REGULAR MEETING AGENDA – AMENDED

Date: 8/5/2020
Time: 6:30 p.m.
Regular Meeting Location: Zoom.us/join – ID #997-7506-7654

This amended agenda includes updated title and staff report to item D2.

NOVEL CORONAVIRUS, COVID-19, EMERGENCY ADVISORY NOTICE
On March 19, 2020, the Governor ordered a statewide stay-at-home order calling on all individuals living in the State of California to stay at home or at their place of residence to slow the spread of the COVID-19 virus. Additionally, the Governor has temporarily suspended certain requirements of the Brown Act. For the duration of the shelter in place order, the following public meeting protocols will apply.

Teleconference meeting: All members of the Housing Commission, city staff, applicants, and members of the public will be participating by teleconference. To promote social distancing while allowing essential governmental functions to continue, the Governor has temporarily waived portions of the open meetings act and rules pertaining to teleconference meetings. This meeting is conducted in compliance with the Governor's Executive Order N-25-20 issued March 12, 2020, and supplemental Executive Order N-29-20 issued March 17, 2020.

- How to participate in the meeting
  - Access the meeting real-time online at: Zoom.us/join – Meeting ID #997-7506-7654

Subject to Change: Given the current public health emergency and the rapidly evolving federal, state, county and local orders, the format of this meeting may be altered or the meeting may be canceled. You may check on the status of the meeting by visiting the City's website www.menlopark.org. The instructions for logging on to the webinar and/or the access code is subject to change. If you have difficulty accessing the webinar, please check the latest online edition of the posted agenda for updated information (menlopark.org/agenda).

Regular Session (Zoom.us/join – ID# 997-7506-7654)

A. Call to Order

B. Roll Call

C. Public Comment

Under "Public Comment," the public may address the Commission on any subject not listed on the agenda. Each speaker may address the Commission once under Public Comment for a limit of three minutes. The Commission cannot act on items not listed on the agenda and, therefore, the Commission cannot respond to non-agenda issues brought up under Public Comment other than to provide general information.

D. Regular Business

D1. Approve minutes for the Housing Commission meetings of July 1, 2020 (Attachment)

D2. ~~Review feasibility analysis of the City of Menlo Park's below market rate (BMR) inclusionary rental housing requirements and consider recommending City Council approve updates to the BMR Housing Program Guidelines~~ Review financial feasibility analysis of the City of Menlo Park's below market rate (BMR) inclusionary rental housing requirements and consider making related policy recommendations to the City Council (Staff Report 20-005-HC)

E. Reports and Announcements

E1. Ad hoc subcommittee reports

E2. Commissioner reports

E3. Recommend future agenda items

E4. Staff updates and announcements

F. Adjournment

At every Regular Meeting of the Commission, in addition to the Public Comment period where the public shall have the right to address the Commission on any matters of public interest not listed on the agenda, members of the public have the right to directly address the Commission on any item listed on the agenda at a time designated by the Chair, either before or during the Commission's consideration of the item.

At every Special Meeting of the Commission, members of the public have the right to directly address the Commission on any item listed on the agenda at a time designated by the Chair, either before or during consideration of the item. For appeal hearings, appellant and applicant shall each have 10 minutes for presentations.

If you challenge any of the items listed on this agenda in court, you may be limited to raising only those issues you or someone else raised at the public hearing described in this notice, or in written correspondence delivered to the City of Menlo Park at, or prior to, the public hearing.

Any writing that is distributed to a majority of the Commission by any person in connection with an agenda item is a public record (subject to any exemption under the Public Records Act) and is available by request by emailing the city clerk at jaherren@menlopark.org. Persons with disabilities, who require auxiliary aids or services in attending or participating in Commission meetings, may call the City Clerk's Office at 650-330-6620.

Agendas are posted in accordance with Government Code §54954.2(a) or §54956. Members of the public can view electronic agendas and staff reports by accessing the City website at menlopark.org/agenda and can receive email notification of agenda and staff report postings by subscribing to the "Notify Me" service at menlopark.org/notifyme. Agendas and staff reports may also be obtained by contacting City Clerk at 650-330-6620. (Posted: 07/31/2020)

REGULAR MEETING MINUTES – DRAFT

Date: 7/1/2020
Time: 6:30 p.m.
Regular Meeting Location: Zoom.us/join – ID #997-7506-7654

A. Chair Merriman called the meeting to order at 6:32 p.m.

B. Roll Call

Present: Bigelow, Conroy, Grove, Horst, McPherson, Merriman, Pimentel
Absent: None
Staff: Deputy Community Development Director Rhonda Coffman, Management Analyst II Mike Noce, Associate Planner Ori Paz

C. Public Comment

None.

D. Regular Business

D1. Approve minutes for the Housing Commission meetings of March 4, 2020

ACTION: Motion and second (Grove/Horst) to approve the Housing Commission meeting minutes of March 4, 2020, passed (6-0-1, Pimentel abstained).

D2. Presentation on accessory dwelling units (ADUs)

Associate Planner Ori Paz introduced the item and made the presentation. (Attachment)

- Michael Doran spoke about ADU impact fees.

ACTION: By acclamation, the Housing Commission shared interest in providing feedback to future ADU regulation changes and receiving staff presentations.

D3. Recommend City Council endorse the Schools and Communities First ballot measure (Staff Report 20-004-HC)

Chair Merriman introduced the item and allowed for discussion amongst the commission.

- Jennifer Bestor spoke against the Housing Commission endorsing the legislation.

ACTION: Motion and second (Grove/Pimentel) to recommend City Council consider directing staff to research and analyze the Schools and Communities First ballot measure with a focus on impacts to housing development, the City's general fund and small businesses, passed 6-1 (Conroy dissenting).

D4. Housing Commission Chair and Vice Chair selection

Management Analyst Mike Noce shared that the Housing Commission should seek nominations for the position of Chair and Vice Chair in two separate motions. Each position needs to receive a majority of votes of the quorum present and voting. The Chair and Vice Chair selected will expect to serve through April 2021.

ACTION: Motion and second (Merriman/McPherson) to nominate Karen Grove as the Housing Commission Chair, passed unanimously.

ACTION: Motion and second (Grove/Bigelow) to nominate Rachel Horst as the Housing Commission Vice Chair, passed 6-0-1 (Horst abstains).

E. **Reports and Announcements**

E1. Subcommittee reports (10 minutes):

Below Market Rate (BMR) Housing Guidelines Subcommittee (Bigelow/Grove)

None.

Housing Policy Subcommittee (Conroy/Grove/Horst)

Conroy requested policies such as item D3. of the agenda be taken to a subcommittee for consideration in the future. Chair Grove reported that the short term rental ordinance will move forward to City Council and staff will be updating the commission moving forward.

Marketing Subcommittee (Bigelow/Horst/McGraw-Scherer)

None.

Notice of Funding Availability (NOFA) Subcommittee (Grove/McGraw-Scherer)

None.

Accessory Dwelling Unit Subcommittee (McPherson/Merriman)

Shared appreciation for the staff presentation on ADUs.

E2. Commissioner reports

Merriman shared observations about a recent shift in public sentiment for more support of affordable housing.

Pimentel reported on best practices being taken to promote work from home policies to assist in traffic reduction.

E3. Recommended future agenda items.

Commissioner suggested future agenda items:

- BAE study presentation
- Ad hoc subcommittee appointments
- Strategies for assisting at risk populations as a result of the pandemic

E4. Staff updates and announcements

Deputy Community Development Director Rhonda Coffman provided updates on:

- City Council approved the fiscal year 2020-2021 budget on June 23, 2020. Leading up to the approved budget the City Council held several meetings to discuss the expected $13 million deficit.
- City staff who are able to work remotely are expected to do so through December 2020. Numerous City services have transitioned to an online platform.
- Staff is developing tools with SB 2 grant funding for additional outreach and will return to the Housing Commission for recommendations.
- Staff submitted a LEAP grant application on July 1.
- The Regional Housing Needs Assessment (RHNA) for housing allocations in San Mateo County has doubled from previous cycle allocation and Menlo Park is expecting a large increase due to being identified as a jobs rich area. Specific figures for Menlo Park have not been released to date.
- Staff is coordinating a presentation by BAE for the August Housing Commission meeting.
- Samaritan House has administered $50,000 in rental assistance to 31 households. Staff is expecting an increase as a result of the San Mateo County rental eviction moratorium schedule to end in July.
- The short term rentals ordinance is expected to return to the City Council in late July or August.

