

ATTACHMENT E
FINANCIAL ANALYSIS MEMORANDUM



KEYSER MARSTON ASSOCIATES.
ADVISORS IN PUBLIC/PRIVATE REAL ESTATE DEVELOPMENT

MEMORANDUM

ADVISORS IN:
Real Estate
Redevelopment
Affordable Housing
Economic Development

To: Talyn Mirzakhonian, Senior Planner
City of Pasadena

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From: Kathleen Head

Date: August 30, 2019

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Subject: 127-141 Madison Avenue Updated Density Bonus Analysis

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At your request, Keyser Marston Associates, Inc. (KMA) evaluated the revised development scope submitted by Balian Investments, LLC (Applicant) for the 32,000 square foot property located at 127-141 North Madison Avenue (Site). The purpose of this analysis is to identify the financial impacts the revised development scope has on the project's financial characteristics.

BACKGROUND STATEMENT

In an analysis dated March 25, 2019 KMA analyzed the Applicant's proposal to use 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).

Based on both the "Originally Proposed Project" and the "Currently Proposed Project", the Applicant is entitled to a 35% density bonus. This allows for the development of 49 units on the Site. The Applicant is also entitled to request two incentives or concessions. The development standards the Applicant is proposing to modify are:

1. The maximum building height is 50 feet (and up to 65 feet using height averaging). The Applicant is requesting a "Height Concession".

2. The maximum allowable floor area ratio (FAR) is 1.5:1. The Applicant is requesting a "FAR Concession".

The key modifications to the development scope can be described as follows:

Development Scope Comparison		
	Originally Proposed Project	Currently Proposed Project
<u>Residential Component</u>		
One-Bedroom Units	15 Units / 1,038 SF	17 Units / 1,081 SF
Two-Bedroom Units	28 Units / 1,259 SF	32 Units / 1,520 SF
Three-Bedroom Units	6 Units / 2,051 SF	NA
Total Units / Average Unit Size	49 Units / 1,288 SF	49 Units / 1,368 SF
<u>Commercial Component</u>		
Commercial Component	4,210 Net SF	2,500 Net SF
Total Gross Building Area (GBA)	72,000 SF	72,000 SF
<u>Parking Spaces</u>		
Surface	20	NA
1 st Level Subterranean	81	73
2 nd Level Subterranean	NA	14
Total Parking Spaces	101	87
<u>Density Bonus & Concessions</u>		
Density Bonus	35%	35%
Height Concession	50 Feet to 62 Feet	50 Feet to 60 Feet
FAR Concession	1.5 to 2.25	1.5 to 2.25

COMPARATIVE FINANCIAL ANALYSIS

The assumptions and conclusions of the KMA financial analysis are presented in Tables and 1 and 2 that follow this memorandum. These Tables are supported by the following Attachments:

Attachment I:	Current Base Case: 36 Market Rate Units & 4,210 Net Square Feet of Commercial Space
Attachment II:	Currently Proposed Project: 45 Market Rate Units, Four Very-Low Income Rental Units & 2,500 Net Square Feet of Commercial Space
Attachment III:	Affordability Gap Analysis

Development Cost Analysis

Current Base Case

The commercial component that was originally included in the development scope did not vary between the Base Case and Proposed Project scenarios. To isolate the impact created by the residential component, in the March 25, 2019 density bonus analysis KMA held all the allocated costs constant between the Base Case and Proposed Project scenarios.

In the Currently Proposed Project the size of the commercial component has been reduced. Since the commercial component's size now varies between the Base Case and Proposed Project scenarios, it has become appropriate to pro rate allocated costs using the relative square footages.

As shown on Table 1A, the identified modifications result in a net increase in the development costs for the Current Base Case scenario. The net increase in costs is estimated at \$21,000.

Currently Proposed Project

The modifications to the development scope that impact the estimated development costs are:

1. The number of parking spaces has been reduced from 101 spaces to 87 spaces.¹ However, a second subterranean parking level has been added to the development scope. The net impact is that the parking construction costs are estimated to increase by \$290,000.
2. The total GBA for the project remains unchanged at 72,000 square feet, but the allocation between the residential and commercial components has changed. This results in an estimated \$13,000 decrease to the building, contractor and contingency allowance costs.

The development cost estimates are presented in Table 1B. The net increase in development costs is estimated at \$253,000.

Net Revenue / Value

Current Base Case

In this August 30, 2019 analysis the Base Case scenario's unit mix, and commercial square footage remains unchanged from the scope evaluated in the March 25, 2019 analysis. For the Base Case analysis, KMA did not make any modifications to the projected market rate sales prices for the residential units or to the rents applied to the commercial component.

Currently Proposed Project

A comparison of the revenue projections for the residential units and the rents for the commercial component are presented in the following table:

¹ The currently proposed parking count complies with the standards imposed by Section 65915 (p) (1).

