

2/13/2025

Item # 1



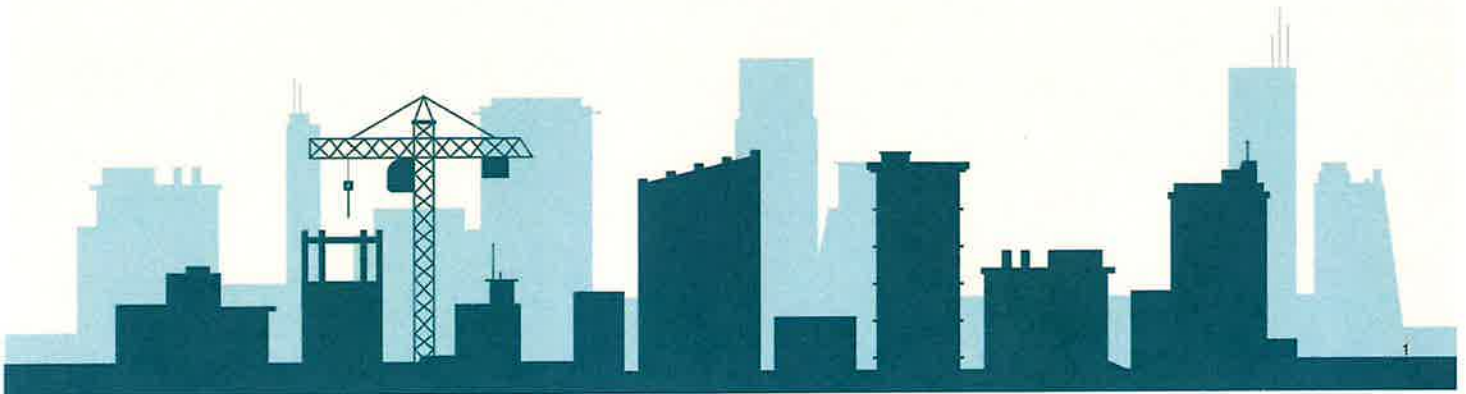
**City of  
Santa Clara**  
The Center of What's Possible



**San Francisco**

# State of Santa Clara Real Estate and Development Market

*(Special City Council Session)*



## STUDY SESSION AGENDA

### **PUBLIC COMMENT (30 MINS)**

*(Audience real estate & development questions)*

Short Break (5 Mins)

### **URBAN LAND INSTITUTE PRESENTATION (90 MINS)**

Break (10 Mins)

### **Q & A (60 MINS)**

Council Questions

Audience Questions *(notecards for submitting questions)*

**MEETING ENDS (9 P.M.)**

**NETWORKING**

**POST MEETING MATERIALS**

# Santa Clara City Council



**Mayor**  
**Lisa M. Gillmor**



**District 6**  
**Vice Mayor**  
**Kelly G. Cox**



**District 1**  
**Councilmember**  
**Albert Gonzalez**



**District 2**  
**Councilmember**  
**Raj Chahal**



**City Manager**  
**Jovan D. Grogan**



**District 3**  
**Councilmember**  
**Karen Hardy**



**District 4**  
**Councilmember**  
**Kevin Park**



**District 5**  
**Councilmember**  
**Suds Jain**



**Glen R. Googins**  
**City Attorney**

3

## City Development Team



**City of**  
**Santa Clara**  
The Center of What's Possible

### City Leadership

- Elizabeth Klotz, Assistant City Manager
- Reena Brilliot, Director of Economic Development & Sustainability
- Elycia Knight, Development Project Manager

### Department Leadership

- Afshan Hamid, Director of Community Development
- Lesley Xavier, Planning Manager
- Armand Lobao, Building Official
- Craig Mobeck, Director of Public Works
- Michael Liw, Assistant Director of Public Works
- Brian Lee, Public Works Division Manager
- Manuel Pineda, Director of Silicon Valley Power (SVP)
- Chris Karwick, Assistant Director SVP
- Sachin Bajracharya, SVP Utility Engineer
- Gary Welling, Director of Water & Sewer
- Ahmed Aly, Principal Engineer
- Damon Sparacino, Director of Parks & Recreation
- Gina Saporito, Parks & Recreation Analyst
- Ruben Torres, Fire Chief
- Jenn Panko, Battalion Chief
- Jake Tomlin, Fire Marshall

4

## Snapshot of Santa Clara

- 131,062 Residents
- 45% Foreign Born
- 34 years Median Age
- 6 Districts
- Approx. 4,700 Businesses



## Santa Clara: Five Lines of Business



**City of Santa  
Clara**



**Silicon Valley  
Power**



**Stadium  
Authority**



**Convention  
Center**



**Regional  
Wastewater  
Facility\***

*\*Co-owner with City  
of San Jose*



## Businesses & Institutions



Agilent Technologies



7

# Development Landscape Santa Clara



**City of  
Santa Clara**  
The Center of What's Possible

## Growing City

- 7,208 housing units under review or construction
- 4.46M sq ft of new nonresidential under review or construction
  - Office buildings, data centers, commercial
- Since 2023, Seven 100% affordable projects completed + one under construction= 1057 units



## Planned Growth Areas 20,000+ Units

### Adopted Plans

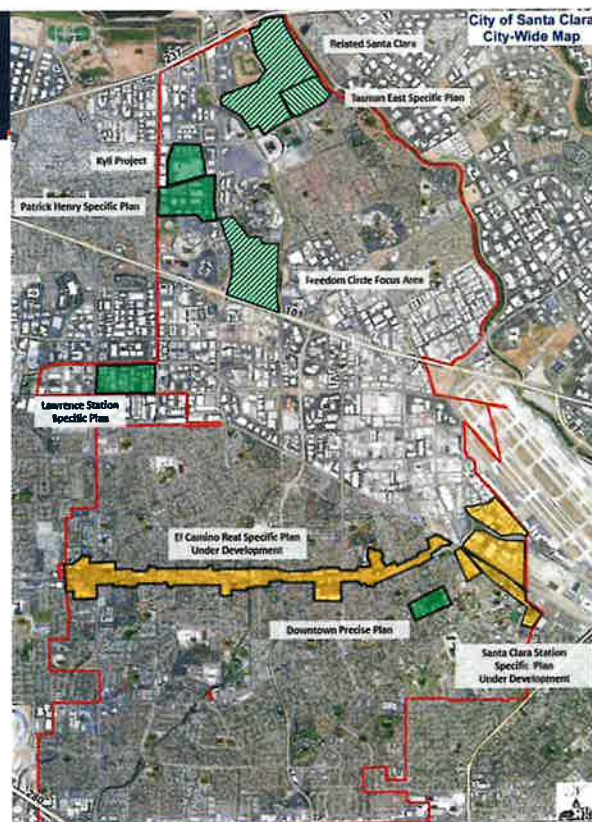
- Lawrence Station Specific Plan
- Patrick Henry Drive Specific Plan
- Downtown Precise Plan
- Mission Point by Kylli

### Amendments to Adopted Plans

- Tasman East Specific Plan
- Related Santa Clara
- Freedom Circle Focus Area

### Plans Under Development

- El Camino Real Specific Plan
- Santa Clara Station Area Specific Plan





## 2025 Multifamily Construction Bumper Year

- 2,810 multifamily units under construction. 1,101 of which have been recently completed or soon will be completed in early 2025
- These projects received their first planning approvals as far back as 2019/2020

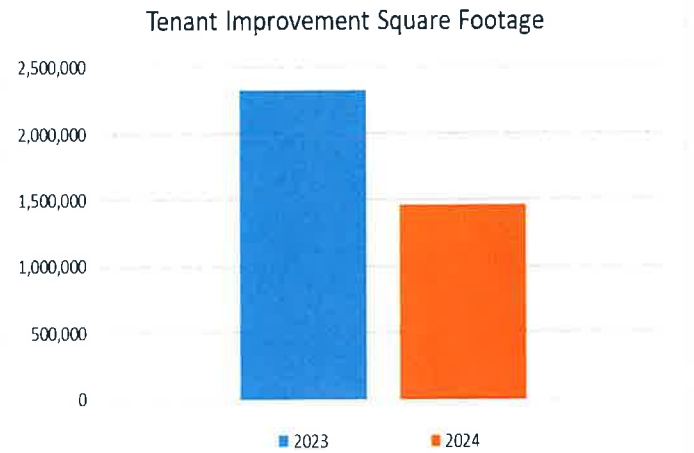
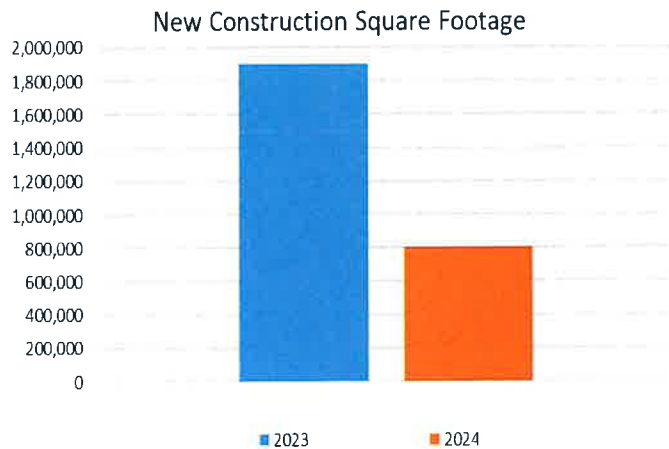


