



KEYSER MARSTON ASSOCIATES
ADVISORS IN PUBLIC/PRIVATE REAL ESTATE DEVELOPMENT

ADVISORS IN:
REAL ESTATE
REDEVELOPMENT
AFFORDABLE HOUSING
ECONOMIC DEVELOPMENT

MEMORANDUM

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To: Ms. Amy Benjamin, Program Analyst
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From: KEYSER MARSTON ASSOCIATES, INC.

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Date: July 24, 2007

Subject: Economic Impact Analysis
Affordable Housing Density Bonus Regulations

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I. INTRODUCTION

A. Objective

Per your request, Keyser Marston Associates, Inc. (KMA) has undertaken an economic impact analysis of a proposed amendment to the City of San Diego's (City's) affordable housing density bonus ordinance.

The State of California requires cities to grant density bonuses to residential developments if a portion of the development is restricted to specific affordability levels. The City is considering amending their density bonus ordinance to increase the density bonus for moderate for-sale housing from the State-mandated minimum of 5% to 20%, provided that 10% of total pre-density units are affordable to moderate-income households.

The San Diego Housing Commission (Commission) requested that KMA evaluate the economic impact of various levels of increase in the density bonus for moderate-income for-sale housing.

B. Report Organization

This report is organized as follows:

- Section II presents KMA’s key findings.
- Section III presents the KMA method of analysis.
- Section IV specifies the limiting conditions pertaining to this report.
- Data tables and technical analyses are presented in the attachments.

II. KEY FINDINGS

A. Economic Impact Analysis of Alternative Density Bonus Scenarios

Description of Development Scenarios Tested

As part of the KMA economic analysis, KMA developed a base case example for a for-sale multi-family market-rate residential development. The base case example was used as a prototype on which to test the impact of various density bonus scenarios. The following table summarizes the various density bonus scenarios tested:

	Percent Moderate-Income	Density Bonus	Density (Units/Acre)	Number of Units		
				Affordable	Market-Rate	Total
Base Case	0%	0%	45.0	0	45	45
Scenario 1	10%	5%	47.3	5	42	47
Scenario 2	10%	10%	49.5	5	44	49
Scenario 3	10%	15%	51.8	5	46	51
Scenario 4	10%	20%	54.0	5	49	54

For each scenario, KMA assumed 10% of pre-bonus units (5 units) are affordable to moderate-income households. The State of California Density Bonus Law (California Government Code Section 65915) allows the maximum moderate-income sale price to be calculated based on an income limit of 110% of Area Median Income (AMI). The

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KMA economic analysis, however, assumed a maximum moderate-income sales price at 100% AMI, consistent with parameters set forth in the City of San Diego Inclusionary Housing Ordinance for affordable for-sale housing.

Based on the foregoing, KMA estimated the maximum sales price for a two bedroom moderate-income unit at 100% AMI to be \$183,000.

The KMA economic analysis is reflective of a generic development in an unspecified location. Therefore, the KMA analysis does not evaluate the impact of concessions or incentives which are also available to multi-family residential developers if at least 10% of pre-bonus units are affordable to moderate-income households.

Developer Profit Under Alternative Density Bonus Scenarios

As shown in the attached Summary Table and summarized below, the impact of allowing only the State-mandated minimum density bonus of 5% is estimated to *reduce* the developer's profit by 1.1% of project value. KMA found that as the density bonus increased, developer profit experienced a marginal to small increase. As such, the granting of a 20% density bonus, as proposed by the City, is estimated to increase the developer profit by 1.7% of project value.

	Percent Moderate-Income	Density Bonus	Indicated Developer Profit (% of Project Value)	Impact Relative to Base Case	
				% of Value	Per Unit
Base Case	0%	0%	7.6%	N/A	N/A
Scenario 1	10%	5%	6.5%	(1.1%)	(\$5,100)
Scenario 2	10%	10%	7.3%	(0.4%)	(\$700)
Scenario 3	10%	15%	8.0%	0.4%	\$3,700
Scenario 4	10%	20%	9.3%	1.7%	\$10,400

The KMA estimate of economic impact does not include other considerations such as:

- The potential increase in construction costs due to change in construction type or the need for additional parking; and

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- Additional risks incurred by the developer due to the obligation to qualify moderate-income homebuyers.

