ATTACHMENT H
KEYSER MARSTON FINANCIAL ANALYSIS

KEYSER MARSTON ASSOCIATES
ADVISORS IN PUBLIC/PRIVATE REAL ESTATE DEVELOPMENT

MEMORANDUM

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To: Talyn Mirzakhanian, Senior Planner
City of Pasadena

From: Kathleen Head

Date: March 25, 2019

Subject: 253 South Los Robles Avenue Density Bonus Analysis

At your request, Keyser Marston Associates, Inc. (KMA) evaluated the development application submitted by Zhuang & Zhong Los Robles, LLC (Applicant) for the 35,502 square foot property located at 253 South Los Robles Avenue (Site). The application was submitted under the auspices of the City of Pasadena (City) Density Bonus Ordinance. This Ordinance was enacted to comply with the requirements imposed by California Government Code Sections 65915 – 65918 (Section 65915).

BACKGROUND STATEMENT

Density Bonus and Concessions

The basic density bonus and concession requirements imposed by Section 65915 are:

1. Section 65915 (b) (1) defines the threshold requirements that must be imposed on a project in order for it to qualify for the density bonus benefits.

2. Section 65915 (b) (2) requires Applicants to base the requested density bonus on one of four options, and those options cannot be combined to increase the density bonus percentage.

3. Section 65915 (f) provides a sliding scale increase in a project's allowable density based on the percentage of income-restricted units proposed to be included in the development.

4. Section 65915 (d) (2) identifies the number of incentives or concessions required to be provided based on the percentage of income-restricted units to be included in the development.

Applicant Proposal

The Site is currently improved with a 43,544 square foot office building. The office building will be demolished to allow for the "Proposed Project" to be developed.

The Site is located in the CD-2/ Central District, Mid Town Civic Auditorium subdistrict of the Central District Specific Plan. The Site's Land Use Designation is "Medium Mixed Use". The Site's zoning allows for the development of up to 71 residential units, and ground floor residential uses are allowed to be developed on the Site.

The Applicant is requesting the following:

1. A 29.7% increase over the density limit imposed by the Site's zoning; and

2. The following two incentives or concessions:

   a. A "Height Concession" that increases the allowable height to 80 feet from the 60 foot limit – (75 feet with height averaging); and

   b. An increase in the maximum allowable floor area ratio (FAR) from 2.25:1 to 2.65:1 (FAR Concession).

To obtain the identified density bonus and two concessions, the Applicant is proposing to comply with the stricter of the following requirements:

1. Section 65915 (f) (2), which requires 9% of the units allowed by the base zoning to be provided to very-low income households in order to achieve a 29.7% density bonus; and

2. Section 65915 (d) (2) (B), which requires 10% of the units allowed by the base zoning to be provided to very-low income households in order to qualify for two incentives or concessions.

The stricter of the two standards requires that 7.1 units be allocated to very-low income households. In accordance with Section 65915 (q), any calculation that results in a fractional number must be rounded up to the next whole number. As a result, at least eight very-low income units must be included in the project.

The Proposed Project includes the following mix of uses, which comply with the income and affordability restrictions imposed by Sections 65915 (f) (2) and 65915 (d) (2) (B):

1. 84 market rate condominiums;

2. Eight very-low income rental units; and

3. 131 parking spaces in three subterranean levels.

Affordable Housing Units

The market rate units in the Proposed Project will be sold as condominiums, and the income-restricted units will be rented to very-low income households. Section 65915 (c) (1) requires the affordable rents to be set using the calculation methodology imposed by California Health and Safety Code (H&SC) Section 50053.

The affordable rents derived from the H&SC Section 50053 methodology comport with rents applied in the City's Inclusionary Housing Regulations. Thus, the proposed income-restricted units fulfill both the density bonus and inclusionary housing requirements.

Financial Analysis

The combination of the density bonus and the incentives or concessions are intended to result in identifiable and actual cost reductions to provide for affordable housing costs (Section 65915 (k) (1 – 3). Section 65915 (d) (1) allows the Applicant to submit a proposal to the City for specific incentives or concessions. The City is required to grant the Applicant's request for a specific concession or incentive unless the City makes a written finding, based on substantial evidence, of any of the following:

A. The concession or incentive does not result in identifiable and actual cost reductions to provide for affordable housing costs (Section 65915 (d) (1) (A)).

B. The concession or incentive would have a specific adverse impact, as defined in paragraph (2) of subdivision (d) of Section 65589.5, upon public health and safety or the physical environment or on any real property that is listed in the California Register of Historical Resources and for which there is no feasible method to satisfactorily mitigate or avoid the specific adverse impact without rendering the development unaffordable to low- and moderate-income households.

C. The concession or incentive would be contrary to state or federal law.

The purpose of the KMA analysis is to analyze the Proposed Project's financial characteristics to determine if the specific concessions being requested by the Applicant, in addition to the density bonus, are required to fulfill the Section 65915 (d) (1) (A) criteria. To that end, the KMA prepared financial analyses of the following development scenarios:

1. The Base Case scenarios include 71 market rate condominium units and 97 parking spaces in two subterranean levels:[1]

    a. The first alternative excludes the impact created by the City's Inclusionary Housing Ordinance.[2]

    b. The second alternative includes the inclusionary housing in-lieu fee that would be imposed on a market rate residential project that was not applying for a Section 65915 density bonus.

