

May 1, 2018

Chad Mosley  
City of Cupertino  
10300 Torre Avenue  
Cupertino, California 95014

Re: Summary and Evaluation of Land selling Prices for Park Dedication Fee Study

Dear Mr. Mosley:

I am pleased to deliver the results of the Residential Land Selling Price survey and evaluation that we prepared for the use of the City of Cupertino, its City Council, and staff. As we agreed, my scope of work was to prepare the spreadsheets presented below to compile all residential land sales activity from January 1, 2016 through March 31, 2018 that we were able to discover using these available on-line resources, as well as the history of planning and building activity provided by your office:

- MLSListings.com (the Santa Clara County Association of Realtors database)
- Realquest Summary of the Public Record
- CoStar.com Commercial Sales Database
- City of Cupertino planning and building records

In this study I did not search the Trulia and Zillow data bases as I did on my previous survey. I have found that Trulia and Zillow rely upon the MLS data bases for nearly all of their data.

The spreadsheets displayed following show for each discovered transaction:

- price paid
- street address
- lot size
- price paid per SF
- market conditions or “time” adjustment factor
- Adjusted selling price of the lot or land sale
- Computed mean, median, and probable selling price of similar land
- The probable selling price per acre of residential land

Our search parameters for the *single-family lot sales* were these:

- Located in Cupertino
- Date of Sale – January 1, 2016 through March 31, 2018
- Categorized as land and lots (i.e. bare land or a buildable lot)
- Improved with a house, but categorized as a Teardown

Our search parameters for *subdivision land sales* were these:

- Located in the western Santa Clara County cities of Cupertino, Sunnyvale, Santa Clara, and Campbell
- Date of Sale – January 1, 2016 through March 31, 2018
- Proposed for subdivision and development with multiple units

The data for the low-density sales (i.e., a single lot for a single house) was the appropriate data for the lower density categories. The data that we discovered for the low-density analysis was for individual finished lot sales (including teardowns with intent to redevelop the site) represented transactions for the sale of finished (previously improved) lots. For the higher density product, the tentative map stage was more appropriate, since that is the point of entitlement that sets the basis for most of these transactions. We did not verify the entitlement status on the date of sale. Most sub-dividable land is priced and purchased as raw land contingent upon the accomplishment of the allowable lot density.

The data is displayed below on two spreadsheets. The first spreadsheet depicts the sale of individual lots suitable for improvement with one house, and the second depicts the sale of land suitable for higher-density development, with multiple living units such as condominium or apartment complexes. The data is arranged within the residential Land Use categories specified in the zoning ordinance for the City, based on density, discussed in Envision Cupertino 2015-2040:

- HD 35 Units per acre
- MHD 20-35 Units per acre
- MD 10-20 Units per acre
- LM 5-10 Units per acre
- Low 1-6 Units per acre
- VLD Slope-Density formula
- VLD 1-2 Acres/Lot; 0.5-1.0 Units per acre
- VLD 5-10 Acres/Lot; 0.05-0.10 Units per acre

We did not discover sales within each of the Envision Cupertino General Plan categories, nor did we discover data on the sale of lots in every neighborhood.

A breakdown by Neighborhood identified in the General Plan was applied: Oak Valley, Inspiration Heights, Rancho Rinconada, etc. Please refer to the map on Page 4. For those land use categories with limited sales data at either end of the density range (both the higher density classes and low Slope-Density Formula classes), we expanded the search to neighboring cities to provide enough data points to be meaningful. The theory that applies here is this: a developer with the financial capability to develop a high unit density project would not restrict his search for suitable sites to Cupertino or any other city in the county; and a home purchaser seeking the kind of semi-rural view lot in the Slope-Density Formula classification may not restrict his search to Cupertino, but would search others in the adjacent cities with hillside lots and comparable quality schools, Saratoga and Los Gatos

This report was prepared and written to conform to the Uniform Standards of Professional Appraisal Practice (USPAP) and the Code of Ethics and Standards of Professional Practice of the Appraisal Institute.

