

Downtown Residential High-Rise Program

Stakeholder Meeting
February 29, 2024

Cost of Development Study Session – 10/26/2023

Residential Feasibility Analysis - General Findings:

- Relative to 2022, residential development economics are more challenged under current market conditions than they were a year ago.
- Since 2022 study, construction costs, interest rates, and target returns have increased. Total estimated costs across the building types studied increased approximately 12-13%.
- Interest rates have doubled over the prior 12 months. Construction interest rates hovering above 8.0%.
- Rental rates and sales price have also increased, but increase amounts are insufficient to offset increases in costs and meet expected investor returns.
- Feasibility challenges exist for all residential prototypes analyzed and was also reflected in a sensitivity analyses which evaluated 5% changes in rates, prices, and costs.

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City Council Comments:

- Explore fee reductions and different timing options for fee payment.
- Analyze the impact of any reduction in City fees on our resident population.
- Analyze how recurring revenues from new development might offset one-time fee loss.
- Remove uncertainty in securing project permits.
- Streamline CEQA review process.
- Consider steps that can be taken to expedite residential development approvals/permits.
- Explore other incentive areas outside of Downtown.

Current Downtown High-Rise Residential Program

Inclusionary Housing Ordinance (IHO)

Reduction to \$0 in-lieu if entitled by June 30, 2025 and project completed by June 30, 2029 *

Construction Taxes

(Commercial-Residential-Mobilehome Park Construction Tax and Building and Structure Construction Tax)

50% reduction and deferral of payment if completed by June 30, 2029*

*Certificate of Occupancy for 80% of dwelling units must be obtained on or by June 30, 2029

Adjustments Under Consideration for Downtown Based on Input To-date

Internal working group comprised of staff from Office of Economic Development, Housing, Parks, Recreation and Neighborhood Services, Department of Transportation and Planning, Building and Code Enforcement

- Extend horizon based on # of units delivered vs. time
- Construction Taxes - Possible reduction beyond current percentage
- Parks Fee – Possible incentives to current fee program*
- Timing of Payment

** Park In-Lieu Fees for Downtown were permanently reduced by about 50% under the Parkland In-Lieu Fee Ordinance update in 2017, which is why Park Fees are not currently part of the Downtown High-Rise Program.*

Next Steps

- Formulate recommendations for City Council consideration.
- Conduct second stakeholder meeting with this group.
- Bring to City Council for consideration by May.
- Formulate recommendations for housing production support program outside Downtown.

THANK YOU