

Memorandum

To: Dan Dameron, Harriet Ross, ESA
Greg Sandlund, Jim McDonald, City of Sacramento

From: Matt Kowta, Managing Principal

Date: August 11, 2017

Re: Sacramento DSP Peer Cities Development Cost Comparison

Executive Summary

In conjunction with preparation of the Downtown Sacramento Specific Plan, the City of Sacramento commissioned BAE to prepare a comparison of development costs for central city multifamily residential development in Sacramento and in five peer cities, including Denver, Minneapolis, Nashville, Portland, and San Jose.¹ BAE collected pro-forma development cost estimates for two residential project prototypes, including a “moderate density” prototype typically consisting of approximately five stories of wood-framed residential development constructed over one to two levels of podium parking, and a “high density” prototype consisting of seven or more stories of concrete or steel-framed residential units constructed above two or more levels of structured parking. This information was collected from developers and others experienced with recently completed projects similar to the prototypes, or developers who are currently developing cost estimates for planned new construction. To facilitate comparisons across different locations and for projects of different configurations, BAE compiled the cost data to indicate the range of development cost, by broad category of costs, expressed in terms of cost per residential unit and cost per leasable square foot of space. Following is a summary of five key findings from the research and possible responses:

1. Costs for Moderate Density Residential Development in Sacramento are Competitive With Peer Cities

Among the surveyed cities, costs for moderate density residential development in Sacramento were cost competitive, at a mid-point of \$332 per leasable square foot. This was the lowest of the surveyed cities. The city with the next lowest cost was Nashville, at \$354 per leasable

¹ Long Beach was one of the original five peer cities selected by the City of Sacramento for study in the Sacramento Downtown Specific Plan Market Study; however, it was not possible to obtain sufficient development cost information for projects in Long Beach to allow for comparisons, so the City of Sacramento requested that BAE collect residential development cost information for San Jose, in place of Long Beach. Appendix A contains a map of the San Jose central city area. Maps of the central city areas for the other comparison cities were previously provided in the Sacramento Downtown Specific Plan Housing Market Study.

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Los Angeles

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Washington DC

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square foot. San Jose was the highest cost city, with a mid-point cost of \$509 per leasable square foot. Based on this finding, combined with the finding (discussed below) that current estimated costs for high density residential development in Sacramento are higher than costs in any of the other cities by a significant margin, the City should encourage development of moderate density residential projects as a cost-effective means to increase housing availability in the Central City area.

2. Costs for Permits/Fees/Inspections for Sacramento Central City Residential Development Are Reasonable

Costs for Permits/Fees/Inspections are an area where local government has a direct role in project costs; however, the comparison among peer cities and feedback from local developers indicates that that City of Sacramento fees for Central City housing do not constitute an excessive burden. In addition, at current levels, this category of costs for Sacramento projects represents a relatively small portion of overall project costs. Based on this finding, the City of Sacramento should not consider reducing residential development fees, but instead should focus available resources on improving the desirability of the Central City as a residential location, such as investments in bicycle and pedestrian improvements and civic amenities. The City should also consider investing in public infrastructure improvements, that would help to create system capacity for increased residential densities in the Central City area. This may help to reduce off-site mitigation costs, which some local developers indicated could represent a significant cost burden for Central City housing developers.

3. Sacramento Has a Limited Track Record With High Density Residential Development, Compared to Peer Cities

With projects like The Sawyer at Downtown Commons and the 19J project in Midtown either under construction or currently proposed, respectively, there is interest in higher density housing development in Sacramento's Central City; however, other cities studied for this project have more of a track record of this type of residential development than Sacramento. Because of Sacramento's limited recent experience with this type of development, local construction cost information is limited. In addition, the lack of supply of newly constructed high density housing means that the market for high density housing for rent or for sale has not been fully tested, meaning that this product type may be considered more risky than lower density projects, meaning that developers may command a profit premium to consider undertaking such projects, which increases overall project costs. The City of Sacramento should seek to foster sharing of information regarding project design, construction costs, marketing/sales and lease rates, and other information critical to project planning among the local development community. This could also include convening workshops featuring experts from other market areas where this construction type is more common, so that local architects, contractors, and developers can gain information that will help to more successfully plan and construct high density projects locally. The City should also work to build its internal

capacity to review plans, complete inspections, and shepherd high density projects through the construction process as expeditiously as possible, so that pioneering projects do not get penalized due to the City's limited familiarity with this type of project.

4. Once Developers Jump from Wood Frame to Concrete or Steel-Framed Construction, It is Generally Attractive to Build Significantly Higher Than Five or Six Floors of Residential

Developers surveyed for this study indicated that once project heights exceed the level that can be constructed using wood frame construction, it is generally attractive to build at significantly higher densities than anticipated by the 7- to 8-story high density prototype defined for this study. Rather, developers would gravitate towards projects around 10 to 12 stories or more once they have stepped up to concrete or steel-framed construction. Given this, the City should develop consensus around the locations in the Central City where this type of development should be embraced and promoted, as opposed to other locations in the Central City where sensitivity to this level of development intensity could be controversial.

5. Estimated Costs for High Density Residential Construction in Sacramento Seem Out of Line

Comparisons to costs to construct high density residential structures in other central city areas indicate that estimated costs are exceptionally high in Sacramento. For example, the estimated mid-point of costs for Sacramento high density residential development is \$708 per leasable square foot, significantly higher than San Jose, the next most expensive of the peer cities, at \$582 per square foot. In addition, the per square foot cost differential between moderate density residential development and high density residential development, is exceptionally high in Sacramento. Additional research into local cost factors for high density residential development would likely be helpful to better understand the reasons for this cost differential; however, it is possible that causes include the limited recent track record with this type of construction in Sacramento, limited availability of specialized trades necessary to construct these types of buildings that are locally based, and/or limited developer experience with marketing completed high density residential projects. The latter could contribute to perceived greater risks for development, causing increased capital costs and increased need for developer profit levels to compensate. The recommendations under finding #3, above, would be applicable in response to this finding, also.

