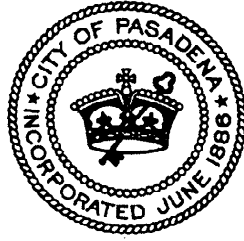


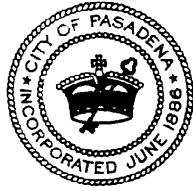
EXHIBIT (E)



HERITAGE SQUARE PROPOSALS

REVIEW TEAM ASSESSMENT

March 28, 2007



OFFICE OF THE CITY MANAGER
HOUSING & COMMUNITY DEVELOPMENT DIVISION

March 28, 2007

Dear Heritage Square Developer Selection Committee Member:

Transmitted herewith is your copy of the Heritage Square Proposals Review Team Assessment ("RTA").

The RTA consists of work product resulting from staff and consultant review and evaluation of the four (4) proposals submitted in response to the Heritage Square Request For Proposals, including the proposers' March 9, 2007 addendum materials.

The RTA is provided to assist the Developer Selection Committee in evaluating, scoring, and ranking the Heritage Square proposals, and arriving at a developer selection recommendation.

Staff and consultants are available to provide any clarification on information contained in the RTA as may be requested by the Developer Selection Committee.

Respectfully,

James Wong
Senior Project Manager

cc: Brian K. Williams, Assistant City Manager
Greg Robinson, Housing and Community Development Administrator
Lola Osborne, Northwest Manager
Vincent Gonzalez, Redevelopment Manager
John Andrews, Business Development Manager
Theresa Ortega, Administrative Assistant
Andrea Castro, Keyser Marston Associates
Julie Romey, Keyser Marston Associates
Marc Futterman, Futterman & Associates

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**STAFF COMMENTS
ON
HERITAGE SQUARE
DEVELOPER PROPOSALS**

March 27, 2007

THE BAKEWELL COMPANY & CENTURY HOUSING CORPORATION

EVALUATION CRITERIA	STRENGTHS	WEAKNESSES/QUESTIONS
Experience and Administrative Capacity	<p>The developer team has experience with the Pasadena market and development process.</p> <p>Good knowledge of Pasadena; has experience with catalytic projects.</p> <p>Demonstrated completion of commercial and residential projects.</p> <p>One of the architect team members is local and is familiar with the development process.</p> <p>Previous projects are in similar urbanized areas and developer has experience with relocating historical homes.</p>	<p>The architect team has limited experience in designing mixed-use projects.</p> <p>No apparent experience with the development of higher density residential and/or mixed-use projects.</p> <p>Century Housing has greater experience in multi-family than the lead developer.</p> <p>Not clear on the respective roles between The Bakewell Company and Century Housing.</p>
Planning and Design	<p>Site planning appears to comply with RFP</p> <p>Good placement and inter-relationships among the uses.</p> <p>Condominiums are placed closer to adjacent existing residential uses with the garage entrance from Painter Street.</p> <p>Good placement and access for parking for commercial uses.</p> <p>Landscaping elements are well thought out</p> <p>Good open space plan and linkages.</p> <p>Accessibility to the open space works well.</p> <p>Curb-side drop off is a nice feature+</p> <p>Good modulation and fenestration along Fair Oaks</p> <p>The mix of for-sale & rental senior housing address a clear community concern for more senior housing in Northwest.</p>	<p>Guest parking interspersed with tenant or owner parking may be problematic.</p> <p>Exterior design lacks an "urban feel".</p> <p>Church's chicken does not indicate a drive through or the access is not well designed from Wheeler Alley.</p> <p>Drive-thru que for Church's Chicken: Traffic concerns.</p> <p>Community room is not accessible from the street- and is located at the garage level.</p> <p>Entrance details and exterior finishes need further study to match the urban character of the area.</p> <p>Curbside cut-out area: Public Works concerns likely.</p> <p>The project is not maximizing the permitted density</p>
Financing		Soft costs seem low.

