

**APPENDIX C
RENAISSANCE OAK, LLC
COMMERCIAL COMPONENT**

APPENDIX C: TABLE 1

ESTIMATED DEVELOPMENT COSTS
COMMERCIAL COMPONENT
RENAISSANCE OAK, LLC
PASADENA, CALIFORNIA

I. Land-Related Costs				
Land Acquisition			\$0	
Demolition			37,000	
Relocation			20,000	
Off-Site Improvements	\$37,000	Allowance	37,000	
			\$94,000	
II. Direct Costs ²				
On-Site Improvements	20,000	Sf GBA	\$10 /Sf GBA	\$200,000
Subterranean Parking ³	69	Subterranean	\$20,000 /Space	1,380,000
Building Shell	20,000	Sf GBA	\$120 /Sf GBA	2,400,000
Tenant Improvements	20,000	Sf GLA	\$30 /Sf GBA	600,000
Total Direct Costs				\$4,580,000
III. Indirect Costs				
Architecture, Eng. & Consulting	6.0%	Direct Costs		\$275,000
Permits & Fees ¹	20,000	Sf GBA	\$11.75 /Sf GBA	235,000
Taxes, Legal & Accounting	2.0%	Direct Cost		92,000
Insurance	1.0%	Direct Cost		46,000
Marketing/Leasing	20,000	Sf GBA	\$5.00 /Sf GBA	100,000
Developer Fee	3.0%	Direct Cost		137,000
Contingency Allowance	5.0%	Other Ind		44,000
Total Indirect Costs				\$929,000
IV. Financing Costs				
Interest During Construction				
Construction ⁴	\$2,767,000	Cost	7.00% Interest	147,000
Loan Origination Fees				
Construction Loan	\$2,767,000	Cost	1.50 Points	42,000
Permanent Financing ⁵	\$3,718,000	Loan	2.00 Points	74,000
Total Financing Costs				\$263,000
V. Total Development Costs	20,000	Sf GBA	\$293 /Sf GBA	\$5,866,000

¹ Based on estimate provided by City Staff.

² Estimates assume prevailing wage requirements will be imposed on the Project. The budget includes a 14% allowance for contractor overhead, supervision costs, and profit; a 5% contingency allowance and a 1% allowance for construction bonds.

³ Based on KMA experience with similar product type.

⁴ Based on an 14 month construction and absorption period. Average outstanding balance is set at 65%.

⁵ Based on a 60% loan to value ratio and a 7.0% capitalization rate.

APPENDIX C: TABLE 2

STABILIZED NET OPERATING INCOME
 COMMERCIAL COMPONENT
 RENAISSANCE OAK, LLC
 PASADENA, CALIFORNIA

I.	Gross Income ¹			
	Retail	20,000 Sf GLA	\$24.00 /Sf/Year	\$480,000
	(Less) Vacancy & Collection Allowance	5% Gross Income		(24,000)
II.	Effective Gross Income			\$456,000
III.	<u>Unreimbursed Operating Expenses</u>			
	Management	4.0% EGI		\$18,200
	General Expenses ²	1,000 Sf GLA	\$1.00 /SF GLA	1,000
	Reserves	20,000 Sf GLA	\$0.15 /SF GLA	3,000
	Total Unreimbursed Operating Expenses			(\$22,200)
IV.	Net Operating Income			\$433,800

¹ Derived from KMA research on loopnet.com and survey of local commercial real estate brokers.

² Cost assessed against vacant space.

APPENDIX C: TABLE 3

**RESIDUAL LAND VALUE/(FINANCIAL GAP)
COMMERCIAL COMPONENT
RENAISSANCE OAK, LLC
PASADENA, CALIFORNIA**

I.	<u>Supportable Private Investment</u>		
	Net Operating Income	See APPENDIX C; TABLE 2	\$433,800
	Return on Total Investment		<u>9.00%</u>
	Total Supportable Private Investment		\$4,820,000
II.	Estimated Construction Costs	See APPENDIX C: TABLE 1	\$5,866,000
III.	Total Residual Land Value/(Financial Gap)	20,000 Sf GBA	(\$52) /Sf GBA
			(\$1,046,000)

APPENDIX C: TABLE 4

**KMA & DEVELOPER COMPARISON
COMMERCIAL COMPONENT
RENAISSANCE OAK, LLC
PASADENA, CALIFORNIA**

	<u>KMA</u>	<u>DEVELOPER</u>	<u>DIFFERENCE</u>
I. <u>Development Costs</u>			
Land Assemblage	\$94,000	\$50,000	\$44,000
Direct Costs	4,580,000	5,649,000	(1,069,000)
Indirect Costs	929,000	973,000	(44,000)
Financing Costs	263,000	453,000	(190,000)
Total Development Costs	\$5,866,000	\$7,125,000	(\$1,259,000)
Per Sf GBA	\$290	\$360	(\$60)
II. <u>Effective Gross Income</u>			
Effective Gross Income	\$456,000	\$570,000	(\$114,000)
(Less) Operating Expenses	(22,200)	0	(22,200)
Net Operating Income	\$433,800	\$570,000	(\$136,200)
III. <u>Supportable Private Investment</u>			
Net Operating Income	\$433,800	\$570,000	(\$136,200)
Return on Total Investment	9%	8%	
Total Supportable Private Investment	\$4,820,000	\$7,125,000	(\$2,305,000)
IV. <u>Residual Land Value/(Financial Gap)</u>			
Total Supportable Private Investment	\$4,820,000	\$7,125,000	(\$2,305,000)
(Less) Total Development Costs	(5,866,000)	(7,125,000)	1,259,000
V. <u>Total Residual Land Value/(Financial Gap)</u>	(\$1,046,000)	\$0	(\$1,046,000)
Per Sf GBA	(\$50)	\$0	(\$50)

