

TABLE 2

2006 MAXIMUM AFFORDABLE RENTS
HERITAGE SQUARE RFP
PASADENA, CALIFORNIA

California Redevelopment Law ¹			
	Very-Low Income	Low Income	Moderate Income
Studio	\$446	\$545	\$1,036
One-bedroom	\$510	\$622	\$1,185
Two-bedrooms	\$565	\$691	\$1,324
Three-bedrooms	\$624	\$764	\$1,467
Four-bedrooms	\$668	\$820	\$1,578

Inclusionary Housing Ordinance ²			
	Very-Low Income	Low Income	Moderate Income
Studio	\$446	\$741	\$1,134
One-bedroom	\$510	\$847	\$1,297
Two-bedrooms	\$565	\$944	\$1,450
Three-bedrooms	\$624	\$1,045	\$1,607
Four-bedrooms	\$668	\$1,123	\$1,730

Workforce Housing Ordinance ³				
	120% - 121%	121% - 140%	140% - 160%	160% - 180%
Studio	\$1,387	\$1,605	\$1,834	\$2,063
One-bedroom	\$1,588	\$1,838	\$2,100	\$2,363
Two-bedrooms	\$1,786	\$2,066	\$2,361	\$2,657
Three-bedrooms	\$1,983	\$2,295	\$2,623	\$2,951
Four-bedrooms	\$2,142	\$2,479	\$2,833	\$3,187

¹ See WORKSHEET A.

² See WORKSHEET C.

³ See WORKSHEET E.

TABLE 3

2006 MAXIMUM AFFORDABLE SALES PRICES
HERITAGE SQUARE RFP
PASADENA, CALIFORNIA

California Redevelopment Law & Density Bonus Ordinance ¹			
Unit Type	Very-Low Income	Low Income	Moderate Income
Studio	\$32,600	\$59,800	\$139,000
One-bedroom	\$38,800	\$69,900	\$160,500
Two-bedrooms	\$43,100	\$78,100	\$180,000
Three-bedrooms	\$48,900	\$87,800	\$201,000
Four-bedrooms	\$52,300	\$94,300	\$216,600

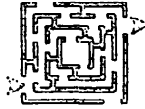
Inclusionary Housing Ordinance ²			
Unit Type	Very-Low Income	Low Income	Moderate Income
Studio	NA	\$73,300	\$163,800
One-bedroom	NA	\$85,400	\$189,000
Two-bedrooms	NA	\$95,500	\$212,100
Three-bedrooms	NA	\$107,200	\$236,600
Four-bedrooms	NA	\$115,200	\$255,000

Workforce Housing Ordinance ³			
Unit Type	121% - 140%	140% - 160%	160% - 180%
Studio	\$228,100	\$264,300	\$300,500
One-bedroom	\$262,500	\$304,000	\$345,500
Two-bedrooms	\$296,400	\$343,000	\$389,600
Three-bedrooms	\$330,200	\$381,900	\$433,700
Four-bedrooms	\$356,900	\$412,800	\$468,700

¹ See WORKSHEET B.

² See WORKSHEET D.

³ See WORKSHEET F.



KEYSER MARSTON ASSOCIATES
ADVISORS IN PUBLIC/PRIVATE REAL ESTATE DEVELOPMENT

MEMORANDUM

ADVISORS IN:
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To: Gregory Robinson, Housing Administrator
City of Pasadena

From: Julie Romey
Andrea Castro

Date: March 27, 2007

Subject: The Bakewell Company & Century Housing Corporation
Heritage Square - Feasibility Analysis

At your request, Keyser Marston Associates, Inc. (KMA) reviewed the March 2007 proposal submitted by The Bakewell Company and Century Housing Corporation (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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EXECUTIVE SUMMARY

The following summarizes the Developer's proposal:

1. The proposed scope of development does not meet many of the parameters "suggested" in the RFP. The proposed scope is described as follows:
 - a. A 40-unit senior apartment building, to be funded with 9% Low Income Housing Tax Credits (Tax Credits);
 - b. A 94-unit condominium project, including 21 senior units and 73 family units;
 - c. Approximately 20,000 square feet of commercial space, including a new Church's Chicken drive-thru restaurant; and
 - d. A semi-subterranean parking structure including 208 spaces, plus 47 open parking spaces near the retail component.
2. All 134 of the residential units will be income restricted as follows:
 - a. Very-low income units – 16%
 - b. Low income units – 22%
 - c. Moderate income units – 0%
 - d. Inclusionary units – 0%
 - e. Workforce units (160% - 180% Median) – 62%
3. 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 Senior Rental Component has a \$1.3 million financial gap. The Developer proposes for this gap to be filled by the Commission, and also to be structured as a residual receipts note.
4. KMA estimates that the proposed project has a \$5.12 million financial gap and therefore, needs free land plus \$5.12 million in financial assistance.
5. 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 range from \$10.3 to \$14.21 million, or \$76,900 to \$106,100 per unit.

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6. The Developer did not propose to use the New Market Tax Credit program. However, KMA estimated in the memorandum entitled "Heritage Square – Financial Analysis Overview", that the Commission's land donation could generate additional 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:	Commercial Component
Appendix D:	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 C	
Table 1:	Estimated Development Costs
Table 2:	Stabilized Net Operating Income
Table 3:	Residual Land Value/(Financial Gap)
Table 4:	KMA & Developer Comparison

Appendix D	
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.

Development Team

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The following identifies the members of the proposed development team:

Developer:	The Bakewell Company Century Housing Corporation
Architect:	Charles T. Bryant Associates, Inc. Jones & Martinez Architects, Inc.
Leasing & Marketing Firm:	Not Provided

Proposed Scope of Development

The Developer's proposal consists of Senior Rental, Senior and Family Ownership and Commercial components (Project). The proposal includes 134 total residential units, which equates to a density of 47 units per acre. The proposed Project also includes 158,426 square feet of gross building area (GBA), which results in a 1.29 Floor Area Ratio (FAR). The following highlights the proposed scope of development:

The following summarizes the two residential components of the Project:

Senior & Family Ownership Component	Number of Units	Unit Size (Square Feet)
One-Bedroom	48	671
Two-Bedroom	40	823
Three-Bedroom	6	1,096
Total/Weighted Average	94	762
Residential Living Area		71,704
Community Space		4,131
Circulation/Common Area		28,437
Gross Building Area		104,272

Senior Rental Component	Number of Units	Unit Size (Square Feet)
One-Bedroom	32	500
Two-Bedroom	8	750
Total/Weighted Average	40	550
Residential Living Area		22,000
Community Space		0
Circulation/Common Area		12,154
Gross Building Area		34,154

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

<u>Proposed Affordability</u>	<u>Senior Rental</u>	<u>Senior & Family Ownership</u>	<u>Total Project</u>	<u>% of Total Units</u>
Market Rate	0	0	0	0%
Very-Low	22	0	22	16%
Low	18	12	30	22%
Moderate	0	0	0	0%
Inclusionary	0	0	0	0%
Workforce	0	82	82	62%
Total Units	40	94	134	100%
% of Total Units	30%	70%	100%	

The proposed Project also includes the following:

1. A commercial component that includes 20,000 square feet of retail and office space.
2. The proposed Project amenities include the following:
 - a. A Child Development Center;
 - b. Two community rooms for residents and the general community;
 - c. Four courtyards; and
 - d. The preservation of the existing palm trees and oak tree.
3. A total of 255 parking spaces will be provided; of which 208 spaces will be located in a semi-subterranean parking garage and 47 spaces will be located on-grade. The following summarizes the distribution of the parking spaces among the three Project components:

	<u>Senior Rental</u>	<u>Senior Ownership</u>	<u>Commercial</u>
Parking Spaces	54	154	47
Parking Ratio	1.4:1	1.6:1	2.4:1,000 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	40	99	(59)
Ownership	94	49	45
Total Residential Units	134	148	(14)
Unit Distribution by Type			
% Rental	30%	66%	(36%)
% Ownership	70%	34%	36%
Unit Distribution by Age Restriction			
% Senior	46%	Over 50%	
% Family	54%	Under 50%	
Commercial Space (Sf GBA)	20,000	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	54	24	30
Senior & Family Ownership	154	198	(44)
Commercial	47	60	(13)
Total Project Parking Spaces	255	282	(27)

