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MEMORANDUM

To: Susan Georgino, Community Development Director
 City of Burbank

From: Kathleen Head

Date: September 14, 2003

Subject: Inclusionary Housing Ordinance:
 Tiered In-Lieu Fee Schedule

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At your request, Keyser Marston Associates, Inc. (KMA) prepared a financial analysis to supplement the in-lieu fee analysis prepared in support of the Inclusionary Housing Ordinance (Ordinance) being proposed by the City of Burbank (City). The purpose of the analysis is to test the financial impact created on projects of varying sizes by the proposed Ordinance terms. Specifically, KMA performed comparative financial analyses to assist in identifying recommended tiered in-lieu fee schedules for ownership and rental development.

BACKGROUND STATEMENT

The original KMA in-lieu fee evaluation was based on prototypical 40-unit ownership and rental projects. While these projects serve as excellent surrogates for both mid-size and large-sized developments, they do not demonstrate the disproportionate impact the Ordinance creates on small projects.

The KMA in-lieu fee evaluation identified that the affordability gap associated with the income and affordability restrictions proposed to be included in the Ordinance. This was then translated into the in-lieu fee that would have to be charged to provide the City with adequate funds to produce comparable units in an off-site location. The results of the KMA in-lieu fee evaluation can be summarized as follows:

<u>In-Lieu Fee</u>	<u>Ownership</u>	<u>Rental</u>
Per Affordable Unit	\$132,000	\$101,800
Per Total Unit in a Market Rate Project	\$19,800	\$15,300
Per Square Foot of Gross Living Area (GLA) ¹	\$12.60	\$15.30

¹ Average unit size equals 1,567 square feet for ownership units and 1,000 square feet for rental units.

To identify the breakpoints where the Ordinance requirements impose disproportionate impact on the project economics, KMA prepared pro forma analyses project sizes ranging from five units to 40-units.² KMA then quantified the discount that would have to be applied to the base level in-lieu fee to equalize the impact.

ASSUMPTIONS

Recent development within Burbank is focused on attached ownership housing, with projects ranging from four units to 140 units. Comparatively, apartment development is a management intensive endeavor, and as a result, new apartment complexes generally include at least 40 units and routinely include 75+ units. While smaller apartment projects are sometimes developed in the City, the developers typically secure entitlements that will allow the project to be converted to condominiums.

Recognizing that small projects are likely to be ownership units, the KMA comparative financial analysis is focused on ownership projects. The recommended in-lieu fee schedule derived from this analysis is then translated to similar apartment scenarios. The relevant KMA pro forma analyses are presented in Appendices A through D at the conclusion of this memorandum. The primary assumptions applied in the KMA analyses are:

1. The base case scenario is the prototypical 40-townhome project that was evaluated in the original KMA in-lieu fee analysis. The key components of this analysis are fully described in the original analysis, and can be summarized as follows:
 - a. The project is developed at a density of 20-units per acre.
 - b. The unit mix includes 35% two-bedroom units, 55% three-bedroom units and 10% four-bedroom units. The average unit size equals 1,567 square feet of GLA.
 - c. The development costs, excluding land acquisition, are estimated at \$9.51 million. This equates to \$152 per square foot of gross building area (GBA), or approximately \$238,000 per unit.
 - d. Net sales revenues:
 - i. The market rate sales prices for the units are projected at a weighted average of \$342,000 per unit, or \$218 per square foot of GLA..

² The proposed Ordinance exempts projects with four or fewer units from the inclusionary housing requirements.

- ii. The developer profit is set at 10% of the market rate sales revenue.
 - iii. The net revenues, after deducting the developer profit, are projected at \$12.31 million.
 - e. The supportable land value is equal to the \$12.31 million in net revenues minus the \$9.51 million in development costs. The resulting land value is estimated at \$2.8 million, or \$32 per square foot of land area.
 - f. In-Lieu Fee Calculation
 - i. The weighted average affordable home price is estimated at \$210,200. Thus, the affordability gap per affordable unit is estimated at \$131,800 (\$342,000 - \$210,200).
 - ii. Assuming that 15% of the units must be set-aside for moderate income households, the in-lieu fee is estimated at \$19,800 per total unit in the project, or \$12.60 per square foot of GLA.
 - g. The impact created by the income and affordability restrictions imposed by the Ordinance is estimated at 28% of the land value supported by a market rate project. This impact sets the base from which projects with fewer than 40 units are evaluated.
2. A review of development patterns indicates that smaller sites cannot realistically support townhome development at 20-units per acre. To reflect this, the following assumptions are used in the KMA analysis:
- a. The 20-unit per acre townhome development density is applied for sites that include at least 2/3 of an acre.
 - b. The townhome density is reduced to 15-units per acre for sites that include .5 to 2/3 of an acre.
 - c. Based on current development patterns, it is assumed that sites with less than .5 acres will be developed as stacked flat condominiums at a density in the range of 35-units per acre. In turn, the units in these projects are projected to be 4% to 5% smaller than the townhome development on larger sites.

FINDINGS/RECOMMENDATIONS

It is KMA’s opinion that the in-lieu fee should be based on the GLA included in a market rate development. In this way, the City will be able to more accurately vary the in-lieu fee amount among projects being developed in Burbank. Based on the assumptions outlined in the preceding section of this memorandum, KMA recommends that the breakpoints and in-lieu fee schedule for ownership projects be set as follows:

<u>In-Lieu Fee</u>	<u>Per Square Foot of GLA</u>
14+ Units	\$12.60
10 to 13 Units	\$10.40
5 to 9 Units	\$7.10
1 to 4 Units	Exempt

When the same relative ratios are applied to the “Base Case” apartment scenario, the recommended breakpoints and in-lieu fee schedule for rental projects should be set as follows:

<u>In-Lieu Fee</u>	<u>Per Square Foot of GLA</u>
14+ Units	\$15.30
10 to 13 Units	\$12.60
5 to 9 Units	\$8.60
1 to 4 Units	Exempt

It is the KMA recommendation that the in-lieu fee schedule be updated periodically to reflect changes in development economics. The update should focus on the base case scenarios, and barring extraordinary circumstances, the schedules for smaller projects should be extrapolated on the same relative measures as have been provided in this analysis.