

# Agenda Report

**DATE:** SEPTEMBER 8, 2003  
**TO:** CITY COUNCIL  
**FROM:** CYNTHIA J. KURTZ, CITY MANAGER  
**SUBJECT:** APPROVAL OF AMENDED INCLUSIONARY HOUSING IN-LIEU FEES AND TRANSITION RULES

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## RECOMMENDATION

It is recommended following a public hearing that the City Council take the following actions:

1. Adopt a resolution approving the proposed amendment to the In-Lieu Fee Schedule (Attachment A), and
2. Authorize the payment of the current In-Lieu Fees for those projects that have met all of the following:
  - a) Submission of a completed Master Application,
  - b) Approved Inclusionary Housing Plan, and
  - c) Payment of 100% of the current In-Lieu Fee by October 14, 2003 in advance of the required discretionary approvals and building permit.

## EXECUTIVE SUMMARY

On July 16, 2001, the City Council approved the Inclusionary Housing Code Amendment to the City Pasadena Municipal Code. A requirement for the continued implementation of the Inclusionary Housing Ordinance is the periodic review and adoption by City Council of resolutions amending the Inclusionary Housing Regulations, Inclusionary Housing Household Income, Rent and Sales Price Limits and In-Lieu Fee Schedule and/or amendments to the Ordinance as necessary.

## ADVISORY BODY

The Inclusionary Housing Biennial Report (with staff's recommendations including the proposed increase of the In Lieu Fee) was presented to the Planning Commission on July 9, 2003, and the Community Development Committee on July 10, 2003. The Planning

Commission did not take action on the proposed increase to In-Lieu Fees, but did express support.

The Community Development Committee recommended approval of the proposed In-Lieu Fees (Attachment A) and the Inclusionary Housing Trust Fund – Project Funding Criteria for the future allocation fees collected by the City. The Community Development Committee also recommended that a more detailed Project Funding Criteria be developed (i.e., statement of eligibility, funding application process, priorities, weighted evaluation criteria including community impact, development funding application, etc.) to facilitate review of proposed projects proposed for funding.

On August 28, 2003 the Community Development Committee (CDC), at the request of City Council, convened a public meeting to receive comments/testimony from interested parties regarding the proposed increase of the In Lieu Fees and consider the proposed transition criteria for permitting existing projects presently in plan review to pay the current In Lieu Fee. Members of the development community, Pasadena Chamber of Commerce, and a local attorney gave testimony generally in support of Inclusionary Housing but opposing the sharp increase in the In-Lieu Fees. Housing advocates supported the proposed increase of the In-Lieu Fee. Representatives of Shea Properties expressed concern with the fee increase and stated the proposed transition criteria would be unachievable for most projects due to the short timeframe for prepayment of 100% of the current In-Lieu Fee. This was especially alarming given the need to finalize project design review and possibly obtain other discretionary approvals. After an extensive discussion on the matter the CDC elected to take no action on the proposed Transition Criteria.

## **BACKGROUND**

On July 16, 2001, the City Council adopted an ordinance amending Title 17 of the Pasadena Municipal Code to require Inclusionary Housing. The Inclusionary Housing Ordinance became effective September 13, 2001. The purpose of the Ordinance is to require that residential and mixed use projects include a share of housing that is affordable to low and moderate-income households. The Ordinance applies to projects of ten or more units and requires 15% of newly constructed units be affordable. It provides three alternatives to constructing the required units on primary development site: 1) construct the units on another site, 2) donate another site to the city for construction of the required units, or 3) pay a fee in lieu of building the units. To accommodate projects that had begun the city review and approval process, the Ordinance also provided an interim 6% unit requirement or equivalent 40% in lieu fee for the first year, after which time the full 15% unit share or and in lieu fee payment was required. To date, on-site development and in-lieu fee payment have proven to be the two most popular choices for meeting the Ordinance requirements (Attachment B).

## **IN-LIEU FEE**

The City Council requested that the Community Development Committee hold a public forum to discuss the In-Lieu Fees. Staff transmitted written invitations to developers with

projects that have complied with the Ordinance and/or are currently in plan review, members of the Housing Affordability Task Force, and persons that have appeared before the Community Development Committee and City Council rendering written or oral comment on the In-Lieu Fee, to attend the August 28, 2003 Community Development meeting and scheduled public hearing, on September 8, 2003, before the City Council. Public notices of both meetings were advertised in the Pasadena Star News, Pasadena Journal and the Pasadena Weekly.

a) In-Lieu Fee Schedule

The Ordinance provides for payment of an In-Lieu Fee as an alternative to constructing Inclusionary Units. Keyser Marston Associates (KMA) previously conducted the financial analysis for adoption of the Pasadena Inclusionary Housing In-Lieu Fee Schedule in September 2001. For the current analysis (Attachment "D") KMA again employed a methodology that divided the city into sub-areas to reflect the varying land values and development characteristics. Based on KMA's survey of the fair market and market housing prices/rents in each sub-area and the computation of the estimated maximum affordable housing costs payable by low and moderate income households, affordability gaps (differential between market costs and affordable costs) were calculated utilizing the 15% Inclusionary Housing requirement for both rental (10% low & 5% moderate) and for-sale (15% moderate) units. The affordability gaps (cost recovery) were determined by development type, income group and sub-area then converted to the applicable In-Lieu Fees. The In-lieu Fees are based solely on the affordability gap and not the total unit development cost (Attachment C).

