

**EXHIBIT F.1:**  
**Summary of Feasibility Results for an Inclusionary  
Housing Ordinance in Downtown Los Angeles**

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**Downtown Community Plan**

CF 22-0617; CPC-2017-432-CPU; CPC-2014-1582-CA; ENV-2017-433-EIR

Recommended by the City Planning Commission on September 23, 2021

September 2022



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## MEMORANDUM

To:	Craig Weber & Brittany Arceneaux, Los Angeles Department of City Planning
From:	HR&A Advisors, Inc.
Date:	September 15, 2022
Re:	Summary of Feasibility Results for an Inclusionary Housing Ordinance in Downtown Los Angeles

HR&A Advisors, Inc. (HR&A) prepared this memorandum on behalf of the Los Angeles Department of City Planning (LADCP) to describe the general characteristics and financial feasibility of a potential new mandatory inclusionary housing program in the Downtown area of the City of Los Angeles (the “City”). A mandatory inclusionary housing program would require developers to set aside a prescribed share of affordable housing units within market-rate multi-family housing developments. This approach is a potential alternative to the City Planning Commission (“CPC”)-recommended incentive zoning system that would provide community benefits, as outlined in the Draft 2040 Downtown Los Angeles Community Plan Update (“DTLA 2040”). This memorandum begins by describing mandatory inclusionary housing in the context of the ongoing DTLA 2040 process, and then proceeds with an overview of the general features and implementation history of mandatory inclusionary housing programs. This memorandum then summarizes the financial feasibility of a mandatory inclusionary housing program in Downtown, based on rigorous analytic testing performed by HR&A, including recommending potential program parameters where appropriate. The memorandum concludes with a set of policy observations that could influence the success of a mandatory inclusionary housing program if it is ultimately adopted by City decision makers.

### DTLA 2040 Context

#### Plan Overview

DTLA 2040 provides a long-term vision for the future of Downtown<sup>1</sup>. In large part, DTLA 2040 focuses on implementing land use, urban design, mobility, and open space strategies to support significant anticipated growth. Per regional projections, Downtown will absorb approximately 125,000 new residents, 70,000 housing units, and 55,000 jobs by the year 2040. The Plan also articulates a series of core principles to guide the development of these strategies. The core principles include:

- Accommodate anticipated growth through 2040 in an inclusive, equitable, sustainable, and healthy manner, while supporting and sustaining Downtown's ongoing revitalization
- Reinforce Downtown's jobs orientation

<sup>1</sup> The Land Use Element of the City's General Plan comprises 35 independent Community Plans, of which DTLA 2040 is one. Each Community Plan covers a specified sub-geography of the city (i.e., a Community Plan Area) and is intended to be updated periodically.

- Grow and support the residential base
- Strengthen neighborhood character
- Promote a transit-, bicycle-, and pedestrian-friendly environment
- Create linkages between districts
- Create a world-class streets and public realm

The land use and urban design strategies articulated in DTLA 2040 also inform a comprehensive zoning code update in Downtown. The structure of the updated zoning code will be organized under five key pillars – Form, Frontage, Development Standards, Use, and Density – that together will govern various aspects of development.

The Draft DTLA 2040 Plan will include integrated Downtown-specific community benefit requirements and incentive options in exchange for additional community benefits. DTLA 2040’s combination of requirements and incentives will provide developers streamlined approvals and opportunities to achieve above-baseline density and other beneficial property development standards if specified community benefits are included in their projects. DTLA 2040 responds to problems LADCP and HR&A identified with existing programs, including:

- The broad and loosely defined range of community benefits;
- Inconsistency and unpredictability between the location of the provision of public benefits and development sites;
- A general lack of calibration between incentives whereby Downtown developers have favored the Transfer of Floor Area Ratio (“TFAR”) over other available incentive systems that more directly produce Downtown benefits; and
- A significant pool of City-owned TFAR priced below market value that may hinder the achievement of public benefits, including funding the preservation of historic resources or creating recreational and open space.

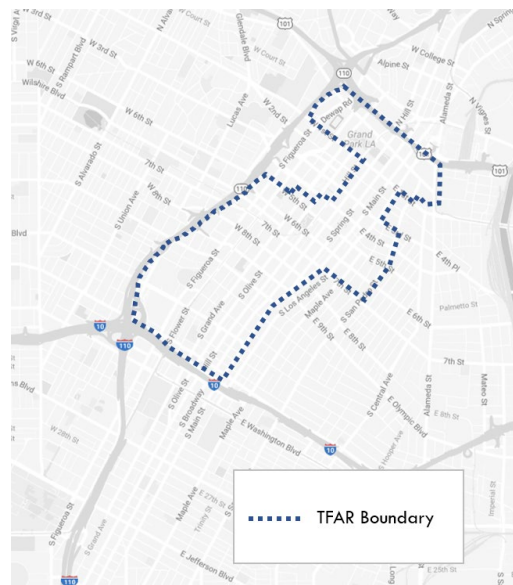
To illustrate the relative benefits of the new Community Benefits program to the public, HR&A compared the recent utilization of TFAR to the DTLA 2040 Plan. Within subareas in the Downtown Community Plan where most TFAR projects have been developed (see Figure 1), HR&A estimates that the TFAR program could have substantially undervalued development rights, in comparison to the market value of the additional development rights achieved. These findings are detailed in HR&A’s 2019 report entitled “Downtown Los Angeles Community Benefits program: Summary of Analysis and Recommendations.”<sup>2</sup>

DTLA 2040 is calibrated to better align private benefit with public benefit by more explicitly incentivizing the production of affordable housing, new parks and open space needed in certain parts of Downtown, as well as community facilities, which could include childcare centers, public bathrooms, or other spaces available free of charge to non-profit organizations. HR&A also anticipates that the new Downtown Community Plan and associated Community Benefits Program will provide meaningful benefits to developers, including time and cost savings, in addition to a reduction in risk associated with project approvals.

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<sup>2</sup> The 2019 report is available on the [DTLA 2040 website](#).

**FIGURE 1: MAP OF TFAR BOUNDARY**



## Approaches to Affordable Housing Production

### *Incentive Zoning*

DTLA 2040, as presented to and approved by CPC, including analysis prepared by HR&A in 2019, included an incentive-based zoning system (referred to as “Base-Bonus”) as part of the Community Benefits Program to encourage the production of affordable housing. The Base-Bonus program design reflected HR&A financial feasibility analysis of developers’ abilities to provide affordable units and other community benefits in exchange for additional Floor Area Ratio (FAR). Under this approach, residential projects would be granted additional FAR by-right if a specified percentage of all units are set aside as affordable.

There are both benefits and drawbacks associated with this approach. A Base-Bonus zoning system can create a financial incentive for developers to increase project density/floor area, thereby maximizing the delivery of both market-rate and affordable units. It also provides developers flexibility and choice, which can support development even as market conditions fluctuate. Despite these advantages, an incentive-based approach does not guarantee the delivery of affordable units in all housing projects. The Base-Bonus zoning system is elective in nature, meaning that developers can build at or below the minimum allowable density (i.e., “Base FAR”) without needing to provide any affordable units; however, payment of an Affordable Housing Linkage Fee (AHLF)<sup>3</sup> would still be required per existing City regulations (discussed further in Appendix C).<sup>4</sup>

<sup>3</sup> The Affordable Housing Linkage Fee (AHLF) Ordinance places a fee on certain market-rate residential and commercial developments to generate funding for affordable housing. Projects are exempt from the ordinance if 8 percent of units are set aside for extremely low income households; 11 percent are set aside for very low-income households; 20 percent are set aside for low-income households, or 40 percent are set aside for moderate income households.

<sup>4</sup> Projects that access the City’s TFAR program may deduct any payments for additional buildable floor area from the required AHLF. Many residential projects within the TFAR zone effectively pay no AHLF today.

HR&A's 2019 analysis found that projects were likely to choose to exceed Base FARs, in alignment with then-recent development proposals seeking to utilize the City's Transfer of Floor Area Rights (TFAR) program and citywide trends towards provision of on-site affordable housing set-aside units in lieu of AHLF payments. However, as described below, HR&A's 2022 analysis reframes these assumptions based on the significant increase in construction costs associated with the COVID-19 pandemic, finding that developers may choose to pursue lower-density projects using less expensive construction typologies. As such, the Base-Bonus approach therefore creates uncertainty with respect to achievement of the City's affordable housing objectives, as the flexibility provided in the structure increases the likelihood that developers may choose to build below the Base FAR without providing on-site affordable housing.

As discussed in this memo, due to the lingering economic effects of the COVID-19 pandemic which have caused significantly elevated construction costs, particularly for high-rise Type I/II steel and concrete frame buildings, the most likely construction in Downtown in the near future may be limited to the Type III "Podium" wood frame over concrete ground floors building typology, except for a relatively small number of high-rise buildings with special circumstances, as also discussed. This Podium typology is limited to roughly 8 stories and typically features an FAR of less than 4.0, which is lower than the Base FAR in most of Downtown. As such, many projects in the next several years under an incentive program may not provide on-site affordable housing, but would be subject to the AHLF.

### *Mandatory Inclusionary Housing*

Due to concerns that the Base-Bonus system does not guarantee the provision of affordable units in all housing projects, particularly given current market conditions, the City requested that HR&A study the feasibility of implementing a mandatory inclusionary housing program in Downtown. This study complements a similar study exploring a Citywide inclusionary policy. Given the DTLA 2040 Plan's objectives, a mandatory inclusionary housing program would ensure the production of some amount of on-site affordable units in new housing projects, irrespective of the density at which developers choose to build.

Under a typical inclusionary housing program, all multi-family residential projects, irrespective of density, must either: a) set aside a specified percentage of all units as affordable, or b) pay a fee in lieu thereof. Should a mandatory inclusionary housing program be adopted in Downtown, it is likely to be incorporated into the existing Base-Bonus framework. Under this hybrid approach, all multi-family residential projects would need to comply with an inclusionary program. Projects would be eligible for additional FAR first under the State Density Bonus in consideration of the inclusionary units provided. Projects could then access additional FAR under the Base-Bonus system by providing additional community benefits, including additional affordable housing, from a menu of options. A Base-Bonus system with mandatory inclusionary housing provisions would guarantee the delivery of affordable housing while maintaining flexibility for development to also deliver additional community benefits that advance other DTLA 2040 objectives.

The following section describes the general features and legal history of mandatory inclusionary housing in California.

## **Inclusionary Housing Overview**

### *General Program Characteristics*

Per State law, California jurisdictions are required to establish programmatic and regulatory initiatives to facilitate residential development at multiple income levels commensurate with their Regional Housing Needs

Assessment (“RHNA”) allocation and its 8.5-year implementation period. Mandatory inclusionary housing programs are typically enacted as part of a local jurisdiction’s strategy to increase the supply of affordable housing in general and/or to target the housing needs of households in particular income ranges. They also seek to provide a measure of economic integration as new development occurs. In response to well-documented demand for more affordably priced, below market-rate housing, these programs require developers to set aside a defined percentage of units in a market-rate housing development as affordable to lower- and moderate-income households. The rents for these units are set relative to percentages of the Area Median Income (“AMI”) corresponding to defined affordable housing categories (e.g., low-income at 50-80% of AMI), specified household incomes corresponding to the designated affordable housing categories derived from Federal affordable housing programs, and a maximum percentage of the specified household incomes that should be allocated for housing costs (typically 30% of income including both rent and an allowance for tenant-paid utilities). The set-aside units are typically subject to a deed restriction recorded against the property for a lengthy period (typically 55 years).

The set-aside requirements established under an inclusionary housing program must achieve a balance between public policy objectives and development feasibility. As such, feasibility testing is needed to inform program design to ensure that an inclusionary housing program does not produce the unintended effect of stifling housing development if its set-aside requirements are misaligned with real estate market conditions. This need for balance between market conditions and policy objectives has resulted in programs in California which typically have set-aside requirements ranging from 5 percent to 15 percent and offer alternative means of compliance (e.g., in-lieu fee, off-site units, land dedication, or rehabilitation of existing units). Accordingly, while inclusionary housing can be an important component of a comprehensive affordable housing production strategy, it alone is unlikely to meet the total need for new affordable housing in Downtown Los Angeles. Other efforts, such as nonprofit- and government-funded affordable housing projects, are also needed to supplement an inclusionary housing program and meet citywide production targets.

The parameters and scope of a mandatory inclusionary housing program can vary in many ways. First, State law authorizes local jurisdictions to establish a schedule of set-aside requirements that are calibrated to local housing needs and market conditions. This means that an inclusionary housing program can set affordability thresholds for one or several income levels<sup>5</sup> that vary from thresholds applicable to other affordable housing requirements, such as the State Density Bonus Law (as discussed below). Second, local jurisdictions are required under AB 1505 (also discussed below) to provide alternative means of satisfying set-aside requirements, such as off-site land dedication, payment of an in-lieu fee, or a combination thereof. Third, local jurisdictions may choose to apply their inclusionary housing programs to rental projects, for-sale projects, or both.

Appendix B provides further detail on approaches to analyze the feasibility of a mandatory inclusionary housing program.

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<sup>5</sup> Government agencies typically determine income levels relative to Area Median Income (AMI). For example, the City of Los Angeles defines households earning less than 30% AMI as Extremely Low Income, households earning between 30% and 50% AMI as Very Low Income, and households earning between 50% and 80% AMI as Low Income.

## Legal Background

The legal basis for inclusionary housing was established almost 50 years ago. In response to litigation challenging exclusionary zoning, the Supreme Court of New Jersey ruled in 1975 that municipalities must use “affirmative governmental devices” including “mandatory set-asides” to provide housing options for low- and moderate-income households. Inclusionary housing programs subsequently proliferated across the nation, particularly in California, where over 170 jurisdictions have adopted such programs.

Since California’s earliest inclusionary housing ordinances were adopted in Berkeley and Irvine in the late 1970s, numerous published court decisions have addressed whether inclusionary housing is lawful, as a general matter, as applied to particular developments, or regarding payment of fees in lieu of providing required units.

In *Homebuilders Association of Northern California v. City of Napa*, 90 Cal. App. 4<sup>th</sup> 186 (2001), the California Court of Appeals upheld the dismissal of a facial “takings” challenge to Napa’s inclusionary housing ordinance, finding that it substantially advanced a legitimate governmental purpose (although this reasoning was subsequently rejected by the U.S. Supreme Court as a takings standard in a different case) and was not subject to strict scrutiny requiring “reasonable relationship” and “proportionality” under the U.S. Supreme Court’s earlier *Nollan* and *Dolan* takings rulings, respectively, because the ordinance applied to all similarly situated developments. In *Action Apartment Association v. City of Santa Monica*, 166 Cal. App. 4<sup>th</sup> 456 (2008), the Court of Appeal again rejected a facial challenge to that city’s inclusionary housing ordinance, also concluding that strict nexus and proportionality were not required for an ordinance of general application. However, in *Building Industry Association of Central California v. City of Patterson*, 171 Cal. App. 4<sup>th</sup> 886 (2009), the Court of Appeal concluded, in an as-applied case, that a study supporting an inclusionary housing in-lieu fee requirement imposed in a Development Agreement context failed to show that the amount of the fee was reasonably related to the need for affordable housing associated with the project.

