



KEYSER MARSTON ASSOCIATES
ADVISORS IN PUBLIC/PRIVATE REAL ESTATE DEVELOPMENT

MEMORANDUM

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REAL ESTATE
REDEVELOPMENT
AFFORDABLE HOUSING
ECONOMIC DEVELOPMENT

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To: Gregory Robinson, Housing Administrator
City of Pasadena

From: Julie Romey
Andrea Castro

Date: March 27, 2007

Subject: Renaissance Oak, LLC
Heritage Square – Feasibility Analysis

At your request, Keyser Marston Associates, Inc. (KMA) reviewed the March 2007 proposal submitted by Renaissance Oak, LLC (Developer) in response to the request for proposals (RFP) issued by the Pasadena Community Development Commission (Commission) for the 2.82-acre site located at 19-25 East Orange Grove Boulevard and 710-790 North Fair Oaks Avenue (Site). The March 2007 proposal was submitted in response to the Commission and City staff's request for the Developer to create a project that could achieve financial feasibility if the land was donated by the Commission at no cost. No direct financial assistance was to be requested.

The primary purpose of the KMA analysis is to evaluate the overall financial feasibility of the Developer's proposal. In addition, KMA has identified outstanding issues that should be considered by the Commission and the Developer Selection Committee as they prepare their recommendation on the selection of a developer for the Heritage Square project. In another memorandum, entitled "Heritage Square - Feasibility Analysis Overview", KMA summarized the background of the RFP process, KMA's financial analysis assumptions, and the issues that impact all of the proposals.

EXECUTIVE SUMMARY

The following summarizes the Developer's proposal:

1. The proposed scope of development, is as follows:

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- a. A 98-unit senior apartment building, to be funded with 9% Low Income Housing Tax Credits (Tax Credits);
 - b. A 47-unit condominium project, including seven senior units and 40 family units;
 - c. Approximately 20,000 square feet of commercial space, including a new Church's Chicken drive-thru restaurant; and
 - d. A semi-subterranean parking structure including 186 spaces, plus 69 open parking spaces near the retail component.
2. The 145 residential units will be income restricted as follows:
- a. Very-low income units – 48%
 - b. Low income units – 20%
 - c. Moderate income units – 0%
 - d. Inclusionary units – 0%
 - e. Workforce units (160% - 180% Median) – 10%
 - f. Unrestricted units – 23%
3. The Developer proposes to acquire the Site from the Commission with no upfront land payment. The land compensation is proposed to be paid in the form of a residual receipts note.
4. KMA estimates that the proposed Project has a \$1.93 million financial gap and therefore, needs free land plus \$1.93 million in financial assistance.
5. Once the \$9.0 million in actual land acquisition costs incurred by the Commission are taken into account, the maximum Commission investment in the proposed Project may range from \$9.0 to \$10.93 million, or \$61,800 to \$75,400 per unit.
6. The Developer did not propose to use the New Market Tax Credit program. However, KMA estimated in the memorandum entitled "Heritage Square – Financial Analysis Overview", that the Commission's land donation could generate additional financial assistance from this funding source. Securing these funds could reduce the Commission assistance on a dollar-for-dollar basis.

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ANALYSIS ORGANIZATION

The following summarizes the organization of the KMA analysis, which includes the following appendices:

Appendix A:	Senior & Family Ownership Component
Appendix B:	Senior Rental Component
Appendix C:	Commercial Component
Appendix D:	Project Summary Tables

Appendices A through D include the following tables:

Appendix A	
Table 1:	Estimated Development Costs
Table 2:	Residual Land Value/(Financial Gap)
Table 3:	KMA & Developer Comparison

Appendices B and C	
Table 1:	Estimated Development Costs
Table 2:	Stabilized Net Operating Income
Table 3:	Residual Land Value/(Financial Gap)
Table 4:	KMA & Developer Comparison

Appendix D	
Table 1:	KMA Development Components Summary
Table 2:	Developer Development Components Summary
Table 3:	KMA & Developer Development Components Summary

SUMMARY OF PROPOSAL

The following summarizes the Developer's revised proposal for the Site.

Development Team

The following identifies the members of the proposed development team:

Developer:	Renaissance Oak, LLC Lambert Development, LLC Meta Housing Corporation Oak Tree Development
Architect:	Solomon E.T.C Urban Studio
Leasing & Marketing Firm:	Pasadena Neighborhood Housing Services

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Proposed Scope of Development

The Developer's proposal consists of Senior Rental, Senior and Family Ownership and Commercial components (Project). The proposal includes 145 total residential units, which equates to a density of 51 units per acre. The proposed Project also includes 159,316 square feet of gross building area (GBA), which results in a 1.30 Floor Area Ratio (FAR). The following highlights the proposed scope of development:

The following summarizes the two residential components of the Project:

