

North Bayshore Bonus FAR

Development Feasibility Analysis Overview

1. North Bayshore Development Context

- Most properties are already developed as industrial/R&D uses
- Land values vary widely depending on current use and market climate
- Parking is most cost efficiently provided above grade.
- Above grade parking included in FAR calculation so limits development capacity
- Reduced parking ratios improve financial feasibility of higher density housing

2. Financial Analysis Approach

- Analysis tests **variety of development scenarios and affordable housing options**
 - **Compares potential revenues to development costs** to see if scenarios generate sufficient developer margins or returns to be feasible
- For apartments, target returns measured by **Return (or Yield) on Cost**
 - **Return on Cost** = Net Operating Income (NOI) divided by development costs
 - **NOI** = housing revenues less operating expenses
 - **Development costs** = land, hard construction, impact fees, construction financing and other soft costs
- Current target returns for desirable Bay Area markets are **5.5% Return on Cost**

3. Development Costs Significantly Impact Financial Performance

Land Values

- According to transactions over past five years, purchase costs range from **\$60 to \$300 per square foot of land** depending on location, existing use and future user
- Based on recent appraisals and review of comps, analysis assumes land cost of about **\$5.2 million per acre (\$120/Land SF)**
- Most residential developers purchase property based on “cost per door”

Development Costs

- **Hard construction costs per residential SF are significantly higher for taller buildings and below grade parking**

North Bayshore Bonus FAR

Development Feasibility Analysis Overview

- Evolving State building codes enable more cost-effective construction for 6 story and 7 story buildings
- **Development impact fees** modeled based on current City experience and NBS impact fee of \$7,000 per unit

4. KEY MODEL ASSUMPTIONS

- **Three sets of development scenarios**
 - **Baseline** (at 1.0 FAR) assumed to pay affordable housing fee instead of build affordable units onsite.
 - **Tier I** scenarios (at 1.85 to 3.5 FAR) tested at 15% affordable housing onsite with varying affordability targets
 - **Tier II** scenarios (at 3.5 to 4.2 FAR) tested at 20% affordable housing onsite with varying affordability targets
- **Average unit size of 725 square feet** based on EPC/CC direction on bedroom distribution (40% micro unit, 30% 1 BR, 20% 2 BR and 10% 3 BR)
- **All scenarios tested at alternative parking ratios** (0.55 vs. 1.10 parking spaces/unit)
 - Focused analysis on reduced ratio of **0.55 parking spaces/unit**
- Feasibility target threshold of **5.5% Return on Cost**

5. KEY FINDINGS

- **State Density Bonus Law establishes minimum targets for affordable housing units.**
 - City policy discretion above these minimums.
 - Most developers currently "fee out" in Mountain View
- **Tier 1 (5-7 story buildings) perform best financially** given proposed affordable housing requirements coupled with development costs
- **Tier II (8+stories)** will require higher rents or values to be feasible in the future

		FAR MAXIMUMS		
		BASE	TIER I	TIER II
		Affordable Housing Requirement	City Requirements	15%
CHARACTER AREA	CORE	1	3.5 (2.3 Minimum)	4.2
	GENERAL	1	2.5	3.5
	EDGE	1	1.85	N/A

		Developable Unit Count		
		BASE	TIER I	TIER II
CHARACTER AREA	CORE	260	735	895
	GENERAL	260	536	735
	EDGE	260	482	N/A

Development Cost per Unit

CHARACTER AREA	Development Cost per Unit		
	BASE	TIER I	TIER II
CORE	\$603,000	\$508,000	\$579,000
GENERAL	\$603,000	\$500,000	\$508,000
EDGE	\$603,000	\$512,000	N/A

Building Valuation per Unit

Scenario A1 - 5% Very Low/5% Low/5-10% Moderate

CHARACTER AREA	Building Valuation per Unit			
	Scenario A1 - 5% Very Low/5% Low/5-10% Moderate			
		BASE	TIER I	TIER II
	Affordable Housing Requirement	City Requirements	15%	20%
CORE	\$687,000	\$618,000	\$600,000	
GENERAL	\$687,000	\$618,000	\$600,000	
EDGE	\$687,000	\$618,000	N/A	

Return (Yield) on Cost

Scenario A1 - 5% Very Low/5% Low/5-10% Moderate

CHARACTER AREA	BASE			TIER I	TIER II
	Affordable Housing Requirement	City Requirements		15%	20%
	CORE	5.1%	5.5%	4.7%	
	GENERAL	5.1%	5.5%	5.3%	
EDGE	5.1%	5.4%	N/A		

Return (Yield) on Cost

Scenario A2 - 11% Very Low/4-9% Moderate

CHARACTER AREA	Return (Yield) on Cost			
	Scenario A2 - 11% Very Low/4-9% Moderate			
		BASE	TIER I	TIER II
	Affordable Housing Requirement	City Requirements	15%	20%
CORE	5.1%	5.4%	4.6%	
GENERAL	5.1%	5.5%	5.3%	
EDGE	5.1%	5.4%	N/A	