



KEYSER MARSTON ASSOCIATES™

DRAFT

FINANCIAL FEASIBILITY ANALYSIS

INCLUSIONARY HOUSING

RENTAL RESIDENTIAL DEVELOPMENT

Prepared for:

City of Santa Cruz

Prepared by:

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I. OVERVIEW

Keyser Marston Associates, Inc. (KMA) prepared the following analysis to assist the City of Santa Cruz (City) in updating the City's existing Inclusionary Housing Ordinance. This analysis covers the following topics:

1. The influence that recent court cases and legislation have on the modifications that can and should be made to the City's existing Inclusionary Housing Ordinance; and
2. Financial testing using pro forma analyses designed to evaluate the feasibility of altering the percentage of affordable housing units that are required to be developed in new rental residential projects in Santa Cruz.

A. Context

Over 170 jurisdictions in California currently include an Inclusionary Housing program as a component in their overall affordable housing strategy. While the unifying foundation of these programs is the objective to attract affordable housing development, the characteristics of these programs vary widely from jurisdiction-to-jurisdiction.

The City's existing Inclusionary Housing Ordinance was adopted following the passage of Measure O, a voter initiative that requires residential developers to fulfill defined affordable housing requirements. The Measure O requirements were codified in Part 1 of Chapter 24.16 of the Santa Cruz Municipal Code, and went into effect on January 15, 2007. The City's Inclusionary Housing Ordinance has been modified over time to reflect changes in the real estate market, to incentivize developers to construct rental residential projects and to maintain compliance with State laws pertaining to affordable housing.

Over the past several years the region has rebounded from the global real estate recession, and as a result, rents and sales prices in Santa Cruz have been escalating rapidly. This continues to intensify the demand for affordable housing in Santa Cruz.

The 2012 termination of redevelopment in California eliminated the most significant financial resource available to the City to assist in the production of affordable housing. In addition, over the past several years the amount of Federal funding for affordable housing has steadily decreased. As these outside affordable housing program resources continue to decline, and as rents and sales prices continue to escalate, the City has begun exploring the options for updating the existing Inclusionary Housing Ordinance to assist in increasing the supply of affordable housing in Santa Cruz.

B. Key Court Cases and Statutes

It is helpful to review the key legal cases and State legislation that guide the creation and implementation of Inclusionary Housing programs. A chronological summary of the relevant cases and legislation follows.

Palmer Case

In 2009, the California Court of Appeal ruled in *Palmer/Sixth Street Properties L.P. v. City of Los Angeles*, 175 Cal. App. 4th 1396 (*Palmer*), that the local affordable housing requirements being imposed by the City of Los Angeles violated the Costa-Hawkins Rental residential Act (Costa-Hawkins). Specifically, Costa-Hawkins allows landlords to set the initial monthly rent for a new unit, and then to increase the monthly rent to the market level each time a unit is vacated. The Court found that the imposition of long-term income and affordability restrictions on rental residential units is a violation of this provision.

It is commonly believed that the *Palmer* ruling prohibits jurisdictions from requiring developers to construct affordable rental residential units as a part of their Inclusionary Housing program. In an effort to comply with *Palmer*, many jurisdictions eliminated the requirement that market rate rental residential projects provide affordable rental residential units. Instead, some jurisdictions replaced affordable housing production models with a linkage or impact fee methodology.

San Jose Case

In 2015, the California Supreme Court ruled in the *California Building Industry Association v. City of San Jose*, 61 Cal 4th 435 (*San Jose*) that Inclusionary Housing Ordinances should be viewed as use restrictions that are a valid exercise of a jurisdiction's zoning powers. Specifically, the Court found that Inclusionary Housing requirements are a planning tool rather than an exaction. This, in turn, means that Inclusionary Housing Ordinances are not subject to the requirements imposed by the "Mitigation Fee Act".¹

It is important to note that the *San Jose* ruling only applies to ownership residential projects. The *San Jose* case did not overturn the limitations on rental Inclusionary Housing requirements that were imposed by *Palmer*. Nonetheless, the *San Jose* case is relevant to rental Inclusionary Housing, because Governor Brown publicly stated that he would not sign a "*Palmer Fix*" bill unless and until the California Supreme Court ruled in favor of the City of San Jose. As such, the ruling opened the door for the subsequent passage and adoption of Assembly Bill (AB) 1505 in September of 2017.

AB 1505

AB 1505 amends Section 65850 of the California Government Code, and adds Section 65850.01. This new legislation provides jurisdictions with the ability to adopt Ordinances that require rental residential projects to include a defined percentage of affordable housing units.

AB 1505 does not place a cap on the percentage of units that can be subject to income and affordability restrictions. However, if an Inclusionary Housing Ordinance imposes affordability requirements on more than 15% of the units in a rental project and/or the income restriction is set at the very-low or extremely low income categories, the California Department of Housing and Community Development (HCD) can require the jurisdiction to prepare an economic feasibility study to support the proposed requirements.

¹ The Mitigation Fee Act is codified in California Government Code §66000 et seq.

In all likelihood this report meets the economic feasibility study standards defined in AB 1505. However, if the City chooses to impose a greater than 15% affordability requirement and/or deeper affordability standards, HCD can potentially intervene in the Inclusionary Housing Ordinance adoption process. This could extend and complicate the approval process.

AB 1505 also requires jurisdictions with rental residential Inclusionary Housing programs to provide developers with alternatives to the on-site production of the required affordable housing units. The options that must be provided to developers include, but are not limited to, off-site construction of affordable units, payment of a fee in-lieu of producing affordable housing units, land dedication, and the acquisition and rehabilitation of existing units.

C. Inclusionary Housing Program Characteristics

Following the Palmer decision, the City stopped imposing Inclusionary Housing requirements on rental residential projects. In 2016, the City staff engaged KMA to prepare a financial analysis, in accordance with the Mitigation Fee Act, to support the imposition of an impact fee on rental residential development. With the passage of AB 1505, it became more advantageous to reinstate Inclusionary Housing obligations on rental residential projects for the following basic reasons:

1. Inclusionary Housing programs have the flexibility to be structured to meet current and future unmet needs for affordable housing, without regard for the cause of the shortfall. Impact fee programs can only be used to meet future demand.
2. Inclusionary housing programs are generally focused on the production of affordable housing within market rate developments. Under an impact fee model, the City runs the risk that it will take an extended time period to collect sufficient revenue to be able to assist in the production of a meaningful number of affordable units.

3. Inclusionary Housing programs typically include an in-lieu fee option. In-lieu fee revenues can be structured to generate an equal or greater amount of revenue than could be produced by an impact fee.

Over the course of the past year, the City convened a working group of stakeholders in the community to discuss modifications that could be made to improve the Inclusionary Housing program. As a result of these discussions, the City staff has identified a variety of changes that are being considered for inclusion in an updated Inclusionary Housing Ordinance. The potential modifications being evaluated in this analysis can be described as follows:

1. The existing Inclusionary Housing Ordinance requires that 15% of units in new rental residential projects be set aside for households earning less than 80% of the area median income (AMI). The City staff commissioned this KMA study to evaluate the percentage requirements that can be supported under the financial feasibility requirements imposed by AB 1505.
2. In jurisdictions with disparate real estate and demographic conditions it is common to impose varying requirements based on defined subareas. The City staff has determined that it would be advisable to vary the restrictions between Downtown and Non-Downtown subareas. This analysis includes pro forma testing for both subareas.
3. The existing Inclusionary Housing Ordinance includes a provision that allows developers to pay a fee in lieu of producing affordable units. The in-lieu fee amount is based on the “affordability gap” between the achievable market rents and the designated affordable rents for the Inclusionary Units. A sample calculation is presented in the following table:

One-Bedroom Units	
Market Rate Rent @ \$2,540 per month ²	\$30,480
Inclusionary Rent at \$1,334 per month ³	\$16,008
Reduction in Annual Income	\$14,472
(Less) Property Tax Savings ⁴	(\$3,184)
Net Reduction in Annual Income	\$11,288
Affordability Gap Per Inclusionary Unit ⁵	\$168,478
Inclusionary Housing Percentage	15%
In-Lieu Fee Per Market Rate Unit ⁶	\$25,271
Average Unit Size (Square Feet)	725
In-Lieu Fee Per Square Foot of Building Area	\$34.86

The existing Inclusionary Housing Ordinance provides developers with a range of options for fulfilling the affordable housing requirements that comports with the requirements imposed by the recently adopted AB 1505. To remain in compliance with the AB 1505 requirements, the following options must be offered to the developers of rental residential projects that are subject to the City's Inclusionary Housing requirements:

1. On-site production of the affordable units within the new market rate rental residential project;

² As a result of working group discussions, the City staff is recommending that the value of the market rate units be determined using an appraisal process.

³ The Inclusionary rents for one-bedroom units are calculated based on 80% of AMI for a two-person household, and 30% of income is allotted to housing related expenses.

⁴ The reduction in the project's value is estimated based on the \$11,288 decrease in annual income capitalized at a 5% rate. The property tax rate is set at 1.1% of the property's assessed value.

⁵ The affordability gap is equal to the value of the net reduction in annual income. This is estimated by capitalizing the net reduction in annual income at the threshold return on total investment of 6.7%.

⁶ The in-lieu fee per market rate unit is equal to the affordability gap per Inclusionary unit multiplied times the Inclusionary Housing percentage.

2. Construction of a defined percentage of income restricted units in a project located in an off-site location;
3. Payment of a fee in lieu of producing affordable housing units that will subsequently be used by the City to assist in the development of affordable housing units within the community;
4. The dedication of land to the jurisdiction that is appropriate for the development of affordable housing; and
5. The acquisition and rehabilitation of existing units that are then subjected to long-term income and affordability covenants.

The KMA analysis is focused on the impacts associated with the production of affordable housing units.

II. METHODOLOGY

The purpose of this analysis is to identify the affordable housing requirements that can be supported in rental residential projects in the Downtown and Non-Downtown subareas. The alternatives that KMA evaluated are:

- A 15% Inclusionary Requirement
- A 25% Inclusionary Requirement
- A 35% Inclusionary Requirement
- A Feasible Inclusionary Percentage

A fundamental premise of this analysis is that the affordability standards imposed on rental residential projects by the Inclusionary Housing Ordinance will continue to be applied. These standards can be summarized as follows:

1. The affordable rents are calculated based on a benchmark household size of the number of bedrooms in the unit plus one. For example, the benchmark household size for a two-bedroom unit is three persons.⁷
2. The affordable rent is calculated based on 80% of the AMI for the benchmark household size.
3. Thirty percent (30%) of the defined household income is allotted to housing related expenses.
4. In this analysis, KMA assumed that the tenants will be required to pay for gas heating, cooking and water heating; and basic electric services. The utilities allowances placed into effect by the Santa Cruz County Housing Authority on October 1, 2017 were applied in this analysis.
5. The designated income remaining after deducting the utilities allowance is defined as the affordable rent.

The financial feasibility analysis is comprised of the following steps:

A. Parameters

As the first step in the evaluation process it is necessary to identify the parameters that will be applied in the analysis. A fundamental premise is that the Inclusionary Housing program should not place an onerous financial burden on the developers of market rate housing. Within that context, it is clear that Inclusionary Housing can only be expected to fulfill a portion of the unmet need for affordable housing in Santa Cruz.

⁷ The benchmark household sizes are used solely for the purposes of calculating the affordable rent. Income qualification for the Inclusionary Units is based on the actual household size and income of a prospective tenant.

B. Financial Feasibility Analyses

The courts have held that affordable housing is a “public benefit,” and that locally imposed Inclusionary Housing Ordinances are a legitimate means of providing this public benefit as long as the following conditions are met:

1. The requirements are not “confiscatory”; and
2. The requirements do not deprive a property owner of a “fair and reasonable return”.

Neither of these terms have been defined by the courts. To follow a conservative course, the KMA financial feasibility analysis is based on the parameters that have been applied to a significant number of Inclusionary Housing programs in place in California jurisdictions.

KMA prepared financial analyses to assist in creating Inclusionary Housing requirements that balance the interests of property owners and developers against the public benefit created by the production of income restricted units. Based on these analyses, KMA identified recommended Inclusionary Housing production requirements for the Downtown and the Non-Downtown subareas.

III. RESIDENTIAL PROTOTYPES

The residential prototypes used in this analysis were created based on the results of the KMA market surveys, and a review of projects that have recently been constructed in Santa Cruz. The KMA market surveys were also used to estimate the achievable market rate rents for the prototype units in the two subareas.

The key characteristics of the prototype projects utilized in this Inclusionary Housing Analysis are summarized in the following tables:

Downtown Prototype Rental Residential Prototype		
	Base Zoning	35% Density Bonus
Site Area (Square Feet)	48,400	48,400
Total Number of Units	100	135
Density (Units Per Acre)	90	122
<u>Unit Mix</u>		
Studio Units	34	46
One-Bedroom Units	40	54
Two-Bedroom Units	26	35
<u>Average Unit Sizes (Sq Ft)</u>		
Studio Units	340	340
One-Bedroom Units	620	620
Two-Bedroom Units	927	927
Gross Building Area (Square Feet)	76,565	103,286
Number of Parking Spaces	126	85
Spaces Per Unit	1.26	.63

Key features of the Downtown subarea prototypes are:

1. Based on the estimated height of the building, the use of a 35% density bonus requires the project to be constructed using Type III construction. Comparatively, the project that can be developed under the base zoning is assumed to be Type V wood frame construction.
2. This analysis assumes that projects located in the Downtown subarea can make use of the reduced parking standards allowed by the Section 65915 density bonus while

maintaining the project’s marketability. As a result, the reduction in parking costs enhances the project economics.

Non-Downtown Prototype Rental Residential Prototype		
	Base Zoning	35% Density Bonus
Site Area (Square Feet)	124,400	124,400
Total Number of Units	100	135
Density (Units Per Acre)	35	47
<u>Unit Mix</u>		
Studio Units	11	15
One-Bedroom Units	49	66
Two-Bedroom Units	40	54
<u>Average Unit Sizes (Sq Ft)</u>		
Studio Units	288	288
One-Bedroom Units	724	724
Two-Bedroom Units	917	917
Gross Building Area (Square Feet)	94,181	127,063
Number of Parking Spaces	140	189
Spaces Per Unit	1.4	1.4

Key features of the Non-Downtown subarea prototypes are:

1. It is assumed that projects located in the Non-Downtown subarea will need to provide parking at traditional parking ratios in order to effectively market the units. This precludes the use of the Section 65915 density bonus parking standards.

2. The use of a 35% density bonus creates a development scope that would likely need a structured parking component. This reduces the financial benefits created by the Section 65915 density bonus.

IV. IMPACTS CREATED BY INCLUSIONARY HOUSING REQUIREMENTS

As discussed previously in this analysis, AB 1505 amended the California Government Code to expressly allow Inclusionary Housing requirements to be imposed on rental residential projects. However, it is important to remember that Inclusionary Housing requirements cannot deprive a property owner of a fair and reasonable return. Recognizing that the courts have not defined this term, the City has some discretion in establishing evaluation parameters.

It is likely some form of the following sequence of events will occur when the City begins imposing Inclusionary Housing requirements on rental residential projects again:

1. The immediate response will be that the financial impacts created by the imposition of the affordable housing requirements will largely be borne by developers that had purchased property prior to the City reinstating the requirements.
2. After the requirements are put in place, developers that have not purchased property will attempt to bargain for a lower land price that reflects the impacts created by the Inclusionary Housing requirements.
3. If the Inclusionary Housing requirements are too stringent, it may be more advantageous for a property owner to sell their site to users or developers for non-residential uses. This is a particularly likely scenario for improved properties.
4. If reasonable Inclusionary Housing requirements are imposed, it is likely that over time land prices will adjust to reflect the value supported by the market given the restrictions imposed on the property.

It is likely that the reinstating Inclusionary Housing requirements on rental residential projects will impact the values supported by properties that are subject to the requirements. However, the courts have found that this is permissible as long as the property owner is not deprived of a fair and reasonable return. A significant number of California Inclusionary Housing programs have been based on a projected land value reduction in the 30% range. In turn, this KMA analysis is focused on identifying income and affordability standards that would fall within that parameter.

V. PRO FORMA ANALYSES

A variety of tools are available to reduce the financial impact associated with the imposition of income and affordability restrictions on rental residential projects. For 100% affordable housing projects, Low-Income Housing Tax Credit financing is commonly used to fill the financial gap. For mixed-income projects, the California Government Code Sections 65915 - 65918 (Section 65915) density bonus is often used.

In July 2013, the First District Court of Appeal held that jurisdictions must agree to apply Inclusionary Housing units toward the fulfillment of the affordable unit requirements imposed by the Section 65915 density bonus.⁸ In addition, both the Section 65915 density bonus and the City's Inclusionary Housing Ordinance affordable housing requirements can only be applied to the units permitted under a site' base zoning.

The low income rents applied under the City's Inclusionary Housing Ordinance are higher than the low income rents applied under Section 65915.⁹ Therefore, the City must allow a developer to count each affordable unit towards the fulfillment of both the Inclusionary Housing requirements and the Section 65915 density bonus requirements.

⁸ *Latinos Unidos del Valle de Napa y Solano v. County of Napa*, 217 Cal. App. 4th 1160 (*Napa*).

⁹ The Inclusionary rents are calculated based on 80% of AMI with 30% of income allotted to housing related expenses. The low income rents under Section 65915 are calculated based on 60% of AMI with 30% of income allotted to housing related expenses.

The Section 65915 density bonus can act to materially reduce the financial impacts created by Inclusionary Housing requirements. For that reason, jurisdictions that impose Inclusionary Housing requirements should recognize the extreme likelihood that many developers will pursue Section 65915 density bonuses.

To evaluate the impacts created by the imposition of Inclusionary Housing requirements, KMA prepared the following pro forma analyses for the prototype projects in the two subareas:

1. Base Zoning Alternatives:
 - a. A 100% market rate unit alternative; and
 - b. Inclusionary Housing alternatives based on the 2018 affordable rents allowed under the existing Inclusionary Housing Ordinance calculation methodology.
2. Density Bonus Alternatives:
 - a. A project cost analysis of a density bonus alternative that maximizes the Section 65915 density bonus; and
 - b. Inclusionary Housing Alternatives based on affordable rents that are the lesser of the Inclusionary Housing Ordinance standards and the rent calculation methodology imposed by Section 65915.¹⁰

Market Rate Development Alternatives

The 100% market rate unit alternatives provide a baseline against which to measure the impacts associated with affordable housing requirements. The purpose of the 100% market rate scenarios is to estimate the developer's stabilized return on total investment for a project

¹⁰ Section 65915 applies the rent calculation methodology defined in California Health and Safety Code Section 50053.

that is not encumbered by income and affordability restrictions. The pro forma analyses for the 100% market rate unit scenarios are organized as follows:

Base Case: 100% Market Rate Alternatives	
Table 1:	Estimated Development Costs
Table 2:	Estimated Stabilized Net Operating Income
Table 3:	Estimated Developer Return

Market Rate Rents

In the April of 2018, KMA surveyed rental residential projects that Costar rated with three stars or higher (Attachment V – Exhibit A). The survey results were used to create prototypes that represent typical rental residential projects in each subarea. The characteristics of actual projects will vary to some degree from the prototypes.

The market rate rents that are used in this analysis are presented in the following table.

Estimated Market Rate Rents				
Number of Bedrooms	Downtown		Non-Downtown	
	Monthly Rent		Monthly Rent	
	Total	Per Square Foot	Total	Per Square Foot
0	\$2,027	\$5.97	\$1,403	\$4.88
1	\$3,123	\$5.03	\$2,540	\$3.51
2	\$4,399	\$4.59	\$3,107	\$3.39

Estimated Developer Return

The estimated stabilized developer returns derived from the 100% market rate scenarios are presented in the following table:

Stabilized Developer Return Market Rate Alternatives	
Subarea	Developer Return
Downtown	6.3%
Non-Downtown	6.7%

Inclusionary Housing Production Alternatives

Under Section 65915, a project can receive a 35% density bonus by providing 11% of the base zoning units to very-low income households, or 20% of the base zoning units to low income households. Based on the 2018 income information published by HCD, the current Section 65915 and City Inclusionary rents are presented in the following table.¹¹

2018 Affordable Rents			
	Very-Low Income	Low Income	
	Section 65915 Density Bonus	Section 65915 Density Bonus	City Inclusionary
Number of Bedrooms			
0	\$725	\$878	\$1,182
1	\$812	\$986	\$1,334
2	\$909	\$1,105	\$1,496

As can be seen in the preceding table, the Section 65915 rents are significantly lower than the City’s Inclusionary rents. To create the most financially efficient scenarios, the KMA density bonus analyses allocate 11% of the base zoning units to very-low income households, and the

¹¹ The rents are net of the applicable utilities allowances.

rents applied to the balance of the affordable units are based on the City’s Inclusionary Housing Ordinance requirements.