HERITAGE HOUSING PARTNERS & L. A. COMMUNITY DESIGN CENTER

EVALUATION CRITERIA	STRENGTHS	WEAKNESSES/QUESTIONS
<p>Experience and Administrative Capacity</p>	<p>Developer team has strong ties to Pasadena. Good knowledge of Pasadena.</p> <p>Developer has extensive experience in rehabilitation and relocation projects.</p> <p>The historic residential court ties in with adjacent residential district.</p> <p>Completed numerous housing projects in Pasadena.</p> <p>Partnership appears to have extensive experience in similar projects, creative approaches, etc.</p>	<p>Neither developer appears to have identified experience in developing mixed-use projects with a commercial component.</p> <p>How will the two Developers work together? Is one the principal developer and the other secondary? Have they worked together in the past of a project of this scope and scale? If so, how was the day-to-day management of the project administered?</p> <p>Will HHP or LACDC lead in the mgmt. of the project after it is built, or is CCFS responsible for mgmt.?</p> <p>LACDC does not indicate any experience with rehabilitation of relocated units.</p> <p>There is no information regarding CCFS's experience in operating a Child Care Center or any specifics regarding how the center will operate.</p>
<p>Planning and Design</p>	<p>The site plan retains the existing oak tree.</p> <p>Buildings surround individual court yards.</p> <p>Site plan has many positive elements: access, relationships to street frontages. Orange Grove/Fair Oaks corner solution are all strengths.</p> <p>Historic residential court is a positive solution to a difficult location on the site.</p>	<p>The flat roof designed buildings don't provide the same scale and mass as the rest of the project.</p> <p>Visually the site plan appears denser than actual project.</p> <p>Relocation of buildings may extend project timeline.</p> <p>Does HHP have control of the Fuller buildings?</p> <p>Recognizing that this is the initial step in the process, the exterior design (ref: renderings) isn't well thought out at this point.</p>
<p>Financing</p>		<p>Asking for \$8.9 million dollars in City Assistance plus the land. The developer will pay back \$3.4 million immediately which is for the acquisition of site "A". With the repayment the \$12.3 loan will be reduced to \$8.9M</p> <p>A garage entrance from Fair Oaks may pose a traffic issue that will increase project costs.</p>

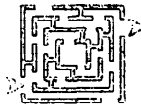
RENAISSANCE OAK, LLC

EVALUATION CRITERIA	STRENGTHS	WEAKNESSES/QUESTIONS
Experience and Administrative Capacity	<p>Strong record with multi-family and mixed-use projects in an urban context. Very good development/design team with experience in like projects.</p> <p>Daniel Solomon is well-known, highly regarded design firm with very good credentials and understanding of multifamily residential in an urban context</p> <p>Development team has experience with mixed-use projects</p>	<p>Between the three development companies, which is the lead?</p> <p>Not clear on how much involvement from Daniel Solomon. Is Daniel Solomon committed to the project on a long term basis?</p> <p>There are no statements regarding the commitment of the principal's from the architect firms. How will the partnership for the project be structured from both the development and the design side.</p> <p>Not clear how PNHS will get an exclusive to place and lease their client households into the affordable Heritage Square rental units, and then prepare them to purchase Heritage Square ownership units.</p>
Planning and Design	<p>Logical placement of uses on site.</p> <p>Individual courtyards with building surrounding the garden</p> <p>Project included Church's Chick w/ drive-thru</p> <p>Good details on Green Building elements.</p> <p>Strong mix of income types</p>	<p>Exterior design as contained in proposal is not reflective of credentials and reputation of design professionals involved.</p> <p>Corner statement: Is it an urban solution?</p> <p>The design is missing the level of design that Solomon is well known for. Flat wall planes with add-ons for interest.</p> <p>At grade parking at street edge is not well thought out. Church's chicken siting of building and drive through should not be adjacent to adjacent housing.</p>
Financing		

