

# **COST OF RESIDENTIAL DEVELOPMENT STUDY**

City of San José Housing Department

November 21, 2025



**Economic & Planning  
Systems, Inc.**  
The Economics of Land Use

**CSG**  
ADVISORS



# Background

The City of San José Housing Department contracted with CSG Advisors and Economic and Planning Systems (EPS) to prepare a Residential Development Cost Study. EPS focused on the cost of developing market rate housing while CSG focused on the cost of developing subsidized affordable housing.

# MARKET RATE HOUSING

# Important Context

1. The analysis draws from available public and private data
  2. Hypotheticals are created based on
    - Current market performance
    - Project costs in particular areas of San Jose
    - A varied set of building types
  3. Additional data and analysis is needed to further an understanding of the hard cost breakdown
1. Important tool to understand barriers to new housing construction
  2. Factors within City Control
    - City policy and programs
    - Impact fees
    - Taxes
    - Permitting
  3. Factors outside City control
    - Cost of land
    - Market financing
    - Material supply chains

# EPS Study Scope and Purpose

## Scope

- Evaluate the costs and feasibility of developing various residential product types in San José
  - *EPS considers 5 “generic” higher density housing building types*
- Results provided across 4 “districts” that correspond to MLS zones used in the Parks fee, consistent with previous Cost of Development studies

## Purpose

- Inform City Council and public on economic feasibility of housing development in current market
- Results will inform justification of fee waivers as outlined in Section 14.10.310 in the San José Municipal Code (MC)

# Analytical Framework for Results

- Data and analysis reflect 2024 - 25 market conditions
- Revenue and cost assumptions informed by 3<sup>rd</sup>-party sources (e.g., CoStar, Redfin, Marshall + Swift) and local developer data
- Individual projects will differ from results shown due to a variety of factors (e.g., location, quality, developer capability, site conditions, etc.)

# Summary of City Pro-Formas

Description	Podium and Wrap					Tower	
	EPS Pro-Forma Podium	EPS Pro-Forma Wrap	Sample Pro-Forma 1	Sample Pro-Forma 2	Sample Pro-Forma 3	EPS Pro-Forma Tower	Sample Pro-Forma 4
Rentable Sq. Ft. to Total Building Sq. Ft. Ratio	85%	85%	85%	85%	85%	80%	80%
Avg. Sq. Ft. per Unit	902	902	519	814	864	902	801
Residential Stories	5	5	7	5	6	20	11
<b>Estimated Hard Costs</b>							
per Unit	\$449,994	\$437,994	\$327,338	\$465,252	\$319,666	\$687,068	\$621,762
per Sq. Ft.	\$424	\$413	\$536	\$486	\$315	\$610	\$621

# For-Sale Building Types

## Townhome



Typical Building Characteristics:

- 3 - 4 stories
- Wood frame construction
- Integrated parking garage

## Stacked Flats



Typical Building Characteristics:

- 3 - 4 stories
- Wood frame construction
- Integrated parking garage

# Rental Building Types

## Podium



Typical Building Characteristics:

- 6 - 8 stories
- Wood frame construction over concrete podium

## Wrap



Typical Building Characteristics:

- 4 – 6 stories
- Wood frame construction built around concrete parking structure