These considerations may further affect the feasibility of multi-family for-sale developments using the moderate-income density bonus.

B. Feasibility of the Moderate-Income Density Bonus

It is the KMA finding that the moderate-income density bonus program as defined in the State of California Density Bonus Law is not sufficient to encourage San Diego developers of market-rate multi-family for-sale residential developments to include moderate-income units. The KMA finding is based on the following:

- State Density Bonus Law limits the number of market-rate units developed regardless of the amount of additional density granted.
- Each moderate-income unit requires financial assistance in addition to the “free land” provided by the density bonus.
- Market-rate developers are likely to perceive payment of the City of San Diego inclusionary housing in-lieu fee as the least risky and most certain course of action.

These factors are discussed in further detail below.

State Density Bonus Law Sliding Scale

State Density Bonus Law allows developments to qualify for a density bonus based on a sliding scale. The sliding scale allows for density to increase from a minimum of 5% for a development with 10% moderate-income units, to a maximum of 35% for a development with 40% moderate-income units.

The following table presents an illustrative example of the sliding scale used by State Density Bonus Law. For purposes of clarity, the example assumes a development with a base case maximum density of 100 units.

Percent Moderate-Income	State Density Bonus	Number of Units		
		Market-Rate	Affordable	Total
0%	0%	100	0	100
10%	5%	95	10	105
15%	10%	95	15	110
20%	15%	95	20	115
25%	20%	95	25	120
30%	25%	95	30	125
35%	30%	95	35	130
40%	35%	95	40	135

As shown above, regardless of the increased density allowed, the number of market-rate units permitted within a development remains unchanged at 95 units. As such, when considering whether or not to apply for a density bonus, the developer faces two choices:

- (1) Develop 100 market-rate units and pay the current City of San Diego inclusionary housing in-lieu fee of \$7.31 per square foot (SF); or
- (2) Develop 95 market-rate units and develop between 10 and 40 moderate-income units.

Financial Assistance Required for Moderate-Income Units

Developers in San Diego County contemplating building moderate-income units must consider that the moderate-income price restrictions fall well below the cost to produce a multi-family residential unit, even before considering the cost of land. As indicated above, the KMA economic analysis estimates the maximum price for a two-bedroom unit for a household at 100% AMI to be \$183,000. KMA estimates that the cost to develop that same unit is \$313,000, exclusive of land cost. As shown below, the difference between \$313,000 and \$183,000 reflects the required financial assistance needed for each moderate-income unit developed:

Maximum Unit Price – 100% AMI	\$183,000
(Less) Development Costs Per Unit (excluding land)	<u>(\$313,000)</u>
Financial Assistance Required per Moderate-Income Unit (in addition to free land)	\$130,000

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Therefore, if a developer chooses to request a density bonus, they potentially lose the opportunity to develop five market-rate units as well as experience a financial loss of \$130,000 on each moderate-income unit. This analysis assumes that the developer does not derive any marginal cost savings as a result of the larger project.

The financial loss associated with the moderate-income density bonus in State Density Bonus Law is confirmed by the KMA economic analysis. The KMA analysis found that a density bonus of 5% to 10% resulted in a reduction in developer return, while a density bonus of 15% to 20% resulted in a marginal to small increase in return.

Additional Considerations

There are a number of issues requiring further consideration by a developer contemplating the use of the moderate-income density bonus. These issues include:

- The potential for a disproportionate increase in construction costs due to change in construction type and/or the need for additional parking.
- Additional risks incurred by the developer due to the obligation to qualify moderate-income homebuyers.

As a result of these additional considerations, an effective density bonus program will likely need to generate a slightly higher return to the developer than the base case in order to incentivize developers to use the program.