In *Palmer/Sixth Street Properties, L.P. v. City of Los Angeles*, 175 Cal. App. 4<sup>th</sup> 1396 (2009), the Court of Appeal held, in a case that involved imposition of an inclusionary housing condition or in-lieu fee payment alternative derived from the Central City West Specific Plan, as a condition of approval on a large apartment development, that the affordable rent limit requirements conflicted with the Costa Hawkins Rental Housing Act allowing apartment owners to set rents at market rate upon voluntary tenant vacancy.<sup>6</sup> Following several failed legislative attempts to moot the holding in *Palmer*, the California Supreme Court opened a door for doing so in *California Building Industry Association v. City of San José*, 61 Cal 4<sup>th</sup> 435 (2015), a facial challenge to that city’s new inclusionary ordinance on for-sale housing developments with 20 or more units. The Court held that inclusionary housing programs constitute a valid use of a jurisdiction’s zoning powers and, as such, should be viewed as akin to other land use regulations (e.g., setbacks, density, rent stabilization, etc.). The Court ruled that the in-lieu fee conditions imposed by the city’s ordinance need only be “reasonably related to the need for affordable housing” in a community, and was not subject to the strict scrutiny requirements of the State’s Mitigation Fee Act, effectively overturning the *Patterson* ruling.

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<sup>6</sup> This ruling chilled adoption of new California inclusionary housing ordinances on apartments (but not for-sale housing) for several years. It also led to a surge in residential “linkage fees” based on “nexus” studies, which is an adaptation of the fee approach originally developed to mitigate the affordable housing impacts associated with new commercial development. The Los Angeles version of this kind of linkage fee is discussed below.

Two years later, the passage of AB 1505 (Bloom) reinstated the authority of municipalities to apply inclusionary requirements to rental units. While this statute expressly overturned the *Palmer* decision, the law imposed two new conditions on jurisdictions. First, an inclusionary ordinance must “provide alternative means of compliance that may include, but are not limited to, in-lieu fees, land dedication, off-site construction, or acquisition and rehabilitation of existing units.” Second, the law authorizes the Department of Housing and Community Development (“HCD”) to review a program requiring more than 15% of units to be set aside for households earning less than 80% of AMI and if one of the following conditions apply:

- The jurisdiction has not met 75% of its Regional Housing Needs Assessment (RHNA) allocation for above-moderate income households, or
- The jurisdiction has not submitted its annual Housing Element report for two consecutive years.

If these conditions apply, HCD may request a jurisdiction to provide, within 180 days, a feasibility study that confirms that “the ordinance does not unduly constrain the production of housing.”<sup>7</sup> The City of Los Angeles met these requirements for the previous 5<sup>th</sup> Cycle RHNA, and now has an HCD-approved Housing Element utilizing the more recent 6<sup>th</sup> Cycle RHNA. That said, HCD is expected to regularly monitor cities’ housing production performance in achieving the 6<sup>th</sup> Cycle RHNA and any benefits or impediments to housing production.

### Mandatory Inclusionary Housing in Los Angeles County

As in much of California, and increasingly across the U.S., inclusionary housing programs are widespread in Los Angeles County. Several jurisdictions currently administer such programs, including Agoura Hills, Alhambra, Beverly Hills, Burbank, Calabasas, Culver City, Long Beach, Pasadena, Pomona, Santa Monica, and West Hollywood. In late 2020, the County of Los Angeles also adopted a mandatory inclusionary housing ordinance that governs residential development in unincorporated areas. As previously noted, inclusionary housing ordinances share many common characteristics but can vary in terms of their requirements, including set-aside percentages, income levels served and alternative means of compliance. These programs, some of which were adopted under more favorable economic conditions, have set-aside percentages generally ranging between 5 and 15 percent and range from a focus on creating units for Low Income households to addressing needs at all income levels from Extremely Low to Moderate income. Now that cities are permitted to adopt mandatory inclusionary housing programs, they must navigate overlaps with the State Density Bonus, wherein projects complying with inclusionary housing programs may be eligible by-right for additional density or floor area. Some cities are evaluating the value of these incentives in developing their mandatory inclusionary requirements, while others allow Density Bonuses to serve as a further incentive for developers to pursue and deliver housing projects.

While all programs offer an in-lieu fee as a form of alternative means of compliance, some programs offer additional options including providing off-site units, land dedication and/or preservation or rehabilitation of existing units. These options provide more flexibility, particularly the off-site unit and land dedication options, where it may be possible to leverage Low-Income Housing Tax Credits (LIHTC) to produce more units at a lower per-unit cost to developers. However, this option may require negotiation or other non-ministerial approvals, which may not align with DTLA 2040’s objectives for a more streamlined City entitlements process for new housing.

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<sup>7</sup> See: California Housing and Development Department Memorandum for Planning Directors and Interested Parties re: Rental Inclusionary Housing, Chapter 486, Statutes of 2017 (Assembly Bill 1505), October 21, 2019 ([https://www.hcd.ca.gov/community-development/housing-element/housing-element-memos/docs/ab\\_1505\\_final.pdf](https://www.hcd.ca.gov/community-development/housing-element/housing-element-memos/docs/ab_1505_final.pdf)).



The variety of inclusionary housing program design details highlights the fact that these programs are the product of local real estate market dynamics, local policy preferences and the public process through which the ordinances were adopted. A summary of inclusionary housing programs reviewed in Los Angeles County jurisdictions is shown in Appendix A. Many of these programs were recently adopted, and/or resumed effect after AB 1505. Given both the size of these municipalities in comparison to the City of Los Angeles and market challenges associated with the COVID-19 pandemic, on-site unit production is relatively limited in scale.

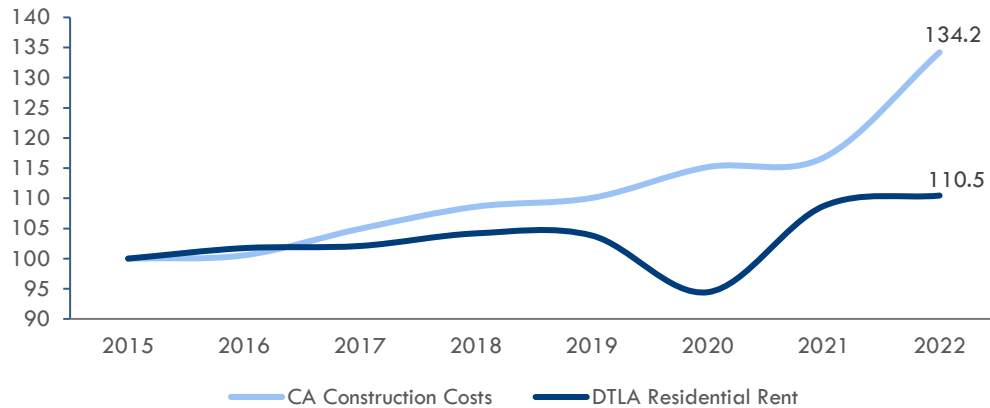
Irrespective of program design, developers generally choose to provide the option with the lowest cost of compliance. If a municipality desires to produce on-site affordable housing, the scale and cost of alternative means of compliance must be calibrated accordingly. This means, for example, that the off-site cost is greater than the cost of producing on-site units and/or that any in-lieu fee is more than cost-neutral to the developer. Furthermore, when constructing on-site affordable units, developers are likely to choose the lowest percentage of affordable units (which generally require the deepest level of affordability). In most markets the lowest percentage/lowest income level option represents the smallest number of required units, and hence the least impact on project profitability due to the extreme spread between market rate rents and rents for the lowest qualifying income category.

## **Real Estate Market Context**

### **Construction Costs and Rents**

Real estate market conditions have changed dramatically since the onset of the COVID-19 pandemic (the “Pandemic”). Rents dropped precipitously in the first several months of the Pandemic, during which construction costs also began to escalate. While rents have recovered to pre-Pandemic levels (and in some cases exceeded pre-Pandemic levels), construction costs have continued to increase due to supply chain issues that impact the availability of construction materials and construction labor shortages. Between 2015 and 2022, construction costs have escalated nearly 24% more than residential rents (34.2% vs. 10.5%). Figure 2 shows the indexed growth of construction costs and rents during this timeframe. Notably, residential rents began to stagnate even pre-recession, in part due to unprecedented deliveries of new residential buildings in Downtown. However, rents have begun to increase, and are likely to continue to do so as interest rates rise, making homeownership less affordable. However, it is unclear when construction costs and rents will stabilize or come closer to their pre-pandemic relationship.

**FIGURE 2: INDEXED GROWTH OF CONSTRUCTION COSTS AND RENTS**



Source: California Department of General Services; CoStar

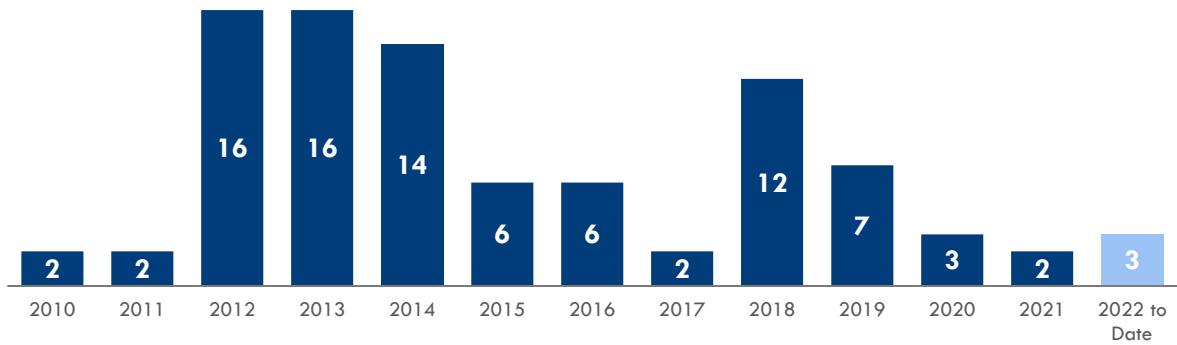
### Development Activity

The market fluctuations noted above have produced a challenging environment to finance new development. As shown in Figure 3, City construction permit pulls remain well below pre-Pandemic levels, and it is unclear when momentum will increase, although previous slowdowns have seen relatively rapid recovery. In line with pre-Pandemic rent stagnation, permit pulls dropped in 2020 in response to market conditions. Although not shown here, these trends appear to be even more extreme for for-sale product, with the Metropolis and uncompleted Oceanwide projects struggling to secure buyers due in part to waning foreign investment.

Despite these market headwinds, several projects that are currently moving forward in Downtown in large part benefit from unique circumstances that influence development economics (e.g., land banking, developer self-financing, existing parking supply, etc.). For example, the developer of the high-rise BLOC project – located at 700 S. Flower Street – benefits from the presence of an existing parking garage, ongoing income generation from office, hotel and retail uses on-site. Together, these factors drive down the cost of development to a point where it becomes feasible for the project developer to move forward. While most of these projects are led by corporate real estate entities that are more able to finance their projects efforts internally (which also lowers the cost of development), the pursuit of these projects demonstrates the resilience of Downtown Los Angeles’ development market, creativity, and the continued interest in production of housing for current and future Downtown residents. Further certainty and entitlement streamlining associated with DTLA 2040 could catalyze similar projects as the real estate market recovers.

These projects and their general features are summarized in Figures 4 and 5.

**FIGURE 3: RESIDENTIAL BUILDING PERMITS SUBMITTED IN DOWNTOWN LOS ANGELES**



Source: Los Angeles Department of City Planning

**FIGURE 4: PIPELINE INFILL RESIDENTIAL PROJECTS IN DOWNTOWN LOS ANGELES**

	The BLOC	The Beaudry	Residences at 333 South Hope Street
<b>Project Location</b>	700 Flower St.	960 W. 7 <sup>th</sup> St.	Bank of America Plaza
<b>Developer</b>	National Real Estate Advisors	Brookfield Properties	Brookfield Properties
<b>Status</b>	Proposed	Under Construction	Proposed
<b>Program</b>	466 units	785 units	366 units 425 sf café
<b>Existing Parking Supply</b>	Y	Y	Y
<b>Long-Term Land Hold</b>	Y	Y	Y
<b>Other Income-Generating Uses</b>	Y	Y	Y

**FIGURE 5: OTHER PIPELINE RESIDENTIAL PROJECTS IN DOWNTOWN LOS ANGELES**

	<b>Alloy</b>	<b>8<sup>th</sup> &amp; Figueroa</b>	<b>1317 Grand</b>	<b>1411 S Flower</b>
<b>Project Location</b>	520 Mateo St.	744 S. Figueroa St.	1317 S. Grand Ave.	1411 S. Flower St.
<b>Developer</b>	Carmel Partners	Mitsui Fudon America	Housing Diversity Corporation	Housing Diversity Corporation
<b>Status</b>	Under Construction	Under Construction	Permits Pulled	Permits Pulled
<b>Program</b>	475 units* 105k SF office 18k+ sf commercial	438 units 7.5k SF	147 micro-units	227 micro-units
<b>Existing Parking Supply</b>	N	N	No Parking Required	No Parking Required
<b>Long-Term Land Hold</b>	Y	Y	Unknown	Unknown
<b>Other Income-Generating Uses</b>	Y	Y	N	N

\*Live-Work units

## Feasibility Approach and Methodology

### Residual Land Value Analysis

HR&A utilized a detailed Residual Land Value (“RLV”) Model for five Downtown submarkets (i.e., South Park, Arts District, Chinatown, Historic Core, Fashion District; see Figure 6) to test multi-family development feasibility at different minimum, intermediate and maximum development densities measured in terms of FAR. The RLV model, which was also used for analyses related to the previously proposed Base-Bonus system, accounts for total development costs, net operating income and capitalized sale value, among other factors, to solve for the amount a well-informed, capable developer could afford to pay for land and earn a market-responsive return on investment. For this analysis, HR&A updated the RLV Model with current market-rate rents, construction costs and land values, as well as updated affordable rents, reflecting the City’s Housing Department (“LAHD”) Schedule VI 2022 Income and Rent Limits. This RLV Model enables dynamic testing of new development prototypes at varying FARs, with six different rent levels (i.e., Acutely Low Income, Extremely Low Income, Very Low Income, Low Income, Moderate Income, and market rate), and with various development regulation flexibilities (e.g., affordable housing linkage fee exclusion, parking reduction).

HR&A’s financial model considers affordable units as a percentage of total units in a project, rather than a percentage of the “base” units. This treatment aligns the modeling with the affordable housing calculation approach in the City’s existing Transit Oriented Communities Incentive Program (“TOC”), which applies along the City’s transit corridors outside of downtown.

