

WEBVTT

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00:00:34.160 --> 00:00:43.259

Sarah Fields: Well, welcome, everyone. I think a few more people are joining us, just as we're admitting the waiting of the waiting room in, but, we'll just get started in just a moment.

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00:00:49.510 --> 00:00:51.440

Sarah Fields: All right, Jeff, you want to kick us off?

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00:00:54.490 --> 00:01:06.579

Jeffrey Scott: Hey everybody, thank you for joining us today. We're gonna be having a community meeting here to discuss the study on the cost of development, cost of residential development in the City of San Jose.

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00:01:06.660 --> 00:01:14.700

Jeffrey Scott: And in just a moment, I'm going to hand it off to, our Deputy Director, Anu Saad, who will, start the presentation, and...

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00:01:14.930 --> 00:01:18.850

Jeffrey Scott: After Bonu and her colleague Chelsea are done with their presentation.

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00:01:19.090 --> 00:01:33.890

Jeffrey Scott: We are going to, a few questions, we'll set aside your time for questions and answers, and what I would ask is that, anyone who has questions that come up while Bondu and Chelsea are speaking, if you can send your questions to me using the chat function.

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00:01:34.040 --> 00:01:37.399

Jeffrey Scott: So,

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00:01:37.480 --> 00:01:43.830

Jeffrey Scott: That's Jeffrey Scott, and you just send those to me in the chat, and then I will share those questions,

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00:01:43.870 --> 00:01:46.899

Jeffrey Scott: to... with Bonnie and Chelsea, and they could provide answers.

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00:01:46.920 --> 00:01:59.589

Jeffrey Scott: And, also, if we are unable to answer your question, if you would like, also in the chat, you can give me your email address, when you send it to me.

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00:01:59.590 --> 00:02:08.299

Jeffrey Scott: And I would be happy to get back to you offline with any answers to questions that we're unable to answer, live during this call right now.

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00:02:08.350 --> 00:02:15.610

Jeffrey Scott: So again, just, submit your questions via chat, and submit your email also via chat if we're unable to get to your question today.

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00:02:16.130 --> 00:02:21.570

Jeffrey Scott: And I think, with that, I'm gonna hand it off to Bonnie. Bonnie, why don't you take it away?

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00:02:21.890 --> 00:02:35.079

Banu San: Thank you, Jeff. Welcome, everyone. Thank you for joining us today, as we walk through this year's Cost of Residential Development Study. This analysis is something that the City runs annually.

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00:02:35.080 --> 00:02:45.580

Banu San: to better understand the conditions of shaping housing production in San Jose. And our goal is to share what we're seeing in the current development environment.

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00:02:45.580 --> 00:03:04.380

Banu San: what's changing, what's challenging, and where our efforts can better support the creation of homes that meet the needs of the San Jose residents. So, this briefing is also a preview of a more detailed presentation that we'll be bringing to City Council on December 8th, Monday morning at 9 30.

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00:03:06.340 --> 00:03:08.080

Banu San: Next slide, Jeff.

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00:03:11.530 --> 00:03:28.679

Banu San: All right, so a little bit of a background information. In December 2017, the City Council directed staff to convene a council study session to discuss the aggregate impact of fees and policies the city imposes on housing development and construction.

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00:03:28.680 --> 00:03:34.990

Banu San: And so, since then, there's been a council direction to, run these studies annually.

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00:03:34.990 --> 00:03:58.110

Banu San: So we conduct the Casa Dobo study each year to understand how the changing market conditions and cost pressures affect the feasibility of residential development in the city. There has been three,

previous studies of the... of similar reports on the... on this cost of residential development, one in 2018, 2022, and 2023.

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00:03:58.380 --> 00:04:12.939

Banu San: For this year's study, the city hired two expert consultant teams, EPS for the market rate feasibility, and then CSG Advisors for affordable housing cost analysis. So there's two portions to the study, as always.

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00:04:13.280 --> 00:04:26.690

Banu San: And then, this, as I mentioned, we're presenting this in a shortened format, otherwise we'd be here for, maybe a couple of hours. The full study will be presented, in Council on Monday, and I believe that's a two and a half hour session.

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00:04:26.690 --> 00:04:48.100

Banu San: So, the purpose of this briefing is to walk everyone through the methodology, assumptions, and findings that will inform the upcoming policy discussions. And it's designed to really identify barriers in housing development's ecosystem and highlight areas that are within the city's control, like policies, programs, fees.

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00:04:48.100 --> 00:04:52.140

Banu San: Taxes, permitting, and that can influence feasibility outcomes.

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00:04:52.140 --> 00:05:05.170

Banu San: And the analysis really focuses on, a various set number of development areas within San Jose, where most recent and forecasted housing growth is occurring. Next slide, please.

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00:05:11.020 --> 00:05:12.410

Banu San: Okay, thank you.

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00:05:12.470 --> 00:05:31.090

Banu San: So, the market rate analysis, combines publicly available and private data sources. So, EPS, our consultant, developed hypothetical project scenarios that looked at current market performance and some of the challenges in cost, so based on total development costs and hard costs.

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00:05:31.090 --> 00:05:36.119

Banu San: Scenarios that mirror typical San Jose development patterns across

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00:05:36.120 --> 00:05:48.350

Banu San: multiple building types, from townhouses to high-rise towers within particular areas in the city. The additional cost detail, data... I'm sorry, I'm getting emails on the side, this is... I should have turned that off.

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00:05:48.350 --> 00:06:02.669

Banu San: It's still needed to further refine the breakdown of labor versus material costs, and hard costs, and land costs financing, but current assumptions reflect available information on what those challenges are.

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00:06:02.670 --> 00:06:17.409

Banu San: So, the city doesn't produce housing directly. Instead, it manages the regulatory, financial, and permitting systems that shape development feasibility. So, there are factors... oh, I'm still on the previous slide, Jeff, thanks.

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00:06:18.110 --> 00:06:42.059

Banu San: the context... oh, thank you. There are factors inside the city control, there are factors that the city can control, like policy design in housing and other departments, their own policies, and implementation of certain city programs, impact fees, construction taxes, and, you know, efficiencies in permitting. And then there are those factors that are out of our control, than cost.

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00:06:42.060 --> 00:06:54.469

Banu San: you know, some market conditions, availability, cost of financing, material and labor costs, and those continue to challenge development costs throughout not just San Jose, but Silicon Valley in general.

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00:06:54.540 --> 00:06:55.900

Banu San: Next slide, please.

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00:06:58.270 --> 00:07:09.299

Banu San: So, this slide outlines the core purpose of the market race study, to assess the cost and feasibility of building multiple residential product types under current market conditions.

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Banu San: EPS evaluated 5 generic building types and applied them across 4 zones to test the differences in rents, sale prices, fees, areas that are... historically represent majority of development activity and are likely to see continued growth.

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00:07:24.780 --> 00:07:33.609

Banu San: Results, these results are helping the city understand where development might be feasible without intervention, and where incentives may be needed.

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00:07:33.610 --> 00:07:43.189

Banu San: for more housing production. So, the findings will also be used to inform, future decisions related to the San Jose's Municipal Code Section 14.

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00:07:43.190 --> 00:08:06.629

Banu San: 10.310, which covers the city's process for granting development-related fee and tax waivers. So, the study's intention is not to forecast long-term trends, but to assess present-day feasibility and sensitivity to potential market improvements, and provide Council with factual, data-driven insight on where fee and tax concessions

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00:08:06.630 --> 00:08:09.909

Banu San: May or may not meaningfully improve feasibility.

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00:08:14.340 --> 00:08:16.390

Banu San: And, next slide, please, Jeff.

