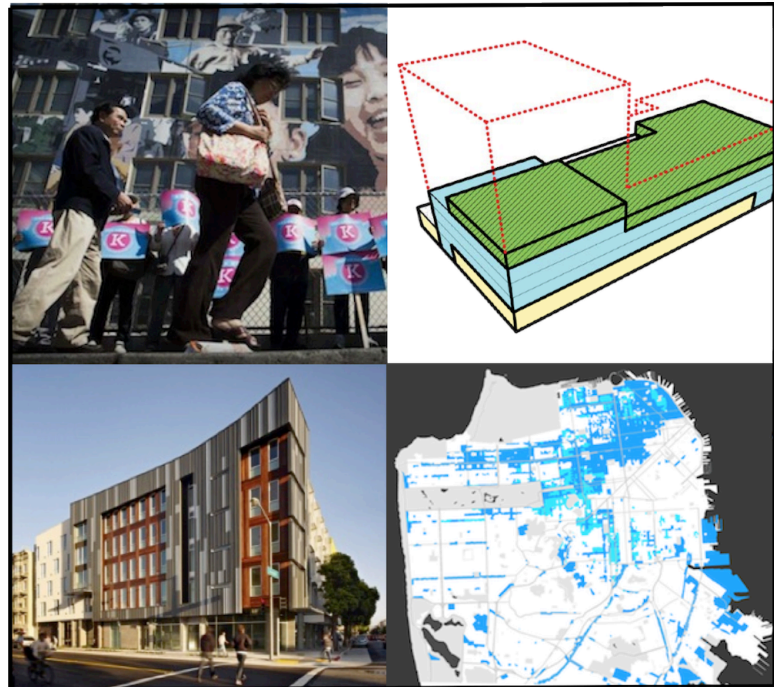


REPORT

Financial Analysis of San Francisco's Proposed Affordable Housing Bonus Program



Prepared for
San Francisco Planning Department

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Financial Analysis

San Francisco's Proposed Affordable Housing Bonus Program

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Background

The City of San Francisco is pursuing multiple studies to understand how the City can most effectively encourage and facilitate more affordable housing supply, including middle income housing. Recent case law suggests that development projects fulfilling affordable housing requirements through the provision of onsite below market rate (BMR) units, per Section 415 of the City's Planning Code, may be eligible to pursue a state-mandated housing density bonus. The City intends to develop a local Affordable Housing Bonus Program (AHBP) that implements State Density Bonus Law.¹ In addition, San Francisco is reviewing options to offer additional incentives and potential increases in residential density if developers provide increased levels of affordable housing.

The San Francisco Planning Department retained Seifel Consulting and David Baker Architects (DBA) to evaluate the development potential and feasibility of typical sites under alternative AHBP program scenarios. DBA, in collaboration with Planning staff and Seifel Consulting, used architectural digital modeling and site analysis to evaluate how much residential development is currently allowed and could potentially be allowed under alternative State Density Bonus and AHBP scenarios on 12 typical sites. The 12 prototypical sites were chosen to represent a broad spectrum of potential sites located in zoning districts that currently have density controls (such as one unit per every 600 feet of land area).² The findings from this analysis are contained in a separate report: *Residential Density Bonus Study*.

Study Purpose and Goals

The purpose of this study is to model the financial feasibility of alternative AHBP program scenarios on a representative subset of the prototypical sites. The study's primary goals are to help City policy makers:

- Understand the key financial factors likely to influence the effectiveness and applicability of programs offering bonuses to projects providing onsite BMR units.
- Understand what project sponsors might choose when offered a menu of options related to the dedication of additional units to the City's affordable housing program.
- Recommend development conditions and terms that can support greater levels of affordability.
- Provide critical input on the potential parameters for a program that helps the City reach the voter-mandated Proposition K (2014) goals of achieving 33% affordability of all newly constructed units.

¹ For more information on the City's proposed Affordable Housing Bonus Program (ABHP) and State Density Bonus Law, please refer to information on the ABHP website at: <http://www.sf-planning.org/index.aspx?page=4233>.

² Zoning districts with no density controls (e.g. NCT, RTO, etc.) and those primarily composed of single family homes (RH-1 and RH-2), those associated with development agreements (e.g. Parkmerced, Treasure Island, etc.) and those that don't currently allow residential uses were excluded from the analysis. Height districts with limits lower than 40 feet were also excluded.

Prototypical Site Selection

The AHBP study area includes over 30,000 parcels with varying site conditions and zoning requirements, which include height restrictions, density, building bulk and building set backs (from street and adjoining properties), as well as other controls. The prototypical sites were chosen by the project team to represent a broad range of zoning and development conditions throughout the City.

The development potential for each site was first evaluated under current zoning conditions, called “Base Case.” A key finding is that the current density limit in many zoning districts (i.e. 1 dwelling unit per 600 square feet of land) severely limits the development potential of a site to below what would be allowable under a theoretical building envelope at the existing height. Thus, the Base Case scenario produced unrealistically large units on some prototypical sites given zoning controls. For these sites, a more realistic development buildout needed to be prepared that more closely represented what a developer might likely build under current conditions. The project team chose a likely average unit size that was used to model a “market informed” Base Case for this study, reflecting prevailing market conditions in each area coupled with an assumed project tenure (apartment rental or condominium ownership) and likely unit size distribution (by bedroom size).³

The project team chose 3 prototypical sites out of the 12 prototypes that were physically evaluated to represent three distinct and likely outcomes of the program under alternative building types, height and tenure:

- Prototype 1 – Condominium Development Under NCD Zoning
35/65 feet height limit, 15,000 target lot size, 1 dwelling unit per 600 SF land density limit.
Larger condominium units with high proportion of 2 BR and 3 BR units, average target size of 1,250 NSF.
Represents infill sites along transit corridors in the City’s outer neighborhoods.
- Prototype 2 – Condominium Development Under RC-4 Zoning
40/80 feet height limit, 20,000 target lot size, 1 dwelling unit per 200 SF land density limit.
Condominium units with mix of studio, 1, 2 and 3 BR units (40% 2+ BR), average target size of 1,000 NSF.
Represents infill sites along transit corridors in the City’s near central neighborhoods.
- Prototype 3 – Apartment Development Under NCD Zoning
40/50 feet height limit, 30,000 target lot size, 1 dwelling unit per 600 SF land density limit.
Apartments with mix of studio, 1, 2 and 3 BR units (40% 2+ BR), average target size of 750 NSF.
Represents infill sites along transit corridors in the City’s near central neighborhoods.