As indicated above, KMA did not evaluate the impact of concessions or incentives which are available to multi-family residential developments using a moderate-income density bonus. These incentives and concessions may offset the economic impact of the additional considerations noted above.

III. METHOD OF ANALYSIS

The key inputs and assumptions used in the KMA economic analysis are as follows:

Table 1 – Project Description

Table 1 provides a description of each of the scenarios tested. Key assumptions used in preparing the Base Case Scenario include:

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Site Area	1.0 Acre
Allowable Density	45 units per acre
Construction Type	Type V – wood frame stacked flats over podium parking
Number of Units	45 market-rate units
Average Unit Size	1,000 SF
Parking Ratio	2.0 spaces per unit

Table 2 – Development Costs

Table 2 identifies the development cost assumptions used for each of the density bonus scenarios. Key assumptions used by KMA in estimating development costs are as follows:

Acquisition Costs	\$50 per SF site area
Parking	\$25,000 per space
Shell Construction	\$130 per SF gross building area
Indirect Costs	28%-33% of direct costs
Financing Costs	11%-12% of direct costs

Table 3 – Estimate of Affordable Price

Table 3 calculates the maximum unit price for a two bedroom unit at 100% AMI. Key assumptions used in determining the maximum price include:

Maximum household income at 100% AMI	\$62,450
Income allocation to housing	35%
Property tax rate	1.15%
HOA dues	\$3,600 per year
Mortgage interest rate	7.0%
Down payment	5.0%

Table 4 – Project Value / Indicated Developer Profit

Table 4 presents an estimate of gross sales proceeds and resulting developer profit for each scenario. Project value was calculated assuming moderate-income units priced at the maximum unit price of \$183,000 and market-rate units priced at \$425 per square foot, or \$425,000 per unit.

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Developer profit was estimated based on the difference between gross sales proceeds less the sum of total development costs and cost of sale.

IV. LIMITING CONDITIONS

1. Keyser Marston Associates, Inc. (KMA) has made extensive efforts to confirm the accuracy and timeliness of the information contained in this document. Such information was compiled from a variety of sources deemed to be reliable including state and local government, planning agencies, and other third parties. Although KMA believes all information in this document is correct, it does not guarantee the accuracy of such and assumes no responsibility for inaccuracies in the information provided by third parties. Further, no guarantee is made as to the possible effect on development of current or future federal, state, or local legislation including environmental or ecological matters.
2. The accompanying projections and analyses are based on estimates and assumptions which were developed using currently available economic data, project specific data and other relevant information. It is the nature of forecasting, however, that some assumptions may not materialize and unanticipated events and circumstances may occur. Such changes are likely to be material to the projections and conclusions herein and, if they occur, require review or revision of this document.
3. The analysis assumes that neither the local nor national economy will experience a major recession. If an unforeseen change occurs in the economy, the conclusions contained herein may no longer be valid.
4. The findings are based on economic rather than political considerations. Therefore, they should be construed neither as a representation nor opinion that government approvals for development can be secured.
5. Development opportunities are assumed to be achievable during the specified time frame. A change in development schedule requires that the conclusions contained herein be reviewed for validity.
6. The analysis, opinions, recommendations and conclusions of this document are KMA's informed judgment based on market and economic conditions as of the date of this report. Due to the volatility of market conditions and complex dynamics influencing the economic conditions of the building and development industry,

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conclusions and recommended actions contained herein should not be relied upon as sole input for final business decisions regarding current and future development and planning.

