

ATTACHMENT G
KMA FINANCIAL ANALYSIS



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

MEMORANDUM

ADVISORS IN:
Real Estate
Redevelopment
Affordable Housing
Economic Development

BERKELEY
A. Jerry Keyser
Timothy C. Kelly
Debbie M. Kern
David Doezema
Kevin Feeney

LOS ANGELES
Kathleen H. Head
James A. Rabe
Gregory D. Soo-Hoo
Kevin E. Engstrom
Julie L. Romey
Tim R. Bretz

SAN DIEGO
Paul C. Marra

To: Talyn Mirzakhonian, Senior Planner
City of Pasadena

From: Kathleen Head

Date: March 25, 2019

Subject: 127-141 Madison Avenue Density Bonus Analysis

At your request, Keyser Marston Associates, Inc. (KMA) evaluated the development application submitted by Balian Investments, LLC (Applicant) for the 32,000 square foot property located at 127-141 North Madison 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 three-story office building containing 27,579 square feet of building area. The office building is served by a surface parking lot. The Site will be cleared to allow the "Proposed Project" to be developed.

The Site is located in the Walnut Housing subdistrict (Ford Place/Fuller Seminary Precinct) of the Central District Specific Plan area (CD-3). The Specific Plan development parameters are currently more stringent than the standards imposed by the Site's General Plan "Medium Mixed Use" Land Use Designation. The City is in the process of eliminating conflicts between the Specific Plan and the General Plan. Until that work is completed, the Zoning Code and Specific Plan standards will be applied.

The Specific Plan sets the maximum density for the Site at 48 units per acre. This allows for the development of up to 36 residential units on the Site.¹ In addition, ground floor commercial uses are allowed to be developed on the Site.

The Applicant is requesting the following:

1. A 35% increase over the density limit imposed by the Specific Plan that guides the development of the Site; and
2. The following two incentives or concessions:
 - a. A "Height Concession" that increases the maximum building height to 62 feet. Under the Specific Plan standards the maximum building height is 50 feet (and up to 65 feet using height averaging). Pasadena Municipal

¹ The allowable density is actually 35.3 units per acre. However, Section 65915 (q) requires each component of any density calculation, including base density and bonus density, resulting in fractional units to be separately rounded up to the next whole number.

Code Section 17.30.040 only allows height averaging if less than 30% of the building's footprint exceeds 50 feet. The 62 foot maximum height included in the Proposed Project covers more than 30% of the building's footprint, and therefore height averaging cannot be applied.

- b. An increase in the maximum allowable floor area ratio (FAR) from 1.5:1 to 2.25:1 (FAR Concession).

To obtain the requested density bonus and concessions, the Applicant is proposing to set aside four units for very-low income households. This represents 11% of the units allowed by the Site's base zoning. As defined in Section 65915 (f) (2), this allocation of very-low income units allows the Applicant to receive a 35% density bonus. In accordance with Section 65915 (d) (2) (B), the Applicant also qualifies to receive two incentives or concessions.

The Proposed Project includes the following mix of uses:

1. 45 market rate condominiums;
2. Four very-low income rental units;
3. Ground floor office and miscellaneous space totaling 6,002 square feet of gross building area (GBA)²; and
4. 101 parking spaces.

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.

² The net leasable office area totals 4,210 square feet.

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 36 market rate condominium units, office space totaling 6,002 square feet of GBA, and 77 parking spaces:³
 - a. The first alternative excludes the impact created by the City's Inclusionary Housing Ordinance.⁴
 - 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 49 residential units, office space totaling 6,002 square feet of GBA, and 101 parking spaces. The analysis of the Proposed Project includes both the requested Height and FAR Concessions.

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 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 four 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.

³ The Applicant's Base Case scenario included 75 parking spaces, which is two fewer spaces than required by the Parking Code. The KMA analysis applied the Parking Code standard of 77 spaces.

⁴ 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.

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: Excludes Inclusionary Housing Ordinance Requirements
Appendix B:	Base Case: Includes Inclusionary Housing In-Lieu Fee Payment
Appendix C:	Proposed Project
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 incentives or concessions 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 35% density bonus allowed by Section 65915 (f) (2) can be achieved if the requested concessions are not provided (Section 65915 (e) (1)).
3. The key characteristics of the four scenarios are described in Table 1 and the results of the KMA financial analysis are summarized in Table 2. These tables are presented on the following pages.

