



KEYSER MARSTON ASSOCIATES

REPORT TO CITY COUNCIL

**ON A BALLOT INITIATIVE TITLED
MEASURE M
REQUIRING PRIOR VOTER APPROVAL FOR ANY
AMENDMENT TO GENERAL PLAN OR ZONING
REGULATIONS TO INCREASE HEIGHT LIMIT OR FLOOR
AREA RATIOS; AND INCREASING INCLUSIONARY HOUSING
REQUIREMENTS FROM 20% TO AT LEAST 25% FOR
DEVELOPMENTS WITH 30 OR MORE HOUSING UNITS**

**PREPARED FOR:
CITY OF SANTA CRUZ**

**PREPARED BY:
KEYSER MARSTON ASSOCIATES, INC.**

JANUARY 18, 2024

TABLE OF CONTENTS

INTRODUCTION	1
I. REQUEST FOR AN IMPACT REPORT RELATED TO MEASURE M.....	1
II. REPORT ORGANIZATION	1
EXECUTIVE SUMMARY	3
I. RESTRICTIONS ON GENERAL PLAN & ZONING ORDINANCE AMENDMENTS.....	3
II. INCLUSIONARY HOUSING REQUIREMENTS	5
RESTRICTIONS ON GENERAL PLAN & ZONING ORDINANCE AMENDMENTS.....	9
I. CITY ACTIONS THAT WOULD TRIGGER MEASURE M REQUIREMENTS.....	9
II. SECTION 65915 DENSITY BONUS ISSUES.....	13
III. INCREASED DEVELOPER RISK.....	14
IV. MEASURE M IMPACT ON THE CITY’S RHNA TARGETS AND HOUSING ELEMENT	15
V. FISCAL IMPACTS	17
INCLUSIONARY HOUSING REQUIREMENTS.....	19
I. INCLUSIONARY HOUSING PROGRAM STRUCTURING ISSUES	19
II. FINANCIAL EVALUATION METHODOLOGY	21
III. APARTMENT DEVELOPMENT ANALYSIS	27
IV. OWNERSHIP HOUSING DEVELOPMENT ANALYSES.....	34
V. FINANCIAL EVALUATION CONCLUSIONS	40

ATTACHMENTS

Attachment 1: Resolution No. NS-30,240

Attachment 2: Affordable Housing Cost Calculation Methodologies

- Appendix A: Affordable Rent Calculation Methodology
- Appendix B: Affordable Sales Price Calculation Methodology

Attachment 3: Apartment Development

- Appendix A: Rent Survey: 4+ Star Properties
- Appendix B: Affordable Rent Calculations
- Appendix C: Pro Forma Analyses: High Density – Traditional Apartment Prototype
- Appendix D: Pro Forma Analyses: Medium Density – Traditional Apartment Prototype
- Appendix E: Pro Forma Analyses: SRO Apartment Prototype

Attachment 4: Ownership Housing Development

- Appendix A: Home Sales Survey
- Appendix B: Affordable Sales Price Calculations
- Appendix C: Pro Forma Analyses: High Density Condominium Prototype
- Appendix D: Pro Forma Analyses: Low Density Condominium Prototype
- Appendix E: Pro Forma Analyses: Townhome Prototype

INTRODUCTION

I. REQUEST FOR AN IMPACT REPORT RELATED TO MEASURE M

At a meeting held on October 24, 2023, the Santa Cruz City Council (City Council) directed City of Santa Cruz (City) staff to prepare an impact report on an initiative that has been placed on the March 5, 2024 primary election ballot. For reference purposes, the initiative has been given the following title:

Measure M
Requiring Prior Voter Approval for any Amendment to General Plan or Zoning Regulations to Increase Height Limits of Floor Area Ratio ; and Increasing Inclusionary Housing Requirements from 20% to at least 25% for Developments with 30 or more Housing Units

Throughout this report the initiative will be referred to as Measure M.

II. REPORT ORGANIZATION

Keyser Marston Associates, Inc. (KMA) was engaged by the City to prepare the impact report that was requested by the City Council. The following report is divided into the following two components:

A. Restrictions on General Plan & Zoning Ordinance Amendments

The following issues that could potentially be impacted by the Measure M limitations are evaluated on a qualitative basis:

1. City actions that would trigger the Measure M requirements.
2. Issues related to projects applying to use the California Government Code Section 65915 et seq. (Section 65915) density bonus statute.
3. The increased risk borne by developers considering projects that would be subject to a vote of the people.

4. The impact on achieving compliance with existing and future Regional Housing Needs Allocation (RHNA) targets.
5. The potential fiscal impact to the City.

B. Inclusionary Housing Requirements

The City's original Inclusionary Housing Ordinance was adopted following the passage of Measure O in 1980, which imposed a 15% affordable housing requirement on new residential development within Santa Cruz. The Inclusionary Housing Ordinance has been amended multiple times over time, with the most recent being Ordinance 2019-25, which went into effect in February 2020, and which imposed a 20% affordable housing requirement on new residential development.¹ Measure M proposes to increase the Inclusionary Housing requirement to at least 25% for new residential developments that include 30 or more units.

KMA prepared an Inclusionary Housing: Financial Evaluation (Financial Evaluation) to analyze the impacts created by increasing the affordable housing requirement to 25% for new residential developments that include 30 or more units. The analysis is organized as follows:

1. The influences that court cases and legislation have on the Inclusionary Housing requirements that can be imposed by the City are discussed.
2. Financial testing was performed to evaluate the feasibility of increasing the percentage of affordable housing units that are required to be developed in new residential developments in Santa Cruz.

¹ The City's Inclusionary Housing requirements are codified in Chapter 24.16 of the Santa Cruz Municipal Code.

EXECUTIVE SUMMARY

I. RESTRICTIONS ON GENERAL PLAN & ZONING ORDINANCE AMENDMENTS

The City received a Sixth Cycle RHNA target of 3,736 units. In part to assist in fulfilling the current and future obligations, the City commenced work on the Downtown Expansion Plan (DTEP) in 2020, which is anticipated to include amendments to the General Plan and Zoning Ordinance that will increase the allowable building heights and floor area ratios (FARs) for residential development.

A. City Actions that would Trigger the Measure M Requirements

One of the authors' stated purposes for putting Measure M forward is to subject any proposed increases in building heights and/or FARs in downtown development to a vote of the people. While it does that, as written, the Measure M voting requirements impose the following broader constraints:

1. They apply on a citywide basis in all zoning districts.
2. They apply to regulations pertaining to a wide array of developments including accessory dwelling units (ADUs) in certain Coastal Zone locations, single family homes, commercial/industrial buildings, and 100% affordable housing projects.
3. They constrain the City's ability to comply with State law requirements to align development standards and use allowances by 2027. This alignment is called for in the City's Sixth Cycle Housing Element (Housing Element), which has been certified by the California Department of Housing and Community Development (HCD).
4. They potentially impede the City's ability to adhere to the California Government Code Sections 65863 and 66300 "no net loss" requirements.
5. They will trigger a Measure M vote of the people requirement to bring the City's Zoning Ordinance and/or General plan into compliance with new State legislation that results in mandated increases to allowable residential building heights and/or FARs.

B. Section 65915 Density Bonus Issues

The Section 65915 density bonus provides developers with the opportunity to significantly modify development standards without requiring amendments to the General Plan or Zoning Ordinance. For example, the City will be required to approve the increases in building heights and FARs that are commonly requested as the statutorily provided incentives/concessions or development standards waivers. These modifications, in and of themselves, do not constitute changes to the General Plan or Zoning Ordinance. As such, they would not trigger a Measure M vote of the people.

C. Increased Developer Risk

The imposition of a voter approval requirement on a proposed development negatively impacts the desirability of the investment. This impact is related to the combination of the increased uncertainty in the entitlement process, the additional costs incurred during the process, and by the risk that the voters will not approve the General Plan and/or Zoning Ordinance changes needed to allow the project to proceed. This may act to reduce the number of residential projects that are proposed by experienced and well capitalized developers.

D. Measure M Impacts on the City's RHNA Targets and Housing Element

HCD has imposed strict timelines for jurisdictions to adopt General Plan designations and zoning standards that comply with their RHNA targets. If the housing production targets and objectives identified in the Housing Element are not achieved within the timelines specified, the developers of eligible housing projects would be allowed to use the housing development application streamlining provisions set for in California Government Code Section 65913.4.² This removes some local decision-making control, and exempts proposed projects from California Environmental Quality Act review.

Complying with the HCD requirements is made more challenging by Measure M. In addition to the risk that developers will be reluctant to take the risk of voter approval, there is the significant potential that certain sites may not be approved by the voters for additional height and/or FAR. Measure M

² These provisions were created by Senate Bill 35, which went into effect on January 1, 2018.

could also make achieving Housing Element objectives more difficult as it would trigger a vote of the people in order to implement Objectives 1.2a, 1.2d, 1.2e, 1.3e, 6.2f, and others.

The ultimate penalty is that HCD could potentially decertify the City's Housing Element. This would trigger a variety of penalties including limiting the City's ability to enforce General Plan and Zoning Ordinance standards, disqualification for the award of affordable housing assistance funds provided by the State, and monetary penalties that may be devised by the State Legislation in the future.

E. Fiscal Impacts

It is anticipated that if Measure M goes into effect at least one election/vote of the people per year would be required. Based on estimates provided by the Santa Cruz County Elections department, the current cost of an election falls within the range of \$115,000 to \$185,000.

There continues to be significantly more demand for housing than the supply of housing in Santa Cruz. As a result, housing is becoming increasingly unaffordable each year. It can reasonably be assumed that the requirements imposed by Measure M will negatively impact the potential for the development of both market rate and affordable housing. To mitigate this problem the City will likely need to create and fund additional programs that reduce displacement of existing residents and that assist in the development of dedicated affordable housing projects beyond those that the City already supports.

II. INCLUSIONARY HOUSING REQUIREMENTS

The KMA Los Angeles office has assisted 37 jurisdictions in the Inclusionary Housing program adoption and updating processes over the past 25 years. KMA's analyses reflect a real world perspective based on the firm's core experience in real estate development economics, real estate transactions, and developer negotiations services.

The imposition of income and affordability restrictions on units in a market rate residential development creates an impact on the project economics. The fundamental purpose of the Financial Evaluation is to determine whether the Inclusionary Housing requirements included in Measure M comport with the requirements that have been imposed on Inclusionary Housing programs by the

courts and the State Legislature. Based on these requirements, the fundamental standards that must be imposed are:³

1. Inclusionary Housing requirements cannot be confiscatory;
2. Inclusionary Housing requirements cannot deprive a property owner of a fair and reasonable return on investment; and
3. Inclusionary Housing requirements cannot act as a constraint to housing development.

A. Financial Analysis Components

The Financial Evaluation tested three apartment development prototypes and three ownership housing development prototypes. The prototypes were created using the City’s “Active Planning Applications” webpage and the Housing Element. These prototypes can be described as follows:

Market Rate Residential Development Prototypes Inclusionary Housing : Financial Evaluation	
Apartment Prototypes	Ownership Housing Development Prototypes
High Density – Traditional Apartment Base Density: 150 Units Per Acre Density Bonus: 225 Units Per Acre	High Density Condominium Base Density: 125 Units Per Acre Density Bonus: 169 Units Per Acre
Medium Density – Traditional Apartment Base Density: 60 Units Per Acre Density Bonus: 90 Units Per Acre	Low Density Condominium Base Density: 30 Units Per Acre Density Bonus: 45 Units Per Acre
SRO Apartment Base Density: 125 Units Per Acre Density Bonus: 188 Units Per Acre	Townhome Base Density: 15 Units Per Acre Density Bonus: Not Applicable

³ The first two requirements were imposed by the California Supreme Court in *California Building Industry Association v. City of San Jose*. The third requirement is imposed by California Government Code Section 65583 (A).

The Financial Evaluation estimates the “Affordability Gaps” associated with the defined income and affordability restrictions. An Affordability Gap is defined as the difference between the achievable market rate rents or sales prices and the allowable rents or sales prices for each “Inclusionary Unit”. This Financial Evaluation uses pro forma analyses to estimate the Affordability Gaps generated by the existing Inclusionary Housing requirements and the requirements proposed by Measure M.

B. Financial Evaluation Findings

There is very little vacant developable land left in Santa Cruz. As a result, the majority of recent new residential development has been occurring on properties that are developed with existing improvements. The Housing Element makes the fundamental assumption that this will continue to be the case. For this to occur, the property value supported by residential development must be competitive with the other opportunities available to property owners.

Based on the results of the pro forma analyses, KMA reached the following conclusions:

1. Apartment Development:
 - a. Under current conditions, the existing 20% Inclusionary Housing requirement can only be supported if the project can make use of the Section 65915 density bonus on a cost efficient basis.
 - b. A 25% Inclusionary Housing requirement could not be supported by any of the apartment prototypes even it was assumed that the maximum Section 65915 density bonus was applied.
2. Ownership Housing Development:
 - a. Under current conditions ownership housing development cannot support an affordable housing requirement of any kind.
 - b. It is possible that developers of some mapped apartment projects may ultimately sell the units. However, the opportunities for this to occur will be constrained by the

imposition of the current 20% Inclusionary Housing obligation. This constraint will be exacerbated if the Inclusionary Housing requirement is increased to 25%.

As discussed previously, the courts and the State legislature have imposed the following requirements on Inclusionary Housing programs:

1. Inclusionary Housing requirements cannot be confiscatory;
2. Inclusionary Housing requirements cannot deprive a property owner of a fair and reasonable return on investment; and
3. Inclusionary Housing requirements cannot act as a constraint to housing development.

Based on the results of the Financial Evaluation KMA reached the following conclusions:

1. The Measure M requirement to increase the Inclusionary Housing obligation to 25% for projects with 30 or more units does not comport with any of the requirements imposed by the courts and the State Legislature.
2. Given the financial impacts created by the proposed increase in the Inclusionary Housing obligations, residential development will not be competitive with the other disposition or holding opportunities available to property owners.
3. If Measure M passes, significant potential exists for legal challenges from residential developers and/or an HCD constraint to housing investigation. This could possibly result in the decertification of the City's Housing Element.

RESTRICTIONS ON GENERAL PLAN & ZONING ORDINANCE AMENDMENTS

The City received a Sixth Cycle RHNA target of 3,736 units. To assist in fulfilling this and future obligations, the City commenced work on the DTEP in 2020 with one of the fundamental purposes being to increase the potential for residential development to be attracted to the downtown area. To achieve this, the proposed DTEP is anticipated to include amendments to the General Plan and Zoning Ordinance that will increase the allowable building heights and floor area ratios (FARs) for residential development.

One of the authors' stated purposes for putting Measure M forward is to subject any proposed increases in building heights and/or FARs in the downtown to a vote of the people. However, as written, Measure M requirements actually would apply on a citywide basis. In addition, the Measure M requirements would be retroactive to June 1, 2023.

The following sections of this report describe the impacts that could potentially be generated by the Measure M requirements.

I. CITY ACTIONS THAT WOULD TRIGGER MEASURE M REQUIREMENTS

A. Development Types that are Subject to the Measure M Requirements

The term "Development Project" is defined in Municipal Code Chapter 24.22.265 as:

Any project undertaken for the purpose of development. Includes a project involving the issuance of a permit for construction or reconstruction, but not a permit to operate. Does not include ministerial projects proposed to be carried out or approved by the City.

The use of the term development project in Measure M means that any change to the Zoning Ordinance, Zoning Ordinance Map, General Plan, or General Plan Land Use Map, which increases the building height and/or FAR for any project that requires a discretionary permit (other than just a use permit), would trigger a vote of the people. The following development types provide a sample of projects that can potentially require a discretionary permit:

1. Single family homes;
2. ADUs in certain Coastal Zone locations;
3. Multifamily residential projects, including residential projects in which 100% of the units are subject to income and affordability covenants;
4. Mixed-use projects;
5. Commercial projects;
6. Industrial projects;
7. Public building construction projects carried out by the City;
8. Some fences, including fences on single family home properties; and
9. Properties on the City's Historic Survey.

B. Examples of Potential Measure M Triggers

CHANGES TO GENERAL PLAN TEXT, ZONING ORDINANCE TEXT, GENERAL PLAN LAND USE DESIGNATIONS, AND/OR ZONING DESIGNATIONS

Measure M would require voter approval for any modifications to the Zoning Ordinance and/or General Plan when the changes result in increased height and/or FAR allowances for any project that requires a discretionary permit from the Planning Department.⁴ The Measure M voter approval requirement applies to residential, commercial, industrial, mixed use, and public spaces development located anywhere within the Santa Cruz city limits.

The Measure M requirements apply to a broad range of changes, including but not limited to the following actions:

⁴ Projects that only require a use permit would not trigger a Measure M vote of the people.

1. Changing the General Plan land use designation (General Plan Land Use Map) in a manner that increases height and/or FAR allowances.
2. Changing the Zoning Designation (Zoning Map) in a manner that increases height and/or FAR allowances.
3. Changing the text of the General Plan or Zoning Ordinance in a manner that increases height and/or FAR allowances. The following actions could impact height and/or FAR, which would in turn trigger a Measure M vote of the people:
 - a. Changes to certain setbacks;
 - b. Changes to certain lot coverage requirements;
 - c. Changes to certain building separation requirements;
 - d. Changes to certain limitations on the number of stories allowed; and/or
 - e. Other standards that effect height or FAR for “development projects”, which includes a broad array of potential projects, as noted above.

DEVELOPMENT STANDARDS ALIGNMENT

State law requires the City to adopt zoning changes by 2027 to align development standards and use allowances with the maximum intensity already allowed by State law. Specifically, properties must be allowed to achieve the maximum intensity permitted under the General Plan or Zoning Ordinance standards. This includes height and lot coverage standards. Pertinent examples are:

1. The zoning standards in place in the Ocean Street Area Plan, which need to be amended to be consistent with the General Plan development standards.
2. It would be useful to adopt Code amendments to provide clarity to the development standards that would be applicable in the following cases:

- a. The minimum lot size requirement for properties subject to R-L zoning.
- b. The property located at 125 Coral Street, which is anticipated to be developed with a five-story physical health, mental health, navigation center with permanent supportive housing and/or an expanded homeless shelter.
- c. The affordable housing project proposed to be developed on the northeast corner of Highways 1 and 9, which could trigger the Measure M requirements depending on the modifications that are ultimately requested.
- d. The prospective development of the properties located on the north side of Mission Street at Center Street.
- e. The DTEP, particularly as it pertains to the development of the four corners of Front Street and Spruce Street to 140 Center Street.

NO NET LOSS REQUIREMENTS

California Government Code Sections 65863 and 66300 impose a “no net loss” standard on jurisdictions that requires any reduction in residential capacity to be concurrently accompanied by an equivalent increase in residential capacity elsewhere. This standard is measured against the unit count projections the City included in the “Housing Element Sites Inventory”. Examples of activities that could invoke a requirement to increase capacity elsewhere in Santa Cruz are:

1. Any project that is developed on a listed site and that provides fewer than the identified target number of units.
2. City actions that reduce the residential capacity on a listed site by reducing height, FAR, dwelling units per acre, and/or increasing setback requirements.

This explicit requirement to increase the allowable unit count on other sites would likely necessitate increasing the allowable FAR and likely height on those sites. This would trigger a Measure M vote of the people.

STATE LEGISLATIVE ACTIONS

State legislation can result in mandated increases to allowable residential building heights and/or FARs. As written, this will trigger a Measure M vote of the people to make the City's Zoning Ordinance and/or General Plan consistent with State standards. This is the case despite the fact that the City has no authority to override the State requirements. Some examples are:

1. Authority to construct residential projects on commercially zoned sites;
2. Authority to construct residential units on school and religious properties;
3. Prohibition on coupling minimum lot sizes and lot coverage ratios with minimum FAR standards, which act to preclude development of residential projects of up to 10 units;
4. Increasing the maximum height limits for ADU's; and
5. Lot splits allowed in single family zones.

II. SECTION 65915 DENSITY BONUS ISSUES

Height and FAR increases are two of the most commonly requested incentives/concessions and development standards waivers by applicants using the Section 65915 density bonus. Key requirements imposed by Section 65915 are:

1. The City must grant the applicant's request for an incentive/concession unless the City makes a written finding, based on substantial evidence, that the requested FAR incentive/concession does not comport with the very limited criteria defined in Section 65915 (d) (1).
2. Section 65915 (e) states that the City cannot apply any development standard that physically precludes the construction of a project at the density allowed by Section 65915 along with the permitted incentives/concessions:
 - a. Development standards waivers do not reduce the number of incentives or concessions to which the project is entitled.

- b. There is no stated limit to the number of development standards waivers that can be requested.
3. Section 65915 (d) (3) provides the Applicant with the right to pursue legal action if the City denies a requested incentive/concession or waiver. If the court finds against the City, the City would be required to pay the applicant's reasonable attorney's fees and the costs associated with the lawsuit.

As discussed in detail in the Inclusionary Housing Requirements section of this report, it is likely that the vast majority of residential developers will make use of the Section 65915 density bonus benefits. This provides developers with the opportunity to significantly modify development standards without amendment to the General Plan or Zoning Ordinance. As such, the use of the Section 65915 density bonus should not trigger a Measure M vote of the people even though it will likely result in increased building heights and FARs in many cases.

III. INCREASED DEVELOPER RISK

The development process is fraught with several levels of risk, but in general developers seek out development opportunities in which the entitlement process is well defined, and uncertainty is minimized. The imposition of a voter-approval requirement creates the following key impacts:

1. It increases the inherent risk that a development will not be approved;
2. It requires developers to make a substantial investment of capital prior to placing the proposed development in front of the voters; and
3. It prolongs the development process, which increases the carrying costs incurred by the proposed development.

A review of the available scholarly literature provides consistent evidence that imposing voter-approval requirements on proposed development creates a negative impact on development opportunities. This impact is caused by the combination of the increased uncertainty involved in the development

approval process, the additional costs incurred during the process, and the risk that the voters will not approve projects that are put forward for a vote. It is reasonable to conclude that the voter approval requirements imposed by Measure M will discourage some developers from pursuing projects that require height and/or FAR increases.

IV. MEASURE M IMPACT ON THE CITY'S RHNA TARGETS AND HOUSING ELEMENT

HCD has imposed strict timelines for jurisdictions to adopt General Plan designations and zoning standards that comply with their RHNA targets. Requiring a vote of the people to ratify the necessary modifications will potentially create the following impacts:

1. The voter approval requirement may discourage both the developers of market rate housing and affordable housing from pursuing residential development in Santa Cruz.
2. The entitlement period for impacted residential developments will be extended by the election timing.
3. Proposed projects that require height and/or FAR increases may be voted down in Measure M elections.

The combination of these factors could decrease the number of residential units that are actually produced to below the targets included in the Housing Element. This would create the following impacts:

1. Developers of eligible projects would be allowed to use the housing development application streamlining provisions provided by California Government Code Section 65913.4. However, the use of this provision would likely be limited due to the various costs associated with Measure M compliance, most notably the increased Inclusionary Housing requirement.
2. For the current Housing Element, limited housing production would result in the requirement for the City to implement additional measures to increase housing production, as is called for in Objective 1.3i of the Housing Element:

- a. These changes would likely include actions that require Measure M voter approval; and
 - b. If housing production numbers are lagging, and the City does not adopt policy changes to further promote housing production, HCD could potentially de-certify the City's Housing Element.
3. For future Housing Elements, limited housing production and the smaller development project pipeline will reduce the number of sites that HCD finds acceptable for the future Housing Elements Sites Inventory:
- a. This will make it more likely that General Plan and/or Zoning Code amendments will be necessary to establish an sites inventory with sufficient residential capacity.
 - b. These amendments would likely trigger the Measure M voter approval requirement, which could potentially create the following impacts:
 - i. The process could delay the process beyond the State mandated deadlines; and/or
 - ii. The voters could reject the proposed amendments.
 - c. As a result, HCD could potentially decertify the City's Housing Element.

Lack of a certified Housing Element would result in the following impacts:

1. California Government Code Section 655589.5, also known as Builder's Remedy, could be invoked. This allows developers to build residential projects that do not comply with either the General Plan or the Zoning Ordinance.
2. Leveraged affordable housing projects being pursued by the City and/or developers would be ineligible to receive assistance funding offered by the State.
3. The City's Pro-Housing Designation would be revoked. This designation provides the City with a competitive advantage in securing grants offered by the State.

4. The State Legislature Penalties may continue their recent practice of enacting monetary penalties for noncompliance with Housing Element requirements.

V. FISCAL IMPACTS

A. Election Costs

Based on historical and recent trends, including complying with State law, it is anticipated that on average the passage of Measure M would result in at least one election/vote of the people per year. Based on estimates provided by the Santa Cruz County Elections department, the current cost of an election falls within the range of \$115,000 to \$185,000. This amount will fluctuate based on the following factors:

1. The number of registered voters at the time of the election;
2. The number of items the City places on the ballot; and
3. Whether the item is placed on a regularly scheduled election or if a special election is called by the City.

B. Housing Supply

Due in large part to the existence of significantly more demand for housing than the supply of housing in Santa Cruz, housing costs continue to outpace inflation. Passage of Measure M will clearly create a constraint to the future development of both market rate and affordable housing. The resulting reduction in housing production will necessitate the creation and funding of additional programs to reduce displacement of existing residents and to assist in the development of dedicated affordable housing projects.

Since the State's elimination of redevelopment agencies in 2012 no new ongoing source of dedicated affordable housing funding has been identified or made available to local governments for affordable housing production. The need to develop and fund new affordable housing programs will place a further strain on the City's General Fund unless or until a new funding source is created.

The potential for a community led initiative to create a new funding source is being contemplated locally. However, currently no such funding stream exists at the local, regional or state level to offset the increased constraint to the future development of affordable housing that would be created under Measure M.

INCLUSIONARY HOUSING REQUIREMENTS

I. INCLUSIONARY HOUSING PROGRAM STRUCTURING ISSUES

In the process of evaluating the increase in the Inclusionary Housing obligations proposed by Measure M it is important to understand that the courts and the State Legislature have placed the following key limitations on the requirements that can be imposed Inclusionary Housing Programs:

A. San Jose Case

In 2015, the California Supreme Court ruled in the *California Building Industry Association v. City of San Jose*, 61 Cal 4th 435 (*San Jose*) that Inclusionary Housing Ordinances should be viewed as use restrictions that are a valid exercise of a jurisdiction's zoning powers. The limitations imposed by the Court can be summarized as follows:

1. The requirements cannot be "Confiscatory"; and
2. The requirements cannot deprive a property owner of a fair and reasonable return on their investment.

Since the Court did not provide criteria under which jurisdictions can evaluate these limitations, each jurisdiction is left to create an evaluation methodology. The objective is to balance the interests of property owners, developers and the jurisdiction's need for affordable housing.

B. Assembly Bill 1505

Assembly Bill (AB) 1505 amended Section 65850 of the California Government Code and added Section 65850.01. This legislation provides jurisdictions with the ability to adopt programs that impose Inclusionary Housing requirements on apartment developments.

Section 65850.01 does not place a cap on the percentage of units that can be subject to income and affordability restrictions. However, Section 65850.01 (a) gives HCD the authority to review the restrictions imposed by an Inclusionary Housing Program on apartment developments if it requires that more than 15% of the units to be restricted to households earning less than 80% of the area median income (AMI), and if one of the following conditions applies:

1. The jurisdiction has failed to meet at least 75% of its share of its above moderate income Regional Housing Needs Allocation over at least a five year period, based on the jurisdiction's Annual Housing Element Report; or
2. HCD finds that the jurisdiction has not submitted their Housing Element report for at least two consecutive years.

At this time, the City has fulfilled the requirements imposed by both of the standards identified above. As such, HCD does not have authority under Section 65850.01 (a) to review the Inclusionary Housing requirements Measure M proposes to impose. However, in a technical guidance memorandum dated October 21, 2019, HCD reaffirmed its authority to review Inclusionary Housing ordinances as part of its review of a jurisdiction's Housing Element.

As discussed previously, the current 6th Cycle RHNA targets for housing creation will pose a significantly greater challenge for the City to achieve. It is possible that the City may find itself subject to these provisions within a five-year timeframe if substantial progress on the current RHNA targets is not achieved.

C. California Government Code Section 65583 (A)

California Government Code Section 65583 (a) requires the City to analyze potential and actual constraints being placed on the development of housing. HCD has the discretion to require the City to demonstrate that the Inclusionary Housing requirements do not create a constraint to housing development.

The imposition of the 25% Inclusionary Housing requirement proposed by Measure M could potentially instigate an HCD review. If such an evaluation concludes that a 25% Inclusionary Housing requirement creates a constraint to housing development it is possible that the City’s Housing Element could be de-certified. The implications of not having a certified Housing Element are described in the previous chapter of this report.

II. FINANCIAL EVALUATION METHODOLOGY

A. Financial Evaluation Structure

The analysis structure applied by KMA can be described as follows:

1. KMA prepared financial analyses to assist in identifying the impacts associated with imposing income and affordability requirements on new market rate residential developments.
2. In general terms, the financial impact associated with fulfilling Inclusionary Housing requirements within market rate projects is equal to the Affordability Gap between the achievable market rate rents or sales prices and the allowable rents or sales prices for the Inclusionary Units.
3. The KMA financial analyses test the impacts associated with the existing and proposed Inclusionary Housing production requirements.

The KMA financial analyses components are described in the following sections of this report.