**APPENDIX D
RENAISSANCE OAK, LLC
DEVELOPMENT COMPONENTS SUMMARY**

APPENDIX D - TABLE 1

KMA DEVELOPMENT COMPONENTS SUMMARY
 RENAISSANCE OAK, LLC
 PASADENA, CALIFORNIA

	SENIOR RENTAL COMPONENT	SENIOR & FAMILY OWNERSHIP COMPONENT	COMMERCIAL COMPONENT	TOTAL PROJECT
I. Project Description				
Number of Units	98	47	NA	145
Number of Affordable Units	98	47	NA	145
Gross Building Area (Sf)	83,801	55,515	20,000	159,316
II. Development Costs				
Land Assemblage	\$400,000	\$266,000	\$94,000	\$760,000
Direct Costs	15,360,000	13,028,000	4,580,000	32,968,000
Indirect Costs	4,188,000	3,909,000	929,000	9,026,000
Financing Costs	1,353,000	1,976,000	263,000	3,592,000
Total Development Costs	\$21,301,000	\$19,179,000	\$5,866,000	\$46,346,000
Per Unit	\$217,400	\$408,100	NA	\$319,600
Per SF GBA	\$250	\$350	\$290	\$290
III. Average Monthly Rents/Sales Prices				
Per Unit	\$610	\$430,000	NA	
Per Sf Net Area	\$0.89	\$437	\$2.00	
IV. Net Operating Income/Sales Revenues	\$329,300	\$20,195,000	\$433,800	\$47,442,000
V. Available Funding Sources/Supportable Investment	\$22,427,000	\$20,195,000	\$4,820,000	\$47,442,000
Required Return on Investment	NA	NA	9.0%	
VI. Residual Land Value/(Financial Gap)				
Available Funding Sources/Supportable Investment	\$22,427,000	\$20,195,000	\$4,820,000	\$47,442,000
(Less) Threshold Developer Profit	NA	(3,028,000)	NA	(3,029,000)
(Less) Development Costs	(21,301,000)	(19,179,000)	(5,866,000)	(46,346,000)
VII. Residual Land Value/(Financial Gap)	\$1,126,000	(\$2,013,000)	(\$1,046,000)	(\$1,933,000)
Per Unit	\$11,500	(\$42,800)	NA	
Per Sf GBA	\$13	(\$36)	(\$52)	(\$12)
VIII. Net Financial Surplus / (Gap)				
A. Land Acquisition at Commission Cost	Residual Land Value / (Financial Gap)	(Less) Land Cost / Value	Net Financial Surplus / (Gap)	\$/Unit
	(\$1,933,000)	(\$9,000,000)	(\$10,933,000)	(\$75,400)
B. Land Acquisition at Estimated Market Value	(\$1,933,000)	(\$11,000,000)	(\$12,933,000)	(\$89,200)

APPENDIX D - TABLE 2

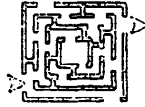
DEVELOPER DEVELOPMENT COMPONENTS SUMMARY
 RENAISSANCE OAK, LLC
 PASADENA, CALIFORNIA

	SENIOR RENTAL COMPONENT	SENIOR & FAMILY OWNERSHIP COMPONENT	COMMERCIAL COMPONENT	TOTAL PROJECT
I. Project Description				
Number of Units	98	47	NA	145
Number of Affordable Units	98	47	NA	145
Gross Building Area (SF)	83,801	55,515	20,000	159,316
II. Development Costs				
Land-Related Costs	\$200,000	\$200,000	\$50,000	\$450,000
Direct Costs	16,050,000	12,747,000	5,649,000	34,446,000
Indirect Costs	4,437,000	4,457,000	973,000	9,867,000
Financing Costs	1,450,000	2,296,000	453,000	4,199,000
Total Development Costs	\$22,137,000	\$19,700,000	\$7,125,000	\$48,962,000
Per Unit	\$225,900	\$419,100	NA	\$337,700
Per SF GBA	\$260	\$350	\$360	\$310
III. Average Monthly Rents/Sales Prices				
Per Unit	\$540	\$483,000	NA	
Per Sf Net Area	\$0.79	\$490	\$2.38	
IV. Net Operating Income/Sales Revenues	\$285,900	\$22,713,000	\$570,000	\$51,986,000
V. Available Funding Sources/Supportable Investment	\$22,158,000	\$22,713,000	\$7,125,000	\$51,986,000
Required Return on Investment	NA	NA	8.00%	
VI. Residual Land Value/(Financial Gap)				
Available Funding Sources/Supportable Investment	\$22,158,000	\$22,713,000	\$7,125,000	\$51,986,000
(Less) Threshold Developer Profit	NA	(2,996,000)	NA	(2,996,000)
(Less) Development Costs	(22,137,000)	(19,700,000)	(7,125,000)	(48,962,000)
VII. Residual Land Value/(Financial Gap)	\$21,000	\$17,000	\$0	\$38,000
Per Unit	\$200	\$400	NA	
Per SF GBA	\$0	\$0	\$0	\$0
VIII. Net Financial Surplus / (Gap)				
A. Land Acquisition at Commission Cost	Residual Land Value / (Financial Gap)	(Less) Land Cost / Value	Net Financial Surplus / (Gap)	\$/Unit
	\$38,000	(\$9,000,000)	(\$8,962,000)	(\$61,800)
B. Land Acquisition at Estimated Market Value	\$38,000	(\$11,000,000)	(\$10,962,000)	(\$75,600)

