KEYSER MARSTON ASSOCIATES
ADVISORS IN PUBLIC/PRIVATE REAL ESTATE DEVELOPMENT

# MEMORANDUM

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**To:** Laura Dubbels
City of Santa Barbara

**From:** Keyser Marston Associates, Inc.

**Date:** February 11, 2019

**Subject:** Economic Feasibility Analysis Update, Average Unit-Size Density Incentive Program (AUD) Update

Keyser Marston Associates, Inc. (KMA) prepared an economic feasibility analysis and residential nexus study for the City of Santa Barbara dated December 2017 (2017 Study). The 2017 Study provides a set of recommendations for establishment of affordable housing requirements applicable to rental projects developed under the City's Average Unit-Size Density Incentive Program (AUD Program). This memorandum updates the economic feasibility analysis presented in the 2017 Study and evaluates whether key recommendations of the 2017 Study continue to be supported by the updated analysis.

## A. Conclusion

The feasibility update continues to support recommendations of the 2017 Study regarding establishment of a new affordable housing requirement applicable to rental projects developed under the AUD Program, as summarized below:

- 10% on-site affordable unit requirement with rents set at Moderate Income, applicable to projects with 10 units or more.
- Affordable Housing Fee of $20/sf, applicable to projects with fewer than 10 units.

The analysis also indicates a somewhat higher affordable housing fee of $25 per square foot would be feasible and provide a closer approximation to the cost of delivering affordable units on-site.

## B. Updated Feasibility Analysis

The updated analysis indicates that feasibility conditions have not changed significantly since the 2017 Study. While development costs increased, market rents also experienced approximately a 5% increase. The net result is that feasibility conditions remain approximately the same as at the end of 2017.

The analysis addresses three representative projects under the AUD Program: Priority Overlay, Medium-High Density outside of the CBD, and Medium-High Density inside the CBD. These representative projects are referred to as "prototypes" and are further described on page 6.

Table 1 summarizes the results of the updated economic feasibility analysis. A "Yes" indicates that the project is generally feasible. A "No" indicates a project is not feasible. Projects identified as either "slightly marginal" or "marginal" are somewhat outside of the target range for developer returns and so would require modest improvement for a more comfortable level of feasibility. Green highlight denotes an improvement and yellow highlight denotes a downgrade in feasibility findings relative to the 2017 Study. Findings reflect re-examination and update of key inputs and assumptions including market rents, development costs, developer return thresholds, land costs, and affordable rents.

**Table 1 – Summary of Updated Feasibility Analysis Findings**

| | Priority Overlay | Medium-High (outside CBD) | Medium-High (CBD) |
|---|---|---|---|
| No Affordable Housing | Yes | Yes | No |
| $20/SF Fee | Yes | Yes | No |
| $25/SF Fee | Yes | Yes (+) | No |
| $30/SF Fee | Yes | S. Marg | No |
| 5% On-Site at Mod | Yes | Yes | No |
| 10% On-Site at Mod | Yes | S. Marg (-) | No |
| 15% On-Site at Mod | S. Marg (-) | Marg (-) | No |

*S. Marg = Slightly Marginal. Marg = Marginal;*
*Green highlight and (+) indicate improvement and yellow and (-) denote a reduction compared to 2017.*

*Feasible Fee Level* – The updated analysis indicates a fee of either $20 or $25 per square foot is feasible for Priority Overlay projects and for Medium-High Density projects located outside of the Central Business District (CBD). A fee of $30 would be feasible for Priority Overlay projects but slightly marginal for Medium-High Density.

*Feasible On-site Requirement* – A 10% on-site affordable housing requirement is feasible for Priority Overlay projects and slightly marginal for the Medium-High Density prototype. Although Medium-High Density projects are identified as slightly marginal, these projects generate returns only slightly less (.02%) than the target range and only .06% less than identified in the 2017 Study, a small change that does not signify a material difference in overall feasibility conditions for this prototype. The developer return metrics used in the analysis are discussed below.

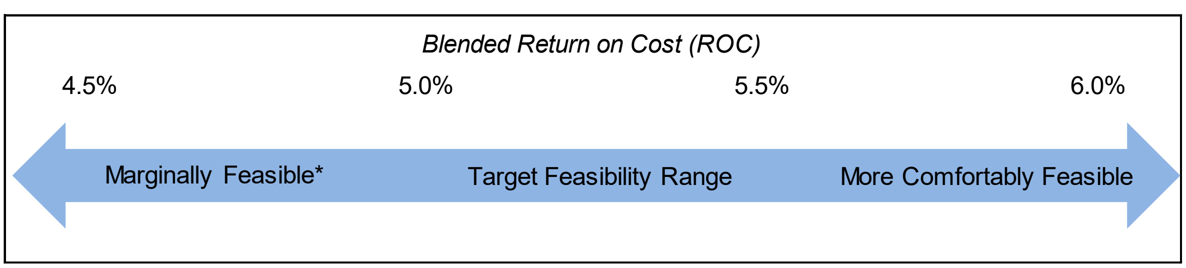
The Medium-High Density prototype is generally infeasible in the CBD under all scenarios, as was the case in the 2017 Study, because projects at this density (up to 27 du/ac) generally cannot support the higher cost of development sites within the CBD.

*Developer Return Metric*

Feasibility is evaluated based on a measure of profitability known as Return on Cost (ROC), which is the relationship, expressed as a percentage, between a project's projected net operating income (NOI) and the project's all-in development costs. If development returns fall within a target range of profitability, the project is considered generally feasible. If the returns fall below the target range of profitability, the project's feasibility is more difficult without some further improvement in economics. Based on current market conditions, the target ROC for AUD Program apartment projects is estimated in the range of 5.0% and 5.5%.