Senior & Family Ownership Component	Number of Units	Unit Size (Square Feet)
Two-Bedroom (Senior)	7	900
Two-Bedroom (Family)	20	950
Three-Bedroom (Family)	20	1,050
Total/Weighted Average	47	985
Residential Living Area		46,300
Community Space		0
Circulation/Common Area		9,215
Gross Building Area		55,515

Senior Rental Component	Number of Units	Unit Size (Square Feet)
One-Bedroom	80	649
Two-Bedroom	18	830
Total/Weighted Average	98	682
Residential Living Area		66,860
Community Space		2,480
Circulation/Common Area		14,461
Gross Building Area		83,801

The proposed affordability levels for each residential component are highlighted in the following table:

Proposed Affordability	Senior Rental	Senior & Family Ownership	Total Project	% of Total Units
Market Rate	0	33	33	23%
Very-Low	69	0	69	48%
Low	29	0	29	20%
Moderate	0	0	0	0%
Inclusionary	0	0	0	0%
Workforce	0	14	14	10%
Total Units	98	47	145	100%
% of Total Units	68%	32%	100%	

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The proposed Project also includes the following:

1. Commercial component includes 20,000 square feet of retail and office space.
2. A total of 255 parking spaces will be provided; of which 186 spaces will be located in a semi-subterranean parking garage and 69 spaces will be located on-grade. The following summarizes the distribution of the parking spaces among the three Project components:

	Senior Rental	Senior Ownership	Commercial
Parking Spaces	88	98	69
Parking Ratio	0.9:1	2.1:1	3.5:1,000 Sf

Comparison to RFP Suggestions

The following compares the Developer's proposed scope of development to the scope of development suggested in the RFP.

	Proposal	RFP Suggestions	Differences
Number of Residential Units			
Rental	98	99	(1)
Ownership	47	49	(2)
Total Residential Units	145	148	(3)
Unit Distribution by Type			
% Rental	68%	66%	2%
% Ownership	32%	34%	(2%)
Unit Distribution by Age Restriction			
% Senior	72%	Over 50%	
% Family	28%	Under 50%	
Commercial Space (Sf GBA)	20,000	Min. 20,000	
Ground Floor Retail Space	Yes	Yes	
Office Space above Retail Space	Yes	Yes	
Church's Chicken	Yes	Yes	
Parking Requirement by Component			
Senior Rental	88	59	29
Senior & Family Ownership	98	89	9
Commercial	69	60	9
Total Project Parking Spaces	255	208	47

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Financial Proposal

The Developer did not provide a written summary of the proposed financial transaction between the Developer and the Commission. However, based on the original proposal, KMA has inferred the following:

1. The assistance package requested by the Developer for the Project is limited to free land.
2. The financial assistance is proposed to be structured as a residual receipts note, for which no terms were defined. The total note would include the market value of the land, which was estimated by the Commission to be \$11 million. Thus, the proposed residual receipts repayment amount totals \$11 million.

FEASIBILITY ANALYSIS

KMA reviewed the Developer's pro forma and then independently performed a feasibility analysis to estimate the financial feasibility of the Project. A pro forma analysis for each component of the Project is presented in Appendices A - D, which are located at the end of this memorandum. It should be noted that the assumptions applied in the KMA analysis are discussed in the memorandum entitled "Heritage Square - Financial Analysis Overview".

Senior and Family Ownership Component (Appendix A)

The KMA and Developer development and revenue estimates for the ownership component are summarized below:

1. KMA estimates the total development costs, as illustrated in Appendix A - Table 1, at \$19.18 million, or \$408,100 per unit. In comparison, the Developer estimated the total development costs at \$19.70 million, or \$419,100 per unit. This \$521,000, or 3%, difference is caused by the Developer's higher than typical estimates for the indirect costs.
2. KMA estimated the total project sales revenue at \$20.19 million, or \$429,700 per unit. In contrast, the Developer estimated the total revenues at \$22.71 million, or \$483,300 per unit. The \$2.52 million differential is the result of KMA estimating

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the market sales prices at an average of \$450 per square foot while the Developer estimated the market sales prices at \$525 per square foot.¹

3. KMA's sales revenue estimate takes into account the assumption that 14 of the units will be income and price restricted. KMA estimates that the average market sales price that the same units could generate if there were no income and price restrictions would be \$446,000 per unit. Therefore, the average affordability gap is estimated at \$34,000 per affordable unit.
4. KMA estimated the threshold developer profit at 15% of the sales revenues, which equates to \$3.03 million. In contrast, the Developer estimated the developer profit at \$3.00 million, or 13% of the estimated sales revenue.

As illustrated in Appendix A - Table 2, the estimated residual land value/(financial gap) is equal to the difference between the total project sales revenue, and the estimated development costs. Both the KMA and Developer estimates are presented below, as well as detailed in Appendix A - Table 3:

	KMA	Developer	Difference
Total Project Sales Revenue	\$20,195,000	\$22,713,000	(\$2,518,000)
(Less) Development Costs	(22,208,000)	(22,697,000)	489,000
Residual Land Value / (Financial Gap)	(\$2,013,000)	\$16,000	(\$2,029,000)
Per Unit	(\$42,800)	\$300	(\$43,100)
Per Sf Land Area	(\$16)	\$0	(\$16)

While the Developer's analysis indicates that the Ownership Project does not require Commission subsidy in addition to the donation of the land, the Developer's market sales price estimates appear to be overstated. Therefore, KMA estimates that this component will have up to a \$2.01 million financial gap.

