

WEBVTT

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00:00:41.260 --> 00:00:43.060

Solivan, Erik: Let's... Everyone.

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00:00:43.520 --> 00:00:46.790

Solivan, Erik: Who else is... is there anyone else in the waiting room?

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00:00:47.870 --> 00:00:50.420

Shelsy Bass: Everyone's admitted. Everyone's admitted.

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00:00:52.930 --> 00:00:54.400

Solivan, Erik: Okay, so...

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00:00:55.370 --> 00:01:15.060

Solivan, Erik: Thank you all for coming. So, I'm Eric Solevon, I'm the Director of Housing for the City of San Jose, and today we are going to go through a simplified version of an upcoming study session that we are presenting to City Council on December 8th.

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00:01:15.480 --> 00:01:20.809

Solivan, Erik: The focus of the study session is on the cost of development.

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00:01:21.000 --> 00:01:38.890

Solivan, Erik: for both market residential and affordable residential properties. And so with me today, who's going to be co-presenting this work, is Jason Moody from EPS, our consultant, who helped put together this analysis.

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00:01:38.890 --> 00:01:51.689

Solivan, Erik: on the market rate side, and then Nicole Graham, who's the CEO of CSG Advisors, who helped put together our analysis around the affordable housing side.

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00:01:51.780 --> 00:02:05.320

Solivan, Erik: And so they will be providing and getting into detail, and I will open up this presentation to begin laying some context for the charge behind this study session from Council.

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00:02:05.720 --> 00:02:25.270

Solivan, Erik: how this has been administered and discussed in previous years, and then three, the path of approach for addressing the challenges to the cost of development going forward. And then both Jason, followed by Nicole.

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00:02:25.270 --> 00:02:27.140

Solivan, Erik: We'll go through slides.

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00:02:27.140 --> 00:02:45.380

Solivan, Erik: What is presented in this... in today's presentation is going to be a shortened version of the entire study that'll be brought forth to Council on December 8th. That session is scheduled to run between 9.30 a.m. and 12 p.m, so we have a significant

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00:02:45.380 --> 00:02:50.090

Solivan, Erik: A longer time than what is being afforded to us today.

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00:02:50.140 --> 00:03:03.169

Solivan, Erik: So today, we will get sort of the brief edition of that, and then open it up towards the end here for questions and answers. And so, let's begin with the presentation, with that introduction.

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00:03:18.030 --> 00:03:22.990

Solivan, Erik: Okay, so going first to the first slide here...

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00:03:23.890 --> 00:03:43.620

Solivan, Erik: So, here's the quick background. As I was providing and articulating at the start of the session, the housing department was charged by Council to bring forth this study, and so we hired two experts in this field, EPS and CSG Advisors, to put together this analysis.

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00:03:43.620 --> 00:03:51.509

Solivan, Erik: to better understand what are the challenges to residential development in the city of San Jose.

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00:03:51.540 --> 00:03:53.569

Solivan, Erik: I will note that

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00:03:53.570 --> 00:04:18.320

Solivan, Erik: We did not have sufficient time or resources to get into all areas of the city, so this analysis is focused on primarily four areas that we will go to here in the next coming slides that have and experienced the most development and are forecasted based on our general plan to have the largest areas of development in terms of additional

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00:04:18.320 --> 00:04:24.139

Solivan, Erik: units under our housing element and general plan. So, next slide.

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00:04:26.010 --> 00:04:29.530

Solivan, Erik: So let's start with market rate housing here.

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00:04:29.850 --> 00:04:32.690

Solivan, Erik: So it's quick contacts, so next slide.

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00:04:34.490 --> 00:04:49.520

Solivan, Erik: This is some important context to lay down some groundwork for how we approach this analysis, and Jason and his team at EPS will get into some more details, but I want to lay down the foundation for this.

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00:04:49.520 --> 00:04:55.590

Solivan, Erik: So, for the market rate development, we looked at both private and publicly available data.

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00:04:55.670 --> 00:05:18.409

Solivan, Erik: Two, we use some modeling to look at and run hypothetical scenarios for how we look at current market performance, some of those challenges in costing around market performance, based on total development costs and hard costs, and across a varied building types.

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00:05:18.460 --> 00:05:31.809

Solivan, Erik: From your standard townhomes and stacked flats, all the way to your towers and high-rises, and then situating that hypothetical and projections within particular communities.

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00:05:31.810 --> 00:05:45.120

Solivan, Erik: Additional data analysis is needed, and I will note that at the top as we begin to break down the hard costs and the dispersion of hard costs between labor, materials.

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00:05:45.120 --> 00:06:03.049

Solivan, Erik: land costs and financing, so we need some additional and a broader data set to reach more definitive determinations regarding those cost percentage breakdowns. But what is provided today provides a very good view as to where the challenges are.

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00:06:03.400 --> 00:06:18.580

Solivan, Erik: Some other important tools, just to understand, and some barriers in understanding this, you know, as we think through these considerations from the city side, we know, as articulated in the housing element, the city does not produce units.

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00:06:18.590 --> 00:06:26.159

Solivan, Erik: What we do is foster an environment where housing units can be produced, and provide

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00:06:26.190 --> 00:06:33.420

Solivan, Erik: Four key areas of control that the city can contribute for the production of housing.

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00:06:33.420 --> 00:06:46.940

Solivan, Erik: The first is overall policy and programs. How do we as a city in the housing department and the many other departments that touch and process our work around development of housing.

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00:06:46.940 --> 00:06:51.919

Solivan, Erik: How are their policies, programs, being implemented and administered?

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00:06:51.920 --> 00:07:11.580

Solivan, Erik: Two, what are the fees associated with those city programs, as well as taxes, and then the process around permitting? Those are factors within the global housing development ecosystem that the city controls, and there are many other factors that are outside the city's control.

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00:07:11.580 --> 00:07:20.209

Solivan, Erik: Such as cost of land, market financing, and materials and supply chains. And we know each of those three areas, particularly here.

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00:07:20.440 --> 00:07:30.209

Solivan, Erik: in Silicon Valley and in the city of San Jose are experiencing enormous challenges and ever-increasing costs.

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00:07:30.450 --> 00:07:31.750

Solivan, Erik: Next slide, please.

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00:07:36.670 --> 00:07:52.540

Solivan, Erik: So, the scope and the charge that we gave to EPS was to evaluate all of the feasibility based on the public and private data that was accessible, to look at a broad range of residential types, and they will get into the details here soon.

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00:07:52.540 --> 00:08:02.620

Solivan, Erik: And to come up with sort of generic scenarios grounded in the data, that show what potential challenges, projecting forward.

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00:08:02.720 --> 00:08:20.589

Solivan, Erik: will be experienced for development within San Jose in the targeted areas. In addition, the four districts that we focused on in the MLS zones are a really core center, so there is other development throughout the city in all council districts.

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00:08:20.590 --> 00:08:25.840

Solivan, Erik: What we took a look at for the purposes of this development is for particular ones.

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00:08:26.150 --> 00:08:38.719

Solivan, Erik: That have historically had the most growth, or have, based on the current general plan, will likely have the most growth going forward, based on available land and opportunity.

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00:08:38.809 --> 00:08:55.000

Solivan, Erik: And this purpose of this study was really much to inform City Council on how best to utilize the factors within our control as city government to spur, incentivize, and foster an ecosystem for more housing production.

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00:08:55.020 --> 00:09:02.569

Solivan, Erik: And the results of this study will get factored into the city's utilization of

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00:09:02.570 --> 00:09:13.139

Solivan, Erik: what's called 1410-310 of our municipal code, which is the code upon which our incentive programs that we utilize for market rate development

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00:09:13.140 --> 00:09:27.610

Solivan, Erik: to spur, foster, and encourage more housing production on the market rate side of our city's housing stock. So now I'm going to turn it over to Jason Moody and the EPS team to go forward with the

discussion.

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00:09:28.160 --> 00:09:29.120

Solivan, Erik: Jason?

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00:09:29.420 --> 00:09:35.990

Jason Moody: Thank you. Again, Jason Moody, I'm a Managing Principal at Economic and Planning Systems from his,

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00:09:36.290 --> 00:09:45.899

Jason Moody: founded over 40 years ago in the Bay Area. I've been doing work in the Bay Area real estate market for over 40 years. I've been working for EPS for 30 years, so we've...

