

APPENDIX B: TABLE 3

RESIDUAL LAND VALUE/(FINANCIAL GAP)  
 22 VERY-LOW INCOME UNITS & 0 MANAGER'S UNIT  
 SENIOR RENTAL COMPONENT  
 THE BAKEWELL COMPANY & CENTURY HOUSING CORPORATION  
 PASADENA, CALIFORNIA

<b>I. Available Funding Sources</b>			
<b>A. Conventional Financing</b>			
Net Operating Income	\$140,600		
Avail for Debt Service @ 115% Coverage	\$122,300		
Interest Rate/Mortgage Constant	8.00% Interest	8.81% Constant	
<b>Total Supportable Debt</b>			<b>\$1,389,000</b>
<b>B. Federal Low Income Housing Tax Credit Proceeds <sup>1</sup></b>			
Gross Tax Credit Value	\$8,195,000		
Syndication Value	\$0.95 /Tax Credit Dollar		
<b>Net Tax Credit Value</b>			<b>\$7,777,000</b>
<b>C. Deferred Developer Fee <sup>2</sup></b>			
			<b>\$100,000</b>
<b>Total Available Funding Sources</b>			<b>\$9,266,000</b>
<b>II. Residual Land Value/(Financial Gap)</b>			
Total Available Funding Sources			\$9,266,000
(Less) Total Development Costs			(10,380,000)
<b>III. Total Residual Land Value/(Financial Gap)</b>	<b>40 Units</b>	<b>(\$27,900) /Unit</b>	<b>(\$1,114,000)</b>

<sup>1</sup> \$10.1 million eligible basis (including a 130% difficult to develop premium); an 8.10% tax credit rate; and an applicable fraction of 100%.

<sup>2</sup> Based on Developer estimates.

APPENDIX B: TABLE 4

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

	<u>KMA</u>	<u>DEVELOPER</u>	<u>DIFFERENCE</u>
<b>I. <u>Development Costs</u></b>			
Land-Related Costs	\$195,000	\$476,000	(\$281,000)
Direct Costs	7,336,000	6,577,000	759,000
Indirect Costs	2,284,000	2,298,000	(14,000)
Financing Costs	565,000	749,000	(184,000)
<b>Total Development Costs</b>	<b>\$10,380,000</b>	<b>\$10,100,000</b>	<b>\$280,000</b>
Per Unit	\$259,500	\$252,500	\$7,000
Per Sf GBA	\$300	\$300	\$10
<b>II. <u>Net Operating Income</u></b>			
Effective Gross Income	\$283,600	\$290,300	(\$6,700)
(Less) Operating Expenses	(143,000)	(135,900)	(7,100)
<b>Net Operating Income</b>	<b>\$140,600</b>	<b>\$154,400</b>	<b>(\$13,800)</b>
<b>III. <u>Available Funding Sources</u></b>			
Conventional Financing	\$1,389,000	\$1,596,000	(\$207,000)
Federal Low Income Tax Credits	7,777,000	7,104,000	673,000
Deferred Developer Fee	100,000	100,000	0
<b>Total Available Funding Sources</b>	<b>\$9,266,000</b>	<b>\$8,800,000</b>	<b>\$466,000</b>
Per Unit	\$231,700	\$220,000	\$11,700
<b>IV. <u>Residual Land Value/(Financial Gap)</u></b>			
Total Available Funding Sources	\$9,266,000	\$8,800,000	\$466,000
(Less) Total Development Costs	(10,380,000)	(10,100,000)	(280,000)
<b>V. Total Residual Land Value/(Financial Gap)</b>	<b>(\$1,114,000)</b>	<b>(\$1,300,000)</b>	<b>\$186,000</b>
Per Unit	(\$27,900)	(\$32,500)	\$4,700
Per Sf Land Area	(\$9)	(\$11)	\$2

**APPENDIX C**  
**THE BAKEWELL COMPANY & CENTURY HOUSING CORPORATION**  
**COMMERCIAL COMPONENT**

APPENDIX C: TABLE 1

ESTIMATED DEVELOPMENT COSTS  
 COMMERCIAL COMPONENT  
 THE BAKEWELL COMPANY & CENTURY HOUSING CORPORATION  
 PASADENA, CALIFORNIA

