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To: Erick Serrano and Kerri Heusler, City of Cupertino
From: Kevin Feeney, Keyser Marston Associates
Date: February 20, 2020
Subject: Peer Review of Feasibility Analysis Methodology and Data Sources

Pursuant to your request, I have reviewed the draft feasibility analysis prepared by Strategic Economics (SE) that evaluates the City of Cupertino's inclusionary housing requirements.

Methodology

Strategic Economics undertook a static pro forma analysis to evaluate the development economics of residential and commercial development prototypes under different policy alternatives. A static pro forma analysis compares the total cost of a project to its value upon completion, in contrast to a multi-year cash flow that covers a longer holding period. The static approach is the most appropriate methodology for this type of study because it allows for a straightforward comparison of policy alternatives.

Return on cost (ROC), yield on cost (YOC), and residual land value (RLV) are all metrics commonly used in static pro forma analyses. They represent distinct, but equally valid ways of communicating the outcomes of the same underlying analysis. ROC and YOC metrics compare the project's financial return to the requirements of potential investors. RLV compares the land value supported by the project to current market prices for land. Use of one metric versus another does not render a feasible project infeasible, or vice versa, since all metrics rely on common assumptions regarding industry-standard financial returns and prevailing land prices.

While the RLV metric can be helpful for understanding how close an infeasible scenario is to becoming feasible, the sensitivity analysis that SE performed on the rental residential prototypes serves a similar function by illustrating the change in land and

construction costs needed to offset a higher inclusionary requirement. Moreover, enough detail is provided in the pro forma tables to determine the RLV of all scenarios.

Data Sources

A variety of sources for home sales data are used in feasibility studies. SE compiled sales data from Redfin, a web-based real estate database that also offers brokerage services. Another commonly used database is CoreLogic, which is marketed as the most comprehensive source of real estate data in the US. Redfin is free to access, while CoreLogic charges fees on the order of a few hundred dollars per market area. Redfin and CoreLogic aggregate home sales data from many of the same sources, e.g., public transaction records and multiple listing services used by real estate professionals.

Accessing another data source such as CoreLogic might surface a few more transactions but is unlikely to dramatically expand the pool of comparable sales, especially since few homes have been built in Cupertino in the last few years and there are a limited number of recent sales of newer units.

The sales comps relied upon by SE generally conform with other market studies that I have reviewed and do not include any obvious outliers. I spot-checked the prices of a handful of units with public sales records and did not identify any discrepancies. I also searched CoreLogic's records for sales that occurred in one of the referenced condominium buildings during the time the study was performed and did not encounter missing sales.

Conclusion

The methodology and data sources relied upon in SE's feasibility analysis are supportable and appropriate.