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00:09:45.970 --> 00:10:02.220

Jason Moody: seeing the business cycles come and go, and have a good handle on development trends in the Bay Area, and South Bay, and San Jose in particular. So I just want to go over the nuts and bolts of the financial analysis we put together, and also some of the high-level results.

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00:10:02.240 --> 00:10:19.080

Jason Moody: And the goal is really to solicit feedback, you know, maybe answer questions. You know, we really value the input from practitioners in the field when doing this type of work, because, you know, obviously you have your ears to the ground, and can really provide some

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00:10:19.110 --> 00:10:22.119

Jason Moody: Really good feedback to vet our analysis.

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00:10:22.170 --> 00:10:30.619

Jason Moody: A couple quick, I would say, caveats. Our work that we're showing now really reflects the 24-25 market. It's kind of a snapshot view.

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00:10:30.740 --> 00:10:48.210

Jason Moody: We... we gather revenue and costs for this time frame, from a variety of sources, mostly third-party sources, like CoStar, Redfin, and Marshall & Swift, which is a construction cost database, as well as, local developers. And of course,

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00:10:48.400 --> 00:11:04.059

Jason Moody: individual projects that... any individual project is going to differ from what we show here. We're looking at kind of an average or a mean, very generic project, and obviously factors like location or quality or developer capability, site conditions will affect the performance of any particular site.

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00:11:04.180 --> 00:11:06.009

Jason Moody: We can go to the next slide.

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00:11:06.580 --> 00:11:19.709

Jason Moody: This... this is just a slide to show you how we vetted... one of the ways in which we vetted our assumptions, and we looked at some real projects that the City of San Jose has processed, and the cost

estimates from those projects.

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00:11:19.710 --> 00:11:33.500

Jason Moody: And we... and this table kind of summarizes how they... those numbers on a cost per square foot compare with the numbers that we're using, and we're pretty much in line. On the far left, under the podium and wrap, you can see we're at about 424 a square foot.

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00:11:33.730 --> 00:11:50.530

Jason Moody: For hard costs, and that is kind of in range with some numbers. The sample pro formas we looked at were lower, some were higher, and for the podium, again, we're pretty close to the pro forma that was... represents a real project by the city at 610 versus 621.

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00:11:50.780 --> 00:11:57.819

Jason Moody: So, I'll get into more about these particular assumptions and prototypes. We can go to the next slide.

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00:11:59.900 --> 00:12:14.440

Jason Moody: Before we get too much into the weeds, though, I think it's important to talk about the various product types that we're going to be looking at, and the product type itself is probably the key determinant in the cost of development, because different types of buildings.

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00:12:14.530 --> 00:12:24.979

Jason Moody: costs have different... different, technologies and cost profiles. So, on the for-sale side, we looked at townhomes, and then we also looked at stacked flats.

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00:12:25.100 --> 00:12:44.650

Jason Moody: I'm sure most of the people on the call are familiar, but just in case you're not, the townhome is usually a 3- to 4-story building, maybe even two in some cases, wood-framed construction. Parking is usually integrated into the building, so it's probably the... one of the lower-cost types to build. Stacked flat is a little bit of a variant, but instead of having,

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00:12:44.770 --> 00:13:03.429

Jason Moody: the housing, each unit side by side, you actually have... you actually maybe put a few on top of each other. It gets a little... it tends... it can be usually a little bit higher, tends to be higher density, but again, pretty much the same, technology, you just get a little higher density out of it. You can go to the next slide.

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00:13:03.870 --> 00:13:19.929

Jason Moody: The rental product types that we looked at would be a podium, a wrap, and a tower. A podium is, basically can go up to 8 stories, actually, but the first 2 stories, if it goes to 8, are usually going to be a concrete podium.

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00:13:20.160 --> 00:13:38.400

Jason Moody: Where the... usually is the parking is... is gonna be in that section, and the rest can be, stick construction above that. The wrap is, again, a kind of a parking structure that's... the residential wraps around the parking structure. It's a little bit lower cost concept, although it requires a slightly larger site.

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00:13:38.570 --> 00:13:47.659

Jason Moody: And then the tower itself is kind of the highest density of all. Steel frame is very expensive, more expensive than the other types.

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00:13:47.780 --> 00:14:00.890

Jason Moody: And it's usually the most common in very, dense neighborhoods with, you know, transit connectivity, and so this was one that we only looked at for downtown San Jose, we didn't look at for the whole city. We can go to the next slide.

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00:14:02.270 --> 00:14:22.030

Jason Moody: So here's just the assumptions that we used in our analysis. These particular assumptions directly bear on the cost, so that you can change these assumptions and it will affect the cost, but they're pretty generic at this point. They relate to density, and they relate to parking ratios. Parking, as you all know, is a big factor in costs.

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00:14:22.240 --> 00:14:32.230

Jason Moody: So the density for the townhome is basically 20 units an acre, stacked flat, we're at 53. Podium is the most dense.

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00:14:32.320 --> 00:14:42.689

Jason Moody: I'm sorry, tower is the most dense at 235, and then podium, the wrap right now, we're assuming, at a similar density, although typically podium can get a little bit denser than a wrap.

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00:14:42.890 --> 00:15:02.399

Jason Moody: And so we did everything on a... to facilitate a kind of apples-to-apples comparison on residual land value, a concept we'll talk about shortly. We assumed this is a two-acre site, so just so we can compare the land value of a two-acre site across these different product types. You can go to the next slide.

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00:15:05.130 --> 00:15:11.549

Jason Moody: And as Eric was mentioning, these are the areas in yellow that we did, we focused in on our analysis.

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00:15:11.570 --> 00:15:29.930

Jason Moody: And what really differs in these areas, from our perspective, was just the rents, the sales prices, as well as fees. Actually, the city has different fees depending upon where you are in the city. We didn't make any changes in development costs by location. We made the assumption that, essentially, the developers are going to

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00:15:30.150 --> 00:15:41.130

Jason Moody: cost, for same... all things being equal is going to be the same whether you're... wherever you are in the city, although fees would be different, and revenues would be different. You can go to the next slide.

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00:15:44.320 --> 00:15:51.859

Jason Moody: Again, a couple things. Again, our analysis is snapshot in time, and it's, again, very generic.

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00:15:51.930 --> 00:16:00.739

Jason Moody: product types. So, we recognize a variety of factors, market factors, will affect both the revenues and the cost in a particular project.

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00:16:00.810 --> 00:16:08.420

Jason Moody: will experience. So, factors that can affect the value assumptions could be interest rate changes,

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00:16:08.470 --> 00:16:26.680

Jason Moody: Marked cap rates, obviously achievable sales price, all those can vary by neighborhood. Cost factors, labor and materials can be affected by a variety of factors. Financing terms, interest rates, again, taxes and fees, which, we will talk about.

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00:16:26.740 --> 00:16:33.860

Jason Moody: And then the entitlement streamlining and fast tracking, the permitting stuff that Eric had mentioned, those also can affect the costs.

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00:16:33.970 --> 00:16:44.990

Jason Moody: So we do sensitivity analysis in the next version that we'll show to the Council on these factors to see how sensitive our results are to changes in prices or changes in costs.

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00:16:45.160 --> 00:16:48.489

Jason Moody: So that's a big part of our analysis. You can go to the next slide.

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00:16:51.430 --> 00:16:54.360

Jason Moody: So, a quick overview of what we found.

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00:16:54.510 --> 00:17:07.180

Jason Moody: is, with regard to Municipal Code 1410, which would allow the city to provide, fee concessions and tax concessions for projects that really are... don't appear to be, feasible,

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00:17:07.579 --> 00:17:14.300

Jason Moody: Those probably wouldn't apply in today's market for either for-sale townhomes or stacked flats. They probably can go forward without

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00:17:14.550 --> 00:17:34.029

Jason Moody: for the most cases without tax or fee waivers. But the... the for rent, the podium, the wrap, and the towers, they're... they tend to be not feasible in today's market, so they would probably be eligible for fee waivers. And I think that in a few limited... in some cases, the fee waivers, might be able to,

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00:17:34.130 --> 00:17:43.399

Jason Moody: To tip the scales, for some of these projects in today's market, because the fees, you know, and they can add up, as we'll get into that.