Financial Proposal

The Developer did not provide a written summary of the proposed financial transaction between the Developer and the Commission. However, based on the original proposal, KMA has inferred the following:

1. Each component generates the following proposed assistance package:
 - a. The assistance package requested by the Developer for the Senior and Family Ownership Component is limited to free land. However, the Developer is also requesting \$51,715 per unit in home buyer assistance for the 12 Low Income units included in this component. That equates to \$621,000 in assistance proposed to be provided directly to the home buyers;

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- b. The Senior Rental Component requires free land plus approximately \$1.3 million in financial assistance; and
 - c. The Commercial Component requires free land only.
2. The total financial assistance requested by the Developer is free land plus \$1.3 million in financial assistance.
3. The financial assistance is proposed to be structured as a residual receipts note, for which no terms were defined. The total note would include the market value of the land, which was estimated by the Developer to be \$5 million, and the \$1.3 million in financial assistance. Thus, the proposed residual receipts repayment amount totals \$6.3 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 - D, 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 \$31.3 million, or \$333,000 per unit (Appendix A – Table 1). In comparison, the Developer estimated the total development costs at \$28.56 million, or \$304,000 per unit. This \$2.74 million, or 10%, difference is caused by:
 - a. The Developer's lower than typical direct construction cost estimates; and
 - b. The Developer's lower than typical indirect cost estimates, which is caused in part by the fact that the Developer did not include a Developer Fee in the budget.
2. KMA and the Developer estimated the total project sales revenue at \$31.59 million, or \$336,000 per unit. As shown in Appendix A - Table 2, this takes into account the assumption that all of the units will be income and price restricted.

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KMA estimates that the average market sales price that the same units could generate, if there were no income and price restrictions, would be \$350,000 per unit. Therefore, the average affordability gap is estimated at \$14,000 per affordable unit.

3. The Developer assumed that the following public assistance would be applied to the 12 unit sold to low income households:
 - a. An unidentified down payment assistance program would provide \$11,715 per two-bedroom unit and \$13,170 per three-bedroom unit. This cash assistance would be provided directly to the home buyers and would be considered a grant.
 - b. A second trust deed program would provide \$40,000 per low income unit as a second trust deed.
4. The Developer is proposing to record a non-cash third trust deed against all of the units equal to the gap between the market value and the affordable price plus public assistance.
5. KMA estimated the threshold developer profit at 15% of the sales revenues, which equates to \$4.74 million. In contrast, the Developer estimated the developer profit at \$3.02 million, or 9.6% 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	\$31,587,000	\$31,587,000	\$0
(Less) Development Costs	(36,039,000)	(31,588,000)	(4,451,000)
Financial Gap	(\$4,452,000)	(\$1,000)	(\$4,451,000)
Per Unit	(\$47,400)	(\$0)	(\$47,400)
Per Sf Land Area	(\$36)	(\$0)	(\$36)

The Developer's analysis indicates that the Ownership Project does not require Commission subsidy in addition to the donation of the land. Comparatively, the KMA cost estimate, including profit, is \$4.45 million higher than the Developer's estimated costs. Given that the prices are fixed for all the units, any increase in development costs will create financial gap.

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Issues

1. The Developer states that the direct cost estimates include prevailing wages; however, the estimates are 10% 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.
2. The Developer did not include a Developer Fee in the budget, and the threshold profit is significantly lower than typical at 9.6%. It appears that the Developer expects that \$6.11 million in third trust deed liens will be placed on the affordable units, and that the Developer would receive the proceeds from these liens once the units are sold on the open market. This would increase the Developer profit to approximately 29% of sales revenues.
3. The Developer's assumption that the income restricted units will be able to sell on the open market in the foreseeable future does not meet the requirements of the various funding sources utilized to acquire the Site. These funding sources require the restricted ownership units to remain affordable for 30 to 45 years. Therefore, the Developer would not receive the proceeds from the third trust deed loans during the foreseeable future. This change from the Developer's assumptions could potentially result in a request for financial assistance for this component.
4. The Developer has not identified the funding sources that will provide the down payment assistance or the silent second mortgage assistance to the 12 low income buyers. If one or both of these sources do not materialize, the financial gap will increase on a dollar-for-dollar basis.
5. KMA estimates that the proposed Ownership Project will require \$4.45 million in financial assistance in addition to free land.