Development Scenarios

For each site, three alternative development scenarios are modeled, which incrementally build on each other:

- **Base Case (Existing Conditions)**⁴ – Evaluates the site’s development potential under current zoning, assuming a developer chooses to provide BMR units onsite rather than alternatively meet its affordable housing requirements under Section 415. This scenario assumes that 12% of total units are provided as BMR units to households at 90% AMI for owners and 55% AMI for renters as defined in Section 415 of the Planning Code.

The Base Case does not include the potential State Density Bonus that might be allowable if a developer provides 12% BMR units onsite. For example, State Density Bonus Law provides a 7% density bonus if 12% of units are affordable to households at 90% AMI, or a 23% density bonus if 12% of units are affordable to households at 55% AMI. (State density bonus law does not distinguish by owner/renter tenure, but rather by

³ The chosen unit sizes were informed by an analysis of recent projects reviewed by the Planning Department, market data on recent developments and information provided by members of the Urban Land Institute, SPUR and the San Francisco Housing Action Coalition.

⁴ The Base Case scenario uses the Market Informed Base Case assumptions for average unit size. Due to the current zoning restrictions, the Base Case scenario for each prototype was not found to be financially feasible at typical current market sales price per square foot for near central and outer neighborhoods.

target AMI.) The intent of the Base Case is to model the market value of the land previous to local implementation of the State Density Bonus Program.

- **Base Case + 35% State Density Bonus** – Tests each prototype under the assumption that a developer pursues the maximum allowable density bonus under state law – a 35% increase over the base case scenario. This scenario assumes a mix of BMR units at 90% AMI and 80% AMI for owner units and a mix of BMR units at 55% AMI and 50% AMI for rental units. In some cases, this increased number of units requires additional height, which can result in a change in construction type.

While State Density Bonus Law affords project sponsors many potential paths to achieving a 35% density bonus, this analysis focused on what are considered to be the most likely scenario to be chosen by developers given the City's existing policies and potential revenue generation. This analysis assumes that project sponsors would choose to fulfill their Section 415 affordable housing requirements by providing 12% affordable units on site and then additionally provide the fewest number of affordable units necessary to achieve a 35% density bonus. This allows a more direct financial comparison to the Base Case Scenario.

- **Affordable Housing Bonus Program** – Tests each prototype to determine the development potential that could support the goals of locally mandated Proposition K and respond to the Middle Income Housing gap, while also meeting the City's onsite affordable housing requirement. Similar to the 35% State Density Bonus scenario, this increased number of units also requires additional height, which can result in a change in construction type. Based on direction from City staff, this scenario assumes that the overall building height does not increase by more than two stories above the maximum allowable height under current zoning.

This scenario assumes that at least 30% of all units would be affordable. It similarly assumes that the project would fulfill the current Section 415 requirements by providing 12% of total units on site and then additional BMR units would be targeted to middle income owner households at 140% AMI and moderate income renter households at 120% AMI.

How Increases in Potential Height Affect the Development Program

DBA, in collaboration with the project team, prepared a development program that specifies the potential gross square footage of residential development, the number of units and parking that could be accommodated on each prototypical site under the three development scenarios above. Based on direction from City staff, the overall building height does not increase by more than two stories above the maximum allowable height under current zoning, under either the State Density Bonus or the local AHBP. In order to accommodate an increased number of units without increasing the height beyond two stories, the average unit size was decreased by 10-30% in some cases, which could produce a more marketable development.

All of the prototypes tested had two applicable height limits according to current zoning, which means that a portion of the development would continue to have a lower building height than the remainder of the site.⁵ This was found to be a significant limitation on how much additional housing development could occur on a site under the AHBP. Often, this dual height restriction (in combination with required set backs and building step backs above certain building heights) often removed a significant portion of the potential increase in residential square footage that might occur from a height increase. In addition, the height increase triggered a change in building construction type that resulted in higher construction costs in most cases.

A critical piece of developer feedback was for the City to allow a uniform height throughout the site under the AHBP, which would make it much more cost effective to build and would potentially result in a greater build-out capacity under the AHBP assuming the building height for all buildings could increase two floors above the highest maximum allowable height. This flexibility could also potentially allow some developments to maintain a consistent building construction type for the residential units (for example, all wood frame construction on top of podium parking).

⁵ Of the 12 prototypes evaluated by DBA, six prototypes (50%) had two applicable height limits according to current zoning.

Given the City's Transit First goals, the number of parking spaces is assumed to remain constant even as density increases, which in effect assumes the City would permit a reduced parking ratio per unit in some cases under current zoning. As a result, no parking stackers are assumed to be needed though additional parking could be provided on all three sites with the use of stackers, at additional cost.

Methodology for Financial Analysis

The financial analysis compares the potential revenues that could be generated for each development scenario with the associated development costs in order to test overall financial feasibility using typical measures of return and/or developer margin. Developers and their financial partners must receive a sufficient margin on development costs to be willing to undertake the risks and expenses associated with development. The financial feasibility analysis solves for developer margin, which is equal to total revenues less the following development costs: land, construction, impact fees, construction financing and other soft costs (including architectural design, legal and marketing costs).