6. Sacramento's Market for New Central City Housing Is Still Maturing

As indicated in the Sacramento Downtown Specific Plan Market Analysis, Sacramento added a very limited number of new housing units in the Central City area since 2000. With relatively few new Central City housing developments coming online in the last several years, Sacramento's urban housing market is still getting established, compared to peer cities which

have more established downtown housing markets. This has implications for development costs, as there is limited capacity among local contractors to construct multistory urban housing product types, particularly steel or concrete-frame structures, which can create challenges for local developers seeking to build these types of projects, from a contractor availability and cost standpoint. For example, Cresleigh Homes, the developer CADA selected to develop its Site 21 property will likely use a Bay Area-based general contractor for that project. Sacramento's limited track record with urban housing also has implications for the revenue side of the development feasibility equation. While some recent projects have tested the market for premium priced urban housing and additional proposed projects are targeting the higher price points needed to achieve financial feasibility, questions linger about the depth of demand for premium priced housing. This creates a perception of risk in building housing that must capture premium rents or sales prices to achieve financial success, and can lead to challenges in attracting investors and bank financing. Many peer cities were able to help establish their downtown housing markets using tools such as tax-increment financing, tax abatement, and other incentives, whereas Sacramento has more limited resources. Major public investments in central city infrastructure and amenities, and investments by private employers seeking downtown locations have also helped spur housing development in peer cities. The Golden 1 Arena project is now having this catalytic effect in downtown Sacramento, but Sacramento is still early in the process of seeing the results.

Introduction

As an extension of the work being conducted for the Sacramento Downtown Specific Plan, the City of Sacramento commissioned the ESA team to conduct research to compare the costs of developing housing in Sacramento versus the costs of developing housing in other peer cities. The peer cities selected for this comparison are largely the same as those selected for earlier research on central city housing production, including: Portland, Denver, Nashville, and Minneapolis; however, San Jose is included in this analysis in place of Long Beach, as BAE was not able to obtain sufficient development cost information for Long Beach. The purpose of this research is to develop an understanding of how overall costs to develop housing in Sacramento compare to costs in the peer cities, and to understand how the breakdown of housing development costs may vary among the cities. Further, the City wanted to explore-how this information could provide insights for focusing its efforts -to incentivize developing housing in the DSP area at a dramatically different rate than has been the trend in the past decade.

Housing Development Prototypes

For the purposes of this research, BAE and the City defined two general housing development prototypes to study. The first is a four to five story wood-framed multifamily structure constructed above two floors of podium parking/retail. A theoretical example is assumed to occupy a roughly one-acre site, and have three levels of apartments over a single level of podium parking. Units are assumed to average around 1,000 square feet of leasable space,

and parking is assumed to be provided at a ratio of approximately one space per unit. This is a density of about 100 units/acre, with a Floor Area Ratio (FAR) of approximately 3.0

Figure 1: Example of Medium Density Project



The second is a seven to eight story or slightly taller concrete or steel-framed structure over several levels of structured parking. The former is typical of higher density multifamily housing development currently being proposed and developed in the DSP area. The latter represents a product that is not currently being built in Sacramento, but which could represent the next step in a progression towards increased residential building densities. A theoretical example is assumed to be sited on an approximately one-acre parcel, with seven or more levels of residential development above two or more levels of structured parking. Units are assumed to average around 1,000 square feet, and parking is assumed to be provided at a ratio of around 1 space per unit. The density could exceed 200 units/acre, or an FAR of 7.0 or greater.

Figure 2: Example of Higher Density Project



Research Methodology

After defining the general residential development prototypes that are of interest for this study, BAE identified developers and builders in Sacramento and each of the peer cities who are active in developing similar residential projects. BAE identified project representatives through a number of channels, including consultations with City staff and downtown representatives in each city to seek referrals to active developers and reviewing local market data to identify new central city residential project projects and their developers.

BAE staff then reached out to the various contacts and set up interviews to discuss development costs, covering major development cost elements, including land costs, site improvement costs, parking construction costs, unit construction costs, permit and fee costs, soft costs, financing costs, and developer profit. Different sources provided information in different forms. BAE obtained some development cost information for specific construction projects. In other cases, developers were more comfortable sharing generalized comments regarding typical unit costs for various residential cost components. BAE's goal was to collect sufficient information for each residential development type, in each city, to develop a composite set of development cost elements that would be generally representative of the costs to develop housing in each central city area, and which could then be used to provide a comparison amongst Sacramento and its peer cities.

While BAE collected development cost information for specific projects and/or from developers based on their experience with multiple projects, BAE has aggregated and summarized the

data in terms of the range of average construction cost per unit and average cost per leasable square foot, to protect the proprietary information of specific developers and development projects. This method also provides information that is more readily comparable across the different locations, after controlling for variables such as differences in residential unit sizes. Table 1 below summarizes the primary development cost elements for each residential development prototype, in each city, along with comments and observations from BAE's research.

Sacramento

Residential development cost information for projects in the City of Sacramento was provided by a number of sources, including interviews with active local developers. In addition, BAE was able to review development cost information for several recent and currently proposed CADA projects. As shown in the upper part of Table 1, total per unit construction costs for the moderate density project example were approximately \$208,000 to \$365,000, with the lower end reflecting a project with relatively small average unit sizes. Costs per leasable square foot ranged between \$277 and \$387 per square foot.² These costs reflect a mixture of completed projects and current estimated costs for a theoretical project. The range in costs also reflects examples of parking ratios of 0.76 to 1.1 spaces per unit; however, the highest parking ratio was for a project that did not construct podium parking, but instead utilized surface parking. Even on a cost per leasable square foot basis, which normalizes for variations in residential unit sizes, the cost estimates had significant variability in terms of the range between high and low estimates from different sources; however, the overall total costs per leasable square foot have less variance than individual elements, suggesting that some of the variability in individual cost elements may be related to how developers categorize different development expenses. In the case of the medium density projects, BAE derived an estimate of targeted profit of around six percent of overall project costs from various sources, with relative consistency; however, the pro-forma cost information for CADA projects typically did not include a targeted developer profit, but instead included costs for developer fees of around four to five percent of hard construction costs, which BAE included in the project soft costs category, as this would be akin to developer overhead. This results in profit of around \$22 per square foot of leasable space.

