



**Century | Urban**

**Strategic  
Real Estate  
Advisory Services**

**Conceptual Feasibility Analysis**

**Presented to:**

**City of San Jose**

**August 19, 2022**



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## FINANCIAL PLAN REVIEW

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**TO:** City of San Jose, Office of Economic Development  
**FROM:** Century Urban, LLC  
**SUBJECT:** Conceptual Feasibility Analysis  
**DATE:** August 19, 2022

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### *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 and 2019 and to provide a perspective on the general development economics of high-density residential development in the current market. The prototypes are analyzed across a range of City submarkets, projects sizes, and construction types, among other factors.

The conceptual analyses’ findings indicate that residential development economics are challenging under current market conditions. Since the last analysis was prepared, the prices of construction materials and labor have increased significantly, and many construction materials are not easily available on pre-Covid construction timelines. Meanwhile, a combination of the COVID-19 pandemic, volatility and devaluations in equity markets, and expansion of remote work have impacted the demand for urban residential living.

The analyses conclusions are not intended to imply that all residential development is challenged in San Jose. Actual projects may differ from the prototype assumptions and may be less 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 sponsor, 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. Appropriate assumptions for the prototypes will likely evolve over time as market conditions change.

### **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 F](#)), 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 building 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 additional 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 and 2019 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.

<b>Prototype Building Height and Density</b>					
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 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 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 prior analysis with the exception of the efficiency factors for the Type V rent and sale prototypes in the South & East submarket, which have been reduced from 85% to 80% to be consistent with the other Type V prototypes.

## **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 San Francisco 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	Type		Rental	Sale
Low-Rise	Type V		\$393	\$420
Mid-Rise	Type III		\$447	NA
High-Rise	Type I		\$502	\$535

Parking Hard Costs Per GSF				
Size	Type	Parking Type	Rental	Sale
Low-Rise	Type V	Above-grade	\$97	\$100
Mid-Rise	Type III	Above-grade	\$101	NA
High-Rise	Type I	Below-grade	\$240	\$245

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 30% to 39% of hard costs and ranged from approximately \$110 to \$175 per gross square foot depending on the prototype<sup>1</sup>. 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	33%	41%	NA	NA	NA
Mid-Rise	Type III	NA	39%	39%	32%	NA
High-Rise	Type I	NA	37%	36%	31%	36%

Soft Costs as % of Hard Costs - Sale Prototypes						
Size	Type	South & East	Central & West	North	Downtown	
Low-Rise	Type V	34%	33%	33%	NA	
High-Rise	Type I	NA	NA	NA	30%	

Average Soft Costs Per GSF				
Size	Type		Rental	Sale
Low-Rise	Type V		\$121	\$120
Mid-Rise	Type III		\$131	NA
High-Rise	Type I		\$157	\$143

<sup>1</sup> Excluding "waiver" scenarios.



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 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 \$2.13 to \$3.48) are assessed per residential gross square foot based on the applicable submarket location and school district.
- At the time of this analysis, the City is in the process of revising 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 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](#).





<b>Total City Permits &amp; Fees Per Unit</b>	<b>Approximate Range</b>
Construction Taxes	\$6,400 to \$8,000
Parkland In-Lieu Fees	\$9,800 to \$17,000
School Fees	\$2,400 to \$5,000
Planning/Building Fees	\$2,800 to \$7,000
Inclusionary In-Lieu Fees	\$21,000 to \$50,000
<b>Total Fees</b>	<b>\$45,000 to \$81,000</b>

**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, asking rents at one Class A Type I project were among the highest in the market but the project was also offering eight weeks of free rent. As a result, the project’s effective rents are substantially lower than the project’s asking rents and lower than the asking rents of other projects.

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.

<b>Rent Per SF/Month</b>	<b>South &amp; East</b>					
	<b>East</b>	<b>Central</b>	<b>West</b>	<b>North</b>	<b>Downtown</b>	
Type V	\$3.05	\$3.35	NA	NA	NA	
Type III	NA	\$3.35	\$4.15	\$3.30	NA	
Type I	NA	\$3.35	\$4.15	\$3.30	\$3.75	

<b>Rent Per Unit/Month</b>	<b>South &amp; East</b>					
	<b>East</b>	<b>Central</b>	<b>West</b>	<b>North</b>	<b>Downtown</b>	
Type V	\$2,745	\$3,015	NA	NA	NA	
Type III	NA	\$3,015	\$3,735	\$2,970	NA	
Type I	NA	\$3,015	\$3,735	\$2,970	\$3,375	

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 (“AMI”). Based on an assumed unit mix, the estimated average affordable rent at this AMI tier was \$3.86 per square foot or \$3,471 per unit per month. This rental rate is higher than the estimated market rate rental rates for all Type I prototype submarkets with the exception of the West submarket. As a result, the analysis of a 5% onsite affordability requirement was conducted only for the West submarket.

