EXHIBIT “A”

1150 N. ALLEN / TRADEMARK DEVELOPMENT

RESIDUAL LAND VALUE ANALYSIS

MEMORANDUM REPORT

TO: Aldra Allison
City of Pasadena
Housing & Community Development Division

FROM: James P. Regan

DATE: July 16, 2008 (revised)

SUBJECT: **1150 N. Allen Avenue Development – Analysis of Developer Financial Projections and Residual Land Value (Revised Project - June 2008)**

Wald Realty Advisors, Inc. (WRA) has reviewed the developer pro forma for the proposed six-unit attached condominium development located on an 11,500-square foot site at 1150 N, Allen Street in the City of Pasadena. The focus of WRA's analysis was a review of developer assumptions and financial estimates for a revised project and the resulting indicated residual value of the site.

WRA reviewed the original project in April 2007. The development remains a six-unit project with attached condominium units. Since that time, the project has been replanned/redesigned to accommodate (1) smaller unit sizes; (2) an increase from one to four units planned as affordable housing; and (3) lower expected prices for the remaining two mixed-use market rate units.

Exhibit 2 lists projected unit and pricing characteristics for both the 2007 and current plans. The increase from one to four affordable units and lower market unit prices and smaller units result in a projected 31% reduction in total project sales value.

WRA has reviewed the developer pro forma based on general industry guidelines and selected contacts with specific industry sources where needed. Although WRA believes that the changes to developer financial estimates discussed in this memorandum are reasonable, WRA did not have any information that may relate to certain costs such as existing contracts, costs incurred during replanning of the project and the incidence of period sales and beholding costs during the sales period. In addition, WRA did not review construction drawings or pro forma projections of cash flow during construction and sales periods. Therefore, WRA's conclusions should be viewed as limited to indicating certain cost factors that may require further scrutiny as project planning moves forward. Finally, WRA did not conduct any independent analysis of supportable market sales prices and at the direction of the client has accepted the developer projections.

SUMMARY OF FINDINGS

The developer pro forma shows a virtual elimination in residual land value with the revised program based on over a $900,000 decrease in gross sales prices with only a $211,000 offset from lower development costs (see Exhibits 1 and 2). The previous project plan generated over $710,000 in residual land value compared to slightly over $18,000 with the current plan as per the developer assumptions.

- WRA's review of development costs did not reveal major areas of cost overstatement. The following specific items do appear to represent potentially above average costs and WRA's adjustments, while limited in amount, are as follows:

Cost Factor	Potential Cost Reductions (rounded)
Commissions	$ 19,130
Closing & Escrow, Marketing	8,640
Total Cost Adjustments	$ 27,770

Some other costs appear relatively high but reflect extensive replanning of the development over several months, while others seem high as a percentage of revenues or total costs but are relatively low in total dollar amounts.

- The results in an increase in the estimated residual land value from the developer estimate of $18,300 to approximately $46,000. This represents a modest value reduction from prior plans but is not inconsistent with the revenue difference between market and affordable housing prices at the project,

There remain some unanswered issues relating to site costs. However, it does not appear that there are significant potential cost reductions to offset the reduced residual land value caused by lower market prices and the added affordable units. Given the sensitivity of the residual land value to sales revenues, consideration might be give to negotiating some upside protection for HCDD in the event higher market sales prices are achieved. Although the majority of any upside should go to the land value, a share of no less than 50% of net sales revenues above a negotiated threshold is a reasonable arrangement.

REVIEW OF PRO FORMA

Direct unit construction costs are unchanged from the 2007 analysis and most indirect costs are largely unaffected affected by lower sales prices. Only costs that are related in some manner to sales revenues might be reduced with lower sales prices

WRA's comments about selected cost items are as follows (see Exhibit 3 for developer cost estimates):

Revenue Deductions

- Commissions – 5.0% in the current pro forma (Exhibit 3) compared to 4.5% in prior analyses. The Developer has agreed to a reduction in commission costs because of lower costs involved for affordable units. The revised commission costs are 5% of sales revenue from market rate units and 3% from affordable units. The net impact is a reduction in commission costs by $19,130.

- Developer Profit – Reasonable in our opinion in the current market environment and the small project scale.

Hard Costs

- Offsite and Onsite Costs – Major cost increase from the 2007 analysis ($80,500 to $126,500). Developer reports that increases reflect (1) experience with two recent developments in Azusa and Pasadena; (2) expectations of higher costs for added offsite work in Pasadena related to replacement of all sidewalks fronting the site and perhaps not being able to tie into existing sewer lateral. It appears that the cost increase is general at this time and should be monitored by tHCDD since lower costs should flow through to a higher supportable land price.

- Building Construction – Although we would have expected some unit cost increase over the past year, the developer is estimating no increase in unit construction costs given the current contraction in the housing development business. The unit cost for the retail space in the market rate mixed-use units seems low.

Indirect Costs

WRA's review indicated only a few cost categories where we believe some modest cost reductions can be realized. Some cost categories are unchanged in amount from prior analyses and these costs seem reasonable. Examples include architecture, engineering (higher costs incurred during replanning), permits & fees, insurance, general contractor fees, and developer fee. Costs that might be reduced include the following:

- Legal & Accounting – 3.0% of hard cost compared to 1.5% in 2007 pro forma. However, the total cost is only $$26,000, an increase of about $13,000 from the 2007 pro forma. `The total cost does not seem unreasonable.