## Data Centers

- Began construction in early 1990s
- West Coast Data Center Capital
- 58 operating or recently constructed data centers
- Limited near-term capacity for new data centers until transmission infrastructure completed



## Non-Residential Slowdown



13

## Development Yielding to Economic/Market Conditions

- **Newly Approved Projects Are Not Breaking Ground:** In adopted Plan areas, only Lawrence Station & Tasman East have any units constructed or under construction
- **Tasman East Specific Plan:** Half the planned units are under construction & half are waiting financing
- **Related Santa Clara:** Amendment to consider Light Industrial alternative East of Lafayette in lieu of Campus Office development
- **Patrick Henry Specific Plan** Out of 12,000 units of planned capacity, only two projects approved, nothing under construction
- **Downtown Precise Plan** City eager to rebuild. No projects on file. Developing City land can be a catalyst. Are these the right market conditions to solicit offers?





**City of  
Santa Clara**  
The Center of What's Possible



**San Francisco**

# **State of Santa Clara Real Estate and Development Market**

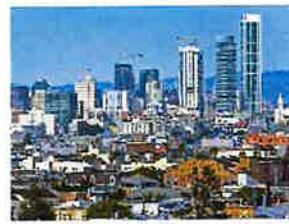
*(Special City Council Session)*







ULI San Francisco  
**Real Estate and Development Landscape**  
 Study Session with the City of Santa Clara  
 February 13, 2025



1



## About Urban Land Institute (ULI)



- ULI is a 501(c) (3) nonprofit research and education organization supported by its members.
- Our mission is to shape the future of the built environment for transformative impact in communities worldwide.
- The San Francisco District Council has over 2,100 members, and focuses on the following:
  - Provides a forum for sharing of best practices
  - Connects communities with expertise in a learning and inclusive environment
  - Administers UrbanPlan program
  - Conducts Technical Assistance Panels
  - Creates opportunities for young professionals to develop skills and build relationship

2



## About ULI's Public Agency Offerings

- **Technical Assistance Panels (TAPs):** Industry experts volunteer to assist on specific public issues.
- **UrbanPlan for Communities:** An immersive workshop for public officials using building blocks!
- **Development Fundamentals:** A session or series of courses designed for public sector staff.
- **Housing for Bay Summit:** An annual summit focused on building housing for all.

3

3



## About Today's Presenters



**Libby Seifel**

Seifel Consulting  
President & Founder



**Eric Tao**

L37  
Managing Partner



**Drew Hudacek**

Sares Regis  
Chief Investment Officer

4

4



## Agenda for the Presentation

1. Risk, return, and value
2. Real estate trends and outlook
3. When does a deal “pencil”?
4. Land residual value
5. What policy makers can do

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5



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## Chapter 1

### Risk, Return, and Value



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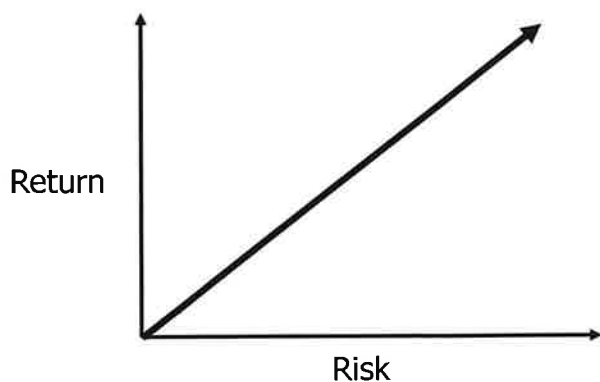


Money is impartial and efficient.

It seeks the highest returns  
for the least amount of risk.

7

A universal truth of all investment is that capital strives to generate the **highest return** for the **least amount of risk**



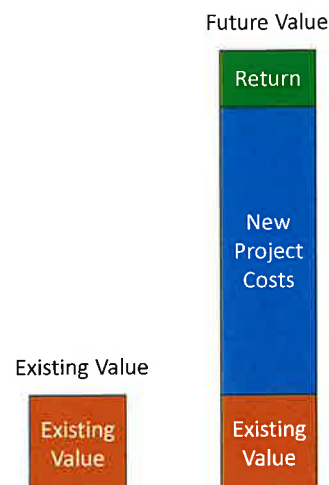
If investors can *stuff money under the mattress for a good yield* (like buy 10-year T-bills at 4.5%), they demand a much *higher return for new RE development given all of its risks*

8

## Chapter 1 – Risk, Return, and Value

Developers must significantly increase the value of a property to pursue new development.

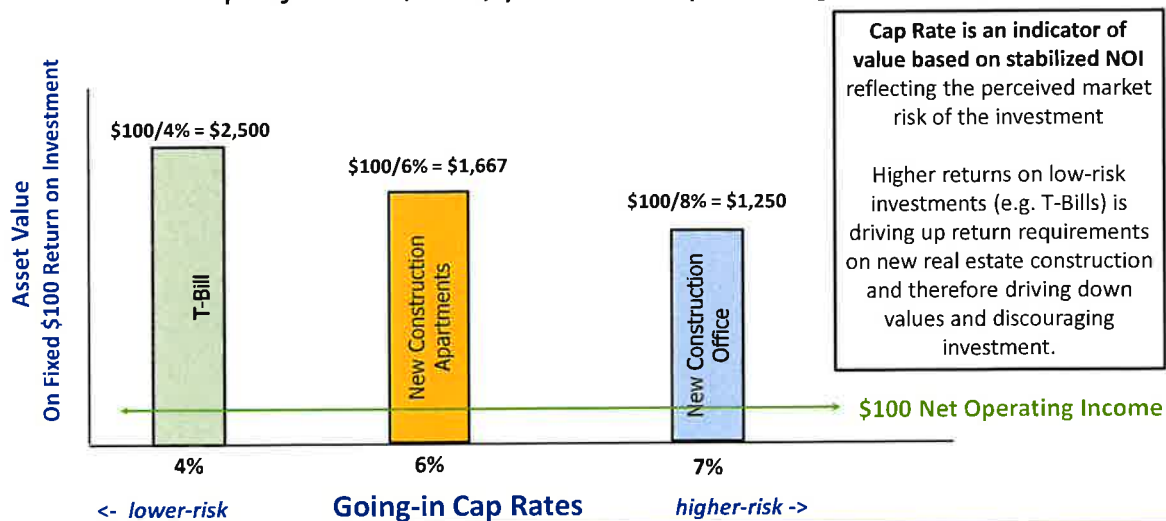
- Funding must be obtained to support ALL project costs (including purchase of property and construction costs)
- Future value must exceed total costs, so capital receives a risk-adjusted return.