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 \$10.38 million, or \$259,500 per unit (Appendix B - Table 1). In comparison, the Developer estimated the total development costs at \$10.1 million, or \$252,500 per unit. This \$280,000, or 3%, difference is considered to be insignificant for a project of this magnitude and given the preliminary nature of the plans.

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2. KMA estimated the rental component's effective gross income (EGI) at \$283,600, and the operating expenses were estimated at \$143,000, which is detailed in Appendix B - Table 2. When the rental component's EGI is reduced by the operating expenses, the stabilized net operating income (NOI) is estimated at \$140,600. In contrast, the Developer estimated the NOI at \$154,400. This \$13,800 annual difference is a result of the Developer using incorrect utility allowances to calculate the restricted monthly rents, as well as assuming slightly lower annual operating expenses.
3. As shown in Appendix B - Table 3, KMA and the Developer assumed that the total available funding sources will include the following:
 - a. Based on the lower NOI estimate, the KMA conventional loan estimate is \$207,000 lower than the Developer's estimate.
 - b. KMA estimated the Tax Credit proceeds to be \$7.77 million, which is \$673,000 higher than the Developer's estimate. The differential is caused by an error in the Developer's Tax Credit calculations.
 - c. The Developer assumed that \$100,000 of the \$1.19 million Developer Fee would 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	\$9,266,000	\$8,800,000	\$466,000
(Less) Development Costs	(10,380,000)	(10,100,000)	(280,000)
Financial Gap	(\$1,114,000)	(\$1,300,000)	(\$186,000)
Per Unit	(\$27,900)	(\$32,500)	(\$4,600)
Per Sf Land Area	(\$9)	(\$11)	(\$2)

Both the KMA and Developer pro formas assume the land will be contributed by the Commission at no cost. The KMA analysis concludes that the proposed Senior Rental Project generates a financial gap that is \$186,000 less than the Developer's estimate of \$1.3 million. This differential can be considered relatively inconsequential.

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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 Developer did not include the 10% boost to the threshold basis limits allocated to Los Angeles County by the Tax Credit Allocation Committee (TCAC). This results in an understatement of the Tax Credit equity that would be available to the Senior Rental Component.
3. 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.
4. 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.
5. The Developer did not include other potential funding sources that could off-set the financial gap.
6. The proposed component generates a need for \$1.11 and \$1.3 million in direct financial assistance in addition to the donation of the land at no cost.

Commercial Component (Appendix C)

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 \$4.47 million, or \$220 per square foot of GBA (Appendix C -Table 1). In comparison, the Developer estimated the total development costs at \$3.09 million, or \$150 per square foot of GBA. The \$1.37 million differential is predominately explained by the Developer's lower than typical estimated construction costs.

2. KMA estimated the commercial component's EGI at \$456,000 and the operating expenses at \$22,200 (Appendix C - Table 2). When the rental component's EGI is reduced by the operating expenses, the stabilized NOI is estimated at \$443,800. In contrast, the Developer estimated the EGI at \$444,000, the operating expenses at \$44,400 and the NOI at \$399,600. 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 C - Table 3). This resulted in a \$4.82 million supportable investment.¹ In contrast, the Developer applied a 12.9% threshold return requirement to the lower NOI estimate, which resulted in a \$1.72 million lower supportable private investment.

As illustrated in Appendix C - Table 4, the estimated residual land value 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	\$4,820,000	\$3,095,000	\$1,725,000
(Less) Development Costs	(4,469,000)	(3,095,000)	(1,374,000)
Residual Land Value	\$351,000	\$0	\$351,000
Per Sf GBA	\$20	\$0	\$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. In contrast, KMA estimates that the Commercial Component can provide approximately \$351,000 in a land payment or to off-set the financial assistance requirements of the housing components.

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

¹ 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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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.

