STRATEGIC ECONOMICS

COMMUNITY PLANNING COLLABORATIVE

Residential Feasibility Study and Inclusionary Analysis

PUBLIC DRAFT REPORT

Prepared for:

City of Sunnyvale

November 18, 2025

Sunnyvale

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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 Sunnyvale. The report describes how inclusionary policies work, how policy alternatives could impact the financial feasibility of new housing development, and how Sunnyvale 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 on-site 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

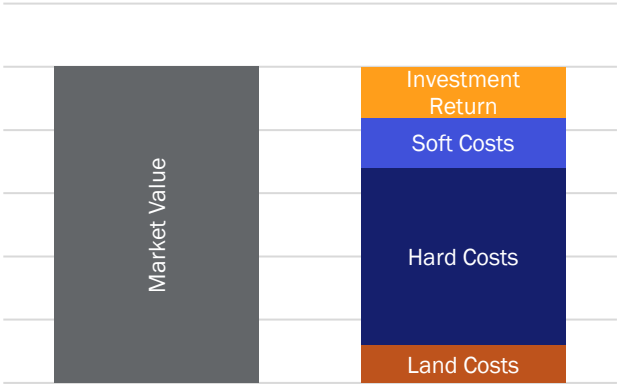
Source: CA HCD, 2025; Strategic Economics, 2025.

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 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.

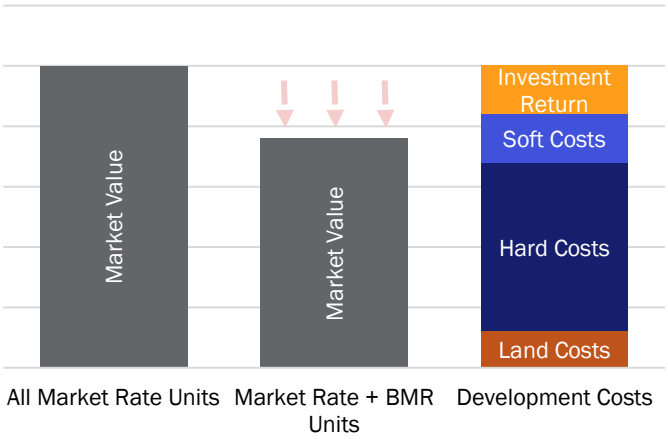
FIGURE 2: COMPONENTS OF FINANCIAL FEASIBILITY: PROJECT VALUE AND PROJECT COST COMPONENTS



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 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 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 SUNNYVALE'S CURRENT INCLUSIONARY HOUSING POLICY

Sunnyvale's current Affordable Housing Ordinance requires 15 percent of units to be affordable in large housing projects. For rental projects, the policy applies to developments with at least three units. For ownership projects, it applies to developments with seven or more units. The City of Sunnyvale first established an inclusionary housing policy in 1980 and most recently updated its policy in 2021.[1] The current policy establishes different affordability standards for rental and ownership projects:

- **Rental:**
  - Five percent of units must be affordable to Very Low-Income households
  - Ten percent of units must be affordable to Low-Income households.
- **Ownership:**
  - 15 percent of units must be affordable to Moderate-Income households.

At the discretion of City Council, Sunnyvale's inclusionary requirements may also be met by paying an in-lieu fee or by providing a mix of on-site units and paying a fee. This in-lieu fee differs based on the scale of the project and the type of housing, as shown in Figure 4. The in-lieu fee for rental units is charged on the new habitable square footage of residential area in the project. The in-lieu fee for ownership units is based on the sales price of the unit. Developers of rental housing projects with between three and six rental units may choose to fulfill some or all of their inclusionary requirement by paying the applicable small rental housing in-lieu fee.

Sunnyvale's ownership and rental inclusionary policies also differ in their treatment of fractional units. These differences are also shown in Figure 4. The City's ownership requirements state that if the required share of units results in a fractional number, projects can comply by either developing one additional BMR unit or by paying an in-lieu fee.[2] The City's rental requirements stipulate that fractional units should be rounded to the nearest whole number.[3]

[1] In 2025, the City of Sunnyvale further modified its inclusionary requirement to reduce or exempt affordability requirements for projects in specific locations and with specific Village Center Mixed Use land use designations that dedicate at least 5 percent FAR to commercial or retail uses. However, because of the specificity of these requirements, this exemption was not studied in this report.

[2] Sunnyvale Municipal Code, Section 19.67.050 (b).

[3] Sunnyvale Municipal Code, Section 19.77.070 (b).

FIGURE 4: INCLUSIONARY IN-LIEU FEES IN SUNNYVALE, BY HOUSING TYPE, 2025

Housing Type	Fee per Square Foot	Treatment of Fractional Units
Rental Residential		
3-6 Units	$16	Rounded to the nearest whole number (minimum of 1) OR substituted with in-lieu fee.
7 or More Units	$32	Rounded to the nearest whole number.
Ownership Residential		
7 or More Units	7% of Contract Sales Price	Rounded up OR in-lieu fee applied to fractional unit.

Source: City of Sunnyvale, 2025; Strategic Economics, 2025.

REPORT ORGANIZATION

This report summarizes the impact of Sunnyvale'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 Sunnyvale; 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 Sunnyvale'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.

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

II. Financial Feasibility Analysis

Strategic Economics conducted a financial feasibility analysis to test Sunnyvale'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 can use to assess and potentially modify its inclusionary policy to align with its 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 Sunnyvale—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 Sunnyvale 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 Sunnyvale 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 Sunnyvale. 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.[4]
- **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.

The generalized pro forma models used in this analysis are conceptual and cannot capture the unique conditions of each individual project carried out in Sunnyvale. As a result, some development projects may be feasible even if the pro forma model suggests otherwise. For example, a developer may have previously purchased land at a lower value than what is currently typical. In these cases, individual projects may be feasible even if a particular *prototype* is not.

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. However, as discussed in the Feasibility Findings section, it is important

[4] 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.

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. The financial feasibility of specific developments may be determined by circumstances unique to the development.

This study used five residential *prototypes* to evaluate financial feasibility. The *prototypes* used in Sunnyvale'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:

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 SUNNYVALE

	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 33.

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 (including fractional in-lieu fee)	per unit	$121,599	$113,523
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 34.

FIGURE 7: SUMMARY OF COST ASSUMPTIONS FOR RENTAL PRO FORMA WITH CURRENT POLICY

	Unit of measure	Small Scale Rental Apartments	5-Story Rental Apartments	8-Story Rental Apartments with Ground Floor Retail
Land Costs				
Typical 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	$86,230	$86,271	$85,657
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.) due to larger building footprint, which leads to more flexibility in design and 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 Sunnyvale range from $1.4 million for a two-bedroom unit to $1.9 million for a four-bedroom unit. Typical condo prices in Sunnyvale range from $850,000 for a one-bedroom unit to $1.7 million for a four-bedroom unit. Detailed revenue assumptions for ownership prototypes can be found in the Appendix in Figure 36.

FIGURE 8: OWNERSHIP PRO FORMA MARKET RATE UNIT REVENUE ASSUMPTIONS

	Unit of measure	Townhomes	5-Story Condos
Average Sales Value	**per unit**	**$1,676,667**	**$1,372,802**
Marketing Expense	% of Sales Price	5%	5%
Net Revenue		$1,592,833	$1,304,162

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 Sunnyvale 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 prototypes can be found in the Appendix in Figure 37.

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 used a combination of the City of Sunnyvale's published below market rate (BMR) rents and sales prices to calculate expected revenue from each BMR unit in prospective inclusionary scenarios. The City of Sunnyvale publishes BMR sales prices for units priced at 100 percent of AMI,[5] and BMR rents for very low-, low-, and moderate-income households. These rent and sales price limits ensure that households in each income category pay no more than 30 percent of their monthly income

[5] According to Sunnyvale's Municipal Code (Section 19.67), BMR ownership units shall be priced at 100 percent of AMI, but the Director of Community Development may adjust the percentage to between 81 and 110 percent of AMI to address shifts in the housing market.

on housing costs. Figure 10 shows the maximum rent limits for households in each income category in Sunnyvale. Strategic Economics used the maximum sales prices for each bedroom count and the distribution of units in each prototype to estimate the average moderate-income sales price for Townhomes and 5-Story Condos, as shown in Figure 11.

