



COST REDUCTION ANALYSIS

BELL PLAZA
1040-1060 E EL CAMINO REAL
SUNNYVALE, CALIFORNIA

Prepared for BRFI Bell, LLC
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ABOUT RCLCO

Since 1967, RCLCO has been the “first call” for real estate developers, investors, the public sector, and non-real estate companies and organizations seeking strategic and tactical advice regarding property investment, planning, and development.

RCLCO leverages quantitative analytics and a strategic planning framework to provide end-to-end business planning and implementation solutions at an entity, portfolio, or project level. With the insights and experience gained over 50 years and thousands of projects—touching over \$5B of real estate activity each year—RCLCO brings success to all product types across the United States and around the world.

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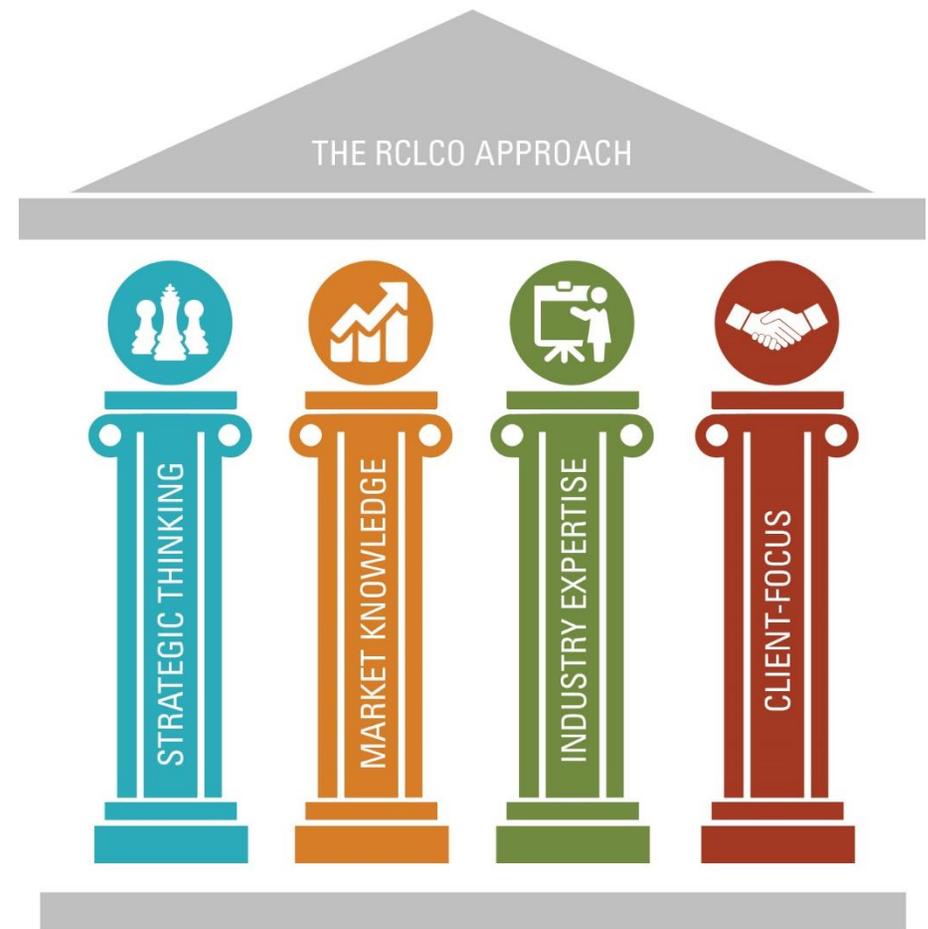
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OBJECTIVES

BRFII Bell, LLC (“Applicant”) is planning the redevelopment of Bell Plaza located at 1040-1060 E El Camino Real in Sunnyvale, California. Applicant has submitted an SB330 preliminary application to redevelop the site into 46 for-sale townhomes (with no commercial use). The City, however, plans to “mandate” mixed-use as part of the project and Applicant is requesting an incentive/concession to remove the mandated 12,000 square foot commercial component from the project. For the proposed project, the requested incentive provides appropriate cost reductions that allow for and support the provision of the affordable units at the project.

1. DBL Incentive/Concession for the provision of 15% moderate-income units to waive the requirement for commercial uses as part of the project.