<b>I. <u>Land-Related Costs</u><sup>1</sup></b>				
Land Acquisition				\$0
Demolition				38,000
Relocation				21,000
Off-Site Improvements	\$56,000	Allowance		56,000
				\$115,000
<b>II. <u>Direct Costs</u><sup>2</sup></b>				
On-Site Improvements	20,000	Sf GBA	\$10 /Sf GBA	\$200,000
At-Grade Parking <sup>3</sup>	47	Spaces	\$3,000 /Space	141,000
Building Shell	20,000	Sf GBA	\$120 /Sf GBA	2,400,000
Tenant Improvements	20,000	Sf GLA	\$30 /Sf GBA	600,000
<b>Total Direct Costs</b>				\$3,341,000
<b>III. <u>Indirect Costs</u></b>				
Architecture, Eng. & Consulting	6.0%	Direct Costs		\$200,000
Permits & Fees <sup>1</sup>	20,000	Sf GBA	\$6.35 /Sf GBA	127,000
Taxes, Legal & Accounting	2.0%	Direct Cost		67,000
Insurance	1.0%	Direct Cost		33,000
Marketing/Leasing	20,000	Sf GBA	\$5.00 /Sf GBA	100,000
Developer Fee	3.0%	Direct Cost		100,000
Contingency Allowance	5.0%	Other Ind		31,000
<b>Total Indirect Costs</b>				\$658,000
<b>IV. <u>Financing Costs</u></b>				
Interest During Construction				
Construction <sup>4</sup>	\$3,256,000	Cost	7.00% Interest	173,000
Loan Origination Fees				
Construction Loan	\$3,256,000	Cost	1.50 Points	49,000
Permanent Financing <sup>5</sup>	\$3,718,000	Loan	2.00 Points	74,000
Closing Costs <sup>6</sup>				59,000
<b>Total Financing Costs</b>				\$355,000
<b>V. Total Development Costs</b>	<b>20,000</b>	<b>Sf GBA</b>	<b>\$223 /Sf GBA</b>	<b>\$4,469,000</b>

<sup>1</sup> Based on estimate provided by City Staff.

<sup>2</sup> 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.

<sup>3</sup> Based on KMA experience with similar product type.

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

<sup>5</sup> Based on a 60% loan to value ratio and a 7.0% capitalization rate.

<sup>6</sup> Based on Developer estimate.

APPENDIX C: TABLE 2

STABILIZED NET OPERATING INCOME  
 COMMERCIAL COMPONENT  
 THE BAKEWELL COMPANY & CENTURY HOUSING CORPORATION  
 PASADENA, CALIFORNIA

I.	<b>Gross Income</b> <sup>1</sup>			
	Retail	20,000 Sf GLA	\$2.00 /Sf/Month	\$480,000
				\$480,000
	(Less) Vacancy & Collection Allowance	5% Gross Income		(24,000)
II.	<b>Effective Gross Income</b>			\$456,000
III.	<b>Unreimbursed Operating Expenses</b>			
	Management	4.0% EGI		\$18,200
	General Expenses <sup>2</sup>	1,000 Sf GLA	\$1.00 /SF GLA	1,000
	Reserves	20,000 Sf GLA	\$0.15 /SF GLA	3,000
	<b>Total Unreimbursed Operating Expenses</b>			(\$22,200)
IV.	<b>Net Operating Income</b>			<b>\$433,800</b>

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

<sup>2</sup> Cost assessed against vacant space.

APPENDIX C: TABLE 3

RESIDUAL LAND VALUE/(FINANCIAL GAP)  
 COMMERCIAL COMPONENT  
 THE BAKEWELL COMPANY & CENTURY HOUSING CORPORATION  
 PASADENA, CALIFORNIA

---

I.	<b><u>Supportable Private Investment</u></b>			
	Net Operating Income	See APPENDIX C: TABLE 2	\$433,800	
	Return on Total Investment		9.00%	
	<b>Total Supportable Private Investment</b>			<b>\$4,820,000</b>
II.	<b>Estimated Construction Costs</b>	See APPENDIX C: TABLE 1		<b>\$4,469,000</b>
III.	<b>Total Residual Land Value/(Financial Gap)</b>	<b>20,000 Sf GBA</b>	<b>\$18 /Sf GBA</b>	<b>\$351,000</b>

APPENDIX C: TABLE 4

**KMA & DEVELOPER COMPARISON  
COMMERCIAL COMPONENT  
THE BAKEWELL COMPANY & CENTURY HOUSING CORPORATION  
PASADENA, CALIFORNIA**