Comparative Revenue Analysis		
	Originally Proposed Project	Currently Proposed Project
<u>Residential Component</u>		
Market Rate Units		
One-Bedroom Units	13 Units / \$657,600	15 Units / \$685,200
Two-Bedroom Units	26 Units / \$697,100	30 Units / \$842,000
Three-Bedroom Units	6 Units / \$1,173,400	NA
Total Units / Average Price	45 Units / \$749,200	45 Units / \$789,700
Very-Low Income Units		
One-Bedroom Units	2 Units / \$20,900	2 Units / \$24,000
Two-Bedroom Units	2 Units / \$26,200	2 Units / \$29,000
Commercial Component	4,210 Net SF / \$2.75	2,500 Net SF / \$2.75

As shown in Table 1B, the modifications to the revenue projections generate the following results:

1. Residential Component:
 - a. The increase in the Currently Proposed Project's residential square footage increases the projected net revenue by \$1.73 million; and
 - b. The residential component's profit is projected to increase from 8.9% to 10.8%.
2. The reduction in the Currently Proposed Project's commercial square footage decreases the projected net value by \$1.54 million.

Affordability Gap Analysis

The Affordability Gap analysis that was used to estimate the net cost to provide four very-low income units was updated with the following information:

1. The 2019 household income schedule was published by the California Department of Housing and Community Development (HCD) on May 6, 2019;
2. The utilities allowances were published by the Los Angeles County Development Authority (LACDA) on July 1, 2019;² and
3. The projected values for the one- and two-bedroom units included in the Currently Proposed Project.

Based on the updated assumptions, the net cost to provide four very-low income units is estimated at \$2,947,000. This represents a \$332,000 increase over the net cost estimated in the March 25, 2019 analysis.

SUMMARY

The key modifications to the March 25, 2019 analysis can be summarized as follows:

1. The development cost estimate of the Currently Proposed Project increased by \$253,000.
2. The projected net revenue for the residential component in the Currently Proposed Project increased by \$1.73 million.
3. The estimated developer profit for the residential component in the Currently Proposed Project increased from 8.9% to 10.8%.
4. The net value of the commercial component in the Currently Proposed Project decreased by \$1.54 million.
5. The net cost to provide four very-low income units in the Currently Proposed Project increased by \$332,000.

CONCLUSIONS

KMA performed the following two analyses to evaluate the 35% density bonus and Height and FAR Concessions that are included in the Currently Proposed Project:

² LACDA was formerly named the Housing Authority of Los Angeles County (HACoLA).

1. KMA determined whether the proposed concessions result in identifiable and actual cost reductions; and
2. KMA compared the net cost to provide four 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:

8/30/19 Development Cost Analysis			
Estimated Development Costs	Base Case	Proposed Project	Percentage Decrease
Total	\$25,985,000	\$32,245,000	
Per Square Foot of GBA	\$543	\$448	17.6%
Per Unit	\$721,800	\$658,100	8.8%

8/30/19 Effective Surplus/(Cost to Provide Four Very-Low Income Units	
Net Cost to Provide Four Very-Low Income Units	\$2,947,000
Value of Density Bonus & Concessions	\$2,977,000
Effective Surplus/(Cost) to Provide Four Very-Low Income Units	\$30,000

The value created by the proposed density bonus and the requested concessions is estimated to exceed the net cost associated with providing four very low income units by \$30,000. This can essentially be considered a breakeven scenario.

It is the KMA conclusion that the proposed concessions result in identifiable and actual cost reductions, and the benefits provided by the density bonus and requested concessions are equivalent to the net cost to provide four very-low income units. Therefore, it is KMA's opinion that there is not sufficient evidence to justify a denial of the currently proposed Height and FAR Concessions.

It is important to remember 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.

TABLE 1A

DEVELOPMENT COMPARISON
 BASE CASE SCENARIOS
 127-141 NORTH MADISON AVENUE
 DENSITY BONUS ANALYSIS
 PASADENA, CALIFORNIA

	ORIGINAL BASE CASE			8/30/19 BASE CASE			DIFFERENCE
	36 MARKET RATE UNITS	4,210 NET SF COMMERCIAL AREA	TOTAL	36 MARKET RATE UNITS	4,210 NET SF COMMERCIAL AREA	TOTAL	
I. Development Costs							
Property Acquisition Costs	\$5,963,000	\$542,000	\$6,505,000	\$5,689,000	\$816,000	\$6,505,000	\$0
Direct Costs							
Demo & Site Work	\$2,617,000	\$238,000	\$2,855,000	\$2,497,000	\$358,000	\$2,855,000	\$0
Parking	1,760,000	50,000	1,810,000	1,760,000	\$50,000	1,810,000	0
Building Costs	5,438,000	927,000	6,365,000	5,438,000	927,000	6,365,000	0
Contractor/Contingency	1,963,000	243,000	2,206,000	1,939,000	267,000	2,206,000	0
Total Direct Costs	\$11,778,000	\$1,458,000	\$13,236,000	\$11,634,000	\$1,602,000	\$13,236,000	\$0
Indirect Costs							
General Indirect Costs	\$3,605,000	\$351,000	\$3,956,000	\$3,589,000	\$367,000	\$3,956,000	\$0
Developer Fee	797,000	44,000	841,000	797,000	48,000	845,000	4,000
Total Indirect Costs	\$4,402,000	\$395,000	\$4,797,000	\$4,386,000	\$415,000	\$4,801,000	\$4,000
Financing Costs	\$1,162,000	\$264,000	\$1,426,000	\$1,130,000	\$313,000	\$1,443,000	\$17,000
Total Development Cost	\$23,305,000	\$2,659,000	\$25,964,000	\$22,839,000	\$3,146,000	\$25,985,000	\$21,000
II. Net Revenue/Value							
Residential							
Market Rate Units	\$25,106,000			\$25,106,000			
Very-Low Income Units	NA			NA			
Net Residential Value	\$25,106,000			\$25,106,000			
III. Developer Profit							
Total	\$1,801,000			\$2,267,000			
As a % of Costs	7.7%			9.9%			
Commercial		\$3,779,000			\$3,779,000		
Total Net Revenue/Value			\$28,885,000			\$28,885,000	\$0

