San Francisco Planning

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April 21, 2022

Honorable Supervisor Peskin
Board of Supervisors
City and County of San Francisco

Re: Feasibility Analysis Reports for Four-plex Proposals

Dear Supervisor Peskin,

In advance of the Land Use and Transportation Committee meeting this coming Monday, April 25th, the Department would like to ensure you have received a copy of the latest version of the third-party study on the feasibility of building between three and four units on RH zoned lots.

The Department has contracted with consultant Century Urban to conduct feasibility studies of both SB9, and Supervisor Mandelman's density exception ordinance. These feasibility studies have been included as part of the transmittal materials from the Planning Department for Board File No. 210866. The reports are also attached to this memo.

The Department is currently working with Century Urban on an additional memo that will summarize the financial feasibility challenges for both SB -9 prototypes and 3-4plexes, as well as the additional feasibility challenges posed by affordability requirements. That memo will also examine the impact of potential public policy levers (property tax reductions, low interest loans, fee waivers, etc.) on feasibility. This memo should be complete in approximately 3-4 weeks.

In the meantime, we wanted to share additional information from Century Urban that looked at the affordability gap. This two-page document is the first attachment in this package. The gap numbers for 100% AMI units are well above $1 million. This is on top of the already $1-2 million dollar feasibility gap shown in the 3-4 plex memo.[1]

To summarize: The analyses conducted so far have found that a new 3-4 plex building costs $3-4 million in hard

[1] *Please note: This affordability analysis presumes all units would be affordable at 100% of AMI, not just units built over density. Century Urban is in the process of updating their analysis to examine the affordability gap when only units above the base density are affordable at 100% of AMI.*

and soft development costs. This does not account for the cost to acquire an existing single-family home and other costs like developer return, real estate broker costs, etc. Together, these costs result in a massive feasibility gap relative to likely earnings. Affordability requirements make feasibility even worse and would essentially require homeowners to subsidize additional units (no return on investment).

If you have any questions or require further information please do not hesitate to contact me.

Sincerely,

Audrey Merlone
Senior Planner, Legislative Affairs

Attachments :
Draft Figures from Century Urban on Affordability Gap
Summary of Triplex and Fourplex Prototype Financial Feasibility Analysis
Summary of SB 9 Financial Feasibility Analysis

Century | Urban
3-4 Plex Residual Value Scenarios

Prototype Projected Cash Flow

			Base Case			Optimistic		
Units	Parking	Type	Bayview	Mid-Tier	Pacific Heights	Bayview	Mid-Tier	Pacific Heights
3	No	Net Operating Income	$129,000	$173,000	$182,000	$137,000	$182,000	$191,000
3	No	Cash Flow After Debt Service	$5,000	$49,000	$58,000	$14,000	$58,000	$67,000
3	Yes	Net Operating Income	$126,000	$169,000	$177,000	$134,000	$177,000	$186,000
3	Yes	Cash Flow After Debt Service	$3,000	$46,000	$55,000	$12,000	$55,000	$63,000
4	No	Net Operating Income	$166,000	$223,000	$235,000	$177,000	$235,000	$246,000
4	No	Cash Flow After Debt Service	$6,000	$64,000	$75,000	$17,000	$75,000	$86,000
4	Yes	Net Operating Income	$161,000	$217,000	$229,000	$172,000	$229,000	$240,000
4	Yes	Cash Flow After Debt Service	$3,000	$59,000	$70,000	$14,000	$70,000	$81,000

Prototype Projected Capitalization

Rental Cases

			Base Case			Optimistic		
Units	Parking	Type	Bayview	Mid-Tier	Pacific Heights	Bayview	Mid-Tier	Pacific Heights
3	No	Equity for Hard/Soft Costs	$1,154,000	$1,154,000	$1,155,000	$1,154,000	$1,155,000	$1,156,000
3	No	Debt for Hard/Soft Costs	$2,143,000	$2,143,000	$2,145,000	$2,143,000	$2,145,000	$2,148,000
3	Yes	Equity for Hard/Soft Costs	$1,139,000	$1,139,000	$1,140,000	$1,139,000	$1,140,000	$1,141,000
3	Yes	Debt for Hard/Soft Costs	$2,116,000	$2,116,000	$2,117,000	$2,116,000	$2,117,000	$2,120,000
4	No	Equity for Hard/Soft Costs	$1,488,000	$1,488,000	$1,490,000	$1,488,000	$1,490,000	$1,491,000
4	No	Debt for Hard/Soft Costs	$2,763,000	$2,763,000	$2,767,000	$2,763,000	$2,767,000	$2,770,000
4	Yes	Equity for Hard/Soft Costs	$1,476,000	$1,476,000	$1,477,000	$1,476,000	$1,477,000	$1,479,000
4	Yes	Debt for Hard/Soft Costs	$2,741,000	$2,741,000	$2,743,000	$2,741,000	$2,743,000	$2,746,000

Sale Cases

			Base Case			Optimistic		
Units	Parking	Type	Bayview	Mid-Tier	Pacific Heights	Bayview	Mid-Tier	Pacific Heights
3	No	Equity for Hard/Soft Costs	$1,154,000	$1,155,000	$1,156,000	$1,154,000	$1,156,000	$1,157,000
3	No	Debt for Hard/Soft Costs	$2,143,000	$2,145,000	$2,147,000	$2,143,000	$2,147,000	$2,149,000
3	Yes	Equity for Hard/Soft Costs	$1,139,000	$1,140,000	$1,141,000	$1,139,000	$1,141,000	$1,142,000
3	Yes	Debt for Hard/Soft Costs	$2,116,000	$2,117,000	$2,119,000	$2,116,000	$2,119,000	$2,121,000
4	No	Equity for Hard/Soft Costs	$1,488,000	$1,489,000	$1,491,000	$1,488,000	$1,491,000	$1,492,000
4	No	Debt for Hard/Soft Costs	$2,763,000	$2,766,000	$2,769,000	$2,763,000	$2,769,000	$2,771,000
4	Yes	Equity for Hard/Soft Costs	$1,476,000	$1,477,000	$1,478,000	$1,476,000	$1,478,000	$1,479,000
4	Yes	Debt for Hard/Soft Costs	$2,741,000	$2,742,000	$2,745,000	$2,741,000	$2,745,000	$2,748,000

Note:

All financial and programmatic estimates are preliminary in nature for illustrative purposes and subject to change.

