STRATEGIC ECONOMICS

COMMUNITY PLANNING COLLABORATIVE

Santa Clara Commercial Linkage Fee Study

PUBLIC DRAFT REPORT

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City of Santa Clara

The Center of What's Possible

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I. Introduction

REPORT PURPOSE

The City of Santa Clara is collaborating with five other jurisdictions in Santa Clara County to analyze and potentially implement new or revised affordable housing policy tools. In addition to the City of Santa Clara, this includes Gilroy, Los Altos Hills, Los Gatos, Mountain View, and Sunnyvale. Collectively, these jurisdictions have commissioned Strategic Economics to perform a Grand Nexus Study. This 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

Different jurisdictions have opted into different components of the study which culminated in three reports: the Residential Impact Fee Study; the Residential Feasibility Study and Inclusionary Analysis; and the Commercial Linkage Fee Study (this report).

This report focuses on the legal basis and findings for a commercial linkage fee in the City of Santa Clara. The report describes the methodology and results of the commercial nexus analysis and presents policy considerations, such as financial feasibility and fees used in comparison cities, for updating the City's commercial linkage fee.

BACKGROUND ON COMMERCIAL LINKAGE FEES

A commercial linkage fee is a type of impact fee that charges new commercial development for its role in creating new demand for affordable housing. It is based on the finding of a "rational nexus" between the new employment created by commercial development and the resulting need for affordable housing. The nexus analysis establishes this relationship by quantifying the increase in affordable housing demand connected to the jobs that accompany new commercial development, and the funding that would be required to address the increase. Municipalities may charge new commercial development a fee (sometimes called a "jobs-housing linkage fee") to address this funding gap.

The magnitude of the nexus, and hence the maximum justifiable fee, depends on the number and types of jobs created and the prevailing cost of providing housing for the new worker households. The ability of the new workers to pay for housing costs is linked to their occupations, which determines their wages. Some of the new workers will have household incomes below the market prices for new homes and would qualify for income-restricted affordable housing. This study quantifies the demand for housing created at several household income levels and estimates the affordable housing funding gap between what worker households can afford to rent or buy and the actual costs of building new housing.

The City of Santa Clara adopted a commercial linkage fee in 2018 based on a nexus analysis conducted the year prior. The impact fee applies to all new non-residential developments in the city. Figure 1 shows the current commercial linkage fees in Santa Clara by land use. Under the current policy, the City adjusts impact fees for inflation annually, using Engineering News Record's Building

Cost Index for San Francisco. The City of Santa Clara uses revenue collected from the impact fee to subsidize new affordable housing projects.

FIGURE 1: SANTA CLARA AFFORDABLE HOUSING FEES FOR NONRESIDENTIAL DEVELOPMENT, FY 2024/25

Non-Residential Project Type	Square Feet	Fee / Square Foot
Retail	< 5,000	No Fee
	>= 5,000	$7.62
Hotel	any	$7.62
Office (a)	< 20,000	$15.24
	>= 20,000	$30.48
Light Industrial	< 20,000	$7.62
	>= 20,000	$15.24
Low-Intensity Uses (b)	any	$3.05
Other Commercial	any	$7.62

(a) Office includes the following categories: Industrial Office, R&D, and Commercial Office.

(b) Low-Intensity Uses include data centers and warehouses.

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

REPORT ORGANIZATION

This report is organized in two sections:

- Section II, Commercial Nexus Analysis, is a joint analysis performed for multiple jurisdictions in Santa Clara County. This section describes the methodology used for the nexus analysis, the nexus results, and the corresponding maximum justifiable commercial linkage fees associated with each commercial use.
- Section III, Policy Considerations and Findings, is customized to the City of Santa Clara's local context. This section describes linkage fees charged in nearby jurisdictions, how linkage fees impact financial feasibility, and how they relate to the production of affordable housing units in the City of Santa Clara. It also fulfills the requirements of AB 602, the State of California's requirements for impact fees as of 2022. Lastly, the Findings and Conclusions portion of this section presents Strategic Economics' overall conclusions from the study to support any updates to Santa Clara's linkage fees.

The report also includes two appendices:

- Appendix I: Occupation Distribution and Nexus analysis Assumptions, and
- Appendix II: Financial Feasibility and Pro Forma Assumptions

II. Commercial Nexus Analysis

This section quantifies the nexus between new commercial development in Santa Clara and the need for affordable housing in the city. Strategic Economics used an established step by step methodology to calculate the relationship between new commercial development, new employee households in the City of Santa Clara, the quantity of affordable housing those households need, and the amount of funding that would be required to fill that need. These steps provide the legal rationale for calculating the maximum justifiable fee level that could be charged per square foot of new commercial development.

While the nexus analysis is a model of employment and affordable housing impacts within a jurisdiction, it is standard practice to utilize data related to household spending, industry, and employment patterns maintained by the Bureau of Labor Statistics (BLS) at a countywide level. Average wages are expressed for the San José-Sunnyvale-Santa Clara Metropolitan Statistical Area, reflecting the regional nature of labor markets. Although development generally causes a regional impact on worker household growth and affordable housing demand, the purpose of the nexus analysis is to calculate the fee necessary to mitigate the entire impact of development within each jurisdiction.

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

This section begins with a general overview of the commercial nexus methodology, followed by the specific results in each step of the analysis, concluding with the maximum justifiable commercial linkage fees.

METHODOLOGY

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

STEPS 1-4: NEXUS BETWEEN NEW COMMERCIAL DEVELOPMENT AND AFFORDABLE HOUSING DEMAND

The first part of the nexus analysis, steps one through four, identifies categories of commercial land use in Santa Clara County and, for each category, estimates the accompanying worker households that would need affordable housing.

Step 1. Define Commercial Land Uses

The commercial land uses analyzed in the nexus represent broad categories of development that may occur in Santa Clara County. The nexus analysis includes five categories of commercial land use: 1) Office; 2) Life Science / R&D; (3) Industrial; (4) Hotel; and (5) Retail. Each land use is associated with a general profile of industries and occupations associated with that land use.

Step 2. Estimate Employment Generated by Commercial Development

Strategic Economics estimated the number of workers associated with each land use by assuming an employment density, based on available survey data for different types of commercial development. The employment density is expressed as the number of square feet of building area per worker. For example, a commercial development of 100,000 square feet and employing 100 workers has an employment density of 1,000 square feet (100,000 / 100) per worker.

Step 3. Estimate New Worker Households and Annual Household Incomes

This step uses data from the U.S. Bureau of Labor Statistics (BLS) to translate total employment generated by each land use to a distribution of worker household incomes. First, Strategic Economics identified the set of industries for each land use using the Quarterly Census of Employment and Wages (QCEW). Next, the national Industry-Occupation-Matrix was used to estimate the number of workers in each occupation by industry. Finally, the average wage paid to each worker was calculated using occupation and wage data for the San Jose-Sunnyvale-Santa Clara Metropolitan Statistical Area. The average worker's wage was multiplied by the average number of workers per household in the county to derive an average gross income for worker households. According to the U.S. Census Bureau American Community Survey 5-Year Estimates (2019-2023), there are 1.5 wage-earners per worker household in Santa Clara County. Individual worker wages are therefore multiplied by 1.5 to represent household incomes. This step assumes that the income of the second wage-earner is similar to that of the first wage-earner.

Step 4. Calculate Affordable Housing Need by Dividing Households into Income Categories

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

STEPS 5-7: AFFORDABLE HOUSING FUNDING GAP

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

Step 5. Estimate Worker Household Contribution

The approach to calculating the estimated worker household contribution varies by rental versus ownership housing. For rental housing, the worker household contribution was based on a calculation of a "supportable debt," or the amount of the housing's development cost that could be financed with rental income from these households. For ownership housing, the worker household contribution is

simply the income-restricted sales price of the affordable unit. Based on existing affordable housing policies, Strategic Economics assumed that very low- and low-income households would occupy rental housing units and moderate-income groups would occupy an even mix of rental and ownership housing.

Step 6: Estimate Affordable Housing Development Costs

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

Step 7. Calculate the Funding Gap

Strategic Economics calculated the funding gap as the difference between the worker contribution calculated in step 6 and the development cost calculated in Step 7. The funding gap for very low- and low-income households is the funding gap for rental housing, while the funding gap for moderate-income households is an average of the funding gaps for rental and ownership housing.

STEP 8: MAXIMUM COMMERCIAL LINKAGE FEES

Step 8. Estimate Nexus-based Fees for each Commercial Land Use

The maximum commercial linkage fee for each land use was based on the total affordable housing funding gap, as calculated in the previous step, across all worker household income groups. The total funding gap is then converted to a maximum fee per square foot.

CALCULATIONS AND RESULTS

Steps 1-4: Nexus between New Commercial Development and Affordable Housing Demand

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

STEP 1: DEFINE COMMERCIAL LAND USES

This study focuses on five general categories of nonresidential land use that may occur in Santa Clara County:

1. **Office**: Includes professional and business services offices and medical/dental office.
2. **Life Science/R&D:** Includes a broad category of uses including Life Science laboratory/office hybrid space and various other types research and development uses.
3. **Industrial:** Includes uses such as warehouse, distribution, and manufacturing buildings.
4. **Hotel:** Includes full-service hotels, limited-service hotels, motels, and other lodging.
5. **Retail:** Includes retail stores, eating and drinking places (cafes, restaurants, bars, etc.), and personal and financial services such as salons, drycleaners, retail banks.

STEP 2: ESTIMATE EMPLOYMENT GENERATED BY COMMERCIAL DEVELOPMENT

- For each commercial use, Strategic Economics assumed an average employment density based on a combination of national and regional survey data for existing commercial buildings. Strategic Economics also reviewed other recently completed linkage fee nexus studies to corroborate these assumptions. The **Office** worker density assumption was based on a mix of commercial office development types and medical offices. These densities ranged from 2.8 to 5.2 workers per 1,000 square feet among the data sources surveyed (Figure 49). Strategic Economics assumed a density of 2.9 workers per 1,000 square feet (350 square feet per worker), toward the lower end of this range. This is consistent with other recent commercial linkage fee studies for office.
- The **Life Science / R&D** worker density assumption was based on a typical new Life Science building that includes a mix of office and laboratory space. Sources for worker density ranged from 2.3 to 5.1 workers per 1,000 square feet (Figure 50). Strategic Economics assumed a density of 2.4 workers per 1,000 square feet (425 square feet per worker), toward the lower end of this range.
- The **Industrial** land use category includes a range of possible developments, including light manufacturing (relatively higher worker density of approximately 1.0 to 2.5 workers per thousand square feet; see Figure 51) and large warehouse, distribution, and logistics centers (relatively lower worker densities of approximately 0.4 to 1.0 workers per thousand square feet). Strategic Economics assumed a density representing a mix of these uses, or 1.0 workers per thousand square feet (1,000 square feet per worker). This represents a more conservative assumption than some recent nexus studies performed in San José and Pleasanton.
- The **Retail** land use category may include a range of retail stores, personal services stores, and eating and drinking places. As shown in Figure 52, many national estimates for retail employment density are less than 2.0 workers per 1,000 square feet. However, retail trends in the region tend to include more compact development with a high mix of food and beverage service, with high employment densities as reflected in the Environmental Impact Reports for recent developments. Strategic Economics estimated retail employment density of 2.0 workers per 1,000 square feet (500 square feet per worker), on the lower end of the range of these EIRs.
- The **Hotel** land use assumes a mid-range, limited service hotel that would have an employee density that is lower than a full service hotel but higher than a budget hotel. Based on a study by Vallen and Vallen (see Figure 53) and recent developer interviews, Strategic Economics estimated 0.8 employees per room. This is equivalent to 1.4 workers per 1,000 square feet (713 square feet per worker), assuming 570 gross square feet per room based on recent hotel development trends in Santa Clara County.

Figure 2 shows the assumptions for worker density for each commercial land use, measured by the average number of workers per 1,000 square feet of commercial floor area. Because each category of land use represents a broad range of development types, worker density will vary for specific developments. Strategic Economics made efforts to use conservative assumptions for worker density to avoid overestimating the impact of a typical development. Figures 49 through 53 in the Appendix show the sources used to develop worker density assumptions for each of the commercial land uses.

- The **Office** worker density assumption was based on a mix of commercial office development types and medical offices. These densities ranged from 2.8 to 5.2 workers per 1,000 square feet among the data sources surveyed (Figure 49). Strategic Economics assumed a density of 2.9 workers per 1,000 square feet (350 square feet per worker), toward the lower end of this range. This is consistent with other recent commercial linkage fee studies for office.
- The **Life Science / R&D** worker density assumption was based on a typical new Life Science building that includes a mix of office and laboratory space. Sources for worker density ranged from 2.3 to 5.1 workers per 1,000 square feet (Figure 50). Strategic Economics assumed a density of 2.4 workers per 1,000 square feet (425 square feet per worker), toward the lower end of this range.
- The **Industrial** land use category includes a range of possible developments, including light manufacturing (relatively higher worker density of approximately 1.0 to 2.5 workers per thousand square feet; see Figure 51) and large warehouse, distribution, and logistics centers (relatively lower worker densities of approximately 0.4 to 1.0 workers per thousand square feet). Strategic Economics assumed a density representing a mix of these uses, or 1.0 workers per thousand square feet (1,000 square feet per worker). This represents a more conservative assumption than some recent nexus studies performed in San José and Pleasanton.
- The **Retail** land use category may include a range of retail stores, personal services stores, and eating and drinking places. As shown in Figure 52, many national estimates for retail employment density are less than 2.0 workers per 1,000 square feet. However, retail trends in the region tend to include more compact development with a high mix of food and beverage service, with high employment densities as reflected in the Environmental Impact Reports for recent developments. Strategic Economics estimated retail employment density of 2.0 workers per 1,000 square feet (500 square feet per worker), on the lower end of the range of these EIRs.
- The **Hotel** land use assumes a mid-range, limited service hotel that would have an employee density that is lower than a full service hotel but higher than a budget hotel. Based on a study by Vallen and Vallen (see Figure 53) and recent developer interviews, Strategic Economics estimated 0.8 employees per room. This is equivalent to 1.4 workers per 1,000 square feet (713 square feet per worker), assuming 570 gross square feet per room based on recent hotel development trends in Santa Clara County.

FIGURE 2: EMPLOYMENT DENSITY BY COMMERCIAL USE

Commercial Use	Workers / 1,000 Square Feet	Square Feet / Worker
Office	2.9	350
Life Science / R&D	2.4	425
Industrial	1.0	1,000
Retail	2.0	500
Hotel	1.4	713

Source: Strategic Economics, 2025.