SO CAL HOUSING DEVELOPMENT, UNION STATION FOUNDATION & TRIAD VENTURES

EVALUATION CRITERIA	STRENGTHS	WEAKNESSES/QUESTIONS
Experience and Administrative Capacity	Development team appears to have extensive experience w/ a wide variety of housing types and ventures, especially senior care and senior housing.	Triad Ventures seems to have the least amount of experience in projects actually completed, and that which compares to this project type in an urban setting. Its mixed-use development experience consists of a project in Altadena (The Highlands?) but no details. SCHDC does not clearly illustrate ability to own and manage the commercial component. Only one recent project identified that contained a small commercial component (Tallmadge Senior Village in San Diego).
		Union Station's role is unclear; did not illustrate capacity to develop/own rental portion of the project. Have any combination of these entities worked together in the past on a project of this scope and scale? If so, how was the day-to-day management of the project administered?
Planning and Design	Site Plan has some interesting linkages expressed between the plan elements. Nice transition to Orange Grove and Fair Oaks intersection from the site. The elevations illustrate modulation and an appropriate scale for the street. Great use of fenestration to provide interest and vertical height to the lower commercial buildings The use of wooden trellis provides a break to the horizontal read of the building. The awnings on the second floor of the commercial buildings provide a nice transition from the higher vertical height of the commercial structure to the lower more horizontal elements of the residential use above.	Site Plan: Question whether some of the non-contiguous commercial spaces oriented along Fair Oaks will be successful. Conceptual Elevations: Recognizing that this is a conceptual submittal, the building "reads" as an Orange County-like solution; question whether this design approach is the best "fit" for site. Buildings lack modulation or interest. No connection to Pasadena's residential character. No on-grade parking for commercial businesses. Guest parking off an alley may pose enforcement problems. No acknowledgement of retention of Church's Chicken.
Financing		

**FINANCIAL ANALYSIS OF
HERITAGE SQUARE
DEVELOPER PROPOSALS**



KEYSER MARSTON ASSOCIATES
ADVISORS IN PUBLIC/PRIVATE REAL ESTATE DEVELOPMENT

MEMORANDUM

ADVISORS IN:
REAL ESTATE
REDEVELOPMENT
AFFORDABLE HOUSING
ECONOMIC DEVELOPMENT

SAN FRANCISCO
A. JERRY KEYSER
TIMOTHY C. KELLY
KATE EARLE FUNK
DEBBIE M. KERN
ROBERT J. WETMORE

LOS ANGELES
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JAMES A. RARE
PAUL C. ANDERSON
GREGORY D. SOO-HOO
KEVIN E. ENGSTROM
JULIE L. ROMEY

SAN DIEGO
GERALD M. TRIMBLE
PAUL C. MARRA

To: Gregory Robinson, Housing Administrator
City of Pasadena

From: Julie Romey
Andrea Castro

Date: March 27, 2007

Subject: Heritage Square - Feasibility Analysis Overview

At your request, Keyser Marston Associates, Inc. (KMA) reviewed the four proposals submitted in response to the request for proposals (RFP) issued by the Pasadena Community Development Commission (Commission) for a mixed-use, mixed-income development on the 2.82-acre site located at 19-25 East Orange Grove Boulevard and 710-790 North Fair Oaks Avenue (Site). The included parcels are currently either owned or controlled by the Commission.

The primary purpose of the KMA analysis is to evaluate the overall financial feasibility of each proposal. In addition, KMA has identified outstanding issues that should be considered by the Commission and the Developer Selection Committee as the recommendation on selection of a developer for the Heritage Square project is prepared.

KMA has prepared a memorandum for each proposal which summarizes the proposals and feasibility analysis as well as provides a summary of issues with the individual proposals. This memorandum summarizes the background of the RFP process, KMA's financial analysis assumptions and major issues.

