

## ***FINAL MEMORANDUM***

To: Ken Rich and Theodore Conrad, City and County of San Francisco

From: James Musbach, Michael Nimon, and Michelle Chung, EPS

Subject: Jobs-Housing Linkage Fee Update Development Feasibility Assessment; EPS #191029

Date: June 3, 2019

*The Economics of Land Use*



This memorandum has been prepared by Economic & Planning Systems, Inc. (EPS) for the City and County of San Francisco (the City or Client) and documents development feasibility analysis and findings related to the economics of office development and its ability to support contemplated Jobs-Housing Linkage fee increases. The City is currently conducting a Nexus Analysis for the Jobs-Housing Linkage fee update designed to establish a maximum allowable fee that could be imposed on new development. As part of this effort, the City is interested in understanding development feasibility impacts of potential fee increases on new office development in the City's pipeline. The City is interested in maintaining the feasibility of new office development while also making sure that new development "pays its own way", i.e., contributes to the City's funding of affordable housing and other community benefits needed to respond to the growing employment base.

The analysis completed by EPS is based on six office development prototypes summarized in **Table 1**. These prototypes are reflective of high-level office development characteristics associated with projects in the City's development pipeline. This financial analysis is based on EPS's ongoing and previously completed work in San Francisco as well as technical input from City staff and Seifel Consulting, including development impact fee schedules and cost estimates, review of key assumptions, and definition of prototypes. It also incorporates stakeholder comments received during the presentation to the development community on April 29, 2019. Key findings are described below.

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**Table 1 Development Prototypes**

Prototype	1 Central SoMa - Large Cap (Large)	2 Central SoMa - Large Cap (Medium)	3 Central SoMa - Small Cap	4 Transit Center - Large Cap	5 Eastern Neighborhoods (EN) - Small Cap	6 Eastern Neighborhoods (EN) - Large Cap
Site Assumptions						
Neighborhood	Central SoMa	Central SoMa	Central SoMa	Transit Center	EN	EN
Lot Area (sq. ft.)	90,000	35,000	13,000	20,000	10,500	20,000
Floor Area Ratio (FAR)	9.7	7.7	4.8	19.4	5.6	6.3
Building Assumptions (1)						
Building Height	200	160	65	400	85	130
Total Gross Floor Area (w/o parking) (sq. ft.)	870,000	270,000	62,000	388,000	59,000	125,000
Office	800,000	245,000	49,900	372,000	49,900	110,000
PDR	45,000	17,500	6,500	0	0	10,000
Retail	14,000	4,500	3,600	13,000	8,100	2,000
Other	11,000	3,000	2,000	3,000	1,000	3,000
Efficiency Ratio	89%	89%	89%	89%	89%	89%
Total Net Floor Area (w/o parking) (sq. ft.)	774,300	240,300	55,180	345,320	52,510	111,250
Office	712,000	218,050	44,411	331,080	44,411	97,900
PDR	40,050	15,575	5,785	0	0	8,900
Retail	12,460	4,005	3,204	11,570	7,209	1,780
Other	N/A	N/A	N/A	N/A	N/A	N/A
Existing PDR	45,000	17,500	6,500	0	0	10,000
Parking Spaces	272	88	23	91	16	29

(1) Estimated by the San Francisco Planning Department and Seifel Consulting.

Source: City of San Francisco; Seifel Consulting; Economic & Planning Systems

## Key Findings

Key findings are described below with the summary of results shown in **Tables 2** and **3**.

- 1. None of the tested office prototypes appears financially feasible based on current market conditions.** The rapid growth in construction and land costs in recent years, fueled by a high level of development activity in the region, has resulted in costs often exceeding office development values, making new development infeasible. Additionally, City-imposed community benefits costs, such as CFD special taxes and Proposition C commercial rent taxes, also add to the overall cost burden. The pro forma analysis indicates that all six office development prototypes have a negative development return with costs exceeding revenues and developer returns falling below the feasibility threshold, as shown in **Table 2**.
- 2. Office development will become feasible for certain prototypes once the market normalizes with land values, construction costs, and building values becoming more aligned.** EPS constructed this hypothetical scenario to test fee increases on development economics of projects that are feasible (the Pipeline Scenario). This scenario assumes 25 percent reductions to land value and construction cost, as well as a 13 percent increase in rents. These changes are intended to illustrate the potential economics of the office projects in the City's pipeline that may have locked in favorable deal terms or are opportunistically positioned to capitalize on potential market improvements. Feasibility of various office prototypes under the Pipeline Scenario is shown in **Table 3**.

**3. Once market conditions improve sufficiently to support the feasibility of office development, the analysis suggests that some modest level of fee increase may be viable.** With five of the six tested prototypes being feasible in the Pipeline Scenario, some are estimated to remain feasible with fee increases of up to \$10 per square foot. This increase equates to 35 percent over the existing Jobs-Housing Linkage fee level and is shown to be supported by Prototype 3 (with \$5 per square foot increases supported by Prototypes 3, 5, and 6). The extent of the supportable fee increase, if any, will vary by prototype, project-specific criteria, location within the City, and other factors. However, any more significant cost increase would further jeopardize development feasibility of new office development even after the improvement in the market conditions takes place.

**Table 2 Summary of Feasibility Results – Baseline Scenario**

Prototype	1 Central SoMa - Large Cap (Large)	2 Central SoMa - Large Cap (Medium)	3 Central SoMa - Small Cap	4 Transit Center - Large Cap	5 Eastern Neighborhoods (EN) - Small Cap	6 Eastern Neighborhoods (EN) - Large Cap
<b>EXISTING COMMERCIAL LINKAGE FEE</b>						
Profit	(\$255,769,651)	(\$37,664,709)	(\$6,542,480)	(\$68,005,374)	(\$5,282,456)	(\$11,510,688)
Return on Cost	-29.2%	-16.4%	-13.9%	-17.5%	-12.3%	-11.8%
Stabilized Yield	4.0%	4.8%	4.9%	4.7%	5.0%	5.0%
Commercial Linkage Fee as % of Total Cost	2.7%	3.1%	3.2%	2.8%	3.8%	3.3%
Commercial Linkage Fee as % of Direct Cost	5.9%	6.1%	5.9%	6.0%	6.9%	6.0%
<b>INCREASED COMMERCIAL LINKAGE FEE OPTIONS</b>						
<b>\$5 psf Increase (18% increase over the existing fee)</b>						
Profit	(\$260,596,111)	(\$39,236,289)	(\$6,869,294)	(\$69,518,794)	(\$5,316,010)	(\$12,273,968)
Return on Cost	-29.6%	-17.0%	-14.5%	-17.8%	-12.4%	-12.5%
Stabilized Yield	4.0%	4.7%	4.9%	4.7%	5.0%	5.0%
Commercial Linkage Fee as % of Total Cost	3.2%	3.8%	3.9%	3.2%	3.9%	4.0%
Commercial Linkage Fee as % of Direct Cost	7.2%	7.5%	7.2%	6.8%	7.0%	7.4%
<b>\$10 psf Increase (35% increase over the existing fee)</b>						
Profit	(\$264,596,111)	(\$40,461,289)	(\$7,118,794)	(\$71,378,794)	(\$5,565,510)	(\$12,823,968)
Return on Cost	-29.9%	-17.4%	-14.9%	-18.2%	-12.9%	-13.0%
Stabilized Yield	4.0%	4.7%	4.8%	4.7%	5.0%	4.9%
Commercial Linkage Fee as % of Total Cost	3.6%	4.3%	4.4%	3.7%	4.5%	4.6%
Commercial Linkage Fee as % of Direct Cost	8.2%	8.5%	8.2%	7.9%	8.1%	8.5%
<b>\$15 psf Increase (53% increase over the existing fee)</b>						
Profit	(\$268,596,111)	(\$41,686,289)	(\$7,368,294)	(\$73,238,794)	(\$5,815,010)	(\$13,373,968)
Return on Cost	-30.3%	-17.8%	-15.4%	-18.6%	-13.4%	-13.5%
Stabilized Yield	4.0%	4.7%	4.8%	4.6%	4.9%	4.9%
Commercial Linkage Fee as % of Total Cost	4.1%	4.8%	4.9%	4.1%	5.0%	5.1%
Commercial Linkage Fee as % of Direct Cost	9.2%	9.6%	9.1%	8.9%	9.1%	9.5%
<b>\$20 psf Increase (70% increase over the existing fee)</b>						
Profit	(\$272,596,111)	(\$42,911,289)	(\$7,617,794)	(\$75,098,794)	(\$6,064,510)	(\$13,923,968)
Return on Cost	-30.6%	-18.3%	-15.8%	-19.0%	-13.9%	-14.0%
Stabilized Yield	3.9%	4.6%	4.8%	4.6%	4.9%	4.9%
Commercial Linkage Fee as % of Total Cost	4.5%	5.3%	5.4%	4.6%	5.6%	5.6%
Commercial Linkage Fee as % of Direct Cost	10.2%	10.6%	10.1%	9.9%	10.2%	10.6%

strongly feasible
feasible
infeasible

**Table 3 Summary of Feasibility Results – Pipeline Scenario**

Prototype	1 Central SoMa - Large Cap (Large)	2 Central SoMa - Large Cap (Medium)	3 Central SoMa - Small Cap	4 Transit Center - Large Cap	5 Eastern Neighborhoods (EN) - Small Cap	6 Eastern Neighborhoods (EN) - Large Cap
<b>EXISTING COMMERCIAL LINKAGE FEE</b>						
Profit	\$10,653,059	\$34,280,839	\$7,873,445	\$58,176,757	\$6,610,483	\$16,127,507
Return on Cost	1.5%	18.8%	20.9%	18.9%	18.8%	20.2%
Stabilized Yield	5.8%	6.8%	6.9%	6.8%	6.8%	6.8%
Commercial Linkage Fee as % of Total Cost	3.4%	3.9%	4.0%	3.6%	4.7%	4.0%
Commercial Linkage Fee as % of Direct Cost	7.9%	8.1%	7.9%	8.0%	9.2%	8.0%
<b>INCREASED COMMERCIAL LINKAGE FEE OPTIONS</b>						
<b>\$5 psf Increase (18% increase over the existing fee)</b>						
Profit	\$5,826,599	\$32,709,259	\$7,546,631	\$56,663,337	\$6,576,929	\$15,364,227
Return on Cost	0.8%	17.8%	19.8%	18.3%	18.7%	19.1%
Stabilized Yield	5.7%	6.7%	6.8%	6.7%	6.8%	6.8%
Commercial Linkage Fee as % of Total Cost	4.0%	4.7%	4.9%	4.0%	4.8%	4.9%
Commercial Linkage Fee as % of Direct Cost	9.5%	9.9%	9.6%	9.1%	9.4%	9.9%
<b>\$10 psf Increase (35% increase over the existing fee)</b>						
Profit	\$1,826,599	\$31,484,259	\$7,297,131	\$54,803,337	\$6,327,429	\$14,814,227
Return on Cost	0.3%	17.0%	19.1%	17.6%	17.9%	18.2%
Stabilized Yield	5.7%	6.6%	6.8%	6.7%	6.7%	6.7%
Commercial Linkage Fee as % of Total Cost	4.6%	5.3%	5.5%	4.6%	5.4%	5.6%
Commercial Linkage Fee as % of Direct Cost	10.9%	11.3%	10.9%	10.5%	10.8%	11.3%
<b>\$15 psf Increase (53% increase over the existing fee)</b>						
Profit	(\$2,173,401)	\$30,259,259	\$7,047,631	\$52,943,337	\$6,077,929	\$14,264,227
Return on Cost	-0.3%	16.2%	18.3%	16.9%	17.0%	17.5%
Stabilized Yield	5.7%	6.6%	6.7%	6.6%	6.7%	6.7%
Commercial Linkage Fee as % of Total Cost	5.1%	6.0%	6.1%	5.2%	6.1%	6.2%
Commercial Linkage Fee as % of Direct Cost	12.3%	12.8%	12.2%	11.8%	12.2%	12.7%
<b>\$20 psf Increase (70% increase over the existing fee)</b>						
Profit	(\$6,173,401)	\$29,034,259	\$6,798,131	\$51,083,337	\$5,828,429	\$13,714,227
Return on Cost	-0.9%	15.5%	17.5%	16.2%	16.2%	16.7%
Stabilized Yield	5.6%	6.6%	6.7%	6.6%	6.6%	6.6%
Commercial Linkage Fee as % of Total Cost	5.7%	6.6%	6.7%	5.7%	6.8%	6.8%
Commercial Linkage Fee as % of Direct Cost	13.6%	14.2%	13.5%	13.2%	13.6%	14.1%
<b>Cost Reduction</b>						
Land Cost (does not apply to prototypes 5 & 6):	25% reduction		13% increase		strongly feasible	
Direct Cost (building construction, parking, and site work):	25% reduction				feasible	
					infeasible	

