



KEYSER MARSTON ASSOCIATES  
ADVISORS IN PUBLIC/PRIVATE REAL ESTATE DEVELOPMENT

MEMORANDUM

**To:** Susan Georgino, Community Development Director  
City of Burbank

**From:** Kathleen Head  
Julie Romey

**Date:** October 18, 2005

**Subject:** Inclusionary Housing Ordinance - In-Lieu Fee Update (2005)

At your request, Keyser Marston Associates, Inc. (KMA) prepared an updated financial analysis to quantify the rental and ownership inclusionary housing in-lieu fees that can potentially be imposed as part of the proposed Burbank Inclusionary Housing Ordinance (Ordinance). The purpose of this analysis is to calculate the in-lieu fees based on current market conditions.

**BACKGROUND**

The Burbank City Council directed the City of Burbank (City) staff to create an Inclusionary Housing Program (Program) for their consideration. To that end, the City staff, consultants, and a stakeholders group comprised of developers, realtors and community members, created a draft Ordinance. The KMA role in this process is to provide the technical analysis that identifies the affordability gap associated with the proposed income and affordability restrictions, and to recommend the in-lieu fee amounts that should be included at the Program's inception.

The proposed Ordinance requires 15% of all newly constructed units in residential developments of five units or more to be sold or rented to very-low, low and moderate income households at an affordable housing cost. The specific requirements are:

1. Ownership projects: The requirement can be fulfilled with units for moderate income households, which are defined as households earning up to 120% of the

Los Angeles County median income (Median) as defined by the California Housing and Community Development Department (HCD).

2. Rental projects: At least 5% of the units must be set-aside for very-low income households, and the remaining requirement can be filled with low income units.

The affordable housing costs are defined as follows:

1. Affordable Rents are defined by the California Health and Safety Code Section 50053 (Section 50053); the calculations are as follows:
  - a. Low Income Rents – 30% multiplied times 60% of the Median; and
  - b. Very-low Income Rents – 30% multiplied times 50% of the Median.
2. The Affordable Housing Cost for ownership units is calculated based on 35% multiplied times 110% of the Median, which is defined in California Health and Safety Code Section 50052.5 (Section 50052.5).

The Ordinance also allows developers to fulfill the inclusionary housing requirements by paying an in-lieu fee which is based on the gross livable area (GLA) developed in market rate projects. The objective is to set the in-lieu fees at the amounts deemed to be financially equivalent to fulfilling the Ordinance's inclusionary housing production requirements on-site.

To quantify the in-lieu fee amounts, it is necessary to identify the financial impact created by the Ordinance's affordability requirements. That financial impact is equal to the difference in value between a market rate project with no income and affordability restrictions and a project that provides the 15% inclusionary requirement on-site. This difference is known as the "affordability gap".

The KMA financial analysis is organized as follows:

Table 1:	Market Rent Comparables by Project
Table 2:	New Attached Ownership Projects
Table 3:	Affordable Rent Calculations
Table 4:	Affordable Sales Price Calculations
Table 5:	Rental Project In-Lieu Fee Calculation
Table 6:	Ownership Project In-Lieu Fee Calculation

**2005 MARKET RATE RENTS AND SALES PRICES**

**Market Rents (Table 1)**

As shown in Table 1, the current average market rents in the City are estimated as follows:

	Rent Per Square Foot of All Surveyed Projects
One-bedroom Units	\$1.90
Two-bedroom Units	\$1.75

To estimate the achievable market rents for new construction projects in the City, KMA assumed that one-bedroom units average 725 square feet and two-bedroom units average 1,000 square feet. Utilizing the market rents per square foot for recently completed projects, the following summarizes the estimated market rents per unit:

Monthly Rents	
One-bedroom Units	\$1,380
Two-bedroom Units	\$1,750

**Market Sales Prices (Table 2)**

KMA has assumed that the vast majority of new ownership housing projects in excess of four units will be medium to high density condominium projects. As shown in Table 2, two- and three-bedroom units are the typical unit types currently being developed in Burbank. The unit sales prices and sizes vary as follows:

