7 | PLAN IMPLEMENTATION

The Lawrence SAP is a phased planning effort, of which this document represents the first phase. Subsequent phases will address development and evaluation of the concepts presented herein to identify a preferred plan; preparation of more detailed access, circulation and streetscape improvement concepts; design guidelines for development, open space, and public improvements; and environmental review, plan adoption and any policy or zoning modifications that may be required.

At this time it is useful to understand the relative feasibility of the concepts that have been prepared. This section discusses the market conclusions and financial feasibility of the alternative uses and concepts and discusses initial financing strategies that will be considered in more detail in later phases.

MARKET CONCLUSIONS

Based on the market analysis and input from the community and City of Sunnyvale staff, three land use concepts have been identified: one with a residential emphasis, one with an office/R&D emphasis, and a hybrid that balances residential and employment uses. Below, the feasibility of each land use type in the context of each land use concept has been evaluated, assuming a long-term planning horizon.

Residential

The Residential Emphasis land use plan allows for a long-term build-out potential of nearly 15,500 new units (under the proposed maximum) beyond the 1,800 existing units in the study area. The Office/R&D Emphasis concept proposes 4,100 new residential units, and the Mixed Development land use concept allows for 11,800 new residential units. The land use alternatives will need to balance near-term feasibility prospects with comments heard during the public outreach process suggesting policy concerns regarding job displacement if existing commercial uses are redeveloped as residential. Both the Office/R&D Emphasis and the Mixed Development Emphasis plans accomplish this.

If ABAG projections for household growth in Sunnyvale and Santa Clara are accurate, and the study area is able to capture 20 percent of the cities' expected household growth during the next 25 years because of the prioritization of new development in the study area, it would result in more than 6,100 new homes in the study area. This result would reflect a major increase in the study area's growth in proportion to the cities generally, yet is well under the number of new households

proposed under both the Residential and Mixed Development land use alternatives. In the past ten years, the study area has absorbed approximately 160 new households which reflects a "capture" of approximately 2 percent of the cities of Sunnyvale's and Santa Clara's new households.

Office/R&D

The Office/R&D Emphasis alternative is the most dense of the three alternatives and proposes more than 8.0 million square feet of office and high-value R&D. To occupy this amount of new office and R&D development would require the creation of approximately 32,200 new jobs, which represents 40 percent of ABAG's total expected job growth in the combined Sunnyvale/Santa Clara area between now and 2035. Given the comparative merits of the study area versus alternative locations for new employment development, such a capture rate would be extremely difficult to achieve in the study area, and the overall absorption of all the planned space would take several decades longer.

The Mixed Development Emphasis alternative allows for 4.2 million square feet of office/high-value R&D. This level of new development would provide new space for approximately 17,000 office and R&D employees, representing 21 percent of anticipated job growth between now and 2035 in the combined Sunnyvale and Santa Clara area. This is an aggressive but potentially achievable capture rate, particularly if the new residential development in this plan can transform the study area and significantly enhance its appeal.

The Residential Emphasis alternative still proposes some office and R&D development—709,000 square feet of office/high-value R&D. This level of new development would support approximately 2,800 office and R&D employees, representing only 4 percent of anticipated job growth between now and 2035 in the combined Sunnyvale and Santa Clara area. This modest capture rate should be relatively easy to achieve over the coming decades, particularly if the residential development has its intended effect of creating greater vitality in the study area.

Retail

The amount of new retail included in the three land use concepts ranges from 280,300 square feet in the Office/R&D Emphasis plan to 501,400 square feet in the Residential Emphasis plan. This range reflects that the amount of new retail will be consistent with and follow the selected land use emphasis, with local households supporting more retail than would local employees. While the Residential Emphasis concept can support more retail than either of the other two alternative plans, the retail amounts in each alternative (up to 500,000 square feet) are aggressive and should be considered "best-case scenarios" for each plan alternative.

FINANCIAL FEASIBILITY

The primary determinant of the overall feasibility of a particular product type in this analysis is the residual land value - the amount a developer could pay to acquire the land parcel and fund additional costs for infrastructure improvements, lease buy-outs, and environmental remediation, as necessary, and still receive a sufficient return on those costs.