In-Lieu Fee Schedules, ranging from 75% - 100% of cost recovery, are displayed in the Inclusionary Housing Ordinance – In-Lieu Fee Update, dated June 18, 2003, prepared by KMA (Attachment D, Appendix C). The In-Lieu Fee Schedules are displayed by percentage cost recovery, tenure (ownership & rental), geographic area and project size, (small projects – 10-49 units; large projects – 50 + units). The In-Lieu Fees are now set at 75% of cost recovery. However, there has been concern expressed that this encourages developers to pay the fee and not provide the Inclusionary Units on-site. As a greater incentive for developers to provide Inclusionary Units on-site and/or generate additional resources for City sponsored affordable housing developments, staff recommends that the In-Lieu Fees be established at 90% of cost recovery for one year and automatically adjusted to 100% of cost recovery thereafter. The proposed In-Lieu Fees are set forth in Attachment A.

b) Transition Criteria

If the City Council adopts a resolution amending the In-Lieu Fees, a 60-day period is required before the new fee becomes effective. The Inclusionary Housing Regulations require payment of one-half of the In-Lieu Fee after receipt of the appropriate discretionary approvals but prior to issuance of a building permit with the remainder of the fee to be paid prior to issuance of a certificate of occupancy. There are a number of projects currently undergoing plan review and seeking discretionary approvals that will be adversely

impacted by the short transition period and the resultant increase in project costs. In recognition of the time and expense to initiate and complete the city entitlement process, staff recommends that projects which have met all of the following criteria be provided the opportunity to pay the current In-Lieu Fee:

- 1) A completed Master Application has been submitted for review,
- 2) An Inclusionary Housing Plan has been approved and the Inclusionary In-Lieu Fee Certificate executed, and
- 3) Payment of 100% of the calculated current In-Lieu Fee has been paid by October 14, 2003.

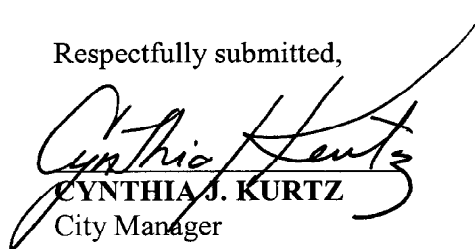
The transition criteria provides relief to those projects actively pursuing entitlements. But, if there is subsequent project modifications of more than 5% in the net livable square footage or the number of dwelling units after the City's receipt of the current In Lieu Fee payment the project would be required to pay the amended fee.

**FISCAL IMPACT**

To date, the city has received and/or accrued Payment of In-Lieu Fees for an estimated amount of \$1,053,543. However, with only 50% of the fee due prior to issuance of a building permit, and the remaining 50% collected at issuance of a Certificate of Occupancy, total receipt of the accrued In-Lieu Fee payments are not expected for 18-24 months.

Approval of the recommended In-Lieu Fees will generate fee increases from 100 – 600% and In-Lieu Fees will be instituted for the first time in Sub-Area B (Northwest). Based on KMA's analysis and the performance assessment, if developers opt to pay the In-Lieu Fees the increased revenue to the Inclusionary Housing Trust Fund would average approximately \$11,000 per unit constructed. In addition if developers choose to pay 100% of the current fee by October 14, 2003, the City could receive in excess of \$5 million by the end of the calendar year.

Respectfully submitted,

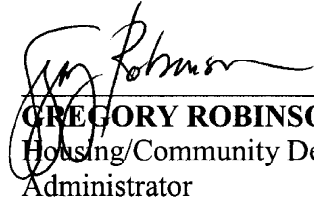


CYNTHIA J. KURTZ  
City Manager

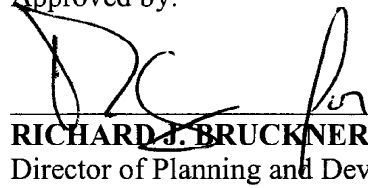
Prepared by:

  
KERMIT E. MAHAN  
Project Manager

Reviewed by:

  
GREGORY ROBINSON  
Housing/Community Development  
Administrator

Approved by:

  
RICHARD J. BRUCKNER  
Director of Planning and Development

Attachments

RESOLUTION NO. \_\_\_\_\_

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF PASADENA,  
CALIFORNIA, AMENDING INCLUSIONARY HOUSING REGULATIONS

WHEREAS, the City Council of the City of Pasadena has adopted Ordinance No. 6868,  
adding Chapter 17.71 to Title 17 (revised Zoning Ordinance) of the Pasadena Municipal Code;  
and

WHEREAS, Chapter 17.71 establishes standards and procedures that encourage the  
development of housing affordable to a range of households with varying income levels; and

WHEREAS, Section 17.71.100 of Chapter 17.71 of Title 17 entitled, Regulations,  
requires that the City Council by resolution establish regulations for the implementation of  
Chapter 17.71; and

WHEREAS, it has become necessary to amend said Regulations;

**NOW, THEREFORE, the City Council of the City of Pasadena does hereby find,  
determine and resolve as follows:**

Section 1. The above recitals are all true and correct.

Section 2. Pursuant to Section 17.71.100 of Chapter 17.71 of Title 17 of the Pasadena  
Municipal Code, the City Council hereby amends the City of Pasadena Inclusionary Housing  
Regulations as attached hereto as Exhibit A and incorporated herein by this reference.

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Adopted at the \_\_\_\_\_ meeting of the City Council on the \_\_\_\_\_ day  
of \_\_\_\_\_, 2003, by the following vote:

AYES:

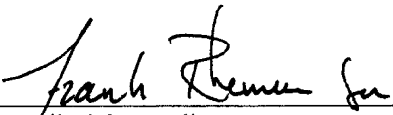
NOES:

ABSENT:

ABSTAIN:

\_\_\_\_\_  
JANE L. RODRIGUEZ, CMC  
City Clerk

Approved as to form:

  
\_\_\_\_\_  
Maribel S. Medina  
Assistant City Attorney

**ATTACHMENT "A"**

**PROPOSED IN-LIEU FEE SCHEDULE**

(In-Lieu Fees Per Square Foot)