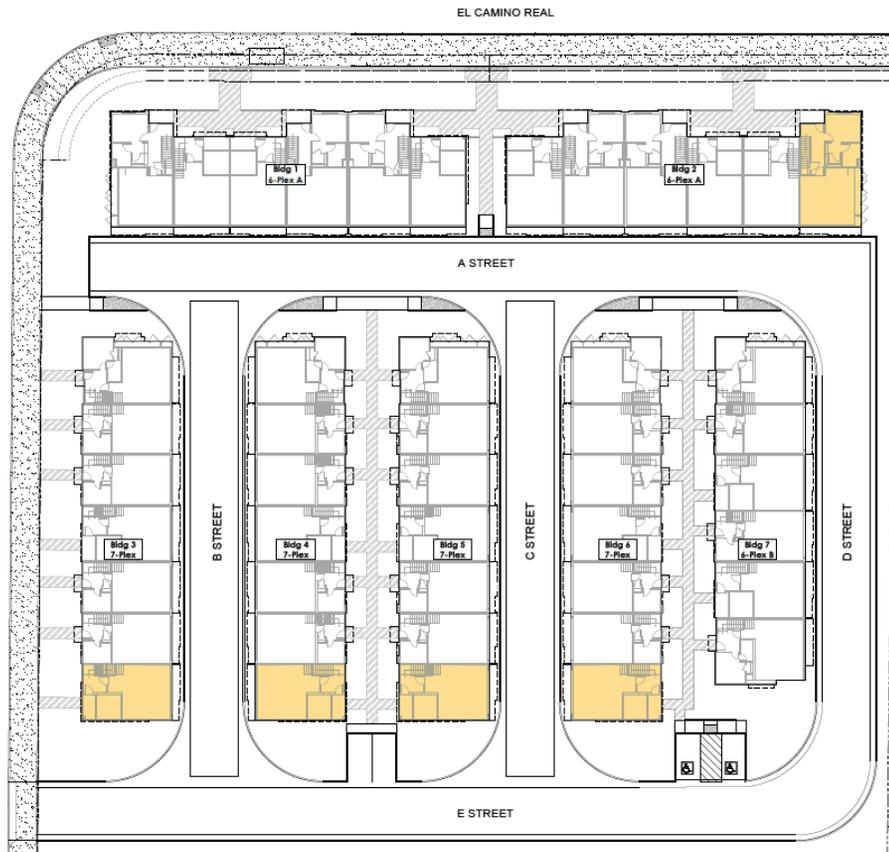
Against this background, RCLCO was engaged to provide a third-party report analyzing the cost reduction of the request for the incentive related to the affordable units and parking ratio. Analytical objectives included the following:

- Construct a comparison of required and proposed programming changes relative to the incentive using Applicant’s background materials, pricing, zoning and entitlement documents, to determine extent of cost reduction provided by the requested incentive.

PROPOSED PROJECT OVERVIEW

BFR BELL, LLC IS PROPOSING THE DEVELOPMENT OF A FOR-SALE TOWNHOME DEVELOPMENT AT THE SITE IN SUNNYVALE, CALIFORNIA

- ▶ The proposed development includes a total of 46 for-sale townhomes in seven buildings.
- ▶ The townhomes range from 1,419-square foot two-bedroom/two-and-a-half bath units to 2,236-square foot four-bedroom/three-and-a-half bath units, with an overall average unit size of 1,640.
- ▶ The project would feature a total of 75,550 net square feet and 106,518 gross building square feet (per Sunnyvale Municipal Code CH 19.12.080).
- ▶ The proposed project would include 15% of the units (7 units) as income-restricted units at moderate income limits.