9

## Chapter 1 – Risk, Return, and Value

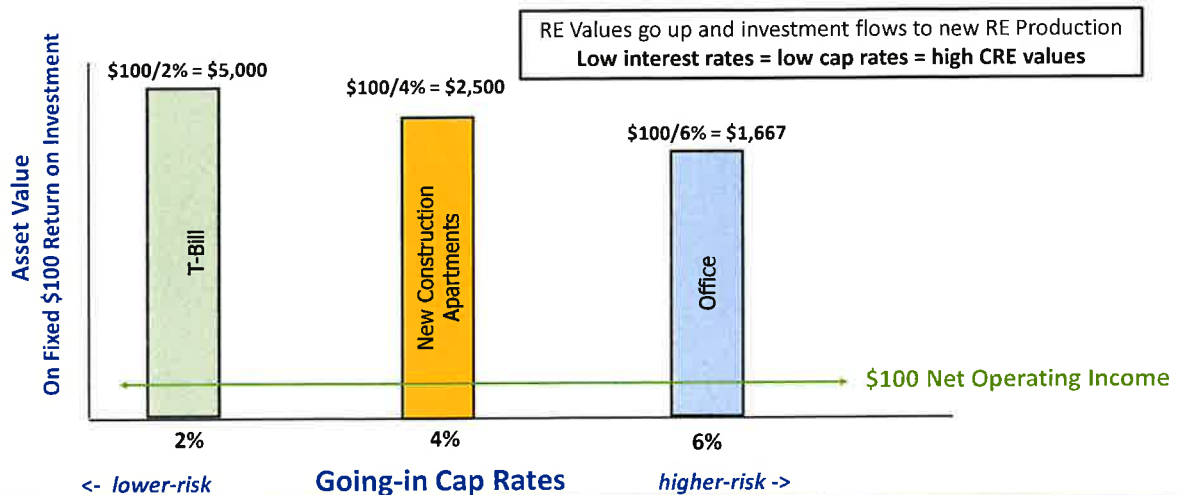
Value for a projected \$100/yr in Net Operating Income (NOI)



10

## Chapter 1 – Risk, Return, and Value

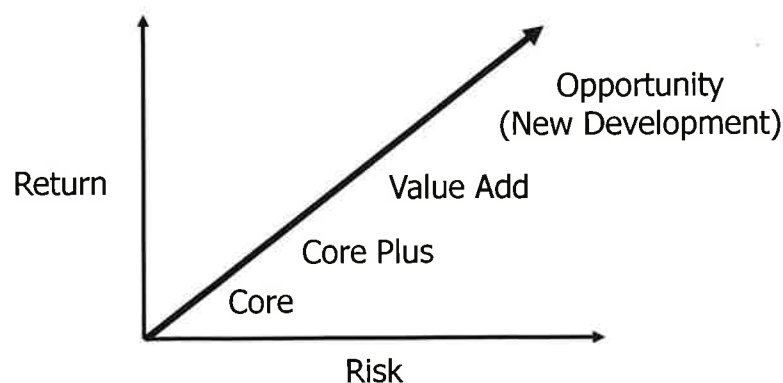
What happens if T-Bills go back to 2% (2019 Rate)?



11

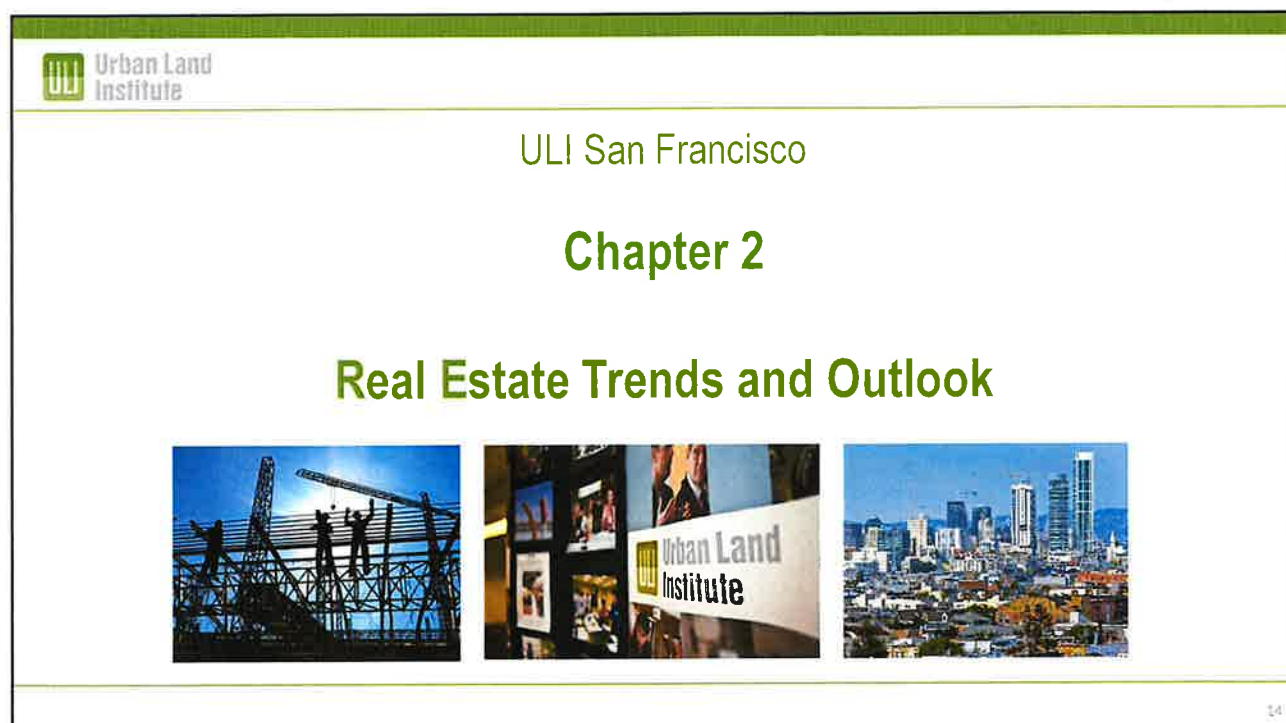
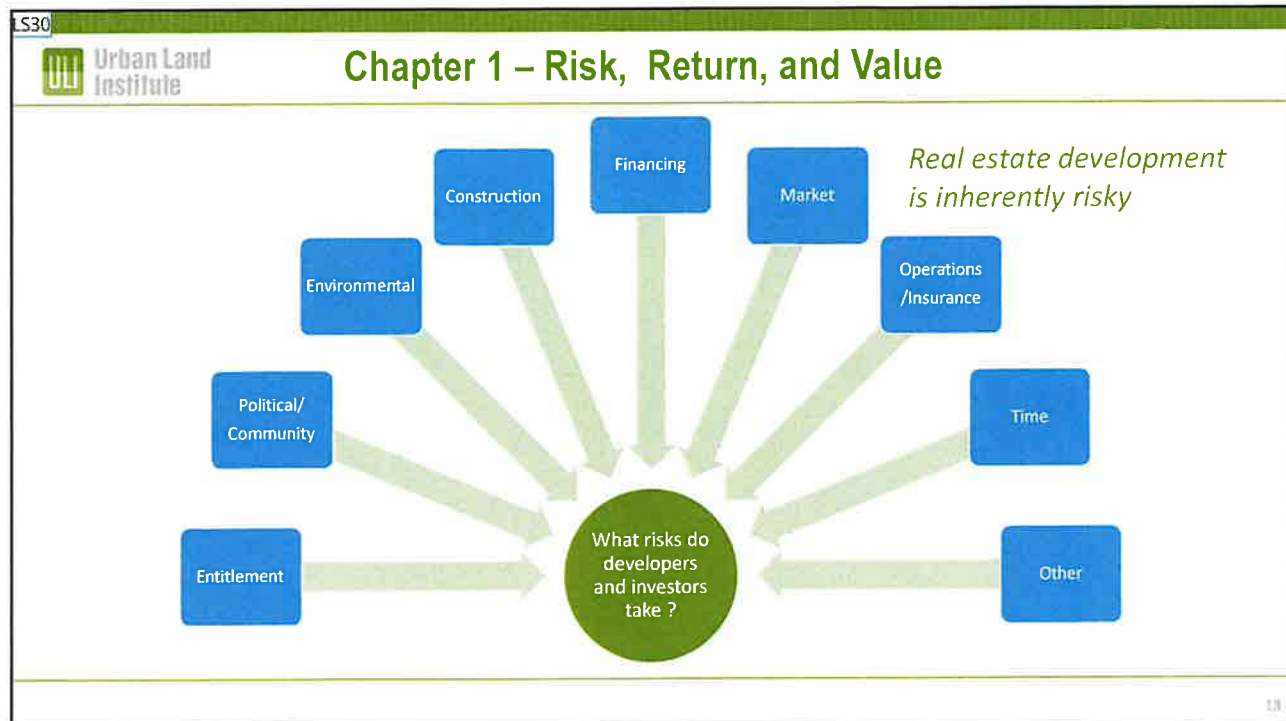
## Chapter 1 – Risk, Return, and Value

How real estate investors label their pools of money



12





## Slide 13

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**LS30**      Replace prior slide or add this slide?