Century | Urban
3-4 Plex Residual Value Scenarios

Affordable Unit Sensitivity - Additional Estimated Impact on Residual Value/Feasibility

100% AMI for all units, rental and sale scenarios

			Base Case			Optimistic		
Units	Parking	Type	Bayview	Mid-Tier	Pacific Heights	Bayview	Mid-Tier	Pacific Heights
3	No	Sale	($1,519,000)	($2,893,000)	($3,089,000)	($1,716,000)	($3,089,000)	($3,286,000)
3	Yes	Sale	($1,399,000)	($2,721,000)	($2,909,000)	($1,588,000)	($2,909,000)	($3,098,000)
3	No	Rental	($1,219,000)	($2,070,000)	($2,240,000)	($1,389,000)	($2,240,000)	($2,410,000)
3	Yes	Rental	($1,115,000)	($1,933,000)	($2,097,000)	($1,279,000)	($2,097,000)	($2,261,000)
4	No	Sale	($1,883,000)	($3,659,000)	($3,913,000)	($2,136,000)	($3,913,000)	($4,166,000)
4	Yes	Sale	($1,783,000)	($3,515,000)	($3,763,000)	($2,030,000)	($3,763,000)	($4,010,000)
4	No	Rental	($1,500,000)	($2,600,000)	($2,820,000)	($1,720,000)	($2,820,000)	($3,040,000)
4	Yes	Rental	($1,414,000)	($2,487,000)	($2,701,000)	($1,628,000)	($2,701,000)	($2,916,000)

110% AMI for one rental unit, 140% AMI for one sale unit

			Base Case			Optimistic		
Units	Parking	Type	Bayview	Mid-Tier	Pacific Heights	Bayview	Mid-Tier	Pacific Heights
3	No	Sale	($19,000)	($360,000)	($409,000)	($68,000)	($409,000)	($458,000)
3	Yes	Sale	$0	($188,000)	($229,000)	$0	($229,000)	($270,000)
3	No	Rental	($154,000)	($366,000)	($408,000)	($197,000)	($408,000)	($450,000)
3	Yes	Rental	($50,000)	($229,000)	($265,000)	($86,000)	($265,000)	($301,000)
4	No	Sale	($59,000)	($418,000)	($469,000)	($110,000)	($469,000)	($520,000)
4	Yes	Sale	$0	($274,000)	($319,000)	($4,000)	($319,000)	($364,000)
4	No	Rental	($189,000)	($411,000)	($456,000)	($233,000)	($456,000)	($500,000)
4	Yes	Rental	($102,000)	($297,000)	($336,000)	($141,000)	($336,000)	($375,000)

Note:

1. Because of the unit size of the two bedroom in the scenarios with parking, the estimated market values of the for-sale two bedrooms in the Bayview fall below the estimated two bedroom affordable price

2. Additional estimated impact on residual land value/feasibility amount in tables above reflect amounts that would be added to the feasibility gap amounts if rents for one or

Sensitivity Analysis

	Range of Estimated Impact on Feasibility		
Reduce Interest Cost to 1%	$37,000	$55,000	
Reduce City Fees to $10,000	$123,000	$144,000	
Provide Transfer Tax Abatements	$20,000	$143,000	
Provide Property Tax Abatements	$414,000	$812,000	Rental scenarios only. 65% of property tax is assumed abated, based on estimated percentage received by City and County.

Note:

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MEMO TO THE PLANNING COMMISSION

Supplemental

February 3, 2022

Project: **Summary of Triplex and Fourplex Prototype Financial Feasibility Analysis**

Case Number: 2021-005878CWP

Staff Contact: James Pappas, Senior Planner, 628.652.7470,
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Reviewed by: Joshua Switzky, Land Use Program Manager, 628.652.7464
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Maia Small, Community Equity Policies and Strategies Manager, 628.652.7373,
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Recommendation: None- Informational

Background

The San Francisco Planning Department has contracted with consultant Century Urban to analyze the financial feasibility for property owners and/or developers of building small multifamily buildings on sites currently occupied by an existing single-family home. As part of this work, Century Urban has analyzed prototypes based on potential projects that may be possible under recently proposed legislation to allow up to four units (fourplexes) on parcels where currently fewer units are allowed, specifically parcels with existing single-family homes.

This summary highlights key findings and assumptions from high level financial analyses that Century Urban performed on development prototype projects in selected neighborhoods representative of potential scenarios under proposed local legislation to allow fourplexes. This type of financial analysis is important to understand the potential financial costs and benefits of small multifamily housing developments, the types of owners or developers likely to undertake them, where and under what circumstances such developments may be more likely to occur, and the barriers or challenges affecting the potential addition of housing in San Francisco. This analysis is related to work on financial feasibility of potential projects that may be possible under State law SB 9.

Assumptions

Century Urban analyzed potential for development of small multifamily buildings on sites with existing single-family homes. For this analysis, Century Urban reviewed prototype developments using general market assumptions for unit types, costs, rents, sale prices, financing, and other factors that shape feasibility and likelihood of development. Initial triplex and fourplex prototypes were developed working with an architect. While financial feasibility (discussed more below) was assessed using metrics typically used by housing developers, the prospective developments and their economic performance are largely similar for long time property owners wishing to redevelop their property. Practical and financial constraints for existing owners to building triplex and fourplex prototype projects are discussed in more detail below.

Development Scenarios, Tenure, and Neighborhoods

Century Urban analyzed both triplex and fourplex prototype scenarios to assess potential financial costs and benefits for a property owner or developer. Century Urban analyzed both for-sale and rental versions of each of the prototype scenarios and researched rents and sale pricing in different neighborhoods, specifically Bayview, Pacific Heights, and various transit-served neighborhoods representing the "mid-tier" of the housing market including West Portal, Castro, Balboa Park, and Glen Park. Each of the scenarios assumed that a single-family home would be demolished and replaced with a new triplex or fourplex covering a similar footprint to a prototypical single-family home but rising to three or four stories. (Note that financial feasibility analysis of projects adding units to an existing home without demolition, such as might be possible under SB 9, was examined in a previous memo.) Century Urban analyzed each triplex and fourplex prototype with and without a parking space.

Defining Costs and Financial Feasibility

In this analysis costs for developing housing are broken down into three broad categories:

- **Hard costs** for construction labor and materials, and
- **Soft costs** for architecture and engineering, financing costs, permits and fees, etc. and
- **Land costs** for purchasing the parcel on which a project would be built.

In addition to development costs, there are costs for selling or renting new housing such as marketing and brokerage fees and for rental properties ongoing costs of maintenance, property taxes, and insurance. Given that someone must be compensated for their time spent developing a project as well as for the inherent risk associated with investing money in property development, the analysis assumes in the case of the for-sale prototypes, a return to the property owner/ developer of 18% of hard and soft costs and in the case of the for-rent prototypes, a target return on cost of 5.25%.

To assess financial feasibility for these prototype scenario projects, Century Urban calculated the **residual value**, the amount that a purchaser of a home or land can afford to pay for that home or land and still have a profitable project. Residual value is calculated by subtracting the hard and soft costs of the project and developer return from the total net sale value of the project. If the residual value is below the estimated sale price for an existing single-family home then a property owner would be less financially motivated to redevelop the property, and a developer would be unable to match typical offers from other single-family home buyers. For rental projects, the analysis assumes a target return on cost and then

estimates the total amount a buyer could pay for a development parcel. This amount represents the residual value for the rental versions of the prototype developments.

Project Funding and Developer Profile

For this analysis Century Urban used a simplifying assumption that a property owner/developer would be able to borrow 65% of the project cost to build the new units. Because of the scale of these projects, loans could range from more than $2.1 million for a triplex development to more than $2.7 million for a fourplex. To provide financing at these amounts for these types of projects, lenders would likely require verified prior development experience as well as the net worth and financial liquidity to sufficiently fund the project and any cost overruns. Someone seeking to undertake a project of this scale would likely need to provide approximately 35% of the project cost in equity investment that would range from over $1.1 to nearly $1.5 million for a triplex and fourplex, respectively.