	Average Sales Price	Average Unit Size (Sf)	Average \$/Sf
Two-bedroom Units	\$647,200	1,552	\$417
Three-bedroom Units	\$713,600	1,750	\$408

To estimate the achievable market sales prices for new construction projects in the City, KMA assumed that two-bedroom units average 1,550 square feet and two-bedroom units average 1,750 square feet. Utilizing the sales prices per square foot for recently completed projects, the following estimates the current market rate prices:

Average Sales Price	2005
Two-bedroom Units	\$646,500
Three-bedroom Units	\$714,000

**MAXIMUM AFFORDABLE RENTS AND SALES PRICE CALCULATIONS**

The following provides the methodology for calculating the affordable rents and sales prices to be used in the in-lieu fee calculations.

**Maximum Affordable Rents (Table 3)**

Based on the Ordinance, at least 5% of the units in rental developments must be set-aside for very-low income families and 10% of the units must be set-aside for low income families. The assumptions used to estimate the maximum affordable rents can be summarized as follows:

1. The household incomes are based on two-person households for one-bedroom units, and three-person households for two-bedroom units.
2. The household income is set at 60% of the Median for the low income units and 50% of the Median for the very-low income units.
3. Thirty percent (30%) of the defined household income is allocated to housing related expenses.
4. The maximum allowable rent must be adjusted to reflect the fact that the tenants will be required to pay for interior utilities costs. Based on the 2005 allowances provided by the Burbank Housing Authority, the utilities are estimated at \$50 per month for one-bedroom units and \$62 per month for two-bedroom units.

The maximum allowable rents under the defined income categories are as follows:

	One- bedroom Units	Two- bedroom Units
Low Income	\$832	\$930
Very-Low Income	\$502	\$558
Weighted Average	\$722	\$806

**Maximum Affordable Sales Prices (Table 4)**

KMA calculated the maximum affordable sales price for moderate income households based on household income statistics distributed by HCD, and the affordability standards

imposed by the Ordinance. The Ordinance applies the following affordable housing cost definition to the inclusionary housing units:

1. The household incomes are based on benchmark household sizes equal to one person more than the number of bedrooms in the unit.
2. For moderate income units, the household income is set at 110% of the Median.
3. Thirty-five percent (35%) of the defined household income is allocated to housing related expenses. These expenses are defined as mortgage debt service payments, property taxes, insurance costs, maintenance costs and utility costs. For purposes of this analysis, these costs have been estimated as follows:
  - a. The property tax cost is set at 1.1% of the projected affordable price for the units.
  - b. The insurance and maintenance cost for two-bedroom units is estimated at \$150 per month or \$1,800 per year. The cost for three-bedroom units is estimated at \$167 per month, or \$2,000 per year.
  - c. The utility allowances include gas, electricity, trash and water expenses provided by the Burbank Housing Authority. The current allowance for two-bedroom units is \$103 per month, which equates to \$1,236 per year and \$125 per month for three-bedroom units, which equates to \$1,500 per year.
  - d. The supportable mortgage amount is calculated based on the 30-year Fannie Mae interest rate plus a 50 basis points margin. Based on information published weekly in the Los Angeles Times, the interest rate plus margin is currently 6.49%.
  - e. The home buyer down payment is set at 5% of the home's affordable price.

As shown in Table 4, the maximum affordable sales prices for two- and three-bedroom units equal \$193,600 and \$213,400, respectively.

#### **IN-LIEU FEE CALCULATION METHODOLOGY**

A primary goal of the Ordinance is to encourage developers to construct the inclusionary housing units within proposed market rate residential projects. Recognizing this, the

KMA in-lieu fee calculation methodology is based on the affordability gap associated with fulfilling the Ordinance requirements on-site within proposed market rate projects.

