

# LAND VALUE RECAPTURE ANALYSIS

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*HERMOSA BEACH, CA*

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# 1.0 Background & Summary

The City of Hermosa Beach (“City”) retained Kosmont Companies (“Kosmont”) to evaluate potential provisions of the City’s proposed Land Value Recapture (“LVR”) program. The LVR program seeks to retain portions of land value added to properties within certain commercial corridors on which the City may allow residential development through rezoning actions. The LVR program is intended to produce affordable housing within the City. Under the LVR program, developments would pay a fee to support the development of affordable housing units elsewhere in the City or alternatively, include affordable housing within the project. This document (“Analysis”) summarizes the analysis completed in evaluating potential LVR program elements and includes three primary elements: (i) an analysis of the estimated equivalency of the fee versus the economics of including affordable units in a given project, (ii) a discussion of the proposed fee amounts and ability of the market to support the same, and (iii) order of magnitude pro forma for hypothetical developments illustrating the potential economics of the LVR program.

Pursuant to guidance from the City Council and City leadership, the LVR program evaluated herein is framed around a requirement that residential projects include a set-aside of (i) 15% very low-income units, (ii) 15% low-income units, (iii) 25% moderate-income units, or alternatively (iv), pay a fee of approximately \$76 per net residential square foot for project with four or fewer dwelling units, or approximately \$104 for developments with five or more dwelling units.

While every development is relatively unique, pursuant to the Analysis highlighted herein, these potential fee amounts are generally thought to be sufficient to induce some projects to include affordable housing units as part of a given development. Some projects would also be expected to elect to pay the fee rather than include affordable units. Additionally, the fee appears low enough so as not to obstruct the development of residential uses in newly eligible areas of the City. Finally, it is expected that the City will need to regularly revisit the amount of the fee, and potentially the exemption set-aside requirements, as fundamental inputs and calculations highlighted in this Analysis will change over time.

The analyses, projections, assumptions, rates of return, and any examples presented herein are for illustrative purposes and are not a guarantee of actual and/or future results. Project pro forma and tax analyses are projections only. Actual results may differ materially from those expressed in this analysis.
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## 2.0 Fee Equivalency

The first element of the Analysis summarized herein is the calculation of the general economic equivalency of including a prescribed percentage and *depth* of (very low-, low-, or moderate-income) affordable housing within a given development versus a set fee. This calculation is not an evaluation of what the market can bear, but rather an estimate of the effective cost of requiring a development to restrict units to 15% very low-, 15% low-, or 25% moderate-income households.

The assumptions presented in this section represent one of multiple potential development scenarios evaluated as part of the Analysis completed, though could generally be considered a baseline set of assumptions. The assumptions herein are based on a review and modeling of inputs including real estate market conditions specific to the City, current affordable housing guidelines in the State of California (“State”), Los Angeles County Development Authority (“LACDA”) guidance on monthly housing expenditures for utilities, and the potential relationship between the LVR program and State Density Bonus Law (“Density Bonus”, Government Code § 65915 – 65918), including recent changes under Assembly Bill 1287 (“AB 1287”).

### 2.1 Maximum Monthly Housing Expenditures (Multifamily / For Rent)

Maximum monthly affordable housing expenditures were calculated based on Health & Safety Code § 50053 which provides that very low-, low-, and moderate-income households shall not expend more than 30% of 50%, 60%, and 110% of the area median income (“AMI”) on housing, respectively. The AMI for Los Angeles County as published by the California Department of Housing and Community Development (“HCD”) is \$98,200 for 2023. The calculated amounts were adjusted for unit sizes (bedrooms) and household size (persons) based on HCD guidance. To determine the maximum amount of monthly rent as a share of total housing expenditures, allowances for utilities as published by LACDA for the 2023 all electric schedule were deducted from the calculated amounts. It was assumed that the cost of trash service would be included in rent. The household size assumptions and utility allowances follow in Table 1 below.

Table 1: Household Size, Income Adjustment, & Monthly Utility Allowance Assumptions

	Bedrooms			
	Studio	1	2	3
Household Size (Persons)	1	2	3	4
Household Size Adjustment	70%	80%	90%	100%
Monthly Utility Allowance	\$ 151	\$ 185	\$ 220	\$ 267

Source: HCD, LACDA, Kosmont (2023)

Based on these factors, the maximum monthly rent for very low-, low-, and moderate-income households were calculated as provided in Table 2 below. Additional details are provided in Appendix A: Calculation of Maximum Monthly Housing Expenditures / Rent on page 22.

Table 2: Estimated Maximum Monthly Rent for Very Low-, Low-, and Moderate-Income Households

<b>Maximum Monthly Rent</b>	<b>Bedrooms</b>			
	<b>Studio</b>	<b>1</b>	<b>2</b>	<b>3</b>
<b>Very Low</b>	\$ 708	\$ 797	\$ 885	\$ 961
<b>Low</b>	880	993	1,106	1,206
<b>Moderate</b>	1,739	1,975	2,210	2,434

Source: HCD, HSC § 50053, LACDA, Kosmont (2023)

## 2.2 Market Unit Size, Distribution, & Rent

Based on a review of data from sources including CoStar, Rent.com, Zillow, and the Los Angeles County Office of the Assessor, assumptions on the square footage of units of different sizes (bedrooms), the ratio of unit sizes, and market rents were developed. A summary of these assumptions follows in Table 3 below and additional information on sample comparables is provided in Appendix B: Sample Rent & Unit Size Comparables on page 23. For reference, monthly market rents are based on rates of \$4.75 / \$4.50 / \$4.00 / \$3.75 per square foot for studio / one-bedroom / two-bedroom / three-bedroom units, respectively, and are considered moderately conservative relative to general market comparables in the City.

Table 3: Assumed Unit Size & Distribution, Market Rent

	<b>Bedrooms</b>			
	<b>Studio</b>	<b>1</b>	<b>2</b>	<b>3</b>
<b>Ratio</b>	15%	45%	35%	5%
<b>Square Feet</b>	475	700	950	1,150
<b>Market Rent</b>	\$2,256	\$3,150	\$3,800	\$4,313

Source: CoStar, Kosmont, Rent.com, Zillow (2023)

## 2.3 State Density Bonus Provisions

Density Bonus law allows residential developments that include income restricted units to develop more units than may otherwise be provided under City density regulations. The increase in total units allowed is based on the percentage and depth of affordability provided. Density Bonus law applies to developments with five or more units, includes a roundup provision on calculations, and provides for other concessions by right including increases in height, and reductions in setback requirements. For reference Density Bonus provisions for moderate income units generally only apply to for sale product, however, the City proposes to permit Density Bonus provisions to apply to moderate income for rent product as well.