Given the costs involved in the development of a prototypical triplex or fourplex project and the relatively high level of development experience and financial resources needed, a professional developer would be more likely to consider the kinds of triplex and fourplex projects analyzed here than the average owner of an existing single-family home. For most existing homeowners, smaller scale projects to add housing units to their property in ways that are more modest modifications to existing properties, such as units added by converting existing space in ground floors, rear additions, or rear yard structures, may be more likely and manageable to take on.

Project Timing

Century Urban's analysis assumes entitlement, design, permits and financing, and construction of a triplex or fourplex development can be completed within one year. This is an optimistic assumption that may not reflect the typical timeline and complexity of entitling and building a small multifamily project in San Francisco.

Key Findings

Below are key findings from the financial feasibility analysis performed by Century Urban.

At Current Costs, Rental Rates, and Single-Family Prices, Financial Feasibility of Demolishing an Existing Single-Family Home to Develop New Triplexes and Fourplexes is Challenging

In the scenarios analyzed, estimated residual values for a prototype redevelopment (i.e., the amount someone could pay for the property) fell below current single family home sale prices in all cases analyzed. The "gap" between the residual value generated by prototype developments and median single family home prices in all neighborhoods analyzed was more than -$1 million. These results indicate that it would be extremely difficult for developers to produce a financially feasible project by acquiring a typical single-family home at typical market price to redevelop the site into a triplex or fourplex. In other words, single-family home buyers planning to maintain the home largely as-is and paying current prices would typically outbid a developer hoping to build a triplex or fourplex on the same property.

The analysis is based on average or median costs, prices, and rents, and there may be circumstances when the price of an existing home is low enough that it is feasible for a developer to acquire an existing

single-family home and construct additional units. For example, when a home is unusually small and/ or poorly maintained, a developer may face less competition from homebuyers who can afford single family home prices in San Francisco where the median price is over $1.5 million.

Though all prototype projects analyzed appear financially infeasible, variations in the prototypes resulted in marginal changes to feasibility. Ownership prototype projects were marginally closer to feasibility than rental projects, projects without a parking space were marginally closer to feasibility than those with a parking space, and fourplex projects were marginally closer to feasibility than triplexes. The best performing of the prototypes analyzed was a for-sale, fourplex with no parking in Pacific Heights, however, this project was still far from being feasible as measured by the residual value compared to median home prices.

Low Financial Feasibility of Triplex and Fourplex Developments Makes Requiring Affordability Difficult

Some recent local legislative proposals to allow up to four units in areas currently restricted to fewer units would impose affordability requirements on at least one newly added unit, targeting rents and prices to a specific income level relative to the Area Median Income (AMI). Studies and data indicate that there are substantial unmet needs for housing affordable to moderate- and middle- income households, particularly for homeownership opportunities. Unfortunately, mandating units at 100%, 110%, or 140% of AMI appears to worsen already challenged financial feasibility. Given that prototype projects are far from feasible when assuming market rents and sale prices, requiring additional affordability simply increases the feasibility gap and further reduces the likelihood of new housing being built in triplexes or fourplexes. Affordability requirements could also inadvertently encourage development or expansion of single-family homes rather than triplexes or fourplexes by making single-family homes more financially appealing. Producing units that are affordable to middle income households, given the current market conditions, would require significant subsidy. Additionally, since the income generated by the new units would be fixed or reduced, it would create a burden on the project owner to repay a construction loan, potentially even making it difficult to obtain one in the first place.

Hard Costs are by Far the Largest Cost of Adding Units

Construction costs, including labor and materials, are the largest component of the development costs for adding new units, typically representing a little more than 70% of development costs excluding land costs. As a result, while reducing other costs such as permits, fees, transaction costs, or compensation for a developer's time or investment may have relatively minor impacts on feasibility, the fundamental challenge with new project feasibility stems primarily from cost of construction relative to the value generated from rents and sale prices. Construction costs in San Francisco, which are among the world's highest, are therefore a significant barrier to building triplex and fourplex projects but also represent an area where cost reductions could make a substantial difference to feasibility.

Financial Feasibility Is Challenging in All Neighborhoods

Financial feasibility is challenged in all neighborhoods reviewed because high construction costs are consistent throughout the city. Higher potential sale prices in Pacific Heights result in higher potential residual land values, however, higher single-family home purchase prices in Pacific Heights mean developers are still unlikely to outbid home buyers for typical properties. The financial feasibility gap in Pacific Heights could be multiple millions relative to the median home price. Neighborhoods with high

development costs and lower rents and sale prices, such as the Bayview show no estimated residual value. In mid-tier neighborhoods near transit, feasibility is also challenged with residual value falling far below median home sale prices. In some rare cases, there may be single family homes sold at prices significantly below average in these mid-tier neighborhoods that could be closer to the residual values estimated in this analysis, resulting in the potential for a feasible project.

Property Owners Face Significant Financial Constraints to Creating Ground-up Triplexes and Fourplexes, but Smaller Additions to Existing Housing May be More Feasible

Existing property owners may have a variety of motivations for wanting to add housing to their properties that are not purely financial, including the housing needs of family and friends. However, owners with these motivations seem unlikely to take on the type of triplex and fourplex projects analyzed here. The scale of the prototype projects that demolish an existing single-family home and build a triplex or fourplex appears beyond the financial or technical reach of most existing single-family homeowners. The financial feasibility challenges mean that it is also unlikely that professional developers will take on these projects in most cases.

Previous analysis of prototype projects potentially allowed under SB 9 show that projects that do not demolish an existing home may be more financially feasible than those that do, though feasibility is still challenging in large part due to high construction costs. The analysis of SB 9 prototype projects mostly looked at scenarios that would retain an existing home, including adding a unit in the ground floor of a home and/or adding one to two units in a rear yard. The lower construction costs associated with these potential projects, along with avoiding the potentially costly purchase and demolition of an existing home, make them relatively more financially feasible. Additionally, the size of the loan and equity needed for projects of that scale are lower than for demolition and ground-up fourplex construction, making those projects that modify or add on to existing homes possibly more within the practical reach for homeowners or small property owners. Retaining flexibility for these types of projects could be beneficial policy to enable more housing to be added in ways that are more affordable and represent less dramatic physical change to existing homes. While existing ADU legislation allows for similar types of rental units as were studied in relation to SB 9, allowing ownership options could expand homebuying opportunities for more people.

Conclusion and Next Steps

The analysis provided by Century Urban implies very limited financial incentive for property owners and developers to undertake prototype triplex and fourplex projects on a site with an existing single-family home. However, this does not rule out that some property owners may undertake projects to build triplexes and fourplexes in the future or that development may be financially feasible in projects differing from the average assumptions used in the prototypes. In general, changes in key factors, for example construction costs, could affect project feasibility and likelihood of adding units for existing property owners and developers alike though the size of the estimated feasibility gaps in most circumstances imply that significant changes would be needed for more projects to become feasible. Planning will continue to work with Century Urban on analysis of financial feasibility of fourplexes and other small multi-family development types on parcels with existing single-family homes including potential public policy tools to support improving feasibility and achieving greater levels of affordability.

