MEMO TO THE BOARD OF SUPERVISORS

Supplemental

May 6, 2022

Project:	**Summary of Updated Analysis of Financial Feasibility of Fourplexes and Policy Levers**
Case Number:	2021-005878CWP
Staff Contact:	James Pappas, Senior Planner, 628.652.7470, james.pappas@sfgov.org
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Recommendation:	**None- Informational**

Background

The San Francisco Planning Department has been working with consultant Century Urban to analyze the financial feasibility for property owners and/or developers of constructing small multifamily buildings on sites currently occupied by an existing single-family home. As part of this work, Century Urban has analyzed prototypes of potential projects that may be possible under 2021 state law SB 9, summarized by Planning and Century Urban in a January 2022 memo, and prototype projects that may be possible under proposed local legislation to allow up to four units (fourplexes) on parcels where currently fewer units are allowed, summarized in a February 2022 memo (submitted as Exhibit E for the February 10th, 2022 Planning Commission hearing). These memos highlight key findings and assumptions from high level financial analyses that Century Urban performed on prototype projects in selected neighborhoods representative of potential scenarios under proposed local legislation and under SB 9.

In this third memo, Planning summarizes additional work from Century Urban, attached here, including a summary of financial feasibility for the various project prototypes previously studied and analysis of potential public policy levers that could be used to affect the feasibility of these small multifamily projects. This memo also explores how existing homeowners may assess opportunities to add additional housing units to an existing single-family home with different considerations and approaches than a professional developer. Overall, the analysis from Century Urban provides information on the 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 this type of housing in San Francisco.

Assumptions

Century Urban analyzed potential for development of small multifamily buildings on sites with existing single-family homes. Century Urban reviewed prototype developments using general market assumptions for unit types, costs, rents, sale prices, financing, and other factors faced by parties seeking to undertake such endeavors and that shape the feasibility and likelihood of development. Initial architectural prototypes were developed working with an architect to inform the assumptions which were adapted for the analysis. Financial feasibility (discussed more below) was assessed using metrics typically used by housing developers in assessing whether projects are worth the expense and risk of undertaking and are also considered by financial institutions in considering whether to underwrite loans for housing construction. For some homeowners seeking to add units to their properties or completely redevelop them, there may be different practical and financial approaches or considerations that are discussed in more detail below.

Development Scenarios, Tenure, and Neighborhoods

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 the Inner Richmond, West Portal, Castro, Balboa Park, and Glen Park. For most of the SB 9 scenarios, the prototype scenarios retained an existing single-family home while adding units to the ground floor or rear yard. The analysis of prototype three- and fourplexes assumed that an existing single-family home would have to be demolished to construct a new triplex or fourplex covering a similar footprint to a prototypical single-family home but rising to three or four stories. Century Urban analyzed each triplex and fourplex prototype with and without parking.

Project Costs and Timing

In this analysis costs for developing housing are comprised of three broad categories:

- Hard costs for construction labor and materials;
- Soft costs for architecture and engineering, financing costs, permits and fees, etc.; and
- Sales and Rental 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.

While land costs are always a major factor in financial feasibility of any development, the structure of this type of analysis is to compare the "residual value" of a project derived from a development pro forma using revenues and non-land costs of development against the current price of the land to determine if the project can afford to purchase the land at the going market rate for property.

For SB9 prototypes, the range of total project costs ranges from $200,000 for addition of one small studio unit within the envelope of the ground level of an existing single-family house to $1.2m for addition of 3 units in a lot split scenario that include the aforementioned studio within a house plus a new structure with two modest units in a separate 2-story rear yard structure. For the triplex and fourplex prototypes that reflect the demolition and replacement of a house with a new larger multi-unit structure containing 3-4 multi-bedroom family-sized units averaging about 1,300 square feet, the combined total of hard and soft project costs range from $3.25m to $4.25m. As discussed below in the feasibility section, these costs

exclude land cost, because the "residual value" of the project measured against the current value of property is the measure of feasibility.

Note that Century Urban's analysis assumes entitlement, design, permits, financing, and construction of a triplex or fourplex development can be completed within one year, as a result, the analysis assumes no pre-construction carrying costs for the prototype projects. For this analysis Century Urban also used a simplifying assumption that a project sponsor would be able to borrow 65% of the project cost to build the new units.

Financial Return and Feasibility Findings

To assess financial feasibility for these prototype scenario projects, Century Urban calculated the **residual value**, or the amount that a purchaser of a home or land can afford to pay for that home or land and construct one of these prototype projects. Residual value is calculated by subtracting the hard and soft costs of the project, as well as 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 or developer 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.

Where there is a negative difference between the residual value of the prototype project and the market value of an existing single-family home in the respective neighborhood, this is the "**feasibility gap**." As summarized in the February 2022 memo, the analysis found that all the prototypes analyzed in all neighborhoods had a feasibility gap, indicating that at current construction costs, rental rates, and single-family prices, financial feasibility of demolishing an existing single-family home to develop new triplexes and fourplexes is challenging.

The magnitude of the "gap" between the residual value generated by prototype developments and median single family home prices in all neighborhoods analyzed ranged from $1.3m-2m in mid-tier and lower cost neighborhoods to $5m in Pacific Heights. The analysis also calculated whether there is a "gap" when comparing the project residual values to the typical *minimum* (rather than median) home prices in the same neighborhoods, as, by definition half of houses for sale are valued at less than the median and there may be circumstances where a home is unusually small and/or poorly maintained relative to the typical condition. While the "gap" is substantially smaller in all of those cases, a "gap" remains across all scenarios with the lowest gaps of $300,000-$600,000 in the mid-tier neighborhoods.