F. Adjournment

Chair Grove adjourned the meeting at 9:01 p.m.

Mike Noce, Management Analyst II, Community Development

CITY OF MENLO PARK

STAFF REPORT

Housing Commission
Meeting Date: **8/5/2020**
Staff Report Number: **20-005-HC**

Regular Business: Review financial feasibility analysis of the City of Menlo Park's below market rate (BMR) inclusionary rental housing requirements and consider making related policy recommendations to the City Council

Recommendation

Staff recommends the Housing Commission review and consider making related policy recommendations to the City Council including, but not limited to:

1. Modify the City of Menlo Park's BMR housing program to require additional low-income inclusionary housing (e.g. increase from 15 to 20 percent);
2. Modify the City's BMR housing program to require two percent moderate income units in addition to the 15 percent low-income inclusionary requirement;
3. Recommend increasing the residential zoning density to make rental housing projects more financially feasible;
4. Adopt an in lieu fee to encourage the production of housing units based on the point of indifference.

Policy Issues

Any changes to the City's BMR housing program, including the required percentage of affordable housing and the level of affordability are a City Council policy decision. As currently identified in Section 11.1.1 of the City's below market rate housing program guidelines, an applicant with a project of 20 or more rental housing units must provide 15 percent of the units as below market rate rental units at the low-income level. Zoning changes or the adoption of an in lieu fee for BMR units are also City Council policy decisions. The Housing Commission acts as an advisory body to the City Council primarily on housing matters including housing supply and housing related problems.

Background

The City adopted Municipal Code Chapter 16.96 establishing the BMR housing program 33 years ago in 1987 to increase the supply of housing for people who live and/or work in Menlo Park and have very-low, low, or moderate incomes as defined by the California Housing and Community Development Department (HCD) for San Mateo. The BMR housing program, as summarized in Table 1 below, identifies different inclusionary requirements depending upon the size of the project. The smallest projects from zero to four units are exempt. Small projects with five to nine units need only provide one affordable unit. Projects with 10 to 19 units must provide 10 percent of the units as affordable. Large projects with 20 or more units must provide 15 percent of the units as affordable. For all of these projects, regardless of the size, the BMR housing program Guidelines require that rental units be provided at the low-income level (e.g., affordable to households with incomes equal to or less than 80 percent of the area median income or AMI.)

Table 1: BMR program requirements	
Number of units	**Inclusionary requirement**
0-4	Exempt
5-9	1 Unit
10-19	10%
20 or more	15%

There was a period beginning 2009, as a result of the California Court of Appeal ruling in the *Palmer/Sixth Street Properties LP v. City of Los Angeles* case, that the City was prevented from imposing inclusionary requirements on rental housing projects that did not receive government assistance. In 2011, the Menlo Park City Council by resolution formally suspended its inclusionary rental housing requirement to comply with the *Palmer* decision. However, in 2018, the State of California passed Assembly Bill 1505 overruling the *Palmer* decision and the City again began imposing inclusionary requirements on rental housing. At that time in 2018, a question came up as to the financial feasibility of the 15 percent low-income requirement for rental projects depending upon the size of the project. In response, the City Council has asked for a financial analysis of the impact of the BMR housing requirement on rental housing projects. On October 9, 2018, the City Council reviewed, provided input and approved the scope of work for the financial analysis by BAE Urban Economics (BAE), an expert financial consultant. The main tasks included:

1. **Analyze Projects of Various Sizes with 15 Percent Low-Income Requirement.** BAE would analyze prototypical projects with 20 units, 50 units, 100 units, and 200 units. For each size category, BAE would examine two different parking treatments that reflect varying densities.
2. **Analyze Projects of Various Sizes with 20 Percent Low-Income Requirement.** BAE would evaluate the financial feasibility of a 20 percent inclusionary requirement for each of the prototypes.
3. **Analyze an Above-Moderate Income Requirement.** BAE would evaluate the financial feasibility of adding a requirement that two percent of units in new market-rate residential developments be affordable to teachers and emergency workers with household incomes ranging from 120 to 160 percent of AMI. This requirement would be in addition to the existing 15 percent low income inclusionary requirement.
4. **Determine the "Point of Indifference."** BAE would determine the in-lieu fee rate for each unit size (e.g., one-, two-, and three-bedroom units) at which the cost to the developer is equivalent to providing units on-site according to the City's existing requirements, or the "point of indifference".

Analysis

BAE presented their methodology and findings in the report dated January 21, 2020, which is Attachment A. The analysis supports the following findings:

Higher-density (100 dus/acre or more) multifamily rental projects in Menlo Park can generally provide 15 percent of units affordable to low-income households in compliance with the City's existing BMR housing program, and could likely exceed the existing requirements, while maintaining feasibility. Multifamily rental projects built at the bonus level development (e.g., at 100 dwelling units per acre, plus any density bonuses) can provide 15 percent of units to low-income households while remaining financially feasible. With a 15 percent low-income requirement, the analysis found that these higher-density prototypes resulted in residual land values that are higher than the typical land sale costs within the area of Menlo Park that could accommodate these developments, indicating that these prototypes can feasibly provide more

low-income units than the 15 percent currently required by the City's existing BMR housing program. These results are consistent across all higher-density prototypes tested in the study. These projects can likely meet the existing inclusionary requirements along with the community amenities requirement that would apply to projects built at this bonus level.

Higher-density multifamily rental projects in Menlo Park can generally provide up to 20 percent of units affordable to low-income households while maintaining feasibility. Higher-density prototypes that provide 20 percent of units affordable to low-income households generate residual land values that exceed the feasibility thresholds used for this study. These projects are able to maintain feasibility due in part to the availability of density bonuses that partially offset the cost of providing additional affordable units. This finding is based on an assumption that the additional five percent low-income requirement would count toward the community amenities requirement that would apply to projects built at this bonus level, though it is possible that these projects could provide community amenities in addition to a 20-percent low income requirement.

Similarly, higher-density multifamily rental projects in Menlo Park can generally provide 15 percent of units affordable to low-income households plus an additional two percent of units affordable to moderate-income households while maintaining feasibility. The financial analysis found that providing two percent of units affordable to moderate-income households in addition to the existing requirement to provide 15 percent of units affordable to low-income households decreases residual land values only slightly. With the additional two percent moderate-income requirement, all higher-density prototypes tested in this study support residual land values that are higher than typical land sale costs within the area of Menlo Park that could accommodate these developments. This finding is based on an assumption that the additional two percent moderate income requirement would count toward the community amenities requirement that would apply to projects built at this bonus level, though it is possible that these projects could provide community amenities in addition to a 15-percent low-income requirement and a two-percent moderate income requirement.

Small (30 units or less) infill multifamily rental projects are generally not financially feasible in the current development environment, regardless of inclusionary requirements. This study tested two small (13- to 30-unit) multifamily rental projects that would be consistent with the El Camino Real Downtown Specific Plan Area and found that neither project is feasible under current market and development cost conditions. Both projects remained significantly below the infeasibility threshold even with no affordability requirement or BMR in-lieu fee, indicating that affordable housing requirements do not constitute the primary barrier to feasibility for these projects. This is consistent with trends throughout the Bay Area, as rapid increases in development costs have outpaced increases in multifamily rents, resulting in feasibility challenges for new construction projects in many communities. Small infill projects often to have higher costs on a per-unit or per-building-square-foot basis than large developments on larger sites, and therefore may be disproportionately impacted by these trends in some cases.

Larger (100 units or more) low-density (30 dus/acre plus any density bonus) multifamily rental projects are generally not feasible with the City's current inclusionary requirements, but also are not likely to constitute a significant share of future development projects in Menlo Park regardless of affordability requirements. Multifamily rental projects built at 38 to 41 dwelling units per acre are not feasible with the City's current inclusionary requirements. With a 15 percent low income requirement, the analysis found that these lower-density prototypes resulted in residual land values that are lower than the typical land sale costs within the area of Menlo Park that could accommodate these developments, indicating that these prototypes do not generate sufficient value to pay market-rate land costs.