APPENDIX D - TABLE 3

KMA & DEVELOPER DEVELOPMENT COMPONENTS SUMMARY
 RENAISSANCE OAK, LLC
 PASADENA, CALIFORNIA

<u>I. Project Description</u>	<u>KMA ANALYSIS</u>	<u>DEVELOPER ANALYSIS</u>	<u>DIFFERENCE</u>
Number of Units	145	145	0
Number of Affordable Units	145	145	0
Gross Building Area (Sf)	159,316	159,316	0
II. Development Costs			
Senior Rental Project	\$21,301,000	\$22,137,000	(\$836,000)
Senior / Family Ownership Project	22,208,000	22,686,000	(488,000)
Commercial Project	5,866,000	7,125,000	(1,259,000)
Total Development Costs	\$49,375,000	\$51,958,000	(\$2,583,000)
Per Unit	\$340,500	\$358,300	(\$17,800)
Per SF GBA	\$310	\$330	(\$20)
V. Available Funding Sources/Supportable Investment			
Senior Rental Project	\$22,427,000	\$22,158,000	\$269,000
Senior / Family Ownership Project	20,195,000	22,713,000	(2,518,000)
Commercial Project	4,820,000	7,125,000	(2,305,000)
Total Available Sources / Supportable Investment	\$47,442,000	\$51,996,000	(\$4,554,000)
VI. Residual Land Value/(Financial Gap)			
Senior Rental Project	\$1,126,000	\$21,000	\$1,105,000
Senior / Family Ownership Project	(2,013,000)	17,000	(2,030,000)
Commercial Project	(1,048,000)	0	(1,048,000)
Residual Land Value/(Financial Gap)	(\$1,933,000)	\$38,000	(\$1,971,000)
Per Unit	(\$13,300)	\$300	(\$13,600)
Per Sf GBA	(\$12)	\$0	(\$12)
Per Sf Land	(\$16)	\$0	(\$16)
VIII. Net Financial Surplus / (Gap)			
A. Land Acquisition at Commission Cost			
Per Unit	(\$10,933,000)	(\$8,962,000)	(\$1,971,000)
	(\$75,400)	(\$61,800)	(\$13,600)
B. Land Acquisition at Estimated Market Value			
Per Unit	(\$12,933,000)	(\$10,962,000)	(\$1,971,000)
	(\$89,200)	(\$75,600)	(\$13,600)



KEYSER MARSTON ASSOCIATES
ADVISORS IN PUBLIC/PRIVATE REAL ESTATE DEVELOPMENT

MEMORANDUM

ADVISORS IN:
REAL ESTATE
REDEVELOPMENT
AFFORDABLE HOUSING
ECONOMIC DEVELOPMENT

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A. JERRY KEYSER
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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: Southern California Housing Development Corporation
Heritage Square - Feasibility Analysis

At your request, Keyser Marston Associates, Inc. (KMA) reviewed the March 2007 proposal submitted by Southern California Housing Development Corporation, Union Station Foundation and Triad Ventures (Developer) in response to the request for proposals (RFP) issued by the Pasadena Community Development Commission (Commission) for the 2.82-acre site located at 19-25 East Orange Grove Boulevard and 710-790 North Fair Oaks Avenue (Site). The March 2007 proposal was submitted in response to the Commission and City staff's request for the Developer to create a project that could achieve financial feasibility if the land was donated by the Commission at no cost. No direct financial assistance was to be requested.

The primary purpose of the KMA analysis is to evaluate the overall financial feasibility of the Developer's proposal. In addition, KMA has identified outstanding issues that should be considered by the Commission and the Developer Selection Committee as they prepare their recommendation on the selection of a developer for the Heritage Square project. In another memorandum, entitled "Heritage Square - Feasibility Analysis Overview", KMA summarized the background of the RFP process, KMA's financial analysis assumptions, and the issues that impact all of the proposals.