	<u>KMA</u>	<u>DEVELOPER</u>	<u>DIFFERENCE</u>
<b>I. <u>Development Costs</u></b>			
Land Assemblage	\$115,000	\$0	\$115,000
Direct Costs	3,341,000	2,451,000	890,000
Indirect Costs	658,000	264,000	394,000
Financing Costs	355,000	380,000	(25,000)
<b>Total Development Costs</b>	<b>\$4,469,000</b>	<b>\$3,095,000</b>	<b>\$1,374,000</b>
Per Sf GBA	\$220	\$150	\$70
<b>II. <u>Effective Gross Income</u></b>			
Effective Gross Income	\$456,000	\$444,000	\$12,000
(Less) Operating Expenses	(22,200)	(44,400)	22,200
<b>Net Operating Income</b>	<b>\$433,800</b>	<b>\$399,600</b>	<b>\$34,200</b>
<b>III. <u>Supportable Private Investment</u></b>			
Net Operating Income	\$433,800	\$399,600	\$34,200
Return on Total Investment	9.0%	12.9%	
<b>Total Supportable Private Investment</b>	<b>\$4,820,000</b>	<b>\$3,095,000</b>	<b>\$1,725,000</b>
<b>IV. <u>Residual Land Value/(Financial Gap)</u></b>			
Total Supportable Private Investment	\$4,820,000	\$3,095,000	\$1,725,000
(Less) Total Development Costs	(4,469,000)	(3,095,000)	(1,374,000)
<b>V. Total Residual Land Value/(Financial Gap)</b>	<b>\$351,000</b>	<b>\$0</b>	<b>\$351,000</b>
Per Sf GBA	\$20	\$0	\$20

**APPENDIX D**  
**THE BAKEWELL COMPANY & CENTURY HOUSING CORPORATION**  
**DEVELOPMENT COMPONENTS SUMMARY**



APPENDIX D - TABLE 1

KMA DEVELOPMENT COMPONENTS SUMMARY  
 THE BAKEWELL COMPANY & CENTURY HOUSING CORPORATION  
 PASADENA, CALIFORNIA

	SENIOR RENTAL COMPONENT	SENIOR & FAMILY OWNERSHIP COMPONENT	COMMERCIAL COMPONENT	TOTAL PROJECT
<b>I. Project Description</b>				
Number of Units	40	94	NA	134
Number of Affordable Units	40	94	NA	134
Gross Building Area (Sf)	34,154	104,272	20,000	158,426
<b>II. Development Costs</b>				
Land Assemblage	\$195,000	\$596,000	\$115,000	\$906,000
Direct Costs	7,336,000	21,796,000	3,341,000	32,473,000
Indirect Costs	2,284,000	5,568,000	658,000	8,510,000
Financing Costs	565,000	3,341,000	355,000	4,261,000
<b>Total Development Costs</b>	<b>\$10,380,000</b>	<b>\$31,301,000</b>	<b>\$4,469,000</b>	<b>\$46,150,000</b>
Per Unit	\$259,500	\$333,000	NA	\$344,400
Per SF GBA	\$304	\$300	\$223	\$291
<b>III. Average Monthly Rents/Sales/Prices</b>				
Per Unit	\$620	\$336,000	NA	
Per Sf Net Area	\$1.13	\$440	\$2.00	
<b>IV. Net Operating Income/Sales Revenues</b>	\$140,600	\$31,587,000	\$433,800	\$45,673,000
<b>V. Available Funding Sources/Supportable Investment</b>	\$9,266,000	\$31,587,000	\$4,820,000	\$45,673,000
Required Return on Investment	NA	NA	9%	
<b>VI. Residual Land Value/(Financial Gap)</b>				
Available Funding Sources/Supportable Investment	\$9,266,000	\$31,587,000	\$4,820,000	\$45,673,000
(Less) Threshold Developer Profit	NA	(4,738,000)	NA	(4,738,000)
(Less) Development Costs	(10,380,000)	(31,301,000)	(4,469,000)	(46,150,000)
<b>VII. Residual Land Value/(Financial Gap)</b>	<b>(\$1,114,000)</b>	<b>(\$4,452,000)</b>	<b>\$351,000</b>	<b>(\$5,215,000)</b>
Per Unit	(\$27,900)	(\$47,400)	NA	
Per SF GBA	(\$33)	(\$43)	\$18	(\$33)
<b>VIII. Net Financial Surplus / (Gap)</b>				
A. Land Acquisition at Commission Cost	Residual Land Value / (Financial Gap)	(Less) Land Cost / Value	Net Financial Surplus / (Gap)	\$/Unit
	(\$5,215,000)	(\$9,000,000)	(\$14,215,000)	(\$106,100)
B. Land Acquisition at Estimated Market Value	(\$5,215,000)	(\$11,000,000)	(\$16,215,000)	(\$121,000)

