



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Nanci Klein
Chris Burton
Jon Cicirelli
Erik L. Soliván
John Ristow

SUBJECT: See Below

DATE: November 20, 2024

Approved

Date:

11/25/24

COUNCIL DISTRICT: Citywide

SUBJECT: Multifamily Housing Incentive Program and North San José Parks
Fee Realignment

RECOMMENDATION

- (a) Accept the following recommendations to create a temporary Multifamily Housing Incentive Program to a specified set of development proposals:
- (1) Adopt a resolution listing those projects eligible for the temporary Multifamily Housing Incentive Program as outlined in **Attachment A**.
 - (2) Adopt a resolution reducing the Inclusionary Housing Ordinance in-lieu fees to \$0 for projects eligible for the temporary Multifamily Housing Incentive Program that include at least 5% of units onsite at up to 100% area median income, and excluding projects otherwise eligible for the incentive that have an existing Affordable Housing Compliance Plan that includes onsite affordable units unless the Housing Director approves an alternative in accordance with the provisions of the temporary Multifamily Housing Incentive Program.
 - (3) Approve an ordinance adding Section 4.46.039.13 to Chapter 4.46 and adding Section 4.47.098 to Chapter 4.47 of Title 4 of the San José Municipal Code to provide:
 - (i) A 50% reduction of the Commercial, Residential, and Mobile Home Park Construction Tax and a 50% reduction of the Building and Structure Construction Tax to the first 1,500 units in projects eligible

- for the temporary Multifamily Housing Incentive that also obtain a City building permit by December 31, 2025; and
- (ii) A 25% reduction of the Building and Structure Construction Tax for up to 8,539 additional units in projects eligible for the temporary Multifamily Housing Incentive Program.

- (b) Adopt a resolution amending Exhibit A of Resolution No. 78733, adopted on August 7, 2018, which sets forth the Schedule of Parkland Fees charged pursuant to Chapters 14.25 and 19.38 of the San José Municipal Code, to establish a new permanent per unit Parkland In-Lieu Fee for multi-family residential projects that have five units (or more) in Multiple Listing Service District 7B (North San José – south of State Route 237) at \$22,600 per unit.

SUMMARY AND OUTCOME

Approval of recommendation (a) will create a temporary multifamily housing incentive program for a limited number of projects, as described and defined further below, that are generally non-high-rise, high-density multifamily entitlements in growth areas in the City. This incentive program includes a waiver of the Inclusionary Housing Ordinance (IHO) fees for projects providing 5% of units at up to 100% area median income, unless a higher amount of onsite affordable units was already committed to previously. The incentive also provides a 50% reduction in the Commercial, Residential, Mobile Home Park (CRMP) and Building and Structure (B&S) construction taxes for the first 1,500 units that also obtain a City building permit by December 31, 2025 and a 25% reduction in the B&S Construction Tax for up to 8,539 additional eligible units.

Approval of recommendation (b) will update the Parkland Schedule of Fees to align the fee for high-density multi-family projects in North San José (MLS 7B) to \$22,600 per unit, which is equal to the Downtown San José fee for multifamily housing types, while keeping all other fee rates at the same level.

BACKGROUND

On June 18, 2024, the City Council extended and modified the Downtown Residential High-Rise Incentive Program. This program applies exclusively to residential high-rise development located in the Downtown Planned Growth Area defined in the City's Envision San José 2040 General Plan. The program includes a reduction in the City's two primary construction taxes (CRMP and B&S), a deferral of payment of these taxes to final inspection, and a reduction in the IHO in-lieu fees. Additionally, modifications in June 2024 included a further reduction to the parkland in-lieu fees beyond the current permanently discounted rate for high-rise residential in Downtown. The program is divided into three phases, with taxes and fees increasing incrementally in each subsequent phase allocated with a specific number of units up to total of 10,000 units.

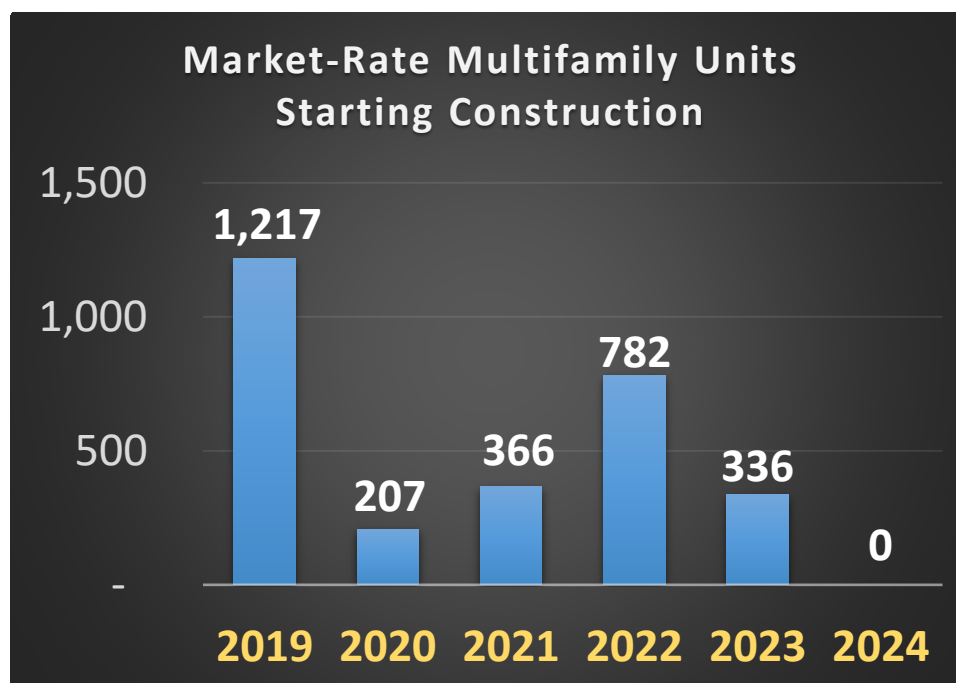
In addition to extending and modifying the Downtown Residential High-Rise Incentive Program, the City Council directed staff to study additional strategies for promoting housing construction aimed at growth areas defined in the Envision San José 2040 General Plan, with an emphasis on those projects with project applications that were deemed complete by the Planning, Building, and Code Enforcement Department by the end of June 2022. City Council further directed staff to explore potential changes in parkland in-lieu fees and associated private recreation credits for development in North San José in the real estate multiple listing service (MLS) district 7B.

ANALYSIS

Context and Current Housing Production Performance

The City received an allocation of 62,200 units for its 6th Cycle Housing Element, which is for the period of January 31, 2023 to January 31, 2031. While San José has seen some modest production of affordable housing in the last several years, the City has continued to underperform in housing production, particularly in the last calendar year for multifamily housing market rate (above moderate income) housing. No multifamily market-rate project over 20 units started construction in calendar year 2024. The **Figure** below shows the number of multifamily units that have started construction since 2019. Only one project per year has started construction since 2020.

Figure



Staff compiled a comprehensive impact analysis for the Multifamily Housing Incentive Program that sampled six projects from the list of eligible projects. The analysis sized the waiver of IHO fees, construction taxes, and park impact fees and applied the scale of City fees and tax adjustments to the financing pro forma for each of the projects. In summary, the numerical analysis demonstrated that fee and tax reductions would not catalyze many projects forward as current economic conditions, specifically, the high cost of land, labor, and inflationary pricing of materials and project financing, are barriers to project feasibility.

The economics shaping project feasibility for the new construction of multifamily market-rate housing continue to present an extremely challenging environment nationally and in San José. This is confirmed by the data in the above **Figure** and low permit activity. While the staff recommendations do not catalyze the feasibility of many market-rate housing development projects, they do signal to project investors that San José is taking measured actions to support the production of housing units by leveraging its fee programs. As economic conditions rebound, the incentive program will enable projects to potentially start earlier in any recovery period than they may otherwise have without the incentive program.

1. Proposed Multifamily Housing Incentive Program Parameters

Project Eligibility and Criteria: **Attachment A** contains the list of projects eligible for the proposed Multifamily Residential Incentive Program. The list contains 34 projects with up to 10,039 units – 7,530 market-rate and 2,509 affordable units.

The eligible projects in **Attachment A** meet the criteria defined below, with some exceptions as noted. The recommended criteria generally align with the parameters suggested by the City Council in June 2024. The recommended approach to the Multifamily Housing Incentive Program simplifies program administration across multiple departments. It also makes understanding the maximum foregone revenue implications in future years easier.

- **Density:** Eligible projects have a density exceeding 50 dwelling units per acre, equivalent to the minimum density in the Envision San José 2040 General Plan Transit Residential land use designation. While this density generally represents projects with approximately five stories, projects may be able to meet this density with four stories.
- **Geography:** Eligible projects are generally located in a Planned Growth Area (e.g., Urban Village) as defined in the Envision San José 2040 General Plan. There is one exception to this where an approved project is proximate to a growth area, the 1050 Saint Elizabeth project, but meets all other criteria and is in an area with other existing multifamily housing.

- Application Submittal Timing: Eligible projects were deemed complete by the Planning, Building, and Code Enforcement Department by the end of December 2022. While the City Council directed June 2022, extending the completed application timeframe to December 2022 allows the inclusion of one additional project in North San José that meets all other criteria, the 210 Baypointe project.
- Program Horizon: Projects remain eligible until the expiration of the planning permit, including any extensions. Generally, this is two years with up to two one-year extensions for a total of four years from the initial entitlement.
- Modification of an Eligible Project: Eligible projects may be modified and remain eligible for the Multifamily Housing Incentive Program under certain conditions. A project must submit an application for modification of the project to the City by December 31, 2025. To remain eligible, the modification must result in a project maintaining a density of at least 50 dwelling units per acre. The modified project must obtain a building permit 18 months after planning approval of the modified project and pass a first inspection six months after building permit issuance to remain eligible for the program.

Waiver of Some IHO Requirements for Projects that Provide Affordable Housing: The IHO requires residential development to provide 15% of housing units on-site that are affordable to income-qualified buyers or renters. The IHO also provides multiple other development options to satisfy its affordable housing obligation. This includes options such as building affordable units offsite equal to 20% of the total number of units or paying an in-lieu fee per square foot. There are numerous other options for compliance, including mixed compliance options and land dedication, among others.¹

The current IHO program also has two in-lieu fee amounts depending on a project's geography. For mixed compliance projects, the in-lieu fee in the "Strong Market Area" is currently set at \$21.74 per square foot and the in-lieu fee in the "Moderate Market Area" is currently set at \$13.80 per square foot. The Strong Market Area includes the areas of Central and West Valley.²

Staff recommends that eligible projects may pay a \$0 in-lieu fee if the project includes at least 5% of affordable units onsite up to 100% of the area median income. As authorized by the Housing Director, projects eligible for the proposed Multifamily Housing Incentive Program with an existing Affordable Compliance Plan may retain eligibility. Staff recommends this modification as a tool for increasing on-site affordable units, project financial feasibility, or to foster the development of additional housing units in the project. In addition, the Housing Director may modify an existing IHO Compliance

¹ IHO webpage with further detail on compliance options: <https://www.sanjoseca.gov/your-government/departments-offices/housing/developers/inclusionary-housing-programs>

² IHO "Strong Market and Moderate Market Areas": <https://www.sanjoseca.gov/home/showpublisheddocument/72161/637556456535530000>

Plan of an eligible project to apply the Multifamily Housing Incentive Program benefits as stated in the IHO Ordinance.

Reduction of Construction Taxes: The City charges two major construction taxes for new residential developments. The CRMP Construction Tax and the B&S Construction Tax are charged based on the valuation of the new construction. Given their size, these are two taxes typically included in residential incentives or tax reduction programs.

The CRMP Construction Tax is a general tax that is unrestricted in its use, but is typically allocated in the Traffic Capital Program for transportation-related work, projects, and improvements, including complete streets, pedestrian safety, and traffic calming projects. The CRMP Construction Tax is charged at a rate of 2.42% of building valuation for residential.

The B&S Construction Tax funds are received in a special fund within the Traffic Capital Program that, by law, are restricted to support infrastructure along major roadways. The B&S Construction Tax is charged at a rate of 1.54% of building valuation for residential.

Staff recommends a two-phased approach with respect to the reduction of construction taxes for eligible projects. Phase 1 is a 50% reduction of the CRMP Construction Tax and a 50% reduction of the B&S Construction Tax for the first 1,500 units on the eligible projects list that also obtain a City building permit by December 31, 2025. Phase 2, starting January 1, 2026 is a 25% reduction in the B&S Construction Tax only for up to 8,539 units on the eligible projects list. This phased approach is recommended to balance catalyzation of housing production with reduced revenue for transportation-related programs and initiatives.

Deferring the Timing of Payment of Taxes and Fees: Eligible projects will pay taxes and fees prior to the issuance of the first Certificate of Occupancy. This could be either a Temporary Certificate of Occupancy or a Certificate of Occupancy, depending on the project. The shift in the timing of payment for fees is consistent with recent California legislation, Senate Bill (SB) 937 (Weiner), that shifts the timing of payment of fees for certain residential development. Additional information on SB 937 is included in the below “Additional City Council Recommendations Consideration and Follow-Up” section of this memorandum. To defer payment of the eligible construction taxes and to comply with subsidy hearing requirements, staff will bring forward project completion agreements to be executed by the City Manager or her designee with project applicants.