STEP 3: NEW WORKER HOUSEHOLDS AND ANNUAL HOUSEHOLD INCOMES

The first step in calculating household incomes is to establish a list of the industries associated with each commercial use (as defined by the North American Industry Classification System, or "NAICS"). Using industry data from Quarterly Census of Employment and Wages (QCEW), industries were associated with each land use. Figure 43 through Figure 47 of the Appendix list the industries associated with each commercial use.

The next step is to identify all the occupations that are associated with each industry. This calculation relied on the Bureau of Labor Statistics' (BLS) national industry-occupation matrix, which describes the share of workers by occupation employed by all industries nationwide. The national BLS occupational matrix is then calibrated to match the county's employment mix by weighting the national employment distribution to reflect the distribution of employment by industry within Santa Clara County. Strategic Economics combined this matrix with local occupational wage statistics describing average wages in each occupation in the San Jose-Sunnyvale-Santa Clara MSA to estimate worker wages for each commercial use.

The model also accounted for the average number of workers in a household contributing to overall household income. On average, there are 1.5 workers per household in Santa Clara County, as shown in Figure 3. To calculate the number of households added to Santa Clara County as a result of new jobs, Strategic Economics divided the total number of workers in each occupation by 1.5.

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

The final result of this step of analysis is a list, for each commercial use, of every occupation supported by new commercial development, the number of households associated with that occupation, and the average household income of those households.

FIGURE 3: ASSUMPTIONS USED TO ADJUST FOR WORKERS PER HOUSEHOLD AND HOUSEHOLD SIZE

Value	Assumption
Number of wage earners per worker household (Rounded; Santa Clara County)	1.5
Average Household Size (Rounded; Santa Clara County)	3

Source: U.S. Census American Community Survey 5-Year Estimates, 2019-2023; Strategic Economics, 2025.

STEP 4: DEMAND FOR AFFORDABLE HOUSING FROM NEW WORKER HOUSEHOLDS

Total household incomes for each occupation were then compared to the County's household income categories to determine the proportion of new households associated with each commercial use falling into each income category. HCD annually publishes a table of income levels qualifying as extremely low-, very low-, low-, and moderate-income in every California county. This table is based on each county's area median income (AMI), and accounts for the number of people in each household. Strategic Economics used this table to designate household income categories for worker households in each occupation, using the three-person household income limits shown in Figure 4. This assumption aligns with Santa Clara County's average household size, as shown in Figure 3.

FIGURE 4: AREA MEDIAN INCOME (AMI) LEVELS FOR 3-PERSON HOUSEHOLDS IN SANTA CLARA COUNTY, 2024

Income Category	Maximum Income
Area Median Income (AMI)	$165,850
Extremely Low Income (<30% AMI)	$49,800
Very Low Income (31-50% AMI)	$82,950
Low Income (51-80% AMI)	$131,500
Moderate Income (81-120% AMI)	$199,050

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

As shown in Figures 5 through 9 below, the distribution of workers within each income group varies markedly by commercial use. Most Retail and Hotel employees are in the very low-income group, whereas employment in Office and Life Science / R&D tends to be distributed more in the higher income groups. The primary affordable housing need associated with these prototypes is at the very low-income, low-income, and moderate-income levels. Worker households earning above 120 percent were not included in the affordable housing need because affordable housing funding is not typically available to this group.

FIGURE 5: TOTAL WORKER HOUSEHOLDS PER 1,000 SQUARE FEET REQUIRING AFFORDABLE HOUSING, OFFICE

	Worker Households / 1,000 SF	Percent of Worker Households
Households Requiring Affordable Housing	0.89	47%
Very Low Income (<=50% AMI) (a)	0.15	8%
Low Income (51-80% AMI)	0.36	19%
Moderate Income (81-120% AMI)	0.39	20%
Above Moderate Income Households (b)	1.01	53%
Total Households Generated / 1,000 Square Feet	1.90	100%

Source: Strategic Economics, 2025.
(a) The nexus analysis did not identify any extremely low-income households.
(b) The number of households requiring affordable housing does not include households making above 120% AMI because these households are typically not targeted by affordable housing programs.

FIGURE 6: TOTAL WORKER HOUSEHOLDS PER 1,000 SQUARE FEET REQUIRING AFFORDABLE HOUSING, LIFE SCIENCE / R&D

	Worker Households / 1,000 SF	Percent of Worker Households
Households Requiring Affordable Housing	0.75	48%
Very Low Income (<=50% AMI) (a)	0.10	6%
Low Income (51-80% AMI)	0.36	23%
Moderate Income (81-120% AMI)	0.29	19%
Above Moderate Income Households (b)	0.82	52%
Total Households Generated / 1,000 Square Feet	1.57	100%

Source: Strategic Economics, 2025.
(a) The nexus analysis did not identify any extremely low-income households.
(b) The number of households requiring affordable housing does not include households making above 120% AMI because these households are typically not targeted by affordable housing programs.

FIGURE 7: TOTAL WORKER HOUSEHOLDS PER 1,000 SQUARE FEET REQUIRING AFFORDABLE HOUSING, INDUSTRIAL

	Worker Households / 1,000 SF	Percent of Worker Households
Households Requiring Affordable Housing	0.41	62%
Very Low Income (<=50% AMI) (a)	0.09	14%
Low Income (51-80% AMI)	0.22	32%
Moderate Income (81-120% AMI)	0.10	15%
Above Moderate Income Households (b)	0.26	38%
Total Households Generated / 1,000 Square Feet	0.67	100%

Source: Strategic Economics, 2025.
(a) The nexus analysis did not identify any extremely low-income households.
(b) The number of households requiring affordable housing does not include households making above 120% AMI because these households are typically not targeted by affordable housing programs.

FIGURE 8: TOTAL WORKER HOUSEHOLDS PER 1,000 SQUARE FEET REQUIRING AFFORDABLE HOUSING, RETAIL

	Worker Households / 1,000 SF	Percent of Worker Households
Households Requiring Affordable Housing	1.27	95%
Very Low Income (<=50% AMI) (a)	1.05	79%
Low Income (51-80% AMI)	0.19	14%
Moderate Income (81-120% AMI)	0.03	2%
Above Moderate Income Households (b)	0.06	5%
Total Households Generated / 1,000 Square Feet	1.33	100%

Source: Strategic Economics, 2025.
(a) The nexus analysis did not identify any extremely low-income households.
(b) The number of households requiring affordable housing does not include households making above 120% AMI because these households are typically not targeted by affordable housing programs.

FIGURE 9: TOTAL WORKER HOUSEHOLDS PER 1,000 SQUARE FEET REQUIRING AFFORDABLE HOUSING, HOTEL

	Worker Households / 1,000 SF	Percent of Worker Households
Households Requiring Affordable Housing	0.89	95%
Very Low Income (<=50% AMI) (a)	0.48	51%
Low Income (51-80% AMI)	0.33	36%
Moderate Income (81-120% AMI)	0.07	8%
Above Moderate Income Households (b)	0.05	5%
Total Households Generated / 1,000 Square Feet	0.94	100%

Source: Strategic Economics, 2025.
(a) The nexus analysis did not identify any extremely low-income households.
(b) The number of households requiring affordable housing does not include households making above 120% AMI because these households are typically not targeted by affordable housing programs.

Steps 5-7: Affordable Housing Funding Gap

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

STEP 5: ESTIMATE WORKER HOUSEHOLD CONTRIBUTION

The first step in calculating the affordable housing funding gap is to determine the amount that households at the targeted income levels can afford to pay for housing. As introduced in Step 5, most affordable housing programs define very low-income households as those earning 31 to 50 percent of area median income (AMI), low-income households as those earning between 51 and 80 percent of AMI, and moderate-income households as those earning between 81 and 120 percent of AMI.

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

Figure 10 shows the maximum monthly rents for households in each income category. For rental housing to be affordable, renters must pay no more than 30 percent of their gross monthly income on housing costs. The maximum rent was calculated after deducting utility costs (published by the Santa Clara County Housing Authority) from 30 percent of the highest monthly income in each income range. To calculate an average rent, for the purpose of funding gap calculations, Strategic Economics estimated a weighted average rent for each income level based on the average distribution of bedrooms in representative affordable housing projects in Santa Clara County.

FIGURE 10: AFFORDABLE RENTS BY INCOME LEVEL AND BEDROOM COUNT

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

Source: Strategic Economics, 2025.

Strategic Economics calculated the worker household contribution for rental units as the development cost value that could be funded with a market rate loan. This loan amount, called the supportable debt, represents the portion of a housing project's funding stack that could be repaid with ongoing rental income from these worker households, applying assumptions about vacancy rates and operating expenses (see Figure 11).

FIGURE 11: SUPPORTABLE DEBT PER AFFORDABLE UNIT

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

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

To calculate the worker household contribution to ownership housing, Strategic Economics considered all major recurring monthly costs of homeownership and calculated the maximum income-restricted sales price. Figure 12 shows the maximum sales prices for homeowners in a two-bedroom townhome unit. This unit size is consistent with the average household size in Santa Clara County—as shown in Figure 3.[1] The maximum affordable price for ownership housing was calculated based on the total monthly mortgage payment that a homeowner could afford, assuming no more than 30 percent of monthly income is spent on housing and using typical mortgage loan and cost assumptions for income-restricted ownership housing.

FIGURE 12: AFFORDABLE SALES PRICE TO A MODERATE-INCOME HOUSEHOLD FOR A 2-BEDROOM TOWNHOME

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

Source: Strategic Economics, 2025.

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

STEP 6: ESTIMATE AFFORDABLE HOUSING DEVELOPMENT COSTS

Strategic Economics calculated development costs for affordable townhome and multifamily units based on California Tax Credit Allocation Committee (TCAC) data and market research on development costs for market rate homes. The average development cost per unit, for both unit types, is shown in Figure 13. Townhome costs were modeled by adjusting development cost assumptions from a market rate townhome project to account for the reduced costs of land, building amenities, and municipal fees that an affordable project would have in comparison to a market rate project. Rental apartment development costs were calculated using TCAC application data detailing budgets of a sample of recent affordable housing projects in Santa Clara County.

FIGURE 13: AVERAGE DEVELOPMENT COSTS PER UNIT

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

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

STEP 7: CALCULATE THE FUNDING GAP

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

The funding gap for rental units is the difference between the development cost of rental units and the supportable debt from the worker contributions to rental income. The funding gap for the ownership units is simply the difference between the development cost of the townhome units and the maximum affordable sales price.

Strategic Economics calculated the average funding gap for each income group. Very low- and low-income households were assumed to live in rental housing, while moderate-income households were assumed to be split between rental and ownership housing. Therefore, the average funding gap for moderate-income households was calculated as the average of the funding gaps for rental and ownership housing.

Figure 14 shows the funding gap for rental apartments and Figure 15 shows the funding gap calculation for moderate-income townhome units. Figure 16 shows the combined funding gap for both ownership and rental housing at each income level. Since it is assumed that all households in the very low-income and low-income groups are renters, the average funding gap for those income ranges is simply the rental gap.

FIGURE 14: AFFORDABLE HOUSING FUNDING GAP CALCULATION FOR RENTAL HOUSING BY INCOME GROUP

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

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

FIGURE 15: AFFORDABLE HOUSING FUNDING GAP CALCULATION FOR OWNERSHIP HOUSING

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

Source: Strategic Economics, 2025.

FIGURE 16: AVERAGE AFFORDABLE HOUSING FUNDING GAP FOR VERY LOW-, LOW-, AND MODERATE-INCOME HOUSEHOLDS

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

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

Step 8: Maximum Commercial Linkage Fees

This section builds on the findings of the previous analytical steps to calculate the maximum justifiable linkage fees for each commercial land use.

STEP 8: MAXIMUM FEE CALCULATION

The maximum nexus-based fee for each commercial use is based on the sum of the funding gaps associated with all worker households generated by the use. Figure 17 summarizes the total funding gap for each commercial use and the corresponding maximum fee per square foot. A full breakdown of each worker household's income level and total funding gap for each prototype is provided in the Appendix in Figure 48.

As shown in Figure 17, the maximum fee results (rounded to the nearest dollar) are $448 per square foot for Office, $377 per square foot for Life Science / R&D, $222 per square foot for Industrial, $838 per square foot for Retail, and $539 per square foot for Hotel.

The calculated linkage fees are relatively high because the affordable housing funding gaps are high, due to the high cost of developing affordable housing in Santa Clara County, as well as elevated interest rates that drive down the portion of rental and ownership housing that can be financed with

the worker household's income. The maximum fee calculation is particularly high for Retail because retail employees have the lowest average wages.

The maximum fees shown in Figure 17 are not the recommended fees for adoption. They are the preliminary nexus-justified fees that represent the maximum that Santa Clara County jurisdictions could charge to mitigate affordable housing demand related to commercial development.

FIGURE 17: MAXIMUM COMMERCIAL LINKAGE FEES

Commercial Use	Average Funding Gap / Worker Household Requiring Affordable Housing	Worker Households Requiring Affordable Housing / 1,000 SF	Maximum Fee Revenue / 1,000 SF	Maximum Fee / SF
Office	$501,440	0.89	$448,392	$448
Life Science / R&D	$503,151	0.75	$376,987	$377
Industrial	$538,888	0.41	$221,547	$222
Retail	$658,533	1.27	$837,664	$838
Hotel	$607,564	0.89	$538,135	$538

Source: Strategic Economics, 2025.

III. Policy Considerations and Findings

The previous section presented the maximum commercial linkage fees based on the nexus between commercial development and related demand for affordable housing from new worker households in the City of Santa Clara. While these fees represent the maximum level the City could legally charge on the various categories of new commercial development, jurisdictions with commercial linkage fees generally set the fees at a level significantly below the maximum fee resulting from the nexus analysis. This section reviews other factors Strategic Economics considered in its findings for Santa Clara's commercial linkage fee program.

The section consists of four parts. It begins with a comparison of Santa Clara's current fee structure with those of neighboring jurisdictions. Following that is a series of analyses that fulfill the requirements of AB 602—state legislation governing changes to impact fees. Next is an analysis of the financial feasibility performed on range of fee scenarios and market conditions. The section concludes with a set of findings to consider for potential updates to Santa Clara's commercial linkage fee program.