**TABLE 1B
DEVELOPMENT COMPARISON
PROPOSED PROJECT SCENARIOS
127-141 NORTH MADISON AVENUE
DENSITY BONUS ANALYSIS
PASADENA, CALIFORNIA**

	ORIGINALLY PROPOSED PROJECT			8/30/19 PROPOSED PROJECT			DIFFERENCE
	45 MARKET RATE & 4 VL INC UNITS	4,210 NET SF COMMERCIAL AREA	TOTAL	45 MARKET RATE & 4 VL INC UNITS	2,500 NET SF COMMERCIAL AREA	TOTAL	
I. Development Costs							
Property Acquisition Costs	\$5,963,000	\$542,000	\$6,505,000	\$6,175,000	\$330,000	\$6,505,000	\$0
Direct Costs							
Demo & Site Work	\$2,617,000	\$238,000	\$2,855,000	\$2,710,000	\$145,000	\$2,855,000	\$0
Parking	2,480,000	50,000	2,530,000	2,640,000	180,000	2,820,000	290,000
Building Costs	8,580,000	927,000	9,507,000	8,886,000	562,000	9,448,000	(59,000)
Contractor/Contingency	2,735,000	243,000	2,978,000	2,847,000	177,000	3,024,000	46,000
Total Direct Costs	\$16,412,000	\$1,458,000	\$17,870,000	\$17,083,000	\$1,064,000	\$18,147,000	\$277,000
Indirect Costs							
General Indirect Costs	\$4,455,000	\$351,000	\$4,806,000	\$4,594,000	\$234,000	\$4,828,000	\$22,000
Developer Fee	1,085,000	44,000	1,129,000	1,085,000	32,000	1,117,000	(12,000)
Total Indirect Costs	\$5,540,000	\$395,000	\$5,935,000	\$5,679,000	\$266,000	\$5,945,000	\$10,000
Financing Costs	\$1,418,000	\$264,000	\$1,682,000	\$1,465,000	183,000	\$1,648,000	(\$34,000)
Total Development Cost	\$29,333,000	\$2,659,000	\$31,992,000	\$30,402,000	\$1,843,000	\$32,245,000	\$253,000
II. Net Revenue/Value							
A. Residential							
Market Rate Units	\$31,860,000			\$33,583,000			
Very-Low Income Units	89,000			100,000			
Net Residential Value	\$31,949,000			\$33,683,000			\$1,734,000
B. Commercial		\$3,779,000			\$2,243,000		(\$1,536,000)
III. Cost to Provide Aff Units	\$2,615,000			\$2,947,000			\$332,000
III. Net Surplus/(Cost)							
A. Residential							
Actual Profit	\$2,616,000			\$3,281,000			
As a % of Costs	8.9%			10.8%			
Threshold Profit ¹	\$2,267,000			\$3,018,000			
Surplus/(Shortfall)	\$349,000			\$263,000			(\$86,000)
B. Commercial ²							
Proposed Project		\$1,120,000			\$400,000		
Base Case		1,120,000			633,000		
Surplus/(Shortfall)		\$0			(\$233,000)		(\$233,000)
Net Surplus/(Shortfall)			\$349,000			\$30,000	(\$319,000)

¹ The threshold profit is set at the percentage achieved in the Base Case Scenarios. The threshold is 7.7% for the ORIGINAL BASE CASE and 9.9% for the 8/30/19 BASE CASE.

² The Surplus/(Shortfall) is equal to the difference between the Total Development Cost and the Net Value of each Commercial component.

TABLE 2

FINANCIAL ANALYSIS
 127-141 NORTH MADISON AVENUE
 DENSITY BONUS ANALYSIS
 PASADENA, CALIFORNIA

	8/30/19 BASE CASE 36 MARKET RATE UNITS & 4,210 NET SF COMMERCIAL AREA	8/30/19 PROPOSED PROJECT 45 MARKET RATE UNITS & 4 VERY-LOW INCOME RENTAL UNITS & 2,500 NET SF COMMERCIAL AREA
I. Total Development Costs	\$25,985,000 ¹	\$32,245,000 ²
Per Square Foot of GBA	\$543	\$448
Per Unit	\$721,800	\$658,100
II. Net Revenue	\$29,214,000 ³	\$36,121,000 ⁴
III. Net Cost to Provide 4 Very-Low Income Units		\$2,947,000 ⁵
IV. <u>Net Surplus/(Cost) of the Density Bonus & Two Concessions</u>		
Proposed Residential Component		\$263,000 ⁶
Commercial Component: Difference Between Base Case and Proposed Project		(233,000) ⁷
Net Surplus/(Cost) of the Density Bonus & Two Concessions		\$30,000
V. Value of the Density Bonus and Two Concessions		\$2,977,000 ⁸

¹ See ATTACHMENT I - EXHIBIT A - TABLE 1 and ATTACHMENT I - EXHIBIT B - TABLE 1.

