

TECHNICAL MEMORANDUM

To: George Schroeder, City of Sunnyvale

From: Darin Smith, Kate Traynor, and Anisha Gade

Subject: Sunnyvale Lawrence Station Area Plan Fiscal Analysis; EPS
#181012

Date: February 4, 2020

The Economics of Land Use



The City of Sunnyvale retained Economic & Planning Systems, Inc. (EPS) as part of the Ascent team to conduct a fiscal impact analysis and residual land value analysis of the Lawrence Station Area Plan (LSAP or “the Plan”) as well as the proposed amendment to increase housing density within the Plan area. The proposed amendment would allow more housing than is currently planned under the LSAP without altering the current commercial uses.

Fiscal Impact Analysis

This fiscal impact analysis indicates whether the LSAP, at buildout, can be expected to have a positive or negative overall effect on the City’s General Fund. It compares the additional costs incurred by the City’s General Fund from providing public services for new residents and employees to the additional taxes and other public revenues generated by new development. The difference between the new revenues and costs indicates whether the Plan is expected to generate an annual fiscal surplus (positive outcome) or an annual fiscal deficit (negative outcome).

EPS developed three static fiscal models evaluating (1) the existing development in the LSAP area (as is), (2) the total buildout allowable under the current LSAP (based on the City’s “Estimated Likely Development”), and (3) the LSAP at buildout under the proposed higher density amendment. These models include a broad range of assumptions concerning the development program, development values, public service levels and costs, among others, that were compiled from information provided by the City of Sunnyvale and other sources. The results are intended to represent the comparative impacts of the full buildout under each scenario, and are based on current information regarding market values for development and the City’s current year budget allocations for various municipal services. The modeling does not provide a time series of fiscal impacts because the diversity of ownership and uses and the scale of development allowed under either

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of the LSAP development scenarios make it very difficult to determine with any precision what parcels will be developed at what time. All results are expressed in constant 2019 dollars.

Residual Land Value Analysis

This residual land value analysis compares the market value and the development cost for a prototypical development project with a certain set of requirements (height, density, parking, affordable housing, etc.), resulting in an estimated amount that a developer could reasonably pay to acquire a parcel for development. The analysis achieves two objectives: (1) assesses the extent to which existing uses in the LSAP area are likely to be redeveloped for higher value uses, by determining whether the value of the property is greater as land for new residential development or as an existing building used for office, retail, or industrial uses, etc.; and (2) assesses the financial capacity for new development to provide desirable community benefits while remaining feasible, and whether tradeoffs from the City are likely to be necessary in achieving community benefit objectives.

EPS developed high-level static pro formas to calculate and compare the residual land values associated with a residential prototype for the current LSAP and the high density LSAP. EPS relied on our market research findings and development cost estimates from recent pro formas prepared by or vetted with locally active developers.

Summary of Key Findings

- 1. The redevelopment of the area is projected to yield fiscal gains for the City of Sunnyvale under both the current LSAP and the higher density scenario, with the higher density scenario yielding the greatest net benefit.***

This analysis estimates that the net annual fiscal impact of the proposed Plan on the City's General Fund is positive and significant at Plan buildout, as shown in **Table 1**. The estimated \$5.41 million (current LSAP) or \$5.65 million (high density LSAP) net additional City funds would replace and exceed the positive net fiscal impact of \$4.49 million that the existing uses currently have on the City's General Fund.

Table 1 Fiscal Impact Summary

Revenue/ Expense Category	Existing Conditions	Current LSAP	High Density LSAP
Total General Fund Revenues	\$6,913,944	\$11,820,073	\$17,555,532
Total General Fund Expenditures	\$2,428,476	\$6,415,020	\$11,904,368
Net Annual Fiscal Impact on General Fund	\$4,485,468	\$5,405,053	\$5,651,164

- 2. The multi-billion dollar increase in assessed value at buildout generates significant property tax increases for the City, and represents the major new revenue source driving the increase in LSAP's already net positive fiscal impact.***

Buildout under the current LSAP is projected to generate nearly \$4.05 million in annual property tax revenue accruing to the City's General Fund and the high density alternative is

projected to generate \$7.13 million. Accounting for transfer of property in some cases and redevelopment in other cases, these are multimillion dollar increases over the current \$1.34 million in annual property tax revenue generated by the existing uses. The growth in property tax revenue is attributable to the anticipated \$2.12 billion (current LSAP) or \$4.53 billion (high density LSAP) increase in the assessed value of the project parcels, from about \$1.04 billion today. These figures reflect the very high value of new residential development in Sunnyvale, even after accounting for the City's inclusionary housing requirements.

3. Sales tax revenue will continue to be a major driver of the area's positive fiscal results, with added residents and workers under each buildout scenario generating additional sales taxes for the City of Sunnyvale.

The existing retail businesses in the LSAP are anchored by Costco, and generate substantial revenue for the City in the form of sales tax. The analysis uses calendar year 2018 actual sales tax revenues received and reported by the City for all 90 businesses in the LSAP. For consistency, both LSAP scenarios assume sales tax revenues to continue at the existing level and additionally incorporate increases in sales driven by new local residents and employees.

The City has indicated that the Costco site is not expected to be redeveloped under the LSAP. Under the LSAP buildout scenarios, the total amount of retail square footage is being increased by 80,000 square feet, but more critically, the introduction of 2,323 or 5,935 new residential units will bring new households and their associated spending to the City. Given the market prices of housing in Sunnyvale, the new households are generally high income, and are estimated to spend between 17 to 29 percent of their household incomes on taxable expenditures (depending on income levels)¹ – 50 percent of which is assumed to be captured at retail locations in the City, including the retail within the plan area. Added employees from the commercial program also contribute to demand for taxable retail sales.

4. Development of the LSAP will generate increased municipal expenditures as a result of new population, particularly those expenditures associated with providing public safety services.

The commercial and residential uses increase the LSAP's municipal "service population" (the industry standard measure of residents' and workers' demand for services is that a worker's demand weighs 50 percent of a resident's demand) from approximately 3,867 today to 10,215 under the current LSAP and 18,956 under the high density LSAP. The demand for services from this growing population is projected to increase annual spending on public safety from \$1.52 million under existing conditions to \$4.01 million under the current LSAP and \$7.45 million under the high density LSAP. Other municipal service expenses (such as Public Works, General Government, and Information Technology) are also expected to increase significantly as a result of the projected growth.

5. Residual land value calculations suggest that many existing nonresidential uses in the LSAP are likely to remain in place for the near-to mid-term, because their value as commercial and industrial buildings exceeds the value of their underlying land for residential development.

¹ Based on the most recent estimates from the Bureau of Labor Statistics' Consumer Expenditure Survey.

Market transactions and achievable rents indicate that many nonresidential uses in the LSAP area continue to have high value as workplaces in the strong Silicon Valley market, while residential development faces very high development costs (even with very high market values) that constrain the ability to buy out existing workplaces to clear land for residential uses. The estimated residual land value of a project in the current LSAP is approximately \$3.0 million per acre, which means we would expect a developer intending to build a rental product to pay no more than \$3.0 million per acre for the land. The estimated residual land value of a project in a high density LSAP is approximately \$3.9 million per acre. A review of available data shows nonresidential LSAP properties transacting at per acre prices well above the estimated \$3.0-\$4.0 million per acre value for residential development. That residual land values for residential development are lower than nonresidential building market values suggests that demand to convert existing LSAP real estate to residential will be modest in the near term.

Residential development is certainly in high demand, but in the near term is likely to be limited to older properties that do not command top market pricing for nonresidential use. Because of this dynamic, EPS does not believe that it is likely that there is "excess value" to developers or landowners that can be leveraged to achieve significantly greater community benefits as part of the potential LSAP amendments, without further delaying the potential residential development due to added costs.

Lawrence Station Area Plan Context

The City of Sunnyvale is in Santa Clara County and is home to about 155,000 residents and nearly 96,000 jobs, as shown in **Table 2**.

Table 2 Sunnyvale Citywide Assumptions

Item	Amount	Source
Housing Units	59,953	DOF
Occupied Households	57,327	DOF
Population	155,567	DOF
Total Primary Jobs ¹	95,760	City of Sunnyvale
Service Population ²	203,447	US Census / DOF

(1) Per City of Sunnyvale Business License database as of 12/12/2019.

(2) Service population is calculated by adding total residential population and half of total employment.

Sources: California Department of Finance (2019); City of Sunnyvale Business License database (2019); Economic & Planning Systems, Inc.

The Lawrence Station Area Plan ("the Plan") encompasses 141 parcels on 199 acres of developed land within the City of Sunnyvale, adjacent to the existing Lawrence Caltrain Station². The Plan adopted by City Council in 2016 represents a significant change from existing conditions, because the LSAP area was almost entirely developed for industrial and flex/R&D uses and the Plan calls for the addition of significant residential development as well as intensified workplace development. **Table 3** shows that under existing conditions, industrial uses represent over one-third of all development in the LSAP area. Under the adopted LSAP, almost all of what is currently considered industrial use could be converted to or replaced by new uses, including over 900,000 square feet of new office space and over 1,000,000 square feet of Flex/R&D space. Additionally, the current Plan allows the development of 2,323 new residential units, much of which may also be expected to occur on currently industrial properties.