However, regardless of affordability requirements, these prototypes are not likely to represent an attractive development opportunity relative to the higher-density prototypes that can be built on the same sites. The

analysis showed that the higher-density Bayfront Area prototypes – which could be built on the same sites as the lower-density Bayfront Area prototypes – generate a larger residual land value per site square foot than the lower-density prototypes, even with a significantly higher affordability requirement for the higher-density prototypes. This means that a developer pursuing a project on one of these sites would be able to offer more for the land if he or she is planning to construct a higher-density project, thereby outcompeting any developers pursuing a lower-density project on the same site. If a developer is able to acquire one of these sites for less than the residual land value that his or her project supports, the difference between the residual land value from the project and the actual sale price would essentially represent additional profit from the project. In this case, the developer would be incentivized to build the higher-density project with the higher residual land value, in order to increase profits from the project.

The in-lieu fee rates that represent the "point of indifference" compared to providing affordable units on site are approximately $335,000 per studio unit not provided on site, $351,000 per one-bedroom unit not provided on site, $449,000 per two-bedroom unit not provided on site, and $723,000 per three-bedroom unit not provided on site. A requirement that developers pay these fees for each affordable unit that is not provided in a project results in the same residual land values as providing the affordable units. Assessing fees that are higher than these rates would generally incentivize construction of affordable units on site within market-rate projects. Assessing fees that are lower than these rates would generally incentivize payment of in-lieu fees.

The in-lieu fee rates that represent the "point of indifference" are sensitive to the difference between market-rate rents and affordable rents, and therefore will change over time and between projects. The in-lieu fee rates that are equivalent to providing affordable units on site from a developer cost perspective will generally be higher for projects with a large gap between the market-rate rent and affordable rent, and lower for projects in which this gap is relatively small. Therefore, if the City adopts a single in-lieu fee that would apply to all projects based on the in-lieu fee equivalent for a typical project, developers of higher-end luxury projects will be incentivized to pay the fee due to the large pricing gap between the market-rate and affordable units. Conversely, developers of projects with a lower price point than is typical for Menlo Park will find it advantageous to provide affordable units on site. This finding also suggests that adjustments to fees over time should be based on changes in the difference between market-rate rents and affordable rents.

Next steps

The Housing Commission will want to consider what policy recommendations it may want to make to the City Council based on the information in the feasibility analysis (or if more information is desired before recommendations can be made. As noted in the recommendation, the Housing Commission may wish to make recommendations around the following policy considerations:

1. Modify the City of Menlo Park's BMR housing program to require additional low-income inclusionary housing (e.g., increase from 15 to 20 percent;)
2. Modify the City's BMR housing program to require two percent moderate income units in addition to the 15 percent low-income inclusionary requirement;
3. Recommend increasing the residential zoning density to make rental housing projects more financially feasible;
4. Adopt an in lieu fee to encourage the production of housing units based on the point of indifference.

It should be noted that housing development projects that have already submitted complete applications pursuant to Senate Bill 330, the Housing Crisis Act of 2019, would not be subject to any changes in the BMR housing program on in lieu fee.

Impact on City Resources

The scope and budget for BAE to prepare the analysis was previously approved and the consultant has been paid. If the City Council desires to make policy changes to the inclusionary housing requirements for rental housing based upon the Housing Commissions recommendation, depending upon the scope staff would at that time provide information relative to the costs of making the desired changes. Currently, changes to the inclusionary housing program are not part of the work program or the budget.

Environmental Review

This action is not a project within the meaning of the California Environmental Quality Act (CEQA) Guidelines Section 15378 and 15061(b)(3) as it will not result in any direct or indirect physical change in the environment. No further environmental review is necessary.

Public Notice

Public notification was achieved by posting the agenda, with the agenda items being listed, at least 72 hours prior to the meeting.

Attachments

A. BAE inclusionary housing feasibility analysis

Report prepared by:
Rhonda Coffman, Deputy Community Development Director – Housing

Reviewed by:
Leigh F. Prince, Assistant City Attorney

Attachment A

bae urban economics

Inclusionary Housing Feasibility Analysis

Prepared for the City of Menlo Park

January 21, 2020

bae urban economics

January 21, 2020

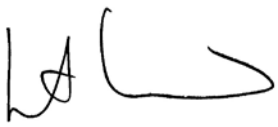
Ms. Deanna Chow, Assistant Community Development Director
City of Menlo Park
City Hall – 1st Floor
701 Laurel Street
Menlo Park, CA 94025

Dear Ms. Chow:

We are pleased to submit this Inclusionary Housing Feasibility Analysis report. This study evaluates the feasibility of the City's existing Below Market Rate housing program requirements for rental projects, tests the feasibility of adding additional affordable housing requirements for new rental projects, and provides analysis to inform the City's decision-making processes related to setting BMR in-lieu fees.

We hope that this report is helpful in assisting the City with evaluating its BMR Housing Program.

Sincerely,



David Shiver
Principal

Stephanie Hagar
Vice President

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EXECUTIVE SUMMARY

The City of Menlo Park established its Below Market Rate (BMR) Housing Program in 1987, which requires developers of new market-rate residential projects to provide affordable housing, also referred to as BMR housing. The City's current program requires that developers of projects with five to nine units either provide a BMR unit or pay an in-lieu fee. The program requires developers of projects with ten to 19 units to restrict ten percent of the units for the BMR Housing Program and requires developers of projects with 20 or more residential units to restrict 15 percent of the units for the BMR Housing Program.

Residential developers, community members, and elected and appointed City officials requested that the City evaluate various topics related to the City's BMR Housing Program for rental units. The City commissioned BAE to conduct a study to evaluate the following four scenarios (each a BMR Housing Scenario):

1) Providing low income rental units (i.e., units affordable to households with incomes equal to or less than 80 percent of the Area Median Income or AMI) in compliance with the City's existing BMR Housing Program;
2) Providing 20 percent of units as low-income units;
3) Adding a small number of units reserved for households with moderate incomes (defined in this analysis as households with incomes equal to 120 percent of AMI) addition to meeting a 15 percent low-income requirement; and
4) Payment of an in-lieu fee that represents the "point of indifference," or the fee that would be equivalent in cost to providing affordable units on site, from the perspective of a developer.

The purpose of BMR Housing Scenarios 1 through 3 is to inform City policy discussions related current and potential on-site inclusionary housing requirements in Menlo Park. The purpose of BMR Housing Scenario 4 is to inform City policy discussions related to providing developers with the option to pay an in-lieu fee rather than provide inclusionary units on site.

Methodology

The methodology used for this study involved preparation of static pro-forma financial feasibility models to test the effect of the BMR Housing Scenarios described above on eight multifamily rental prototypes. The prototypes encompass a range of project sizes and densities, which are designed to reflect the potential range of multifamily rental development projects in Menlo Park in the near to medium term given existing development regulations in the City's remaining multifamily rental opportunity areas. Two of the prototypes reflect typical development standards in the El Camino Real/Downtown (ECR/DT) Specific Plan Area and are consistent with other small infill projects that have been pursued in the area. The remaining six prototypes were developed based on the maximum densities permitted under existing

development and bonus level development zoning regulations in the Bayfront Area.[1] The detailed pro-formas shown in Appendix A provide information on each development program.

The static pro-forma models represent a simplified form of financial feasibility analysis that developers often use at a conceptual level of planning for a development project, as an initial test of financial feasibility for a development concept, to screen for viability. The pro-forma models are structured to calculate the residual land value associated with each prototype under each BMR Housing Scenario tested, equal to the market value of the completed project at stabilization net of total development costs and developer profit:

Capitalized Value at Stabilization (i.e., NOI ÷ cap rate) – Total Development Cost (not incl. land)

=

Residual Land Value

The residual land value approximates the maximum amount that a developer should be willing to pay for a given site, based on the value of the project that the developer would build on that site. In general, a development pro-forma that shows a residual land value that is approximately equivalent to or higher than the typical sale price for land among recent comparable sales indicates a financially feasible project. If a developer is able to acquire land for a price that is lower than the residual the land value associated with his or her project, the difference between the residual land value and the actual sale price essentially represents additional project profit.

Residual Land Value Analysis for Scenarios 1 through 3: This study evaluated BMR Housing Scenarios 1 through 3 based on whether each of the eight prototypes can absorb the inclusionary requirements associated with each scenario while maintaining financial feasibility. This analysis determined that a BMR Housing Scenario is financially feasible if the residual land value resulting from the scenario is comparable to or higher than actual typical land acquisition costs for residential development sites in Menlo Park. A residual land value that is higher than the typical sale price for residential development sites indicates that a project might be able to absorb higher inclusionary requirements than modeled in the BMR Housing Scenario, while a lower residual land value might indicate financial feasibility challenges.

