

# Report on the Cost of Residential Development

| City Council Study Session  
**November 1, 2022**

Jerad Ferguson, Housing Catalyst, Office of Economic Development and Cultural Affairs

Nanci Klein, Director, Office of Economic Development and Cultural Affairs

Jacky Morales-Ferrand, Director, Housing Department

Rachel VanderVeen, Deputy Director, Housing Department

Chris Burton, Director, Department of Planning, Building and Code Enforcement

Rosalynn Hughey, Deputy City Manager

## Background

**2019**

- Second Cost of Development Report
- First Cost of Affordable Analysis

**2022**

- Third Cost of Development Report

**2018**

- First Cost of Development Report
- Council Study Session
- Housing Crisis Work Plan Adopted

**2020**

- Planned update to Report
- Delayed due to COVID-19 pandemic



# Why?

- ✓ **Important tool to understand barriers to new housing construction**
- ✓ **Factors within City control**
  - Impact Fees
  - Taxes
  - Permitting
- ✓ **Factors outside City control**
  - Cost of Construction
  - Interest Rates
  - Supply Chain
- ✓ **Regular Updates**
  - Inform policy decisions
  - Understand trends

# Rental Conceptual Prototypes



## Low-rise

### 5 stories

Density: 65 DU/AC

Avg. Unit Size: 900 sf.

Parking Ratio: 1.0

Submarkets:  
*Central, South & East*



## Mid-rise

### 7 stories

Density: 90 DU/AC

Avg. Unit Size: 900 sf.

Parking Ratio: 1.0

Submarkets: *Central, West, North*



## High-rise

### 22 stories

Density: 350 DU/AC

Avg. Unit Size: 900 sf.

Parking Ratio: 0.8

Submarkets: *Downtown, Central, West, North*

# Residual Land Value



# | Feasibility Study Results – Residual Land Values Per Unit

- No prototype was shown to be feasible
- All values negative
- Extremely challenging market conditions for multi-family housing

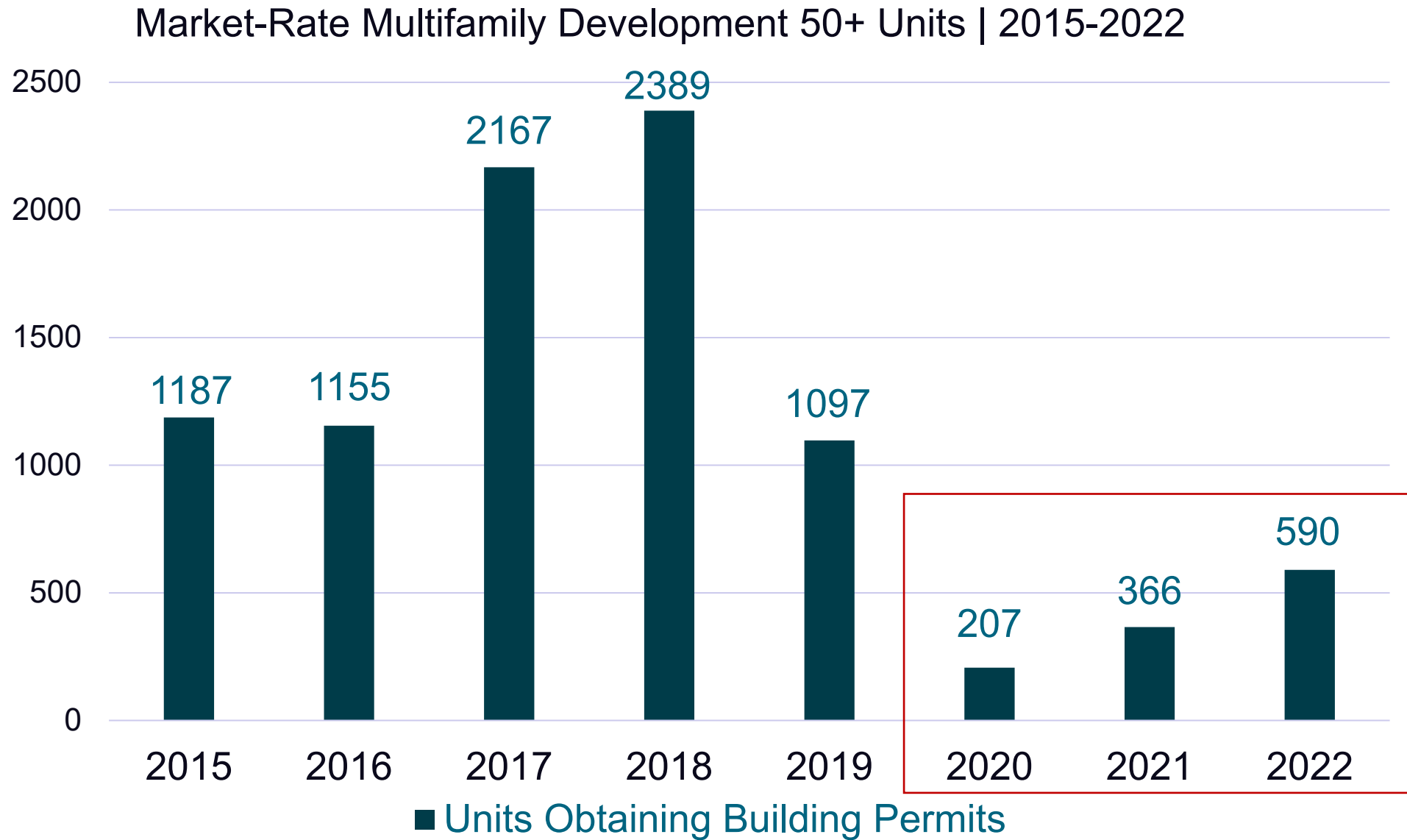
Rental Prototypes / Location	Low-Rise (5 stories)	Mid-Rise (7 stories)	High-Rise (22 stories)
Central	(\$270,000)	(\$350,000)	(\$510,000)
West		(\$230,000)	(\$390,000)
Downtown			(\$440,000)
North		(\$320,000)	(\$490,000)
South and East	(\$272,000)		

