UNIVERSITY COMMUNITY PLAN UPDATE

FINANCIAL FEASIBILITY ANALYSES OF PROPOSED AFFORDABLE HOMES REQUIREMENT

Prepared for:

City of San Diego

Prepared by:

Keyser Marston Associates, Inc.

July 2024

TABLE OF CONTENTS

I. INTRODUCTION

A. Background

The University Community Plan serves as the long-range vision for land use, mobility, urban design, public facilities and services, natural resources, historic and cultural resources, and economic development within the University Community Plan Area (CPA). The City of San Diego (City) embarked on the University Community Plan Update (University CPU) in 2018 to provide more opportunities for homes, jobs, health care facilities, mixed-use development, public spaces, and public transit. The City's progress to date includes a plan update launch, development of plan components, scenario development and community engagement, and draft plan formation and analysis of land use alternatives. The City anticipates a final draft plan and public hearing process in early 2024.

The University CPU will result in the adoption of a final land use plan anticipated to include updates to residential, commercial, employment, and public uses. In particular, for residential uses, one of the goals for the University CPU is to increase opportunities and access to homes for people of all income levels. To ensure this, the City is evaluating a policy that would impose an additional affordable housing requirement beyond the City's existing Inclusionary Affordable Housing Ordinance (IAHO) as part of the University CPU. The University CPA commands some of the highest property values and multi-family market rents in the City of San Diego. According to CoStar Group, Inc., an industry leader in commercial real estate information and analytics, two-bedroom units in newer multi-family developments in the University CPA are commanding market rents generally in the range of $4,500 to $5,500 per unit per month, or approximately $3.50 to $4.50 per square foot (SF) per month. By contrast, the average market rent for a two-bedroom unit in the City as a whole is approximately $2,800 per unit per month or $2.90 per SF. Therefore, the imposition of an additional affordable housing requirement on residential developments within the CPA will likely have a less adverse impact on project feasibility than in most other communities within the City.

B. Objective

In December 2019, the City Council approved updates to the City's IAHO. The City's IAHO applies to all residential development with ten (10) or more units or condominium conversions of two (2) or more units. The updated IAHO requires ten percent (10%) of the total units in a project to be made available for rent to households earning up to 60% of Area Median Income (AMI) and for sale to households earning up to 100% of AMI. Projects located within the North City Future Urbanizing Area (FUA) are exempt from the IAHO but must comply with the affordable housing requirements in the North City FUA Framework Plan. The IAHO also allows developers to pay a fee in lieu of providing affordable housing units (IAHO Fee). The amount of the IAHO Fee is being phased in over five (5) years from $15.18 per SF beginning on July 1, 2020 to its full effective amount of $25.00 per SF beginning on July 1, 2024. Every

year thereafter, the IAHO Fee will be updated based on the annual increase, if any, in the Construction Cost Index (CCI) published by the Engineering News Record for Los Angeles.

As part of the University CPU, the City is considering imposing an additional affordable housing requirement on new residential development within the CPA (University CPU Affordable Homes Requirement). In March 2023, the City requested that Keyser Marston Associates, Inc. (KMA) analyze the feasibility of increasing the inclusionary housing requirement on new residential development within the University CPA. In response to this objective, KMA assisted the City in formulating a range of inclusionary set-aside options to be tested as part of this analysis. Moreover, KMA worked with the City to identify prototypical multi-family mixed-use rental developments on five (5) hypothetical sites within the CPA and prepare financial pro forma models. The financial pro formas were used to measure the potential impact of an additional housing requirement on project feasibility, by comparing their respective residual land value outcomes to comparable land values in the trade area and similar communities.

C. Methodology

As part of this analysis, KMA performed the following work tasks:

- Reviewed the community atlas, existing conditions report, existing/proposed land use designations, and other background materials related to the University CPU.

- Collected and reviewed market data such as comparable land sales, market rents, and profiles of multi-family rental and mixed-use developments in the University CPA and other similar communities.

- Conducted financial feasibility analyses for five (5) hypothetical sites/development prototypes ranging in density from 73 units per acre to 176 units per acre. All sites were assumed to be located within the University CPA in either Employment Mixed-Use (EMX), Residential Mixed-Use (RMX), or Community Commercial (CC) zones.

