Memorandum

To: Jean Eisberg, Lexington Planning

Robert Cain and Coleman Frick, City of Palo Alto

From: Benjamin C. Sigman, Luke Foelsch, and Kaavya Chhatrapati;
Economic & Planning Systems

Subject: Conversion of Commercial Uses to Mixed-Use Development;
EPS #241108

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The City of Palo Alto retained Economic and Planning Systems (EPS) to evaluate the financial feasibility of real estate development prototypes across four distinct districts within the city. The City is considering how zoning, development standards, and policy tools influence the relative economics of office and residential development, particularly in geographies that may be candidates for reinvestment over the long term. This memorandum describes a planning-level feasibility assessment of conceptual development project programs prepared by the Lexington Planning consultant team (Lexington Planning, Raimi + Associates, and EPS) and applies revenue and cost assumptions to understand the economic conditions under which redevelopment is likely to occur.

The purpose of the analysis is to clarify how current market forces and regulatory frameworks shape redevelopment potential, and to provide a fact-based foundation for discussions about potential policy options for the City to consider. Palo Alto contains submarkets with significantly different real estate values, development capacity, parcel characteristics, and access to transit and amenities. These differences produce distinct feasibility outcomes, and the City is seeking to understand which prototypical developments are most viable in each setting, whether there are structural barriers to desired development patterns, and how policy adjustments may affect feasibility.

This memorandum evaluates scenarios that reflect realistic development projects under existing zoning. The analysis focuses on the land uses that are most likely to drive redevelopment: office, rental housing, and for-sale housing. Retail and cultural uses are not evaluated as standalone prototypes. These uses may be accommodated on ground floors or integrated into larger projects, but they do not materially shape the core feasibility questions addressed here.

The results of this study are intended to inform several policy conversations. First, the City is exploring how to encourage housing production in areas where office demand has historically been strong. Second, the City is evaluating whether fee adjustments or zoning changes can meaningfully shift development outcomes. Third, the City aims to understand how redevelopment potential varies across submarkets so that planning and land use strategies can be tailored to the conditions present in each district rather than applied uniformly.

The analysis uses a stabilized year pro forma framework that compares the value of a completed project at full occupancy with the full cost of development. This method does not attempt to predict timing, absorption, or the probability that any specific parcel will redevelop. Instead, it identifies the conditions under which redevelopment becomes financially viable and highlights the relative strength of office and residential prototypes under current market conditions. The analysis incorporates sensitivity testing to evaluate how changes in rent, fees, land cost, and parking format influence feasibility. This provides a broad view of how market and policy factors interact and which levers have meaningful influence on outcomes.

Key Findings

1. **Market fundamentals strongly favor office development in core locations**. Office development outperforms rental housing in the locations where Palo Alto achieves its highest office values, particularly Downtown and segments of California Avenue. Achievable office rents in these areas support land values that exceed rental housing values by a wide margin. This performance gap reflects underlying market conditions rather than policy choices. Modest policy interventions that add cost to office development are unlikely to change these outcomes because office uses are significantly more valuable.

2. **Existing zoning limits office development potential**. Although office typically outperforms housing in terms of value per square foot, office uses are already meaningfully constrained through density (i.e., Floor Area Ratio) limits. Across the four study sites, allowable office density is far lower than allowable residential density. In some cases, office development capacity is half of residential capacity and in one case it is approximately one quarter. These project size constraints significantly reduce office-supported land value and are a disincentive for office development.

3. **Cost-based City disincentives would need to be significant to change highest-and-best use outcomes in desirable office locations.** For two sites tested where office is more desirable than housing, reducing the appeal of office development by adding cost would require very large levies. To make housing preferable, one site would require approximately double its current commercial linkage fee burden, while another would require that fees increase by nearly an order of magnitude (1,000%). These magnitudes are well beyond typical policy adjustments and indicate that fee-based tools alone likely cannot equalize office and residential feasibility in some Palo Alto locations.

4. **Low-density for-sale residential prototypes perform relatively well under current market conditions.** In fact, for-sale housing is highly competitive with office outside Palo Alto's best office locations. The study finds that townhome format residential development is preferrable to office development at two sites, where for-sale pricing supports stronger residual values than office. Townhomes are the highest and best uses at these sites without additional incentives, reflecting strong demand for lower density ownership housing. This finding suggests that lower density for-sale housing can stimulate redevelopment, particularly in locations where office is less prevalent.

5. **Rental housing faces feasibility challenges in today's market**. Rental residential prototypes underperform both office and for-sale housing across the study sites. While the City is seeing a number of for-rent residential and mixed-use residential applications, particularly projects utilizing State Density Bonus Law or the City's Housing Incentive Program in corridors such as San Antonio Road and El Camino Real, these projects often rely on regulatory incentives and increased density to move forward. High construction costs, on-site inclusionary housing requirements in the Housing Focus Area, and tepid regional rent growth all contribute to lower residual land values. Even in the best locations, rental housing feasibility lags office by a substantial margin and trails for-sale housing as well. This suggests that current development activity is largely incentive-driven rather than market-driven, and that additional incentive tools are likely needed to achieve meaningful production of new multifamily rental units in the near term.

6. **Redevelopment incentives in Palo Alto should reflect the notable differences in development feasibility findings across the city's distinct submarkets.** In the best office locations, market conditions favor office so strongly that strict limitations on office development would likely be needed to prioritize housing development. Meanwhile, in less desirable office locations, lower-density for-sale housing, particularly townhomes, appear to be the most effective land use to catalyze redevelopment. The study also finds that rental housing will require additional support to compete with higher-value alternatives.

Development Sites and Submarket Context

The feasibility analysis evaluates redevelopment potential across four sites selected to capture the range of market conditions present in Palo Alto. **Figure 1** illustrates that the studied locations span transit-served mixed-use districts, commercial corridors, and lower-intensity suburban environments. **Table 1** summarizes the submarket context for each site, illustrating how development economics vary across the city's major employment and housing submarkets.

Site 1 - Mayfield (Test Site: 123 Sherman Avenue)

Mayfield sits immediately adjacent to the California Avenue Caltrain Station and benefits from a walkable environment with access to neighborhood retail, transit, and proximity to Stanford Research Park. The area functions as a transitional zone between established residential neighborhoods and a major employment district. Office market performance in Mayfield falls between the premium conditions observed Downtown and those seen in Research Park.

Site 2 - Research Park (Test Site: 901 South California Avenue)

Research Park is characterized by a stable daytime population, a strong concentration of professional services tenants, and, at this site, proximity to an established neighborhood shopping street with high foot traffic (California Avenue). Residential demand is robust in this area due to its transit accessibility, centralized location, and proximity to Stanford. This submarket represents a balanced environment where both residential and office uses may be financially viable depending on site characteristics and zoning.

Site 3 - Downtown (Test Site: 901 High Street)

Downtown Palo Alto represents the city's most valuable commercial district. Premium office rents, strong retail foot traffic, a dense mix of uses, and direct Caltrain access create exceptional market value. This location consistently attracts tenants with high willingness to pay, supporting land values far above those of other Palo Alto submarkets. Residential demand is also strong downtown, but housing values are relatively less than those generated by the office market, and limited opportunities for larger buildings contribute to the challenge of building residential projects.

Site 4 - Bayshore (Test Site: 2850 West Bayshore Road)

The Bayshore functions as a lower density district of Palo Alto with good automobile access, limited walkability, and materially lower rent levels than other Palo Alto submarkets. For-sale housing performs well here, although overall development feasibility remains highly sensitive to cost. The test site provides an office market counterpoint to the premium conditions seen downtown and illustrates how office development potential is limited outside of well-amenitized office clusters.