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00:08:16.920 --> 00:08:28.590

Banu San: Thank you. So this, this slide, where it talks a little bit about the framework of, of the analysis. The analysis reflects 2024 and 25 market conditions.

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00:08:28.590 --> 00:08:49.799

Banu San: capturing the effects of higher interest rates, elevated construction costs, and current rent and price levels. So revenue assumptions are based on third-party market data, like CoStar and Redfin, and then cross-checks against whatever we could get, a couple of actual developer performance and experiences.

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00:08:49.800 --> 00:08:55.820

Banu San: The cost assumptions draw from industry-standard resources, like

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00:08:55.870 --> 00:09:08.409

Banu San: Marshall and SWET, which is a construction cost database, and verified local developer proforma data. So, EPS has noted that individual project feasibility, depending on site specifics.

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00:09:08.410 --> 00:09:24.659

Banu San: It depends on site services, like site conditions, location, developer capability, and project quality. These all affect performance of any specific site, and we... so we looked at averages, or mean, of generic, projects, of a generic project.

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00:09:25.070 --> 00:09:26.520

Banu San: Next slide, please.

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00:09:29.950 --> 00:09:34.009

Banu San: Alright, so this is a summary of the performance,

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00:09:34.610 --> 00:09:48.600

Banu San: EPS has validated its modeled hard cost by comparing them against real cost estimates from recently processed San Jose development applications. So we can see... we can see here that for podium and wrapped buildings, EPS is modeled

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00:09:48.600 --> 00:10:01.109

Banu San: Costs per square foot, aligned closely with the city's actual, project performance, so about \$424 per square foot, which is somewhat in the range, with the performance they looked at.

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00:10:01.250 --> 00:10:02.989

Banu San: And then for...

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00:10:03.060 --> 00:10:20.239

Banu San: there's close assumptions in Tower as well. We can see \$610 per square foot to \$621. So the analysis acknowledges that while some projects show lower or higher costs than the model, the overall range is consistent with regional norms.

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00:10:20.240 --> 00:10:28.690

Banu San: The... this validation process ensures that the study does not understate or overstate cost burdens that are faced by developers today.

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00:10:28.750 --> 00:10:30.110

Banu San: Next slide, please.

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00:10:31.860 --> 00:10:43.970

Banu San: So these are the building types that were studied. The four-sale building types that we looked at are townhomes and stacked flats. And basically, townhomes and stacked flats represent wood-frame, low to mid-rise construction.

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00:10:43.970 --> 00:10:52.310

Banu San: typically the least expensive building types to deliver. Both types generally integrate parking into the structure, reducing the need for

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00:10:52.310 --> 00:11:04.969

Banu San: costlier, structured subterranean parking solutions. You can get a little bit more density on the stack plots, because the units can be stacked versus the townhouses. And then the next slide, please.

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00:11:05.590 --> 00:11:23.769

Banu San: These are the rental building types that were studied, so we looked at podium, wrap, and tower building types. The podium buildings can go up to 8 stories, but the first two stories are usually concrete podium, and they are typically one to two levels of parking.

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00:11:23.770 --> 00:11:42.000

Banu San: We stick construction above, so it's sort of a mid-range. And then the wrap building's a little bit lower in cost because it involves housing that are built around a structured parking garage. So, while somewhat a little bit more efficient than a podium parking, they do require larger sites.

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00:11:42.000 --> 00:11:49.400

Banu San: and still involve, significant concrete work. And in regards to towers, I mean, they're the highest cost building type.

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00:11:49.440 --> 00:12:03.680

Banu San: utilizing steel construction, and then usually in very dense neighborhoods where there's transit. And EPS limited the tower analysis to downtown, where densities and zoning support this type of product.

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00:12:04.030 --> 00:12:05.850

Banu San: Next slide, please.

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00:12:06.760 --> 00:12:22.739

Banu San: So here are the assumptions that were used in analysis that directly affect costs, and general, generic density and parking ratio assumptions. So the density for these product types range from 20 units an acre.

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00:12:22.740 --> 00:12:45.360

Banu San: for townhouses to 50 units per acre for stacked flats. Tower is the most dense, and podium and RAP are assuming similar, per unit acres, but podium can get slightly denser. As we also assumed a 2-acre site to compare residual land value, which will... I will explain a little bit further what that is and what we mean by that.

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00:12:45.360 --> 00:12:53.660

Banu San: across different sites, so we can have an apples-to-apples comparison. Next slide. Next slide, please. I said site instead of slide.

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00:12:53.660 --> 00:13:11.530

Banu San: All right, so this is the map of the four MLS multiple listing service zones in San Jose that was studied, and you can see them in yellow here. They represent the areas with the greatest concentration of recent and pipeline residential development.

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00:13:11.530 --> 00:13:17.969

Banu San: And these include downtown, Central, and then West, North and Southeast San Jose.

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00:13:17.970 --> 00:13:34.280

Banu San: And EPSC used these zones because rents, sales prices, and fees differ between them. So this variation impacts feasibility outcomes. And the city prioritized these areas to reflect where land availability, plan growth, and market interest is highest.

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00:13:35.250 --> 00:13:36.559

Banu San: Next slide, please.

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00:13:38.080 --> 00:13:47.949

Banu San: So the key factors that affect feasibility, is on the market value side, are assumptions that was made around rents, sales price.

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00:13:47.950 --> 00:14:09.459

Banu San: capitalization rates, mortgage interest rates, and on the cost side, the factors are, factors like labor and materials, financing costs, again, fees, taxes, permitting, and entitlement timelines. So a sensitive analysis was run on the changes in these factors and costs.

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00:14:09.460 --> 00:14:16.029

Banu San: And the consultant has noted changes in market conditions, even modest ones, can shift feasibility.

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00:14:17.710 --> 00:14:18.989

Banu San: Next slide, please.

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00:14:20.940 --> 00:14:33.529

Banu San: So, based on EPS's modeling, for-sale products, townhouses, and stacked flats tend to show positive residual land value, making them generally feasible under current market conditions.

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00:14:33.530 --> 00:14:46.700

Banu San: In contrast, all four-rent products, podium, ramp, and tower, show negative residual values, indicating that they're not currently financially viable today without intervention.

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00:14:46.700 --> 00:15:08.829

Banu San: So, what do we mean by intervention? It could be city tax and fee waivers under the municipal Code 14.10.310 that I mentioned before, and that could potentially tip the scales for the podium and wrap products, but not for towers. So, those would still need something more to be feasible, and EPS found that

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00:15:08.830 --> 00:15:17.540

Banu San: Fee waivers are, alone, are not sufficient for high-rise hours, and market conditions need to shift dramatically.

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00:15:17.540 --> 00:15:31.139

Banu San: for them to become, more, feasible. And when I mean market conditions, I'm referring to things like material cost change... material changes in rents, costs, or something more significant in incentives.

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00:15:31.140 --> 00:15:38.149

Banu San: In some scenarios, modest improvements in rent and reductions in costs, like between 5% to 15%,

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00:15:38.150 --> 00:15:39.650

Banu San: could enable

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00:15:39.650 --> 00:15:50.160

Banu San: podium and wrap feasibility, but for towers to be able to be feasible, we would need to see 10-35% increases in revenue or reduction in costs.

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00:15:50.180 --> 00:15:58.310

Banu San: So, the analysis frames which product types could realistically deliver housing in the near term, and which require long-term market changes.

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00:15:58.370 --> 00:15:59.790

Banu San: Next slide, please.

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00:16:00.690 --> 00:16:16.830

Banu San: And this is where we're defining and talking a little bit about what do we mean by RLV, residual land value. So, this basically, the formula is showing that, its total project value after the building is completed.