The land value achieved from developing a new building must exceed the value of the existing property by a sufficient margin for a project to be feasible. If the residual land value margin is negligible, a property owner will not have an economic incentive to redevelop the property. Table 7.1 summarizes the land residuals likely to be attained by redeveloping uses at various densities under near-term market conditions. The land residuals provide an initial indication of the relative feasibility of different types and densities of use.

While a comparison against existing values of specific parcels is beyond the scope of this study, per acre land values in the study area has been researched and the current market value of a prototypical R&D property in the study area has been estimated. Land value comps are based on County assessor data and reflect the latest transaction data for select properties in the study area, primarily along Sonora Court (see Table 7.2). The average land value per acre of all properties researched is $863,000. Limiting the data to transactions that occurred in 2010 or 2011 reduces the land value to $722,000 per acre. The average land value per acre in the past five years is $795,000.

The market value estimate of a prototypical property in the study area assumes a low-density R&D use on a one acre parcel at an FAR of 0.3. Average R&D rents in the study area are approximately $0.90 per square foot per month and operating expenses are assumed to be 30 percent. A 7.0 percent cap rate is applied, resulting in a capitalized value of approximately $1.4 million per acre (including the value of the existing buildings as well as the land).

Pro Forma Analysis

Based on market research and other planning considerations, the analysis established appropriate physical parameters for the types of buildings subject to this feasibility analysis. Such parameters include the densities and parking requirements

Table 7.1: Prototype Feasibility: Land Value / Density Matrix

Item	Residential					Office/High-Value R&D	
	Townhome Density	Medium Density		High Density		Low-Intensity	Medium Intensity
	2 stories	*3-4 stories*		*4-5 stories*		*3-5 stories*	*6-9 stories*
	Est. Du/Ac: 25	*Est. Du/Ac: 35*		*Est. Du/Ac: 55*		*Est. FAR: 1.00*	*Est. FAR: 2.00*
	Sale	Sale	Rent	Sale	Rent		
Current Market Value (per acre) [1]	$1,411,344	$1,411,344	$1,411,344	$1,411,344	$1,411,344	$1,411,344	$1,411,344
Current Market: Residual Land Value (per acre)	$1,631,000	$505,000	$196,000	$891,000	$361,000	($1,398,000)	($2,078,000)

[1] Current market value estimate assumes an underutilized R&D building occupies 1 acre of land at an FAR of 0.3 and monthly rent of $0.90 per square foot. Operating expenses are assumed to be 30% and the assumed capitalization rate is 7%. These assumptions result in a capitalized value of $1.4 million per acre.

Sources: BMS Design Group; Economic & Planning Systems, Inc.

Table 7.2: Select Land Value Comparables in Station Area

Address				Transfer Date	Assessed Land Value	Acres	Value/Acre
1050	Kifer	Road	Sunnyvale	5/11/2011	$761,763	9.7880	$77,826
1171	Sonora	Court	Sunnyvale	12/28/2010	$154,983	1.3000	$119,218
1150	Kifer	Road	Sunnyvale	8/20/2010	$3,662,614	2.6200	$1,397,944
1170	Kifer	Road	Sunnyvale	8/20/2010	$4,103,857	3.2000	$1,282,455
1178	Sonora	Court	Sunnyvale	5/28/2010	$1,565,806	1.2561	$1,246,562
1130	Kifer	Road	Sunnyvale	2/10/2010	$1,651,583	8.0050	$206,319
1154-56	Sonora	Court	Sunnyvale	10/1/2007	$2,035,165	1.8866	$1,078,747
1127	Sonora	Court	Sunnyvale	9/15/2006	$3,840,356	4.0400	$950,583
1170	Sonora	Court	Sunnyvale	7/19/2005	$1,410,202	1.0881	$1,296,022
1135	Sonora	Court	Sunnyvale	6/18/2004	$1,762,340	1.4700	$1,198,871
1145	Sonora	Court	Sunnyvale	7/16/2003	$442,554	1.2500	$354,043
3585	Monroe	Street	Santa Clara	5/7/2002	$23,976,623	16.0300	$1,495,734
3585	Agate	Drive	Santa Clara	3/22/1999	$437,221	0.6440	$678,915
1175	Sonora	Court	Sunnyvale	10/11/1996	$1,135,582	1.3100	$866,856
1159	Sonora	Court	Sunnyvale	8/21/1995	$799,222	1.1400	$701,072
Average (total)							$863,411
Average (2010 and 2011)							$721,721
Average (last 5 years)							$794,957