Figure 1 – Mapping Development Test Sites

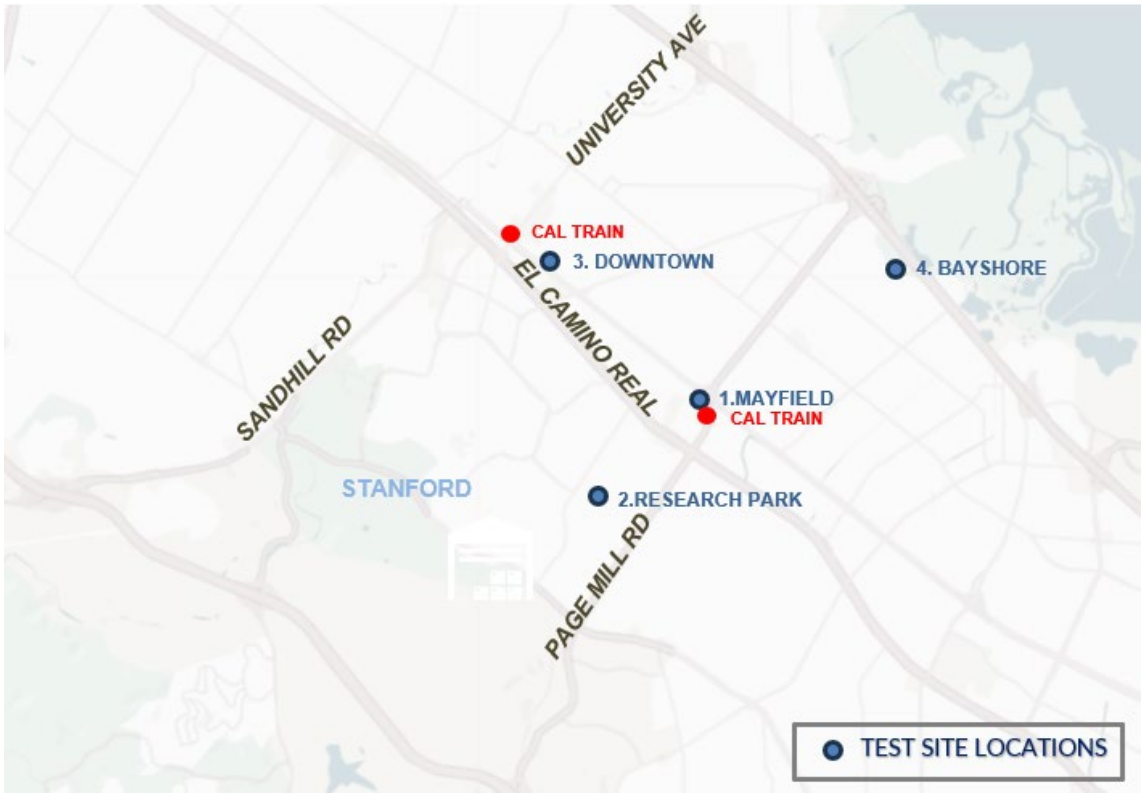


Table 1 – Submarket Summary

Site #	Address	Submarket	Context and Key Characteristics
1	123 Sherman Ave	Mayfield	Adjacent to the California Avenue Caltrain Station with strong walkability. Transitional location between single-family neighborhoods and the commercial corridor. Steady demand for both multifamily and small-scale office uses.
2	901 S California Ave	Research Park	Within the California Avenue retail and employment district. Strong neighborhood-serving retail, professional offices, and high foot traffic. Attractive for ownership housing and small to mid-scale office due to its amenities and transit access.
3	901 High Street	Downtown	Premier office submarket in Palo Alto with the highest achievable office rents. Dense walkable environment with retail, restaurants, and Caltrain access. Strongest economics for both office and high-quality multifamily development.
4	2850 W Bayshore Rd	Bayshore	Auto-oriented corridor along US-101 with lower rents for both office and residential. Limited walkability and amenities. Stronger feasibility for ownership housing than rental or office uses. Represents the lower-value end of the Palo Alto market spectrum.

Office Market Geography and Value Patterns

Office values in Palo Alto are highly location-specific and follow a recognizable spatial hierarchy. As illustrated in **Figure 2**, higher office rents and sale prices are concentrated along a series of linear commercial corridors, including University Avenue, El Camino Real, California Avenue, and Page Mill Road. These corridors align with transit access, walkable amenities, and concentrations of professional services tenants. They represent locations where firms demonstrate the highest willingness to pay for visibility, proximity to peers, and regional accessibility.

The highest value areas occur where these corridors overlap, forming premium office zones near the Downtown Caltrain Station and the California Avenue commercial district, consistent with the sales data shown in **Table 2**. Properties within these commercial nodes regularly achieve sale prices exceeding $1,600 per square foot. Meanwhile, values fall sharply even a few blocks outside these boundaries, reflecting the importance of access, amenities, walkability, and tenant clustering in the Palo Alto market.

This corridor-based value geography helps inform and explain the financial feasibility results of this analysis. Office development exhibits strong performance Downtown and near California Avenue because these locations achieve substantial market premiums that offset density limitations and high construction costs. Outside these zones, office development feasibility is significantly weaker, as is found at the Bayshore site. In those areas, this analysis finds that achievable rents do not justify new Class A office construction even under favorable cost assumptions.

The spatial market dynamics observed in Palo Alto directly affect land values. Office development potential aligns closely with the corridor zones. These higher value locations support office development even at constrained densities, while lower value office locations are more competitive for residential, though rental housing appears largely infeasible under current market conditions and development policies.

Figure 2 - Office Market Premium Corridors

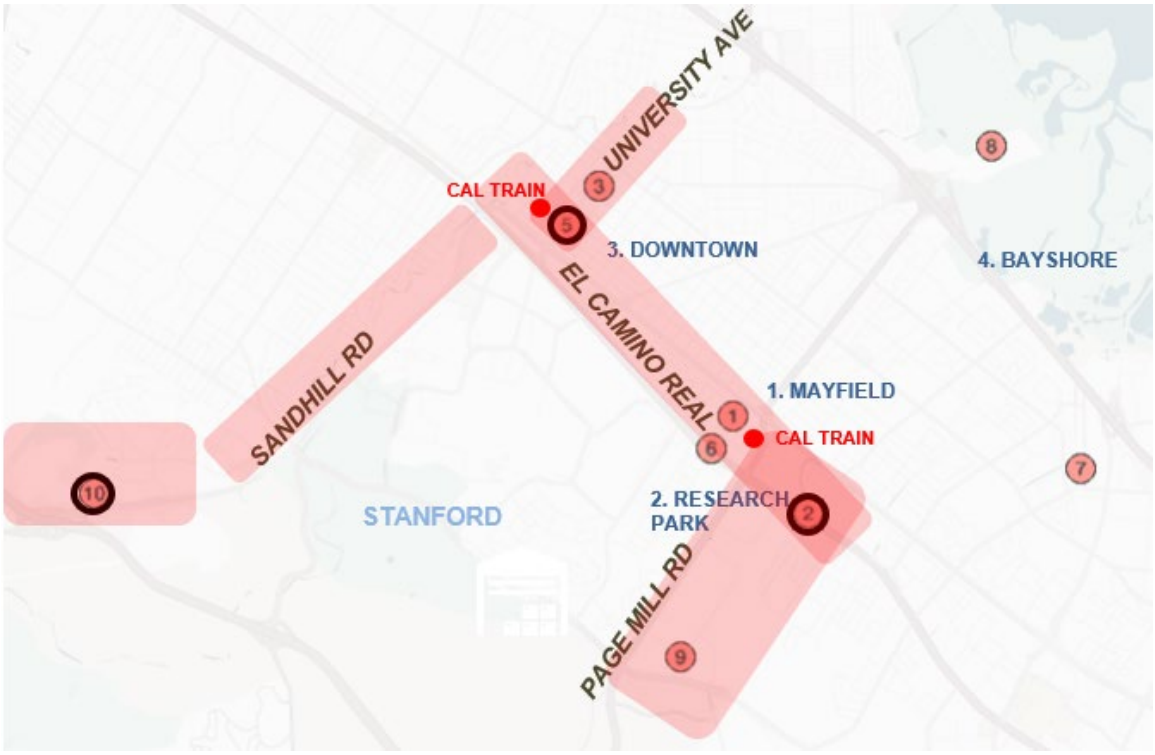


Table 2 - Office Sale Prices in Palo Alto

Site #	Address	Sale Price Per Square Foot[1]	Sale Year[1]
1	206 California Ave	$812	2024
2	**3401 El Camino Real**	**$1,600**	**2024**
3	540 University Ave	$828	2024
5	**250 University Ave**	**$1,969**	**2025**
6	490 California Ave	$516	2025
7	3950 Fabian Way	$572	2025
8	1870 Embarcadero Rd	$202	2025
9	3176 Porter Dr	$578	2024
10	**2882 Sand Hill Rd**	**$1,632**	**2024**

[1] CoStar Group Data; Sales Post 2024

Prototype Development Approach

Raimi + Associates (R+A) prepared zoning-compliant development prototypes for each study test site to establish realistic site yield estimates for feasibility testing. As summarized in **Table 3** and **Table 4**, the study approach relied on a detailed review of allowable floor area, height limits, open space requirements, and parking ratios across the relevant zoning districts. The resulting real estate development "prototypes" reflect the scale, massing, and construction types that a developer could realistically pursue under current City regulations.

For residential prototypes, R+A developed a range of building forms appropriate to each submarket, including ownership townhomes, mid-rise multifamily projects with parking podiums, and for-sale condominiums. **Table 3** presents the residential program developed for each test site. The development programs incorporate typical dwelling unit characteristics, efficiency assumptions, amenity programs, and parking configurations consistent with development norms for the area and the differences between rental and ownership formats.

For the office development prototypes, R+A designed low- and mid-rise Type I buildings that match Palo Alto's limited density allowances. **Table 4** outlines the office programs studied, which range from one to three stories depending on zoning. Parking layouts vary by site and include structured parking, integrated garages, and limited surface spaces consistent with site geometry and standards.

Construction Types Used in the Prototypes

The study's real estate development prototypes rely on two primary construction types most likely to be feasible for residential and office development in Palo Alto.

- **Type V residential construction** is wood frame construction used for townhomes, which follow a lighter structural system and remain within the height and scale typically permitted in neighborhood contexts. Type V construction is also common for the upper stories of rental apartment buildings. In these multifamily prototypes, the residential floors are constructed with wood framing that sits above a concrete parking podium. This configuration is common in midrise residential development because it allows the project to achieve additional stories, with required parking housed in a durable podium level while keeping the upper stories in a more cost-efficient wood frame system.
- **Type I construction** is concrete or steel structural construction that provides the strength, fire rating, and structural spans needed for podium levels and for office buildings. In the residential prototypes, Type I construction forms the concrete parking podiums and any associated ground floor spaces that require higher load capacity or enhanced fire separation. In the office prototypes, Type I construction is used for the

full building structure, which ranges from one to three stories depending on the zoning requirements for each site. This construction type supports larger open floor plates, greater floor to floor heights, and higher occupancy standards than can be accommodated in wood frame structures.

The financial feasibility analysis relies on the R+A development programs to establish quantitative inputs to the pro forma model. Key analytical inputs informed by the R+A work include gross and net square footage, unit counts, parking supply, and construction typology. EPS prepared associated revenues and operating costs assumptions.

Table 5 provides a consolidated summary of these prototype development programs across the four sites. The prototypes form the foundation for the feasibility testing and sensitivity analysis. Prototypes generally reflect baseline zoning conditions with the exception of the Downtown Scenario, which assumes waivers for FAR and height. These waivers did not materially alter relative feasibility outcomes. The analysis provides a consistent framework for comparing office and residential performance across sites with distinct land use patterns and market conditions.