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00:17:43.500 --> 00:17:58.050

Jason Moody: Maybe for a wrap and for the podium. For a tower in today's market, I don't think that would... the fee waivers are probably not going to tip the scales. You're going to need a much more

improvement in market conditions before those become feasible.

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00:17:58.150 --> 00:18:01.990  
Jason Moody: So down the road, maybe the, the, those,

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00:18:02.150 --> 00:18:20.379  
Jason Moody: changes in fees or fee waivers could tip the scales, but probably wouldn't be enough to incentivize a tower development, but it could, in some cases, allow for a wrap or a podium to go forward. Other factors that we tested is, obviously, increases in rents or reduction in costs could allow

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00:18:20.480 --> 00:18:33.449  
Jason Moody: these... these products to go forward as well, so I think 5-15% change in real cost could, for example, make a podium or a townhome go forward, whereas a... you would need a much higher level of increase in... in... in...

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00:18:33.450 --> 00:18:41.710  
Jason Moody: Prices for the tower to move forward, more in the 10% to 50% to 35% range, or a commensurate reduction in development costs.

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00:18:41.920 --> 00:18:44.159  
Jason Moody: You can go to the next slide.

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00:18:47.220 --> 00:19:02.889  
Jason Moody: So on the way in which we've evaluated development feasibility here is using this concept of residual land value, which is a pretty basic and simple concept. It's basically the project value, the finished value of a project, what a developer will be able to sell it for or rent it for.

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00:19:03.010 --> 00:19:19.470  
Jason Moody: Minus the cost, but the costs exclude the land. It's the total development cost, soft, hard cost, everything goes in. The difference between two numbers is essentially what the residual land value is. And it's a really good measure, that's used in the real estate industry as a kind of a...

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00:19:19.530 --> 00:19:34.290  
Jason Moody: a benchmark. Obviously, individual developers have other tools that they use to test feasibility, and they may have already acquired the land, or have a really low land basis, and so they're not really looking at the residual land value per se, but this allows us to make comparisons across

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00:19:34.490 --> 00:19:41.039  
Jason Moody: Projects, and it's a really good, kind of a benchmark number that allows us to do apples-to-apples comparisons.

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00:19:41.140 --> 00:19:47.509  
Jason Moody: So we will be referring to residual land value concept throughout the analysis. You can go to the next slide.

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00:19:49.460 --> 00:19:50.859

Jason Moody: Next slide, please.

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00:19:51.140 --> 00:20:05.179

Jason Moody: Here are the, hard cost assumptions, and this is where we're really looking for input, and, and, you know, questions or thoughts that you might have. So, obviously, the hard costs differ for the rental byproduct type.

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00:20:05.340 --> 00:20:10.529

Jason Moody: Across the board, we're making a very generic assumption about site improvement costs.

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00:20:10.760 --> 00:20:19.339

Jason Moody: And then the hard costs, per square foot, the per GSF gross square foot is the number that I think is the most relevant here.

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00:20:19.430 --> 00:20:24.069

Jason Moody: 266 for a townhome, a \$285 for a stack flat.

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00:20:24.140 --> 00:20:41.800

Jason Moody: \$380 for a podium, \$380 for a wrap, and then, \$560 for a tower. Now, the real reason that podium and wrap, they're the same hard cost, but they also have different, they can have different parking costs. Parking costs are also a big factor across the board.

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00:20:41.940 --> 00:20:52.549

Jason Moody: With parking being the lowest for, both townhomes and stacked flats per space, and then highest for tower, because sometimes you have to go subterranean for tower.

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00:20:52.800 --> 00:20:58.330

Jason Moody: So that's about \$50,000... sorry, \$85,000 of space for,

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00:20:58.520 --> 00:21:09.050

Jason Moody: for subterranean versus, say, \$50,000 for just regular podium, and, \$35,000 for a structured in a, in a, in a wrap project.

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00:21:09.360 --> 00:21:29.160

Jason Moody: And again, very... much lower, about \$13,000 for, integrating a townhome. In terms of the materials and supplies, how those versus labor, labor is... is about 30-35% of hard costs, generally speaking, and where materials and supplies makes up the rest for the hard cost portion of the thing, and that... that's...

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00:21:29.470 --> 00:21:46.319

Jason Moody: That's an important number that, for a variety of policy reasons that we want to continue to refine. But there... it's one where there's not a lot of really good data on how those break out, but that's what we've kind of used as a rule of thumb, and with data sources we do have, that's the breakout. You can go to the next slide.

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00:21:50.830 --> 00:21:56.510

Jason Moody: As Eric mentioned, city impact fees and taxes are one of the things that the city can control.

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00:21:56.640 --> 00:22:12.089

Jason Moody: And right now, the city, again, they range by product type and by location within the city, with construction taxes being about \$6,000 to \$7,000, park and loop fees being \$11,000 to \$12,000 per unit.

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00:22:12.290 --> 00:22:24.259

Jason Moody: Inclusionary fees being about \$21,000 to \$50,000. Overall, we see that impact fees can range from about 5.5% to 10% of total costs.

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00:22:24.620 --> 00:22:26.510

Jason Moody: What's,

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00:22:26.640 --> 00:22:39.429

Jason Moody: can range from essentially \$37,000 to \$72,000, so they're not insignificant. So it is a lever the city has at its disposal, and it is... it can move the needle in some cases for development. And go to the next slide.

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00:22:41.940 --> 00:22:54.390

Jason Moody: Interestingly, the city's taxes and fees do vary by zone within the city, and actually, I think the next slide after this probably shows how that shows that even better. You can go to the next slide.

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00:22:56.120 --> 00:23:05.950

Jason Moody: This shows how the taxes and impact fees can vary by location. As you can see, the Central District is... probably has the highest fees and taxes overall.

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00:23:06.070 --> 00:23:16.290

Jason Moody: And then followed by the west, and the... we only looked at a tower for the downtown. Taxes and fees are pretty high downtown as well.

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00:23:16.420 --> 00:23:18.430

Jason Moody: But,

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00:23:18.540 --> 00:23:37.950

Jason Moody: we... that's the main product type we looked at. In terms of the... another interesting factor is that, for the most part, the taxes and fees are higher for the lower density product types, such as stacked flats and townhomes, and currently are... are... tend to be lower for, like, the... for rent product types, like the podium or the tower.

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00:23:38.160 --> 00:23:39.129

Jason Moody: Or the wrap.

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00:23:39.470 --> 00:23:45.899

Jason Moody: So that's how they break out, by location and by product type, the fees in the city.

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00:23:46.150 --> 00:23:47.369

Jason Moody: They can go to the next slide.

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00:23:50.990 --> 00:23:56.830

Jason Moody: This is a, another, very important part of the equation, which is soft costs.

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00:23:56.900 --> 00:24:15.810

Jason Moody: And this doesn't include fees, it's just the soft cost in general, and we use pretty generic assumptions here, and again, we're very interested in your thoughts on this, but usually it's done as a percent of hard costs for architecture and engineering, about 4%. Financing is about 8%, and that's up from...

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00:24:16.110 --> 00:24:25.530

Jason Moody: you know, 5 years ago, because interest rates have gone up so high. Another interesting thing is that the insurance costs are much higher for the for-sale product, because,

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00:24:25.680 --> 00:24:41.300

Jason Moody: Of the construction defect liability issues, so a little bit more expensive insurance, which can be a significant number, on the, on the soft costs. And then we all include a developer fee and contingency in the soft costs as well.

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00:24:41.920 --> 00:24:50.750

Jason Moody: But again, your input on these assumptions would be, we would definitely be interested in vetting these numbers with the developed community further.

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00:24:50.910 --> 00:24:52.100

Jason Moody: You can go to the next slide.

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00:24:55.320 --> 00:25:10.430

Jason Moody: Finally, I want to just... another very important consideration in the feasibility is how the City of San Jose compares with its neighbors in terms of pricing, and that's what this table shows. Right now, San Jose does appear to be a lower-cost market, lower price

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00:25:10.500 --> 00:25:22.090

Jason Moody: lower rents, lower price points than the neighbors. I think that is a good thing, actually, because it shows that there's some room for growth. And, you know, as San Jose becomes more competitive.

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00:25:22.170 --> 00:25:37.809

Jason Moody: And it can get closer up to its neighbors. You don't... you never want to be the most expensive market, because you're probably not going to be able to go up too much further than that. And I think there is some room for growth in San Jose on the price points.