TABLE 1

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

	BASE CASE	PROPOSED PROJECT
	36 MARKET RATE UNITS & 6,002 GROSS SF COMMERCIAL AREA	45 MARKET RATE UNITS & 4 VERY-LOW INCOME RENTAL UNITS & 6,002 GROSS SF COMMERCIAL AREA
I. <u>Unit Mix</u>		
One-Bdrm Units	11	15
Two-Bdrm Units	21	28
Three-Bdrm Units	4	6
Total Units	36	49
Density (Units/Acre)	49	67
II. <u>Gross Building Area</u>		
Gross Residential Area	41,830	65,998
Gross Commercial Area	6,002	6,002
Total Gross Building Area	47,832	72,000
III. <u>Net Building Area</u>		
Net Saleable Residential Area	39,447	63,112
Net Leasable Commercial Area	4,210	4,210
Total Net Building Area	43,657	67,322
IV. <u>Number of Parking Spaces</u>		
Surface	20	20
1st Level Subterranean	57	81
Total Number of Parking Spaces	77	101
V. <u>Floor Area Ratio (FAR)</u>	1.49	2.25

TABLE 2

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

	BASE CASE 36 MARKET RATE UNITS & 6,002 GROSS SF COMMERCIAL AREA	PROPOSED PROJECT 45 MARKET RATE UNITS & 4 VERY-LOW INCOME RENTAL UNITS & 6,002 GROSS SF
I. Total Development Costs	\$25,814,000 ¹	\$31,836,000 ²
Per Square Foot of GBA	\$540	\$442
Per Unit	\$717,100	\$649,700
II. Net Revenue	\$29,214,000 ³	\$36,057,000 ⁴
III. Net Cost to Provide 4 Very-Low Income Units		\$2,615,000 ⁵
IV. Net Surplus/(Cost) of the Density Bonus & Two Concessions		
Proposed Residential Component		\$314,000 ⁶
Commercial Component: Difference Between Base Case and Proposed Project		0 ⁷
Net Surplus/(Cost) of the Density Bonus & Two Concessions		\$314,000
V. Value of the Density Bonus and Two Concessions		\$2,929,000 ⁸

	BASE CASE INCLUDES INCLUSIONARY ⁹ HOUSING IN-LIEU FEE
I. Total Development Costs	\$24,086,000 ¹⁰
Per Square Foot of GBA	\$504
II. Total Funds Available for Development Costs	\$23,077,000 ¹¹
III. Estimated Financial Gap	(\$1,009,000) ¹¹

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

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

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

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

⁵ See ATTACHMENT IV - TABLE 1.

⁶ See ATTACHMENT III - EXHIBIT A - TABLE 3.

⁷ See ATTACHMENT III - 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.

⁹ Excludes the Office component because it is held constant between the two scenarios.

¹⁰ See ATTACHMENT II - TABLE 2.

¹¹ See ATTACHMENT II - TABLE 3.

Based on the results of the financial analysis, which are summarized in Table 2, KMA reached the following conclusions:

1. The specific concessions being requested by the Applicant are anticipated to result in identifiable and actual cost reductions as required by Section 65915 (d) (1) (A):
 - a. The estimated development costs for the Proposed Project are 18.1% lower than the Base Case when measured per square foot of GBA; and
 - b. The estimated development costs for the Proposed Project are 9.4% lower than the Base Case when measured per unit being developed.
2. The relationship between the net cost to provide four very-low income units and the benefits provided by the density bonus and the requested concessions can be described as follows:
 - a. The net cost to provide four very-low income units is estimated at \$2.62 million.
 - b. The benefits associated with the proposed 35% density bonus and the Height and FAR Concessions are estimated at \$2.93 million.
 - c. The benefits provided by the density bonus and requested concessions are estimated to exceed the net cost to provide four very-low income units by \$314,000.

The City is statutorily required to grant the Applicant's request for a 35% density bonus and two incentives or concessions. The fact that the financial benefits associated with the density bonus and concessions requested by the Applicant exceed the net cost to provide four very-low income units does not relieve the City of this obligation.

The value created by the proposed density bonus and the two identified concessions is estimated to exceed the net cost associated with providing four very-low income units by \$314,000. This represents approximately 1.2% of the Proposed Project's estimated construction costs. A difference of this magnitude can be considered insignificant.