Table 3 - Residential Prototype Programs and Construction Types by Site

Site	Residential Prototype	Construction Type	Rendering
Site 1 – Mayfield	Mid-rise rental apartments	Type V over Type I Podium	
Site 2 – Research Park	For-sale townhomes	Type V	
Site 3 – Downtown	Mid-rise rental apartments	Type V over Type I Podium	
Site 4 – Bayshore	For-sale townhomes	Type V	

Table 4 - Office Prototype Programs and Construction Types by Site

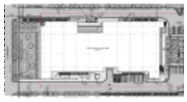
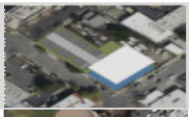
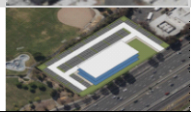
Site	Office Prototype	Construction Type	Rendering
Site 1 – Mayfield	Low-rise office	Type I	
Site 2 – Research Park	Low-rise office	Type I	
Site 3 – Downtown	Low-rise office	Type I	
Site 4 – Bayshore	Low-rise office	Type I	

Table 5 - Summary of Prototype Development Programs by Site

Site	Site Area (Acres)	Prototype Type	GSF	FAR	Units	Parking Spaces	Parking Ratio
Site 1 Mayfield	0.8	Residential	84,149	2.5	80	90	1.1 per unit
		Office	48,400	1.4	n/a	35	2.36 per 1,000 NSF
Site 2 Research Park	3.2	Residential (Townhomes)	144,720	1.0	68	136 (garages)	2.0 per unit
		Office	58,164	0.4	n/a	185	3.35 per 1,000 NSF
Site 3 Downtown	0.5	Residential	37,295	1.7	33	14	0.4 per unit
		Office	8,584	0.4	n/a	26	3.35 per 1,000 NSF
Site 4 Bayshore	2.3	Residential (Townhomes)	105,628	1.0	48	100 (garages)	2.1 per unit
		Office	40,700	0.4	n/a	142	3.49 per 1,000 NSF

Analytical Approach

This analysis applies a stabilized-year pro forma framework to estimate the land value that each prototype can support. The method compares the value of a completed project at stabilization (i.e., full occupancy) with total development cost, expressed in constant 2025 dollars. Stabilized value is derived from assumptions about market-supportable rents or sale prices, operating costs, and capitalization rates. This approach provides an initial indication of feasibility and not to model absorption, phasing, or other time-based cash flows.

For each prototype, the analysis calculates a residual land value by subtracting total development cost from the estimated value. The resulting "residual land value" represents the price a project could theoretically pay for land acquisition while still meeting required investment returns. Feasibility is evaluated by comparing the residual land values of office and residential prototypes on the same site, which allows for a direct assessment of which use is more competitive (i.e., "highest and best use") under current market and cost conditions.

The analysis tests the residential and office prototypes prepared by R+A for each of the four study sites. Feasibility outcomes reflect assumptions about building size, efficiency, construction type, revenue performance, and parking configuration. Sensitivity tests on rent, fees, density, and parking formats provide additional insight into how market and policy factors influence the relative competitiveness of office and residential development

Summary of Key Terms

- **Market Value** – The estimated sale price of a real estate asset under current market conditions, assuming a willing buyer and seller.
- **Per-NSF Rent and Sale Price Assumptions** – Rental rates and sale prices expressed on a per-net-square-foot basis, informed by market data from CoStar, Redfin, Zillow, and comparable high-quality new construction in Palo Alto.
- **NSF (Net Square Feet)** – Interior usable space within a building, excluding common areas, walls, and building service spaces.
- **Hard Costs** – Direct construction costs, including site work, labor, materials, and contractor overhead.
- **Soft Costs** – Indirect development costs such as architecture, engineering, permits, legal fees, financing costs, and other professional services.
- **Other Costs** – Costs not captured in hard or soft costs, including contingency and development cost provisions for unforeseen conditions.
- **Net Operating Income (NOI)** – Annual operating revenue minus operating expenses, excluding debt service, depreciation, and income taxes.
- **Cap Rate (Capitalization Rate)** – The investor's required stabilized annual return, calculated as net operating income divided by project value.
- **Development Spread / Yield on Cost Premium** – The additional return, expressed in basis points, required to compensate for construction, entitlement, and lease-up risk above the stabilized cap rate.
- **ROC (Return on Cost)** – An unlevered return metric comparing stabilized net operating income to total development cost, commonly used to evaluate development feasibility.
- **Residual Land Value (RLV)** – The difference between capitalized project revenue and total development cost, representing the estimated value available to support land acquisition given the assumed program and financial inputs.

Key Assumptions

Revenue Assumptions

Revenue assumptions establish the valuation of each prototype and are central to calculating residual land value. The categories below describe the key components of revenue, including market rents and sale prices, capitalization rates, and investment return expectations.

Market Rents and Sale Prices

Market rents and sale pricing reflect current achievable levels for newly delivered products in each submarket. The assumptions utilized in this analysis are summarized in **Table 6**.

Rental housing value is calculated using net square-foot monthly rents derived from the observed performance of high-quality Class A buildings based on data from CoStar. Among the test sites, Downtown achieves the highest apartment rents, owing to its walkability, concentration of services, and immediate access to the University Avenue Caltrain station. Rent in the Research Park and Mayfield remain strong but do not reach Downtown levels. In contrast, Bayshore supports more moderate rents, reflecting its relative distance from transit, services, and other neighborhood amenities.

For ownership housing, revenues are based on sale prices per net square foot for attached residences built with Type V construction, based on data from Redfin, Zillow, CoStar, and other sources. Townhomes in the Research Park and Bayshore benefit from substantial demand among households seeking ownership opportunities in Palo Alto—one of the region's most supply-constrained for-sale housing markets. Prices reflect both the strong purchasing power of local households and scarcity of new for-sale home inventory in the city. While townhome prototypes are financially viable under current assumptions, recent zoning amendments have increasingly sought to encourage higher-density forms of ownership housing, such as through raising minimum density requirements and increasing allowable heights and maximum densities.

Office rents are based on triple net (NNN) lease structures in which taxes, insurance, and maintenance are paid by the tenant. The strongest office market rents are seen in Downtown.

Capitalization Rates

Capitalization rates ("cap rates") are a market factor that inform the relationship between a building's net operating income and property value. This relationship between property income and value is central to feasibility calculations for income-generating commercial properties. Rental housing and office pro formas use cap rates that reflect current investor expectations and the risk profile of each product type to estimate market value.

Rental housing analysis assumes a 4.0% cap rate, which is consistent with the long-term stability of multifamily assets in supply constrained cities such as Palo Alto. Multifamily has historically exhibited relatively low volatility due to consistently high demand and the predictability of the income streams.

Office analysis assumes a 5.5% cap rate to reflect the greater volatility of the office market and the higher perceived risk associated with tenant rollover (a higher cap rate indicates a greater level of risk), leasing downtime, and changing workplace patterns. Office income is more sensitive to macroeconomic cycles, company expansions and contractions, and location-specific desirability. As a result, investors require a higher yield relative to multifamily.

Yield Premiums for New Development

The spread between market cap rates for built and stabilized buildings and the developer's required return yield represents the investment premium necessary to justify the risk associated with new development. This premium compensates the developer for taking on construction risk, entitlement risk, lease-up uncertainty, and broader market fluctuations.

In this analysis, both office and rental housing require a single percentage point spread above the market cap rate to justify new development. This means that in a market where stabilized apartment buildings exhibit a 4.0 percent cap rate, developers need to achieve a 5.0 percent yield on cost for the project to be attractive. The same logic applies to office, where the required development yield is 6.5 percent. These investment return thresholds reflect the minimum profitability necessary to attract capital.

Return on Cost Expectations for Ownership Housing

Unlike rental housing and office, cap rates are not utilized in estimating potential values of for-sale housing. Market value is established through review of market transactions. Residual land values are then estimated by comparing sales revenue with development cost, including a return on cost factor.

Townhome prototypes in this analysis require a 15 percent unlevered return on development cost. This threshold is consistent with typical expectations for attached ownership product in high cost, high entitlement complexity jurisdictions. It accounts for construction risk, sales absorption risk, and the absence of recurring income. The 15 percent requirement reflects a typical investment threshold for ownership housing in the Bay Area.

Table 6 – Revenue Assumption Summary

Site	Use	Avg Unit Size or Office NSF	Revenue Assumption	Yield / Return Assumption
Site 1 Mayfield	Residential (Rental)	834 NSF	$5.50 per NSF per month	4.0 percent cap rate, 100 bps dev. spread
	Office	39,573 NSF	$7.50 per NSF per month	5.5 percent cap rate, 100 bps dev. spread
Site 2 Research Park	Residential (Ownership)	1,597 NSF	$1,100 per NSF (sale)	15 percent unlevered ROC
	Office	55,141 NSF	$7.00 per NSF per month	5.5 percent cap rate, 100 bps dev. spread
Site 3 Downtown	Residential (Rental)	841 NSF	$6.25 per NSF per month	4.0 percent cap rate, 100 bps dev. spread
	Office	8,584 NSF	$8.50 per NSF per month	5.5 percent cap rate, 100 bps dev. spread
Site 4 Bayshore	Residential (Ownership)	1,706 NSF	$1,100 per NSF (sale)	15 percent unlevered ROC
	Office	40,700 NSF	$4.25 per NSF per month	5.5 percent cap rate, 100 bps dev. spread

Cost Assumptions

Real estate development cost assumptions include hard costs (i.e., direct construction costs), soft costs, and other project costs such as developer return requirements. Construction cost assumptions draw on published Bay Area cost benchmarks, including from Marshall and Swift, as well as EPS experience on comparable development projects. These costs vary by construction type, scale, and prototype.

