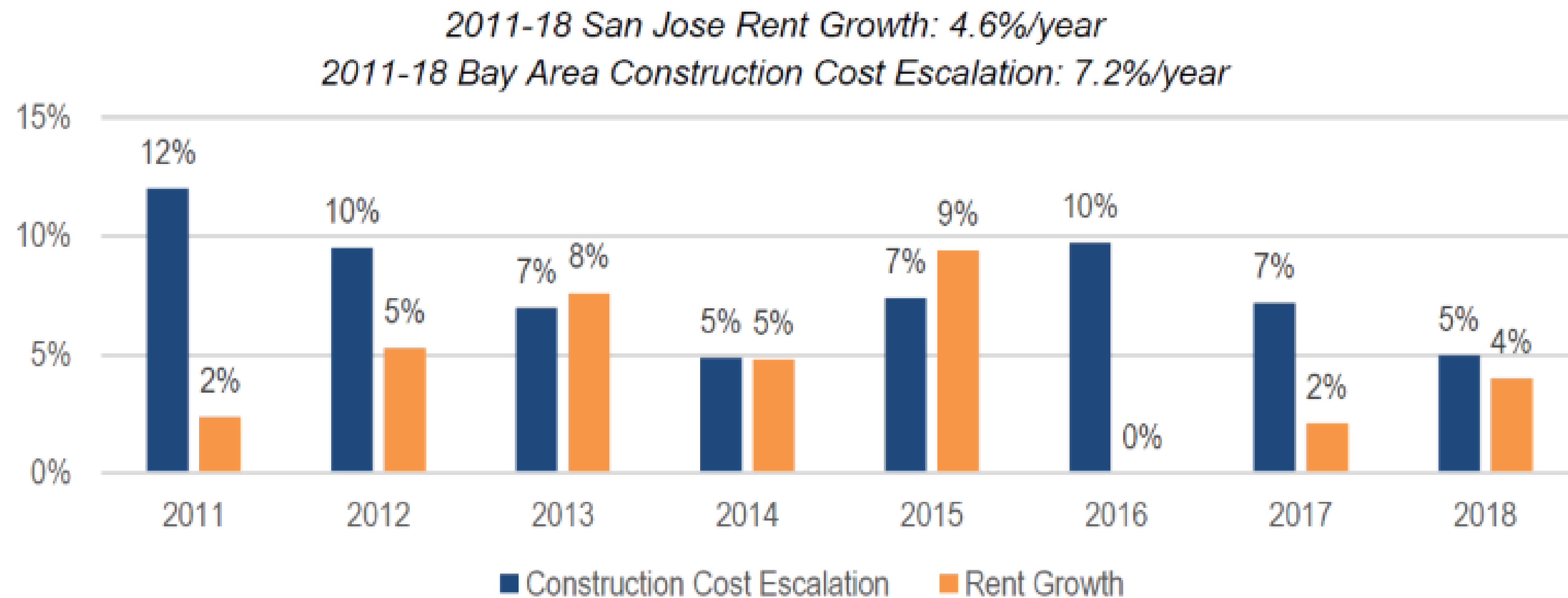
*Rents have risen, but are significantly lower than nearby cities.*



# | MARKET RATE:

*Construction costs remain high, and outpace rents.*

## Effective Rent Growth in San Jose vs. Construction Cost Escalation in the Bay Area



Rent growth source: Costar for market rate properties built since 2005.

Construction cost escalation source: San Francisco Bid Index by TBD Consultants.



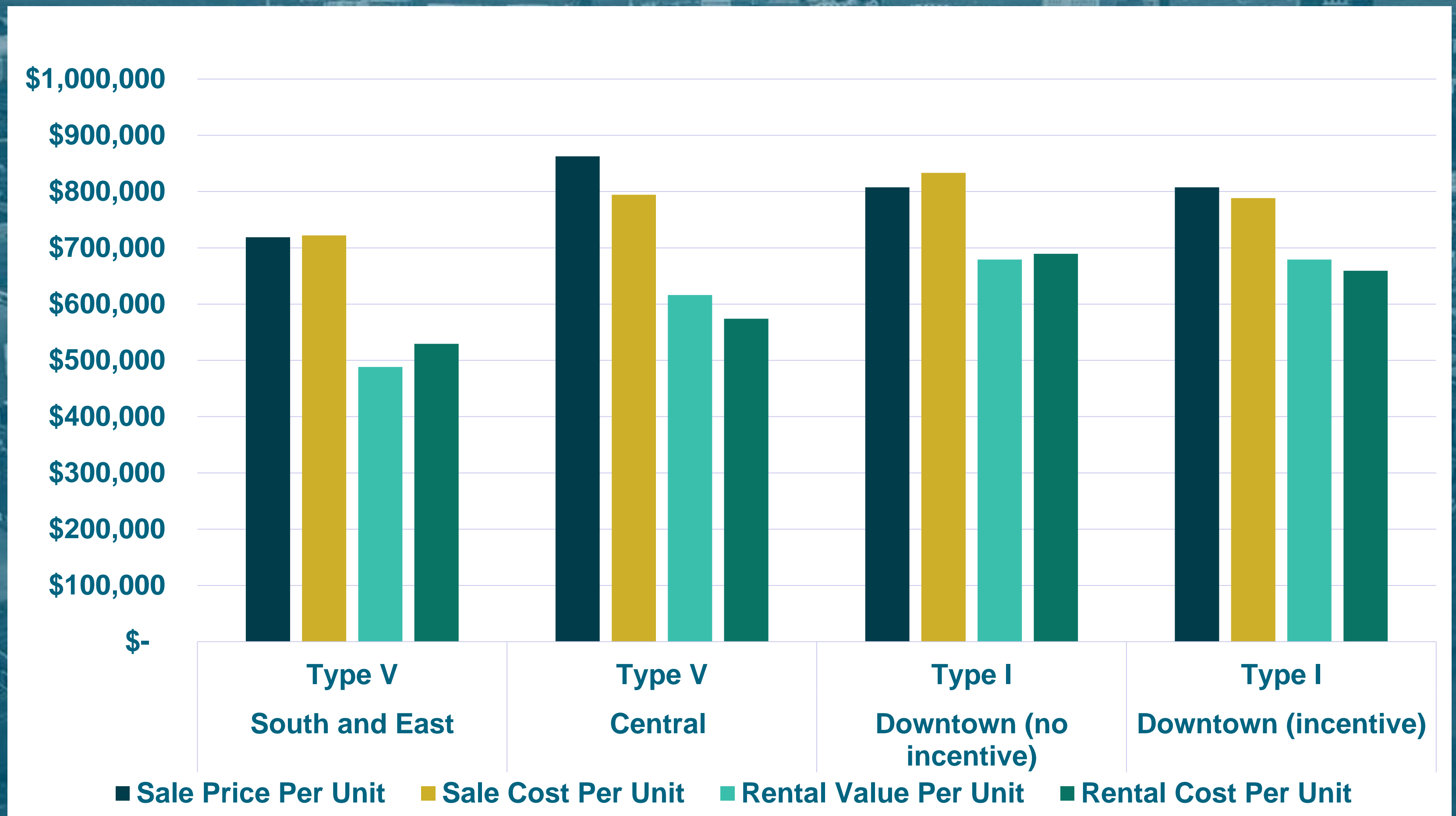
# | MARKET RATE:

