STRATEGIC ECONOMICS

COMMUNITY PLANNING COLLABORATIVE

Residential Impact Fee Study

PUBLIC DRAFT REPORT

Prepared for:

City of Gilroy

November 18, 2025

CITY OF gilroy CALIFORNIA

A community with a spice for life

Table of Contents

TABLE OF FIGURES 4

I. INTRODUCTION 6

Report Purpose 6

Background on Residential Impact Fees 6

Report Organization 6

II. RESIDENTIAL NEXUS ANALYSIS 8

Methodology 9

Steps 1-3 Calculations and Results: Nexus Between New Residential Development and Jobs . 11

Step 1. Define Residential Housing Types 11

Step 2. Household Incomes Required to Afford Housing 12

Step 3. Economic Impacts of New Households 14

Steps 4-5 Calculations and Results: Nexus Between Jobs and AFfordable Housing Demand 15

Step 4. New Worker Households and Annual Household Incomes 15

Step 5. Demand for Affordable Housing from New Worker Households 15

Steps 6-8 Calculations and Results: Affordable Housing Funding Gap 17

Step 6: Estimate Affordable Housing Development Costs 17

Step 7: Estimate Worker Household Contribution 18

Step 8: Calculate the Funding Gap 20

Step 9 Calculations and Results: Maximum Residential Impact Fees 21

III. POLICY CONSIDERATIONS AND FINDINGS 22

Fees Charged in Neighboring Jurisdictions 22

AB 602 and Level of Service Analysis 24

Current Level of Service for Affordable Housing 25

Maintaining or Increasing Level of Service 25

Financial Feasibility and Impact Fee Scenarios 26

Summary of Findings and Conclusions 35

Findings 35

Conclusions 36

APPENDIX I: OCCUPATION DISTRIBUTION AND NEXUS ANALYSIS ASSUMPTIONS 37

APPENDIX II: FINANCIAL FEASIBILITY ASSUMPTIONS 41

Cost Assumptions 41

Revenue Assumptions 42

Table of Figures

Figure 1: Prototypes Used in Nexus Analysis 12
Figure 2: Assumptions for Calculating Household Income 13
Figure 3: Annual Income Requirement Calculations, Ownership 13
Figure 4: Assumptions and Income Requirement Calculations for Small Scale Rental Apartments, Gilroy 14
Figure 5: Jobs Created per 1,000 Households in Each Prototype, Based on Gilroy Sales Prices 14
Figure 6: Assumptions Used to Adjust for Workers per Household and Household Size 15
Figure 7: Santa Clara County Household Income Categories, 2024 16
Figure 8: Total Households per Housing Unit Requiring Affordable Housing, Medium Single-Family. 16
Figure 9: Total Households per Housing Unit Requiring Affordable Housing, Townhomes 17
Figure 10: Total Households per Housing Unit Requiring Affordable Housing, Small Scale Rental Apartments 17
Figure 11: Average Development Costs per Unit 18
Figure 12: Affordable Rents by Income Level and Bedroom Count 18
Figure 13: Supportable Debt per Affordable Unit 19
Figure 14: Affordable Sales Price for a Moderate-Income Household for a 2-bedroom Townhome ... 20
Figure 15: Funding Gap Calculation for Rental Housing by Income Group 20
Figure 16: Funding Gap Calculation for Ownership Housing 21
Figure 17: Average Funding Gap for Very Low-, Low-, and Moderate-Income Households 21
Figure 18: Calculation of Maximum Residential Impact Fees 21
Figure 19: Ownership Residential Impact and In-Lieu Fees in Santa Clara County Jurisdictions, by Housing Type, 2025 23
Figure 20: Rental Residential Impact and In-Lieu Fees in Santa Clara County Jurisdictions, by Housing Type, 2025 24
Figure 21: Level of Service Definition for Affordable Housing 25
Figure 22: Current Level of Service for Affordable Housing in Gilroy, 2025 25
Figure 23: Fee Required to Maintain Current Level of Service, with and without External Funding ... 26
Figure 24: Fee Required to Meet all Affordable Housing Need, with and without External Funding .. 26
Figure 25: Prototypes Evaluated in Feasibility Analysis 27
Figure 26: Financial Feasibility per Unit without Residential Impact Fee in Gilroy 29

Figure 27: Impact Fee per Net Square Foot for Each Prototype, by Impact Fee Scenario..... 30

Figure 28: Summary of Impact Fee Scenario Outcomes for Residual Land Value, Ownership Units . 31

Figure 29: Contribution of Municipal and Residential Impact Fees to Total Development Costs in Gilroy, by Fee Scenario, Ownership Prototypes..... 32

Figure 30: Summary of impact Fee Scenario Outcomes for Residual Land Value, Small Scale Rental Apartments..... 33

Figure 31: Contribution of Municipal and Residential Impact Fees to Total Development Costs in Gilroy, by Fee Scenario, Small Scale Rental Apartments 34

Figure 32: Total Residential Impact Fee per Unit, by Scenario and Prototype, Gilroy..... 35

Figure 33: Jobs per 1,000 Units in Nexus by Occupation and Corresponding Household Income - Medium Single-Family..... 37

Figure 34: Jobs per 1,000 Units in Nexus by Occupation and Corresponding Household Income – Townhomes 38

Figure 35: Jobs per 1,000 Units in Nexus by Occupation and Corresponding Household Income – Small Scale Rental Apartments 39

Figure 36: New Worker Households, Affordability Requirements, and Maximum Fee per Square Foot, per Unit in Prototype 40

Figure 37: Detailed Cost Assumptions for Ownership Prototypes in Gilroy..... 41

Figure 38: Gilroy Municipal Fee Estimates per Prototype - Ownership and Rental Prototypes 42

Figure 39: Market Rate Ownership Pro Forma Revenue Assumptions..... 42

Figure 40: Market Rate Rent per Unit Assumptions..... 43

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 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 (this report); The Residential Feasibility Study and Inclusionary Analysis; and The Commercial Linkage Fee Study. Each jurisdiction has opted into one, two, or all three components of the study.

The first part of this report contains a residential nexus analysis, or legal basis for enacting an impact fee on new residential development. The second part focuses on financial feasibility and other policy considerations before making findings for the adoption of a new or revised residential impact fee.

BACKGROUND ON RESIDENTIAL IMPACT FEES

Residential impact fees are used to mitigate the impact of an increase in affordable housing demand associated with new market rate housing in a community. Development of new market rate housing in a community increases its housing supply and results in population growth. New residents in a city spend money on local goods and services, and this spending spurs new employment in response to increased demand. While some of these new jobs will pay salaries that allow workers to rent or purchase local housing at market rates, many new jobs will pay lower wages. As a result, new workers earning insufficient income to afford market rate housing create demand for publicly supported affordable housing. The nexus analysis establishes a connection between households in new market rate housing and the number of new worker households that would need affordable housing—formulating the basis for a residential impact fee.

REPORT ORGANIZATION

The remainder of this report is organized into two sections:

- Section II. Residential Nexus Analysis, describes the methodology used for the nexus analysis, the nexus results, and the corresponding maximum justifiable residential impact fees associated with each residential housing type. Following standard practice, the nexus analysis used countywide data to model household spending patterns, industry mix, and employment.

Therefore, this analysis was largely a shared analysis among the several jurisdictions participating in the study, with certain customizations specific to the housing market in Gilroy.

- Section III, Policy Considerations and Findings, presents policy context and findings tailored to the City of Gilroy. This section reviews impact fees charged in nearby jurisdictions, how residential impact fees could affect the financial feasibility of housing development, and how impact fees relate to the production of affordable housing units within the jurisdiction. The latter analysis fulfills the requirements of AB 602, the State of California's requirements for impact fees as of 2022. Lastly, the Summary of Findings and Conclusions portion of this section presents Strategic Economics' overall findings for potential impact fees in Gilroy.

The report also includes two appendices:

- Appendix I: Occupation Distribution and Nexus Analysis Assumptions
- Appendix II: Financial Feasibility Assumptions.

II. Residential Nexus Analysis

This section quantifies the nexus between new residential development in Gilroy and the resulting need for affordable housing. Strategic Economics used an established step by step methodology to calculate the relationships between new, market rate residential development, the households that purchase or rent these units, the household spending that results, and new employment that is generated as a result of this spending. A portion of these new worker households will be unable to afford housing at market rates. The nexus analysis then estimates the total funding required to meet this affordable housing need, resulting in a maximum justifiable fee level that could be charged on new, market rate development.

As described in the methodology section below, **the nexus analysis is performed on designated residential prototypes that are tailored to, and represent, the range of market rate development *in Gilroy*. However, the economic impact of new development in Gilroy is experienced *regionwide*.** A large portion of spending by households in Gilroy occurs outside of Gilroy in other parts of the region. Therefore, the new jobs generated by the spending, and the resulting need for affordable housing, also occur at a regional scale.

The conventional unit of analysis for these regional effects is the county or metropolitan statistical area (MSA). While a portion of household spending will occur outside the county or MSA, data on household spending, industry, and employment patterns are maintained by the Bureau of Labor Statistics (BLS) at a countywide level. Average wages are expressed for the San José-Sunnyvale-Santa Clara MSA. **For this reason, employment patterns, wages, and household incomes reflect countywide or MSA averages, rather than Gilroy averages.** Although development generally causes a regional impact on worker household growth and affordable housing demand, the purpose of the nexus analysis is to calculate the fee necessary to mitigate the impact of development within a jurisdiction on the county or wider region.

The maximum justifiable fee is expressed in this analysis as a fee per square foot of development. Effective in 2022, the AB 602 legislation mandates that a nexus study "shall calculate a fee imposed on a housing development project proportionately to the square footage of proposed units of the development" (Cal. Gov. Code § 66015.5[a]), unless a rationale for an alternative basis for calculating the fee is provided. It is standard practice for residential impact fees for affordable housing in California to be charged based on residential square feet (or the net new square feet if the project involves the demolition of existing residential floor area).

While the maximum justifiable fee found in the nexus study establishes a legal upper limit, in practice cities typically adopt impact fees at a level that is significantly lower than the maximum. The next section considers other policy factors specific to the City of Gilroy, along with the nexus-supported maximum, before making findings for updating the City's fee program.

This section begins with a general overview of the residential nexus methodology, followed by the specific results in each step of the analysis, and concludes with the maximum justifiable residential impact fees.

METHODOLOGY

Strategic Economics carried out seven steps of analysis to calculate the nexus between new housing development and fees for affordable housing. An overview of the methodology is provided below.

STEPS 1-3: NEXUS BETWEEN NEW RESIDENTIAL DEVELOPMENT AND JOBS

The first phase of the nexus analysis, steps one through three, describes the range of typical residential developments in Santa Clara County and estimates the new household spending associated with those developments. The methodology used for each step is described below.

Step 1. Define residential housing types

Strategic Economics defined three prototypical development types, or "residential prototypes," to which residential impact fees could be applied in Gilroy. The prototypes were tailored to reflect the range of typical market rate developments in Gilroy. These were defined based on a review of recent development trends, pipeline projects, and market data for the city and Gilroy market area. The prototype definitions include information on the building characteristics, net residential area, unit mix and sizes, and sales prices or rents.

Step 2. Estimate household income of buyers and renters of new market rate units.

To estimate the average gross household income required to purchase or rent new market rate units, Strategic Economics evaluated the market value or rents of new units. This estimate used generalized assumptions for rents and sales prices typical of the Gilroy market area. For ownership units, Strategic Economics assumed typical mortgage terms and assumed that buyers spend 35 percent of their gross incomes on housing costs. For rental units, Strategic Economics assumed that renter households spend 30 percent of their gross incomes on housing.

Step 3. Estimate economic impacts of new buyers and renters.

Strategic Economics used the IMPLAN model to calculate countywide job impacts from new residential development, based on the household income needed to afford the average unit in each residential prototype. The IMPLAN model uses the Bureau of Labor Statistics' Consumer Expenditure Survey data to model the spending patterns of different income groups. For each prototype, IMPLAN models the associated household expenditures in Santa Clara County, the number of new workers related to those expenditures, and the distribution of those jobs by industry.