B. Residential Development Prototypes

To assist in creating development prototypes for use in the evaluation, KMA reviewed the City’s “Active Planning Applications” webpage and the Housing Element. It is important to understand that the prototypes used in the Financial Evaluation do not represent actual projects. Instead, the prototypes represent composites of projects that have recently been developed or proposed for development and the results of KMA market surveys.

C. Pro Forma Analyses

Apartment Development Prototypes

KMA prepared pro forma analyses for the following apartment development prototypes:

1. A high density traditional apartment development;
2. A medium density traditional apartment development; and
3. A single room occupancy (SRO) development.

The following development scope and affordability standards were tested for the apartment development alternatives:

Development Scope and Affordability Standards Apartment Development Prototypes			
	Inclusionary Housing Low Income 80% of AMI	Section 65915 Very Low Income 50% of AMI	Total Affordable Housing Requirement
Base Zoning Scenario	20%	NA	20%
Section 65915: 50% Density Bonus Scenarios			
Option 1	5%	15%	20%
Option 2	10%	15%	25%

Ownership Housing Development Prototypes

KMA prepared pro forma analyses for the following ownership housing development prototypes:

1. A high density condominium development;
2. A low density condominium development; and
3. A townhome development.

The following development scope and affordability standards were tested for the ownership housing development alternatives:

Development Scope and Affordability Standards High Density Condominium Alternative Ownership Housing Development Prototypes			
	Base Zoning	35% Density Bonus	
		Option 1	Option 2
Inclusionary Units: Moderate Income Units @ 110% of AMI	20%	9%	14%
Section 65915 Very Low Income Units @ 50% of AMI	NA	11%	11%
Total Affordable Housing Requirement	20%	20%	25%

Development Scope and Affordability Standards Low Density Condominium Alternative Ownership Housing Development Prototypes			
	Base Zoning	50% Density Bonus	
		Option 1	Option 2
Inclusionary Units: Moderate Income Units @ 110% of AMI	20%	5%	10%
Section 65915 Very Low Income Units @ 50% of AMI	NA	15%	15%
Total Affordable Housing Requirement	20%	20%	25%

Development Scope and Affordability Standards Townhome Alternative No Density Bonus Scenarios Ownership Housing Development Prototypes	
Existing Inclusionary Housing Requirements	20% Moderate @ 110% of AMI
Measure M Inclusionary Housing Requirements	25% Moderate @ 110% of AMI

Caveats

The following caveats apply to the pro forma analyses:

1. A fundamental premise of the pro forma analyses is that Measure M is not proposing to modify the affordable housing cost calculation methodologies that are imposed by the existing Inclusionary Housing program.
2. In each apartment and ownership housing prototype analysis, the affordable housing requirements are measured against the number of units allowed by the base zoning standards imposed on the development site.
3. Based on the Affordable Rent and Affordable Sales Price calculation methodologies imposed by Section 65915 (c) (1) (B), and the sliding scale density bonuses provided by Section 65915 (f), it is mathematically most advantageous from a financial standpoint to fulfill the Section 65915 affordability requirements with very low income units.
4. The City's Inclusionary Housing program, as detailed in Municipal Code Chapter 24.16, requires ownership housing developments with five or more units to allocate 20% of the units to low and moderate income households. KMA prepared this Financial Evaluation based on the assumption that the entire obligation can be fulfilled with moderate income units.
5. The Townhome Prototype analysis does not include any Section 65915 density bonus alternatives. This is because townhome projects do not typically require the density bonus, incentives/concessions and development standards waivers to maximize the development's value.

D. Financial Evaluation Tests

It has been KMA's experience that the following series of events occurs following the increase in the requirements imposed by an Inclusionary Housing program:

1. Profits are reduced for developers that have already purchased land.

2. Developers that have not purchased land attempt to bargain for a lower land price.
3. Some property owners are reluctant to accept the fact that their land value has decreased, and they defer selling the property until prices increase.

Each of these three factors is relevant in the assessment of the impact created by an increase in Inclusionary Housing obligations:

1. City staff have received questions from developers regarding a number of properties, which may indicate property acquisitions since June 1, 2023. If Measure M passes, it is likely that developers that acquired property after June 1, 2023, but had not yet entered the formal approval process, will challenge the legality of imposing the requirements retroactively.
2. Developers that had complete applications or formal SB 330 preliminary applications prior to June 1, 2023 would not be subject to the Measure M requirements, assuming the project proceeds and retains its grandfathering under the prior regulations.

In recognition of this assumption, KMA has placed the most weight on the following impacts:

1. The reduction in property acquisition cost that would need to be achieved to offset the impact created by the proposed 25% Inclusionary Housing requirement; and
2. The increase in market rate rents and sales prices that would be needed to offset the proposed requirements.

The preceding tests are the evaluation methodology used to balance the impacts that increasing the Inclusionary Housing requirements has on developers and property owners. Specifically, the factors to be considered are:

1. The need for residential development to support land values that are competitive with other potential uses, and that exceed the value the property owner is currently receiving from the existing use of the property; and

2. To gain an understanding of the near-term increases in achievable market rate rents and sales prices that would need to be achieved to offset the impacts created by the increased Inclusionary Housing requirement.

It is important to understand that every proposed residential development embodies unique characteristics. As such, the benchmarks presented in the following table were used collaboratively to identify the Inclusionary Housing requirements that can be supported:

Benchmark Evaluation Standards Inclusionary Housing Evaluation	
Reduction in property acquisition cost needed to offset the impact created by the Inclusionary Housing requirements.	30%
The increase in market rate rents and sales prices that would be needed to offset the proposed requirements.	4%

Ideally, both benchmark standards would be met. However, to give the 25% Inclusionary Housing requirement the best chance of being deemed to be supportable, KMA only required one of the benchmarks to be achieved in each alternative being evaluated.

E. Financial Analysis Organization

The following sections of the Financial Evaluation describe the assumptions, analysis and findings related to apartment and ownership housing developments. The analyses are supported by the following Attachments:

Financial Analysis Organization	
Attachment 2:	Affordable Housing Cost Calculation Methodology
Attachment 3:	Apartment Development
Attachment 4:	Ownership Housing Development

III. APARTMENT DEVELOPMENT ANALYSIS

KMA created three prototype apartment development scenarios that were used to evaluate the impacts created by variations in site sizes and densities of the project types anticipated to be developed in Santa Cruz. The characteristics of the apartment development prototypes are described in the following table:

Project Descriptions Apartment Development Prototypes					
Alternative	Site Area (Acres)	Base Zoning		Section 65915 Density Bonus	
		Density (Units / Acre)	Total Number of Units	Density (Units / Acre)	Total Number of Units
High Density	1.0	150	150	225	225
Medium Density	0.5	60	30	90	45
SRO	0.75	125	94	188	141

A. Pro Forma Organization and Assumptions

MARKET RATE SCENARIOS

The 100% market rate unit apartment development prototypes provide baselines against which to measure the impacts created by affordable housing requirements. The pro forma analyses for the 100% market rate unit scenarios are organized as follows:

Pro Forma Analysis - 100% Market Rate Scenario Apartment Development Prototypes	
Table 1:	Estimated Development Costs
Table 2:	Estimated Stabilized Net Operating Income
Table 3:	Stabilized Return on Total Investment

The stabilized returns on investment generated by the 100% market rate scenarios are used as the benchmark returns for the purpose of estimating the impacts created by the imposition of Inclusionary Housing obligations. KMA measured the financial impacts created by the imposition of Inclusionary Housing requirements using the tools described previously in this Financial Evaluation.

AFFORDABLE HOUSING SCENARIOS

The pro forma analyses for the affordable housing scenarios are organized as follows:

Pro Forma Analysis – Affordable Housing Alternatives Apartment Development Prototypes	
Table 1:	Estimated Development Costs
Table 2:	Estimated Stabilized Net Operating Income
Table 3:	Financial Impacts: Inclusionary Housing Requirements

The “Affordable Rent” calculation methodology is described in Attachment 2: Appendix A and the Affordable Rent calculations are detailed in Attachment 3: Appendix B. The results are presented in the following table:

Affordable Rents Apartment Development Prototypes		
Number of Bedrooms	Inclusionary Housing Low Income 80% of AMI	Section 65915 Very Low Income 50% of AMI
Studio	\$1,974	\$1,005
1	\$2,252	\$1,144
2	\$2,503	\$1,258

B. Alternatives Testing

HIGH DENSITY – TRADITIONAL APARTMENT PROTOTYPE

The analysis of the High Density - Traditional Apartment Prototype is presented in Attachment 3 – Appendix C. The results are summarized in the following table:

High Density - Traditional Apartment Prototype				
Base Case Density: 150 Units/Acre				
Apartment Development Prototypes				
	MARKET RATE ALTERNATIVE	20% LOW INCOME INCLUSIONARY ALTERNATIVE	50% §65915 DENSITY BONUS ALTERNATIVE	
			BASE ZONING UNITS: 15% AT VERY LOW INCOME + 5% AT LOW INCOME	BASE ZONING UNITS: 15% AT VERY LOW INCOME + 10% AT LOW INCOME
<u>Project Description</u>				
Site Area (Sf)	43,560	43,560	43,560	43,560
Density (Units/Acre)	150	150	225	225
Unit Mix				
Studio/SRO Units	60	60	90	90
One Bedroom Units	75	75	112	112
Two Bedroom Units	15	15	23	23
Total Units	150	150	225	225
Parking Spaces Per Unit	1.10	1.10	0.50	0.50
<u>Development Costs</u>				
Property Acquisition Costs	\$4,356,000	\$4,356,000	\$4,356,000	\$4,356,000
Construction Costs	94,827,000	94,727,000	133,537,000	133,506,000
Total Development Cost	\$99,183,000	\$99,083,000	\$137,893,000	\$137,862,000
Per Unit	\$661,200	\$660,600	\$612,900	\$612,700
Stabilized Net Operating Income	\$4,760,700	\$4,286,800	\$6,452,100	\$6,322,700
<u>Total Financial Impact</u>				
Required Prop Acq Cost Reduction (\$)		\$9,773,000	\$3,472,000	\$6,137,000
Required Prop Acq Cost Reduction (%)		224%	80%	141%
% Rent Increase to Offset Impact		10.7%	2.3%	4.3%

MEDIUM DENSITY – TRADITIONAL APARTMENT PROTOTYPE

The analysis of the Medium Density - Traditional Apartment Prototype is presented in Attachment 3 – Appendix D. The results are summarized in the following table:

Medium Density - Traditional Apartment Prototype				
Base Case Density: 60 Units/Acre				
Apartment Development Prototypes				
	MARKET RATE ALTERNATIVE	20% LOW INCOME INCLUSIONARY ALTERNATIVE	50% §65915 DENSITY BONUS ALTERNATIVE	
			BASE ZONING UNITS: 15% AT VERY LOW INCOME + 5% AT LOW INCOME	BASE ZONING UNITS: 15% AT VERY LOW INCOME + 10% AT LOW INCOME
<u>Project Description</u>				
Site Area (Sf)	21,780	21,780	21,780	21,780
Density (Units/Acre)	60	60	90	90
Unit Mix				
Studio/SRO Units	15	15	22	22
One Bedroom Units	12	12	18	18
Two Bedroom Units	3	3	5	5
Total Units	30	30	45	45
Parking Spaces Per Unit	1.10	1.10	0.51	0.51
<u>Development Costs</u>				
Property Acquisition Costs	\$2,178,000	\$2,178,000	\$2,178,000	\$2,178,000
Construction Costs	14,679,000	14,667,000	21,508,000	21,505,000
Total Development Cost	\$16,857,000	\$16,845,000	\$23,686,000	\$23,683,000
Per Square Foot of Land Area	\$561,900	\$561,500	\$526,400	\$526,300
Stabilized Net Operating Income	\$793,000	\$728,600	\$1,086,400	\$1,064,900
<u>Total Financial Impact</u>				
Required Prop Acq Cost Reduction (\$)		\$1,357,000	\$592,000	\$1,046,000
Required Prop Acq Cost Reduction (%)		62%	27%	48%
% Rent Increase to Offset Impact		8.7%	2.3%	4.3%

SRO APARTMENT PROTOTYPE

The analysis of the SRO Apartment Prototype is presented in Attachment 3 – Appendix D. The results are summarized in the following table:

SRO Apartment Prototype Base Case Density: 125 Units/Acre Apartment Development Prototypes				
	MARKET RATE ALTERNATIVE	20% LOW INCOME INCLUSIONARY ALTERNATIVE	50% §65915 DENSITY BONUS ALTERNATIVE	
			BASE ZONING UNITS: 15% AT VERY LOW INCOME + 5% AT LOW INCOME	BASE ZONING UNITS: 15% AT VERY LOW INCOME + 10% AT LOW INCOME
<u>Project Description</u>				
Site Area (Sf)	32,670	32,670	32,670	32,670
Density (Units/Acre)	125	125	188	188
Unit Mix				
Studio/SRO Units	94	94	141	141
One Bedroom Units	0	0	0	0
Two Bedroom Units	0	0	0	0
Total Units	94	94	141	141
Parking Spaces Per Unit	1.00	1.00	0.50	0.50
<u>Development Costs</u>				
Property Acquisition Costs	\$3,267,000	\$3,267,000	\$3,267,000	\$3,267,000
Construction Costs	36,597,000	36,572,000	53,283,000	53,276,000
Total Development Cost	\$39,864,000	\$39,839,000	\$56,550,000	\$56,543,000
Per Unit	\$424,100	\$423,800	\$401,100	\$401,000
Stabilized Net Operating Income	\$1,822,100	\$1,724,100	\$2,505,200	\$2,479,400
<u>Total Financial Impact</u>				
Required Prop Acq Cost Reduction (\$)		\$2,119,000	\$1,741,000	\$2,299,000
Required Prop Acq Cost Reduction (%)		65%	53%	70%
% Rent Increase to Offset Impact		5.6%	2.8%	3.9%

C. Findings: Apartment Development Analysis

The financial impacts created by the Inclusionary Housing alternatives tested in this analysis are presented in the following table:

Estimated Financial Impacts Apartment Development Prototypes			
	High Density - Traditional Apartment Prototype	Medium Density - Traditional Apartment Prototype	SRO Apartment Prototype
<u>20% Inclusionary Requirement - Base Zoning Alternative</u>			
Required Prop Acq Cost Reduction	224%	62%	65%
% Rent Increase to Offset Impact	10.7%	8.7%	5.6%
<u>20% Inclusionary Requirement - Density Bonus Alternative</u>			
Required Prop Acq Cost Reduction	80%	27%	53%
% Rent Increase to Offset Impact	2.3%	2.3%	2.8%
<u>25% Inclusionary Requirement - Density Bonus Alternative</u>			
Required Prop Acq Cost Reduction	141%	48%	70%
% Rent Increase to Offset Impact	4.3%	4.3%	3.9%

The following conclusions can be derived from the apartment development analyses:

1. 20% Low Income Inclusionary Housing Requirement:
 - a. At the base zoning standard, it is currently not financially viable to develop an apartment project that includes a 20% Inclusionary Housing component.
 - b. The use of the Section 65915 density bonus materially enhanced the viability of the three apartment development prototypes that fulfilled a 20% Inclusionary Housing requirement. Each prototype met the established rent offset benchmark, and one prototype also met the property acquisition cost reduction benchmark.
2. None of the three apartment development prototypes achieved viability if the Inclusionary Housing requirement is increased to 25%.

It is important to consider that the Inclusionary Housing requirement was increased from 15% to 20% effective in February 2020. Since then, the market rate apartment projects that have entered into the approval process can be described as follows:

1. Only one market rate apartment development has commenced construction under the 20% requirement, and that was a small project with a two unit Inclusionary Housing obligation. The developer also included three ADUs to the mix to make the project more financially viable.
2. Building permits are being pursued for apartment developments at 530 Front Street and 719 Darwin Street. Construction has not commenced on either of these developments.
3. The Front/Riverfront project located at 418, 440, 504, and 508 Front Street is currently under development:
 - a. The project is subject to the former 15% Inclusionary Housing requirement;
 - b. The developer obtained a subdivision map that allows the units to be sold; and
 - c. The developer plans to rent the units upon completion.

By definition, 100% affordable housing projects are not impacted by changes in the Inclusionary Housing requirements. These developments achieve financial feasibility through using a range of local, state and federal grants and assistance sources.

IV. OWNERSHIP HOUSING DEVELOPMENT ANALYSES

Residential development in Santa Cruz has been dominated by the construction of apartments through several real estate cycles. A number of the proposed apartment developments have obtained subdivision tract maps that will allow the units to be sold as condominiums. However, to date developers have opted to rent the units upon completion.

KMA created two condominium prototypes based on the characteristics of recently proposed mapped apartment projects. KMA also created a townhome prototype based on recently proposed and developed projects. The characteristics of the ownership housing prototypes are described in the following table:

Project Descriptions Ownership Housing Development Prototypes					
Alternative	Site Area (Acres)	Base Zoning		Section 65915 Density Bonus	
		Density (Units / Acre)	Total Number of Units	Density (Units / Acre)	Total Number of Units
High Density	1.0	125	125	169	169
Low Density	2.0	30	60	45	90
Townhome	2.3	15	35	NA	NA

A. Pro Forma Organization and Assumptions

MARKET RATE SCENARIOS

The 100% market rate unit ownership housing development scenarios provide baselines against which to measure the impacts created by affordable housing requirements. The pro forma analyses for the 100% market rate unit scenarios are organized as follows:

Pro Forma Analysis – 100% Market Rate Scenario Ownership Housing Development Prototypes	
Table 1:	Estimated Development Costs
Table 2:	Projected Net Sales Revenue
Table 3:	Projected Developer Profit

The estimated developer profit for each of the 100% market rate scenarios is used as the benchmark profit percentage for the purpose of estimating the impacts created by the imposition of Inclusionary Housing obligations. The resulting financial gaps represent the impact created by the requirements being tested.

AFFORDABLE HOUSING SCENARIOS

The pro forma analyses for the affordable housing scenarios are organized as follows:

Pro Forma Analyses - Affordable Housing Alternatives Ownership Housing Development Prototypes	
Table 1:	Estimated Development Costs
Table 2:	Projected Net Sales Revenue
Table 3:	Financial Impacts: Inclusionary Housing Requirements

KMA measured the financial impacts created by the imposition of Inclusionary Housing requirements using the tools described previously in this Financial Evaluation. These tools were used to identify the moderate income and very low income requirements that can be feasibly imposed on ownership housing developments.

The “Affordable Sales Price” calculation methodology is described in Attachment 2: Appendix B and the Affordable Sales Price calculations are detailed in Attachment 4: Appendix B. The results are presented in the following table:

Affordable Sales Prices Ownership Housing Development Prototypes		
Number of Bedrooms	Inclusionary Housing Moderate Income 110% of AMI	Section 65915 Very Low Income 50% of AMI
Studio	\$296,600	\$62,400
1	\$341,200	\$73,400
2	\$367,400	\$67,900
3	\$407,100	\$63,000

B. Alternatives Testing

HIGH DENSITY CONDOMINIUM PROTOTYPE

The analysis of the High Density Condominium Prototype is presented in Attachment 4 – Appendix C.

The results are summarized in the table on the following page:

High Density Condominium Prototype
Base Case Density: 125 Units/Acre
Ownership Housing Development Prototypes

	MARKET RATE ALTERNATIVE	20% MODERATE INCOME INCLUSIONARY ALTERNATIVE	35% \$65915 Density Bonus Alternative	
			20% MODERATE INCOME INCLUSIONARY ALTERNATIVE	25% MODERATE INCOME INCLUSIONARY ALTERNATIVE
			BASE ZONING UNITS: 11% @ VERY LOW INCOME + 9% @ MODERATE INCOME	BASE ZONING UNITS: 11% @ VERY LOW INCOME + 14% @ MODERATE INCOME
<u>Project Description</u>				
Site Area (Sf)	43,560	43,560	43,560	43,560
Density (Units/Acre)	125	125	169	169
Unit Mix				
Studio Units	31	31	42	42
One-Bedroom Units	63	63	85	85
Two-Bedroom Units	31	31	42	42
Three-Bedroom Units	0	0	0	0
Total Units	125	125	169	169
Parking Spaces Per Unit	1.25	1.25	0.63	0.63
<u>Development Costs</u>				
Property Acquisition Costs	\$4,356,000	\$4,356,000	\$4,356,000	\$4,356,000
Construction Costs	80,728,000	80,462,000	107,385,000	107,287,000
Total Development Cost	\$85,084,000	\$84,818,000	\$111,741,000	\$111,643,000
Per Unit	\$680,700	\$678,500	\$661,200	\$660,600
Net Revenue	\$90,104,000	\$80,054,000	\$108,270,000	\$106,031,000
Developer Profit / (Loss)	5.9%	-5.6%	-3.1%	-5.0%
<u>Total Financial Impact</u>				
Required Prop Acq Cost Reduction (\$)		\$9,768,000	\$10,064,000	\$12,199,000
Required Prop Acq Cost Reduction (%)		224%	231%	280%
% Market Price Increase to Offset Impact		13%	9%	12%

LOW DENSITY CONDOMINIUM PROTOTYPE

The analysis of the Low Density Condominium Prototype is presented in Attachment 4 – Appendix D.

The results are summarized in the following table:

Low Density Condominium Prototype
Base Case Density: 30 Units/Acre
Ownership Housing Development Prototypes

	MARKET RATE ALTERNATIVE	20% MODERATE INCOME INCLUSIONARY ALTERNATIVE	50% \$65915 Density Bonus Alternative	
			20% MODERATE INCOME INCLUSIONARY ALTERNATIVE	25% MODERATE INCOME INCLUSIONARY ALTERNATIVE
			BASE ZONING UNITS: 15% @ VERY LOW INCOME + 5% @ MODERATE INCOME	BASE ZONING UNITS: 15% @ VERY LOW INCOME + 10% @ MODERATE INCOME
<u>Project Description</u>				
Site Area (Sf)	87,120	87,120	87,120	87,120
Density (Units/Acre)	30	30	45	45
Unit Mix				
Studio Units	0	0	0	0
One-Bedroom Units	18	18	27	27
Two-Bedroom Units	30	30	45	45
Three-Bedroom Units	12	12	18	18
Total Units	60	60	90	90
Parking Spaces Per Unit	1.30	1.30	0.66	0.66
<u>Development Costs</u>				
Property Acquisition Costs	\$8,712,000	\$8,712,000	\$8,712,000	\$8,712,000
Construction Costs	52,319,000	52,138,000	91,653,000	91,653,000
Total Development Cost	\$61,031,000	\$60,850,000	\$100,365,000	\$100,365,000
Per Unit	\$1,017,200	\$1,014,200	\$1,115,200	\$1,115,200
Net Revenue	\$68,295,000	\$58,955,000	\$90,538,000	\$88,215,000
Developer Profit	11.9%	-3.1%	-9.8%	-12.1%
<u>Total Financial Impact</u>				
Required Prop Acq Cost Reduction (\$)		\$9,137,000	\$21,773,000	\$24,096,000
Required Prop Acq Cost Reduction (%)		105%	250%	277%
% Market Price Increase to Offset Impact		15.8%	23.1%	26.6%

TOWNHOME PROTOTYPE

The analysis of the Townhome Prototype is presented in Attachment 4 – Appendix E. The results of the analysis are summarized in the following table:

Townhome Prototype
Base Case Density: 15 Units/Acre
Ownership Housing Development Prototypes

	MARKET RATE ALTERNATIVE	20% MODERATE INCOME INCLUSIONARY ALTERNATIVE	25% MODERATE INCOME INCLUSIONARY ALTERNATIVE
Project Description			
Site Area (Sf)	100,000	100,000	100,000
Density (Units/Acre)	15	15	15
Unit Mix			
Studio Units	0	0	0
One-Bedroom Units	9	9	9
Two-Bedroom Units	26	26	26
Three-Bedroom Units	0	0	0
Total Units	35	35	35
Parking Spaces Per Unit	1.74	1.74	1.74
Development Costs			
Property Acquisition Costs	\$10,000,000	\$10,000,000	\$10,000,000
Construction Costs	24,708,000	24,716,000	24,776,000
Total Development Cost	\$34,708,000	\$34,716,000	\$34,776,000
Per Unit	\$991,700	\$991,900	\$993,600
Net Revenue	\$37,504,000	\$32,443,000	\$30,842,000
Developer Profit	8.1%	-6.5%	-11.3%
Total Financial Impact			
Required Prop Acq Cost Reduction (\$)		\$5,070,000	\$6,735,000
Required Prop Acq Cost Reduction (%)		51%	67%
% Market Price Increase to Offset Impact		15.9%	22.9%

C. Findings: Ownership Housing Development Analysis

The City’s Inclusionary Housing program, as detailed in Municipal Code Chapter 24.16, requires that ownership housing developments with five or more units must allocate 20% of the units to low and moderate income households. However, the Chapter does not identify a required allocation between

low and moderate income units. For the purposes of this analysis, KMA assumed that the entire obligation can be fulfilled with moderate income units.

The key finding of the analysis is that condominium and townhome development is not currently financially viable if any affordable housing requirements are imposed. The analyses indicate that 100% market rate projects could potentially be supported, but even the imposition of a moderate income requirement generated negative profit in all the ownership housing prototypes that were tested. The loss would be even larger if a low income requirement is applied.

Based on the analyses, it is KMA's conclusion that the existing 20% Inclusionary Housing cannot be supported under current economic conditions. This conclusion is supported by the fact that no market rate ownership developments that are subject to 20% Inclusionary Housing requirement have commenced construction. If the obligation is increased to 25% the constraint would be even greater.

As discussed previously, a number of proposed apartment developments have obtained subdivision tract maps that will allow the units to be sold as condominiums at some point in the future. One likely reason that developers have opted to rent the units upon completion is that under current conditions apartment development is more profitable than condominium and townhome development.

V. FINANCIAL EVALUATION CONCLUSIONS

There is very little vacant developable land left in Santa Cruz. As a result, the majority of recent new residential development has been occurring on properties that are developed with existing improvements. The Housing Element makes the fundamental assumption that this will continue to be the case. For this to occur, the property value supported by residential development must be competitive with the other opportunities available to property owners.

Based on the results of the pro forma analyses, KMA reached the following conclusions:

1. Apartment Development:

- a. Under current conditions, the existing 20% Inclusionary Housing requirement can only be supported if the project can make use of the Section 65915 density bonus on a cost efficient basis.
- b. A 25% Inclusionary Housing requirement could not be supported by any of the apartment prototypes even it was assumed that the maximum Section 65915 density bonus was applied.

2. Ownership Housing Development:

- a. Under current conditions ownership housing development cannot support an affordable housing requirement of any kind.
- b. It is possible that developers of some mapped apartment projects may ultimately sell the units. However, the opportunities for this to occur will be constrained by the imposition of the current 20% Inclusionary Housing obligation. This constraint will be exacerbated if the Inclusionary Housing requirement is increased to 25%.

It is important to remember that the courts and the State legislature have imposed the following requirements on Inclusionary Housing programs:

1. Inclusionary Housing requirements cannot be confiscatory;
2. Inclusionary Housing requirements cannot deprive a property owner of a fair and reasonable return on investment; and
3. Inclusionary Housing requirements cannot act as a constraint to housing development.

Base on the assumptions and analysis presented in the Financial Evaluation, KMA reached the following conclusions:

1. The Measure M requirement to increase the Inclusionary Housing obligation to 25% for projects with 30 or more units does not comport with any of the requirements imposed by the courts and the State Legislature.
2. Given the financial impacts created by the proposed increase in the Inclusionary Housing obligations, residential development will not be competitive with the other disposition or holding opportunities available to property owners.
3. If Measure M passes, significant potential exists for legal challenges from residential developers and/or an HCD constraint to housing investigation. This could possibly result in the decertification of the City's Housing Element.

ATTACHMENT 1

**RESOLUTION NO. NS-30,240
REPORT TO CITY COUNCIL
SANTA CRUZ, CALIFORNIA**

RESOLUTION NO. NS-30,240

RESOLUTION OF THE CITY COUNCIL OF THE CITY OF SANTA CRUZ ORDERING AN ELECTION, REQUESTING COUNTY ELECTIONS TO CONDUCT THE ELECTION, REQUESTING CONSOLIDATION WITH THE PRIMARY ELECTION ON MARCH 5, 2024 FOR THE PURPOSE OF ADDING THE CITIZEN INITIATIVE MEASURE "HOUSING FOR PEOPLE" TO THE BALLOT, AND DIRECTING THE CITY ATTORNEY TO PREPARE AN IMPARTIAL ANALYSIS OF THE MEASURE

WHEREAS, pursuant to Elections Code Section 10002, the governing body of any city may by resolution request the Board of Supervisors of the County of Santa Cruz to permit the county elections official to render specified services to the city relating to the conduct of an election; and

WHEREAS, the resolution of the governing body of the city shall specify the services requested; and

WHEREAS, pursuant to Elections Code Section 10002, the city shall reimburse the county in full for the services performed upon presentation of a bill to the city; and

WHEREAS, pursuant to Elections Code Section 10400, whenever two or more elections of any legislative or congressional district, public district, city, county, or other political subdivision are called to be held on the same day, in the same territory, or in territory that is in part the same, they may be consolidated upon the order of the governing body or bodies or officer or officers calling the elections; and

WHEREAS, pursuant to Elections Code Section 10400, such election for cities and special districts may be either completely or partially consolidated; and

WHEREAS, pursuant to Elections Code Section 10403, whenever an election called by a district, city, or other political subdivision for the submission of any question, proposition, or office to be filled is to be consolidated with a statewide election, and the question, proposition, or office to be filled is to appear upon the same ballot as that provided for that statewide election, the district, city or other political subdivision shall, at least 88 days prior to the date of the election, file with the board of supervisors, and a copy with the elections official, a resolution of its governing board requesting the consolidation, and setting forth the exact form of any question, proposition, or office to be voted upon at the election, as it is to appear on the ballot. Upon such request, the Board of Supervisors may order the consolidation; and

WHEREAS, pursuant to Elections Code Section 10418, if consolidated, the consolidated election shall be held and conducted, election boards appointed, voting precincts designated, candidates nominated, ballots printed, polls opened and closed, voter challenges determined, ballots counted and returned, returns canvassed, results declared, certificates of election issued, recounts conducted, election contests presented, and all other proceedings incidental to and connected with the election shall be regulated and done in accordance with the provisions of law

RESOLUTION NO. NS-30,240

regulating the statewide or special election, or the election held pursuant to Section 1302 or 1303, as applicable.