The lower part of Table 1 shows the range of development costs for the high density residential prototype. As Sacramento does not have examples of recently completed high density residential projects with steel or concrete frame construction, the cost ranges in the lower part of Table 1 are not based on completed projects, but on estimates for projects that are currently proposed. As reflected in the table, only one project provided a breakout of permits/fees/inspection costs for high density projects, while other project estimates lumped these items in with other soft costs. The \$5,000 per unit low-range estimate shown in the table is likely to reflect only part of the total costs for construction fees, as discussions with

² Note: These example project costs do not include the Eviva project.

local developers indicated that costs of about \$12,000 to \$15,000 per unit are more typical in the central city area. Overall, the estimated construction costs per unit ranged from \$636,000 to \$869,000 per unit. As with the moderate density examples, there was significant variability in the low and high values for various cost components, but a more significant variance between the low and high overall per unit costs. This may be due to the fact that Sacramento does not have much experience with this construction type. Cost estimates could reflect difficulty in putting together cost estimates where there is a lack of a recent track record. Also, because these high density residential developments have not fully tested the Sacramento market, there is likely a variation in the perceived risk involved with this type of project. As a result, there is a very wide variation in profit expectations among prospective high density developers, ranging from a goal of breakeven on project completion, with anticipated long-term upside potential, to a need for a relatively high initial profit on development cost equal to \$168 per square foot, or about 20 percent of total project costs. The latter represented a for-sale project, for which the developer would need to achieve all of the profit upon completion, whereas the former project was a rental development, for which the developer was willing to accept breakeven on a pro-forma basis, with the expectation that long-term appreciation would generate sufficient profitability.

Table 1: Sacramento, Residential Development Cost Summary**MULTIFAMILY 4-5 STORY WOOD FRAME OVER PODIUM**

Development Costs	Range Per Unit	Range Per Leasable Sq. Ft.	Range % Total Cost
Land Cost	\$8,165 - \$27,148	\$6 - \$43	5% - 13%
Hard Construction Costs	\$123,081 - \$270,284	\$196 - \$267	59% - 74%
Permit/Fee/Inspection Costs	\$12,000	\$20	6%
Soft Costs	\$26,761 - \$63,438	\$43 - \$56	13% - 17%
Financing Costs	\$6,810 - \$33,738	\$11 - \$40	3% - 11%
Developer Profit	\$0 - \$11,748	\$0 - \$22	6% (a)
Total Development Cost (b)	\$207,548 - \$364,981	\$277 - \$387	100% - 100%

MULTIFAMILY 7-8 STORY + CONCRETE OR STEEL OVER STRUCTURED PARKING (c)

Development Costs	Range Per Unit	Range Per Leasable Sq. Ft.	Range % Total Cost
Land Cost	\$12,500 - \$40,000	\$12 - \$36	2% - 5%
Hard Construction Costs	\$467,364 - \$504,996	\$424 - \$470	54% - 79%
Permit/Fee/Inspection Costs	\$5,000	\$5	1%
Soft Costs (d)	\$76,333 - \$188,709	\$72 - \$171	12% - 22%
Financing Costs	\$16,353 - \$90,873	\$15 - \$83	3% - 10%
Developer Profit	\$0 - \$158,652	\$0 - \$168	0% - 20% (a)
Total Development Cost (b)	\$636,120 - \$869,400	\$592 - \$823	100% - 100%

Notes:

(a) Developer profit in this table represents percent of total costs. This is a function of developer profit thresholds which are typically expressed as a percent of all other development costs.

(b) Columns do not sum to totals. All line items and totals are derived separately.

(c) Figures represent estimated costs for proposed projects, or approved projects that have not yet broken ground.

(d) Soft cost estimates may include permit, fee and inspection costs.

Sources: Multiple Developers, 2017; BAE, 2017.

Comments/Observations

Interviews with active local developers indicated land costs can fluctuate in a wide range, depending on location and the particular project circumstances. For example, some projects in partnership with CADA did not require that the developer purchase the land from CADA. In this case, BAE included the estimated market value of the land to estimate total theoretical project costs. Estimated land costs range from \$6 per square foot to \$43 per lot square foot, and represent five to 13 percent of total construction costs.

Developers noted that construction costs have increased in the past two years, with one source quoting a cost increase of \$20 per square foot. Sources echoed comments given during the DSP planning stakeholder interview process that local developers are challenged competing with Bay Area projects for contractors and laborers. Developers also noted that financing terms are becoming more restrictive, with loan-to-cost ratios for construction ratios

declining, and financing sources generally getting more conservative as there is a growing perception that the recent increases in rents will start to level off.

Although BAE sought to exclude offsite improvement costs from the cost figures collected for this analysis, due to potential for wide variability depending on project circumstances, one local developer strongly cautioned that residential development costs in the Sacramento central city area are most often impacted by significant offsite mitigation requirements, such as traffic signal and intersection improvements or electrical utility undergrounding costs.

Denver

BAE obtained composite cost information from three developers, each based on experience with multiple completed projects in Denver. The upper part of Table 2 presents composite cost estimates from two developers for the moderate density prototype, while the bottom part of Table 2 provides composite cost information from three developers for the high-density prototype. As shown in the table, total construction costs for the moderate density project prototype were approximately \$439,000 to \$449,000 per unit, with total cost per leasable square foot ranging from \$439 per square foot to \$449 per square foot. For high density units, the estimated development costs were \$578,000 to \$607,000 per unit, or between \$538 and \$565 per square foot, based on units averaging between 1,000 and 1,075 square feet. Both the mid- and high density prototypes assume roughly one parking space per residential unit. One notable feature of the Denver projects is the profit represents a relatively high percentage of total project costs, ranging between 15 and 21 percent for both project prototypes.

Comments/Observations

Denver developers indicated that in their market, when increasing densities above the 4- to 5-story buildings that can be constructed with wood frames, developers will usually build higher than 7 to 8 levels of residential, as it is more profitable to maximize the building height up to the limit imposed by the city's form-based code. Although the targeted profit range reflected in the examples where full cost information was provided ranged between 20 and 28 percent, conversation with one developer indicated that a pro-forma estimated return on cost of around six percent of project costs at stabilization would be acceptable if the project showed upside potential under a long-term build and hold scenario.

