



**CITY OF SOUTH PASADENA  
PLANNING COMMISSION**

**AGENDA  
SPECIAL MEETING  
TUESDAY, JULY 26, 2022 AT 6:30 P.M.**

**CITY COUNCIL CHAMBERS  
1424 MISSION STREET, SOUTH PASADENA, CA 91030**

**South Pasadena Planning Commission Statement of Civility**

*As your appointed governing board we will treat each other, members of the public, and city employees with patience, civility and courtesy as a model of the same behavior we wish to reflect in South Pasadena for the conduct of all city business and community participation. The decisions made tonight will be for the benefit of the South Pasadena community and not for personal gain.*

**NOTICE ON PUBLIC PARTICIPATION & ACCESSIBILITY**

The South Pasadena Planning Commission Meeting will be conducted in-person from the Council Chambers, Amedee O. "Dick" Richards, Jr., located at 1424 Mission Street, South Pasadena. Pursuant to AB 361 Government Code Section 54953, subdivision (e) (3), the Planning Commission may conduct its meetings remotely and may be held via video conference.

The Meeting will be available:

- In Person Hybrid – City Council Chambers, 1424 Mission Street, South Pasadena
- Via Zoom: <https://us02web.zoom.us/j/81665074964> **Meeting ID: 816 6507 4964**

To maximize public safety while still maintaining transparency and public access, members of the public can observe the meeting via Zoom in the following methods below.

- Go to the Zoom website, <https://Zoom.us/join> and enter the Zoom meeting information; or
- Click on the following unique Zoom meeting link:  
<https://us02web.zoom.us/j/81665074964>

**CALL TO ORDER:** Chair John Lesak

**ROLL CALL:** Chair John Lesak  
Vice-Chair Laura Dahl  
Commissioner Amitabh Barthakur  
Commissioner Janet Braun  
Commissioner Lisa Padilla

**COUNCIL LIAISON:** Councilmember Diana Mahmud

**APPROVAL OF AGENDA**

Majority vote of the Commission to proceed with Commission business.

**DISCLOSURE OF SITE VISITS AND EX-PARTE CONTACTS**

Disclosure by Commissioners of site visits and ex-parte contact for items on the agenda.

**PUBLIC COMMENT GUIDELINES** (Public Comments are limited to 3 minutes)

The Planning Commission welcomes public input. If you would like to comment on an agenda item, members of the public may participate by one of the following options:

Option 1:

Participate in-person at the City Council Chambers, 1424 Mission Street, South Pasadena.

Option 2:

Participants will be able to “raise their hand” using the Zoom icon during the meeting, and they will have their microphone un-muted during comment portions of the agenda to speak for up to 3 minutes per item.

Option 3:

Email public comment(s) to [PlanningComments@southpasadenaca.gov](mailto:PlanningComments@southpasadenaca.gov). Public Comments received in writing will not be read aloud at the meeting, but will be part of the meeting record. Written public comments will be uploaded online for public viewing under Additional Documents. There is no word limit on emailed Public Comment(s). Please make sure to indicate:

- 1) Name (optional), and
- 2) Agenda item you are submitting public comment on, and
- 3) Submit by no later than 12:00 p.m., on the day of the Planning Commission meeting.

NOTE: Pursuant to State law, the Planning Commission may not discuss or take action on issues not on the meeting agenda, except that members of the Planning Commission or staff may briefly respond to statements made or questions posed by persons exercising public testimony rights (Government Code Section 54954.2). Staff may be asked to follow up on such items.

**PUBLIC COMMENT**

- 1. **Public Comment – General (Non-Agenda Items)**

**CONSENT CALENDAR ITEM**

- 2. **Minutes from the Special Joint Meeting with Cultural Heritage Commission of September 23, 2021**

**DISCUSSION**

- 3. **Update on the Housing Element, Results of a Feasibility Review of the Inclusionary Housing Ordinance and Comments on Strategies**

**Recommendation**

- 1. Receive an update on the progress of the housing element, including the most recent comments from HCD and July 20 City Council discussion;
- 2. Receive a presentation by the City’s consultant Economic & Planning Systems (EPS) on their feasibility study of the Inclusionary Housing Ordinance requirement; and,
- 3. Provide comments on housing element certification strategies.

**ADMINISTRATION**

- 4. **Comments from City Council Liaison**
- 5. **Comments from Planning Commissioners**
- 6. **Comments from Staff**

**ADJOURNMENT**

7. **Adjourn to the Regular Planning Commission meeting scheduled for August 9, 2022.**

**PUBLIC ACCESS TO AGENDA DOCUMENTS AND BROADCASTING OF MEETINGS**

Planning Commission meeting agenda packets are available online at the City website: <https://www.southpasadenaca.gov/government/boards-commissions/planning-commission/test-planning-commission-agendas-minutes-copy>

**AGENDA NOTIFICATION SUBSCRIPTION**

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**ACCOMMODATIONS**

The City of South Pasadena wishes to make all of its public meetings accessible to the public. If special assistance is needed to participate in this meeting, please contact the City Clerk's Division at (626) 403-7230. Upon request, this agenda will be made available in appropriate alternative formats to persons with disabilities. Notification at least 48 hours prior to the meeting will assist staff in assuring that reasonable arrangements can be made to provide accessibility to the meeting (28 CFR 35.102-35.104 ADA Title II).

*I declare under penalty of perjury that I posted this notice of agenda on the bulletin board in the courtyard of City Hall at 1414 Mission Street, South Pasadena, CA 91030, and on the City's website as required by law.*

7/22/2022

Date

*matt chang*

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Matt Chang, Planning Manager

MINUTES OF THE SPECIAL MEETING OF THE  
**PLANNING COMMISSION & CULTURAL HERITAGE  
COMMISSION**

CITY OF SOUTH PASADENA

**Thursday, September 23, 2021 at 6:30 P.M.**

AMEDEE O. "DICK" RICHARDS, JR. CITY COUNCIL CHAMBERS  
1424 MISSION STREET

ROLL CALL

The meeting convened at: 6:30 pm

Planning Commissioners  
Present:

Chair John Lesak, Vice-Chair Lisa Padilla, Commissioner Janet Braun, and  
Commissioner Laura Dahl

Cultural Heritage  
Commissioners Present:

Chair Rebecca Thompson, Vice-Chair Mark Gallatin, Commissioner William Cross,  
and Commissioner Conrado Lopez

Staff Present:

Margaret Lin, Interim Planning and Community Development Director  
Marina Khrustaleva, Assistant Planner

City Council Liaison:

Evelyn G. Zneimer

Assistant City Attorney:

Nikeel Damlay

*Please Note: These Minutes are a summary of the meetings and are not a fully transcribed record.*

**APPROVAL OF AGENDA**

Motion made by Commissioner Braun to approve the Planning Commission Agenda. Motion seconded by  
Commissioner Dahl.

Motion Carried 3-0 [Approved 3-0]

Motion made by Commissioner Lopez to approve the Cultural Heritage Commission Agenda. Motion seconded by  
Chair Thompson.

Motion Carried 4-0 [Approved 4-0]

**DISCLOSURE OF SITE VISITS AND EX-PARTE CONTACTS**

None

**PUBLIC COMMENTS AND SUGGESTIONS**

None

1. **Review of the Zoning Code Amendment to Chapter 36 (Zoning) of the South Pasadena Municipal Code Pertaining to Add Section 36.350.200.J (Design Standards for Historic Properties) and Design Guidelines for ADU Development on Historic Properties.**

**Recommendation:**

It is recommended that the Planning Commission adopt a resolution recommending approval of an Ordinance to the City Council to amend Section 36.350.200 (Accessory Dwelling Units) to incorporate Design Standards for Historic Properties, and adoption of Design Guidelines for ADU Development on Historic Properties.

**Presentation:**

Assistant Planner Marina Khrustaleva presented the project.

**Questions for Staff:**

Planning Commission (PC) Vice-Chair Padilla asked staff for a clarification that there are two heights stipulated.

Assistant Planner Khrustaleva responded that for a one story ADU, the height limit would be 16ft and for a two story ADU, the height limit would be 22 ft.

PC Commissioner Dahl asked staff if there had been any update to the dialogue between Department of Housing and Community Development and the Historic Preservation Office at the state level.

Assistant Planner Khrustaleva responded that there was no continuation of the dialogue and upon the City Attorney's recommendation was to continue processing this draft and leading them to the City Council and addressing this at that level.

The City Attorney Office added that state law still says State Register, but the conversations with the HCD are continuous. There may be a change, but there is a very narrow definition. The recommendation is to continue.

PC Commissioner Dahl wanted to know that since the language of what is an historical property has been clarified, does that change the number of properties to which this ordinance now applies.

Assistant Planner Marina Khrustaleva responded that as currently written, this ordinance would apply to all properties that are shown on the City's inventory of historic resources.

Cultural Heritage Commission (CHC), Commissioner Cross pointed out that as an ordinance gets passed, and if there is a provision found, the ordinance does not get revisited.

Assistant Planner Marina Khrustaleva responded that as the ordinance is put into practice, feedback from the residents indicates that the ordinance requires further interpretation.

Assistant City Attorney provided input.

CHC Commissioner Cross asked staff to take this recommendation to City Council and have them determine the appropriate length of time.

[PC Chair Lesak joined the meeting.]

CHC Vice Chair Gallatin and Associate Planner Khrustaleva discussed the definition of ‘historic property’ and resources utilized for the definition. In addition to the demolition of accessory structures.

Assistant City Attorney clarified that definition language gives flexibility to staff to better understand if it is indeed located on historic property. It basically gives staff discretionary power.

CHC Vice Chair Gallatin pointed out a language, grammar and spelling changes needed – including Section 6.B. Standards for J-ADUs.

CHC Vice Chair Gallatin asked if word ‘shall’ can be utilized in reference to the Design Guidelines, since they are not mandatory?

Associate Planner Khrustaleva stated that the language was discussed with the City Attorney and the Design Guidelines serve as a menu.

CHC Vice Chair Gallatin clarified that if they chose not to choose any of the design elements, then that subjects their project to discretionary review by the Cultural Heritage Commission.

Assistant Planner Khrustaleva confirmed that this is correct.

CHC Vice Chair Gallatin, Assistant Planner Khrustaleva and the Assistant City Attorney discussed Staff Level HRE Report.

CHC Vice Chair Gallatin then asked a question regarding Required Design Elements.

Assistant Planner Khrustaleva stated that this section could be modified to add the suggestions brought up.

CHC Vice Chair Gallatin stated he pointed it out more for consistency with Guidelines.

PC Chair Lesak stated that he had believed the questions asked were questions regarding the Staff Report and not the Ordinance. And that there would be a presentation regarding the Ordinance to follow.

**Presentation:**

Evanne St. Charles, Senior Associate, Architectural Resources Group, representing the Applicant, presented the City of South Pasadena Accessory Dwelling Units Ordinance Amendment / Design Standards and Guidelines for ADUs on Historic Properties. These were revisions to the Guidelines that had been previously presented.

**Questions:**

CHC Chair Thompson had a question regarding the side yard setbacks.

CHC Commissioner Lopez had a question regarding visibility of the ADUs issue.

Presenter St. Charles deferred to staff, in which Assistant Planner Khrustaleva stated that the state prevents the City from placing extra burdens on applicants while reviewing the ADU applications.

CHC Commissioner Lopez expressed the level of oversight the City is giving up, which he does not agree with.

With no further questions for staff, CHC Commissioner Gallatin opened it up for public comment.

**Public Comments:**

Mr. Mike Fazzioli provided public comment regarding the language utilized in the Municipal Code.

**Questions regarding Ordinance:**

PC Chair Lesak about the ministerial and discretionary review process defined in the Zoning Code.

Assistant City Attorney clarified that there are some things that are approved by staff and some things that must go to Commission for review and provided a recommendation for adding the definitions.

PC Commissioner Dahl requested a clarification of the language used with regard to what is permitted and not permitted regarding existing ADUs – Section J.1.C.

Assistant Planner Khrustaleva gave a short history of the development of the language in this section in the paragraph regarding ADUs.

Assistant City Attorney clarified as to why it was changed to be more positive, this is an example of more Permissive zoning. All things not allowed by the Code are expressly prohibited. And the case law is in that direction, too.

PC Chair Lesak and PC Commissioner Dahl both stated that the language in this section is confusing and proposed that it be revisited and simplified. PC Commissioner Braun stated the language needs to be cleaned up at Section J-1, in particular.