Issues

1. The following development costs are significantly over or understated by the Developer:
 - a. The semi-subterranean parking costs are estimated at \$15,000 per spaces, which is 25% lower than the costs experienced by similar projects.

¹ KMA derived the market rate sales prices from recent sales data in the Northwest area of Pasadena. The market prices on a per square foot basis as estimated by KMA are as follows: \$471/one-bedroom units \$452/two-bedroom units; and \$440/three-bedroom units.

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- b. The Developer estimated the insurance costs to be \$1.20 million, or \$32,000 per unit. In comparison, a project of this size typically can obtain insurance at \$15,000 per unit. Unless the Developer does not have an existing relationship with an insurer, it is unclear why the insurance costs would be at \$32,000 per unit.
 - c. According to City staff estimates, the Developer has underestimated the permits and fees by \$708,000. The proposal did not mention whether the certain fee waivers would be sought. However, the City estimate has already deducted the fees that the City waivers for affordable housing.
2. The Developer estimates the market sales prices at \$525 per square foot while based on KMA's market analysis, the average market price should be approximately \$450 per square foot. Therefore, the Developer's projections are 17% higher than the KMA analysis indicates.
3. KMA estimates that the proposed Ownership Component will require \$2.01 million in financial assistance in addition to free land, while the Developer projects that this component will not need any financial assistance in addition to no upfront land payment.

Senior Rental Component (Appendix B)

The KMA and Developer development cost, income and funding estimates are summarized below:

1. KMA estimated the total development costs at \$21.30 million, or \$217,400 per unit, as illustrated in Appendix B - Table 1. In comparison, the Developer estimated the total development costs at \$22.14 million, or \$225,900 per unit. This \$836,000, or 4%, difference is a result of the Developer's higher construction cost and permit and fee estimates.
2. KMA estimated the rental component's stabilized NOI, which is detailed in Appendix B - Table 2, at \$329,300. In contrast, the Developer estimated the NOI at \$285,400. This \$43,400 annual difference is a result of the Developer using incorrect rents for the 30% and 45% median income restricted units. KMA was unable to determine the reason that the rents used in the Developer's analysis are significantly lower than those published by the Tax Credit Allocation Committee (TCAC).

3. As shown in Appendix B - Table 3, the KMA and Developer estimated total available funding sources include the following:
 - a. Based on a higher NOI, the KMA conventional loan estimate is \$288,000 higher than the Developer's estimate.
 - b. KMA estimated the Federal Low Income Housing Tax Credit (Tax Credits) proceeds to be \$18.98 million, which is \$19,000 lower than the Developer's estimate.
 - c. The KMA and the Developer assumed that \$195,000 of the \$2.00 million Developer Fee would be deferred and paid out of project cash flow.

The estimated residual land value/(financial gap) is equal to the difference between the available funding sources, and the estimated development costs. While detailed in Appendix B - Table 4, the KMA and Developer calculations are summarized in the following table:

	KMA	Developer	Difference
Total Available Funding	\$22,427,000	\$22,158,000	\$269,000
(Less) Development Costs	(21,301,000)	(22,137,000)	836,000
Residual Land Value	\$1,126,000	\$21,000	\$1,105,000
Per Unit	\$11,500	\$200	\$11,300
Per Sf Land Area	\$9	\$0	\$9

Due to a combination of lower development cost estimates and higher rental income estimates, the KMA analysis concludes that the proposed Senior Rental Component could support a \$1.13 million land payment.

Issues

The following are items that KMA identified during the review of the Developer's pro forma:

1. The Developer's rent schedule makes use of incorrect 30% and 45% median income rents. This results in the Developer projecting lower rents than those that would be allowed by the funding sources.
2. The proposed funding predominantly relies on the Project receiving a 9% Tax Credit allocation. However, given that the proposed Project is age restricted, and the TCAC allocation process is heavily weighted towards non-age restricted projects, it is unlikely that the proposed Project will receive this funding.

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3. An alternative funding option would be for the Developer to apply for tax-exempt bonds from the California Debt Allocation Committee (CDLAC) and the automatically awarded 4% Tax Credits. This funding is awarded in a less intense competitive process than the 9% Tax Credits. However, this funding alternative significantly increases the financial gap for a project.
4. The Developer did not include other potential funding sources that could off-set the financial gap.
5. The Developer's development costs include several estimates that are significantly higher or lower than similar projects typically experience:
 - a. The Developer's direct construction cost estimates are 4% higher than the KMA estimate.
 - b. The Developer did not include estimates for TCAC fees or capitalized reserves.
 - c. The permit and fees estimate is \$241,000 higher than the estimated calculated by City staff. It may be that the Developer did not take into account the City's affordable housing fee waivers.
6. The Developer is estimating the general operating expenses to be 9% lower than the KMA estimates.
7. KMA estimates that the proposed Project generates approximately \$1.13 million in residual land value proceeds.

