

## RESOLUTION NO. 2010-44

### A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF NEWPORT BEACH SETTING THE AMOUNT OF THE AFFORDABLE HOUSING IN-LIEU FEE PURSUANT TO SECTION 19.54.050(D) OF THE NEWPORT BEACH MUNICIPAL CODE

**WHEREAS**, in July of 2006, the City Council adopted an update to the City of Newport Beach's ("City") General Plan, which includes a Housing Element that addresses issues, goals, and policies related to ensuring an adequate supply of housing opportunities for all residents; and

**WHEREAS**, with the intent of achieving the City's Regional Housing Needs Assessment construction goals and encouraging the housing development industry to respond to the housing needs of the community and the demand for affordable housing, the 2006 Housing Element Update (Housing Program 2.2.1) incorporates the City's longstanding inclusionary housing policy; and

**WHEREAS**, Housing Program 2.2.1 is a statement of the City's inclusionary housing policy and requires the preparation of an Affordable Housing Implementation Plan, or the payment of an in-lieu fee, when the construction of new units is proposed; and

**WHEREAS**, Chapter 19.54 of the Newport Beach Municipal Code implements Housing Program 2.2.1 and establishes an affordable housing requirement requiring that 15-percent of the total number of dwelling units required in conjunction with residential subdivisions be affordable to very low-, low- or moderate-income households; and

**WHEREAS**, to increase the flexibility in the means of fulfilling inclusionary housing requirements, Chapter 19.54 provides the option of paying a fee in lieu of providing the affordable units within residential subdivision projects; and

**WHEREAS**, in an effort to provide an equitable in-lieu fee option to residential developers, the City retained the services of Economic Planning Systems, Inc. (EPS), in 2004 to analyze and provide recommendations on the fees a residential developer should have to pay in lieu of providing affordable housing units; and

**WHEREAS**, the City retained the services of Keyser Marston Associates (KMA) in 2009 to update the EPS in-lieu fee recommendations and to prepare selected analyses of the financial burden associated with income and affordability restrictions that may be imposed under the requirements of Chapter 19.54 (Exhibit A); and

**WHEREAS**, such financial analyses indicated the inclusionary housing requirements can be fulfilled without creating an unreasonable constraint on residential development; and

**WHEREAS**, the KMA in-lieu fee analysis is based on the assumption that the City will provide developers with the option to fulfill the inclusionary requirements with either ownership or rental units; and

**WHEREAS**, the analysis further indicates that the provision of affordable rental units generates a substantially smaller financial burden than the provision of affordable ownership units, and, accordingly, the in-lieu fee analysis is based on a rental housing scenario; and

**WHEREAS**, KMA projected the financial burden imposed on a typical new residential subdivision by the inclusionary requirements into an equivalent per unit in-lieu fee; and

**WHEREAS**, the results of the in-lieu fee analysis indicate that the financial burden incurred providing low-income rental units pursuant to the provisions of Chapter 19.54 translates to an in-lieu fee of \$18,500 per market rate ownership unit; and

**WHEREAS**, the City Council has reviewed the financial analyses and methodology used to establish the in-lieu housing fee, and determines the in-lieu fee to be appropriate; and

**WHEREAS**, the proposed action is not defined as a project under the California Environmental Quality Act (CEQA) because it involves general policy and procedure making activities not associated with a project or a physical change in the environment (Section 15378 of the CEQA Guidelines); and

**WHEREAS**, notice of this hearing was made by posting the Council Agenda on the City's official notice bulletin board and posting the agenda and report on the City's Website. Notice of the time and place of the hearing, including the address where the information could be reviewed, was also posted on the City's official notice bulletin board, and mailed to the Building Industry Association of Southern California, Orange County Chapter per their written request not less than 14 days prior to the hearing. In addition, an e-mail notification of this meeting was sent to all interested parties on the City's Housing Interest List.

**NOW THEREFORE**, the City Council of the City of Newport Beach, California, hereby resolves as follows:

**SECTION 1:** The in-lieu housing fee pursuant to Section 19.54.050 (D) of the Newport Beach Municipal Code is set at Eighteen Thousand Five Hundred Dollars (\$18,500).

**SECTION 2:** The in-lieu housing fee shall be increased automatically, based upon the annual percentage change in the new home prices in Orange County (from December to December) as published in Real Estate Research Council report in order to ensure that the fees keep pace with inflation and the cost to construct affordable housing.

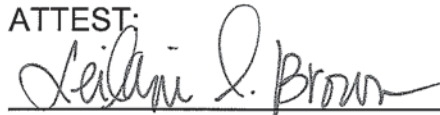
**SECTION 3:** This Resolution passed and approved at a regular meeting of the City Council of the City of Newport Beach held on the 27th day of April, 2010.

