Bay Area Economics

# Economic Analysis of Below Market Rate Housing

**Prepared For:**
Fort Ord Reuse Authority (FORA)

November 2003

Bay Area Economics

November 25, 2003

Mr. Michael A. Houlemard, Jr.
Executive Officer
Fort Ord Reuse Authority
100 12th Street
Marina, CA 93933

Dear Michael:

We are pleased to submit our final report on the Economic Analysis of Below Market Rate Housing at the former Fort Ord. We have enjoyed working on this important issue with you and FORA members, and look forward to comments regarding this analysis. Please call me or Ron Golem at 510.549.7310 (or by email at rongolem@bayareaeconomics.com) if you have any questions or comments regarding this Report.

Sincerely,

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# Executive Summary

## Purpose of Report

This report analyzes the economic implications of a proposed policy to increase the production of below-market-rate (BMR) housing at the former Fort Ord above current levels[1]. To date, FORA member jurisdictions have implemented inclusionary housing requirements that 20 percent of new residential development include units be affordable to very low, low, and moderate income households[2]; one jurisdiction also provides incentives for inclusion of up to an additional 10 percent of affordable "workforce" units for households above the moderate income threshold. The reuse of former military housing at former Fort Ord has also created a large number of additional affordable and workforce housing units.

The Fort Ord Reuse Authority (FORA) commissioned Bay Area Economics (BAE) to review prior related economic studies, conduct updated economic analysis, and summarize approaches to include a higher level of BMR housing in new development that occurs as part of the overall reuse project. The BMR term has been broadly defined as covering housing affordable to households earning from 50 percent to 170 percent of Area Median Income (AMI).

## Limiting Conditions

- This report addresses the economic aspects of expanded BMR production at former Fort Ord pursuant to the proposal outlined by Congressman Sam Farr in a July 1, 2003 letter, along with potential other variations on the proposal. <u>This report does not address the potential legal, contractual, or other non-economic issues associated with implementation of Mr. Farr's proposal</u>.

- Any expanded BMR housing goal would be implemented by individual jurisdictions that comprise FORA.

- BAE did not comprehensively review individual development agreements or Memoranda of Understanding (MOUs) between local jurisdictions and private residential developers for development in former Fort Ord. Several development agreements are currently in negotiation, including projects in the East Garrison (Monterey County), and Marina Heights, Cypress Knolls, and University Villages (City of Marina). BAE did not review legal documents pertaining to the conveyance of properties from the federal government to FORA, or from FORA to local jurisdictions.

[1] The actual implementation of BMR housing policies is up to individual FORA member jurisdictions.

[2] Pursuant to Community Redevelopment Law, five percent of these units must be affordable to very low income households.

- This report analyzes prototypical residential development projects. All of the projects at the former Fort Ord are unique in some ways, so while this report seeks to replicate the financial implications of actual development, it purposefully blends together aspects of various individual projects.

- The conclusions set forth in this report are based on the assumptions and methodologies identified herein. Alternative assumptions and/or methodologies may result in different conclusions.

- While BAE interviewed several currently active private developers and local city/county staff in jurisdictions obtaining property located at the former Fort Ord, we did not independently verify all information provided by the developers, city staff, or other parties. BAE sought, to the extent possible, to verify key data and information, particularly most data affecting the economic analysis contained herein. Some of this verification was based on BAE experience drawn from recent work by BAE for the City of Salinas, regarding an inclusionary housing program.

## Methodology

For this report, BAE reviewed prior studies conducted for FORA and local jurisdictions, analyzed current affordable housing definitions and maximum house prices/rental rates, researched current affordable housing arrangements at the former Fort Ord, and performed pro forma analyses on a series of prototype residential projects to test the effects of inclusion of BMR units within residential development projects. The conclusions in this report outline issues facing FORA as it seeks to balance housing needs with the continued implementation of the former Fort Ord Reuse Plan, including infrastructure and related property improvements.

For the economic analysis, BAE developed a series of pro formas which represent prototypical new residential products planned for development at the former Fort Ord. These prototypes are based on the Base Reuse Plan and its residential land use designations as follows:

- **Low Density Residential** - Four to six units per gross acre, typically single family homes on lots averaging 6,000 square feet or more. BAE assumed five units per gross acre for this prototype.
- **Medium Density Residential** - Eight units per gross acre, typically small-lot single family homes averaging 4,000 to 5,000 square feet or more.
- **Planned Development** - This designation allows for a mix of densities, up to an overall density of 20 units per gross acre. BAE assumed that this designation would result in a slightly lower density of 18 units per gross acre, to accommodate primarily townhouse unit designs.

BAE prepared a series of pro formas assuming a typical residential developer would build a mix of these three product types (low-density, medium-density, and planned residential), as reflected in most of the project plans submitted to local jurisdictions to date[3]. These pro formas are called "Baseline - Typical" to reflect typical costs.

To account for higher development costs expected by some developers at the former Fort Ord, BAE also prepared a second series of Baseline pro formas at a "High Cost" level. This approach is meant to bracket the likely range of experience of developers at the former Fort Ord, depending on the unique blend of circumstances. Higher costs including deconstruction, the higher end of potential impact fees, more expensive in-tract infrastructure costs, and higher effects of prevailing wage requirements on "sticks and bricks" hard costs were all incorporated into the High Cost scenario.

BAE calculated the maximum sale prices for residential units that are affordable to Monterey County households at varying income levels, assuming not more than 30 percent of household income is used for monthly mortgage principal and interest payments, property taxes, and insurance (PITI). Although there are various approaches to this calculation, we assumed slightly higher than current mortgage interest rates (6.5 percent for a 30-year fixed-rate loan), and a 20 percent downpayment. The calculations are based on 2003 Area Median Income (AMI) definitions set by the California Department of Housing and Community Development (HCD), but expanded to the 170 percent AMI level by BAE. It should be noted that Monterey County calculates a lower downpayment (five percent) and a higher mortgage interest rate (eight percent), which would result in lower maximum affordable house prices. The City of Monterey also assumes higher interest rates in its calculations. BAE chose the above assumptions due to the potential availability of downpayment assistance programs which can close the gap between five and 20 percent down, and current low mortgage interest rates. It should be further noted that with a smaller downpayment, lenders typically require private mortgage insurance, which would increase the effective mortgage interest rate by approximately one percentage point. Nevertheless, if FORA elected to define affordability of for-sale BMR housing based on five percent downpayments (and higher interest rates), the result would be a lower maximum purchase price affordable to each income level.

Finally, BAE prepared pro formas for each product type, assuming a range of potential expanded BMR production. The range of scenarios analyzed included full implementation of

[3] It should be noted that BAE prepared these pro formas assuming all market rate products are offered for-sale rather than for-rent, and that corresponding BMR units are also offered for-sale rather than for-rent. This basic assumption is made because the economics of the current marketplace means that it is difficult to achieve feasibility with sufficient profit margins for market-rate rental housing in the area containing the former Fort Ord, due to current market rental rates and the cost of developing new housing. Furthermore, developers are universally proposing that their market-rate components be developed and offered as for-sale units.

the 50 percent BMR goal proposed by Mr. Farr, which includes 10 percent of units for households at 50 percent AMI (very low income), 10 percent of units at 80 percent AMI (low income), 20 percent of units at 81 percent to 120 percent (moderate income) -- for a total of 40 percent affordable units -- and 10 percent of units at 121 percent to 170 percent AMI[4] in the workforce housing category. BAE also analyzed alternative variations of Mr. Farr's proposal, stepped down to a 40 percent BMR inclusionary goal (including just those units aimed at 80 percent AMI and above), as well as a 30 percent BMR inclusionary goal (just those units aimed at 120 percent AMI and above). The 50, 40, and 30 percent BMR inclusionary examples were analyzed using the Typical Cost assumptions as well as the High Cost assumptions.

## Summary of Findings

### *50 Percent BMR Inclusionary Production Proposal*

- Under the "Typical Cost" scenario, the per-unit profit ranges from $117,000 for the PD product type (e.g., townhouses) to more than $245,000 for the lower density single family unit product type for the Baseline Project (without BMR units).

- If the "Typical Cost" scenario were required to include the full 50 percent BMR production goal for former Fort Ord as proposed by Mr. Farr, profits per unit decline to the $46,000 to $59,000 range per unit, depending on the product type. These profits are then measured on a combined basis (a 300 unit project example with 100 units of each of the three product types), resulting in acceptable profits of 18 percent of development costs, or 15 percent of net sales revenue (note: profit is expressed two different ways, using the same profit dollars). Based on other BAE work measuring the acceptable levels of developer return with inclusionary programs, a 10 percent return on development costs is considered the minimum acceptable level[5].

- If the "High Costs" are assumed, an inclusionary housing production goal per Mr. Farr's proposal with 50 percent of the units selling at BMR prices would not be feasible, yielding an overall loss of one percent on total development costs.

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[4] Mr. Farr's proposal was up to 150 percent AMI; this was increased to 170 percent AMI by BAE to increase the number of workforce households able to access BMR units.

[5] Profit is measured here in two ways - as a percent of total development cost, and also as a percent of sales revenue net of marketing/commissions. These percentages are expressing the same dollar profit against two different bases, in order to satisfy the differing ways that developers and builders consider their return, depending on their business model. Please note that profit is not measured against equity investment here, because the amount of leverage (debt) used to finance a project varies from developer to developer, with some smaller developers using high leverage and some large production homebuilders financing projects primarily on an equity (cash) basis.

***40 Percent BMR Inclusionary Option***

This option formulated by BAE for analysis purposes examines inclusion of for-sale BMR units per Mr. Farr's proposal, excluding the 50 percent AMI component (10 percent of total proposed units). This option reflects the substantial gap between what households earning up to 50 percent of AMI can afford and the costs of producing standard single family residential units, and therefore may be better served through Low Income Housing Tax Credit (LIHTC) and other rental subsidy mechanisms such as funding available through housing set-aside tax increment funds generated in Redevelopment Project Areas.

- In the "Typical Cost" scenario, this alternative allows for profit of more than 30 percent on development costs (or 23 percent of net sales revenue). This is sufficient to feasibly develop the project under typical development costs.

- In the "High Cost" scenario, the profit on total development cost declines to 10 percent of development costs (or 9 percent of sales revenue). This finding suggests that a 40 percent inclusionary production goal for former Fort Ord combined with a high cost project would barely be considered feasible, and may cause the developer to forego the project. However, it should be noted that there are 20 percent "set-aside" redevelopment funds that may be available to assist in these cases on a very limited basis, enabling these borderline feasible projects to proceed (see discussion later in this report).

***30 Percent BMR Inclusionary Option***

This option formulated by BAE for analysis purposes would incorporate just BMR units for sale to households at 120 percent AMI (20 percent of total) and at 170 percent AMI (10 percent of total). Lower income households would be served through other mechanisms. The analysis only examines the "High Cost" scenario, as the prior analysis shows that under "typical costs," the 40 percent BMR production option is feasible.

- In the "High Cost" scenario, a 30 percent BMR inclusionary goal for former Fort Ord appears feasible, returning profit of approximately 19 percent of total development costs (15 percent of net sales revenue).

*For all of these analyses, it should also be noted that if the BMR units were incorporated into the project as smaller PD products (rather than a percent of each product type as assumed in this report), profit margins may be improved sufficiently to allow for achieving higher BMR goals than shown herein.*

## Conclusions

- The economic analysis presented in the previous section suggests that BMR inclusionary housing production at the former Fort Ord could be expanded to an overall 40 percent inclusionary goal if it focuses on providing housing for-sale to households at the 80 percent to 170 percent AMI levels within otherwise market rate developments.

- This conclusion is based on analysis of prototype residential development projects rather than detailed evaluation of the currently proposed development projects for former Fort Ord. Some projects, as currently proposed, may not be able to accommodate a 40 percent BMR inclusionary housing goal without additional subsidy, due to projects' specific high cost situations. Other non-economic factors, such as contractual arrangements between jurisdictions and developers to provide additional community benefits (e.g., new school construction, new parks, etc.) may also alter the potential to achieve this outcome.

- In situations where "High Cost" development factors are present, an expanded BMR goal should allow for credits and/or subsidy assistance to those projects, depending on the specific circumstances present for the individual developer or builder. Households earning less than 80 percent AMI could be served through separate mechanisms which would assist the production of a range of rental product types.

## Challenges to Expanded BMR Production at Former Fort Ord

- **FORA's Need to Obtain Minimum Land Sale Proceeds.** There is a need to preserve maximum land sale proceeds for FORA so that the Capital Improvement Program can be fully implemented. If an expanded BMR housing goal results in diminished land sales proceeds to FORA, it would be self-defeating, as the reduced funding would severely impact FORA's ability to prepare former Fort Ord sites for any type of development.

- **Variation in Development Costs Across Planned Projects.** Each residential and mixed use development project undertaken at the former Fort Ord will bring its own unique set of circumstances. Thus, the specific development projects proposed for former Fort Ord will have various outcomes in terms of their ability to absorb expanded BMR production.

- **Further Analysis Needed to Determine if PD Product Can Support Increased BMR Production.** The analysis conducted for this report did not vary the type of unit accommodating the BMR inclusion (i.e., it assumes that BMR inclusionary units are provided on a "like for like" basis for each product type). However, in practice, many developers have found that if their inclusionary requirements can be met through providing lower-margin townhouse unit product types, this approach can work well in combination with higher-margin single family homes developed at market rates. This

approach may well accommodate the 40 percent BMR production option, even under "High Cost" situations.

- **Fiscal Impact of BMR Housing on Local General Funds.** One issue identified during research for this report is the concern expressed by local jurisdictions regarding the lost fiscal revenues from each former Fort Ord market rate unit that is replaced by a BMR unit. Specifically, each jurisdiction and FORA receives 28 percent of the incremental property tax revenue generated from new development on former Fort Ord lands within its boundary[6]. For example, the difference between the property tax increment for the lowest priced BMR for-sale unit considered for this report and the highest-priced market-rate unit would be approximately $1,500 per unit per year each for the jurisdiction and FORA.

  It is important to note that various types of BMR units may have different levels of impact. If BMR units are offered for-sale and constructed as part of a market rate project by for-profit developers, these units are placed on the property tax rolls and taxed according to their value (sale price). In contrast, when non-profit housing developers construct Low Income Housing Tax Credit rental projects, these projects are typically not subject to property tax.

  It should be noted that the scope of this report did not include addressing the overall combined fiscal impact from increased BMR housing production at former Fort Ord. A comprehensive fiscal impact study that addresses the changes in revenues as well as service costs would need to be conducted to provide a definitive answer.

[6] Per FORA's authorizing legislation, the jurisdiction where a project is located and FORA each receive 35 percent of incremental property tax revenues, Monterey County receives 20 percent, and the remaining 5 percent goes to special districts. After deducting the 20 percent of tax increment retained by the State for ERAF, the share for the subject jurisdiction and FORA is 80 percent x 35 percent = 28 percent.

## Table of Contents

# Introduction

## Purpose of Report

This report addresses the economic aspects of expanded BMR production at former Fort Ord pursuant to the proposal outlined by Congressman Sam Farr in a July 1, 2003 letter, along with potential other variations on the proposal. The Fort Ord Reuse Authority (FORA) commissioned Bay Area Economics (BAE) to review prior related economic studies, conduct updated economic analysis, and summarize approaches to include additional below-market-rate housing in the overall reuse project.

This report was commissioned as a result of ongoing discussion by the FORA Board regarding Mr. Farr's proposal and approaches to meeting an increased need for affordable and workforce housing at the former military base. It is important to note that while FORA serves as the planning entity for the former Fort Ord, the organization does not have the authority to implement local land use policies or BMR housing goals. The actual implementation of BMR housing policies is up to individual FORA member jurisdictions.

For this report, BAE reviewed prior studies conducted for FORA and local jurisdictions, analyzed current affordable housing definitions and maximum house prices/rental rates, researched current affordable housing arrangements at the former Fort Ord, and performed pro forma analyses on a series of prototype residential projects to test the effects of inclusion of BMR units within residential development projects. The conclusions in this report outline issues facing FORA as it seeks to balance housing needs with the continued implementation of the former Fort Ord Reuse Plan, including infrastructure and related property improvements.

## Definitions

***Affordable and Workforce Housing***

"Affordable" and "workforce" housing refer to residential units made available for sale or rent at prices below current marketplace conditions in a given area. "Affordable" housing is most commonly used to refer to housing that is affordable to households earning 120 percent or less of the Area Median Income (AMI). Within this broad range, subcategories of household income are usually referenced, including "extremely low income households" earning up to 30 percent AMI, "very low income households" earning from 30 to 50 percent AMI, "low income households" earning from 50 to 80 percent AMI, and "moderate income households" earning from 80 to 120 percent AMI.

In areas with very high housing costs such as Monterey County, where the median cost of newly constructed for-sale housing is typically higher than the amount a median-income household can afford to purchase based on standard underwriting criteria, policy-makers have grown increasingly concerned about the ability of middle income households to afford housing.

For example, the California Budget Project, in its 2002 report "Locked Out: California's Housing Crisis Continues" notes:

> In many parts of the state, the income needed to purchase a median-priced home is considerably higher than the income earned even in moderate-salaried occupations. For example, the median annual wage for a firefighter in the Bay Area was around $65,000 in 2001; he or she would need an income of more than $136,000 in order to buy a median-priced home – a $71,000 gap. For a Bay Area child care worker, whose median annual wage in 2001 was less than $19,000, the dream of ownership appears next to impossible. The affordability problem is nearly as serious in the Monterey area, where the income needed to purchase a median-priced home exceeds the area median income by nearly $61,000. A registered nurse earning $52,000 per year earns less than half of what is needed to purchase a median-priced home in the area.

Thus, the term "workforce" housing has evolved to describe housing units priced so that they are affordable to workers employed in middle income occupations such as teachers, police, loan officers, local government workers, medical assistants, and child care workers.

This report assumes that "affordable" housing refers to housing affordable to household earning up to 120 percent AMI. "Workforce" housing is assumed to refer to units that are affordable to households from 120 percent to up to 170 percent of AMI, the range of income typically above the "affordable" definitions targeted by most state and federal housing programs, but still encompassing households unable to purchase a typical newly constructed market-rate housing unit.

***A Comprehensive Term: Below Market Rate (BMR) Housing***

Housing policy analysts refer to the full spectrum of affordable and workforce housing produced using any combination of federal, state, and/or local programs or policies under the umbrella term of "below market rate" (BMR) housing. This report uses the term BMR housing to refer to the broad range of housing priced for sale or rent below current market rates, including those units targeting households under the definition of "affordable" and "workforce."

## Limiting Conditions

It should be noted that this report addresses the economic aspects of increased BMR production at former Fort Ord. <u>This report does not address the potential legal, contractual, or other non-economic issues associated with implementation of Mr. Farr's proposal</u>.

BAE did not comprehensively review individual development agreements or Memoranda of Understanding (MOUs) between local jurisdictions and private developers, as several of these agreements are currently under negotiation. Also, BAE did not review legal documents pertaining to the conveyance of properties from the federal government to FORA, or from FORA to local jurisdictions.

It should further be noted that this report analyzes prototypical residential development projects. All of the projects at the former Fort Ord are unique in some ways, so while this report seeks to

replicate the financial implications of actual development, it purposefully blends together the aspects of various individual projects.

As with any economic analysis, the conclusions set forth in this report are based on the assumptions and methodologies identified herein. Alternative assumptions and/or methodologies may result in different conclusions.

Finally, while BAE interviewed several currently active private developers and local city/county staff in jurisdictions obtaining property located at the former Fort Ord, we did not independently verify all information provided by the developers, city staff, or other parties. BAE sought, to the extent possible, to verify key data and information, particularly most data affecting the economic analysis contained herein. Some of this verification was based on BAE experience drawn from recent work by BAE for the City of Salinas, regarding an inclusionary housing program.

## Current Local Market Conditions

Three jurisdictions - the cities of Marina and Seaside and Monterey County - are designated to receive former Fort Ord lands for future residential development. This chapter compares currently selling or renting units in the marketplace, and compares the pricing to the maximum sale prices/rents affordable to households up to 170 percent of Area Median Income (AMI), the proposed target for increased BMR housing production.

### For Sale Housing

***BMR Sale Prices***

BAE calculated the maximum sale prices for residential units that are affordable to Monterey County households at varying income levels, assuming not more than 30 percent of household income is used for monthly mortgage principal and interest payments, property taxes, and insurance (PITI). Although there are various approaches to this calculation, we assumed slightly higher than current mortgage interest rates (6.5 percent for a 30-year fixed-rate loan), and a 20 percent downpayment. The calculations, based on 2003 AMI definitions set by the California Department of Housing and Community Development (HCD), but expanded to the 170 percent AMI level by BAE, are summarized below and detailed in Appendix A:

**Table 1: Maximum Affordable House Price for Four-Person Household, Monterey County 2003**

| Percent of Area Median Household Income (AMI) *Four-Person Household* | Annual Household Income | Maximum Sale Price | Monthly PITI |
|---|---|---|---|
| 30 Percent AMI | $17,150 | $65,393 | $429 |
| 50 Percent AMI | $28,550 | $108,861 | $714 |
| 80 Percent AMI | $45,700 | $174,253 | $1,143 |
| 100 Percent AMI | $55,600 | $212,002 | $1,390 |
| 120 Percent AMI | $66,700 | $254,326 | $1,668 |
| 150 Percent AMI (a) | $83,400 | $318,003 | $2,085 |
| 170 Percent AMI (a) | $94,520 | $360,403 | $2,363 |

Assumptions:

| | |
|---|---|
| 6.5 percent mortgage interest rate | 30 year fixed loan |
| 20 percent downpayment | 30 percent of household income available for PITI |
| 1.05 percent property tax | 0.75 percent of sale price for insurance |

a) 150 percent AMI and 170 percent AMI calculated by BAE based on 100 percent AMI multiplied by the additional percent

Source: CA Dept. of Housing and Community Development, BAE 2003.

It should be noted that Monterey County calculates a lower downpayment (five percent) and a higher mortgage interest rate (eight percent) than the above chart, which would result in lower maximum affordable house prices. BAE chose the above assumptions due to the potential availability of downpayment assistance programs which can close the gap between five and 20

percent down, and current low mortgage interest rates. It should be further noted that with a smaller downpayment, lenders typically require private mortgage insurance, which would increase the effective mortgage interest rate by approximately one percentage point. Nevertheless, if FORA elected to define affordability of for-sale BMR housing based on five percent downpayments (and higher interest rates), the result would be a lower maximum purchase price affordable to each income level.