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00:25:39.300 --> 00:25:48.910

Jason Moody: And it... yeah, for the, the... so you can see, the townhome and the stack flat and podium vary here in terms of the total price point.

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00:25:49.150 --> 00:25:56.760

Jason Moody: One is showing rents, the other is showing, for the rental, it's rents on the right and price points on the left.

134

00:25:57.390 --> 00:26:02.809

Jason Moody: We can go over these assumptions more if... if we have time. I can go to the next slide.

135

00:26:04.760 --> 00:26:09.029

Jason Moody: So, just quick, key takeaways on the market rate housing side.

136

00:26:09.240 --> 00:26:18.129

Jason Moody: Townhomes and stacked flats do appear feasible in general and under current market conditions, but the multifamily podium and wrap are less feasible.

137

00:26:18.180 --> 00:26:30.309

Jason Moody: And appear infeasible under the current market conditions, although there may be situations in which fee waivers may be able to tip the scales, particularly for a wrap or for a podium product.

138

00:26:30.630 --> 00:26:36.660

Jason Moody: And then overall, San Jose still remains pretty competitive relative to its neighbors in terms of,

139

00:26:36.870 --> 00:26:46.139

Jason Moody: the price points. Competitive meaning it tends to be a slightly lower cost market. Another thing we did look at, we compared the fees in San Jose with its neighbors.

140

00:26:46.140 --> 00:27:02.070

Jason Moody: And San Jose's fees are... are... impact fees and taxes are, again, not exceedingly high. In fact, they tend to be lower than most neighbors that we looked at, so that's a good thing from a developer's perspective. They aren't paying a... the fee burden in San Jose isn't inordinate relative to the neighbors.

141

00:27:02.250 --> 00:27:04.469

Jason Moody: neighboring communities. Okay, next slide.

142

00:27:06.930 --> 00:27:18.370

Jason Moody: We do want to talk briefly about the office-to-residential conversions. This is not a type of development that we can... we have generic cost numbers on because of the high variability, but

143

00:27:18.440 --> 00:27:28.569

Jason Moody: you know, with the pandemic and the... it has hit the office market exceedingly hard, and a lot of downtowns, not just San Jose, but throughout the Bay Area, have been hit by the pandemic.

144

00:27:28.670 --> 00:27:42.550

Jason Moody: And the notice... the idea of converting a kind of vacant, underutilized office to residential is... has been thrown around a lot as kind of a win-win, where you can actually provide housing, and at the same time help revitalize downtown cores.

145

00:27:42.620 --> 00:27:55.160

Jason Moody: or commercial districts, so it's something there's a lot of interest in. So we did spend a little time looking at the factors that would affect the feasibility of an office-to-residential conversion. We can go really quickly through this. I don't want to take up too much more time.

146

00:27:55.240 --> 00:27:56.599

Jason Moody: Go to the next slide.

147

00:27:57.540 --> 00:28:11.189

Jason Moody: The typical factors that will affect whether or not this type of conversion is feasible is the building attributes, market and financial factors, and the local regulatory framework. These are the three things that we look at. You can go to the next slide.

148

00:28:13.940 --> 00:28:15.240

Jason Moody: Next slide, please.

149

00:28:16.520 --> 00:28:18.570

Jason Moody: Physical determinants.

150

00:28:18.890 --> 00:28:27.309

Jason Moody: Yeah, you can, either one, this one's fine. The key things here would be, the depth of the floor plate, the window access.

151

00:28:27.610 --> 00:28:30.070

Jason Moody: The spacing of columns.

152

00:28:30.340 --> 00:28:37.049

Jason Moody: Parking ratios, how much parking is in the building, when... and all these kind of oftentimes relate to when... how old the building is.

153

00:28:37.230 --> 00:28:38.990

Jason Moody: We can go to the next slide.

154

00:28:42.590 --> 00:28:49.740

Jason Moody: And next slide. These are just two examples of buildings that might be, good or might not be good. So the one on the left

155

00:28:49.930 --> 00:28:53.369

Jason Moody: Is... it has narrow floor planes, which tends to be good.

156

00:28:53.550 --> 00:28:59.650

Jason Moody: It has operable windows, which also is good for residential. Taller ceilings.

157

00:29:01.670 --> 00:29:10.039

Jason Moody: It has a pretty good, strong street presence, it's a nice-looking building. The one on the right, probably not as good, because of the deeper floor plates.

158

00:29:10.240 --> 00:29:20.480

Jason Moody: And this kind of curtain wall facade is kind of very hard to modify to make the windows operable for ventilation. This is what most residential,

159

00:29:20.910 --> 00:29:32.940

Jason Moody: you know, tenants would look for. The center core is... is not really effective. You don't really... you need to... you really have a hard time making separate bedrooms out of this type of building.

160

00:29:33.230 --> 00:29:46.060

Jason Moody: And lower ceiling heights, again, not good for residential. So, this one on the right is probably not as good. It's also a newer building, so another reason why it probably wouldn't be as good. We can go to the next slide.

161

00:29:47.090 --> 00:29:55.059

Jason Moody: there are market factors, just independent of whether... what the building is made of. I think some very important market factors are,

162

00:29:55.370 --> 00:30:03.260

Jason Moody: If the office building acquisition cost is just too high, like a new building, it's just going to be infeasible for a residential builder to buy it.

163

00:30:03.370 --> 00:30:10.450

Jason Moody: and then convert it. Those two... they're just really expensive, and the newer buildings probably fall into this category more than older ones.

164

00:30:10.580 --> 00:30:17.509

Jason Moody: And also the financial condition of the existing owner. If they... if they own the office building outright, they're probably...

165

00:30:17.760 --> 00:30:26.459

Jason Moody: I'm fortunately gonna hold onto it and hope for the market to turn on office, because when the office market is strong, the rents are higher than residential, so...

166

00:30:26.620 --> 00:30:33.230

Jason Moody: Usually we're looking for distressed, owners before you can really get a good purchase price.

167

00:30:33.490 --> 00:30:39.220

Jason Moody: And part of that, another issue is just that the... this is kind of in a...

168

00:30:39.360 --> 00:30:40.610

Jason Moody: A little bit of a...

169

00:30:40.770 --> 00:30:53.550

Jason Moody: a new... a new phenomena, office-to-residential conversion. The financial community hasn't really got their hands around it, so they... there's some risk that they build into the financing terms, so that's another factor that affects the feasibility.

170

00:30:53.770 --> 00:30:57.999

Jason Moody: And then the sub-market obviously matters. You want to be in a location

171

00:30:58.130 --> 00:31:10.650

Jason Moody: that is appealing as a residential neighborhood, and has other amenities that would appeal to residents. Not all office markets fit this description. So these are the key factors. One more slide.

172

00:31:12.820 --> 00:31:30.380

Jason Moody: The key takeaways about office conversions, and I do think it represents a real opportunity in San Jose for a limited number of buildings, but it's really hard to make broad conclusions about the feasibility, because of the high variation and the circumstances that each building will face.

173

00:31:30.600 --> 00:31:43.449

Jason Moody: But for those that are on the edge, targeted policy interventions can make, can make a difference, and maybe we'll tip the... tip the scale, so to speak, move the needle, and make an office conversion feasible.

174

00:31:43.830 --> 00:31:53.840

Jason Moody: I do think it's valuable for the City of San Jose to kind of take a look at what buildings might meet the... might be well-positioned for this, and maybe do some additional analysis about

175

00:31:53.900 --> 00:32:04.980

Jason Moody: How many new housing units under, you know, a best-case or medium-case scenario might be created through a more intentional office-to-conversion, policy?

176

00:32:05.600 --> 00:32:08.630

Jason Moody: So those are, those are my slides.

177

00:32:08.810 --> 00:32:11.040

Jason Moody: And I think we're gonna move to Nicole now.

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00:32:12.380 --> 00:32:13.199

Jason Moody: Next slide.

179

00:32:14.010 --> 00:32:14.750

Jason Moody: Yes.

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00:32:19.990 --> 00:32:22.960

Nicole Graham: Yeah, and... Eric, did you want to introduce this?

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00:32:22.960 --> 00:32:25.670

Banu San: Nicole, let me introduce you for a second.