Projects generating a ROC in the target range of 5.0% to 5.5% are generally feasible, projects with a ROC between 4.9% and 5.0% are considered slightly marginal, projects with returns between 4.5% and 4.9% are marginal, and projects with returns below 4.5% are generally not feasible. Projects with marginal feasibility would require a moderate improvement in their economics to attain targeted return levels such as reduced land costs, higher rents, or moderation in construction costs. The graphic below provides an illustration of how the ROC findings are evaluated.

**CONTINUUM OF FEASIBILITY**




**Marginally feasible projects require moderate improvement in economics (e.g., lower land costs, continued rising rents, moderation of construction costs, etc.).*

Developer return thresholds are the same as applied for the 2017 Study based on data published by CBRE, Price Waterhouse Coopers, CoStar, and RERC indicating multifamily capitalization rates, which reflect the relationship between NOI and value, are generally stable versus a year ago.

The Tax Cut and Jobs Act of 2017 instituted changes to the federal tax code affecting real estate investments, including a 20% deduction on pass-through income for businesses other than C-corporations (including sole proprietors, LLCs and S-corporations). Shareholders in Real Estate Investment Trusts (REITs) may also benefit from the 20% deduction for applicable dividends. Applicability of the 20% deduction and the extent to which tax benefits are realized will depend on the specific circumstances, including whether taxable income is realized versus capital gains subject to separate tax treatment. All else being equal, the resulting increase in after-tax returns would be a positive factor expected to attract additional investment into real estate and place downward pressure on the threshold returns developers are seeking. Notwithstanding this potential effect, KMA’s review of multifamily capitalization rate trends, as described above, does not suggest return thresholds are materially different from the 2017 Study. Capitalization rates are influenced by a range of factors and it is possible that other factors such as rising interest rates or leveling-off in rent growth dampened the possible downward pressure on capitalization rates from more favorable tax treatment.

*Return on Cost Findings and Comparison to 2017 Study*

As shown in Table 2, the ROC findings of the feasibility update are very similar to the findings in 2017. Developer returns in scenarios with payment of either a $20 or $25 per square foot fee increased between .04% and .07% depending on the prototype. Developer returns with provision of 10% of units on-site at Moderate Income ranged from a decrease of .06% to an increase of .01% depending on the prototype. These changes do not suggest significant movement in feasibility conditions. Feasibility fundamentals improved very slightly, resulting in increased developer returns in the fee scenarios. With on-site affordable units, returns decreased slightly in two of three scenarios because Moderate Income rents were reduced to 100% of Area Median Income (AMI) from the 110% of AMI rents reflected in the 2017 Study. The change was made based on direction from City staff to better reflect existing City policy regarding establishment of rent levels for Moderate Income units as well as requirements reflected in the proposed ordinance.

**Table 2 – Net Change in Developer Return on Cost Compared to 2017 Study**

| | $20/SF Fee | $25/SF Fee | 10% Affordable Units at Moderate |
|---|---|---|---|
| **Feasibility Update ROC** | | | |
| Priority Housing Overlay | 5.19% | 5.14% | 5.12% |
| Medium-High Density (outside CBD) | 5.08% | 5.03% | 4.98% |
| Medium-High Density (CBD) | 3.66% | 3.64% | 3.57% |
| | | | |
| **2017 Study ROC** | | | |
| Priority Housing Overlay | 5.13% | 5.09% | 5.15% |
| Medium-High Density (outside CBD) | 5.04% | 4.99% | 5.04% |
| Medium-High Density (CBD) | 3.60% | 3.57% | 3.56% |
| | | | |
| **Net Change in ROC with Update** | | | |
| Priority Housing Overlay | (+) 0.06% | (+) 0.05% | (-) 0.03% |
| Medium-High Density (outside CBD) | (+) 0.04% | (+) 0.04% | (-) 0.06% |
| Medium-High Density (CBD) | (+) 0.06% | (+) 0.07% | (+) 0.01% |

The Medium-High Density prototype with a 10% on-site requirement shifted from a 5.04% ROC to a 4.98% ROC, a decrease of 0.06%. Although the decrease in return was small, it moved into the range considered to be “slightly marginal”. Since returns are only .02% below targeted levels, a minor adjustment would be sufficient to reach the 5% to 5.5% target range. For example, land cost estimates are imprecise because they are based on limited comparable sales data. If pro forma site acquisition cost estimates were adjusted from $170,000 per unit to $168,000 per unit, a decrease of about 1%, the Medium-High Density prototype would move into the target ROC range. Likewise, an increase in rent estimates of $10 per month is sufficient to reach the target return level. In consideration of the above, the slight shift in findings for the Medium-High Density prototype does not warrant modification of KMA’s recommendation to consider a 10% on-site requirement.

## C. Compliance with AB 1505

California State Assembly Bill 1505 (AB 1505) restored the ability of California cities to implement inclusionary housing requirements for rental developments, effective January 1, 2018. AB 1505 empowers the California Department of Housing and Community Development (HCD) to review inclusionary ordinances when certain conditions are met, including that the level of affordability required for rental units exceeds 15% of units at 80% or less of AMI. For ordinances subject to review, HCD may request an economic feasibility study to provide evidence that the ordinance does not unduly constrain the production of housing. The requirements, as recommended by KMA, would comply with AB 1505 in two ways:

(1) *Requirement is Below Threshold for HCD Review* – The recommended requirement of 10% does not exceed the 15% level at which the ordinance could potentially be subject to HCD review.

