



Analyze. Advise. Act.

700 South Flower Street, Suite 2995, Los Angeles, CA 90017
T: 310-581-0900 | F: 310-581-0910 | www.hraadvisors.com

MEMORANDUM

To: Tina Fung, Los Angeles County Department of Regional Planning

From: HR&A Advisors, Inc.

Date: April 9, 2020

Re: Analysis of Financially Feasible Inclusionary Requirements for Rental Prototypes in Unincorporated Areas

INTRODUCTION

This memorandum summarizes HR&A Advisors, Inc.’s (“HR&A”) approach, methodology and findings related to financial feasibility testing of prototypical multifamily development projects in unincorporated Los Angeles County (the “County”) in order to calibrate the County’s pending Inclusionary Housing Ordinance (“IHO”). This memorandum includes HR&A’s preliminary recommendations for the maximum supportable affordable housing percentage that could be required in each of six previously designated submarket areas.

The County’s Department of Regional Planning (“DRP”) requested that HR&A prepare a supplemental analysis, building on inclusionary housing analysis prepared by Keyser Marston Associates, Inc. (“KMA”) for DRP in January of 2018. KMA’s analysis recommended 15 percent of total dwelling units available to lower-income households earning below 80 percent of Area Median Income (“AMI”). In finalizing the County’s IHO, DRP requested that HR&A evaluate a broader range of affordability levels for multifamily rental housing and further evaluate smaller prototypes that are more reflective of the size of multifamily rental residential projects being built in unincorporated areas of the County.

METHODOLOGY AND ASSUMPTIONS

In conducting its analysis of these issues, HR&A largely mirrored the format and structure of KMA’s analysis, but focused exclusively on multifamily rental prototypes of a smaller scale (20 units) than the 100-unit prototypes utilized by KMA. HR&A reproduced KMA’s real estate feasibility pro forma modeling structure, updated key real estate market assumptions in the pro formas, and added model functionality to test the ability of the prototypes to support affordable housing at different AMI income thresholds. As in KMA’s analysis, HR&A evaluated the financial feasibility of prototypes within six submarkets of unincorporated Los Angeles County, as depicted in Appendix A to this memorandum. These included: 1) the Antelope Valley; 2) Coastal South Los Angeles; 3) East Los Angeles/Gateway; 4) San Gabriel Valley; 5) Santa Clarita Valley; and 6) South Los Angeles.

DRP assisted HR&A to define the smaller multifamily residential prototypes based on a review of representative, recently developed or planned projects. Each resulting prototype included assumptions for land area, gross building area, rentable area, residential unit size and mixes, the number and location (i.e., surface or structured) of parking and bicycle spaces. These assumptions varied by submarket. Both a **base**

case and a “**bonus density**” prototype (which included 35 percent more units and a commensurate increase in overall building area) were specified for each submarket. In some cases, the bonus density prototypes included parking reductions as permitted in the County’s pending DBO. These prototypes are summarized in Tables 1 and 2 below.

Table 1: Base Case Prototypes

	Antelope Valley	Coastal South LA	East LA / Gateway	San Gabriel Valley	Santa Clarita Valley	South LA
Land Area (SF)	65,340	21,780	36,300	36,300	65,340	21,780
Gross Building Area (GSF)	23,000	23,543	21,563	27,856	22,617	21,978
Rentable Area (NSF)	18,000	18,425	16,875	21,800	17,700	17,200
Unit Mix						
Studio	0	3	0	0	0	0
1 BR	0	3	7	0	7	8
2 BR	20	14	13	11	10	8
3 BR	0	0	0	9	3	4
Total Units	20	20	20	20	20	20
Avg Unit Size						
Studio		625				
1 BR		850	600		700	750
2 BR	900	1,000	975	1,000	950	900
3 BR				1,200	1,100	1,000
Parking						
Structured Spaces	0	42	42	45	0	41
Surface Spaces	45	0	0	0	42	0
Bicycle Space Equivalent	1	1	1	1	1	1
Total Parking Spaces	46	43	43	46	43	42

Table 2: Bonus Density Prototypes

	Antelope Valley	Coastal South LA	East LA / Gateway	San Gabriel Valley	Santa Clarita Valley	South LA
Land Area (SF)	65,340	21,780	36,300	36,300	65,340	21,780
Gross Building Area (GSF)	31,050	31,146	28,846	37,823	30,859	29,900
Rentable Area (NSF)	24,300	24,375	22,575	29,600	24,150	23,400
Unit Mix						
Studio	0	5	0	0	0	0
1 BR	0	5	10	0	9	10
2 BR	27	17	17	14	13	11
3 BR	0	0	0	13	5	6
Total Units	27	27	27	27	27	27
Avg Unit Size						
Studio		625				
1 BR		850	600		700	750
2 BR	900	1,000	975	1,000	950	900
3 BR				1,200	1,100	1,000
Parking						
Structured Spaces	0	44	44	54	0	44
Surface Spaces	54	0	0	0	45	-
Bicycle Space Equivalent	2	2	2	2	2	2
Total Parking Spaces	56	46	46	56	47	46

HR&A subsequently developed a detailed financial feasibility pro forma model which accounts for development costs, land acquisition costs and revenues, and solves for the return on investment to a real estate developer. The model calculations involve estimating the “capitalized value” (the estimated price an investor would pay for a completed project resembling each prototype, based on its projected net operating income), and then subtracts from it: 1) total development cost (i.e., hard construction costs, soft costs, financing costs, and land acquisition costs); 2) estimated costs of sale; and 3) an allowance for developer profit. This results in a developer profit margin metric that is the basis for determining one measure of “financial feasibility,” as discussed below.

HR&A conducted market research to update modeling assumptions used in the KMA report for each submarket area. This included using comparable projects to estimate per-square foot residential rental rates, land costs, and income capitalization (“cap”) rates. HR&A applied a modest growth factor to KMA’s assumed construction costs to account for inflation since that analysis was completed in 2018. HR&A’s research also included collecting data for South Los Angeles, which had previously been omitted from KMA’s study due to the lack of relevant comparable projects. These updated assumptions are included in the tables below and on the following pages.

Table 3: Residential Rents Per Square Foot

	Antelope Valley	Coastal South LA	East LA/Gateway	San Gabriel Valley	Santa Clarita Valley	South LA
Studio		\$3.95				
1 bed		\$3.30	\$3.20		\$2.90	\$1.70
2 bed	\$1.65	\$3.25	\$2.30	\$2.75	\$2.70	\$1.65
3 bed				\$2.50	\$2.65	\$1.70

Source: Costar

Table 4: Residential Rents Per Unit

	Antelope Valley	Coastal South LA	East LA/Gateway	San Gabriel Valley	Santa Clarita Valley	South LA
Studio		\$2,460				
1 bed		\$2,795	\$1,910		\$2,040	\$1,280
2 bed	\$1,490	\$3,250	\$2,240	\$2,725	\$2,570	\$1,480
3 bed				\$2,995	\$2,940	\$1,710

Source: Costar

Table 5: Affordable Residential Rents Per Unit Net of Utilities

	Studio	1BR	2BR	3BR
Extremely Low Income (Max 30% AMI)	\$353	\$397	\$442	\$484
Very Low Income (Max 50% AMI)	\$609	\$689	\$771	\$850
Lower Income (Max 80% AMI)	\$737	\$835	\$936	\$1,033
Moderate Income (Max 120% AMI)	\$1,376	\$1,566	\$1,758	\$1,946

Source: Los Angeles County Development Authority

Table 6: Land Acquisition and Construction Costs Per Square Foot

	Construction Cost PSF	Land Cost PSF
Antelope Valley	\$120	\$5
Coastal South LA	\$155	\$115
East LA/Gateway	\$130	\$45
San Gabriel Valley	\$130	\$50
Santa Clarita Valley	\$120	\$15
South LA	\$130	\$55

Source: Costar

Structured Parking (CSLA, ELA, SGV, SLA)	\$21,250-\$25,500/space
Surface Parking (AV, SCV)	\$5,000/space

Source: Marshall & Swift, KMA

Table 7: Cap Rates

	Cap Rates
Antelope Valley	5.00%
Coastal South LA	4.00%
East LA/Gateway	4.00%
San Gabriel Valley	4.00%
Santa Clarita Valley	5.00%
South LA	5.00%

Source: Costar

Financial Feasibility Approach

The KMA analysis calculated a “Stabilized Return on Total Investment” within each submarket area for base case prototypes, and subsequently applied the calculated return (expressed as a percentage and calculated as net operating income divided by total development cost) to Net Operating Income (“NOI”) for bonus density prototypes to determine supportable investment. The KMA analysis varied the percentage of inclusionary units so that NOI and supportable investment was closely aligned with total development cost for the density bonus prototype.