Since there is a projected feasibility gap to replace a single-family house with a multi-family building, any restriction of rent or sale prices of the resulting units will add to that gap. The addition of affordability requirements would increase the feasibility gaps across the prototypes by typically several hundred thousand dollars to over one million dollars for the fourplexes with two required below market rate (BMR) units. A recent proposal to allow a fee payment in lieu of an on-site BMR unit would result in an estimated fee of up to $170,000 dollars, based on a maximum unit size of 740 square feet and current in lieu fee rate for the City's Inclusionary Housing program. This in lieu fee payment option could be cheaper than on-site units in some cases, however, would still add to the financial feasibility gap for three and fourplex developments.

Homeowner Considerations

Members of the Board of Supervisors and others have asked how the circumstances, motivations, and expectations of the typical homeowner might differ from those of the professional housing developer and thus would lead to different outcomes from those in the feasibility analysis described above and in prior memos.

The feasibility analysis conducted by Century Urban assumes that people considering what to do with property, whether a professional developer or a homeowner/property owner, are making financial decisions relative to risk, time, and alternative options for their investment. A small number of property owners may be interested in using the fourplex opportunity to redevelop their properties or add units based on factors beyond just the financial considerations.

In the prior feasibility analysis, Century Urban analysis assumed a project applicant receives compensation for their substantial financial investment, effort, time, and risk involved in developing a project in the form of an industry-benchmark 18% return and a target return on cost of 5.25% for rental projects. Given that some homeowners may be willing to accept lower returns or are motivated by non-financial goals such as housing family members, Century Urban further considered one illustrative example, using a fourplex scenario without parking, to look at how removing expected developer return would affect the feasibility analysis. This analysis shows that removing any expected return would still result in a feasibility gap of several hundred thousand dollars in the median home value scenarios. However, in the minimum home value scenario in the mid-tier neighborhood particularly, the project could eliminate this gap relative to the value of a house. This means that in some limited scenarios, a property owner could generate a modest income if they invest their land and financial resources into a redevelopment.

However, it is important to caveat any homeowner- driven development scenario by noting a few challenges that underlie such an undertaking. Leveraging their existing single-family home value, obtaining construction loan that would include refinancing existing debt, relocating during construction, tackling a complex development project, identifying and hiring a general contractor, and assessing an unpredictable real estate market are all significant challenges that most homeowners would face. For example, a homeowner would need a construction loan of potentially $2m+ for such a project, and construction loans are typically designed for those that have a track-record of doing such work.

For most existing homeowners, smaller-scale projects to add housing units in ways that are more modest modifications to existing properties, such as adding smaller units by converting existing space in ground floors, rear additions, or rear yard structures, may be more likely and manageable. These would require fewer financial resources, debt, and risks. Such scenarios would more resemble the SB9 scenarios analyzed than the new construction triplex and fourplex scenarios.

Levers that Could Impact Feasibility

As part of their analysis, Century Urban analyzed potential public policy “levers” that might be able to offset the financial barriers faced by property owners redeveloping an existing single-family home or adding units. These potential policy levers include lowered interest rate loans, reductions in City fees, and abatements of transfer taxes and property taxes. The magnitude of the financial benefit of each lever

is provided relative to the residual value and feasibility gap of each scenario; in other words, the financial value expressed for each lever should be added to the feasibility gap (thus reducing the gap) of the respective scenario to see the effect of each lever or the combination of different levers.

Non-Governmental Factors

Construction Costs

Construction costs, including labor and materials, are by far the largest component of development costs for adding new units, typically representing a little more than 70% of development costs excluding land costs. Construction costs in San Francisco are among the world's highest and have escalated rapidly over the last 10 years creating a significant barrier to residential development. While not anticipated in the near to medium term given labor shortages and continued economic uncertainty, a hypothetical 10% reduction in construction costs could improve the feasibility of three- and fourplex projects by an estimated $300,000 to $380,000 respectively and improve feasibility of SB 9 prototype projects by an estimated $16,000 to $113,000 depending on the number of units added.

Income Return

Changes in rents and sale prices also heavily impact project feasibility. A 10% increase in rents and sale projects could prove project feasibility by hundreds of thousands of dollars for both three and four plex prototype projects and SB 9 prototypes.

Governmental Levers

While construction costs and rents and sale prices are the biggest determinants of project feasibility, there are also potential changes under the control of the City or State that could help support the development of small multifamily projects. Since many of these involve the city foregoing revenue from key revenue sources, such as taxes or fees, they should be weighed against other public investments and impacts that these monies could fund, for example, construction or acquisition of affordable housing units or down payment assistance. Century Urban has analyzed the potential financial effect of different policy levers for the various prototype projects studied in different housing markets in the city, helping to estimate both their scale of impact relative to the financial feasibility gap of prototype projects and providing an estimate of costs to the city.

<u>Construction loan with lowered interest rate of 1%</u> Offering property owners lower interest rate construction loans with a rate of 1%, likely through a subsidized program, would cut costs by a relatively minor amount. For three to fourplex prototype projects, the gap would be lowered by between $37,000 to just over $50,000 dollars while for most SB 9 prototypes the benefit would be between $2,000 and $15,000 dollars.

<u>City fees in excess of $10,000 waived</u>: Offering property owners a fee waiver for all fees in excess of $10,000 cumulatively could result in modestly lowering the gap by $124,000 or $144,000 per three or fourplex prototype project, while for SB 9 projects, it would lower the gap in a range from $4,000 to $32,000.

<u>Transfer tax abatement for initial sale of a property added units</u> This option would lower the feasibility gap by a wide range from $22,000 to $84,000 for three to fourplex prototype projects and $14,000 to $77,000 for SB 9 projects.

Abatement of the City and County's portion of property taxes for 40 years This would have the largest and most substantial impact on lowering the feasibility gap, although, as property taxes are regulated by State authority, there is currently no local legal pathway to accomplish it. The feasibility gap reduction would be between $390,000 and $711,000 for three and fourplexes and between $27,000 to $210,000 for SB 9 project prototypes.

Conclusion

The analysis provided by Century Urban suggests property owners and developers to undertake prototype triplex and fourplex projects on a site with an existing single-family home would encounter financial feasibility challenges. However, this does not rule out that some developers or 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. Changes in key factors, for example construction costs, could affect project feasibility and likelihood of adding units for existing property owners and developers alike.