Commercial Component (Appendix C)

The KMA and Developer development and revenue estimates for the commercial component are summarized below:

1. As illustrated in Appendix C - Table 1, KMA estimates the total development costs are estimated at \$5.87 million, or \$290 per square foot of GBA. In comparison, the Developer estimated the total development costs at \$7.13 million, or \$360 per square foot of GBA. The \$1.26 million differential is predominately explained by the Developer's higher than typical estimated construction costs.
2. KMA estimated the commercial component's stabilized NOI, as detailed in Appendix C - Table 2 at \$443,800. In contrast, the Developer estimated the NOI at \$570,000. This differential is due to KMA estimating the monthly market

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commercial rents at \$2.00 per square foot, while the Developer estimated these rents at \$2.38 per square foot and did not deduct operating expenses from the anticipated annual revenue.

- Summarized in Appendix C - Table 3, to determine the private investment that can be supported by the component's NOI, KMA applied a 9.0% threshold return to the stabilized NOI which resulted in a \$4.82 million.² In contrast, the Developer assumed an 8.0% threshold return requirement to the higher NOI estimate resulted in a \$2.30 million higher supportable private investment estimate than KMA.

As illustrated in Appendix C - Table 4, the estimated residual land value/(financial gap) is equal to the difference between the total supportable private investment and the estimated development costs. Both the KMA and Developer estimates are presented below:

	KMA	Developer	Difference
Total Supportable Investment	\$4,820,000	\$7,125,000	(\$2,305,000)
(Less) Development Costs	(5,866,000)	(7,125,000)	1,259,000
(Financial Gap)	(\$1,046,000)	\$0	(\$1,046,000)
Per Sf GBA	(\$50)	\$0	(\$50)

Due to the lower threshold return on investment and higher NOI estimate, the Developer projects a supportable investment that is \$2.30 million higher than the KMA estimates. This differential is partially off-set by the higher construction cost estimates and therefore, the Developer estimates that this component does not need financial assistance in addition to free land. In contrast, KMA estimates that the Commercial Component will need \$1.05 million in financial assistance in addition to free land.

Issues

- The Developer's required return on investment is at the low end of the range currently being experienced in the marketplace.
- The construction costs estimated by the Developer are higher than typical.
- Based on conversations with area brokers, KMA concludes that the Developer has overstated the market commercial rents for this Site.

² The threshold return level is based on the requirements imposed by capital markets, and the relative risk inherent in the investment.

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4. While the Developer proposes that the Commercial Component only needs free land from the Commission, KMA estimates that the Project will likely require approximately \$1.05 million in financial assistance as well as free land.

Overall Project (Appendix D)

The following summarizes the overall Project residual land value/(financial gap) estimates by KMA and the Developer:

	KMA	Developer	Difference
Total Available Funds	\$47,442,000	\$51,996,000	(\$4,554,000)
(Less) Total Dev. Costs	(49,375,000)	(51,958,000)	(2,583,000)
Residual Land Value / (Financial Gap)	(\$1,933,000)	\$38,000	(\$1,971,000)
Per Unit	(\$13,300)	\$300	(\$13,000)
Per Sf Land Area	(\$16)	\$0	(\$16)

The Developer's pro forma analysis indicates that the Project requires free land and no additional public assistance, KMA estimates that the proposed Project will require a land contribution from the Commission plus \$1.93 million in financial assistance. There are several potential funding sources that could be utilized to fill the financial gap. If any of these sources are awarded to the Project, the financial gap will decrease on a dollar-for-dollar basis.

The following summarizes the total financial assistance that will be required for the proposed Project to be feasible when the actual land acquisition costs are taken into account.

	KMA	Developer	Difference
Residual Land Value / (Financial Gap)	(\$1,933,000)	\$38,000	(\$1,971,000)
(Less) Actual Land Costs	(9,000,000)	(9,000,000)	0
Net Financial Gap	(\$10,933,000)	(\$8,962,000)	(\$1,971,000)
Per Unit	(\$75,400)	(\$61,800)	(\$13,600)

The following summarizes the total financial assistance that will be required for the proposed Project to be feasible when the market land value, as estimated by Commission staff, is taken into account.

	KMA	Developer	Difference
Residual Land Value / (Financial Gap)	(\$1,933,000)	\$38,000	(\$1,971,000)
(Less) Market Land Value	(11,000,000)	(11,000,000)	0
Net Financial Gap	(\$12,933,000)	(\$10,962,000)	(\$1,971,000)
Per Unit	(\$89,200)	(\$75,600)	(\$13,600)

EVALUATION CRITERIA

The following summarizes findings that relate to the evaluation criteria that the Developer Selection Committee will utilize to rank the proposals.