MAYOR



Keith Curry

ATTEST:

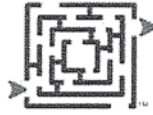


Leilani Brown, City Clerk



# EXHIBIT A

## Keyser Marston Associates Analysis of Inclusionary Housing Options



KEYSER MARSTON ASSOCIATES™  
ADVISORS IN PUBLIC/PRIVATE REAL ESTATE DEVELOPMENT

MEMORANDUM

ADVISORS IN:  
REAL ESTATE  
REDEVELOPMENT  
AFFORDABLE HOUSING  
ECONOMIC DEVELOPMENT

SAN FRANCISCO  
A. JERRY KEYSER  
TIMOTHY C. KELLY  
KATE EARLE FUNK  
DEBBIE M. KERN  
ROBERT J. WETMORE  
REED T. KAWAHARA

LOS ANGELES  
KATHLEEN H. HEAD  
JAMES A. RABE  
PAUL C. ANDERSON  
GREGORY D. SOO-HOO  
KEVIN E. ENGSTROM  
JULIE L. ROMNEY  
DENISE BICKERSTAFF

SAN DIEGO  
GERALD M. TRIMBLE  
PAUL C. MARRA

**To:** Sharon Wood, Assistant City Manager  
City of Newport Beach

**From:** Kathleen Head

**Date:** September 17, 2009

**Subject:** Analysis of Inclusionary Housing Options

At your request, Keyser Marston Associates, Inc. (KMA) prepared selected financial analyses pertaining to the City of Newport Beach (City) Inclusionary Housing Program. These analyses can be described as follows:

1. The inclusionary housing requirements are proposed to be imposed on new ownership residential development. Market rate rental projects are not proposed to be subject to the Inclusionary Housing Program requirements.
2. The proposed Program will allow the income and affordability requirements to be fulfilled in any of the following ways:
  - a. On-site development of units within the proposed market rate ownership residential development; or
  - b. Development of income restricted rental units; or
  - c. Payment of a fee to the City in lieu of developing any income restricted housing units.
3. KMA tested the financial impacts associated with income and affordability restrictions that may be imposed under the Inclusionary Housing Program. Based on that analysis, KMA identified an Inclusionary Housing Program structure that does not create an onerous burden on residential development. The recommended structure is intended to comply with the State of California (State) Housing Element requirement that the program should not create an unreasonable constraint on residential development.

## **BACKGROUND STATEMENT**

The City has applied an inclusionary housing requirement on a case-by-case basis for new residential development for more than 20 years. This requirement is currently being formalized into an ordinance that will impose specific restrictions on future new ownership residential development. As part of the process, the City engaged Economic & Planning Systems, Inc. to prepare an "Inclusionary Housing In-Lieu Fee Study" (EPS Study). This study was completed in October 2008.

KMA was recently engaged by the City to test the financial impacts associated with the proposed requirements. The ultimate objective of the KMA analysis is to create Inclusionary Housing Program terms that fulfill the City's affordable housing objectives without eliminating the developer's economically beneficial use of the property.

KMA tested the following baseline inclusionary housing obligations:

1. Threshold requirement: 15% of the units in market rate ownership residential development are subject to income and affordability restrictions.
2. Household Income Restrictions:
  - a. If ownership units are provided to fulfill the obligation, the restricted units must be allocated to moderate income households.
  - b. If rental units are provided to fulfill the obligation, the restricted units must be rented to low income households.

KMA prepared pro forma analyses of prototypical product types to estimate the financial impact created by imposing the identified inclusionary housing requirements. The analyses compare baseline market rate project pro formas to pro formas for projects that meet the inclusionary standards. These comparisons are used to quantify the financial impacts created by the requirements being tested.

KMA also reviewed the characteristics of inclusionary housing ordinances currently in place throughout California. The purpose of this survey is to provide further assistance in determining whether the requirements being considered by the City fall within the range of other existing ordinances.

## **PRO FORMA ANALYSIS ORGANIZATION**

A summary of the analysis is presented in Table 1. The supporting pro forma analyses are organized as follows:

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**Subject:** Analysis of Inclusionary Housing Options

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Appendix A: Affordable Housing Cost Calculations  
Appendix B: Ownership: Baseline Market Rate Project  
Appendix C: Ownership: Moderate Income Inclusionary  
Appendix D: Rental: Baseline Market Rate Project  
Appendix E: Rental: Low Income Inclusionary

## **ANALYSIS ASSUMPTIONS**

### **Ownership Assumptions**

KMA reviewed ownership residential projects that have recently been submitted to the City's Planning Department to identify the product type to use as the baseline market rate project scenario. Based on the available information, KMA created a prototype project with the following characteristics:

1. The development site is set at two acres.
2. The prototype project includes 32 units, which represents a density of 16-units per acre.
3. The average unit size is set at approximately 2,100 square feet.

The pro forma analyses are based on the following assumptions:

1. The construction costs, excluding land acquisition costs, are estimated at \$1.2 million per unit.
2. The average sales price for the market rate units is projected at \$1.8 million per unit.
3. Based on the affordable housing cost calculation methodology defined in the City's Housing Element, the 2009 affordable purchase price for a three-bedroom unit is approximately \$360,000 (See Appendix A-Table 1).
4. The threshold developer profit is set at 15% of the project's construction costs.