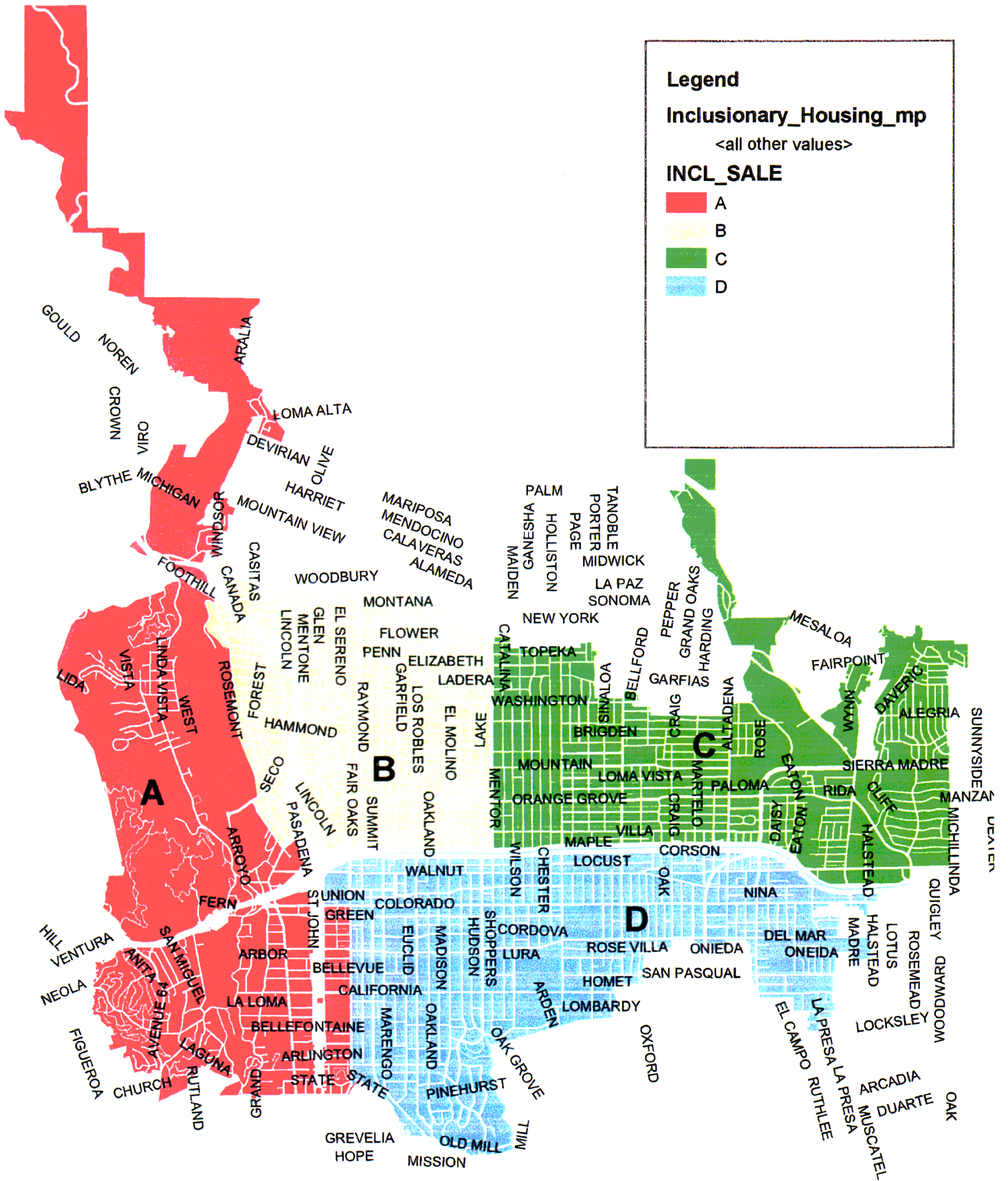
<b>RENTAL IN-LIEU FEE</b>					
Year		2003-2004	2004-2005	2003-2004	2004-2005
Number of Units	< 10 Units	10-49 Units		50+ Units	
		90%	100%	90%	100%
Sub-area A	Exempt	TBD	TBD	TBD	TBD
Sub-area B	Exempt	\$1	\$1	\$1	\$1
Sub-area C	Exempt	\$14	\$16	\$19	\$22
Sub-area D	Exempt	\$11	\$12	\$16	\$17

<b>FOR-SALE IN-LIEU FEE</b>					
Year		2003-2004	2004-2005	2003-2004	2004-2005
Number of Units	<10 Units	10-49 Units		50+Units	
		90%	100%	90%	100%
Sub-area A	Exempt	\$27	\$30	\$37	\$41
Sub-area B	Exempt	\$5	\$5	\$6	\$7
Sub-area C	Exempt	\$6	\$7	\$9	\$10
Sub-area D	Exempt	\$11	\$12	\$15	\$17

