STRATEGIC ECONOMICS

COMMUNITY PLANNING COLLABORATIVE

Residential Feasibility Study and Inclusionary Analysis

PUBLIC DRAFT REPORT

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City of Santa Clara

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City of Santa Clara
The Center of What's Possible

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I. Introduction

REPORT PURPOSE

This report is part of a collaborative effort by six jurisdictions in Santa Clara County to analyze and potentially implement new or revised affordable housing policy tools. The participants in the study include Gilroy, Los Altos Hills, Los Gatos, Mountain View, the City of Santa Clara, and Sunnyvale. Together, these jurisdictions have commissioned Strategic Economics to perform a **Grand Nexus Study**. The study includes the required analysis and findings for:

- **Residential impact fees** charged on single-family units and "missing middle" developments of fewer than 10 units
- **Inclusionary affordable housing requirements** and associated in-lieu fees
- **Commercial linkage fees** charged on non-residential development

The Grand Nexus Study culminated in three reports to address each of the above policies: The Residential Impact Fee Study; The Residential Feasibility Study and Inclusionary Analysis (this report); and The Commercial Linkage Fee Study. Each jurisdiction has opted into one, two, or all three components of the study.

This report focuses on inclusionary housing policies in the City of Santa Clara. The report describes how inclusionary policies work, how policy alternatives could impact the financial feasibility of new housing development, and how Santa Clara could leverage changes to its existing inclusionary housing policy to increase affordable housing production within the city. The purpose of this report is to provide context and findings for the City to review when considering changes to its current inclusionary housing policy.

BACKGROUND ON INCLUSIONARY HOUSING POLICIES

Inclusionary housing policies—also called "inclusionary zoning"—require market rate housing developers to set aside a percentage of units in a residential project and offer them at below market rates as deed-restricted affordable units. California law requires rental inclusionary policies to provide for alternative means of compliance with the policy, such as by paying a fee "in-lieu" of providing on-site units or by supporting the production of affordable units in some other way (such as a land donation). Inclusionary policies capture some of the economic value generated by building market rate housing in order to support the development of affordable units. Inclusionary policies are one strategy local governments can use to create mixed income developments, provided the policy is met with onsite units.

Typically, inclusionary policies designate certain income requirements that developers must meet to fulfill the affordability requirement. These income categories are based on the area median income (AMI) of a region. Rents and sales prices are set at below market rate (BMR) levels so that households pay no more than 30 percent of the targeted income level for their income category. Each year, the California Department of Housing and Community Development (HCD) publishes income limits and standard housing income categories for every county corresponding to its AMI. Figure 1 shows the income limits for Santa Clara County in 2025.

FIGURE 1: INCOME LIMITS FOR SANTA CLARA COUNTY IN 2025, BY CATEGORY AND HOUSEHOLD SIZE

	Extremely Low	Very Low	Low	Median	Moderate
Percent of AMI:	30%	50%	80%	**100%**	120%
Household Size					
1	$42,200	$70,350	$111,700	**$136,650**	$164,000
2	$48,200	$80,400	$127,650	**$156,150**	$187,400
3	$54,250	$90,450	$143,600	**$175,700**	$210,850
4	$60,250	$100,450	$159,550	**$195,200**	$234,250
5	$65,100	$108,500	$172,350	**$210,800**	$253,000

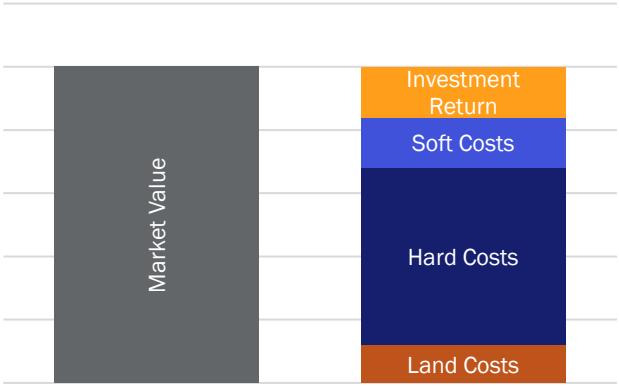
Source: CA HCD, 2025; Strategic Economics, 2025.

INCLUSIONARY POLICIES AND FINANCIAL FEASIBILITY

Because inclusionary policies seek to leverage the activities of the private market to produce affordable housing, they are reliant on the financial feasibility of market rate housing projects. Market rate development projects are only financially feasible when the market value of the project (based on total revenue) exceeds project costs and an investment return required by capital markets. As shown in Figure 2, financial feasibility is determined by the following factors:

- Total **market value** is determined by the project revenues generated by the project.
    - **For ownership projects,** the market value consists of the sales prices the units can obtain.
    - **For rental projects,** the market value of the project depends on the annual revenue it will generate and the current capitalization rate, which reflects overall project investment risk relative to alternative investments.
- Total **project costs** include hard costs, soft costs, investment return, and land costs.
    - **Hard costs** include materials and labor associated with physical construction of the building.
    - **Soft costs** include indirect expenses such as architecture and engineering, taxes, insurance, financing costs, and municipal fees.
    - **Land costs** refer to the price the developer pays to acquire the land.
- **Investment return** refers to the required financial return on investment that a project must achieve to attract developer and lender investment. For ownership projects, required return is based on the net revenues from the initial sale of units. For rental projects, required return is based on the stabilized annual operating income of the development.

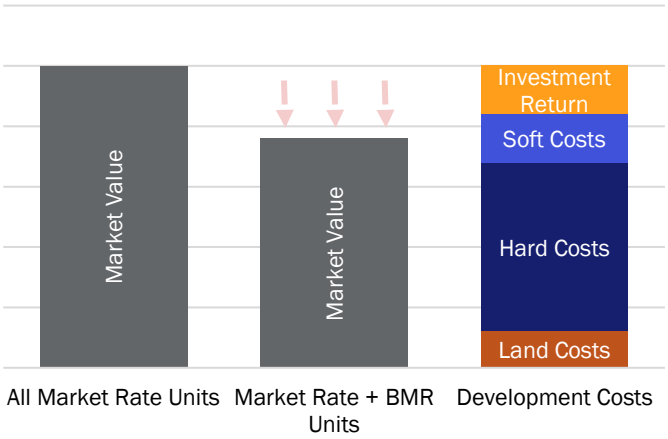
FIGURE 2: COMPONENTS OF FINANCIAL FEASIBILITY: PROJECT VALUE AND PROJECT COST COMPONENTS



Source: Strategic Economics, 2025.

Inclusionary policies have the benefit of potentially producing affordable housing units without using public forms of subsidy, but they may impact financial feasibility by reducing the market value of the project. Because inclusionary units generate less revenue than market rate units, substituting market rate units with inclusionary units will reduce the project's total revenue. Figure 3 visualizes this impact on the project's overall feasibility. In this example, a new project that may be feasible with all market rate units becomes infeasible if its total value is significantly reduced when a percentage of the units are offered at below market rates. However, projects that generate an investment return that is sufficiently high to absorb a reduction in value from the inclusionary policy, while still meeting a minimum market return, will remain financially feasible.

FIGURE 3: POTENTIAL IMPACT OF INCLUSIONARY POLICIES ON FINANCIAL FEASIBILITY



Source: Strategic Economics, 2025.

An effective inclusionary policy will set affordability requirements high enough that they result in substantial additional affordable units, but not so high that they prevent the feasibility of market rate housing projects altogether. Thus, the purpose of conducting a feasibility analysis is to identify an inclusionary level that that allows projects to generate enough revenue to proceed while also providing affordable units.

Financial feasibility in market rate housing projects depends upon a variety of highly dynamic factors. Project costs can fluctuate due to changes in construction labor, materials costs, interest rates, or a variety of other factors. Similarly, a project's revenue can fluctuate significantly based on the availability of housing supply in the local market, changes in the attractiveness of a project's location, or other factors impacting demand in the local market. Finally, the minimum investment return can fluctuate based on external factors such as interest rates in the macro economy or trends in real estate capital markets. The Policy and Market Scenarios discussion in the next section includes an analysis of market scenarios that address these fluctuations. Additionally, updating feasibility analyses periodically can help ensure that inclusionary policies are still able to function optimally as market conditions change.

CITY OF SANTA CLARA'S CURRENT INCLUSIONARY HOUSING POLICY

Santa Clara's current Affordable Housing Ordinance requires 15 percent of units to be affordable in all housing projects with ten units or more. The City of Santa Clara first established an inclusionary housing policy in 1992 and most recently updated its policy in 2018. The current policy requires equivalent affordability standards for rental and ownership projects:

- To meet the 15 percent requirement, units must be affordable to Extremely Low, Very Low, Low, or Moderate-Income households
- The income levels of affordable units must, on average, be no more than 100 percent of Area Median Income (AMI)

Affordable housing in-lieu fees can be used for all projects when inclusionary requirements would result in a fractional unit. Projects with ten or fewer units can elect to pay the in-lieu fee for any portion of the required affordable units. This in-lieu fee differs based on the type of housing, as shown in Figure 4.[1] The in-lieu fee is charged on the new gross square footage of residential area in the project.

FIGURE 4: INCLUSIONARY IN-LIEU FEES IN CITY OF SANTA CLARA, BY HOUSING TYPE, 2025

Housing Type	Fee per Square Foot
For Sale Residential	
Single Family Home	$45.72
Townhome	$38.09
Condominium	$30.48
Rental Residential	
Any Housing Type	$30.48

Source: City of Santa Clara, 2025; Strategic Economics, 2025.
Note: In-lieu fee is only allowed for fractional units, or for projects with fewer than ten total units.

Projects with ten or more units must either build units on site or negotiate a development agreement with City Council to use an alternate means of compliance. Permissible alternatives include land dedication, where the value of land is equivalent to the value of subsidy for inclusionary units, and constructing required affordable units off-site.

[1] The fees shown in Figure 4 are also the residential impact fees reviewed in the Residential Impact Fee Study, which focused on small projects of fewer than ten units. Although they function like an in-lieu fee for the City's inclusionary policy, they are impact fees supported by a nexus study.

REPORT ORGANIZATION

This report summarizes the impact of the City of Santa Clara's current inclusionary policy on financial feasibility for housing projects and provides policy context for consideration of alternative inclusionary policies. The report is organized in two sections:

- Section II, Financial Feasibility Analysis, describes the current market for housing development in Santa Clara; the potential for market rate projects to support inclusionary housing; and the sensitivity of financial feasibility to market conditions. This section also discusses the relationship between inclusionary requirements and in-lieu fee levels.

- Section III, Policy Considerations and Findings section discusses inclusionary housing policies used by Santa Clara's neighboring jurisdictions and other state and local policy considerations influencing the implementation of inclusionary policies. The Summary of Findings and Conclusions portion of this section summarizes the final conclusions from all prior sections and presents Strategic Economics' overall conclusions for the City of Santa Clara.

The report also includes an appendix: Appendix I: Financial Feasibility Assumptions.

II. Financial Feasibility Analysis

Strategic Economics conducted a financial feasibility analysis to test the City of Santa Clara's current inclusionary policy under current market conditions and test a set of alternative policy scenarios under a range of market conditions. This analysis evaluated both ownership and rental housing project types. The results provide context that the City of Santa Clara can use to assess and potentially modify its inclusionary policy to align with the City's affordable housing objectives in an evolving market.

This financial feasibility analysis section includes four parts. It begins with an overview of the methodology used for the feasibility analysis, including details on the modeling approach and the types of housing tested in the analysis. This section then shows the results of the financial feasibility modeling for all housing types in Santa Clara—both with the existing inclusionary policy and under a variety of market and inclusionary policy scenarios. The financial feasibility analysis concludes with an overview of in-lieu fees, explaining how they are calculated and how inclusionary requirements impact in-lieu fee levels.

METHODOLOGY

Analysis Approach

Strategic Economics evaluated financial feasibility for housing projects in Santa Clara using a static "pro forma" model. A pro forma is a real estate finance model used to aggregate assumptions about development costs, revenue, and financing conditions to evaluate the financial feasibility of new housing projects. A static pro forma—a simplified version of pro forma that does not model developer cash flows over time—is a standard approach for supporting broadly applicable policy and planning decisions.

Applying this pro forma model to residential projects and inclusionary policies in the city of Santa Clara required three steps:

- Develop a set of residential development "prototypes" to evaluate inclusionary policies for multi-unit development across a range of product types typical of recent housing construction in Santa Clara County;
- Develop pro forma assumptions for these prototypes, including hard construction costs, soft costs, and revenue expectations for Santa Clara. Strategic Economics based these assumptions on market research, interviews with developers active in Santa Clara County, and other recent experience with pro forma analysis in the San Francisco Bay Area.
- Use the pro forma model to test the financial performance of each prototype under a variety of market and policy scenarios.

EVALUATING FEASIBILITY

Strategic Economics measured the financial performance of each prototype using **residual land value analysis**. In residual land value analysis, the land cost estimate is initially taken out of the equation. Instead, the analysis begins by estimating project market value, hard costs, and soft costs, as well as a minimum acceptable return for a typical developer pursuing the project.