Sources: Santa Clara County Assessor's Office; Economic & Planning Systems, Inc.

for each building type. These determinations were made based on a desire to test a range of development options given how costs associated with various types of construction (e.g., wood frame vs. steel) and parking can vary, and appropriateness for a transit-served location. The types of buildings tested include townhome and low- to mid-rise residential structures, both for sale and for rent, as well as low-rise and mid-rise office buildings with structured parking.

The feasibility analysis uses financial pro formas to simulate the costs of developing and operating a given building prototype, and the potential revenues and resulting residual land value that can be achieved with each type. The pro forma models developed for these analyses are "static." They compare the development costs to the future resale value of the building after stabilized operations have been achieved for each of the building prototypes tested. For each of the building prototypes, the feasibility analyses have applied generalized development and operating cost figures. Achievable lease rates and sale prices are estimated based on market conditions in the Sunnyvale/Santa Clara area and assume high-quality, new construction TOD products. The construction and operating cost estimates and the value estimates were all generated using published materials as well as research to ensure that they are consistent with similar recent developments within the region.

Potential feasibility is indicated when the residual land value for a given product type is not only positive but sufficiently positive to incentivize a landowner to redevelop their property rather than maintaining the existing revenue-producing but lower-density use.

The pro forma analyses (included in Appendix B) provide an estimate of the residual land values associated with each product prototype under near-term market conditions (i.e., the next five years). Product prototypes that are not currently feasible may become feasible as market conditions improve. Actual feasibility will depend on current land values, demolition required, site and infrastructure improvements required, and developer interest. Specific findings are noted below:

Residential

As indicated on Table 7.1, under current market conditions, for-sale townhome, low-rise, and mid-rise residential product types return positive land residuals, but only the townhome prototype generates sufficient return to potentially incentivize redevelopment of an existing use. As market conditions improve, the other residential product types may begin to generate higher residual land values.

Office/High-Value R&D

Of the office/high-value R&D product types evaluated, none achieved positive residual land values under current market conditions. Development costs assume that each of the office developments would require structured parking. Lower-density development with lower-cost surface parking may yield improved financial feasibility results but would not be consistent with the density goals of TOD.

Mixed-Use

The feasibility of mixed-use projects is dependent upon the proportions of housing, retail, and office land uses that are included in the development, as well as the parking format utilized. Because there are several variables in the ability of a project to achieve the price points necessary for feasibility, it is often most appropriate to address mixed-use projects' feasibility on a case-by-case basis, a task not supported by the scope of this analysis. Still, it is worth noting that most "mixed-use" buildings tend to have ground floor retail uses with office or residential space above, and that the primary factor in the feasibility of such buildings is the market support and achievable values for those upper-floor uses. Typically, the ground floor space is more of an amenity with an ancillary revenue stream that may or may not cover the added costs of its inclusion. Mixed-use buildings with more than one "upper floor" use (e.g., ground floor retail with office above and residential above that) have some precedent but tend to be difficult to finance, given that the market conditions and lenders/investors for both the office and residential portions must coincide.

Feasibility Conclusions

This feasibility exercise is intended to reflect the challenges or opportunities for various types of development under near-term market conditions. The findings suggest that townhome-density residential development may be among the first product types to be feasible in the study area, and may be able to displace existing lower-value industrial/flex buildings occupying key sites. Higher-density residential and office/R&D buildings are likely to be developable only in the mid- to longer-term, as market conditions and prices recover and as existing vacant supply becomes less available. These findings bear directly on the prospects for the three land use concept plans—Residential Emphasis, Office/R&D Emphasis, and Mixed Development. The Office/R&D Emphasis plan in particular faces challenges because the high cost of building dense office buildings with structured parking may not be supported in the study area for some years.