Opening three and fourplex options for homeowners and small-scale developers may not bring immediate or widespread changes, but they invite adaptations to what is possible over time. There are many unique circumstances by site and providing simple pathways, and predictability in public policy and rulemaking can make a substantial difference in creating additional modestly sized housing units in our lower density, residentially zoned neighborhoods.



Century | Urban

Strategic Real Estate Advisory Services

Small Multifamily – Conceptual Scenario Analysis

Presented to:

City of San Francisco, Planning Department

May 6, 2022

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SMALL MULTIFAMILY – CONCEPTUAL SCENARIO ANALYSIS

TO: City of San Francisco, Planning Department

FROM: Century | Urban

SUBJECT: Small Multifamily– Conceptual Scenario Analysis

DATE: May 6, 2022

Summary

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

Century | Urban previously prepared a high-level conceptual analysis of for-rent and for-sale scenarios including 1) adding up to three units to a single-family residence and 2) redeveloping a single-family home into three- and four-plex prototype developments. Certain scenarios were prepared with and without parking and each scenario was prepared across three neighborhoods: Pacific Heights, a prototype "Mid-Tier"[1] neighborhood, and the Bayview. The conceptual underwriting and scenario analysis below reflects analysis results assuming changes to certain underwriting assumptions as described below.

Analysis Qualifications

The assumptions or range of assumptions utilized in these scenario analyses do not correspond to any assessment of actual, current or past market conditions, nor do any assumptions in this underwriting represent any proposed policy. Assumptions have been selected for scenario analysis to demonstrate their relative impact on overall project feasibility.

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,

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

rental rates, development costs, lender/investor return targets, and land costs change over time based on market conditions.

Key Assumptions

Except as noted below, assumptions and methodologies utilized in the sensitivity analysis are the same as those utilized in prior analyses.

As previously noted, six scenarios were evaluated for the scenarios where up to three units are added to a single-family residence (i.e., the "SB9" analysis), which are described below:

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

Please note that, in the for-rent versions of the SB9 scenario analysis, the existing single-family home is assumed to be sold to an owner-occupier and not rented.

Summary of Prior Analyses and Current Scenario Analyses

1. **Feasibility Gap**

Charts A and B below reflect the estimated feasibility gaps for the three- and four-plex scenarios and SB9 scenarios, respectively. The feasibility gaps in these analyses reflect the difference between 1) the price a buyer could pay for a project site such that redevelopment of the site is financially feasible, and 2) the actual median and low-end prices for single family homes based on sales comparables in the respective neighborhoods between 2019 and 2021.

All units in the scenario analyses are assumed to be rented or sold at market rates. With one exception, all of the scenarios reviewed showed feasibility gap amounts ranging from $5,000 to over $5 million. In general, projects in the Bayview and Mid-Tier markets have lower estimated feasibility gap amounts than projects in Pacific Heights, where prices for a single-family home are higher. Additionally, four-unit projects have lower estimated feasibility gap amounts than three-unit projects, and SB9 projects which are assumed to maintain the existing single-family home have lower estimated feasibility gap amounts than the ground-up development of three- and four-unit projects.

Chart A: Feasibility Gaps in 3- and 4-Plex Scenarios

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

Construction				Base Case			Optimistic Case		
Type	Units	Parking	Type	Bayview	Mid-Tier	Pacific Heights	Bayview	Mid-Tier	Pacific Heights
V 1B	3	No	Sale	($1,892,000)	($1,561,000)	($5,117,000)	($1,744,000)	($1,417,000)	($4,972,000)
V 1C	3	Yes	Sale	($1,865,000)	($1,572,000)	($5,133,000)	($1,723,000)	($1,433,000)	($4,995,000)
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	($2,158,000)	($1,524,000)	($5,038,000)	($1,967,000)	($1,338,000)	($4,851,000)
III 2C	4	Yes	Sale	($2,198,000)	($1,596,000)	($5,114,000)	($2,012,000)	($1,414,000)	($4,932,000)
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				Base Case			Optimistic Case		
Type	Units	Parking	Type	Bayview	Mid-Tier	Pacific Heights	Bayview	Mid-Tier	Pacific Heights
V 1B	3	No	Sale	($1,517,000)	($446,000)	($984,000)	($1,369,000)	($302,000)	($839,000)
V 1C	3	Yes	Sale	($1,490,000)	($457,000)	($1,000,000)	($1,348,000)	($318,000)	($862,000)
V 1A	3	No	Rental	($1,424,000)	($533,000)	($1,049,000)	($1,254,000)	($367,000)	($882,000)
V 1C	3	Yes	Rental	($1,434,000)	($576,000)	($1,097,000)	($1,270,000)	($415,000)	($937,000)
III 2B	4	No	Sale	($1,783,000)	($409,000)	($905,000)	($1,592,000)	($223,000)	($718,000)
III 2C	4	Yes	Sale	($1,823,000)	($481,000)	($981,000)	($1,637,000)	($299,000)	($799,000)
III 2B	4	No	Rental	($1,672,000)	($532,000)	($999,000)	($1,452,000)	($317,000)	($784,000)
III 2C	4	Yes	Rental	($1,724,000)	($611,000)	($1,082,000)	($1,510,000)	($400,000)	($872,000)

Chart B: Feasibility Gap in SB9 Scenarios

Feasibility Gap from Median Home Price

		Scenario					
Type	Neighborhood	1	2	3	4	5	6
Sale	Bayview	($2,630,000)	($30,000)	($250,000)	($230,000)	($300,000)	($280,000)
Sale	Inner Richmond	($1,185,000)	($125,000)	($305,000)	($165,000)	($145,000)	($5,000)
Sale	Pacific Heights	NA	($620,000)	($760,000)	($600,000)	($490,000)	($340,000)
Rental	Bayview	NA	($110,000)	($340,000)	($410,000)	($520,000)	($570,000)
Rental	Inner Richmond	NA	($235,000)	($625,000)	($595,000)	($765,000)	($745,000)
Rental	Pacific Heights	NA	($720,000)	($890,000)	($830,000)	($760,000)	($700,000)