Table 2: Denver, Residential Development Cost Summary

MULTIFAMILY 4-5 STORY WOOD FRAME OVER PODIUM

Development Costs	Range Per Unit	Range Per Leasable Sq. Ft.	Range % Total Cost
Land Cost	\$35,000 - \$42,500	\$35 - \$43	8% - 9%
Hard Construction Costs	\$240,000 - \$259,643	\$240 - \$260	53% - 59%
Permit/Fee/Inspection Costs	\$7,200 - \$9,000	\$7 - \$9	2%
Soft Costs	\$43,633 - \$56,972	\$44 - \$57	10% - 13%
Financing Costs	\$11,609 - \$20,000	\$12 - \$20	3% - 4%
Developer Profit	\$67,000 - \$95,400	\$67 - \$95	15% - 21% (a)
Total Development Cost (b)	\$439,224 - \$448,733	\$439 - \$449	100% - 100%

MULTIFAMILY 7-8 STORY + CONCRETE OR STEEL OVER STRUCTURED PARKING

Development Costs	Range Per Unit	Range Per Leasable Sq. Ft.	Range % Total Cost
Land Cost	\$42,500 - \$60,000	\$40 - \$56	7% - 10%
Hard Construction Costs	\$309,125 - \$355,000	\$288 - \$330	53% - 59%
Permit/Fee/Inspection Costs	\$7,200 - \$9,000	\$7 - \$8	1%
Soft Costs	\$61,055 - \$74,056	\$57 - \$69	10% - 12%
Financing Costs	\$15,872 - \$25,760	\$15 - \$24	3% - 4%
Developer Profit	\$91,607 - \$129,036	\$114 - \$120	15% - 21% (a)
Total Development Cost (b)	\$577,978 - \$606,945	\$538 - \$565	100% - 100%

Notes:

- (a) Developer profit in this table represents percent of total costs. This is a function of developer profit thresholds which are typically expressed as a percent of all other development costs.
- (b) Columns do not sum to totals. All line items and totals are derived separately.

Sources: Multiple Developers, 2017; BAE, 2017.

San Jose

Four developers provided development cost information for projects in San Jose. Local economic development professionals actively involved in the downtown also provided input on current central city development trends. The top part of Table 3 shows development costs for the moderate density prototype, while the bottom part of the table shows development costs for the high-density prototype. Two moderate density developers provided project specific cost information, while another provided general cost information which BAE applied to the moderate density prototype to calculate development costs. It should be noted that the two project specific examples included ground floor commercial components, which was required by the City of San Jose, and increased the overall project cost. The ground floor commercial components included in these projects range from 10,000 to 40,000 square feet of retail and/or office space. Moderate density projects tend to locate towards the outskirts of downtown San Jose, or in adjacent neighborhoods, in part, due to the City's high-rise incentive

program which gives 50 percent Parkland In-Lieu Fee and building and construction tax breaks to high-rise developments that meet certain criteria. Additionally, high-rise residential projects in the downtown core are exempt from paying the city-wide Affordable Housing Impact Fee through the year 2021. As shown in Table 3, total development costs for the moderate density prototype are wide ranging, from \$428,698 to \$722,933 per unit, translating to \$440 to \$578 per square foot. Land costs range from \$30 to \$88 per leasable square foot, comprising seven percent to 15 percent of total development costs; however, these figures should be interpreted with caution. One developer interviewed purchased land prior to the recession, therefore, the high end of land costs reflects recent offers the developer received to purchase the land fully entitled. The low end of the range reflects general costs applied to the prototype project, which would only be feasible in areas of San Jose where density is severely limited. It should also be noted that, soft costs represented a relatively large portion of overall development costs, ranging from 13 percent to 16 percent; however, this should be should be interpreted with caution. All three moderate density developers were unable to provide soft cost information, therefore, BAE backed into estimates of soft costs based on other information provided by the developer contacts. This analysis indicates that as a proportion of total development costs, the lower end of San Jose's soft costs for moderate density projects is relatively in line with the other peer cities, while the upper end estimate may place San Jose's soft costs at the higher end of the group.

Two developers provided project specific cost information for San Jose high-rise developments, one of which is still in the proposal development phase. According to interview participants, seven- to eight- story residential developments are not financially feasible downtown, because greater density is needed to support development costs; therefore, the figures presented in the bottom part of Table 4 reflect development costs for projects upwards of 20 stories. Like the moderate density projects, the high-density costs also included a significant amount of commercial space. Total development cost per unit ranges from \$582,700 to \$598,300, with cost per leasable square foot ranging from \$557 to \$613. Land ranges from \$37 to \$63 per leasable square foot, or seven percent to ten percent of total development costs. Soft costs represent a significantly lower proportion of total development costs compared to the moderate density prototype, falling between six and eight percent of total development costs. There is little variance between permitting, inspection and other fees on a per unit basis for moderate density and high-rise projects, likely reflecting the City's high-rise incentive policy discussed previously. However, variability in high-rise permitting, inspection and other fees likely reflects increases to these fees in recent years.

Comments/Observations

As mentioned above, interview participants indicate high-density projects are only financially feasible at densities greater than seven- to eight- stories, however, building heights are constrained by FAA regulations. One developer indicated the FAA height limits force developers to build subterranean parking structures, which increase costs by up to 50 percent, but constrain the number of floors that can be added to make up for the additional cost. The

surveyed high-rise projects had a parking ratio of one parking space per unit, while the moderate density projects had one to 1.5 parking spaces per unit, not including commercial parking.

Interview participants also noted that the downtown is currently experiencing an entitlement boom resulting from the high-rise incentive program; however, few projects are actually being built due to capital constraints. Interview participants lamented the tightening of capital markets, noting that some of the largest recently constructed high-density projects sought alternative sources of capital, particularly investment through the Immigrant Investor Visa Program, otherwise known as EB-5. Through the EB-5 program, foreign investors contribute at least \$500,000 to U.S. based projects in exchange for a permanent resident visa. This type of investment is attractive, because investors do not require a return on investment. Opinions were mixed regarding the role EB-5 investment plays in San Jose, with some indicating the funding factored into getting some of the city's largest projects off the ground.

Interview participants also lamented increased city fees, despite the high-rise incentive program. A recent change to the high-rise incentive program that requires 16.7 percent of hours worked on site use apprentices from approved apprenticeship training programs, which could increase costs for many projects beyond the fees and taxes that would be waived. Additionally, developers indicated that without the City's commercial component requirement, most projects would likely not have incorporated commercial uses. Retail, in particular, would not have been included; however, downtown retail rents have recently begun to rise to the point that retail could be considered without the City requirement.