The pro forma analyses for the Inclusionary Housing production alternatives are organized as follows:

Inclusionary Housing Production Alternatives	
Table 1:	Estimated Development Costs
Table 2:	Estimated Stabilized Net Operating Income
Table 3:	Inclusionary Housing Impacts

As discussed previously, the KMA financial feasibility analyses target a financial impact equal to a +/- 30% reduction in land value. The results of the KMA pro forma analyses, which estimated the impacts under the various alternatives, are presented in the following tables:

Base Zoning: Inclusionary Housing Production Analysis		
Estimated Percentage Decrease in Land Cost		
	Downtown	Non-Downtown
Inclusionary Requirement as a % of Total Units in the Project		
15%	49%	42%
25%	81%	70%
35%	114%	99%
Feasible Percentage	9%	10%

Based on the findings in the *Napa* case, jurisdictions cannot impose Inclusionary Housing requirements on the additional units a developer receives by invoking the Section 65915 density bonus. Thus, the Inclusionary Housing production requirement must be calculated against the number of units permitted under the property’s base zoning standards.

It should be noted that as long as the percentage of units that must be affordable is measured against the number of units allowed by the base zoning, the City can impose a higher Inclusionary Housing percentage requirement than is applied under Section 65915. However, to provide an apples-to-apples comparison with the results of the base zoning analyses, the following table illustrates the percentages of affordable units measured against the total number of units in the project. It is important to remember that the Inclusionary Housing percentage the City ultimately chooses to impose will actually need to be applied against the number of units allowed by the base zoning.

Downtown Subarea: 35% Density Bonus: Inclusionary Housing Production Analysis	
Estimated Percentage Decrease in Land Cost ¹²	
Inclusionary Requirement as a % of Total Units in the Project	
15%	38%
25%	85%
35%	127%
Feasible Percentage	12.5%

VI. FINDINGS

The results of the preceding Inclusionary Housing financial feasibility analysis can be summarized as follows:

¹² The prototypes for the non-downtown subarea were excluded from this analysis, because the use of the Section 65915 density bonus was less financially advantageous than developing at the base zoning.

A. Base Zoning Alternatives

1. Under current conditions a 15% Inclusionary Housing requirement can only be supported if the City provides financial assistance to the project, or if incentives can be identified that add substantial value to the project or materially reduce project costs.
2. It is KMA's opinion that the imposition of a 25% Inclusionary Housing requirement creates an onerous financial burden that cannot reasonably be absorbed by property owners and/or residential developers. It is further KMA's conclusion that the City would not be able to demonstrate the financial feasibility of a 25% Inclusionary Housing requirement if HCD exercised their right to require an economic feasibility study.
3. The pro forma analyses indicate that it would be necessary for the City to donate a development site to a project at no cost, and to provide a significant amount of public financial assistance to a project, to mitigate the financial impacts created by imposing a 35% Inclusionary Housing requirement.
4. Based on the results of the preceding financial analysis, the feasible requirements for projects developed at the base zoning are estimated 9% of the total units for the Downtown subarea and 10% of the total units for the Non-Downtown subarea.

B. Density Bonus Alternatives

1. The Section 65915 density bonus can potentially provide significant financial benefit to rental residential project in the Downtown subarea. For example, KMA estimates that Inclusionary Housing requirements can be imposed on 12.5% of the total units in a project if a 35% density bonus is used. If incentives and concessions can be identified that materially enhance a project's value or result in significant cost savings, a 15% Inclusionary Housing requirement may be viable.
2. In the Non-Downtown subarea, parking costs are actually projected to increase under the density bonus alternatives. As a result, the Section 65915 density bonus is not

anticipated to provide the financial benefits needed to support a significantly higher Inclusionary Housing percentage than was supported under the base zoning alternative.

3. Both the 25% and 35% of total units Section 65915 density bonus/Inclusionary Housing alternatives demonstrate larger financial impacts than the analogous alternatives that do not use the Section 65915 density bonus. It is KMA's opinion that Inclusionary Housing obligations of this magnitude generate an onerous burden that would require substantial public sector financial assistance to ameliorate.

VII. RECOMMENDED PROGRAM DESIGN

1. KMA recommends that the City set the Inclusionary Housing requirements for rental residential development at the following percentages:
 - a. The feasibility analysis supports an Inclusionary Housing requirement equal to between 9% and 12.5% of the total units developed in a project. In this context, it is important to consider that if the standard is set at a higher percentage than 15% of the units allowed by the base zoning, HCD can intervene in the approval process. To avoid this extra layer of oversight, KMA recommends that the Downtown subarea Inclusionary Housing requirement be set at no more than 15% of the base units allowed by a site's zoning.
 - b. In the Non-Downtown subarea, the percentage should be set at 10% of the units allowed by a site's base zoning. This recommendation reflects the fact that the Section 65915 density bonus is currently not anticipated to significantly enhance the economic characteristics of rental residential projects in the Non-Downtown subarea.
 - c. The Section 65915 density bonus is only available to residential projects with five or more units. Since the density bonus benefits are not available to these projects, KMA recommends that the Inclusionary Housing requirement for

projects with fewer than five units be set at 10% of the base units allowed by the site's zoning.

2. The rental residential Inclusionary Housing requirements should be phased in over a defined time period. This will mitigate the financial impacts experienced by apartment developers that have already purchased property.
3. A clear set of administrative procedures should be drafted in support of the rental residential Inclusionary Housing requirements.
4. The rental residential Inclusionary Housing program should be updated at regular intervals to reflect changes in market and demographic conditions in the two subareas.

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SUMMARY TABLE

INCLUSIONARY HOUSING FEASIBILITY ANALYSIS
SANTA CRUZ, CALIFORNIA

	DOWNTOWN BASE DENSITY: 90 UNITS PER ACRE	DOWNTOWN: 35% DENSITY BONUS	NON- DOWNTOWN BASE DENSITY: 35 UNITS PER ACRE	NON- DOWNTOWN: 35% DENSITY BONUS
I. <u>Project Description</u>				
A. Site Area (Sf)	48,400	48,400	124,400	124,400
B. Total Units	100	135	100	135
C. Density (Units/Acre)	90	122	35	47
D. <u>Unit Mix</u>				
Studio/SRO Units	34	46	11	15
One-Bedroom Units	40	54	49	66
Two-Bedroom Units	26	35	40	54
Total Units	100	135	100	135
E. Gross Building Area (Sf)	76,565	103,286	94,181	127,063
F. Number of Parking Spaces Provided	126	85	140	189
Parking Spaces Per Unit	1.26	0.63	1.40	1.40
II. <u>Development Costs - Market Rate Alternative</u>				
A. Property Acquisition Costs	\$7,986,000	\$7,986,000	\$6,220,000	\$6,220,000
Per Square Foot of Land Area	\$165	\$165	\$50	\$50
B. Direct Costs	\$21,020,000	\$28,500,000	\$16,460,000	\$23,342,000
Per Square Foot of Gross Building Area	\$275	\$276	\$175	\$184
C. Indirect + Financing Costs	\$10,622,000	\$14,105,000	\$8,513,000	\$11,618,000
As a % of Direct Costs	51%	49%	52%	50%
Total Development Costs - Market Rate Alternative	\$39,628,000	\$50,591,000	\$31,193,000	\$41,180,000
Per Unit	\$396,300	\$374,700	\$311,900	\$305,000
III. Stabilized Net Operating Income - Market Rate Alternative	\$2,503,000	N/A	\$2,086,000	N/A
IV. Return on Total Investment - Market Rate Alternative	6.3%	6.3% ¹	6.7%	6.7% ²

¹ Based on the Return on Total Investment - Market Rate Alternative for the DOWNTOWN BASE DENSITY: 90 UNITS PER ACRE.

² Based on the Return on Total Investment - Market Rate Alternative for the NON-DOWNTOWN BASE DENSITY: 35 UNITS PER ACRE.

SUMMARY TABLE

INCLUSIONARY HOUSING FEASIBILITY ANALYSIS
SANTA CRUZ, CALIFORNIA

	DOWNTOWN BASE DENSITY: 90 UNITS PER ACRE	DOWNTOWN: 35% DENSITY BONUS	NON- DOWNTOWN BASE DENSITY: 35 UNITS PER ACRE	NON- DOWNTOWN: 35% DENSITY BONUS
V. Affordable Housing Scenarios				
A. 15% Inclusionary Requirement Alternative				
Land Value Reduction Required to Maintain the Return on Total Investment - Market Rate Alternative	49%	38%	42%	NA
or				
Land Value Maintained: Estimated Percentage Reduction in Return on Total Investment - Market Rate Alternative	10%	6%	8%	NA
B. 25% Inclusionary Requirement Alternative				
Land Value Reduction Required to Maintain the Return on Total Investment - Market Rate Alternative	81%	85%	70%	NA
or				
Land Value Maintained: Estimated Percentage Reduction in Return on Total Investment - Market Rate Alternative	16%	13%	14%	NA
C. 35% Inclusionary Requirement Alternative				
Land Value Reduction Required to Maintain the Return on Total Investment - Market Rate Alternative	114%	127%	99%	NA
or				
Land Value Maintained: Estimated Percentage Reduction in Return on Total Investment - Market Rate Alternative	23%	20%	20%	NA
D. Feasible Inclusionary Percentage Alternative				
Inclusionary Percentage	9.0%	12.5%	10.0%	NA
Land Value Reduction Required to Maintain the Return on Total Investment - Market Rate Alternative	29%	29%	29%	NA
or				
Land Value Maintained: Estimated Percentage Reduction in Return on Total Investment - Market Rate Alternative	6%	5%	6%	NA

3

³ The use of a Section 65915 density bonus for the non-downtown subarea properties was determined to be less financially advantageous than developing at the base zoning.

ATTACHMENT I

**PRO FORMA ANALYSES
DOWNTOWN BASE DENSITY: 90 UNITS PER ACRE
INCLUSIONARY HOUSING FEASIBILITY ANALYSIS
SANTA CRUZ, CALIFORNIA**

**ATTACHMENT I - EXHIBIT A
PRO FORMA ANALYSIS: MARKET RATE ALTERNATIVE
DOWNTOWN BASE DENSITY: 90 UNITS PER ACRE
INCLUSIONARY HOUSING FEASIBILITY ANALYSIS
SANTA CRUZ, CALIFORNIA**

ATTACHMENT I - EXHIBIT A - TABLE 1

ESTIMATED DEVELOPMENT COSTS
 PRO FORMA ANALYSIS: MARKET RATE ALTERNATIVE
 DENSITY: 90 UNITS PER ACRE
 INCLUSIONARY HOUSING FEASIBILITY ANALYSIS
 SANTA CRUZ, CALIFORNIA

I. Property Acquisition Costs	1	48,400	Sf of Land	\$165 /Sf of Land		\$7,986,000
II. Direct Costs	2					
On-Sites / Landscaping		48,400	Sf of Land	\$20 /Sf of Land		\$968,000
Parking	3					
At-Grade Spaces		0	Spaces	\$5,000 /Space		0
Above-Ground Podium Spaces		126	Spaces	\$25,000 /Space		3,150,000
1st Level Subterranean		0	Spaces	\$35,000 /Space		0
2nd Level Subterranean		0	Spaces	\$45,000 /Space		0
Building Costs		76,565	Sf of GBA	\$175 /Sf of GBA		13,399,000
Contractor/DC Contingency Allow		20%	Other Direct Costs			3,503,000
Total Direct Costs		76,565	Sf of GBA	\$275 /Sf of GBA		\$21,020,000
III. Indirect Costs						
Architecture, Engineering & Consulting		10%	Direct Costs			\$2,102,000
Public Permits & Fees	4	100	Units	\$25,000 /Unit		2,500,000
Taxes, Insurance, Legal & Accounting		3%	Direct Costs			631,000
Marketing		100	Units	\$10,000 /Unit		1,000,000
Developer Fee		5%	Direct Costs			1,051,000
Soft Cost Contingency Allowance		5%	Other Indirect Costs			364,000
Total Indirect Costs						\$7,648,000
IV. Financing Costs						
Interest During Construction						
Land	5	\$7,986,000	Cost	6.0% Avg Rate		\$719,000
Construction	6	\$31,642,000	Cost	6.0% Avg Rate		1,709,000
Loan Origination Fees		60%	Loan to Value	2.0 Points		546,000
Total Financing Costs						\$2,974,000
V. Total Construction Cost		100	Units	\$316,000 /Unit		\$31,642,000
Total Development Cost		100	Units	\$396,000 /Unit		\$39,628,000

1 Based on a survey of recent land sales.

2 Based on the estimated costs for similar uses.

3 Based on 1 space for Studio Units; 1 space for One-Bedroom Units; and 2 spaces for Two-Bedroom Units.

4 Based on estimates prepared for other projects within Santa Cruz.

5 Based on an 18 month construction period and a 100% average outstanding loan balance.

6 Based on an 18 month construction period and a 60% average outstanding loan balance.

ATTACHMENT I - EXHIBIT A - TABLE 2

ESTIMATED STABILIZED NET OPERATING INCOME
 PRO FORMA ANALYSIS: MARKET RATE ALTERNATIVE
 DOWNTOWN BASE DENSITY: 90 UNITS PER ACRE
 INCLUSIONARY HOUSING FEASIBILITY ANALYSIS
 SANTA CRUZ, CALIFORNIA

I. **Gross Income**

A. **Market Rate Units**

¹

Studio/SRO Units	34 Units @	\$2,027 /Unit/Month	\$827,000
One-Bedroom Units	40 Units @	\$3,123 /Unit/Month	1,499,000
Two-Bedroom Units	26 Units @	\$4,399 /Unit/Month	1,372,000

B. **Affordable Units**

Studio/SRO Units	0 Units @	\$0 /Unit/Month	0
One-Bedroom Units	0 Units @	\$0 /Unit/Month	0
Two-Bedroom Units	0 Units @	\$0 /Unit/Month	0

C. **Laundry & Miscellaneous Income**

100 Units @	\$10 /Unit/Month	12,000
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Total Gross Income

\$3,710,000

Vacancy & Collection Allowance

5% Gross Income

(186,000)

II. **Effective Gross Income**

\$3,524,000

III. **Operating Expenses**

General Operating Expenses	100 Units @	\$5,000 /Unit	\$500,000
Property Taxes	100 Units @	\$5,000 /Unit	501,000
Replacement Reserve Deposits	100 Units @	\$200 /Unit	20,000

Total Operating Expenses

(\$1,021,000)

IV. **Stabilized Net Operating Income**

\$2,503,000

¹ Based on the rent survey presented in ATTACHMENT V - EXHIBIT A - TABLE 1. The weighted average monthly rent equates to \$5.03 per square foot of leasable area.

ATTACHMENT I - EXHIBIT A - TABLE 3

ESTIMATED DEVELOPER RETURN
PRO FORMA ANALYSIS: MARKET RATE ALTERNATIVE
DOWNTOWN BASE DENSITY: 90 UNITS PER ACRE
INCLUSIONARY HOUSING FEASIBILITY ANALYSIS
SANTA CRUZ, CALIFORNIA

I.	Stabilized Net Operating Income	See ATTACHMENT I - EXHIBIT A - TABLE 2	\$2,503,000
II.	Total Development Cost	See ATTACHMENT I - EXHIBIT A - TABLE 1	<u>\$39,628,000</u>
III.	Return on Total Investment		6.3%

ATTACHMENT I - EXHIBIT B
PRO FORMA ANALYSIS: 15% INCLUSIONARY REQUIREMENT ALTERNATIVE
DOWNTOWN BASE DENSITY: 90 UNITS PER ACRE
INCLUSIONARY HOUSING FEASIBILITY ANALYSIS
SANTA CRUZ, CALIFORNIA

ATTACHMENT I - EXHIBIT B - TABLE 1

ESTIMATED DEVELOPMENT COSTS
 PRO FORMA ANALYSIS: 15% INCLUSIONARY REQUIREMENT ALTERNATIVE
 DOWNTOWN BASE DENSITY: 90 UNITS PER ACRE
 INCLUSIONARY HOUSING FEASIBILITY ANALYSIS
 SANTA CRUZ, CALIFORNIA

I. Property Acquisition Costs	1	48,400	Sf of Land	\$165 /Sf of Land		\$7,986,000
II. Direct Costs	2					
On-Sites / Landscaping		48,400	Sf of Land	\$20 /Sf of Land		\$968,000
Parking	3					
At-Grade Spaces		0	Spaces	\$5,000 /Space		0
Above-Ground Podium Spaces		126	Spaces	\$25,000 /Space		3,150,000
1st Level Subterranean		0	Spaces	\$35,000 /Space		0
2nd Level Subterranean		0	Spaces	\$45,000 /Space		0
Building Costs		76,565	Sf of GBA	\$175 /Sf of GBA		13,399,000
Contractor/DC Contingency Allow		20%	Other Direct Costs			3,503,000
Total Direct Costs		76,565	Sf of GBA	\$275 /Sf of GBA		\$21,020,000
III. Indirect Costs						
Architecture, Engineering & Consulting		10%	Direct Costs			\$2,102,000
Public Permits & Fees	4	100	Units	\$25,000 /Unit		2,500,000
Taxes, Insurance, Legal & Accounting		3%	Direct Costs			631,000
Marketing		100	Units	\$10,000 /Unit		1,000,000
Developer Fee		5%	Direct Costs			1,051,000
Soft Cost Contingency Allowance		5%	Other Indirect Costs			364,000
Total Indirect Costs						\$7,648,000
IV. Financing Costs						
Interest During Construction						
Land	5	\$7,986,000	Cost	6.0% Avg Rate		\$719,000
Construction	6	\$31,583,000	Cost	6.0% Avg Rate		1,705,000
Loan Origination Fees			60% Loan to Value	2.0 Points		491,000
Total Financing Costs						\$2,915,000
V. Total Construction Cost		100	Units	\$316,000 /Unit		\$31,583,000
Total Development Cost		100	Units	\$396,000 /Unit		\$39,569,000

1 Based on a survey of recent land sales.

2 Based on the estimated costs for similar uses.

3 Based on 1 space for Studio Units; 1 space for One-Bedroom Units; and 2 spaces for Two-Bedroom Units.

4 Based on estimates prepared for other projects within Santa Cruz.

5 Based on an 18 month construction period and a 100% average outstanding loan balance.

6 Based on an 18 month construction period and a 60% average outstanding loan balance.

ATTACHMENT I - EXHIBIT B - TABLE 2

ESTIMATED STABILIZED NET OPERATING INCOME
 PRO FORMA ANALYSIS: 15% INCLUSIONARY REQUIREMENT ALTERNATIVE
 DOWNTOWN BASE DENSITY: 90 UNITS PER ACRE
 INCLUSIONARY HOUSING FEASIBILITY ANALYSIS
 SANTA CRUZ, CALIFORNIA

I. <u>Gross Income</u>				
A. Market Rate Units 1				
Studio/SRO Units	29 Units @	\$2,027 /Unit/Month		\$705,000
One-Bedroom Units	34 Units @	\$3,123 /Unit/Month		1,274,000
Two-Bedroom Units	22 Units @	\$4,399 /Unit/Month		1,161,000
B. Affordable Units 2				
Studio/SRO Units	5 Units @	\$1,182 /Unit/Month		71,000
One-Bedroom Units	6 Units @	\$1,334 /Unit/Month		96,000
Two-Bedroom Units	4 Units @	\$1,496 /Unit/Month		72,000
C. Laundry & Miscellaneous Income				
	100 Units @	\$10 /Unit/Month		12,000
Total Gross Income				\$3,391,000
Vacancy & Collection Allowance	5% Gross Income			(170,000)
II. Effective Gross Income \$3,221,000				
III. <u>Operating Expenses</u>				
General Operating Expenses	100 Units @	\$5,000 /Unit		\$500,000
Property Taxes	100 Units @	\$4,500 /Unit		450,000
Replacement Reserve Deposits	100 Units @	\$200 /Unit		20,000
Total Operating Expenses				(\$970,000)
IV. <u>Stabilized Net Operating Income</u>				\$2,251,000

¹ Based on the rent survey presented in ATTACHMENT V - EXHIBIT A - TABLE 1. The weighted average monthly rent equates to \$5.03 per square foot of leasable area.

² The Inclusionary rent calculations are based on household income at 80% of AMI, with 30% of income allotted to housing related expenses. See ATTACHMENT V - EXHIBIT B - TABLE 1.

ATTACHMENT I - EXHIBIT B - TABLE 3

INCLUSIONARY HOUSING IMPACTS
 PRO FORMA ANALYSIS: 15% INCLUSIONARY REQUIREMENT ALTERNATIVE
 DOWNTOWN BASE DENSITY: 90 UNITS PER ACRE
 INCLUSIONARY HOUSING FEASIBILITY ANALYSIS
 SANTA CRUZ, CALIFORNIA

I.	<u>Supportable Investment</u>		
	Stabilized Net Operating Income	See ATTACHMENT I - EXHIBIT B - TABLE 2	\$2,251,000
	Threshold Return on Total Investment ¹		6.3%
	Total Supportable Investment		\$35,638,000
II.	Total Development Cost	See ATTACHMENT I - EXHIBIT B - TABLE 1	\$39,569,000
III.	<u>Total Financial Gap</u>		(\$3,931,000)
	As a % of Land Value	49% Decrease	
	Effective Developer Return	5.7% Return on Total Investment	

¹ Based on the Developer Return estimated to be generated by the DOWNTOWN BASE DENSITY: 90 UNITS PER ACRE: MARKET RATE ALTERNATIVE.