L Seifel, 10/14/2022



## Chapter 2 – Real Estate Trends and Outlook

### Pre-Pandemic (Before March 2020)

- Interest rates at **all-time lows**
- Occupancy and rental rates in apartments and offices at **all-time highs**
- Real estate values for income producing properties at **all-time highs**
  - In real estate, income producing properties valued by cap rates
  - When cap rates are low, values are high compared to revenue generated

15



## Chapter 2 – Real Estate Trends and Outlook

### Uncertainties Since the Pandemic

- **Hybrid work** allows out-migration from the Bay Area
- **Office plus some retail and hospitality** have not yet recovered (low rents/occupancy)
- Bay Area **construction costs increased at 5-15% per year** from 2021 to 2024
  - While recently stabilizing, uncertainty around tariffs on building materials
- **Interest rates rose steeply** in 2022 and stayed high through 2024.
  - The future is even more uncertain.

16



# Chapter 2 – Real Estate Trends and Outlook

## Value Trends Since the Pandemic

- If you have a **well-operated apartment building**, values are **down 15% – 30%**.
- If you have an **office building**, its values are **down 35 – 70%**.

17

17

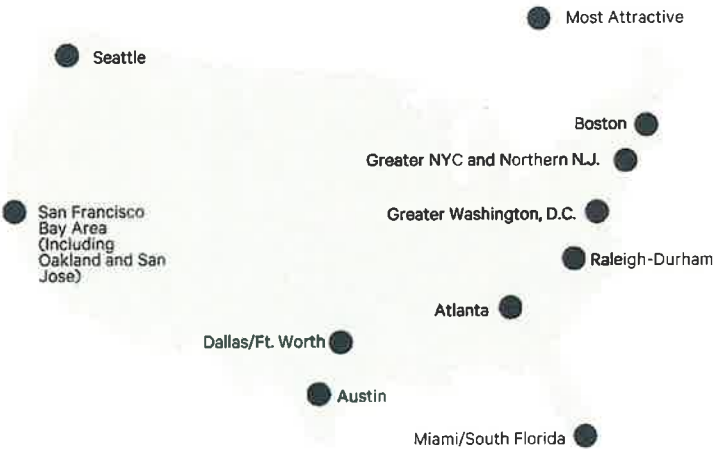
# Chapter 2 – Real Estate Trends and Outlook

## Investors Consider Select Gateways and Sun Belt Cities as Most Attractive

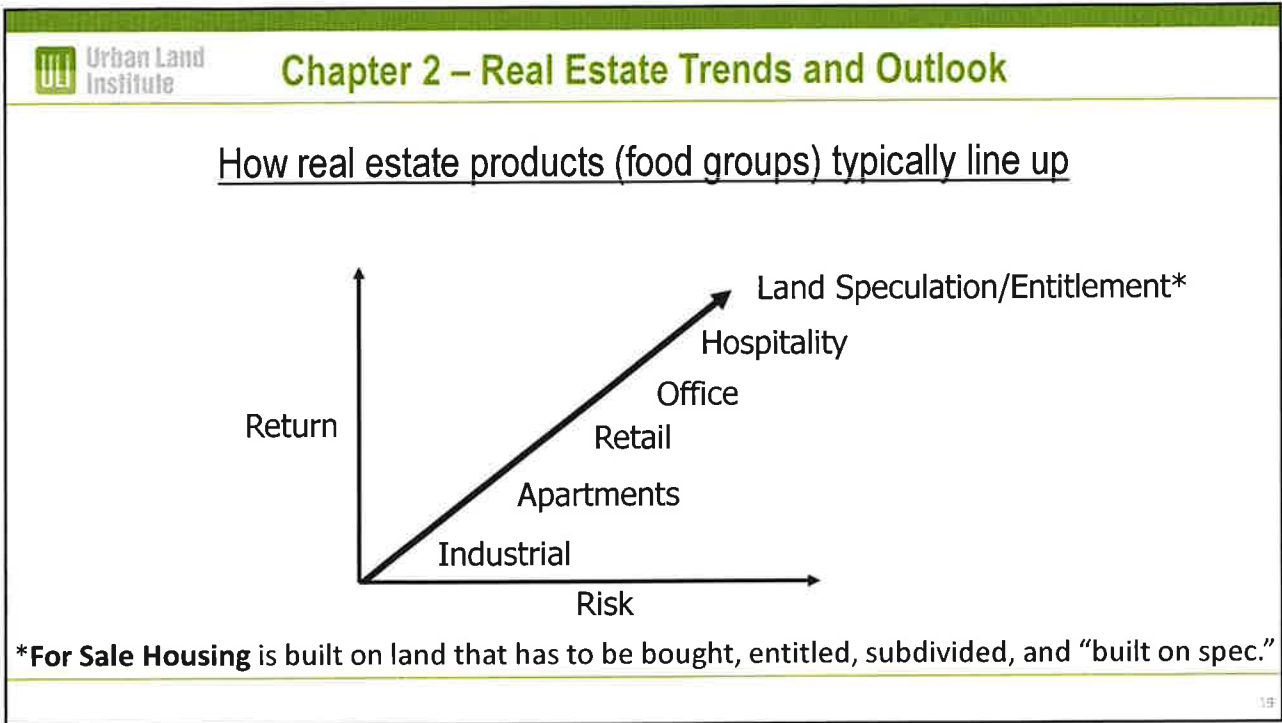
### Top 10 Most Attractive Markets

1	Dallas / Ft. Worth
2	Boston
3	Miami / South Florida
4	Raleigh - Durham
5	Atlanta
6	Austin
7	San Francisco Bay Area
8	Greater Washington, D.C.
9	Greater New York City
10	Seattle

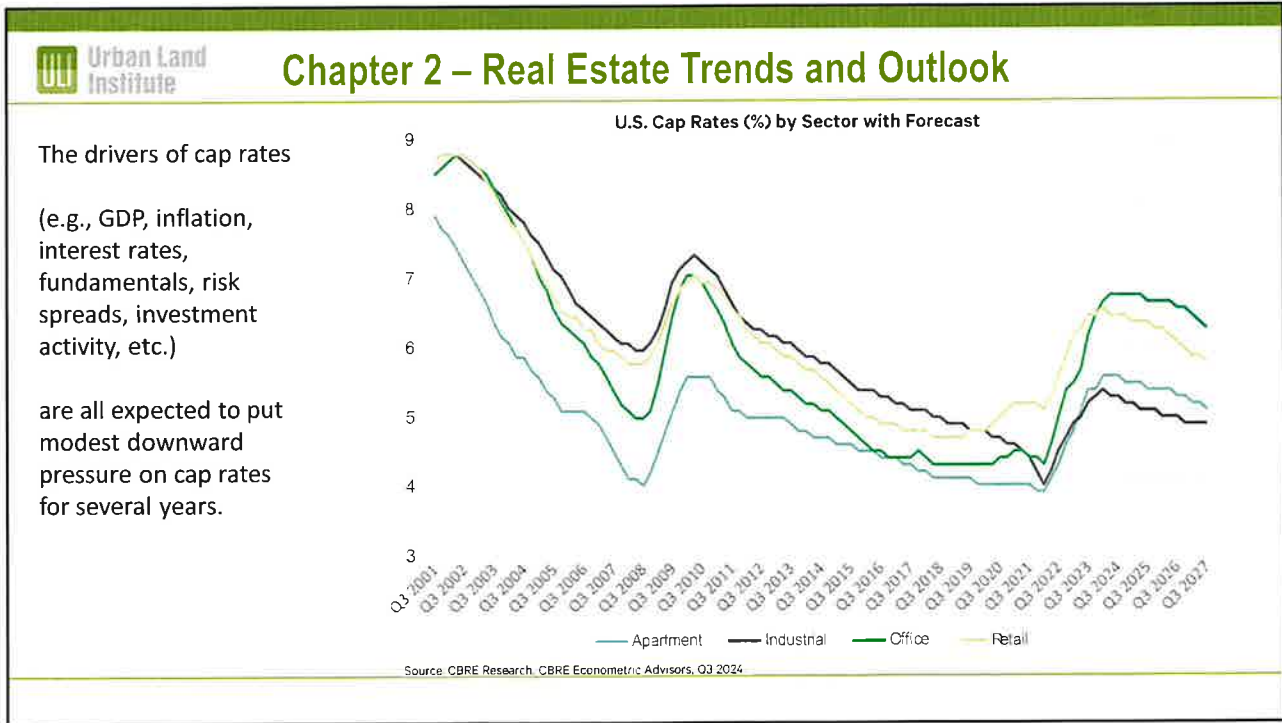
Source: U.S. Investor Intentions Survey, CBRE Research, December 2024



