



DAVID PAUL ROSEN & ASSOCIATES
DEVELOPMENT, FINANCE AND POLICY ADVISORS

San José Inclusionary Housing Economic Analysis Housing Prototypes & Development Budgets

February 7, 2008

David Paul Rosen & Associates (DRA) has been retained by the City of San José Housing Department to prepare an economic analysis of a potential inclusionary housing program in the City. The study will examine the potential effects of alternative inclusionary housing requirements on a range of housing prototypes that represent market rate housing currently being built or planned in San José.

The study will focus on five prototypes of housing products. The purpose of the prototypes is to accurately represent the range of market rate housing (owner and renter) likely to be developed in the near term in San José.

The prototypes were developed in collaboration with the City of San José Housing Department, Planning Department and Redevelopment Agency and are based on a thorough understanding of the development pipeline in San José, as well as DRA's extensive development experience statewide. The prototypes were refined based on feedback received during the public meeting on January 17, 2008.

The revised and final prototypes are presented in detail at www.sjhousing.org

In order to study the economic effect of different inclusionary requirements on the five housing prototypes, it is necessary to estimate the development costs of each prototype. DRA has created Administrative Review Draft line item development budgets for each prototype.

The draft development cost assumptions and budgets were developed based on:

- The input of developers familiar with developing housing in San Jose. Between January 14 and February 1, 2008, DRA contacted 15 developers with recent experience in San José building the housing products represented by the prototypes and conducted interviews with 10 of those contacted. (See attached list for more details.)
- Pro forma budgets of recent projects assisted by the City of San José Redevelopment Agency and Housing Department. DRA examined the development costs of 9 such projects developed or planned since 2005.
- Land appraisals commissioned by the City of San José Redevelopment Agency and the Housing Authority of Santa Clara County.
- RS Means 2008 construction cost estimates for San José.

The draft development cost assumptions and budgets are attached below.



DAVID PAUL ROSEN & ASSOCIATES
DEVELOPMENT, FINANCE AND POLICY ADVISORS

Of the 15 developers contacted for development cost information, the following 10 responded:

- Avalon Bay
- Braddock and Logan Group III
- Barry Swenson Builders
- Irvine Company
- KB Homes
- KT Properties
- Legacy Partners
- Pulte Homes
- Republic Urban Properties
- Sares Regis Group of Northern California

ADMINISTRATIVE REVIEW DRAFT (February 7, 2008)
Development and Financing Cost Assumptions
Owner and Renter Housing Prototypes
San Jose Inclusionary Housing Analysis

	Owner 1 Type I High-Rise Condos	Owner 2 Type V Stacked Flat Condos	Owner 3 Type V Townhomes	Owner 4 Single Family Detached	Renter 1 Type V Stacked Flat Apts
Land Acquisition Cost					
Land Cost Per Gross SF Site Area	\$110	\$100	\$60	\$55	\$75
Development Cost Assumptions					
Site Improvement Costs per SF	\$30	\$40	\$20	\$15	\$20
Site Improvement Costs per Unit	\$13,000	\$32,000	\$51,000	\$73,000	\$16,000
Unit Hard Construction per SF (1)	\$300	\$135	\$100	\$110	\$150
Unit Hard Construction per Unit (1)	\$328,000	\$162,000	\$162,000	\$205,000	\$149,000
Hard Cost Contingency (2)	7.00%	5.00%	5.00%	4.00%	5.00%
Architectural/Engineering (2)	5.00%	5.00%	5.00%	5.00%	5.00%
Environmental Phase I	\$7,000	\$7,000	\$7,000	\$7,000	\$7,000
Soils Testing	\$20,000	\$20,000	\$20,000	\$20,000	\$20,000
Property Taxes During Construction (% TDC)	1.20%	1.00%	1.00%	0.80%	1.00%
Insurance During Construction (% TDC)	2.00%	2.50%	2.50%	1.00%	2.00%
Selling/Closing/Marketing Costs (per unit)	\$7,000	\$2,000	\$2,000	\$5,000	\$5,000
Sales Commissions (% TDC)	2.00%	2.00%	3.00%	2.00%	NA
Developer Overhead (% TDC)	3.00%	3.00%	3.00%	3.00%	2.00%
Developer Profit (% TDC)	9.00%	9.00%	9.00%	9.00%	5.00%
HOA Fees (per unit per month) (3)	\$700	\$400	\$275	\$175	NA
Construction Loan					
Construction Loan % of TDC	70.00%	70.00%	70.00%	70.00%	70.00%
Constr. Loan Amt.	\$95,143,758	\$48,017,792	\$32,438,963	\$25,684,682	\$37,609,146
Interest Rate (Prime + 0.25%)	6.25%	6.25%	6.25%	6.25%	6.25%
Loan Fees	1.00%	1.00%	1.00%	1.00%	1.00%
Average Loan Balance--Construction	60.00%	60.00%	60.00%	60.00%	60.00%
Construction Period	18 Months	15 Months	18 Months	12 Months	15 Months
Construction Loan Interest	\$5,351,836	\$2,250,834	\$1,824,692	\$963,176	\$1,762,929
Construction Loan Points	\$951,438	\$480,178	\$324,390	\$256,847	\$376,091
Mezzanine Debt					
Mezzanine Debt % of TDC	15.00%	15.00%	15.00%	15.00%	15.00%
Rate of Return	12.00%	12.00%	12.00%	12.00%	12.00%
Average Draw--Construction	75.00%	75.00%	75.00%	75.00%	75.00%

(1) Includes parking hard costs and contractor profit, overhead and general conditions.