The on-site affordable housing production requirements allow the developer to set-aside 15% of the units for very-low, low and moderate income households. To create an in-lieu fee structure that will provide the City with sufficient revenue to produce the requisite number of affordable housing units, the in-lieu fee should be set equal to the affordability gap associated with the on-site production requirement.

### **Rental Units Affordability Gap Analysis (Table 5)**

The methodology used in the KMA affordability gap analysis for rental developments can be described as follows:

1. KMA created a prototype apartment project comprised of 100 units, with the following unit mix:
  - a. 50 one-bedroom units averaging 750 square feet per unit; and
  - b. 50 two-bedroom units averaging 1,000 square feet per unit.
2. An 8% circulation factor is added to the GLA to result in a total GBA of 94,875 square feet.
3. The stabilized net operating income (NOI) estimates for the 100% market rate prototypes and the 15% inclusionary prototypes are based on the following assumptions:<sup>1</sup>
  - a. The income analysis for both market rate and income restricted projects include \$8 per unit per month in miscellaneous income and a standard 5% vacancy and collection allowance.
  - b. Operating expenses:
    - i. General operating expenses are set at \$3,000 per unit.
    - ii. A property management fee equal to 5% of the effective gross income (EGI) is provided.

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<sup>1</sup> The NOI is the gross potential rental revenue minus a vacancy and collection allowance and minus operating expenses. Debt service payments are not included in the NOI calculation.

- iii. The property tax expense estimates vary among the market rate and income restricted apartment projects. The difference is calculated by comparing the values supported by the various scenarios, assuming a 1.1% tax rate.
  - iv. The annual reserve requirements are estimated at \$150 per unit.
4. The project's value is calculated for each scenario by capitalizing the stabilized NOI at a 5.5% capitalization rate.
  5. The estimated project values for each scenario are compared to each other to identify the affordability gaps. These affordability gaps were then translated into the value reduction generated by the income and affordability restrictions.

As shown in Table 5, based on the preceding assumptions, the values per unit are estimated as follows:

	100% Market Rate	15% Affordable	Affordability Gaps
Values / Unit	\$209,100	\$189,600	\$19,500

**Ownership Units Affordability Gap Analysis (Table 6)**

KMA has assumed that the vast majority of new ownership housing projects in excess of four units will be medium to high density condominium projects. Table 6 presents a 60-unit project comprised of two- and three-bedroom units under the following assumptions:

	Average Unit Size (GLA Sf)	Number of Units	Total Sf
Two-bedroom Units	1,550	30	46,500
Three-bedroom Units	1,750	30	52,500
Total GLA			99,000
Circulation Factor			110%
Total GBA			106,920

The affordability gap per unit calculations are summarized as follows:

	Market Rate Sales Prices	Moderate Income Prices	Affordability Gap
Two-bedroom Units	\$646,500	\$193,600	\$452,900
Three-bedroom Units	\$714,000	\$213,400	\$500,600

**RECOMMENDED IN-LIEU FEE SCHEDULE**

KMA calculated the in-lieu fees based on the following assumptions:

- 1. Projects including fewer than five units are exempt from the Ordinance requirements.
- 2. The base in-lieu fee is set at 100% of the affordability gap associated with fulfilling the Ordinance requirements on-site.

	Fee/Square Foot GBA
Rental Units	\$20.53
Ownership Units	\$40.13

- 3. KMA created a sliding scale for five to 13 unit projects to reflect the impact created on small projects. The sliding scale is based on the following percentages as discussed in KMA's September 16, 2003 memorandum which explained the sliding sale methodology:

Project Size	As a % of Base Fee
14+ Units	100%
10 to 13 Units	82%
5 to 9 Units	56%

- 4. The resulting recommended in-lieu fee schedule is:

Project Size	Ownership Projects	Rental Projects
14+ Units	\$40.13	\$20.53
10 to 13 Units	\$32.91	\$16.84
5 to 9 Units	\$22.47	\$11.50
1 to 4 Units	Exempt	Exempt