In contrast to this approach, HR&A utilized two investment return thresholds that must both be met for a project to be determined to be financially feasible. A minimum threshold for return on total development cost (“return on cost” or “ROC”) that we believe would be required for project feasibility was set at 0.75 percentage points more than the applicable cap rate for new development within each submarket area. This ROC threshold is a key indicator of risk about a developer’s ability to attract investment capital to a project. The specified cap rate is based on HR&A’s analysis of sales in the past three years for newer multifamily apartment buildings within or proximate to each submarket area. After using that cap rate to estimate the value of this development at stabilized operation, HR&A then deducted costs of sale (to calculate net sale value) and total development costs, to calculate the second return metric: developer profit margin. HR&A used a developer profit margin threshold of 12.5 percent, which in our experience is a minimum for Los Angeles area development projects.

FINDINGS AND RECOMMENDATIONS

As shown on in Table 8 on the following page, the supportable set-aside of affordable housing varies dramatically across the submarkets of unincorporated Los Angeles County. In general, HR&A found that projects in Coastal South Los Angeles, the San Gabriel Valley and Santa Clarita Valley could support meaningful levels of affordable housing available to households with incomes ranging from 30 percent to as much as 120 percent of AMI. However, HR&A found that both base case and bonus density prototypes in the Antelope Valley, East LA/Gateway, and South Los Angeles were not financially feasible with any affordable housing percentage. HR&A reviewed the development pipeline provided by DRP and found that there were almost no market-rate or mixed-income projects of the scale (i.e., roughly 20 units) analyzed in this analysis in the development pipeline for those lower-performing market areas, confirming that it was unlikely that these types of multifamily housing projects would be financially feasible even with no affordable housing requirement. Accordingly, additional IHO affordable housing requirements on projects in the Antelope Valley, East LA/Gateway and South Los Angeles may limit near-term production of market rate and/or mixed-income housing.

**Table 8: Supportable Requirement at 35% Density Bonus
(Expressed as % of Baseline Units)**

	Antelope Valley	Coastal South LA	East LA/Gateway	San Gabriel Valley	Santa Clarita Valley	South LA	Average ¹
<u>Affordability Level</u>							
ELI (Max 30% AMI)	0%	15%	0%	10%	15%	0%	13.3%
VLI (Max 50% AMI)	0%	20%	0%	10%	20%	0%	16.7%
LI (Max 80% AMI)	0%	20%	0%	15%	25%	0%	20.0%
MI (Max 120% AMI)	0%	35%	0%	30%	55%	0%	40.0%

¹ Excluding Antelope Valley, East LA/Gateway and South LA

HR&A’s findings differ from KMA’s in that HR&A assumed that prototypes needed to meet both financial feasibility thresholds under the bonus density scenario with varying levels of affordable housing percentage. HR&A found that the Antelope Valley, East LA/Gateway, and South Los Angeles prototypes could not support any affordable percentages, and that prototypes in other market areas could generally support modestly lower set-aside requirements than calculated by KMA. The “Average” column shown in Table 8 above is generally representative of supportable requirements across the County in stronger market areas, acknowledging some variation across the three stronger market areas. Furthermore, the County’s Inclusionary Housing Ordinance anticipates blended affordability levels (e.g., 45% x AMI and 65% x AMI) which will create flexibility for developers and can reduce the financial burden of on-site affordable units. Generally, HR&A found that the financial feasibility of prototypes was particularly sensitive to the following considerations:

- **Submarket Variation in Rents:** As shown in Tables 4 and 5, rents vary widely across the County’s six submarket areas, although generally construction costs vary somewhat less widely, as shown in Table 6. Relatively low rents in Antelope Valley, East LA/Gateway, and South Los Angeles are not currently high enough to justify ground-up market-rate or mixed-income development, and in some cases deed-restricted moderate-income rents are similar or higher (particularly for the Antelope Valley and South Los Angeles) than market-rate rents. These differences may make it challenging to develop consistent County-wide affordable housing percentage requirements.
- **Change in Rents:** Across the County, rents grew by between 10 percent in Coastal South LA, roughly 15-20 percent in East LA/Gateway, the Santa Clarita Valley, and Antelope Valley, and as much as 35 percent in the San Gabriel Valley in the two years between KMA’s analysis and when HR&A assembled updated rental rate assumptions, so it is possible that the financial feasibility of multifamily residential development projects in lower-performing submarket areas could improve over the next several years. Particularly for lower-performing submarket areas, DRP may want to consider delaying set-aside requirements or phasing in relatively modest requirements over time.
- **Parking:** The impact of parking costs on development economics is particularly clear when comparing the performance and supportable set-asides for projects in the San Gabriel Valley and Santa Clarita Valley. HR&A found that rents were roughly similar in both areas; however the combination

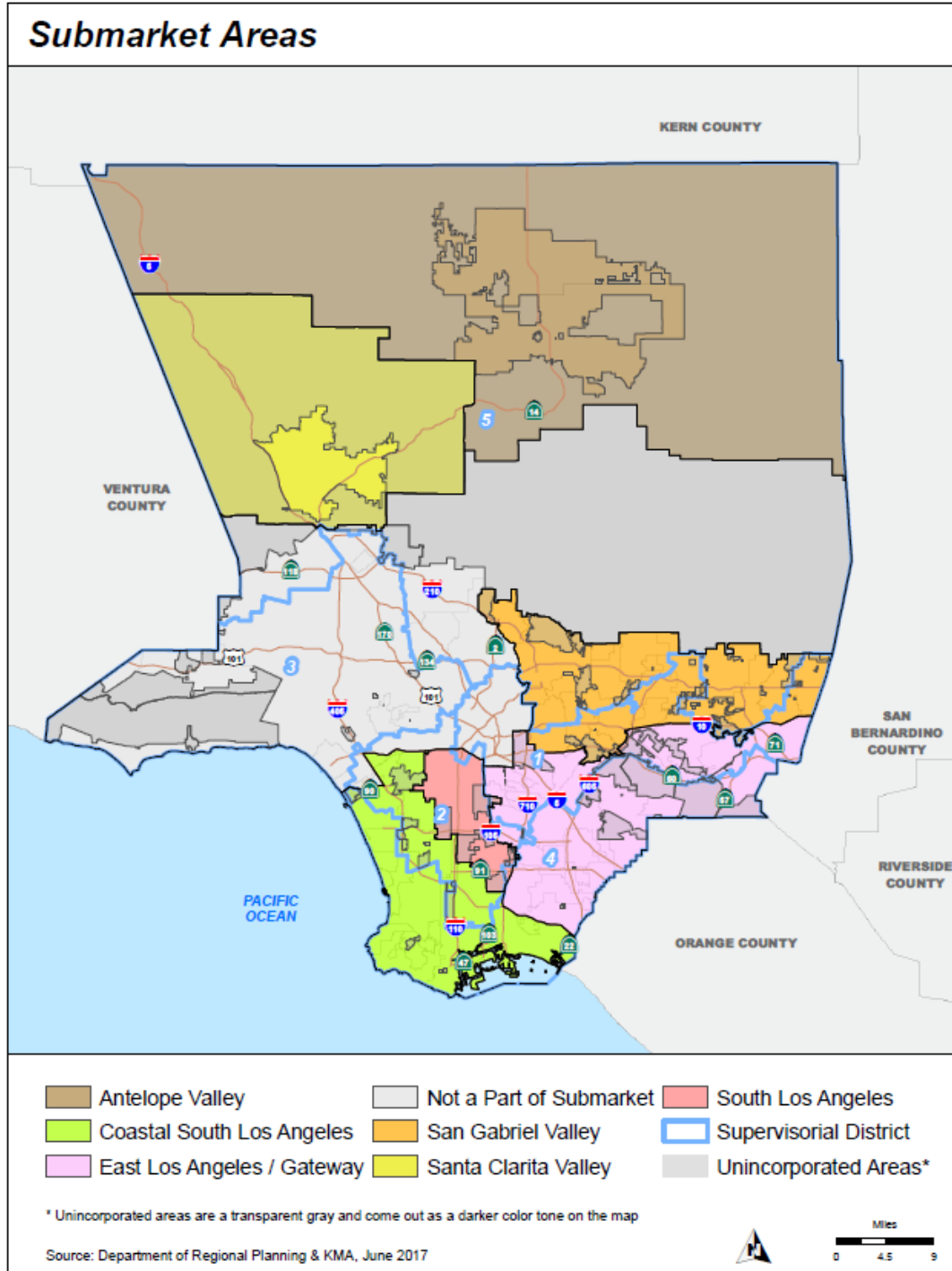
of higher land costs and the need for structured parking to support a higher-density prototype increased total development costs for the San Gabriel Valley such that that prototype could only support lower affordable housing percentages. Similarly, the cost of structured parking for South Los Angeles and East LA/Gateway depresses financial feasibility of base case and bonus density prototypes in those areas.

LIST OF ATTACHMENTS

- Appendix A: Submarket Areas For Financial Analysis
- Appendix B.1: Pro Forma Analysis - Antelope Valley¹
- Appendix B.2: Pro Forma Analysis - Coastal South Los Angeles¹
- Appendix B.3: Pro Forma Analysis - East Los Angeles¹
- Appendix B.4: Pro Forma Analysis - San Gabriel Valley¹
- Appendix B.5: Pro Forma Analysis - Santa Clarita Valley¹
- Appendix B.6: Pro Forma Analysis - South Los Angeles¹

¹ HR&A prepared dynamic pro forma models that tested varying levels and affordability levels. For the purposes of these summary tables, prototypes are shown with the maximum supportable level of Low Income (80% of AMI) inclusionary housing.