ATTACHMENT I - EXHIBIT C
PRO FORMA ANALYSIS: 25% INCLUSIONARY REQUIREMENT ALTERNATIVE
DOWNTOWN BASE DENSITY: 90 UNITS PER ACRE
INCLUSIONARY HOUSING FEASIBILITY ANALYSIS
SANTA CRUZ, CALIFORNIA

ATTACHMENT I - EXHIBIT C - TABLE 1

ESTIMATED DEVELOPMENT COSTS
 PRO FORMA ANALYSIS: 25% INCLUSIONARY REQUIREMENT ALTERNATIVE
 DOWNTOWN BASE DENSITY: 90 UNITS PER ACRE
 INCLUSIONARY HOUSING FEASIBILITY ANALYSIS
 SANTA CRUZ, CALIFORNIA

I. Property Acquisition Costs	1	48,400	Sf of Land	\$165 /Sf of Land		\$7,986,000
II. Direct Costs	2					
On-Sites / Landscaping		48,400	Sf of Land	\$20 /Sf of Land		\$968,000
Parking	3					
At-Grade Spaces		0	Spaces	\$5,000 /Space		0
Above-Ground Podium Spaces		126	Spaces	\$25,000 /Space		3,150,000
1st Level Subterranean		0	Spaces	\$35,000 /Space		0
2nd Level Subterranean		0	Spaces	\$45,000 /Space		0
Building Costs		76,565	Sf of GBA	\$175 /Sf of GBA		13,399,000
Contractor/DC Contingency Allow		20%	Other Direct Costs			3,503,000
Total Direct Costs		76,565	Sf of GBA	\$275 /Sf of GBA		\$21,020,000
III. Indirect Costs						
Architecture, Engineering & Consulting		10%	Direct Costs			\$2,102,000
Public Permits & Fees	4	100	Units	\$25,000 /Unit		2,500,000
Taxes, Insurance, Legal & Accounting		3%	Direct Costs			631,000
Marketing		100	Units	\$10,000 /Unit		1,000,000
Developer Fee		5%	Direct Costs			1,051,000
Soft Cost Contingency Allowance		5%	Other Indirect Costs			364,000
Total Indirect Costs						\$7,648,000
IV. Financing Costs						
Interest During Construction						
Land	5	\$7,986,000	Cost	6.0% Avg Rate		\$719,000
Construction	6	\$31,545,000	Cost	6.0% Avg Rate		1,703,000
Loan Origination Fees			60% Loan to Value	2.0 Points		455,000
Total Financing Costs						\$2,877,000
V. Total Construction Cost		100	Units	\$315,000 /Unit		\$31,545,000
Total Development Cost		100	Units	\$395,000 /Unit		\$39,531,000

1 Based on a survey of recent land sales.

2 Based on the estimated costs for similar uses.

3 Based on 1 space for Studio Units; 1 space for One-Bedroom Units; and 2 spaces for Two-Bedroom Units.

4 Based on estimates prepared for other projects within Santa Cruz.

5 Based on an 18 month construction period and a 100% average outstanding loan balance.

6 Based on an 18 month construction period and a 60% average outstanding loan balance.

ATTACHMENT I - EXHIBIT C - TABLE 2

ESTIMATED STABILIZED NET OPERATING INCOME
 PRO FORMA ANALYSIS: 25% INCLUSIONARY REQUIREMENT ALTERNATIVE
 DOWNTOWN BASE DENSITY: 90 UNITS PER ACRE
 INCLUSIONARY HOUSING FEASIBILITY ANALYSIS
 SANTA CRUZ, CALIFORNIA

I. <u>Gross Income</u>				
A. Market Rate Units ¹				
Studio/SRO Units	25 Units @	\$2,027 /Unit/Month		\$608,000
One-Bedroom Units	31 Units @	\$3,123 /Unit/Month		1,162,000
Two-Bedroom Units	19 Units @	\$4,399 /Unit/Month		1,003,000
B. Affordable Units ²				
Studio/SRO Units	9 Units @	\$1,182 /Unit/Month		128,000
One-Bedroom Units	9 Units @	\$1,334 /Unit/Month		144,000
Two-Bedroom Units	7 Units @	\$1,496 /Unit/Month		126,000
C. Laundry & Miscellaneous Income				
	100 Units @	\$10 /Unit/Month		12,000
Total Gross Income				\$3,183,000
Vacancy & Collection Allowance				(159,000)
				<hr/>
II. Effective Gross Income				
				\$3,024,000
III. <u>Operating Expenses</u>				
General Operating Expenses	100 Units @	\$5,000 /Unit		\$500,000
Property Taxes	100 Units @	\$4,200 /Unit		417,000
Replacement Reserve Deposits	100 Units @	\$200 /Unit		20,000
Total Operating Expenses				<hr/>
				(\$937,000)
IV. <u>Stabilized Net Operating Income</u>				<hr/>
				\$2,087,000

¹ Based on the rent survey presented in ATTACHMENT V - EXHIBIT A - TABLE 1. The weighted average monthly rent equates to \$5.03 per square foot of leasable area.

² The Inclusionary rent calculations are based on household income at 80% of AMI, with 30% of income allotted to housing related expenses. See ATTACHMENT V - EXHIBIT B - TABLE 1.

ATTACHMENT I - EXHIBIT C - TABLE 3

INCLUSIONARY HOUSING IMPACTS
 PRO FORMA ANALYSIS: 25% INCLUSIONARY REQUIREMENT ALTERNATIVE
 DOWNTOWN BASE DENSITY: 90 UNITS PER ACRE
 INCLUSIONARY HOUSING FEASIBILITY ANALYSIS
 SANTA CRUZ, CALIFORNIA

I.	Supportable Investment		
	Stabilized Net Operating Income	See ATTACHMENT I - EXHIBIT C - TABLE 2	\$2,087,000
	Threshold Return on Total Investment ¹		6.3%
	Total Supportable Investment		\$33,042,000
II.	Total Development Cost	See ATTACHMENT I - EXHIBIT C - TABLE 1	\$39,531,000
III.	Total Financial Gap		(\$6,489,000)
	As a % of Land Value	81% Decrease	
	Effective Developer Return	5.3% Return on Total Investment	

¹ Based on the Developer Return estimated to be generated by the DOWNTOWN BASE DENSITY: 90 UNITS PER ACRE: MARKET RATE ALTERNATIVE.

ATTACHMENT I - EXHIBIT D
PRO FORMA ANALYSIS: 35% INCLUSIONARY REQUIREMENT ALTERNATIVE
DOWNTOWN BASE DENSITY: 90 UNITS PER ACRE
INCLUSIONARY HOUSING FEASIBILITY ANALYSIS
SANTA CRUZ, CALIFORNIA

ATTACHMENT I - EXHIBIT D - TABLE 1

ESTIMATED DEVELOPMENT COSTS
 PRO FORMA ANALYSIS: 35% INCLUSIONARY REQUIREMENT ALTERNATIVE
 DOWNTOWN BASE DENSITY: 90 UNITS PER ACRE
 INCLUSIONARY HOUSING FEASIBILITY ANALYSIS
 SANTA CRUZ, CALIFORNIA

I. Property Acquisition Costs	1	48,400	Sf of Land	\$165 /Sf of Land		\$7,986,000
II. Direct Costs	2					
On-Sites / Landscaping		48,400	Sf of Land	\$20 /Sf of Land		\$968,000
Parking	3					
At-Grade Spaces		0	Spaces	\$5,000 /Space		0
Above-Ground Podium Spaces		126	Spaces	\$25,000 /Space		3,150,000
1st Level Subterranean		0	Spaces	\$35,000 /Space		0
2nd Level Subterranean		0	Spaces	\$45,000 /Space		0
Building Costs		76,565	Sf of GBA	\$175 /Sf of GBA		13,399,000
Contractor/DC Contingency Allow		20%	Other Direct Costs			3,503,000
Total Direct Costs		76,565	Sf of GBA	\$275 /Sf of GBA		\$21,020,000
III. Indirect Costs						
Architecture, Engineering & Consulting		10%	Direct Costs			\$2,102,000
Public Permits & Fees	4	100	Units	\$25,000 /Unit		2,500,000
Taxes, Insurance, Legal & Accounting		3%	Direct Costs			631,000
Marketing		100	Units	\$10,000 /Unit		1,000,000
Developer Fee		5%	Direct Costs			1,051,000
Soft Cost Contingency Allowance		5%	Other Indirect Costs			364,000
Total Indirect Costs						\$7,648,000
IV. Financing Costs						
Interest During Construction						
Land	5	\$7,986,000	Cost	6.0% Avg Rate		\$719,000
Construction	6	\$31,507,000	Cost	6.0% Avg Rate		1,701,000
Loan Origination Fees		60%	Loan to Value	2.0 Points		419,000
Total Financing Costs						\$2,839,000
V. Total Construction Cost		100	Units	\$315,000 /Unit		\$31,507,000
Total Development Cost		100	Units	\$395,000 /Unit		\$39,493,000

1 Based on a survey of recent land sales.

2 Based on the estimated costs for similar uses.

3 Based on 1 space for Studio Units; 1 space for One-Bedroom Units; and 2 spaces for Two-Bedroom Units.

4 Based on estimates prepared for other projects within Santa Cruz.

5 Based on an 18 month construction period and a 100% average outstanding loan balance.

6 Based on an 18 month construction period and a 60% average outstanding loan balance.

ATTACHMENT I - EXHIBIT D - TABLE 2

ESTIMATED STABILIZED NET OPERATING INCOME
 PRO FORMA ANALYSIS: 35% INCLUSIONARY REQUIREMENT ALTERNATIVE
 DOWNTOWN BASE DENSITY: 90 UNITS PER ACRE
 INCLUSIONARY HOUSING FEASIBILITY ANALYSIS
 SANTA CRUZ, CALIFORNIA

I. **Gross Income**

A. **Market Rate Units**

¹

Studio/SRO Units	22 Units @	\$2,027 /Unit/Month	\$535,000
One-Bedroom Units	26 Units @	\$3,123 /Unit/Month	974,000
Two-Bedroom Units	17 Units @	\$4,399 /Unit/Month	897,000

B. **Affordable Units**

²

Studio/SRO Units	12 Units @	\$1,182 /Unit/Month	170,000
One-Bedroom Units	14 Units @	\$1,334 /Unit/Month	224,000
Two-Bedroom Units	9 Units @	\$1,496 /Unit/Month	162,000

C. **Laundry & Miscellaneous Income**

100 Units @	\$10 /Unit/Month	12,000
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Total Gross Income

\$2,974,000

Vacancy & Collection Allowance

5% Gross Income

(149,000)

II. **Effective Gross Income**

\$2,825,000

III. **Operating Expenses**

General Operating Expenses	100 Units @	\$5,000 /Unit	\$500,000
Property Taxes	100 Units @	\$3,800 /Unit	384,000
Replacement Reserve Deposits	100 Units @	\$200 /Unit	20,000

Total Operating Expenses

(\$904,000)

IV. **Stabilized Net Operating Income**

\$1,921,000

¹ Based on the rent survey presented in ATTACHMENT V - EXHIBIT A - TABLE 1. The weighted average monthly rent equates to \$5.03 per square foot of leasable area.

² The Inclusionary rent calculations are based on household income at 80% of AMI, with 30% of income allotted to housing related expenses. See ATTACHMENT V - EXHIBIT B - TABLE 1.

ATTACHMENT I - EXHIBIT D - TABLE 3

INCLUSIONARY HOUSING IMPACTS
 PRO FORMA ANALYSIS: 35% INCLUSIONARY REQUIREMENT ALTERNATIVE
 DOWNTOWN BASE DENSITY: 90 UNITS PER ACRE
 INCLUSIONARY HOUSING FEASIBILITY ANALYSIS
 SANTA CRUZ, CALIFORNIA

I.	Supportable Investment		
	Stabilized Net Operating Income	See ATTACHMENT I - EXHIBIT D - TABLE 2	\$1,921,000
	Threshold Return on Total Investment ¹		6.3%
	Total Supportable Investment		\$30,414,000
II.	Total Development Cost	See ATTACHMENT I - EXHIBIT D - TABLE 1	\$39,493,000
III.	Total Financial Gap		(\$9,079,000)
	As a % of Land Value	114% Decrease	
	Effective Developer Return	4.9% Return on Total Investment	

¹ Based on the Developer Return estimated to be generated by the DOWNTOWN BASE DENSITY: 90 UNITS PER ACRE: MARKET RATE ALTERNATIVE.

ATTACHMENT I - EXHIBIT E
PRO FORMA ANALYSIS: FEASIBLE INCLUSIONARY PERCENTAGE ALTERNATIVE
DOWNTOWN BASE DENSITY: 90 UNITS PER ACRE
INCLUSIONARY HOUSING FEASIBILITY ANALYSIS
SANTA CRUZ, CALIFORNIA

ATTACHMENT I - EXHIBIT E - TABLE 1

ESTIMATED DEVELOPMENT COSTS
 PRO FORMA ANALYSIS: FEASIBLE INCLUSIONARY PERCENTAGE ALTERNATIVE
 DOWNTOWN BASE DENSITY: 90 UNITS PER ACRE
 INCLUSIONARY HOUSING FEASIBILITY ANALYSIS
 SANTA CRUZ, CALIFORNIA

I. Property Acquisition Costs	1	48,400	Sf of Land	\$165 /Sf of Land		\$7,986,000
II. Direct Costs	2					
On-Sites / Landscaping		48,400	Sf of Land	\$20 /Sf of Land		\$968,000
Parking	3					
At-Grade Spaces		0	Spaces	\$5,000 /Space		0
Above-Ground Podium Spaces		126	Spaces	\$25,000 /Space		3,150,000
1st Level Subterranean		0	Spaces	\$35,000 /Space		0
2nd Level Subterranean		0	Spaces	\$45,000 /Space		0
Building Costs		76,565	Sf of GBA	\$175 /Sf of GBA		13,399,000
Contractor/DC Contingency Allow		20%	Other Direct Costs			3,503,000
Total Direct Costs		76,565	Sf of GBA	\$275 /Sf of GBA		\$21,020,000
III. Indirect Costs						
Architecture, Engineering & Consulting		10%	Direct Costs			\$2,102,000
Public Permits & Fees	4	100	Units	\$25,000 /Unit		2,500,000
Taxes, Insurance, Legal & Accounting		3%	Direct Costs			631,000
Marketing		100	Units	\$10,000 /Unit		1,000,000
Developer Fee		5%	Direct Costs			1,051,000
Soft Cost Contingency Allowance		5%	Other Indirect Costs			364,000
Total Indirect Costs						\$7,648,000
IV. Financing Costs						
Interest During Construction						
Land	5	\$7,986,000	Cost	6.0% Avg Rate		\$719,000
Construction	6	\$31,608,000	Cost	6.0% Avg Rate		1,707,000
Loan Origination Fees		60%	Loan to Value	2.0 Points		514,000
Total Financing Costs						\$2,940,000
V. Total Construction Cost		100	Units	\$316,000 /Unit		\$31,608,000
Total Development Cost		100	Units	\$396,000 /Unit		\$39,594,000

1 Based on a survey of recent land sales.

2 Based on the estimated costs for similar uses.

3 Based on 1 space for Studio Units; 1 space for One-Bedroom Units; and 2 spaces for Two-Bedroom Units.

4 Based on estimates prepared for other projects within Santa Cruz.

5 Based on an 18 month construction period and a 100% average outstanding loan balance.

6 Based on an 18 month construction period and a 60% average outstanding loan balance.

ATTACHMENT I - EXHIBIT E - TABLE 2

ESTIMATED STABILIZED NET OPERATING INCOME
 PRO FORMA ANALYSIS: FEASIBLE INCLUSIONARY PERCENTAGE ALTERNATIVE
 DOWNTOWN BASE DENSITY: 90 UNITS PER ACRE
 INCLUSIONARY HOUSING FEASIBILITY ANALYSIS
 SANTA CRUZ, CALIFORNIA

I. <u>Gross Income</u>				
A. Market Rate Units 1				
Studio/SRO Units	31 Units @	\$2,027 /Unit/Month		\$754,000
One-Bedroom Units	36 Units @	\$3,123 /Unit/Month		1,349,000
Two-Bedroom Units	24 Units @	\$4,399 /Unit/Month		1,267,000
B. Affordable Units 2				
Studio/SRO Units	3 Units @	\$1,182 /Unit/Month		43,000
One-Bedroom Units	4 Units @	\$1,334 /Unit/Month		64,000
Two-Bedroom Units	2 Units @	\$1,496 /Unit/Month		36,000
C. Laundry & Miscellaneous Income 100 Units @				
		\$10 /Unit/Month		12,000
Total Gross Income				\$3,525,000
Vacancy & Collection Allowance 5% Gross Income				(176,000)
II. Effective Gross Income \$3,349,000				
III. <u>Operating Expenses</u>				
General Operating Expenses	100 Units @	\$5,000 /Unit		\$500,000
Property Taxes	100 Units @	\$4,700 /Unit		472,000
Replacement Reserve Deposits	100 Units @	\$200 /Unit		20,000
Total Operating Expenses				(\$992,000)
IV. <u>Stabilized Net Operating Income</u>				\$2,357,000

¹ Based on the rent survey presented in ATTACHMENT V - EXHIBIT A - TABLE 1. The weighted average monthly rent equates to \$5.03 per square foot of leasable area.

² The Inclusionary rent calculations are based on household income at 80% of AMI, with 30% of income allotted to housing related expenses. See ATTACHMENT V - EXHIBIT B - TABLE 1.

ATTACHMENT I - EXHIBIT E - TABLE 3

INCLUSIONARY HOUSING IMPACTS
 PRO FORMA ANALYSIS: FEASIBLE INCLUSIONARY PERCENTAGE ALTERNATIVE
 DOWNTOWN BASE DENSITY: 90 UNITS PER ACRE
 INCLUSIONARY HOUSING FEASIBILITY ANALYSIS
 SANTA CRUZ, CALIFORNIA

I.	Supportable Investment			
	Stabilized Net Operating Income	See ATTACHMENT I - EXHIBIT E - TABLE 2	\$2,357,000	
	Threshold Return on Total Investment ¹		6.3%	
	Total Supportable Investment			\$37,316,000
II.	Total Development Cost	See ATTACHMENT I - EXHIBIT E - TABLE 1		\$39,594,000
III.	Total Financial Gap			(\$2,278,000)
	Inclusionary Percentage	9.0%		
	As a % of Land Value	29% Decrease		
	Effective Developer Return	6.0% Return on Total Investment		

¹ Based on the Developer Return estimated to be generated by the DOWNTOWN BASE DENSITY: 90 UNITS PER ACRE: MARKET RATE ALTERNATIVE.