CHC Commissioner Cross stated that he understood the need for clarity in the language, but it is important to get something in place now. It can be later amended with any changes.

**Questions regarding Guidelines:**

PC Chair Lesak and PC Vice-Chair Padilla pointed out the language needs to be more simplistic.

CHC Chair Thompson mentioned that the list of allowable materials seems very narrow. She also took exception with some of the styles shown in the guidelines given as examples.

CHC Vice-Chair Gallatin commented on the Preface section, and a question regarding the number of residential districts, lack of a legend on the map.



CHC Vice-Chair Gallatin closed public comment and opened Commissioner discussion.

**Commissioner Discussion:**

PC Chair Lesak appreciated the changes that have been made, but is struggling with the 10 ft for the view corridor issue. He is concerned with going to a staff level process where the Commissioners will not see everything come by them.

PC Vice-Chair Padilla commented that in the Ordinance on page 1-14 in the packet, Section 3, Item B – there should be consistency with the Guidelines. The review checks mentioned by Commissioner Lopez are important.

PC Commissioner Dahl commented that the changes have really improved the document and a few more changes and clarifying wording and some of the diagrams will make it even more clear. However, she expressed her concern about the context of the Historic District.

Assistant Planner Khrustaleva provided some overview and stated that none of the South Pasadena Historic Resources were ever designated on the California State Register.

PC Commissioner Braun stated that she believes that fixing the Ordinance is very important because the Ordinance is actually law.

CHC Chair Thompson asked if the contributors in historical districts are included in this and it does not cause a conflict, which staff confirmed that they are included.

CHC Commissioner Lopez appreciated the sophistication of the document and the hard work and effort. His concern is the lack of design oversight that they have in this process and stated reasons why.

Assistant Planner Khrustaleva explained the reason why the previous Planning Manager applied for a state grant and received this grant to be able to hire consultants and to create a document based on the State law introduced in 2017 and updated in 2019.

Assistant City Attorney clarified that as a point of clarification, unfortunately, the bill that came out in 2017 took the ADU approval process away from the cities as discretionary to ministerial. Explained the issues for not approving the ADU guidelines.

CHC Vice-Chair Gallatin asked if it was correct that those other discretionary entitlements would have to be granted first, before the ADU could be approved.

Commissioner Lopez stated that he understands that, but you understand also that one of the rules that we have about affecting the front of an historical property.

Assistant Planner Khrustaleva explained that they explored all the options.

Commissioner Lopez expressed his concerns with allowing ADU's in the front.

CHC Vice-Chair Gallatin, as a former planner, commiserated with Commissioner Lopez, commented that we are operating in a different environment nowadays where this is just one of several examples of the State's usurpation of our right to determine what our communities look like in their headlong rush to provide housing units.

Assistant City Attorney mentioned that there were a lot of word changes and non-substantive changes recommended at the meeting and explained each change type.

CHC Vice-Chair Gallatin stated that as preface to a possible motion, one of the items that we are being asked to recommend on is a resolution. And that is a Planning Commission resolution, so that will only involve votes by the Planning Commission members, not those of us on the CHC.

Vice-Chair Padilla asked a question stemming from the public comment heard tonight and the issue kind of like amnesty.

Assistant Planner Khrustaleva explained that on the same web page where we are explaining this there is a separate flyer for the ADU amnesty program.

**Decisions:**

Seeing no further discussion items, PC Chair Lesak mentioned he would entertain a motion.

Commissioner Braun made a motion to adopt the resolution recommending approval of an ordinance to the City Council to amend Section 36.350.200 Accessory Dwelling Units to incorporate design standards for historic properties and adoption of ADU design guidelines for historic properties as presented to the meeting tonight subject to some non-substantive changes that have been discussed and recommended by this Joint Committee Commission meeting of the Cultural Heritage Commission and Planning Commission. Specifically, on the Ordinance J1 – to clarify that new sentence; 5b and 5bi, where it talks about ‘subordinate to,’ making that ‘lower than’ and also J6. There were some changes. And then the other changes that were discussed tonight to the guidelines. In addition, the Chair or Chair designee from the Planning Commission will review the language with staff before the resolution and guidelines are submitted to Council.

Vice-Chair Padilla seconded the motion.

**Motion carried 4-0**

Planning Commission Chair Lesak made a motion to make a recommendation to Council that the document be reviewed after one year following adoption with presentations to both the Cultural Heritage Commission and the Planning Commission or a joint meeting in similar format to review how the Ordinance is working, look at some case numbers.

Commissioner Braun seconded the motion.

**Motion carried 4-0 – Planning Commission**

**Motion carried 5-0 – Cultural Heritage Commission**

**ADMINISTRATION**

**1. Comments From Consent Calendar:**

None.

**2. Comments From Council Liaison:**

None.

**3. Comments From Commission:**

PC Chair Lesak commented that this has been a very good exercise. He always enjoys getting together with both commissions but this kind of dual purpose.

**2. Comments From Staff:**

Assistant Planner, Marina Khrustaleva said the comments from the Commission from the last meeting really aided staff with the ordinance and they will gladly incorporate the comments from tonight’s meeting. She thanked the commissions for their support. We hope it will be appreciated by the community as well.

**ADJOURNMENT**

- 3.** The meeting adjourned at 8:36 pm. The next regular meeting of the Planning Commission will be on October 12, 2021 at 6:30 pm.

APPROVED,

\_\_\_\_\_  
John Lesak  
Chair, Planning Commission

\_\_\_\_\_  
Date

\_\_\_\_\_  
Mark Gallatin  
Chair, Cultural Heritage Commission

\_\_\_\_\_  
Date



# Planning Commission Agenda Report

ITEM NO. 3

**DATE:** July 26, 2022

**FROM:** Angelica Frausto-Lupo, Director of Community Development  
Elizabeth Bar-El, AICP, Interim Deputy Director

**SUBJECT:** **Update on the Housing Element, Results of a Feasibility Review of the Inclusionary Housing Ordinance and Comments on Strategies**

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## Recommendation

It is recommended that the Commission:

1. Receive an update on the progress of the housing element, including the most recent comments from HCD and July 20 City Council discussion;
2. Receive a presentation by the City's consultant Economic & Planning Systems (EPS) on their feasibility study of the Inclusionary Housing Ordinance requirement; and,
3. Provide comments on housing element certification strategies.

## Background

### *Housing Element Update*

The City of South Pasadena submitted a draft and subsequent draft of the 6<sup>th</sup> Cycle (2021-2029) Housing Element to the State Department of Housing and Community Development (HCD) for compliance/certification review. The subsequent draft sought to address all issues that were included in the response letter from HCD to the initial draft. In response to informal comments received from HCD during the HCD review period, staff provided a letter to HCD with additional revisions and explanations and posted such for public access on June 29, 2022.

On July 8, 2022, HCD sent a comment letter to the subsequent draft (Attachment 1). HCD accepted several revisions as fully responsive. However, HCD has additional comments noting that several areas still require additional information and analysis in order to obtain certification. On some points, HCD's comments require additional clarification from HCD to enable the City to address their comments.

On July 20, 2022, the City Council held a discussion to provide direction to staff on compliance strategies for certification. Among other strategies, the Council discussed potentially revisiting the inclusionary housing ordinance requirements, with the possibility of reducing the set-aside from 20% to 15%, if HCD deems it necessary to take this action in order to address the ordinance as a constraint to housing.

As part of the presentation for this item, staff will summarize Council's direction and the steps staff has taken and will be taking to complete the housing element. This will include how the project interfaces with the General Plan, Downtown Specific Plan, and the Program EIR for all three documents.

*Inclusionary Housing Ordinance, In-Lieu Fee*

On April 7, 2021, the South Pasadena City Council adopted an urgency ordinance, followed by a regular ordinance to establish an inclusionary housing requirement (SPMC 36.375) that now applies to all multi-family projects with three or more residential units. The ordinance requires that 20% of units, calculated from the allowable base density, be provided as deed-restricted, affordable units for qualified Very Low, Low or Moderate-income residents. The ordinance was developed with significant Planning Commission input, including virtual public meetings and a sub-committee that worked closely with staff. The ordinance requires establishment of an in-lieu fee, which applicants may opt to pay in certain situations rather than provide all or part of the required inclusionary housing units on-site.

On [April 18, 2022](#), staff and consultants, EPS, presented the Commission with a proposal to establish an in-lieu fee, which requires Council approval. The action does not require Planning Commission recommendation, but the Commission's input, as well as the opportunity for public comment, is important in order to bring more perspectives into the conversation. At that meeting, Commissioners shared thoughts about the options to structure and set the in-lieu fee, including concerns about having different rates based on the affordability of the "next unit," the fractional unit for which the fee would be paid. Some commissioners expressed that this may be confusing for developers. In regard to the for-sale fee calculation, there was some support for using 110% of median income as a base, particularly since this would align with a level that is eligible for State density bonus concessions. Commissioners also questioned the outcome of a higher fee for rental projects than for-sale projects, which is not typical for other cities that were compared.

In the course of the discussions, some of the information provided caused Commissioners concern about whether there was confidence in the feasibility of the Inclusionary Housing Ordinance, which was adopted a year ago. At that time, staff did not have funding available to conduct a full feasibility study, but instead gathered information about inclusionary housing ordinances in other cities, which used a range of requirements, including many that require an inclusionary set-aside of 20% of base units. Furthermore, based on the research, and discussion with the Planning Commission sub-committee in 2021, a 20% set-aside was recommended and adopted by Council. Nevertheless, especially in light of high inflation and an increase in construction costs since that time, at the April 18, 2022 meeting, Planning Commissioners stated that they were interested in expanding EPS's scope to enable the consultants to review the ordinance and confirm its feasibility. Based on the Commission's request, the Council allocated funding and over the last two months, EPS has researched and analyzed the financial feasibility of the current Inclusionary Housing Ordinance (IHO). A summary is presented below, and a

more detailed memo is included as Attachment 1. The consultants will provide a presentation at the meeting and answer questions.

The EPS memo was also shared in the July 20 staff report to Council and discussed at that meeting. The Council continued its discussion to July 27, and expressed a desire to receive input from the Planning Commission to inform that discussion.

Staff is recommending continuing any further discussion on the in-lieu fee until the question has been resolved as to whether the Council will seek to revise the ordinance, which will alter the calculation of the financing gap and in doing so affect the framework for Council's decision in regard to the fee.

### **Discussion/Analysis** IHO Feasibility Review

EPS's July 14, 2022, memo (Attachment 1) detailed the assumptions and methodology used to analyze the economic feasibility for developers of the 20% inclusionary requirement. Feasibility was assessed by comparing the profitability, or financial return, of generic prototypes appropriate to the conditions in South Pasadena to industry standards for both rental and for-sale projects. Given that any project that complies with the City's on-site inclusionary housing requirement would be eligible for a density bonus, as well as other concessions to accommodate the density bonus, the feasibility analysis assumed that developers would take advantage of these bonuses in their projects. The analysis yielded two key findings:

- 1. Under the City's inclusionary housing policy, multifamily rental and for-sale condominium products which utilize the development incentives under the State Density Bonus law are likely to be financially feasible.** Rental and for-sale prototype midrise projects of 55 to 70 units per acre that meet the City's inclusionary housing requirements are able to utilize the State's density bonus law, which allows projects with on-site affordable housing units to build additional market rate units beyond what is otherwise allowable under local zoning. With the use of this incentive, these projects are expected to meet standard development return thresholds.
- 2. For-sale townhome projects are financially feasible even with the incorporation of required affordable units.** Based on strong market pricing, new for-sale townhome developments are expected to meet standard development return thresholds for feasibility, even when incorporating the City's requirement to include 20 percent of units affordable to Moderate-Income households.

Although the current ordinance can yield feasible projects with incorporation of the bonuses that such projects are entitled to, the project prototypes required such bonuses to pencil out. At the July 27<sup>th</sup> discussion with Council, staff noted that, based on

conversations with HCD in regard to their interpretation of feasibility, it may be prudent to revise the ordinance to a 15% set-aside requirement. In order to support an informed decision before undertaking a zoning text amendment, staff requested EPS to provide analysis of the proposed change, with consideration to both the amount and any potential adjustment to the unit affordability levels.

EPS ran their model to determine project feasibility of the same four prototypes previously analyzed with a 20% inclusionary requirement. The same assumptions were used, with one exception – the mortgage interest rate utilized to calculate the affordable sale price for Moderate-Income for-sale units was increased from 4.00 percent to 6.25 percent, to better reflect anticipated mortgage rate increases due to market conditions. The analysis first considers the results obtained without utilizing the density bonus or other concessions, adding in the concessions when the outcome does not meet the threshold.