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Heritage Square – Feasibility Analysis

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EXECUTIVE SUMMARY

The following summarizes the Developer's proposal:

1. The proposed scope is described as follows:
 - a. A 99-unit senior apartment building, to be funded with 9% Low Income Housing Tax Credits (Tax Credits);
 - b. A 49-unit condominium project, of which all of the units are dedicated to senior citizens;
 - c. Approximately 40,554 square feet of commercial space, including a new Church's Chicken drive-thru restaurant; and
 - d. A semi-subterranean parking structure including 287 spaces.
 - e. All 170 of the residential units will be income restricted as follows:
 - i. Very-low income units – 71%
 - ii. Low income units – 0%
 - iii. Moderate income units – 29%
 - iv. Inclusionary units – 0%
 - v. Workforce units – 0%
2. The Developer proposes to acquire the Site from the Commission with no upfront land payment. The land compensation is proposed to be paid in the form of a residual receipts note. The Developer estimates that the proposed project has a \$1.40 million net financial gap. The Developer proposes for this gap to be filled by the Commission, and also to be structured as a residual receipts note.
3. KMA estimates that the proposed project generates a \$4.83 million land payment.
4. Once the \$9 million in actual land acquisition costs incurred by the Commission are taken into account, the maximum Commission investment in the proposed project may total \$4.17 million, or \$24,500 per unit.

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5. The Developer indicated to KMA that the approximately \$1.80 million could be generated from the New Market Tax Credit program. However, this funding source was not included in the Developer's proposal. In contrast, KMA estimated in the memorandum entitled "Heritage Square - Financial Analysis Overview", that the Commission's land donation could generate approximately \$3 million in financial assistance from this funding source. Securing these funds could reduce the Commission assistance on a dollar-for-dollar basis.

ANALYSIS ORGANIZATION

The following summarizes the organization of the KMA analysis, which includes the following appendices:

Appendix A:	Senior & Family Ownership Component
Appendix B:	Senior Rental Component
Appendix C:	Family Rental Component
Appendix D:	Commercial Component
Appendix E:	Project Summary Tables

Appendices A through D include the following tables:

Appendix A	
Table 1:	Estimated Development Costs
Table 2:	Residual Land Value/(Financial Gap)
Table 3:	KMA & Developer Comparison

Appendices B and D	
Table 1:	Estimated Development Costs
Table 2:	Stabilized Net Operating Income
Table 3:	Residual Land Value/(Financial Gap)
Table 4:	KMA & Developer Comparison

Appendix E	
Table 1:	KMA Development Components Summary
Table 2:	Developer Development Components Summary
Table 3:	KMA & Developer Development Components Summary

SUMMARY OF PROPOSAL

The following summarizes the Developer's revised proposal for the Site.

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Development Team

The following identifies the members of the proposed development team:

Developer:	Southern California Housing Development Corporation Union Station Foundation Triad Ventures
Architect:	Irwin Pancake Dawson
Leasing & Marketing Firm:	Union Station Foundation Hope Through Housing

Proposed Scope of Development

The Developer's proposal consists of Senior Rental, Family Rental Senior and Family Ownership and Commercial components (Project). The proposal includes 170 total residential units, which equates to a density of 60 units per acre. The proposed Project also includes 191,374 square feet of gross building area (GBA), which results in a 1.56 Floor Area Ratio (FAR). The following highlights the proposed scope of development:

The following summarizes the three residential components of the Project:

Senior Ownership Component	Number of Units	Unit Size (Square Feet)
Two-Bedrooms	49	1,247
Total/Weighted Average	49	1,247
Residential Living Area		61,103
Community Space		0
Circulation/Common Area		2,500
Gross Building Area		63,603

Senior Rental Component	Number of Units	Unit Size (Square Feet)
One-Bedroom	90	580
Two-Bedrooms	9	800
Total/Weighted Average	99	600
Residential Living Area		59,400
Community Space		2,191
Circulation/Common Area		526
Gross Building Area		62,117

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Family Rental Component	Number of Units	Unit Size (Square Feet)
Two-Bedrooms	12	800
Three-Bedrooms	10	1,050
Total/Weighted Average	22	914
Residential Living Area		20,100
Community Space		0
Circulation/Common Area		5,000
Gross Building Area		25,100

The proposed affordability levels for each residential component are highlighted in the following table:

Proposed Affordability	Senior Rental	Family Rental	Senior Ownership	Total Project	% of Total Units
Market Rate	0	0	0	0	0%
Very-Low	99	22	0	121	71%
Low	0	0	0	0	0%
Moderate	0	0	49	0	29%
Inclusionary	0	0	0	0	0%
Workforce	0	0	0	0	0%
Total Units	99	22	49	170	100%
% of Total Units	58%	13%	29%	100%	

The proposed Project also includes the following:

1. A commercial component that includes 40,554 square feet of retail and office space.
2. A total of 287 parking spaces will be provided in a subterranean parking garage. The following summarizes the distribution of the parking spaces among the three Project components:

	Senior Rental	Family Rental	Senior Ownership	Commercial
Parking Spaces	99	24	104	60
Parking Ratio	1:1	1.1:1	2.1:1	1.5:1,000 Sf

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Comparison to RFP Suggestions

The following compares the Developer's proposed scope of development to the scope of development suggested in the RFP.