Century | Urban

Strategic Real Estate Advisory Services

Small Multifamily Analysis – 3- and 4-Unit Prototypes – Conceptual Analysis

Presented to:

City of San Francisco, Planning Department

January 31, 2022

235 Montgomery Street, Suite 1042 | San Francisco, CA 94104 | 415.358.1218 | www.centuryurban.com

SMALL MULTIFAMILY ANALYSIS - CONCEPTUAL ANALYSIS

TO: City of San Francisco, Planning Department

FROM: Century | Urban

SUBJECT: Small Multifamily Analysis - 3- and 4-Unit Prototypes - Conceptual Analysis

DATE: January 31, 2022

Summary

The City of San Francisco (the "City") has engaged Century | Urban to conduct certain analyses regarding potential changes to residential zoning laws allowing single-family residential properties to be redeveloped into three- and four-plex residential properties.

Century | Urban prepared a high-level conceptual analysis of for-rent and for-sale three- and four-plex prototype development projects. An analysis of each scenario with and without parking was prepared for three neighborhoods, Pacific Heights, a prototype "Mid-Tier"[1] neighborhood, and the Bayview. The specific scenarios and preliminary results of the analysis are summarized in the attached Exhibit A and Exhibit B.

Analysis Qualifications

The analysis referenced in this memorandum utilizes prototypical projects that represent high-level average or median types of projects and high-level project assumptions at the time of analysis preparation. The prototypical projects do not correspond with any particular actual project or actual economics. Any actual project may reflect dramatically different costs, rental rates, sale prices, or other details driven by the circumstances of that project such as its sponsor, history, site conditions, contractor, business plan, and/or other factors. Moreover, the criteria and assumptions utilized in selecting and analyzing the prototypes are specific to the time the analysis was prepared and the research was conducted and will likely change over time as sale prices, rental rates, development costs, lender/investor return targets, and land costs change over time based on market conditions.

Key Assumptions

To prepare the conceptual analysis, research was conducted regarding development costs, and rental rate and sale price comparables, among other assumptions.

[1] Mid-Tier neighborhoods represented by the prototype include West Portal, Glen Park, Balboa Park, 24th St. and Castro.

This conceptual analysis includes simplifying assumptions shown in Exhibit C including assuming similar hard costs and designs across the three prototype neighborhoods, a fully-entitled project, and 65% loan-to-cost construction financing, as well as other assumptions. While past sale comparable information and available comparable rental rates were researched for each of the various size prototype units in each of the neighborhoods, the revenue and sale numbers shown in Exhibit A and resultant feasibility gaps reflected in Exhibit B are based on averages or weighted averages of the research data. Consequently, unless otherwise noted, the results of this analysis reflect potential outcomes for an average project, not for any particular instance or case.[2]

Century | Urban estimated the residual value of each scenario by subtracting the estimated development costs from 1) in the case of for-sale scenarios, net sales proceeds, and 2) in the rental scenarios, projected project values based on capitalizing income with estimated return on cost targets. The estimated residual values represent the supportable cost of land / initial home cost at which a developer would achieve "economic feasibility" for a given development project.[3] Typically, where the market value of a potential development site exceeds residual value, proceeding with development would not be considered feasible. The difference between the residual value and the median and minimum home prices reflected in the sales data from 2019-2021 is shown in Exhibit B as the "feasibility gap" for each scenario.

Initial Conclusions

- The analysis concluded that the estimated residual values for the rental scenarios range from $0 to $433,000 and the residual values for the for-sale scenarios range from $0 to $546,000. Of all the scenarios, the highest estimated residual value was generated by a for-sale fourplex prototype without parking.[4]
- All scenarios result in a feasibility gap representing a difference between the residual value of the projects and the sales prices of single-family homes (see Exhibit B). This difference suggests that for a project resembling one of the prototypes, a buyer of a single-family home who intends to use that home for occupancy would typically outbid a developer with a plan to redevelop the site into a three- or four-plex building.
- The analysis included base case and optimistic scenarios. In the optimistic scenarios, the rents were increased by $0.25 per square foot and sale prices were increased by $50 per square foot over the established base case scenarios. In all cases reviewed, the estimated residual values of the redevelopment scenarios are less than the median and minimum

[2] Century | Urban notes that construction costs vary over time, that additional unit sizes are in practice driven by actual available buildable square footage at a given property, and that rental rates and sale costs respond to macro- and micro-economic market conditions. Therefore, the general conclusions noted below apply to the prototypes examined at the time of the examination, but not necessarily over a larger timescale or in specific instances.

[3] Economic feasibility in this memorandum is used to mean that the homeowner/developer would receive a return of their total investment plus an approximately 18% profit margin on the new development cost expenditure.

[4] For projects which result in an infeasible residual value, the residual value in Exhibit A is shown as zero.

prices of homes in these neighborhoods based on 2019-2021 sales data for single family homes.

- The analysis of the Bayview neighborhood indicates that these scenarios would not support any residual value.
- The analysis of the Pacific Heights neighborhood reflects the highest residual values of the surveyed neighborhoods, with an estimated residual value as high as $546,000 for a four-plex project without parking in an optimistic scenario. However, as the costs of single-family homes in Pacific Heights are also the highest of the surveyed neighborhoods, the residual values are consistently less than the median or minimum price to purchase a home.
- As previously noted in a separate memorandum, the estimated residual values associated with single family home properties in which additional units are added to garages and backyards are generally higher than that of the three- and four-plex prototype development projects. This is due to the high cost of construction and the relatively larger amount of construction required in the demolition of a home and building of a new residential building, as opposed to the incremental addition of new residential square footage.

Exhibit A

Century | Urban
3-4 Plex Residual Value Scenarios - Residual Values and Key Assumptions

Residual Values

				Base Case			Optimistic		
Type	Units	Parking	Type	Bayview	Mid-Tier	Pacific Heights	Bayview	Mid-Tier	Pacific Heights
V 1A	3	No	Sale	$0	$122,000	$268,000	$0	$268,000	$414,000
V 1C	3	Yes	Sale	$0	$109,000	$249,000	$0	$249,000	$390,000
V 1A	3	No	Rental	$0	$2,000	$168,000	$0	$168,000	$335,000
V 1C	3	Yes	Rental	$0	$0	$120,000	$0	$120,000	$280,000
III 2A	4	No	Sale	$0	$168,000	$357,000	$0	$357,000	$546,000
III 2C	4	Yes	Sale	$0	$96,000	$280,000	$0	$280,000	$463,000
III 2A	4	No	Rental	$0	$3,000	$218,000	$0	$218,000	$433,000
III 2C	4	Yes	Rental	$0	$0	$135,000	$0	$135,000	$345,000