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00:32:25.670 --> 00:32:26.330

Nicole Graham: Sure.

183

00:32:26.330 --> 00:32:28.970

Banu San: Okay, I just was trying to get my camera going here.

184

00:32:29.890 --> 00:32:41.400

Banu San: Okay, so we're going to move to the affordable housing side, and this study was conducted by CSG Advisors, and Nicole Ram is here to present this section of the study.

185

00:32:41.610 --> 00:32:44.999

Banu San: And move to... let's move to the next slide, Chelsea.

186

00:32:49.300 --> 00:33:07.759

Banu San: So, we're... what we looked at is, the... a sample of affordable housing, applications, tax credit applications, plus a larger, group over a certain amount of time. So, Nicole's going to go through those findings, but this is the initial, highlights of the study.

187

00:33:07.790 --> 00:33:20.680

Banu San: And what the study was showing us was that the San Jose's affordable housing costs are consistent with barrier norms, and the smaller average units, are driving higher costs, per net square foot.

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00:33:20.680 --> 00:33:32.180

Banu San: not higher underlying construction costs. So we're going to be seeing that in the further slides, and the per-unit costs reflect, the scale efficiencies and our fee policies.

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00:33:32.280 --> 00:33:40.339

Banu San: And we represent a significant share of the affordable housing, proposals throughout the, proposed and built throughout the Bay Area.

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00:33:40.680 --> 00:33:41.630

Banu San: Next slide.

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00:33:43.970 --> 00:34:00.450

Banu San: So, the data that we sourced is, were applications during... were developments during tax credit application, so it doesn't reflect what the cost was at financing closing, which happens, you know, within 12 months later. And then.

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00:34:00.450 --> 00:34:05.119

Banu San: It also doesn't reflect costs at project completion when the construction is done.

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00:34:05.370 --> 00:34:14.370

Banu San: The tax credit application budgets can vary from the actual debt costs because of that, so around 10% variance is what we saw. And...

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00:34:14.510 --> 00:34:24.269

Banu San: the, San Jose, because of the county's Measure A policy, ended up with a lot more smaller units at a higher per square footage.

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00:34:26.170 --> 00:34:27.420

Banu San: Next slide.

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00:34:28.100 --> 00:34:30.059

Banu San: And this is... I think this is Nicole's?

197

00:34:30.250 --> 00:34:31.130

Banu San: Chelsea?

198

00:34:32.300 --> 00:34:33.100

Nicole Graham: Okay.

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00:34:33.250 --> 00:34:33.980

Banu San: Great.

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00:34:34.010 --> 00:34:36.600

Nicole Graham: Thanks very much, Banu.

201

00:34:37.050 --> 00:34:51.850

Nicole Graham: Hi, everyone. Let me just introduce myself. I'm Nicole Graham, co-CEO of CSG Advisors. We are a municipal advisory firm that's been operating out of our home base in San Francisco since 1978.

202

00:34:52.000 --> 00:35:06.490

Nicole Graham: And we specialize in affordable multifamily housing. We advise public agencies, such as the City of San Jose, on a range of development feasibility, capital planning, structuring, and a lot of structuring of affordable housing transactions.

203

00:35:06.580 --> 00:35:15.679

Nicole Graham: So that's our general background, and of course, I've been working on this cost of development study, focusing on the affordable housing component.

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00:35:15.950 --> 00:35:31.929

Nicole Graham: As Banu mentioned, our, our data was pulled from tax credit applications. So, essentially, we were asked to update findings of the city's 2023 cost study.

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00:35:31.930 --> 00:35:41.189

Nicole Graham: Which also used, the same data set, but a bit narrower, sort of fewer, fewer project examples.

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00:35:41.410 --> 00:35:43.809

Nicole Graham: So...

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00:35:43.990 --> 00:35:53.640

Nicole Graham: Our current study has a larger data set, but it does still rely on the low-income housing tax credit applications.

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00:35:53.640 --> 00:36:04.289

Nicole Graham: which are submitted to the state several months prior to the start of construction, as Banu mentioned. So, the... the good part of that is it provides a consistent data source.

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00:36:04.330 --> 00:36:16.429

Nicole Graham: And by virtue of the sample size, gives us, you know, sort of a complete and current snapshot, more so than the city has had thus far. But, of course, it is

210

00:36:16.430 --> 00:36:28.379

Nicole Graham: data application. So that means we're, you know, we're not looking at the final budget, even at the time of construction start, and we're not looking at the actual cost once construction is complete.

211

00:36:29.160 --> 00:36:43.889

Nicole Graham: So what's in the... what's in the actual data set? So, across California, we reviewed 194 new affordable housing project applications. About 10% of those were here in San Jose.

212

00:36:44.310 --> 00:36:47.560

Nicole Graham: And we can go to the next slide.

213

00:36:50.700 --> 00:37:07.030

Nicole Graham: Each project budget breaks out hard costs, soft costs, financing, reserves, and developer fees, allowing us to see where San Jose stands on each of those components relative to other Bay Area counties, and

214

00:37:07.030 --> 00:37:12.170

Nicole Graham: We also compared to Sacramento, Los Angeles, and San Diego.

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00:37:12.260 --> 00:37:28.239

Nicole Graham: We also looked at, funding sources and, unit sizes and square footage and development composition and project types, and a lot of other, sort of, cross,

216

00:37:28.490 --> 00:37:31.950

Nicole Graham: categories within... within the data.

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00:37:33.100 --> 00:37:35.430

Nicole Graham: And we can go to the next slide.

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00:37:38.560 --> 00:37:50.830

Nicole Graham: A couple of notes on our methodology. We did... we included projects from 2023 and 2024 in addition to current 2025 applications.

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00:37:51.030 --> 00:38:02.670

Nicole Graham: So, we adjusted all costs to \$20, \$25 to try to get a, you know, more current basis for numbers as we're comparing across.

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00:38:03.240 --> 00:38:13.939

Nicole Graham: We also excluded land acquisition from our totals, primarily because those costs can be treated very differently from project to project.

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00:38:14.050 --> 00:38:25.409

Nicole Graham: So, for example, many projects might include just a nominal value for land, if the project is owned or controlled by a public agency.

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00:38:25.410 --> 00:38:34.239

Nicole Graham: We see that a lot, for example, to make the most of the, of the, private activity bond allocations.

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00:38:34.260 --> 00:38:45.209

Nicole Graham: which have to be calculated on land value. So by pulling that piece out, it does actually help the project, in the application process and financing process.

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00:38:45.830 --> 00:38:56.550

Nicole Graham: And excluding the land acquisition costs also did make our approach more in line with the methodology used for the market rate analysis prepared by EPS.

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00:38:57.100 --> 00:39:04.339

Nicole Graham: Finally, the application data may not include all additional costs triggered by city funding contributions.

226

00:39:04.480 --> 00:39:10.289

Nicole Graham: So another thing to keep in mind. And then we can go to the next slide.

227

00:39:14.860 --> 00:39:21.690

Nicole Graham: All right, now that we've described how we approach this, we can get back to the conclusions. Thank you.

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00:39:21.960 --> 00:39:27.119

Nicole Graham: And, yep, no, you were right. Sorry, we can go to... yes, perfect.

229

00:39:27.310 --> 00:39:44.000

Nicole Graham: Okay, so you can see here that regional costs range from about \$840 per net square foot in Solano County to a high of over \$1,400 per net square foot in San Francisco.

230

00:39:45.550 --> 00:40:04.959

Nicole Graham: At an average cost per net square foot of \$1,050, among the applications that we reviewed, San Jose sits comfortably in the middle of that range, between Sonoma County at just over \$1,000, and neighboring San Mateo at \$1,062.

231

00:40:05.260 --> 00:40:20.149

Nicole Graham: San Jose's average per net square foot cost also lines up closely with Santa Clara, so right in the middle of that pack, if we exclude San Francisco as sort of a clear outlier when we're looking at these numbers.

232

00:40:20.400 --> 00:40:32.919

Nicole Graham: In the... in this top chart, excuse me, in the top chart by net square foot, we've listed each county in ascending order by cost per net square foot.

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00:40:33.230 --> 00:40:46.190

Nicole Graham: And we've kept that same order in the bottom chart that looks at average cost per unit. And you can see that there's no real correlation from one chart to the next.