STEPS 4-5: NEXUS BETWEEN JOBS AND AFFORDABLE HOUSING DEMAND

Steps four and five of the nexus analysis connect the household spending and employment outputs estimated in the previous section with the affordable housing need associated with each prototype. The methodology used for each step is described below.

Step 4. Estimate the number of new worker households and annual household incomes.

For each prototype, Strategic Economics used IMPLAN's job estimates by industry and the Bureau of Labor Statistics (BLS)' national Industry-Occupation-Matrix to estimate the number of workers in each occupation created by the household spending associated with that prototype. The average wage for each worker was calculated using data on average annual wages by occupation in the San Jose-Sunnyvale-Santa Clara Metropolitan Statistical Area from the BLS. The average worker's wage was

multiplied by the number of workers per household in the county, based on the U.S. Census, to derive an average gross income for worker households. This step assumes that the income of the second wage-earner is similar to that of the first wage-earner.

Step 5. Calculate the number of households that would be eligible for affordable housing, divided into relevant income categories.

Based on household incomes calculated in step four, worker households were categorized by income group (very low-income, low-income, moderate-income, and above moderate-income) using Santa Clara County's average household size and the California Department of Housing and Community Development (HCD) 2024 table of income limits for affordable housing categories. The average household size in Santa Clara County is 2.9 people, based on the U.S. Census' American Community Survey 5-Year Estimates for 2019-2023. Because household income tables are organized by whole numbers, the average household size was rounded up to three persons. The number of worker households in very low-, low-, and moderate-income groups constitute the affordable housing demand. Above-moderate-income households were excluded from this demand calculation because, although many in this group may still be unable to afford housing at market rates, they are generally outside the scope of affordable housing programs that receive public funding.

STEPS 6-8: AFFORDABLE HOUSING FUNDING GAP

The affordable housing funding gap (funding gap) represents the difference between what new worker households can afford to pay for housing and the typical cost of developing housing to meet this need. To calculate the affordable housing funding gap, Strategic Economics first estimated the development costs of affordable rental and ownership housing. Next, Strategic Economics estimated the worker household's contribution based on the maximum rents and sales prices for each relevant income group. Finally, the funding gap was calculated based on the portion of development costs that must be secured from outside sources after subtracting the worker household's contribution.

Step 6: Estimate Affordable Housing Development Costs

Strategic Economics estimated development costs for rental units based on California Tax Credit Allocation Committee (TCAC) data on recent affordable housing project proposals in Santa Clara County. Ownership units were assumed to be modestly sized townhomes with costs based on development cost research performed as part of this project's feasibility study.

Step 7: Estimate Worker Household Contribution

The approach to calculating the estimated worker household contribution varies by rental versus ownership housing. For rental housing, the worker household contribution was based on a calculation of a "supportable debt," or the amount of the housing's development cost that could be financed with rental income from these households. For ownership housing, the worker household contribution is simply the income-restricted sales price of the affordable unit. Strategic Economics assumed that very low- and low-income households would occupy rental housing, and the moderate-income group would occupy an even mix of rental and ownership housing.

Step 8: Calculate the Funding Gap

Strategic Economics calculated the funding gap as the difference between the development cost calculated in Step 6 and the worker contribution calculated in step 7. The funding gap for very low-

and low-income households is the funding gap for rental housing, while the funding gap for moderate-income households is an average of the funding gaps for rental and ownership housing.

STEP 9: MAXIMUM RESIDENTIAL IMPACT FEES

Step 9. Estimate nexus-based fees for each prototype.

The maximum residential impact fee for each prototype was based on the total affordable housing funding gap, as calculated in the previous step, across all worker household income groups. The maximum fee per square foot was then calculated by dividing this aggregate funding gap for each prototype by each prototype's total square feet of residential area.

STEPS 1-3 CALCULATIONS AND RESULTS: NEXUS BETWEEN NEW RESIDENTIAL DEVELOPMENT AND JOBS

This subsection describes the results of the first phase of residential nexus calculations, focusing on the connection between new residential development and new employment in Santa Clara County.

Step 1. Define Residential Housing Types

Strategic Economics reviewed recent housing development and current housing proposals in participating jurisdictions to identify typical patterns for residential development in Santa Clara County. The purpose of this analysis was to identify a set of residential "prototypes"—generic housing development concepts that represent the range of residential product types and the household income levels those product types are likely to attract. The prototypes are not intended to mirror individual development projects; rather, Strategic Economics chose a set of prototypes to represent the range of possible future projects to which a residential impact fee or inclusionary housing policy could be applied.

Of the full set of prototypes analyzed in the Grand Nexus Study, Strategic Economics identified three to represent the range of small-scale residential developments most likely to occur in Gilroy.[1] The residential nexus analysis focuses on those housing types that are likely to be developed with ten or fewer units: single-family homes and townhomes.[2] Figure 1 shows a summary of each of the three ownership prototypes examined in the nexus analysis, described below:

- The **Medium Single-Family** prototype represents a typical new single-family detached unit in Gilroy with 2,750 square feet and a sales price of $1.3 million.
- The **Townhome** prototype represents a typical new single-family attached unit in Gilroy with an average of 1,678 square feet and a sales price of $785,000.
- The **Small Scale Rental Apartments** prototype represents a three-story multifamily building in Gilroy with an average unit size of 955 square feet.

[1] Strategic Economics selected a different set of prototypes for jurisdictions in northern Santa Clara County due to the significantly different development patterns in that part of the county.

[2] The remainder of residential prototypes were larger multifamily projects; these prototypes were included in other reports for the Grand Nexus project, such as inclusionary housing policies or the residential nexus analysis for Gilroy.

FIGURE 1: GILROY-SPECIFIC PROTOTYPES USED IN NEXUS ANALYSIS

	Medium Single-Family	Townhome	Small Scale Rental Apartments
Average Unit Size (square feet)	2,750	1,678	955
Gross Residential Square Feet per Unit	2,750	1,678	1,123
Average Sales Price	$1,300,000	$785,000	N/A
Sales Price per Square Foot	$1,200	$1,001	N/A
Average Annual Rent	N/A	N/A	$31,680

Sources: Cities and Towns in Santa Clara County, 2025; Redfin, 2025; Strategic Economics, 2025.
Note: More details about residential prototypes are provided in the feasibility section of this report.

Step 2. Household Incomes Required to Afford Housing

Strategic Economics modeled the household incomes associated with the prototypes based on the total cost of owning or renting each prototype.

For ownership housing, Strategic Economics calculated household income requirements for the Medium Single-Family and Townhome prototypes based on their estimated sales prices, as shown in Figure 1, as well as typical financing and ownership cost assumptions. Strategic Economics used two groups of sales prices to calculate household incomes and consequent household spending for the nexus model: one for northern Santa Clara County cities and one for Gilroy.[3] The sales prices shown in Figure 1 reflect recent market trends in the Gilroy market area.

Income requirement calculations considered all major monthly costs of homeownership, such as mortgage costs, taxes, utilities, and insurance. These assumptions are summarized in Figure 2. Key assumptions included a 20 percent down payment, a 6.7 percent mortgage interest rate, and a 30-year mortgage. The townhome prototype also accounted for homeowner association (HOA) fees. These costs were based on a review of HOA fees in similar townhome developments in Santa Clara County. Strategic Economics also assumed that housing costs should account for no more than 35 percent of a household's monthly income.

[3] Note: these are not the same sales price assumptions used in the feasibility analysis. Sales prices in each location were adjusted for the feasibility analysis to tailor it to each jurisdiction—as described in Section IV.

FIGURE 2: ASSUMPTIONS FOR CALCULATING HOUSEHOLD INCOME

	Assumption	Basis
Loan Type	Conventional	
Down Payment	20%	Share of Sales Price
Loan-To-Value (LTV) Ratio	80%	Share of Sales Price
Interest Rate (Annual)	6.65%	
Term of Loan (Years)	30	
Share of Monthly Income to Spend on Housing	35%	
Homeowner Association Dues (Monthly, Townhomes, Santa Clara County)	$0.24	per square foot
Utility Costs	Variable	Based on housing type, bedrooms, and size
Property Tax Rate (Annual)	1.21%	Share of Sales Price
Homeowner's Insurance	0.32%	Share of Sales Price

Sources: Freddie Mac, 2025; Redfin, 2025; Ownwell, 2025; Santa Clara County Housing Authority, 2024; Strategic Economics, 2025.
Note: Utility costs were estimated based on the Santa Clara County Housing Authority's utility allowance for affordable housing units, based on property type and bedroom count. This assumption does not account for a unit's square footage.

Income requirements for ownership housing vary from $181,000 for the average townhome to $272,000 for the medium single-family home. Strategic Economics imputed household incomes by assuming the total of mortgage payments and all other monthly housing costs would represent 35 percent of household income. Figure 3 shows the results of this calculation.

FIGURE 3: ANNUAL INCOME REQUIREMENT CALCULATIONS, OWNERSHIP

	Medium Single-Family	Townhome (Average Unit)
Square Feet	2,750	1,678
Bedrooms	4-BD	1-BD to 4-BD
Sale Price	**$1,300,000**	**$785,000**
Down Payment	$260,000	$157,000
Monthly Mortgage Payment	$5,763	$3,480
Other Monthly Expenses		
Utilities	$518	$414
HOA Dues		$400
Property Taxes	$1,307	$789
Hazard & Casualty Insurance	$347	$209
Total Monthly Cost	$7,935	$5,293
Share of Income	35%	35%
Required Annual Income	**$272,065**	**$181,469**

Sources: Redfin, 2025; Ownwell, 2025; Freddie Mac, 2024; Strategic Economics, 2025.

For the Small Scale Rental Apartments prototype, Strategic Economics estimated market rents for new construction apartments based on trends in the Gilroy market area. Monthly utility costs were assumed to be the same as the utility cost allowances published by the Santa Clara County Housing Authority. Strategic Economics then imputed household incomes by assuming combined rent and utility costs constitute 30 percent of household income.

The required annual incomes shown in Figure 3 and Figure 4 were used to model household spending in the next step.

FIGURE 4: ASSUMPTIONS AND INCOME REQUIREMENT CALCULATIONS FOR SMALL SCALE RENTAL APARTMENTS IN GILROY

	Studio	1-BD	2-BD	3-BD	Average
Share of Units	10%	40%	40%	10%	
Market Rate Rent	$2,000	$2,250	$3,000	$3,400	**$2,640**
Monthly Utility Costs	$85	$94	$119	$144	
Annual Costs	$25,020	$28,128	$37,428	$42,528	
Cost Share Assumption	30%	30%	30%	30%	
Required Income	$83,400	$93,760	$124,760	$141,760	

Sources: CoStar, 2025; Santa Clara County Housing Authority, 2025; Strategic Economics, 2025.

Step 3. Economic Impacts of New Households

Strategic Economics used an IMPLAN model, using data for Santa Clara County, to estimate the relationship between new households in Gilroy, their spending, and new employment spurred by household spending. IMPLAN uses the Bureau of Labor Statistics' Consumer Expenditure Survey to estimate household spending patterns. The IMPLAN model uses household spending distributions, a household's total income, and industry job and supply chain data to model the total jobs in each industry in Santa Clara County created by household spending as that spending flows through the local economy. Figure 5 shows the top ten industries, and total jobs supported by spending per 1,000 new housing units in each prototype.

FIGURE 5: JOBS CREATED IN SANTA CLARA COUNTY PER 1,000 HOUSEHOLDS IN EACH PROTOTYPE

		Jobs Created in Industry per 1,000 New Housing Units		
4-Digit NAICS	Industry	Medium Single-Family	Townhomes	Small Scale Rental Apartments
7225	Restaurants and other eating places	55	56	46
6241	Individual and family services	29	21	18
6221	General medical and surgical hospitals	19	17	22
4451	Grocery and convenience retailers	11	12	10
5239	Other financial investment activities	18	7	6
6211	Offices of physicians	9	11	9
8121	Personal care services	9	9	8
8111	Automotive repair and maintenance	7	7	7
6216	Home health care services	7	6	7
8131	Religious organizations	8	6	4
All Other Industries		235	213	203
Total Jobs Created		**407**	**363**	**341**

Sources: IMPLAN, 2025; Strategic Economics, 2025; Applied Economics, 2025.