Hard Costs

Hard costs include site work and vertical building construction expenses. For residential prototypes, these costs also include required furniture, fixtures, and equipment. Construction types differ across prototypes, ranging from Type V townhomes at lower cost levels to Type I podium and Type I office structures with substantially higher per-square-foot costs. Parking format is a major factor influencing overall construction costs. Podium and subterranean parking involve significantly higher per-space costs than integrated Type V garages or surface parking. **Table 7** summarizes cost assumptions for each site.

Soft Costs

Soft costs include design, engineering, entitlement, and administrative costs, as well as estimates for taxes, insurance, and financing. Permit and fee estimates incorporate the

City of Palo Alto's current development impact fees, including the affordable housing impact fee. City staff derived fee estimates based on the R+A development programs using the City's current fee schedule. The analysis assumes that required below-market-rate units are delivered on-site in both rental and ownership prototypes.

Other Project Costs

Other project costs include a development contingency allowance that applies to total hard and soft costs, along with the required developer returns. For income-generating uses such as office and rental housing, returns are modeled as a stabilized yield on cost. For ownership housing, the return requirement is modeled as a one-time return on cost at time of sale, reflecting the absence of ongoing operating income. These return expectations reflect typical investor requirements in Bay Area markets.

Table 7 – Cost Assumptions Summary

Site	Use	Construction Type	Direct Construction Cost[1]	Parking Format	Parking Cost Assumption
Site 1 Mayfield	Residential (Rental)	Type V podium (4 over 1)	$429	Podium with puzzle parking	$65,000 per space
	Office	Type I	$505	Mix of podium + subterranean	$50,000 podium / $85,000 subterranean
Site 2 Research Park	Residential (Townhomes)	Type V (Townhomes)	$320	Individual garages	$14,000 per space
	Office	Type I	$459	Integrated structured parking	$14,000 per space
Site 3 Downtown	Residential (Rental)	Type V podium (3 over 1)	$423	Tuck-under + limited surface	$5,000 surface / $14,000 tuck-under
	Office	Type I	$459	Surface parking	$5,000 per space
Site 4 Bayshore	Residential (Townhomes)	Type V (Townhomes)	$320	Garages + guest parking	$14,000 per garage / $5,000 surface
	Office	Type I	$459	Surface parking	$5,000 per space

[1] per GSF excluding parking

Developer Interviews

EPS conducted interviews in November with several development firms active or recently active in Palo Alto, including **Sand Hill Property Company (November 11)**, **Sobrato (November 5)**, and **Sares Regis Group (November 13)**. These discussions were intended to validate the assumptions used in the financial analysis, understand current market conditions from practitioners operating in the city, and gather insight into how developers interpret redevelopment potential under existing zoning and market constraints.

Across all interviews, firms stated that the key findings of the financial analysis reasonably reflect current conditions in the Palo Alto market. They noted that revenue assumptions for office, rental housing, and ownership housing align with pricing observed in recent projects, and that construction cost assumptions are generally consistent with recent bids and contracts. The only meaningful point of divergence is related to for-sale townhomes. Multiple firms indicated that townhome sale prices assumed in the analysis may be conservative relative to actual market potential. To maintain a cautious approach appropriate for long-range planning, the analysis retains conservative sale pricing. However, the sensitivity testing discussed below illustrates the effect of stronger pricing on feasibility outcomes.

Firms also offered perspective on the policy implications of the feasibility scenarios. In general, interviewees emphasized that Palo Alto's premier office locations, particularly Downtown, California Avenue, and Research Park, command exceptional rents and maintain strong tenant demand despite limited density allowances. They noted that these districts are prestige office markets with deep regional appeal, which means that the inherent value of office in these locations is not easily diminished through straightforward disincentives such as increased fees, taxes, or regulatory burdens. In their view, efforts to suppress office demand directly are unlikely to shift development patterns in a meaningful way.

Interviewees broadly indicated that policies that improve the feasibility of housing would likely be more effective at shifting development outcomes toward housing over other uses. They highlighted several suggestions to make residential projects more competitive relative to office, including lower density allowances that better match demand and construction economics, more predictable entitlement pathways, and adjustments to parking requirements. A notable refrain was the desire for streamlined entitlements and lower minimum density requirements for housing, specifically to allow townhome development. Interviewees also observed that the relative competitiveness of office on the highest-value sites reflects structural market conditions, rather than analytical assumptions.

Feasibility Findings

The feasibility results for the four study test sites show clear patterns in how office, rental housing, and for-sale housing perform under current market conditions and zoning requirements. Test fits represent current zoning, including allowed density increases through the City's Housing Incentive Program and State Density Bonus Law. Outcomes vary across submarkets, but the key drivers are consistent: achievable rent and sale prices, construction costs, and zoning. The findings below summarize how each prototype performs relative to these factors. **Table 8** shows estimated residual land value per acre for office and residential prototypes across the four test sites. Note that the Site 1 scenarios are mixed-use prototypes that include a ground-floor retail component. The residential and office RLV/acre values shown in **Table 8** are derived based on the sum of the component pro formas (e.g., residential RLV + retail RLV), translated to a per-acre basis. See proformas in **Appendix A** for detailed calculations for each use component.

Office Development

Office results in a positive land value in all four locations and remains the highest and best use in the more desirable commercial locations, Downtown and in Mayfield. Downtown, monthly achievable rents approach $8.50 per net square foot, producing a residual land value of nearly $13.1 million per acre, the highest in the study. Office also outperforms residential at the Mayfield site, with supportable residual land value estimated at $3.6 million per acre. At these sites, the land value gap between office and residential appears to exceed what cost-based policy interventions typically seek to solve.

Multifamily Rental Housing

Multifamily rental housing is the most challenged of the tested uses and is marginally viable only in the highest-value locations under current market conditions. At Mayfield, the rental prototype appears infeasible, generating negative residual land value due to modest achievable rents and the cost structure of a mid-rise podium building. Among the locations tested, Downtown is the only area where rental housing generates a positive residual land value; however, at approximately $1.9 million per acre, this outcome would require site acquisition costs well below prevailing market levels to achieve near-term feasibility.

Taken together, the results indicate that today's rent levels, combined with podium construction costs and parking obligations, create a substantial near-term feasibility barrier for rental housing across much of the city. **Importantly, these findings represent a snapshot in time rather than a long-term constraint on multifamily development.** The City currently has a broader development pipeline of over 3,000 multifamily units proposed or entitled, including projects advancing within the Housing Focus Area along El Camino Real, increased zoning capacity in other areas such as San Antonio Road,

developments such as Fabian Way that are proceeding under base zoning rather than through Builder's Remedy, and projects leveraging state density bonus incentives. With the exception of a small-scale project of approximately eight units, no multifamily developments are currently under construction in the city as of February 12, 2026. This is consistent with cyclical development patterns in which developers prioritize entitlements during weaker market conditions in order to be positioned to deliver housing once capital markets and rental fundamentals improve.

For-Sale Townhomes

For-sale townhomes are consistently feasible and, in some cases, outcompete office. At Research Park and Bayshore, townhomes generate residual land values of $10.7 million and $11.4 million per acre, respectively. These figures reflect strong demand for townhome development in Palo Alto. Townhomes are the only residential product that outperforms office, indicating that lower-density ownership housing formats can be the highest and best land use in some locations, absent any additional policy intervention.

Downtown For-Sale Multifamily

The financial analysis also tested a Downtown condominium concept. Findings from this test suggest that a mid-rise for-sale multifamily project could support $8 million or more in residual land value per acre, outperforming the rental prototype on the same site. The finding indicates that a mid-rise condominium product could be viable Downtown, though the office use still appears preferable.

Table 8 – Summary of Feasibility Findings

SITE	HOUSING TYPE	RESIDENTIAL RLV/ ACRE	OFFICE TYPE	OFFICE RLV/ ACRE
Site 1 – Mayfield[1]	Multifamily Rental	-$0.6M	3-Story	$3.6M
Site 2 – Research Park	Townhomes	$10.7M	1-Story	$8.1M
Site 3 – Downtown	Multifamily Rental	$1.9M	1-Story	$13.1M
Site 3 – Downtown (Alternative Test)	Multifamily Condo	$8M +	1-Story	$13.1M
Site 4 – Bayshore	Townhomes	$11.4M	1-Story	$0.7M

[1] Site 1 projects include groundfloor retail. RLV values shown here for Site 1 combine RLV outputs from the primary uses (residential or office) with RLV outputs from their respective retail uses, and converts the sums to a per-acre value.

Sensitivity Analysis

Sensitivity analysis evaluates how key inputs to the financial analysis influence the relative feasibility of office and residential development across the four Palo Alto study test sites. The sensitivity analysis considers the impact of market conditions and potential policy options. Consistent with other study results, residual land value determines which land use is more competitive at each site as key inputs are evaluated.

In the tables that accompany this section, grey shading indicates that the residual land value for office falls below the residential alternative, meaning residential becomes the highest and best land use at the test site. The shading allows readers to see where shifts in rent or fee levels meaningfully alter development feasibility outcomes.

Commercial Linkage Fee Sensitivity

A key policy consideration is whether the City of Palo Alto should add to the cost of office development in an effort to disincentivize that use. This might be done through fees, taxes, or other measures. The analysis considers increases to the City's commercial linkage fee, though any City-controlled mechanism that adds to the cost of office development without adding to the cost of housing development could serve the same purpose. The analysis tested a wide range of commercial linkage fee levels for each office prototype, including values both below and above the current fee of $80 per square foot. The goal is to understand whether fee adjustments could realistically shift feasibility away from office and toward residential development.[1]

The results show that marginal changes to fees produce only modest movement in feasibility. Office performance in Palo Alto is shaped primarily by achievable rent and the cost efficiency of low- and mid-rise office formats. At two of the study sites, office is already less competitive than residential, so fee changes have no effect. At the remaining sites where office continues to outperform residential, the fee would need to increase to levels well above normal policy practice before office would no longer be the highest and best use. In Mayfield, the fee would need to approximately double. In Downtown, it would need to increase by almost an order of magnitude (1,000%). These levels may not be realistic from a policy perspective and any changes to development impact fees would need to be evaluated for compliance with applicable state and local laws.