A series of meetings on the proposed density bonus program were held August-December 2014 with members of the Urban Land Institute, SPUR and the San Francisco Housing Action Coalition. Development revenue and cost information was gathered during these meetings and through interviews with a broad range of residential developers, contractors and real estate professionals that are actively engaged in development in San Francisco, as well as from the review of confidential financial pro formas on recent projects. The following briefly summarizes the key assumptions that were developed based on information gathered by Seifel Consulting:

- **Revenues** – The Base Case revenue assumptions were developed using recent market data (for condominium sales and for apartments), interviews with developers and market professionals and developer pro formas. (The Concord Group, Polaris Pacific, The Mark Company and RealAnswers were key sources of market data for residential products.) While many economists project continued growth in sales values and rental rates in the coming years, development revenues for the financial analysis are based on Winter 2014/Spring 2015 market values and have not been trended upwards to reflect improving future market conditions. However, in order to demonstrate feasibility, revenues are increased above these market values in some development scenarios.

For rental property, revenues are based on the potential market value for apartment development based on stabilized net operating income (NOI) divided by a market capitalization rate of 4.5% for the Base Case. NOI equals gross income from the rental of apartments and parking spaces, less a vacancy allowance of 5% and less operating expenses. Based on input from apartment developers, the cap rate for the AHBP scenario is increased to 4.75% to reflect a significantly higher percentage (30%) of affordable housing units at restricted rents, which would dampen the potential upside value of the property. (The additional .25% cap rate is also referred to as a cap rate premium.)

- **Land Costs** – Each prototype was evaluated assuming that the land acquisition cost remains constant across all three development scenarios. This was done based on the assumption that policies to increase the number of allowable units are coupled with increased affordability requirements, and therefore do not affect the purchase price of the land for development.⁶

The land acquisition costs for each prototype were estimated assuming each property currently has an existing one- or two-story, rent-generating building on all or a portion of the property, which is true for all of the actual sites used to develop the three prototypes. (While a number of sites in the study area are vacant or do not contain significant revenue generating uses, a one or two story building is considered to be a reasonable representative existing land use for typical sites.) The current minimum value for a low-rise commercial building in San Francisco in the study area neighborhoods is about \$300 per square foot, which established a floor on land costs for this analysis. In summary, land costs range from \$160,000 to \$210,000 per unit for the Base Case,

⁶ Although land prices often increase based on the number of units that can be built on a site, the economic land value remains unchanged given these policy assumptions.

or about \$300 to \$400 per square foot of land under all scenarios. Given the assumption that land acquisition costs remain constant, they decrease under the State Density Bonus and AHBP scenarios on a per unit basis.⁷

- **Hard Construction Costs** – Hard construction costs include the labor and materials needed to undertake building construction, including general contractor overhead, profit and general conditions. As the type and location of parking varies significantly across building types, the hard construction costs for parking are estimated separately from the hard construction costs for the residential components. The parking costs were then added to the hard construction costs for each prototype and compared with developer pro formas and contractor estimates for projects in this building type, as well as information on construction costs provided by the San Francisco Department of Building Inspection. These costs were also compared to the residential construction cost estimates assembled for the Mayor's Office of Housing in 2012. The costs were found to be generally consistent, after taking into account an inflationary adjustment of 15-20% since 2012, reflecting the rapid increase in construction costs over the past three years. A 10% contingency was added to reflect the preliminary nature of the design work and to take into account the fact that construction costs may continue to increase in the near term.

Hard construction costs for each prototype and each scenario vary based on the allowable building height. For example, lowrise construction of 40-55 feet in height is assumed to be Type V, wood frame over Type I podium construction. However, as discussed earlier, building heights for all three prototypes had two applicable height limits according to current zoning, and thus the building construction type likewise varies under the scenarios as height increases by one to two stories. Thus, without doing a detailed construction estimate, hard construction costs are difficult to estimate and are thus generalized across the prototypes and scenarios to reflect variations in height, construction type and unit size.⁸

- **Impact Fees** – City development impact fees are based on the current development impact fee schedule. As all of the prototypical sites are outside Area Plans, the fees only reflect the cost of school, water and wastewater capacity fees.
- **Construction Financing** – Private lenders typically provide the major source of capital that pays for development costs during construction. Construction terms vary depending on market conditions, developer financial capacity, developer track record and the construction lender. The construction interest rate is assumed at 5.5% for all prototypes with a loan fee of 1-1.25%, depending on loan size. The loan amount is based on about a 60-65% loan to development cost (considered to be approximately equal to a 50% loan to value) at an average outstanding balance of 60% of development costs. The term of the construction loan is directly related to project timing, as the construction loan is the primary source of capital during the construction and absorption phase (sales for condominiums and lease-up for rentals).
- **Other Soft Costs** – These include all other indirect construction costs such as architectural design, engineering, legal fees, building permit fees, marketing and other sales/leasing related development costs. These costs are calculated as a percentage of hard construction costs based on a review of pro formas and interviews with developers and real estate professionals. Other soft costs for the residential condominium prototypes are assumed at 25% of hard construction costs while rental prototypes (both residential and commercial) that have less extensive sales and marketing costs are assumed at 18% of hard construction costs. As density increases on the site, some of these soft costs might be able to decrease as fixed costs could be spread over a larger number of units. Soft cost savings are assumed to range from between 1% to 1.5% of hard construction costs,

⁷ Under the Base Case scenario, the land acquisition cost is on the high end of current market values, largely due to the restricted number of units that can be built under current zoning. As the number of developable units increases under the AHBP scenario on each prototypical site, the land acquisition costs decrease to about \$75,000 to \$90,000 per unit.