## Feasibility Analysis Methodology

### Financial Returns

The analysis is based on six office and mixed-use development prototypes shown in **Table 1**. EPS set up static development pro formas for each prototype designed to solve for project return as a measure of feasibility. Expected returns on development investment vary based on a range of factors such as developer-specific risk tolerance and access to capital, capital and real estate market conditions, building uses, financial stability and strength of tenants, and other factors. Specifically, this analysis is based on two types of returns with each described below, taking into account capitalization rate data reported for Class A office space,<sup>1</sup> developer input regarding

<sup>1</sup> Integra Realty Resources (IRR) Viewpoint publication for 2019, publishes an annual IRR Viewpoint report on commercial real estate trends across the United States that presents capitalization (cap) rates among other critical real estate market indicators. Historically, cap rates in San Francisco have ranged between 4.0 and 10 percent for occupied properties, with reversionary cap rates for new office developments being higher to account for the risk associated with new development. The 2019 IRR Viewpoint report indicates a reversionary cap rate for downtown CBD office space in San Francisco of 5.5 percent, which is among the lowest cap rates for new office space in the United States. Cap rates are often benchmarked against interest rates for long-term Treasuries, and the reversionary cap rate takes into account that long-term interest rates may increase over time among other real estate factors that may affect future values once a new building is fully stabilized.

return threshold requirements of their capital partners, as well as EPS experience with comparable projects. It is worth noting that while each developer has a specific return requirement based on its business structure, access to capital, risk tolerance, and other business-specific factors, the numbers below reflect the broader market average for a typical developer. Detailed pro formas for the baseline scenario are included in **Appendix A** and for the pipeline scenario in **Appendix B**.

- **Stabilized yield**, also known as cash-on-cash return, is net operating income divided by total cost. This is a common return measure for commercial property that captures performance from a long-term operator of a cash-flow asset. This measure is based on a stabilized cap rate (assumed at 5.5 percent in this analysis) plus an additional “spread” of 130 basis points to reflect a development risk premium.<sup>2</sup> As such, this analysis assumes a threshold yield of 6.8 percent or above that would be needed to make new office development feasible.
- **Return on cost** is the net building value based on the capitalization of the net operating income at stabilization (stabilized NOI divided by the cap rate) divided by total development cost. This is a typical return threshold that takes into account the spread between the cap rate and the stabilized yield, as described above. As such, this analysis assumes a required return on cost of 18 percent or above for Class A office development in San Francisco based on capital market dynamics, real estate trends, and other factors.

Financial returns are market-based, with investors facing a range of potential choices reflective of a wide range of risk factors and expected returns. With 10-year treasury yields (largely perceived as the safest and minimal risk investment that mirrors inflation) offering returns of about 2.5 percent a year, other investments with higher risk require a higher return in the capital market. In order to attract investment, particularly from institutions like pension and insurance funds that provide a significant amount of real estate investment capital, new development must offer significantly higher stabilized yields.

As described above, this analysis assumes cap rates of 5.5 percent across all prototypes once they have been developed and reached stabilized occupancy. San Francisco is largely perceived as a strong, mature, and well-established office market with some of the lowest return requirements for office investment across the nation, on par with Los Angeles and New York. However, development risk (e.g., the potential for unexpected costs associated with entitlement processes, site conditions, and fluctuations in the markets for materials and labor costs) adds an additional layer of uncertainty to investors, with a typical spread of 130 basis points needed to

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<sup>2</sup> The “spread” or difference between the cap rate and stabilized yield accounts for the developer return on profit reflective of the risk that development values at project stabilization may significantly differ from current conditions. This analysis uses the 130 basis point spread (1.3 percent) as the minimum threshold of feasibility for a typical office development. If a developer could secure a long-term lease with an investment grade tenant (e.g. a Fortune 100 company) for most of the office space prior to construction, the required spread would be reduced. If a property has a higher risk profile, such as a less desirable location, challenging office market, or extended entitlement and/or construction period, the required spread would increase.

attract investment to new office development projects. Even small fluctuations in stabilized yields can significantly affect investor decisions.

## Revenues

Lease rates used in this analysis are summarized in **Table 4** and are based on CoStar data with an assumed 10 percent increase that reflects the top of the market rents developers seek to underwrite development investment. Rents are reflective of location factors within the City as well as potential view premiums likely to be supported by taller buildings. Office rents are assumed to be full-service (landlords are responsible for operating expenses), whereas retail and PDR rents are triple-net (tenants are responsible for operating expenses). The Pipeline scenario reflects development after another rent 13 percent rent increase, assumed to be needed along with assumed cost reductions in order to reach feasibility under the existing commercial linkage fee scenario, as shown in **Table 3**.

**Table 4 Key Revenue Assumptions (Baseline Scenario)**

Prototype	1	2	3	4	5	6
Neighborhood	Central SoMa	Central SoMa	Central SoMa	Transit Center	EN	EN
Building Height	200	160	65	400	85	130
Office (full-service per net sq. ft. per year, rounded)	\$86	\$86	\$83	\$101	\$73	\$77
Retail (NNN per net sq. ft. per year)	\$40	\$40	\$40	\$48	\$40	\$40
PDR (NNN per net sq. ft. per year)	\$30	\$30	\$30	\$30	\$30	\$30
Gross Parking (per space per month)	\$400	\$400	\$400	\$450	\$300	\$300
Net Parking (per space per month) (1)	\$280	\$280	\$280	\$315	\$210	\$210

(1) Excludes operating expenses assumed at 10% and parking taxes assumed at 20%.

Source: CoStar April 2019 search for lease rates by neighborhood for spaces built since 2015, parking revenue assumption provided by Seifel Consulting

This analysis assumes net parking revenue (after parking taxes and expenses) of \$210 per space per month for Eastern Neighborhoods, \$280 for Central SoMa, and \$315 for Transit Center. The parking revenues per space are based on average monthly parking rates that were provided by Seifel Consulting and are typical in San Francisco.

## Operating Expenses and Vacancy

As shown in **Table 5**, commercial operating expenses depend on the lease rate structure for each asset type. Operating expenses for retail and PDR are assumed to be recoverable from the tenant, consistent with a triple-net lease structure. Parking is based on net revenues referenced above. Office operating costs reflect 30 percent of full-service rents. These expenses typically cover property management, administration, maintenance, utilities, insurance, and property taxes. Additionally, leasing commissions are assumed at 2.5 percent of gross annual revenue to account for typical fees paid to leasing brokers.

**Table 5 Key Operating, Development, and Land Cost Assumptions (Baseline Scenario)**

Prototype	1	2	3	4	5	6
Neighborhood	Central SoMa	Central SoMa	Central SoMa	Transit Center	EN	EN
Building Height	200	160	65	400	85	130
<b>Operating Costs</b>						
Operating Expenses (for Office)	30%	30%	30%	30%	30%	30%
Vacancy Rate	5%	5%	5%	5%	5%	5%
Leasing Commissions	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Mello-Roos CFD Special Tax [1]	\$3,532,520	\$1,082,510	\$229,012	\$2,105,700	\$0	\$0
Prop C Early Care and Education Commercial Rents Tax [2]	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
<b>Development Costs</b>						
Land Cost (per FAR sq. ft., rounded)	\$130	\$160	\$210	\$480	\$280	\$180
Building Cost (per gross sq.ft.)	\$420	\$400	\$380	\$450	\$380	\$400
Parking (per space)	\$66,000	\$66,000	\$66,000	\$66,000	\$66,000	\$66,000
Parking (per sq.ft.)	\$200	\$200	\$200	\$200	\$200	\$200
Site Improvement (per gross sq. ft.)	\$10	\$10	\$10	\$5	\$5	\$10
<b>Tenant Improvements</b>						
Office [3]	\$90	\$90	\$90	\$100	\$80	\$80
Retail [3]	\$100	\$100	\$100	\$100	\$100	\$100
Contingency	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%
Architecture and Engineering	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%
Project and Construction Management	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Other Expenses (Legal, Inspections)	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
General and Administrative	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Financing	6.0%	6.0%	5.0%	6.0%	5.0%	6.0%
<b>Fees [4]</b>						
	Tier C	Tier C	Tier B	TCDP	Tier 3	Tier 3
Existing Jobs Housing Linkage Fee	\$23,229,240	\$7,119,620	\$1,521,619	\$10,974,620	\$1,641,589	\$3,196,020
Eastern Neighborhoods Infrastructure Impact Fee	\$17,004,675	\$5,150,175	\$1,034,175	\$0	\$1,218,000	\$2,352,000
Central SoMa TDR Purchase	\$2,812,500	\$1,093,750	\$0	\$0	\$0	\$0
Central SoMa Area Plan Fee	\$0	\$0	\$1,070,000	\$0	\$0	\$0
Central SoMa Community Facilities Fee	\$1,424,500	\$436,625	\$93,625	\$0	\$0	\$0
TCDP Transportation and Street Improvement Fee	\$0	\$0	\$0	\$6,036,740	\$0	\$0
TCDP Open Space fee	\$0	\$0	\$0	\$1,033,550	\$0	\$0
TCDP Transit Delay Mitigation Fee	\$0	\$0	\$0	\$134,890	\$0	\$0
Transit Center TDR purchase (\$/sf)	\$0	\$0	\$0	\$1,500,000	\$0	\$0
Transportation Sustainability Fee	\$19,287,563	\$5,716,983	\$1,135,805	\$8,974,403	\$1,231,340	\$2,411,483
Child Care Fee	\$1,480,000	\$453,250	\$92,315	\$688,200	\$92,315	\$203,500
Public Art Fee (% of construction cost)	1%	1%	1%	1%	1%	1%
School Impact Fee	\$496,344	\$152,132	\$32,585	\$234,668	\$35,267	\$68,292
Other Fees [5]	\$569,610	\$179,135	\$59,532	\$314,286	\$92,110	\$82,784

[1] Mello-Roos CFD Special Tax. Estimated by Seifel Consulting.