FIGURE 10: RENT LIMITS FOR BMR UNITS IN SUNNYVALE BY BEDROOM COUNT AND INCOME LEVEL, 2025

	Studio	1-BD	2-BD	3-BD
Very Low-Income				
Total Rent Limit	$1,759	$2,010	$2,261	$2,511
Less: Utility Allowance	$268	$280	$321	$362
Maximum Very Low-Income Rent	**$1,491**	**$1,730**	**$1,940**	**$2,149**
Low-Income				
Total Rent Limit	$2,221	$2,537	$2,855	$3,172
Less: Utility Allowance	$268	$280	$321	$362
Maximum Low-Income Rent	**$1,953**	**$2,257**	**$2,534**	**$2,810**

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

Market rate rents and sales prices exceed affordable rents and prices for all income categories considered in this analysis. Figure 11 shows average sales prices for moderate-income units as modeled in the ownership pro forma models in comparison to market rate prices. For most income categories and *prototypes*, BMR units would achieve less than one-third of the market rate sales price in Sunnyvale. For example, the sales price for a two-bedroom BMR townhome is $491,000, which is about 34 percent of the average sales price for a two-bedroom market rate townhome ($1,425,000). 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 or 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. Figures 38 and 39 in the Appendix show more details on affordable rent calculations.

FIGURE 11: MARKET RATE SALES PRICE PER UNIT, SHARE OF UNITS BY BEDROOM COUNT, AND MODERATE-INCOME SALES PRICES IN SUNNYVALE, BY PROTOTYPE, 2025

	Townhomes		5-Story Condos	
Average Market Rate Price per Unit		**$1,676,667**		**$1,372,802**
Maximum Moderate-Income Sales Price per Unit	**Share**	**Sales Price**	**Share**	**Sales Price**
One Bedroom	0%	$423,000	10%	$423,000
Two Bedroom	23%	$491,000	55%	$491,000
Three Bedroom	50%	$559,000	30%	$559,000
Four Bedroom	27%	$614,000	5%	$614,000
Weighted Average Price		**$557,800**		**$511,209**

Sources: Strategic Economics, 2025; City of Sunnyvale, 2025; Redfin, 2025.

FIGURE 12: MARKET RATE RENT IN SUNNYVALE VS MAXIMUM 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**
Average Below Market Monthly Rent per Unit by Income Level			
Very Low-Income (Maximum BMR Rent Limit)	**$1,832**	**$1,813**	**$1,769**
Low-Income (Maximum BMR Rent Limit)	**$2,393**	**$2,367**	**$2,310**

Sources: Strategic Economics, 2025; CoStar, 2025; City of Sunnyvale, 2025.
Notes: This table shows monthly rent at each income level based on rent limits published by the City of Sunnyvale for each income level and unit size. Rent limits for each unit size (studio, 1-BD, etc.) were translated to prototype averages based on the distribution of units in each prototype.

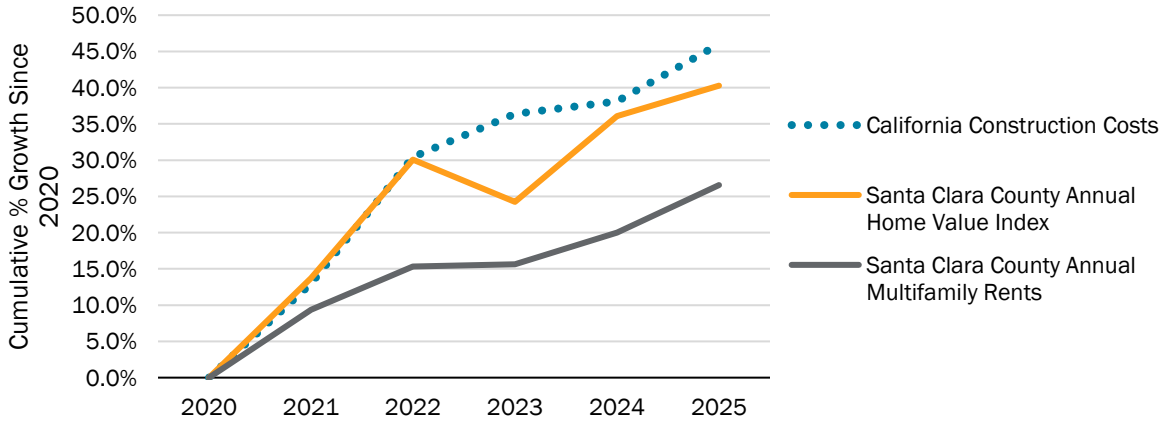
INITIAL FEASIBILITY ANALYSIS RESULTS

The current feasibility outlook in Sunnyvale 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 Sunnyvale.

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 eight percent annually between 2020 and 2025—after increasing by between an average of three percent annually from 2016 to 2020. 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.

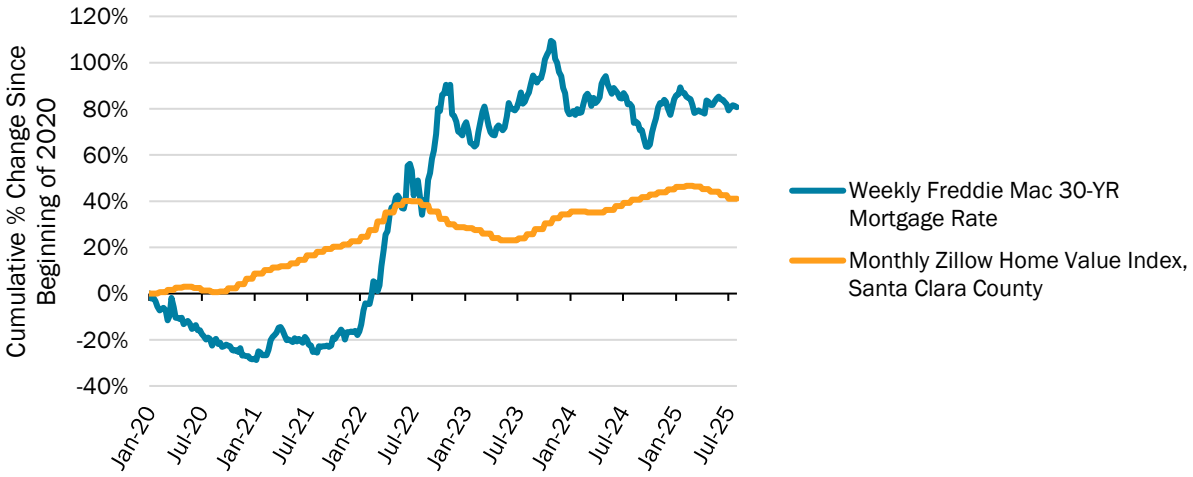
FIGURE 13: SANTA CLARA COUNTY TRENDS IN HOME VALUES, CONSTRUCTION COSTS, AND MULTIFAMILY RENTS, 2020 TO 2025



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.

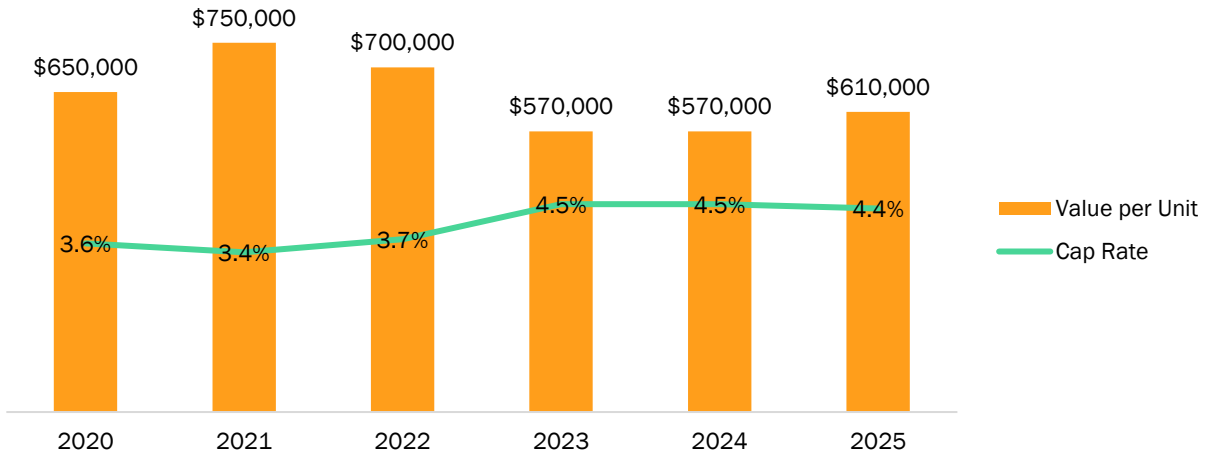
FIGURE 14: MONTHLY SANTA CLARA COUNTY HOME VALUE INDEX VS. NATIONAL WEEKLY 30-YEAR MORTGAGE RATE



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 County 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

Providing on-site units under Sunnyvale's current inclusionary policy is marginally feasible for the Townhome prototype but infeasible for the 5-Story Condo prototype under current conditions. Figure 16 shows the results of the pro forma analysis for both *prototypes* assuming the inclusionary policy is met with on-site units. As Figure 16 shows, the Townhome prototype would generate a residual land value per unit of approximately $413,000. This is more than, but within ten percent, of typical land costs for townhome developments. Because costs and revenues can vary based on a variety of factors,

this implies that townhome developments that provide on-site units are likely to be feasible, but the impact may vary depending on the specific circumstances of each project.[6] By contrast, the Condo prototype would generate a negative residual land value, which means that it is not likely to be feasible in Sunnyvale without considerable changes to market conditions.

