



bae urban economics

CITY OF SUNNYVALE
NON-RESIDENTIAL HOUSING MITIGATION FEE
NEXUS STUDY
PLANNING COMMISSION

January 9,
2023

HOUSING MITIGATION FEE BACKGROUND

Non-Residential Housing Mitigation Fee (HMF)

- Fee charged on new office, R&D, industrial, retail, & lodging developments

HMF revenues support development of affordable housing

- Awarded over \$76 million since 2012
- Leveraged over \$490 million
- Developed over 900 affordable units

HOUSING MITIGATION FEE BACKGROUND

- **2021 City Council Study Issue**
- **Current HMF Rates**
 - Office/R&D and Industrial (first 25,000 SF): \$9.80/SF
 - Office/R&D and Industrial (all remaining SF): \$19.50/SF
 - Retail and Lodging: \$9.80/SF

HMF STUDY COMPONENTS

Nexus analysis

- Sets maximum legal fee amount
- Based on impacts created by new development
- Usually results in high max legal fee
- City can set fee to be lower than max legal fee

Feasibility analysis

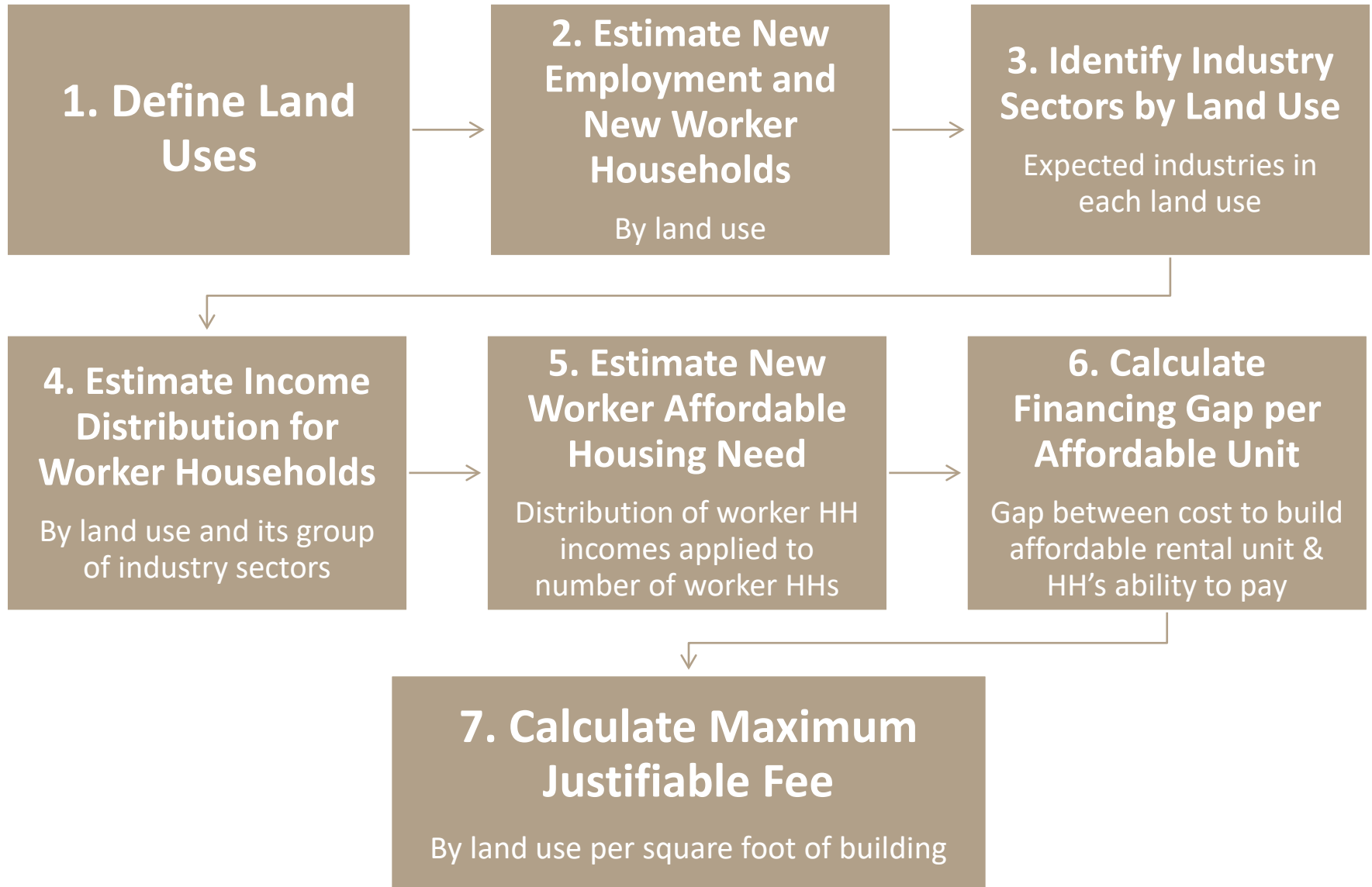
- Evaluates potential impacts on development feasibility
- Often used to set rates lower than max legal fee