7. Any estimates of development costs, capitalization rates, income and/or expense projections are based on the best available project-specific data as well as the experiences of similar projects. They are not intended to be projections of the future for the specific project. No warranty or representation is made that any of the estimates or projections will actually materialize.

attachments

SUMMARY TABLE

**ECONOMIC IMPACT ANALYSIS - PROPOSED DENSITY BONUS REGULATIONS
SAN DIEGO HOUSING COMMISSION**

	Base Case	Scenario 1 5% Density Bonus	Scenario 2 10% Density Bonus	Scenario 3 15% Density Bonus	Scenario 4 20% Density Bonus
I. Project Description					
Site Size (SF)	43,560 SF	43,560 SF	43,560 SF	43,560 SF	43,560 SF
Density (Units/Acre)	45.0 Units/Acre	47.3 Units/Acre	49.5 Units/Acre	51.8 Units/Acre	54.0 Units/Acre
Affordable Units	0 Units	5 Units	5 Units	5 Units	5 Units
Market-Rate Units	<u>45</u> Units	<u>42</u> Units	<u>44</u> Units	<u>46</u> Units	<u>49</u> Units
Total Units	45 Units	47 Units	49 Units	51 Units	54 Units
II. Indicated Developer Profit					
% of Cost	8.5%	7.2%	8.1%	9.0%	10.6%
% of Value	7.6%	6.5%	7.3%	8.0%	9.3%
III. Economic Impact Relative to Base Case					
Per Unit		(\$5,100)	(\$700)	\$3,700	\$10,400
% of Cost	n/a	-1.4%	-0.4%	0.5%	2.1%
% of Value		-1.1%	-0.4%	0.4%	1.7%

TABLE 1

**PROJECT DESCRIPTION
ECONOMIC IMPACT ANALYSIS - PROPOSED DENSITY BONUS REGULATIONS
SAN DIEGO HOUSING COMMISSION**

	Base Case Scenario			Scenario 1 5% Density Bonus			Scenario 2 10% Density Bonus		
I. Site Area	43,560 SF	1.00 Acres		43,560 SF	1.00 Acres		43,560 SF	1.00 Acres	
II. Project Description	Type V Stacked Flats over Podium Parking			Type V Stacked Flats over Podium Parking			Type V Stacked Flats over Podium Parking		
III. Allowable Density	45.0 Units/Acre			47.3 Units/Acre			49.5 Units/Acre		
IV. Number of Units/Unit Mix									
Condominiums - Affordable	0 Units	0%	800 SF	5 Units	11%	800 SF	5 Units	10%	800 SF
Condominiums - Market-Rate	45 Units	100%	1,000 SF	42 Units	89%	1,000 SF	44 Units	90%	1,000 SF
Total/Average	45 Units	100%	1,000 SF	47 Units	100%	979 SF	49 Units	100%	980 SF
V. Gross Building Area									
Residential Area	45,000 SF	85%		46,000 SF	85%		48,000 SF	85%	
Common Area/Circulation	7,900 SF	15%		8,100 SF	15%		8,500 SF	15%	
Total Residential Area	52,900 SF	100%		54,100 SF	100%		56,500 SF	100%	
Floor Area Ratio (FAR)	1.2			1.2			1.3		
VI. Parking									
<u>Residential Parking</u>									
Parking Ratio	2.0 Spaces/Unit			2.0 Spaces/Unit			2.0 Spaces/Unit		
Number of Spaces	90 Spaces			94 Spaces			98 Spaces		

TABLE 1 (CONT'D.)

**PROJECT DESCRIPTION
ECONOMIC IMPACT ANALYSIS - PROPOSED DENSITY BONUS REGULATIONS
SAN DIEGO HOUSING COMMISSION**

	Scenario 3 15% Density Bonus			Scenario 4 20% Density Bonus		
I. Site Area	43,560 SF	1.00 SF		43,560 SF	1.00 Acres	
II. Project Description	Type V Stacked Flats over Podium Parking			Type V Stacked Flats over Podium Parking		
III. Allowable Density	51.8 Units/Acre			54.0 Units/Acre		
IV. Number of Units/Unit Mix						
Condominiums - Affordable	5 Units	10%	800 SF	5 Units	9%	800 SF
Condominiums - Market-Rate	<u>46</u> Units	<u>90%</u>	<u>1,000</u> SF	<u>49</u> Units	<u>91%</u>	<u>1,000</u> SF
Total/Average	51 Units	100%	980 SF	54 Units	100%	981 SF
V. Gross Building Area						
Residential Area	50,000 SF	85%		53,000 SF	85%	
Common Area/Circulation	<u>8,800</u> SF	<u>15%</u>		<u>9,000</u> SF	<u>15%</u>	
Total Residential Area	58,800 SF	100%		62,000 SF	100%	
Floor Area Ratio (FAR)	1.3			1.4		
VI. Parking						
<u>Residential Parking</u>						
Parking Ratio	2.0 Spaces/Unit			2.0 Spaces/Unit		
Number of Spaces	102 Spaces			108 Spaces		