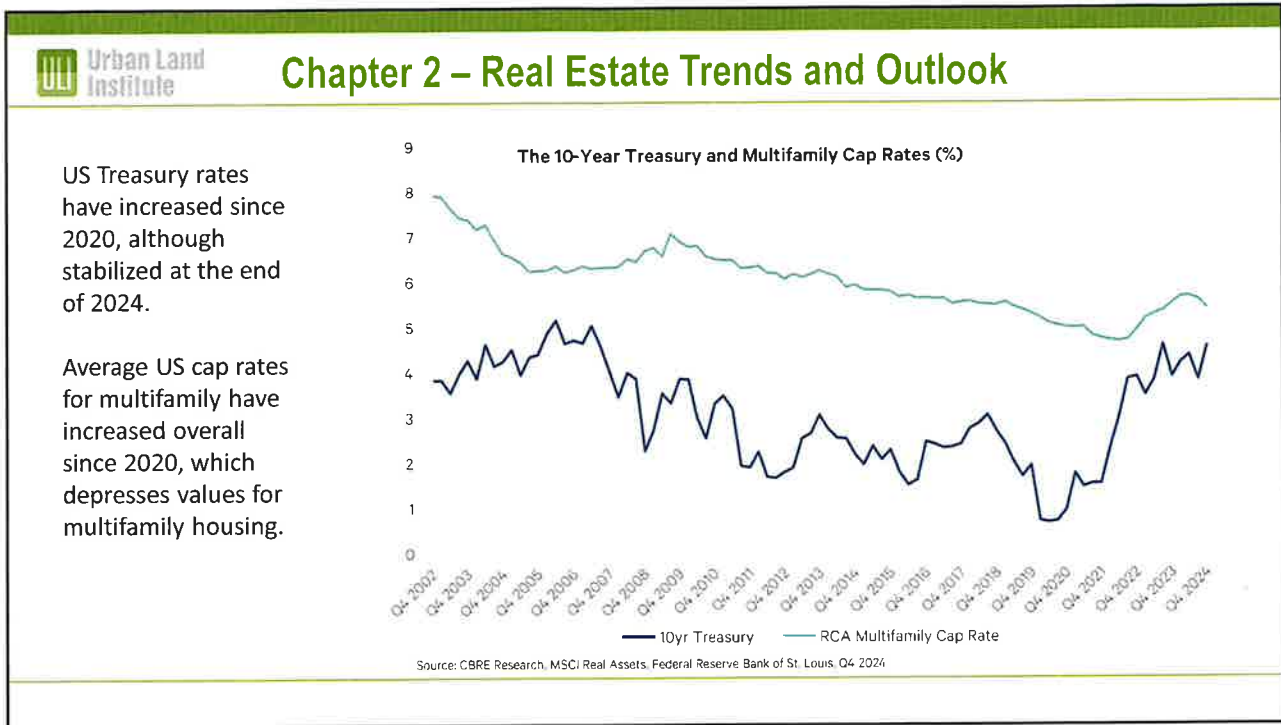
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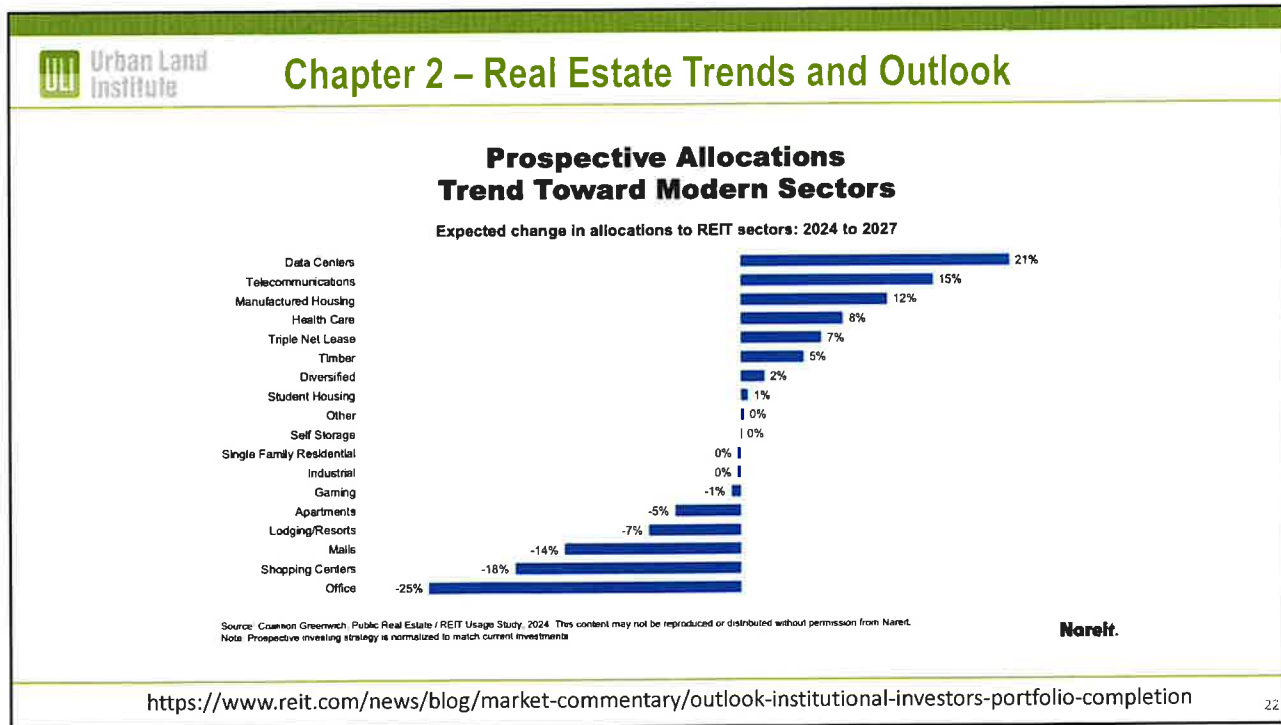
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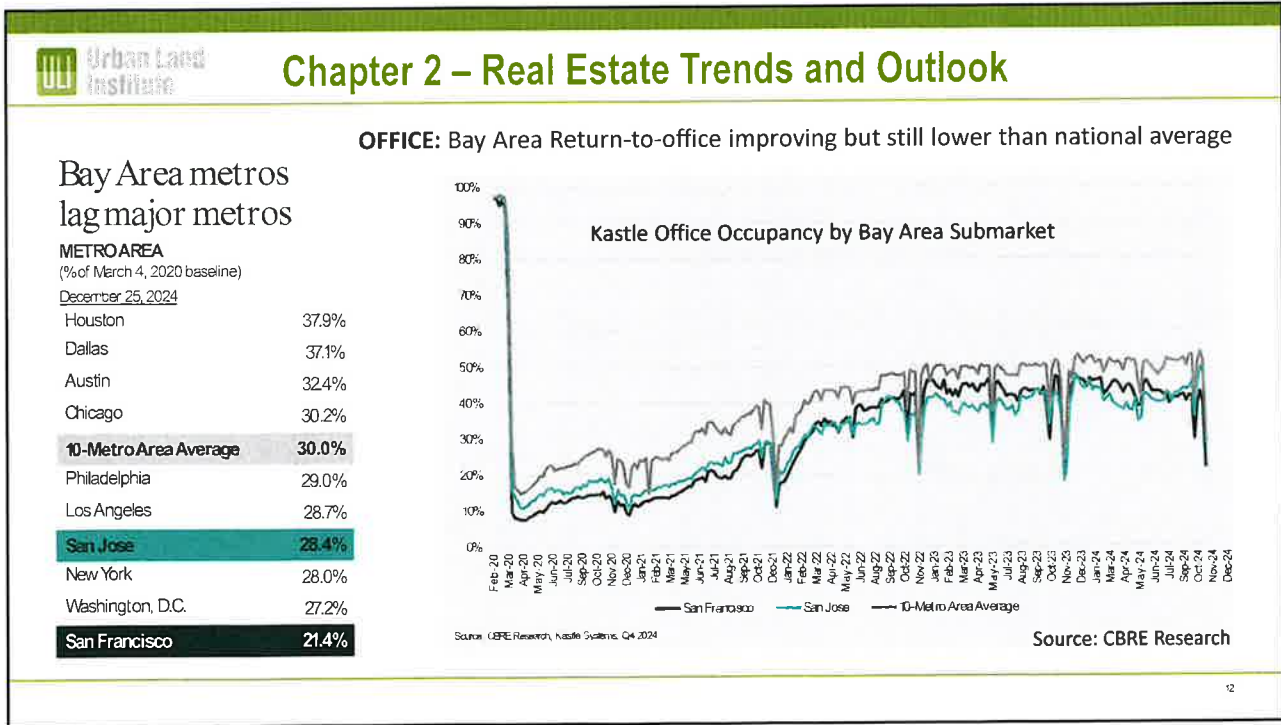
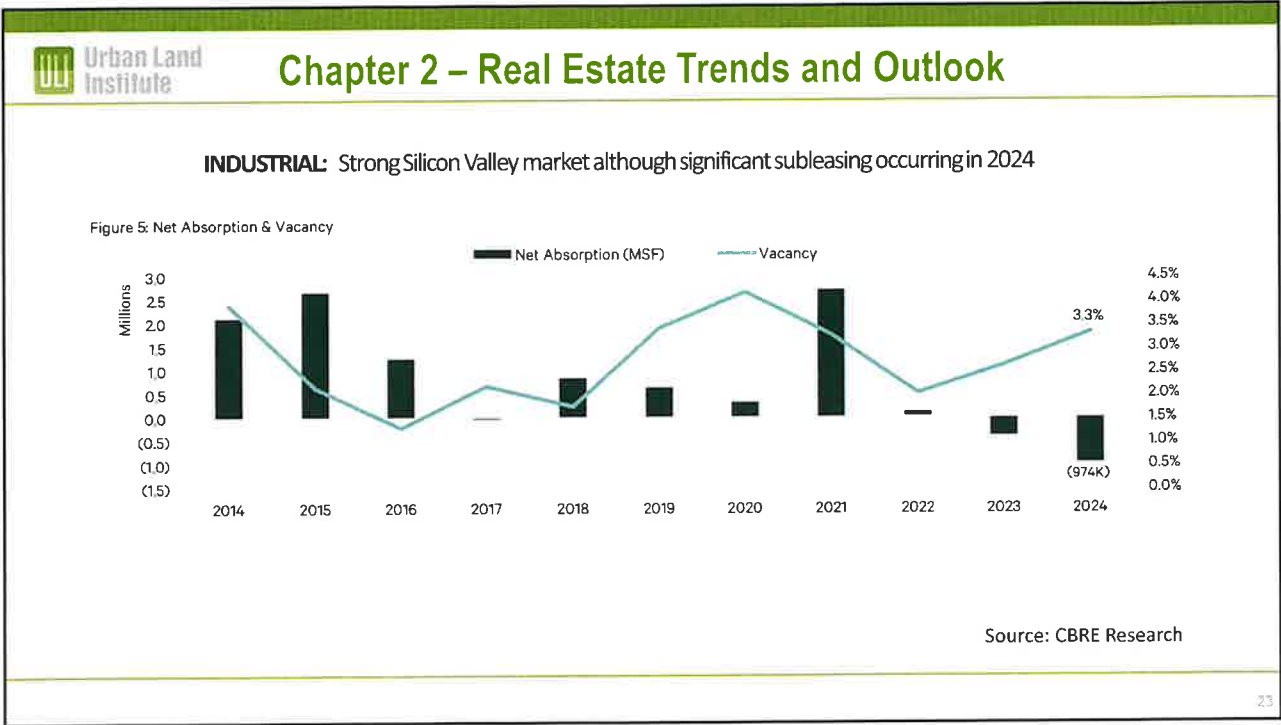
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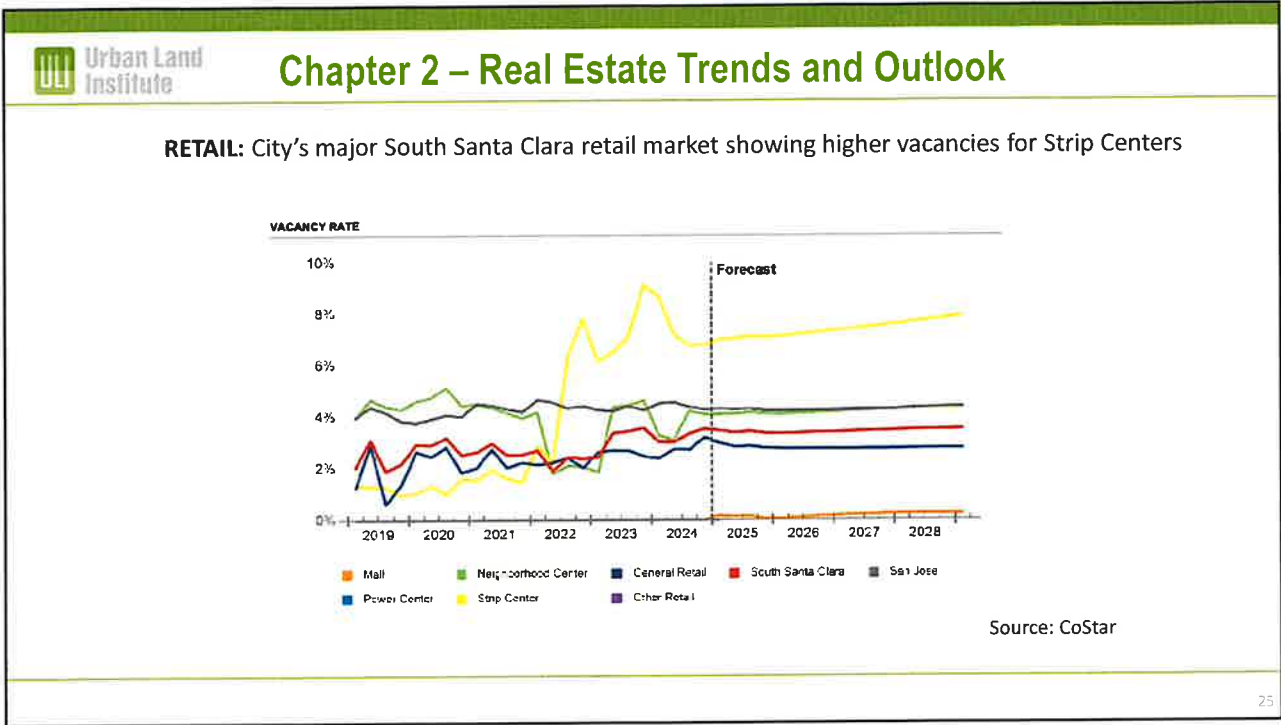
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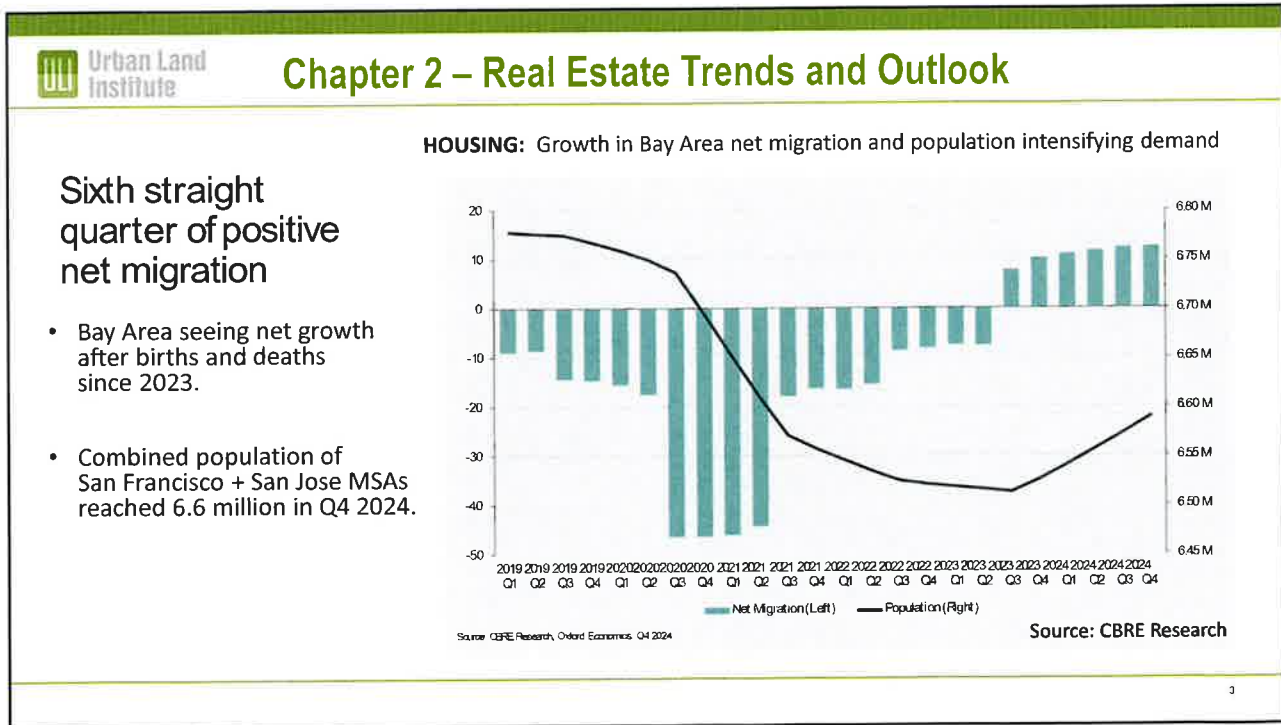
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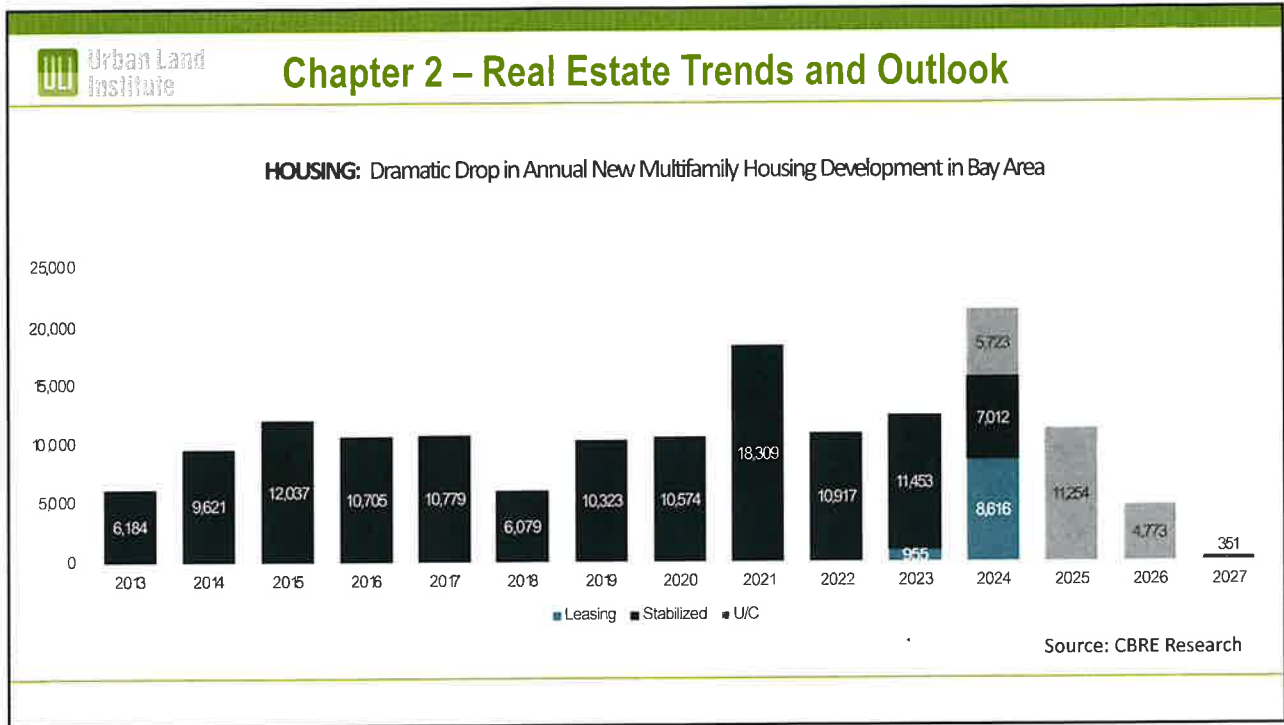