BACKGROUND

The Site is bound by Orange Grove Boulevard to the south, Fair Oaks Avenue to the west, Painter Street to the north, and Wheeler Lane to the east. The Site has been identified as a major gateway to the northwest area of the City of Pasadena (City). The

To: Gregory Robinson, City of Pasadena
Subject: Heritage Square - Feasibility Analysis Overview

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Commission has already purchased a large portion of the Site and is in the process of acquiring the remaining two parcels that include Church's Chicken and Brown Memorial AME Church. The cost to the Commission to acquire the Site is estimated to total \$9 million, or \$73 per square foot of land area.

The Commission has utilized various funding sources to acquire the Site, including City Inclusionary Housing Trust Funds (Trust Funds), property tax increment housing set-aside funds (Set-Aside) and HOME funds allocated by the United States Department of Housing and Urban Development (HUD). An appraisal of the Site is currently being completed, and according to Commission staff, the market land value at the highest and best use is estimated at \$11 million, or \$89 per square foot of land area.

The Commission issued the RFP in November 2006 and received four development proposals in response. However, after reviewing the initial proposals, Commission and City of Pasadena (City) staff met with the four developers and requested that the proposals be resubmitted so that the Commission's only financial contribution to the project would be the donation of land. In response, the four developers resubmitted the proposals on March 9, 2007; the revised proposals are reviewed in the accompanying memorandums.

Proposal Requirements

Prior to the issuance of the RFP, the Commission prepared and presented to the community for input a wide range of development options with varying degrees of product mix, density and open space, etc. The following development preferences were ultimately approved by the Commission and incorporated into the RFP:

1. The proposed development mix of uses should include the following:
 - a. A residential component comprised of 67% rental housing and 33% ownership housing units. An undetermined number of units should be age-restricted housing for seniors (55 years of age and above).
 - b. A non-residential component should include both retail and commercial office, and community space.
2. The residential element should provide housing for a varied mix of incomes (very low, low, moderate, inclusionary, and market rate) within the following suggested unit mix:

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Development Mix	Number of Units	Percentage of Development
Ownership	49	33%
Rental	99	67%
Total	148	100%

3. The definitions of the household incomes by income category as presented in the RFP are shown in Table 1, which is located at the end of this memorandum. The income restricted rents and income restricted sales prices are provided in Table 2 and 3, respectively.
4. The non-residential component should consist of the following:
 - a. A total of 20,000 square feet of commercial space should be distributed between the ground floor of a residential building and a vertical mixed-use building;
 - b. The vertical mixed-use building should have office space located on the upper levels of the building;
 - c. The Church's Chicken, which is currently located on the Site, should be included on the Site or relocated off-site, at the developer's expense;
 - d. The existing Decker House, also currently located on the Site, should be relocated off-site at the developer's expense.
 - e. A total of 2,000 square feet of community space should be included in the residential component on the site.
5. The parking requirements set forth in the RFP reference zoning code section 17.46.040 and are generally summarized below:

	Parking Ratio
Multi-family Dwelling Units	
Units less than 650 Sf	1 Space per Unit
Units 650 Sf or Larger	2 Spaces per Unit
Senior Housing	.50 Space per Unit
Guest Parking	1 Space per 10 Units
Commercial	3 Spaces per 1,000 Sf

FEASIBILITY ANALYSIS ASSUMPTIONS

KMA reviewed the pro formas provided by each of the four developers, and then independently performed a financial analysis to estimate the financial feasibility of each

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Subject: Heritage Square - Feasibility Analysis Overview

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proposal. The following summarizes the assumptions used in the KMA financial analysis.

General Assumptions

The RFP specifies that the selected developer will be responsible for any demolition, relocation and off-site improvement costs that are required. City staff provided off-site improvement estimates based on each individual proposal, which KMA prorated across each component of the individual proposals. The following costs were also pro rated across each development component, and are based on estimates provided by the City staff.