FIGURE 16: PRO FORMA RESULTS PER UNIT FOR OWNERSHIP HOUSING IN SUNNYVALE, WITH ON-SITE INCLUSIONARY UNITS UNDER THE CURRENT POLICY

	Townhomes	5-Story Condos
Average Sales Value per Unit		
Market Rate Units	$1,676,667	$1,372,802
Below Market Rate Units	$557,800	$511,209
Revenue per Unit		
Gross Revenue (Average)	$1,527,484	$1,176,688
Less Marketing	-$76,374	-$62,486
Total Sales Proceeds	**$1,451,110**	**$1,187,232**
Development Costs per Unit		
Hard Costs	$557,370	$812,629
Soft Costs (Excluding Fees)	$100,327	$146,273
Fractional In-Lieu Fee[1]	$13,041	$4,576
Other Municipal Fees	$108,559	$108,947
Financing & Contingency	$69,779	$119,693
Total Development Cost	**$849,075**	**$1,192,117**
Residual Land Value per Unit		
Total Sales Proceeds	$1,451,110	$1,187,232
Target Return on Cost	15%	15%
Supportable Development Cost	$1,261,835	$1,032,375
Total Development Cost	$849,075	$1,192,117
Residual Land Value	**$412,760**	**-$159,742**
Feasibility (per Unit)		
Residual Land Value	$412,760	-$159,742
Typical Land Cost per Unit	$381,150	$146,596
Typical Land Cost per S.F.	$175	$175
Feasibility Result	**Marginally Feasible; RLV slightly exceeds typical land cost**	**Infeasible: RLV is negative**

Sources: Strategic Economics, 2025; City of Sunnyvale, 2025; Developer Interviews, 2025; Redfin, 2025.
Notes:
1. In-lieu fee applied to fractional units only. Calculated as seven percent of total sales price if all units were market rate, multiplied by the share of required BMR units not provided on-site.

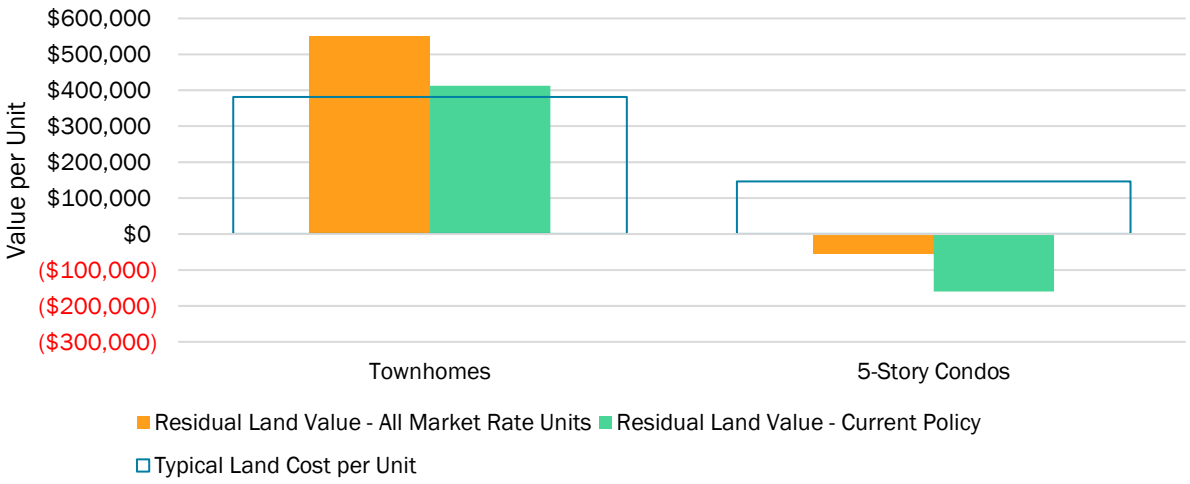
Because the Townhome *prototype* is marginally feasible with on-site units, changes to Sunnyvale's inclusionary policy could impact the viability of some townhome projects. Figure 17 shows land costs per unit for the Townhome and Condo *prototypes* compared to the residual land value of each project with and without Sunnyvale's inclusionary requirement. As shown, the townhome *prototype* built with

[6] 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.

all market rate units would be financially feasible. However, each BMR unit generates approximately $1.1 million less in revenue than a market rate unit, reducing the *prototype*'s overall revenue potential. Current conditions result in a wide disparity between market prices and below market prices, which will challenge the feasibility of some townhome projects.

The City's inclusionary requirements are not the primary factor influencing the feasibility of condo projects. These projects have higher costs per unit and lower average 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 Sunnyvale. This result indicates that a developer would not choose to pursue a condo project in Sunnyvale even if they could obtain the land for free. 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 SUNNYVALE - WITH ALL MARKET RATE UNITS VS. EXISTING POLICY



Sources: Strategic Economics, 2025; City of Sunnyvale, 2025; Developer Interviews, 2025; Redfin, 2025.
Note: Current Policy requires 15 percent of units to be dedicated as Moderate-Income.

FEASIBILITY OF RENTAL PROTOTYPES

Due to current market conditions, Strategic Economics found that none of the three rental *prototypes* are feasible in Sunnyvale. Figure 18 provides a summary of pro forma results for each of the three rental *prototypes* both with and without Sunnyvale's current inclusionary policy. As Figure 18 shows, none of the three rental prototypes currently support a residual land value that is greater than the typical cost of land, even if with a 100 percent market rate project. (Because costs and revenues can vary based on a variety of factors, individual development projects may be exceptions to this general finding.) As development costs grew nearly 20 percent more than multifamily rents over the past five years (as shown in Figure 13) while capitalization rates increased (as shown in Figure 15), a multifamily project that was viable five years ago would be challenging to develop in 2025.

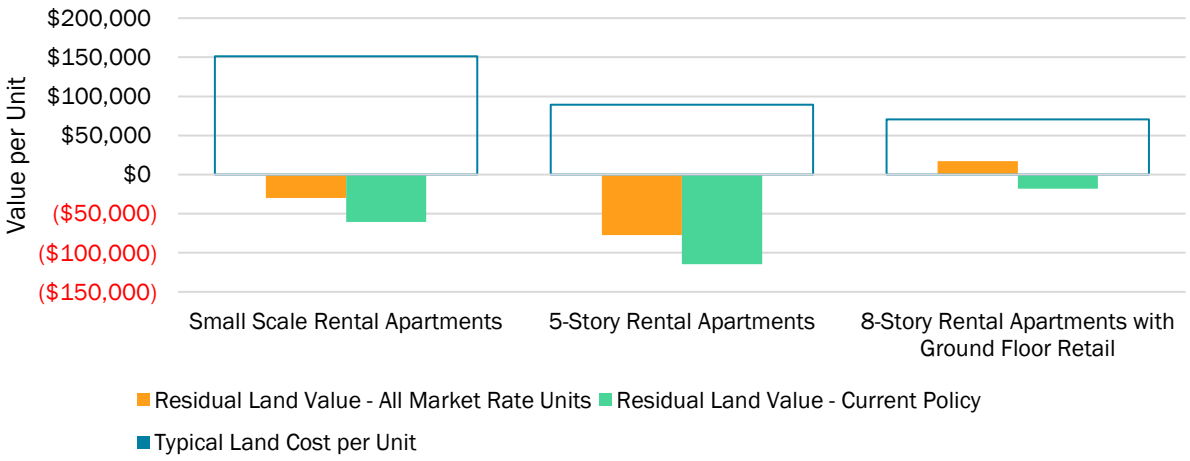
FIGURE 18: PRO FORMA RESULTS PER UNIT FOR RENTAL HOUSING IN SUNNYVALE, WITH ON-SITE UNITS UNDER THE CURRENT INCLUSIONARY POLICY

	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	$27,251
Below Market Rate Units	$2,549	$2,527	$2,525
Retail	$0	$0	$1,710
Total Net Operating Income	**$29,250**	**$31,156**	**$31,486**
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[1]	$0	$0	$0
Other Municipal Fees	$86,230	$86,271	$85,657
Financing, Contingency & Developer Overhead	$60,830	$75,376	$65,564
Total Development Cost	**$592,389**	**$681,248**	**$590,365**
Residual Land Value per Unit			
Total Net Operating Income	$29,250	$31,156	$31,486
Target Yield on Cost	5.5%	5.5%	5.5%
Supportable Development Cost	$531,818	$566,473	$572,474
Total Development Cost	$592,389	$681,248	$590,365
Residual Land Value	**-$60,571**	**-$114,774**	**-$17,891**
Feasibility (per Unit)			
Residual Land Value	-$60,571	-$114,774	-$17,891
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: RLV is negative**

Sources: Strategic Economics, 2025; City of Sunnyvale, 2025; Developer Interviews, 2025; CoStar, 2025.
Notes:
1. In-lieu fee not relevant for rental prototypes because the City's policy requires projects to round the required number of units to the nearest whole number.