### **Rental Assumptions**

The rental prototype being tested in the KMA financial analysis is based on a survey of apartment complexes in Newport Beach. The key components of the prototype project are:

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1. The development site is set at two acres.
2. The prototype project includes 36 units, a density of 18-units per acre.
3. The project includes the following unit mix:
  - a. 40% one-bedroom units;
  - b. 40% two-bedroom units; and
  - c. 20% three-bedroom units.

The following assumptions are used in the rental scenarios:

1. The construction cost estimates are based on the assumptions applied in the EPS Study. The construction costs, excluding land acquisition, are estimated at \$154,000 per unit.
2. Projected Market Rents
  - a. One-bedroom unit: \$2,100 per month;
  - b. Two-bedroom unit: \$2,700 per month; and
  - c. Three-bedroom unit: \$3,000 per month.
3. Affordable Rent Inclusionary Housing Units
  - a. The affordable rents are based on the calculation methodology identified in the City's Housing Element.
  - b. The 2009 low income rents are:
    - i. One-bedroom unit: \$1,441 per month;
    - ii. Two-bedroom unit: \$1,802 per month; and
    - iii. Three-bedroom unit: \$2,065 per month.
4. The threshold stabilized return on total investment for the rental housing projects is set at 6.6%. This return rate is approximately equal to the rate applied in the EPS Study.

## **FINANCIAL CONSTRAINTS ANALYSIS**

### **Ownership: Moderate Income Inclusionary**

The primary financial impact created by imposing affordable housing requirements on ownership units is the difference between the achievable market rate prices and the allowable prices for the income restricted units. However, there are also some minor differences in cost categories that are driven by the revenues generated by an ownership project. The pro forma analyses in Appendices B and C illustrate the estimated impact created by providing the inclusionary units within a market rate project.

The pro forma analyses results indicate that the requirement to set aside 15% of the units for moderate income households acts to reduce the supportable land value in the near term by 50% (Appendix C – Table 3). A land value reduction in this range can be considered an onerous burden that will act as a constraint to residential development.

### **Rental: Low Income Inclusionary**

To mitigate the financial burden, the proposed Inclusionary Housing Program provides the option for developers to fulfill the requirements by constructing affordable rental units. This section of the analysis evaluates the financial impact associated with providing the required inclusionary units in rental projects.

The financial impact associated with imposing income and affordability restrictions on apartment development is largely related to the decrease in supportable investment created by the reduction in the achievable rents. However, the revenue reduction is offset to some degree by the fact that the property taxes for the income restricted project will be lower than the property taxes for a market rate project. The pro forma analyses in Appendices D and E illustrate the impact created by providing low income rental units.

The results of the comparative pro forma analysis indicate that the proposed inclusionary requirements act to decrease the supportable land value by 10% (Appendix E) This value decrease falls well within the typical range for an inclusionary housing ordinance.

### **Development Constraints Conclusions**

The results of the ownership residential analysis indicate that the identified inclusionary housing requirements impose an onerous burden on developers. However, the option for developers to fulfill the requirements by providing affordable rental units mitigates the detriment sufficiently to eliminate the constraint to residential development. Thus, it can be concluded that the inclusionary housing requirements do not create an unreasonable constraint on ownership residential development.

### **ORDINANCE COMPARISON**

The financial analyses undertaken by KMA indicate that the inclusionary housing requirements can be fulfilled without creating an unreasonable constraint on residential development. To crosscheck this finding, KMA surveyed over 100 jurisdictions in California that currently impose inclusionary housing requirements. The results of this survey indicate that the identified requirements fall within the norm of the standards imposed by inclusionary housing programs being implemented throughout the state.

The courts have held that affordable housing is a "public benefit", and that locally imposed inclusionary housing ordinances are a legitimate means of providing this public benefit. The courts have further found that the requirements cannot deprive an owner of "*all economically beneficial use*" of the property. However, to date, no definition of all economically beneficial use has been provided. For reference purposes, it should be noted that inclusionary housing programs recently adopted in several California locations have been projected to generate land value reductions in the 30% range.

As discussed previously in this analysis, the inclusionary housing obligations being tested are projected to create a financial detriment that is significantly less than a 30% decrease to the supportable land value. As such, it can be concluded that the proposed inclusionary housing requirements do not create an unreasonable constraint on residential development.

### **SUPPORTABLE IN-LIEU FEE**

To increase the Program's flexibility, the inclusionary housing obligations can be fulfilled through the payment of an in-lieu fee. To establish a recommended in-lieu fee amount, KMA translated the financial impact generated by the inclusionary requirements into a per unit fee. Since it has been determined that the identified inclusionary housing requirements are supportable, this methodology implicitly results in a reasonable in-lieu fee.

The KMA analysis is based on the assumption that the City will provide developers with the option to fulfill the inclusionary requirements with either ownership or rental units. The analysis further indicates that the provision of affordable rental units generates a substantially smaller financial impact than the provision of affordable ownership units. Thus, the in-lieu fee analysis is based on a rental housing scenario.