## Tower



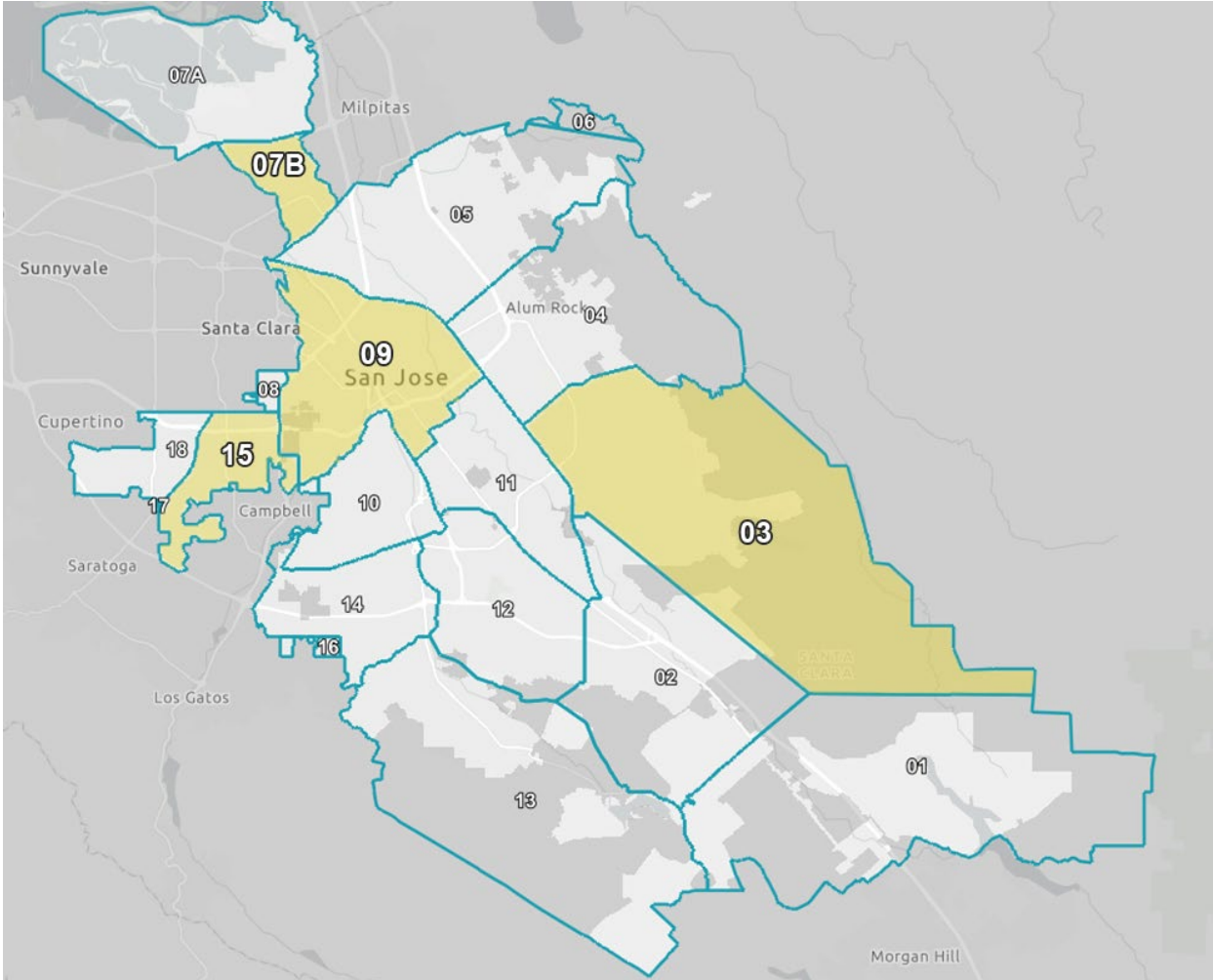
Typical Building Characteristics:

- 12+ stories
- Steel frame construction
- Podium and / or subterranean parking

# Description of Building Types

Description	For Sale		Rental		
	<u>Townhome</u>	<u>Stacked Flats</u>	<u>Podium</u>	<u>Wrap</u>	<u>Tower</u>
Site Acreage	2.0	2.0	2.0	2.0	2.0
Total Housing Units	40	106	172	172	470
Stories	3	4	7	5	22
<b><u>Program</u></b>					
Density (Units per Acre)	20	53	86	86	235
Avg. Net Sq. Ft. per Unit	1,458	1,118	902	902	902
Net Sq. Ft.	58,313	118,533	155,098	155,098	423,815
Gross Sq. Ft.	72,892	139,450	182,469	182,469	529,769
Floor Area Ratio	0.84	1.60	2.09	2.09	6.08
Parking Format	Integ. Garage	Integ. Garage	Podium	Structured	Underground & Podium
Parking Ratio	2.0	2.0	1.0	1.0	0.8
Total Parking Spaces	80	212	172	172	376

# Multiple Listing Service (MLS) Zones



### Zones Used:

09: Downtown / Central

15: West

07B: North

03: South and East

# Factors That Can Affect Feasibility

- Key Market Value Considerations:
  - *Achievable valuation, sale prices and rent schedules*
  - *Mortgage Interest rates*
  - *Land acquisition costs*
  - *Market capitalization rates*
- Key Cost Considerations:
  - *Labor and material inputs*
  - *Construction financing terms (e.g., interest rates)*
  - *Taxes and fees*
  - *Entitlement streamlining / fast-tracking (not modeled)*
- Consultant sensitivity analysis shows how results might change with improved market conditions