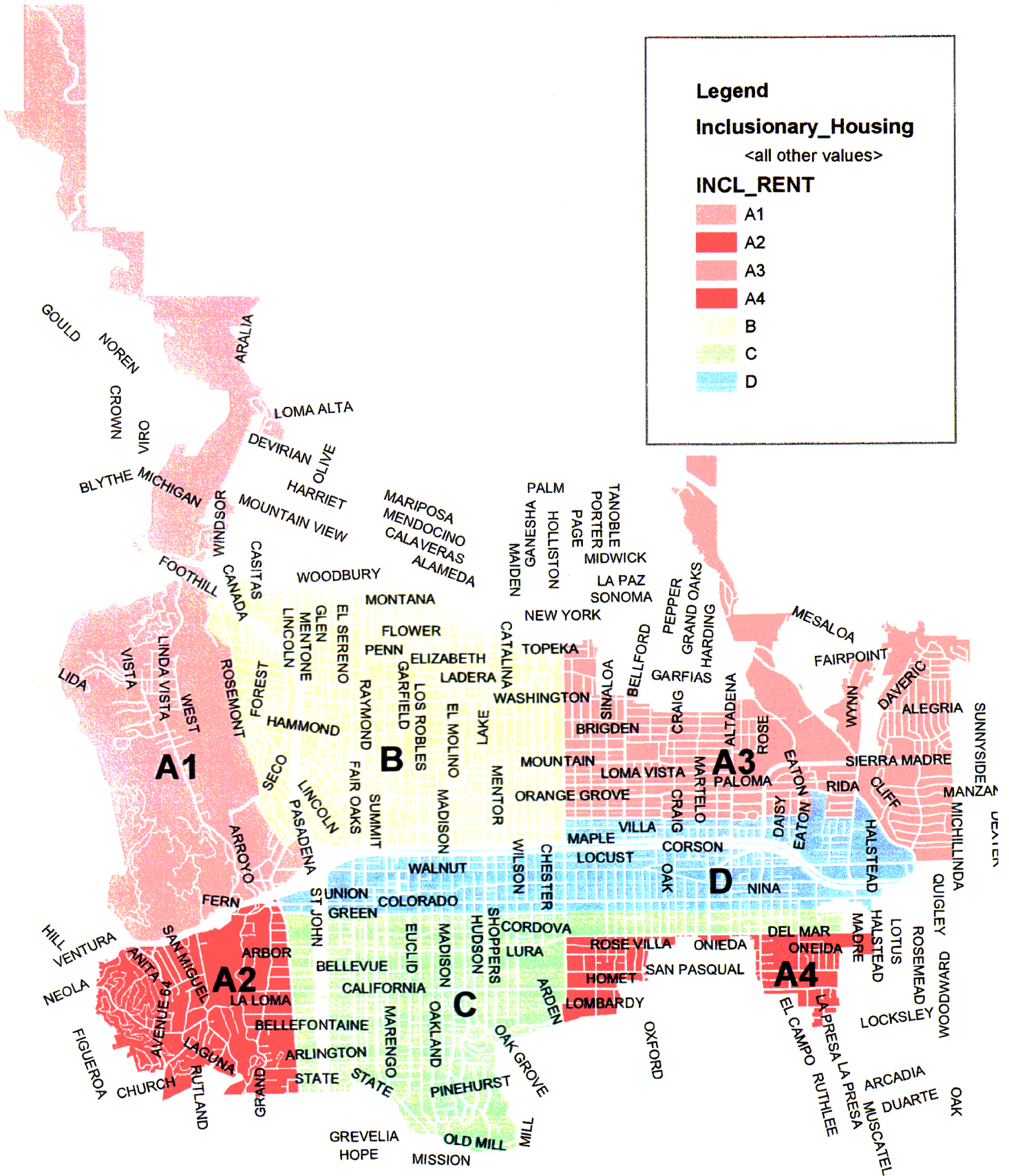
(Sub-area maps attached)



## SUB-AREA INCLUSIONARY HOUSING MAP FOR SALE



# SUB-AREA INCLUSIONARY HOUSING MAP FOR RENT



**Legend**

**Inclusionary\_Housing**  
<all other values>

**INCL\_RENT**

- A1
- A2
- A3
- A4
- B
- C
- D

**ATTACHMENT "B"**

**TABLE I**

**CITY OF PASADENA  
INCLUSIONARY HOUSING PROGRAM - PERFORMANCE REPORT  
EXECUTED INCLUSIONARY HOUSING AGREEMENTS**

PROJECT NAME & ADDRESS	DEVELOPER	STATUS	PROJECT TYPE	UNIT DISTRIBUTION				IN-LIEU FEE
				TOTAL	VERY LOW	LOW	MODERATE	
1. Del Mar Station 252 S. Raymond Ave.	Keller CMS, Inc.	Start July 2003, occupancy end 2004.	Rental	347	0	14	7	
2. Trio Apartments 621 E. Colorado Blvd.	Shea Properties	Start June 2003, occupancy Aug. 2005	Rental	304	0	12	6	
3. Archstone 25 S. Knoll Ave. (Density Bonus)	Archstone Communities	Under construction, occupancy January 2004	Rental	120	10	0	0	
4. Fountains at Pasadena 775 E. Union St.	Pacific Gulf Properties	Under construction, occupancy Jan. 2004	Rental	98	0	3	1	
5. Pasadena Collection 160 S. Hudson Ave.	Champion Development	1 <sup>st</sup> half payment made 2 <sup>nd</sup> half due Dec. 2003	Rental	72	0	0	0	\$250,708.00
6. Walnut Place 712 E. Walnut St. (Density Bonus)	Essey Development Company	Under construction, occupancy Dec. 2003	Rental	28	3	0	0	
7. 168 N. Wilson	The Hale Corporation	Start construction 2003 occupancy 2004	Rental	23	0	1	0	
8. The Lofts at Lake Ave 820 E. Green St.	The Hanover Company	1 <sup>st</sup> payment Aug. '03, 2 <sup>nd</sup> half payment Feb. 2005	Rental	103	0	0	0	\$501,660.00

PROJECT NAME & ADDRESS	DEVELOPER	STATUS	PROJECT TYPE	UNIT DISTRIBUTION				IN-LIEU FEE
				TOTAL	VERY LOW	LOW	MODERATE	
9. Madison Walk 286 N. Madison	The Olson Company	Under construction, full payment July 2003	Ownership	48	0	0	0	\$122,846
10. Pasadena Place 169 W. Green St. (Density Bonus)	Essey Development Company	Start Aug. 2003, occupancy Dec. 2004	Rental	38	4	0	0	
11. 264 E Glenarm	Cedar Management	1 <sup>st</sup> half payment June 2003 2 <sup>nd</sup> half payment June '04	Ownership	15	0	0	0	\$121,310.00
12. Artisan Square 433 N. Altadena Dr.	Province Group	1 <sup>st</sup> half pay July 2003 2 <sup>nd</sup> half pay April 2004	Ownership	52	0	0	0	\$57,019.00
13. The Hill Place 315 N. Hill Ave. (Density Bonus)	Balian Investment	Start construction January 2004, occupancy January 2005	Rental	34	3	0	0	
<b>TOTAL</b>				<b>1,225</b>	<b>20</b>	<b>30</b>	<b>14</b>	<b>\$1,053,543.00</b>