WHEREAS, the resolution requesting the consolidation shall be adopted and filed at the same time as the adoption of the ordinance, resolution, or order calling the election; and

WHEREAS, various district, county, state, and other political subdivision elections have been called to be held on March 5, 2024.

NOW THEREFORE, BE IT RESOLVED AND ORDERED that the City Council of the City of Santa Cruz hereby orders an election to be called and consolidated with any and all elections also called to be held on March 5, 2024 insofar as said elections are to be held in the same territory or in territory that is in part the same and requests the Board of Supervisors of the County of Santa Cruz to order such consolidation under Elections Code Sections 10401, 10403, and 10418.

BE IT FURTHER RESOLVED AND ORDERED that the City of Santa Cruz hereby requests the Board of Supervisors to permit the Santa Cruz County Elections Department to provide any and all services necessary for conducting the election and agrees to pay for said services, and

BE IT FURTHER RESOLVED AND ORDERED that the Santa Cruz County Elections Department shall conduct the election for the attached measure to be voted on at the March 5, 2024 election.

BE IT FURTHER RESOLVED AND ORDERED that the Santa Cruz County Elections Department is requested to print the attached measure text exactly as filed or indicated on the filed document in the County Voter Information Guide for the March 5, 2024 election. Cost of printing and distribution of the measure text will be paid for by the City.

Pursuant to its right, title, and authority under Section 3 of Article XI of the California Constitution and Sections 1415(a)(2) and 9255(b)(1) of the California Elections Code, the City Council hereby calls an election to be held in the City of Santa Cruz on Tuesday, March 5, 2024 for the purpose of submitting to the voters the following measure (and such other questions as the City Council may hereafter order to be presented to the voters):

Measure “___” Housing for People (see Exhibit A for full text)

Shall the City of Santa Cruz Municipal Code be amended (retroactively to June 1, 2023) to: (1) prohibit further amending the City’s General Plan, or Zoning Code or associated maps, to increase allowable building heights or Floor Area Ratios (FARs) for all residential and non-residential development projects in all zoning districts without prior voter approval; and (2) require developments thirty or more housing units to provide at least 25% inclusionary housing units (at unspecified levels of affordability)?	Yes
	No

RESOLUTION NO. NS-30,240

BE IT FURTHER RESOLVED, the City Council hereby directs the City Clerk to transmit a copy of the measures to the City Attorney. The City Attorney shall prepare an impartial analysis of the measures showing the effect of the measure on the existing law and the operation of the measure.

BE IT FURTHER RESOLVED, if any section, subsection, sentence, clause, or phrase of this resolution is, for any reason, held to be invalid or unconstitutional, such decision shall not affect the validity or constitutionality of the remaining portions of this resolution. The City Council hereby declares that it would have passed this resolution, and each section, subsection, sentence, clause or phrase hereof, irrespective of the fact that any one or more sections, subsections, sentences, clauses or phrases be declared invalid or unconstitutional.

PASSED AND ADOPTED this 28th day of November, 2023 by the following vote:

- AYES: Councilmembers Newsome, Brown, Watkins, Brunner, Kalantari-Johnson;
Vice Mayor Golder; Mayor Keeley.
- NOES: None.
- ABSENT: None.
- DISQUALIFIED: None.

APPROVED:



Fred Keeley, Mayor

ATTEST:



Bonnie Bush, City Clerk Administrator

RESOLUTION NO. NS-30,240
EXHIBIT A

AN INITIATIVE MEASURE PROPOSING AN ORDINANCE THAT: (1) PROHIBITS THE SANTA CRUZ CITY COUNCIL FROM AMENDING THE CITY'S GENERAL PLAN OR ZONING ORDINANCE IN A WAY THAT INCREASES ALLOWABLE HEIGHT LIMITS OR FLOOR AREA RATIOS FOR DEVELOPMENT PROJECTS, WITHOUT A PRIOR VOTE OF THE PEOPLE; AND (2) INCREASES THE CITY'S INCLUSIONARY HOUSING REQUIREMENTS TO AT LEAST 25% FOR DEVELOPMENTS WITH 30 OR MORE HOUSING UNITS

BE IT ORDAINED by the people of the City of Santa Cruz:

SECTION 1. TITLE.

The title of this ordinance shall be "Housing for People: An ordinance to provide sustainable, healthy, human-scale, housing design by requiring a vote of the people for any proposed building height and density increases beyond what is currently allowed, and to address the housing affordability crisis by increasing the required percentage of affordable units from 20% to 25% in new housing developments of 30 or more units.

SECTION 2. PURPOSES.

Purposes of the ordinance are as follows:

1. To require an affirmative vote of the people to increase the building height and density limits in the city's General Plan or Zoning Ordinance. The people of the City of Santa Cruz have a democratic right to vote on amendments to the General Plan and/or Zoning Ordinance that would allow the construction of enormous, high-rise buildings with little to no affordable housing.
2. To prevent future development from exceeding the already significant height and density limits allowed in the current General Plan without an affirmative vote of the people.
3. To increase the low and moderate housing affordability requirements to at least 25% of new units for developments with 30 or more housing units (from the existing 20% requirement).

SECTION 3. FINDINGS.

It is hereby found and determined as follows:

1. The 2012 update to the Santa Cruz City General Plan (General Plan) significantly increased density and height limits along the City's major corridors.
2. The State Density Bonus law allows individual developments to exceed both the density and height limits of proposed developments by 30-50% beyond what is set in the General Plan if affordability requirements are met.
3. Recently adopted state laws remove the City's discretion to deny, or make infeasible, any proposed housing or multi-use development consistent with the General Plan and State Density Bonus Law, despite the potentially significant impacts they may have on existing neighborhoods, including impacts of traffic, noise, light pollution, air pollution, loss of sunlight; and on the city as a whole with impacts to water resources, open-space, city

infrastructure, city services, and overall visual quality.

4. The result of recent General Plan amendments increasing density and height limits, combined with recent State laws, is that major developments are likely to be constructed at heights and Floor Area Ratios (FARs) out of scale with surrounding neighborhoods, and thus will be inconsistent with the visual character of the City.
5. Any future amendments to the General Plan that permit height or FAR increases could have a devastating effect on the City's beauty and quality of life, including impacts on access to sun and light, the city's infrastructure and increase in traffic and climate-causing emissions.
6. The uniqueness of Santa Cruz as a diverse community with the feel of a small town could be lost forever with buildings at heights and with FAR beyond those allowed in the existing General Plan and further increased by the State Density Bonus law.
7. The majority of the City Council has approved moving forward with a Downtown Plan Expansion General Plan Amendment that would allow an unlimited number of concrete towers of up to 12-stories tall (with no height limit in feet specified) in a 29-acre area south of Laurel Street.
8. The San Lorenzo River riparian corridor adjacent to the downtown area is an important visual amenity and environmental resource that could be severely damaged by the proposed building heights in the proposed Downtown Plan Expansion project.
9. The multiple 12-story towers that would be allowed in the Downtown Plan Expansion area south of Laurel could easily be twice as tall and bulky as the massive building being constructed at Pacific/Laurel/Front, and twice as tall as the Dream Inn and the Palomar Hotel, and would fundamentally change the visual character and beauty of the City forever.
10. Approval of 12-story height limits (with no objective height limit in feet) throughout the 29-acre Downtown Plan Expansion project area would set a dangerous precedent and likely lead to pressures for buildings of similar and greater heights elsewhere in the City.
11. Once the proposed height limit increases in the Downtown Plan Expansion project are approved and incorporated into the General Plan, they would be essentially irreversible, and state law would require that developments consistent with them be approved irrespective of any damaging impacts they would have on the City's visual quality, climate-changing emissions and character.
12. The City of Santa Cruz is in the middle of a housing cost crisis which is most serious for its lower and moderate income residents, yet the City's 20% affordable inclusionary requirement is rarely met due to application of the State Density Bonus law, often resulting in a net of less than 13% of the new units being affordable.
13. As one of the least affordable cities in the country, the City needs to respond better to its affordable housing crisis by increasing requirements on market rate developments to provide more housing for moderate and lower income families.
14. The City's existing affordable housing requirements are insufficient to meet the need to adequately counter the affordable housing crisis.
15. The proposed Downtown Plan Expansion project would result in the loss of a significant amount of existing affordable housing and displace low-income, disabled and other residents.

RESOLUTION NO. NS-30,240

16. The existing General Plan allows for an increase of 8,364 residential units (though the current state goal is 3,736 units) and the draft Housing Element (Appendix G) states the city has a build-out capacity (which is available space under EXISTING zoning) to add 8,364 more units. This number of additional units is more than adequate to provide for the housing that Santa Cruz needs to contribute to meet the state housing goals of 3,736 by 2031, thus we do not need to allow 12 story buildings to meet our current RHNA housing target.
17. This initiative, if adopted, would produce more affordable housing while ensuring that city residents play a key role in decision-making on land use policy.

SECTION 4. IMPLEMENTATION

1. **POLICIES.** It is hereby determined that the following policies are approved:

1. The Santa Cruz City Council shall not adopt amendments to the City's General Plan or Zoning Ordinance that increase the allowable height limits or Floor Area Ratios (FAR) for development projects, which are greater than the height limits and FAR in effect in the City's General Plan as of June 1, 2023 (or the earliest date allowed by law), without a prior vote of the people approving the proposed increase. 2. The inclusionary housing requirements shall be increased from the existing 20% to at least 25% for developments with 30 or more housing units.
2. **CITY COUNCIL ACTIONS.** In order to carry out the policies contained in this ordinance the City Council is directed to take the following actions: 1. Codify the following policy in the City's Zoning Ordinance Section 24.06.080: 2. Height Limits. No amendments to the General Plan or Zoning Ordinance that would increase allowable height limits or Floor Area Ratios (FAR) for development projects shall be adopted without a prior vote of the people approving the proposed increase. 3. Amend the Zoning Ordinance to increase the inclusionary requirements to at least 25% for developments with 30 or more housing units.

SECTION 5. SEVERABILITY. If any portion of this ordinance is hereafter determined to be invalid, all remaining portions of this ordinance shall remain in full force and effect, and to this extent, this ordinance are severable.

SECTION 6. EFFECTIVE DATE. This ordinance shall take effect June 1, 2023 or as early as possible as provided by the State of California Elections Code and/or pertinent case law.

ATTACHMENT 2
AFFORDABLE HOUSING COST CALCULATION METHODOLOGIES
INCLUSIONARY HOUSING: FINANCIAL EVALUATION
SANTA CRUZ, CALIFORNIA

APPENDIX A

AFFORDABLE RENT CALCULATION METHODOLOGY

ASSUMPTIONS

The Affordable Rent calculations are presented in Attachment 3 – Appendix B. The calculations are based on the following assumptions:

1. The household income information used in the calculations is based on 2023 income statistics for Santa Cruz County as a whole. This information is published annually by the United States Department of Housing and Urban Development (HUD) and distributed by the California Department of Housing and Community Development (HCD).
2. The household size appropriate for the unit is based on the California Health and Safety Code (H&SC) Section 50052.5 standard of the number of bedrooms in the home plus one.¹ H&SC Section 50052.5 refers to this as “the family size appropriate for the unit.” This is a benchmark that is used for calculation purposes only. It is neither an occupancy minimum nor a maximum.
3. The benchmark household incomes used in the Affordable Rent analyses are based on the following standards:
 - a. The low income rents imposed by the City’s Inclusionary Housing Ordinance are based on 80% of area median income (AMI).
 - b. The affordable rents used in the California Government Code Section 65915 et seq. (Section 69515) density bonus analyses are based on the very low income standard.² The very low income rents are based on 50% of AMI, which is the standard imposed by H&SC Section 50053.
4. The percentages of defined household income that are allocated to housing related expenses are set as follows:
 - a. The City’s Inclusionary Housing Ordinance allocates 35% of household income to housing related expenses.

¹ For example, the imputed household size for a two-bedroom unit is three persons.

² Based on the sliding scale density bonuses provided by Section 65915 (f) it is mathematically most advantageous from a financial standpoint to fulfill the Section 65915 affordability requirements with very low income units.

b. H&SC Section 50053 allocates 30% of household income to housing-related expenses.

5. The following monthly utilities allowances were applied in this analysis.³

Utility Allowances	
Apartment Development Prototypes	
Number of Bedrooms	Monthly Utilities Allowances
Studio	\$113
1	\$134
2	\$180

AFFORDABLE RENTS

The resulting affordable rents are presented in the following table:

Affordable Rents		
Apartment Development Prototypes		
Number of Bedrooms	Inclusionary Housing: Low Income	Section 65915: Very Low Income
Studio	\$1,974	\$1,005
1	\$2,252	\$1,144
2	\$2,503	\$1,258

³ Utilities allowances are based on utilities costs comprised of electric heating, cooking and water heating; and basic electric. The allowances are based on the Santa Cruz County Housing Authority schedule effective as of January 1, 2024.

APPENDIX B

AFFORDABLE SALES PRICE CALCULATION METHODOLOGY

ASSUMPTIONS

The Affordable Sales Price calculations are presented in Attachment 4 – Appendix B. The calculations are based on the following assumptions:

1. The household income information used in the calculations is based on 2023 income statistics for Santa Cruz County as a whole:
 - a. The household incomes for very low income households are produced by HUD and distributed by HCD.
 - b. The household incomes for moderate income households are produced and distributed annually by HCD.
2. The Affordable Sales Price estimates are based on the calculation methodology imposed by H&SC Section 50052.5.

The elements included in the Affordable Sales Price calculations are described in the following sections of this Attachment.

Household Size

For the sole purposes of calculating Affordable Sales Prices, H&SC Section 50052.5 sets household sizes based on the number of bedrooms in the home plus one. As discussed previously, this is not an occupancy minimum or maximum. Rather, it is a benchmark that creates a consistent Affordable Sales Price calculation methodology.

Household Income

For calculation purposes only, H&SC Section 50052.5 applies benchmark household incomes as the standard for determining the Affordable Sales Prices. These benchmarks are based on the following percentages of the Santa Cruz County AMI:

Income Category	% of AMI
Moderate	110%
Very Low	50%

Income Allocated to Housing-Related Expenses

H&SC Section 50052.5 allocates the following percentages of the benchmark household incomes to the payment of housing-related expenses:

Income Category	% of Benchmark Income
Moderate	35%
Very Low	30%

Housing-Related Expenses

Based on research undertaken by KMA, the variable housing related expense assumptions used in this analysis are presented in the following table:

Variable Housing Related Expenses Ownership Housing Development Prototypes		
Number of Bedrooms	Monthly Utilities Allowances ⁴	Monthly HOA, Insurance & Maintenance
Studio	\$301	\$350
1	\$329	\$400
2	\$407	\$525
3	\$493	\$700

⁴Utilities allowances are based on utilities costs comprised of electric heating, cooking and water heating; basic electric; and water, sewer and garbage services. The allowances are based on the Santa Cruz County Housing Authority schedule effective as of January 1, 2024.

The property tax expense estimates are based on 1.15% of the defined Affordable Sales Prices. This assumes that the City will require the homes to be resold at an Affordable Sales Price throughout one cumulative 45-year covenant period.

Supportable Mortgage Amount

The mortgage amounts used in the Affordable Sales Price calculations are estimated using the income available after the other housing-related expenses are paid. The mortgage terms used in this Financial Evaluation were based on a 30-year fully amortizing loan at a 7.32% interest rate.⁵

Benchmark Down Payment

KMA set the benchmark down payment at 5% of the estimated Affordable Sales Price. A down payment of this magnitude is commonly allowed by affordable housing programs.

AFFORDABLE SALES PRICES

The resulting Affordable Sales Prices are estimated as follows:

Affordable Sales Prices		
Ownership Housing Development Prototypes		
Number of	Inclusionary Housing:	Section 65915:
Bedrooms	Moderate Income	Very Low Income
Studio	\$296,600	\$62,400
1	\$341,200	\$73,400
2	\$367,400	\$67,900
3	\$407,100	\$63,000

⁵ Based on a 50 basis points premium applied to the Freddie Mac monthly average, between January 2023 and December 2023, for a fixed-interest rate loan with a 30-year amortization period.

ATTACHMENT 3

**APARTMENT DEVELOPMENT
INCLUSIONARY HOUSING: FINANCIAL EVALUATION
SANTA CRUZ, CALIFORNIA**

APPENDIX A

MARKET SURVEY

APARTMENT DEVELOPMENT

INCLUSIONARY HOUSING: FINANCIAL EVALUATION

SANTA CRUZ, CALIFORNIA

APPENDIX A

MARKET SURVEY - 4 STAR PROPERTIES
 APARTMENT DEVELOPMENT
 INCLUSIONARY HOUSING: FINANCIAL EVALUATION
 SANTA CRUZ, CALIFORNIA

Name	Address			# of Units	Unit Size (SF)	Average Effective Rent		Year Built
						Total	Per SF	
I. Studio Units								
Clay Street Residences	132 Clay St	Santa Cruz	95060	2	379	\$2,411	\$6.36	2008
Nanda on Pacific	1547 Pacific Ave	Santa Cruz	95060	16	421	\$2,316	\$5.50	2020
Five55	555 Pacific Ave	Santa Cruz	95060	36	440	\$2,993	\$6.80	2018
Pacific Shores Apartments	1240 Shaffer Rd	Santa Cruz	95060	103	623	\$2,027	\$3.25	2003
	Minimum				379	\$2,027	\$3.25	
	Maximum				623	\$2,993	\$6.80	
	Weighted Average				557	\$2,283	\$4.34	
II. One-Bedroom Units								
Five55	555 Pacific Ave	Santa Cruz	95060	58	630	\$3,719	\$5.90	
Nanda on Pacific	1547 Pacific Ave	Santa Cruz	95060	43	673	\$3,161	\$4.70	
Clay Street Residences	132 Clay St	Santa Cruz	95060	11	815	\$2,714	\$3.33	
Pacific Shores Apartments	1240 Shaffer Rd	Santa Cruz	95060	103	1,017	\$3,809	\$3.75	
	Minimum				630	\$2,714	\$3.33	
	Maximum				1,017	\$3,809	\$5.90	
	Weighted Average				833	\$3,599	\$4.50	

APPENDIX A

**MARKET SURVEY - 4 STAR PROPERTIES
 APARTMENT DEVELOPMENT
 INCLUSIONARY HOUSING: FINANCIAL EVALUATION
 SANTA CRUZ, CALIFORNIA**

Name	Address			# of Units	Unit Size (SF)	Average Effective Rent		Year Built
						Total	Per SF	
III. Two-Bedroom Units								
Nanda on Pacific	1547 Pacific Ave	Santa Cruz	95060	20	1,045	\$4,741	\$4.54	
Clay Street Residences	132 Clay St	Santa Cruz	95060	3	1,154	\$3,282	\$2.84	
	Minimum				1,045	\$3,282	\$2.84	
	Maximum				1,154	\$4,741	\$4.54	
	Weighted Average				1,059	\$4,551	\$4.32	

Source: CoStar, December 2023

APPENDIX B

**AFFORDABLE RENT CALCULATIONS
APARTMENT DEVELOPMENT
INCLUSIONARY HOUSING: FINANCIAL EVALUATION
SANTA CRUZ, CALIFORNIA**

APPENDIX B

AFFORDABLE RENT CALCULATIONS
 2023 INCOME STANDARDS
 APARTMENT DEVELOPMENT
 INCLUSIONARY HOUSING: FINANCIAL EVALUATION
 SANTA CRUZ, CALIFORNIA

		Studio/SRO Units	One Bedroom Units	Two Bedroom Units
I. <u>General Assumptions</u>				
Area Median Income (AMI)	1	\$89,450	\$102,250	\$115,000
Monthly Utilities Allowance	2	\$113	\$134	\$180
II. <u>Affordable Rent Calculations</u>				
A. <u>Very Low Income - Rent Based on 50% AMI</u>	3			
Benchmark Annual Household Income		\$44,725	\$51,125	\$57,500
Percentage of Income Allotted to Housing Expenses		30%	30%	30%
Monthly Income Available for Housing Expenses		\$1,118	\$1,278	\$1,438
(Less) Monthly Utilities Allowance		(113)	(134)	(180)
Maximum Allowable Rent		\$1,005	\$1,144	\$1,258
B. <u>Low Income - Rent Based on 80% AMI</u>	4			
Benchmark Annual Household Income		\$71,560	\$81,800	\$92,000
Percentage of Income Allotted to Housing Expenses		35%	35%	35%
Monthly Income Available for Housing Expenses		\$2,087	\$2,386	\$2,683
(Less) Monthly Utilities Allowance		(113)	(134)	(180)
Maximum Allowable Rent		\$1,974	\$2,252	\$2,503

¹ Based on the 2023 Santa Cruz County household incomes published by the California Housing & Community Development Department (HCD). The benchmark household size is set at the number of bedrooms in the unit plus one.

² Based on the Santa Cruz County Housing Authority utility allowance schedule for apartments effective as of 1/1/24. Assumes: Electric Heating, Electric Cooking, and Electric Water Heater; and Basic Electric.

³ Based on the requirements imposed by Government Code Section 65915 et seq. The rents are required to be set using the California Health & Safety Code Section 50053 calculation methodology.

⁴ Based on the requirements imposed by the City's Inclusionary Housing Ordinance. The rents are calculated based on 80% of the median income published by HCD.

APPENDIX C

PRO FORMA ANALYSES HIGH DENSITY - TRADITIONAL APARTMENT PROTOTYPE APARTMENT DEVELOPMENT INCLUSIONARY HOUSING: FINANCIAL EVALUATION SANTA CRUZ, CALIFORNIA

APPENDIX C - EXHIBIT I

PRO FORMA ANALYSIS

MARKET RATE ALTERNATIVE

BASE CASE DENSITY: 150 UNITS/ACRE

HIGH DENSITY - TRADITIONAL APARTMENT PROTOTYPE

APARTMENT DEVELOPMENT

INCLUSIONARY HOUSING: FINANCIAL EVALUATION

SANTA CRUZ, CALIFORNIA

APPENDIX C - EXHIBIT I - TABLE 1

ESTIMATED DEVELOPMENT COSTS
 MARKET RATE ALTERNATIVE
 BASE CASE DENSITY: 150 UNITS/ACRE: HIGH DENSITY - TRADITIONAL APARTMENT PROTOTYPE
 APARTMENT DEVELOPMENT
 INCLUSIONARY HOUSING: FINANCIAL EVALUATION
 SANTA CRUZ, CALIFORNIA

I.	Property Acquisition Costs	1	43,560	Sf of Land	\$100 /Sf of Land		\$4,356,000
II.	Direct Costs	2					
	On-Site Improvements/Landscaping		43,560	Sf of Land	\$45 /Sf of Land		\$1,960,000
	Parking	3					
	Above-Ground Spaces		139	Spaces	\$30,000 /Space		4,170,000
	1st Level Subterranean Spaces		26	Spaces	\$50,000 /Space		1,300,000
	Building Costs		131,000	Sf of GBA	\$400 /Sf of GBA		52,400,000
	Contractor/DC Contingency Allow	4		20% Other Direct Costs			11,966,000
	Total Direct Costs		131,000	Sf of GBA	\$548 /Sf of GBA		\$71,796,000
III.	Indirect Costs						
	Architecture, Engineering & Consulting			6% Direct Costs			\$4,308,000
	Public Permits & Fees	5	150	Units	\$35,000 /Unit		5,250,000
	Taxes, Insurance, Legal & Accounting			2% Direct Costs			1,436,000
	Marketing		150	Units	\$2,500 /Unit		375,000
	Developer Fee			5% Direct Costs			3,590,000
	Soft Cost Contingency Allowance			5% Other Indirect Costs			748,000
	Total Indirect Costs						\$15,707,000
IV.	Financing Costs						
	Interest During Construction						
	Land	6	\$4,356,000	Cost	7.0% Avg Rate		\$457,000
	Construction	7	\$94,827,000	Cost	7.0% Avg Rate		5,974,000
	Loan Origination Fees			60% Loan to Cost	1.5 Points		893,000
	Total Financing Costs						\$7,324,000
V.	Total Construction Cost		150	Units	\$632,000 /Unit		\$94,827,000
	Total Development Cost		150	Units	\$661,000 /Unit		\$99,183,000

1 Estimated in part based on a survey of recent land sales in Santa Cruz.

2 Based on the estimated costs for similar uses.

3 The base requirement is 1.0 space for Studio/SRO Units; 1.0 space for One Bedroom Units; and 2.0 spaces for Two Bedroom Units.

4 Includes contractors' fees, general requirements, builder's risk insurance and a direct cost contingency allowance.

5 Based on a review of the City's draft Housing Element.

6 Based on a 18 month construction period following receipt of entitlements, and a 100% average outstanding loan balance.

7 Based on a 18 month construction period following receipt of entitlements, and a 60% average outstanding loan balance.

APPENDIX C - EXHIBIT I - TABLE 2

ESTIMATED STABILIZED NET OPERATING INCOME
 MARKET RATE ALTERNATIVE
 BASE CASE DENSITY: 150 UNITS/ACRE: HIGH DENSITY - TRADITIONAL APARTMENT PROTOTYPE
 APARTMENT DEVELOPMENT
 INCLUSIONARY HOUSING: FINANCIAL EVALUATION
 SANTA CRUZ, CALIFORNIA

I. <u>Gross Income</u>			
A. Market Rate Units ¹			
Studio/SRO Units	60 Units @	\$3,061 /Unit/Month	\$2,203,900
One Bedroom Units	75 Units @	\$4,368 /Unit/Month	3,931,500
Two Bedroom Units	15 Units @	\$5,240 /Unit/Month	943,200
B. Laundry & Miscellaneous Income			
	150 Units @	\$25 /Unit/Month	<u>45,000</u>
Total Gross Income			\$7,123,600
Vacancy & Collection Allowance	5% Gross Income		<u>(356,200)</u>
II. Effective Gross Income			\$6,767,400
III. <u>Operating Expenses</u>			
General Operating Expenses	150 Units @	\$4,500 /Unit	\$675,000
Property Taxes	150 Units @	\$8,700 /Unit	1,309,200
Replacement Reserve Deposits	150 Units @	\$150 /Unit	<u>22,500</u>
Total Operating Expenses			<u>(\$2,006,700)</u>
IV. <u>Stabilized Net Operating Income</u>			\$4,760,700

¹ Based in part on the rent survey presented in APPENDIX A. The weighted average monthly rent equates to \$6.00 per square foot of leasable area.

APPENDIX C - EXHIBIT I - TABLE 3

STABILIZED RETURN ON TOTAL INVESTMENT

MARKET RATE ALTERNATIVE

BASE CASE DENSITY: 150 UNITS/ACRE: HIGH DENSITY - TRADITIONAL APARTMENT PROTOTYPE

APARTMENT DEVELOPMENT

INCLUSIONARY HOUSING: FINANCIAL EVALUATION

SANTA CRUZ, CALIFORNIA

I.	Stabilized Net Operating Income	See APPENDIX C - EXHIBIT I - TABLE 2	\$4,760,700
II.	Total Development Cost	See APPENDIX C - EXHIBIT I - TABLE 1	<u>\$99,183,000</u>
III.	Return on Total Investment		4.8%

APPENDIX C - EXHIBIT II

PRO FORMA ANALYSIS

20% LOW INCOME INCLUSIONARY ALTERNATIVE

BASE CASE DENSITY: 150 UNITS/ACRE

HIGH DENSITY - TRADITIONAL APARTMENT PROTOTYPE

APARTMENT DEVELOPMENT

INCLUSIONARY HOUSING: FINANCIAL EVALUATION

SANTA CRUZ, CALIFORNIA

APPENDIX C - EXHIBIT II - TABLE 1

ESTIMATED DEVELOPMENT COSTS
 20% LOW INCOME INCLUSIONARY ALTERNATIVE
 BASE CASE DENSITY: 150 UNITS/ACRE: HIGH DENSITY - TRADITIONAL APARTMENT PROTOTYPE
 APARTMENT DEVELOPMENT
 INCLUSIONARY HOUSING: FINANCIAL EVALUATION
 SANTA CRUZ, CALIFORNIA

I.	Property Acquisition Costs	1	43,560	Sf of Land	\$100 /Sf of Land		\$4,356,000
II.	Direct Costs	2					
	On-Site Improvements/Landscaping		43,560	Sf of Land	\$45 /Sf of Land		\$1,960,000
	Parking	3					
	Above-Ground Spaces		139	Spaces	\$30,000 /Space		4,170,000
	1st Level Subterranean Spaces		26	Spaces	\$50,000 /Space		1,300,000
	Building Costs		131,000	Sf of GBA	\$400 /Sf of GBA		52,400,000
	Contractor/DC Contingency Allow	4		20% Other Direct Costs			11,966,000
	Total Direct Costs		131,000	Sf of GBA	\$548 /Sf of GBA		\$71,796,000
III.	Indirect Costs						
	Architecture, Engineering & Consulting			6% Direct Costs			\$4,308,000
	Public Permits & Fees	5	150	Units	\$35,000 /Unit		5,250,000
	Taxes, Insurance, Legal & Accounting			2% Direct Costs			1,436,000
	Marketing		150	Units	\$2,500 /Unit		375,000
	Developer Fee			5% Direct Costs			3,590,000
	Soft Cost Contingency Allowance			5% Other Indirect Costs			748,000
	Total Indirect Costs						\$15,707,000
IV.	Financing Costs						
	Interest During Construction						
	Land	6	\$3,329,800	Cost	7.0% Avg Rate		\$350,000
	Construction	7	\$94,927,000	Cost	7.0% Avg Rate		5,980,000
	Loan Origination Fees			60% Loan to Cost	1.5 Points		894,000
	Total Financing Costs						\$7,224,000
V.	Total Construction Cost		150	Units	\$632,000 /Unit		\$94,727,000
	Total Development Cost		150	Units	\$661,000 /Unit		\$99,083,000

1 Estimated in part based on a survey of recent land sales in Santa Cruz.

2 Based on the estimated costs for similar uses.

3 The base requirement is 1.0 space for Studio/SRO Units; 1.0 space for One Bedroom Units; and 2.0 spaces for Two Bedroom Units.