TABLE 1

MARKET RENT COMPARABLES BY PROJECT  
 INCLUSIONARY HOUSING IN-LIEU FEE CALCULATION  
 BURBANK, CALIFORNIA

Project	Year Built	Total Units	Unit Type	Monthly Rent	Unit Size (SF)	\$ / SF
1 Park Place 355 North Maple Street	1987	82	1/1	\$1,495	800	\$1.87
	2003		1/1.5	\$1,525	800	\$1.91
			2/1	\$1,825	1,000	\$1.83
2 Town Center Apartments 333 Andover Drive	1989	140	1/1	\$1,295	700	\$1.85
	2000		1/1	\$1,520	890	\$1.71
			2/1.5	\$1,620	1,000	\$1.62
			2/2	\$1,670	1,020	\$1.64
3 The Royal Equestrian 1200 West Riverside Drive	1967	270	1/1	\$1,375	617	\$2.23
	1996		1/1	\$2,350	617	\$3.81
4 Kenwood Mews 230 North Kenwood	1991	141	1/1	\$1,350	770	\$1.75
	2004		1/1.5	\$1,550	898	\$1.73
			2/2	\$1,670	1,001	\$1.67
5 The Woods 316 North Maple Street	1986	89	1/1	\$1,350	740	\$1.82
			1/1	\$1,400	828	\$1.69
			1/1.5	\$1,380	740	\$1.86
			2/2	\$1,550	950	\$1.63
			2/2.5	\$1,600	980	\$1.63
6 Promenade Apartments 350 South San Fernando Blvd	1987	400	1/1	\$1,350	660	\$2.05
			1/1	\$1,375	690	\$1.99
			1/1	\$1,590	793	\$2.01
			2/2	\$1,755	968	\$1.81
			2/2	\$1,795	987	\$1.82
			2/2	\$2,050	1,089	\$1.88
			2/2	\$2,075	1,128	\$1.84
7 Avalon at Media Center 401 North Pass Avenue	1963 2002	750	1/1	\$1,313	675	\$1.95
			1/1	\$1,332	688	\$1.94
			1/1	\$1,362	700	\$1.95
			2/1	\$1,580	885	\$1.79
			2/1.5	\$1,607	900	\$1.79
			2/1.75	\$1,709	900	\$1.90
			2/1.75	\$1,785	960	\$1.86
			2/1.5	\$2,231	1,194	\$1.87
8 Media Center Villas 1731 Rogers Place	1968	77	1/1	\$1,025	660	\$1.55
	2002		2/1	\$1,400	910	\$1.54
9 The Oaks 330 North Screenland Drive	NA	NA	1/1	\$1,200	725	\$1.66
			2/2	\$1,850	1,050	\$1.76
10 Valley Apartments 230 North Valley Street	NA	NA	1/1	\$1,250	800	\$1.56
			1/1	\$1,350	900	\$1.50
			2/2	\$1,650	1,200	\$1.38
			2/2	\$1,700	1,200	\$1.42
11 Brighton Vista 222 North Buena Vista Street	NA	NA	1/1	\$1,475	720	\$2.05
	2004		2/2	\$1,875	923	\$2.03
			2/2	\$1,895	1,128	\$1.68
12 Scott Road Terrace 1720 Scott Road	NA	NA	1/1	\$1,120	610	\$1.84
			2/2	\$1,400	750	\$1.87