Site Plan & Development Program

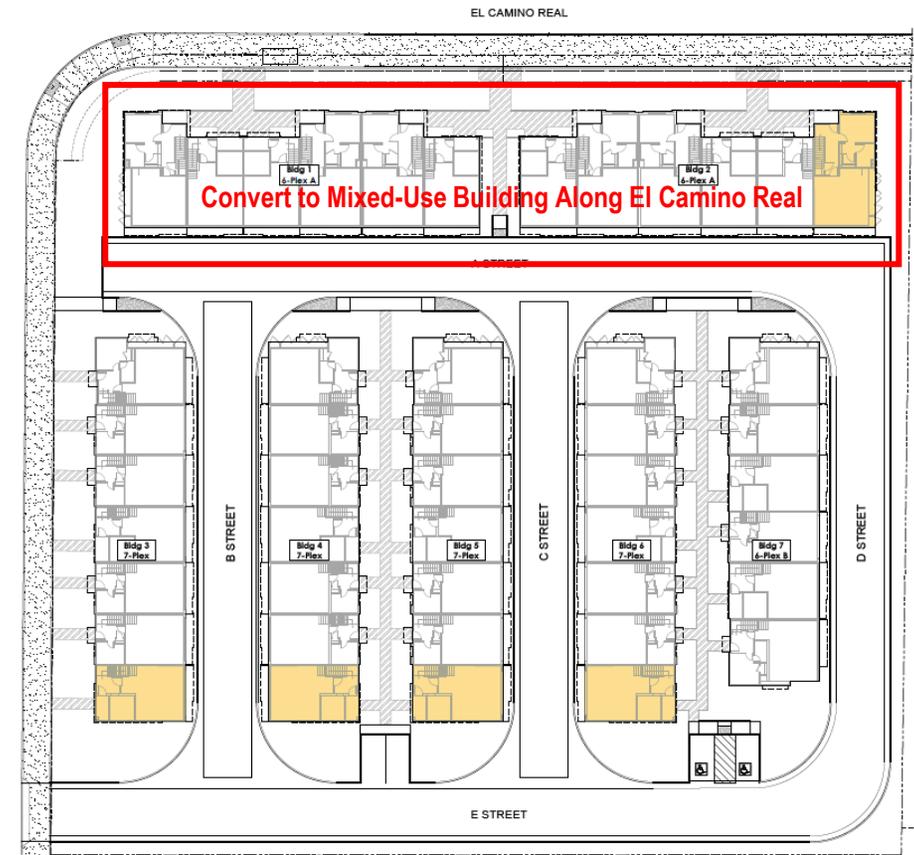
BUILDING	UNITS	NET SQUARE FEET	GROSS SQUARE FEET
Building 1	6	11,481	15,824
Building 2	6	11,481	15,824
Building 3	7	10,714	15,284
Building 4	7	10,714	15,284
Building 5	7	10,714	15,284
Building 6	7	10,714	15,284
Building 7	6	9,732	13,734
Total	46	75,550	106,518

Source: Applicant; RCLCO

ALTERNATIVE DEVELOPMENT

INCORPORATING COMMERCIAL SPACE WOULD REQUIRE A DIFFERENT CONSTRUCTION TYPOLOGY FOR THE UNITS FACING EL CAMINO REAL, OR REQUIRE A REDUCTION IN UNITS

- ▶ In order to deliver commercial space as part of the project and maintain the total unit count of 46 units, the development would need to incorporate a mixed-use building typology into the overall site plan.
- ▶ This could be accommodated by converting Buildings 1 and 2 that front El Camino Real into a multifamily stacked flat building, that would include ground-floor retail space with residential units above.
- ▶ To maintain the same unit sizes, the total development on the site would increase by over 33,000 gross square feet, due to the addition of the 12,000 square feet of commercial space as well as mixed-use residential buildings being less efficient than townhomes in terms of the relationship between net and gross square feet.
- ▶ This product type is also more expensive to construct and insure.



Source: Applicant; RCLCO

COST REDUCTION: MULTIFAMILY VS. TOWNHOME CONSTRUCTION

THE PROPOSED CONSTRUCTION OF TOWNHOMES FRONTING EL CAMINO REAL PROVIDES A MEANINGFUL COST REDUCTION WHILE PROVIDING THE ACHIEVABLE TOTAL UNITS AND AFFORDABLE UNITS

- ▶ The addition of a mixed-use multifamily stacked flat buildings would increase the total development in what is currently Buildings 1 and 2, and for the site overall, by over 33,000 gross square feet, due to the inclusion of the commercial space and a less efficient building type. The remaining buildings in the project would remain the same.
- ▶ A mixed-use building would require a costly concrete podium level for the commercial use and parking, along with a costly elevator to serve the floors above, neither of which would be required for townhome construction. Additionally, fewer contractors are willing to build such for-sale units due to California's condominium laws, and those same concerns result in higher insurance costs.
- ▶ Hard construction costs for a stacked flat product are estimated to be \$285 per gross square foot compared to \$215 per gross square foot for townhome construction.
 - » Hard construction costs for the stacked flat building (in place of Buildings 1 and 2) with 12 units and 12,000 square feet of retail space, with a total of 64,747 gross square feet would total \$18.4 million.
 - » Hard construction costs for the proposed townhomes in Buildings 1 and 2 with 12 units and 31,648 gross square feet would total \$6.8 million.
 - » Eliminating the commercial component and allowing for townhome development provides an estimated cost reduction of \$11.6 million (this difference in cost increases when considering additional costs related to soft costs, financing costs, etc.).
- ▶ Even including a minimal amount of retail space (approximately 1,000 square feet), would still require a mixed-use stacked flat building and have hard construction costs that would be \$8.5 million higher than the hard costs for the proposed townhome development.