² See ATTACHMENT II - EXHIBIT A - TABLE 1 and ATTACHMENT II - EXHIBIT B - TABLE 1.

³ See ATTACHMENT I - EXHIBIT A - TABLE 2 and ATTACHMENT I - EXHIBIT B - TABLE 2.

⁴ See ATTACHMENT II - EXHIBIT A - TABLE 2 and ATTACHMENT II - EXHIBIT B - TABLE 2.

⁵ See ATTACHMENT III - TABLE 1.

⁶ See ATTACHMENT II - EXHIBIT A - TABLE 3.

⁷ See ATTACHMENT II - EXHIBIT B - TABLE 3 and ATTACHMENT I - EXHIBIT B - TABLE 3.

⁸ Equal to the Difference between the Net Cost to Provide 4 Very-Low Income Units and the Net Surplus/(Cost) of the Density Bonus & Two Concessions.

**ATTACHMENT I - EXHIBIT A
PRO FORMA ANALYSIS
8/30/19 BASE CASE: 36 MARKET RATE UNITS
127-141 NORTH MADISON AVENUE
DENSITY BONUS ANALYSIS
PASADENA, CALIFORNIA**

ATTACHMENT I - EXHIBIT A - TABLE 1

ESTIMATED DEVELOPMENT COSTS
 8/30/19 BASE CASE: 36 MARKET RATE UNITS
 127-141 NORTH MADISON AVENUE
 DENSITY BONUS ANALYSIS
 PASADENA, CALIFORNIA

I.	Property Acquisition Costs	1	87% Site Area			\$5,689,000
II.	Direct Costs					
	Demolition	2	87% Site Area			\$1,898,000
	Grading / Landscaping	2	87% Site Area			599,000
	Parking					
	Surface		10 Spaces	\$5,000 /Space		50,000
	1st Level Subterranean		57 Spaces	\$30,000 /Space		1,710,000
	Building Costs		41,828 Sf of GBA	\$130 /Sf of GBA		5,438,000
	Contractor/DC Contingency Allow		20% Other Direct Costs			1,939,000
	Total Direct Costs		41,828 Sf of GBA	\$278 /Sf of GBA		\$11,634,000
III.	Indirect Costs					
	Architecture, Engineering & Consulting		8.0% Direct Costs			\$931,000
	Public Permits & Fees	2	41,828 Sf of GBA	\$45.90 /Sf of GBA		1,920,000
	Inclusionary Housing In-Lieu Fee	3	39,445 Sf of NSA	\$0.00 /Sf of NSA		0
	Taxes, Insurance, Legal & Accounting		3.0% Direct Costs			349,000
	Marketing		36 Units	\$5,000 /Unit		180,000
	Developer Fee		3.0% Gross Sales Revenue			797,000
	Soft Cost Contingency Allowance		5.0% Other Indirect Costs			209,000
	Total Indirect Costs					\$4,386,000
IV.	Financing Costs					
	Interest During Construction	4				\$869,000
	Loan Origination Fees		60.0% Loan to Cost	2.0 Points		261,000
	Total Financing Costs					\$1,130,000
V.	Total Construction Cost		36 Units	\$476,000 /Unit		\$17,150,000
	Total Development Cost		36 Units	\$634,000 /Unit		\$22,839,000

¹ The costs are pro rated based on the GBA's of the residential and office components. The costs are based on the Applicant's stated acquisition costs, as verified using LA County Assessor's records. The total acquisition costs equal \$6.5 million.

² Based on the estimates provided by the Applicant. The costs are pro rated based on the GBA's of the residential and office components.

³ For analysis purposes, the Base Case does not include an Inclusionary in-lieu fee.

⁴ A 5.0% interest cost for debt; an 18 month construction period; an 8 month absorption period; 30% of the units are presold and close during first month after completion; and 2.0 points for loan origination fees.

ATTACHMENT I - EXHIBIT A - TABLE 2

PROJECTED NET REVENUE
 8/30/19 BASE CASE: 36 MARKET RATE UNITS
 127-141 NORTH MADISON AVENUE
 DENSITY BONUS ANALYSIS
 PASADENA, CALIFORNIA

I. Gross Sales Revenue

A. Market Rate Units		1		
One-Bdrm Units	11 Units @		\$657,600 /Unit	\$7,234,000
Two-Bdrm Units	21 Units @		\$697,100 /Unit	14,639,000
Three-Bdrm Units	4 Units @		\$1,173,400 /Unit	4,694,000
B. Very-Low Income Units				
One-Bdrm Units	0 Units @		\$24,000 /Unit	0
Two-Bdrm Units	0 Units @		\$29,000 /Unit	0
Total Gross Sales Revenue				\$26,567,000

II. Cost of Sales

Commissions	3.0% Gross Sales Revenue		\$797,000
Closing	2.0% Gross Sales Revenue		531,000
Warranty	0.5% Gross Sales Revenue		133,000
Total Cost of Sales			(\$1,461,000)

III.	Net Revenue	36 Units	\$697,000 /Unit	\$25,106,000
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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 \$674 per square foot of saleable area.