**Sales Prices**

Estimated sale prices for the for-sale prototypes are based on research regarding comparable sales of units at recently-built projects in the prototype submarkets. Similar to rental rates, sales prices vary across submarkets and product types.

The tables below summarize the assumed average sales prices on a per-square-foot and per-unit basis based on the research conducted.

Average Sales Price PSF	South & East	Central & West	North	Downtown
Type V	\$585	\$700	\$630	NA
Type I	NA	NA	NA	\$725

Average Sales Price Per Unit	South & East	Central & West	North	Downtown
Type V	\$672,750	\$805,000	\$724,500	NA
Type I	NA	NA	NA	\$688,750

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 in order 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 5.25%.

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.

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**

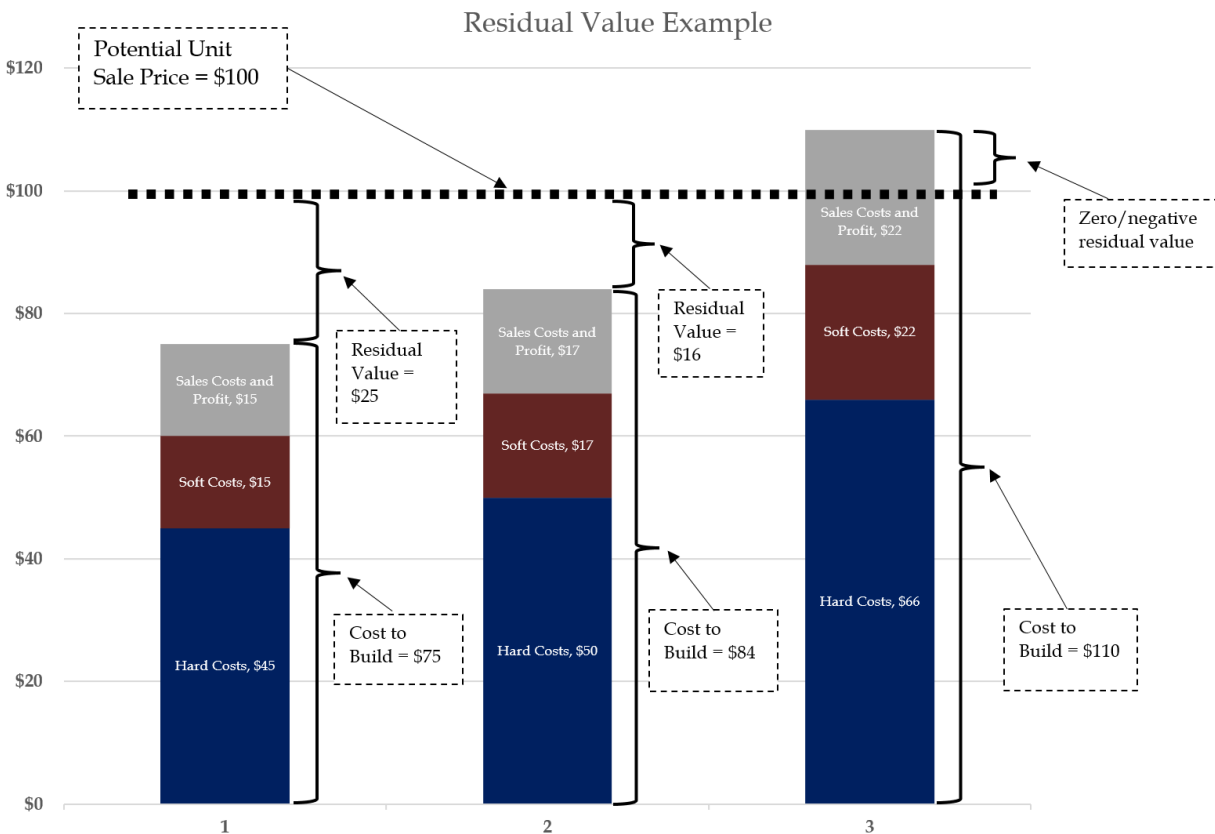
To evaluate the potential feasibility of each prototype, Century | Urban prepared an analysis to estimate each prototype’s residual land value and then compared that residual land value to the estimated market price of land in each submarket based on comparable land sale transactions.

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 rental prototypes. The “Waiver/Aff” scenarios in the table below reflects 5% of the rent roll at 100% AMI onsite affordability requirement, which as mentioned above was only analyzed for the Type I rental prototype in the West submarket.