STEPS 4-5 CALCULATIONS AND RESULTS: NEXUS BETWEEN JOBS AND AFFORDABLE HOUSING DEMAND

This subsection describes the results of the second phase of residential nexus calculations, focusing on the connection between new employment in Santa Clara County and the need for affordable housing.

Step 4. New Worker Households and Annual Household Incomes

The next step in the nexus analysis was to identify the connection between countywide jobs created from household spending and new worker wages. This calculation relied on the Bureau of Labor Statistics' (BLS) national industry-occupation matrix, which describes the share of workers by occupation employed by all industries nationwide. The national BLS occupational matrix is then calibrated to match the county's employment mix by weighting the national employment distribution to reflect the distribution of employment by industry within Santa Clara County. Strategic Economics combined this matrix with local occupational wage statistics describing average wages in each occupation in the San Jose-Sunnyvale-Santa Clara MSA to estimate worker wages for each prototype.

The model also accounted for the average number of workers in a household contributing to overall household income. On average, there are 1.5 workers per household in Santa Clara County, as shown in Figure 6. To calculate the number of households added to Santa Clara County as a result of new jobs, Strategic Economics divided the total number of workers in each occupation by 1.5.

Each household's total income, and therefore its affordable housing need, is also impacted by its number of wage-earners. Thus, to calculate household incomes for each occupation, Strategic Economics multiplied the average wage for that occupation by 1.5. For example, if new housing creates three new workers for an occupation that pays, on average, $100,000, the model would estimate that the housing adds two new households in Santa Clara County, each with an average income of $150,000.

The final result of this step of analysis is a list, for each housing prototype, of every occupation supported by new household spending, the number of households associated with that occupation, and the average household income of those households. Figure 6 also shows the average household size, which was used in step five.

FIGURE 6: ASSUMPTIONS USED TO ADJUST FOR WORKERS PER HOUSEHOLD AND HOUSEHOLD SIZE

Category	Assumption
Number of Wage Earners per Worker Household (Rounded; Santa Clara County)	1.5
Average Household Size (Rounded; Santa Clara County)	3

Sources: ACS Community Survey 5-Year Estimates, 2023; Strategic Economics, 2025.

Step 5. Demand for Affordable Housing from New Worker Households

Total household incomes for each occupation were then compared to the County's household income categories to determine the proportion of new households associated with each housing prototype falling into each income category. HCD annually publishes a table of income levels qualifying as extremely low-, very low-, low-, and moderate-income in every California county. This table is based on

each county's area median income (AMI), and accounts for the number of people in each household—as shown in Figure 7. Strategic Economics used this table to designate household income categories for workers and households in every occupation, using the three-person household income limits shown in Figure 7. This assumption aligns with Santa Clara County's average household size, as shown in Figure 6. **Because jobs are generated at a countywide scale, average wages and incomes reflect countywide averages rather than averages for the City of Gilroy.**

FIGURE 7: SANTA CLARA COUNTY HOUSEHOLD INCOME CATEGORIES, 2024

	Number of Persons in Household					
Income Category	**1**	**2**	**3**	**4**	**5**	**6**
Extremely Low (30% AMI or lower)	38,750	44,250	**49,800**	55,300	59,750	64,150
Very Low-Income (<=50% AMI)	64,550	73,750	**82,950**	92,150	99,550	106,900
Low-Income (51- 80% AMI)	102,300	116,900	**131,500**	146,100	157,800	169,500
Moderate-Income (81-120% AMI)	154,800	176,900	**199,050**	221,150	238,850	256,550

Source: California Department of Housing and Community Development, 2024; Strategic Economics, 2024.
Note: Household income limits are for 2024 rather than 2025 in order to be more consistent with the period of average wage data estimates from the Bureau of Labor Statistics.

For each of the prototypes, approximately 82 percent of new worker households supported by new resident spending would require affordable housing. Figure 8, Figure 9, and Figure 10 show the number of new worker households, and the share of those households earning moderate-income levels or below, per new housing unit in each housing prototype. For every housing unit in the medium single-family prototype, 0.54 new households would require affordable housing. For every housing unit in the townhome prototype, 0.2 new households would require affordable housing. Lastly, for every housing unit in the small scale rental apartments prototype, 0.23 new households would require affordable housing in Santa Clara County.

FIGURE 8: TOTAL WORKER HOUSEHOLDS GENERATED BY THE MEDIUM SINGLE-FAMILY PROTOTYPE, BY INCOME GROUP

Prototype	**Number of Worker Households**	**Percent of Workers in Prototype**
Medium Single-Family: Gilroy		
Extremely Low (<=30% AMI) (a)	-	0%
Very Low-income (31-50% AMI)	0.11	42%
Low-income (51-80% AMI)	0.07	25%
Moderate-income (81-120% AMI)	0.04	14%
Above 120% AMI (b)	0.05	18%
Total Households Requiring Affordable Housing	**0.22**	**82%**
Total Households Generated by Prototype	**0.27**	**100%**

Sources: CA HCD, 2024; IMPLAN, 2025; BLS, 2025; Strategic Economics, 2025; Applied Economics, 2025.
Notes:

a. The nexus analysis did not identify any extremely low-income households.
b. The number of households requiring affordable housing does not include households making above 120% AMI because these households are typically not targeted by affordable housing programs.

FIGURE 9: TOTAL WORKER HOUSEHOLDS GENERATED BY THE TOWNHOME PROTOTYPE, BY INCOME GROUP

Prototype	Number of Worker Households	Percent of Workers in Prototype
Townhomes: Gilroy		
Extremely Low-income (<=30% AMI) (a)	-	0%
Very Low-income (31-50% AMI)	0.11	46%
Low-income (51-80% AMI)	0.06	25%
Moderate-income (81-120% AMI)	0.03	13%
Above 120% AMI (b)	0.04	17%
Total Households Requiring Affordable Housing	**0.20**	**83%**
Total Households Generated by Prototype	**0.24**	**100%**

Sources: CA HCD, 2024; IMPLAN, 2025; BLS, 2025; Strategic Economics, 2025; Applied Economics, 2025.
Notes:
a. The nexus analysis did not identify any extremely low-income households.
b. The number of households requiring affordable housing does not include households making above 120% AMI because these households are typically not targeted by affordable housing programs.

FIGURE 10: TOTAL WORKER HOUSEHOLDS GENERATED BY THE SMALL SCALE RENTAL PROTOTYPE, BY INCOME GROUP

Prototype	Number of Worker Households	Percent of Workers In Prototype
Small Scale Rental Apartments: Gilroy		
Extremely Low-income (<=30% AMI) (a)	-	0%
Very Low-income (31-50% AMI)	0.10	43%
Low-income (51-80% AMI)	0.06	27%
Moderate-income (81-120% AMI)	0.03	13%
Above 120% AMI (b)	0.04	17%
Total Households Requiring Affordable Housing	**0.19**	**83%**
Total Households Generated by Prototype	**0.23**	**100%**

Sources: CA HCD, 2024; IMPLAN, 2025; BLS, 2025; Strategic Economics, 2025; Applied Economics, 2025.
Notes:
a. The nexus analysis did not identify any extremely low-income households.
b. The number of households requiring affordable housing does not include households making above 120% AMI because these households are typically not targeted by affordable housing programs.

STEPS 6-8 CALCULATIONS AND RESULTS: AFFORDABLE HOUSING FUNDING GAP

Strategic Economics compared affordable housing development costs with expected revenue to calculate the funding gap for households requiring affordable housing in Santa Clara County. The funding gap is the difference between the worker household contribution for each affordable unit—based on what these households can afford to pay—and the cost to develop the unit.

Step 6: Estimate Affordable Housing Development Costs

Strategic Economics calculated development costs for affordable townhome and rental units based on California Tax Credit Allocation Committee (TCAC) data and market research on development costs for market rate homes. The assumption for average development cost per unit, for both unit types, is shown in Figure 11. Townhome costs were modeled by adjusting development cost assumptions for the market rate prototype in the feasibility study, to account for the reduced costs of land, building amenities, and municipal fees that an affordable project would have in comparison to a market rate project. Rental apartment development costs were calculated using TCAC application data detailing budgets of a sample of recent affordable housing projects in Santa Clara County.

FIGURE 11: AVERAGE DEVELOPMENT COSTS PER UNIT

Unit Type	Unit Cost
Rental Apartment	$825,000
Townhome	$1,000,000

Source: California Tax Credit Allocation Committee, 2024; Strategic Economics, 2025.

Step 7: Estimate Worker Household Contribution

The next step in calculating the funding gap is to determine the amount that households at the targeted income levels can afford to pay for housing. Most affordable housing programs define very low-income households as those earning 31 to 50 percent of area median income, low-income households as those earning between 51 and 80 percent of AMI, and moderate-income households as those earning between 81 and 120 percent of AMI.

Strategic Economics assumed that households with incomes in the very low- to low-income range would live in rental housing. Households in the moderate-income range were assumed to live in a mix of rental and ownership housing. While the nexus analysis identified some new worker households that would fall above the moderate-income range (above 120 percent of AMI), Strategic Economics did not calculate a funding gap for this group because affordable housing programs are not generally available to households with incomes above 120 percent of AMI.

Figure 12 shows the maximum monthly rents for households in each income category. For rental housing to be affordable, renters must pay no more than 30 percent of their gross monthly income on housing costs. The maximum rent was calculated after deducting utility costs (published by the Santa Clara County Housing Authority) from 30 percent of the highest monthly income in each income range. To calculate an average rent, for the purpose of funding gap calculations, Strategic Economics estimated a weighted average rent for each income level based on the average distribution of bedrooms in representative affordable housing projects in Santa Clara County.

FIGURE 12: AFFORDABLE RENTS BY INCOME LEVEL AND BEDROOM COUNT

	Studio	1-BR	2-BR	3-BR	Weighted Average
Percentage of Units	30%	20%	30%	20%	
Maximum Monthly Rent					
Very Low-Income (50% AMI)	$1,529	$1,750	$1,955	$2,160	**$1,827**
Low-Income (80% AMI)	$2,473	$2,829	$3,169	$3,509	**$2,960**
Moderate-Income (120% AMI)	$3,785	$4,329	$4,857	$5,385	**$4,535**

Source: Strategic Economics, 2025; CA HCD, 2024; Santa Clara County Housing Authority, 2024.

Strategic Economics calculated the worker household contribution for rental units as the amount of development costs that could be funded with a market rate loan. This loan amount, called the supportable debt, represents the portion of a housing project's funding stack that could be repaid with ongoing rental income from these worker households.

To calculate the supportable debt, Strategic Economics converted the affordable rents to an annual operating income by applying assumptions about average vacancy rates and operating expenses. The loan amount that could be supported by that income was then estimated using assumptions about the typical terms of such a loan in the current market.

FIGURE 13: SUPPORTABLE DEBT PER AFFORDABLE UNIT

	Very Low-Income	Low-Income	Moderate-Income	Calculation
% of Area Median Income	50% AMI	80% AMI	120% AMI	
Maximum Monthly Rent *(A)*	$1,827	$2,960	$4,535	
Annual Gross Scheduled Income *(B)*	$21,923	$35,516	$54,424	*A*12 months*
Net Operating Income *(C)*	$12,375	$24,812	$44,063	*B - $9,000 - (A*.025)* (1)
Available for Debt Service *(D)*	$10,761	$22,286	$38,316	*C / 1.15* (2)
Supportable Debt	$137,239	$284,213	$488,650	*Present Value (D)* (3)

(1) Assumes 2.5% vacancy and $9,000 annual operating costs per unit.
(2) Assumes 1.15 debt service coverage ratio.
(3) Calculated as the debt that can be supported by the net operating income generated by an affordable monthly rent at current multifamily mortgage terms (6.73% interest rate and 30-year loan).
Sources: Strategic Economics, 2025; U.S. Department of the Treasury, 2025.

To calculate the worker household contribution to ownership housing, Strategic Economics considered all major recurring monthly costs of homeownership and calculated the maximum income-restricted sales price. Figure 14 shows the maximum sales prices for homeowners in a two-bedroom townhome unit. This unit size is consistent with the average household size in Santa Clara County—as shown in Figure 6.[4] The maximum affordable price for ownership housing was calculated based on the total monthly mortgage payment that a homeowner could afford, assuming no more than 30 percent of monthly income is spent on housing and using typical mortgage loan and cost assumptions for income-restricted ownership housing.