FEES CHARGED IN NEIGHBORING JURISDICTIONS

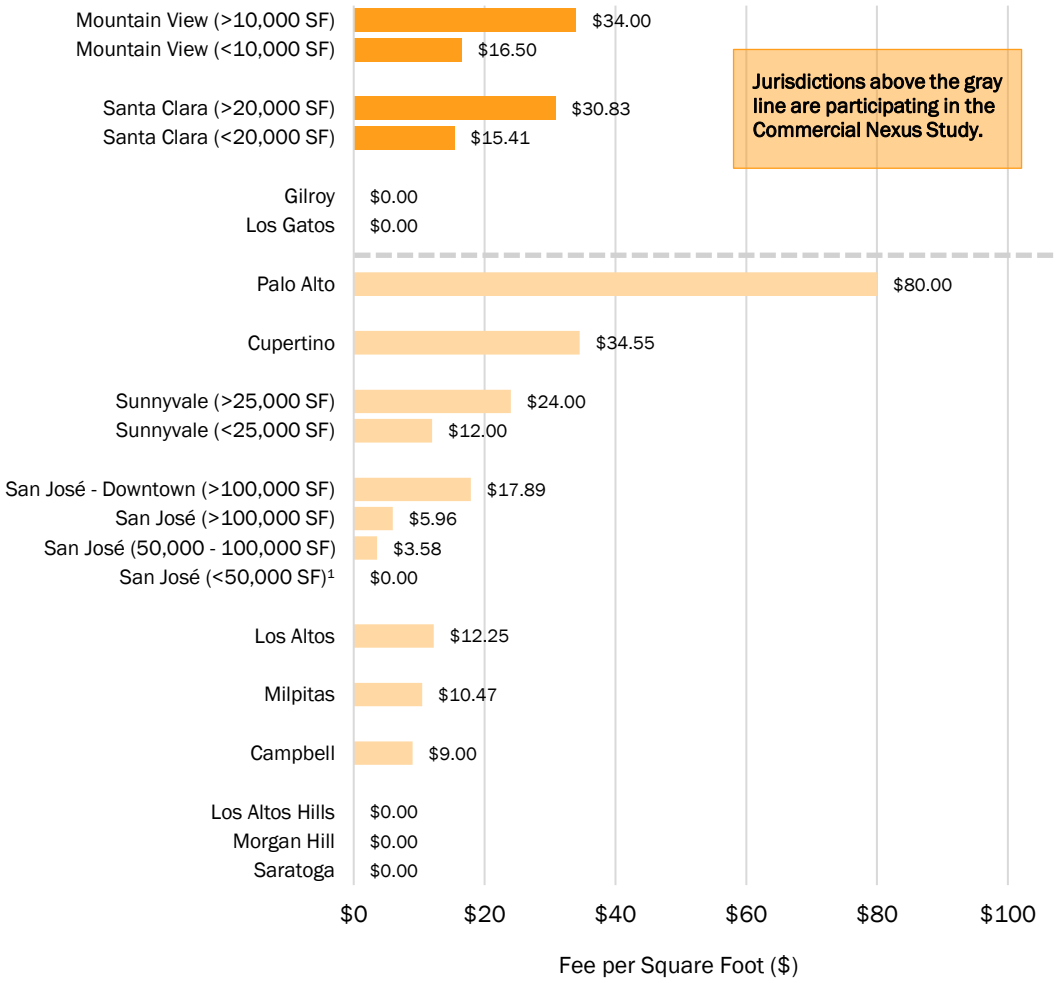
Most cities in Santa Clara County have existing commercial linkage fee programs. Strategic Economics reviewed these cities' fees for each category of land use under study. In some cities, the fee policy groups land uses in a way that departs from the five standardized categories analyzed for this study, and those cases are noted accordingly. The section reviews only those fees within the scope of the nexus study, although some cities may include other types of uses.

OFFICE

Fee levels charged to office development in the various cities in Santa Clara County are loosely related to the value of office development in each city. As shown in Figure 18, Palo Alto charges a very high linkage fee for office, at $80 per square foot. Mountain View, Santa Clara, Cupertino, and Sunnyvale form a second tier, with fee rates ranging from $24 to $34.55 per square foot on large office projects. (Fee levels are reduced for smaller projects in some of these cities.) San José and some smaller jurisdictions located in secondary office markets charge lower fees. While many different factors drive the market value of any specific location, commercial fee levels in Santa Clara County generally follow geographic market patterns: the highest office rents in Silicon Valley historically are found in and around Palo Alto and tend to decrease in relation to geographic distance from this center.

It is common in Santa Clara County to charge reduced fees for smaller office projects. Santa Clara, along with Mountain View, Sunnyvale, and San José, charges lower fees on smaller office projects. Three of these have fees on smaller projects at approximately half the fee rate as larger projects. However, there is a wide range in the square footage threshold that defines large and small projects. In Santa Clara, the reduced fee is applied to projects of less than 20,000 square feet, while this threshold is 25,000 square feet in Sunnyvale, and as low as 10,000 square feet in Mountain View. San José's fee program exempts projects of less than 50,000 square feet and charges modest fees for larger projects in two tiers (from 50,000 to 100,000 square feet and larger than 100,000 square feet).

FIGURE 18: EXISTING FEES FOR OFFICE DEVELOPMENT IN SANTA CLARA COUNTY, 2024/25

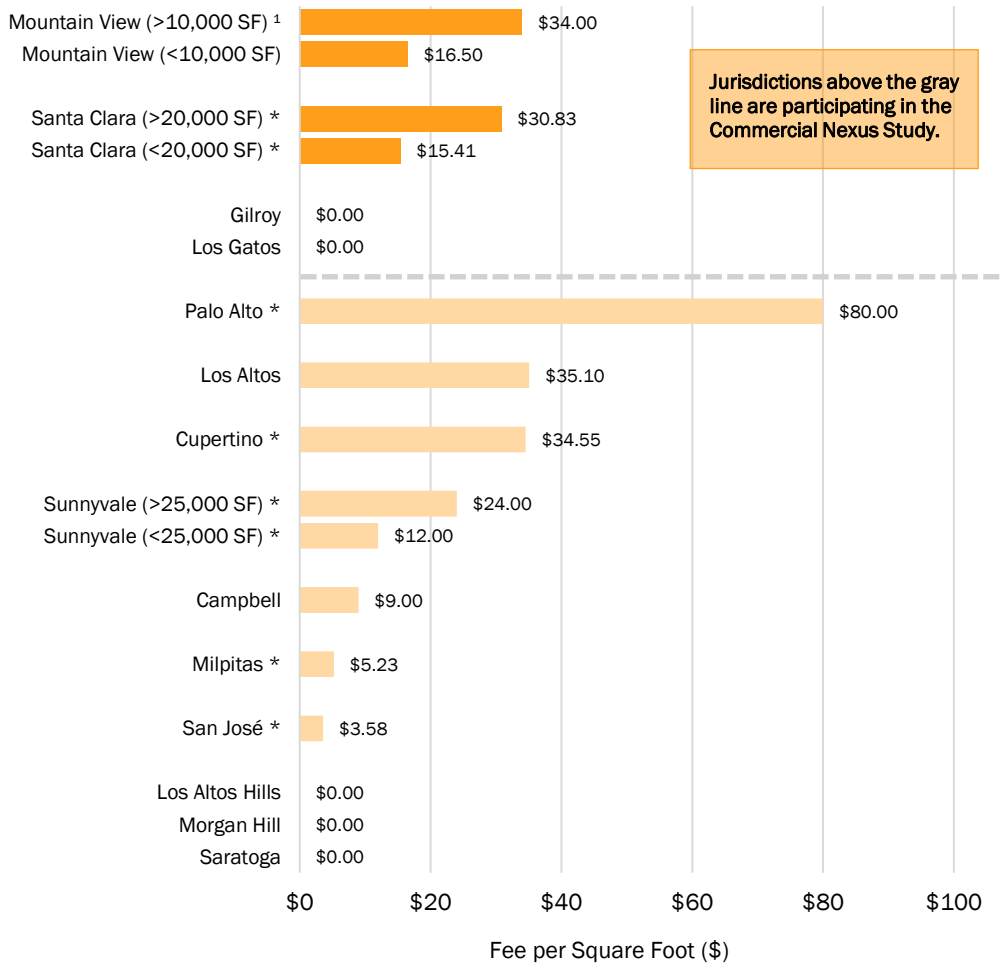


Sources: City Impact Fee Schedules, 2025; Strategic Economics, 2025.
[1] San José does not charge a commercial linkage fee on Office developments less than 50,000 square feet nor on any Office development of any size in the South or East San Jose subareas.

LIFE SCIENCE/R&D

Currently most communities in Santa Clara County charge the same fee rates for Life Science and R&D uses as office uses. Santa Clara, Mountain View, Sunnyvale, Palo Alto, Cupertino, and Campbell have commercial linkage fees that do not differentiate between office development and related types of development such as Life Science lab space and R&D facilities. Although Silicon Valley is a global center for technological research, R&D development of new buildings is relatively rare, and the Life Science market continues to be centered in San Mateo County. Other communities, such as Los Altos, consider R&D development to be more closely related to industrial uses, and charge the same fee to those two uses.

FIGURE 19: EXISTING FEES FOR LIFE SCIENCE / R&D DEVELOPMENT IN SANTA CLARA COUNTY, 2024/25

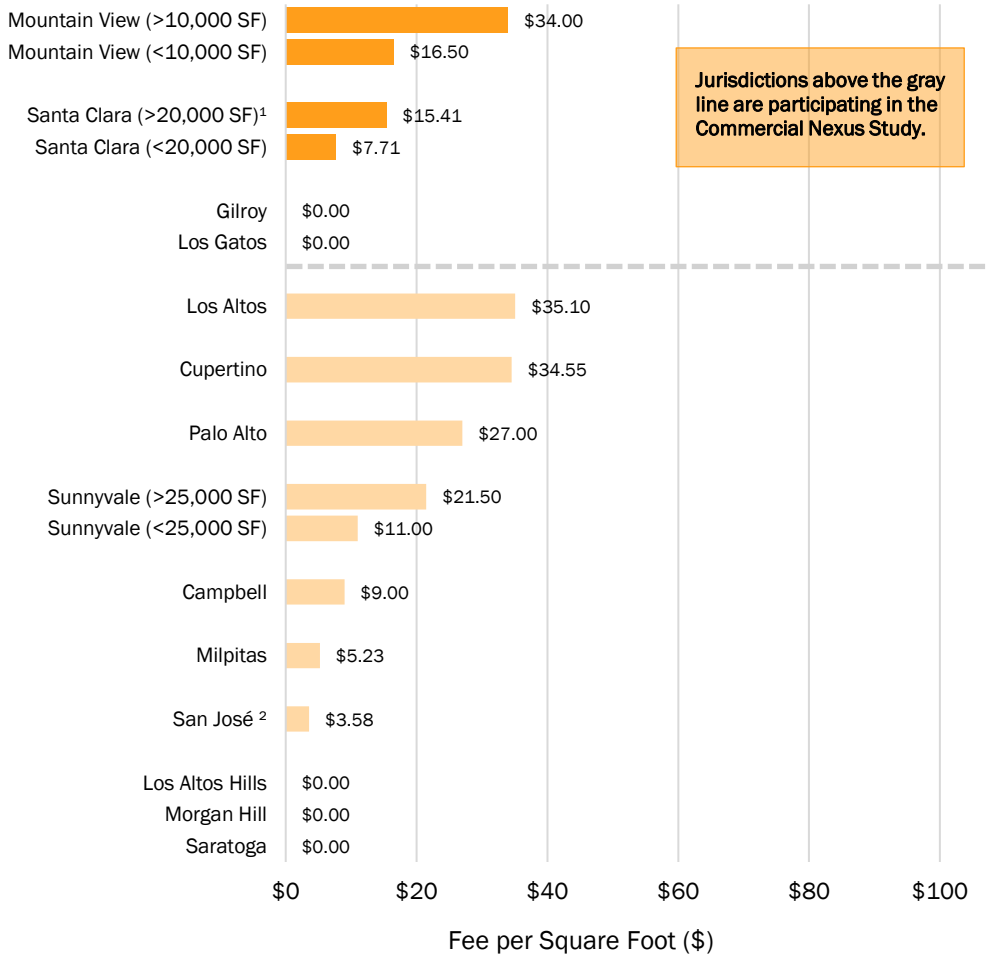


Sources: City Impact Fee Schedules, 2025; Strategic Economics, 2025.
Note: Jurisdictions with asterisks (*) identify Research and Development uses separately from Office uses in their commercial linkage fee schedules, even if they are charged the same fee. Jurisdictions without asterisks do not refer to R&D uses specifically.
[1] The City of Mountain View uses the rates above for its Office, Industrial, and High-Tech uses.

INDUSTRIAL

Most Santa Clara County jurisdictions that apply commercial linkage fees apply the same or similar fee rates for industrial uses as R&D or office uses, although some communities have significantly reduced fees for industrial. Santa Clara, Palo Alto, Milpitas, and San José all charge fee rates on industrial that are significantly reduced from the office fee. The lowest fee rates tend to be associated with areas with more active markets for industrial development, particularly for development types that are low intensity or that have a lower employee density.

FIGURE 20: EXISTING FEES FOR INDUSTRIAL DEVELOPMENT IN SANTA CLARA COUNTY, 2024/25

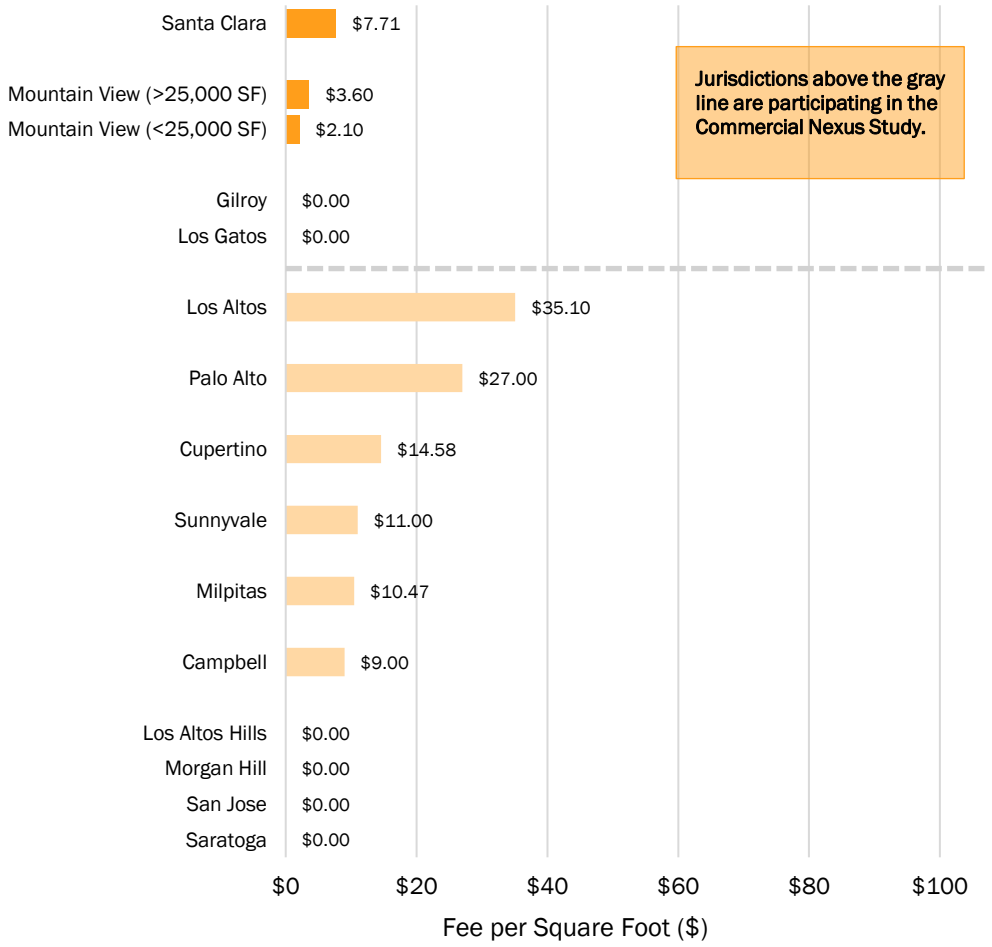


Sources: City Impact Fee Schedules, 2025; Strategic Economics, 2025.
[1] Low-intensity uses such as warehouses and data centers are only charged a commercial linkage fee of $3.05 in Santa Clara.
[2] The Edenvale and Monterey Corridor subareas in the City of San José have a commercial linkage fee of $0 for Industrial uses.