City of Sunnyvale's inclusionary requirements currently have minimal impact on the feasibility of new rental projects. Each of the three rental *prototypes* would remain infeasible if inclusionary requirements were removed. On average, each very low-income unit generates around $27,000 less in annual net operating income (NOI) than the average market rate unit, and each low-income unit generates approximately $20,000 less in annual NOI. As a result, fulfilling Sunnyvale's current 15 percent inclusionary policy with on-site units reduces the total project value of the rental prototypes by approximately seven percent. If market conditions improve, these *prototypes* would be more likely to be feasible. However, if market rate rents increase faster than the Area Median Income grows, the revenue loss associated with providing on-site units would also increase.

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



Sources: Strategic Economics, 2025; City of Sunnyvale, 2025; Developer Interviews, 2025; CoStar, 2025.
Note: Current Policy requires 15 percent of units to be affordable, including five percent very low-income and ten percent low-income.

POLICY AND MARKET SCENARIOS

The previous section describes feasibility for five residential *prototypes* under current conditions in Sunnyvale; 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 Sunnyvale 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 on-site affordable units required, and the income group(s) targeted by the policy. The scenarios presented below assume an on-site inclusionary requirement of between 15 and 20 percent, while testing the sensitivity of the results to different income levels. A discussion of setting the percentage on-site requirement is included in the findings section.

Strategic Economics tested the following inclusionary policy scenarios:

- Ownership:

  Current: 15 Percent Moderate-Income (Current Requirement)

Alternative: 20 Percent Moderate-Income

- Rental:

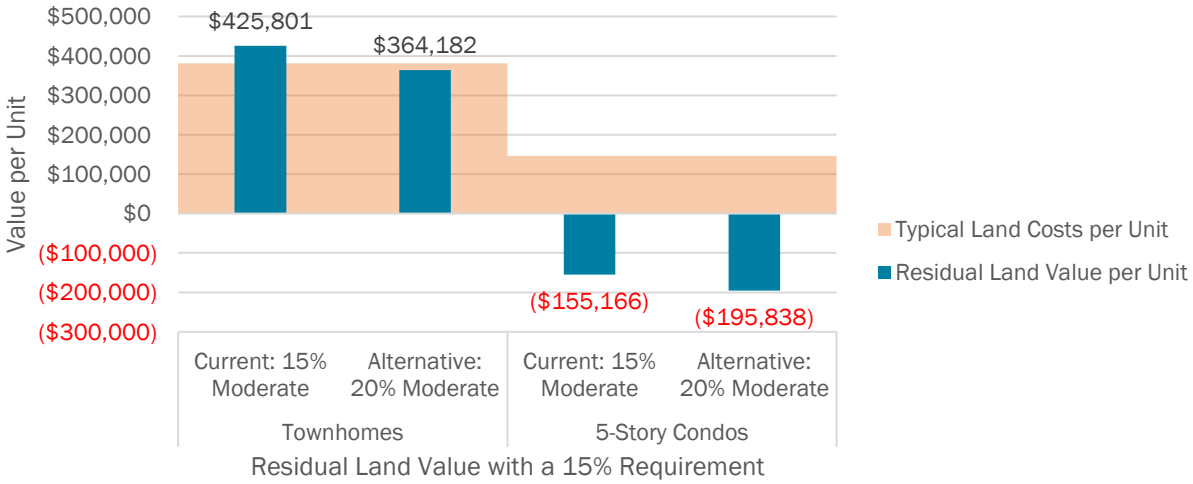
  Scenario A: Five Percent Very Low-Income; Ten Percent Low-Income (Current Requirement)

  Scenario B: Five Percent Very Low-Income; 15 Percent Low-Income

  Scenario C: Ten Percent Very Low-Income; Ten Percent Low-Income

For ownership units, increasing the onsite inclusionary percentage to 20 percent has a modest impact on feasibility. Figure 20 shows the residual land value per unit for both ownership *prototypes* with a 15 percent moderate-income requirement compared to a 20 percent moderate-income requirement. The average moderate-income townhome unit would be priced $1.1 million less than market rate townhome units. Over the entire project, this means that a five percent increase in moderate income requirements reduces total sales proceeds by approximately four percent. For condos, the average BMR unit is worth approximately $0.9 million less than the average market rate condo; a five percent increase in the inclusionary requirement reduces residual land value per unit by approximately $40,000, as shown in Figure 20. However, the 5-Story Condo *prototype* is currently infeasible irrespective of the inclusionary policy.

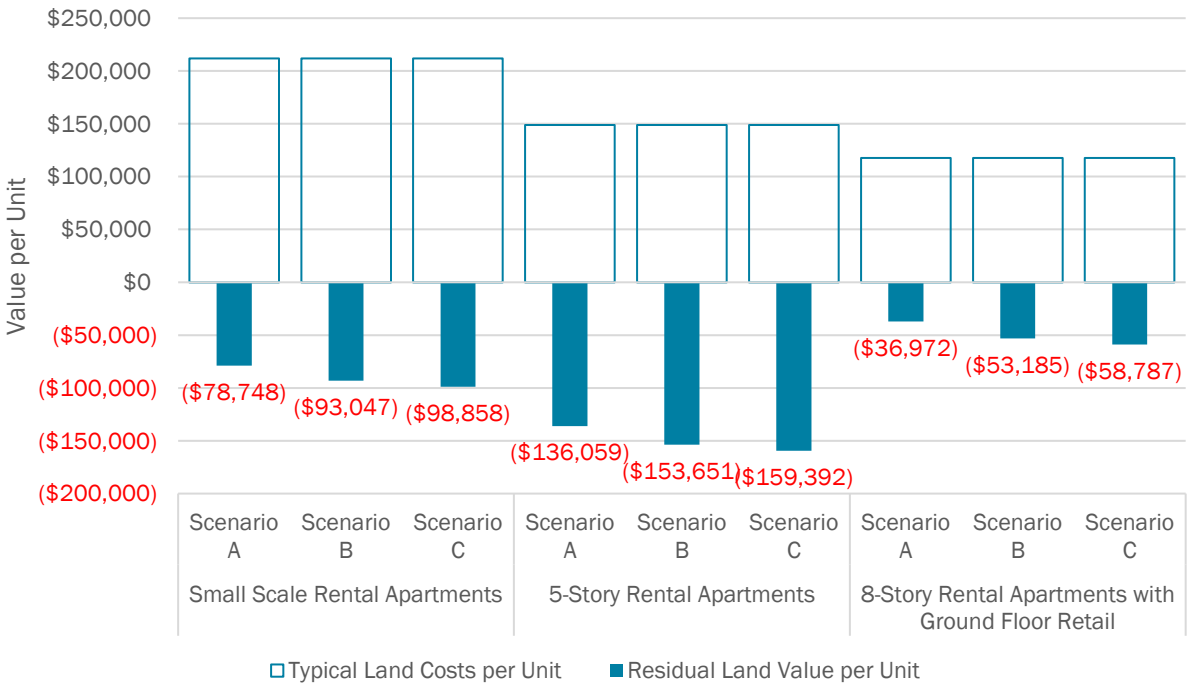
FIGURE 20: RESIDUAL LAND VALUE PER UNIT VS. LAND COSTS PER UNIT IN SUNNYVALE WITH A MODERATE-INCOME INCLUSIONARY REQUIREMENT, BY SHARE REQUIRED – OWNERSHIP UNITS



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

Because the rental *prototypes* are infeasible under current market conditions without an inclusionary policy, the tested inclusionary policies are unlikely to be relevant until market conditions improve. Figure 21 summarizes this result. This figure illustrates that—under current conditions—rental *prototypes* would generate approximately $15,000 to $20,000 less per unit under Scenario B than Scenario A, and $20,000 to $25,000 less per unit under Scenario C than Scenario A. However, these differences would likely change as market rate rents, development costs, and area median income change over time. The next subsection includes findings on how changes in market conditions might support an inclusionary policy.