[2] Prop C Early Care and Education Commercial Rents Tax effective January 1, 2019.

[3] Reflects the landlord portion of the improvements; tenants typically contribute additional funds towards higher levels of overall improvements.

[4] Fees based on City of San Francisco fee schedule effective January 1, 2019, and are estimated by Seifel Consulting.

[5] Water and wastewater capacity charge.

In addition to the operating expenses described above, this analysis accounts for the local community benefit costs that include the recently approved Central SoMa Mello-Roos Community Facilities District (CFD)<sup>3</sup> and the Proposition C Early Care and Educational Commercial Rents Tax.<sup>4</sup> Both community benefit costs are charged on an annual basis and substantially affect capitalized office values, as they increase annual expenses and reduce net operating income.<sup>5</sup>

This analysis reflects a vacancy rate of 5 percent. This is an optimistic assumption with vacancy rate for office uses historically ranging between 5 and 10 percent.

### Development Costs

Development costs consist of direct construction costs, indirect costs (including fees), and project contingency with key cost assumptions summarized in **Table 5**. Total costs (including land value) range between about \$720 and \$1,000 per square foot depending on the prototype. The direct cost for new construction has rapidly increased over the past several years due to strong growth in the economy, large-scale development activity, and resulting demand for construction services and materials. For the purpose of this analysis, direct construction costs are estimated to range between \$380 and \$450 per square foot with the highest cost in the Transit Center. These cost estimates are based on review of recent projects in San Francisco and reflect differences in size, height, density, and location between the prototypes. Parking costs are estimated at \$66,000 per space across all prototypes, assuming parking is provided below grade.

Indirect costs include tenant improvements (\$80 to \$100 per square foot for office and \$100 per square foot for retail), architecture and engineering (8 percent of direct costs), project and construction management (3 percent of direct costs), legal and inspections (3 percent of direct costs), general and administrative (3 percent of direct costs), financing (range of 5 to 6 percent of direct costs), and development fees.

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<sup>3</sup> Codified December 2018, the Central SoMa Mello-Roos Community Facilities District (CFD) Special Tax applies to prototypes in Central SoMa and is levied to fund public amenities and infrastructure in the district. The Transit Center District also has a similar CFD special tax, which was adopted earlier. The tax is \$4.36 per gross square foot for office in Central SoMa and \$5.52 per gross square foot in the Transit Center, and \$3.18 per gross square for retail in Central SoMa and \$4.02 per gross square foot in the Transit Center, subject to annual rate escalations. The Central SoMa Mello-Roos CFD Program participation requirement applies to projects in the Plan area that include new construction or the net addition of more than 25,000 gross square feet of non-residential development on "Tier B" or "Tier C" properties (Planning Code Section 423).

<sup>4</sup> Effective 2019, Prop C Early Care and Education Commercial Rents Tax imposes a new gross receipts tax of 3.5 percent of building lease income on commercial spaces in the City. Each of the prototypes in this analysis (office, retail, and PDR) would be subject to this tax.

<sup>5</sup> As described earlier, office values are based on stabilized net operating income divided by the assumed cap rate.



Development fees include the Child Care Fee, Public Art Fee, School Impact Fee, Transportation Sustainability Fee, Water Capacity Charge, Wastewater Capacity Charge, any neighborhood-specific fees as well as the existing Jobs-Housing Linkage Fee.<sup>6</sup> Cost estimates are based on the City of San Francisco fee schedule effective January 1, 2019 and estimated for each prototype by the Planning Department and Seifel Consulting. Indirect costs also include a 7.5 percent contingency across all prototypes.

## Land Values

Land values are estimated for each prototype based on CoStar sales data since 2015 for land zoned for commercial buildings by neighborhood and adjusted from a sales value per acre basis to a per floor area ratio (FAR) basis to reflect the range of densities across the prototypes. Because land values are largely determined by allowable development capacity, initial land sale comps are adjusted to result in the land value range of between \$180 and \$280 per FAR foot in Central SoMa and Eastern Neighborhoods, as shown in **Table 5**. Only the Transit Center prototype generates a higher land value of \$480 per FAR foot associated with its central transit-rich location and building heights. Determination of land value for office and mixed-use development is complicated by a wide range of factors, including market speculation, expectation in changes to land use policy and development cost structure (e.g., Prop M), regional economic and employment dynamics, capital markets, and many other variables.

## Cost Incidence of Fee Increases

Significant increases in development impact fees, particularly those that occur unexpectedly, affect real estate development feasibility in several potential ways. Each of the three potential impacts is described below and is shown in **Figure 1**.

First and foremost, development impact fees increase development costs. As real estate investors have numerous options for investing their capital (including much lower-risk opportunities than real estate as described above), new development must achieve a market adjusted return threshold to attract capital. Thus, a significant increase in impact fees will reduce a developer's ability to attract capital unless a developer is able to decrease other development costs to offset the fee increase or achieve a higher value by raising rents.

Whether office space will be able to command a rent increase will depend on market strength and may lead to the production of fewer buildings. Commercial rents are a function of market conditions, and high office rents are only affordable to a subset of companies with certain business characteristics. Higher rents may not be achievable for many existing tenants in San Francisco given market conditions and would therefore limit the potential tenant pool (for example, may only be affordable to high valued technology companies) and could ripple through the marketplace.

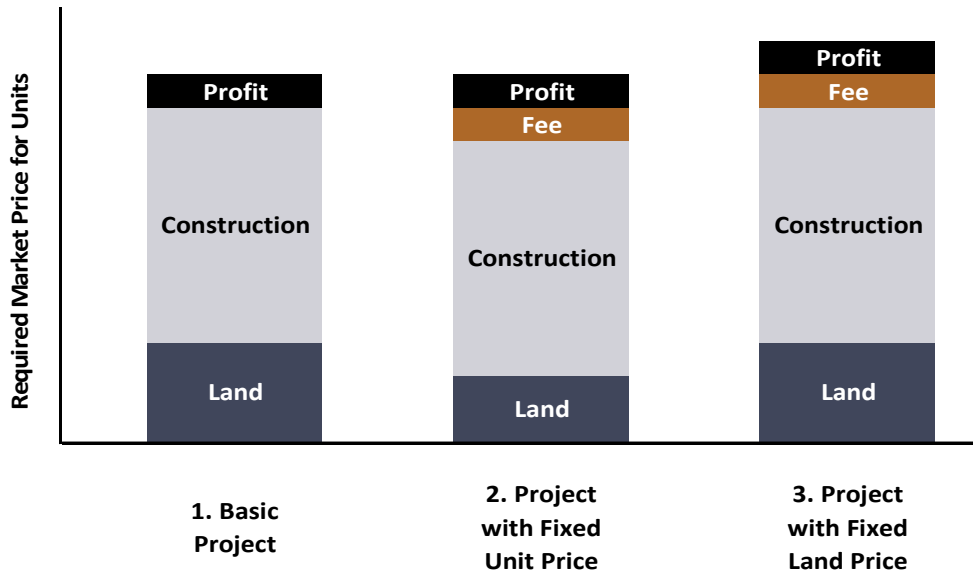
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<sup>6</sup> Neighborhood specific impact fees include the Eastern Neighborhoods Infrastructure Impact Fee, Central SoMa TDR Purchase, Central SoMa Area Plan Fee, Central SoMa Community Facilities Fee, TCDP Transportation and Street Improvement Fee, TCDP Open Space Fee, TCDP Transit Delay Mitigation Fee, and Transit Center TDR Purchase. The City's existing Jobs-Housing Linkage Fee is \$28.57 per square foot of office and \$26.66 per square foot of retail uses.

Since the fee reduces the otherwise achievable value of development, another possible result is a decrease in land value. This may result in landowners being unwilling to sell and, therefore, may further constrain commercial development. Typically, landowners will only sell at a price that is greater than the current value of the property based on existing rents and what they perceive to be the market value of their land. In this case, a developer is unable to negotiate a lower land price, and the construction costs and profit margin are fixed, and thus the market rent or value must be higher for feasibility than would be required under either of the first two scenarios. Under these circumstances, the cost of the fee is borne by consumers (e.g., office tenants), who are paying more than they otherwise might. **Figure 1** below illustrates these dynamics.

In summary, significant increases in fees negatively affect development feasibility and increase the cost burden on development unless there are offsetting reductions in other development costs (such as land) or increases in revenues (market rents), which are not often achievable based on overall market conditions.