RETAIL

Currently, some communities in Santa Clara County charge fees for retail uses based on a more general fee rate that includes other kinds of commercial uses, while others have significantly reduced fees for retail. Fees on retail range widely, from $2.10 per square foot for small developments in Mountain View to $35.10 per square foot in Los Altos. Fees for retail are significantly reduced in Mountain View and Santa Clara in comparison with most other commercial uses in those cities.

FIGURE 21: EXISTING FEES FOR RETAIL DEVELOPMENT IN SANTA CLARA COUNTY, 2024/25

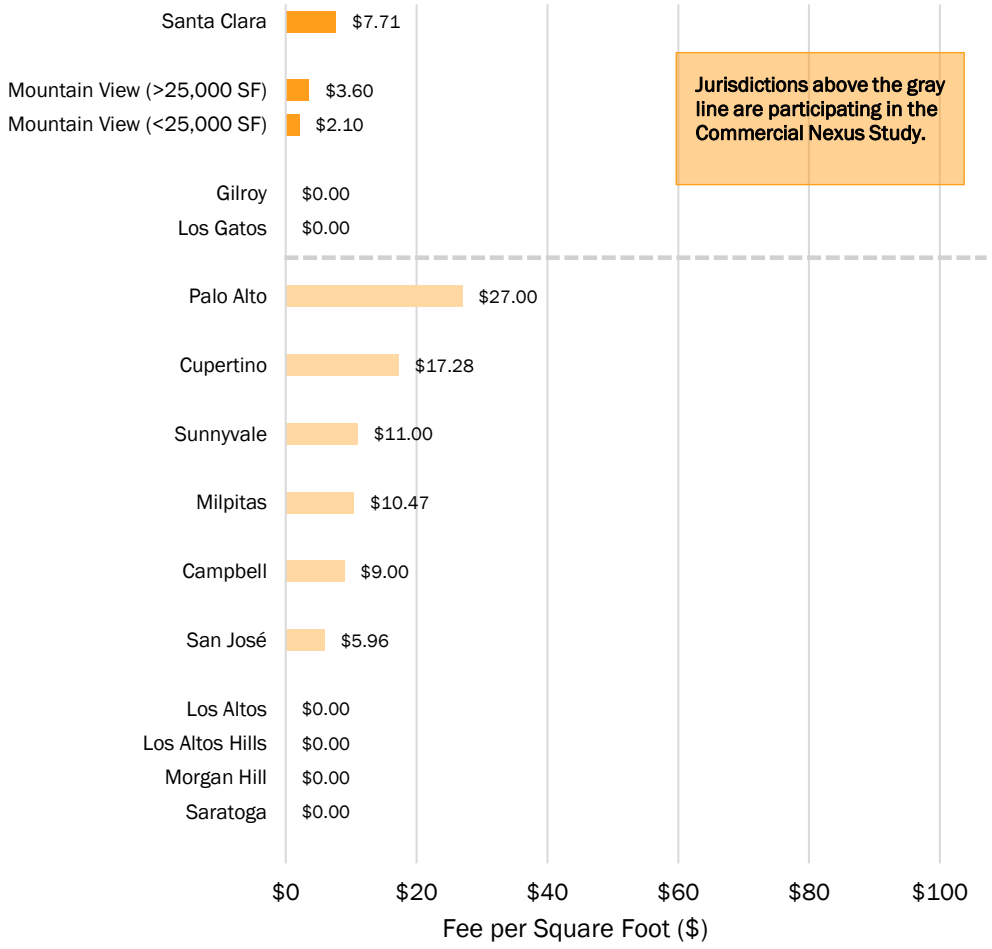


Sources: City Impact Fee Schedules, 2025; Strategic Economics, 2025.

HOTEL

It is a common practice among Santa Clara County jurisdictions to match hotel fees to retail fees. Cupertino, Los Altos, and San José charge different fees on their retail and hotel developments. Cupertino's fee is slightly higher for hotels, Los Altos does not charge a hotel impact fee, and San Jose has a small fee on hotels despite applying no fee to retail developments. On average, hotel and retail developments have the lowest commercial land uses among the five uses included in this study.

FIGURE 22: EXISTING FEES FOR HOTEL DEVELOPMENT IN SANTA CLARA COUNTY, 2024/25



Sources: City Impact Fee Schedules, 2025; Strategic Economics, 2025.

AB 602 AND LEVEL OF SERVICE ANALYSIS

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

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

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

Current Level of Service for Affordable Housing

Based on City estimates, Santa Clara has a total of nearly 2,000 affordable housing units available to worker households. Strategic Economics defined the "level of service" as the ratio of deed-restricted, "family" affordable units in Santa Clara to the number of workers households in Santa Clara (See Figure 23). The City of Santa Clara supplied Strategic Economics with a count of its family affordable housing units, as shown in Figure 24. This affordable housing inventory excludes senior units and special needs units that will mainly be occupied by non-worker households. Based on this calculation, Santa Clara currently has 27 affordable housing units per 1,000 worker households.

FIGURE 23: LEVEL OF SERVICE DEFINITION FOR AFFORDABLE HOUSING

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

FIGURE 24: CURRENT LEVEL OF SERVICE FOR AFFORDABLE HOUSING IN SANTA CLARA, 2025

	Value
Deed-restricted Family Affordable Housing [a]	1,986
Total Jobs in Jurisdiction [b]	111,055
Average Workers per Working Household [c]	1.5
Estimated Worker Households	74,037
Level of Service (per 1,000 Households)	**27**

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

Maintaining or Increasing Level of Service

To maintain this current level of service, the City of Santa Clara would need to charge fees ranging from $9.64 to $25.62 per square foot depending on the type of commercial use. This fee level assumes that the impact fee would cover the full funding gap associated with maintaining this level of service. However, in most affordable housing projects, the local distribution covers only a small portion of total affordable housing subsidy. In Santa Clara County, the average is approximately 20 percent.[2] Thus, Figure 25 shows the fee required to maintain Santa Clara's level of service in two scenarios: first, if the City uses commercial linkage fees to cover the full funding gap, and second, if the City uses the fees to cover only the typical portion of the funding gap that is filled by local jurisdictions. Depending on the commercial use and share of the funding gap covered by the City, fee levels required to maintain the current level of service range from $1.88 per square foot to $25.62 per square foot. Industrial uses require the lowest fee levels to meet the current level of service and retail and office uses require the highest fee levels to meet them.

FIGURE 25: FEE REQUIRED TO MAINTAIN CURRENT LEVEL OF SERVICE, WITH AND WITHOUT EXTERNAL FUNDING

	Office	Life Science / R&D	Industrial	Retail	Hotel
Worker households per 1,000 Square Feet *(A)*	1.9	1.6	0.7	1.3	0.9
Current Level of Service - Affordable Units per 1,000 Worker Households	27	27	27	27	27
Affordable Units (per 1,000 sf) to Meet Level of Service	0.05	0.04	0.02	0.04	0.03
Funding Gap per Affordable Unit *(B)*	$501,440	$503,151	$538,888	$658,533	$607,564
Fee per Square Foot to Meet Current Level of Service					
Full Funding Gap	$25.62	$21.17	$9.64	$23.55	$15.25
Match Prior City Contribution (C)	$5.00	$4.13	$1.88	$4.60	$2.98

Sources: Strategic Economics, 2025; ACS 5-Year, 2025; BLS, 2025; CA TCAC, 2025; CA HCD, 2025.
Notes:
A. From Figure 2.
B. From Figure 17.
C. Assumes a typical local funding share (19.5 percent) of all affordable housing funding needed to cover the funding gap.

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

As shown in the nexus study, the fee levels needed to mitigate the entire affordable housing need generated by commercial development range from $222 to $838 per square foot. Alternatively, fee levels that considered a typical 20 percent local funding share, while leveraging other sources of affordable housing, would range from $43 to $164 to meet all need through a typical local funding share of affordable housing development, as shown in Figure 26.

FIGURE 26: FEE PER SQUARE FOOT REQUIRED TO MEET ALL AFFORDABLE HOUSING NEED, BY COMMERCIAL LAND USE, WITH AND WITHOUT EXTERNAL FUNDING

Share of Funding Gap Covered by City	Office	Life Science / R&D	Industrial	Retail	Hotel
Full Funding Gap (A)	$448	$377	$222	$838	$538
Match Prior City Contribution (B)	$88	$74	$43	$164	$105

Sources: Strategic Economics, 2025; ACS 5-Year, 2025; BLS, 2025; CA TCAC, 2025; CA HCD, 2025.
Notes:
A. Maximum justifiable linkage fee from nexus analysis.
B. Assumes a typical City funding share of approximately 20 percent of all affordable housing funding needed to cover the funding gap, based on past projects.

Prior Fee Collections and Nexus Assumptions

Strategic Economics reviewed prior fee collections in Santa Clara and analyzed the assumptions underpinning the City's existing linkage fees to fulfill California legal requirements for potentially increasing the fees. If a nexus study supports the increase of a fee, AB 602 requires each jurisdiction to "review the assumptions of the nexus study supporting the original fee" and to "evaluate the amount of fees collected under the original fee."

The City of Santa Clara collected over $8 million in affordable housing fees over the past five years from nonresidential development, an average of $1.6 million per year. Figure 27 provides a summary of these fee collections.

FIGURE 27: FEES COLLECTED IN THE PAST FIVE YEARS FROM SANTA CLARA'S COMMERCIAL LINKAGE FEE PROGRAMS

Date of Nexus Study	2017
Fee Collections:	
2020-21	$130,201
2021-22	$5,613,415
2022-23	$630,142
2023-24	$0
2024-25	$1,675,187
Total	**$8,048,945**
Average Annual	**$1,609,789**

Source: City of Santa Clara, 2021-2025; Strategic Economics, 2025.

Santa Clara's maximum justifiable impact fees increased substantially from the 2017 Nexus Study to the current study, mainly due to an increase in the funding gap for each affordable unit. The average funding gap per household estimated in the 2017 study ranged from $186,500 to $301,500, while this study estimated a funding gap ranging from approximately $445,000 to $700,000, depending on land use (see Figure 28).

FIGURE 28: FUNDING GAP AND MAXIMUM JUSTIFIABLE FEE LEVEL COMPARISON, 2017 NEXUS STUDY TO CURRENT STUDY

	Previous Nexus Study - 2017			Current Nexus Study		
	Affordable Units Required per 100,000 Square Feet	Average Funding Gap per Affordable Unit	Maximum Justifiable Nexus Fee (per Square Foot)	Affordable Units Required per 100,000 Square Feet	Average Funding Gap per Affordable Unit	Maximum Justifiable Nexus Fee (per Square Foot)
Office	67	$186,500 to $301,500	$143	89	$451,044	$448
Life Science/R&D	n/a		n/a	75	$445,495	$377
Industrial	69		$150	41	$489,965	$222
Retail	112		$268	127	$699,984	$838
Hotel	55		$129	89	$603,087	$538

Note: Uses figures for Light Industrial as the Industrial results
Source: Keyser Marston Associates, 2017; Strategic Economics, 2025.

FINANCIAL FEASIBILITY AND FEE SCENARIOS

Strategic Economics conducted a financial feasibility analysis to test the feasibility of commercial linkage fees on the five types of commercial development in the City of Santa Clara. The analysis also analyzed feasibility under a range of market conditions and fee scenarios. The results provide context that the City of Santa Clara can use to assess and potentially modify its fee program to best align with the City objectives in an evolving market.

This financial feasibility analysis section includes three parts. It begins with an overview of the methodology used for the feasibility analysis, including details on the modeling approach feasibility metrics. This section then details the relevant assumptions used in the analysis, beginning with an overview of the building prototypes used to represent each category of land use. Following that is a set of findings based on results under existing market conditions and current fee levels, as well as the sensitivity of the results under different fee levels and market scenarios.

Feasibility Analysis Methodology

Strategic Economics evaluated financial feasibility for commercial prototypes in Santa Clara using a static "pro forma" model. A pro forma is a financial model that compiles revenue, cost, and developer return expectations to evaluate the feasibility of development. A static pro forma—a simplified pro forma that does not model developer cash flows over time—is a standard approach for supporting broadly applicable policy and planning decisions.

The static pro forma approach involves three steps:

- Develop a set of commercial building "prototypes" that represent each category of land use under study.
- Develop pro forma assumptions for these prototypes, including the different categories of costs, and revenues expectations specific to the local market in the City of Santa Clara, and developer return expectations.
- Use the pro forma model to test the financial performance of each prototype under a variety of market and policy scenarios.

The Residual Land Value Approach to 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 revenues, 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 the 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 in order for the developer and lenders to determine that it is a worthwhile investment. For income-generating

commercial development, a common metric is *yield on cost*. Yield on cost is the ratio of NOI to total development cost.[3]

- **Supportable Development Costs** are the highest development cost for which the project would still be viable given project revenue and the minimum target return. This is calculated as the project's projected NOI divided by its minimum target yield on cost.
- **Total Development Costs (Excluding Land)** is 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 cost (calculated on a per square foot basis) for each land use in the City of Santa Clara.