4 Includes contractors' fees, general requirements, builder's risk insurance and a direct cost contingency allowance.

5 Based on a review of the City's draft Housing Element.

6 Based on a 18 month construction period following receipt of entitlements, and a 100% average outstanding loan balance. Includes a \$1,026,200 offset to reflect the carrying cost savings associated with the estimated property acquisition cost reduction.

7 Based on a 18 month construction period following receipt of entitlements, and a 60% average outstanding loan balance.

APPENDIX C - EXHIBIT II - TABLE 2

ESTIMATED STABILIZED NET OPERATING INCOME
 20% LOW INCOME INCLUSIONARY ALTERNATIVE
 BASE CASE DENSITY: 150 UNITS/ACRE: HIGH DENSITY - TRADITIONAL APARTMENT PROTOTYPE
 APARTMENT DEVELOPMENT
 INCLUSIONARY HOUSING: FINANCIAL EVALUATION
 SANTA CRUZ, CALIFORNIA

I. <u>Gross Income</u>				
A. Market Rate Units 1				
Studio/SRO Units	48 Units @	\$3,061 /Unit/Month		\$1,763,100
One Bedroom Units	60 Units @	\$4,368 /Unit/Month		3,145,200
Two Bedroom Units	12 Units @	\$5,240 /Unit/Month		754,600
B. Low Income Units 2				
Studio/SRO Units	12 Units @	\$1,974 /Unit/Month		284,300
One Bedroom Units	15 Units @	\$2,252 /Unit/Month		405,300
Two Bedroom Units	3 Units @	\$2,503 /Unit/Month		90,100
C. Laundry & Miscellaneous Income				
	150 Units @	\$25 /Unit/Month		45,000
Total Gross Income				\$6,487,600
Vacancy & Collection Allowance	5% Gross Income			(324,400)
II. Effective Gross Income				\$6,163,200
III. <u>Operating Expenses</u>				
General Operating Expenses	150 Units @	\$4,500 /Unit		\$675,000
Property Taxes	150 Units @	\$7,900 /Unit		1,178,900
Replacement Reserve Deposits	150 Units @	\$150 /Unit		22,500
Total Operating Expenses				(\$1,876,400)
IV. <u>Stabilized Net Operating Income</u>				\$4,286,800

¹ Based in part on the rent survey presented in APPENDIX A. The weighted average monthly rent equates to \$6.00 per square foot of leasable area.

² The low income rent calculations are based on household income at 80% of AMI, with 35% of income allotted to housing related expenses. See APPENDIX B.

APPENDIX C - EXHIBIT II - TABLE 3

FINANCIAL IMPACTS: INCLUSIONARY HOUSING REQUIREMENTS
 20% LOW INCOME INCLUSIONARY ALTERNATIVE
 BASE CASE DENSITY: 150 UNITS/ACRE: HIGH DENSITY - TRADITIONAL APARTMENT PROTOTYPE
 APARTMENT DEVELOPMENT
 INCLUSIONARY HOUSING: FINANCIAL EVALUATION
 SANTA CRUZ, CALIFORNIA

I.	<u>Supportable Investment</u>		
	Stabilized Net Operating Income	See APPENDIX C - EXHIBIT II - TABLE 2	\$4,286,800
	Threshold Return on Total Investment ¹		4.8%
	Total Supportable Investment		\$89,310,000
II.	Total Development Cost	See APPENDIX C - EXHIBIT II - TABLE 1	\$99,083,000
III.	<u>Total Financial Impact</u>		(\$9,773,000)
	Required Prop Acq Cost Reduction	224% of Estimated Current Acquisition Prices	
	Return on Total Investment	4.3% Based on Estimated Current Property Acquisition Costs	
	% Rent Increase to Offset Impact	10.7% Market Rate Units	

¹ Based on the Supportable Investment estimated to be generated by the BASE CASE DENSITY: 150 UNITS/ACRE: MARKET RATE ALTERNATIVE.

APPENDIX C - EXHIBIT III

PRO FORMA ANALYSIS

BASE ZONING UNITS: 15% AT VERY LOW INCOME + 5% AT LOW INCOME

50% §65915 DENSITY BONUS ALTERNATIVE

HIGH DENSITY - TRADITIONAL APARTMENT PROTOTYPE

APARTMENT DEVELOPMENT

INCLUSIONARY HOUSING: FINANCIAL EVALUATION

SANTA CRUZ, CALIFORNIA

APPENDIX C - EXHIBIT III - TABLE 1

ESTIMATED DEVELOPMENT COSTS

BASE ZONING UNITS: 15% AT VERY LOW INCOME + 5% AT LOW INCOME

50% §65915 DENSITY BONUS ALTERNATIVE: HIGH DENSITY - TRADITIONAL APARTMENT PROTOTYPE

APARTMENT DEVELOPMENT

INCLUSIONARY HOUSING: FINANCIAL EVALUATION

SANTA CRUZ, CALIFORNIA

I.	Property Acquisition Costs	1	43,560	Sf of Land	\$100 /Sf of Land		\$4,356,000
II.	Direct Costs	2					
	On-Site Improvements/Landscaping		43,560	Sf of Land	\$45 /Sf of Land	\$1,960,000	
	Parking	3					
	At-Grade Spaces		0	Spaces	\$5,000 /Space	0	
	Above-Ground Spaces		113	Spaces	\$30,000 /Space	3,390,000	
	Building Costs		196,707	Sf of GBA	\$400 /Sf of GBA	78,683,000	
	Contractor/DC Contingency Allow	4		20% Other Direct Costs		16,807,000	
	Total Direct Costs		196,707	Sf of GBA	\$513 /Sf of GBA		\$100,840,000
III.	Indirect Costs						
	Architecture, Engineering & Consulting			6% Direct Costs		\$6,050,000	
	Public Permits & Fees	5	225	Units	\$35,000 /Unit	7,875,000	
	Taxes, Insurance, Legal & Accounting			2% Direct Costs		2,017,000	
	Marketing		225	Units	\$2,500 /Unit	563,000	
	Developer Fee			5% Direct Costs		5,042,000	
	Soft Cost Contingency Allowance			5% Other Indirect Costs		1,077,000	
	Total Indirect Costs						\$22,624,000
IV.	Financing Costs						
	Interest During Construction						
	Land	6	\$3,991,440	Cost	7.0% Avg Rate	\$419,000	
	Construction	7	\$133,537,000	Cost	7.0% Avg Rate	8,413,000	
	Loan Origination Fees			60% Loan to Cost	1.5 Points	1,241,000	
	Total Financing Costs						\$10,073,000
V.	Total Construction Cost		225	Units	\$593,000 /Unit		\$133,537,000
	Total Development Cost		225	Units	\$613,000 /Unit		\$137,893,000

1 Estimated in part based on a survey of recent land sales in Santa Cruz.

2 Based on the estimated costs for similar uses.

3 Based on .5 spaces per unit.

4 Includes contractors' fees, general requirements, builder's risk insurance and a direct cost contingency allowance.

5 Based on a review of the City's draft Housing Element.

6 Based on a 18 month construction period following receipt of entitlements, and a 100% average outstanding loan balance. Includes a \$364,560 offset to reflect the carrying cost savings associated with the estimated property acquisition cost reduction.

7 Based on a 18 month construction period following receipt of entitlements, and a 60% average outstanding loan balance.

APPENDIX C - EXHIBIT III - TABLE 2

ESTIMATED STABILIZED NET OPERATING INCOME
 BASE ZONING UNITS: 15% AT VERY LOW INCOME + 5% AT LOW INCOME
 50% §65915 DENSITY BONUS ALTERNATIVE: HIGH DENSITY - TRADITIONAL APARTMENT PROTOTYPE
 APARTMENT DEVELOPMENT
 INCLUSIONARY HOUSING: FINANCIAL EVALUATION
 SANTA CRUZ, CALIFORNIA

I. **Gross Income**

A. **Market Rate Units**

¹

Studio/SRO Units	78 Units @	\$3,061 /Unit/Month	\$2,865,100
One Bedroom Units	97 Units @	\$4,368 /Unit/Month	5,084,800
Two Bedroom Units	20 Units @	\$5,240 /Unit/Month	1,257,600

B. **Inclusionary Units**

Very Low Income Density Bonus Units

²

Studio/SRO Units	9 Units @	\$1,005 /Unit/Month	108,600
One Bedroom Units	12 Units @	\$1,144 /Unit/Month	164,800
Two Bedroom Units	2 Units @	\$1,258 /Unit/Month	30,200

Low Income Inclusionary Units

³

Studio/SRO Units	3 Units	\$1,974 /Unit/Month	71,100
One Bedroom Units	3 Units	\$2,252 /Unit/Month	81,100
Two Bedroom Units	1 Unit	\$2,503 /Unit/Month	30,000

C. **Laundry & Miscellaneous Income**

225 Units @	\$25 /Unit/Month	67,500
-------------	------------------	--------

Total Gross Income

\$9,760,800

Vacancy & Collection Allowance

5% Gross Income

(488,000)

II. **Effective Gross Income**

\$9,272,800

III. **Operating Expenses**

General Operating Expenses	225 Units @	\$4,500 /Unit	\$1,012,500
Property Taxes	225 Units @	\$7,900 /Unit	1,774,400
Replacement Reserve Deposits	225 Units @	\$150 /Unit	33,800

Total Operating Expenses

225 Units @	\$12,536 /Unit	(\$2,820,700)
-------------	----------------	---------------

IV. **Stabilized Net Operating Income**

\$6,452,100

¹ Based in part on the rent survey presented in APPENDIX A. The weighted average monthly rent equates to \$6.00 per square foot of leasable area.

² Under Section 65915 (f) (2), 15% of the Base Units are set aside for very-low income households.

³ The balance of the affordable units are set aside for low income households. The low income rent calculations are based on household income at 80% of AMI, with 35% of income allotted to housing related expenses. See APPENDIX B.

APPENDIX C - EXHIBIT III - TABLE 3

FINANCIAL IMPACTS: INCLUSIONARY HOUSING REQUIREMENTS
 BASE ZONING UNITS: 15% AT VERY LOW INCOME + 5% AT LOW INCOME
 50% §65915 DENSITY BONUS ALTERNATIVE: HIGH DENSITY - TRADITIONAL APARTMENT PROTOTYPE
 APARTMENT DEVELOPMENT
 INCLUSIONARY HOUSING: FINANCIAL EVALUATION
 SANTA CRUZ, CALIFORNIA

I.	Supportable Investment		
	Stabilized Net Operating Income	See APPENDIX C - EXHIBIT III - TABLE 2	\$6,452,100
	Threshold Return on Total Investment ¹		4.8%
	Total Supportable Investment		\$134,421,000
II.	Total Development Cost	See APPENDIX C - EXHIBIT III - TABLE 1	\$137,893,000
III.	Total Financial Impact		(\$3,472,000)
	Required Prop Acq Cost Reduction	80% of Estimated Current Acquisition Prices	
	Return on Total Investment	4.7% Based on Estimated Current Property Acquisition Costs	
	% Rent Increase to Offset Impact	2.3% Market Rate Units	

¹ Based on the Supportable Investment estimated to be generated by the BASE CASE DENSITY: 150 UNITS/ACRE: MARKET RATE ALTERNATIVE.

APPENDIX C - EXHIBIT IV

PRO FORMA ANALYSIS

BASE ZONING UNITS: 15% AT VERY LOW INCOME + 10% AT LOW INCOME

50% §65915 DENSITY BONUS ALTERNATIVE

HIGH DENSITY - TRADITIONAL APARTMENT PROTOTYPE

APARTMENT DEVELOPMENT

INCLUSIONARY HOUSING: FINANCIAL EVALUATION

SANTA CRUZ, CALIFORNIA

APPENDIX C - EXHIBIT IV - TABLE 1

ESTIMATED DEVELOPMENT COSTS

BASE ZONING UNITS: 15% AT VERY LOW INCOME + 10% AT LOW INCOME

50% §65915 DENSITY BONUS ALTERNATIVE: HIGH DENSITY - TRADITIONAL APARTMENT PROTOTYPE

APARTMENT DEVELOPMENT

INCLUSIONARY HOUSING: FINANCIAL EVALUATION

SANTA CRUZ, CALIFORNIA

I. Property Acquisition Costs	1	43,560	Sf of Land	\$100 /Sf of Land		\$4,356,000
II. Direct Costs	2					
On-Site Improvements/Landscaping		43,560	Sf of Land	\$45 /Sf of Land		\$1,960,000
Parking	3					
Above-Ground Spaces		113	Spaces	\$30,000 /Space		3,390,000
1st Level Subterranean Spaces		0	Spaces	\$50,000 /Space		0
Building Costs		196,707	Sf of GBA	\$400 /Sf of GBA		78,683,000
Contractor/DC Contingency Allow	4		20% Other Direct Costs			16,807,000
Total Direct Costs		196,707	Sf of GBA	\$513 /Sf of GBA		\$100,840,000
III. Indirect Costs						
Architecture, Engineering & Consulting			6% Direct Costs			\$6,050,000
Public Permits & Fees	5	225	Units	\$35,000 /Unit		7,875,000
Taxes, Insurance, Legal & Accounting			2% Direct Costs			2,017,000
Marketing		225	Units	\$2,500 /Unit		563,000
Developer Fee			5% Direct Costs			5,042,000
Soft Cost Contingency Allowance			5% Other Indirect Costs			1,077,000
Total Indirect Costs						\$22,624,000
IV. Financing Costs						
Interest During Construction						
Land	6	\$3,711,615	Cost	7.0% Avg Rate		\$390,000
Construction	7	\$133,506,000	Cost	7.0% Avg Rate		8,411,000
Loan Origination Fees			60% Loan to Cost	1.5 Points		1,241,000
Total Financing Costs						\$10,042,000
V. Total Construction Cost		225	Units	\$593,000 /Unit		\$133,506,000
Total Development Cost		225	Units	\$613,000 /Unit		\$137,862,000

1 Estimated in part based on a survey of recent land sales in Santa Cruz.

2 Based on the estimated costs for similar uses.

3 Based on .5 spaces per unit.

4 Includes contractors' fees, general requirements, builder's risk insurance and a direct cost contingency allowance.

5 Based on a review of the City's draft Housing Element.

6 Based on a 18 month construction period following receipt of entitlements, and a 100% average outstanding loan balance. Includes a \$644,385 offset to reflect the carrying cost savings associated with the estimated property acquisition cost reduction.

7 Based on a 18 month construction period following receipt of entitlements, and a 60% average outstanding loan balance.

APPENDIX C - EXHIBIT IV - TABLE 2

ESTIMATED STABILIZED NET OPERATING INCOME

BASE ZONING UNITS: 15% AT VERY LOW INCOME + 10% AT LOW INCOME

50% §65915 DENSITY BONUS ALTERNATIVE: HIGH DENSITY - TRADITIONAL APARTMENT PROTOTYPE

APARTMENT DEVELOPMENT

INCLUSIONARY HOUSING: FINANCIAL EVALUATION

SANTA CRUZ, CALIFORNIA

I. **Gross Income**

A. **Market Rate Units**

¹

Studio/SRO Units	75 Units @	\$3,061 /Unit/Month	\$2,754,900
One Bedroom Units	93 Units @	\$4,368 /Unit/Month	4,875,100
Two Bedroom Units	19 Units @	\$5,240 /Unit/Month	1,194,700

B. **Inclusionary Units**

Very Low Income Density Bonus Units

²

Studio/SRO Units	9 Units @	\$1,005 /Unit/Month	108,600
One Bedroom Units	12 Units @	\$1,144 /Unit/Month	164,800
Two Bedroom Units	2 Units @	\$1,258 /Unit/Month	30,200

Low Income Inclusionary Units

³

Studio/SRO Units	6 Units	\$1,974 /Unit/Month	142,100
One Bedroom Units	7 Units	\$2,252 /Unit/Month	189,200
Two Bedroom Units	2 Units	\$2,503 /Unit/Month	60,100

C. **Laundry & Miscellaneous Income**

225 Units @	\$25 /Unit/Month	67,500
-------------	------------------	--------

Total Gross Income

\$9,587,200

Vacancy & Collection Allowance

5% Gross Income

(479,400)

II. **Effective Gross Income**

\$9,107,800

III. **Operating Expenses**

General Operating Expenses	225 Units @	\$4,500 /Unit	\$1,012,500
Property Taxes	225 Units @	\$7,700 /Unit	1,738,800
Replacement Reserve Deposits	225 Units @	\$150 /Unit	33,800

Total Operating Expenses

225 Units @	\$12,378 /Unit	(\$2,785,100)
-------------	----------------	---------------

IV. **Stabilized Net Operating Income**

\$6,322,700

¹ Based in part on the rent survey presented in APPENDIX A. The weighted average monthly rent equates to \$6.00 per square foot of leasable area.

² Under Section 65915 (f) (2), 15% of the Base Units are set aside for very-low income households.

³ The balance of the affordable units are set aside for low income households. The low income rent calculations are based on household income at 80% of AMI, with 35% of income allotted to housing related expenses. See APPENDIX B.

APPENDIX C - EXHIBIT IV - TABLE 3

FINANCIAL IMPACTS: INCLUSIONARY HOUSING REQUIREMENTS
 BASE ZONING UNITS: 15% AT VERY LOW INCOME + 10% AT LOW INCOME
 50% §65915 DENSITY BONUS ALTERNATIVE: HIGH DENSITY - TRADITIONAL APARTMENT PROTOTYPE
 APARTMENT DEVELOPMENT
 INCLUSIONARY HOUSING: FINANCIAL EVALUATION
 SANTA CRUZ, CALIFORNIA

I.	Supportable Investment		
	Stabilized Net Operating Income	See APPENDIX C - EXHIBIT IV - TABLE 2	\$6,322,700
	Threshold Return on Total Investment ¹		4.8%
	Total Supportable Investment		\$131,725,000
II.	Total Development Cost	See APPENDIX C - EXHIBIT IV - TABLE 1	\$137,862,000
III.	Total Financial Impact		(\$6,137,000)
	Required Prop Acq Cost Reduction	141% of Estimated Current Acquisition Prices	
	Return on Total Investment	4.6% Based on Estimated Current Property Acquisition Costs	
	% Rent Increase to Offset Impact	4.3% Market Rate Units	

¹ Based on the Supportable Investment estimated to be generated by the BASE CASE DENSITY: 150 UNITS/ACRE: MARKET RATE ALTERNATIVE.

APPENDIX D

**PRO FORMA ANALYSES
MEDIUM DENSITY - TRADITIONAL APARTMENT PROTOTYPE
APARTMENT DEVELOPMENT
INCLUSIONARY HOUSING: FINANCIAL EVALUATION
SANTA CRUZ, CALIFORNIA**

APPENDIX D - EXHIBIT I

PRO FORMA ANALYSIS

MARKET RATE ALTERNATIVE

BASE CASE DENSITY: 60 UNITS/ACRE

MEDIUM DENSITY - TRADITIONAL APARTMENT PROTOTYPE

APARTMENT DEVELOPMENT

INCLUSIONARY HOUSING: FINANCIAL EVALUATION

SANTA CRUZ, CALIFORNIA

APPENDIX D - EXHIBIT I - TABLE 1

ESTIMATED DEVELOPMENT COSTS
 MARKET RATE ALTERNATIVE
 BASE CASE DENSITY: 60 UNITS/ACRE MEDIUM DENSITY - TRADITIONAL APARTMENT PROTOTYPE
 APARTMENT DEVELOPMENT
 INCLUSIONARY HOUSING: FINANCIAL EVALUATION
 SANTA CRUZ, CALIFORNIA

I.	Property Acquisition Costs	1	21,780	Sf of Land	\$100 /Sf of Land		\$2,178,000
II.	Direct Costs	2					
	On-Site Improvements/Landscaping		21,780	Sf of Land	\$45 /Sf of Land	\$980,000	
	Parking	3					
	Above-Ground Spaces		33	Spaces	\$30,000 /Space	990,000	
	1st Level Subterranean Spaces		0	Spaces	\$50,000 /Space	0	
	Building Costs		23,700	Sf of GBA	\$300 /Sf of GBA	7,110,000	
	Contractor/DC Contingency Allow	4		20% Other Direct Costs		1,816,000	
	Total Direct Costs		23,700	Sf of GBA	\$460 /Sf of GBA		\$10,896,000
III.	Indirect Costs						
	Architecture, Engineering & Consulting			6% Direct Costs		\$654,000	
	Public Permits & Fees	5	30	Units	\$35,000 /Unit	1,050,000	
	Taxes, Insurance, Legal & Accounting			2% Direct Costs		218,000	
	Marketing		30	Units	\$2,500 /Unit	75,000	
	Developer Fee			5% Direct Costs		545,000	
	Soft Cost Contingency Allowance			5% Other Indirect Costs		127,000	
	Total Indirect Costs						\$2,669,000
IV.	Financing Costs						
	Interest During Construction						
	Land	6	\$2,178,000	Cost	7.0% Avg Rate	\$191,000	
	Construction	7	\$14,679,000	Cost	7.0% Avg Rate	771,000	
	Loan Origination Fees			60% Loan to Cost	1.5 Points	152,000	
	Total Financing Costs						\$1,114,000
V.	Total Construction Cost		30	Units	\$489,000 /Unit		\$14,679,000
	Total Development Cost		30	Units	\$562,000 /Unit		\$16,857,000

1 Estimated in part based on a survey of recent land sales in Santa Cruz.

2 Based on the estimated costs for similar uses.

3 The base requirement is 1.0 space for Studio/SRO Units; 1.0 space for One Bedroom Units; and 2.0 spaces for Two Bedroom Units.

4 Includes contractors' fees, general requirements, builder's risk insurance and a direct cost contingency allowance.

5 Based on a review of the City's draft Housing Element.

6 Based on a 15 month construction period following receipt of entitlements, and a 100% average outstanding loan balance.

7 Based on a 15 month construction period following receipt of entitlements, and a 60% average outstanding loan balance.

APPENDIX D - EXHIBIT I - TABLE 2

ESTIMATED STABILIZED NET OPERATING INCOME
 MARKET RATE ALTERNATIVE
 BASE CASE DENSITY: 60 UNITS/ACRE MEDIUM DENSITY - TRADITIONAL APARTMENT PROTOTYPE
 APARTMENT DEVELOPMENT
 INCLUSIONARY HOUSING: FINANCIAL EVALUATION
 SANTA CRUZ, CALIFORNIA

I. <u>Gross Income</u>			
A. Market Rate Units ¹			
Studio/SRO Units	15 Units @	\$2,381 /Unit/Month	\$428,500
One Bedroom Units	12 Units @	\$4,250 /Unit/Month	612,000
Two Bedroom Units	3 Units @	\$4,491 /Unit/Month	161,700
B. Laundry & Miscellaneous Income			
	30 Units @	\$25 /Unit/Month	9,000
Total Gross Income			\$1,211,200
Vacancy & Collection Allowance	5% Gross Income		(60,600)
II. Effective Gross Income			\$1,150,600
III. <u>Operating Expenses</u>			
General Operating Expenses	30 Units @	\$4,500 /Unit	\$135,000
Property Taxes	30 Units @	\$7,300 /Unit	218,100
Replacement Reserve Deposits	30 Units @	\$150 /Unit	4,500
Total Operating Expenses			(\$357,600)
IV. <u>Stabilized Net Operating Income</u>			\$793,000

¹ Based in part on the rent survey presented in APPENDIX A. The weighted average monthly rent equates to \$6.04 per square foot of leasable area.

APPENDIX D - EXHIBIT I - TABLE 3

STABILIZED RETURN ON TOTAL INVESTMENT

MARKET RATE ALTERNATIVE

BASE CASE DENSITY: 60 UNITS/ACRE MEDIUM DENSITY - TRADITIONAL APARTMENT PROTOTYPE

APARTMENT DEVELOPMENT

INCLUSIONARY HOUSING: FINANCIAL EVALUATION

SANTA CRUZ, CALIFORNIA

I.	Stabilized Net Operating Income	See APPENDIX D - EXHIBIT I - TABLE 2	\$793,000
II.	Total Development Cost	See APPENDIX D - EXHIBIT I - TABLE 1	<u>\$16,857,000</u>
III.	Return on Total Investment		4.7%

APPENDIX D - EXHIBIT II

PRO FORMA ANALYSIS

20% LOW INCOME INCLUSIONARY ALTERNATIVE

BASE CASE DENSITY: 60 UNITS/ACRE

MEDIUM DENSITY - TRADITIONAL APARTMENT PROTOTYPE

APARTMENT DEVELOPMENT

INCLUSIONARY HOUSING: FINANCIAL EVALUATION

SANTA CRUZ, CALIFORNIA

APPENDIX D - EXHIBIT II - TABLE 1

ESTIMATED DEVELOPMENT COSTS
 20% LOW INCOME INCLUSIONARY ALTERNATIVE
 BASE CASE DENSITY: 60 UNITS/ACRE: MEDIUM DENSITY - TRADITIONAL APARTMENT PROTOTYPE
 APARTMENT DEVELOPMENT
 INCLUSIONARY HOUSING: FINANCIAL EVALUATION
 SANTA CRUZ, CALIFORNIA

I.	Property Acquisition Costs	1	21,780	Sf of Land	\$100 /Sf of Land		\$2,178,000
II.	Direct Costs	2					
	On-Site Improvements/Landscaping		21,780	Sf of Land	\$45 /Sf of Land	\$980,000	
	Parking	3					
	Above-Ground Spaces		33	Spaces	\$30,000 /Space	990,000	
	1st Level Subterranean Spaces		0	Spaces	\$50,000 /Space	0	
	Building Costs		23,700	Sf of GBA	\$300 /Sf of GBA	7,110,000	
	Contractor/DC Contingency Allow	4		20% Other Direct Costs		1,816,000	
	Total Direct Costs		23,700	Sf of GBA	\$460 /Sf of GBA		\$10,896,000
III.	Indirect Costs						
	Architecture, Engineering & Consulting			6% Direct Costs		\$654,000	
	Public Permits & Fees	5	30	Units	\$35,000 /Unit	1,050,000	
	Taxes, Insurance, Legal & Accounting			2% Direct Costs		218,000	
	Marketing		30	Units	\$2,500 /Unit	75,000	
	Developer Fee			5% Direct Costs		545,000	
	Soft Cost Contingency Allowance			5% Other Indirect Costs		127,000	
	Total Indirect Costs						\$2,669,000
IV.	Financing Costs						
	Interest During Construction						
	Land	6	\$2,059,300	Cost	7.0% Avg Rate	\$180,000	
	Construction	7	\$14,667,000	Cost	7.0% Avg Rate	770,000	
	Loan Origination Fees			60% Loan to Cost	1.5 Points	152,000	
	Total Financing Costs						\$1,102,000
V.	Total Construction Cost		30	Units	\$489,000 /Unit		\$14,667,000
	Total Development Cost		30	Units	\$562,000 /Unit		\$16,845,000

1 Estimated in part based on a survey of recent land sales in Santa Cruz.

2 Based on the estimated costs for similar uses.

3 The base requirement is 1.0 space for Studio/SRO Units; 1.0 space for One Bedroom Units; and 2.0 spaces for Two Bedroom Units.

4 Includes contractors' fees, general requirements, builder's risk insurance and a direct cost contingency allowance.

5 Based on a review of the City's draft Housing Element.

6 Based on a 15 month construction period following receipt of entitlements, and a 100% average outstanding loan balance. Includes a \$118,700 offset to reflect the carrying cost savings associated with the estimated property acquisition cost reduction.