The following are examples of how Density Bonus provisions can be applied, assuming a residential development with 100 “base” dwelling units:

- If 15 units were restricted to very low-income households, a total of 150 units could be developed.

- If 15 units were restricted to low-income households, a total of 128 units could be developed.
- If 25 units were restricted to moderate-income households, a total of 120 units could be developed.

The calculations in this Summary assume that a development including a sufficient number of affordable units to be exempt from the LVR fee would utilize the benefits of Density Bonus Law. The contemplated LVR program requirement of 15% very low-, 15% low-, or 25% moderate-income units would entitle a developer to increase the total number of units in a development by 50%, 27.5%, and 20.0%, respectively.

For reference, AB 1287 was recently codified, and provides for additional increases in density should projects maximize very low-, low-, or moderate-income unit dedications and bonuses (15%, 24%, and 44% respectively). Under those circumstances additional bonuses for very low- or moderate-income units are permitted to be developed and additional bonuses are available. Kosmont modeled the provisions of AB 1287 and found the provisions to be accretive for some of the hypothetical development programs. Ultimately the potential benefit of the new provisions may depend on the capacity to efficiently fit additional units on a given site.

## 2.4 Impact on Rental Revenue

Despite the accretive provisions of Density Bonus law, the inclusion of affordable units within a residential development was generally found to have a negative impact on overall rental revenue. It is assumed that market-rate and affordable units will have similar operating costs. The overall impact to blended gross rent is provided below in Table 4. For reference, the figures are compared to assumed market rents illustrated above, and blended figures are weighted averages based on unit bedroom count distributions / ratios illustrated in Table 3 above.

Table 4: Average Rent (Including Income Restricted Units)

Average Rent	Bedrooms				Blended
	Studio	1	2	3	
<b>Very Low</b>	\$2,101	\$2,915	\$3,508	\$3,977	\$ 3,054
<b>Low</b>	2,095	2,897	3,484	3,948	3,035
<b>Moderate</b>	2,149	2,905	3,469	3,921	3,040

Source: Kosmont (2023)

*Calculation: ((Market Rent x Market Units) + (Affordable Rent x Affordable Units)) / Total Units*

As illustrated in Table 5 below, this calculation provides that a 115-unit residential development that included 25 units restricted to moderate income households with 15% studio / 45% one-bedroom / 35% two-bedroom / 5% three-bedroom units would realize an average reduction in gross revenue of \$262 for each of the 115 units, each month.

Table 5: Delta Between Market &amp; Average Rent

Delta From Market	Bedrooms				Blended
	Studio	1	2	3	
<b>Very Low</b>	\$ 155	\$ 235	\$ 292	\$ 335	\$ 248
<b>Low</b>	161	253	316	364	267
<b>Moderate</b>	108	245	331	391	262

Source: Kosmont (2023)

Calculation: Market Rent – Average Rent

## 2.5 Capitalized Value

Multifamily real estate is generally valued based on capitalization (“cap”) rates whereby the present value of a given property is equal to the net annual rental income divided by the cap rate. Cap rates represent the initial rate of return on the total cost of project investment. Cap rates in the City are generally lower than other regional markets, indicating that investors are willing to pay more for properties in the City than they would for another property with the same income stream in an inferior market with more perceived risk. In this step of the Analysis, the impact of the inclusion of affordable housing units within a given development was evaluated on a present value basis utilizing a hypothetical 4.5% cap rate. This rate is higher than recent multifamily property transactions in the City, however is thought to be reasonable on a forward-looking basis as cap rates are increasing due to increases in interest rates and required rates of return. For reference, a lower assumed cap rate would increase the value impact per square foot discussed in Section 2.6 below.

The total value / cost impacts based on a 150-, 128-, and 120-unit development that included 15% very low-, 15% low-, or 25% moderate-income units, respectively is provided in Table 6 below (figures have been rounded).

Table 6: Estimated Capitalized Impact to Value of Including Income Restricted Units

Capitalized Impact to Value	Bedrooms				Blended
	Studio	1	2	3	
<b>Very Low</b>	\$ 6,200,000	\$ 9,400,000	\$ 11,700,000	\$ 13,400,000	\$ 9,900,000
<b>Low</b>	5,500,000	8,600,000	10,800,000	12,400,000	9,100,000
<b>Moderate</b>	3,400,000	7,800,000	10,600,000	12,500,000	8,400,000

Source: Kosmont (2023)

Calculation: Delta Between Market &amp; Average Rent x Total Units

## 2.6 Value Impact Per Square Foot

The final step of this method of evaluation is to consider the impact to value on a per square foot basis. The total leasable square footage, and impact to value on a per square foot basis are illustrated in Table 7 and Table 8 below. These figures reflect the unit square footages identified

in Table 3 above, and the total unit counts identified in Section 2.3 above (e.g., a 150-, 128-, and 120-unit development).

Table 7: Gross Leasable Square Feet

<b>Gross Leasable SF</b>	<b>Bedrooms</b>				<b>Blended</b>
	<b>Studio</b>	<b>1</b>	<b>2</b>	<b>3</b>	
<b>Very Low</b>	71,250	105,000	142,500	172,500	116,438
<b>Low</b>	60,800	89,600	121,600	147,200	99,360
<b>Moderate</b>	57,000	84,000	114,000	138,000	93,150

Source: Kosmont (2023)

Calculation: *Unit Square Feet x Total Units*

Table 8: Value Impact Per Square Foot

<b>Value Impact / SF</b>	<b>Bedrooms</b>				<b>Blended</b>
	<b>Studio</b>	<b>1</b>	<b>2</b>	<b>3</b>	
<b>Very Low</b>	\$ 87	\$ 90	\$ 82	\$ 78	\$ 86
<b>Low</b>	91	96	89	84	92
<b>Moderate</b>	60	93	93	91	88

Source: Kosmont (2023)

Calculation: *Capitalized Impact to Value / Gross Leasable Square Feet*

Based on the blended rates in Table 8 above, and given the assumptions identified herein, levying a fee of \$86 – 92 per net (leasable) square foot of residential development would conceptually be considered economically equivalent to a developer as delivering affordable housing as part of a given development (assuming a 100-dwelling unit project before considering density bonuses). A table and chart showing the estimated equivalency for different project sizes / dwelling unit counts can be found in Appendix C: Estimated Value Impact Per Square Foot for Different Unit Counts on page 25. Additionally, figures for developments with one to four units for which Density Bonus provisions do not apply is provided in Appendix D: Estimated Value Impact Per Square Foot for One to Four Units on page 26.