- Tested a wide range of inclusionary housing requirements for each site/prototype, including varying levels of affordable unit set-asides (between 5% and 20%) and affordability levels (between 50% AMI and 120% AMI).

- Evaluated alternative options to satisfying inclusionary housing requirements including the potential for an additional inclusionary housing in-lieu fee above the existing Citywide IAHO Fee.

- Reviewed the proposed University CPU Affordable Homes Requirement.

D. Report Organization

Following this introduction, this report is organized as follows:

- Section II presents an overview of the draft University CPU Affordable Homes Requirement under consideration by the City.

- Section III presents a summary of key findings from the KMA analysis.

- Section IV presents the methodology and outcomes of the KMA financial feasibility analysis.

- Finally, Section V presents limiting conditions pertaining to this report.

II. PROPOSED UNIVERSITY CPU AFFORDABLE HOMES REQUIREMENT

The following presents the proposed University CPU Affordable Homes Requirement currently under consideration, which reflects the findings of the KMA financial feasibility analysis.

In a proposed residential or mixed-use development, a development with a residential use shall comply with one of the following:

(1) Satisfy the Inclusionary Affordable Housing Regulations as set forth in Chapter 14, Article 2, Division 13 of the San Diego Municipal Code through either of the following:

   (a) On-site Option. The construction of the affordable dwelling units on-site in accordance with San Diego Municipal Code section 142.1305(a)(1).

   (b) Off-site Option. The construction or rehabilitation of affordable units off-site within a Sustainable Development Area within the University Community Planning Area.

   (c) In-Lieu Fee Option 1. The payment of the Inclusionary Affordable Housing in-Lieu Fee in accordance with San Diego Municipal Code Section 142.1305(a)(4) and one of the following options:

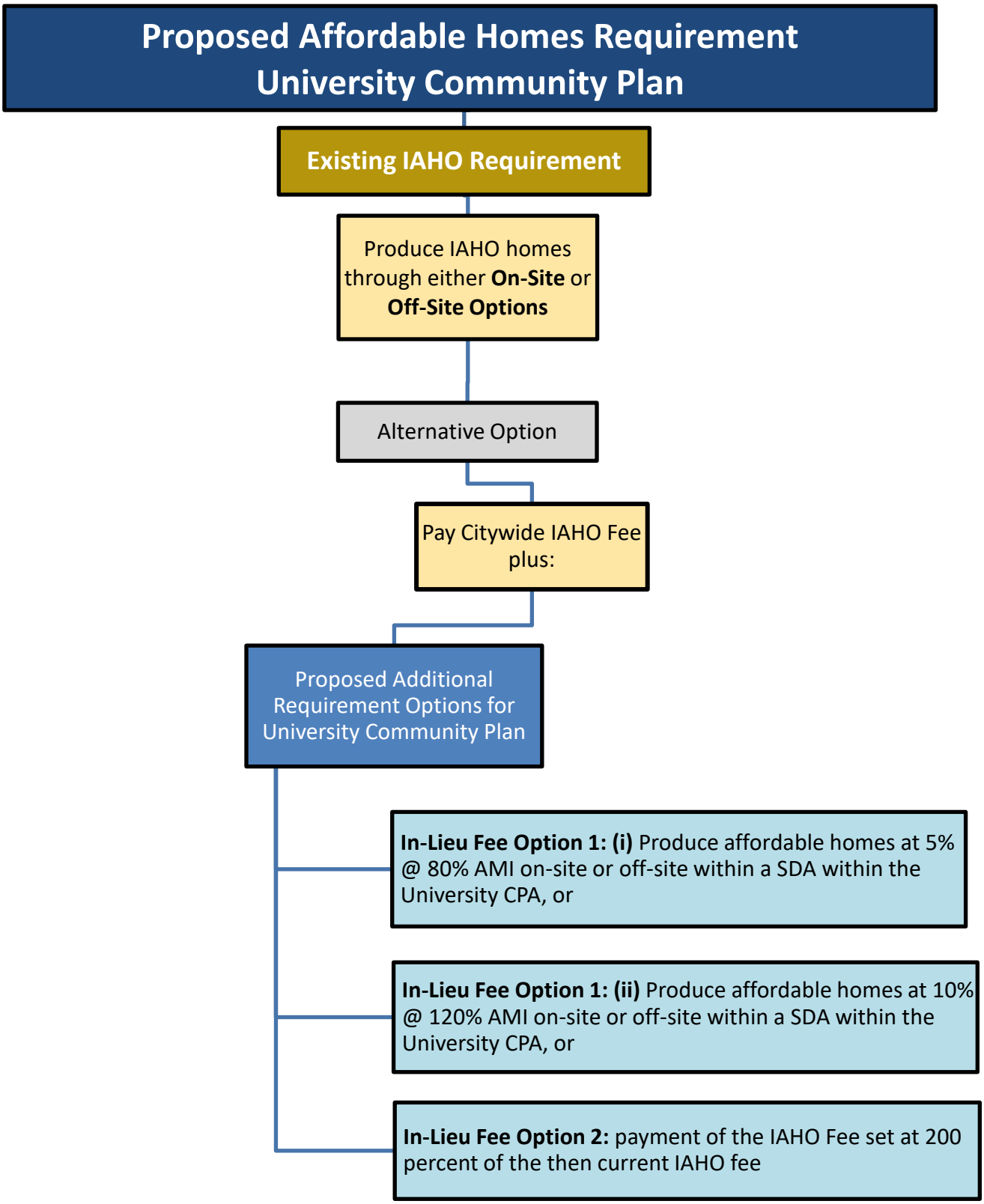
      i. a minimum of 5 percent of the total dwelling units affordable to households whose income does not exceed 80 percent of the area median income either constructed on-site or off-site within a Sustainable Development Area within the University Community Planning Area; or