⁸ As unit sizes decrease, residential construction costs (for the same building construction type) typically increase on a per residential square foot basis because kitchens and bathrooms represent a higher proportion of square footage, and there is a higher proportion of windows, doors and other high cost items. Furthermore, smaller unit sizes can result in a lower overall building efficiency.

or \$3,000 to \$6,000 per unit to reflect savings in design, processing and other benefits realized through a larger scale project.

- **Developer Margin or Return** – Developers, lenders and investors evaluate and measure returns in several ways. Based on input from real estate developers, equity investors and lenders, and discussions with City staff, this analysis measures developer margin in the following ways:⁹
 - Low-Rise 40-58 Feet: 15-20% return on total development cost (assumed at 19% return on development cost or 16% threshold for return on net sales for condominiums).
 - Mid-Rise 65 Feet: 20-22% on total development cost (assumed at 21% return on development cost, or 17% threshold for return on net sales for condominiums).
 - Mid-Rise and High-Rise, 80-160 Feet: 22-24% on total development cost (assumed at 23% return on development cost, or 19% threshold for return on net sales for condominiums).
 - As apartments are income-producing buildings, returns are often measured based on the net operating income (or NOI, which equals revenues less operating expenses) divided by development costs exclusive of profit. The target Yield (Return) on Cost for apartments in San Francisco is 5-7%, with most developers trying to achieve between 5.5% and 6% in the current market.

In summary, the financial feasibility analysis uses the following formula to calculate development feasibility, which solves for developer margin (as well as Yield on Cost for apartments).

Revenues

Less: Land (assumed to remain constant across scenarios)

Less: Hard and Soft Construction Costs (varies according to building height and density)

Developer Margin

Figure 1 and Exhibits 1 through 3 present the results from the financial analysis of the three development scenarios for each prototype. These tables show the number of units that would potentially be allowed to be built under each scenario, along with the assumed level of affordability that would be required (as described above). These tables also present the key development assumptions that would vary by scenario: height, average unit size (reduced in some cases as density increases), hard construction cost (varies according to building height), construction loan period (varies according to length of construction period), development impact fees (water and wastewater capacity charges decrease as costs are spread across more units) and other soft costs. Exhibit 4 summarizes the baseline development assumptions for each prototype under the Base Case (Existing Conditions) and other key development assumptions that remain fixed across each development scenario.

Conclusion: Key Findings of the Financial Analysis

When more units are allowed to be built under the proposed State Density and AHBP programs, development costs per unit decrease on each site, as illustrated in Figure 1. The financial analysis also demonstrates the following key findings for each development scenario:

- **Base Case (Existing Conditions)** – Only a small portion of new development has occurred in the areas that were studied for this program, and most of the development that does occur is on small infill developments that typically only produce a few units. While both market and political factors hinder feasibility (including relatively low residential values and long standing neighborhood opposition), this analysis indicates that the City's existing zoning controls significantly limit development potential, making many sites financially infeasible to build. As described earlier, the current density limit in many zoning districts (i.e. 1 dwelling unit per 600 square feet of land) dramatically limits the development potential on a site to below what would be allowable under a theoretical

⁹ These returns are consistent with prior studies done by the Mayor's Office of Housing and Community Development. As buildings increase in height and complexity, return thresholds increase due to the longer time frame for development and construction. As the prototypes studied have dual height limits, and some of the scenarios result in changes in building type due to height increases, the target return is based on the highest allowable building height limit.

building envelope at the existing height. In addition, the combination of height limits, set backs, building envelope step backs and minimum parking ratios per unit significantly limit potential residential capacity. For all three prototypes studied, potential revenues under existing market and zoning conditions are not high enough to support development costs and yield sufficient developer margin. In particular, land costs would need to be significantly lower, ranging from about \$50,000 to \$100,000 per unit in order for development to be feasible.

- **Base Case + 35% State Density Bonus** – Where sites are currently close to attaining financial feasibility, the state density bonus program would enhance their financial feasibility. In particular, this could apply when project sponsors have owned the property for a long time or developers are able to purchase sites at favorable terms. The density bonus would thus enable the developer to achieve a larger project with greater economies of scale. However, where revenues do not currently support the cost of new construction (as found for all three prototypes), rents or sales prices may need to increase 15-35% (on a per square foot basis) above what is currently assumed in the Base Case as representing current market conditions on the site. This means that the use of the State Density Bonus program would have the greatest likelihood of success in higher priced areas where the increased number of market rate units at high price levels could more than offset the increased number of BMR units, or where development costs are significantly less than estimated. In addition, as this scenario assumes the City’s current onsite inclusionary requirements would remain in place, the restriction of BMR ownership units at 90% AMI does not allow developers to receive as much density per BMR unit under the State Density Bonus program as they would if all of the BMR units were targeted to 80% AMI.
- **Local Affordable Housing Bonus Program**– Similar to the State Density Bonus scenario, the Local AHBP would work best on sites that have significantly constrained development potential but are close to being feasible because revenues are high enough to support development costs and yield sufficient developer margin. Based on sensitivity analysis performed for this study and interviews with developers, achieving the goal of at least 30% of affordable housing units on site (while also meeting the Section 415 onsite inclusionary requirements) would likely necessitate at least a doubling of the number of units above a currently feasible development scenario. Again, where revenues do not currently support new construction, rents or sales prices may need to increase 20-35% (on a per square foot basis) above what is assumed in the Base Case to make them feasible. As this program would allow for the potential reduction in unit size, part of this pricing increase could be simply attributable to the fact that smaller units often have higher rents or sales prices per square foot as compared to larger units. A final critical factor in the refinement of this program will be to allow greater flexibility in overall building envelope, which could help lower construction costs on a per square foot basis. As described earlier, allowing a uniform height throughout the site could make it much more cost effective to build and would potentially result in a greater build-out capacity under the AHBP, assuming the building height for all buildings could increase two floors above the maximum allowable height without resulting in a significantly higher construction cost due to a change in building construction type (for example, from wood frame to concrete).

