



MEMORANDUM

To: Lindsay Hagan, City of Mountain View
From: Derek Braun and Tatum Troutt, Strategic Economics
Date: September 20, 2022
Subject: Middlefield Park Master Plan Community Benefits Analysis

The City of Mountain View retained Strategic Economics (SE) to conduct a review of the community benefits proposal for the Middlefield Park Master Plan, which is situated within the East Whisman Precise Plan (EWPP) area. The EWPP requires development projects within the plan area to provide community benefits in order to receive “bonus” floor area above the allowable floor-area ratio (FAR) for residential and nonresidential development. While the offered benefits must meet specific value thresholds and be of area-wide or city-wide benefit, the exact benefits provided can vary from project to project.

Google-Lendlease, the project applicant (“applicant”), has valued their community benefits proposal at \$19.1 million, which, includes:

- **A retail development subsidy**, associated with providing 21,000 square feet of ground floor retail space beyond the City’s base retail requirement of 5,000 square feet. The applicant plans to lease the retail spaces at below-market rates that average \$35 per square foot annually. This space will be on the podium ground floor of two multifamily rental buildings, which together constitute the first phase of the new development associated with the Master Plan. The applicant also proposes providing 81 garage parking spaces to support the retail space and community pavilion described below. The applicant valued the retail development subsidy at approximately \$14.7 million.
- **A funding program for small businesses, nonprofits, and community-oriented uses** (small business funding), which the applicant valued at approximately \$3.13 million.
- A development subsidy associated with providing a 1,000 square foot **community pavilion at Ellis Park**, which the applicant valued at \$0.8 million; and
- **Cash for people-centric activities and programs** to be used at the discretion of the City Council for (i) housing opportunities and anti-displacement efforts, (ii) small business support and workforce development, (iii) safe and expanded connections and consolidated infrastructure for pedestrians and bicyclists, and (iv) quality open space for recreation, relaxation, and entertainment, in the amount of \$0.5 million.

This memorandum summarizes the findings of SE’s review of the key financial assumptions of the retail development subsidy calculation, which includes the most cost variables compared to the other benefits offered that focus on monetary contributions or programs. These findings are intended to support the City of Mountain View in determining whether the proposed community benefits package is reasonable and meets the City’s requirements. The project is required to provide a community benefit package equal to or greater than \$19,143,457 million.¹

Conclusion of the Analysis

As described in the summary of findings, SE’s independent evaluation of the applicant’s community benefit proposal concluded that the retail development subsidy is approximately \$53,000 less in value due to construction costs, based on SE’s research and methodology. However, based on the other community benefit components and the inclusion of all required City impact fees—including the newly adopted fees applicable to the East Whisman Precise Plan area—the applicant’s community benefit proposal is valued at \$19.7 million, which exceeds the required community benefit of \$19.1 million. Should the development qualify for the EWPP fee exemption, the applicant’s community benefit proposal would continue to exceed the minimum required at \$19.3 million.

Methodology

SE evaluated the applicant’s estimated valuation of the retail development subsidy component within the larger community benefits proposal. SE independently estimated the value of the retail development subsidy and compared the results against the applicant’s estimated valuation. SE did not independently evaluate the value of the small business funding, so the value for this program is the same as what the applicant provided. SE also did not independently evaluate the construction cost subsidy for the Ellis Park Community Pavilion, due to its minimal size, except for its share of the applicant’s proposed costs to build shared parking serving the pavilion and subsidized retail space.²

The applicant characterized the retail development subsidy value as the financial loss incurred by providing the additional retail space (beyond required retail space) and renting that space at below-market rate rents; the estimated loss included costs for constructing the parking spaces that would support the retail space. The applicant calculated the retail development subsidy by subtracting the “end value” of the retail space (the capitalized value less sales commission) from the total cost to build the retail space and parking. Renting the retail spaces at below-market rate rents, as proposed, would result in less revenue and a lower end value than if the retail space were rented at market rates. While the retail space is one integrated component of a multifamily mixed-use development, the analysis focused solely on the costs and revenues associated with the retail space alone.