[1] Note that while the study contemplates changes to the commercial linkage fee, the sensitivity testing examines fee levels that may not be supportable by "nexus" analysis required to substantiate legal impact fees in California.

Rent Sensitivity

The rent sensitivity analysis tested office rents in increments of 25 cents per square foot. These increments reflect realistic movement within Palo Alto's office submarkets. Rent changes have a strong influence on feasibility because rent directly influences project value. Importantly, the City has no control over private lease rates, yet shifting rent levels determine whether office development remains viable. In high value locations such as the downtown core, even small rent changes produce visible shifts in competitiveness. In lower value areas such as Bayshore, office rents are likely to remain too low for office to outperform residential. These results highlight that development feasibility is primarily market driven and that policy interventions typically only influence outcomes at the margin.

Sensitivity Test Results

At Site 1, the residual land value for office is $3.57 million per acre compared with a residual land value of residential estimated at negative $0.58 million per acre, indicating that office development is substantially more feasible under current conditions. **Table 9** shows how office rents and the commercial linkage fee would need to shift for office feasibility to fall such that residential becomes the highest and best use. If office rents remain at today's levels, the commercial linkage fee would need to roughly double for office to underperform residential. If the fee remains unchanged, office rents would need to decline by about fifty cents, to roughly $7 per square foot, for residential development to be a competitive option.

Table 9 - Site 1 – Mayfield Residual Land Value (in Millions) Sensitivity: Commercial Linkage Fee and Office Market Rent

	Commercial Linkage Fee/ SF									
Rent/SF	**$3.57**	$0	$40	**$80**	$120	$160	$200	$240	$280	$700
	$6.75	$3.04	$0.20	**($2.84)**	($5.46)	($8.30)	($11.13)	($13.97)	($16.80)	($46.57)
	$7.00	$5.18	$2.34	**($0.70)**	($3.33)	($6.16)	($9.00)	($11.83)	($14.67)	($44.43)
	$7.25	$7.32	$4.48	**$1.44**	($1.19)	($4.02)	($6.86)	($9.69)	($12.53)	($42.29)
	$7.50	**$9.45**	**$6.62**	**$3.57**	**$0.95**	**($1.88)**	**($4.72)**	**($7.55)**	**($10.39)**	**($40.16)**
	$7.75	$11.59	$8.76	**$5.71**	$3.09	$0.25	($2.58)	($5.42)	($8.25)	($38.02)
	$8.00	$13.73	$10.90	**$7.85**	$5.23	$2.39	($0.44)	($3.28)	($6.11)	($35.88)
	$8.25	$15.87	$13.03	**$9.99**	$7.36	$4.53	$1.70	($1.14)	($3.97)	($33.74)
	$8.50	$18.01	$15.17	**$12.13**	$9.50	$6.67	$3.83	$1.00	($1.84)	($31.60)

At Site 2, office residual land value is already below residential residual land value. Office is valued at $8.12 million per acre while residential is valued at $10.7 million per acre as shown in **Table 10**. This outcome reflects the favorable development economics of the townhome prototype, which are more feasible than rental housing in today's market. It also reflects that Site 2 is not a premium office location and office development density is constrained.

Table 10 – Site 2 – Research Park Residual Land Value (in Millions) Sensitivity: Commercial Linkage Fee and Office Market Rent

	Commercial Linkage Fee/ SF								
Rent/SF	**$8.12**	$0	$40	**$80**	$120	$160	$200	$240	$280	$700
	$6.25	$7.45	$6.69	**$5.92**	$5.15	$4.39	$3.62	$2.86	$2.09	($5.95)
	$6.50	$8.19	$7.42	**$6.65**	$5.89	$5.12	$4.36	$3.59	$2.83	($5.22)
	$6.75	$8.92	$8.16	**$7.39**	$6.62	$5.86	$5.09	$4.33	$3.56	($4.48)
	$7.00	**$9.66**	**$8.89**	**$8.12**	**$7.36**	**$6.59**	**$5.83**	**$5.06**	**$4.30**	**($3.75)**
	$7.25	$10.39	$9.63	**$8.86**	$8.09	$7.33	$6.56	$5.80	$5.03	($3.01)
	$7.50	$11.13	$10.36	**$9.60**	$8.83	$8.06	$7.30	$6.53	$5.77	($2.27)
	$7.75	$11.86	$11.10	**$10.33**	$9.56	$8.80	$8.03	$7.27	$6.50	($1.54)
	$8.00	$12.60	$11.83	**$11.07**	$10.30	$9.53	$8.77	$8.00	$7.24	($0.80)

Site 3 is the highest value office project tested by the study. The residual land value for an office project is estimated at $13.3 million per acre, compared with a residential residual land value of $1.86 million per acre, as shown in **Table 11**. Bringing office land value down to residential rental levels would require nearly a 10-fold increase in fees comparable cost increase achieved through other means.

Table 11 – Site 3 – Downtown Residual Land Value (in Millions) Sensitivity: Commercial Linkage Fee and Office Market Rent

	Commercial Linkage Fee/ SF									
Rent/SF	**$13.13**	$0	$40	**$80**	$120	$160	$200	$240	$280	$700
	$7.75	$12.38	$11.65	**$10.92**	$10.19	$9.46	$8.73	$8.00	$7.27	($0.39)
	$8.00	$13.11	$12.38	**$11.66**	$10.93	$10.20	$9.47	$8.74	$8.01	$0.35
	$8.25	$13.85	$13.12	**$12.39**	$11.66	$10.94	$10.21	$9.48	$8.75	$1.09
	$8.50	**$14.59**	**$13.86**	**$13.13**	**$12.40**	**$11.67**	**$10.94**	**$10.21**	**$9.49**	**$1.83**
	$8.75	$15.33	$14.60	**$13.87**	$13.14	$12.41	$11.68	$10.95	$10.22	$2.56
	$9.00	$16.07	$15.34	**$14.61**	$13.88	$13.15	$12.42	$11.69	$10.96	$3.30
	$9.25	$16.81	$16.08	**$15.35**	$14.62	$13.89	$13.16	$12.43	$11.70	$4.04
	$9.50	$17.55	$16.82	**$16.09**	$15.36	$14.63	$13.90	$13.17	$12.44	$4.78

At Site 4, office is found to be less feasible than residential development, as shown in **Table 12**. Bayshore is the weakest office submarket among the four sites given its location a distance from the city's strongest office districts. This compares with a residential townhome prototype that performs very well. Across the full range of rent and fee combinations tested in the sensitivity analysis, office never outperforms residential, and there is no sensitivity scenario evaluated in which office becomes the higher value use.

Table 12 - Site 4 – Bayshore Residual Land Value (in Millions) Sensitivity: Commercial Linkage Fee and Office Market Rent

	Commercial Linkage Fee/ SF									
Rent/SF	**$0.75**	$0	$40	**$80**	$120	$160	$200	$240	$280	$700
	$3.50	($0.01)	($0.75)	**($1.48)**	($2.21)	($2.94)	($3.67)	($4.40)	($5.13)	($12.82)
	$3.75	$0.73	($0.00)	**($0.74)**	($1.47)	($2.20)	($2.93)	($3.66)	($4.39)	($12.07)
	$4.00	$1.47	$0.74	**$0.00**	($0.73)	($1.46)	($2.19)	($2.92)	($3.65)	($11.33)
	$4.25	**$2.21**	**$1.48**	**$0.75**	**$0.01**	**($0.72)**	**($1.45)**	**($2.18)**	**($2.91)**	**($10.59)**
	$4.50	$2.95	$2.22	**$1.49**	$0.75	$0.02	($0.71)	($1.44)	($2.17)	($9.85)
	$4.75	$3.69	$2.96	**$2.23**	$1.50	$0.76	$0.03	($0.70)	($1.43)	($9.11)
	$5.00	$4.43	$3.70	**$2.97**	$2.24	$1.50	$0.77	$0.04	($0.69)	($8.37)
	$5.25	$5.17	$4.44	**$3.71**	$2.98	$2.25	$1.51	$0.78	$0.05	($7.63)

Conclusion

The feasibility analysis shows that office development in Palo Alto is highly location dependent and that market forces play a large role in shaping development potential, as compared with marginal policy interventions. In the highest value office areas, such as Downtown, offices are likely to continue to outperform both rental and for-sale residential by a wide margin. These districts command strong rents and benefit from inherent locational advantages that fee adjustments or minor regulatory changes cannot meaningfully counteract.

The analysis also demonstrates that there are several locations in which residential development is currently more feasible than office, especially when modeled as ownership townhomes. This pattern is most pronounced in mid-value and lower-value office markets such as Bayshore, where ownership housing achieves high residual land values and, in some cases, outperforms offices under current zoning. These findings reveal that ownership-based residential formats represent a viable and competitive development option in many parts of the city.

Rental housing faces the greatest feasibility challenges across the study area. Podium construction costs, moderate achievable rents outside Downtown, and inclusionary housing requirements all contribute to estimated residual land values that generally fall below those of office or ownership housing.

Any City development incentives or policy options to incentivize housing over office should seek to target unique submarket characteristics in Palo Alto, reflective of the economic conditions present in each area. Most likely, high-value office districts will remain dominated by office unless zoning capacity changes. It is unlikely cost-adding measures can meaningfully shift outcomes in favor of housing. In some areas, it may be that adjusting zoning to reduce minimum density could be a meaningful incentive to promote housing.

Policy Considerations and Recommendations

Policy tools are available if the City wishes to influence the relative feasibility of office development in locations where its use currently outperforms residential. Impact fees, taxes, and building standards are the most likely tools to add cost to office development in an effort to disincentivize it. Zoning changes are also an option to reduce office development.