**Figure 1 Cost Incidence of a Jobs-Housing Linkage Fee**





APPENDIX A  
Baseline Scenario Pro Formas

**Prototype 1**  
**Central SoMa - Large Cap (Large)**  
**200**

Item	Assumption	Total
<b>DEVELOPMENT PROGRAM</b>		
Lot Size	2.1 acres	90,000 sq.ft.
Gross Building Area (excl. parking)		870,000 sq.ft.
Net Area	89% efficiency ratio	774,300 sq.ft.
Office (Full-Service)		712,000 sq.ft.
Retail (NNN)		40,050 sq.ft.
PDR (NNN)		12,460 sq.ft.
Parking Spaces		272 spaces
<b>REVENUE ASSUMPTIONS</b>		
Office (Full-Service)	\$86 per net sq. ft. per year	\$61,232,000
Retail (NNN)	\$40 per net sq. ft. per year	\$1,602,000
PDR (NNN)	\$30 per net sq. ft. per year	\$373,800
Net Parking Revenue	\$280 per space per month	<u>\$913,920</u>
Gross Annual Revenue		\$64,121,720
(less) Operating Expenses	30.0% of office full-service revenue	-\$18,369,600
(less) Vacancy Rate	5.0% of gross annual revenue	-\$3,206,086
(less) Commissions	2.5% of gross annual revenue	-\$1,603,043
(less) Mello-Roos CFD Special Tax	\$4 avg. per gross sq. ft.	-\$3,532,520
(less) Prop C Early Care and Education Commercial Rents Tax	3.5% of building lease income	-\$2,212,273
Net Operating Income		\$35,198,198
Capitalized Value	5.50% cap rate	\$639,967,236
(less) Cost of Sale/Marketing	3.25%	<u>-\$20,798,935</u>
<b>Net Project Value</b>		<b>\$619,168,301</b>
<b>DEVELOPMENT COST ASSUMPTIONS</b>		
<b>Land Cost</b>	\$2,500 per lot sq. ft.	\$225,000,000
<b>Direct Costs</b>		
Building Construction Cost	\$420 per gross sq. ft.	\$365,400,000
Parking Construction Cost	\$66,000 per space	\$17,952,000
Site Improvement Cost	\$10 per gross sq. ft.	<u>\$8,700,000</u>
Total Direct Costs		\$392,052,000
<b>Indirect Costs</b>		
Tenant Improvements (office)	\$90 per sq.ft.	\$64,080,000
Tenant Improvements (retail)	\$100 per sq.ft.	\$4,005,000
Contingency	7.5% of direct costs	\$29,403,900
Architecture and Engineering	8.0% of direct costs	\$31,364,200
Project and Construction Management	3.0% of direct costs	\$11,761,600
Other Expenses (Legal, Inspections)	3.0% of direct costs	\$11,761,600
General and Administrative	3.0% of direct costs	\$11,761,600
Financing	6.0% of direct costs	<u>\$23,523,100</u>
Subtotal Indirect Costs excluding Fees		\$187,661,000
Fees (see Table 5 Fee Summary)		
<b>Existing Jobs Housing Linkage Fee</b>	<b>\$27 avg. per gross sq. ft.</b>	<b>\$23,229,240</b>
Eastern Neighborhoods Infrastructure Impact Fee	\$20 avg. per gross sq. ft.	\$17,004,675
Central SoMa TDR Purchase	\$3 avg. per gross sq. ft.	\$2,812,500
Central SoMa Area Plan Fee	\$0 avg. per gross sq. ft.	\$0
Central SoMa Community Facilities Fee	\$2 avg. per gross sq. ft.	\$1,424,500
TCDP Transportation and Street Improvement Fee	\$0 avg. per gross sq. ft.	\$0
TCDP Open Space Fee	\$0 avg. per gross sq. ft.	\$0
TCDP Transit Delay Mitigation Fee	\$0 avg. per gross sq. ft.	\$0
Transit Center TDR Purchase	\$0 avg. per gross sq. ft.	\$0
Transportation Sustainability Fee	\$22 avg. per gross sq. ft.	\$19,287,563
Child Care Fee	\$2 avg. per gross sq. ft.	\$1,480,000
Public Art Fee	1% of direct costs	\$3,920,520
School Impact Fee	\$1 avg. per gross sq. ft.	\$496,344
Other Fees	\$1 avg. per gross sq. ft.	<u>\$569,610</u>
Subtotal Fees	\$81 avg. per gross sq. ft.	\$70,224,952
Total Indirect Costs		\$257,885,952
<b>Subtotal, Direct and Indirect Costs</b>		<b>\$649,937,952</b>
<b>Total Costs</b>		<b>\$874,937,952</b>
<b>Profit (Net Project Value - Total Costs)</b>		<b>(\$255,769,651)</b>
<b>Return on Cost (Profit / Total Cost)</b>		<b>-29.2%</b>
<b>Stabilized Yield (NOI / Total Cost)</b>		<b>4.0%</b>

Source: Economic & Planning Systems, Inc.

**Prototype 2**  
**Central SoMa - Large Cap (Medium)**  
**160**

Item	Assumption	Total
<b>DEVELOPMENT PROGRAM</b>		
Lot Size	0.8 acres	35,000 sq.ft.
Gross Building Area (excl. parking)		270,000 sq.ft.
Net Area	89% efficiency ratio	240,300 sq.ft.
Office (Full-Service)		218,050 sq.ft.
Retail (NNN)		15,575 sq.ft.
PDR (NNN)		4,005 sq.ft.
Parking Spaces		88 spaces
<b>REVENUE ASSUMPTIONS</b>		
Office (Full-Service)	\$86 per net sq. ft. per year	\$18,752,300
Retail (NNN)	\$40 per net sq. ft. per year	\$623,000
PDR (NNN)	\$30 per net sq. ft. per year	\$120,150
Net Parking Revenue	\$280 per space per month	<u>\$295,680</u>
Gross Annual Revenue		\$19,791,130
(less) Operating Expenses	30.0% of office full-service revenue	-\$5,625,690
(less) Vacancy Rate	5.0% of gross annual revenue	-\$989,557
(less) Commissions	2.5% of gross annual revenue	-\$494,778
(less) Mello-Roos CFD Special Tax	\$4 avg. per gross sq. ft.	-\$1,082,510
(less) Prop C Early Care and Education Commercial Rents Tax	3.5% of building lease income	-\$682,340.75
Net Operating Income		\$10,916,255
Capitalized Value	5.50% cap rate	\$198,477,355
(less) Cost of Sale/Marketing	3.25%	<u>-\$6,450,514</u>
<b>Net Project Value</b>		<b>\$192,026,841</b>
<b>DEVELOPMENT COST ASSUMPTIONS</b>		
<b>Land Cost</b>	\$1,000 per lot sq. ft.	\$35,000,000
<b>Direct Costs</b>		
Building Construction Cost	\$400 per gross sq. ft.	\$108,000,000
Parking Construction Cost	\$66,000 per space	\$5,808,000
Site Improvement Cost	\$10 per gross sq. ft.	<u>\$2,700,000</u>
Total Direct Costs		\$116,508,000
<b>Indirect Costs</b>		
Tenant Improvements (office)	\$90 per sq.ft.	\$19,624,500
Tenant Improvements (retail)	\$100 per sq.ft.	\$1,557,500
Contingency	7.5% of direct costs	\$8,738,100
Architecture and Engineering	8.0% of direct costs	\$9,320,600
Project and Construction Management	3.0% of direct costs	\$3,495,200
Other Expenses (Legal, Inspections)	3.0% of direct costs	\$3,495,200
General and Administrative	3.0% of direct costs	\$3,495,200
Financing	6.0% of direct costs	<u>\$6,990,500</u>
Subtotal Indirect Costs excluding Fees		\$56,716,800
Fees (see Table 5 Fee Summary)		
<b>Existing Jobs Housing Linkage Fee</b>	<b>\$26 avg. per gross sq. ft.</b>	<b>\$7,119,620</b>
Eastern Neighborhoods Infrastructure Impact Fee	\$19 avg. per gross sq. ft.	\$5,150,175
Central SoMa TDR Purchase	\$4 avg. per gross sq. ft.	\$1,093,750
Central SoMa Area Plan Fee	\$0 avg. per gross sq. ft.	\$0
Central SoMa Community Facilities Fee	\$2 avg. per gross sq. ft.	\$436,625
TCDP Transportation and Street Improvement Fee	\$0 avg. per gross sq. ft.	\$0
TCDP Open Space Fee	\$0 avg. per gross sq. ft.	\$0
TCDP Transit Delay Mitigation Fee	\$0 avg. per gross sq. ft.	\$0
Transit Center TDR Purchase	\$0 avg. per gross sq. ft.	\$0
Transportation Sustainability Fee	\$21 avg. per gross sq. ft.	\$5,716,983
Child Care Fee	\$2 avg. per gross sq. ft.	\$453,250
Public Art Fee	1% of direct costs	\$1,165,080
School Impact Fee	\$1 avg. per gross sq. ft.	\$152,132
Other Fees	\$1 avg. per gross sq. ft.	<u>\$179,135</u>
Subtotal Fees	\$80 avg. per gross sq. ft.	\$21,466,749
Total Indirect Costs		\$78,183,549
<b>Subtotal, Direct and Indirect Costs</b>		<b>\$194,691,549</b>
<b>Total Costs</b>		<b>\$229,691,549</b>
<b>Profit (Net Project Value - Total Costs)</b>		<b>(\$37,664,709)</b>
<b>Return on Cost (Profit / Total Cost)</b>		<b>-16.4%</b>
<b>Stabilized Yield (NOI / Total Cost)</b>		<b>4.8%</b>

Source: Economic & Planning Systems, Inc.

**Prototype 3**  
**Central SoMa - Small Cap**  
**65**

Item	Assumption	Total
<b>DEVELOPMENT PROGRAM</b>		
Lot Size	0.3 acres	13,000 sq.ft.
Gross Building Area (excl. parking)		62,000 sq.ft.
Net Area	89% efficiency ratio	55,180 sq.ft.
Office (Full-Service)		44,411 sq.ft.
Retail (NNN)		5,785 sq.ft.
PDR (NNN)		3,204 sq.ft.
Parking Spaces		23 spaces
<b>REVENUE ASSUMPTIONS</b>		
Office (Full-Service)	\$83 per net sq. ft. per year	\$3,686,113
Retail (NNN)	\$40 per net sq. ft. per year	\$231,400
PDR (NNN)	\$30 per net sq. ft. per year	\$96,120
Net Parking Revenue	\$280 per space per month	<u>\$77,280</u>
Gross Annual Revenue		\$4,090,913
(less) Operating Expenses	30.0% of office full-service revenue	-\$1,105,834
(less) Vacancy Rate	5.0% of gross annual revenue	-\$204,546
(less) Commissions	2.5% of gross annual revenue	-\$102,273
(less) Mello-Roos CFD Special Tax	\$4 avg. per gross sq. ft.	-\$229,012
(less) Prop C Early Care and Education Commercial Rents Tax	3.5% of building lease income	-\$140,477
Net Operating Income		\$2,308,771
Capitalized Value	5.50% cap rate	\$41,977,663
(less) Cost of Sale/Marketing	3.5%	<u>-\$1,469,218</u>
<b>Net Project Value</b>		<b>\$40,508,445</b>
<b>DEVELOPMENT COST ASSUMPTIONS</b>		
<b>Land Cost</b>	\$300 per lot sq. ft.	\$3,900,000
<b>Direct Costs</b>		
Building Construction Cost	\$380 per gross sq. ft.	\$23,560,000
Parking Construction Cost	\$66,000 per space	\$1,518,000
Site Improvement Cost	\$10 per gross sq. ft.	<u>\$620,000</u>
Total Direct Costs		\$25,698,000
<b>Indirect Costs</b>		
Tenant Improvements (office)	\$90 per sq.ft.	\$3,996,990
Tenant Improvements (retail)	\$100 per sq.ft.	\$578,500
Contingency	7.5% of direct costs	\$1,927,400
Architecture and Engineering	8.0% of direct costs	\$2,055,800
Project and Construction Management	3.0% of direct costs	\$770,900
Other Expenses (Legal, Inspections)	3.0% of direct costs	\$770,900
General and Administrative	3.0% of direct costs	\$770,900
Financing	5.0% of direct costs	<u>\$1,284,900</u>
Subtotal Indirect Costs excluding Fees		\$12,156,290
Fees (see Table 5 Fee Summary)		
<b>Existing Jobs Housing Linkage Fee</b>	<b>\$25 avg. per gross sq. ft.</b>	<b>\$1,521,619</b>
Eastern Neighborhoods Infrastructure Impact Fee	\$17 avg. per gross sq. ft.	\$1,034,175
Central SoMa TDR Purchase	\$0 avg. per gross sq. ft.	\$0
Central SoMa Area Plan Fee	\$17 avg. per gross sq. ft.	\$1,070,000
Central SoMa Community Facilities Fee	\$2 avg. per gross sq. ft.	\$93,625
TCDP Transportation and Street Improvement Fee	\$0 avg. per gross sq. ft.	\$0
TCDP Open Space Fee	\$0 avg. per gross sq. ft.	\$0
TCDP Transit Delay Mitigation Fee	\$0 avg. per gross sq. ft.	\$0
Transit Center TDR Purchase	\$0 avg. per gross sq. ft.	\$0
Transportation Sustainability Fee	\$18 avg. per gross sq. ft.	\$1,135,805
Child Care Fee	\$1 avg. per gross sq. ft.	\$92,315
Public Art Fee	1% of direct costs	\$256,980
School Impact Fee	\$1 avg. per gross sq. ft.	\$32,585
Other Fees	\$1 avg. per gross sq. ft.	<u>\$59,532</u>
Subtotal Fees	\$85 avg. per gross sq. ft.	\$5,296,635
Total Indirect Costs		\$17,452,925
<b>Subtotal, Direct and Indirect Costs</b>		<b>\$43,150,925</b>
<b>Total Costs</b>		<b>\$47,050,925</b>
<b>Profit (Net Project Value - Total Costs)</b>		<b>(\$6,542,480)</b>
<b>Return on Cost (Profit / Total Cost)</b>		<b>-13.9%</b>
<b>Stabilized Yield (NOI / Total Cost)</b>		<b>4.9%</b>

Source: Economic & Planning Systems, Inc.