SE found the applicant’s basic approach and methodology for estimating the value of the retail development subsidy was appropriate and reasonable. Therefore, SE applied the same methodology, with an independent estimate of the end value and total development cost of the retail space, in order

¹ Community benefit value is based on 622,925 bonus sq. ft. office at \$27.25 per sq. ft. and 397,936 bonus sq. ft. residential at \$5.45 per sq. ft., per City’s adopted fiscal year 2022-23 fees.

² The applicant has stated the development subsidy for the Pavilion is based on a higher cost per square foot, compared to the retail development subsidy. This is due to the additional costs associated with (i) anticipated construction timing, as no other major construction activities are anticipated to be occurring simultaneously, and (ii) completing the space to a finished condition for occupancy.

to calculate the resulting retail development subsidy. SE established current development cost and revenue assumptions through interviews with local real estate developers, review of real estate market data sources, and by applying assumptions and findings from recent financial feasibility analyses completed by SE to assess the feasibility of other multifamily mixed-use development in Silicon Valley. SE then compared the resulting estimated value of the retail development subsidy against the applicant’s estimated value.

Summary of Findings

Figure 1 below shows a summary of the total estimated value of the community benefits contributions proposed by the applicant, including the differing retail development subsidy valuation estimates prepared by the applicant and SE.

Based on the difference between SE and the applicant’s valuation of the retail development subsidy, SE estimated the value of the applicant’s proposed community benefits to be approximately \$53,000 less than the applicant’s valuation. The applicant estimated the value of the retail development subsidy to be \$14.7 million, with a total proposed community benefits value of approximately \$19.14 million. SE found that the total value of the proposed community benefits package is approximately \$19.09 million, with the retail development subsidy valued at approximately \$14.65 million. The \$52,580 difference between SE’s valuation and the applicant’s valuation is relatively minor, representing less than 0.3 percent of SE’s total estimated community benefits valuation.

FIGURE 1. TOTAL COMMUNITY BENEFIT VALUATION, APPLICANT AND SE

	Applicant	SE
Retail Development Subsidy	\$14,703,789	\$14,651,209
Ellis Park Pavilion Development Subsidy	\$808,359	\$808,359
Small Business Funding	\$3,131,309	\$3,131,309
People-Centric Cash Contribution	\$500,000	\$500,000
Total Community Benefit	\$19,143,457	\$19,090,877

Source: Applicant, 2022. Strategic Economics, 2022.

The applicant’s retail development subsidy does not include payment of certain City impact fees, which, if included, increases the value of the retail development subsidy in both the applicant’s estimate and SE’s estimate. The applicant’s retail development subsidy estimate does not include the applicable Transportation Impact Fee (TIF), the Nonresidential Housing Impact Fee (HIF) or the East Whisman Precise Plan Development Impact Fee (EWPP Fee). If these fees are included, then total city fees and, in result, total development costs would increase by \$25.53 per square foot, or by \$536,130 for the entire project.³ Alternatively, if the retail space is deed-restricted for neighborhood commercial uses, qualifying for an exemption from the EWPP Fee, then the total development cost would increase

³ FY 22-23 fees include: HIF at \$1.65/sq. ft., TIF at \$5.72/sq. ft., and EWPP fee at \$18.16/sq. ft.

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by \$7.37 per square foot, or by \$154,770.⁴ Figure 2 below shows the impacted development cost items and alternative retail development subsidy calculation under these scenarios.