Price Assumptions

	Base Case			Optimistic		
	Bayview	Mid-Tier	Pacific Heigths	Bayview	Mid-Tier	Pacific Heigths
Sale Price (PSF)	$800	$1,150	$1,200	$850	$1,200	$1,250
Monthly Rental PSI	$4.00	$5.25	$5.50	$4.25	$5.50	$5.75

Single Family Home Prices

	2019-2021 Single Family Home Sales		
	Bayview	Mid-Tier	Pacific Heights
Minimum	$575,000	$535,000	$1,217,000
Median	$950,000	$1,650,000	$5,350,000
Maximum	$1,625,000	$6,700,000	$14,500,000
Average	$990,000	$1,910,000	$6,050,000

Notes

1. *All financial and programmatic estimates are preliminary in nature, for illustrative purposes only, and subject to change*
2. *All amounts rounded to nearest $1,000*
3. *Rent analysis with parking assumes one space rented for $300 per month; sale analysis assumes one parking space sold for $100,000*
4. *Mid-Tier neighborhoods include West Portal, Glen Park, Balboa Park, 24th Street and Castro*
5. *Two data points are removed from the single family home sales prices in the Bayview and Mid-Tier markets which are considered to be outliers. In Pacific Heights, eight data points are removed representing home sales above $15 million.*

Exhibit B

Century | Urban
3-4 Plex Residual Value Scenarios - Feasibility Gap

Feasibility Gap Based on 2019-2021 Median Single-Samily Home Prices

Construction Type	Units	Parking	Type	Base Case Bayview	Base Case Mid-Tier	Base Case Pacific Heights	Optimistic Bayview	Optimistic Mid-Tier	Optimistic Pacific Heights
V 1B	3	No	Sale	($1,869,000)	($1,528,000)	($5,082,000)	($1,720,000)	($1,382,000)	($4,936,000)
V 1C	3	Yes	Sale	($1,843,000)	($1,541,000)	($5,101,000)	($1,699,000)	($1,401,000)	($4,960,000)
V 1A	3	No	Rental	($1,799,000)	($1,648,000)	($5,182,000)	($1,629,000)	($1,482,000)	($5,015,000)
V 1C	3	Yes	Rental	($1,809,000)	($1,691,000)	($5,230,000)	($1,645,000)	($1,530,000)	($5,070,000)
III 2B	4	No	Sale	($2,128,000)	($1,482,000)	($4,993,000)	($1,935,000)	($1,293,000)	($4,804,000)
III 2C	4	Yes	Sale	($2,169,000)	($1,554,000)	($5,070,000)	($1,981,000)	($1,370,000)	($4,887,000)
III 2B	4	No	Rental	($2,047,000)	($1,647,000)	($5,132,000)	($1,827,000)	($1,432,000)	($4,917,000)
III 2C	4	Yes	Rental	($2,099,000)	($1,726,000)	($5,215,000)	($1,885,000)	($1,515,000)	($5,005,000)

Feasibility Gap Based on 2019-2021 Minimum Single-Family Home Prices

Construction Type	Units	Parking	Type	Base Case Bayview	Base Case Mid-Tier	Base Case Pacific Heights	Optimistic Bayview	Optimistic Mid-Tier	Optimistic Pacific Heights
V 1B	3	No	Sale	($1,494,000)	($413,000)	($949,000)	($1,720,000)	($267,000)	($803,000)
V 1C	3	Yes	Sale	($1,468,000)	($426,000)	($968,000)	($1,699,000)	($286,000)	($827,000)
V 1A	3	No	Rental	($1,424,000)	($533,000)	($1,049,000)	($1,629,000)	($367,000)	($882,000)
V 1C	3	Yes	Rental	($1,434,000)	($576,000)	($1,097,000)	($1,645,000)	($415,000)	($937,000)
III 2B	4	No	Sale	($1,753,000)	($367,000)	($860,000)	($1,935,000)	($178,000)	($671,000)
III 2C	4	Yes	Sale	($1,794,000)	($439,000)	($937,000)	($1,981,000)	($255,000)	($754,000)
III 2B	4	No	Rental	($1,672,000)	($532,000)	($999,000)	($1,827,000)	($317,000)	($784,000)
III 2C	4	Yes	Rental	($1,724,000)	($611,000)	($1,082,000)	($1,885,000)	($400,000)	($872,000)

Notes

1. *All financial and programmatic estimates are preliminary in nature, for illustrative purposes only, and subject to change*
2. *All amounts rounded to nearest $1,000*

Exhibit C

Century | Urban
3-4 Plex Residual Value Scenarios - Key Assumptions

Prototype Sizes

Gross to Net / Efficiency 80.0%

3-Unit Prototype	# Units	Unit Type	Net SF/Unit No Parking	Net SF/Unit Parking
	1	2-bedroom	975	825
	2	3-bedroom	1,475	1,475
Total	3		3,925	3,775

4-Unit Prototype	# Units	Unit Type	Net SF/Unit No Parking	Net SF/Unit Parking
	1	2-bedroom	1,025	900
	3	3-bedroom	1,350	1,350
Total	4		5,075	4,950

Hard Costs

Residential	$500 per square foot
Parking	$400 per square foot for scenarios with parking
Contingency	5% of Hard Costs

Soft Costs

Financing	65% LTC, 1% fee, 5% rate
A&E	10% of hard costs
Permits and Fees	Includes: School Impact fee, Childcare Impact Fee, PG&E Connection Fees, Wastewater Connect Fees, Water Capacity Fees, Other Utility Fees, Building
Total Soft Costs (approximate)	28% of Hard Costs

Revenue Assumptions

Rental assumptions	*See Exhibit A*

Other Assumptions

Sale Value of Parking Space	$100,000 per space
Rental Scenario Assumptions	
Occupancy	95%
Operating Expenses not incl. property taxes	$6,000 per unit/year
Capitalization Rate	4.25%
Permanent Financing	Refinance construction loan amount; 4% rate, 30 year amortization
Target Return on Cost	5.25%
Sale Scenario Assumptions	
For Sale Brokerage	5%
Closing Costs/Unit	$3,000
Warranty Reserve	1%
Target Profit Margin	18%

Notes:
All financial and programmatic estimates are preliminary in nature for illustrative purposes and subject to change.

San Francisco Planning

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MEMO TO THE PLANNING COMMISSION

Supplemental

January 11, 2022

Project:	Summary of SB 9 Financial Feasibility Analysis
Case Number:	2018-016522CWP
Staff Contact:	James Pappas, Senior Planner, 628.652.7470, james.pappas@sfgov.org
Reviewed by:	Joshua Switzky, Land Use Program Manager, 628.652.7464 joshua.switzky@sfgov.org; and Maia Small, Community Equity Policies and Strategies Manager, 628.652.7373, maia.small@sfgov.org

Recommendation: None- Informational

Background

The San Francisco Planning Department has contracted with consultant Century Urban to analyze the financial feasibility for property owners and/or developers of adding housing units to an existing single-family home. As part of this work, Century Urban has analyzed prototypes based on potential projects that may be possible under recently enacted California Senate Bill (SB) 9, which allows for duplexes on most parcels currently zoned as RH-1 as well as the potential for a lot split with a duplex allowed on the resulting lots. More information on SB 9 can be found in a memo and presentation to the Planning Commission from October 21, 2021.