The following methodology was used to establish the recommended in-lieu fee amount:

1. As shown on Appendix E – Table 3, the financial impact is estimated at \$591,000 for the 36-unit prototype apartment project being evaluated.
2. The inclusionary housing obligation is applicable to market rate ownership housing development. As such, the in-lieu fee analysis is based on the inclusionary requirement for the 32-unit prototype ownership that was tested previously in this analysis:
  - a. The 32-unit ownership project generates a requirement for five income restricted units.
  - b. When the \$591,000 gap is divided by the five affordable units, the supportable in-lieu fee equals approximately \$118,200 per affordable unit.
3. The affordability gap can also be divided by the total number of market rate ownership units to arrive at a supportable in-lieu fee per market rate unit. Based on the results of the KMA analysis, the supportable in-lieu fee is equal to \$18,500 per market rate ownership unit ( $\$591,000 / 32$  units).

## CONCLUSIONS

Based on the results of the financial analysis, KMA reached the following conclusions:

1. The Inclusionary Housing Program structure evaluated by KMA does not deprive an owner of “*all economically beneficial use*” of the property, nor does it create an unreasonable constraint on residential development as defined by State Housing Element requirements.
2. The inclusionary option selected by developers will vary depending on the actual scope of development being proposed. However, the financial analysis demonstrates that there is a strong financial incentive for developers to select the in-lieu fee option. Nonetheless, it is possible that some developers may find it preferable to fulfill the inclusionary housing requirements by constructing affordable rental units.

TABLE 1

**AFFORDABLE HOUSING CASE STUDIES  
INCLUSIONARY HOUSING ANALYSIS  
NEWPORT BEACH, CALIFORNIA**

<b>I. OWNERSHIP - SITE 87,120 SF</b>		
	<b>MARKET RATE SCENARIO</b>	<b>OWNERSHIP: IMODERATE INCOME INCLUSIONARY</b>
Number of Units	32	32
Density (Units/Acre)	16.0	16.0
Affordable Housing Requirements	None	5 Units - 15% Moderate Income
Affordable Housing Cost	N.A.	Housing Element Standards
Land Cost <sup>1</sup>	\$167 /SF	\$167 /SF
Supportable Land Value		\$84 /SF
%(Decrease)/Increase in Land Value		-50%

<b>II. RENTAL - SITE 87,120 SF</b>		
	<b>MARKET RATE SCENARIO</b>	<b>RENTAL: LOW INCOME INCLUSIONARY</b>
Number of Units	36	36
Density (Units/Acre)	18.0	18.0
Affordable Housing	None	5 Low Income Units <sup>3</sup>
Affordable Housing Cost	N.A.	Housing Element Standards
Land Cost <sup>2</sup>	\$68 /SF	\$68 /SF
Supportable Land Value		\$61 /SF
%(Decrease)/Increase in Land Value		-10%

<b>III. Supportable In-Lieu Fee / Market Rate Unit <sup>4</sup></b>	<b>\$18,500 /Unit</b>
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<sup>1</sup> The land cost is based on the residual land value supported by the market rate scenario.  
<sup>2</sup> The land cost is set at \$69/ SF based on the EPS Inclusionary Housing Study, 10/7/2008.  
<sup>3</sup> Based on the number of inclusionary units required by the ownership residential project.  
<sup>4</sup> The in-lieu fee is based on the affordability gap associated with fulfilling the obligation with rental units. See APPENDIX E.

**APPENDIX A**  
**AFFORDABLE HOUSING COST CALCULATIONS**

APPENDIX A - TABLE 1

AFFORDABLE HOUSING COST CALCULATIONS  
OWNERSHIP UNITS  
INCLUSIONARY HOUSING ANALYSIS  
NEWPORT BEACH, CALIFORNIA

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I. Income Assumptions

Income Level	Moderate
Number of Bedrooms	Three-Bedrooms
Benchmark Household Size	Six Person
Household Income for Calculation Purposes <sup>1</sup>	\$119,850

II. Affordable Housing Price Calculation

Household Income	\$119,850
Multiplier <sup>2</sup>	3.0
<b>Total Affordable Housing Price</b>	<b>\$359,600</b>

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1

Based on the 2009 area median income published by the California Housing & Community Development Department. The household size is set at the number of bedrooms in the unit multiplied times two.

<sup>2</sup> Based on the methodology defined in the City's Housing Element.