² In 2018 the City initiated a General Plan Amendment to expand the Western boundary of the LSAP to include three additional office/research and development (R&D) sites. This analysis includes the three parcels added in the boundary expansion.

Table 3 LSAP Nonresidential Uses

Commercial	Existing¹	Estimated Likley Development Scenario under Current LSAP²	Net New
Retail/Amenities	139,282 sq.ft.	220,000 sq.ft.	80,718 sq.ft.
Office	291,726 sq.ft.	1,200,000 sq.ft.	908,274 sq.ft.
Industrial	1,142,594 sq.ft.	26,500 sq.ft.	-1,116,094 sq.ft.
Flex/R&D	1,365,436 sq.ft.	2,400,000 sq.ft.	1,034,564 sq.ft.
Other/Specialty ³	192,000 sq.ft.	0 sq.ft.	No Change
Total	3,131,038 sq.ft.	3,846,500 sq.ft.	907,462 sq.ft.

(1) Based on Costar data using the LSAP boundary, collected for 2019 EPS Market Assessment.

Includes parcels identified as part of LSAP boundary expansion.

(2) Based on LSAP documents provided by City of Sunnyvale.

(3) Specialty uses encompass commercial uses such as religious structures and parking facilities.

When the LSAP was adopted by the City Council in 2016, the Council requested a study to identify additional housing opportunities within the LSAP area, beyond the 2,323 units allowed under the Plan. In 2018, as a result of the study, the Council selected a preferred LSAP alternative which would increase the density allowance for MXD-I and MXD-II zoned areas to 100 dwelling units per acre and allow residential uses in the M-S/LSAP and O-R zoned areas up to 100 dwelling units per acre, expanding residential capacity by an additional 3,612 units for a total allowable 5,935 units. Under an amended LSAP with higher density residential allowances, the City does not propose any change to the amount of nonresidential uses allowed under the Plan.

In both the current LSAP and the proposed high density scenario, the residential units are expected to consist of both for-sale and rental units, but with a heavier emphasis on rental units given the densities envisioned. For this analysis, EPS has assumed that 75 percent of the new units would be rentals, and 25 percent would be for-sale – a ratio generally consistent with the combined expectations of the two residential projects approved in the LSAP area thus far (Greystar and Calstone). Further demonstrating the market tolerance for ownership, the 900-unit Nuevo complex that is currently under construction just outside the LSAP in the City of Santa Clara is slated to offer approximately 40 percent of units for-sale and the remaining 60 percent as rental. This analysis assumes 75 percent of new units would be rentals, but would not yield substantially different results even if 100 percent of new units were rentals.³

³ An EPS sensitivity analysis testing the contribution of the for-sale units to the overall fiscal impact of the area shows that even in an LSAP with up to 100 percent rental units, the net positive fiscal impact would be approximately \$5 million under both the current LSAP and a high density LSAP, very similar to the results assuming 25 percent ownership units.

In line with Sunnyvale's existing affordable housing policies, the analysis assumes that 12.5 percent of the for-sale units will be affordable to moderate-income (120 percent of Area Median Income) households⁴ and 15 percent of the rental units will be affordable to low- and very low-income (80 and 50 percent of Area Median Income, respectively) households⁵. For both for-sale and rental projects, developers may comply with the City's affordable housing programs through in-lieu fees instead of building affordable units, subject to City Council approval. For purposes of this analysis, EPS has assumed that affordable units are provided onsite, which is conservative in the sense that this assumption results in reduced assessed value (lower property tax revenue) and lower household spending (lower sales tax revenue), and may also yield lower residual land values than may be achievable through payment of the in-lieu fee.

The projected residential details of the Plan, including existing uses, current LSAP uses, and higher density uses if the Plan is amended, are summarized below in **Table 4**.

Table 4 LSAP Residential Uses

	Existing ¹	Current LSAP ²	High Density LSAP ²
<u>For Sale Units</u>			
Market Rate	16	508	1,298
% BMR		12.5%	12.5%
<u>BMR</u>		<u>73</u>	<u>186</u>
<i>Subtotal</i>		<i>581</i>	<i>1,484</i>
<u>Rental Units</u>			
Market Rate		1,481	3,783
% BMR		15%	15%
<u>BMR</u>		<u>261</u>	<u>668</u>
<i>Subtotal</i>		<i>1,742</i>	<i>4,451</i>
Total Units	16	2,323	5,935

(1) Based on Costar data using the LSAP boundary, collected for 2019 EPS Market Assessment. Includes parcels identified as part of LSAP boundary expansion.

(2) Based on LSAP documents provided by City of Sunnyvale.

For fiscal impact analysis, it is important to estimate the number of employees and residents in a project area, so that the level of municipal services required for the area can be evaluated. At buildout, the current LSAP is expected to support 9,184 employees and 5,622 new residents. The high density LSAP would support the same number of employees and 14,363 new residents.

⁴ According to City of Sunnyvale Ordinance number 2976-12.

⁵ According to Ordinance No. 3147-19, adopted October 8, 2019.

Estimated service population for the Plan area is derived as a combination of all new residents and half of all employees, an industry standard assumption reflecting the expectation that employees spend less time utilizing City facilities (parks, library, etc.) and requiring or participating less in most municipal services. A summary of the key LSAP parameters along with employment density assumptions is shown below in **Table 5**, which indicates that buildout of the high density LSAP would be projected to have a service population nearly double that of the current LSAP.

Table 5 LSAP Description, Population, Employment, and Service Population Estimates by Scenario

Item	Assumptions		Existing			Current LSAP			High Density LSAP					
			Estimated			Development Program	Projected		Development Program	Projected				
	Population	Jobs	Service Population ⁴	Population	Jobs		Service Population ⁴	Population		Jobs	Service Population ⁴			
LSAP Development Cap ¹														
2,323						5,935 units								
For Sale Residential														
Market Rate	2.42		16 units	39	39	508	1,229		1,229	1,298 units	3,141		3,141	
% BMR ⁵						12.5%				12.5%				
BMR	2.42		-		0	73	177		177	186 units	450		450	
Subtotal				39	39	581	1,406		1,406	1,484 units	3,591		3,591	
Rental Residential														
Market Rate	2.42			-		1,481	3,584		3,584	3,783 units	9,155		9,155	
% BMR ⁶						15%				15%				
BMR	2.42			-		261 units	632		632	668 units	1,617		1,617	
Subtotal						1,742 units	4,216		4,216	4,451 units	10,772		10,772	
Commercial														
Retail/Amenities		400	139,282 sq. ft.		348	174	220,000 sq. ft.		550	275	220,000 sq. ft.		550	275
Office		420	291,726 sq. ft.		695	348	1,200,000 sq. ft.		2,857	1,429	1,200,000 sq. ft.		2,857	1,429
Industrial		420	1,142,594 sq. ft.		2,720	1,360	26,500 sq. ft.		63	32	26,500 sq. ft.		63	32
Flex/R&D		420	1,365,436 sq. ft.		3,251	1,626	2,400,000 sq. ft.		5,714	2,857	2,400,000 sq. ft.		5,714	2,857
Other/Specialty ⁷		300	192,000 sq. ft.		640	320	0 sq. ft.		-	-	0 sq. ft.		-	-
Subtotal			3,131,038 sq. ft.		7,654	3,828	3,846,500 sq. ft.		9,184	4,593	3,846,500 sq. ft.		9,184	4,593
Total				39	7,654	3,867		5,622	9,184	10,215		14,363	9,184	18,956

(1) Unit total of 2,323 per currently zoned LSAP Development Cap, 5,935 per proposed higher density revision.

(2) Population per unit based on City of Sunnyvale assumption in LSAP Final Redline version.

(3) Square footage and employment densities based on LSAP Final Redline version.

(4) Service population is calculated by adding total residential population and half of total employment. It represents a measure of public service demand in which employees are given one-half the weight of residents because of more modest service demands.

(5) Per city's 12.5% affordable requirement for for-sale residential units.

(6) Per City's 15% affordable requirement for rental units.

(7) "Specialty" uses encompass commercial uses such as religious structures and parking facilities.

Sources: City of Sunnyvale; Economic & Planning Systems, Inc.

Fiscal Impact Analysis

This section describes the methodology and key assumptions used in calculating the impact of the existing conditions, the current LSAP and the High Density LSAP on Sunnyvale's General Fund. The fiscal analysis examines the Plan area's ability to generate adequate revenues to fund the City's costs of providing public services to the area. The services analyzed comprise General Fund services (e.g., police, fire, general government). It does not include an evaluation of capital facilities or funding of capital facilities needed to serve new development.