### *Market Conditions for For-Sale Units*

For the three jurisdictions designated to receive former Fort Ord property for residential development, the only currently selling new homes are found at The Seaside Highlands, a parcel conveyed from FORA to the City of Seaside and subsequently resold to a private developer. Additional units selling in nearby locations as of July 2003 are also shown below:[7]

**Table 2: Newly Constructed, Currently Selling Units in Areas Near Former Fort Ord**

| Subdivision/Developer | Sales Started | Project Size (DU) | Remaining Units | Price Range | Sq. Ft. Range |
|---|---|---|---|---|---|
| **Seaside** | | | | | |
| Seaside Highlands (a) | | | | | |
| *(KB Home)* | NA | 380 | 270 | $495,000 - $750,000 | 1,725 - 3,635 |
| **Monterey** | | | | | |
| Pasadera Golf Villas | Sept. 2000 | 55 | 6 | $1.3 - $1.9 million | 2,747 – 3,696 |
| *(Monterey Dev. Group)* | | | | | |
| **Salinas** | | | | | |
| The Cottages | Jan. 2003 | 203 | 88 | $324,950 - $359,450 | 1,389 - 1,940 |
| *(Arcadia Development)* | | | | | |
| Crowne Point | Mar. 2002 | 35 | 3 | $755,990 - $1,495,000 | 2,898 – 4,330 |
| *(Las Palmas Ranch)* | | | | | |

a) Includes both the Cove and the Bluff projects. According to KB, 110 homes have sold.

Sources: Meyers Group and BAE, 2003.

This data shows that as of July 2003, there were no new units available for purchase in the area around former Fort Ord that were affordable to workforce households (up to 170 AMI). One project, The Cottages, located in Salinas, had sale prices that would be affordable to 170 percent AMI households.

[7] This list does not include planned subdivisions which have yet to start selling units, or those projects whose sales were completed before January 2002.

## Rental Housing

### *BMR Rents*

The California Tax Credit Allocation Committee (TCAC) of the State Treasurer annually publishes data on household income levels and maximum rents that are allowed for BMR rental projects that utilize federal and state tax credit financing (such projects are restricted to households at 60 percent or less AMI). The 2003 figures for a four person household occupying a three-bedroom rental unit are:

**Table 3: Maximum Affordable Monthly Rents for Four-Person Household, Monterey County 2003**

| AMI Category | Household Income (a) | Maximum Monthly Rent (b) |
|---|---|---|
| 35 Percent AMI | $19,985 | $519 |
| 40 Percent AMI | $22,840 | $594 |
| 50 Percent AMI | $28,550 | $742 |
| 60 Percent AMI | $34,260 | $891 |
| 80 Percent AMI (c) | $45,680 | $1,188 |
| 100 Percent AMI | $57,100 | $1,484 |
| 120 Percent AMI (c) | $68,520 | $1,782 |
| 150 Percent AMI (c) | $85,650 | $2,227 |
| 170 Percent AMI (c) | $97,070 | $2,524 |

a) Due to methodological differences followed by the State of California Housing and Community Development, the 100 percent AMI income level for a four-person household varies between this table and the for-sale table shown previously.

b) Maximum rent Includes utilities.

c) 80, 120, 150, and 170 percent AMI estimated by BAE.

Source: CA Tax Credit Allocation Committee; BAE, 2003.

### *Market Conditions for Rental Units*

To summarize the rental housing market surrounding the former Fort Ord, BAE obtained data from Real Facts, a private vendor who provides data on larger rental residential complexes. BAE reviewed Real Facts data for Marina, Seaside, and the nearby unincorporated areas of Monterey County and identified only one project in Seaside. The search was then expanded to include the City of Monterey, where six additional larger rental residential complexes were identified, one built in 1990, another in 1982, and the four in the 1960's. Table 4 summarizes current market-rate rents in the area surrounding the former Fort Ord:

**Table 4: Currently Renting Apartment Units**

| Project/Location | Yr. Built | Total Units | Occupancy | Unit Type (a) | Sq. Ft. | Monthly Rent | Rent Per Square Foot |
|---|---|---|---|---|---|---|---|
| **Seaside** | | | | | | | |
| San Pablo Apts. | 1969 | 125 | 98 percent | 2 BD/1 BA | 650 | $850 - $1,025 | $1.31 - $1.58 |
| *(1231 San Pablo)* | | | | | | | |
| **Monterey (City)** | | | | | | | |
| Pacific Vista | 1990 | 58 | 90 percent | 2 BD/1 BA | 800 | $1,075 - $1,125 | $1.34 - $1.41 |
| *(57 Soledad Dr.)* | | | | 2 BD TH | 850 | $1,125 - $1,175 | $1.32 - $1.38 |
| Mahara Condos | 1982 | 128 | 93 percent | 2 BD/1 BA | 900 | $1,050 | $1.17 |
| *(820 Casanova)* | | | | | | | |
| Kimberly Place | 1969 | 212 | 99 percent | 2 BD/1 BA | 879 - 950 | $1,205 - $1,350 | $1.37 - $1.42 |
| *(300 Glenwood Cir.)* | | | | 2 BD/2 BA | 957 | $1,330 | $1.39 |
| Olympia Pines | 1964 | 70 | 99 percent | 2 BD/1 BA | 1,100 | $1,275 - $1,350 | $1.16 - $1.23 |
| (*428 De La Vina)* | | | | | | | |
| Monterey Townhouse | 1963 | 90 | 100 percent | 2 BD TH | 1,100 | $1,170 | $1.06 |
| *(825 Casanova)* | | | | 3 BD TH | 1,320 | $1,415 | $1.07 |
| Monterey Pines | 1961 | 283 | 94 percent | 2 BD/2 BA | 862 | $1,200 - $1,300 | $1.39 - $1.51 |
| (*201 Glenwood Cir.)* | | | | | | | |

(a) BD = bedrooms; BA = baths; TH = townhouse style unit.

Source: RealFacts, BAE, 2003.

This data shows that only the Seaside complex had some units that would be affordable for a four-person household at 60 percent of AMI, although a four-person household in one of its two-bedroom apartment would represent overcrowding per U.S. Housing and Urban Development (HUD) guidelines. Only one complex in Monterey had a three-bedroom unit, and this unit would only be affordable to a four-person household at 100 percent of AMI. The data suggests a lack of affordable family-sized (three bedroom or larger) rental units in the area.

## Overview of BMR Housing Production at Former Fort Ord

There are myriad federal, state, and local programs in California that seek to either require or incentivize the provision of BMR housing units. One approach, now adopted in some form or another by numerous cities and counties in California, as well as required by Community Redevelopment Law (CRL) for adopted Redevelopment Project Areas, is termed "inclusionary" housing. This concept refers including BMR units within a market rate project, resulting in a mixed income project.

The concept underlying this approach is that the private developer can cross-subsidize the inclusionary units out of the proceeds of the market rate units, and should be required to provide these BMR units in exchange for development entitlements. This concept can work well in areas where there is strong underlying demand for market rate units, driving prices high enough to provide sufficient profit margin to a developer to proceed a project with BMR inclusionary units. In Redevelopment Project Areas, where blight mitigation is the overarching cause of the adoption of the Project Area, the concept of requiring inclusionary BMR units can sometimes work at cross-purposes, since the market rate units in these areas can carry risk and can not achieve high enough prices to provide the internal cross-subsidy needed to proceed with the project. In these cases, Redevelopment Agencies will often provide subsidies to the project, to ensure provision of the BMR inclusionary units. CRL requires as part of the redevelopment financing process that Redevelopment Agencies "set-aside" 20 percent of all tax increment proceeds received by the agency to be made available to construct BMR units. This required set-aside is often utilized by Redevelopment Agencies to invest in BMR units in new housing projects, providing sufficient incentive to the developer to proceed with the mixed income project (e.g., Monterey County is negotiating the provision of this type of funding to the proposed developers of the East Garrison residential project).

It is important to note that inclusionary housing goals are only one among many possible approaches to provide BMR units. For rental projects, cities and counties in California provide BMR units through numerous other programs, including support for Low Income Housing Tax Credit (LIHTC) rental projects utilizing federal tax benefits, use of various state bond programs which offer below market rate financing in exchange for provision of affordable units, and collection and investment of development impact fees on commercial projects to fund affordable projects. Moreover, when redevelopment housing set-aside funds are available, these approaches can be augmented by investing these funds into providing BMR units in new residential projects. Cities and counties can also purchase and buy down the cost of land.

For ownership units, cities and counties often create "silent second" mortgages and downpayment assistance programs, buy down the cost of land purchases, provide inexpensive construction loans to developers, and make grants to subsidize projects' infrastructure and/or other development costs.

Thus, the concept of "inclusionary" should be considered as one option to achieving a comprehensive affordable and workforce housing unit production goal, and can be paired with other programs and funding mechanisms to create a full spectrum of BMR units.

## Current Policies and Programs for BMR Housing at Former Fort Ord

All the property located within the former Fort Ord has been designated by member jurisdictions as part of an adopted Redevelopment Project Area. This means that California Community Redevelopment Law (CRL) requires that a minimum of 15 percent of all housing units built within these adopted Redevelopment Project Areas in former Fort Ord must be affordable to low and moderate income households (e.g., up to 120 percent AMI). Specifically, CRL requires that six percent of the total units built be affordable to households earning up to 50 percent AMI, and the remaining nine percent must be affordable to households up to 120 percent AMI (Marina and Monterey County have allocated this latter segment between 80 percent and 120 percent AMI).

In the case of FORA member jurisdictions, all jurisdictions have further agreed to increase this percentage so that a total of 20 percent of all new housing units will be affordable to low and moderate income households (i.e., up to 120 percent AMI).

As described in presentations to FORA's Board of Directors on September 12, 2003, FORA's member jurisdictions have also implemented various other programs to stimulate the production of affordable and workforce housing, including but not limited to use of federal and state programs, fee waivers, density bonuses for affordable units, and inclusionary set-asides. Some of these programs provide assistance to developers to close the "feasibility gap" that may result from lower sale or rental prices for BMR units. Other programs provide direct financial assistance to homebuyers, such as downpayment assistance for first-time homebuyers, but have no direct effect on development feasibility.

### *Summary of Prior Studies*

BAE reviewed six previous analyses of economic factors that affect the production of BMR residential units at the former Fort Ord or in surrounding jurisdictions. A summary of these studies can be found in Appendix B of this Report.

Two of these studies (Monterey County Housing Authority Memorandum and the 1999 Real Estate Valuation Spreadsheet) address a limited range of cost factors (e.g., land values and construction costs), and are not useful to determine the feasibility of an expanded inclusionary program. Four studies address a more comprehensive range of relevant revenue and cost factors, but are also somewhat limited because they do not address the relationships between costs and developer's overall profit, which are key to understanding the overall financial feasibility impact of an inclusionary component on a project's feasibility. Moreover, these studies, along with FORA's sample project analysis and 2001 Housing Workshop presentation, do not account for the recent rapid increase in market prices for new units, which may produce

developer profits sufficient to support greater inclusion of BMR units in an expanded combination of target income levels.

### Proposal to Increase BMR Production at Former Fort Ord

Congressman Sam Farr, a member of the FORA Board of Directors, has proposed an expanded goal for BMR housing production at the former Fort Ord. The proposal, as described in a letter dated July 1, 2003, outlines the following proposed policy as minimum percentages for BMR housing:

- Very Low Income (up to 50 percent AMI) - 10 percent of total units
- Low Income (51 percent AMI up to 80 percent AMI) - 10 percent of total units
- Moderate Income (81 percent AMI up to 120 percent AMI) - 20 percent of total units
- Workforce Housing (121 percent AMI up to 150 percent AMI) - 10 percent of total units

### Inventory of Current Projects' Status

For this report, BAE inventoried the current status of each of the residential projects sites identified in the Base Reuse Plan for former Fort Ord. These projects are summarized in Table 5, along with their percentage of BMR units either planned or under construction[8].

Several interesting findings emerge from this inventory of current residential projects' status. Based on current project planning, along with an assumption that the Miscellaneous Housing projects will meet the minimum current policies regarding inclusionary housing, the overall percent of BMR units planned to date equals 34 percent of total housing (including existing units) in the Base Reuse Plan, or 23 percent if just new development is considered.

An important source of housing are the employer-sponsored units provided on former Fort Ord lands by the California State University Monterey Bay (CSUMB) and the U.S. Army for their employees. Without this housing, these employees would be forced to look for housing in the local market, increasing demand. CSUMB considers its housing to be priced at workforce levels corresponding to faculty and staff salaries. Army housing is provided free to active-duty military personnel, in lieu of the Basic Allowance for Housing that they would otherwise receive to help them obtain a housing unit in the local market. The Army is currently in the planning process to replace existing military housing at the Ord military community site with new units comparable to new private sector residential development. Including these workforce housing units along with the other existing and new units at former Fort Ord means that 52 percent of the eventual 10,917 housing units will be BMR.

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[8] This inventory is labeled as "BMR" because for several existing housing projects that have been conveyed/rehabilitated/reoccupied there is a perception that the rehabilitated units are being offered at below market rates, although research indicated that these units are not income-restricted nor are they subject to rental rate limits – as older housing stock they are considered BMR by local jurisdictions.

## Table 5: Current and Future Fort Ord Residential Development Program
## Below Market Rate Housing Production

| Project | Product Types | Total Units | Total BMR | Distribution of Units by AMI Level | | | | | Status / Notes |
|---|---|---|---|---|---|---|---|---|---|
| | | | | 50% or Less | 51% - 80% | 81% - 120% | 121% - 170% | Other | |
| **NEW DEVELOPMENT - MARINA, MONTEREY COUNTY, SEASIDE** | | | | | | | | | |
| **MARINA (a)** | | | | | | | | | |
| Cypress Knolls | Rehab existing for Seniors | 408 | - | | | | | | Predevelopment |
| | Seniors Tax-Credit Apts | 72 | 72 | 72 | | | | | |
| | Assisted Living | 60 beds | n/a | | | | | | |
| Marina Heights | Attached Townhouse; Cottage; Detached SFR | 1,050 | 368 | 63 | | 95 | 210 | | In predevelopment<br>Approx 188 DU off-site at Abrams B |
| UC MBEST - 8th St. | TBD | 330 | 99 | 20 | 23 | 23 | 33 | | Future project TBD |
| University Villages | Tax-Credit Apts<br>Duets<br>Single-Family | 1,240 | 252 | 50 | 59 | 59 | 84 | | In predevelopment. 80% AMI units by non-profit partner "sweat-equity" program. Some inclusionary off-site |
| *Subtotal* | | *3,100* | *791* | *205* | *82* | *177* | *327* | | |
| | | | *26%* | *7%* | *3%* | *6%* | *11%* | | |
| **MONTEREY COUNTY (b)** | | | | | | | | | |
| East Garrison | Rehab existing for Artists<br>New Apts<br>Attached Townhouse<br>Detached SFR | 1,400 | 280 | 84 | 98 | 98 | | | In predevelopment |
| UC MBEST - E Campus | TBD | 200 | 40 | 12 | 14 | 14 | | | Future project TBD |
| *Subtotal* | | *1,600* | *320* | *96* | *112* | *112* | | | |
| | | | *20%* | *6%* | *7%* | *7%* | | | |
| **SEASIDE (c)** | | | | | | | | | |
| Brostrom | TBD | 180 | 36 | 11 | | 25 | | | Future project TBD |
| Seaside Golf Course | TBD | 125 | 26 | 8 | | 18 | | | Future project TBD |
| Seaside Highlands | Detached SFR | 380 | 57 | 23 | | 34 | | | In construction, inclusionary off-site |
| Stilwell Kidney | TBD | 350 | 70 | 21 | | 49 | | | Future project TBD |
| Sunbay | TBD | 64 | 13 | 4 | | 9 | | | Future project TBD |
| Other - E Seaside | TBD | 550 | 110 | 33 | | 77 | | | Future project TBD |
| *Subtotal* | | *1,649* | *312* | *100* | | *212* | | | |
| | | | *19%* | *6%* | | *13%* | | | |
| **OTHER (d)** | | | | | | | | | |
| (Marina, Co., Seaside) | TBD | 391 | 78 | 23 | | 55 | | | Future projects, locations TBD |
| | | | *20%* | *6%* | | *14%* | | | |
| **TOTAL NEW DEVELOPMENT (includes rehab)** | | **6,740** | **1,501** | **424** | **194** | **556** | **327** | | |
| | | | *22%* | *6%* | *3%* | *8%* | *5%* | | |
| *Total Units in Construction/Predevelopment* | | *4,550* | *68%* | | | | | | |
| *Total Units in Future Projects TBD* | | *2,190* | *32%* | | | | | | |

| Project | Product Types | Total Units | Total BMR | Distribution of Units by AMI Level | | | | | Status / Notes |
|---|---|---|---|---|---|---|---|---|---|
| | | | | 50% or Less | 51% - 80% | 81% - 120% | 121% - 170% | Other | |
| **EXISTING OCCUPIED UNITS - MARINA, MONTEREY COUNTY, SEASIDE** | | | | | | | | | |
| **MARINA** | | | | | | | | | |
| Preston Park/Abrams (e) | Existing rehabilitated rental | 544 | 544 | 70 | 38 | | | 436 | Military preference for portion of units |
| McKinney Act Units | Existing rehabilitated rental | 145 | 145 | 145 | - | | | | |
| *Subtotal* | | *689* | *689* | *215* | *38* | | | *436* | |
| | | | *100%* | *31%* | *6%* | | | *63%* | |
| **SEASIDE** | | | | | | | | | |
| Brostrom (f) | Existing rental | 220 | 220 | | | | | 220 | Sold by Army to lessee |
| Sunbay(f) | | 297 | 297 | | | | | 297 | Sold by Army to lessee |
| *Subtotal* | | *517* | *517* | | | | | *517* | |
| | | | *100%* | | | | | *100%* | |
| **TOTAL EXISTING UNITS** | | **1,206** | **1,206** | **215** | **38** | | | **953** | |
| | | | *100%* | *18%* | *3%* | | | *79%* | |
| **TOTAL NEW & EXISTING - MARINA, MONTEREY COUNTY, SEASIDE** | | | | | | | | | |
| **TOTAL ALL UNITS** | | **7,946** | **2,707** | **639** | **232** | **556** | **327** | **953** | |
| | | | *34%* | *8%* | *3%* | *7%* | *4%* | *12%* | |
| **EMPLOYER-SPONSORED HOUSING (g)** | | | | | | | | | |
| **CSUMB (h)** | Existing, new rental, for-sale | 1,383 | 1,383 | | | | | 1,383 | |
| **ARMY RCI (i)** | New (replacement) | 1,588 | 1,588 | | | | | 1,588 | |
| **TOTAL EMPLOYER-SPONSORED UNITS** | | **2,971** | **2,971** | | | | | **2,971** | |
| | | | *100%* | | | | | *100%* | |
| **TOTAL FORMER FORT ORD (j)** | | | | | | | | | |
| **TOTAL ALL UNITS** | | **10,917** | **5,678** | **639** | **232** | **556** | **327** | **3,924** | |
| | | | *52%* | *6%* | *2%* | *5%* | *3%* | *36%* | |

**Sources:** Cities of Marina and Seaside; Monterey County; University of California; FORA; Project Developers; Bay Area Economics, 2003.

**Definitions**: AMI = Area Median Income (see study for calculation); N/A = Not Applicable; SFR = Single Family Residential unit; TBD = To Be Determined

a) Marina provides incentives for voluntary 10% "workforce" housing to 150% AMI, assumed to be used by developers. Distribution of inclusionary units per City's program
b) County ordinance requires 20% inclusionary, distribution per ordinance
c) Inclusionary housing assumed based on 20% objective set by FORA. Seaside Highlands inclusionary is 15% per CRL requirements
d) This amount adjusted to reflect changes in new units at other sites, so as to remain within Base Reuse Plan cap for new units
e) 80% of units are not income-restricted, however City of Marina is reportedly not approving rent increases, resulting in pricing that is considered affordable to workforce households
f) Privately owned non-income restricted units; former military units considered uncompetitive with market-rate units and thus priced for workforce households
g) These units are included because residents would be expected to seek housing in the local market if units were not sponsored by their employer
h) CSUMB housing for faculty and others priced per CSUMB for its workforce. CSUMB may seek to build an additional 300 - 400 units
i) RCI units at Ord site. Active-duty military residents receive free housing in-lieu of their Basic Allowance for Housing. Non-active duty military residents would pay market rate
j) Includes Marina, Monterey County, Seaside, and employer-sponsored housing

November, 2003.

## Economic Theory of Inclusionary Housing

From a theoretical perspective, the price of a new housing unit reflects the cost to build the unit (including land cost, design, entitlement processing, fees and permits, site preparation, and construction) as well as developer profit. When new housing units are in strong demand, such as in many parts of Monterey County, the sale price of a unit can exceed the actual costs to construct the unit by a substantial amount, earning the developer a significant profit. Conversely, land and housing development projects sometimes have substantial risk associated with them, in terms of entitlements, timing, soil and infrastructure conditions, weather, materials costs, contractor capabilities, economic cycles, and mortgage interest rates. Thus, the potential to earn substantial profits in other situations can be offset by the risks of earning little or no profit, depending on the combination of factors and costs to produce the unit.

In general, the adoption of an expanded inclusionary goal within a jurisdiction will either reduce developer profits (assuming all other production costs are kept constant) or will decrease the value of unimproved land parcels zoned for housing. Depending on the circumstances, the expanded inclusionary goal could have both impacts to varying degrees.

- **Developer Profit Impacts of Inclusionary Goals.** One of the failings of many analyses of inclusionary housing programs is the assumption that the developer "loses" money for every inclusionary unit produced when either the unit's price is lower than the cost to produce it or the price is lower than what could have been obtained from sale of a market-rate unit. While this conclusion is accurate when considering just the BMR units, by definition, these BMR units are part of a larger market rate project, and the missing ingredient in such an analysis is the overall project's profit earned on the sale of market rate units. In today's housing market, unmet demand from consumers drives sale prices upwards, and revenues earned by the developer are unrelated to the underlying cost to produce the unit. In simple terms, most developers offer finished units at the highest price that the market will bear.

  For large production developers and builders, especially those with the ability to purchase land and hold it for some period of time, and/or the ability to purchase materials and labor at bulk rates, rising sale prices bring rising profits. Conversely, for developers of projects with unforeseen difficulties, increasing sale revenues are needed to cover the costs of producing the units, and may or may not produce profit margins acceptable to the developer.