      ii. minimum of 10 percent of the total dwelling units shall be affordable to households whose income does not exceed 120 percent of the area median income either constructed on-site

or off-site within a Sustainable Development Area within the University Community Planning Area; Payment of the Inclusionary Affordable Housing in-Lieu Fee in accordance with San Diego Municipal Code.

(d) In-Lieu Fee Option 2. The payment of the Inclusionary Affordable Housing in-Lieu Fee in accordance with San Diego Municipal Code Section 142.1305(a) set at 200 percent of the then current IAHO Fee.

A summary of the proposed options for the University CPU Affordable Homes Requirement is presented in the graphic below.


Proposed Affordable Homes Requirement
University Community Plan
Existing IAHO Requirement
Produce IAHO homes through either **On-Site** or **Off-Site Options**
Alternative Option
Pay Citywide IAHO Fee plus:
Proposed Additional Requirement Options for University Community Plan
In-Lieu Fee Option 1: (i) Produce affordable homes at 5% @ 80% AMI on-site or off-site within a SDA within the University CPA, or
In-Lieu Fee Option 1: (ii) Produce affordable homes at 10% @ 120% AMI on-site or off-site within a SDA within the University CPA, or
In-Lieu Fee Option 2: payment of the IAHO Fee set at 200 percent of the then current IAHO fee

III. KEY FINDINGS

The key purpose of the KMA financial feasibility analysis was to assist the City in evaluating a potential policy that requires additional affordable housing units without hindering overall feasibility for developers of multi-family and mixed-use projects in the University CPA. The KMA feasibility analysis involved creating financial pro formas for a range of multi-family/mixed-use development alternatives, and testing various inclusionary affordable housing requirements, for five (5) hypothetical sites in the University CPA.

As a result of the feasibility analysis, KMA can conclude that:

- Projects can still achieve feasibility under the following affordable housing set-aside options:

  (a) Pay IAHO Fee + 95% market-rate + 5% of the units at 80% AMI
  (b) Pay IAHO Fee + 90% market-rate + 10% of the units at 120% AMI

- Projects experienced infeasibility when the additional percent set-aside for affordable units exceeded 10% of total units.

- Projects with deeper affordability levels (below 80% AMI) resulted in more infeasible projects across the five (5) sites.