Land-Related Costs	
Demolition Costs	\$160,000
Relocation Costs	300,000
Total Land-Related Costs	\$460,000

The following assumptions are fundamental to the KMA financial analysis:

1. Direct Construction Costs:
 - a. To acquire the Site, the Commission utilized funds derived from the City's Trust Fund. According to the City's legal counsel and staff, the use of Trust Funds imposes prevailing wage requirements on the proposed Project. In accordance with this requirement, KMA has assumed that prevailing wages will be paid to the contractors and subcontractors for each project.
 - b. The direct costs include a 14% allowance for contractor's fees, general requirements, and construction management; a 5% allowance for contingencies; and a 1% allowance for a construction bond.
 - c. The on-site improvements are estimated at \$10,000 per unit for all residential components and \$10 per square foot of GBA for the commercial component.
 - d. Each proposal included either a semi-subterranean or one-level subterranean parking garage. KMA estimated the cost of each type of parking structure as follows:
 - i. Semi-subterranean parking structure - \$20,000 per space; and
 - ii. One-level subterranean parking structure - \$30,000 per space.

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2. Indirect Costs:

- a. Architecture, engineering and consulting fees are estimated at 6% of total direct costs.
- b. The public permit and fee estimates for all development components of the project reflect estimates provided by the City based on each developer's proposal.
- c. Taxes, legal and accounting costs are estimated at 1.5% of direct costs.
- d. The contingency allowance is set at 5% of the other indirect costs.

3. Financing Costs:

- a. The financing assumptions applied in the analysis assume a 7.0% interest rate on all construction loans and an 8.0% interest rate for all permanent loans.
- b. The loan fees are estimated as follows:
 - i. Construction loan – 1.5 points; and
 - ii. Permanent loan – 2 points.

4. Income Assumptions:

- a. The estimated affordable sales prices and affordable rents reflect the income requirements imposed under the following funding sources:
 - i. Federal Low Income Housing Tax Credits (Tax Credits), which are competitively allocated by the California Tax Credit Allocation Committee (TCAC);
 - ii. Property tax increment housing set-aside (Set-Aside) funds as regulated under California Health and Safety Code Section 50053 (Section 50053);
 - iii. The City of Pasadena Inclusionary Housing Ordinance; and
 - iv. The City of Pasadena Workforce Housing Ordinance.

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- b. KMA utilized the affordable rents and sales prices that were included in the RFP. These rents and sales prices are presented in Tables 1 and 2, which are located at the end of this memorandum.
5. The KMA analysis solves for the maximum amount that the project can support in land acquisition costs.

Senior Rental Component

The proposals that included a Senior Rental Component also assumed an award of Tax Credits. The following assumptions applied in the financial analysis are based on KMA's experience with similar projects:

1. Total Construction Costs:
 - a. Direct Construction Costs:
 - i. The building shell cost estimates assume that projects with fewer than 50 units cost \$170 per square foot of gross building area (GBA) while projects over 50 units cost \$150 per square foot of GBA.
 - ii. An allowance of \$50,000 is included for common area furnishings;
 - b. Indirect Costs:
 - i. The insurance costs are estimated at \$2,000 per unit.
 - ii. The marketing and leasing costs are estimated at \$1,000 per unit.
 - iii. The developer fee was estimated assuming the lesser of the fee estimate provided in the developers' proposals, and the maximum fee allowed by TCAC.
 - c. Financing Costs:
 - i. The Tax Credit fees include a \$2,000 application fee; a \$410 per unit monitoring fee; and 4% of the gross annual Tax Credit proceeds.
 - ii. The capitalized reserves are based on three months of the general operating expenses, capital reserve deposits and debt service.

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- iii. The construction loan assumes that 50% of the Tax Credit equity will be available during construction; the developer assumed development period; and a 60% average outstanding balance.