ATTACHMENT II

**PRO FORMA ANALYSES
DOWNTOWN: 35% DENSITY BONUS
INCLUSIONARY HOUSING FEASIBILITY ANALYSIS
SANTA CRUZ, CALIFORNIA**

**ATTACHMENT II - EXHIBIT A
PRO FORMA ANALYSIS: MARKET RATE ALTERNATIVE
DOWNTOWN: 35% DENSITY BONUS
INCLUSIONARY HOUSING FEASIBILITY ANALYSIS
SANTA CRUZ, CALIFORNIA**

ATTACHMENT II - EXHIBIT A - TABLE 1

ESTIMATED DEVELOPMENT COSTS
 PRO FORMA ANALYSIS: MARKET RATE ALTERNATIVE
 35% DENSITY BONUS
 INCLUSIONARY HOUSING FEASIBILITY ANALYSIS
 SANTA CRUZ, CALIFORNIA

I. Property Acquisition Costs	1	48,400	Sf of Land	\$165 /Sf of Land		\$7,986,000
II. Direct Costs	2					
On-Sites / Landscaping		48,400	Sf of Land	\$20 /Sf of Land		\$968,000
Parking	3					
At-Grade Spaces		0	Spaces	\$5,000 /Space		0
Above-Ground Podium Spaces		85	Spaces	\$25,000 /Space		2,125,000
1st Level Subterranean		0	Spaces	\$35,000 /Space		0
2nd Level Subterranean		0	Spaces	\$45,000 /Space		0
Building Costs		103,286	Sf of GBA	\$200 /Sf of GBA		20,657,000
Contractor/DC Contingency Allow		20%	Other Direct Costs			4,750,000
Total Direct Costs		103,286	Sf of GBA	\$276 /Sf of GBA		\$28,500,000
III. Indirect Costs						
Architecture, Engineering & Consulting		10%	Direct Costs			\$2,850,000
Public Permits & Fees	4	135	Units	\$25,000 /Unit		3,375,000
Taxes, Insurance, Legal & Accounting		3%	Direct Costs			855,000
Marketing		135	Units	\$10,000 /Unit		1,350,000
Developer Fee		5%	Direct Costs			1,425,000
Soft Cost Contingency Allowance		5%	Other Indirect Costs			493,000
Total Indirect Costs						\$10,348,000
IV. Financing Costs						
Interest During Construction						
Land	5	\$7,986,000	Cost	6.0% Avg Rate		\$719,000
Construction	6	\$42,605,000	Cost	6.0% Avg Rate		2,301,000
Loan Origination Fees		60%	Loan to Value	2.0 Points		737,000
Total Financing Costs						\$3,757,000
V. Total Construction Cost		135	Units	\$316,000 /Unit		\$42,605,000
Total Development Cost		135	Units	\$375,000 /Unit		\$50,591,000

1 Based on a survey of recent land sales.

2 Based on the estimated costs for similar uses.

3 Based on 0.5 spaces for Studio Units; 0.5 spaces for One-Bedroom Units; and 1 space for Two-Bedroom Units.

4 Based on estimates prepared for other projects within Santa Cruz.

5 Based on an 18 month construction period and a 100% average outstanding loan balance.

6 Based on an 18 month construction period and a 60% average outstanding loan balance.

ATTACHMENT II - EXHIBIT B
PRO FORMA ANALYSIS: 15% INCLUSIONARY REQUIREMENT ALTERNATIVE
DOWNTOWN: 35% DENSITY BONUS
INCLUSIONARY HOUSING FEASIBILITY ANALYSIS
SANTA CRUZ, CALIFORNIA

ATTACHMENT II - EXHIBIT B - TABLE 1

ESTIMATED DEVELOPMENT COSTS
 PRO FORMA ANALYSIS: 15% INCLUSIONARY REQUIREMENT ALTERNATIVE
 DOWNTOWN: 35% DENSITY BONUS
 INCLUSIONARY HOUSING FEASIBILITY ANALYSIS
 SANTA CRUZ, CALIFORNIA

I. Property Acquisition Costs	1	48,400	Sf of Land	\$165 /Sf of Land		\$7,986,000
II. Direct Costs	2					
On-Sites / Landscaping		48,400	Sf of Land	\$20 /Sf of Land		\$968,000
Parking	3					
At-Grade Spaces		0	Spaces	\$5,000 /Space		0
Above-Ground Podium Spaces		85	Spaces	\$25,000 /Space		2,125,000
1st Level Subterranean		0	Spaces	\$35,000 /Space		0
2nd Level Subterranean		0	Spaces	\$45,000 /Space		0
Building Costs		103,286	Sf of GBA	\$200 /Sf of GBA		20,657,000
Contractor/DC Contingency Allow		20%	Other Direct Costs			4,750,000
Total Direct Costs		103,286	Sf of GBA	\$276 /Sf of GBA		\$28,500,000
III. Indirect Costs						
Architecture, Engineering & Consulting		10%	Direct Costs			\$2,850,000
Public Permits & Fees	4	135	Units	\$25,000 /Unit		3,375,000
Taxes, Insurance, Legal & Accounting		3%	Direct Costs			855,000
Marketing		135	Units	\$10,000 /Unit		1,350,000
Developer Fee		5%	Direct Costs			1,425,000
Soft Cost Contingency Allowance		5%	Other Indirect Costs			493,000
Total Indirect Costs						\$10,348,000
IV. Financing Costs						
Interest During Construction						
Land	5	\$7,986,000	Cost	6.0% Avg Rate		\$719,000
Construction	6	\$42,517,000	Cost	6.0% Avg Rate		2,296,000
Loan Origination Fees		60%	Loan to Value	2.0 Points		654,000
Total Financing Costs						\$3,669,000
V. Total Construction Cost		135	Units	\$315,000 /Unit		\$42,517,000
Total Development Cost		135	Units	\$374,000 /Unit		\$50,503,000

1 Based on a survey of recent land sales.

2 Based on the estimated costs for similar uses.

3 Based on 0.5 spaces for Studio Units; 0.5 spaces for One-Bedroom Units; and 1 space for Two-Bedroom Units.

4 Based on estimates prepared for other projects within Santa Cruz.

5 Based on an 18 month construction period and a 100% average outstanding loan balance.

6 Based on an 18 month construction period and a 60% average outstanding loan balance.

ATTACHMENT II - EXHIBIT B - TABLE 2

ESTIMATED STABILIZED NET OPERATING INCOME
 PRO FORMA ANALYSIS: 15% INCLUSIONARY REQUIREMENT ALTERNATIVE
 DOWNTOWN: 35% DENSITY BONUS
 INCLUSIONARY HOUSING FEASIBILITY ANALYSIS
 SANTA CRUZ, CALIFORNIA

I. <u>Gross Income</u>				
A. Market Rate Units 1				
Studio/SRO Units	39 Units @	\$2,027 /Unit/Month		\$949,000
One-Bedroom Units	46 Units @	\$3,123 /Unit/Month		1,724,000
Two-Bedroom Units	30 Units @	\$4,399 /Unit/Month		1,584,000
B. Affordable Units 2				
Density Bonus (50% AMI/30% Inc) 3				
Studio/SRO Units	4 Units @	\$725 /Unit/Month		35,000
One-Bedroom Units	4 Units @	\$812 /Unit/Month		39,000
Two-Bedroom Units	3 Units @	\$909 /Unit/Month		33,000
Inclusionary (80% AMI/30% Inc) 4				
Studio/SRO Units	3 Units @	\$1,182 /Unit/Month		43,000
One-Bedroom Units	4 Units @	\$1,334 /Unit/Month		64,000
Two-Bedroom Units	2 Units @	\$1,496 /Unit/Month		36,000
C. Laundry & Miscellaneous Income 135 Units @ \$10 /Unit/Month				
				16,000
Total Gross Income				\$4,523,000
Vacancy & Collection Allowance 5% Gross Income				(226,000)
II. Effective Gross Income \$4,297,000				
III. <u>Operating Expenses</u>				
General Operating Expenses	135 Units @	\$5,000 /Unit		\$675,000
Property Taxes	135 Units @	\$4,400 /Unit		599,000
Replacement Reserve Deposits	135 Units @	\$200 /Unit		27,000
Total Operating Expenses				(\$1,301,000)
IV. <u>Stabilized Net Operating Income</u>				\$2,996,000

¹ Based on the rent survey presented in ATTACHMENT V - EXHIBIT A - TABLE 1. The weighted average monthly rent equates to \$5.03 per square foot of leasable area.

² The affordable units equate to 15% of the Total Units and 20% of the Base Units.

³ For the purposes of the State density bonus, 11% of the Base Units are set aside for very-low income households. State Density Bonus calculates very-low income rents based on household income at 50% of AMI, with 30% of income allotted to housing related expenses. See ATTACHMENT V - EXHIBIT B - TABLE 1.

⁴ The balance of the affordable units are set aside using the City's Inclusionary standards. The Inclusionary rent calculations are based on household income at 80% of AMI, with 30% of income allotted to housing related expenses. See ATTACHMENT V - EXHIBIT B - TABLE 1.

ATTACHMENT II - EXHIBIT B - TABLE 3

INCLUSIONARY HOUSING IMPACTS
 PRO FORMA ANALYSIS: 15% INCLUSIONARY REQUIREMENT ALTERNATIVE
 DOWNTOWN: 35% DENSITY BONUS
 INCLUSIONARY HOUSING FEASIBILITY ANALYSIS
 SANTA CRUZ, CALIFORNIA

I.	Supportable Investment			
	Stabilized Net Operating Income	See ATTACHMENT II - EXHIBIT B - TABLE 2	\$2,996,000	
	Threshold Return on Total Investment ¹		6.3%	
	Total Supportable Investment			\$47,433,000
II.	Total Development Cost	See ATTACHMENT II - EXHIBIT B - TABLE 1		\$50,503,000
III.	Total Financial Gap			(\$3,070,000)
	As a % of Land Value	38% Decrease		
	Effective Developer Return	5.9% Return on Total Investment		

¹ Based on the Developer Return estimated to be generated by the DOWNTOWN BASE DENSITY: 90 UNITS PER ACRE: MARKET RATE ALTERNATIVE.

ATTACHMENT II - EXHIBIT C
PRO FORMA ANALYSIS: 25% INCLUSIONARY REQUIREMENT ALTERNATIVE
DOWNTOWN: 35% DENSITY BONUS
INCLUSIONARY HOUSING FEASIBILITY ANALYSIS
SANTA CRUZ, CALIFORNIA

ATTACHMENT II - EXHIBIT C - TABLE 1

ESTIMATED DEVELOPMENT COSTS
 PRO FORMA ANALYSIS: 25% INCLUSIONARY REQUIREMENT ALTERNATIVE
 DOWNTOWN: 35% DENSITY BONUS
 INCLUSIONARY HOUSING FEASIBILITY ANALYSIS
 SANTA CRUZ, CALIFORNIA

I. Property Acquisition Costs	1	48,400	Sf of Land	\$165 /Sf of Land		\$7,986,000
II. Direct Costs	2					
On-Sites / Landscaping		48,400	Sf of Land	\$20 /Sf of Land		\$968,000
Parking	3					
At-Grade Spaces		0	Spaces	\$5,000 /Space		0
Above-Ground Podium Spaces		85	Spaces	\$25,000 /Space		2,125,000
1st Level Subterranean		0	Spaces	\$35,000 /Space		0
2nd Level Subterranean		0	Spaces	\$45,000 /Space		0
Building Costs		103,286	Sf of GBA	\$200 /Sf of GBA		20,657,000
Contractor/DC Contingency Allow		20%	Other Direct Costs			4,750,000
Total Direct Costs		103,286	Sf of GBA	\$276 /Sf of GBA		\$28,500,000
III. Indirect Costs						
Architecture, Engineering & Consulting		10%	Direct Costs			\$2,850,000
Public Permits & Fees	4	135	Units	\$25,000 /Unit		3,375,000
Taxes, Insurance, Legal & Accounting		3%	Direct Costs			855,000
Marketing		135	Units	\$10,000 /Unit		1,350,000
Developer Fee		5%	Direct Costs			1,425,000
Soft Cost Contingency Allowance		5%	Other Indirect Costs			493,000
Total Indirect Costs						\$10,348,000
IV. Financing Costs						
Interest During Construction						
Land	5	\$7,986,000	Cost	6.0% Avg Rate		\$719,000
Construction	6	\$42,462,000	Cost	6.0% Avg Rate		2,293,000
Loan Origination Fees		60%	Loan to Value	2.0 Points		602,000
Total Financing Costs						\$3,614,000
V. Total Construction Cost		135	Units	\$315,000 /Unit		\$42,462,000
Total Development Cost		135	Units	\$374,000 /Unit		\$50,448,000

1 Based on a survey of recent land sales.

2 Based on the estimated costs for similar uses.

3 Based on 0.5 spaces for Studio Units; 0.5 spaces for One-Bedroom Units; and 1 space for Two-Bedroom Units.

4 Based on estimates prepared for other projects within Santa Cruz.

5 Based on an 18 month construction period and a 100% average outstanding loan balance.

6 Based on an 18 month construction period and a 60% average outstanding loan balance.

ATTACHMENT II - EXHIBIT C - TABLE 2

ESTIMATED STABILIZED NET OPERATING INCOME
 PRO FORMA ANALYSIS: 25% INCLUSIONARY REQUIREMENT ALTERNATIVE
 DOWNTOWN: 35% DENSITY BONUS
 INCLUSIONARY HOUSING FEASIBILITY ANALYSIS
 SANTA CRUZ, CALIFORNIA

I. Gross Income				
A. Market Rate Units ¹				
Studio/SRO Units	34 Units @	\$2,027 /Unit/Month		\$827,000
One-Bedroom Units	41 Units @	\$3,123 /Unit/Month		1,536,000
Two-Bedroom Units	26 Units @	\$4,399 /Unit/Month		1,372,000
B. Affordable Units ²				
Density Bonus (50% AMI/30% Inc) ³				
Studio/SRO Units	4 Units @	\$725 /Unit/Month		35,000
One-Bedroom Units	4 Units @	\$812 /Unit/Month		39,000
Two-Bedroom Units	3 Units @	\$909 /Unit/Month		33,000
Inclusionary (80% AMI/30% Inc) ⁴				
Studio/SRO Units	8 Units @	\$1,182 /Unit/Month		113,000
One-Bedroom Units	9 Units @	\$1,334 /Unit/Month		144,000
Two-Bedroom Units	6 Units @	\$1,496 /Unit/Month		108,000
C. Laundry & Miscellaneous Income				
	135 Units @	\$10 /Unit/Month		16,000
Total Gross Income				\$4,223,000
Vacancy & Collection Allowance				(211,000)
II. Effective Gross Income				
				\$4,012,000
III. Operating Expenses				
General Operating Expenses	135 Units @	\$5,000 /Unit		\$675,000
Property Taxes	135 Units @	\$4,100 /Unit		552,000
Replacement Reserve Deposits	135 Units @	\$200 /Unit		27,000
Total Operating Expenses				(\$1,254,000)
IV. Stabilized Net Operating Income				\$2,758,000

¹ Based on the rent survey presented in ATTACHMENT V - EXHIBIT A - TABLE 1. The weighted average monthly rent equates to \$5.03 per square foot of leasable area.

² The affordable units equate to 25% of the Total Units and 34% of the Base Units.

³ For the purposes of the State density bonus, 11% of the Base Units are set aside for very-low income households. State Density Bonus calculates very-low income rents based on household income at 50% of AMI, with 30% of income allotted to housing related expenses. See ATTACHMENT V - EXHIBIT B - TABLE 1.

⁴ The balance of the affordable units are set aside using the City's Inclusionary standards. The Inclusionary rent calculations are based on household income at 80% of AMI, with 30% of income allotted to housing related expenses. See ATTACHMENT V - EXHIBIT B - TABLE 1.

ATTACHMENT II - EXHIBIT C - TABLE 3

INCLUSIONARY HOUSING IMPACTS
 PRO FORMA ANALYSIS: 25% INCLUSIONARY REQUIREMENT ALTERNATIVE
 DOWNTOWN: 35% DENSITY BONUS
 INCLUSIONARY HOUSING FEASIBILITY ANALYSIS
 SANTA CRUZ, CALIFORNIA

I.	<u>Supportable Investment</u>		
	Stabilized Net Operating Income	See ATTACHMENT II - EXHIBIT C - TABLE 2	\$2,758,000
	Threshold Return on Total Investment ¹		6.3%
	Total Supportable Investment		\$43,665,000
II.	Total Development Cost	See ATTACHMENT II - EXHIBIT C - TABLE 1	\$50,448,000
III.	<u>Total Financial Gap</u>		(\$6,783,000)
	As a % of Land Value	85% Decrease	
	Effective Developer Return	5.5% Return on Total Investment	

¹ Based on the Developer Return estimated to be generated by the DOWNTOWN BASE DENSITY: 90 UNITS PER ACRE: MARKET RATE ALTERNATIVE.

ATTACHMENT II - EXHIBIT D
PRO FORMA ANALYSIS: 35% INCLUSIONARY REQUIREMENT ALTERNATIVE
DOWNTOWN: 35% DENSITY BONUS
INCLUSIONARY HOUSING FEASIBILITY ANALYSIS
SANTA CRUZ, CALIFORNIA

ATTACHMENT II - EXHIBIT D - TABLE 1

ESTIMATED DEVELOPMENT COSTS
 PRO FORMA ANALYSIS: 35% INCLUSIONARY REQUIREMENT ALTERNATIVE
 DOWNTOWN: 35% DENSITY BONUS
 INCLUSIONARY HOUSING FEASIBILITY ANALYSIS
 SANTA CRUZ, CALIFORNIA

I. Property Acquisition Costs	1	48,400	Sf of Land	\$165 /Sf of Land		\$7,986,000
II. Direct Costs	2					
On-Sites / Landscaping		48,400	Sf of Land	\$20 /Sf of Land		\$968,000
Parking	3					
At-Grade Spaces		0	Spaces	\$5,000 /Space		0
Above-Ground Podium Spaces		85	Spaces	\$25,000 /Space		2,125,000
1st Level Subterranean		0	Spaces	\$35,000 /Space		0
2nd Level Subterranean		0	Spaces	\$45,000 /Space		0
Building Costs		103,286	Sf of GBA	\$200 /Sf of GBA		20,657,000
Contractor/DC Contingency Allow		20%	Other Direct Costs			4,750,000
Total Direct Costs		103,286	Sf of GBA	\$276 /Sf of GBA		\$28,500,000
III. Indirect Costs						
Architecture, Engineering & Consulting		10%	Direct Costs			\$2,850,000
Public Permits & Fees	4	135	Units	\$25,000 /Unit		3,375,000
Taxes, Insurance, Legal & Accounting		3%	Direct Costs			855,000
Marketing		135	Units	\$10,000 /Unit		1,350,000
Developer Fee		5%	Direct Costs			1,425,000
Soft Cost Contingency Allowance		5%	Other Indirect Costs			493,000
Total Indirect Costs						\$10,348,000
IV. Financing Costs						
Interest During Construction						
Land	5	\$7,986,000	Cost	6.0% Avg Rate		\$719,000
Construction	6	\$42,412,000	Cost	6.0% Avg Rate		2,290,000
Loan Origination Fees		60%	Loan to Value	2.0 Points		555,000
Total Financing Costs						\$3,564,000
V. Total Construction Cost		135	Units	\$314,000 /Unit		\$42,412,000
Total Development Cost		135	Units	\$373,000 /Unit		\$50,398,000

1 Based on a survey of recent land sales.

2 Based on the estimated costs for similar uses.

3 Based on 0.5 spaces for Studio Units; 0.5 spaces for One-Bedroom Units; and 1 space for Two-Bedroom Units.

4 Based on estimates prepared for other projects within Santa Cruz.

5 Based on an 18 month construction period and a 100% average outstanding loan balance.

6 Based on an 18 month construction period and a 60% average outstanding loan balance.

ATTACHMENT II - EXHIBIT D - TABLE 2

ESTIMATED STABILIZED NET OPERATING INCOME
 PRO FORMA ANALYSIS: 35% INCLUSIONARY REQUIREMENT ALTERNATIVE
 DOWNTOWN: 35% DENSITY BONUS
 INCLUSIONARY HOUSING FEASIBILITY ANALYSIS
 SANTA CRUZ, CALIFORNIA

I. Gross Income				
A. Market Rate Units ¹				
Studio/SRO Units	30 Units @	\$2,027 /Unit/Month		\$730,000
One-Bedroom Units	35 Units @	\$3,123 /Unit/Month		1,312,000
Two-Bedroom Units	23 Units @	\$4,399 /Unit/Month		1,214,000
B. Affordable Units ²				
Density Bonus (50% AMI/30% Inc) ³				
Studio/SRO Units	4 Units @	\$725 /Unit/Month		35,000
One-Bedroom Units	4 Units @	\$812 /Unit/Month		39,000
Two-Bedroom Units	3 Units @	\$909 /Unit/Month		33,000
Inclusionary (80% AMI/30% Inc) ⁴				
Studio/SRO Units	12 Units @	\$1,182 /Unit/Month		170,000
One-Bedroom Units	15 Units @	\$1,334 /Unit/Month		240,000
Two-Bedroom Units	9 Units @	\$1,496 /Unit/Month		162,000
C. Laundry & Miscellaneous Income				
	135 Units @	\$10 /Unit/Month		16,000
Total Gross Income				\$3,951,000
Vacancy & Collection Allowance				(198,000)
II. Effective Gross Income				
				\$3,753,000
III. Operating Expenses				
General Operating Expenses	135 Units @	\$5,000 /Unit		\$675,000
Property Taxes	135 Units @	\$3,800 /Unit		509,000
Replacement Reserve Deposits	135 Units @	\$200 /Unit		27,000
Total Operating Expenses				(\$1,211,000)
IV. Stabilized Net Operating Income				\$2,542,000

¹ Based on the rent survey presented in ATTACHMENT V - EXHIBIT A - TABLE 1. The weighted average monthly rent equates to \$5.03 per square foot of leasable area.

² The affordable units equate to 35% of the Total Units and 47% of the Base Units.

³ For the purposes of the State density bonus, 11% of the Base Units are set aside for very-low income households. State Density Bonus calculates very-low income rents based on household income at 50% of AMI, with 30% of income allotted to housing related expenses. See ATTACHMENT V - EXHIBIT B - TABLE 1.

⁴ The balance of the affordable units are set aside using the City's Inclusionary standards. The Inclusionary rent calculations are based on household income at 80% of AMI, with 30% of income allotted to housing related expenses. See ATTACHMENT V - EXHIBIT B - TABLE 1.

ATTACHMENT II - EXHIBIT D - TABLE 3

INCLUSIONARY HOUSING IMPACTS
 PRO FORMA ANALYSIS: 35% INCLUSIONARY REQUIREMENT ALTERNATIVE
 DOWNTOWN: 35% DENSITY BONUS
 INCLUSIONARY HOUSING FEASIBILITY ANALYSIS
 SANTA CRUZ, CALIFORNIA

I.	Supportable Investment		
	Stabilized Net Operating Income	See ATTACHMENT II - EXHIBIT D - TABLE 2	\$2,542,000
	Threshold Return on Total Investment ¹		6.3%
	Total Supportable Investment		\$40,245,000
II.	Total Development Cost	See ATTACHMENT II - EXHIBIT D - TABLE 1	\$50,398,000
III.	Total Financial Gap		(\$10,153,000)
	As a % of Land Value	127% Decrease	
	Effective Developer Return	5.0% Return on Total Investment	

¹ Based on the Developer Return estimated to be generated by the DOWNTOWN BASE DENSITY: 90 UNITS PER ACRE: MARKET RATE ALTERNATIVE.