In conclusion, the potential use of the State Density Bonus and AHBP will depend on the development conditions for individual sites and how the programs are designed and implemented. While the use of the programs will be affected by market conditions (including cost of land, housing prices in different neighborhoods and construction costs), the following changes to zoning requirements are key to enhancing development feasibility:

- Reduce parking and the need to build underground (for example, modify parking requirements per unit)
- Allow developers to build smaller units (for example, modify dwelling unit per land square feet standard)
- Enable developers to build more units at a lower per unit development cost (for example, modify building bulk, unit exposure, rear and side yard setbacks, height, vertical step backs, and/or open space).

All of these changes could help developers offset the increased cost of providing additional BMR units through the potential “economies of scale” that could occur from being able to spread fixed construction and soft costs over a larger number of units, which is particularly important in neighborhoods with lower than average housing prices.

In summary, the City’s policies to increase the number of allowable units need to be balanced with increased affordability requirements in such a way that the proposed programs do not drive up the purchase price of land and provide sufficient flexibility and financial incentives to encourage developers to use the programs.

Figure 1: Summary Comparison of Development Costs By Prototype

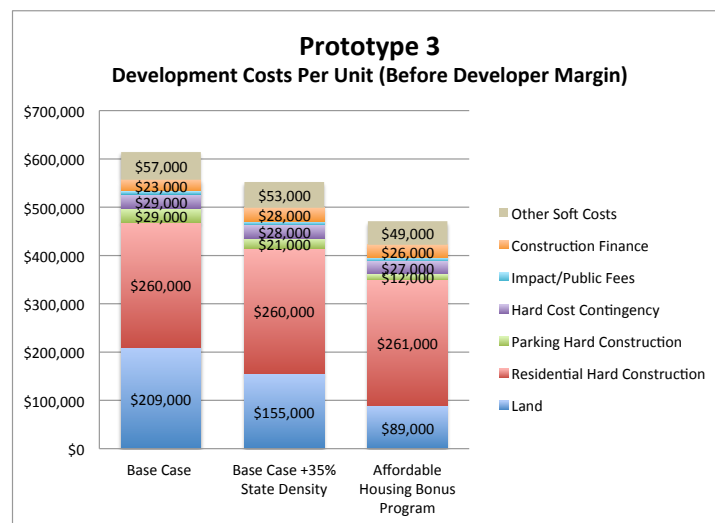
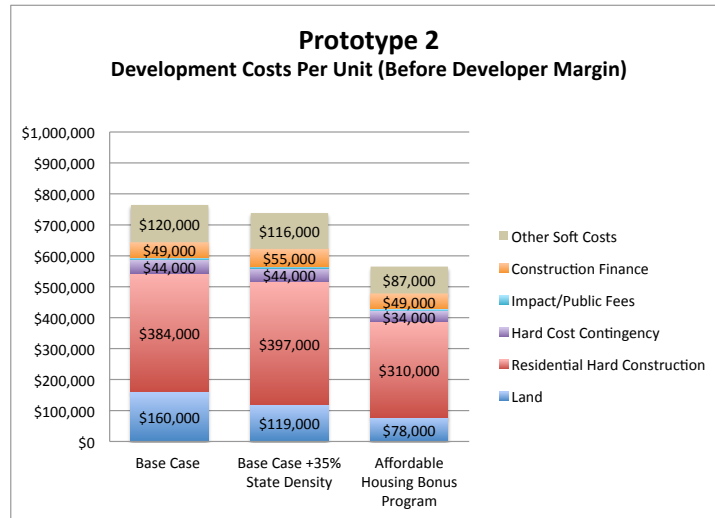
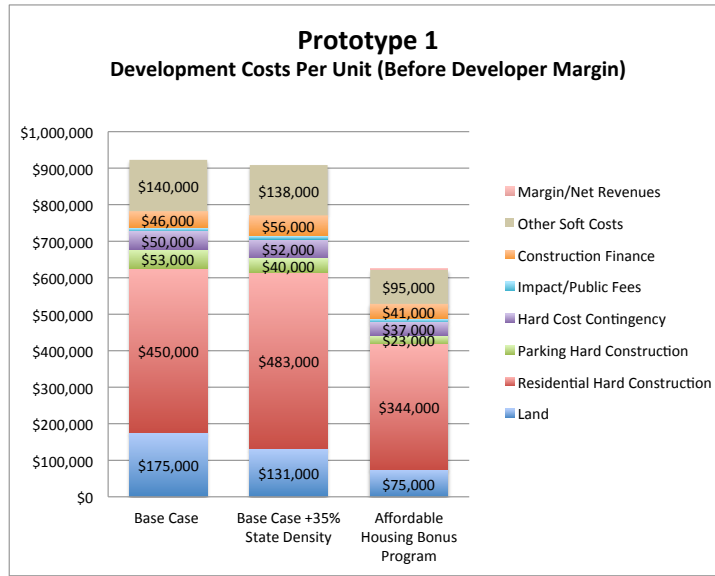


Exhibit 1
Financial Feasibility Analysis
Prototype 1 – Condominium Under NCD Zoning