# Study Results

- Rationale for tax and fee waivers under Municipal Code Section 14.10.310 varies by product type
  - *For sale townhomes and stacked flats are positive (less eligible for waivers)*
  - *For rent podium, wrap, and towers are negative (may be eligible for waivers)*
- Tax and Fee waivers have and may continue to tip the scales for some projects
- Development economics varies by location due to differences in asset & liability prices & rents
- Modest improvement in market conditions can make higher density feasible
  - *Combination of modest increase in rents and/or decline in development costs can make wrap and podium feasible (e.g., 5% - 15% change)*
  - *Tower will require more substantial change in rents and/or development costs to achieve feasibility (e.g., 10% - 35% change)*

# Development Feasibility Framework

- Results based on a financial model that incorporates market data (rents, sale prices, construction costs, etc.) to solve for “Residual Land Value” (RLV)
- RLV represents amount a developer could pay for a site and still have a profitable project.
- Helps us answer the question:

*Is net value of a proposed project (excluding cost of land) equal or greater than existing site value?*



# Hard Costs by Building Type

Description	For Sale		Rental		
	Townhome	Stacked Flats	Podium	Wrap	Tower
Stories	3	4	7	5	22
Total Housing Units	40	106	172	172	470
Site Improvement - \$10/Site sq. ft. <sup>1</sup>	\$871,200	\$871,200	\$871,200	\$871,200	\$871,200
<b>Hard Costs*</b>					
Per GSF	\$266	\$285	\$380	\$380	\$560
Total	\$19,389,183	\$39,743,357	\$69,338,103	\$69,338,103	\$296,670,752
<b>Parking Hard Costs</b>					
Integrated - \$13,793/space	\$1,103,440	\$2,924,116	\$0	\$0	\$0
Surface - \$9,000/space	\$0	\$0	\$309,600	\$309,600	\$0
Structured - \$35,000/space	\$0	\$0	\$0	\$4,816,000	\$0
Subterranean - \$85,000/space	\$0	\$0	\$0	\$0	\$15,980,000
Above Ground Podium - \$50,000/space	\$0	\$0	\$6,880,000	\$0	\$9,400,000
Total Parking Costs	\$1,103,440	\$2,924,116	\$7,189,600	\$5,125,600	\$25,380,000

[1] Standard grading and demolition. Excludes unique circumstances such as environmental mitigation.

## \*Hard Cost Breakdown

Materials and Supplies	65% - 70% of all Hard Costs
Labor	30% - 35% of all Hard Costs