7 Based on a 15 month construction period following receipt of entitlements, and a 60% average outstanding loan balance.

APPENDIX D - EXHIBIT II - TABLE 2

ESTIMATED STABILIZED NET OPERATING INCOME
 20% LOW INCOME INCLUSIONARY ALTERNATIVE
 BASE CASE DENSITY: 60 UNITS/ACRE: MEDIUM DENSITY - TRADITIONAL APARTMENT PROTOTYPE
 APARTMENT DEVELOPMENT
 INCLUSIONARY HOUSING: FINANCIAL EVALUATION
 SANTA CRUZ, CALIFORNIA

I. <u>Gross Income</u>				
A. Market Rate Units 1				
Studio/SRO Units	12 Units @	\$2,381 /Unit/Month		\$342,800
One Bedroom Units	10 Units @	\$4,250 /Unit/Month		510,000
Two Bedroom Units	2 Units @	\$4,491 /Unit/Month		107,800
B. Low Income Units 2				
Studio/SRO Units	3 Units @	\$1,974 /Unit/Month		71,100
One Bedroom Units	2 Units @	\$2,252 /Unit/Month		54,000
Two Bedroom Units	1 Unit @	\$2,503 /Unit/Month		30,000
C. Laundry & Miscellaneous Income				
	30 Units @	\$25 /Unit/Month		9,000
Total Gross Income				\$1,124,700
Vacancy & Collection Allowance				(56,200)
II. Effective Gross Income				\$1,068,500
III. <u>Operating Expenses</u>				
General Operating Expenses	30 Units @	\$4,500 /Unit		\$135,000
Property Taxes	30 Units @	\$6,700 /Unit		200,400
Replacement Reserve Deposits	30 Units @	\$150 /Unit		4,500
Total Operating Expenses				(\$339,900)
IV. <u>Stabilized Net Operating Income</u>				\$728,600

¹ Based in part on the rent survey presented in APPENDIX A. The weighted average monthly rent equates to \$6.06 per square foot of leasable area.

² The low income rent calculations are based on household income at 80% of AMI, with 35% of income allotted to housing related expenses. See APPENDIX B.

APPENDIX D - EXHIBIT II - TABLE 3

FINANCIAL IMPACTS: INCLUSIONARY HOUSING REQUIREMENTS
 20% LOW INCOME INCLUSIONARY ALTERNATIVE
 BASE CASE DENSITY: 60 UNITS/ACRE: MEDIUM DENSITY - TRADITIONAL APARTMENT PROTOTYPE
 APARTMENT DEVELOPMENT
 INCLUSIONARY HOUSING: FINANCIAL EVALUATION
 SANTA CRUZ, CALIFORNIA

I.	Supportable Investment		
	Stabilized Net Operating Income	See APPENDIX D - EXHIBIT II - TABLE 2	\$728,600
	Threshold Return on Total Investment ¹		4.7%
	Total Supportable Investment		\$15,488,000
II.	Total Development Cost	See APPENDIX D - EXHIBIT II - TABLE 1	\$16,845,000
III.	Total Financial Impact		(\$1,357,000)
	Required Prop Acq Cost Reduction	62% of Estimated Current Acquisition Prices	
	Return on Total Investment	4.3% Based on Estimated Current Property Acquisition Costs	
	% Rent Increase to Offset Impact	8.7% Market Rate Units	

¹ Based on the Developer Return estimated to be generated by the BASE CASE DENSITY: 60 UNITS/ACRE: MARKET RATE ALTERNATIVE.

APPENDIX D - EXHIBIT III

PRO FORMA ANALYSIS

BASE ZONING UNITS: 15% AT VERY LOW INCOME + 5% AT LOW INCOME

50% §65915 DENSITY BONUS ALTERNATIVE

MEDIUM DENSITY - TRADITIONAL APARTMENT PROTOTYPE

APARTMENT DEVELOPMENT

INCLUSIONARY HOUSING: FINANCIAL EVALUATION

SANTA CRUZ, CALIFORNIA

APPENDIX D - EXHIBIT III - TABLE 1

ESTIMATED DEVELOPMENT COSTS

BASE ZONING UNITS: 15% AT VERY LOW INCOME + 5% AT LOW INCOME

50% §65915 DENSITY BONUS ALTERNATIVE: MEDIUM DENSITY - TRADITIONAL APARTMENT PROTOTYPE

APARTMENT DEVELOPMENT

INCLUSIONARY HOUSING: FINANCIAL EVALUATION

SANTA CRUZ, CALIFORNIA

I. Property Acquisition Costs	1	21,780	Sf of Land	\$100 /Sf of Land		\$2,178,000
II. Direct Costs	2					
On-Site Improvements/Landscaping		21,780	Sf of Land	\$45 /Sf of Land		\$980,000
Parking	3					
Above-Ground Spaces		23	Spaces	\$30,000 /Space		690,000
1st Level Subterranean Spaces		0	Spaces	\$50,000 /Space		0
Building Costs		35,943	Sf of GBA	\$325 /Sf of GBA		11,681,000
Contractor/DC Contingency Allow	4		20% Other Direct Costs			2,670,000
Total Direct Costs		35,943	Sf of GBA	\$446 /Sf of GBA		\$16,021,000
III. Indirect Costs						
Architecture, Engineering & Consulting			6% Direct Costs			\$961,000
Public Permits & Fees	5	45	Units	\$35,000 /Unit		1,575,000
Taxes, Insurance, Legal & Accounting			2% Direct Costs			320,000
Marketing		45	Units	\$2,500 /Unit		113,000
Developer Fee			5% Direct Costs			801,000
Soft Cost Contingency Allowance			5% Other Indirect Costs			189,000
Total Indirect Costs						\$3,959,000
IV. Financing Costs						
Interest During Construction						
Land	6	\$2,126,200	Cost	7.0% Avg Rate		\$186,000
Construction	7	\$21,508,000	Cost	7.0% Avg Rate		1,129,000
Loan Origination Fees			60% Loan to Cost	1.5 Points		213,000
Total Financing Costs						\$1,528,000
V. Total Construction Cost		45	Units	\$478,000 /Unit		\$21,508,000
Total Development Cost		45	Units	\$526,000 /Unit		\$23,686,000

1 Estimated in part based on a survey of recent land sales in Santa Cruz.

2 Based on the estimated costs for similar uses.

3 Based on .5 spaces per unit.

4 Includes contractors' fees, general requirements, builder's risk insurance and a direct cost contingency allowance.

5 Based on a review of the City's draft Housing Element.

6 Based on a 15 month construction period following receipt of entitlements, and a 100% average outstanding loan balance. Includes a \$51,800 offset to reflect the carrying cost savings associated with the estimated property acquisition cost reduction.

7 Based on a 15 month construction period following receipt of entitlements, and a 60% average outstanding loan balance.

APPENDIX D - EXHIBIT III - TABLE 2

ESTIMATED STABILIZED NET OPERATING INCOME
 BASE ZONING UNITS: 15% AT VERY LOW INCOME + 5% AT LOW INCOME
 50% §65915 DENSITY BONUS ALTERNATIVE: MEDIUM DENSITY - TRADITIONAL APARTMENT PROTOTYPE
 APARTMENT DEVELOPMENT
 INCLUSIONARY HOUSING: FINANCIAL EVALUATION
 SANTA CRUZ, CALIFORNIA

I. Gross Income

A. Market Rate Units ¹

Studio/SRO Units	19 Units @	\$2,381 /Unit/Month	\$542,800
One Bedroom Units	16 Units @	\$4,250 /Unit/Month	816,100
Two Bedroom Units	4 Units @	\$4,491 /Unit/Month	215,600

B. Inclusionary Units

Very Low Income Density Bonus Units ²

Studio/SRO Units	2 Units @	\$1,005 /Unit/Month	24,100
One Bedroom Units	2 Units @	\$1,144 /Unit/Month	27,500
Two Bedroom Units	1 Unit @	\$1,258 /Unit/Month	15,100

Low Income Inclusionary Units ³

Studio/SRO Units	1 Unit	\$1,974 /Unit/Month	23,700
One Bedroom Units	0 Units	\$2,252 /Unit/Month	0
Two Bedroom Units	0 Units	\$2,503 /Unit/Month	0

C. Laundry & Miscellaneous Income

45 Units @	\$25 /Unit/Month	13,500
------------	------------------	--------

Total Gross Income

\$1,678,400

Vacancy & Collection Allowance

5% Gross Income

(83,900)

II. **Effective Gross Income**

\$1,594,500

III. Operating Expenses

General Operating Expenses	45 Units @	\$4,500 /Unit	\$202,500
Property Taxes	45 Units @	\$6,600 /Unit	298,800
Replacement Reserve Deposits	45 Units @	\$150 /Unit	6,800

Total Operating Expenses

45 Units @ \$11,291 /Unit

(\$508,100)

IV. **Stabilized Net Operating Income**

\$1,086,400

¹ Based in part on the rent survey presented in APPENDIX A. The weighted average monthly rent equates to \$6.03 per square foot of leasable area.

² Under Section 65915 (f) (2), 15% of the Base Units are set aside for very-low income households.

³ The balance of the affordable units are set aside for low income households. The low income rent calculations are based on household income at 80% of AMI, with 35% of income allotted to housing related expenses. See APPENDIX B.

APPENDIX D - EXHIBIT III - TABLE 3

FINANCIAL IMPACTS: INCLUSIONARY HOUSING REQUIREMENTS
 BASE ZONING UNITS: 15% AT VERY LOW INCOME + 5% AT LOW INCOME
 50% §65915 DENSITY BONUS ALTERNATIVE: MEDIUM DENSITY - TRADITIONAL APARTMENT PROTOTYPE
 APARTMENT DEVELOPMENT
 INCLUSIONARY HOUSING: FINANCIAL EVALUATION
 SANTA CRUZ, CALIFORNIA

I. <u>Supportable Investment</u>			
Stabilized Net Operating Income	See APPENDIX D - EXHIBIT III - TABLE 2	\$1,086,400	
Threshold Return on Total Investment ¹		4.7%	
Total Supportable Investment			\$23,094,000
II. Total Development Cost	See APPENDIX D - EXHIBIT III - TABLE 1		\$23,686,000
III. <u>Total Financial Impact</u>			(\$592,000)
Required Prop Acq Cost Reduction	27% of Estimated Current Acquisition Prices		
Return on Total Investment	4.6% Based on Estimated Current Property Acquisition Costs		
% Rent Increase to Offset Impact	2.3% Market Rate Units		

¹ Based on the Developer Return estimated to be generated by the BASE CASE DENSITY: 60 UNITS/ACRE: MARKET RATE ALTERNATIVE.

APPENDIX D - EXHIBIT IV

PRO FORMA ANALYSIS

50% §65915 DENSITY BONUS ALTERNATIVE

BASE ZONING UNITS: 15% AT VERY LOW INCOME + 10% AT LOW INCOME

MEDIUM DENSITY - TRADITIONAL APARTMENT PROTOTYPE

APARTMENT DEVELOPMENT

INCLUSIONARY HOUSING: FINANCIAL EVALUATION

SANTA CRUZ, CALIFORNIA

APPENDIX D - EXHIBIT IV - TABLE 1

ESTIMATED DEVELOPMENT COSTS

50% §65915 DENSITY BONUS ALTERNATIVE: BASE ZONING UNITS: 15% AT VERY LOW INCOME + 10% AT LOW INCOME

MEDIUM DENSITY - TRADITIONAL APARTMENT PROTOTYPE

APARTMENT DEVELOPMENT

INCLUSIONARY HOUSING: FINANCIAL EVALUATION

SANTA CRUZ, CALIFORNIA

I. Property Acquisition Costs	1	21,780	Sf of Land	\$100 /Sf of Land		\$2,178,000
II. Direct Costs	2					
On-Site Improvements/Landscaping		21,780	Sf of Land	\$45 /Sf of Land		\$980,000
Parking	3					
Above-Ground Spaces		23	Spaces	\$30,000 /Space		690,000
1st Level Subterranean Spaces		0	Spaces	\$50,000 /Space		0
Building Costs		35,943	Sf of GBA	\$325 /Sf of GBA		11,681,000
Contractor/DC Contingency Allow	4		20% Other Direct Costs			2,670,000
Total Direct Costs		35,943	Sf of GBA	\$446 /Sf of GBA		\$16,021,000
III. Indirect Costs						
Architecture, Engineering & Consulting			6% Direct Costs			\$961,000
Public Permits & Fees	5	45	Units	\$35,000 /Unit		1,575,000
Taxes, Insurance, Legal & Accounting			2% Direct Costs			320,000
Marketing		45	Units	\$2,500 /Unit		113,000
Developer Fee			5% Direct Costs			801,000
Soft Cost Contingency Allowance			5% Other Indirect Costs			189,000
Total Indirect Costs						\$3,959,000
IV. Financing Costs						
Interest During Construction						
Land	6	\$2,086,475	Cost	7.0% Avg Rate		\$183,000
Construction	7	\$21,505,000	Cost	7.0% Avg Rate		1,129,000
Loan Origination Fees			60% Loan to Cost	1.5 Points		213,000
Total Financing Costs						\$1,525,000
V. Total Construction Cost		45	Units	\$478,000 /Unit		\$21,505,000
Total Development Cost		45	Units	\$526,000 /Unit		\$23,683,000

1 Estimated in part based on a survey of recent land sales in Santa Cruz.

2 Based on the estimated costs for similar uses.

3 Based on .5 spaces per unit.

4 Includes contractors' fees, general requirements, builder's risk insurance and a direct cost contingency allowance.

5 Based on a review of the City's draft Housing Element.

6 Based on a 15 month construction period following receipt of entitlements, and a 100% average outstanding loan balance. Includes a \$91,525 offset to reflect the carrying cost savings associated with the estimated property acquisition cost reduction.

7 Based on a 15 month construction period following receipt of entitlements, and a 60% average outstanding loan balance.

APPENDIX D - EXHIBIT IV - TABLE 2

ESTIMATED STABILIZED NET OPERATING INCOME
 50% §65915 DENSITY BONUS ALTERNATIVE: BASE ZONING UNITS: 15% AT VERY LOW INCOME + 10% AT LOW INCOME
 MEDIUM DENSITY - TRADITIONAL APARTMENT PROTOTYPE
 APARTMENT DEVELOPMENT
 INCLUSIONARY HOUSING: FINANCIAL EVALUATION
 SANTA CRUZ, CALIFORNIA

I. **Gross Income**

A. **Market Rate Units**

¹

Studio/SRO Units	18 Units @	\$2,381 /Unit/Month	\$514,300
One Bedroom Units	15 Units @	\$4,250 /Unit/Month	765,100
Two Bedroom Units	4 Units @	\$4,491 /Unit/Month	215,600

B. **Inclusionary Units**

Very Low Income Density Bonus Units

²

Studio/SRO Units	2 Units @	\$1,005 /Unit/Month	24,100
One Bedroom Units	2 Units @	\$1,144 /Unit/Month	27,500
Two Bedroom Units	1 Unit @	\$1,258 /Unit/Month	15,100

Low Income Inclusionary Units

³

Studio/SRO Units	2 Units	\$1,974 /Unit/Month	47,400
One Bedroom Units	1 Unit	\$2,252 /Unit/Month	27,000
Two Bedroom Units	0 Units	\$2,503 /Unit/Month	0

C. **Laundry & Miscellaneous Income**

45 Units @	\$25 /Unit/Month	13,500
------------	------------------	--------

Total Gross Income

\$1,649,600

Vacancy & Collection Allowance

5% Gross Income

(82,500)

II. **Effective Gross Income**

\$1,567,100

III. **Operating Expenses**

General Operating Expenses	45 Units @	\$4,500 /Unit	\$202,500
Property Taxes	45 Units @	\$6,500 /Unit	292,900
Replacement Reserve Deposits	45 Units @	\$150 /Unit	6,800

Total Operating Expenses

45 Units @ \$11,160 /Unit

(\$502,200)

IV. **Stabilized Net Operating Income**

\$1,064,900

¹ Based in part on the rent survey presented in APPENDIX A. The weighted average monthly rent equates to \$6.02 per square foot of leasable area.

² Under Section 65915 (f) (2), 15% of the Base Units are set aside for very-low income households.

³ The balance of the affordable units are set aside for low income households. The low income rent calculations are based on household income at 80% of AMI, with 35% of income allotted to housing related expenses. See APPENDIX B.

APPENDIX D - EXHIBIT IV - TABLE 3

FINANCIAL IMPACTS: INCLUSIONARY HOUSING REQUIREMENTS
 50% §65915 DENSITY BONUS ALTERNATIVE: BASE ZONING UNITS: 15% AT VERY LOW INCOME + 10% AT LOW INCOME
 MEDIUM DENSITY - TRADITIONAL APARTMENT PROTOTYPE
 APARTMENT DEVELOPMENT
 INCLUSIONARY HOUSING: FINANCIAL EVALUATION
 SANTA CRUZ, CALIFORNIA

I.	<u>Supportable Investment</u>		
	Stabilized Net Operating Income	See APPENDIX D - EXHIBIT IV - TABLE 2	\$1,064,900
	Threshold Return on Total Investment ¹		4.7%
	Total Supportable Investment		\$22,637,000
II.	Total Development Cost	See APPENDIX D - EXHIBIT IV - TABLE 1	\$23,683,000
III.	<u>Total Financial Impact</u>		(\$1,046,000)
	Required Prop Acq Cost Reduction	48% of Estimated Current Acquisition Prices	
	Return on Total Investment	4.5% Based on Estimated Current Property Acquisition Costs	
	% Rent Increase to Offset Impact	4.3% Market Rate Units	

¹ Based on the Developer Return estimated to be generated by the BASE CASE DENSITY: 60 UNITS/ACRE: MARKET RATE ALTERNATIVE.

APPENDIX E

**PRO FORMA ANALYSES
SRO APARTMENT PROTOTYPE
APARTMENT DEVELOPMENT
INCLUSIONARY HOUSING: FINANCIAL EVALUATION
SANTA CRUZ, CALIFORNIA**

APPENDIX E - EXHIBIT I

**PRO FORMA ANALYSIS
MARKET RATE ALTERNATIVE
BASE CASE DENSITY: 125 UNITS/ACRE
SRO APARTMENT PROTOTYPE
APARTMENT DEVELOPMENT
INCLUSIONARY HOUSING: FINANCIAL EVALUATION
SANTA CRUZ, CALIFORNIA**

APPENDIX E - EXHIBIT I - TABLE 1

ESTIMATED DEVELOPMENT COSTS
 MARKET RATE ALTERNATIVE
 BASE CASE DENSITY: 125 UNITS/ACRE: SRO APARTMENT PROTOTYPE
 APARTMENT DEVELOPMENT
 INCLUSIONARY HOUSING: FINANCIAL EVALUATION
 SANTA CRUZ, CALIFORNIA

I.	Property Acquisition Costs	1	32,670	Sf of Land	\$100 /Sf of Land		\$3,267,000
II.	Direct Costs	2					
	On-Site Improvements/Landscaping		32,670	Sf of Land	\$45 /Sf of Land	\$1,470,000	
	Parking	3					
	Above-Ground Spaces		94	Spaces	\$30,000 /Space	2,820,000	
	1st Level Subterranean Spaces		0	Spaces	\$50,000 /Space	0	
	Building Costs		50,357	Sf of GBA	\$350 /Sf of GBA	17,625,000	
	Contractor/DC Contingency Allow	4		20% Other Direct Costs		4,383,000	
	Total Direct Costs		50,357	Sf of GBA	\$522 /Sf of GBA		\$26,298,000
III.	Indirect Costs						
	Architecture, Engineering & Consulting			6% Direct Costs		\$1,578,000	
	Public Permits & Fees	5	94	Units	\$35,000 /Unit	3,290,000	
	Taxes, Insurance, Legal & Accounting			2% Direct Costs		526,000	
	Marketing		94	Units	\$2,500 /Unit	235,000	
	Developer Fee			5% Direct Costs		1,315,000	
	Soft Cost Contingency Allowance			5% Other Indirect Costs		347,000	
	Total Indirect Costs						\$7,291,000
IV.	Financing Costs						
	Interest During Construction						
	Land	6	\$3,267,000	Cost	7.0% Avg Rate	\$343,000	
	Construction	7	\$36,597,000	Cost	7.0% Avg Rate	2,306,000	
	Loan Origination Fees			60% Loan to Cost	1.5 Points	359,000	
	Total Financing Costs						\$3,008,000
V.	Total Construction Cost		94	Units	\$389,000 /Unit		\$36,597,000
	Total Development Cost		94	Units	\$424,000 /Unit		\$39,864,000

1 Estimated in part based on a survey of recent land sales in Santa Cruz.

2 Based on the estimated costs for similar uses.

3 The base requirement is 1.0 space for Studio/SRO Units; 1.0 space for One Bedroom Units; and 2.0 spaces for Two Bedroom Units.

4 Includes contractors' fees, general requirements, builder's risk insurance and a direct cost contingency allowance.

5 Based on a review of the City's draft Housing Element.

6 Based on a 18 month construction period following receipt of entitlements, and a 100% average outstanding loan balance.

7 Based on a 18 month construction period following receipt of entitlements, and a 60% average outstanding loan balance.

APPENDIX E - EXHIBIT I - TABLE 2

ESTIMATED STABILIZED NET OPERATING INCOME
 MARKET RATE ALTERNATIVE
 BASE CASE DENSITY: 125 UNITS/ACRE: SRO APARTMENT PROTOTYPE
 APARTMENT DEVELOPMENT
 INCLUSIONARY HOUSING: FINANCIAL EVALUATION
 SANTA CRUZ, CALIFORNIA

I. <u>Gross Income</u>			
A. Market Rate Units ¹			
Studio/SRO Units	94 Units @	\$2,551 /Unit/Month	\$2,877,400
One Bedroom Units	0 Units @	\$0 /Unit/Month	0
Two Bedroom Units	0 Units @	\$0 /Unit/Month	0
B. Laundry & Miscellaneous Income			
	94 Units @	\$25 /Unit/Month	<u>28,200</u>
Total Gross Income			\$2,905,600
Vacancy & Collection Allowance	5% Gross Income		<u>(145,300)</u>
II. Effective Gross Income			\$2,760,300
III. <u>Operating Expenses</u>			
General Operating Expenses	94 Units @	\$4,500 /Unit	\$423,000
Property Taxes	94 Units @	\$5,300 /Unit	501,100
Replacement Reserve Deposits	94 Units @	\$150 /Unit	<u>14,100</u>
Total Operating Expenses			(\$938,200)
IV. <u>Stabilized Net Operating Income</u>			\$1,822,100

¹ Based in part on the rent survey presented in APPENDIX A. The weighted average monthly rent equates to \$6.80 per square foot of leasable area.

APPENDIX E - EXHIBIT I - TABLE 3

STABILIZED RETURN ON TOTAL INVESTMENT
MARKET RATE ALTERNATIVE
BASE CASE DENSITY: 125 UNITS/ACRE: SRO APARTMENT PROTOTYPE
APARTMENT DEVELOPMENT
INCLUSIONARY HOUSING: FINANCIAL EVALUATION
SANTA CRUZ, CALIFORNIA

I.	Stabilized Net Operating Income	See APPENDIX E - EXHIBIT I - TABLE 2	\$1,822,100
II.	Total Development Cost	See APPENDIX E - EXHIBIT I - TABLE 1	<u>\$39,864,000</u>
III.	Return on Total Investment		4.6%

APPENDIX E - EXHIBIT II

PRO FORMA ANALYSIS

20% LOW INCOME INCLUSIONARY ALTERNATIVE

BASE CASE DENSITY: 125 UNITS/ACRE

SRO APARTMENT PROTOTYPE

APARTMENT DEVELOPMENT

INCLUSIONARY HOUSING: FINANCIAL EVALUATION

SANTA CRUZ, CALIFORNIA

APPENDIX E - EXHIBIT II - TABLE 1

ESTIMATED DEVELOPMENT COSTS
 20% LOW INCOME INCLUSIONARY ALTERNATIVE
 BASE CASE DENSITY: 125 UNITS/ACRE: SRO APARTMENT PROTOTYPE
 APARTMENT DEVELOPMENT
 INCLUSIONARY HOUSING: FINANCIAL EVALUATION
 SANTA CRUZ, CALIFORNIA

I.	Property Acquisition Costs	1	32,670	Sf of Land	\$100 /Sf of Land		\$3,267,000
II.	Direct Costs	2					
	On-Site Improvements/Landscaping		32,670	Sf of Land	\$45 /Sf of Land		\$1,470,000
	Parking	3					
	Above-Ground Spaces		94	Spaces	\$30,000 /Space		2,820,000
	1st Level Subterranean Spaces		0	Spaces	\$50,000 /Space		0
	Building Costs		50,357	Sf of GBA	\$350 /Sf of GBA		17,625,000
	Contractor/DC Contingency Allow	4		20% Other Direct Costs			4,383,000
	Total Direct Costs		50,357	Sf of GBA	\$522 /Sf of GBA		\$26,298,000
III.	Indirect Costs						
	Architecture, Engineering & Consulting			6% Direct Costs			\$1,578,000
	Public Permits & Fees	5	94	Units	\$35,000 /Unit		3,290,000
	Taxes, Insurance, Legal & Accounting			2% Direct Costs			526,000
	Marketing		94	Units	\$2,500 /Unit		235,000
	Developer Fee			5% Direct Costs			1,315,000
	Soft Cost Contingency Allowance			5% Other Indirect Costs			347,000
	Total Indirect Costs						\$7,291,000
IV.	Financing Costs						
	Interest During Construction						
	Land	6	\$3,044,500	Cost	7.0% Avg Rate		\$320,000
	Construction	7	\$36,572,000	Cost	7.0% Avg Rate		2,304,000
	Loan Origination Fees			60% Loan to Cost	1.5 Points		359,000
	Total Financing Costs						\$2,983,000
V.	Total Construction Cost		94	Units	\$389,000 /Unit		\$36,572,000
	Total Development Cost		94	Units	\$424,000 /Unit		\$39,839,000

1 Estimated in part based on a survey of recent land sales in Santa Cruz.

2 Based on the estimated costs for similar uses.

3 The base requirement is 1.0 space for Studio/SRO Units; 1.0 space for One Bedroom Units; and 2.0 spaces for Two Bedroom Units.

4 Includes contractors' fees, general requirements, builder's risk insurance and a direct cost contingency allowance.

5 Based on a review of the City's draft Housing Element.

6 Based on a 18 month construction period following receipt of entitlements, and a 100% average outstanding loan balance. Includes a \$222,500 offset to reflect the carrying cost savings associated with the estimated property acquisition cost reduction.

7 Based on a 18 month construction period following receipt of entitlements, and a 60% average outstanding loan balance.

APPENDIX E - EXHIBIT II - TABLE 2

ESTIMATED STABILIZED NET OPERATING INCOME
 20% LOW INCOME INCLUSIONARY ALTERNATIVE
 BASE CASE DENSITY: 125 UNITS/ACRE: SRO APARTMENT PROTOTYPE
 APARTMENT DEVELOPMENT
 INCLUSIONARY HOUSING: FINANCIAL EVALUATION
 SANTA CRUZ, CALIFORNIA

I. **Gross Income**

A. **Market Rate Units**

¹

Studio/SRO Units	75 Units @	\$2,551 /Unit/Month	\$2,295,800
One Bedroom Units	0 Units @	\$0 /Unit/Month	0
Two Bedroom Units	0 Units @	\$0 /Unit/Month	0

B. **Low Income Units**

²

Studio/SRO Units	19 Units @	\$1,974 /Unit/Month	450,100
One Bedroom Units	0 Units @	\$2,252 /Unit/Month	0
Two Bedroom Units	0 Units @	\$2,503 /Unit/Month	0

C. **Laundry & Miscellaneous Income**

94 Units @	\$25 /Unit/Month	28,200
------------	------------------	--------

Total Gross Income

\$2,774,100

Vacancy & Collection Allowance

5% Gross Income

(138,700)

II. **Effective Gross Income**

\$2,635,400

III. **Operating Expenses**

General Operating Expenses	94 Units @	\$4,500 /Unit	\$423,000
Property Taxes	94 Units @	\$5,000 /Unit	474,200
Replacement Reserve Deposits	94 Units @	\$150 /Unit	14,100

Total Operating Expenses

94 Units @ \$9,695 /Unit

(\$911,300)

IV. **Stabilized Net Operating Income**

\$1,724,100

¹ Based in part on the rent survey presented in APPENDIX A. The weighted average monthly rent equates to \$6.80 per square foot of leasable area.

² The low income rent calculations are based on household income at 80% of AMI, with 35% of income allotted to housing related expenses. See APPENDIX B.

APPENDIX E - EXHIBIT II - TABLE 3

FINANCIAL IMPACTS: INCLUSIONARY HOUSING REQUIREMENTS
 20% LOW INCOME INCLUSIONARY ALTERNATIVE
 BASE CASE DENSITY: 125 UNITS/ACRE: SRO APARTMENT PROTOTYPE
 APARTMENT DEVELOPMENT
 INCLUSIONARY HOUSING: FINANCIAL EVALUATION
 SANTA CRUZ, CALIFORNIA

I.	Supportable Investment		
	Stabilized Net Operating Income	See APPENDIX E - EXHIBIT II - TABLE 2	\$1,724,100
	Threshold Return on Total Investment ¹		4.6%
	Total Supportable Investment		\$37,720,000
II.	Total Development Cost	See APPENDIX E - EXHIBIT II - TABLE 1	\$39,839,000
III.	Total Financial Impact		(\$2,119,000)
	Required Prop Acq Cost Reduction	65% of Estimated Current Acquisition Prices	
	Return on Total Investment	4.3% Based on Estimated Current Property Acquisition Costs	
	% Rent Increase to Offset Impact	5.6% Market Rate Units	

¹ Based on the estimated to be generated by the BASE CASE DENSITY: 125 UNITS/ACRE: MARKET RATE ALTERNATIVE.

