

Date: December 3, 2015

To: Edith Ramirez, City of Morgan Hill

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Subject: Comparative Analysis of Commercial Development Fees (#1212b)

## Introduction

This memorandum report is a comparative analysis of commercial development costs in Morgan Hill, Gilroy, and San Jose. The analysis compares major categories of development fees and permits in each city (impact fees, permits, and other upfront charges), as well as estimates of revenues generated by three commercial development prototypes: R&D/ high tech manufacturing; hotel; and auto dealership.

The details of each prototype are shown below in Figure 1.

*Figure 1. Development Prototypes for Analysis*

Prototype	Units	Building Area (sf)	Land Area (acres)
R&D / High Tech Manufacturing	<i>not applicable</i>	150,000	6.0
Hotel / Lodging	150 full service rooms	125,000	3.0
Auto Dealership	<i>not applicable</i>	50,000	5.0

Development fees and permit costs were calculated based on the results of a survey to City staff for each jurisdiction. The estimated fees and permits presented in this memo are not meant to represent the actual cost of a specific development project. Costs for actual development proposals will vary depending on factors such as site characteristics, building design, and location. However, this analysis serves to provide a reasonable comparison of the cost of developing the three prototypes in each city.

In addition to estimating fees and permit costs, Strategic Economics also compiled revenue indicators for the R&D and hotel prototypes. For the R&D prototype, average asking rental rates were used as an indicator of value.<sup>1</sup> For the hotel prototype, the average revenue per available room (RevPAR) was used. Revenue estimates for the auto dealership prototype were not calculated due to the high variability in sales revenues depending on the type of vehicles sold.

<sup>1</sup> Because the analysis involves smaller sub-markets, particularly Gilroy, the average rents observed from a limited number of properties in these sub-markets can be highly variable. To represent this variability, Strategic Economics has provided two sources of market information here: Colliers and CoStar.

## Summary of Findings

The following summarizes the findings of the analysis, which are also described in Figures 2 through 6. The detailed fee data is displayed in Figure 7.

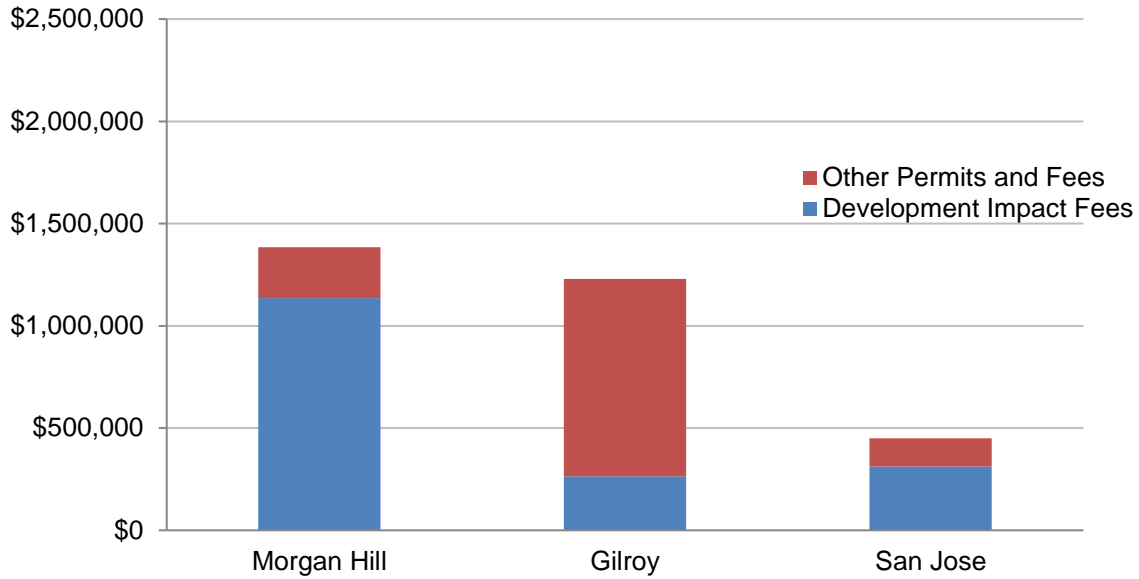
### Development Fees and Permits

- **For the R&D / high tech manufacturing prototype, development fees and permits in Morgan Hill are higher than in Gilroy and Jose.** Estimated fees and permits in Morgan Hill for the R&D prototype total approximately \$1.38 million. Morgan Hill's fees are approximately twice as high as in San Jose, and 13 percent higher than in Gilroy (see Figure 2). The difference is largely due to Morgan Hill's significantly higher impact fees to mitigate the local impacts of growth on sewer and traffic.
- **For the hotel prototype, development fees in Morgan Hill are lower than in the other cities.** Total estimated fees and permits in Morgan Hill are 41 percent lower than in Gilroy, and slightly lower than in San Jose (see Figure 3).
- **For the auto dealership prototype, development fees in Morgan Hill are slightly higher than in Gilroy, and significantly higher than in San Jose.** Morgan Hill's fees are 11 percent higher than in Gilroy and 177 percent higher than in San Jose (see Figure 4). As with the R&D prototype, the higher cost in Morgan Hill is largely due to its higher local impact fees.