(2) *Requirement Will Not Unduly Constrain the Production of Housing* – The recommended 10% requirement is financially feasible for representative development projects in Santa Barbara based on the findings of this feasibility analysis update. Because the recommended requirement is financially feasible, it does not unduly constrain the production of housing. Therefore, although not subject to review by HCD, the ordinance would never-the-less satisfy the standard established in AB 1505.

## D. Updates to Pro Forma Analysis

A real estate feasibility analysis is a snapshot of real estate market conditions at a particular point in time. Development economics are fluid and impacted by constantly changing conditions regarding rents and sales prices, construction costs, land costs, and costs of financing. As such, KMA reviewed the inputs and assumptions for the development prototypes identified in the December 2017 Study to determine what updates needed to be made.

### *1. Prototype AUD Program Development Projects Analyzed*

The updated feasibility analysis is focused on two of the AUD Program prototype rental development projects analyzed in 2017, summarized in Table 3.

**Table 3 – AUD Program Prototype Projects**

| | Priority Overlay Prototype | Medium-High Density Prototype |
|---|---|---|
| Acres | 0.30 acres | 0.30 acres |
| Units | 17 units | 6 units |
| Density | 57 du/acre | 20 du/acre |
| Average Unit Size | 780 SF | 900 SF |

A third rental prototype addressed in 2017, High Density, was not re-analyzed for purposes of this update as it was deemed to be less representative of AUD Program developments and therefore less informative for purposes of affirming or revising the prior KMA recommendations. Areas with high-density zoning (28-36 du/acre) generally also have a Priority Overlay that allows density up to 63 units per acre. A review of development pipeline projects indicated only two AUD Program projects within the density range applicable to High Density zoning, one of which was approved under prior zoning and another includes a hotel that reduces the number of residential units that can be physically accommodated on the site.

As with the 2017 Study, two version of the Medium-High Density prototype were analyzed to address projects located inside and outside of the Central Business District (CBD), which has higher land costs.

Parking ratios reflect requirements specified by City staff for purposes of the updated analysis. Within the CBD, a requirement of one parking space per unit is assumed. For units outside of the CBD, the analysis reflects one space per unit of 700 square feet or less, 1.5 spaces for units over 700 square feet, and two spaces for units with three bedrooms.

The feasibility update is focused on rental projects because most projects proposed under the AUD Program are rentals and the proposed new AUD Program inclusionary requirement is specific to rentals. For-sale projects are subject to an existing City-wide inclusionary requirement.

### *2. Development Costs*

KMA reviewed the earlier estimates of all-in development costs (including land acquisition costs, direct construction costs, and all indirect costs of development) to identify necessary adjustments. The development cost estimates were adjusted as follows:

- Direct Costs were increased to reflect increases in construction costs since the prior analysis was prepared. Costs were increased approximately 6% for the Priority Overlay prototype and 8% for the Medium High Density prototype.
- Indirect costs calculated as a percent of direct costs were adjusted proportionate to the increase in direct costs described above.
- The interest rate for financing the development was increased from 4% to 5%.
- Site acquisition costs are unchanged from the prior analysis based upon our review of comparable sales. Updated land sales data is summarized in Table 4. Three new land sale transactions were identified (pink and marked with asterisk), of which two were identified in the 2017 Study as listings. The average land price per square foot reflected in the sales data decreased somewhat from the 2017 Study; however, due to the limited number of new sales and the fact that the

transactions are generally in the same range as prior data, no adjustment was made to the pro forma site acquisition cost assumptions.

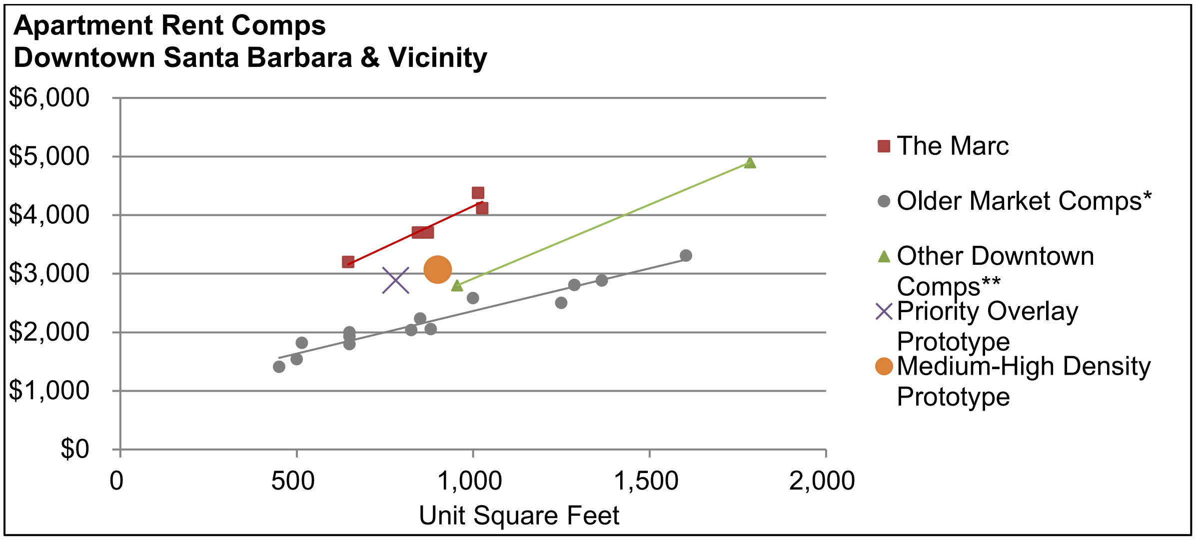
**Table 4 – Residential Land Sale Comparables, Santa Barbara AUD Program Projects**