# City Impact Fees and Construction Taxes

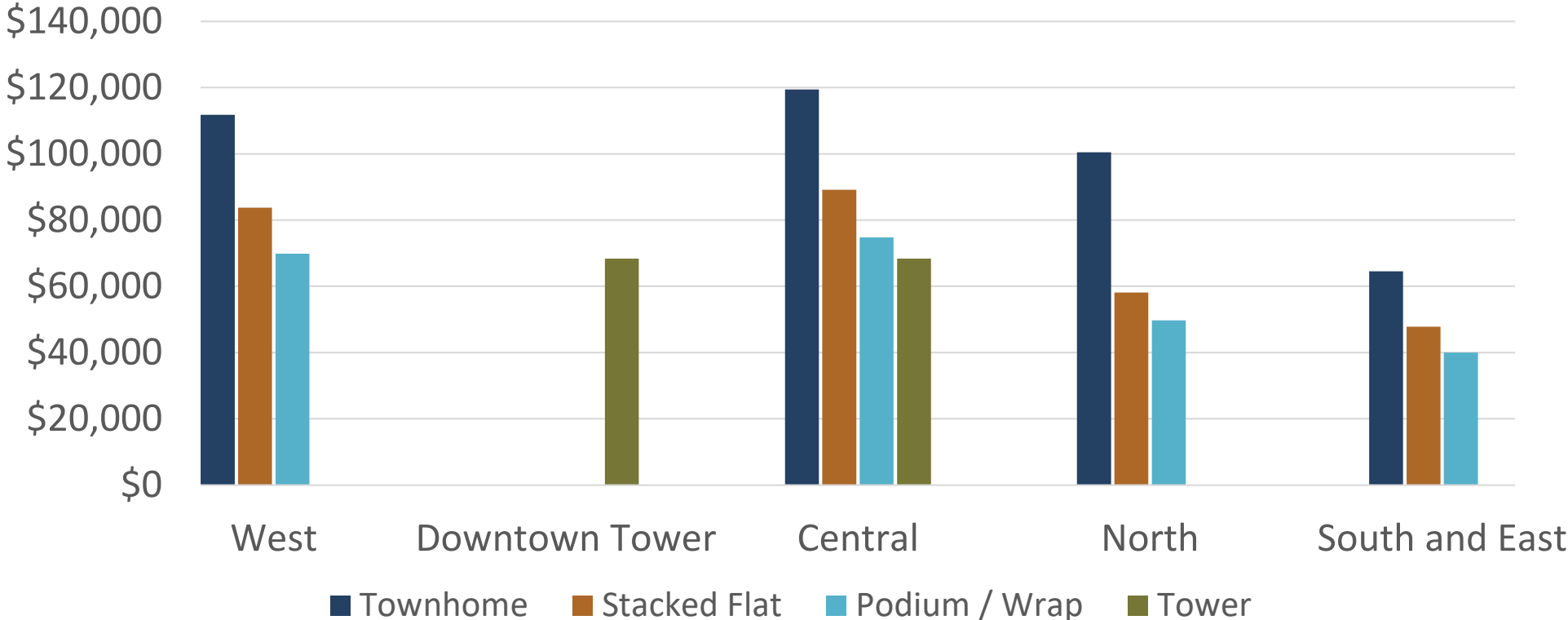
City Impact Fees and Taxes (Rental)	Range Per Unit
Construction taxes	\$6,400 – \$6,800
Parkland in lieu fees	\$11,000 – \$20,000
Inclusionary Housing In Lieu Fees	\$21,000 – \$49,600
<b>% Of Total Unit Costs</b>	<b>5.5% – 10.2%</b>
<b>Total City Impact Fees and Taxes</b>	<b>\$37,000 – \$72,000</b>

# City Development Taxes and Impact Fees by MLS Zone

Description	West	Downtown Tower	Central	North	South and East
<u>Inclusionary in-Lieu</u>					
Amount (per Net Sq. Ft.)	\$49.91	\$49.91	\$49.91	\$21.71	\$21.71
District	<i>West Valley</i>	<i>Central</i>	<i>Central</i>	<i>North</i>	<i>Evergreen</i>
<u>Parkland in-Lieu<sup>1</sup></u>					
Townhome Amount (per Unit)	\$21,840	N/A	\$25,600	\$47,040	\$14,880
Multifamily Amount (per Unit)	\$15,440	N/A	\$18,080	\$18,080	\$10,480
Tower Amount (per Unit)	N/A	\$10,950	\$10,950	N/A	N/A
District (MLS Zone)	<i>15-Campbell</i>	<i>9-Downtown</i>	<i>9-Downtown</i>	<i>North San José</i>	<i>3-Evergreen</i>
<u>School</u>					
Amount (per Gross Sq. Ft.)	\$2.65	\$4.79	\$4.79	\$5.17	\$3.11
School District	<i>Campbell Union School District</i>	<i>San José Unified School District</i>	<i>San José Unified School District</i>	<i>Santa Clara Unified School District</i>	<i>Evergreen School District</i>
<u>Construction Taxes (per Unit)</u>					
Townhome			\$12,367		
Stacked Flats			\$8,974		
Podium			\$6,617		
Wrap			\$6,617		
Tower			\$7,020		

[1] Assumes qualification for 20% Parkland in-Lieu Fee reduction for townhome and multifamily projects, and 25% reduction for Tower projects for providing on-site open space amenities (e.g. balconies, rooftop amenities).

# Total Development Taxes and Impact Fees / Unit By Building Type & Location



Note: Includes Construction Taxes and Inclusionary, Parkland, and School Impact Fees