This calculation requires identifying six key metrics for feasibility:

- **Project Revenue** is the primary indicator of market value for the project, based on expected income or sales proceeds.
    - For ownership projects, this is the project's total net sales proceeds.
    - For rental projects, this is the project's annual net operating income (NOI), which is defined as the annual revenue from rent, less vacancy and operating costs.
- **Target Return** is the level of return on investment that a project must achieve for the developer and lenders to determine that it is a worthwhile investment.
    - For ownership projects, this metric used is *return on cost.* Return on cost is the ratio of net project value to total development cost.
    - For rental projects, the primary metric is *yield on cost.* Yield on cost is the ratio of NOI to total development cost.[2]
- **Supportable Development Costs** are the highest development cost for which the project would still be viable given project revenue and the minimum target return.
    - For ownership products, the supportable development cost is each project's projected net sales proceeds, less the required return on cost.
    - For rental projects, the supportable development cost is the project's projected NOI divided by its minimum target yield on cost.
- **Total Development Costs (Excluding Land)** are the sum of hard construction costs, soft costs, municipal fees, financing costs, and contingency.
- **Residual Land Value (RLV)** is calculated by subtracting total development cost (excluding land) from supportable development cost. The residual land value that remains, therefore, represents the maximum a developer could pay for land while still achieving the minimum necessary return.
- Residual land value can be compared to **Typical Land Costs** to evaluate feasibility. Typical land costs are the market average costs (calculated on a per square foot basis) for a vacant property on which the housing project could be built.

A project is financially infeasible when its residual land value is less than zero. If its residual land value is greater than zero but less than the typical market value for land, the project may be feasible because land values tend to vary significantly within a market depending on a range of factors. If the residual land value is at or greater than a typical land value, it is likely to be feasible.

Prototypes

The development prototypes used in the feasibility analysis are generalized examples of new housing, representing a broad range of multi-unit housing projects typical of recent development trends in northern Santa Clara County. This study used five residential prototypes to evaluate financial feasibility. The set of prototypes in the inclusionary study overlaps with the set in the residential impact fee study, which considered small scale multi-unit as well as build-to-suit single-family homes.

The prototypes used in the City of Santa Clara's inclusionary analysis range in density from 20 to 111 units per acre, and from three to eight stories in height. Figure 5 provides a summary of each of the five prototypes. This includes two ownership product types and three rental product types, as described below:

[2] For a development project to obtain financing, its yield on cost must be higher than its capitalization rate—the ratio of NOI to project value. In other words, lenders and developers expect the completed project to be worth more than its total development costs. The relationship between yield on cost and cap rates varies based on financing conditions and perceived market risk.

Ownership Prototypes

- **Townhomes:** this prototype represents a development with attached, single-family units built at a density of 20 units per acre. These units generally include between two and four-bedrooms, averaging 1,710 square feet, and are built over a private garage.

- **5-Story Condos:** this prototype includes four stories of for-sale flats, built at a density of 52 units per acre, over one story of podium parking and one story of parking underground. Units in this building would range from one-bedroom to four-bedrooms, for an average unit size of 1,382 square feet. This prototype includes two parking spaces per unit.

Rental Prototypes

- **Small Scale Rental Apartments:** this prototype is a three-story multifamily building at a density of 36 units per acre. The prototype contains a mix of studio to three-bedroom units, with an average unit size of 955 square feet. Parking is a combination of surface and tuck-under parking with two spaces per unit.

- **5-Story Rental Apartments:** this prototype is a similar building type to the 5-story Condo prototype, but with smaller units and a higher residential density of 73 units per acre. This prototype includes a mix of units from studios to three-bedrooms, with an average unit size of 891 square feet. This prototype includes 1.75 parking spaces per unit.

- **8-Story Rental Apartments with Ground Floor Retail:** this prototype includes five stories of wood-frame construction over a three-story concrete podium, built at a density of 111 units per acre. The ground floor of this prototype has 10,000 square feet of retail. The residential portion includes a mix of studio to three-bedroom units, with an average unit size of 770 square feet. This prototype includes one parking space per unit.

FIGURE 5: RESIDENTIAL PROTOTYPES USED IN INCLUSIONARY ANALYSIS FOR CITY OF SANTA CLARA

	Townhomes	5-Story Condos	Small Scale Rental Apartments	5-Story Rental Apartments	8-Story Rental Apartments with Ground Floor Retail
Tenure	Ownership	Ownership	Rental	Rental	Rental
Parcel Size (acres)	1.5	1.8	1.5	1.8	2.3
Number of Stories	3	5	3	5	8
Total Gross Square Feet	50,850	148,000	60,647	133,059	226,471
Retail Square Feet	0	0	0	0	10,000
Number of Units	30	90	54	128	250
Average Unit Size (square feet)	1,710	1,382	955	891	770
Bedroom Types	2-BD to 4-BD	1-BD to 4-BD	Studio to 3-BD	Studio to 3-BD	Studio to 3-BD
Units per Acre	20	51	36	73	111
Parking Format	Private Garages	Underground + Podium	Surface + Tuck-Under	Underground + Podium	Podium
Residential Parking Ratio	2.00	2.00	2.00	1.75	1.00
Residential Parking Spaces	60	180	108	224	250
Retail Parking Spaces	0	0	0	0	40

Source: Strategic Economics, 2025; Cities in Santa Clara County, 2025; CoStar, 2025.

Pro Forma Assumptions

COST AND RETURN ASSUMPTIONS

Strategic Economics estimated development costs based on interviews with developers and general contractors experienced with residential development in Santa Clara County, as well as reviews of market data and budgets for other development projects throughout the Bay Area. As noted earlier, the main cost categories for development include hard costs, soft costs, and land costs:

- **Hard costs** refer to the direct construction costs, such as materials and construction labor, used to physically prepare the site for development, construct the building, and perform all site work including site circulation, utilities, and landscaping.

- **Soft costs** include all indirect expenses required to complete a development project, such as architecture, engineering, consulting, legal fees, taxes, municipal fees, and insurance. In addition to these costs, developers must account for the cost of financing a construction loan, and a contingency for unexpected expenses.

- **Land costs** refer to the cost of acquiring land for development. In residual land value analysis, the land cost is calculated last, as the highest land cost the developer could afford to pay and still have the project pencil. Strategic Economics also estimated typical land costs for each prototype to compare against the residual land value and assess feasibility.

Strategic Economics modeled the required **investment return** as follows:

- For ownership projects, required return is based on the net revenues from the initial sale of units (referred to as *return on cost*). For rental projects, required return is based on the stabilized annual operating income of the development (referred to as *yield on cost*).

The Townhome and Condo prototypes assume similar wood frame construction methods for the residential portions of their buildings, but the Condo prototype also includes significant added costs of above- and below-ground parking, mechanical, and utility systems. These differences translate to a higher cost of construction of $400 per residential square foot. Figure 6 provides a high-level overview of cost assumptions used to evaluate financial feasibility for ownership product types. The condo prototype also has higher construction financing costs due to its longer construction time. More detailed cost assumptions for these prototypes can be found in the Appendix, in Figure 31.

FIGURE 6: SUMMARY OF COST ASSUMPTIONS FOR OWNERSHIP HOUSING PRO FORMA

	Unit of measure	Townhomes	5-Story Condos
Typical Land Costs	per square foot	$175	$175
Hard Costs			
Demolition and Site Work	per sq. ft. land	$40	$40
Building Area Construction	per gross sq. ft.	$275	$400
Parking			
Private Garages		N/A – Included in building area	
Structured/Podium	per space		$50,000
Underground	per space		$80,000
Soft Costs			
Arch, Eng., Consulting, Taxes, Insurance, Legal, and Other Soft Costs (excluding fees, contingency)	% of hard costs	18.0%	18.0%
Municipal Fees	per unit	$81,690	$74,952
Contingency	% of hard + soft costs	5.0%	5.0%
Financing Costs	% of hard + soft costs	4.2%	6.2%
Developer Return			
Target Developer Return-on-cost	% of total dev costs	15.0%	15.0%

Sources: Strategic Economics, 2025; Developer Interviews, 2025; Redfin, 2025; CoStar, 2025; Federal Reserve Bank of New York, 2025.

Rental prototypes have similar differences in construction costs related to their number of stories, parking format, and inclusion of retail components. Figure 7 summarizes development costs for each of the three rental prototypes. The 8-Story Apartments cost more to build than other prototypes because this taller prototype requires elevated life safety standards in its construction. Further, projects with smaller average unit sizes cost more to build on a square foot basis because they require a higher density of appliances, plumbing, and electrical systems. Both the five and eight-story rental prototypes typically also require longer construction periods—leading to larger financing costs than those assumed for the Small Scale Apartments. Providing ground floor retail in the 8-Story Apartments incurs additional costs, although this cost would be at least partially offset by retail rental income. Lastly, the assumption for typical land value for each prototype was based on its locational value and zoned development capacity. Further details on cost assumptions are shown in the Appendix, in Figure 32.

FIGURE 7: SUMMARY OF COST ASSUMPTIONS FOR RENTAL PRO FORMA

	Unit of measure	Small Scale Rental Apartments	5-Story Rental Apartments	8-Story Rental Apartments with Ground Floor Retail
Land Costs				
Land Costs	per square foot	$125	$150	$180
Hard Costs				
Demolition and Site Work	per sq. ft. land	$40	$40	$40
Building Area Construction				
Residential - Type V	per gross sq. ft.	$290	$310	
Residential - Type III	per gross sq. ft.			$330
Residential – Type I	per gross sq. ft.			$400
Retail - Type I	per gross sq. ft.			$300
Parking	per space			
Surface	per space	$10,000		
Structured/Podium	per space		$50,000	$45,000
Underground	per space		$80,000	$80,000
Tuck-under	per space	$10,000		
Interior / Tenant Improvement Allowance	per net sq. ft.			$100
Soft Costs				
Arch, Eng., Consulting, Taxes, Insurance, Legal, and Other Soft Costs (excluding fees, contingency)	% of hard costs	13.0%	13.0%	13.0%
Municipal Fees	per unit	$69,721	$68,211	$67,556
Contingency	% of hard + soft costs	5.0%	5.0%	5.0%
Financing				
Total Financing Cost	% of hard + soft costs	5.4%	6.2%	6.6%
Developer Share				
Developer Overhead Fee	% of hard + soft costs	3.0%	3.0%	3.0%
Target Developer Yield-on-Cost	% of total dev costs	5.5%	5.5%	5.5%

Sources: Strategic Economics, 2025; Developer Interviews, 2025; Redfin, 2025; CoStar, 2025; Federal Reserve Bank of New York, 2025.
Note: 8-Story Rental prototype assumes more efficient parking spaces with fewer square feet per space (325 sq. ft. vs. 350 sq. ft.), which accounts for the difference in cost per space.

MARKET RATE REVENUE ASSUMPTIONS

Strategic Economics analyzed recent property sales data from Redfin and CoStar alongside current property listings and input from local developers to determine market rate revenue assumptions for ownership products. Ownership revenue assumptions are shown in Figure 8. The average sales value per unit for each product type accounts for typical sales prices for each unit type in the Townhome and Condo prototypes. Based on recent home sales, typical townhome sales prices in the city of Santa Clara range from $1.4 million for a two-bedroom unit to $1.7 million for a four-bedroom unit. Typical condo prices in Santa Clara range from $800,000 for a one-bedroom unit to $1.65 million for a four-bedroom unit. Detailed revenue assumptions for ownership projects can be found in the Appendix in Figure 34.

FIGURE 8: OWNERSHIP PRO FORMA MARKET RATE UNIT REVENUE ASSUMPTIONS

	Unit of measure	Townhomes	5-Story Condos
Average Sales Value	**per unit**	**$1,545,000**	**$1,299,451**
Marketing Expense	% of Sales Price	5%	5%
Net Revenue		$1,467,750	$1,234,478

Sources: Strategic Economics, 2025; Developer Interviews, 2025; Redfin, 2025.

Market rate rent assumptions were derived from three sources of information. Strategic Economics analyzed current rental listings in comparable apartment projects; collected input from developers; and analyzed market trends from CoStar to identify typical city of Santa Clara rents for each prototype. Figure 9 provides a summary of revenue assumptions for each prototype, including the average monthly rent and assumptions for vacancy rate, operating costs, and capitalization rate. Capitalization rate (cap rate) refers to the ratio of net annual operating income (gross maximum rent, less vacancy and operating costs) to the project's total market value. Strategic Economics assumed that all rental prototypes have the same vacancy, operating expense ratio, and cap rate, but average monthly rent for each prototype differs according to unit size and building format. The units in the 8-Story Apartments are smaller than those in other prototypes but can likely command higher rents per square foot, leading to similar average monthly rents per unit. Detailed revenue assumptions for rental projects can be found in the Appendix in Figure 35.

FIGURE 9: RENTAL PRO FORMA MARKET RATE REVENUE ASSUMPTIONS

	Unit of measure	Small Scale Rental Apartments	5-Story Rental Apartments	8-Story Rental Apartments with Ground Floor Retail
Rent Assumptions				
Average Unit Size	Square feet	955	891	770
Monthly Rent per Square Foot	$/sq. ft.	$4.61	$4.81	$5.32
Average Monthly Rent	per unit	$4,019	$4,310	$4,120
Other Revenue Assumptions				
Vacancy Rate	% of Units	5%	5%	5%
Operating Expense	% of Market Rate Revenue	30%	30%	30%

Sources: Strategic Economics, 2025; Developer Interviews, 2025; Apartment Websites, 2025; CoStar, 2025.

BELOW MARKET RATE REVENUE ASSUMPTIONS

Strategic Economics also modeled the below market rate (BMR) rents and sales prices associated with inclusionary units as appropriate to each inclusionary policy scenario. These units were priced at a level such that qualifying households pay no more than 30 percent of their monthly income on housing costs. To determine whether households qualify for affordable housing, HCD publishes a table for each county that lists the county's "area median income" and household income categories based on household size. This income table (shown in the Appendix in Figure 36) delineates the maximum income that qualifies as very low-, low-, and moderate-income for each household size. The inclusionary policy designates what share of units must be provided to households in each income

range. The maximum revenue each inclusionary unit could generate is tied to the top of this range, although in practice this amount is somewhat lower than the maximum.