FIGURE 21: RESIDUAL LAND VALUE PER UNIT VS. LAND COSTS PER UNIT IN SUNNYVALE BY INCLUSIONARY SCENARIO – RENTAL UNITS



Sources: Strategic Economics, 2025; City of Sunnyvale, 2025; Developer Interviews, 2025; CoStar, 2025.
Note: Includes the following inclusionary scenarios:

- Scenario A: Current Inclusionary Requirements: 5% Very Low-Income; 10% Low-Income
- Scenario B: 5% Very Low-Income; 15% Low-Income
- Scenario C: 10% Very Low-Income; 10% Low-Income

Market Scenarios

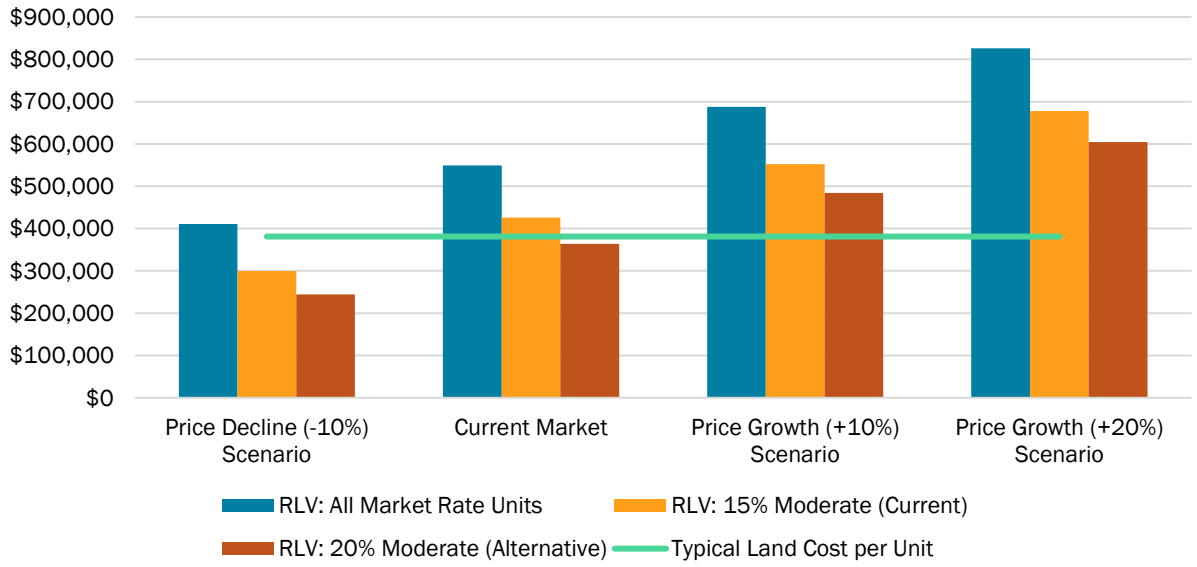
This section tests the sensitivity of the feasibility results to changes in market conditions. The current pro forma results rely upon assumptions for development costs, return thresholds, sales prices, rents, and land costs, all of which are subject to change over time and may vary from project to project. 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 Sunnyvale, the Townhome *prototype* could support the 20 percent moderate income alternative policy in addition to current inclusionary requirement. Figure 22 shows the impact of sales price changes in Sunnyvale on the feasibility of each inclusionary policy alternative. This demonstrates that, with a ten percent increase in sales prices, the Townhome *prototype* would be at least marginally feasible under both the Current and Alternative inclusionary

policy. With a ten percent decrease in sales prices, the Townhome *prototype* would be marginally infeasible even without an inclusionary requirement.

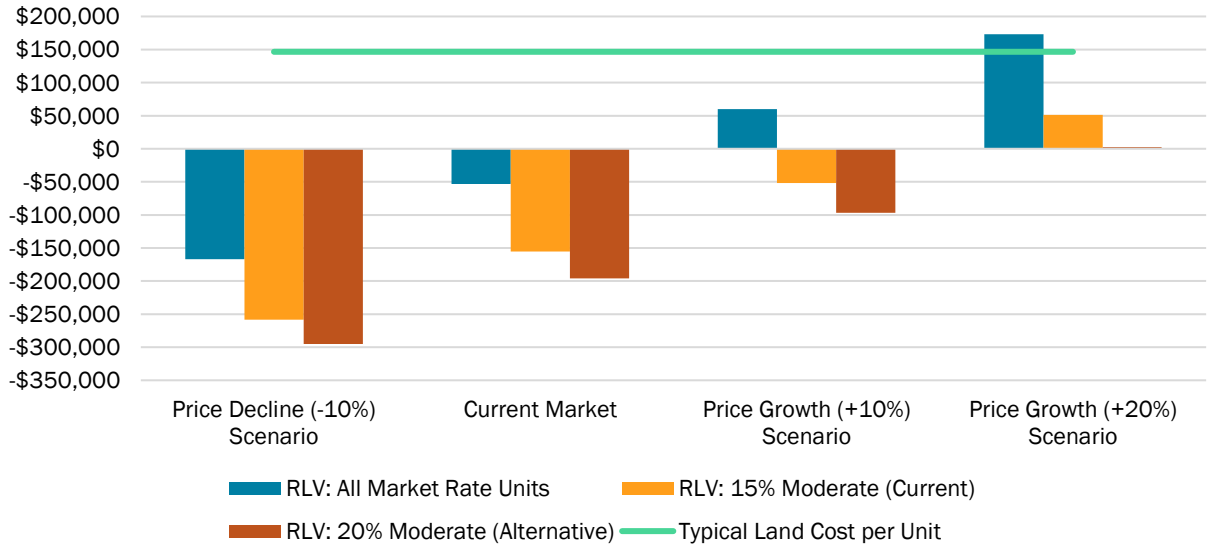
FIGURE 22: SENSITIVITY OF RESIDUAL LAND VALUE TO MARKET PRICE IN SUNNYVALE – TOWNHOMES



Sources: Strategic Economics, 2025; City of Sunnyvale 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 Sunnyvale—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 Sunnyvale 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.

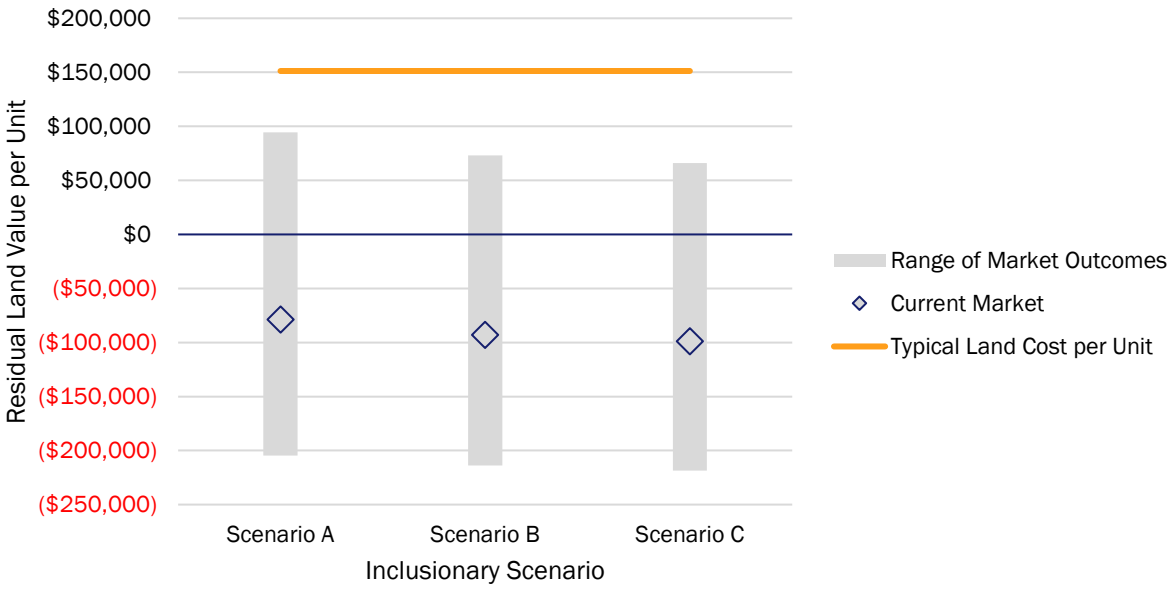
FIGURE 23: SENSITIVITY OF RESIDUAL LAND VALUE TO MARKET PRICE IN SUNNYVALE – 5-STORY CONDOS



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

While inclusionary policies would have a modest impact on the feasibility of Small Scale Apartments and 5-Story Apartments, it is unlikely that most of these smaller apartment projects will be feasible in the near future due to broader challenges. Figure 24 shows the range of likely market outcomes for Small Scale Apartments under each inclusionary scenario, while Figure 25 shows the range of market outcomes for 5-Story Apartments. These figures demonstrate that neither *prototype* is likely to be viable in Sunnyvale in the near future—regardless of inclusionary requirements. Sunnyvale is a largely built-out 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. Therefore, Strategic Economics recommends that the results for the 8-story Rental *prototype* play the central role in formulating an inclusionary policy.