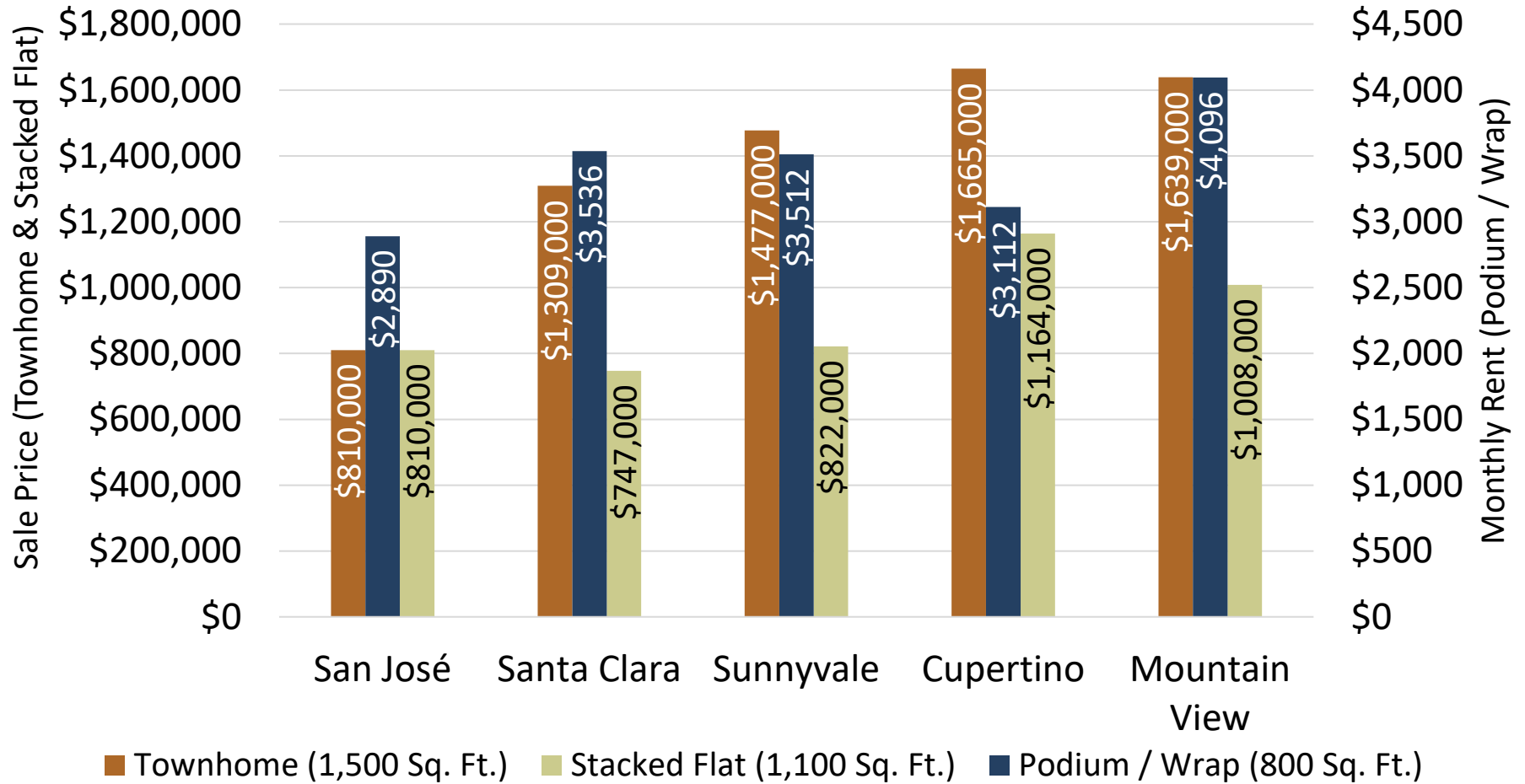


# Other Soft Costs

Soft Cost Category	Assumption	Average Soft Costs per Unit				
		For Sale		Rental		
		Townhome	Stacked Flats	Podium	Wrap	Tower
Architecture and Engineering	4% of Hard Cost	\$21,364	\$16,430	\$18,000	\$17,520	\$27,483
Other Soft Costs	2% of Hard Cost	\$10,682	\$8,215	\$9,000	\$8,760	\$13,741
Permits and Fees	1% of Hard Cost	\$5,341	\$4,107	\$4,500	\$4,380	\$6,871
Taxes	1% of Hard Cost	\$5,341	\$4,107	\$4,500	\$4,380	\$6,871
Financing	8% of Hard Cost	\$40,057	\$30,806	\$33,750	\$32,850	\$51,530
<u>Insurance</u>						
For-Sale	4% of Hard Cost	\$21,364	\$16,430	N/A	N/A	N/A
For-Rent	2% of Hard Cost	N/A	N/A	\$9,000	\$8,760	\$13,741
<u>Marketing/Leasing</u>						
For-Sale	5% of Hard Cost	\$26,705	\$20,537	N/A	N/A	N/A
For-Rent	2% of Hard Cost	N/A	N/A	\$9,000	\$8,760	\$13,741
Developer Fee	4% of Total Development Cost	\$30,352	\$23,298	\$23,778	\$23,204	\$35,577
Developer Contingency	5% of Total Development Cost	\$37,940	\$29,123	\$29,722	\$29,005	\$44,471

Note: Assumptions are industry standard amounts based on EPS observations of developer pro-formas.