Table 3: San Jose, Residential Development Cost Summary

MULTIFAMILY 4-5 STORY WOOD FRAME OVER PODIUM

Development Costs	Range Per Unit	Range Per Leasable Sq. Ft.	Range % Total Cost
Land Cost	\$30,000 - \$109,375	\$30 - \$88	7% - 15%
Hard Construction Costs	\$220,124 - \$350,000	\$226 - \$340	51% - 59%
Permit/Fee/Inspection Costs	\$34,000	\$27 - \$35	6%
Soft Costs	\$68,000 - \$89,823	\$57 - \$92	13% - 16%
Financing Costs	\$8,910 - \$25,413	\$9 - \$20	2% - 4%
Developer Profit	\$22,349 - \$132,784	\$23 - \$106	5% - 18% (a)
Total Development Cost (b)	\$428,698 - \$722,933	\$440 - \$578	100% - 100%

MULTIFAMILY 7-8 STORY + CONCRETE OR STEEL OVER STRUCTURED PARKING

Development Costs	Range Per Unit	Range Per Leasable Sq. Ft.	Range % Total Cost
Land Cost	\$40,000 - \$60,000	\$37 - \$63	7% - 10%
Hard Construction Costs	\$384,750 - \$430,000	\$400 - \$405	66% - 72%
Permit/Fee/Inspection Costs	\$29,107 - \$38,000	\$27 - \$40	5% - 7%
Soft Costs	\$35,893 - \$47,500	\$33 - \$50	6% - 8%
Financing Costs	\$22,562 - \$29,425	\$27 - \$24	4% - 5%
Developer Profit	\$29,852 - \$33,866	\$32 - \$31	5% - 6% (a)
Total Development Cost (b)	\$582,664 - \$598,291	\$557 - \$613	100% - 100%

Notes:

(a) Developer profit in this table represents percent of total costs. This is a function of developer profit thresholds which are typically expressed as a percent of all other development costs.

(b) Columns do not sum to totals. All line items and totals are derived separately.

Sources: Multiple Developers, 2017; BAE, 2017.

Minneapolis

BAE obtained fairly detailed development cost information from four Minneapolis developers. The bottom part of Table 4 present estimated cost information from two developers for the moderate density prototype, while the bottom part of Table 4 presents cost estimates for the high-density prototype. The two moderate density developers provided general unit cost information, which BAE then applied to the prototype project definitions in order to estimate total per unit development costs and average costs per leasable square foot. Based on the input from these developers, average cost per unit ranged between \$383,000 and \$492,000, and average costs per leasable square foot ranged between \$383 and \$492. Although one developer declined to provide profit information, the other respondent indicated a general target of just over six percent on total development costs. The land cost component is the only other cost component that varied significantly between the two sources. As shown in Table 4,

land costs ranged from \$59 to \$132 per leasable square foot, or 15 percent to 27 percent of total development costs.

Local developers indicate that seven- to eight- story residential projects matching the high-density prototype have not been built in the downtown Minneapolis area since prior to the recession, with one interviewee indicating higher density residential developments in Minneapolis are generally financially feasible in excess of 15 stories. One high density developer provided cost estimates based on a project completed within the last year. The other developer provided general information based on one downtown project completed within the past two years, and another in Rochester, Minnesota with comparable construction costs. BAE applied the aggregate of these costs to the high-density prototype. High-density development costs shown in the bottom part of Table 4 reflect costs for projects that are taller than the high-density prototype targeted for this peer city comparison, but still generally indicative of costs to construct buildings taller than what is allowed under the building code for wood frame structures. It should be noted, however, that interviewees indicate these estimates may underrepresent current costs, since it has been between one and two years since project completion, and land costs and construction costs have increased.

Data presented in Table 4 show total development costs for high-density residential developments range from \$416,000 to \$458,000 per unit, with costs per leasable square foot ranging between \$356 and \$426. Land costs range from \$21 to \$35 per leasable square foot (5 percent to 10 percent), and soft costs ranging from \$19 to \$23 per leasable square foot (5 percent to 6 percent).

Table 4: Minneapolis, Residential Development Cost Summary

MULTIFAMILY 4-5 STORY WOOD FRAME OVER PODIUM

Development Costs	Range Per Unit	Range Per Leasable Sq. Ft.	Range % Total Cost
Land Cost	\$59,117 - \$132,236	\$59 - \$132	15% - 27%
Hard Construction Costs	\$233,500 - \$253,169	\$234 - \$259	51% - 61%
Permit/Fee/Inspection Costs	\$4,250 - \$7,200	\$4 - \$7	1% - 2%
Soft Costs	\$52,538 - \$56,963	\$53 - \$57	12% - 14%
Financing Costs	\$8,083 - \$16,361	\$8 - \$16	2% - 3%
Developer Profit	\$22,960 - \$29,492	\$23 - \$29	6% (a)
Total Development Cost (b)	\$383,398 - \$492,470	\$383 - \$492	100% - 100%

MULTIFAMILY 7-8 STORY + CONCRETE OR STEEL OVER STRUCTURED PARKING

Development Costs	Range Per Unit	Range Per Leasable Sq. Ft.	Range % Total Cost
Land Cost	\$ 22,869 - \$40,650	\$21 - \$35	5% 10%
Hard Construction Costs	\$ 308,317 - \$360,125	\$264 - \$335	74% 79%
Permit/Fee/Inspection Costs	\$ 6,919 - \$7,203	\$6 - \$7	2% 2%
Soft Costs	\$ 22,064 - \$25,209	\$19 - \$23	5% 6%
Financing Costs	\$ 13,172 - \$15,121	\$11 - \$14	3% 3%
Developer Profit	\$ 24,914 - \$27,425	\$21 - \$26	6% 6%
Total Development Cost (b)	\$ 416,036 - \$457,951	\$356 - \$426	100% 100%

Notes:

(a) Developer profit in this table represents percent of total costs. This is a function of developer profit thresholds which are typically expressed as a percent of all other development costs.

(b) Columns do not sum to totals. All line items and totals are derived separately.

Sources: Multiple Developers, 2017; BAE, 2017.

