Memorandum

Date November 19, 2021

To: City of Mountain View

From: Seifel Consulting, Inc.

Re: Mountain View Gateway Master Plan Economic Feasibility Update

The City of Mountain View requested that Seifel Consulting update the economic feasibility evaluation of the Gateway Master Plan. This memorandum summarizes key findings from this analysis. Attachment 1 at the end of this memorandum presents the key financial assumptions that were used to perform this update.

While the economic analysis continues to indicate that development feasibility is challenging, new development is likely to occur on the Gateway site for the following reasons:

- The Gateway site is located in the heart of Silicon Valley, immediately adjacent and accessible to Highway 101, and will benefit from the City's robust commercial and residential marketplace. A number of office, hotel and residential developments have recently been completed or are underway near the Gateway site, which will further strengthen the site's locational and market advantages.
- Several residential developments are underway or proposed in Mountain View that have similar economic advantages/challenges as the Gateway site.
- Both property owners have been planning for redevelopment of the area for some time. SyWest has owned the property for many years, which provides a considerable advantage related to development costs. Google has formally partnered with Lendlease, a residential developer, to submit plans for development within the Gateway property as part of their North Bayshore Master Plan.
- The City has invested substantial funds in public infrastructure to serve the Gateway area, which demonstrates its commitment to supporting the future vision of North Bayshore. Some of the City's key investments include the realignment of Plymouth Street, the Highway 101 Bike Pedestrian Bridge, and the Shoreline Boulevard improvements.
- The Gateway Master Plan provides flexibility regarding how mixed-use development can be achieved.

Background

In November 2019, the City Council was presented with three land use options for the Gateway Master Plan that allowed varying amounts of office development, which included economic feasibility information. The City Council directed staff to continue with the land use option that included 500,000 square feet of office. This option balanced economic feasibility by providing office uses to help incentivize new development and limiting the maximum number of office generated vehicle trips.

The Gateway Master Plan provides flexibility in how land uses can be developed while requiring a maximum amount of office development (500,000 square feet) and a minimum amount of retail (50,000 square feet) on the ground floor of buildings at key locations.

Key Updates to the Economic Analysis

The current update to the economic analysis assumes the following mix and amounts of land uses, consistent with the proposed Gateway Master Plan:

- 500,000 square feet of office uses
- 2,300 residential units
- A hotel with 175 rooms
- 50,000 square feet of retail uses (which is the minimum required retail per the Master Plan)
- Land dedication of 2.2 acres of privately owned/publicly accessible open space (POPA)

Table 1 below compares the development program assumptions that were used to analyze the Council's preferred land use option in 2019 and the current update based on the proposed Gateway Master Plan. As shown in this table, both development programs assume the development of 500,000 square feet of office space, a hotel, retail, and a substantial number of housing units. The current update assumes that 2,300 residential units could be developed with the minimum required amount of retail in the proposed Gateway Master Plan.

Table 1

Comparison of Key Land Uses Used in Economic Analysis

Key Land Uses	2019 – Gateway Master Plan Medium Office 500K Reduced Retail	Update – Gateway Master Plan Maximum 500K Office Minimum Retail
Office Square Feet	500,000	500,000
Housing Units	1,900 (Range: 1,700-2,100)	2,300 (Range: 1,200-2,800)
Retail Square Feet	200,000	50,000
Hotel Rooms	175	175

The Gateway team reviewed the development cost assumptions that were used in the previous analysis, which included a review of the potential infrastructure projects needed to develop the Gateway and the share of the infrastructure costs that would be the responsibility of the developer. The update reflects City staff's experience with planning and implementing several developments according to the North Bayshore Precise Plan (Precise Plan) and recognizes that most public infrastructure costs would be borne by office in the form of impact fees, with the balance borne by the Shoreline District and community benefit contributions associated with Office Bonus FAR.

The update assumes that new development in Gateway could be accomplished based on the Precise Plan Tier 1 requirements, which can be satisfied with 15% onsite affordable housing for lower to moderate income households and through land dedication. The provision of affordable housing on-site restricts potential revenues from future housing development based on the difference (or affordability gap) between what lower to moderate income households can afford to pay and the rents or sales prices for market rate units.

Residential development would need to dedicate a substantial amount of park land and/or pay park land dedication fees, with an allowable credit for privately owned/publicly accessible open space (POPA) that meets City standards. All land uses are assumed to pay required Level 1 school fees to both School Districts, and residential uses would contribute the most to school fees. Given these obligations, the costs of impact fees on a gross building square foot basis are significantly higher for residential than office.