Fees. Increases to development impact fees (e.g., commercial linkage fee), subject to Council approval, could raise the cost of office development and narrow the gap between office and residential development potential.

Taxes. A high construction tax represents a potential approach to adding to office development project costs. A tax on office development would need to be voter approved.

Building Standards. Elevated building standards for office development, including enhanced sustainability performance, higher energy requirements, labor requirements or other obligations that increase construction cost could marginally decrease office feasibility.

Land Use Regulation. The City could change zoning or otherwise further restrict office development allowances, although since most districts already limit commercial densities to relatively low standards there may not be the ability to lower them further (most districts only allow 0.4 FAR of commercial). In areas with higher allowances, some additional reduction in office density may discourage development (zones with 1.0-2.0 FAR zones often require ground-floor retail).

These and other related policy approaches would reduce office feasibility. However, such tools are likely most effective in marginal office locations where residual land value is near residential levels. In the highest-value districts such as Downtown, even aggressive fees or cost-increasing requirements may not be sufficient to overcome strong market fundamentals.

Developer interviews also emphasized that while disincentives can shift outcomes at the margin, the City would be better served focusing on incentives for residential development. Streamlined approvals that reduce project risk, lower minimum densities that promote townhomes, and flexibility around parking site planning may ultimately have a greater impact on housing production. A balance between incentives and disincentives will be essential to ensuring that policy interventions align with both market realities and the City's long-term land use goals.

Appendix A. Office and Residential Development Proformas by Site

Site 1: Mayfield
Use: Mid-Rise Market Rate Residential Rental

DEVELOPMENT PROGRAM ASSUMPTIONS	ASSUMPTION/FACTOR		
Development Site (Square Feet)			34,286
Dwelling Units	102	DU / Acre	80
Gross Building Area (Square Feet)	1,052	GBA / DU	84,149
Net Rentable Square Feet	79%	Efficiency Factor	66,721
Total Parking Spaces	1.1	Spaces / DU	90
Podium Parking Spaces	100%	of total parking	90

BUILDING VALUE	ASSUMPTION/FACTOR		PER GBA	TOTAL
Gross Potential Rent	$5.50	per SF/Month	$52	$4,403,586
Gross Potential Parking Income	$0.00	per Space/Month	$0	$0
Losses to Vacancy	5.00%	of Gross Income	-$3	-$220,179
Gross Residential Revenue			$50	$4,183,407
Operating Expenses	30%	of Gross Revenue	-$15	-$1,255,022
Net Operating Income (NOI)			$35	**$2,928,385**
Market Value	4.00%	Capitalization Rate	$870	**$73,209,617**
Development Spread	100	Basis Points	-$174	-$14,641,923
Supportable Development Value	**5.00%**	**Project Yield Rate (on NOI)**	**$696**	**$58,567,694**

PROJECT DEVELOPMENT COSTS	ASSUMPTION/FACTOR		PER GBA	TOTAL
Hard Costs				
Basic Site Work	$20	per SF (Site)	$8	$685,720
Building Direct Cost	$429	Cost/SF (GBA)	$429	$36,099,921
Parking Direct Cost				
Podium w/ Puzzle System Parking Cost	$65,000	per Space	$70	$5,850,000
Total Construction Cost			*$507*	*$42,635,641*
Soft Costs				
Architecture and Engineering	4.0%	of Construction Cost	$20	$1,705,426
Other Soft Costs	2.0%	of Construction Cost	$10	$852,713
Permits and Fees	2.0%	of Construction Cost	$10	$852,713
Development Impact Fees	$39,794	per DU	$38	$3,183,535
Public Art In-Lieu Fee	1.0%	of Construction Cost	$4,737	$426,356
Housing Impact Fee	$26	per SF	$21	$1,734,746
Taxes and Insurance	2.0%	of Construction Cost	$10	$852,713
Financing	7.0%	of Construction Cost	$35	$2,984,495
Marketing/Leasing	2.0%	of Construction Cost	$10	$852,713
Developer Fee	4.0%	of Construction Cost	$20	$1,705,426
Total Soft Costs	*35.5%*		*$180*	*$15,150,835*
Other Project Costs				
Development Contingency	5.0%	of Construction & Soft Costs	$34	$2,889,324
Total Project Cost			**$721**	**$60,675,800**

Residual Land Value		**-$2,108,106**
	per net acre	*-$2,678,327*

Site 1: Mayfield
Use: Ground-Floor Retail (component of Residential Scenario)

DEVELOPMENT PROGRAM ASSUMPTIONS	ASSUMPTION/FACTOR		
Gross Building Area (Square Feet)			4,593
Rentable Building Area (Square Feet)	100%	of GBA	4,593

BUILDING VALUE	ASSUMPTION/FACTOR		PER GBA	TOTAL
Gross Potential Rent	$4.81	per SF/Month (NNN)	$58	$265,016
Losses to Vacancy	5.00%	of GPR	-$3	-$13,251
Gross Office Revenue			$55	$251,765
Operating Expenses	3%	of Gross Revenue	-$2	-$7,553
Net Operating Income			**$53**	**$244,212**
Market Value	4.00%	Capitalization Rate	$1,329	**$6,105,308**
Development Spread	100	Basis Points	-$266	-$1,221,062
Supportable Development Value	**5.00%**	**Project Yield Rate (on NOI)**	**$1,063**	**$4,884,247**

PROJECT DEVELOPMENT COSTS	ASSUMPTION/FACTOR		PER GBA	TOTAL
Hard Costs				
Building Direct Cost	$505	Cost/SF (GBA)	$505	$2,319,465
Tenant Improvement Cost	$0	Cost/SF (RBA)	$0	$0
Total Construction Cost			$505	$2,319,465
Soft Costs				
Architecture and Engineering	4.0%	of Construction Cost	$20	$92,779
Other Soft Costs	2.0%	of Construction Cost	$10	$46,389
Permits and Fees	2.0%	of Construction Cost	$10	$46,389
Development Impact Fees*	$44	per SF (GBA)	$44	$203,204
Public Art In-Lieu Fee	1.0%	of Construction Cost	$5	$23,195
Taxes and Insurance	2.0%	of Construction Cost	$10	$46,389
Financing	7.0%	of Construction Cost	$35	$162,363
Marketing/Leasing	2.0%	of Construction Cost	$10	$46,389
Developer Fee	4.0%	of Construction Cost	$20	$92,779
Total Soft Costs	32.8%	of Construction Cost	$165	$759,876
Other Project Costs				
Development Contingency	5.0%	of Construction & Soft Costs	$34	$153,967
Total Project Cost			**$704**	**$3,233,308**

Residual Land Value	**$1,650,939**

*Impact Fees apportioned to retail use based on retail's percent of total scenario's square footage.

Site 1: Mayfield
Use: Class A Office

DEVELOPMENT PROGRAM ASSUMPTIONS	ASSUMPTION/FACTOR		
Net Development Site (Square Feet)			34,286
FAR			1.4
Gross Building Area (Square Feet)			48,400
Rentable Building Area (Square Feet)	82%	of GBA	39,573
Total Parking Spaces	3.8	per 1,000 SF	149
Structured Parking Spaces	23%	of total parking	35
Subterranean Parking Spaces	77%	of total parking	114

BUILDING VALUE	ASSUMPTION/FACTOR		PER GBA	TOTAL
Gross Potential Rent	$7.50	per SF/Month (NNN)	$74	$3,561,532
Gross Potential Parking Income	$150	per Space/Month	$6	$268,200
Losses to Vacancy	5.00%	of GPR	-$4	-$191,487
Gross Office Revenue			$75	$3,638,245
Operating Expenses	3.00%	of Gross Revenue	-$2	-$109,147
Net Operating Income			**$73**	**$3,529,098**
Market Value	5.50%	Capitalization Rate	$1,326	**$64,165,416**
Development Spread	100	Basis Points	-$204	-$9,871,602
Supportable Development Value	**6.50%**	**Project Yield Rate (on NOI)**	**$1,122**	**$54,293,814**

PROJECT DEVELOPMENT COSTS	ASSUMPTION/FACTOR		PER GBA	TOTAL
Hard Costs				
Basic Site Work	$20	Cost/SF (Site)	$14	$685,720
Building Direct Cost	$505	Cost/SF (GBA)	$505	$24,441,756
Tenant Improvement Cost	$0	Cost/SF (RBA)	$0	$0
Parking Direct Cost				
Podium Parking Cost	$50,000	per Space	$36	$1,750,000
Subterranean Parking Cost	$85,000	per Space	$200	$9,690,000
Total Construction Cost			*$756*	*$36,567,476*
Soft Costs				
Architecture and Engineering	4.0%	of Construction Cost	$30	$1,462,699
Other Soft Costs	2.0%	of Construction Cost	$15	$731,350
Permits and Fees	2.0%	of Construction Cost	$15	$731,350
Development Impact Fees	$83	per SF (GBA)	$83	$4,015,613
Public Art In-Lieu Fee	1.0%	of Construction Cost	$8	$365,675
Taxes and Insurance	2.0%	of Construction Cost	$15	$731,350
Financing	7.0%	of Construction Cost	$53	$2,559,723
Marketing/Leasing	2.0%	of Construction Cost	$15	$731,350
Developer Fee	4.0%	of Construction Cost	$30	$1,462,699
Total Soft Costs	*35.0%*	*of Construction Cost*	*$264*	*$12,791,807*
Other Project Costs				
Development Contingency	5.0%	of Construction & Soft Costs	$51	$2,467,964
Total Project Cost			**$1,071**	**$51,827,247**

Residual Land Value		**$2,466,566**
	per net acre	$3,133,746

Site 1: Mayfield
Use: Ground-Floor Retail (component of Office Scenario)