  It is often argued that rather than accepting less than the maximum potential profits provided by rising home sale prices, developers when faced with inclusionary program requirements will choose to not proceed with project development, and instead move on to another jurisdiction that does not impose this financial burden. On the other hand, a recent study co-authored by the Non-Profit Housing Association of Northern California and the

California Coalition for Rural Housing[9], indicates that over 145 jurisdictions in California have adopted some form of citywide inclusionary requirements, and almost all of these jurisdictions continue to experience demand from developers seeking to build new housing.

- **Land Value Impacts of Inclusionary Requirements.** One of the key cost components of constructing a new housing unit is the cost of the land parcel. Under general economic theory, if all other cost components are kept constant, and sale prices are constant, burdening the project with an inclusionary requirement (whereby revenues for the BMR units are below total development cost and an acceptable developer profit) will eventually decrease the value of the jurisdiction's land parcels. However, counteracting this process in many areas of Monterey County is the presence of strong housing demand and rapidly rising new home sale prices that has brought a parallel rise in land values.

  From FORA's perspective, a potential decrease in land value would have significant adverse impacts on implementation of the Base Reuse Plan. The land intended for conveyance and sale to private developers for housing development at the former Fort Ord must earn FORA substantial land sale revenue in order to support its adopted Capital Improvement Program, which is needed to make the former Fort Ord usable for housing and economic development. A summary of required minimum land sale proceeds, based on FORA's current 2003 - 2004 Capital Improvement Program, is shown in Table 6.

### Why Consider An Expanded Inclusionary Housing Goal?

The concept of an expanded inclusionary housing goal for former Fort Ord offers an appealing mechanism to produce BMR housing units in a rising-price environment. From a public policy perspective, inclusionary housing policies do not require new public funding to subsidize unit production. However, the concept is controversial, and carries the risk of impacting critical land sale revenue to FORA to implement its Capital Improvements Program. Therefore, a key question related to adopting a broader workforce housing policy based on inclusionary goals will be the extent to which the resulting housing project can absorb the costs through a reduction in developer profits, or the costs will need to be absorbed through reductions in land sale revenues (which, in turn, will negatively impact reuse implementation).

[9] *Inclusionary Housing in California: 30 Years of Innovation*, Non-Profit Housing Association of Northern California (NPH) and California Coalition for Rural Housing. July 14, 2003.

## Table 6: Summary of Minimum FORA Land Sales

| Area Name | Location | FORA Land Sale Revenues | Total Land Sale Revenues | Total Units | Avg. Rev/Unit (Total) | Avg. Rev/Unit (FORA) |
|---|---|---|---|---|---|---|
| Marina Heights (new) | MAR | $5,300,000 | $10,600,000 | 1,050 | $10,095 | $5,048 |
| Cypress Knolls | MAR | $126,000 | $252,000 | 120 | $2,100 | $1,050 |
| W. University Village | MAR | $4,192,000 | $8,384,000 | 481 | $17,430 | $8,715 |
| N. University Village | MAR | $3,101,000 | $6,202,000 | 356 | $17,421 | $8,711 |
| UC 8th Street (a) | MAR | $0 | $0 | 330 | $0 | $0 |
| East Garrison | MCO | $12,629,000 | $25,258,000 | 1,450 | $17,419 | $8,710 |
| UC East Campus | MCO | $1,742,000 | $3,484,000 | 200 | $17,420 | $8,710 |
| Seaside Highlands | SEA | $0 | $0 | 380 | $0 | $0 |
| Seaside Golf Course | SEA | $0 | $0 | 125 | $0 | $0 |
| Sunbay Affordable | SEA | $872,000 | $1,744,000 | 64 | $27,250 | $13,625 |
| Stillwell Kidney | SEA | $3,045,000 | $6,090,000 | 350 | $17,400 | $8,700 |
| Seaside Residential | SEA | $4,791,000 | $9,582,000 | 550 | $17,422 | $8,711 |
| Other Residential | Various | $6,132,000 | $12,264,000 | 704 | $17,420 | $8,710 |
| **Total** | | **$41,930,000** | **$83,860,000** | **6,160** | **$13,613** | **$6,806** |

Sources: Muni Financial, BAE 2003.

# Economic Analysis of Inclusionary Options

This chapter analyzes the economic outlook for a series of prototypical residential projects at the former Fort Ord, in order to understand the potential for expanded BMR production utilizing an inclusionary approach based on current market factors and development feasibility. The following analysis is based on current market prices for a range of product types and total development costs, including FORA fees.

The objective of this analysis is to present a range of potential overall levels of inclusionary housing, with alternative mixes of affordability by income level, to demonstrate how this would affect development feasibility and FORA's ability to generate the land sale revenues needed to implement the Base Reuse Plan.

It is important to note that this approach purposefully generalizes the individual circumstances of each residential development project at the former Fort Ord, in order to test the range of possible accommodation of an increased BMR goal. Some of the residential projects are already too far along in their implementation process to alter the approach used to achieve BMR unit production, while other projects may be capable of modifications in agreements with local jurisdictions.

## Methodology

For the economic analysis, BAE developed a series of pro formas which represent prototypical new residential products planned for development at the former Fort Ord. These prototypes are based on the Base Reuse Plan and its residential land use designations as follows:

- **Low Density Residential** - Four to six units per gross acre, typically single family homes on lots averaging 6,000 square feet or more. BAE assumed five units per gross acre for this prototype.
- **Medium Density Residential** - Eight units per gross acre, typically small-lot single family homes averaging 4,000 to 5,000 square feet or more.
- **Planned Development** - This designation allows for a mix of densities, up to an overall density of 20 units per gross acre. BAE assumed that this designation would result in a slightly lower density of 18 units per gross acre, to accommodate primarily townhouse unit designs.

***Baseline Pro Formas (No BMR Units)***

BAE prepared a series of pro formas assuming a typical residential developer would build a mix of these three product types (low-density, medium-density, and planned residential), as reflected

in most of the project plans submitted to local jurisdictions to date[10]. BAE prepared a prototype pro forma for each product type, at the scale of 100 units, resulting in an estimate of total profit for each product type. BAE then combined the "bottom line" profit numbers for the three product types to measure an overall "combined" scenario, whereby a developer builds a mixed product community, with a 300 unit project allocated one-third to each of the three product types. These scenarios were considered the "Baseline," as they did not incorporate any BMR units.

A specific challenge of preparing this type of analysis in a setting like the former Fort Ord is capturing the range of development costs that are unique to each parcel. Some developers will have to deconstruct existing military buildings (or FORA must deconstruct them) while other developers will acquire land without substantial pre-existing structures. Developers face a range of impact fees imposed by each jurisdiction, and some developers believe that applying "prevailing wage" rates to market rate construction (per FORA policy) will cost more than other developers (and studies provide a range of predictions). Some developers face higher infrastructure costs to bring backbone infrastructure to each unit or project phase.

To account for these variable development costs, BAE prepared a Baseline series of pro formas at a Typical Cost level, and a second series of Baseline pro formas at a High Cost level. This approach is meant to bracket the likely range of experience of developers at the former Fort Ord, depending on the unique blend of circumstances.

Development costs for the Typical Cost pro formas are based on BAE's extensive experience with residential development feasibility, research on local development costs in Monterey County from our recent research on inclusionary housing in Salinas, and are adjusted to reflect circumstances at the former Fort Ord. Land costs are based on the cost per unit for land shown on Table 6 per the FORA CIP, relative to the product type being analyzed. Hard construction costs are based on actual costs provided by large production home-builders for actual projects in the area, adjusted by 15 percent to account for the effect of prevailing wage requirements. "In-tract" costs for roads, utilities, and other infrastructure are based on BAE's experience with a range of residential developments on the Monterey Peninsula. Fees and permits (including impact fees) are based on BAE's review of these costs with local agencies, including FORA.

[10] It should be noted that BAE prepared these pro formas assuming all market rate products are offered for-sale rather than for-rent, and that corresponding BMR units are also offered for-sale rather than for-rent. This basic assumption is made because the economics of the current marketplace means that it is difficult to achieve feasibility with sufficient profit margins for market-rate rental housing in the area containing the former Fort Ord, due to current market rental rates and the cost of developing new housing. Furthermore, developers are universally proposing that their market-rate components be developed and offered as for-sale units.

Other soft costs are calculated at 15 percent of hard construction costs[11]. These costs were reviewed with a developer panel of for-profit and non-profit developers active in Monterey County, as well as in individual interviews with developers, including some of those currently proposing projects at former Fort Ord.

The "High Cost" assumptions add costs for deconstruction of former military buildings, increased fee/permit costs, and increased in-tract infrastructure costs. The High Cost assumptions also include a greater effect from prevailing wage requirements, assuming a 30 percent increase in hard construction costs (rather than the 15 percent increase for "Typical Costs")[12].

The High Cost assumptions were made in response to developer interviews where it was suggested that factors specific to development at former Fort Ord result in higher than typical development expenses. Thus, the High Cost assumptions seek to capture the higher costs of some of the development projects at the former Fort Ord, including higher estimates for items such as deconstruction, anticipated additional fees and exactions, and "grey areas' of costs still under negotiation. For example, several developers asserted that they were responsible for all deconstruction, while FORA's CIP still shows it to be responsible for deconstruction costs at most residential sites (and FORA has indicated its willingness to consider a credit for the cost of such deconstruction allocable to a specific project against the land sale revenues that it would receive from the developer). Some developers also stated that they had extraordinarily high costs for infrastructure, beyond the in-tract numbers typically seen in Monterey County developments, and also beyond the costs for backbone infrastructure covered by the FORA fees. Although BAE could not independently verify these extraordinary costs for infrastructure, the High Cost scenarios nevertheless increase the in-tract estimates to reflect these potential additional costs.

Therefore, for example, the High Cost assumptions for fees/permits plus in-tract costs total $110,000 per lot for the low density residential, which corresponds very closely with a recent detailed engineering cost for a mixed use (but primarily residential) project provided to BAE by a developer planning a project at the former Fort Ord.

[11] Note: the 15 percent "soft" cost assumption is lower than some back-of-the-envelope estimates may utilize, because the fees and permit costs are broken out separately for this analysis, whereas often these cost items are included in back-of-the-envelope "soft" costs. If the fees/permit costs and soft costs estimated by BAE are re-aggregated, they equate to the common 25 percent of costs assumption.

[12] See Appendix C for explanation of the source of the range of 15 to 30 percent increase for prevailing wage costs at the former Fort Ord.

***Projects With BMR Units***

Next, BAE prepared pro formas for each product type, assuming an expanded range of BMR goals. The range of scenarios analyzed included full implementation of the 50 percent BMR goal as proposed by Mr. Farr, which includes 10 percent of units for households at 50 percent AMI (very low income), 10 percent of units at 80 percent AMI (low income), 20 percent of units at 81 percent to 120 percent (moderate income) -- for a total of 40 percent affordable units -- and 10 percent of units at 121 percent to 170 percent AMI[13] in the workforce housing category. Additional options were created based on Mr. Farr's proposal that involve a stepped down 40 percent BMR Inclusionary goal (including just those units aimed at 80 percent AMI and above), and a 30 percent BMR Inclusionary goal (just those units aimed at 120 percent AMI and above).

## Summary of Findings

Tables 7, 8, and 9 on the following pages summarize the economic analysis for the prototype projects formulated by BAE (the results for proposed residential developments at former Fort Ord may vary from these numbers based upon the particulars of projects). Detailed BAE pro formas and explanations of key assumptions are included in Appendix C. The analysis indicates the following:

***50 Percent BMR Inclusionary Proposal***

- Under the "Typical Cost" scenario, the per-unit profit ranges from $117,000 for the PD product type (e.g., townhouses) to more than $245,000 for the lower density single family unit product type for the Baseline Project (without BMR units).

- If the "Typical Cost" scenario were required to include the full 50 percent BMR proposal within the project, profits per unit decline to the $46,000 to $59,000 range per unit, depending on the product type. These profits are then measured on a combined basis (a 300 unit project example with 100 units of each of the three product types), resulting in acceptable profits of 18 percent of development costs, or 15 percent of net sales revenue (note: profit is expressed two different ways, using the same profit dollars). Based on other BAE work measuring the acceptable levels of developer return with other inclusionary programs, a 10 percent return on development costs is considered the minimum acceptable level[14].

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[13] Mr. Farr's proposal was up to 150 percent AMI; this was increased to 170 percent AMI by BAE to increase the number of workforce households able to access BMR units.

[14] Profit is measured here in two ways - as a percent of total development cost, and also as a percent of sales revenue net of marketing/commissions. These percentages are expressing the same dollar profit against two different bases, in order to satisfy the differing ways that developers and builders consider their return, depending on their business model. Please note that profit is not measured against equity investment here, because the amount of leverage (debt) used to finance a project varies from developer to

- If the "High Costs" are assumed, a comprehensive inclusionary goal with 50 percent of the units selling at BMR prices would not be feasible, yielding an overall loss of one percent on total development costs.

***40 Percent BMR Inclusionary Option***

This option examines inclusion of for-sale BMR units per Mr. Farr's proposal, excluding the 50 percent AMI component (10 percent of total proposed units). This option reflects the substantial gap between what households earning up to 50 percent of AMI can afford and the costs of producing standard single family residential units, and therefore may be better served through Low Income Housing Tax Credit (LIHTC) and other rental subsidy mechanisms such as funding available through housing set-aside tax increment funds generated in Redevelopment Project Areas.

- In the "Typical Cost" scenario, this option allows for profit of more than 30 percent on development costs (or 23 percent of net sales revenue). This is sufficient to feasibly develop the project under typical development costs.
- In the "High Cost" scenario, the profit on total development cost declines to 10 percent of development costs (or 9 percent of sales revenue). This finding suggests that a 40 percent inclusionary goal within a high cost project would barely be considered feasible, and may cause the developer to forego the project. However, it should be noted that there are 20 percent "set-aside" redevelopment funds that may be available to assist in these cases on a very limited basis, enabling these borderline feasible projects to proceed (see discussion later in this report).

***30 Percent BMR Inclusionary Option***

This option would incorporate just BMR units for sale to households at 120 percent AMI (20 percent of total) and at 170 percent AMI (10 percent of total). Lower income households would be served through other mechanisms.

The analysis only examines the "High Cost" scenario, as the prior analysis shows that under "typical costs," the 40 percent BMR goal option is feasible.

- In the "High Cost" scenario, a 30 percent BMR inclusionary goal appears feasible, returning profit of approximately 19 percent of total development costs (15 percent of net sales revenue).

*For all of these analyses, it should also be noted that if the BMR units were incorporated into the project as smaller PD products (rather than a percent of each product type as assumed in this report), profit margins may be improved sufficiently to allow for achieving higher BMR goals than shown herein.*

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developer, with some smaller developers using high leverage and some large production homebuilders financing projects primarily on equity (cash) basis.

## Table 7: Summary of 50% BMR Option

| | Typical Development Costs | | | | High Development Costs | | | |
|---|---|---|---|---|---|---|---|---|
| **Key Assumptions** | **Low Density For-Sale** | **Med Density For-Sale** | **PD For-Sale** | **Combined For-Sale** | **Low Density For-Sale** | **Med Density For-Sale** | **PD For-Sale** | **Combined For-Sale** |
| Number of Units | 100 | 100 | 100 | 300 | 100 | 100 | 100 | 300 |
| Density (Units/Gross Acre) | 5 | 8 | 18 | | 5 | 8 | 18 | |
| Unit Size (Avg. Sq. Ft.) | 2,600 | 2,200 | 1,600 | | 2,600 | 2,200 | 1,600 | |
| Sale Price per Unit (gross) (a) | $ 625,000 | $ 550,000 | $ 380,000 | | $ 625,000 | $ 550,000 | $ 380,000 | |
| Land Costs Per Unit (b) | $ 18,000 | $ 18,000 | $ 10,000 | | $ 18,000 | $ 18,000 | $ 10,000 | |
| Hard Costs Per Sq. Ft. | $ 70 | $ 70 | $ 75 | | $ 78 | $ 78 | $ 85 | |
| In-Tract Per Unit | $ 35,000 | $ 35,000 | $ 25,000 | | $ 50,000 | $ 50,000 | $ 40,000 | |
| Fees/Permits Per Unit | $ 55,000 | $ 55,000 | $ 50,000 | | $ 60,000 | $ 60,000 | $ 55,000 | |
| Other Soft Costs (c) | $ 56,822 | $ 50,199 | $ 38,813 | | $ 66,419 | $ 59,039 | $ 47,274 | |
| Deconstruction (per new unit) | $ - | $ - | $ - | | $ 10,000 | $ 10,000 | $ 10,000 | |
| Total Development Cost | $ 346,822 | $ 312,199 | $ 243,813 | | $ 407,219 | $ 368,639 | $ 298,274 | |
| **Profit - Baseline Per Unit (d)** | $ 246,928 | $ 210,301 | $ 117,187 | | $ 186,531 | $ 153,861 | $ 62,726 | |
| **Profit - With 50% BMR per Farr Proposal (e)** | | | | | | | | |
| Profit per Unit | $ 59,509 | $ 58,507 | $ 46,143 | | $ (888) | $ 2,067 | $ (8,318) | |
| Profit as % of Development Cost | 17% | 19% | 19% | 18% | 0% | 1% | -3% | -1% |
| Profit as % of Net Sales Revenue | 15% | 16% | 16% | 15% | 0% | 1% | -3% | -1% |

a) Sale price before commissions/marketing - see pro formas for full calculation

b) Based on MUNI Financial Estimate per CIP, see Table 6

c) Includes financing costs calculated at 70% loan to cost ratio; plus architectural, engineering, consultants, other predevelopment expenses at 15% of hard costs

d) See Appendix C for full calculations using all key assumptions, This table reports summary data only, and can not be directly used to calculate profit.

e) Assumes project includes 50% AMI units (10% of total) + 80% AMI units (10% of total) + 120% AMI units (20% of total) + 170% AMI units (10% of total)

Source: BAE, 2003.

## Table 8: Summary of 40% BMR Program Option

| | Typical Development Costs | | | | High Development Costs | | | |
|---|---|---|---|---|---|---|---|---|
| **Key Assumptions** | **Low Density For-Sale** | **Med Density For-Sale** | **PD For-Sale** | **Combined For-Sale** | **Low Density For-Sale** | **Med Density For-Sale** | **PD For-Sale** | **Combined For-Sale** |
| Number of Units | 100 | 100 | 100 | 300 | 100 | 100 | 100 | 300 |
| Density (Units/Gross Acre) | 5 | 8 | 18 | | 5 | 8 | 18 | |
| Unit Size (Sq. Ft.) | 2,600 | 2,200 | 1,600 | | 2,600 | 2,200 | 1,600 | |
| Sale Price per Unit (gross) (a) | $ 625,000 | $ 550,000 | $ 380,000 | | $ 625,000 | $ 550,000 | $ 380,000 | |
| Land Costs Per Unit (b) | $ 18,000 | $ 18,000 | $ 10,000 | | $ 18,000 | $ 18,000 | $ 10,000 | |
| Hard Costs Per Sq. Ft. | $ 70 | $ 70 | $ 75 | | $ 78 | $ 78 | $ 85 | |
| In-Tract Per Unit | $ 35,000 | $ 35,000 | $ 25,000 | | $ 50,000 | $ 50,000 | $ 40,000 | |
| Fees/Permits Per Unit | $ 55,000 | $ 55,000 | $ 50,000 | | $ 60,000 | $ 60,000 | $ 55,000 | |
| Other Soft Costs (c) | $ 56,822 | $ 50,199 | $ 38,813 | | $ 66,419 | $ 59,039 | $ 47,274 | |
| Deconstruction | $ - | $ - | $ - | | $ 10,000 | $ 10,000 | $ 10,000 | |
| Total Development Cost | $ 346,822 | $ 312,199 | $ 243,813 | | $ 407,219 | $ 368,639 | $ 298,274 | |
| **Proft - Baseline per Unit (d)** | $ 246,928 | $ 210,301 | $ 117,187 | | $ 186,531 | $ 153,861 | $ 62,726 | |
| **Profit - 40% BMR per Farr Proposal (e)** | | | | | | | | |
| Profit per Unit | $ 108,542 | $ 100,415 | $ 71,901 | | $ 48,146 | $ 43,976 | $ 17,440 | |
| Profit as % of Development Cost | 31% | 32% | 29% | 31% | 12% | 12% | 6% | 10% |
| Profit as % of Net Sales Revenue | 24% | 24% | 23% | 23% | 11% | 11% | 6% | 9% |

a) Sale price before commissions/marketing - see pro formas for full calculation

b) Based on MUNI Financial Estimate per CIP, see Table 6

c) Includes financing costs calculated at 70% loan to cost ratio; plus architectural, engineering, consultants, other predevelopment expenses at 15% of hard costs

d) See Appendix C for full calculations using all key assumptions, This table reports summary data only, and can not be directly used to calculate profit.

e) Assumes project includes 50% AMI units (10% of total) + 80% AMI units (10% of total) + 120% AMI units (20% of total) + 170% AMI units (10% of total)

Source: BAE, 2003.

## Table 9: Summary of 30% BMR Option

| | High Development Costs | | | |
|---|---|---|---|---|
| **Key Assumptions** | **Low Density For-Sale** | **Med Density For-Sale** | **PD For-Sale** | **Combined For-Sale** |
| Number of Units | 100 | 100 | 100 | 300 |
| Density (Units/Gross Acre) | 5 | 8 | 18 | |
| Unit Size (Sq. Ft.) | 2,600 | 2,200 | 1,600 | |
| Sale Price per Unit (gross) (a) | $ 625,000 | $ 550,000 | $ 380,000 | |
| Land Costs Per Unit (b) | $ 18,000 | $ 18,000 | $ 10,000 | |
| Hard Costs Per Sq. Ft. | $ 78 | $ 78 | $ 85 | |
| In-Tract Per Unit | $ 50,000 | $ 50,000 | $ 40,000 | |
| Fees/Permits Per Unit | $ 60,000 | $ 60,000 | $ 55,000 | |
| Other Soft Costs (c) | $ 66,419 | $ 59,039 | $ 47,274 | |
| Deconstruction | $ 10,000 | $ 10,000 | $ 10,000 | |
| Total Development Cost | $ 407,219 | $ 368,639 | $ 298,274 | |
| **Proft - Baseline per Unit (d)** | $ 186,531 | $ 153,861 | $ 62,726 | |
| **Proft - With 30% BMR per Farr Proposal (e)** | | | | |
| Profit per Unit | $ 90,967 | $ 79,672 | $ 36,986 | |
| Profit as % of Development Cost | 22% | 22% | 12% | 19% |
| Profit as % of Net Sales Revenue | 18% | 18% | 11% | 15% |

a) Sale price before commissions/marketing - see pro formas for full calculation

b) Based on MUNI Financial Estimate per CIP, see Table 6

c) Includes financing costs calculated at 70% loan to cost ratio; plus architectural, engineering, consultants, other predevelopment expenses at 15% of hard costs

d) See Appendix C for full calculations using all key assumptions, This table reports summary data only, and can not be directly used to calculate profit.

e) Assumes project includes 50% AMI units (10% of total) + 80% AMI units (10% of total) + 120% AMI units (20% of total) + 170% AMI units (10% of total)

Source: BAE, 2003.