Development feasibility is based on the degree to which each tested prototype supports a RLV comparable to recent land sales within each prototype’s respective submarket. HR&A also applied a Return on Cost (“ROC”) threshold as a companion measure of developer return. Under this approach, a prototype must

generate a developer profit (net operating income divided by total development cost) that is at least a 100 basis points (i.e., one percentage point) higher than the weighted average income capitalization rate for the prototype.<sup>8</sup> In all cases, RLV was the lagging indicator of feasibility, and therefore the primary measure of financial feasibility used in this memorandum.

**FIGURE 6: DOWNTOWN SUBMARKETS**



<sup>8</sup> For simplicity, the feasibility analysis presented in this memorandum only display results of the RLV analysis. Full analytic results, which include ROC metrics and their associated benchmarks, are included as Appendices.

## Development Prototypes

HR&A considered five prototypes aligned with typical site sizes, development standards, and pipeline projects in different submarket areas, all of which were utilized in previous rounds of analysis. The South Park submarket reflects similar performance for projects in the Financial District and on Bunker Hill. The Historic Core submarket also reflects similar performance for projects in Little Tokyo. Notably, HR&A included a new “Max Podium” alternative to prototypes in submarket areas where higher-density development is permitted. This prototype reflects the largest building that could be constructed with Type III-B (“Podium”) wood frame over concrete construction, which is more cost-efficient than high-rise concrete and steel construction, and reflective of many projects currently in the pipeline.<sup>9</sup> As demonstrated in our financial feasibility findings, HR&A believes that the “Max Podium” prototype may reflect the most common typology of construction in Downtown in the near future due to elevated construction costs, particularly for concrete and steel buildings. The parameters of each prototype are defined in Figures 7 through 11.

**FIGURE 7: SOUTH PARK PROTOTYPES**

	Base	Max FAR	Max Podium
<b>Acreage</b>	0.7	0.7	0.6
<b>Max. Stories</b>	12	36	8
<b>FAR</b>	6.00	13.00	4.50
<b>Non-Residential FAR</b>	N/A	N/A	N/A
<b>Non-Residential Area (GSF)</b>	N/A	N/A	N/A
<b>GBA</b>	180,000	390,000	127,500
<b>Residential Units</b>	180	405	125
<b>Construction Type</b>	Type II	Type II	Podium

**FIGURE 8: ARTS DISTRICT PROTOTYPES**

	Base	Max FAR	Max Podium
<b>Acreage</b>	2.2	2.2	2.2
<b>Max. Stories</b>	4	34	7
<b>FAR</b>	1.50	6.00	2.80
<b>Non-Residential FAR</b>	1.50	1.50	1.50
<b>Non-Residential Area (GSF)</b>	142,500	142,500	142,500
<b>GBA</b>	142,500	567,500	265,000
<b>Residential Units</b>	0	375	110

<sup>9</sup> Per building code regulations associated with Fire District 1, Type IV (mass timber) and Type V (wood frame) construction types are prohibited in the Downtown Core. As such, developers must use Type III wood frame construction which is more fire resistant than Type V construction. To reach eight stories, developers must use Type III construction with a concrete “Podium” as reflected in the Max Podium prototypes analyzed. Theoretically developers could construct seven story or shorter Type V podium buildings at a lower cost were Fire District 1 regulations not in place.

<b>Construction Type</b>	Podium	Type II	Podium
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**FIGURE 9: CHINATOWN PROTOTYPES**

	Base	Max Podium
<b>Acreeage</b>	0.6	0.6
<b>Max. Stories</b>	3	8
<b>FAR</b>	2.00	4.50
<b>Non-Residential FAR</b>	N/A	N/A
<b>Non-Residential Area (GSF)</b>	N/A	N/A
<b>GBA</b>	55,000	127,500
<b>Residential Units</b>	50	125
<b>Construction Type</b>	Podium	Podium

**FIGURE 10: HISTORIC CORE PROTOTYPES**

	Base	Max FAR	Max Podium
<b>Acreeage</b>	0.8	0.8	0.8
<b>Max. Stories</b>	25	36	8
<b>FAR</b>	9.00	13.00	4.50
<b>Non-Residential FAR</b>	N/A	N/A	N/A
<b>Non-Residential Area (GSF)</b>	N/A	N/A	N/A
<b>GBA</b>	330,000	477,500	165,000
<b>Residential Units</b>	345	500	170
<b>Construction Type</b>	Type II	Type II	Podium

**FIGURE 11: FASHION DISTRICT PROTOTYPES**

	Base	Max FAR	Max Podium
<b>Acreeage</b>	0.6	0.6	0.6
<b>Max. Stories</b>	5	23	8
<b>FAR</b>	3.00	8.00	4.50
<b>Non-Residential FAR</b>	1.00	1.00	1.00
<b>Non-Residential Area (GSF)</b>	13,000	13,000	13,000
<b>GBA</b>	80,000	210,000	117,500
<b>Residential Units</b>	55	195	95
<b>Construction Type</b>	Podium	Type II	Podium

HR&A first developed the physical parameters of prototypes for each multi-family apartment scenario building based on previous schematic design work by the Torti Gallas architecture and planning firm such that residual land value results aligned with recent transactions. HR&A then tested the feasibility of market-



rate development under the current regulatory regime (i.e., without any mandatory inclusionary housing requirements) to calibrate our model to reflect real-world development economics. Based on the results of this preliminary testing, HR&A proceeded to test what affordable housing set-aside requirement, if any, could be supported for each of the prototypes.

### Data Sources and Inputs

HR&A utilized a variety of data sources to update real estate market assumptions and relevant regulatory parameters, including:

- **Commercial Real Estate Data** from databases such as CoStar, Engineering News Record, Marshall & Swift, CBRE, Redfin;
- **Expert Input** based on 10+ interviews with developers and related stakeholders; and
- **DTLA 2040 and Updated Zoning Requirements**, including updated development standards related to parking, height, and density, among others.

### Financial Feasibility Analysis Results

The analysis results reported below reflect a dramatically changed real estate market context as compared to HR&A's 2019 analysis, which demonstrated the capacity for new projects (irrespective of incentive vs. mandatory inclusionary housing structure) to support higher levels of set-aside units. These more constrained results are largely the result of significantly increased construction costs and relatively stable rents; it is not known when or whether construction costs will decrease or when rents will increase to support higher set-aside levels. Notwithstanding, more favorable conditions are possible during the long-term life of DTLA 2040.

### Rental Projects

Under current market and regulatory conditions, market-rate rental projects are only feasible in two Downtown submarkets. Low-rise, Podium projects are feasible in Chinatown and South Park<sup>10</sup> (albeit close to feasible in the Historic Core), while high-rise projects are not currently feasible anywhere in Downtown due to significantly higher construction costs for Type I/II construction (i.e., steel or concrete). Significant changes in market conditions are required for new high-rise projects to become feasible (e.g., reductions in construction costs, increases in market rents, or a combination of both), other than those few projects being developed under special circumstances, as noted above.

Figure 12 shows financial feasibility results for 100 percent market-rate projects in each submarket at various density levels.

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<sup>10</sup> The South Park submarket and properties used to benchmark rental revenues encompasses the Financial District and parts of Bunker Hill which feature similar real estate market dynamics.

**FIGURE 12: FEASIBILITY ANALYSIS – RENTAL PROJECTS**

	Construction Type	RLV per SF	RLV Benchmark	Feasible?
<i>South Park</i>				
Base	Type II	(\$194)	\$600	No
Max FAR	Type II	(\$552)		No
Max Podium	Podium	\$742		Yes
<i>Arts District</i>				
Base	Podium	(\$236)	\$400	No
Max FAR	Type II	(\$979)		No
Max Podium	Podium	(\$173)		No
<i>Chinatown</i>				
Base	Podium	\$211	\$240	No
Max FAR/Podium	Podium	\$438		Yes
<i>Historic Core</i>				
Base	Type II	(\$686)	\$600	No
Max FAR	Type II	(\$1,051)		No
Max Podium	Podium	\$589		No
<i>Fashion District</i>				
Base	Podium	\$21	\$400	No
Max FAR	Type II	(\$1,164)		No
Max Podium	Podium	\$108		No

While market-rate development is currently infeasible in many parts of Downtown, mandatory inclusionary housing requirements can be supported in Podium projects in South Park and Chinatown. Figure 13 lists the supportable set-aside requirements at various income levels for a prototypical project in both submarkets. For Chinatown, the supportable percentages for three of the five income levels (excluding low-income and moderate-income) meet the exemption thresholds articulated in the AHLF Ordinance (see footnote on page 2 and Appendix C for more detail).

**FIGURE 13: SUPPORTABLE SET-ASIDE REQUIREMENTS (WITH AHLF)**

Income Level	AHLF Exemption Thresholds	Supportable Set-Aside (South Park)	Supportable Set-Aside (Chinatown)
<b>Acutely Low</b> <sup>11</sup>	7%	5%	12%
<b>Extremely Low</b>	8%	5%	13%
<b>Very Low</b>	11%	7%	15%
<b>Low</b>	20%	8%	12%
<b>Moderate</b>	40%	12%	21%

*Automatically Exempt*

For these submarkets, HR&A also calculated the supportable set-aside percentages if all projects were exempt from the AHLF. Notably, under this approach, Podium projects in the Historic Core become feasible and can support modest set-aside requirements; Podium projects are not feasible for the Historic Core otherwise. For South Park, AHLF exemption increases the supportable set-aside percentages for all income levels. For Chinatown, apart from the moderate-income and low-income categories, the supportable set-aside percentages already exceed the exemption thresholds articulated in the AHLF; as such, a new exemption policy would only support higher levels of set-aside units for the low- and moderate-income levels. The results for the three submarkets are summarized below in Figure 14.

**FIGURE 14: SUPPORTABLE SET-ASIDE REQUIREMENTS (WITHOUT AHLF)**

Income Level	Affordability Level (South Park)	Affordability Level (Chinatown)	Affordability Level (Historic Core)
<b>Acutely Low</b>	8%	12%	1%
<b>Extremely Low</b>	8%*	13%	1%
<b>Very Low</b>	10%	15%	1%
<b>Low</b>	12%	17%	1%
<b>Moderate</b>	16%	28%	2%

*Automatically Exempt*

\* At 4.5 FAR, the prototypes could marginally support an inclusionary percentage 1% above that specified here (i.e., resulting RLV is below, but close to prevailing land values; HR&A typically uses a 10% premium on land values to allow for future market changes).

### Feasibility Analysis: For-Sale Projects

Under current market and regulatory conditions, market-rate for-sale projects (i.e., condominiums), whether high-rise or Podium, are not feasible anywhere in Downtown. As with rental projects, significant changes in market conditions are generally required for projects to become feasible. Figure 15 details the feasibility results for for-sale projects.<sup>12</sup>

<sup>11</sup> Per the Downtown Los Angeles Community Plan Implementation Overlay District (CPIO), projects that set aside 7% of units for Acutely Low Income households are exempt from the AHLF.

<sup>12</sup> Although HR&A tested 4.5 FAR Podium prototypes for rental products, we believe it is unlikely that for-sale products would achieve such densities due in part to condominium buyer preferences, current Downtown sale prices and competitive product regionally, and the general limited supply of for-sale Podium projects in Downtown. As an alternative, HR&A tested 4.0 FAR Podium prototypes for for-sale products.

**FIGURE 15: FEASIBILITY ANALYSIS – FOR-SALE PROJECTS**

	Construction Type	RLV per SF	RLV Benchmark	Feasible?
<i>South Park</i>				
Base	Type II	(\$425)	\$600	No
Max FAR	Type II	(\$1,070)		No
Max Podium	Podium	\$161		No
<i>Arts District</i>				
Base	Podium	(\$278)	\$400	No
Max FAR	Type II	(\$1,465)		No
Max Podium	Podium	\$177		No
<i>Chinatown</i>				
Base	Podium	\$39	\$240	No
Max FAR/Podium	Podium	\$18		No
<i>Historic Core</i>				
Base	Type II	(1,650)	\$600	No
Max FAR	Type II	(\$2,563)		No
Max Podium	Podium	\$241		No
<i>Fashion District</i>				
Base	Podium	(\$180)	\$400	No
Max FAR	Type II	(\$1,164)		No
Max Podium	Podium	(\$166)		No

Because market-rate for-sale development is not currently feasible in any submarket, no additional testing was performed related to supportable mandatory inclusionary housing requirements.

#### In-lieu Fee

In accordance with State law, any mandatory inclusionary housing ordinance must also provide developers an alternative means of compliance, such as through payment of an in-lieu fee. HR&A calculated the supportable in-lieu fee for prototypical Podium projects in both Chinatown and South Park with market-rate units only. Figure 16 below displays the supportable in-lieu fee for these two submarkets.

**FIGURE 16: FIGURE IN-LIEU FEE REQUIREMENTS**

Income Level	Without AHLF
<b>Chinatown</b>	
In-Lieu Fee Per Unit	\$45,152
In-Lieu Fee Per Residential SF	<b>\$48</b>
<b>South Park</b>	
In-Lieu Fee Per Unit	\$18,861
In-Lieu Fee Per Residential SF	<b>\$20</b>

#### Impact of Policy Changes

For prototypical projects that are currently infeasible, HR&A tested the cost reductions associated with various potential policy changes. These changes included:

- Exemption from the AHLF, which is discussed in a footnote on page 3 and detailed in Appendix C
- No provision of parking
- Entitlement permit process streamlining, as anticipated in the DTLA 2040 plan due to more ministerial approvals and increased staff capacity

Implementation of these changes can marginally support affordable housing production in one of two ways. First, these changes can support the viability of projects that are on the cusp of feasibility (i.e., marginally infeasible projects). For example, for a prototypical Podium project in the Historic Core, the elimination of on-site parking would reduce total development cost (“TDC”) by 7 percent, which is sufficient to make that project feasible (see Figure 17 below). Second, these changes can also help add additional affordable units for projects that are already feasible. This latter point is illustrated in Figures 13 and 14, which display the additional set-aside units that can be extracted from projects if exempted from the AHLF. Variations between these figures are due to 1) the relative mix of residential and non-residential uses required (AHLF Exemption); 2) current market parking ratios assumed by HR&A in our modeling (No Parking); and 3) variable cost savings as a percentage of land value (Streamlining associate with DTLA 2040 changes to entitlement procedures).