The fiscal analysis is based on the City's General Fund Budget for FY 2018-19, tax regulations, statutes, and other general assumptions discussed herein. Specific revenues and expenditures that would be affected by new development in the City were identified and estimated. Each revenue item is estimated based on current State legislation and current City practices. Future changes by either State legislation and City practices may affect the revenues and expenditures estimated in this Fiscal Analysis. All costs and revenues are shown in constant 2019 dollars.

For each revenue and expenditure item, EPS used the most appropriate forecasting methodology available, summarized below.

- **Market-Specific Assumptions.** For the revenues that are based on the assessed values of properties (property taxes and property taxes in lieu of vehicle license fees), EPS has estimated the market value of the envisioned residential and commercial development, including adjustments as appropriate for below-market-rate housing unit values.
- **Average Revenue or Cost per Service Population.** This approach estimates average revenues or costs per the City's current service population and applies that average revenue or cost to the Project's proposed service population. Revenues and costs are based on the City's most recently adopted budget (FY 2018-19).
- **Per Employee Population.** Some revenue items, business license tax revenue in particular, are most appropriately estimated on a per-employee basis since the tax is levied by employee and is not impacted by number of residents.
- **Not Estimated.** Some budget items are not estimated because certain City revenues and expenditures are not directly affected by the existing development or the new development associated with this Project. For example, Transient Occupancy Tax (TOT) revenues are not estimated as no hotels are anticipated in the Plan area⁶.

Annual General Fund Revenues

New General Fund proceeds attributable to the LSAP will include sales tax, property tax, property tax in lieu of vehicle license fee (VLF), franchise fee, utility users' tax, as well as licenses, fees, and permits. **Table 6** provides a summary of the Sunnyvale Fiscal Year 2018-19 Adopted General Fund revenue budget and a description of the forecasting method relied upon for each relevant revenue source. **Table 7** summarizes the annual revenues estimated to be generated

⁶ EPS omitted TOT estimates since (a) there is no clear expectation of hotel development within the LSAP area, (b) there is no standardized rule of thumb for hotel use generation from other types of commercial development, and (c) the amount of revenue generated by employees would be the same under both density scenarios.

by the existing conditions, revenues expected to be generated by the current LSAP, and revenues estimated to be generated by the high density LSAP. More detail regarding the calculations is provided following these summaries.

Table 6 FY 2018-19 Revenue Budget Summary and Fiscal Impact Estimating Factors

Item	FY2018-19 Total	Percent Variable ¹	Allocation Factor
Selected General Fund Revenues			
Property Tax	\$56,399,910		12.8% of 1% of base assessed value ²
Property Tax In-Lieu of VLF	\$18,705,959		existing VLF
Sales Tax	\$31,913,429		1.05% of estimated taxable sales ³
Business License Tax ⁴	\$1,840,495		\$12.63 / \$12.70 per employee/rental unit
Construction Tax ⁵	\$4,582,427		not estimated
Real Property Transfer Tax	\$1,835,575		\$0.55 per \$1,000 of equity value transferred for 5% of LSAP
Transient Occupancy Tax	\$16,541,424		not estimated
Utility Users Taxes	\$8,297,656		\$40.79 per service population
Franchises ⁶	\$7,368,207		\$36.22 per service population
Rents and Concessions	\$3,118,316		not estimated
Permits and Licenses	\$1,415,807		\$6.96 per service population
Service Fees ⁷	\$6,091,270		\$29.94 per service population
Sale of Property	\$17,600,000		not estimated
Other Revenues ⁸	<u>\$3,979,629</u>		not estimated
Total Revenues	\$179,690,104		
Selected General Fund Expenditures			
General Government ⁹	\$22,674,354	25%	\$27.86 per service population
Community Development	\$1,388,137	75%	\$5.12 per service population
Public Works	\$23,883,249	75%	\$88.04 per service population
Environmental Services	\$1,481,555	75%	\$5.46 per service population
Information Technology	\$9,875,655	75%	\$36.41 per service population
Library and Community Services	\$19,566,959	75%	\$72.13 per service population
Public Safety	\$93,560,144		
Police Services	\$32,377,386	90%	\$143.23 per service population
Fire Services	\$32,822,638	90%	\$145.20 per service population
Other Public Safety ¹⁰	<u>\$28,360,120</u>	75%	\$104.55 per service population
Total Expenditures	\$172,430,053		

(1) EPS assumption; reflects percentage of costs that are population-dependent, as opposed to fixed costs.

(2) LSAP is located entirely in TRA 009-002.

(3) Allocation factor consists of one percent base Sales Tax rate added to Public Safety Sales Tax, which is estimated at .05 percent of all Sales Tax revenue per Sunnyvale budget page 147.

(4) The Sunnyvale Business License Tax is capped by the number of employees or the number of rental units in Sunnyvale (whichever is higher) and is levied every two years. If the tax is calculated by employee, the maximum tax is \$23,894.60 for any business with 946 employees or more. If the tax is calculated by rental unit, the maximum tax is \$10,691.90 for any business operating 421 rental units or more. To estimate business license tax revenue for the LSAP a per employee/rental unit tax rate is derived using the maximum tax rate (\$23,894.60 per 946 employees and \$10,691.90 per 421 rental units), then divided by two to account for the City's two-year collection cycle. The rates are then applied to the employee population, adjusted to factor in one firm estimated to employ 2,500 employees, and the development program, adjusted for the assumption that 20% of developments are larger than the 421 unit cap.

(5) The Construction Tax, levied by City ordinance at a rate of \$0.0054 of building permit valuation, is not estimated because it is a one-time tax, fiscal impact estimates focus on ongoing sources of revenue to the General Fund.

(6) The City receives a one-time franchise payment from PG&E each year which represents approximately 39% of all Franchise Fee revenue. The City's other main franchise agreements are with our cable television providers and Specialty Solid Waste.

(7) Service Fees includes Refuse Service Fees, Water Service Fees, Sewer Service Fees, and Park Dedication Fees. The majority of revenue in this category comes from the Department of Public Safety, the Recreation Division in the Department of Library and Community Services, the Community Development Department, and the Department of Public Works.

(8) Other Revenues includes In-Lieu Charges, Transfers and Inter-Fund Revenues.

(9) General Government includes the City Attorney, City Manager, Finance Department, and Human Resources.

(10) Other Public Safety includes but is not limited to Investigation Services, Community Safety Services, Public Safety Administration Services, and Public Safety Recruitment Projects.

Sources: City of Sunnyvale Adopted Operating Budget FY 2018-19, p. 52; 280-466; County of Santa Clara Controller-Treasurer; Economic & Planning Systems, Inc.

Table 7 Summary of General Fund Revenues by Scenario

Item	Existing Conditions	Current LSAP	High Density LSAP
Estimated GF Revenue¹			
Property Tax	\$1,335,683	\$4,053,939	\$7,134,334
Property Tax In Lieu of VLF	\$420,884	\$1,277,235	\$2,247,672
Sales Tax	\$4,598,405	\$5,112,567	\$5,717,838
Business License Tax	\$88,783	\$125,714	\$143,253
Construction Tax	\$0	\$0	\$0
Real Property Transfer Tax	\$28,674	\$87,028	\$153,157
Transient Occupancy Tax	\$0	\$0	\$0
Utility Users Taxes	\$158,102	\$416,670	\$773,215
Franchises	\$140,389	\$369,987	\$686,586
Rents and Concessions	\$0	\$0	\$0
Permits and Licenses	\$26,977	\$71,096	\$131,934
Service Fees	\$116,047	\$305,837	\$567,543
Sale of Property	\$0	\$0	\$0
Other Revenues	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Total Revenues	\$6,913,944	\$11,820,073	\$17,555,532

(1) See Table 6 for allocation factors.

Sources: City of Sunnyvale; Economic & Planning Systems, Inc.

Property Tax

Property taxes are based on the assessed value of land and improvements. At present, the combined parcels in the LSAP area generate \$1.33 million per year – a figure reflecting both the nature of the existing uses (with a significant industrial component) and the assessed values for older buildings as constrained by Proposition 13. The current LSAP at buildout, consisting of 2,323 residential units and 3.84 million square feet of commercial space, would have an estimated net assessed value increase of \$2.12 billion over the area's existing assessed value of \$1.04 billion. The high-density alternative, consisting of 5,935 residential units and 3.84 million square feet of commercial space, would have an estimated net assessed value increase of \$4.53 billion. **Table 8** summarizes estimated values and the per unit and per square foot assumptions driving the estimates.