The summary of findings provided in the EPS memo (Attachment 2) demonstrates that it is possible to develop both rental and ownership projects that provide 15% affordable housing units (based on project base unit density) without a density bonus. A caveat is that if the 15% would be required as Very Low Income units, the density bonus is needed to make them feasible. Maintaining the 50-50 split in the current ordinance yielded feasibility without bonus units. For ownership projects, which require inclusion of Moderate Income units, the townhome pro forma achieves a profitability of 43.4%, greatly exceeding the 15% feasibility threshold. However, the condominium project analyzed achieved a 13.9% profit, rising to 16.4% with the density bonus. Ownership project may choose to pay the in-lieu fee rather than provide the on-site units.

#### Strategies for Housing Element Certification

On July 20<sup>th</sup>, staff presented six strategies to the City Council to move the housing element forward toward certification. The following presents these strategies and summarizes how they are being addressed.

1. Continue to reach out to HCD to resolve outstanding issues and achieve conditional approval of a draft for adoption. Invite HCD to come to South Pasadena to discuss issues on-site.
  - This strategy is already underway. The City and its consultants are working through all outstanding comments, focusing on connecting analysis and program language to address issues that inhibit housing development. Although City staff invited HCD to a site visit, HCD mentioned it is not likely that their schedule will allow an in-person meeting any time soon.
2. Modify zoning limits to accommodate more housing to address HCD concerns.
  - The Council held a discussion regarding initiating a ballot measure to modify the 1983 measure that does not allow any district to have a maximum height that exceeds 45 feet. Such a measure could take many forms, such as specifying the areas in which height might be allowed to exceed 45 feet,

- specifying land uses (such as housing) that may be exceptions, or removing the cap altogether.
3. Continue to fine-tune the inventory to ensure properties that will be acceptable to HCD for certification.
    - PlaceWorks continues this work. Some additional information will be provided to support retention of qualifying properties. Additional sites are being explored.
  4. Explore legislative action that may assist the City to comply with the challenges of the RHNA.
    - While the current RHNA is not expected to change, the City is monitoring SCAG's RHNA Reform working group and plans to provide input as appropriate. The recent legislation that allows some jurisdictions to delay zoning code implementation will not be applicable to South Pasadena.
  5. Moving forward with the most important housing initiatives, including the General Plan Update and the Downtown Specific Plan (GP/DTSP), to adopt standards that encourage more housing. Follow up with re-zoning for properties with housing potential that are not in the DTSP, such as the Ostrich Farm area and commercial centers.
    - Staff and PlaceWorks are completing revisions to release drafts of both the General Plan Update and the Downtown Specific Plan. Because the Program Environmental Impact Report (PEIR) has been planned to analyze all three of these documents, which are required to be consistent, it will be released for the statutory comment period once the revised GP/DTSP have been posted.
    - The DTSP, as a specific plan, also functions as the zoning for the Plan area, so following its adoption, applications for projects within that area may be considered. For other areas, zoning will need to follow General Plan adoption or be prepared for simultaneous adoption.
  6. Provide direction on whether to amend the Zoning Code's inclusionary housing requirements at this time.
    - As discussed above, this was discussed by the Council and the Planning Commission's input is requested.

### **Commission Discussion Points:**

In order to focus the Commission's discussion to support the Council's strategic direction, staff suggests the following discussion points for this item:

1. Should the Council direct staff to revise the inclusionary housing ordinance at this time? If so, what specific changes are recommended in terms of:
  - a. Set-aside % requirement (20%, 15%, other?)



- b. Affordability split (50-50 Low/Very Low? Any combination of Low/Very Low? Other?)
  - c. Timing: What are the Commissioners' thoughts in regard to when staff should bring forward a revised ordinance? Should City proceed with revising the ordinance as soon as possible to help get to compliance? Or list as a housing element program? What should the timeframe be?
2. Should the Council initiate a ballot initiative to revise the 1983 Citywide height limit initiative? If so, what approach does the Commission suggest, for example:
  - a. Removing the limit for geographical areas (i.e., downtown, Ostrich Farm District to be created by the General Plan Update, commercial centers, other?
  - b. Removing the limit for housing/mixed-use projects only?
  - c. Rescinding the ballot measure?
3. Comments and suggestions of other strategies to achieve certification and compliance with State law, such as revising and adding detail to proposed housing element programs.

#### **Next Steps**

- July 27, 2022: Council meeting to provide direction on strategies.

#### **Attachments:**

1. Memo: IHO Feasibility Review, July 14, 2022 (Economic and Planning Systems)
2. Memo: Feasibility Analysis for Proposed Revision to 15% Inclusionary Housing Requirement, July 22, 2022 (Economic and Planning Systems)
3. [July 20, 2022 Council Staff Report](#) (p. 247 of .pdf)

## **ATTACHMENT 1**

Memo: IHO Feasibility Review, July 14, 2022 (Economic and Planning Systems)

## **MEMORANDUM**

To: Angelica Frausto-Lupo and Liz Bar-El, City of South Pasadena

From: Julie Cooper, Thomas Gonzales, and Darin Smith

Subject: South Pasadena Inclusionary Housing Ordinance Feasibility Analysis; EPS #214034

Date: July 14, 2022

### **Introduction**

The City of South Pasadena (City) adopted an inclusionary housing ordinance (IHO) in May 2021. The ordinance requires that a minimum of 20 percent of the total number of dwelling units in a residential or mixed-use development consisting of more than two units be provided at below-market-rate (BMR) prices affordable to Very-Low, Low, and/or Moderate-Income households, based on income standards established by the State of California's Department of Housing and Community Development (HCD). The ordinance allows, under certain circumstances, for development projects to pay an in-lieu fee as an alternative to providing required units. These circumstances include any for-sale project, which can pay an in-lieu fee instead of building on-site affordable units; as well as some rental projects, which have the option to pay an in-lieu fee for any fractional affordable units required.

The City engaged Economic & Planning Systems, Inc. (EPS) to analyze the impacts of the inclusionary requirements on the financial feasibility of building new market-rate housing in South Pasadena. EPS reviewed a range of for-sale and rental housing prototypes representative of likely new development in the City to assess whether each prototype would be able to achieve standard development return metrics with the inclusion of required affordable units. The analysis included consideration of development incentives available to projects with affordable units, specifically incentives offered under California's State Density Bonus law. As detailed in this memorandum, when these incentives are incorporated into the prototype development program, new residential projects are financially feasible even with the addition of the inclusionary requirements.

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It is important to note that the feasibility analyses contained in this memorandum are based on generic prototypes meant to represent a typical or average development project. A developer's choice to ultimately pursue a residential development project in South Pasadena will be site-specific and depend on many factors that are impacted by regional market forces. While our analysis accounts for some of these factors, the cost and revenue expectations for a particular project will vary based on the size, location, layout, condition, and history of a specific project site, as well as the capabilities, business goals, and proposed project design characteristics of a specific developer. Most developer investment decisions are also strongly impacted by anticipated project timeline, and this analysis does not estimate the length of time needed to complete a project in South Pasadena, nor does it account for the impacts of time value of money over the course of a project.

## Key Findings

1. **Under the City's inclusionary housing policy, multifamily rental and for-sale condominium products that utilize the development incentives under the State Density Bonus law are likely to be financially feasible.** Rental and for-sale prototype midrise projects of 55 to 70 units per acre that meet the City's inclusionary housing requirements are able to utilize the State's density bonus law, which allows projects with on-site affordable housing units to build additional market rate units beyond what is otherwise allowable under local zoning. With the use of this incentive, these projects are expected to meet standard development return thresholds.
2. **For-sale townhome projects are financially feasible even with the incorporation of required affordable units.** Based on strong market pricing, new for-sale townhome developments are expected to meet standard development return thresholds for feasibility, even when incorporating the City's requirement to include 20 percent of units affordable to Moderate-Income households.

## Financial Feasibility Analysis

### Methodology

EPS analyzed four generic prototypes that reflect rental and ownership residential products representative of likely future development projects in South Pasadena. The assessment of financial feasibility for each prototype involved calculating financial return metrics for the prototype and comparing them against typical industry target thresholds. The relevant return metrics are based on comparing total project revenues, including the combined value of all market-rate and affordable units, to total project development costs. EPS assumptions for prototype revenues, costs, and return metrics used in this analysis are detailed in the following sections.

Housing projects in California that incorporates affordable housing units may also be eligible to take advantage of additional incentives under the State Density Bonus Law, based on the proportion of affordable units relative to market-rate units. The Law allows

a project to be built at a higher density than what is allowed by local zoning. Given the proportion of required affordable units mandated by the City’s ordinance, any project complying with South Pasadena’s inclusionary requirements would be eligible for a density bonus. Therefore, EPS’s analysis included assessing the feasibility of scenarios incorporating these incentives.

**Product Prototypes**

The prototype residential projects used in the feasibility analysis were informed by EPS research of the City’s housing market. Research included review of recent developments and proposed projects, discussions with developers active in the City, and discussions with City staff.

The characteristics for the prototype development products are summarized in **Table 1**. Prototypes 1 and 2 represent owner-occupied, for-sale housing projects, while Prototypes 3 and 4 represent renter-occupied, multifamily apartment projects.

To create a more general and simplified analysis, each prototype project is assumed to comprise a single unit type. Prototype 1 includes 3-bedroom townhomes at 1,650 square feet with attached, 350-square-foot garage. Prototype 2 includes two-bedroom, 1,200-square-foot condominium units with two parking spaces per unit provided on-site. Prototypes 3 and 4 include two-bedroom, 1,000-square-foot rental units with one parking space per unit provided on-site. The prototype projects range in size from ten to 50 units, and in density from 20 units per acre to 70 units per acre.

The unit types for each prototype are meant to represent average unit sizes, with the resulting analysis demonstrating feasibility for an average residential project. The findings of this analysis assume that the unique unit mix of any particular project will, in aggregate, conform to these average unit sizes. However, as stated earlier, each specific project will have its own cost and revenue factors that may be impacted in part by its unit mix.

**Table 1 Market-Rate Housing Development Prototype Characteristics**

Prototype	Product Type	Construction Type	Unit Count	Density	Unit Size	Unit Sq. Ft.	Parking Type
1	For-Sale	Townhome	10	20 units/acre	3 Bedroom	1,650 sq. ft.	Attached garage
2	For-Sale	4-Story Wood Frame Condominium Building	50	55 units/acre	2 Bedroom	1,200 sq. ft.	2 spaces per unit (structured)
3	Rental	4-Story Wood Frame Apartment Building	30	55 units/acre	2 Bedroom	1,000 sq. ft.	1 space per unit (structured)
4	Rental	5-Story Wood Frame Apartment Building	40	70 units/acre	2 Bedroom	1,000 sq. ft.	1 space per unit (structured)

The feasibility analysis assumes that each of the prototype projects will meet the City’s inclusionary housing requirements, which are outlined in **Table 2**. The unit count of each project was selected such that none of the prototypes result in fractional affordable units required, for simplicity of analysis. In addition, the analysis did not assess the feasibility impacts of the City's inclusionary requirements on rental projects of ten or fewer units, which are distinct from the requirements for projects with more than ten units (see **Table 2**). However, EPS estimates that the relative per-unit cost of meeting the required levels of affordability would be equal to or lower for these smaller projects relative to larger projects. This is because smaller projects are required to include affordable units at rents that are equal to or greater than larger projects (for example, projects with 10 units may provide one of their inclusionary units at rents affordable to Moderate-Income households, which is not an option for larger projects). Therefore, the smaller projects are likely to be at least as feasible as the larger projects analyzed, assuming all other development cost and revenue assumptions are held constant.

**Table 2 Affordable Housing Required by Development Type per South Pasadena IHO**

Development Project Type	Inclusionary Requirement [1]	Type of Units Provided
For Rent, 3-4 Units	Fractional Fee	Rental
For Rent, 5-9 Units	1 Low-Income Unit + Fractional Fee	Rental
For Rent, 10 Units	2 Low-Income Units, OR 1 Very-Low Income + 1 Moderate Income Unit	Rental
Rental Project with 11+ Units [2]	10% Very-Low Income Units + 10% Low-Income Units + Fractional In-Lieu Fee (if applicable)	Rental
For-Sale Project [3]	20% Moderate-Income For-Sale Units OR Match Rental Project Requirements OR Pay In-Lieu Fee	Either For-Sale or Rental

[1] All projects that owe a fee on fractional units have the option to "round up" and provide a unit on-site. Fractional units must be rounded up or paid via in-lieu fee.

