Memorandum

Date **October 4, 2019**

To: **Eric Anderson, City of Mountain View**

From: **Seifel Consulting, Inc.**

Re: **Mountain View East Whisman Residential Development Financial Feasibility Analysis**

The City of Mountain View retained Seifel Consulting to evaluate the financial feasibility of residential development in the East Whisman Precise Plan area and various Precise Plan policies. This memorandum summarizes key findings of the financial feasibility analysis.

The financial analysis indicates that many residential developments may not be financially feasible without significant reductions in project costs and/or financial assistance. Residential feasibility in East Whisman is challenging due to the following factors:

- Significant private investments and public fee payments are needed to achieve the EWPP vision, which increases development costs.
  - For example, the City has added a new Transportation Impact Fee, increased its water and sewer capacity fees, and is requiring developers to install new public infrastructure prior to constructing new housing.
  - The City also requires developers to provide community benefits but has not yet specified the value adding to development uncertainty. (Note: this value is anticipated to be specified on November 5 for East Whisman.)
- Site improvement costs are relatively high as EW has historically been the site of industrial development and is located near areas of environmental contamination.
- Multifamily infill projects have higher construction costs as they require structured parking, often include concrete and steel construction, and must adhere to higher life and safety standards associated with taller buildings.
  - Given the Bay Area construction labor and subcontractor shortage, construction costs have increased significantly over the past five years.
- Land prices have also increased significantly over the past five years.
  - While land was valued at about \$5–\$6 million per acre, recent land transactions have ranged from \$10–\$15 million per acre.
  - This has doubled the cost of parkland dedication fees, which currently range between \$60,000 to \$110,000 per market rate unit.
- The uncertainty about future public fee levels, public infrastructure projects and community benefits can add significant risk and delays to residential construction.

- Rents have not increased at the same pace as development costs have increased.
    - Market rents have reached levels that many people cannot afford, which limits future rent increases. For example, market rents for new two-bedroom apartments range from $4000 to $5200 per month depending on size, location and amenities. Based on typical affordability standards, a household needs to earn between $150,000 to $200,000 to afford this rent.
- As rents and housing prices have increased, the City has intensified its focus on providing housing for those who are most cost-burdened, requiring 15% to 20% of rental units to be affordable to very low and low income renters and ownership units to be affordable to low and moderate income households.
    - This restricts potential revenues, which in turn restricts housing values and increases the shortfall between development costs and revenues.
- Capitalization (cap) rates are at historically low levels, which increases the current value of properties, but many economists expect that both cap rates and interest rates will increase in the future, which will make feasibility more challenging.
- As the development approval and construction process takes longer, and there is increased risk of future changes in costs and revenues, investors require higher returns in order to fund projects.
- If developments do not generate sufficient revenues or value to pay for development costs and to deliver required returns to the investors and lenders who provide development funding, development cannot proceed.