**Prototype 4  
Transit Center - Large Cap  
400**

<b>Item</b>	<b>Assumption</b>	<b>Total</b>
<b>DEVELOPMENT PROGRAM</b>		
Lot Size	0.5 acres	20,000 sq.ft.
Gross Building Area (excl. parking)		388,000 sq.ft.
Net Area	89% efficiency ratio	345,320 sq.ft.
Office (Full-Service)		331,080 sq.ft.
Retail (NNN)		0 sq.ft.
PDR (NNN)		11,570 sq.ft.
Parking Spaces		91 spaces
<b>REVENUE ASSUMPTIONS</b>		
Office (Full-Service)	\$101 per net sq. ft. per year	\$33,439,080
Retail (NNN)	\$48 per net sq. ft. per year	\$0
PDR (NNN)	\$30 per net sq. ft. per year	\$347,100
Net Parking Revenue	\$315 per space per month	<u>\$343,980</u>
Gross Annual Revenue		\$34,130,160
(less) Operating Expenses	30.0% of office full-service revenue	-\$10,031,724
(less) Vacancy Rate	5.0% of gross annual revenue	-\$1,706,508
(less) Commissions	2.5% of gross annual revenue	-\$853,254
(less) Mello-Roos CFD Special Tax	\$5 avg. per gross sq. ft.	-\$2,105,700
(less) Prop C Early Care and Education Commercial Rents Tax	3.5% of building lease income	-\$1,182,516
Net Operating Income		\$18,250,458
Capitalized Value	5.50% cap rate	\$331,826,504
(less) Cost of Sale/Marketing	3.25%	<u>-\$10,784,361</u>
<b>Net Project Value</b>		<b>\$321,042,142</b>
<b>DEVELOPMENT COST ASSUMPTIONS</b>		
<b>Land Cost</b>	\$4,300 per lot sq. ft.	\$86,000,000
<b>Direct Costs</b>		
Building Construction Cost	\$450 per gross sq. ft.	\$174,600,000
Parking Construction Cost	\$66,000 per space	\$6,006,000
Site Improvement Cost	\$5 per gross sq. ft.	<u>\$1,940,000</u>
Total Direct Costs		\$182,546,000
<b>Indirect Costs</b>		
Tenant Improvements (office)	\$100 per sq.ft.	\$33,108,000
Tenant Improvements (retail)	\$100 per sq.ft.	\$0
Contingency	7.5% of direct costs	\$13,691,000
Architecture and Engineering	8.0% of direct costs	\$14,603,700
Project and Construction Management	3.0% of direct costs	\$5,476,400
Other Expenses (Legal, Inspections)	3.0% of direct costs	\$5,476,400
General and Administrative	3.0% of direct costs	\$5,476,400
Financing	6.0% of direct costs	<u>\$10,952,800</u>
Subtotal Indirect Costs excluding Fees		\$88,784,700
Fees (see Table 5 Fee Summary)		
<b>Existing Jobs Housing Linkage Fee</b>	<b>\$28 avg. per gross sq. ft.</b>	<b>\$10,974,620</b>
Eastern Neighborhoods Infrastructure Impact Fee	\$0 avg. per gross sq. ft.	\$0
Central SoMa TDR Purchase	\$0 avg. per gross sq. ft.	\$0
Central SoMa Area Plan Fee	\$0 avg. per gross sq. ft.	\$0
Central SoMa Community Facilities Fee	\$0 avg. per gross sq. ft.	\$0
TCDP Transportation and Street Improvement Fee	\$16 avg. per gross sq. ft.	\$6,036,740
TCDP Open Space Fee	\$3 avg. per gross sq. ft.	\$1,033,550
TCDP Transit Delay Mitigation Fee	\$0 avg. per gross sq. ft.	\$134,890
Transit Center TDR Purchase	\$4 avg. per gross sq. ft.	\$1,500,000
Transportation Sustainability Fee	\$23 avg. per gross sq. ft.	\$8,974,403
Child Care Fee	\$2 avg. per gross sq. ft.	\$688,200
Public Art Fee	1% of direct costs	\$1,825,460
School Impact Fee	\$1 avg. per gross sq. ft.	\$234,668
Other Fees	<u>\$1 avg. per gross sq. ft.</u>	<u>\$314,286</u>
Subtotal Fees	\$82 avg. per gross sq. ft.	\$31,716,816
Total Indirect Costs		\$120,501,516
<b>Subtotal, Direct and Indirect Costs</b>		<b>\$303,047,516</b>
<b>Total Costs</b>		<b>\$389,047,516</b>
<b>Profit (Net Project Value - Total Costs)</b>		<b>(\$68,005,374)</b>
<b>Return on Cost (Profit / Total Cost)</b>		<b>-17.5%</b>
<b>Stabilized Yield (NOI / Total Cost)</b>		<b>4.7%</b>

Source: Economic & Planning Systems, Inc.

**Prototype 5**  
**Eastern Neighborhoods (EN) - Small Cap**  
**85**

Item	Assumption	Total
<b>DEVELOPMENT PROGRAM</b>		
Lot Size	0.2 acres	10,500 sq.ft.
Gross Building Area (excl. parking)		59,000 sq.ft.
Net Area	89% efficiency ratio	52,510 sq.ft.
Office (Full-Service)		44,411 sq.ft.
Retail (NNN)		0 sq.ft.
PDR (NNN)		7,209 sq.ft.
Parking Spaces		16 spaces
<b>REVENUE ASSUMPTIONS</b>		
Office (Full-Service)	\$73 per net sq. ft. per year	\$3,242,003
Retail (NNN)	\$40 per net sq. ft. per year	\$0
PDR (NNN)	\$30 per net sq. ft. per year	\$216,270
Net Parking Revenue	\$210 per space per month	<u>\$40,320</u>
Gross Annual Revenue		\$3,498,593
(less) Operating Expenses	30.0% of office full-service revenue	-\$972,601
(less) Vacancy Rate	5.0% of gross annual revenue	-\$174,929.65
(less) Commissions	2.5% of gross annual revenue	-\$87,464.83
(less) Mello-Roos CFD Special Tax	\$0 avg. per gross sq. ft.	\$0
(less) Prop C Early Care and Education Commercial Rents Tax	3.5% of building lease income	-\$121,040
Net Operating Income		\$2,142,558
Capitalized Value	5.50% cap rate	\$38,955,601
(less) Cost of Sale/Marketing	3.5%	<u>-\$1,363,446</u>
<b>Net Project Value</b>		<b>\$37,592,155</b>
<b>DEVELOPMENT COST ASSUMPTIONS</b>		
<b>Land Cost</b>	\$380 per lot sq. ft.	\$3,990,000
<b>Direct Costs</b>		
Building Construction Cost	\$380 per gross sq. ft.	\$22,420,000
Parking Construction Cost	\$66,000 per space	\$1,056,000
Site Improvement Cost	\$5 per gross sq. ft.	<u>\$295,000</u>
Total Direct Costs		\$23,771,000
<b>Indirect Costs</b>		
Tenant Improvements (office)	\$80 per sq.ft.	\$3,552,880
Tenant Improvements (retail)	\$100 per sq.ft.	\$0
Contingency	7.5% of direct costs	\$1,782,800
Architecture and Engineering	8.0% of direct costs	\$1,901,700
Project and Construction Management	3.0% of direct costs	\$713,100
Other Expenses (Legal, Inspections)	3.0% of direct costs	\$713,100
General and Administrative	3.0% of direct costs	\$713,100
Financing	5.0% of direct costs	<u>\$1,188,600</u>
Subtotal Indirect Costs excluding Fees		\$10,565,280
Fees (see Table 5 Fee Summary)		
<b>Existing Jobs Housing Linkage Fee</b>	<b>\$28 avg. per gross sq. ft.</b>	<b>\$1,641,589</b>
Eastern Neighborhoods Infrastructure Impact Fee	\$21 avg. per gross sq. ft.	\$1,218,000
Central SoMa TDR Purchase	\$0 avg. per gross sq. ft.	\$0
Central SoMa Area Plan Fee	\$0 avg. per gross sq. ft.	\$0
Central SoMa Community Facilities Fee	\$0 avg. per gross sq. ft.	\$0
TCDP Transportation and Street Improvement Fee	\$0 avg. per gross sq. ft.	\$0
TCDP Open Space Fee	\$0 avg. per gross sq. ft.	\$0
TCDP Transit Delay Mitigation Fee	\$0 avg. per gross sq. ft.	\$0
Transit Center TDR Purchase	\$0 avg. per gross sq. ft.	\$0
Transportation Sustainability Fee	\$21 avg. per gross sq. ft.	\$1,231,340
Child Care Fee	\$2 avg. per gross sq. ft.	\$92,315
Public Art Fee	1% of direct costs	\$237,710
School Impact Fee	\$1 avg. per gross sq. ft.	\$35,267
Other Fees	<u>\$2 avg. per gross sq. ft.</u>	<u>\$92,110</u>
Subtotal Fees	\$77 avg. per gross sq. ft.	\$4,548,331
Total Indirect Costs		\$15,113,611
<b>Subtotal, Direct and Indirect Costs</b>		<b>\$38,884,611</b>
<b>Total Costs</b>		<b>\$42,874,611</b>
<b>Profit (Net Project Value - Total Costs)</b>		<b>(\$5,282,456)</b>
<b>Return on Cost (Profit / Total Cost)</b>		<b>-12.3%</b>
<b>Stabilized Yield (NOI / Total Cost)</b>		<b>5.0%</b>

Source: Economic & Planning Systems, Inc.