Table 8 Assessed Value Estimates

Item	per unit or per sq.ft.	Current LSAP		High Density LSAP	
		Units / Building Sq.Ft.	Estimated Value	Units / Building Sq.Ft.	Estimated Value
Existing Assessed Value¹					
Anticipated for Redevelopment			\$638,421,804		\$638,421,804
Anticipated to Remain Existing			\$404,265,584		<u>\$404,265,584</u>
Subtotal			\$1,042,687,388		\$1,042,687,388
Max Buildout Zoned		2,323 units		5,935 units	
<u>For Sale Residential</u>					
Market Rate ²	\$939,000	508 units	\$477,012,000	1,298 units	\$1,218,822,000
BMR ³	\$381,000	<u>73 units</u>	<u>\$27,813,000</u>	<u>186 units</u>	<u>\$70,866,000</u>
Subtotal		581	\$504,825,000	1,484	\$1,289,688,000
<u>Rental Residential</u>					
Market Rate	\$655,778	1,481 units	\$971,207,218	3,783 units	\$2,480,808,174
BMR ⁴	\$270,800	<u>261 units</u>	<u>\$70,678,800</u>	<u>668 units</u>	<u>\$180,894,400</u>
Subtotal		1,742 units	\$1,041,886,018	4,451 units	\$2,661,702,574
<u>Commercial⁵</u>					
Retail/Amenities	\$586	220,000 sq.ft.	\$128,982,857	220,000 sq.ft.	\$128,982,857
Office	\$548	1,200,000 sq.ft.	\$657,495,000	1,200,000 sq.ft.	\$657,495,000
Industrial	\$222	26,500 sq.ft.	\$5,890,956	26,500 sq.ft.	\$5,890,956
Flex	\$344	<u>2,400,000 sq.ft.</u>	<u>\$825,588,000</u>	<u>2,400,000 sq.ft.</u>	<u>\$825,588,000</u>
Subtotal		3,846,500 sq.ft.	\$1,617,956,813	3,846,500 sq.ft.	\$1,617,956,813
Total New Value of Max Buildout			\$3,164,667,831		\$5,569,347,387
Net New Value			\$2,121,980,443		\$4,526,659,999

(1) Based on FY 18-19 Assessed values and Sunnyvale LSAP documents.

(2) Market value based on 2-bedroom condos in Sunnyvale, built 2016-2019, sold 2017-2019, per Redfin.

(3) Value based on City's 2019 Maximum Sale Price per Sunnyvale BMR Home Ownership Guidelines. To qualify for the Housing Division's BMR Home Ownership program, household combined gross annual income cannot exceed the maximum moderate-income limit (120%).

(4) Value calculated using rents affordable at 70% of AMI to approximate the City required mix of 10% of units affordable at Low Income and 5% of units at Very Low Income. If the affordable component is developed by a nonprofit developer the units will not be subject to property taxes, which will impact value.

(5) Commercial values based on EPS market research, driven by Costar rents within a two mile radius of the Sunnyvale LSAP.

Sources: Redfin; Santa Clara County Assessor Recorder; City of Sunnyvale; CoStar; Economic & Planning Systems, Inc.

Property tax collections are based on 1.0 percent of the assessed value, and the City of Sunnyvale receives 12.8 percent of the property tax base from the LSAP area. This share is assumed to be fixed going forward. The estimated impact on fiscal revenues is depicted in **Table 9**.

Property Tax In-Lieu of Vehicle License Fees (VLF)

In 2004, the State of California adjusted the method for sharing VLF with local jurisdictions, replacing the VLF with property tax, which grows proportionate to increases in the City's assessed value. The fiscal analysis uses a formula provided by the California State Controller's Office to forecast property tax in-lieu of vehicle license fee (in-lieu VLF). In-lieu VLF or Motor Vehicle In-Lieu is calculated by taking the percentage increase in the City's assessed value resulting from the development and applying that percentage increase to the City's current State allocation of in-lieu VLF revenue. For example, the assessed value of new development under the current LSAP is estimated to increase the City's total current assessed value by 6.53 percent, and thus, is estimated to increase the in-lieu VLF revenues by 6.53 percent, as seen in **Table 9**. The current LSAP at buildout is expected to generate approximately \$1.28 in annual in-lieu VLF revenue, while the higher density scenario would generate an additional \$1 million.

Table 9 Property Tax, Property Tax In Lieu of VLF Estimates

Item	Assumption / Factor	Annual Total at Buildout		
		Existing Condition	Current LSAP	High Density LSAP
<u>Property Tax</u>				
Existing Assessed Value ¹		\$1,042,687,388	\$1,042,687,388	\$1,042,687,388
New Estimated Value		NA	\$3,164,667,831	\$5,569,347,387
Net Value Increase		NA	\$2,121,980,443	\$4,526,659,999
Property Tax	1.0%	\$10,426,874	\$31,646,678	\$55,693,474
Sunnyvale General Fund Share	12.81% of the value	\$1,335,683	\$4,053,939	\$7,134,334
<u>Property Tax In Lieu of VLF</u>				
Existing Citywide Property Tax in Lieu of VLF		\$18,705,959	\$18,705,959	\$18,705,959
Citywide Assessed Value ²		\$46,352,122,074	\$48,474,102,517	\$50,878,782,073
LSAP Area as Percent of Citywide Assessed Value ³		2.25%	6.53%	10.95%
Net New Property Tax In Lieu of VLF⁴		\$420,884	\$1,277,235	\$2,247,672

(1) Information provided by the Santa Clara County Assessor's Department. Includes parcels identified as part of LSAP boundary expansion.

(2) FY2018/19 value based on the Santa Clara County Assessor Annual Report.

(3) Calculated by dividing net value increase by citywide assessed value.

(4) Calculated by multiplying existing property tax in lieu of VLF by project net assessed value increase.

Sources: Redfin; City of Sunnyvale Adopted Operating Budget FY 2018-19; Santa Clara County Assessor; Economic & Planning Systems, Inc.

Sales Tax

Sales tax generation is based on estimates of taxable sales generated by the new residential and employment population in the plan area. Existing retail sales taxes are influenced heavily by an existing Costco Wholesale store that is anticipated to remain in all LSAP scenarios. The analysis uses actual sales tax revenue of nearly \$4.6 million for all 90 businesses within the LSAP for calendar year 2018 for the purpose of describing the City's existing revenues. These revenues from existing businesses are not anticipated to change significantly, so these revenues are carried through in both proposed scenarios.

Additionally, service population-based estimates were used for the purposes of projecting new sales tax revenues generated by new residents and employees under each potential development scenario. While the retail uses in the area are projected to increase from approximately 140,000 square feet to 220,000 square feet under the current LSAP and the higher density scenario, the driver of demand for that additional square footage is expected to be the spending of new residents and employees rather than the retail space itself. Thus, rather than calculate new sales tax using a revenues per retail square footage approach, the forecast of new sales tax is based on estimated household income and spending on taxable items, and the portion of spending assumed to be captured by the City.

EPS constructed weighted average household incomes based on projected market-rate and affordable home pricing. Market-rate renter households are estimated to have an income of \$139,960, and renter households occupying the affordable units are estimated to have average incomes of \$82,775. Among homeowners, market rate households are estimated to have average incomes of \$193,277 and households occupying the affordable units are estimated to have average incomes of \$141,950. EPS established a share of taxable spending for each income group,⁷ and assumed that 50 percent of total taxable expenditures will be captured by retailers located in Sunnyvale (both inside and outside the LSAP area). In addition, EPS assumed that workers in the area will spend an average of \$10 per workday on taxable goods and services (lunches, for example), based on consumer expenditure surveys⁸, and again assumes that 50 percent of such spending will occur within the City of Sunnyvale. EPS makes the conservative assumption that all sales at new retail spaces are from residents and employees of the LSAP. Sunnyvale's General Fund receives 1.05 percent of taxable sales, as shown in **Table 10**.

⁷ Based on the 2017 Bureau of Labor and Statistics Average Annual Expenditures and Characteristics for various income levels.

⁸ *Employee Survey on Payroll Tax and Spending Habits*, Accounting Principals, 2013.

Table 10 Retail Sales Tax Revenue

Item	Assumptions	Annual Total at Buildout	
		Current LSAP	High Density LSAP
Existing Revenues Generated by Businesses to Remain in LSAP ¹		\$4,598,405	
RESIDENTIAL-BASED SALES			
<u>Existing Market-Rate Condominium Units</u>			
Annual Household Income		\$289,837	\$289,837
Taxable spending per household ²	17.7% of total income	\$51,301	\$51,301
<u>Total Sales Generated by Existing Residents</u>			
Total Taxable Spending	16 units	\$820,816	\$820,816
Expenditures Captured by Sunnyvale ³	50% of taxable expenditures	\$410,408	\$410,408
<u>New Market-Rate For Sale Units</u>			
Annual Household Income		\$193,277	\$193,277
Taxable spending per household ²	17.7% of total income	\$34,210	\$34,210
Total taxable spending	508 / 1,298 for sale units	\$17,378,680	\$44,404,580
<u>New Below Market Rate For Sale Units</u>			
Annual Household Income	120% AMI	\$141,950	\$141,950
Taxable spending per household ²	26.2% of total income	\$37,191	\$37,191
Total taxable spending	73 / 186 BMR units	\$2,714,943	\$6,917,526
<u>New Market-Rate Rental Units</u>			
Annual Household Income		\$139,960	\$139,960
Taxable spending per household ²	23.1% of total income	\$32,331	\$32,331
Total taxable spending	1481 / 3,783 rental units	\$47,882,211	\$122,308,173
<u>New Below Market Rate Rental Units</u>			
Annual Household Income	70% AMI	\$82,775	\$82,775
Taxable spending per household ²	28.6% of total income	\$23,674	\$23,674
Total taxable spending	261 / 668 BMR units	\$6,178,914	\$15,814,232
<u>Total Sales Generated by New Residents</u>			
Total New Household Taxable Spending	2,323 / 5,935 units	\$74,154,748	\$189,444,511
Expenditures Captured by Sunnyvale ³	50% of taxable expenditures	\$37,077,374	\$94,722,256
EMPLOYEE-BASED SALES			
<u>Employee Retail Purchases</u>			
Daily Office Worker Taxable Spending	\$10 per work day		
Annual Office Worker Taxable Spending	250 workdays / year	\$2,500	\$2,500
Total Taxable Spending	9,184 employees	\$22,960,000	\$22,960,000
Expenditures Captured by Sunnyvale ⁴	50% of retail expenditures	\$11,480,000	\$11,480,000
Total Taxable Retail Sales		\$48,967,782	\$106,612,664
TOTAL NEW SALES TAX	1.05% of taxable sales	\$514,162	\$1,119,433
TOTAL SALES TAX		\$5,112,567	\$5,717,838