[4] Typical affordable housing calculations in California assume that the household's size will exceed the housing unit's bedroom count by one. Therefore, a household of three would require two bedrooms. Source: California HCD, 2025.

FIGURE 14: AFFORDABLE SALES PRICE FOR A MODERATE-INCOME HOUSEHOLD FOR A 2-BEDROOM TOWNHOME

	Moderate-Income	Source
% of Area Median Income	120% AMI	
Annual Income	$199,050	California Department of Housing and Community Development
Maximum Monthly Housing Cost	$4,976	
Monthly Deductions	$1,625	
Utilities	$357	Santa Clara County Housing Authority
HOA Dues	$264	Redfin
Property Taxes	$553	Ownwell
Private Mortgage Insurance	$305	Urban Institute Housing Finance Policy Center
Homeowner's Insurance	$147	Redfin
Monthly Income Available for Mortgage Payment	$3,352	
Maximum Mortgage Amount	$522,077	
Down Payment	$27,478	
Maximum Affordable Sales Price	$549,555	

Source: Strategic Economics, 2025.

Step 8: Calculate the Funding Gap

The final funding gap is the difference between the worker household contribution to housing and the development cost of providing that housing. The funding gap is used in the next step to determine a legally justifiable fee amount that could fully offset the impact of market rate housing on its resulting affordable housing demand.

The average funding gap for each income group was calculated by first estimating the funding gap for rental and ownership units separately—then averaging them together, as applicable. The funding gap for ownership units is simply the difference between the production cost of the units and the maximum affordable sales price.

Figure 15 shows the funding gap for rental apartments and Figure 16 shows the funding gap calculation for moderate-income townhome units. Figure 17 shows the combined funding gap for both ownership and rental housing at each income level. Since it is assumed that all households in the very low-income and low-income groups are renters, the average funding gap for those income ranges is simply the rental gap.

FIGURE 15: FUNDING GAP CALCULATION FOR RENTAL HOUSING BY INCOME GROUP

	Supportable Debt / Unit[a]	Development Cost / Unit[b]	Funding Gap[c]
Very Low-Income (50% AMI)	$137,239	$825,000	$687,761
Low-Income (80% AMI)	$284,213	$825,000	$540,787
Moderate-Income (120% AMI)	$488,650	$825,000	$336,350

(a) Calculated as the debt that can be supported by the net operating income generated by an affordable monthly rent at current multifamily mortgage terms.
(b) Based on the average per-unit cost of affordable rental units in four recent housing projects in Santa Clara County.
(c) Calculated as the difference between development costs and supportable debt.
Source: Strategic Economics, 2025.

FIGURE 16: FUNDING GAP CALCULATION FOR OWNERSHIP HOUSING

	Affordable Sales Price	Development Costs	Funding Gap
Moderate-Income (120% AMI)	$549,555	$1,000,000	$450,445

Source: Strategic Economics, 2025.

FIGURE 17: AVERAGE FUNDING GAP FOR VERY LOW-, LOW-, AND MODERATE-INCOME HOUSEHOLDS

Income Level	Rental Gap	Ownership Gap, Townhomes	Average Funding Gap
Very Low-Income (50% AMI)	$687,761	N/A	$687,761
Low-Income (80% AMI)	$540,787	N/A	$540,787
Moderate-Income (120% AMI)	$336,350	$450,445	$393,398

Note: The average funding gap for very low- and low-income households uses only rental gap calculations. For moderate-income households, the funding gap calculation is an average of both rental and ownership funding gaps.
Source: Strategic Economics, 2025.

STEP 9 CALCULATIONS AND RESULTS: MAXIMUM RESIDENTIAL IMPACT FEES

The maximum nexus-based fee for each market rate housing prototype is based on the sum of the funding gaps associated with all worker households generated by the prototype. Figure 18 summarizes the total funding gap for each housing prototype, and the corresponding maximum fee per square foot. A full breakdown of each worker household's income level and total funding gap for each prototype is provided in the Appendix, in Figure 36.

Of the three market rate housing prototypes, the Small Scale Rental Apartments prototype has the largest maximum justifiable impact fee, at $117 per square foot. Although household incomes for apartment units are, on average, lower than single-family and townhome housing types, the maximum fee amount is derived from the prototype's funding gap impact per square foot. Because apartment units are smaller, the maximum fee rate per square foot is higher. A similar pattern is apparent for the Townhome prototype ($70 per square foot) and the Medium Single-family prototype ($48 per square foot).

FIGURE 18: CALCULATION OF MAXIMUM RESIDENTIAL IMPACT FEES

	Medium Single-Family	Townhome	Small Scale Rental Apartment
Households Requiring Affordable Housing (per unit of prototype)	0.22	0.20	0.19
Average Funding Gap per Household	$591,354	$599,213	$595,424
Total Affordable Housing Funding Gap	**$130,996**	**$120,392**	**$111,705**
Prototype Net Square Feet per Unit	2,750	1,710	995
Max Fee per Net Sq. Ft.	**$48**	**$70**	**$117**

Sources: Strategic Economics, 2025; CA TCAC, 2025; CA HCD, 2025; BLS, 2025.

III. Policy Considerations and Findings

The previous section presented the maximum residential impact fees based on the nexus between new housing development and related demand for affordable housing from new worker households in Gilroy. These fees represent the maximum level that the City of Gilroy could charge as a residential impact fee for new market rate construction. However, most jurisdictions consider a variety of factors when setting a final impact fee, typically resulting in a fee level that is lower than the maximum fee. The purpose of this section is to summarize those key factors, help the City of Gilroy make an informed decision about establishing fee levels, and fulfill additional state requirements for changes or increases to a residential impact fee.

This section includes four parts. It begins with an overview of affordable housing fees charged on residential development in neighboring jurisdictions. This is followed by a series of analyses that fulfill the requirements of AB 602—State legislation governing changes to impact fees. This section also includes an overview of how different impact fee levels could impact the financial feasibility and total costs of new market rate housing development projects. Lastly, the section concludes with a summary of findings and conclusions the City could consider if it chooses an impact fee.

FEES CHARGED IN NEIGHBORING JURISDICTIONS

Strategic Economics summarized the affordable housing fee programs for small-scale residential developments for eight jurisdictions in Santa Clara County (the six study participants plus Cupertino and Palo Alto, see Figure 19 and Figure 20). Some of these fees are nexus-supported impact fees, while others were implemented as part of an affordable housing inclusionary policy, which does not require a nexus study.

It is typical for jurisdictions in Santa Clara County to charge the same affordable housing fee rate regardless of the size of the project, although some communities exempt very small developments from the fee. As shown in Figure 19 and Figure 20, eight of the ten jurisdictions Strategic Economics reviewed have an existing affordable housing requirement that applies to residential projects. While the Cities of Cupertino and Palo Alto apply the affordable housing fee to any size project, most jurisdictions exempt very small projects. Santa Clara exempts developments of fewer than three units, Los Gatos fewer than five units, Mountain View fewer than seven units. Sunnyvale exempts ownership projects of fewer than seven units and rental projects of fewer than three units, with a reduced fee on rental projects of between three and six units.

While most jurisdictions have in-lieu fees enabled by their inclusionary policies, Cupertino, Palo Alto, and the City of Santa Clara have affordable housing fees that are supported by a nexus study. Fees on all residential projects are nexus-supported in the Cities of Cupertino and Santa Clara (Figure 19), while Palo Alto has nexus-supported fees only on rental projects (Figure 20). Los Gatos, Mountain View, and Sunnyvale charge in-lieu fees that tend to be related to their inclusionary requirements and would not be possible independently of that policy.

Affordable housing fee levels vary widely among jurisdictions and housing types. Fees on ownership housing range from $21.87 per square foot (on single-family developments in Cupertino) to $148 (on townhome developments in Mountain View). Fees on rental projects are generally lower and range from $16 per square foot (Palo Alto) to $114 (Mountain View), although all but Mountain View have a fee level that is less than $37 per square foot. Fee levels may depend on the types of housing each

jurisdiction is trying to incentivize, the financial feasibility of fees on the different housing types, or whether the fee was based on a nexus calculation or based on an inclusionary in-lieu fee study.

Higher fee levels can be feasible when part of an inclusionary policy that limits payment of the fees to fractional units. For example, Mountain View has relatively high in-lieu fees but limits fee to fractional units created by applying the onsite inclusionary percentage to projects of fewer than seven units.

FIGURE 19: OWNERSHIP RESIDENTIAL IMPACT AND IN-LIEU FEES IN SANTA CLARA COUNTY JURISDICTIONS, BY HOUSING TYPE, 2025

Location	Type of Fee	Applicable Size Range	Fee per Square Foot by Project Type		
			Single-Family	Townhome	Condos
Santa Clara	Nexus-Supported Impact Fee/In-Lieu Fee	Projects with 3 or more units	$45.72	$38.09	$30.48
Cupertino	Nexus-Supported Impact Fee	All Projects	$21.87	$24.05	$29.15
Gilroy	No residential impact or inclusionary policy				
Los Altos Hills	No residential impact or inclusionary policy				
Los Gatos	In-Lieu Fee	Projects with 5 or more units	6% of building permit valuation[1]		
Mountain View	In-Lieu Fee	Projects with fewer than 7 units; fractional units only	$65.00	$148.00	$65.00
Palo Alto	In-Lieu Fee	All projects	$100.00	$66.00	$66.00
Sunnyvale	In-Lieu Fee	Projects with 7 or more units	7% of Sales Price[2]		

Sources: City of Santa Clara, 2025; City of Cupertino, 2025; City of Gilroy, 2025; Town of Los Altos Hills, 2025; Town of Los Gatos, 2025; City of Mountain View, 2025; City of Palo Alto, 2025; City of Sunnyvale, 2025; Strategic Economics, 2025.

Notes:

1. Actual fee per square foot varies from project to project because permit valuation varies. Using hard cost assumptions from the feasibility study, this would be approximately $20 to $30 per square foot.
2. Based on feasibility analysis assumptions, seven percent of the sales price for these project types is approximately $70 to $90 per square foot.

FIGURE 20: RENTAL RESIDENTIAL IMPACT AND IN-LIEU FEES IN SANTA CLARA COUNTY JURISDICTIONS, BY HOUSING TYPE, 2025

Location	Type of Fee	Applicable Size Range	Fee per Square Foot, by Rental Project Type
Santa Clara	Nexus-Supported Impact Fee/In-Lieu Fee	Projects with 3 or more units	$30.48
Cupertino	Nexus-Supported Impact Fee	All Projects	<35 du/ac: $29.15 >35 du/ac: $36.44
Gilroy		No residential impact or inclusionary policy	
Los Altos Hills		No residential impact or inclusionary policy	
Los Gatos	In-Lieu Fee	Projects with 5 or more units	6% of building permit valuation[1]
Mountain View	In-Lieu Fee	Projects with fewer than 7 units can apply in-lieu fees to fractional units	$114.00
Palo Alto	Nexus-Supported Impact Fee	All Projects	$26.00
Sunnyvale	In-Lieu Fee[2]	Projects with 3 or more units	3-6 Units: $16.00 7+ Units: $32.00

Sources: City of Santa Clara, 2025; City of Cupertino, 2025; City of Gilroy, 2025; Town of Los Altos Hills, 2025; Town of Los Gatos, 2025; City of Mountain View, 2025; City of Palo Alto, 2025; City of Sunnyvale, 2025; Strategic Economics, 2025.

Notes:

1. Actual fee per square foot varies from project to project because permit valuation varies. Using hard cost assumptions from the feasibility study, this would be approximately $20 per square foot.
2. Sunnyvale implemented a nexus-supported residential impact fee in 2015 but replaced this with an inclusionary policy in 2019.

AB 602 AND LEVEL OF SERVICE ANALYSIS

In 2021, the California legislature imposed new requirements (Assembly Bill 602 [2021-2022]) on impact fee nexus studies conducted on or after January 1, 2022. The legislation applies to any new residential nexus studies. AB 602 requires nexus studies to "identify the existing level of service for each public facility, identify the proposed new level of service, and include an explanation of why the new fee level of service is appropriate." (Cal. Gov't Code Section 66016.5(a)(2)). If a nexus study supports the increase of a fee, AB 602 requires each jurisdiction to "review the assumptions of the nexus study supporting the original fee" and to "evaluate the amount of fees collected under the original fee." (Cal. Gov't Code Section 66016.5(a)(4)).