FIGURE 2. ALTERNATIVE RETAIL DEVELOPMENT SUBSIDY AND TOTAL COMMUNITY BENEFIT SCENARIO WITH IMPACT FEES PAID

	Applicant	SE
Scenario 1: Include all Impact Fees		
Additional Cost for EWPP Fee, HIF, and TIF	\$536,130	\$536,130
Adjusted Soft Costs and Financing Costs	\$6,431,184	\$6,434,027
Total Development Cost	\$24,721,229	\$23,957,550
End Value of Retail Space	\$9,481,309	\$8,770,211
Retail Development Subsidy	\$15,239,920	\$15,187,339
Total Community Benefit	\$19,679,587	\$19,627,007
Scenario 2: Include HIF and TIF, no EWPP Fee		
Additional Cost for HIF and TIF	\$154,770	\$154,770
Adjusted Soft Costs and Financing Costs	\$6,049,824	\$6,052,667
Total Development Cost	\$24,339,869	\$23,576,190
End Value of Retail Space	\$9,481,309	\$8,770,211
Retail Development Subsidy	\$14,858,560	\$14,805,979
Total Community Benefit	\$19,298,227	\$19,245,647

Note: See Figure 1 for comparable original results describing the retail development subsidy and the total community benefit.

Source: Applicant, 2022. City of Mountain View, 2022; Strategic Economics, 2022.

SE's slightly lower estimated value of the retail development subsidy reflects findings that the total development cost is lower than the applicant's estimate. Per the methodology section of this memo, the retail development subsidy was calculated by subtracting the end value of the retail space from the total cost of development. Figure 3 below shows the details of this calculation. Figure 4 and Figure 5 show the end value and total development cost calculations for both the applicant and SE.

FIGURE 3. SUMMARY OF RETAIL DEVELOPMENT SUBSIDY VALUATION, APPLICANT AND SE

	Applicant	SE
End Value	\$9,481,309	\$8,770,211
Total Development Cost	\$24,185,099	\$23,421,420
Retail Development Subsidy	\$14,703,789	\$14,651,209

Source: Applicant, 2022. City of Mountain View, 2022; Strategic Economics, 2022.

⁴ East Whisman Precise Plan Development Impact Fee Nexus Study and East Whisman Development Impact Fee, Attachment 2, Pg. 9 of Council Report dated May 24, 2022. Link:

<https://mountainview.legistar.com/LegislationDetail.aspx?ID=5658923&GUID=1A693A79-B480-4C50-BF3F-E0DAE82BCE42&Options=&Search=>

FIGURE 4: END VALUE COMPARISON, APPLICANT AND SE

	Applicant	SE
Gross Retail Area (Sq. Ft.)	21,000	21,000
Net Rentable Area (Sq. Ft.)	16,800	16,800
Gross Annual Revenue	\$537,600	\$537,600
Vacancy Cost	\$0	-\$40,320
Non-recoverable Operating Cost	-\$50,400	-\$50,400
Net Annual Revenue	\$537,600	\$497,280
Capitalized Value	\$9,774,545	\$9,041,455
Less: Sale Commission	-\$293,236	-\$271,244
End Value	\$9,481,309	\$8,770,211

Source: Applicant, 2022; City of Mountain View, 2022; Strategic Economics, 2022.

The differences between the applicant and SE’s estimated valuations of the retail development subsidy were primarily driven by incorporation of different vacancy rate and hard cost assumptions. Based on SE’s research, SE’s analysis applied lower development cost and higher vacancy rate assumptions than those used by the applicant. These two factors account for the difference between SE’s and the applicant’s retail development cost subsidy, as highlighted in Figure 4 and Figure 5.

- **SE’s vacancy rate assumption of 7.5 percent—which resulted in a relatively lower end value compared to the applicant’s estimate which did not include a vacancy rate—better reflects market conditions of demand for the new retail space.** The applicant intends to create a high-quality retail area with tenants that serve community needs. To that end, the applicant proposes to provide the retail space at below-market rate rents, invest in commercial tenant improvements for the tenants, and create a funding program to further assist tenants with rent payment or other monetary or support service needs. A standard vacancy assumption of 7.5 percent at stabilization (based on a typical range of five to ten percent) reflects these factors favoring strong tenant demand, as well as general retail market conditions.
- **SE found the cost of constructing the retail space’s “warm shell” (built and completed building area that is ready for tenant improvements) were likely to be lower than the applicant’s estimate, which drove differences in the total hard costs and total development cost estimates.** Based on SE’s research, SE assumed it would cost \$300 per square foot to construct the warm shell which was lower than the applicant's assumption of \$332 per square foot.
- **SE found the applicant’s parking cost assumptions were reasonable.** The applicant indicated the parking garage would require a relatively large area per space for circulation and parking, based on site and building conditions.⁵ Based on the information provided by the applicant, SE evaluated the applicant’s assumptions for parking square footage and costs and found that the parking assumptions provided were reasonable based on the implied cost per square foot of parking area. SE applied the cost provided by the applicant of approximately \$89,000 per space, which translated to a cost of \$329 per square foot of retail and pavilion space.