## 2.7 For Sale Developments

The equivalency figures presented in this Summary are based on an evaluation of the potential impact to value of requiring the various percentages of affordable housing in a given multifamily (rental) development versus an exclusively market rate development. The impact of requiring affordable housing as part of a for sale development is generally considered to be greater than the figures presented herein. Given current real estate market conditions, it is expected that the developer of a for sale project would likely opt to pay the fee rather than include affordable housing in such development. However, each development has unique economics.



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## 3.0 Market Capacity

In this section the question of the market's capacity to support an LVR fee is discussed. The City proposes to allow the development of residential use where such use is not currently permitted so long as such residential use either includes a component of affordable housing or an LVR fee is paid to support the development of affordable housing elsewhere.

The City is not considering requiring owners to develop residential uses on their property. Rather, the City is adding a right and value to certain areas of the City, with the condition that a portion of the incremental value conveyed be used to support affordable housing for residents of the City.

Every property and potential development is relatively unique. If adding residential use to a given property does not make economic sense, that property owner should not, and is not required to add such use. Regardless of the LVR fee ultimately levied, or amount of affordable housing required to be provided in a given development under the proposed policy, eligible properties and their owners would at worst be left at status quo. No existing property rights are proposed to be constrained or eliminated in any way. Property owners only have the potential to benefit from the LVR program, and the quantity of housing delivered within the City only has the potential to increase.

### 3.1 Incremental Value

As part of the Analysis, recent commercial and residential property transactions were reviewed. In general, of the sales reviewed, most properties sold for between ~\$700 - 1,500 per gross\* square foot. Based on the data reviewed, values of \$800 - 1,000 per gross square foot were considered indicative of typical market performance, and the higher end of this range could readily be ascribed to newer, quality product.

To evaluate the potential incremental value of the LVR program, the incremental value of newly permissible residential development (perhaps \$800 to \$1,000 per gross square foot, or more) can be compared to the cost of development. Construction costs can vary widely from project to project based on factors such as site prep required, construction type / materials, the quality of finishes, etc. Broadly, for the purposes of this analysis, a cost range of \$400 to \$600 per net square foot (excluding land) may be applicable, and this figure conceptually includes typical building permit fees, financing costs, and contractor overhead. It is possible to build many product types such as tract homes or basic additions for substantially less, and it can certainly cost substantially more to build high end or highly engineered product.

*\*The conversion of gross to net square foot can vary substantially, but efficiency factors approaching 80% are common for larger buildings with interior corridors and indoor amenities, and higher ratios are possible for buildings with exterior corridors and without indoor amenities.*

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Given a potential value of \$800 to \$1,000 per gross square foot, and development costs of \$400 to \$600 per net square foot (excluding land), the net residual value or incremental value of adding residential use to a property could conceptually range from \$400 to \$600 per square foot of residential use, before accounting for net versus gross building area. The lower, or worst case from the assumptions above would yield \$200 to \$400 per square foot in new / incremental value before any potential adjustment for gross versus net square feet ( $\$800 - \$600 = \$200$ , or  $\$1,000 - \$600 = \$400$ ).

For illustrative purposes only, should the City elect to levy an LVR fee of \$100 per net square foot, the remaining incremental / residual value would be \$100 to \$300 per square foot of building area (given a building with a 100% gross to net efficiency). Assuming the owner of a small property was considering adding a single, 950 square foot two-bedroom unit above an existing commercial use, if the unit could be developed within a budget of \$600 per square foot (\$570,000), and the unit were valued at \$900 per square foot (\$855,000), the property owner would yield a net benefit of \$190,000, after considering the LVR fee of \$100 per square foot. This residual / new incremental value of \$190,000 would be purely attributable to the City allowing residential uses in areas where such uses are not currently allowed. Thus, in this perhaps moderately conservative example, the City would retain \$95,000 or 1/3<sup>rd</sup> of the value being conveyed (for the duration of the affordability covenants), and \$190,000 or 2/3<sup>rd</sup>s of the balance of the value being conveyed would be retained by the property owner (100% after the expiration of the affordability covenants).

Alternatively, a property owner could elect not to develop residential uses on their property and pursue the continuation of existing uses or other uses as currently permitted by right, without realizing any diminution in value.

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## 4.0 Hypothetical Development Program Pro Forma

In this section a series of high-level proforma are provided illustrating hypothetical development programs on a sample “small”, “medium”, and “large” site. For each hypothetical site, first a base case with all market rate units (wherein the LVR fee is paid) is evaluated, and subsequently hypothetical programs that include affordable housing are provided. Additionally, three hypothetical affordable housing pro forma were prepared for the medium and large site, and they evaluate the performance of a project with (i) very low-income units, (ii) moderate-income units, or (iii) a combination of very low- and moderate-income units as permitted under AB 1287.

The sites and programs presented are theoretical in nature, and prepared without the benefit of massing studies or order of magnitude construction cost estimates. They are intended to be for general demonstration purposes only. At the bottom of each pro forma, a “Return on Cost” figure is provided, and is one of many measures of potential profitability for a given project. In general, for projects of the scale evaluated herein, a Return on Cost of 8 – 12% or more would suggest a hypothetical development program may be financially feasible to a typical developer. Finally, the same pro forma for the medium and large sites are presented side-by-side in Appendix E: Hypothetical Development Pro Forma on page 27 for easier comparison.

Figure 1: Hypothetical Small Site Pro Forma – Market Rate Project (LVR Fee Paid)

Property Profile		Market Rate Project (LVR Fee Paid)			
Description of Improvements		Existing commercial / store front retail or office use			
	Lot Area	3,250	SF		
	Existing Improvements	1,750	SF	\$ 900 /SF	\$ 1,575,000
	Existing Parking	8	Stalls	(Tandem)	
Existing Value					\$ 1,575,000
Proposed Program					
	Description	Keep existing first floor commercial, add one story of residential, no affordable units			
	Commercial	1,750	SF		
	Residential	1,650	SF		
	Parking	8	Stalls	(Tandem)	
	Base Residential Units	2	DU		
	Affordable Units	-	DU		
	Density Bonus Units	-	DU		
Total Units		2	DU	(Two Bedroom Units)	
Development Value					
	Commercial	1,750	SF	\$1,000 /SF	\$ 1,750,000
	Market Rate Residential	1,650	SF	950 /SF	1,567,500
	Affordable Residential	-	SF	- /SF	-
Total					\$ 3,317,500
Development Costs					
	Site Acquisition	1,750	SF	\$ 900 /SF	\$ 1,575,000
	Commercial	1,750	SF	150 /SF	262,500
	Residential	1,650	SF	600 /SF	990,000
	Parking	-	SF	- /SF	-
	LVR Fee	1,650	SF	76 /SF	125,400
Total					\$ 2,952,900
Net Margin		12.3% Return on Cost			\$ 364,600