TABLE 2

**DEVELOPMENT COSTS
ECONOMIC IMPACT ANALYSIS - PROPOSED DENSITY BONUS REGULATIONS
SAN DIEGO HOUSING COMMISSION**

	Base Case Scenario			Scenario 1 5% Density Bonus			Scenario 2 10% Density Bonus		
	Totals	Per Unit	Comments	Totals	Per Unit	Comments	Totals	Per Unit	Comments
I. Direct Costs (1)									
Off-Site Improvements	\$0	\$0	\$0 Per SF Site Area	\$0	\$0	\$0 Per SF Site Area	\$0	\$0	\$0 Per SF Site Area
On-Sites/Landscaping	\$436,000	\$9,700	\$10 Per SF Site Area	\$436,000	\$9,300	\$10 Per SF Site Area	\$436,000	\$8,898	\$10 Per SF Site Area
Parking	\$2,250,000	\$50,000	\$25,000 Per Space	\$2,350,000	\$50,000	\$25,000 Per Space	\$2,450,000	\$50,000	\$25,000 Per Space
Shell Construction	\$6,877,000	\$152,800	\$130 Per SF GBA	\$7,033,000	\$149,600	\$130 Per SF GBA	\$7,345,000	\$149,898	\$130 Per SF GBA
FF&E/Amenities	\$225,000	\$5,000	Allowance	\$235,000	\$5,000	Allowance	\$245,000	\$5,000	Allowance
Contingency	\$489,000	\$10,900	5.0% of Directs	\$503,000	\$10,700	5.0% of Directs	\$524,000	\$10,694	5.0% of Directs
Total Direct Costs	\$10,277,000	\$228,400	\$194 Per SF GBA	\$10,557,000	\$224,600	\$195 Per SF GBA	\$11,000,000	\$224,490	\$195 Per SF GBA
II. Indirect Costs									
Architecture & Engineering	\$514,000	\$11,400	5.0% of Directs	\$528,000	\$11,200	5.0% of Directs	\$550,000	\$11,224	5.0% of Directs
Permits & Fees (2)	\$794,000	\$17,600	\$15 Per SF GBA	\$812,000	\$17,300	\$15 Per SF GBA	\$848,000	\$17,306	\$15 Per SF GBA
Inclusionary In-Lieu Fee	\$387,000	\$8,600	\$7.31 Per SF GBA	\$0	\$0	\$0 Per SF GBA	\$0	\$0	\$0 Per SF GBA
Legal & Accounting	\$103,000	\$2,300	1.0% of Directs	\$106,000	\$2,300	1.0% of Directs	\$110,000	\$2,245	1.0% of Directs
Taxes & Insurance	\$574,000	\$12,800	3.0% of Value	\$563,000	\$12,000	3.0% of Value	\$588,000	\$12,000	3.0% of Value
Developer Fee	\$308,000	\$6,800	3.0% of Directs	\$317,000	\$6,700	3.0% of Directs	\$330,000	\$6,735	3.0% of Directs
Marketing/Sales	\$574,000	\$12,800	3.0% of Value	\$563,000	\$12,000	3.0% of Value	\$588,000	\$12,000	3.0% of Value
Contingency	\$163,000	\$3,600	5.0% of Indirects	\$144,000	\$3,100	5.0% of Indirects	\$151,000	\$3,082	5.0% of Indirects
Total Indirect Costs	\$3,417,000	\$75,900	33.2% of Directs	\$3,033,000	\$64,500	28.7% of Directs	\$3,165,000	\$64,592	28.8% of Directs
III. Financing Costs (3)									
Loan Fees	\$137,000	\$3,000	1.3% of Directs	\$136,000	\$2,900	1.3% of Directs	\$141,000	\$2,878	1.3% of Directs
Interest During Construction	\$862,000	\$19,200	8.4% of Directs	\$856,000	\$18,200	8.1% of Directs	\$887,000	\$18,102	8.1% of Directs
Interest During Sales	\$191,000	\$4,200	1.9% of Directs	\$190,000	\$4,000	1.8% of Directs	\$197,000	\$4,020	1.8% of Directs
HOA Dues on Unsold Units	\$32,000	\$700	0.3% of Directs	\$34,000	\$700	0.3% of Directs	\$35,000	\$714	0.3% of Directs
Total Financing Costs	\$1,222,000	\$27,200	11.9% of Directs	\$1,216,000	\$25,900	11.5% of Directs	\$1,260,000	\$25,714	11.5% of Directs
IV. Total Development Costs w/o Land	\$14,916,000	\$331,500	\$282 Per SF GBA	\$14,806,000	\$315,000	\$274 Per SF GBA	\$15,425,000	\$314,796	\$273 Per SF GBA
V. Acquisition Costs	\$2,178,000	\$48,400	\$50 Per SF Site Area	\$2,178,000	\$46,300	\$50 Per SF Site Area	\$2,178,000	\$44,449	\$50 Per SF Site Area
VI. Total Development Costs w/Land	\$17,094,000	\$379,900	\$323 Per SF GBA	\$16,984,000	\$361,400	\$314 Per SF GBA	\$17,603,000	\$359,245	\$312 Per SF GBA