	Proposal	RFP Suggestions	Differences
Number of Residential Units			
Rental	121	99	22
Ownership	49	49	0
Total Residential Units	170	148	22
Unit Distribution by Type			
% Rental	71%	66%	5%
% Ownership	29%	34%	(5%)
Unit Distribution by Age Restriction			
% Senior	87%	Over 50%	
% Family	13%	Under 50%	
Commercial Space (Sf GBA)	40,554	Min. 20,000	
Ground Floor Retail Space	Yes	Yes	
Office Space above Retail Space	Yes	Yes	
Church's Chicken	Yes	Yes	
Parking Requirement by Component			
Senior Rental	99	60	39
Family Rental	24	47	(23)
Senior Ownership	104	30	74
Commercial	60	122	(62)
Total Project Parking Spaces	287	259	28

Financial Proposal

The following summarizes the Developer's financial proposal:

1. Each component generates the following proposed assistance package:
 - a. The Senior Ownership Component contributes \$204,000 towards a land payment or to off-set the financial gaps estimated in the other components.
 - b. The Senior Rental Component requires free land but no financial assistance.

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- c. The Family Rental Component requires free land plus \$1.27 million in financial assistance.
 - d. The Commercial Component requires free land plus \$334,000 in financial assistance.
2. Therefore, the total financial assistance requested by the Developer is free land plus \$1.40 million in financial assistance.
 3. The financial assistance is proposed to be structured as a residual receipts note, with a 55-year term, 3% simple interest rate and subordinated to private loans. The total note would include the market value of the land, which was estimated by the Commission to total \$11 million, and the \$1.40 million in financial assistance. Thus, the proposed residual receipts repayment amount totals \$12.40 million.

FEASIBILITY ANALYSIS

KMA reviewed the Developer's pro forma and then independently performed a feasibility analysis to estimate the financial feasibility of the Project. A pro forma analysis for each component of the Project is presented in Appendices A - E, which are located at the end of this memorandum. It should be noted that the assumptions applied in the KMA analysis are discussed in the memorandum entitled "Heritage Square - Financial Analysis Overview".

Senior and Family Ownership Component (Appendix A)

The KMA and Developer development and revenue estimates for the ownership component are summarized below:

1. KMA estimated the total development costs at \$22.95 million, or \$467,900 per unit (Appendix A - Table 1). In comparison, the Developer estimated the total development costs at \$18.06 million, or \$368,600 per unit. This \$4.86 million, or 27%, difference is predominately caused by the Developer assuming the Project would not be required to pay prevailing wages.
2. KMA estimated the total project sales revenue at \$27.64 million, or \$564,000 per unit. As shown in Appendix A - Table 2, this takes into account the assumption that all of the units will be unrestricted and sold at market rate sales prices. Comparatively, the Developer estimated the total revenues at \$22.05 million, or \$450,000 per unit. The \$5.59 million differential is the result of KMA estimating

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the sales prices at an average of \$452 per square foot, while the Developer estimated the market prices at \$351 per square foot.¹

3. KMA estimated the threshold developer profit at 15% of the sales revenues, which equates to \$4.14 million. In contrast, the Developer estimated the developer profit at \$3.78 million, or 17% of the estimated sales revenue.

As illustrated in Appendix A – Table 2, the estimated residual land value/(financial gap) is equal to the difference between the total project sales revenue, and the estimated development costs. Both the KMA and Developer estimates are presented below, and detailed in Appendix A - Table 3:

	KMA	Developer	Difference
Total Project Sales Revenue	\$27,636,000	\$22,050,000	\$5,586,000
(Less) Development Costs	(27,070,000)	(21,846,000)	(5,224,000)
Residual Land Value	\$566,000	\$204,000	\$362,000
Per Unit	\$11,600	\$4,200	\$7,400
Per Sf Land Area	(\$5)	(\$2)	(\$3)

While the KMA and Developer's assumptions differ significantly, the estimated \$362,000 differences in value available to off-set the financial gaps in the other Components is insignificant for a project of this magnitude.

Issues

1. The Developer has assumed that a prevailing wage requirement will not be imposed on this Project. However, as indicated in the "Heritage Square – Financial Overview", the funding sources used by the Commission to acquire the Site will require any project built on the Site to pay prevailing wages. KMA estimates that the Developer's cost estimates are \$5.22 million understated as proposed.
2. According to City staff, the permits and fees that would be attributed to this component equal approximately \$26,400 per unit, or \$1.29 million. In contrast, the Developer estimated the permits and fees at \$2,600 per unit, or \$1.17 million lower than the City's estimate.

¹ KMA derived the market rate sales prices from recent sales data in the Northwest area of Pasadena. The market prices on a per square foot basis as estimated by KMA are as follows: \$471/one-bedroom units; \$452/two-bedroom units; and \$440/three-bedroom units.

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3. Based on KMA's analysis, the Developer has understated the market sales prices for the Project.

