

# Cost of Development

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## Background

- **December 2017** – Council directed staff to convene study session to discuss impact of all fees that the City imposes on housing development and construction
- **April 26 & May 1, 2018** - Study Session & First Report on the Cost of Residential Development in San José
- **June 12, 2018** - Housing Crisis Work plan adopted by City Council. Cost of Development incorporated into work plan
- **November 5, 2019** – Second update of Report on Cost of Residential Development provided to City Council

## Structure of Study

- **Conceptual analysis – prototypes illustrate “typical” projects under current market conditions**
  - Market-Rate For-Sale: 5-story low-rise & 22-story high-rise condominiums
  - Market-Rate Rental: 5-story low-rise, 7-story mid-rise, and 22-story high-rise
- **Sub-Market Areas (rental) –**
  - South & East San José – 5-Story Mid-Rise
  - Central San José – 5-Story Mid-Rise & 7-Story Mid-Rise
  - West San José – 7-Story Mid-Rise
  - North San José – 7-Story Mid-Rise
  - Downtown – 22-Story High-Rise

## Key Findings from 2019 Update – Market Rate

- Rents had risen, but still significantly lower than other nearby cities
- Construction Costs were high and outpaced rent growth
- Rental Feasibility at time of study – Varies Throughout City
  - West San José – mid-rise only apartment prototype feasible in 2019 study
  - Central and North San José – Insufficient return to support development
  - South & East San José – Estimated development costs exceeded revenue
  - Downtown – high-rise development was infeasible

## Current Conditions & 2022 Update to Report

- **Constructions Costs have continued to rise**
  - Supply of materials in addition to labor costs
- **Rents in San José**
  - Overall positive growth in 2021
  - Still below pre-pandemic levels (March 2020)
- **Limited New Construction of Market-Rate Multi-Family in 2021**
- **Engaged Consultant to Prepare Update – Present to City Council spring 2022**