Comments/Observations

As mentioned above, developers active in Minneapolis indicated that higher-density residential projects similar to the prototype defined for this study are generally not feasible within their local market, based on current conditions, and project economics push developers toward constructing taller high-rise buildings. As noted in the peer cities research section of the prior DSP background market conditions report, the City has undertaken clean-up of contaminated sites in the City's Mill District, which helps to alleviate extraordinary clean-up costs for developers, in certain locations. One source indicated that although land cost may be around \$125 per site square foot in the CBD area, costs can go as high as \$200-\$300 per square foot in prime locations such as Uptown, North Loop, and near the university campus. The local developer who was willing to discuss profit margins on multifamily residential projects indicated the typical gross developer gross profit is between 6.24 and 6.50 percent, but that this has been compressed from closer to 7.0 percent three years ago.

Nashville

BAE obtained comparative development cost data for both moderate density and high-density residential projects in Nashville. Developers shared detailed unit costs for various residential construction components, which BAE then applied to the prototype project definitions, to estimate the per unit costs, in addition to estimating the costs per leasable square foot. As shown in Table 5, most individual cost elements and the total project costs fell within a fairly tight range for the two developers; although one developer did not provide an estimate for soft costs. Overall, estimated project costs range from \$350,000 to \$358,000 per unit, or \$350 to \$358 per leasable square foot.

It is interesting to note that Nashville has relatively small cost differential between per square foot costs to develop moderate density residential buildings, and costs to develop high-density residential buildings. Developers indicated relatively modest differentials between moderate density and high-density residential unit construction costs (e.g., about eight percent cost differential on per square foot hard cost for the residential unit hard construction cost component). Both developers indicated per space parking costs for the moderate density project of around \$22,000, while their estimates for the for high-density project ranged between \$26,000 and \$30,000 per space. All projects surveyed, regardless of density, had parking ratios of approximately one parking space per built unit. One prominent feature of the Nashville cost structure is the very low costs for permits/fees/inspections, which ranged between \$400 per unit and \$2,822 per unit. Additionally, Nashville's per unit land costs, for both moderate density and high-density projects are the lowest in the sample of peer cities, while the profit levels are relatively high, at about 17 percent of total costs, for both project types.

Table 5: Nashville, Residential Development Cost Summary

MULTIFAMILY 4-5 STORY WOOD FRAME OVER PODIUM

Development Costs	Range Per Unit	Range Per Leasable Sq. Ft.	Range % Total Cost
Land Cost	\$30,000 - \$32,670	\$30 - \$33	9%
Hard Construction Costs	\$212,000 - \$217,890	\$212 - \$218	61%
Permit/Fee/Inspection Costs	\$400 - \$2,772	\$0 - \$3	0.1% - 1%
Soft Costs	\$40,000	\$40	11%
Financing Costs	\$7,048 - \$7,201	\$7	2%
Developer Profit	\$58,364 - \$59,632	\$58 - \$60	17% (a)
Total Development Cost (b)	\$350,184 - \$357,794	\$350 - \$358	100% - 100%

MULTIFAMILY 7-8 STORY + CONCRETE OR STEEL OVER STRUCTURED PARKING

Development Costs	Range Per Unit	Range Per Leasable Sq. Ft.	Range % Total Cost
Land Cost	\$24,503 - \$30,000	\$23 - \$28	6% - 7%
Hard Construction Costs	\$244,812 - \$250,375	\$228 - \$233	62% - 64%
Permit/Fee/Inspection Costs	\$400 - \$2,822	\$0 - \$3	0.1% - 1%
Soft Costs	\$43,000 - \$43,000	\$40 - \$40	11% - 11%
Financing Costs	\$7,740 - \$8,073	\$7 - \$8	2%
Developer Profit	\$64,091 - \$66,854	\$60 - \$62	17% (a)
Total Development Cost (b)	\$384,544 - \$401,125	\$358 - \$373	100% - 100%

Notes:

(a) Developer profit in this table represents percent of total costs. This is a function of developer profit thresholds which are typically expressed as a percent of all other development costs.

(b) Columns do not sum to totals. All line items and totals are derived separately.

Sources: Multiple Developers, 2017; BAE, 2017.

Comments/Observations

Local developers indicated there is a perception that Nashville’s urban core is currently oversupplied with apartments, with more units in the pipeline, citing a typical lease-up concession of two month’s free rent for a 12-month lease. Developers indicated that the recent boom was propelled by the historically low interest rates. Also, it was observed that site preparation costs in Nashville can be high, because almost all sites have rock that requires blasting.

Portland

BAE obtained development cost information from two developers, for specific projects in the moderate density and high-density ranges. In addition, one developer shared composite information that local developers collaborated to compile in order to share representative development cost information with the City of Portland as part of discussions regarding the City’s inclusionary housing requirements. A local construction cost estimator also provided an aggregated hard construction costs estimate for 25 moderate density wood frame projects

built in Portland in the past five years, adjusted for inflation, with the caveat that most projects were larger scale than the medium density prototype. BAE did not use data from the estimator in the summary tables; however, BAE used this data as a reference for construction costs provided by other sources. Among the peer city samples, the data collected for Portland residential development costs showed the least variance among different sources, for both moderate density and high-density projects. This may be due to the fact that, among the peer cities, Portland may have the most established track record in producing both types of housing projects; thus, the development community has a better feel for actual project costs.

As shown in the upper part of Table 6, the average per unit costs for moderate density residential projects range from \$299,000 to \$345,000, or from \$470 to \$493 per leasable square foot. The individual cost element with the most notable difference between the low- and high-range estimates is in the financing cost section. This likely reflects variances in financing structures utilized by different developers.

Overall, it should be noted that Portland's residential development costs reflect relatively low parking ratios, for both moderate density and high-density projects. Although developers indicated that parking is not required for downtown Portland residential projects, surveyed moderate-density projects had parking ratios that ranged from just over 0.1 parking space per unit to just over 0.5 parking spaces per unit, and surveyed high-density projects had parking ratios ranging from 0.5 to 0.7 spaces per unit, based on developers' assessment of market expectations. These relatively low parking ratios help to reduce costs compared to similar projects in other locations that might otherwise need to provide more generous parking ratios due to regulations. Also, the Portland project examples uniformly had relatively low profit margins, below six percent in all cases.