In addition to the financial evidence requirements imposed by Section 65915 (d) (1) (A), it is also the City’s obligation to prove that is physically possible to achieve the statutorily established 35% density bonus on the Site. The factors to consider when evaluating the proposed Height and FAR Concessions are:

1. KMA undertook a cursory review of the new construction projects in the area, and found that the units in the Proposed Project fall within range of the unit mix and unit sizes found in those projects. Therefore, it is likely that the FAR Concession is necessary to physically accommodate a 35% density bonus on the Site.
2. The Proposed Project has approximately 50% more GBA than the Base Case scenario. It is likely that the only way to physically accommodate this additional area is to grant the Height Concession being requested by the Applicant.

It is KMA’s opinion that there is not sufficient evidence to reject the Height and FAR Concessions requests under the financial evidence requirement parameters imposed by Section 65915 (d) (1) (A). In addition, it appears that a project with a 35% density bonus cannot be physically accommodated on the Site without the use of the proposed Height and FAR Concessions. As such it is the KMA conclusion that there is insufficient support for the City to reject the specific concessions being requested by the Applicant.

Inclusionary Housing Analysis

KMA prepared a financial analysis of a Specific Plan 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 four very-low income units:

Financial Impact Created by Payment of the In-Lieu Fee ⁵	\$1,009,000
Effective Surplus Created by Producing Four Very-Low Income Units	\$314,000
Difference	\$1,323,000

⁵ See Appendix B – Table 3.

As can be seen in the preceding table, it is approximately \$1.32 million more costly to pay the inclusionary housing in-lieu fee than it would be to provide four very-low income units within the market rate project. This conclusion is completely related to the financial benefits associated with the Section 65915 density bonus and the attendant concessions.

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 four very-low income units, KMA analyzed the following scenarios:

Base Case:	
36 market rate condominiums, office space totaling 6,002 square feet of GBA and 77 parking spaces.	Maximum development allowed under the Central District Specific Plan standards for the Site.
Proposed Project:	
45 market rate condominiums, four very-low income rental units, office space totaling 6,002 square feet of GBA, and 101 parking spaces.	35% 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 36 market rate condominium units, which equates to a density of 49 units per acre. The residential GBA totals 41,830 square feet.
2. The office component consists of 6,002 square feet of GBA, which translates to 4,210 square feet of net leasable area.
3. KMA included 77 parking spaces in the Base Case Scenario, which are allocated as follows:
 - a. Surface parking: 20 spaces.
 - b. First level subterranean parking: 57 spaces.
4. The project complies with the Specific Plan standard that limits the height to 50 feet, and 65 feet with height averaging.
5. The FAR is estimated at 1.5:1.

Proposed Project

1. The Proposed Project includes 45 market rate condominium units and four very-low income rental units. This equates to a density of 67 units per acre. The residential GBA is set at 65,998 square feet.
2. The office component consists of 6,002 square feet of GBA, which translates to 4,210 square feet of net leasable area.
3. The Proposed Project includes 101 parking spaces. The spaces are allocated as follows:
 - a. Surface parking: 20 spaces.
 - b. First level subterranean: 81 spaces.
4. The maximum building height is set at 62 feet.
5. The FAR is estimated at 2.25:1.

Financial Analysis Assumptions

Development Cost Estimates

Property Acquisition Costs

KMA reviewed historical Los Angeles County Assessor's data and found that the Site was last sold in January 2015. The sales price was \$6.5 million, or \$203 per square foot of land area. This matches the acquisition price that was included in the Applicant's pro forma analysis.

KMA allocated the acquisition costs between the residential and office components based on the relative size of each component. The resulting allocation is 92% to the residential component and 8% to the office component. The allocated acquisition costs are:

1. Residential Component: \$5.96 million; and
2. Office Component: at \$542,000.

Direct Costs

The direct cost estimates are based on the following assumptions:

1. The costs associated with the required demolition work are estimated by the Applicant at \$2.17 million. KMA allocated 92% of these costs to the residential component and 8% of these costs to the office component.
2. The on-sites / landscaping costs are estimated at \$21 per square foot of land area. KMA allocated 92% of these costs to the residential component and 8% of these costs to the office component.
3. The parking cost estimates are:
 - a. Surface parking costs are estimated at \$5,000 per space.
 - b. First level subterranean parking costs are estimated at \$30,000 per space.

4. The Applicant has assumed that both the Base Case and the Proposed Project can be developed at Type V construction standards. Based on this assumption, the direct building costs are estimated as follows:
 - a. The residential and commercial building costs are estimated at \$130 per square foot of GBA; and
 - b. The tenant improvement allowance for the office space is set at \$35 per square foot of net leasable area.
5. A 20% allowance for contractor costs, profit and contingencies was added to the direct costs.