(1) Does not assume payment of prevailing wages.

(2) Estimate. Not verified by KMA or San Diego Housing Commission (SDHC).

(3) Financing costs estimated assuming interest rate of 7.0%, construction period of 18 months, and homeowners association (HOA) dues of \$300 per month.

TABLE 2 (CONT'D.)

**DEVELOPMENT COSTS
ECONOMIC IMPACT ANALYSIS - PROPOSED DENSITY BONUS REGULATIONS
SAN DIEGO HOUSING COMMISSION**

	Scenario 3 15% Density Bonus			Scenario 4 20% Density Bonus		
	Totals	Per Unit	Comments	Totals	Per Unit	Comments
I. Direct Costs (1)						
Off-Site Improvements	\$0	\$0	\$0 Per SF Site Area	\$0	\$0	\$0 Per SF Site Area
On-Sites/Landscaping	\$436,000	\$8,549	\$10 Per SF Site Area	\$436,000	\$8,100	\$10 Per SF Site Area
Parking	\$2,550,000	\$50,000	\$25,000 Per Space	\$2,700,000	\$50,000	\$25,000 Per Space
Shell Construction	\$7,644,000	\$149,882	\$130 Per SF GBA	\$8,060,000	\$149,300	\$130 Per SF GBA
FF&E/Amenities	\$255,000	\$5,000	Allowance	\$270,000	\$5,000	Allowance
Contingency	\$544,000	\$10,667	5.0% of Directs	\$573,000	\$10,600	5.0% of Directs
Total Direct Costs	\$11,429,000	\$224,098	\$194 Per SF GBA	\$12,039,000	\$222,900	\$194 Per SF GBA
II. Indirect Costs						
Architecture & Engineering	\$571,000	\$11,196	5.0% of Directs	\$602,000	\$11,100	5.0% of Directs
Permits & Fees (2)	\$882,000	\$17,294	\$15 Per SF GBA	\$930,000	\$17,200	\$15 Per SF GBA
Inclusionary In-Lieu Fee	\$0	\$0	\$0 Per SF GBA	\$0	\$0	\$0 Per SF GBA
Legal & Accounting	\$114,000	\$2,235	1.0% of Directs	\$120,000	\$2,200	1.0% of Directs
Taxes & Insurance	\$614,000	\$12,039	3.0% of Value	\$652,000	\$12,100	3.0% of Value
Developer Fee	\$343,000	\$6,725	3.0% of Directs	\$361,000	\$6,700	3.0% of Directs
Marketing/Sales	\$614,000	\$12,039	3.0% of Value	\$652,000	\$12,100	3.0% of Value
Contingency	\$157,000	\$3,078	5.0% of Indirects	\$166,000	\$3,100	5.0% of Indirects
Total Indirect Costs	\$3,295,000	\$64,608	28.8% of Directs	\$3,483,000	\$64,500	28.9% of Directs
III. Financing Costs (3)						
Loan Fees	\$146,000	\$2,863	1.3% of Directs	\$153,000	\$2,800	1.3% of Directs
Interest During Construction	\$918,000	\$18,000	8.0% of Directs	\$961,000	\$17,800	8.0% of Directs
Interest During Sales	\$204,000	\$4,000	1.8% of Directs	\$214,000	\$4,000	1.8% of Directs
HOA Dues on Unsold Units	\$37,000	\$725	0.3% of Directs	\$39,000	\$700	0.3% of Directs
Total Financing Costs	\$1,305,000	\$25,588	11.4% of Directs	\$1,367,000	\$25,300	11.4% of Directs
IV. Total Development Costs w/o Land	\$16,029,000	\$314,294	\$273 Per SF GBA	\$16,889,000	\$312,800	\$272 Per SF GBA
V. Acquisition Costs	\$2,178,000	\$42,706	\$50 Per SF Site Area	\$2,178,000	\$40,300	\$50 Per SF Site Area
VI. Total Development Costs w/Land	\$18,207,000	\$357,000	\$310 Per SF GBA	\$19,067,000	\$353,100	\$308 Per SF GBA