FIGURE 24: RESIDUAL LAND VALUE VS. LAND COSTS PER UNIT FOR SMALL SCALE RENTAL APARTMENTS IN SUNNYVALE, WITH CURRENT MARKET CONDITIONS VS. RANGE OF LIKELY MARKET OUTCOMES

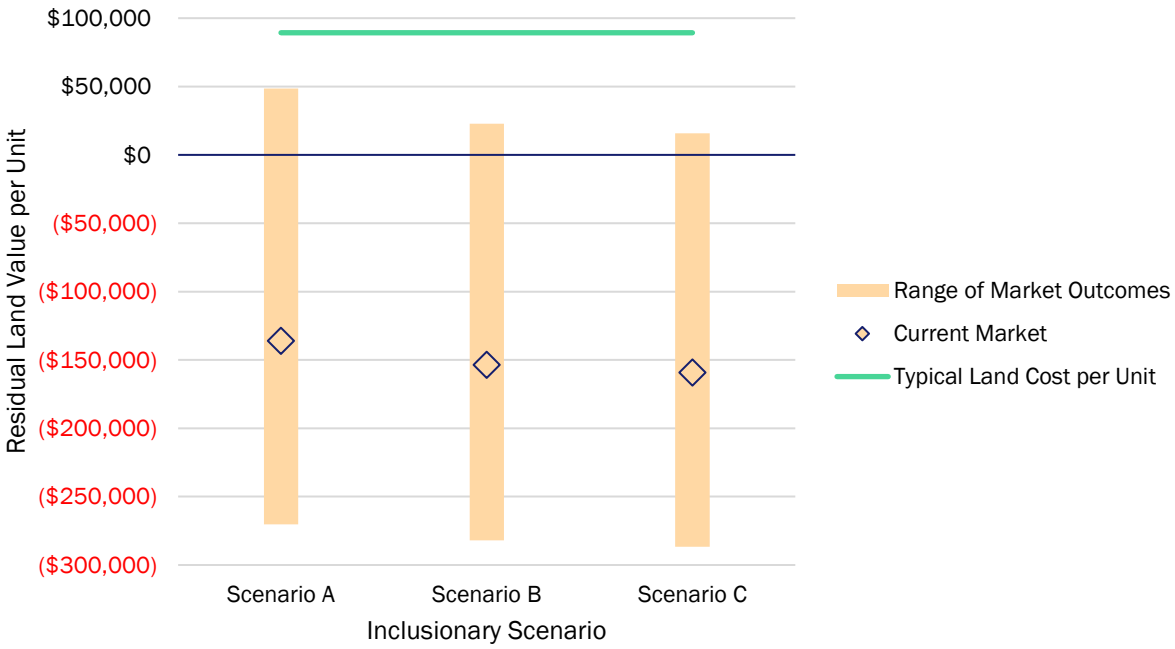


Scenario Descriptions:

- Scenario A: Current Inclusionary Requirements: 5% Very Low-Income; 10% Low-Income
- Scenario B: 5% Very Low-Income; 15% Low-Income
- Scenario C: 10% Very Low-Income; 10% Low-Income

Sources: Strategic Economics, 2025; CoStar, 2025; Developer Interviews, 2025; City of Sunnyvale, 2025.
Notes:
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 25: RESIDUAL LAND VALUE VS. LAND COSTS PER UNIT FOR 5-STORY RENTAL APARTMENTS IN SUNNYVALE, WITH CURRENT MARKET CONDITIONS VS. RANGE OF POSSIBLE MARKET OUTCOMES



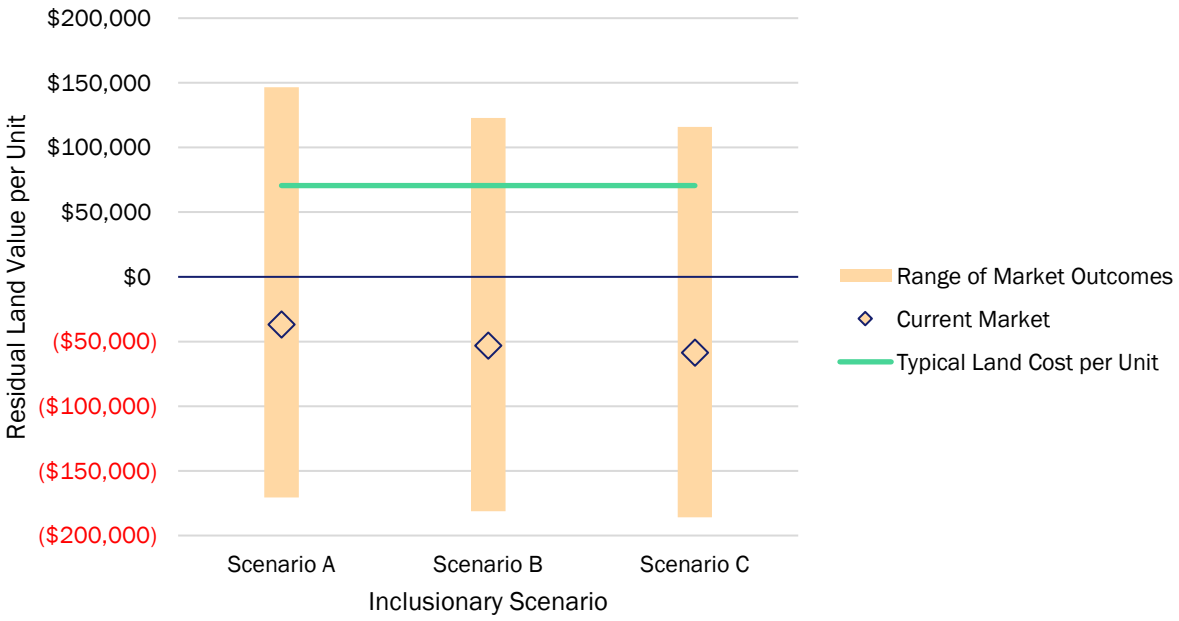
Scenario Descriptions:

- Scenario A: Current Inclusionary Requirements: 5% Very Low-Income; 10% Low-Income
- Scenario B: 5% Very Low-Income; 15% Low-Income
- Scenario C: 10% Very Low-Income; 10% Low-Income

Sources: Strategic Economics, 2025; CoStar, 2025; Developer Interviews, 2025; City of Sunnyvale, 2025.
Notes:
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 20 percent on-site requirement, but the likelihood of feasibility declines as the percentage requirement and/or depth of affordability increase. As shown in Figure 26, market conditions, rather than the inclusionary policy's income targets, are the main determinants of feasibility for the 8-Story Rental *prototype*. While improved conditions could add up to $180,000 per unit in residual land value, raising the current on-site requirement to include an additional five percent low-income households (Scenario B) would reduce the residual land value by up to approximately $14,000 per unit under the same conditions. Raising the requirement from the current policy to include an additional five percent very low-income units (Scenario C) would reduce the residual land value by up to $31,000 per unit.

FIGURE 26: RESIDUAL LAND VALUE VS. LAND COSTS PER UNIT FOR 8-STORY RENTAL APARTMENTS IN SUNNYVALE, WITH CURRENT MARKET CONDITIONS VS. RANGE OF POSSIBLE MARKET OUTCOMES



Scenario Descriptions:

- Scenario A: Current Inclusionary Requirements: 5% Very Low-Income; 10% Low-Income
- Scenario B: 5% Very Low-Income; 15% Low-Income
- Scenario C: 10% Very Low-Income; 10% Low-Income

Sources: Strategic Economics, 2025; CoStar, 2025; Developer Interviews, 2025; City of Sunnyvale, 2025.
Notes:
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 foregone from meeting the on-site requirement for below market rate units. This approach used the *affordability gap,* the difference in revenue per net square foot (inclusive of parking revenue) 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 maximum rent assumptions as discussed in Figure 12. This approach avoids creating an in-lieu fee that is less expensive than the likely cost of providing on-site units. Per square foot in-lieu fees were defined using the habitable residential area of each *prototype*. 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 on-site percentage and income targets), with potential adjustments to incentivize the City's preference for either on-site units or the collection of fee revenues.