| Location | Land SF | Acres | Units[(1)] | DU/Acre | Sale Date | Sale Price | $/Unit | $/SF |
|---|---|---|---|---|---|---|---|---|
| **Higher Density Projects** | | | | | | | | |
| 630 and 634 Anacapa Street | 21,190 | 0.49 | 30 | 61.7 | Jan-16 | $1,917,000 | $63,900 | $90 |
| 517 Chapala Street | 11,500 | 0.26 | 16 | 60.6 | May-16 | $2,100,000 | $131,250 | $183 |
| 421 E Haley Street* | 10,151 | 0.23 | 14 | 60.1 | Aug-18 | $1,275,000 | $91,071 | $126 |
| 320-322 E Cota Street* | 15,244 | 0.35 | 22 | 62.9 | Sep-17 | $2,620,000 | $119,091 | $172 |
| Averages | | | | | | | $101,328 | $143 |
| **Lower Density Projects** | | | | | | | | |
| 915 East Anapamu Street | 40,055 | 0.92 | 24 | 26.1 | Jan-16 | $2,950,000 | $122,917 | $74 |
| 217 S Voluntario Street* | 13,068 | 0.30 | 5 | 16.7 | Oct-17 | $1,150,000 | $230,000 | $88 |
| 2912-2916 De La Vina | 17,859 | 0.41 | 11 | 26.8 | Frmr. listing | $2,495,000 | $226,818 | $140 |
| Averages | | | | | | | $193,245 | $100 |
| **Older Comps** | | | | | | | | |
| 3885 State Street | 62,291 | 1.43 | 89 | 62.2 | Jan-14 | $7,600,000 | $85,393 | $122 |
| 604 East Cota Street | 20,670 | 0.47 | 29 | 61.1 | Jan-14 | $1,400,000 | $48,276 | $68 |
| 825 De La Vina Street | 14,793 | 0.34 | 21 | 61.8 | Sep-15 | $2,500,000 | $119,048 | $169 |
| 116 East Cota Street | 10,865 | 0.25 | 15 | 60.1 | Oct-15 | $855,000 | $57,000 | $79 |

**New transaction since 2017 Study.*
*[(1)] Number of units based on appraisal information or maximum density permitted.*
*Source: Property appraisals, public records, property listings.*

### *3. Market Rents*

KMA surveyed asking rents for the same specific apartment properties identified in the 2017 Study. As was the case in 2017, directly comparable rent data is limited due to the fact that few AUD Program projects have been completed. Most of the available rental units in Santa Barbara are in older buildings. The updated data is shown in the chart below.




<u>* Older Market Comps</u>
Hope Gardens (1964)
Hope Ranch (1965)
Country Club (1963)
Monterey Pines (1971)
La Colina Gardens (1968)

<u>** Other Downtown Comps</u>
Olive Street Lofts
121 De La Guerra

Overall, the market data suggests rents have increased approximately 5% since the earlier analysis was conducted. Updated market rents used for purposes of the pro forma are summarized in Table 5.

**Table 5 – Estimated Rents**

| | Average Size | Average Rent Per Unit | Average Rent Per Square Foot |
|---|---|---|---|
| Priority Overlay | 780 Square Feet | $2,890 / Mo. | $3.71 / SF / Mo. |
| Medium-High Density | 900 Square Feet | $3,070 / Mo. | $3.41 / SF / Mo. |

### *4. Affordable Rents*

KMA adjusted the calculation of Moderate Income affordable rents to be based on 100% of AMI based on input from City staff regarding existing City practice, rather than 110% AMI as reflected in the 2017 Study. KMA also updated the analysis to reflect the most recent income limits available from HCD for 2018. The net effect was a reduction in affordable rents to $1,665 per month for a 2-bedroom unit from $1,791 per month reflected in the 2017 Study.

### *5. Operating Expenses*

Operating expenses, excluding property taxes, were adjusted upward by $200 to $6,200 per unit per year. This adjustment was based on multifamily operating expense growth for Southern California per recent earnings reports for the publicly traded REITs, Essex and Equity Residential as well as published surveys by RERC and Price Waterhouse Coopers. Property tax estimates were updated to reflect updated development cost estimates.

### *6. Updated Pro Forma Results*

The pro formas for the affordable housing scenarios are included at the end of this memo. As described earlier, the analysis findings are identified in terms of ROC, a measure of profitability. ROC estimates are provided in Tables 6 and 7 under the following scenarios, consistent with the 2017 Study:

- No Affordable Housing Requirements (Base Case);
- Affordable Housing Fees of $20, $25, and $30 per square foot; and
- On-Site Affordable Housing of 5%, 10%, and 15% of units with rents set at Moderate Income.

**Table 6 – ROC for Rental Projects with Affordable Housing Fee**

| | No Affordable Housing | Affordable Housing Fee | | |
|---|---|---|---|---|
| | | @ $20/SF | @ $25/SF | @ $30/SF |
| *Target ROC for Feasibility* | | <----------------- | *~5.0 - 5.5%* | -----------------> |
| a) Priority Housing Overlay | 5.37% | 5.19% | 5.14% | 5.10% |
| b) Medium-High Density (outside CBD) | 5.27% | 5.08% | 5.03% | 4.98% |
| c) Medium-High Density (CBD) | 3.78% | 3.66% | 3.64% | 3.61% |