# Conclusions and Implementation Challenges

## Conclusion from Economic Analysis

The economic analysis presented in the previous section suggests that BMR inclusionary housing production at the former Fort Ord could be expanded to an overall 40 percent inclusionary goal if it focuses on providing housing for-sale to households at the 80 percent to 170 percent AMI levels within otherwise market rate developments. As noted in the previous section on methodology, this conclusion is based on analysis of prototype residential development projects rather than detailed evaluation of the currently proposed development projects for former Fort Ord. Some projects, as currently proposed, may not be able to accommodate a 40 percent BMR inclusionary housing goal without additional subsidy, due to projects' specific high cost situations. Other non-economic factors, such as contractual arrangements between jurisdictions and developers to provide additional community benefits (e.g., new school construction, new parks, etc.) may also alter the potential to achieve this outcome.

In situations where "High Cost" development factors are present, an expanded BMR goal should allow for credits and/or subsidy assistance to those projects, depending on the specific circumstances present for the individual developer or builder. Households earning less than 80 percent AMI could be served through separate mechanisms which would assist the production of a range of rental product types. Two additional approaches to serve 80 percent AMI and less households are outlined below.

## Challenges to Expanded Former Fort Ord BMR Production

The preceding analysis illustrates the challenges facing FORA and member jurisdictions as expanded BMR housing production is considered for the former Fort Ord.

In summary, these challenges include:

- **FORA's Need to Obtain Minimum Land Sale Proceeds.** There is a need to preserve maximum land sale proceeds for FORA so that the Capital Improvement Program can be fully implemented. If an expanded BMR housing goal results in diminished land sales proceeds to FORA, it would be self-defeating, as the reduced funding would severely impact FORA's ability to prepare former Fort Ord sites for any type of development.

- **Variation in Development Costs Across Planned Projects.** Each residential and mixed use development project undertaken at the former Fort Ord will bring its own unique set of circumstances. Thus, each project will have a slightly or dramatically different outcome in terms of its ability to absorb an expanded BMR goal. .

- **Further Analysis Needed to Determine if PD Product Can Support Higher BMR Production.** The analysis conducted for this report did not vary the type of unit accommodating the BMR inclusion (i.e., it assumes that BMR inclusionary units are provided on a "like for like" basis for each product type). However, in practice, many developers have found that if their inclusionary requirements can be met through providing lower-margin townhouse unit product types, this approach can work well in combination with higher-margin single family homes developed at market rates. This approach may well accommodate the 40 percent BMR option, even under "high cost" situations.

- **Fiscal Impact of BMR Housing on Local General Funds.** One issue identified during research for this report is the concern expressed by local jurisdictions regarding the lost fiscal revenues from each former Fort Ord market rate unit that is replaced by a BMR unit. Specifically, each jurisdiction and FORA receives 28 percent of the incremental property tax revenue generated from new development on former Fort Ord lands within its boundary[15]. For example, the difference between the property tax increment for the lowest priced BMR for-sale unit considered for this report and the highest-priced market-rate unit would be approximately $1,500 per unit per year each for the jurisdiction and FORA.

  It is important to note that various types of BMR units may have different levels of impact. If BMR units are offered for-sale and constructed as part of a market rate project by for-profit developers, these units are placed on the property tax rolls and taxed according to their value (sale price). In contrast, when non-profit housing developers construct Low Income Housing Tax Credit rental projects, these projects are typically not subject to property tax.

  It should be noted that the scope of this report did not include addressing the overall combined fiscal impact from increased BMR housing production at former Fort Ord. A comprehensive fiscal impact study that addresses the changes in revenues as well as service costs would need to be conducted to provide a definitive answer.

## Additional Approaches to Achieving Expanded BMR Goal

***Dedicating Redevelopment Set-Aside Funds to Subsidize BMR Units as Needed***

During the course of researching this report, BAE observed that one mechanism which would assist BMR unit production, the dedication of tax increment set-aside funds to future BMR unit subsidies, was not uniformly proposed by each local jurisdiction. This funding source will

[15] Per FORA's authorizing legislation, the jurisdiction where a project is located and FORA each receive 35 percent of incremental property tax revenues, Monterey County receives 20 percent, and the remaining 5 percent goes to special districts. After deducting the 20 percent of tax increment retained by the State for ERAF, the share for the subject jurisdiction and FORA is 80 percent x 35 percent = 28 percent.

eventually be substantial, and could provide subsidies that assist in the provision of rental units, especially for workers and their households falling at 50 percent AMI or below.

Based on California Community Redevelopment Law (CRL), each project area's tax increment proceeds must be set aside so that at least 20 percent of total tax increment is spent to develop low and moderate income housing.

While a complete estimate of potential set-aside funds from all tax increment to be generated by former Fort Ord lands is not available, a very rough estimate of these potential funds indicates that the set-aside could total $5 million a year or more, which could support eventual tax allocation bonds in excess of $25 million or more. If 10 percent of the total BMR housing goal were funded by this revenue stream, for approximately 700 units of rental housing this would result in an average subsidy of $35,000 per low income rental unit. When combined with the availability of Low Income Housing Tax Credits, these subsidy sources offer the potential to develop substantial numbers of rental units affordable to households below 80 percent AMI, and combined with higher inclusionary housing production could get close to the goal of 50 percent BMR housing production that has been proposed.

***Workforce Preference Programs at Closed Military Bases***

Recognizing the impact high-cost housing markets have on employee recruitment and retention, some former military bases have joined with employers to offer housing benefit packages to workers at the firms locating on-site. These two examples may be used as models for the development of BMR workforce housing at Ford Ord as the project progresses.

**Hamilton Field.** Hamilton Field, in Marin County, was decommissioned by the United States Air Force in 1974, and incorporates an affordable housing program designed by the City of Novato Redevelopment Agency and implemented by Novato Community Partners (Shea Homes/Centex Homes).

Hamilton Field is divided into multiple development areas. Meadow Park, the largest 200-acre site on the main base, has a total of 708 new affordable homes, of which 351 are ownership, 297 are rental townhomes, and 60 are short-term rentals. These affordable units will serve low and moderate income households. Another 100-acre site, Pointe Marin, will have 344 single-family detached market-rate homes, as well as a 100-unit senior condominium development of which 67 units are affordable. Another small parcel will have 19 additional single-family detached homes, for a total of 1,171 units on-site.

The Hamilton Affordable Workforce Housing Resident Selection Plan reserves one-third of the affordable units at Meadow Park for public employees. The City of Novato implemented the Selection Plan because the City regularly encounters difficulty in recruiting and retaining qualified employees due to the lack of affordable housing in the area. This trend negatively impacts regional transportation, the jobs/housing balance, and the ability of the City and other public entities to provide an adequate level of public services. The Selection Plan gives first

priority to City of Novato employees, second priority to public sector employees associated with the City (e.g., Novato Unified School District), and third priority to other Marin County public agency employees.

**Presidio of San Francisco.** The Presidio Trust currently manages 1,100 housing units, and assigns priority to Presidio-based employees in all its residential leasing programs. A Presidio-based employee, as defined by the Trust, is someone who works a minimum of 32 hours per week for a business, organization, or institution located in the park. Eligible households must have 50 percent of adult household members be full-time employees at the Presidio.

In addition, the Presidio Trust manages a "Preferred Rental Program" which provides below market-rate rents to qualified Presidio-based employees. The Program reserves up to 20 percent of the housing stock in five Presidio neighborhoods (223 units total) for households earning up to the area median income. Of these affordable units, five percent are dedicated to households at or below 30 percent of the median income, 50 percent are reserved for households between 31 and 60 percent of median, and 45 percent are set aside for households between 61 and 100 percent of median. Residents pay 30 percent of their gross household income for rents, including utilities. The Presidio also offers 40 units for full-time Presidio-based fire fighters and U.S. Park Police officers. Participants in the "Public Safety Housing Program" pay up to 30 percent of individual salary for rent, including utilities.

Monterey County Affordable Housing Mortgage Calculator, 2003.

| | Household Income (a) | Sale Price | Down Payment (b) | Total Mortgage | Monthly Payment | Monthly Property Tax (c) | Monthly Insurance & HOA Dues (d) | Total Monthly PITI (e) |
|---|---|---|---|---|---|---|---|---|
| 30 Percent AMI | | | | | | | | |
| 4 Person HH | $17,150 | $65,393 | $13,079 | $52,314 | $331 | $57 | $41 | $429 |
| 50 Percent AMI | | | | | | | | |
| 4 Person HH | $28,550 | $108,861 | $21,772 | $87,089 | $550 | $95 | $68 | $714 |
| 80 Percent AMI | | | | | | | | |
| 4 Person HH | $45,700 | $174,253 | $34,851 | $139,403 | $881 | $152 | $109 | $1,143 |
| 100 Percent AMI | | | | | | | | |
| 4 Person HH | $55,600 | $212,002 | $42,400 | $169,602 | $1,072 | $186 | $133 | $1,390 |
| 120 Percent AMI | | | | | | | | |
| 4 Person HH | $66,700 | $254,326 | $50,865 | $203,461 | $1,286 | $223 | $159 | $1,668 |
| 150 Percent AMI | | | | | | | | |
| 4 Person HH | $83,400 | $318,003 | $63,601 | $254,402 | $1,608 | $278 | $199 | $2,085 |
| 170 Percent AMI | | | | | | | | |
| 4 Person HH | $94,520 | $360,403 | $72,081 | $288,323 | $1,822 | $315 | $225 | $2,363 |
| 200 Percent AMI | | | | | | | | |
| 4 Person HH | $111,200 | $424,004 | $84,801 | $339,203 | $2,144 | $371 | $265 | $2,780 |

Notes

(a) From California Dept. of Housing and Community Development, 2003 Income Limits.
(b) Mortgage terms:

| | |
|---|---|
| Annual Interest Rate (Fixed) | 6.5% |
| Term of mortgage (Years) | 30 |
| Percent of sale price as down payment | 20.0% |
| (c) Initial property tax rate (Annual) | 1.05% |
| (d) Annual insurance rate as percent of sale price | 0.75% |
| (e) PITI = Principal, Interest, Taxes, and Insurance | |
| (f) Percent of household income available for PITI | 30.0% |
| (g) Homeowner's Dues | $0 |

Source: CA Dept. Housing and Community Development; Bay Area Economics, 2003.

# Appendix B: Review of Prior Studies

### Monterey County Housing Authority Memorandum

This memorandum was prepared for the Authority's internal use to provide it with guidance in more accurately estimating development costs, including construction, "soft" costs (architecture, engineering, permitting, financing, fees, etc.), site improvement costs (including utilities), and developer fees and profit. The Authority contacted a variety of developers, contractors, and architects and identified a range of approaches and formulas used to create estimates of development cost. Based on its review the Authority felt that it could confidently identify a range of likely development costs, excluding the cost of land. One noteworthy conclusion is that federal prevailing wage requirements add approximately five percent to total development costs (with State prevailing wage rates approximately 10 percent higher than the federal rates calculated pursuant to the Davis-Bacon statute).

The memorandum also attempted to identify the cost of land and looked at currently available land. However, it was not possible for the analysis to evaluate the costs of land development, including entitlements and on- and off-site infrastructure improvements, that would be necessary to deliver a "finished" lot ready for residential construction.

The memorandum concluded that even with available land and water rights, land costs in the Monterey Peninsula area are prohibitive and would preclude the development of new housing affordable to moderate income (120 percent of AMI) or lower households.

### East Garrison Housing Affordability Alternatives Presentation

This presentation was prepared by Keyser Marston Associates (KMA) for Monterey County, who has an option agreement with Woodman Development for development of the East Garrison area of former Fort Ord. The purpose of the presentation was to summarize KMA's analysis of the extent to which the project proposed by Woodman Development could support greater amounts of BMR housing development. BAE was provided a copy of the presentation made to the County Board of Supervisors on June 25, 2002. Because the presentation document did not provide details regarding its assumptions and methodologies, BAE spoke with KMA to obtain additional information.

The analysis calculated the sales prices that could be afforded by four-person households at very low, low, and moderate income levels (up to 120 percent of AMI) based on Monterey County's inclusionary policy and then current income figures. It should be noted that the method used by Monterey County to estimate the maximum affordable house price for low income households differs from the BAE assumption presented in this memorandum. The County method assumes a five percent downpayment, and an interest rate of 8 percent (considerably higher than current market interest rates.

The analysis also calculates "workforce" housing for two categories of employees that would be employed at new commercial developments in former Fort Ord, based on the methodology created by Applied Development Economics (ADE) in a February 2002 report for Monterey County. That report distributed future employment growth in Monterey County by the housing values that could be supported by worker incomes. The two levels of workforce housing price ranges that were identified would roughly correspond to housing affordable to four-person households at 120 to 170 percent of AMI.

KMA evaluated five different alternatives for East Garrison development that represented various combination to satisfy County inclusionary housing requirements and the workforce housing needs identified in the ADE report. One alternative, a "base case" corresponding to Woodman Development's proposed project of 1,400 dwelling units, included six percent of the units affordable to four-person households with very low income (50 percent of AMI) and fourteen percent affordable to moderate income (120 percent of AMI) households, in order to satisfy the County's 20 percent inclusionary requirement and those of Community Redevelopment Law (CRL). The base case alternative provided an additional 21 percent of BMR housing units at up to $301,000 (which would be affordable to four-person households at 150 percent of AMI), and an additional 15 percent of BMR units at up to $376,000 (which would be available for households higher than 170 percent of AMI but less than 200 percent). The remaining 44 percent of units would be market-rate at prices in excess of $376,000. Thus, based on a BMR housing production requirement for units affordable to four-person households of up to 170 percent AMI, the base case would result in 41 percent of all units, or 578 units, being BMR. One of Woodman's strategies for lowering the cost of producing the units required by Monterey County's inclusionary ordinance would be to construct them as attached townhomes, rather than detached single family residences.

Based on its analysis of total development costs, including all FORA fees, KMA determined that even with a no-cost fully serviced lot provided for development of the inclusionary units (affordable to four-person households at 120 percent or less of AMI), there is still a "feasibility gap." The feasibility gap results because development cost exceeds sales price (or the value of the finished apartments even after use of low income housing tax credits available for rental housing for very low and low income households at 60 percent of AMI or lower). The total amount of the feasibility gap in the base case that would need to be closed from other subsidy sources in order to develop 280 units of housing for very low, low, and moderate income households, even after receipt of free lots ready for construction, was estimated at $20 million, or an average of nearly $72,000 per unit.

There are several undocumented assumptions missing from the presentation and not provided by KMA, so we were not able to verify the conclusions of the presentation. Perhaps most importantly, the theory underlying inclusionary housing requirements, whereby the developer profit is lowered overall but still sufficient to proceed with the project (e.g., cover some or all of the difference between sale prices and development costs for the BMR units, but made up by the high profit margins on the market rate units), is not addressed by the presentation.

### Proposed Seagate Development Financial Feasibility Evaluation

This presentation was prepared by KMA for the City of Seaside. Its purpose was to evaluate the economic feasibility information provided to the City by Pacific Union, the developer it selected for the site. KMA sought to estimate the order of magnitude of public financial assistance that may be necessary for the project to be financially feasible, estimate the property tax increment that would be generated, and recommend next steps for the City. The project as proposed consisted of 321 market-rate units at prices from $338,000 to $681,000 and 32 BMR units priced at $240,000 (this would be affordable to a four-person household of up to 120 percent of AMI). Pacific Union had identified to the City a need for both the Stilwell site to be transferred to it at no cost *and* for an additional $23 million in financial assistance in order for its project to be feasible. KMA's analysis was done in conjunction with other City consultants conducting an appraisal of the property and a peer review of the developer's estimated infrastructure costs.

KMA assumed lower demolition costs for existing Stilwell area housing based on recent costs at other former military bases in the Bay Area, lower contingency costs, and use of tax-exempt financing. Through use of cash flow projections, based on a standard developer profit of 10 percent, KMA confirmed a feasibility gap and estimated that for the project as proposed to be feasible the developer would need to be provided the land at no cost and up to an additional $7 million in financial assistance from the City. KMA determined that the reason for the feasibility gap is the extraordinary amount of demolition involved in removing 275 existing residential units, the BMR units representing approximately nine percent of total units, infrastructure costs totaling approximately $110,000 per unit (including FORA fees of approximately $35,000 per unit), and prevailing wage requirements (then) recently imposed by California Senate Bill 211. KMA also noted that another factor is that the size and quality of the homes and lots to be provided were consistent with the Bay Area market, but could not achieve Bay Area prices to support development (even though prices were at the top end of the then Seaside market).

Based on the increase in housing prices in Seaside since 2001, BAE expects that a project similar to that proposed by Pacific Union would be able to achieve higher sales prices. While higher prices would mean that BMR buyers could not afford any of the market-rate units, the additional revenues realized by the developer could potentially support a higher level of BMR production than nine percent of units and/or reduce the need for financial assistance from the City. Further financial analysis using current market sales prices would be needed to quantify these effects.

### FORA Housing Workshop Presentation

This October 25, 2001 presentation was prepared by FORA Staff, based in part upon analysis by MuniFinancial, including previous work by Economic & Planning Systems (EPS)[16]. (The MuniFinancial analysis is discussed in the next section.) The presentation estimates affordable rents and sale prices for a family of four. At this time higher rents and sale prices can be supported based on current incomes, market interest rates, and a higher downpayment requirement. The presentation also identifies the "fiscal burden" associated with production of BMR units (the difference between average cost of providing public services versus the tax revenue generated by each unit).

A sample housing project pro forma analysis is presented based upon the "slow economy" scenario prepared by MuniFinancial and EPS. The analysis presents the residual land value for a 400 unit development on 100 acres, with 20 percent of the units priced at $245,000 and affordable to moderate income households (120 percent of AMI) and 30 percent of the units priced at $175,000 and affordable to low income households (80 percent of AMI). The 50 percent Including FORA fees and other assumptions, as well as developer profit, the residual land value is estimated at approximately $2.7 million, or approximately $6,750 per lot.

The presentation's analysis is based on the MuniFinancial analysis described in the next section, and the comments noted there apply to this analysis as well.

### FORA Sample Project Analysis

MuniFinancial created a sample project analysis based on its work and a July 21, 1999 memorandum to FORA Board members from EPS. The sample project analysis estimates the residual (unimproved) land value for two scenarios, one for a "strong" economy and one for a "slow" economy. The analysis concludes that the per unit unimproved land value may range from $35,400 to $68,100 based on market values for finished units of $298,200 to $344,950. The analysis also estimates land sale proceeds to FORA, including the share from residential based on an average per unit unimproved land value of $16,600.

BAE believes that current development costs may be higher, including hard construction costs affected by State prevailing wage requirements, and other "soft" costs. These higher costs may be offset in part by higher values for for-sale market rate units. Financial analysis would be required to quantify the relative effect of these factors.

[16] The presentation addresses a range of other factors affecting reuse of former Fort Ord lands, including costs of infrastructure and other improvements, however this discussion is limited to those items relevant to production of market-rate and BMR residential units.

### Real Estate Valuation Spreadsheet (1999)

Annette Yee and Company prepared an analysis for FORA to support the negotiations at that time with the Army on the Economic Development Conveyance. The analysis is based on real estate values by the "Blue Ribbon Panel" of local real estate experts, as well as additional analysis by the City of Marina to account for additional road right-of-way set-asides in open space areas. The analysis calculates two alternative Army "release prices" totaling $70 million and subtracts the land value estimated by the Blue Ribbon Panel net of all costs of developing the land (including demolition, FORA fees, etc.). Adjustments are made to account for varying proportions of affordable housing at sites within former Fort Ord. The net residual value represents potential land sale proceeds to the various jurisdictions that will receive former Fort Ord lands.

The increase in real estate market values since 1999 would result in higher potential land sale proceeds, while at the same time a higher proportion of BMR housing may decrease land sale proceeds. Further financial analysis is required to quantify the effects of these factors.

# Appendix C: Key Assumptions and Pro Formas

## Key Assumptions

***Sale Revenues***

BAE based its estimates on sale prices by residential product type (low density, medium density, and planned development as defined in the Base Reuse Plan) on two types of sources. The first source is the limited number of currently selling subdivisions in the areas surrounding former Fort Ord, as described in Table 2 in the report. Of these comparables, the Seaside Highlands project was determined to be most relevant, although it does not include planned development/townhouse style units as are proposed for other sites at former Fort Ord. The second source is information provided by the proposed developers of sites within former Fort Ord. Based on these figures, BAE estimated the current market-rate sales price for new units at former Fort Ord as follows:

- Low-density large lot homes: $625,000
- Medium-density smaller lot homes: $550,000
- Planned development with attached townhouse units: $380,000

These figures would increase in future years to the extent that market sale prices continue to rise.

***Land Costs***

Land costs for "raw land" (i.e., land without entitlements, infrastructure, utilities, and in-tract improvements needed before construction can commence) was estimated based on work previously done by FORA's financial advisor, MuniFinancial. This calculation was done by MuniFinancial to estimate land sales revenues that would be available to fund FORA's Capital Improvement Program. BAE matched the predominant density for each planning area's residential product (e.g. Low Density to single family homes) to the residential product type assumed in BAE's pro formas.

The MuniFinancial estimates of value are based on work previously completed by other consultants dating back to 1999. The results of this analysis is presented in Table 6 in the report. It is important to note that the per-unit lot revenues shown on Table 6 are the minimum revenues needed by FORA to completely implement its CIP. Review of negotiations between local jurisdictions and some selected developers for projects currently under discussion may not achieve these minimum cash flows to FORA in a timely enough manner to actually fund the CIP improvements as estimated by MuniFinancial.