APPENDIX E - EXHIBIT III

PRO FORMA ANALYSIS

BASE ZONING UNITS: 15% AT VERY LOW INCOME + 5% AT LOW INCOME

50% §65915 DENSITY BONUS ALTERNATIVE

SRO APARTMENT PROTOTYPE

APARTMENT DEVELOPMENT

INCLUSIONARY HOUSING: FINANCIAL EVALUATION

SANTA CRUZ, CALIFORNIA

APPENDIX E - EXHIBIT III - TABLE 1

ESTIMATED DEVELOPMENT COSTS
BASE ZONING UNITS: 15% AT VERY LOW INCOME + 5% AT LOW INCOME
50% §65915 DENSITY BONUS ALTERNATIVE: SRO APARTMENT PROTOTYPE
APARTMENT DEVELOPMENT
INCLUSIONARY HOUSING: FINANCIAL EVALUATION
SANTA CRUZ, CALIFORNIA

I. Property Acquisition Costs	1	32,670	Sf of Land	\$100 /Sf of Land		\$3,267,000
II. Direct Costs	2					
On-Site Improvements/Landscaping		32,670	Sf of Land	\$45 /Sf of Land		\$1,470,000
Parking	3					
At-Grade Spaces		0	Spaces	\$5,000 /Space		0
Above-Ground Spaces		71	Spaces	\$30,000 /Space		2,130,000
Building Costs		75,536	Sf of GBA	\$375 /Sf of GBA		28,326,000
Contractor/DC Contingency Allow	4		20% Other Direct Costs			6,385,000
Total Direct Costs		75,536	Sf of GBA	\$507 /Sf of GBA		\$38,311,000
III. Indirect Costs						
Architecture, Engineering & Consulting			6% Direct Costs			\$2,299,000
Public Permits & Fees	5	141	Units	\$35,000 /Unit		4,935,000
Taxes, Insurance, Legal & Accounting			2% Direct Costs			766,000
Marketing		141	Units	\$2,500 /Unit		353,000
Developer Fee			5% Direct Costs			1,916,000
Soft Cost Contingency Allowance			5% Other Indirect Costs			513,000
Total Indirect Costs						\$10,782,000
IV. Financing Costs						
Interest During Construction						
Land	6	\$3,084,090	Cost	7.0% Avg Rate		\$324,000
Construction	7	\$53,283,000	Cost	7.0% Avg Rate		3,357,000
Loan Origination Fees			60% Loan to Cost	1.5 Points		509,000
Total Financing Costs						\$4,190,000
V. Total Construction Cost		141	Units	\$378,000 /Unit		\$53,283,000
Total Development Cost		141	Units	\$401,000 /Unit		\$56,550,000

1 Estimated in part based on a survey of recent land sales in Santa Cruz.

2 Based on the estimated costs for similar uses.

3 Based on .5 spaces per unit.

4 Includes contractors' fees, general requirements, builder's risk insurance and a direct cost contingency allowance.

5 Based on a review of the City's draft Housing Element.

6 Based on a 18 month construction period following receipt of entitlements, and a 100% average outstanding loan balance. Includes a \$182,910 offset to reflect the carrying cost savings associated with the estimated property acquisition cost reduction.

7 Based on a 18 month construction period following receipt of entitlements, and a 60% average outstanding loan balance.

APPENDIX E - EXHIBIT III - TABLE 2

ESTIMATED STABILIZED NET OPERATING INCOME
 BASE ZONING UNITS: 15% AT VERY LOW INCOME + 5% AT LOW INCOME
 50% §65915 DENSITY BONUS ALTERNATIVE: SRO APARTMENT PROTOTYPE
 APARTMENT DEVELOPMENT
 INCLUSIONARY HOUSING: FINANCIAL EVALUATION
 SANTA CRUZ, CALIFORNIA

I. **Gross Income**

A. **Market Rate Units** ¹

Studio/SRO Units	122 Units @	\$2,551 /Unit/Month	\$3,734,400
One Bedroom Units	0 Units @	\$0 /Unit/Month	0
Two Bedroom Units	0 Units @	\$0 /Unit/Month	0

B. **Inclusionary Units**

Very Low Income Density Bonus Units ²

Studio/SRO Units	15 Units @	\$1,005 /Unit/Month	180,900
One Bedroom Units	0 Units @	\$1,144 /Unit/Month	0
Two Bedroom Units	0 Units @	\$1,258 /Unit/Month	0

Low Income Inclusionary Units ³

Studio/SRO Units	4 Units	\$1,974 /Unit/Month	94,800
One Bedroom Units	0 Units	\$2,252 /Unit/Month	0
Two Bedroom Units	0 Units	\$2,503 /Unit/Month	0

C. **Laundry & Miscellaneous Income**

141 Units @	\$25 /Unit/Month	42,300
-------------	------------------	--------

Total Gross Income

\$4,052,400

Vacancy & Collection Allowance

5% Gross Income

(202,600)

II. **Effective Gross Income**

\$3,849,800

III. **Operating Expenses**

General Operating Expenses	141 Units @	\$4,500 /Unit	\$634,500
Property Taxes	141 Units @	\$4,900 /Unit	688,900
Replacement Reserve Deposits	141 Units @	\$150 /Unit	21,200

Total Operating Expenses

141 Units @	\$9,536 /Unit	(\$1,344,600)
-------------	---------------	---------------

IV. **Stabilized Net Operating Income**

\$2,505,200

¹ Based in part on the rent survey presented in APPENDIX A. The weighted average monthly rent equates to \$6.80 per square foot of leasable area.

² Under Section 65915 (f) (2), 15% of the Base Units are set aside for very-low income households.

³ The balance of the affordable units are set aside for low income households. The low income rent calculations are based on household income at 80% of AMI, with 35% of income allotted to housing related expenses. See APPENDIX B.

APPENDIX E - EXHIBIT III - TABLE 3

FINANCIAL IMPACTS: INCLUSIONARY HOUSING REQUIREMENTS
 BASE ZONING UNITS: 15% AT VERY LOW INCOME + 5% AT LOW INCOME
 50% §65915 DENSITY BONUS ALTERNATIVE: SRO APARTMENT PROTOTYPE
 APARTMENT DEVELOPMENT
 INCLUSIONARY HOUSING: FINANCIAL EVALUATION
 SANTA CRUZ, CALIFORNIA

I.	Supportable Investment		
	Stabilized Net Operating Income	See APPENDIX E - EXHIBIT III - TABLE 2	\$2,505,200
	Threshold Return on Total Investment ¹		4.6%
	Total Supportable Investment		\$54,809,000
II.	Total Development Cost	See APPENDIX E - EXHIBIT III - TABLE 1	\$56,550,000
III.	Total Financial Impact		(\$1,741,000)
	Required Prop Acq Cost Reduction	53% of Estimated Current Acquisition Prices	
	Return on Total Investment	4.4% Based on Estimated Current Property Acquisition Costs	
	% Rent Increase to Offset Impact	2.8% Market Rate Units	

¹ Based on the estimated to be generated by the BASE CASE DENSITY: 125 UNITS/ACRE: MARKET RATE ALTERNATIVE.

APPENDIX E - EXHIBIT IV

PRO FORMA ANALYSIS

BASE ZONING UNITS: 15% AT VERY LOW INCOME + 10% AT LOW INCOME

50% §65915 DENSITY BONUS ALTERNATIVE

SRO APARTMENT PROTOTYPE

APARTMENT DEVELOPMENT

INCLUSIONARY HOUSING: FINANCIAL EVALUATION

SANTA CRUZ, CALIFORNIA

APPENDIX E - EXHIBIT IV - TABLE 1

ESTIMATED DEVELOPMENT COSTS

BASE ZONING UNITS: 15% AT VERY LOW INCOME + 10% AT LOW INCOME

50% §65915 DENSITY BONUS ALTERNATIVE: SRO APARTMENT PROTOTYPE

APARTMENT DEVELOPMENT

INCLUSIONARY HOUSING: FINANCIAL EVALUATION

SANTA CRUZ, CALIFORNIA

I.	Property Acquisition Costs	1	32,670	Sf of Land	\$100 /Sf of Land		\$3,267,000
II.	Direct Costs	2					
	On-Site Improvements/Landscaping		32,670	Sf of Land	\$45 /Sf of Land		\$1,470,000
	Parking	3					
	Above-Ground Spaces		71	Spaces	\$30,000 /Space		2,130,000
	1st Level Subterranean Spaces		0	Spaces	\$50,000 /Space		0
	Building Costs		75,536	Sf of GBA	\$375 /Sf of GBA		28,326,000
	Contractor/DC Contingency Allow	4		20% Other Direct Costs			6,385,000
	Total Direct Costs		75,536	Sf of GBA	\$507 /Sf of GBA		\$38,311,000
III.	Indirect Costs						
	Architecture, Engineering & Consulting			6% Direct Costs			\$2,299,000
	Public Permits & Fees	5	141	Units	\$35,000 /Unit		4,935,000
	Taxes, Insurance, Legal & Accounting			2% Direct Costs			766,000
	Marketing		141	Units	\$2,500 /Unit		353,000
	Developer Fee			5% Direct Costs			1,916,000
	Soft Cost Contingency Allowance			5% Other Indirect Costs			513,000
	Total Indirect Costs						\$10,782,000
IV.	Financing Costs						
	Interest During Construction						
	Land	6	\$3,025,605	Cost	7.0% Avg Rate		\$318,000
	Construction	7	\$53,276,000	Cost	7.0% Avg Rate		3,356,000
	Loan Origination Fees			60% Loan to Cost	1.5 Points		509,000
	Total Financing Costs						\$4,183,000
V.	Total Construction Cost		141	Units	\$378,000 /Unit		\$53,276,000
	Total Development Cost		141	Units	\$401,000 /Unit		\$56,543,000

1 Estimated in part based on a survey of recent land sales in Santa Cruz.

2 Based on the estimated costs for similar uses.

3 Based on .5 spaces per unit.

4 Includes contractors' fees, general requirements, builder's risk insurance and a direct cost contingency allowance.

5 Based on a review of the City's draft Housing Element.

6 Based on a 18 month construction period following receipt of entitlements, and a 100% average outstanding loan balance. Includes a \$241,395 offset to reflect the carrying cost savings associated with the estimated property acquisition cost reduction.

7 Based on a 18 month construction period following receipt of entitlements, and a 60% average outstanding loan balance.

APPENDIX E - EXHIBIT IV - TABLE 2

ESTIMATED STABILIZED NET OPERATING INCOME
 BASE ZONING UNITS: 15% AT VERY LOW INCOME + 10% AT LOW INCOME
 50% §65915 DENSITY BONUS ALTERNATIVE: SRO APARTMENT PROTOTYPE
 APARTMENT DEVELOPMENT
 INCLUSIONARY HOUSING: FINANCIAL EVALUATION
 SANTA CRUZ, CALIFORNIA

I. **Gross Income**

A. **Market Rate Units** ¹

Studio/SRO Units	117 Units @	\$2,551 /Unit/Month	\$3,581,400
One Bedroom Units	0 Units @	\$0 /Unit/Month	0
Two Bedroom Units	0 Units @	\$0 /Unit/Month	0

B. **Inclusionary Units**

Very Low Income Density Bonus Units ²

Studio/SRO Units	15 Units @	\$1,005 /Unit/Month	180,900
One Bedroom Units	0 Units @	\$1,144 /Unit/Month	0
Two Bedroom Units	0 Units @	\$1,258 /Unit/Month	0

Low Income Inclusionary Units ³

Studio/SRO Units	9 Units	\$1,974 /Unit/Month	213,200
One Bedroom Units	0 Units	\$2,252 /Unit/Month	0
Two Bedroom Units	0 Units	\$2,503 /Unit/Month	0

C. **Laundry & Miscellaneous Income**

141 Units @	\$25 /Unit/Month	42,300
-------------	------------------	--------

Total Gross Income

\$4,017,800

Vacancy & Collection Allowance

5% Gross Income

(200,900)

II. **Effective Gross Income**

\$3,816,900

III. **Operating Expenses**

General Operating Expenses	141 Units @	\$4,500 /Unit	\$634,500
Property Taxes	141 Units @	\$4,800 /Unit	681,800
Replacement Reserve Deposits	141 Units @	\$150 /Unit	21,200

Total Operating Expenses

141 Units @	\$9,486 /Unit	(\$1,337,500)
-------------	---------------	---------------

IV. **Stabilized Net Operating Income**

\$2,479,400

¹ Based in part on the rent survey presented in APPENDIX A. The weighted average monthly rent equates to \$6.80 per square foot of leasable area.

² Under Section 65915 (f) (2), 15% of the Base Units are set aside for very-low income households.

³ The balance of the affordable units are set aside for low income households. The low income rent calculations are based on household income at 80% of AMI, with 35% of income allotted to housing related expenses. See APPENDIX B.

APPENDIX E - EXHIBIT IV - TABLE 3

FINANCIAL IMPACTS: INCLUSIONARY HOUSING REQUIREMENTS
 BASE ZONING UNITS: 15% AT VERY LOW INCOME + 10% AT LOW INCOME
 50% §65915 DENSITY BONUS ALTERNATIVE: SRO APARTMENT PROTOTYPE
 APARTMENT DEVELOPMENT
 INCLUSIONARY HOUSING: FINANCIAL EVALUATION
 SANTA CRUZ, CALIFORNIA

I.	Supportable Investment		
	Stabilized Net Operating Income	See APPENDIX E - EXHIBIT IV - TABLE 2	\$2,479,400
	Threshold Return on Total Investment ¹		4.6%
	Total Supportable Investment		\$54,244,000
II.	Total Development Cost	See APPENDIX E - EXHIBIT IV - TABLE 1	\$56,543,000
III.	Total Financial Impact		(\$2,299,000)
	Required Prop Acq Cost Reduction	70% of Estimated Current Acquisition Prices	
	Return on Total Investment	4.4% Based on Estimated Current Property Acquisition Costs	
	% Rent Increase to Offset Impact	3.9% Market Rate Units	

¹ Based on the estimated to be generated by the BASE CASE DENSITY: 125 UNITS/ACRE: MARKET RATE ALTERNATIVE.

ATTACHMENT 4

OWNERSHIP HOUSING DEVELOPMENT INCLUSIONARY HOUSING: FINANCIAL EVALUATION SANTA CRUZ, CALIFORNIA

APPENDIX A

**HOME SALES SURVEYS
OWNERSHIP HOUSING DEVELOPMENT
INCLUSIONARY HOUSING: FINANCIAL EVALUATION
SANTA CRUZ, CALIFORNIA**

APPENDIX A - EXHIBIT I

RESALE HOME SALES SURVEY
 OWNERSHIP HOUSING DEVELOPMENT
 INCLUSIONARY HOUSING: FINANCIAL EVALUATION
 SANTA CRUZ, CALIFORNIA

1

	Address		Unit Size (SF)	Sales Price		Year Built
				Total	Per SF	
I. Townhomes						
Two-Bedroom Units						
200 Castillion Ter	Santa Cruz	95060	987	\$725,000	\$735	1976
1090 Whitewater Cv	Santa Cruz	95062	987	\$760,000	\$770	1983
1648 Ocean St	Santa Cruz	95060	1,017	\$825,000	\$811	1989
220 Castillion Ter	Santa Cruz	95060	1,046	\$875,000	\$837	1976
146 Castillion Ter	Santa Cruz	95060	1,046	\$692,500	\$662	1976
162 Castillion Ter	Santa Cruz	95060	1,046	\$725,000	\$693	1976
134 Blaine St Unit A	Santa Cruz	95060	1,050	\$740,000	\$705	1981
137 Torrey Pine Ter	Santa Cruz	95060	1,088	\$805,000	\$740	1980
137 Torrey Pine Ter #137	Santa Cruz	95060	1,088	\$805,000	\$740	1980
1519 Hidden Terrace Ct	Santa Cruz	95062	1,109	\$815,000	\$735	1983
825 35th Ave	Santa Cruz	95062	1,114	\$989,000	\$888	1984
566 Spinnaker Ct	Santa Cruz	95062	1,120	\$940,000	\$839	1982
705 Hanover St	Santa Cruz	95062	1,136	\$838,000	\$738	1987
1552 Merrill St #2	Santa Cruz	95062	1,148	\$860,000	\$749	1981
1780 Esperanza Ct	Santa Cruz	95062	1,155	\$875,000	\$758	1988
1143 30th Ave	Santa Cruz	95062	1,165	\$825,000	\$708	1980
125 Kennan St Unit B	Santa Cruz	95060	1,198	\$775,000	\$647	2009
139 Kennan St Unit B	Santa Cruz	95060	1,198	\$775,000	\$647	2009
131 Kennan St Unit B	Santa Cruz	95060	1,198	\$777,500	\$649	2009
3216 Stockbridge Ln	Santa Cruz	95065	1,212	\$865,000	\$714	1984
118 Library Ln	Santa Cruz	95062	1,215	\$895,000	\$737	1996
128 Harbor Oaks Cir	Santa Cruz	95062	1,218	\$805,000	\$661	1978
784 Heath Cv	Santa Cruz	95062	1,231	\$850,000	\$690	1981
133 Kennan St Unit B	Santa Cruz	95060	1,233	\$777,500	\$631	2009
3026 Buckingham Ln #13	Santa Cruz	95062	1,236	\$1,015,000	\$821	1986
730 Cable Ct	Santa Cruz	95062	1,268	\$990,000	\$781	1984
102 Shelter Lagoon Dr	Santa Cruz	95060	1,286	\$903,000	\$702	1974
691 Harbor Cv	Santa Cruz	95062	1,367	\$1,040,000	\$761	1983
125 Southampton Ln Unit A	Santa Cruz	95062	1,375	\$1,285,000	\$935	1984
135 Southampton Ln Unit A	Santa Cruz	95062	1,375	\$1,240,000	\$902	1984
183 Frederick St	Santa Cruz	95062	1,431	\$1,070,000	\$748	1984
1700 Escalona Dr Unit B	Santa Cruz	95060	1,439	\$990,000	\$688	1981
749 Chestnut St	Santa Cruz	95060	1,472	\$1,149,000	\$781	1990
739 Chestnut St	Santa Cruz	95060	1,472	\$920,000	\$625	1990
704 Chestnut St	Santa Cruz	95060	1,578	\$1,050,000	\$665	1981
Minimum			987	\$692,500	\$625	1974
Maximum			1,578	\$1,285,000	\$935	2009
Average			1,209	\$893,300	\$739	1986

APPENDIX A - EXHIBIT I

RESALE HOME SALES SURVEY
 OWNERSHIP HOUSING DEVELOPMENT
 INCLUSIONARY HOUSING: FINANCIAL EVALUATION
 SANTA CRUZ, CALIFORNIA

1

Address	Unit Size (SF)	Sales Price		Year Built		
		Total	Per SF			
Three-Bedroom Units						
2514 Charlene Ln	Santa Cruz	95062	1,153	\$899,000	\$780	1985
2500 Charlene Ln	Santa Cruz	95062	1,153	\$787,500	\$683	1986
1200 Capitola Rd #9	Santa Cruz	95062	1,180	\$725,000	\$614	1981
174 Harbor Oaks Cir	Santa Cruz	95062	1,218	\$750,000	\$616	1977
124 Torrey Pine Ter	Santa Cruz	95060	1,220	\$880,000	\$721	1979
3213 Stockbridge Ln	Santa Cruz	95065	1,459	\$885,000	\$607	1984
2573 Valerie Ct	Santa Cruz	95062	1,504	\$991,000	\$659	1989
108 Shelter Lagoon Dr	Santa Cruz	95060	1,515	\$950,000	\$627	1974
584 Spinnaker Ct	Santa Cruz	95062	1,522	\$1,175,000	\$772	1982
3407 Gross Rd	Santa Cruz	95062	1,703	\$1,000,000	\$587	1984
122 Walti St	Santa Cruz	95060	1,852	\$1,260,000	\$680	2006
120 Walti St	Santa Cruz	95060	1,852	\$1,260,000	\$680	2006
Minimum			1,153	\$725,000	\$587	1974
Maximum			1,852	\$1,260,000	\$780	2006
Average			1,444	\$963,500	\$667	1986

II. **Condominiums / Co-Ops**

One-Bedroom Units						
2262 7th	Santa Cruz	95062	588	\$280,000	\$476	1984
112 Vista Prieta Ct	Santa Cruz	95062	600	\$275,000	\$458	1986
106 Vista Prieta Ct #106	Santa Cruz	95062	600	\$290,000	\$483	1985
114 Vista Prieta Ct	Santa Cruz	95062	600	\$285,000	\$475	1984
204 Vista Prieta Ct	Santa Cruz	95062	600	\$290,000	\$483	1985
1863 Halterman Ave Unit D1	Santa Cruz	95062	648	\$575,000	\$887	1969
755 14th Ave #404	Santa Cruz	95062	656	\$565,000	\$861	1973
755 14th Ave #703	Santa Cruz	95062	656	\$341,498	\$521	1973
41 Grandview St #801	Santa Cruz	95060	692	\$431,506	\$624	1989
1111 Ocean St #201	Santa Cruz	95060	704	\$464,831	\$660	2014
216 Everson Dr	Santa Cruz	95060	733	\$620,000	\$846	1998
260 High St #101	Santa Cruz	95060	972	\$635,000	\$653	1912
202 Panetta Ave #9	Santa Cruz	95060	1,310	\$999,000	\$763	2021
Minimum			588	\$275,000	\$458	1912
Maximum			1,310	\$999,000	\$887	2021
Average			720	\$465,500	\$647	1983

APPENDIX A - EXHIBIT I

RESALE HOME SALES SURVEY
 OWNERSHIP HOUSING DEVELOPMENT
 INCLUSIONARY HOUSING: FINANCIAL EVALUATION
 SANTA CRUZ, CALIFORNIA

1

Address	Unit Size (SF)	Sales Price		Year Built		
		Total	Per SF			
Two-Bedroom Units						
3112 Erin Ln	Santa Cruz	95065	1,228	\$835,000	\$680	1984
3119 Erin Ln	Santa Cruz	95065	1,492	\$835,000	\$560	1984
41 Grandview St #1505	Santa Cruz	95060	913	\$750,000	\$821	1989
2746 Hampton Ln	Santa Cruz	95065	1,253	\$825,000	\$658	1986
2606 Mallory Ln	Santa Cruz	95065	1,241	\$835,000	\$673	1987
2602 Warwick Ln	Santa Cruz	95065	1,172	\$835,000	\$712	1985
134 Jewell St	Santa Cruz	95060	1,371	\$795,000	\$580	1979
627 Seabright Ave Unit A	Santa Cruz	95062	1,517	\$1,200,000	\$791	2012
180 Dakota Ave #55	Santa Cruz	95060	824	\$520,000	\$631	1973
321 Broadway Unit D1	Santa Cruz	95060	1,180	\$725,000	\$614	1980
41 grandview St #602	Santa Cruz	95060	915	\$788,000	\$861	1989
134 Grant St	Santa Cruz	95060	1,152	\$660,000	\$573	1979
200 Everson Dr	Santa Cruz	95060	931	\$800,000	\$859	1996
250 River St #421	Santa Cruz	95060	748	\$600,000	\$802	1986
323 Broadway Unit A2	Santa Cruz	95060	1,165	\$612,500	\$526	1980
308 River St Unit B17	Santa Cruz	95060	757	\$660,000	\$872	1993
126 Tree Frog Ln	Santa Cruz	95060	1,288	\$1,000,000	\$776	1978
41 Grandview St #1110	Santa Cruz	95060	915	\$679,000	\$742	1989
701 Freeman Ct	Santa Cruz	95062	1,104	\$830,000	\$752	1985
308 River St Unit A1	Santa Cruz	95060	784	\$639,000	\$815	1993
2601 Mallory Ln	Santa Cruz	95065	1,410	\$925,000	\$656	1986
3220 Stockbridge Ln	Santa Cruz	95065	1,253	\$800,000	\$638	1984
755 14th Ave #106	Santa Cruz	95062	799	\$750,000	\$939	1973
318 Soquel Ave Unit D2	Santa Cruz	95062	1,180	\$675,000	\$572	1980
323 Broadway Unit B3	Santa Cruz	95060	1,180	\$725,000	\$614	1980
41 Grandview St #804	Santa Cruz	95060	1,073	\$774,000	\$721	1989
180 Dakota Ave #36	Santa Cruz	95060	720	\$480,000	\$667	1973
755 14th Ave #212	Santa Cruz	95062	799	\$715,000	\$895	1973
Minimum			720	\$480,000	\$526	1973
Maximum			1,517	\$1,200,000	\$939	2012
Average			1,084	\$759,600	\$700	1984
Three-Bedroom Units						
918 3rd St Unit E	Santa Cruz	95060	1,911	\$1,015,000	\$531	1984
145 Tree Frog Ln	Santa Cruz	95060	1,515	\$1,100,000	\$726	1980
180 Dakota Ave Unit B	Santa Cruz	95060	1,045	\$680,000	\$651	1963
2030 N Pacific Ave #311	Santa Cruz	95060	1,472	\$1,030,000	\$700	2008
2030 N Pacific #236	Santa Cruz	95060	1,904	\$1,050,000	\$551	2008
185 Palo Verde Ter	Santa Cruz	95060	1,237	\$810,000	\$655	1973
918 3rd St Unit E	Santa Cruz	95060	1,911	\$1,015,000	\$531	1984
Minimum			1,045	\$680,000	\$531	1963
Maximum			1,911	\$1,100,000	\$726	2008
Average			1,571	\$957,100	\$609	1986

¹ Based on a search of the Redfin data base for sales occurring between December 2022 and December 2023.

APPENDIX B

**AFFORDABLE SALES PRICE CALCULATIONS
OWNERSHIP HOUSING DEVELOPMENT
INCLUSIONARY HOUSING: FINANCIAL EVALUATION
SANTA CRUZ, CALIFORNIA**

APPENDIX B

AFFORDABLE SALES PRICE CALCULATIONS
2023 INCOME STANDARDS
OWNERSHIP HOUSING DEVELOPMENT
INCLUSIONARY HOUSING: FINANCIAL EVALUATION
SANTA CRUZ, CALIFORNIA

1

		Studio Units	One-Bedroom Units	Two-Bedroom Units	Three-Bedroom Units
General Assumptions					
Area Median Income	2	\$89,450	\$102,250	\$115,000	\$132,800
Annual Utilities Allowance	3	\$3,612	\$3,948	\$4,884	\$5,916
HOA, Maintenance & Insurance	4	\$4,200	\$4,800	\$6,300	\$8,400
I. Moderate Income Units					
A. Income Allotted to Housing Based on 110% AMI					
Benchmark Annual Household Income		\$98,395	\$112,475	\$126,500	\$146,080
Income Allotted to Housing @ 35% of Income		\$34,440	\$39,370	\$44,280	\$51,130
B. Property Taxes @ 1.15% of Affordable Sales Price					
		\$3,410	\$3,920	\$4,230	\$4,680
C. Income Available for Mortgage Debt Service					
	5	\$23,218	\$26,702	\$28,866	\$32,134
D. Affordable Sales Price					
Supportable Mtg @ 7.32% Interest	6	\$281,800	\$324,100	\$350,300	\$390,000
Home Buyer Down Payment @ 5% of ASP		14,800	17,100	17,100	17,100
Affordable Sales Price		\$296,600	\$341,200	\$367,400	\$407,100
II. Very Low Income Units					
A. Income Allotted to Housing Based on 50% AMI					
Benchmark Annual Household Income		\$44,725	\$51,125	\$57,500	\$66,400
Income Allotted to Housing @ 30% of Income		\$13,420	\$15,340	\$17,250	\$19,920
B. Property Taxes @ 1.15% of Affordable Sales Price					
		\$720	\$850	\$780	\$720
C. Income Available for Mortgage Debt Service					
	5	\$4,888	\$5,742	\$5,286	\$4,884
D. Affordable Sales Price					
Supportable Mtg @ 7.32% Interest	6	\$59,300	\$69,700	\$64,200	\$59,300
Home Buyer Down Payment @ 5% of ASP		3,100	3,700	3,700	3,700
Affordable Sales Price		\$62,400	\$73,400	\$67,900	\$63,000

1 Based on 2023 Santa Cruz County household incomes published by the California Department of Housing & Community Development (HCD). The Affordable Sales Price calculations are based on the California Health and Safety Code Section 50052.5 methodology.

2 Under the California Health & Safety Code Section 50052.5 calculation methodology, the benchmark household size is set at the number of bedrooms in the unit plus one. This benchmark is used solely for the purposes of calculating the Affordable Sales Price. It is neither an occupancy cap nor a floor.

3 Utilities allowances are based on the Santa Cruz County Housing Authority utility allowance schedule for duplexes, row houses, townhouses effective as of 1/1/24. Assumes: Electric Heating, Electric Cooking, Electric Water Heater, Basic Electric, Water, Sewer, and Garbage.

4 Based in part on the HOA dues identified in the home sales survey.

5 Based on the Income Allotted to Housing minus the following: Annual Utilities Allowance; HOA, Maintenance & Insurance; and Property Taxes @ 1.15% of Affordable Sales Price.

6 Based on a 50 basis points premium applied to the Freddie Mac monthly average, between January 2023 and December 2023, for a fixed-interest rate loan with a 30-year amortization period.