Indirect Costs

The indirect costs are estimated as follows:

1. The architecture, engineering and consulting costs are estimated at 8% of direct costs.
2. KMA reviewed the public permits and fees costs estimates provided by the Applicant. Those estimates were used in the KMA analysis, except as noted below. The estimates should be verified by the City staff:
 - a. The costs for the residential component of the “Base Case: Excludes Inclusionary Housing Ordinance Requirements” scenario are estimated at \$45.90 per square foot of GBA.
 - b. The costs for the residential component of the “Base Case: Includes Inclusionary Housing In-Lieu Fee Payment” scenario are estimated at \$45.90 per square foot of GBA Base Case plus the Subarea D in-lieu fee of \$22.47 per square foot of net saleable area.⁶
 - c. The costs for the residential component of the Proposed Project are estimated at \$32 per square foot of GBA.

⁶ The in-lieu fee is based on the City’s fee schedule for ownership housing projects, located in Subarea D, that include between 10 and 49 units . The in-lieu fee schedule is effective from July 1, 2018 through June 30, 2019.

- d. The costs for the ground floor office and miscellaneous space are estimated at \$25 per square foot of gross building area.
3. The taxes, insurance, legal and accounting costs are estimated at 3% of direct costs.
4. The marketing and leasing costs are estimated as follows:
 - a. The residential marketing costs are estimated at \$5,000 per unit; and
 - b. The office leasing costs are estimated at \$5.00 per square foot of net leasable area.
5. The Developer Fee is set at the following amounts:
 - a. The residential Developer Fee is based on 3% of the gross residential sales revenue generated by the Base Case. This equates to \$22,139 per unit.
 - b. The Developer Fee for the office component is set at 3% of direct costs.
6. An indirect cost contingency allowance equal to 5% of other indirect costs is provided.

Financing Costs

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:

- i. Thirty percent (30%) of the residential units are presold, with the remaining units sold at an average of four units per month; and
 - ii. The office space is fully leased within three months.
2. The loan fees are estimated at 2.0 points.

Net Revenue Estimates

The following outlines the revenue assumptions applied in the KMA financial analyses:

1. The projected market rate sales prices for the residential units range from \$657,600 for one-bedroom units to \$1.17 million for three-bedroom units.
2. The projected values for the very-low income rental units are calculated in Attachment IV. The resulting values are:
 - a. \$20,940 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 35% 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 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:

Estimated Development Costs	Base Case	Proposed Project	Percentage Decrease
Total	\$25,814,000	\$31,836,000	
Per Square Foot of GBA	\$540	\$442	18.1%
Per Unit	\$717,100	\$649,700	9.4%

Net Cost to Provide Four Very-Low Income Units	\$2,615,000
Value of Density Bonus & Concessions	\$2,929,000
Effective Surplus/(Cost) to Provide Four Very-Low Income Units	\$314,000

As can be seen in the preceding tables, the proposed concessions exceed the net cost to provide four very-low income units. This leads to the following policy considerations:

1. The Applicant is proposing to fulfill the affordable housing requirements imposed by Section 65915 (f) (2) to receive a 35% density bonus.
2. The City must prove that is physically possible to achieve the statutorily established 35% density bonus, in a financially feasible manner, if the City wishes to reject concessions being requested by the Applicant. In evaluating the proposed Height and FAR Concessions, the following issues should be considered:
 - a. The units in the Proposed Project are comparable to the unit mix and unit sizes found in new construction projects in the vicinity of the Site. Therefore, the FAR Concession may be necessary to physically accommodate a 35% density bonus on the Site.
 - b. The Proposed Project has approximately 50% more GBA than the Base Case scenario. It is likely that the Height Concession will be necessary to physically accommodate this additional space.

It is KMA’s opinion that the City does not have sufficient evidence to deny the Applicant’s request for Height and FAR Concessions for the following reasons:

1. The City may not be able to demonstrate that a project with a 35% density bonus can be physically accommodated on the Site without the requested concessions; and
2. 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 \$314,000. However, given that this only represents approximately 1.2% of the Proposed Project's estimated construction costs, the excess amount should be considered insignificant.

It is important to understand 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 \$22.47 per square foot of net saleable residential area.⁷

KMA prepared a financial analysis of a 36-unit market rate project that comports with the Specific Plan standards imposed on the Site, 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 \$1,009,000.

⁷ Based on the in-lieu fee schedule that is effective from July 1, 2018 through June 30, 2019.

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.