Outside Funding Sources

The following summarizes the proposed public and private funding sources and the amount of funding requested for each component of the Project:

	Funding Requested
<u>Senior Rental</u>	
Conventional Loan	\$2,963,000
Low Income Housing Tax Credits	19,000,000
Deferred Developer Fee	195,000
Total	\$22,158,000
<u>Senior & Family Ownership</u>	
None	\$0
<u>Commercial</u>	
None	\$0

Development Costs

The Developer estimates the development costs for each component of the proposed Project as follows:

	Senior Rental	Senior & Family Ownership	Commercial
Per Unit	\$225,900	\$419,100	NA
Per Sf GBA	\$260	\$350	\$360

However, it should be noted that KMA estimates the development costs, as illustrated below, to be approximately 5% higher than the Developer's estimates.

	Senior Rental	Senior & Family Ownership	Commercial
Per Unit	\$217,400	\$408,800	NA
Per Sf GBA	\$250	\$340	\$290

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Commission Financial Assistance

The Developer proposes to construct the scope of development through the use of a variety of outside funding sources. As such, the Developer has requested that the Site be donated by the Commission. The Developer proposes to repay some or all of this assistance through a residual receipts loan with debt service derived from the rental component's cash flow and upon the resale of the ownership units at market prices. Comparatively, the KMA analysis indicates that the proposed Project will need free land plus \$1.93 million in direct financial assistance to achieve financial feasibility.

Implementation of the Project

The Project includes one semi-subterranean parking garage to serve the entire Project. However, if the proposed 9% Tax Credits are not awarded to the Project, an alternative assistance source will have to be identified to fund \$19 million in Project costs. This will likely result in delays in the Project's implementation.

Repayment of Financial Assistance

The Developer proposes to repay the market value of the land through residual receipts and ownership unit sales. The issues associated with this proposal are:

1. KMA estimates the Project's financial gap at \$1.93 million. This is \$1.93 million more than the Developer's estimate.
2. The rental component is subject to strict affordability controls, and is unlikely to generate significant cash flow over time. The ownership component is subject to long-term resale restrictions on 14 units that will preclude the potential for repayment funds to be generated by resales. The only component that has the potential to generate cash flow is the Commercial Component. Thus, the residual receipts loan payments are expected to be nominal.

ADDITIONAL PROPOSAL ISSUES

Income Restrictions

California Health and Safety Code Section 33413 (b) requires that at least 15% of all new and substantially rehabilitated units developed within a project area must be made available to very-low, low and moderate income households. In addition, no less than 40% of the units must be available to very-low income households. The following table

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compares the number of units in the proposed Project that will meet the Section 33413 affordability requirements to the total proposed income restricted units:

	Development Proposal	Section 33413 Production Credit
Workforce Housing Units	14	0
Low & Moderate Income Units	69	0
Very-Low Income Units	28	20
Total Income Restricted Units	111	20

Of the income restricted units proposed by the Developer, the Commission would be able to received credit for 20 inclusionary housing production units. This represents approximately 14% of the units in the Project. This would provide the Commission with a deficit for two inclusionary housing production units that could be created by other residential projects.

New Market Tax Credit Program

As mentioned in the KMA memorandum entitled "Heritage Square - Financial Analysis Overview", the proposed Project is eligible to utilize the NMTC program. KMA estimates that approximately \$3 million may be available from this funding source to fill the proposed Project's estimated financial gap.

**APPENDIX A
RENAISSANCE OAK, LLC
SENIOR & FAMILY OWNERSHIP COMPONENT**

APPENDIX A: TABLE 1

**ESTIMATED DEVELOPMENT COSTS
47 RESIDENTIAL CONDOMINIUMS
SENIOR & FAMILY OWNERSHIP COMPONENT
RENAISSANCE OAK, LLC
PASADENA, CALIFORNIA**

I. Land -Related Costs ¹				
Land Acquisition				\$0
Relocation				105,000
Demolition				56,000
Off-Site Improvements				105,000
Total Land-Related Costs				\$266,000
II. Direct Costs ²				
On-Site Improvements	47 Units	\$10,000 /Unit		\$470,000
Parking	98 Spaces	\$20,000 /Space		1,960,000
Building Shell	55,515 Sf GBA	\$190 /Sf		10,548,000
FF&E		Allowance		50,000
Total Direct Costs	55,515 Sf GBA	\$235 /Sf		\$13,028,000
III. Indirect Costs				
Architecture, Engineering & Consulting	6.0% Direct Costs			\$782,000
Public Permits & Fees ³	47 Units	\$23,064 /Unit		1,084,000
Taxes, Legal & Accounting	2.0% Direct Costs			261,000
Insurance	47 Units	\$15,000 /Unit		705,000
Marketing ⁴	47 Units	\$6,060 /Unit		285,000
Developer Fee ⁵	3.0% Revenues			606,000
Soft Cost Contingency Allowance	5.0% Other Indirect Costs			186,000
Total Indirect Costs				\$3,909,000
IV. Financing/Closing Costs				
Interest & Loan Origination Fees ⁶	70.0% Financed			\$926,000
Resid Closing, Comm & Warranties ⁷	5.2% Residential Revenues			1,050,000
Total Financing/Closing Costs				\$1,976,000
V. Total Development Costs	55,515 Sf GBA	\$345 /Sf		\$19,179,000
Total Construction Costs	55,515 Sf GBA	\$341 /Sf		\$18,913,000

¹ Based on estimate provided by City Staff, prorated by GBA.