APPENDIX C

PRO FORMA ANALYSES HIGH DENSITY CONDOMINIUM PROTOTYPE OWNERSHIP HOUSING DEVELOPMENT INCLUSIONARY HOUSING: FINANCIAL EVALUATION SANTA CRUZ, CALIFORNIA

APPENDIX C - EXHIBIT I

**PRO FORMA ANALYSIS
MARKET RATE ALTERNATIVE
BASE CASE DENSITY: 125 UNITS/ACRE
HIGH DENSITY CONDOMINIUM PROTOTYPE
OWNERSHIP HOUSING DEVELOPMENT
INCLUSIONARY HOUSING: FINANCIAL EVALUATION
SANTA CRUZ, CALIFORNIA**

APPENDIX C - EXHIBIT I - TABLE 1

ESTIMATED DEVELOPMENT COSTS
 MARKET RATE ALTERNATIVE
 BASE CASE DENSITY: 125 UNITS/ACRE: HIGH DENSITY CONDOMINIUM PROTOTYPE
 OWNERSHIP HOUSING DEVELOPMENT
 INCLUSIONARY HOUSING: FINANCIAL EVALUATION
 SANTA CRUZ, CALIFORNIA

I.	Property Acquisition Costs	1	43,560 Sf of Land	\$100 /Sf of Land		\$4,356,000
II.	Direct Costs	2				
	On-Site Improvements/Landscaping		43,560 Sf of Land	\$45 /Sf of Land		\$1,960,000
	Parking	3				
	Attached Garage		0 Spaces	\$0 /Space		0
	Covered Carports		0 Spaces	\$7,500 /Space		0
	Above-Ground Spaces		39 Spaces	\$30,000 /Space		1,170,000
	1st Level Subterranean Spaces		117 Spaces	\$50,000 /Space		5,850,000
	Building Costs		120,800 Sf of GBA	\$350 /Sf of GBA		42,280,000
	Contractor/DC Contingency Allow	4	20% Other Direct Costs			10,252,000
	Total Direct Costs					\$61,512,000
III.	Indirect Costs					
	Architecture, Engineering & Consulting		6.0% Direct Costs			\$3,691,000
	Public Permits & Fees	5	125 Units	\$37,000 /Unit		4,625,000
	Taxes, Insurance, Legal & Accounting		2.0% Direct Costs			1,230,000
	Marketing		125 Units	\$5,000 /Unit		625,000
	Developer Fee		3.0% Gross Sales Revenue			2,860,000
	Soft Cost Contingency Allowance		5.0% Other Indirect Costs			652,000
	Total Indirect Costs					\$13,683,000
IV.	Financing Costs					
	Interest During Construction	6				\$4,817,000
	Loan Origination Fees		60.0% Loan to Cost	1.5 Points		716,000
	Total Financing Costs					\$5,533,000
V.	Total Construction Cost		125 Units	\$646,000 /Unit		\$80,728,000
	Total Development Cost		125 Units	\$681,000 /Unit		\$85,084,000

¹ Estimated in part based on a survey of recent land sales in Santa Cruz.

² Based on the estimated costs for similar uses.

³ The base requirement is 1.0 space for Studio Units; 1.0 space for One-Bedroom Units; 2.0 spaces for Two-Bedroom Units; and 2.0 spaces for Three-Bedroom Units.

⁴ Includes contractors' fees, general requirements, builder's risk insurance and a direct cost contingency allowance.

⁵ Based on a review of the City's draft Housing Element.

⁶ Assumes a 7.0% interest cost for debt; an 18 month construction period after receipt of entitlements; a 19 month absorption period; 30% of the units are presold and close during first month after completion; and 1.5 points for loan origination fees.

APPENDIX C - EXHIBIT I - TABLE 2

PROJECTED NET SALES REVENUE
 MARKET RATE ALTERNATIVE
 BASE CASE DENSITY: 125 UNITS/ACRE: HIGH DENSITY CONDOMINIUM PROTOTYPE
 OWNERSHIP HOUSING DEVELOPMENT
 INCLUSIONARY HOUSING: FINANCIAL EVALUATION
 SANTA CRUZ, CALIFORNIA

I.	Gross Sales Revenue		1		
	Studio Units	31 Units @	\$427,500 /Unit	\$13,253,000	
	One-Bedroom Units	63 Units @	\$745,400 /Unit	46,960,000	
	Two-Bedroom Units	31 Units @	\$1,133,400 /Unit	35,135,000	
	Three-Bedroom Units	0 Units @	\$0 /Unit	0	
	Total Gross Sales Revenue				\$95,348,000
II.	Cost of Sales				
	Commissions	3.0% Gross Sales Revenue		\$2,860,000	
	Closing	2.0% Gross Sales Revenue		1,907,000	
	Warranty	0.5% Gross Sales Revenue		477,000	
	Total Cost of Sales				(\$5,244,000)
III.	Net Revenue				\$90,104,000

¹ Based in part on a survey of home resales in Santa Cruz. The sales survey was undertaken by KMA in December 2023. See APPENDIX A. The weighted average sales price equates to \$1,052 per square foot of saleable area.

APPENDIX C - EXHIBIT I - TABLE 3

PROJECTED DEVELOPER PROFIT
MARKET RATE ALTERNATIVE
BASE CASE DENSITY: 125 UNITS/ACRE: HIGH DENSITY CONDOMINIUM PROTOTYPE
OWNERSHIP HOUSING DEVELOPMENT
INCLUSIONARY HOUSING: FINANCIAL EVALUATION
SANTA CRUZ, CALIFORNIA

I.	Net Revenue	See APPENDIX C - EXHIBIT I - TABLE 2	\$90,104,000
II.	Total Development Cost	See APPENDIX C - EXHIBIT I - TABLE 1	<u>\$85,084,000</u>
III.	Developer Profit	5.9% Total Development Cost	\$5,020,000

APPENDIX C - EXHIBIT II

**PRO FORMA ANALYSIS
20% MODERATE INCOME INCLUSIONARY ALTERNATIVE
BASE CASE DENSITY: 125 UNITS/ACRE
HIGH DENSITY CONDOMINIUM PROTOTYPE
OWNERSHIP HOUSING DEVELOPMENT
INCLUSIONARY HOUSING: FINANCIAL EVALUATION
SANTA CRUZ, CALIFORNIA**

APPENDIX C - EXHIBIT II - TABLE 1

ESTIMATED DEVELOPMENT COSTS
 20% MODERATE INCOME INCLUSIONARY ALTERNATIVE
 BASE CASE DENSITY: 125 UNITS/ACRE: HIGH DENSITY CONDOMINIUM PROTOTYPE
 OWNERSHIP HOUSING DEVELOPMENT
 INCLUSIONARY HOUSING: FINANCIAL EVALUATION
 SANTA CRUZ, CALIFORNIA

I.	Property Acquisition Costs	1	43,560 Sf of Land	\$100 /Sf of Land		\$4,356,000
II.	Direct Costs	2				
	On-Site Improvements/Landscaping		43,560 Sf of Land	\$45 /Sf of Land		\$1,960,000
	Parking	3				
	Attached Garage		0 Spaces	\$0 /Space		0
	Covered Carports		0 Spaces	\$7,500 /Space		0
	Above-Ground Spaces		39 Spaces	\$30,000 /Space		1,170,000
	1st Level Subterranean Spaces		117 Spaces	\$50,000 /Space		5,850,000
	Building Costs		120,800 Sf of GBA	\$350 /Sf of GBA		42,280,000
	Contractor/DC Contingency Allow	4	20% Other Direct Costs			10,252,000
	Total Direct Costs					\$61,512,000
III.	Indirect Costs					
	Architecture, Engineering & Consulting		6.0% Direct Costs			\$3,691,000
	Public Permits & Fees	5	125 Units	\$37,000 /Unit		4,625,000
	Taxes, Insurance, Legal & Accounting		2.0% Direct Costs			1,230,000
	Marketing		125 Units	\$5,000 /Unit		625,000
	Developer Fee		3.0% Gross Sales Revenue			2,541,000
	Soft Cost Contingency Allowance		5.0% Other Indirect Costs			636,000
	Total Indirect Costs					\$13,348,000
IV.	Financing Costs					
	Interest During Construction	6				\$4,889,000
	Loan Origination Fees		60.0% Loan to Cost	1.5 Points		713,000
	Total Financing Costs					\$5,602,000
V.	Total Construction Cost		125 Units	\$644,000 /Unit		\$80,462,000
	Total Development Cost		125 Units	\$679,000 /Unit		\$84,818,000

¹ Estimated in part based on a survey of recent land sales in Santa Cruz.

² Based on the estimated costs for similar uses.

³ The base requirement is 1.0 space for Studio Units; 1.0 space for One-Bedroom Units; 2.0 spaces for Two-Bedroom Units; and 2.0 spaces for Three-Bedroom Units.

⁴ Includes contractors' fees, general requirements, builder's risk insurance and a direct cost contingency allowance.

⁵ Based on a review of the City's draft Housing Element.

⁶ Assumes a 7.0% interest cost for debt; an 18 month construction period after receipt of entitlements; a 15 month absorption period; 30% of the units are presold and close during first month after completion; and 1.5 points for loan origination fees.

APPENDIX C - EXHIBIT II - TABLE 3

FINANCIAL IMPACTS: INCLUSIONARY HOUSING REQUIREMENTS
 20% MODERATE INCOME INCLUSIONARY ALTERNATIVE
 BASE CASE DENSITY: 125 UNITS/ACRE: HIGH DENSITY CONDOMINIUM PROTOTYPE
 OWNERSHIP HOUSING DEVELOPMENT
 INCLUSIONARY HOUSING: FINANCIAL EVALUATION
 SANTA CRUZ, CALIFORNIA

I. <u>Funds Available for Development Costs</u>			
Net Revenue	See APPENDIX C - EXHIBIT II - TABLE 2		\$80,054,000
(Less) Threshold Developer Profit	¹ 5.9% Total Development Cost		(\$5,004,000)
Total Funds Available for Development Costs			\$75,050,000
II. Total Development Cost	See APPENDIX C - EXHIBIT II - TABLE 1		\$84,818,000
III. <u>Total Financial Impact</u>			(\$9,768,000)
Developer Profit	-5.6% Total Development Cost		
Required Prop Acq Cost Reduction	224% of Estimated Current Acquisition Prices		
% Price Increase to Offset Impact	12.8% Market Rate Units		

¹ Based on the profit as a percentage of Total Development Cost estimated to be generated by the MARKET RATE ALTERNATIVE.

APPENDIX C - EXHIBIT III

PRO FORMA ANALYSIS

**BASE ZONING UNITS: 11% @ VERY LOW INCOME + 9% @ MODERATE INCOME
35% §65915 DENSITY BONUS ALTERNATIVE
HIGH DENSITY CONDOMINIUM PROTOTYPE
OWNERSHIP HOUSING DEVELOPMENT
INCLUSIONARY HOUSING: FINANCIAL EVALUATION
SANTA CRUZ, CALIFORNIA**

APPENDIX C - EXHIBIT III - TABLE 1

ESTIMATED DEVELOPMENT COSTS

BASE ZONING UNITS: 11% @ VERY LOW INCOME + 9% @ MODERATE INCOME

35% \$65915 DENSITY BONUS ALTERNATIVE: HIGH DENSITY CONDOMINIUM PROTOTYPE

OWNERSHIP HOUSING DEVELOPMENT

INCLUSIONARY HOUSING: FINANCIAL EVALUATION

SANTA CRUZ, CALIFORNIA

I.	Property Acquisition Costs	1	43,560 Sf of Land	\$100 /Sf of Land		\$4,356,000
II.	Direct Costs	2				
	On-Site Improvements/Landscaping		43,560 Sf of Land	\$45 /Sf of Land		\$1,960,000
	Parking	3				
	Attached Garage		0 Spaces	\$0 /Space		0
	Covered Carports		0 Spaces	\$7,500 /Space		0
	Above-Ground Spaces		27 Spaces	\$30,000 /Space		810,000
	1st Level Subterranean Spaces		79 Spaces	\$50,000 /Space		3,950,000
	Building Costs		163,333 Sf of GBA	\$375 /Sf of GBA		61,250,000
	Contractor/DC Contingency Allow	4	20% Other Direct Costs			13,594,000
	Total Direct Costs					\$81,564,000
III.	Indirect Costs					
	Architecture, Engineering & Consulting		6.0% Direct Costs			\$4,894,000
	Public Permits & Fees	5	169 Units	\$37,000 /Unit		6,253,000
	Taxes, Insurance, Legal & Accounting		2.0% Direct Costs			1,631,000
	Marketing		169 Units	\$5,000 /Unit		845,000
	Developer Fee		3.0% Gross Sales Revenue			3,437,000
	Soft Cost Contingency Allowance		5.0% Other Indirect Costs			853,000
	Total Indirect Costs					\$17,913,000
IV.	Financing Costs					
	Interest During Construction	6				\$6,974,000
	Loan Origination Fees		60.0% Loan to Cost	1.5 Points		934,000
	Total Financing Costs					\$7,908,000
V.	Total Construction Cost		169 Units	\$635,000 /Unit		\$107,385,000
	Total Development Cost		169 Units	\$661,000 /Unit		\$111,741,000

¹ Estimated in part based on a survey of recent land sales in Santa Cruz.

² Based on the estimated costs for similar uses.

³ The base requirement is 1.0 space for Studio Units; 1.0 space for One-Bedroom Units; 2.0 spaces for Two-Bedroom Units; and 2.0 spaces for Three-Bedroom Units.

⁴ Includes contractors' fees, general requirements, builder's risk insurance and a direct cost contingency allowance.

⁵ Based on a review of the City's draft Housing Element.

⁶ Assumes a 7.0% interest cost for debt; an 18 month construction period after receipt of entitlements; a 22 month absorption period; 30% of the units are presold and close during first month after completion; and 1.5 points for loan origination fees.

APPENDIX C - EXHIBIT III - TABLE 2

PROJECTED NET SALES REVENUE
 BASE ZONING UNITS: 11% @ VERY LOW INCOME + 9% @ MODERATE INCOME
 35% \$65915 DENSITY BONUS ALTERNATIVE: HIGH DENSITY CONDOMINIUM PROTOTYPE
 OWNERSHIP HOUSING DEVELOPMENT
 INCLUSIONARY HOUSING: FINANCIAL EVALUATION
 SANTA CRUZ, CALIFORNIA

I.	<u>Gross Sales Revenue</u>	1		
	A. <u>Market Rate Units</u>			
	Studio Units	36 Units @	\$427,500 /Unit	\$15,390,000
	One-Bedroom Units	72 Units @	\$745,400 /Unit	53,669,000
	Two-Bedroom Units	36 Units @	\$1,133,400 /Unit	40,802,000
	Three-Bedroom Units	0 Units @	\$0 /Unit	0
	B. <u>Inclusionary Units</u>	2		
	Very Low Income - Density Bonus Units			
	Studio Units	4 Units @	\$62,400 /Unit	250,000
	One-Bedroom Units	7 Units @	\$73,400 /Unit	514,000
	Two-Bedroom Units	3 Units @	\$67,900 /Unit	204,000
	Three-Bedroom Units	0 Units @	\$63,000 /Unit	0
	Moderate Income - Inclusionary Units			
	Studio Units	2 Units @	\$296,600 /Unit	593,000
	One-Bedroom Units	6 Units @	\$341,200 /Unit	2,047,000
	Two-Bedroom Units	3 Units @	\$367,400 /Unit	1,102,000
	Three-Bedroom Units	0 Units @	\$407,100 /Unit	0
	Total Gross Sales Revenue			\$114,571,000
II.	<u>Cost of Sales</u>			
	Commissions	3.0% Gross Sales Revenue		\$3,437,000
	Closing	2.0% Gross Sales Revenue		2,291,000
	Warranty	0.5% Gross Sales Revenue		573,000
	Total Cost of Sales			(\$6,301,000)
III.	Net Revenue			\$108,270,000

¹ Based in part on a survey of home resales in Santa Cruz. The sales survey was undertaken by KMA in December 2023. See APPENDIX A. The weighted average sales price equates to \$1,052 per square foot of saleable area.

² See APPENDIX B.

APPENDIX C - EXHIBIT III - TABLE 3

FINANCIAL IMPACTS: INCLUSIONARY HOUSING REQUIREMENTS
 BASE ZONING UNITS: 11% @ VERY LOW INCOME + 9% @ MODERATE INCOME
 35% §65915 DENSITY BONUS ALTERNATIVE: HIGH DENSITY CONDOMINIUM PROTOTYPE
 OWNERSHIP HOUSING DEVELOPMENT
 INCLUSIONARY HOUSING: FINANCIAL EVALUATION
 SANTA CRUZ, CALIFORNIA

I. <u>Funds Available for Development Costs</u>			
Net Revenue	See APPENDIX C - EXHIBIT III - TABLE 2		\$108,270,000
(Less) Threshold Developer Profit	¹ 5.9% Total Development Cost		<u>(\$6,593,000)</u>
Total Funds Available for Development Costs			\$101,677,000
II. Total Development Cost	See APPENDIX C - EXHIBIT III - TABLE 1		\$111,741,000
III. <u>Total Financial Impact</u>			(\$10,064,000)
Developer Profit	-3.1% Total Development Cost		
Required Prop Acq Cost Reduction	231% of Estimated Current Acquisition Prices		
% Price Increase to Offset Impact	9.2% Market Rate Units		

¹ Based on the profit as a percentage of Total Development Cost estimated to be generated by the MARKET RATE ALTERNATIVE.

APPENDIX C - EXHIBIT IV

PRO FORMA ANALYSIS

**BASE ZONING UNITS: 11% @ VERY LOW INCOME + 14% @ MODERATE INCOME
35% §65915 DENSITY BONUS ALTERNATIVE
HIGH DENSITY CONDOMINIUM PROTOTYPE
OWNERSHIP HOUSING DEVELOPMENT
INCLUSIONARY HOUSING: FINANCIAL EVALUATION
SANTA CRUZ, CALIFORNIA**

APPENDIX C - EXHIBIT IV - TABLE 1

ESTIMATED DEVELOPMENT COSTS

BASE ZONING UNITS: 11% @ VERY LOW INCOME + 14% @ MODERATE INCOME

35% §65915 DENSITY BONUS ALTERNATIVE: HIGH DENSITY CONDOMINIUM PROTOTYPE

OWNERSHIP HOUSING DEVELOPMENT

INCLUSIONARY HOUSING: FINANCIAL EVALUATION

SANTA CRUZ, CALIFORNIA

I. Property Acquisition Costs	1	43,560 Sf of Land	\$100 /Sf of Land	\$4,356,000
II. Direct Costs	2			
On-Site Improvements/Landscaping		43,560 Sf of Land	\$45 /Sf of Land	\$1,960,000
Parking	3			
Attached Garage		0 Spaces	\$0 /Space	0
Covered Carports		0 Spaces	\$7,500 /Space	0
Above-Ground Spaces		27 Spaces	\$30,000 /Space	810,000
1st Level Subterranean Spaces		79 Spaces	\$50,000 /Space	3,950,000
Building Costs		163,333 Sf of GBA	\$375 /Sf of GBA	61,250,000
Contractor/DC Contingency Allow	4	20% Other Direct Costs		13,594,000
Total Direct Costs				\$81,564,000
III. Indirect Costs				
Architecture, Engineering & Consulting		6.0% Direct Costs		\$4,894,000
Public Permits & Fees	5	169 Units	\$37,000 /Unit	6,253,000
Taxes, Insurance, Legal & Accounting		2.0% Direct Costs		1,631,000
Marketing		169 Units	\$5,000 /Unit	845,000
Developer Fee		3.0% Gross Sales Revenue		3,366,000
Soft Cost Contingency Allowance		5.0% Other Indirect Costs		849,000
Total Indirect Costs				\$17,838,000
IV. Financing Costs				
Interest During Construction	6			\$6,951,000
Loan Origination Fees		60.0% Loan to Cost	1.5 Points	934,000
Total Financing Costs				\$7,885,000
V. Total Construction Cost		169 Units	\$635,000 /Unit	\$107,287,000
Total Development Cost		169 Units	\$661,000 /Unit	\$111,643,000

¹ Estimated in part based on a survey of recent land sales in Santa Cruz.

² Based on the estimated costs for similar uses.

³ The base requirement is 1.0 space for Studio Units; 1.0 space for One-Bedroom Units; 2.0 spaces for Two-Bedroom Units; and 2.0 spaces for Three-Bedroom Units.

⁴ Includes contractors' fees, general requirements, builder's risk insurance and a direct cost contingency allowance.

⁵ Based on a review of the City's draft Housing Element.

⁶ Assumes a 7.0% interest cost for debt; an 18 month construction period after receipt of entitlements; a 21 month absorption period; 30% of the units are presold and close during first month after completion; and 1.5 points for loan origination fees.

APPENDIX C - EXHIBIT IV - TABLE 3

FINANCIAL IMPACTS: INCLUSIONARY HOUSING REQUIREMENTS
 BASE ZONING UNITS: 11% @ VERY LOW INCOME + 14% @ MODERATE INCOME
 35% §65915 DENSITY BONUS ALTERNATIVE: HIGH DENSITY CONDOMINIUM PROTOTYPE
 OWNERSHIP HOUSING DEVELOPMENT
 INCLUSIONARY HOUSING: FINANCIAL EVALUATION
 SANTA CRUZ, CALIFORNIA

I. <u>Funds Available for Development Costs</u>			
Net Revenue	See APPENDIX C - EXHIBIT IV - TABLE 2		\$106,031,000
(Less) Threshold Developer Profit	¹ 5.9% Total Development Cost		<u>(\$6,587,000)</u>
Total Funds Available for Development Costs			\$99,444,000
II. Total Development Cost	See APPENDIX C - EXHIBIT IV - TABLE 1		\$111,643,000
III. <u>Total Financial Impact</u>			(\$12,199,000)
Developer Profit	-5.0% Total Development Cost		
Required Prop Acq Cost Reduction	280% of Estimated Current Acquisition Prices		
% Price Increase to Offset Impact	11.6% Market Rate Units		

¹ Based on the profit as a percentage of Total Development Cost estimated to be generated by the MARKET RATE ALTERNATIVE.

APPENDIX D

**PRO FORMA ANALYSES
LOW DENSITY CONDOMINIUM PROTOTYPE
OWNERSHIP HOUSING DEVELOPMENT
INCLUSIONARY HOUSING: FINANCIAL EVALUATION
SANTA CRUZ, CALIFORNIA**

APPENDIX D - EXHIBIT I

**PRO FORMA ANALYSIS
MARKET RATE ALTERNATIVE
BASE CASE DENSITY: 30 UNITS/ACRE
LOW DENSITY CONDOMINIUM PROTOTYPE
OWNERSHIP HOUSING DEVELOPMENT
INCLUSIONARY HOUSING: FINANCIAL EVALUATION
SANTA CRUZ, CALIFORNIA**

APPENDIX D - EXHIBIT I - TABLE 1

ESTIMATED DEVELOPMENT COSTS
 MARKET RATE ALTERNATIVE
 BASE CASE DENSITY: 30 UNITS/ACRE: LOW DENSITY CONDOMINIUM PROTOTYPE
 OWNERSHIP HOUSING DEVELOPMENT
 INCLUSIONARY HOUSING: FINANCIAL EVALUATION
 SANTA CRUZ, CALIFORNIA

I.	Property Acquisition Costs	1	87,120 Sf of Land	\$100 /Sf of Land		\$8,712,000
II.	Direct Costs	2				
	On-Site Improvements/Landscaping		87,120 Sf of Land	\$45 /Sf of Land		\$3,920,000
	Parking	3				
	Attached Garage		0 Spaces	\$0 /Space		0
	Covered Carports		0 Spaces	\$7,500 /Space		0
	Above-Ground Spaces		0 Spaces	\$30,000 /Space		0
	1st Level Subterranean Spaces		78 Spaces	\$50,000 /Space		3,900,000
	Building Costs		94,235 Sf of GBA	\$275 /Sf of GBA		25,915,000
	Contractor/DC Contingency Allow	4	20% Other Direct Costs			6,747,000
	Total Direct Costs					\$40,482,000
III.	Indirect Costs					
	Architecture, Engineering & Consulting		6.0% Direct Costs			\$2,429,000
	Public Permits & Fees	5	60 Units	\$37,000 /Unit		2,220,000
	Taxes, Insurance, Legal & Accounting		2.0% Direct Costs			810,000
	Marketing		60 Units	\$5,000 /Unit		300,000
	Developer Fee		3.0% Gross Sales Revenue			2,168,000
	Soft Cost Contingency Allowance		5.0% Other Indirect Costs			396,000
	Total Indirect Costs					\$8,323,000
IV.	Financing Costs					
	Interest During Construction	6				\$2,996,000
	Loan Origination Fees		60.0% Loan to Cost	1.5 Points		518,000
	Total Financing Costs					\$3,514,000
V.	Total Construction Cost		60 Units	\$872,000 /Unit		\$52,319,000
	Total Development Cost		60 Units	\$1,017,000 /Unit		\$61,031,000

¹ Estimated in part based on a survey of recent land sales in Santa Cruz.

² Based on the estimated costs for similar uses.

³ The base requirement is 1.0 space for Studio Units; 1.0 space for One-Bedroom Units; 2.0 spaces for Two-Bedroom Units; and 2.0 spaces for Three-Bedroom Units.

⁴ Includes contractors' fees, general requirements, builder's risk insurance and a direct cost contingency allowance.

⁵ Based on a review of the City's draft Housing Element.

⁶ Assumes a 7.0% interest cost for debt; an 18 month construction period after receipt of entitlements; a 8 month absorption period; 30% of the units are presold and close during first month after completion; and 1.5 points for loan origination fees.

APPENDIX D - EXHIBIT I - TABLE 2

PROJECTED NET SALES REVENUE
 MARKET RATE ALTERNATIVE
 BASE CASE DENSITY: 30 UNITS/ACRE: LOW DENSITY CONDOMINIUM PROTOTYPE
 OWNERSHIP HOUSING DEVELOPMENT
 INCLUSIONARY HOUSING: FINANCIAL EVALUATION
 SANTA CRUZ, CALIFORNIA

I.	Gross Sales Revenue		¹	
	Studio Units	0 Units @	\$0 /Unit	\$0
	One-Bedroom Units	18 Units @	\$905,100 /Unit	16,292,000
	Two-Bedroom Units	30 Units @	\$1,314,100 /Unit	39,423,000
	Three-Bedroom Units	12 Units @	\$1,379,500 /Unit	16,554,000
	Total Gross Sales Revenue			\$72,269,000
II.	Cost of Sales			
	Commissions	3.0% Gross Sales Revenue		\$2,168,000
	Closing	2.0% Gross Sales Revenue		1,445,000
	Warranty	0.5% Gross Sales Revenue		361,000
	Total Cost of Sales			(\$3,974,000)
III.	Net Revenue			\$68,295,000

¹ Based in part on a survey of home resales in Santa Cruz. The sales survey was undertaken by KMA in December 2023. See APPENDIX A. The weighted average sales price equates to \$902 per square foot of saleable area.

APPENDIX D - EXHIBIT I - TABLE 3

PROJECTED DEVELOPER PROFIT
MARKET RATE ALTERNATIVE
BASE CASE DENSITY: 30 UNITS/ACRE: LOW DENSITY CONDOMINIUM PROTOTYPE
OWNERSHIP HOUSING DEVELOPMENT
INCLUSIONARY HOUSING: FINANCIAL EVALUATION
SANTA CRUZ, CALIFORNIA

I.	Net Revenue	See APPENDIX D - EXHIBIT I - TABLE 2	\$68,295,000
II.	Total Development Cost	See APPENDIX D - EXHIBIT I - TABLE 1	<u>\$61,031,000</u>
III.	Developer Profit	11.9% Total Development Cost	\$7,264,000

APPENDIX D - EXHIBIT II

**PRO FORMA ANALYSIS
20% MODERATE INCOME INCLUSIONARY ALTERNATIVE
BASE CASE DENSITY: 30 UNITS/ACRE
LOW DENSITY CONDOMINIUM PROTOTYPE
OWNERSHIP HOUSING DEVELOPMENT
INCLUSIONARY HOUSING: FINANCIAL EVALUATION
SANTA CRUZ, CALIFORNIA**

APPENDIX D - EXHIBIT II - TABLE 1

ESTIMATED DEVELOPMENT COSTS
 20% MODERATE INCOME INCLUSIONARY ALTERNATIVE
 BASE CASE DENSITY: 30 UNITS/ACRE: LOW DENSITY CONDOMINIUM PROTOTYPE
 OWNERSHIP HOUSING DEVELOPMENT
 INCLUSIONARY HOUSING: FINANCIAL EVALUATION
 SANTA CRUZ, CALIFORNIA

I.	Property Acquisition Costs	1	87,120 Sf of Land	\$100 /Sf of Land		\$8,712,000
II.	Direct Costs	2				
	On-Site Improvements/Landscaping		87,120 Sf of Land	\$45 /Sf of Land		\$3,920,000
	Parking	3				
	Attached Garage		0 Spaces	\$0 /Space		0
	Covered Carports		0 Spaces	\$7,500 /Space		0
	Above-Ground Spaces		0 Spaces	\$30,000 /Space		0
	1st Level Subterranean Spaces		78 Spaces	\$50,000 /Space		3,900,000
	Building Costs		94,235 Sf of GBA	\$275 /Sf of GBA		25,915,000
	Contractor/DC Contingency Allow	4	20% Other Direct Costs			6,747,000
	Total Direct Costs					\$40,482,000
III.	Indirect Costs					
	Architecture, Engineering & Consulting		6.0% Direct Costs			\$2,429,000
	Public Permits & Fees	5	60 Units	\$37,000 /Unit		2,220,000
	Taxes, Insurance, Legal & Accounting		2.0% Direct Costs			810,000
	Marketing		60 Units	\$5,000 /Unit		300,000
	Developer Fee		3.0% Gross Sales Revenue			1,872,000
	Soft Cost Contingency Allowance		5.0% Other Indirect Costs			382,000
	Total Indirect Costs					\$8,013,000
IV.	Financing Costs					
	Interest During Construction	6				\$3,128,000
	Loan Origination Fees		60.0% Loan to Cost	1.5 Points		515,000
	Total Financing Costs					\$3,643,000
V.	Total Construction Cost		60 Units	\$869,000 /Unit		\$52,138,000
	Total Development Cost		60 Units	\$1,014,000 /Unit		\$60,850,000

¹ Estimated in part based on a survey of recent land sales in Santa Cruz.