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.

Commercial Building Prototypes

Strategic Economics reviewed recent commercial development and current development proposals in Santa Clara County to designate commercial building prototypes to represent each commercial land use category included in the nexus study. Some of the building prototypes may be more relevant to certain areas of the county—for example, the industrial prototype is a warehouse development that would be more likely to occur in Gilroy than in communities in northern Santa Clara County.

Details on the prototypes are shown in Figure 29 and summarized below:

- The **Office** prototype is a four-story building with a Floor Area Ratio of 1.0. Parking is a combination of surface and structured parking, provided at a ratio of 3.3 spaces per 1,000 square feet.
- The **Life Science / R&D** prototype is Life Science development with a mix of office and laboratory space. It is a five-story development with a Floor Area Ratio of 1.5. The prototype includes structured parking at a ratio of 2.8 spaces per 1,000 square feet.
- The **Industrial** prototype is a one-story warehouse development with a Floor Area Ratio of 0.5. The prototype includes surface parking at a ratio of 1.0 spaces per 1,000 square feet.
- The **Retail** prototype represents a small neighborhood or strip retail development with a Floor Area Ratio of 1.5 and surface parking with 4.0 spaces per 1,000 square feet.
- **Hotel Prototype**: The hotel prototype is an "upper midscale" limited-service hotel with 165 rooms. The building is five stories over an underground parking garage with 0.9 spaces per room.

[3] 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.

FIGURE 29: COMMERCIAL PROTOTYPES

	Office	Life Science/R&D	Industrial	Retail	Hotel
Building Characteristics					
Parcel Size (acres)	4.0	5.0	9.2	0.7	1.5
Number of Stories	4	5	1	1	5
Square Feet of Gross Building Area	175,000	326,700	200,000	10,000	100,000
Floor Area Ratio (FAR)	1.0	1.5	0.5	1.5	1.5
Number of Rooms	N/A	N/A	N/A	N/A	165
Parking					
Format	Surface; Structured	Structured	Surface	Surface	Surface; Underground
Spaces	583	898	200	40	149
Ratio (Spaces / 1,000 Square Feet)	3.3	2.8	1.0	4.0	0.9

Source: Strategic Economics, 2025.

Pro Forma Assumptions

COST AND RETURN ASSUMPTIONS

Strategic Economics estimated development costs based on interviews with developers and general contractors experienced with commercial development in Santa Clara County, as well as reviews of market data and budgets for other development projects throughout the Bay Area. The cost and return assumptions are shown in Figure 30. 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, representing the highest amount the developer could afford to pay for the project to be feasible. 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 all prototypes, the required return is based on the stabilized annual operating income of the development divided by the development cost (referred to as *yield on cost*).

FIGURE 30: COST ASSUMPTIONS FOR COMMERCIAL PROTOTYPES

	Unit of Measure	Office	Life Science / R&D	Industrial	Retail	Hotel
Hard Costs						
Demolition and Site Work	Per Square Foot	$40	$40	$5	$40	$40
Building Construction	Per Gross SF	$350	$425	$75	$300	$400
Tenant Improvements	Per Net SF	$150	$175	$30	$75	$0
FF&E (a)	Per Room	$0	$0	$0	$0	$30,000
Parking						
Surface	Per Parking Space	$10,000		$10,000	$10,000	
Structured Garage	Per Parking Space	$40,000	$40,000			
Underground	Per Parking Space					$80,000
Soft Costs						
Architecture, Engineering, and Consulting	% of Hard Costs	5%	5%	7%	5%	5%
Taxes, Insurance. Legal, and Accounting	% of Hard Costs	3%	3%	4%	3%	3%
Developer Fee	% of Project Budget	3%	3%	3%	3%	3%
Other Soft Costs	% of Hard Costs	3%	3%	4%	3%	3%
Municipal Fees	Shown in Figure 31					
Financing Costs						
Amount Financed	% of Hard + Soft Costs	65%	65%	55%	65%	65%
Average Outstanding Balance	% of Amount Financed	60%	60%	60%	60%	60%
Construction Loan Fee	% of Amount Financed	1%	1%	1%	1%	1%
Construction Interest		8%	8%	8%	8%	8%
Term	Months	24	24	18	18	24
Contingency	% of Hard + Soft Costs	5%	5%	5%	5%	5%
Typical Land Costs	Per Square Foot	$125	$125	$80	$100	$125
Target Developer Yield-on-Cost		8.50%	9.25%	7.00%	6.50%	8.00%

(a) Furniture, Fixtures, and Equipment

Source: Strategic Economics, 2025.

FIGURE 31: CITY OF SANTA CLARA MUNICIPAL FEE ESTIMATES

	Office	Life Science / R&D	Industrial	Retail	Hotel
Permits & Fees					
Building Permit	$225,027	$488,259	$131,030	$24,727	$127,204
Plan Check	$186,028	$398,268	$110,240	$24,440	$107,155
Sewer & Water	$244,388	$482,224	$480,827	$48,070	$407,459
Other	$1,193,074	$1,816,602	$1,009,674	$53,789	$360,972
Total	**$1,848,516**	**$3,185,353**	**$1,731,770**	**$151,026**	**$1,002,790**
Impact Fees					
Traffic	$304,500	$568,458	$192,000	$0	$150,567
Housing	$5,334,000	$9,957,816	$610,000	$76,200	$762,000
Parks	$0	$0	$0	$0	$0
Schools	$147,000	$274,428	$168,000	$80,000	$40,000
Other	$0	$0	$0	$0	$0
Total	**$5,785,500**	**$10,800,702**	**$970,000**	**$156,200**	**$952,567**
Fee Total	**$7,634,016**	**$13,986,055**	**$2,701,770**	**$307,226**	**$1,955,358**

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

REVENUE ASSUMPTIONS

In developing revenue assumptions (Figure 32), Strategic Economics collected information from property listings, market data from the real estate data provider CoStar, and input from local developers. In certain cases where data specific to the City of Santa Clara were inadequate, the market rent assumption was imputed from more general patterns in commercial property values for different areas of Santa Clara County.

FIGURE 32: REVENUE ASSUMPTIONS FOR COMMERCIAL PROTOTYPES

	Unit of Measure	Office	Life Science / R&D	Industrial	Retail	Hotel
Annual Rent (NNN) (1)	Per s.f.	$60	$69	$26	$54	$128 (2)
Vacancy	% of Rent	5%	5%	5%	5%	N/A (2)
Operating Expenses (3)	% of Rent	6%	6%	6%	6%	60%

Source: Strategic Economics, 2025.
(1) Triple Net (NNN) leases are leases for which the tenant is responsible for the payment of property taxes, insurance, and common area maintenance.
(2) Hotel Rent is calculated using RevPAR, or revenue per available room, and assumptions about other revenue sources in the hotel. As a function of available rooms, vacancy is already accounted for in this equation, which explains why the hotel prototype does not have a vacancy assumption.
(3) Operating expenses include management fees and the building's capital maintenance reserve.

Feasibility Analysis Results

This subsection presents a summary of the pro forma results for the prototypes, including a calculation of the residual land value to assess feasibility. The section begins with findings for each of the prototypes under current market conditions and with the existing commercial linkage fee policies in place. The impact of different fees levels and market conditions on feasibility is described in the following section.

FEASIBILITY RESULTS UNDER CURRENT CONDITIONS

Most commercial prototypes are infeasible under current market conditions in the City of Santa Clara. As shown in Figure 33, residual land values for the office, life science / R&D, and hotel prototypes are less than zero, while the retail prototype has a residual land value close to zero. The industrial prototype, with a residual land value close to typical land costs, may be feasible under certain conditions, but this type of land-intensive development might struggle to find a suitable site in the City of Santa Clara, which is largely built out.

FIGURE 33: FINANCIAL FEASIBILITY BY COMMERCIAL PROTOTYPE

	Office	Life Science / R&D	Industrial	Retail	Hotel
Revenues					
Annual Income	$10,500,000	$22,542,300	$5,200,000	$540,000	$12,797,813
Less Vacancy	($525,000)	($1,127,115)	($260,000)	($27,000)	$0
Less Operating Costs	($630,000)	($1,352,538)	($312,000)	($32,400)	($7,678,688)
Net Operating Income	**$9,345,000**	**$20,062,647**	**$4,628,000**	**$480,600**	**$5,119,125**
Costs					
Hard Costs	$113,085,000	$240,669,000	$25,000,000	$5,369,680	$54,303,600
Soft Costs (Excluding Fees)	$12,439,350	$26,473,590	$3,750,000	$590,665	$5,973,396
Municipal Fees	$7,634,016	$13,986,055	$2,701,770	$307,226	$1,955,358
Financing & Contingency	$19,884,186	$41,946,531	$4,274,381	$860,410	$9,482,388
Total Development Cost	**$153,042,552**	**$323,075,176**	**$35,726,152**	**$7,127,981**	**$71,714,742**
Residual Land Value					
Net Operating Income	$9,345,000	$20,062,647	$4,628,000	$480,600	$5,119,125
Yield on Cost	8.50%	9.25%	7.00%	6.50%	8.00%
Supportable Development Value	$109,941,176	$216,893,481	$66,114,286	$7,393,846	$63,989,063
Total Development Cost	$153,042,552	$323,075,176	$35,726,152	$7,127,981	$71,714,742
Residual Land Value	**($43,101,375)**	**($106,181,695)**	**$30,388,134**	**$265,865**	**($7,725,680)**
Feasibility					
Residual Land Value	($43,101,375)	($106,181,695)	$30,388,134	$265,865	($7,725,680)
Residual Land Value / SF Land	($246)	($488)	$76	$9	($118)
Typical Land Value / SF Land	$125	$125	$80	$100	$125
Feasibility Result	**Infeasible: RLV below zero**	**Infeasible: RLV below zero**	**Marginally Infeasible: RLV slightly below typical land cost**	**Infeasible: RLV far below typical land cost**	**Infeasible: RLV below zero**

Source: Strategic Economics, 2025.

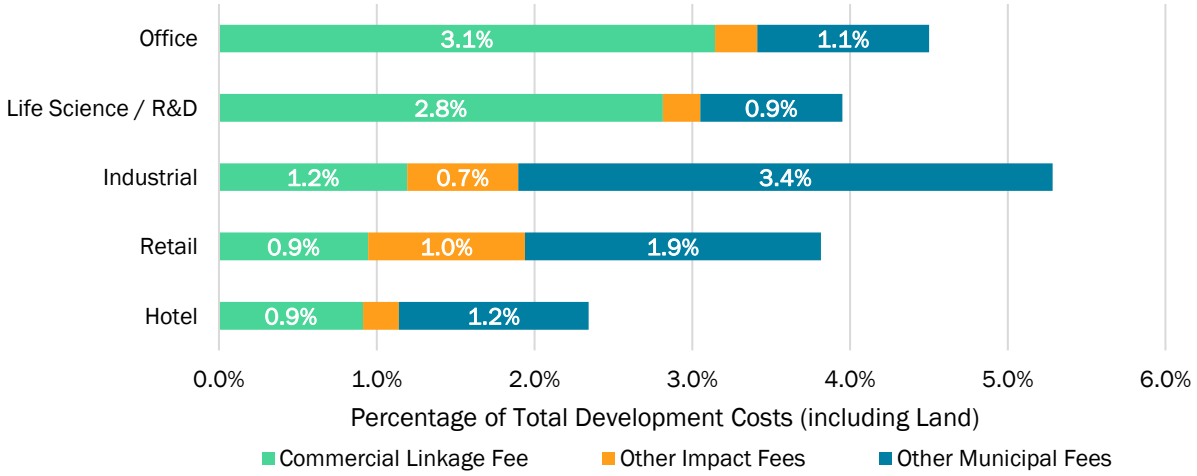
COMMERCIAL LINKAGE FEE SCENARIOS

This section reviews the relative cost burdens of Santa Clara's existing commercial linkage fees and analyzes scenarios for modifying these fees, with the resulting impacts on the financial performance of the prototypes.

Typical of primary office centers in the Bay Area, Santa Clara imposes a higher linkage fee burden on office development than on other commercial uses (Figure 34). Historically, large office developments

in Silicon Valley have generated high returns for investors and can support a higher fee burden than most other uses. The City's commercial linkage fee rate of $30.48 per square foot for large office developments represents approximately three percent of development costs for the Office prototype, as well as the Life Science/R&D prototype covered under the same rate. By contrast, the industrial warehouse, retail, and hotel prototypes have a commercial linkage fee burden of approximately one percent. Other industrial uses that are not "low intensity" uses would be charged a fee rate between the low intensity rate and the office rate, and thus likely would carry a linkage fee burden of between one and three percent of development costs.

FIGURE 34: EXISTING MUNICIPAL FEE POLICIES IN SANTA CLARA AS A SHARE OF TOTAL DEVELOPMENT COSTS, 2025



Note: The industrial prototype is a warehouse development where the lower fee rate for low intensity uses applies.
Source: Strategic Economics, 2025.

Because the commercial prototypes are generally infeasible due to market conditions, varying the commercial linkage fee from one to six percent of development costs did not change this outcome. Strategic Economics tested the sensitivity of the results to alternative fee scenarios ranging from no fee up to a fee level of six percent of development costs for each prototype (Figure 35). As shown in Figure 36, this range of fee scenarios did not change residual land values enough to affect feasibility.

FIGURE 35: FEE SCENARIOS AND EXISTING FEE LEVELS IN THE CITY OF SANTA CLARA BY PROTOTYPE

	Office	Life Science / R&D	Industrial	Retail	Hotel
Percent of Development Costs			**Fee per Square Foot**		
0% (No fee)	$0	$0	$0	$0	$0
1%	$10	$11	$3	$8	$8
2%	$19	$22	$5	$16	$17
3%	$29	$33	$8	$24	$25
4%	$39	$43	$10	$32	$33
5%	$48	$54	$13	$40	$42
6%	$58	$65	$15	$48	$50
Existing Policy	$30	$30	$3	$8	$8
Percent of Development Costs	3.1%	2.8%	1.2%	0.9%	0.9%

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

FIGURE 36: RESIDUAL LAND VALUES FOR FEE SCENARIOS BY PROTOTYPE

	Office	Life Science / R&D	Industrial	Retail	Hotel
Typical Land Value	$125	$125	$80	$100	$125
Fee Scenarios (% of Total Development Costs)			**Residual Land Value**		
0%	-$216	-$442	$77	$11	-$107
1%	-$226	-$458	$76	$9	-$119
2%	-$235	-$474	$75	$6	-$132
3%	-$245	-$491	$74	$3	-$145
4%	-$255	-$507	$72	$1	-$158
5%	-$264	-$523	$71	-$2	-$170
6%	-$274	-$539	$70	-$5	-$183
Existing Policy	-$246	-$488	$76	$9	-$118

Source: Strategic Economics, 2025.