This section provides an overview of the analyses completed to fulfill these requirements of AB 602. For the purposes of this analysis, Strategic Economics defined level of service for affordable housing in Gilroy as the amount of deed-restricted affordable housing in the city compared with the number of worker households. (This concept is described in more detail below.) As required by AB 602, the section also reviews the assumptions of the prior nexus study, provides an overview of fees collected under the original program, and, subject to the City's proposed fee policy, provides a justification for the new fee.

Note: Per the requirements of AB 602, implementation of an impact fee policy that results in an increased level of service requires that the nexus study identify and justify the proposed new level of service. Therefore, the "AB 602 and Level of Service Analysis" content will later be updated—via edits to this report or via a companion memo—to analyze and identify the level of service associated with the participating jurisdiction's preferred fee level. That fee level must be at or below the maximum justifiable fee level already identified in this study.

Current Level of Service for Affordable Housing

Based on City estimates, Gilroy has a total of nearly 1,500 affordable housing units available to worker households. Strategic Economics defined the "level of service" as the ratio of deed-restricted, "family" affordable units in the local jurisdiction to the number of households associated with the jurisdiction's current job total (See Figure 21). Estimates of total deed-restricted affordable housing units are shown in Figure 22. This calculation excludes senior units and special needs units because the workers associated with new household spending are most likely to be family households, rather than seniors or people with disabilities. Based on this calculation, Gilroy currently has 139 affordable housing units per 1,000 worker households.

FIGURE 21: LEVEL OF SERVICE DEFINITION FOR AFFORDABLE HOUSING

$$Level\ of\ Service = \frac{family\ affordable\ units}{worker\ households} = \frac{family\ affordable\ units}{\left[\frac{workers}{avg.workers\ per\ household\ in\ Santa\ Clara\ County}\right]}$$

FIGURE 22: CURRENT LEVEL OF SERVICE FOR AFFORDABLE HOUSING IN GILROY, 2025

	Value
Deed-restricted Family Affordable Housing [a]	1,500
Total Jobs Located in Jurisdiction [b]	16,139
Average Workers per Working Household [c]	1.5
Estimated Worker Households	10,759
Level of Service (per 1,000 Households)	**139**

Note: Level of Service is defined as the number of deed-restricted units per working household, but is expressed as a number per 1,000 working households for clarity.
Sources:
[a] Family affordable housing developments supplied by cities, 2025.
[b] Total primary jobs in jurisdiction, LEHD, 2025; Strategic Economics, 2025.
[c] Workers per Working Household in Santa Clara County, ACS 5-Year 2023; Strategic Economics, 2025.

Maintaining or Increasing Level of Service

To maintain this current level of service, the City of Gilroy would need to charge a residential impact fee of $8.13 per square foot for single-family homes, $11.82 for townhomes, and $19.74 per square foot for rental apartments. This fee level assumes that the impact fee would cover the full funding gap associated with maintaining the level of service. However, in most affordable housing projects, the local distribution covers only a small portion of total affordable housing subsidy; in Santa Clara County, the average is approximately 20 percent.[5] Thus, Figure 23 shows the fee required to maintain the jurisdiction's level of service in two scenarios: the first scenario assumes the residential impact fee would cover the full funding gap, while the second scenario assumes the fee would cover the typical 20 percent share of the funding gap based on recent averages. Depending on the housing type and funding scenario, fee levels required to maintain the current level of service range from $1.59 to $3.85.

[5] Based on review of California Tax Credit Allocation Committee (TCAC) applications for affordable housing projects in Santa Clara County from 2021 through 2025.

FIGURE 23: FEE REQUIRED TO MAINTAIN CURRENT LEVEL OF SERVICE, WITH AND WITHOUT EXTERNAL FUNDING

	Medium Single-Family	Townhome	Small Scale Rental Apartments
Worker Households per 1,000 Market Rate Units	271	242	227
Current Level of Service - Affordable Units per 1,000 Worker Households[1]	139	139	139
Number of Affordable Units (per 1,000 Market Rate Units) Required to Meet Level of Service	38	34	32
Funding Gap per Affordable Unit[2]	$591,354	$599,213	$595,424
Fee per Square Foot to Match Level of Service			
Full Funding Gap	$8.13	$11.82	$19.74
Match Prior Funding Contribution[3]	$1.59	$2.31	$3.85

Sources: Strategic Economics, 2025; ACS 5-Year, 2025; BLS, 2025; CA TCAC, 2025; CA HCD, 2025.
Notes:
1. From Figure 22.
2. From Figure 18.
3. Assumes a typical local funding share (19.5 percent) of all affordable housing funding needed to cover the funding gap.

The City of Gilroy would need to charge an impact fee of $48 to $117 per net square foot to meet all affordable housing need resulting from market rate and single-family development. The fee to cover the full funding gap refers to the maximum justifiable impact fee, as calculated in Figure 18. The fee to meet all affordable housing need based on typical local funding shares is approximately 20 percent of the maximum justifiable impact fee, $9 to $23—as shown in Figure 24.

FIGURE 24: FEE REQUIRED TO MEET ALL AFFORDABLE HOUSING NEED, WITH AND WITHOUT EXTERNAL FUNDING

	Medium Single-Family	Townhome	Small Scale Rental Apartments
Fee per Net Square Foot to Meet All Affordable Housing Need			
Full Funding Gap	$47.63	$70.40	$117.01
Match Prior Funding Contribution[3]	$9.30	$13.75	$22.85

Sources: Strategic Economics, 2025; ACS 5-Year, 2025; BLS, 2025; CA TCAC, 2025; CA HCD, 2025.
Notes:
1. From Figure 18.
2. Assumes a typical local funding share (19.5 percent) of all affordable housing funding needed to cover the funding gap.

FINANCIAL FEASIBILITY AND IMPACT FEE SCENARIOS

The purpose of this sub-section is to describe how residential impact fees could impact the financial feasibility of new housing development. Financial feasibility models measure the expected revenue and costs of a prospective housing development to determine whether that project would be financially viable to construct given market conditions. This section describes the methodology used to construct the financial feasibility model and analyzes the impact of various fee levels on financial performance of the residential prototypes.

FEASIBILITY ANALYSIS METHODOLOGY

To test feasibility, the analysis prototypes were further defined based on market research regarding the types and characteristics of new housing developed in the Gilroy market area over the past five years. These prototypes are summarized in Figure 25 and have the following characteristics:

- The **Medium Single-Family** prototype represents a typical new single-family detached unit in Northern Santa Clara County with 2,750 square feet, four bedrooms, and two parking spaces in a private garage.
- The **Townhome** prototype represents a typical new single-family attached housing project, with 30 units ranging in size from two to four bedrooms and from 1,400 to 2,000 square feet. Each townhome unit would be three stories tall, including a private two-car garage.[6]
- The **Small Scale Rental Apartments** prototype represents a 3-story development of rental flats with tuck-under and surface parking. The development includes studio, one-, two-, and three-bedroom units with an average unit size of 955 rentable square feet and a density of 36 units per acre.

FIGURE 25: PROTOTYPES EVALUATED IN FEASIBILITY ANALYSIS

	Medium Single-Family	Townhomes	Small Scale Rental Apartments
Tenure	Ownership	Ownership	Rental
Parcel Size (acres)	0.1	1.5	1.5
Number of Stories	2	3	3
Total Gross Square Feet	2,750	50,850	60,647
Number of Units	1	30	54
Average Unit Size (square feet)	2,750	1,710	955
Bedroom Types	4-BD	2-BD to 4-BD	Studio to 3-BD
Units per Acre	8	20	36
Parking Format	Private Garages	Private Garages	Surface + Tuck-Under
Residential Parking Ratio	2.00	2.00	2.00
Residential Parking Spaces	2	60	108

Sources: Strategic Economics, 2025; Redfin, 2025.
Note: The nexus analysis used a generalized unit mix because the analysis is based on a per unit average of common unit or project types. The prototype for the feasibility analysis was designed to provide a test of a specific hypothetical project, for both the impact fee analysis and the inclusionary analysis. For this reason, Strategic Economics calculated the exact number of units of each bedroom count for the townhome prototype: seven two-bedroom units; 15 three-bedroom units; and eight four-bedroom units.

Strategic Economics evaluated the financial feasibility of the analysis prototypes using a static pro forma model. A static pro forma model compiles the revenue, cost, and development return expectations for each housing project upon sale of all housing units. This model accounts for all hard costs, soft costs, municipal fees, financing costs, and the developer's target rate of return. Hard costs are the direct materials and labor costs used to prepare a site and construct the housing units. Soft costs are indirect expenses required to develop a project, such as architecture, engineering, taxes, legal, and insurance costs. The target return is a standard market return on investment the project would need to achieve to obtain financing.

Strategic Economics based model assumptions on current market research about housing development projects, prices, interest rates, and land costs. Assumptions were also informed by extensive interviews with developers currently active in residential production in the Santa Clara

[6] The townhome prototype was designed as a 30-unit project for evaluation in the inclusionary study. For the impact fee, results for this prototype are presented on a per-unit basis. The assumption is that a townhome project with fewer than ten units (to which an impact fee could be applied) would have similar average characteristics, costs, and revenue per unit as a townhome project with 30 units.

County market. Further details about the assumptions used to estimate each cost and revenue input are provided in Appendix II: Financial Feasibility Assumptions

Strategic Economics used a residual land value metric to evaluate financial feasibility for each prototype. This metric describes the value remaining to pay for land costs after hard costs, soft costs, financing, contingency, and required rates of return are subtracted from a project's total sales proceeds. Developers often use residual land value to determine the price they can afford to pay for land for a particular project. In this case, Strategic Economics compared each prototype's residual land value to typical land costs per acre for that project type in Gilroy to determine each prototype's relative feasibility.

FINANCIAL FEASIBILTY FINDINGS

Both the Medium Single-Family prototype and the Townhome prototype are financially feasible in Gilroy. Figure 26 provides a summary of financial feasibility results before considering any type of affordable housing impact fee. The Medium Single-Family prototype would generate a residual land value of $324,000, greatly exceeding current land costs in the city. The Townhome prototype would generate a residual land value $133,000 per unit, also well above land costs.

The Small-Scale Rental Apartments prototype is financially infeasible under current market conditions. As shown in Figure 26, the residual land value for this prototype is negative. Few multifamily projects are currently moving forward in Santa Clara County due to a weaker rental market than in the past.

FIGURE 26: FINANCIAL FEASIBILITY PER UNIT WITHOUT RESIDENTIAL IMPACT FEE IN GILROY

	Medium Single-Family	Townhomes	Small Scale Rental Apartments
Revenue per Unit			
Gross Revenue (Average per Unit)	$1,300,000	$809,167	
Less Marketing Costs	$0	-$40,458	
Total Sales Proceeds	**$1,300,000**	**$768,708**	
Gross Rental Income			$31,911
Less Vacancy and Operating Costs			-$11,169
Net Operating Income			**$20,742**
Development Costs per Unit			
Hard Costs	$577,225	$363,780	$357,797
Soft Costs (Excluding Fees)	$75,039	$65,480	$51,233
Other Municipal Fees	$96,000	$61,940	$52,911
Financing & Contingency	$58,536	$44,317	$56,960
Total Development Cost	**$806,800**	**$535,518**	**$518,901**
Residual Land Value per Unit			
Total Sales Proceeds	$1,300,000	$768,708	
Target Return on Cost	15%	15%	
Total Net Operating Income			$20,742
Target Return			5.5%
Supportable Development Cost	$1,130,435	$668,442	$377,131
Total Development Cost	$806,800	$535,518	$518,901
Residual Land Value	**$323,635**	**$132,925**	**-$141,770**
Feasibility			
Residual Land Value	$323,635	$132,925	-$141,770
Typical Land Cost	$81,675	$43,560	$36,300
Typical Land Cost per S.F.	$15	$20	$30
Feasibility Result	**Feasible: Residual Land Value above Typical Land Cost**	**Feasible: Residual Land Value above Typical Land Cost**	**Infeasible, Residual Land Value is Negative**

Sources: Strategic Economics, 2025; Redfin, 2025; City of Gilroy, 2025; Developer Interviews, 2025.
Note: Assumes that no inclusionary units are required – only accounts for the City's current affordable housing impact fee.