2. The Proposed Project includes 92 residential units and 131 parking spaces in three subterranean levels. The analysis of the Proposed Project includes both the requested Height and FAR Concessions.

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[1] The Applicant provided 112 parking spaces, which exceeds the Parking Code by 15 spaces. KMA used the Parking Code standard of 97 spaces. KMA applied the Applicant's parking square footage estimate, because it represents a realistic physical efficiency rate for 97 parking spaces in two subterranean levels.
[2] The court's decision in *Latinos Unidos del Valle de Napa y Solano v. County of Napa* (July 11, 2013), requires jurisdictions to count all the affordable units in a project towards the Section 65915 density bonus and concession standards even if the jurisdiction imposes inclusionary housing requirements.

KMA undertook the following analyses to determine whether there is sufficient support to reject the specific concessions being requested by the Applicant under the financial evidence requirements imposed by Section 65915 (d) (1) (A):

1. Development costs estimates were prepared for the Base Case and the Proposed Project. The estimated costs were compared to determine if costs savings were achieved by the Proposed Project when measured per square foot of gross building area (GBA) and per unit being developed.

2. The financial benefits created by the density bonus and the requested concessions were compared to the net cost associated with providing eight very-low income units on site within the development.

For reference purposes, KMA also identified the financial impact on the Base Case if the City's inclusionary housing in-lieu fee is paid rather than producing affordable units. This analysis provides an understanding of why a developer would choose to couple the City's inclusionary housing requirements with the Section 65915 density bonus benefits rather than choosing to pay the inclusionary housing in-lieu fee.

ANALYSIS ORGANIZATION

The assumptions and conclusions of the KMA financial analysis are presented in Appendices that follow this memorandum. These Appendices are organized as follows:

Appendix A:	Base Case: 71 Market Rate Condominium Units: Excludes Inclusionary Housing Ordinance requirements
Appendix B:	Base Case: 71 Market Rate Condominium Units: Includes Inclusionary Housing In-Lieu Fee Payment
Appendix C:	Proposed Project: 84 Market Rate Condominium Units and Eight Very-Low Income Rental Units
Appendix D:	Affordability Gap Analysis

EXECUTIVE SUMMARY

Density Bonus Analysis

The following factors must be considered by the City in evaluating the density bonus and concessions being requested by the Applicant:

1. The Applicant is entitled to receive two concessions or incentives that result in identifiable and actual cost reductions to provide for affordable housing costs (Section 65915 (k) (1-3); and

2. If the City wishes to deny the requested concessions, the City must be able to demonstrate that the 29.7% density bonus allowed by Section 65915 (f) (2) can be achieved if the requested concessions are not provided (Section 65915 (e) (1)).

The development scopes for the Base Case and the Proposed Project are described in the following table:

	Base Case	Proposed Project
Unit Mix		
One-Bedroom Units	52	64
Two-Bedroom Units	19	28
Total Units	71	92
Density (Units/Acre)	87	113
Gross Building Area (Square Feet)	77,335	94,165
Net Saleable Residential Area (Square Feet)	61,199	74,059
Number of Parking Spaces	97	131
Maximum Building Height	60’ (75’) with Height Avg	80’
FAR	2.18	2.65

KMA performed two analyses to evaluate the specific concessions being requested by the Applicant under the financial evidence requirements imposed by Section 65915 (d) (1) (A). The first test is used to determine if the proposed concessions result in identifiable and actual cost reductions. The results of this analysis is summarized in the following table:

Estimated Development Costs	Base Case	Proposed Project	Percentage Decrease
Total	$36,655,000	$45,427,000	
Per Unit	$516,300	$493,800	4.4%

As shown in the preceding table, the estimated development costs for the Proposed Project are 4.4% lower than the Base Case when measured per unit. Thus, the provision of the requested concessions results in identifiable and actual cost reductions.

The second test compares the net cost associated with providing the requisite number of affordable units to the benefits generated by the proposed density bonus and concessions. The results of this analysis are presented in the following table:

Net Cost to Provide Eight Very-Low Income Units	($4,469,000)
Net Surplus / (Cost) of the Density Bonus & Concessions	($5,578,000)
Effective Surplus/(Cost) to Provide Eight Very-Low Income Units	($1,109,000)

As can be seen, the net cost to provide eight very-low income units is estimated at $4.47 million. Comparatively, the proposed 29.7% density bonus and the FAR and Height Concessions generate a net cost of $5.58 million. Thus, effective cost to provide eight very-low income units is approximately $1.11 million.

The financial analyses indicate that the proposed concessions result in identifiable and actual cost reductions, and that the net cost to provide eight very-low income units is not fully recouped from the benefits associated with the proposed density bonus and concessions. Based on these findings, it is KMA's conclusion that there is insufficient support for the City to reject the specific concessions being requested by the Applicant under the financial evidence requirements imposed by Section 65915 (d) (1) (A).