[3] Fractional units must be rounded up or paid via in-lieu fee for Moderate-income units.

Source: South Pasadena Ordinance No. 2355, Inclusionary Housing Requirements.

## Revenue Assumptions

### Affordable Housing Revenue Assumptions

Both rental and for-sale values for affordable units are based on maximum housing costs affordable to households at various household income levels. Income levels in the County of Los Angeles are set by the California Department of Housing and Community Development (HCD) on an annual basis, which are in turn based on income limits published by the U.S. Department of Housing and Urban Development (HUD). **Table 3** shows the 2022 maximum incomes for three- and four-person households in each income

group. This analysis assumes a two-bedroom unit is occupied by a three-person household and a three-bedroom unit is occupied by a four-person household.<sup>1</sup>

**Table 3 2022 Annual Household Income Limits for Los Angeles County**

Income Group and Definition		2022 Maximum Income	2022 Maximum Income
		3-Person Household	4-Person Household
Very Low	>30% to ≤50% AMI + HUD adjustment [1]	\$53,600	\$59,550
Low	>50% to ≤80% AMI + HUD adjustment [1]	\$85,800	\$95,300
Median (Base)	>80% to ≤100% AMI	\$82,000	\$91,100
Moderate	>100% AMI to ≤120% AMI	\$98,350	\$109,300
HUD Adjustment Factor for Very Low & Low Income Groups		130.8%	130.8%

[1] HUD applies adjustments to the amounts based on unusually high or low family income, uneven housing-cost-to income relationship, or other reasons.

Source: Los Angeles County, California Housing and Community Development (HCD).

The Area Median Income (AMI) in Los Angeles County is \$82,000 for a family of three and \$91,100 for a family of four. For the Low and Very-Low Income groups, the maximum incomes are adjusted upwards from their corresponding percent of AMI. HUD makes these adjustments to Low and Very-Low Income categories in counties with relatively high housing costs and/or relatively high or low household incomes. HUD does not apply these adjustments to the Moderate-Income category.

Based on these income limits, EPS calculated the maximum spending towards housing costs affordable at each income level, which is summarized in **Table 4**. Consistent with the City's ordinance, the analysis assumes that households spend 30 percent of their gross annual income on total housing costs. For rental units, housing costs include rent and utilities, and spending on utilities is subtracted from spending on total housing costs to determine the maximum rent that a household can pay in a year.<sup>2</sup> For for-sale units, housing costs include mortgage and interest payments, insurance, property taxes, and Homeowners Association (HOA) fees. To calculate the maximum affordable sale price for these units, EPS subtracted insurance, property taxes, and HOA fees from spending on total housing costs to estimate affordable monthly mortgage and interest payments. This calculation is detailed in **Table 5**.

Maximum incomes and associated affordable housing costs are shown for Low-Income or Very-Low Income households of three occupants, which correspond to the rental unit prototypes, and for Moderate-Income households of three and four occupants, which correspond to the for-sale unit prototypes. For for-sale units, EPS used a maximum income level of 110 percent of AMI to calculate housing costs for Moderate-Income Households. Using income levels somewhat below the top of the income range (120 percent of AMI) is common practice in calculating affordable rents and sale prices, as it

<sup>1</sup> Based on California Health and Safety Code Section 50052.5.

<sup>2</sup> The utility allowance for a two-bedroom unit is based on a schedule published by the Los Angeles County Development Authority (LACDA) ([https://www.lacda.org/docs/librariesprovider25/public-documents/utility-allowance/ua-2021.pdf?sfvrsn=47bb66bc\\_4](https://www.lacda.org/docs/librariesprovider25/public-documents/utility-allowance/ua-2021.pdf?sfvrsn=47bb66bc_4))

sets the housing cost at a level that is truly affordable (e.g. is 30 percent or less of household income) for more eligible households.

**Table 4** also shows the *unadjusted* maximum affordable housing costs and associated rents (without the HUD adjustment factor) for Very-Low Income households. As detailed further below, these unadjusted rent levels must be incorporated into projects that are utilizing the State Density Bonus.

**Table 4 Maximum Affordable Spending on Housing in Los Angeles County**

Income Category & Household (HH) Size	% of AMI	Unadjusted Maximum Annual HH Income	Adjusted Maximum Annual HH Income [1]	Total Max Annual Spending on Housing [2]	Monthly Spending on Other Housing Costs [3]	Maximum Monthly Rent or Mortgage Payment [4]
<i>Rental Units</i>						
Very Low, 3-Person HH (unadjusted)	50%	\$41,000	n/a	\$12,300	\$229	\$796
Very Low, 3-Person HH	50%	\$41,000	\$53,600	\$16,080	\$229	\$1,111
Low, 3-Person HH	80%	\$65,600	\$85,800	\$25,740	\$229	\$1,916
<i>For-Sale Units</i>						
Moderate, 3-Person HH	110%	\$90,200	\$90,200	\$27,060	\$760	\$1,495
Moderate, 4 Person HH	110%	\$100,210	\$100,210	\$30,063	\$810	\$1,695

[1] HUD adjusts the maximum incomes for very-low and low-income households in Los Angeles County up by 130%. This type of adjustment is made in counties with unusually high or low household incomes, uneven housing cost-to-income ratios, or other considerations.

[2] Assumes a housing cost to income ratio of 30 percent.

[3] For rental units, other housing costs include utility expenditures consistent with the Los Angeles County Community Development Authority limits for a 2-bedroom unit (assumes use of electricity for heating and cooking). Utility costs effective July 2021. For for-sale units, other housing costs include insurance, taxes, and HOA fees. The assumptions are based on the applicable prototypes and are shown on Table 5.

[4] Maximum income available to pay for rent or mortgage after allowance for other housing costs.

Sources: Los Angeles County Community Development Authority; California Housing and Community Development; Economic & Planning Systems



**Table 5 Sale Value Estimate for Prototype For-Sale Affordable Housing Units**

Input Assumptions	Townhome with Attached Garage	4-Story Wood Frame Building
	<i>Moderate Income (110% AMI)</i>	
<b>Prototype Unit Assumptions</b>		
Number of Bedrooms	3	2
Number of Persons per Unit [1]	4	3
<b>Maximum Supported Home Price</b>		
Maximum Household Income [2]	\$100,210	\$90,200
Maximum Monthly Spending on Housing [3]	\$2,505	\$2,255
Other Housing Costs		
Insurance	\$125	\$125
Taxes [4]	\$385	\$335
HOA Fee	\$300	\$300
Maximum Monthly Mortgage Payment (after Other Housing Costs)	\$1,695	\$1,495
Mortgage Terms		
Down Payment	10%	10%
Interest Rate (annual)	4.00%	4.00%
Loan Term (months)	360	360
<b>Total Supportable Unit Value [5]</b>	<b>\$395,000</b>	<b>\$348,000</b>

[1] For this analysis, EPS has assumed an average unit for income-qualified worker households would be either 2 or 3 bedrooms. State law (Health and Safety Code Section 50052.5) indicates that a 2-bedroom unit should be assumed to be occupied by a 3-person household, and a 3-bedroom unit should be assumed to be occupied by a 4-person household.

[2] Based on 2022 income limits for Los Angeles County.

[3] Assumes housing costs to be 30% of gross household income. Maximum monthly payment for affordable units is inclusive of mortgage payment, insurance, and taxes.

[4] Taxes equal to approximately 1.1% of sale price.

[5] The total supportable unit value is equivalent to the down payment plus total mortgage amount, assuming a mortgage with terms for interest rate, term, and payment as shown in table.

Sources: Los Angeles County; California Housing and Community Development; and Economic & Planning Systems

### **Market-Rate Housing Revenue Assumptions**

EPS used the following assumptions for determining the value of market-rate housing units:

- *Market Rate Sale Prices* - For the 1,650-square-foot townhome prototype, the estimated sale value is \$860 per square foot, or \$1,419,000 per unit. For the 1,200-square-foot condominium prototype, the estimated sale value is \$800 per square foot, or \$960,000 per unit. These values are based on EPS' review of data on home sales in South Pasadena.
- *Market-Rate Rents* - The rent for newly constructed, market-rate two-bedroom units is assumed to be \$3,900, based on EPS research and input from local developers about recent underwriting assumptions.
- *Operating Costs (for Rental Units)* - The analysis assumes that multifamily rental apartment operators incur annual operating costs of \$12,000 per unit. This amount is inclusive of the cost of management, maintenance, common utilities (those not paid by tenants), as well as property tax and insurance. The operating cost estimate is based on data collected by CoStar on operating expenses and taxes for newly-constructed residential projects built in communities proximate to South Pasadena.

### **Development Cost Assumptions**

EPS used the following assumptions for determining the development costs associated with the prototype projects:

- *Land Costs* - EPS estimated a land acquisition cost of \$3.3M per acre for Prototype 1 (for-sale townhomes) and \$4.75M per acre for Prototypes 2, 3, and 4 (for-sale condominium and multifamily rental apartment product types). These costs are based on data from recent land transactions in South Pasadena. The difference in land cost assumptions reflects the relatively lower value of land on which local zoning rules allow fewer units per acre to be developed.
- *Direct Costs* - EPS estimated per square foot direct costs (including material and labor) of \$300 for Prototype 1 (for-sale townhomes) and \$350 for Prototypes 2, 3, and 4 (for-sale condominium and multifamily rental apartment product types). These costs were based on interviews with housing developers both within South Pasadena and the larger Los Angeles region, as well as data from Rider Levett Bucknall's (RLB) Construction Cost Indicator for the Los Angeles region.
- *Indirect Costs* - Indirect or "soft" costs include architecture, entitlement, fees, marketing, financing, and related costs. EPS assumed indirect costs would be equal to 18 percent of direct costs for all prototypes. This assumption was based on examples of project financial pro formas provided by area developers.

As stated earlier, these assumptions are representative of a typical or average project; the actual costs for a given project will vary by location and project design characteristics.

## Return Metrics and Feasibility Thresholds

This analysis measured the threshold of feasibility using two standard return metrics used by real estate developers. These return metrics relate to the value of the investment in pursuing the project, and inform a developer's decision whether or not to pursue:

- For for-sale housing projects, the feasibility threshold is based on the return metric of "profit margin," calculated as the percentage by which total project value exceeds total project cost. Based on EPS research and experience, the analysis assumes that developers in the greater Los Angeles region will require a 15 percent or higher profit margin on for-sale development projects. So any project attaining a profit margin at or above 15 percent would be considered feasible.
- For rental housing projects, the feasibility threshold is based on the return metric of "yield on cost," calculated by dividing the annual net operating income (NOI) by the total costs of development. Based on EPS research and experience, the analysis assumes that developers in the greater Los Angeles region will require a yield on cost near to or exceeding 5.0 percent.

As stated earlier, these return metrics do not account for the time value of money and are not based on any assumption regarding project timeline.

## Feasibility Findings

EPS used the revenue and cost assumptions detailed above to develop financial pro forma models for each prototype project. The pro forma models were constructed to assess the return metrics achieved for each project under the City's inclusionary housing requirements and identify the feasibility implications of the requirements.

### Analysis of Base Prototypes

EPS first assessed the feasibility of the prototype projects with the inclusion of the required affordable units, but without incorporating any potential development incentives. The analysis for the for-sale prototypes are shown in **Table 6**, while the analysis for the rental prototypes are shown in **Table 7**.

As shown, the for-sale townhome prototype returns a profit margin of 39.1 percent, which is well above the typical target return of 15 percent. The for-sale, four-story condominium prototype returns a profit margin of 11.4 percent, which is below the target return of 15 percent and therefore would not be considered feasible.

On the rental side, the four-story rental prototype returns a yield on cost of 4.7 percent, and the five-story prototype returns a yield on cost of 4.9 percent. Both yields are below the target of 5.0 percent and therefore would not be considered feasible.