Table 1 provides a summary table of the proposed Multifamily Housing Incentive Program.

Table 1: Summary Table of Proposed Multifamily Housing Incentive Program

PARAMETER	PROPOSED PROGRAM CONCEPT		CURRENT OBLIGATION
DENSITY/ HOUSING TYPE	Development with net density of 50 dwelling units per acre or more. (Approximately five-plus stories.)		N/A
GEOGRAPHY	Planned Growth Areas throughout the City, with one exception.		N/A
CONSTRUCTION TAXES	<u>Phase 1</u> 50% reduction CRMP Tax and B&S Tax for first 1,500 units that must also obtain a building permit no later than December 31, 2025.	<u>Phase 2</u> Starting January 1, 2026, 25% reduction in B&S Tax for up to 8,539 additional units	CRMP Tax charged at 2.42% of building valuation B&S Tax of 1.54% of building valuation
INCLUSIONARY HOUSING	\$0 in-lieu fee and 5% of units at up to 100% area median income		<u>Strong Market:</u> \$49.99 per square foot <u>OR</u> 5% of units at 100% area median income and \$21.74 per square foot <u>Moderate Market:</u> \$21.74 per square foot <u>OR</u> 5% of units up to 100% area median income and \$13.80 per square foot
TIMING OF PAYMENT	Paid at <u>first</u> Certificate of Occupancy		Paid at building permit issuance
PROGRAM HORIZON	Expiration of valid entitlement – maximum two years, plus two one-year extensions = four years from initial entitlement		N/A

2. North San José Parks Fee Realignment

Population growth created by new residential development creates demand for new park facilities and increases the use of existing parks and recreational facilities. Park impact fees are monies residential developers pay to the City to offset the cost of providing and improving the City's park system. These are commonly referred to as "park fees." The fees are charged from a City Council-adopted Parkland Schedule of Fees and Credits.

The Parkland Schedule of Fees and Credits is based upon the estimated land value and the number of persons per household, as published in the United States Census, and City Council adopted resolutions. Park fees can be modified annually and be adjusted to reflect current land values. The fee can increase or decrease in a way consistent with current market rates for land.

The City refers to real estate MLS areas to help calculate the land values that provide the base of the park fee. There are 15 MLS areas in San José. These areas generally align with recognizable areas of the City, such as North San José and Downtown San José. North San José is defined as the area north and west of Interstate 880 and south of State Route 237 and is in MLS district 7B. Downtown San José is in MLS district 9.

Park fees have not been fully updated to reflect current land values since December 2017. The current park fee rate for multifamily projects with five or more units in North San José MLS 7B is \$41,600 per unit. The next highest per-unit fee applicable to the same category of multifamily elsewhere in the City is in Downtown San José, with a rate of \$22,600 per unit.³

Due to the limitations posed by the North San José Area Development Policy, multifamily development in North San José was extremely limited following an initial large development wave in 2011. However, since this development policy has been retired, there is now an opportunity to construct new multifamily residential in North San José. The City further provided additional opportunities for new multifamily development in North San José through actions related to the updated Housing Element. Two new zoning overlays were created and applied to various sites in North San José to provide additional opportunities for new housing development.

Staff recommends that the fee level for multifamily housing projects that have five units or more in North San José be permanently realigned with the fee for the next highest MLS district in the City, Downtown San José MLS district 9, to support housing production in North San José. The fee adjustment will only apply to projects or those portions of projects that have five or more multifamily units in MLS 7B. The fee adjustment equals a 45.67% reduction from the existing fee rate.

³ Current fee levels set in [Resolution No. 78474](#)

Park fees can be further reduced by credits given for affordable housing units and through the provision of privately owned and maintained on-site recreational amenities. Each qualifying affordable housing unit receives a 50% per unit park fee reduction. On-site recreational amenities can further reduce the total amount of park fees due by up to an additional 50%. All park fees and credit programs are listed on the [Parks, Recreation, and Neighborhood Services Department “Developers” webpage⁴](#).

Staff does not propose any additional modifications to parkland in-lieu fees nor any changes to affordable housing or private recreation credits. New residential development in North San José will continue to be able to obtain private recreation credits and affordable housing credits just as in other areas of the City.

3. Compliance with San José Municipal Code Title 14

Chapter 14.10 of the San José Municipal Code sets “Minimum Labor Standards for a Private Construction Project Accepting a City Subsidy.” Chapter 14.10 defines a subsidy to include any “reduction, permanent suspension or exemption of any fee or tax” that applies to single or multiple projects. Construction projects receiving a City subsidy are required to pay all workers employed on the construction prevailing wage rates and are subject to other provisions, such as requiring apprenticeships and local hire, among others. There are exemptions to the definition of a subsidy that include the reduction of a fee or tax that is applied uniformly across all private construction projects within a specific subcategory of use, e.g., high-rise residential, when the City Council determines, based on specified criteria, that construction of the projects is not financially feasible. The specified criteria are as follows:

- A. City Council must determine that a fee or tax reduction is not a subsidy supported by findings following a public hearing;
- B. City Council’s findings must be supported by the evidence presented at the public hearing, including a study analyzing whether construction within the subcategory of use is financially infeasible;
- C. The financial feasibility study must be performed by a consultant qualified to provide real estate analytic services selected and retained by the City using its normal procurement process; and
- D. City Council must use reasonable efforts to conduct the hearing within 90 calendar days following the completion of the financial feasibility study.

The feasibility of multifamily residential development was analyzed in the latest Cost of Residential Development report summarized in **Attachment B** - City Council Memorandum on Cost of Residential Development from City Council Study Session

⁴ [Parks, Recreation, and Neighborhood Services Department “Developers” webpage](#)

October 26, 2023 - that was presented and discussed with the City Council at an October 2023 Study Session. Due to time, cost, and staff resources, a complete update of the cost of development prior to consideration of these recommendations was not possible. However, staff requested and obtained a conceptual feasibility analysis review from the consultant responsible for the 2023 report that discussed current feasibility at a high-level in the present conditions included in **Attachment C** – Strategic Real Estate Advisory Services: 2024 Conceptual Feasibility Analysis Review. A comparison of the 2023 and 2024 analyses of cost of development is included in **Table 2**.

Table 2: Cost of Development Conceptual Feasibility Analysis 2023 vs 2024

	Issue	<i>Consultant 2023 Analysis (Attachment B)</i> <i>Consultant 2024 Analysis (Attachment C)</i>
a.	Whether the construction of Private Construction Projects in the specified Subcategory of Use are Financially Infeasible.	<i>“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.” (Attachment B; pg. 13)</i> <i>“...there is no indication or evidence that the challenging residential development economics observed in the 2023 analysis have improved.” (Attachment C; pg. 8)</i>
b.	The reason(s) for any conclusion that construction of the Private Construction Projects in the specified Subcategory of Use is Financially Infeasible.	<i>“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.” (Attachment B; pg. 2)</i> <i>“While many financial and non-financial factors affect feasibility, key drivers of</i>

	Issue	Consultant 2023 Analysis (Attachment B) Consultant 2024 Analysis (Attachment C)
		<i>economic feasibility include hard costs, target returns on cost, rental rates, and sale prices. Market research regarding changes in these drivers since the 2023 analysis indicate that these drivers have not changed in a manner that would materially improve residential development feasibility.”</i> (Attachment C; pg. 8)
c.	The anticipated duration of any condition(s) making construction of the Private Construction Projects in the specified Subcategory of Use Financially Infeasible.	“<i>Engineering News Record and TBD Consultants publish indices which track construction costs quarterly in the Bay Area. 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.”</i> (Attachment B; pg. 14) “<i>According to TBD Consultants Bid Index, which tracks construction costs in the Bay Area, hard costs between the third quarter of 2023 and the second quarter of 2024 increased approximately 2%. While data for the third quarter is not yet available, initial indications suggest that costs will either remain flat or increase slightly.”</i> (Attachment C; pg. 5)
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.	The 2023 report showed a negative residual land value ranging from \$323,000 per unit to \$435,000 per unit for rental projects in submarkets throughout the City.

	Issue	<i>Consultant 2023 Analysis (Attachment B)</i> <i>Consultant 2024 Analysis (Attachment C)</i>
		<i>"...there is no indication or evidence that the challenging residential development economics observed in the 2023 analysis have improved." (Attachment C; pg. 8)</i>
e.	Options for making the 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 the 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.	<i>"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 for any of the prototypes." (Attachment B; pg. 16)</i> <i>"Compared with the research findings that informed the 2023 analysis, in the third quarter of 2024, the four drivers to be evaluated are similar to or less favorable than they were in the third quarter of 2023" (Attachment C; pg. 2)</i> Based on finding the previous sensitivity analyses would remain valid to show that projects would remain infeasible under the options outlined in part e.
f.	The consultant's preparation of the required study will include the opportunity for stakeholder input.	Meetings with development community members were held on September 28 and October 12, 2023 to review the assumptions and findings in the initial report. The Housing Department also engage developers on individual basis to collect and refine the data underlying the recommendation.

4. Additional City Council Recommendations Consideration and Follow-Up

City Council action at the June 18, 2024 meeting also directed staff to provide a preliminary high-level assessment of the cost implications of the City's regulatory framework. Staff provided an update on this work to the Community and Economic Development Committee as part of the status report on the Development Fee Framework in April 2024.⁵

The objective of the Development Fee Framework is to provide developers and the public a transparent view of how development impact fees are calculated and administered so it is easier to estimate and understand fees without changing any existing fee programs. This work to establish and formalize the Development Fee Framework was also included as a strategy P-10 in the Housing Element and entitled *Standardize and Streamline Permitting, Fees, Applications*. An interdepartmental working group is developing policy objectives that could inform the establishment of a future City Council policy. This work is anticipated to be considered by City Council in 2025.

In September 2024, Governor Newsom signed into law SB 937 that shifts the timing of payment of fees for "designated residential development projects" to a Certificate of Occupancy. Effective January 1, 2025, SB 937 defines "designated residential development" as those projects as: (1) 100% affordable housing; (2) SB 35/SB 423 State Streamlined Housing Projects; (3) projects approved through Assembly Bill 2011⁶; (4) low barrier navigation centers; (5) projects approved through the provisions of SB 4 that allow for affordable housing on the lands of faith-based uses or certain public universities; (6) the project is eligible for state density bonus law, or (7) the project includes 10 or fewer units.

This shift in the timing of payment of fees in SB 937 for these designated residential projects aligns with the goals and draft policies within the Development Fee Framework. Shifting the timing of payment helps residential development lower upfront costs. Staff continues to work on efforts to implement SB 937 and the Development Fee Framework as means to provide streamlining and costs savings related to the regulatory environment.

⁵ April 2024 Staff Report on Development Fee Framework:

<https://sanjose.legistar.com/View.ashx?M=F&ID=12856106&GUID=00242C40-7E3F-4E84-B0AE-FC0876E33DED>

⁶ Information Memorandum: Analysis of Senate Bill 6 and Assembly Bill 2011:

<https://www.sanjoseca.gov/home/showpublisheddocument/112540/638531176363100000>

EVALUATION AND FOLLOW-UP

Should City Council approve the staff recommendation, staff will monitor the ongoing performance of the Multifamily Housing Incentive Program through the Housing Catalyst Team Work Plan that is provided annually to the Community and Economic Development Committee and City Council. Staff also plans to bring forward a complete update of the Cost of Residential Development to City Council in spring 2025.

COST SUMMARY/IMPLICATIONS

Multifamily Housing Incentive Program

The full fiscal impact of the proposed Multifamily Housing Incentive Program will not be completely understood until developments begin to move forward and we are closer to the last entitlement expiration dates outlined in **Attachment A**. Pursuant to California Government Code Section 53083, the City must disclose information related to any fee waiver over \$100,000 through a public hearing, and pursuant to City Resolution no. 77135, must also disclose any fee waiver over \$1,000,000 through a public hearing. These disclosures must include detailed information on the estimated total amount of expenditure of public funds or revenue lost, and project tax revenue resulting from the project. Staff will bring back these disclosures for individual projects in conjunction with the required Project Completion Agreement.

The IHO Fee for any residential developments adding 20 or more units is \$21.74 and up to \$13.80 per square foot per rental unit in Strong Market Areas and Moderate Market Areas, respectively, under mixed compliance. Housing Department analysis of the value of IHO fee waivers in some currently entitled multifamily projects proposed results in a higher per unit number of affordable units developed from the waiver than the total value of units supported by the collection and redistribution of the fee based on the recent historical per unit average subsidy from the City (\$275,000/unit) to affordable unit development.