2. Net Operating Income:

- a. Miscellaneous income is estimated at \$5 per unit per month.
- b. The vacancy and collection allowance is set at 5% of gross income.
- c. Operating Expenses are estimated as follows:
 - i. Annual general operating expenses are set at \$3,200 per unit.
 - ii. Each developer has a non-profit partner and therefore the proposed rental projects will receive a property tax abatement. However, KMA assumed that each project would be required to pay \$3,000 a year in non-exempt assessments.
 - iii. KMA utilized the developers' assumptions for annual service provider expenses.
 - iv. Annual reserves were estimated at \$300 per unit.

3. Available Funding Sources:

- a. Conventional loan terms are projected to include a 30-year amortization and a 1.15 debt coverage ratio.
- b. The estimated net Tax Credit proceed assumes the following:
 - i. An applicable fraction of 100%;
 - ii. A 130% difficult to develop premium;
 - iii. A 8.10% tax credit rate; and
 - iv. A pay-in equal to \$0.95 per dollar of gross Tax Credit proceeds.
- c. Deferred developer fee based on developers' estimates.
- d. KMA also included other outside funding sources if assumed by the developer.

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Family Rental Component

Two of the proposals included a Family Rental Component that also assumes a Tax Credit award. The operating expense estimates for this product type is estimated at \$4,000 per year. The other assumptions outlined previously are also applied to the Family Rental Component.

Senior & Family Ownership Component

All four proposals include an Ownership Component that provides a mix of age-restricted and non-age restricted units. Based on KMA's experience within similar projects, the following assumptions are applied in the pro forma analysis for the Ownership Component:

1. Total Construction Costs:
 - a. Direct Construction Costs:
 - i. The building shell cost estimates assume that projects with fewer than 50 units cost \$190 per square foot of GBA while projects with over 50 units cost \$170 per square foot of GBA.
 - ii. An allowance of \$50,000 is included for furniture, fixtures, and equipment (FF&E).
 - b. Indirect Costs:
 - i. The estimated insurance cost estimate assumes a maximum of \$15,000 per unit or \$250,000.
 - ii. The marketing costs are estimated at \$5,000 per unit for marketing and \$50,000 for one model unit; and
 - iii. The developer fee is set at 3% of the sales revenues.
 - c. Financing Costs:
 - i. The interest costs incurred during construction were estimated based on the developers' construction period and unit absorption assumptions. It was assumed that 70% of the project costs are financed with debt.

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- ii. The sales cost estimates are based on 3.0% of sales revenues for sales commissions; 1.5% of sales revenues for closing costs; and \$3,000 per unit for warranties.
2. Sales Revenues:
- a. Market sales prices are estimated as follows:
 - i. One-bedroom Units - \$471 per square foot of gross livable area (GLA);
 - ii. Two-bedroom Units - \$452 per square foot of GLA; and
 - iii. Three-bedroom Units - \$440 per square foot of GLA.
3. The threshold developer profit requirement is estimated at 15% of total sales revenues.

Commercial Component

As required by the RFP, each proposal includes a Commercial Component. The following summarizes the assumptions included in the KMA financial analysis:

1. Direct Construction Costs:
- a. The building shell costs are estimated at \$120 per square foot of GBA;
 - b. Tenant improvements are estimated at \$30 per square foot of GBA;
2. Indirect Costs:
- a. Taxes, legal and accounting cost are estimated at 2.0% of the direct costs;
 - b. Estimated insurance costs are equal to 1% of the direct costs;
 - c. Marketing and leasing costs are estimated at \$5 per square foot of GBA; and
 - d. The developer fee is set at 3% of direct costs.

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3. Net Operating Income:
 - a. The average commercial lease rate is estimated at \$2.00 per square foot of gross leasable area (GLA)¹; and
 - b. Operating expenses include the following:
 - i. A management fee equal to 4% of EGI;
 - ii. General Expenses estimated at \$1.00 per square foot of vacant GLA; and
 - iii. Operating reserves equal to \$0.15 per square foot of GLA.
4. The threshold return on investment is set at 9%.