APPENDIX A SUBMARKET AREAS FOR FINANCIAL ANALYSIS



APPENDIX B.1

PRO FORMA ANALYSIS ANTELOPE VALLEY¹

¹ HR&A prepared dynamic pro forma models that tested varying levels and affordability levels. For the purposes of these summary tables, prototypes are shown with the maximum supportable level of Low Income (80% of AMI) inclusionary housing.

Estimated Development Costs

Base Case: 100% Market Rate Units

Antelope Valley

Inclusionary Housing Analysis - Rental Apartment Projects

I. Property Acquisition Costs	65,340 SF of Land	x	\$ 5 /SF of Land	=	\$ 327,000
II. Direct Costs					
Site Improvement	65,340 SF of Land	x	\$ 5 /SF of Land	=	\$ 327,000
Parking					
Surface	46 Spaces	x	\$ 5,000 /Space	=	\$ 230,000
Podium	0 Spaces	x	\$ 25,550 /Space	=	\$ -
Building Costs	23,000 SF of GBA	x	\$ 120 /SF of GBA	=	\$ 2,760,000
Contractor/DC Contingency	10.00% Other Direct Costs			=	\$ 332,000
Total Direct Costs	20 Units		\$ 182,450 /Unit		\$ 3,649,000
III. Indirect Costs					
Architecture, Engineering, & Consulting	5% Direct Costs			=	\$ 182,000
Public Permits & Fees	20 Units	x	\$ 15,000 /Unit	=	\$ 300,000
Taxes, Insurance, Legal & Accounting	3.0% Direct Costs			=	\$ 109,000
Marketing / Leasing	20 Units	x	\$ 3,500 /Unit	=	\$ 70,000
Developer Fee	4.0% Direct Costs			=	\$ 146,000
Soft Cost Contingency Allowance	5.0% Other Indirect Costs			=	\$ 40,000
Total Indirect Costs					\$ 847,000
IV. Financing Costs					
Land Carrying Cost	\$ 327,000 Cost		5.00% Interest		\$ 29,000
Construction Loan Interest	\$ 4,755,000 Cost		5.00% Interest		\$ 273,000
Loan Origination Fees	\$ 4,496,000 Loan		1.50 Points		\$ 67,000
Total Financing Costs	94.6%				\$ 369,000
V. Total Construction Cost	20 Units		\$ 243,250 /Unit		\$ 4,865,000
Total Development Cost	20 Units		\$ 259,600 /Unit		\$ 5,192,000

Stabilized NOI

Base Case: 100% Market Rate Units

Antelope Valley

Inclusionary Housing Analysis - Rental Apartment Projects

I. Income

Market Rate Units

Studios	0 Units	\$ - /Unit/Month	\$ -
1 BR	0 Units	\$ - /Unit/Month	\$ -
2 BR	20 Units	\$ 1,490 /Unit/Month	\$ 357,600
3 BR	0 Units	\$ - /Unit/Month	\$ -
Laundry & Misc Income	20	\$ 25 /Unit/Month	\$ 6,000
Gross Income			<u>\$ 363,600</u>
(Less) Vacancy & Collection Allowance	5.0% Gross Income		\$ (18,000)
Effective Gross Income			<u>\$ 345,600</u>

II. Operating Expenses

General OpEx	20 Units	\$ 3,000 /Unit	\$ 60,000
Property Taxes	20 Units	\$ 3,391 /Unit	\$ 68,000
Reserves Deposits	20 Units	\$ 150 /Unit	\$ 3,000
Total OpEx	20 Units	\$ 6,541 /Unit	<u>\$ 131,000</u>

III. Stabilized NOI			<u>\$ 214,600</u>
----------------------------	--	--	-------------------

Stabilized Return on Total Investment

Base Case: 100% Market Rate Units

Antelope Valley

Inclusionary Housing Analysis - Rental Apartment Projects

I. Return on Total Development Cost

Stabilized NOI		\$	214,600	
Total Development Cost		\$	5,192,000	
Stabilized Return on Total Investment			4.1%	

Feasible?

(Minimum = Cap Rate + 0.75%) 5.75%

NO

II. Developer Profit Margin

Net Operating Income		\$	214,600	
Cap Rate	5.00%			
Project Value (NOI x Cap Rate)		\$	4,292,000	
Less: Cost of Sale	3.0%	\$	(128,760)	
Net Project Sale Value		\$	4,163,240	
Less: Total Development Cost		\$	(5,192,000)	
Developer Profit Margin		\$	(1,028,760)	
% x Net Project Sale Value			-24.7%	

Feasible?

(Minimum = 12.5%)

NO

III. Financially Feasible?	NO
-----------------------------------	-----------

NO

Estimated Development Costs

Density Bonus: 27 Units, Prescribed Unit Mix

Antelope Valley

Inclusionary Housing Analysis - Rental Apartment Projects

I. Property Acquisition Costs 65,340 SF of Land x \$ 5 /SF of Land = \$ 327,000

II. Direct Costs

Site Improvement	65,340 SF of Land	x	\$	5 /SF of Land	=	\$	327,000
Parking							
Surface	56 Spaces	x	\$	5,000 /Space	=	\$	280,000
Podium	0 Spaces	x	\$	25,550 /Space	=	\$	-
Building Costs	31,050 SF of GBA	x	\$	120 /SF of GBA	=	\$	3,726,000
Contractor/DC Contingency	10.00% Other Direct Costs				=	\$	433,000
Total Direct Costs	27 Units		\$	176,519 /Unit		\$	4,766,000

III. Indirect Costs

Architecture, Engineering, & Consulting	5% Direct Costs				=	\$	238,000
Public Permits & Fees	27 Units	x	\$	15,000 /Unit	=	\$	405,000
Taxes, Insurance, Legal & Accounting	3.0% Direct Costs				=	\$	143,000
Marketing / Leasing	27 Units	x	\$	3,500 /Unit	=	\$	95,000
Developer Fee	4.0% Direct Costs				=	\$	191,000
Soft Cost Contingency Allowance	5.0% Other Indirect Costs				=	\$	54,000
Total Indirect Costs						\$	1,126,000

IV. Financing Costs

Land Carrying Cost	\$	327,000	Cost	5.00% Interest	\$	30,000
Construction Loan Interest	\$	6,255,000	Cost	5.00% Interest	\$	386,000
Loan Origination Fees	\$	5,892,000	Loan	1.50 Points	\$	88,000
Total Financing Costs					\$	504,000

V. Total Construction Cost	27 Units	\$	236,889 /Unit	\$	6,396,000
Total Development Cost	27 Units	\$	249,000 /Unit	\$	6,723,000

Stabilized NOI

Density Bonus: 27 Units, Variable Level of Affordable Units

Antelope Valley

Inclusionary Housing Analysis - Rental Apartment Projects

I. Income

Market Rate Units

Studios	0 Units	\$ - /Unit/Month	\$ -
1 BR	0 Units	\$ - /Unit/Month	\$ -
2 BR	25 Units	\$ 1,490 /Unit/Month	\$ 447,000
3 BR	0 Units	\$ - /Unit/Month	\$ -
Total Market Rate Units	25		

Lower Income (Max 80% AMI)

Studios	0 Units	\$ 737 /Unit/Month	\$ -
1 BR	0 Units	\$ 835 /Unit/Month	\$ -
2 BR	2 Units	\$ 936 /Unit/Month	\$ 22,500
3 BR	0 Units	\$ 1,033 /Unit/Month	\$ -
Total Affordable Units	2		

Laundry & Misc Income 27 \$ 25 /Unit/Month \$ 8,100

Gross Income \$ 477,600

(Less) Vacancy & Collection Allowance 5.0% Gross Income \$ (24,000)

Effective Gross Income \$ 453,600

II. Operating Expenses

General OpEx	27 Units	\$ 3,000 /Unit	\$ 81,000
Property Taxes	27 Units	\$ 3,276 /Unit	\$ 88,000
Reserves Deposits	27 Units	\$ 150 /Unit	\$ 4,000
Total OpEx	27 Units	\$ 6,426 /Unit	\$ 173,000

III. Stabilized NOI \$ 280,600

Stabilized Return on Total Investment
Density Bonus: 27 Units, Variable Level of Affordable Units
Antelope Valley
 Inclusionary Housing Analysis - Rental Apartment Projects

I. Return on Total Development Cost

Stabilized NOI		\$	280,600	
Total Development Cost		\$	6,723,000	
Stabilized Return on Total Investment			4.2%	
Feasible?				NO
(Minimum = Cap Rate + 0.75%)	5.75%			

II. Developer Profit Margin

Net Operating Income		\$	280,600	
Cap Rate	5.00%			
Project Value (NOI x Cap Rate)		\$	5,612,000	
Less: Cost of Sale	3.0%	\$	(168,360)	
Net Project Sale Value		\$	5,443,640	
Less: Total Development Cost		\$	(6,723,000)	
Developer Profit Margin		\$	(1,279,360)	
% x Net Project Sale Value			-23.5%	
Feasible?				NO
(Minimum = 12.5%)				

III. Financially Feasible?	NO
-----------------------------------	-----------

APPENDIX B.2

PRO FORMA ANALYSIS COASTAL SOUTH LOS ANGELES¹

¹ HR&A prepared dynamic pro forma models that tested varying levels and affordability levels. For the purposes of these summary tables, prototypes are shown with the maximum supportable level of Low Income (80% of AMI) inclusionary housing.