### Revenues

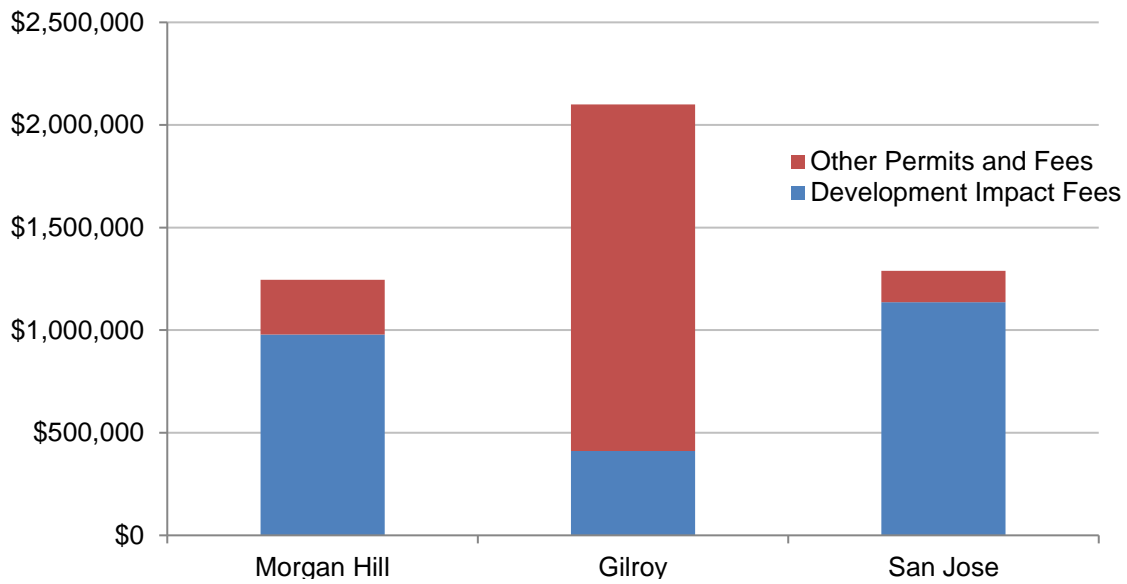
- **The rental rates for R&D / high tech manufacturing space in Morgan Hill are higher than in Gilroy, and lower than in San Jose.** See Figure 5 for a comparison of R&D rental rates reported by Colliers and CoStar. According to both data sources Morgan Hill's average monthly rents are between \$0.91 and \$1.02, significantly higher than in Gilroy (\$0.50 to 0.75). San Jose's citywide R&D rents are estimated at between \$1.61 and \$1.70. South San Jose, which has an R&D inventory similar to Morgan Hill, has an average asking rent of \$1.12.
- **For hotels, the revenue per available room (RevPAR) in Morgan Hill is positioned between Gilroy and San Jose.** The RevPAR in Morgan Hill is almost \$76, compared to \$56 in Gilroy and \$122 in San Jose (see Figure 6).