**Table 6 Feasibility Analysis of IHO Ordinance for Prototype For-Sale Developments**

Input Assumptions	For Sale Property	
	Townhome with attached Garage	4-Story Wood Frame Building
<b>Development Program Assumptions</b>		
Acreage	0.50	0.91
Density/Acre	20	55
Base Unit Count	10	50
Total Required Affordable Units	2	10
Gross Unit Size	2,000	1,412
Net Unit Size [1]	1,650	1,200
Number of Bedrooms	3	2
Parking Spaces/Unit [2]	350 SF Attached Garage	2.00
<b>Cost Assumptions</b>		
Land/Acre [3]	\$3,300,000	\$4,750,000
Land Value (rounded)	\$1,650,000	\$4,318,000
Land/Unit	\$165,000	\$86,360
<b>Direct Costs</b>		
Construction Costs/SF [4]	\$300	\$350
Direct Construction Costs/Unit (rounded)	\$600,000	\$494,118
Basement Garage Parking Construction Cost/Unit	\$35,000 /space	\$70,000
<i>Subtotal, Direct Costs/Unit</i>	\$600,000	\$564,118
Indirect Costs/Unit (rounded) [5]	18% of direct costs	\$108,000
<b>Total Cost/Unit (rounded)</b>	<b>\$873,000</b>	<b>\$751,978</b>
<b>Project Value</b>		
Affordable For Sale Value per Unit [6]	per unit	\$395,000
Market Rate For Sale Value per Unit [7]		\$1,419,000
<i>Total Project Value</i>		\$12,142,000
Total Project Cost		\$8,730,000
<b>Profit Margin [8]</b>		<b>39.1%</b>
		<b>11.4%</b>

[1] Gross Unit Size includes garage for townhomes and common areas for 4-story Wood Frame Building (assumed efficiency ratio of

[2] Parking assumptions in line with data from similar properties sold in South Pasadena July 2021 - June 2022 found on Zillow.

[3] Land value assumptions based on data from CoStar and local developers for projects of similar density.

[4] Costs based on EPS estimate and latest Construction Cost Index data for the Los Angeles area from Rider Levett Bucknall.

[5] Includes estimated costs for architecture and engineering; entitlement and fees; project management; appraisal and market study; marketing, commissions, and general administration; financing and charges; insurance; developer fee and contingency.

[6] See unit value estimate for for-sale affordable housing on Table 5.

[7] Based on similar property sales in South Pasadena July 2021 - June 2022 found on Zillow.

[8] Profit Margin is how much Total Project Value exceeds Total Project Cost and is a typical return metric used for for-sale developments.

Sources: Los Angeles County; California HCD; Zillow; Rider Levett Bucknall; and Economic & Planning Systems

**Table 7 Feasibility Analysis of IHO Ordinance for Prototype Rental Developments**

Input Assumptions	For Rent Property	
	4-5 Stories Woodframe Multifamily Building with Garage Parking	
<b>Development Program Assumptions</b>		
Acreage	0.55	0.57
Density/Acre	55	70
Base Unit Count	30	40
Very-Low Income (VLI) Units	3	4
Low-Income (LI) Units	3	4
Total Required Affordable Units	6	8
Gross Unit Size [1]	1,176	1,176
Net Unit Size	1,000	1,000
Number of Bedrooms	2	2
Parking Spaces/Unit [2]	1.00	1.00
<b>Cost Assumptions</b>		
Land/Acre [3]	\$4,750,000	\$4,750,000
Land Value (rounded)	\$2,591,000	\$2,714,000
Land/Unit	\$86,367	\$67,850
Direct Costs		
Construction Costs/SF	\$350	\$350
Direct Construction Costs/Unit (rounded) [4]	\$411,800	\$411,800
Basement Garage Parking Construction Cost/Unit	\$35,000 /space	\$35,000
Subtotal, Direct Costs/Unit	\$446,800	\$446,800
Indirect Costs/Unit (rounded) [5]	18% of direct costs	\$80,400
<b>Total Cost/Unit (rounded)</b>	<b>\$613,567</b>	<b>\$595,050</b>
<b>Project Value</b>		
Revenue per Year per VLI Unit [6]	\$13,332	\$13,332
Revenue per Year per LI Unit [6]	\$22,992	\$22,992
Affordable Revenue per Year	\$108,972	\$145,296
MR Revenue per Year [7]	\$3,900 /mo per unit	\$1,123,200
Operating Costs [8]	\$12,000 /year per unit	(\$360,000)
Total NOI	\$872,172	\$1,162,896
Total Project Cost	\$18,407,000	\$23,802,000
<b>Yield on Cost [11]</b>	<b>4.7%</b>	<b>4.9%</b>

[1] Gross Unit Size includes common areas for 4-story Wood Frame Building (assumed efficiency ratio of 85%).

[2] Parking assumption is consistent with the City's density bonus requirements for projects including affordable housing units.

[3] Land value assumption based on data from CoStar and local developers for projects of similar density.

[4] Costs based on EPS estimate and latest Construction Cost Index data for the Los Angeles area from Rider Levett Bucknall.

[5] Includes estimated costs for architecture and engineering; entitlement and fees; project management; appraisal and market study; marketing, commissions, and general administration; financing and charges; insurance; developer fee and contingency.

[6] See affordable rents assumptions on Table 4.

[7] Based on CoStar data for similar 2BR apartments located in South Pasadena.

[8] Reflective of newly-constructed properties in communities proximate to South Pasadena, as reported by CoStar. Inclusive of management, maintenance, common utility, and property tax costs.

[9] Yield on cost is calculated as NOI divided by total development costs, and is a typical return metric used for rental real estate projects.

Sources: Los Angeles County; California HCD; CoStar; CBRE; Rider Levett Bucknall; and Economic & Planning Systems

### **Analysis Incorporating State Density Bonus Law**

While three of the prototype projects are not considered feasible under the base scenario, developers will have the option to utilize incentives available under the State Density Bonus Law, which are available for any project in the state that incorporates affordable housing according to specific criteria. Therefore, EPS also considered the feasibility of the prototype projects under the assumption that each project incorporates these incentives – specifically, including additional “bonus” market-rate units. These are units that can be developed beyond the allowable maximum density for a particular site. The townhome prototype was excluded from this analysis since it was already deemed feasible under the base scenario.

**Table 8** shows the feasibility analysis for the four-story, for-sale condominium prototype. Since this prototype includes 20 percent of its units at prices affordable to Moderate-Income households, it would qualify for a density bonus of 15 percent, or eight additional market-rate units. With these additional units, the profit margin for the prototype project would increase from 11.4 percent to 15.5 percent, which is above the typical target return of 15 percent and therefore meets the feasibility threshold under this analysis.

**Table 9** shows the analysis for the two rental prototypes. In order for these projects to qualify for a density bonus, the affordable units would have to be made affordable at the *unadjusted* income levels discussed previously.<sup>3</sup> Additionally, the State Density Bonus Law only allows projects to take a bonus for affordable units in a single affordability category (e.g. either for the Low-Income units or the Very-Low Income units). Therefore, EPS assumed that a developer in South Pasadena would provide the required Very-Low Income units at the lower, unadjusted level of affordability, as the available bonus is greater than if the Low-Income units were provided at the unadjusted level of affordability. Under this scenario, the Low-Income units would be rented at the higher, adjusted levels of affordability. By providing the required ten percent of Very-Low Income units at the lower unadjusted rents, the prototype projects would qualify for a 32.5 percent density bonus. This equates to nine additional market-rate units for the four-story prototype and 13 additional market-rate units for the five-story prototype.

With the addition of the “bonus” market-rate units, the yield on cost for the two rental projects increases to 5.1 percent for the four-story project and 5.2 percent for the five-story project. These yields are greater than the 5.0 percent target and therefore meet the feasibility threshold under this analysis.

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<sup>3</sup> Under State law, in determining eligibility for the state density bonus, the HUD adjustment factor for Low-Income and Very-Low Income limits is not applied.

**Table 8 Feasibility Analysis for Prototype Rental Developments with State Density Bonus**

	<i>For Sale Property</i>
	<b>4-Story Wood Frame Building</b>
Input Assumptions	
<b>Development Program Assumptions</b>	
Acreage	0.91
Density/Acre	55
Base Unit Count	50
Total Required Affordable Units	10
% Units Moderate Income (For-Sale)	20.0%
State Density Bonus [1]	15.0%
Density Bonus Units	8
Total Built Units	58
Gross Unit Size	1,412
Net Unit Size [1]	1,200
Number of Bedrooms	2
Parking Spaces/Unit [2]	2.00
<b>Cost Assumptions</b>	
Land/Acre [3]	\$4,750,000
Land Value (rounded)	\$4,318,000
Land/Unit	\$74,448
Direct Costs	
Construction Costs/SF [4]	\$350
Direct Construction Costs/Unit (rounded)	\$494,118
Basement Garage Parking Construction Cost/Unit	\$35,000 /space
Subtotal, Direct Costs/Unit	\$564,118
Indirect Costs/Unit (rounded) [5]	18% of direct costs
<b>Total Cost/Unit (rounded)</b>	<b>\$740,066</b>
<b>Project Value</b>	
Affordable For Sale Value per Unit [6]	per unit \$348,000
Market Rate For Sale Value per Unit [7]	\$960,000
<b>Total Project Value</b>	<b>\$49,560,000</b>
Total Project Cost	\$42,923,824
<b>Profit Margin [8]</b>	<b>15.5%</b>

[1] Gross Unit Size includes garage for townhomes and common areas for 4-story Wood Frame Building (assumed efficiency ratio of 85%).

[2] Parking assumptions in line with data from similar properties sold in South Pasadena July 2021 - June 2022 found on Zillow.

[3] Land value assumptions based on data from CoStar and local developers for projects of similar density.

[4] Costs based on EPS estimate and latest Construction Cost Index data for the Los Angeles area from Rider Levett Bucknall.

[5] Includes estimated costs for architecture and engineering; entitlement and fees; project management; appraisal and market study; marketing, commissions, and general administration; financing and charges; insurance; developer fee and contingency.

[6] See unit value estimate for for-sale affordable housing on Table 5.

[7] Based on similar property sales in South Pasadena July 2021 - June 2022 found on Zillow.

[8] Profit Margin is how much Total Project Value exceeds Total Project Cost and is a typical return metric used for for-sale developments.

Sources: Los Angeles County; California HCD; Zillow; Rider Levett Bucknall; and Economic & Planning Systems

**Table 9 Feasibility Analysis for Prototype Rental Developments with State Density Bonus**

Input Assumptions	For Rent Property	
	4-5 Stories Woodframe Multifamily Building with Garage Parking	
<b>Development Program Assumptions</b>		
Acreage	0.55	0.57
Base Density/Acre	55	70
Base Unit Count	30	40
Unadjusted Very-Low Income (VLI) Units [1]	3	4
Low-Income (LI) Units	3	4
Total Required Affordable Units	6	8
% Units Very-Low Income	10.0%	10.0%
State Density Bonus [2]	32.5%	32.5%
Density Bonus Units	9	13
Total Built Units	39	53
Gross Unit Size	1,176	1,176
Net Unit Size [3]	1,000	1,000
Number of Bedrooms	2	2
Parking Spaces/Unit [4]	1.00	1.00
<b>Cost Assumptions</b>		
Land/Acre [5]	\$4,750,000	\$4,750,000
Land Value (rounded)	\$2,591,000	\$2,714,000
Land/Unit	\$66,436	\$51,208
Direct Costs		
Construction Costs/SF [6]	\$350	\$350
Direct Construction Costs/Unit (rounded)	\$411,800	\$411,800
Basement Garage Parking Construction Cost/Unit	\$35,000 /space	\$35,000
Subtotal, Direct Costs/Unit	\$446,800	\$446,800
Indirect Costs/Unit (rounded) [7]	18% of direct costs	\$80,400
<b>Total Cost/Unit (rounded)</b>	<b>\$593,636</b>	<b>\$578,408</b>
<b>Project Value</b>		
Revenue per Year per Unadjusted VLI Unit [8]	\$9,552	\$9,552
Revenue per Year per LI Unit [8]	\$22,992	\$22,992
Affordable Revenue per Year	\$97,632	\$130,176
MR Revenue per Year [9]	\$3,900 /mo per unit	\$1,544,400
Operating Costs [10]	\$12,000 /year per unit	(\$468,000)
Total NOI	\$1,174,032	\$1,600,176
Total Project Cost	\$23,151,800	\$30,655,600
<b>Yield on Cost [11]</b>	<b>5.1%</b>	<b>5.2%</b>

[1] State Density Bonus Law requires that qualifying units be set at unadjusted income affordability levels.

[2] Per State Density Bonus Law (California Government Code Sections 65915 – 65918).

[3] Gross Unit Size includes common areas for 4-story Wood Frame Building (assumed efficiency ratio of 85%).