APPENDIX A - TABLE 2

**AFFORDABLE HOUSING COST CALCULATIONS  
RENTAL UNITS  
INCLUSIONARY HOUSING ANALYSIS  
NEWPORT BEACH, CALIFORNIA**

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<b>I. Income Level</b>	Low
<b>II. <u>One-Bedroom Units</u></b>	
Benchmark Household Size	Two Person
Household Income for Calculation Purposes <sup>1</sup>	\$59,500
% of Income Allotted to Housing Costs	<u>30%</u>
Annual Income Available for Housing Costs	\$17,850
Monthly Income Available for Housing Costs	\$1,488
Less: Utilities Allowance	<u>47</u>
<b>Total Affordable Rent</b>	<b>\$1,441</b>
<b>III. <u>Two-Bedroom Units</u></b>	
Benchmark Household Size	Four Person
Household Income for Calculation Purposes <sup>1</sup>	\$74,400
% of Income Allotted to Housing Costs	<u>30%</u>
Annual Income Available for Housing Costs	\$22,320
Monthly Income Available for Housing Costs	\$1,860
Less: Utilities Allowance	<u>58</u>
<b>Total Affordable Rent</b>	<b>\$1,802</b>
<b>IV. <u>Three-Bedroom Units</u></b>	
Benchmark Household Size	Six Person
Household Income for Calculation Purposes <sup>1</sup>	\$86,300
% of Income Allotted to Housing Costs	<u>30%</u>
Annual Income Available for Housing Costs	\$25,890
Monthly Income Available for Housing Costs	\$2,158
Less: Utilities Allowance	<u>93</u>
<b>Total Affordable Rent</b>	<b>\$2,065</b>

1

Based on the 2009 household incomes published by the California Housing & Community Development Department. The household size is set at the number of bedrooms in the unit multiplied times two.

**APPENDIX B**

**OWNERSHIP: BASELINE - MARKET RATE PROJECT: 32 UNITS (16 UNITS/ACRE)**

APPENDIX B - TABLE 1

ESTIMATED CONSTRUCTION COSTS  
 OWNERSHIP: BASELINE - MARKET RATE PROJECT: 32 UNITS (16 UNITS/ACRE)  
 AFFORDABLE HOUSING CASE STUDIES  
 INCLUSIONARY HOUSING ANALYSIS  
 NEWPORT BEACH, CALIFORNIA

<b>I. Direct Costs</b>				
Site Work Costs	87,120	Sf Land Area	\$40.00 /Sf Land Area	\$3,485,000
Building Costs <sup>1</sup>	67,952	/Sf GBA	\$285 /Sf GBA	19,366,000
<b>Total Direct Costs</b>				<b>\$22,851,000</b>
<b>II. Indirect Costs</b>				
General Indirect Costs <sup>2</sup>	13%	Direct Costs		\$2,971,000
Permits & Fees	32	Units	\$20,000 /Unit	640,000
Insurance	32	Units	\$15,000 /Unit	480,000
Developer Fee	3%	Sales Revenues		1,769,000
<b>Total Indirect Costs</b>				<b>\$5,860,000</b>
<b>III. Financing/Closing Costs</b>				
Interest During Construction/Absorption <sup>3</sup>				\$5,885,000
Loan Origination Fees <sup>4</sup>	\$35,380,000	Loan Amount	2.5 Points	885,000
Closing & Sales; & Warranties <sup>5</sup>				3,108,000
<b>Total Financing/Closing Costs</b>				<b>\$9,878,000</b>
<b>IV. Total Construction Costs</b>	<b>32</b>	<b>Units</b>	<b>\$1,206,000 /Unit</b>	<b>\$38,589,000</b>

<sup>1</sup> Average unit size equal to 2,124 square feet. GBA includes a 0% allowance for non-livable area.

<sup>2</sup> Includes architecture, engineering & consulting; taxes, legal & accounting; marketing; and soft cost contingency.

<sup>3</sup> Construction and absorption period interest set at a 10.2% blended return on debt and equity. Carrying costs are based on an 18 month development period. Absorption rate is set at 4 units/month.

<sup>4</sup> Based on a 60% loan to value ratio.

<sup>5</sup> Based on 5% of sales revenues plus \$5,000/unit for warranties costs.

APPENDIX B - TABLE 2

PROJECTED SALES REVENUES

OWNERSHIP: BASELINE - MARKET RATE PROJECT: 32 UNITS (16 UNITS/ACRE)

AFFORDABLE HOUSING CASE STUDIES

INCLUSIONARY HOUSING ANALYSIS

NEWPORT BEACH, CALIFORNIA

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MARKET RATE SCENARIO <sup>1</sup>

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I.	Total Sales Revenues	32 Units @	\$1,842,700 /Unit	\$58,966,000
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<sup>1</sup> Sales price at \$868/sf of net livable area.

APPENDIX B - TABLE 3

RESIDUAL LAND VALUE ANALYSIS

OWNERSHIP: BASELINE - MARKET RATE PROJECT: 32 UNITS (16 UNITS/ACRE)

AFFORDABLE HOUSING CASE STUDIES

INCLUSIONARY HOUSING ANALYSIS

NEWPORT BEACH, CALIFORNIA

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I.	Total Sales Revenues	See APPENDIX B - TABLE 2		\$58,966,000
II.	<u>Project Costs</u>			
	Total Construction Costs	See APPENDIX B - TABLE 1		\$38,589,000
	Threshold Developer Profit	15% of Total Construction Costs		5,788,000
				<hr/>
	Total Project Costs			\$44,377,000
III.	Residual Land Value	87,120 Sf Land Area	\$167 /Sf Land Area	\$14,589,000