Based on this analysis, Sunnyvale's current in-lieu fees are not high enough to match the cost of providing inclusionary units. Detailed in-lieu fee findings are summarized below:

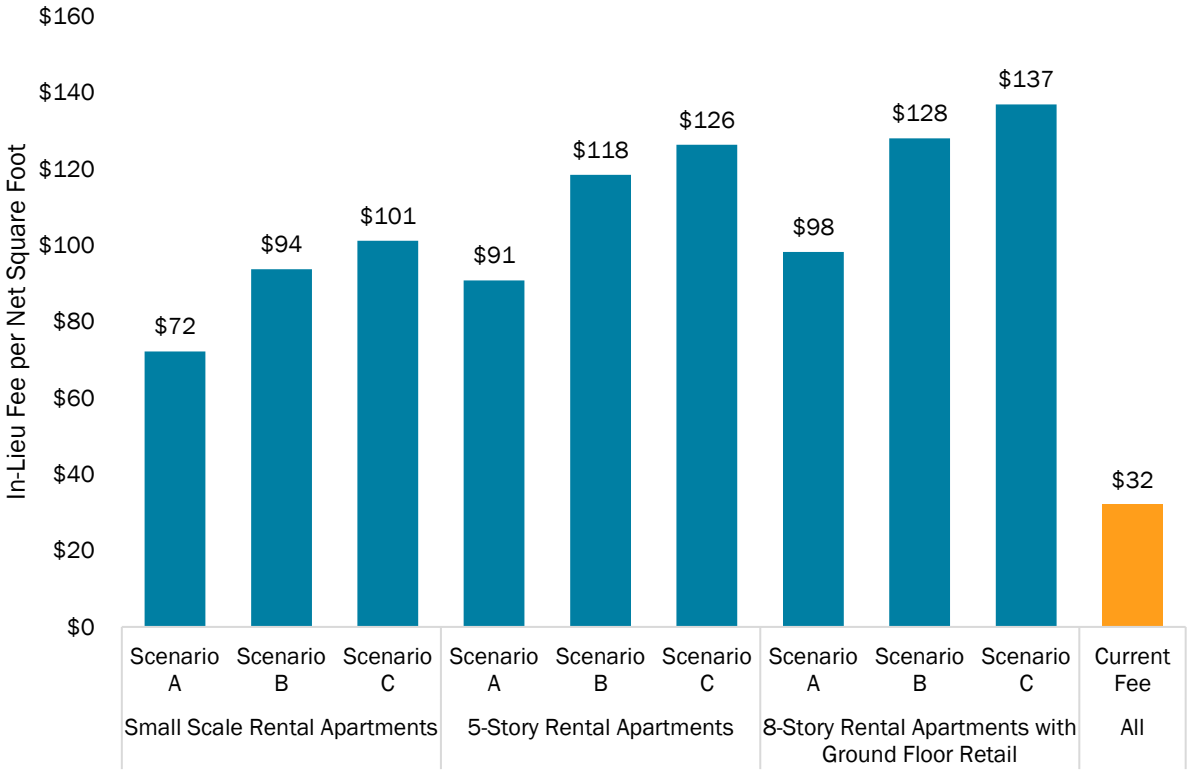
- **The equivalent in-lieu fee for Sunnyvale's current inclusionary policy would be $93 per habitable square foot for the townhome *prototype* and $85 per square foot for the 5-story condo *prototype* (Figure 27).**
    - In comparison, the City's current in-lieu fee requirement—seven percent of total sales price—equates to $69 per square foot for the Townhome *prototype* and $70 per square foot for the 5-Story Condo *prototype*. The affordability gap with Sunnyvale's current inclusionary requirement is approximately 8.5 percent of projected sales prices for both townhomes and condos.

- **For rental *prototypes*, the in-lieu fee equivalent to the current policy would be $72 per habitable square foot for the Small Scale Rental *prototype*; $91 per square foot for 5-story Rental; and $98 per square foot for the 8-story Rental *prototype* (Figure 28).**
    - In comparison, the City's current in-lieu fee requirement for multifamily rentals is $32 per square foot.

FIGURE 27: EQUIVALENT IN-LIEU FEE PER NET SQUARE FOOT CORRESPONDING TO REVENUE FOREGONE FROM INCLUSIONARY POLICY IN SUNNYVALE BY INCLUSIONARY SCENARIO – OWNERSHIP UNITS

Sources: Strategic Economics, 2025; City of Sunnyvale, 2025.
Note: The current fee structure is based on seven percent of the sales price for comparable market rate units. This chart shows the per square foot equivalent for the average unit in each prototype.

FIGURE 28: EQUIVALENT IN-LIEU FEE PER NET SQUARE FOOT CORRESPONDING TO REVENUE FOREGONE FROM INCLUSIONARY POLICY IN SUNNYVALE BY INCLUSIONARY SCENARIO – RENTAL UNITS



- Scenario A: Current Inclusionary Requirements: 5% Very Low-Income; 10% Low-Income
- Scenario B: 5% Very Low-Income; 15% Low-Income
- Scenario C: 10% Very Low-Income; 10% Low-Income

Sources: Strategic Economics, 2025; City of Sunnyvale, 2025.
Note: Inclusionary requirements differ by scenario, as described below:

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 Sunnyvale. 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

Inclusionary Requirements

Most peer jurisdictions require an on-site 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 on-site 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.

While some cities share the City of Sunnyvale's rental policy approach by targeting a mix of income levels, others allow flexibility as long as inclusionary units average a particular AMI level. For example, Cupertino targets very low and low-income units, but San Jose gives rental developers a choice: they can either target extremely low-income households, or provide a mix of very low, low, and moderate-income units. On the other hand, both Santa Clara and Mountain View use a weighted average approach, wherein individual units can target any BMR income level as long as the average of all inclusionary units is below a target AMI. Santa Clara's target AMI is 100 percent, and Mountain View's is 65 percent for rental 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. SUNNYVALE, 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[1]	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)[2]
		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.

Notes:

1. Los Gatos uses a sliding scale for the required inclusionary percentage for projects between 20 and 100 units. Larger projects require a higher percentage of inclusionary units.
2. All requirements listed within the same cell of the table are additive. For example, Mountain View requires a total of 25% inclusionary for Townhomes and Rowhouses (15% Moderate + 10% Above Moderate).

In-Lieu Fee Policies

While most jurisdictions have in-lieu fees enabled by their inclusionary policies, Cupertino, Palo Alto, and the City of Santa Clara have affordable housing impact fees. Affordable housing impact fees can be applied separately from an inclusionary policy, but require a residential nexus study to demonstrate the connection between new housing development and new demand for affordable housing in a jurisdiction. The Cities of Cupertino and Santa Clara apply affordable housing impact fees to both ownership and rental projects (Figure 30 and Figure 31), while Palo Alto applies affordable housing impact fees only on rental projects. Los Gatos, Mountain View, and Sunnyvale charge in-lieu fees that tend to be related to their inclusionary requirements and would not be possible independent of that policy.

In-lieu fee levels vary widely among jurisdictions and housing types. Fees on ownership housing—as shown in Figure 19—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—as shown in Figure 20—are generally lower. These fees 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.

FIGURE 30: 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 31: 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
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
Santa Clara	Nexus-Supported Impact Fee/In-Lieu Fee	Projects with 3 or more units	$30.48
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. At the applicant's option, rental housing projects in Sunnyvale with between three and six rental units may choose to fulfill some or all of their inclusionary rental housing obligation by paying the applicable small rental housing in-lieu fee.

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 on rental units may be subject to review by HCD 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 in combination with a failure to meet 75 percent of above moderate RHNA goals.[7] Inclusionary policies under review may need to perform a feasibility study demonstrating that "the ordinance does not unduly constrain the production of housing." If the City's inclusionary policy remains at 15 percent, it would not be subject to HCD review.

- **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

[7] The 75 percent target must be evaluated on at least five years of housing activity. RHNA targets are pro-rated over this period. From January 31st, 2023 through the end of 2024 (approximately one-quarter of Sunnyvale's eight-year RHNA Cycle), the City had met around five percent of its very low-income RHNA target; five percent of its low-income RHNA target; seven percent of its moderate-income RHNA target; and ten percent of its above moderate-income RHNA target. Sunnyvale did meet its above moderate-income RHNA target for the previous cycle.

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 at least 15 percent of units to be affordable, with an average income of 80% of AMI or less.
- Ownership Policy: must require at least 15 percent of units to be affordable, with an average income of 120% of AMI or less.

Compliance with TOC policies allows the City to be more competitive for transportation funding awarded through the One Bay Area Grant program. Sunnyvale's current inclusionary policy complies with these policy parameters.

- **The State Density Bonus law (SDBL) 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. Projects that meet the City's current 15 percent inclusionary policy are therefore eligible for density bonuses under SDBL. As a result, these residential projects may end up achieving an inclusionary percentage lower than 15 percent and may be more financially feasible than *prototypes* suggest.

FIGURE 32: 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

SUMMARY OF FINDINGS AND CONCLUSIONS

This section provides a summary of findings from the feasibility and inclusionary analyses along with conclusions that inform modifications to the City's inclusionary policy. It is important to note that although *prototype* projects may not be feasible, individual development projects may be feasible due to unique characteristics such as land costs, financing, sales prices, and other factors.