Overall Project (Appendix D)

The following summarizes the KMA and Developer financial gap estimates for the entire Project:

	KMA	Developer	Difference
Total Available Funds	\$45,673,000	\$43,482,000	\$2,191,000
(Less) Total Dev. Costs	(50,888,000)	(44,782,000)	(6,106,000)
Financial Gap	(\$5,215,000)	(\$1,300,000)	(\$3,915,000)
Per Unit	(\$38,900)	(\$9,700)	(\$29,200)
Per Sf Land Area	(\$42)	(\$11)	(\$31)

The Developer's pro forma analysis indicates that the Project requires free land plus \$1.30 million in financial assistance from a public source. In contrast, KMA estimates that the proposed Project will require a land contribution from the Commission plus a \$5.21 million in financial assistance. There are several potential funding sources that could be utilized to fill the financial gap. However, it is not anticipated that the entire gap can be filled with non-Commission resources.

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
Financial Gap	(\$5,215,000)	(\$1,300,000)	(\$3,915,000)
Plus: Actual Land Costs	(\$9,000,000)	(9,000,000)	0
Net Financial Gap	(\$14,215,000)	(\$10,300,000)	(\$3,915,000)
Per Unit	(\$106,100)	(\$76,900)	(\$29,200)

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
Financial Gap	(\$5,215,000)	(\$1,300,000)	(\$3,915,000)
Plus: Market Land Value	(\$11,000,000)	(11,000,000)	0
Net Financial Gap	(\$16,215,000)	(\$12,300,000)	(\$3,915,000)
Per Unit	(\$121,000)	(\$91,800)	(\$29,200)

EVALUATION CRITERIA

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

Funding Sources

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

	Funding Proposed
<u>Senior Rental</u>	
Conventional Loan	\$1,596,000
Tax Credits	7,104,000
Deferred Developer Fee	100,000
Total	\$8,800,000
<u>Senior & Family Ownership</u>	
Down Payment & Mortgage Assistance	\$623,000
<u>Commercial</u>	
NA	\$0

Development Costs

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

	Senior Rental	Senior & Family Ownership	Commercial
Per Unit	\$252,500	\$303,900	NA
Per Sf GBA	\$296	\$274	\$155

It should be noted that KMA estimates the development costs, as illustrated below, to be approximately 14% higher than the Developer's estimates.

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	Senior Rental	Senior & Family Ownership	Commercial
Per Unit	\$259,500	\$333,000	NA
Per Sf GBA	\$304	\$300	\$223

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 \$1.3 million in direct financial assistance be provided to the Senior Rental Component. 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 will need free land plus \$ 5.21 million in direct financial assistance to achieve financial feasibility.

Implementation of the Project

The Project includes one semi-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 \$7 million in Project costs. This will likely result in delays in the Project's implementation.

Repayment of Financial Assistance

The Developer proposes to repay \$5 million in land costs plus the \$1.3 million in financial assistance through residual receipts and ownership unit sales. The issues associated with this proposal are:

1. The land costs incurred by the Commission total \$9 million, and the estimated value is \$11 million. The Developer's repayment proposal is \$4 to \$5 million less than these amounts, respectively.
2. KMA estimates the Project's financial gap at \$5.21 million. This is \$3.91 million more than the Developer's estimate.
3. The rental component is subject to strict affordability controls, and is unlikely to generate significant cash flow over time. The ownership component is subject to long-term resale restrictions that will preclude the potential for repayment funds to be generated by resales. The only component that has the potential to generate cash flow is the Commercial Component. Thus, the residual receipts loan payments are expected to be nominal.

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Subject: Heritage Square: Bakewell/Century Housing

March 27, 2007
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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	82	0
Low & Moderate Income Units	30	12
Very-Low Income Units	22	12
Total Income Restricted Units	134	24

Of the income restricted units proposed by the Developer, the Commission would be able to receive credit for 24 inclusionary housing production units. This represents approximately 18% of the units in the Project. This would provide the Commission with credit for three inclusionary housing production units that could be applied to the Section 33413 inclusionary housing obligation created 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.