(1) Based on calendar year 2018 actual sales tax revenue reported by the City of Sunnyvale.

(2) Based on Bureau of Labor Statistics Consumer Expenditure Survey, 2017. Consumer Expenditure Survey includes the following taxable purchases: food away from home, selected groceries, alcohol and tobacco, household furnishings and housekeeping, vehicle and gas expenses, apparel, personal services, personal care products, and entertainment.

(3) Assumes 50 percent of taxable retail spending by City of Sunnyvale existing and new residents is captured by the retailers within the City, based on amount and range of retail supply in the City.

(4) Assumes that 50 percent of taxable retail spending by employees who work in the City of Sunnyvale are captured by the City.

Sources: City of Sunnyvale; California Board of Equalization; U.S. Bureau of Labor Statistics; CoStar; and Economic & Planning Systems, Inc.

Business License Tax

Sunnyvale collects Business License Taxes in tiered amounts that are capped by the number of employees or the number of rental units in Sunnyvale (whichever is higher) and is levied every two years. EPS estimated an annual tax rate using the City cap of 946 employees per business and 421 rental units per apartment community. A per employee or per unit tax rate of approximately \$12.65 is then applied to the employee population, reduced to factor in one firm estimated to employ 2,500 employees (of which only 946 would be subject to the tax), and the rental apartment development program, reduced for the assumption that 20 percent of rental units would be exempt because they are in projects that exceed the 421 unit cap. Business tax revenue is expected to be roughly \$126,000 under the current LSAP and \$143,000 under the high density LSAP (see **Table 7**). This is compared to \$88,783 under existing conditions.

Real Property Transfer Tax

The City receives a transfer tax from any sold property based on \$0.55 for every \$1,000 of sales value. EPS estimates that about 5 percent of all new property, both residential and commercial, will be resold annually based on experience in comparable jurisdictions. This means that each property, on average, would be resold every 20 years. Based on this assumption, EPS estimates that the current LSAP will contribute roughly \$87,000 to the City's General Fund revenues and a high density LSAP would contribute roughly \$153,000 (see **Table 7**). This is compared to an estimated \$28,674 under existing conditions.

Utility Users Tax

The City of Sunnyvale collects utility user taxes on utilities such as telephone, electricity, cable, etc.. These proceeds are estimated using the "per service population" approach and are estimated at approximately \$40.79 per service population (see **Table 7** for revenue estimates by scenario).

Franchise Tax

The Project is expected to result in Franchise Tax proceeds to the City. These proceeds are estimated using the "per service population" approach and are estimated at approximately \$36.22 per service population (see **Table 7** for revenue estimates by scenario).

Licenses and Permits

The Project is expected to result in Licenses and Permits proceeds to the City. These proceeds are estimated using the "per service population" approach. This methodology results in the estimated average of about \$6.96 per service population (see **Table 7** for revenue estimates by scenario).

Service Fees

The Project is expected to result in Charges for Services proceeds to the City. These proceeds are estimated using the "per service population" approach and are estimated at approximately \$29.94 per service population (see **Table 7** for revenue estimates by scenario).

Annual General Fund Expenditures

This section describes the methodology and key assumptions for calculating various General Fund expenditure items. While fixed costs are independent of new development, variable costs are assumed to increase based on new growth in the City. Only variable costs are used to project the General Fund expenditures in this analysis. The estimating approach for each General Fund item is described along with a summary of LSAP-generated expenditures below in **Table 11**.

Table 11 General Fund Expenditures and Estimating Methodology

Item	FY 2018-19 Budget	Percent Variable ⁵	Cost Allocation Methodology	Total Cost		
				Existing	Current LSAP	High Density LSAP
<i>Service Population</i>				3,867	10,215	18,956
General Government ¹	\$22,674,354	25%	\$27.86 per service population	\$107,735	\$284,590	\$528,114
Community Development	\$1,388,137	75%	\$5.12 per service population	\$19,799	\$52,301	\$97,055
Public Works	\$23,883,249	75%	\$88.04 per service population	\$340,451	\$899,329	\$1,668,886
Environmental Services ²	\$1,481,555	75%	\$5.46 per service population	\$21,114	\$55,774	\$103,500
Information Technology	\$9,875,655	75%	\$36.41 per service population	\$140,797	\$371,928	\$690,188
Library and Community Services ³	\$19,566,959	75%	\$72.13 per service population	\$278,927	\$736,808	\$1,367,296
<u>Public Safety</u>						
Police Services	\$32,377,386	90%	\$143.23 per service population	\$553,870	\$1,463,094	\$2,715,068
Fire Services	\$32,822,638	90%	\$145.20 per service population	\$561,488	\$1,483,218	\$2,752,411
Other Public Safety ⁴	<u>\$28,360,120</u>	75%	\$104.55 per service population	<u>\$404,295</u>	<u>\$1,067,978</u>	<u>\$1,981,850</u>
Total Expenditures	\$172,430,053			\$2,428,476	\$6,415,020	\$11,904,368

(1) Includes Departments of City Manager, City Attorney, Human Resources, and Finance.

(2) Environmental Services includes management of the City's potable and recycled water systems, sanitary, and storm sewer systems; treatment of wastewater; the collection of garbage and recyclables; and the diversion of recyclables through the operation of the Sunnyvale Materials Recovery and Transfer Station.

(3) The Community Services Division is responsible for the day-to-day programming of City parks and recreational facilities.

(4) Other Public Safety includes but is not limited to Investigation Services, Community Safety Services, Public Safety Administration Services, and Public Safety Recruitment Projects.

(5) EPS assumption; reflects percentage of costs that are population-dependent, as opposed to fixed costs.

Sources: City of Sunnyvale Adopted Operating Budget FY 2018-19, p. 52; 280-466; Economic & Planning Systems, Inc.

General Government

Per the City of Sunnyvale's Adopted Operating Budget for FY 2018-19, the City's General Government category includes the following functions:

- City Attorney
- City Manager
- Finance
- Human Resources

Based on EPS's research in similar jurisdictions, new development of the Project's scale typically affects administrative and legislative government costs by only a fraction of these department's operating budgets. For example, the growth is not expected to result in an additional City Manager, Finance director, or City Attorney, or even proportionately more staff under each such department. As a result, EPS assumes that 25 percent of the cost of General Government services are variable and will be affected by new development. This yields a per service population estimate of about \$27.86.

Community Development

Per the City of Sunnyvale's Adopted Operating Budget for FY 2018-19, the Community Development Department's functions include building safety, planning, housing, and Community Development Block Grant administration. EPS assumes that the cost structure for Community Development is 75 percent variable, which yields a per service population estimate of \$5.12 based on the existing citywide average, as shown in **Table 11**. This 75 percent variability assumption is relatively conservative, as development functions may increase on a one-time basis with population growth but cities may not incur proportionately increased ongoing, annual development costs related to increased service populations.

Public Works

Per the City of Sunnyvale's Adopted Operating Budget for FY 2018-19, this category includes costs associated with operating and maintaining the City's infrastructure and facilities including public streets, and utilities. EPS estimates a percent variability of 75 percent, yielding a per service population estimate of \$88.04, as shown in **Table 11**. This 75 percent variability assumption is relatively conservative, because the LSAP's development will occur within an existing urban area with most core infrastructure in place.

Environmental Services

According to the Department's description, the Environmental Services Department maintains the City's potable and recycled water systems, sanitary and storm sewer systems, wastewater treatment system, collects garbage and manages recyclables. EPS assumes that the cost structure for the department is 75 percent variable, which yields a per service population estimate of approximately \$5.46 based on the existing Citywide average, as shown in **Table 11**. Again, this 75 percent variability assumption is relatively conservative, because the LSAP's development will occur within an existing urban area with most core infrastructure in place.