ATTACHMENT I - EXHIBIT A - TABLE 3

PROJECTED PROFIT
8/30/19 BASE CASE: 36 MARKET RATE UNITS
127-141 NORTH MADISON AVENUE
DENSITY BONUS ANALYSIS
PASADENA, CALIFORNIA

I.	Net Revenue	See ATTACHMENT I - EXHIBIT A - TABLE 2	\$25,106,000
II.	Total Development Cost	See ATTACHMENT I - EXHIBIT A - TABLE 1	<u>\$22,839,000</u>
III.	Developer Profit	9.9% Total Development Cost	\$2,267,000

**ATTACHMENT I - EXHIBIT B
PRO FORMA ANALYSIS
8/30/19 BASE CASE: 4,210 NET SF COMMERCIAL AREA
127-141 NORTH MADISON AVENUE
DENSITY BONUS ANALYSIS
PASADENA, CALIFORNIA**

ATTACHMENT I - EXHIBIT B - TABLE 1

ESTIMATED DEVELOPMENT COSTS
 8/30/19 BASE CASE: 4,210 NET SF COMMERCIAL AREA
 127-141 NORTH MADISON AVENUE
 DENSITY BONUS ANALYSIS
 PASADENA, CALIFORNIA

I.	Property Acquisition Costs	1	13% Site Area			\$816,000
II.	Direct Costs					
	Demolition	2	13% Site Area			\$272,000
	Grading / Landscaping	2	13% Site Area			86,000
	Parking					
	Surface		10 Spaces	\$5,000 /Space		50,000
	1st Level Subterranean		0 Spaces	\$30,000 /Space		0
	Commercial Building Costs	3	6,002 Sf of GBA	\$130 /Sf of GBA		780,000
	Commercial Tenant Improvements		4,210 Sf of NLA	\$35 /Sf of NLA		147,000
	Contractor/DC Contingency Allow		20% Other Direct Costs			267,000
	Total Direct Costs					\$1,602,000
III.	Indirect Costs					
	Architecture, Engineering & Consulting		8.0% Direct Costs			\$128,000
	Public Permits & Fees	4	6,002 Sf of GBA	\$25 /Sf of GBA		150,000
	Taxes, Insurance, Legal & Accounting		3.0% Direct Costs			48,000
	Marketing		4,210 Sf of NLA	\$5.00 /Sf of NLA		21,000
	Developer Fee		3.0% Direct Costs			48,000
	Soft Cost Contingency Allowance		5.0% Other Indirect Costs			20,000
	Total Indirect Costs					\$415,000
IV.	Financing Costs					
	Interest During Construction					
	Land	5	\$816,000 Property Acquisition Costs			\$71,000
	Construction	6	\$2,330,000 Total Construction Cost			204,000
	Loan Origination Fees		60.0% Loan to Cost	2.0 Points		38,000
	Total Financing Costs					\$313,000
V.	Total Construction Cost		4,210 Sf of GBA	\$550 /Sf		\$2,330,000
	Total Development Cost		4,210 Sf of GBA	\$750 /Sf		\$3,146,000

¹ The costs are pro rated based on the GBA's of the residential and office components. The costs are based on the Applicant's stated acquisition costs, as verified using LA County Assessor's records. The total acquisition costs equal \$6.5 million.

² Based on the estimates provided by the Applicant. The costs are pro rated based on the GBA's of the residential and office components.

³ Includes a bicycle parking room, a community room, and storage space.

⁴ Based on estimates prepared for other projects within the City.

⁵ A 5.0% interest cost for debt; a 18 month construction period; a 3 month absorption period; and a 100% average outstanding balance.

⁶ A 5.0% interest cost for debt; a 18 month construction period; a 3 month absorption period; a 60% average outstanding balance during construction; and a 100% outstanding balance during absorption.

ATTACHMENT I - EXHIBIT B - TABLE 2

PROJECTED NET REVENUE
 8/30/19 BASE CASE: 4,210 NET SF COMMERCIAL AREA
 127-141 NORTH MADISON AVENUE
 DENSITY BONUS ANALYSIS
 PASADENA, CALIFORNIA

I.	<u>Income</u>	1			
	Office	4,210	Sf of NLA	\$2.75 /Sf of NLA	\$138,900
	Restaurant	0	Sf of NLA	\$3.50 /Sf of NLA	0
	Gross Income				\$138,900
	Vacancy & Collection Allowance		10% Gross Income		(13,900)
	Effective Gross Income				\$263,900
II.	<u>Operating Expenses</u>				
	Management		3.5% Effective Gross Income		\$9,200
	Reserve for Capital Repairs	4,210	Sf of NLA	\$0.15 /Sf	600
	Total Operating Expenses				(\$9,800)
III.	Stabilized Net Operating Income				\$254,100
IV.	<u>Net Revenue</u>				
	Estimated Value		6.0% Capitalization Rate		\$4,235,000
	(Less) Cost of Sale		3.0% Estimated Value		(127,000)
V.	Net Revenue				\$4,108,000

¹ The rent is projected on a triple net basis.