Estimated Development Costs

Base Case: 100% Market Rate Units

Coastal South Los Angeles

Inclusionary Housing Analysis - Rental Apartment Projects

I. Property Acquisition Costs	21,780 SF of Land	x	\$ 115 /SF of Land	=	\$ 2,505,000
II. Direct Costs					
Site Improvement	21,780 SF of Land	x	\$ 5 /SF of Land	=	\$ 109,000
Parking					
Surface	0 Spaces	x	\$ 5,000 /Space	=	\$ -
Podium	43 Spaces	x	\$ 25,550 /Space	=	\$ 1,099,000
Building Costs	23,543 SF of GBA	x	\$ 156 /SF of GBA	=	\$ 3,673,000
Contractor/DC Contingency	10.00% Other Direct Costs			=	\$ 488,000
Total Direct Costs	20 Units		\$ 268,450 /Unit		\$ 5,369,000
III. Indirect Costs					
Architecture, Engineering,& Consulting	5% Direct Costs			=	\$ 268,000
Public Permits & Fees	20 Units	x	\$ 15,000 /Unit	=	\$ 300,000
Taxes, Insurance, Legal & Accounting	3.0% Direct Costs			=	\$ 161,000
Marketing / Leasing	20 Units	x	\$ 3,500 /Unit	=	\$ 70,000
Developer Fee	4.0% Direct Costs			=	\$ 215,000
Soft Cost Contingency Allowance	5.0% Other Indirect Costs			=	\$ 51,000
Total Indirect Costs					\$ 1,065,000
IV. Financing Costs					
Land Carrying Cost	\$ 2,505,000 Cost		5.00% Interest		\$ 219,000
Construction Loan Interest	\$ 6,804,000 Cost		5.00% Interest		\$ 391,000
Loan Origination Fees	\$ 6,434,000 Loan		1.50 Points		\$ 97,000
Total Financing Costs	94.6%				\$ 707,000
V. Total Construction Cost	20 Units		\$ 357,050 /Unit		\$ 7,141,000
Total Development Cost	20 Units		\$ 482,300 /Unit		\$ 9,646,000

Stabilized NOI

Base Case: 100% Market Rate Units

Coastal South Los Angeles

Inclusionary Housing Analysis - Rental Apartment Projects

I. Income

Market Rate Units

Studios	3 Units	\$ 2,460 /Unit/Month	\$ 88,600
1 BR	3 Units	\$ 2,795 /Unit/Month	\$ 100,600
2 BR	14 Units	\$ 3,250 /Unit/Month	\$ 546,000
3 BR	0 Units	\$ - /Unit/Month	\$ -
Laundry & Misc Income	20	\$ 25 /Unit/Month	\$ 6,000
Gross Income			\$ 741,200
(Less) Vacancy & Collection Allowance	5.0% Gross Income		\$ (37,000)
Effective Gross Income			\$ 704,200

II. Operating Expenses

General OpEx	20 Units	\$ 4,000 /Unit	\$ 80,000
Property Taxes	20 Units	\$ 7,454 /Unit	\$ 149,000
Reserves Deposits	20 Units	\$ 150 /Unit	\$ 3,000
Total OpEx	20 Units	\$ 11,604 /Unit	\$ 232,000

III. Stabilized NOI			\$ 472,200
----------------------------	--	--	------------

Stabilized Return on Total Investment

Base Case: 100% Market Rate Units

Coastal South Los Angeles

Inclusionary Housing Analysis - Rental Apartment Projects

I. Return on Total Development Cost

Stabilized NOI		\$	472,200
Total Development Cost		\$	9,646,000
Stabilized Return on Total Investment			4.90%

Feasible?

(Minimum = Cap Rate + 0.75%) 4.75%

YES

II. Developer Profit Margin

Net Operating Income		\$	472,200
Cap Rate	4.00%		
Project Value (NOI x Cap Rate)		\$	11,805,000
Less: Cost of Sale	3.0%	\$	(354,150)
Net Project Sale Value		\$	11,450,850
Less: Total Development Cost		\$	(9,646,000)
Developer Profit Margin		\$	1,804,850
% x Net Project Sale Value			15.8%

Feasible?

(Minimum = 12.5%)

YES

III. Financially Feasible?

YES

Estimated Development Costs
Density Bonus: 27 Units, Prescribed Unit Mix
Coastal South Los Angeles
 Inclusionary Housing Analysis - Rental Apartment Projects

I. Property Acquisition Costs	21,780 SF of Land	x	\$ 115 /SF of Land	=	\$ 2,505,000
II. Direct Costs					
Site Improvement	21,780 SF of Land	x	\$ 5 /SF of Land	=	\$ 109,000
Parking					
Surface	0 Spaces	x	\$ 5,000 /Space	=	\$ -
Podium	46 Spaces	x	\$ 25,550 /Space	=	\$ 1,175,000
Building Costs	31,146 SF of GBA	x	\$ 156 /SF of GBA	=	\$ 4,859,000
Contractor/DC Contingency	10.00% Other Direct Costs			=	\$ 614,000
Total Direct Costs	27 Units		\$ 250,259 /Unit		\$ 6,757,000
III. Indirect Costs					
Architecture, Engineering,& Consulting	5% Direct Costs			=	\$ 338,000
Public Permits & Fees	27 Units	x	\$ 15,000 /Unit	=	\$ 405,000
Taxes, Insurance, Legal & Accounting	3.0% Direct Costs			=	\$ 203,000
Marketing / Leasing	27 Units	x	\$ 3,500 /Unit	=	\$ 95,000
Developer Fee	4.0% Direct Costs			=	\$ 270,000
Soft Cost Contingency Allowance	5.0% Other Indirect Costs			=	\$ 66,000
Total Indirect Costs					\$ 1,377,000
IV. Financing Costs					
Land Carrying Cost	\$ 2,505,000 Cost		5.00% Interest		\$ 230,000
Construction Loan Interest	\$ 8,636,000 Cost		5.00% Interest		\$ 533,000
Loan Origination Fees	\$ 8,134,000 Loan		1.50 Points		\$ 122,000
Total Financing Costs					\$ 885,000
V. Total Construction Cost	27 Units		\$ 334,037 /Unit		\$ 9,019,000
Total Development Cost	27 Units		\$ 426,815 /Unit		\$ 11,524,000

Stabilized NOI

Density Bonus: 27 Units, Variable Level of Affordable Units

Coastal South Los Angeles

Inclusionary Housing Analysis - Rental Apartment Projects

I. Income

Market Rate Units

Studios	4 Units	\$ 2,460 /Unit/Month	\$ 118,100
1 BR	4 Units	\$ 2,795 /Unit/Month	\$ 134,200
2 BR	15 Units	\$ 3,250 /Unit/Month	\$ 585,000
3 BR	0 Units	\$ - /Unit/Month	\$ -

Total Market Rate Units 23

Lower Income (Max 80% AMI)

Studios	1 Units	\$ 737 /Unit/Month	\$ 8,800
1 BR	1 Units	\$ 835 /Unit/Month	\$ 10,000
2 BR	2 Units	\$ 936 /Unit/Month	\$ 22,500
3 BR	0 Units	\$ 1,033 /Unit/Month	\$ -

Total Affordable Units 4

Laundry & Misc Income 27 \$ 25 /Unit/Month \$ 8,100

Gross Income \$ 886,700

(Less) Vacancy & Collection Allowance 5.0% Gross Income \$ (44,000)

Effective Gross Income \$ 842,700

II. Operating Expenses

General OpEx	27 Units	\$ 4,000 /Unit	\$ 108,000
Property Taxes	27 Units	\$ 6,495 /Unit	\$ 175,000
Reserves Deposits	27 Units	\$ 150 /Unit	\$ 4,000
Total OpEx	27 Units	\$ 10,645 /Unit	\$ 287,000

III. Stabilized NOI \$ 555,700

Stabilized Return on Total Investment
Density Bonus: 27 Units, Variable Level of Affordable Units
Coastal South Los Angeles
 Inclusionary Housing Analysis - Rental Apartment Projects

I. Return on Total Development Cost

Stabilized NOI		\$	555,700
Total Development Cost		\$	11,524,000
Stabilized Return on Total Investment			4.8%

Feasible?

(Minimum = Cap Rate + 0.75%) 4.75%

YES

II. Developer Profit Margin

Net Operating Income		\$	555,700
Cap Rate	4.00%		
Project Value (NOI x Cap Rate)		\$	13,892,500
Less: Cost of Sale	3.0%	\$	(416,775)
Net Project Sale Value		\$	13,475,725
Less: Total Development Cost		\$	(11,524,000)
Developer Profit Margin		\$	1,951,725
% x Net Project Sale Value			14.5%

Feasible?