Figure 2. R&D / High Tech Manufacturing Prototype Development Fees



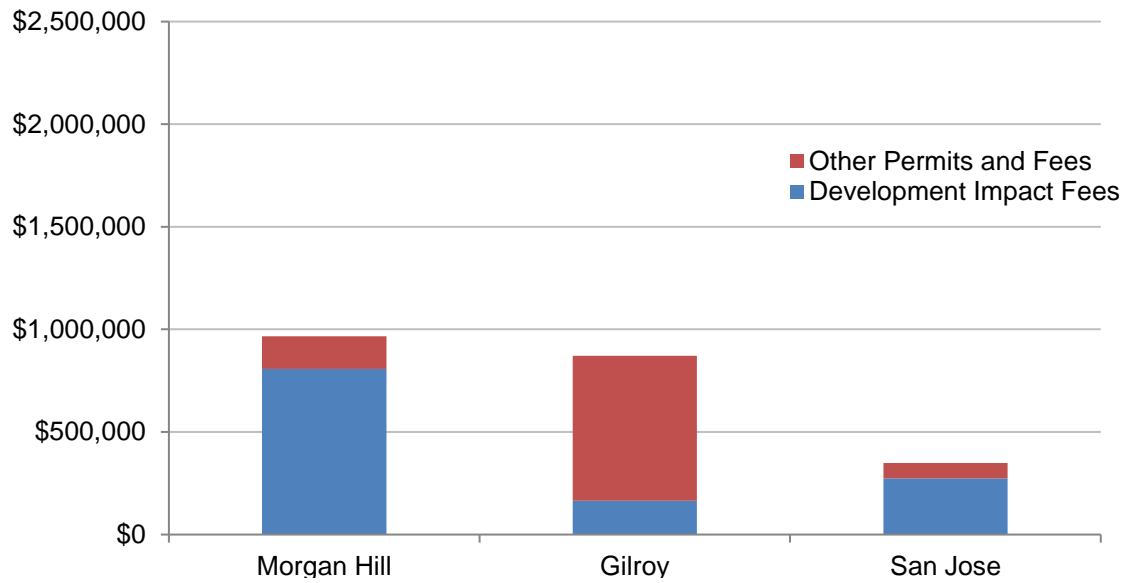
Sources: Cities of Morgan Hill, Gilroy, and San Jose.

Figure 3. Hotel Prototype Development Fees



Sources: Cities of Morgan Hill, Gilroy, and San Jose.

Figure 4. Auto Dealership Prototype Development Fees



Sources: Cities of Morgan Hill, Gilroy, and San Jose.

Figure 5. R&D Market Rents and Inventory Comparison

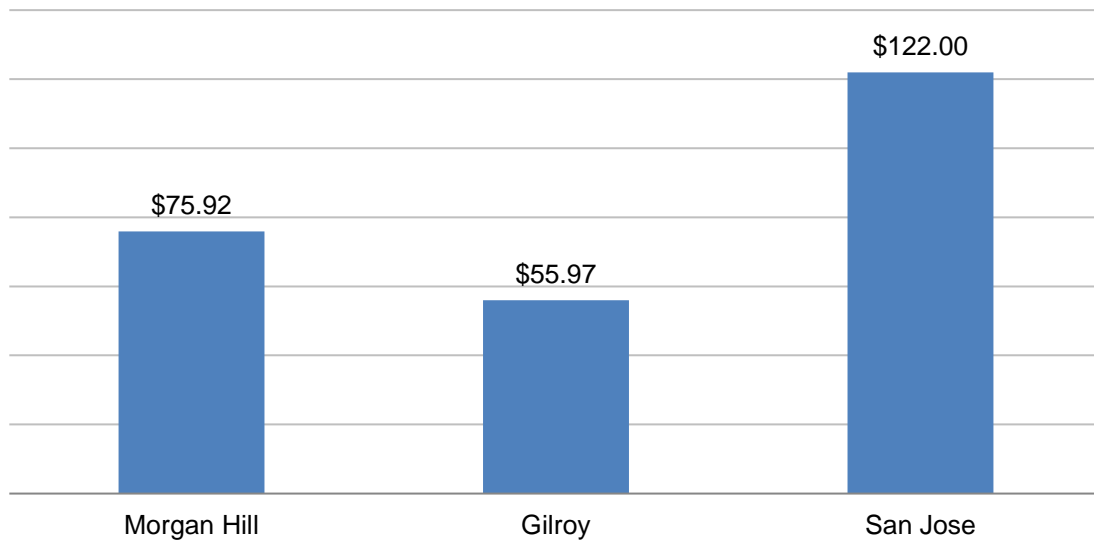
	Morgan Hill	Gilroy	South San Jose	City of San Jose
<b>Colliers</b>				
Average Asking Rent*	\$0.91	\$0.75	\$1.12	\$1.70
Total Rentable Building Area	2,839,794	372,104	10,679,353	41,593,435
<b>CoStar</b>				
Average Asking Rent*	\$1.02	\$0.50	n/a	\$1.61
Total Rentable Building Area	3,376,971	673,640	n/a	39,079,547

All figures are for Q4 2015, except South San Jose (Q2 2015) and City of San Jose (Q3 2015).

\* Rents are monthly, NNN.

Sources: Colliers 2015; CoStar 2015; Strategic Economics, 2015.

Figure 6. Revenue per Available Room (RevPAR)



Note: Morgan Hill RevPAR estimate is for 2014. RevPAR estimates for Gilroy and San Jose are projections for 2013 performed in that year.