Source: Kosmont (2023)

Figure 2: Hypothetical Medium Site Pro Forma – Market Rate Project (LVR Fee Paid)

Property Profile		Market Rate Project (LVR Fee Paid)			
Description of Improvements		Existing commercial / store front retail or office use			
Lot Area	8,500	SF			
Existing Improvements	5,000	SF	\$ 800 /SF	\$	4,000,000
Existing Parking	15	Stalls			
Existing Value				\$	4,000,000
Proposed Program					
Description	Replace first floor commercial, add one story of residential, no affordable units				
Commercial	5,000	SF			
Residential	5,000	SF			
Parking	15	Stalls			
Base Residential Units	6	DU			
Affordable Units	-	DU			
Density Bonus Units	-	DU			
Total Units	6	DU	(One & Two Bedroom Units)		
Development Value					
Commercial	5,000	SF	\$ 900 /SF	\$	4,500,000
Market Rate Residential	5,000	SF	950 /SF		4,750,000
Affordable Residential	-	SF	- /SF		-
Total				\$	9,250,000
Development Costs					
Site Acquisition	5,000	SF	\$ 800 /SF	\$	4,000,000
Site Clearance	-	SF	- /SF		-
Commercial	5,000	SF	400 /SF		2,000,000
Residential	5,000	SF	500 /SF		2,500,000
Parking	-	SF	- /SF		-
LVR Fee	5,000	SF	104 /SF		520,000
Total				\$	9,020,000
Net Margin		2.5% Return on Cost		\$	230,000

Source: Kosmont (2023)

Figure 3: Hypothetical Medium Site Pro Forma – Project w/ Very Low-Income Unit(s)

Property Profile		Project w/ Very Low-Income Unit(s)			
Description of Improvements		Existing commercial / store front retail or office use			
Lot Area	8,500	SF			
Existing Improvements	5,000	SF	\$ 800 /SF	\$	4,000,000
Existing Parking	15	Stalls			
Existing Value				\$	4,000,000
Proposed Program					
Description	Replace first floor commercial, add one or two stories of residential, one very low unit				
Commercial	5,000	SF			
Residential	8,100	SF			
Parking	15	Stalls			
Base Residential Units	6	DU			
Affordable Units	1	DU	17% Affordable		
Density Bonus Units	3	DU			
Total Units	9	DU	(Two Bedroom Units)		
Development Value					
Commercial	5,000	SF	\$ 900 /SF	\$	4,500,000
Market Rate Residential	7,200	SF	925 /SF		6,660,000
Affordable Residential	900	SF	- /SF		-
Total				\$	11,160,000
Development Costs					
Site Acquisition	5,000	SF	\$ 800 /SF	\$	4,000,000
Site Clearance	-	SF	- /SF		-
Commercial	5,000	SF	400 /SF		2,000,000
Residential	8,100	SF	500 /SF		4,050,000
Parking	3,500	SF	125 /SF		437,500
LVR Fee	8,100	SF	- /SF		-
Total				\$	10,487,500
Net Margin		6.4% Return on Cost		\$	672,500

Source: Kosmont (2023)

Figure 4: Hypothetical Medium Site Pro Forma – Project w/ Moderate-Income Unit(s)

Property Profile		Project w/ Moderate-Income Unit(s)			
Description of Improvements		Existing commercial / store front retail or office use			
Lot Area	8,500	SF			
Existing Improvements	5,000	SF	\$ 800 /SF	\$	4,000,000
Existing Parking	15	Stalls			
Existing Value				\$	4,000,000
Proposed Program					
Description	Replace first floor commercial, add one or two stories of residential, two moderate units				
Commercial	5,000	SF			
Residential	7,600	SF			
Parking	15	Stalls			
Base Residential Units	6	DU			
Affordable Units	2	DU	33% Affordable		
Density Bonus Units	2	DU			
Total Units	8	DU	(Two Bedroom Units)		
Development Value					
Commercial	5,000	SF	\$ 900 /SF	\$	4,500,000
Market Rate Residential	5,700	SF	925 /SF		5,272,500
Affordable Residential	1,900	SF	425 /SF		807,500
Total				\$	10,580,000
Development Costs					
Site Acquisition	5,000	SF	\$ 800 /SF	\$	4,000,000
Site Clearance	-	SF	- /SF		-
Commercial	5,000	SF	400 /SF		2,000,000
Residential	7,600	SF	500 /SF		3,800,000
Parking	3,500	SF	125 /SF		437,500
LVR Fee	7,600	SF	- /SF		-
Total				\$	10,237,500
Net Margin		3.3% Return on Cost		\$	342,500

Source: Kosmont (2023)

Figure 5: Hypothetical Medium Site Pro Forma – Project w/ Very Low- & Moderate-Income Unit(s)

Property Profile		Project w/ Very Low- & Moderate-Income			
Description of Improvements		Existing commercial / store front retail or office use			
Lot Area	8,500	SF			
Existing Improvements	5,000	SF	\$ 800 /SF	\$	4,000,000
Existing Parking	15	Stalls			
Existing Value				\$	4,000,000
Proposed Program					
Description	Replace first floor commercial, add two stories of residential, one very low, one moderate unit				
Commercial	5,000	SF			
Residential	9,900	SF			
Parking	15	Stalls			
Base Residential Units	6	DU			
Affordable Units	2	DU	33%		
Density Bonus Units	6	DU			
Total Units	12	DU	(One & Two Bedroom Units)		
Development Value					
Commercial	5,000	SF	\$ 875 /SF	\$	4,375,000
Market Rate Residential	8,250	SF	950 /SF		7,837,500
Affordable Residential	1,650	SF	225 /SF		371,250
Total				\$	12,583,750
Development Costs					
Site Acquisition	5,000	SF	\$ 800 /SF	\$	4,000,000
Site Clearance	-	SF	- /SF		-
Commercial	5,000	SF	400 /SF		2,000,000
Residential	9,900	SF	525 /SF		5,197,500
Parking	3,500	SF	125 /SF		437,500
LVR Fee	9,900	SF	- /SF		-
Total				\$	11,635,000
Net Margin		8.2% Return on Cost		\$	948,750