### **Background**

The City adopted Park Land In-Lieu Dedication Fees to create a mechanism for the City to develop a Park Dedication In-Lieu Fee Fund to be used to acquire park land as prescribed in State law. The fund is comprised of monies assessed as an in-lieu fee when new housing units are added, and the developer/land owner chooses to not dedicate land for parks and recreation. The money is assessed based upon a formula that is intended to accumulate enough money to enable the City to acquire land to maintain compliance with the prescribed Park Acreage Standard of 3 acres of park and recreation land per 1,000 residents, in accordance with the open space and conservation element of the General Plan. The particulars are described in Section 13.08 of the ordinance.

Section 13.08 specifies that the amount of the fee “shall be based upon a formula that utilizes the fair market value of the land” as one variable. “The Department of Public Works shall establish the fair market value of land within the City and update the value on an annual basis in the City’s Fee Schedule. The fair market value shall be determined by reference to comparable land within the City. As used herein [in the code], the term ‘comparable’ means land of similar size and development potential as the land which would otherwise be dedicated.”

The formula is:

$$\text{In lieu fee} = ((\text{Average Parkland Dedication/ DU}) \times (\text{Net new dwelling units})) \times (\text{Fair Market Value of land/acre})$$

In this formula, the Parkland Dedication/DU equals the expected average number of people per dwelling unit (DU) times the Park Acreage Standard of 3 acres per 1000 population, divided by 1000. The average number of people per dwelling, and the Average Park Land Dedication/DU, are determined using this table:

**Table 13.08.050: Park Land Dedication Formula Table**

Density (DU/acre)	Average number of persons/DU	Average Park Land Dedication/ DU (in acres)
0 – 5 – Single Family Residence	3.5	.0105
5 - 10	2.0	.0060
10 - 20	2.0	.0060
20+	1.8	.0054
10+ (Apartments)	1.8	.0054
Senior Citizen Housing Development	1.0	.0030

The City intends to use the information in this report to decide upon the number to use as the “Fair Market Value of the land/acre” to be utilized in the formula.

The City utilizes a classification system by Neighborhood and Specific Plan Area, depicted on the maps displayed following.