Senior Rental Component (Appendix B)

The KMA and Developer development cost, income and funding estimates are summarized below:

1. KMA estimated the total development costs at \$18.18 million, or \$183,600 per unit, as illustrated in Appendix B - Table 1. In comparison, the Developer estimated the total development costs at \$21.87 million, or \$220,900 per unit. This \$3.69 million, or 17%, difference is due to the Developer estimating the construction costs to be significantly higher than experienced by similar projects. It is unclear what the Developer was basing the figure from as the proposal indicates the estimates do not include prevailing wages.
2. KMA estimated the rental component's stabilized net operating income (NOI) at \$251,600, which is detailed in Appendix B - Table 2. In contrast, the Developer estimated the NOI at \$236,100. This \$15,500 annual difference is a result of the Developer using incorrect utility allowances to calculate the restricted monthly rents as well as assuming slightly higher than typical operating expenses.
3. As shown in Appendix B - Table 3, the KMA and Developer estimated total available funding sources include the following:
 - a. Based on a higher NOI estimate, the KMA conventional loan estimate is \$251,000 higher than the Developer's estimate.
 - b. KMA estimated the Federal Low Income Housing Tax Credit (Tax Credits) proceeds to be \$17.45 million, which is \$1.16 million higher than the Developer's estimate. This differential is a result of the prevailing wage requirement. The Tax Credit application allows a 20% increase in the maximum threshold basis limits, from which the Tax Credits are calculated, if a project is required to pay prevailing wages.
 - c. The KMA and the Developer assumed the following additional outside funding awards will be awarded to the Project on a competitive basis:
 - i. A \$702,000 Affordable Housing Program (AHP) grant will be awarded to the Project; and

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- ii. A \$2.44 million City of Industry loan will also be provided to the Project.

- d. Approximately \$200,000 of the \$1.20 million Developer Fee will be deferred and paid out of project cash flow.

The estimated residual land value/(financial gap) is equal to the difference between the available funding sources, and the estimated development costs. The KMA and Developer calculations are summarized in the following table, and detailed in Appendix B - Table 4:

	KMA	Developer	Difference
Total Available Funding	\$23,278,000	\$21,866,000	\$1,412,000
(Less) Development Costs	(18,178,000)	(21,866,000)	3,688,000
Residual Land Value	\$5,100,000	\$0	\$5,100,000
Per Unit	\$51,500	\$0	\$51,500
Per Sf Land Area	\$41	\$0	\$41

Therefore, the KMA analysis concludes that the proposed Senior Rental Project generates an estimated \$5.10 million residual land value.

Issues

The following are items that KMA identified during the review of the Developer's pro forma:

1. The Developer's rent schedule makes use of incorrect utility allowances. This results in the Developer projecting higher rents than those that would be allowed by the funding sources.

2. The proposed funding predominantly relies on the Project receiving a 9% Tax Credit allocation. However, given that the proposed Project is age restricted, and the TCAC allocation process is heavily weighted towards non-age restricted projects, it is unlikely that the proposed Project will receive this funding.

3. An alternative funding option would be for the Developer to apply for tax-exempt bonds from the California Debt Allocation Committee (CDLAC) and the automatically awarded 4% Tax Credits. This funding is awarded in a less intense competitive process than the 9% Tax Credits. However, this funding alternative significantly increases the financial gap for a project.

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4. While the Developer's costs do not include prevailing wages, the estimates are 17% higher than KMA's estimates, which are based on similar projects and includes prevailing wages.
5. In addition, the Developer's estimate for permits and fees is \$1.00 million higher than the City's estimates based on the Developer's proposed Project and construction costs.
6. While the Developer states that the Senior Rental Component needs to receive the Site at no upfront cost, the KMA analysis indicates that the proposed Project can warrant a \$5.10 million land payment.

Family Rental Component (Appendix C)

The KMA and Developer development cost, income and funding estimates are summarized below:

1. KMA estimated the total development costs at \$6.98 million, or \$317,200 per unit, as illustrated in Appendix C - Table 1. In comparison, the Developer estimated the total development costs at \$7.43 million, or \$337,700 per unit. This \$450,000, or 6%, difference is considered to be significant for a project of this size. In addition, while the Developer's estimates do not include prevailing wage assumptions, they are still higher than KMA's estimates that include prevailing wages.
2. KMA estimated the rental component's stabilized NOI is estimated at \$60,700 (Appendix C - Table 2). In contrast, the Developer estimated the NOI at \$44,200. This \$16,500 annual difference is a result of the following:
 - a. The Developer's rent schedule makes use of incorrect utility allowances;
and
 - b. The Developer utilized incorrect rents for the three-bedroom units.
3. As shown in Appendix C - Table 3, the KMA and Developer estimated total available funding sources include the following:
 - a. Based on a higher NOI, the KMA conventional loan estimate is \$228,000 higher than the Developer's estimate.
 - b. KMA estimated the Federal Low Income Housing Tax Credit (Tax Credits) proceeds to be \$5.70 million, which is \$982,000 higher than the

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Developer's estimate. This differential is a result of the prevailing wage requirement, as was the case in the Senior Rental Component.

- c. The KMA and the Developer assumed the following additional outside funding awards will be awarded to the Project on a competitive basis:
 - i. A \$165,000 AHP grant; and
 - ii. An \$800,000 City of Industry loan.
- d. Approximately \$100,000 of the \$500,000 Developer Fee will be deferred and paid out of project cash flow.