ATTACHMENT I - EXHIBIT B - TABLE 3

ESTIMATED VALUE/(COST) GENERATED BY THE COMMERCIAL COMPONENT
8/30/19 BASE CASE: 4,210 NET SF COMMERCIAL AREA
127-141 NORTH MADISON AVENUE
DENSITY BONUS ANALYSIS
PASADENA, CALIFORNIA

I.	Funds Available for Development Costs		
	Net Revenue	See ATTACHMENT I - EXHIBIT B - TABLE 2	\$4,108,000
	(Less) Threshold Developer Profit	8.0% Net Revenue	(329,000)
	Total Funds Available for Development Costs		\$3,779,000
II.	Total Development Cost	See ATTACHMENT I - EXHIBIT B - TABLE 1	\$3,146,000
III.	Net Value/(Cost)		\$633,000

**ATTACHMENT II - EXHIBIT A
PRO FORMA ANALYSIS
8/30/19 PROPOSED PROJECT: 45 MARKET RATE UNITS & 4 VERY-LOW INCOME RENTAL UNITS
127-141 NORTH MADISON AVENUE
DENSITY BONUS ANALYSIS
PASADENA, CALIFORNIA**

ATTACHMENT II - EXHIBIT A - TABLE 1

ESTIMATED DEVELOPMENT COSTS
 8/30/19 PROPOSED PROJECT: 45 MARKET RATE UNITS & 4 VERY-LOW INCOME RENTAL UNITS
 127-141 NORTH MADISON AVENUE
 DENSITY BONUS ANALYSIS
 PASADENA, CALIFORNIA

I.	Property Acquisition Costs	1	95% Site Area			\$6,175,000
II.	Direct Costs					
	Demolition	2	95% Site Area			\$2,060,000
	Grading / Landscaping	2	95% Site Area			650,000
	Parking					
	1st Level Subterranean		67 Spaces	\$30,000 /Space		2,010,000
	2nd Level Subterranean		14 Spaces	\$45,000 /Space		630,000
	Building Costs		68,353 Sf of GBA	\$130 /Sf of GBA		8,886,000
	Contractor/DC Contingency Allow		20% Other Direct Costs			2,847,000
	Total Direct Costs		68,353 Sf of GBA	\$250 /Sf of GBA		\$17,083,000
III.	Indirect Costs					
	Architecture, Engineering & Consulting		8.0% Direct Costs			\$1,367,000
	Public Permits & Fees	2	68,353 Sf of GBA	\$32 /Sf of GBA		2,200,000
	Inclusionary Housing In-Lieu Fee	3	67,024 Sf of NSA	\$0 /Sf of NSA		0
	Taxes, Insurance, Legal & Accounting		3.0% Direct Costs			512,000
	Marketing		49 Units	\$5,000 /Unit		245,000
	Developer Fee	4	49 Units	\$22,139 /Unit		1,085,000
	Soft Cost Contingency Allowance		5.0% Other Indirect Costs			270,000
	Total Indirect Costs					\$5,679,000
IV.	Financing Costs					
	Interest During Construction	5				\$1,118,000
	Loan Origination Fees		60.0% Loan to Cost	2.0 Points		347,000
	Total Financing Costs					\$1,465,000
V.	Total Construction Cost		49 Units	\$494,000 /Unit		\$24,227,000
	Total Development Cost		49 Units	\$620,000 /Unit		\$30,402,000

¹ The costs are pro rated based on the GBA's of the residential and office components. The costs are based on the Applicant's stated acquisition costs, as verified using LA County Assessor's records. The total acquisition costs equal \$6.5 million.

² Based on the estimates provided by the Applicant. The costs are pro rated based on the GBA's of the residential and office components.

³ The proposed very-low income units fulfill the City's on-site inclusionary housing requirement. No in-lieu fee is due.

⁴ Based on the Developer Fee per unit generated by the 8/30/19 BASE CASE: 36 MARKET RATE UNITS.

⁵ A 5.0% interest cost for debt; a 18 month construction period; a 9 month absorption period; 30% of the units are presold and close during first month after completion; and 2.0 points for loan origination fees.