Figure PA-2  
Neighborhoods

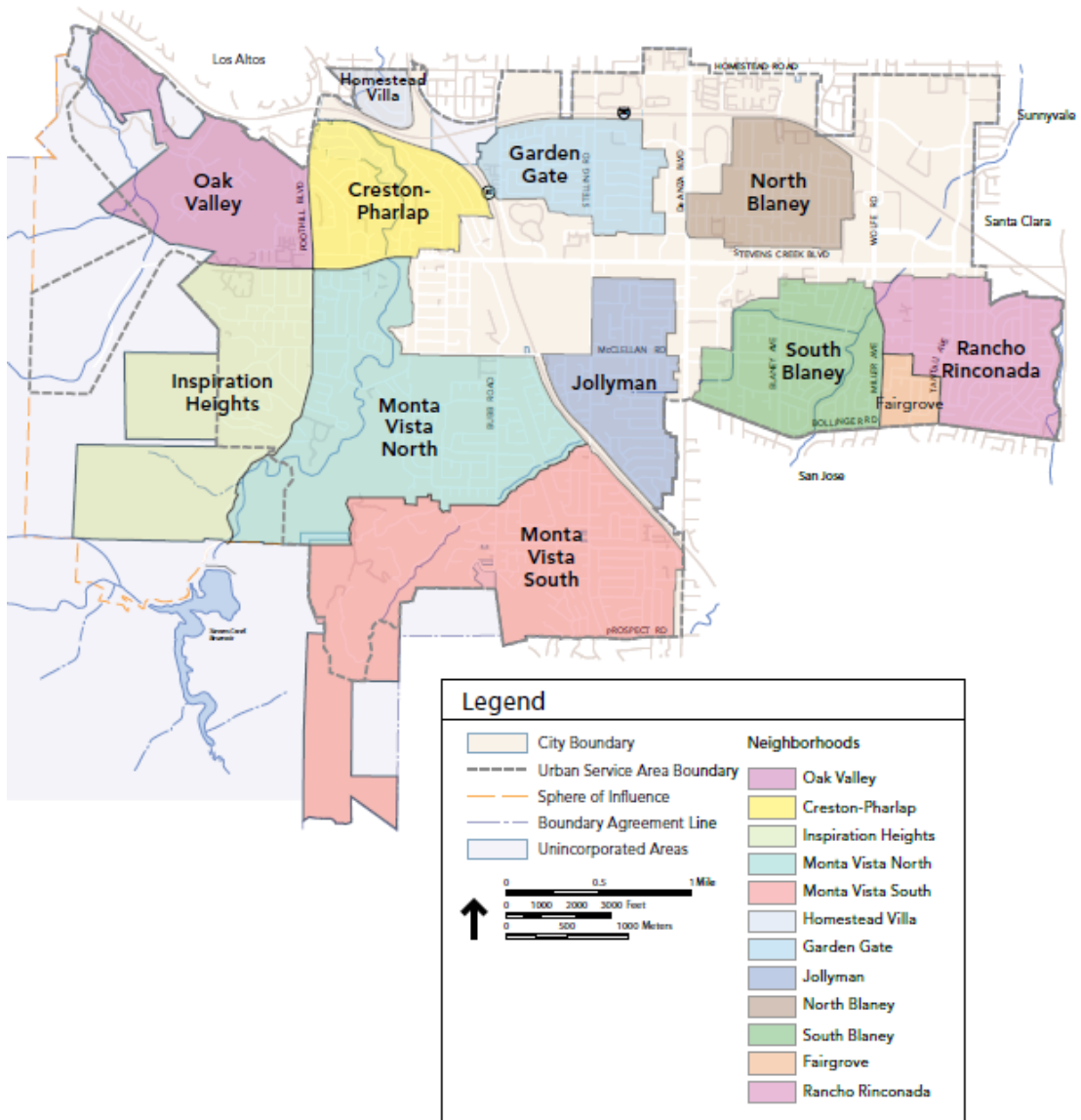
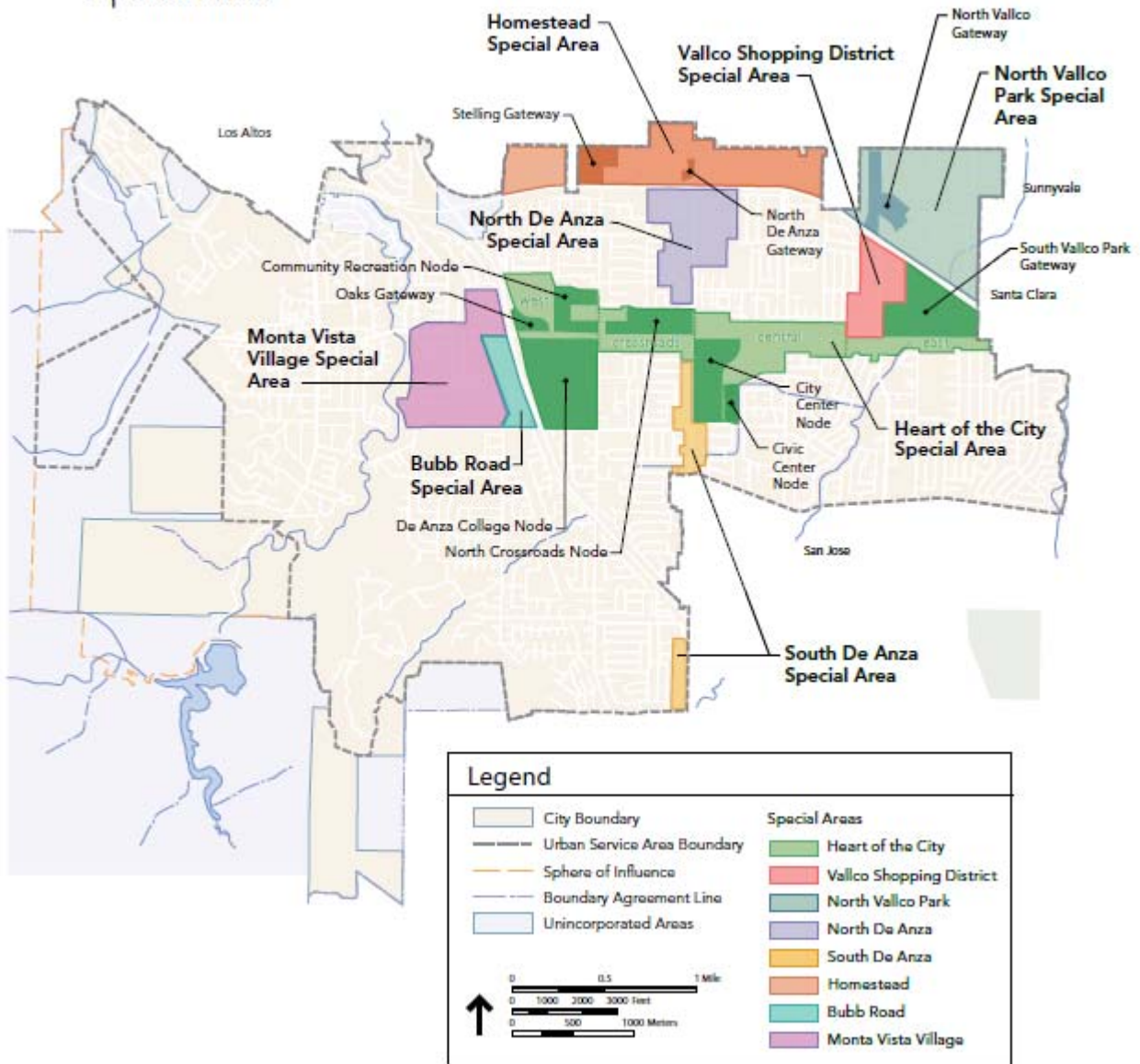