Construction taxes fund a significant portion of the Traffic Capital Improvement Program, which in turn funds transportation programs, staffing, and local match for grants. The potential forgone revenue associated with both Phase 1 and Phase 2 totals approximately \$7.3 million, \$3.4 million for Phase 1 and \$3.9 million for Phase 2. Other City funds will be utilized to backfill most of the Phase 1 foregone revenue estimated at \$2.7 million, primarily leveraging eligible funding from Community Development Block Grant funds, leaving a total reduction in the anticipated Traffic Capital Improvement Program budget of \$4.6 million. A higher ongoing reduction to construction taxes, without a commensurate backfill, would result in cuts to transportation and safety projects and programs, staffing, and/or local match funding for State and federal grants.

A reduction in B&S Construction Tax is recommended for the majority of units on the eligible projects list due to the restricted nature of B&S funds versus the CRMP funds. The B&S Construction Tax is restricted in its use and is focused on funding infrastructure-related initiatives on major collector and arterial roadways. Based on the last entitlement expiration dates outlined in **Attachment A**, the expectation is that revenue impacts would be experienced starting in the 2029-2030 fiscal year and going forward, and will be evaluated as part of the development of the 2026-2030 Traffic Capital Improvement Program. However, it is important to note that all revenue estimates are re-evaluated annually and are subject to change based on market conditions and actual private development construction, including residential, commercial, and industrial projects.

Staff estimates the City could receive \$6.8 million in ongoing, annual property tax revenue with the construction of approximately 10,000 new multifamily units. The City will also generate an annual utility user tax, a business tax, and a sales tax in mixed-use projects. While difficult to estimate, indirect revenue will also be generated through the purchase of goods and services throughout the City by each new resident living in these developments.

North San José Park Fee Realignment

Park Impact Fees are one of the most significant sources of funding to the City to support the design, building, and improvement of San José's public park system. North San José has many park needs, including the design and development of the Agnews regional park, Baypointe Park, and portions of the Bay Trail. Cost estimates for these three projects are \$89 million.

None of the currently entitled or planned projects in North San José MLS 7B are listed as potential revenue in the [2024-2025 Budget](#)⁷. However, Parks, Recreation, and Neighborhood Services Department staff depend on estimates of future park fee collections to pay for staffing and administrative costs, and to pair long-term planning and park construction efforts with funding needs. The current projected net park fee collections for six residential development projects on file is \$81.5 million, with net collections reduced to \$42.6 million following the fee realignment.

COORDINATION

The memorandum was coordinated with the City Attorney's Office and the City Manager's Budget Office.

⁷ City of San José Budget Documents: <https://www.sanjoseca.gov/your-government/departments-offices/office-of-the-city-manager/budget/budget-documents>

PUBLIC OUTREACH

Multiple online stakeholder meetings were conducted with the development community, advocates, and leadership from the South Bay Labor Council, Working Partnerships USA, Nor Cal Carpenter's Union, and Santa Clara and San Benito Counties Building and Construction Trades Council. These meetings occurred in September, October, and November.

Developer/development community meetings occurred on September 16 and 26, 2024, and staff presented to the San José Chamber of Commerce's Land Use Committee on November 21, 2024. Staff hosted an online meeting for housing, transportation, and parks advocates on September 17, 2024. City Council District 4 hosted a public online meeting on October 28, 2024, with staff presentations on the proposed Multifamily Housing Incentive Program and the proposed re-alignment of the North San José MLS 7B parks fees. Recordings of those meetings are posted on the [Fees that Support Parkland Development webpage](#)⁸.

This memorandum will be posted on the City's Council Agenda website for the December 10, 2024 City Council meeting.

COMMISSION RECOMMENDATION AND INPUT

No commission recommendation or input is associated with this action.

CEQA

Statutorily Exempt, File No. PP17-005, CEQA Guidelines Section 15273, Adjustment to Fees, Rates and Fares without changes to or expansion of services.

PUBLIC SUBSIDY REPORTING

This item itself does not include a public subsidy as defined in section 53083 or 53083.1 of the California Government Code or the City's Open Government Resolution. Staff in the City Manager's Office of Economic Development and Cultural Affairs will bring forward each eligible project for a required individual public hearing in accordance with City Council Resolution 77135 and California Government Code Section 53083.

⁸ Fees that Support Parkland Development webpage: <https://www.sanjoseca.gov/your-government/departments-offices/parks-recreation-neighborhood-services/in-the-works/fees-that-support-parkland-development>

HONORABLE MAYOR AND CITY COUNCIL

November 20, 2024

Subject: Multifamily Housing Incentive Program and North San José Parks Fee Realignment

Page 17

/s/

NANCI KLEIN

Director, Economic Development
and Cultural Affairs

/s/

CHRIS BURTON

Director, Planning, Building, and
Code Enforcement Department

/s/

JON CICIRELLI

Director, Parks, Recreation, and
Neighborhood Services Department

/s/

ERIK L. SOLIVAN

Director, Housing Department

/s/

JOHN RISTOW

Director, Department of Transportation

For questions, please contact Blage Zelalich, Deputy Director, City Manager's Office of Economic Development and Cultural Affairs, at blage.zelalich@sanjoseca.gov or (408) 535-8172 or Jerad Ferguson, Principal Planner, Planning, Building, and Code Enforcement Department at jerad.ferguson@sanjoseca.gov or (669) 223-1160.

ATTACHMENTS

Attachment A: List of Eligible Projects for the Multifamily Incentive Program

Attachment B: City Council Memorandum on Cost of Residential Development from City Council Study Session October 26, 2023

Attachment C: Strategic Real Estate Advisory Services: 2024 Conceptual Feasibility Analysis Review

Attachment A: List of Eligible Projects for the Multifamily Incentive Program

Market-Rate Projects

	Project Address	Developer	Last Entitlement Expiration	Units
1	498 West San Carlos	Urban Catalyst	12/14/2028	278
2	4300-4360 Stevens Creek	Fortbay/Perry Hariri	8/30/2028	407
3	14200 Union	Weingarten Investors	11/2/2028	305
4	1312 El Paseo de Saratoga/1177 Saratoga	Sand Hill Property	11/29/2029	772*
5	205 Dupont	Miramar Capital/Perry Hariri	5/4/2028	689
6	700 Saratoga	Avalon Bay Communities	3/17/2027	247
7	905 North Capitol	Hanover	6/29/2028	345
8	1298 Tripp; 1325/1347 E. Julian	ROYGBIV	11/29/2029	913
9	70 N. 27th	HC Investment LLC	5/31/2029	198
10	1530 W. San Carlos	Urban Villas LLC	6/28/2029	237
11	1520 W. San Carlos	Vivji Mani	7/12/2029	256
12	1050 Saint Elizabeth	Evershine XVII LP	4/19/2029	206
13	West San Carlos and Sunol	Republic Urban	5/4/2028	263
14	1065 S. Winchester	A&Z Development	10/25/2028	70
15	1073 S. Winchester	A&Z Development	8/25/2027	61
16	605 Blossom Hill	Republic Urban	8/9/2028	239
17	1197 Lick/Tamien Station	Republic Urban	12/9/2026	434
18	681 E. Trimble	Hannover Company	8/14/2028	1318
19	210 Baypointe	Summerhill Homes	10/22/2028	292

*Revised number of project units pending City Council approval.

Total 7533

Affordable Projects

	Project Address	Developer	Last Entitlement Expiration	Units
1	802 S. First	Maracor/Pacific West	10/12/2028	166
2	124 N. 15th	Santa Clara Housing Authority	9/2/2027	103
3	1371 Kooser	Affirmed Housing Group	8/24/2028	191
4	525 N. Capitol	Community Development Partners	9/1/2028	160
5	771-797 Almaden	Resources for Community Development	1/28/2028	99
6	2315 Canoas Garden	Santa Clara Housing Authority	4/20/2028	559
7	1135 E. Santa Clara	Green Republic Blossom Hill LLC	8/9/2028	89
8	70 Kentucky Place	Charities Housing	11/9/2029	55

9	501 Almaden	Satellite Housing	9/1/2028	53
10	1135 E. Santa Clara	Allied Housing	10/9/2026	91
11	2315 Canoas Garden	Sand Hill Property Co	1/10/2028	237
12	995 E. Santa Clara	First Community Housing	9/23/2028	74
13	2920/2928 Alum Rock	Charities Housing	9/1/2028	83
14	934-948 E. Santa Clara	Milestone Housing Group	8/8/2029	103
15	71 Vista Montana	Charities Housing	3/21/2029	446
Total				2509



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Christopher Burton
Rosalynn Hughey
Nanci Klein

SUBJECT: SEE BELOW

DATE: October 19, 2023

Approved

Date

10/20/2023

**SUBJECT: COST OF RESIDENTIAL DEVELOPMENT IN SAN JOSE
STUDY SESSION**

PURPOSE

The annual Cost of Residential Development Report (Report) and the Study Session are intended to provide City Council with insight into the economics of residential development, one of the primary challenges impeding the construction of new housing in San José. The Study Session will provide City Council with an update to the Report presented at the November 1, 2022 Study Session. The Report is comprised of two sets of analyses produced with the assistance of a consultant that evaluates the total cost of residential development in San José for market-rate and affordable housing.

OUTCOME

The Report provides an analysis of the impact of market and economic conditions on the cost to construct new market-rate and affordable housing in San José. City Council will hear a presentation from consultant Century | Urban on the findings of the updated Report, as well as insights from local industry experts in the fields of construction, real estate, financing, and affordable housing development.

BACKGROUND

In 2017, City Council directed staff to convene a City Council Study Session to discuss the aggregate impact of the fees and policies the City imposes on housing development and construction. The goal of the Study Session was to provide context and background for upcoming development-related items to be considered by City Council.

In 2018, City Council held two Study Sessions on April 26 and May 1 on the cost of residential development in San José that provided an overview of the local real estate market and residential development. Members of the Urban Land Institute provided a detailed summary of development financing and the impact of various City costs and policies on the viability of projects. Keyser Marston and Associates provided a detailed report, including a conceptual pro forma analysis for market-rate residential development based on the current market conditions in San José. The analysis in 2018 showed that new residential development was unlikely in many parts of San José based on economic conditions. The most likely area for new residential development was in West San José and development in Downtown and North San José had some potential.

In 2019, staff presented an update on the cost of residential development to City Council. This update found similar results as the 2018 study, suggesting that development remained feasible in West San José. Development in Downtown and North San José was again marginal and did not obtain a sufficient return to attract investment. Other areas of the City returned a negative value and were not possible. The 2019 update also included an additional analysis prepared by Keyser Marston and Associates on affordable housing.

In 2021, staff conducted a Request for Proposal and selected a new consultant to perform the work required to update the annual analysis. Century | Urban was selected as the consultant and the work to update the analysis with the consultant was initiated in early 2022. Century | Urban prepared a conceptual feasibility analysis for five residential rental and sale development prototypes most regularly seen in San José. The updated analysis revealed that none of the examined prototypes were feasible largely due to a 17% increase in Bay Area construction costs since the last analysis was completed, as well as a rise in interest rates and borrowing costs.

In 2023, the Report continues to show numerous challenges in developing both market-rate and affordable housing in the City. According to Century | Urban, average total development costs per unit, including the cost of materials and labor, increased 12% to 13% over the past 18 months and continue to be the most significant barrier to new housing construction. The recent experience in the City aligns with the Report findings in that 2023 new construction multifamily projects reported higher than anticipated funding gaps due to notable increases in their total development costs. Residential development in the City continues to face significant barriers related to increased costs of construction and financing.

ANALYSIS

The continued updates to the Report are an important tool for understanding the barriers to new housing construction. In particular, the updates provide a more detailed understanding of the factors both outside and within the City's control that impact the feasibility of residential development. These factors can contribute to the City's ability to deliver on its housing goals. As was the case in previous iterations, the analysis from the most recent Report continues to paint a bleak picture for future residential development in San José. Construction costs, despite a brief pause early in the pandemic, have continued to rise significantly and remain the biggest barrier to housing development in the City. This is a factor that the City has limited control over. On the other hand, City fees and the approval process for new developments are areas within the City's control to change.

New housing development for both market-rate and affordable housing is dependent upon private capital investment. From the start of the process, a developer will compile data based on estimated costs balanced against the estimated income that a new project will generate once completed. This model is referred to as a development “pro forma.” It is created individually by a developer early in the development process and is refined as the project moves along in the process. The pro forma is an important part of the decision-making process as the model will show whether the proposed project is both financially feasible and a worthwhile investment for private capital. The data and assumptions included in a specific pro forma for market-rate development are typically treated as proprietary to that developer or investor and are not shared with the City or the public.

Cost of Residential Development Report: Market-Rate Housing

The Report is intended to provide insight into the current economic conditions impacting residential development. Each individual project or deal is unique, complex and often spans many years. To provide a measure of the feasibility of residential development at any given time, the Report uses conceptual prototypes. These prototypes do not represent specific projects but rather reflect the typical characteristics of development that have occurred in the City in recent years and that are considered in each of the sub-areas by the *Envision San José 2040 General Plan* (General Plan). The prototypes used in this update are unchanged from the previous Reports. In general, they remain reflective of the types of development the City has seen for new multifamily housing. In addition, keeping the prototypes consistent allows for an easier comparison of the results of this study to those of the previous studies.