It should also be noted that the calculation of land value predates the recent substantial increase in home prices. As discussed in the report, these increases would eventually be expected to result in higher land values. The timing of such increases is difficult to estimate at this time,

and may be accelerated by the requirement for appraisals to confirm fair market value is received for sites sold to developers at former Fort Ord.

***Hard Costs: Prevailing Wage***

Chapter 3 of FORA's Master Resolution requires the payment of prevailing wages on all development projects within the former Fort Ord based on California Department of Industrial Relations (DIR) prevailing wage rates for commercial construction. The DIR publishes prevailing wage standards for various construction job classifications for commercial projects, and makes determination for residential prevailing wage rates on a project-by-project basis (projects receiving federal funds are required to comply with Davis-Bacon prevailing wage rates established by the U.S. Department of Labor). Since DIR regulations in 2001 and subsequent California Senate Bill 975 mandated the payment of prevailing wages on development projects receiving public assistance, there has been considerable controversy over its actual impact on construction costs. Estimates have ranged from three to five percent at the low end to 50 to 60 percent or more at the high end. Two recent studies have attempted to estimate the financial impact of prevailing wage requirements on construction projects: The *Effects of Prevailing Wage Requirements on the Cost of Low-Income Housing* (Dunn, Quigley, Rosenthal, Institute of Business and Economic Research [IBER] and the Fisher Center for Real Estate and Urban Economics, Program on Housing and Urban Policy Preliminary Working Paper No. W03-003, September 2003); and *An Analysis of Market and Prevailing Wage Rates for the Construction Trades in California* (Newman, Blosser, California Institute for County Government, July 2003).

The IBER/Fisher Center paper uses econometric models to estimate the cost of prevailing wage requirements for subsidized construction. The models are based on data from newly constructed affordable rental housing units built using Low Income Housing Tax Credits from 1997 to 2002. One resulting estimate of the increase in construction cost, accounting for geographical differences in project locations, ranges between 9 and 11 percent . Using a more sophisticated estimation technique, the impact of prevailing wage requirements on construction costs is estimated at between 18 and 25 percent. The primary limitation of this paper is its focus on a single product type, multifamily rental residential construction.

The Institute for County Government paper addresses only wage rates for construction trades in California. It compares 2002 wage rates for five trades (carpenters, electricians, drywall installers, HVAC/sheet metal workers, and plumbers) on a county-by-county basis, looking for both residential and commercial construction at market rates, Davis-Bacon federal prevailing wage rates, and DIR prevailing wage rates. Comparisons were then made between these three categories of wage rates for both commercial and residential construction. For the individual trades, the difference between average market rates for commercial construction and DIR prevailing wage rates ranged from 36 to 55 percent based on a population weighted average. Because the paper only addresses five trades and uses a methodology that does not permit an estimation of the overall impact of prevailing wage requirements on total construction cost

(unlike the IBER/Fisher Center paper), it is of limited utility for estimating how FORA's prevailing wage requirement might affect total construction costs.

BAE chose a midpoint in the range of increased cost from prevailing wage requirements identified in the IBER/Fisher Center paper, to estimate that FORA's prevailing wage requirement might increase total construction costs by 15 percent .

***In-Tract Costs***

In-tract costs refer to the developer cost of providing streets, infrastructure, utilities, and other improvements in order to develop housing on individual lots. These costs are in addition to the backbone infrastructure costs financed by FORA's Capital Improvement Program that provide primary roads and other infrastructure improvements throughout former Fort Ord.

BAE has reviewed in-tract development costs for a wide range of Northern California development projects. This includes work for developers who have previously submitted proposals for residential development at former Fort Ord, as well as recent work reviewing the costs of residential development in Salinas for an inclusionary housing study for that city. For this report, BAE also reviewed information provided by developers for proposed residential development in former Fort Ord. Based on this analysis, in-tract costs were estimated for the "Typical Cost" scenarios at $35,000 per dwelling unit for low-density and medium-density residential development, and $25,000 per dwelling unit for denser planned development (this is because the higher density of planned development results in a lower per-unit cost).

Some developers of proposed subdivisions in former Fort Ord identified a higher level of in-tract costs based on what they see as unique factors, including the costs of providing roads and other infrastructure between FORA's capital improvements and their specific sites. Although we were not able to determine whether these estimates include any "double-counting" of infrastructure already planned for funding by FORA's CIP (and paid by the FORA fee + other FORA revenues such as land sales), the "High Cost" scenario nevertheless assumes in-tract costs of $50,000 per unit for low- and medium-density development and $40,000 per unit for PD products.

***Developer Fees***

BAE evaluated two categories of fees that residential subdivision developers must pay to the City of Marina, Monterey County, the City of Seaside, and the Fort Ord Reuse Authority (FORA):

- *Impact fees*, levied to recover the capital improvement costs that would result from a proposed project. These fees are in addition to project-specific mitigation expenses that may be imposed as a result of California Environmental Quality Act (CEQA) review or other negotiations between the local jurisdiction and a developer; and

- *Processing and Permit Fees,* which are charged by local jurisdictions to recover the costs of processing entitlement applications, resulting reviews, plan checks, and issuance of building permits and inspections.

BAE contacted each of the three cities to determine the current fee schedules and how the fees would be levied on a prototype subdivision project of 300 dwelling units, including a low-density, medium-density, and planned development project as described in FORA's Base Reuse Plan.

*Impact Fees*
There are three separate entities that levy impact fees on development at the former Fort Ord: local jurisdictions; FORA; and the Monterey Peninsula Unified School District (MPUSD).

Only the City of Marina has a published impact fee schedule, with identified fees for public safety improvements, public facilities, and libraries that add up to $4,454 per dwelling unit. The City has also required developers for former Fort Ord projects to make additional contributions for community facilities and park improvements, however these are negotiated in the context of the City's sale of the project site to the developer rather than based on a set schedule.

The City of Seaside does not have an established impact fee. To date it has taken the approach of negotiating required developer improvements based on identified impacts, and expects to continue this approach in the future. For the Seaside Highlands project, these fees amounted to $7,289 per dwelling unit. Based on review with the City's consultant of potential impact fees for future projects, we have estimated Seaside's fees for capital improvements to be approximately $8,100 per dwelling unit.

Monterey County does not have an established impact fee schedule, as was not able to provide BAE with an estimate of potential impact-related fees that would be charged for residential development on former Fort Ord sites within County jurisdiction.

FORA charges an fee to fund its approved Capital Improvement Program (CIP) for former Fort Ord. The CIP includes the costs of building deconstruction (removal) in identified areas, the construction of a backbone road network, funding for regional transportation improvements to handle the traffic generated by new development at former Fort Ord, storm drainage improvements, habitat management, and other items. The current "FORA Fee", as of July 1, 2003, is $35,955 per new dwelling unit, and $10,810 per existing dwelling unit (the reduced cost for existing units is because much of the public facilities needed to serve them was previously constructed).

The MPUSD has an impact fee for new school construction of $2.14 per square foot of new development. However, for certain developments the MPUSD may elect to require the developer to construct a new facility in lieu of collecting the fee. Because these fees are

calculated on a square foot basis, they are larger for low-density development with larger residences, running $5,992 per dwelling unit for the BAE prototype project. The fee fell to $4,708 per dwelling unit for the medium-density prototype project, and $3,424 per dwelling unit for the planned development.

*Estimated Processing and Permit Fees*
BAE estimated the processing and permit fees associated with entitlements, subdivision mapping, plan check, building permit, and inspections in Marina, Monterey County, and Seaside. This analysis showed some variation between the three cities, as well as between the three prototype projects. A midpoint figure of $3,000 per dwelling unit was selected to estimate these costs.

*Summary of Estimated Impact Fees for Prototype Developments*
To encompass the range of impact fees and processing/permit fees as described above, which vary by jurisdiction, BAE conservatively estimated the "typical" total at $55,000 per unit for the low and medium-density single family units, and $50,000 for the PD product. Under the High Cost scenarios, this range was increased to $60,000 for the single family products and $55,000 per unit for the PD product.

***Other Soft Costs***
Soft costs include the costs of architects and engineers, other consultants including legal services, insurance, fees and permits, financing costs, and other non-construction related expenses. These costs typically run approximately 25 percent of hard construction costs.

For analysis purposes, BAE's prototype project pro formas separately break-out the costs of fees and permits (see the previous discussion in this appendix) and financing costs. This results in a reduced "Other Soft Costs" estimate of 15 percent of hard construction costs. With estimated fees and permits and financing costs added back, total soft costs would increase to 25 percent of hard construction cost.

For financing costs, BAE assumed a construction loan interest rate of seven percent, an average term for a 300 unit development of 30 months, an average outstanding balance of 50 percent, and prepaid points expense of two percentage points. In order to calculate an interest expense it was necessary to estimate the leverage for a prototype project (although as we have noted elsewhere leverage varies greatly from developer to developer). The estimated leverage for the prototype projects is 70 percent loan value to total cost.

***Deconstruction***
FORA's Capital Improvement Program provides for the deconstruction and removal of existing buildings from most areas of former Fort Ord (with the exception of selected areas such as Cypress and Abrams that mostly involve the rehabilitation of existing residential units). The cost of such deconstruction is covered by FORA's share of land sale receipts.

Because of concerns about the timing of FORA's work, some developers have expressed preference for assuming responsibility for deconstruction. FORA has expressed its willingness to consider providing developers who accept responsibility for completing deconstruction called for in the Capital Improvement Program with a negotiated credit against the land sale revenue that FORA would receive (similarly, a credit against the FORA fee might be considered for developer-assumed Capital Improvement Program elements that are financed from the FORA fee and are allocable to the proposed project). Consideration would have to occur on a case-by-case basis and it would be necessary for the avoided Capital Improvement Program costs to be allocable to the proposed development project. It is not possible to estimate in advance what credit, if any, a particular project might receive.

Since deconstruction is included in the Capital Improvement Program, the "Typical Cost" scenario does not include any cost for deconstruction. However, in order to address those specific sites where the Capital Improvement Program does not include deconstruction of former military buildings, or developers may not recoup the full cost, the "High Costs" scenario includes $10,000 per dwelling unit for deconstruction (the actual cost of deconstruction per dwelling unit will of course vary by the square feet of buildings to be deconstructed and their characteristics, including the extent of existing hazardous materials).

## Baseline Low Density (5 units/acre) - Typical Cost

| Major Assumptions | |
|---|---|
| **Characteristics of Project** | |
| Base Project Size (Units) | 100 |
| | |
| Project Density (DU/AC) | 5 |
| Site Size (acres) | 20.0 |
| Market Rate Units | 100 |
| Below Market Rate Units | 0 |
| | |
| *Product Mix:* | |
| 4 BR Market Rate | 100 |
| 4 BR - 50% AMI | - |
| 4 BR - 80% AMI | - |
| 4 BR - 120% AMI | - |
| 4 BR - 170% AMI | - |
| | |
| Unit Size (Sq. Ft.) | 2,600 |
| Parking Ratio | 2.0 |
| Parking Spaces (in garages) | 200 |
| | |
| *Project Size (Sq. Ft.):* | |
| Unit Total | 260,000 |
| Common Area | - |
| Total Residential | 260,000 |
| | |
| *Sale Prices:(a)* | |
| 4 BR Market Rate | $625,000 |
| 4 BR - 50% AMI | $108,861 |
| 4 BR - 80% AMI | $174,253 |
| 4 BR - 120% AMI | $254,326 |
| 4 BR - 170% AMI | $360,403 |
| | |
| **Development Costs** | |
| Land/Unit (b) | $18,000 |
| Construction Costs (Sq. Ft.) (c) | $70 |
| In-Tract Costs/Unit (d) | $35,000 |
| Fees (inc. FOR A + local) (e) | $55,000 |
| Other Soft Costs (f) | 15% |
| Cost/Parking Space | $0 |
| Deconstruction (per unit of new construction) | $0 |
| | |
| **Construction Financing Assumptions** | |
| Interest Rate | 7.0% |
| Period of Initial Loan (months) | 30 |
| Initial Construction Loan Fee (points) | 2% |
| Average Outstanding Balance | 50% |
| Loan to Cost Ratio | 70% |
| Hard & Soft Costs, Land, Site Costs, Decon | $32,255,000 |
| Amount of Loan | $22,578,500 |

| Pro Forma Analysis | |
|---|---|
| **Development Cost Summary** | |
| Land | $1,800,000 |
| Deconstruction | $0 |
| Unit Construction Cost | $18,200,000 |
| In-Tract | $3,500,000 |
| Parking Costs | $0 |
| Fees/Permits | $5,500,000 |
| Other Soft Costs | $3,255,000 |
| Finance Costs: | |
| Interest on Construction Loan | $1,975,619 |
| Points on Construction Loan | $451,570 |
| | |
| *Total Development Costs* | $34,682,189 |
| *Total Development Costs/Unit* | $346,822 |
| | |
| **Development Feasibility** | |
| Gross Sales Revenue | $62,500,000 |
| Less 5% Commissions/Marketing | $3,125,000 |
| Net Sales Revenue | $59,375,000 |
| Less Development Costs | $34,682,189 |
| **Developer Profit (Net Rev - Dev Costs)** | **$24,692,811** |
| **Profit Per Unit** | **$246,928** |
| **Profit as % of Development Cost** | **71%** |
| **Profit as % of Revenue** | **42%** |

NOTES:

a) Market rate prices estimated by BAE based on pricing for Seaside Highlands & East Garrison.
Below market prices based on BAE calculation of max affordable sale price per income thresholds.

b) based on FOR A Land Sales Projections per MUNI Financial.

c) based on estimates from Means, analysis by HAMCo, and estimates from various Fort Ord development projects.

d) based on review of various Fort Ord development proposals. Will range from $20,000 to $40,000 or more per unit.

e) Inc. current FOR A fee of $36,000, plus estimate of Marina, Seaside, and County permits/fees inc. impact fees as applicable.

f) Inc. architect, legal, pre-development, etc. Percent applied to hard costs + fees/permits + parking. Percent not applied to land cost.

Source: BAE, 2003.

## Baseline Med Density (8 units/acre) - Typical Cost

| Major Assumptions | |
|---|---|
| **Characteristics of Project** | |
| Base Project Size (Units) | 100 |
| Project Density (DU/AC) | 8 |
| Site Size (acres) | 12.5 |
| Market Rate Units | 100 |
| Below Market Rate Units | 0 |
| *Product Mix:* | |
| 3 BR Market Rate | 100 |
| 3 BR - 50% AMI | - |
| 3 BR - 80% AMI | - |
| 3 BR - 120% AMI | - |
| 3 BR - 170% AMI | - |
| Unit Size (Sq. Ft.) | 2,200 |
| Parking Ratio | 2.0 |
| Parking Spaces (in garages) | 200 |
| *Project Size (Sq. Ft.):* | |
| Unit Total | 220,000 |
| Common Area | - |
| Total Residential | 220,000 |
| *Sale Prices:(a)* | |
| 3 BR Market Rate | $550,000 |
| 3 BR - 50% AMI | $108,861 |
| 3 BR - 80% AMI | $174,253 |
| 3 BR - 120% AMI | $254,326 |
| 3 BR - 170% AMI | $360,403 |
| **Development Costs** | |
| Land/Unit (b) | $18,000 |
| Construction Costs (Sq. Ft.) (c) | $70 |
| In-Tract Costs/Unit (d) | $35,000 |
| Fees (inc. FOR A + local) (e) | $55,000 |
| Other Soft Costs (f) | 15% |
| Cost/Parking Space | $0 |
| Deconstruction (per new unit) | $0 |
| **Construction Financing Assumptions** | |
| Interest Rate | 7.0% |
| Period of Initial Loan (months) | 30 |
| Initial Construction Loan Fee (points) | 2% |
| Average Outstanding Balance | 50% |
| Loan to Cost Ratio | 70% |
| Hard & Soft Costs, Land, Site Costs , Decon | $29,035,000 |
| Amount of Loan | $20,324,500 |

| Pro Forma Analysis | |
|---|---|
| **Development Cost Summary** | |
| Land | $1,800,000 |
| Deconstruction | $0 |
| Unit Construction Cost | $15,400,000 |
| In-Tract | $3,500,000 |
| Parking Costs | $0 |
| Fees/Permits | $5,500,000 |
| Other Soft Costs | $2,835,000 |
| Finance Costs: | |
| Interest on Construction Loan | $1,778,394 |
| Points on Construction Loan | $406,490 |
| *Total Development Costs* | $31,219,884 |
| *Total Development Costs/Unit* | $312,199 |
| **Development Feasibility** | |
| Gross Sales Revenue | $55,000,000 |
| Less 5% Commissions/Marketing | $2,750,000 |
| Net Sales Revenue | $52,250,000 |
| Less Development Costs | $31,219,884 |
| **Developer Profit (Net Rev - Dev Costs)** | **$21,030,116** |
| **Profit Per Unit** | **$210,301** |
| **Profit as % of Development Cost** | **67%** |
| **Profit as % of Revenue** | **40%** |

NOTES:

a) Market rate prices estimated by BAE based on pricing for Seaside Highlands & East Garrison.
Below market prices based on BAE calculation of max affordable sale price per income thresholds.

b) based on FOR A Land Sales Projections per MUNI Financial.

c) based on estimates from Means, analysis by HAMCo, and estimates from various Fort Ord development projects.

d) based on review of various Fort Ord development proposals. Will range from $20,000 to $40,000 or more per unit.

e) Inc. current FOR A fee of $36,000, plus estimate of Marina, Seaside, and County permits/fees inc. impact fees as applicable.

f) Inc. architect, legal, pre-development, etc. Percent applied to hard costs + fees/permits + parking. Percent not applied to land cost.

Source: BAE, 2003.

## Baseline PD (18 units/acre) - Typical Cost

| Major Assumptions | |
|---|---|
| **Characteristics of Project** | |
| Base Project Size (Units) | 100 |
| | |
| Project Density (DU/AC) | 18 |
| Site Size (acres) | 5.6 |
| Market Rate Units | 100 |
| Below Market Rate Units | 0 |
| | |
| *Product Mix:* | |
| 3 BR Market Rate | 100 |
| 3 BR - 50% AMI | - |
| 3 BR - 80% AMI | - |
| 3 BR - 120% AMI | - |
| 3 BR - 170% AMI | - |
| | |
| Unit Size (Sq. Ft.) | 1,600 |
| Parking Ratio | 2.0 |
| Parking Spaces (in garages) | 200 |
| | |
| *Project Size (Sq. Ft.):* | |
| Unit Total | 160,000 |
| Common Area | - |
| Total Residential | 160,000 |
| | |
| *Sale Prices:(a)* | |
| 3 BR Market Rate | $380,000 |
| 3 BR - 50% AMI | $108,861 |
| 3 BR - 80% AMI | $174,253 |
| 3 BR - 120% AMI | $254,326 |
| 3 BR - 170% AMI | $360,403 |
| | |
| **Development Costs** | |
| Land/Unit (b) | $10,000 |
| Construction Costs (Sq. Ft.) (c) | $75 |
| In-Tract Costs/Unit (d) | $25,000 |
| Fees (inc. FOR A + local) (e) | $50,000 |
| Other Soft Costs (f) | 15% |
| Cost/Parking Space | $0 |
| Deconstruction (per new unit) | $0 |
| | |
| **Construction Financing Assumptions** | |
| Interest Rate | 7.0% |
| Period of Initial Loan (months) | 30 |
| Initial Construction Loan Fee (points) | 2% |
| Average Outstanding Balance | 50% |
| Loan to Cost Ratio | 70% |
| Hard & Soft Costs, Land, Site Costs , Decon | $22,675,000 |
| Amount of Loan | $15,872,500 |

| Pro Forma Analysis | |
|---|---|
| **Development Cost Summary** | |
| Land | $1,000,000 |
| Deconstruction | $0 |
| Unit Construction Cost | $12,000,000 |
| In-Tract | $2,500,000 |
| Parking Costs | $0 |
| Fees/Permits | $5,000,000 |
| Other Soft Costs | $2,175,000 |
| Finance Costs: | |
| Interest on Construction Loan | $1,388,844 |
| Points on Construction Loan | $317,450 |
| | |
| *Total Development Costs* | $24,381,294 |
| *Total Development Costs/Unit* | $243,813 |
| | |
| **Development Feasibility** | |
| Gross Sales Revenue | $38,000,000 |
| Less 5% Commissions/Marketing | $1,900,000 |
| Net Sales Revenue | $36,100,000 |
| Less Development Costs | $24,381,294 |
| **Developer Profit (Net Rev - Dev Costs)** | **$11,718,706** |
| **Profit Per Unit** | **$117,187** |
| **Profit as % of Development Cost** | **48%** |
| **Profit as % of Revenues** | **32%** |

NOTES:

a) Market rate prices estimated by BAE based on pricing for Seaside Highlands & East Garrison.
Below market prices based on BAE calculation of max affordable sale price per income thresholds.

b) based on FOR A Land Sales Projections per MUNI Financial.

c) based on estimates from Means, analysis by HAMCo, and estimates from various Fort Ord development projects.

d) based on review of various Fort Ord development proposals. Will range from $20,000 to $40,000 or more per unit.

e) Inc. current FOR A fee of $36,000, plus estimate of Marina, Seaside, and County permits/fees inc. impact fees as applicable.

f) Inc. architect, legal, pre-development, etc. Percent applied to hard costs + fees/permits + parking. Percent not applied to land cost.

Source: BAE, 2003.