APPENDIX D - TABLE 2

DEVELOPER DEVELOPMENT COMPONENTS SUMMARY  
 THE BAKEWELL COMPANY & CENTURY HOUSING CORPORATION  
 PASADENA, CALIFORNIA

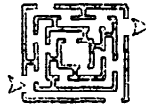
	SENIOR RENTAL COMPONENT	SENIOR & FAMILY OWNERSHIP COMPONENT	COMMERCIAL COMPONENT	TOTAL PROJECT
<b>I. Project Description</b>				
Number of Units	40	94	NA	134
Number of Affordable Units	40	94	NA	134
Gross Building Area (SF)	34,154	104,272	20,000	158,426
<b>II. Development Costs</b>				
Land-Related Costs	\$476,000	\$0	\$0	\$476,000
Direct Costs	6,577,000	20,380,000	2,451,000	29,408,000
Indirect Costs	2,298,000	2,992,000	264,000	5,554,000
Financing Costs	749,000	5,191,000	380,000	6,320,000
<b>Total Development Costs</b>	<b>\$10,100,000</b>	<b>\$28,563,000</b>	<b>\$3,095,000</b>	<b>\$41,758,000</b>
Per Unit	\$252,500	\$303,900	NA	\$311,600
Per SF GBA	\$296	\$274	\$155	\$264
<b>III. Average Monthly Rents/Sales Prices</b>				
Per Unit	\$632	\$336,000	NA	
Per SF Net Area	\$1.15	\$440	\$1.85	
<b>IV. Net Operating Income/Sales Revenues</b>	\$154,400	\$31,587,000	\$399,600	\$43,482,000
<b>V. Available Funding Sources/Supportable Investment</b>	\$8,800,000	\$31,587,000	\$3,095,000	\$43,482,000
Required Return on Investment	NA	NA	12.91%	
<b>VI. Residual Land Value/(Financial Gap)</b>				
Available Funding Sources/Supportable Investment	\$8,800,000	\$31,587,000	\$3,095,000	\$43,482,000
(Less) Threshold Developer Profit	NA	(3,024,000)	NA	(3,024,000)
(Less) Development Costs	(10,100,000)	(28,563,000)	(3,095,000)	(41,758,000)
<b>VII. Residual Land Value/(Financial Gap)</b>	<b>(\$1,300,000)</b>	<b>\$0</b>	<b>\$0</b>	<b>(\$1,300,000)</b>
Per Unit	(\$32,500)	\$0	NA	
Per SF GBA	(\$38)	\$0	\$0	(\$8)
<b>VIII. Net Financial Surplus / (Gap)</b>				
<b>A. Land Acquisition at Commission Cost</b>	Residual Land Value / (Financial Gap)	(Less) Land Cost / Value	Net Financial Surplus / (Gap)	\$/Unit
	(\$1,300,000)	(\$9,000,000)	(\$10,300,000)	(\$76,900)
<b>B. Land Acquisition at Estimated Market Value</b>	(\$1,300,000)	(\$11,000,000)	(\$12,300,000)	(\$91,800)

Prepared by: Keyser Marston Associates, Inc.  
 File name: Proposal Analysis - Bakewell - Final APPX D - TABLE 2, 3/27/2007, .doc

APPENDIX D - TABLE 3

KMA & DEVELOPER DEVELOPMENT COMPONENTS SUMMARY  
 THE BAKEWELL COMPANY & CENTURY HOUSING CORPORATION  
 PASADENA, CALIFORNIA

	KMA ANALYSIS	DEVELOPER ANALYSIS	DIFFERENCE
<b>I. Project Description</b>			
Number of Units	134	134	0
Number of Affordable Units	134	134	0
Gross Building Area (Sf)	158,426	158,426	0
<b>II. Development Costs</b>			
Senior Rental Project	\$10,380,000	\$10,100,000	\$280,000
Senior / Family Ownership Project (Includes Profit)	36,039,000	31,587,000	4,452,000
Commercial Project	4,469,000	3,095,000	1,374,000
<b>Total Development Costs</b>	<b>\$50,888,000</b>	<b>\$44,782,000</b>	<b>\$6,106,000</b>
Per Unit	\$379,800	\$334,200	\$45,600
Per SF GBA	\$320	\$280	\$40
<b>V. Available Funding Sources/Supportable Investment</b>			
Senior Rental Project	\$9,266,000	\$8,800,000	\$466,000
Senior / Family Ownership Project	31,587,000	31,587,000	0
Commercial Project	4,820,000	3,095,000	1,725,000
<b>Total Available Sources / Supportable Investment</b>	<b>\$45,673,000</b>	<b>\$43,482,000</b>	<b>\$2,191,000</b>
<b>VI. Residual Land Value/(Financial Gap)</b>			
Senior Rental Project	(\$1,114,000)	(\$1,300,000)	\$188,000
Senior / Family Ownership Project	(4,452,000)	0	(4,452,000)
Commercial Project	351,000	0	351,000
<b>VII. Residual Land Value/(Financial Gap)</b>	<b>(\$5,215,000)</b>	<b>(\$1,300,000)</b>	<b>(\$3,915,000)</b>
Per Unit	(\$38,900)	(\$9,700)	(\$29,200)
Per Sf GBA	(\$33)	(\$8)	(\$25)
Per Sf Land Area	(\$42)	(\$11)	(\$31)
<b>VIII. Net Financial Surplus / (Gap)</b>			
A. Land Acquisition at Commission Cost	(\$14,215,000)	(\$10,300,000)	(\$3,915,000)
Per Unit	(\$106,100)	(\$76,900)	(\$29,200)
B. Land Acquisition at Estimated Market Value	(\$16,215,000)	(\$12,300,000)	(\$3,915,000)
Per Unit	(\$121,000)	(\$91,800)	(\$29,200)