Table 6: Portland, Residential Development Cost Summary

MULTIFAMILY 4-5 STORY WOOD FRAME OVER PODIUM

Development Costs	Range Per Unit	Range Per Leasable Sq. Ft.	Range % Total Cost
Land Cost	\$28,621 - \$48,000	\$47 - \$69	10% - 14%
Hard Construction Costs	\$167,942 - \$198,275	\$263 - \$301	56% - 61%
Permit/Fee/Inspection Costs	\$17,640 - \$19,628	\$25 - \$31	5% - 7%
Soft Costs	\$37,408 - \$52,795	\$59 - \$79	12% - 16%
Financing Costs	\$4,957 - \$29,129	\$8 - \$46	2% - 10%
Developer Profit	\$15,546 - \$18,749	\$24 - \$27	5% (a)
Total Development Cost (b)	\$299,154 - \$344,826	\$470 - \$493	100% - 100%

MULTIFAMILY 7-8 STORY + CONCRETE OR STEEL OVER STRUCTURED PARKING

Development Costs	Range Per Unit	Range Per Leasable Sq. Ft.	Range % Total Cost
Land Cost	\$24,816 - \$52,581	\$25 - \$80	6% - 15%
Hard Construction Costs	\$231,863 - \$285,524	\$291 - \$351	61% - 69%
Permit/Fee/Inspection Costs	\$16,574 - \$18,596	\$17 - \$28	4% - 5%
Soft Costs	\$23,223 - \$55,331	\$24 - \$79	6% - 14%
Financing Costs	\$5,823 - \$41,434	\$9 - \$42	2% - 10%
Developer Profit	\$19,609 - \$22,085	\$23 - \$30	5% (a)
Total Development Cost (b)	\$360,632 - \$413,665	\$422 - \$552	100% - 100%

Notes:

- (a) Developer profit in this table represents percent of total costs. This is a function of developer profit thresholds which are typically expressed as a percent of all other development costs.
- (b) Columns do not sum to totals. All line items and totals are derived separately.

Sources: Multiple Developers, 2017; BAE, 2017.

Comments/Observations

One developer representative indicated that the market for debt financing in Portland is markedly different than it was a year ago, with traditional institutional lenders getting nervous about oversaturation in the local market. As an example, one project obtained construction financing that was underwritten at only 50 percent of conservative future project value.

Developers also indicated that the costs are not reflective of the City's new inclusionary zoning ordinance, and that costs may also be somewhat understated because of rapidly rising construction and permit costs.

One developer noted that Portland development costs typically do not have to factor in off-site improvement costs, because developers are not typically required to mitigate for offsite impacts. According to this source, this is due to a number of factors, including the fact that Oregon does not have a law like the California Environmental Quality Act (CEQA), that requires

new development to mitigate its impacts. Additionally, Portland has a well-developed “system development” program that collects fees from developers to support necessary infrastructure improvements, rather than requiring off-site improvements on an ad-hoc basis. Finally, this source indicated that the top-down planning process in Oregon means that City plans must comply with metro area plans, which must comply with State plans, and are usually updated every five to ten years, to keep them current. Once City plans are adopted, the benefit is that projects are most often approved by right and seldom with discretionary approvals that would provide a mechanism for the local government to require off-site mitigations as a condition of approval.

Comparison Summary

Table 7 provides a summary of development costs for the moderate density residential prototype. To facilitate comparison, the figures represent the mid-point of the high and low-range cost per leasable square foot values observed in each of the comparison cities. This information indicates that Sacramento is quite cost competitive for moderate-density residential development, while Nashville is the next closest, but still more than \$20 per square foot more expensive than Sacramento.

It is somewhat unexpected that Sacramento’s hard construction cost figure is second lowest among the sample cities, particularly given California’s reputation as a high-cost location, which is borne out by the RS Means construction cost location factors found at the bottom of Table 7 for each jurisdiction, and the fact that local developers have consistently referenced high construction costs due to the need for Sacramento projects to compete with Bay Area projects for construction labor.

It should be noted that much of the Sacramento moderate density development cost information was for projects that were completed in the last two years, meaning that some construction cost escalation has likely occurred since then. Overall development costs were relatively closely clustered for the other cities, ranging between \$438 and \$509 per square foot.

Based on this comparison, Sacramento developers benefit from relatively low land costs, and per square foot hard construction costs are also competitive. Sacramento has the third highest per square foot permit/fee/inspection costs among the sample; however, this represents a relatively high proportion of development costs, behind Portland and San Jose. Some variation across cities may be due to the manner in which different developers classify various cost items (e.g., permits and fees vs. soft costs), with this analysis differentiating between soft costs and permit costs as best as possible. It also appears that Sacramento developers of moderate density residential projects are challenged by financing costs which are at the high end of the sample, representing the highest proportion of total project costs. In addition, Sacramento developers, along with developers in Minneapolis and Portland, face

relatively slim profit margins, while developers in Denver, San Jose, and Nashville appear to benefit from more substantial profit margins.

The lower part of Table 7 also includes community comparison data for the central city areas of each city, as defined in the DSP Background Conditions report. A map depicting the San Jose central city area is attached as Appendix A of this memo, as the San Jose central city area was not previously defined and studied in the DSP Background Conditions report. Given the development costs discussed previously in this report, it is assumed that moderate and high-density central city housing in all of the peer cities must target rental rates that are well above median in all of the respective cities in order to achieve financial feasibility. Also, these rental units must also be sufficiently appealing to renters who otherwise likely have the financial capability to purchase homes within their local central city areas. Sacramento's central city has a median household income that is in the middle of the range amongst its peer cities. Comparing the median sale price for central city units of all sizes to the range of costs for moderate density residential development indicates that Sacramento also compares favorably on this benchmark, with upper end per unit development costs well below the high end of the for-sale housing median reported for the area. In other cases, such as Denver, Minneapolis, and San Jose, the upper end cost to produce moderate density residential units exceeds the high-end median home sale price for the local central city area. Portland compares favorably with Sacramento in this metric. This combination of a middle-range median income, along with a comparatively low cost to develop moderate-density multifamily housing, suggests that such developments in Sacramento should be affordable to a broader swath of the central city households than in some of the other peer cities. This should indicate solid potential demand for this type of housing, if prospective residents consider the central city to be a desirable location, and rental housing to be a desirable lifestyle option. Upcoming results from the central city worker housing survey that is currently under way in collaboration with CADA should help to better understand how this dynamic might play out in Sacramento.