IMPACT FEE SCENARIOS

Notes: The "Match Studied In-Lieu Fee" scenario reflects an in-lieu fee amount that corresponds to an inclusionary and in-lieu fee scenario studied in the Residential Feasibility Analysis and Inclusionary Study.

Strategic Economics evaluated the financial performance of each prototype on a per-unit basis under several different impact fee scenarios: no impact fee, the amount required to meet a typical city's share of the funding gap ("Match Prior Funding Contribution") as explained in Figure 23, matching the impact fee to an in-lieu fee calculated from policy scenarios in the Inclusionary Study for Gilroy, and the maximum justifiable impact fee from the nexus analysis. The in-lieu fee scenarios correspond to the inclusionary policy scenarios analyzed in the Inclusionary Study. Strategic Economics included these fee amounts to analyze scenarios in which small-scale development is included in one of the

inclusionary policy scenarios Gilroy is considering. The exact fee per square foot used in each scenario is shown in Figure 27.

FIGURE 27: IMPACT FEE PER NET SQUARE FOOT FOR EACH PROTOTYPE, BY IMPACT FEE SCENARIO

Impact Fee Scenario	Medium Single-Family	Townhomes	Small Scale Rental Apartments
1. No Impact Fee	$0	$0	$0
2. Match Prior Funding Contribution[1]	$9	$14	$23
3. Match Studied In-Lieu Fees[2] – A			
Owner: 15% Moderate Income	$39	$21	
Rental: 10% Very Low Income			$28
4. Match Studied In-Lieu Fees – B			
Owner: 15% Low Income	$54	$42	
Rental: 10% Extremely Low Income			$51
5. Maximum Impact Fee	$48	$70	$117

Sources: Strategic Economics, 2025; City of Gilroy, 2025.

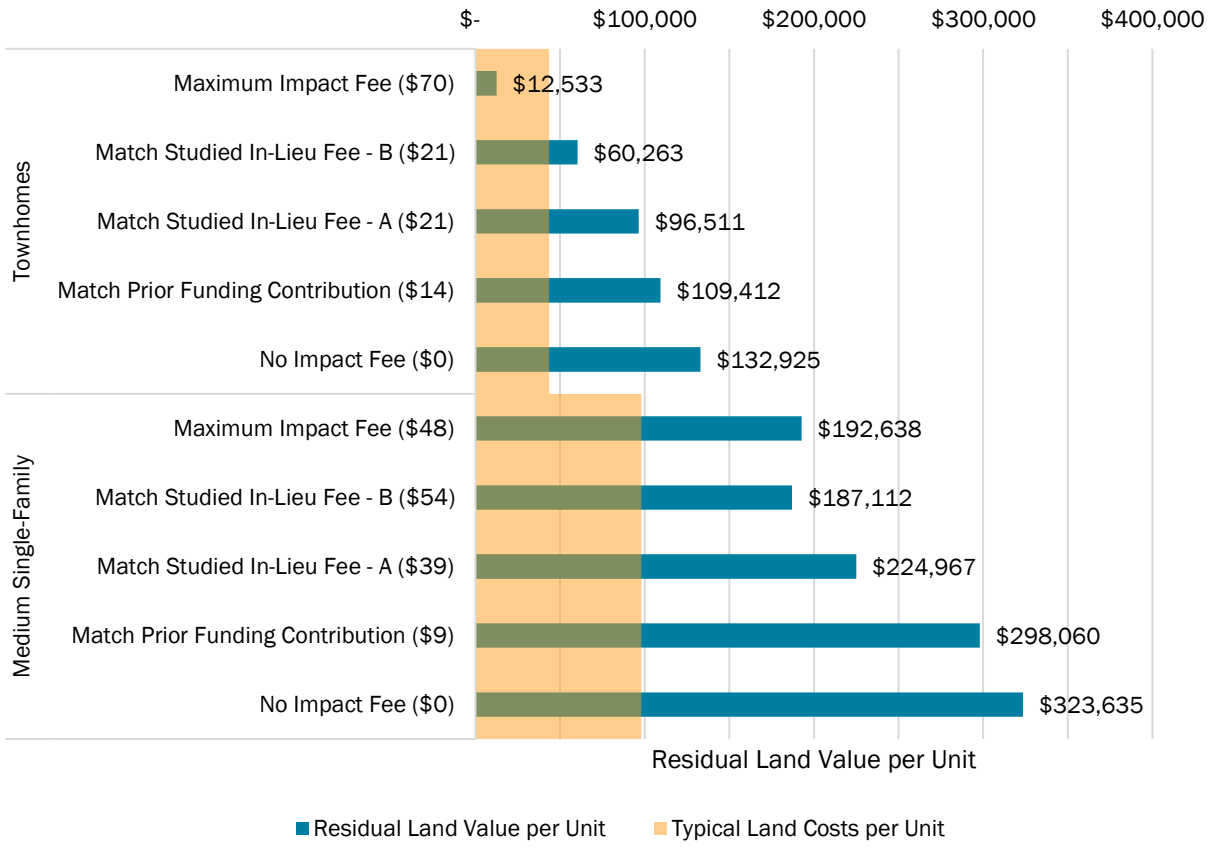
Note:

1. Assumes a typical local funding share (19.5 percent) of all affordable housing funding needed to cover the funding gap.
2. Match Studied In-Lieu Fee scenario reflects an "affordability gap" based in-lieu fee, calculated as the difference between revenue generated from market rate units and the per-unit revenue under the required inclusionary scenario. Shown here are inclusionary policy options for ownership and rental units: 15 percent moderate-income for ownership and ten percent low-income for rentals.

Under current market conditions in Gilroy, the Medium Single-Family prototype could afford to pay up to the maximum impact fee while remaining feasible. Figure 28 shows the residual land values compared to typical land costs for Medium Single-Family and Townhomes in Gilroy under each of the impact fee scenarios. These findings demonstrate that, under current market conditions, the Medium Single-Family prototype would remain financially feasible because the residual land value results are all well above the estimated land values of $82,000 per unit. As shown in Figure 29, the impact fee scenarios add between three and 13 percent to development costs for the Medium Single-Family prototype. This is equivalent to $25,000 to $149,000 per unit (see Figure 32 for per unit costs).

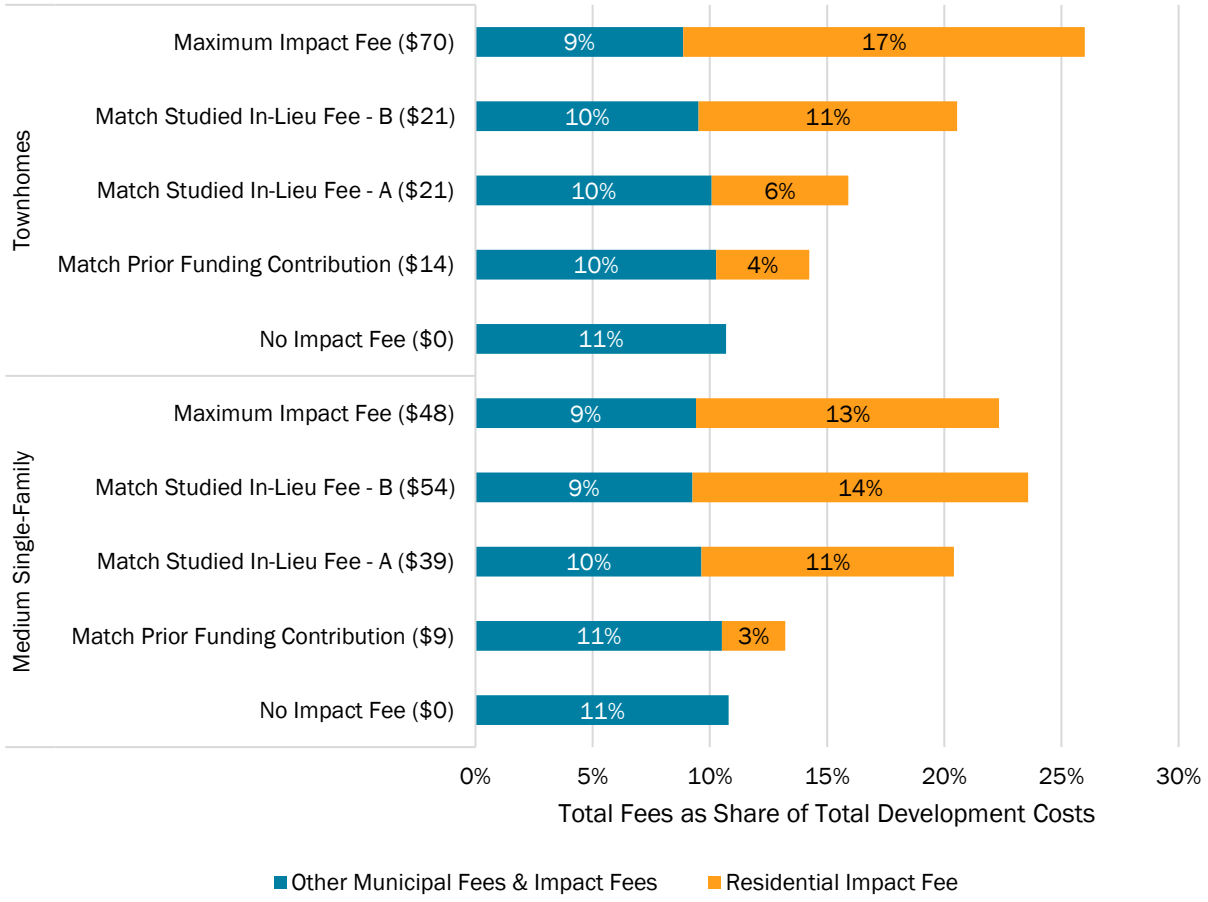
The Townhome prototype can also accommodate most fee scenarios under current conditions but will be challenged by the higher fee rates. As shown in Figure 28, the scenarios with lower fee rates of $9 to $39 per square foot are feasible, but the studied "In-Lieu Fee – B" is a higher fee rate of $42 per square foot that may be difficult for some townhome developments to absorb if land costs exceed $60,000 per unit. As shown in Figure 29, the impact fee scenarios add between four and 17 percent of development costs for the Townhome prototype. This is equivalent to $24,000 to $120,000 per unit (see Figure 32).

FIGURE 28: SUMMARY OF IMPACT FEE SCENARIO OUTCOMES FOR RESIDUAL LAND VALUE, OWNERSHIP UNITS



Sources: Strategic Economics, 2025; City of Gilroy, 2025.
Note: Residual land values for the "Match Studied In-Lieu Fee" scenarios vary somewhat from the residual land values presented for the corresponding inclusionary policy in the Residential Feasibility Study and Inclusionary Analysis report. The difference is because, unlike providing onsite units, paying the fee adds to total development cost, which then affects financing costs, minimum developer returns, and other factors.