Residual Land Value Analysis Methodology

Consistent with the 2019 analysis, the update is based on a residual land value analysis. Residual land value represents the value of developable land taking into consideration the potential revenues that can be generated by a future development project and the associated development costs including an appropriate margin for profit and return to both the developer and investors in the development.

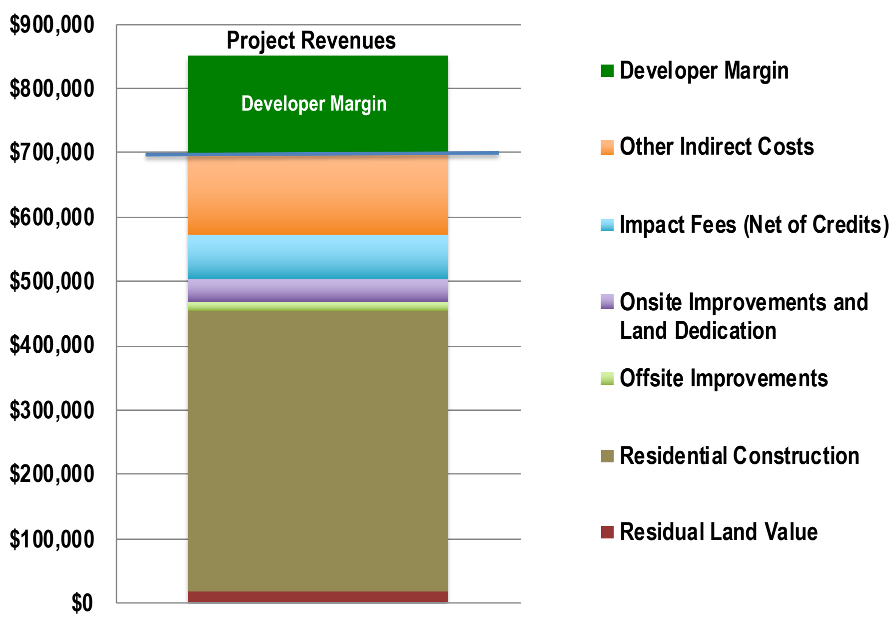
In summary, **residual land value (RLV)** is equal to the difference between what a developer expects to receive in **development revenues (also called project revenues)** less **development costs:**

- **Development or project revenues** include revenues from the sale of condominiums and the project value from revenue producing uses, like office and apartments.
- **Development costs** consist of three components:
  - Direct costs –onsite "in-tract" infrastructure, citywide and NBPP impact fees, the developer's share of offsite infrastructure costs for projects not included in impact fee programs, building and parking construction, and community benefits to receive Office Bonus FAR.
  - Indirect costs – soft costs such as predevelopment, design, engineering, construction financing, professional services, insurance and similar costs.
  - Developer margin – based on an assumed target return that a developer must achieve in order to attract investment capital and pursue development considering anticipated risks.

Figure 1 below illustrates the potential residual land value for a market rate apartment unit where the residual land value represents a small portion of potential project revenues given the significant costs of development as compared to project revenues.

Figure 1

Illustrative Residual Land Value for Market Rate Unit



Comparison of Results from Residual Land Value Analysis– 2019 and Current Update

The results of the economic evaluation have improved since the 2019 analysis as the residual land value per acre has increased based on further evaluation of the development revenues and costs associated with the Gateway Master Plan. The table below summarizes the differences between the 2019 results for the Council's chosen option and the update based on the proposed Gateway Master Plan.

Table 2

Comparison of Residual Land Value Results

Total Development Project	2019 – Gateway Medium Office 500K Reduced Retail	Update – Gateway Master Plan 500 K Office Minimum Retail
Projected Development Revenues	$2.20B	$2.28B
Less: Projected Development Costs		
Total Direct Costs	$1.31B	$1.35B
Total Indirect Costs	$451M	$472M
Developer Margin	$388M	$394M
Total Projected Development Costs	$2.15B	$2.22B
Residual Land Value Per Acre	$1.9M	$2.2M

The updated analysis continues to indicate that economic feasibility may be challenging for new development given the large amount of development costs compared to potential revenues, and the low residual land value of about $2.2 million per acre. This low residual land value reflects in part that a large portion of the Gateway property is unimproved and underutilized as compared to many other properties in North Bayshore, and the significant costs that are likely required to improve the property to accommodate future mixed-use development, which represents its highest and best use. New development will require a significant upfront capital investment to build out the new onsite "in-tract" infrastructure per the Gateway Master Plan (new roads, relocate/install utilities and landscaping/placemaking improvements) before buildings can be constructed and/or redeveloped.