Unit Distribution	Base Case		Base Case +35% State Density		Affordable Housing Bonus Program	
	Units		Units		Units	
Base Units						
Market Rate		21		21		21
Affordable @ 90% AMI		3		3		3
Subtotal		24		24		24
State Bonus Units			<i>35% of Base Units</i>			
Market Rate				4		4
Affordable @ 80% AMI				4		4
Affordable @ 120% AMI				0		0
Subtotal				8		8
Local Bonus Units					<i>135% of Base Units</i>	
Market Rate						18
Affordable @ 90% AMI						4
Affordable @ 140% AMI						10
Subtotal						32
Total Units		24		32		56
Affordable Units		3		7		17
% Affordable of Local Bonus Units		N/A		N/A		44%
% Affordable of Total Units		13%		22%		30%
Parking Stalls		27		27		27
Dedicated Residential Parking		24		24		24
Stacker Parking Spaces		0		0		0
Parking Space Ratio		1.00		0.75		0.43
Variable Residential Assumptions						
Height	35/65 feet		45/75 feet		55/85 feet	
Average Size Unit (NSF)	1,250 NSF		1,250 NSF		860 NSF	
Average Size Unit (GSF)	1,667 GSF		1,667 GSF		1,147 GSF	
Residential Hard Costs w/o Parking	\$270 Per GSF		\$290 Per GSF		\$300 Per GSF	
Construction Loan Period	30 months		30 months		32 months	
Soft Cost Savings	0.0% of HCC		1.0% of HCC		1.5% of HCC	
Average Sales Price Per SF	\$850 per NSF		\$1,150 per NSF*		\$1,130 per NSF*	
Revenue Generation	Base Case		Base Case +35% State Density		Affordable Housing Bonus Program	
Base Units	Per Unit	Total	Per Unit	Total	Per Unit	Total
Market Rate	\$1,063,000	\$22,323,000	\$1,438,000	\$30,198,000	\$972,000	\$20,412,000
Affordable @ 90% AMI	\$310,000	\$930,000	\$310,000	\$930,000	\$310,000	\$930,000
Subtotal	\$969,000	\$23,253,000	\$1,297,000	\$31,128,000	\$889,000	\$21,342,000
State Bonus Units						
Market Rate			\$1,438,000	\$5,752,000		
Affordable @ 80% AMI			\$266,000	\$1,064,000		
Affordable @ 120% AMI			\$443,000	\$0		
Subtotal			\$852,000	\$6,816,000		
Local Bonus Units						
Market Rate					\$972,000	\$17,496,000
Affordable @ 90% AMI					\$310,000	\$1,240,000
Affordable @ 140% AMI					\$531,000	\$5,310,000
Subtotal					\$751,000	\$24,046,000
Total/Average	\$969,000	\$23,253,000	\$1,186,000	\$37,944,000	\$811,000	\$45,388,000
Less: Cost of Sales/Transfer Tax	\$53,000	\$1,279,000	\$65,000	\$2,087,000	\$45,000	\$2,496,000
Net Revenues	\$916,000	\$21,974,000	\$1,121,000	\$35,857,000	\$766,000	\$42,892,000
Development Costs	Per Unit	Total	Per Unit	Total	Per Unit	Total
Land	\$175,000	\$4,200,000	\$131,000	\$4,200,000	\$75,000	\$4,200,000
Residential Hard Construction	\$450,000	\$10,800,000	\$483,000	\$15,456,000	\$344,000	\$19,264,000
Parking Hard Construction	\$53,000	\$1,278,000	\$40,000	\$1,278,000	\$23,000	\$1,278,000
Hard Cost Contingency	\$50,000	\$1,200,000	\$52,000	\$1,664,000	\$37,000	\$2,072,000
Development Impact Fees	\$8,500	\$204,000	\$8,500	\$272,000	\$8,500	\$476,000
Construction Finance	\$46,000	\$1,104,000	\$56,000	\$1,792,000	\$41,000	\$2,296,000
Other Soft Costs	\$140,000	\$3,360,000	\$144,000	\$4,608,000	\$101,000	\$5,656,000
Less: Other Soft Cost Savings	\$0	\$0	-\$6,000	-\$192,000	-\$6,000	-\$336,000
Total/Average	\$923,000	\$22,146,000	\$909,000	\$29,078,000	\$623,000	\$34,906,000
Developer Margin	-\$7,000	-\$172,000	\$212,000	\$6,779,000	\$143,000	\$7,986,000
Margin/Development Costs	-1%		23%		23%	
Margin/Net Revenues	-1%		19%		19%	

*Note: In order to achieve development feasibility (as measured by developer margin or return on cost), sales prices or rents per square foot were increased for the State Density Bonus and Affordable Housing Bonus Program scenarios. For more information, refer to the key findings in the accompanying report.

Exhibit 2
Financial Feasibility Analysis
Prototype 2 – Condominium Under RC-4 Zoning

