



bae urban economics

CITY OF SUNNYVALE  
NON-RESIDENTIAL HOUSING MITIGATION FEE  
NEXUS STUDY  
CITY COUNCIL

January 24,  
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**

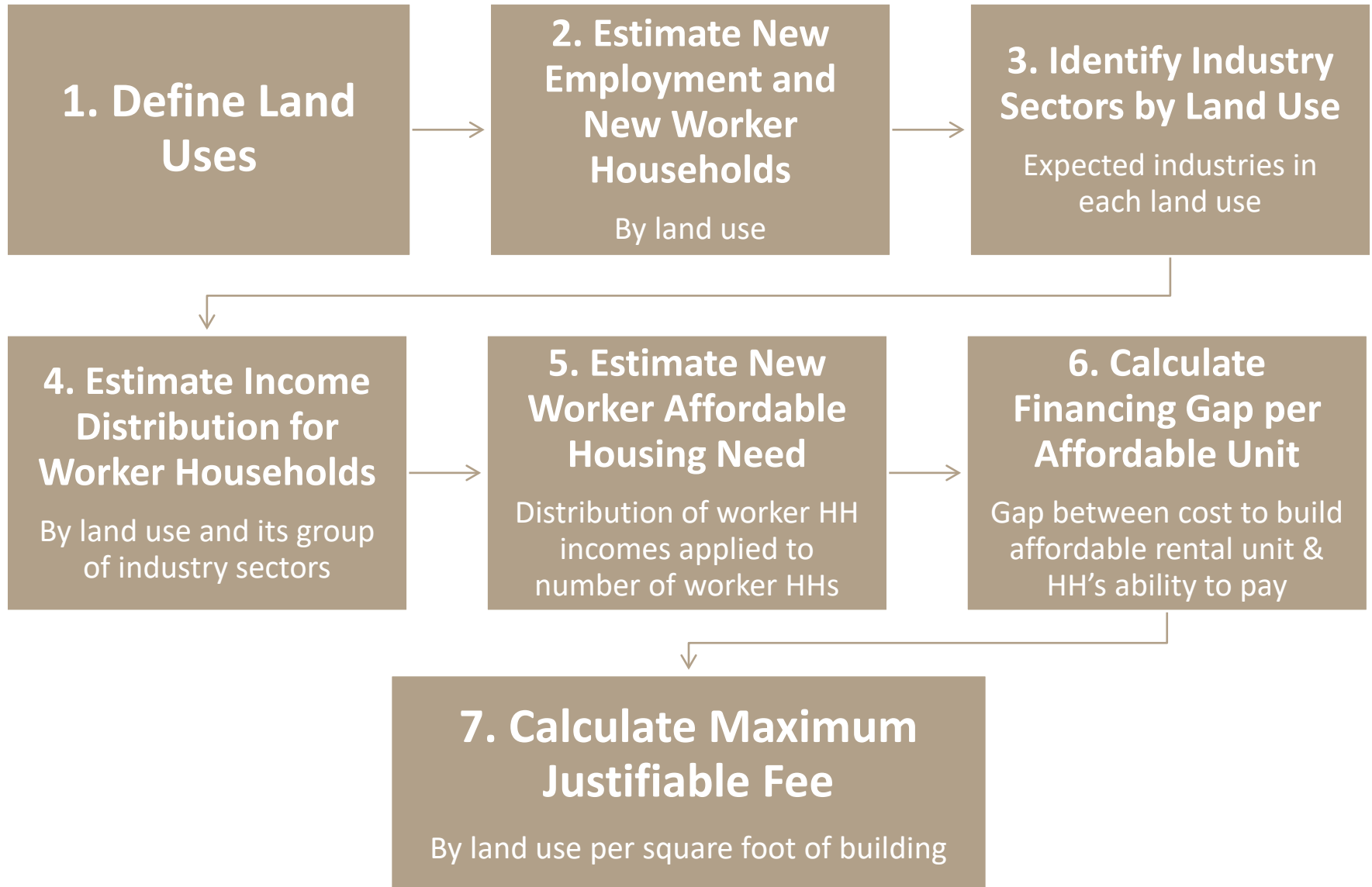
- Evaluates potential impacts on development feasibility
- Often used to set rates lower than max legal fee

# 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
<b>Office Industrial R&amp;D</b>	\$9.80 to \$19.50	\$3.16 to \$68.50
<b>Retail</b>	\$9.80	\$0 to \$23.11
<b>Hotel</b>	\$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
<b>TDC</b> (excludes land)	\$900 /SF	\$1,025 /SF	\$660 /SF	\$546,000 /room	\$588 /SF
<b>Current Fee</b> (per SF)	\$19.50	\$19.50	\$9.80	\$9.80	\$19.50
<b>Current Fee</b> (% of TDC)	2.2%	1.9%	1.5%	1.0%	3.4%
<b>Feasible to Increase?</b>	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

# COMMISSION RECOMMENDATIONS

## Housing and Human Services Commission

- ***Nexus Study: Alternative 1***
  - Approve the Non-Residential HMF Nexus Study
- ***Fee Schedule: Alternative 4 – Modified Fee Schedule***
  - Increase fee for Office/R&D
    - \$15/SF for first 10,000 SF
    - \$30/SF for all remaining SF
  - No change to Retail, Hotel, and Industrial Uses

# COMMISSION RECOMMENDATIONS

## Planning Commission

- ***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

# 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

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

# QUESTIONS