TABLE 1

MARKET RENT COMPARABLES BY PROJECT  
 INCLUSIONARY HOUSING IN-LIEU FEE CALCULATION  
 BURBANK, CALIFORNIA

Project	Year Built	Total Units	Unit Type	Monthly Rent	Unit Size (SF)	\$ / SF
13 Scott Villa Apartments 1720 Scott Road	NA	96	1/1	\$1,175	679	\$1.73
			1/1	\$1,275	754	\$1.69
			2/2	\$1,575	NA	NA
			2/2	\$1,650	NA	NA
14 Toluca Terrace Apartments 333 North Screenland Drive	NA	113	1/1	\$1,300	NA	NA
			2/2	\$1,600	860	\$1.86
15 Parc Pointe 620 North Hollywood Way	1991	243	1/1	\$1,200	700	\$1.71
			1/1	\$1,425	700	\$2.04
			2/2	\$1,575	1,000	\$1.58
			2/2	\$1,750	1,030	\$1.70
16 Burbank Senior Artists Colony 240 E. Verdugo Avenue	2003	141	1/1	\$1,293	617	\$2.10
			1/1	\$1,375	630	\$2.18
			2/2	\$1,751	867	\$2.02
			2/2	\$1,821	867	\$2.10

	Sample Size	Average Unit Size	Minimum Rent	Maximum Rent	Median Rent	Weighted Average Rent / SF
One-Bedroom Units	29	728	\$1,025	\$2,350	\$1,350	\$1.90
Two-Bedroom Units	27	991	\$1,400	\$2,231	\$1,709	\$1.75

Source: Rentnet.com, 10/12/05.

TABLE 2

**NEW ATTACHED OWNERSHIP PROJECTS  
INCLUSIONARY HOUSING IN-LIEU FEE CALCULATION  
BURBANK, CALIFORNIA**

<u>Name &amp; Address</u>	<u>Year Built</u>	<u>Total Units</u>	<u>Unit Type</u>	<u>Base Price</u>	<u>SF / Unit</u>	<u>\$ / SF</u>
<b>1 Village Walk</b> Olive Avenue & 3rd Street Condo	2004	140	1/2	\$569,990	1,159	\$492
	Sold-out		2/2	\$579,000	1,370	\$423
	2005		2/2	\$615,990	1,381	\$446
			2/2	\$590,990	1,385	\$427
			2/2	\$625,990	1,536	\$408
			2/3	\$685,990	1,619	\$424
			2/2	\$710,990	1,633	\$435
			2/2	\$649,990	1,638	\$397
			2/2.5	\$719,000	1,852	\$388
			3/2	\$740,990	1,942	\$382
<b>2 The Villas</b> 7th Street & East Olive Avenue Townhomes	2004	36	3/2.5	\$699,900	1,626	\$430
	Sold-out		3/2.5	\$699,900	1,681	\$416
	2005					

	<u>Sample Size</u>	<u>Average Unit Size</u>	<u>Minimum Price</u>	<u>Maximum Price</u>	<u>Average Price</u>	<u>Average Price/Sf</u>
<b>1-Bedroom Units</b>	1	1,159	\$569,990	\$569,990	\$569,990	\$492
<b>2-Bedroom Units</b>	8	1,552	\$579,000	\$719,000	\$647,243	\$417
<b>3-Bedroom Units</b>	3	1,750	\$699,900	\$740,990	\$713,597	\$408

Source: The Meyers Group, 06/30/05.

TABLE 3

AFFORDABLE RENT CALCULATION  
 INCLUSIONARY HOUSING IN-LIEU FEE CALCULATION  
 BURBANK, CALIFORNIA

	1-Bdrm	2-Bdrm
I. <b>2005 Los Angeles County Median Income</b>	\$44,100	\$49,600
II. <b><u>Low Income Rents</u></b>		
Household Income @ 80% Median	\$35,280	\$39,680
Income Allotted to Housing @ 30% of Income	\$10,580	\$11,900
Maximum Monthly Housing Cost	\$882	\$992
(Less) Monthly Utility Allowance <sup>1</sup>	(50)	(62)
<b>Maximum Monthly Rent</b>	<b>\$832</b>	<b>\$930</b>
III. <b><u>Very-Low Income Rents</u></b>		
Household Income @ 50% Median	\$22,050	\$24,800
Income Allotted to Housing @ 30% of Income	\$6,620	\$7,440
Maximum Monthly Housing Cost	\$552	\$620
(Less) Monthly Utility Allowance <sup>1</sup>	(50)	(62)
<b>Maximum Monthly Rent</b>	<b>\$502</b>	<b>\$558</b>
IV. <b><u>Weighted Average Affordable Rents</u></b>		
Low Income Rents	\$832	\$930
Low Income Inclusionary Requirement	10%	10%
% of Total Affordable Units	67%	67%
Very-Low Income Rents	\$502	\$558
Very-Low Income Inclusionary Requirement	5%	5%
% of Total Affordable Units	33%	33%
<b>Weighted Average Affordable Rents</b>	<b>\$722</b>	<b>\$806</b>