Source: Kosmont (2023)



Figure 6: Hypothetical Large Site Pro Forma – Market Rate Project (LVR Fee Paid)

Property Profile		Market Rate Project (LVR Fee Paid)			
Description of Improvements		Existing commercial / store front retail or office use			
Lot Area	15,000 SF	\$ 250 /SF	\$	3,750,000	
Existing Improvements	5,000 SF				
Existing Parking	- Stalls				
Existing Value			\$	3,750,000	
Proposed Program					
Description	Replace first floor commercial, add two stories of residential, no affordable units				
Commercial	3,500 SF				
Residential	11,400 SF				
Parking	30 Stalls				
Base Residential Units	12 DU				
Affordable Units	- DU				
Density Bonus Units	- DU				
Total Units	12 DU	(Two Bedroom Units)			
Development Value					
Commercial	3,500 SF	\$ 900 /SF	\$	3,150,000	
Market Rate Residential	11,400 SF	925 /SF		10,545,000	
Affordable Residential	- SF	- /SF		-	
Total			\$	13,695,000	
Development Costs					
Site Acquisition	15,000 SF	\$ 250 /SF	\$	3,750,000	
Site Clearance	5,000 SF	50 /SF		250,000	
Commercial	3,500 SF	400 /SF		1,400,000	
Residential	11,400 SF	450 /SF		5,130,000	
Parking	11,500 SF	100 /SF		1,150,000	
LVR Fee	11,400 SF	104 /SF		1,185,600	
Total			\$	12,865,600	
Net Margin		6.4% Return on Cost		\$ 829,400	

Source: Kosmont (2023)

Figure 7: Hypothetical Large Site Pro Forma – Project w/ Very Low-Income Unit(s)

Property Profile		Project w/ Very Low-Income Unit(s)			
Description of Improvements		Existing commercial / store front retail or office use			
Lot Area	15,000 SF	\$ 250 /SF	\$ 3,750,000		
Existing Improvements	5,000 SF				
Existing Parking	- Stalls				
Existing Value		\$ 3,750,000			
Proposed Program					
Description	Replace first floor commercial, add two or three stories of residential, two very low units				
Commercial	3,500 SF				
Residential	17,100 SF				
Parking	30 Stalls				
Base Residential Units	12 DU				
Affordable Units	2 DU	17% Affordable			
Density Bonus Units	6 DU				
Total Units	18 DU	(Two Bedroom Units)			
Development Value					
Commercial	3,500 SF	\$ 900 /SF	\$ 3,150,000		
Market Rate Residential	15,200 SF	925 /SF	14,060,000		
Affordable Residential	1,900 SF	- /SF	-		
Total		\$ 17,210,000			
Development Costs					
Site Acquisition	15,000 SF	\$ 250 /SF	\$ 3,750,000		
Site Clearance	5,000 SF	50 /SF	250,000		
Commercial	3,500 SF	400 /SF	1,400,000		
Residential	17,100 SF	450 /SF	7,695,000		
Parking	11,500 SF	100 /SF	1,150,000		
LVR Fee	17,100 SF	- /SF	-		
Total		\$ 14,245,000			
Net Margin		20.8% Return on Cost		\$ 2,965,000	

Source: Kosmont (2023)

Figure 8: Hypothetical Large Site Pro Forma – Project w/ Moderate-Income Unit(s)

Property Profile		Project w/ Moderate-Income Unit(s)			
Description of Improvements		Existing commercial / store front retail or office use			
Lot Area	15,000 SF	\$ 250 /SF	\$	3,750,000	
Existing Improvements	5,000 SF				
Existing Parking	- Stalls				
Existing Value			\$	3,750,000	
Proposed Program					
Description	Replace first floor commercial, add two stories of residential, three moderate units				
Commercial	3,500 SF				
Residential	14,250 SF				
Parking	30 Stalls				
Base Residential Units	12 DU				
Affordable Units	3 DU	25% Affordable			
Density Bonus Units	3 DU				
Total Units	15 DU	(Two Bedroom Units)			
Development Value					
Commercial	3,500 SF	\$ 900 /SF	\$	3,150,000	
Market Rate Residential	11,400 SF	925 /SF		10,545,000	
Affordable Residential	2,850 SF	425 /SF		1,211,250	
Total			\$	14,906,250	
Development Costs					
Site Acquisition	15,000 SF	\$ 250 /SF	\$	3,750,000	
Site Clearance	5,000 SF	50 /SF		250,000	
Commercial	3,500 SF	400 /SF		1,400,000	
Residential	14,250 SF	450 /SF		6,412,500	
Parking	11,500 SF	100 /SF		1,150,000	
LVR Fee	14,250 SF	- /SF		-	
Total			\$	12,962,500	
Net Margin		15.0% Return on Cost	\$	1,943,750	

Source: Kosmont (2023)

Figure 9: Hypothetical Large Site Pro Forma – Project w/ Very Low- & Moderate-Income Unit(s)

Property Profile		Project w/ Very Low- & Moderate-Income			
Description of Improvements		Existing commercial / store front retail or office use			
Lot Area	15,000 SF	\$ 250 /SF	\$	3,750,000	
Existing Improvements	5,000 SF				
Existing Parking	- Stalls				
Existing Value				\$ 3,750,000	
Proposed Program					
Description	Replace first floor commercial, add three stories of residential, two very low, two moderate units				
Commercial	3,500 SF				
Residential	19,800 SF				
Parking	30 Stalls				
Base Residential Units	12 DU				
Affordable Units	4 DU	33% Affordable			
Density Bonus Units	12 DU				
Total Units	24 DU	(One & Two Bedroom Units)			
Development Value					
Commercial	3,500 SF	\$ 875 /SF	\$	3,062,500	
Market Rate Residential	16,500 SF	950 /SF		15,675,000	
Affordable Residential	3,300 SF	225 /SF		742,500	
Total				\$ 19,480,000	
Development Costs					
Site Acquisition	15,000 SF	\$ 250 /SF	\$	3,750,000	
Site Clearance	5,000 SF	50 /SF		250,000	
Commercial	3,500 SF	400 /SF		1,400,000	
Residential	19,800 SF	450 /SF		8,910,000	
Parking	11,500 SF	100 /SF		1,150,000	
LVR Fee	19,800 SF	- /SF		-	
Total				\$ 15,460,000	
Net Margin		26.0% Return on Cost	\$	4,020,000	

Source: Kosmont (2023)