ATTACHMENT II - EXHIBIT E
PRO FORMA ANALYSIS: FEASIBLE INCLUSIONARY PERCENTAGE ALTERNATIVE
DOWNTOWN: 35% DENSITY BONUS
INCLUSIONARY HOUSING FEASIBILITY ANALYSIS
SANTA CRUZ, CALIFORNIA

ATTACHMENT II - EXHIBIT E - TABLE 1

ESTIMATED DEVELOPMENT COSTS
 PRO FORMA ANALYSIS: FEASIBLE INCLUSIONARY PERCENTAGE ALTERNATIVE
 DOWNTOWN: 35% DENSITY BONUS
 INCLUSIONARY HOUSING FEASIBILITY ANALYSIS
 SANTA CRUZ, CALIFORNIA

I. Property Acquisition Costs	¹	48,400	Sf of Land	\$165 /Sf of Land		\$7,986,000
II. Direct Costs	²					
On-Sites / Landscaping		48,400	Sf of Land	\$20 /Sf of Land		\$968,000
Parking	³					
At-Grade Spaces		0	Spaces	\$5,000 /Space		0
Above-Ground Podium Spaces		85	Spaces	\$25,000 /Space		2,125,000
1st Level Subterranean		0	Spaces	\$35,000 /Space		0
2nd Level Subterranean		0	Spaces	\$45,000 /Space		0
Building Costs		103,286	Sf of GBA	\$200 /Sf of GBA		20,657,000
Contractor/DC Contingency Allow		20%	Other Direct Costs			4,750,000
Total Direct Costs		103,286	Sf of GBA	\$276 /Sf of GBA		\$28,500,000
III. Indirect Costs						
Architecture, Engineering & Consulting		10%	Direct Costs			\$2,850,000
Public Permits & Fees	⁴	135	Units	\$25,000 /Unit		3,378,000
Taxes, Insurance, Legal & Accounting		3%	Direct Costs			855,000
Marketing		135	Units	\$10,000 /Unit		1,351,000
Developer Fee		5%	Direct Costs			1,425,000
Soft Cost Contingency Allowance		5%	Other Indirect Costs			493,000
Total Indirect Costs						\$10,352,000
IV. Financing Costs						
Interest During Construction						
Land	⁵	\$7,986,000	Cost	6.0% Avg Rate		\$719,000
Construction	⁶	\$42,533,000	Cost	6.0% Avg Rate		2,297,000
Loan Origination Fees		60%	Loan to Value	2.0 Points		665,000
Total Financing Costs						\$3,681,000
V. Total Construction Cost		135	Units	\$315,000 /Unit		\$42,533,000
Total Development Cost		135	Units	\$374,000 /Unit		\$50,519,000

¹ Based on a survey of recent land sales.

² Based on the estimated costs for similar

³ Based on 0.5 spaces for Studio Units; 0.5

⁴ Based on estimates prepared for other projects within Santa Cruz.

⁵ Based on an 18 month construction period and a 100% average outstanding loan balance.

⁶ Based on an 18 month construction period and a 60% average outstanding loan balance.

ATTACHMENT II - EXHIBIT E - TABLE 2

ESTIMATED STABILIZED NET OPERATING INCOME
 PRO FORMA ANALYSIS: FEASIBLE INCLUSIONARY PERCENTAGE ALTERNATIVE
 DOWNTOWN: 35% DENSITY BONUS
 INCLUSIONARY HOUSING FEASIBILITY ANALYSIS
 SANTA CRUZ, CALIFORNIA

I. <u>Gross Income</u>				
A. Market Rate Units 1				
Studio/SRO Units	40 Units @	\$2,027 /Unit/Month		\$973,000
One-Bedroom Units	47 Units @	\$3,123 /Unit/Month		1,761,000
Two-Bedroom Units	31 Units @	\$4,399 /Unit/Month		1,636,000
B. Affordable Units 2				
Density Bonus (50% AMI/30% Inc) 3				
Studio/SRO Units	4 Units @	\$725 /Unit/Month		35,000
One-Bedroom Units	4 Units @	\$812 /Unit/Month		39,000
Two-Bedroom Units	3 Units @	\$909 /Unit/Month		33,000
Inclusionary (80% AMI/30% Inc) 4				
Studio/SRO Units	2 Units @	\$1,182 /Unit/Month		28,000
One-Bedroom Units	3 Units @	\$1,334 /Unit/Month		48,000
Two-Bedroom Units	1 Unit @	\$1,496 /Unit/Month		18,000
C. Laundry & Miscellaneous Income 135 Units @				
		\$10 /Unit/Month		16,000
Total Gross Income				\$4,587,000
Vacancy & Collection Allowance 5% Gross Income				(229,000)
II. Effective Gross Income \$4,358,000				
III. <u>Operating Expenses</u>				
General Operating Expenses	135 Units @	\$5,000 /Unit		\$675,600
Property Taxes	135 Units @	\$4,500 /Unit		609,000
Replacement Reserve Deposits	135 Units @	\$200 /Unit		27,000
Total Operating Expenses				(\$1,311,600)
IV. <u>Stabilized Net Operating Income</u>				\$3,046,400

¹ Based on the rent survey presented in ATTACHMENT V - EXHIBIT A - TABLE 1. The weighted average monthly rent equates to \$5.03 per square foot of leasable area.

² The affordable units equate to 12.5% of the Total Units and 17.0% of the Base Units.

³ For the purposes of the State density bonus, 11% of the Base Units are set aside for very-low income households. State Density Bonus calculates very-low income rents based on household income at 50% of AMI, with 30% of income allotted to housing related expenses. See ATTACHMENT V - EXHIBIT B - TABLE 1.

⁴ The balance of the affordable units are set aside using the City's Inclusionary standards. The Inclusionary rent calculations are based on household income at 80% of AMI, with 30% of income allotted to housing related expenses. See ATTACHMENT V - EXHIBIT B - TABLE 1.

ATTACHMENT II - EXHIBIT E - TABLE 3

INCLUSIONARY HOUSING IMPACTS
 PRO FORMA ANALYSIS: FEASIBLE INCLUSIONARY PERCENTAGE ALTERNATIVE
 DOWNTOWN: 35% DENSITY BONUS
 INCLUSIONARY HOUSING FEASIBILITY ANALYSIS
 SANTA CRUZ, CALIFORNIA

I.	Supportable Investment		
	Stabilized Net Operating Income	See ATTACHMENT II - EXHIBIT E - TABLE 2	\$3,046,400
	Threshold Return on Total Investment ¹		6.3%
	Total Supportable Investment		\$48,231,000
II.	Total Development Cost	See ATTACHMENT II - EXHIBIT E - TABLE 1	\$50,519,000
III.	Total Financial Gap		(\$2,288,000)
	Inclusionary Percentage	12.5%	
	As a % of Land Value	29% Decrease	
	Effective Developer Return	6.0% Return on Total Investment	

¹ Based on the Developer Return estimated to be generated by the DOWNTOWN BASE DENSITY: 90 UNITS PER ACRE: MARKET RATE ALTERNATIVE.

ATTACHMENT III

**PRO FORMA ANALYSES
NON-DOWNTOWN BASE DENSITY: 35 UNITS PER ACRE
INCLUSIONARY HOUSING FEASIBILITY ANALYSIS
SANTA CRUZ, CALIFORNIA**

**ATTACHMENT III - EXHIBIT A
PRO FORMA ANALYSIS: MARKET RATE ALTERNATIVE
NON-DOWNTOWN BASE DENSITY: 35 UNITS PER ACRE
INCLUSIONARY HOUSING FEASIBILITY ANALYSIS
SANTA CRUZ, CALIFORNIA**

ATTACHMENT III - EXHIBIT A - TABLE 1

ESTIMATED DEVELOPMENT COSTS
 PRO FORMA ANALYSIS: MARKET RATE ALTERNATIVE
 NON-DOWNTOWN BASE DENSITY: 35 UNITS PER ACRE
 INCLUSIONARY HOUSING FEASIBILITY ANALYSIS
 SANTA CRUZ, CALIFORNIA

I. Property Acquisition Costs	¹	124,400	Sf of Land	\$50 /Sf of Land		\$6,220,000
II. Direct Costs	²					
On-Sites / Landscaping		124,400	Sf of Land	\$10 /Sf of Land		\$1,244,000
Parking	³					
At-Grade Spaces		140	Spaces	\$5,000 /Space		700,000
Above-Ground Podium Spaces		0	Spaces	\$25,000 /Space		0
1st Level Subterranean		0	Spaces	\$35,000 /Space		0
2nd Level Subterranean		0	Spaces	\$45,000 /Space		0
Building Costs		94,181	Sf of GBA	\$125 /Sf of GBA		11,773,000
Contractor/DC Contingency Allow		20%	Other Direct Costs			2,743,000
Total Direct Costs		94,181	Sf of GBA	\$175 /Sf of GBA		\$16,460,000
III. Indirect Costs						
Architecture, Engineering & Consulting		10%	Direct Costs			\$1,646,000
Public Permits & Fees	⁴	100	Units	\$25,000 /Unit		2,500,000
Taxes, Insurance, Legal & Accounting		3%	Direct Costs			494,000
Marketing		100	Units	\$10,000 /Unit		1,000,000
Developer Fee		5%	Direct Costs			823,000
Soft Cost Contingency Allowance		5%	Other Indirect Costs			323,000
Total Indirect Costs						\$6,786,000
IV. Financing Costs						
Interest During Construction						
Land	⁵	\$6,220,000	Cost	6.0% Avg Rate		\$373,000
Construction	⁶	\$24,973,000	Cost	6.0% Avg Rate		899,000
Loan Origination Fees		60%	Loan to Value	2.0 Points		455,000
Total Financing Costs						\$1,727,000
V. Total Construction Cost		100	Units	\$250,000 /Unit		\$24,973,000
Total Development Cost		100	Units	\$312,000 /Unit		\$31,193,000

¹ Based on a survey of recent land sales.

² Based on the estimated costs for similar uses.

³ Based on 1 space for Studio Units; 1 space for One-Bedroom Units; and 2 spaces for Two-Bedroom Units.

⁴ Based on estimates prepared for other projects within Santa Cruz.

⁵ Based on an 12 month construction period and a 100% average outstanding loan balance.

⁶ Based on an 12 month construction period and a 60% average outstanding loan balance.

ATTACHMENT III - EXHIBIT A - TABLE 2

ESTIMATED STABILIZED NET OPERATING INCOME
 PRO FORMA ANALYSIS: MARKET RATE ALTERNATIVE
 NON-DOWNTOWN BASE DENSITY: 35 UNITS PER ACRE
 INCLUSIONARY HOUSING FEASIBILITY ANALYSIS
 SANTA CRUZ, CALIFORNIA

I. **Gross Income**

A. **Market Rate Units**

¹

Studio/SRO Units	11 Units @	\$1,403 /Unit/Month	\$185,000
One-Bedroom Units	49 Units @	\$2,540 /Unit/Month	1,494,000
Two-Bedroom Units	40 Units @	\$3,107 /Unit/Month	1,491,000

B. **Affordable Units**

Studio/SRO Units	0 Units @	\$0 /Unit/Month	0
One-Bedroom Units	0 Units @	\$0 /Unit/Month	0
Two-Bedroom Units	0 Units @	\$0 /Unit/Month	0

C. **Laundry & Miscellaneous Income**

100 Units @	\$10 /Unit/Month	12,000
-------------	------------------	--------

Total Gross Income

\$3,182,000

Vacancy & Collection Allowance

5% Gross Income

(159,000)

II. **Effective Gross Income**

\$3,023,000

III. **Operating Expenses**

General Operating Expenses	100 Units @	\$5,000 /Unit	\$500,000
Property Taxes	100 Units @	\$4,200 /Unit	417,000
Replacement Reserve Deposits	100 Units @	\$200 /Unit	20,000

Total Operating Expenses

(\$937,000)

IV. **Stabilized Net Operating Income**

\$2,086,000

¹ Based on the rent survey presented in ATTACHMENT V - EXHIBIT A - TABLE 2. The weighted average monthly rent equates to \$3.51 per square foot of leasable area.

ATTACHMENT III - EXHIBIT A - TABLE 3

ESTIMATED DEVELOPER RETURN
PRO FORMA ANALYSIS: MARKET RATE ALTERNATIVE
NON-DOWNTOWN BASE DENSITY: 35 UNITS PER ACRE
INCLUSIONARY HOUSING FEASIBILITY ANALYSIS
SANTA CRUZ, CALIFORNIA

I.	Stabilized Net Operating Income	See ATTACHMENT III - EXHIBIT A - TABLE 2	\$2,086,000
II.	Total Development Cost	See ATTACHMENT III - EXHIBIT A - TABLE 1	<u>\$31,193,000</u>
III.	Return on Total Investment		6.7%

ATTACHMENT III - EXHIBIT B
PRO FORMA ANALYSIS: 15% INCLUSIONARY REQUIREMENT ALTERNATIVE
NON-DOWNTOWN BASE DENSITY: 35 UNITS PER ACRE
INCLUSIONARY HOUSING FEASIBILITY ANALYSIS
SANTA CRUZ, CALIFORNIA

ATTACHMENT III - EXHIBIT B - TABLE 1

ESTIMATED DEVELOPMENT COSTS
 PRO FORMA ANALYSIS: 15% INCLUSIONARY REQUIREMENT ALTERNATIVE
 NON-DOWNTOWN BASE DENSITY: 35 UNITS PER ACRE
 INCLUSIONARY HOUSING FEASIBILITY ANALYSIS
 SANTA CRUZ, CALIFORNIA

I. Property Acquisition Costs	1	124,400	Sf of Land	\$50 /Sf of Land		\$6,220,000
II. Direct Costs	2					
On-Sites / Landscaping		124,400	Sf of Land	\$10 /Sf of Land		\$1,244,000
Parking	3					
At-Grade Spaces		140	Spaces	\$5,000 /Space		700,000
Above-Ground Podium Spaces		0	Spaces	\$25,000 /Space		0
1st Level Subterranean		0	Spaces	\$35,000 /Space		0
2nd Level Subterranean		0	Spaces	\$45,000 /Space		0
Building Costs		94,181	Sf of GBA	\$125 /Sf of GBA		11,773,000
Contractor/DC Contingency Allow		20%	Other Direct Costs			2,743,000
Total Direct Costs		94,181	Sf of GBA	\$175 /Sf of GBA		\$16,460,000
III. Indirect Costs						
Architecture, Engineering & Consulting		10%	Direct Costs			\$1,646,000
Public Permits & Fees	4	100	Units	\$25,000 /Unit		2,500,000
Taxes, Insurance, Legal & Accounting		3%	Direct Costs			494,000
Marketing		100	Units	\$10,000 /Unit		1,000,000
Developer Fee		5%	Direct Costs			823,000
Soft Cost Contingency Allowance		5%	Other Indirect Costs			323,000
Total Indirect Costs						\$6,786,000
IV. Financing Costs						
Interest During Construction						
Land	5	\$6,220,000	Cost	6.0% Avg Rate		\$373,000
Construction	6	\$24,934,000	Cost	6.0% Avg Rate		898,000
Loan Origination Fees		60%	Loan to Value	2.0 Points		417,000
Total Financing Costs						\$1,688,000
V. Total Construction Cost		100	Units	\$249,000 /Unit		\$24,934,000
Total Development Cost		100	Units	\$312,000 /Unit		\$31,154,000

1 Based on a survey of recent land sales.

2 Based on the estimated costs for similar uses.

3 Based on 1 space for Studio Units; 1 space for One-Bedroom Units; and 2 spaces for Two-Bedroom Units.

4 Based on estimates prepared for other projects within Santa Cruz.

5 Based on an 12 month construction period and a 100% average outstanding loan balance.

6 Based on an 12 month construction period and a 60% average outstanding loan balance.

ATTACHMENT III - EXHIBIT B - TABLE 2

ESTIMATED STABILIZED NET OPERATING INCOME
 PRO FORMA ANALYSIS: 15% INCLUSIONARY REQUIREMENT ALTERNATIVE
 NON-DOWNTOWN BASE DENSITY: 35 UNITS PER ACRE
 INCLUSIONARY HOUSING FEASIBILITY ANALYSIS
 SANTA CRUZ, CALIFORNIA

I. <u>Gross Income</u>				
A. Market Rate Units 1				
Studio/SRO Units	9 Units @	\$1,403 /Unit/Month		\$152,000
One-Bedroom Units	42 Units @	\$2,540 /Unit/Month		1,280,000
Two-Bedroom Units	34 Units @	\$3,107 /Unit/Month		1,267,000
B. Affordable Units 2				
Studio/SRO Units	2 Units @	\$1,182 /Unit/Month		28,000
One-Bedroom Units	7 Units @	\$1,334 /Unit/Month		112,000
Two-Bedroom Units	6 Units @	\$1,496 /Unit/Month		108,000
C. Laundry & Miscellaneous Income 100 Units @				
		\$10 /Unit/Month		12,000
Total Gross Income				\$2,959,000
Vacancy & Collection Allowance	5% Gross Income			(148,000)
II. Effective Gross Income				\$2,811,000
III. <u>Operating Expenses</u>				
General Operating Expenses	100 Units @	\$5,000 /Unit		\$500,000
Property Taxes	100 Units @	\$3,800 /Unit		382,000
Replacement Reserve Deposits	100 Units @	\$200 /Unit		20,000
Total Operating Expenses				(\$902,000)
IV. <u>Stabilized Net Operating Income</u>				\$1,909,000

¹ Based on the rent survey presented in ATTACHMENT V - EXHIBIT A - TABLE 2. The weighted average monthly rent equates to \$3.50 per square foot of leasable area.

² The Inclusionary rent calculations are based on household income at 80% of AMI, with 30% of income allotted to housing related expenses. See ATTACHMENT V - EXHIBIT B - TABLE 1.

ATTACHMENT III - EXHIBIT B - TABLE 3

INCLUSIONARY HOUSING IMPACTS
 PRO FORMA ANALYSIS: 15% INCLUSIONARY REQUIREMENT ALTERNATIVE
 NON-DOWNTOWN BASE DENSITY: 35 UNITS PER ACRE
 INCLUSIONARY HOUSING FEASIBILITY ANALYSIS
 SANTA CRUZ, CALIFORNIA

I.	Supportable Investment			
	Stabilized Net Operating Income	See ATTACHMENT III - EXHIBIT B - TABLE 2	\$1,909,000	
	Threshold Return on Total Investment ¹		6.7%	
	Total Supportable Investment			\$28,546,000
II.	Total Development Cost	See ATTACHMENT III - EXHIBIT B - TABLE 1		\$31,154,000
III.	Total Financial Gap			(\$2,608,000)
	As a % of Land Value	42% Decrease		
	Effective Developer Return	6.1% Return on Total Investment		

¹ Based on the Developer Return estimated to be generated by the NON-DOWNTOWN BASE DENSITY: 35 UNITS PER ACRE: MARKET RATE ALTERNATIVE.