**Prototype 6**  
**Eastern Neighborhoods (EN) - Large Cap**  
**130**

Item	Assumption	Total
<b>DEVELOPMENT PROGRAM</b>		
Lot Size	0.5 acres	20,000 sq.ft.
Gross Building Area (excl. parking)		125,000 sq.ft.
Net Area	89% efficiency ratio	111,250 sq.ft.
Office (Full-Service)		97,900 sq.ft.
Retail (NNN)		8,900 sq.ft.
PDR (NNN)		1,780 sq.ft.
Parking Spaces		29 spaces
<b>REVENUE ASSUMPTIONS</b>		
Office (Full-Service)	\$77 per net sq. ft. per year	\$7,538,300
Retail (NNN)	\$40 per net sq. ft. per year	\$356,000
PDR (NNN)	\$30 per net sq. ft. per year	\$53,400
Net Parking Revenue	\$210 per space per month	<u>\$73,080</u>
Gross Annual Revenue		\$8,020,780
(less) Operating Expenses	30.0% of office full-service revenue	-\$2,261,490
(less) Vacancy Rate	5.0% of gross annual revenue	-\$401,039
(less) Commissions	2.5% of gross annual revenue	-\$200,520
(less) Mello-Roos CFD Special Tax	\$0 avg. per gross sq. ft.	\$0
(less) Prop C Early Care and Education Commercial Rents Tax	3.5% of building lease income	-\$278,170
Net Operating Income		\$4,879,562
Capitalized Value	5.50% cap rate	\$88,719,309
(less) Cost of Sale/Marketing	3.25%	<u>-\$2,883,378</u>
<b>Net Project Value</b>		<b>\$85,835,932</b>
<b>DEVELOPMENT COST ASSUMPTIONS</b>		
<b>Land Cost</b>	\$520 per lot sq. ft.	\$10,400,000
<b>Direct Costs</b>		
Building Construction Cost	\$400 per gross sq. ft.	\$50,000,000
Parking Construction Cost	\$66,000 per space	\$1,914,000
Site Improvement Cost	\$10 per gross sq. ft.	<u>\$1,250,000</u>
Total Direct Costs		\$53,164,000
<b>Indirect Costs</b>		
Tenant Improvements (office)	\$80 per sq.ft.	\$7,832,000
Tenant Improvements (retail)	\$100 per sq.ft.	\$890,000
Contingency	7.5% of direct costs	\$3,987,300
Architecture and Engineering	8.0% of direct costs	\$4,253,100
Project and Construction Management	3.0% of direct costs	\$1,594,900
Other Expenses (Legal, Inspections)	3.0% of direct costs	\$1,594,900
General and Administrative	3.0% of direct costs	\$1,594,900
Financing	6.0% of direct costs	<u>\$3,189,800</u>
Subtotal Indirect Costs excluding Fees		\$24,936,900
Fees (see Table 5 Fee Summary)		
<b>Existing Jobs Housing Linkage Fee</b>	<b>\$26 avg. per gross sq. ft.</b>	<b>\$3,196,020</b>
Eastern Neighborhoods Infrastructure Impact Fee	\$19 avg. per gross sq. ft.	\$2,352,000
Central SoMa TDR Purchase	\$0 avg. per gross sq. ft.	\$0
Central SoMa Area Plan Fee	\$0 avg. per gross sq. ft.	\$0
Central SoMa Community Facilities Fee	\$0 avg. per gross sq. ft.	\$0
TCDP Transportation and Street Improvement Fee	\$0 avg. per gross sq. ft.	\$0
TCDP Open Space Fee	\$0 avg. per gross sq. ft.	\$0
TCDP Transit Delay Mitigation Fee	\$0 avg. per gross sq. ft.	\$0
Transit Center TDR Purchase	\$0 avg. per gross sq. ft.	\$0
Transportation Sustainability Fee	\$19 avg. per gross sq. ft.	\$2,411,483
Child Care Fee	\$2 avg. per gross sq. ft.	\$203,500
Public Art Fee	1% of direct costs	\$531,640
School Impact Fee	\$1 avg. per gross sq. ft.	\$68,292
Other Fees	<u>\$1 avg. per gross sq. ft.</u>	<u>\$82,784</u>
Subtotal Fees	\$71 avg. per gross sq. ft.	\$8,845,719
Total Indirect Costs		\$33,782,619
<b>Subtotal, Direct and Indirect Costs</b>		<b>\$86,946,619</b>
<b>Total Costs</b>		<b>\$97,346,619</b>
<b>Profit (Net Project Value - Total Costs)</b>		<b>(\$11,510,688)</b>
<b>Return on Cost (Profit / Total Cost)</b>		<b>-11.8%</b>
<b>Stabilized Yield (NOI / Total Cost)</b>		<b>5.0%</b>

Source: Economic & Planning Systems, Inc.



APPENDIX B  
Pipeline Scenario Pro Formas

**Prototype 1**  
**Central SoMa - Large Cap (Large)**  
**200**

Item	Assumption	Total
<b>DEVELOPMENT PROGRAM</b>		
Lot Size	2.1 acres	90,000 sq.ft.
Gross Building Area (excl. parking)		870,000 sq.ft.
Net Area	89% efficiency ratio	774,300 sq.ft.
Office (Full-Service)		712,000 sq.ft.
Retail (NNN)		40,050 sq.ft.
PDR (NNN)		12,460 sq.ft.
Parking Spaces		272 spaces
<b>REVENUE ASSUMPTIONS</b>		
Office (Full-Service)	\$97 per net sq. ft. per year	\$69,064,000
Retail (NNN)	\$40 per net sq. ft. per year	\$1,602,000
PDR (NNN)	\$30 per net sq. ft. per year	\$373,800
Net Parking Revenue	\$280 per space per month	<u>\$913,920</u>
Gross Annual Revenue		\$71,953,720
(less) Operating Expenses	30.0% of office full-service revenue	-\$20,719,200
(less) Vacancy Rate	5.0% of gross annual revenue	-\$3,597,686.00
(less) Commissions	2.5% of gross annual revenue	-\$1,798,843.00
(less) Mello-Roos CFD Special Tax	\$4 avg. per gross sq. ft.	-\$3,532,520
(less) Prop C Early Care and Education Commercial Rents Tax	3.5% of building lease income	-\$2,486,393
Net Operating Income		\$39,819,078
Capitalized Value	5.50% cap rate	\$723,983,236
(less) Cost of Sale/Marketing	3.25%	<u>-\$23,529,455</u>
<b>Net Project Value</b>		<b>\$700,453,781</b>
<b>DEVELOPMENT COST ASSUMPTIONS</b>		
<b>Land Cost</b>	\$1,875 per lot sq. ft.	\$168,750,000
<b>Direct Costs</b>		
Building Construction Cost	\$315 per gross sq. ft.	\$274,050,000
Parking Construction Cost	\$49,500 per space	\$13,464,000
Site Improvement Cost	\$8 per gross sq. ft.	<u>\$6,525,000</u>
Total Direct Costs		\$294,039,000
<b>Indirect Costs</b>		
Tenant Improvements (office)	\$90 per sq.ft.	\$64,080,000
Tenant Improvements (retail)	\$100 per sq.ft.	\$4,005,000
Contingency	7.5% of direct costs	\$22,052,900
Architecture and Engineering	8.0% of direct costs	\$23,523,100
Project and Construction Management	3.0% of direct costs	\$8,821,200
Other Expenses (Legal, Inspections)	3.0% of direct costs	\$8,821,200
General and Administrative	3.0% of direct costs	\$8,821,200
Financing	6.0% of direct costs	<u>\$17,642,300</u>
Subtotal Indirect Costs excluding Fees		\$157,766,900
<b>Fees</b>		
<b>Existing Jobs Housing Linkage Fee</b>	<b>\$27 avg. per gross sq. ft.</b>	<b>\$23,229,240</b>
Eastern Neighborhoods Infrastructure Impact Fee	\$20 avg. per gross sq. ft.	\$17,004,675
Central SoMa TDR Purchase	\$3 avg. per gross sq. ft.	\$2,812,500
Central SoMa Area Plan Fee	\$0 avg. per gross sq. ft.	\$0
Central SoMa Community Facilities Fee	\$2 avg. per gross sq. ft.	\$1,424,500
TCDP Transportation and Street Improvement Fee	\$0 avg. per gross sq. ft.	\$0
TCDP Open Space Fee	\$0 avg. per gross sq. ft.	\$0
TCDP Transit Delay Mitigation Fee	\$0 avg. per gross sq. ft.	\$0
Transit Center TDR Purchase	\$0 avg. per gross sq. ft.	\$0
Transportation Sustainability Fee	\$22 avg. per gross sq. ft.	\$19,287,563
Child Care Fee	\$2 avg. per gross sq. ft.	\$1,480,000
Public Art Fee	1% of direct costs	\$2,940,390
School Impact Fee	\$1 avg. per gross sq. ft.	\$496,344
Other Fees	\$1 avg. per gross sq. ft.	<u>\$569,610</u>
Subtotal Fees	\$80 avg. per gross sq. ft.	\$69,244,822
Total Indirect Costs		\$227,011,722
<b>Subtotal, Direct and Indirect Costs</b>		<b>\$521,050,722</b>
<b>Total Costs</b>		<b>\$689,800,722</b>
<b>Profit (Net Project Value - Total Costs)</b>		<b>\$10,653,059</b>
<b>Return on Cost (Profit / Total Cost)</b>		<b>1.5%</b>
<b>Stabilized Yield (NOI / Total Cost)</b>		<b>5.8%</b>

Source: Economic & Planning Systems, Inc.