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00:40:46.330 --> 00:40:51.800

Nicole Graham: So it sort of shows that on a per-unit basis,

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00:40:52.230 --> 00:41:02.229

Nicole Graham: You know, the costs really vary from... there's not necessarily a relationship between the cost per net square foot and the cost per unit.

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00:41:02.540 --> 00:41:10.880

Nicole Graham: On a per-unit basis, San Jose is more comparable to Solano, Alameda, and Santa Clara County.

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00:41:11.030 --> 00:41:27.889

Nicole Graham: And, the interesting thing is, and we'll see this on the next slide, is that it's not so much the geography that appears to drive the cost differences here as much as it is the type of building and the size of the units being developed.

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00:41:28.310 --> 00:41:32.220

Nicole Graham: So if we go to the next slide, please...

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00:41:35.110 --> 00:41:50.820

Nicole Graham: So great, thank you. So here we've taken the same chart from the prior slide on average cost per net square foot, and overlaid that with the average net square foot, square feet per unit by jurisdiction.

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00:41:51.050 --> 00:41:58.030

Nicole Graham: And so, we can see here that the cost per net square foot aligns almost perfectly, really, with the average

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00:41:58.040 --> 00:42:11.739

Nicole Graham: net square feet per unit by jurisdiction, with the highest cost per net square foot jurisdictions, like San Francisco and Alameda, matched up with the smallest average unit sizes.

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00:42:11.910 --> 00:42:18.800

Nicole Graham: At 573 and 529 square feet per unit, respectively.

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00:42:19.030 --> 00:42:32.369

Nicole Graham: Similarly, the lowest cost per net square feet, \$839 in Solano and \$976 in Contra Costa County, are associated with the highest average unit sizes.

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00:42:32.560 --> 00:42:44.519

Nicole Graham: So, really, what we're seeing is that the product types, they're comprised of smaller units, are naturally pushing up the cost for NetSuite, but...

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00:42:44.690 --> 00:42:54.910

Nicole Graham: And since this is the developer form, you all may understand that, but generally we think about it this way, which is that the...

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00:42:54.910 --> 00:43:14.810

Nicole Graham: The kitchens and bathrooms, which are the, you know, tend to be the most expensive components to build within a unit, are going to cost the same, whether the unit is 500 square foot or 1,000 square feet. So, these higher cost components end up representing a much larger share of total costs.

247

00:43:14.890 --> 00:43:17.810

Nicole Graham: In smaller units than for larger units.

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00:43:18.220 --> 00:43:27.849

Nicole Graham: And as Banu mentioned earlier, because Measure A funds are often paired with permanent supportive housing and other product types.

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00:43:27.980 --> 00:43:39.350

Nicole Graham: comprised of predominantly studio and one-bedroom units, the city ends up having a higher share of those smaller unit types than other jurisdictions.

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00:43:39.410 --> 00:43:55.639

Nicole Graham: So that makes the per square foot cost in San Jose, essentially higher than it would otherwise be, and also drives the per unit cost lower than it would otherwise be, if the... if the composition of units and product types were different.

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00:43:55.960 --> 00:44:02.469

Nicole Graham: This is also something that we've, you know, seen as a difference from the prior study.

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00:44:04.170 --> 00:44:06.769

Nicole Graham: We can go to the next slide.

253

00:44:08.090 --> 00:44:09.530

Nicole Graham: Okay...

254

00:44:09.800 --> 00:44:24.870

Nicole Graham: Here we can see more about the unit composition and project types. You know, again, the average unit sizes in San Jose are smaller, and here we see why, right? So about two-thirds

255

00:44:25.000 --> 00:44:37.119

Nicole Graham: Of all, San Jose's affordable units are studios or one-bedrooms, compared with just 55% of units, looking at the Bay Area as a whole.

256

00:44:37.740 --> 00:44:55.640

Nicole Graham: And also, San Jose developments are, on average, comprised of more units than those in other jurisdictions. This was, just something that we had observed in the... in the project application. So, an average of 173 units per development in the city.

257

00:44:55.640 --> 00:45:00.469

Nicole Graham: Compared with an average of 112 units per development across the Bay Area.

258

00:45:00.570 --> 00:45:10.049

Nicole Graham: Again, part of that is likely due to the smaller unit sizes, where you can fit more units into a similarly sized, building.

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00:45:10.760 --> 00:45:20.980

Nicole Graham: And... That takes us through, the affordable slides. Banu, did you want to do the wrap-up there?

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00:45:20.980 --> 00:45:21.600

Banu San: Yes.

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00:45:21.700 --> 00:45:23.319

Banu San: Thank you, Nicole.

262

00:45:23.360 --> 00:45:42.420

Banu San: So, I mean, we went through this in the beginning. Cost of affordable housing development in San Jose is close to what the other Bay Area counties are, and there's a high cost per net square foot because of the smaller average unit size in the samples that we looked at.

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00:45:42.580 --> 00:45:57.040

Banu San: And, we represent at least around 42% of the affordable housing developments planned in the Bay Area. So that concludes the affordable housing study side, and we will now try to take some questions and feedback from you all.

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00:45:57.210 --> 00:46:00.979

Banu San: And we're trying to figure out the technical side of that.

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00:46:07.730 --> 00:46:08.610

Banu San: I...

266

00:46:09.030 --> 00:46:16.489

Banu San: I think what we can... we want to be able to hear from you, we want this to be a back-and-forth discussion, but I'm not sure if the webinar was set up correctly.

267

00:46:16.670 --> 00:46:22.550

Banu San: Rather than just you posting questions and us addressing them that way.

268

00:46:22.550 --> 00:46:23.240

Shelsy Bass: Drea.

269

00:46:23.860 --> 00:46:27.780

Shelsy Bass: So, she should be able to work now, so Andrea, go ahead and try and unmute and talk.

270

00:46:27.780 --> 00:46:28.940

Banu San: Okay, let's try it.

271

00:46:29.200 --> 00:46:30.170

Andrea Osgood: Can you hear me?

272

00:46:31.010 --> 00:46:31.640

Jason Moody: Yes.

273

00:46:31.940 --> 00:46:36.819

Andrea Osgood: Okay, great. This was really interesting, and I think it really helped me,

274

00:46:37.300 --> 00:46:47.880

Andrea Osgood: understand what I think the question was, but I guess if you could sort of restate the overarching question that Council asked of you guys,

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00:46:48.570 --> 00:46:56.100

Andrea Osgood: out of these studies, because I think I came in with a completely different understanding of what this cost study might be.

276

00:46:56.630 --> 00:47:03.149

Andrea Osgood: Because the cost of affordable housing is top of mind for many right now, but anyway.

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00:47:03.290 --> 00:47:04.000

Andrea Osgood: So...

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00:47:05.470 --> 00:47:12.379

Andrea Osgood: And how will this be used on policy moving forward, or is it just a data point for Council right now? Thank you.

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00:47:14.930 --> 00:47:18.290

Banu San: Is that question for me, could you please repeat the first part of your question?

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00:47:18.760 --> 00:47:27.139

Andrea Osgood: It's just... what drove this? What was the overarching question from Council, and how will it be used in policy moving forward?

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00:47:27.400 --> 00:47:41.369

Banu San: So the cost of development study, both market rate and affordable, is the Council direction that we, we do... we conduct a study every year, and we try to bring it to Council around, towards the end of the year, around fall, and really to,

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00:47:41.370 --> 00:47:52.000

Banu San: sort of, see what the trends and changes are in the market, and how that's implement... that's affecting and impacting development here in the Bay Area, and particularly in San Jose.

283

00:47:52.000 --> 00:48:07.450

Banu San: And we hear a lot of feedback on what the various cost factors could be, and so this study sort of highlights whether those are really the case and what's the most impactful factors here. Will it eventually impact policies?

284

00:48:07.450 --> 00:48:27.159

Banu San: the... it may shape some policies, and Council may start to look at some of these items and see whether there's any factors in our control versus not. So, it may or may not impact and shape policy, but really that's going to be on Council when we present on December 8th, and we'll be able to get some feedback then.

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00:48:30.960 --> 00:48:31.930

Andrea Osgood: Good, thank you.

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00:48:36.000 --> 00:48:36.920

Shelsy Bass: Natisha?