ATTACHMENT III - EXHIBIT C
PRO FORMA ANALYSIS: 25% INCLUSIONARY REQUIREMENT ALTERNATIVE
NON-DOWNTOWN BASE DENSITY: 35 UNITS PER ACRE
INCLUSIONARY HOUSING FEASIBILITY ANALYSIS
SANTA CRUZ, CALIFORNIA

ATTACHMENT III - EXHIBIT C - TABLE 1

ESTIMATED DEVELOPMENT COSTS
 PRO FORMA ANALYSIS: 25% INCLUSIONARY REQUIREMENT ALTERNATIVE
 NON-DOWNTOWN BASE DENSITY: 35 UNITS PER ACRE
 INCLUSIONARY HOUSING FEASIBILITY ANALYSIS
 SANTA CRUZ, CALIFORNIA

I. Property Acquisition Costs	1	124,400	Sf of Land	\$50 /Sf of Land		\$6,220,000
II. Direct Costs	2					
On-Sites / Landscaping		124,400	Sf of Land	\$10 /Sf of Land		\$1,244,000
Parking	3					
At-Grade Spaces		140	Spaces	\$5,000 /Space		700,000
Above-Ground Podium Spaces		0	Spaces	\$25,000 /Space		0
1st Level Subterranean		0	Spaces	\$35,000 /Space		0
2nd Level Subterranean		0	Spaces	\$45,000 /Space		0
Building Costs		94,181	Sf of GBA	\$125 /Sf of GBA		11,773,000
Contractor/DC Contingency Allow		20%	Other Direct Costs			2,743,000
Total Direct Costs		94,181	Sf of GBA	\$175 /Sf of GBA		\$16,460,000
III. Indirect Costs						
Architecture, Engineering & Consulting		10%	Direct Costs			\$1,646,000
Public Permits & Fees	4	100	Units	\$25,000 /Unit		2,500,000
Taxes, Insurance, Legal & Accounting		3%	Direct Costs			494,000
Marketing		100	Units	\$10,000 /Unit		1,000,000
Developer Fee		5%	Direct Costs			823,000
Soft Cost Contingency Allowance		5%	Other Indirect Costs			323,000
Total Indirect Costs						\$6,786,000
IV. Financing Costs						
Interest During Construction						
Land	5	\$6,220,000	Cost	6.0% Avg Rate		\$373,000
Construction	6	\$24,907,000	Cost	6.0% Avg Rate		897,000
Loan Origination Fees			60% Loan to Value	2.0 Points		391,000
Total Financing Costs						\$1,661,000
V. Total Construction Cost		100	Units	\$249,000 /Unit		\$24,907,000
Total Development Cost		100	Units	\$311,000 /Unit		\$31,127,000

1 Based on a survey of recent land sales.

2 Based on the estimated costs for similar uses.

3 Based on 1 space for Studio Units; 1 space for One-Bedroom Units; and 2 spaces for Two-Bedroom Units.

4 Based on estimates prepared for other projects within Santa Cruz.

5 Based on an 12 month construction period and a 100% average outstanding loan balance.

6 Based on an 12 month construction period and a 60% average outstanding loan balance.

ATTACHMENT III - EXHIBIT C - TABLE 2

ESTIMATED STABILIZED NET OPERATING INCOME
 PRO FORMA ANALYSIS: 25% INCLUSIONARY REQUIREMENT ALTERNATIVE
 NON-DOWNTOWN BASE DENSITY: 35 UNITS PER ACRE
 INCLUSIONARY HOUSING FEASIBILITY ANALYSIS
 SANTA CRUZ, CALIFORNIA

I. <u>Gross Income</u>				
A. Market Rate Units 1				
Studio/SRO Units	8 Units @	\$1,403 /Unit/Month		\$135,000
One-Bedroom Units	37 Units @	\$2,540 /Unit/Month		1,128,000
Two-Bedroom Units	30 Units @	\$3,107 /Unit/Month		1,118,000
B. Affordable Units 2				
Studio/SRO Units	3 Units @	\$1,182 /Unit/Month		43,000
One-Bedroom Units	12 Units @	\$1,334 /Unit/Month		192,000
Two-Bedroom Units	10 Units @	\$1,496 /Unit/Month		180,000
C. Laundry & Miscellaneous Income				
	100 Units @	\$10 /Unit/Month		12,000
Total Gross Income				\$2,808,000
Vacancy & Collection Allowance				(140,000)
II. Effective Gross Income				\$2,668,000
III. <u>Operating Expenses</u>				
General Operating Expenses	100 Units @	\$5,000 /Unit		\$500,000
Property Taxes	100 Units @	\$3,600 /Unit		358,000
Replacement Reserve Deposits	100 Units @	\$200 /Unit		20,000
Total Operating Expenses				(\$878,000)
IV. <u>Stabilized Net Operating Income</u>				\$1,790,000

¹ Based on the rent survey presented in ATTACHMENT V - EXHIBIT A - TABLE 2. The weighted average monthly rent equates to \$3.50 per square foot of leasable area.

² The Inclusionary rent calculations are based on household income at 80% of AMI, with 30% of income allotted to housing related expenses. See ATTACHMENT V - EXHIBIT B - TABLE 1.

ATTACHMENT III - EXHIBIT C - TABLE 3

INCLUSIONARY HOUSING IMPACTS
 PRO FORMA ANALYSIS: 25% INCLUSIONARY REQUIREMENT ALTERNATIVE
 NON-DOWNTOWN BASE DENSITY: 35 UNITS PER ACRE
 INCLUSIONARY HOUSING FEASIBILITY ANALYSIS
 SANTA CRUZ, CALIFORNIA

I.	Supportable Investment			
	Stabilized Net Operating Income	See ATTACHMENT III - EXHIBIT C - TABLE 2	\$1,790,000	
	Threshold Return on Total Investment ¹		6.7%	
	Total Supportable Investment			\$26,767,000
II.	Total Development Cost	See ATTACHMENT III - EXHIBIT C - TABLE 1		\$31,127,000
III.	Total Financial Gap			(\$4,360,000)
	As a % of Land Value	70% Decrease		
	Effective Developer Return	5.8% Return on Total Investment		

¹ Based on the Developer Return estimated to be generated by the NON-DOWNTOWN BASE DENSITY: 35 UNITS PER ACRE: MARKET RATE ALTERNATIVE.

ATTACHMENT III - EXHIBIT D
PRO FORMA ANALYSIS: 35% INCLUSIONARY REQUIREMENT ALTERNATIVE
NON-DOWNTOWN BASE DENSITY: 35 UNITS PER ACRE
INCLUSIONARY HOUSING FEASIBILITY ANALYSIS
SANTA CRUZ, CALIFORNIA

ATTACHMENT III - EXHIBIT D - TABLE 1

ESTIMATED DEVELOPMENT COSTS
 PRO FORMA ANALYSIS: 35% INCLUSIONARY REQUIREMENT ALTERNATIVE
 NON-DOWNTOWN BASE DENSITY: 35 UNITS PER ACRE
 INCLUSIONARY HOUSING FEASIBILITY ANALYSIS
 SANTA CRUZ, CALIFORNIA

I. Property Acquisition Costs	¹	124,400	Sf of Land	\$50 /Sf of Land		\$6,220,000
II. Direct Costs	²					
On-Sites / Landscaping		124,400	Sf of Land	\$10 /Sf of Land		\$1,244,000
Parking	³					
At-Grade Spaces		140	Spaces	\$5,000 /Space		700,000
Above-Ground Podium Spaces		0	Spaces	\$25,000 /Space		0
1st Level Subterranean		0	Spaces	\$35,000 /Space		0
2nd Level Subterranean		0	Spaces	\$45,000 /Space		0
Building Costs		94,181	Sf of GBA	\$125 /Sf of GBA		11,773,000
Contractor/DC Contingency Allow		20%	Other Direct Costs			2,743,000
Total Direct Costs		94,181	Sf of GBA	\$175 /Sf of GBA		\$16,460,000
III. Indirect Costs						
Architecture, Engineering & Consulting		10%	Direct Costs			\$1,646,000
Public Permits & Fees	⁴	100	Units	\$25,000 /Unit		2,500,000
Taxes, Insurance, Legal & Accounting		3%	Direct Costs			494,000
Marketing		100	Units	\$10,000 /Unit		1,000,000
Developer Fee		5%	Direct Costs			823,000
Soft Cost Contingency Allowance		5%	Other Indirect Costs			323,000
Total Indirect Costs						\$6,786,000
IV. Financing Costs						
Interest During Construction						
Land	⁵	\$6,220,000	Cost	6.0% Avg Rate		\$373,000
Construction	⁶	\$24,879,000	Cost	6.0% Avg Rate		896,000
Loan Origination Fees		60%	Loan to Value	2.0 Points		364,000
Total Financing Costs						\$1,633,000
V. Total Construction Cost		100	Units	\$249,000 /Unit		\$24,879,000
Total Development Cost		100	Units	\$311,000 /Unit		\$31,099,000

¹ Based on a survey of recent land sales.

² Based on the estimated costs for similar uses.

³ Based on 1 space for Studio Units; 1 space for One-Bedroom Units; and 2 spaces for Two-Bedroom Units.

⁴ Based on estimates prepared for other projects within Santa Cruz.

⁵ Based on an 12 month construction period and a 100% average outstanding loan balance.

⁶ Based on an 12 month construction period and a 60% average outstanding loan balance.

ATTACHMENT III - EXHIBIT D - TABLE 2

ESTIMATED STABILIZED NET OPERATING INCOME
 PRO FORMA ANALYSIS: 35% INCLUSIONARY REQUIREMENT ALTERNATIVE
 NON-DOWNTOWN BASE DENSITY: 35 UNITS PER ACRE
 INCLUSIONARY HOUSING FEASIBILITY ANALYSIS
 SANTA CRUZ, CALIFORNIA

I. <u>Gross Income</u>				
A. Market Rate Units 1				
Studio/SRO Units	7 Units @	\$1,403 /Unit/Month		\$118,000
One-Bedroom Units	32 Units @	\$2,540 /Unit/Month		975,000
Two-Bedroom Units	26 Units @	\$3,107 /Unit/Month		969,000
B. Affordable Units 2				
Studio/SRO Units	4 Units @	\$1,182 /Unit/Month		57,000
One-Bedroom Units	17 Units @	\$1,334 /Unit/Month		272,000
Two-Bedroom Units	14 Units @	\$1,496 /Unit/Month		251,000
C. Laundry & Miscellaneous Income				
	100 Units @	\$10 /Unit/Month		12,000
Total Gross Income				\$2,654,000
Vacancy & Collection Allowance	5% Gross Income			(133,000)
II. Effective Gross Income				\$2,521,000
III. <u>Operating Expenses</u>				
General Operating Expenses	100 Units @	\$5,000 /Unit		\$500,000
Property Taxes	100 Units @	\$3,300 /Unit		334,000
Replacement Reserve Deposits	100 Units @	\$200 /Unit		20,000
Total Operating Expenses				(\$854,000)
IV. <u>Stabilized Net Operating Income</u>				\$1,667,000

¹ Based on the rent survey presented in ATTACHMENT V - EXHIBIT A - TABLE 2. The weighted average monthly rent equates to \$3.50 per square foot of leasable area.

² The Inclusionary rent calculations are based on household income at 80% of AMI, with 30% of income allotted to housing related expenses. See ATTACHMENT V - EXHIBIT B - TABLE 1.

ATTACHMENT III - EXHIBIT D - TABLE 3

INCLUSIONARY HOUSING IMPACTS
 PRO FORMA ANALYSIS: 35% INCLUSIONARY REQUIREMENT ALTERNATIVE
 NON-DOWNTOWN BASE DENSITY: 35 UNITS PER ACRE
 INCLUSIONARY HOUSING FEASIBILITY ANALYSIS
 SANTA CRUZ, CALIFORNIA

I.	Supportable Investment		
	Stabilized Net Operating Income	See ATTACHMENT III - EXHIBIT D - TABLE 2	\$1,667,000
	Threshold Return on Total Investment ¹		6.7%
	Total Supportable Investment		\$24,927,000
II.	Total Development Cost	See ATTACHMENT III - EXHIBIT D - TABLE 1	\$31,099,000
III.	Total Financial Gap		(\$6,172,000)
	As a % of Land Value	99% Decrease	
	Effective Developer Return	5.4% Return on Total Investment	

¹ Based on the Developer Return estimated to be generated by the NON-DOWNTOWN BASE DENSITY: 35 UNITS PER ACRE: MARKET RATE ALTERNATIVE.

ATTACHMENT III - EXHIBIT E
PRO FORMA ANALYSIS: FEASIBLE INCLUSIONARY PERCENTAGE ALTERNATIVE
NON-DOWNTOWN BASE DENSITY: 35 UNITS PER ACRE
INCLUSIONARY HOUSING FEASIBILITY ANALYSIS
SANTA CRUZ, CALIFORNIA

ATTACHMENT III - EXHIBIT E - TABLE 1

ESTIMATED DEVELOPMENT COSTS
 PRO FORMA ANALYSIS: FEASIBLE INCLUSIONARY PERCENTAGE ALTERNATIVE
 NON-DOWNTOWN BASE DENSITY: 35 UNITS PER ACRE
 INCLUSIONARY HOUSING FEASIBILITY ANALYSIS
 SANTA CRUZ, CALIFORNIA

I. Property Acquisition Costs	1	124,400	Sf of Land	\$50 /Sf of Land		\$6,220,000
II. Direct Costs	2					
On-Sites / Landscaping		124,400	Sf of Land	\$10 /Sf of Land		\$1,244,000
Parking	3					
At-Grade Spaces		140	Spaces	\$5,000 /Space		700,000
Above-Ground Podium Spaces		0	Spaces	\$25,000 /Space		0
1st Level Subterranean		0	Spaces	\$35,000 /Space		0
2nd Level Subterranean		0	Spaces	\$45,000 /Space		0
Building Costs		94,181	Sf of GBA	\$125 /Sf of GBA		11,773,000
Contractor/DC Contingency Allow		20%	Other Direct Costs			2,743,000
Total Direct Costs		94,181	Sf of GBA	\$175 /Sf of GBA		\$16,460,000
III. Indirect Costs						
Architecture, Engineering & Consulting		10%	Direct Costs			\$1,646,000
Public Permits & Fees	4	100	Units	\$25,000 /Unit		2,500,000
Taxes, Insurance, Legal & Accounting		3%	Direct Costs			494,000
Marketing		100	Units	\$10,000 /Unit		1,000,000
Developer Fee		5%	Direct Costs			823,000
Soft Cost Contingency Allowance		5%	Other Indirect Costs			323,000
Total Indirect Costs						\$6,786,000
IV. Financing Costs						
Interest During Construction						
Land	5	\$6,220,000	Cost	6.0% Avg Rate		\$373,000
Construction	6	\$24,946,000	Cost	6.0% Avg Rate		898,000
Loan Origination Fees			60% Loan to Value	2.0 Points		429,000
Total Financing Costs						\$1,700,000
V. Total Construction Cost		100	Units	\$249,000 /Unit		\$24,946,000
Total Development Cost		100	Units	\$312,000 /Unit		\$31,166,000

1 Based on a survey of recent land sales.

2 Based on the estimated costs for similar uses.

3 Based on 1 space for Studio Units; 1 space for One-Bedroom Units; and 2 spaces for Two-Bedroom Units.

4 Based on estimates prepared for other projects within Santa Cruz.

5 Based on an 12 month construction period and a 100% average outstanding loan balance.

6 Based on an 12 month construction period and a 60% average outstanding loan balance.

ATTACHMENT III - EXHIBIT E - TABLE 2

ESTIMATED STABILIZED NET OPERATING INCOME
 PRO FORMA ANALYSIS: FEASIBLE INCLUSIONARY PERCENTAGE ALTERNATIVE
 NON-DOWNTOWN BASE DENSITY: 35 UNITS PER ACRE
 INCLUSIONARY HOUSING FEASIBILITY ANALYSIS
 SANTA CRUZ, CALIFORNIA

I. <u>Gross Income</u>				
A. Market Rate Units 1				
Studio/SRO Units	10 Units @	\$1,403 /Unit/Month		\$168,000
One-Bedroom Units	44 Units @	\$2,540 /Unit/Month		1,341,000
Two-Bedroom Units	36 Units @	\$3,107 /Unit/Month		1,342,000
B. Affordable Units 2				
Studio/SRO Units	1 Unit @	\$1,182 /Unit/Month		14,000
One-Bedroom Units	5 Units @	\$1,334 /Unit/Month		80,000
Two-Bedroom Units	4 Units @	\$1,496 /Unit/Month		72,000
C. Laundry & Miscellaneous Income 100 Units @				
		\$10 /Unit/Month		12,000
Total Gross Income				\$3,029,000
Vacancy & Collection Allowance	5% Gross Income			(151,000)
II. Effective Gross Income				\$2,878,000
III. <u>Operating Expenses</u>				
General Operating Expenses	100 Units @	\$5,000 /Unit		\$500,000
Property Taxes	100 Units @	\$3,900 /Unit		393,000
Replacement Reserve Deposits	100 Units @	\$200 /Unit		20,000
Total Operating Expenses				(\$913,000)
IV. <u>Stabilized Net Operating Income</u>				\$1,965,000

¹ Based on the rent survey presented in ATTACHMENT V - EXHIBIT A - TABLE 2. The weighted average monthly rent equates to \$3.51 per square foot of leasable area.

² The Inclusionary rent calculations are based on household income at 80% of AMI, with 30% of income allotted to housing related expenses. See ATTACHMENT V - EXHIBIT B - TABLE 1.

ATTACHMENT III - EXHIBIT E - TABLE 3

INCLUSIONARY HOUSING IMPACTS
 PRO FORMA ANALYSIS: FEASIBLE INCLUSIONARY PERCENTAGE ALTERNATIVE
 NON-DOWNTOWN BASE DENSITY: 35 UNITS PER ACRE
 INCLUSIONARY HOUSING FEASIBILITY ANALYSIS
 SANTA CRUZ, CALIFORNIA

I.	Supportable Investment			
	Stabilized Net Operating Income	See ATTACHMENT III - EXHIBIT E - TABLE 2	\$1,965,000	
	Threshold Return on Total Investment ¹		6.7%	
	Total Supportable Investment			\$29,384,000
II.	Total Development Cost	See ATTACHMENT III - EXHIBIT E - TABLE 1		\$31,166,000
III.	Total Financial Gap			(\$1,782,000)
	Inclusionary Percentage	10.0%		
	As a % of Land Value	29% Decrease		
	Effective Developer Return	6.3% Return on Total Investment		

¹ Based on the Developer Return estimated to be generated by the NON-DOWNTOWN BASE DENSITY: 35 UNITS PER ACRE: MARKET RATE ALTERNATIVE.

ATTACHMENT IV

**PRO FORMA ANALYSES
DOWNTOWN: 35% DENSITY BONUS
INCLUSIONARY HOUSING FEASIBILITY ANALYSIS
SANTA CRUZ, CALIFORNIA**

**ATTACHMENT IV - EXHIBIT A
PRO FORMA ANALYSIS: MARKET RATE ALTERNATIVE
NON-DOWNTOWN: 35% DENSITY BONUS
INCLUSIONARY HOUSING FEASIBILITY ANALYSIS
SANTA CRUZ, CALIFORNIA**

ATTACHMENT IV - EXHIBIT A - TABLE 1

ESTIMATED DEVELOPMENT COSTS
 PRO FORMA ANALYSIS: MARKET RATE ALTERNATIVE
 J: 35% DENSITY BONUS
 INCLUSIONARY HOUSING FEASIBILITY ANALYSIS
 SANTA CRUZ, CALIFORNIA

I. Property Acquisition Costs	1	124,400	Sf of Land	\$50 /Sf of Land		\$6,220,000
II. Direct Costs	2					
On-Sites / Landscaping		124,400	Sf of Land	\$10 /Sf of Land		\$1,244,000
Parking	3					
At-Grade Spaces		120	Spaces	\$5,000 /Space		600,000
Above-Ground Podium Spaces		69	Spaces	\$25,000 /Space		1,725,000
1st Level Subterranean		0	Spaces	\$35,000 /Space		0
2nd Level Subterranean		0	Spaces	\$45,000 /Space		0
Building Costs		127,063	Sf of GBA	\$125 /Sf of GBA		15,883,000
Contractor/DC Contingency Allow		20%	Other Direct Costs			3,890,000
Total Direct Costs		127,063	Sf of GBA	\$184 /Sf of GBA		\$23,342,000
III. Indirect Costs						
Architecture, Engineering & Consulting		10%	Direct Costs			\$2,334,000
Public Permits & Fees	4	135	Units	\$25,000 /Unit		3,375,000
Taxes, Insurance, Legal & Accounting		3%	Direct Costs			700,000
Marketing		135	Units	\$10,000 /Unit		1,350,000
Developer Fee		5%	Direct Costs			1,167,000
Soft Cost Contingency Allowance		5%	Other Indirect Costs			446,000
Total Indirect Costs						\$9,372,000
IV. Financing Costs						
Interest During Construction						
Land	5	\$6,220,000	Cost	6.0% Avg Rate		\$373,000
Construction	6	\$34,960,000	Cost	6.0% Avg Rate		1,259,000
Loan Origination Fees		60%	Loan to Value	2.0 Points		614,000
Total Financing Costs						\$2,246,000
V. Total Construction Cost		135	Units	\$259,000 /Unit		\$34,960,000
Total Development Cost		135	Units	\$305,000 /Unit		\$41,180,000

1 Based on a survey of recent land sales.

2 Based on the estimated costs for similar uses.

3 Based on 1 space for Studio Units; 1 space for One-Bedroom Units; and 2 spaces for Two-Bedroom Units.

4 Based on estimates prepared for other projects within Santa Cruz.

5 Based on an 12 month construction period and a 100% average outstanding loan balance.

6 Based on an 12 month construction period and a 60% average outstanding loan balance.

ATTACHMENT IV - EXHIBIT B
PRO FORMA ANALYSIS: 15% INCLUSIONARY REQUIREMENT ALTERNATIVE
NON-DOWNTOWN: 35% DENSITY BONUS
INCLUSIONARY HOUSING FEASIBILITY ANALYSIS
SANTA CRUZ, CALIFORNIA

ATTACHMENT IV - EXHIBIT B - TABLE 1

ESTIMATED DEVELOPMENT COSTS
 PRO FORMA ANALYSIS: 15% INCLUSIONARY REQUIREMENT ALTERNATIVE
 NON-DOWNTOWN: 35% DENSITY BONUS
 INCLUSIONARY HOUSING FEASIBILITY ANALYSIS
 SANTA CRUZ, CALIFORNIA

I. Property Acquisition Costs	¹	124,400	Sf of Land	\$50 /Sf of Land		\$6,220,000
II. Direct Costs	²					
On-Sites / Landscaping		124,400	Sf of Land	\$10 /Sf of Land		\$1,244,000
Parking	³					
At-Grade Spaces		120	Spaces	\$5,000 /Space		600,000
Above-Ground Podium Spaces		69	Spaces	\$25,000 /Space		1,725,000
1st Level Subterranean		0	Spaces	\$35,000 /Space		0
2nd Level Subterranean		0	Spaces	\$45,000 /Space		0
Building Costs		127,063	Sf of GBA	\$125 /Sf of GBA		15,883,000
Contractor/DC Contingency Allow		20%	Other Direct Costs			3,890,000
Total Direct Costs		127,063	Sf of GBA	\$184 /Sf of GBA		\$23,342,000
III. Indirect Costs						
Architecture, Engineering & Consulting		10%	Direct Costs			\$2,334,000
Public Permits & Fees	⁴	135	Units	\$25,000 /Unit		3,375,000
Taxes, Insurance, Legal & Accounting		3%	Direct Costs			700,000
Marketing		135	Units	\$10,000 /Unit		1,350,000
Developer Fee		5%	Direct Costs			1,167,000
Soft Cost Contingency Allowance		5%	Other Indirect Costs			446,000
Total Indirect Costs						\$9,372,000
IV. Financing Costs						
Interest During Construction						
Land	⁵	\$6,220,000	Cost	6.0% Avg Rate		\$373,000
Construction	⁶	\$34,892,000	Cost	6.0% Avg Rate		1,256,000
Loan Origination Fees		60%	Loan to Value	2.0 Points		549,000
Total Financing Costs						\$2,178,000
V. Total Construction Cost		135	Units	\$258,000 /Unit		\$34,892,000
Total Development Cost		135	Units	\$305,000 /Unit		\$41,112,000

¹ Based on a survey of recent land sales.