*Project feasibility varies throughout the City.*

	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)	None	42,200 (7%)	36,400 (6%)	96,400 (17%)	30,900 (5%)	None	19,800 (3%)

# | MARKET RATE:

*Costs and returns vary between rental and for-sale projects.*





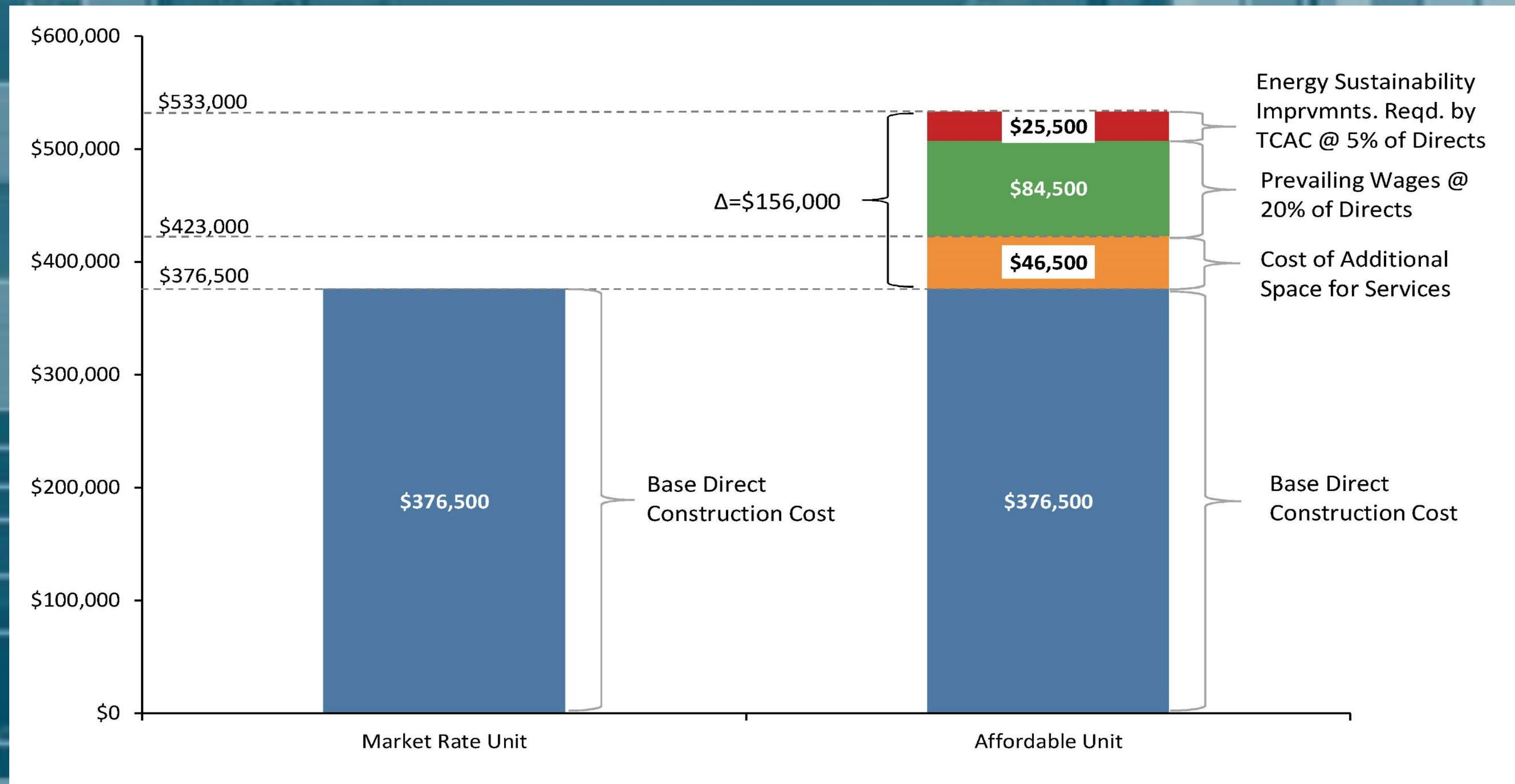
# | AFFORDABLE:

*San Jose builds higher density affordable housing, which increases costs.*

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

# | AFFORDABLE:

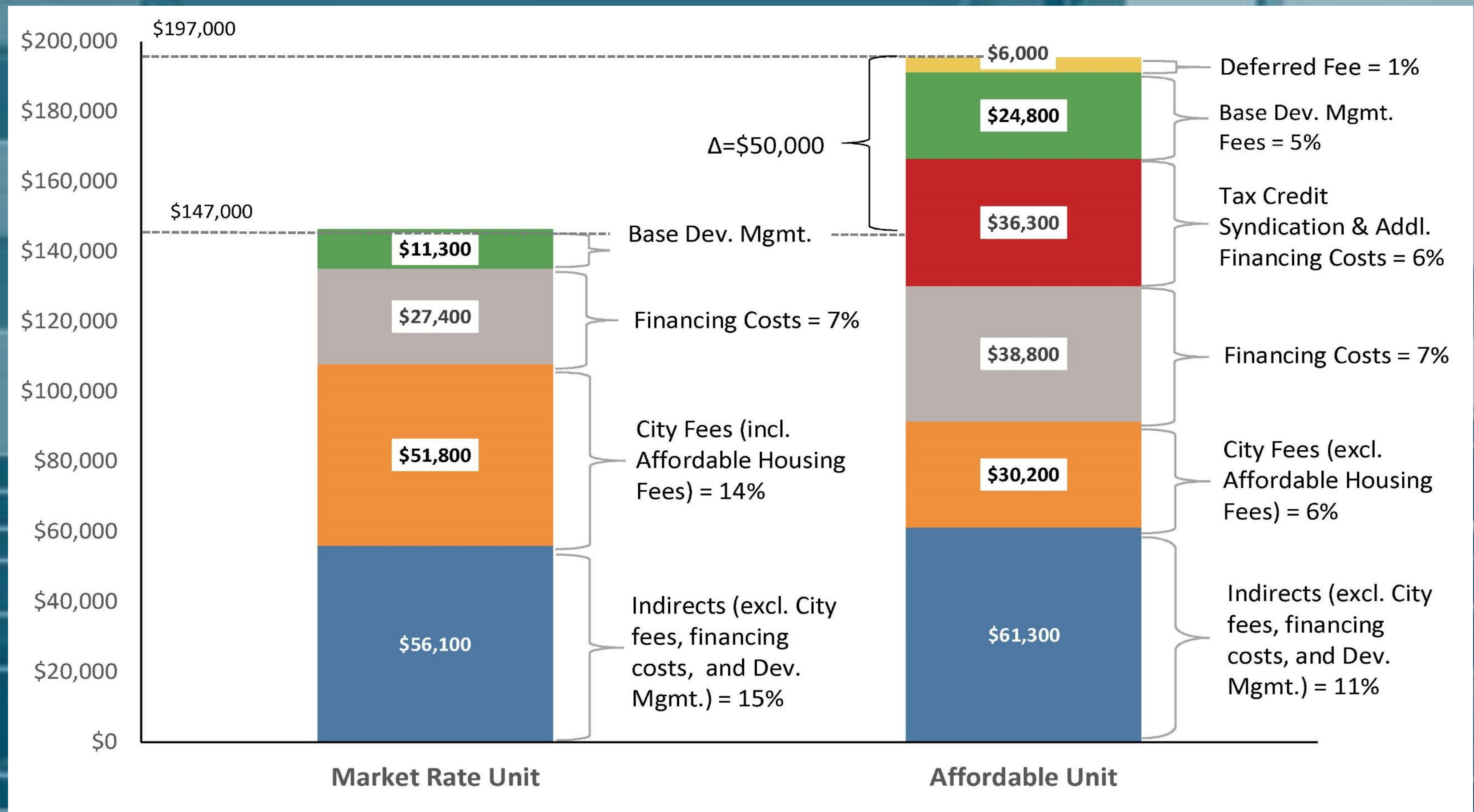
*Higher costs due to additional community space, wage requirements and energy improvements in affordable housing developments.*





# | AFFORDABLE:

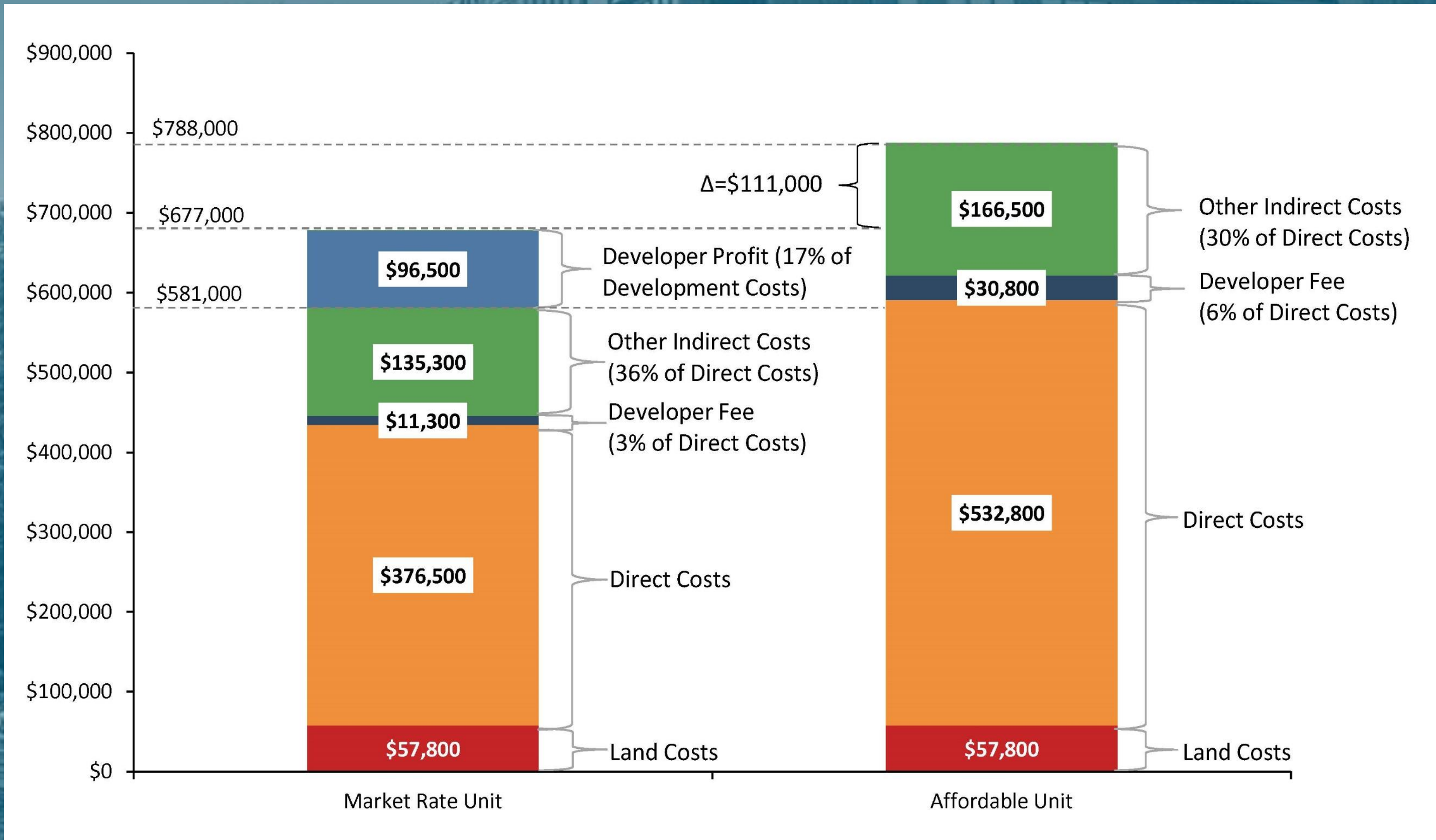
*Multiple and specialized funding sources increase costs.*