**Prototype 2**  
**Central SoMa - Large Cap (Medium)**  
**160**

Item	Assumption	Total	
<b>DEVELOPMENT PROGRAM</b>			
Lot Size	0.8 acres	35,000 sq.ft.	
Gross Building Area (excl. parking)		270,000 sq.ft.	
Net Area	89% efficiency ratio	240,300 sq.ft.	
Office (Full-Service)		218,050 sq.ft.	
Retail (NNN)		15,575 sq.ft.	
PDR (NNN)		4,005 sq.ft.	
Parking Spaces		88 spaces	
<b>REVENUE ASSUMPTIONS</b>			
Office (Full-Service)	\$97 per net sq. ft. per year	\$21,150,850	
Retail (NNN)	\$40 per net sq. ft. per year	\$623,000	
PDR (NNN)	\$30 per net sq. ft. per year	\$120,150	
Net Parking Revenue	\$280 per space per month	<u>\$295,680</u>	
Gross Annual Revenue		\$22,189,680	
(less) Operating Expenses	30.0% of office full-service revenue	-\$6,345,255	
(less) Vacancy Rate	5.0% of gross annual revenue	-\$1,109,484	
(less) Commissions	2.5% of gross annual revenue	-\$554,742	
(less) Mello-Roos CFD Special Tax	\$4 avg. per gross sq. ft.	-\$1,082,510	
(less) Prop C Early Care and Education Commercial Rents Tax	3.5% of building lease income	-\$766,290.00	
Net Operating Income		\$12,331,399	
Capitalized Value	5.50% cap rate	\$224,207,255	
(less) Cost of Sale/Marketing	3.25%	<u>-\$7,286,736</u>	
<b>Net Project Value</b>		<b>\$216,920,519</b>	
<b>DEVELOPMENT COST ASSUMPTIONS</b>			
<b>Land Cost</b>	\$750 per lot sq. ft.	\$26,250,000	
<b>Direct Costs</b>			
Building Construction Cost	\$300 per gross sq. ft.	\$81,000,000	
Parking Construction Cost	\$49,500 per space	\$4,356,000	
Site Improvement Cost	\$8 per gross sq. ft.	<u>\$2,025,000</u>	
Total Direct Costs		\$87,381,000	
<b>Indirect Costs</b>			
Tenant Improvements (office)	\$90 per sq.ft.	\$19,624,500	
Tenant Improvements (retail)	\$100 per sq.ft.	\$1,557,500	
Contingency	7.5% of direct costs	\$6,553,600	
Architecture and Engineering	8.0% of direct costs	\$6,990,500	
Project and Construction Management	3.0% of direct costs	\$2,621,400	
Other Expenses (Legal, Inspections)	3.0% of direct costs	\$2,621,400	
General and Administrative	3.0% of direct costs	\$2,621,400	
Financing	6.0% of direct costs	<u>\$5,242,900</u>	
Subtotal Indirect Costs excluding Fees		\$47,833,200	
Fees (see Table 4 Fee Summary)			
<b>Fees</b>	<b>\$26 avg. per gross sq. ft.</b>	<b>\$7,119,620</b>	<b>34%</b>
Eastern Neighborhoods Infrastructure Impact Fee	\$19 avg. per gross sq. ft.	\$5,150,175	
Central SoMa TDR Purchase	\$4 avg. per gross sq. ft.	\$1,093,750	
Central SoMa Area Plan Fee	\$0 avg. per gross sq. ft.	\$0	
Central SoMa Community Facilities Fee	\$2 avg. per gross sq. ft.	\$436,625	
TCDP Transportation and Street Improvement Fee	\$0 avg. per gross sq. ft.	\$0	
TCDP Open Space Fee	\$0 avg. per gross sq. ft.	\$0	
TCDP Transit Delay Mitigation Fee	\$0 avg. per gross sq. ft.	\$0	
Transit Center TDR Purchase	\$0 avg. per gross sq. ft.	\$0	
Transportation Sustainability Fee	\$21 avg. per gross sq. ft.	\$5,716,983	
Child Care Fee	\$2 avg. per gross sq. ft.	\$453,250	
Public Art Fee	1% of direct costs	\$873,810	
School Impact Fee	\$1 avg. per gross sq. ft.	\$152,132	
Other Fees	<u>\$1 avg. per gross sq. ft.</u>	<u>\$179,135</u>	
Subtotal Fees	\$78 avg. per gross sq. ft.	\$21,175,479	
Total Indirect Costs		\$69,008,679	
<b>Subtotal, Direct and Indirect Costs</b>		<b>\$156,389,679</b>	
<b>Total Costs</b>		<b>\$182,639,679</b>	
<b>Profit (Net Project Value - Total Costs)</b>		<b>\$34,280,839</b>	
<b>Developer Return (Profit / Total Cost)</b>		<b>19%</b>	
<b>Return on Cost (Profit / Total Cost)</b>		<b>6.8%</b>	

Source: Economic & Planning Systems, Inc.

**Prototype 3**  
**Central SoMa - Small Cap**  
**65**

Item	Assumption	Total
<b>DEVELOPMENT PROGRAM</b>		
Lot Size	0.3 acres	13,000 sq.ft.
Gross Building Area (excl. parking)		62,000 sq.ft.
Net Area	89% efficiency ratio	55,180 sq.ft.
Office (Full-Service)		44,411 sq.ft.
Retail (NNN)		5,785 sq.ft.
PDR (NNN)		3,204 sq.ft.
Parking Spaces		23 spaces
<b>REVENUE ASSUMPTIONS</b>		
Office (Full-Service)	\$94 per net sq. ft. per year	\$4,174,634
Retail (NNN)	\$40 per net sq. ft. per year	\$231,400
PDR (NNN)	\$30 per net sq. ft. per year	\$96,120
Net Parking Revenue	\$280 per space per month	<u>\$77,280</u>
Gross Annual Revenue		\$4,579,434
(less) Operating Expenses	30.0% of office full-service revenue	-\$1,252,390
(less) Vacancy Rate	5.0% of gross annual revenue	-\$228,972
(less) Commissions	2.5% of gross annual revenue	-\$114,486
(less) Mello-Roos CFD Special Tax	\$4 avg. per gross sq. ft.	-\$229,012
(less) Prop C Early Care and Education Commercial Rents Tax	3.5% of building lease income	-\$157,575
Net Operating Income		\$2,596,999
Capitalized Value	5.50% cap rate	\$47,218,161
(less) Cost of Sale/Marketing	3.5%	<u>-\$1,652,636</u>
<b>Net Project Value</b>		<b>\$45,565,525</b>
<b>DEVELOPMENT COST ASSUMPTIONS</b>		
<b>Land Cost</b>	\$225 per lot sq. ft.	\$2,925,000
<b>Direct Costs</b>		
Building Construction Cost	\$285 per gross sq. ft.	\$17,670,000
Parking Construction Cost	\$49,500 per space	\$1,138,500
Site Improvement Cost	\$8 per gross sq. ft.	<u>\$465,000</u>
Total Direct Costs		\$19,273,500
<b>Indirect Costs</b>		
Tenant Improvements (office)	\$90 per sq.ft.	\$3,996,990
Tenant Improvements (retail)	\$100 per sq.ft.	\$578,500
Contingency	7.5% of direct costs	\$1,445,500
Architecture and Engineering	8.0% of direct costs	\$1,541,900
Project and Construction Management	3.0% of direct costs	\$578,200
Other Expenses (Legal, Inspections)	3.0% of direct costs	\$578,200
General and Administrative	3.0% of direct costs	\$578,200
Financing	5.0% of direct costs	<u>\$963,700</u>
Subtotal Indirect Costs excluding Fees		\$10,261,190
<b>Fees</b>		
<b>Existing Jobs Housing Linkage Fee</b>	<b>\$25 avg. per gross sq. ft.</b>	<b>\$1,521,619</b>
Eastern Neighborhoods Infrastructure Impact Fee	\$17 avg. per gross sq. ft.	\$1,034,175
Central SoMa TDR Purchase	\$0 avg. per gross sq. ft.	\$0
Central SoMa Area Plan Fee	\$17 avg. per gross sq. ft.	\$1,070,000
Central SoMa Community Facilities Fee	\$2 avg. per gross sq. ft.	\$93,625
TCDP Transportation and Street Improvement Fee	\$0 avg. per gross sq. ft.	\$0
TCDP Open Space Fee	\$0 avg. per gross sq. ft.	\$0
TCDP Transit Delay Mitigation Fee	\$0 avg. per gross sq. ft.	\$0
Transit Center TDR Purchase	\$0 avg. per gross sq. ft.	\$0
Transportation Sustainability Fee	\$18 avg. per gross sq. ft.	\$1,135,805
Child Care Fee	\$1 avg. per gross sq. ft.	\$92,315
Public Art Fee	1% of direct costs	\$192,735
School Impact Fee	\$1 avg. per gross sq. ft.	\$32,585
Other Fees	\$1 avg. per gross sq. ft.	<u>\$59,532</u>
Subtotal Fees	\$84 avg. per gross sq. ft.	\$5,232,390
Total Indirect Costs		\$15,493,580
<b>Subtotal, Direct and Indirect Costs</b>		<b>\$34,767,080</b>
<b>Total Costs</b>		<b>\$37,692,080</b>
<b>Profit (Net Project Value - Total Costs)</b>		<b>\$7,873,445</b>
<b>Return on Cost (Profit / Total Cost)</b>		<b>20.9%</b>
<b>Stabilized Yield (NOI / Total Cost)</b>		<b>6.9%</b>

Source: Economic & Planning Systems, Inc.

**Prototype 4**  
**Transit Center - Large Cap**  
**400**

Item	Assumption	Total
<b>DEVELOPMENT PROGRAM</b>		
Lot Size	0.5 acres	20,000 sq.ft.
Gross Building Area (excl. parking)		388,000 sq.ft.
Net Area	89% efficiency ratio	345,320 sq.ft.
Office (Full-Service)		331,080 sq.ft.
Retail (NNN)		0 sq.ft.
PDR (NNN)		11,570 sq.ft.
Parking Spaces		91 spaces
<b>REVENUE ASSUMPTIONS</b>		
Office (Full-Service)	\$114 per net sq. ft. per year	\$37,743,120
Retail (NNN)	\$48 per net sq. ft. per year	\$0
PDR (NNN)	\$30 per net sq. ft. per year	\$347,100
Net Parking Revenue	\$315 per space per month	<u>\$343,980</u>
Gross Annual Revenue		\$38,434,200
(less) Operating Expenses	30.0% of office full-service revenue	-\$11,322,936
(less) Vacancy Rate	5.0% of gross annual revenue	-\$1,921,710.00
(less) Commissions	2.5% of gross annual revenue	-\$960,855.00
(less) Mello-Roos CFD Special Tax	\$5 avg. per gross sq. ft.	-\$2,105,700
(less) Prop C Early Care and Education Commercial Rents Tax	3.5% of building lease income	-\$1,333,158
Net Operating Income		\$20,789,841
Capitalized Value	5.50% cap rate	\$377,997,115
(less) Cost of Sale/Marketing	3.25%	<u>-\$12,284,906</u>
<b>Net Project Value</b>		<b>\$365,712,208</b>
<b>DEVELOPMENT COST ASSUMPTIONS</b>		
<b>Land Cost</b>	\$3,225 per lot sq. ft.	\$64,500,000
<b>Direct Costs</b>		
Building Construction Cost	\$338 per gross sq. ft.	\$130,950,000
Parking Construction Cost	\$49,500 per space	\$4,504,500
Site Improvement Cost	\$4 per gross sq. ft.	<u>\$1,455,000</u>
Total Direct Costs		\$136,909,500
<b>Indirect Costs</b>		
Tenant Improvements (office)	\$100 per sq.ft.	\$33,108,000
Tenant Improvements (retail)	\$100 per sq.ft.	\$0
Contingency	7.5% of direct costs	\$10,268,200
Architecture and Engineering	8.0% of direct costs	\$10,952,800
Project and Construction Management	3.0% of direct costs	\$4,107,300
Other Expenses (Legal, Inspections)	3.0% of direct costs	\$4,107,300
General and Administrative	3.0% of direct costs	\$4,107,300
Financing	6.0% of direct costs	<u>\$8,214,600</u>
Subtotal Indirect Costs excluding Fees		\$74,865,500
<b>Fees</b>		
<b>Existing Jobs Housing Linkage Fee</b>	<b>\$28 avg. per gross sq. ft.</b>	<b>\$10,974,620</b>
Eastern Neighborhoods Infrastructure Impact Fee	\$0 avg. per gross sq. ft.	\$0
Central SoMa TDR Purchase	\$0 avg. per gross sq. ft.	\$0
Central SoMa Area Plan Fee	\$0 avg. per gross sq. ft.	\$0
Central SoMa Community Facilities Fee	\$0 avg. per gross sq. ft.	\$0
TCDP Transportation and Street Improvement Fee	\$16 avg. per gross sq. ft.	\$6,036,740
TCDP Open Space Fee	\$3 avg. per gross sq. ft.	\$1,033,550
TCDP Transit Delay Mitigation Fee	\$0 avg. per gross sq. ft.	\$134,890
Transit Center TDR Purchase	\$4 avg. per gross sq. ft.	\$1,500,000
Transportation Sustainability Fee	\$23 avg. per gross sq. ft.	\$8,974,403
Child Care Fee	\$2 avg. per gross sq. ft.	\$688,200
Public Art Fee	1% of direct costs	\$1,369,095
School Impact Fee	\$1 avg. per gross sq. ft.	\$234,668
Other Fees	<u>\$1 avg. per gross sq. ft.</u>	<u>\$314,286</u>
Subtotal Fees	\$81 avg. per gross sq. ft.	\$31,260,451
Total Indirect Costs		\$106,125,951
<b>Subtotal, Direct and Indirect Costs</b>		<b>\$243,035,451</b>
<b>Total Costs</b>		<b>\$307,535,451</b>
<b>Profit (Net Project Value - Total Costs)</b>		<b>\$58,176,757</b>
<b>Return on Cost (Profit / Total Cost)</b>		<b>18.9%</b>
<b>Stabilized Yield (NOI / Total Cost)</b>		<b>6.8%</b>

Source: Economic & Planning Systems, Inc.