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. WEYMORE

LOS ANGELES  
CALVIN E. HOLLIS, II  
KATHLEEN H. HEAD  
JAMES A. RABE  
PAUL C. ANDERSON  
GREGORY D. SOO-HOO  
KEVIN E. ENGSTROM  
JULIE L. ROMIEY

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 Housing Partners  
Heritage Square - Feasibility Analysis

At your request, Keyser Marston Associates, Inc. (KMA) reviewed the March 2007 proposal submitted by Heritage Housing Partners (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.

**EXECUTIVE SUMMARY**

The following summarizes the Developer's proposal:

1. The proposed scope is described as follows:

500 SOUTH GRAND AVENUE, SUITE 1480 ▷ LOS ANGELES, CALIFORNIA 90071 ▷ PHONE 213 622 8095 ▷ FAX 213 622 5204

**To:** Gregory Robinson, City of Pasadena  
**Subject:** Heritage Housing Partnership -Feasibility Analysis

March 27, 2007  
Page 2

- a. A 32-unit condominium project, of which all units will be reserved for families;
  - b. A 41-unit multi-family apartment building, to be funded with 9% Low Income Housing Tax Credits (Tax Credits);
  - c. A 27-unit historic rental housing project, of which all units are dedicated to senior citizens;
  - d. Approximately 16,000 square feet of commercial space, including a food service, retail, office, and medical clinic uses; and
  - e. Two separate subterranean parking structure including a total of 279 spaces.
  - f. All 100 of the residential units will be income restricted as follows:
    - i. Very-low income units – 40%
    - ii. Low income units – 1%
    - iii. Moderate income units – 0%
    - iv. Inclusionary units – 41%
    - v. Workforce units – 12%
2. The Developer requests that the Commission provide approximately \$5.37 million in financial assistance plus free land.
  3. KMA estimates that the financial gap associated with the proposed project is \$7.29 million.
  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 \$16.30 million, or \$162,900 per unit.
  5. New Market Tax Credit proceeds have been included in both the KMA and Developer analyses.

**To:** Gregory Robinson, City of Pasadena  
**Subject:** Heritage Housing Partnership -Feasibility Analysis

March 27, 2007  
Page 3

## ANALYSIS ORGANIZATION

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

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

Appendices A through E 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.

### Development Team

The following identifies the members of the proposed development team:

Developer:	Heritage Housing Partners Los Angeles Community Design Center Clarence Broussard & Associates
Architect:	J Lou Architect
Leasing & Marketing Firm:	Pasadena Neighborhood Housing Services

**Proposed Scope of Development**

The Developer's proposal consists of Family Rental, Historic Senior Rental, Family Ownership and Commercial components (Project). The proposal includes 100 total residential units, which equates to a density of 35 units per acre. The proposed Project also includes 113,050 square feet of gross building area (GBA), which results in a 0.92 Floor Area Ratio (FAR). The following highlights the proposed scope of development:

The following summarizes the three residential components of the Project:

Family Ownership Component	Number of Units	Unit Size (Square Feet)
One-Bedroom	11	850
Two-Bedrooms	11	1,050
Three-Bedrooms	10	1,250
Total/Weighted Average	32	1,044
Residential Living Area		34,400
Community Space		0
Circulation/Common Area		0
Gross Building Area		34,400

Family Rental Component	Number of Units	Unit Size (Square Feet)
Two-Bedroom	28	850
Three-Bedrooms	13	1,050
Total/Weighted Average	41	913
Residential Living Area		37,450
Community Space		1,500
Childcare Center		3,350
Circulation/Common Area		8,500
Gross Building Area		50,800

Historic Senior Rental Component	Number of Units	Unit Size (Square Feet)
One-Bedroom	27	600
Total/Weighted Average	27	600
Residential Living Area		16,200
Community Space		0
Circulation/Common Area		0
Gross Building Area		16,200