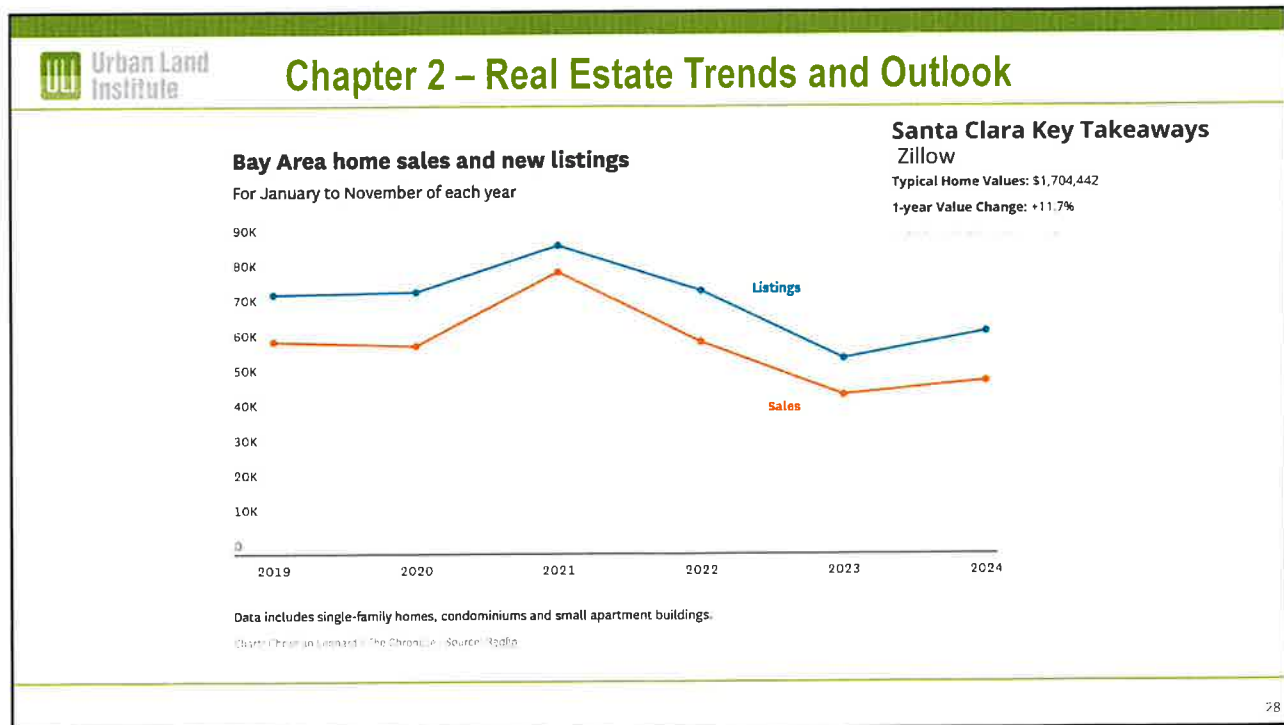
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26