The conclusions may seem counter-intuitive—that lower-density development actually generates the highest land values and thus are most feasible in the near term. This result reflects the fact that lower-density development has lower construction costs per square foot or unit, while the market values achievable per square foot or unit may be the same or higher than those for higher-density developments.

It is worth noting that the residual land value can be extremely sensitive to assumptions or market conditions, as a modest change to a cost or revenue assumption can make a very large difference in residual land value estimates. For example, a building that costs $90 per square foot to build and sells for $100 per square foot has a $10 residual land value per square foot. Increasing the development value by 1 percent to $101 would increase the residual land value by 10 percent to $11 per square foot. This example is provided to illustrate that the expected future of real estate sectors may alter the results of this analysis and make certain types of development more feasible than is suggested under near-term market conditions.

FINANCING STRATEGY

While it would be premature to prepare a full-scale financing plan, since a complete inventory of capital improvements required to support the new development in the station area is not yet available, consideration of a broad financing strategy is appropriate. The value of new development associated with each of the proposed land use concepts has been estimated in order to provide a ball-park estimate of the level of infrastructure improvements that the new development may be able to support financially. The City of Sunnyvale's

(but not the City of Santa Clara's) existing funding sources were reviewed and the revenue each funding source may generate given the development programs (summarized on Table 7.3) was estimated.

Land Use Concepts Summary

Each of the land use concepts will require extensive traffic and circulation infrastructure improvements as well as sewer and storm drain improvements. New parks and open space are also likely to be required, and school improvements may also be necessary under some scenarios. Infrastructure and facilities demands and cost estimates will be estimated in a later phase of work. The three baseline concepts are briefly described below and reflect development in both Sunnyvale and Santa Clara.

Residential Emphasis

The land use concept referred to as Residential Emphasis calls for a total of 7,800-13,100 total new residential units (in addition to the 1,800 existing units to remain), 709,000 square feet of new office/R&D development, 523,000-747,000 square feet of new industrial space, and nearly 501,000 square feet of retail. For the Residential Emphasis development summary by City, refer to Table 6.1.

Office/High-Value R&D Emphasis

The Office/High-Value R&D Emphasis concept would reduce the number of new residential units to approximately 1,400-2,300 (in addition to the 1,800 existing units to remain), while increasing new office/R&D development to 2.48-4.86 million square feet and new industrial space to 3.92-5.30 million square feet. Up to 280,000 square feet of new retail is proposed as part of this concept. For the Office/R&D Emphasis development summary by City, refer to Table 6.2.

Mixed Development

The Mixed Development concept is a hybrid that proposes approximately 7,800-11,800 new residential units, 2.48-4.25 million square feet of new office/R&D development, 523,000-747,000 square feet of industrial space, and nearly 501,000 square feet of new retail. For the Mixed Development summary by City, refer to Table 6.3.

Development Value and Supportable Cost Burden

The new development will create significant property values and should be able to support a significant amount of new infrastructure investment in this infill setting. Based on market research conducted for this study, the potential per-unit or per-square-foot building and land values of the building prototypes under consideration for the study area were estimated. These values were then applied to the quantity of new development proposed in each of the land use alternatives. Table 7.4 estimates the values of the new development at build-out to range between $3.3 billion and $5.0 billion (in today's dollars) depending on the land use concept. Industry standards suggest that a development project can feasibly support roughly 10 percent of project value in infrastructure costs, which means the range of concepts can support between $331 million and $504 million of infrastructure costs. This 10 percent proportion would include contributions to on-site and off-site infrastructure and may be met by various financing mechanisms including direct construction, impact fees, and special assessments.