ATTACHMENT II - EXHIBIT A - TABLE 2

PROJECTED NET REVENUE
 8/30/19 PROPOSED PROJECT: 45 MARKET RATE UNITS & 4 VERY-LOW INCOME RENTAL UNITS
 127-141 NORTH MADISON AVENUE
 DENSITY BONUS ANALYSIS
 PASADENA, CALIFORNIA

I. Net Revenue - Market Rate Units

A. Gross Sales Revenue - Market Rate Units¹

One-Bdrm Units	15 Units @	\$685,200 /Unit	\$10,278,000
Two-Bdrm Units	30 Units @	\$842,000 /Unit	25,260,000
Three-Bdrm Units	0 Units @	\$0 /Unit	0
			\$35,538,000

B. Cost of Sales - Market Rate Units

Commissions	3.0% Gross Sales Revenue	\$1,066,000
Closing	2.0% Gross Sales Revenue	711,000
Warranty	0.5% Gross Sales Revenue	178,000
		(\$1,955,000)

C. Net Revenue - Market Rate Units

\$33,583,000

II. Net Revenue - Very-Low Income Units²

A. Gross Sales Revenue - Very-Low Income Units

One-Bdrm Units	2 Units @	\$24,000 /Unit	48,000
Two-Bdrm Units	2 Units @	\$29,000 /Unit	58,000
			\$106,000

B. Cost of Sales - Very-Low Income Units

Commissions	3.0% Gross Sales Revenue	\$3,000
Closing	2.0% Gross Sales Revenue	2,000
Warranty	0.5% Gross Sales Revenue	1,000
		(\$6,000)

C. Net Revenue - Very-Low Income Units

\$100,000

III. <u>Net Revenue</u>	49 Units	\$687,000 /Unit	\$33,683,000
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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 \$575 per square foot of saleable area.

² See ATTACHMENT III - TABLE 1.

ATTACHMENT II - EXHIBIT A - TABLE 3

NET SURPLUS/(COST)

8/30/19 PROPOSED PROJECT: 45 MARKET RATE UNITS & 4 VERY-LOW INCOME RENTAL UNITS

127-141 NORTH MADISON AVENUE

DENSITY BONUS ANALYSIS

PASADENA, CALIFORNIA

I. <u>Net Revenue</u>			
8/30/19 Proposed Project	See ATTACHMENT II - EXHIBIT A - TABLE 2		
Market Rate Units		\$33,583,000	
Very-Low Income Units		100,000	
Net Revenue - 8/30/19 Proposed Project		\$33,683,000	
Original Base Case	ATTACHMENT I - EXHIBIT A - TABLE 2	25,106,000	
Increase/(Decrease) in Net Revenue			\$8,577,000
II. <u>Total Development Cost</u>			
8/30/19 Proposed Project	See ATTACHMENT II - EXHIBIT A - TABLE 1	\$30,402,000	
Original Base Case	ATTACHMENT I - EXHIBIT A - TABLE 1	22,839,000	
Increase/(Decrease) in Total Development Cost			\$7,563,000
III. <u>Threshold Developer Profit</u>			
	¹	9.9% Total Development Cost	
8/30/19 Proposed Project		\$3,018,000	
Original Base Case		2,267,000	
Increase/(Decrease) in Threshold Developer Profit			\$751,000
III. <u>Net Surplus/(Cost)</u>	²		\$263,000

¹ Based on the profit as a percentage of Total Development Cost estimated to be generated by the 8/30/19 BASE CASE: 36 MARKET RATE UNITS.

² The Net Surplus/(Cost) is equal to the Increase/(Decrease) in Net Revenue minus the sum of the Increase/(Decrease) in Total Development Cost and the Increase/(Decrease) in Threshold Developer Profit.

**ATTACHMENT II - EXHIBIT B
PRO FORMA ANALYSIS
8/30/19 PROPOSED PROJECT: 2,500 NET SF COMMERCIAL AREA
127-141 NORTH MADISON AVENUE
DENSITY BONUS ANALYSIS
PASADENA, CALIFORNIA**

ATTACHMENT II - EXHIBIT B - TABLE 1

ESTIMATED DEVELOPMENT COSTS
 8/30/19 PROPOSED PROJECT: 2,500 NET SF COMMERCIAL AREA
 127-141 NORTH MADISON AVENUE
 DENSITY BONUS ANALYSIS
 PASADENA, CALIFORNIA

I.	Property Acquisition Costs	1	5% Site Area		\$330,000
II.	Direct Costs				
	Demolition	2	5% Site Area		\$110,000
	Grading / Landscaping	2	5% Site Area		35,000
	Parking				
	Surface		0 Spaces	\$5,000 /Space	0
	1st Level Subterranean		6 Spaces	\$30,000 /Space	180,000
	Commercial Building Costs	3	3,647 Sf of GBA	\$130 /Sf of GBA	474,000
	Commercial Tenant Improvements		2,500 Sf of NLA	\$35 /Sf of NLA	88,000
	Contractor/DC Contingency Allow		20% Other Direct Costs		177,000
	Total Direct Costs				\$1,064,000
III.	Indirect Costs				
	Architecture, Engineering & Consulting		8.0% Direct Costs		\$85,000
	Public Permits & Fees	3	3,647 Sf of GBA	\$25 /Sf of GBA	91,000
	Taxes, Insurance, Legal & Accounting		3.0% Direct Costs		32,000
	Marketing		2,500 Sf of NLA	\$5.00 /Sf of NLA	13,000
	Developer Fee		3.0% Direct Costs		32,000
	Soft Cost Contingency Allowance		5.0% Other Indirect Costs		13,000
	Total Indirect Costs				\$266,000
IV.	Financing Costs				
	Interest During Construction				
	Land	4	\$330,000 Property Acquisition Costs		\$29,000
	Construction	5	\$1,513,000 Total Construction Cost		132,000
	Loan Origination Fees		60.0% Loan to Cost	2.0 Points	22,000
	Total Financing Costs				\$183,000
V.	Total Construction Cost		2,500 Sf of GBA	\$610 /Sf	\$1,513,000
	Total Development Cost		2,500 Sf of GBA	\$740 /Sf	\$1,843,000

¹ The costs are pro rated based on the GBA's of the residential and office components. The costs are based on the Applicant's stated acquisition costs, as verified using LA County Assessor's records. The total acquisition costs equal \$6.5 million.