# | AFFORDABLE:

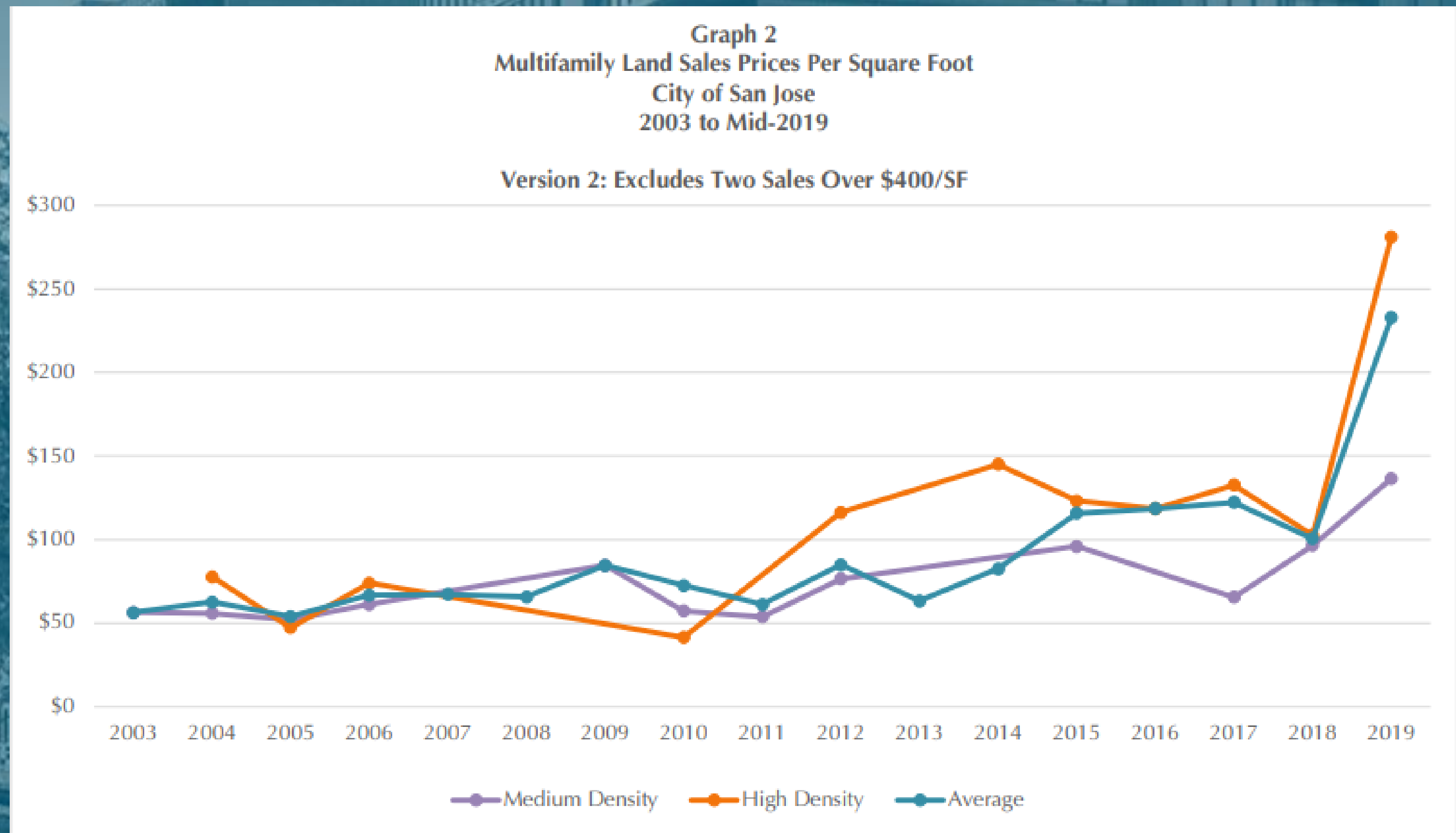
## *Comparison between affordable and market -rate.*