Rental Prototypes - Type V		
	South & East	Central
Residual Value	(\$272,000)	(\$270,000)

Rental Prototype - Type III			
	Central	West	North
Residual Value	(\$350,000)	(\$230,000)	(\$320,000)

Rental Prototype - Type I				
	Central	West	North	Downtown
Residual Value	(\$510,000)	(\$390,000)	(\$490,000)	(\$440,000)

Rental Prototype - Type I - Waiver					
	Central - Waiver	West - Waiver	West - Waiver/Aff	North - Waiver	Downtown - Waiver
Residual Value	(\$436,134)	(\$313,765)	(\$315,952)	(\$446,409)	(\$369,391)

For Sale Prototype- Type V		
	South & East	Central & West
Residual Value	(\$410,000)	(\$320,000)

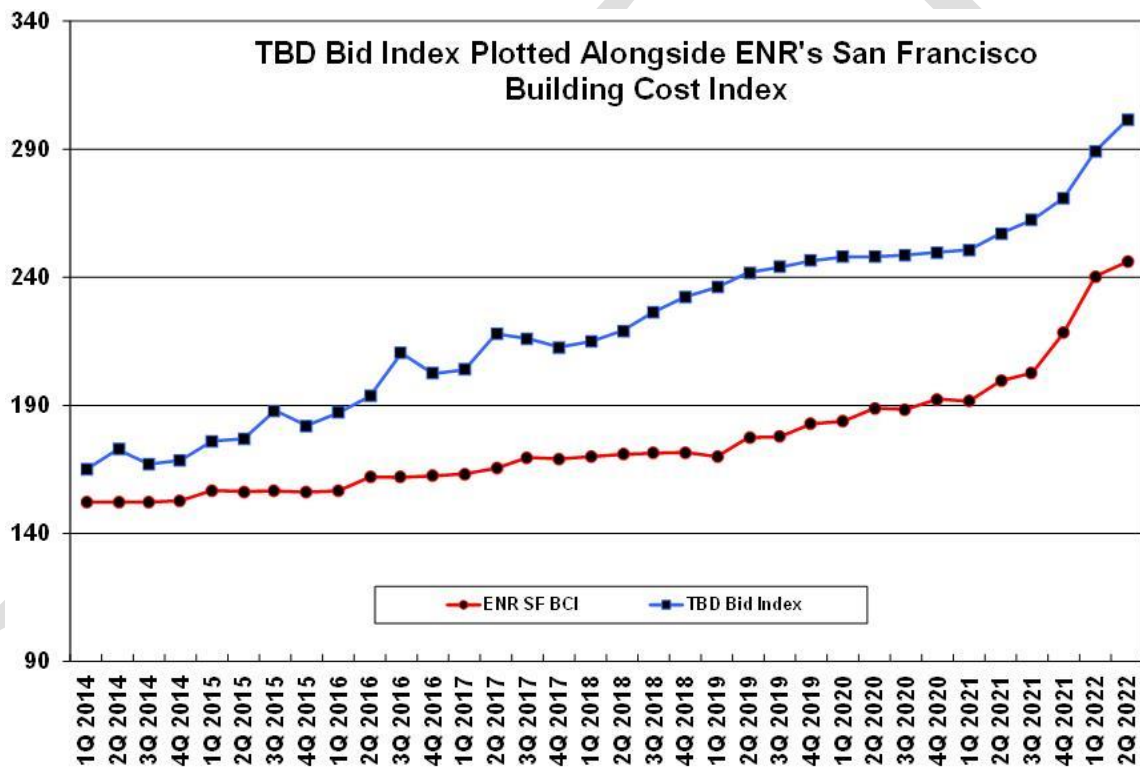
For Sale Prototype - Type I		
	Downtown	Downtown Sale Waiver
Residual Value	(\$520,000)	(\$478,504)

In Exhibit B, negative residual values are shown as zero residual value, reflecting that a project with negative residual value cannot support the purchase of a site.

### Macroeconomic Context



The economy in the San Francisco Bay Area is generally strong and features 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. Despite these positive forces, 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 76%. Between the first quarter of 2020, when the COVID-19 pandemic began, and the second quarter of 2022, the latest available data, TBD estimates an increase of 17%. To some 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 have caused a decrease in market transaction volume. In July 2019 Polaris Pacific tracked listings for 1,414 resale condominiums and 804 new construction condominiums in Silicon Valley. In July 2022 there were listings for only 882 resale condominiums and 664 new construction condominiums. In addition, the market values of numerous large publicly-traded Silicon Valley companies have declined significantly since the beginning of the year, affecting household income and wealth, and consequently spending on housing. As of this writing, compared with six months ago, Meta’s





value is down approximately 29%, Alphabet's value is down 18%, Cisco's value is down 17% and Apple's value is down 4%.

To be clear, the current market for leasing and sales is relatively steady, but potential rental rate and sale price declines due to the factors discussed above and continued construction cost increases may affect investor and developer perceptions regarding the feasibility of new development 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 \$270,000 per unit and the estimated market land cost per unit is approximately \$52,500 per unit, so the estimated feasibility gap is approximately \$322,500 per unit for this prototype. In other words, the residual land value for this prototype would have to increase by \$322,500 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 \$310,000 to \$280,000.

Additionally, a sensitivity was also prepared to analyze 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 \$1,000 to \$4,000 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 invited a group of local developers and a group of local stakeholders to separate virtual meetings to provide feedback regarding draft underwriting assumptions for the feasibility prototypes. Feedback from the meetings was reviewed with the City and is summarized in [Exhibit E](#).