Unit Distribution	Base Case		Base Case +35% State Density		Affordable Housing Bonus Program	
Base Units	Units		Units		Units	
Market Rate	53		53		53	
Affordable @ 90% AMI	7		7		7	
Subtotal	60		60		60	
State Bonus Units			<i>35% of Base Units</i>			
Market Rate			12			
Affordable @ 80% AMI			9			
Affordable @ 120% AMI			0			
Subtotal			21			
Local Bonus Units					<i>105% of Base Units</i>	
Market Rate					33	
Affordable @ 90% AMI					8	
Affordable @ 140% AMI					22	
Subtotal					63	
Total Units	60		81		123	
Affordable Units	7		16		37	
% Affordable of Local Bonus Units	N/A		N/A		48%	
% Affordable of Total Units	12%		20%		30%	
Parking Stalls	74		74		74	
Residential Parking Spaces	70		70		70	
Additional Spaces with Stackers	0		0		0	
Parking Space Ratio	1.17		0.86		0.57	
Variable Residential Assumptions						
Height	40/80 feet		60/90 feet		60/100 feet	
Average Size Unit (NSF)	1,000 NSF		1,000 NSF		728 NSF	
Average Size Unit (GSF)	1,280 GSF		1,280 GSF		970 GSF	
Residential Hard Costs w/o Parking	\$300 Per GSF		\$310 Per GSF		\$320 Per GSF	
Construction Loan Period	31 months		35 months		42 months	
Soft Cost Savings	0.0% of HCC		1.0% of HCC		1.5% of HCC	
Average Sales Price Per SF	\$1,100 per NSF		\$1,200 per NSF*		\$1,280 per NSF*	
Revenue Generation	Base Case		Base Case +35% State Density		Affordable Housing Bonus Program	
Base Units	Per Unit	Total	Per Unit	Total	Per Unit	Total
Market Rate	\$1,100,000	\$58,300,000	\$1,200,000	\$63,600,000	\$931,000	\$49,343,000
Affordable @ 90% AMI	\$290,000	\$2,030,000	\$290,000	\$2,030,000	\$290,000	\$2,030,000
Subtotal	\$1,006,000	\$60,330,000	\$1,094,000	\$65,630,000	\$856,000	\$51,373,000
State Bonus Units						
Market Rate			\$1,200,000	\$14,400,000		
Affordable @ 80% AMI			\$249,000	\$2,241,000		
Affordable @ 120% AMI			\$415,000	\$0		
Subtotal			\$792,429	\$16,641,000		
Local Bonus Units						
Market Rate					\$931,000	\$30,723,000
Affordable @ 90% AMI					\$290,000	\$2,320,000
Affordable @ 140% AMI					\$498,000	\$10,956,000
Subtotal					\$698,000	\$43,999,000
Total/Average	\$1,006,000	\$60,330,000	\$1,016,000	\$82,271,000	\$775,000	\$95,372,000
Less: Cost of Sales/Transfer Tax	\$55,000	\$3,318,000	\$56,000	\$4,525,000	\$43,000	\$5,245,000
Net Revenues	\$950,000	\$57,012,000	\$960,000	\$77,746,000	\$733,000	\$90,127,000
Development Costs	Per Unit	Total	Per Unit	Total	Per Unit	Total
Land	\$160,000	\$9,600,000	\$119,000	\$9,600,000	\$78,000	\$9,600,000
Residential Hard Construction	\$384,000	\$23,040,000	\$397,000	\$32,157,000	\$310,000	\$38,130,000
Parking Hard Construction	\$60,000	\$3,598,000	\$44,000	\$3,598,000	\$29,000	\$3,598,000
Hard Cost Contingency	\$44,000	\$2,640,000	\$44,000	\$3,564,000	\$34,000	\$4,182,000
Development Impact Fees	\$7,000	\$420,000	\$7,000	\$567,000	\$7,000	\$861,000
Construction Finance	\$49,000	\$2,940,000	\$55,000	\$4,455,000	\$49,000	\$6,027,000
Other Soft Costs	\$120,000	\$7,200,000	\$121,000	\$9,801,000	\$93,000	\$11,439,000
Less: Other Soft Cost Savings	\$0	\$0	-\$5,000	-\$405,000	-\$6,000	-\$738,000
Total/Average	\$824,000	\$49,438,000	\$782,000	\$63,337,000	\$594,000	\$73,099,000
Developer Margin	\$126,000	\$7,574,000	\$178,000	\$14,409,000	\$138,000	\$17,028,000
Margin/Development Costs	15%		23%		23%	
Margin/Net Revenues	13%		19%		19%	

*Note: In order to achieve development feasibility (as measured by developer margin or return on cost), sales prices or rents per square foot were increased for the State Density Bonus and Affordable Housing Bonus Program scenarios. For more information, refer to the key findings in the accompanying report.

Exhibit 3
Financial Feasibility Analysis
Prototype 3 – Apartment Under NCD Zoning