NEW MARKET TAX CREDITS

As part of the Community Renewal Tax Relief Act of 2000, Congress enacted the New Market Tax Credit (NMTC) program. The goal of this program is to encourage \$15 billion in new private section investment in low-income communities. The regulations governing the program are set forth under Section 45D of the United States Department of Treasury, Internal Revenue Code 26 CFR Parts 1 and 602. The first allocation of NMTCs was released in March 2003. The following summarizes how the NMTC program is implemented:

1. Qualified Community Development Entities (CDE) apply to the Treasury Department for an allocation of NMTCs.
2. The CDE then seeks tax payers to make equity investments in the CDE.
3. The CDE is required to use substantially all of the funds raised to make investments in qualified active businesses located or doing business in low-income census tracts. Qualified active businesses do not include apartment projects.
4. The funds must be utilized over a seven-year period.
5. The investors are then eligible to claim tax credits over the next seven years. The total to tax credit equates to 39% of the equity investment. The tax credits are used to enable the investor to receive a market return on the investment.

¹ Rental estimate is based on KMA research on loopnet.com and survey of local commercial real estate brokers.

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Potential Transaction

There are many variations of obtaining the NMTC equity that can be utilized by all of the proposed projects. The following summarizes an example of a structure that can leverage the Commission's land contribution:

1. The Commission must make a cash contribution to the LLC in an amount equal to the actual land costs (\$9 million). This contribution is treated as a forgivable loan. At this point in the transaction, the Commission costs equal \$18 million.
2. An investor provides approximately \$3.13 million to the LLC with a required return on investment of 11%.
3. The LLC provides the CDE with a \$12.13 million equity investment to be used in the project, which the CDE loans to the project.
4. The project then purchases the Site from the Commission for \$9 million.
5. At this point, the Commission assistance is equal to the costs incurred to acquire the Site.
6. Over a seven year period, the \$12.13 million investment in the CDE will generate \$4.73 million in NMTCs, of which 100% will be distributed to the investor through the LLC. Therefore, the 11% required return will be entirely generated by the NMTCs, inclusive of repaying the original \$3.13 million investment.²

The expense of creating such a structure is typically \$100,000 in legal fees. However, the result is that approximately \$3 million will remain in the project at the end of seven years. Therefore, the \$9 million Commission investment will be leveraged into providing the project with an additional \$3 million subsidy.

It should be noted that the Commission will not have direct access to the real estate included in the Site. The \$9 million in Commission assistance will be provided to an LLC, which will provide the funds to the CDE and then the developer will pay the Commission for the land. Therefore, the CDE will have the ability to foreclose on the property. However, as an investor, the Commission can structure the agreement to have the ability to force a foreclosure action if the developer is not performing.

The Commission loan would be evidenced by a promissory note executed by the LLC and secured by a Pledge Agreement, whereby 100% of the ownership interest in the

² If the estimated \$11 million market rate land value is assumed, the net subsidy to the project would be greater than \$3.13 million.

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LLC and 99.99% of the ownership interest in the CDE will be assigned to the Commission. At the time of escrow, the CDE will loan the funds to the developer, who will pay \$9 million to the Commission as repayment for fee title to the Site. This will leave the \$9 million forgivable loan outstanding.

ISSUES

The following itemizes issues that need to be resolved for four proposals:

Income Restrictions

Each of the proposed funding sources has income restriction requirements that will have to be addressed by the selected developer and Commission. The current proposals meet the Tax Credit requirements for very-low and low income restricted units but do not completely comply with the Set-Aside requirements. In addition, the current guidelines governing the use of the Trust Fund require that this source assist low and moderate income households. As such, there are no public assistance funding source identified for the Workforce housing units. To resolve these issues, a methodology will need to be established for tracking the funding sources and the income restriction requirements.