Residual Land Value Analysis for Scenario 4: The purpose of BMR Housing Scenario 4 is to identify the "point of indifference" for a potential in-lieu fee, or the BMR in-lieu fee rates that are equivalent to meeting the City's existing BMR Housing Program requirements from a developer cost perspective. This differs from the other three BMR Housing Scenarios because the purpose of the financial analysis for BMR Housing Scenario 4 is to identify these equivalent fee rates for each prototype, rather than to evaluate the financial feasibility of the

[1] To be eligible for bonus level development, an applicant must provide community amenities in accordance with Bayfront Area zoning regulations.

scenario itself. This analysis evaluated BMR Housing Scenario 4 by identifying the fee rates that result in the same residual land value as providing affordable units on site.

Key Findings

The analysis presented in this study supports the following findings:

Higher-density (100 dus/acre or more) multifamily rental projects in Menlo Park can generally provide 15 percent of units affordable to low-income households in compliance with the City's existing BMR Housing Program, and could likely exceed the existing requirements, while maintaining feasibility. The financial analysis found that multifamily rental projects built at bonus level development (i.e., at 100 dwelling units per acre, plus any density bonuses) can provide 15 percent of units to low-income households while remaining financially feasible. With a 15-percent low-income requirement, the analysis found that these higher-density prototypes resulted in residual land values that are higher than the typical land sale costs within the area of Menlo Park that could accommodate these developments, indicating that these prototypes can feasibly provide more low-income units than the 15 percent currently required by the City's existing BMR Housing Program. These results are consistent across all higher-density prototypes tested in this study. These projects can likely meet the existing inclusionary requirements along with the community amenities requirement that would apply to projects built at this bonus level.

Higher-density multifamily rental projects in Menlo Park can generally provide up to 20 percent of units affordable to low-income households while maintaining feasibility. The financial analysis found that higher-density prototypes that provide 20 percent of units affordable to low-income households generate residual land values that exceed the feasibility thresholds used for this study. These projects are able to maintain feasibility due in part to the availability of density bonuses that partially offset the cost of providing additional affordable units. This finding is based on an assumption that the additional five percent low-income requirement would count toward the community amenities requirement that would apply to projects built at this bonus level, though it is possible that these projects could provide community amenities in addition to a 20-percent low income requirement.

Similarly, higher-density multifamily rental projects in Menlo Park can generally provide 15 percent of units affordable to low-income households plus an additional two percent of units affordable to moderate-income households while maintaining feasibility. The financial analysis found that providing two percent of units affordable to moderate-income households in addition to the existing requirement to provide 15 percent of units affordable to low-income households decreases residual land values only slightly. With the additional two percent moderate-income requirement, all higher-density prototypes tested in this study support residual land values that are higher than typical land sale costs within the area of Menlo Park that could accommodate these developments. This finding is based on an assumption that the additional two percent moderate income requirement would count toward the community

amenities requirement that would apply to projects built at this bonus level, though it is possible that these projects could provide community amenities in addition to a 15-percent low-income requirement and a two-percent moderate income requirement.

Small (30 units or less) infill multifamily rental projects are generally not financially feasible in the current development environment, regardless of inclusionary requirements. This study tested two small (13- to 30-unit) multifamily rental projects that would be consistent with the ECR/DT Specific Plan Area and found that neither project is feasible under current market and development cost conditions. Both projects remained significantly below the infeasibility threshold even with no affordability requirement or BMR in-lieu fee, indicating that affordable housing requirements do not constitute the primary barrier to feasibility for these projects. This is consistent with trends throughout the Bay Area, as rapid increases in development costs have outpaced increases in multifamily rents, resulting in feasibility challenges for new construction projects in many communities. Small infill projects often to have higher costs on a per-unit or per-building-square-foot basis than large developments on larger sites, and therefore may be disproportionately impacted by these trends in some cases.

Larger (100 units or more) low-density (30 dus/acre plus any density bonus) multifamily rental projects are generally not feasible with the City's current inclusionary requirements, but also are not likely to constitute a significant share of future development projects in Menlo Park regardless of affordability requirements. The financial analysis found that multifamily rental projects built at 38 to 41 dwelling units per acre are not feasible with the City's current inclusionary requirements. With a 15-percent low-income requirement, the analysis found that these lower-density prototypes resulted in residual land values that are lower than the typical land sale costs within the area of Menlo Park that could accommodate these developments, indicating that these prototypes do not generate sufficient value to pay market-rate land costs.

However, regardless of affordability requirements, these prototypes are not likely to represent an attractive development opportunity relative to the higher-density prototypes that can be built on the same sites. The analysis showed that the higher-density Bayfront Area prototypes – which could be built on the same sites as the lower-density Bayfront Area prototypes – generate a larger residual land value per site square foot than the lower-density prototypes, even with a significantly higher affordability requirement for the higher-density prototypes. This means that a developer pursuing a project on one of these sites would be able to offer more for the land if he or she is planning to construct a higher-density project, thereby outcompeting any developers pursuing a lower-density project on the same site. If a developer is able to acquire one of these sites for less than the residual land value that his or her project supports, the difference between the residual land value from the project and the actual sale price would essentially represent additional profit from the project. In this case, the developer would be incentivized to build the higher-density project with the higher residual land value, in order to increase profits from the project.

The in-lieu fee rates that represent the "point of indifference" compared to providing affordable units on site are approximately $335,000 per studio unit not provided on site, $351,000 per one-bedroom unit not provided on site, $449,000 per two-bedroom unit not provided on site, and $723,000 per three-bedroom unit not provided on site. A requirement that developers pay these fees for each affordable unit that is not provided in a project results in the same residual land values as providing the affordable units. Assessing fees that are higher than these rates would generally incentivize construction of affordable units on site within market-rate projects. Assessing fees that are lower than these rates would generally incentivize payment of in-lieu fees.

The in-lieu fee rates that represent the "point of indifference" are sensitive to the difference between market-rate rents and affordable rents, and therefore will change over time and between projects. The in-lieu fee rates that are equivalent to providing affordable units on site from a developer cost perspective will generally be higher for projects with a large gap between the market-rate rent and affordable rent, and lower for projects in which this gap is relatively small. Therefore, if the City adopts a single in-lieu fee that would apply to all projects based on the in-lieu fee equivalent for a typical project, developers of higher-end luxury projects will be incentivized to pay the fee due to the large pricing gap between the market-rate and affordable units. Conversely, developers of projects with a lower price point than is typical for Menlo Park will find it advantageous to provide affordable units on site. This finding also suggests that adjustments to fees over time should be based on changes in the difference between market-rate rents and affordable rents.

INTRODUCTION

The City of Menlo Park has a 32-year history of supporting the production of affordable housing through inclusionary requirements and affordable housing fees, demonstrating the City's long-standing commitment to addressing local affordable housing needs. The City established a Below Market Rate (BMR) Housing Program in 1987 and has updated the program on a periodic basis to accommodate shifts in State housing laws as well as local needs and policy objectives. The City's current BMR Housing Program requires that developers of projects with five to nine units either provide a BMR unit or pay an in-lieu fee. The program requires developers of projects with ten to 19 units to restrict ten percent of the units for the BMR Program and requires developers of a projects with 20 or more residential units to restrict 15 percent of the units for the BMR Program. The BMR Program requires that BMR rental units be affordable to households that qualify as low income, defined by the City's ordinance as households with incomes equal to or less than 80 percent of the Area Median Income (AMI), although an equivalent alternative may be approved by the City Council.

Residential developers, community members, and elected and appointed City officials requested that the City evaluate various topics related to the City's BMR Housing Program for rental units. While some members of the development community report challenges in meeting the current requirement, Menlo Park has experienced substantial residential development activity despite these requirements. Meanwhile, some community members and elected and appointed officials have expressed an interest in understanding whether the City might be able increase the BMR requirements for market-rate developments. In addition, local and elected officials have expressed interest in achieving a better understanding of potential BMR in-lieu fee rates, with a focus on identifying the fee rates that result in developer return metrics that are similar to the return metrics for a project that would provide BMR units on site rather than pay an in-lieu fee. The City commissioned BAE to conduct an economic analysis to evaluate these topics.