Expected revenues were calculated using the income limits, the assumed share of income that can be spent on housing, and estimates for other monthly costs. For ownership housing, other monthly costs might include utility costs, property taxes and insurance, private mortgage insurance, and homeowners' association (HOA) fees. For rental housing, this generally includes any utility costs not included in the rent. Because household incomes vary for households qualifying in each income category, Strategic Economics assumed that the average AMI level of qualifying households would be below the maximum allowable AMI in the income category. Figure 10 shows the assumed percentage of AMI used as an average in each income category for ownership and rental inclusionary units.

FIGURE 10: MAXIMUM AMI FOR INCOME CATEGORIES AND AVERAGE AMI ASSUMPTION FOR OWNERSHIP AND RENTAL INCLUSIONARY UNITS

Income Category	Maximum % of AMI	Assumed % of AMI for Ownership Units	Assumed % of AMI for Rental Units
Moderate-Income	120%	110%	110%
Median-Income	100%	90%	90%
Low-Income	80%	70%	60%
Very Low-Income	50%	N/A	50%

Sources: Strategic Economics, 2025.
Note: The average AMI reflects the likelihood that not all households qualifying in an income category could afford a rent or sales price based on the maximum income level within an income category. The percentages used correspond with California Health and Safety Code guidance on affordable rent and sales price levels for Very Low, Low, and Moderate-Income categories.

Though market rate rents and sales prices exceed affordable rents and prices for most income categories, households in the Moderate-Income category can afford market rate rents. Figure 11 shows achieved sales prices for BMR units as modeled in the ownership pro forma models. For most income categories and prototypes, BMR units would achieve less than one-third of the market rate sales price in the city of Santa Clara. Figure 12 shows achieved monthly rents for BMR units compared to market rate rents. For rental prototypes, BMR units could theoretically achieve rents that are close to market rate levels for Median-Income units, and that exceed market rate rents for Moderate-Income units. However, when modeling feasibility for inclusionary policies, Strategic Economics assumed that BMR rents would be no less than the achieved rents shown in Figure 12 and no more than the market rate rent for each unit type. Figure 37 and Figure 38 in the Appendix show more details on affordable sales prices and rent calculations.

FIGURE 11: MAXIMUM SALES PRICE FOR BELOW MARKET RATE UNITS BY INCOME LEVEL AND PROTOTYPE, 2025

	Townhomes	5-Story Condos
Average Market Rate Price per Unit	**$1,545,000**	**$1,299,451**
Below Market Sales Price per Unit (Income Level)		
Low (70% Achieved AMI)	$299,260	$285,259
Median (90% Achieved AMI)	$426,448	$403,744
Moderate (110% Achieved AMI)	$586,061	$522,229

Sources: Strategic Economics, 2025; Santa Clara County Housing Authority, 2025; CA HCD, 2025; Redfin, 2025; Freddie Mac, 2025; Alta Housing, 2025; Ownwell, 2025.
Notes: Accounts for share of income spent on housing costs (30%), current interest rates, monthly utility costs, taxes, insurance, and HOA costs. Achieved sales price reflects likely average for units in each income category in an inclusionary project.

FIGURE 12: MARKET RATE RENT IN CITY OF SANTA CLARA VS. ACHIEVED MONTHLY RENT PER UNIT AT REQUIRED INCOME LEVEL, 2025

	Small Scale Rental Apartments	5-Story Rental Apartments	8-Story Rental Apartments with Ground Floor Retail
Average Market Rate Rent per Unit	**$4,019**	**$4,310**	**$4,120**
Below Market Monthly Rent per Unit (Income Level)			
50% AMI (Very Low)	$2,018	$1,997	$1,951
60% AMI (Low)	$2,371	$2,346	$2,292
90% AMI (Median)	$3,616	$3,576	$3,493
110% AMI (Moderate) – based on calculation	*$4,445*	*$4,395*	*$4,292*
110% AMI (Moderate) Used in Model – based on market rate rent	*$4,019*	*$4,310*	*$4,120*

Sources: Strategic Economics, 2025; Santa Clara County Housing Authority, 2025; CA HCD, 2025.
Note: This table shows achieved monthly rent at each income level based on 30 percent of monthly income at the specified share of AMI, less a utility allowance. Because the calculated rents for 110% AMI households exceed market rate rents, market rate rents were used in the model to estimate project revenue for projects requiring moderate-income units.

INITIAL FEASIBILITY ANALYSIS RESULTS

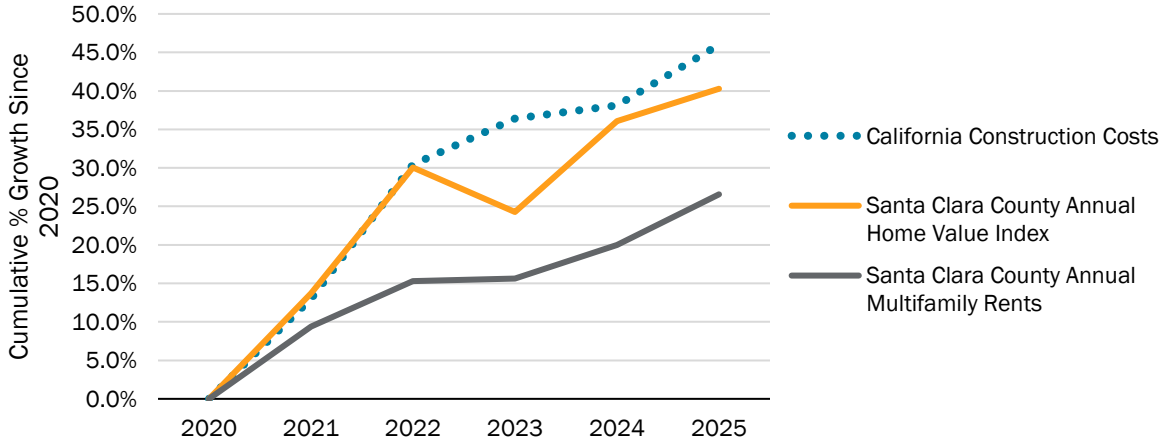
The current feasibility outlook in Santa Clara is a product of both the strength of the city's housing market and recent trends on a regional or national level that are influencing construction costs and housing demand. This section provides an overview of recent regional trends before presenting findings on ownership and rental project feasibility in Santa Clara.

Trends Influencing Feasibility

Home values in Santa Clara County largely kept pace with construction cost inflation over the past five years, while multifamily rent growth fell behind costs. The years 2022 and 2023 were a period of high rates of inflation throughout the national economy. As shown in Figure 13, construction costs across California rose by approximately 46 percent between 2020 and 2025. Home values in Santa Clara County increased by nearly as much (40 percent) over the same period. In comparison, Santa Clara

County's multifamily rents grew by only 27 percent over the five-year period—far less than the construction cost increases developers have experienced in the multifamily construction industry.

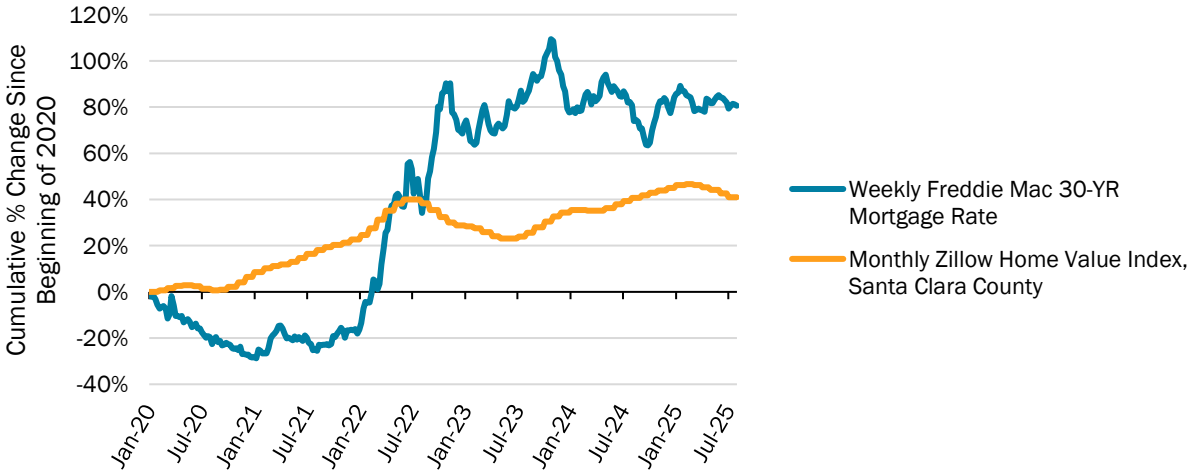
FIGURE 13: SANTA CLARA COUNTY TRENDS IN HOME VALUES, CONSTRUCTION COSTS, AND MULTIFAMILY RENTS, 2020 TO 2025



Sources: CoStar, 2025; CA EDD, 2025; ENR, 2025; Zillow, 2025; Strategic Economics, 2025.
Note: This chart shows the Zillow Home Value Index for Santa Clara County on an annual average basis, but doing so simplifies the monthly fluctuations in home value. For this reason, the trend shown here does not entirely match the trend shown in Figure 14, despite being based on the same data.

Santa Clara County home values increased rapidly from 2020 through mid-2022, but higher interest rates limited home value growth from late 2022 through 2025. Figure 14 shows monthly changes in the same home index for Santa Clara County shown Figure 13, and compares them to weekly fluctuations in the national 30-year mortgage rate over the past five years. This chart shows that mortgage interest rates doubled nationally, from 3.7 percent to 7.8 percent, between 2020 and 2023 and remained above 6.5 percent through mid-2025. Rising interest rates nationally moderated rising home prices in Santa Clara County, which grew by less than one percent between July of 2022 and July of 2025.

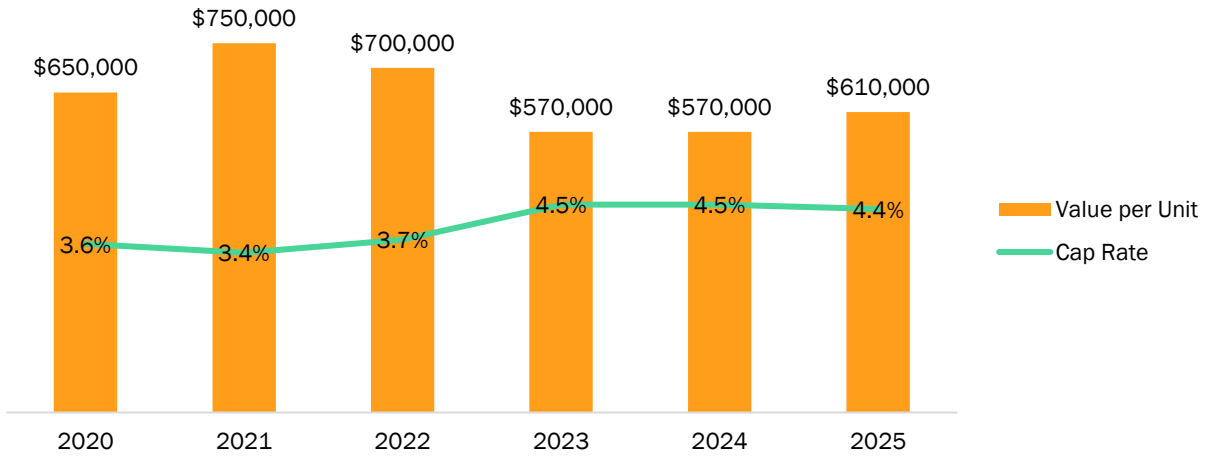
FIGURE 14: MONTHLY SANTA CLARA COUNTY HOME VALUE INDEX VS. NATIONAL WEEKLY 30-YEAR MORTGAGE RATE



Sources: Freddie Mac, 2025; Zillow, 2025; Strategic Economics, 2025.

The value per unit of multifamily properties in Santa Clara County decreased between 2021 and 2025. As shown in Figure 15, the average market value of four and five-star multifamily properties in Santa Clara County fell from a high of $750,000 per unit in 2021 to $570,000 in 2024, with a modest recovery for 2025 to date. Capitalization rates (which describe the ratio between a property's annual income and its market value) increased in 2023, indicating a decline in investor confidence in multifamily investments. This decline was in response to higher interest rates at the national level and a softening of the rental market in Santa Clara County and many other parts of the San Francisco Bay Area.

FIGURE 15: GENERAL MARKET TRENDS IN SANTA CLARA COUNTY FOR 4- AND 5-STAR RENTAL PROPERTIES, CAP RATE VS. VALUE PER UNIT



Sources: CoStar, 2025; Strategic Economics, 2025.

As a result of these recent market trends, multifamily rental projects are much less financially feasible in 2025 than they were in 2020, and ownership projects are slightly less feasible than they were in 2020. Multifamily rental project developers face much higher construction costs in 2025 than they did in 2020, with lower average market values per unit; this makes it much more difficult to develop a viable project in 2025. Ownership projects also face higher interest rates and higher construction costs in 2025 than they did in 2020. However, the market values for ownership units in Santa Clara have mostly kept pace with construction costs over the past five years.

Feasibility Findings

The feasibility analysis results presented in this section reflect the market trends identified above. This section begins with an explanation of feasibility findings for ownership prototypes, followed by the feasibility results for rental prototypes.

It is important to note that the feasibility analysis of building prototypes, while intended to represent typical examples of the range of residential developments that could occur, does not represent every possible development proposal. Although the analysis may show that a building prototype is infeasible, specific proposals of a similar building type may be feasible for a variety of reasons. These circumstances could include developments with a low land cost basis if the land has been held for a period of time; access to financing sources at a lower cost than market or equity investors with lower return requirements; established relationships with suppliers and contractors that help reduce costs; and other factors.