- KMA conducted additional feasibility analyses to determine an appropriate in-lieu fee option for the proposed University CPU Affordable Homes Requirement. The result of the KMA feasibility analyses demonstrates that projects can afford to pay an alternative compliance fee, above the existing IAHO Fee, generally ranging from $25 to $30 per SF, or 200% to 220% of the existing IAHO Fee. An alternative compliance fee at $25 or 200% of the existing IAHO Fee would be roughly equivalent to the cost of on-site production. The fee option would increase overall project feasibility for developers by providing them with an alternative approach to comply with the Affordable Homes Requirement.

These findings reflect the KMA feasibility analyses for multi-family and mixed-use development scenarios that can be reasonably anticipated in the University CPA under the proposed CPU. The KMA financial pro formas incorporate market and financial parameters reflective of current economic conditions and probable near-term development trends in the University CPA. On this basis, then, KMA can conclude that the proposed University CPU Affordable Homes Requirement – inclusive of the option for an alternative compliance fee – will not adversely impact the feasibility of new multi-family residential development within the University CPA.

Inasmuch as the KMA analyses in this report have been tailored to the unique conditions of the University CPA, the findings and recommendations contained herein do not necessarily apply to other areas of the City of San Diego.

IV. FINANCIAL FEASIBILITY ANALYSIS

KMA prepared financial pro forma analyses for multi-family rental prototypes for base case and alternative scenarios across five (5) hypothetical sites within the University CPA. For these prototypes, KMA assumed the proposed zoning under Scenario A as part of the University CPU. The conclusions of this financial feasibility analysis are presented at the end of this section.

Base Case Existing Citywide Inclusionary Affordable Housing Policy

KMA first analyzed two (2) base case scenarios (Base Case Scenarios) for developers' existing options prior to the imposition of an additional affordable housing requirement. The purpose of analyzing these base case scenarios is to demonstrate whether the existing IAHO is feasible under current market conditions. The two (2) base case scenarios analyzed by KMA assumed:

(1) Payment of IAHO Fee: 100% market-rate + payment of the existing IAHO Fee

(2) On-Site Production: 90% market-rate + 10% affordable units on-site at 60% AMI

Potential Additional On-Site Affordable Housing Alternatives

After determining the feasibility of the existing IAHO, KMA tested ten (10) additional on-site affordable housing alternatives (Alternative Scenarios) for the University CPA. All ten (10) scenarios, described below, assume the payment of the existing IAHO Fee. The purpose of analyzing these additional scenarios is to determine whether the imposition of an additional on-site affordable housing requirement will impact overall project feasibility.

(1) 95% market-rate + 5% of the units at 50% AMI
(2) 95% market-rate + 5% of the units at 80% AMI
(3) 85% market-rate + 15% of the units at 80% AMI
(4) 90% market-rate + 10% of the units at 120% AMI
(5) 85% market-rate + 15% of the units at 120% AMI
(6) 90% market-rate + 10% of the units at 50% AMI
(7) 90% market-rate + 10% of the units at 80% AMI
(8) 80% market-rate + 20% of the units at 80% AMI
(9) 85% market-rate + 15% of the units at 120% AMI
(10) 80% market-rate + 20% of the units at 120% AMI

As discussed in greater detail below, KMA found that:

- It is more economically beneficial for developers to pay the existing IAHO Fee instead of producing inclusionary units on-site.

- The following scenarios experienced moderately feasible to feasible residual land values relative to the target thresholds for a majority of the sites:

    - 95% market-rate + 5% @ 80% AMI
    - 90% market-rate + 10% @ 120% AMI

- The development scenarios are feasible with payment of an alternative compliance fee generally concentrated between $25 and $30 per SF.

The following provides an overview of the KMA pro forma methodology used to conduct this analysis.