**APPENDIX C**

**OWNERSHIP: IMODERATE INCOME INCLUSIONARY: 32 UNITS (16 UNITS/ACRE)**

APPENDIX C - TABLE 1

ESTIMATED CONSTRUCTION COSTS  
 OWNERSHIP: IMODERATE INCOME INCLUSIONARY: 32 UNITS (16 UNITS/ACRE)  
 AFFORDABLE HOUSING CASE STUDIES  
 INCLUSIONARY HOUSING ANALYSIS  
 NEWPORT BEACH, CALIFORNIA

<b>I. Direct Costs</b>				
Site Work Costs	87,120	Sf Land Area	\$40.00 /Sf Land Area	\$3,485,000
Building Costs <sup>1</sup>	67,952	/Sf GBA	\$285 /Sf GBA	19,366,000
<b>Total Direct Costs</b>				<b>\$22,851,000</b>
<b>II. Indirect Costs</b>				
General Indirect Costs <sup>2</sup>	13%	Direct Costs		\$2,971,000
Permits & Fees	32	Units	\$20,000 /Unit	640,000
Insurance	32	Units	\$15,000 /Unit	480,000
Developer Fee <sup>3</sup>				1,769,000
<b>Total Indirect Costs</b>				<b>\$5,860,000</b>
<b>III. Financing/Closing Costs</b>				
Interest During Construction/Absorption <sup>4</sup>				\$6,073,000
Loan Origination Fees <sup>5</sup>	\$35,380,000	Loan Amount	2.5 Points	885,000
Closing & Sales; & Warranties <sup>6</sup>				2,738,000
<b>Total Financing/Closing Costs</b>				<b>\$9,696,000</b>
<b>IV. Total Construction Costs</b>	<b>32</b>	<b>Units</b>	<b>\$1,200,000 /Unit</b>	<b>\$38,407,000</b>

<sup>1</sup> Average unit size equal to 2,124 square feet. GBA includes a 0% allowance for non-livable area.

<sup>2</sup> Includes architecture, engineering & consulting; taxes, legal & accounting; marketing; and soft cost contingency.

<sup>3</sup> See APPENDIX B - TABLE 2 - The Developer Fee is set equal to the amount calculated in the market rate scenario.

<sup>4</sup> Construction and absorption period interest set at a 10.2% blended return on debt and equity. Carrying costs are based on an 18 month development period. Absorption rate is set at 4 units/month.

<sup>5</sup> Based on a 60% loan to value ratio.

<sup>6</sup> Based on 5% of sales revenues plus \$5,000/unit for warranties costs.

APPENDIX C - TABLE 2

PROJECTED SALES REVENUES

OWNERSHIP: IMODERATE INCOME INCLUSIONARY: 32 UNITS (16 UNITS/ACRE)

AFFORDABLE HOUSING CASE STUDIES

INCLUSIONARY HOUSING ANALYSIS

NEWPORT BEACH, CALIFORNIA

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I.	Market Rate Units <sup>1</sup>	27 Units @	\$1,842,700 /Unit	\$49,752,900
II.	Moderate Income Units - 3 Bd <sup>2</sup>	5 Units @	\$359,600 /Unit	<u>1,798,000</u>
III.	<b>Total Sales Revenues</b>			<b>\$51,550,900</b>

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<sup>1</sup> Sales price at \$868/sf of net livable area for Three-Bedrooms and \$0/sf of net livable area for Five-Bedrooms.

<sup>2</sup> See APPENDIX A - TABLE 1 for the affordable housing cost calculations.

APPENDIX C - TABLE 3

LAND VALUE IMPACT ANALYSIS

OWNERSHIP: IMODERATE INCOME INCLUSIONARY: 32 UNITS (16 UNITS/ACRE)

AFFORDABLE HOUSING CASE STUDIES

INCLUSIONARY HOUSING ANALYSIS

NEWPORT BEACH, CALIFORNIA

I.	<b>Total Sales Revenues</b>	See APPENDIX C - TABLE 2		\$51,550,900
II.	<u>Project Costs</u>			
	Total Construction Costs	See APPENDIX C - TABLE 1		38,407,000
	Land Cost <sup>1</sup>	See APPENDIX B - TABLE 3		14,589,000
	Threshold Profit <sup>2</sup>	See APPENDIX B - TABLE 3		5,788,000
	<b>Total Project Costs</b>			<u>\$58,784,000</u>
III.	<b>Affordability Gap</b>			(\$7,233,000)
IV.	<u>Effective Land Value</u>			
	Land Cost			\$14,589,000
	Affordability Gap			<u>(7,233,000)</u>
	<b>Effective Land Value</b>	87,120 Sf Land Area	\$84 /Sf Land Area	\$7,356,000
	% Land Value Decrease			-50%
V.	<u>Supportable In-Lieu Fee</u>			
	Total Fee			\$7,233,000
	Fee/ Affordable Unit			\$1,446,600 /Unit
	Fee/ Market Rate Unit			\$267,900 /Unit

<sup>1</sup> Land Cost is based on the Residual Land Value generated by the market rate scenario in APPENDIX B.