Purpose

The purpose of this analysis is to assess the economic feasibility of the City's existing BMR Housing Program requirements for rental projects, evaluate whether it would be possible to increase the requirements for rental projects to better address the City's affordable housing needs, and inform future discussions about the City's rental in-lieu fees. The following analysis evaluates four scenarios (each a BMR Housing Scenario) as each scenario relates to future multifamily rental development in Menlo Park:

1) Providing low income rental units in compliance with the City's existing BMR Housing Program (ten percent of units in projects with ten to 19 units and 15 percent of units in projects with 15 units or more);
2) Providing 20 percent of units as low-income units;

3) Adding a small number of units reserved for teacher and emergency worker households with moderate incomes (defined in this analysis as households with incomes equal to 120 percent of AMI) in addition to meeting a 15 percent low-income requirement; and
4) Payment of an in-lieu fee that represents the "point of indifference," or the fee that would be equivalent in cost to providing affordable units on site, from the perspective of a developer.

The purpose of BMR Housing Scenarios 1 through 3 is to inform City policy discussions related current and potential on-site inclusionary housing requirements in Menlo Park. The purpose of BMR Housing Scenario 4 is to inform City policy discussions related to providing developers with the option to pay an in-lieu fee rather than provide inclusionary units on site. If in-lieu fees are lower than the fee rates identified in BMR Housing Scenario 4, market-rate developers will generally choose to pay the fee rather than provide units on site. If in-lieu fees are higher than the fee rates identified in BMR Housing Scenario 4, market-rate developers will generally choose to provide units on site rather than pay the in-lieu fee.

Report Organization

The remainder of this report is organized as follows:

- **Development of Prototype Projects.** This chapter identifies eight multifamily rental project prototypes, which are designed to reflect a range of potential future residential development typologies in Menlo Park. This section also describes the methodology that this study used to derive the eight prototypes.
- **Financial Analysis.** This chapter presents the results of a static development pro-forma analysis that provides a financial analysis of each of the four BMR Housing Scenarios in each of the eight multifamily rental prototype projects. The methodology used for the financial analysis is described in detail in this section of the report.
- **Key Findings.** This chapter summarizes the key findings from the financial analysis as they relate to each of the four BMR Housing Scenarios.

DEVELOPMENT OF PROTOTYPE PROJECTS

This chapter summarizes the methodology that BAE used to develop the eight multifamily rental development prototypes used for the financial feasibility analysis. The prototypes encompass a range of project sizes and densities, which are designed to reflect the likely range of multifamily rental development projects in Menlo Park in the near to medium term given existing development regulations in the City's remaining multifamily rental opportunity areas. The subsequent chapter of this report evaluates each of these prototypes in relation to the four BMR Housing Scenarios analyzed in this report.

Multifamily Rental Prototypes

BAE consulted with City staff to identify potential size ranges for future multifamily rental projects in Menlo Park, as well as the development standards that would apply to new projects in the two areas most likely to accommodate future multifamily development in the City: the ECR/DT Specific Plan Area and the Bayfront Area. BAE also reviewed recently-constructed multifamily rental projects and projects in the City's development pipeline to define residential development typologies for projects actively being pursued in the City. The two smallest prototypes (Prototypes 1 and 2) shown in Table 1 below reflect typical development standards in the ECR/DT Specific Plan Area and are consistent with other small infill projects that have been pursued in the area. The larger prototypes (Prototypes 3 through 8) were developed based on the maximum densities permitted under base and bonus level development zoning regulations in the Bayfront Area. Each of the prototypes evaluated in this study are described below and summarized in Table 1 below. The detailed pro-formas shown in Appendix A provide additional information on each development program.

Density Bonuses for Prototype Projects

This analysis assumes that each of the prototypes would receive density bonuses pursuant to either the State Density Bonus Law or the density bonuses that are available as part of the City of Menlo Park's BMR Housing Program. The City's BMR Housing Program allows developers to build one bonus unit for every one BMR unit provided within a project, up to a 15 percent density bonus, and relaxes some development standards for projects that provide BMR units on site. For example, if the zoning for a site allows for 100 units, a project that restricts 15 units (15 percent) for low-income households would be eligible for an additional 15 market-rate units under the City's BMR Housing Program, resulting in 115-unit project with 15 BMR units and 100 market-rate units. In Scenarios 2 and 3, this analysis assumes that the City would modify its existing density bonus program to allow an additional market-rate unit for each low-income or moderate-income unit provided on site.

State Density Bonus Law provides various levels of density bonuses, along with other concessions and incentives, depending on the number of affordable units provided in a project and the income level of the affordable units. Under State Density Bonus Law, a project is

eligible for a 27.5-percent density bonus if 15 percent of the units that would be allowable by zoning are affordable to low-income households. For example, if the zoning for a site allows for 100 units, a project that restricts 15 units (15 percent) for low-income households would be eligible for an additional 28 market-rate units under State Density Bonus Law, resulting in a 128-unit project with 15 affordable units and 113 market-rate units. The percentage density bonus provided by State Density Bonus Law increases as the percent affordable increases. A project is eligible for a 35-percent density bonus if 20 percent of the units that would be allowable by zoning are affordable to low-income households. Projects that provide units affordable to very low-income households are eligible for the same density bonuses in exchange for a smaller percentage of affordable units.

Although the State Density Bonus Law provides a larger density bonus than the City's BMR Housing Program, State Density Bonus Law requires deeper affordability. The State Density Bonus Law requires that low-income units target households with incomes equal to 60 percent of the area median income (AMI), while the City's BMR Housing Program requires that low income units target households with incomes equal to 80 percent of AMI. Therefore, some developers may choose to provide deeper affordability in exchange for a larger density bonus under the State Density Bonus Law, whereas others may choose a smaller density bonus in exchange for higher rents for the affordable units allowed by the City's BMR Housing Program.

El Camino Real/Downtown Specific Plan Area Prototypes

The ECR/DT Specific Plan Area consists of smaller infill opportunity sites for relatively small-scale projects, and therefore the prototypes for the ECR/DT Specific Plan Area consist of one prototype on a half-acre site and one prototype on a one-acre site. New multifamily rental projects in this area are typically required to include at least a small amount of ground-floor commercial space. Consistent with the City's requirements in the ECR/DT Specific Plan Area, both prototypes provide parking at a ratio of 1.85 spaces per residential unit and 4.0 spaces per 1,000 square feet of commercial space. Parking for these prototypes is provided through a combination of podium and surface spaces. This analysis assumes that the ECR/DT Specific Plan Area prototypes receive a density bonus under the City's BMR Housing Program, which is consistent with the option that developers have typically pursued for projects in this area. The City BMR Housing Program may be preferred in this area because the small site sizes in this area make it difficult to accommodate the additional density that the State Density Bonus Law would offer along with the parking that would be required to serve the additional units.

Prototype 1: ECR/DT Prototype on 0.48 Acres: Prototype 1 consists of a small residential project on a 0.48-acre site in the ECR/DT Specific Plan Area. Based on the zoning, the site has a residential density of 25 dwelling units per acre, or 12 units total. The analysis assumes that the project would use the City's BMR Housing Program, which would result in differing numbers of total residential units depending on the BMR Housing Scenario (see below). This prototype includes 2,000 square feet of commercial space in all scenarios. While this prototype is slightly larger than the minimum project size that would be required to provide a

BMR unit (ten units), the findings for this prototype would generally be applicable to a slightly smaller, ten-unit project. The project that would be built on the site in BMR Housing Scenarios 1 through 3 are as follows:

- **Scenario 1:** Under the City's BMR Housing Program, the 12-unit project that could be built as allowable by zoning would be required to provide 1.2 BMR units (ten percent of 12 units). This analysis assumes that the prototype would provide one BMR unit in Scenario 1 and pay an in-lieu fee to satisfy the requirement for an additional 0.2 BMR units. The City's BMR Housing Program would allow a density bonus of one additional market-rate unit in exchange for the affordable unit, resulting in a 13-unit project.
- **Scenario 2:** Under Scenario 2, the 12-unit project that could be built as allowable by zoning would be required to provide 2.4 BMR units (20 percent of 12 units). This analysis assumes that the prototype would provide two BMR units in Scenario 2 and pay an in-lieu fee to satisfy the requirement for an additional 0.4 BMR units. This analysis assumes that the City's BMR Housing Program would allow a density bonus of two additional market-rate units in exchange for the affordable units, resulting in a 14-unit project.
- **Scenario 3:** Under Scenario 3, the 12-unit project that could be built as allowable by zoning would be required to provide 1.8 low-income units (15 percent of 12 units) plus 0.24 moderate-income units (two percent of 12 units), or 2.04 BMR units in total (1.8 low-income plus 0.24 moderate-income). This analysis assumes that the prototype would provide two low-income units in Scenario 3 and pay an in-lieu fee to satisfy the requirement for an additional 0.04 BMR units. This represents one possible outcome for this project based on the requirements in Scenario 3. If the City were to adopt a requirement in accordance with Scenario 3, the total number of BMR units, BMR affordability levels, and fractional in-lieu fee payment for this project would depend on developer decisions as well as the City's policies related to rounding of requirements for fractional units in each affordability category and payment of in-lieu fees to meet requirements for fractional units in each affordability category. This analysis assumes that the City's BMR Housing Program would allow a density bonus of two additional market-rate units in exchange for the affordable units, resulting in a 14-unit project.