Information Technology

According to the Department's description, the Information Technology Department (ITD) provides an IT framework and solutions to all City departments, encompassing technical services to over 1,200 users within the City. EPS assumes that the cost structure for the department is 75 percent variable, which yields a per service population estimate of approximately \$36.41 based

on the existing Citywide average, as shown in **Table 11**. This 75 percent variability assumption is relatively conservative, as it is in proportion to other conservative assumptions about staffing and expenditure growth.

Library and Community Services

According to the Department's description, the Sunnyvale Public Library is open seven days a week, 66 hours per week and sees an average of approximately 2,000 visits per day. EPS assumes that the cost structure for the department is 75 percent variable, which yields a per service population estimate of approximately \$72.13 based on the existing Citywide average, as shown in **Table 11**. Please note that EPS has not expressly assumed that a new library facility would be provided in or for the LSAP area, and thus the facilities and staffing costs are mostly fixed, rendering this 75 percent variability a conservative assumption.

Police Services

Per the City of Sunnyvale's Adopted Operating Budget for FY 2018-19, this department provides 24 hours-a-day and 365 days-a-year policing services to the City, keeps the peace and prevents and controls crime. Jurisdictions frequently maintain relatively constant numbers of police service staff (sworn officers, etc.) on a per capita basis as they grow, but command staff and facilities are not necessarily expected to grow at the same per capita pace. EPS assumes that the cost structure for Police Services is 90 percent variable, which yields a per service population estimate of \$143.23 based on the existing citywide average, as shown in **Table 11**.

Fire Service

According to the Department's description, Fire Services prevents fires and hazardous materials related emergencies, minimizes injuries and property loss when an emergency occurs and provides public education and outreach during inspections. As with Police Services, EPS assumes that the cost structure for Fire Services is 90 percent variable, which yields a per service population estimate of \$145.20 based on the existing citywide average, as shown in **Table 11**.

Other Public Safety

Other Public Safety includes Investigation Services, Community Safety Services, Public Safety Administration Services, and Public Safety Recruitment Projects. EPS assumes that the cost structure for Other Public Safety services is 75 percent variable, which yields a per service population estimate of \$104.55 based on the existing citywide average, as shown in **Table 11**.

Net New Annual Fiscal Impact on General Fund

Based on the assumptions and analysis described above, the proposed development will be able to produce net revenues to the City's General Fund at both LSAP buildouts, as summarized in **Table 1** and in **Table 12**, below. Actual fiscal impacts may vary due to the timing of the Plan buildout and changes in economic and budgetary conditions.

Table 12 Summary of Net Fiscal Outcome

Item	Existing Conditions	Current LSAP	High Density LSAP
Estimated GF Revenue¹			
Property Tax	\$1,335,683	\$4,053,939	\$7,134,334
Property Tax In Lieu of VLF	\$420,884	\$1,277,235	\$2,247,672
Sales Tax	\$4,598,405	\$5,112,567	\$5,717,838
Business License Tax	\$88,783	\$125,714	\$143,253
Construction Tax	\$0	\$0	\$0
Real Property Transfer Tax	\$28,674	\$87,028	\$153,157
Transient Occupancy Tax	\$0	\$0	\$0
Utility Users Taxes	\$158,102	\$416,670	\$773,215
Franchises	\$140,389	\$369,987	\$686,586
Rents and Concessions	\$0	\$0	\$0
Permits and Licenses	\$26,977	\$71,096	\$131,934
Service Fees	\$116,047	\$305,837	\$567,543
Sale of Property	\$0	\$0	\$0
Other Revenues	\$0	\$0	\$0
Total Revenues	\$6,913,944	\$11,820,073	\$17,555,532
Estimated GF Expenditures²			
General Government ³	\$107,735	\$284,590	\$528,114
Community Development	\$19,799	\$52,301	\$97,055
Public Works	\$340,451	\$899,329	\$1,668,886
Environmental Services	\$21,114	\$55,774	\$103,500
Information Technology	\$140,797	\$371,928	\$690,188
<u>Library and Community Services</u>	<u>\$278,927</u>	<u>\$736,808</u>	<u>\$1,367,296</u>
Subtotal	\$908,823	\$2,400,730	\$4,455,039
<u>Public Safety</u>			
Police Services	\$553,870	\$1,463,094	\$2,715,068
Fire Services	\$561,488	\$1,483,218	\$2,752,411
Other Public Safety	<u>\$404,295</u>	<u>\$1,067,978</u>	<u>\$1,981,850</u>
Total Expenditures	\$2,428,476	\$6,415,020	\$11,904,368
Total Net Annual Fiscal Impact	\$4,485,468	\$5,405,053	\$5,651,164

(1) See Table 6.

(2) See Table 10.

(3) Includes Departments of City Manager, City Attorney, Human Resources, and Finance.

Sources: City of Sunnyvale; Economic & Planning Systems, Inc.

Sensitivity Analysis

As noted above, EPS has assumed that 75 percent of the new units would be rentals, and 25 percent would be for-sale – a ratio generally consistent with the combined expectations of the two residential projects approved in the LSAP area thus far (Greystar and Calstone). In response to City inquiries, EPS ran a sensitivity analysis to test this assumption's impact on the results. Property tax revenue is one of the two largest revenue sources driving the positive fiscal results (sales tax being the other major driver), but under current market conditions for-sale units have higher value and thus generate a higher level of annual property taxes than rental units. The more for-sale units in a project, the higher anticipated property tax revenues to the City: property taxes are based on property values and in Sunnyvale market-rate sale prices per unit for condominiums are significantly higher than the estimated value of a comparable rental unit,

based on its capitalized income stream. Affordable for-sale units for moderate income households are also priced much higher than the capitalized value of affordable rental units for low and very low income households.

Because for-sale units generate significantly more revenue to the City, the assumption that 25 percent of the units will be for sale boosts the projected revenue from the LSAP. However; even in a scenario where 100 percent of units in the LSAP are rental, either as currently proposed or a higher density version, the net fiscal impact is positive and exceeds the current fiscal impact from the area, generating a minimum of nearly \$5.00 million annually, as shown below in **Table 13**.

Table 13 Summary of Tenure Sensitivity Analysis

Item	Existing Conditions	Current LSAP		High Density LSAP	
Tenure		% Ownership		% Ownership	
		25%	0%	25%	0%
For Sale					
% Total	100%	25%	0%	25%	0%
Subtotal	16	581	-	1,484	0
Rental					
% Total	0%	75%	100%	75%	100%
Subtotal	-	1,742	2,323	4,451	5,935
Total	16	2,323	2,323	5,935	5,935
Fiscal Impact					
Revenues	\$6,913,944	\$11,820,073	\$11,554,511	\$17,555,532	\$16,849,295
Expenses	\$2,428,476	\$6,415,020	\$6,415,020	\$11,904,368	\$11,904,368
Net Fiscal Impact	\$4,485,468	\$5,405,053	\$5,139,491	\$5,651,164	\$4,944,927

Residual Land Value Analysis

To understand the likelihood of a particular property or an aggregation of properties to be redeveloped for other uses as is envisioned under the current and high density LSAP scenarios, EPS has aimed to estimate and compare the value of properties for their existing use (e.g., as a leasable building for a flex/R&D tenant) versus the value of the underlying land for new development. If the land is worth more in the open market than the building is worth, a property owner may be motivated to sell the property for development. If the existing building generates greater proceeds than the property owner could gain by selling the site for development, it is likely to remain in its current use as a leasable building. These considerations are particularly important in understanding whether and to what extent the planned development under either LSAP scenario is likely to occur in the near- to mid-term based on foreseeable market conditions. Because both LSAP scenarios have the same amount of nonresidential use allowed, this analysis focuses on the feasibility of residential uses of different types and densities. Likewise, given the densities expected, we have focused on rental residential rather than for-sale.

This analysis utilizes a “static” (i.e. stabilized year) pro forma financial feasibility framework to estimate a prototypical rental residential development’s market value, development cost, and the land value supported by the current LSAP zoning and by the increased density proposed for the LSAP. This approach compares real estate development value with the cost of project development in constant 2019 dollars. When real estate market values exceed development costs, the difference represents what a developer is able to pay for land. This calculation, commonly referred to as “residual land value,” is the primary output of this analysis.

For a prototypical rental product, the analysis determines finished real estate value based on assumptions including market-supportable lease rates, operating costs, and market-based expectations for returns on investment. Development cost assumptions reflect standard (location-adjusted) “hard” construction costs (labor and materials for the building, its site, and its parking) and typical project “soft” costs (e.g., architecture and engineering, permit and impact fees, etc.). The assumptions reflect EPS research and third-party data (e.g., CoStar Group market data and Saylor construction cost estimates) as well as estimates of the various impact fees a developer would pay under the City’s current fee schedule.