⁵ Applicant identified conditions such as multiple vehicle entrances/exits into the garage, truck loading spaces within the garage, and required internal vehicle circulation as some of the factors.

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FIGURE 5. SUMMARIZED DEVELOPMENT COST COMPARISON, APPLICANT AND SE

	Applicant	SE
Hard Costs	\$18,290,045	\$17,523,524
Other Development Costs	\$5,895,054	\$5,897,897
Soft Costs	\$4,515,000	\$4,561,070
Financing Costs	\$1,380,054	\$1,336,827
Total Development Cost	\$24,185,099	\$23,421,420

Source: Applicant, 2022; City of Mountain View, 2022; Strategic Economics, 2022.

SE's overall estimate for other development costs were slightly higher than the applicant's soft cost estimate. SE's estimated total soft costs were approximately \$4.56 million and the applicant's estimated soft costs were approximately \$4.51 million. SE applied an industry standard of six percent for the financing cost estimate, which was calculated as a percentage of total soft and hard costs, and thus the financing cost estimate was slightly lower than the applicant's given their higher cost estimates. SE's estimate of total "other development costs" (soft costs plus financing costs) was slightly higher than the applicant's estimate. The full total development cost comparison is shown in Figure 6.

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FIGURE 6. TOTAL DEVELOPMENT COST AND RETAIL DEVELOPMENT SUBSIDY CALCULATION, APPLICANT AND SE

	Applicant	SE
Gross Retail Area (Sq. Ft.)	21,000	21,000
Net Rentable Area (Sq. Ft.)	16,800	16,800
Hard Costs		
Vertical Hard Cost (warm shell)	\$6,966,540	\$6,300,000
Hard Cost Contingencies	\$1,509,638	\$1,409,657
Parking	\$7,241,157	\$7,241,157
Tenant Improvements	\$2,100,000	\$2,100,000
Other	\$472,710	\$472,710
<i>Total Hard Costs</i>	<i>\$18,290,045</i>	<i>\$17,523,524</i>
Soft Costs		
Consultant Fees (A&E, marketing)	\$735,000	\$1,063,163
Taxes, Legal, Accounting	\$735,000	\$708,775
FF&E	\$105,000	\$177,194
Developer Fee	\$735,000	\$885,969
Contingency	\$1,470,000	\$885,969
City Fees	\$105,000	\$210,000
Tenant Incentives	\$630,000	\$630,000
<i>Total Soft Costs (a)</i>	<i>\$4,515,000</i>	<i>\$4,561,070</i>
Financing Costs		
	\$1,380,054	\$1,336,827
<i>Soft Costs and Financing Costs</i>	<i>\$5,895,054</i>	<i>\$5,897,897</i>
Total Development Cost	\$24,185,099	\$23,421,420
End Value of Retail Space	\$9,481,309	\$8,770,211
Retail Development Subsidy	\$14,703,789	\$14,651,209
Total Community Benefit Value	\$19,143,457	\$19,090,877

(a) Does not include East Whisman Precise Plan Development Impact Fee, Nonresidential Housing Impact Fee, and Transportation Impact Fee

Source: Applicant, 2022; City of Mountain View, 2022; Strategic Economics, 2022.