Inclusionary Housing Analysis

KMA prepared a financial analysis of a zoning compliant market rate project that chooses to pay the City's inclusionary housing in-lieu fee rather than providing the affordable units on site. The following table compares the financial impact created by payment of the in-lieu fee versus the cost associated with providing eight very-low income units:

Financial Impact Created by Payment of the In-Lieu Fee [3]	$2,326,700
Effective Cost to Provide Eight Very-Low Income Units	$1,109,000
Difference	$1,217,700

As can be seen in the preceding table, the impact associated with paying the in-lieu fee is approximately $1.22 million more than the effective cost to provide eight very-low income units. Thus, it is more financially prudent for the Applicant to provide the requisite number of inclusionary housing units on site within the market rate project.

DENSITY BONUS ANALYSIS

Section 65915 (d) (1) requires the City to make a written finding, based on substantial evidence, that the specific concessions being requested by the Applicant do not result in the identifiable and actual cost reductions necessary to provide for affordable housing costs. To determine whether the specific concessions being requested by the Applicant are necessary to provide eight very-low income units, KMA analyzed the following scenarios:

Base Case:	
71 market rate condominiums and 97 parking spaces in two subterranean levels.	Maximum development allowed under the Zoning Code standards for the Site.

[3] See Appendix B – Table 3.

Proposed Project:	
84 market rate condominiums, eight very-low income rental units, and 131 parking spaces in three subterranean levels.	29.7% density bonus. Both the Height and FAR Concessions are provided.

KMA prepared pro forma analyses for the two identified scenarios. The assumptions, analysis and conclusions derived from the KMA financial analyses are described in the following sections of this memorandum.

Scope of Development

The scopes of development for the two scenarios can be described as follows:

Base Case Scenario

1. The Base Case Scenario consists of 71 units, which equates to a density of 87 units per acre. The GBA totals 77,335 square feet.

2. KMA included 97 parking spaces in the Base Case Scenario, which are allocated as follows:

    a. First level subterranean: 48 spaces.

    b. Second level subterranean: 49 spaces

3. The project complies with the zoning standard that limits the height to 60 feet, and 75 feet with height averaging.

4. The FAR is estimated at 2.18:1.

Proposed Project

1. The Proposed Project includes 92 residential units, which equates to a density of 113 units per acre. The total GBA is set at 94,165 square feet.

2. The Proposed Project includes 131 parking spaces. The spaces are allocated as follows:

a. First level subterranean: 41 spaces

b. Second level subterranean: 43 spaces.

c. Third level subterranean: 47 spaces.

3. The maximum building height is set at 80 feet with no height averaging.

4. The FAR is estimated at 2.65:1.

Financial Analysis Assumptions

Development Cost Estimates

Property Acquisition Costs

KMA reviewed historical Los Angeles County Assessor's data for the Site and found that it is a part of a larger property that has been subdivided multiple times. The Assessor's data indicates that the Applicant originally acquired a 1.42-acre portion of the property, and then subdivided it into two parcels. The 35,502 square foot Site is one of the two parcels.

The purchase price of the 1.42-acre property was $14.32 million, which equates to approximately $232 per square foot of land area. If that price is prorated between the two parcels, the allocated price for the Site would total $8.22 million. However, the Applicant is only attributing a $7.5 million in acquisition costs to the Site. KMA applied the $7.5 million cost estimate in our pro forma analysis.

Direct Costs

The direct costs are estimated as follows:

1. The Applicant estimated the demolition costs for the existing office building at $348,000, or $8.00 per square foot of the 43,544 square foot office building.

2. The Applicant estimated the grading / landscaping costs at $309,000 for the Base Case Scenario and $464,000 for the Proposed Project. The difference is attributable to a variation in the amount of land area being allocated to open space in the two scenarios.

3. The estimated parking costs per space vary between the two scenarios due to differences in the physical efficiency of the garage space. KMA estimated the parking costs as follows:

	Base Case Scenario	Proposed Project
First Level Subterranean	$30,400	$33,800
Second Level Subterranean	$48,700	$54,100
Third Level Subterranean	$60,800	$67,600

4. Both scenarios are assumed to be Type III construction. The building costs are estimated at $160 per square foot of GBA in both scenarios.

5. The direct costs include a 20% allowance for contractor costs, profit and a direct cost contingency allowance.

<u>Indirect Costs</u>

The indirect costs are estimated as follows:

1. The architecture, engineering and consulting costs are estimated at 6% of direct costs.

2. Based on estimates provided by the Applicant, the public permits and fees costs are set as follows:

   a. $3.54 million for the Base Case Scenario.[4]

   b. $3.63 million for the Proposed Project.

3. The taxes, insurance, legal and accounting costs are estimated at 3% of direct costs.

4. The marketing costs are estimated at $3,000 per unit.

[4] The public permits and fees estimate excludes the Applicant's estimate of $1.89 million inclusionary housing in-lieu fee. The in-lieu fee analysis is included in the Inclusionary Housing section of this analysis.

5. The Developer Fee is set at 3% of the gross sales revenue generated by the Base Case. This translates to $18,958 per unit.

6. A soft cost contingency allowance equal to 5% of other indirect costs is provided.

<u>Financing Costs</u>

The financing costs are estimated as follows:

1. The interest costs incurred on the construction loan are based on the following assumptions:

    a. A 60% loan-to-cost ratio;

    b. A 5% interest rate;

    c. An 18 month construction period; and

    d. The following absorption rates are applied:

        i. Base Case Scenario: 10 months.

        ii. Proposed Project: 11 months.