² Based on the estimated costs for similar uses.

³ Based on 1 space for Studio Units; 1 space for One-Bedroom Units; and 2 spaces for Two-Bedroom Units.

⁴ Based on estimates prepared for other projects within Santa Cruz.

⁵ Based on an 12 month construction period and a 100% average outstanding loan balance.

⁶ Based on an 12 month construction period and a 60% average outstanding loan balance.

ATTACHMENT IV - EXHIBIT B - TABLE 2

ESTIMATED STABILIZED NET OPERATING INCOME
 PRO FORMA ANALYSIS: 15% INCLUSIONARY REQUIREMENT ALTERNATIVE
 NON-DOWNTOWN: 35% DENSITY BONUS
 INCLUSIONARY HOUSING FEASIBILITY ANALYSIS
 SANTA CRUZ, CALIFORNIA

I. **Gross Income**

A. **Market Rate Units**

1

Studio/SRO Units	13 Units @	\$1,403 /Unit/Month	\$219,000
One-Bedroom Units	56 Units @	\$2,540 /Unit/Month	1,707,000
Two-Bedroom Units	46 Units @	\$3,107 /Unit/Month	1,715,000

B. **Affordable Units**

2

Density Bonus (50% AMI/30% Inc)

3

Studio/SRO Units	1 Unit @	\$725 /Unit/Month	9,000
One-Bedroom Units	5 Units @	\$812 /Unit/Month	49,000
Two-Bedroom Units	5 Units @	\$909 /Unit/Month	55,000

Inclusionary (80% AMI/30% Inc)

4

Studio/SRO Units	1 Unit @	\$1,182 /Unit/Month	14,000
One-Bedroom Units	5 Units @	\$1,334 /Unit/Month	80,000
Two-Bedroom Units	3 Units @	\$1,496 /Unit/Month	54,000

C. **Laundry & Miscellaneous Income**

135 Units @	\$10 /Unit/Month	16,000
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Total Gross Income

\$3,918,000

Vacancy & Collection Allowance

5% Gross Income

(196,000)

II. **Effective Gross Income**

\$3,722,000

III. **Operating Expenses**

General Operating Expenses	135 Units @	\$5,000 /Unit	\$675,000
Property Taxes	135 Units @	\$3,700 /Unit	503,000
Replacement Reserve Deposits	135 Units @	\$200 /Unit	27,000

Total Operating Expenses

(\$1,205,000)

IV. **Stabilized Net Operating Income**

\$2,517,000

¹ Based on the rent survey presented in ATTACHMENT V - EXHIBIT A - TABLE 2. The weighted average monthly rent equates to \$3.51 per square foot of leasable area.

² The affordable units equate to 15% of the Total Units and 20% of the Base Units.

³ For the purposes of the State density bonus, 11% of the Base Units are set aside for very-low income households. State Density Bonus calculates very-low income rents based on household income at 50% of AMI, with 30% of income allotted to housing related expenses. See ATTACHMENT V - EXHIBIT B - TABLE 1.

⁴ The balance of the affordable units are set aside using the City's Inclusionary standards. The Inclusionary rent calculations are based on household income at 80% of AMI, with 30% of income allotted to housing related expenses. See ATTACHMENT V - EXHIBIT B - TABLE 1.

ATTACHMENT IV - EXHIBIT B - TABLE 3

INCLUSIONARY HOUSING IMPACTS
 PRO FORMA ANALYSIS: 15% INCLUSIONARY REQUIREMENT ALTERNATIVE
 NON-DOWNTOWN: 35% DENSITY BONUS
 INCLUSIONARY HOUSING FEASIBILITY ANALYSIS
 SANTA CRUZ, CALIFORNIA

I.	<u>Supportable Investment</u>		
	Stabilized Net Operating Income	See ATTACHMENT IV - EXHIBIT B - TABLE 2	\$2,517,000
	Threshold Return on Total Investment ¹		6.7%
	Total Supportable Investment		\$37,638,000
II.	Total Development Cost	See ATTACHMENT IV - EXHIBIT B - TABLE 1	\$41,112,000
III.	<u>Total Financial Gap</u>		(\$3,474,000)
	As a % of Land Value	56% Decrease	
	Effective Developer Return	6.1% Return on Total Investment	

¹ Based on the Developer Return estimated to be generated by the NON-DOWNTOWN BASE DENSITY: 35 UNITS PER ACRE: MARKET RATE ALTERNATIVE.

ATTACHMENT IV - EXHIBIT C
PRO FORMA ANALYSIS: 25% INCLUSIONARY REQUIREMENT ALTERNATIVE
NON-DOWNTOWN: 35% DENSITY BONUS
INCLUSIONARY HOUSING FEASIBILITY ANALYSIS
SANTA CRUZ, CALIFORNIA

ATTACHMENT IV - EXHIBIT C - TABLE 1

ESTIMATED DEVELOPMENT COSTS
 PRO FORMA ANALYSIS: 25% INCLUSIONARY REQUIREMENT ALTERNATIVE
 NON-DOWNTOWN: 35% DENSITY BONUS
 INCLUSIONARY HOUSING FEASIBILITY ANALYSIS
 SANTA CRUZ, CALIFORNIA

I. Property Acquisition Costs	¹	124,400	Sf of Land	\$50 /Sf of Land		\$6,220,000
II. Direct Costs	²					
On-Sites / Landscaping		124,400	Sf of Land	\$10 /Sf of Land		\$1,244,000
Parking	³					
At-Grade Spaces		120	Spaces	\$5,000 /Space		600,000
Above-Ground Podium Spaces		69	Spaces	\$25,000 /Space		1,725,000
1st Level Subterranean		0	Spaces	\$35,000 /Space		0
2nd Level Subterranean		0	Spaces	\$45,000 /Space		0
Building Costs		127,063	Sf of GBA	\$125 /Sf of GBA		15,883,000
Contractor/DC Contingency Allow		20%	Other Direct Costs			3,890,000
Total Direct Costs		127,063	Sf of GBA	\$184 /Sf of GBA		\$23,342,000
III. Indirect Costs						
Architecture, Engineering & Consulting		10%	Direct Costs			\$2,334,000
Public Permits & Fees	⁴	135	Units	\$25,000 /Unit		3,375,000
Taxes, Insurance, Legal & Accounting		3%	Direct Costs			700,000
Marketing		135	Units	\$10,000 /Unit		1,350,000
Developer Fee		5%	Direct Costs			1,167,000
Soft Cost Contingency Allowance		5%	Other Indirect Costs			446,000
Total Indirect Costs						\$9,372,000
IV. Financing Costs						
Interest During Construction						
Land	⁵	\$6,220,000	Cost	6.0% Avg Rate		\$373,000
Construction	⁶	\$34,855,000	Cost	6.0% Avg Rate		1,255,000
Loan Origination Fees		60%	Loan to Value	2.0 Points		513,000
Total Financing Costs						\$2,141,000
V. Total Construction Cost		135	Units	\$258,000 /Unit		\$34,855,000
Total Development Cost		135	Units	\$304,000 /Unit		\$41,075,000

¹ Based on a survey of recent land sales.

² Based on the estimated costs for similar uses.

³ Based on 1 space for Studio Units; 1 space for One-Bedroom Units; and 2 spaces for Two-Bedroom Units.

⁴ Based on estimates prepared for other projects within Santa Cruz.

⁵ Based on an 12 month construction period and a 100% average outstanding loan balance.

⁶ Based on an 12 month construction period and a 60% average outstanding loan balance.

ATTACHMENT IV - EXHIBIT C - TABLE 2

ESTIMATED STABILIZED NET OPERATING INCOME
 PRO FORMA ANALYSIS: 25% INCLUSIONARY REQUIREMENT ALTERNATIVE
 NON-DOWNTOWN: 35% DENSITY BONUS
 INCLUSIONARY HOUSING FEASIBILITY ANALYSIS
 SANTA CRUZ, CALIFORNIA

I. Gross Income				
A. Market Rate Units ¹				
Studio/SRO Units	11 Units @	\$1,403 /Unit/Month		\$185,000
One-Bedroom Units	50 Units @	\$2,540 /Unit/Month		1,524,000
Two-Bedroom Units	40 Units @	\$3,107 /Unit/Month		1,491,000
B. Affordable Units ²				
Density Bonus (50% AMI/30% Inc) ³				
Studio/SRO Units	1 Unit @	\$725 /Unit/Month		9,000
One-Bedroom Units	5 Units @	\$812 /Unit/Month		49,000
Two-Bedroom Units	5 Units @	\$909 /Unit/Month		55,000
Inclusionary (80% AMI/30% Inc) ⁴				
Studio/SRO Units	3 Units @	\$1,182 /Unit/Month		43,000
One-Bedroom Units	11 Units @	\$1,334 /Unit/Month		176,000
Two-Bedroom Units	9 Units @	\$1,496 /Unit/Month		162,000
C. Laundry & Miscellaneous Income				
	135 Units @	\$10 /Unit/Month		16,000
Total Gross Income				\$3,710,000
Vacancy & Collection Allowance				(186,000)
II. Effective Gross Income				
				\$3,524,000
III. Operating Expenses				
General Operating Expenses	135 Units @	\$5,000 /Unit		\$675,000
Property Taxes	135 Units @	\$3,500 /Unit		470,000
Replacement Reserve Deposits	135 Units @	\$200 /Unit		27,000
Total Operating Expenses				(\$1,172,000)
IV. Stabilized Net Operating Income				\$2,352,000

¹ Based on the rent survey presented in ATTACHMENT V - EXHIBIT A - TABLE 2. The weighted average monthly rent equates to \$3.51 per square foot of leasable area.

² The affordable units equate to 25% of the Total Units and 34% of the Base Units.

³ For the purposes of the State density bonus, 11% of the Base Units are set aside for very-low income households. State Density Bonus calculates very-low income rents based on household income at 50% of AMI, with 30% of income allotted to housing related expenses. See ATTACHMENT V - EXHIBIT B - TABLE 1.

⁴ The balance of the affordable units are set aside using the City's Inclusionary standards. The Inclusionary rent calculations are based on household income at 80% of AMI, with 30% of income allotted to housing related expenses. See ATTACHMENT V - EXHIBIT B - TABLE 1.

ATTACHMENT IV - EXHIBIT C - TABLE 3

INCLUSIONARY HOUSING IMPACTS
 PRO FORMA ANALYSIS: 25% INCLUSIONARY REQUIREMENT ALTERNATIVE
 NON-DOWNTOWN: 35% DENSITY BONUS
 INCLUSIONARY HOUSING FEASIBILITY ANALYSIS
 SANTA CRUZ, CALIFORNIA

I.	Supportable Investment			
	Stabilized Net Operating Income	See ATTACHMENT IV - EXHIBIT C - TABLE 2	\$2,352,000	
	Threshold Return on Total Investment ¹		6.7%	
	Total Supportable Investment			\$35,171,000
II.	Total Development Cost	See ATTACHMENT IV - EXHIBIT C - TABLE 1		\$41,075,000
III.	Total Financial Gap			(\$5,904,000)
	As a % of Land Value	95% Decrease		
	Effective Developer Return	5.7% Return on Total Investment		

¹ Based on the Developer Return estimated to be generated by the NON-DOWNTOWN BASE DENSITY: 35 UNITS PER ACRE: MARKET RATE ALTERNATIVE.

ATTACHMENT IV - EXHIBIT D
PRO FORMA ANALYSIS: 35% INCLUSIONARY REQUIREMENT ALTERNATIVE
NON-DOWNTOWN: 35% DENSITY BONUS
INCLUSIONARY HOUSING FEASIBILITY ANALYSIS
SANTA CRUZ, CALIFORNIA

ATTACHMENT IV - EXHIBIT D - TABLE 1

ESTIMATED DEVELOPMENT COSTS
 PRO FORMA ANALYSIS: 35% INCLUSIONARY REQUIREMENT ALTERNATIVE
 NON-DOWNTOWN: 35% DENSITY BONUS
 INCLUSIONARY HOUSING FEASIBILITY ANALYSIS
 SANTA CRUZ, CALIFORNIA

I. Property Acquisition Costs	¹	124,400	Sf of Land	\$50 /Sf of Land		\$6,220,000
II. Direct Costs	²					
On-Sites / Landscaping		124,400	Sf of Land	\$10 /Sf of Land		\$1,244,000
Parking	³					
At-Grade Spaces		120	Spaces	\$5,000 /Space		600,000
Above-Ground Podium Spaces		69	Spaces	\$25,000 /Space		1,725,000
1st Level Subterranean		0	Spaces	\$35,000 /Space		0
2nd Level Subterranean		0	Spaces	\$45,000 /Space		0
Building Costs		127,063	Sf of GBA	\$125 /Sf of GBA		15,883,000
Contractor/DC Contingency Allow		20%	Other Direct Costs			3,890,000
Total Direct Costs		127,063	Sf of GBA	\$184 /Sf of GBA		\$23,342,000
III. Indirect Costs						
Architecture, Engineering & Consulting		10%	Direct Costs			\$2,334,000
Public Permits & Fees	⁴	135	Units	\$25,000 /Unit		3,375,000
Taxes, Insurance, Legal & Accounting		3%	Direct Costs			700,000
Marketing		135	Units	\$10,000 /Unit		1,350,000
Developer Fee		5%	Direct Costs			1,167,000
Soft Cost Contingency Allowance		5%	Other Indirect Costs			446,000
Total Indirect Costs						\$9,372,000
IV. Financing Costs						
Interest During Construction						
Land	⁵	\$6,220,000	Cost	6.0% Avg Rate		\$373,000
Construction	⁶	\$34,818,000	Cost	6.0% Avg Rate		1,253,000
Loan Origination Fees		60%	Loan to Value	2.0 Points		478,000
Total Financing Costs						\$2,104,000
V. Total Construction Cost		135	Units	\$258,000 /Unit		\$34,818,000
Total Development Cost		135	Units	\$304,000 /Unit		\$41,038,000

¹ Based on a survey of recent land sales.

² Based on the estimated costs for similar uses.

³ Based on 1 space for Studio Units; 1 space for One-Bedroom Units; and 2 spaces for Two-Bedroom Units.

⁴ Based on estimates prepared for other projects within Santa Cruz.

⁵ Based on an 12 month construction period and a 100% average outstanding loan balance.

⁶ Based on an 12 month construction period and a 60% average outstanding loan balance.

ATTACHMENT IV - EXHIBIT D - TABLE 2

ESTIMATED STABILIZED NET OPERATING INCOME
 PRO FORMA ANALYSIS: 35% INCLUSIONARY REQUIREMENT ALTERNATIVE
 NON-DOWNTOWN: 35% DENSITY BONUS
 INCLUSIONARY HOUSING FEASIBILITY ANALYSIS
 SANTA CRUZ, CALIFORNIA

I. Gross Income				
A. Market Rate Units ¹				
Studio/SRO Units	10 Units @	\$1,403 /Unit/Month		\$168,000
One-Bedroom Units	43 Units @	\$2,540 /Unit/Month		1,311,000
Two-Bedroom Units	35 Units @	\$3,107 /Unit/Month		1,305,000
B. Affordable Units ²				
Density Bonus (50% AMI/30% Inc) ³				
Studio/SRO Units	1 Unit @	\$725 /Unit/Month		9,000
One-Bedroom Units	5 Units @	\$812 /Unit/Month		49,000
Two-Bedroom Units	5 Units @	\$909 /Unit/Month		55,000
Inclusionary (80% AMI/30% Inc) ⁴				
Studio/SRO Units	4 Units @	\$1,182 /Unit/Month		57,000
One-Bedroom Units	18 Units @	\$1,334 /Unit/Month		288,000
Two-Bedroom Units	14 Units @	\$1,496 /Unit/Month		251,000
C. Laundry & Miscellaneous Income				
	135 Units @	\$10 /Unit/Month		16,000
Total Gross Income				\$3,509,000
Vacancy & Collection Allowance				(175,000)
II. Effective Gross Income				
				\$3,334,000
III. Operating Expenses				
General Operating Expenses	135 Units @	\$5,000 /Unit		\$675,000
Property Taxes	135 Units @	\$3,300 /Unit		439,000
Replacement Reserve Deposits	135 Units @	\$200 /Unit		27,000
Total Operating Expenses				(\$1,141,000)
IV. Stabilized Net Operating Income				\$2,193,000

¹ Based on the rent survey presented in ATTACHMENT V - EXHIBIT A - TABLE 2. The weighted average monthly rent equates to \$3.51 per square foot of leasable area.

² The affordable units equate to 35% of the Total Units and 47% of the Base Units.

³ For the purposes of the State density bonus, 11% of the Base Units are set aside for very-low income households. State Density Bonus calculates very-low income rents based on household income at 50% of AMI, with 30% of income allotted to housing related expenses. See ATTACHMENT V - EXHIBIT B - TABLE 1.

⁴ The balance of the affordable units are set aside using the City's Inclusionary standards. The Inclusionary rent calculations are based on household income at 80% of AMI, with 30% of income allotted to housing related expenses. See ATTACHMENT V - EXHIBIT B - TABLE 1.

ATTACHMENT IV - EXHIBIT D - TABLE 3

INCLUSIONARY HOUSING IMPACTS
 PRO FORMA ANALYSIS: 35% INCLUSIONARY REQUIREMENT ALTERNATIVE
 NON-DOWNTOWN: 35% DENSITY BONUS
 INCLUSIONARY HOUSING FEASIBILITY ANALYSIS
 SANTA CRUZ, CALIFORNIA

I.	<u>Supportable Investment</u>		
	Stabilized Net Operating Income	See ATTACHMENT IV - EXHIBIT D - TABLE 2	\$2,193,000
	Threshold Return on Total Investment ¹		6.7%
	Total Supportable Investment		\$32,793,000
II.	Total Development Cost	See ATTACHMENT IV - EXHIBIT D - TABLE 1	\$41,038,000
III.	<u>Total Financial Gap</u>		(\$8,245,000)
	As a % of Land Value	133% Decrease	
	Effective Developer Return	5.3% Return on Total Investment	

¹ Based on the Developer Return estimated to be generated by the NON-DOWNTOWN BASE DENSITY: 35 UNITS PER ACRE: MARKET RATE ALTERNATIVE.

ATTACHMENT IV - EXHIBIT E
PRO FORMA ANALYSIS: FEASIBLE INCLUSIONARY PERCENTAGE ALTERNATIVE
NON-DOWNTOWN: 35% DENSITY BONUS
INCLUSIONARY HOUSING FEASIBILITY ANALYSIS
SANTA CRUZ, CALIFORNIA

ATTACHMENT IV - EXHIBIT E - TABLE 1

ESTIMATED DEVELOPMENT COSTS
 PRO FORMA ANALYSIS: FEASIBLE INCLUSIONARY PERCENTAGE ALTERNATIVE
 NON-DOWNTOWN: 35% DENSITY BONUS
 INCLUSIONARY HOUSING FEASIBILITY ANALYSIS
 SANTA CRUZ, CALIFORNIA

I. Property Acquisition Costs	¹	124,400	Sf of Land	\$50 /Sf of Land		\$6,220,000
II. Direct Costs	²					
On-Sites / Landscaping		124,400	Sf of Land	\$10 /Sf of Land		\$1,244,000
Parking	³					
At-Grade Spaces		120	Spaces	\$5,000 /Space		600,000
Above-Ground Podium Spaces		69	Spaces	\$25,000 /Space		1,725,000
1st Level Subterranean		0	Spaces	\$35,000 /Space		0
2nd Level Subterranean		0	Spaces	\$45,000 /Space		0
Building Costs		127,063	Sf of GBA	\$125 /Sf of GBA		15,883,000
Contractor/DC Contingency Allow		20%	Other Direct Costs			3,890,000
Total Direct Costs		127,063	Sf of GBA	\$184 /Sf of GBA		\$23,342,000
III. Indirect Costs						
Architecture, Engineering & Consulting		10%	Direct Costs			\$2,334,000
Public Permits & Fees	⁴	135	Units	\$25,000 /Unit		3,378,000
Taxes, Insurance, Legal & Accounting		3%	Direct Costs			700,000
Marketing		135	Units	\$10,000 /Unit		1,351,000
Developer Fee		5%	Direct Costs			1,167,000
Soft Cost Contingency Allowance		5%	Other Indirect Costs			447,000
Total Indirect Costs						\$9,377,000
IV. Financing Costs						
Interest During Construction						
Land	⁵	\$6,220,000	Cost	6.0% Avg Rate		\$373,000
Construction	⁶	\$34,921,000	Cost	6.0% Avg Rate		1,257,000
Loan Origination Fees		60%	Loan to Value	2.0 Points		572,000
Total Financing Costs						\$2,202,000
V. Total Construction Cost		135	Units	\$258,000 /Unit		\$34,921,000
Total Development Cost		135	Units	\$305,000 /Unit		\$41,141,000

¹ Based on a survey of recent land sales.