CONCLUSION

SE has independently evaluated the applicant's community benefit proposal and concluded the retail development subsidy is approximately \$53,000 less in value due to construction costs, based on SE's research and methodology. However, based on the other community benefit components and the inclusion of all required City impact fees—including the newly adopted fees applicable to the East Whisman Precise Plan area—the applicant's community benefit proposal is valued at \$19.7 million, which exceeds the required community benefit of \$19.1 million. Should the development qualify for the EWPP fee exemption, the applicant's community benefit proposal would continue to exceed the minimum required at \$19.3 million.

APPENDIX

Assumptions

In order to identify development cost and revenue assumptions associated with the retail space, SE interviewed mixed-use multifamily developers with recently built or proposed projects in Mountain View and other nearby comparable communities. The developers shared current development cost and return information for providing ground floor retail space, while also providing context regarding current real estate development trends. SE also incorporated research from other real estate data sources, including CoStar, broker reports, and previous SE studies on similar projects in Silicon Valley. The City of Mountain View also provided SE with updated permit and impact fee information and key data about the applicant’s development proposal. The specific revenue and cost assumptions are shown in greater detail below.

REVENUE

SE’s end value estimate of the retail space was approximately \$8.8 million, or \$700,000 lower than the applicant’s estimate. The revenue and valuation assumptions are shown in Figure 7 below.

To identify the end value, SE first calculated the net annual revenue by subtracting the operating costs from the revenue associated with rents for the retail space, adjusted for vacancies. SE then calculated the capitalized value of the retail space by dividing the net annual revenue by the capitalization rate. The end value reflects the equivalent value of the property after a sale, calculated as the capitalized value minus sales commission.

FIGURE 7. REVENUE ASSUMPTIONS

	Applicant	SE
Rent per Sq. Ft. (NNN, Annual)	\$35	\$35
Non-recoverable per Sq. Ft. (Annual)	\$3	\$3
Vacancy Rate	0%	7.5%
Cap Rate	5.5%	5.5%
Sale Commission as Share of Capitalized Value	3%	3%

Sources: Applicant, 2022. Strategic Economics, 2022.

SE applied a higher vacancy rate assumption than the applicant. SE applied a vacancy rate assumption of 7.5 percent; the applicant did not apply an assumption. An industry standard vacancy assumption is between five and ten percent, and current overall retail vacancy rates in the surrounding market area are within this range.⁶ It is likely that vacancy at the property would match typical conditions given existing high occupancy rates of retail space in the market area generally, and given that the applicant is offering below-market rents, additional small business funding, and commercial tenant improvement incentives that will likely make these spaces competitive for potential tenants.

SE’s assumptions for the other metrics that informed end value were consistent with the applicant’s assumptions. The applicant proposed to set rent at an average of \$35 per square foot annually (or

⁶ For example, the Cushman & Wakefield retail “Marketbeat” report for Silicon Valley indicated an overall vacancy rate of 4.8% for the Palo Alto/Mountain View/Los Altos submarket as of the third quarter of 2021, and 5.5% for the entire Silicon Valley region.

approximately \$2.91 per square foot each month). The applicant assumed an operating cost of \$3 per square foot annually, which is 8.5 percent of gross rent revenue. The applicant applied a cap rate of 5.5 percent, which is in line with SE’s research on current cap rates for retail space in Santa Clara County.⁷ The applicant applied a sales commission of three percent of capitalized value, which is a reasonable industry standard assumption.

DEVELOPMENT COST

The total development cost includes hard costs, soft costs, and financing costs. The development cost assumptions are described below and summarized in Figure 8 and Figure 9.

HARD COSTS

Hard costs, or “direct costs”, are costs directly related to the construction of the built space. Hard costs are the largest cost associated with development. Hard costs in this scenario include: 1) the “cold shell” of the podium, 2) the “warm shell” improvements to the podium, which include mechanical and utility system improvements, 3) the tenant improvement costs, which prepare the space for a specific tenant, 4) the construction cost of the garage parking spaces that support the retail space; 5) a hard cost contingency, and 6) miscellaneous equipment and site costs. Figure 8 shows the full detail of these assumptions.⁸

FIGURE 8. HARD COST ASSUMPTIONS

	Applicant	SE
Warm Shell Cost per Sq. Ft. (a)	\$332	\$300
Tenant Improvements per Sq. Ft.	\$125	\$125
Hard Cost Contingencies per Sq. Ft. (b)	\$72	\$67
Parking Cost per Space (c)	\$89,397	\$89,397
Parking Cost per Sq. Ft. of Retail & Pavilion Area	\$329	\$329
Other Costs per Sq. Ft. (d)	\$23	\$23
Total Hard Costs per Sq. Ft.	\$880	\$844

Sources: Applicant, 2022. City of Mountain View, 2022. Strategic Economics, 2022.