<sup>1</sup> Assumes that the tenants will pay for interior utilities costs. Utility allowances based on current LA County Housing Authority estimates.

TABLE 4

AFFORDABLE SALE PRICE CALCULATIONS  
 MODERATE INCOME  
 INCLUSIONARY HOUSING IN-LIEU FEE CALCULATION  
 BURBANK, CALIFORNIA

	Two-Bedroom Units	Three-Bedroom Units
I. 2005 Los Angeles County Median Income	\$49,600	\$55,100
II. <u>Moderate Income Sales Prices</u>		
Household Income as % of Median	110%	110%
Household Income	\$54,560	\$60,610
Income Allotted to Housing @ 35% of Income	\$19,100	\$21,210
<u>Ongoing Expenses</u>		
Maintenance & Insurance	\$1,800	\$2,000
Utilities	1,236	1,500
Property Taxes @ 1.1% of Affordable Price	2,130	2,350
<b>Total Ongoing Expenses</b>	<b>\$5,166</b>	<b>\$5,850</b>
<b>Income Available for Mortgage</b>	<b>\$13,934</b>	<b>\$15,360</b>
<u>Affordable Housing Price</u>		
Supportable Mortgage @ 6.49% Interest	\$183,900	\$202,700
Home Buyer Down Payment @ 5% of Affordable Price	9,700	10,700
<b>Maximum Purchase Price</b>	<b>\$193,600</b>	<b>\$213,400</b>

<sup>1</sup> Assumes that the home buyers will pay for their interior utility costs as well as water, sewer and trash costs. Utility allowances are based on current LA County Housing Authority estimates.

<sup>2</sup> Based on the FNMA 30-year fixed mortgage interest rate plus a 50 basis points margin.

TABLE 5

RENTAL PROJECT <sup>1</sup>  
 10% LOW INCOME AND 5% VERY-LOW INCOME ON-SITE INCLUSIONARY REQUIREMENT  
 INCLUSIONARY HOUSING IN-LIEU FEE CALCULATION  
 BURBANK, CALIFORNIA

I. On-Site Inclusionary RequirementA. Number of On-Site Inclusionary Units

Total Project Units	100
Inclusionary Requirement	15%
<b>Total On-Site Inclusionary Units (Round-up)</b>	<b>15</b>

B. Unit Distribution

	Total Project Units	% of Total Units	Inclusionary Units
One-bedroom Units	50	50%	8
Two-bedroom Units	50	50%	7
<b>Totals</b>	<b>100</b>	<b>100%</b>	<b>15</b>

II. Affordability Gap Calculation

	Market Rents	Wtd. Average Affordable Rents <sup>2</sup>	Difference
A. <u>Rents</u>			
One-bedroom Units	\$1,380	\$722	\$658
Two-bedroom Units	\$1,750	\$806	\$944
	<b>100% Market Rate</b>	<b>15% Affordable</b>	<b>Difference</b>
B. <u>Effective Gross Income</u>	\$1,878,000	\$1,735,540	\$142,460
(Less) Vacancy Allowance @ 5% Income	(93,900)	(86,780)	(7,120)
<b>Effective Gross Income</b>	<b>\$1,784,100</b>	<b>\$1,648,760</b>	<b>\$135,340</b>
C. <u>Operating Expenses</u> <sup>3</sup>			
General Operating Expenses	\$300,000	\$300,000	\$0
Property Management Fee	89,210	82,440	6,770
Property Taxes	229,980	208,550	21,430
Reserves	15,000	15,000	0
<b>Total Operating Expenses</b>	<b>\$634,190</b>	<b>\$605,990</b>	<b>\$28,200</b>
D. <u>Net Operating Income</u>	<b>\$1,149,910</b>	<b>\$1,042,770</b>	<b>\$107,140</b>
E. <u>Affordability Gap</u>			
Net Operating Income	\$1,149,910	\$1,042,770	\$107,140
Capitalization Rate	5.5%	5.5%	
<b>Project Value</b>	<b>\$20,907,000</b>	<b>\$18,959,000</b>	<b>\$1,948,000</b>
Per Unit	<b>\$209,100</b>	<b>\$189,600</b>	<b>\$19,500</b>