A. Project Description

Table IV-1 below presents a summary of the development program envisioned for each hypothetical site, including density, Floor Area Ratio (FAR), gross building area (GBA), and parking type. As shown, KMA tested a range of densities between 73 and 176 units per acre. The construction types tested range from Type V wood-frame to Type I concrete construction with parking types ranging from podium to subterranean. As shown, each site contains a mix of uses, including commercial/retail, office, and hotel. For purposes of this analysis, KMA analyzed a commercial/retail component for all five (5) sites and an office component for Site #1. Additionally, for comparative purposes, KMA tested both a mid-rise (Type III) and a high-rise (Type I) option on Site #2.

Table IV-1: Summary of Project Descriptions

	Site #1	Site #2		Site #3	Site #4	Site #5
		Mid-Rise	High-Rise			
Site Size	1.95 Acres	5.92 Acres	5.92 Acres	0.71 Acres	7.89 Acres	4.22 Acres
Zoning	EMX-3	RMX-3	RMX-3	CC-3-8	EMX-2	RMX-2
Construction Type	Type I	Type III	Type I	Type V	Type I	Type III
Stories	26 Stories	8 Stories	23 Stories	5 Stories	20 Stories	8 Stories
Density	122 Units/Acre	93 Units/Acre	145 Units/Acre	73 Units/Acre	176 Units/Acre	160 Units/Acre

Table IV-1: Summary of Project Descriptions						
	Site #1	Site #2		Site #3	Site #4	Site #5
		Mid-Rise	High-Rise			
Achievable FAR	6.9	2.2	4.6	2.5	4.9	3.3
Units	238 Units	549 Units	860 Units	73 Units	700 Units	674 Units
Net Average Unit Size (SF)	1,021 SF	891 SF	1,161 SF	1,281 SF	1,021 SF	762 SF
Residential GBA	286,000 SF	575,360 SF	1,175,068 SF	74,000 SF	841,000 SF	604,510 SF
Commercial/ Retail GBA	31,200 SF	4,352 SF	2,635 SF	2,729 SF	60,000 SF	4,858 SF
Office GBA	254,600 SF	---	---	---	444,000 SF (1)	---
Hotel GBA	---	---	---	---	373,000 SF (1)	---
Parking Type	Podium/ Subterranean	Podium	Podium/ Subterranean	Podium/ At-Grade	Podium/ Subterranean	Podium/ Subterranean
(1) Not included in the KMA financial feasibility analysis as the parcel is assumed to be bifurcated.						

B. Estimated Development Costs

Table IV-2 presents development costs for each site, including direct costs, indirect costs, and financing costs, as described below.

- Direct construction costs consist of items such as on- and off-site improvements, parking, shell construction, residential amenities, tenant improvements, and contingency. For all sites/prototypes, KMA has assumed no payment of prevailing wages.

- Indirect costs consist of architecture, engineering, public permits and fees, legal and accounting, taxes and insurance, developer fee, marketing/lease-up, and contingency. KMA estimated permits and fees using the City's Development Impact Fee Calculation Tool. Additionally, KMA assumes only 10% of the Parks Development Impact Fee for provision of paseo, platform, plaza, or park. Permits

and fees also include estimates of school impact fees, water and sewer fees, and a housing impact fee.

- Financing costs consist of such items as loan fees and interest during construction and lease-up.

Table IV-2: Summary of Estimated Development Costs (1)

	Site #1	Site #2		Site #3	Site #4	Site #5
		Mid-Rise	High-Rise			
DIRECT COSTS						
Sitework	$30/SF Land	$25/SF Land	$25/SF Land	$20/SF Land	$30/SF Land	$25/SF Land
Parking	$45,000/Space	$40,000/Space	$45,000/Space	$35,000/Space	$45,000/Space	$40,000/Space
Shell Construction – Residential	$400/SF GBA	$345/SF GBA	$400/SF GBA	$325/SF GBA	$400/SF GBA	$345/SF GBA
Shell Construction – Office	$300/SF GBA	---	---	---	---	---
Shell Construction – Retail	$200/SF GBA	---	---	---	---	---
Tenant Improvements – Office	$75/SF GBA	---	---	---	---	---
INDIRECT/FINANCING COSTS						
Permits & Fees	$39,2000/Unit	$19,300/Unit	$23,000/Unit	$24,100/Unit	$21,100/Unit	$18,300/Unit
Indirect/ Financing Costs	25% of Directs	25% of Directs	25% of Directs	25% of Directs	25% of Directs	25% of Directs
TOTAL DEVELOPMENT COSTS						
Total Development Costs	$586/SF GBA ---	$560/SF GBA $601,000/Unit	$619/SF GBA $848,000/Unit	$519/SF GBA $766,000/Unit	$620/SF GBA $745,000/Unit	$570/SF GBA $516,000/Unit

(1) Assumes payment of existing Citywide IAHO fee.