(1) Does not assume payment of prevailing wages.

(2) Estimate. Not verified by KMA or San Diego Housing Commission (SDHC).

(3) Financing costs estimated assuming interest rate of 7.0%, construction period of 18 months, and homeowners association (HOA) dues of \$300 per month.

TABLE 3

**ESTIMATE OF AFFORDABLE PRICE
ECONOMIC IMPACT ANALYSIS - PROPOSED DENSITY BONUS REGULATIONS
SAN DIEGO HOUSING COMMISSION**

Number of Bedrooms	2
Percent of AMI	100.0%
Assumed Family Size	3.0
Maximum Household Income (Rounded)(1)	\$62,450
Income Allocation to Housing	35.0%
Annual Amount Available for Housing	\$21,858
Annual Homeowner Association (HOA) Dues (2)	\$3,600
Tax Rate	1.15%
Annual Taxes (3)	\$4,370
Available for Mortgage	\$13,888
Interest Rate	7.00%
Down Payment	5.00%
Closing Costs	0.00%
Supportable Mortgage	\$173,950
Add: Down Payment	\$9,150
(Less) Closing Costs	<u>\$0</u>
Maximum Unit Price (Rounded)	\$183,000

(1) Per San Diego Housing Commission (SDHC) 2007 Income Limits.

(2) Gross estimate.

(3) Property tax assessment based on market value of actual unit. Assumes market value of \$380,000/unit or \$475/SF.

Source: State of California Department of Housing and Community Development, San Diego Housing Commission, California Redevelopment Law H&SC § 50052.5.

TABLE 4

PROJECT VALUE / INDICATED DEVELOPER PROFIT
 ECONOMIC IMPACT ANALYSIS - PROPOSED DENSITY BONUS REGULATIONS
 SAN DIEGO HOUSING COMMISSION