Development feasibility also depends on the specific economic characteristics of the developer and/or property owner, as these can vary significantly, which in turn affects key factors in the development feasibility equation. These economic characteristics include how much a developer/owner paid for the land, their annual carrying costs, the need to redevelop their property to expand their asset base or grow their business, their access to capital sources of sufficient size and scale to undertake the proposed development, and the associated underwriting criteria and/or return metrics associated with these capital sources, to name a few.

Development feasibility also depends on the commitment of the City, property owners and developers to achieving new development. The City of Mountain View has continually demonstrated its commitment to facilitating new mixed use development in North Bayshore and has invested significant public resources in public infrastructure to support new development including in the immediate vicinity of the Gateway area. Both property owners are long term property owners in Mountain View and have been actively engaged in the Precise Plan and Gateway Master Plan processes. This engaged commitment is a critical ingredient to facilitating new development on a major urban infill site like Gateway.

In conclusion, while the economic analysis continues to indicate that development feasibility is challenging, new development is likely to occur on the Gateway site given this engaged commitment, the site's locational strengths, market advantages, and the significant amount of residential, office and development occurring nearby, as further described on page 1 of this memo.

Attachment 1- Key Financial Assumptions for Gateway Financial Analysis Update

The following key assumptions have been used to prepare the updated financial analysis of the Gateway Master Plan for the maximum office scenario, which assumes 500,000 square feet of office and 2,300 residential units. All development assumptions continue to be based on FY 2019/20 levels.

Development Revenues

- Monthly rents are consistent with the prior analysis and reflect recovery after the pandemic – Office at $7/NSF NNN; Apartments at $4200/Unit; Highrise condo prices at $880,000/Unit ($1100/NSF).
- Average monthly parking revenues range between $100 to $150/space.
- Fifteen percent affordable housing requirement based on Precise Plan Tier 1 requirements, which is satisfied onsite with housing for low to moderate income households and partially through land dedication.
- Income properties like apartments are valued at historically low capitalization rates that maximize project values and development revenues. Ten to twenty percent of units are assumed to be condos.

Development Costs

- Offsite infrastructure costs have been adjusted to reflect updated information provided by Schaaf & Wheeler and City staff in 2021 regarding Gateway obligations for utility and transportation improvements and projected community benefits. The property owner's contribution to offsite improvements and community benefits is projected at approximately $27 million (allocated by land use based on gross building square feet). The update reflects City staff's experience with planning and implementing several developments according to the Precise Plan and recognizes that most public infrastructure costs would be borne by office in the form of impact fees with the balance borne by the Shoreline District and community benefit contributions associated with Office Bonus FAR.
- On the Gateway site, the developer is assumed to install new public roads and utility infrastructure at a projected cost of approximately $29 million for onsite, in-tract improvements. Other site improvements, including building demolition, remediation and landscaping, are estimated to cost approximately $46 million.
- Moderate construction costs are assumed with a low contingency allowance of 5% at overall average cost for office and housing of $380/building GSF plus $40,000-$50,000/space for above-grade parking in either a stand-alone structure or podium.
- The developer is estimated to pay impact fees of about $187 million (before credit for park land or POPA).
  - **Parks.** Park land to be dedicated, payment of park land dedication in-lieu fees or consideration of park land credit for any privately owned/publicly accessible (POPA) open space would be considered as part of any application proposal in the Master Plan. Assuming 85% of units as market rate (or 1,955 units), the park land dedication requirement would be approximately 11.7 acres or approximately $122 million for in-lieu fees based on a current park land value of $10.4 million per acre. The estimated value of a 75% POPA credit on 2.2 acres is approximately $17 million.
  - **Schools.** All land uses will pay required Level 1 school fees (estimated at $10 million), and the office component may provide additional support to schools as a community benefit.
  - **Housing fees.** Non-residential development is assumed to pay housing fees totaling about $14 million, which would help fund affordable housing development.
  - **Infrastructure fees.** Non-residential development is projected to pay the North Bayshore fee, and both residential and non-residential development would pay the Sewer and Water Capacity Fees and Citywide Transportation Impact fees, collectively projected to total approximately $41 million, which would help fund the City's share of offsite public infrastructure costs.
- Other indirect costs in addition to impact fees, such as City building and permitting fees, construction financing, design, engineering, insurance, and predevelopment expenses, represent an additional 25% add-on to direct costs for most uses.