C. Net Operating Income

Table IV-3 presents the KMA assumptions used to calculate net operating income (NOI) for each site/prototype. With respect to residential rents, the Type I projects (Site #1, Site #2, and Site #4) are assumed to command the highest rents, while the Type V project (Site #3) is assumed to achieve the

lowest rents. In addition, the Type I projects are assumed to have the highest operating expenses ($6,000 per unit per year, excluding property taxes) due to being highly amenitized in comparison to the Type V project ($5,000 per unit per year, excluding property taxes).

Table IV-3: Net Operating Income

	Site #1	Site #2		Site #3	Site #4	Site #5
		Mid-Rise	High-Rise			
RENTAL INCOME – PER MONTH						
Studio	$5.35/SF	$5.00/SF	$4.65/SF	$4.20/SF	$5.25/SF	$5.00/SF
One Bedroom	$5.25/SF	$4.90/SF	$5.25/SF	$4.10/SF	$5.00/SF	$4.90/SF
Two Bedroom	$4.80/SF	$4.75/SF	$4.85/SF	$4.00/SF	$4.75/SF	$4.75/SF
Other Income	$175/Unit/ Month	$125/Unit/ Month	$150/Unit/ Month	$125/Unit/ Month	$125/Unit/ Month	$125/Unit/ Month
Retail	$4.50/SF NNN	$4.25/SF NNN	$4.25/SF NNN	$4.25/SF NNN	---	$4.25/SF NNN
Office	$5.25/SF FSG	---	---	---	---	---
EXPENSES – PER UNIT/YEAR						
Operating Expenses (1)	$6,000	$5,500	$6,000	$5,000	$6,000	$5,500
Replacement Reserves	$250	$250	$250	$250	$250	$250
NET OPERATING INCOME						
100% Market-Rate	$24.6 M	$42.9 M	$66.6 M	$4.9 M	$45.2 M	$41.3 M
Per Unit	---	$78,000	$76,000	$95,000	$65,000	$61,000
Per SF Land	$290	$166	$258	$160	$261	$225

(1) Other than property taxes/assessments and replacement reserves.

KMA estimated affordable rents based on State of California (State) Department of Housing and Community Development (HCD) 2023 income limits and San Diego Housing Commission utility allowances. Table IV-4 presents the net affordable rents for studio, one-, and two-bedroom units.

Table IV-4: Summary of Monthly Affordable Rents, 2023 (1)			
Unit Size	**Studio**	**One Bedroom**	**Two Bedroom**
Household Size (2)	*1.0*	*2.0*	*3.0*
HCD 2023 Median Income (3)	*$81,750*	*$93,450*	*$105,100*
Monthly Rent - 50% AMI – Very Low	$939	$1,070	$1,183
Monthly Rent - 60% AMI – Low	$1,143	$1,304	$1,446
Monthly Rent – 80% AMI – Low	$1,552	$1,771	$1,971
Monthly Rent 120% AMI – Moderate	$2,370	$2,706	$3,022

(1) Reflects rent net of San Diego Housing Commission utility allowance effective April 2023. Assumes all electric utilities.
(2) Per Health & Safety Code Section 50052.5(h). This does not serve as a limit on the actual household size occupying the unit but is a limit on the gross rent that may be charged for that unit.
(3) State HCD 2023 income limits. Income limits used for rent calculation, not income qualification.