[4] Parking assumption is consistent with the City's density bonus requirements for projects including affordable housing units.

[5] Land value assumption based on data from CoStar and local developers for projects of similar density.

[6] Costs based on EPS estimate and latest Construction Cost Index data for the Los Angeles area from Rider Levett Bucknall.

[7] Includes estimated costs for architecture and engineering; entitlement and fees; project management; appraisal and market study; marketing, commissions, and general administration; financing and charges; insurance; developer fee and contingency.

[8] See affordable rents assumptions on Table 4.

[9] Based on CoStar data for similar 2BR apartments located in South Pasadena.

[10] Reflective of newly-constructed properties in communities proximate to South Pasadena, as reported by CoStar. Inclusive of management, maintenance, common utility, and property tax costs.

[11] Yield on cost is calculated as NOI divided by total development costs, and is a typical return metric used for rental real estate

Sources: Los Angeles County; California HCD; CoStar; CBRE; Rider Levett Bucknall; and Economic & Planning Systems



## **ATTACHMENT 2**

Memo: Feasibility Analysis for Proposed Revision to 15% Inclusionary Housing Requirement, July 22, 2022 (Economic and Planning Systems)

## MEMORANDUM

To: Angelica Frausto-Lupo and Liz Bar-El, City of South Pasadena

From: Julie Cooper, Thomas Gonzales, and Darin Smith

Subject: Feasibility Analysis for Proposed Revision to 15 Percent Inclusionary Housing Requirement; EPS #214034

Date: July 22, 2022

### Background

The City of South Pasadena (City) adopted an inclusionary housing ordinance (IHO) in April 2021. The ordinance requires that a minimum of 20 percent of the base number of dwelling units<sup>1</sup> in a residential or mixed-use development consisting of more than two units be provided at below-market-rate (BMR) prices affordable to Very-Low, Low, and/or Moderate-Income households, based on income standards established by the State of California's Department of Housing and Community Development (HCD).

The City engaged Economic & Planning Systems, Inc. (EPS) to analyze the impacts of the City's inclusionary requirements on the financial feasibility of building new market-rate housing in South Pasadena. The analysis indicated that new market-rate projects is likely to be financially feasible while providing 20 percent of units at affordable rents or sale prices if the developer utilizes California's State Density Bonus law to increase the number of allowed market-rate units. However, without the use of the Density Bonus concession, it is not likely that market-rate projects would be financially feasible under the City's existing requirements. These findings were detailed in a memorandum provided to the City by EPS, dated July 14, 2022.

*The Economics of Land Use*



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*Oakland  
Sacramento  
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[www.epsys.com](http://www.epsys.com)

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<sup>1</sup> The number of required affordable units is calculated based on the number of project units proposed before the application of any concessions, such as additional units allowed under the State's Density Bonus.

The City is currently considering an adjustment to the IHO which would change the required number of affordable dwelling units to 15 percent of the base number of dwelling units, and EPS has analyzed the feasibility impacts of these potential new inclusionary requirements. As with its previous analysis, EPS reviewed a range of for-sale and rental housing prototypes representative of likely new development in the City to assess whether each prototype would be able to achieve standard development return metrics with the inclusion of required affordable units. The analysis included consideration of development incentives offered under the State's Density Bonus law.

## Summary of Analysis

The attached tables details EPS's analysis of four inclusionary requirements under consideration by the City:

1. For-Sale Units – 15 percent of units provided at prices affordable to Moderate-Income Households
2. Rental Units – 7.5 percent of units provided at rents affordable to Low-Income Households and 7.5 percent of units provided at rents affordable to Very-Low Income Households (15 percent of units total provided at affordable rents).
3. Rental Units – 15 percent of units provided at rents affordable to Low-Income Households.
4. Rental Units - 15 percent of units provided at rents affordable to Very-Low Income Households.

The assumptions utilized in the analysis were the same as the assumptions detailed in EPS's memorandum to the City, dated July 14, 2022, which analyzed the feasibility implications of the City's existing 20 percent inclusionary requirement, with one exception – the mortgage interest rate utilized to calculate the affordable sale price for Moderate-Income for-sale units was increased from 4.00 percent to 6.25 percent. This adjustment reflects a conservative approach that anticipates future increases in mortgage interest rates, in line with current market trends.

The analysis measured the threshold of feasibility using two standard return metrics used by real estate developers. These return metrics relate to the value of the investment in pursuing the project, and inform a developer's decision whether or not to pursue:

- For for-sale housing projects, the feasibility threshold is based on the return metric of "profit margin," calculated as the percentage by which total project value exceeds total project cost. Based on EPS research and experience, the analysis assumes that developers in the greater Los Angeles region will require a 15 percent or higher profit margin on for-sale development projects. So any project attaining a profit margin at or above 15 percent would be considered feasible.
- For rental housing projects, the feasibility threshold is based on the return metric of "yield on cost," calculated by dividing the annual net operating income (NOI) by the total costs of development. Based on EPS research and experience, the analysis

assumes that developers in the greater Los Angeles region will require a yield on cost near to or exceeding 5.0 percent.

It is important to note that the feasibility analyses are based on generic prototypes meant to represent a typical or average development project. A developer's choice to ultimately pursue a residential development project in South Pasadena will be site-specific and depend on many factors that are impacted by regional market forces. While our analysis accounts for some of these factors, the cost and revenue expectations for a particular project will vary based on the size, location, layout, condition, and history of a specific project site, as well as the capabilities, business goals, and proposed project design characteristics of a specific developer. Most developer investment decisions are also strongly impacted by anticipated project timeline, and this analysis does not estimate the length of time needed to complete a project in South Pasadena, nor does it account for the impacts of time value of money over the course of a project.

## Summary of Findings

The key findings of the analysis are as follows:

1. **Under a requirement to provide 15 percent of for-sale units at prices affordable to Moderate-Income households, townhome projects are likely to be financially feasible without any development incentives.** Based on strong market pricing, the prototype for-sale townhome project is estimated to achieve a 43.4 percent profit margin without any development incentives. This is above the standard development return threshold of 15 percent for feasibility (see Table 3).
2. **Under a requirement to provide 15 percent of for-sale units at prices affordable to Moderate-Income households, condominium projects are not likely to be financially feasible without any development incentives.** The prototype for-sale condominium project is estimated to achieve a 13.9 percent profit margin without any development incentives, below the standard development return threshold for feasibility (see Table 3). The prototype project would qualify for a 10 percent density bonus, and with the addition of the bonus units, the project is estimated to achieve a 16.4 percent, above the threshold for feasibility (see Table 4).
3. **Under a requirement to provide 7.5 percent of rental units at rents affordable to Low-Income households and 7.5 percent of rental units at rents affordable to Very-Low Income households, multifamily rental projects are likely to be financially feasible without any development incentives.** Under this scenario, rental prototype projects developed at 55 and 70 units per acre are estimated to achieve a yield on cost of 5.0 percent and 5.1 percent, respectively, without any development incentives (see Table 5). These yields are equal to or above the standard development return threshold of 5.0 percent for feasibility. The prototype projects under this inclusionary requirement would qualify for a 25 percent density bonus. With the addition of the bonus units, the projects are estimated to achieve yields on cost of 5.2 percent and 5.4 percent, respectively (see Table 6).

4. **Under a requirement to provide 15 percent of rental units at rents affordable to Low-Income households, multifamily rental projects are likely to be financially feasible without any development incentives.** Under this scenario, rental prototype projects developed at 55 and 70 units per acre are estimated to achieve a yield on cost of 5.1 percent and 5.2 percent, respectively, without any development incentives (see Table 7). These yields are above the standard development return threshold of 5.0 percent for feasibility. The prototype projects under this inclusionary requirement would qualify for a 27.5 percent density bonus. With the addition of the bonus units, the projects are estimated to achieve yields on cost of 5.4 percent and 5.5 percent, respectively (see Table 8).
  
5. **Under a requirement to provide 15 percent of rental units at rents affordable to Very-Low Income households, multifamily rental projects developed at 55 units per acre are not likely to be financially feasible without any development incentives, while projects developed at 70 units per acre are likely to be financially feasible without any development scenarios.** Under this scenario, the rental prototype project developed at 55 units per acre is estimated to achieve a yield on cost of 4.9 percent – below the standard development return threshold for feasibility of 5.0 percent. The rental prototype project developed at 70 units per acre is estimated to achieve a yield on cost of 5.0 percent, equal to the standard development return threshold (see Table 9). The prototype projects under this inclusionary requirement would qualify for a 50 percent density bonus. With the addition of the bonus units, the projects are estimated to achieve yields on cost of 5.3 percent and 5.4 percent, respectively (see Table 10).



## APPENDIX: Feasibility Analysis

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**Table 1**  
**Market-Rate Housing Development Prototype Characteristics**  
**South Pasadena Inclusionary Housing In-Lieu Fee Study; EPS #214034**

<b>Prototype</b>	<b>Product Type</b>	<b>Construction Type</b>	<b>Unit Count</b>	<b>Density</b>	<b>Unit Size</b>	<b>Unit Sq. Ft.</b>	<b>Parking Type</b>
1	For-Sale	Townhome	20	20 units/acre	3 Bedroom	1,650 sq. ft.	Attached garage
2	For-Sale	4-Story Wood Frame Condominium Building	60	55 units/acre	2 Bedroom	1,200 sq. ft.	1 space per unit (structured)
3	Rental	4-Story Wood Frame Apartment Building	40	55 units/acre	2 Bedroom	1,000 sq. ft.	1 space per unit (structured)
4	Rental	5-Story Wood Frame Apartment Building	80	70 units/acre	2 Bedroom	1,000 sq. ft.	1 space per unit (structured)

**Table 2**  
**Sale Value Estimate for Prototype For-Sale Affordable Housing Units**  
**South Pasadena Inclusionary Housing In-Lieu Fee Study; EPS #214034**

Input Assumptions	Townhome with Attached Garage	4-Story Wood Frame Building
	<i>Moderate Income (110% AMI)</i>	
<b>Prototype Unit Assumptions</b>		
Number of Bedrooms	3	2
Number of Persons per Unit [1]	4	3
<b>Maximum Supported Home Price</b>		
Maximum Household Income [2]	\$100,210	\$90,200
Maximum Monthly Spending on Housing [3]	\$2,505	\$2,255
Other Housing Costs		
Insurance	\$125	\$125
Taxes [4]	\$385	\$335
HOA Fee	\$300	\$300
Maximum Monthly Mortgage Payment (after Other Housing Costs)	\$1,695	\$1,495
Mortgage Terms		
Down Payment	10%	10%
Interest Rate (annual)	6.25%	6.25%
Loan Term (months)	360	360
<b>Total Supportable Unit Value [5]</b>	<b>\$306,000</b>	<b>\$270,000</b>

[1] For this analysis, EPS has assumed an average unit for income-qualified worker households would be either 2 or 3 bedrooms. State law (Health and Safety Code Section 50052.5) indicates that a 2-bedroom unit should be assumed to be occupied by a 3-person household, and a 3-bedroom unit should be assumed to be occupied by a 4-person household.

[2] Based on 2022 income limits for Los Angeles County.

[3] Assumes housing costs to be 30% of gross household income. Maximum monthly payment for affordable units is inclusive of mortgage payment, insurance, and taxes.

[4] Taxes equal to approximately 1.1% of sale price.

[5] The total supportable unit value is equivalent to the down payment plus total mortgage amount, assuming a mortgage with terms for interest rate, term, and payment as shown in table.