FEASIBILITY OF OWNERSHIP PROTOTYPES

Under current market and policy conditions, the 5-Story Condo prototype is financially infeasible, while the feasibility result for the Townhome prototype is marginal. Figure 16 shows the results of the pro forma analysis for both prototypes assuming the inclusionary policy is met with onsite units. As Figure 16 shows, the Townhome prototype would generate a residual land value per unit of approximately $344,000. This is less than, but within ten percent, of typical land costs for townhome developments. Because costs and revenues can vary based on a variety of factors, many townhome developments will be feasible, depending on the specific circumstances of the project.[3] By contrast, the Condo prototype would generate a negative residual land value, which means that it is not likely to be feasible in Santa Clara without considerable changes to market conditions.

FIGURE 16: PRO FORMA RESULTS PER UNIT FOR OWNERSHIP HOUSING IN CITY OF SANTA CLARA, WITH ONSITE INCLUSIONARY UNITS UNDER THE CURRENT POLICY

	Townhomes	5-Story Condos
Average Sales Value per Unit		
Market Rate Units	$1,545,000	$1,299,451
Below Market Rate Units	$426,448	$403,744
Revenue per Unit		
Gross Revenue (Average)	$1,395,860	$1,113,815
Less Marketing	-$69,793	-$58,575
Total Sales Proceeds	**$1,326,067**	**$1,112,918**
Development Costs per Unit		
Hard Costs	$557,370	$812,629
Soft Costs (Excluding Fees)	$100,327	$146,273
In-Lieu Fee on Fractional Units	$7,237	$2,361
Other Municipal Fees	$74,453	$72,591
Financing & Contingency	$69,779	$119,693
Total Development Cost	**$809,165**	**$1,153,546**
Residual Land Value per Unit		
Total Sales Proceeds	$1,326,067	$1,112,918
Target Return on Cost	15%	15%
Supportable Development Cost	$1,153,101	$967,755
Total Development Cost	$809,165	$1,153,546
Residual Land Value	**$343,936**	**-$185,792**
Feasibility		
Residual Land Value	$343,936	-$185,792
Typical Land Cost	$381,150	$146,596
Typical Land Cost per S.F.	$175	$175
Feasibility Result	**Marginally Infeasible; Typical land costs slightly exceed RLV**	**Infeasible: RLV is negative**

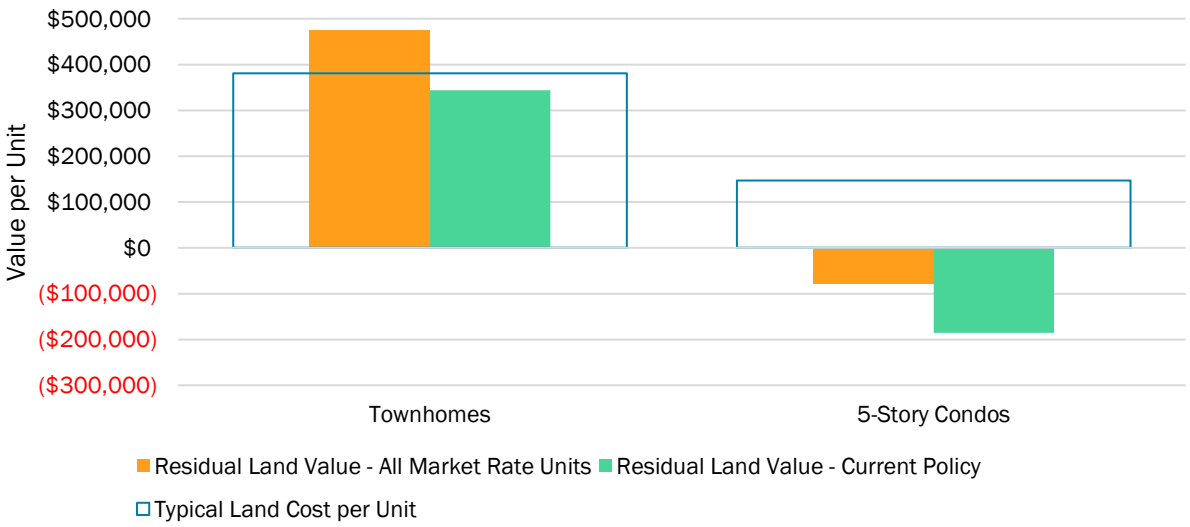
Sources: Strategic Economics, 2025; City of Santa Clara, 2025; Developer Interviews, 2025; Redfin, 2025.

[3] For example, as discussed in the Residential Impact Fee Study, the Townhome prototype is currently feasible if a project meets affordable housing requirements by paying the impact (or in-lieu) fee instead of providing on-site units.

Because the feasibility of the Townhome prototype is marginal, changes to Santa Clara's inclusionary policy could impact the viability of townhome projects. Figure 17 shows land costs per unit for the Townhome and Condo prototypes compared to the residual land value of each project with and without Santa Clara's inclusionary requirement. As shown, the Townhome prototype built with all market rate units would be financially feasible. However, as shown in Figure 11, the difference in price between the average market rate unit and the average below market unit targeted to median income households is more than $1 million. This wide gap in revenues when meeting the onsite requirement could challenge the feasibility of some townhome projects.

The City's inclusionary requirements are not the primary factor influencing the feasibility of the Condo prototype. The Condo prototype has per unit higher costs and lower sales prices than Townhomes. As shown in Figure 17, Strategic Economics found that 5-Story Condos would have a negative residual land value even in the absence of an inclusionary requirement in Santa Clara. This result indicates that a developer would not choose to pursue a condo project in Santa Clara even if they could obtain the land for free. As shown in Figure 16, Strategic Economics found that the Condo project would generate less revenue per unit than Townhomes but be more expensive to construct. Condos often require more soundproofing, incorporate more expensive parking formats and require more complex fireproofing than townhome projects. In addition, condo projects in California face more stringent liability laws than townhomes, requiring them to carry larger insurance policies and take extra precautions during construction.

FIGURE 17: RESIDUAL LAND VALUE VS. LAND COSTS PER UNIT FOR OWNERSHIP HOUSING IN CITY OF SANTA CLARA - WITH ALL MARKET RATE UNITS VS. EXISTING POLICY



Sources: Strategic Economics, 2025; City of Santa Clara, 2025; Developer Interviews, 2025; Redfin, 2025.
Note: Current Policy requires 15 percent of units to be affordable, with an average income level of 100 percent of AMI. Because achieved prices are unlikely to equal the maximum allowable price, this policy was tested assuming the project could achieve 90 percent AMI prices.

FEASIBILITY OF RENTAL PROTOTYPES

Based on current market conditions, Strategic Economics found that none of the three rental prototypes are feasible in Santa Clara under current conditions with the current inclusionary policy. Figure 18 provides a summary of pro forma results for each of the three rental prototypes with the City

of Santa Clara's current inclusionary policy. As Figure 18 shows, none of the three rental project types currently support a residual land value that is greater than the typical cost of land for multifamily developments in Santa Clara. Because development costs grew nearly 20 percent more than multifamily rents over the past five years (as shown in Figure 13) while cap rates increased (as shown in Figure 15), a multifamily project that was viable in 2020 would be challenging to develop in 2025.

FIGURE 18: PRO FORMA RESULTS PER UNIT FOR RENTAL HOUSING IN CITY OF SANTA CLARA, WITH ON-SITE UNITS UNDER THE CURRENT INCLUSIONARY POLICY

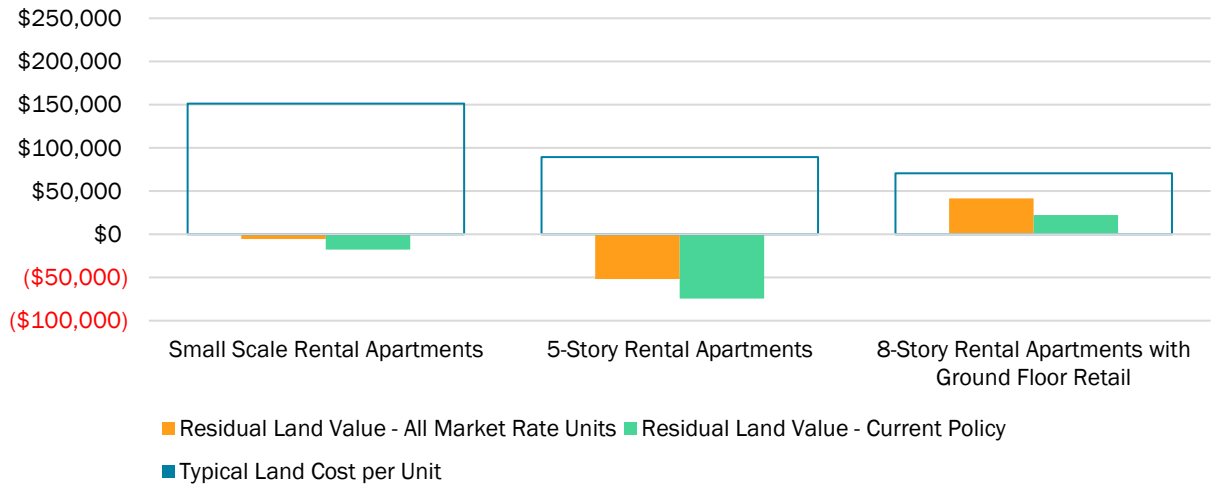
	Small Scale Rental Apartments	5-Story Rental Apartments	8-Story Rental Apartments with Ground Floor Retail
Net Operating Income per Unit			
Market Rate Units	$26,701	$28,629	$27,380
Below Market Rate Units	$3,964	$3,749	$3,698
Retail	$0	$0	$1,596
Total Net Operating Income	**$30,665**	**$32,378**	**$32,673**
Development Costs per Unit			
Hard Costs	$394,097	$459,824	$388,623
Soft Costs (Excluding Fees)	$51,233	$59,777	$50,521
In-Lieu Fee	$423	$83	$368
Other Municipal Fees	$69,298	$68,128	$67,188
Financing, Contingency & Developer Overhead	$60,830	$75,376	$65,564
Total Development Cost	**$575,880**	**$663,187**	**$572,264**
Residual Land Value per Unit			
Total Net Operating Income	$30,665	$32,378	$32,673
Target Yield on Cost	5.5%	5.5%	5.5%
Supportable Development Cost	$557,546	$588,691	$594,062
Total Development Cost	$575,880	$663,187	$572,264
Residual Land Value	**-$18,334**	**-$74,496**	**$21,798**
Feasibility			
Residual Land Value per Unit	-$18,334	-$74,496	$21,798
Typical Land Costs per Unit	$151,250	$89,332	$70,567
Typical Land Costs per S.F.	$125	$150	$180
Feasibility Result	**Infeasible; RLV is negative**	**Infeasible: RLV is negative**	**Infeasible; Land Costs Exceed RLV**

Sources: Strategic Economics, 2025; City of Santa Clara, 2025; Developer Interviews, 2025; CoStar, 2025.

Santa Clara's current onsite inclusionary requirement targeted at median income households has a minimal impact on the pro forma results because the maximum below market rents are close to market rents. Figure 19 compares the residual land value of each prototype, with and without the onsite inclusionary requirement, to the typical land cost per unit. Average market rents for the rental prototypes range from $4,000 to $4,100, on par with maximum rents for the area median income. The pro forma analysis assumed inclusionary units would be leased to households at an average of 90 percent of AMI, or somewhat below the policy maximum of 100%. Overall project revenues were reduced by $12,000 per unit for Small Scale Rental Apartment projects; $23,000 per unit for 5-Story Rental Apartments; and $19,000 per unit for 8-Story Rental Apartments. If market conditions improve,

these prototypes would be more likely to be feasible. However, if market rate rents increase faster than the Area Median Incomes, the revenue loss associated with providing onsite units also increases.

FIGURE 19: RESIDUAL LAND VALUE VS. LAND COSTS PER UNIT FOR RENTAL HOUSING IN CITY OF SANTA CLARA - WITH ALL MARKET RATE UNITS VS. EXISTING POLICY



Sources: Strategic Economics, 2025; City of Santa Clara, 2025; Developer Interviews, 2025; CoStar, 2025.
Note: Current Policy requires 15 percent of units to be affordable, with an average income level of 100 percent of AMI. Because achieved rents are unlikely to equal the maximum allowable rent, this policy was tested assuming the project could achieve 90 percent AMI rents.

POLICY AND MARKET SCENARIOS

The previous section describes feasibility under current conditions in Santa Clara; this section considers alternative policies that may better align with the City's objectives and optimize the production of affordable units in future years. In addition, Strategic Economics recommends that local governments considering a new or updated affordable housing policy be cognizant of the potential impact of the policy under a range of market conditions, as it is difficult for local inclusionary ordinances to keep current with evolving market cycles.

Strategic Economics performed scenario testing to evaluate how prototypes would perform with different inclusionary requirements and market conditions. Strategic Economics also calculated the in-lieu fees associated with each inclusionary policy option. The purpose of this section is to help the City of Santa Clara select inclusionary and in-lieu fee requirements that could remain relevant as market conditions change.

Inclusionary Policy Scenarios

This section describes the impact of an inclusionary policy's income targets on financial feasibility. Inclusionary policies consist of two main components: the percentage of onsite affordable units required, and the income group(s) targeted by the policy. All scenarios presented below assume a 15 percent onsite requirement, while testing the sensitivity of the results to different income levels. A discussion of setting the percentage onsite requirement is included in the findings section.