	Base Case Scenario					Scenario 1 5% Density Bonus					Scenario 2 10% Density Bonus				
	Average Unit Size	# of Units	Price Per SF	Price Per Unit	Total Sales	Average Unit Size	# of Units	Price Per SF	Price Per Unit	Total Sales	Average Unit Size	# of Units	Price Per SF	Price Per Unit	Total Sales
I. Project Value															
<u>Condominium Residential Proceeds</u>															
Affordable Units	800 SF	0	\$0	\$0	\$0	800 SF	5	\$229	\$183,000	\$915,000	800 SF	5	\$229	\$183,000	\$915,000
Market-Rate Units	1,000 SF	45	\$425	\$425,000	\$19,125,000	1,000 SF	42	\$425	\$425,000	\$17,850,000	1,000 SF	44	\$425	\$425,000	\$18,700,000
Total/Average	1,000 SF	45	\$425	\$425,000	\$19,125,000	979 SF	47	\$408	\$399,255	\$18,765,000	980 SF	49	\$409	\$400,306	\$19,615,000
Total Gross Sales Proceeds					\$19,125,000					\$18,765,000					\$19,615,000
II. Indicated Developer Profit															
Total Gross Sales Proceeds					\$19,125,000					\$18,765,000					\$19,615,000
(Less) Cost of Sale @			3.0% of Value		(\$574,000)			3.0% of Value		(\$563,000)			3.0% of Value		(\$588,000)
(Less) Total Development Costs w/Land					<u>(\$17,094,000)</u>					<u>(\$16,984,000)</u>					<u>(\$17,603,000)</u>
Total Indicated Developer Profit					\$1,457,000					\$1,218,000					\$1,424,000
% of Cost					8.5%					7.2%					8.1%
% of Value					7.6%					6.5%					7.3%
III. Economic Impact Relative to Base Case															
Indicated Profit - Density Bonus Scenarios										\$1,218,000					\$1,424,000
(Less) Developer Profit - Base Case										<u>(\$1,457,000)</u>					<u>(\$1,457,000)</u>
Total Economic Impact Relative to Base Case										(\$239,000)					(\$33,000)
Per Unit										(\$5,100)					(\$700)
% of Cost										-1.4%					-0.4%
% of Value										-1.1%					-0.4%

TABLE 4 (CONT'D.)

**PROJECT VALUE / INDICATED DEVELOPER PROFIT
ECONOMIC IMPACT ANALYSIS - PROPOSED DENSITY BONUS REGULATIONS
SAN DIEGO HOUSING COMMISSION**

	Scenario 3 15% Density Bonus					Scenario 4 20% Density Bonus				
	Average Unit Size	# of Units	Price Per SF	Price Per Unit	Total Sales	Average Unit Size	# of Units	Price Per SF	Price Per Unit	Total Sales
I. Project Value										
<u>Condominium Residential Proceeds</u>										
Affordable Units	800 SF	5	\$229	\$183,000	\$915,000	800 SF	5	\$229	\$183,000	\$915,000
Market-Rate Units	<u>1,000 SF</u>	<u>46</u>	<u>\$425</u>	<u>\$425,000</u>	<u>\$19,550,000</u>	<u>1,000 SF</u>	<u>49</u>	<u>\$425</u>	<u>\$425,000</u>	<u>\$20,825,000</u>
Total/Average	980 SF	51	\$409	\$401,275	\$20,465,000	981 SF	54	\$410	\$402,593	\$21,740,000
					\$20,465,000					\$21,740,000
II. Indicated Developer Profit										
Total Gross Sales Proceeds					\$20,465,000					\$21,740,000
(Less) Cost of Sale @			3.0% of Value		(\$614,000)			3.0% of Value		(\$652,000)
(Less) Total Development Costs w/Land					<u>(\$18,207,000)</u>					<u>(\$19,067,000)</u>
Total Indicated Developer Profit					\$1,644,000					\$2,021,000
% of Cost					9.0%					10.6%
% of Value					8.0%					9.3%
III. Economic Impact Relative to Base Case										
Indicated Profit - Density Bonus Scenarios					\$1,644,000					\$2,021,000
(Less) Developer Profit - Base Case					<u>(\$1,457,000)</u>					<u>(\$1,457,000)</u>
Total Economic Impact Relative to Base Case					\$187,000					\$564,000
Per Unit					\$3,700					\$10,400
% of Cost					0.5%					2.1%
% of Value					0.4%					1.7%