Sources: For Morgan Hill: HA&A Hotel Market Research, 2014; For Gilroy: Economic Development Strategic Plan, YTD 2013; For San Jose: "In Focus: Silicon Valley, California - from Dot-com Bust to Boom", HVS, 2013 projected.

Figure 7. Detailed Comparison of Development Fees and Permits by City

	Morgan Hill			Gilroy			San Jose		
	R&D/High Tech Manuf.	Hotel	Auto Dealer	R&D/High Tech Manuf.	Hotel	Auto Dealer	R&D/High Tech Manuf.	Hotel	Auto Dealer
<b>Development Impact Fees</b>									
Sewer Impact Fee	\$425,970	\$584,289	\$260,315	\$3,658	\$3,658	\$3,658			
Water Impact Fee	\$60,168	\$30,084	\$50,140	\$6,731	\$6,731	\$6,731			
Storm Drain Impact Fee	\$178,392	\$122,508	\$204,180	\$6,768	\$4,584	\$7,640			
Traffic Impact Fee	\$354,120	\$160,716	\$239,712	\$698,850	\$1,463,250	\$585,300			
Police Impact Fee	\$13,644	\$4,872	\$8,120						
Fire Impact Fee	\$9,060	\$4,530	\$7,550						
Public Facilities Impact Fee	\$9,234	\$3,297	\$5,495	\$182,250	\$343,250	\$137,300			
School Fee	\$76,500	\$63,750	\$25,500	\$81,000	\$67,500	\$27,000			
Burrowing Owl Mitigation	\$8,160	\$4,080	\$6,800						
Street Tree Impact Fee				\$103	\$103	\$103			
<b>Total Development Impact Fees</b>	<b>\$1,135,248</b>	<b>\$978,126</b>	<b>\$807,812</b>	<b>\$979,360</b>	<b>\$1,889,076</b>	<b>\$767,732</b>	<b>\$342,000</b>	<b>\$1,166,000</b>	<b>\$289,240</b>
<b>Other Permits and Fees</b>									
Advance Planning				\$18,600	\$18,450	\$18,315			
Planning									
Planning Permits - Allowed Use	\$6,000	\$6,000	\$6,000						
Planning Permits - Conditional Use/Rezone	\$12,000	\$12,000	\$12,000						
Environmental (Estimated)	\$25,000	\$30,000	\$25,000						
HCP Fees (Vacant Land, New Const.)	\$35,000	\$15,000	\$35,000						
Building Permit	\$85,000	\$102,000	\$40,000	\$75,065	\$68,806	\$20,430	\$25,428	\$24,618	\$15,887
Building Division Plan Review Fee	\$81,000	\$96,000	\$38,000	\$56,298	\$51,604	\$15,323	\$49,405	\$56,900	\$27,725
Electrical Permit				\$25,247	\$14,422	\$8,447	\$6,798	\$6,901	\$5,047
Energy Fee				\$5,630	\$5,160	\$1,532			
Fire Inspection and Other Fire Fees	\$1,050	\$1,525	\$1,050	\$390	\$260	\$130	\$4,378	\$3,734	\$1,803
Mechanical Permit				\$25,247	\$14,422	\$8,447	\$4,532	\$4,429	\$3,090
Permit Processing							\$6,400	\$6,400	\$2,880
Plan Check				\$1,500	\$1,100	\$700			
Plumbing Permit				\$7,607	\$3,594	\$1,727	\$2,781	\$13,081	\$1,864
Strong Motion Instrumentation	\$4,000	\$4,700	\$1,800	\$5,909	\$5,397	\$1,436	\$8,400	\$7,000	\$1,680
State Revolving Fees				\$846	\$772	\$207			
Engineering Plan Check & Inspection Fees				\$27,300	\$27,300	\$27,300			
<b>Total Other Permits and Fees</b>	<b>\$249,050</b>	<b>\$267,225</b>	<b>\$158,850</b>	<b>\$249,639</b>	<b>\$211,288</b>	<b>\$103,994</b>	<b>\$108,122</b>	<b>\$123,063</b>	<b>\$59,976</b>
<b>Grand Total</b>	<b>\$1,384,298</b>	<b>\$1,245,351</b>	<b>\$966,662</b>	<b>\$1,228,999</b>	<b>\$2,100,363</b>	<b>\$871,726</b>	<b>\$450,122</b>	<b>\$1,289,063</b>	<b>\$349,216</b>

Sources: Cities of Morgan Hill, Gilroy, and San Jose.