² Based on the estimated costs for similar uses.

³ The base requirement is 1.0 space for Studio Units; 1.0 space for One-Bedroom Units; 2.0 spaces for Two-Bedroom Units; and 2.0 spaces for Three-Bedroom Units.

⁴ Includes contractors' fees, general requirements, builder's risk insurance and a direct cost contingency allowance.

⁵ Based on a review of the City's draft Housing Element.

⁶ Assumes a 7.0% interest cost for debt; an 18 month construction period after receipt of entitlements; a 7 month absorption period; 30% of the units are presold and close during first month after completion; and 1.5 points for loan origination fees.

APPENDIX D - EXHIBIT II - TABLE 3

FINANCIAL IMPACTS: INCLUSIONARY HOUSING REQUIREMENTS
 20% MODERATE INCOME INCLUSIONARY ALTERNATIVE
 BASE CASE DENSITY: 30 UNITS/ACRE: LOW DENSITY CONDOMINIUM PROTOTYPE
 OWNERSHIP HOUSING DEVELOPMENT
 INCLUSIONARY HOUSING: FINANCIAL EVALUATION
 SANTA CRUZ, CALIFORNIA

I. <u>Funds Available for Development Costs</u>			
Net Revenue	See APPENDIX D - EXHIBIT II - TABLE 2		\$58,955,000
(Less) Threshold Developer Profit	¹ 11.9% Total Development Cost		<u>(\$7,242,000)</u>
Total Funds Available for Development Costs			\$51,713,000
II. Total Development Cost	See APPENDIX D - EXHIBIT II - TABLE 1		\$60,850,000
III. <u>Total Financial Impact</u>			(\$9,137,000)
Developer Profit	-3.1% Total Development Cost		
Required Prop Acq Cost Reduction	105% of Estimated Current Acquisition Prices		
% Price Increase to Offset Impact	15.8% Market Rate Units		

¹ Based on the profit as a percentage of Total Development Cost estimated to be generated by the MARKET RATE ALTERNATIVE.

APPENDIX D - EXHIBIT III

PRO FORMA ANALYSIS

**BASE ZONING UNITS: 15% @ VERY LOW INCOME + 5% @ MODERATE INCOME
50% §65915 DENSITY BONUS ALTERNATIVE
LOW DENSITY CONDOMINIUM PROTOTYPE
OWNERSHIP HOUSING DEVELOPMENT
INCLUSIONARY HOUSING: FINANCIAL EVALUATION
SANTA CRUZ, CALIFORNIA**

APPENDIX D - EXHIBIT III - TABLE 1

ESTIMATED DEVELOPMENT COSTS

BASE ZONING UNITS: 15% @ VERY LOW INCOME + 5% @ MODERATE INCOME

50% \$65915 DENSITY BONUS ALTERNATIVE: LOW DENSITY CONDOMINIUM PROTOTYPE

OWNERSHIP HOUSING DEVELOPMENT

INCLUSIONARY HOUSING: FINANCIAL EVALUATION

SANTA CRUZ, CALIFORNIA

I.	Property Acquisition Costs	1	87,120 Sf of Land	\$100 /Sf of Land		\$8,712,000
II.	Direct Costs	2				
	On-Site Improvements/Landscaping		87,120 Sf of Land	\$45 /Sf of Land		\$3,920,000
	Parking	3				
	Attached Garage		0 Spaces	\$0 /Space		0
	Covered Carports		0 Spaces	\$7,500 /Space		0
	Above-Ground Spaces		0 Spaces	\$30,000 /Space		0
	1st Level Subterranean Spaces		59 Spaces	\$50,000 /Space		2,950,000
	Building Costs		141,353 Sf of GBA	\$375 /Sf of GBA		53,007,000
	Contractor/DC Contingency Allow	4	20% Other Direct Costs			11,975,000
	Total Direct Costs					\$71,852,000
III.	Indirect Costs					
	Architecture, Engineering & Consulting		6.0% Direct Costs			\$4,311,000
	Public Permits & Fees	5	90 Units	\$37,000 /Unit		3,330,000
	Taxes, Insurance, Legal & Accounting		2.0% Direct Costs			1,437,000
	Marketing		90 Units	\$5,000 /Unit		450,000
	Developer Fee		3.0% Gross Sales Revenue			2,874,000
	Soft Cost Contingency Allowance		5.0% Other Indirect Costs			620,000
	Total Indirect Costs					\$13,022,000
IV.	Financing Costs					
	Interest During Construction	6				\$5,937,000
	Loan Origination Fees		60.0% Loan to Cost	1.5 Points		842,000
	Total Financing Costs					\$6,779,000
V.	Total Construction Cost		90 Units	\$1,018,000 /Unit		\$91,653,000
	Total Development Cost		90 Units	\$1,115,000 /Unit		\$100,365,000

¹ Estimated in part based on a survey of recent land sales in Santa Cruz.

² Based on the estimated costs for similar uses.

³ The base requirement is 1.0 space for Studio Units; 1.0 space for One-Bedroom Units; 2.0 spaces for Two-Bedroom Units; and 2.0 spaces for Three-Bedroom Units.

⁴ Includes contractors' fees, general requirements, builder's risk insurance and a direct cost contingency allowance.

⁵ Based on a review of the City's draft Housing Element.

⁶ Assumes a 7.0% interest cost for debt; an 18 month construction period after receipt of entitlements; a 12 month absorption period; 30% of the units are presold and close during first month after completion; and 1.5 points for loan origination fees.

APPENDIX D - EXHIBIT III - TABLE 3

FINANCIAL IMPACTS: INCLUSIONARY HOUSING REQUIREMENTS
 BASE ZONING UNITS: 15% @ VERY LOW INCOME + 5% @ MODERATE INCOME
 50% §65915 DENSITY BONUS ALTERNATIVE: LOW DENSITY CONDOMINIUM PROTOTYPE
 OWNERSHIP HOUSING DEVELOPMENT
 INCLUSIONARY HOUSING: FINANCIAL EVALUATION
 SANTA CRUZ, CALIFORNIA

I. <u>Funds Available for Development Costs</u>			
Net Revenue	See APPENDIX D - EXHIBIT III - TABLE 2		\$90,538,000
(Less) Threshold Developer Profit	¹ 11.9% Total Development Cost		<u>(\$11,946,000)</u>
Total Funds Available for Development Costs			\$78,592,000
II. Total Development Cost	See APPENDIX D - EXHIBIT III - TABLE 1		\$100,365,000
III. <u>Total Financial Impact</u>			(\$21,773,000)
Developer Profit	-9.8% Total Development Cost		
Required Prop Acq Cost Reduction	250% of Estimated Current Acquisition Prices		
% Price Increase to Offset Impact	23.1% Market Rate Units		

¹ Based on the profit as a percentage of Total Development Cost estimated to be generated by the MARKET RATE ALTERNATIVE.

APPENDIX D - EXHIBIT IV

PRO FORMA ANALYSIS

**BASE ZONING UNITS: 15% @ VERY LOW INCOME + 10% @ MODERATE INCOME
50% §65915 DENSITY BONUS ALTERNATIVE
LOW DENSITY CONDOMINIUM PROTOTYPE
OWNERSHIP HOUSING DEVELOPMENT
INCLUSIONARY HOUSING: FINANCIAL EVALUATION
SANTA CRUZ, CALIFORNIA**

APPENDIX D - EXHIBIT IV - TABLE 1

ESTIMATED DEVELOPMENT COSTS

BASE ZONING UNITS: 15% @ VERY LOW INCOME + 10% @ MODERATE INCOME

50% \$65915 DENSITY BONUS ALTERNATIVE: LOW DENSITY CONDOMINIUM PROTOTYPE

OWNERSHIP HOUSING DEVELOPMENT

INCLUSIONARY HOUSING: FINANCIAL EVALUATION

SANTA CRUZ, CALIFORNIA

I.	Property Acquisition Costs	1	87,120 Sf of Land	\$100 /Sf of Land		\$8,712,000
II.	Direct Costs	2				
	On-Site Improvements/Landscaping		87,120 Sf of Land	\$45 /Sf of Land		\$3,920,000
	Parking	3				
	Attached Garage		0 Spaces	\$0 /Space		0
	Covered Carports		0 Spaces	\$7,500 /Space		0
	Above-Ground Spaces		0 Spaces	\$30,000 /Space		0
	1st Level Subterranean Spaces		59 Spaces	\$50,000 /Space		2,950,000
	Building Costs		141,353 Sf of GBA	\$375 /Sf of GBA		53,007,000
	Contractor/DC Contingency Allow	4	20% Other Direct Costs			11,975,000
	Total Direct Costs					\$71,852,000
III.	Indirect Costs					
	Architecture, Engineering & Consulting		6.0% Direct Costs			\$4,311,000
	Public Permits & Fees	5	90 Units	\$37,000 /Unit		3,330,000
	Taxes, Insurance, Legal & Accounting		2.0% Direct Costs			1,437,000
	Marketing		90 Units	\$5,000 /Unit		450,000
	Developer Fee		3.0% Gross Sales Revenue			2,801,000
	Soft Cost Contingency Allowance		5.0% Other Indirect Costs			616,000
	Total Indirect Costs					\$12,945,000
IV.	Financing Costs					
	Interest During Construction	6				\$6,014,000
	Loan Origination Fees		60.0% Loan to Cost	1.5 Points		842,000
	Total Financing Costs					\$6,856,000
V.	Total Construction Cost		90 Units	\$1,018,000 /Unit		\$91,653,000
	Total Development Cost		90 Units	\$1,115,000 /Unit		\$100,365,000

¹ Estimated in part based on a survey of recent land sales in Santa Cruz.

² Based on the estimated costs for similar uses.

³ The base requirement is 1.0 space for Studio Units; 1.0 space for One-Bedroom Units; 2.0 spaces for Two-Bedroom Units; and 2.0 spaces for Three-Bedroom Units.

⁴ Includes contractors' fees, general requirements, builder's risk insurance and a direct cost contingency allowance.

⁵ Based on a review of the City's draft Housing Element.

⁶ Assumes a 7.0% interest cost for debt; an 18 month construction period after receipt of entitlements; a 12 month absorption period; 30% of the units are presold and close during first month after completion; and 1.5 points for loan origination fees.

APPENDIX D - EXHIBIT IV - TABLE 3

FINANCIAL IMPACTS: INCLUSIONARY HOUSING REQUIREMENTS
 BASE ZONING UNITS: 15% @ VERY LOW INCOME + 10% @ MODERATE INCOME
 50% §65915 DENSITY BONUS ALTERNATIVE: LOW DENSITY CONDOMINIUM PROTOTYPE
 OWNERSHIP HOUSING DEVELOPMENT
 INCLUSIONARY HOUSING: FINANCIAL EVALUATION
 SANTA CRUZ, CALIFORNIA

I. <u>Funds Available for Development Costs</u>			
Net Revenue	See APPENDIX D - EXHIBIT IV - TABLE 2		\$88,215,000
(Less) Threshold Developer Profit	¹ 11.9% Total Development Cost		<u>(\$11,946,000)</u>
Total Funds Available for Development Costs			\$76,269,000
II. Total Development Cost	See APPENDIX D - EXHIBIT IV - TABLE 1		\$100,365,000
III. <u>Total Financial Impact</u>			(\$24,096,000)
Developer Profit	-12.1% Total Development Cost		
Required Prop Acq Cost Reduction	277% of Estimated Current Acquisition Prices		
% Price Increase to Offset Impact	26.6% Market Rate Units		

¹ Based on the profit as a percentage of Total Development Cost estimated to be generated by the MARKET RATE ALTERNATIVE.

APPENDIX E

**PRO FORMA ANALYSES
TOWNHOME PROTOTYPE
OWNERSHIP HOUSING DEVELOPMENT
INCLUSIONARY HOUSING: FINANCIAL EVALUATION
SANTA CRUZ, CALIFORNIA**

APPENDIX E - EXHIBIT I

**PRO FORMA ANALYSIS
MARKET RATE ALTERNATIVE
BASE CASE DENSITY: 15 UNITS/ACRE
TOWNHOME PROTOTYPE
OWNERSHIP HOUSING DEVELOPMENT
INCLUSIONARY HOUSING: FINANCIAL EVALUATION
SANTA CRUZ, CALIFORNIA**

APPENDIX E - EXHIBIT I - TABLE 1

ESTIMATED DEVELOPMENT COSTS
 MARKET RATE ALTERNATIVE
 BASE CASE DENSITY: 15 UNITS/ACRE: TOWNHOME PROTOTYPE
 OWNERSHIP HOUSING DEVELOPMENT
 INCLUSIONARY HOUSING: FINANCIAL EVALUATION
 SANTA CRUZ, CALIFORNIA

I.	Property Acquisition Costs	1	100,000	Sf of Land	\$100 /Sf of Land		\$10,000,000
II.	Direct Costs	2					
	On-Site Improvements/Landscaping		100,000	Sf of Land	\$45 /Sf of Land	\$4,500,000	
	Parking	3					
	Attached Garage		61	Spaces	\$0 /Space	0	
	Covered Carports		0	Spaces	\$7,500 /Space	0	
	Above-Ground Spaces		0	Spaces	\$30,000 /Space	0	
	1st Level Subterranean Spaces		0	Spaces	\$50,000 /Space	0	
	Building Costs		42,800	Sf of GBA	\$250 /Sf of GBA	10,700,000	
	Contractor/DC Contingency Allow	4		20% Other Direct Costs		3,040,000	
	Total Direct Costs						\$18,240,000
III.	Indirect Costs						
	Architecture, Engineering & Consulting			6.0% Direct Costs		\$1,094,000	
	Public Permits & Fees	5		35 Units	\$37,000 /Unit	1,295,000	
	Taxes, Insurance, Legal & Accounting			2.0% Direct Costs		365,000	
	Marketing			35 Units	\$5,000 /Unit	175,000	
	Developer Fee			3.0% Gross Sales Revenue		1,191,000	
	Soft Cost Contingency Allowance			5.0% Other Indirect Costs		206,000	
	Total Indirect Costs						\$4,326,000
IV.	Financing Costs						
	Interest During Construction	6				\$1,849,000	
	Loan Origination Fees			60.0% Loan to Cost	1.5 Points	293,000	
	Total Financing Costs						\$2,142,000
V.	Total Construction Cost		35	Units	\$706,000 /Unit		\$24,708,000
	Total Development Cost		35	Units	\$992,000 /Unit		\$34,708,000

¹ Estimated in part based on a survey of recent land sales in Santa Cruz.

² Based on the estimated costs for similar uses.

³ The base requirement is 1.0 space for Studio Units; 1.0 space for One-Bedroom Units; 2.0 spaces for Two-Bedroom Units; and 2.0 spaces for Three-Bedroom Units.

⁴ Includes contractors' fees, general requirements, builder's risk insurance and a direct cost contingency allowance.

⁵ Based on a review of the City's draft Housing Element.

⁶ Assumes a 7.0% interest cost for debt; an 18 month construction period after receipt of entitlements; a 5 month absorption period; 30% of the units are presold and close during first month after completion; and 1.5 points for loan origination fees.

APPENDIX E - EXHIBIT I - TABLE 2

PROJECTED NET SALES REVENUE
 MARKET RATE ALTERNATIVE
 BASE CASE DENSITY: 15 UNITS/ACRE: TOWNHOME PROTOTYPE
 OWNERSHIP HOUSING DEVELOPMENT
 INCLUSIONARY HOUSING: FINANCIAL EVALUATION
 SANTA CRUZ, CALIFORNIA

I.	<u>Gross Sales Revenue</u>	¹		
	Studio Units	0 Units @	\$0 /Unit	\$0
	One-Bedroom Units	9 Units @	\$900,000 /Unit	8,100,000
	Two-Bedroom Units	26 Units @	\$1,214,900 /Unit	31,587,000
	Three-Bedroom Units	0 Units @	\$0 /Unit	0
	Total Gross Sales Revenue			\$39,687,000
II.	<u>Cost of Sales</u>			
	Commissions	3.0% Gross Sales Revenue		\$1,191,000
	Closing	2.0% Gross Sales Revenue		794,000
	Warranty	0.5% Gross Sales Revenue		198,000
	Total Cost of Sales			(\$2,183,000)
III.	<u>Net Revenue</u>			\$37,504,000

¹ Based in part on a survey of home resales in Santa Cruz. The sales survey was undertaken by KMA in December 2023. See APPENDIX A. The weighted average sales price equates to \$927 per square foot of saleable area.

APPENDIX E - EXHIBIT I - TABLE 3

PROJECTED DEVELOPER PROFIT
MARKET RATE ALTERNATIVE
BASE CASE DENSITY: 15 UNITS/ACRE: TOWNHOME PROTOTYPE
OWNERSHIP HOUSING DEVELOPMENT
INCLUSIONARY HOUSING: FINANCIAL EVALUATION
SANTA CRUZ, CALIFORNIA

I.	Net Revenue	See APPENDIX E - EXHIBIT I - TABLE 2	\$37,504,000
II.	Total Development Cost	See APPENDIX E - EXHIBIT I - TABLE 1	<u>\$34,708,000</u>
III.	Developer Profit	8.1% Total Development Cost	\$2,796,000

APPENDIX E - EXHIBIT II

**PRO FORMA ANALYSIS
20% MODERATE INCOME INCLUSIONARY ALTERNATIVE
BASE CASE DENSITY: 15 UNITS/ACRE
TOWNHOME PROTOTYPE
OWNERSHIP HOUSING DEVELOPMENT
INCLUSIONARY HOUSING: FINANCIAL EVALUATION
SANTA CRUZ, CALIFORNIA**

APPENDIX E - EXHIBIT II - TABLE 1

ESTIMATED DEVELOPMENT COSTS
 20% MODERATE INCOME INCLUSIONARY ALTERNATIVE
 BASE CASE DENSITY: 15 UNITS/ACRE: TOWNHOME PROTOTYPE
 OWNERSHIP HOUSING DEVELOPMENT
 INCLUSIONARY HOUSING: FINANCIAL EVALUATION
 SANTA CRUZ, CALIFORNIA

I.	Property Acquisition Costs	1	100,000	Sf of Land	\$100 /Sf of Land		\$10,000,000
II.	Direct Costs	2					
	On-Site Improvements/Landscaping		100,000	Sf of Land	\$45 /Sf of Land	\$4,500,000	
	Parking	3					
	Attached Garage		61	Spaces	\$0 /Space	0	
	Covered Carports		0	Spaces	\$7,500 /Space	0	
	Above-Ground Spaces		0	Spaces	\$30,000 /Space	0	
	1st Level Subterranean Spaces		0	Spaces	\$50,000 /Space	0	
	Building Costs		42,800	Sf of GBA	\$250 /Sf of GBA	10,700,000	
	Contractor/DC Contingency Allow	4		20% Other Direct Costs		3,040,000	
	Total Direct Costs						\$18,240,000
III.	Indirect Costs						
	Architecture, Engineering & Consulting			6.0% Direct Costs		\$1,094,000	
	Public Permits & Fees	5		35 Units	\$37,000 /Unit	1,295,000	
	Taxes, Insurance, Legal & Accounting			2.0% Direct Costs		365,000	
	Marketing			35 Units	\$5,000 /Unit	175,000	
	Developer Fee			3.0% Gross Sales Revenue		1,030,000	
	Soft Cost Contingency Allowance			5.0% Other Indirect Costs		198,000	
	Total Indirect Costs						\$4,157,000
IV.	Financing Costs						
	Interest During Construction	6				\$2,027,000	
	Loan Origination Fees			60.0% Loan to Cost	1.5 Points	292,000	
	Total Financing Costs						\$2,319,000
V.	Total Construction Cost		35	Units	\$706,000 /Unit		\$24,716,000
	Total Development Cost		35	Units	\$992,000 /Unit		\$34,716,000

¹ Estimated in part based on a survey of recent land sales in Santa Cruz.

² Based on the estimated costs for similar uses.

³ The base requirement is 1.0 space for Studio Units; 1.0 space for One-Bedroom Units; 2.0 spaces for Two-Bedroom Units; and 2.0 spaces for Three-Bedroom Units.

⁴ Includes contractors' fees, general requirements, builder's risk insurance and a direct cost contingency allowance.

⁵ Based on a review of the City's draft Housing Element.

⁶ Assumes a 7.0% interest cost for debt; an 18 month construction period after receipt of entitlements; a 5 month absorption period; 30% of the units are presold and close during first month after completion; and 1.5 points for loan origination fees.

APPENDIX E - EXHIBIT II - TABLE 3

FINANCIAL IMPACTS: INCLUSIONARY HOUSING REQUIREMENTS
 20% MODERATE INCOME INCLUSIONARY ALTERNATIVE
 BASE CASE DENSITY: 15 UNITS/ACRE: TOWNHOME PROTOTYPE
 OWNERSHIP HOUSING DEVELOPMENT
 INCLUSIONARY HOUSING: FINANCIAL EVALUATION
 SANTA CRUZ, CALIFORNIA

I. <u>Funds Available for Development Costs</u>			
Net Revenue	See APPENDIX E - EXHIBIT II - TABLE 2		\$32,443,000
(Less) Threshold Developer Profit	¹ 8.1% Total Development Cost		<u>(\$2,797,000)</u>
Total Funds Available for Development Costs			\$29,646,000
II. Total Development Cost	See APPENDIX E - EXHIBIT II - TABLE 1		\$34,716,000
III. <u>Total Financial Impact</u>			(\$5,070,000)
Developer Profit	-6.5% Total Development Cost		
Required Prop Acq Cost Reduction	51% of Estimated Current Acquisition Prices		
% Price Increase to Offset Impact	15.9% Market Rate Units		

¹ Based on the profit as a percentage of Total Development Cost estimated to be generated by the MARKET RATE ALTERNATIVE.

APPENDIX E - EXHIBIT III

**PRO FORMA ANALYSIS
25% MODERATE INCOME INCLUSIONARY ALTERNATIVE
BASE CASE DENSITY: 15 UNITS/ACRE
TOWNHOME PROTOTYPE
OWNERSHIP HOUSING DEVELOPMENT
INCLUSIONARY HOUSING: FINANCIAL EVALUATION
SANTA CRUZ, CALIFORNIA**

APPENDIX E - EXHIBIT III - TABLE 1

ESTIMATED DEVELOPMENT COSTS
 25% MODERATE INCOME INCLUSIONARY ALTERNATIVE
 BASE CASE DENSITY: 15 UNITS/ACRE: TOWNHOME PROTOTYPE
 OWNERSHIP HOUSING DEVELOPMENT
 INCLUSIONARY HOUSING: FINANCIAL EVALUATION
 SANTA CRUZ, CALIFORNIA

I.	Property Acquisition Costs	1	100,000	Sf of Land	\$100	/Sf of Land	\$10,000,000
II.	Direct Costs	2					
	On-Site Improvements/Landscaping		100,000	Sf of Land	\$45	/Sf of Land	\$4,500,000
	Parking	3					
	Attached Garage		61	Spaces	\$0	/Space	0
	Covered Carports		0	Spaces	\$7,500	/Space	0
	Above-Ground Spaces		0	Spaces	\$30,000	/Space	0
	1st Level Subterranean Spaces		0	Spaces	\$50,000	/Space	0
	Building Costs		42,800	Sf of GBA	\$250	/Sf of GBA	10,700,000
	Contractor/DC Contingency Allow	4	20%	Other Direct Costs			3,040,000
	Total Direct Costs						\$18,240,000
III.	Indirect Costs						
	Architecture, Engineering & Consulting		6.0%	Direct Costs			\$1,094,000
	Public Permits & Fees	5	35	Units	\$37,000	/Unit	1,295,000
	Taxes, Insurance, Legal & Accounting		2.0%	Direct Costs			365,000
	Marketing		35	Units	\$5,000	/Unit	175,000
	Developer Fee		3.0%	Gross Sales Revenue			979,000
	Soft Cost Contingency Allowance		5.0%	Other Indirect Costs			195,000
	Total Indirect Costs						\$4,103,000
IV.	Financing Costs						
	Interest During Construction	6					\$2,142,000
	Loan Origination Fees		60.0%	Loan to Cost	1.5	Points	291,000
	Total Financing Costs						\$2,433,000
V.	Total Construction Cost		35	Units	\$708,000	/Unit	\$24,776,000
	Total Development Cost		35	Units	\$994,000	/Unit	\$34,776,000

¹ Estimated in part based on a survey of recent land sales in Santa Cruz.

² Based on the estimated costs for similar uses.

³ The base requirement is 1.0 space for Studio Units; 1.0 space for One-Bedroom Units; 2.0 spaces for Two-Bedroom Units; and 2.0 spaces for Three-Bedroom Units.

⁴ Includes contractors' fees, general requirements, builder's risk insurance and a direct cost contingency allowance.

⁵ Based on a review of the City's draft Housing Element.

⁶ Assumes a 7.0% interest cost for debt; an 18 month construction period after receipt of entitlements; a 4 month absorption period; 30% of the units are presold and close during first month after completion; and 1.5 points for loan origination fees.

APPENDIX E - EXHIBIT III - TABLE 2

PROJECTED NET SALES REVENUE
 25% MODERATE INCOME INCLUSIONARY ALTERNATIVE
 BASE CASE DENSITY: 15 UNITS/ACRE: TOWNHOME PROTOTYPE
 OWNERSHIP HOUSING DEVELOPMENT
 INCLUSIONARY HOUSING: FINANCIAL EVALUATION
 SANTA CRUZ, CALIFORNIA

I.	<u>Gross Sales Revenue</u>				¹
	A. <u>Market Rate Units</u>				
	Studio Units	0 Units @	\$0 /Unit		\$0
	One-Bedroom Units	7 Units @	\$900,000 /Unit		6,300,000
	Two-Bedroom Units	19 Units @	\$1,214,900 /Unit		23,083,000
	Three-Bedroom Units	0 Units @	\$0 /Unit		0
	B. <u>Inclusionary Units</u>				²
	Very Low Income - Density Bonus Units				
	Studio Units	0 Units @	\$62,400 /Unit		0
	One-Bedroom Units	0 Units @	\$73,400 /Unit		0
	Two-Bedroom Units	0 Units @	\$67,900 /Unit		0
	Three-Bedroom Units	0 Units @	\$63,000 /Unit		0
	Moderate Income - Inclusionary Units				
	Studio Units	0 Units @	\$296,600 /Unit		0
	One-Bedroom Units	2 Units @	\$341,200 /Unit		682,000
	Two-Bedroom Units	7 Units @	\$367,400 /Unit		2,572,000
	Three-Bedroom Units	0 Units @	\$407,100 /Unit		0
	Total Gross Sales Revenue				<u>\$32,637,000</u>
II.	<u>Cost of Sales</u>				
	Commissions	3.0% Gross Sales Revenue			\$979,000
	Closing	2.0% Gross Sales Revenue			653,000
	Warranty	0.5% Gross Sales Revenue			163,000
	Total Cost of Sales				<u>(\$1,795,000)</u>
III.	Net Revenue				\$30,842,000

¹ Based in part on a survey of home resales in Santa Cruz. The sales survey was undertaken by KMA in December 2023. See APPENDIX A. The weighted average sales price equates to \$927 per square foot of saleable area.

² See APPENDIX B.

APPENDIX E - EXHIBIT III - TABLE 3

FINANCIAL IMPACTS: INCLUSIONARY HOUSING REQUIREMENTS
 25% MODERATE INCOME INCLUSIONARY ALTERNATIVE
 BASE CASE DENSITY: 15 UNITS/ACRE: TOWNHOME PROTOTYPE
 OWNERSHIP HOUSING DEVELOPMENT
 INCLUSIONARY HOUSING: FINANCIAL EVALUATION
 SANTA CRUZ, CALIFORNIA

I. <u>Funds Available for Development Costs</u>			
Net Revenue	See APPENDIX E - EXHIBIT III - TABLE 2		\$30,842,000
(Less) Threshold Developer Profit	¹ 8.1% Total Development Cost		<u>(\$2,801,000)</u>
Total Funds Available for Development Costs			\$28,041,000
II. Total Development Cost	See APPENDIX E - EXHIBIT III - TABLE 1		\$34,776,000
III. <u>Total Financial Impact</u>			(\$6,735,000)
Developer Profit	-11.3% Total Development Cost		
Required Prop Acq Cost Reduction	67% of Estimated Current Acquisition Prices		
% Price Increase to Offset Impact	22.9% Market Rate Units		

¹ Based on the profit as a percentage of Total Development Cost estimated to be generated by the MARKET RATE ALTERNATIVE.