Findings

The Townhome *prototype* is marginally feasible while meeting the City's current on-site inclusionary requirements—particularly with modest improvements in market conditions. Strategic Economics found that the Townhome prototype evaluated in this study is marginally feasible with Sunnyvale's on-site inclusionary requirement. Sunnyvale continues to see steady production of townhome projects, demonstrating that individual projects are financially feasible, although circumstances will vary from project to project.

The 5-Story Condo *prototype* would require a significant improvement in the market sales value for this product type to be viable in Sunnyvale—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 the condo *prototype* could be developed in Sunnyvale if market conditions improve significantly, but the 5-Story Condo *prototype* is unlikely to be developed under current market conditions.

The Small Scale and 5-Story Rental *prototypes* face financial feasibility challenges under current market conditions and are unlikely to support an inclusionary requirement in the City of Sunnyvale in the near future, even under improved market conditions. Like the 5-Story Condo *prototype*, both the Small Scale Rental and 5-Story Rental *prototypes* were projected to generate a negative residual land value due to current market conditions. Though it is possible that a developer might pursue similar projects under unique circumstances, it is unlikely that many smaller density rental projects will occur in the City of Sunnyvale in the near future—regardless of inclusionary requirements or market conditions.

The 8-Story Rental *prototype* does not *currently* support the City's 15 percent inclusionary requirement—and therefore is also unable to support higher requirements—but this prototype could support inclusionary requirements under improved market conditions. With moderate increases in rent and/or decreases in capitalization rates, the 8-Story Rental *prototype* could support the City's current inclusionary policy. More significant market changes would be required for the *prototype* to support the 20 percent inclusionary requirements tested in scenarios B and C.

The current in-lieu fee levels represent a lower financial burden on development than meeting the inclusionary policy onsite. There is a modest affordability gap between market rate rental units and BMR units, and a more significant gap in revenue between market rate ownership units and BMR units. In order to match the affordability gap per net square foot for the City's current requirements, townhome in-lieu fees would need to increase to $93, and condo in-lieu fees would need to increase to $89. Rental in-lieu fees would need to increase to between $72 and $98 per net square foot.

Conclusions

The City of Sunnyvale should update its ownership in-lieu fee policy to consider a per square foot-based in-lieu fee and align its in-lieu fee levels to more closely match the revenue loss from providing

affordable units on-site. Currently, Sunnyvale's in-lieu fees represent a significantly lower economic burden on ownership projects than does the on-site requirement. Although payment of fees in lieu of providing affordable units is only available to the developer under specific circumstances, the City could realign its in-lieu fees for cases in which they would apply. The City could also consider applying a higher fee to townhomes than condos—based on differences in both affordability gap and feasibility between the two product types. In addition, the current approach of determining in-lieu fees based on sales price is more administratively burdensome than a per square foot approach and makes it harder to align fee levels with those of neighboring jurisdictions (which typically use a per square foot approach).

The City of Sunnyvale could maintain its existing rental inclusionary requirements in anticipation of potential future improvements in market conditions—which are currently challenging for residential development—but could also consider increasing in-lieu fees for rental projects. As discussed in previous sections, the development conditions for rental apartments are currently challenging due to several broader factors impacting rental housing development throughout the region. Maintaining the current policy would allow for the production of very low- and low-income units under circumstances in which market conditions improve. In such a scenario, increasing the level of in-lieu fees would bring in-lieu fee costs more in line with the cost of providing on-site affordable units.

Maintaining a baseline on-site requirement of 15 percent would also help the City maintain alignment with local and state policy requirements. For an 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 using 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 de facto percentage of affordable units lower than 15 percent if it were proposed under SDBL because the bonus units would not count towards the City's inclusionary requirement.

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 an 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.

If market conditions improve significantly, the City could consider increasing inclusionary requirements for rental projects if a number of these projects start being built under current requirements; however, any such decision should consider multiple market and policy factors. First, AB 1505 places limitations on the circumstances and means by which jurisdictions can increase inclusionary requirements beyond 15 percent. Requiring more than 15 percent of units to be low-income (80 percent of AMI) or below may trigger HCD review and a supporting feasibility study, unless a jurisdiction has attained 75 percent of its above moderate-income RHNA requirement (pro-rated over the previous five years). If development conditions improve, the City could consider adding a five percent *moderate-income* requirement to the existing inclusionary policy without triggering this provision of AB 1505. However, inclusion of a moderate-income inclusionary requirement for rental projects would not be especially useful currently, both because of current development challenges and because moderate income rent limits are similar to current market rents.

Appendix I: Financial Feasibility Assumptions

Cost Assumptions

FIGURE 33: DETAILED COST ASSUMPTIONS FOR OWNERSHIP PROTOTYPES IN SUNNYVALE

	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			
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 34: DETAILED COST ASSUMPTIONS FOR RENTAL PROTOTYPES IN SUNNYVALE

	Unit of measure	Small Scale Rental Apartments	5-Story Rental Apartments	8-Story Rental Apartments with Ground Floor Retail
Land Costs				
Typical 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 35: CITY OF SUNNYVALE MUNICIPAL FEE ESTIMATES FOR CURRENT POLICY - 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
Number of Units	30	54	90	128	250
Fractional In-Lieu Fee	$13,041		$4,576		
Permits & Fees					
Building Permit	$162,835	$191,367	$518,778	$475,217	$828,990
Plan Check	$113,985	$133,957	$363,145	$332,652	$580,293
Sewer & Water	$607,148	$1,064,780	$1,757,957	$2,482,541	$4,809,490
Other	$493,849	$451,274	$1,500,721	$1,130,496	$2,244,806
Total	**$1,377,816**	**$1,841,378**	**$4,140,601**	**$4,420,906**	**$8,463,579**
Per Unit Permits and Fees	**$45,927**	**$20,460**	**$76,678**	**$34,538**	**$33,854**
Impact Fees					
Traffic	$87,600	$157,680	$262,800	$373,760	$508,500
Parks	$1,528,956	$2,344,399	$4,586,868	$5,555,207	$10,804,622
Schools	$262,386	$312,939	$763,680	$686,584	$1,176,988
Other	$0	$0	$160,200	$6,208	$460,642
Total	**$1,878,942**	**$2,815,018**	**$5,773,548**	**$6,621,759**	**$12,950,752**
Per Unit Impact Fees	**$62,631**	**$52,130**	**$64,151**	**$51,732**	**$51,803**

Sources: City of Sunnyvale, 2025; Strategic Economics, 2025.
Notes:
1. In-lieu fee applied to fractional units for ownership housing only. Calculated as seven percent of total sales price for market rate units, multiplied by the share of required BMR units not provided on-site. Rental projects are required to round to the nearest whole number rather than address fractional units.
2. Table Reflects FY2024-25 year fees except for parks. At the request of the City, park impact fees were updated to use the FY2025-26 fees.
3. Park fees also reflect discounted rate due to exemptions for affordable rental units.

Prototype and Revenue Assumptions

FIGURE 36: MARKET RATE OWNERSHIP PRO FORMA REVENUE ASSUMPTIONS, SUNNYVALE

	Unit of measure	Townhomes		5-Story Condos	
Unit Size			**Share of Units in Prototype**		**Share of Units in Prototype**
1-BD	sq. ft.	-	0%	900	10%
2-BD	sq. ft.	1,400	23%	1,300	55%
3-BD	sq. ft.	1,700	50%	1,600	30%
4-BD	sq. ft.	2,000	27%	1,900	5%
Average Unit Size	sq. ft.	1,710		1,382	
Unit Sales Value		**Price**		**Price**	
1-BD	per unit	-		850,000	
2-BD	per unit	1,425,000		1,325,000	
3-BD	per unit	1,675,000		1,575,000	
4-BD	per unit	1,900,000		1,700,000	
Average Sales Value	**per unit**	**$1,676,667**		**$1,372,802**	
Marketing Expense	% of Sales Price	5%		5%	
Net Revenue	per unit	$1,592,833		$1,304,162	

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

FIGURE 37: MARKET RATE RENT PER UNIT ASSUMPTIONS, CITY OF SUNNYVALE

	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 38: 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-Income	$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 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%
Average Monthly Rent per Unit[2]			
Very Low-Income	$1,832	$1,813	$1,769
Low-Income	$2,393	$2,367	$2,310
Monthly Operating Expenses per Unit[3]	$1,206	$1,293	$1,236

Sources: Strategic Economics, 2025; City of Sunnyvale, 2025; CoStar, 2025.
Notes:
1. Reflects distribution of units in prototype.
2. Based on Sunnyvale's Rent Limits for BMR Units, 2025.
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.