Total Affordable Units Under Agreement: 64

Total In-Lieu Fees Payable: \$1,053,543.00

TABLE II

CITY OF PASADENA  
 INCLUSIONARY HOUSING PROGRAM - PERFORMANCE REPORT  
 PROPOSED NEW PROJECTS

PROJECT NAME & ADDRESS	DEVELOPER	STATUS	PROJECT TYPE	UNIT DISTRIBUTION				IN-LIEU FEE
				TOTAL	VERY LOW	LOW	MODERATE	
1. 35 N. Raymond Ave.	POVAC Inc.	Design approval February, 2002	Rental	38	0	4	2	
2. Renaissance Court 466 E. Orange Grove Blvd.	Farm Fresh Ranch Market Inc.	Variance approval	Rental	31	0	3 (May increase to 6)	1	
3. Granada Court 77 N. Oak Ave.	Mill Creek Properties	Design approval and variance approval July, 2003	Rental	29	0	3	1	
4. Vista Del Arroyo	Vista del la Puente Partners	Design approval	Ownership*	27	0	0	4	
5. Craig Court 54 Craig Ave.	Steven Cole & David Schuman	Design approval April, 2002	Ownership*	13	0	0	0	\$75,825.00
6. Sierra Madre Villa 3360 Foothill Blvd.	SMV/BRE Partners, LLC	Certificate of Compliance September 10, 2002	Rental	188	0	18	9	
<b>TOTALS</b>				<b>326</b>	<b>0</b>	<b>28</b>	<b>24</b>	<b>\$75,825.00</b>

TABLE 1

## ATTACHMENT "C"

FINANCIAL GAP COMPARISON  
IN-LIEU FEE ANALYSIS  
PASADENA, CALIFORNIA

	<u>Subarea A</u>	<u>Subarea B</u>
<b>I. <u>Cost to Develop a Typical Ownership Project:</u></b>		
Land Costs / Unit <sup>1</sup>	\$177,000	\$64,000
Construction Costs + Developer Profit / Unit <sup>2</sup>	<u>436,000</u>	<u>233,000</u>
<b>Total Development Costs / Unit</b>	<b>\$613,000</b>	<b>\$297,000</b>
<b>II. <u>Affordability Gap Due to Ordinance:</u> <sup>3</sup></b>		
Average Market Sales Price	\$613,000	\$297,000
(Less) Average Affordable Price	<u>(202,000)</u>	<u>(225,000)</u>
<b>Affordability Gap / Affordable Units</b>	<b>\$411,000</b>	<b>\$72,000</b>
Inclusionary Requirement	15%	15%
<b>Affordability Gap / Total Units</b>	<b>\$61,700</b>	<b>\$10,800</b>
<b>III. <u>Effective Sales Revenues:</u></b>		
Average Sales Revenues / Unit	\$613,000	\$297,000
(Less) Prorata Share of Affordability Gap / Unit	<u>(61,700)</u>	<u>(10,800)</u>
<b>Effective Sales Revenues / Unit</b>	<b>\$551,300</b>	<b>\$286,200</b>
<b>IV. <u>Impact of Ordinance:</u></b>		
Total Development Costs / Unit	\$613,000	\$297,000
(Less) Effective Sales Revenues / Unit	<u>(551,300)</u>	<u>(286,200)</u>
<b>Financial Gap / Unit <sup>4</sup></b>	<b>\$61,700</b>	<b>\$10,800</b>

<sup>1</sup> Assumes a \$118/sf land value for Subarea A and a \$25/sf land value for Subarea B.

<sup>2</sup> Assumes a 29 unit/acre density for Subarea A and a 17 unit/acre density for Subarea B.

<sup>3</sup> See KMA's In-Lieu Fee Analysis.

<sup>4</sup> The funding gap equals the proposed in-lieu fee for the subareas. Therefore, \$551,300 of the \$613,000 in Subarea A development costs can be supported at an off-site location in Subarea A and the proposed \$61,700 in-lieu fee will provide the gap financing.

500 SOUTH GRAND AVENUE, SUITE 1480  
LOS ANGELES, CALIFORNIA 90071  
PHONE: 213/622-8095  
FAX : 213/622-5204  
WWW.KEYSERMARSTON.COM

ATTACHMENT "D"

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ADVISORS IN:

REAL ESTATE  
REDEVELOPMENT  
AFFORDABLE HOUSING  
ECONOMIC DEVELOPMENT

MEMORANDUM

LOS ANGELES  
Calvin E. Hollis, II  
Kathleen H. Head  
James A. Rabe  
Paul C. Anderson  
Gregory D. Soo-Hoo

SAN DIEGO  
Gerald M. Trimble  
Paul C. Marra

SAN FRANCISCO  
A. Jerry Keyser  
Timothy C. Kelly  
Kate Earle Funk  
Debbie M. Kern  
Robert J. Wetmore

**To:** Gregory Robinson, Housing Administrator  
City of Pasadena

**From:** Kathleen Head  
Julie Romey

**Date:** July 3, 2003

**Subject:** Inclusionary Housing Ordinance - In-Lieu Fee Update

At your request, Keyser Marston Associates, Inc. (KMA) prepared an updated financial analysis in support of the rental and ownership inclusionary housing in-lieu fees imposed by the Pasadena Inclusionary Housing Ordinance (Ordinance). This summary is based on the methodology used in the KMA analysis dated March 8, 2001, and updated in an August 23, 2001 memorandum.