- Closing and Escrow Costs and Marketing Costs – Both categories show cost increases from 1.5% of hard cost in the 2007 pro forma to 2.0%. No rationale is apparent for the increase and the Developer has agreed to the 1.5% cost level. The potential cost reduction is $4,320 (rounded) in each category or $8,640.

- General Contractor Fee – A total fee of 13% is above average for a typical construction project. However, WRA believes the fee in total dollars is reasonable given the small size of the development and the limited opportunity for some economies of scale for on-site supervision and other costs.

- Developer Fee – Fees typically are 4% of either costs or revenues. The percentage of revenues approach is reasonable given the character of the development and current market realities for new market-rate housing.

- Financing Costs – Construction interest reflects a 14-month construction period. If the developer is able to complete the project in 12 months as expected, the interest cost will decline by about $10,000. However, no allowance is shown for interest during the sales period so that actual financing costs may prove to be higher than estimated. Potential cost savings listed above will not materially affect financing costs.

Should you have any questions about this report, please call me.

Exhibit 1

UNITS AND PROJECTED SALES PRICES

1150 N. Allen Avenue Development (Revised July 2008)

Unit Type	Number	No. of Bedrooms	No. of Baths	Unit Size (Sq. Feet)	Est. Sales Price Per Unit	Est. Sales Price Per Sq. Ft.
April 2007 Pro Forma						
Market (Mixed Use)	1	2	3	1,966	$ 655,000	$ 333.16
Market (Mixed Use)	1	2	3	1,906	$ 655,000	$ 343.65
Market	1	3	3	1,868	$ 620,000	$ 331.91
Affordable	1	1	1	649	$ 189,000	$ 291.22
Workforce	1	2	2	1,158	$ 389,600	$ 336.44
Workforce	1	3	3	1,652	$ 433,700	$ 262.53
Total	6			9,199	$ 2,942,300	
Average				1,533	$ 490,383	$ 319.85
Current Pro Forma (June 2008)						
Market (Mixed Use)	1	2	2.5	1,909	$ 545,000	$ 285.49
Market (Mixed Use)	1	2	2.5	1,806	$ 535,000	$ 296.23
Affordable	1	2	2.5	1,178	$ 238,700	$ 202.63
Affordable	1	3	3	1,340	$ 266,500	$ 198.88
Affordable	1	1	1	625	$ 212,500	$ 340.00
Affordable	1	2	2	1,176	$ 238,700	$ 202.98
Total	6			8,034	$ 2,036,400	
Average				1,339	$ 339,400	$ 253.47
Reduction in Size and Price				***12.7%***	***30.8%***	***20.8%***

Exhibit 2

COMPARISON - CURRENT AND PREVIOUS PROJECT PRO FORMAS

1150 N. Allen Avenue Development (Revised July 2008)

		Original Plan April 2007	Current Plan July 2008	Change
Gross Revenues		$ 2,942,300	$ 2,036,400	$ (905,900)
Less:	Commissions	132,404	82,678	(49,726)
	Developer Profit	382,499	264,732	(117,767)
	Hard Costs	908,760	863,782	(44,978)
	Indirect Costs	677,843	660,377	(17,466)
	Financing Costs	127,805	118,122	(9,683)
	Total Costs	$ 2,229,311	$ 1,989,691	(239,620)
Residual - Land Value		$ 712,989	$ 46,709	$ (666,280)

Exhibit 3

DEVELOPER PROJECTION - SALES AND RESIDUAL LAND VALUE

1150 N. Allen Avenue Development (Revised July 2008)

Site Area (SF)	11,500			
No. of Units	6			
Avg. Unit Size (SF)	1,339			
Avg.. Price/SF	$ 253.47			
Avg.. Unit Price	$ 339,400			
Revenues	Developer Assumptions			Revised Pro Forma (July 2008)
Gross Revenues				$ 2,036,400
Less: Commissions	5.0%	Gross Revenue		(82,678)
Less: Developer Profit	13.0%	Gross Revenue		(264,732)
Net Revenues				1,688,990
Hard Costs				
Demolition	Developer	Estimate		50,500
Off Site Work	$4	Per SF Site		46,000
On Site Work	$7	Per SF Site		80,500
Building Construction (excl. GC fee)				
Commercial (1,259 SF)	$45	Per SF Building		56,591
Residential (6,775 SF)	$93	Per SF Building		630,191
Total Hard Costs				863,782
Indirect Costs				
Architecture	10.4%	Hard Cost		90,205
Engineering	3.7%	Hard Cost		31,551
Permits & Fees	13.2%	Hard Cost		114,307
Legal & Accounting	3.0%	Hard Cost		25,913
Insurance	Developer	Estimate		130,000
Closing/Escrow Costs	1.5%	Hard Cost		12,957
Marketing	1.5%	Hard Cost		12,957
General Contractor Fee	13.0%	Hard Cost		112,292
Developer Fee	3.0%	Gross Revenues		61,092
Contingency	8.0%	Hard Cost		69,103
Total Indirect Costs			(1)	660,376
Financing				
:own Fees			(2)	38,104
Loan Interest			(2)	80,018
Total Financing Cost				118,122
Total Costs				1,642,280
Net Residual Land Value				**$ 46,700**