In this case, the Proposed Project allocates 11% of the units allowed by the Site's zoning to very-low income households. Given 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 value of the proposed 35% density bonus and two requested concessions exceed the net cost to provide four very-low income units. Comparatively, the net cost is estimated at \$1,009,000 for a Specific Plan 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 conclusions derived from the preceding financial analysis can be summarized as follows:

Density Bonus Analysis

It is KMA's conclusion that the City does not have sufficient evidence to deny the Height and FAR Concessions being requested by the Applicant, because it cannot meet the following threshold standards:

1. The City may not be able to demonstrate that a residential development with a 35% density bonus can be physically accommodated on the Site (Section 65915 (f) (2)).
2. Under the terms of Section 65915 (d) (2) (B), the Applicant is entitled to receive two incentives or concessions. Based on the results of the preceding financial analysis, the City cannot definitively prove that the requested Height and FAR Concessions do not result in identifiable and actual cost reductions to provide for affordable housing costs (Section 65915 (d) (1) (A)).

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.

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

I. Property Acquisition Costs	1	92% Site Area			\$5,963,000
II. Direct Costs					
Demolition	2	92% Site Area			\$1,989,000
Grading / Landscaping	2	92% Site Area			628,000
Parking					
Surface		10 Spaces	\$5,000 /Space		50,000
1st Level Subterranean		57 Spaces	\$30,000 /Space		1,710,000
Building Costs		41,830 Sf of GBA	\$130 /Sf of GBA		5,438,000
Contractor/DC Contingency Allow		20% Other Direct Costs			1,963,000
Total Direct Costs		41,830 Sf of GBA	\$282 /Sf of GBA		\$11,778,000
III. Indirect Costs					
Architecture, Engineering & Consulting		8.0% Direct Costs			\$942,000
Public Permits & Fees	2	41,830 Sf of GBA	\$45.90 /Sf of GBA		1,920,000
Inclusionary Housing In-Lieu Fee	3	39,447 Sf of NSA	\$0.00 /Sf of NSA		0
Taxes, Insurance, Legal & Accounting		3.0% Direct Costs			353,000
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			210,000
Total Indirect Costs					\$4,402,000
IV. Financing Costs					
Interest During Construction	4				\$770,000
Loan Origination Fees		60.0% Loan to Cost	2.0 Points		242,000
Total Financing Costs					\$1,012,000
V. Total Construction Cost		36 Units	\$478,000 /Unit		\$17,192,000
Total Development Cost		36 Units	\$643,000 /Unit		\$23,155,000

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
 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 @	\$20,940 /Unit	0
Two-Bdrm Units	0 Units @	\$26,160 /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
------	--------------------	----------	-----------------	---------------------

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 \$673 per square foot of saleable area.

ATTACHMENT I - EXHIBIT A - TABLE 3

PROJECTED PROFIT
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>\$23,155,000</u>
III.	Developer Profit	8.4% Total Development Cost	\$1,951,000

**ATTACHMENT I - EXHIBIT B
PRO FORMA ANALYSIS
BASE CASE: 6,002 GROSS SF COMMERCIAL AREA
127-141 NORTH MADISON AVENUE
DENSITY BONUS ANALYSIS
PASADENA, CALIFORNIA**

ATTACHMENT I - EXHIBIT B - TABLE 1

ESTIMATED DEVELOPMENT COSTS
 BASE CASE: 6,002 GROSS SF COMMERCIAL AREA
 127-141 NORTH MADISON AVENUE
 DENSITY BONUS ANALYSIS
 PASADENA, CALIFORNIA

I.	Property Acquisition Costs	1	8% Site Area			\$542,000
II.	Direct Costs					
	Demolition	2	8% Site Area			\$181,000
	Grading / Landscaping	2	8% Site Area			57,000
	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
	Parking					
	Surface		10 Spaces	\$5,000 /Space		50,000
	1st Level Subterranean		0 Spaces	\$30,000 /Space		0
	Contractor/DC Contingency Allow		20% Other Direct Costs			243,000
	Total Direct Costs					\$1,458,000
III.	Indirect Costs					
	Architecture, Engineering & Consulting		8.0% Direct Costs			\$117,000
	Public Permits & Fees	4	6,002 Sf of GBA	\$25 /Sf of GBA		150,000
	Taxes, Insurance, Legal & Accounting		3.0% Direct Costs			44,000
	Marketing		4,210 Sf of NLA	\$5.00 /Sf of NLA		21,000
	Developer Fee		3.0% Direct Costs			44,000
	Soft Cost Contingency Allowance		5.0% Other Indirect Costs			19,000
	Total Indirect Costs					\$395,000
IV.	Financing Costs					
	Interest During Construction					
	Land	5	\$542,000 Property Acquisition Costs			\$47,000
	Construction	6	\$2,117,000 Total Construction Cost			185,000
	Loan Origination Fees		60.0% Loan to Cost	2.0 Points		32,000
	Total Financing Costs					\$264,000
V.	Total Construction Cost		4,210 Sf of GBA	\$500 /Sf		\$2,117,000
	Total Development Cost		4,210 Sf of GBA	\$630 /Sf		\$2,659,000

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, enclosed stairs, elevators and a trash chute.