Notes

- (a) Includes costs for superstructure, shell, MEP (mechanical, engineering, and plumbing), and interiors.
- (b) Calculated using applicant’s assumption of 15 percent of vertical hard cost plus tenant improvement cost.
- (c) Cost of providing 81 parking spaces, split between ground-level podium and one level below-grade podium.
- (d) Refers to planter boxes and equipment cost, provided by applicant.

SE’s total hard cost estimate was lower than the applicant’s estimate, due to use of lower vertical cost assumptions. The hard cost assumptions are described in more detail below.

- **Warm Shell Cost:** SE estimated the cost to provide a warm shell for the podium retail space to be \$300 per square foot. This was lower than the applicant’s estimate of \$332 per square foot. SE estimated this cost by soliciting feedback from developers about the costs of building a “cold shell,” which is the basic structure, and the costs of improving the cold shell to a “warm shell” suitable for retail. This includes improvements such as connecting electricity, HVAC, and the basic needs for a retail space or restaurant. The extent of warm shell improvement costs

⁷ CBRE Cap Rate Survey H2, 2021; Developer Interviews, 2022.

⁸ A project labor agreement (PLA) for building construction was not assumed. Typically, a PLA could increase hard costs up to 30 percent because of the higher cost of labor.

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correlates to the developer's anticipated end user. For example, improvements for a small bookstore would be minimal compared to restaurant improvements which would include specific kitchen and ventilation improvements. SE's \$300 per square foot assumption reflected the cost of high-end improvements, given that the retail space is likely to serve a mix of tenants including restaurants and a potential grocery store.

- **Parking Construction Cost:** The applicant proposed providing 81 parking spaces in a podium garage to serve the retail space. One level of parking would be at grade (the same floor as the retail space) and one level would be below ground. Since the parking garage will accommodate spaces for both public retail uses and separate secured entries and spaces for the residential units, the applicant's information indicates the layout of the parking garage will be relatively inefficient (e.g., the garage will require construction of a relatively large amount of area per parking space to accommodate additional circulation and entry/exit areas). SE found that the applicant's assumption for parking construction cost was reasonable given the constraints of the design. SE applied the applicant's cost assumption of \$89,397 per space or \$329 per square foot.
- **Tenant Improvements (TIs):** SE's assumption of \$125 per square foot for tenant improvements aligned with the applicant's assumption. Similar to warm shell costs, tenant improvement costs also correlate to the anticipated end-user. Tenants with less intensive space requirements, such as personal services or general merchandise tenants, would typically have TI agreements that require a developer contribution of as little as \$60 per square foot. In contrast, restaurants would typically include developer TI contributions of as much as \$150 to \$200 per square foot. The applicant's assumption was in line with developer feedback on appropriate TI costs, reflecting a mix of retail and restaurant uses.
- **Hard Cost Contingency:** SE applied the same percentage assumption for contingency as the applicant. The applicant's hard cost contingency assumption equaled 15 percent of vertical hard costs and TI contribution costs. While SE also applied a 15 percent hard cost contingency assumption, this translated to a slightly lower total contingency value in dollars because the assumption was applied to SE's relatively lower vertical hard costs and TI contribution costs.
- **Other hard costs:** SE incorporated the applicant's other costs as they were stated. This included costs for a trash compactor and exterior ground floor planters.

SOFT COSTS AND FINANCING COSTS

Soft costs, or "indirect costs" are additional costs that are necessary to pursue the development project. The soft cost and financing cost assumptions are shown in more detail in Figure 9 and described below.