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00:16:16.930 --> 00:16:29.859

Banu San: So, what a developer would be able to sell it or rent it for, minus the total development cost, but that total development cost, TDC as we call it, excludes land, the cost of land.

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00:16:29.860 --> 00:16:37.230

Banu San: So, we're talking about soft and hard costs. So, the difference of the project value after completion and the total debt

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00:16:37.230 --> 00:16:50.759

Banu San: cost, development cost, is the residue land value, which is used as a benchmark in the industry. So this metric allows consistent and comparable evaluation across different building types and locations.

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00:16:50.760 --> 00:17:05.320

Banu San: And developers often use additional matrix, matrix on top of that, like internal rate of return, cash on, yield on cost, and... but the residual land value offers the city a clear standardized comparison.

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00:17:06.400 --> 00:17:08.040

Banu San: Next slide, please.

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00:17:09.069 --> 00:17:26.710

Banu San: Okay, so this slide is showing the hard cost by building type per gross square footage. The assumptions that are shown reflect typical construction conditions for each product type. So we can see for townhouses, it's around \$266 per square foot.

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00:17:26.710 --> 00:17:39.479

Banu San: stacked flights \$285, podium 380, wraps \$380, and then towers \$560 per square foot. Although, podium and wrap, share similar hard costs.

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00:17:39.480 --> 00:17:50.439

Banu San: parking structure differences, can drive a cost variation, so wrapped parking is typically cheaper and requires... but it requires larger sites, as I mentioned previously.

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00:17:50.440 --> 00:18:08.460

Banu San: Parking, cost is lowest for townhouses and stacked flats. And then tower with subterranean parking, it can cost \$85,000 per square... per space, versus a \$50,000 for podium and \$35,000 for wrap.

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00:18:08.500 --> 00:18:30.419

Banu San: Compared to 13,000 for townhouses. So, and then we also have, at the bottom of this slide, is labor making up approximately 30-35% of our costs across all product types, but there's still some research to do around that. And the materials and supply chain volatility remain major drivers, which

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00:18:30.420 --> 00:18:32.399

Banu San: Elevate costs in the Bay Area.

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00:18:32.400 --> 00:18:46.349

Banu San: So EPS noted that there's a need for a deeper data set to refine the split between labor versus material, but current assumptions align with... align generally in observed regional norms.

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00:18:47.270 --> 00:18:48.750

Banu San: Next slide, please.

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00:18:49.670 --> 00:19:01.810

Banu San: This slide highlights the categories of fees that apply to residential development in San Jose. Impact fees include park fees, school fees, inclusionary fees, along with construction taxes.

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00:19:01.850 --> 00:19:15.129

Banu San: And these fees vary by product type and by location, especially due to zone-based, park fees. And the city's impact fee represents around 5.5% to 10% of total development cost.

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00:19:15.130 --> 00:19:31.030

Banu San: Significant enough to influence feasibility. And then, there are between 37,000 to \$70,000 per unit, and the fee structure could really be a lever for the city to consider as it impacts some of the development cases.

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00:19:32.210 --> 00:19:33.630

Banu San: Next slide, please.

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00:19:35.810 --> 00:19:41.800

Banu San: This slide just shows the taxes and impact fees that differ significantly by location.

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00:19:42.920 --> 00:19:47.279

Banu San: And I'll move to the next slide, because it's a bit clearer.

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00:19:47.490 --> 00:20:05.940

Banu San: So, we can see in this, this graph the total development taxes and impact fees, per unit by building type and location, and we can see that the central district exhibits the highest fees, then West San Jose, followed by,

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00:20:06.300 --> 00:20:07.170

Banu San: See here.

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00:20:07.730 --> 00:20:19.519

Banu San: Yeah, so West San Jose is also the second highest. And we looked at a tower for the downtown towns, the towers we studied was in downtown.

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00:20:19.520 --> 00:20:37.899

Banu San: And taxes and fees are pretty high for the downtown as well. Another interesting find was that the taxes and fees are higher for the lower density product types, like stacked, stacked flags and townhouses, and there are currently lower, for rent product types, like podium and

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00:20:37.900 --> 00:20:40.400

Banu San: Or the tower, and... or the wrap.

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00:20:42.150 --> 00:20:44.010

Banu San: Alright, next slide, please.

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00:20:44.970 --> 00:21:00.060

Banu San: This is covering other soft costs. Soft costs are shown as a percentage of hard costs consistent within industry norms, and comprise of categories like architecture and engineering, which typically are representing 4%.

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00:21:00.070 --> 00:21:12.839

Banu San: financing 8%, which is higher than previous cycles due to interest rate increases. So then, you know, elevated financing cost assumptions is what we have here.

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00:21:12.840 --> 00:21:29.400

Banu San: Which further challenged feasibility. And then there's insurance costs, notably higher for the for-sale developments due to construction defect liability risk. And then there's the developer fee and contingency allowances, which are also included in stop costs.

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00:21:29.800 --> 00:21:31.140

Banu San: Next slide, please.

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00:21:32.300 --> 00:21:36.810

Banu San: This slide shows another impact fact... important, factor.

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00:21:36.820 --> 00:21:51.009

Banu San: In the feasibility, which is how the City of San Jose compares with its neighbors, in terms of pricing. So, San Jose maintains lower cost, mark, market, lower rents and sales prices than many.

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00:21:51.010 --> 00:21:57.629

Banu San: And neighboring cities, which means it can... it has the potential to grow, when the market strengthens.

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00:21:57.820 --> 00:22:12.870

Banu San: Which we can see here. This competitiveness is beneficial for attracting future investment here in the city, but in the short term, it constrains feasibility, especially for the high-cost building types. The comparison helps

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00:22:13.090 --> 00:22:21.979

Banu San: You know, helps us see why certain product types are feasible elsewhere, feasible elsewhere might struggle within the city, within this city.

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00:22:22.780 --> 00:22:37.950

Banu San: And, it shows that, San Jose is not just... not the most expensive market regionally, and so we see the possibility of an upward... if we see a possibility of upward rent price movements, that is potential growth, future growth for the city.

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00:22:38.830 --> 00:22:40.770

Banu San: Next slide, please.

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00:22:41.920 --> 00:22:53.040

Banu San: And so here are the key takeaways on the market rate housing study. For-sale townhouses and

subflex appear feasible under today's conditions, market conditions.

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00:22:53.170 --> 00:23:09.939

Banu San: Multifamily foreign products, podium and RAP, are not feasible without any assistance, incentives, but they can become viable if we, have the maybe modest market improvements, or some strategic fee reductions.

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00:23:10.250 --> 00:23:28.360

Banu San: And then towers remain far from feasible due to extreme construction costs and insufficient revenue levels. San Jose, shows slightly lower cost market than neighboring cities, in terms of fees, taxes. They are not usually relatively high to the region.

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00:23:29.670 --> 00:23:39.689

Banu San: And then we can move to the next slide now, which is... is office-to-residential conversion. So, we looked at that a little bit as well.

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00:23:39.970 --> 00:23:42.260

Banu San: And we can move to the...

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00:23:42.810 --> 00:23:52.870

Banu San: Oh, I mean, if we can go back one slide, Jeff, because I want to make some general comments here. So, the pandemic has fundamentally altered the office market demand.

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00:23:53.000 --> 00:24:12.210

Banu San: Leading to elevated vacancies across Bay Area and San Jose specifically. So the possibility of converting a vacant, underutilized office to residential is being discussed as a potential win-win. Activating underutilized buildings while creating new housing.

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00:24:12.360 --> 00:24:24.799

Banu San: But, I mean, conversions are highly variable, and the feasibility depends heavily on each building's physical and financial profile, so we'll get into that in a bit.