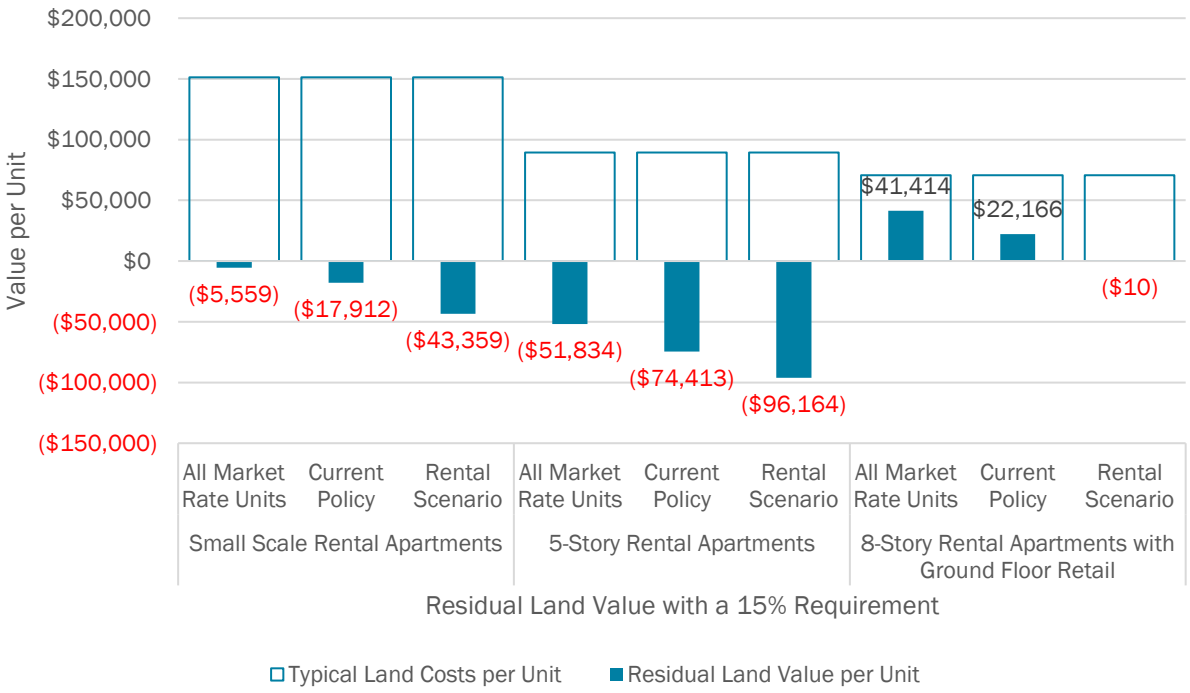
Based on feedback from City staff, Strategic Economics tested an alternative inclusionary policy ("Rental Scenario") for rental developments with a deeper average affordability than the current 100% of AMI average:

- 15 Percent Total Requirement:
    - Five Percent 50% AMI Average
    - Five Percent Low-Income at 80% AMI Average
    - Five Percent Moderate-Income at 110% AMI Average

To calculate expected revenue from affordable units under this policy scenario, Strategic Economics used the same "achieved AMI" assumptions as discussed in Figure 10, with the exception of the moderate-income (110 percent AMI) assumption. Because the maximum moderate-income rents are higher than market rate rents, Strategic Economics assumed that revenue for moderate-income units would match market-rate rents.

Under current conditions, the alternative Rental Scenario causes a decline in residual land values of approximately $22,000 to $25,000 per unit compared to the current policy. Figure 20 summarizes this result. The average market rate rent across the three prototypes is approximately $4,150 per month. Under the current policy, the average rent for inclusionary units is approximately $3,600 per month. In comparison, the average rent for BMR units required in the alternative Rental Scenario would be significantly lower, at just $2,800 per month. The financial impact of this policy will change as market rents and other conditions change, as described in the next section.

FIGURE 20: RESIDUAL LAND VALUE PER UNIT VS. LAND COSTS PER UNIT IN CITY OF SANTA CLARA WITH ALL MARKET RATE, CURRENT POLICY, AND RENTAL SCENARIO – RENTAL UNITS



Sources: Strategic Economics, 2025; City of Santa Clara, 2025; Developer Interviews, 2025; CoStar, 2025.
Note: Current Policy is a 15% requirement at 100% AMI. Rental Scenario includes the following inclusionary requirements:

- Five Percent 50% AMI Average
- Five Percent Low-Income at 80% AMI Average
- Five Percent Moderate-Income at 110% AMI Average

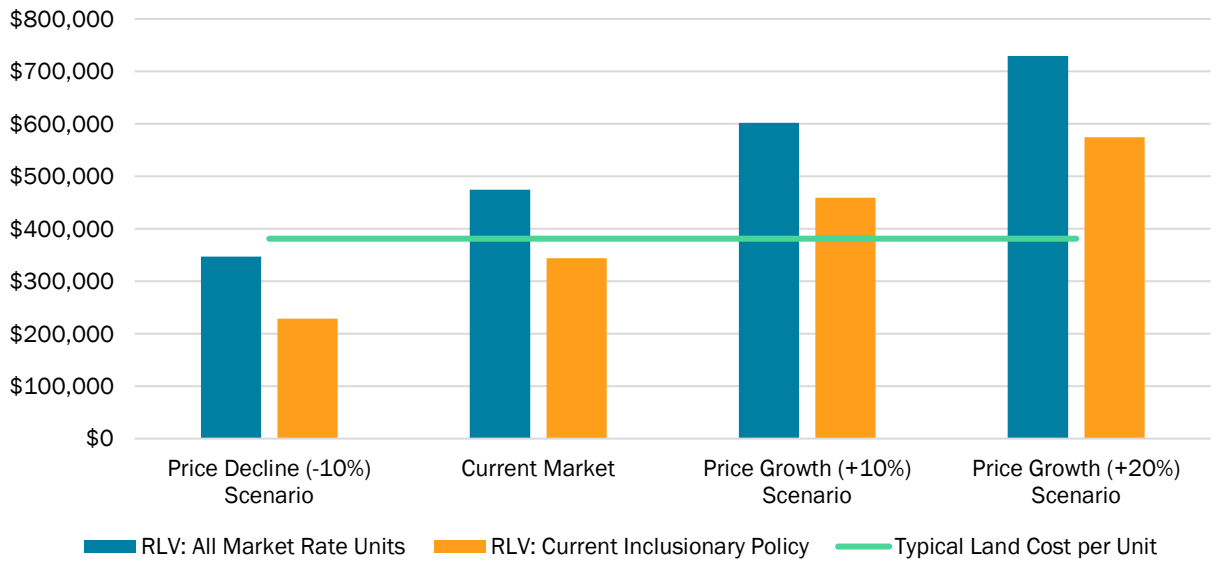
Market Scenarios

This section tests the sensitivity of the feasibility results to changes in market conditions. The current pro forma results rely on assumptions for development costs, return thresholds, sales prices, rents, and land costs, all of which are subject to change over time. This section describes how some of the most important market factors impact the viability of inclusionary policies.

Strategic Economics tested the sensitivity of the feasibility results by varying market factors that influence revenue, while holding development costs constant. For the ownership prototypes, Strategic Economics tested a range of market prices above and below current prices. For rental prototypes, Strategic Economics evaluated a range of scenarios that includes increases and decreases in market rents combined with variations in the market capitalization rates that determine the value of development.

If sales prices increased by ten percent in the city of Santa Clara, the Townhome project could support the City's current inclusionary requirement. Figure 21 shows the results for the Townhome prototype for two inclusionary policy scenarios: Santa Clara's current policy and a scenario with no inclusionary policy (all market rate units).

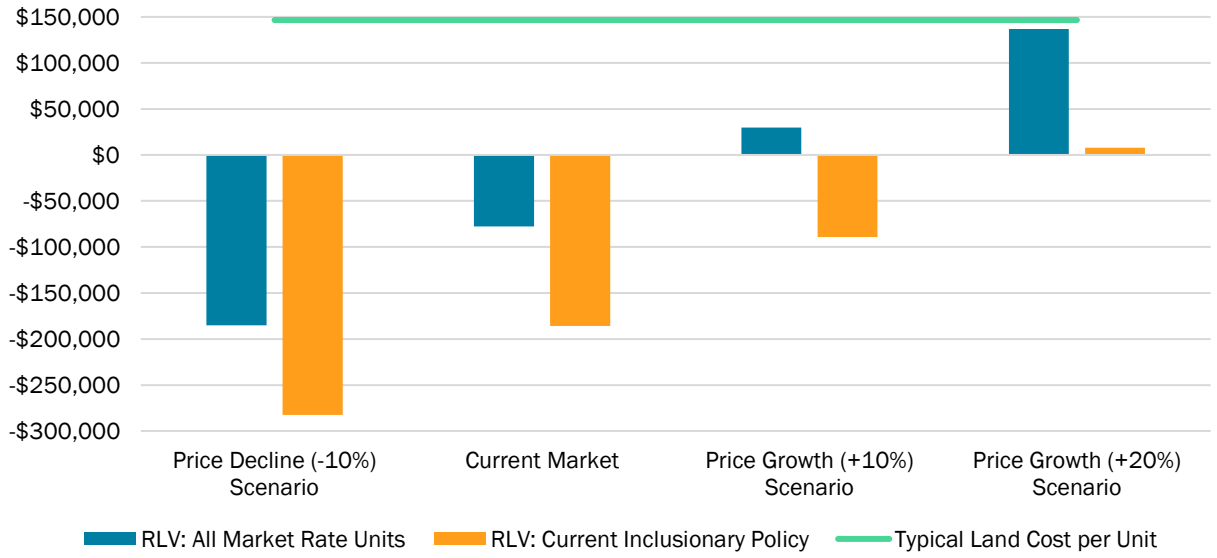
FIGURE 21: SENSITIVITY OF RESIDUAL LAND VALUE TO MARKET PRICE IN CITY OF SANTA CLARA – TOWNHOMES



Sources: Strategic Economics, 2025; City of Santa Clara, 2025; Developer Interviews, 2025; Redfin, 2025.

The 5-Story Condo prototype would require a significant improvement in the market sales value for this product type to be viable in Santa Clara—even without inclusionary requirements. The market for premium condominium projects, which require very high sales values to cover their costs, is not as strong in Santa Clara as in some other parts of the Bay Area. Therefore, this product type may not warrant the same approach for an inclusionary policy as that applied to Townhomes.

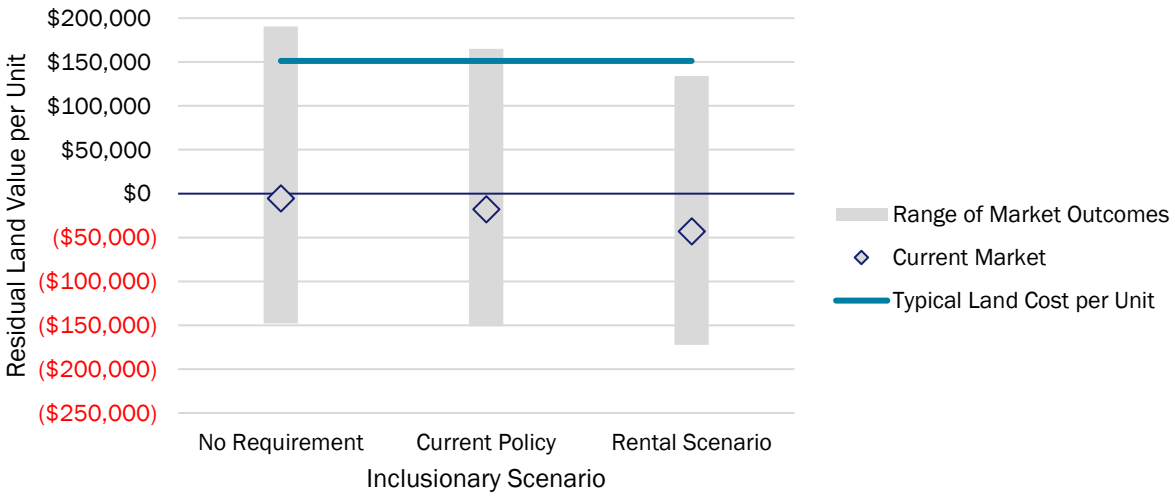
FIGURE 22: SENSITIVITY OF RESIDUAL LAND VALUE TO MARKET PRICE IN CITY OF SANTA CLARA – 5-STORY CONDOS



Sources: Strategic Economics, 2025; City of Santa Clara, 2025; Developer Interviews, 2025; Redfin, 2025.