**Table 7 - ROC for Rental Projects with On-Site Moderate Income Units**

| | No Affordable Housing | On-Site Moderate Income Units | | |
|---|---|---|---|---|
| | | @ 5% | @ 10% | @ 15% |
| *Target ROC for Feasibility* | | <----------------- | *~5.0 - 5.5%* | -----------------> |
| a) Priority Housing Overlay | 5.37% | 5.25% | 5.12% | 4.99% |
| c) Medium-High Density (outside CBD) | 5.27% | 5.13% | 4.98% | 4.84% |
| d) Medium-High Density (CBD) | 3.78% | 3.68% | 3.57% | 3.47% |

**Note: due to the small size of AUD projects, a % on-site affordable requirement will result in less than one unit in some cases. Any on-site requirement would apply to projects in which at least one full affordable unit is triggered.*

As discussed previously, the above findings are very similar to the 2017 Study. The update does not indicate significant improvement or deterioration of feasibility conditions relative to the 2017 Study. Results generally support the prior KMA recommendations to consider a 10% on-site requirement for projects of 10 or more units and an affordable housing fee of about $20 per square foot for projects with fewer than 10 units.

With the update, ROC findings for a $25 per square foot fee now more closely approximate that of providing 10% affordable units on-site than does a $20 per square foot fee. This indicates that a $25 fee is more equivalent to a 10% on-site obligation than a $20 fee, a change from the 2017 Study that is partly explained by the adjustment to affordable rents from 110% of AMI to 100% of AMI. Both a $20 fee and a $25 fee are generally feasible. If the City is seeking equivalency between fees and the cost of on-site units, a higher fee level of $25 per square foot could be considered.

The 2017 Study also tested a range of alternatives regarding provision of parking which were not re-analyzed for purposes of this update. The updated analysis and feasibility findings reflect parking requirements specified by City staff, as described on page 7.

## E. Application of Requirements to Projects Under 10 Units in Size

Many AUD Program projects are less than 10 units in size, particularly Medium High Density projects. As of January 2019, there were a total of 41 Medium High Density projects adding a combined 169 units, for an average of just four units per project[1]. For smaller projects, it can be challenging to include affordable units on-site particularly because providing one affordable unit will represent more than 10% of the total (e.g. one affordable unit in a 4-unit project represents 25% of the total). Providing additional flexibility to smaller projects is common practice for inclusionary programs. KMA's recommendation to apply requirements to projects with fewer than 10 units but allow payment of an in-lieu fee is consistent with the existing City-wide inclusionary requirement, which applies to for-sale projects with two or more units and allows in-lieu fees for projects with fewer than 10 units. Applying in-lieu fees to projects with fewer than 10 units will result in the creation of additional affordable housing and avoids the scenario in which projects near the 10-unit threshold choose to remain just under 10 units to avoid the requirement. However, if the City has a policy preference to provide an added incentive to smaller AUD Program projects, an exemption could be considered instead. Or alternatively, in-lieu fees could be reduced for the smallest-sized projects and phased-in as projects approach the 10-unit threshold where on-site affordable units are required.

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[1] Based on City summary of Medium High Density of AUD Program projects as of January 9, 2019. Includes pending, approved, under construction and completed projects.

**Appendix Tables**

Appendix Table 1 – Pro Forma: Priority Housing Overlay Prototype
Appendix Table 2 – Pro Forma: Medium High Density Prototype (Outside CBD)
Appendix Table 3 – Pro Forma: Medium High Density Prototype (CBD)