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## 5.0 Appendices

## Appendix A: Calculation of Maximum Monthly Housing Expenditures / Rent

**2023 Area Median Income**    \$    98,200

<b>Income Thresholds</b>	<b>Percent of AMI</b>	<b>Max Household Exp %</b>
<b>Very Low</b>	50%	30%
<b>Low</b>	60%	30%
<b>Moderate</b>	110%	30%

<b>Bedrooms</b>	<b>Studio</b>	<b>1</b>	<b>2</b>	<b>3</b>
<b>Household Size</b>	1	2	3	4
<b>Household Size Adj.</b>	70%	80%	90%	100%

### Utility Allowance - 2023 Multifamily All Electric

<b>Heating</b>	\$    14	\$    20	\$    25	\$    32
<b>Cooking</b>	7	10	13	16
<b>Water Heating</b>	14	19	25	31
<b>Basic Electric</b>	27	33	40	48
<b>Water</b>	73	82	91	109
<b>Trash</b>	42	42	42	42
<b>Air Conditioning</b>	10	15	20	25
<b>Refrigerator</b>	6	6	6	6
<b>Total</b>	<b>\$    193</b>	<b>\$    227</b>	<b>\$    262</b>	<b>\$    309</b>

### Allowed Monthly Housing Expenditures (Multifamily / For Rent)

<b>Bedrooms</b>	<b>Studio</b>	<b>1</b>	<b>2</b>	<b>3</b>
<b>Very Low</b>	\$    666	\$    755	\$    843	\$    919
<b>Low</b>	838	951	1,064	1,164
<b>Moderate</b>	1,697	1,933	2,168	2,392

## Appendix B: Sample Rent & Unit Size Comparables

### CoStar Properties (~July 2023)

	Studio	1	2	3
<b>Unit Distribution</b>	18%	48%	30%	4%
<b>Unit SF</b>	470	678	945	930
<b>Rent</b>	\$ 2,375	\$ 2,857	\$ 3,288	\$ 3,175
<b>Rent / SF</b>	5.05	4.21	3.48	3.41

### Zillow & Rent.com Properties (~July 2023)

#### Studio Units

Address	Bed	Bath	SF	Rent	\$/SF	Source
415 Herondo St	-	1	360	\$ 2,337	\$6.49	Zillow
415 Herondo St	-	1	408	2,331	5.71	Zillow
720 Monterey Blvd	-	1	450	2,250	5.00	Zillow
415 Herondo St	-	1	512	2,523	4.93	Zillow
415 Herondo St	-	1	562	2,563	4.56	Zillow
<b>Average</b>			<b>458</b>	<b>\$ 2,401</b>	<b>\$5.34</b>	
<b>Median</b>			<b>450</b>	<b>2,337</b>	<b>5.00</b>	

#### One Bedroom Units

Address	Bed	Bath	SF	Rent	\$/SF	Source
1140 Hermosa Ave	1	1	400	\$ 2,350	\$5.88	Zillow
1346 Bayview Dr	1	1	400	2,500	6.25	Zillow
1821 Pacific Coast Hwy	1	1	550	2,495	4.54	Rent.com
707 Manhattan Ave	1	1	408	2,830	6.94	Zillow
2001 Pacific Coast Hwy	1	1	500	2,295	4.59	Zillow
2001 Pacific Coast Hwy	1	1	500	2,395	4.79	Zillow
2001 Pacific Coast Hwy	1	1	500	2,495	4.99	Zillow
2026 Hermosa Ave	1	1	500	2,850	5.70	Zillow
718 21st St	1	1	550	2,500	4.55	Zillow
454 Longfellow Ave	1	1	590	2,800	4.75	Zillow
2100 Hermosa Ave	1	1	600	3,550	5.92	Zillow
216 Hermosa Ave	1	1	630	3,200	5.08	Zillow
415 Herondo St	1	1	644	3,004	4.66	Zillow
137 27th St	1	1	650	3,500	5.38	Zillow
225 30th PL	1	1	750	3,300	4.40	Zillow
415 Herondo St	1	2	758	3,585	4.73	Zillow
415 Herondo St	1	2	855	3,047	3.56	Zillow
3101 Manhattan Ave	1	1	858	3,100	3.61	Zillow
<b>Average</b>			<b>591</b>	<b>\$ 2,878</b>	<b>\$5.02</b>	
<b>Median</b>			<b>570</b>	<b>2,840</b>	<b>4.77</b>	

Two Bedroom Units							
Address	Bed	Bath	SF	Rent	\$/SF	Source	
721 Manhattan Ave	2	1	560	\$ 3,200	\$5.71	Zillow	
1154 Cypress Ave	2	1	690	3,600	5.22	Zillow	
2011 Manhattan Ave	2	1	700	2,595	3.71	Zillow	
2100 Hermosa Ave	2	1	700	3,800	5.43	Zillow	
415 Herondo St	2	1	717	3,450	4.81	Zillow	
950 1st St	2	1	759	2,875	3.79	Zillow	
1821 Pacific Coast Hwy	2	2	900	3,125	3.47	Rent.com	
404 Hermosa Ave	2	1	779	4,495	5.77	Zillow	
2411 Prospect	2	2	855	3,395	3.97	Zillow	
10 Meyer Ct	2	1	900	3,200	3.56	Zillow	
1707 E Pacific Coast Hwy	2	2	974	3,598	3.69	Zillow	
75 18th St	2	2	832	4,300	5.17	Rent.com	
77 15th St	2	2	981	4,500	4.59	Zillow	
1836 The Strand	2	2	1,000	5,995	6.00	Zillow	
1652 Monterey Blvd	2	2	1,050	4,800	4.57	Zillow	
1656 Monterey Blvd	2	2	1,050	4,800	4.57	Zillow	
101 Monterey Blvd	2	2	1,074	3,300	3.07	Zillow	
676 5th St	2	2	1,100	3,850	3.50	Zillow	
1442 Bayview Dr	2	2	1,200	4,500	3.75	Zillow	
1636 Palm Drive	2	2	1,200	5,995	5.00	Zillow	
20 22nd St	2	2	1,276	6,000	4.70	Zillow	
47 8th St	2	3	1,288	6,000	4.66	Zillow	
408 Ocean View Ave	2	3	1,296	6,500	5.02	Zillow	
743 24th PL	2	2	1,500	4,900	3.27	Zillow	
<b>Average</b>			<b>974</b>	<b>\$ 4,282</b>	<b>\$4.46</b>		
<b>Median</b>			<b>978</b>	<b>4,075</b>	<b>4.58</b>		