The estimated residual land value/(financial gap) is equal to the difference between the available funding sources, and the estimated development costs. The KMA and Developer calculations are summarized in the following table, and detailed in Appendix C - Table 4:

	KMA	Developer	Difference
Total Available Funding	\$7,369,000	\$6,159,000	\$1,210,000
(Less) Development Costs	(6,979,000)	(7,429,000)	450,000
Residual Land Value / (Financial Gap)	\$390,000	(\$1,270,000)	\$1,660,000
Per Unit	\$17,700	(\$57,700)	\$75,500
Per Sf Land Area	\$3	(\$10)	\$13

Therefore, the KMA analysis concludes that the proposed Family Rental Project generates a positive land value while the Developer estimates that the Project needs \$1.27 million in financial assistance plus free land.

Issues

The following are items that KMA identified during the review of the Developer's pro forma:

1. The proposed funding predominantly relies on the Project receiving a 9% Tax Credit allocation. Given that the proposed Project is not age restricted, and the TCAC allocation process is heavily weighted towards multi-family restricted projects, it is likely that the proposed Project will receive this funding.
2. However, in the event that the Project does not receive an allocation, an alternative funding option would be for the Developer to apply for tax-exempt

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bonds from CDLAC and the automatically awarded 4% Tax Credits. This funding is awarded in a less intense competitive process than the 9% Tax Credits. However, this funding alternative generally increases the financial gap for a project. Additionally, given this is a family project it would be eligible for the Multi-family Housing Program (MHP) loans.

3. Although, the Developer's costs do not include prevailing wages, the estimates are 6% higher than KMA's estimates, which are based on similar projects and include prevailing wages.
4. The Developer estimated the rents to be lower than the KMA and TCAC estimates as well as utilized incorrect utility allowances.
5. The Developer estimated the annual operating expenses to be \$500 per unit higher than the KMA estimate.
6. While the Developer states that the Family Rental Component needs \$1.27 million in financial assistance in addition to free land, the KMA analysis indicates that the proposed Project can support a \$390,000 land payment.

Commercial Component (Appendix D)

The KMA and Developer development and revenue estimates for the commercial component are summarized below:

1. KMA estimated the total development costs are estimated at \$11.00 million, or \$270 per square foot of GBA (Appendix D -Table 1). In comparison, the Developer estimated the total development costs at \$7.46 million, or \$180 per square foot of GBA. The \$3.53 million differential is predominately explained by the Developer's exclusion of prevailing wages in the construction cost estimates.
2. KMA estimated the commercial component's stabilized NOI at \$879,500 (Appendix D - Table 2). In contrast, the Developer estimated the NOI at \$792,000. This differential is due to KMA estimating the monthly market commercial rents at \$2.00 per square foot, while the Developer estimated these rents at \$1.85 per square foot.
3. To determine the amount of private investment that can be supported by the component, KMA applied a 9.0% threshold return to the stabilized NOI (Appendix

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D - Table 3). This resulted in a \$9.77 million supportable investment.² In contrast, the Developer applied an 11.0% threshold return requirement to the lower NOI estimate, which resulted in a \$2.64 million lower supportable private investment estimate than KMA.

As illustrated in Appendix D - Table 4, the estimated residual land value/(financial gap) is equal to the difference between the total supportable private investment and the estimated development costs. Both the KMA and Developer estimates are presented below:

	KMA	Developer	Difference
Total Supportable Investment	\$9,772,000	\$7,129,000	\$2,643,000
(Less) Development Costs	(10,998,000)	(7,463,000)	(3,535,000)
Financial Gap	(\$1,226,000)	(\$334,000)	(\$892,000)
Per Sf GBA	(\$30)	(\$10)	(\$20)

Due to the higher threshold return on investment and lower NOI, as offset by lower development costs assumptions, the Developer estimates that the Commercial Component will require free land from the Commission plus \$334,000 in financial assistance. In contrast, KMA estimates that the Commercial Component needs free land plus approximately \$1.23 million in financial assistance.

Issues

1. The Developer's required return on investment is significantly higher than the returns currently being expected in the marketplace.
2. The Developer states that the direct cost estimates include prevailing wages; however, the estimates are significantly lower than the KMA estimates which are based on similar projects. Any cost increases over the Developer's current estimates would generate a financial gap equal to the amount of the cost increases.
3. Based on conversations with area brokers, KMA concluded that the Developer is projecting lower commercial rents than are being achieved in the market area.

² The threshold return level is based on the requirements imposed by capital markets, and the relative risk inherent in the investment.

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Overall Project (Appendix D)

The following summarizes the KMA and Developer residual land value/(financial gap) estimates for the entire Project:

	KMA	Developer	Difference
Total Available Funds	\$68,055,000	\$57,204,000	\$10,851,000
(Less) Total Dev. Costs	(63,225,000)	(58,604,000)	(4,621,000)
Residual Land Value / (Financial Gap)	\$4,830,000	(\$1,400,000)	\$6,230,000
Per Unit	\$28,400	(\$8,200)	\$36,600
Per Sf Land Area	\$39	(\$11)	\$50

The Developer's pro forma analysis indicates that the Project requires free land plus \$1.40 million in financial assistance from a public source. It should be noted that the Developer's proposal mentioned the proposed Project could generate approximately \$1.80 million in NMTCs; the assumption was not factored into the financial gap analysis. Thus, if the \$1.80 million was used to off-set the Developer's estimated \$1.40 million financial gap, the Project could generate a \$400,000 land payment.