Hard Construction Cost Analysis; Buildings 1 and 2

	MIXED-USE BUILDING	PROPOSED TOWNHOMES	DIFFERENCE
Net Residential SF	31,648	31,648	0
Gross Residential SF	52,747	31,648	-21,099
Gross Retail SF	12,000	0	-12,000
Total Gross SF	64,747	31,648	-33,099
Hard Cost per SF	\$285	\$215	
Total Cost	\$18,452,800	\$6,804,320	(\$11,648,480)

Source: Applicant; RCLCO

DISCLAIMERS

CRITICAL ASSUMPTIONS

Our conclusions are based on our analysis of the information available from our own sources and from the client as of the date of this report. We assume that the information is correct, complete, and reliable.

We made certain assumptions about the future performance of the global, national, and local economy and real estate market, and on other factors similarly outside either our control or that of the client. We analyzed trends and the information available to us in drawing these conclusions. However, given the fluid and dynamic nature of the economy and real estate markets, as well as the uncertainty surrounding particularly the near-term future, it is critical to monitor the economy and markets continuously and to revisit the aforementioned conclusions periodically to ensure that they are reflective of changing market conditions.

We assume that the economy and real estate markets will experience a period of slower growth in the next 12 to 24 months, and then return to a stable and moderate rate in 2024 and beyond. However, stable and moderate growth patterns are historically not sustainable over extended periods of time, the economy is cyclical, and real estate markets are typically highly sensitive to business cycles. Further, it is very difficult to predict when inflection points in economic and real cycles will occur.

With the above in mind, we assume that the long-term average absorption rates and price changes will be as projected, realizing that most of the time performance will be either above or below said average rates.

Our analysis does not consider the potential impact of future economic shocks on the national and/or local economy, and does not consider the potential benefits from major "booms" that may occur. Similarly, the analysis does not reflect the residual impact on the real estate market and the competitive environment of such a shock or boom. Also, it is important to note that it is difficult to predict changing consumer and market psychology.

As such, we recommend the close monitoring of the economy and the marketplace, and updating this analysis as appropriate.

Further, the project and investment economics should be "stress tested" to ensure that potential fluctuations in revenue and cost assumptions resulting from alternative scenarios regarding the economy and real estate market conditions will not cause failure.

In addition, we assume that the following will occur in accordance with current expectations:

- ▶ Economic, employment, and household growth
- ▶ Other forecasts of trends and demographic and economic patterns, including consumer confidence levels
- ▶ The cost of development and construction
- ▶ Tax laws (i.e., property and income tax rates, deductibility of mortgage interest, and so forth)
- ▶ Availability and cost of capital and mortgage financing for real estate developers, owners and buyers
- ▶ Competitive projects will be developed as planned (active and future) and that a reasonable stream of supply offerings will satisfy real estate demand
- ▶ Major public works projects occur and are completed as planned

Should any of the above change, this analysis should be updated, with the conclusions reviewed accordingly (and possibly revised).

GENERAL LIMITING CONDITIONS

Reasonable efforts have been made to ensure that the data contained in this study reflect accurate and timely information and are believed to be reliable. This study is based on estimates, assumptions, and other information developed by RCLCO from its independent research effort, general knowledge of the industry, and consultations with the client and its representatives. No responsibility is assumed for inaccuracies in reporting by the client, its agent, and representatives or in any other data source used in preparing or presenting this study. This report is based on information that to our knowledge was current as of the date of this report, and RCLCO has not undertaken any update of its research effort since such date.

Our report may contain prospective financial information, estimates, or opinions that represent our view of reasonable expectations at a particular time, but such information, estimates, or opinions are not offered as predictions or assurances that a particular level of income or profit will be achieved, that particular events will occur, or that a particular price will be offered or accepted. Actual results achieved during the period covered by our prospective financial analysis may vary from those described in our report, and the variations may be material. Therefore, no warranty or representation is made by RCLCO that any of the projected values or results contained in this study will be achieved.

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