**BACKGROUND**

In 2001, the City adopted the Ordinance, which requires 15% of all newly constructed units in residential developments of 10 units or more to be sold or rented to low and moderate income households at an affordable housing cost. Ownership projects can fulfill the 15% inclusionary housing obligation with moderate income units, which are defined as households earning up to 120% of the Los Angeles County median income (Median) as defined by the California Housing and Community Development Department (HCD). Comparatively, at least 10% of the units in a rental project must be set-aside for low income households, and the remaining requirement can be filled with moderate income units.

The affordable housing costs are defined as follows:

1. Affordable Rents:
  - a. Low Income Rents – 30% multiplied times 80% of the Median, and
  - b. Moderate Income Rents – 30% of 120% multiplied times the Median.

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2. The Affordable Housing Cost for ownership units is calculated based on 40% multiplied times 110% of the Median.

The Ordinance also allows developers to fulfill the inclusionary housing requirements by paying an in-lieu fee. For the purposes of establishing the in-lieu fee, the Ordinance breaks the City into four subareas. The 2001 in-lieu fees were calculated assuming that 75% of the affordability gap associated with the inclusionary housing obligation would be assessed as the in-lieu fee. The resulting in-lieu fees per square foot of gross building area (GBA) developed in market rate projects are:

Rental Units			
Subareas	Number of Units		
	< 10	10 – 49	50 +
A	Exempt	TBD	TBD
B	Exempt	\$0	\$0
C	Exempt	\$7	\$10
D	Exempt	\$10	\$15

Ownership Units			
Subareas	Number of Units		
	< 10	10 – 49	50 +
A	Exempt	\$10	\$14
B	Exempt	\$0	\$0
C	Exempt	\$1	\$2
D	Exempt	\$5	\$7

The KMA financial update is organized as follows:

1. KMA estimated the affordability gaps associated with the ownership and rental projects that are subject to the Ordinance. (Appendices A and B)
2. The estimated affordability gaps are used in calculating the recommended in-lieu fees. (Appendix C)

### 2003 RENTAL UNITS AFFORDABILITY GAP ANALYSIS (APPENDIX A)

The methodology used in the KMA affordability gap analysis for rental developments can be described as follows:

1. KMA used the following market rent data in the updated financial analysis:



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- a. Subarea A: It was determined that no significant apartment development has occurred within the subarea. Thus, market data are not available, and it will be necessary to calculate the in-lieu fee on a project-by-project basis.
  - b. Subarea B: KMA applied the fair market rents (FMR) established by the United States Department of Housing and Urban Development (HUD) as a surrogate for achievable market rents.
  - c. Subareas C and D: KMA undertook a rental survey of existing projects in the subareas.
2. KMA calculated the maximum affordable rents for moderate and low income households based on household income statistics distributed by HCD and the affordability standards in the Ordinance.
  3. To estimate the affordability gap between a market rate project and one subject to the Ordinance's restrictions, KMA created a prototype apartment project comprised of 90 units. This analysis compares the market rents to the allowable low and moderate income rents to identify the affordability gaps. These affordability gaps were then translated into the value reduction generated by the income and affordability restrictions.

The tables that detail the rental analysis are located in Appendix A, and are organized as follows:

Exhibit 1	Map of the Rental Subareas <sup>1</sup>
Table 1A	Market Rent Comparables by Project (Subarea C)
Table 1B	Market Rent Comparables by Project (Subarea D)
Table 2	Market Rent Estimates for New Rental Projects
Table 3	Affordable Rents for Moderate and Low Income Households
Table 4A	Net Operating Income – 100% Market Rate Units (Subarea B)
Table 4B	Net Operating Income – 100% Market Rate Units (Subarea C)
Table 4C	Net Operating Income – 100% Market Rate Units (Subarea D)
Table 5	Net Operating Income – 100% Moderate Income Units
Table 6	Net Operating Income – 100% Low Income Units
Table 7	Rental Affordability Gap per Affordable Unit
Table 8	Rental Affordability Gap per Total Unit

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<sup>1</sup> KMA assumed that Subarea D's southern boundary will be changed to include both sides of Colorado Boulevard.

**Market Rent Rates**

As shown in Tables 1A and 1B, KMA estimated the current market rents in Subareas C and D are estimated as follows:

Rent Per Square Foot of GBA		
	One-Bedroom Units	Two-Bedroom Units
Subarea C	\$1.84	\$1.59
Subarea D	\$2.29	\$1.94

The KMA survey indicates that the market rents for newly constructed units in Subarea D are actually lower than the average rents being achieved throughout the subarea. Thus, KMA applied the average rents in the Subarea D analysis. The resulting rent estimates used in the affordability gap analysis are presented in the following table:

	One-Bedroom Units	Two-Bedroom Units
Subarea C	\$2.49	\$2.11
Subarea D	\$2.29	\$1.94

To estimate the market rents in Subareas C and D, KMA assumed that one-bedroom units average 800 square feet and two-bedroom units average 1,000 square feet. In addition, KMA applied the FMR's for Subarea B. The following summarizes the current market rents per unit, and compares them to the estimates used in 2001.

	One-Bedroom Units			Two-Bedroom Units		
	2003	2001	% Change	2003	2001	% Change
Subarea B	\$840	\$605	39%	\$1,064	\$766	39%
Subarea C	\$1,990	\$1,584	26%	\$2,110	\$1,660	27%
Subarea D	\$1,830	\$1,800	2%	\$1,940	\$2,000	(3%)

**Maximum Affordable Rents**

Based on the Ordinance, 5% of the units in rental developments must be set-aside for moderate income families while 10% of the units must be set aside for low income families. The assumptions used to estimate the maximum affordable rents, which are detailed in Table 3, can be summarized as follows:

1. The household incomes are based on two-person households for one-bedroom units, and three-person households for two-bedroom units.

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2. The household income is set at 80% of the Median for the low income units and 120% of the Median for the moderate income units.
3. 30% of the defined household income is allocated to housing related expenses.
4. The maximum allowable rent must be adjusted to reflect the fact that the tenants will be required to pay for interior utilities costs. Based on the allowances provided by the City, the utilities remain unchanged from the 2001 analysis at \$53 per month for one-bedroom units and \$63 per month for two-bedroom units.