Feasibility Gap from Minimum Home Price

		Scenario					
Type	Neighborhood	1	2	3	4	5	6
Sale	Bayview	($2,555,000)	NA	($175,000)	($155,000)	($225,000)	($205,000)
Sale	Inner Richmond	($1,035,000)	NA	($155,000)	($15,000)	NA	NA
Sale	Pacific Heights	NA	($370,000)	($510,000)	($350,000)	($240,000)	($90,000)
Rental	Bayview	NA	($35,000)	($265,000)	($335,000)	($445,000)	($495,000)
Rental	Inner Richmond	NA	($85,000)	($475,000)	($445,000)	($615,000)	($595,000)
Rental	Pacific Heights	NA	($470,000)	($640,000)	($580,000)	($510,000)	($450,000)

Notes:

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

2. Equity and Debt Requirements

Charts C and D below reflect the projected average equity and debt funding amounts needed for the 3- and 4-plex prototype projects and SB9 prototype projects. The 3 and 4-plex projects involve a greater cost since the entire structure must be newly constructed, whereas all of the SB9 scenarios except one assume the existing structure remains in place.

Chart C: Projected Equity and Debt Funding Amounts for 3- and 4-Plex Scenarios

Figures rounded to the nearest $100,000

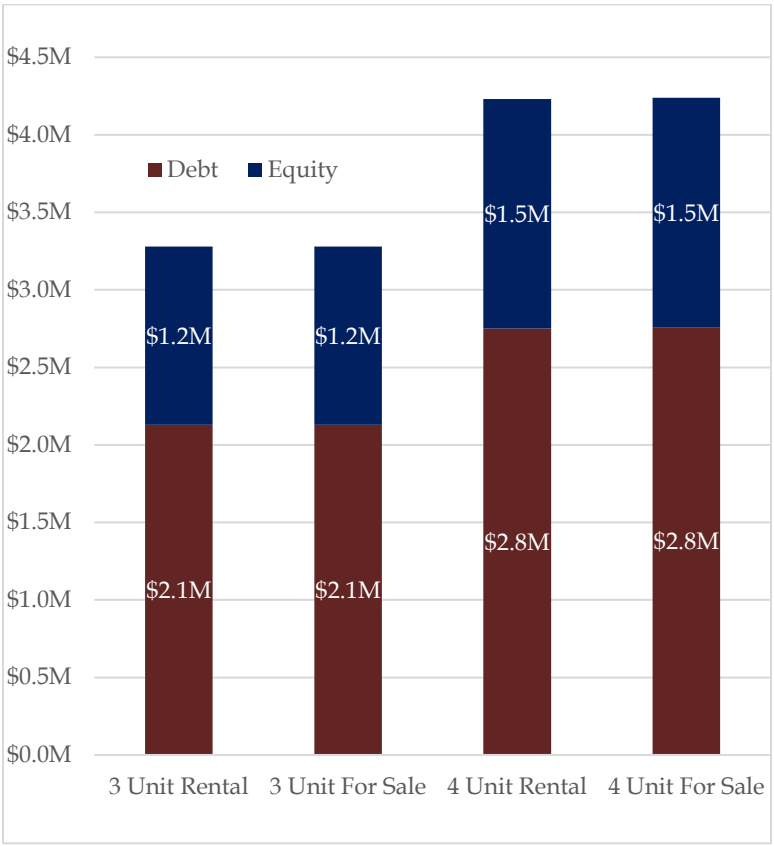
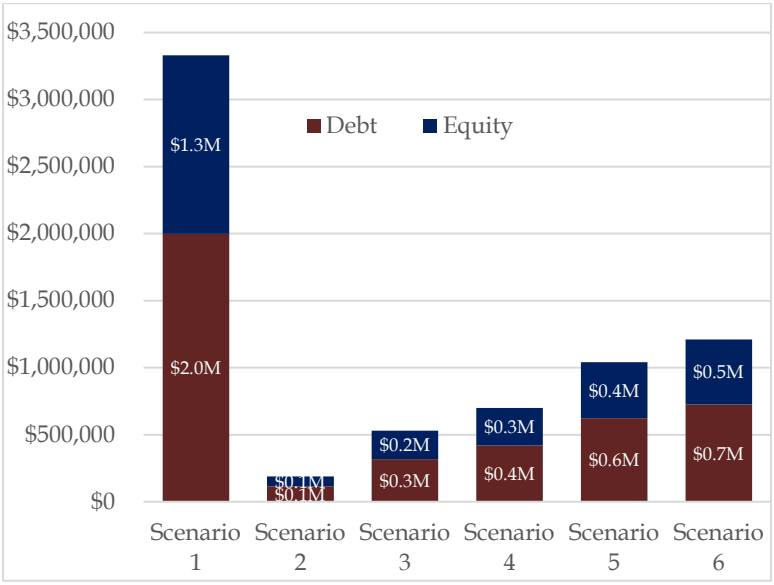


Chart D: Projected Equity and Debt Requirements for SB9 Scenarios

Figures rounded to the nearest $100,000



3. Net Operating Income and Cash Flow

Charts E and F below show the average annual net operating income and cash flow after debt service associated with the 3- and 4-plex scenarios and SB9 scenarios. The value of these estimated income and cash flows should be evaluated against the equity and debt funding amounts described above. For example, the average annual cash flow after debt service for the 4-plex Pacific Heights scenario is projected to be approximately $73,000, which represents a 4.9% return on the estimated average $1.48 million equity funding required to build the project.