It is worth noting that the envisioned development faces certain feasibility challenges related to current market conditions and the need to generate sufficient value to displace existing revenue-producing properties. In light of these challenges, an infrastructure and facilities program that minimizes the funding requirements for new development can help to expedite the build-out of the plan. This minimization can be achieved by creating highly efficient infrastructure (serving more development at lower costs) or by sharing or financing certain costs as described below.

Funding Mechanisms

In addition to direct construction by the developers, the infrastructure obligations can be met through a variety of mechanisms, of which the most common in California include impact fees, user fees, and CFDs. Each of the funding mechanisms described below can be used separately or in combination with one another.

As with many California jurisdictions, the City of Sunnyvale charges development impact fees to fund infrastructure improvements required by new development. The impact fee funding accrues incrementally over time as new development occurs. Development impact fees can only fund capital improvements (i.e., not ongoing maintenance expenses) that are on the fee program project list, which is amended from time to time. The City currently collects the following mitigation and impact fees:

- Transportation/Traffic Fees
- Park in-lieu Fees
- Housing Mitigation Fees
- Tree Replacement in-lieu Fees
- Art in Private Development in-lieu Fees
- Storm Drainage Fees
- Water and Sewer Connection Fees.

Potential revenue for each of the above fee categories has not been estimated as many require more detailed development program assumptions than

are currently available. However, as an illustration of potential funding capacity, revenues that could be generated from the City's Transportation Impact Fee for each of the land use concepts were estimated.

As shown on Table 7.5, the Residential Emphasis concept could generate approximately $10.2 million in support of transportation and traffic infrastructure improvements. This estimate assumes all new residential units are multifamily attached. The concepts with more commercial development generate higher revenues. The Mixed Development concept generates approximately $17.9 million in fee revenue and the Office/High-Value R&D concept generates approximately $22.4 million in transportation and traffic fee revenue. These calculations are based on development in the City of Sunnyvale only and exclude development in the City of Santa Clara.

Additional funding sources that should be explored include a Community Facilities District (CFD), special fees focused on the station area, and inter-governmental grant programs. At build-out, a CFD special tax of 0.25 percent of assessed value would generate between $516,000 and $740,000 per year of gross revenue in today's dollars, as shown on Table 7.6. A $5.8 million to $8.4 million bond could be issued against this annual revenue (assuming 5 percent interest and a 20-year term).

Elsewhere in the City, the City assesses a "Sense of Place" fee which is used to fund neighborhood amenities intended to improve livability and facilitate access to pedestrian, bicycle and transit use. Though applying a similar fee to new development in the station area would add costs

Table 7.3: Summary of Proposed Development by Land Use Concept

	Land Use Concepts [1]		
Land Use Category	**Residential Emphasis**	**Office/R&D Emphasis**	**Mixed Development**
Sunnyvale			
Residential (units) [2]	6,172	1,240	4,819
Office (sq.ft.)	88,081	4,864,333	3,233,708
R&D (sq.ft.) [2]	635,231	2,944,990	635,231
Retail (sq.ft.)	249,040	79,040	210,443
Santa Clara			
Residential (units) [2]	4,304	474	4,304
Office (sq.ft.)	620,781	3,174,293	620,781
R&D (sq.ft.) [2]	0	2,237,569	0
Retail (sq.ft.)	147,943	64,845	147,943
Total			
Residential (units) [2]	10,476	1,714	9,123
Office (sq.ft.)	708,862	8,038,626	3,854,489
R&D (sq.ft.) [2]	635,231	5,182,559	635,231
Retail (sq.ft.)	396,983	143,885	358,386

[1] Assumes "baseline" yields.
[2] Assumes "median" development intensity.