For Sale Prototypes / Location	Low-Rise (5 stories)	High-Rise (22 stories)
South and East	(\$410,000)	
Central and West	(\$320,000)	
Downtown		(\$520,000)

## San José Overview

2020	<b>The Taft</b> (477 S. Market St.)	<b>130 units</b>
	<b>Sparta505</b> (505 E. Santa Clara St.)	<b>77 units</b>
2021	<b>Winchester Ranch</b> (585 S. Winchester Blvd.)	<b>366 units</b>
2022	<b>Bascom Station</b> (1350 S. Bascom Ave.)	<b>590 units</b>
		<b>1,163 units</b>

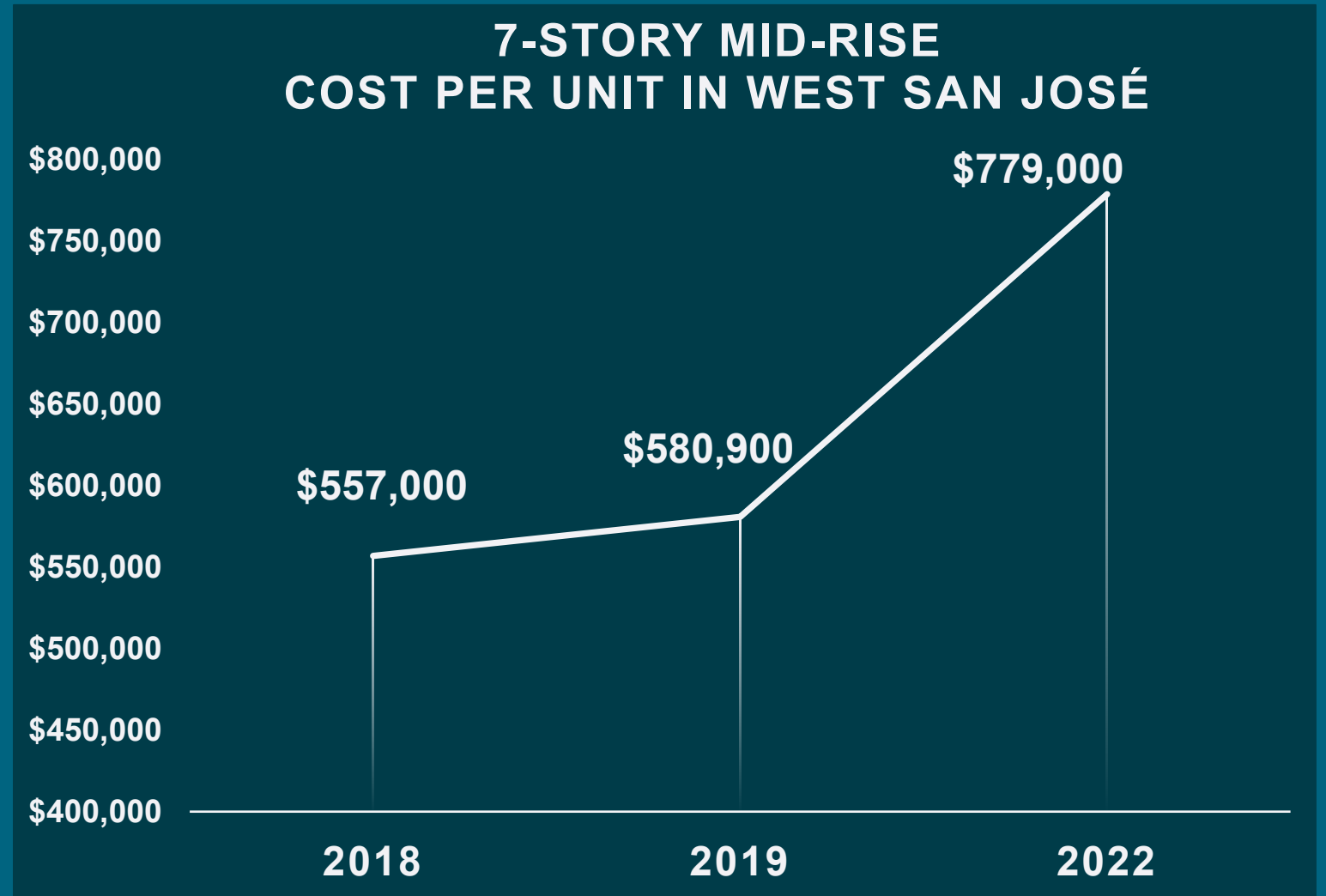
## San José Overview





## Cost of Construction

- Cost of construction most significant barrier to housing
- 17% increase in Bay Area since start of pandemic to Q2 2022



## Slowest Metro-Level Rent Growth Among 52 CBSAs with Population >1 Million

Rank	Since March 2020
#1	San Francisco (-1%)
#2	Minneapolis (+5%)
#3	San Jose (+5%)
#4	Washington (+12%)
#5	Houston (+14%)
#6	Chicago (+15%)
#7	Pittsburgh (+16%)
#8	Seattle (+17%)
#9	Los Angeles (+17%)
#10	Boston (+17%)

**Source:** Apartment List Rent Estimates; data as of September 2022.

**Data Available:** [apartmentlist.com/research/category/data-rent-estimates](https://apartmentlist.com/research/category/data-rent-estimates)

## City Impact Fees and Construction Taxes

<b><u>City Impact Fees and Taxes (rental)</u></b>	<b><u>Range Per Unit</u></b>
Construction taxes	\$6,400 - \$6,800
Parkland in lieu fees	\$11,000 - \$20,800
Inclusionary housing in lieu fees	\$21,000 - \$49,600
<b><u>Total city impact fees and taxes</u></b>	<b>\$37,200 - \$72,000</b>
<b><u>% of total unit costs</u></b>	<b>5.5% - 10.2%</b>

## Cost of Affordable Analysis

	San José Projects	Other City Projects	All Projects	San José Cost Difference
All Projects	\$615,100	\$535,100	\$561,400	15%