Chart E: Projected Net Operating Income (NOI) and Cash Flow after Debt Service for 3- and 4-Plex Rental Protypes

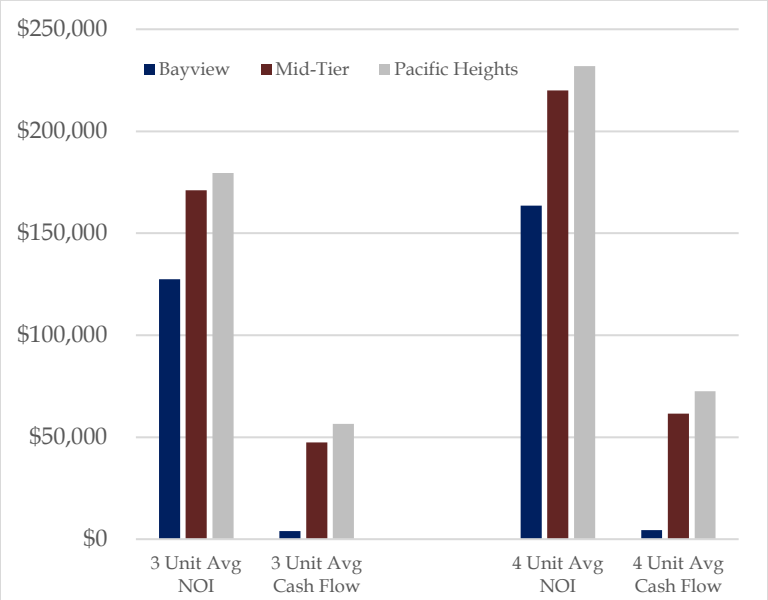
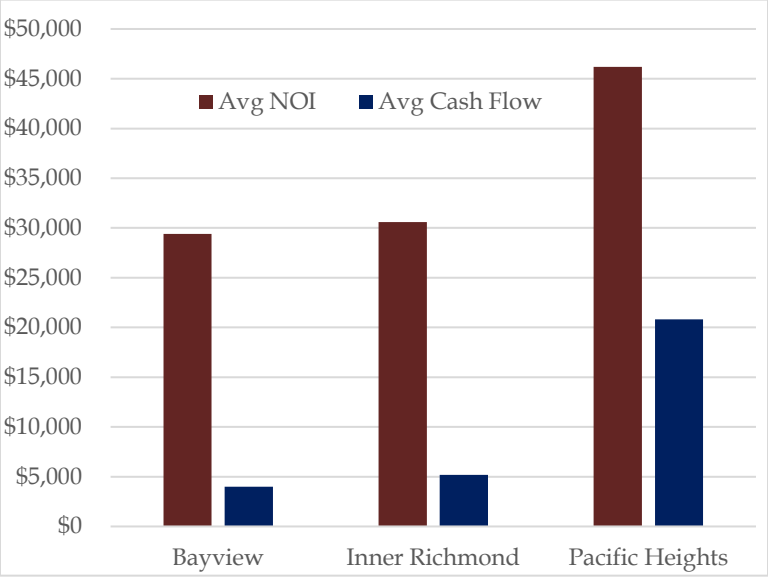


Chart F: Projected Annual Average Net Operating Income (NOI) and Cash Flow after Debt Service for SB9 Rental Prototypes



4. Affordable Scenarios

Chart G below shows the effect on the feasibility of the 3- and 4-plex scenarios of adding below-market rate units. The top portion of the chart reflects 3- and 4-unit prototypes in which two of the units are market rate units and the remaining one to two units are affordable to households

earning no greater than 100% of Area Median Income ("AMI"). The bottom portion of the chart reflects the same unit mixes with one affordable unit at 110% AMI rental rates or 140% AMI sale prices. The amounts in the chart reflect the incremental increase in the estimated feasibility gap amounts in addition to the feasibility gap amounts listed in Chart A above.

Chart G: Estimated Incremental Increase in Feasibility Gap from Inclusion of Affordable Units

3-4 Plex Analysis

Two market rate units; remaining 1 or 2 units 100% AMI, rental and sale scenarios

			Base Case			Optimistic Case		
Units	Parking	Type	Bayview	Mid-Tier	Pacific Heights	Bayview	Mid-Tier	Pacific Heights
3	No	Sale	($273,000)	($614,000)	($663,000)	($321,000)	($663,000)	($711,000)
3	Yes	Sale	($153,000)	($441,000)	($483,000)	($194,000)	($483,000)	($524,000)
3	No	Rental	($206,000)	($418,000)	($460,000)	($249,000)	($460,000)	($502,000)
3	Yes	Rental	($102,000)	($281,000)	($317,000)	($138,000)	($317,000)	($353,000)
4	No	Sale	($836,000)	($1,667,000)	($1,786,000)	($955,000)	($1,786,000)	($1,905,000)
4	Yes	Sale	($736,000)	($1,523,000)	($1,636,000)	($848,000)	($1,636,000)	($1,748,000)
4	No	Rental	($661,000)	($1,176,000)	($1,279,000)	($764,000)	($1,279,000)	($1,381,000)
4	Yes	Rental	($574,000)	($1,062,000)	($1,159,000)	($672,000)	($1,159,000)	($1,257,000)

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

			Base Case			Optimistic Case		
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 more units are set based on AMI levels as specified above.

5. Changes in Feasibility Due to Sale Prices/Rental Rates

Chart H below shows the average change in estimated feasibility gap amounts due to a 10% change in rents and sale prices. A 10% increase in rents and sale prices would reduce the feasibility gap amounts by the amounts shown in the chart, while a 10% decrease in rents or sale prices would increase the feasibility gap amounts by approximately the same amounts.