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
 BASE CASE: 6,002 GROSS 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
	Restaurant		0	Sf of NLA	\$3.50 /Sf of NLA
					\$138,900
	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
	Reserve for Capital Repairs		4,210	Sf of NLA	\$0.15 /Sf
					\$9,200
					600
	Total Operating Expenses				(\$9,800)
III.	Stabilized Net Operating Income				\$254,100
IV.	<u>Net Revenue</u>				
	Estimated Value			6.0%	Capitalization Rate
	(Less) Cost of Sale			3.0%	Estimated Value
					\$4,235,000
					(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
BASE CASE: 6,002 GROSS 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		<u>\$3,779,000</u>
II.	Total Development Cost	See ATTACHMENT I - EXHIBIT B - TABLE 1	\$2,659,000
III.	Net Value/(Cost)		<u>\$1,120,000</u>

**ATTACHMENT II
PRO FORMA ANALYSIS
IN-LIEU FEE SCENARIO: 36 MARKET RATE UNITS
127-141 NORTH MADISON AVENUE
DENSITY BONUS ANALYSIS
PASADENA, CALIFORNIA**

ATTACHMENT II - TABLE 1

ESTIMATED DEVELOPMENT COSTS
 IN-LIEU FEE SCENARIO: 36 MARKET RATE UNITS
 127-141 NORTH MADISON AVENUE
 DENSITY BONUS ANALYSIS
 PASADENA, CALIFORNIA

I. Property Acquisition Costs	1	92% Site Area			\$5,963,000
II. Direct Costs					
Demolition	2	92% Site Area			\$1,989,000
Grading / Landscaping	2	92% Site Area			628,000
Parking					
Surface		10 Spaces	\$5,000 /Space		50,000
1st Level Subterranean		57 Spaces	\$30,000 /Space		1,710,000
Building Costs		41,830 Sf of GBA	\$130 /Sf of GBA		5,438,000
Contractor/DC Contingency Allow		20% Other Direct Costs			1,963,000
Total Direct Costs		41,830 Sf of GBA	\$282 /Sf of GBA		\$11,778,000
III. Indirect Costs					
Architecture, Engineering & Consulting		8.0% Direct Costs			\$942,000
Public Permits & Fees	2	41,830 Sf of GBA	\$45.90 /Sf of GBA		1,920,000
Inclusionary Housing In-Lieu Fee	3	39,447 Sf of NSA	\$22.47 /Sf of NSA		886,000
Taxes, Insurance, Legal & Accounting		3.0% Direct Costs			353,000
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			254,000
Total Indirect Costs					\$5,332,000
IV. Financing Costs					
Interest During Construction	4				\$771,000
Loan Origination Fees		60.0% Loan to Cost	2.0 Points		242,000
Total Financing Costs					\$1,013,000
V. Total Construction Cost		36 Units	\$503,000 /Unit		\$18,123,000
Total Development Cost		36 Units	\$669,000 /Unit		\$24,086,000

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 Based on the in-lieu fee schedule adopted by the City for 2019.

⁴ A 5.0% interest cost for debt; a 18 month construction period; a 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 II - TABLE 2

PROJECTED NET REVENUE
 IN-LIEU FEE SCENARIO: 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 @	\$20,940 /Unit	0
Two-Bdrm Units	0 Units @	\$26,160 /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
------	--------------------	----------	-----------------	---------------------

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 \$673 per square foot of saleable area.

ATTACHMENT II - TABLE 3

NET SURPLUS/(COST)
 IN-LIEU FEE SCENARIO: 36 MARKET RATE UNITS
 127-141 NORTH MADISON AVENUE
 DENSITY BONUS ANALYSIS
 PASADENA, CALIFORNIA

I. <u>Funds Available for Development Costs</u>			
Net Revenue	See ATTACHMENT II - TABLE 2		\$25,106,000
(Less) Threshold Developer Profit	¹ 8.4% Total Development Cost		<u>(2,029,000)</u>
Total Funds Available for Development Costs			\$23,077,000
II. Total Development Cost	See ATTACHMENT II - TABLE 1		<u>\$24,086,000</u>
III. <u>Net Surplus/(Cost)</u>	²		<u>(\$1,009,000)</u>

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

² The Net Surplus/(Cost) is equal to the Total Funds Available for Development Costs minus Total Development Cost.