### **Conclusions**

This conceptual analysis reviewed a set of residential development prototypes to assess the potential feasibility of new rental and sale development projects.

The analysis indicates negative estimated residual land values across the reviewed prototypes and suggests that development of residential projects would be challenging in the current market. This conclusion is not intended to suggest that all development would be challenged in the City, as projects may have cost structures or target rental rates or sale prices that vary from the prototypes. However, the results do suggest a challenging 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

SEE ATTACHED

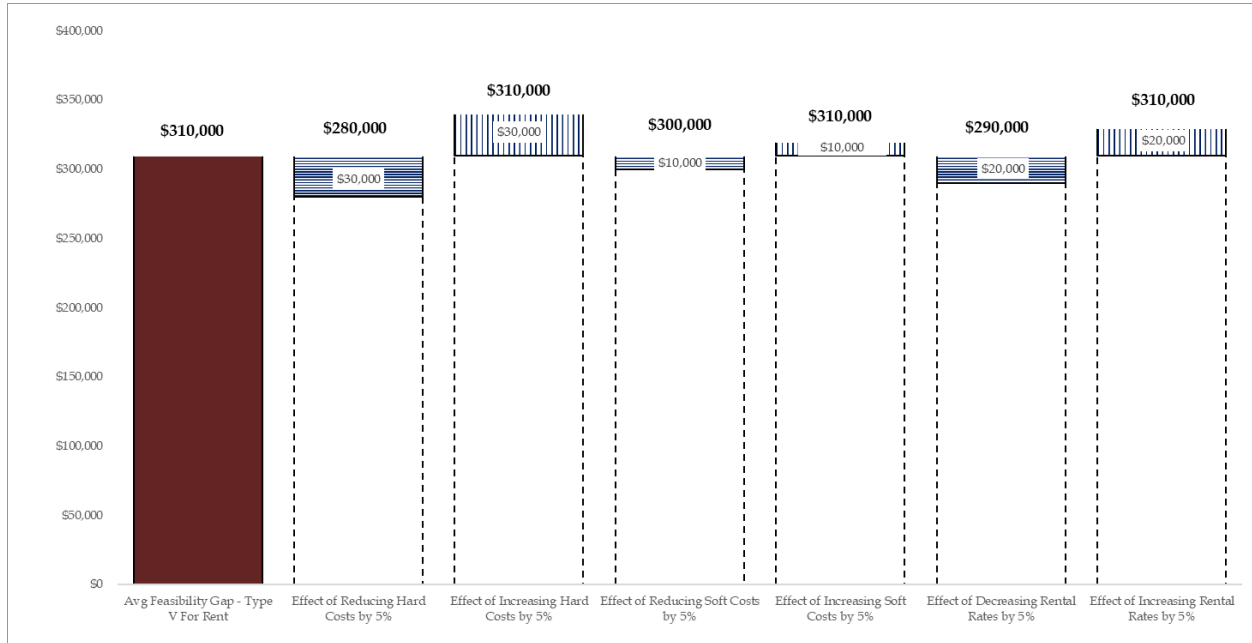
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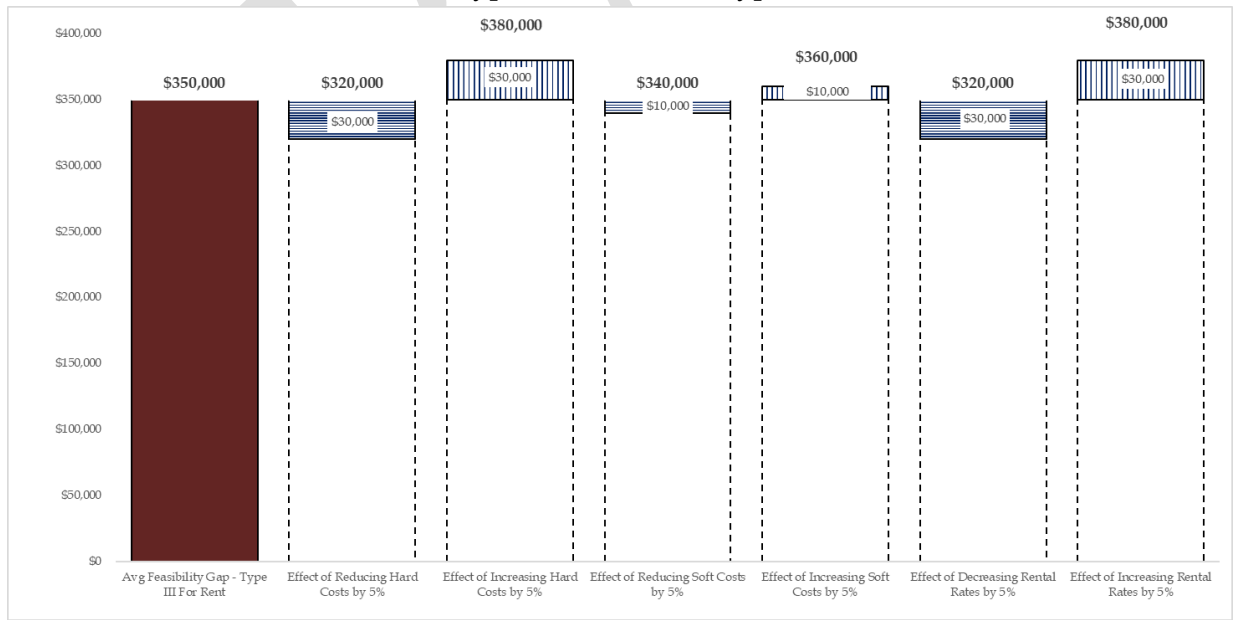
### Exhibit C