2. The loan fees are estimated at 2.0 points.

Net Revenue Estimates

The following outlines the revenue assumptions applied in the financial analyses of the development scenarios:

1. The market rate sales prices for the condominium units are projected at prices ranging from $700 to $750 per square foot of saleable area.

2. The values supported by the eight very-low rental units are calculated in Appendix D. The value estimates derived from this analysis are:

    a. $20,940 for one-bedroom units; and

    b. $26,160 for two-bedroom units.

3. The projected sales revenues are offset by the following costs of sale:

   a. Sales commissions equal to 3% of gross sales revenue;

   b. Closing costs equal to 2% of gross sales revenue; and

   c. Home buyer warranties costs at .5% of gross sales revenue.

Conclusions: Density Bonus Analysis

KMA performed the following two analyses to evaluate the 29.7% density bonus and Height and FAR concessions being requested by the Applicant:

1. KMA determined whether the proposed concessions result in identifiable and actual cost reductions; and

2. KMA compared the net cost to provide eight very-low income units to the benefits generated by the proposed density bonus and concessions.

The results of these two analysis are summarized in the following tables:

Estimated Development Costs	Base Case	Proposed Project	Percentage Decrease
Total	$36,655,000	$45,427,000	
Per Unit	$516,300	$493,800	4.4%

Net Cost to Provide Eight Very-Low Income Units	($4,469,000)
Net Surplus / (Cost) of the Density Bonus & Concessions	($5,578,000)
Effective Surplus/(Cost) to Provide Eight Very-Low Income Units	($1,109,000)

As shown in the preceding tables, the proposed concessions result in identifiable and actual cost reductions, and the proposed density bonus and concessions are not sufficient to fully recoup the net cost to provide eight very-low income units. Based on these findings it is KMA's opinion that the Applicant's proposal meets the threshold financial tests applied by Section 65915. It is our conclusion that there is insufficient support for the City to reject the specific concessions being requested by the Applicant under the financial evidence requirements imposed by Section 65915 (d) (1) (A).

It should be noted that Section 65915 (d) (3) and Section 65915 (e) (1) provide Applicants with the right to pursue legal action if the City denies a requested density bonus, concession or incentive, and/or development standards relief. If the court finds against the City, the City would be required to pay the Applicant's reasonable attorney's fees and the costs associated with the lawsuit.

INCLUSIONARY HOUSING ANALYSIS

Inclusionary Housing Ordinance Requirements

The City's Inclusionary Housing Ordinance requires for sale residential projects, with 10 or more units, to allocate 15% of the units in the project to moderate income households. This obligation is reduced to 10% if the units are provided to low income households, and 7.5% if the units are provided to very-low income households.

The City's Inclusionary Housing Ordinance also allows developers to pay a fee in lieu of producing affordable units on site within market rate residential projects. The in-lieu fee for ownership units in Sub-Area D is currently set at $31.22 per square foot of building area.[5]

KMA prepared a financial analysis of a 71-unit market rate project that comports with the Site's Zoning Code standards, and that pays the City's inclusionary housing in-lieu fee rather than providing affordable units on site. The KMA analysis estimates the net cost attributable to the in-lieu fee payment at approximately $2.33 million.

In-Lieu Fee Payment Versus the Provision of On-Site Affordable Housing

In accordance with the terms of the *Latinos Unidos del Valle de Napa y Solano v. County of Napa* case referenced previously in this analysis, the City may not apply inclusionary housing requirements to density bonus units awarded under Section 65915. In other words, the inclusionary requirement imposed on a density bonus project is limited to the base number of units allowed by the Site's zoning.

[5] The in-lieu fee is based on the fee schedule adopted by the City for 2019.

In this case, the Proposed Project allocates 10% of the units allowed by the Site's zoning to very-low income households. Given that that the inclusionary housing requirement is set at 7.5% if the units are provided to very-low income households, the Proposed Project fulfills the City's on-site inclusionary housing requirements.

The KMA density bonus analysis concluded that the net cost to provide eight very-low income units exceeds the value of the proposed 29.7% density bonus and two requested concessions by approximately $1.11 million. Comparatively, the net cost is estimated at $2.33 million for a zoning compliant project that pays a fee in lieu of providing affordable units. Thus, it can be concluded that it is more financially advantageous for the Applicant to fulfill the inclusionary housing obligations on site, and to pursue the proposed Section 65915 density bonus.

Inclusionary Housing Affordability Covenants

If developers wish to be allowed to count affordable units towards both the City's inclusionary housing requirements and the Section 65915 density bonus requirements, the affordable units must meet the more stringent of the two programs' requirements. For the Proposed Project, notable restrictions are as follows:

1. The affordable rent must be set using the lesser of the rent imposed by the Inclusionary Housing Ordinance and the rent derived using the H&SC Section 50053 calculation methodology.

2. The Applicant is proposing to rent the affordable units in the Proposed Project to very-low income households. Under the terms of the Inclusionary Housing Ordinance, these rental units must remain reserved for very-low income households at an affordable housing cost in perpetuity.