Figure PA-1  
Special Areas



**Effect of Changing Market Conditions**

So that the raw data could be adjusted to the date of value, April 1, 2018, we conducted this study of how prices changed over the study period. Selling prices trended upward during the time frame of our study, from January 2016 through March 2018. The “Median Price Trend” graph below was created using the data points in the table below, which was created using data published in the Santa Clara County Association of Realtors database. Note that the data dates back beyond the start of the study period, for historical context.

<u>Cupertino</u>	<u>Median Price</u>
4Q 2011	\$1,090,000
1Q 2012	\$1,134,720
2Q 2012	\$1,250,000
3Q 2012	\$1,238,750
4Q 2012	\$1,311,000
1Q 2013	\$1,375,000
2Q 2013	\$1,500,000
3Q 2013	\$1,414,000
4Q 2013	\$1,550,000
1Q 2014	\$1,535,000
2Q 2014	\$1,788,000
3Q 2014	\$1,665,500
4Q 2104	\$1,660,000
1Q 2015	\$1,844,000
2Q 2015	\$1,871,000
3Q 2015	\$1,900,000
4Q 2015	\$1,750,000
1Q 2016	\$1,808,800
2Q 2016	\$1,955,000
3Q 2016	\$2,000,000
4Q 2016	\$1,818,000
1Q 2017	\$1,930,000
2Q 2017	\$2,075,000
3Q 2017	\$2,117,425
4Q 2017	\$2,237,444
1Q2018	\$2,398,888

Over the 9 quarters from and including 1Q2016 through 4Q2017, the median price of a single-family house in Cupertino increased from \$1,808,800 to \$2,398,888, an overall increase of 32.6% and a compounded increase of 3.2% per quarter or a little more than 1% per month. The Association of Realtors does not track land selling price trends. Absent that data, real property appraisers typically apply the rate of change in house selling prices when evaluating the rate of change in residential land selling prices. We applied a rate of change of +1.0% per month to the land selling prices in our study, over the 9 Quarter/27-month time frame ending March 31, 2018. Thus, the adjusted values for each line item are an estimate as of April 1, 2018.