**FIGURE 17: SENSITIVITY ANALYSIS – POLICY CHANGES**

	AHLF Exemption (% TDC Reduction)	No Parking (% TDC Reduction)	Streamlining (% TDC Reduction)
<b>South Park</b>	3%	6%	5%
<b>Arts District</b>	1%	18%	3%
<b>Chinatown</b>	3%	6%	3%
<b>Historic Core</b>	3%	6%	4%
<b>Fashion District</b>	2%	9%	1%

### Conclusions & Policy Observations

The objective of this memorandum is to evaluate the feasibility of implementing a mandatory inclusionary housing requirement in Downtown Los Angeles under a hybrid Base-Bonus framework. A secondary objective is to explore whether increasing Base FAR would be financially feasible and contribute to the delivery of on-site community benefits. In light of these objectives, the feasibility analysis presented in this memorandum yields the following conclusions for consideration by LADCP and City decisionmakers:

- Market conditions have shifted substantially since HR&A’s 2019 analysis and policy-making should consider both the potential for lower levels of production and tendencies toward lower-density development projects.
- A mandatory inclusionary program has the potential to increase supply of affordable housing in Downtown Los Angeles more directly and more predictably than under current City policies and programs. In particular, the existing AHLF program takes time to accumulate fees sufficient to fund new affordable housing, with multiple market-rate projects often needed to produce enough fee revenue to support production of a standalone affordable project. TFAR generally undervalues development rights while providing AHLF exemptions and community benefits not necessarily aligned with the City’s affordable housing priorities. A mandatory inclusionary housing program can produce units more rapidly and support socio-economic integration within individual market-rate buildings.

- For multiple reasons, increasing base FARs is unlikely to support either development feasibility or the increased provision of public benefits in most parts of Downtown. Many market-rate residential projects are marginally feasible or infeasible in all but two submarkets, irrespective of FAR. Projects that are clearly feasible are lower-density podium projects, causing developers to be more likely to build below current Base FAR until market conditions change. Increasing Base FAR may sacrifice the potential to capture additional community benefits in the future as high-rise development becomes more attractive. Finally, increasing Base FAR would also provide non-residential projects with an automatic FAR increase; requiring non-residential community benefits such as open space or community facilities, would require additional nexus study that could delay Plan adoption per State law.
- Mandatory inclusionary housing can, however, promote affordable housing production in some parts of Downtown. Based on analysis reported in this memo, Podium projects in South Park and Chinatown can deliver affordable set-aside units, assuming that the parameters of an inclusionary housing program are appropriately aligned to market conditions and the feasibility analysis. In all other parts of Downtown, both Podium and high-rise projects are currently marginally feasible or infeasible even without mandatory inclusionary housing requirements beyond the AHLF. Implementation of a mandatory inclusionary housing program in these areas could therefore result in further delays to housing production until market conditions strengthen. However, a graduated system provides the potential for projects to access additional development rights in exchange for even greater community benefits.
- Without a mandatory inclusionary housing program that favors on-site affordable unit production, even where housing projects are feasible, developers may choose to pay the AHLF because it is a less-expensive option compared to providing on-site affordable units. A pure Base-Bonus approach would not guarantee provision of affordable units, at least in the short-term until economic conditions improve, because the more feasible lower-density Podium projects would fall within Base FARs and not be required to provide on-site affordable units.

In light of these analytic findings and related considerations, if the City Council and Mayor decide to pursue a mandatory inclusionary housing program in Downtown, LADCP may wish to recommend the following implementation options for their consideration:

- **Exempt all Residential Projects Providing Set-Aside Units from the AHLF:** Exempting housing projects from certain requirements may support affordability objectives. Per the AHLF, residential projects are exempt from the linkage fee requirement only if they meet certain set-aside thresholds, which exceed what is supportable in the South Park submarket (see Appendix C for details). This means that residential projects in South Park would be subject to a new inclusionary housing program in addition to the existing linkage fee requirement. However, as shown in the Results section, residential projects could yield more on-site affordable units if all projects were exempt from the AHLF, which would produce affordable units more quickly than funds generated through the AHLF. For example, podium projects in South Park subject to the AHLF could support an 8% set-aside for very low-income units. If the AHLF were eliminated in Downtown, those same projects could support a 10% set-aside for very low-income units. Furthermore, this recommendation aligns with typical experience under the City's current development regime, where projects participating in the City's TFAR program effectively pay no AHLF today.

- **Modify Certain Form District Standards in South Park:** Modifying Form Districts in parts of Downtown may also help facilitate housing production. While podium projects are feasible in the South Park submarket, DTLA 2040 effectively limits this construction type in parts of this submarket under the HB5 and HM2 form districts, which have a 10-story height minimum. Eliminating restrictions to allow podium projects across South Park may result in more development occurring in the near-term, thus increasing the potential yield of market-rate and affordable units.

**APPENDIX A: INCLUSIONARY HOUSING PROGRAMS IN LOS ANGELES COUNTY**

	<b>Set-aside</b>	<b>Applicable Geographies</b>	<b>Income Levels Served</b>	<b>Alternative Means of Compliance</b>
<b>Santa Monica</b>	5% to 30%; top-end reduction pending in 6 <sup>th</sup> Cycle Housing Element	Citywide	<ul style="list-style-type: none"> <li>Extremely Low Income</li> <li>Very Low Income</li> <li>Low Income</li> <li>Moderate Income</li> </ul>	<ul style="list-style-type: none"> <li>In-lieu fee</li> <li>Land dedication</li> </ul>
<b>Pomona</b>	13% to 15%	Citywide	<ul style="list-style-type: none"> <li>Low Income</li> <li>Moderate Income</li> </ul>	<ul style="list-style-type: none"> <li>In-lieu fee</li> <li>Land dedication</li> </ul>
<b>West Hollywood</b>	20%	Citywide	<ul style="list-style-type: none"> <li>Low Income</li> <li>Moderate Income</li> </ul>	<ul style="list-style-type: none"> <li>Off-site units</li> <li>In-lieu fee</li> </ul>
<b>Glendale</b>	15%	Citywide	<ul style="list-style-type: none"> <li>Low Income</li> </ul>	<ul style="list-style-type: none"> <li>Off-site units</li> <li>In-lieu fee</li> <li>Land dedication</li> </ul>
<b>Pasadena</b>	20%	Citywide	<ul style="list-style-type: none"> <li>Very Low Income</li> <li>Low Income</li> <li>Moderate Income</li> </ul>	<ul style="list-style-type: none"> <li>Off-site units</li> <li>In-lieu fee</li> <li>Land dedication</li> <li>Preserve/rehab existing units</li> </ul>
<b>Agoura Hills</b>	15%	Citywide (except Agoura Hills Redevelopment Project Area)	<ul style="list-style-type: none"> <li>Very Low Income</li> <li>Low Income</li> <li>Moderate Income</li> </ul>	<ul style="list-style-type: none"> <li>In-lieu fee</li> </ul>
<b>Alhambra</b>	15%	Citywide	<ul style="list-style-type: none"> <li>Low Income</li> <li>Moderate Income</li> </ul>	<ul style="list-style-type: none"> <li>Off-site units</li> <li>In-lieu fee</li> <li>Land dedication</li> </ul>
<b>Long Beach</b>	5% to 11%	Downtown area only until market conditions improve elsewhere	<ul style="list-style-type: none"> <li>Very Low Income</li> <li>Moderate Income</li> </ul>	<ul style="list-style-type: none"> <li>In-lieu fee</li> <li>Land dedication</li> </ul>
<b>Calabasas</b>	5% to 15%	Citywide	<ul style="list-style-type: none"> <li>Very Low Income</li> <li>Low Income</li> <li>Moderate Income</li> </ul>	<ul style="list-style-type: none"> <li>Off-site units</li> <li>In-lieu fee</li> <li>Preserve/rehab existing units</li> </ul>
<b>Burbank</b>	15%	Citywide	<ul style="list-style-type: none"> <li>Very Low Income</li> <li>Low Income</li> <li>Moderate Income</li> </ul>	<ul style="list-style-type: none"> <li>Off-site units</li> <li>In-lieu fee</li> <li>Land dedication</li> <li>Preserve/rehab existing units</li> </ul>
<b>Culver City</b>	15%	Citywide	<ul style="list-style-type: none"> <li>Low Income</li> </ul>	<ul style="list-style-type: none"> <li>In-lieu fee</li> </ul>
<b>Beverly Hills</b>	10%	Citywide	<ul style="list-style-type: none"> <li>Very Low Income</li> <li>Low Income</li> <li>Moderate Income</li> </ul>	<ul style="list-style-type: none"> <li>In-lieu fee</li> </ul>
<b>Los Angeles County</b>	5% to 20%	<b>Rental:</b> Coastal South Los Angeles, San Gabriel Valley, or Santa Clarita Valley <b>For-Sale:</b> Antelope Valley (excl. condos), Coastal South Los Angeles, East Los Angeles/Gateway, San Gabriel Valley, Santa Clarita Valley, or South Los Angeles (excl. condos)	<ul style="list-style-type: none"> <li>Extremely Low Income</li> <li>Very Low Income</li> <li>Low Income</li> </ul>	<ul style="list-style-type: none"> <li>Off-site units</li> </ul>

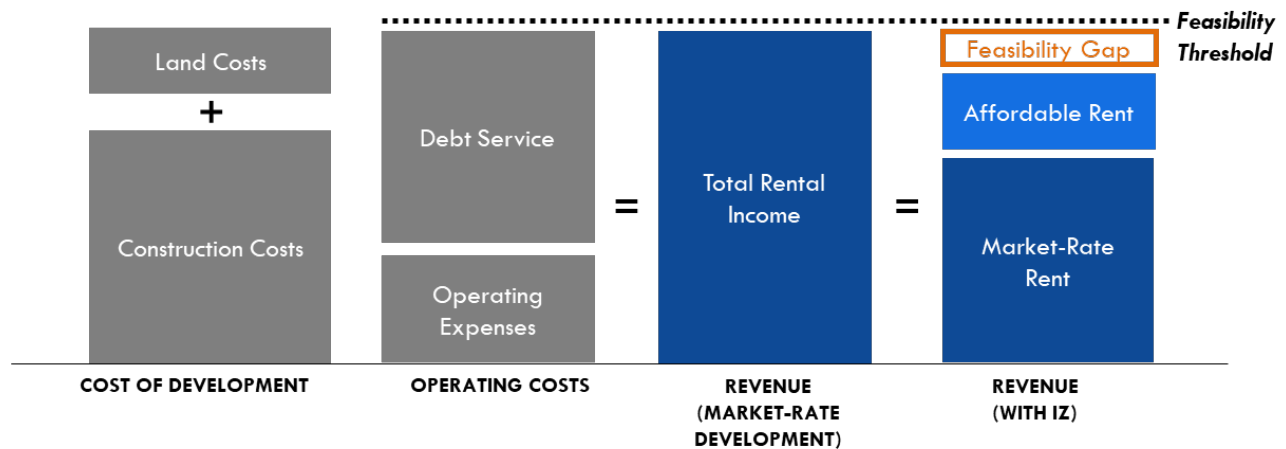


## APPENDIX B: INCLUSIONARY HOUSING ANALYSIS

### Analyzing Inclusionary Housing Feasibility

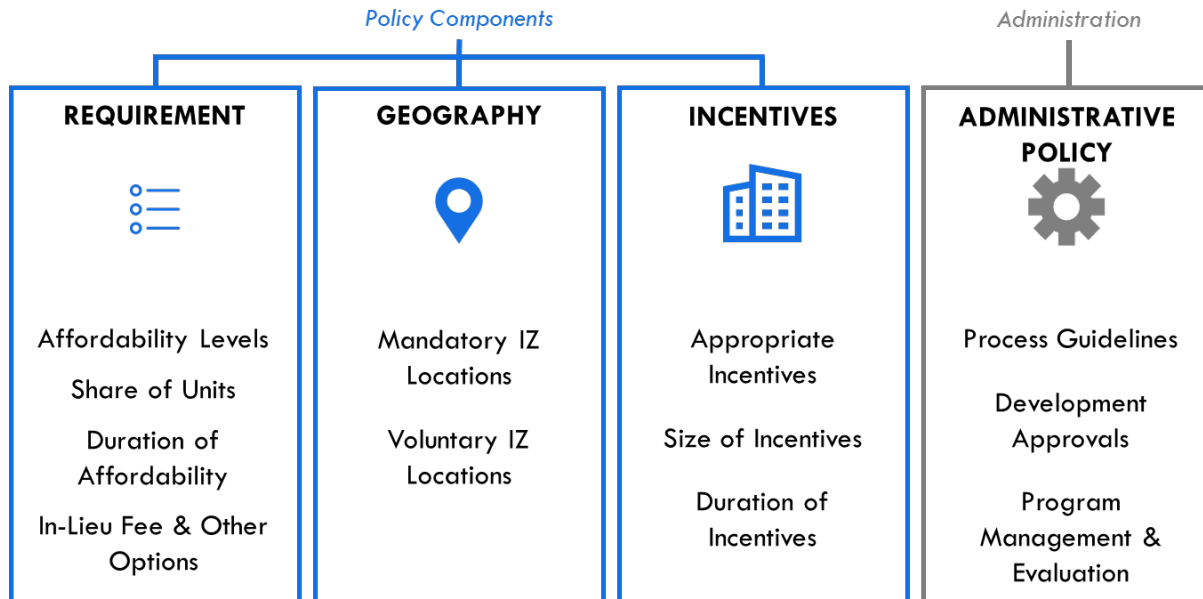
Typically, to evaluate the feasibility of an inclusionary housing program, three incremental analytic tasks are required. First, a market analysis must be undertaken to compile and analyze current real estate conditions and assemble other related information from interviews with housing advocates, developers, and public agencies. Next, financial feasibility and incentive evaluation must be prepared for the most likely development scenarios across different submarkets to consider the impact of one or more different packages of regulatory requirements. A housing development project is financially feasible when attainable rents can pay for total development cost, operating expenses, and a market-responsive level of developer profit. Inclusionary housing programs reduce a developer's project income by providing set-aside units at below-market pricing. Absent a density bonus or other measures, this can result in project revenues falling below a minimum threshold of financial feasibility (i.e., a "feasibility gap"), as shown in Figure 1. Financing costs include required investment returns sufficient to attract debt and equity to a project.

**Figure 1: Financial Feasibility Analysis Framework**



Finally, potential policy options must be evaluated based on feasible set-aside unit requirements and a set of integrated regulations and procedures across city planning, housing, and other relevant governmental departments that collectively advance and support affordable housing policy. Components of an inclusionary housing program include the affordability requirements, applicable geographies where they apply, applicable incentives (if any), and administrative guidelines and procedures, as shown in Figure 2.

**Figure 2: Components of an Inclusionary Housing/Incentive Zoning Policy**



In very strong real estate submarkets, inclusionary housing may be feasible without the provision of incentives, particularly for lower set-aside affordable unit requirements. This is rare. Housing development in the Los Angeles area has been challenged by rapidly increasing construction costs (exacerbated during the COVID-19 pandemic and associated labor and material shortages) and high land prices. Further burdening housing projects with lower rents from set-aside units, without directly off-setting incentives, can create a feasibility gap or limit a developer’s ability to attract project financing.

