KEYSER MARSTON ASSOCIATES.
ADVISORS IN PUBLIC/PRIVATE REAL ESTATE DEVELOPMENT

MEMORANDUM

To: Sol Blumenfeld, Community Development Director
City of Culver City

From: Kathleen Head
Tim Bretz

Date: January 6, 2016

Subject: Mixed Use Ordinance and SB 1818 Density Bonus Analysis

At your request, Keyser Marston Associates, Inc. (KMA) reviewed the Mixed Use Ordinance and the SB 1818 Density Bonus (SB 1818) Ordinance adopted by the City of Culver City (City). The purpose of the KMA analysis is to evaluate the financial impact of coupling the SB 1818 density bonus with the density bonus allowed by the City's Mixed Use Ordinance.

To assist the City in evaluating the financial impacts, KMA prepared conceptual financial analyses for three prototype development sites. Each case study analysis includes the following:

1. A pro forma analysis for a development scope that only utilizes the Mixed Use Ordinance density bonus; and

2. A pro forma analysis for a development scope that utilizes both the Mixed Use Ordinance density bonus and the SB 1818 density bonus.

The conceptual financial analyses provide order-of-magnitude estimates of the land values supported by each of the development alternatives. These land values are only meant to provide the City with a perspective of the relative impacts created by allowing the SB 1818 density bonus to be added on top of the bonus provided by the Mixed Use Ordinance. The costs, revenues and returns associated with actual projects will vary from these prototype analyses as a reflection of the characteristics of individual development sites and the timing of development.

EXECUTIVE SUMMARY

The case study projects can be described as follows:

1. Case Study #1 - A retail and apartment project developed on a 5,000 square foot parcel located adjacent to an R1 or R2 zone;

3. Case Study #2 – A retail and apartment project developed on a 15,000 square foot parcel located adjacent to a multifamily zone; and

4. Case Study #3 – A retail and apartment project developed on a 15,000 square foot parcel located within the Transit Oriented Development (TOD) District.

The following table summarizes the estimated supportable land values for each case study:

	Mixed Use Ordinance Density	Mixed Use Ordinance Density Plus SB 1818 Density Bonus	Difference
Case Study #1	$434,000	$537,000	24% Increase
Case Study #2	$1,594,000	$1,919,000	20% Increase
Case Study #3	$1,831,000	$2,485,000	36% Increase

BACKGROUND

In 2008, the City adopted the Mixed Use Ordinance to incentivize the development of mixed use projects in designated areas of Culver City. In 2005, the State of California enacted SB 1818, which requires a jurisdiction to increase the allowable density on a site if the affordable housing requirements set forth in State of California Government Code Section 65915 (Section 65915) are met. The City is interested in evaluating the financial characteristics of development projects that combine the benefits provided by both of these density bonus programs.

Density Bonuses

Mixed Use Ordinance

In designated areas of Culver City, the Mixed Use Ordinance provides a density bonus for projects that include a community benefit contribution. The base density in these areas is set at 35 dwelling units per acre. In general, the Mixed Use Ordinance increases the allowable density to 50 dwelling units per acre. However, the density can be increased to 65 dwelling units per acre if the site is located in the TOD District.

The following describes the formula for calculating the community benefit contribution:

Community Benefit Contribution
The number of dwelling units allowed above the base density X Market value of each unit X 15% (Developer Profit) X 50%

In the pro forma analyses for the case studies, KMA included the estimated community benefit contribution as a component of the estimated development costs.

SB 1818 Density Bonus

In compliance with Section 65915, the City adopted a SB 1818 Density Bonus Ordinance. The magnitude of the SB 1818 density bonus is based on a sliding scale that is tied to the percentage of affordable housing units proposed to be included in the project. Based on the requirements imposed by Section 65915, the City's SB 1818 Density Bonus Ordinance allows developers to request up to a 35% increase in the allowable number of residential units.

The SB 1818 density bonus is applied to the maximum number of units allowed by the site's General Plan designation and zoning district. To qualify for a SB 1818 density bonus, Section 65915 requires the project to meet one of the following criteria:

1. At least 5% of the units must be allocated to very-low income households;
2. At least 10% of the units must be allocated to low income households;
3. At least 10% of the units in an ownership project must be set aside for moderate income households; or
4. At least 35 dwelling units are available exclusively to persons aged 55 and older and to those residing with them.

The SB 1818 density bonus case studies are based on the assumption that 11% of the base units in the project will be restricted to very low income households. This is the most cost efficient way to achieve the maximum 35% SB 1818 density bonus.