The Report looks at market-rate for-sale and rental multifamily housing development in three different prototypes: a five-story low-rise building, a seven-story mid-rise building, and a 22-story high-rise building. It is important to distinguish these types of development as each requires a different type of construction, which means different materials are used in the construction of the buildings. These material types affect the cost of construction. In general, the types of construction become more expensive the higher the building height. These prototypes are analyzed in several different submarket areas.

The majority of new residential development considered in the General Plan is planned for densities higher than are currently found throughout the City. While much of the housing throughout San José is at lower densities (primarily single-family homes), the long-term strategy outlined in the General Plan is to provide opportunities for high-density housing to maximize the number of new units constructed and to meet the City’s housing goals. The Report is intended to highlight current market conditions that present challenges to delivering the housing envisioned in the General Plan and, therefore, uses high-density housing prototypes as a basis for the analysis.

Through these conceptual prototypes, the consultant, Century | Urban, created a development pro forma that analyzes each prototype’s feasibility based on the current market conditions. The prototypes and the associated assumptions are detailed in the Report and included in **Attachment A**.

Defining Residual Land Value

The Report uses standard assumptions and developer insights to create the underlying feasibility model. In this analysis, the measure of feasibility is Residual Land Value, which is the amount of value remaining to purchase land once projected revenues and all other costs associated with planning, constructing, and leasing/selling the project have been accounted for. These costs also include an expected return on investment for the developer and other investors consistent with industry standards that are used by both the development and investment communities to make decisions on where to focus projects and investments. When comparing relative development activity between San José and other cities around the state or even nationally, the level of feasibility or return is ultimately the measure by which decisions on which projects to pursue and move forward are made. A positive residual value indicates the development could pay up to a specific price for land and still be considered feasible. A residual value that is zero or negative indicates a development that is infeasible as there is no remaining value to purchase land.

The results in the Report are based on conceptual prototypes and not on specific projects. The Report provides a macro view of development feasibility in the City. This does not necessarily mean that individual projects will not start. Specific projects may have unique circumstances that enable them to move forward in the current conditions.

Market-Rate Housing Development Remains Infeasible in Any Area

The results from the Report are included in **Table A and Table B** below. To summarize, all prototypes show significant negative residual land values. This means that even before accounting for the purchase of land, the cost to construct the building is infeasible. The residual values shown are on a per unit basis. The locations are based on the Development Fee Framework/Inclusionary Housing Ordinance submarket areas. Downtown is a subsection of the Central area, and the south and east are composed of multiple areas in the southeast part of the City. Not all prototypes were tested in all locations, and cells on the table with *NA* (not applicable) indicate locations that were not tested.

Table A: Residual Land Values for Market-Rate Rental Housing by Size and Location (per unit)

Rental Prototypes /Location	Low-Rise (5 stories)		Mid-Rise (7 stories)		High-Rise (22 stories)	
	2022	2023	2022	2023	2022	2023
Central	(\$257,000)	(\$343,000)	(\$338,000)	(\$435,000)	(\$498,000)	(\$614,000)
West	NA	NA	(\$216,000)	(\$363,000)	(\$376,000)	(\$542,000)
Downtown	NA	NA	NA	NA	(\$432,000)	(\$568,000)
North	NA	NA	(\$317,000)	(\$429,000)	(\$476,000)	(\$607,000)
South and East	(\$261,000)	(\$323,000)	NA	NA	NA	NA

Table B: Residual Land Values for Market-Rate For-Sale Housing by Size and Location (per unit)

For Sale Prototypes/ Location	Low-Rise (5 stories)		High-Rise (22 stories)	
Year	2022	2023	2022	2023
Central and West	(\$307,000)	(\$394,000)	NA	NA
Downtown	NA	NA	(\$518,000)	(\$611,000)
North	(\$369,000)	(\$419,000)	NA	NA
South and East	(\$394,000)	(\$342,000)	NA	NA

**The sales comparable data for the south and east submarkets showed a marked improvement in the sales price per square foot as compared to the sales comparable data for the 2022 study.*

Estimated Land Costs

Century | Urban also provided a land cost estimate based on location to provide context to the residual land values. Land prices estimated by the consultant (**Table C**) range from \$25,000 to \$85,000 per unit, depending on the geographic area. Due to limited land sale transactions for multifamily residential developments since the 2022 analysis, land values are estimated to be the same as the prior year's analysis.

Table C: Land Cost Estimates by Geographic Area

Land Prices Per Unit	South and East	Central	West	North	Downtown
Low	\$40,000	\$40,000	\$65,000	\$25,000	\$25,000
High	\$65,000	\$65,000	\$75,000	\$85,000	\$85,000

Construction Costs Remain a Barrier to New Development

The consultant also conducted a sensitivity analysis as part of the Report (**Exhibit C in Attachment A** to this memorandum) that looked at the impacts of various changes to multiple feasibility factors. For example, the sensitivity analysis included a 5% increase or decrease in rental rates, or a 5% increase or decrease in construction costs, etc. In all scenarios analyzed, the residual values did not shift to positive values that indicate feasibility. In all cases, the per unit residual values remained at significant negative levels. The largest improvement in feasibility was with a 5% reduction in construction costs. This analysis further shows the significant challenges faced in the current economic conditions for new market-rate construction and reinforces the major hurdle of construction costs.

In addition, two versions of Type I (high-rise) rental and sale prototypes are included—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.

Challenges to Provide Much-Needed Housing

The findings of this updated Report continue to point to an extremely unfavorable development climate throughout San José and, to some extent, the wider Bay Area. Development feasibility has decreased significantly for almost all of the proformas analyzed in the report and throughout all sub-areas.

Commercial real estate requires a balance between the costs associated with entitling, financing, and constructing a project and the total supportable cost realized in revenues from the lease or sale of units upon completion. A considerable number of variables go into each side of this equation but ultimately, if the balance is tipped towards infeasibility the project will be unable to obtain the financial resources necessary to proceed with the project. Several factors continue to impact this balance for residential development throughout San José but the primary amongst them continues to be construction costs, including the cost of materials and labor, which have continued to increase significantly since the start of the pandemic. The Report cites the Engineering News Record and TBD Consultants, both of which publish indices that track construction costs quarterly in the Bay Area. Both indices reflect major increases in cost since 2014 (over 200%) and even more significant increases since the first quarter of 2020 (up to 27%). While San José has experienced some rental rate and sale price growth over the same periods, construction cost growth has significantly outpaced both.

In addition to these “hard cost” increases, financial conditions for borrowing as well as services and City fees (soft costs) have significantly impacted development proformas. Increases in interest rates and borrowing costs driven in part by inflation and corresponding policy reactions have caused a decrease in market transaction volume and the availability of capital for construction projects. In addition to the cost of financing projects, the risk profile for new development has changed significantly. In addition to representing the required return developers expect from a potential project, the Return on Cost metric is often also used in assessing the viability of new projects by financial institutions considering construction loans. The Report assumed a Return on Cost of 5.75%, which already reflects an increase over the assumed Return on Cost in the 2022 Report, but subsequent discussions with members of the development community suggested that financial partners and lenders are targeting an even higher Return on Cost of 6.5%. The volatility of the current market and increased uncertainty of the economic outlook moving forward also create additional challenges.

Beyond the soft costs associated with entitlement and construction, multiple developers raised concerns about ongoing operating costs such as increasing insurance rates that have had a significant impact on baseline assumptions. Diminished net operating income would further impact supportable development costs, which in turn further diminishes feasibility.

City Fees and Taxes

There are a variety of City fees associated with processing development applications. Due to the “cost recovery model” of development services operations, applicants pay fees to several departments, including Fire, Planning, Building, and Code Enforcement, and Public Works. These fees pay directly for staff and the cost to the City to process and review the project. These fees represent less than 1% of the total cost per unit. There are also fees associated with public improvements such as sanitary sewer connection fees or street frontage improvements, among others. The largest component of City costs comes from inclusionary (affordable) housing in-lieu fees, parkland impact in-lieu fees, and construction taxes. Construction taxes, in general, fund transportation infrastructure, among other things, and are assessed based on the valuation of the new building. Parkland obligations for residential development can be satisfied through the dedication of improved or unimproved land, payment of an in-lieu fee, or a combination of both. The Report assumes a 25% reduction in parks fees for on-site recreational amenities. The fees and taxes included in the Report include a reduction based on average levels of credit for market-rate housing projects. Most qualifying affordable housing projects receive between 50% and 75% in park fee payment reductions. The City’s inclusionary housing requirements can be fulfilled in a variety of ways including building new affordable housing units or through payment of an in-lieu fee.

Based on the data in the Report, these costs represent 5% to 10% of the total costs to build a unit (**Table D**). These numbers are marginal compared to the overall cost of the unit; however, they still add costs and contribute to the level of infeasibility. Reduction of these taxes and fees to zero would improve feasibility slightly, but would not fundamentally change the outcome of the analysis; more importantly, such elimination would also significantly reduce City resources necessary to support transportation infrastructure renovate and create new park infrastructure and support affordable housing and related grant-matching requirements that support all these programs.

It is important for staff and City Council to continue to understand the cost implications of all policy decisions in the near term that could add additional costs to new housing development or decrease potential future revenues that would otherwise support day-to-day City infrastructure. Any added costs would further contribute to the infeasibility of new market-rate construction.

Table D: City Taxes and Fees on a per Unit Basis

City Impact Fees and Taxes (rental)	Range per Unit	
	<u>2022</u>	<u>2023</u>
Planning/Building fees	\$2,800 to \$7,000	\$3,100 to \$7,700
Construction taxes	\$6,400 to \$6,800	\$7,900 to \$9,900
Parkland in-lieu fees	\$9,800 to \$20,800	\$9,800 to \$20,800
Inclusionary housing in-lieu fees	\$21,000 to \$49,600	\$24,500 to \$57,700
Total City Impact Fees and Taxes	\$40,000 to \$84,200	\$45,300 to \$96,100

Cost of Residential Development Report: Affordable Housing

Century | Urban also prepared a Report for the City regarding the recent impact of market conditions on the cost and feasibility of constructing affordable housing included in **Attachment B – Affordable Housing Development Cost Study**. The purpose of this study was to understand the changes in the cost of developing affordable housing within the City, the funding sources used to pay for such costs, and the unique attributes of affordable housing that contribute to its higher construction costs.

The study compared the cost of developing affordable housing in San José to similar costs in other large California cities. This study evaluated the period from March 2022 to February 2023 for eight projects in San José and 21 projects in other cities that received tax credit allocations during this period. These projects ranged in height from five to seven stories and proposed a large family, “Non-Targeted” or “Special Needs” housing type. Non-Targeted projects are projects with a geographic set aside rather than a target population set aside. Special Needs developments target individuals and families who are homeless or at risk of homelessness and need permanent affordable housing and supportive services. These types of developments provide supportive services to assist an individual or family retain their housing, improve their health status, maximize their ability to live, and, when possible, work in the community.

The study showed that the average cost per unit for all San José projects was 23% higher than the average cost per unit for other City projects, and notably, the average cost per unit for Special Needs projects in San José were 43% higher than the average cost per unit for Special Needs projects in other cities. Acquisition costs per unit were 33% higher for all San José projects than in other cities. **Table E** provides the total development cost, average per unit.

Table E: Total Development Costs, Average per Unit

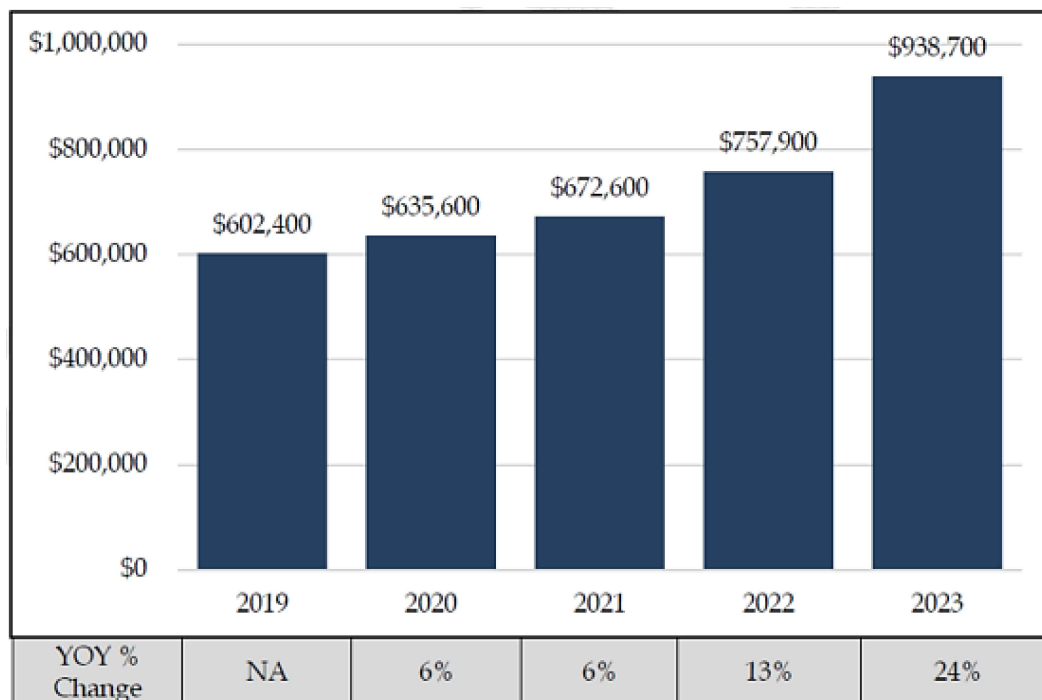
	San Jose Projects	Other City Projects	San Jose Cost Difference
All Projects	\$811,700	\$658,800	23%
Large Family	\$875,700	\$727,000	20%
Special Needs	\$925,600	\$683,600	35%
Non-Targeted	\$588,600	\$553,700	6%

* This refers to the 21 projects in other cities studied in the report.