Prototype 2: ECR/DT Prototype on 1.0 Acres: Prototype 2 consists of a slightly larger residential project on a 1.0-acre site in the ECR/DT Specific Plan Area. Based on the zoning, the site has a residential density of 25 dwelling units per acre, or 25 units total. The analysis assumes that the project would use the City's BMR Housing Program, which would result in differing numbers of residential units depending on the BMR Housing Scenario (see below). This prototype includes 4,500 square feet of commercial space in all scenarios. The project that would be built on the site in BMR Housing Scenarios 1 through 3 are as follows:

- **Scenario 1:** Under the City's BMR Housing Program, the 25-unit project that could be built as allowable by zoning would be required to provide 3.75 BMR units (15 percent

of 25 units). This analysis assumes that the prototype would provide three BMR units in Scenario 1 and pay an in-lieu fee to satisfy the requirement for an additional 0.75 BMR units. The City's BMR Housing Program would allow a density bonus of three additional market-rate units in exchange for the affordable units, resulting in a 28-unit project.

- Scenario 2: Under Scenario 2, the 25-unit project that could be built as allowable by zoning would be required to provide five BMR units (20 percent of 25 units). This analysis assumes that the City's BMR Housing Program would allow a density bonus of five additional market-rate units in exchange for the affordable units, resulting in a 30-unit project.
- Scenario 3: Under Scenario 3, the 25-unit project that could be built as allowable by zoning would be required to provide 3.75 low-income units (15 percent of 25 units) plus 0.5 moderate-income units (two percent of 25 units), or 4.25 BMR units in total (3.75 low-income plus 0.5 moderate-income). This analysis assumes that in Scenario 3 the prototype would provide four BMR units, comprised of three low-income units and one moderate-income unit, and pay an in-lieu fee to satisfy the requirement for an additional 0.25 BMR units. As with Prototype 1, this represents one possible outcome for this project based on the requirements in Scenario 3, though the total number of BMR units, BMR affordability levels, and fractional in-lieu fee payment for this project would depend on developer decisions as well as the City policies related to fractional units in each affordability category. This analysis also assumes that the City's BMR Housing Program would allow a density bonus of four additional market-rate units in exchange for the affordable units, resulting in a 29-unit project.

Bayfront Area Prototypes

The Bayfront Area includes larger development sites that could accommodate the prototypes with 100 units or more. Within the primary zoning district in the Bayfront Area where residential development is allowed (the Residential Mixed-Use or "RM-U" zoning district), the base density is 30 dwelling units per acre. However, projects in the RM-U zoning district that provide community amenities pursuant to the City's community amenities program can be built at bonus level densities of up to 100 dwelling units per acre. The City prefers that residential projects built at bonus level development in the RM-U zoning district meet the community amenity requirement by providing additional affordable units, in excess of the units that a project must provide to meet the requirements of the City's BMR Housing Program.

The Bayfront Area prototypes in this study include prototypes at the base density and at bonus level development. For each prototype, this analysis includes a scenario in which 15 percent of the units in the project are affordable to low-income households. Under the City's R-MU zoning ordinance, the City's preference is that projects built at the bonus level development provide more than 15 percent of units to low-income households to meet the community amenity requirement. However, this analysis includes a 15-percent affordability scenario for

the bonus level development projects as a baseline in order to first evaluate the feasibility of Scenario 1, independent of the requirement to provide community amenities. The Financial Analysis chapter of this report includes analysis related to the financial feasibility of community amenities requirements in these prototypes.

This analysis assumes that projects in the Bayfront Area that do not pursue bonus level development in exchange for community amenities will choose the State Density Bonus Law rather than the City's BMR Housing Program in order to maximize the number of market-rate units on each site. Therefore, the affordable units in these prototypes would target households with incomes equal to 60 percent of AMI, per State Density Bonus Law requirements.

The analysis assumes that Bayfront Area projects that are built at bonus level development in exchange for community amenities will choose the City's BMR Housing Program rather than the State Density Bonus Law, which is consistent with at least one proposed residential project in the Bayfront Area. The City's BMR Housing Program may be more attractive at bonus level development because providing additional units pursuant to State Density Bonus Law could necessitate a change in the building typology that would require a more expensive construction type.

As an alternative or in addition to additional affordable housing as the community amenity, City staff reports that that the City Council has expressed an interest in encouraging projects in these areas to provide commercial space for neighborhood-serving retail. Therefore, each of the Bayfront Area prototypes included in this analysis includes a small amount of ground-floor commercial space.

This analysis assumes that parking is provided at a rate 1.5 spaces per unit for projects built at 40 dwelling units per acre and 1.15 spaces per unit for projects built at 100 dwelling units per acre, plus 3.0 spaces per 1,000 square feet of commercial space. These parking ratios exceed the minimum parking requirements for the RM-U zoning district, which are lower than the maximum allowable parking requirements for projects that utilize State Density Bonus Law. The lower-density Bayfront Area prototypes would provide parking through a combination of podium garage spaces and surface spaces, while the higher-density Bayfront Area prototypes would provide parking in two levels of podium parking.

Prototype 3: Lower-Density Bayfront Area Prototype on 3.3 Acres: Prototype 3 consists of a residential project on a 3.3-acre site in the Bayfront Area, which would be built at the lower or base density which has a residential density of 30 dwelling units per acre, or 100 units total. The analysis assumes that the project would use the State Density Bonus Law, which would result in differing numbers of residential units depending on the BMR Housing Scenario (see below). This prototype includes 1,000 square feet of commercial space in all scenarios. The project that would be built on the site in BMR Housing Scenarios 1 through 3 are as follows:

- **Scenario 1:** Under the City's BMR Housing Program, the 100-unit project that could be built as allowable by zoning (no bonus level development) would be required to provide 15 BMR units (15 percent of 100 units). This analysis assumes that the developer would choose to make these units affordable to households with incomes equal to 60 percent of AMI, thereby making the project eligible for a 27.5-percent increase in density under the State Density Bonus Law. The additional 27.5 units would be rounded up to allow for 28 additional market-rate units, resulting in a 128-unit project.
- **Scenario 2:** Under Scenario 2, the 100-unit project that could be built as allowable by zoning would be required to provide 20 BMR units (20 percent of 100 units). This analysis assumes that the developer would choose to make these units affordable to households with incomes equal to 60 percent of AMI, thereby making the project eligible for a 35-percent increase in density under the State Density Bonus Law, resulting in a 135-unit project.
- **Scenario 3:** Under Scenario 3, the 100-unit project that could be built as allowable by zoning would be required to provide 17 BMR units (17 percent of 100 units), consisting of 15 low-income units and two moderate-income units. This analysis assumes that the developer would choose to make the low-income units affordable to households with incomes equal to 60 percent of AMI, thereby making the project eligible for a 27.5-percent increase in density under the State Density Bonus law, as in Scenario 1. Under State Density Bonus law, the moderate-income units would not entitle the project to any additional density. Therefore, the project would consist of a total of 128 units, including 111 market-rate units, 15 low-income units, and two moderate-income units.

Prototype 4: Lower-Density Bayfront Area Prototype on 6.7 Acres: Prototype 4 consists of a residential project on a 6.7-acre site in the Bayfront Area, which would be built at the lower or base density, which would allow a residential density of 30 dwelling units per acre, or 200 units total. The analysis assumes that the project would use the State Density Bonus Law, which would result in differing numbers of residential units depending on the BMR Housing Scenario (see below). This prototype includes 2,000 square feet of commercial space in all scenarios. The project that would be built on the site in BMR Housing Scenarios 1 through 3 are as follows:

- **Scenario 1:** Under the City's BMR Housing Program, the 200-unit project that could be built as allowable by zoning would be required to provide 30 BMR units (15 percent of 200 units). This analysis assumes that the developer would choose to make these units affordable to households with incomes equal to 60 percent of AMI, thereby making the project eligible for a 27.5-percent increase in density pursuant to State Density Bonus Law, or 55 additional market-rate units, resulting in a 255-unit project.
- **Scenario 2:** Under Scenario 2, the 200-unit project that could be built as allowable by zoning would be required to provide 40 BMR units (20 percent of 200 units). This

analysis assumes that the developer would choose to make these units affordable to households with incomes equal to 60 percent of AMI, thereby making the project eligible for a 35-percent increase in density under the State Density Bonus Law, resulting in a 270-unit project.