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00:48:40.830 --> 00:48:55.080

Atisha Bhargava: Okay, thank you so much, Banu. This was so informative, like, Nicole, thanks. My question is, in your... in your assessment, where was the impact fee, correct? Like, we... a lot of jurisdictions are charging your impact fee by unit. That makes...

288

00:48:55.080 --> 00:49:02.600

Atisha Bhargava: producing smaller units so much more expensive, and I'm personally a middle-missing housing advocate, like, really trying to kind of create smaller

289

00:49:02.680 --> 00:49:16.679

Atisha Bhargava: Housing units, and so, like, how do you, like, where does the impact fee fit into all of this math? And, like, what recommendations would you make so that some of the smaller units, because we need a lot more smaller units, can be more feasible?

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00:49:17.210 --> 00:49:24.440

Banu San: Well, I think, Nicole, maybe you can talk a little bit about the study around if... if... I think, around the impact fees, did you have any comments on that?

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00:49:27.240 --> 00:49:31.059

Jason Moody: I think EPS may have gathered more information on the impact fees.

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00:49:31.380 --> 00:49:33.010

Nicole Graham: Go ahead, Jason.

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00:49:33.010 --> 00:49:45.499

Jason Moody: Yeah, we did a fee comparison, and we looked at the fees in the various districts. And Brian, who's on the call, I think many of the fees in San Jose are on a per square foot basis, all right? Is that right, Brian?

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00:49:46.200 --> 00:49:48.470

Bryan Isaac: Yeah. Yeah, that's right.

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00:49:48.470 --> 00:49:58.800

Jason Moody: We have a slide that goes... breaks it down. I went through that slide very quickly. If we want to go back to that slide, we can, but we... we did gather impact fees for San Jose and all the various communities.

296

00:49:59.060 --> 00:50:16.900

Jason Moody: State law requires now that impact fees be, that new impact fees be charged on a per-square-foot basis rather than on a per unit basis, but old impact fees are kind of grandfathered in, so cities are gradually moving as they update their fee program to the per-square-foot approach.

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00:50:17.130 --> 00:50:28.789

Jason Moody: But it... not all fees have... have quite got there yet, but I think most of the city's, fees in San Jose are now being charged on a per square foot basis.

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00:50:28.930 --> 00:50:31.519

Jason Moody: With maybe a few exceptions, but

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00:50:31.910 --> 00:50:40.169

Jason Moody: we can actually, if we really want to know, we can look... there's a... there is a table that I went through really quickly that showed all the fees that San Jose

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00:50:40.280 --> 00:50:48.510

Jason Moody: charges and the fee rates. We converted it to a per unit just based on an average unit size, just for, again, an apples-to-apples comparison.

301

00:50:48.680 --> 00:50:53.639

Jason Moody: But, I think most of the fees are already charged on prescription.

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00:50:53.640 --> 00:50:56.309

Banu San: This one.

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00:50:56.310 --> 00:50:57.100

Jason Moody: This one.

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00:50:57.850 --> 00:50:58.859

Jason Moody: This is it.

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00:50:58.980 --> 00:51:07.099

Jason Moody: So, yeah, inclusion areas per square foot, the... it looks like the, park is still per unit.

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00:51:07.690 --> 00:51:18.059

Jason Moody: So that is, and then the school is per square foot. So yeah, the park is still a per unit fee, so, the inclusion rate isn't. Then the,

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00:51:18.260 --> 00:51:29.960

Jason Moody: It looks like the construction taxes are also still per unit. So, yeah, you make a good point that some of San Jose's fees are still based on a per unit amount rather than a per square foot amount.

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00:51:31.060 --> 00:51:41.640

Nicole Graham: We did, in our study, look at impact fees per unit by the different jurisdictions, and San Jose did not

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00:51:41.680 --> 00:51:59.380

Nicole Graham: was not higher, than average, I will say. So, that may not be true on a per square foot basis, though, to your point, but on a... it did not look like an outlier, when we... when we looked at it as a... just a standalone cost.

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00:52:02.940 --> 00:52:08.439

Jason Moody: the City Council will have that table on there, which shows how San Jose compares to the other jurisdictions.

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00:52:10.140 --> 00:52:10.960

Atisha Bhargava: Thank you.

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00:52:12.450 --> 00:52:13.890

Shelsy Bass: Thank you. Maria?

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00:52:15.480 --> 00:52:24.050

Maria Garcia: Yeah, this is actually great information. Thanks for sharing. One item that I shared with Jason Moody via the chat was, that on conversions.

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00:52:24.120 --> 00:52:41.979

Maria Garcia: Historical buildings could be attractive to developers, and investors, because these type of buildings, may offer tax credits, so that might be, like, something that's helpful for them. Also, I wanted to share, in the last 3 months, and outside of work, I've met with various development company leaders, and one thing

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00:52:41.980 --> 00:52:51.189

Maria Garcia: They would all like to see us a quicker entitlement review timeline. This is because the market conditions are changing very fast, lately.

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00:52:51.190 --> 00:53:02.969

Maria Garcia: And what might pencil now might not pencil in the next year and a half or two years, so, you know, they're asking if there's any way that the entitlement process could be, turned around quicker.

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00:53:03.070 --> 00:53:11.870

Maria Garcia: And then lastly, last week I met with, Eden Housing, and they brought to my attention that one of the affordable,

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00:53:12.490 --> 00:53:23.979

Maria Garcia: that on the affordable side of things, the funding process is very competitive, and the amount of funds are limited. They can only fund, like, so many units per cycle.

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00:53:23.980 --> 00:53:32.609

Maria Garcia: So, I don't know if there's any way we as a city could, like, try to see if we can bring more funds or more availability for the developers.

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00:53:33.090 --> 00:53:36.279

Banu San: I mean, this is a long-term challenge. I mean, it's...

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00:53:36.290 --> 00:53:54.840

Banu San: It's one of the biggest challenges that developers deal with in building affordable housing. There's multiple sources of funding, some of these are now, you know, published only once a year, like some of the ACD Supernova, and it takes a pretty significant amount of time to gather and put together the financial stack.

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00:53:54.850 --> 00:54:06.490

Banu San: So, if that time could be reduced from an average 2 years to, 1, or even, like, 6 months, that would make a considerable difference, I'm sure.

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00:54:06.650 --> 00:54:09.719

Banu San: So I see your point there.

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00:54:09.860 --> 00:54:19.940

Banu San: And, but some of these are not really in our control now, in terms of the city raising more funds. I mean, that is in the plans, and we're trying to see what we can do there.

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00:54:21.660 --> 00:54:22.689

Maria Garcia: Great, thank you.

326

00:54:23.130 --> 00:54:24.010

Banu San: Thanks, Maria.

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00:54:25.970 --> 00:54:26.780

Shelsy Bass: Andrew?

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00:54:28.270 --> 00:54:45.839

Andrew Bielak: Hi, this is Andrew Bilak from the Santa Clara County Housing Authority. Thanks for all the information. Seems like there's a lot of really helpful data that I think will go a long way. I wanted to ask, drilling down on a couple things, I noticed it looks like the... for the market rate projects, the

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00:54:45.860 --> 00:54:50.610

Andrew Bielak: Overarching numbers or costs were done on a gross square foot basis, but it...

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00:54:50.660 --> 00:54:56.759

Andrew Bielak: from my understanding, it looked like it was a net square foot basis for the affordable. I'm wondering if there's sort of a reason for the different

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00:54:56.820 --> 00:55:00.910

Andrew Bielak: metrics there. And then for the affordable

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00:55:01.040 --> 00:55:18.200

Andrew Bielak: data. I was wondering if you, separated out, or if you would consider separating out prevailing wage versus non-prevailing wage projects, because obviously that makes a big difference in how much detail you got into in sort of the hard costs and drivers of some of the hard costs.

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00:55:20.480 --> 00:55:22.160

Banu San: Jason, you want to take the first part?

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00:55:25.980 --> 00:55:27.100

Banu San: Oh, you're muted.

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00:55:29.800 --> 00:55:38.049

Jason Moody: Yeah, we... for development costs, we tend to look at gross square feet, but then for revenues, we look at the net square feet, but yeah, just because you...

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00:55:38.440 --> 00:55:52.859

Jason Moody: Particularly on the market rate, you know, you gotta build the whole building. You can't just build the net building. But I think that... and I'll let... I'll let Nicole ask, respond to the... the rationale for using nets per square foot on the portable.