APPENDIX A
THE BAKEWELL COMPANY & CENTURY HOUSING CORPORATION
SENIOR & FAMILY OWNERSHIP COMPONENT

APPENDIX A: TABLE 1

**ESTIMATED DEVELOPMENT COSTS
94 RESIDENTIAL CONDOMINIUMS
SENIOR & FAMILY OWNERSHIP COMPONENT
THE BAKEWELL COMPANY & CENTURY HOUSING CORPORATION
PASADENA, CALIFORNIA**

I. <u>Land -Related Costs</u> ¹				
Land Acquisition				\$0
Relocation				197,000
Demolition				105,000
Off-Site Improvements				294,000
Total Land-Related Costs				\$596,000
II. <u>Direct Costs</u> ²				
On-Site Improvements	94 Units	\$10,000 /Unit		\$940,000
Parking	154 Spaces	\$20,000 /Space		3,080,000
Building Shell	104,272 Sf GBA	\$170 /Sf		17,726,000
FF&E		Allowance		50,000
Total Direct Costs	104,272 Sf GBA	\$209 /Sf		\$21,796,000
III. <u>Indirect Costs</u>				
Architecture, Engineering & Consulting	6.0% Direct Costs			\$1,308,000
Public Permits & Fees ³	94 Units	\$7,245 /Unit		681,000
Taxes, Legal & Accounting	2.0% Direct Costs			436,000
Insurance	94 Units	\$15,000 /Unit		1,410,000
Marketing ⁴	94 Units	\$5,530 /Unit		520,000
Developer Fee ⁵	3.0% Revenues			948,000
Soft Cost Contingency Allowance	5.0% Other Indirect Costs			265,000
Total Indirect Costs				\$5,568,000
IV. <u>Financing/Closing Costs</u>				
Interest & Loan Origination Fees ⁶	70.0% Financed			\$1,638,000
Resid Closing, Comm & Warranties ⁷	5.4% Residential Revenues			1,703,000
Total Financing/Closing Costs				\$3,341,000
V. Total Development Costs	104,272 Sf GBA	\$300 /Sf		\$31,301,000
Total Construction Costs	104,272 Sf GBA	\$294 /Sf		\$30,705,000

¹ Based on estimate provided by City Staff, prorated by GBA.

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 estimates provided by City Staff. Assumes permit fees are equal to \$609,947 ; and impact fees are equal to \$756 per affordable unit.

⁴ Assumes \$5,000 per unit for marketing; and \$50,000 for a model unit.

⁵ See APPENDIX A: TABLE 2 for the sales revenue estimate.

⁶ A 7.0% interest cost for debt and equity; a 21 month construction period; a 6 unit/month absorption period; 10% of the units are presold and close during first month after completion; and 2.0 points for loan origination fees.

⁷ See APPENDIX A: TABLE 2 for residential sales revenue estimates. Assumes 3.0% and 1.5% of residential sales revenues for commissions and closing costs, respectively. Also includes \$3,000/unit for warranties.

APPENDIX A: TABLE 2

**RESIDUAL LAND VALUE/(FINANCIAL GAP)
94 RESIDENTIAL CONDOMINIUMS
SENIOR & FAMILY OWNERSHIP COMPONENT
THE BAKEWELL COMPANY & CENTURY HOUSING CORPORATION
PASADENA, CALIFORNIA**

I. Residential Sales Revenues ¹			
Family Unit @ 80% CRL -2-Bdrms - 823 Sf	10 Units	\$78,100 /Unit	\$781,000
Family Unit @ 80% CRL -3-Bdrms - 1,096 Sf	2 Units	\$87,800 /Unit	176,000
Senior Unit @ 180% Workforce -1-Bdrms - 671 Sf	18 Units	\$345,500 /Unit	6,219,000
Senior Unit @ 180% Workforce -2-Bdrms - 823 Sf	3 Units	\$389,600 /Unit	1,169,000
Family Unit @ 180% Workforce -1-Bdrms - 671 Sf	30 Units	\$345,500 /Unit	10,365,000
Family Unit @ 180% Workforce -2-Bdrms - 823 Sf	27 Units	\$389,600 /Unit	10,519,000
Family Unit @ 180% Workforce -3-Bdrms - 1,096 Sf	4 Units	\$433,700 /Unit	1,735,000
Down Payment Assistance Program	12 Units	\$11,958 /Unit	143,000
Second Trust Deed Program	12 Units	\$40,000 /Unit	480,000
Total Project Sales Revenues	94 Units	\$336,000 /Unit	\$31,587,000
II. Development Costs			
Land-Related Costs	See APPENDIX A: TABLE 1		\$596,000
Construction Costs	See APPENDIX A: TABLE 1		30,705,000
Threshold Developer Profit ²	15.0% Sales Revenues		4,738,000
Total Development Costs	94 Units	\$383,400 /Unit	\$36,039,000
III. Residual Land Value/(Financial Gap)			
Total Project Sales Revenues			\$31,587,000
(Less) Total Development Costs			(36,039,000)
V. Total Residual Land Value/(Financial Gap)	94 Units	(\$47,400) /Unit	(\$4,452,000)

¹ Derived from rent market sales price data in the Northwest area of Pasadena.