<sup>2</sup> Threshold Profit is based on the amount of profit generated by the market rate scenario in APPENDIX B.

**APPENDIX D**

**RENTAL: BASELINE - MARKET RATE PROJECT: 36 APARTMENT UNITS (18 UNITS/ACRE)**

APPENDIX D - TABLE 1

ESTIMATED CONSTRUCTION COSTS

RENTAL: BASELINE - MARKET RATE PROJECT: 36 APARTMENT UNITS (18 UNITS/ACRE)

AFFORDABLE HOUSING CASE STUDIES

INCLUSIONARY HOUSING ANALYSIS

NEWPORT BEACH, CALIFORNIA

<b>II. Direct Costs<sup>1</sup></b>			
One-Bedroom	14 Units	\$88,450 /Unit	\$1,238,000
Two-Bedrooms	14 Units	\$128,100 /Unit	1,793,000
Three-Bedrooms	8 Units	\$152,500 /Unit	1,220,000
<b>Total Direct Costs</b>			<b>\$4,251,000</b>
<b>III. Indirect &amp; Financing Costs</b>		30% Direct Costs	<b>\$1,275,000</b>
<b>V. Total Construction Costs</b>			
	36 Units	\$153,500 /Unit	<b>\$5,526,000</b>

<sup>1</sup> Direct Costs are based on Economic & Planning Systems' Construction Costs from "Inclusionary Housing In-Lieu Fee Study", dated October 7, 2008.

APPENDIX D - TABLE 2

STABILIZED NET OPERATING INCOME

RENTAL: BASELINE - MARKET RATE PROJECT: 36 APARTMENT UNITS (18 UNITS/ACRE)

AFFORDABLE HOUSING CASE STUDIES

INCLUSIONARY HOUSING ANALYSIS

NEWPORT BEACH, CALIFORNIA

<b>I. <u>Rent Income</u></b> <sup>1</sup>			
One-Bedroom	14 Units @	\$2,100 /Month	\$352,800
Two-Bedrooms	14 Units @	\$2,700 /Month	453,600
Three-Bedrooms	8 Units @	\$3,000 /Month	<u>288,000</u>
<b>Gross Income</b>			\$1,094,400
Vacancy & Collection Allowance	5% Gross Income		<u>(54,700)</u>
<b>Effective Gross Income</b>			\$1,039,700
<b>II. <u>Operating Expenses</u></b>			
General Operating Expenses	36 Units @	\$4,200 /Unit	\$151,200
Property Taxes <sup>2</sup>	36 Units @	\$3,680 /Unit	<u>132,500</u>
<b>Total Operating Expenses</b>	36 Units @	(\$7,880) /Unit	(\$283,700)
<b>III. <u>Net Operating Income</u></b>			<b>\$756,000</b>

<sup>1</sup> Market rent = \$2.83/sf for One-Bedroom; \$2.53/sf for Two-Bedrooms; and \$2.44/sf for Three-Bedrooms.

<sup>2</sup> Based on the project value at a 6.0% capitalization rate and a 1.05% tax rate.

APPENDIX D - TABLE 3

RESIDUAL LAND VALUE ANALYSIS  
 STABILIZED NET OPERATING INCOME  
 RENTAL: BASELINE - MARKET RATE PROJECT: 36 APARTMENT UNITS (18 UNITS/ACRE)  
 AFFORDABLE HOUSING CASE STUDIES  
 INCLUSIONARY HOUSING ANALYSIS

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<b>I. <u>Warranted Private Investment</u></b>			
Net Operating Income		See APPENDIX D - TABLE 2	\$756,000
Threshold Return on Total Investment <sup>1</sup>			6.6%
<b>Total Warranted Investment</b>			<b>\$11,455,000</b>
<b>II. Total Construction Cost</b>			
		See APPENDIX D - TABLE 1	\$5,526,000
<b>III. Residual Land Value</b>	87,120 Sf Land Area	\$68 /Sf Land Area	<b>\$5,929,000</b>

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<sup>1</sup> Threshold Return on Total Investment is based on a 6.0% capitalization rate and 20% profit as a percentage of construction costs.

**APPENDIX E**

**RENTAL: LOW INCOME INCLUSIONARY : 36 APARTMENT UNITS (18 UNITS/ACRE)**

APPENDIX E - TABLE 1

ESTIMATED CONSTRUCTION COSTS

RENTAL: LOW INCOME INCLUSIONARY : 36 APARTMENT UNITS (18 UNITS/ACRE)

AFFORDABLE HOUSING CASE STUDIES

INCLUSIONARY HOUSING ANALYSIS

NEWPORT BEACH, CALIFORNIA

<b>I. Direct Costs <sup>1</sup></b>			
One-Bedroom	14 Units	\$88,450 /Unit	\$1,238,000
Two-Bedrooms	14 Units	\$128,100 /Unit	1,793,000
Three-Bedrooms	8 Units	\$152,500 /Unit	1,220,000
<b>Total Direct Costs</b>			<b>\$4,251,000</b>
<b>II. Indirect &amp; Financing Costs</b>		30% Direct Costs	<b>\$1,275,000</b>
<b>III. Total Construction Costs</b>	<b>36 Units</b>	<b>\$153,500 /Unit</b>	<b>\$5,526,000</b>

1

Construction Costs are based on Economic & Planning Systems' "Inclusionary Housing In-Lieu Fee Study", dated October 7, 2008.