In contrast, KMA estimates that the proposed Project can support a \$4.83 million land payment. However, if there was a financial gap, there are several potential funding sources that could be utilized to fill the financial gap, including approximately \$3.00 million in New Market Tax Credit proceeds, based on the assumption that the Commission's land assistance will be used as equity.

The following summarizes the total financial assistance that will be required for the proposed Project to be feasible when the actual land acquisition costs are taken into account.

	KMA	Developer	Difference
Residual Land Value / (Financial Gap)	\$4,830,000	(\$1,400,000)	\$6,230,000
(Less) Actual Land Costs	(9,000,000)	(9,000,000)	0
Net Financial Surplus / (Gap)	(\$4,170,000)	(\$10,400,000)	\$6,230,000
Per Unit	(\$24,500)	(\$61,200)	\$36,600

The following summarizes the total financial assistance that will be required for the proposed Project to be feasible when the market land value, as estimated by Commission staff, is taken into account.

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	KMA	Developer	Difference
Residual Land Value / (Financial Gap)	\$4,830,000	(\$1,400,000)	\$6,230,000
(Less) Market Land Value	(11,000,000)	(11,000,000)	0
Net Financial Surplus / (Gap)	(\$6,170,000)	(\$12,400,000)	\$6,230,000
Per Unit	(\$36,300)	(\$72,900)	\$36,300

EVALUATION CRITERIA

The following summarizes findings that relate to the evaluation criteria that the Developer Selection Committee will utilize to rank the proposals.

Outside Funding Sources

The following summarizes the proposed public and private funding sources and the amount of funding requested for each component of the Project:

	Funding Requested
Senior Rental	
Conventional Loan	\$2,234,000
Low Income Housing Tax Credits	16,290,000
AHP Grant	702,000
City of Industry	2,440,000
Deferred Developer Fee	200,000
Total	\$21,866,000
Family Rental	
Conventional Loan	\$372,000
Low Income Housing Tax Credits	4,722,000
AHP Grant	165,000
City of Industry	800,000
Deferred Developer Fee	100,000
Total	\$6,159,000
Senior Ownership	
None	\$0
Commercial	
None	\$0

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Development Costs

The Developer estimates the development costs for each component of the proposed Project as follows:

	Senior Rental	Family Rental	Senior Ownership	Commercial
Per Unit	\$220,900	\$337,700	\$368,800	NA
Per Sf GBA	\$350	\$300	\$280	\$180

However, it should be noted that KMA estimates the development costs, as illustrated below, to be approximately 8% higher than the Developer's estimates.

	Senior Rental	Family Rental	Senior Ownership	Commercial
Per Unit	\$183,600	\$317,200	\$467,900	NA
Per Sf GBA	\$290	\$280	\$360	\$270

Commission Financial Assistance

The Developer proposes to construct the scope of development through the use of a variety of outside funding sources. The Developer has requested that the Site be donated by the Commission, and that \$1.40 million in direct financial assistance be provided to the Project. The Developer proposes to repay some or all of this assistance through a residual receipts loan with debt service derived from the rental component's cash flow and upon the resale of the ownership units at market prices. Comparatively, the KMA analysis indicates that the proposed Project can support a \$4.83 million land payment.

Implementation of the Project

The Project includes one subterranean parking garage to serve the entire Project. However, if the proposed 9% Tax Credits are not awarded to the Project, an alternative assistance source will have to be identified to fund over \$23 million in Project costs. This will likely result in delays in the Project's implementation.

Repayment of Financial Assistance

The Developer proposes to repay \$11 million in land value plus the \$1.40 million in financial assistance through residual receipts and ownership unit sales. However, KMA estimates that the Project can support a \$4.83 million land payment.

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ADDITIONAL PROPOSAL ISSUES

Income Restrictions

California Health and Safety Code Section 33413 (b) requires that at least 15% of all new and substantially rehabilitated units developed within a project area must be made available to very-low, low and moderate income households. In addition, no less than 40% of the units must be available to very-low income households. The following table compares the number of units in the proposed Project that will meet the Section 33413 affordability requirements to the total proposed income restricted units:

	Development Proposal	Section 33413 Production Credit
Workforce Housing Units	0	0
Low & Moderate Income Units	0	0
Very-Low Income Units	121	13
Total Income Restricted Units	121	13

Of the income restricted units proposed by the Developer, the Commission would be able to receive credit for 13 inclusionary housing production units. This represents approximately 8% of the units in the Project. This would provide the Commission with a deficit for 13 inclusionary housing production units that would have to be filled by other residential projects.

New Market Tax Credit Program

As mentioned in the KMA memorandum entitled "Heritage Square - Financial Analysis Overview", the proposed Project is eligible to utilize the NMTC program. KMA estimates that approximately \$3 million may be available from this funding source to fill a portion of the proposed Project's estimated financial gap.