# | LAND COST:

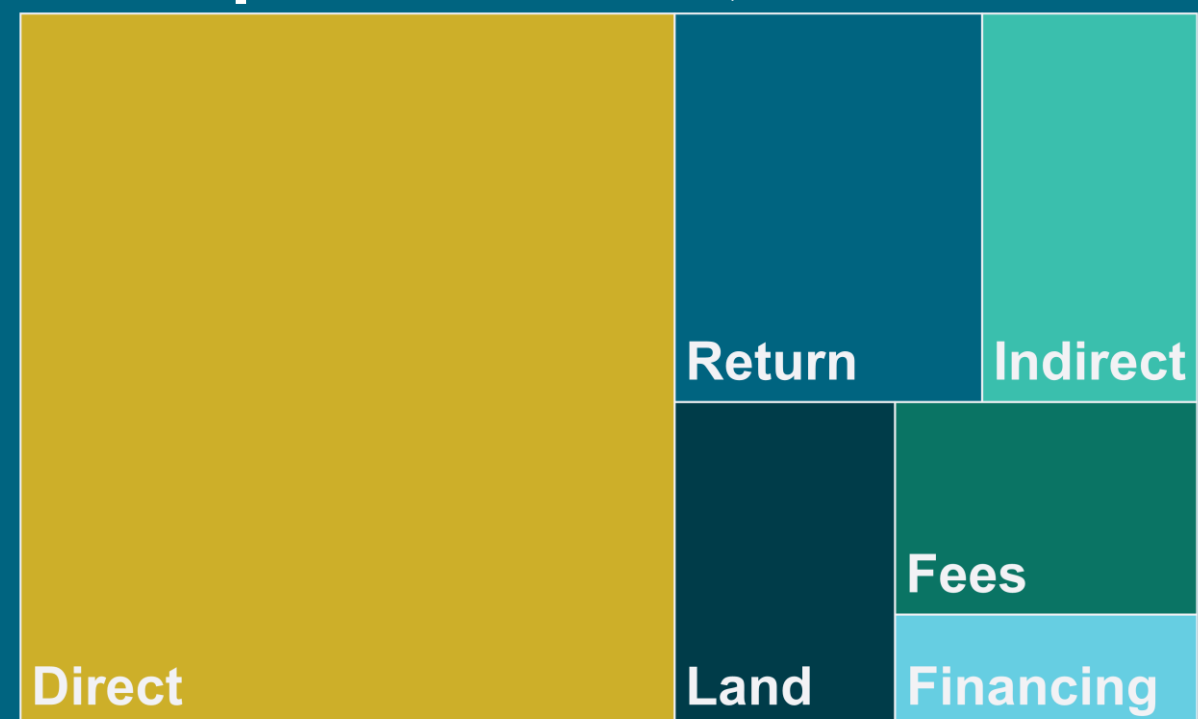
*City policy and fee decisions have not impacted price.*



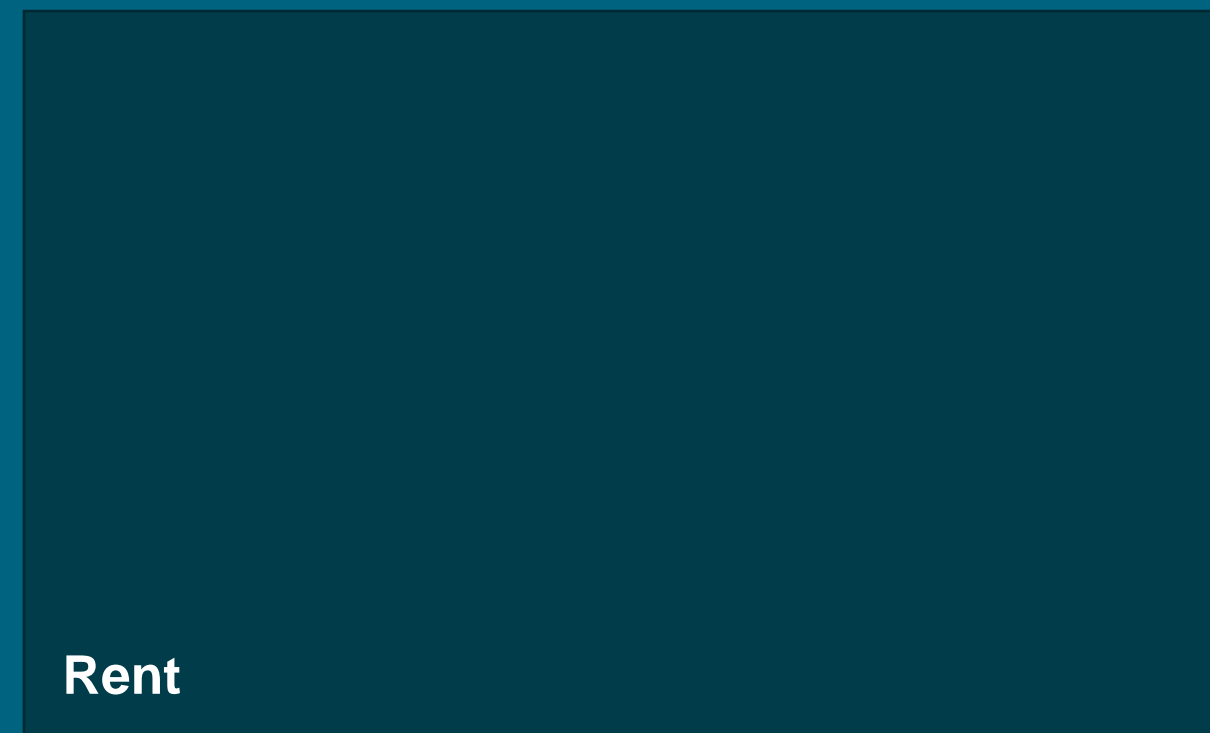
# | COST VERSUS REVENUES:

## Example: West San Jose

Cost per Unit: \$677,300



Value per Unit: \$677,300

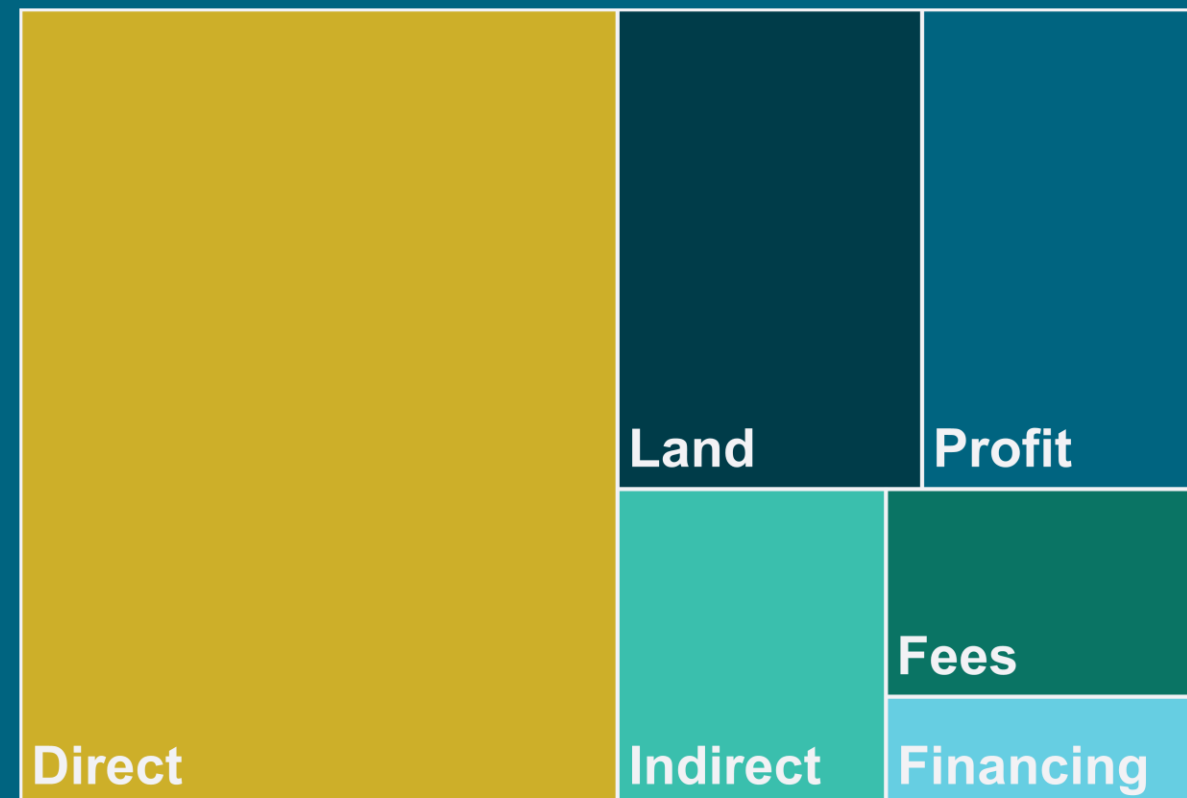




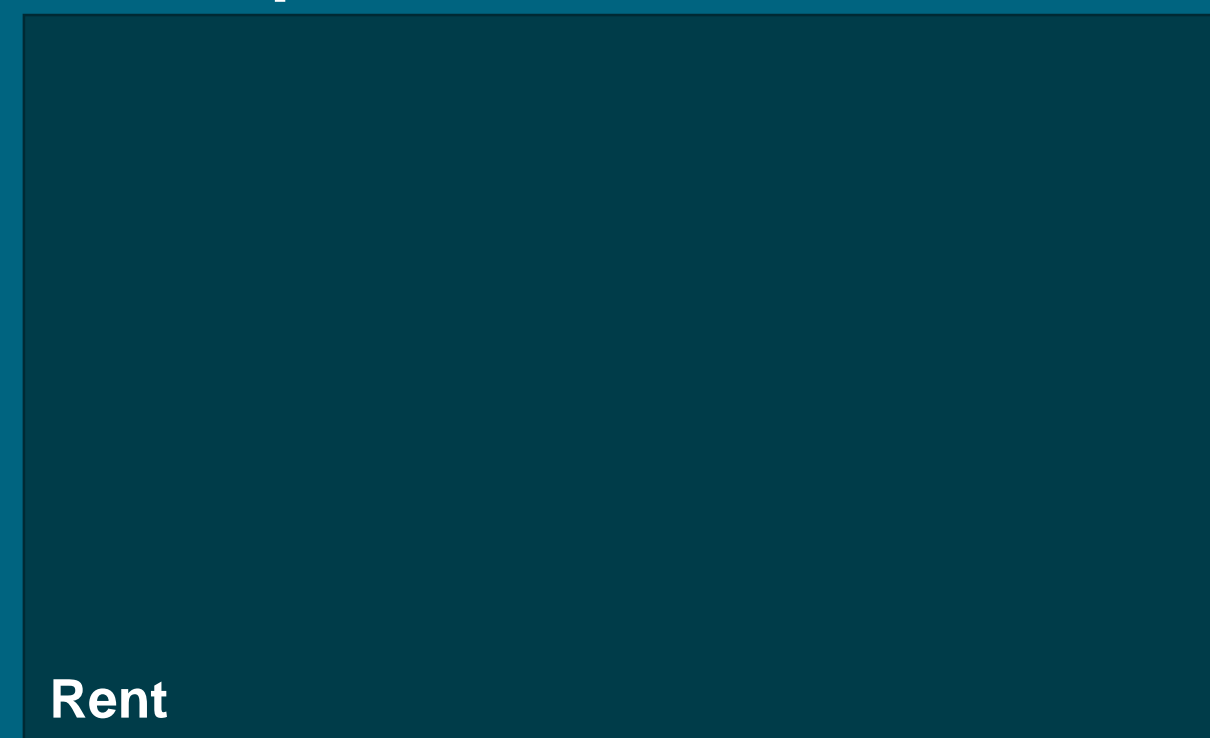
# | COST VERSUS REVENUES:

## Example: West San Jose (Double Land Cost)

Cost per Unit: \$747,279



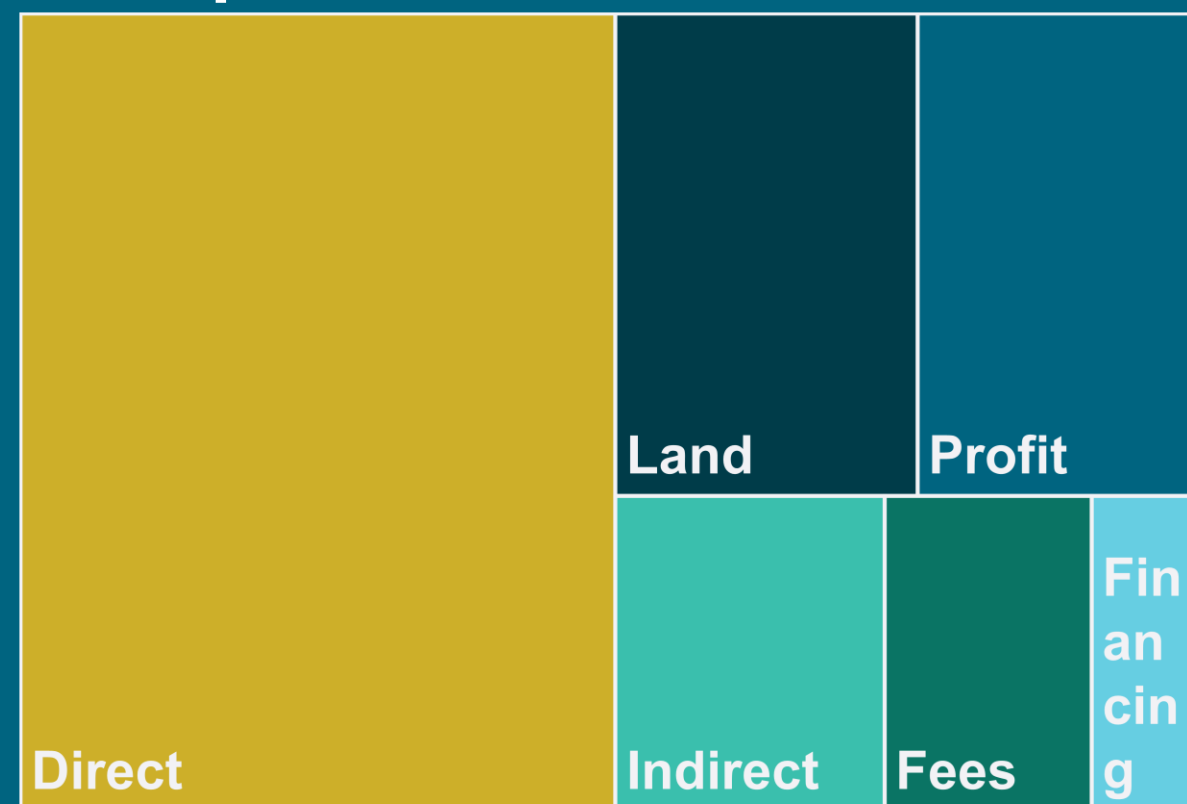
Value per Unit: \$677,300



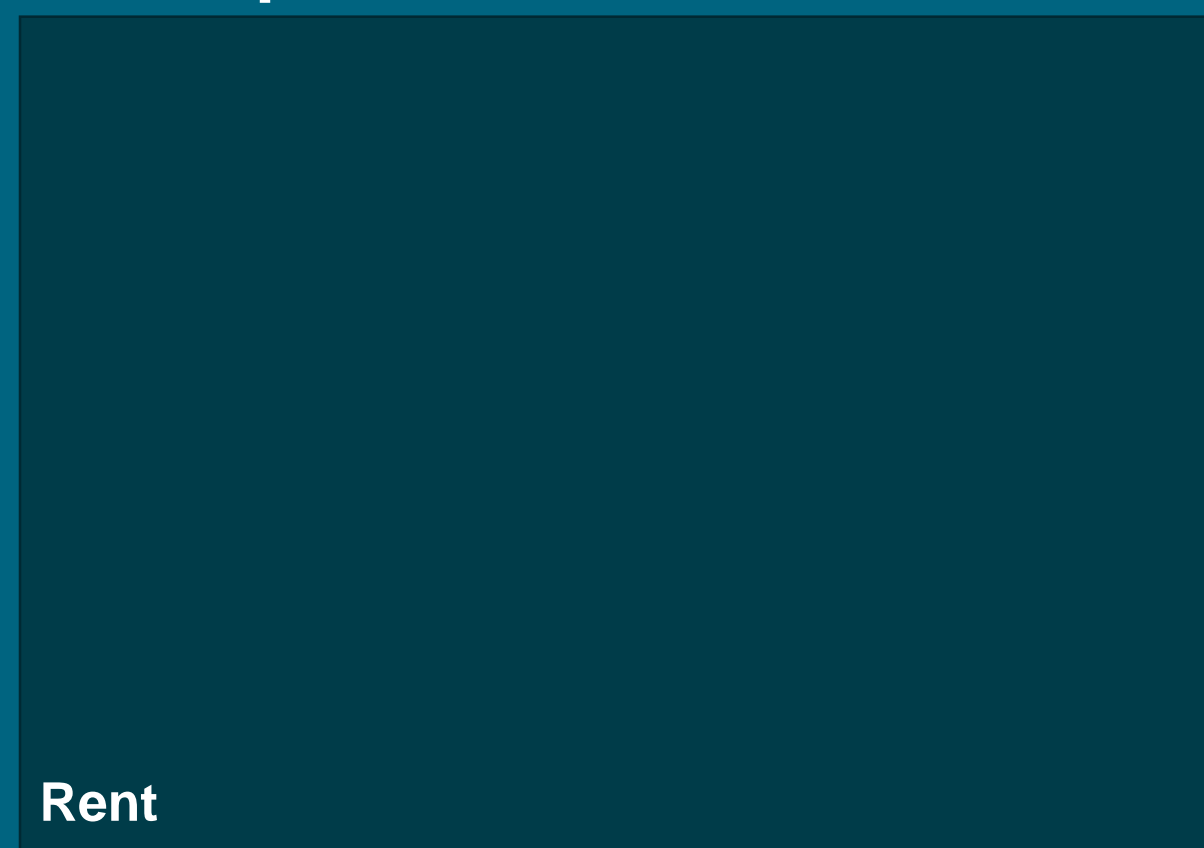
# | COST VERSUS REVENUES:

**Example: West San Jose  
(Double Land Cost and  
+\$0.39 PSF/Month Rent)**

**Cost per Unit: \$747,279**



**Value per Unit: \$766,000**



# Questions?

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Housing Department

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# Development Fee Framework

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# | BACKGROUND:

- **Council Policy Priority #12:** Universal Development Fee – Explore creating a universal development fee for residential development that covers all development taxes and fees
- **Council Policy Priority #21:** Impact Fee Deferred Payment Program for Housing – Consider allowing deferral of payment of impact fees on GP 2040-compliant housing construction