**Approaches to Mandatory Inclusionary Housing**

Typically, one of two general approaches are used to implement inclusionary housing programs. Determining the feasibility of these approaches requires different types of financial feasibility analysis. These approaches are as follows:

1. **Upzoning combined with mandatory inclusionary housing requirements:** This approach creates value for developers and re-captures all or a portion of that value through requirements for set-aside units. As described further below, this approach is similar in concept to existing Density Bonus and Transit-Oriented Community (TOC) incentives, except that participation in the inclusionary housing program would be mandatory rather than voluntary. There may be other considerations related to the State Density Bonus that are further described below.
2. **Mandatory inclusionary housing requirements absent upzoning:** This approach entails adoption of a mandatory inclusionary housing program that operates within the City’s existing set of development standards. Because no value is created for developers to off-set the additional costs, set-aside requirements, and any required density bonus must also be accommodated within that fixed development envelope, this approach may be more conservative so as to not preclude development. Alternatively, LADCP could employ a phase-in approach under which land values, profit margins, and/or market rents/sale prices adjust over time to accommodate requirements for set-aside units within the limitations of existing zoning regulations. This approach can be tested for

financial feasibility using the same approach used for the City's Quimby/Parks fees and Linkage Fee. In general, this approach assumes that land values will adjust downward over time to accommodate more restrictive changes in development standards and development exactions. However, this can be a slow process and sudden changes can reduce profit margins to a level such that development does not occur, or such that developers need to raise market rate rents substantially, if possible, to offset the additional costs and still attract investment capital and financing. Contrary to City objectives, a phased-in approach might also incentivize developers to accelerate housing production on key development sites before more rigorous standards ultimately take effect. This would result in a significant amount of development sites that do not deliver any community benefits

With upzoning recommendations already in place as part of the CPC-recommended Incentive System any inclusionary housing requirements under the Downtown Community Plan could generally follow the first approach, although phasing in a new mandatory inclusionary requirement may also need to be considered, given inflation and other economic challenges to development feasibility.

The City's Housing Department is also studying the potential for a citywide inclusionary housing policy (as discussed below), which could pertain to all areas outside the Downtown Community Plan, or could supersede Inclusionary Housing policies set in place through the Downtown Community Plan. Decisions about any potential upzoning or other incentives and phasing in the new requirement can be made as each individual Community Plan is updated.

## APPENDIX C: OTHER RELATED HOUSING INITIATIVES

### Relation to Other Housing Initiatives

#### Los Angeles Mello Act Ordinance

Inclusionary housing requirements currently apply in only a limited area of the City. As a result of a litigation settlement, the City's adopted Mello Act Ordinance (Los Angeles Municipal Code Sec. 12.21H) now complies with State law to preserve and expand the number of affordable housing units in the City's Coastal Zone (Gov't Code Sec. 65590). In addition to mandating no net loss of existing affordable units, the ordinance also establishes set-aside requirements for residential projects with five or more units, as follows:

- 8% of on-site units for extremely low-income households;
- 11% of on-site units for very low-income households, or
- 20% of on-site units for low-income households

Per State law, the Mello Act Ordinance provides for alternative means of compliance where on-site development is infeasible. Developers may instead pay an in-lieu fee calculated based on the following schedule:

- Multi-Family Rental: \$73.88/square-foot
- Multi-Family Condominium: \$64.30/square-foot

While these parameters may not be appropriate to the Downtown real estate context, the framework of the Mello Act Ordinance can serve as a precedent to inform ordinance drafting.

#### Density Bonus Program

Local inclusionary housing ordinances interface in important ways with certain provisions of State law. For example, the State Density Bonus Law (Govt. Code Sec. 65915-65918) authorizes additional by-right development capacity to projects conditioned on the provision of affordable housing. The exact parameters of the law have been amended multiple times, most recently in 2021 with the passage of AB 2345. In its current iteration, the Density Bonus Law grants development projects up to a maximum 50% increase in allowable density, which must be granted if:

- 15% of units are set aside for very low income households;
- 24% of units are set aside for low income households, or
- 44% of for-sale units are set aside for moderate income households

Lower percentages of set-aside units are associated with lower density bonuses.

Jurisdictions are required to adopt a local Density Bonus Program that meets or exceeds these baseline parameters. In accordance with this mandate, the City of Los Angeles operates a local program that offers a sliding scale density bonus from 20 percent up to 35 percent. The program must be updated to conform with AB 2345, which now requires allowance of a density bonus of up to 50 percent.

Importantly, State law requires that municipalities reconcile local inclusionary housing requirements and Density Bonus obligations. In a 2013 case, the First District Court of Appeal ruled that a developer may use

the same affordable units to fulfill its requirements under both a local inclusionary housing program and the State Density Bonus law.

Adoption of an inclusionary housing program for Downtown Los Angeles must, therefore, include density bonuses and other concessions consistent with at least the State Density Bonus law. If an inclusionary housing program requires a greater percentage of units to be set-aside than required to receive a density bonus under State law, developers may be granted a density bonus automatically. LADCP should be aware of these implications as it conceives of appropriate floor area targets – inclusive of all available incentives – in Downtown.

In many cases, when adopting mandatory inclusionary programs, cities undertake feasibility analyses to define development standards (i.e., height and/or Floor Area Ratios) that support set-aside requirements, even though they may not be required to do so. This is to ensure that the objective of increasing affordable supply does not come at the expense of stopping market rate housing development. Accordingly, some analyses demonstrate a case for up-zoning to create additional value, as existing market conditions (in particular land values and rental rates) often stabilize at point where there is limited room for projects to feasibly support set-aside requirements. In a circumstance where a California city increased development standards to support inclusionary housing, projects could also qualify for additional Density Bonus incentives or zoning waivers to further increase development feasibility. However, in Downtown Los Angeles, an increase in development potential

#### Affordable Housing Linkage Fee (AHLF) Program

An inclusionary housing ordinance in Downtown would also need to align with other local housing policies. In 2017, the Los Angeles City Council adopted the Affordable Housing Linkage Fee (AHLF) Ordinance (Los Angeles Municipal Code Sec. 21.18, Article 1.18), which places a fee on certain market-rate residential and commercial developments to generate funding for affordable housing if those projects do not provide on-site mixed-income affordable housing, as discussed below. The fee applies to all projects that result in:

- Additional dwelling units or guest rooms;
- Additional nonresidential floor area;
- A single-family residential project with a net increase of more than 1,500 square feet of floor area, unless the project will not be sold within three years, or
- A change of use from non-residential.

The fee applies citywide and varies both by type of use and market area. For instance, Downtown Los Angeles is designated a Medium-High Market Area for residential uses and a High Market area for nonresidential uses. This means multifamily projects in Downtown are subject to a fee of \$12.46 per square foot, while commercial projects are subject to a fee of \$5.19 per square foot. The comprehensive fee schedule for the AHLF Ordinance is defined in Figure 1 below.

**FIGURE 1: AHLF ORDINANCE FEE SCHEDULE**

	<b>Low Market Area</b>	<b>Medium Market Area</b>	<b>Medium-High Market Area</b>	<b>High Market Area</b>
<b>Type of Use</b>	<b>Fee Per Square Foot</b>			
Nonresidential Uses	\$3.11	\$4.15	N/A	\$5.19
Residential Uses (6 or more units)	\$8.31	\$10.38	\$12.46	18.69
Residential Uses (2-5 Units)	\$1.04	\$1.04	\$1.04	\$18.69
Residential Uses (Single-Family Detached Home)	\$8.31	\$10.38	\$12.46	\$18.69
Development Projects that Result in a Net Loss of Housing Units	\$3.11	\$3.11	\$3.11	\$3.11

Exemptions and waivers are provided to accommodate projects in which the fee may produce “unintended negative consequences,” including many that incorporate affordable housing. Specifically, a residential project is exempt from the AHLF if at least:

- 40% of units are set aside for moderate income households;
- 20% are set aside for low income households;
- 11% are set aside for very low income households, or
- 8% are set aside for extremely low income households.

Based on this same logic, revenues from the AHLF could be either nullified or significantly reduced in Downtown upon adoption of a new inclusionary housing ordinance. If the City were to adopt an ordinance with set-aside requirements that meet or exceed the AHLF Ordinance exemption thresholds, virtually all multifamily projects in Downtown would be exempt from paying the AHLF. If the City were to adopt an ordinance with set-aside requirements that are lower than the AHLF Ordinance exemption thresholds, the City could opt to apply a pro-rated linkage fee based on the difference in affordable units that a project provides.

Absent an exemption from the AHLF, Downtown developers could be subject to a “double dedication” for residential projects. It is possible that such an arrangement could stifle development in Downtown if the program parameters are misaligned with local market conditions. Presumably based on this same logic, the Mello Act exempts residential projects providing one or more affordable units in the Coastal Zone from the Linkage Fee requirement. Based on the results of subsequent feasibility testing, the City could likewise eliminate the AHLF in Downtown upon adoption of a new inclusionary ordinance.

### Citywide Inclusionary Housing Study

In addition to existing programs, the City is exploring the financial feasibility of a citywide inclusionary housing program. As part of this effort, the Los Angeles Housing Department (LAHD) is performing policy analysis of inclusionary housing approaches and will provide general policy recommendations and recommended next steps. A subsequent study may evaluate feasibility of inclusionary housing program requirements in more detail for individual submarket areas in Los Angeles. Should the City choose to adopt

a citywide inclusionary program, LADCP and City decisionmakers should thoughtfully coordinate and reconcile policy design with any mandatory inclusionary housing program included in DTLA 2040.

## **APPENDIX D: FEASIBILITY TESTING DETAILED RESULTS**

### **Overview**

The subsequent tables provide detailed results from the feasibility tests performed for residential prototypes in the South Park, Arts District, Chinatown, Historic Core, and Fashion District market areas. These tests include baseline feasibility analysis for market-rate rental development, supportable set-aside calculations (for South Park and Chinatown), baseline feasibility analysis for market-rate for-sale development, in-lieu fee calculations and sensitivity analysis of policy changes (i.e., AHLF exemption, removal of parking minimums, streamlining).



## Market Rate Rental Testing

### SOUTH PARK: BASE + MAX FAR + PODIUM PROTOTYPES

Category	Base	Max FAR	Max Podium
<b>Development Program</b>			
Acreage	0.7	0.7	0.6
Height	124 ft.	364 ft.	84 ft.
Stories	12 stories	36 stories	8 stories
Residential Units	180	405	125
Market Rate	180	405	125
Affordable	0	0	0
Average Unit Size	825 SF	825 SF	825 SF
Construction Type			
Residential - Rental	Type II	Type II	Podium
Retail/Office/Industrial	Type II	Type II	Type II
Average Floorplate	15002 ft.	10838 ft.	14054 ft.
FAR	6.00	13.00	4.50
GBA	180,000 SF	390,000 SF	112,500 SF
<b>Development Cost and Value</b>			
Total Development Costs per GBA	\$625	\$635	\$430
Capitalized Value per GBA	\$698	\$698	\$700
<b>Community Benefits</b>			
Affordable Housing Linkage Fee	Yes	Yes	Yes
<b>Financial Returns</b>			
Residual Land Value	(\$5,832,223)	(\$16,587,190)	\$20,846,399
<b>RLV Per Acre</b>	<b>(\$8,452,610)</b>	<b>(\$24,039,725)</b>	<b>\$32,300,685</b>
<b>Residual Land Value per SF of land</b>	<b>(\$194)</b>	<b>(\$552)</b>	<b>\$742</b>
<b>Land sale comps benchmark</b>	<b>\$600</b>	<b>\$600</b>	<b>\$600</b>
Return on Cost	4.55%	4.44%	6.66%
Weighted CAP	4.07%	4.03%	4.09%
<b>Findings</b>			
<b>Feasible by RLV?</b>	<b>No</b>	<b>No</b>	<b>Yes</b>
<b>Feasible by 100 bps Spread of Exit CAP over ROC?</b>	<b>No</b>	<b>No</b>	<b>Yes</b>
<b>Marginally Feasible? (within 15% of Rent or Cost Reduction?)</b>	<b>No</b>	<b>Yes</b>	<b>N/A</b>
<b>Sensitivity Test (Apartment Rents)</b>			
Rent Increase Needed	26%	14%	
Cost Reduction Needed	24%	13%	

**ARTS DISTRICT: BASE + MAX FAR + PODIUM PROTOTYPES**

Category	Base	Max FAR	Max Podium
<b>Development Program</b>			
Acreage	2.2	2.2	2.2
Height	44 ft.	344 ft.	74 ft.
Stories	4 stories	34 stories	7 stories
Residential Units	0	375	110
Market Rate	0	375	110
Affordable	0	0	0
Average Unit Size	1,000 SF	1,000 SF	1,000 SF
Construction Type			
Residential - Rental	Podium	Type II	Podium
Retail/Office/Industrial	Type II	Type II	Type II
Average Floorplate	38246 ft.	16712 ft.	38246 ft.
Productive Use (Arts District + Fashion District)	Office	Office	Office
FAR	1.50	6.00	2.80
Ground Floor FAR (Arts District + Fashion District)	1.50	1.50	1.50
GBA	142,500 SF	567,500 SF	265,000 SF
<b>Development Cost and Value</b>			
Total Development Costs per GBA	\$778	\$700	\$634
Capitalized Value per GBA	\$731	\$633	\$675
<b>Community Benefits</b>			
Affordable Housing Linkage Fee	Yes	Yes	Yes
<b>Financial Returns</b>			
Residual Land Value	(\$22,369,966)	(\$92,760,576)	(\$16,382,919)
<b>RLV Per Acre</b>	<b>(\$10,289,278)</b>	<b>(\$42,666,104)</b>	<b>(\$7,535,478)</b>
<b>Residual Land Value per SF of land</b>	<b>(\$236)</b>	<b>(\$979)</b>	<b>(\$173)</b>
<b>Land sale comps benchmark</b>	<b>\$400</b>	<b>\$400</b>	<b>\$400</b>
Return on Cost	4.23%	3.74%	4.56%
Weighted CAP	4.50%	4.13%	4.27%
<b>Findings</b>			
<b>Feasible by RLV?</b>	<b>No</b>	<b>No</b>	<b>No</b>
<b>Feasible by 100 bps Spread of Exit CAP over ROC?</b>	<b>No</b>	<b>No</b>	<b>No</b>
<b>Marginally Feasible? (within 15% of Rent or Cost Reduction?)</b>	<b>N/A*</b>	<b>No</b>	<b>No</b>
<b>Sensitivity Test (Apartment Rents)</b>			
Rent Increase Needed	N/A*	63%	89%
Cost Reduction Needed	N/A*	45%	73%

\*No residential units provided. Under zoning requirements, 1.5 FAR of any live-work project in the Arts District must be dedicated to jobs-producing uses.