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00:24:24.800 --> 00:24:34.599

Banu San: And so the EPS did not produce generic cost assumptions for conversions due to high variability, and instead they examined the key feasibility determinants.

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00:24:35.220 --> 00:24:36.580

Banu San: Next slide, please.

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00:24:38.340 --> 00:24:57.620

Banu San: The three primary categories that determine conversion feasibility were identified as the physical building attributes, so what we mean by that are things like floor plate depth, window access, ceiling heights, column spacing, facade type.

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00:24:57.620 --> 00:25:08.880

Banu San: And then, secondly, market and financial factors. So, acquisition price, current owner debt

position, for example, rents relative to residential.

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00:25:09.100 --> 00:25:16.569

Banu San: And then thirdly, the regulatory considerations. So, zoning allowances, building code, and

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00:25:16.880 --> 00:25:28.639

Banu San: permitting complexities. So these factors collectively determine whether a building can physically and financially support a viable residential conversion program.

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00:25:28.920 --> 00:25:30.310

Banu San: Next slide, please.

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00:25:31.960 --> 00:25:54.690

Banu San: So the key physical determinants were identified, as I've mentioned, the floor plate depth is one of the most important factors. Deeper floor plates create interior zones too far from windows to meet habitability requirements. Window access and availability of operable windows strongly affect unit layout feasibility.

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00:25:54.890 --> 00:26:06.800

Banu San: column spacing, that affects plumbing, and ability to efficiently stack units. And then ceiling height is another one, which is critical. And,

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00:26:06.860 --> 00:26:18.559

Banu San: Drop ceilings require more height than typical office systems. Then parking ratios, that influences feasibility as well, though older buildings often have limited parking.

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00:26:18.560 --> 00:26:30.839

Banu San: And then, the year built. That often signals whether the building has modern or adaptable systems. These criterias help identify which building, buildings are potential candidates for conversion.

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00:26:31.180 --> 00:26:32.670

Banu San: Next slide, please.

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00:26:33.910 --> 00:26:40.939

Banu San: There's some examples of good versus challenging candidates, buildings like Bank of Italy Building.

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00:26:40.990 --> 00:27:00.480

Banu San: which was built in 1926, are more conversion-friendly due to narrow floor plates, operable windows, taller ceilings, strong street presence, flexible structure layouts, and then newer office buildings, like the Sabrada Tower, which was built in 2002,

147

00:27:00.480 --> 00:27:08.600

Banu San: present challenges because of deep floor plates, curtain ball facades with non-operable windows.

148

00:27:08.600 --> 00:27:23.820

Banu San: lower ceiling heights, and, you know, central core configurations that impede efficient unit layoffs. So, EPS emphasized that not all buildings are in the same market are equally suitable for conversion.

149

00:27:25.380 --> 00:27:26.840

Banu San: Next slide, please.

150

00:27:27.520 --> 00:27:30.919

Banu San: The... so this is the market and financial factors.

151

00:27:31.060 --> 00:27:36.959

Banu San: The acquisition price of the office building is often the largest feasibility barrier.

152

00:27:37.130 --> 00:27:53.060

Banu San: Many offices are still priced pretty high, for residential conversion to pencil, and the current owner's financial condition matters too, so owners with low debt or long-term holding power may not be motivated to sell at a discount.

153

00:27:53.160 --> 00:28:01.439

Banu San: And then the lenders view conversions at a high-risk product category, as a high-risk product category, due to, limited

154

00:28:01.580 --> 00:28:14.019

Banu San: you know, due to construction complexities. And then the sub-market context matters because residential rents have to justify the significant investment needed for the conversion.

155

00:28:14.110 --> 00:28:22.719

Banu San: So, only buildings with distressed ownership or favorable acquisition opportunities typically become feasible candidates, is what we're seeing.

156

00:28:23.370 --> 00:28:24.609

Banu San: Next slide.

157

00:28:26.030 --> 00:28:30.059

Banu San: And this brings us to the key takeaways for office conversions.

158

00:28:31.060 --> 00:28:50.050

Banu San: The key takeaway is that it's... the office conversions present a real opportunity in San Jose, with strong potential in buildings that align with key physical and economic criteria, but because each property has its unique characteristics, the feasibility varies.

159

00:28:50.250 --> 00:29:08.359

Banu San: So, underscoring the importance of evaluating each building individually. So, targeted policy tools, such as identifying priority buildings or refining regulatory processes, can help support promising projects that have that potential to convert.

160

00:29:08.520 --> 00:29:15.990

Banu San: So with a strategic approach, conversions could become a viable pathway to creating more housing.

161

00:29:17.170 --> 00:29:27.069

Banu San: And that brings us to the end of the market rate study. I'm going to pass it on now to Chelsea Bass, our Division Manager of the Housing's Production Department.

162

00:29:28.590 --> 00:29:30.310

Shelsy Bass: Next slide, Jeff.

163

00:29:32.050 --> 00:29:48.560

Shelsy Bass: Oh, a little too fast. Thank you, Yvonneu. So, as she said, I'm Chelsea Bass, I'm the Division Manager for our residential development here with the City of San Jose. I'm going to take the next couple of minutes to talk us through the affordable housing portion of this study that was completed by our consultant CSG Advisors. Next slide, Jeff.

164

00:29:50.300 --> 00:30:02.529

Shelsy Bass: So just to kind of begin, we're gonna frame what we found in some of these studies. So, our cost here in San Jose are very consistent and comparable to our Bay Area,

165

00:30:03.220 --> 00:30:21.990

Shelsy Bass: Bay Area region, and, but we are producing smaller unit sizes in San Jose, which leads to a higher, cost per net square foot, but that's not due to underlying construction costs. We'll get into that a little bit deeper, a little bit later. We do have a overall,

166

00:30:22.030 --> 00:30:40.679

Shelsy Bass: very good, effective, cost per unit, and that's due to some scale efficiencies. We are building denser here in San Jose, and our city fee policies, and then we're representing a significant share of the affordable housing that is being proposed in the Bay Area region. Next slide, Jeff.

167

00:30:42.390 --> 00:30:54.270

Shelsy Bass: So for some important context regarding how and what information we were using, the data source for our study was collected from the applications that are to, the state's

168

00:30:54.660 --> 00:31:08.900

Shelsy Bass: California Debt Limit Allocation and California Tax Credit Allocation Committees, which are big financing agencies for our affordable housing here in San Jose. It's important to note that these applications are submitted about a year

169

00:31:08.900 --> 00:31:18.260

Shelsy Bass: Before the construction financing closing, so that they can get the construction started is, is, completed, as well as up to, like.

170

00:31:18.260 --> 00:31:24.790

Shelsy Bass: An additional 24 months from then, from when actual construction is completed, and these are

open for residents.

171

00:31:24.810 --> 00:31:27.519

Shelsy Bass: Due to that timing, the...

172

00:31:27.960 --> 00:31:47.460

Shelsy Bass: Application budgets can have a variance of about 10% or so, as people are making estimates, and as things move along towards actual construction completion, tying into actual final cost. So, these are lower than what is actually seen when developments are actually opened. And then,

173

00:31:47.810 --> 00:31:56.619

Shelsy Bass: in the county's Measure A policy and their goals of reducing unsheltered housing, homeless population in the city and the county.

174

00:31:56.620 --> 00:32:09.069

Shelsy Bass: We did end up producing smaller units at a higher per square foot basis, but that does help us with our overall unit... per unit cost as we get further into the study. Next slide, Jeff.