## Baseline Low Density (5 units/acre) - with Farr Proposal at170% AMI, 50% BMR, Typical Cost

| Major Assumptions | |
|---|---|
| **Characteristics of Project** | |
| Base Project Size (Units) | 100 |
| | |
| Project Density (DU/AC) | 5 |
| Site Size (acres) | 20.0 |
| Market Rate Units | 50 |
| Below Market Rate Units | 50 |
| | |
| *Product Mix:* | |
| 4 BR Market Rate | 50 |
| 4 BR - 50% AMI | 10 |
| 4 BR - 80% AMI | 10 |
| 4 BR - 120% AMI | 20 |
| 4 BR - 170% AMI | 10 |
| | |
| Unit Size (Sq. Ft.) | 2,600 |
| Parking Ratio | 2.0 |
| Parking Spaces (in garages) | 200 |
| | |
| *Project Size (Sq. Ft.):* | |
| Unit Total | 260,000 |
| Common Area | - |
| Total Residential | 260,000 |
| | |
| *Sale Prices:* | |
| 4 BR Market Rate | $625,000 |
| 4 BR - 50% AMI | $108,861 |
| 4 BR - 80% AMI | $174,253 |
| 4 BR - 120% AMI | $254,326 |
| 4 BR - 170% AMI | $360,403 |
| | |
| **Development Costs** | |
| Land/Unit (b) | $18,000 |
| Construction Costs (Sq. Ft.) (c) | $70 |
| In-Tract Costs/Unit (d) | $35,000 |
| Fees (inc. FOR A + local) (e) | $55,000 |
| Other Soft Costs (f) | 15% |
| Cost/Parking Space | $0 |
| Deconstruction (per unit of new construction) | $0 |
| | |
| **Construction Financing Assumptions** | |
| Interest Rate | 7.0% |
| Period of Initial Loan (months) | 30 |
| Initial Construction Loan Fee (points) | 2% |
| Average Outstanding Balance | 50% |
| Loan to Cost Ratio | 70% |
| Hard & Soft Costs, Land, Site Costs , Decon | $32,255,000 |
| Amount of Loan | $22,578,500 |

| Pro Forma Analysis | |
|---|---|
| **Development Cost Summary** | |
| Land | $1,800,000 |
| Deconstruction | $0 |
| Unit Construction Cost | $18,200,000 |
| In-Tract | $3,500,000 |
| Parking Costs | $0 |
| Fees/Permits | $5,500,000 |
| Other Soft Costs | $3,255,000 |
| Finance Costs: | |
| Interest on Construction Loan | $1,975,619 |
| Points on Construction Loan | $451,570 |
| | |
| *Total Development Costs* | $34,682,189 |
| *Total Development Costs/Unit* | $346,822 |
| | |
| **Development Feasibility** | |
| Gross Sales Revenue | $42,771,695 |
| Less 5% Commissions/Marketing | $2,138,585 |
| Net Sales Revenue | $40,633,110 |
| Less Development Costs | $34,682,189 |
| **Developer Profit (Net Rev - Dev Costs)** | **$5,950,921** |
| **Profit Per Unit** | **$59,509** |
| **Profit as % of Development Cost** | **17%** |
| **Profit as % of Revenue** | **15%** |

NOTES:

1) Based on conversations with local developers and analysis of local housing market conditions.

2) Based on current financing terms.

3) Based on conversations with local developers, appraisers, and BAE land residual value analysis.

4) Based on conversations with local developers and BAE analysis.

5) Based on conversations with local developers and the City of Salinas. Includes site prep and off-site improvements.

6) Based on conversations with local developers and the City of Salinas and BAE analysis.

7) Estimate based on recent comparable Salinas projects. Includes A&E, legal, general conditions, taxes, closing costs, contingency, portion of overhead. Percentage of hard costs, site costs.

8) Parking included in unit construction costs.

Source: BAE, 2003.

## Baseline Med Density (8 units/acre) - With Farr Proposal at 170% AMI, 50% BMR, Typical Cos

| Major Assumptions | |
|---|---|
| **Characteristics of Project** | |
| Base Project Size (Units) | 100 |
| | |
| Project Density (DU/AC) | 8 |
| Site Size (acres) | 12.5 |
| Market Rate Units | 50 |
| Below Market Rate Units | 50 |
| | |
| *Product Mix:* | |
| 3 BR Market Rate | 50 |
| 3 BR - 50% AMI | 10 |
| 3 BR - 80% AMI | 10 |
| 3 BR - 120% AMI | 20 |
| 3 BR - 170% AMI | 10 |
| | |
| Unit Size (Sq. Ft.) | 2,200 |
| Parking Ratio | 2.0 |
| Parking Spaces (in garages) | 200 |
| | |
| *Project Size (Sq. Ft.):* | |
| Unit Total | 220,000 |
| Common Area | - |
| Total Residential | 220,000 |
| | |
| *Sale Prices:(a)* | |
| 3 BR Market Rate | $550,000 |
| 3 BR - 50% AMI | $108,861 |
| 3 BR - 80% AMI | $174,253 |
| 3 BR - 120% AMI | $254,326 |
| 3 BR - 170% AMI | $360,403 |
| | |
| **Development Costs** | |
| Land/Unit (b) | $18,000 |
| Construction Costs (Sq. Ft.) (c) | $70 |
| In-Tract Costs/Unit (d) | $35,000 |
| Fees (inc. FOR A + local) (e) | $55,000 |
| Other Soft Costs (f) | 15% |
| Cost/Parking Space | $0 |
| Deonstruction (per new unit) | $0 |
| | |
| **Construction Financing Assumptions** | |
| Interest Rate | 7.0% |
| Period of Initial Loan (months) | 30 |
| Initial Construction Loan Fee (points) | 2% |
| Average Outstanding Balance | 50% |
| Loan to Cost Ratio | 70% |
| Hard & Soft Costs, Land, Site Costs , Decon | $29,035,000 |
| Amount of Loan | $20,324,500 |

| Pro Forma Analysis | |
|---|---|
| **Development Cost Summary** | |
| Land | $1,800,000 |
| Deconstruction | $0 |
| Unit Construction Cost | $15,400,000 |
| In-Tract | $3,500,000 |
| Parking Costs | $0 |
| Fees/Permits | $5,500,000 |
| Other Soft Costs | $2,835,000 |
| Finance Costs: | |
| Interest on Construction Loan | $1,778,394 |
| Points on Construction Loan | $406,490 |
| | |
| *Total Development Costs* | $31,219,884 |
| *Total Development Costs/Unit* | $312,199 |
| | |
| **Development Feasibility** | |
| Gross Sales Revenue | $39,021,695 |
| Less 5% Commissions/Marketing | $1,951,085 |
| Net Sales Revenue | $37,070,610 |
| Less Development Costs | $31,219,884 |
| **Developer Profit (Net Rev - Dev Costs)** | **$5,850,726** |
| **Profit Per Unit** | **$58,507** |
| **Profit as % of Development Cost** | **19%** |
| **Profit as % of Revenue** | **16%** |

NOTES:

a) Market rate prices estimated by BAE based on pricing for Seaside Highlands & East Garrison.
Below market prices based on BAE calculation of max affordable sale price per income thresholds.

b) based on FOR A Land Sales Projections per MUNI Financial.

c) based on estimates from Means, analysis by HAMCo, and estimates from various Fort Ord development projects.

d) based on review of various Fort Ord development proposals. Will range from $20,000 to $40,000 or more per unit.

e) Inc. current FOR A fee of $36,000, plus estimate of Marina, Seaside, and County permits/fees inc. impact fees as applicable.

f) Inc. architect, legal, pre-development, etc. Percent applied to hard costs + fees/permits + parking. Percent not applied to land cost.

Source: BAE, 2003.

## Baseline PD (18 units/acre) - with Farr Proposal at 170% AMI, 50% BMR, Typical Cost

| Major Assumptions | |
|---|---|
| **Characteristics of Project** | |
| Base Project Size (Units) | 100 |
| | |
| Project Density (DU/AC) | 18 |
| Site Size (acres) | 5.6 |
| Market Rate Units | 50 |
| Below Market Rate Units | 50 |
| | |
| *Product Mix:* | |
| 3 BR Market Rate | 50 |
| 3 BR - 50% AMI | 10 |
| 3 BR - 80% AMI | 10 |
| 3 BR - 120% AMI | 20 |
| 3 BR - 170% AMI | 10 |
| | |
| Unit Size (Sq. Ft.) | 1,600 |
| Parking Ratio | 2.0 |
| Parking Spaces (in garages) | 200 |
| | |
| *Project Size (Sq. Ft.):* | |
| Unit Total | 160,000 |
| Common Area | - |
| Total Residential | 160,000 |
| | |
| *Sale Prices:(a)* | |
| 3 BR Market Rate | $380,000 |
| 3 BR - 50% AMI | $108,861 |
| 3 BR - 80% AMI | $174,253 |
| 3 BR - 120% AMI | $254,326 |
| 3 BR - 170% AMI | $360,403 |
| | |
| **Development Costs** | |
| Land/Unit (b) | $10,000 |
| Construction Costs (Sq. Ft.) (c) | $75 |
| In-Tract Costs/Unit (d) | $25,000 |
| Fees (inc. FOR A + local) (e) | $50,000 |
| Other Soft Costs (f) | 15% |
| Cost/Parking Space | $0 |
| Deconstruction (per new unit) | $0 |
| | |
| **Construction Financing Assumptions** | |
| Interest Rate | 7.0% |
| Period of Initial Loan (months) | 30 |
| Initial Construction Loan Fee (points) | 2% |
| Average Outstanding Balance | 50% |
| Loan to Cost Ratio | 70% |
| Hard & Soft Costs, Land, Site Costs , Decon | $22,675,000 |
| Amount of Loan | $15,872,500 |

| Pro Forma Analysis | |
|---|---|
| **Development Cost Summary** | |
| Land | $1,000,000 |
| Deconstruction | $0 |
| Unit Construction Cost | $12,000,000 |
| In-Tract | $2,500,000 |
| Parking Costs | $0 |
| Fees/Permits | $5,000,000 |
| Other Soft Costs | $2,175,000 |
| Finance Costs: | |
| Interest on Construction Loan | $1,388,844 |
| Points on Construction Loan | $317,450 |
| | |
| *Total Development Costs* | $24,381,294 |
| *Total Development Costs/Unit* | $243,813 |
| | |
| **Development Feasibility** | |
| Gross Sales Revenue | $30,521,695 |
| Less 5% Commissions/Marketing | $1,526,085 |
| Net Sales Revenue | $28,995,610 |
| Less Development Costs | $24,381,294 |
| **Developer Profit (Net Rev - Dev Costs)** | **$4,614,316** |
| **Profit Per Unit** | **$46,143** |
| **Profit as % of Development Cost** | **19%** |
| **Profit as % of Revenues** | **16%** |

NOTES:

a) Market rate prices estimated by BAE based on pricing for Seaside Highlands & East Garrison.
Below market prices based on BAE calculation of max affordable sale price per income thresholds.

b) based on FOR A Land Sales Projections per MUNI Financial.

c) based on estimates from Means, analysis by HAMCo, and estimates from various Fort Ord development projects.

d) based on review of various Fort Ord development proposals. Will range from $20,000 to $40,000 or more per unit.

e) Inc. current FOR A fee of $36,000, plus estimate of Marina, Seaside, and County permits/fees inc. impact fees as applicable.

f) Inc. architect, legal, pre-development, etc. Percent applied to hard costs + fees/permits + parking. Percent not applied to land cost.

Source: BAE, 2003.

## Baseline Low Density (5 units/acre) - High Costs

| Major Assumptions | |
|---|---|
| **Characteristics of Project** | |
| Base Project Size (Units) | 100 |
| | |
| Project Density (DU/AC) | 5 |
| Site Size (acres) | 20.0 |
| Market Rate Units | 100 |
| Below Market Rate Units | 0 |
| | |
| *Product Mix:* | |
| 4 BR Market Rate | 100 |
| 4 BR - 50% AMI | - |
| 4 BR - 80% AMI | - |
| 4 BR - 120% AMI | - |
| 4 BR - 170% AMI | - |
| | |
| Unit Size (Sq. Ft.) | 2,600 |
| Parking Ratio | 2.0 |
| Parking Spaces (in garages) | 200 |
| | |
| *Project Size (Sq. Ft.):* | |
| Unit Total | 260,000 |
| Common Area | - |
| Total Residential | 260,000 |
| | |
| *Sale Prices:(a)* | |
| 4 BR Market Rate | $625,000 |
| 4 BR - 50% AMI | $108,861 |
| 4 BR - 80% AMI | $174,253 |
| 4 BR - 120% AMI | $254,326 |
| 4 BR - 170% AMI | $360,403 |
| | |
| **Development Costs** | |
| Land/Unit (b) | $18,000 |
| Construction Costs (Sq. Ft.) (c) | $78 |
| In-Tract Costs/Unit (d) | $50,000 |
| Fees (inc. FOR A + local) (e) | $60,000 |
| Other Soft Costs (f) | 15% |
| Cost/Parking Space | $0 |
| Deconstruction (per unit of new construction) | $10,000 |
| | |
| **Construction Financing Assumptions** | |
| Interest Rate | 7.0% |
| Period of Initial Loan (months) | 30 |
| Initial Construction Loan Fee (points) | 2% |
| Average Outstanding Balance | 50% |
| Loan to Cost Ratio | 70% |
| Hard & Soft Costs, Land, Site Costs, Decon | $37,872,000 |
| Amount of Loan | $26,510,400 |

| Pro Forma Analysis | |
|---|---|
| **Development Cost Summary** | |
| Land | $1,800,000 |
| Deconstruction | $1,000,000 |
| Unit Construction Cost | $20,280,000 |
| In-Tract | $5,000,000 |
| Parking Costs | $0 |
| Fees/Permits | $6,000,000 |
| Other Soft Costs | $3,792,000 |
| Finance Costs: | |
| Interest on Construction Loan | $2,319,660 |
| Points on Construction Loan | $530,208 |
| | |
| *Total Development Costs* | $40,721,868 |
| *Total Development Costs/Unit* | $407,219 |
| | |
| **Development Feasibility** | |
| Gross Sales Revenue | $62,500,000 |
| Less 5% Commissions/Marketing | $3,125,000 |
| Net Sales Revenue | $59,375,000 |
| Less Development Costs | $40,721,868 |
| **Developer Profit (Net Rev - Dev Costs)** | **$18,653,132** |
| **Profit Per Unit** | **$186,531** |
| **Profit as % of Development Cost** | **46%** |
| **Profit as % of Revenue** | **31%** |

NOTES:

a) Market rate prices estimated by BAE based on pricing for Seaside Highlands & East Garrison.
Below market prices based on BAE calculation of max affordable sale price per income thresholds.

b) based on FOR A Land Sales Projections per MUNI Financial.

c) based on estimates from Means, analysis by HAMCo, and estimates from various Fort Ord development projects.

d) based on review of various Fort Ord development proposals. Will range from $20,000 to $40,000 or more per unit.

e) Inc. current FOR A fee of $36,000, plus estimate of Marina, Seaside, and County permits/fees inc. impact fees as applicable.

f) Inc. architect, legal, pre-development, etc. Percent applied to hard costs + fees/permits + parking. Percent not applied to land cost.

Source: BAE, 2003.

## Baseline Med Density (8 units/acre) - High Costs

| Major Assumptions | |
|---|---|
| **Characteristics of Project** | |
| Base Project Size (Units) | 100 |
| | |
| Project Density (DU/AC) | 8 |
| Site Size (acres) | 12.5 |
| Market Rate Units | 100 |
| Below Market Rate Units | 0 |
| | |
| *Product Mix:* | |
| 3 BR Market Rate | 100 |
| 3 BR - 50% AMI | - |
| 3 BR - 80% AMI | - |
| 3 BR - 120% AMI | - |
| 3 BR - 170% AMI | - |
| | |
| Unit Size (Sq. Ft.) | 2,200 |
| Parking Ratio | 2.0 |
| Parking Spaces (in garages) | 200 |
| | |
| *Project Size (Sq. Ft.):* | |
| Unit Total | 220,000 |
| Common Area | - |
| Total Residential | 220,000 |
| | |
| *Sale Prices:(a)* | |
| 3 BR Market Rate | $550,000 |
| 3 BR - 50% AMI | $108,861 |
| 3 BR - 80% AMI | $174,253 |
| 3 BR - 120% AMI | $254,326 |
| 3 BR - 170% AMI | $360,403 |
| | |
| **Development Costs** | |
| Land/Unit (b) | $18,000 |
| Construction Costs (Sq. Ft.) (c) | $78 |
| In-Tract Costs/Unit (d) | $50,000 |
| Fees (inc. FOR A + local) (e) | $60,000 |
| Other Soft Costs (f) | 15% |
| Cost/Parking Space | $0 |
| Deconstruction (per new unit) | $10,000 |
| | |
| **Construction Financing Assumptions** | |
| Interest Rate | 7.0% |
| Period of Initial Loan (months) | 30 |
| Initial Construction Loan Fee (points) | 2% |
| Average Outstanding Balance | 50% |
| Loan to Cost Ratio | 70% |
| Hard & Soft Costs, Land, Site Costs , Decon | $34,284,000 |
| Amount of Loan | $23,998,800 |

| Pro Forma Analysis | |
|---|---|
| **Development Cost Summary** | |
| Land | $1,800,000 |
| Deconstruction | $1,000,000 |
| Unit Construction Cost | $17,160,000 |
| In-Tract | $5,000,000 |
| Parking Costs | $0 |
| Fees/Permits | $6,000,000 |
| Other Soft Costs | $3,324,000 |
| Finance Costs: | |
| Interest on Construction Loan | $2,099,895 |
| Points on Construction Loan | $479,976 |
| | |
| *Total Development Costs* | $36,863,871 |
| *Total Development Costs/Unit* | $368,639 |
| | |
| **Development Feasibility** | |
| Gross Sales Revenue | $55,000,000 |
| Less 5% Commissions/Marketing | $2,750,000 |
| Net Sales Revenue | $52,250,000 |
| Less Development Costs | $36,863,871 |
| **Developer Profit (Net Rev - Dev Costs)** | **$15,386,129** |
| **Profit Per Unit** | **$153,861** |
| **Profit as % of Development Cost** | **42%** |
| **Profit as % of Revenue** | **29%** |

NOTES:

a) Market rate prices estimated by BAE based on pricing for Seaside Highlands & East Garrison.
Below market prices based on BAE calculation of max affordable sale price per income thresholds.

b) based on FOR A Land Sales Projections per MUNI Financial.

c) based on estimates from Means, analysis by HAMCo, and estimates from various Fort Ord development projects.

d) based on review of various Fort Ord development proposals. Will range from $20,000 to $40,000 or more per unit.

e) Inc. current FOR A fee of $36,000, plus estimate of Marina, Seaside, and County permits/fees inc. impact fees as applicable.

f) Inc. architect, legal, pre-development, etc. Percent applied to hard costs + fees/permits + parking. Percent not applied to land cost.

Source: BAE, 2003.

## Baseline PD (18 units/acre) - High Costs

| Major Assumptions | |
|---|---|
| **Characteristics of Project** | |
| Base Project Size (Units) | 100 |
| | |
| Project Density (DU/AC) | 18 |
| Site Size (acres) | 5.6 |
| Market Rate Units | 100 |
| Below Market Rate Units | 0 |
| | |
| *Product Mix:* | |
| 3 BR Market Rate | 100 |
| 3 BR - 50% AMI | - |
| 3 BR - 80% AMI | - |
| 3 BR - 120% AMI | - |
| 3 BR - 170% AMI | - |
| | |
| Unit Size (Sq. Ft.) | 1,600 |
| Parking Ratio | 2.0 |
| Parking Spaces (in garages) | 200 |
| | |
| *Project Size (Sq. Ft.):* | |
| Unit Total | 160,000 |
| Common Area | - |
| Total Residential | 160,000 |
| | |
| *Sale Prices:(a)* | |
| 3 BR Market Rate | $380,000 |
| 3 BR - 50% AMI | $108,861 |
| 3 BR - 80% AMI | $174,253 |
| 3 BR - 120% AMI | $254,326 |
| 3 BR - 170% AMI | $360,403 |
| | |
| **Development Costs** | |
| Land/Unit (b) | $10,000 |
| Construction Costs (Sq. Ft.) (c) | $85 |
| In-Tract Costs/Unit (d) | $40,000 |
| Fees (inc. FOR A + local) (e) | $55,000 |
| Other Soft Costs (f) | 15% |
| Cost/Parking Space | $0 |
| Deconstruction (per new unit) | $10,000 |
| | |
| **Construction Financing Assumptions** | |
| Interest Rate | 7.0% |
| Period of Initial Loan (months) | 30 |
| Initial Construction Loan Fee (points) | 2% |
| Average Outstanding Balance | 50% |
| Loan to Cost Ratio | 70% |
| Hard & Soft Costs, Land, Site Costs , Decon | $27,740,000 |
| Amount of Loan | $19,418,000 |

| Pro Forma Analysis | |
|---|---|
| **Development Cost Summary** | |
| Land | $1,000,000 |
| Deconstruction | $1,000,000 |
| Unit Construction Cost | $13,600,000 |
| In-Tract | $4,000,000 |
| Parking Costs | $0 |
| Fees/Permits | $5,500,000 |
| Other Soft Costs | $2,640,000 |
| Finance Costs: | |
| Interest on Construction Loan | $1,699,075 |
| Points on Construction Loan | $388,360 |
| | |
| *Total Development Costs* | $29,827,435 |
| *Total Development Costs/Unit* | $298,274 |
| | |
| **Development Feasibility** | |
| Gross Sales Revenue | $38,000,000 |
| Less 5% Commissions/Marketing | $1,900,000 |
| Net Sales Revenue | $36,100,000 |
| Less Development Costs | $29,827,435 |
| **Developer Profit (Net Rev - Dev Costs)** | **$6,272,565** |
| **Profit Per Unit** | **$62,726** |
| **Profit as % of Development Cost** | **21%** |
| **Profit as % of Revenues** | **17%** |

NOTES:

a) Market rate prices estimated by BAE based on pricing for Seaside Highlands & East Garrison.
Below market prices based on BAE calculation of max affordable sale price per income thresholds.

b) based on FOR A Land Sales Projections per MUNI Financial.

c) based on estimates from Means, analysis by HAMCo, and estimates from various Fort Ord development projects.

d) based on review of various Fort Ord development proposals. Will range from $20,000 to $40,000 or more per unit.

e) Inc. current FOR A fee of $36,000, plus estimate of Marina, Seaside, and County permits/fees inc. impact fees as applicable.

f) Inc. architect, legal, pre-development, etc. Percent applied to hard costs + fees/permits + parking. Percent not applied to land cost.

Source: BAE, 2003.