² Estimates assume prevailing wage requirements will be imposed on the Project. The budget includes a 14% allowance for contractor overhead, supervision costs, and profit; a 5% contingency allowance and a 1% allowance for construction bonds.

³ Based on estimates provided by City Staff. Assumes permit fees are equal to \$565,684 ; and impact fees are equal to \$756 per affordable unit.

⁴ Assumes \$5,000 per unit for marketing; and \$50,000 for a model unit.

⁵ See APPENDIX A: TABLE 2 for the sales revenue estimate.

⁶ A 7.0% interest cost for debt and equity; a 18 month construction period; a 4 unit/month absorption period; 10% of the units are presold and close during first month after completion; and 2.0 points for loan origination fees.

⁷ See APPENDIX A: TABLE 2 for residential sales revenue estimates. Assumes 3.0% and 1.5% of residential sales revenues for commissions and closing costs, respectively. Also includes \$3,000/unit for warranties.

APPENDIX A: TABLE 2

RESIDUAL LAND VALUE/(FINANCIAL GAP)
 47 RESIDENTIAL CONDOMINIUMS
 SENIOR & FAMILY OWNERSHIP COMPONENT
 RENAISSANCE OAK, LLC
 PASADENA, CALIFORNIA

I. Residential Sales Revenues ¹			
Senior Unit @ Market Rate -2-Bdrms - 900 Sf	7 Units	\$407,000 /Unit	\$2,849,000
Family Unit @ Market Rate -2-Bdrms - 950 Sf	13 Units	\$429,000 /Unit	5,577,000
Family Unit @ Market Rate -3-Bdrms - 1,050 Sf	13 Units	\$462,000 /Unit	6,006,000
Family Unit @ 180% Workforce -2-Bdrms - 950 Sf	7 Units	\$389,600 /Unit	2,727,000
Family Unit @ 180% Workforce -3-Bdrms - 1,050 Sf	7 Units	\$433,700 /Unit	3,036,000
Total Project Sales Revenues	47 Units	\$429,700 /Unit	\$20,195,000
II. Development Costs			
Land-Related Costs		See APPENDIX A: TABLE 1	\$266,000
Construction Costs		See APPENDIX A: TABLE 1	18,913,000
Threshold Developer Profit ²		15.0% Sales Revenues	3,029,000
Total Development Costs	47 Units	\$472,500 /Unit	\$22,208,000
III. Residual Land Value/(Financial Gap)			
Total Project Sales Revenues			\$20,195,000
(Less) Total Development Costs			(22,208,000)
V. Total Residual Land Value/(Financial Gap)	47 Units	(\$42,800) /Unit	(\$2,013,000)

¹ Derived from recent market sales price data in the Northwest area of Pasadena.

² KMA estimate based on development profit requirements for similar projects.

APPENDIX A: TABLE 3

**KMA & DEVELOPER COMPARISON
SENIOR & FAMILY OWNERSHIP COMPONENT
RENAISSANCE OAK, LLC
PASADENA, CALIFORNIA**

	<u>KMA</u>	<u>DEVELOPER</u>	<u>DIFFERENCE</u>
I. <u>Development Costs</u>			
Land Assemblage	\$266,000	\$200,000	\$66,000
Direct Costs	13,028,000	12,747,000	281,000
Indirect Costs	3,909,000	4,457,000	(548,000)
Financing Costs	1,976,000	2,296,000	(320,000)
Total Development Costs	\$19,179,000	\$19,700,000	(\$521,000)
Per Unit	\$408,100	\$419,100	(\$11,000)
	\$345	\$355	(\$9)
II. <u>Residential Sales Revenues</u>			
Senior Unit @ Market Rate	\$2,849,000	\$3,430,000	(\$581,000)
Family Unit @ Market Rate	5,577,000	6,370,000	(793,000)
Family Unit @ Market Rate	6,006,000	7,150,000	(1,144,000)
Family Unit @ 180% Workforce	2,727,000	2,727,000	0
Family Unit @ 180% Workforce	3,036,000	3,036,000	0
Total Project Sales Revenues	\$20,195,000	\$22,713,000	(\$2,518,000)
Per Unit	\$429,700	\$483,300	(\$53,600)
III. <u>Development Costs</u>			
Land Related Costs	\$266,000	\$200,000	\$66,000
Construction Costs	18,913,000	19,501,000	(588,000)
Threshold Developer Profit	3,029,000	2,996,000	33,000
Total Development Costs	\$22,208,000	\$22,697,000	(\$489,000)
IV. <u>Residual Land Value/(Financial Gap)</u>			
Total Project Sales Revenues	\$20,195,000	\$22,713,000	(\$2,518,000)
(Less) Total Development Costs	(22,208,000)	(22,697,000)	489,000
Residual Land Value/(Financial Gap)	(\$2,013,000)	\$16,000	(\$2,029,000)
Per Unit	(\$42,800)	\$300	(\$43,100)
Per Sf Land Area	(\$16)	\$0	(\$16)