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

### Type V Rental Prototype

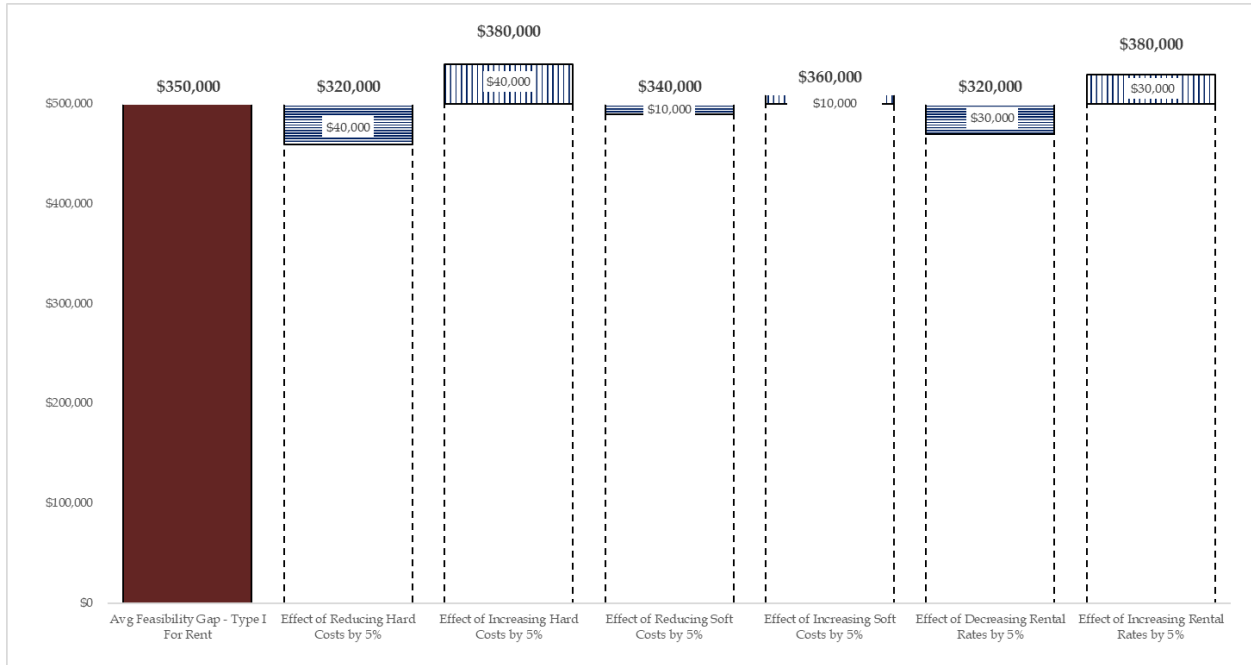


### Type III Rental Prototype





### Type I Rental Prototype



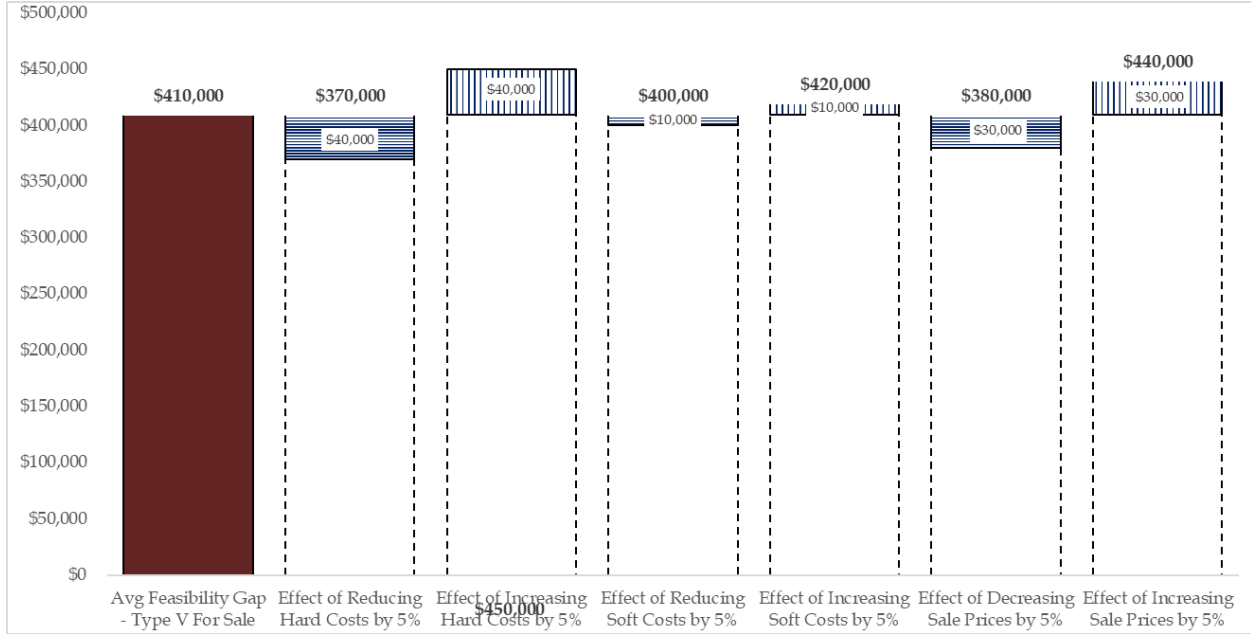
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### Effect Per Unit on Feasibility Gap of Varying Hard Costs, Soft Costs, and Sale Prices by 5%

#### Type V Sale Prototype



#### Type I Sale Prototype

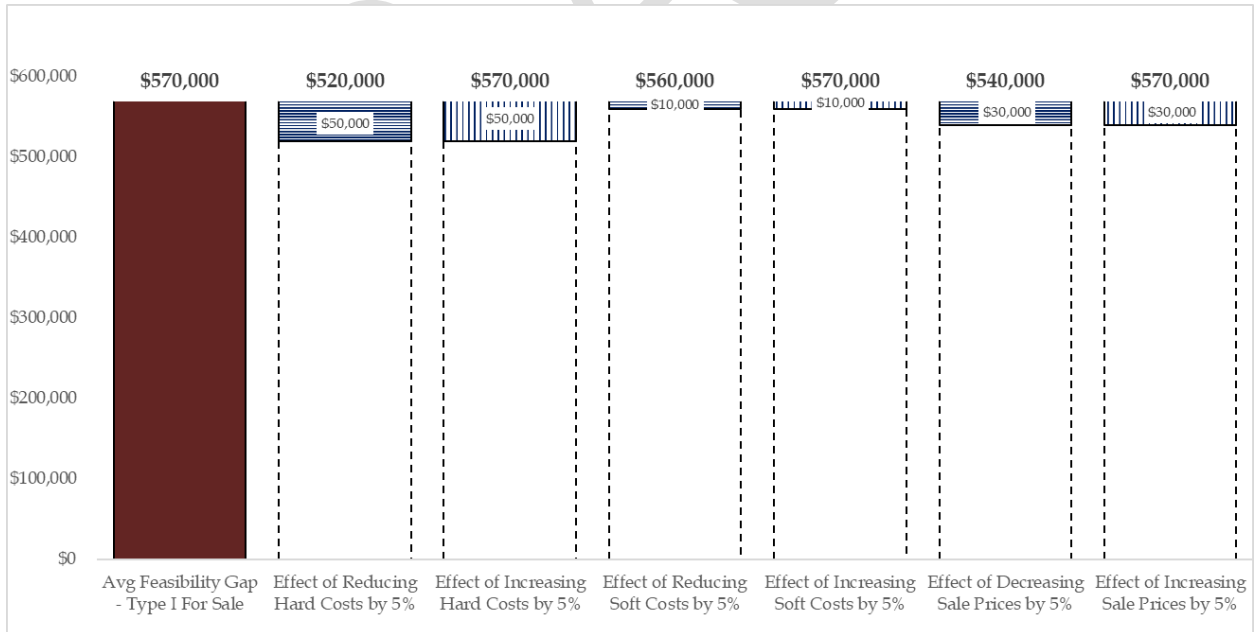


Exhibit D**Development Costs**

<b>Building Hard Costs Per GSF</b>		<u>Rental</u>	<u>Sale</u>
	Type V	\$393	\$420
	Type III	\$447	NA
	Type I	\$502	\$535
<b>Parking Hard Costs Per GSF</b>		<u>Rental</u>	<u>Sale</u>
<i>Above grade pricing for Type V and Type III, below grade pricing for Type I.</i>	Type V	\$97	\$100
	Type III	\$101	NA
	Type I	\$240	\$245
<b>Hard Cost Contingency</b>		<u>Rental</u>	<u>Sale</u>
		5.00%	5.00%
<b>Entitlement Professional Fees</b>		<u>Rental</u>	<u>Sale</u>
<i>e.g. CEQA-related and pre-entitlement prof. fees City Fees calculated separately</i>	Type V	\$500,000	\$500,000
	Type III	\$500,000	
	Type I	\$1,000,000	\$1,000,000
<b>Post Entitlement A&amp;E / Prof Fees of Hard Costs</b>		<u>Rental</u>	<u>Sale</u>
		6.00%	6.00%
<b>Insurance of Hard Costs</b>		<u>Rental</u>	<u>Sale</u>
		1.00%	1.50%
<b>Developer Fee</b>		<u>Rental</u>	<u>Sale</u>
		4.00%	4.00%
<b>Financing</b>		<u>Rental</u>	<u>Sale</u>
Interest Rate		5.50%	5.50%
Loan to Cost		65.00%	60.00%
Fees		1.00%	1.00%
<b>Soft Cost Contingency</b>		<u>Rental</u>	<u>Sale</u>
		5.00%	5.00%