175

00:32:10.910 --> 00:32:22.680

Shelsy Bass: So to talk more in depth about what we actually did study, CSG was able to pull 194 construction development applications from the,

176

00:32:22.680 --> 00:32:35.590

Shelsy Bass: California Tax Credit Allocation Committee, comprised of information from 2023 to 2025 for all 9 Bay Area counties, as well as Sacramento, Los Angeles, and San Diego.

177

00:32:35.590 --> 00:32:40.719

Shelsy Bass: And we collected a lot of data points from that information, so from...

178

00:32:40.910 --> 00:32:53.900

Shelsy Bass: What location they're in, the unit size, the square footage specifically, the population that was being served, hard costs, soft costs, financing reserves.

179

00:32:53.900 --> 00:33:06.680

Shelsy Bass: And all of that, and that's just to make up for the fact that the last study that was completed was in 2023, so this is really to continue and make sure that our studies are complete from year to year. Next slide, Jeff.

180

00:33:09.260 --> 00:33:13.949

Shelsy Bass: And so, for our methodology, we were looking at those variety of,

181

00:33:14.280 --> 00:33:26.830

Shelsy Bass: data points that we were talking about, and using that to really determine the... the information that we're going to go into a little bit soon, pretty soon here when we get into the findings. So the,

182

00:33:27.550 --> 00:33:29.270

Shelsy Bass: we did...

183

00:33:29.300 --> 00:33:54.089

Shelsy Bass: change our methodology a little bit from our previous studies, as in we pulled all applications that submitted, during the timeframe that we were pulling from, versus just a smaller sample size, as we had done in 2023 and previous studies before. And then it's, again, I will stress that these are all at the application stage, so some of the costs have... are going to differentiate from what's actual at final construction.

184

00:33:54.090 --> 00:33:55.190

Shelsy Bass: auction clothes.

185

00:33:55.240 --> 00:33:56.700

Shelsy Bass: Next slide, Jeff.

186

00:33:58.130 --> 00:34:05.760

Shelsy Bass: And because we pulled those applications from 23... 2023 and 2024, we did have to do some adjustments, so we did it

187

00:34:05.810 --> 00:34:12.129

Shelsy Bass: An upward adjustment of about 3% per year to keep those costs into 2025 actual cost.

188

00:34:12.130 --> 00:34:31.590

Shelsy Bass: We also excluded acquisition costs from our analysis, partially to be able to be more in alignment with the market rate study, so that we can have an apples-to-apples comparison. And secondly, because there are some advantages in, the SIDLAC applications, which is the California Debt Limit Allocation Committee.

189

00:34:31.590 --> 00:34:44.060

Shelsy Bass: To, not represent those acquisition costs, or there are times when the land is owned by a public entity, and there is a different, mechanism of the...

190

00:34:44.159 --> 00:35:02.040

Shelsy Bass: of the land cost and how it's represented in the form of a ground lease or something similar. And then it's also important to recognize that the reported costs don't include any additional fees that may have come from city funding contributions, because not all of these developments had any city funding. Next slide, Jeff.

191

00:35:04.540 --> 00:35:08.979

Shelsy Bass: So we'll finally get into the... the actual findings. Next slide.

192

00:35:10.490 --> 00:35:26.360

Shelsy Bass: So it's important to note that... oh, perfect. As we'll see here, this is our San Jose in context of our region within the Bay Area and the nine Bay Area region counties. What you'll be able to see here is that

193

00:35:26.360 --> 00:35:39.809

Shelsy Bass: The regional costs go from anywhere at about \$840 per square... net square foot in Solano County, all the way up to about \$1,436 in San Francisco at our high.

194

00:35:39.810 --> 00:35:55.339

Shelsy Bass: San Jose is coming in at pretty much right in the middle at 1,050 net square foot cost. A little over \$1,000 of San Mateo, of Sonoma counties, and right underneath, San Mateo's \$1,062.

195

00:35:56.770 --> 00:36:09.090

Shelsy Bass: Our net square foot cost is very close to the overall Santa Clara County of \$1,067 per square foot. And you'll notice here that when we're looking at the top and the bottom charts, our top chart is...

196

00:36:09.150 --> 00:36:27.140

Shelsy Bass: aligned in a way where the costs are escalating in a net per square foot. And then in the bottom, we've kept that same, order for the Bay Area counties, and you'll see that there's not a whole lot of correlation between the geography, and that actual cost. It's really driven more.

197

00:36:27.160 --> 00:36:31.369

Shelsy Bass: On a per-unit basis by the size of the unit.

198

00:36:31.530 --> 00:36:45.729

Shelsy Bass: And the density of the ability that you're about... you're able to put into those developments. And we'll get into a little bit more about how there's some economies of scale in, being able to do those denser size developments.

199

00:36:46.020 --> 00:36:47.610

Shelsy Bass: Next slide, please.

200

00:36:49.040 --> 00:36:56.179

Shelsy Bass: So, while smaller units do drive higher per net square foot costs, in this slide, we're comparing our...

201

00:36:56.300 --> 00:37:08.219

Shelsy Bass: average, square footage of the actual units versus the cost to build those units. And so you'll see we have our two highest net square foot,

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00:37:08.220 --> 00:37:17.960

Shelsy Bass: per net square foot cost are in San Francisco and Alameda, and those are also our two smallest units that are being done. And some of that is the cost efficiencies of

203

00:37:18.050 --> 00:37:29.769

Shelsy Bass: If you're building bathrooms and kitchens, which are the most expensive portions of some of our developments, when you're able to spread that cost over more square footage, it's, you get some cost efficiency scaling there.

204

00:37:29.770 --> 00:37:48.390

Shelsy Bass: So, you'll see in Solano County and Contra Costa County, the average net per square footage is lower, but the square footage of the units being built is higher. But we are consistent with our peers in that that higher per net square footage cost is not out of alignment with our regional area.

205

00:37:48.510 --> 00:37:49.730

Shelsy Bass: Next slide, Jeff.

206

00:37:53.400 --> 00:38:06.110

Shelsy Bass: And so here you'll see that San Jose builds denser units, so on average, we build developments that are 173 units versus our peers at about 154.

207

00:38:06.110 --> 00:38:23.149

Shelsy Bass: In Santa Clara, and 112 in the Bay Area overall. You'll also see here that we produce a... a larger amount of smaller units, so we are producing 50... 66% of the units here in San Jose are represented by studios and one-bedrooms.

208

00:38:23.150 --> 00:38:26.430

Shelsy Bass: Versus 55% in the overall Bay Area.

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00:38:26.470 --> 00:38:27.980

Shelsy Bass: So...

210

00:38:28.430 --> 00:38:37.489

Shelsy Bass: This high cost, per unit somewhat stems from, like, regional efforts to reduce unsheltered housing, homelessness, and,

211

00:38:38.350 --> 00:38:44.439

Shelsy Bass: how... how those units are typically in studios and one-bedrooms presentations. Next slide, Jeff.

212

00:38:46.250 --> 00:38:57.869

Shelsy Bass: And so, for key takeaways, just to kind of wrap us all up in our affordable housing, the cost of affordable housing here in San Jose is very comparable with our other Bay Area counties. We are not out of alignment.

213

00:38:57.870 --> 00:39:07.460

Shelsy Bass: We do have a higher cost per net square foot, but that's driven by our smaller unit size, but San Jose does represent an ex...

214

00:39:07.490 --> 00:39:18.080

Shelsy Bass: lion's share of the affordable housing development here in the Bay Area, representing 42% of the applications that were submitted to TCAC. And next slide, and that

215

00:39:18.210 --> 00:39:25.710

Shelsy Bass: closes out our entire, presentation today on the cost of residential development study, so I'll pass it back to Jeff for any questions.

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00:39:33.970 --> 00:39:35.600

Sarah Fields: on Butte, okay.