- Scenario 3: Under Scenario 3, the 200-unit project that could be built as allowable by zoning would be required to provide 34 BMR units (17 percent of 200 units), consisting of 30 low-income units and four moderate-income units. This analysis assumes that the developer would choose to make the low-income units affordable to households with incomes equal to 60 percent of AMI, thereby making the project eligible for a 27.5-percent increase in density under the State Density Bonus Law, as in Scenario 1. Under State Density Bonus Law, the moderate-income units would not entitle the project to any additional density. Therefore, the project would consist of a total of 255 units, including 221 market-rate units, 30 low-income units, and four moderate-income units.

Prototype 5: Lower-Density Bayfront Area Prototype on 13.3 Acres: Prototype 5 consists of a residential project on a 13.3-acre site in the Bayfront Area, which would be built at the lower or base density, which would allow 30 dwelling units per acre, or 400 units total. The analysis assumes that the project would use the State Density Bonus Law, which would result in differing numbers of residential units depending on the BMR Housing Scenario (see below). This prototype includes 4,000 square feet of commercial space in all scenarios. The project that would be built on the site in BMR Housing Scenarios 1 through 3 are as follows:

- Scenario 1: Under the City's BMR Housing Program, the 400-unit project that could be built as allowable by zoning would be required to provide 60 BMR units (15 percent of 400 units). This analysis assumes that the developer would choose to make these units affordable to households with incomes equal to 60 percent of AMI, thereby making the project eligible for a 27.5-percent increase in density pursuant to State Density Bonus Law, or 110 additional market-rate units, resulting in a 510-unit project.
- Scenario 2: Under Scenario 2, the 400-unit project that could be built as allowable by zoning would be required to provide 80 BMR units (20 percent of 400 units). This analysis assumes that the developer would choose to make these units affordable to households with incomes equal to 60 percent of AMI, thereby making the project eligible for a 35-percent increase in density under the State Density Bonus Law, resulting in a 540-unit project.
- Scenario 3: Under Scenario 3, the 400-unit project that could be built as allowable by zoning would be required to provide 68 BMR units (17 percent of 400 units), consisting of 60 low-income units and eight moderate-income units. This analysis assumes that the developer would choose to make the low-income units affordable to households with incomes equal to 60 percent of AMI, thereby making the project eligible for a 27.5-percent increase in density under the State Density Bonus Law, as in

Scenario 1. Under State Density Bonus law, the moderate-income units would not entitle the project to any additional density. Therefore, the project would consist of a total of 510 units, including 442 market-rate units, 60 low-income units, and eight moderate-income units.

Prototype 6: Higher-Density Bayfront Area Prototype on 1.0 Acres: Prototype 6 consists of a residential project on a 1.0-acre site in the Bayfront Area, built at bonus level development in exchange for community amenities. At bonus level development, the site has a residential density of 100 dwelling units per acre, or 100 units total. The analysis assumes that the project would use the City's BMR Housing Program, which would result in differing numbers of residential units depending on the BMR Housing Scenario (see below). This prototype includes 750 square feet of commercial space in all scenarios. The project that would be built on the site in BMR Housing Scenarios 1 through 3 are as follows:

- **Scenario 1:** Under the City's BMR Housing Program, the 100-unit project that could be built as allowable by zoning would be required to provide 15 BMR units (15 percent of 100 units). The City's BMR Housing Program would allow a density bonus of 15 additional market-rate units in exchange for the affordable units, resulting in a 115-unit project.
- **Scenario 2:** Under Scenario 2, the 100-unit project that could be built as allowable by zoning would be required to provide 20 BMR units (20 percent of 100 units). This analysis assumes that the City's BMR Housing Program would allow a density bonus of 20 additional market-rate units in exchange for the affordable units, resulting in a 120-unit project.
- **Scenario 3:** Under Scenario 3, the 100-unit project that could be built as allowable by zoning would be required to provide 17 BMR units (17 percent of 100 units), consisting of 15 low-income units and two moderate-income units. This analysis assumes that the City's BMR Housing Program would allow as a density bonus 17 additional market-rate units in exchange for the affordable units, resulting in a 117-unit project.

Prototype 7: Higher-Density Bayfront Area Prototype on 2.0 Acres: Prototype 7 consists of a residential project on a 2.0-acre site in the Bayfront Area, built at bonus level development in exchange for community amenities. At bonus level development, the site has a residential density of 100 dwelling units per acre, or 200 units total. The analysis assumes that the project would use the City's BMR Housing Program, which would result in differing numbers of residential units depending on the BMR Housing Scenario (see below). This prototype includes 1,000 square feet of commercial space in all scenarios. The project that would be built on the site in BMR Housing Scenarios 1 through 3 are as follows:

- **Scenario 1:** Under the City's BMR Housing Program, the 200-unit project that could be built as allowable by zoning would be required to provide 30 BMR units (15 percent of

200 units). The City's BMR Housing Program would allow as a density bonus 30 additional market-rate units in exchange for the affordable units, resulting in a 230-unit project.

- **Scenario 2:** Under Scenario 2, the 200-unit project that could be built as allowable by zoning would be required to provide 40 BMR units (20 percent of 200 units). This analysis assumes that the City's BMR Housing Program would allow as a density bonus 40 additional market-rate units in exchange for the affordable units, resulting in a 240-unit project.
- **Scenario 3:** Under Scenario 3, the 200-unit project that could be built as allowable by zoning would be required to provide 34 BMR units (17 percent of 200 units), consisting of 30 low-income units and four moderate-income units. This analysis assumes that the City's BMR Housing Program would allow as a density bonus 34 additional market-rate units in exchange for the affordable units, resulting in a 234-unit project.

Prototype 8: Higher-Density Bayfront Area Prototype on 4.0 Acres: Prototype 8 consists of a residential project on a 4.0-acre site in the Bayfront Area, built at the bonus level development in exchange for the provision of community amenities. At the bonus level development, the site has a residential density of 100 dwelling units per acre, or 400 units total. The analysis assumes that the project would use the City's BMR Housing Program, which would result in differing numbers of residential units depending on the BMR Housing Scenario (see below). This prototype includes 2,000 square feet of commercial space in all scenarios. The project that would be built on the site in BMR Housing Scenarios 1 through 3 are as follows:

- **Scenario 1:** Under the City's BMR Housing Program, the 400-unit project that could be built as allowable by zoning would be required to provide 60 BMR units (15 percent of 400 units). The City's BMR Housing Program would allow as a density bonus 60 additional market-rate units in exchange for the affordable units, resulting in a 460-unit project.
- **Scenario 2:** Under Scenario 2, the 400-unit project that could be built as allowable by zoning would be required to provide 80 BMR units (20 percent of 400 units). This analysis assumes that the City's BMR Housing Program would allow as a density bonus 80 additional market-rate units in exchange for the affordable units, resulting in a 480-unit project.
- **Scenario 3:** Under Scenario 3, the 400-unit project that could be built as allowable by zoning would be required to provide 68 BMR units (17 percent of 400 units), consisting of 60 low-income units and eight moderate-income units. This analysis assumes that the City's BMR Housing Program would allow as a density bonus 68 additional market-rate units in exchange for the affordable units, resulting in a 468-unit project.