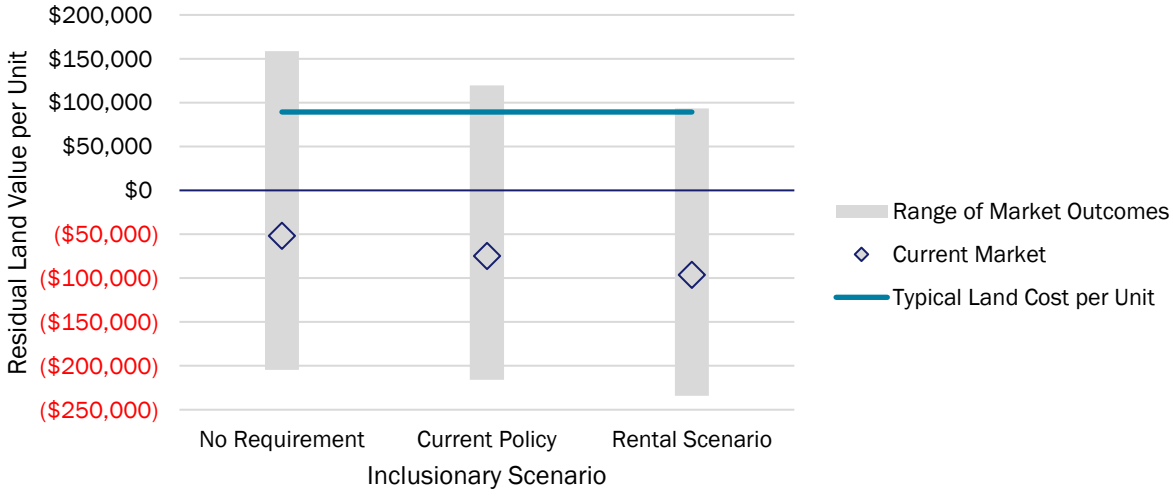
In is unlikely that the Small Scale and 5-Story Rental prototypes could support an inclusionary requirement in the city of Santa Clara in the near future, even under improved market conditions (Figure 23 and Figure 24). Santa Clara is a largely built-out, centrally located city with premium land costs. For this reason, future rental apartment development will consist of mostly high-density projects that can use land efficiently and/or reduce parking construction costs by locating in areas accessible to alternative transportation modes. For this reason, Strategic Economics recommends that the results for the 8-story Rental prototype play the central role in formulating an inclusionary policy.

FIGURE 23: RESIDUAL LAND VALUE VS. LAND COSTS PER UNIT FOR SMALL SCALE RENTAL APARTMENTS IN CITY OF SANTA CLARA, WITH CURRENT MARKET CONDITIONS VS. RANGE OF LIKELY MARKET OUTCOMES



Sources: Strategic Economics, 2025; CoStar, 2025; Developer Interviews, 2025; City of Santa Clara, 2025; Santa Clara Housing Authority, 2025.
Note: Range of Market Outcomes refers to a range of "weak market" vs. "strong market" fluctuations from current market conditions, based on a ten percent change in in market rate rents and the typical range of cap rates observed in Santa Clara County over the past ten years. The high end of the range of market outcomes was based on a 3.75 percent cap rate and ten percent rent increase. The low end of the range of market outcomes was based on a 5.5 percent cap rate and a ten percent rent decrease.

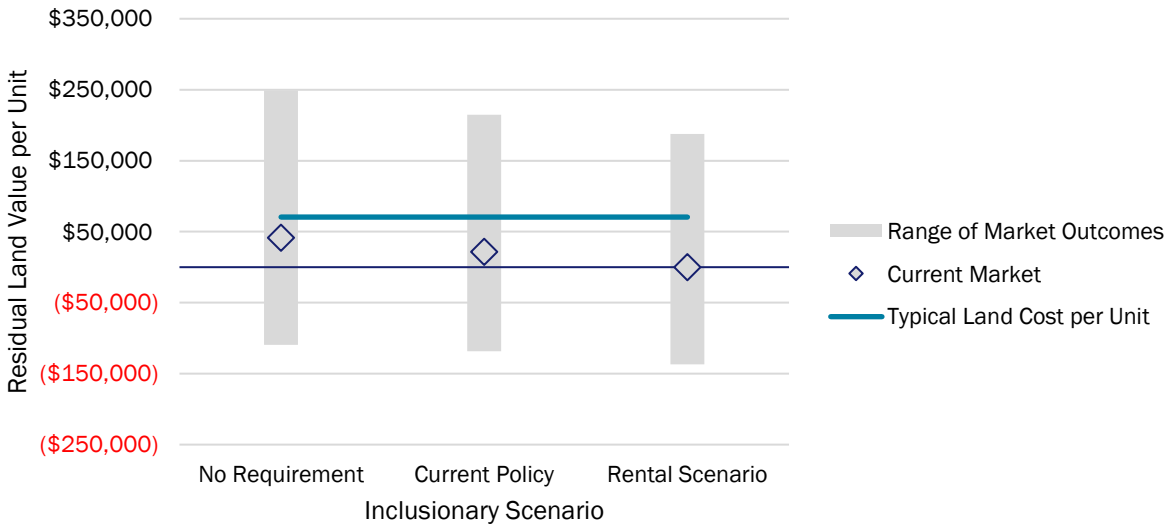
FIGURE 24: RESIDUAL LAND VALUE VS. LAND COSTS PER UNIT FOR 5-STORY RENTAL APARTMENTS IN CITY OF SANTA CLARA, WITH CURRENT MARKET CONDITIONS VS. RANGE OF POSSIBLE MARKET OUTCOMES



Sources: Strategic Economics, 2025; CoStar, 2025; Developer Interviews, 2025; City of Santa Clara, 2025; Santa Clara Housing Authority, 2025.
Note: Range of Market Outcomes refers to a range of "weak market" vs. "strong market" fluctuations from current market conditions, based on a ten percent change in in market rate rents and the typical range of cap rates observed in Santa Clara County over the past ten years. The high end of the range of market outcomes was based on a 3.75 percent cap rate and ten percent rent increase. The low end of the range of market outcomes was based on a 5.5 percent cap rate and a ten percent rent decrease.

Under a scenario with improved market conditions, the 8-Story Rental prototype could support a 15 percent onsite requirement with a mix of income levels, providing an opportunity for the City of Santa Clara to deepen the level of affordability in its current inclusionary policy. As shown in Figure 25, market conditions, rather than the inclusionary policy's income targets, are the main determinants of feasibility for the 8-Story Rental prototype. Under no requirement, improved market conditions could add up to $208,000 per unit to residual land value. Maintaining the current policy would reduce this amount by $35,000 per unit, while the alternate Rental Scenario would reduce it by $61,000.

FIGURE 25: RESIDUAL LAND VALUE VS. LAND COSTS PER UNIT FOR 8-STORY RENTAL APARTMENTS IN CITY OF SANTA CLARA, WITH CURRENT MARKET CONDITIONS VS. RANGE OF POSSIBLE MARKET OUTCOMES



Sources: Strategic Economics, 2025; CoStar, 2025; Developer Interviews, 2025; City of Santa Clara, 2025; Santa Clara Housing Authority, 2025.
Note: Range of Market Outcomes refers to a range of "weak market" vs. "strong market" fluctuations from current market conditions, based on a ten percent change in in market rate rents and the typical range of cap rates observed in Santa Clara County over the past ten years. The high end of the range of market outcomes was based on a 3.75 percent cap rate and ten percent rent increase. The low end of the range of market outcomes was based on a 5.5 percent cap rate and a ten percent rent decrease.

In-Lieu Fee Analysis

For each policy scenario, Strategic Economics calculated the in-lieu fee that would be equivalent to the revenue lost from meeting the onsite requirement for below market rate units. This approach used the *affordability gap,* the difference in revenue per square foot between a project with all market rate units and a project with the required affordable units. To calculate expected revenue from affordable units, Strategic Economics used the same "achieved AMI" assumptions as discussed in Figure 10; this approach avoids creating an in-lieu fee that is less expensive than the likely cost of providing on-site units. The final in-lieu fees recommended for adoption will be closely coordinated with the recommended inclusionary policy (considering the total revenue impact of both the onsite percentage and income targets), with potential adjustments to incentivize the City's preference for either onsite units or the collection of fee revenues.

Strategic Economics calculated in-lieu fees on a per net square foot basis. This approach uses only the habitable area (that is, excluding common areas, corridors, and utility or maintenance areas) to translate per-unit in-lieu fees into per square foot fees. This contrasts with the City of Santa Clara's

current in-lieu fee calculation, which uses gross square feet. The net square foot approach enables fee assessments to be directly tied to revenue-generating areas of new projects and is consistent with affordable housing fee calculations used in residential nexus studies and in-lieu fee policies in many other nearby jurisdictions.[4] Figure 26 shows the City of Santa Clara's current in-lieu fees translated to a per net square foot basis for each prototype, based on the ratio of gross to net square feet in each prototype.

FIGURE 26: CITY OF SANTA CLARA'S CURRENT IN-LIEU FEES, TRANSLATED TO PER NET SQUARE FOOT ESTIMATES FOR EACH PROTOTYPE

Housing Type	Current Fee (per Gross Sq. Ft.)	Translation to Net Sq. Ft.
For Sale Residential		
Townhomes	$38.09	$38.09
5-Story Condos	$30.48	$36.27
Rental Residential		
Small Scale Rental Apartments	$30.48	$35.86
5-Story Rental Apartments	$30.48	$35.86
8-Story Rental Apartments with Ground Floor Retail	$30.48	$35.86

Sources: Strategic Economics, 2025; City of Santa Clara, 2025.
Note: Net square feet and gross square feet are equivalent for the Townhome prototype.

The results of the in-lieu fee analysis reflect a relatively large affordability gap for the ownership prototypes versus a much smaller affordability gap for the rental prototypes under current market conditions.

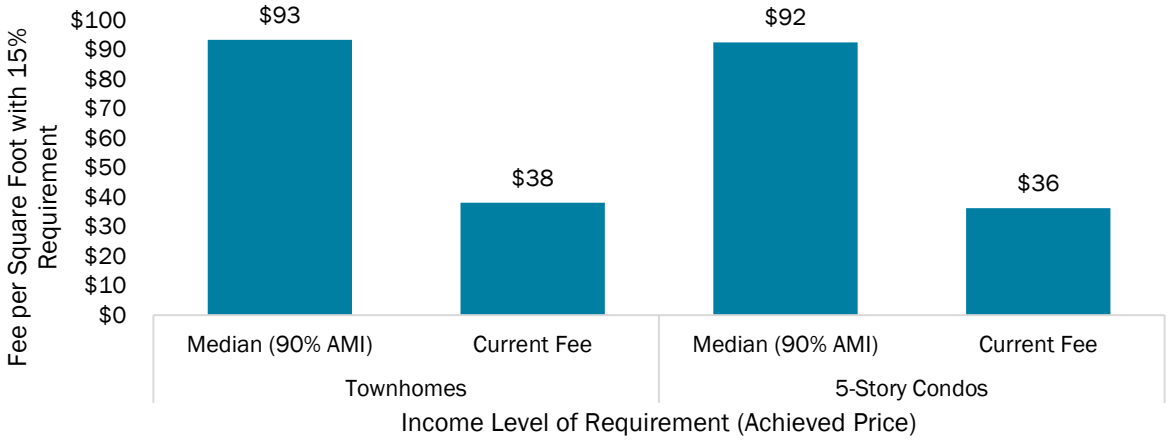
- **The equivalent in-lieu fee for the City of Santa Clara's current inclusionary policy would be $93 per square foot for the townhome prototype and $78 per square foot for the 5-story condo prototype** (Figure 27). In comparison, the City's current in-lieu fee requirement is $38 per square foot for townhomes and $30 per square foot for condos. The difference is due to the comparably strong market rate sales values for ownership products and the depressed below market sales prices resulting from the currently high mortgage interest rates and other costs of ownership.

- **For rental prototypes, the equivalent in-lieu fee for the City's current policy would be $16 per net square foot fee for the Small Scale Rental prototype; $31 per net square foot for 5-story Rental; and $31 per net square foot for the 8-story Rental prototype** (Figure 28). In comparison, the City's current in-lieu fee for multifamily rentals is $36 per net square foot. The lower in-lieu fee calculated in this study reflects a smaller affordability gap because current market rents are only slightly higher than the below market rents under the current policy.

- **The equivalent in-lieu fee for the inclusionary policy tested in the Rental Scenario would be $48 per net square foot for the Small Scale Rental prototype; $61 per net square foot for the 5-story Rental; and $66 per net square foot for the 8-story Rental prototype.** Because the Rental Scenario requires a deeper level of affordability than the current policy, the gap between market rents and below market rents is significantly larger.

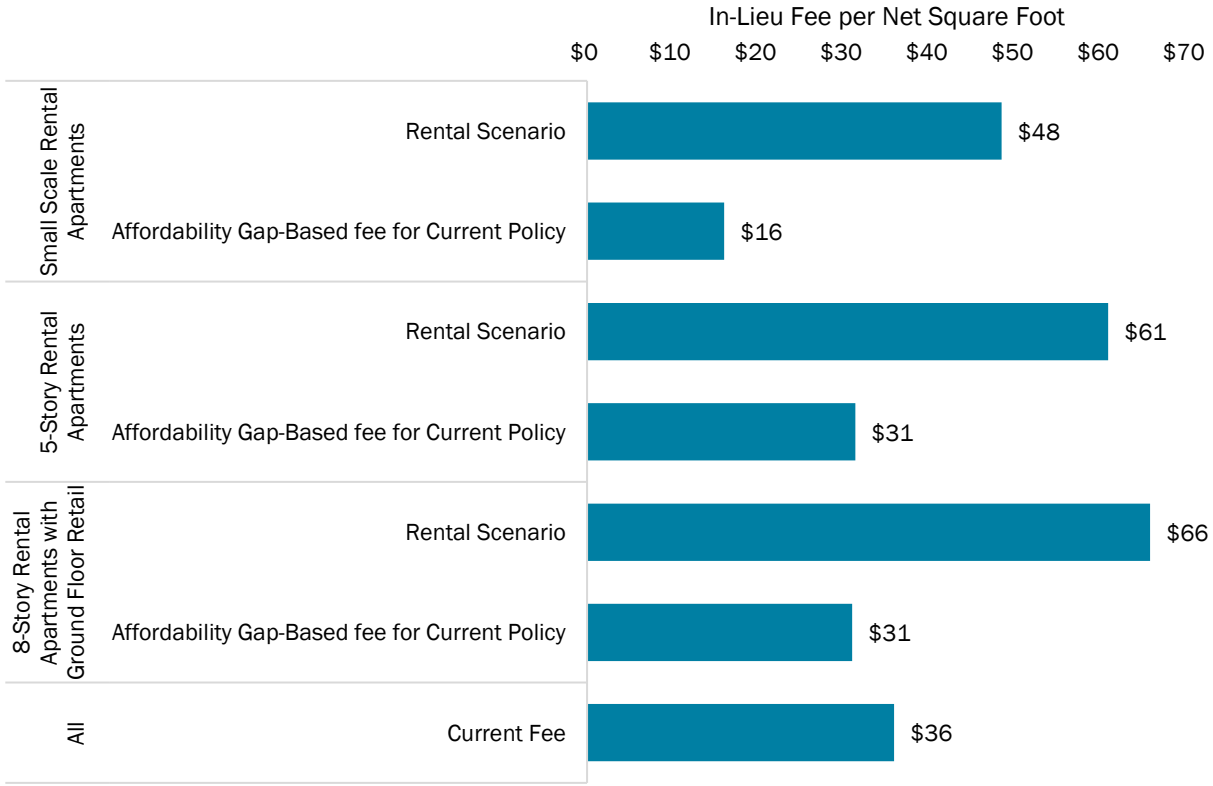
[4] Should the City of Santa Clara elect to continue charging in-lieu fees on a per gross square foot basis, recommended fees per net square foot could be multiplied by a factor of approximately 80 to 85 percent to impose a similar cost on new projects.