217

00:39:36.180 --> 00:39:39.889

Sarah Fields: Now you've found yourself. Okay, very good. Please, this looks like questions. Thanks.

218

00:39:39.890 --> 00:39:55.420

Jeffrey Scott: Yeah, so, yeah, Bonnie and Chelsea, thank you very much. So, I'm gonna go to the chat now, and again, I'll start reading off questions for Bonnie and Chelsea, and, if anybody else has questions, please, send them to me, Jeff Scott, in the chat, and I will share them with the group.

219

00:39:55.960 --> 00:39:58.689

Jeffrey Scott: Alrighty, so let me, scroll down here.

220

00:40:08.690 --> 00:40:16.690

Jeffrey Scott: do we have... are the... are the previous cost development studies, or the findings, the reports, are those available?

221

00:40:16.840 --> 00:40:25.859

Jeffrey Scott: And if so, I can, I can send a link, or Jose, who's with me here, can put a link in the chat.

222

00:40:26.270 --> 00:40:40.799

Banu San: Jeff, I think we've posted them in the past, so we should check to see whether they're still on the website, the past 3 studies that I mentioned. Otherwise, we can provide those. They were presented to Council, so they're publicly available, they should be.

223

00:40:41.140 --> 00:40:42.580

Jeffrey Scott: Okay, great. And.

224

00:40:42.580 --> 00:40:47.509

Shelsy Bass: Just popped the link in the chat that's got a link to all three of the previous studies that were completed.

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00:40:47.510 --> 00:40:48.690

Banu San: Thank you, Chelsea.

226

00:40:48.690 --> 00:40:51.219

Jeffrey Scott: Celsius, your star, thank you very much.

227

00:40:51.750 --> 00:40:56.059

Jeffrey Scott: We're doing that. Alrighty, next question.

228

00:40:59.560 --> 00:41:07.350

Jeffrey Scott: Did Measure A, contribute or result in higher costs per square foot?

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00:41:10.130 --> 00:41:13.139

Shelsy Bass: What our study shows is that, the dis...

230

00:41:13.190 --> 00:41:31.699

Shelsy Bass: the smaller unit sizes that some... that may have resulted from the Measure A, policy decisions to reduce unsheltered individuals in our county may increase the cost of per square foot, but not necessarily... it doesn't correlate back to a

231

00:41:31.790 --> 00:41:44.979

Shelsy Bass: an increased cost in per unit. So, because we had the economies of scale, San Jose built denser housing, and we were able to build more units within our developments that may be of normal... of equal size of other developments.

232

00:41:44.980 --> 00:41:52.710

Shelsy Bass: While the net square foot cost was higher, the overall cost per unit was relatively similar to the other Bay Area regions.

233

00:41:59.150 --> 00:42:07.180

Jeffrey Scott: Alright, next question. How receptive is the city to...

234

00:42:07.750 --> 00:42:16.129

Jeffrey Scott: How receptive is the city to office-to-residential conversions, and what flexibility could be offered to support it and make it more feasible?

235

00:42:17.360 --> 00:42:34.979

Banu San: As the housing department, I can say we're pretty receptive, because any, idea where we may be... and opportunities where we may be able to produce more housing, which is our ultimate goal, to serve the residents of San Jose, is a good opportunity for us to look at.

236

00:42:34.980 --> 00:42:40.329

Banu San: So, conversions are an area we're interested in. We're looking at innovative ways of building housing.

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00:42:40.330 --> 00:42:42.280

Banu San: And this is one of them as well.

238

00:42:42.280 --> 00:42:52.539

Banu San: So, which is why we wanted the consultants to study it and see, okay, what are the factors that really influence that? And then it would be great for us to look further into the...

239

00:42:52.540 --> 00:43:07.350

Banu San: potential buildings that would... may qualify and may turn out to be feasible, and then estimate, like, how many housing units could really come out of that. Which ones are sold right, or what... what kind of changes do we need to make and support in order to

240

00:43:07.350 --> 00:43:22.520

Banu San: convert these into housing. So I think it's an exciting opportunity. I'm just not sure if there's a lot of them, but those that do qualify and fit well would be great candidates, and the housing department would be supportive of that.

241

00:43:28.500 --> 00:43:35.619

Jeffrey Scott: The next question, the person says they joined late, will we be able to get a copy of the study? Yes, so,

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00:43:36.140 --> 00:43:47.949

Jeffrey Scott: After this, we have the emails for everybody who registered for this, call, and if you just give us a couple of days, we're gonna have the video of this call

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00:43:47.950 --> 00:44:01.260

Jeffrey Scott: the transcript of this, as well as the presentation that Bonnie and Chelsea just went through, that will all be online, and we'll be sending all of you who registered for this session today an email with a link

244

00:44:01.280 --> 00:44:11.070

Jeffrey Scott: So you can view all that. The video, the transcript, and the actual presentation that Bob Chelsea Mounted. So just give us a couple days to get it up on the website, and we will email that out to everybody.

245

00:44:11.320 --> 00:44:21.549

Sarah Fields: And I just wanted to tack on a little bit more from the previous question, is to say that, you know, there are five city-focused areas that are citywide goals.

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00:44:21.900 --> 00:44:37.439

Sarah Fields: And, one of them is building more housing, and I just want to expand a little bit on that. We're really looking to build more housing at all price points, from market rate to... to... to low-income housing, affordable housing, and...

247

00:44:37.560 --> 00:44:49.340

Sarah Fields: you know, the goal and the aim of this study is to understand how do we create more conditions to build that housing, as Bondu and Chelsea both

248

00:44:49.430 --> 00:44:59.759

Sarah Fields: said, you know, the city is not a developer itself. We help guide policy and conditions for development, with the understanding of current economic and

249

00:44:59.890 --> 00:45:02.180

Sarah Fields: Cost realities,

250

00:45:02.210 --> 00:45:19.359

Sarah Fields: But really, any tool we can use, you know, at our disposal to... to further that aim of building more housing, we want to explore and better understand, and if it's a tool that can be fruitful, we of course

want to make sure that it's, something that we can implement and

251

00:45:19.360 --> 00:45:38.910

Sarah Fields: Office to Housing Living is absolutely one of many tools that we're looking at. Something else that I just want to be very clear on is there's no one great solution to building more housing. If there were, we would certainly be using that one great, beautiful tool, but rather there's a whole host of strategies and

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00:45:38.910 --> 00:45:44.820

Sarah Fields: And programs that need to be taken advantage of, and that's, you know, one of the reasons why we do this study every year is to

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00:45:44.830 --> 00:45:53.550

Sarah Fields: To ground ourselves in current economic realities, and to understand that clinicians suite to doing just that, building a hassle.

254

00:45:53.790 --> 00:45:55.580

Sarah Fields: Jeff, any more questions?

255

00:45:57.180 --> 00:46:12.130

Jeffrey Scott: Yeah, a few more questions. Our next question is, what was the range in the market rate residual land values in the 2025 study, and what was the change from the 2024, residual land values?

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00:46:12.130 --> 00:46:19.479

Banu San: Very good question, and I'm going to have to gather that information and get back to you all about that, because I don't have that right

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00:46:19.600 --> 00:46:22.399

Banu San: Off, right... available to me right now.

258

00:46:23.470 --> 00:46:32.299

Banu San: So, Jeff, perhaps they may be able to provide their contact information, and we can get that information and share it.

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00:46:33.040 --> 00:46:47.449

Jeffrey Scott: Yep, so, yeah, so for the person who asked that question, I do have your registration information for this, for today's meeting, and so we will email you the response offline after Bondra and Michelle's are able to get that data for you.