27



28



## Chapter 2 – Real Estate Trends and Outlook

### US Home Sales

- Nationally, the number of homes sold per year is down to a 30-year low
- More than 62% of homeowners with a mortgage are locked in lower than 5%
- New mortgages are pricing in the 7% range
- The result is nobody who has owned a home for a while wants to sell
- Creates opportunity for homebuilding even though rates are high

29

29



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## Chapter 3

### When does a deal “pencil”?

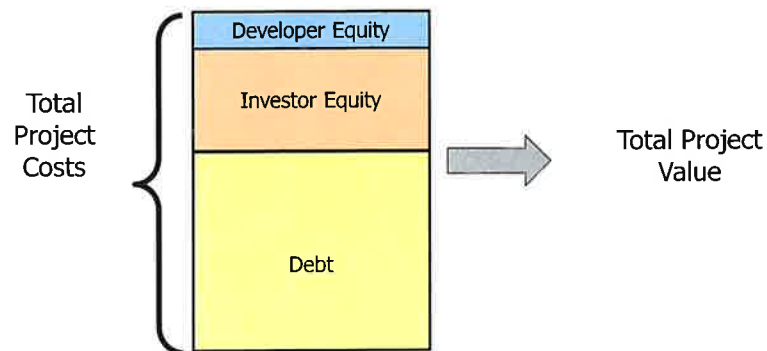


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### Chapter 3 – When does a deal “pencil”?