The findings summarized below outline the challenges and major cost factors that impact affordable housing developments in light of recent economic and market fluctuations, and demonstrate why the cost of affordable housing is more expensive in San José than in other cities.

*General Trends*Escalation of Construction Cost

Similar to the findings from the market-rate study, construction costs have been a significant challenge for affordable housing development. Annual construction cost escalation averaged between approximately 8% from 2010 to 2020. While the increase was only 1% during the pandemic, 2021 showed a significant increase of 15% followed by an 8% increase in 2022 with major contributors being material and labor costs. This double-digit increase over an 18-month period led to per-unit costs for both large families and special needs units averaging around \$900,000 per unit, which were 20%-35% higher than other cities. **Chart 1** provides the total development costs per unit by year.

Chart 1: San José Projects Total Development Costs per Unit by YearIncrease in Cost of Financing

Financing for affordable housing developments is more complicated in that it requires multiple sources of funding, not just equity and debt. Projects have to apply to at least five to six sources of funding, which on average can take two to three years to acquire as some federal and state sources offer only a single application round a year. In addition, obtaining tax credit allocations is a highly competitive process and demand is often double what is available. Due to inflation, the recent increase in interest rates from around 4% to 8% has had a significant impact on the cost of obtaining financing to cover affordable housing development costs. The length of time it takes to acquire multiple funding sources exposes the borrower to interest rate fluctuations and other variable costs before the close of financing following a tax credit allocation. Multiple funding sources also bring additional compliance, regulatory, and legal costs. More than 60% of

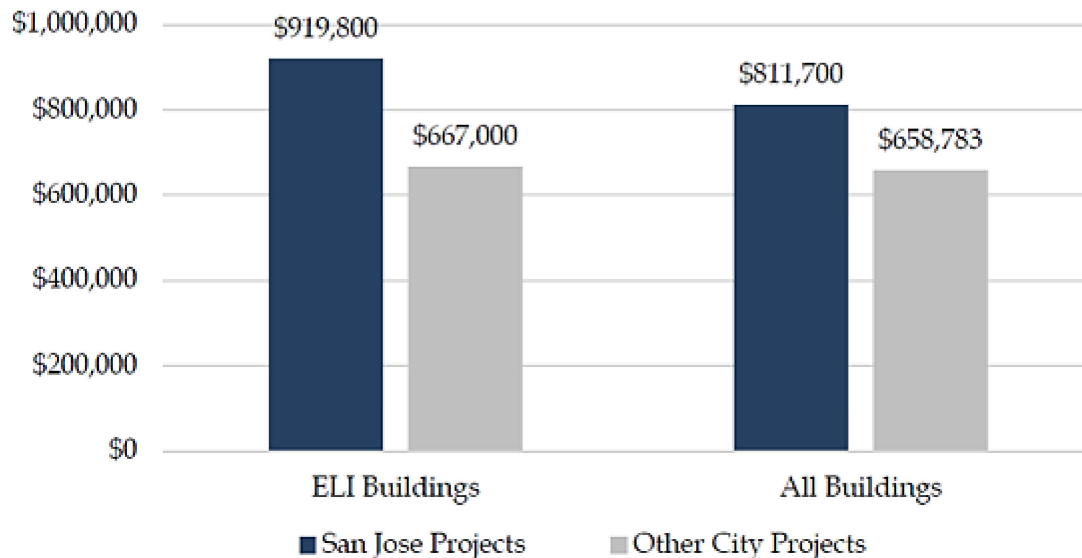
the construction financing is funded through a senior lender construction loan. Increases in interest rates drive up the cost of loans from banks. Affordable housing developments offer deeper affordability and generate lower rental income, making it difficult to meet the senior lender's debt service requirements. As a result, the developer obtains a smaller senior loan and, to cover the gap, seeks larger commitments from lenders willing to provide debt with lower interest rates, typically government lenders including the state, county, and the City.

The City of San José Versus Other Cities

Deeper Affordability Levels

San José developments provide deeper affordability, with approximately 75% of San José projects setting aside 50% or more units for extremely low-income households, in comparison to approximately 43% of other cities' projects. Development costs for extremely low-income buildings are higher, as shown in **Chart 2** below, due to the larger average unit size in these projects. Special Needs units in the City are 33% larger in square feet on average than in other cities. The larger average unit size accommodates the larger household size for extremely low-income units and Special Needs units.

Chart 2: Average Development Cost Extremely Low Income (ELI) Buildings Compared to All Buildings

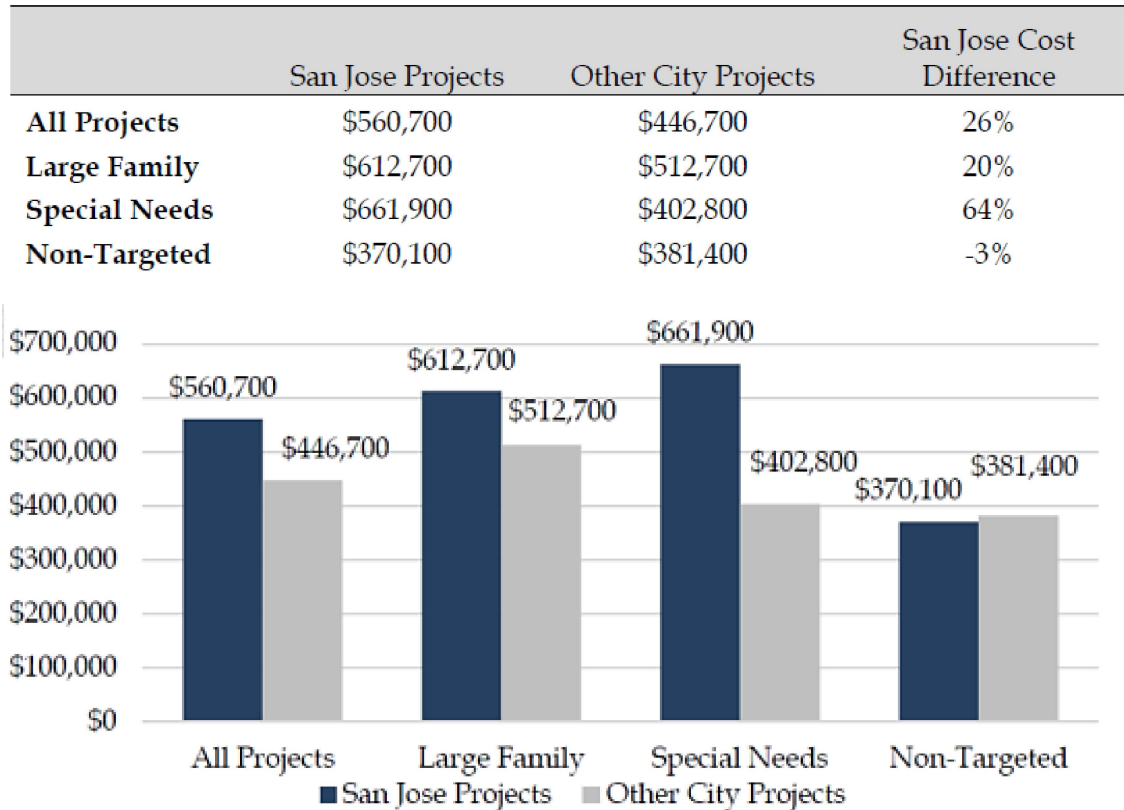


Higher Direct Construction Costs

Direct construction costs represent approximately 69% of total construction costs and have been increasing by 12% annually. The cost of labor and materials to construct buildings, site improvements and parking are higher in San José when compared to other cities. There is also a significant cost difference for Special Needs projects in San José compared to other cities. A shortage in the construction labor market and prevailing wage requirements applicable to San José projects result in higher direct construction costs for these projects. Many cities like San

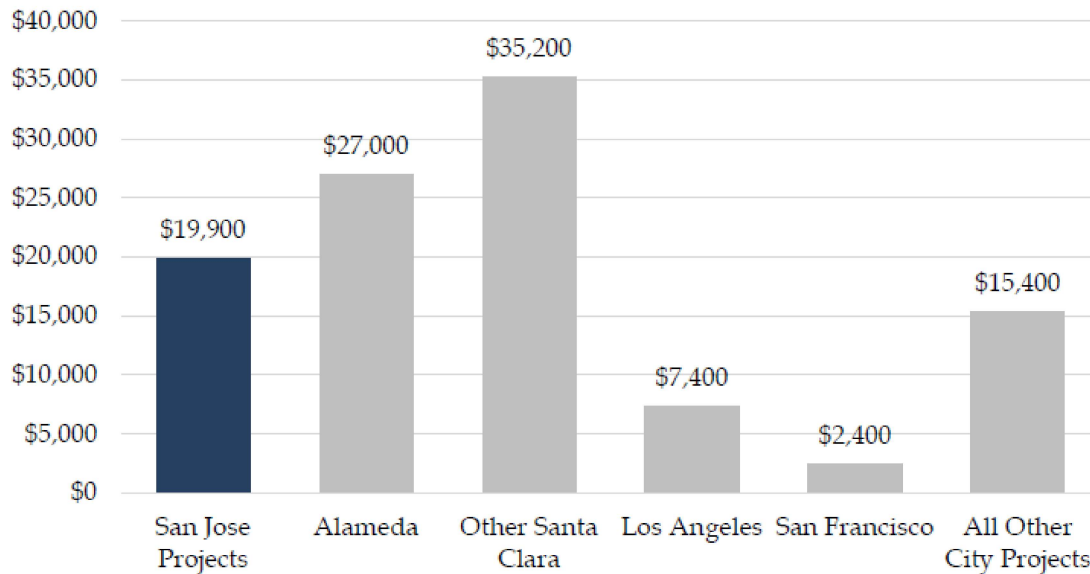
José require that projects that receive City subsidies pay the prevailing wages set for by the state. However, not all cities have this requirement.

Table F: Total Direct/Hard Development Costs, Average/Unit



Higher Impact Fees

Cities impose impact fees and taxes, such as traffic impact, construction taxes, and parkland in-lieu fees, on new development to fund the infrastructure needed to support new housing. These charges can support important local services, such as schools, parks, and transportation. San José's impact taxes and fees averaged \$20,000/unit versus \$15,000/unit in other cities. As outlined in **Chart 3** below, projects in the City and County of San Francisco and the City of Los Angeles receive impact fee waivers that are proportionally higher than San José.

Chart 3: Impact Fees/Unit

A current work item in the Housing Crisis Work Plan is to assess reducing the construction taxes charged to affordable housing developments. Staff initiated internal discussions around this item, but due to staffing changes in the Housing Catalyst role, this work has been put on hold. As part of this work effort, staff will seek to understand how San José construction taxes compare to other jurisdictions.

Higher Financing Costs

Affordable housing projects are financed through multiple financing sources. Financing costs represent approximately 9% of San José projects and other City project's total development costs. It should be noted that financing costs have doubled in the past 12 months.

San José projects averaged approximately six funding sources per project. Each additional funding source potentially adds costs due to extended timelines and/or operational requirements. This layering of capital is causing long delays, which can add significantly to hard costs in a rapidly rising construction cost environment.

As projects become more complex, affordable housing developments also experience higher soft costs such as increased legal and consultant fees as well as syndication costs associated with financial consultants needed to manage multiple funding streams and partners. In addition, public funding in California can be highly fragmented creating a need to coordinate between state, county, and local funding sources. **Table G** provides the average financing cost per unit.

Table G: Average Financing Cost per Unit

Application Year	San Jose Projects	Other City Projects
2019	\$30,700	\$39,500
2020	\$40,900	\$34,800
2021	\$43,600	\$37,600
2022	\$69,000	\$53,000
2023	\$103,800	\$65,400

Lower Federal Equity Pricing

Affordable housing projects raise capital to fund development costs through investor equity, referred to as tax credit equity. An investor receives credits over a 10-year tax credit period. As the amount of tax credits available for allocation is fixed each year, the pricing of tax credits directly affects the number of units that can be financed through public funding sources. A lower tax credit price requires more state and local subsidies to fill financing gaps.

Some City of San José projects received equity pricing as low as 0.90 cents to the dollar in 2022-2023. Equity investments are a significant source of funding at the conversion phase when the construction is complete, and equity capital is injected into the project to take out the senior lender construction loan balance. When equity pricing and investment equity are lower, the development must procure additional subsidies to bridge the funding gap.