## Baseline Low Density (5 units/acre) - with Farr Proposal at 170% AMI, 50% BMR, High Costs

| Major Assumptions | |
|---|---|
| **Characteristics of Project** | |
| Base Project Size (Units) | 100 |
| | |
| Project Density (DU/AC) | 5 |
| Site Size (acres) | 20.0 |
| Market Rate Units | 50 |
| Below Market Rate Units | 50 |
| | |
| *Product Mix:* | |
| 4 BR Market Rate | 50 |
| 4 BR - 50% AMI | 10 |
| 4 BR - 80% AMI | 10 |
| 4 BR - 120% AMI | 20 |
| 4 BR - 170% AMI | 10 |
| | |
| Unit Size (Sq. Ft.) | 2,600 |
| Parking Ratio | 2.0 |
| Parking Spaces (in garages) | 200 |
| | |
| *Project Size (Sq. Ft.):* | |
| Unit Total | 260,000 |
| Common Area | - |
| Total Residential | 260,000 |
| | |
| *Sale Prices:* | |
| 4 BR Market Rate | $625,000 |
| 4 BR - 50% AMI | $108,861 |
| 4 BR - 80% AMI | $174,253 |
| 4 BR - 120% AMI | $254,326 |
| 4 BR - 170% AMI | $360,403 |
| | |
| **Development Costs** | |
| Land/Unit (b) | $18,000 |
| Construction Costs (Sq. Ft.) (c) | $78 |
| In-Tract Costs/Unit (d) | $50,000 |
| Fees (inc. FOR A + local) (e) | $60,000 |
| Other Soft Costs (f) | 15% |
| Cost/Parking Space | $0 |
| Deconstruction (per unit of new construction) | $10,000 |
| | |
| **Construction Financing Assumptions** | |
| Interest Rate | 7.0% |
| Period of Initial Loan (months) | 30 |
| Initial Construction Loan Fee (points) | 2% |
| Average Outstanding Balance | 50% |
| Loan to Cost Ratio | 70% |
| Hard & Soft Costs, Land, Site Costs , Decon | $37,872,000 |
| Amount of Loan | $26,510,400 |

| Pro Forma Analysis | |
|---|---|
| **Development Cost Summary** | |
| Land | $1,800,000 |
| Deconstruction | $1,000,000 |
| Unit Construction Cost | $20,280,000 |
| In-Tract | $5,000,000 |
| Parking Costs | $0 |
| Fees/Permits | $6,000,000 |
| Other Soft Costs | $3,792,000 |
| Finance Costs: | |
| Interest on Construction Loan | $2,319,660 |
| Points on Construction Loan | $530,208 |
| | |
| *Total Development Costs* | $40,721,868 |
| *Total Development Costs/Unit* | $407,219 |
| | |
| **Development Feasibility** | |
| Gross Sales Revenue | $42,771,695 |
| Less 5% Commissions/Marketing | $2,138,585 |
| Net Sales Revenue | $40,633,110 |
| Less Development Costs | $40,721,868 |
| **Developer Profit (Net Rev - Dev Costs)** | **-$88,758** |
| **Profit Per Unit** | **-$888** |
| **Profit as % of Development Cost** | **0%** |
| **Profit as % of Revenue** | **0%** |

NOTES:

1) Based on conversations with local developers and analysis of local housing market conditions.

2) Based on current financing terms.

3) Based on conversations with local developers, appraisers, and BAE land residual value analysis.

4) Based on conversations with local developers and BAE analysis.

5) Based on conversations with local developers and the City of Salinas. Includes site prep and off-site improvements.

6) Based on conversations with local developers and the City of Salinas and BAE analysis.

7) Estimate based on recent comparable Salinas projects. Includes A&E, legal, general conditions, taxes, closing costs, contingency, portion of overhead. Percentage of hard costs, site costs.

8) Parking included in unit construction costs.

Source: BAE, 2003.

## Baseline Med Density (8 units/acre) - With Farr Proposal at 170% AMI, 50% BMR, High Costs

| Major Assumptions | |
|---|---|
| **Characteristics of Project** | |
| Base Project Size (Units) | 100 |
| | |
| Project Density (DU/AC) | 8 |
| Site Size (acres) | 12.5 |
| Market Rate Units | 50 |
| Below Market Rate Units | 50 |
| | |
| *Product Mix:* | |
| 3 BR Market Rate | 50 |
| 3 BR - 50% AMI | 10 |
| 3 BR - 80% AMI | 10 |
| 3 BR - 120% AMI | 20 |
| 3 BR - 170% AMI | 10 |
| | |
| Unit Size (Sq. Ft.) | 2,200 |
| Parking Ratio | 2.0 |
| Parking Spaces (in garages) | 200 |
| | |
| *Project Size (Sq. Ft.):* | |
| Unit Total | 220,000 |
| Common Area | - |
| Total Residential | 220,000 |
| | |
| *Sale Prices:(a)* | |
| 3 BR Market Rate | $550,000 |
| 3 BR - 50% AMI | $108,861 |
| 3 BR - 80% AMI | $174,253 |
| 3 BR - 120% AMI | $254,326 |
| 3 BR - 170% AMI | $360,403 |
| | |
| **Development Costs** | |
| Land/Unit (b) | $18,000 |
| Construction Costs (Sq. Ft.) (c) | $78 |
| In-Tract Costs/Unit (d) | $50,000 |
| Fees (inc. FOR A + local) (e) | $60,000 |
| Other Soft Costs (f) | 15% |
| Cost/Parking Space | $0 |
| Deonstruction (per new unit) | $10,000 |
| | |
| **Construction Financing Assumptions** | |
| Interest Rate | 7.0% |
| Period of Initial Loan (months) | 30 |
| Initial Construction Loan Fee (points) | 2% |
| Average Outstanding Balance | 50% |
| Loan to Cost Ratio | 70% |
| Hard & Soft Costs, Land, Site Costs , Decon | $34,284,000 |
| Amount of Loan | $23,998,800 |

| Pro Forma Analysis | |
|---|---|
| **Development Cost Summary** | |
| Land | $1,800,000 |
| Deconstruction | $1,000,000 |
| Unit Construction Cost | $17,160,000 |
| In-Tract | $5,000,000 |
| Parking Costs | $0 |
| Fees/Permits | $6,000,000 |
| Other Soft Costs | $3,324,000 |
| Finance Costs: | |
| Interest on Construction Loan | $2,099,895 |
| Points on Construction Loan | $479,976 |
| | |
| *Total Development Costs* | $36,863,871 |
| *Total Development Costs/Unit* | $368,639 |
| | |
| **Development Feasibility** | |
| Gross Sales Revenue | $39,021,695 |
| Less 5% Commissions/Marketing | $1,951,085 |
| Net Sales Revenue | $37,070,610 |
| Less Development Costs | $36,863,871 |
| **Developer Profit (Net Rev - Dev Costs)** | **$206,739** |
| **Profit Per Unit** | **$2,067** |
| **Profit as % of Development Cost** | **1%** |
| **Profit as % of Revenue** | **1%** |

NOTES:

a) Market rate prices estimated by BAE based on pricing for Seaside Highlands & East Garrison.
Below market prices based on BAE calculation of max affordable sale price per income thresholds.

b) based on FOR A Land Sales Projections per MUNI Financial.

c) based on estimates from Means, analysis by HAMCo, and estimates from various Fort Ord development projects.

d) based on review of various Fort Ord development proposals. Will range from $20,000 to $40,000 or more per unit.

e) Inc. current FOR A fee of $36,000, plus estimate of Marina, Seaside, and County permits/fees inc. impact fees as applicable.

f) Inc. architect, legal, pre-development, etc. Percent applied to hard costs + fees/permits + parking. Percent not applied to land cost.

Source: BAE, 2003.

## Baseline PD (18 units/acre) - with Farr Proposal at 170% AMI, 50% BMR, High Costs

| Major Assumptions | |
|---|---|
| **Characteristics of Project** | |
| Base Project Size (Units) | 100 |
| | |
| Project Density (DU/AC) | 18 |
| Site Size (acres) | 5.6 |
| Market Rate Units | 50 |
| Below Market Rate Units | 50 |
| | |
| *Product Mix:* | |
| 3 BR Market Rate | 50 |
| 3 BR - 50% AMI | 10 |
| 3 BR - 80% AMI | 10 |
| 3 BR - 120% AMI | 20 |
| 3 BR - 170% AMI | 10 |
| | |
| Unit Size (Sq. Ft.) | 1,600 |
| Parking Ratio | 2.0 |
| Parking Spaces (in garages) | 200 |
| | |
| *Project Size (Sq. Ft.):* | |
| Unit Total | 160,000 |
| Common Area | - |
| Total Residential | 160,000 |
| | |
| *Sale Prices:(a)* | |
| 3 BR Market Rate | $380,000 |
| 3 BR - 50% AMI | $108,861 |
| 3 BR - 80% AMI | $174,253 |
| 3 BR - 120% AMI | $254,326 |
| 3 BR - 170% AMI | $360,403 |
| | |
| **Development Costs** | |
| Land/Unit (b) | $10,000 |
| Construction Costs (Sq. Ft.) (c) | $85 |
| In-Tract Costs/Unit (d) | $40,000 |
| Fees (inc. FOR A + local) (e) | $55,000 |
| Other Soft Costs (f) | 15% |
| Cost/Parking Space | $0 |
| Deconstruction (per new unit) | $10,000 |
| | |
| **Construction Financing Assumptions** | |
| Interest Rate | 7.0% |
| Period of Initial Loan (months) | 30 |
| Initial Construction Loan Fee (points) | 2% |
| Average Outstanding Balance | 50% |
| Loan to Cost Ratio | 70% |
| Hard & Soft Costs, Land, Site Costs , Decon | $27,740,000 |
| Amount of Loan | $19,418,000 |

| Pro Forma Analysis | |
|---|---|
| **Development Cost Summary** | |
| Land | $1,000,000 |
| Deconstruction | $1,000,000 |
| Unit Construction Cost | $13,600,000 |
| In-Tract | $4,000,000 |
| Parking Costs | $0 |
| Fees/Permits | $5,500,000 |
| Other Soft Costs | $2,640,000 |
| Finance Costs: | |
| Interest on Construction Loan | $1,699,075 |
| Points on Construction Loan | $388,360 |
| | |
| *Total Development Costs* | $29,827,435 |
| *Total Development Costs/Unit* | $298,274 |
| | |
| **Development Feasibility** | |
| Gross Sales Revenue | $30,521,695 |
| Less 5% Commissions/Marketing | $1,526,085 |
| Net Sales Revenue | $28,995,610 |
| Less Development Costs | $29,827,435 |
| **Developer Profit (Net Rev - Dev Costs)** | **-$831,825** |
| **Profit Per Unit** | **-$8,318** |
| **Profit as % of Development Cost** | **-3%** |
| **Profit as % of Revenues** | **-3%** |

NOTES:

a) Market rate prices estimated by BAE based on pricing for Seaside Highlands & East Garrison.
Below market prices based on BAE calculation of max affordable sale price per income thresholds.

b) based on FOR A Land Sales Projections per MUNI Financial.

c) based on estimates from Means, analysis by HAMCo, and estimates from various Fort Ord development projects.

d) based on review of various Fort Ord development proposals. Will range from $20,000 to $40,000 or more per unit.

e) Inc. current FOR A fee of $36,000, plus estimate of Marina, Seaside, and County permits/fees inc. impact fees as applicable.

f) Inc. architect, legal, pre-development, etc. Percent applied to hard costs + fees/permits + parking. Percent not applied to land cost.

Source: BAE, 2003.

## Baseline Low Density (5 units/acre) - with Farr Proposal at 170% AMI, 40% BMR, Typical Cost

| Major Assumptions | |
|---|---|
| **Characteristics of Project** | |
| Base Project Size (Units) | 100 |
| | |
| Project Density (DU/AC) | 5 |
| Site Size (acres) | 20.0 |
| Market Rate Units | 60 |
| Below Market Rate Units | 40 |
| | |
| *Product Mix:* | |
| 4 BR Market Rate | 60 |
| 4 BR - 50% AMI | - |
| 4 BR - 80% AMI | 10 |
| 4 BR - 120% AMI | 20 |
| 4 BR - 170% AMI | 10 |
| | |
| Unit Size (Sq. Ft.) | 2,600 |
| Parking Ratio | 2.0 |
| Parking Spaces (in garages) | 200 |
| | |
| *Project Size (Sq. Ft.):* | |
| Unit Total | 260,000 |
| Common Area | - |
| Total Residential | 260,000 |
| | |
| *Sale Prices:* | |
| 4 BR Market Rate | $625,000 |
| 4 BR - 50% AMI | $108,861 |
| 4 BR - 80% AMI | $174,253 |
| 4 BR - 120% AMI | $254,326 |
| 4 BR - 170% AMI | $360,403 |
| | |
| **Development Costs** | |
| Land/Unit (b) | $18,000 |
| Construction Costs (Sq. Ft.) (c) | $70 |
| In-Tract Costs/Unit (d) | $35,000 |
| Fees (inc. FOR A + local) (e) | $55,000 |
| Other Soft Costs (f) | 15% |
| Cost/Parking Space | $0 |
| Deconstruction (per unit of new construction) | $0 |
| | |
| **Construction Financing Assumptions** | |
| Interest Rate | 7.0% |
| Period of Initial Loan (months) | 30 |
| Initial Construction Loan Fee (points) | 2% |
| Average Outstanding Balance | 50% |
| Loan to Cost Ratio | 70% |
| Hard & Soft Costs, Land, Site Costs , Decon | $32,255,000 |
| Amount of Loan | $22,578,500 |

| Pro Forma Analysis | |
|---|---|
| **Development Cost Summary** | |
| Land | $1,800,000 |
| Deconstruction | $0 |
| Unit Construction Cost | $18,200,000 |
| In-Tract | $3,500,000 |
| Parking Costs | $0 |
| Fees/Permits | $5,500,000 |
| Other Soft Costs | $3,255,000 |
| Finance Costs: | |
| Interest on Construction Loan | $1,975,619 |
| Points on Construction Loan | $451,570 |
| | |
| *Total Development Costs* | $34,682,189 |
| *Total Development Costs/Unit* | $346,822 |
| | |
| **Development Feasibility** | |
| Gross Sales Revenue | $47,933,088 |
| Less 5% Commissions/Marketing | $2,396,654 |
| Net Sales Revenue | $45,536,433 |
| Less Development Costs | $34,682,189 |
| **Developer Profit (Net Rev - Dev Costs)** | **$10,854,244** |
| **Profit Per Unit** | **$108,542** |
| **Profit as % of Development Cost** | **31%** |
| **Profit as % of Revenue** | **24%** |

NOTES:

1) Based on conversations with local developers and analysis of local housing market conditions.

2) Based on current financing terms.

3) Based on conversations with local developers, appraisers, and BAE land residual value analysis.

4) Based on conversations with local developers and BAE analysis.

5) Based on conversations with local developers and the City of Salinas. Includes site prep and off-site improvements.

6) Based on conversations with local developers and the City of Salinas and BAE analysis.

7) Estimate based on recent comparable Salinas projects. Includes A&E, legal, general conditions, taxes, closing costs, contingency, portion of overhead. Percentage of hard costs, site costs.

8) Parking included in unit construction costs.

Source: BAE, 2003.

## Baseline Med Density (8 units/acre) - With Farr Proposal at 170% AMI, 40% BMR, Typical Cos

| Major Assumptions | |
|---|---|
| **Characteristics of Project** | |
| Base Project Size (Units) | 100 |
| | |
| Project Density (DU/AC) | 8 |
| Site Size (acres) | 12.5 |
| Market Rate Units | 60 |
| Below Market Rate Units | 40 |
| | |
| *Product Mix:* | |
| 3 BR Market Rate | 60 |
| 3 BR - 50% AMI | - |
| 3 BR - 80% AMI | 10 |
| 3 BR - 120% AMI | 20 |
| 3 BR - 170% AMI | 10 |
| | |
| Unit Size (Sq. Ft.) | 2,200 |
| Parking Ratio | 2.0 |
| Parking Spaces (in garages) | 200 |
| | |
| *Project Size (Sq. Ft.):* | |
| Unit Total | 220,000 |
| Common Area | - |
| Total Residential | 220,000 |
| | |
| *Sale Prices:(a)* | |
| 3 BR Market Rate | $550,000 |
| 3 BR - 50% AMI | $108,861 |
| 3 BR - 80% AMI | $174,253 |
| 3 BR - 120% AMI | $254,326 |
| 3 BR - 170% AMI | $360,403 |
| | |
| **Development Costs** | |
| Land/Unit (b) | $18,000 |
| Construction Costs (Sq. Ft.) (c) | $70 |
| In-Tract Costs/Unit (d) | $35,000 |
| Fees (inc. FOR A + local) (e) | $55,000 |
| Other Soft Costs (f) | 15% |
| Cost/Parking Space | $0 |
| Deonstruction (per new unit) | $0 |
| | |
| **Construction Financing Assumptions** | |
| Interest Rate | 7.0% |
| Period of Initial Loan (months) | 30 |
| Initial Construction Loan Fee (points) | 2% |
| Average Outstanding Balance | 50% |
| Loan to Cost Ratio | 70% |
| Hard & Soft Costs, Land, Site Costs , Decon | $29,035,000 |
| Amount of Loan | $20,324,500 |

| Pro Forma Analysis | |
|---|---|
| **Development Cost Summary** | |
| Land | $1,800,000 |
| Deconstruction | $0 |
| Unit Construction Cost | $15,400,000 |
| In-Tract | $3,500,000 |
| Parking Costs | $0 |
| Fees/Permits | $5,500,000 |
| Other Soft Costs | $2,835,000 |
| Finance Costs: | |
| Interest on Construction Loan | $1,778,394 |
| Points on Construction Loan | $406,490 |
| | |
| *Total Development Costs* | $31,219,884 |
| *Total Development Costs/Unit* | $312,199 |
| | |
| **Development Feasibility** | |
| Gross Sales Revenue | $43,433,088 |
| Less 5% Commissions/Marketing | $2,171,654 |
| Net Sales Revenue | $41,261,433 |
| Less Development Costs | $31,219,884 |
| **Developer Profit (Net Rev - Dev Costs)** | **$10,041,549** |
| **Profit Per Unit** | **$100,415** |
| **Profit as % of Development Cost** | **32%** |
| **Profit as % of Revenue** | **24%** |

NOTES:

a) Market rate prices estimated by BAE based on pricing for Seaside Highlands & East Garrison.
Below market prices based on BAE calculation of max affordable sale price per income thresholds.

b) based on FOR A Land Sales Projections per MUNI Financial.

c) based on estimates from Means, analysis by HAMCo, and estimates from various Fort Ord development projects.

d) based on review of various Fort Ord development proposals. Will range from $20,000 to $40,000 or more per unit.

e) Inc. current FOR A fee of $36,000, plus estimate of Marina, Seaside, and County permits/fees inc. impact fees as applicable.

f) Inc. architect, legal, pre-development, etc. Percent applied to hard costs + fees/permits + parking. Percent not applied to land cost.

Source: BAE, 2003.

## Baseline PD (18 units/acre) - with Farr Proposal at 170% AMI, 40% BMR, Typical Cost

| Major Assumptions | |
|---|---|
| **Characteristics of Project** | |
| Base Project Size (Units) | 100 |
| | |
| Project Density (DU/AC) | 18 |
| Site Size (acres) | 5.6 |
| Market Rate Units | 60 |
| Below Market Rate Units | 40 |
| | |
| *Product Mix:* | |
| 3 BR Market Rate | 60 |
| 3 BR - 50% AMI | - |
| 3 BR - 80% AMI | 10 |
| 3 BR - 120% AMI | 20 |
| 3 BR - 170% AMI | 10 |
| | |
| Unit Size (Sq. Ft.) | 1,600 |
| Parking Ratio | 2.0 |
| Parking Spaces (in garages) | 200 |
| | |
| *Project Size (Sq. Ft.):* | |
| Unit Total | 160,000 |
| Common Area | - |
| Total Residential | 160,000 |
| | |
| *Sale Prices:(a)* | |
| 3 BR Market Rate | $380,000 |
| 3 BR - 50% AMI | $108,861 |
| 3 BR - 80% AMI | $174,253 |
| 3 BR - 120% AMI | $254,326 |
| 3 BR - 170% AMI | $360,403 |
| | |
| **Development Costs** | |
| Land/Unit (b) | $10,000 |
| Construction Costs (Sq. Ft.) (c) | $75 |
| In-Tract Costs/Unit (d) | $25,000 |
| Fees (inc. FOR A + local) (e) | $50,000 |
| Other Soft Costs (f) | 15% |
| Cost/Parking Space | $0 |
| Deconstruction (per new unit) | $0 |
| | |
| **Construction Financing Assumptions** | |
| Interest Rate | 7.0% |
| Period of Initial Loan (months) | 30 |
| Initial Construction Loan Fee (points) | 2% |
| Average Outstanding Balance | 50% |
| Loan to Cost Ratio | 70% |
| Hard & Soft Costs, Land, Site Costs , Decon | $22,675,000 |
| Amount of Loan | $15,872,500 |

| Pro Forma Analysis | |
|---|---|
| **Development Cost Summary** | |
| Land | $1,000,000 |
| Deconstruction | $0 |
| Unit Construction Cost | $12,000,000 |
| In-Tract | $2,500,000 |
| Parking Costs | $0 |
| Fees/Permits | $5,000,000 |
| Other Soft Costs | $2,175,000 |
| Finance Costs: | |
| Interest on Construction Loan | $1,388,844 |
| Points on Construction Loan | $317,450 |
| | |
| *Total Development Costs* | $24,381,294 |
| *Total Development Costs/Unit* | $243,813 |
| | |
| **Development Feasibility** | |
| Gross Sales Revenue | $33,233,088 |
| Less 5% Commissions/Marketing | $1,661,654 |
| Net Sales Revenue | $31,571,433 |
| Less Development Costs | $24,381,294 |
| **Developer Profit (Net Rev - Dev Costs)** | **$7,190,139** |
| **Profit Per Unit** | **$71,901** |
| **Profit as % of Development Cost** | **29%** |
| **Profit as % of Revenues** | **23%** |

NOTES:

a) Market rate prices estimated by BAE based on pricing for Seaside Highlands & East Garrison.
Below market prices based on BAE calculation of max affordable sale price per income thresholds.

b) based on FOR A Land Sales Projections per MUNI Financial.

c) based on estimates from Means, analysis by HAMCo, and estimates from various Fort Ord development projects.

d) based on review of various Fort Ord development proposals. Will range from $20,000 to $40,000 or more per unit.

e) Inc. current FOR A fee of $36,000, plus estimate of Marina, Seaside, and County permits/fees inc. impact fees as applicable.

f) Inc. architect, legal, pre-development, etc. Percent applied to hard costs + fees/permits + parking. Percent not applied to land cost.

Source: BAE, 2003.