NEXUS ANALYSIS METHODOLOGY

Based on the estimated impact of new development

- New non-residential development brings new workers
- Some workers' incomes will be too low to afford market-rate housing
- Public subsidy is needed to finance construction of affordable housing for these workers
- Analysis estimates subsidy required to address this affordable housing need

NEXUS ANALYSIS METHODOLOGY



NEXUS ANALYSIS FINDINGS

Maximum Legal Fee Rates

City can adopt fees that are lower than the max legal fee

Office/R&D	\$104/Sq. Ft.
Retail/Restaurant	\$190/Sq. Ft.
Hotel	\$58/Sq. Ft.
Light Industrial/Warehouse	\$35/Sq. Ft.

FINANCIAL FEASIBILITY ANALYSIS

Three components:

1. Reviewed fee rates in nearby cities
2. Prepared financial pro formas for non-residential uses
 - Based on developer interviews & BAE experience with recent projects
3. Evaluated potential fees as percentage of total development cost (TDC)

FEE RATES IN NEARBY CITIES

	Sunnyvale	Nearby Cities
Office Industrial R&D	\$9.80 to \$19.50	\$3.16 to \$68.50
Retail	\$9.80	\$0 to \$23.11
Hotel	\$9.80	\$1.65 to \$23.11

See Page 22 of Nexus Study for full fee comparison

FINANCIAL FEASIBILITY FINDINGS

	4-Story Office	8-Story Office	Retail	Hotel	Industrial
TDC (excludes land)	\$900 /SF	\$1,025 /SF	\$660 /SF	\$546,000 /room	\$588 /SF
Current Fee (per SF)	\$19.50	\$19.50	\$9.80	\$9.80	\$19.50
Current Fee (% of TDC)	2.2%	1.9%	1.5%	1.0%	3.4%
Feasible to Increase?	Yes	Yes	No	No	No

STUDY RECOMMENDATIONS

Retail, Hotel, and Industrial Uses: No Change

- Significant financial feasibility challenges now
- Fee rates are at upper end of range in nearby cities

Office/R&D: Consider increase

- \$11/SF for first 25,000 SF (~1% of TDC excl. land)
- \$22/SF for all remaining SF (~2% of TDC excl. land)
- Marginal effect on overall feasibility
- Fee rates well within the range in nearby cities

STAFF RECOMMENDATIONS

Nexus Study: Alternative 1

- Approve the Non-Residential HMF Nexus Study

Fee Schedule: Alternative 3

- Increase fee for Office/R&D
 - \$11/SF for first 25,000 SF
 - \$22/SF for all remaining SF
- No change to Retail, Hotel, and Industrial Uses

NEXT STEPS

City Council

- January 24, 2023
- Per State law, fees must take effect no sooner than 60 days after Council adoption (i.e., March 25, 2023)

QUESTIONS