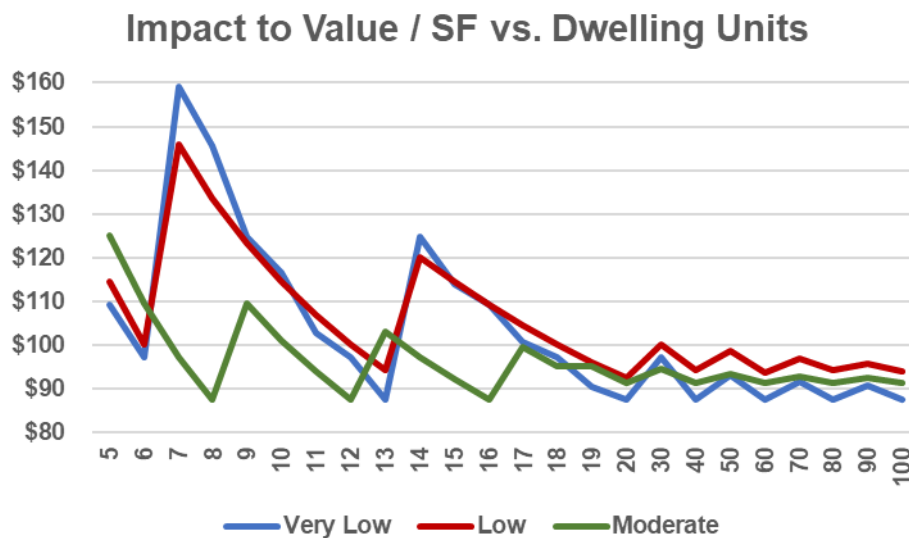
Three Bedroom Units							
Address	Bed	Bath	SF	Rent	\$/SF	Source	
639 1st St	3	3	1,200	\$ 4,800	\$4.00	Zillow	
428 The Strand	3	2	1,846	9,500	5.15	Zillow	
<b>Average</b>			<b>1,523</b>	<b>\$ 7,150</b>	<b>\$4.57</b>		
<b>Median</b>			<b>1,523</b>	<b>7,150</b>	<b>4.57</b>		



## Appendix C: Estimated Value Impact Per Square Foot for Different Unit Counts

Units*	Very Low	Low	Moderate
5	\$ 107	\$ 112	\$ 121
6	95	98	106
7	156	143	94
8	143	131	85
9	123	121	106
10	115	112	98
11	101	105	91
12	95	98	85
13	86	93	99
14	123	118	94
15	112	112	89
16	107	107	85
17	99	103	96
18	95	98	92
19	89	94	92
20	86	91	88
30	95	98	91
40	86	93	88
50	92	97	90
60	86	92	88
70	90	95	90
80	86	93	88
90	89	94	89
100	86	92	88

\*Dwelling unit counts are prior to use of density bonus provisions



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## Appendix D: Estimated Value Impact Per Square Foot for One to Four Units

Value Impact / SF	Studio	Bedrooms			Blended
		1	2	3	
<b>One Unit w/ One Affordable Unit (100% Affordable)</b>					
<b>Very Low</b>	\$ 869	\$ 896	\$ 818	\$ 777	\$ 859
<b>Low</b>	773	822	756	720	786
<b>Moderate</b>	290	447	446	436	423
<b>Two Units w/ One Affordable Unit (50% Affordable)</b>					
<b>Very Low</b>	\$ 435	\$ 448	\$ 409	\$ 389	\$ 430
<b>Low</b>	386	411	378	360	393
<b>Moderate</b>	145	224	223	218	211
<b>Three Units w/ One Affordable Unit (33% Affordable)</b>					
<b>Very Low</b>	\$ 290	\$ 299	\$ 273	\$ 259	\$ 286
<b>Low</b>	258	274	252	240	262
<b>Moderate</b>	97	149	149	145	141
<b>Four Units w/ One Affordable Unit (25% Affordable)</b>					
<b>Very Low</b>	\$ 217	\$ 224	\$ 205	\$ 194	\$ 215
<b>Low</b>	193	205	189	180	197
<b>Moderate</b>	73	112	112	109	106

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## **Appendix E: Hypothetical Development Pro Forma**

## Hypothetical Medium Site Pro Forma

Property Profile	Market Rate Project (LVR Fee Paid)	Project w/ Very Low-Income Unit(s)	Project w/ Moderate-Income Unit(s)	Project w/ Very Low- & Moderate-Income
Description of Improvements	Existing commercial / store front retail or office use	Existing commercial / store front retail or office use	Existing commercial / store front retail or office use	Existing commercial / store front retail or office use
Lot Area	8,500 SF	8,500 SF	8,500 SF	8,500 SF
Existing Improvements	5,000 SF \$ 800 /SF \$ 4,000,000	5,000 SF \$ 800 /SF \$ 4,000,000	5,000 SF \$ 800 /SF \$ 4,000,000	5,000 SF \$ 800 /SF \$ 4,000,000
Existing Parking	15 Stalls	15 Stalls	15 Stalls	15 Stalls
<b>Existing Value</b>	<b>\$ 4,000,000</b>	<b>\$ 4,000,000</b>	<b>\$ 4,000,000</b>	<b>\$ 4,000,000</b>
<b>Proposed Program</b>				
Description	Replace first floor commercial, add one story of residential, no affordable units	Replace first floor commercial, add one or two stories of residential, one very low unit	Replace first floor commercial, add one or two stories of residential, two moderate units	Replace first floor commercial, add two stories of residential, one very low, one moderate unit
Commercial	5,000 SF	5,000 SF	5,000 SF	5,000 SF
Residential	5,000 SF	8,100 SF	7,600 SF	9,900 SF
Parking	15 Stalls	15 Stalls	15 Stalls	15 Stalls
Base Residential Units	6 DU	6 DU	6 DU	6 DU
Affordable Units	- DU	1 DU 17% Affordable	2 DU 33% Affordable	2 DU 33%
Density Bonus Units	- DU	3 DU	2 DU	6 DU
<b>Total Units</b>	<b>6 DU (One &amp; Two Bedroom Units)</b>	<b>9 DU (Two Bedroom Units)</b>	<b>8 DU (Two Bedroom Units)</b>	<b>12 DU (One &amp; Two Bedroom Units)</b>
<b>Development Value</b>				
Commercial	5,000 SF \$ 900 /SF \$ 4,500,000	5,000 SF \$ 900 /SF \$ 4,500,000	5,000 SF \$ 900 /SF \$ 4,500,000	5,000 SF \$ 875 /SF \$ 4,375,000
Market Rate Residential	5,000 SF 950 /SF 4,750,000	7,200 SF 925 /SF 6,660,000	5,700 SF 925 /SF 5,272,500	8,250 SF 950 /SF 7,837,500
Affordable Residential	- SF - /SF -	900 SF - /SF -	1,900 SF 425 /SF 807,500	1,650 SF 225 /SF 371,250
<b>Total</b>	<b>\$ 9,250,000</b>	<b>\$ 11,160,000</b>	<b>\$ 10,580,000</b>	<b>\$ 12,583,750</b>
<b>Development Costs</b>				
Site Acquisition	5,000 SF \$ 800 /SF \$ 4,000,000	5,000 SF \$ 800 /SF \$ 4,000,000	5,000 SF \$ 800 /SF \$ 4,000,000	5,000 SF \$ 800 /SF \$ 4,000,000
Site Clearance	- SF - /SF -	- SF - /SF -	- SF - /SF -	- SF - /SF -
Commercial	5,000 SF 400 /SF 2,000,000	5,000 SF 400 /SF 2,000,000	5,000 SF 400 /SF 2,000,000	5,000 SF 400 /SF 2,000,000
Residential	5,000 SF 500 /SF 2,500,000	8,100 SF 500 /SF 4,050,000	7,600 SF 500 /SF 3,800,000	9,900 SF 525 /SF 5,197,500
Parking	- SF - /SF -	3,500 SF 125 /SF 437,500	3,500 SF 125 /SF 437,500	3,500 SF 125 /SF 437,500
LVR Fee	5,000 SF 104 /SF 520,000	8,100 SF - /SF -	7,600 SF - /SF -	9,900 SF - /SF -
<b>Total</b>	<b>\$ 9,020,000</b>	<b>\$ 10,487,500</b>	<b>\$ 10,237,500</b>	<b>\$ 11,635,000</b>
<b>Net Margin</b>	2.5% Return on Cost	6.4% Return on Cost	3.3% Return on Cost	8.2% Return on Cost
	<b>\$ 230,000</b>	<b>\$ 672,500</b>	<b>\$ 342,500</b>	<b>\$ 948,750</b>