Pro Forma Model Assumptions

Site Assumptions

For the current LSAP scenario, the analysis assumes a typical project would be constructed at a density of 65.1 dwelling units per acre based on the comparable product currently under construction by Greystar in the LSAP, entitled for 520 units on 7.99 acres. For the high density LSAP scenario, the analysis assumes 100 dwellings units per acre based on the City’s proposed upzoning. Assuming a 4-acre development site is typical for this Plan area (smaller than the Greystar project, but common and even above average for infill development in Silicon Valley), the prototypical residential development evaluated would be 260 units for the current LSAP and 400 units for the high density LSAP. Under both scenarios, EPS has assumed that the average unit size is 1,000 square feet of leasable living space, and that the buildings have an 80 percent efficiency ratio (i.e., leasable space accounts for 80 percent of the total building area).

Value Assumptions

This analysis builds on the market conditions established in EPS's LSAP Market Research Memorandum, and assumes achievable lease rates based on market research conducted using sources including CoStar Group, Redfin, and EPS knowledge of the local and regional commercial real estate landscape.

Rental Housing – Under both the current and high density LSAP scenarios, the multifamily rental market rate housing is expected to have a monthly lease rate of \$3.66 per square foot (about \$3,660 per month for an average 1,000 square foot unit). The below market rate rental housing will be priced for low- and very-low-income households (about \$1.95 per square foot or \$1,949 per month). The analysis also assumes stabilized vacancy is five percent and landlord operating expenses are approximately \$13,000 per unit per year for the market rate units and \$11,000 per unit per year for the below market rate units, accounting for lower taxes levied on below market units. Both rents and operating assumptions are the same as those used to derive value estimates for the fiscal analysis (see **Table 8**).

Cost Assumptions

For both the current LSAP and the high density LSAP, this analysis assumes five-story, wood-frame construction. Wrapped parking (units surrounding an above-ground, concrete parking structure) is assumed for the low density scenario and podium parking (two or more parking levels below the units) is assumed for the high density LSAP.

Site Costs – Site costs include demolition costs, basic site work, open space and park land costs, infrastructure costs (i.e., streets and utilities), and off-site mitigation costs.

Hard Costs – Project hard costs reflect construction labor and materials. For vertical construction, EPS reviewed construction cost estimating data from both Saylor and RS Means, in-house pro forma financial analyses for comparable development projects, and recent construction cost escalation estimates. Both housing densities are achievable using woodframe construction, so the hard costs per building square foot are similar. The primary difference between the two densities is in the parking costs, as wrapped parking is assumed to cost less per stall than podium parking.

Soft Costs – Soft costs include professional services associated with planning, design, and project approval; permits and fees; assumptions regarding taxes and insurance and financing costs; and general and administrative costs borne by the project developer.

Specific figures for each of these assumptions are shown on **Tables 13 and 14**.

Residual Land Value Calculation

The analysis estimates residual land value by subtracting the full development budget from the project's estimated market value. The development budget is calculated based on the above cost assumptions and the project's estimated market value is calculated by determining the maximum supportable development budget based on an estimated net operating income and yield requirement. Subtracting the development budget excluding land from that maximum supportable budget reveals the residual land value.

Feasibility Findings

The estimated residual land value of a 65-unit-per acre project in the current LSAP is approximately \$3.04 million per acre, which means we would expect a developer intending to build a rental product to pay no more than \$3.04 million per acre for the land. The estimated residual land value of a 100-unit-per-acre project in a high density LSAP is approximately \$3.94 million per acre. The higher density product thus yields higher land value per acre, but not higher per unit, because the unit values are essentially the same while the cost per unit is higher for the higher density project. Again, this finding is largely related to the added cost of podium parking rather than a wrapped parking structure.

Table 13 Summary of Financial Feasibility Analysis, Current LSAP

DEVELOPMENT PROGRAM ASSUMPTIONS				TOTAL	Per Unit
Development Site (Acres)				4	
Dwelling Units ¹	65.1	DU / Acre		260	
Net Building Area (Square Feet) ²	1,000	GBA / DU		260,325	
Gross Rentable Square Feet	80%	Efficiency Factor		325,407	1,250
Total Parking Spaces ³	1.125	Spaces / DU		293	
Surface Parking Spaces	0%	of total parking		0	
Structured Parking Spaces	100%	of total parking		293	
BUILDING OPERATING INCOME (ANNUAL)			PER GBA	TOTAL	Per Unit
Market Rate Rental⁴					
Dwelling Units	85%	of total units		221	
Market Rate Net Building Area (Square Feet)	1,000	GBA / DU		221,277	
Gross Rentable Square Feet	80%	Efficiency Factor		276,596	1,250
Gross Potential Rent	\$3.66	per SF/Month	\$35	\$9,718,468	\$43,920
Gross Potential Parking Income ⁵	\$75	per Space/Month	\$1	\$224,043	\$1,013
Losses to Vacancy	5.0%	of Gross Income	<u>-\$2</u>	<u>-\$497,126</u>	<u>-\$2,247</u>
Gross Residential Revenue			\$34	\$9,445,385	\$42,686
Operating Expenses	\$13,176	per Unit/ Year	-\$11	-\$2,915,540	-\$13,176
Net Operating Income (NOI)			\$24	\$6,529,845	\$29,510
Supportable Development Cost	4.5%	Project Yield Rate (on NOI)	\$525	\$145,107,660	\$655,775
BMR Rental					
Dwelling Units	15%	of total units		39	
BMR Net Building Area (Square Feet)	1,000	GBA / DU		39,049	
Gross Rentable Square Feet	80%	Efficiency Factor		48,811	1,250
Gross Potential Rent	\$1.95	per SF/Month	\$19	\$913,742	\$23,400
Gross Potential Parking Income	\$75	per Space/Month	\$1	\$39,537	\$1,013
Losses to Vacancy	5.0%	of Gross Income	<u>-\$1</u>	<u>-\$47,664</u>	<u>-\$1,221</u>
Gross Residential Revenue			\$19	\$905,615	\$23,192
Operating Expenses	\$11,000	per Unit/ Year	-\$9	-\$429,537	-\$11,000
Net Operating Income (NOI)			\$10	\$476,078	\$12,192
Supportable Development Cost	4.5%	Project Yield Rate (on NOI)	\$217	\$10,579,516	\$270,931
Total Supportable Development Cost			\$478	\$155,687,176	\$598,048
PROJECT DEVELOPMENT COSTS			PER GBA	TOTAL	Per Unit
Construction Cost					
Basic Site Work	\$22	per SF (Site)	\$12	\$3,781,008	\$14,524
Building Direct Cost	\$285	Cost/SF (GBA)	\$285	\$92,740,926	\$356,250
Surface Parking Direct Cost	\$5,000	per Space	\$0	\$0	\$0
Structured Parking Direct Cost	\$40,000	per Space	<u>\$36</u>	<u>\$11,714,643</u>	<u>\$45,000</u>
Total Construction Cost			<u>\$333</u>	<u>\$108,236,577</u>	<u>\$415,774</u>
Soft Cost					
Architecture and Engineering	4.0%	of Construction Cost	\$13	\$4,329,463	\$16,631
Other Soft Costs	2.0%	of Construction Cost	\$7	\$2,164,732	\$8,315
Permits and Fees ⁶	\$56,500	per DU	\$45	\$14,708,385	\$56,500
Taxes and Insurance	2.0%	of Construction Cost	\$7	\$2,164,732	\$8,315
Financing	4.0%	of Construction Cost	\$13	\$4,329,463	\$16,631
Marketing/Leasing	3.0%	of Construction Cost	\$10	\$3,247,097	\$12,473
Developer Fee	4.0%	of Construction Cost	<u>\$13</u>	<u>\$4,329,463</u>	<u>\$16,631</u>
Total Soft Costs			\$108	\$35,273,335	\$135,497
Total Cost without Land			\$441	\$143,509,913	\$551,271
Residual Land Value	Total Value less Total Cost		\$37	\$12,177,263	\$46,777
per acre				\$3,044,316	
Total Project Cost			\$478	\$155,687,176	\$598,048

- (1) Dwelling Units per Acre derived using existing Greystar development density of 520 units on a site of 7.99 gross acres.
(2) Unit size of 1,000 SF is an industry standard assumption.
(3) Parking Standards based on Sunnyvale Off-Street Vehicle Parking Space Requirements. Figure used is an average of the parking standard for 1 bedroom units and 2 bedroom units.
(4) In line with Sunnyvale's existing affordable housing policies, the analysis assumes 15 percent of rental units will be affordable to low- and very low- income (80 and 50 percent of Area Median Income, respectively) households. This calculation assumes an average 70 percent of Area Median Income.
(5) Parking price is an industry standard assumption.
(6) Excludes inclusionary housing fee.