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00:46:50.110 --> 00:46:50.960

Jeffrey Scott: Frankie?

261

00:46:54.990 --> 00:47:03.470

Jeffrey Scott: Okay, next one is, a bit of a lengthy question, I'll just wave it out. Why do you treat land costs as outside the control of the city?

262

00:47:03.720 --> 00:47:08.870

Jeffrey Scott: Relative to the amount of land that you would need to achieve your arena allocation.

263

00:47:09.030 --> 00:47:13.570

Jeffrey Scott: The amount of land on which San Jose permits housing to be built is very small.

264

00:47:14.170 --> 00:47:21.270

Jeffrey Scott: As one example, only 43% of the growth area indicated in the general plan Has been planned out.

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00:47:21.420 --> 00:47:29.309

Jeffrey Scott: What would the effect of cost development of the city, be of this city legalizing housing on more land?

266

00:47:31.260 --> 00:47:33.969

Banu San: Sorry, I... I tried to pick up this...

267

00:47:34.220 --> 00:47:36.629

Banu San: question, but it's really long, so I'm gonna...

268

00:47:36.630 --> 00:47:43.080

Jeffrey Scott: So I think what the person's asking is, if we, if we opened up more land in the city to house

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00:47:43.260 --> 00:47:46.390

Jeffrey Scott: What would the effect be on the cost of development?

270

00:47:51.930 --> 00:48:11.029

Sarah Fields: I want to say that this is a PVC question, sorry, that's planning, building, and code enforcement, because that's who drives the general plan process. Obviously, we, of course, work collaboratively with the other departments in the city that contribute to the development process, but

271

00:48:11.210 --> 00:48:14.539

Sarah Fields: Real questions about land use.

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00:48:14.710 --> 00:48:19.229

Sarah Fields: Should be directed to them.

273

00:48:20.540 --> 00:48:21.630

Banu San: I mean, we haven't...

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00:48:21.680 --> 00:48:38.479

Banu San: first of all, we don't know how much land that is available, or could be, and so we won't... we won't be able to... we don't have the data to study what the cost impact on... economic cost impact could be, and there's so many other factors, too, as I mentioned.

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00:48:38.490 --> 00:48:48.060

Banu San: that it's not something that would be easy to project, but it's a... it's a good question, and I think that it warrants further study and analysis.

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00:48:48.270 --> 00:48:51.020

Banu San: On what kind of impact it could... it could make.

277

00:48:53.160 --> 00:49:07.359

Jeffrey Scott: The next thing we have here is that it's a comment, not a question, I'll just read it, and then we'll move on. This person says, if we allow bedrooms to qualify without windows, we could convert offices and warehouses with partitions rather than full renovations.

278

00:49:07.540 --> 00:49:09.809

Jeffrey Scott: This might help with homelessness.

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00:49:10.290 --> 00:49:14.460

Jeffrey Scott: So that person just made that comment there, didn't have a question, so we could move on.

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00:49:14.460 --> 00:49:26.619

Sarah Fields: I do just want to say, there's health and safety standards around the definition of bedroom, and I don't imagine a sacrifice around those health and safety standards.

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00:49:26.760 --> 00:49:27.729

Sarah Fields: That's right.

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00:49:27.850 --> 00:49:33.740

Sarah Fields: Especially given, I mean, I don't imagine any municipal changes, I...

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00:49:33.840 --> 00:49:37.970

Sarah Fields: I can't imagine those things to be allowable in the state of California,

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00:49:38.690 --> 00:49:54.690

Sarah Fields: So, I know that wasn't a question, but I just want to say, while I appreciate a suggestion, I don't foresee a suggestion like that leading fraction, or even being feasible.

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00:49:57.190 --> 00:50:08.349

Banu San: And, I mean, there's also codes and billing requirements that, you know, code enforcement has, and we have to sort of consider that, what the requirements are there as well.

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00:50:10.870 --> 00:50:21.689

Jeffrey Scott: How dedicated is the Housing Department to studying ways to develop deeply affordable units, for extremely low-income populations, even if they might not be feasible financially?

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00:50:23.020 --> 00:50:30.919

Banu San: we... I mean, we have been studying, and if you look at the history of this department, the projects that we have

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00:50:31.190 --> 00:50:32.739

Banu San: Funded and supported.

289

00:50:32.840 --> 00:50:51.970

Banu San: all had, deeper affordability levels. And our current rolling RFP, our funding, it still has... supports, affordability levels that are at a lower end as well. So it's not something that we've stopped supporting, it's still there. And Chelsea, did you want to add anything to that?

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00:50:53.870 --> 00:51:01.509

Shelsy Bass: Yeah, I'd say that the City of San Jose's portfolio leans to the more deeply affordable side,

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00:51:01.510 --> 00:51:18.910

Shelsy Bass: the city has a portfolio of over 19,000 units, of which more than 30% at least, are probably at 50% or lower. So, I don't think the city is stepping away from our commitment or, shying away from wanting to continue to commit to the development of deeply affordable housing.

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00:51:20.750 --> 00:51:30.889

Banu San: But we are seeing rent levels that are at the level of workforce housing, like, you know, 80% to 110% AMI, average median income, so,

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00:51:30.960 --> 00:51:49.609

Banu San: historically, we've supported extremely low-income units and supporting that, and we will, as you can see from our Notice of Funding Availability and our rolling our, request for proposals, I'm trying to open up the acronyms, that we continue to support, supportive housing.

294

00:51:52.590 --> 00:52:10.040

Banu San: I think it would be helpful to also mention that January 27th, for now, is anticipated to be a Council Housing Day, where a lot of items will be going to Council, and one of that is the Inclusionary Housing Ordinance, and the incentive programs for market rate

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00:52:10.040 --> 00:52:18.339

Banu San: So I, recommend that you all tune in for that. There's a lot of, items going that... changes and updates we're making.

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00:52:20.580 --> 00:52:32.410

Jeffrey Scott: Thank you for mentioning that, yeah, Bob, then there will be additional communication coming out from the Housing Department between now and the end of January, with more information about that, housing day on the City Council agenda.

297

00:52:32.550 --> 00:52:34.880

Jeffrey Scott: Okay, the next question.

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00:52:35.240 --> 00:52:45.080

Jeffrey Scott: Have you looked at the effect of the city's NOFA requirements on the cost per unit? For example, prioritizing the inclusion of childcare and food distribution?

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00:52:48.770 --> 00:52:54.429

Banu San: NOFA, the last NOFA was designed, with you and your team, Chelsea, so you can take this one.

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00:52:56.040 --> 00:53:01.230

Shelsy Bass: So I will say that the city has, in our current rolling, our

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00:53:01.230 --> 00:53:17.339

Shelsy Bass: rolling requests for proposals, also trying to open up those acronyms, and notices of funding availability. We've... we haven't included that requirement for child care facilities any... any longer, but there was a desire. But I do believe that for those

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00:53:17.490 --> 00:53:27.339

Shelsy Bass: for the few that did move forward with child care facilities, we were also helping with the subsidy for the tenant improvements for those as well. So,

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00:53:28.080 --> 00:53:32.340

Shelsy Bass: Let me think. Jeff, can you repeat the question so I can make sure I answered it in its entirety?

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00:53:34.250 --> 00:53:45.029

Jeffrey Scott: Yes, I'll just read it off verbatim. Have you looked at the effect of city NOFA requirements on cost per unit? For example, prioritizing the inclusion of childcare and food distribution centers.

305

00:53:46.120 --> 00:54:02.159

Shelsy Bass: Yeah, and I think the other thing to note is that those weren't requirements as much as they were as bonus points. So, it did increase your ability to score, but it did not diminish your ability to move forward if you did not include those.