FIGURE 27: EQUIVALENT IN-LIEU FEE PER NET SQUARE FOOT CORRESPONDING TO REVENUE FOREGONE FROM INCLUSIONARY POLICY IN CITY OF SANTA CLARA - WITH 15% AFFORDABLE UNIT REQUIREMENT – OWNERSHIP UNITS



Sources: Strategic Economics, 2025; City of Santa Clara, 2025; HCD, 2025; Santa Clara County Housing Authority, 2025.
Note: While the inclusionary policy allows for up to 100% of AMI, the achieved price level is more likely to correspond to lower income households for an individual project. This model reflects an expected "achieved" price level of 90% AMI for a 100% AMI policy.

FIGURE 28: EQUIVALENT IN-LIEU FEE PER SQUARE FOOT CORRESPONDING TO REVENUE FOREGONE FROM INCLUSIONARY POLICY IN CITY OF SANTA CLARA - WITH 15% AFFORDABLE UNIT REQUIREMENT – RENTAL UNITS



Sources: Strategic Economics, 2025; City of Santa Clara, 2025; HCD, 2025; Santa Clara County Housing Authority, 2025.
Note: While individual policies may allow for incomes up to 50% of AMI, 80% of AMI, 100% of AMI, and 120% of AMI, respectively, the achieved rent level is more likely to correspond to lower income households for an individual project. This model reflects an expected "achieved" rent level for each income category, which also corresponds with the California Health and Safety Code's income guidelines for affordable rental housing.

III. Policy Considerations and Findings

This section reviews key considerations, in addition to financial feasibility, for developing inclusionary and in-lieu fee policies for the City of Santa Clara. First, the section provides a summary of inclusionary policies for other peer jurisdictions in Santa Clara County. The section then outlines other key policy and legal considerations, before concluding with a summary of findings.

INCLUSIONARY POLICIES IN NEIGHBORING JURISDICTIONS

Most peer jurisdictions require an onsite inclusionary percentage of 15 percent, with certain modifications tailored to smaller projects, larger projects, and/or ownership projects. Los Gatos, for example, uses a sliding scale that ranges from 10 to 20 percent onsite inclusionary depending on the size of the project. Cupertino has a 15 percent requirement for rental projects, but a higher percentage, 20 percent, for ownership projects. Like the other cities, Mountain View has a fifteen percent across-the-board requirement, except with an additional 10 percent requirement for above moderate households specifically for townhouses and rowhouses. Finally, Palo Alto has a 20 percent requirement for for-sale projects on more than five acres.

In peer cities, the inclusionary requirements for rental projects target a mix of income levels, from very low to moderate-income households. Whereas Santa Clara's inclusionary policy uses a weighted average approach to ensure that affordable units target less than the median income, most other jurisdictions assign percentage requirements to individual income categories. Cupertino targets very low and low-income units; Los Gatos targets moderate-income units; and Sunnyvale targets a mix of very low and low-income units. Mountain View's inclusionary policy uses an average income approach similar to Santa Clara's, but targets a much lower income level, of 65 percent of AMI. Lastly, San Jose provides rental developers with a choice: they can either target extremely low-income households, or provide a mix of very low, low, and moderate-income units.

In their inclusionary requirements for ownership projects, all peer cities except Los Gatos and Mountain View target median income or moderate-income households. Most cities require a mix of median income (targeting up to 100 percent of AMI) and moderate-income (targeting up to 120 percent of AMI) units. However, Los Gatos requires five to ten percent of ownership units to be dedicated to low-income households—half of the Town's total inclusionary requirement. Mountain View's policy also differs from other peer cities, but specifically for townhomes and rowhouses. For these project types, Mountain View requires ten percent of units to be set aside for above moderate-income households, which its policy defines as up to 135 percent of AMI. This brings the City's total inclusionary requirement to 25 percent for these projects, but at a higher average AMI than other jurisdictions.

FIGURE 29: INCLUSIONARY REQUIREMENTS IN NEARBY JURISDICTIONS VS. SANTA CLARA, AS OF 2025

Jurisdiction	Minimum Size for Inclusionary Requirement	Policy Categories	Required Share of Units	
			Rental	For-Sale
Cupertino	5 Units		9% Very Low 6% Low	10% Median 10% Moderate
Los Gatos	5 Units	5-19 Units	10% Moderate	5% Low 5% Moderate
		20-100 Units	10-20% Moderate	5-10% Low 5-10% Moderate
		100+ Units	20% Moderate	10% Low 10% Moderate
Mountain View	No Minimum	Townhouses & Rowhouses	15% (Avg. 65% AMI)	15% Moderate (Avg. 100% AMI) 10% Above Moderate (Avg. 135% AMI)
		All Other Developments	15% (Avg. 65% AMI)	15% (Avg. 100% AMI)
Palo Alto	3+ Units	Project on <5 acres	Impact Fee	10% Median 5% Moderate
		Project on >5 acres		20% (2/3 Median, 1/3 Moderate)
San Jose	10+ Units	Option 1	10% Extremely Low	15% Moderate
		Option 2	5% Very Low 5% Low 5% Moderate	15% Moderate
City of Santa Clara	3+ Units	<10 Units:	1 unit or in-lieu/impact fee	
		10+ Units	15% (Avg. 100% AMI)	15% (Avg. 100% AMI)
Sunnyvale	Rental: 3+ Units For-Sale: 7+ Units		5% Very Low 10% Low	15% Moderate

Sources: City of Cupertino, 2025; Town of Los Gatos, 2025; City of Mountain View, 2025; City of Palo Alto, 2025; City of San Jose, 2025; City of Santa Clara, 2025; City of Sunnyvale, 2025; Strategic Economics, 2025.
Note: some cities apply an impact fee to projects that do not meet the minimum size threshold for the inclusionary requirement.

OTHER POLICY CONSIDERATIONS

This section reviews other policy considerations that may be relevant to Santa Clara County jurisdictions when developing an inclusionary policy. These include conditions for HCD review; Metropolitan Transportation Commission requirements; and State Density Bonus Law, as described below:

- **Any local inclusionary policy may be subject to review by the California Department of Housing and Community Development if it includes a greater than 15 percent inclusionary requirement for households at income levels of 80 percent of AMI or less.** Since 2017, the AB 1505 legislation (also known as the "Palmer fix") provided for a set of conditions that could trigger HCD review, including an elevated inclusionary requirement for very low- and low-income

households and failure to meet 75 percent of above moderate RHNA goals.[5] Inclusionary policies under review may need to perform a feasibility study demonstrating that "the ordinance does not unduly constrain the production of housing."

- **The Metropolitan Transportation Commission (MTC) requires compliance with its Transit Oriented Communities (TOC) policy in transit station areas for jurisdictions to be eligible and/or competitive for certain regional funding sources.** Compliance with the TOC policy requires adoption of at least two affordable housing production policies; one option for this requirement is to adopt an inclusionary policy that meets MTC's criteria. These criteria are as follows:
    - Rental Policy: must require least 15 percent of units to be affordable, with an average income of 80% of AMI or less.
    - Ownership Policy: must require least 15 percent of units to be affordable, with an average income of 120% of AMI or less.

- **The State Density Bonus law allows multifamily developments to build to a higher density than the maximum density allowed by zoning if affordable units are included in the project.** Recent changes to state law have expanded opportunities for developments to utilize this bonus. With the passage of AB 1287 in 2024, the State created a "stackable" density bonus, allowing for market rate projects to achieve density bonuses of up to 100 percent by providing the maximum percentage of affordable units in multiple categories. By State law, the affordable units provided under the SDBL also count towards local inclusionary requirements, provided the units are targeted at or below the income level required by the local policy. The bonus market rate units allowed in SDBL projects commonly result in an overall project with a lower percentage of affordable units than the percentage in the local inclusionary policy.

FIGURE 30: DENSITY BONUS AMOUNT TRIGGERED BY PROVISION OF AFFORDABLE UNITS, BY INCOME LEVEL AND SHARE OF UNITS IN INCOME CATEGORY

	Amount of Density Bonus Triggered[a]		
	Very Low-Income Units	Low-Income	Moderate-Income
5% of Units	20% Density Bonus	None	None
10% of Units	32.5% Density Bonus	20% Density Bonus	5% Density Bonus[b]
15% of Units	50% Density Bonus	27.5% Density Bonus	10% Density Bonus[b]

Sources: Meyers Nave, 2023; Strategic Economics, 2025.

Notes:

a) Density bonuses are additive, up to a 50 percent density bonus for market rate projects or up to a 100 percent bonus if the maximum share of units is provided in multiple categories of income targets.

b) Applies only to For-Sale Units

[5] From January 31st, 2023 through the end of 2024 (approximately one-quarter of Santa Clara's eight-year RHNA Cycle), the City had met around 25 percent of its very low-income RHNA target; 14 percent of its low-income RHNA target; 17 percent of its moderate-income RHNA target; and 44 percent of its above moderate-income RHNA target.

SUMMARY OF FINDINGS AND CONCLUSIONS

This section provides a summary of findings from the feasibility and inclusionary analyses along with conclusions to consider for modifying the City's inclusionary policy.

Findings

Townhome projects in Santa Clara could potentially attain feasibility with the City's current on-site inclusionary requirements—particularly if market conditions improve. Strategic Economics found that the Townhome prototype evaluated in this study is not currently feasible with Santa Clara's on-site inclusionary requirement but is feasible if developers pay the City's impact/in-lieu fee instead of providing on-site units.[6] Townhome projects could feasibly provide on-site units if sales prices increased by ten percent. In addition, it is possible that developers of townhome projects could achieve successful projects under the current inclusionary policy with slightly different cost or revenue efficiencies.

The 5-Story Condo prototype would require a significant improvement in the market sales value for this product type to be viable in Santa Clara—even without inclusionary requirements. Strategic Economics found that the 5-Story Condo prototype generates a negative residual land value—meaning that it would not be feasible even if land was free. It is possible that condos could be developed in Santa Clara if market conditions improve significantly and inclusionary requirements are removed, but these project types are considered unlikely under current market conditions.

The rental market context in the City of Santa Clara favors higher-density developments. While current market conditions are unfavorable to rental projects overall, the higher density 8-Story Rental prototype performed better than the lower density prototypes. This and similar building types are more likely to predominate development proposals once conditions improve in the next market cycle.

Under a scenario with improved market conditions, the 8-Story Rental prototype could support a 15 percent onsite requirement at an average income level that is lower than in the current policy. The market scenarios tested with improved rental and capitalization rates generated more economic value for rental projects than the revenue forgone from the 15 percent inclusionary policies Strategic Economics analyzed in this study.

The in-lieu fee analysis found significant differences between the City's current in-lieu fee amounts and the equivalent in-lieu fees based on current market assumptions. Strategic Economics estimated equivalent in-lieu fees significantly higher than the current fees on ownership projects, and significantly lower than the current fees for rental projects. The lower fees for rental are primarily due to the small affordability gap between current market rents and the below market rents required by the policy.

Conclusions

Maintaining a baseline onsite requirement of 15 percent achieves several objectives for the City of Santa Clara. First, fifteen percent is the maximum percentage of inclusionary allowed for income groups at 80 percent of AMI or lower before an HCD review may be triggered. Conversely, for an

[6] Note: The finding related that the Townhome prototype is feasible with the impact fee—instead of on-site units—comes from the Residential Impact Fee Study.

inclusionary policy to qualify as an "Affordable Housing Production Policy" to satisfy MTC's TOC guidelines for station areas, it must require at least a 15 percent of rental units to be inclusionary at 80 percent of AMI. Further, if trends for utilizing the State Density Bonus Law continue, new projects will yield a lower percentage of affordable units than the applicable inclusionary policy, due to the provisions of the law. For example, a proposal similar to the 8-Story Rental Apartment prototype could be approved with a percentage of affordable units lower than 15 percent if it were proposed under SDBL.

Under improved market conditions, an inclusionary policy for rental projects could support a deeper level of affordability. As discussed in previous sections, the market for rental apartments is currently in a down cycle. However, Santa Clara has an opportunity to modify its policy in advance of the next stronger market cycle to produce affordable units that align with City goals. Diversifying the income targets in the policy would represent a modest burden on new development and likely would be viable as market conditions change. Additionally, reducing the average income target to an AMI level that is 80 percent or less would meet MTC's transit-oriented communities criteria.