Table 14 Summary of Financial Feasibility Analysis, Proposed LSAP

DEVELOPMENT PROGRAM ASSUMPTIONS					Per Unit
Development Site (Acres)				4	
Dwelling Units ¹	100.0	DU / Acre		400	
Net Building Area (Square Feet) ²	1,000	GBA / DU		400,000	
Gross Rentable Square Feet	80%	Efficiency Factor		500,000	1,250
Total Parking Spaces ³	1.125	Spaces / DU		450	
Surface Parking Spaces	0%	of total parking		0	
Structured Parking Spaces	100%	of total parking		450	
BUILDING OPERATING INCOME (ANNUAL)			PER GBA	TOTAL	Per Unit
Market Rate Rental⁴					
Dwelling Units	85%	of total units		340	
Market Rate Net Building Area (Square Feet)	1,000	GBA / DU		340,000	
Gross Rentable Square Feet	80%	Efficiency Factor		425,000	1,250
Gross Potential Rent	\$3.66	per SF/Month	\$35	\$14,932,800	\$43,920
Gross Potential Parking Income ⁵	\$75	per Space/Month	\$1	\$344,250	\$1,013
Losses to Vacancy	5.0%	of Gross Income	<u>-\$2</u>	<u>-\$763,853</u>	<u>-\$2,247</u>
Gross Residential Revenue			\$34	\$14,513,198	\$42,686
Operating Expenses	\$13,176	per Unit/ Year	-\$11	-\$4,479,840	-\$13,176
Net Operating Income (NOI)			\$24	\$10,033,358	\$29,510
Supportable Development Cost	4.5%	Project Yield Rate (on NOI)	\$525	\$222,963,500	\$655,775
BMR Rental					
Dwelling Units	15%	of total units		60	
BMR Net Building Area (Square Feet)	1,000	GBA / DU		60,000	
Gross Rentable Square Feet	80%	Efficiency Factor		75,000	1,250
Gross Potential Rent	\$1.95	per SF/Month	\$19	\$1,404,000	\$23,400
Gross Potential Parking Income	\$75	per Space/Month	\$1	\$60,750	\$1,013
Losses to Vacancy	5.0%	of Gross Income	<u>-\$1</u>	<u>-\$73,238</u>	<u>-\$1,221</u>
Gross Residential Revenue			\$19	\$1,391,513	\$23,192
Operating Expenses	\$11,000	per Unit/ Year	-\$9	-\$660,000	-\$11,000
Net Operating Income (NOI)			\$10	\$731,513	\$12,192
Supportable Development Cost	4.5%	Project Yield Rate (on NOI)	\$217	\$16,255,833	\$270,931
Total Supportable Development Cost			\$478	\$239,219,333	\$598,048
PROJECT DEVELOPMENT COSTS			PER GBA	TOTAL	Per Unit
Construction Cost					
Basic Site Work	\$22	per SF (Site)	\$8	\$3,781,008	\$9,453
Building Direct Cost	\$285	Cost/SF (GBA)	\$285	\$142,500,000	\$356,250
Surface Parking Direct Cost	\$5,000	per Space	\$0	\$0	
Structured Parking Direct Cost	\$50,000	per Space	<u>\$45</u>	<u>\$22,500,000</u>	<u>\$56,250</u>
<i>Total Construction Cost</i>			<i>\$338</i>	<i>\$168,781,008</i>	<i>\$421,953</i>
Soft Cost					
Architecture and Engineering	4.0%	of Construction Cost	\$14	\$6,751,240	\$16,878
Other Soft Costs	2.0%	of Construction Cost	\$7	\$3,375,620	\$8,439
Permits and Fees ⁶	\$56,500	per DU	\$45	\$22,600,000	\$56,500
Taxes and Insurance	2.0%	of Construction Cost	\$7	\$3,375,620	\$8,439
Financing	4.0%	of Construction Cost	\$14	\$6,751,240	\$16,878
Marketing/Leasing	3.0%	of Construction Cost	\$10	\$5,063,430	\$12,659
Developer Fee	4.0%	of Construction Cost	<u>\$14</u>	<u>\$6,751,240</u>	<u>\$16,878</u>
<i>Total Soft Costs</i>			<i>\$109</i>	<i>\$54,668,392</i>	<i>\$136,671</i>
Total Cost without Land			\$447	\$223,449,400	\$558,623
Residual Land Value	Total Value less Total Cost		\$32	\$15,769,934	\$39,425
<i>per acre</i>				<i>\$3,942,483</i>	
Total Project Cost			\$478	\$239,219,333	\$598,048

- (1) Dwelling Units per Acre derived using existing Greystar development density of 520 units on a site of 7.99 gross acres.
(2) Unit size of 1,000 SF is an industry standard assumption.
(3) Parking Standards based on Sunnyvale Off-Street Vehicle Parking Space Requirements. Figure used is an average of the parking standard for 1 bedroom units and 2 bedroom units.
(4) In line with Sunnyvale's existing affordable housing policies, the analysis assumes 15 percent of rental units will be affordable to low- and very low- income (80 and 50 percent of Area Median Income, respectively) households. This calculation assumes an average 70 percent of Area Median Income.
(5) Parking price is an industry standard assumption.
(6) Excludes inclusionary housing fee.

In just 2018-2019, 14 properties sold in the LSAP area. Some of these transactions have been for property acquisitions related to Intuitive Surgical's corporate expansion plans, while other properties have been purchased for other uses, potentially including new development. While purchase price data was not available for all 14 transactions, a review of available data shows many properties transacting at per acre prices well above EPS's estimated \$3.0-\$4.0 million per acre value for residential development (see **Table 15**). Additionally, although the transaction occurred six years ago, in November 2013, we consider the Greystar property currently under construction in the LSAP, as a comparable sale because of the intended residential use. In 2013 the property transacted for \$3.50 million per acre, a value between the residual land values for the two prototypes modeled above. We posit that the 2013 transaction figure remains relevant: we expect general stability in the cost of developable residential land since 2013 because increases in rents have been outpaced by increases in construction costs, which applies downward pressure on real land prices.

Table 15 Representative LSAP Transactions by Property Type, 2018-2019

Address ¹	Existing Property Type	Total Building Square Feet	Total Acres Sold	Lot Coverage	Sale Price	Sale Price per Acre ²
1130 Kifer Rd ³	Flex	100,400	7.99	0.351	\$28,000,000	\$3,500,000
818-824 Kifer Rd	Flex	47,272	3.09	0.351	\$30,400,000	\$9,838,188
1159 Sonora Ct	Flex	16,830	1.14	0.339		
923-925 Kifer Rd	Flex	12,000	0.61	0.452	\$4,680,000	\$7,672,131
1090 Kifer Rd (Part of Multi-Property Sale)	Flex	101,731	16.84	0.478		
1170 Sonora Ct	Flex	15,000	1.09	0.316	\$8,900,000	\$8,165,138
1484 Kifer Rd	Industrial	128,628	4.77	0.619	\$33,000,000	\$6,918,239
100-120 San Lucar Ct	Industrial	47,200	2.42	0.448		
932 Kifer Rd (Part of Multi-Property Sale)	Industrial	63,035	26.73	0.146		
1175 Aster Ave (Part of Multi-Property Sale)	Land (unimproved)	NA	39.87	NA		
1202 Kifer Rd	Office	8,156	0.51	0.184		
1388 Kifer Rd	Office	88,924	5.28	0.129	\$33,000,000	\$6,250,000
1294 Kifer Rd, 703	Office	25,360	0.23	1.784	\$840,000	\$3,652,174
1210 Kifer Rd	Retail	7,800	1.6	0.112	\$5,900,100	\$3,687,563
Weighted Average Price/Acre						\$5,867,198

(1) Where address is part of multi-property sale, sales and acreage figures apply to all properties included in transaction.

(2) Sale price not available for all transactions.

(3) Greystar property, transacted in 2013.

Sources: Costar, Santa Clara County Assessor and Recorder

These data suggest that many existing uses in the LSAP area are worth more as leasable or occupiable buildings or as development sites for commercial development than their underlying land is worth for residential development. That residual land values for residential development are lower than nonresidential building market values suggest demand to convert existing LSAP real estate to residential will be modest in the near term. Given the demand and high market values for housing in the region and local area, residential development should be feasible with appropriately priced land, but the LSAP properties that will turn over soonest are likely to be older properties that are not commanding top pricing in the market. Even then, it is possible that such properties will be acquired as a speculative purchase awaiting improved residential project feasibility (e.g., higher values, lower costs), rather than being converted to residential use in the near term.

As such, this finding suggests that the residential development prospects in the LSAP area – whether under the existing Plan or the higher density LSAP – may not indicate a major windfall to property owners or developers that can be leveraged to achieve greater community benefits. Such benefits – be they more affordable housing, more open space, or other conditions – tend to add to development costs and/or reduce development values, either of which may pose a still greater feasibility hurdle for new residential development aiming to compete to acquire property in the LSAP area. Still, the higher density residential project (100 units per acre) does appear to increase the land value by a significant margin relative to the lower density project (65 units per acre), so it may be worthwhile pursuing the higher density LSAP because it can potentially yield more housing sooner and does indicate a preferable fiscal impact as discussed earlier in this document.