Source: BMS Design Group

Table 7.4: Development Values by Land Use Concept

		Land Use Concepts [1]		
Land Use Category	**Assumed Value [2]**	**Residential Emphasis**	**Office/R&D Emphasis**	**Mixed Development**
Residential (per unit) [3]	$450,000	$4,714,200,000	$771,300,000	$4,105,350,000
Office (per sq.ft.)	$200	$141,772,400	$1,607,725,200	$770,897,800
R&D (per sq.ft.)	$175	$111,165,425	$906,947,825	$111,165,425
Retail (per sq.ft.)	$150	$59,547,450	$21,582,750	$53,757,900
Total Value		$5,026,685,275	$3,307,555,775	$5,041,171,125
Supportable Infrastructure	10.0%	$502,668,528	$330,755,578	$504,117,113

[1] Values reflect total new development in the Station Area (i.e., in both the City of Sunnyvale and the City of Santa Clara).
[2] Assumed residential value reflects the average value EPS analysis suggests would be supportable in the Station Area. Commercial values are based on asking sales prices as seen on Loopnet.com in the Sunnyvale area.
[3] Does not account for affordable housing requirements that could affect overall values.

Source: Economic & Planning Systems, Inc.

Table 7.5: City of Sunnyvale Transportation Impact Fee Revenue Calculation

Land Use Category	Fee Amount [2]	Land Use Concepts [1] Residential Emphasis	Office/R&D Emphasis	Mixed Development
Single Family Detached	$2,049.18 per unit	$0	$0	$0
Multifamily Attached [3]	$1,257.91 per unit	$7,763,821	$1,559,808	$6,061,868
Office	$3,023.06 per 1,000 sq.ft.	$266,274	$14,705,171	$9,775,693
Retail	$3,794.03 per 1,000 sq.ft.	$944,865	$299,880	$798,427
Industrial [4]	$1,501.38 per 1,000 sq.ft.	$0	$0	$0
R&D	$1,988.32 per 1,000 sq.ft.	$1,263,043	$5,855,583	$1,263,043
Total		**$10,238,002**	**$22,420,442**	**$17,899,031**

[1] Reflects portion of development in City of Sunnyvale only (excludes development in Santa Clara).
[2] Reflects fees for portion of City south of Route 237.
[3] All residential development is assumed to be multifamily attached.
[4] All industrial/R&D development is assumed to be R&D.

Sources: BMS Design Group; Economic & Planning Systems, Inc.

Table 7.6: Community Facilities District

Item	Land Use Concepts [1] Residential Emphasis	Office/R&D Emphasis	Mixed Development
Annual Taxable Value	$294,353,763	$205,809,585	$295,802,348
CFD Assessment [2]	0.25%	0.25%	0.25%
Gross CFD Annual Revenue	$735,884	$514,524	$739,506
Debt Coverage Ratio	110%	110%	110%
Amount Available for Debt Service	$668,986	$467,749	$672,278
Bonding Capacity [3]	$8,337,042	$5,829,187	$8,378,071

[1] Reflects portion of development in City of Sunnyvale only (excludes development in Santa Clara).
[2] The property tax rate including the Prop. 13 1.0% plus other assessments cannot exceed 2.0%. EPS aims to keep the overall property tax burden at 1.75% or lower.
[3] Bonding capacity assumes 5% interest on a 20-year bond.

Source: Economic & Planning Systems, Inc.

that may affect feasibility, the fee would contribute to additional amenities in the area that may have off-setting gains in terms of property values, and could help ensure that the improvements are coordinated both in form and in time, rather than produced in piecemeal fashion as new development occurs.

Finally, grant funding sources may be available to assist with new development in the station area, particularly in light of the City's intent to enhance and intensify a transit-served urban infill location. The City has already indicated its interest in pursuing external funding sources, which may include programs available at the regional or State level that particularly focus on infrastructure improvements and housing intensification and diversification in transit-served locations. Such funding sources and available amounts will vary over the long-term build-out of the Station Area Plan, but recent examples include the State's Proposition 1B and 1C programs for transportation improvements and affordable housing, respectively, as well as the Metropolitan Transportation Commission's Transportation for Livable Communities and Housing Incentive Programs.

Next Steps

As a follow up to this high-level Financing Strategy, once a preferred concept has been selected, the City may want to prepare a Financing Plan, which will align specific infrastructure costs with specific revenue sources and determine whether or not additional funding sources may be necessary. In order to prepare a Financing Plan, cost estimates for all infrastructure improvements must be estimated.