**Prototype 5**  
**Eastern Neighborhoods (EN) - Small Cap**  
**85**

Item	Assumption	Total
<b>DEVELOPMENT PROGRAM</b>		
Lot Size	0.2 acres	10,500 sq.ft.
Gross Building Area (excl. parking)		59,000 sq.ft.
Net Area	89% efficiency ratio	52,510 sq.ft.
Office (Full-Service)		44,411 sq.ft.
Retail (NNN)		0 sq.ft.
PDR (NNN)		7,209 sq.ft.
Parking Spaces		16 spaces
<b>REVENUE ASSUMPTIONS</b>		
Office (Full-Service)	\$82 per net sq. ft. per year	\$3,641,702
Retail (NNN)	\$40 per net sq. ft. per year	\$0
PDR (NNN)	\$30 per net sq. ft. per year	\$216,270
Net Parking Revenue	\$210 per space per month	<u>\$40,320</u>
Gross Annual Revenue		\$3,898,292
(less) Operating Expenses	30.0% of office full-service revenue	-\$1,092,511
(less) Vacancy Rate	5.0% of gross annual revenue	-\$194,914.60
(less) Commissions	2.5% of gross annual revenue	-\$97,457.30
(less) Mello-Roos CFD Special Tax	\$0 avg. per gross sq. ft.	\$0
(less) Prop C Early Care and Education Commercial Rents Tax	3.5% of building lease income	-\$135,029
Net Operating Income		\$2,378,380
Capitalized Value	5.50% cap rate	\$43,243,281
(less) Cost of Sale/Marketing	3.5%	<u>-\$1,513,515</u>
<b>Net Project Value</b>		<b>\$41,729,767</b>
<b>DEVELOPMENT COST ASSUMPTIONS</b>		
<b>Land Cost</b>	\$380 per lot sq. ft.	\$3,990,000
<b>Direct Costs</b>		
Building Construction Cost	\$285 per gross sq. ft.	\$16,815,000
Parking Construction Cost	\$49,500 per space	\$792,000
Site Improvement Cost	\$4 per gross sq. ft.	<u>\$221,300</u>
Total Direct Costs		\$17,828,300
<b>Indirect Costs</b>		
Tenant Improvements (office)	\$80 per sq.ft.	\$3,552,880
Tenant Improvements (retail)	\$100 per sq.ft.	\$0
Contingency	7.5% of direct costs	\$1,337,100
Architecture and Engineering	8.0% of direct costs	\$1,426,300
Project and Construction Management	3.0% of direct costs	\$534,800
Other Expenses (Legal, Inspections)	3.0% of direct costs	\$534,800
General and Administrative	3.0% of direct costs	\$534,800
Financing	5.0% of direct costs	<u>\$891,400</u>
Subtotal Indirect Costs excluding Fees		\$8,812,080
<b>Fees</b>		
<b>Existing Jobs Housing Linkage Fee</b>	<b>\$28 avg. per gross sq. ft.</b>	<b>\$1,641,589</b>
Eastern Neighborhoods Infrastructure Impact Fee	\$21 avg. per gross sq. ft.	\$1,218,000
Central SoMa TDR Purchase	\$0 avg. per gross sq. ft.	\$0
Central SoMa Area Plan Fee	\$0 avg. per gross sq. ft.	\$0
Central SoMa Community Facilities Fee	\$0 avg. per gross sq. ft.	\$0
TCDP Transportation and Street Improvement Fee	\$0 avg. per gross sq. ft.	\$0
TCDP Open Space Fee	\$0 avg. per gross sq. ft.	\$0
TCDP Transit Delay Mitigation Fee	\$0 avg. per gross sq. ft.	\$0
Transit Center TDR Purchase	\$0 avg. per gross sq. ft.	\$0
Transportation Sustainability Fee	\$21 avg. per gross sq. ft.	\$1,231,340
Child Care Fee	\$2 avg. per gross sq. ft.	\$92,315
Public Art Fee	1% of direct costs	\$178,283
School Impact Fee	\$1 avg. per gross sq. ft.	\$35,267
Other Fees	<u>\$2 avg. per gross sq. ft.</u>	<u>\$92,110</u>
Subtotal Fees	\$76 avg. per gross sq. ft.	\$4,488,904
Total Indirect Costs		\$13,300,984
<b>Subtotal, Direct and Indirect Costs</b>		<b>\$31,129,284</b>
<b>Total Costs</b>		<b>\$35,119,284</b>
<b>Profit (Net Project Value - Total Costs)</b>		<b>\$6,610,483</b>
<b>Return on Cost (Profit / Total Cost)</b>		<b>18.8%</b>
<b>Stabilized Yield (NOI / Total Cost)</b>		<b>6.8%</b>

Source: Economic & Planning Systems, Inc.

**Prototype 6**  
**Eastern Neighborhoods (EN) - Large Cap**  
**130**

Item	Assumption	Total
<b>DEVELOPMENT PROGRAM</b>		
Lot Size	0.5 acres	20,000 sq.ft.
Gross Building Area (excl. parking)		125,000 sq.ft.
Net Area	89% efficiency ratio	111,250 sq.ft.
Office (Full-Service)		97,900 sq.ft.
Retail (NNN)		8,900 sq.ft.
PDR (NNN)		1,780 sq.ft.
Parking Spaces		29 spaces
<b>REVENUE ASSUMPTIONS</b>		
Office (Full-Service)	\$87 per net sq. ft. per year	\$8,517,300
Retail (NNN)	\$40 per net sq. ft. per year	\$356,000
PDR (NNN)	\$30 per net sq. ft. per year	\$53,400
Net Parking Revenue	\$210 per space per month	<u>\$73,080</u>
Gross Annual Revenue		\$8,999,780
(less) Operating Expenses	30.0% of office full-service revenue	-\$2,555,190
(less) Vacancy Rate	5.0% of gross annual revenue	-\$449,989
(less) Commissions	2.5% of gross annual revenue	-\$224,995
(less) Mello-Roos CFD Special Tax	\$0 avg. per gross sq. ft.	\$0
(less) Prop C Early Care and Education Commercial Rents Tax	3.5% of building lease income	-\$312,435
Net Operating Income		\$5,457,172
Capitalized Value	5.50% cap rate	\$99,221,309
(less) Cost of Sale/Marketing	3.25%	<u>-\$3,224,693</u>
<b>Net Project Value</b>		<b>\$95,996,617</b>
<b>DEVELOPMENT COST ASSUMPTIONS</b>		
<b>Land Cost</b>	\$520 per lot sq. ft.	\$10,400,000
<b>Direct Costs</b>		
Building Construction Cost	\$300 per gross sq. ft.	\$37,500,000
Parking Construction Cost	\$49,500 per space	\$1,435,500
Site Improvement Cost	\$8 per gross sq. ft.	<u>\$937,500</u>
Total Direct Costs		\$39,873,000
<b>Indirect Costs</b>		
Tenant Improvements (office)	\$80 per sq.ft.	\$7,832,000
Tenant Improvements (retail)	\$100 per sq.ft.	\$890,000
Contingency	7.5% of direct costs	\$2,990,500
Architecture and Engineering	8.0% of direct costs	\$3,189,800
Project and Construction Management	3.0% of direct costs	\$1,196,200
Other Expenses (Legal, Inspections)	3.0% of direct costs	\$1,196,200
General and Administrative	3.0% of direct costs	\$1,196,200
Financing	6.0% of direct costs	<u>\$2,392,400</u>
Subtotal Indirect Costs excluding Fees		\$20,883,300
<b>Fees</b>		
<b>Existing Jobs Housing Linkage Fee</b>	<b>\$26 avg. per gross sq. ft.</b>	<b>\$3,196,020</b>
Eastern Neighborhoods Infrastructure Impact Fee	\$19 avg. per gross sq. ft.	\$2,352,000
Central SoMa TDR Purchase	\$0 avg. per gross sq. ft.	\$0
Central SoMa Area Plan Fee	\$0 avg. per gross sq. ft.	\$0
Central SoMa Community Facilities Fee	\$0 avg. per gross sq. ft.	\$0
TCDP Transportation and Street Improvement Fee	\$0 avg. per gross sq. ft.	\$0
TCDP Open Space Fee	\$0 avg. per gross sq. ft.	\$0
TCDP Transit Delay Mitigation Fee	\$0 avg. per gross sq. ft.	\$0
Transit Center TDR Purchase	\$0 avg. per gross sq. ft.	\$0
Transportation Sustainability Fee	\$19 avg. per gross sq. ft.	\$2,411,483
Child Care Fee	\$2 avg. per gross sq. ft.	\$203,500
Public Art Fee	1% of direct costs	\$398,730
School Impact Fee	\$1 avg. per gross sq. ft.	\$68,292
Other Fees	<u>\$1 avg. per gross sq. ft.</u>	<u>\$82,784</u>
Subtotal Fees	\$70 avg. per gross sq. ft.	\$8,712,809
Total Indirect Costs		\$29,596,109
<b>Subtotal, Direct and Indirect Costs</b>		<b>\$69,469,109</b>
<b>Total Costs</b>		<b>\$79,869,109</b>
<b>Profit (Net Project Value - Total Costs)</b>		<b>\$16,127,507</b>
<b>Return on Cost (Profit / Total Cost)</b>		<b>20.2%</b>
<b>Stabilized Yield (NOI / Total Cost)</b>		<b>6.8%</b>

Source: Economic & Planning Systems, Inc.