MARKET SCENARIOS

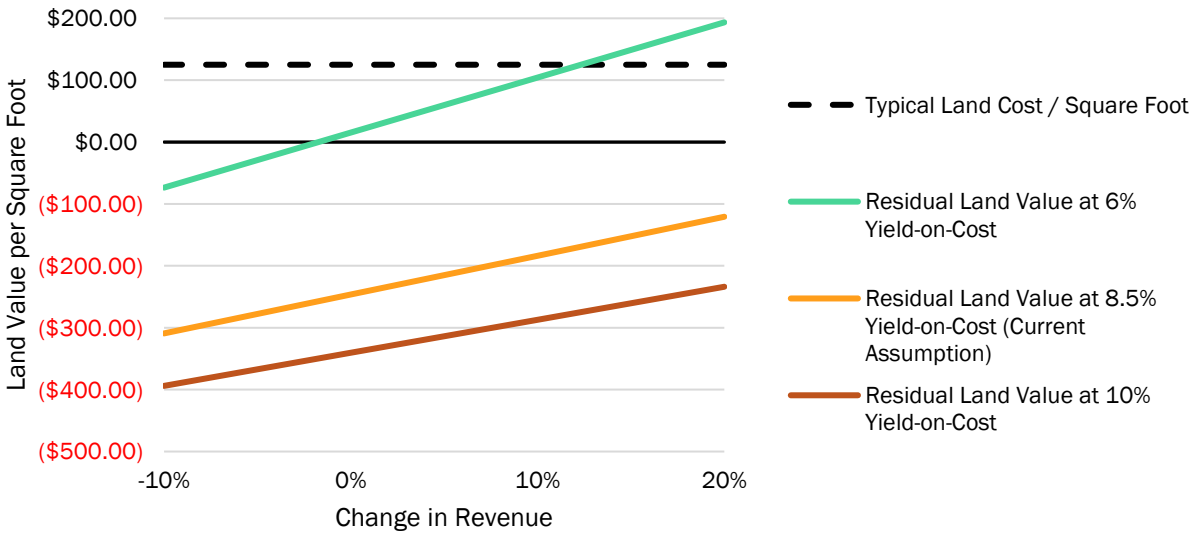
Strategic Economics tested the sensitivity of the results to changes in the market for the five prototypes. In recent years, market rents for many types of commercial property have fallen or plateaued, while construction costs and interest rates have risen significantly. As a result, developers and investors are approaching most types of commercial development with a higher level of uncertainty than in the recent past, and they require higher return thresholds for a new project to achieve financial feasibility. Improved conditions could include increased market rents and/or lower return expectations as investor confidence returns. Deteriorated market conditions would see the opposite trends.

For each prototype, Strategic Economics reviewed market scenarios with revenue changes between ten percent lower and twenty percent higher compared to current market rents. In addition, this sensitivity analysis is shown under different developer return thresholds (6 percent, 10 percent, as well as the current assumption Strategic Economics derived from developer interviews and other research). These ranges are grounded in the overall rates of rent growth and the variability of market capitalization rates over the last ten years. Figures 37 through 41 illustrate the performance of each prototype under these ranges of market conditions.

Market factors, rather than commercial linkage fee scenarios, are the primary determinant of financial feasibility. As shown in Figure 37 and Figure 38, the Office and Life Science/R&D prototypes become feasible (that is, the residual land value is near or above typical land costs) under considerably improved market conditions. In addition, Santa Clara should anticipate the potential for build-to-suit office proposals, which are not subject to the return requirements of a speculative development. Life Science developments are still largely unproven in Santa Clara County, but the pro forma analysis suggests these types of developments may be feasible if the market for this product type rebounds and expands beyond San Mateo County. As shown in Figures 39 and 41, the industrial and hotel prototypes are also feasible under improved market conditions.

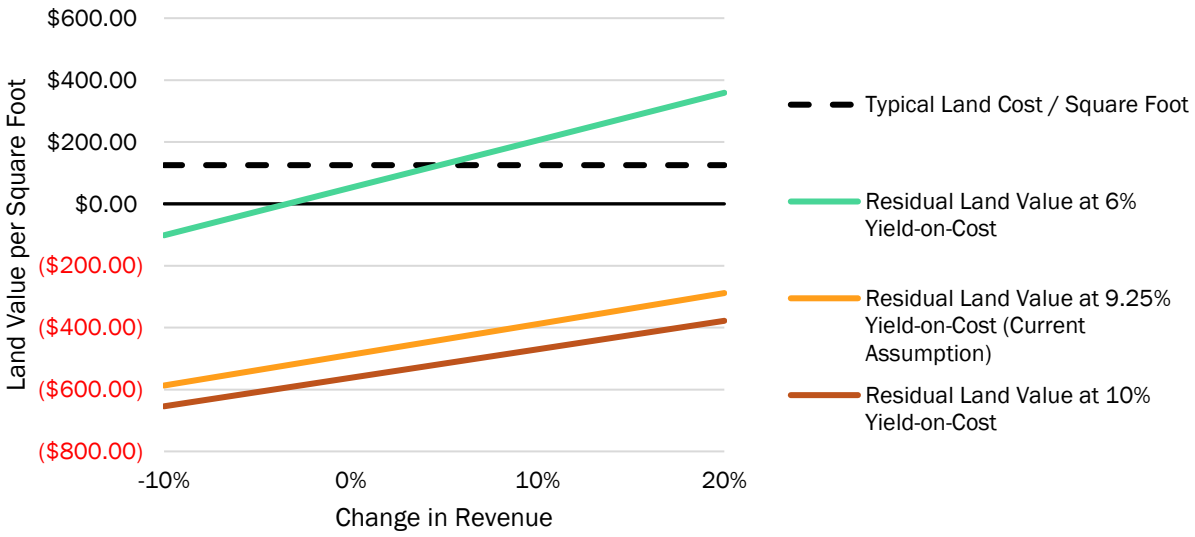
Surface-parked, standalone retail is generally not feasible under most conditions in the City of Santa Clara, but the City could see future retail development in other formats. Because strip and neighborhood centers are land-intensive and more appropriate in a lower density context, Santa Clara is not likely to see many proposals for this development type. New retail demand tends to be largely lifestyle retail, such as fitness centers, restaurants, and grocery stores. Often this retail is programmed as an amenity in a mixed-use development, where the financial feasibility generally relies on the revenues generated from the primary residential and/or employment uses.

FIGURE 37: RESIDUAL LAND VALUE FOR OFFICE PROTOTYPE IN CITY OF SANTA CLARA UNDER A RANGE OF MARKET CONDITIONS



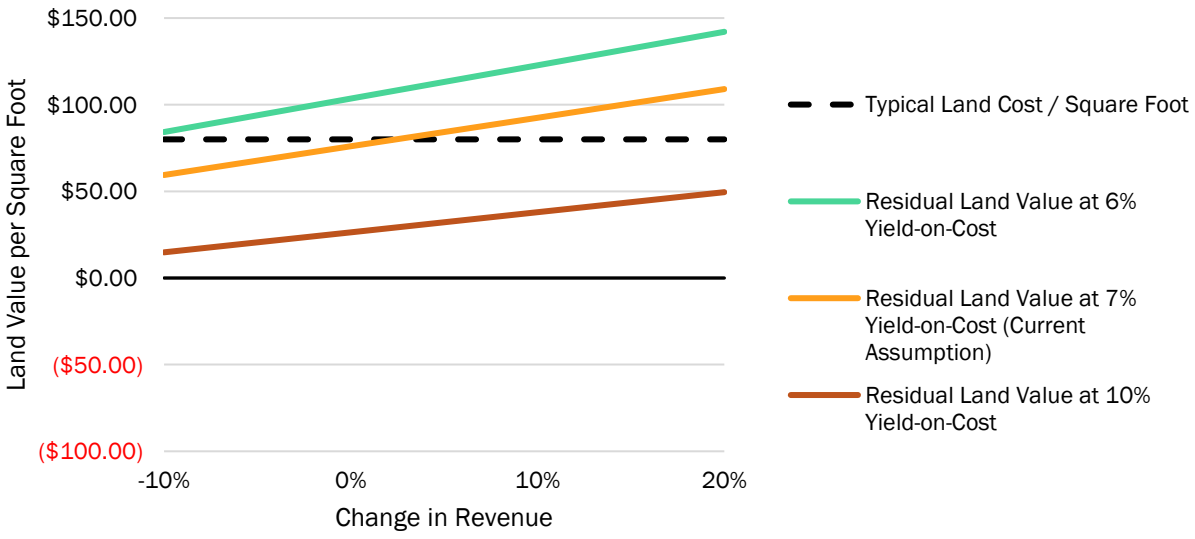
Source: Strategic Economics, 2025.

FIGURE 38: RESIDUAL LAND VALUE FOR LIFE SCIENCE / R&D PROTOTYPE IN CITY OF SANTA CLARA UNDER A RANGE OF MARKET CONDITIONS



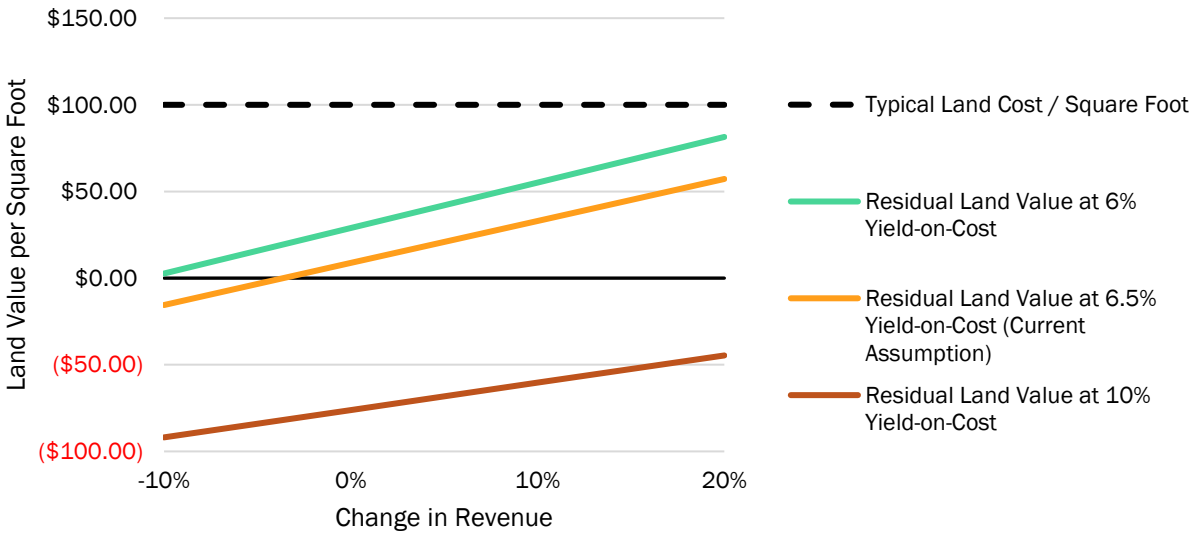
Source: Strategic Economics, 2025.

FIGURE 39: RESIDUAL LAND VALUE FOR INDUSTRIAL PROTOTYPE IN CITY OF SANTA CLARA UNDER A RANGE OF MARKET CONDITIONS



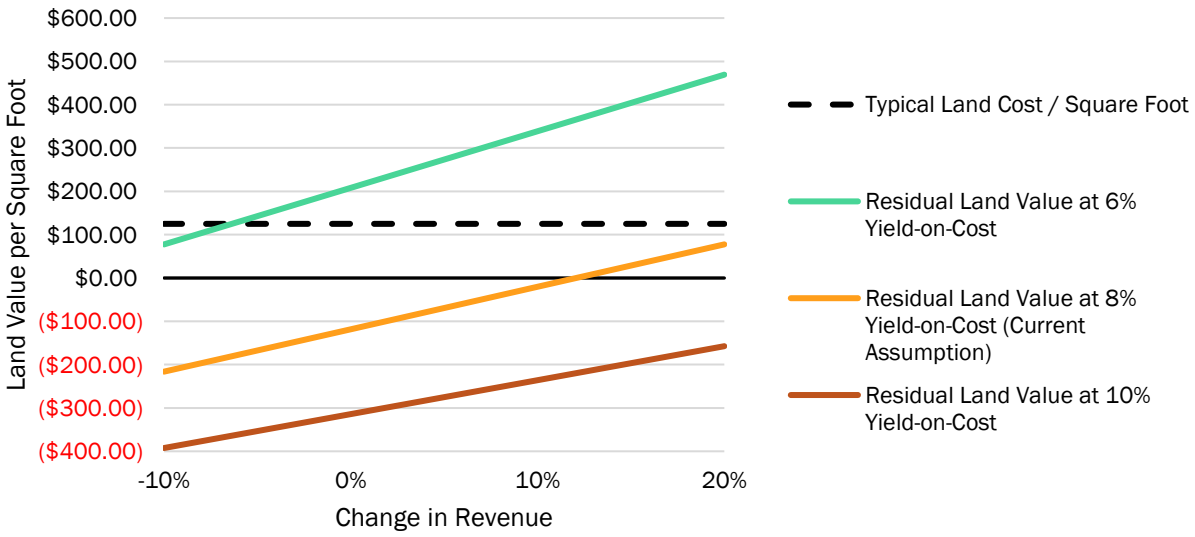
Source: Strategic Economics, 2025.

FIGURE 40: RESIDUAL LAND VALUE FOR RETAIL PROTOTYPE IN CITY OF SANTA CLARA UNDER A RANGE OF MARKET CONDITIONS



Source: Strategic Economics, 2025.

FIGURE 41: RESIDUAL LAND VALUE FOR HOTEL PROTOTYPE IN CITY OF SANTA CLARA UNDER A RANGE OF MARKET CONDITIONS



Source: Strategic Economics, 2025.

SUMMARY OF FINDINGS AND CONCLUSIONS

This section provides a summary of findings from the commercial nexus analysis and policy considerations for modifying the City's commercial linkage fee policy.