(Minimum = 12.5%)

YES

III. Financially Feasible?

YES

APPENDIX B.3

PRO FORMA ANALYSIS EAST LOS ANGELES¹

¹ HR&A prepared dynamic pro forma models that tested varying levels and affordability levels. For the purposes of these summary tables, prototypes are shown with the maximum supportable level of Low Income (80% of AMI) inclusionary housing.

Estimated Development Costs

Base Case: 100% Market Rate Units

East Los Angeles

Inclusionary Housing Analysis - Rental Apartment Projects

I. Property Acquisition Costs 36,300 SF of Land x \$ 45 /SF of Land = \$ 1,634,000

II. Direct Costs

Site Improvement	36,300 SF of Land	x	\$	5	/SF of Land	=	\$	182,000
Parking								
Surface	0 Spaces	x	\$	5,000	/Space	=	\$	-
Podium	43 Spaces	x	\$	25,550	/Space	=	\$	1,099,000
Building Costs	21,563 SF of GBA	x	\$	130	/SF of GBA	=	\$	2,803,000
Contractor/DC Contingency	10.00% Other Direct Costs					=	\$	408,000
Total Direct Costs	20 Units		\$	224,600	/Unit		\$	4,492,000

III. Indirect Costs

Architecture, Engineering, & Consulting	5% Direct Costs					=	\$	225,000
Public Permits & Fees	20 Units	x	\$	15,000	/Unit	=	\$	300,000
Taxes, Insurance, Legal & Accounting	3.0% Direct Costs					=	\$	135,000
Marketing / Leasing	20 Units	x	\$	3,500	/Unit	=	\$	70,000
Developer Fee	4.0% Direct Costs					=	\$	180,000
Soft Cost Contingency Allowance	5.0% Other Indirect Costs					=	\$	46,000
Total Indirect Costs							\$	956,000

IV. Financing Costs

Land Carrying Cost	\$ 1,634,000 Cost		5.00% Interest	\$	143,000
Construction Loan Interest	\$ 5,761,000 Cost		5.00% Interest	\$	331,000
Loan Origination Fees	\$ 5,448,000 Loan		1.50 Points	\$	82,000
Total Financing Costs	94.6%			\$	556,000

V. Total Construction Cost	20 Units	\$ 300,200 /Unit	\$ 6,004,000
Total Development Cost	20 Units	\$ 381,900 /Unit	\$ 7,638,000

Stabilized NOI

Base Case: 100% Market Rate Units

East Los Angeles

Inclusionary Housing Analysis - Rental Apartment Projects

I. Income

Market Rate Units

Studios	0 Units	\$ - /Unit/Month	\$ -
1 BR	7 Units	\$ 1,910 /Unit/Month	\$ 160,400
2 BR	13 Units	\$ 2,240 /Unit/Month	\$ 349,400
3 BR	0 Units	\$ - /Unit/Month	\$ -
Laundry & Misc Income	20	\$ 25 /Unit/Month	\$ 6,000
Gross Income			<u>\$ 515,800</u>
(Less) Vacancy & Collection Allowance	5.0% Gross Income		\$ (26,000)
Effective Gross Income			<u>\$ 489,800</u>

II. Operating Expenses

General OpEx	20 Units	\$ 3,000 /Unit	\$ 60,000
Property Taxes	20 Units	\$ 5,122 /Unit	\$ 102,000
Reserves Deposits	20 Units	\$ 150 /Unit	\$ 3,000
Total OpEx	20 Units	\$ 8,272 /Unit	<u>\$ 165,000</u>

III. Stabilized NOI			<u>\$ 324,800</u>
----------------------------	--	--	-------------------

Stabilized Return on Total Investment

Base Case: 100% Market Rate Units

East Los Angeles

Inclusionary Housing Analysis - Rental Apartment Projects

I. Return on Total Development Cost

Stabilized NOI		\$	324,800	
Total Development Cost		\$	7,638,000	
Stabilized Return on Total Investment			4.3%	

Feasible?

(Minimum = Cap Rate + 0.75%) 4.75%

NO

II. Developer Profit Margin

Net Operating Income		\$	324,800	
Cap Rate	4.00%			
Project Value (NOI x Cap Rate)		\$	8,120,000	
Less: Cost of Sale	3.0%	\$	(243,600)	
Net Project Sale Value		\$	7,876,400	
Less: Total Development Cost		\$	(7,638,000)	
Developer Profit Margin		\$	238,400	
% x Net Project Sale Value			3.0%	

Feasible?

(Minimum = 12.5%)

NO

III. Financially Feasible?

NO

Estimated Development Costs

Density Bonus: 27 Units, Prescribed Unit Mix

East Los Angeles

Inclusionary Housing Analysis - Rental Apartment Projects

I. Property Acquisition Costs	36,300 SF of Land	x	\$ 45 /SF of Land	=	\$ 1,634,000
II. Direct Costs					
Site Improvement	36,300 SF of Land	x	\$ 5 /SF of Land	=	\$ 182,000
Parking					
Surface	0 Spaces	x	\$ 5,000 /Space	=	\$ -
Podium	46 Spaces	x	\$ 25,550 /Space	=	\$ 1,175,000
Building Costs	28,846 SF of GBA	x	\$ 130 /SF of GBA	=	\$ 3,750,000
Contractor/DC Contingency	10.00% Other Direct Costs			=	\$ 511,000
Total Direct Costs	27 Units		\$ 208,074 /Unit		\$ 5,618,000
III. Indirect Costs					
Architecture, Engineering, & Consulting	5% Direct Costs			=	\$ 281,000
Public Permits & Fees	27 Units	x	\$ 15,000 /Unit	=	\$ 405,000
Taxes, Insurance, Legal & Accounting	3.0% Direct Costs			=	\$ 169,000
Marketing / Leasing	27 Units	x	\$ 3,500 /Unit	=	\$ 95,000
Developer Fee	4.0% Direct Costs			=	\$ 225,000
Soft Cost Contingency Allowance	5.0% Other Indirect Costs			=	\$ 59,000
Total Indirect Costs					\$ 1,234,000
IV. Financing Costs					
Land Carrying Cost	\$ 1,634,000 Cost		5.00% Interest		\$ 150,000
Construction Loan Interest	\$ 7,275,000 Cost		5.00% Interest		\$ 449,000
Loan Origination Fees	\$ 6,852,000 Loan		1.50 Points		\$ 103,000
Total Financing Costs					\$ 702,000
V. Total Construction Cost	27 Units		\$ 279,778 /Unit		\$ 7,554,000
Total Development Cost	27 Units		\$ 340,296 /Unit		\$ 9,188,000

Stabilized NOI

Density Bonus: 27 Units, Variable Level of Affordable Units

East Los Angeles

Inclusionary Housing Analysis - Rental Apartment Projects

I. Income

Market Rate Units

Studios	0 Units	\$ - /Unit/Month	\$ -
1 BR	8 Units	\$ 1,910 /Unit/Month	\$ 183,400
2 BR	15 Units	\$ 2,240 /Unit/Month	\$ 403,200
3 BR	0 Units	\$ - /Unit/Month	\$ -

Total Market Rate Units 23

Lower Income (Max 80% AMI)

Studios	0 Units	\$ 737 /Unit/Month	\$ -
1 BR	2 Units	\$ 835 /Unit/Month	\$ 20,000
2 BR	2 Units	\$ 936 /Unit/Month	\$ 22,500
3 BR	0 Units	\$ 1,033 /Unit/Month	\$ -

Total Affordable Units 4

Laundry & Misc Income 27 \$ 25 /Unit/Month \$ 8,100

Gross Income \$ 637,200

(Less) Vacancy & Collection Allowance 5.0% Gross Income \$ (32,000)

Effective Gross Income \$ 605,200

II. Operating Expenses

General OpEx	27 Units	\$ 3,000 /Unit	\$ 81,000
Property Taxes	27 Units	\$ 4,624 /Unit	\$ 125,000
Reserves Deposits	27 Units	\$ 150 /Unit	\$ 4,000
Total OpEx	27 Units	\$ 7,774 /Unit	\$ 210,000

III. Stabilized NOI \$ 395,200

Stabilized Return on Total Investment
Density Bonus: 27 Units, Variable Level of Affordable Units
East Los Angeles
Inclusionary Housing Analysis - Rental Apartment Projects

I. Return on Total Development Cost

Stabilized NOI		\$	395,200	
Total Development Cost		\$	9,188,000	
Stabilized Return on Total Investment			4.3%	

Feasible?

NO

(Minimum = Cap Rate + 0.75%) 4.75%

II. Developer Profit Margin

Net Operating Income		\$	395,200	
Cap Rate	4.00%			
Project Value (NOI x Cap Rate)		\$	9,880,000	
Less: Cost of Sale	3.0%	\$	(296,400)	
Net Project Sale Value		\$	9,583,600	
Less: Total Development Cost		\$	(9,188,000)	
Developer Profit Margin		\$	395,600	
% x Net Project Sale Value			4.1%	

Feasible?