## Hypothetical Large Site Pro Forma

Property Profile	Market Rate Project (LVR Fee Paid)	Project w/ Very Low-Income Unit(s)	Project w/ Moderate-Income Unit(s)	Project w/ Very Low- & Moderate-Income
Description of Improvements	Existing commercial / store front retail or office use	Existing commercial / store front retail or office use	Existing commercial / store front retail or office use	Existing commercial / store front retail or office use
Lot Area	15,000 SF	15,000 SF	15,000 SF	15,000 SF
Existing Improvements	5,000 SF	5,000 SF	5,000 SF	5,000 SF
Existing Parking	- Stalls	- Stalls	- Stalls	- Stalls
<b>Existing Value</b>	<b>\$ 3,750,000</b>	<b>\$ 3,750,000</b>	<b>\$ 3,750,000</b>	<b>\$ 3,750,000</b>
<b>Proposed Program</b>				
Description	Replace first floor commercial, add two stories of residential, no affordable units	Replace first floor commercial, add two or three stories of residential, two very low units	Replace first floor commercial, add two stories of residential, three moderate units	Replace first floor commercial, add three stories of residential, two very low, two moderate units
Commercial	3,500 SF	3,500 SF	3,500 SF	3,500 SF
Residential	11,400 SF	17,100 SF	14,250 SF	19,800 SF
Parking	30 Stalls	30 Stalls	30 Stalls	30 Stalls
Base Residential Units	12 DU	12 DU	12 DU	12 DU
Affordable Units	- DU	2 DU	3 DU	4 DU
Density Bonus Units	- DU	6 DU	3 DU	12 DU
<b>Total Units</b>	<b>12 DU (Two Bedroom Units)</b>	<b>18 DU (Two Bedroom Units)</b>	<b>15 DU (Two Bedroom Units)</b>	<b>24 DU (One &amp; Two Bedroom Units)</b>
<b>Development Value</b>				
Commercial	3,500 SF \$ 900 /SF \$ 3,150,000	3,500 SF \$ 900 /SF \$ 3,150,000	3,500 SF \$ 900 /SF \$ 3,150,000	3,500 SF \$ 875 /SF \$ 3,062,500
Market Rate Residential	11,400 SF 925 /SF 10,545,000	15,200 SF 925 /SF 14,060,000	11,400 SF 925 /SF 10,545,000	16,500 SF 950 /SF 15,675,000
Affordable Residential	- SF - /SF -	1,900 SF - /SF -	2,850 SF 425 /SF 1,211,250	3,300 SF 225 /SF 742,500
<b>Total</b>	<b>\$ 13,695,000</b>	<b>\$ 17,210,000</b>	<b>\$ 14,906,250</b>	<b>\$ 19,480,000</b>
<b>Development Costs</b>				
Site Acquisition	15,000 SF \$ 250 /SF \$ 3,750,000	15,000 SF \$ 250 /SF \$ 3,750,000	15,000 SF \$ 250 /SF \$ 3,750,000	15,000 SF \$ 250 /SF \$ 3,750,000
Site Clearance	5,000 SF 50 /SF 250,000	5,000 SF 50 /SF 250,000	5,000 SF 50 /SF 250,000	5,000 SF 50 /SF 250,000
Commercial	3,500 SF 400 /SF 1,400,000	3,500 SF 400 /SF 1,400,000	3,500 SF 400 /SF 1,400,000	3,500 SF 400 /SF 1,400,000
Residential	11,400 SF 450 /SF 5,130,000	17,100 SF 450 /SF 7,695,000	14,250 SF 450 /SF 6,412,500	19,800 SF 450 /SF 8,910,000
Parking	11,500 SF 100 /SF 1,150,000	11,500 SF 100 /SF 1,150,000	11,500 SF 100 /SF 1,150,000	11,500 SF 100 /SF 1,150,000
LVR Fee	11,400 SF 104 /SF 1,185,600	17,100 SF - /SF -	14,250 SF - /SF -	19,800 SF - /SF -
<b>Total</b>	<b>\$ 12,865,600</b>	<b>\$ 14,245,000</b>	<b>\$ 12,962,500</b>	<b>\$ 15,460,000</b>
<b>Net Margin</b>	6.4% Return on Cost	20.8% Return on Cost	15.0% Return on Cost	26.0% Return on Cost
	<b>\$ 829,400</b>	<b>\$ 2,965,000</b>	<b>\$ 1,943,750</b>	<b>\$ 4,020,000</b>