CONCLUSIONS

The results of the density bonus and inclusionary housing analyses are presented on a summary table that follows this memorandum. The conclusions derived from these analyses are as follows:

Density Bonus Analysis

For the following reasons, it is KMA's conclusion that substantial evidence does not exist for the City to reject the specific concessions being requested by the Applicant under the financial evidence requirements imposed by Section 65915 (d) (1) (A):

1. The proposed Height and FAR concessions produce identifiable and actual cost reductions to provide for affordable housing costs; and

2. The net cost to provide eight very-low income units exceeds the benefits associated with the 29.7% density bonus and Height and FAR concessions requested by the Applicant.

Inclusionary Housing Analysis

It is the KMA conclusion that the Proposed Project comports with the requirements imposed by the City's Inclusionary Housing Ordinance. The density bonus agreement executed by the City and the Applicant, and the Inclusionary Housing Plan prepared by the Applicant, should reflect the specific requirements imposed by both programs.

SUMMARY TABLE

FINANCIAL ANALYSIS
253 SOUTH LOS ROBLES AVENUE
DENSITY BONUS ANALYSIS
PASADENA, CALIFORNIA

		BASE CASE ZONING - 100% MARKET RATE UNITS 71 MARKET RATE CONDOMINIUM UNITS	PROPOSED PROJECT 84 MARKET RATE CONDOMINIUM UNITS & 8 VERY-LOW INCOME RENTAL UNITS
I.	**Total Development Costs**	$36,655,000 [1]	$45,427,000 [2]
	Per Square Foot of GBA	$474	$482
	Per Unit	$516,300	$493,800
II.	**Net Revenue**	$42,394,300 [3]	$46,961,700 [4]
III.	**Net Cost to Provide 8 Very-Low Income Units**		($4,469,000) [5]
IV.	**Net Surplus/(Cost) of the Density Bonus and Two Concessions**		($5,578,000) [6]
V.	**Effective Surplus/(Cost) to Provide Eight Very-Low Income Units**		($1,109,000) [7]

		BASE CASE ZONING - 100% MARKET RATE UNITS INCLUSIONARY HOUSING IN-LIEU FEE
I.	**Total Development Costs**	$38,667,000 [8]
	Per Square Foot of GBA	$500
II.	**Total Funds Available for Development Costs**	$36,340,300 [9]
III.	**Estimated Financial Gap**	($2,326,700) [9]

1 See APPENDIX A - TABLE 1.
2 See APPENDIX C - TABLE 1.
3 See APPENDIX A - TABLE 2.
4 See APPENDIX C - TABLE 2.
5 See APPENDIX D - TABLE 1.
6 See APPENDIX C - TABLE 3.
7 Equal to the Difference between the Net Cost to Provide 8 Very-Low Income Units and the Net Surplus/(Cost) of the Density Bonus and Two Concessions.
8 See APPENDIX B - TABLE 1.
9 See APPENDIX B - TABLE 3.

APPENDIX A

PRO FORMA ANALYSIS
BASE CASE: 71 MARKET RATE CONDOMINIUM UNITS
253 SOUTH LOS ROBLES AVENUE
DENSITY BONUS ANALYSIS
PASADENA, CALIFORNIA

APPENDIX A - TABLE 1

ESTIMATED DEVELOPMENT COSTS
BASE CASE: 71 MARKET RATE CONDOMINIUM UNITS
253 SOUTH LOS ROBLES AVENUE
DENSITY BONUS ANALYSIS
PASADENA, CALIFORNIA

I.	**Property Acquisition Costs**	1	35,502	Sf of Land	$211	/Sf of Land		$7,500,000
II.	**Demolition Costs**							$348,000
III.	**Direct Costs**							
	Grading / Landscaping	2	35,502	Sf of Land	$8.70	/Sf of Land	$309,000	
	Parking	3						
	1st Level Subterranean		48	Spaces	$30,400	/Space	1,459,000	
	2nd Level Subterranean		49	Spaces	$48,700	/Space	2,386,000	
	Building Costs		77,335	Sf of GBA	$160	/Sf of GBA	12,374,000	
	Contractor/DC Contingency Allow		20%	Other Direct Costs			3,306,000	
	Total Direct Costs		77,335	Sf of GBA	$256	/Sf of GBA		$19,834,000
IV.	**Indirect Costs**							
	Architecture, Eng & Consulting		6.0%	Direct Costs			$1,190,000	
	Public Permits & Fees	2	77,335	Sf of GBA	$45.84	/Sf of GBA	3,545,000	
	Inclusionary Housing In-Lieu Fee	4	61,199	Sf of NSA	$0.00	/Sf of NSA	0	
	Taxes, Ins. Legal & Accounting		3.0%	Direct Costs			595,000	
	Marketing		71	Units	$3,000	/Unit	213,000	
	Developer Fee		3.0%	Gross Sales Revenue			1,346,000	
	Soft Cost Contingency Allowance		5.0%	Other Indirect Costs			344,000	
	Total Indirect Costs							$7,233,000
V.	**Financing Costs**							
	Interest During Construction	5					$1,321,000	
	Loan Origination Fees		60.0%	Loan to Cost	2.0	Points	419,000	
	Total Financing Costs							$1,740,000
VI.	**Total Construction Cost**		71	Units	$410,600	/Unit		$29,155,000
	Total Development Cost		71	Units	$516,300	/Unit		$36,655,000

[1] The Applicant purchased a 1.42-acre parcel and then subdivided it into two parcels. The 35,502 Site is one of the two parcels. The Applicant allocated $7,500,000 to the acquisition costs for the Site. This is less than the pro rata share of the total acquisition costs.
[2] Based on the estimates provided by the Applicant.
[3] Based on the Applicant's estimate of parking square footage. This equates to an average of 478 square feet per space.
[4] For analysis purposes, the Base Case does not include an Inclusionary in-lieu fee.