CONCLUSION

The updated Report shows that the current economic conditions remain a significant barrier to the construction of new market-rate and affordable housing. Similar to last year's Report, none of the prototypes assessed were shown to be feasible under current market conditions, and in fact, conditions have worsened. This is apparent in the current decline in permitting and construction activity throughout the City.

The affordable housing cost study identifies additional significant barriers to financing and building affordable housing developments. Total development costs for affordable housing continue to have material consequences for the supply of new affordable housing at a time when San José lacks enough affordable housing to meet residents' needs, with a severe shortage of adequate, affordable housing for extremely-low-, very-low-, low-, and moderate-income households.

EVALUATION AND FOLLOW-UP

Staff plans to update the report annually as part of its ongoing work on housing policy. The next update is anticipated in the fall of 2024. Staff will also continue to bring forward further analysis and recommendations regarding the impacts on development costs through the Housing Catalyst Work Plan and continued work on the Development Fee Framework.

PUBLIC OUTREACH

Meetings with development community members were held on September 28 and October 12, 2023. A draft version of the Report was shared with participants at these meetings. A meeting with affordable housing developers was held on October 4, 2023, to review the findings of the Cost of Affordable report and seek input. This memorandum will be posted on the City's Council Agenda website for the October 26, 2023, City Council Study Session.

/s/

CHRISTOPHER BURTON
Director, Department of Planning
Building and Code Enforcement

/s/

ROSALYNN HUGHEY
Deputy City Manager
and Acting Housing Director

/s/

NANCI KLEIN
Director of Economic
Development and
Cultural Affairs

The principal authors of this memorandum are Banu San, Housing Planning and Policy Administrator, Housing Department; and Blage Zelalich, Deputy Director, Office of Economic Development and Cultural Affairs. For questions, please contact Banu San at banu.san@sanjoseca.gov or (408) 975-4489 and Blage Zelalich at blage.zelalich@sanjoseca.gov or (408) 535-8172.

ATTACHMENTS:

Attachment A – Cost of Development by Century | Urban

Attachment B – Affordable Housing Development Cost Study by Century | Urban



Century | Urban

**Strategic
Real Estate
Advisory Services**

Conceptual Feasibility Analysis Review

Presented to:

City of San Jose

September 27, 2024



CONCEPTUAL FEASIBILITY ANALYSIS REVIEW

TO: City of San Jose, Office of Economic Development
FROM: Century Urban, LLC
SUBJECT: Conceptual Feasibility Analysis Review
DATE: September 27, 2024

Summary

In 2023, Century Urban, LLC (“Century | Urban”) was engaged by the City of San Jose, Office of Economic Development (the “City”) to prepare an updated conceptual feasibility analysis for residential rental and sale development prototypes. This memorandum provides a high-level review of key market financial drivers underlying the 2023 analysis and the status of these drivers as of the third quarter of 2024.

While many market financial factors affect the feasibility of residential real estate development, four key drivers affecting feasibility are: 1) construction hard costs (which represent labor and materials associated with building construction); 2) target returns on cost; 3) rental rates (for for-rent projects); and 4) sales prices (for for-sale projects). No single factor is determinant of development feasibility, and these four drivers combine with other factors to determine whether new residential development is projected to be economically feasible. For the purposes of evaluating if the 2023 report findings still appear to be applicable based on current market conditions, these four drivers were selected for review, because each of them has a material impact on the economic feasibility of a new development project. City policy may influence economic feasibility, but in the case of market-rate housing, these four factors are generally determined by and move with market conditions.

The 2023 analysis found that the development of for-rent and for-sale residential projects similar to the analysis prototypes (see [2023 Analysis](#) below for a summary of the analysis prototypes) was economically challenging. Compared with the research findings that informed the 2023 analysis, in the third quarter of 2024, the four drivers to be evaluated are similar to or less favorable than they were in the third quarter of 2023. Since the preparation of the 2023 study, construction hard costs have increased slightly, target returns on cost have increased, rental rates have increased slightly, and condominium sale pricing in the third quarter of 2024 is slightly lower than the same period in 2023.



These conclusions are not intended to imply that every residential development is equally economically challenged in San Jose. Actual projects may differ from the prototype assumptions and may be more or less challenged. However, since the 2023 analysis, there has been limited new development activity in San Jose, supporting the conclusion that residential development feasibility remains challenged in the current market.

Analysis Qualifications

The analysis referenced in the 2023 report utilizes general prototype projects and high-level project assumptions based on research on market conditions at the time the analysis was prepared. Prototype projects are intended to reflect general examples of potential development configurations and are not based on completed architectural designs, specific unit mixes, or exact locations. Project underwriting assumptions do not correspond to any actual specific project. Research was conducted and data was gathered for this review memorandum during the third quarter of 2024. Data and findings will likely evolve over time as market conditions change.

2023 Analysis

The 2023 analysis evaluated five prototypes, including three for-rent apartment prototypes and two for-sale condominium prototypes across selected San Jose submarkets for a total of 23 prototype scenarios. The five prototypes, ranging in size from five to twenty-two stories, vary by construction type and other parameters as described in the 2023 report and as shown in the table below. Type V construction generally refers to low-rise wood frame construction, which is typically the least expensive construction type. Type III construction refers to construction with non-combustible exterior walls (e.g. concrete) and is often used in mid-rise residential projects and commercial buildings. Type I construction refers to projects in which all structural materials are non-combustible, utilizing materials such as concrete and steel. Type I construction is often used for high-rise buildings and is generally the most expensive of these three construction types.



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

Each prototype scenario was analyzed by estimating hard and soft costs and comparing those costs to total projected supportable cost (for for-rent prototypes) or value (for for-sale prototypes) upon stabilization or sale. Prototypes with estimated hard and soft costs that exceed a projected supportable cost or value are considered infeasible as a developer is unlikely to build a project which costs more than it is worth. Moreover, prototypes for which estimated hard and soft costs exceed total projected supportable cost or value have “negative land residual value”, in that the prototype’s supportable costs or value is not projected to cover its hard and soft costs, much less the cost to acquire land on which to build the project.

For a newly built apartment building, the total projected supportable cost or value upon stabilization is based on the projected stabilized net operating income and target return on cost. For a newly built condominium building, the total projected supportable cost or value upon sale is based on the projected proceeds from sales of the condominium units. In each case, these amounts are estimated based on market rental rates, operating expenses, and market condominium sale prices in each submarket.

The assumptions utilized in the 2023 analysis for inputs such as construction costs, apartment rental rates, condominium sale prices, and target returns on cost are based on market research and change as market conditions such as supply and demand change. As such, the assumptions



and conclusions utilized in preparing a development feasibility analysis relate to the specific time that the analysis was conducted.

The 2023 analysis indicated that residential development economics were challenging under then current market conditions across all prototype scenarios with high-rise prototype scenarios generally the most challenged and Type V and Type III prototype scenarios relatively less challenged depending on submarket area. The tables below summarize the estimated residual land values per unit from the 2023 analysis by prototype and submarket. The residual values per unit are all negative, which indicates that projected development costs (excluding land) exceeded total supportable costs or value for all of the prototype scenarios.

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)

2024 Review

Hard Costs

Development costs include “hard costs”, which represent the labor and materials associated with building construction and “soft costs”, which represent costs such as architecture and engineering, financing, City fees, insurance, property taxes, overhead, legal, accounting and marketing. In the 2023 analysis, hard costs represented 70% to 80% of estimated total development costs depending on the prototype scenario excluding potential land costs and including projects with fee waivers. Estimated hard costs for the residential portions of the prototypes (i.e., not including parking) ranged from \$438 per square foot to \$594 per square foot, depending on the construction type. Since the 2023 analysis, market research indicates that hard costs have increased slightly, which would result in a slight negative effect on the feasibility findings in the 2023 analysis. According to the TBD Consultants Bid Index, which tracks construction costs in the Bay Area, hard costs between the third quarter of 2023 and the second quarter of 2024 increased approximately 2%. While data for the third quarter is not yet available, initial indications suggest that costs will either remain flat or increase slightly. Overall, hard cost



increases since the 2023 analysis support the conclusion that residential development economics are still challenging.

Target Returns on Cost

Target returns on cost for for-rent projects are generally calculated as projected stabilized net operating income divided by total project cost. Target returns on cost have risen since those estimated in the 2023 analysis, which would indicate that, all else being equal, residential development economics are more challenged than previously estimated.

To attract investment capital, a development project must be projected to generate a return on cost that meets or exceeds the target return on cost, and developers may not be able to attract capital necessary to fund a development project, if target return expectations are not projected to be satisfied.

Generally the process for setting target returns on cost includes comparing an investment's projected risk and return with that of other potential investments. An investment with higher relative risk typically requires a higher relative return to compensate an investor for taking more risk. A starting benchmark to determine a target return is the "risk free rate," which establishes the return for a low or no-risk investment. For commercial real estate, the yield on 10-year US Treasury Bonds is often used as a proxy for a "risk free" investment and for establishing a risk-free rate.¹ For example, if the "risk free" 10-year US Treasury Bond yield is 5%, an investor would likely require a higher return to invest in a riskier investment such as a real estate development project.

Over time, both the risk-free rate the target return change based on market conditions and investor outlook, and similarly, the target returns on costs for investing in real estate development also change. In March of 2020, the 10-year Treasury yield sank below 1% and started rising in 2021. By the third quarter of 2023, the 10-year Treasury yield ranged from 3.75% to 4.61%, while in the third quarter of 2024 (through early September), the 10-year US Treasury yield ranged from 3.77% to 4.88%². This implies that the target return on cost in 2024 would be expected to be similar to or higher than it was when market research for the 2023 analysis was conducted.

Changes in target returns often lag changes in underlying market rates as investors seek to determine if interest rate movements are temporary or representative of a longer trend. The target return on cost of 5.75% utilized in the 2023 analysis was estimated based on research conducted in early 2023, when investors and developers were unsure as to whether the 10-year Treasury

¹ Market prices for 10-year US Treasury Bonds are not set by the government or Federal Reserve. After issuance by the US Treasury, bonds are traded in the open market, and the yield is determined by the price investors are willing to pay for these bonds, which are considered to be one of the safest types of investment.

² Fred.stlouisfed.org



rate increases that occurred from 2021 to 2022 would remain for an extended period or if rates would return to Covid-era lows. Market participants now indicate that current target return-on-cost rates are approximately 6.50% or higher. This increase is likely tied to continued higher Treasury rates over the last two years, as well as evolving investor perspectives about future market conditions. The higher target return-on-cost rate makes residential development economics more challenged by requiring a more profitable project to attract investor capital.

Note: the Federal Reserve recently reduced the Federal Funds rate, a short-term target interest rate at which commercial banks borrow and lend their extra reserves to one another overnight. While this reduction has been widely reported in the media, it does not directly affect the 10-Year US Treasury rate discussed above or long-term mortgage rates, both of which have increased since the reduction in the Federal Funds rate.

Rental Rates

Rental rates for for-rent prototype scenarios in the 2023 analysis ranged from \$3.42 to \$4.10 per square foot. From the third quarter of 2023 to the third quarter of 2024, San Jose experienced apartment rental rate growth of approximately 3.9%.³ As part of the 2023 analysis, a sensitivity was prepared to analyze the potential effect of a 5% change in rental rates on feasibility, which showed that such a change would not have a material impact on the prototype feasibility results. Therefore, the reported rental rate growth of 3.9% has minimal impact on the challenging residential development economics.

Sale Prices

Sale prices utilized for the for-rent prototype scenarios in the 2023 analysis ranged from \$700 per square foot to \$775 per square foot. Compared with the third quarter of 2023, the volume of sales activity and weighted average sale price per square foot for condominiums in the third quarter of 2024 in San Jose decreased. The total volume of third quarter sales tracked by the Multiple Listing Service decreased from approximately \$209 million (270 units sold) in 2023 to \$191 million (257 units sold) in 2024. Overall, the average price per square foot decreased by approximately 1.7% between the two periods. As part of the 2023 analysis, a sensitivity was prepared to analyze the potential effect of a 5% change in sale prices on feasibility, which showed that this change would not have a material impact on the prototype feasibility results. Therefore, the observed decrease in condominium sales prices of 1.7% has minimal impact on the challenging residential development economics.

Conclusion

³ Co-Star Multi-Family Market Report Q3 2024



The Conceptual Feasibility Analysis prepared in 2023 indicated that, at that time, residential development was economically challenged across the prototypes scenarios reviewed. Consistent with this finding, market-rate residential development activity since then has been limited in San Jose, as well as the broader San Francisco Bay Area. While many financial and non-financial factors affect feasibility, key drivers of economic feasibility include hard costs, target returns on cost, rental rates, and sales prices. Market research regarding changes in these drivers since the 2023 analysis indicate that these drivers have not changed in a manner that would materially improve residential development feasibility. Consequently, there is no indication or evidence that the challenging residential development economics observed in the 2023 analysis have improved.