The maximum allowable rents under the defined income categories are as follows:

	One-Bedroom Units			Two-Bedroom Units		
	2003	2001	% Change	2003	2001	% Change
Moderate Income	\$1,270	\$1,255	1.20%	\$1,430	\$1,409	1.49%
Low Income	\$830	\$819	1.34%	\$930	\$918	1.31%

As a practical matter, tenants will not be willing to pay rent that exceeds the prevailing rate in the market area. As such, it is important to estimate the rents that could be generated by the units being evaluated if they were rented without affordability restrictions.

Based on the market rent estimates previously discussed, it is evident that the maximum affordable rents are lower than the achievable market rents in Subareas C and D. Thus, the maximum affordable rents would prevail in these subareas. Comparatively, the market rents in Subarea B are lower than the maximum affordable rents for moderate income households. Thus, the market rents would prevail for moderate income units in Subarea B.

### Affordability Gap Calculations

To determine the affordability gap between a market rate apartment project and one subject to the Ordinance's restrictions, KMA created a prototypical apartment project comprised of 45 one-bedroom units and 45 two-bedroom units, totaling 90 units. This conceptual analysis was prepared to identify the financial gap associated with including low and moderate income units in a market rate project.

The components included in the affordability gap calculations are:

1. The difference between the market rate and income restricted rents, is calculated.

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2. The income analysis for both market rate and income restricted projects include \$8 per unit per month in miscellaneous income and a standard 5% vacancy and collection allowance.
3. The property tax expense estimates vary among the market rate and income restricted apartment projects. The difference is calculated by comparing the values supported by the various scenarios.
4. The balance of the operating expenses and the reserves for capital repairs are assumed to remain constant among the market rate, moderate income and low income units. These expenses were estimated at \$3,000 per unit per year. This is a 9% increase over the 2001 estimate for the same expenses.
5. The net operating income for both the market rate and income restricted units was capitalized at an 8% rate to estimate the relative values supported by market rate, moderate income and low income units.

As shown in Table 7, based on the preceding assumptions, the values per unit are estimated as follows:

	Market Rate Units	Moderate Income Units	Low Income Units
Subarea B	\$87,500	\$87,500	\$75,000
Subarea C	\$225,000	\$137,500	\$75,000
Subarea D	\$200,000	\$137,500	\$75,000

Table 7 also illustrates the affordability gaps per affordable unit, which are summarized as follows:

	Moderate Income Units	Low Income Units
Subarea B	\$0	\$12,500
Subarea C	\$87,500	\$150,000
Subarea D	\$62,500	\$125,000

### **Inclusionary Housing Obligation Cost**

The Ordinance requires developers to allocate 5% of the units in an apartment project to moderate income households and 10% of the units to low income households. Alternatively, the developer can pay an in-lieu fee that is assessed on 100% of the units in a market rate project. Table 8 illustrates the supportable in-lieu fee amount, assuming the fee is set at the amount

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required to recover 100% of the affordability gap. These results are summarized in the following table:

	2003	2001	% Change
Subarea B	\$1,200	\$0	NA
Subarea C	\$19,400	\$12,000	62%
Subarea D	\$15,600	\$17,500	(11%)

### 2003 OWNERSHIP UNITS AFFORDABILITY GAP ANALYSIS (APPENDIX B)

As in the previous analysis, KMA has assumed that the vast majority of new ownership housing projects in excess of 10 units will be medium to high density condominium projects. However, there is currently a very limited inventory of new condominium development in Pasadena. As such, there is insufficient comparable data from which to predict the market rate prices that can be achieved by new development. To resolve this problem, KMA compiled and analyzed the following data:

1. Data for new home sales occurring at the one new condominium project recently developed in Subarea D.
2. Resale data for two- and three-bedroom condominium units sold between June 2002 and April 2003 in all four subareas.

Based on the available data, the methodology used in the KMA affordability gap analysis for ownership development projects can be described as follows:

1. KMA extrapolated the achievable market rate condominium prices from the available data by creating a "Sales Price Factor". The Sales Price Factor can be described as follows:
  - a. The prices that can be achieved in Subarea D were estimated based on the sales information gathered from the recently completed Madison Walk project, plus the available information for condominium resales in Subarea D.
  - b. Based on the resale information compiled for each subarea, KMA estimated the average sales values currently being achieved in Subareas A, B and C. This was compared to the resale information compiled for Subarea D to identify the premium or discount in values found in the various subareas.
  - c. Using the market prices achieved by Madison Walk as a base, KMA applied the Sales Price Factors to estimate the average market price for new condominiums in the other three subareas.

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2. KMA calculated the maximum affordable sales price for moderate income households based on household income statistics distributed by HCD, and the affordability standards imposed by the Ordinance.
3. KMA compared the estimated market price to the maximum affordable price to identify the financial gaps that would be incurred by a developer if they chose to fulfill their inclusionary housing obligation on-site.

The tables that detail the analysis are located in Appendix B, and are organized as follows:

- Exhibit 1 Map of the Ownership Subareas
- Table 1 Market Price Estimates for New Condominium Projects
- Table 2A Supportable Housing Prices for Moderate Income Households (Subarea A)
- Table 2B Supportable Housing Prices for Moderate Income Households (Subarea B)
- Table 2C Supportable Housing Prices for Moderate Income Households (Subarea C)
- Table 2D Supportable Housing Prices for Moderate Income Households (Subarea D)
- Table 3 Ownership Affordability Gap Per Affordable and Total Unit

### Market Sales Prices

KMA estimated the achievable market rate prices for new condominium development in Table 1. The following summarizes the market prices estimated for each subarea, and compares the estimates to the 2001 estimates.