NO

(Minimum = 12.5%)

III. Financially Feasible?	NO
-----------------------------------	-----------

APPENDIX B.4

PRO FORMA ANALYSIS SAN GABRIEL VALLEY¹

¹ HR&A prepared dynamic pro forma models that tested varying levels and affordability levels. For the purposes of these summary tables, prototypes are shown with the maximum supportable level of Low Income (80% of AMI) inclusionary housing.

Estimated Development Costs

Base Case: 100% Market Rate Units

San Gabriel Valley

Inclusionary Housing Analysis - Rental Apartment Projects

I. Property Acquisition Costs	36,300 SF of Land	x	\$ 50 /SF of Land	=	\$ 1,815,000
II. Direct Costs					
Site Improvement	36,300 SF of Land	x	\$ 5 /SF of Land	=	\$ 182,000
Parking					
Surface	0 Spaces	x	\$ 5,000 /Space	=	\$ -
Podium	46 Spaces	x	\$ 25,550 /Space	=	\$ 1,175,000
Building Costs	27,856 SF of GBA	x	\$ 130 /SF of GBA	=	\$ 3,621,000
Contractor/DC Contingency	10.00% Other Direct Costs			=	\$ 498,000
Total Direct Costs	20 Units		\$ 273,800 /Unit		\$ 5,476,000
III. Indirect Costs					
Architecture, Engineering, & Consulting	5% Direct Costs			=	\$ 274,000
Public Permits & Fees	20 Units	x	\$ 15,000 /Unit	=	\$ 300,000
Taxes, Insurance, Legal & Accounting	3.0% Direct Costs			=	\$ 164,000
Marketing / Leasing	20 Units	x	\$ 3,500 /Unit	=	\$ 70,000
Developer Fee	4.0% Direct Costs			=	\$ 219,000
Soft Cost Contingency Allowance	5.0% Other Indirect Costs			=	\$ 51,000
Total Indirect Costs			\$ 53,900		\$ 1,078,000
IV. Financing Costs					
Land Carrying Cost	\$ 1,815,000 Cost		5.00% Interest		\$ 159,000
Construction Loan Interest	\$ 6,931,000 Cost		5.00% Interest		\$ 399,000
Loan Origination Fees	\$ 6,554,000 Loan		1.50 Points		\$ 98,000
Total Financing Costs	94.6%				\$ 656,000
V. Total Construction Cost	20 Units		\$ 360,500 /Unit		\$ 7,210,000
Total Development Cost	20 Units		\$ 451,250 /Unit		\$ 9,025,000

Stabilized NOI

Base Case: 100% Market Rate Units

San Gabriel Valley

Inclusionary Housing Analysis - Rental Apartment Projects

I. Income

Market Rate Units

Studios	0 Units	\$ - /Unit/Month	\$ -
1 BR	0 Units	\$ - /Unit/Month	\$ -
2 BR	11 Units	\$ 2,725 /Unit/Month	\$ 359,700
3 BR	9 Units	\$ 2,995 /Unit/Month	\$ 323,500
Laundry & Misc Income	20	\$ 25 /Unit/Month	\$ 6,000
Gross Income			<u>\$ 689,200</u>
(Less) Vacancy & Collection Allowance	5.0% Gross Income		<u>\$ (34,000)</u>
Effective Gross Income			\$ 655,200

II. Operating Expenses

General OpEx	20 Units	\$ 4,000 /Unit	\$ 80,000
Property Taxes	20 Units	\$ 6,866 /Unit	\$ 137,000
Reserves Deposits	20 Units	\$ 150 /Unit	\$ 3,000
Total OpEx	20 Units	\$ 11,016 /Unit	<u>\$ 220,000</u>

III. Stabilized NOI			\$ 435,200
----------------------------	--	--	-------------------

Stabilized Return on Total Investment

Base Case: 100% Market Rate Units

San Gabriel Valley

Inclusionary Housing Analysis - Rental Apartment Projects

I. Return on Total Development Cost

Stabilized NOI		\$	435,200
Total Development Cost		\$	9,025,000
Stabilized Return on Total Investment			4.8%

Feasible?

(Minimum = Cap Rate + 0.75%) 4.75%

YES

II. Developer Profit Margin

Net Operating Income		\$	435,200
Cap Rate	4.00%		
Project Value (NOI x Cap Rate)		\$	10,880,000
Less: Cost of Sale	3.0%	\$	(326,400)
Net Project Sale Value		\$	10,553,600
Less: Total Development Cost		\$	(9,025,000)
Developer Profit Margin		\$	1,528,600
% x Net Project Sale Value			14.5%

Feasible?

(Minimum = 12.5%)

YES

III. Financially Feasible?

YES

Estimated Development Costs

Density Bonus: 27 Units, Prescribed Unit Mix

San Gabriel Valley

Inclusionary Housing Analysis - Rental Apartment Projects

I. Property Acquisition Costs 36,300 SF of Land x \$ 50 /SF of Land = \$ 1,815,000

II. Direct Costs

Site Improvement	36,300 SF of Land	x	\$	5 /SF of Land	=	\$	182,000
Parking							
Surface	0 Spaces	x	\$	5,000 /Space	=	\$	-
Podium	56 Spaces	x	\$	25,550 /Space	=	\$	1,431,000
Building Costs	37,823 SF of GBA	x	\$	130 /SF of GBA	=	\$	4,917,000
Contractor/DC Contingency	10.00% Other Direct Costs				=	\$	653,000
Total Direct Costs	27 Units		\$	266,037 /Unit		\$	7,183,000

III. Indirect Costs

Architecture, Engineering, & Consulting	5% Direct Costs				=	\$	359,000
Public Permits & Fees	27 Units	x	\$	15,000 /Unit	=	\$	405,000
Taxes, Insurance, Legal & Accounting	3.0% Direct Costs				=	\$	215,000
Marketing / Leasing	27 Units	x	\$	3,500 /Unit	=	\$	95,000
Developer Fee	4.0% Direct Costs				=	\$	287,000
Soft Cost Contingency Allowance	5.0% Other Indirect Costs				=	\$	68,000
Total Indirect Costs						\$	1,429,000

IV. Financing Costs

Land Carrying Cost	\$	1,815,000	Cost	5.00% Interest	\$	166,000
Construction Loan Interest	\$	9,143,000	Cost	5.00% Interest	\$	564,000
Loan Origination Fees	\$	8,612,000	Loan	1.50 Points	\$	129,000
Total Financing Costs					\$	859,000

V. Total Construction Cost	27 Units	\$	350,778 /Unit	\$	9,471,000
Total Development Cost	27 Units	\$	418,000 /Unit	\$	11,286,000

Stabilized NOI

Density Bonus: 27 Units, Variable Level of Affordable Units

San Gabriel Valley

Inclusionary Housing Analysis - Rental Apartment Projects

I. Income

Market Rate Units

Studios	0 Units	\$ - /Unit/Month	\$ -
1 BR	0 Units	\$ - /Unit/Month	\$ -
2 BR	13 Units	\$ 2,725 /Unit/Month	\$ 425,100
3 BR	11 Units	\$ 2,995 /Unit/Month	\$ 395,300
Total Market Rate Units	24		

Lower Income (Max 80% AMI)

Studios	0 Units	\$ 737 /Unit/Month	\$ -
1 BR	0 Units	\$ 835 /Unit/Month	\$ -
2 BR	1 Units	\$ 936 /Unit/Month	\$ 11,200
3 BR	2 Units	\$ 1,033 /Unit/Month	\$ 24,800
Total Affordable Units	3		

Laundry & Misc Income	27	\$ 25 /Unit/Month	\$ 8,100
-----------------------	----	-------------------	----------

Gross Income

\$ 864,500

(Less) Vacancy & Collection Allowance 5.0% Gross Income

\$ (43,000)

Effective Gross Income

\$ 821,500

II. Operating Expenses

General OpEx	27 Units	\$ 4,000 /Unit	\$ 108,000
--------------	----------	----------------	------------

Property Taxes	27 Units	\$ 6,307 /Unit	\$ 170,000
----------------	----------	----------------	------------

Reserves Deposits	27 Units	\$ 150 /Unit	\$ 4,000
-------------------	----------	--------------	----------

Total OpEx	27 Units	\$ 10,457 /Unit	\$ 282,000
-------------------	-----------------	------------------------	-------------------

III. Stabilized NOI			\$ 539,500
----------------------------	--	--	-------------------

Stabilized Return on Total Investment
Density Bonus: 27 Units, Variable Level of Affordable Units
San Gabriel Valley
 Inclusionary Housing Analysis - Rental Apartment Projects

I. Return on Total Development Cost

Stabilized NOI		\$	539,500
Total Development Cost		\$	11,286,000
Stabilized Return on Total Investment			4.8%

Feasible?

YES

(Minimum = Cap Rate + 0.75%) 4.75%

II. Developer Profit Margin

Net Operating Income		\$	539,500
Cap Rate	4.00%		
Project Value (NOI x Cap Rate)		\$	13,487,500
Less: Cost of Sale	3.0%	\$	(404,625)
Net Project Sale Value		\$	13,082,875
Less: Total Development Cost		\$	(11,286,000)
Developer Profit Margin		\$	1,796,875
% x Net Project Sale Value			13.7%

YES

Feasible?
 (Minimum = 12.5%)

III. Financially Feasible?

YES

APPENDIX B.5

PRO FORMA ANALYSIS SANTA CLARITA VALLEY¹

¹ HR&A prepared dynamic pro forma models that tested varying levels and affordability levels. For the purposes of these summary tables, prototypes are shown with the maximum supportable level of Low Income (80% of AMI) inclusionary housing.