Financial Analysis Methodology

The purpose of the KMA financial analyses is to estimate the value added by allowing the SB 1818 density bonus to be added on top of the bonus provided by the Mixed Use Ordinance. The KMA pro forma analyses are presented in three attachments that follow this memorandum. These Attachments are organized as follows:

Attachment I	5.000 Square Foot Lot Adjacent to R1, R2 Zones
Appendix A	Mixed Use Ordinance Density
Appendix B	Mixed Use Ordinance Density + SB 1818 Density Bonus
Attachment II	15,000 Square Foot Lot Adjacent to Multi-Family Zones
Appendix A	Mixed Use Ordinance Density
Appendix B	Mixed Use Ordinance Density + SB 1818 Density Bonus
Attachment III	15,000 Square Foot Lot Located in TOD District
Appendix A	Mixed Use Ordinance Density
Appendix B	Mixed Use Ordinance Density + SB 1818 Density Bonus

The pro forma analyses in each Appendix are organized as follows:

1. Table 1 provides estimates of the construction costs associated with each scenario.

2. Table 2 provides estimates of the net operating income anticipated to be generated by each scenario. The pro formas that include the SB 1818 density bonus provide separate rent estimates for the market rate units and the very low income units. This is done to demonstrate the financial impacts associated with the income restrictions.

3. Table 3 provides estimates of the land values supported by each scenario. The supportable land value is equal to the difference between the project's estimated supportable private investment and the project's estimated construction costs. The project's supportable private investment is estimated by capitalizing the net operating income at a threshold stabilized return that reflects current market conditions.

The land values derived from the conceptual financial analyses should only be used to assess the impacts created by allowing the SB 1818 density bonus to be added on top of the bonus provided by the Mixed Use Ordinance. The actual land costs associated with any given site will vary from these results based on a wide variety of factors.

Basic Assumptions

A number of assumptions are applied in each of the case study analyses. These common assumptions can be summarized as follows:

1. Density Bonus Calculations:

   a. In accordance with the Mixed Use Ordinance requirements, if the number of units allowed under a Mixed Use Ordinance Density scenario is a fractional number, the fraction is rounded down to the next whole number.

   b. SB 1818 Density Bonus:

      i. For the purposes of this analysis, the base zoning for the SB 1818 density bonus calculations is set at the number of units allowed by the Mixed Use Ordinance.

      ii. Section 65915 requires that any fractional units derived under the SB 1818 density bonus calculations must be rounded up to the next whole number.

2. Parking Requirements:

   a. The City's zoning code parking requirements are applied to the Mixed Use Ordinance Density scenarios. These requirements can be summarized as follows:

      i. One parking space for studio and one-bedroom units;

      ii. Two parking spaces for two-bedroom and three-bedroom units;

      iii. One guest parking space for every four residential units; and

      iv. One parking space for every 350 square feet of retail space.

   b. The parking requirements for the Mixed Use Ordinance Density Plus SB 1818 Density Bonus scenarios are based on the Section 65915 standards for the residential component, and the City's parking code standards for the retail component. The resulting parking requirements are:

i. One parking space for studio and one-bedroom units;

ii. Two parking spaces for two-bedroom and three-bedroom units;

iii. One parking space for every 350 square feet of retail space.

c. For each of the case study pro forma analyses, KMA utilized a weighted average threshold stabilized return. This return is based on a 5.25% return for the residential component and a 7.5% return for the retail component.

CASE STUDY ANALYSES

Case Study #1: 5,000 Square Foot Lot Adjacent to R1/R2 Zone: (Attachment I)

Case Study #1 is based on a 5,000 square foot site. In addition, it is assumed that the development site is located adjacent to an R1 or R2 zone, which limits the maximum density allowed by the Mixed Use Ordinance to 50 dwelling units per acre.

Mixed Use Ordinance Density

1. Based on the Mixed Use Ordinance requirements, five apartment units can be developed on this prototype site.

2. The ground floor retail space is set at 1,500 square feet.

3. The development of five apartment units and 1,500 square feet of retail space results in a requirement for 13 parking spaces. It is assumed that the parking can be physically accommodated in one subterranean parking level.

4. The community benefit contribution is estimated at $39,000.

KMA estimates the supportable land value for this scenario at $434,000.

Mixed Use Ordinance Plus SB 1818 Density Bonus

1. The addition of a 35% SB 1818 density bonus allows for two additional units to be developed. This results in a seven unit project.

2. One of the seven units must be restricted as a very-low income household. KMA treated this unit is a studio unit.

3. The ground floor retail space is set at 1,500 square feet.

4. The parking required for the seven apartment units and 1,500 square feet of retail space totals 14 spaces. It is assumed that the parking can be physically accommodated in one subterranean parking level.

5. The community benefit contribution is set at $39,000.

KMA estimates the supportable land value for this scenario at $537,000.