Special Needs	\$700,100	\$564,900	\$612,000	24%
Non-Targeted	\$609,900	\$574,200	\$586,500	6%

- Compared 15 San José developments to 27 developments in other cities in California.
- Average costs 15% higher – Special Needs (e.g., PSH) 24% higher on average.

## General Trends

### Escalation of Construction Costs

Costs increased by 6% annually over the past two years

### Increase Cost of Financing

High inflation; time to secure between five and six funding sources

### Deeper Affordability Levels

40% of the homes affordable to extremely low-income households

## San José vs Other Cities – Affordable Housing

**Deeper Levels of Affordability**

**Higher Direct Construction Costs**

**Lower Federal Equity Pricing**

**Higher Impact Fees**

**Higher Direct Construction Costs**

# Next Steps and Strategies to Mitigate Cost of Development

## November 15 Council Meeting

- *Housing Crisis Work Plan Update*
- *Downtown Residential High-Rise Program*

## Future Actions

- *Construction Tax Reduction for Affordable Housing – early 2023*
- *Development Fee Framework – fall 2023*

## Housing Element Strategies

- *City Ministerial Infill Approval Ordinance*
- *CEQA Analysis for Urban Villages*

# Report on the Cost of Residential Development

| City Council Study Session  
**November 1, 2022**

Jerad Ferguson, Housing Catalyst, Office of Economic Development and Cultural Affairs

Nanci Klein, Director, Office of Economic Development and Cultural Affairs

Jacky Morales-Ferrand, Director, Housing Department

Rachel VanderVeen, Deputy Director, Housing Department

Chris Burton, Director, Department of Planning, Building and Code Enforcement

Rosalynn Hughey, Deputy City Manager