Estimated Development Costs

Base Case: 100% Market Rate Units

Santa Clarita Valley

Inclusionary Housing Analysis - Rental Apartment Projects

I. Property Acquisition Costs	65,340 SF of Land	x	\$ 15 /SF of Land	=	\$ 980,000
II. Direct Costs					
Site Improvement	65,340 SF of Land	x	\$ 5 /SF of Land	=	\$ 327,000
Parking					
Surface	43 Spaces	x	\$ 5,000 /Space	=	\$ 215,000
Podium	0 Spaces	x	\$ 25,550 /Space	=	\$ -
Building Costs	22,617 SF of GBA	x	\$ 120 /SF of GBA	=	\$ 2,705,000
Contractor/DC Contingency	10.00% Other Direct Costs			=	\$ 325,000
Total Direct Costs	20 Units		\$ 178,600 /Unit		\$ 3,572,000
III. Indirect Costs					
Architecture, Engineering, & Consulting	5% Direct Costs			=	\$ 179,000
Public Permits & Fees	20 Units	x	\$ 15,000 /Unit	=	\$ 300,000
Taxes, Insurance, Legal & Accounting	3.0% Direct Costs			=	\$ 107,000
Marketing / Leasing	20 Units	x	\$ 3,500 /Unit	=	\$ 70,000
Developer Fee	4.0% Direct Costs			=	\$ 143,000
Soft Cost Contingency Allowance	5.0% Other Indirect Costs			=	\$ 40,000
Total Indirect Costs					\$ 839,000
IV. Financing Costs					
Land Carrying Cost	\$ 980,000 Cost		5.00% Interest		\$ 86,000
Construction Loan Interest	\$ 4,665,000 Cost		5.00% Interest		\$ 268,000
Loan Origination Fees	\$ 4,411,000 Loan		1.50 Points		\$ 66,000
Total Financing Costs	94.6%				\$ 420,000
V. Total Construction Cost	20 Units		\$ 241,550 /Unit		\$ 4,831,000
Total Development Cost	20 Units		\$ 290,550 /Unit		\$ 5,811,000

Stabilized NOI

Base Case: 100% Market Rate Units

Santa Clarita Valley

Inclusionary Housing Analysis - Rental Apartment Projects

I. Income

Market Rate Units

Studios	0 Units	\$ - /Unit/Month	\$ -
1 BR	7 Units	\$ 2,040 /Unit/Month	\$ 171,400
2 BR	10 Units	\$ 2,570 /Unit/Month	\$ 308,400
3 BR	3 Units	\$ 2,940 /Unit/Month	\$ 105,800
Laundry & Misc Income	20	\$ 25 /Unit/Month	\$ 6,000
Gross Income			<u>\$ 591,600</u>
(Less) Vacancy & Collection Allowance	5.0% Gross Income		\$ (30,000)
Effective Gross Income			<u>\$ 561,600</u>

II. Operating Expenses

General OpEx	20 Units	\$ 4,000 /Unit	\$ 80,000
Property Taxes	20 Units	\$ 5,743 /Unit	\$ 115,000
Reserves Deposits	20 Units	\$ 150 /Unit	\$ 3,000
Total OpEx	20 Units	\$ 9,893 /Unit	<u>\$ 198,000</u>

III. Stabilized NOI			<u>\$ 363,600</u>
----------------------------	--	--	-------------------

Stabilized Return on Total Investment

Base Case: 100% Market Rate Units

Santa Clarita Valley

Inclusionary Housing Analysis - Rental Apartment Projects

I. Return on Total Development Cost

Stabilized NOI		\$	363,600
Total Development Cost		\$	5,811,000
Stabilized Return on Total Investment			6.3%

Feasible?

(Minimum = Cap Rate + 0.75%) 5.75%

YES

II. Developer Profit Margin

Net Operating Income		\$	363,600
Cap Rate	5.00%		
Project Value (NOI x Cap Rate)		\$	7,272,000
Less: Cost of Sale	3.0%	\$	(218,160)
Net Project Sale Value		\$	7,053,840
Less: Total Development Cost		\$	(5,811,000)
Developer Profit Margin		\$	1,242,840
% x Net Project Sale Value			17.6%

Feasible?

(Minimum = 12.5%)

YES

III. Financially Feasible?

YES

Estimated Development Costs

Density Bonus: 27 Units, Prescribed Unit Mix

Santa Clarita Valley

Inclusionary Housing Analysis - Rental Apartment Projects

I. Property Acquisition Costs 65,340 SF of Land x \$ 15 /SF of Land = \$ 980,000

II. Direct Costs

Site Improvement	65,340 SF of Land	x	\$	5 /SF of Land	=	\$	327,000
Parking							
Surface	47 Spaces	x	\$	5,000 /Space	=	\$	235,000
Podium	0 Spaces	x	\$	25,550 /Space	=	\$	-
Building Costs	30,859 SF of GBA	x	\$	120 /SF of GBA	=	\$	3,691,000
Contractor/DC Contingency	10.00% Other Direct Costs				=	\$	425,000
Total Direct Costs	27 Units		\$	173,259 /Unit		\$	4,678,000

III. Indirect Costs

Architecture, Engineering, & Consulting	5% Direct Costs				=	\$	234,000
Public Permits & Fees	27 Units	x	\$	15,000 /Unit	=	\$	405,000
Taxes, Insurance, Legal & Accounting	3.0% Direct Costs				=	\$	140,000
Marketing / Leasing	27 Units	x	\$	3,500 /Unit	=	\$	95,000
Developer Fee	4.0% Direct Costs				=	\$	187,000
Soft Cost Contingency Allowance	5.0% Other Indirect Costs				=	\$	53,000
Total Indirect Costs						\$	1,114,000

IV. Financing Costs

Land Carrying Cost	\$	980,000	Cost	5.00% Interest		\$	90,000
Construction Loan Interest	\$	6,149,000	Cost	5.00% Interest		\$	379,000
Loan Origination Fees	\$	5,792,000	Loan	1.50 Points		\$	87,000
Total Financing Costs						\$	556,000

V. Total Construction Cost	27 Units	\$	235,111 /Unit	\$	6,348,000
Total Development Cost	27 Units	\$	271,407 /Unit	\$	7,328,000

Stabilized NOI

Density Bonus: 27 Units, Variable Level of Affordable Units

Santa Clarita Valley

Inclusionary Housing Analysis - Rental Apartment Projects

I. Income

Market Rate Units

Studios	0 Units	\$ - /Unit/Month	\$ -
1 BR	7 Units	\$ 2,040 /Unit/Month	\$ 171,400
2 BR	11 Units	\$ 2,570 /Unit/Month	\$ 339,200
3 BR	4 Units	\$ 2,940 /Unit/Month	\$ 141,100
Total Market Rate Units	22		

Lower Income (Max 80% AMI)

Studios	0 Units	\$ 737 /Unit/Month	\$ -
1 BR	1 Units	\$ 835 /Unit/Month	\$ 10,000
2 BR	3 Units	\$ 936 /Unit/Month	\$ 33,700
3 BR	1 Units	\$ 1,033 /Unit/Month	\$ 12,400
Total Affordable Units	5		

Laundry & Misc Income	27	\$ 25 /Unit/Month	\$ 8,100
-----------------------	----	-------------------	----------

Gross Income \$ 715,900

(Less) Vacancy & Collection Allowance 5.0% Gross Income \$ (36,000)

Effective Gross Income \$ 679,900

II. Operating Expenses

General OpEx	27 Units	\$ 4,000 /Unit	\$ 108,000
Property Taxes	27 Units	\$ 5,048 /Unit	\$ 136,000
Reserves Deposits	27 Units	\$ 150 /Unit	\$ 4,000
Total OpEx	27 Units	\$ 9,198 /Unit	\$ 248,000

III. Stabilized NOI \$ 431,900

Stabilized Return on Total Investment
Density Bonus: 27 Units, Variable Level of Affordable Units
Santa Clarita Valley
 Inclusionary Housing Analysis - Rental Apartment Projects

I. Return on Total Development Cost

Stabilized NOI		\$	431,900	
Total Development Cost		\$	7,328,000	
Stabilized Return on Total Investment			5.9%	

Feasible?

YES

(Minimum = Cap Rate + 0.75%) 5.75%

II. Developer Profit Margin

Net Operating Income		\$	431,900	
Cap Rate	5.00%			
Project Value (NOI x Cap Rate)		\$	8,638,000	
Less: Cost of Sale	3.0%	\$	(259,140)	
Net Project Sale Value		\$	8,378,860	
Less: Total Development Cost		\$	(7,328,000)	
Developer Profit Margin		\$	1,050,860	
% x Net Project Sale Value			12.5%	

YES

Feasible?
 (Minimum = 12.5%)

III. Financially Feasible?

YES

APPENDIX B.6

PRO FORMA ANALYSIS SOUTH LOS ANGELES¹

¹ HR&A prepared dynamic pro forma models that tested varying levels and affordability levels. For the purposes of these summary tables, prototypes are shown with the maximum supportable level of Low Income (80% of AMI) inclusionary housing.