This summary highlights key findings and assumptions from high level financial analyses that Century Urban performed on development prototype projects in different neighborhoods representative of potential scenarios under SB 9 in San Francisco. This type of financial analysis is important to understand the potential financial costs and benefits of small multifamily housing developments, the types of owners or developers likely to undertake them, where such developments may be more likely to occur, and the barriers or challenges as well as potential tools for future research that might support the addition of more housing.

Assumptions

In late 2021, Century Urban analyzed potential for development of small multifamily buildings on sites with existing single-family homes. For this analysis, Century Urban reviewed prototype developments using general

market assumptions for unit types, costs, rents, sale prices, financing, and other factors that shape feasibility and likelihood of development. While financial feasibility (discussed more below) was assessed using metrics typically used by housing developers, the prospective developments and their economic performance are largely similar for long time property owners wishing to add units to an existing property as for housing developers.

Development Scenarios, Tenure, and Neighborhoods

Century Urban analyzed six development prototype scenarios to assess potential financial costs and benefits to a property owner or developer of adding homes under SB 9. Century Urban analyzed both for-sale and rental versions of each of the scenarios and researched rents and sale pricing in different neighborhoods, specifically Bayview, Inner Richmond, and Pacific Heights. The first scenario assumes demolition of an existing single-family home and construction of a larger home along with a small additional unit. The other five scenarios retain the existing home and add from one to three units in the ground floor of the existing home, the yard, or in both the ground floor and yard. Prior to this analysis on SB 9, Century Urban, on behalf of the Controller's office, had conducted an initial feasibility analysis of 3- and 4-unit redevelopments of existing single-family homes in San Francisco. Early findings from this analysis showed much higher costs and lower financial feasibility for projects that demolish an existing home and, for this reason, the analysis described here focuses on retention of an existing home with the exception of the scenario of building a large single-family home and small additional unit. Planning will continue to work with Century Urban to analyze the financial feasibility of fourplex projects to inform pending legislation and will release information on this analysis when complete.

Defining Costs and Financial Feasibility

In this analysis costs for developing housing are broken down into three broad categories:

- **Hard costs** for construction labor and materials, and
- **Soft costs** for architecture and engineering, financing costs, permits and fees, etc. and
- **Land costs** for purchasing the parcel on which a project would be built.

In addition to development costs, there are costs for selling or renting new housing such as marketing and brokerage fees and for rental properties ongoing costs of maintenance, property taxes, and insurance. Given that someone must be compensated for their time spent developing a project as well as for the inherent risk associated with investing money in property development, the analysis assumes a return to the property owner/developer of 20% of hard and soft costs, a real estate industry standard.

Century Urban used two main metrics to assess financial feasibility:

- **Return on cost**, the annual rate of return the owner would receive relative to the total project development cost before debt service. The annual rate of return can be compared to other potential investments as a way to assess whether the project is an attractive investment.
- **Residual value,** the amount that a purchaser of a home or land can afford to pay for that home or land and still have a profitable project. Residual value is calculated by subtracting the hard and soft costs of the project and developer profit from the total net sale value of the project. If the residual value is below the estimated sale price for an existing single-family home then a property owner would be less financially motivated to invest in additional units and a developer would be unable to match typical offers from other single-family home buyers.

Even where projects are financially infeasible or unprofitable, homeowners may have other motivations to construct units at their properties, including creating housing for family members or friends; lack of concern with achieving a specific financial return; hope that, while not profitable now, the units may be more valuable or generate positive income in the more distant future; combining needed renovation with unit additions; or a preference for investing in their own property rather than in other potential investments.

Project Funding

For this analysis Century Urban used a simplifying assumption that a property owner or developer would be able to borrow 60% of the project cost to build the new units. The construction loans would range from an estimate of more than $100,000 for a small ground floor unit to $600,000 for two rear yard units to nearly $2 million to build a large single-family home with a small additional unit. This analysis has not addressed how the loan would be secured, but it would likely require a senior lien on real property or a qualified guarantor. In addition to the loan amount, the owner or developer would need to provide the remainder of the development cost likely through their own equity. The equity needed for the prototypes ranged from $76,000 for a small garage unit to $416,000 for the two rear yard units to $1.3 million for the large single-family home with small additional unit. An existing home could be used as an equity source, however, this would depend on the amount of equity available and the property owner's ability and willingness to take on additional debt.

Key Findings

Below are key findings from the financial feasibility analysis performed by Century Urban.

At Current Costs, Rental Rates, and Single-Family Prices, Financial Feasibility of Adding New Units is Challenging

In the scenarios analyzed, estimated residual values for a property on which a homeowner could add units (i.e., the amount someone could pay for the property) fell below current single family home prices in most cases. This indicates that it would be difficult for homeowners or developers to utilize or acquire a typical single-family home to add units at a cost that would result in a financially feasible project. In other words, single-family home buyers paying current prices for most homes would typically outbid a developer for the same property. For prototype scenarios in which a current homeowner planned to add units, remain in the property, and collect rental income, neither the projected investment returns nor the amount of annual cash flow is projected to be compelling compared to other potential investments.

The analysis is based on average or median costs, prices, and rents, and there may be circumstances when the price of an existing home is low enough that it is feasible for a developer to acquire an existing single-family home and construct additional units. For example, when a home is unusually small and/ or poorly maintained, a developer may face less competition from homebuyers who can afford single family home prices in San Francisco where the median price is over $1.5 million.

Hard Costs are by Far the Largest Cost of Adding Units

Construction costs, including labor and materials, are the largest component of the development costs for adding new units, typically representing 70-80% of development costs excluding land costs. As a result, while reducing other costs such as permits, fees, transaction costs, or compensation for a developer's time or investment may improve feasibility, the fundamental challenge with new project feasibility stems primarily from cost of construction relative to the value generated from rents and sale prices. Construction costs in San

Francisco, which are among the world's highest, are therefore a significant barrier to adding units to existing homes but also represent an area where cost reductions could make a substantial difference to feasibility.

For-sale Projects Are Stronger Than Rental Projects

Given similar construction costs, the for-sale scenarios resulted in higher residual land values or greater feasibility than the rental versions. In addition, the annual cash flow after debt service for the majority of the rental scenarios ranged from almost no income to less than $1,000 per month. Only in the highest rent areas studied such as Pacific Heights was estimated rental income after debt service likely to be more than a few thousand dollars per month for projects adding three units. This rental income would only be generated after investing tens if not hundreds of thousands of dollars, as discussed above, and at least a year in developing the project, limiting the financial appeal of adding rental units.

Financial Feasibility Does Not Change Significantly by Neighborhood

Financial feasibility is not substantially different in any of the neighborhoods reviewed. Pacific Heights, with higher rents and sale prices, also had high single-family home purchase prices, a barrier to adding units. Though neighborhoods like Bayview may have lower home prices, they may also have lower sales prices and rents while construction costs do not vary meaningfully by location and create a barrier to adding units in these neighborhoods. The scenario where an existing home is demolished and replaced with a larger home with a small additional unit seems to be possible only in the highest priced neighborhoods like Pacific Heights. Adding units to sell may be financially feasible in a minority of cases in mid-price areas like the Inner Richmond. In lower priced areas like the Bayview, adding a small ground floor unit to sell may be feasible in some cases but most other scenarios seem less likely.