**APPENDIX TABLE 1**
**Priority Housing Overlay Prototype**
**Santa Barbara AUD Program Feasibility Update**

| | | No Affordable Housing | | | Housing Impact Fee | | | On-Site Affordable Housing | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | All Market Rate | | | $20/SF Impact Fee | | | 10% at Moderate | | |
| **Development Program** | | | | | | | | | | |
| Site Size | | 0.30 acres | | | 0.30 acres | | | 0.30 acres | | |
| Units | | 17 units | | | 17 units | | | 17 units | | |
| Density | | 56.7 du/acre | | | 56.7 du/acre | | | 56.7 du/acre | | |
| Average Unit Size | | 780 sf | | | 780 sf | | | 780 sf | | |
| Unit Mix | | | | | | | | | | |
| Studio | | 2 units | | | 2 units | | | 2 units | | |
| 1-Bedroom | | 5 units | | | 5 units | | | 5 units | | |
| 2-Bedroom | | 8 units | | | 8 units | | | 8 units | | |
| 3-Bedroom | | 2 units | | | 2 units | | | 2 units | | |
| | | 17 units | | | 17 units | | | 17 units | | |
| Gross Building Area | | 17,825 sf | | | 17,825 sf | | | 17,825 sf | | |
| Net Residential Area | | 13,260 sf | | | 13,260 sf | | | 13,260 sf | | |
| Net Commercial Area | | 1,000 sf | | | 1,000 sf | | | 1,000 sf | | |
| Building Efficiency | | 80% efficiency | | | 80% efficiency | | | 80% efficiency | | |
| Residential Parking | | 17 spaces | | 1.00 | 17 spaces | | 1.00 | 17 spaces | | 1.00 |
| Commercial Parking | | 4 spaces | | | 4 spaces | | | 4 spaces | | |
| | | 21 spaces | | | 21 spaces | | | 21 spaces | | |
| Affordability | | | | | | | | | | |
| Market Rate Units | | 17 | 100% | | 17 | 100% | | 15.3 | 90% | |
| Moderate Income | | 0 | 0% | | 0 | 0% | | 1.7 | 10% | (1) |
| Total Units | | 17 | 100% | | 17 | 100% | | 17 | 100% | |
| **Development Costs** | | $/GSF | $/Unit | Total | $/GSF | $/Unit | Total | $/GSF | $/Unit | Total |
| Land Acquisition | $110,000 | $105 | $110,000 | $1,870,000 | $105 | $110,000 | $1,870,000 | $105 | $110,000 | $1,870,000 |
| Directs | | | | | | | | | | |
| Residential Directs | $215 | $215 | $225,412 | $3,832,000 | $215 | $225,412 | $3,832,000 | $215 | $225,412 | $3,832,000 |
| Parking Structure | $32,500 | $38 | $40,176 | $683,000 | $38 | $40,176 | $683,000 | $38 | $40,176 | $683,000 |
| Contingency (Directs) | 5.0% | $13 | $13,294 | $226,000 | $13 | $13,294 | $226,000 | $13 | $13,294 | $226,000 |
| Subtotal | | $266 | $278,882 | $4,741,000 | $266 | $278,882 | $4,741,000 | $266 | $278,882 | $4,741,000 |
| Indirects | | | | | | | | | | |
| A&E | | $12 | $12,529 | $213,000 | $12 | $12,529 | $213,000 | $12 | $12,529 | $213,000 |
| Affordable Housing Fee(2) | | $0 | $0 | $0 | $15 | $15,600 | $265,200 | Not applicable | | |
| Other Fees & Permits | $20 | $20 | $21,000 | $357,000 | $20 | $21,000 | $357,000 | $20 | $21,000 | $357,000 |
| Taxes, Insurance, Legal | | $8 | $8,235 | $140,000 | $8 | $8,235 | $140,000 | $8 | $8,235 | $140,000 |
| Sales & Marketing | | $8 | $8,824 | $150,000 | $8 | $8,824 | $150,000 | $8 | $8,824 | $150,000 |
| Overhead/Other Indirects | | $11 | $11,176 | $190,000 | $11 | $11,176 | $190,000 | $11 | $11,176 | $190,000 |
| Financing | 65% | $15 | $15,294 | $260,000 | $16 | $16,471 | $280,000 | $15 | $15,294 | $260,000 |
| Subtotal Indirects | | $73 | $77,059 | $1,310,000 | $89 | $93,835 | $1,595,200 | $73 | $77,059 | $1,310,000 |
| Total Development Costs | | $444 | $465,941 | $7,921,000 | $460 | $482,718 | $8,206,200 | $444 | $465,941 | $7,921,000 |
| **Operating Income** | | Units | Rent | Total Annual | Units | Rent | Total Annual | Units | Rent | Total Annual |
| Market Rate Units | | 17 | $2,890 | $589,560 | 17 | $2,890 | $589,560 | 15.3 | $2,890 | $530,604 |
| Moderate Income Units(3) | | 0 | $0 | $0 | 0 | $0 | $0 | 1.7 | $1,665 | $33,966 |
| Total | | 17 | $2,890 | $589,560 | 17 | $2,890 | $589,560 | 17 | $2,768 | $564,570 |
| Other Residential Income | | | | $20,400 | | | $20,400 | | | $20,400 |
| Commercial Income (NNN) | $36.00 | | | $36,000 | | | $36,000 | | | $36,000 |
| (Less) Residential Vacancy(4) | 5.0% | | | ($30,500) | | | ($30,500) | | | ($29,200) |
| (Less) Commercial Vacancy(4) | 10.0% | | | ($3,600) | | | ($3,600) | | | ($3,600) |
| Effective Gross Income | | | | $611,860 | | | $611,860 | | | $588,170 |
| (Less) Op Ex | $6,200 | | | ($105,400) | | | ($105,400) | | | ($105,400) |
| (Less) Property Taxes | | | | ($80,800) | | | ($80,800) | | | ($77,400) |
| NOI | | | | $425,660 | | | $425,660 | | | $405,370 |
| Return on Cost (ROC) | | | | 5.37% | | | 5.19% | | | 5.12% |

(1) For this analysis, on-site affordable housing is shown as a fractional unit. In reality, fractional units would be paid through a roughly equivalent housing fee.
(2) Affordable housing fee calculated against net rentable residential area.
(3) Affordable rent based on 2-bedroom unit.
(4) Vacancy rates include collection loss.

Prepared by: Keyser Marston Associates
Filename: \\SF-FS2\wp\19\19100\003\Santa Barbara PF 2.7.2019; Priority Rental