Estimated Development Costs
Base Case: 100% Market Rate Units
South Los Angeles

Inclusionary Housing Analysis - Rental Apartment Projects

I. Property Acquisition Costs	21,780 SF of Land	x	\$ 55 /SF of Land	=	\$ 1,198,000
II. Direct Costs					
Site Improvement	21,780 SF of Land	x	\$ 5 /SF of Land	=	\$ 109,000
Parking					
Surface	0 Spaces	x	\$ 5,000 /Space	=	\$ -
Podium	42 Spaces	x	\$ 21,292 /Space	=	\$ 894,000
Building Costs	21,978 SF of GBA	x	\$ 130 /SF of GBA	=	\$ 2,857,000
Contractor/DC Contingency	10.00% Other Direct Costs			=	\$ 386,000
Total Direct Costs	20 Units		\$ 212,300 /Unit		\$ 4,246,000
III. Indirect Costs					
Architecture, Engineering, & Consulting	5% Direct Costs			=	\$ 212,000
Public Permits & Fees	20 Units	x	\$ 15,000 /Unit	=	\$ 300,000
Taxes, Insurance, Legal & Accounting	3.0% Direct Costs			=	\$ 127,000
Marketing / Leasing	20 Units	x	\$ 3,500 /Unit	=	\$ 70,000
Developer Fee	4.0% Direct Costs			=	\$ 170,000
Soft Cost Contingency Allowance	5.0% Other Indirect Costs			=	\$ 44,000
Total Indirect Costs					\$ 923,000
IV. Financing Costs					
Land Carrying Cost	\$ 1,198,000 Cost		5.00% Interest		\$ 105,000
Construction Loan Interest	\$ 5,466,000 Cost		5.00% Interest		\$ 314,000
Loan Origination Fees	\$ 5,169,000 Loan		1.50 Points		\$ 78,000
Total Financing Costs	94.6%				\$ 497,000
V. Total Construction Cost	20 Units		\$ 283,300 /Unit		\$ 5,666,000
Total Development Cost	20 Units		\$ 343,200 /Unit		\$ 6,864,000

Stabilized NOI

Base Case: 100% Market Rate Units

South Los Angeles

Inclusionary Housing Analysis - Rental Apartment Projects

I. Income

Market Rate Units

Studios	0 Units	\$ - /Unit/Month	\$ -
1 BR	8 Units	\$ 1,280 /Unit/Month	\$ 122,900
2 BR	8 Units	\$ 1,480 /Unit/Month	\$ 142,100
3 BR	4 Units	\$ 1,710 /Unit/Month	\$ 82,100
Laundry & Misc Income	20	\$ 25 /Unit/Month	\$ 6,000
Gross Income			<u>\$ 353,100</u>
(Less) Vacancy & Collection Allowance	5.0% Gross Income		\$ (18,000)
Effective Gross Income			<u>\$ 335,100</u>

II. Operating Expenses

General OpEx	20 Units	\$ 3,000 /Unit	\$ 60,000
Property Taxes	20 Units	\$ 3,265 /Unit	\$ 65,000
Reserves Deposits	20 Units	\$ 150 /Unit	\$ 3,000
Total OpEx	20 Units	\$ 6,415 /Unit	<u>\$ 128,000</u>

III. Stabilized NOI			<u>\$ 207,100</u>
----------------------------	--	--	-------------------

Stabilized Return on Total Investment

Base Case: 100% Market Rate Units

South Los Angeles

Inclusionary Housing Analysis - Rental Apartment Projects

I. Return on Total Development Cost

Stabilized NOI		\$	207,100	
Total Development Cost		\$	6,864,000	
Stabilized Return on Total Investment				3.0%

Feasible?

(Minimum = Cap Rate + 0.75%) 5.75%

NO

II. Developer Profit Margin

Net Operating Income		\$	207,100	
Cap Rate	5.00%			
Project Value (NOI x Cap Rate)		\$	4,142,000	
Less: Cost of Sale	3.0%	\$	(124,260)	
Net Project Sale Value		\$	4,017,740	
Less: Total Development Cost		\$	(6,864,000)	
Developer Profit Margin		\$	(2,846,260)	
% x Net Project Sale Value				-70.8%

Feasible?

(Minimum = 12.5%)

NO

III. Financially Feasible?

NO

Estimated Development Costs

Density Bonus: 27 Units, Prescribed Unit Mix

South Los Angeles

Inclusionary Housing Analysis - Rental Apartment Projects

I. Property Acquisition Costs 21,780 SF of Land x \$ 55 /SF of Land = \$ 1,198,000

II. Direct Costs

Site Improvement	21,780 SF of Land	x	\$	5	/SF of Land	=	\$	109,000
Parking								
Surface	0 Spaces	x	\$	5,000	/Space	=	\$	-
Podium	46 Spaces	x	\$	21,292	/Space	=	\$	979,000
Building Costs	29,900 SF of GBA	x	\$	130	/SF of GBA	=	\$	3,887,000
Contractor/DC Contingency	10.00% Other Direct Costs					=	\$	498,000
Total Direct Costs	27 Units		\$	202,704	/Unit		\$	5,473,000

III. Indirect Costs

Architecture, Engineering, & Consulting	5% Direct Costs					=	\$	274,000
Public Permits & Fees	27 Units	x	\$	15,000	/Unit	=	\$	405,000
Taxes, Insurance, Legal & Accounting	3.0% Direct Costs					=	\$	164,000
Marketing / Leasing	27 Units	x	\$	3,500	/Unit	=	\$	95,000
Developer Fee	4.0% Direct Costs					=	\$	219,000
Soft Cost Contingency Allowance	5.0% Other Indirect Costs					=	\$	58,000
Total Indirect Costs							\$	1,215,000

IV. Financing Costs

Land Carrying Cost	\$	1,198,000	Cost	5.00% Interest	\$	110,000
Construction Loan Interest	\$	7,100,000	Cost	5.00% Interest	\$	438,000
Loan Origination Fees	\$	6,688,000	Loan	1.50 Points	\$	100,000
Total Financing Costs					\$	648,000

V. Total Construction Cost	27 Units	\$	271,704	/Unit	\$	7,336,000
Total Development Cost	27 Units	\$	316,074	/Unit	\$	8,534,000

Stabilized NOI

Density Bonus: 27 Units, Variable Level of Affordable Units

South Los Angeles

Inclusionary Housing Analysis - Rental Apartment Projects

I. Income

Market Rate Units

Studios	0 Units	\$ - /Unit/Month	\$ -
1 BR	8 Units	\$ 1,280 /Unit/Month	\$ 122,900
2 BR	9 Units	\$ 1,480 /Unit/Month	\$ 159,800
3 BR	5 Units	\$ 1,710 /Unit/Month	\$ 102,600

Total Market Rate Units 22

Lower Income (Max 80% AMI)

Studios	0 Units	\$ 737 /Unit/Month	\$ -
1 BR	1 Units	\$ 835 /Unit/Month	\$ 10,000
2 BR	3 Units	\$ 936 /Unit/Month	\$ 33,700
3 BR	1 Units	\$ 1,033 /Unit/Month	\$ 12,400

Total Affordable Units 5

Laundry & Misc Income 27 \$ 25 /Unit/Month \$ 8,100

Gross Income \$ 449,500

(Less) Vacancy & Collection Allowance 5.0% Gross Income \$ (22,000)

Effective Gross Income \$ 427,500

II. Operating Expenses

General OpEx	27 Units	\$ 3,000 /Unit	\$ 81,000
Property Taxes	27 Units	\$ 3,044 /Unit	\$ 82,000
Reserves Deposits	27 Units	\$ 150 /Unit	\$ 4,000

Total OpEx 27 Units \$ 6,194 /Unit \$ 167,000

III. Stabilized NOI \$ 260,500

Stabilized Return on Total Investment
Density Bonus: 27 Units, Variable Level of Affordable Units
South Los Angeles
 Inclusionary Housing Analysis - Rental Apartment Projects

I. Return on Total Development Cost

Stabilized NOI		\$	260,500	
Total Development Cost		\$	8,534,000	
Stabilized Return on Total Investment			3.1%	

Feasible? **NO**
 (Minimum = Cap Rate + 0.75%) 5.75%

II. Developer Profit Margin

Net Operating Income		\$	260,500	
Cap Rate	5.00%			
Project Value (NOI x Cap Rate)		\$	5,210,000	
Less: Cost of Sale	3.0%	\$	(156,300)	
Net Project Sale Value		\$	5,053,700	
Less: Total Development Cost		\$	(8,534,000)	
Developer Profit Margin		\$	(3,480,300)	
% x Net Project Sale Value			-68.9%	

Feasible? **NO**
 (Minimum = 12.5%)

III. Financially Feasible?	NO
-----------------------------------	-----------