## Baseline Low Density (5 units/acre) - with Farr Proposal at 170%, 40% BMR, High Costs

| Major Assumptions | |
|---|---|
| **Characteristics of Project** | |
| Base Project Size (Units) | 100 |
| | |
| Project Density (DU/AC) | 5 |
| Site Size (acres) | 20.0 |
| Market Rate Units | 60 |
| Below Market Rate Units | 40 |
| | |
| *Product Mix:* | |
| 4 BR Market Rate | 60 |
| 4 BR - 50% AMI | - |
| 4 BR - 80% AMI | 10 |
| 4 BR - 120% AMI | 20 |
| 4 BR - 170% AMI | 10 |
| | |
| Unit Size (Sq. Ft.) | 2,600 |
| Parking Ratio | 2.0 |
| Parking Spaces (in garages) | 200 |
| | |
| *Project Size (Sq. Ft.):* | |
| Unit Total | 260,000 |
| Common Area | - |
| Total Residential | 260,000 |
| | |
| *Sale Prices:* | |
| 4 BR Market Rate | $625,000 |
| 4 BR - 50% AMI | $108,861 |
| 4 BR - 80% AMI | $174,253 |
| 4 BR - 120% AMI | $254,326 |
| 4 BR - 170% AMI | $360,403 |
| | |
| **Development Costs** | |
| Land/Unit (b) | $18,000 |
| Construction Costs (Sq. Ft.) (c) | $78 |
| In-Tract Costs/Unit (d) | $50,000 |
| Fees (inc. FOR A + local) (e) | $60,000 |
| Other Soft Costs (f) | 15% |
| Cost/Parking Space | $0 |
| Deconstruction (per unit of new construction) | $10,000 |
| | |
| **Construction Financing Assumptions** | |
| Interest Rate | 7.0% |
| Period of Initial Loan (months) | 30 |
| Initial Construction Loan Fee (points) | 2% |
| Average Outstanding Balance | 50% |
| Loan to Cost Ratio | 70% |
| Hard & Soft Costs, Land, Site Costs , Decon | $37,872,000 |
| Amount of Loan | $26,510,400 |

| Pro Forma Analysis | |
|---|---|
| **Development Cost Summary** | |
| Land | $1,800,000 |
| Deconstruction | $1,000,000 |
| Unit Construction Cost | $20,280,000 |
| In-Tract | $5,000,000 |
| Parking Costs | $0 |
| Fees/Permits | $6,000,000 |
| Other Soft Costs | $3,792,000 |
| Finance Costs: | |
| Interest on Construction Loan | $2,319,660 |
| Points on Construction Loan | $530,208 |
| | |
| *Total Development Costs* | $40,721,868 |
| *Total Development Costs/Unit* | $407,219 |
| | |
| **Development Feasibility** | |
| Gross Sales Revenue | $47,933,088 |
| Less 5% Commissions/Marketing | $2,396,654 |
| Net Sales Revenue | $45,536,433 |
| Less Development Costs | $40,721,868 |
| **Developer Profit (Net Rev - Dev Costs)** | **$4,814,565** |
| **Profit Per Unit** | **$48,146** |
| **Profit as % of Development Cost** | **12%** |
| **Profit as % of Revenue** | **11%** |

NOTES:

1) Based on conversations with local developers and analysis of local housing market conditions.

2) Based on current financing terms.

3) Based on conversations with local developers, appraisers, and BAE land residual value analysis.

4) Based on conversations with local developers and BAE analysis.

5) Based on conversations with local developers and the City of Salinas. Includes site prep and off-site improvements.

6) Based on conversations with local developers and the City of Salinas and BAE analysis.

7) Estimate based on recent comparable Salinas projects. Includes A&E, legal, general conditions, taxes, closing costs, contingency, portion of overhead. Percentage of hard costs, site costs.

8) Parking included in unit construction costs.

Source: BAE, 2003.

## Baseline Med Density (8 units/acre) - With Farr Proposal at 170%, 40% BMR, High Costs

| Major Assumptions | |
|---|---|
| **Characteristics of Project** | |
| Base Project Size (Units) | 100 |
| Project Density (DU/AC) | 8 |
| Site Size (acres) | 12.5 |
| Market Rate Units | 60 |
| Below Market Rate Units | 40 |
| *Product Mix:* | |
| 3 BR Market Rate | 60 |
| 3 BR - 50% AMI | - |
| 3 BR - 80% AMI | 10 |
| 3 BR - 120% AMI | 20 |
| 3 BR - 170% AMI | 10 |
| Unit Size (Sq. Ft.) | 2,200 |
| Parking Ratio | 2.0 |
| Parking Spaces (in garages) | 200 |
| *Project Size (Sq. Ft.):* | |
| Unit Total | 220,000 |
| Common Area | - |
| Total Residential | 220,000 |
| *Sale Prices:(a)* | |
| 3 BR Market Rate | $550,000 |
| 3 BR - 50% AMI | $108,861 |
| 3 BR - 80% AMI | $174,253 |
| 3 BR - 120% AMI | $254,326 |
| 3 BR - 170% AMI | $360,403 |
| **Development Costs** | |
| Land/Unit (b) | $18,000 |
| Construction Costs (Sq. Ft.) (c) | $78 |
| In-Tract Costs/Unit (d) | $50,000 |
| Fees (inc. FOR A + local) (e) | $60,000 |
| Other Soft Costs (f) | 15% |
| Cost/Parking Space | $0 |
| Deonstruction (per new unit) | $10,000 |
| **Construction Financing Assumptions** | |
| Interest Rate | 7.0% |
| Period of Initial Loan (months) | 30 |
| Initial Construction Loan Fee (points) | 2% |
| Average Outstanding Balance | 50% |
| Loan to Cost Ratio | 70% |
| Hard & Soft Costs, Land, Site Costs , Decon | $34,284,000 |
| Amount of Loan | $23,998,800 |

| Pro Forma Analysis | |
|---|---|
| **Development Cost Summary** | |
| Land | $1,800,000 |
| Deconstruction | $1,000,000 |
| Unit Construction Cost | $17,160,000 |
| In-Tract | $5,000,000 |
| Parking Costs | $0 |
| Fees/Permits | $6,000,000 |
| Other Soft Costs | $3,324,000 |
| Finance Costs: | |
| Interest on Construction Loan | $2,099,895 |
| Points on Construction Loan | $479,976 |
| *Total Development Costs* | $36,863,871 |
| *Total Development Costs/Unit* | $368,639 |
| **Development Feasibility** | |
| Gross Sales Revenue | $43,433,088 |
| Less 5% Commissions/Marketing | $2,171,654 |
| Net Sales Revenue | $41,261,433 |
| Less Development Costs | $36,863,871 |
| **Developer Profit (Net Rev - Dev Costs)** | **$4,397,562** |
| **Profit Per Unit** | **$43,976** |
| **Profit as % of Development Cost** | **12%** |
| **Profit as % of Revenue** | **11%** |

NOTES:

a) Market rate prices estimated by BAE based on pricing for Seaside Highlands & East Garrison.
Below market prices based on BAE calculation of max affordable sale price per income thresholds.

b) based on FOR A Land Sales Projections per MUNI Financial.

c) based on estimates from Means, analysis by HAMCo, and estimates from various Fort Ord development projects.

d) based on review of various Fort Ord development proposals. Will range from $20,000 to $40,000 or more per unit.

e) Inc. current FOR A fee of $36,000, plus estimate of Marina, Seaside, and County permits/fees inc. impact fees as applicable.

f) Inc. architect, legal, pre-development, etc. Percent applied to hard costs + fees/permits + parking. Percent not applied to land cost.

Source: BAE, 2003.

## Baseline PD (18 units/acre) - with Farr Proposal at 170%, 40% BMR, High Costs

| Major Assumptions | |
|---|---|
| **Characteristics of Project** | |
| Base Project Size (Units) | 100 |
| Project Density (DU/AC) | 18 |
| Site Size (acres) | 5.6 |
| Market Rate Units | 60 |
| Below Market Rate Units | 40 |
| *Product Mix:* | |
| 3 BR Market Rate | 60 |
| 3 BR - 50% AMI | - |
| 3 BR - 80% AMI | 10 |
| 3 BR - 120% AMI | 20 |
| 3 BR - 170% AMI | 10 |
| Unit Size (Sq. Ft.) | 1,600 |
| Parking Ratio | 2.0 |
| Parking Spaces (in garages) | 200 |
| *Project Size (Sq. Ft.):* | |
| Unit Total | 160,000 |
| Common Area | - |
| Total Residential | 160,000 |
| *Sale Prices:(a)* | |
| 3 BR Market Rate | $380,000 |
| 3 BR - 50% AMI | $108,861 |
| 3 BR - 80% AMI | $174,253 |
| 3 BR - 120% AMI | $254,326 |
| 3 BR - 170% AMI | $360,403 |
| **Development Costs** | |
| Land/Unit (b) | $10,000 |
| Construction Costs (Sq. Ft.) (c) | $85 |
| In-Tract Costs/Unit (d) | $40,000 |
| Fees (inc. FOR A + local) (e) | $55,000 |
| Other Soft Costs (f) | 15% |
| Cost/Parking Space | $0 |
| Deconstruction (per new unit) | $10,000 |
| **Construction Financing Assumptions** | |
| Interest Rate | 7.0% |
| Period of Initial Loan (months) | 30 |
| Initial Construction Loan Fee (points) | 2% |
| Average Outstanding Balance | 50% |
| Loan to Cost Ratio | 70% |
| Hard & Soft Costs, Land, Site Costs , Decon | $27,740,000 |
| Amount of Loan | $19,418,000 |

| Pro Forma Analysis | |
|---|---|
| **Development Cost Summary** | |
| Land | $1,000,000 |
| Deconstruction | $1,000,000 |
| Unit Construction Cost | $13,600,000 |
| In-Tract | $4,000,000 |
| Parking Costs | $0 |
| Fees/Permits | $5,500,000 |
| Other Soft Costs | $2,640,000 |
| Finance Costs: | |
| Interest on Construction Loan | $1,699,075 |
| Points on Construction Loan | $388,360 |
| *Total Development Costs* | $29,827,435 |
| *Total Development Costs/Unit* | $298,274 |
| **Development Feasibility** | |
| Gross Sales Revenue | $33,233,088 |
| Less 5% Commissions/Marketing | $1,661,654 |
| Net Sales Revenue | $31,571,433 |
| Less Development Costs | $29,827,435 |
| **Developer Profit (Net Rev - Dev Costs)** | **$1,743,998** |
| **Profit Per Unit** | **$17,440** |
| **Profit as % of Development Cost** | **6%** |
| **Profit as % of Revenues** | **6%** |

NOTES:

a) Market rate prices estimated by BAE based on pricing for Seaside Highlands & East Garrison.
Below market prices based on BAE calculation of max affordable sale price per income thresholds.

b) based on FOR A Land Sales Projections per MUNI Financial.

c) based on estimates from Means, analysis by HAMCo, and estimates from various Fort Ord development projects.

d) based on review of various Fort Ord development proposals. Will range from $20,000 to $40,000 or more per unit.

e) Inc. current FOR A fee of $36,000, plus estimate of Marina, Seaside, and County permits/fees inc. impact fees as applicable.

f) Inc. architect, legal, pre-development, etc. Percent applied to hard costs + fees/permits + parking. Percent not applied to land cost.

Source: BAE, 2003.

## Baseline Low Density (5 units/acre) - with Farr Proposal at 170% AMI, 30% BMR, High Costs

| Major Assumptions | |
|---|---|
| **Characteristics of Project** | |
| Base Project Size (Units) | 100 |
| | |
| Project Density (DU/AC) | 5 |
| Site Size (acres) | 20.0 |
| Market Rate Units | 70 |
| Below Market Rate Units | 30 |
| | |
| *Product Mix:* | |
| 4 BR Market Rate | 70 |
| 4 BR - 50% AMI | - |
| 4 BR - 80% AMI | - |
| 4 BR - 120% AMI | 20 |
| 4 BR - 170% AMI | 10 |
| | |
| Unit Size (Sq. Ft.) | 2,600 |
| Parking Ratio | 2.0 |
| Parking Spaces (in garages) | 200 |
| | |
| *Project Size (Sq. Ft.):* | |
| Unit Total | 260,000 |
| Common Area | - |
| Total Residential | 260,000 |
| | |
| *Sale Prices:* | |
| 4 BR Market Rate | $625,000 |
| 4 BR - 50% AMI | $108,861 |
| 4 BR - 80% AMI | $174,253 |
| 4 BR - 120% AMI | $254,326 |
| 4 BR - 170% AMI | $360,403 |
| | |
| **Development Costs** | |
| Land/Unit (b) | $18,000 |
| Construction Costs (Sq. Ft.) (c) | $78 |
| In-Tract Costs/Unit (d) | $50,000 |
| Fees (inc. FOR A + local) (e) | $60,000 |
| Other Soft Costs (f) | 15% |
| Cost/Parking Space | $0 |
| Deconstruction (per unit of new construction) | $10,000 |
| | |
| **Construction Financing Assumptions** | |
| Interest Rate | 7.0% |
| Period of Initial Loan (months) | 30 |
| Initial Construction Loan Fee (points) | 2% |
| Average Outstanding Balance | 50% |
| Loan to Cost Ratio | 70% |
| Hard & Soft Costs, Land, Site Costs , Decon | $37,872,000 |
| Amount of Loan | $26,510,400 |

| Pro Forma Analysis | |
|---|---|
| **Development Cost Summary** | |
| Land | $1,800,000 |
| Deconstruction | $1,000,000 |
| Unit Construction Cost | $20,280,000 |
| In-Tract | $5,000,000 |
| Parking Costs | $0 |
| Fees/Permits | $6,000,000 |
| Other Soft Costs | $3,792,000 |
| Finance Costs: | |
| Interest on Construction Loan | $2,319,660 |
| Points on Construction Loan | $530,208 |
| | |
| *Total Development Costs* | $40,721,868 |
| *Total Development Costs/Unit* | $407,219 |
| | |
| **Development Feasibility** | |
| Gross Sales Revenue | $52,440,554 |
| Less 5% Commissions/Marketing | $2,622,028 |
| Net Sales Revenue | $49,818,526 |
| Less Development Costs | $40,721,868 |
| **Developer Profit (Net Rev - Dev Costs)** | **$9,096,658** |
| **Profit Per Unit** | **$90,967** |
| **Profit as % of Development Cost** | **22%** |
| **Profit as % of Revenue** | **18%** |

NOTES:

1) Based on conversations with local developers and analysis of local housing market conditions.

2) Based on current financing terms.

3) Based on conversations with local developers, appraisers, and BAE land residual value analysis.

4) Based on conversations with local developers and BAE analysis.

5) Based on conversations with local developers and the City of Salinas. Includes site prep and off-site improvements.

6) Based on conversations with local developers and the City of Salinas and BAE analysis.

7) Estimate based on recent comparable Salinas projects. Includes A&E, legal, general conditions, taxes, closing costs, contingency, portion of overhead. Percentage of hard costs, site costs.

8) Parking included in unit construction costs.

Source: BAE, 2003.

## Baseline Med Density (8 units/acre) - With Farr Proposal at 170% AMI, 30% BMR, High Costs

| Major Assumptions | |
|---|---|
| **Characteristics of Project** | |
| Base Project Size (Units) | 100 |
| Project Density (DU/AC) | 8 |
| Site Size (acres) | 12.5 |
| Market Rate Units | 70 |
| Below Market Rate Units | 30 |
| *Product Mix:* | |
| 3 BR Market Rate | 70 |
| 3 BR - 50% AMI | - |
| 3 BR - 80% AMI | - |
| 3 BR - 120% AMI | 20 |
| 3 BR - 170% AMI | 10 |
| Unit Size (Sq. Ft.) | 2,200 |
| Parking Ratio | 2.0 |
| Parking Spaces (in garages) | 200 |
| *Project Size (Sq. Ft.):* | |
| Unit Total | 220,000 |
| Common Area | - |
| Total Residential | 220,000 |
| *Sale Prices:(a)* | |
| 3 BR Market Rate | $550,000 |
| 3 BR - 50% AMI | $108,861 |
| 3 BR - 80% AMI | $174,253 |
| 3 BR - 120% AMI | $254,326 |
| 3 BR - 170% AMI | $360,403 |
| **Development Costs** | |
| Land/Unit (b) | $18,000 |
| Construction Costs (Sq. Ft.) (c) | $78 |
| In-Tract Costs/Unit (d) | $50,000 |
| Fees (inc. FOR A + local) (e) | $60,000 |
| Other Soft Costs (f) | 15% |
| Cost/Parking Space | $0 |
| Deonstruction (per new unit) | $10,000 |
| **Construction Financing Assumptions** | |
| Interest Rate | 7.0% |
| Period of Initial Loan (months) | 30 |
| Initial Construction Loan Fee (points) | 2% |
| Average Outstanding Balance | 50% |
| Loan to Cost Ratio | 70% |
| Hard & Soft Costs, Land, Site Costs , Decon | $34,284,000 |
| Amount of Loan | $23,998,800 |

| Pro Forma Analysis | |
|---|---|
| **Development Cost Summary** | |
| Land | $1,800,000 |
| Deconstruction | $1,000,000 |
| Unit Construction Cost | $17,160,000 |
| In-Tract | $5,000,000 |
| Parking Costs | $0 |
| Fees/Permits | $6,000,000 |
| Other Soft Costs | $3,324,000 |
| Finance Costs: | |
| Interest on Construction Loan | $2,099,895 |
| Points on Construction Loan | $479,976 |
| *Total Development Costs* | $36,863,871 |
| *Total Development Costs/Unit* | $368,639 |
| **Development Feasibility** | |
| Gross Sales Revenue | $47,190,554 |
| Less 5% Commissions/Marketing | $2,359,528 |
| Net Sales Revenue | $44,831,026 |
| Less Development Costs | $36,863,871 |
| **Developer Profit (Net Rev - Dev Costs)** | **$7,967,155** |
| **Profit Per Unit** | **$79,672** |
| **Profit as % of Development Cost** | **22%** |
| **Profit as % of Revenue** | **18%** |

NOTES:

a) Market rate prices estimated by BAE based on pricing for Seaside Highlands & East Garrison.
Below market prices based on BAE calculation of max affordable sale price per income thresholds.

b) based on FOR A Land Sales Projections per MUNI Financial.

c) based on estimates from Means, analysis by HAMCo, and estimates from various Fort Ord development projects.

d) based on review of various Fort Ord development proposals. Will range from $20,000 to $40,000 or more per unit.

e) Inc. current FOR A fee of $36,000, plus estimate of Marina, Seaside, and County permits/fees inc. impact fees as applicable.

f) Inc. architect, legal, pre-development, etc. Percent applied to hard costs + fees/permits + parking. Percent not applied to land cost.

Source: BAE, 2003.

## Baseline PD (18 units/acre) - with Farr Proposal at 170% AMI, 30% BMR, High Costs

| Major Assumptions | |
|---|---|
| **Characteristics of Project** | |
| Base Project Size (Units) | 100 |
| | |
| Project Density (DU/AC) | 18 |
| Site Size (acres) | 5.6 |
| Market Rate Units | 70 |
| Below Market Rate Units | 30 |
| | |
| *Product Mix:* | |
| 3 BR Market Rate | 70 |
| 3 BR - 50% AMI | - |
| 3 BR - 80% AMI | - |
| 3 BR - 120% AMI | 20 |
| 3 BR - 170% AMI | 10 |
| | |
| Unit Size (Sq. Ft.) | 1,600 |
| Parking Ratio | 2.0 |
| Parking Spaces (in garages) | 200 |
| | |
| *Project Size (Sq. Ft.):* | |
| Unit Total | 160,000 |
| Common Area | - |
| Total Residential | 160,000 |
| | |
| *Sale Prices:(a)* | |
| 3 BR Market Rate | $380,000 |
| 3 BR - 50% AMI | $108,861 |
| 3 BR - 80% AMI | $174,253 |
| 3 BR - 120% AMI | $254,326 |
| 3 BR - 170% AMI | $360,403 |
| | |
| **Development Costs** | |
| Land/Unit (b) | $10,000 |
| Construction Costs (Sq. Ft.) (c) | $85 |
| In-Tract Costs/Unit (d) | $40,000 |
| Fees (inc. FOR A + local) (e) | $55,000 |
| Other Soft Costs (f) | 15% |
| Cost/Parking Space | $0 |
| Deconstruction (per new unit) | $10,000 |
| | |
| **Construction Financing Assumptions** | |
| Interest Rate | 7.0% |
| Period of Initial Loan (months) | 30 |
| Initial Construction Loan Fee (points) | 2% |
| Average Outstanding Balance | 50% |
| Loan to Cost Ratio | 70% |
| Hard & Soft Costs, Land, Site Costs , Decon | $27,740,000 |
| Amount of Loan | $19,418,000 |

| Pro Forma Analysis | |
|---|---|
| **Development Cost Summary** | |
| Land | $1,000,000 |
| Deconstruction | $1,000,000 |
| Unit Construction Cost | $13,600,000 |
| In-Tract | $4,000,000 |
| Parking Costs | $0 |
| Fees/Permits | $5,500,000 |
| Other Soft Costs | $2,640,000 |
| Finance Costs: | |
| Interest on Construction Loan | $1,699,075 |
| Points on Construction Loan | $388,360 |
| | |
| *Total Development Costs* | $29,827,435 |
| *Total Development Costs/Unit* | $298,274 |
| | |
| **Development Feasibility** | |
| Gross Sales Revenue | $35,290,554 |
| Less 5% Commissions/Marketing | $1,764,528 |
| Net Sales Revenue | $33,526,026 |
| Less Development Costs | $29,827,435 |
| **Developer Profit (Net Rev - Dev Costs)** | **$3,698,591** |
| **Profit Per Unit** | **$36,986** |
| **Profit as % of Development Cost** | **12%** |
| **Profit as % of Revenues** | **11%** |

NOTES:

a) Market rate prices estimated by BAE based on pricing for Seaside Highlands & East Garrison.
Below market prices based on BAE calculation of max affordable sale price per income thresholds.

b) based on FOR A Land Sales Projections per MUNI Financial.

c) based on estimates from Means, analysis by HAMCo, and estimates from various Fort Ord development projects.

d) based on review of various Fort Ord development proposals. Will range from $20,000 to $40,000 or more per unit.

e) Inc. current FOR A fee of $36,000, plus estimate of Marina, Seaside, and County permits/fees inc. impact fees as applicable.

f) Inc. architect, legal, pre-development, etc. Percent applied to hard costs + fees/permits + parking. Percent not applied to land cost.

Source: BAE, 2003.