**Rental Prototype Assumptions**

<b>Rent Per Unit / Month</b>		<u>South &amp; East</u>	<u>Central</u>	<u>West</u>	<u>North</u>	<u>Downtown</u>
Type V		\$2,745	\$3,015			
Type III			\$3,015	\$3,735	\$2,970	
Type I			\$3,015	\$3,735	\$2,970	\$3,375

<b>Rent Per SF / Month</b>		<u>South &amp; East</u>	<u>Central</u>	<u>West</u>	<u>North</u>	<u>Downtown</u>
Type V		\$3.05	\$3.35			
Type III			\$3.35	\$4.15	\$3.30	
Type I			\$3.35	\$4.15	\$3.30	\$3.75

**Other Income Per Unit / Month**

<i>(Incl parking)</i>	Type V	\$167
	Type III	\$167
	Type I	\$185

**Vacancy/Credit Loss** 5.00%

**Operating Expenses Per Unit / Month** (not including property taxes)

Type V	\$5,600
Type III	\$5,600
Type I	\$6,525

**Target Return on Cost**

Type V	5.25%
Type III	5.25%
Type I	5.25%

**Sale Prototype Assumptions**

<b>Sale Price PSF</b>		<u>South &amp; East</u>	<u>C, W, N</u>	<u>Downtown</u>
Type V		\$585	\$700	
Type I				\$725

**Sales Costs Including Warranty Reserve** 5.00%

<b>Target Profit Margin</b>		<u>South &amp; East</u>	<u>C, W, N</u>	<u>Downtown</u>
Type V		20%	20%	
Type I				20%



## City Permits and Fees - Rental Prototypes

Total fees and per unit fees rounded to nearest '00

Prototype	Type V	Type V	Type III	Type III	Type III
	South & East	Central	Central	West	North
Residential Value Per GSF	\$120.47	\$120.47	\$120.47	\$120.47	\$120.47
Residential Value Per Unit	\$135,500	\$135,500	\$135,500	\$135,500	\$135,500
Parking Value Per GSF	\$53.83	\$53.83	\$67.97	\$67.97	\$67.97
Parking Value Per Unit	\$21,500	\$21,500	\$27,200	\$27,200	\$27,200
Total Valuation Per Unit	\$157,100	\$157,100	\$162,700	\$162,700	\$162,700
<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	\$6,400	\$6,400	\$6,600	\$6,600	\$6,600
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	\$2.13	\$3.48	\$3.48	\$2.45	\$2.24
School Fees Per Unit	\$2,400	\$3,900	\$3,900	\$2,800	\$2,500
Planning and Building Fees Per Unit	\$5,700	\$5,700	\$4,800	\$4,800	\$4,800
Inclusionary In-Lieu PSF	\$18.70	\$43.00	\$43.00	\$43.00	\$18.70
Inclusionary Fee Per Unit	<i>Note 2</i> \$21,000	\$48,400	\$48,400	\$48,400	\$21,000
<b>Total Permits and Fees Per Unit</b>	<b>\$45,300</b>	<b>\$81,300</b>	<b>\$80,700</b>	<b>\$78,100</b>	<b>\$55,700</b>

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	\$120.47	\$120.47	\$120.47	\$120.47
Residential Value Per Unit	\$139,000	\$139,000	\$139,000	\$139,000
Parking Value Per GSF	\$89.90	\$89.90	\$89.90	\$89.90
Parking Value Per Unit	\$28,800	\$28,800	\$28,800	\$28,800
Total Valuation Per Unit	\$167,800	\$167,800	\$167,800	\$167,800
<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	\$6,800	\$6,800	\$6,800	\$6,800
Parkland In-Lieu Fees	\$22,600	\$20,800	\$27,700	\$14,600
Parkland Credit	25%	25%	25%	25%
Total Parkland In Lieu Fees Per Unit	\$17,000	\$15,600	\$20,800	\$11,000
School Fees Per Residential GSF	\$3.48	\$2.45	\$2.24	\$3.48
School Fees Per Unit	\$4,000	\$2,800	\$2,600	\$4,000
Planning and Building Fees Per Unit	\$2,800	\$2,800	\$2,800	\$2,800
Inclusionary In-Lieu PSF	\$43.00	\$43.00	\$18.70	\$43.00
Inclusionary Fee Per Unit	\$49,600	\$49,600	\$21,600	\$49,600
<i>Note: Inclusionary Fees Waived in Waiver Scenarios</i>				
Total Permits and Fees Per Unit	<b>\$80,200</b>	<b>\$77,700</b>	<b>\$54,600</b>	<b>\$74,200</b>