DEVELOPMENT PROGRAM ASSUMPTIONS	ASSUMPTION/FACTOR		
Gross Building Area (Square Feet)			4,728
Rentable Building Area (Square Feet)	100%	of GBA	4,728

BUILDING VALUE	ASSUMPTION/FACTOR		PER GBA	TOTAL
Gross Potential Rent	$4.81	per SF/Month (NNN)	$58	$272,806
Losses to Vacancy	5.00%	of GPR	-$3	-$13,640
Gross Office Revenue			$55	$259,165
Operating Expenses	3%	of Gross Revenue	-$2	-$7,775
Net Operating Income			**$53**	**$251,390**
Market Value	5.50%	Capitalization Rate	$967	**$4,570,734**
Development Spread	100	Basis Points	-$149	-$703,190
Supportable Development Value	**6.50%**	**Project Yield Rate (on NOI)**	**$818**	**$3,867,544**

PROJECT DEVELOPMENT COSTS	ASSUMPTION/FACTOR		PER GBA	TOTAL
Construction Costs				
Building Direct Cost	$505	Cost/SF (GBA)	$505	$2,387,640
Tenant Improvement Cost	$0	Cost/SF (RBA)	$0	$0
Total Construction Cost			$505	$2,387,640
Soft Costs				
Architecture and Engineering	4.0%	of Construction Cost	$20	$95,506
Other Soft Costs	2.0%	of Construction Cost	$10	$47,753
Permits and Fees	2.0%	of Construction Cost	$10	$47,753
Development Impact Fees*	$83	per SF (GBA)	$83	$392,273
Public Art In-Lieu Fee	1.0%	of Construction Cost	$5	$23,876
Taxes and Insurance	2.0%	of Construction Cost	$10	$47,753
Financing	7.0%	of Construction Cost	$35	$167,135
Marketing/Leasing	2.0%	of Construction Cost	$10	$47,753
Developer Fee	4.0%	of Construction Cost	$20	$95,506
Total Soft Costs	40.4%	of Construction Cost	$204	$965,306
Other Project Costs				
Development Contingency	5.0%	of Construction & Soft Costs	$35	$167,647
Total Project Cost			**$745**	**$3,520,594**

Residual Land Value	**$346,950**

*Impact Fees apportioned to retail use based on retail's percent of total scenario's square footage.

Site 2: Research Park
Use: Townhouse Ownership Residential

DEVELOPMENT PROGRAM ASSUMPTIO	ASSUMPTION/FACTOR		
Development Site (Square Feet)			138,956
Dwelling Units	21	DU / Acre	68
Market Rate Units			58
Affordable Units			10
Gross Building Area (Square Feet)	2,128	GBA / DU	144,720
Net Saleable Square Feet	75%	Efficiency Factor	108,624
Market Rate NSF			92,650
Affordable NSF			15,974
Total Parking Spaces	2.0	Spaces / DU	136
Integrated Garage Parking Spaces	100%	of total parking	136

BUILDING VALUE	ASSUMPTION/FACTOR		PER GBA	TOTAL
Sale Value				
Market Rate Sale Value	$1,100	per NSF	$704	$101,914,871
Affordable Sale Value	$678,152	per DU	$47	$6,781,518
Overall Sale Value			$751	$108,696,388
Sale Cost	5.00%	of Sale Value	-$38	-$5,434,819
Net Building Value				**$103,261,569**
Supportable Development Value	**15.00%**	**Return on Cost (Unlevered)**	**$620**	**$89,792,669**

PROJECT DEVELOPMENT COSTS	ASSUMPTION/FACTOR		PER GBA	TOTAL
Hard Costs				
Basic Site Work	$20	per SF (Site)	$19	$2,779,120
Building Direct Cost	$320	Cost/SF (NSF)[1]	$240	$34,759,680
Parking Direct Cost				
Integrated Garage Cost	$14,000	per Space	$13	$1,904,000
Total Construction Cost			*$273*	*$39,442,800*
Soft Costs				
Architecture and Engineering	4.0%	of Construction Cost	$11	$1,577,712
Other Soft Costs	2.0%	of Construction Cost	$5	$788,856
Permits and Fees	2.0%	of Construction Cost	$5	$788,856
Development Impact Fees	$56,423	per DU	$27	$3,836,734
Public Art In-Lieu Fee	1.0%	of Construction Cost	$3	$394,428
Housing Impact Fee	$66	per SF (Fractional Aff. Unit)	$1	$140,572
Taxes and Insurance	2.0%	of Construction Cost	$5	$788,856
Financing	7.0%	of Construction Cost	$19	$2,760,996
Marketing/Leasing	2.0%	of Construction Cost	$5	$788,856
Developer Fee	4.0%	of Construction Cost	$11	$1,577,712
Total Soft Costs	*34.1%*		*$93*	*$13,443,578*
Other Project Costs				
Development Contingency	5.0%	of Construction & Soft Costs	$18	$2,644,319
Total Project Cost			**$384**	**$55,530,697**

Residual Land Value		**$34,261,971**
	per net acre	*$10,740,461*

[1] Building cost calculated based on net square feet rather than gross because gross is inclusive of parking, which has a separate hard cost line item.

Site 2: Research Park
Use: Class A Office

DEVELOPMENT PROGRAM ASSUMPTIONS	ASSUMPTION/FACTOR		
Net Development Site (Square Feet)			138,956
FAR			0.4
Gross Building Area (Square Feet)			58,164
Rentable Building Area (Square Feet)	95%	of GBA	55,141
Total Parking Spaces	3.4	per 1,000 SF	185
Surface Parking Spaces	100%	of total parking	185

BUILDING VALUE	ASSUMPTION/FACTOR		PER GBA	TOTAL
Gross Potential Rent	$7.00	per SF/Month (NNN)	$80	$4,631,844
Gross Potential Parking Income	$150	per Space/Month	$6	$333,000
Losses to Vacancy	5.00%	of GPR	-$4	-$248,242
Gross Office Revenue			$81	$4,716,602
Operating Expenses	3.00%	of Gross Revenue	-$2	-$141,498
Net Operating Income			**$79**	**$4,575,104**
Market Value	5.50%	Capitalization Rate	$1,430	**$83,183,704**
Development Spread	100	Basis Points	-$220	-$12,797,493
Supportable Development Value	**6.50%**	**Project Yield Rate (on NOI)**	**$1,210**	**$70,386,211**

PROJECT DEVELOPMENT COSTS	ASSUMPTION/FACTOR		PER GBA	TOTAL
Construction Costs				
Basic Site Work	$20	Cost/SF (Site)	$48	$2,779,120
Building Direct Cost	$459	Cost/SF (GBA)	$459	$26,697,276
Tenant Improvement Cost	$0	Cost/SF (RBA)	$0	$0
Parking Direct Cost				
Surface Parking Cost	$5,000	per Space	$16	$925,000
Total Construction Cost			*$523*	*$30,401,396*
Soft Costs				
Architecture and Engineering	4.0%	of Construction Cost	$21	$1,216,056
Other Soft Costs	2.0%	of Construction Cost	$10	$608,028
Permits and Fees	2.0%	of Construction Cost	$10	$608,028
Development Impact Fees	$80	per SF (GBA)	$80	$4,653,120
Public Art In-Lieu Fee	1.0%	of Construction Cost	$5	$304,014
Taxes and Insurance	2.0%	of Construction Cost	$10	$608,028
Financing	7.0%	of Construction Cost	$37	$2,128,098
Marketing/Leasing	2.0%	of Construction Cost	$10	$608,028
Developer Fee	4.0%	of Construction Cost	$21	$1,216,056
Total Soft Costs	*39.3%*	*of Construction Cost*	*$205*	*$11,949,455*
Other Project Costs				
Development Contingency	5.0%	of Construction & Soft Costs	$36	$2,117,543
Total Project Cost			**$765**	**$44,468,394**

Residual Land Value		**$25,917,818**
	per net acre	$8,124,731

Site 3: Downtown
Use: Mid-Rise Market Rate Residential Rental

DEVELOPMENT PROGRAM ASSUMPTIONS	ASSUMPTION/FACTOR		
Development Site (Square Feet)			21,529
Dwelling Units	67	DU / Acre	33
Market Rate Units			30
Affordable Units	10%	Percent Affordable	3
Gross Building Area (Square Feet)	1,130	GBA / DU	37,295
Net Rentable Square Feet	74%	Efficiency Factor	27,769
Market Rate NSF			25,245
Affordable NSF			2,524
Total Parking Spaces	0.4	Spaces / DU	14
Surface Parking Spaces	71%	of total parking	10
Integrated Garage Parking Spaces	29%	of total parking	4

BUILDING VALUE	ASSUMPTION/FACTOR		PER GBA	TOTAL
Gross Potential Rent				
Market Rate Rent	$6.25	per SF/Month	$51	$1,893,341
Affordable Rent	$1,941	per DU	$0	$5,823
Gross Potential Rent			$51	$1,899,164
Gross Potential Parking Income	$0.00	per Space/Month	$0	$0
Losses to Vacancy (Market Only)	5.00%	of Gross Income	-$3	-$94,667
Gross Residential Revenue			$48	$1,804,497
Operating Expenses	-$18,933	per DU	-$17	-$624,803
Net Operating Income (NOI)			$32	**$1,179,694**
Market Value	4.00%	Capitalization Rate	$983,079	**$29,492,359**
Development Spread	100	Basis Points	-$196,616	-$5,898,472
Supportable Development Value	**5.00%**	**Project Yield Rate (on NOI)**	**$786,463**	**$23,593,887**