Case Study #1 – Supportable Land Values

The Mixed Use Ordinance Density scenario generates a supportable land value of $434,000. In comparison, the Mixed Use Ordinance Density Plus SB 1818 Density Bonus scenario generates a supportable land value equal to $488,000. Thus, the addition of the SB 1818 density bonus increases the estimated land value by approximately 24%.

Case Study #2: 15,000 Square Foot Lot Adjacent to Multi-family Zones (Attachment II)

The development site for Case Study #2 is set at 15,000 square feet. This analysis assumes that the development site is located adjacent to multi-family zones, which limits the maximum density allowed by the Mixed Use Ordinance to 50 dwelling units per acre.

Mixed Use Ordinance Density

1. At 50 dwelling units per acre, the site can be developed with 17 apartment units.

2. The ground floor retail space is set at 4,500 square feet.

3. The parking requirement for 17 apartment units and 4,500 square feet of retail space totals 42 spaces. It is assumed that these spaces can be physically accommodated in one subterranean parking level.

4. The community benefit contribution is estimated at $198,000.

KMA estimates the supportable land value for this scenario at $1.59 million.

Mixed Use Ordinance Plus SB 1818 Density Bonus

1. The Mixed Use Ordinance allows for 17 units. The addition of a 35% SB 1818 density bonus allows for six additional units. This results in 23 apartment units.

2. Two of the 23 units must be restricted as very-low income units. KMA assumes these units are studio units.

3. The ground floor retail space is set at 4,500 square feet.

4. The parking requirement for 23 apartment units and 4,500 square feet of retail space totals 47 spaces. It is assumed that it will be necessary to provide this parking in two subterranean parking levels.

5. The community benefit contribution is set at $198,000.

KMA estimates the supportable land value for this scenario at $1.92 million.

Case Study #2 – Supportable Land Values

The Mixed Use Ordinance Density scenario generates a supportable land of $1.59 million, while the Mixed Use Ordinance Density Plus SB 1818 Density Bonus scenario generates a supportable land value equal to $1.92 million. Thus, the addition of the SB 1818 density bonus increases the estimated land value by approximately 20%.

Case Study #3: 15,000 Square Foot Lot Located in TOD District (Attachment III)

The development site for Case Study #3 is set at 15,000 square feet. This case study site is assumed to be located within the TOD District, which allows for a density of 65 dwelling units per acre under the Mixed Use Ordinance.

Mixed Use Ordinance Density

1. At 65 units per acre, the site can be developed with 22 apartment units.

2. The ground floor retail space is set at 4,500 square feet.

3. The 22 apartments and 4,500 square feet of retail space generate a requirement for 51 parking spaces. It is assumed that it will be necessary to provide two subterranean parking levels to fulfill this requirement.

4. The community benefit contribution is estimated at $398,000.

KMA estimates the supportable land value for this scenario at $1.83 million.

Mixed Use Ordinance Plus SB 1818 Density Bonus

1. The 35% SB 1818 density bonus allows for the development of eight additional units. This brings the total unit count to 30 apartment units.

2. Three of the 30 units must be set aside for very-low income households. KMA assumes these units are studio units.

3. The ground floor retail space is set at 4,500 square feet.

4. The 30 apartment units plus 4,500 square feet of retail space have a parking requirement totaling 57 spaces. It is assumed that the parking will be provided in two subterranean parking levels.

5. The community benefit contribution is set at $398,000.

KMA estimates the supportable land value for this scenario at $2.49 million.

Case Study #3 – Supportable Land Values

The Mixed Use Ordinance Density scenario generates a supportable land value of $1.83 million. Comparatively, the Mixed Use Ordinance Density Plus SB 1818 Density Bonus generates a supportable land value equal to $2.49 million. Thus, the addition of the SB 1818 density bonus increases the estimated land value by approximately 36%.

CONCLUSIONS

Based on the results of the case study analyses, it is the KMA conclusion that coupling the Mixed Use Ordinance Density and the SB 1818 density bonus increases the supportable land value for development sites by 20% to 36%. As such, the benefits offered by combining the densities significantly enhances the project economics.

It is important to note that recent commercial land sales within Culver City range from $145 to $380 per square foot of land area. Comparatively, the case study analyses indicate that the land values supported by the Mixed-Use Ordinance Density scenarios range from $87 to $122 per square foot of land area. This indicates that financial conditions currently limit the opportunities for attracting mixed use development.

The addition of the SB 1818 density bonus increases the supportable land values for the case study sites to $107 to $166 per square foot of land area. This should materially enhance the potential for attracting mixed use development to the designated corridors. This will result in the City receiving both community benefits contributions and new affordable housing units.