5 A 5.0% interest cost for debt; an 18 month construction period; a 10 month absorption period; 30% of the units are presold and close during first month after completion; and 2.0 points for loan origination fees.

APPENDIX A - TABLE 2

PROJECTED NET REVENUE
BASE CASE: 71 MARKET RATE CONDOMINIUM UNITS
253 SOUTH LOS ROBLES AVENUE
DENSITY BONUS ANALYSIS
PASADENA, CALIFORNIA

I.	**Gross Sales Revenue**							
	A. Market Rate Units [1]							
	One-Bdrm Units	52	Units @	$583,900	/Unit	$30,362,800	
	Two-Bdrm Units	19	Units @	$763,100	/Unit	14,498,900	
	B. Very-Low Income Units						
	One-Bdrm Units	0	Units @	$20,940	/Unit	0	
	Two-Bdrm Units	0	Units @	$26,160	/Unit	0	
	Total Gross Sales Revenue						$44,861,700
II.	**Cost of Sales**						
	Commissions	3.0%	Gross Sales Revenue			$1,345,900	
	Closing Costs	2.0%	Gross Sales Revenue			897,200	
	Home Buyer Warranty Costs	0.5%	Gross Sales Revenue			224,300	
	Total Cost of Sales						($2,467,400)
III.	**Net Revenue**						$42,394,300

[1] Based in part on sales comparable data researched by KMA. The projected market rate sales prices include a premium for new construction. The weighted average price equates to $733 per square foot of saleable area.

APPENDIX A - TABLE 3

PROJECTED PROFIT
BASE CASE: 71 MARKET RATE CONDOMINIUM UNITS
253 SOUTH LOS ROBLES AVENUE
DENSITY BONUS ANALYSIS
PASADENA, CALIFORNIA

I.	**Net Revenue**	See APPENDIX A - TABLE 2	$42,394,300
II.	**Total Development Cost**	See APPENDIX A - TABLE 1	$36,655,000
III.	**Developer Profit**	15.7% Total Development Cost	$5,739,300

APPENDIX B

PRO FORMA ANALYSIS
IN-LIEU FEE SCENARIO: 71 MARKET RATE CONDOMINIUM UNITS
253 SOUTH LOS ROBLES AVENUE
DENSITY BONUS ANALYSIS
PASADENA, CALIFORNIA

APPENDIX B - TABLE 1

ESTIMATED DEVELOPMENT COSTS
IN-LIEU FEE SCENARIO: 71 MARKET RATE CONDOMINIUM UNITS
253 SOUTH LOS ROBLES AVENUE
DENSITY BONUS ANALYSIS
PASADENA, CALIFORNIA

I.	**Property Acquisition Costs**	1	35,502	Sf of Land	$211	/Sf of Land		$7,500,000
II.	**Demolition Costs**							$348,000
III.	**Direct Costs**							
	Grading / Landscaping	2	35,502	Sf of Land	$8.70	/Sf of Land	$309,000	
	Parking	3						
	1st Level Subterranean		48	Spaces	$30,400	/Space	1,459,000	
	2nd Level Subterranean		49	Spaces	$48,700	/Space	2,386,000	
	Building Costs		77,335	Sf of GBA	$160	/Sf of GBA	12,374,000	
	Contractor/DC Contingency Allow		20%	Other Direct Costs			3,306,000	
	Total Direct Costs		77,335	Sf of GBA	$256	/Sf of GBA		$19,834,000
IV.	**Indirect Costs**							
	Architecture, Eng & Consulting		6.0%	Direct Costs			$1,190,000	
	Public Permits & Fees	2	77,335	Sf of GBA	$45.84	/Sf of GBA	3,545,000	
	Inclusionary Housing In-Lieu Fee	4	61,199	Sf of NSA	$31.23	/Sf of NSA	1,911,000	
	Taxes, Ins. Legal & Accounting		3.0%	Direct Costs			595,000	
	Marketing		71	Units	$3,000	/Unit	213,000	
	Developer Fee		3.0%	Gross Sales Revenue			1,346,000	
	Soft Cost Contingency Allowance		5.0%	Other Indirect Costs			440,000	
	Total Indirect Costs							$9,240,000
V.	**Financing Costs**							
	Interest During Construction	5					$1,325,000	
	Loan Origination Fees		60.0%	Loan to Cost	2.0	Points	420,000	
	Total Financing Costs							$1,745,000
VI.	**Total Construction Cost**		71	Units	$439,000	/Unit		$31,167,000
	Total Development Cost		71	Units	$544,600	/Unit		$38,667,000

1 The Applicant purchased a 1.42-acre parcel and then subdivided it into two parcels. The 35,502 Site is one of the two parcels. The Applicant allocated $7,500,000 to the acquisition costs for the Site. This is less than the pro rata share of the total acquisition costs.
2 Based on the estimates provided by the Applicant.
3 Based on the Applicant's estimate of parking square footage. This equates to an average of 478 square feet per space.
4 Based on the in-lieu fee schedule adopted by the City for 2019.