D. Residual Land Value

Feasibility Parameters

Residual land value is the maximum land value supported by a proposed development. It is calculated by estimating total project value upon completion and subtracting the estimated total development costs (other than land acquisition costs) required to develop the project. KMA prepared financial pro forma models to solve for residual land value for each of the sites/prototypes and corresponding affordable housing scenarios analyzed. KMA then compared the residual land value outcomes to land value expectations of existing property owners that would potentially sell their property for new development. In order to estimate appropriate threshold land values for property acquisition, KMA first surveyed recent comparable multi-family land sales within the University CPA and similar communities. Using these survey results, KMA adjusted potential land values to reflect the location, density, and construction type of the various sites and prototypes. As a result, the feasibility thresholds for each site vary as shown in Table IV-5.

Table IV-5: Residual Land Value – Feasibility Thresholds			
	Feasible	**Moderately Feasible**	**Not Feasible**
Site #1	$200/SF Land	$150 - $200/SF Land	< $150/SF Land
Site #2			
Mid-Rise	$150/SF Land	$100-$150/SF Land	<$100/SF Land
High-Rise	$200/SF Land	$150-$200/SF Land	< $150/SF Land
Site #3	$100/SF Land	$75-$100/SF Land	< $100/SF Land

Table IV-5: Residual Land Value – Feasibility Thresholds			
	Feasible	Moderately Feasible	Not Feasible
Site #4	$150/SF Land	$100-$150/SF Land	< $100/SF Land
Site #5	$150/SF Land	$100-$150/SF Land	< $100/SF Land

These thresholds for property acquisition values are intended to serve as illustrative benchmarks rather than definitive measures of project feasibility. They represent seller land value expectations for vacant developable sites. The specific economic situation for individual property owners will vary greatly. Key variables may include: existing zoning/development potential; length of ownership; whether the property is vacant or improved; other site characteristics; level of debt encumbrance; and other factors.

- In terms of length of ownership, KMA does not find a meaningful difference between property owners who have held their properties for an extended period of time and therefore have a low acquisition basis as compared to owners who have acquired their properties more recently at a price close to current market value. A prudent property owner typically expects a purchase price for their property at the highest achievable market value, either with its existing improvements or as vacant land with the improvements removed. This same principle would apply even if a current long-term owner intended to pursue redevelopment of the property. In other words, an existing owner planning a new development would require that the new development generate a residual land value equal to or greater than the current market value of the property, not the original acquisition basis.

- It should also be considered that a key factor prevalent in the University CPA that impacts future development feasibility is the presence of existing improvements on many properties. These properties are occupied by existing improvements such as office buildings, retail centers, and multi-family apartments. Depending on age and condition, these improvements can be assumed to have remaining economic life. In many cases, teardown of older improved properties for new residential development will not be feasible in the near- to mid-term due to the substantial remaining value of the existing improvements. For example, KMA surveyed sales of older commercial, industrial, and multi-family buildings within a three-mile radius from the center of the CPA. Sales values for older "teardown" buildings were concentrated between $250 and $400 per SF of land. By comparison, Citywide high-density multi-family residential land sales (excluding Downtown San Diego) were concentrated between $150 and $300 per SF of land. As such, the residual land values supported by new high-density residential development prototypes in the CPA may not exceed the potential costs to acquire certain improved properties. Over time, as residential market rents/values rise, and older improved properties become increasingly economically obsolete, redevelopment of these properties is likely to become more feasible.

In comparing the residual land value outcomes from the KMA pro forma models to the feasibility thresholds in Table IV-5 above, KMA determined the relative feasibility of each site/prototype for the Base Case and Alternative Scenarios. The residual land value outcomes by feasibility threshold are defined as follows:

- ***Feasible*** – assumes that these scenarios are or can become feasible in the near-term.

- ***Moderately Feasible*** – assumes that these scenarios are not feasible under current market conditions but may become feasible in the mid- to long-term.

- ***Infeasible*** – indicates that these scenarios are not likely to experience feasibility in the mid- to long-term.

Feasibility Outcomes for Base Case Scenarios

This section summarizes residual land value outcomes for the Base Case Scenarios. Note that the Base Case Scenarios do not assume an additional affordable housing requirement. KMA found that the 100% market-rate + payment of existing IAHO Fee scenario is feasible for all sites. By comparison, under the 90% market-rate + 10% of affordable units on-site @ 60% AMI scenario (no payment of IAHO Fee), most sites experience moderate feasibility, with only Site #3 experiencing feasibility and only Site #2 (High Rise) found to be infeasible. As such, KMA can conclude that it is more economically beneficial for developers to pay the existing IAHO Fee instead of producing inclusionary units on-site.