² Based on the estimates provided by the Applicant. The costs are pro rated based on the GBA's of the residential and office components.

³ Includes a bicycle parking room, a community room, and storage space.

⁴ Based on estimates prepared for other projects within the City.

⁵ A 5.0% interest cost for debt; a 18 month construction period; a 3 month absorption period; and a 100% average outstanding balance.

⁶ A 5.0% interest cost for debt; a 18 month construction period; a 3 month absorption period; a 60% average outstanding balance during construction; and a 100% outstanding balance during absorption.

ATTACHMENT II - EXHIBIT B - TABLE 2

PROJECTED NET REVENUE
 8/30/19 PROPOSED PROJECT: 2,500 NET SF COMMERCIAL AREA
 127-141 NORTH MADISON AVENUE
 DENSITY BONUS ANALYSIS
 PASADENA, CALIFORNIA

I. <u>Income</u>				
Office	2,500 Sf of NLA	\$2.75 /Sf of NLA	\$82,500	
Restaurant	0 Sf of NLA	\$3.50 /Sf of NLA	0	
Gross Income			\$82,500	
Vacancy & Collection Allowance	10% Gross Income		(8,300)	
Effective Gross Income				\$156,700
II. <u>Operating Expenses</u>				
Management	3.5% Effective Gross Income		\$5,500	
Reserve for Capital Repairs	2,500 Sf of NLA	\$0.15 /Sf	400	
Total Operating Expenses				(\$5,900)
III. Stabilized Net Operating Income				\$150,800
IV. <u>Net Revenue</u>				
Estimated Value	6.0% Capitalization Rate		\$2,513,000	
(Less) Cost of Sale	3.0% Estimated Value		(75,000)	
V. Net Revenue				\$2,438,000

¹ The rent is projected on a triple net basis.

ATTACHMENT II - EXHIBIT B - TABLE 3

ESTIMATED VALUE/(COST) GENERATED BY THE COMMERCIAL COMPONENT
8/30/19 PROPOSED PROJECT: 2,500 NET SF COMMERCIAL AREA
127-141 NORTH MADISON AVENUE
DENSITY BONUS ANALYSIS
PASADENA, CALIFORNIA

I.	Funds Available for Development Costs		
	Net Revenue	See ATTACHMENT II - EXHIBIT B - TABLE 2	\$2,438,000
	(Less) Threshold Developer Profit	8.0% Net Revenue	<u>(195,000)</u>
	Total Funds Available for Development Costs		\$2,243,000
II.	Total Development Cost	See ATTACHMENT II - EXHIBIT B - TABLE 1	\$1,843,000
III.	Net Value/(Cost)		\$400,000

**ATTACHMENT III
AFFORDABILITY GAP ANALYSIS
127-141 NORTH MADISON AVENUE
DENSITY BONUS ANALYSIS
PASADENA, CALIFORNIA**

ATTACHMENT III - TABLE 1

AFFORDABILITY GAP CALCULATIONS - RENTAL UNITS
 VERY-LOW INCOME HOUSEHOLDS - 2019 INCOME STANDARDS
 127-141 NORTH MADISON AVENUE
 DENSITY BONUS ANALYSIS
 PASADENA, CALIFORNIA

	<u>One-Bdrm Units</u>	<u>Two-Bdrm Units</u>	
I. <u>Gross Rent</u>			
Household Income @ 50% Median	\$29,250	\$32,900	
Maximum Monthly Rent @ 30% of Household Income	\$730	\$820	
Gross Annual Rent Income Per Affordable Unit ¹	\$8,760	\$9,840	
II. <u>Ongoing Expenses</u>			
Annual Utilities ²	\$1,716	\$1,932	
HOA Fees (Maintenance & Insurance)	4,200	4,500	
Management @ 5% Gross Rent Income	438	492	
Property Taxes @ 1.11% of Restricted Value	1,200	1,450	
Total Ongoing Expenses	\$7,554	\$8,374	
III. Net Operating Income	\$1,206	\$1,466	
IV. Capitalization Rate	5.0%	5.0%	
V. Value Per Affordable Unit	\$24,120	\$29,320	
VI. Projected Market Rate Price	\$685,200	\$842,000	
VII. Affordability Gap Per Unit	\$661,080	\$812,680	
VIII. <u>Total Affordability Gap</u>			
Number of Very-Low Income Units	2	2	
Total Affordability Gap	\$1,322,000	\$1,625,000	\$2,947,000

¹ Assumes that the landlord pays all utilities costs.

² Utilities costs are based on based on LACDA allowances effective as of July 1, 2019. Assumes gas heating, cooking, water heating; basic electric; air conditioning; water; and trash.