5 A 5.0% interest cost for debt; an 18 month construction period; a 10 month absorption period; 30% of the units are presold and close during first month after completion; and 2.0 points for loan origination fees.

APPENDIX B - TABLE 2

PROJECTED NET REVENUE
IN-LIEU FEE SCENARIO: 71 MARKET RATE CONDOMINIUM UNITS
253 SOUTH LOS ROBLES AVENUE
DENSITY BONUS ANALYSIS
PASADENA, CALIFORNIA

I.	**Gross Sales Revenue**					
	A. Market Rate Units [1]					
	One-Bdrm Units	52 Units @	$583,900	/Unit	$30,362,800	
	Two-Bdrm Units	19 Units @	$763,100	/Unit	14,498,900	
	B. Very-Low Income Units					
	One-Bdrm Units	0 Units @	$20,940	/Unit	0	
	Two-Bdrm Units	0 Units @	$26,160	/Unit	0	
	Total Gross Sales Revenue					$44,861,700
II.	**Cost of Sales**					
	Commissions	3.0% Gross Sales Revenue			$1,345,900	
	Closing Costs	2.0% Gross Sales Revenue			897,200	
	Home Buyer Warranty Costs	0.5% Gross Sales Revenue			224,300	
	Total Cost of Sales					($2,467,400)
III.	**Net Revenue**					$42,394,300

[1] Based in part on sales comparable data researched by KMA. The projected market rate sales prices include a premium for new construction. The weighted average price equates to $733 per square foot of saleable area.

APPENDIX B - TABLE 3

ESTIMATED FINANCIAL GAP
IN-LIEU FEE SCENARIO: 71 MARKET RATE CONDOMINIUM UNITS
253 SOUTH LOS ROBLES AVENUE
DENSITY BONUS ANALYSIS
PASADENA, CALIFORNIA

I.	**Funds Available for Development Costs**				
	Net Revenue	See APPENDIX B - TABLE 2		$42,394,300	
	(Less) Threshold Developer Profit [1]	15.7%	Total Development Cost	(6,054,000)	
	Total Funds Available for Development Costs				$36,340,300
II.	**Total Development Cost**	See APPENDIX B - TABLE 1			$38,667,000
III.	**Estimated Financial Gap**				($2,326,700)

[1] Based on the profit as a percentage of Total Development Cost estimated to be generated by the BASE CASE: 71 MARKET RATE CONDOMINIUM UNITS.

APPENDIX C

PRO FORMA ANALYSIS
PROPOSED PROJECT: 84 MARKET RATE CONDOMINIUM UNITS & 8 VERY-LOW INCOME RENTAL UNITS
253 SOUTH LOS ROBLES AVENUE
DENSITY BONUS ANALYSIS
PASADENA, CALIFORNIA

APPENDIX C - TABLE 1

ESTIMATED DEVELOPMENT COSTS
PROPOSED PROJECT: 84 MARKET RATE CONDOMINIUM UNITS & 8 VERY-LOW INCOME RENTAL UNITS
253 SOUTH LOS ROBLES AVENUE
DENSITY BONUS ANALYSIS
PASADENA, CALIFORNIA

I.	**Property Acquisition Costs**	1	35,502	Sf of Land	$211	/Sf of Land		$7,500,000
II.	**Demolition Costs**							$348,000
III.	**Direct Costs**							
	Grading / Landscaping	2	35,502	Sf of Land	$13.07	/Sf of Land	$464,000	
	Parking	3						
	1st Level Subterranean		41	Spaces	$33,800	/Space	1,386,000	
	2nd Level Subterranean		43	Spaces	$54,100	/Space	2,326,000	
	3rd Level Subterranean		47	Spaces	$67,600	/Space	3,177,000	
	Building Costs		94,165	Sf of GBA	$160	/Sf of GBA	15,066,000	
	Contractor/DC Contingency Allow		20%	Other Direct Costs			4,484,000	
	Total Direct Costs		94,165	Sf of GBA	$286	/Sf of GBA		$26,903,000
IV.	**Indirect Costs**							
	Architecture, Eng & Consulting		6.0%	Direct Costs			$1,614,000	
	Public Permits & Fees	2	94,165	Sf of GBA	$38.51	/Sf of GBA	3,626,000	
	Inclusionary Housing In-Lieu Fee	4	74,059	Sf of NSA	$0	/Sf of NSA	0	
	Taxes, Ins. Legal & Accounting		3.0%	Direct Costs			807,000	
	Marketing		92	Units	$3,000	/Unit	276,000	
	Developer Fee	5	92	Units	$18,958	/Unit	1,744,000	
	Soft Cost Contingency Allowance		5.0%	Other Indirect Costs			403,000	
	Total Indirect Costs							$8,470,000
V.	**Financing Costs**							
	Interest During Construction	6					$1,687,000	
	Loan Origination Fees		60.0%	Loan to Cost	2.0	Points	519,000	
	Total Financing Costs							$2,206,000
VI.	**Total Construction Cost**		92	Units	$412,300	/Unit		$37,927,000
	Total Development Cost		92	Units	$493,800	/Unit		$45,427,000

1 The Applicant purchased a 1.42-acre parcel and then subdivided it into two parcels. The 35,502 Site is one of the two parcels. The Applicant allocated $7,500,000 to the acquisition costs for the Site. This is less than the pro rata share of the total acquisition costs.
2 Based on the estimates provided by the Applicant.
3 Based on the Applicant's estimate of parking spaces square footage. This equates to an average of 532 square feet per space.
4 The proposed very-low income units fulfill the City's on-site inclusionary housing requirement. No in-lieu fee is due.
5 Based on the Developer Fee per unit generated by the BASE CASE: 71 MARKET RATE CONDOMINIUM UNITS.