Sources: Los Angeles County; California Housing and Community Development; and Economic & Planning Systems



**Table 3**  
**Feasibility Analysis of IHO Ordinance for Prototype For-Sale Developments - 15% Moderate-Income Units**  
**South Pasadena Inclusionary Housing In-Lieu Fee Study; EPS #214034**

Input Assumptions	For Sale Property	
	Townhome with attached Garage	4-Story Wood Frame Building
<b>Development Program Assumptions</b>		
Acreage	1.00	1.09
Density/Acre	20	55
Base Unit Count	20	60
Total Required Affordable Units	15% of base units	3
Gross Unit Size	2,000	1,412
Net Unit Size [1]	1,650	1,200
Number of Bedrooms	3	2
Parking Spaces/Unit [2]	350 SF Attached Garage	2.00
<b>Cost Assumptions</b>		
Land/Acre [3]	\$3,300,000	\$4,750,000
Land Value (rounded)	\$3,300,000	\$5,182,000
Land/Unit	\$165,000	\$86,367
Direct Costs		
Construction Costs/SF [4]	\$300	\$350
Direct Construction Costs/Unit (rounded)	\$600,000	\$494,118
Basement Garage Parking Construction Cost/Unit	\$35,000 /space	\$70,000
<i>Subtotal, Direct Costs/Unit</i>	\$600,000	\$564,118
Indirect Costs/Unit (rounded) [5]	18% of direct costs	\$108,000
<b>Total Cost/Unit (rounded)</b>	<b>\$873,000</b>	<b>\$751,984</b>
<b>Project Value</b>		
Affordable For Sale Value per Unit [6]	per unit	\$306,000
Market Rate For Sale Value per Unit [7]		\$1,419,000
<i>Total Project Value</i>		\$25,041,000
Total Project Cost		\$17,460,000
<b>Profit Margin [8]</b>	<b>43.4%</b>	<b>13.9%</b>

[1] Gross Unit Size includes garage for townhomes and common areas for 4-story Wood Frame Building (assumed efficiency ratio of 85%).

[2] Parking assumptions in line with data from similar properties sold in South Pasadena July 2021 - June 2022.

[3] Land value assumptions based on data from CoStar and local developers for projects of similar density.

[4] Costs based on EPS estimate and latest Construction Cost Index data for the Los Angeles area from Rider Levett Bucknall.

[5] Includes estimated costs for architecture and engineering; entitlement and fees; project management; appraisal and market study; marketing, commissions, and general administration; financing and charges; insurance; developer fee and contingency.

[6] See unit value estimate for for-sale affordable housing on Table 2.

[7] Based on similar property sales in South Pasadena July 2021 - June 2022 found on Zillow.

[8] Profit Margin is how much Total Project Value exceeds Total Project Cost and is a typical return metric used for for-sale developments.

Sources: Los Angeles County; California HCD; Zillow; Rider Levett Bucknall; and Economic & Planning Systems

**Table 4**  
**Feasibility Analysis of IHO Ordinance for Prototype For-Sale Development with State Density Bonus**  
**15% Moderate-Income Units**  
**South Pasadena Inclusionary Housing In-Lieu Fee Study; EPS #214034**

	<i>For Sale Property</i>	
	<b>4-Story Wood Frame Building</b>	
	Input Assumptions	
<b>Development Program Assumptions</b>		
Acreage		1.09
Density/Acre		55
Base Unit Count		60
Total Required Affordable Units		9
% Units Moderate Income (For-Sale)		15.0%
State Density Bonus [1]		10.0%
Density Bonus Units		6
Total Built Units		66
Gross Unit Size		1,412
Net Unit Size [1]		1,200
Number of Bedrooms		2
Parking Spaces/Unit [2]		2.00
<b>Cost Assumptions</b>		
Land/Acre [3]		\$4,750,000
Land Value (rounded)		\$5,182,000
Land/Unit		\$78,515
Direct Costs		
Construction Costs/SF [4]		\$350
Direct Construction Costs/Unit (rounded)		\$494,118
Basement Garage Parking Construction Cost/Unit	\$35,000 /space	\$70,000
Subtotal, Direct Costs/Unit		\$564,118
Indirect Costs/Unit (rounded) [5]	18% of direct costs	\$101,500
<b>Total Cost/Unit (rounded)</b>		<b>\$744,133</b>
<b>Project Value</b>		
Affordable For Sale Value per Unit [6]	per unit	\$270,000
Market Rate For Sale Value per Unit [7]		\$960,000
<i>Total Project Value</i>		\$57,150,000
Total Project Cost		\$49,112,765
<b>Profit Margin [8]</b>		<b>16.4%</b>

[1] Gross Unit Size includes garage for townhomes and common areas for 4-story Wood Frame Building (assumed efficiency ratio of 85%).

[2] Parking assumptions in line with data from similar properties sold in South Pasadena July 2021 - June 2022 found on Zillow.

[3] Land value assumptions based on data from CoStar and local developers for projects of similar density.

[4] Costs based on EPS estimate and latest Construction Cost Index data for the Los Angeles area from Rider Levett Bucknall.

[5] Includes estimated costs for architecture and engineering; entitlement and fees; project management; appraisal and market study; marketing, commissions, and general administration; financing and charges; insurance; developer fee and contingency.

[6] See unit value estimate for for-sale affordable housing on Table 2.

[7] Based on similar property sales in South Pasadena July 2021 - June 2022 found on Zillow.

[8] Profit Margin is how much Total Project Value exceeds Total Project Cost and is a typical return metric used for for-sale developments.

Sources: Los Angeles County; California HCD; Zillow; Rider Levett Bucknall; and Economic & Planning Systems

**Table 5**  
**Feasibility Analysis of IHO Ordinance for Prototype Rental Developments**  
**7.5% Low-Income Units and 7.5% Very-Low Income Units**  
**South Pasadena Inclusionary Housing In-Lieu Fee Study; EPS #214034**

Input Assumptions	For Rent Property	
	4-5 Stories Woodframe Multifamily Building with Garage Parking	
<b>Development Program Assumptions</b>		
Acreage	0.73	1.14
Density/Acre	55	70
Base Unit Count	40	80
Very-Low Income (VLI) Units	7.50% of base units	3
Low-Income (LI) Units	7.50% of base units	3
Total Required Affordable Units	6	12
Gross Unit Size [1]	1,176	1,176
Net Unit Size	1,000	1,000
Number of Bedrooms	2	2
Parking Spaces/Unit [2]	1.00	1.00
<b>Cost Assumptions</b>		
Land/Acre [3]	\$4,750,000	\$4,750,000
Land Value (rounded)	\$3,455,000	\$5,429,000
Land/Unit	\$86,375	\$67,863
Direct Costs		
Construction Costs/SF	\$350	\$350
Direct Construction Costs/Unit (rounded) [4]	\$411,800	\$411,800
Basement Garage Parking Construction Cost/Unit	\$35,000 /space	\$35,000
Subtotal, Direct Costs/Unit	\$446,800	\$446,800
Indirect Costs/Unit (rounded) [5]	18% of direct costs	\$80,400
<b>Total Cost/Unit (rounded)</b>	<b>\$613,575</b>	<b>\$595,063</b>
<b>Project Value</b>		
Revenue per Year per VLI Unit [6]	\$13,332	\$13,332
Revenue per Year per LI Unit [6]	\$22,992	\$22,992
Affordable Revenue per Year	\$108,972	\$217,944
MR Revenue per Year [7]	\$3,900 /mo per unit	\$1,591,200
Operating Costs [8]	\$12,000 /year per unit	(\$480,000)
Total NOI	\$1,220,172	\$2,440,344
Total Project Cost	\$24,543,000	\$47,605,000
<b>Yield on Cost [11]</b>	<b>5.0%</b>	<b>5.1%</b>

[1] Gross Unit Size includes common areas for 4-story Wood Frame Building (assumed efficiency ratio of 85%).

[2] Parking assumption is consistent with the City's density bonus requirements for projects including affordable housing units.

[3] Land value assumption based on data from CoStar and local developers for projects of similar density.

[4] Costs based on EPS estimate and latest Construction Cost Index data for the Los Angeles area from Rider Levett Bucknall.

[5] Includes estimated costs for architecture and engineering; entitlement and fees; project management; appraisal and market study; marketing, commissions, and general administration; financing and charges; insurance; developer fee and contingency.

[6] See affordable rents assumptions in EPS memorandum dated July 14, 2022.

[7] Based on CoStar data for similar 2BR apartments located in South Pasadena.

[8] Reflective of newly-constructed properties in communities proximate to South Pasadena, as reported by CoStar. Inclusive of management, maintenance, common utility, and property tax costs.

[9] Yield on cost is calculated as NOI divided by total development costs, and is a typical return metric used for rental real estate projects.

Sources: Los Angeles County; California HCD; CoStar; CBRE; Rider Levett Bucknall; and Economic & Planning Systems

**Table 6**  
**Feasibility Analysis of IHO Ordinance for Prototype Rental Developments with State Density Bonus**  
**7.5% Low-Income Units and 7.5% Very-Low Income Units**  
**South Pasadena Inclusionary Housing In-Lieu Fee Study; EPS #214034**

Input Assumptions	For Rent Property	
	4-5 Stories Woodframe Multifamily Building with Garage Parking	
<b>Development Program Assumptions</b>		
Acreage	0.73	1.14
Base Density/Acre	55	70
Base Unit Count	40	80
Unadjusted Very-Low Income (VLI) Units [1]	3	6
Low-Income (LI) Units	3	6
Total Required Affordable Units	6	12
% Units Very-Low Income	7.5%	7.5%
State Density Bonus [2]	25.0%	25.0%
Density Bonus Units	10	20
Total Built Units	50	100
Gross Unit Size	1,176	1,176
Net Unit Size [3]	1,000	1,000
Number of Bedrooms	2	2
Parking Spaces/Unit [4]	1.00	1.00
<b>Cost Assumptions</b>		
Land/Acre [5]	\$4,750,000	\$4,750,000
Land Value (rounded)	\$3,455,000	\$5,429,000
Land/Unit	\$69,100	\$54,290
Direct Costs		
Construction Costs/SF [6]	\$350	\$350
Direct Construction Costs/Unit (rounded)	\$411,800	\$411,800
Basement Garage Parking Construction Cost/Unit	\$35,000 /space	\$35,000
Subtotal, Direct Costs/Unit	\$446,800	\$446,800
Indirect Costs/Unit (rounded) [7]	18% of direct costs	\$80,400
<b>Total Cost/Unit (rounded)</b>	<b>\$596,300</b>	<b>\$581,490</b>
<b>Project Value</b>		
Revenue per Year per Unadjusted VLI Unit [8]	\$9,552	\$9,552
Revenue per Year per LI Unit [8]	\$22,992	\$22,992
Affordable Revenue per Year	\$97,632	\$195,264
MR Revenue per Year [9]	\$3,900 /mo per unit	\$2,059,200
Operating Costs [10]	\$12,000 /year per unit	(\$600,000)
Total NOI	\$1,556,832	\$3,113,664
Total Project Cost	\$29,815,000	\$58,149,000
<b>Yield on Cost [11]</b>	<b>5.2%</b>	<b>5.4%</b>

[1] State Density Bonus Law requires that qualifying units be set at unadjusted income affordability levels.

[2] Per State Density Bonus Law (California Government Code Sections 65915 – 65918).

[3] Gross Unit Size includes common areas for 4-story Wood Frame Building (assumed efficiency ratio of 85%).

[4] Parking assumption is consistent with the City's density bonus requirements for projects including affordable housing units.

[5] Land value assumption based on data from CoStar and local developers for projects of similar density.

[6] Costs based on EPS estimate and latest Construction Cost Index data for the Los Angeles area from Rider Levett Bucknall.

[7] Includes estimated costs for architecture and engineering; entitlement and fees; project management; appraisal and market study; marketing, commissions, and general administration; financing and charges; insurance; developer fee and contingency.

[8] See affordable rents assumptions in EPS memorandum dated July 14, 2022

[9] Based on CoStar data for similar 2BR apartments located in South Pasadena.

[10] Reflective of newly-constructed properties in communities proximate to South Pasadena, as reported by CoStar. Inclusive of management, maintenance, common utility, and property tax costs.

[11] Yield on cost is calculated as NOI divided by total development costs, and is a typical return metric used for rental real estate projects.