Findings

FINDINGS OF THE NEXUS ANALYSIS

- Strategic Economics found that the maximum nexus-based commercial linkage fees by land use are:
    - $448 per square foot for Office,
    - $377 per square foot for Life Science/R&D,
    - $222 per square foot for Industrial,
    - $838 per square foot for Retail, and
    - $539 per square foot for Hotel
- Santa Clara's maximum justifiable impact fees increased substantially from the 2017 Nexus Study to the current study, mainly due to an increase in the funding gap for each affordable unit.

FINDINGS OF THE FEASIBILITY ANALYSIS

- Most commercial prototypes are infeasible under current market conditions in the City of Santa Clara.
- Typical of primary office market areas in the Bay Area, Santa Clara imposes a higher linkage fee burden on office and related development than on other commercial uses.
- Because the commercial prototypes are generally infeasible due to market conditions, varying the commercial linkage fee from one to six percent of development costs did not change this outcome.
- Broader market factors, rather than commercial linkage fee scenarios, are the primary determinant of financial feasibility.
- Surface-parked, standalone retail is generally not feasible under most conditions in the City of Mountain View, but future retail development in the City could occur in other formats such as mixed-use projects.

OTHER POLICY CONSIDERATIONS

- Fee levels charged to office development in the various cities in Santa Clara County are loosely related to the value of office development in each city.
- It is common in Santa Clara County to charge reduced fees for smaller office and R&D projects.

- **Currently most communities in Santa Clara County charge the same fee rates for Life Science and R&D uses as office uses.**
- **In contrast with office and R&D development, Santa Clara has a lower fee rate for industrial uses than most neighboring and peer cities.**
- **The City's fees on retail and hotel uses are lower than most of its peer cities, but higher than nearby Mountain View and San José.**

Conclusions

The last section of this report includes several summary conclusions for the City of Santa Clara to consider when reviewing its commercial linkage fee program. The conclusions consider the nexus analysis results, the financial feasibility analysis results, and other policy considerations and City objectives outlined in this report. The various fee levels established throughout this report by the nexus analysis, peer jurisdiction policy review, AB 602 analysis, and fee scenario analysis are shown in Figure 42.

FIGURE 42: SUMMARY OF COMMERCIAL LINKAGE FEE RATES PER SQUARE FOOT CONSIDERED IN THIS STUDY

	Office	Life Science / R&D	Industrial	Retail	Hotel
Current Fee					
Tier 1 [1]	$30.83	$30.83	$15.41	$7.71	$7.71
Tier 2 [1]	$15.41	$15.41	$7.71	$7.71	$7.71
Tier 3 [1]	N/A	N/A	$3.05	N/A	N/A
Fee to Mitigate Full Funding Gap					
Santa Clara Contributes 100% (Maximum Fee from Nexus)	$448.00	$377.00	$222.00	$838.00	$538.00
Santa Clara Matches Prior Contributions	$87.36	$73.52	$43.29	$163.41	$104.91
Fee to Meet Current Level of Service					
Santa Clara Contributes 100%	$25.62	$21.17	$9.64	$23.55	$15.25
Santa Clara Matches Prior Contributions	$5.00	$4.13	$1.88	$4.60	$2.98
Fee Scenarios Based on Prototype in the Feasibility Analysis					
Fee @ 1% of Development Costs	$9.69	$10.83	$2.56	$8.05	$8.35
Fee @ 3% of Development Costs	$29.07	$32.50	$7.67	$24.16	$25.04
Range of Fees in Jurisdictions Bordering Santa Clara (Sunnyvale and San Jose)					
	$0.00 - $24.00	$3.58 - $24.00	$3.58 - $21.50	$0.00 - $11.00	$5.96 - $11.00

[1] Tier 1 includes all office, life science/R&D, and industrial projects less than 20,000 square feet. Tier 2 includes all projects above these thresholds. Tier 3 is a fee that is specific to low-intensity uses such as data centers and warehouses, as defined by the City.
Source: Strategic Economics, 2025.

Although office developments are generally not feasible under current market conditions, Santa Clara could consider maintaining its current fee rates on office until more information is available about the economics of office development in the next market cycle. In the past, office development has been a high value use in Santa Clara and able to support significant contributions to affordable housing. However, the characteristics of future office development are still unclear as the market continues to recover from post-pandemic conditions. Any future office market may or may not be able to support similar fee burdens as in the past, depending on the characteristics of future office products, the mix

of build-to-suit versus speculative developments, market rents, and costs. In the meantime, Santa Clara may want to maintain its competitive positioning with fees on office that are lower than Mountain View and Cupertino but higher than Sunnyvale. While the current fee rates on office, life science/R&D, and higher intensity industrial uses do not mitigate the entire impact of development on affordable housing need, the fee rates do exceed the current level of service in Santa Clara.

Maintaining the current fee rates on retail and hotel uses (currently $7.71 per square foot) would continue to support the development of those uses by keeping the fee burden low, but hotel development could support higher fees in a stronger market. For both uses, the current fee rates represent less than one percent of development costs for the tested prototypes. As shown in Figure 41, hotel uses could accommodate more significant fees under stronger market conditions. By contrast, retail development tends to be feasible in mixed-used developments where the economic returns are generated from the primary residential or employment use.

The City could consider a higher fee on low-intensity warehouse uses. The industrial prototype in this study is a warehouse development with an applicable fee rate of $3.05 per square foot, or only about one percent of development costs. This prototype was found to be more financially feasible than the other four prototypes in the current market and potentially could accommodate higher fees in a stronger market scenario.

Santa Clara's current fee rates on light industrial uses strike a balance between financial feasibility and the relative impact of these uses on affordable housing need. Of the five categories of commercial use included in the scope of this study, industrial development has the lowest average employment density and, therefore, the smallest impact on affordable housing need per square foot of floor area. However, the current fee rates on light industrial ($7.71 per square foot for projects less than 20,000 square feet; $15.41 per square foot for projects above this threshold) occupy a middle ground between the lower fees on retail and hotel and the higher fee rates on office and R&D. Although a light industrial prototype was not tested in the feasibility analysis, the results from the industrial warehouse prototype suggest that many light industrial prototypes could perform well and accommodate these fee levels.

Appendix I: Nexus Analysis Assumptions

Figures 43 through 47 provide the full list of industries associated with each commercial land use. Strategic Economics determined these industries as part of Step 3 of the Commercial Nexus Analysis. Figure 48 shows the full breakdown of affordable housing need by income level for each commercial land use. Figures 49 through 53 summarize the sources used to develop worker density assumptions.

FIGURE 43: INDUSTRIES IN OFFICE USES

NAICS Code	Description
5121	Motion Picture and Video Industries
5122	Sound Recording Industries
5131	Newspaper, Periodical, Book, and Directory Publishers
5132	Software Publishers
5161	Radio and television broadcasting stations
5162	Media streaming distribution services, social networks, and other media networks and content providers
5171	Wired and Wireless Telecommunications (except Satellite)
5174	Satellite telecommunications
5178	All other telecommunications
5182	Computing Infrastructure Providers, Data Processing, Web Hosting, and Related Services
5192	Web search portals, libraries, archives, and other information services
5221	Depository Credit Intermediation
5222	Nondepository Credit Intermediation
5223	Activities Related to Credit Intermediation
5231	Securities and Commodity Contracts Intermediation and Brokerage
5232	Securities and commodity exchanges
5239	Other Financial Investment Activities
5241	Insurance Carriers
5242	Agencies, Brokerages, and Other Insurance Related Activities
5251	Insurance and Employee Benefit Funds
5259	Other investment pools and funds
5311	Lessors of Real Estate
5312	Offices of Real Estate Agents and Brokers
5313	Activities Related to Real Estate
5331	Lessors of Nonfinancial Intangible Assets (except Copyrighted Works)
5411	Legal Services
5412	Accounting, Tax Preparation, Bookkeeping, and Payroll Services
5413	Architectural, Engineering, and Related Services
5414	Specialized Design Services
5415	Computer Systems Design and Related Services
5416	Management, Scientific, and Technical Consulting Services
5418	Advertising, Public Relations, and Related Services
5419	Other Professional, Scientific, and Technical Services
5511	Management of Companies and Enterprises
5611	Office Administrative Services
5613	Employment Services
5614	Business Support Services
5615	Travel arrangement and reservation services
6211	Offices of Physicians
6212	Offices of Dentists
6213	Offices of Other Health Practitioners
7113	Promoters of performing arts, sports, and similar events
8131	Religious organizations
8132	Grantmaking and giving services
8133	Social advocacy organizations
8134	Civic and social organizations
8139	Business, professional, labor, political, and similar organizations

Source: California Employment Development Department Establishment-Level Data, 2024; Strategic Economics 2024.

FIGURE 44: INDUSTRIES IN LIFE SCIENCE / R&D USES

NAICS Code	Description
3254	Pharmaceutical and Medicine Manufacturing
3345	Navigational, Measuring, Electromedical, and Control Instruments Manufacturing
3391	Medical equipment and supplies manufacturing
4234	Professional and Commercial Equipment and Supplies Merchant Wholesalers
4242	Drugs and druggists' sundries merchant wholesalers
4246	Chemical and allied products merchant wholesalers
5417	Scientific Research and Development Services
6215	Medical and diagnostic laboratories

Source: California Employment Development Department Establishment-Level Data, 2024; Strategic Economics 2024

FIGURE 45: INDUSTRIES IN INDUSTRIAL USES

NAICS Code	Description
3111	Animal Food Manufacturing
3112	Grain and Oilseed Milling
3113	Sugar and Confectionery Product Manufacturing
3114	Fruit and Vegetable Preserving and Specialty Food Manufacturing
3115	Dairy Product Manufacturing
3116	Animal Slaughtering and Processing
3118	Bakeries and Tortilla Manufacturing
3119	Other Food Manufacturing
3121	Beverage Manufacturing
3122	Tobacco Manufacturing
3131	Fiber, Yarn, and Thread Mills
3132	Fabric Mills
3133	Textile and Fabric Finishing and Fabric Coating Mills
3141	Textile Furnishings Mills
3149	Other Textile Product Mills
3152	Cut and Sew Apparel Manufacturing
3159	Apparel Accessories and Other Apparel Manufacturing
3162	Footwear Manufacturing
3169	Other Leather and Allied Product Manufacturing
3211	Sawmills and Wood Preservation
3212	Veneer, Plywood, and Engineered Wood Product Manufacturing
3219	Other Wood Product Manufacturing
3221	Pulp, Paper, and Paperboard Mills
3222	Converted Paper Product Manufacturing
3231	Printing and Related Support Activities
3241	Petroleum and Coal Products Manufacturing
3251	Basic Chemical Manufacturing
3252	Resin, Synthetic Rubber, and Artificial and Synthetic Fibers and Filaments Manufacturing
3253	Pesticide, Fertilizer, and Other Agricultural Chemical Manufacturing
3255	Paint, Coating, and Adhesive Manufacturing
3256	Soap, Cleaning Compound, and Toilet Preparation Manufacturing
3259	Other Chemical Product and Preparation Manufacturing
3261	Plastics Product Manufacturing
3262	Rubber Product Manufacturing
3271	Clay Product and Refractory Manufacturing
3272	Glass and Glass Product Manufacturing
3273	Cement and Concrete Product Manufacturing
3279	Other Nonmetallic Mineral Product Manufacturing
3311	Iron and Steel Mills and Ferroalloy Manufacturing
3312	Steel Product Manufacturing from Purchased Steel
3314	Nonferrous Metal (except Aluminum) Production and Processing
3315	Foundries
3321	Forging and Stamping
3322	Cutlery and Handtool Manufacturing
3323	Architectural and Structural Metals Manufacturing
3324	Boiler, Tank, and Shipping Container Manufacturing
3325	Hardware Manufacturing
3326	Spring and Wire Product Manufacturing
3327	Machine Shops; Turned Product; and Screw, Nut, and Bolt Manufacturing
3328	Coating, Engraving, Heat Treating, and Allied Activities
3329	Other Fabricated Metal Product Manufacturing
3331	Agriculture, Construction, and Mining Machinery Manufacturing
3332	Industrial Machinery Manufacturing
3333	Commercial and Service Industry Machinery Manufacturing
3334	Ventilation, Heating, Air-Conditioning, and Commercial Refrigeration Equipment Manufacturing

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3335	Metalworking Machinery Manufacturing
3336	Engine, Turbine, and Power Transmission Equipment Manufacturing
3339	Other General Purpose Machinery Manufacturing
3341	Computer and Peripheral Equipment Manufacturing
3342	Communications Equipment Manufacturing
3343	Audio and Video Equipment Manufacturing
3344	Semiconductor and Other Electronic Component Manufacturing
3346	Manufacturing and Reproducing Magnetic and Optical Media
3351	Electric Lighting Equipment Manufacturing
3352	Household Appliance Manufacturing
3353	Electrical Equipment Manufacturing
3359	Other Electrical Equipment and Component Manufacturing
3361	Motor Vehicle Manufacturing
3362	Motor Vehicle Body and Trailer Manufacturing
3363	Motor Vehicle Parts Manufacturing
3364	Aerospace Product and Parts Manufacturing
3366	Ship and Boat Building
3369	Other Transportation Equipment Manufacturing
3371	Household and Institutional Furniture and Kitchen Cabinet Manufacturing
3372	Office Furniture (including Fixtures) Manufacturing
3379	Other Furniture Related Product Manufacturing
3399	Other Miscellaneous Manufacturing
4231	Motor Vehicle and Motor Vehicle Parts and Supplies Merchant Wholesalers
4232	Furniture and Home Furnishing Merchant Wholesalers
4233	Lumber and Other Construction Materials Merchant Wholesalers
4235	Metal and Mineral (except Petroleum) Merchant Wholesalers
4236	Household Appliances and Electrical and Electronic Goods Merchant Wholesalers
4237	Hardware, and Plumbing and Heating Equipment and Supplies Merchant Wholesalers
4238	Machinery, Equipment, and Supplies Merchant Wholesalers
4239	Miscellaneous Durable Goods Merchant Wholesalers
4241	Paper and Paper Product Merchant Wholesalers
4243	Apparel, Piece Goods, and Notions Merchant Wholesalers
4244	Grocery and Related Product Merchant Wholesalers
4245	Farm Product Raw Material Merchant Wholesalers
4247	Petroleum and Petroleum Products Merchant Wholesalers
4248	Beer, Wine, and Distilled Alcoholic Beverage Merchant Wholesalers
4249	Miscellaneous Nondurable Goods Merchant Wholesalers
4251	Wholesale Electronic Markets and Agents and Brokers
4841	General Freight Trucking
4842	Specialized Freight trucking
4885	Freight Transportation Arrangement
4889	Other Support Activities for Transportation
4911	Postal Service
4921	Couriers and Express Delivery Services
4922	Local Messengers and Local Delivery
4931	Warehousing and Storage
8111	Automotive repair and maintenance
8112	Electronic and precision equipment repair and maintenance
8113	Commercial and industrial machinery and equipment (except automotive and electronic) repair and maintenance