# Citywide Avg. Rents & Sale Prices - Neighboring City Comparison



# Key Takeaways – Market Rate Housing



Townhome and stacked flats are feasible under current market conditions.



Multifamily (podium, wrap, tower) are infeasible under current market conditions.  
– But fee waivers may make some projects feasible.



Overall, San José remains cost competitive relative to neighboring jurisdictions.

# OFFICE TO RESIDENTIAL CONVERSIONS

# Key Drivers of Feasibility for Office to Residential Conversion

- 1. Building's Physical Attributes**
- 2. Market and Financial Factors**
- 3. Local Regulatory Framework**

# Key Physical Determinants

- Floorplate depth
- Window access
- Floor-to-floor height ratio
- Column spacing / structure rhythm
- Façade / envelope with operable openings
- Parking ratio
- Year built

# Good vs Challenging Candidates



*Bank of Italy Building  
30 S 1st St (1926)*

- Narrow floorplates support high % of units on the window line (fewer interior “dead zones”)
- Punched, operable windows on multiple façades allow natural ventilation and bedroom planning
- Taller ceiling heights provide flexibility for residential MEP distribution and soffits
- Regular structural grid makes plumbing stacks and unit stacking efficient
- Strong street presence supports active ground-floor retail and placemaking



*Sobrato Tower  
488 Almaden Blvd  
(2002)*

- Deep floorplates create large interior areas too far from windows for viable unit layouts
- Curtain wall façade is costly to modify and limits operable windows for ventilation
- Center-core layout results in inefficient unit shapes and long double-loaded corridors
- Lower ceiling heights (relative to pre-war buildings) constrain residential system routing
- Weak street activation from a glass-box façade that doesn't support engaging retail edges.

Image source: CoStar

# Market and Financial Factors

- Office building acquisition costs too high to be feasible
- Financial condition of existing owner(s)
- High risk, limited precedent
- Submarket context matters

# Key Takeaways – Office Conversions



Difficult to make broad conclusion about feasibility of office-to-residential conversions due to wide variation in circumstances



Targeted policy interventions can make some building conversions feasible.



Identifying and quantifying specific opportunities in San José will require additional analysis.

# AFFORDABLE HOUSING

# Interpreting Findings For Affordable Housing in San José



- ▶ San José's affordable housing costs are consistent with Bay Area norms
- ▶ Smaller average units drive higher costs/net square foot, not higher underlying construction costs
- ▶ Per-unit costs reflect scale efficiencies and City fee policies
- ▶ San Jose represents significant share of affordable housing proposed throughout the Bay Area

# Important Context

- Data sourcing was at time of tax credit application
  - *Does not reflect cost at financial closing (up to 12 months later)*
  - *Does not reflect cost at project completion (up to 24 months later)*
- Tax credit application budgets can vary up to 10% from the actual development costs
  - *There can be significant variations between estimates made at application submittal and final costs*
- San Jose, because of Santa Clara County Measure A Policy, built smaller units at a higher per square foot costs

# Affordable Housing Dataset

194 new construction developments based upon 2023–2025 tax credit applications



## Scope of Data

- **194 new construction developments** included in the dataset from available funding applications:
  - New construction application data included for:
    - Santa Clara County from 2023-2025 YTD, comprised of 28 projects and 4,298 units – providing a robust sample of proposed development activity.
    - Bay Area (9-county), Sacramento, Los Angeles, and San Diego from 2024-2025 YTD\*



## Data Collected

- **Project details:** city/county and housing type (Large Family, Special Needs, Single-room Occupancy (SRO), etc.)
- **Unit mix:** number of units per bedroom size, square footage by bedroom type
- **Development budget categories:** hard costs, soft costs, financing fees, reserves, developer fee, etc.
- **22 additional projects (2016–2022) were excluded** to maintain focus on current cost environment

\*No new construction applications were submitted for Marin County in 2024-2025

# Methodology & Key Context

Application-stage data provides a consistent baseline for comparing San José to peer metros

This analysis uses data from tax credit applications for new construction affordable housing projects across major California metros.