Chart H: Average Change in Feasibility Gap Due to 10% Change in Rents/Sale Prices

3- and 4-Plex Analysis

Scenario	*3 Unit For Sale*	*3 Unit For Rent*	*4 Unit For Sale*	*4 Unit Rental*
Bayview	$238,000	$270,000	$305,000	$348,000
Mid-Tier	$341,000	$353,000	$439,000	$457,000
Pacific Height:	$355,000	$370,000	$457,000	$478,000

SB9 Analysis

Scenario	*1*	*2*	*3*	*4*	*5*	*6*
10% Change in Sales Price - For Sale						
Pacific Heights	$737,000	$214,000	$242,000	$280,000	$332,000	$371,000
Richmond	$472,000	$186,000	$209,000	$246,000	$289,000	$326,000
Bayview	$245,000	$127,000	$146,000	$172,000	$205,000	$230,000
10% Change in Rental Rates - For Rent						
Pacific Heights		$39,000	$86,000	$124,000	$172,000	$210,000
Richmond		$21,000	$26,000	$47,000	$53,000	$73,000
Bayview		$27,000	$56,000	$83,000	$112,000	$139,000

6. Changes in Feasibility Due to Changes in Hard and Soft Cost Inputs

The seven charts comprising Chart I below show the effect on the average feasibility gap for both for-rent and for-sale prototypes combined of changing the assumptions for certain hard and soft cost inputs. The revised input assumptions include:

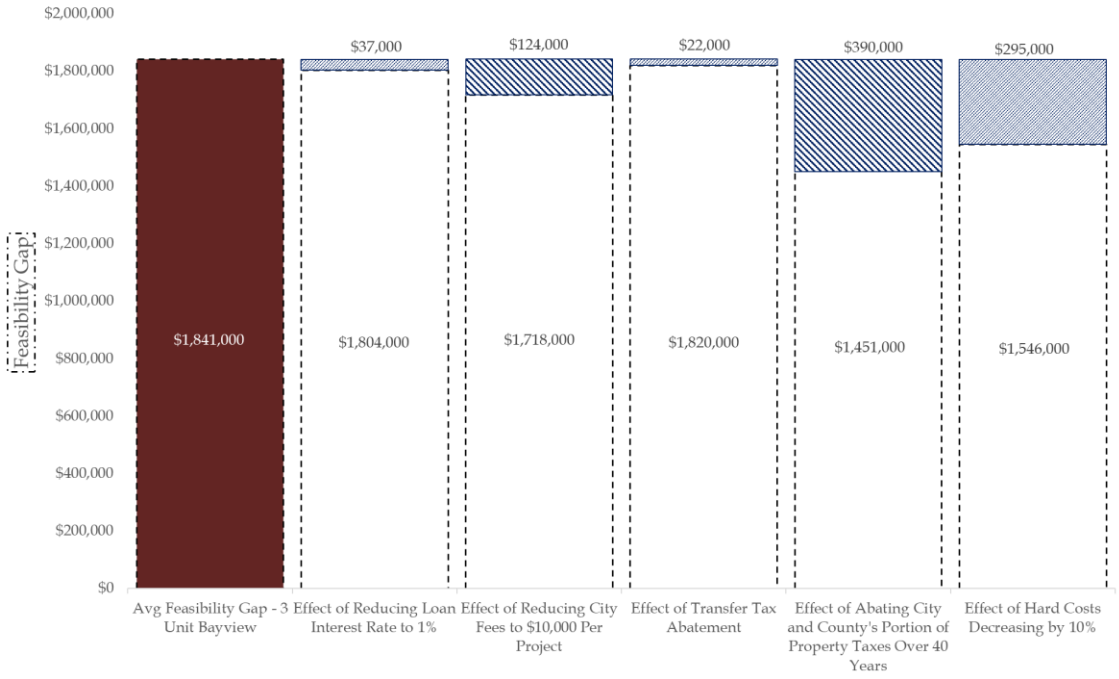
- Construction loan interest rate is 1%
- All City fees for each scenario are reduced to a total of $10,000. This scenario was not a reduction of a specific City fee; it represents a theoretical cap on total City fees.
- Transfer taxes are abated for initial sale of the property units
- City and County's portion of property taxes are abated for 40 years.
- Project hard costs are reduced by 10%

These feasibility gap sensitivity scenarios are prepared for illustrative purposes only at the request of the City. Century | Urban is not projecting that any of these scenarios is or is not likely to occur or recommending that any of these scenarios should or should not be implemented. These sensitivities have been prepared to evaluate the potential magnitude of their effect on the projected average feasibility gap for each prototype. The effect of each of these assumption changes is shown in the blue hatched areas of each bar with the remaining feasibility gap shown

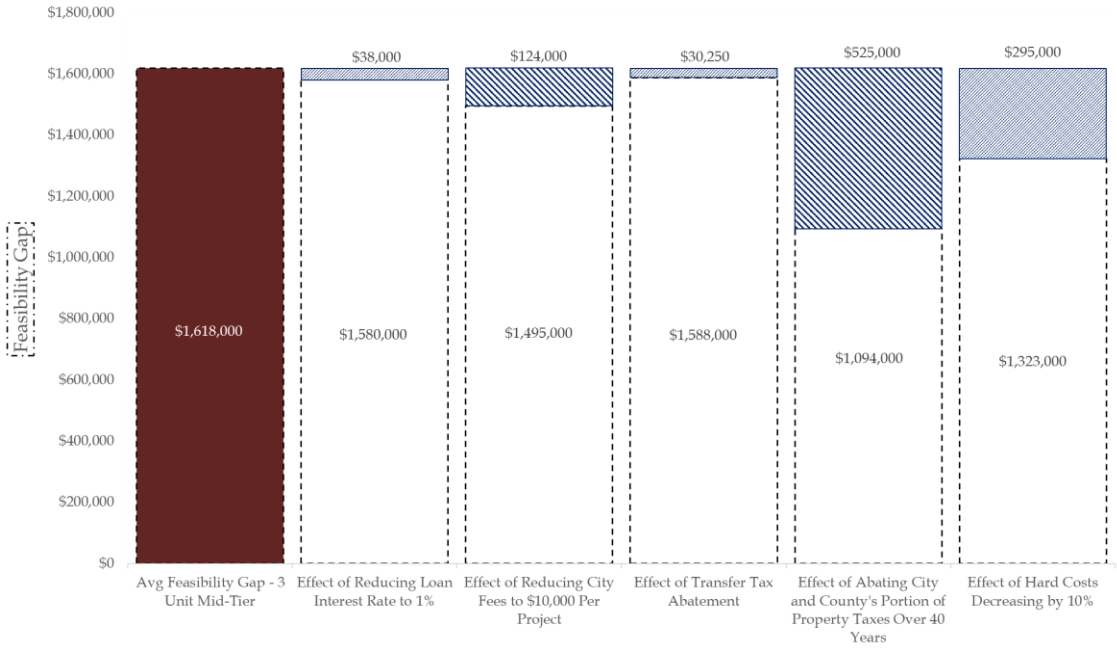
in the white area of each bar. For ease of review, all numerical amounts are rounded to the nearest $1,000.