Table 7: Summary of Development Costs, Moderate Density Residential

Per Leasable Square Foot	Sacramento		Denver		San Jose		Minneapolis		Nashville		Portland	
	Cost	%										
Land Cost	\$25	7%	\$39	9%	\$59	12%	\$96	22%	\$32	9%	\$58	12%
Hard Construction Costs	\$232	70%	\$250	56%	\$283	56%	\$247	56%	\$215	61%	\$282	59%
Permit/Fee/Inspection Costs	\$20	6%	\$8	2%	\$31	6%	\$6	1%	\$2	0%	\$28	6%
Soft Costs	\$49	15%	\$50	11%	\$75	15%	\$55	13%	\$40	11%	\$69	14%
Financing Costs	\$25	8%	\$16	4%	\$15	3%	\$12	3%	\$7	2%	\$27	6%
Developer Profit	\$22	7%	\$81	18%	\$65	13%	\$26	6%	\$59	17%	\$26	5%
Total Development Cost (a)	\$332	100%	\$444	100%	\$509	100%	\$438	100%	\$354	100%	\$482	100%
Median Apartment Rent (b)		\$750		\$864		\$1,294		\$725		\$572		\$883
Median Home Sale Price (b)												
Low-End ZIP Code (c)		\$328,000		\$169,925		\$341,176		\$160,769		\$129,850		\$272,941
High-End ZIP Code (c)		\$555,000		\$444,350		\$638,750		\$380,253		\$359,596		\$495,350
Median Household Income (b)		\$41,056		\$48,478		\$60,108		\$33,791		\$26,557		\$46,058
Construction Cost Adjustment Factor (d)		1.18		0.87		1.23		1.06		0.86		0.99
<i>(as % of Sacramento)</i>		100%		74%		104%		90%		73%		84%

Note:

- (a) Columns do not sum to totals. All line items and totals are calculated independently.
- (b) Figures are for central city areas, as defined in DSP Background Conditions Report.
- (c) Medians are for individual ZIP Codes included in central city areas. From Zillow.
- (d) Based on 2017 RS Means construction cost location factors.

Sources: RS Means, 2017; U.S. Census Bureau, 2010-2014 American Community Survey, 2016; Zillow, 2016; BAE, 2017.

Table 8 summarizes the mid-point of costs reported for high density residential projects. In stark contrast to the moderate density project type, Sacramento developers reported the highest total costs for high-density residential development, with a mid-point of costs among surveyed projects of about \$708 per leasable square foot. This represents not only a more than doubling of the per square foot cost estimated above for Sacramento moderate density residential projects, but also a substantial increase above the per square foot cost estimated for projects in San Jose, the next most expensive city, at \$585 per square foot. Much of this is due to the high per square foot cost of \$447 estimated for hard construction costs in Sacramento, which in turn drives increases in pro-forma soft costs, financing costs, and the required dollar amount of profit. Based solely on the construction cost location factors from RS Means shown at the bottom of Table 7, Sacramento's construction costs should be about five percent less expensive than those in San Jose, the city with the next most expensive hard construction cost, or about \$380 per square foot for high density residential structures, which is well below the current estimate for Sacramento.

Table 8: Summary of Development Costs, High Density Residential

Per Leasable Square Foot	Sacramento		Denver		San Jose		Minneapolis		Nashville		Portland	
	Cost	%										
Land Cost	\$24	3%	\$48	9%	\$50	9%	\$28	7%	\$26	7%	\$58	12%
Hard Construction Costs	\$447	63%	\$309	56%	\$403	69%	\$299	77%	\$231	63%	\$282	59%
Permit/Fee/Inspection Costs	\$5	1%	\$8	1%	\$34	6%	\$6	2%	\$2	0%	\$28	6%
Soft Costs	\$122	17% (a)	\$63	11%	\$42	7%	\$21	5%	\$40	11%	\$69	14%
Financing Costs	\$49	7%	\$20	4%	\$26	4%	\$13	3%	\$7	2%	\$27	6%
Developer Profit	\$84	12%	\$117	21%	\$32	5%	\$23	6%	\$61	17%	\$26	5%
Total Development Cost (b)	\$708	100%	\$552	100%	\$585	100%	\$391	100%	\$366	100%	\$482	100%

Note:

(a) Figures represent estimated costs for proposed projects, or approved projects that have not yet broken ground.

(b) Columns do not sum to totals. All line items and totals are calculated independently.

Source: BAE, 2017.

Conclusions

Overall, the information collected to date indicates that Sacramento developers are quite efficient at developing moderate-density residential projects, with low overall costs per leasable square foot, and slim profit margins. Permits/fees/inspection costs are the single cost category where the City of Sacramento can directly influence overall project costs. At roughly six percent of project costs, Sacramento's moderate density permitting/fees/section costs are in line with San Jose and Portland, but significantly higher than Denver, Minneapolis and Nashville. While Permit/Fee/Inspection costs in Sacramento are not the lowest within the comparison group, some local developers indicated they do not believe central city permit and fee costs are unreasonable compared to regional norms.

A major finding regarding high density residential development in Sacramento is that estimated costs to undertake this kind of development are more than double the per square foot costs estimated for moderate-density residential development. This cost differential is unusually high compared to the cost differentials in the peer cities, resulting in an overall estimated development cost that gives Sacramento by far the highest estimated costs for high density residential development. Further research is suggested to better understand the specific factors that drive the substantial cost differential between moderate and high density residential development in Sacramento, and the overall high cost of high density residential development in Sacramento compared to the peer cities. Certainly, construction costs will vary across regions due to variances in local factors; however, based on the construction cost data in the RS Means cost manual and the project cost differentials within other peer cities, the incremental increase in hard construction costs to go from moderate density wood frame construction to high density reinforced concrete construction in Sacramento is unexpectedly high. It is possible that current cost estimates to complete this type of project may reflect an abundance of caution in developing pro-formas for this type of construction in Sacramento and/or that the lack of an established base of contractors in the Sacramento area that are experienced with this type of construction could place a premium on the cost to complete high density residential projects. One potential strategy to address this would be to recruit

contractors with experience building this type of structure in other markets, to work in Sacramento. For example, during the building boom of the early to mid-2000s, the Portland-based construction firm of Walsh & Forster established a Sacramento office and completed a number of mixed-use projects in the Sacramento area, bringing expertise gained from projects previously completed in the Northwest. To be attractive, the Sacramento region would likely need to demonstrate that there is a pipeline of projects that could support a local office.