Availability of Funding Sources

The proposals assume that the Senior Rental Component will receive a 9% Tax Credit allocation in an intensely competitive process. However, as noted by all of the developers, and based on KMA's experience, the current Tax Credit allocation system is heavily weighted towards family projects. Therefore, it is unlikely that the proposed senior rental projects will receive an allocation. In fact a senior project has previously been proposed to TCAC two times by another developer and did not receive an allocation.

Each developer is proposing to construct the project in a single phase over an underground parking structure. In addition, all the developers' proposals are all predicated on receiving 9% Tax Credits . If these Tax Credits are not received, the entire project would have to be put on hold while other funding sources are sought out.

In the two proposals that include Family Rental Components funded with Tax Credits, the potential exists for the Family Component to receive Tax Credits and for the Senior Component not to receive an award. This would leave the project with a financial gap that has no identified funding source. It also implicitly means that a substitute development scope would have to be created. This would jeopardize the chances for the Family Component to be completed within the two year period required by the Tax

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Credit program, which would place the developer at risk of not receiving future Tax Credit awards.

An option to mitigate this risk is to finance the project with tax-exempt bonds allocated by the California Debt Allocation Committee (CDLAC), and the automatically awarded 4% Tax Credit. This funding source is also competitively awarded, but the competition is less intense than the 9% Tax Credit award process. The issue with this option is that less assistance is generated, so it is likely that the financial gap will increase significantly.

Additional Funding Sources

The following potential funding sources were not identified in the developer proposals:

Funding Program	Allocating Body	Project Type	Maximum Allowable Income
City of Industry	LA County	Rental	Low
City of Industry	LA County	Ownership	Moderate
Affordable Housing Program (AHP)	Federal Home Loan Bank	Rental	Low
CalHOME	State of CA	Ownership	Low
BEGIN Program	State of CA	Ownership	Moderate
HUD 202 Program	HUD	Rental (Seniors)	Very-low
Section 8 Rental Assistance	Commission	Rental	Very-low
NMTC Program	Various CDEs	Ownership / Commercial	Low income census tracts
Tax-exempt Bonds	CDLAC	Rental	Low
Multi-Housing Program (MHP)	State of CA	Rental (Family)	Low

The State is currently programming the funding generated from Proposition 1C in 2006. Once the programming is in place, there may be additional funding sources available to the project at the State level.

It should be noted that all of the funding sources are provided on a competitive basis. Therefore, it is difficult to predict the likelihood of the project being successful in obtaining the funds.

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Phasing of Development

The scope of development for all four proposals includes an underground garage to serve the entire project. This necessitates each proposed development to be constructed in one phase. As such, the project will not be able to proceed unless all of the funding sources are in place. In addition, the Tax Credit process requires that projects be completed within two years of the award. Given the size and complexity of the proposed projects, this may be difficult to achieve if the funding is not available on the anticipated schedule.

Homeowners Association

Each developer indicated that the proposed projects will involve a Homeowners Association (HOA). However, no information has been provided on how each Component will interact and how the common area will be managed.

Site Disposition Issues

The Commission has indicated that the land should be disposed by one of two methods:

1. The Site will be sold to the selected developer in return for a residual receipts note; or
2. The Site will be conveyed to the developer through a long-term ground lease.

It is important to understand that the inclusion of both rental and ownership residential units; commercial space and a single garage would require the creation of a complex ground lease structure. In addition, the structure of the ground lease may impact the achievable sales prices for the market rate units included in the project.

If the land is conveyed in return for a residual receipts note, the repayment will be dependent on the cash flow generated by the project over time. In the case of the proposals that assume long-term income restrictions on 100% of the units, there will be minimal potential for significant cash flow to be generated as long as the restrictions remain in place. Therefore a residual receipts note for the land sale would secure the Commission's lien position if there should be a default, but would likely generate minimal land proceeds.