Appendix A: 2023 Conceptual Feasibility Analysis



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

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

Average Soft Costs Per GSF

<u>Size</u>	<u>Type</u>	<u>Rental</u>	<u>Sale</u>
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> <u>Range</u>
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	South &					
	East	Central	West	North	Downtown	
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

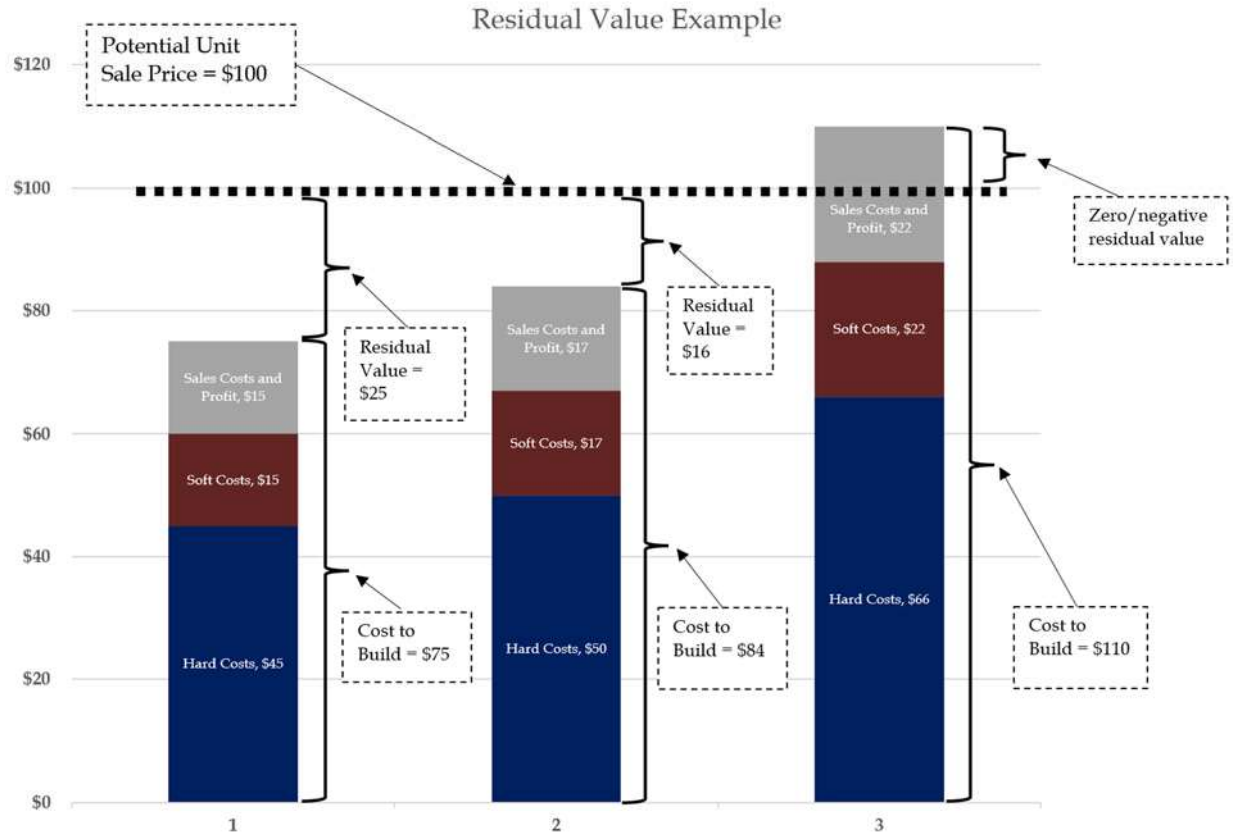
To evaluate the potential feasibility of each prototype, Century | Urban prepared an analysis to estimate each prototype's residual land value and then compared that residual land value to the estimated market price of land in each submarket based on comparable land sale transactions.

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.

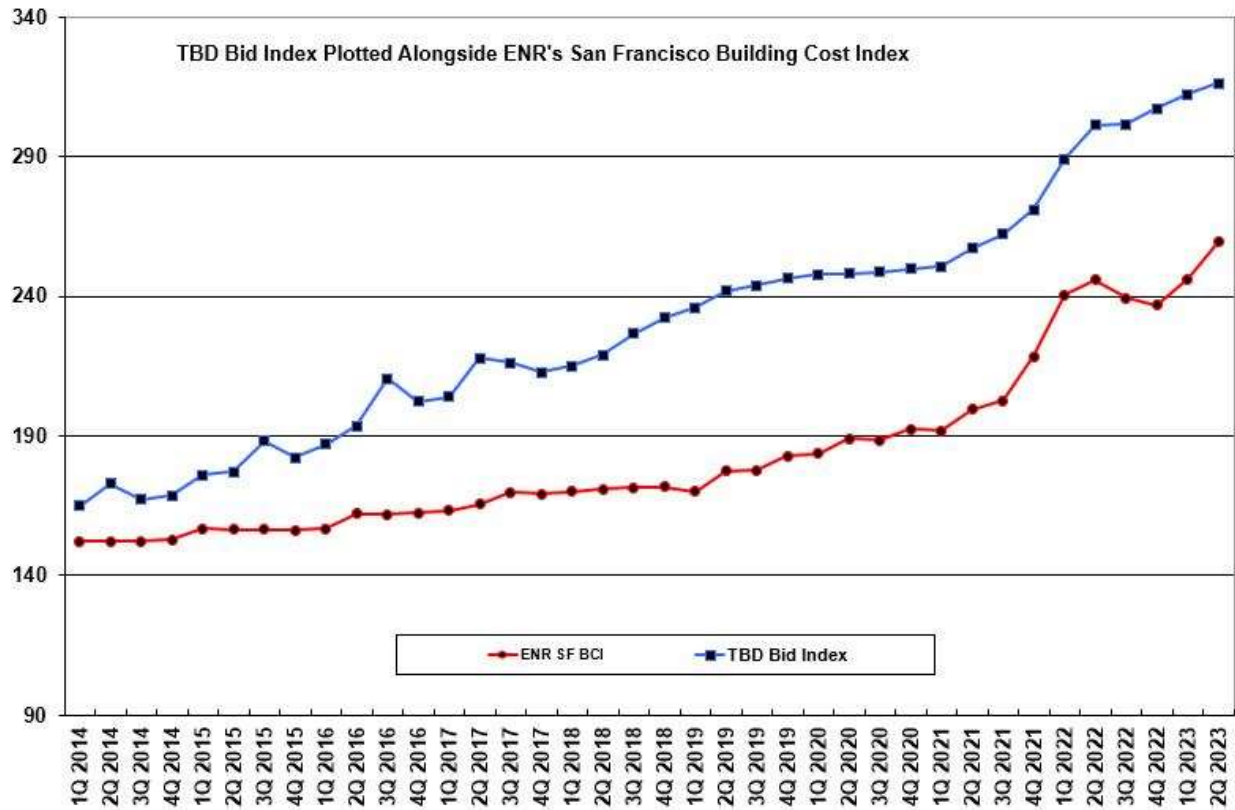


Residual Values Per Unit - For Rent					
Submarket	South & East	Central	West	North	Downtown
Type V	(\$323,000)	(\$343,000)	NA	NA	NA
Type III	NA	(\$435,000)	(\$363,000)	(\$429,000)	NA
Type I	NA	(\$614,000)	(\$542,000)	(\$607,000)	(\$568,000)
Type I - Waiver	NA	(\$540,000)	(\$469,000)	(\$572,000)	(\$495,000)

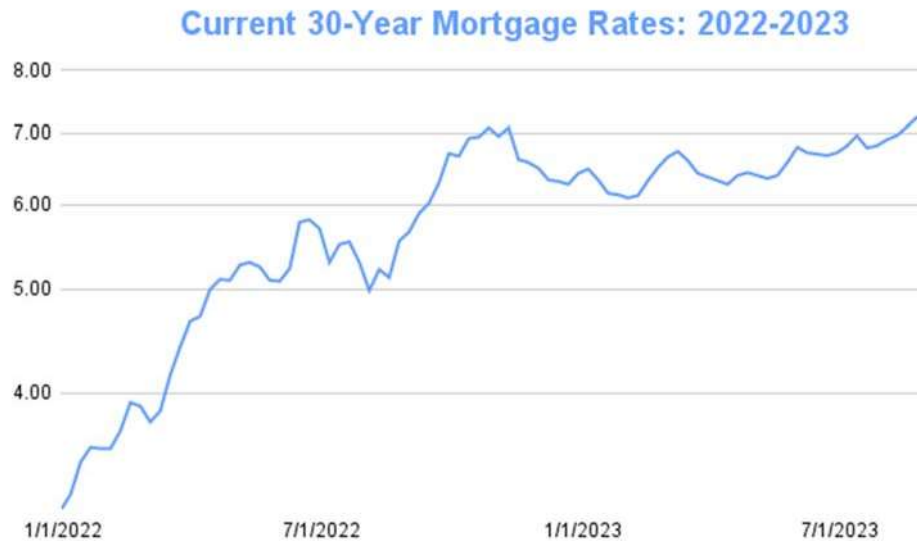
Residual Values Per Unit - For Sale				
Submarket	South & East	Central & West	North	Downtown
Type V	(\$342,000)	(\$394,000)	(\$419,000)	NA
Type I	NA	NA	NA	(\$611,000)
Type I - Waiver	NA	NA	NA	(\$570,000)

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 *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	\$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 *Per Unit***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 *Per Unit***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 *Per Unit***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 *Per Unit***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 *Per Unit***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 *Per Unit***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**

Pro-Forma *Per Unit***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**

Net Operating Income Per Year **\$29,600**

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

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

Feasibility Gap **(\$434,000)**

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 *Per Unit*

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

Pro-Forma *Per Unit*

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

Net Operating Income Per Year \$24,000

Residual Analysis *Per Unit*

Residual Value

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

Feasibility Gap (\$485,000)

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: 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	<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	\$63,600
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	<i>Per Unit</i>
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	<i>Per Unit</i>
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 *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	\$63,500
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**

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>\$1,047,000</u>
Residual Value	(\$542,000)

Feasibility Gap **(\$612,000)**

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 *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	\$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 *Per Unit***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 *Per Unit***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 *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	\$59,400
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 *Per Unit***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 *Per Unit***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 *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	\$63,200
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 *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>\$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	<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	\$43,200
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	<i>Per Unit</i>
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	<i>Per Unit</i>
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	<i>Per Unit</i>
<i>Hard Costs</i>	
Building Hard Costs	\$723,500
Parking Hard Costs	\$119,700
Contingency/Other Hard Costs	<u>\$42,200</u>
Total Hard Costs	\$885,300
<i>Soft Costs</i>	
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	<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>\$1,122,000</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

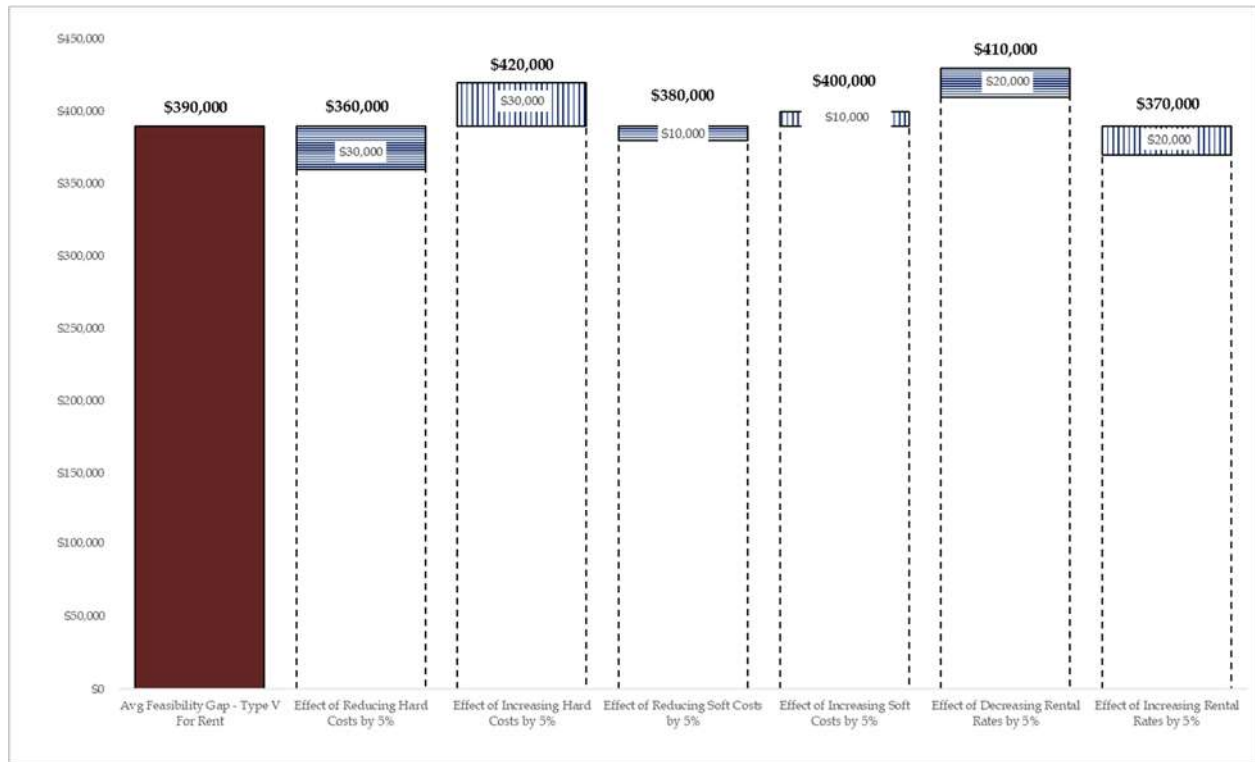
*Waiver scenarios assume a waiver of inclusionary fees and a 50% reduction in CRMP and B&S Construction Taxes