Strategic Economics recommends that the City of Santa Clara realign its in-lieu fee levels to more closely match the revenue loss from providing affordable units onsite. Although the use of in-lieu fees as an alternative means of compliance is generally not allowed for projects of ten units or more, Santa Clara should consider updating its in-lieu fees for ownership projects to current market conditions as applicable to smaller projects and fractional units.

- For ownership projects, the City could raise the fee rates to approximately $93 per square foot to reflect the affordability gap in the current policy.
- For rental projects, the equivalent in-lieu fee found in this study is lower than the current fee and primarily reflects the small affordability gap between market rate and below market rate units required by the policy. The City could consider updating this fee rate only in coordination with any updates to the inclusionary policy on rentals. Assuming the alternate policy for rentals analyzed in this study, the fee could be updated to $66 per square foot.

Monitor the residential market periodically and adjust the inclusionary policy as appropriate. As shown in the Policy and Market Scenarios section, the feasibility of development, and its ability to accommodate and inclusionary policy, may depend on a variety of factors. Indicators of a changing market include changes in the pace of development applications, trends in sales values and rental rates, a significant change in the California Construction Cost index, or changes in interest rates. Jurisdictions should update the inclusionary feasibility study periodically to ensure the policy is well-suited to the current market environment.

Appendix I: Financial Feasibility Assumptions

Cost Assumptions

FIGURE 31: DETAILED COST ASSUMPTIONS FOR OWNERSHIP PROTOTYPES IN CITY OF SANTA CLARA

	Unit of measure	Townhomes	5-Story Condos
Land Costs	per square foot	$175	$175
Hard Costs			
Demolition and Site Work	per sq. ft. land	$40	$40
Building Area Construction			
Residential - Type V	per gross sq. ft.	$275	$400
Parking	per space		
Structured/Podium	per space		$50,000
Underground	per space		$80,000
Tuck-under	per space		
Soft Costs			
Arch, Eng & Consulting	% of hard costs	5.0%	5.0%
Taxes, Insurance, Legal & Accounting	% of hard costs	10.0%	10.0%
Other Soft Costs	% of hard costs	3.0%	3.0%
Total Soft Costs (Excluding Fees)	**% of hard costs**	**18.0%**	**18.0%**
Municipal Fees	Shown in Separate Table		
Contingency	% of hard + soft costs	5.0%	5.0%
Financing			
Amount Financed (Loan-to-cost)	% of hard + soft costs	55%	55%
Average outstanding balance	% of Amt Financed	55%	55%
Construction Loan Fee	% of Amt Financed	1.0%	1.0%
Construction Interest (annual)		8.0%	8.0%
Term	Months	18	28
Developer Return			
Target Developer Return-on-cost	% of total dev costs	15.0%	15.0%

Sources: Strategic Economics, 2025; Developer Interviews, 2025; Redfin, 2025; CoStar, 2025; Federal Reserve Bank of New York, 2025.

FIGURE 32: DETAILED COST ASSUMPTIONS FOR RENTAL PROTOTYPES IN CITY OF SANTA CLARA

	Unit of measure	Small Scale Rental Apartments	5-Story Rental Apartments	8-Story Rental Apartments with Ground Floor Retail
Land Costs				
Land Costs	per square foot	$125	$150	$180
Hard Costs				
Demolition and Site Work	per sq. ft. land	$40	$40	$40
Building Area Construction				
Residential - Type V	per gross sq. ft.	$290	$310	
Residential - Type III	per gross sq. ft.			$330
Residential – Type I	per gross sq. ft.			$400
Residential – Type I				
Retail - Type I	per gross sq. ft.			$300
Parking	per space			
Surface	per space	$10,000		
Structured/Podium	per space		$50,000	$45,000
Underground	per space		$80,000	$80,000
Tuck-under	per space	$10,000		
Interior / Tenant Improvement Allowance	per net sq. ft.			$100
Soft Costs				
Arch, Eng & Consulting	% of hard costs	5.0%	5.0%	5.0%
Taxes, Insurance, Legal & Accounting	% of hard costs	5.0%	5.0%	5.0%
Other Soft Costs	% of hard costs	3.0%	3.0%	3.0%
Total Soft Costs (Excluding Fees)	**% of hard costs**	**13.0%**	**13.0%**	**13.0%**
Municipal Fees		Shown in Separate Table		
Contingency	% of hard + soft costs	5.0%	5.0%	5.0%
Financing				
Amount Financed (Loan-to-cost)	% of hard + soft costs	55%	55%	55%
Average outstanding balance	% of Amt Financed	55%	55%	55%
Construction Loan Fee	% of Amt Financed	1.0%	1.0%	1.0%
Construction Interest (annual)		8.0%	8.0%	8.0%
Term	Months	24	28	30
Developer Share				
Developer Overhead Fee	% of hard + soft costs	3.0%	3.0%	3.0%
Target Developer Yield-on-Cost	% of total dev costs	5.5%	5.5%	5.5%

Sources: Strategic Economics, 2025; Developer Interviews, 2025; Redfin, 2025; CoStar, 2025; Federal Reserve Bank of New York, 2025.
Note: 8-Story Rental prototype assumes more efficient parking spaces with fewer square feet per space (325 sq. ft. vs. 350 sq. ft.), which accounts for the difference in cost per space.

FIGURE 33: CITY OF SANTA CLARA MUNICIPAL FEE ESTIMATES - OWNERSHIP AND RENTAL PROTOTYPES

Prototype	Townhomes	Small Scale Rental Apartments	5-Story Condos	5-Story Rental Apartments	8-Story Rental Apartments with Ground Floor Retail
Permits & Fees					
Building Permit	$68,909	$76,694	$166,031	$154,145	$ 250,617
Plan Check	$60,153	$66,430	$138,461	$128,877	$ 206,661
Sewer & Water	$415,596	$769,133	$1,274,018	$1,804,498	$ 3,508,001
Other	$272,884	$652,429	$802,682	$1,526,823	$ 2,973,810
Total	**$ 817,542**	**$1,564,686**	**$2,381,191**	**$3,614,343**	**$ 6,939,090**
Impact Fees					
Traffic	$20,075	$36,136	$60,226	$85,655	$225,195
Housing	$0	$0	$0	$0	$0
Parks	$1,132,320	$1,826,658	$3,396,960	$4,329,856	$8,456,750
Schools	$262,895	$313,545	$765,160	$687,915	$1,170,855
Other	$750	$1,080	$2,250	$2,560	$5,000
Total	**$1,416,040**	**$2,177,419**	**$4,224,596**	**$5,105,986**	**$ 9,857,800**

Sources: City of Santa Clara, 2025; Strategic Economics, 2025.

Prototype and Revenue Assumptions

FIGURE 34: MARKET RATE OWNERSHIP PRO FORMA REVENUE ASSUMPTIONS, CITY OF SANTA CLARA

	Unit of measure	Townhomes		5-Story Condos	
Unit Size					
1-BD	sq. ft.	-		900	
2-BD	sq. ft.	1,400		1,300	
3-BD	sq. ft.	1,700		1,600	
4-BD	sq. ft.	2,000		1,900	
Average Unit Size	sq. ft.	1,710		1,382	
Unit Sales Value		Price	Share	Price	Share
1-BD	per unit	-	0%	800,000	10%
2-BD	per unit	1,400,000	23%	1,300,000	55%
3-BD	per unit	1,530,000	50%	1,400,000	30%
4-BD	per unit	1,700,000	27%	1,650,000	5%
Average Sales Value					
Per unit	**per unit**	**$1,545,000**		**$1,299,451**	
Marketing Expense	% of Sales Price	5%		5%	
Net Revenue		$1,467,750		$1,234,478	

Sources: Strategic Economics, 2025; Developer Interviews, 2025; Redfin, 2025.

FIGURE 35: MARKET RATE RENT PER UNIT ASSUMPTIONS, CITY OF SANTA CLARA

	Unit of measure	Small Scale Rental Apartments	5-Story Rental Apartments	8-Story Rental Apartments with Ground Floor Retail
Share of Units by Bedroom Count				
Studio		9%	5%	10%
1-BD		41%	55%	60%
2-BD		41%	35%	30%
3-BD		9%	5%	0%
Unit Size				
Studio	square feet	550	550	500
1-BD	square feet	750	750	700
2-BD	square feet	1,150	1,100	1,000
3-BD	square feet	1,400	1,300	-
Average Unit Size	**square feet**	**955**	**891**	**770**
Unit Rents				
Studio	per unit	$3,200	$3,400	$3,400
1-BD	per unit	$3,500	$3,800	$3,800
2-BD	per unit	$4,500	$5,000	$5,000
3-BD	per unit	$5,000	$6,000	
Average	**per unit**	**$4,019**	**$4,310**	**$4,120**
Other Revenue Assumptions				
Vacancy (Market Rate Units)	% of Units	5%	5%	5%
Vacancy (Below Market Rate Units)	% of BMR Units	5%	5%	5%
Operating Expense	% of Revenue	30%	30%	30%
Capitalization Rate		4.50%	4.50%	4.50%

Sources: CoStar, 2025; Apartment Websites, 2025; Strategic Economics, 2025.

FIGURE 36: AREA MEDIAN INCOME AND INCOME LIMITS FOR SANTA CLARA COUNTY, 2025

People per Household	**1**	**2**	**3**	**4**	**5**
Bedroom Count	**Studio**	**1-BD**	**2-BD**	**3-BD**	**4-BD**
Extremely Low	$42,200	$48,200	$54,250	$60,250	$65,100
Very Low-Income	$70,350	$80,400	$90,450	$100,450	$108,500
Low-Income	$111,700	$127,650	$143,600	$159,550	$172,350
Median-Income	**$136,650**	**$156,150**	**$175,700**	**$195,200**	**$210,800**
Moderate-Income	$164,000	$187,400	$210,850	$234,250	$253,000

Sources: California HCD, 2025; Strategic Economics, 2025.
Note: Extremely Low-Income refers to up to 30% of AMI; Very Low-Income refers to up to 50% of AMI; Low-Income refers to up to 80% of AMI, and Moderate-Income refers to up to 120% of AMI.

FIGURE 37: MAXIMUM SALES PRICE PER UNIT AND AVERAGE BMR PRICE FOR TOWNHOME PROTOTYPE IN SANTA CLARA COUNTY, BY BMR INCOME LEVEL, 2025

	Unit Mix	Low (70% Achieved AMI)	Median (90% Achieved AMI)	Moderate (110% Achieved AMI)
Bedroom Count				
One Bedroom	0%			
Two Bedroom	23%	$282,037	$396,748	$511,459
Three Bedroom	50%	$301,139	$428,581	$556,023
Four Bedroom	27%	$310,808	$448,435	$586,061
Average Price per BMR Unit		**$299,260**	**$426,448**	**$553,635**

Sources: Strategic Economics, 2025; Santa Clara County Housing Authority, 2025; CA HCD, 2025; Redfin, 2025; Freddie Mac, 2025; Alta Housing, 2025; Ownwell, 2025.
Notes: Accounts for share of income spent on housing costs (30%), current interest rates, monthly utility costs, taxes, insurance, and HOA costs. Achieved sales price reflects likely average for units in each income category in an inclusionary project.

FIGURE 38: MAXIMUM SALES PRICE PER UNIT AND AVERAGE BMR PRICE FOR 5-STORY CONDOS IN SANTA CLARA COUNTY, BY INCOME LEVEL, 2025

	Unit Mix	Low (70% Achieved AMI)	Median (90% Achieved AMI)	Moderate (110% Achieved AMI)
Bedroom Count				
1-BD	10%	$268,179	$370,126	$472,073
2-BD	55%	$279,697	$394,408	$509,119
3-BD	30%	$297,366	$424,808	$552,250
4-BD	5%	$306,253	$443,880	$581,507
Average Price per BMR Unit		**$285,259**	**$403,744**	**$522,229**

Sources: Strategic Economics, 2025; Santa Clara County Housing Authority, 2025; CA HCD, 2025; Redfin, 2025; Freddie Mac, 2025; Alta Housing, 2025; Ownwell, 2025.
Notes: Accounts for share of income spent on housing costs (30%), current interest rates, monthly utility costs, taxes, insurance, and HOA costs. Achieved sales price reflects likely average for units in each income category in an inclusionary project.

FIGURE 39: BELOW MARKET RATE RENTAL REVENUE ASSUMPTIONS IN SANTA CLARA COUNTY, 2025

	Small Scale Rental Apartments	5-Story Rental Apartments	8-Story Rental Apartments with Ground Floor Retail
Share of Units by Bedroom Count[1]			
Studio	9%	5%	10%
1-BD	41%	55%	60%
2-BD	41%	35%	30%
3-BD	9%	5%	0%
Achieved Monthly Rent per Unit[2]			
50% AMI (Very Low)	$2,018	$1,997	$1,951
60% AMI (Low)	$2,371	$2,346	$2,292
90% AMI (Median)	$3,616	$3,576	$3,493
110% AMI (Moderate)	$4,445	$4,395	$4,292
Monthly Operating Expenses per Unit[3]	$1,206	$1,293	$1,236

Sources: Strategic Economics, 2025; Santa Clara County Housing Authority, 2025; CA HCD, 2025

Notes:

1. Reflects distribution of units in prototype.
2. Based on California HCD's 2025 table of median incomes by household size for Santa Clara County; Santa Clara County Housing Authority's utility allowances for multifamily units; and an assumption of no more than 30 percent of income spent on housing costs. Achieved rent reflects likely average for units in each income category in an inclusionary project.
3. Operating expenses per unit based on the average operating expense per unit of a market rate unit in each prototype, based on 30 percent of average market rate rent for each unit.