The dataset captures projected development costs, funding sources, and key details at the time of application such as bedroom and unit mix, building square feet and other key attributes.

- ✓ Application data (vs. closed project data) was used to **generate a larger sample size** for more robust regional comparisons.
- ✓ Projects budgets represent amounts **at the application stage** — costs often **increase between application and closing, so actual costs are likely higher for all areas.**

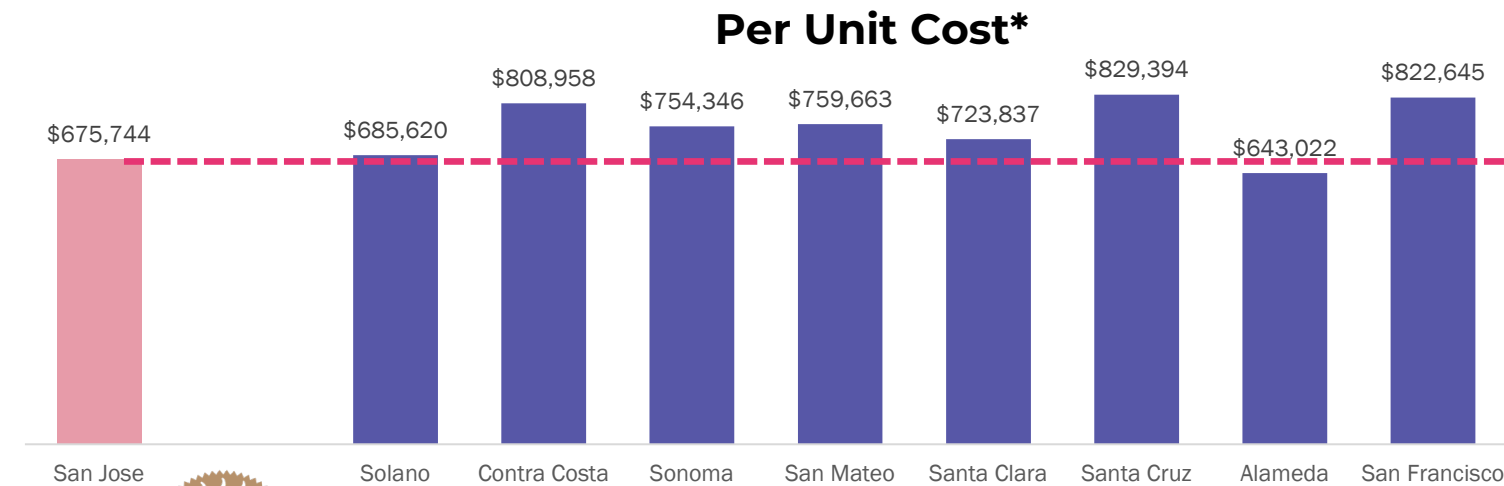
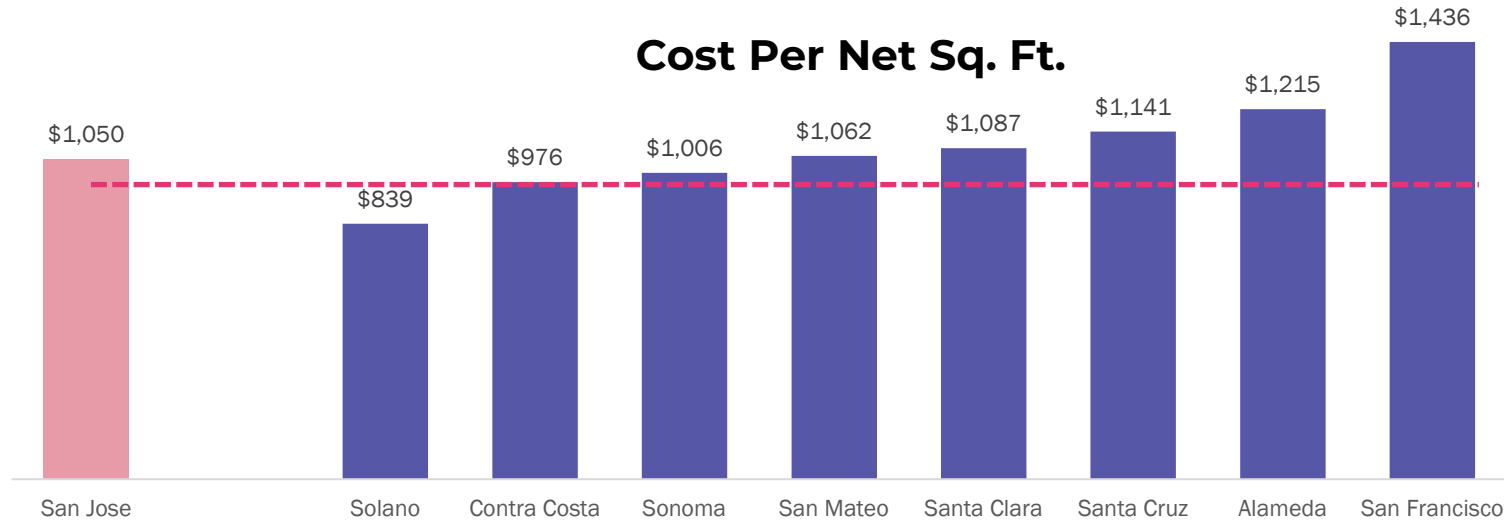
# Methodology & Key Context Cont.