For historical perspective and for comparison to the previous study done in 2015, the median price increased 211% from January 2011 through March 31, 2018.



**Finished Single Family Lot Sales**

We utilized the Cupertino Planning Department and Public Works Department records to identify single-family residential lots in the City where a property owner had obtained a demolition permit, indicating intent to construct a new house. We cross-checked those records with our summary transcript of the public record, and with the Santa Clara County Association of Realtors data base (MLS database), to determine which of these were properties purchased during the time period of our analysis, January 1, 2016 through March 31, 2018. Using key words such as “teardown” in the MLS database search, we identified additional sales where houses were purchased with the intent to tear down the existing house and build new. Those transactions typically reflect the sum of the value of the land and the anticipated cost to demolish the improvements.

The table following shows as line items the single-family lot sale transactions that we discovered. These lots are typically finished with curbs, gutters, sidewalks, or any other off-site improvement typical in the neighborhood, with utilities stubbed to the property line, graded and ready to be improved with a house. In Cupertino, some neighborhoods have fully improved city streets, with some combination of curbs, gutters, sidewalks, utilities, park strips, and/or streetlights. Other neighborhoods may not have all of these features, resulting from the fact that the entire City was not incorporated at the same time.



Some of the transactions we discovered using the MLS were categorized as “teardowns”. A teardown is a lot with a house on it, purchased with the intent to demolish the house and build new. Because there are few vacant lots in Cupertino and other nearly built-out cities in northern Santa Clara County, people buy depreciated houses, demolish them, and build new. A buyer typically pays a little less than land value for a teardown, because he must incur the cost of demolition. Marshall Valuation Service reported that the cost to demolish the typical teardown in Santa Clara County is \$11,500, which is less than ½ of 1% of the median house price of \$2,398,888. In this study, we did not adjust for the cost to demolish.

The first and second columns identify the Neighborhood and housing density description, as defined in the General Plan. The third column identifies the zoning designation. In this column, R1-5 means the minimum lot size is 5,000 square feet, while R1-10 means the minimum lot size is 10,000 square feet, and so forth. The following columns identify the address and size of the lot, price paid, and the unit price per square foot and per acre. The next column identifies the number of months between the date of sale and the date of this evaluation at the end of March/April 1, 2018. The Market Conditions column reflects the adjustment for changing market conditions at the rate of 1% per month. The last 4 columns identify the data sources utilized to compile the information for each line item. We discovered that the Trulia and Zillow data is a duplication of the MLS data, so we did not record Trulia or Zillow as data sources this year.



### **Data by Neighborhood**

The table above delineates the data discovered, by neighborhood and by land use ordinance. Within each neighborhood, different land use designated areas are color-coded differently. The Mean, Median, and Probable columns show dollars per square foot, and the \$/Acre column computes the typical price per acre. The range of selling prices was not unusually large after weeding out the outliers, which have their unit price highlighted in gray. We have found that these small samples are not statistically significant, but we have also found that when the average and median compute within a tight range, the data is useful. We computed these as reference points for the Client's use.

#### ***Rancho Rinconada***

In the Rancho Rinconada neighborhood, there were 15 sales in the R1-5 zoning district. The unit price of 2 sales, those on Menhart Lane and Pring Court, appeared to be outliers, so they were not included in the computed mean. The mean and median were close in value, so I selected a number between them as the probable unit selling price for the small lots in Rancho Rinconada.

Among the 4 sales within the R1-7.5 and R1-10 zoning districts, there did not appear to be a distinction based on lot size, so I combined these categories into one set of numbers to develop the probable unit selling price for larger lots in Rancho Rinconada.

#### ***Monte Vista North and Monte Vista Village Specific Plan Area***

There appeared to be a distinction in this neighborhood between the larger lots zoned R1-10 and those zoned either R1-7.5 or P(Res), so I computed the numbers separately for these two categories.