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00:54:02.610 --> 00:54:20.530

Banu San: Bonnie, did you want to add anything? I mean, if... you'll see in our prior notice of funding availability, there were bonus points for childcare and other things, and if that's a cost impact on the entire project, that's a discussion with, in terms of the funding requests they have, but

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00:54:20.530 --> 00:54:26.119

Banu San: Our funding supports the production of the units, so not the commercial build-out.

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00:54:26.120 --> 00:54:30.089

Banu San: Although it may impact their overall total development cost.

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00:54:30.090 --> 00:54:47.970

Banu San: And we have supported a few projects through other funding sources for build-out of childcare, because we are well aware of the shortage of childcare centers in San Jose. So, through some ARPA funds and things like that, there are at least two projects that we were able to support in terms of

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00:54:47.970 --> 00:54:51.620

Banu San: Funding, through a different funding source, because our core funding sources

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00:54:51.620 --> 00:54:57.690

Banu San: Require that we, put those funds into the production, direct production of units.

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00:54:58.490 --> 00:54:59.559

Banu San: Hope that helps.

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00:55:01.370 --> 00:55:02.960

Jeffrey Scott: Next question,

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00:55:03.440 --> 00:55:13.300

Jeffrey Scott: Has any research been done in San Jose on the cost to build other types of housing? For example, missing middle housing, ADUs, infill housing, and other types of housing?

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00:55:13.490 --> 00:55:15.149

Banu San: I missed the first part, sorry.

316

00:55:15.150 --> 00:55:24.439

Jeffrey Scott: Has any research been done on the cost to develop, other types of housing? And then those were examples of missing middle housing, ADUs, infill housing, other types of housing.

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00:55:24.790 --> 00:55:30.249

Banu San: I think a PPC planning department is doing some,

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00:55:30.300 --> 00:55:45.819

Banu San: studies around missing middle. We were going to include it, but because they're doing it, I think I would advise that you guys follow what the studies they're working on, and Missing Middle is one of those. And then the other one was ADUs, right, Jeff? The other example? Yeah.

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00:55:45.820 --> 00:55:50.569

Banu San: We... we haven't done an in-depth analysis around ADUs,

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00:55:50.750 --> 00:56:01.730

Banu San: And it is an area that I think we should... we could look at, but it hasn't been a very main topic of research yet, I have to say.

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00:56:03.550 --> 00:56:09.259

Jeffrey Scott: Just a real quick time check here. We're approaching the top of the hour, so we're gonna take two more questions.

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00:56:09.260 --> 00:56:33.189

Jeffrey Scott: And as I said at the beginning of this call, we do have the contact information for everybody.

So, for people who have submitted questions that we're not going to have time to get to, we will respond to you by email, and we will take the, we'll gather the, responses to your questions offline and send them to you by email. And then the other thing I want to say, just to reiterate what Bob said at the beginning of this call, and that is there is a City Council study session on Monday.

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00:56:33.190 --> 00:56:51.439

Jeffrey Scott: It will go into quite a bit of detail on this topic, on the cost of residential development. It's like a two- or two and a half hour session, so I would encourage all of you to, who are interested in this topic to, to join in or watch the, the City Council study session on Monday, and there's sure to be a much deeper dive on this.

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00:56:51.540 --> 00:56:56.910

Jeffrey Scott: So with that, I'll, try to get a couple more questions in before we, before we adjourn.

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00:56:59.820 --> 00:57:10.269

Jeffrey Scott: Question. How does the city plan to drive down the cost of towers Built with steel.

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00:57:10.600 --> 00:57:15.309

Jeffrey Scott: And then the person gets a range of driving down costs by 10% to 35%.

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00:57:16.160 --> 00:57:24.099

Banu San: I mean, I wish I had a solution for that. The findings show that it's not feasible, because there needs to be some significant changes.

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00:57:24.230 --> 00:57:44.029

Banu San: For it to become feasible. We talked about that it's the costliest, and it has its feasibility challenges, and how do we create that is a good question, and perhaps that's going to be a topic of discussion at Council on Monday, as we do a much deeper dive into the challenges for each building type.

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00:57:44.100 --> 00:57:56.809

Banu San: There are incentives, a multi-housing Family Incentive Program and the Downtown Incentive Program, that is able to offer, you know, reduction in taxes and fees for a market rate development.

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00:57:56.810 --> 00:58:12.399

Banu San: But when those are not sufficient, they don't really move the needle as much for towers. So, I think that's a more of a general council policy question, and we'll be seeing what kind of discussions there will be around that.

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00:58:12.420 --> 00:58:15.610

Banu San: To support the development of more towers here.

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00:58:15.830 --> 00:58:16.800

Banu San: On Monday.

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00:58:18.860 --> 00:58:37.450

Jeffrey Scott: Our last question today that we have time for. Has the city looked at new construction

methods which may be able to bring the cost and time to build down drastically? And the person gives some examples. There are certified panelizing building systems being used in other cities, like Los Altos, Mountain View, Cupertino, etc.

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00:58:37.450 --> 00:58:39.830

Jeffrey Scott: And so, that is... Yeah.

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00:58:40.120 --> 00:58:43.789

Banu San: panel system, and were there other examples? I know the panel system. What else was there?

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00:58:43.790 --> 00:58:50.480

Jeffrey Scott: It says the Livio Building Systems Penalized building. Now.

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00:58:50.480 --> 00:59:02.599

Banu San: The housing department is open to innovative construction solutions that can lower costs, as well as shorten the timeline to construct housing.

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00:59:02.880 --> 00:59:09.249

Banu San: Because our goal is to construct housing fast, but of course, you know, it is safe and...

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00:59:09.250 --> 00:59:26.420

Banu San: livable conditions for the residents of San Jose. We have looked into modular construction, as well as I have talked to manufacturers of panel systems, so I am... we are open to listening and considering various innovative options.

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00:59:26.420 --> 00:59:37.400

Banu San: Times are changing, and there's many different new technologies coming out on how to build, you know, cheaper, faster housing, so we're not close to that. We're open to that, in fact.

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00:59:37.440 --> 00:59:47.769

Banu San: And you'll see that in our funding, that we published the notice of funding availability. We're looking for lower cost, shorter timelines, so anything that is feasible,

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00:59:48.270 --> 01:00:01.699

Banu San: and provides high-quality housing, continues to provide that. We would be open to hearing more of. So, do not hesitate to reach out to the department if you have some innovative solutions. We're open to listening to that.

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01:00:03.190 --> 01:00:08.290

Jeffrey Scott: Great. Bob and Felsey and Sarah Fields, another one of our Deputy Directors, thank you very much.

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01:00:08.530 --> 01:00:21.899

Jeffrey Scott: For, for sharing your insights with us. As I said to everyone, you will be receiving an email from us in the next couple days when all this information is up online for this meeting. I will also be responding to the people who had questions that we weren't able to get to today.

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01:00:21.900 --> 01:00:43.549

Jeffrey Scott: And then lastly, I'm going to leave the chat window up here for a couple of minutes, before I close this out. Sarah put a bunch of information about the study session there at the bottom of the chat on how to participate, where it is, when it is, and how to submit comments, so I'll leave that chat window open for a couple of minutes for anybody who wants to take down that information.

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01:00:44.060 --> 01:00:44.550

Jeffrey Scott: Yeah.

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01:00:44.550 --> 01:00:45.220

Banu San: Thank you, Jeff?

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01:00:45.220 --> 01:00:48.340

Jeffrey Scott: Thank you, everyone. I think we're set. Thank you, everybody, for participating.

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01:00:48.340 --> 01:00:49.960

Shelsy Bass: Jeff, have a good night, everyone.