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

**To:** Gregory Robinson, City of Pasadena  
**Subject:** Heritage Housing Partnership -Feasibility Analysis

March 27, 2007  
Page 5

Proposed Affordability	Family Ownership	Family Rental	Historic Senior Rental	Total Project	% of Total Units
Market Rate	6	0	0	6	6%
Very-Low	0	40	0	40	40%
Low	0	1	0	1	1%
Moderate	0	0	0	0	0%
Inclusionary	14	0	27	41	41%
Workforce	12	0	0	12	12%
Total Units	32	41	27	100	100%
% of Total Units	32%	41%	27%	100%	

The proposed Project also includes the following:

1. A commercial component that includes 16,000 square feet of retail, food service, medical clinic, and office space.
2. A total of 279 parking spaces, of which 255 are provided in two separate subterranean parking garage and 24 on-grade spaces. The following summarizes the distribution of the parking spaces among the three Project components:

	Historic Senior Rental	Family Rental	Senior Ownership	Commercial
Parking Spaces Parking Ratio	.06:1	2.1:1	2.1:1	6.8:1,000 Sf

**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	68	99	(31)
Ownership	32	49	(17)
Total Residential Units	100	148	(48)
Unit Distribution by Type			
% Rental	68%	66%	2%
% Ownership	32%	34%	(2%)
Unit Distribution by Age Restriction			
% Senior	27%	Over 50%	
% Family	73%	Under 50%	
Commercial Space (Sf GBA)	16,000	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			
Family Rental	86	60	26
Historic Rental	17	47	(30)
Family Ownership	67	30	37
Commercial	109	122	(13)
Total Project Parking Spaces	279	259	20

**Financial Proposal**

While the proposal stated that the Developer is requesting \$7.80 million from the Commission, the pro forma indicates that they are requesting \$5.37 million in direct financial assistance plus free land. However, the proposal also itemized the assistance as follows:

1. Each component generates the following proposed assistance package:
  - a. The Developer plans to use New Market Tax Credits (NMTC) to fund the subterranean parking structure that will serve the three housing components. As such, the Developer requests that the Commission provide \$6.80 million in cash to be invested in the NMTC LLC. Within 48 hours, the Commission would be paid \$3.40 million for the land associated with the parking structure from the Project. Therefore, the net Commission assistance will be \$3.40 million, or \$18,900 per space. It should be noted that the Developer did not apply any parking costs to the housing components.

**To:** Gregory Robinson, City of Pasadena  
**Subject:** Heritage Housing Partnership -Feasibility Analysis

March 27, 2007

Page 7

- b. The Family Ownership Component requires free land only.
  - c. The Family Rental Component requires free land plus \$1.20 million in financial assistance.
  - d. The Historic Senior Rental Component requires free land plus \$1.50 million in financial assistance.
  - e. The Commercial Component requires free land that will be structured as equity in a second NMTC structure.
2. Therefore, the total financial assistance requested by the Developer is free land plus \$6.10 million in financial assistance. This figure does not match the total mentioned in the revised proposal or in the pro formas provided by the Developer.
  3. The financial assistance is proposed to be structured as a combination of residual receipts notes and forgivable land loans.

#### **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". It should be noted that KMA has prorated the parking costs and NMTC benefits across the three housing components.

#### **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 \$11.15 million, or \$348,500 per unit (Appendix A - Table 1). In comparison, the Developer estimated the total development costs at \$11.03 million, or \$344,700 per unit. This \$121,000, or 1%, difference is considered to be insignificant given the magnitude of the Project and the early stage of the plans. It should be noted that the \$14,000 per space benefit from NMTC proceeds off-set the parking garage costs.

To: Gregory Robinson, City of Pasadena  
Subject: Heritage Housing Partnership -Feasibility Analysis

March 27, 2007  
Page 8

2. KMA estimated the total project sales revenue at \$9.92 million, or \$309,900 per unit. As shown in Appendix A - Table 2, this takes into account the assumption that 26 of the units will be restricted and sold at inclusionary moderate income and workforce housing sales prices. The remaining six units will be sold at market rate sales prices. Comparatively, the Developer estimated the total revenues at \$10.42 million, or \$325,700 per unit. The \$504,000 differential is the result of the Developer adding a 3% inflation factor to the income restricted prices.
3. KMA estimated the threshold developer profit at 15% of the sales revenues, which equates to \$1.49 million. In contrast, the Developer did not call out a developer profit for this component.

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	\$9,918,000	\$10,422,000	(\$504,000)
(Less) Development Costs	(12,639,000)	(11,031,000)	(1,608,000)
Financial Gap	(\$2,721,000)	(\$609,000)	(\$2,112,000)
Per Unit	(\$85,000)	(\$19,000)	(\$66,000)
Per Sf Land Area	(\$22)	(\$5)	(\$17)

The KMA indicates that the Ownership Component generates a financial gap and would therefore, require free land plus \$2.72 million in financial assistance.