#### ***Monte Vista South***

The 3 sales that occurred in Monte Vista South probably reflect physical considerations that resulted in little consistency in this data. It appears only be happenstance that resulted in the mean and median being nearly the same value. I examined data from our previous study covering the period 2012-2016 and found even less consistency, as the only sales in that study were small lots.

***Inspiration Heights***

I searched for similar lots in Los Gatos and Saratoga to supplement the data discovered for Inspiration Heights. I found the two sales displayed, which were bare land sales. I put greater emphasis on the sale within Inspiration Heights to estimate probable value.

***Other Neighborhoods***

There were only 2 or 3 sales in each of the other 7 neighborhoods where data was discovered, in Jollyman, Inspiration Heights, Homestead Villa, Garden Gate, Creston-Pharlap, North Blaney, and South Blaney. Interestingly, the mean and medians in each of these neighborhoods shows consistency among them. The City might consider using one number for all 7 neighborhoods, where together the mean and median of all 12 sales computes to 220 and 221.

**Medium and High Density Land Sales**

These sales are sub-dividable parcels that are proposed for improvement with condominiums, apartments or a mix of one of these plus a small retail component. Because a developer intent upon developing a property like this would not confine his search to land in Cupertino, and because we did discover only one transactions in Cupertino (a senior housing project), we expanded the search for sales to include the cities of Sunnyvale, Santa Clara, and Campbell. We did not include the Western Santa Clara County cities of Los Gatos and Saratoga because subdivision of land is rare in these communities. These land sales were not adjusted for the cost of demolition, which is often offset by renting the improvements while seeking site approvals. In Campbell we found only 2 sales, at \$102 and \$139/SF, substantially below the data for Cupertino, Sunnyvale, and Santa Clara, so we did not report the Campbell data.

Note that the selling price data for the individual lots sold in the Cupertino neighborhoods indicate a higher range than the selling price data for these residential development sites. The lot sales data reflects the retail price of individual finished lots, ready to be built upon, while the development site data reflects the price of land purchased for development, typically at the tentative map stage of entitlement. The development site data is a “wholesale” number while the lot sales data reflects the retail price for individual, finished lots. Note also that the selling prices have been “scaled up” to a price per acre basis at the client’s request. In the market place, the selling price of larger lots is lower on a per unit basis than for smaller lots. This is not reflected in the mean, median and probable price data.



The columns on this table are the same as those on the table above for the individual lot sales. The last 3 columns show my computation of the median, average, and most probable selling prices per acre for each zoning category within each neighborhood. The data for Cupertino and Sunnyvale is consistent. Considering all of the sub-dividable data developed, a unit price of \$180 per SF is an appropriate basis.

### **Summary and Conclusion**

This report presented our findings based upon the investigation we completed to accomplish the scope of work we were engaged to undertake. It is a survey of the prices at which residential lots sold in Cupertino over the past 2 years; and the prices at which sub-dividable residential land sold during the same time frame. *It is not a report of the appraisal of any particular property.* We discovered that land and lot selling prices vary considerably across the City, and that the home selling prices have increased on the order of 32.6% since January 1, 2016.

The average, median, and probable selling prices reveal in relative terms the relationship of land prices in different neighborhoods in Cupertino. The sales data for individual finished lot sales expectedly produces a higher range of value than the sales data for development sites. In order to assemble park land in residential neighborhoods, where the park land would be most utilized, the City would need to purchase and assemble existing individual house lots.

### **Recommendations**

Although land prices have proven to increase and decrease as the demand for housing changes, the overall trend is upward. The In-lieu Fee formula was developed to create a fund to purchase residential land. Because the price of land has historically been trending upward, the land the City might purchase will typically cost more per acre than the fund raises applying the formula, because the formula raises funds based on historically lower prices than the price when the City's purchases will be made. We recommend that the survey be updated annually, so that in the future the FMV does not become "dated", as selling prices cycle up and down.

The selling price of residential lots and land has increased substantially over the past several years. Based upon the probable employment trend in the City, demand for housing is forecast to remain strong, resulting in a forecast for continued land price increases.

Very Truly Yours,



Wayne F. Prescott, MAI, CCIM