	Two-Bedroom Units			Three-Bedroom Units		
	2003	2001	% Change	2003	2001	% Change
Subarea A	\$514,200	\$334,000	54%	\$712,200	\$416,000	71%
Subarea B	\$216,600	\$116,400	86%	\$376,500	\$118,400	218%
Subarea C	\$289,100	\$215,100	34%	\$349,400	\$233,600	50%
Subarea D	\$322,000	\$253,000	27%	\$459,500	\$320,000	44%

### Maximum Affordable Sales Prices

Tables 2A through 2D, calculate the supportable housing prices for moderate income households based on the following assumptions:

1. The household incomes are based on three-person households for two-bedroom units, and four-person households for three-bedroom units.
2. The household income is set at 110% of the Median for the moderate income units.

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3. 40% of the defined household income is allocated to housing related expenses. These expenses are defined as mortgage debt service payments, property taxes, maintenance costs, insurance costs, utility costs and private mortgage insurance costs. For purposes of this analysis, these costs have been estimated as follow:
  - a. The insurance, maintenance and utilities costs are estimated at \$2,900 to \$3,100 per year depending on the unit size.
  - b. The private mortgage insurance is estimated at 0.5% of the loan amount.
  - c. The property tax cost is estimated at 1% of the projected unrestricted market rate price for the units. These prices were estimated based on the survey presented in Table 1.
4. The mortgage amount that can be supported is based on a 30 year fully amortizing mortgage at 6.5% interest rate (7.58% mortgage constant).
5. It was further assumed that the homebuyers would be required to contribute a down payment equal to 5% of the home's market value.

The following summarizes the resulting maximum affordable prices for each subarea:

	Two-Bedroom Units			Three-Bedroom Units		
	2003	2001	% Change	2003	2001	% Change
Subarea A	\$196,000	\$181,300	8%	\$208,800	\$200,300	4%
Subarea B	\$218,100	\$193,700	13%	\$232,900	\$217,400	7%
Subarea C	\$212,500	\$188,100	13%	\$235,600	\$210,800	12%
Subarea D	\$210,200	\$186,000	13%	\$227,900	\$205,800	11%

### Affordability Gap Calculations

The results of the affordability gap analysis for moderate income households are presented in Tables 2A through 2D. The analyses identify the gaps between the maximum affordable prices and the estimated market rate sales prices for two- and three-bedroom units, and are summarized below:

	Two-Bedroom Units	Three-Bedroom Units
Subarea A	\$318,000	\$503,400
Subarea B	\$0	\$143,600
Subarea C	\$76,600	\$113,800
Subarea D	\$111,800	\$231,600

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**Inclusionary Housing Obligation Cost**

The Ordinance requires developers to allocate 15% of the units in an ownership project to moderate income households. Alternatively, the developer can pay an in-lieu fee that is imposed on 100% of the units in a market rate project. As shown in Table 3, the supportable in-lieu fees are summarized as follows:

	2003	2001	% Change
Subarea A	\$61,700	\$28,000	120%
Subarea B	\$10,800	\$0	NA
Subarea C	\$14,300	\$4,000	258%
Subarea D	\$25,800	\$14,000	84%

**2003 IN-LIEU FEE CALCULATIONS (APPENDIX C)**

As shown in Table 1, KMA calculated the in-lieu fees based on the same methodology as was applied in the 2001 analysis. The key assumptions are:

1. Projects including fewer than 10 units are exempt from the Ordinance requirements;
2. The in-lieu fee for projects with 10 to 49 units is calculated assuming that there is a 28% decrease in land value and that the in-lieu fee is set at the 75% cost recovery;
3. The in-lieu fee for projects with 50 units or more is calculated at the 75% cost recovery level; and
4. The average rental unit is estimated at 900 square feet in size while the average ownership unit is estimated at 1,500 square feet in size.

**2003 Rental In-Lieu Fees**

	10 – 49 Units			50 + Units		
	2003	2001	% Change	2003	2001	% Change
Subarea A	TBD	TBD	NA	TBD	TBD	NA
Subarea B	\$1	\$0	NA	\$1	\$0	NA
Subarea C	\$12	\$7	71%	\$16	\$10	60%
Subarea D	\$9	\$10	(10%)	\$13	\$15	(13%)



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**2003 Ownership In-Lieu Fees**

	10 – 49 Units			50 + Units		
	2003	2001	% Change	2003	2001	% Change
Subarea A	\$22	\$10	120%	\$31	\$14	121%
Subarea B	\$4	\$0	NA	\$5	\$0	NA
Subarea C	\$5	\$1	400%	\$7	\$2	250%
Subarea D	\$9	\$5	80%	\$13	\$7	86%

**2003 Household Income Restrictions**

Based on the income data distributed by HCD for 2003, the income levels of the households that will be served by the Ordinance are:

Household Size	Very-Low Income	Low Income	Moderate Income
1 Person	\$0 - 19,750	\$19,750 - \$31,600	\$31,600 - \$46,250
2 Person	\$0 - 22,550	\$22,550 - \$36,100	\$36,100 - \$52,900
3 Person	\$0 - 25,400	\$25,400 - \$40,600	\$40,600 - \$59,500
4 Person	\$0 - 28,200	\$28,200 - \$45,100	\$45,100 - \$66,100
5 Person	\$0 - 30,450	\$30,450 - \$48,750	\$48,750 - \$71,400
6 Person	\$0 - 32,700	\$32,700 - \$52,350	\$52,350 - \$76,700
7 Person	\$0 - 34,950	\$34,950 - \$55,950	\$55,950 - \$81,950
8 Person	\$0 - 37,200	\$37,200 - \$59,550	\$59,550 - \$87,250

**Additional Cost Recovery Scenarios**

The City also requested that KMA calculate the 2003 li-lieu fees assuming cost recovery assumptions ranging from 80% to 100%. These scenarios are located in Tables 2 through 6 in Appendix C.