**APPENDIX B
RENAISSANCE OAK, LLC
SENIOR APARTMENT COMPONENT**

APPENDIX B: TABLE 1

ESTIMATED DEVELOPMENT COSTS
 69 VERY-LOW INCOME UNITS & 1 MANAGER'S UNIT
 SENIOR APARTMENT COMPONENT
 RENAISSANCE OAK, LLC
 PASADENA, CALIFORNIA

I. Land-Related Costs ¹			
Land Acquisition			\$0
Relocation			158,000
Demolition			84,000
Off-Site Improvements			158,000
Total Land-Related Costs			\$400,000
II. Direct Costs ²			
On-Site Improvements	98 Units	\$10,000 /Unit	\$980,000
Building Shell	83,801 Sf GBA	\$150 /Sf	12,570,000
Semi-Subterranean Parking	88 Spaces	\$20,000 /Space	1,760,000
Furnishing		Allowance	50,000
Total Direct Costs	98 Units	\$156,700 /Unit	\$15,360,000
III. Indirect Costs			
Architecture, Engineering & Consulting	6.0% Direct Cost		\$922,000
Permits & Fees ³	98 Units	\$5,540 /Unit	543,000
Taxes, Legal & Accounting	1.5% Direct Cost		230,000
Insurance	98 Units	\$2,000 /Unit	196,000
Marketing/Leasing	98 Units	\$1,000 /Unit	98,000
Developer Fee ⁴	11% Applicable Tax Credit Basis		2,000,000
Soft Cost Contingency	5.0% Other Ind		199,000
Total Indirect Costs	98 Units	\$42,700 /Unit	\$4,188,000
IV. Financing Costs			
Capitalized Reserves ⁵	98 Units	\$1,602 /Units	\$157,000
Tax Credit Costs ⁶			122,000
Interest During Construction ⁷	\$12,936,000 Loan	7.0% Interest	815,000
Loan Origination Fees			
Construction Loan	\$12,936,000	1.50 Points	194,000
Permanent Loan	\$3,251,000	2.00 Points	65,000
Total Financing Costs	98 Units	\$13,800 /Unit	\$1,353,000
V. Total Development Costs	98 Units	\$217,400 /Unit	\$21,301,000

¹ Based on estimate provided by City Staff, prorated by GBA.

² Estimates assume prevailing wage requirements will be imposed on the Project. The budget includes a 14% allowance for contractor overhead, supervision costs, and profit; a 5% contingency allowance and a 1% allowance for construction bonds.

³ Based on estimates provided by City Staff. Assumes permit fees are equal to \$469,153; and impact fees are equal to \$756 per affordable unit.

⁴ Equal to the amount identified by the Developer. This amount is less than the maximum allowed by TCAC.

⁵ Assumes 3 months of general operating expenses, capital reserve deposits and debt service.

⁶ Includes \$2,000 application fee; \$410/unit monitoring fee; and 4% of the gross Tax Credit proceeds for one-year.

⁷ The construction loan includes 50% of the Tax Credit equity which will not be funded during construction. Assumes a 18 month construction period; & a 60% average outstanding balance.

APPENDIX B: TABLE 2

STABILIZED NET OPERATING INCOME
 69 VERY-LOW INCOME UNITS & 1 MANAGER'S UNIT
 SENIOR APARTMENT COMPONENT
 RENAISSANCE OAK, LLC
 PASADENA, CALIFORNIA