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

ATTACHMENT III - EXHIBIT A - TABLE 1

ESTIMATED DEVELOPMENT COSTS
 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	92% Site Area			\$5,963,000
II. Direct Costs					
Demolition	2	92% Site Area			\$1,989,000
Grading / Landscaping	2	92% Site Area			628,000
Parking					
Surface		10 Spaces	\$5,000 /Space		50,000
1st Level Subterranean		81 Spaces	\$30,000 /Space		2,430,000
Building Costs		65,998 Sf of GBA	\$130 /Sf of GBA		8,580,000
Contractor/DC Contingency Allow		20% Other Direct Costs			2,735,000
Total Direct Costs		65,998 Sf of GBA	\$249 /Sf of GBA		\$16,412,000
III. Indirect Costs					
Architecture, Engineering & Consulting		8.0% Direct Costs			\$1,313,000
Public Permits & Fees	2	65,998 Sf of GBA	\$32 /Sf of GBA		2,141,000
Inclusionary Housing In-Lieu Fee	3	63,112 Sf of NSA	\$0 /Sf of NSA		0
Taxes, Insurance, Legal & Accounting		3.0% Direct Costs			492,000
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			264,000
Total Indirect Costs					\$5,540,000
IV. Financing Costs					
Interest During Construction	5				\$951,000
Loan Origination Fees		60.0% Loan to Cost	2.0 Points		311,000
Total Financing Costs					\$1,262,000
V. Total Construction Cost		49 Units	\$474,000 /Unit		\$23,214,000
Total Development Cost		49 Units	\$595,000 /Unit		\$29,177,000

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 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 III - EXHIBIT A - TABLE 2

PROJECTED NET REVENUE
 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 Units**¹

One-Bdrm Units	13 Units @	\$657,600 /Unit	\$8,549,000
Two-Bdrm Units	26 Units @	\$697,100 /Unit	18,125,000
Three-Bdrm Units	6 Units @	\$1,173,400 /Unit	7,040,000

Gross Sales Revenue - Market Rate Units \$33,714,000

B. **Cost of Sales - Market Rate Units**

Commissions	3.0% Gross Sales Revenue	\$1,011,000
Closing	2.0% Gross Sales Revenue	674,000
Warranty	0.5% Gross Sales Revenue	169,000

Total Cost of Sales - Market Rate Units (\$1,854,000)

C. Net Revenue - Market Rate Units \$31,860,000

II. **Net Revenue - Very-Low Income Units**²

A. **Gross Sales Revenue - Very-Low Income Units**

One-Bdrm Units	2 Units @	\$20,940 /Unit	42,000
Two-Bdrm Units	2 Units @	\$26,160 /Unit	52,000

Gross Sales Revenue - Very-Low Income Units \$94,000

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	0

Total Cost of Sales - Very-Low Income Units (\$5,000)

C. Net Revenue - Very-Low Income Units \$89,000

III. Net Revenue	49 Units	\$652,000 /Unit	\$31,949,000
-------------------------	-----------------	------------------------	---------------------

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 \$576 per square foot of saleable area.

² See ATTACHMENT IV - TABLE 1.

ATTACHMENT III - EXHIBIT A - TABLE 3

NET SURPLUS/(COST)
 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>			
Proposed Project	See ATTACHMENT III - EXHIBIT A - TABLE 2		
Market Rate Units		\$31,860,000	
Very-Low Income Units		89,000	
Net Revenue - Proposed Project		\$31,949,000	
Base Case	ATTACHMENT I - EXHIBIT A - TABLE 2	25,106,000	
Increase/(Decrease) in Net Revenue			\$6,843,000
II. <u>Total Development Cost</u>			
Proposed Project	See ATTACHMENT III - EXHIBIT A - TABLE 1	\$29,177,000	
Base Case	ATTACHMENT I - EXHIBIT A - TABLE 1	23,155,000	
Increase/(Decrease) in Total Development Cost			\$6,022,000
III. <u>Threshold Developer Profit</u>			
	¹	8.4% Total Development Cost	
Proposed Project		\$2,458,000	
Base Case		1,951,000	
Increase/(Decrease) in Threshold Developer Profit			\$507,000
III. <u>Net Surplus/(Cost)</u>			
	²		\$314,000