**CHINATOWN: BASE + MAX FAR (PODIUM) PROTOTYPES**

<b>Category</b>	<b>Base</b>	<b>Max FAR/Podium</b>
<b>Development Program</b>		
Acreage	0.6	0.6
Height	34 ft.	84 ft.
Stories	3 stories	8 stories
Residential Units	50	125
Market Rate	50	125
Affordable	0	0
Average Unit Size	825 SF	825 SF
Construction Type		
Residential - Rental	Podium	Podium
Retail/Office/Industrial	Type II	Type II
Average Floorplate	18705 ft.	14054 ft.
Productive Use (Arts District + Fashion District)		
FAR	2.00	4.50
Ground Floor FAR (Arts District + Fashion District)		
GBA	55,000 SF	127,500 SF
<b>Development Cost and Value</b>		
Total Development Costs per GBA	\$443	\$430
Capitalized Value per GBA	\$646	\$621
<b>Community Benefits</b>		
Affordable Housing Linkage Fee	Yes	Yes
<b>Financial Returns</b>		
Residual Land Value	\$5,925,612	\$12,309,777
<b>RLV Per Acre</b>	<b>\$9,181,505</b>	<b>\$19,073,521</b>
<b>Residual Land Value per SF of land</b>	<b>\$211</b>	<b>\$438</b>
<b>Land sale comps benchmark</b>	<b>\$240</b>	<b>\$240</b>
Return on Cost	6.15%	5.92%
Weighted CAP	4.19%	4.09%
<b>Findings</b>		100.00%
<b>Feasible by RLV?</b>	<b>No</b>	<b>Yes</b>
<b>Feasible by 100 bps Spread of Exit CAP over ROC?</b>	<b>Yes</b>	<b>Yes</b>
<b>Marginally Feasible? (within 15% of Rent or Cost Reduction?)</b>	<b>Yes</b>	<b>N/A</b>
<b>Sensitivity Test (Apartment Rents)</b>		
Rent Increase Needed	4%	
Cost Reduction Needed	5%	

**HISTORIC CORE: BASE + MAX FAR + PODIUM PROTOTYPES**

Category	Base	Max FAR	Max Podium
<b>Development Program</b>			
Acreage	0.8	0.8	0.8
Height	254 ft.	364 ft.	84 ft.
Stories	25 stories	36 stories	8 stories
Residential Units	345	500	170
Market Rate	345	500	170
Affordable	0	0	0
Average Unit Size	825 SF	825 SF	825 SF
Construction Type			
Residential - Rental	Type II	Type II	Podium
Retail/Office/Industrial	Type II	Type II	Type II
Average Floorplate	13237 ft.	13237 ft.	18333 ft.
Productive Use (Arts District + Fashion District)			
FAR	9.00	13.00	4.50
GBA	330,000 SF	477,500 SF	165,000 SF
<b>Development Cost and Value</b>			
Total Development Costs per GBA	\$626	\$629	\$425
Capitalized Value per GBA	\$647	\$645	\$655
<b>Community Benefits</b>			
Affordable Housing Linkage Fee	Yes	Yes	Yes
<b>Financial Returns</b>			
Residual Land Value	(\$25,151,823)	(\$38,550,274)	\$21,609,016
<b>RLV Per Acre</b>	<b>(\$29,881,724)</b>	<b>(\$45,799,808)</b>	<b>\$25,672,678</b>
<b>Residual Land Value per SF of land</b>	<b>(\$686)</b>	<b>(\$1,051)</b>	<b>\$589</b>
<b>Land sale comps benchmark</b>	<b>\$600</b>	<b>\$600</b>	<b>\$600</b>
Return on Cost	4.16%	4.12%	6.23%
Weighted CAP	4.02%	4.01%	4.04%
<b>Findings</b>			
<b>Feasible by RLV?</b>	<b>No</b>	<b>No</b>	<b>No</b>
<b>Feasible by 100 bps Spread of Exit CAP over ROC?</b>	<b>No</b>	<b>No</b>	<b>Yes</b>
<b>Marginally Feasible? (within 15% of Rent or Cost Reduction?)</b>	<b>No</b>	<b>No</b>	<b>Yes</b>
<b>Sensitivity Test (Apartment Rents)</b>			
Rent Increase Needed	28%	22%	1%
Cost Reduction Needed	25%	19%	1%

**FASHION DISTRICT: BASE + MAX FAR + PODIUM PROTOTYPES**

Category	Base	Max FAR	Max Podium
<b>Development Program</b>			
Acreage	0.6	0.6	0.6
Height	54 ft.	234 ft.	84 ft.
Stories	5 stories	23 stories	8 stories
Residential Units	55	195	95
Market Rate	55	195	95
Affordable	0	0	0
Average Unit Size	825 SF	825 SF	825 SF
Construction Type			
Residential - Rental	Podium	Type II	Podium
Retail/Office/Industrial	Type II	Type II	Type II
Average Floorplate	15802 ft.	9160 ft.	12928 ft.
Productive Use (Arts District + Fashion District)	Industrial	Industrial	Industrial
FAR	3.00	8.00	4.50
Ground Floor FAR (Arts District + Fashion District)	1.00	1.00	1.00
GBA	80,000 SF	210,000 SF	117,500 SF
<b>Development Cost and Value</b>			
Total Development Costs per GBA	\$476	\$641	\$467
Capitalized Value per GBA	\$579	\$597	\$579
<b>Community Benefits</b>			
Affordable Housing Linkage Fee	Yes	Yes	Yes
<b>Financial Returns</b>			
Residual Land Value	\$558,865	(\$30,667,496)	\$2,833,585
<b>RLV Per Acre</b>	<b>\$924,367</b>	<b>(\$50,724,336)</b>	<b>\$4,686,777</b>
<b>Residual Land Value per SF of land</b>	<b>\$21</b>	<b>(\$1,164)</b>	<b>\$108</b>
<b>Land sale comps benchmark</b>	<b>\$400</b>	<b>\$400</b>	<b>\$400</b>
Return on Cost	4.60%	3.61%	4.83%
Weighted CAP	2.57%	3.47%	3.05%
<b>Findings</b>			
<b>Feasible by RLV?</b>	<b>No</b>	<b>No</b>	<b>No</b>
<b>Feasible by 100 bps Spread of Exit CAP over ROC?</b>	<b>Yes</b>	<b>No</b>	<b>No</b>
<b>Marginally Feasible? (within 15% of Rent or Cost Reduction?)</b>	<b>No</b>	<b>No</b>	<b>No</b>
<b>Sensitivity Test (Apartment Rents)</b>			
Rent Increase Needed	39%	46%	18%
Cost Reduction Needed	47%	36%	21%

## Affordability Testing for Rental Prototypes

### SOUTH PARK: PODIUM PROTOTYPE WITH AHLF

Category	Base	Affordability Levels (with AHLF)				
	100% Market Rate	Acutely Low (15% x AMI)	Extremely Low (30% x AMI)	Very Low (50% x AMI)	Low (60% x AMI)	Moderate (110% x AMI)
<b>Development Program</b>						
Acreage	0.6	0.6	0.6	0.6	0.6	0.6
Height	84 ft.	84 ft.	84 ft.	84 ft.	84 ft.	84 ft.
Stories	8 stories	8 stories	8 stories	8 stories	8 stories	8 stories
Residential Units	125	125	125	125	125	125
Market Rate	125	125	125	125	125	125
Affordable	0	0	0	0	0	0
Average Unit Size	825 SF	825 SF	825 SF	825 SF	825 SF	825 SF
Construction Type						
Residential – Rental	Podium	Podium	Podium	Podium	Podium	Podium
Retail	Type II	Type II	Type II	Type II	Type II	Type II
Average Floorplate	14054 ft.	14054 ft.	14054 ft.	14054 ft.	14054 ft.	14054 ft.
FAR	4.50	4.50	4.50	4.50	4.50	4.50
GBA	127,500 SF	127,500 SF	127,500 SF	127,500 SF	127,500 SF	127,500 SF
<b>Development Cost and Value</b>						
Total Development Costs per GBA	\$430	\$429	\$429	\$428	\$428	\$427
Capitalized Value per GBA	\$700	\$673	\$674	\$664	\$664	\$666
<b>Community Benefits</b>						
Affordable Housing Percentages	0%	5%	5%	7%	8%	12%
Affordable Housing Linkage Fee	Yes	Yes	Yes	Yes	Yes	Yes
<b>Financial Returns</b>						
Residual Land Value	\$20,846,399	\$18,002,430	\$18,119,772	\$17,118,278	\$17,119,794	\$17,486,086
<b>RLV Per Acre</b>	<b>\$32,300,685</b>	<b>\$27,894,064</b>	<b>\$28,075,882</b>	<b>\$26,524,106</b>	<b>\$26,526,454</b>	<b>\$27,094,010</b>
<b>RLV per SF of land</b>	<b>\$742</b>	<b>\$640</b>	<b>\$645</b>	<b>\$609</b>	<b>\$609</b>	<b>\$622</b>
<b>Land sale comps benchmark</b>	<b>\$600</b>	<b>\$600</b>	<b>\$600</b>	<b>\$600</b>	<b>\$600</b>	<b>\$600</b>
Return on Cost	6.66%	6.42%	6.43%	6.35%	6.35%	6.38%
Weighted CAP	4.09%	4.09%	4.09%	4.09%	4.09%	4.09%
<b>Findings</b>						
<b>Affordable Housing</b>						
Affordability Level		Acutely Low	Extremely Low	Very Low	Low	Moderate
Affordable Housing Percentages		5%	5%	7%	8%	12%
<b>Feasible by RLV?</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>
<b>Feasible by 100 bps Spread of Exit CAP over ROC?</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>

**SOUTH PARK: PODIUM PROTOTYPE WITH AHLF EXEMPTION**

Category	Base w/o AHLF	Affordability Levels (exempt from AHLF)				
	100% Market Rate	Acutely Low (15% x AMI)	Extremely Low (30% x AMI)	Very Low (50% x AMI)	Low (60% x AMI)	Moderate (110% x AMI)
<b>Development Program</b>						
Acreage	0.6	0.6	0.6	0.6	0.6	0.6
Height	84 ft.	84 ft.	84 ft.	84 ft.	84 ft.	84 ft.
Stories	8 stories	8 stories	8 stories	8 stories	8 stories	8 stories
Residential Units	125	125	125	125	125	125
Market Rate	125	125	125	125	125	125
Affordable	0	0	0	0	0	0
Average Unit Size	825 SF	825 SF	825 SF	825 SF	825 SF	825 SF
Construction Type						
Residential – Rental	Podium	Podium	Podium	Podium	Podium	Podium
Retail	Type II	Type II	Type II	Type II	Type II	Type II
Average Floorplate	14054 ft.	14054 ft.	14054 ft.	14054 ft.	14054 ft.	14054 ft.
FAR	4.50	4.50	4.50	4.50	4.50	4.50
GBA	127,500 SF	127,500 SF	127,500 SF	127,500 SF	127,500 SF	127,500 SF
<b>Development Cost and Value</b>						
Total Development Costs per GBA	\$417	\$417	\$417	\$416	\$416	\$416
Capitalized Value per GBA	\$700	\$654	\$656	\$648	\$648	\$647
<b>Community Benefits</b>						
Affordable Housing Percentages	0%	5%	6%	6%	7%	10%
Affordable Housing Linkage Fee	No	No	No	No	No	No
<b>Financial Returns</b>						
Residual Land Value	\$22,427,978	\$17,542,416	\$17,725,626	\$16,882,670	\$16,952,904	\$16,859,855
<b>RLV Per Acre</b>	<b>\$34,751,279</b>	<b>\$27,181,291</b>	<b>\$27,465,169</b>	<b>\$26,159,040</b>	<b>\$26,267,866</b>	<b>\$26,123,690</b>
<b>RLV per SF of land</b>	<b>\$798</b>	<b>\$624</b>	<b>\$631</b>	<b>\$601</b>	<b>\$603</b>	<b>\$600</b>
<b>Land sale comps benchmark</b>	<b>\$600</b>	<b>\$600</b>	<b>\$600</b>	<b>\$600</b>	<b>\$600</b>	<b>\$600</b>
Return on Cost	6.86%	6.43%	6.45%	6.37%	6.38%	6.37%
Weighted CAP	4.09%	4.09%	4.09%	4.09%	4.09%	4.09%
<b>Findings</b>						
<b>Affordable Housing</b>						
Affordability Level		Acutely Low	Extremely Low	Very Low	Low	Moderate
Affordable Housing Percentages		5%	6%	6%	7%	10%
<b>Feasible by RLV?</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>
<b>Feasible by 100 bps Spread of Exit CAP over ROC?</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>

**CHINATOWN: PODIUM PROTOTYPE WITH AHLF**

Category	Base	Affordability Levels (with AHLF)				
	100% Market Rate	Acutely Low (15% x AMI)	Extremely Low (30% x AMI)	Very Low (50% x AMI)	Low (60% x AMI)	Moderate (110% x AMI)
<b>Development Program</b>						
Acreage	0.6	0.6	0.6	0.6	0.6	0.6
Height	84 ft.	84 ft.	84 ft.	84 ft.	84 ft.	84 ft.
Stories	8 stories	8 stories	8 stories	8 stories	8 stories	8 stories
Residential Units	125	125	125	125	125	125
Market Rate	125	125	125	125	125	125
Affordable	0	0	0	0	0	0
Average Unit Size	825 SF	825 SF	825 SF	825 SF	825 SF	825 SF
Construction Type						
Residential - Rental	Podium	Podium	Podium	Podium	Podium	Podium
Retail	Type II	Type II	Type II	Type II	Type II	Type II
Average Floorplate	14054 ft.	14054 ft.	14054 ft.	14054 ft.	14054 ft.	14054 ft.
FAR	4.50	4.50	4.50	4.50	4.50	4.50
GBA	127,500 SF	127,500 SF	127,500 SF	127,500 SF	127,500 SF	127,500 SF
<b>Development Cost and Value</b>						
Total Development Costs per GBA	\$430	\$435	\$416	\$416	\$427	\$425
Capitalized Value per GBA	\$621	\$56	\$553	\$556	\$578	\$571
<b>Community Benefits</b>						
Affordable Housing Percentages	0%	12%	13%	15%	12%	21%
Affordable Housing Linkage Fee	Yes	No	No	No	Yes	Yes
<b>Financial Returns</b>						
Residual Land Value	\$12,309,777	\$6,835,796	\$6,750,576	\$7,063,327	\$7,952,686	\$7,488,375
<b>RLV Per Acre</b>	<b>\$19,073,521</b>	<b>\$10,591,800</b>	<b>\$10,459,756</b>	<b>\$10,944,351</b>	<b>\$12,322,378</b>	<b>\$11,602,947</b>
<b>RLV per SF of land</b>	<b>\$438</b>	<b>\$243</b>	<b>\$240</b>	<b>\$251</b>	<b>\$283</b>	<b>\$266</b>
<b>Land sale comps benchmark</b>	<b>\$240</b>	<b>\$240</b>	<b>\$240</b>	<b>\$240</b>	<b>\$240</b>	<b>\$240</b>
Return on Cost	5.92%	0.66%	5.47%	5.49%	5.55%	5.51%
Weighted CAP	4.09%	0.41%	4.09%	4.09%	4.09%	4.09%
<b>Findings</b>						
<b>Affordable Housing</b>						
Affordability Level		Acutely Low	Extremely Low	Very Low	Low	Moderate
Affordable Housing Percentages		12%	13%	15%	12%	21%
<b>Feasible by RLV?</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>
<b>Feasible by 100 bps Spread of Exit CAP over ROC?</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>