Source: California Employment Development Department Establishment-Level Data, 2024; Strategic Economics 2024

FIGURE 46: INDUSTRIES IN RETAIL USES

NAICS Code	Description
4411	Automobile Dealers
4412	Other Motor Vehicle Dealers
4413	Automotive Parts, Accessories, and Tire Retailers
4441	Building Material and Supplies Dealers
4442	Lawn and Garden Equipment and Supplies Retailers
4451	Grocery and Convenience Retailers
4452	Specialty Food Retailers
4453	Beer, Wine, and Liquor Retailers
4491	Furniture and Home Furnishings Retailers
4492	Electronics and Appliance Retailers
4551	Department Stores
4552	Warehouse Clubs, Supercenters, and Other General Merchandise Retailers
4561	Health and Personal Care Retailers
4571	Gasoline Stations
4581	Clothing and Clothing Accessories Retailers
4582	Shoe Retailers
4583	Jewelry, Luggage, and Leather Goods Retailers
4591	Sporting Goods, Hobby, and Musical Instrument Retailers
4592	Book Retailers and News Dealers
4593	Florists
4594	Office Supplies, Stationery, and Gift Retailers
4595	Used Merchandise Retailers
4599	Other Miscellaneous Retailers
5321	Automotive Equipment Rental and Leasing
5322	Consumer Goods Rental
5323	General rental centers
5324	Commercial and industrial machinery and equipment rental and leasing
7223	Special Food Services
7224	Drinking Places (Alcoholic Beverages)
7225	Restaurants and Other Eating Places
8114	Personal and household goods repair and maintenance
8121	Personal Care Services
8122	Death Care Services
8123	Drycleaning and Laundry Services
8129	Other Personal Services

Source: California Employment Development Department Establishment-Level Data, 2024; Strategic Economics 2024

FIGURE 47: INDUSTRIES IN HOTEL USES

NAICS Code	Description
7211	Traveler Accommodation

Source: California Employment Development Department Establishment-Level Data, 2024; Strategic Economics 2024

FIGURE 48: AFFORDABLE HOUSING FUNDING GAP BY INCOME LEVEL FOR FIVE COMMERCIAL LAND USES

Land Use	Worker Households / 1,000 SF	Percentage of Households	Average Gap (per Household)	Maximum Fee Revenue (Total Affordable Housing Gap)	Max Fee per Sq. Ft.
Office					
Extremely Low (30% AMI or lower)		0%	$0	$0	$0
Very Low Income (<=50% AMI)	0.15	8%	$687,761	$101,976	$102
Low Income (51- 80% AMI)	0.36	19%	$540,787	$194,340	$194
Moderate Income (81-120% AMI)	0.39	20%	$393,398	$152,076	$152
Households Requiring Affordable Housing	**0.89**	**47%**	**$501,440**	**$448,392**	**$448**
Above Moderate Income (>=120%)	1.01	53%	$0	$0	$0
Office Total	**1.90**	**100%**	**$235,406**	**$448,392**	**$448**
Life Science					
Extremely Low (30% AMI or lower)		0%	$0	$0	$0
Very Low Income (<=50% AMI)	0.10	6%	$687,761	$69,832	$70
Low Income (51- 80% AMI)	0.36	23%	$540,787	$192,057	$192
Moderate Income (81-120% AMI)	0.29	19%	$393,398	$115,098	$115
Households Requiring Affordable Housing	**0.75**	**48%**	**$503,151**	**$376,987**	**$377**
Above Moderate Income (>=120%)	0.82	52%	$0	$0	$0
Life Science Total	**1.57**	**100%**	**$240,329**	**$376,987**	**$377**
Industrial					
Extremely Low (30% AMI or lower)		0%	$0	$0	$0
Very Low Income (<=50% AMI)	0.09	14%	$687,761	$65,190	$65
Low Income (51- 80% AMI)	0.22	32%	$540,787	$117,089	$117
Moderate Income (81-120% AMI)	0.10	15%	$393,398	$39,268	$39
Households Requiring Affordable Housing	**0.41**	**62%**	**$538,888**	**$221,547**	**$222**
Above Moderate Income (>=120%)	0.26	38%	$0	$0	$0
Industrial Total	**0.67**	**100%**	**$332,320**	**$221,547**	**$222**
Retail					
Extremely Low (30% AMI or lower)		0%	$0	$0	$0
Very Low Income (<=50% AMI)	1.05	79%	$687,761	$722,835	$723
Low Income (51- 80% AMI)	0.19	14%	$540,787	$102,297	$102
Moderate Income (81-120% AMI)	0.03	2%	$393,398	$12,532	$13
Households Requiring Affordable Housing	**1.27**	**95%**	**$658,533**	**$837,664**	**$838**
Above Moderate Income (>=120%)	0.06	5%	$0	$0	$0
Retail Total	**1.33**	**100%**	**$628,248**	**$837,664**	**$838**
Hotel					
Extremely Low (30% AMI or lower)		0%	$0	$0	$0
Very Low Income (<=50% AMI)	0.48	51%	$687,761	$328,197	$328
Low Income (51- 80% AMI)	0.33	36%	$540,787	$180,606	$181
Moderate Income (81-120% AMI)	0.07	8%	$393,398	$29,332	$29
Households Requiring Affordable Housing	**0.89**	**95%**	**$607,564**	**$538,135**	**$538**
Above Moderate Income (>=120%)	0.05	5%	$0	$0	$0
Hotel Total	**0.94**	**100%**	**$575,536**	**$538,135**	**$538**

Source: Strategic Economics, 2025.

FIGURE 49: OFFICE EMPLOYMENT DENSITY SOURCES AND COMPARISONS

Workers / 1,000 Square Feet	Square Feet / Worker	Source
National Estimates		
2.8	360	Energystar Portfolio Manager. 2023. *Energy Star Score for Offices.*
3.2*	310	Energystar Portfolio Manager. 2023. *Energy Star Score for Offices.*
2.9	340	Norm Miller. 2013. Downsizing and Workplace Trends in the Office Market.
5.2	194	Cushman & Wakefield. 2017. *Space Matters.*
4.0	250	LEED. 2009. *Appendix 2. Default occupancy counts.*
4.4*	225	LEED. 2009. *Appendix 2. Default occupancy counts.*
Environmental Impact Report Estimates		
3.0	333	City of Santa Clara. 2023. *Santa Clara Downtown Precise Plan Draft Environmental Impact Report.*
4.0	250	City of Santa Clara. 2023. Mission Point Project Draft Environmental Impact Report.
3.3	300	City of San Jose. 2022. 550 E Brokaw Draft Environmental Impact Report.
Local Nexus Estimates		
2.9	350	City of San Jose. 2020. *Commercial Linkage Fee Nexus Analysis.*
4.2	238	City of San Francisco. 2019. *Jobs Housing Nexus Analysis.*
2.9*	350	City of San Francisco. 2019. *Jobs Housing Nexus Analysis.*
2.5	400	City of Pleasanton. 2018. *Nonresidential Development Housing Linkage Fee Nexus Study.*
5.0	200	City of Foster City. 2022. *Commercial Linkage Fee Nexus Study.*
Santa Clara County Estimate		
2.9	**350**	

* Denotes estimates for Medical Office buildings
Note: Energystar estimates were provided on a per-shift basis but also included the typical working hours per week. The per shift number was thus adjusted by total shifts (with only a marginal adjustment for office workers) to estimate total employees per square foot.
Source: Strategic Economics, 2025.

FIGURE 50: LIFE SCIENCE / R&D EMPLOYMENT DENSITY SOURCES AND COMPARISONS

Workers / 1,000 Square Feet	Square Feet / Worker	Source
Local Broker Data		
2.3	441	Cushman & Wakefield. 2024. *Life Science Tenants in the Marketplace.*
3.6	275	Avison Young. 2024. *Bay Area Life Science Report.*
5.1	196	Transwestern. 2023. *Bay Area Life Sciences Market.*
3.7	273	Newmark. 2024. *San Francisco Bay Area Life Science Market Overview.*
Environmental Impact Report Estimates		
6.4	157	City of Belmont. 2024. *1301 Shoreway Draft Environmental Impact Report.*
3.3	300	City of San Carlos. 2021. *Alexandria Center for Life Science Project Draft Environmental Impact Report.*
Local Nexus Estimates		
2.5	400	City of San Jose. 2020. *Commercial Linkage Fee Nexus Analysis.*
2.5	400	City of San Francisco. 2019. *Jobs Housing Nexus Analysis.*
2.5	400	City of Pleasanton. 2018. *Nonresidential Development Housing Linkage Fee Nexus Study.*
5.0	200	City of Foster City. 2022. *Commercial Linkage Fee Nexus Study.*
Other		
2.5	400	LEED. 2009. *Appendix 2. Default occupancy counts.*
Santa Clara County Estimate		
2.4	**425**	

Notes:
Broker Data-based estimates were calculated using estimates of total life science industry employees and total occupied space for the Bay Area.
*Foster City estimate from EPS is included with Office and Industrial density estimate
Source: Strategic Economics, 2025.

FIGURE 51: INDUSTRIAL EMPLOYMENT DENSITY SOURCES AND COMPARISONS

Workers / 1,000 Square Feet	Square Feet / Worker	Source
National Estimates		
0.9 (Warehouse)	1,176	Energystar Portfolio Manager. 2023. *Energy Star Score for Warehouses*.
0.4 (Warehouse - Distribution)	2,500	LEED. 2009. *Appendix 2. Default occupancy counts.*
0.1 (Warehouse - Storage)	20,000	LEED. 2009. *Appendix 2. Default occupancy counts.*
0.7 (Warehouse)	1,500	Shopify. 2024. *Warehouse Design: Common Layouts and Tips for 2024.*
2.0 (Light Manufacturing)	500	City of Fort Collins. 2009. *Land/Building Needs Analysis for Targeted Industries.*
0.5 (Warehouse/Distribution)	2,000	City of Fort Collins. 2009. *Land/Building Needs Analysis for Targeted Industries.*
0.4 (Logistics)	2,241	NAIOP Research Foundation. 2010. *Logistics Trends and Specific Industries that Will Drive Warehouse and Distribution Growth and Demand for Space.*
Local Nexus Estimates		
2.0	500	City of San Jose. 2020. *Commercial Linkage Fee Nexus Analysis.*
2.5	400	City of Pleasanton. 2018. *Nonresidential Development Housing Linkage Fee Nexus Study.*
Santa Clara County Estimate		
1.0	**1,000**	

Source: Strategic Economics, 2025.

FIGURE 52: RETAIL EMPLOYMENT DENSITY SOURCES AND COMPARISONS

Workers / 1,000 Square Feet	Square Feet / Worker	Source
National Estimates		
1.6	613	Energystar Portfolio Manager. 2023. *Energy Star Score for Retail Stores.*
1.7	605	Nelson. 2013. *Reshaping Metropolitan America.*
0.8 (General Retail)	1,246	Energy Information Administration. 2006. *Commercial Buildings Energy Consumption Survey: Building Characteristics Tables.*
0.9 (Service Industries)	1,105	Energy Information Administration. 2006. *Commercial Buildings Energy Consumption Survey: Building Characteristics Tables.*
1.1 (Food Sales)	877	Energy Information Administration. 2006. *Commercial Buildings Energy Consumption Survey: Building Characteristics Tables.*
1.9 (Food Service)	528	Energy Information Administration. 2006. *Commercial Buildings Energy Consumption Survey: Building Characteristics Tables.*
1.8 (General Retail)	550	LEED. 2009. *Appendix 2. Default occupancy counts.*
2.3 (Restaurants)	435	LEED. 2009. *Appendix 2. Default occupancy counts.*
Environmental Impact Report Estimates		
2.0	500	City of San Carlos. 2021. *Alexandria Center for Life Science Project Draft Environmental Impact Report.*
4.9	204	City of Santa Clara. 2023. *Mission Point Project Draft Environmental Impact Report.*
4.0	250	City of Santa Clara. 2023. *Santa Clara Downtown Precise Plan Draft Environmental Impact Report.*
2.5	400	City of Sunnyvale. 2022. *Moffett Park Specific Plan Draft Environmental Impact Report.*
Local Nexus Estimates		
2.0	500	City of San Jose. 2020. *Commercial Linkage Fee Nexus Analysis.*
2.7	368	City of San Francisco. 2019. *Jobs Housing Nexus Analysis.*
2.3	440	City of Pleasanton. 2018. *Nonresidential Development Housing Linkage Fee Nexus Study.*
2.8	360	City of Foster City. 2022. *Commercial Linkage Fee Nexus Study.*
Santa Clara County Estimate		
2.0	**500**	

Note: Energystar estimates were provided on a per-shift basis, but also included the typical working hours per week. The per shift number was thus adjusted by total shifts (assuming an average of 2 full time shifts) to estimate total employees for a store.
Source: Strategic Economics, 2025.

FIGURE 53: HOTEL EMPLOYMENT DENSITY SOURCES AND COMPARISONS

Workers / Room	Workers / 1,000 Square Feet	Square Feet / Worker	Source
National Estimates			
0.28	0.84	1,191	Energystar Portfolio Manager. 2023. *Energy Star Score for Hotels*.
1.50 (Full-Service)	2.63	N/A	Vallen & Vallen. 2012. *Check-in Check-out: Managing Hotel Operations.*
0.75 ("In-Between")	1.32	N/A	Vallen & Vallen. 2012. *Check-in Check-out: Managing Hotel Operations.*
0.25 (Budget)	0.44	N/A	Vallen & Vallen. 2012. *Check-in Check-out: Managing Hotel Operations.*
N/A	0.67	1,500	LEED. 2009. *Appendix 2. Default occupancy counts.*
Local Nexus Estimates			
0.40	0.67	1,500	City of San Jose. 2020. *Commercial Linkage Fee Nexus Analysis.*
N/A	1.27	787	City of San Francisco. 2019. *Jobs Housing Nexus Analysis.*
N/A	0.50	2,000	City of Pleasanton. 2018. *Nonresidential Development Housing Linkage Fee Nexus Study.*
N/A	1.00	1,000	City of Foster City. 2022. *Commercial Linkage Fee Nexus Study.*
Santa Clara County Estimate			
0.80	**1.40**	**713**	

Average gross square feet per room in new development projects in Santa Clara County is around 570. This assumption is only used to calculate the workers per 1,000 square feet based on the assumptions from Vallen and Vallen.
Source: Strategic Economics, 2025.