¹ Based on the profit as a percentage of Total Development Cost estimated to be generated by the 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 III - EXHIBIT B
PRO FORMA ANALYSIS
PROPOSED PROJECT: 6,002 GROSS SF COMMERCIAL AREA
127-141 NORTH MADISON AVENUE
DENSITY BONUS ANALYSIS
PASADENA, CALIFORNIA**

ATTACHMENT III - EXHIBIT B - TABLE 1

ESTIMATED DEVELOPMENT COSTS
 PROPOSED PROJECT: 6,002 GROSS SF COMMERCIAL AREA
 127-141 NORTH MADISON AVENUE
 DENSITY BONUS ANALYSIS
 PASADENA, CALIFORNIA

I. Property Acquisition Costs	1	8% Site Area			\$542,000
II. Direct Costs					
Demolition	2	8% Site Area			\$181,000
Grading / Landscaping	2	8% Site Area			57,000
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
Parking					
Surface		10 Spaces	\$5,000 /Space		50,000
1st Level Subterranean		0 Spaces	\$30,000 /Space		0
Contractor/DC Contingency Allow		20% Other Direct Costs			243,000
Total Direct Costs					\$1,458,000
III. Indirect Costs					
Architecture, Engineering & Consulting		8.0% Direct Costs			\$117,000
Public Permits & Fees	3	6,002 Sf of GBA	\$25 /Sf of GBA		150,000
Taxes, Insurance, Legal & Accounting		3.0% Direct Costs			44,000
Marketing		4,210 Sf of NLA	\$5.00 /Sf of NLA		21,000
Developer Fee		3.0% Direct Costs			44,000
Soft Cost Contingency Allowance		5.0% Other Indirect Costs			19,000
Total Indirect Costs					\$395,000
IV. Financing Costs					
Interest During Construction					
Land	4	\$542,000 Property Acquisition Costs			\$47,000
Construction	5	\$2,117,000 Total Construction Cost			185,000
Loan Origination Fees		60.0% Loan to Cost	2.0 Points		32,000
Total Financing Costs					\$264,000
V. Total Construction Cost		4,210 Sf of GBA	\$500 /Sf		\$2,117,000
Total Development Cost		4,210 Sf of GBA	\$630 /Sf		\$2,659,000

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, enclosed stairs, elevators and a trash chute.

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 III - EXHIBIT B - TABLE 2

PROJECTED NET REVENUE
 PROPOSED PROJECT: 6,002 GROSS 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
	Restaurant		0	Sf of NLA	\$3.50 /Sf of NLA
					\$138,900
	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
	Reserve for Capital Repairs		4,210	Sf of NLA	\$0.15 /Sf
					\$9,200
					600
	Total Operating Expenses				(\$9,800)
III.	Stabilized Net Operating Income				\$254,100
IV.	<u>Net Revenue</u>				
	Estimated Value			6.0%	Capitalization Rate
	(Less) Cost of Sale			3.0%	Estimated Value
					\$4,235,000
					(127,000)
V.	Net Revenue				\$4,108,000

¹ The rent is projected on a triple net basis.

ATTACHMENT III - EXHIBIT B - TABLE 3

ESTIMATED VALUE/(COST) GENERATED BY THE COMMERCIAL COMPONENT
 PROPOSED PROJECT: 6,002 GROSS SF COMMERCIAL AREA
 127-141 NORTH MADISON AVENUE
 DENSITY BONUS ANALYSIS
 PASADENA, CALIFORNIA

I.	Funds Available for Development Costs		
	Net Revenue	See ATTACHMENT III - 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 III - EXHIBIT B - TABLE 1	\$2,659,000
III.	Net Value/(Cost)		\$1,120,000

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

ATTACHMENT IV - TABLE 1

AFFORDABILITY GAP CALCULATIONS - RENTAL UNITS
 VERY-LOW INCOME HOUSEHOLDS - 2018 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	\$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. <u>Ongoing Expenses</u>			
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	<u>1,047</u>	<u>1,308</u>	
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	\$657,600	\$697,100	
VII. Affordability Gap Per Unit	\$636,660	\$670,940	
VIII. <u>Total Affordability Gap</u>			
Number of Very-Low Income Units	2	2	
Total Affordability Gap	\$1,273,000	\$1,342,000	\$2,615,000

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.