FIGURE 29: CONTRIBUTION OF MUNICIPAL AND RESIDENTIAL IMPACT FEES TO TOTAL DEVELOPMENT COSTS IN GILROY, BY FEE SCENARIO, OWNERSHIP PROTOTYPES

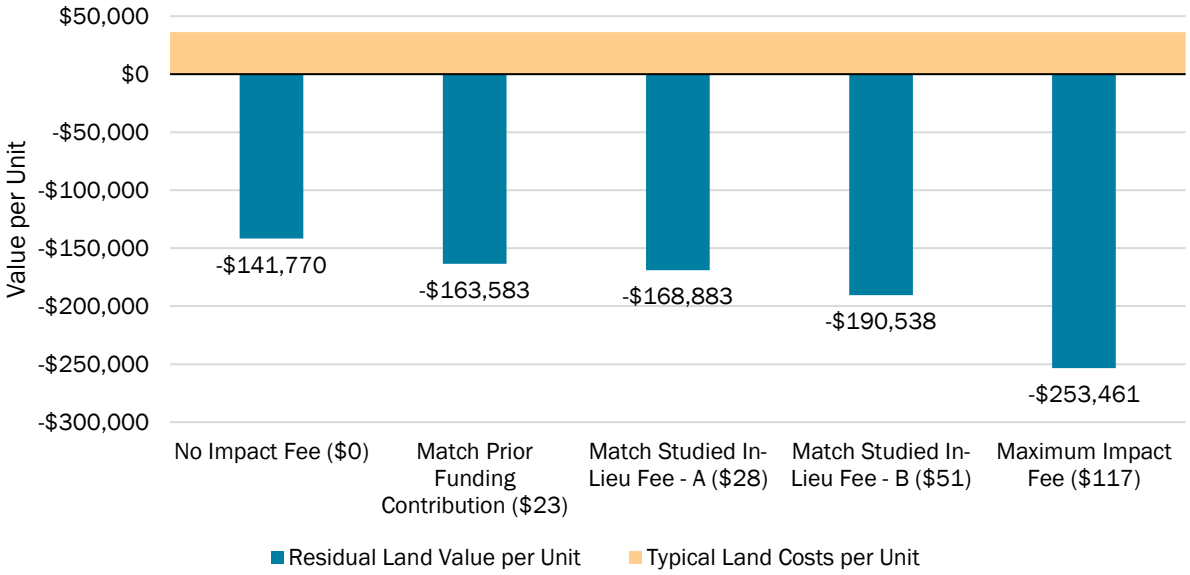


Sources: Strategic Economics, 2025; City of Gilroy, 2025.
Notes:

1. Match Studied In-Lieu Fee scenario refers to the affordability gap-based in-lieu fee corresponding to inclusionary policies analyzed in the Residential Feasibility Study and Inclusionary Analysis for ownership units:
   - Scenario A: 15 percent requirement for moderate-income units.
   - Scenario B: 15 percent requirement for low-income units.
2. Other Municipal Fees and Impact Fees change as a share of total costs in each scenario not because these fees change, but because the total development costs include changes to the residential impact fee. As residential impact fees increase, total development costs also increase, causing the share of total development costs accounted for by other municipal fees to diminish.

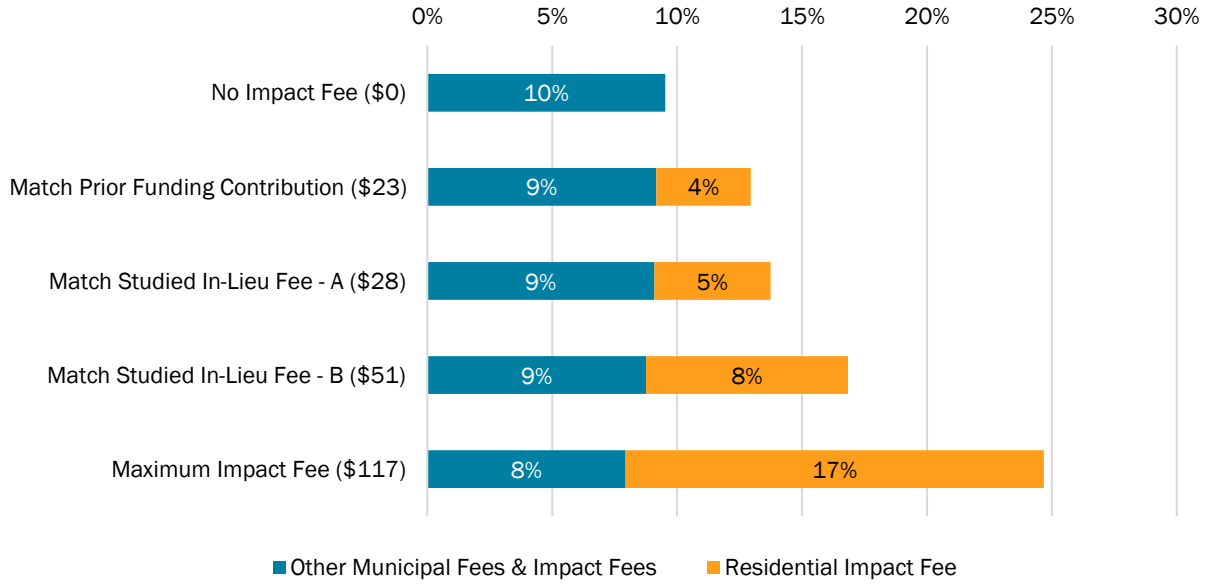
Because the Small-Scale Rental Apartments prototype is infeasible under current market conditions, all fee scenarios are also infeasible. Figure 30 shows how the residual land value result for this prototype drops further from its already negative value. As shown in Figure 31, the impact fee scenarios add between four and 17 percent of development costs for the Small-Scale Rental prototype. This is equivalent to $22,000 to $112,000 per unit (Figure 32).

FIGURE 30: SUMMARY OF IMPACT FEE SCENARIO OUTCOMES FOR RESIDUAL LAND VALUE, SMALL SCALE RENTAL APARTMENTS



Sources: Strategic Economics, 2025; City of Gilroy, 2025.
Note: Residual land values for the "Match Studied In-Lieu Fee" scenarios vary somewhat from the residual land values presented for the corresponding inclusionary policy in the Residential Feasibility Study and Inclusionary Analysis report. The difference is because, unlike providing onsite units, paying the fee adds to total development cost, which then affects financing costs, minimum developer returns, and other factors.

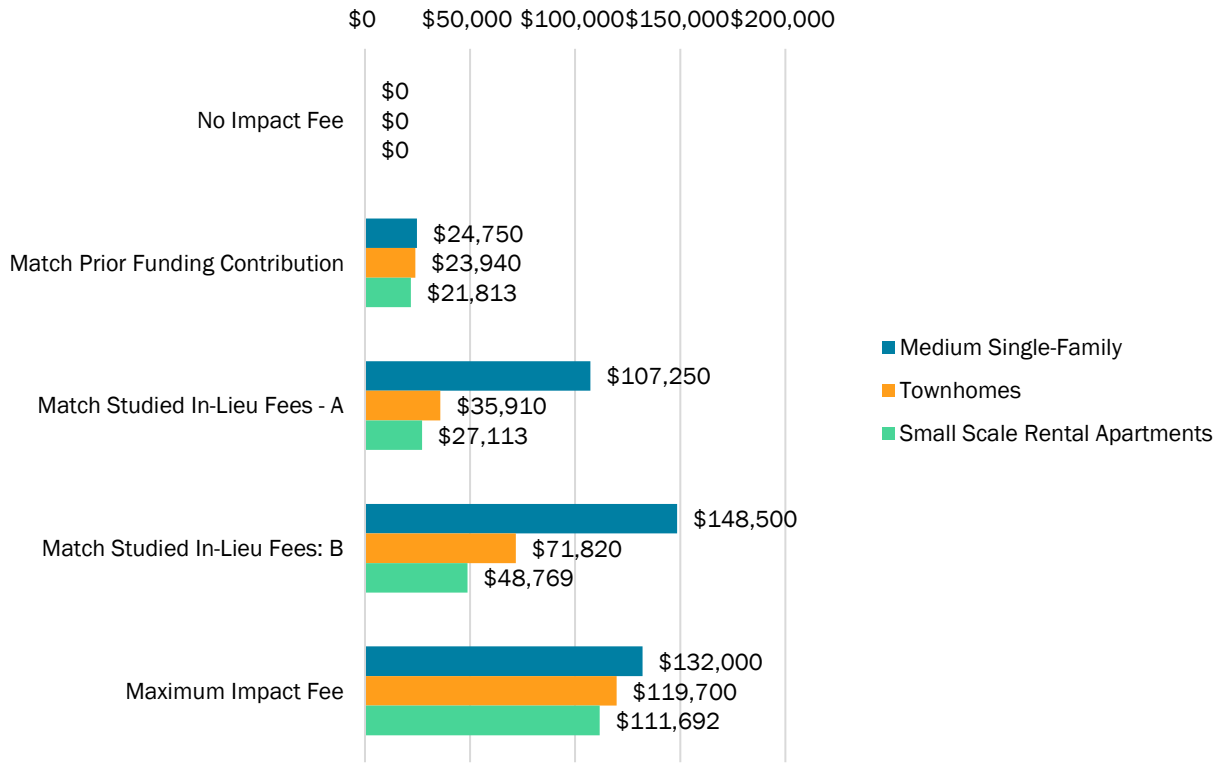
FIGURE 31: CONTRIBUTION OF MUNICIPAL AND RESIDENTIAL IMPACT FEES TO TOTAL DEVELOPMENT COSTS IN GILROY, BY FEE SCENARIO, SMALL SCALE RENTAL APARTMENTS



Sources: Strategic Economics, 2025; City of Gilroy, 2025.
Notes:

1. Match Studied In-Lieu Fee scenario refers to the affordability gap-based in-lieu fee corresponding to an inclusionary policy analyzed in the Residential Feasibility Study and Inclusionary Analysis for rental units:
    a. Scenario A - a 10 percent requirement for very low-income units.
    b. Scenario B – a 10 percent requirement for extremely low-income units.
2. Other Municipal Fees and Impact Fees change as a share of total costs in each scenario not because these fees change, but because the total development costs include changes to the residential impact fee. As residential impact fees increase, total development costs also increase, causing the share of total development costs accounted for by other municipal fees to diminish.

FIGURE 32: TOTAL RESIDENTIAL IMPACT FEE PER UNIT, BY SCENARIO AND PROTOTYPE, GILROY



Sources: Strategic Economics, 2025; City of Gilroy, 2025.

SUMMARY OF FINDINGS AND CONCLUSIONS

This section provides a summary of conclusions from the residential nexus and impact fee feasibility analyses, and policy considerations for setting the impact fee.

Findings

FINDINGS OF THE NEXUS ANALYSIS

- Strategic Economics found that the maximum nexus-based impact fee per square foot is $48 for medium single-family homes, $70 for townhomes, and $117 for small-scale rental apartments.

FINDINGS OF THE FEASIBILITY ANALYSIS

- Both of the analyzed ownership prototypes (Medium Single-Family prototype and the Townhome prototype) are financially feasible in Gilroy.
- The Small Scale Rental Apartments prototype is financially infeasible under current market conditions.

- **Under current market conditions in Gilroy, the Medium Single-Family prototype could afford to pay up to the maximum impact fee while remaining feasible.**
- **The Townhome prototype can also accommodate most fee scenarios under current conditions but will be challenged by the higher tested fee rates.**
- **Because the Small-Scale Rental Apartments prototype is infeasible under current market conditions, all fee scenarios are also infeasible for that prototype.**

Conclusions

To generate affordable housing fee revenue via small-scale projects, Gilroy could consider including these projects in any inclusionary policy the City eventually adopts, rather than adopting a residential impact fee. Based on City staff input, Strategic Economics explored fee scenarios on small-scale projects equivalent to in-lieu fees corresponding to the tested inclusionary policy scenarios (see the Residential Feasibility and Inclusionary Analysis Report for Gilroy). The City could cover *all* residential projects under its inclusionary policy, while allowing small-scale projects (including single-unit developments) to pay the in-lieu fee for fractional units and/or when providing onsite units is infeasible. The following factors informed these suggestions:

- Gilroy's maximum nexus-justified residential impact fee for single family homes is *lower* than the in-lieu fees equivalent to one of the tested inclusionary scenarios (See Figure 27). If Gilroy were to adopt residential impact fees for small-scale projects at a lower level than the corresponding inclusionary/in-lieu fee requirement for larger projects, then the fee burden applicable to single-family homes and other small projects could be substantially lower than fees for projects with just a few more housing units—possibly creating a disincentive for development of multifamily housing projects.

- An in-lieu fee associated with an inclusionary policy would not be bound by the legal nexus requirements of an impact fee and could exceed the maximum justified fee supported by the nexus analysis. However, having the nexus analysis can allow the City of Gilroy to adopt an affordable housing impact fee on new housing units if the City prefers this pathway now or in the future during the eight-year operational life of the nexus study (per the requirements of AB 602).

Gilroy could also structure its residential impact fees (or inclusionary requirements and in-lieu fees) to better support the production of preferred housing development types. Gilroy could potentially set higher fee rates or inclusionary/in-lieu requirements that apply, for example, to large single family or "build-to-suit" custom homes with greater capacity to pay fees, while setting lower fees or requirements for smaller-scale infill multifamily housing. Regardless, if fees are applied as residential impact fees, then those fees must adhere to the nexus-justified maximums.