**CHINATOWN: PODIUM PROTOTYPE WITH AHLF EXEMPTION**

Category	Base w/o AHLF	Affordability Levels (exempt from AHLF)				
	100% Market Rate	Acutely Low (15% x AMI)	Extremely Low (30% x AMI)	Very Low (50% x AMI)	Low (60% x AMI)	Moderate (110% x AMI)
<b>Development Program</b>						
Acreage	0.6	0.6	0.6	0.6	0.6	0.6
Height	84 ft.	84 ft.	84 ft.	84 ft.	84 ft.	84 ft.
Stories	8 stories	8 stories	8 stories	8 stories	8 stories	8 stories
Residential Units	125	125	125	125	125	125
Market Rate	125	125	125	125	125	125
Affordable	0	0	0	0	0	0
Average Unit Size	825 SF	825 SF	825 SF	825 SF	825 SF	825 SF
Construction Type						
Residential - Rental	Podium	Podium	Podium	Podium	Podium	Podium
Retail	Type II	Type II	Type II	Type II	Type II	Type II
Average Floorplate	14054 ft.	14054 ft.	14054 ft.	14054 ft.	14054 ft.	14054 ft.
FAR	4.50	4.50	4.50	4.50	4.50	4.50
GBA	127,500 SF	127,500 SF	127,500 SF	127,500 SF	127,500 SF	127,500 SF
<b>Development Cost and Value</b>						
Total Development Costs per GBA	\$417	\$435	\$416	\$416	\$416	\$415
Capitalized Value per GBA	\$621	\$56	\$553	\$556	\$554	\$555
<b>Community Benefits</b>						
Affordable Housing Percentages	0%	12%	13%	15%	17%	28%
Affordable Housing Linkage Fee	No	No	No	No	No	No
<b>Financial Returns</b>						
Residual Land Value	\$13,891,356	\$6,835,796	\$6,750,576	\$7,063,327	\$6,931,905	\$7,079,706
<b>RLV Per Acre</b>	<b>\$21,524,115</b>	<b>\$10,591,800</b>	<b>\$10,459,756</b>	<b>\$10,944,351</b>	<b>\$10,740,718</b>	<b>\$10,969,729</b>
<b>RLV per SF of land</b>	<b>\$494</b>	<b>\$243</b>	<b>\$240</b>	<b>\$251</b>	<b>\$247</b>	<b>\$252</b>
<b>Land sale comps benchmark</b>	<b>\$240</b>	<b>\$240</b>	<b>\$240</b>	<b>\$240</b>	<b>\$240</b>	<b>\$240</b>
Return on Cost	6.10%	0.66%	5.47%	5.49%	5.48%	5.50%
Weighted CAP	4.09%	0.41%	4.09%	4.09%	4.09%	4.09%
<b>Findings</b>						
<b>Affordable Housing</b>						
Affordability Level		Acutely Low	Extremely Low	Very Low	Low	Moderate
Affordable Housing Percentages		10%	11%	14%	15%	25%
<b>Feasible by RLV?</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>
<b>Feasible by 100 bps Spread of Exit CAP over ROC?</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>

**HISTORIC CORE: PODIUM PROTOTYPE WITH AHLF EXEMPTION**

Category	Base w/o AHLF	Affordability Levels (exempt from AHLF)				
	100% Market Rate	Acutely Low (15% x AMI)	Extremely Low (30% x AMI)	Very Low (50% x AMI)	Low (60% x AMI)	Moderate (110% x AMI)
<b>Development Program</b>						
Acreage	0.8	0.8	0.8	0.8	0.8	0.8
Height	84 ft.	84 ft.	84 ft.	84 ft.	84 ft.	84 ft.
Stories	8 stories	8 stories	8 stories	8 stories	8 stories	8 stories
Residential Units	170	170	170	170	170	170
Market Rate	170	170	170	170	170	170
Affordable	0	0	0	0	0	0
Average Unit Size	825 SF	825 SF	825 SF	825 SF	825 SF	825 SF
Construction Type						
Residential - Rental	Podium	Podium	Podium	Podium	Podium	Podium
Retail	Type II	Type II	Type II	Type II	Type II	Type II
Average Floorplate	18333 ft.	18333 ft.	18333 ft.	18333 ft.	18333 ft.	18333 ft.
FAR	4.50	4.50	4.50	4.50	4.50	4.50
GBA	165,000 SF	165,000 SF	165,000 SF	165,000 SF	165,000 SF	165,000 SF
<b>Development Cost and Value</b>						
Total Development Costs per GBA	\$425	\$412	\$412	\$412	\$412	\$412
Capitalized Value per GBA	\$655	\$644	\$645	\$645	\$646	\$645
<b>Community Benefits</b>						
Affordable Housing Percentages	0%	1%	1%	1%	1%	2%
Affordable Housing Linkage Fee	No	No	No	No	No	No
<b>Financial Returns</b>						
Residual Land Value	\$23,725,725	\$22,199,364	\$22,234,414	\$22,342,952	\$22,397,306	\$22,303,548
<b>RLV Per Acre</b>	<b>\$28,187,443</b>	<b>\$26,374,043</b>	<b>\$26,415,685</b>	<b>\$26,544,634</b>	<b>\$26,609,209</b>	<b>\$26,497,820</b>
<b>RLV per SF of land</b>	<b>\$647</b>	<b>\$605</b>	<b>\$606</b>	<b>\$609</b>	<b>\$611</b>	<b>\$608</b>
<b>Land sale comps benchmark</b>	<b>\$600</b>	<b>\$600</b>	<b>\$600</b>	<b>\$600</b>	<b>\$600</b>	<b>\$600</b>
Return on Cost	6.43%	6.32%	6.32%	6.33%	6.34%	6.33%
Weighted CAP	4.04%	4.04%	4.04%	4.04%	4.04%	4.04%
<b>Findings</b>						
<b>Affordable Housing</b>						
Affordability Level		Acutely Low	Extremely Low	Very Low	Low	Moderate
Affordable Housing Percentages		1%	1%	1%	1%	2%
<b>Feasible by RLV?</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>
<b>Feasible by 100 bps Spread of Exit CAP over ROC?</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>

## Market Rate For-Sale Testing

### SOUTH PARK: BASE + MAX FAR + PODIUM PROTOTYPES

Category	Base	Max FAR	Max Podium
<b>Development Program</b>			
Acreage	0.7	0.7	0.6
Height	124 ft.	364 ft.	84 ft.
Stories	12 stories	36 stories	8 stories
Residential Units	142	315	85
Market Rate	142	315	85
Affordable	0	0	0
Average Unit Size	1,056 SF	1,056 SF	1,056 SF
Construction Type			
Residential - Condo	Type II	Type II	Podium
Retail/Office/Industrial	Type II	Type II	Type II
Average Floorplate	15002 ft.	10838 ft.	14054 ft.
Productive Use (Arts District)			
FAR	6.00	13.00	4.00
Ground Floor FAR (Arts District)			
GBA	180,000 SF	390,000 SF	112,500 SF
<b>Development Cost and Value</b>			
Total Development Costs per GBA	\$675	\$679	\$448
Capitalized Value per GBA	\$47	\$22	\$63
<b>Community Benefits</b>			
Affordable Housing Linkage Fee	Yes	Yes	Yes
<b>Financial Returns</b>			
Residual Land Value	(\$12,779,763)	(\$32,152,250)	\$4,528,633
<b>RLV Per Acre</b>	<b>(\$18,521,643)</b>	<b>(\$46,598,084)</b>	<b>\$7,016,940</b>
<b>Residual Land Value per SF of land</b>	<b>(\$425)</b>	<b>(\$1,070)</b>	<b>\$161</b>
<b>Land sale comps benchmark</b>	<b>\$600</b>	<b>\$600</b>	<b>\$600</b>
Return on Cost	0.36%	0.16%	0.72%
Weighted CAP	0.32%	0.15%	0.46%
<b>Findings</b>			
<b>Feasible by RLV?</b>	<b>No</b>	<b>No</b>	<b>No</b>
<b>Feasible by 100 bps Spread of Exit CAP over ROC?</b>	<b>No</b>	<b>No</b>	<b>No</b>
<b>Marginally Feasible? (within 15% of Rent or Cost Reduction?)</b>	<b>No</b>	<b>No</b>	<b>No</b>
<b>Sensitivity Test</b>			
Sale Price Increase Needed	30%	22%	25%
Cost Reduction Needed	28%	21%	30%

**ARTS DISTRICT: BASE + MAX FAR + PODIUM PROTOTYPES**

Category	Base	Max FAR	Max Podium
<b>Development Program</b>			
Acreage	2.2	2.2	2.2
Height	74 ft.	344 ft.	74 ft.
Stories	7 stories	34 stories	7 stories
Residential Units	102	375	235
Market Rate	102	375	235
Affordable	0	0	0
Average Unit Size	1,056 SF	1,000 SF	1,000 SF
Construction Type			
Residential - Condo	Podium	Type II	Type II
Retail/Office/Industrial	Type II	Type II	Type II
Average Floorplate	38246 ft.	16712 ft.	38246 ft.
Productive Use (Arts District)	Office	Office	Office
FAR	2.80	6.00	2.80
Ground Floor FAR (Arts District)	1.50	1.50	0.00
GBA	265,000 SF	567,500 SF	265,000 SF
<b>Development Cost and Value</b>			
Total Development Costs per GBA	\$642	\$700	\$450
Capitalized Value per GBA	\$392	\$633	\$604
<b>Community Benefits</b>			
Affordable Housing Linkage Fee	Yes	Yes	No
<b>Financial Returns</b>			
Residual Land Value	(\$26,349,441)	(\$138,758,295)	\$16,722,601
<b>RLV Per Acre</b>	<b>(\$12,119,675)</b>	<b>(\$63,823,189)</b>	<b>\$7,691,718</b>
<b>Residual Land Value per SF of land</b>	<b>(\$278)</b>	<b>(\$1,465)</b>	<b>\$177</b>
<b>Land sale comps benchmark</b>	<b>\$400</b>	<b>\$400</b>	<b>\$400</b>
Return on Cost	2.74%	1.11%	5.37%
Weighted CAP	2.44%	1.15%	4.00%
<b>Findings</b>			
<b>Feasible by RLV?</b>	<b>No</b>	<b>No</b>	<b>No</b>
<b>Feasible by 100 bps Spread of Exit CAP over ROC?</b>	<b>No</b>	<b>No</b>	<b>Yes</b>
<b>Marginally Feasible? (within 15% of Rent or Cost Reduction?)</b>	<b>No</b>	<b>No</b>	<b>No</b>
<b>Sensitivity Test</b>			
Sale Price Increase Needed	115%	91%	17%
Cost Reduction Needed	84%	56%	19%

**HISTORIC CORE: BASE + MAX FAR + PODIUM PROTOTYPES**

Category	Base	Max FAR	Max Podium
<b>Development Program</b>			
Acreage	0.8	0.8	0.8
Height	254 ft.	394 ft.	84 ft.
Stories	25 stories	39 stories	8 stories
Residential Units	345	421	118
Market Rate	345	421	118
Affordable	0	0	0
Average Unit Size	825 SF	1,056 SF	1,056 SF
Construction Type			
Residential - Condo	Type II	Type II	Podium
Retail/Office/Industrial	Type II	Type II	Type II
Average Floorplate	13237 ft.	13237 ft.	18333 ft.
Productive Use (Arts District)			
FAR	9.00	14.00	4.00
Ground Floor FAR (Arts District)			
GBA	330,000 SF	512,500 SF	147,500 SF
<b>Development Cost and Value</b>			
Total Development Costs per GBA	\$626	\$659	\$423
Capitalized Value per GBA	\$647	\$9	\$30
<b>Community Benefits</b>			
Affordable Housing Linkage Fee	Yes	Yes	Yes
<b>Financial Returns</b>			
Residual Land Value	(\$60,506,847)	(\$93,980,249)	\$8,823,511
<b>RLV Per Acre</b>	<b>(\$71,885,402)</b>	<b>(\$111,653,611)</b>	<b>\$10,482,808</b>
<b>Residual Land Value per SF of land</b>	<b>(\$1,650)</b>	<b>(\$2,563)</b>	<b>\$241</b>
<b>Land sale comps benchmark</b>	<b>\$600</b>	<b>\$600</b>	<b>\$600</b>
Return on Cost	0.10%	0.07%	0.36%
Weighted CAP	0.09%	0.06%	0.20%
<b>Findings</b>			
<b>Feasible by RLV?</b>	<b>No</b>	<b>No</b>	<b>No</b>
<b>Feasible by 100 bps Spread of Exit CAP over ROC?</b>	<b>No</b>	<b>No</b>	<b>No</b>
<b>Marginally Feasible? (within 15% of Rent or Cost Reduction?)</b>	<b>No</b>	<b>No</b>	<b>No</b>
<b>Sensitivity Test</b>			
Sale Price Increase Needed	54%	48%	20%
Cost Reduction Needed	41%	37%	25%

## In-Lieu Fee Calculations

### SOUTH PARK: PODIUM PROTOTYPE

Category	Base	With AHLF	Exempt from AHLF
<b>Development Program</b>			
Acreage	0.6	0.6	0.6
Height	84 ft.	84 ft.	84 ft.
Stories	8 stories	8 stories	8 stories
Residential Units	110	110	110
Market Rate	110	103	103
Affordable	0	7	7
Average Unit Size	825 SF	825 SF	825 SF
Construction Type			
Residential - Rental	Podium	Podium	Podium
Retail	Type II	Type II	Type II
Average Floorplate	14054 ft.	14054 ft.	14054 ft.
FAR	4.00	4.00	4.00
GBA	112,500 SF	112,500 SF	112,500 SF
Residential SF	103,552 SF	103,552 SF	103,552 SF
<b>Development Cost and Value</b>			
Total Development Costs per GBA	\$431	\$418	\$418
Capitalized Value per GBA	\$708	\$670	\$670
<b>Community Benefits</b>			
Affordable Housing Linkage Fee	Yes	Yes	No
Supportable Cash Payment (Calculated)		\$2,383,378	\$2,074,677
In-lieu Fee Per Unit		\$21,667	\$18,861
<b>In-lieu Fee Per Residential SF</b>		<b>\$23</b>	<b>\$20</b>
<b>Financial Returns</b>			
Residual Land Value	\$19,070,375	\$16,686,997	\$16,995,698
<b>RLV Per Acre</b>	<b>\$29,548,804</b>	<b>\$25,855,853</b>	<b>\$26,334,173</b>
<b>Residual Land Value per SF of land</b>	<b>\$678</b>	<b>\$594</b>	<b>\$605</b>
<b>Land sale comps benchmark</b>	<b>\$600</b>	<b>\$600</b>	<b>\$600</b>
Return on Cost	6.73%	6.50%	6.58%
Weighted CAP	4.10%	4.10%	4.10%
<b>Findings</b>			
<b>Feasible by 100 bps Spread of Exit CAP over ROC?</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>
<b>Feasible by RLV?</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>