**APPENDIX TABLE 2**
**Medium-High Density Prototype (Outside CBD)**
**Santa Barbara AUD Program Feasibility Update**

| | | No Affordable Housing | | | Housing Impact Fee | | | On-Site Affordable Housing | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | All Market Rate | | | $20/SF Impact Fee | | | 10% at Moderate | | |
| **Development Program** | | | | | | | | | | |
| Site Size | | 0.30 acres | | | 0.30 acres | | | 0.30 acres | | |
| Units | | 6 units | | | 6 units | | | 6 units | | |
| Density | | 20.0 du/acre | | | 20.0 du/acre | | | 20.0 du/acre | | |
| Average Unit Size | | 900 sf | | | 900 sf | | | 900 sf | | |
| Unit Mix | | | | | | | | | | |
| Studio | | 0 units | | | 0 units | | | 0 units | | |
| 1-Bedroom | | 2 units | | | 2 units | | | 2 units | | |
| 2-Bedroom | | 3 units | | | 3 units | | | 3 units | | |
| 3-Bedroom | | 1 units | | | 1 units | | | 1 units | | |
| | | 6 units | | | 6 units | | | 6 units | | |
| Gross Building Area | | 6,750 sf | | | 6,750 sf | | | 6,750 sf | | |
| Net Residential Area | | 5,400 sf | | | 5,400 sf | | | 5,400 sf | | |
| Net Commercial Area | | 0 sf | | | 0 sf | | | 0 sf | | |
| Building Efficiency | | 80% efficiency | | | 80% efficiency | | | 80% efficiency | | |
| Residential Parking | | 9 spaces | | 1.50 | 9 spaces | | 1.50 | 9 spaces | | 1.50 |
| Commercial Parking | | 0 spaces | | | 0 spaces | | | 0 spaces | | |
| | | 9 spaces | | | 9 spaces | | | 9 spaces | | |
| Affordability | | | | | | | | | | |
| Market Rate Units | | 6 | 100% | | 6 | 100% | | 5.4 | 90% | |
| Moderate Income | | 0 | 0% | | 0 | 0% | | 0.6 | 10% | (1) |
| Total Units | | 6 | 100% | | 6 | 100% | | 6 | 100% | |
| **Development Costs** | | $/GSF | $/Unit | Total | $/GSF | $/Unit | Total | $/GSF | $/Unit | Total |
| Land Acquisition | $170,000 | $151 | $170,000 | $1,020,000 | $151 | $170,000 | $1,020,000 | $151 | $170,000 | $1,020,000 |
| Directs | | | | | | | | | | |
| Residential Directs | $190 | $190 | $213,833 | $1,283,000 | $190 | $213,833 | $1,283,000 | $190 | $213,833 | $1,283,000 |
| Parking | | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 |
| Contingency (Directs) | 5.0% | $9 | $10,667 | $64,000 | $9 | $10,667 | $64,000 | $9 | $10,667 | $64,000 |
| Subtotal | | $200 | $224,500 | $1,347,000 | $200 | $224,500 | $1,347,000 | $200 | $224,500 | $1,347,000 |
| Indirects | | | | | | | | | | |
| A&E | | $9 | $10,167 | $61,000 | $9 | $10,167 | $61,000 | $9 | $10,167 | $61,000 |
| Affordable Housing Fee(2) | | $0 | $0 | $0 | $16 | $18,000 | $108,000 | Not applicable | | |
| Other Fees & Permits | $20 | $20 | $22,500 | $135,000 | $20 | $22,500 | $135,000 | $20 | $22,500 | $135,000 |
| Taxes, Insurance, Legal | | $6 | $6,667 | $40,000 | $6 | $6,667 | $40,000 | $6 | $6,667 | $40,000 |
| Sales & Marketing | | $7 | $8,333 | $50,000 | $7 | $8,333 | $50,000 | $7 | $8,333 | $50,000 |
| Overhead/Other Indirects | | $7 | $8,333 | $50,000 | $7 | $8,333 | $50,000 | $7 | $8,333 | $50,000 |
| Financing | 65% | $15 | $16,667 | $100,000 | $15 | $16,667 | $100,000 | $15 | $16,667 | $100,000 |
| Subtotal Indirects | | $65 | $72,667 | $436,000 | $81 | $90,667 | $544,000 | $65 | $72,667 | $436,000 |
| Total Development Costs | | $415 | $467,167 | $2,803,000 | $431 | $485,167 | $2,911,000 | $415 | $467,167 | $2,803,000 |
| **Operating Income** | | Units | Rent | Total Annual | Units | Rent | Total Annual | Units | Rent | Total Annual |
| Market Rate Units | | 6 | $3,070 | $221,040 | 6 | $3,070 | $221,040 | 5.4 | $3,070 | $198,936 |
| Moderate Income Units(3) | | 0 | $0 | $0 | 0 | $0 | $0 | 0.6 | $1,665 | $11,988 |
| Total | | 6 | $3,070 | $221,040 | 6 | $3,070 | $221,040 | 6.0 | $2,930 | $210,924 |
| Other Residential Income | | $0 | parking | $7,200 | | | $7,200 | | | $7,200 |
| Commercial Income (NNN) | $36.00 | | | $0 | | | $0 | | | $0 |
| (Less) Residential Vacancy(4) | 5.0% | | | ($11,400) | | | ($11,400) | | | ($10,900) |
| (Less) Commercial Vacancy(4) | 10.0% | | | $0 | | | $0 | | | $0 |
| Effective Gross Income | | | | $216,840 | | | $216,840 | | | $207,224 |
| (Less) Op Ex | $6,200 | | | ($37,200) | | | ($37,200) | | | ($37,200) |
| (Less) Property Taxes | | | | ($31,900) | | | ($31,900) | | | ($30,400) |
| NOI | | | | $147,740 | | | $147,740 | | | $139,624 |
| Return on Cost (ROC) | | | | 5.27% | | | 5.08% | | | 4.98% |

(1) For this analysis, on-site affordable housing is shown as a fractional unit. In reality, fractional units would be paid through a roughly equivalent housing fee.
(2) Affordable housing fee calculated against net rentable residential area.
(3) Affordable rent based on 2-bedroom unit.
(4) Vacancy rates include collection loss.