Application-stage data provides a consistent baseline for comparing San José to peer metros

- ✓ Development costs from prior to 2025 were adjusted upward by 3% per year to allow comparisons in terms of 2025 dollars
- ✓ Acquisition costs were excluded from the analysis because:
  - 1) these costs are treated inconsistently in CDLAC applications and
  - 2) excluding acquisition provides more consistent comparison to the market rate methodology presented by EPS
- ✓ Reported costs **do not include additional fees** that may be triggered by **City funding contributions**

# AFFORDABLE DEVELOPMENT COST FINDINGS

# San José in Bay Area Context



(no applications were submitted for Marin County in 2024 or 2025YTD)

- Projected development costs across counties indicate that both unit size and development type drive total costs more than geography alone.
- \*Per Unit Cost at application, acquisition costs excluded

# Smaller Units Drive Higher Costs Per Net Square Foot (NSF)

Cost Per Net Square Foot and Average Unit Size

- **Higher costs per NSF align with smaller units** — counties with the smallest average unit sizes tend to show the highest cost per net square foot.
- **San José's costs are consistent with peers** — development costs generally track other Bay Area counties with comparable unit sizes.
- **Regional differences are wide** — cost per net square foot ranges from about **\$840 in Solano** to **\$1,366 in San Francisco**, underscoring the Bay Area's construction cost gradient.



(no applications were submitted for Marin County in 2024 or 2025YTD)

# San José Developments Have More Units and Fewer Bedrooms

	City of	County of	Major Metro Areas					Total/Avg
	San José	Santa Clara	Bay Area	Sacramento	Los Angeles	San Diego		
<b>Total Properties</b>	19	28	70	10	72	28	<b>180</b>	
<b>Total Units</b>	3,287	4,298	7,835	1,071	8,203	3,249	<b>20,358</b>	
<b>Units Per Project</b>	173	154	112	107	114	116	<b>113</b>	
			38%	5%	36%	14%	100%	
<b>Unit Distribution by Bedroom</b>								<b>Total Units / Distribution of Units</b>
Studios	27%	26%	25%	17%	19%	16%	<b>21%</b>	
1-Bedroom	39%	35%	30%	47%	49%	36%	<b>40%</b>	
2-Bedroom	22%	24%	26%	21%	21%	26%	<b>23%</b>	
3-Bedroom	12%	15%	18%	14%	10%	22%	<b>15%</b>	
4-Bedroom	0%	0%	1%	0%	2%	0%	<b>1%</b>	

## Findings from funding applications:

- **More units per development:**
  - 173 units vs. 154 in Santa Clara and 112 Bay Area average.
- **Fewer Bedrooms:**
  - 66% of units are Studios/1-BRs in San José vs. 55% Bay Area.
  - 34% 2–3 BRs in San José vs. 44% Bay Area.

San Jose & Santa Clara figures include applications from 2023 to 2025. Data for the Bay Area and Major Metro Areas section includes applications from 2024 to 2025.

# Key Takeaways

## Affordable Housing Development

- ▶ Cost of affordable housing development in San José tracks comparable Bay Area counties
- ▶ High cost per net square foot are driven by smaller average unit size in San José
- ▶ San José represents a large share (42%) of affordable housing developments planned in the Bay Area

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