Sources: Los Angeles County; California HCD; CoStar; CBRE; Rider Levett Bucknall; and Economic & Planning Systems

**Table 7**  
**Feasibility Analysis of IHO Ordinance for Prototype Rental Developments - 15% Low-Income Units**  
**South Pasadena Inclusionary Housing In-Lieu Fee Study; EPS #214034**

Input Assumptions	For Rent Property	
	4-5 Stories Woodframe Multifamily Building with Garage Parking	
<b>Development Program Assumptions</b>		
Acreage	0.73	1.14
Density/Acre	55	70
Base Unit Count	40	80
Low-Income (LI) Units	15% of base units	6
Total Required Affordable Units	6	12
Gross Unit Size [1]	1,176	1,176
Net Unit Size	1,000	1,000
Number of Bedrooms	2	2
Parking Spaces/Unit [2]	1.00	1.00
<b>Cost Assumptions</b>		
Land/Acre [3]	\$4,750,000	\$4,750,000
Land Value (rounded)	\$3,455,000	\$5,429,000
Land/Unit	\$86,375	\$67,863
Direct Costs		
Construction Costs/SF	\$350	\$350
Direct Construction Costs/Unit (rounded) [4]	\$411,800	\$411,800
Basement Garage Parking Construction Cost/Unit	\$35,000 /space	\$35,000
Subtotal, Direct Costs/Unit	\$446,800	\$446,800
Indirect Costs/Unit (rounded) [5]	18% of direct costs	\$80,400
<b>Total Cost/Unit (rounded)</b>	<b>\$613,575</b>	<b>\$595,063</b>
<b>Project Value</b>		
Revenue per Year per VLI Unit [6]	\$13,332	\$13,332
Revenue per Year per LI Unit [6]	\$22,992	\$22,992
Affordable Revenue per Year	\$137,952	\$275,904
MR Revenue per Year [7]	\$3,900 /mo per unit	\$1,591,200
Operating Costs [8]	\$12,000 /year per unit	(\$480,000)
Total NOI	\$1,249,152	\$2,498,304
Total Project Cost	\$24,543,000	\$47,605,000
<b>Yield on Cost [11]</b>	<b>5.1%</b>	<b>5.2%</b>

[1] Gross Unit Size includes common areas for 4-story Wood Frame Building (assumed efficiency ratio of 85%).

[2] Parking assumption is consistent with the City's density bonus requirements for projects including affordable housing units.

[3] Land value assumption based on data from CoStar and local developers for projects of similar density.

[4] Costs based on EPS estimate and latest Construction Cost Index data for the Los Angeles area from Rider Levett Bucknall.

[5] Includes estimated costs for architecture and engineering; entitlement and fees; project management; appraisal and market study; marketing, commissions, and general administration; financing and charges; insurance; developer fee and contingency.

[6] See affordable rents assumptions in EPS memorandum dated July 14, 2022.

[7] Based on CoStar data for similar 2BR apartments located in South Pasadena.

[8] Reflective of newly-constructed properties in communities proximate to South Pasadena, as reported by CoStar. Inclusive of management, maintenance, common utility, and property tax costs.

[9] Yield on cost is calculated as NOI divided by total development costs, and is a typical return metric used for rental real estate projects.

Sources: Los Angeles County; California HCD; CoStar; CBRE; Rider Levett Bucknall; and Economic & Planning Systems

**Table 8**  
**Feasibility Analysis of IHO Ordinance for Prototype Rental Developments with State Density Bonus - 15% Low-Income Units**  
**South Pasadena Inclusionary Housing In-Lieu Fee Study; EPS #214034**

Input Assumptions	For Rent Property	
	4-5 Stories Woodframe Multifamily Building with Garage Parking	
<b>Development Program Assumptions</b>		
Acreage	0.73	1.14
Base Density/Acre	55	70
Base Unit Count	40	80
Low-Income (LI) Units	6	12
Total Required Affordable Units	6	12
% Units Low-Income	15.0%	15.0%
State Density Bonus [2]	27.5%	27.5%
Density Bonus Units	11	22
Total Built Units	51	102
Gross Unit Size	1,176	1,176
Net Unit Size [3]	1,000	1,000
Number of Bedrooms	2	2
Parking Spaces/Unit [4]	1.00	1.00
<b>Cost Assumptions</b>		
Land/Acre [5]	\$4,750,000	\$4,750,000
Land Value (rounded)	\$3,455,000	\$5,429,000
Land/Unit	\$67,745	\$53,225
<b>Direct Costs</b>		
Construction Costs/SF [6]	\$350	\$350
Direct Construction Costs/Unit (rounded)	\$411,800	\$411,800
Basement Garage Parking Construction Cost/Unit	\$35,000 /space	\$35,000
Subtotal, Direct Costs/Unit	\$446,800	\$446,800
Indirect Costs/Unit (rounded) [7]	18% of direct costs	\$80,400
<b>Total Cost/Unit (rounded)</b>	<b>\$594,945</b>	<b>\$580,425</b>
<b>Project Value</b>		
Revenue per Year per LI Unit [8]	\$22,992	\$22,992
Affordable Revenue per Year	\$137,952	\$275,904
MR Revenue per Year [9]	\$3,900 /mo per unit \$2,106,000	\$4,212,000
Operating Costs [10]	\$12,000 /year per unit (\$612,000)	(\$1,224,000)
Total NOI	\$1,631,952	\$3,263,904
Total Project Cost	\$30,342,200	\$59,203,400
<b>Yield on Cost [11]</b>	<b>5.4%</b>	<b>5.5%</b>

[1] State Density Bonus Law requires that qualifying units be set at unadjusted income affordability levels.

[2] Per State Density Bonus Law (California Government Code Sections 65915 – 65918).

[3] Gross Unit Size includes common areas for 4-story Wood Frame Building (assumed efficiency ratio of 85%).

[4] Parking assumption is consistent with the City's density bonus requirements for projects including affordable housing units.

[5] Land value assumption based on data from CoStar and local developers for projects of similar density.

[6] Costs based on EPS estimate and latest Construction Cost Index data for the Los Angeles area from Rider Levett Bucknall.

[7] Includes estimated costs for architecture and engineering; entitlement and fees; project management; appraisal and market study; marketing, commissions, and general administration; financing and charges; insurance; developer fee and contingency.

[8] See affordable rents assumptions in EPS memorandum dated July 14, 2022

[9] Based on CoStar data for similar 2BR apartments located in South Pasadena.

[10] Reflective of newly-constructed properties in communities proximate to South Pasadena, as reported by CoStar. Inclusive of management, maintenance, common utility, and property tax costs.

[11] Yield on cost is calculated as NOI divided by total development costs, and is a typical return metric used for rental real estate projects.

Sources: Los Angeles County; California HCD; CoStar; CBRE; Rider Levett Bucknall; and Economic & Planning Systems

**Table 9**  
**Feasibility Analysis of IHO Ordinance for Prototype Rental Developments - 15% Very-Low Income Units**  
**South Pasadena Inclusionary Housing In-Lieu Fee Study; EPS #214034**

Input Assumptions	For Rent Property	
	4-5 Stories Woodframe Multifamily Building with Garage Parking	
<b>Development Program Assumptions</b>		
Acreage	0.73	1.14
Density/Acre	55	70
Base Unit Count	40	80
Very-Low Income (VLI) Units	15% of base units	6
Total Required Affordable Units	6	12
Gross Unit Size [1]	1,176	1,176
Net Unit Size	1,000	1,000
Number of Bedrooms	2	2
Parking Spaces/Unit [2]	1.00	1.00
<b>Cost Assumptions</b>		
Land/Acre [3]	\$4,750,000	\$4,750,000
Land Value (rounded)	\$3,455,000	\$5,429,000
Land/Unit	\$86,375	\$67,863
<b>Direct Costs</b>		
Construction Costs/SF	\$350	\$350
Direct Construction Costs/Unit (rounded) [4]	\$411,800	\$411,800
Basement Garage Parking Construction Cost/Unit	\$35,000 /space	\$35,000
<i>Subtotal, Direct Costs/Unit</i>	\$446,800	\$446,800
Indirect Costs/Unit (rounded) [5]	18% of direct costs	\$80,400
<b>Total Cost/Unit (rounded)</b>	<b>\$613,575</b>	<b>\$595,063</b>
<b>Project Value</b>		
Revenue per Year per VLI Unit [6]	\$13,332	\$13,332
Revenue per Year per LI Unit [6]	\$22,992	\$22,992
Affordable Revenue per Year	\$79,992	\$159,984
MR Revenue per Year [7]	\$3,900 /mo per unit	\$1,591,200
Operating Costs [8]	\$12,000 /year per unit	(\$480,000)
Total NOI	\$1,191,192	\$2,382,384
Total Project Cost	\$24,543,000	\$47,605,000
<b>Yield on Cost [11]</b>	<b>4.9%</b>	<b>5.0%</b>

[1] Gross Unit Size includes common areas for 4-story Wood Frame Building (assumed efficiency ratio of 85%).

[2] Parking assumption is consistent with the City's density bonus requirements for projects including affordable housing units.

[3] Land value assumption based on data from CoStar and local developers for projects of similar density.

[4] Costs based on EPS estimate and latest Construction Cost Index data for the Los Angeles area from Rider Levett Bucknall.

[5] Includes estimated costs for architecture and engineering; entitlement and fees; project management; appraisal and market study; marketing, commissions, and general administration; financing and charges; insurance; developer fee and contingency.

[6] See affordable rents assumptions in EPS memorandum dated July 14, 2022.

[7] Based on CoStar data for similar 2BR apartments located in South Pasadena.

[8] Reflective of newly-constructed properties in communities proximate to South Pasadena, as reported by CoStar. Inclusive of management, maintenance, common utility, and property tax costs.

[9] Yield on cost is calculated as NOI divided by total development costs, and is a typical return metric used for rental real estate projects.

Sources: Los Angeles County; California HCD; CoStar; CBRE; Rider Levett Bucknall; and Economic & Planning Systems



**Table 10**  
**Feasibility Analysis of IHO Ordinance for Prototype Rental Developments with State Density Bonus - 15% Very-Low Income Units**  
**South Pasadena Inclusionary Housing In-Lieu Fee Study; EPS #214034**

Input Assumptions	For Rent Property	
	4-5 Stories Woodframe Multifamily Building with Garage Parking	
<b>Development Program Assumptions</b>		
Acreage	0.73	1.14
Base Density/Acre	55	70
Base Unit Count	40	80
Unadjusted Very-Low Income (VLI) Units [1]	6	12
Total Required Affordable Units	6	12
% Units Very-Low Income	15.0%	15.0%
State Density Bonus [2]	50.0%	50.0%
Density Bonus Units	20	40
Total Built Units	60	120
Gross Unit Size	1,176	1,176
Net Unit Size [3]	1,000	1,000
Number of Bedrooms	2	2
Parking Spaces/Unit [4]	1.00	1.00
<b>Cost Assumptions</b>		
Land/Acre [5]	\$4,750,000	\$4,750,000
Land Value (rounded)	\$3,455,000	\$5,429,000
Land/Unit	\$57,583	\$45,242
<b>Direct Costs</b>		
Construction Costs/SF [6]	\$350	\$350
Direct Construction Costs/Unit (rounded)	\$411,800	\$411,800
Basement Garage Parking Construction Cost/Unit	\$35,000 /space	\$35,000
Subtotal, Direct Costs/Unit	\$446,800	\$446,800
Indirect Costs/Unit (rounded) [7]	18% of direct costs	\$80,400
<b>Total Cost/Unit (rounded)</b>	<b>\$584,783</b>	<b>\$572,442</b>
<b>Project Value</b>		
Revenue per Year per Unadjusted VLI Unit [8]	\$9,552	\$9,552
Affordable Revenue per Year	\$57,312	\$114,624
MR Revenue per Year [9]	\$3,900 /mo per unit \$2,527,200	\$5,054,400
Operating Costs [10]	\$12,000 /year per unit (\$720,000)	(\$1,440,000)
Total NOI	\$1,864,512	\$3,729,024
Total Project Cost	\$35,087,000	\$68,693,000
<b>Yield on Cost [11]</b>	<b>5.3%</b>	<b>5.4%</b>

[1] State Density Bonus Law requires that qualifying units be set at unadjusted income affordability levels.

[2] Per State Density Bonus Law (California Government Code Sections 65915 – 65918).

[3] Gross Unit Size includes common areas for 4-story Wood Frame Building (assumed efficiency ratio of 85%).

[4] Parking assumption is consistent with the City's density bonus requirements for projects including affordable housing units.

[5] Land value assumption based on data from CoStar and local developers for projects of similar density.

[6] Costs based on EPS estimate and latest Construction Cost Index data for the Los Angeles area from Rider Levett Bucknall.

[7] Includes estimated costs for architecture and engineering; entitlement and fees; project management; appraisal and market study; marketing, commissions, and general administration; financing and charges; insurance; developer fee and contingency.

[8] See affordable rents assumptions in EPS memorandum dated July 14, 2022.

[9] Based on CoStar data for similar 2BR apartments located in South Pasadena.

[10] Reflective of newly-constructed properties in communities proximate to South Pasadena, as reported by CoStar. Inclusive of management, maintenance, common utility, and property tax costs.

[11] Yield on cost is calculated as NOI divided by total development costs, and is a typical return metric used for rental real estate projects.

Sources: Los Angeles County; California HCD; CoStar; CBRE; Rider Levett Bucknall; and Economic & Planning Systems



## **ATTACHMENT 3**

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