² KMA estimate based on development profit requirements for similar projects.

APPENDIX A: TABLE 3

**KMA & DEVELOPER COMPARISON
SENIOR & FAMILY OWNERSHIP COMPONENT
THE BAKEWELL COMPANY & CENTURY HOUSING CORPORATION
PASADENA, CALIFORNIA**

	<u>KMA</u>	<u>DEVELOPER</u>	<u>DIFFERENCE</u>
I. <u>Development Costs</u>			
Land Assemblage	\$596,000	\$0	\$596,000
Direct Costs	21,796,000	20,380,000	1,416,000
Indirect Costs	5,568,000	2,992,000	2,576,000
Financing Costs	3,341,000	5,191,000	(1,850,000)
Total Development Costs	\$31,301,000	\$28,563,000	\$2,738,000
Per Unit	\$333,000	\$303,900	\$29,100
II. <u>Residential Sales Revenues</u>			
Family Unit @ 80% CRL	\$781,000	\$781,000	\$0
Family Unit @ 80% CRL	176,000	176,000	0
Senior Unit @ 180% Workforce	6,219,000	6,219,000	0
Senior Unit @ 180% Workforce	1,169,000	1,169,000	0
Family Unit @ 180% Workforce	10,365,000	10,365,000	0
Family Unit @ 180% Workforce	10,519,000	10,519,000	0
Family Unit @ 180% Workforce	1,735,000	1,735,000	0
Down Payment Assistance Program	143,000	143,000	0
Second Trust Deed Program	480,000	480,000	0
Total Project Sales Revenues	\$31,587,000	\$31,587,000	\$0
III. <u>Development Costs</u>			
Land Related Costs	\$596,000	\$0	\$596,000
Construction Costs	30,705,000	28,564,000	2,141,000
Threshold Developer Profit	4,738,000	3,024,000	1,714,000
Total Development Costs	\$36,039,000	\$31,588,000	\$4,451,000
IV. <u>Residual Land Value/(Financial Gap)</u>			
Total Project Sales Revenues	\$31,587,000	\$31,587,000	\$0
(Less) Total Development Costs	(36,039,000)	(31,588,000)	(4,451,000)
Residual Land Value/(Financial Gap)	(\$4,452,000)	(\$1,000)	(\$4,451,000)
Per Unit	(\$47,400)	\$0	(\$47,400)
Per Sf Land Area	(\$36)	(\$0)	(\$36)

APPENDIX B
THE BAKEWELL COMPANY & CENTURY HOUSING CORPORATION
SENIOR RENTAL COMPONENT

APPENDIX B: TABLE 1

ESTIMATED DEVELOPMENT COSTS
 22 VERY-LOW INCOME UNITS & 0 MANAGER'S UNIT
 SENIOR RENTAL COMPONENT
 THE BAKEWELL COMPANY & CENTURY HOUSING CORPORATION
 PASADENA, CALIFORNIA

I. Land-Related Costs ¹			
Land Acquisition			\$0
Relocation			65,000
Demolition			34,000
Off-Site Improvements			96,000
Total Land-Related Costs			\$195,000
II. Direct Costs ²			
On-Site Improvements	40 Units	\$10,000 /Unit	\$400,000
Building Shell	34,154 Sf GBA	\$170 /Sf	5,806,000
Semi-Subterranean Parking	54 Spaces	\$20,000 /Space	1,080,000
Furnishing		Allowance	50,000
Total Direct Costs	40 Units	\$183,400 /Unit	\$7,336,000
III. Indirect Costs			
Architecture, Engineering & Consulting	6.0% Direct Cost		\$440,000
Permits & Fees ³	40 Units	\$7,930 /Unit	317,000
Taxes, Legal & Accounting	1.5% Direct Cost		110,000
Insurance	40 Units	\$2,000 /Unit	80,000
Marketing/Leasing	40 Units	\$1,000 /Unit	40,000
Developer Fee ⁴	13% Applicable Tax Credit Basis		1,188,000
Soft Cost Contingency	5.0% Other Ind		109,000
Total Indirect Costs	40 Units	\$57,100 /Unit	\$2,284,000
IV. Financing Costs			
Capitalized Reserves ⁵	40 Units	\$1,650 /Units	\$66,000
Tax Credit Costs ⁶			51,000
Interest During Construction ⁷	\$5,377,000 Loan	7.0% Interest	339,000
Loan Origination Fees			
Construction Loan	\$5,377,000	1.50 Points	81,000
Permanent Loan	\$1,389,000	2.00 Points	28,000
Total Financing Costs	40 Units	\$14,100 /Unit	\$565,000
V. Total Development Costs	40 Units	\$259,500 /Unit	\$10,380,000