Appendix I: Occupation Distribution and Nexus Analysis Assumptions

FIGURE 33: JOBS PER 1,000 UNITS IN NEXUS BY OCCUPATION AND CORRESPONDING HOUSEHOLD INCOME - MEDIUM SINGLE-FAMILY

SOC Group	Group Description	Very Low-Income	Low-Income	Moderate-Income	Above Moderate-Income	Total
11	Management Occupations	0	2	3	24	29
13	Business and Financial Operations Occupations	0	0	14	15	29
15	Computer and Mathematical Occupations	0	0	2	7	9
17	Architecture and Engineering Occupations	0	0	0	1	1
19	Life, Physical, and Social Science Occupations	0	0	0	1	2
21	Community and Social Service Occupations	0	7	4	0	12
23	Legal Occupations	0	0	1	1	2
25	Educational Instruction and Library Occupations	3	9	8	2	22
27	Arts, Design, Entertainment, Sports, and Media Occupations	1	2	2	1	6
29	Healthcare Practitioners and Technical Occupations	0	5	5	19	28
31	Healthcare Support Occupations	26	10	1	0	36
33	Protective Service Occupations	3	0	0	0	4
35	Food Preparation and Serving Related Occupations	59	1	0	0	59
37	Building and Grounds Cleaning and Maintenance Occupations	8	2	0	0	10
39	Personal Care and Service Occupations	15	3	0	0	18
41	Sales and Related Occupations	26	6	8	4	44
43	Office and Administrative Support Occupations	8	33	6	0	48
45	Farming, Fishing, and Forestry Occupations	0	0	0	0	0
47	Construction and Extraction Occupations	0	2	1	0	3
49	Installation, Maintenance, and Repair Occupations	1	10	2	0	13
51	Production Occupations	3	2	1	0	5
53	Transportation and Material Moving Occupations	19	7	0	0	26

Sources: Strategic Economics, 2025; CA TCAC, 2025; CA HCD, 2024; BLS, 2025.
Note: None of the occupations associated with new employment were categorized as Extremely Low-Income jobs.

FIGURE 34: JOBS PER 1,000 UNITS IN NEXUS BY OCCUPATION AND CORRESPONDING HOUSEHOLD INCOME – TOWNHOMES

SOC Group	Group Description	Very Low-Income	Low-Income	Moderate-Income	Above Moderate-Income	Total
11	Management Occupations	0	2	2	20	24
13	Business and Financial Operations Occupations	0	0	11	10	21
15	Computer and Mathematical Occupations	0	0	1	6	7
17	Architecture and Engineering Occupations	0	0	0	1	1
19	Life, Physical, and Social Science Occupations	0	0	0	1	1
21	Community and Social Service Occupations	0	6	3	0	9
23	Legal Occupations	0	0	1	1	2
25	Educational Instruction and Library Occupations	2	6	4	1	14
27	Arts, Design, Entertainment, Sports, and Media Occupations	1	2	2	1	5
29	Healthcare Practitioners and Technical Occupations	0	5	5	17	27
31	Healthcare Support Occupations	20	10	1	0	30
33	Protective Service Occupations	3	0	0	0	4
35	Food Preparation and Serving Related Occupations	59	1	0	0	60
37	Building and Grounds Cleaning and Maintenance Occupations	7	2	0	0	9
39	Personal Care and Service Occupations	14	3	0	0	17
41	Sales and Related Occupations	28	6	5	3	43
43	Office and Administrative Support Occupations	8	29	5	0	42
45	Farming, Fishing, and Forestry Occupations	0	0	0	0	0
47	Construction and Extraction Occupations	0	2	1	0	3
49	Installation, Maintenance, and Repair Occupations	1	9	2	0	12
51	Production Occupations	3	2	1	0	5
53	Transportation and Material Moving Occupations	20	7	0	0	27

Sources: Strategic Economics, 2025; CA TCAC, 2025; CA HCD, 2024; BLS, 2025.
Note: None of the occupations associated with new employment were categorized as Extremely Low-Income jobs.

FIGURE 35: JOBS PER 1,000 UNITS IN NEXUS BY OCCUPATION AND CORRESPONDING HOUSEHOLD INCOME – SMALL SCALE RENTAL APARTMENTS

SOC Group	Group Description	Very Low-Income	Low-Income	Moderate-Income	Above Moderate-Income	Total
11	Management Occupations	0	1	3	19	23
13	Business and Financial Operations Occupations	0	0	10	9	19
15	Computer and Mathematical Occupations	0	0	1	5	7
17	Architecture and Engineering Occupations	0	0	0	1	1
19	Life, Physical, and Social Science Occupations	0	0	0	1	1
21	Community and Social Service Occupations	0	5	3	0	8
23	Legal Occupations	0	0	1	1	2
25	Educational Instruction and Library Occupations	2	7	3	1	13
27	Arts, Design, Entertainment, Sports, and Media Occupations	1	2	2	0	4
29	Healthcare Practitioners and Technical Occupations	0	5	6	20	30
31	Healthcare Support Occupations	21	12	1	0	34
33	Protective Service Occupations	3	0	0	0	3
35	Food Preparation and Serving Related Occupations	49	1	0	0	50
37	Building and Grounds Cleaning and Maintenance Occupations	6	2	0	0	8
39	Personal Care and Service Occupations	13	3	0	0	15
41	Sales and Related Occupations	25	6	5	3	38
43	Office and Administrative Support Occupations	7	27	5	0	40
45	Farming, Fishing, and Forestry Occupations	0	0	0	0	0
47	Construction and Extraction Occupations	0	2	1	0	3
49	Installation, Maintenance, and Repair Occupations	1	10	2	0	12
51	Production Occupations	2	1	1	0	5
53	Transportation and Material Moving Occupations	18	6	0	0	24

Sources: Strategic Economics, 2025; CA TCAC, 2025; CA HCD, 2024; BLS, 2025.
Note: None of the occupations associated with new employment were categorized as Extremely Low-Income jobs.

FIGURE 36: NEW WORKER HOUSEHOLDS, AFFORDABILITY REQUIREMENTS, AND MAXIMUM FEE PER SQUARE FOOT, PER UNIT IN PROTOTYPE

Prototype	Number of Households	Percentage of Households	Average Gap (per Household)	Maximum Fee Revenue (Total Affordable Housing Gap)	Max Fee per Net Sq. Ft.
Medium Single-Family					
Extremely Low (30% AMI or lower)	0.00	0%	$0	$0	$0
Very Low Income (<=50% AMI)	0.11	51%	$687,761	$79,041	$29
Low Income (51- 80% AMI)	0.07	30%	$540,787	$36,769	$13
Moderate Income (81-120% AMI)	0.04	17%	$393,398	$15,186	$6
Households Requiring Affordable Housing	**0.22**	**82%**	**$591,354**	**$130,996**	**$48**
Above Moderate Income (>=120%)	0.05	22%	$0	$0	$0
Medium Single-Family Total	**0.27**	**119%**	**$482,915**	**$130,996**	**$48**
Townhomes					
Extremely Low (30% AMI or lower)	0.00	0%	$0	$0	$0
Very Low Income (<=50% AMI)	0.11	46%	$687,761	$75,817	$44
Low Income (51- 80% AMI)	0.06	25%	$540,787	$32,663	$19
Moderate Income (81-120% AMI)	0.03	13%	$393,398	$11,913	$7
Households Requiring Affordable Housing	**0.20**	**83%**	**$599,213**	**$120,392**	**$70**
Above Moderate Income (>=120%)	0.04	17%	$0	$0	$0
Townhomes Total	**0.24**	**100%**	**$497,530**	**$120,392**	**$70**
Small Scale Rental Apartments					
Extremely Low (30% AMI or lower)	0.00	0%	$0	$0	$0
Very Low Income (<=50% AMI)	0.10	43%	$687,761	$67,799	$71
Low Income (51- 80% AMI)	0.06	27%	$540,787	$32,593	$34
Moderate Income (81-120% AMI)	0.03	13%	$393,398	$11,313	$12
Households Requiring Affordable Housing	**0.19**	**83%**	**$595,424**	**$111,705**	**$117**
Above Moderate Income (>=120%)	0.04	17%	$0	$0	$0
Small Scale Rental Apartments Total	**0.23**	**100%**	**$492,059**	**$111,705**	**$117**

Sources: CA HCD, 2025; CA TCAC, 2025; BLS, 2025; Strategic Economics, 2025.

Appendix II: Financial Feasibility Assumptions

Cost Assumptions

FIGURE 37: DETAILED COST ASSUMPTIONS FOR OWNERSHIP PROTOTYPES IN GILROY

	Unit of measure	Medium Single-Family	Townhomes	Small Scale Rental Apartments
Land Costs	per square foot	$15	$20	$30
Hard Costs				
Demolition and Site Work	per sq. ft. land	$5	$10	$10
Building Area Construction				
Residential - Type V	per gross sq. ft.	$200	$200	$290
Parking	per space			
Surface	per space			$10,000
Tuck-under	per space			$10,000
Soft Costs				
Arch, Eng & Consulting	% of hard costs	5.0%	5.0%	5.0%
Taxes, Insurance, Legal & Accounting	% of hard costs	5.0%	10.0%	5.0%
Other Soft Costs	% of hard costs	3.0%	3.0%	3.0%
Total Soft Costs (Excluding Fees)	**% of hard costs**	**13.0%**	**18.0%**	**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	12	18	24
Developer Return				
Target Developer Return-on-cost	% of total dev costs	15.0%	15.0%	
Target Developer Yield-on-cost	% of total dev costs			5.5%

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

FIGURE 38: GILROY MUNICIPAL FEE ESTIMATES PER PROTOTYPE - OWNERSHIP AND RENTAL PROTOTYPES

Prototype	Medium Single-Family	Townhomes	Small Scale Rental Apartments
Permits & Fees			
Building Permit	$4,754	$3,117	$45,557
Plan Check	$4,313	$168	$748
Sewer & Water	$16,323	$293,278	$626,592
Other	$21,912	$360,374	$181,664
Total	**$47,302**	**$656,938**	**$854,562**
Impact Fees			
Traffic	$12,497	$335,700	$604,260
Schools	$14,218	$262,895	$313,545
Other	$21,984	$602,670	$1,084,806
Total	**$48,699**	**$1,201,265**	**$2,002,611**

Sources: City of Gilroy, 2025; Strategic Economics, 2025.

Revenue Assumptions

FIGURE 39: MARKET RATE OWNERSHIP PRO FORMA REVENUE ASSUMPTIONS

	Unit of measure	Medium Single-Family		Townhomes	
Unit Size					
1-BD	sq. ft.	-		950	
2-BD	sq. ft.	-		1,400	
3-BD	sq. ft.	-		1,700	
4-BD	sq. ft.	2,750		2,000	
Average Unit Size	sq. ft.	2,750		1,710	
Unit Sales Value		Price	Share	Price	Share
1-BD	per unit	-		550,000	0%
2-BD	per unit	-		725,000	23%
3-BD	per unit	-		800,000	50%
4-BD	per unit	1,300,000	100%	900,000	27%
Average Sales Value					
Per unit	**per unit**	**$1,300,000**		**$809,167**	
Marketing Expense	% of Sales Price	0%		5%	
Net Revenue		$1,300,000		$768,708	

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

FIGURE 40: MARKET RATE RENT PER UNIT ASSUMPTIONS

	Unit of measure	Small Scale Rental Apartments	
Residential			
Unit Size		Square Feet	Share of Units
Studio	square feet	550	10%
1-BD	square feet	750	40%
2-BD	square feet	1,150	40%
3-BD	square feet	1,400	10%
Average Unit Size	**square feet**	**955**	
Unit Rents			
Studio	per unit	$2,000	
1-BD	per unit	$2,300	
2-BD	per unit	$3,000	
3-BD	per unit	$3,400	
Average	**per unit**	**$2,659**	
Other Revenue Assumptions			
Vacancy (Market Rate Units)	% of Units	5%	
Vacancy (Below Market Rate Units)	% of BMR Units	5.0%	
Operating Expense	% of Revenue	30%	
Capitalization Rate		4.50%	

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