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00:55:54.660 --> 00:55:59.569

Nicole Graham: Yeah, I mean, on the affordable, we did want to,

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00:55:59.760 --> 00:56:17.939

Nicole Graham: you know, we have the gross square feet. I think the net square foot, analysis better helps tell the story about how it's tied to the product type, with the smaller unit, so I think that gets a bit lost if we're looking at the gross.

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00:56:18.140 --> 00:56:34.139

Nicole Graham: You know, it's easy enough to calculate, so, you know, I'm... I don't... I don't have a problem with, you know, adding that as some sort of comparison if, you know, if folks want to see that. And on the prevailing wage,

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00:56:34.410 --> 00:56:36.910

Nicole Graham: I don't think we have...

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00:56:37.100 --> 00:56:43.789

Nicole Graham: I don't think our data set says whether the project is prevailing wage or not.

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00:56:43.790 --> 00:56:44.730

Banu San: That's right.

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00:56:44.730 --> 00:57:01.219

Nicole Graham: So, you know, we can make some assumptions, but I don't think it would be, necessarily right in all cases. So over the number of projects that we're looking at, I don't... I don't see that that would work.

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00:57:01.620 --> 00:57:15.930

Banu San: I mean, they... when you look at the performance that are available, they're not necessarily breaking that down, and we know that, on our side at least, that if it's city-funded, or there's any incentives they're receiving, they're going to be subject to prevailing wages.

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00:57:15.930 --> 00:57:26.389

Banu San: But if you're just looking at applications, and if we don't recognize or recognize a project, we might know, but they're not really breaking that down, saying we're subject to it, and this is the...

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00:57:26.450 --> 00:57:37.310

Banu San: you know, the rates we used. So, we don't have that much granular information to be able to run an analysis on that item, a very detailed analysis and a conclusion.

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00:57:41.960 --> 00:57:47.599

Nicole Graham: It's definitely an important factor, though, so I, you know, definitely recognize the value of that.

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00:57:47.600 --> 00:57:51.470

Banu San: And, you know, it might be a topic that's gonna come up on Council, we'll see.

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00:57:52.810 --> 00:58:11.449

Andrew Bielak: Yeah, I hear that. Thank you for the response. I think the only thing I wanted to add on the net square foot or the gross square foot piece is, I think if... when I first look at those costs of the market rates versus affordable, and you see them sort of follow each other, it looks like, on a net square foot basis, the affordable is so much more expensive, but I know in reality, it's...

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00:58:11.580 --> 00:58:30.129

Andrew Bielak: It's actually more nuanced than that, because they're using different metrics, but I reason... I understand why, like, the different metrics are being used, but I think it's maybe important to sort of contextualize that when talking about the two subsequently. And on the prevailing wage, I hear there's no sort of automatic sign that is being used, but I also...

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00:58:30.130 --> 00:58:35.490

Andrew Bielak: you know, depending upon how deep and how many assumptions you want to go on this, I think you could

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00:58:35.490 --> 00:58:47.409

Andrew Bielak: Generally assumed that any project receiving public funds outside of, you know, and outside of the tax credits would be triggering prevailing wage, whereas any project that's not would not be,

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00:58:47.900 --> 00:58:49.670

Andrew Bielak: Would not be using prevailing wage.

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00:58:52.980 --> 00:58:57.380

Nicole Graham: Yeah, I mean, it's a reasonable proxy, I agree.

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00:58:58.880 --> 00:59:03.310

Nicole Graham: I don't know that I... I think we'd want to get the city's direction on that.

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00:59:05.670 --> 00:59:13.589

Banu San: And we... Andrew, we did a small study, but it's not conclusive enough. The data set is not large enough to make a conclusion on...

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00:59:13.720 --> 00:59:29.240

Banu San: its, its impact. I mean, we would maybe look at 4 or 5 projects that were city-funded and what the prevailing wages, impact was, but we don't have anything conclusive, as we don't have a huge data set on the details, so... but I get... I understand your point.

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00:59:29.670 --> 00:59:30.260

Andrew Bielak: Thanks.

359  
00:59:34.360 --> 00:59:37.720  
Shelsy Bass: Alright, there are no further questions, Vanu, and we're at time.

360  
00:59:38.470 --> 00:59:39.629  
Jason Moody: Wow, that worked out well.

361  
00:59:39.830 --> 00:59:42.799  
Banu San: I thought... I thought, Jason, you'd get a lot of questions.

362  
00:59:42.960 --> 00:59:54.019  
Banu San: All right, well, thank you everybody for attending, and we appreciate all the feedback, and we look forward to also seeing you at the Council meeting, which is on December 8th, so stay tuned for that.

363  
00:59:54.020 --> 01:00:13.480  
Jason Moody: Can I just add one more thing? For those who were observing and saw these numbers and have some input that they weren't able to ask, I think just emailing us, we would definitely value your thoughts on, particularly on the cost side of the equation, to make sure we have those numbers correct, or any other element that you have input on, I think. Who would be the person to contact?

364  
01:00:13.910 --> 01:00:14.600  
Banu San: I know.

365  
01:00:15.020 --> 01:00:18.830  
Banu San: Chelsea, who's the contact on the webinar?

366  
01:00:19.100 --> 01:00:27.169  
Shelsy Bass: I am, so if you, email me, I will make sure that those questions or comments get directed to Jason and Nicole.

367  
01:00:27.170 --> 01:00:32.790  
Banu San: Great. And then Curtis has his hand up before we end the call. Let's see if we can unmute and hear him.

368  
01:00:34.040 --> 01:00:35.099  
Banu San: Curtis Wood.

369  
01:00:36.760 --> 01:00:38.170  
Curtis Wood: Hello, can you hear me?

370  
01:00:38.170 --> 01:00:39.249  
Banu San: Yes, we can hear you.

371  
01:00:39.250 --> 01:00:54.229

Curtis Wood: Hi, yeah, I just want to... last note, Jason, you had mentioned to reach out. Just before I jump off, I oversaw the development for the Fay in San Jose, the latest, multifamily high-rise down there on South 1st and Reed.

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01:00:54.230 --> 01:00:59.910

Curtis Wood: I do have a couple comments on... on some of the costs, for market rate.

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01:01:00.250 --> 01:01:09.430

Curtis Wood: You know, towers, we, we did that full building, hard cost for about \$480 a square foot, net. Or, sorry, gross.

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01:01:09.570 --> 01:01:13.499

Jason Moody: So, I think that slide had 560, I don't remember.

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01:01:13.720 --> 01:01:17.330

Curtis Wood: I don't remember what that slide had, but I think, I could probably give a couple

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01:01:17.640 --> 01:01:20.539

Curtis Wood: I could probably give some feedback to the group,

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01:01:20.960 --> 01:01:25.290

Curtis Wood: I don't have your emails, but if you could share your emails, I could reach out.

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01:01:25.670 --> 01:01:33.289

Curtis Wood: It's... it's a pretty recent project. It was opened last year, finished construction last year. It was mostly union labor.

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01:01:33.700 --> 01:01:37.500

Curtis Wood: So that's a... it's a pretty recent metric, if that would help.

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01:01:38.930 --> 01:01:43.900

Jason Moody: It's great. I just... I just put my email on the... on the chat, so I'm happy to... to...

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01:01:44.030 --> 01:01:50.019

Jason Moody: reach out, if you... well, actually, I'll even... yeah, that's the best way to do it, then we can just chat, if you want.

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01:01:50.190 --> 01:01:52.179

Jason Moody: But I'd love to hear your input.

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01:01:52.680 --> 01:01:53.680

Curtis Wood: Awesome, okay.

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01:01:55.800 --> 01:01:57.240

Banu San: Any other questions?

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01:01:57.470 --> 01:01:58.500

Banu San: Comments?

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01:02:00.000 --> 01:02:05.110

Banu San: Going once, going twice, thrice. Okay, thank you everybody, have a good weekend.

387

01:02:05.110 --> 01:02:05.929

Nicole Graham: Thank you, everyone.

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01:02:05.930 --> 01:02:06.560

Banu San: Bye.

389

01:02:06.560 --> 01:02:07.090

Nicole Graham: Bye.

390

01:02:07.090 --> 01:02:07.960

Maria Garcia: Thank you.