¹ Based on estimate provided by City Staff, prorated by GBA.

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 estimates provided by City Staff. Assumes permit fees are equal to \$286,814; and impact fees are equal to \$756 per affordable unit.

⁴ Equal to the amount identified by the Developer. This amount is less than the maximum allowed by TCAC.

⁵ Assumes 3 months of general operating expenses, capital reserve deposits and debt service.

⁶ Includes \$2,000 application fee; \$410/unit monitoring fee; and 4% of the gross Tax Credit proceeds for one-year.

⁷ The construction loan includes 50% of the Tax Credit equity which will not be funded during construction. Assumes a 18 month construction period; & a 60% average outstanding balance.

APPENDIX B: TABLE 2

**STABILIZED NET OPERATING INCOME
22 VERY-LOW INCOME UNITS & 0 MANAGER'S UNIT
SENIOR RENTAL COMPONENT
THE BAKEWELL COMPANY & CENTURY HOUSING CORPORATION
PASADENA, CALIFORNIA**

I. <u>Income</u>¹				
Manager	0 Units @	\$0 /Month		\$0
<u>VL Inc Redev/Tax Credit @ 30% Median</u>				
1-Bdrm @ 500 Sf	4 Units @	\$336 /Month		16,100
<u>VL Inc Redev/Tax Credit @ 35% Median</u>				
1-Bdrm @ 500 Sf	4 Units @	\$401 /Month		19,200
<u>VL Inc Redev/Tax Credits @ 40% Median</u>				
1-Bdrm @ 500 Sf	4 Units @	\$466 /Month		22,400
<u>Tax Credits @ 45% Median</u>				
1-Bdrm @ 500 Sf	4 Units @	\$531 /Month		25,500
<u>Tax Credit @ 50% Median</u>				
1-Bdrm @ 500 Sf	6 Units @	\$596 /Month		42,900
<u>Tax Credit @ 60% Median</u>				
1-Bdrm @ 500 Sf	10 Units @	\$726 /Month		87,100
2-Bdrms @ 750 Sf	8 Units @	\$868 /Month		83,300
Laundry/Miscellaneous Income	40 Units @	\$5 /Month		2,000
Gross Income				\$298,500
(Less) Vacancy and Collection	5.0% Gross Income			(14,900)
II. Effective Gross Income (EGI)				\$283,600
III. <u>Operating Expenses</u>²				
General Operating Expenses	40 Units @	\$3,200 /Unit		\$128,000
Property Taxes ³	40 Units @	\$75 /Unit		3,000
Supportive Services ⁴	40 Units @	\$0 /Unit		0
Capital Reserve	40 Units @	\$300 /Unit		12,000
Total Operating Expenses	40 Units @	(\$3,580) /Unit		(\$143,000)
IV. <u>Net Operating Income</u>				\$140,600

¹ Based on Los Angeles County 2006 incomes distributed by HUD/HCD. As pertinent, the rents are based on California Health & Safety Code Section 50053; and rents published by TCAC. Utilities allowances: 1-Bdrm - \$53 and 2-Bdrm - \$68; the manager's unit is treated as a low income Tax Credit unit.

² Based on KMA experience with similar projects.

³ Based on assumption that the Developer will receive the property tax abatement accorded to nonprofit organization that develop income restricted apartments.

⁴ Based on Developer estimates.
Prepared by: Keyser Marston Associates, Inc.