I. <u>Income</u>¹			
Manager	1 Unit @	\$0 /Month	\$0
<u>VL Inc Redev/Tax Credit @ 30% Median</u>			
1-Bdrm @ 649 Sf	8 Units @	\$336 /Month	32,300
2-Bdrms @ 830 Sf	2 Units @	\$400 /Month	9,600
<u>VL Inc Redev/Tax Credits @ 40% Median</u>			
1-Bdrm @ 649 Sf	8 Units @	\$466 /Month	44,700
2-Bdrms @ 830 Sf	2 Units @	\$556 /Month	13,300
<u>Tax Credit @ 50% Median</u>			
1-Bdrm @ 649 Sf	40 Units @	\$596 /Month	286,100
2-Bdrms @ 830 Sf	9 Units @	\$712 /Month	76,900
<u>Tax Credit @ 60% Median</u>			
1-Bdrm @ 649 Sf	23 Units @	\$726 /Month	200,400
2-Bdrms @ 830 Sf	5 Units @	\$868 /Month	52,100
Laundry/Miscellaneous Income	98 Units @	\$5 /Month	6,000
Gross Income			<u>\$721,400</u>
(Less) Vacancy and Collection	5.0% Gross Income		(36,100)
II. Effective Gross Income (EGI)			<u>\$685,300</u>
III. <u>Operating Expenses</u>²			
General Operating Expenses	98 Units @	\$3,200 /Unit	\$313,600
Property Taxes ³	98 Units @	\$31 /Unit	3,000
Supportive Services ⁴	98 Units @	\$102 /Unit	10,000
Capital Reserve	98 Units @	\$300 /Unit	29,400
Total Operating Expenses	98 Units @	(\$3,630) /Unit	<u>(\$356,000)</u>
IV. <u>Net Operating Income</u>			<u>\$329,300</u>

¹ Based on Los Angeles County 2006 incomes distributed by HUD/HCD. As pertinent, the rents are based on California Health & Safety Code Section 50053, and rents published by TCAC. Utilities allowances: 1-Bdrm - \$53 and 2-Bdrm - \$68; the manager's unit is treated as a low income Tax Credit unit.

² Based on KMA experience with similar projects.

³ Based on assumption that the Developer will receive the property tax abatement accorded to nonprofit organization that develop income restricted apartments.

⁴ Based on Developer estimates.

APPENDIX B: TABLE 3

RESIDUAL LAND VALUE/(FINANCIAL GAP)
 69 VERY-LOW INCOME UNITS & 1 MANAGER'S UNIT
 SENIOR APARTMENT COMPONENT
 RENAISSANCE OAK, LLC
 PASADENA, CALIFORNIA

I. Available Funding Sources			
A. Conventional Financing			
Net Operating Income		\$329,300	
Avail for Debt Service @ 115% Coverage		\$286,300	
Interest Rate/Mortgage Constant	8.00% Interest		8.81% Constant
Total Supportable Debt			\$3,251,000
B. Federal Low Income Housing Tax Credit Proceeds ¹			
Gross Tax Credit Value	\$20,000,000		
Syndication Value	\$0.95 /Tax Credit Dollar		
Net Tax Credit Value			\$18,981,000
C. Deferred Developer Fee ²			
			\$195,000
Total Available Funding Sources			\$22,427,000
II. Residual Land Value/(Financial Gap)			
Total Available Funding Sources		\$22,427,000	
(Less) Total Development Costs		(21,301,000)	
III. Total Residual Land Value/(Financial Gap)	98 Units	\$11,500 /Unit	\$1,126,000

¹ \$24.7 million eligible basis (including a 130% difficult to develop premium); an 8.10% tax credit rate; and an applicable fraction of 100%.

² Based on Developer estimates.

APPENDIX B: TABLE 4

**KMA & DEVELOPER COMPARISON
69 VERY-LOW INCOME UNITS & 1 MANAGER'S UNIT
SENIOR RENTAL COMPONENT
RENAISSANCE OAK, LLC
PASADENA, CALIFORNIA**

	<u>KMA</u>	<u>DEVELOPER</u>	<u>DIFFERENCE</u>
I. <u>Development Costs</u>			
Land-Related Costs	\$400,000	\$200,000	\$200,000
Direct Costs	15,360,000	16,050,000	(690,000)
Indirect Costs	4,188,000	4,437,000	(249,000)
Financing Costs	1,353,000	1,450,000	(97,000)
Total Development Costs	\$21,301,000	\$22,137,000	(\$836,000)
Per Unit	\$217,400	\$225,900	(\$8,500)
Per Sf GBA	\$250	\$260	(\$10)
II. <u>Net Operating Income</u>			
Effective Gross Income	\$685,300	\$609,300	\$76,000
(Less) Operating Expenses	(356,000)	(323,400)	(32,600)
Net Operating Income	\$329,300	\$285,900	\$43,400
III. <u>Available Funding Sources</u>			
Conventional Financing	\$3,251,000	\$2,963,000	\$288,000
Federal Low Income Tax Credits	18,981,000	19,000,000	(19,000)
Deferred Developer Fee	195,000	195,000	0
Total Available Funding Sources	\$22,427,000	\$22,158,000	\$269,000
Per Unit	\$228,800	\$226,100	\$2,700
IV. <u>Residual Land Value/(Financial Gap)</u>			
Total Available Funding Sources	\$22,427,000	\$22,158,000	\$269,000
(Less) Total Development Costs	(21,301,000)	(22,137,000)	836,000
V. Total Residual Land Value/(Financial Gap)	\$1,126,000	\$21,000	\$1,105,000
Per Unit	\$11,500	\$200	\$11,300
Per Sf Land Area	\$9	\$0	\$9