**APPENDIX TABLE 3**
**Medium-High Density Prototype (CBD)**
**Santa Barbara AUD Program Feasibility Update**

| | | No Affordable Housing | | | Housing Impact Fee | | | On-Site Affordable Housing | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | All Market Rate | | | $20/SF Impact Fee | | | 10% at Moderate | | |
| **Development Program** | | | | | | | | | | |
| Site Size | | 0.30 acres | | | 0.30 acres | | | 0.30 acres | | |
| Units | | 6 units | | | 6 units | | | 6 units | | |
| Density | | 20.0 du/acre | | | 20.0 du/acre | | | 20.0 du/acre | | |
| Average Unit Size | | 900 sf | | | 900 sf | | | 900 sf | | |
| Unit Mix | | | | | | | | | | |
| Studio | | 0 units | | | 0 units | | | 0 units | | |
| 1-Bedroom | | 2 units | | | 2 units | | | 2 units | | |
| 2-Bedroom | | 3 units | | | 3 units | | | 3 units | | |
| 3-Bedroom | | 1 units | | | 1 units | | | 1 units | | |
| | | 6 units | | | 6 units | | | 6 units | | |
| Gross Building Area | | 6,750 sf | | | 6,750 sf | | | 6,750 sf | | |
| Net Residential Area | | 5,400 sf | | | 5,400 sf | | | 5,400 sf | | |
| Net Commercial Area | | 0 sf | | | 0 sf | | | 0 sf | | |
| Building Efficiency | | 80% efficiency | | | 80% efficiency | | | 80% efficiency | | |
| Residential Parking | | 6 spaces | | 1.00 | 6 spaces | | 1.00 | 6 spaces | | 1.00 |
| Commercial Parking | | 0 spaces | | | 0 spaces | | | 0 spaces | | |
| | | 6 spaces | | | 6 spaces | | | 6 spaces | | |
| Affordability | | | | | | | | | | |
| Market Rate Units | | 6 | 100% | | 6 | 100% | | 5.4 | 90% | |
| Moderate Income | | 0 | 0% | | 0 | 0% | | 0.6 | 10% | (1) |
| Total Units | | 6 | 100% | | 6 | 100% | | 6 | 100% | |
| **Development Costs** | | $/GSF | $/Unit | Total | $/GSF | $/Unit | Total | $/GSF | $/Unit | Total |
| Land Acquisition(2) | | $277 | $311,667 | $1,870,000 | $277 | $311,667 | $1,870,000 | $277 | $311,667 | $1,870,000 |
| Directs | | | | | | | | | | |
| Residential Directs | $190 | $190 | $213,833 | $1,283,000 | $190 | $213,833 | $1,283,000 | $190 | $213,833 | $1,283,000 |
| Parking Structure | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 |
| Contingency (Directs) | 5.0% | $9 | $10,667 | $64,000 | $9 | $10,667 | $64,000 | $9 | $10,667 | $64,000 |
| Subtotal | | $200 | $224,500 | $1,347,000 | $200 | $224,500 | $1,347,000 | $200 | $224,500 | $1,347,000 |
| Indirects | | | | | | | | | | |
| A&E | | $9 | $10,167 | $61,000 | $9 | $10,167 | $61,000 | $9 | $10,167 | $61,000 |
| Affordable Housing Fee(3) | | $0 | $0 | $0 | $16 | $18,000 | $108,000 | | Not applicable | |
| Other Fees & Permits | $20 | $20 | $22,500 | $135,000 | $20 | $22,500 | $135,000 | $20 | $22,500 | $135,000 |
| Taxes, Insurance, Legal | | $6 | $6,667 | $40,000 | $6 | $6,667 | $40,000 | $6 | $6,667 | $40,000 |
| Sales & Marketing | | $7 | $8,333 | $50,000 | $7 | $8,333 | $50,000 | $7 | $8,333 | $50,000 |
| Overhead/Other Indirects | | $7 | $8,333 | $50,000 | $7 | $8,333 | $50,000 | $7 | $8,333 | $50,000 |
| Financing | 65% | $18 | $20,000 | $120,000 | $19 | $21,667 | $130,000 | $18 | $20,000 | $120,000 |
| Subtotal Indirects | | $68 | $76,000 | $456,000 | $85 | $95,667 | $574,000 | $68 | $76,000 | $456,000 |
| Total Development Costs | | $544 | $612,167 | $3,673,000 | $562 | $631,833 | $3,791,000 | $544 | $612,167 | $3,673,000 |
| **Operating Income** | | Units | Rent | Total Annual | Units | Rent | Total Annual | Units | Rent | Total Annual |
| Market Rate Units | | 6 | $3,070 | $221,040 | 6 | $3,070 | $221,040 | 5.4 | $3,070 | $198,936 |
| Moderate Income Units(4) | | 0 | $0 | $0 | 0 | $0 | $0 | 0.6 | $1,665 | $11,988 |
| Total | | 6 | $3,070 | $221,040 | 6 | $3,070 | $221,040 | 6.0 | $2,930 | $210,924 |
| Other Residential Income | | | | $7,200 | | | $7,200 | | | $7,200 |
| Commercial Income (NNN) | $36.00 | | | $0 | | | $0 | | | $0 |
| (Less) Residential Vacancy(5) | 5.0% | | | ($11,400) | | | ($11,400) | | | ($10,900) |
| (Less) Commercial Vacancy(5) | 10.0% | | | $0 | | | $0 | | | $0 |
| Effective Gross Income | | | | $216,840 | | | $216,840 | | | $207,224 |
| (Less) Op Ex | $6,200 | | | ($37,200) | | | ($37,200) | | | ($37,200) |
| (Less) Property Taxes | | | | ($40,700) | | | ($40,700) | | | ($38,800) |
| NOI | | | | $138,940 | | | $138,940 | | | $131,224 |
| Return on Cost (ROC) | | | | 3.78% | | | 3.66% | | | 3.57% |

(1) For this analysis, on-site affordable housing is shown as a fractional unit. In reality, fractional units would be paid through a roughly equivalent housing fee.
(2) Assumes Medium-High density land values in the CBD are similar to higher density land values due to the CBD location.
(3) Affordable housing fee calculated against net rentable residential area.
(4) Affordable rent based on 2-bedroom unit.
(5) Vacancy rates include collection loss.

Prepared by: Keyser Marston Associates
Filename: \\SF-FS2\wp\19\19100\003\Santa Barbara PF 2.7.2019; Med-High CBD Rental