PROJECT DEVELOPMENT COSTS	ASSUMPTION/FACTOR		PER GBA	TOTAL
Hard Costs				
Basic Site Work	$20	per SF (Site)	$12	$430,580
Building Direct Cost	$423	Cost/SF (GBA)	$423	$15,775,785
Parking Direct Cost				
Surface Parking Cost	$5,000	per Space	$1	$50,000
Integrated Garage Cost	$14,000	per Space	$4	$140,000
Total Construction Cost			*$440*	*$16,396,365*
Soft Costs				
Architecture and Engineering	4.0%	of Construction Cost	$18	$655,855
Other Soft Costs	2.0%	of Construction Cost	$9	$327,927
Permits and Fees	2.0%	of Construction Cost	$9	$327,927
Development Impact Fees	$36,273	per DU	$32	$1,197,019
Public Art In-Lieu Fee	1.0%	of Construction Cost	$4	$163,964
Housing Impact Fee	$26	per SF (Fractional Aff. Unit)	$2	$65,636
Taxes and Insurance	2.0%	of Construction Cost	$9	$327,927
Financing	7.0%	of Construction Cost	$31	$1,147,746
Marketing/Leasing	2.0%	of Construction Cost	$9	$327,927
Developer Fee	4.0%	of Construction Cost	$18	$655,855
Total Soft Costs	*31.7%*		*$139*	*$5,197,782*
Other Project Costs				
Development Contingency	5.0%	of Construction & Soft Costs	$29	$1,079,707
Total Project Cost			**$608**	**$22,673,854**

Residual Land Value		**$920,033**
	per net acre	*$1,861,519*

Site 3: Downtown
Use: Class A Office

DEVELOPMENT PROGRAM ASSUMPTIONS	ASSUMPTION/FACTOR		
Net Development Site (Square Feet)			21,529
FAR			0.4
Gross Building Area (Square Feet)			8,584
Rentable Building Area (Square Feet)	100%	of GBA	8,584
Total Parking Spaces	3.5	per 1,000 SF	26
Surface Parking Spaces	100%	of total parking	26

BUILDING VALUE	ASSUMPTION/FACTOR		PER GBA	TOTAL
Gross Potential Rent	$8.50	per SF/Month (NNN)	$102	$875,568
Gross Potential Parking Income	$150	per Space/Month	$5	$46,354
Losses to Vacancy	5.00%	of GPR	-$5	-$46,096
Gross Office Revenue			$102	$875,826
Operating Expenses	3.00%	of Gross Revenue	-$3	-$26,275
Net Operating Income			**$99**	**$849,551**
Market Value	5.50%	Capitalization Rate	$1,799	**$15,446,377**
Development Spread	100	Basis Points	-$277	-$2,376,366
Supportable Development Value	**6.50%**	**Project Yield Rate (on NOI)**	**$1,523**	**$13,070,012**

PROJECT DEVELOPMENT COSTS	ASSUMPTION/FACTOR		PER GBA	TOTAL
Hard Costs				
Basic Site Work	$20	Cost/SF (Site)	$50	$430,580
Building Direct Cost	$459	Cost/SF (GBA)	$459	$3,940,056
Tenant Improvement Cost	$0	Cost/SF (RBA)	$0	$0
Parking Direct Cost				
Surface Parking Cost	$5,000	per Space	$15	$128,760
Total Construction Cost			*$524*	*$4,499,396*
Soft Costs				
Architecture and Engineering	4.0%	of Construction Cost	$21	$179,976
Other Soft Costs	2.0%	of Construction Cost	$10	$89,988
Permits and Fees	2.0%	of Construction Cost	$10	$89,988
Development Impact Fees	$80	per SF (GBA)	$80	$686,720
Public Art In-Lieu Fee	1.0%	of Construction Cost	$5	$44,994
Taxes and Insurance	2.0%	of Construction Cost	$10	$89,988
Financing	7.0%	of Construction Cost	$37	$314,958
Marketing/Leasing	2.0%	of Construction Cost	$10	$89,988
Developer Fee	4.0%	of Construction Cost	$21	$179,976
Total Soft Costs	*39.3%*	*of Construction Cost*	*$206*	*$1,766,575*
Other Project Costs				
Development Contingency	5.0%	of Construction & Soft Costs	$36	$313,299
Total Project Cost			**$766**	**$6,579,270**

Residual Land Value		**$6,490,742**
	per net acre	$13,132,831

Site 4: Bayshore
Use: Townhouse Ownership Residential

DEVELOPMENT PROGRAM ASSUMPTIONS	ASSUMPTION/FACTOR		
Development Site (Square Feet)			101,786
Dwelling Units	21	DU / Acre	48
Market Rate Units			41
Affordable Units			7
Gross Building Area (Square Feet)	2,201	GBA / DU	105,628
Net Rentable Square Feet	78%	Efficiency Factor	81,904
Market Rate NSF			69,960
Affordable NSF			11,944
Total Parking Spaces	2.1	Spaces / DU	100
Surface Parking Spaces	4%	of total parking	4
Integrated Garage Parking Spaces	96%	of total parking	96

BUILDING VALUE	ASSUMPTION/FACTOR		PER GBA	TOTAL
Sale Value				
Market Rate Sale Value	$1,100	per SF	$729	$76,955,633
Affordable Sale Value	$803,112	per DU	$53	$5,621,783
Overall Sale Value			$782	$82,577,417
Sale Cost	5.00%	of Sale Value	-$39	-$4,128,871
Net Building Value				**$78,448,546**
Supportable Development Value	**15.00%**	**Return on Cost (Unlevered)**	**$646**	**$68,216,127**

PROJECT DEVELOPMENT COSTS	ASSUMPTION/FACTOR		PER GBA	TOTAL
Hard Costs				
Basic Site Work	$20	per SF (Site)	$19	$2,035,720
Building Direct Cost	$320	Cost/SF (NSF)[1]	$248	$26,209,280
Parking Direct Cost				
Surface Parking Cost	$5,000	per Space	$0	$20,000
Integrated Garage Cost	$14,000	per Space	$13	$1,344,000
Total Construction Cost			*$280*	*$29,609,000*
Soft Costs				
Architecture and Engineering	4.0%	of Construction Cost	$11	$1,184,360
Other Soft Costs	2.0%	of Construction Cost	$6	$592,180
Permits and Fees	2.0%	of Construction Cost	$6	$592,180
Development Impact Fees	$56,423	per DU	$26	$2,708,283
Public Art In-Lieu Fee	1.0%	of Construction Cost	$3	$296,090
Housing Impact Fee	$66	per SF (Fractional Aff. Unit)	$2	$225,236
Taxes and Insurance	2.0%	of Construction Cost	$6	$592,180
Financing	7.0%	of Construction Cost	$20	$2,072,630
Marketing/Leasing	2.0%	of Construction Cost	$6	$592,180
Developer Fee	4.0%	of Construction Cost	$11	$1,184,360
Total Soft Costs	*33.9%*		*$95*	*$10,039,679*
Other Project Costs				
Development Contingency	5.0%	of Construction & Soft Costs	$19	$1,982,434
Total Project Cost			**$394**	**$41,631,113**

Residual Land Value		**$26,585,014**
	per net acre	*$11,377,235*

[1] Building cost calculated based on net square feet rather than gross because gross is inclusive of parking, which has a separate hard cost line item.

Site 4: Bayshore
Use: Class A Office

DEVELOPMENT PROGRAM ASSUMPTIONS	ASSUMPTION/FACTOR		
Net Development Site (Square Feet)			101,786
FAR			0.4
Gross Building Area (Square Feet)			40,700
Rentable Building Area (Square Feet)	100%	of GBA	40,700
Total Parking Spaces	3.5	per 1,000 SF	142
Surface Parking Spaces	100%	of total parking	142

BUILDING VALUE	ASSUMPTION/FACTOR		PER GBA	TOTAL
Gross Potential Rent	$4.25	per SF/Month (NNN)	$51	$2,075,700
Gross Potential Parking Income	$150	per Space/Month	$6	$256,410
Losses to Vacancy	5.00%	of GPR	-$3	-$116,606
Gross Office Revenue			$54	$2,215,505
Operating Expenses	3.00%	of Gross Revenue	-$2	-$66,465
Net Operating Income			**$53**	**$2,149,039**
Market Value	5.50%	Capitalization Rate	$960	**$39,073,443**
Development Spread	100	Basis Points	-$148	-$6,011,299
Supportable Development Value	**6.50%**	**Project Yield Rate (on NOI)**	**$812**	**$33,062,144**

PROJECT DEVELOPMENT COSTS	ASSUMPTION/FACTOR		PER GBA	TOTAL
Hard Costs				
Basic Site Work	$20	Cost/SF (Site)	$50	$2,035,720
Building Direct Cost	$459	Cost/SF (GBA)	$459	$18,681,300
Tenant Improvement Cost	$0	Cost/SF (RBA)	$0	$0
Parking Direct Cost				
Surface Parking Cost	$5,000	per Space	$18	$712,250
Total Construction Cost			*$527*	*$21,429,270*
Soft Costs				
Architecture and Engineering	4.0%	of Construction Cost	$21	$857,171
Other Soft Costs	2.0%	of Construction Cost	$11	$428,585
Permits and Fees	2.0%	of Construction Cost	$11	$428,585
Development Impact Fees	$80	per SF (GBA)	$80	$3,256,000
Public Art In-Lieu Fee	1.0%	of Construction Cost	$5	$214,293
Taxes and Insurance	2.0%	of Construction Cost	$11	$428,585
Financing	7.0%	of Construction Cost	$37	$1,500,049
Marketing/Leasing	2.0%	of Construction Cost	$11	$428,585
Developer Fee	4.0%	of Construction Cost	$21	$857,171
Total Soft Costs	*39.2%*	*of Construction Cost*	*$206*	*$8,399,025*
Other Project Costs				
Development Contingency	5.0%	of Construction & Soft Costs	$37	$1,491,415
Total Project Cost			**$770**	**$31,319,710**

Residual Land Value		**$1,742,435**
	per net acre	$745,687