Chart I: Change in Feasibility Gap Due to Changes in Hard and Soft Cost Inputs

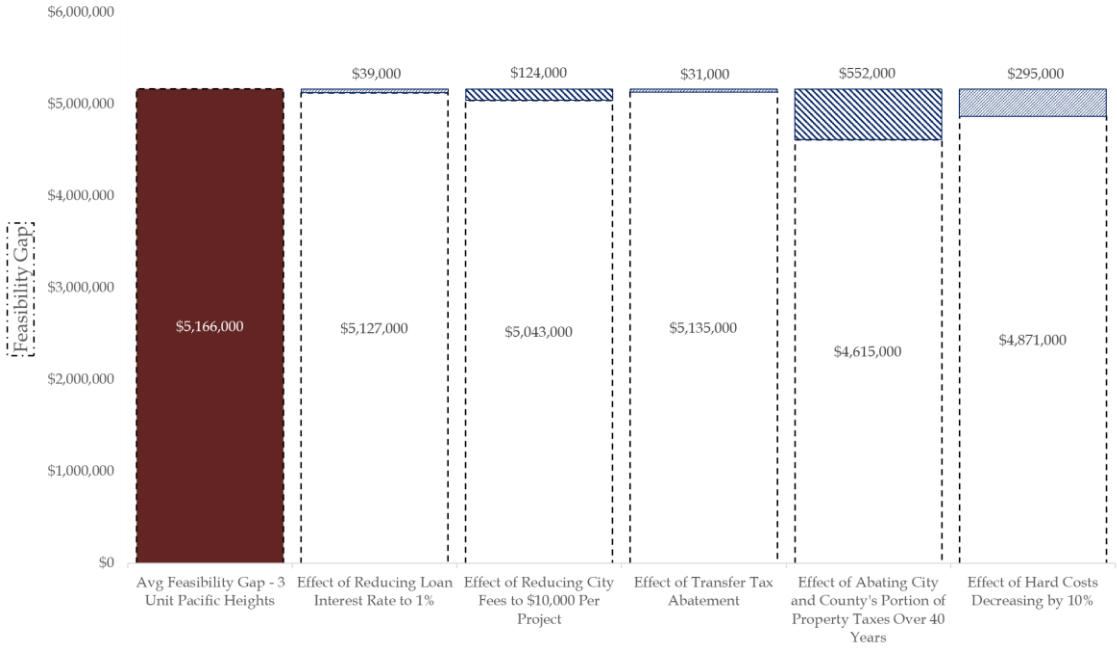
Average of 3 Unit Prototypes - Bayview



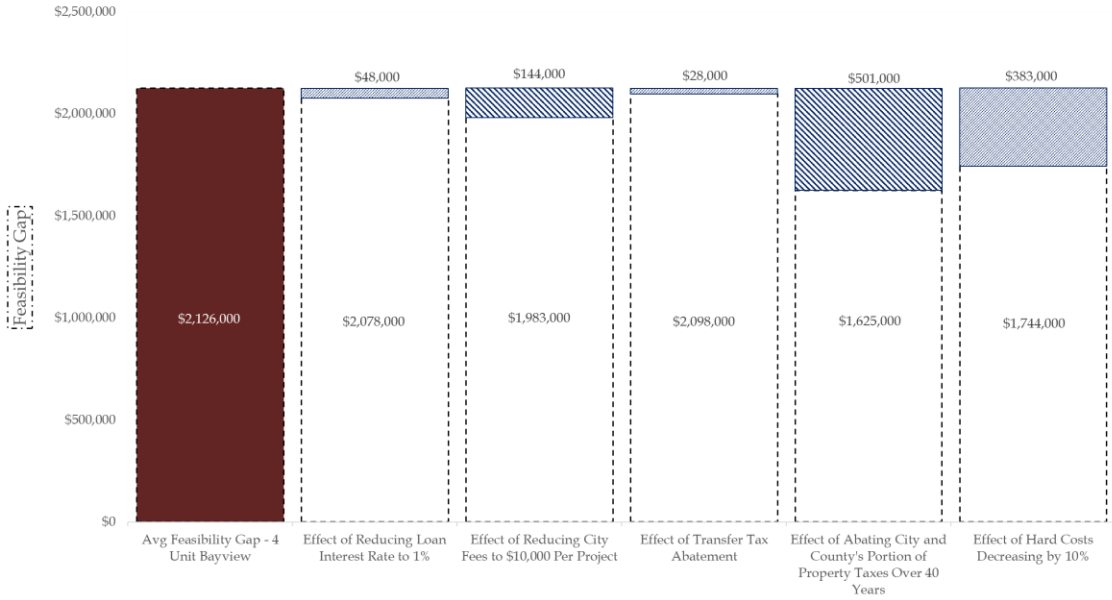
Average of 3 Unit Prototypes – Mid-Tier



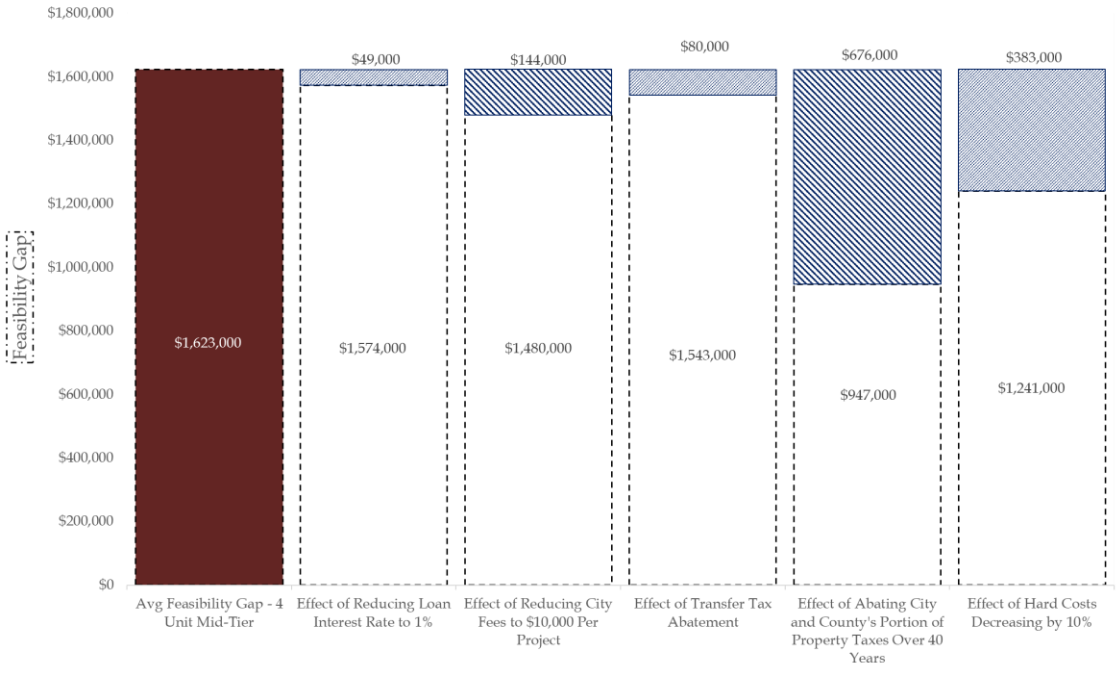
Average of 3 Unit Prototypes – Pacific Heights



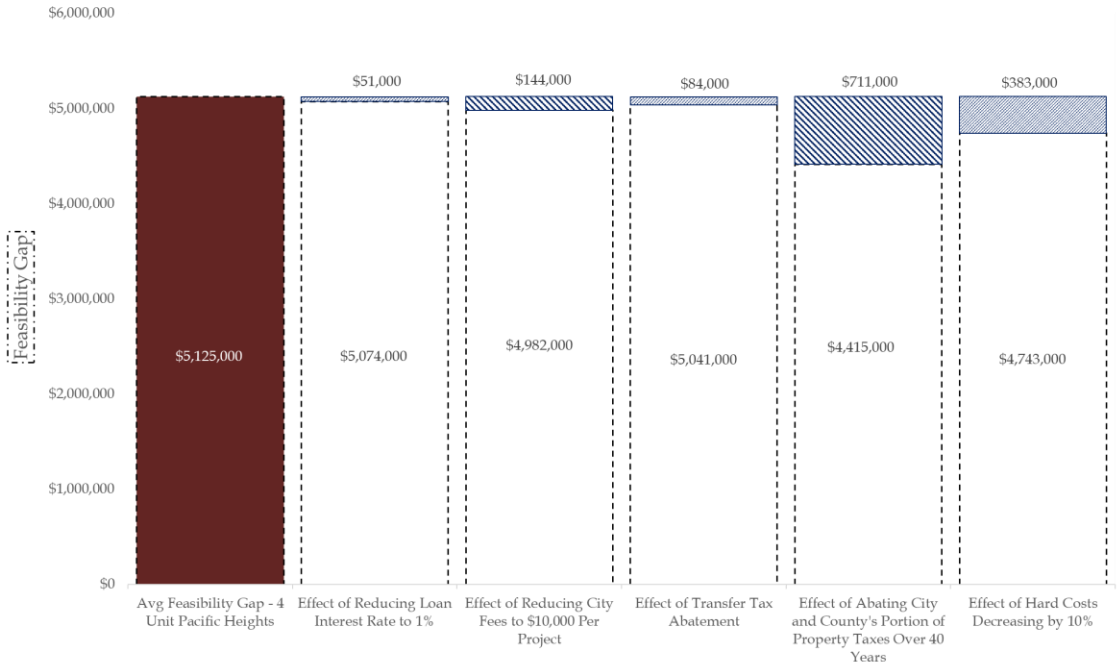
Average of 4 Unit Prototypes – Bayview



Average of 4 Unit Prototypes – Mid-Tier



Average of 4 Unit Prototypes – Pacific Heights



SB9 Analysis

Due to the number of scenarios and submarkets, the effects of changing hard and soft cost inputs on the SB9 scenarios are shown in dollar terms, rounded to the nearest thousand, in the chart below.

Scenario	*1*	*2*	*3*	*4*	*5*	*6*
Change Interest Costs to 1%	$40,000	$2,000	$6,000	$8,000	$13,000	$15,000
Reduce City Fees to $10,000	$32,000	$4,000	$6,000	$14,000	$16,000	$24,000
Transfer Tax Abatements						
Average - For Sale	$77,000	$14,000	$15,000	$17,000	$20,000	$23,000
Average For Rent		$16,000	$18,000	$20,000	$23,000	$26,000
Property Tax Abatements - Rental						
Pacific Heights	$39,000	$86,000	$124,000	$172,000	$210,000	
Richmond	$35,000	$58,000	$93,000	$116,000	$151,000	
Bayview	$27,000	$56,000	$83,000	$112,000	$139,000	
Change in Hard Costs by 10%	$323,000	$16,000	$50,000	$65,000	$98,000	$113,000