Property Owners Face Financial Barriers but May Have Different Goals than Developers

Homeowners wanting to add units to their home may be intimidated by risk, lengthy timelines, high costs, and limited financial returns relative to the value of the existing home and relative to other potential investments. On the other hand, property owners may be motivated by other factors including the housing needs of family and friends and some may have the interest, time, and training to build additional units themselves. The City can explore additional tools and incentives to lower costs for property owners who wish to add housing units to their properties.

Conclusion and Next Steps

The analysis provided by Century Urban implies limited financial incentive for property owners and developers to undertake prototype projects using SB 9, however, does not rule out that some property owners may undertake projects to add housing using SB 9 in the future or that development may be financially feasible in projects differing from the average assumptions used in the prototypes. In general, changes in key factors, for example construction costs, could affect project feasibility and likelihood of adding units for existing property owners and developers alike. Planning will continue to work with Century Urban on analysis of financial feasibility of small multi-family (e.g. fourplex) developments on existing single family home parcels and will publish findings from this analysis in the near future to inform proposed legislation and local policy.

See Attached Small Multifamily Analysis From Century | Urban focused on SB 9 Prototypes.

Century | Urban

Strategic Real Estate Advisory Services

Small Multifamily – Conceptual Analysis

Presented to:

City of San Francisco, Planning Department

December 14, 2021

235 Montgomery Street, Suite 1042 | San Francisco, CA 94104 | 415.786.2875 | www.centuryurban.com

SMALL MULTIFAMILY - CONCEPTUAL ANALYSIS

TO: City of San Francisco, Planning Department

FROM: Century | Urban

SUBJECT: Small Multifamily - Conceptual Analysis

DATE: December 14, 2021

Summary

The City of San Francisco, Planning Department (the "City") has engaged Century | Urban to conduct certain analyses regarding potential new residential development that may result from the passage of California Senate Bill 9. Specifically, the City has requested analysis of the following scenarios: 1) redevelopment of a single family home into a larger prototype home with an additional unit (Scenario 1), or 2) the development of up to three additional units on a lot with an existing single family prototype home (Scenarios 2-6).

Century | Urban prepared a high-level conceptual analysis, including six scenarios identified by the City. Each scenario included both for-sale and for-rent versions, and each scenario was applied to three neighborhoods, Pacific Heights, the Inner Richmond, and the Bayview. The specific scenarios and preliminary results of the analysis are summarized in the attached Exhibit A.

Analysis Qualifications

The analysis referenced in this memorandum utilizes prototypical projects that represent high-level average or median project assumptions observed in the market at the time of analysis preparation. The prototypical projects do not correspond with any particular actual project or actual economics. Any actual project may reflect dramatically different costs, rental rates, sale prices, or other details and by contrast to the prototype is driven by the particular circumstances of that project including its sponsor, history, site conditions, contractor, business plan, and/or other factors. Moreover, the criteria and assumptions utilized in selecting and analyzing the prototype assumptions are specific to the time the analysis was prepared and the research was conducted, and any such assumptions will likely change over time as sale prices, rental rates, development costs, lender/investor return targets, and land costs change over time based on market conditions.

Key Assumptions

For the analysis, Century | Urban utilized lot and unit sizes provided by the City and assumptions shown in the attached Exhibit B. To prepare the analysis, Century | Urban researched rental rate and sale comparable information for the three neighborhoods.

This conceptual analysis includes several simplifying assumptions including assuming similar hard costs and designs across the three neighborhoods, 60% loan-to-cost construction financing for the projects, sale of additional units as separate condominium units, as well as other assumptions. In addition, while 12 months of past sale comparable information and available comparable rental rates were utilized for each of the various size prototype units in each of the neighborhoods, the amounts shown in Exhibit A are based on averages or weighted averages of the research data. Consequently, unless otherwise noted, the results of this analysis reflect potential outcomes for an average unit or home, not for any particular instance or case.[1]

Century | Urban calculated the residual value of each scenario by subtracting the estimated development costs from the projected net sales value of the completed development projects. The residual value represents the maximum cost of land / initial home cost at which a homeowner/developer would achieve "economic feasibility" for the development project.[2] Typically, where the market value of land exceeds residual value, proceeding with development would not be considered feasible.

High Level Conclusions

- Projected equity capital requirements based on the 60% loan-to-cost assumption for the six prototype scenarios are shown in Exhibit A. The required equity capital contribution amounts may exceed the available funds or home equity of many homeowners, which may affect a homeowner's ability to pursue new development or redevelopment.
- In Exhibit A, Century | Urban estimates the amount of annual net operating income for a rental use for the six scenarios[3], which suggest several potential conclusions: 1) the amount of potential income may not be sufficient to incentivize for-profit third-parties to develop such projects themselves or to partner with homeowners to develop these projects; 2) for homeowners, the projected annual income generated from the project may not be worth the time, effort, and risk required to pursue development.
- The estimated annual return on cost for renting additional units are shown in Exhibit A. These returns indicate that while higher returns may be generated in higher rent

[1] Century | Urban notes that construction costs vary over time, additional unit sizes are in practice driven by actual available buildable square footage at a property, and rental rates and sale costs respond to macro- and micro-economic market conditions. Therefore, the general conclusions noted below apply to the prototypes examined at the time of the examination, but not necessarily over a larger timescale or in specific instances.
[2] Economic feasibility in this memorandum is used to mean that upon sale, the homeowner/developer would receive a return of their total investment plus a 20% profit on the new development cost expenditure. The 20% amount is assumed to compensate for homeowner for the significant time and capital invested to complete a San Francisco redevelopment project.
[3] These amounts do not include deductions for debt service or personal taxes.

submarkets, the returns may not be sufficiently compelling to attract third-party for-profit investment in these developments from traditional real estate investors.

- For Scenario 1, of the three neighborhoods, only the residual value of the Pacific Heights prototype home exceeds the estimated median home price for a 1,500 square foot home.[4] In the Inner Richmond and Bayview scenarios, the residual value of the large prototype home redevelopment does not exceed the estimated median home price. These results suggest that this redevelopment prototype may not be economically feasible for average single-family home lots in the Inner Richmond and the Bayview but may be feasible in Pacific Heights.
- In Scenarios 2-6, where units are added to an existing single-family home, residual values are calculated assuming either 1) for the for-sale scenarios, the sale of the units as separate condominium units or 2) for the rental scenarios, the sale of the single-family home with the value of up to three rental units attached.
    - While the residual value of the for-sale scenarios is greater than the residual value of the rental scenarios, the residual values of both the for-sale and for-rent scenarios fall beneath the estimated purchase prices by a typical single-family home buyer for a 1,500-square-foot home in the respective neighborhoods. The difference between the two ranges from $30,000 to over $600,000.
    - The difference between the estimated residual values and purchase prices again suggests that these development prototypes may not be economically feasible.