6 A 5.0% interest cost for debt; an 18 month construction period; an 11 month absorption period; 30% of the units are presold and close during first month after completion; and 2.0 points for loan origination fees.

APPENDIX C - TABLE 2

PROJECTED NET REVENUE
PROPOSED PROJECT: 84 MARKET RATE CONDOMINIUM UNITS & 8 VERY-LOW INCOME RENTAL UNITS
253 SOUTH LOS ROBLES AVENUE
DENSITY BONUS ANALYSIS
PASADENA, CALIFORNIA

I.	**Gross Sales Revenue**						
	A. Market Rate Units [1]						
	One-Bdrm Units	58	Units @	$544,700	/Unit	$31,592,600	
	Two-Bdrm Units	26	Units @	$689,400	/Unit	17,924,400	
	B. Very-Low Income Units [2]						
	One-Bdrm Units	6	Units @	$20,940	/Unit	125,600	
	Two-Bdrm Units	2	Units @	$26,160	/Unit	52,300	
	Total Gross Sales Revenue						$49,694,900
II.	**Cost of Sales**						
	Commissions	3.0%	Gross Sales Revenue			$1,490,800	
	Closing Costs	2.0%	Gross Sales Revenue			993,900	
	Home Buyer Warranty Costs	0.5%	Gross Sales Revenue			248,500	
	Total Cost of Sales						($2,733,200)
III.	**Net Revenue**						$46,961,700

[1] Based in part on sales comparable data researched by KMA. The projected market rate sales prices include a premium for new construction. The weighted average price equates to $731 per square foot of saleable area.

[2] See APPENDIX D - TABLE 1.

APPENDIX C - TABLE 3

NET SURPLUS/COST
PROPOSED PROJECT: 84 MARKET RATE CONDOMINIUM UNITS & 8 VERY-LOW INCOME RENTAL UNITS
253 SOUTH LOS ROBLES AVENUE
DENSITY BONUS ANALYSIS
PASADENA, CALIFORNIA

I.	**Funds Available for Development Costs**			
	Net Revenue	See APPENDIX C - TABLE 2	$46,962,000	
	(Less) Threshold Developer Profit [1]	15.7% Total Development Cost	(7,113,000)	
	Total Funds Available for Development Costs			$39,849,000
II.	**Total Development Cost**	See APPENDIX C - TABLE 1		$45,427,000
III.	**Net Surplus/(Cost)**			($5,578,000)

[1] Based on the profit as a percentage of Total Development Cost estimated to be generated by the BASE CASE: 71 MARKET RATE CONDOMINIUM UNITS.

APPENDIX D

AFFORDABILITY GAP ANALYSIS
253 SOUTH LOS ROBLES AVENUE
DENSITY BONUS ANALYSIS
PASADENA, CALIFORNIA

APPENDIX D - TABLE 1

AFFORDABILITY GAP CALCULATIONS - RENTAL UNITS
VERY-LOW INCOME HOUSEHOLDS - 2018 INCOME STANDARDS
253 SOUTH LOS ROBLES AVENUE
DENSITY BONUS ANALYSIS
PASADENA, CALIFORNIA

			One Bdrm	Two Bdrms	
I.	**Gross Rent**				
	Household Income @ 50% Median		$27,730	$31,180	
	Maximum Monthly Rent @ 30% of Househld Income		$690	$780	
	Gross Annual Rent Income Per Affordable Unit	1	$8,280	$9,360	
II.	**Ongoing Expenses**				
	Annual Utilities	2	$1,572	$1,776	
	HOA Fees (Maintenance & Insurance)		4,200	4,500	
	Management @ 5% Gross Rent Income		414	468	
	Property Taxes @ 1.11% of Restricted Value		1,047	1,308	
	Total Ongoing Expenses		$7,233	$8,052	
III.	**Net Operating Income**		$1,047	$1,308	
IV.	**Capitalization Rate**		5%	5%	
V.	**Value Per Affordable Unit**		$20,940	$26,160	
VI.	**Projected Market Rate Price**		$544,700	$689,400	
VII.	**Affordability Gap Per Unit**		$523,760	$663,240	
VIII.	**Number of Very-Low Income Units**		6	2	
IX.	**Total Affordability Gap**		$3,143,000	$1,326,000	$4,469,000

1 Assumes that the landlord pays all utilities costs.

2 Utilities costs are based on based on HACoLA allowances effective as of July 1, 2018. Assumes gas heating, cooking, water heating; basic electric; air conditioning; water; and trash.

Prepared by: Keyser Marston Associates
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