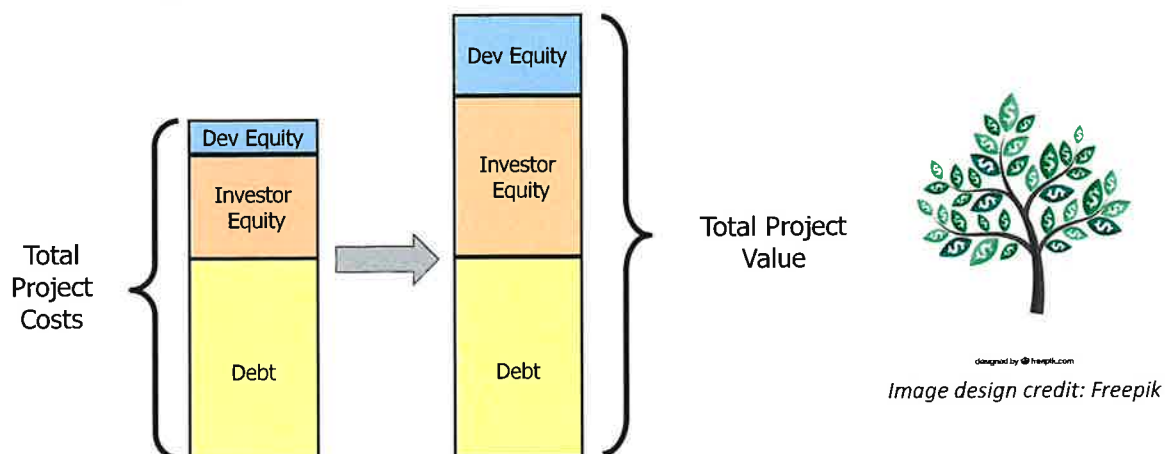
The capital “stack” represents all the money it takes to build a building



31

### Chapter 3 – When does a deal “pencil”?

When things go well...value is much greater than the cost



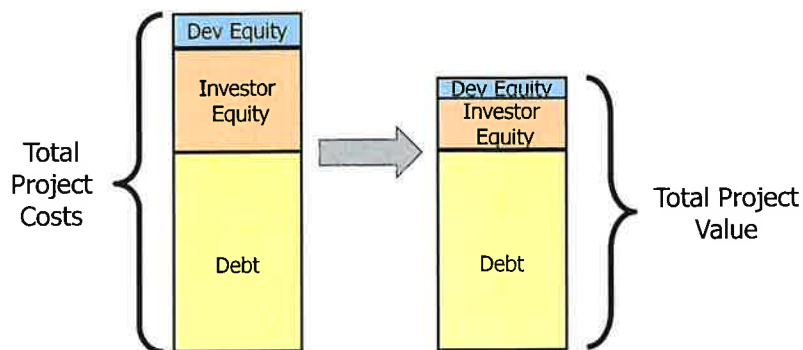
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## Chapter 3 – When does a deal “pencil”?

When they don't...cost is much less than value

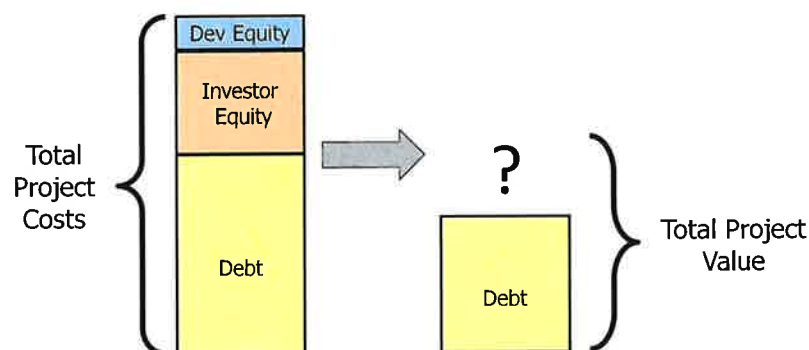


33



## Chapter 3 – When does a deal “pencil”?

When we see a financial crisis or instability like now...



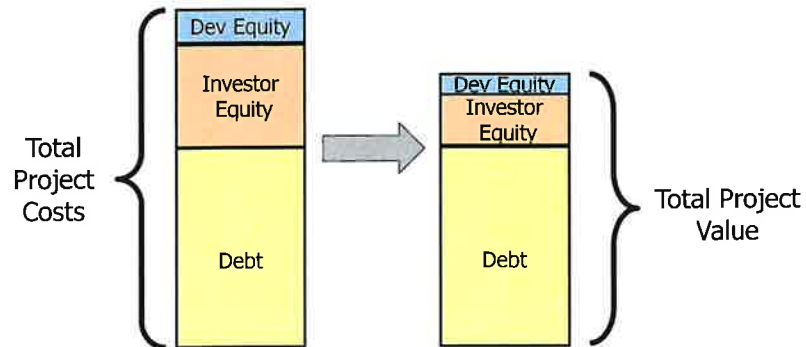
34

## Chapter 3 – When does a deal “pencil”?

What is the multifamily housing challenge now?

Bay Area average apartment development cost = \$650,000/unit

While average apartment value = \$510,000/unit



35

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## Chapter 4

### Land Residual Value



36

36

## Chapter 4 – Land Residual Value

### The Land Market

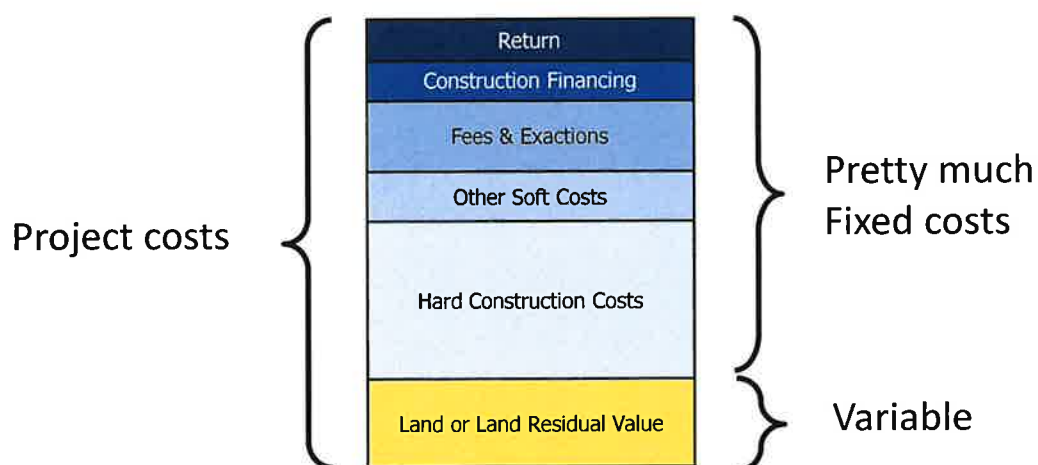
- We cannot discuss real estate without talking about land value
- Real estate developers buy land based on a “Land Residual Analysis”
  - Project future value once project is developed
    - Less: all known project costs
    - Less: Risk Adjusted Return (taking into account when project may occur)
    - = **Land Residual Value**

37

37

## Chapter 4 – Land Residual Value

What makes up development costs?



38

38

## Slide 38

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- LS26**      Changed this from hard costs  
L Seifel, 10/14/2022
- LS27**      Think we should emphasize parking here  
L Seifel, 10/14/2022



## Chapter 4 – Land Residual Value

### Sample Land Residual Value Calculation

Sample Project (200 Apartments)	Total Project	Per Unit
<b>Projected Value</b>	<b>\$130 million</b>	<b>\$650,000</b>
<b>Less: Project Costs</b> (without land cost)	\$100 million	\$500,000
<b>Less: Return (Risk Adjusted)</b>	\$20 million	\$100,000
<b>Land Residual Value</b>	<b>\$10 million</b>	<b>\$50,000</b>

39

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## Chapter 5

### What Policy Makers Can Do



40

## Chapter 5 – What Policy Makers Can Do

- A. Lower Costs
- B. Increase Revenue
- C. Increase Certainty

41

41

## Chapter 5 – What Policy Makers Can Do

### Lower Costs

- Lower parking requirements
- Eliminate retail in the wrong place
- Lower fees of any and all sorts
- Lower processing fees
- Lower utility connection fees
- Lower percentage of on-site affordability
- Real estate tax reduction
- Help lower construction and public infrastructure costs
- Consider costs of sustainability reach goals



42

42

## Chapter 5 – What Policy Makers Can Do

### Increase Revenues

- Enhance regional and local economy
- Allow higher income targets for affordable housing
- Reduce transfer taxes
- Limit effect of rent control on new development



43

43

## Chapter 5 – What Policy Makers Can Do


### Increase Certainty

#### *Time kills deals due to increased risk and cost*

- Clarify the steps and required submittals for approval
- Clarify the objective standards being used
- Streamline development approval and processing time
  - Shorten number of review cycles and review time
  - Provide clear guidance on changes needed
  - Limit changes to the project after design is approved
- Help developer seek approvals from other organizations, like PG&E, utility districts, Caltrans

44

44



Break

45

45



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Questions



45

46