APPENDIX E - TABLE 2

STABILIZED NET OPERATING INCOME  
 RENTAL: LOW INCOME INCLUSIONARY : 36 APARTMENT UNITS (18 UNITS/ACRE)  
 AFFORDABLE HOUSING CASE STUDIES  
 INCLUSIONARY HOUSING ANALYSIS  
 NEWPORT BEACH, CALIFORNIA

<b>I. <u>Rent Income</u></b>			
Market Rent <sup>1</sup>			
One-Bedroom	12 Units @	\$2,100 /Month	\$302,400
Two-Bedrooms	12 Units @	\$2,700 /Month	388,800
Three-Bedrooms	7 Units @	\$3,000 /Month	252,000
Low Income <sup>2</sup>			
One-Bedroom	2 Units @	\$1,441 /Month	\$34,600
Two-Bedrooms	2 Units @	\$1,802 /Month	43,200
Three-Bedrooms	1 Unit @	\$2,065 /Month	24,800
<b>Gross Income</b>			\$1,045,800
Vacancy & Collection Allowance	5% Gross Income		(52,300)
<b>Effective Gross Income</b>			\$993,500
<b>II. <u>Operating Expenses</u></b>			
General Operating Expenses	36 Units @	\$4,200 /Unit	\$151,200
Property Taxes <sup>3</sup>	36 Units @	\$3,480 /Unit	125,300
<b>Total Operating Expenses</b>			(\$276,500)
<b>III. <u>Net Operating Income</u></b>			\$717,000

<sup>1</sup> Market rent = \$2.83/sf for One-Bedroom; \$2.53/sf for Two-Bedrooms; and \$2.44/sf for Three-Bedrooms.

<sup>2</sup> See APPENDIX A - TABLE 2 for the affordable housing cost calculations.

<sup>3</sup> Based on the project value at a 6.0% capitalization rate and a 1.1% tax rate.

APPENDIX E - TABLE 3

LAND VALUE IMPACT ANALYSIS  
 RENTAL: LOW INCOME INCLUSIONARY : 36 APARTMENT UNITS (18 UNITS/ACRE)  
 AFFORDABLE HOUSING CASE STUDIES  
 INCLUSIONARY HOUSING ANALYSIS  
 NEWPORT BEACH, CALIFORNIA

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<b>I. <u>Warranted Private Investment</u></b>			
Net Operating Income		See APPENDIX E - TABLE 2	\$717,000
Threshold Return on Total Investment <sup>1</sup>			6.60%
<b>Total Warranted Investment</b>			<b>\$10,864,000</b>
<b>II. Total Construction Cost</b>			
		See APPENDIX E - TABLE 1	\$5,526,000
<b>III. Residual Land Value</b>			
			\$5,338,000
<b>IV. <u>Effective Land Value</u></b>			
Land Cost From Mkt Scenario		See APPENDIX D - TABLE 3	\$5,929,000
Supportable Land Value	87,120	Sf Land Area \$61 /Sf Land Area	\$5,338,000
<b>Decrease in Land Value</b>			<b>\$591,000</b>
% Land Value Decrease			10%
<b>V. <u>Supportable In-Lieu Fee</u></b>			
Total Fee			\$591,000
Fee/ Affordable Unit			\$118,200 /Unit
Fee/ Market Rate Unit in the Market Rate Ownership Project <sup>2</sup>			\$18,500 /Unit

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<sup>1</sup> Threshold Return on Total Investment is based on a 6.0% capitalization rate and 20% profit as a percentage of construction costs.

<sup>2</sup> The Market Rate Ownership Project includes 32 units.

STATE OF CALIFORNIA            }  
COUNTY OF ORANGE            }  
CITY OF NEWPORT BEACH        }        ss.

I, Leilani I. Brown, City Clerk of the City of Newport Beach, California, do hereby certify that the whole number of members of the City Council is seven; that the foregoing resolution, being Resolution No. 2010-44 was duly and regularly introduced before and adopted by the City Council of said City at a regular meeting of said Council, duly and regularly held on the 27th day of April, 2010, and that the same was so passed and adopted by the following vote, to wit:

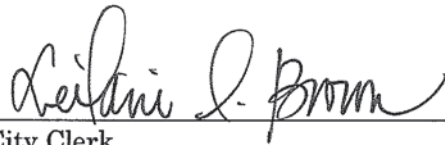
Ayes:        Selich, Rosansky, Henn, Gardner, Mayor Curry

Noes:        None

Absent:      Webb, Daigle

Abstain:    None

IN WITNESS WHEREOF, I have hereunto subscribed my name and affixed the official seal of said City this 28th day of April, 2010.



\_\_\_\_\_  
City Clerk  
Newport Beach, California

(Seal)