#### **Issues**

1. The Developer did not include a threshold developer profit. Based on the KMA analysis, a threshold return of 15% would increase the Developer's financial gap by approximately \$1.50 million.
2. The Developer has assumed that the Los Angeles County income limits will increase by 3% by 2008. If this does not materialize, the maximum affordable sales prices will be approximately \$500,000 lower than currently estimated. As such, the financial gap will increase on a dollar for dollar basis.

#### **Family Rental Component (Appendix B)**

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

**To:** Gregory Robinson, City of Pasadena  
**Subject:** Heritage Housing Partnership -Feasibility Analysis

March 27, 2007  
Page 9

1. KMA estimated the total development costs at \$15.47 million, or \$377,400 per unit, as illustrated in Appendix B - Table 1. In comparison, the Developer estimated the total development costs at \$20.16 million, or \$491,700 per unit. This \$4.69 million, or 23%, difference is a result of the Developer's estimated construction costs being at a higher rate than those experienced by similar projects.
2. KMA estimated the rental component's stabilized net operating income (NOI) at \$121,200, which is detailed in Appendix B - Table 2. In contrast, the Developer estimated the NOI at \$117,300. This \$3,900 annual difference is a result of the Developer using incorrect 50% rents for the three-bedroom units.
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 \$29,000 higher than the Developer's estimate.
  - b. KMA estimated the Tax Credit proceeds to be \$9.79 million, which is \$1.46 million lower than the Developer's estimate. This differential is a result of KMA estimating the construction costs to be 23% lower than the Developer's estimates.
  - 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 \$1.20 million grant from the Center for Community and Family Services to off-set the costs of the proposed childcare center.
    - ii. A \$200,000 Affordable Housing Program (AHP) grant will be awarded to the Project; and
    - iii. A \$1.66 million City of Industry loan will also be provided to the Project.
    - iv. This component's share of the \$2.60 million subsidy from the NMTC program, is estimated to be \$1.39 million.
  - d. Approximately \$581,000 of the \$1.48 million Developer Fee will be deferred and paid out of project cash flow.

To: Gregory Robinson, City of Pasadena  
Subject: Heritage Housing Partnership -Feasibility Analysis

March 27, 2007  
Page 10

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	\$16,014,000	\$17,450,000	(\$1,436,000)
(Less) Development Costs	(15,474,000)	(20,160,000)	4,686,000
Residual Land Value / (Gap)	\$540,000	(\$2,710,000)	\$3,250,000
Per Unit	\$13,200	(\$66,100)	\$79,300
Per Sf Land Area	\$4	(\$22)	\$26

Therefore, the KMA analysis concludes that the proposed Family Rental Project generates an estimated \$540,000 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 50% rents for the three-bedroom units. This results in the Developer projecting lower 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. Given that the proposed Project is not age restricted, and the Tax Credit Allocation Committee (TCAC) allocation process is heavily weighted towards multi-family restricted projects, it is likely that the proposed Project will receive this funding.
3. 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 bonds from California Debt Limit 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 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.
4. The Developer's cost estimates are 23% higher than KMA's estimates, which are based on similar projects and includes prevailing wages.

To: Gregory Robinson, City of Pasadena  
Subject: Heritage Housing Partnership -Feasibility Analysis

March 27, 2007  
Page 11

5. While the Developer states that the Family Rental Component needs to receive the Site at no upfront cost, the KMA analysis indicates that the proposed Project can warrant a \$540,000 land payment.

### **Historic Senior 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 \$4.90 million, or \$181,600 per unit, as illustrated in Appendix C - Table 1. In comparison, the Developer estimated the total development costs at \$5.25 million, or \$194,400 per unit. This \$345,000, or 7%, is the result of the Developer's legal and developer fee estimates are considerably higher than those experienced by similar projects.
2. KMA estimated the rental component's stabilized NOI is estimated at \$229,400 (Appendix C - Table 2). In contrast, the Developer estimated the NOI at \$186,400. This \$43,000 annual difference is a result of the following:
  - a. The Developer's rent schedule did not deduct utility allowances from the inclusionary moderate income rents; and
  - b. The Developer's operating expenses assumptions are higher than typical.
3. As shown in Appendix C - Table 3, the KMA and Developer estimated total available funding sources include the following:
  - a. KMA estimated the maximum supportable private investment for the Project totals \$2.55 million, which assumes a 9.0% threshold return on investment. In contrast, the Developer estimated the private investment to total \$2.51 million, assuming a 7.4% return on investment.
  - b. The Developer estimates that the Fuller Foundation will provide \$300,000 to off-set the cost of moving the 27 units onto the Site. KMA also utilized this assumption.
  - c. This component's share of the \$2.60 million subsidy from the NMTC program, is estimated to be \$246,000.
  - d. The Developer estimated that \$785,000 in excess profit from the Ownership Component will be applied to the Historic Senior Rental Component. However, the KMA does not estimate that there will be any excess proceeds to apply to this Component.