**CHINATOWN: PODIUM PROTOTYPE**

Category	Base	Exempt from AHLF
<b>Development Program</b>		
Acreage	0.6	0.6
Height	84 ft.	84 ft.
Stories	8 stories	8 stories
Residential Units	110	110
Market Rate	110	97
Affordable	0	13
Average Unit Size	825 SF	825 SF
Construction Type		
Residential - Rental	Podium	Podium
Retail	Type II	Type II
Average Floorplate	14054 ft.	14054 ft.
FAR	4.00	4.00
GBA	112,500 SF	112,500 SF
Residential SF	103,552 SF	103,552 SF
<b>Development Cost and Value</b>		
Total Development Costs per GBA	\$431	\$418
Capitalized Value per GBA	\$628	\$560
<b>Community Benefits</b>		
Affordable Housing Linkage Fee	Yes	No
Supportable Cash Payment (Calculated)		\$4,966,710
In-lieu Fee Per Unit		\$4,105
<b>In-lieu Fee Per Residential SF</b>		<b>\$48</b>
<b>Financial Returns</b>		
Residual Land Value	\$11,467,457	\$6,500,746
<b>RLV Per Acre</b>	<b>\$17,768,378</b>	<b>\$10,072,654</b>
<b>Residual Land Value per SF of land</b>	<b>\$408</b>	<b>\$231</b>
<b>Land sale comps benchmark</b>	<b>\$240</b>	<b>\$240</b>
Return on Cost	5.99%	5.53%
Weighted CAP	4.10%	4.10%
<b>Findings</b>		
<b>Feasible by 100 bps Spread of Exit CAP over ROC?</b>	<b>Yes</b>	<b>Yes</b>
<b>Feasible by RLV?</b>	<b>Yes</b>	<b>Yes</b>

## Sensitivity Testing

### SOUTH PARK: PODIUM PROTOTYPE

Category	Base	No Parking		Effect of Streamlining	
	100% Market Rate	Baseline	Max Affordable (ELI)		
<b>Development Program</b>				1. Land Value	\$19,100,000
Acreage	0.6	0.6	0.6	2. WACC	0.18
Height	84 ft.	84 ft.	84 ft.	3. Time Savings for streamlining entitlements process in years	0.75
Stories	8 stories	8 stories	8 stories		
Residential Units	110	110	110	4. Gross SS Land Cost Savings	\$2,578,500
Market Rate	110	110	99		
Affordable	0	0	11	<b>No Parking Impact</b>	
Average Unit Size	825 SF	825 SF	825 SF	RLV in Gross \$\$\$	\$2,955,651
Construction Type				RLV Increase	15%
Residential - Rental	Podium	Podium	Podium	TDC % Decrease	6.10%
Retail	Type II	Type II	Type II	<b>No AHLF Impact</b>	
Average Floorplate	14054 ft.	14054 ft.	14054 ft.	TDC % Decrease	2.88%
FAR	4.00	4.00	4.00	<b>Change to Achieve 8% ELI</b>	
GBA	112,500 SF	112,500 SF	112,500 SF	Rent Increase	3%
				Cost Decrease	4%
<b>Development Cost and Value</b>					
Total Development Costs per GBA	\$431	\$405	\$403		
Capitalized Value per GBA	\$708	\$708	\$645		
<b>Incentives</b>					
Parking Ratio	.50 spaces/key	.00 spaces/key	.00 spaces/key		
Parking Reduction	0%	100%	100%		
Structured Parking?	Yes	Yes	Yes		
<b>Community Benefits</b>					
Affordability Level			Extremely Low		
Affordable Housing Percentages	0%	0%	10%		
Affordable Housing Linkage Fee	Yes	Yes	No		
<b>Financial Returns</b>					
Residual Land Value	\$19,070,375	\$22,026,026	\$17,518,830		
<b>RLV Per Acre</b>	<b>\$29,548,804</b>	<b>\$34,128,470</b>	<b>\$27,144,746</b>		
<b>Residual Land Value per SF of land</b>	<b>\$678</b>	<b>\$783</b>	<b>\$623</b>		
<b>Land sale comps benchmark</b>	<b>\$600</b>	<b>\$600</b>	<b>\$600</b>		
Return on Cost	6.73%	7.17%	6.77%		
Weighted CAP	4.10%	4.10%	4.10%		
<b>Findings</b>					
<b>Feasible by RLV?</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>		



<b>Feasible by 100 bps Spread of Exit CAP over ROC?</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>
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**CHINATOWN: PODIUM PROTOTYPE**

Category	Base	No Parking	
	100% Market Rate	Baseline	Max Affordable (ELI)
<b>Development Program</b>			
Acreage	0.6	0.6	0.6
Height	84 ft.	84 ft.	84 ft.
Stories	8 stories	8 stories	8 stories
Residential Units	110	110	110
Market Rate	110	110	78
Affordable	0	0	32
Average Unit Size	825 SF	825 SF	825 SF
Construction Type			
Residential - Rental	Podium	Podium	Podium
Retail	Type II	Type II	Type II
Average Floorplate	14054 ft.	14054 ft.	14054 ft.
FAR	4.00	4.00	4.00
GBA	112,500 SF	112,500 SF	112,500 SF
<b>Development Cost and Value</b>			
Total Development Costs per GBA	\$431	\$405	\$390
Capitalized Value per GBA	\$628	\$703	\$539
<b>Incentives</b>			
Parking Ratio	.50 spaces/key	.00 spaces/key	.00 spaces/key
Parking Reduction	0%	100%	100%
Structured Parking?	Yes	Yes	Yes
<b>Community Benefits</b>			
Affordability Level			Extremely Low
Affordable Housing Percentages	0%	0%	29%
Affordable Housing Linkage Fee	Yes	Yes	No
<b>Financial Returns</b>			
Residual Land Value	\$11,467,457	\$21,560,380	\$7,553,896
<b>RLV Per Acre</b>	<b>\$17,768,378</b>	<b>\$33,406,971</b>	<b>\$11,704,468</b>
<b>Residual Land Value per SF of land</b>	<b>\$408</b>	<b>\$767</b>	<b>\$269</b>
<b>Land sale comps benchmark</b>	<b>\$240</b>	<b>\$240</b>	<b>\$240</b>
Return on Cost	5.99%	7.12%	5.70%
Weighted CAP	4.10%	4.10%	4.10%
<b>Findings</b>			
<b>Feasible by RLV?</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>

Effect of Streamlining	
1. Land Value	\$11,500,000
2. WACC	0.18
3. Time Savings for streamlining entitlements process in years	0.75
4. Gross SS Land Cost Savings	\$1,552,500
<b>No Parking Impact</b>	
RLV in Gross \$\$\$	\$10,092,924
RLV Increase	88%
TDC % Decrease	6.10%
<b>No AHLF Impact</b>	
TDC % Decrease	2.88%
<b>Change to Achieve 8% ELI</b>	
Rent Increase	0%
Cost Decrease	0%

<b>Feasible by 100 bps Spread of Exit CAP over ROC?</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>
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**ARTS DISTRICT: PODIUM PROTOTYPE**

Category	100% Market Rate			Effect of Streamlining	
	Base	AHLF Exemption	No Parking		
<b>Development Program</b>				1. Land Value	\$34,100,000
Acreage	2.2	2.2	2.2	2. WACC	0.18
Height	74 ft.	74 ft.	74 ft.	3. Time Savings for streamlining entitlements process in years	0.75
Stories	7 stories	7 stories	7 stories		
Residential Units	110	110	110	4. Gross SS Land Cost Savings	\$4,603,500
Market Rate	110	110	110		
Affordable	0	0	0	<b>No Parking Impact</b>	
Average Unit Size	1,000 SF	1,000 SF	1,000 SF	RLV in Gross \$\$\$	\$30,674,455
Construction Type				RLV Increase	187%
Residential - Rental	Podium	Podium	Podium	TDC % Decrease	18.23%
Retail	Type II	Type II	Type II	<b>No AHLF Impact</b>	
Average Floorplate	38246 ft.	38246 ft.	38246 ft.	TDC % Decrease	1.42%
FAR	2.80	2.80	2.80	<b>Change to Achieve 8% ELI</b>	
GBA	265,000 SF	265,000 SF	265,000 SF	Rent Increase	100%
				Cost Decrease	79%
<b>Development Cost and Value</b>					
Total Development Costs per GBA	\$634	\$625	\$519		
Capitalized Value per GBA	\$675	\$677	\$677		
<b>Incentives</b>					
Parking Ratio	2.87 spaces/key	2.87 spaces/key	.00 spaces/key		
Parking Reduction	0%	0%	0%		
Structured Parking?	Yes	No	Yes		
<b>Community Benefits</b>					
Affordable Housing Linkage Fee	Yes	No	Yes		
<b>Financial Returns</b>					
Residual Land Value	(\$16,382,919)	(\$13,988,722)	\$14,291,536		
<b>RLV Per Acre</b>	<b>(\$7,535,478)</b>	<b>(\$6,434,245)</b>	<b>\$6,573,527</b>		
<b>Residual Land Value per SF of land</b>	<b>(\$173)</b>	<b>(\$148)</b>	<b>\$151</b>		
<b>Land sale comps benchmark</b>	<b>\$400</b>	<b>\$400</b>	<b>\$400</b>		
Return on Cost	4.56%	4.63%	5.58%		
Weighted CAP	4.27%	4.27%	4.27%		
<b>Findings</b>					
<b>Feasible by RLV?</b>	<b>No</b>	<b>No</b>	<b>No</b>		

<b>Feasible by 100 bps Spread of Exit CAP over ROC?</b>	<b>No</b>	<b>No</b>	<b>Yes</b>
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**HISTORIC CORE: PODIUM PROTOTYPE**

Category	100% Market Rate			Effect of Streamlining	
	Base	AHLF Exemption	No Parking		
<b>Development Program</b>				1. Land Value	\$19,000,000
Acreage	0.8	0.8	0.8	2. WACC	0.18
Height	84 ft.	84 ft.	84 ft.	3. Time Savings for streamlining entitlements process in years	0.75
Stories	8 stories	8 stories	8 stories	4. Gross SS Land Cost Savings	\$2,565,000
Residential Units	110	110	110	<b>No Parking Impact</b>	
Market Rate	110	110	110	RLV in Gross \$\$\$	\$2,955,651
Affordable	0	0	0	RLV Increase	20%
Average Unit Size	825 SF	825 SF	825 SF	TDC % Decrease	6.45%
Construction Type				<b>No AHLF Impact</b>	
Residential - Rental	Podium	Podium	Podium	TDC % Decrease	3.03%
Retail	Type II	Type II	Type II	<b>Change to Achieve 8% ELI</b>	
Average Floorplate	18333 ft.	18333 ft.	18333 ft.	Rent Increase	11%
FAR	4.00	4.00	4.00	Cost Decrease	13%
GBA	147,500 SF	147,500 SF	147,500 SF		
<b>Development Cost and Value</b>					
Total Development Costs per GBA	\$426	\$413	\$399		
Capitalized Value per GBA	\$655	\$655	\$655		
<b>Incentives</b>					
Parking Ratio	.50 spaces/key	.50 spaces/key	.00 spaces/key		
Parking Reduction	0%	0%	100%		
Structured Parking?	Yes	Yes	Yes		
<b>Community Benefits</b>					
Affordable Housing Linkage Fee	Yes	No	Yes		
<b>Financial Returns</b>					
Residual Land Value	\$14,759,635	\$16,155,073	\$17,715,286		
<b>RLV Per Acre</b>	<b>\$22,869,480</b>	<b>\$25,031,657</b>	<b>\$27,449,146</b>		
<b>Residual Land Value per SF of land</b>	<b>\$525</b>	<b>\$575</b>	<b>\$630</b>		
<b>Land sale comps benchmark</b>	<b>\$600</b>	<b>\$600</b>	<b>\$600</b>		
Return on Cost	6.31%	6.50%	6.72%		
Weighted CAP	4.10%	4.10%	4.10%		
<b>Findings</b>					
<b>Feasible by RLV?</b>	<b>No</b>	<b>No</b>	<b>Yes</b>		

<b>Feasible by 100 bps Spread of Exit CAP over ROC?</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>
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**FASHION DISTRICT: PODIUM PROTOTYPE**

Category	100% Market Rate			Effect of Streamlining	
	Base	AHLF Exemption	No Parking		
<b>Development Program</b>				1. Land Value	\$3,500,000
Acreage	0.6	0.6	0.6	2. WACC	0.18
Height	84 ft.	84 ft.	84 ft.	3. Time Savings for streamlining entitlements process in years	0.75
Stories	8 stories	8 stories	8 stories		
Residential Units	85	85	85	4. Gross SS Land Cost Savings	\$472,500
Market Rate	85	85	85		
Affordable	0	0	0	<b>No Parking Impact</b>	
Average Unit Size	825 SF	825 SF	825 SF	RLV in Gross \$\$\$	\$3,654,259
Construction Type				RLV Increase	105%
Residential - Rental	Podium	Podium	Podium	TDC % Decrease	9.42%
Retail	Type II	Type II	Type II	<b>No AHLF Impact</b>	
Average Floorplate	12928 ft.	12928 ft.	12928 ft.	TDC % Decrease	2.09%
FAR	4.00	4.00	4.00	<b>Change to Achieve 8% ELI</b>	
GBA	105,000 SF	105,000 SF	105,000 SF	Rent Increase	23%
				Cost Decrease	26%
<b>Development Cost and Value</b>					
Total Development Costs per GBA	\$473	\$463	\$429		
Capitalized Value per GBA	\$596	\$596	\$596		
<b>Incentives</b>					
Parking Ratio	.80 spaces/key	.80 spaces/key	.00 spaces/key		
Parking Reduction	0%	0%	100%		
Structured Parking?	Yes	Yes	Yes		
<b>Community Benefits</b>					
Affordable Housing Linkage Fee	Yes	No	Yes		
<b>Financial Returns</b>					
Residual Land Value	\$3,481,646	\$4,524,030	\$7,135,905		
<b>RLV Per Acre</b>	<b>\$5,758,676</b>	<b>\$7,482,789</b>	<b>\$11,802,856</b>		
<b>Residual Land Value per SF of land</b>	<b>\$132</b>	<b>\$172</b>	<b>\$271</b>		
<b>Land sale comps benchmark</b>	<b>\$400</b>	<b>\$400</b>	<b>\$400</b>		
Return on Cost	4.90%	5.00%	5.29%		
Weighted CAP	2.95%	2.95%	2.95%		
<b>Findings</b>					
<b>Feasible by RLV?</b>	<b>No</b>	<b>No</b>	<b>Yes</b>		

<b>Feasible by 100 bps Spread of Exit CAP over ROC?</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>
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