² Based on the estimated costs for similar

³ Based on 0.5 spaces for Studio Units; 0.5

⁴ Based on estimates prepared for other projects within Santa Cruz.

⁵ Based on an 18 month construction period and a 100% average outstanding loan balance.

⁶ Based on an 18 month construction period and a 60% average outstanding loan balance.

ATTACHMENT IV - EXHIBIT E - TABLE 2

ESTIMATED STABILIZED NET OPERATING INCOME
 PRO FORMA ANALYSIS: FEASIBLE INCLUSIONARY PERCENTAGE ALTERNATIVE
 NON-DOWNTOWN: 35% DENSITY BONUS
 INCLUSIONARY HOUSING FEASIBILITY ANALYSIS
 SANTA CRUZ, CALIFORNIA

I. <u>Gross Income</u>				
A. Market Rate Units 1				
Studio/SRO Units	14 Units @	\$1,403 /Unit/Month		\$236,000
One-Bedroom Units	61 Units @	\$2,540 /Unit/Month		1,859,000
Two-Bedroom Units	49 Units @	\$3,107 /Unit/Month		1,827,000
B. Affordable Units 2				
Density Bonus (50% AMI/30% Inc) 3				
Studio/SRO Units	1 Unit @	\$725 /Unit/Month		9,000
One-Bedroom Units	5 Units @	\$812 /Unit/Month		49,000
Two-Bedroom Units	5 Units @	\$909 /Unit/Month		55,000
Inclusionary (80% AMI/30% Inc) 4				
Studio/SRO Units	0 Units @	\$1,182 /Unit/Month		0
One-Bedroom Units	0 Units @	\$1,334 /Unit/Month		0
Two-Bedroom Units	0 Units @	\$1,496 /Unit/Month		0
C. Laundry & Miscellaneous Income 135 Units @				
		\$10 /Unit/Month		16,000
Total Gross Income				\$4,051,000
Vacancy & Collection Allowance 5% Gross Income				(203,000)
II. Effective Gross Income \$3,848,000				
III. <u>Operating Expenses</u>				
General Operating Expenses	135 Units @	\$5,000 /Unit		\$675,600
Property Taxes	135 Units @	\$3,900 /Unit		524,000
Replacement Reserve Deposits	135 Units @	\$200 /Unit		27,000
Total Operating Expenses				(\$1,226,600)
IV. <u>Stabilized Net Operating Income</u>				\$2,621,400

¹ Based on the rent survey presented in ATTACHMENT V - EXHIBIT A - TABLE 1. The weighted average monthly rent equates to \$3.51 per square foot of leasable area.

² The affordable units equate to 8.0% of the Total Units and 11.0% of the Base Units.

³ For the purposes of the State density bonus, 11% of the Base Units are set aside for very-low income households. State Density Bonus calculates very-low income rents based on household income at 50% of AMI, with 30% of income allotted to housing related expenses. See ATTACHMENT V - EXHIBIT B - TABLE 1.

⁴ The balance of the affordable units are set aside using the City's Inclusionary standards. The Inclusionary rent calculations are based on household income at 80% of AMI, with 30% of income allotted to housing related expenses. See ATTACHMENT V - EXHIBIT B - TABLE 1.

ATTACHMENT IV - EXHIBIT E - TABLE 3

INCLUSIONARY HOUSING IMPACTS
 PRO FORMA ANALYSIS: FEASIBLE INCLUSIONARY PERCENTAGE ALTERNATIVE
 NON-DOWNTOWN: 35% DENSITY BONUS
 INCLUSIONARY HOUSING FEASIBILITY ANALYSIS
 SANTA CRUZ, CALIFORNIA

I.	<u>Supportable Investment</u>		
	Stabilized Net Operating Income	See ATTACHMENT IV - EXHIBIT E - TABLE 2	\$2,621,400
	Threshold Return on Total Investment ¹		6.7%
	Total Supportable Investment		\$39,199,000
II.	Total Development Cost	See ATTACHMENT IV - EXHIBIT E - TABLE 1	\$41,141,000
III.	<u>Total Financial Gap</u>		(\$1,942,000)
	Inclusionary Percentage	8.0%	
	As a % of Land Value	31% Decrease	
	Effective Developer Return	6.4% Return on Total Investment	

¹ Based on the Developer Return estimated to be generated by the NON-DOWNTOWN BASE DENSITY: 35 UNITS PER ACRE: MARKET RATE ALTERNATIVE.

ATTACHMENT V

BACKUP TABLES

INCLUSIONARY HOUSING FEASIBILITY ANALYSIS

SANTA CRUZ, CALIFORNIA

ATTACHMENT V - EXHIBIT A - TABLE 1

RENT SURVEY
 INCLUSIONARY HOUSING FEASIBILITY ANALYSIS
 DOWNTOWN
 SANTA CRUZ, CALIFORNIA

No.	Name	Address	# of Units	Unit Size (SF)	Average Effective Rent		Parking Spaces Provided	Location
					Total	Per SF		
Studio Units								
1	South Pacific Apts	401 Pacific Avenue	61	300	\$1,437	\$4.79	1.0/Unit	Downtown
2	Five55	555 Pacific Avenue	36	440	\$2,292	\$5.21		Downtown
3	1010 Pacific Ave Apts	1010 Pacific Avenue	2	385	\$1,972	\$5.12		Downtown
4	The Breakers	630 Water Street	44	310	\$1,851	\$5.97		Downtown
		Minimum		300	\$1,437	\$4.79		
		Maximum		440	\$2,292	\$5.97		
		Weighted Average		340	\$1,787	\$5.26		
One-Bedroom Units								
1	Chestnut Street Apts	525 Laurel Street	30	650	\$2,096	\$3.22	1.7/Unit	Downtown
2	Chestnut Street Apts	525 Laurel Street	3	785	\$2,897	\$3.69		Downtown
3	620 Laurel	620 Laurel Street	4	585	\$1,074	\$1.84		Downtown
4	Five55	555 Pacific Avenue	3	519	\$2,544	\$4.90		Downtown
5	Five55	555 Pacific Avenue	4	604	\$2,709	\$4.49		Downtown
6	Five55	555 Pacific Avenue	15	636	\$2,639	\$4.15		Downtown
7	Five55	555 Pacific Avenue	28	638	\$2,631	\$4.12		Downtown
8	Five55	555 Pacific Avenue	8	646	\$2,686	\$4.16		Downtown
9	1010 Pacific Ave Apts	1010 Pacific Avenue	21	549	\$2,429	\$4.42		Downtown
10	1010 Pacific Ave Apts	1010 Pacific Avenue	32	586	\$1,959	\$3.34		Downtown
11	1010 Pacific Ave Apts	1010 Pacific Avenue	4	692	\$2,397	\$3.46		Downtown
12	1010 Pacific Ave Apts	1010 Pacific Avenue	8	698	\$2,756	\$3.95		Downtown
13	1010 Pacific Ave Apts	1010 Pacific Avenue	3	850	\$2,619	\$3.08		Downtown
14	The Breakers	630 Water Street	4	391	\$1,968	\$5.03		Downtown
15	The Breakers	630 Water Street	1	750	\$1,502	\$2.00		Downtown
		Minimum		391	\$1,074	\$1.84		
		Maximum		850	\$2,897	\$5.03		
		Weighted Average		620	\$2,331	\$3.78		

ATTACHMENT V - EXHIBIT A - TABLE 1

RENT SURVEY
 INCLUSIONARY HOUSING FEASIBILITY ANALYSIS
 DOWNTOWN
 SANTA CRUZ, CALIFORNIA

No.	Name	Address	# of Units	Unit Size (SF)	Average Effective Rent		Parking Spaces Provided	Location
					Total	Per SF		
Two-Bedroom Units								
1	Chestnut Street Apts	525 Laurel Street	10	900	\$3,206	\$3.56		Downtown
2	Chestnut Street Apts	525 Laurel Street	7	1,040	\$3,484	\$3.35		Downtown
3	Chestnut Street Apts	525 Laurel Street	10	950	\$3,583	\$3.77		Downtown
4	Chestnut Street Apts	525 Laurel Street	36	1,070	\$3,486	\$3.26		Downtown
5	620 Laurel	620 Laurel Street	1	738	\$1,395	\$1.89		Downtown
6	620 Laurel	620 Laurel Street	1	1,047	\$1,667	\$1.59		Downtown
7	1010 Pacific Ave Apts	1010 Pacific Avenue	3	837	\$3,846	\$4.59		Downtown
8	1010 Pacific Ave Apts	1010 Pacific Avenue	32	878	\$3,729	\$4.25		Downtown
9	1010 Pacific Ave Apts	1010 Pacific Avenue	4	985	\$3,925	\$3.98		Downtown
10	1010 Pacific Ave Apts	1010 Pacific Avenue	2	1,043	\$4,221	\$4.05		Downtown
11	The Breakers	630 Water Street	4	647	\$2,822	\$4.36		Downtown
		Minimum		647	\$1,395	\$1.59		
		Maximum		1,070	\$4,221	\$4.59		
		Weighted Average		957	\$3,519	\$3.72		

Source: Costar; April 2018

ATTACHMENT V - EXHIBIT A - TABLE 2

RENT SURVEY
 INCLUSIONARY HOUSING FEASIBILITY ANALYSIS
 NON-DOWNTOWN
 SANTA CRUZ, CALIFORNIA

No.	Name	Address	# of Units	Unit Size (SF)	Average Effective Rent		Parking Spaces Provided	Location
					Total	Per SF		
Studio Units								
1	Seaside Studios	108 2nd Street	44	278	\$1,485	\$5.34	1.0/Unit	Other
2	423 Broadway	423 Broadway	1	350	\$864	\$2.47	.4/Unit	Other
3	Redwood Commons	1606 Soquel Avenue	36	298	\$1,303	\$4.37	.5/Unit	Other
		Minimum		278	\$864	\$2.47		
		Maximum		350	\$1,485	\$5.34		
		Weighted Average		288	\$1,396	\$4.88		
One-Bedroom Units								
1	Oceanview	222 Columbia Street	74	650	\$2,767	\$4.26	1.1/Unit	Other
2	Oceanview	222 Columbia Street	1	742	\$2,571	\$3.46		Other
3	Oceanview	222 Columbia Street	1	755	\$2,671	\$3.54		Other
4	Oceanview	222 Columbia Street	2	820	\$2,671	\$3.26		Other
5	423 Broadway	423 Broadway	3	700	\$1,268	\$1.81		Other
6	1013 Broadway	1013 Broadway	1	932	\$1,885	\$2.02	1/Unit	Other
7	Breakwater Apts	1630 Merrill Street	32	624	\$2,238	\$3.59	1.3/Unit	Other
8	353 Pennsylvania	353 Pennsylvania Avenue	1	600	\$1,484	\$2.47		Other
9	Pacific Shores Apts	1240 Shaffer Road	1	542	\$1,555	\$2.87	2.0/Unit	Other
10	Pacific Shores Apts	1240 Shaffer Road	20	790	\$2,816	\$3.56		Other
11	Pacific Shores Apts	1240 Shaffer Road	83	817	\$2,876	\$3.52		Other
12	Redwood Commons	1606 Soquel Avenue	1	700	\$1,714	\$2.45		Other
13	Outlook Apts	363 Western Drive	88	657	\$2,100	\$3.20	1.6/Unit	Other
14	Outlook Apts	363 Western Drive	60	818	\$2,550	\$3.12		Other
		Minimum		542	\$1,268	\$1.81		
		Maximum		932	\$2,876	\$4.26		
		Weighted Average		724	\$2,528	\$3.51		

ATTACHMENT V - EXHIBIT A - TABLE 2

RENT SURVEY
 INCLUSIONARY HOUSING FEASIBILITY ANALYSIS
 NON-DOWNTOWN
 SANTA CRUZ, CALIFORNIA

No.	Name	Address	# of Units	Unit Size (SF)	Average Effective Rent		Parking Spaces Provided	Location
					Total	Per SF		
Two-Bedroom Units								
1	Oceanview	222 Columbia Street	2	835	\$3,381	\$4.05		Other
2	Oceanview	222 Columbia Street	12	860	\$3,511	\$4.08		Other
3	Oceanview	222 Columbia Street	2	890	\$3,704	\$4.16		Other
4	Oceanview	222 Columbia Street	3	932	\$3,475	\$3.73		Other
5	Oceanview	222 Columbia Street	1	935	\$3,405	\$3.64		Other
6	Oceanview	222 Columbia Street	3	950	\$3,467	\$3.65		Other
7	Oceanview	222 Columbia Street	2	1,020	\$3,600	\$3.53		Other
8	Prodesse Property Group	517-533 Frederick Street	36	767	\$2,535	\$3.31		Other
9	423 Broadway	423 Broadway	1	800	\$1,613	\$2.02		Other
10	1013 Broadway	1013 Broadway	1	946	\$1,885	\$1.99		Other
11	1013 Broadway	1013 Broadway	1	1,208	\$2,120	\$1.75		Other
12	Breakwater Apts	1630 Merrill Street	68	886	\$2,863	\$3.23		Other
13	Westmont Place THs	801 Nobel Drive	36	900	\$3,455	\$3.84	1.0/Unit	Other
14	Westmont Place THs	801 Nobel Drive	18	920	\$3,680	\$4.00		Other
15	353 Pennsylvania	353 Pennsylvania Avenue	2	1,050	\$1,428	\$1.36		Other
16	Pacific Shores Apts	1240 Shaffer Road	93	1,016	\$3,209	\$3.16		Other
17	Pacific Shores Apts	1240 Shaffer Road	6	1,035	\$3,550	\$3.43		Other
18	Outlook Apts	363 Western Drive	20	829	\$2,900	\$3.50		Other
		Minimum		767	\$1,428	\$1.36		
		Maximum		1,208	\$3,704	\$4.16		
		Weighted Average		917	\$3,096	\$3.39		

Source: Costar; April 2018

ATTACHMENT V - EXHIBIT B - TABLE 1

AFFORDABLE RENT CALCULATIONS
 INCLUSIONARY HOUSING FEASIBILITY ANALYSIS
 DOWNTOWN
 SANTA CRUZ, CALIFORNIA

		Studio/SRO Units	One-Bedroom Units	Two-Bedroom Units
I. <u>General Assumptions</u>				
Area Median Income	1	\$60,900	\$69,600	\$78,300
Monthly Utilities Allowance	2	\$36	\$58	\$70
II. <u>Rent Based on 80% AMI & 30% of Income Allotted to Housing</u>				
Benchmark Annual Household Income		\$48,720	\$55,680	\$62,640
Percentage of Income Allotted to Housing Expenses		30%	30%	30%
Monthly Income Available for Housing Expenses		\$1,218	\$1,392	\$1,566
(Less) Monthly Utilities Allowance		(36)	(58)	(70)
Maximum Allowable Rent		\$1,182	\$1,334	\$1,496
III. <u>Rent Based on 50% AMI & 30% of Income Allotted to Housing</u>				
Benchmark Annual Household Income		\$30,450	\$34,800	\$39,150
Percentage of Income Allotted to Housing Expenses		30%	30%	30%
Monthly Income Available for Housing Expenses		\$761	\$870	\$979
(Less) Monthly Utilities Allowance		(36)	(58)	(70)
Maximum Allowable Rent		\$725	\$812	\$909

¹ Based on the 2018 Santa Cruz County median incomes published by the California Housing & Community Development Department (HCD). The benchmark household size is set at the number of bedrooms in the unit plus one.

² Based on Santa Cruz County Housing Authority allowances effective as of 10/1/17. Assumes: basic electricity, gas heating, cooking and water heating.

ATTACHMENT VI

**KEYSER MARSTON ASSOCIATES, INC.
INCLUSIONARY HOUSING AND RESIDENTIAL NEXUS STUDY EXPERIENCE
INCLUSIONARY HOUSING FEASIBILITY ANALYSIS
SANTA CRUZ, CALIFORNIA**

KEYSER MARSTON ASSOCIATES, INC.
INCLUSIONARY HOUSING AND RESIDENTIAL NEXUS STUDY EXPERIENCE
JUNE 12, 2018

FIRM PROFILE

Keyser Marston Associates, Inc. (KMA) has one of the largest real estate advisory practices on the West Coast. Founded in 1973, KMA serves a diverse client base throughout the West, including nearly every major municipality in California, public housing authorities, port authorities, transit agencies, base closure authorities, counties, special district, school districts, colleges and universities, and hospitals.

KMA's unique strength is the depth, continuity and availability of our principals who average more than 25 years of practical experience in working with business and government. Their personal involvement is a key factor in the firm's ongoing success. Their knowledge and expertise bring clarity to the complexities of real estate development. KMA's many long term, on-going client relationships are a testament to the quality of our work and responsive to client needs.

KMA INCLUSIONARY HOUSING EXPERIENCE

KMA has assisted over 25 cities and counties with their inclusionary housing programs. KMA services range from limited tasks such as analyses that support in-lieu fees to the full design of a new inclusionary program with all of its ordinance and implementation provisions.

KMA employs its real estate expertise to adapt new or revised programs to local market conditions and policy objectives. As part of our inclusionary work, it is our practice to evaluate the financial feasibility of on-site and in-lieu fee requirements. This approach ensures that the program parameters are feasible and are appropriate.

In addition to undertaking feasibility analyses as part of developing inclusionary programs, KMA has a robust practice in evaluating the development economics of individual projects in which the entitlement agreement entails public investment and the potential for an affordable housing contribution. From this practice, we understand construction costs, financing structures and the "feasibility gap" associated with developing affordable units.

After the *Patterson* and *Palmer* court decisions, KMA worked with clients to modify programs and prepare support materials in light of the new legal environment. On an ongoing basis we work with attorneys on new programs and major updates, jointly analyzing the issues associated with creating, adopting and administering inclusionary housing programs. We are currently working with attorneys to craft inclusionary housing programs that comport with the requirements imposed by the recently adopted AB 1505.

Following is a list of inclusionary housing assignments completed by the Los Angeles KMA office:

City of Burbank	City of Pasadena
City of Campbell	City of Rancho Cucamonga (not adopted)
City of Chino Hills	City of San Buenaventura
City of Claremont	City of San Dimas
City of Dana Point (not adopted)	City of San Jose
City of Davis	City of Santa Ana
City of Duarte	City of Santa Clarita
City of Glendale	City of Santa Cruz
City of Huntington Beach	City of Santa Paula
City of Los Angeles (not adopted)	City of Tustin
County of Los Angeles	City of West Hollywood
City of Newport Beach	City of Whittier
City of Oceanside	

KMA LA’s other inclusionary housing assignments include:

1. KMA is currently assisting the Cities of Burbank, Glendale and Santa Cruz in updating existing inclusionary housing ordinances.
2. On an ongoing basis, KMA assists the City of Claremont in administering their existing inclusionary housing program.
3. KMA has provided inclusionary housing and residential nexus study sessions to the City Councils in Anaheim and South Pasadena.
4. KMA will soon be commencing an inclusionary housing feasibility study for the City of Long Beach.

PREVIOUS RESIDENTIAL NEXUS EXPERIENCE

KMA’s first market rate residential nexus analysis was prepared for the City of Seattle in 2005. KMA had previously completed an affordable housing nexus analysis on office and hotel projects in Downtown Seattle; a few years later the City approached us to undertake an analysis that would allow the City to also charge market rate residential projects a fee for affordable housing impacts.

Following the Seattle analysis, KMA performed additional market rate residential nexus analyses for San Francisco to support its inclusionary program. Altogether, KMA prepared five assignments prior to the *Palmer* decision. Since *Palmer* and *Patterson*, KMA has prepared numerous additional similar analyses.

A list of the firm's residential nexus assignments follows:

City of Bainbridge Island	City of Placentia
City of Carlsbad	City of Rancho Cordova
City of Concord	City of Richmond
City of Cupertino	City and County of Sacramento
City of Daly City	City of San Diego
City of Elk Grove	City and County of San Francisco
City of Emeryville	City of San Jose
City of Fremont	City of San Ramon
City of Hayward	Santa Cruz County
Honolulu, Hawaii	City of Solana Beach
City of Livermore	City of Sonoma
City of Mill Valley	City of Walnut Creek
City and County of Napa	City of West Hollywood
City of Newark	