[4] Estimate based on review of last twelve months of home sales in each neighborhood.

Exhibit A

Residual Values of Single Family Additional Unit Scenarios

Note. Amounts are rounded to nearest $1,000 or $10,000

Scenario #	Scenario
1	4,500-square-foot home + 350-square-foot additional unit
2	1,500-square-foot home + one 350-square-foot garage additional unit
3	1,500-square-foot home + one 800-square-foot yard additional unit
4	1,500-square-foot home + one 350-square-foot garage additional unit + one 800-square-foot yard additional unit
5	1,500-square-foot home + two 800-square-foot yard additional units
6	1,500-square-foot home + one 350-square-foot garage additional unit + two 800-square-foot yard additional units

1,500-square-foot home reduced by 50 square feet for garage additional unit and 250 square feet for yard additional units (pass

Costs and Capital Required for Homeowner / Developer

Scenario	*1*	*2*	*3*	*4*	*5*	*6*
Hard Costs	$2,800,000	$130,000	$420,000	$550,000	$840,000	$970,000
Soft Costs	$530,000	$60,000	$110,000	$150,000	$200,000	$240,000
Total Costs *	$3,330,000	$190,000	$530,000	$700,000	$1,040,000	$1,210,000
Assumed Financing	60%	60%	60%	60%	60%	60%
Approx. Equity Required	$1,332,000	$76,000	$212,000	$280,000	$416,000	$484,000

Returns and Values for Homeowner / Developer

Pacific Heights

	Scenario	*1*	*2*	*3*	*4*	*5*	*6*
Homeowner Return	Total NOI - Additional Units	NA	$12,000	$33,000	$44,000	$65,000	$77,000
	Return on Cost - Addit. Units	*NA*	*6.2%*	*6.2%*	*6.4%*	*6.3%*	*6.4%*
	Debt Service on Permanent Loan		$7,000	$18,000	$24,000	$36,000	$42,000
	Cash Flow After Debt Service		$5,000	$15,000	$20,000	$29,000	$35,000
Residual Value	For Sale Scenario	$2,650,000	$1,880,000	$1,740,000	$1,900,000	$2,010,000	$2,160,000
	For Rent Scenario**	NA	$1,780,000	$1,610,000	$1,670,000	$1,740,000	$1,800,000

Historic Purchase Cost (Trailing 12 Months)***	Low	Median	High
for 1,500 SF SFH by Avg SF	$2,250,000	$2,500,000	$2,750,000
Avg 2 Bedroom Price		$2,550,000	
Avg 3 Bedroom Price		$3,900,000	

Inner Richmond

	Scenario	*1*	*2*	*3*	*4*	*5*	*6*
Homeowner Return	Total NOI - Additional Units	NA	$10,000	$20,000	$31,000	$41,000	$51,000
	Return on Cost - Addit. Units	*NA*	*5.4%*	*3.9%*	*4.4%*	*3.9%*	*4.2%*
	Debt Service on Permanent Loan		$7,000	$18,000	$24,000	$36,000	$42,000
	Cash Flow After Debt Service		$3,000	$2,000	$7,000	$5,000	$9,000
Residual Value	For Sale Scenario	$540,000	$1,600,000	$1,420,000	$1,560,000	$1,580,000	$1,720,000
	For Rent Scenario**	NA	$1,490,000	$1,100,000	$1,130,000	$960,000	$980,000

Historic Purchase Cost (Trailing 12 Months)***	Low	Median	High
for 1,500 SF SFH by Avg SF	$1,575,000	$1,725,000	$1,950,000
Avg 2 Bedroom Price		$1,730,000	
Avg 3 Bedroom Price		$2,570,000	

Bayview

	Scenario	*1*	*2*	*3*	*4*	*5*	*6*
Homeowner Return	Total NOI - Additional Units	NA	$7,000	$21,000	$28,000	$42,000	$49,000
	Return on Cost - Addit. Units	*NA*	*3.8%*	*4.0%*	*4.0%*	*4.1%*	*4.1%*
	Debt Service on Permanent Loan		$7,000	$18,000	$24,000	$36,000	$42,000
	Cash Flow After Debt Service		$0	$3,000	$4,000	$6,000	$7,000
Residual Value	For Sale Scenario	($1,580,000)	$1,020,000	$800,000	$820,000	$750,000	$770,000
	For Rent Scenario**	NA	$940,000	$690,000	$640,000	$530,000	$480,000

Historic Purchase Cost (Trailing 12 Months)***	Low	Median	High
for 1,500 SF SFH by Avg SF	$975,000	$1,050,000	$1,200,000
Avg 2 Bedroom Price		$870,000	
Avg 3 Bedroom Price		$990,000	

Notes:

** Excludes sale costs (marketing, brokerage), development profit, discount for loss of garage/yard, or condominium wrap insurance, which are factored into residual values below.*

*** Assumes original home sold as vacant single family home and additional units sold as rental apartments.*

**** Amounts are gross of sales costs, fees, and taxes.*

All financial and programmatic estimates are preliminary in nature for illustrative purposes and subject to change.

Exhibit B

Residual Values Scenarios - Key Assumptions

Unit Sizes			
Large Home Redevelopment	4,500 square feet		
Garage Unit	350 square feet		
Backyard Unit(s)	800 square feet		
Home Loss for Garage Unit	50 square feet		
Home Loss for Backyard Unit(s)	250 square feet		
Hard Costs			
Max SF Home	$550 per square foot		
Garage Unit	$350 per square foot		
Yard Unit	$500 per square foot		
Soft Costs			
Soft Costs as % of Hard Costs*			
Garage Unit Scenario	48%		
All Other Scenarios	19%	to	27%
Development Return	20% of hard and soft costs		
Revenue			
Gross Average Sale Prices	*Lowest Scenario*		*Highest Scenario*
Pacific Heights	$1,219 PSF		$1,599 PSF
Inner Richmond	$1,025 PSF		$1,090 PSF
Bayview	$531 PSF		$756 PSF
Average Rent Estimates	*Lowest Scenario*		*Highest Scenario*
Pacific Heights	$5.15 PSF		$5.27 PSF
Inner Richmond	$3.47 PSF		$4.85 PSF
Bayview	$3.53 PSF		$3.88 PSF
Expenses			
Vacancy	5% of revenue		
General Operating Expenses	$6,000 per unit annually		
Insurance	$500 per unit annually		
Real Estate Taxes	Caculated based on projected total value		
Permanent Financing	Assumes take-out of construction loan with no cash out, 3.75% interest rate and 30 year amortization, no fees		
Additional Unit Capitalization Rates			
Pacific Heights	3.75%		
Inner Richmond	3.75%		
Bayview	4.00%		
Sales Costs / Value			
For Sale Brokerage	5%		
For Rent Brokerage	3%		
Transfer Taxes	Per City		
Loss of Yard/Garage Discount	Not currently included		

**Soft costs as a % of hard costs do not include sale costs (marketing, brokerage), development profit, discount for loss of garage/yard, or condominium wrap insurance.*

All financial and programmatic estimates are preliminary in nature for illustrative purposes and subject to change.