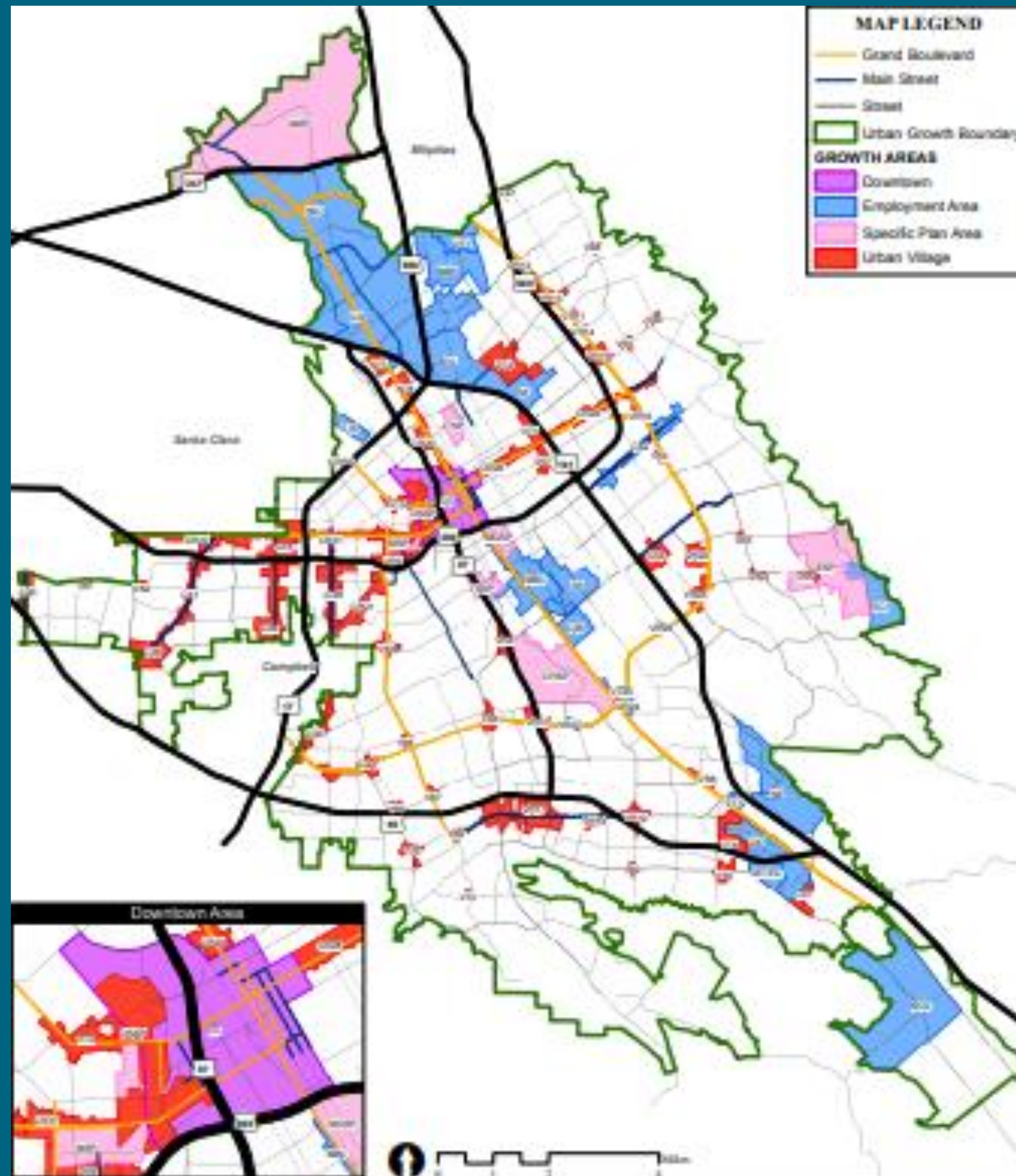
# | DEVELOPMENT FEES:

Submarket	IHO In-Lieu (Per Unit)	Parkland In-Lieu (Per Unit)	Constructio n Taxes (Per Unit)	Traffic Fees (Per Unit)	Developme nt Permits (Per Unit)	Total (Per Unit)	% of Total
South and East	\$25,000	\$10,800	\$6,500	\$0	\$6,500	\$48,800	<b>87%</b>
Central San Jose	\$25,000	\$15,800	\$6,800	\$1,100	\$6,500	\$55,200	<b>86%</b>
West San Jose	\$25,000	\$13,500	\$6,800	\$0	\$6,500	\$51,800	<b>87%</b>
North San Jose	\$25,000	\$29,100	\$6,800	\$5,000	\$6,500	\$72,400	<b>84%</b>
Downtown (incentive)	\$0	\$10,200	\$3,400	\$0	\$6,500	\$20,100	<b>68%</b>
Downtown (no incentive)	\$25,000	\$10,200	\$6,700	\$0	\$6,500	\$48,400	<b>87%</b>

# | PROPOSED APPROACH:

- Use a universal metric to calculate fees (per square foot)
- Establish common definitions including development typology as applicable
- Create a universal standard for market-based geographies across the City.

# | PROPOSED APPROACH:





# FEE PAYMENT DEFERRAL:

Fee	Currently Due	Potential Change
<b>Inclusionary Housing Fee</b>	Post-Construction, at Certificate of Occupancy	No change
<b>Affordable Housing Impact Fee</b>	Issuance of Building Permits	n/a
<b>Parks Fee</b>	Issuance of Building Permits	Defer to Certificate of Occupancy
<b>Traffic Impact Fee</b>	Issuance of Building Permits	n/a
<b>Construction Taxes</b>	Issuance of Building Permits	Defer to Certificate of Occupancy
<b>Permitting Fees</b>	At time of City-staff work	n/a

# | OUTCOME:

- Transparent and predictable fee basis for development
- Transparent platform for informing policy decisions

- Fee Stack by Geography

- Development Activity

- Cost of Development



# **FEEDBACK:**

- **Consistent definitions as well as methodology**
  - Per sq. ft. as gross, net, or rentable?
- **How do equity considerations impact decision making?**
  - Would expanding the market geography approach affect equitable investment across the city?
- **Deferred investment in infrastructure**
  - What's the opportunity cost of deferring payment?
  - What's the impact on interim funding for capital projects?

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