To: Gregory Robinson, City of Pasadena  
Subject: Heritage Housing Partnership -Feasibility Analysis

March 27, 2007  
Page 12

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	\$3,095,000	\$3,845,000	(\$750,000)
(Less) Development Costs	(4,903,000)	(5,248,000)	345,000
Financial Gap	(\$1,808,000)	(\$1,403,000)	(\$405,000)
Per Unit	(\$67,000)	(\$52,000)	(\$15,000)
Per Sf Land Area	(\$15)	(\$11)	(\$4)

Therefore, the KMA analysis concludes that the proposed Historic Senior Rental Project generates a need for free land plus \$1.81 million.

### **Issues**

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

1. The Developer's development cost estimates are 7% higher than the KMA estimates due to higher indirect cost estimates, in particular the Developer estimated the developer fee and legal costs to be considerably higher than is typically experienced by similar projects.
2. The Developer did not deduct utility allowances from the restricted rents causing the effective gross income to be higher than the income restrictions would allow.
3. The Developer will not have any equity in the proposed Project.
4. While the Developer's pro forma indicates the Family Rental Component needs \$1.40 million in financial assistance in addition to free land, the KMA analysis indicates that the proposed Project will need \$1.81 million in financial assistance as well as free land.

### **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 at \$7.39 million, or \$460 per square foot of GBA (Appendix D -Table 1). In comparison, the Developer estimated the total development costs at \$7.64 million, or \$480 per square foot of GBA. The

\$249,000, or 4%, is predominately explained by the Developer's higher indirect cost estimates.

2. KMA estimated the commercial component's stabilized NOI at \$347,000 (Appendix D - Table 2). In contrast, the Developer estimated the NOI at \$443,100. 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 \$2.56 per square foot.
3. The Developer proposes to utilize the NMTC program to finance this component of the Project. By donating the land plus providing the financial assistance, the Commission's assistance will generate NMTCs that will enable the Project to receive a seven-year NMTC loan with a below market interest rate set at 6.0%. At the end of seven years, a portion of the NMTC loan will be forgiven. KMA estimated the NMTC loan, assuming the investor receives a 10.5% internal rate of return, to be \$5.48 million. In comparison, the Developer estimated this loan to total \$7.00 million. The \$1.52 million difference is due to KMA's lower NOI estimate. The resulting threshold return on investment amounts to 6.3% in both the KMA and Developer analysis.

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	\$5,480,000	\$6,997,000	(\$1,517,000)
(Less) Development Costs	(7,393,000)	(7,642,000)	304,000
Financial Gap	(\$1,913,000)	(\$645,000)	(\$1,268,000)
Per Sf GBA	(\$120)	(\$40)	(\$80)

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 \$645,000 in financial assistance. In contrast, KMA estimates that the Commercial Component needs free land plus approximately \$1.91 million in financial assistance.

**Issues**

1. The NMTC loan will be at a lower than market interest rate. However, the Developer will not have any equity in the proposed Project. The proposal assumes that the Commission's land will be the equity contribution.



2. Based on conversations with area brokers, KMA concluded that the Developer is projecting higher commercial rents than are being achieved in the market area.

**Overall Project (Appendix E)**

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

	KMA	Developer	Difference
Total Available Funds	\$33,120,000	\$38,714,000	(\$5,594,000)
(Less) Total Dev. Costs	(40,409,000)	(44,080,000)	(3,671,000)
Financial Gap	(\$7,289,000)	(\$5,366,000)	(\$1,923,000)
Per Unit	(\$72,900)	(\$53,700)	(\$19,200)

The KMA pro forma analysis indicates that the Project requires free land plus \$7.29 million in financial assistance from a public source. While the Developer's pro forma indicates the overall assistance being requested is \$5.37 million, some of these funds will be repaid in the near term. It should be noted that these estimates include NMTC proceeds.

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	(\$7,289,000)	(\$5,366,000)	(\$1,923,000)
(Less) Actual Land Costs	(9,000,000)	(9,000,000)	0
Net Financial Gap	(\$16,289,000)	(\$14,366,000)	(\$1,923,000)
Per Unit	(\$162,900)	(\$143,700)	(\$19,200)

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.

	KMA	Developer	Difference
Financial Gap	(\$7,289,000)	(\$5,366,000)	(\$1,923,000)
(Less) Market Land Value	(11,000,000)	(11,000,000)	0
Net Financial Gap	(\$18,289,000)	(\$16,366,000)	(\$1,923,000)
Per Unit	(\$182,900)	(\$163,700)	(\$19,200)

**EVALUATION CRITERIA**