(2) As a percentage of direct costs (site improvements and hard costs).

(3) Assumes carrying of HOA dues for 50% of units for 6 months.

Source: David Paul Rosen & Associates.

ADMINISTRATIVE REVIEW DRAFT (February 7, 2008)
Estimated Prototype Development Costs
Owner and Renter Housing Prototypes
San Jose Inclusionary Housing Analysis

	Owner 1 Type I High-Rise Condos	Owner 2 Type V Stacked Flat Condos	Owner 3 Type V Townhomes	Owner 4 Single Family Detached	Renter 1 Type V Stacked Flat Apts
Gross Site Area (acres)	2.000	2.855	5.513	6.250	2.855
Net Lot Area (acres)	2.000	2.855	4.410	5.000	2.855
No. of Units	200	157	75	45	157
Parking Spaces	329	287	185	117	287
Net Square Feet Living Area	218,800	186,750	118,300	83,700	155,900
Total Net Square Feet	218,800	202,450	129,550	90,450	171,613
Ratio Net/Gross SF	80%	85%	85%	100%	85%
Total Gross Square Feet Building Area	273,500	238,176	152,412	90,450	201,898
LAND ACQUISITION COSTS	\$9,583,200	\$12,436,380	\$14,407,470	\$14,973,750	\$9,327,285
SITE IMPROVEMENTS	\$2,600,000	\$5,024,000	\$3,825,000	\$3,285,000	\$2,512,000
BUILDING SHELL HARD COSTS (1)	\$82,050,000	\$32,153,824	\$15,241,176	\$9,949,500	\$30,284,647
HARD COST CONTINGENCY	\$5,925,500	\$1,858,891	\$953,309	\$529,380	\$1,639,832
ARCH./ENG./CONSTR. SUPERVISION	\$4,232,500	\$1,858,891	\$953,309	\$661,725	\$1,639,832
CITY IMPACT AND BLDG PERMIT FEES (2)	TBD	TBD	TBD	TBD	TBD
CONSTRUCTION LOAN FEES	\$951,438	\$480,178	\$324,390	\$256,847	\$376,091
CONSTRUCTION INTEREST	\$5,351,836	\$2,250,834	\$1,824,692	\$963,176	\$1,762,929
ENVIRONMENTAL PHASE I	\$7,000	\$7,000	\$7,000	\$7,000	\$7,000
SOILS TESTING	\$20,000	\$20,000	\$20,000	\$20,000	\$20,000
PROPERTY TAXES	\$1,631,036	\$685,968	\$463,414	\$293,539	\$537,274
INSURANCE	\$2,718,393	\$1,714,921	\$1,158,534	\$366,924	\$1,074,547
SALES COMMISSIONS	\$2,718,393	\$1,371,937	\$1,390,241	\$733,848	NA
SELLING/CLOSING/MARKETING COSTS	\$1,400,000	\$314,000	\$150,000	\$225,000	\$785,000
DEVELOPER OVERHEAD	\$4,077,590	\$2,057,905	\$1,390,241	\$1,100,772	\$1,074,547
DEVELOPER PROFIT	\$12,232,769	\$6,173,716	\$4,170,724	\$3,302,316	\$2,686,368
HOA CARRYING COSTS (3)	\$420,000	\$188,400	\$61,875	\$23,625	NA
TOTAL PROJECT COST	\$135,919,655	\$68,596,846	\$46,341,376	\$36,692,403	\$53,727,352
PER UNIT	\$679,598	\$436,923	\$617,885	\$815,387	\$342,212
PER SF	\$496.96	\$288.01	\$304.05	\$405.67	\$266.11
TOTAL COST, EXCLUDING LAND	\$126,336,455	\$56,160,466	\$31,933,906	\$21,718,653	\$44,400,067
PER UNIT	\$631,682	\$357,710	\$425,785	\$482,637	\$282,803
PER SF	\$461.92	\$235.79	\$209.52	\$240.12	\$219.91

(1) Includes parking hard costs and contractor profit, overhead and general conditions.

(2) City fees are being calculated by the City of San Jose Planning Department.

(3) Assumes carrying of HOA fees for 50% of units for 6 months.

Source: David Paul Rosen & Associates