III. In-Lieu Fee

Total		\$1,948,000
Per Square Foot of Gross Building Area <sup>4</sup>	94,875 Square Feet GBA	\$20.53

V. <u>Sliding Scale In-Lieu Fee</u>	Discount from Base Fee <sup>5</sup>	/Sf GBA
14+ Units	NA	\$20.53
10 to 13 Units	82%	\$16.84
5 to 9 Units	56%	\$11.50
1 to 4 Units	NA	Exempt

<sup>1</sup> Project size, unit distribution and market rent assumptions based on the market research.

<sup>2</sup> See TABLE 3.

<sup>3</sup> General operating expenses equal \$3,000/unit. Property management fees equal 5% of effective gross income. Property tax set at 1.1% of the project value. Reserves equal \$150/unit.

<sup>4</sup> Assumes the following unit sizes: 725 Sf/1-Bdrm unit and 1,000 Sf/2-Bdrm unit, and a 110% circulation factor.

<sup>5</sup> Based on KMA's September 16, 2003 memorandum.

TABLE 6

OWNERSHIP PROJECT <sup>1</sup>  
 15% MODERATE INCOME ON-SITE INCLUSIONARY REQUIREMENT  
 INCLUSIONARY HOUSING IN-LIEU FEE CALCULATION  
 BURBANK, CALIFORNIA

I. On-Site Inclusionary Requirement

A. Number of On-Site Inclusionary Units

Total Project Units	60
Inclusionary Requirement	15%
<b>Total On-Site Inclusionary Units (Round-up)</b>	<b>9</b>

B. Unit Distribution

	Total Project Units	% of Total Units	Inclusionary Units
Two-bedroom Units	30	50%	5
Three-bedroom Units	30	50%	4
<b>Totals</b>	<b>60</b>	<b>100%</b>	<b>9</b>

II. Affordability Gap / Unit

	Two-bedroom Units	Three-bedroom Units	Weighted Average
Market Price <sup>2</sup>	\$646,500	\$714,000	\$680,250
Maximum Affordable Price <sup>3</sup>	193,600	213,400	203,500
<b>Affordability Gap Per Unit</b>	<b>\$452,900</b>	<b>\$500,600</b>	<b>\$476,750</b>

III. Total Affordability Gap

\$4,291,000

IV. Base In-Lieu Fee

Per Unit		\$71,500
Per Square Foot of Gross Building Area <sup>4</sup>	106,920 Square Feet GBA	\$40.13

V. Sliding Scale In-Lieu Fee

	Discount from Base Fee <sup>5</sup>	/Sf GBA
14+ Units	NA	\$40.13
10 to 13 Units	82%	\$32.91
5 to 9 Units	56%	\$22.47
1 to 4 Units	NA	Exempt

<sup>1</sup> Project size, unit distribution and market rate sales price assumptions based on the market research.

<sup>2</sup> Assumes the typical two-bedroom unit equals 1,550 sf and the typical three-bedroom unit equals 1,750 sf.

<sup>3</sup> See TABLE 4.

<sup>4</sup> Gross building area includes a 108% circulation factor.

<sup>5</sup> Based on KMA's September 16, 2003 memorandum.