Unit Distribution	Base Case		Base Case +35% State Density		Affordable Housing Bonus Program	
Base Units	Units		Units		Units	
Market Rate	50		50		50	
Affordable @ 55% AMI	7		7		7	
Subtotal	57		57		57	
State Bonus Units		35% of Base Units				
Market Rate			17			
Affordable @ 50% AMI			3			
Affordable @ 80% AMI			0			
Subtotal			20			
Local Bonus Units				135% of Base Units		
Market Rate					44	
Affordable @ 55% AMI					9	
Affordable @ 120% AMI					24	
Subtotal					77	
Total Units	57		77		134	
Affordable Units	7		10		40	
% Affordable of Local Bonus Units	N/A		N/A		43%	
% Affordable of Total Units	12%		13%		30%	
Parking Stalls	47		47		47	
Dedicated Residential Parking	43		43		43	
Additional Spaces with Stackers	0		0		0	
Parking Space Ratio	0.75		0.56		0.32	
Variable Residential Assumptions						
Height	40/50 feet		40/50 feet		60/70 feet	
Average Size Unit (NSF)	750 NSF		750 NSF		675 NSF	
Average Size Unit (GSF)	1,000 GSF		1,000 GSF		900 GSF	
Residential Hard Costs w/o Parking	\$260 Per GSF		\$260 Per GSF		\$290 Per GSF	
Construction Loan Period	24 months		25 months		28 months	
Soft Cost Savings	0.0% of HCC		1.0% of HCC		1.5% of HCC	
Market Rental Price	\$60 per NSF/year		\$70 per NSF/year*		\$78 per NSF/year*	
Annual Rents	Base Case		Base Case +35% State Density		Affordable Housing Bonus Program	
Base Units	Per Unit	Total	Per Unit	Total	Per Unit	Total
Market Rate	\$45,000	\$2,250,000	\$52,500	\$2,625,000	\$52,700	\$2,635,000
Affordable @ 55% AMI	\$13,080	\$91,560	\$13,080	\$91,560	\$13,080	\$91,560
Subtotal	\$41,080	\$2,341,560	\$47,659	\$2,716,560	\$47,834	\$2,726,560
State Bonus Units						
Market Rate			\$52,500	\$892,500		
Affordable @ 50% AMI			\$11,880	\$35,640		
Affordable @ 80% AMI			\$19,320	\$0		
Subtotal			\$46,407	\$928,140		
Local Bonus Units						
Market Rate					\$52,650	\$2,316,600
Affordable @ 55% AMI					\$13,080	\$117,720
Affordable @ 120% AMI					\$29,280	\$702,720
Subtotal					\$40,741	\$3,137,040
Total Rental Revenues/Average	\$41,080	\$2,341,560	\$47,334	\$3,644,700	\$43,758	\$5,863,600
Plus: Parking Revenues	\$2,716	\$154,800	\$2,010	\$154,800	\$1,155	\$154,800
Less: Vacancy	\$2,054	\$117,078	\$2,367	\$182,235	\$2,188	\$293,180
Less: Base Operating Expenses	\$8,000	\$456,000	\$8,000	\$616,000	\$8,000	\$1,072,000
Less: Property Taxes	\$7,057	\$402,233	\$8,152	\$627,681	\$6,957	\$932,211
Net Operating Income	\$26,685	\$1,521,049	\$30,826	\$2,373,584	\$27,769	\$3,721,009
Capitalization Rate	4.50%	4.50%	4.50%	4.50%	4.75%	4.75%
Value of Rental Development	\$593,000	\$33,801,000	\$685,000	\$52,746,000	\$585,000	\$78,337,000
Less: Cost of Sales/Transfer Tax	\$21,000	\$1,183,000	\$24,000	\$1,846,000	\$20,000	\$2,742,000
Net Revenues	\$572,000	\$32,618,000	\$661,000	\$50,900,000	\$565,000	\$75,595,000
Development Costs	Per Unit	Total	Per Unit	Total	Per Unit	Total
Land	\$209,000	\$11,900,000	\$155,000	\$11,900,000	\$89,000	\$11,900,000
Residential Hard Construction	\$260,000	\$14,820,000	\$260,000	\$20,020,000	\$261,000	\$34,974,000
Parking Hard Construction	\$29,000	\$1,625,000	\$21,000	\$1,625,000	\$12,000	\$1,625,000
Hard Cost Contingency	\$29,000	\$1,653,000	\$28,000	\$2,156,000	\$27,000	\$3,618,000
Development Impact Fees	\$7,000	\$399,000	\$7,000	\$539,000	\$7,000	\$938,000
Construction Finance	\$23,000	\$1,311,000	\$28,000	\$2,156,000	\$26,000	\$3,484,000
Other Soft Costs	\$57,000	\$3,249,000	\$56,000	\$4,312,000	\$54,000	\$7,236,000
Less: Other Soft Cost Savings	\$0	\$0	-\$3,000	-\$231,000	-\$5,000	-\$670,000
Total/Average	\$613,000	\$34,957,000	\$552,000	\$42,477,000	\$471,000	\$63,105,000
Developer Margin	-\$41,000	-\$2,339,000	\$109,000	\$8,423,000	\$93,000	\$12,490,000
Margin/Development Costs	-7%		20%		20%	
Return on Cost (NOI/DevtCost)	4.4%		5.6%		5.9%	

*Note: In order to achieve development feasibility (as measured by developer margin or return on cost), sales prices or rents per square foot were increased for the State Density Bonus and Affordable Housing Bonus Program scenarios. For more information, refer to the key findings in the accompanying report.

Exhibit 4
Summary of Fixed Development Assumptions By Prototype

Development Assumptions	Prototype 1 Condominium (NCD Zoning)	Prototype 2 Condominium (RC-4 Zoning)	Prototype 3 Apartment (NCD Zoning)
Development Parameters			
Height Under Base Case	35/65 feet	40/80 feet	40/50 feet
Residential Floors	5	7	3/4
Target Lot Size	15,000 SF	20,000 SF	30,000 SF
Lot Size	14,419 SF	24,201 SF	34,391 SF
Density Limit	600 SF Land/Unit	200 SF Land/Unit	600 SF Land/Unit
Allowable Units Under Base Case	24 units	121 units	57 units
Market-informed Base Case	24 units	60 units	57 units
Unit Mix			
Studio/Jr. 1 BR	0.0%	5.0%	30.0%
1BR	15.0%	30.0%	30.0%
2BR	50.0%	60.0%	35.0%
3BR	35.0%	5.0%	5.0%
Total	100.0%	100.0%	100.0%
Parking Area	10,654 GSF	25,700 GSF	13,539 GSF
Land			
Lot Size (Rounded)	14,000 SF	24,000 SF	34,000 SF
Land Acquisition Cost (Estimated)	\$4,200,000	\$9,600,000	\$11,900,000
Development Costs			
Parking Hard Const.Cost /GSF	\$120 Per GSF	\$140 Per GSF	\$120 Per GSF
Stacker Unit Cost (Puzzle)	\$15,000 Per Space	\$15,000 Per Space	\$15,000 Per Space
Hard Cost Contingency	10% of Hard Costs	10% of Hard Costs	10% of Hard Costs
Soft Cost as % of Hard Costs	25% of Hard Costs	25% of Hard Costs	18% of Hard Costs
Development Impact Fees (Baseline)	\$8,500 Per Unit	\$7,000 Per Unit	\$7,000 Per Unit
Construction Loan Fee*	1.25% of Loan	1.25% of Loan	1.25% of Loan
Construction Financing Interest Rate*	5.50%	5.50%	5.50%
Sales/Transfer Tax	5.5% of Price/Value	5.5% of Price/Value	3.5% of Value
Residential Rental Costs/Valuation			
Residential Vacancy Rate			5% of Rents
Residential Operating Expenses			\$8,000 Per Unit/year
Property Tax Rate			1.19% of Value
Parking Space Rent			\$3,600 Per Space/year
Capitalization Rate			4.50% (on NOI)
Cap. Rate Premium for Local Program			0.25% (on NOI)

*Construction Loan amount is equal to 50% Loan to Value or about 60% Loan to Cost; interest calculated on 60% outstanding balance.

Source: Interviews with real estate professionals and developers, as well as development pro forma information provided by members of the Urban Land Institute, SPUR and the San Francisco Housing Action Coalition.