Feasibility Outcomes for Alternative Scenarios

This section presents a summary of feasibility outcomes for the Alternative Scenarios. All of the Alternative Scenarios assume payment of the existing IAHO Fee. The following scenarios demonstrated the greatest feasibility relative to the target thresholds for a majority of the sites:

- 95% market-rate + 5% @ 80% AMI
- 90% market-rate + 10% @ 120% AMI

The range of scenarios that were generally found to be infeasible include:

- 95% market-rate + 5% @ 50% AMI
- 85% market-rate + 15% @ 80% AMI
- 85% market-rate + 15% @ 120% AMI
- 90% market-rate + 10% @ 50% AMI
- 90% market-rate + 10% @ 80% AMI

- 80% market-rate + 20% @ 80% AMI
- 85% market-rate + 15% @ 120% AMI
- 80% market-rate + 20% @ 120% AMI

As such, KMA recommends that the proposed University CPU Affordable Homes Requirement, over and above the existing Citywide IAHO requirement, not exceed a 10% inclusionary set-aside requirement and not fall below 80% AMI.

Alternative Compliance Fee

The City requested that KMA estimate a potential alternative compliance fee for additional inclusionary units contemplated by the proposed University CPU Affordable Homes Requirement. As such, KMA focused on the following two (2) set-aside scenarios:

- 95% market-rate + 5% of the units at 80% AMI
- 90% market-rate + 10% of the units at 120% AMI

For each development prototype analyzed in this study, KMA compared the above two (2) scenarios to the 100% market-rate scenario (Payment of IAHO Fee). Note that all scenarios assume the payment of the City's existing IAHO Fee. The differences in residual land value between the above two (2) scenarios served as an estimate for an alternative compliance fee. Residual land value for an affordable unit is defined as the cost to construct the unit, less the value of the unit upon completion subject to the affordability requirement. The differences in residual land value on a per-SF-GBA basis for the two scenarios are summarized in Table IV-6 below. As shown, the development prototypes are feasible with payment of an alternative compliance fee ranging from $23 to $45 per SF, but generally concentrated between $25 and $30 per SF.

Table IV-6: Estimate of Alternative Compliance Fee Per SF GBA for Additional Inclusionary Units

	Site #1	Site #2		Site #3	Site #4	Site #5
		Mid-Rise	High Rise			
	Type I	*Type III*	*Type I*	*Type V*	*Type I*	*Type I*
95% market-rate + 5% @ 80% AMI	$34	$23	$27	$24	$27	$26
90% market-rate + 10% @ 120% AMI	$45	$27	$25	$28	$38	$26

V. LIMITING CONDITIONS

1. KMA has made extensive efforts to confirm the accuracy and timeliness of the information contained in this document. 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.

2. 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. 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.

3. 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, 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.

4. 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. If an unforeseen change occurs in the local or national economy, the analysis and conclusions contained herein may no longer be valid.

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

6. It has been assumed that the value of the property will not be impacted by the presence of any soils, toxic, or hazardous conditions that require remediation to allow development. Additionally, it is assumed that perceived toxic conditions (if any) on surrounding properties will not affect the value of the property.

7. KMA is not advising or recommending any action be taken by the City with respect to any prospective, new, or existing municipal financial products or issuance of municipal securities (including with respect to the structure, timing, terms, and other similar matters concerning such financial products or issues).

8. KMA is not acting as a Municipal Advisor to the City and does not assume any fiduciary duty hereunder, including, without limitation, a fiduciary duty to the City pursuant to Section 15B of the Exchange Act with respect to the services provided hereunder and any information and material contained in KMA's work product.

9. The City shall discuss any such information and material contained in KMA's work product with any and all internal and/or external advisors and experts, including its own Municipal Advisors, that it deems appropriate before acting on the information and material.