Exhibit C

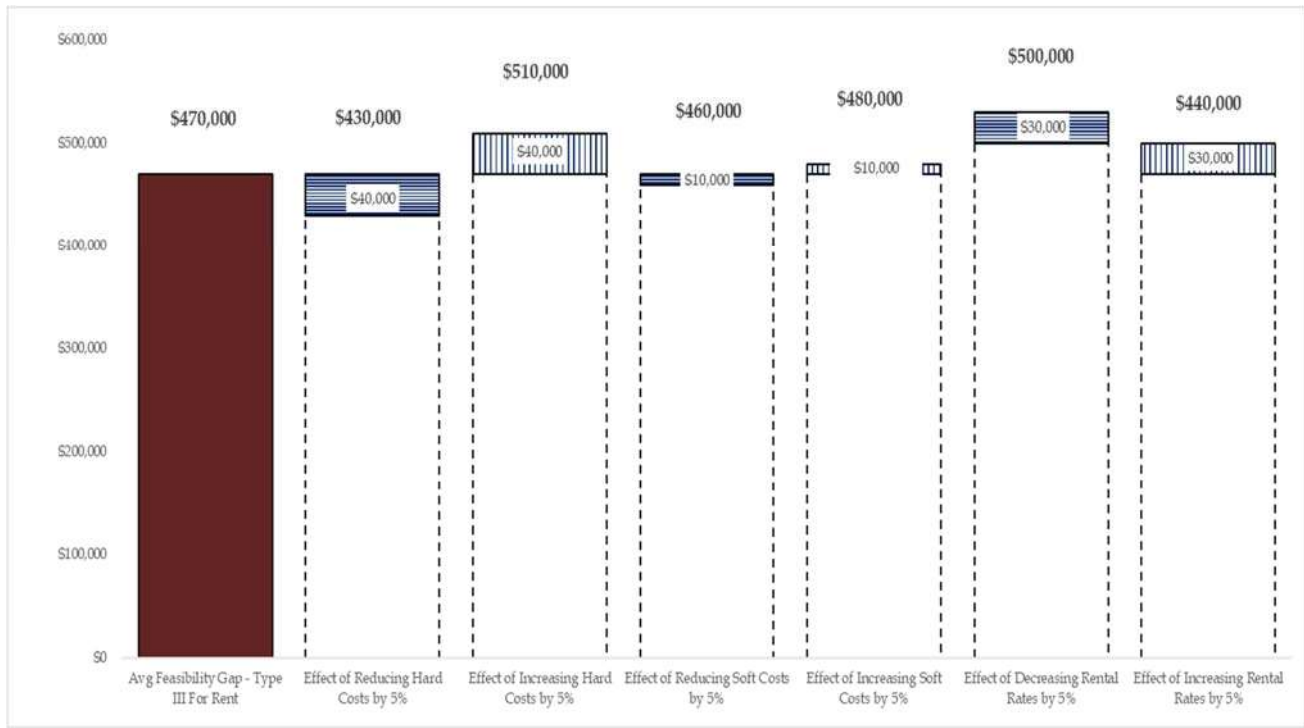
Effect Per Unit on Feasibility Gap of Varying Hard Costs, Soft Costs, and Rental Rates by 5%

Type V Rental Prototype



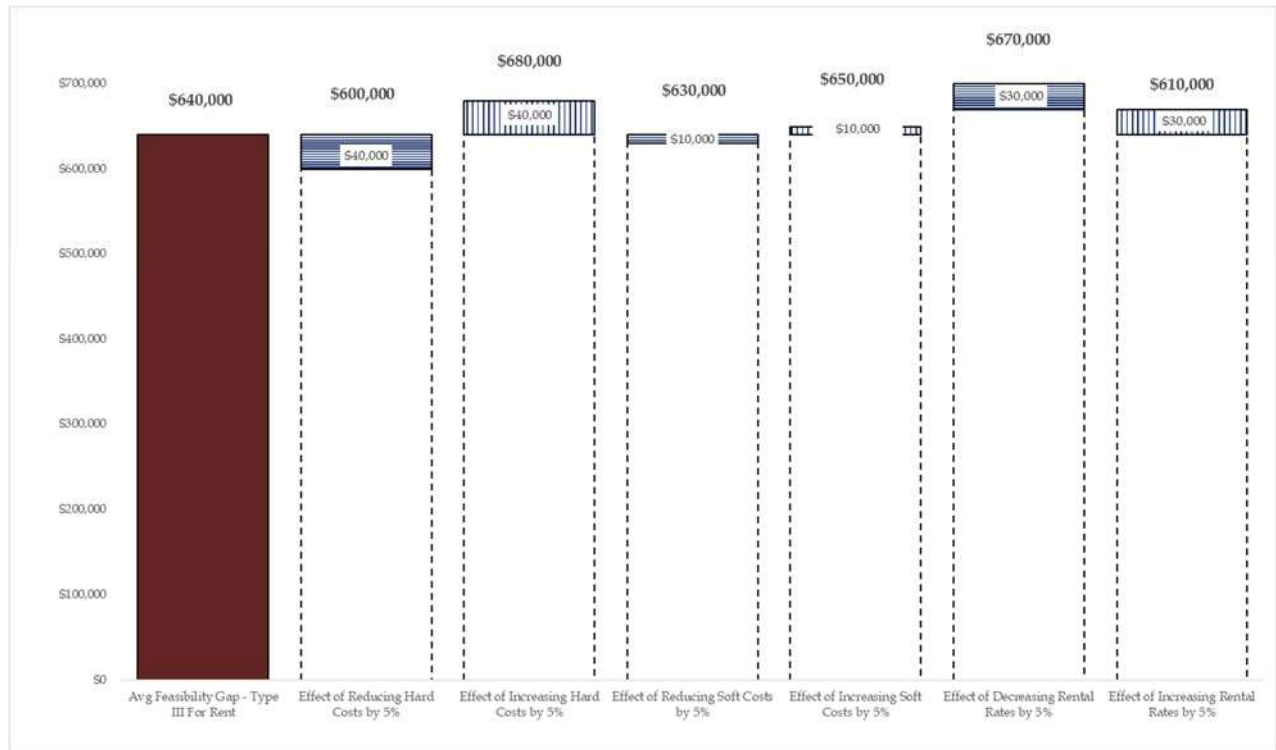


Type III Rental Prototype





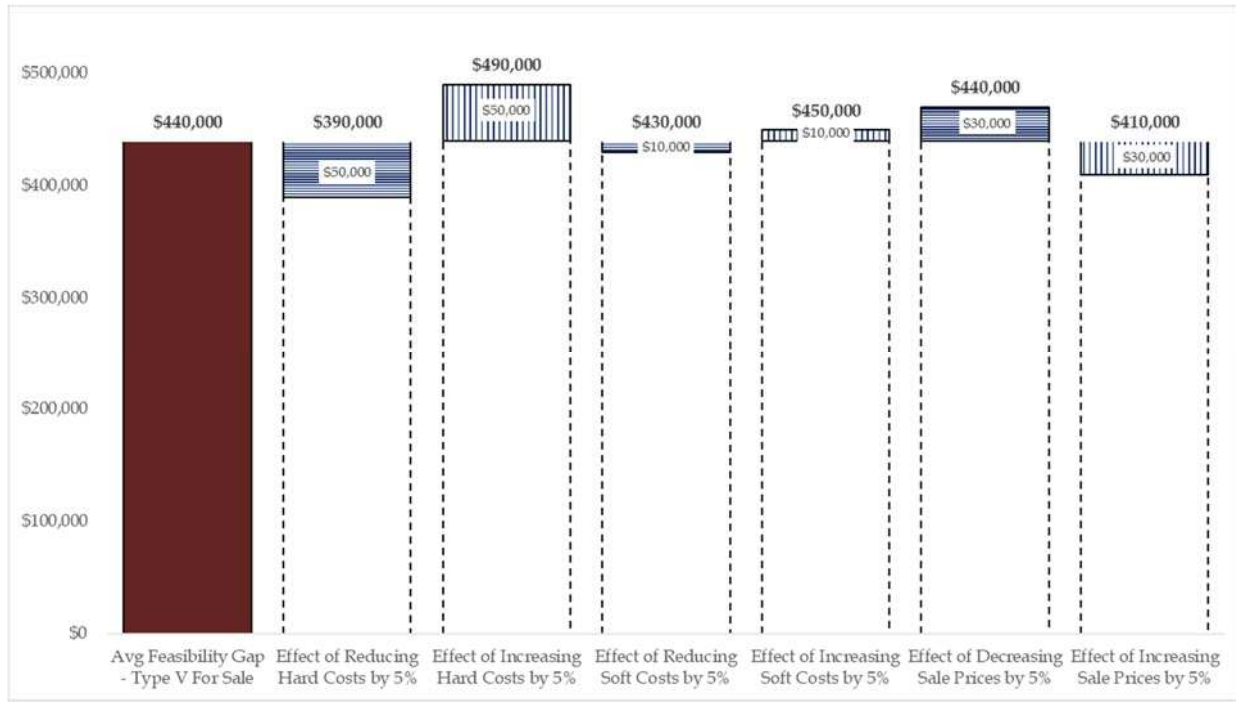
Type I Rental Prototype





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

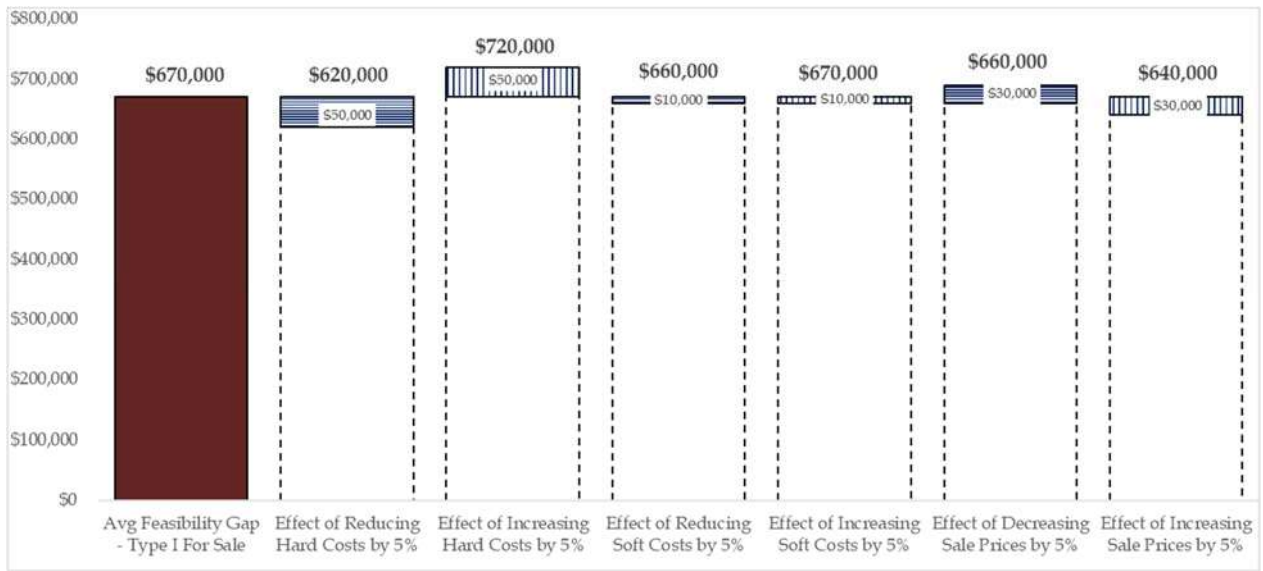


Exhibit DDevelopment Costs

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 <i>Above grade pricing for Type V and Type III, below grade pricing for Type I.</i>		<u>Rental</u>	<u>Sale</u>
	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 <i>e.g., CEQA-related and pre-entitlement professional fees</i> <i>City Fees calculated separately</i>		<u>Rental</u>	<u>Sale</u>
	Type V	\$531,000	\$531,000
	Type III	\$531,000	
	Type I	\$1,062,000	\$1,062,000
Post Entitlement A&E / Prof Fees <i>of Hard Costs</i>		<u>Rental</u>	<u>Sale</u>
		6.00%	6.00%
Insurance <i>of Hard Costs</i>		<u>Rental</u>	<u>Sale</u>
		1.00%	1.50%
Developer Fee		<u>Rental</u>	<u>Sale</u>
		4.00%	4.00%
Financing Interest Rate Loan to Cost Fees		<u>Rental</u>	<u>Sale</u>
		8.00%	8.00%
		55.00%	55.00%
		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