Examples of **typical soft costs** include taxes and insurance costs, consulting fees, furniture, fixtures, and equipment (FF&E), developer overhead, and the developer's overall project contingency.

SE calculated values for soft costs by applying category-specific assumptions of soft costs as a percent of SE's total hard cost estimate. SE's soft cost assumptions included the following:

- **Taxes, insurance, legal, and accounting costs**, estimated to be four percent of hard costs
- **Architecture, engineering, and other consulting fees**, estimated to be six percent of hard costs;

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- A **project contingency cost** estimated to be five percent of hard costs;
- **FF&E** estimated to be one percent of hard costs;
- **Developer overhead**, estimated to be five percent of hard costs.

Most of the applicant's typical soft costs, when expressed as a dollar value, were similar to SE's estimates. SE estimated a higher cost for consultant fees and a lower cost for project contingency which ultimately evened out to equate to the applicant's estimated costs when financing costs were included.

City permits and fees are also soft costs. SE's fee estimates slightly differed from the applicant's assumptions because the applicant underestimated their Building and Planning fees. The city permits and fees include:

- **EWPP Impact Fee:** The EWPP impact fee was recently adopted at \$18.16 per square foot for retail but provides a provision for exemption for retail space that is deed restricted as neighborhood commercial use. Depending on the tenant mix, this fee may or may not apply.
- **Building and planning fees:** SE assumed the applicant will pay \$10 per square foot of retail space for typical building and planning fees, based on information provided by the City. The applicant estimated these fees would cost \$5 per square foot.
- **Housing and transportation impact fees:** The applicant's proposal excluded the HIF and TIF, so SE also excluded these fees in the main set of assumptions. SE also evaluated the end result in another scenario in which these fees were incorporated. This raised the assumed city fees by \$7 per square foot and will result in higher total soft costs.

The applicant also assumed a **commercial tenant improvement cost** of \$30 per square foot for improvements within common spaces. This is an incentive offered by the applicant for providing a rentable space to any tenant – separate from the \$125 per square foot offering by the applicant to assist tenants with the build-out of their retail space. SE applied the same cost as the applicant.

The **financing costs**, which are considered a separate category from soft costs, reflect the interest and origination fees typically associated with construction loan financing for multifamily development projects. SE assumed these costs equated to approximately six percent of hard and soft costs, based on input from developers with multifamily mixed-use projects currently under construction in and near Mountain View.

FIGURE 9. SOFT COST AND FINANCING ASSUMPTIONS

	Applicant	SE
Soft Costs (a)		
Consultant Fees (A&E, marketing)	\$35	\$51
Taxes, Legal, Accounting	\$35	\$34
FF&E	\$5	\$8
Developer Fee	\$35	\$42
Contingency	\$70	\$42
Building and Planning Fees (b)	\$5	\$10
Tenant Incentives	\$30	\$30
Financing Costs	\$66	\$64
EWPP Fee	\$18	\$18
HIF and TIF	\$7	\$7
<i>Subtotal: Soft Costs, with HIF, TIF, and EWPP fee waivers</i>	\$215	\$217
Total: Soft Costs plus Financing, With Fee Waivers	\$281	\$281
<i>Alternative Total: Soft Costs plus Financing, Without Fee Waivers</i>	\$306	\$306

Sources: Applicant, 2022; City of Mountain View, 2022; Strategic Economics, 2022.

Notes:

(a) SE's estimates for these soft cost categories were calculated out based on standard industry assumptions expressed as a share of total hard costs. Based on SE's hard cost estimate of \$809 per retail square foot, SE's cost estimates were calculated based on the following assumptions: Consultant fees: 5% of hard cost; Taxes, legal, accounting: 4% of hard cost; FF&E: 1% of hard cost; Developer fee: 4% of hard cost; Contingency: 5% of hard cost.

(b) This fee includes an estimate of building and planning fees. Both SE's and the applicant's figures assume that the EWPP, TIF, and HIF fees are waived.