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 &amp; East</u>	<u>Central &amp; West</u>	<u>North</u>	<u>Downtown</u>
Residential Value Per GSF	\$120.47	\$120.47	\$120.47	\$120.47
Residential Value Per Unit	\$173,200	\$173,200	\$173,200	\$173,200
Parking Value Per GSF	\$53.83	\$53.83	\$53.83	\$89.90
Parking Value Per Unit	\$23,700	\$23,700	\$23,700	\$23,700
Total Value Per Unit	\$196,900	\$196,900	\$196,900	\$196,900
<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	\$8,000	\$8,000	\$8,000	\$7,600
Parkland In-Lieu Fees Per Unit	\$13,100	\$22,600	\$27,700	\$14,600
Parkland Fees Credit	25%	25%	25%	25%
Total Parkland In Lieu Fees Per Unit	\$9,800	\$17,000	\$20,800	\$11,000
School Fees Per Residential GSF	\$2.13	\$3.48	\$2.24	\$3.48
School Fees Per Unit	\$3,100	\$5,000	\$3,200	\$4,200
Planning and Building Fees Per Unit	\$7,000	\$7,000	\$7,000	\$2,900
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>				
<b>Total Permits and Fees Per Unit</b>	<b>\$63,800</b>	<b>\$72,900</b>	<b>\$74,900</b>	<b>\$56,100</b>

Note 1

Adjustment to reflect assumed amount of parkland provided within project.

Note 2

Traffic fees currently being revised





## Exhibit E

### **Developer & Stakeholder Feedback**

The City invited a group of local developers and a group of local stakeholders to separate virtual meetings to provide feedback regarding draft underwriting assumptions, which had been developed based on the prior analysis, market research and information provided by the City. The following feedback was provided by developers and stakeholders during these meetings. While some topics were mentioned by multiple participants, it was not clear for any given feedback whether the comment was shared by other participants beyond the speaker. Certain changes were made to the analysis as result of the feedback, which are reflected in the analysis described above.

- Type I garages should be more inefficient (e.g., 500 SF per stall)
- Type III projects should have more density – 125 units per acre or even 180+ units per acre downtown
- For Type V construction, only seeing 4-story projects
- Parking ratio for Type V could be higher
- Type III average unit size is currently more like 800 SF instead of 900 SF
- Type I hard costs should be increased by 7-10% (hard cost estimates in general are low).
- Parking costs above grade should be \$60,000-\$70,000 per stall
- Pre-entitlement professional fees should be \$1 million -\$3 million per project
- 6% for professional fees may be high – overall professional fees including entitlement costs for Type III & V projects should be \$20,000-\$24,000 per unit
- A&E costs for for-sale projects should be higher due to liability risk
- Insurance should be modeled at 2-3% of hard costs
- Add 1% mortgage broker fee to upfront financing costs (i.e., resulting in total upfront lender fees of 2.0%)
- 5.5% construction loan interest rate may be high for today's market but probably a good over/under number
- VMT mitigation expenses can be \$2 million for a large project or \$2,000-\$5,000 per unit in certain areas
- 30% parkland credit is too high- should be 20-25%
- There should be less variation on rents between North, Central and Downtown submarkets and other income should be the same for all projects
- Operating expenses for Types III & V projects should be \$2,000 per unit higher than shown – for Type I projects operating expenses should be \$8,500 to \$9,000 per unit
- For-sale condominiums need to be sold at \$1,200 per SF to pencil
- Target return on cost for Type I projects should be 5.25% (i.e., same as Types III & V) instead of 5.0%.



- Capitalization rates for Type III should be same as Type I.
- Downtown land costs should be higher - \$50k per unit or more (e.g., same as West submarket)
- Look at published indexes (e.g., Association of General Contractors, National Homebuilders, California Construction) for potential construction cost data
- Scenarios with mass timber / pre-fabricated modular construction should be considered
- Prototype results should be subject to “ground truthing” - comparing results with data from actual projects. In past, certain projects proceeded even though analysis generally concluded that development was infeasible.
- Can the City utilize numbers from its own projects (separate affordable housing cost study is being prepared)?
- The current market is too volatile and dynamic to make any kind of analysis like this useful
- Assumed 22-story high rise height could be higher
- Please review a white paper on parking ratios
- Align parking ratios with City policy on required minimum parking
- Request for sensitivity analysis on various assumptions (e.g., above- vs. below-grade parking)
- Is this exercise useful for any type of policy making?
- Land costs can vary widely
- Should these analyses consider a commercial FAR requirement?



## Exhibit F

### **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)