Table 1: Summary of Prototype Project Development Programs

	ECR/DT Prototypes		Lower-Density Bayside Area Prototypes			Higher-Density Bayside Area Prototypes		
	Prototype 1	**Prototype 2**	**Prototype 3**	**Prototype 4**	**Prototype 5**	**Prototype 6**	**Prototype 7**	**Prototype 8**
Site Size (acres)	0.48	1.00	3.33	6.67	13.33	1.00	2.00	4.00
Density (du/acre) Before Density Bonus	25	25	30	30	30	100	100	100
Total Units Before Density Bonus	12	25	100	200	400	100	200	400
Type of Density Bonus (City/State)	City	City	State	State	State	City	City	City
Scenario 1 (Current Requirements)								
BMR Req. as a % of Units at Base Level Density	10.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%
Total BMR Units	1	3	15	30	60	15	30	60
Density Bonus (% of Base)	8.3%	12.0%	27.5%	27.5%	27.5%	15.0%	15.0%	15.0%
Bonus Units	1	3	28	55	110	15	30	60
Total Project Size with Bonus	13	28	128	255	510	115	230	460
Project Density with Density Bonus (du/acre)	27.1	28.0	38.4	38.3	38.3	115.0	115.0	115.0
Fractional In-Lieu Fee Units	0.20	0.75	0.00	0.00	0.00	0.00	0.00	0.00
Scenario 2 (20% BMR Requirement)								
BMR Req. as a % of Units at Base Level Density	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%
Total BMR Units	2	5	20	40	80	20	40	0
Density Bonus (% of Base)	16.7%	20.0%	35.0%	35.0%	35.0%	20.0%	20.0%	0.0%
Bonus Units	2	5	35	70	140	20	40	0
Total Project Size with Bonus	14	30	135	270	540	120	240	4
Project Density with Density Bonus (du/acre)	29.2	30.0	40.5	40.5	40.5	120.0	120.0	1.0
Fractional In-Lieu Fee Units	0.40	0.00	0.00	0.00	0.00	0.00	0.00	0.80
Scenario 3 (15% Low + 2% Moderate)								
BMR Req. as a % of Units at Base Level Density	17.0%	17.0%	17.0%	17.0%	17.0%	17.0%	17.0%	17.0%
Total BMR Units	2	4	17	34	68	17	34	0
Density Bonus (% of Base)	16.7%	16.0%	27.5%	27.5%	27.5%	17.0%	17.0%	0.0%
Bonus Units	2	4	28	55	110	17	34	0
Total Project Size with Bonus	14	29	128	255	510	117	234	4
Project Density with Density Bonus (du/acre)	29.2	29.0	38.4	38.3	38.3	117.0	117.0	1.0
Fractional In-Lieu Fee Units	0.04	0.25	0.00	0.00	0.00	0.00	0.00	0.68

Source: BAE, 2019.

FINANCIAL ANALYSIS

This chapter describes the methodology and key assumptions that BAE used to conduct a financial analysis of each of the four BMR Housing Scenarios in each of the eight residential prototypes and presents the results of the financial analysis. The financial feasibility analysis was conducted during the first half of 2019, and reflects assumptions that BAE collected during that period.

Methodology

The methodology used for this study involved preparation of static pro-forma financial feasibility models for each of the eight prototypes described in the previous chapter. The static pro-forma models represent a simplified form of financial feasibility analysis that developers often use at a conceptual level of planning for a development project, as an initial test of financial feasibility for a development concept, to screen for viability. The analysis conducted for this study included preparation of three static pro-formas for each of the eight prototypes to evaluate the effect that BMR Housing Scenarios 1 through 3 would have on each prototype. The detailed pro-formas that BAE prepared for this analysis are shown in Appendix A. The analysis of BMR Housing Scenario 4 relied on a different methodology, based on the assumptions used in the pro-formas for each prototype, as described in further detail below.

Residual Land Value Analysis

The pro-forma models are structured to calculate the residual land value associated with each prototype under each of the scenarios tested. The residual land value is equal to the market value of the completed project at stabilization net of total development costs and developer profit:

Capitalized Value at Stabilization (i.e., NOI ÷ cap rate) – Total Development Cost (not incl. land)

=

Residual Land Value

The residual land value approximates the maximum amount that a developer should be willing to pay for a given site, based on the value of the project that the developer would build on that site. In general, a development pro-forma that shows a residual land value that is approximately equivalent to or higher than the typical sale price for land among recent comparable sales indicates a financially feasible project. If a developer is able to acquire land for a price that is lower than the residual the land value associated with his or her project, the difference between the residual land value and the actual sale price essentially represents additional project profit.

Residual Land Value Analysis for Scenarios 1 through 3: This study evaluated BMR Housing BMR Housing Scenarios 1 through 3 based on whether each of the eight prototypes can

absorb the inclusionary requirements associated with each scenario while maintaining financial feasibility. This analysis determined that a scenario is financially feasible if the residual land value resulting from the scenario is comparable to or higher than actual typical land acquisition costs for residential development sites in Menlo Park. A residual land value that is higher than the typical sale price for residential development sites indicates that a project might be able to absorb higher inclusionary requirements than modeled in the Scenario, while a lower residual land value might indicate financial feasibility challenges.

The financial analysis calculates the residual land value for each scenario on both a per-site-square-foot basis and a per-unit basis and uses both metrics to evaluate financial feasibility. On a per-unit basis, this analysis uses a residual land value threshold of approximately $80,000 per unit to establish feasibility, based on information provided by developers that BAE interviewed for this study during the first half of 2018 and BAE's experience with recent projects.

To evaluate the cost of land on a per-site-square-foot basis, BAE assembled data on recent commercial property sales in the ECR/DT Specific Plan Area and the Bayfront Area using ListSource, a private data vendor that provides property records from the County Assessor. Menlo Park has few vacant development opportunity sites, and therefore many recent development projects in Menlo Park have required acquisition and redevelopment of sites with existing improvements. Accordingly, the sales analyzed for this study included sales of properties with existing improvements along with any records of sales of vacant land in Menlo Park. To distinguish properties that were purchased as redevelopment opportunity sites from those purchased for the existing improvements, BAE first cross-checked the land sale records from ListSource with recently-constructed, planned, and proposed development projects. BAE assumed that recent commercial property sales that have since resulted in a completed or proposed redevelopment project are effectively land sales rather than sales for the purpose of acquiring the existing commercial improvements on site. BAE then calculated the ratio of improvement value to land value for sites not associated with recent, planned, or proposed projects. The sale of a property with a low ratio of improvement value to land value often indicates that the purchaser bought the land for its redevelopment potential rather than for the existing improvements on site. Conversely, properties with high ratios of improvement value to land value often do not represent attractive redevelopment opportunity sites due to the high cost to acquire a site with high-value improvements. While this analysis did not exclude records of commercial property sales with a high ratio of improvement to land value, properties with a high ratio were generally assumed to be less representative of typical land costs than properties with lower ratios.

This analysis provided information on the sales of several sites in the ECR/DT Specific Plan Area over the past few years which have since been redeveloped or proposed for redevelopment with a mix of residential and non-residential uses. Among these sales, the sale prices range from approximately $225 per site square foot to over $300 per site square foot,

with a weighted average of approximately $270 per site square foot. Therefore, the financial analysis assumed that the ECR/DT Specific Plan Area prototypes would need to support a residual land value of at least $225 per site square foot to be financially feasible.

The data from ListSource include sales of several properties in the RM-U zoning district of the Bayfront Area, all of which occurred in 2016 or earlier. Among sales of properties in this area that occurred in 2015 and 2016, the price per site square foot ranged from approximately $115 to $180, with a weighted average of approximately $140 per site square foot. These sales all occurred prior to the City's adoption of the General Plan and Zoning Ordinance Update, and therefore before the properties received the RM-U zoning designation, but during the time when the City was developing and evaluating the General Plan and Zoning Ordinance Update. Therefore, the sale price among these properties may reflect buyers' and sellers' anticipation of future increases in development potential, potentially tempered somewhat by uncertainty regarding the timing and outcome of the update process.

Sale prices among more recent land sales in the Bayfront Area, all of which have been outside of the RM-U zone, have ranged from approximately $80 per site square foot to approximately $230 per site square foot, with a weighted average of approximately $140 per site square foot, including some properties with relatively high improvement values. Based on these data and BAE's experience with recent multifamily rental projects near Menlo Park, the financial analysis assumed that the Bayfront Area prototypes would need to support a residual land value of at least $160 to $170 per site square foot to be financially feasible.

Residual Land Value Analysis for Scenario 4: The purpose of BMR Housing Scenario 4 is to identify the "point of indifference," or the BMR in-lieu fee rates that are equivalent to meeting the City's BMR Housing Program requirements from a developer cost perspective. This differs from the other three BMR Housing Scenarios because the purpose of the financial analysis for Scenario 4 is to identify these equivalent fee rates, rather than to evaluate the financial feasibility of the scenario itself.

In practice, the cost of an in-lieu fee and the cost to provide inclusionary units on site are not directly comparable, because an in-lieu fee affects total development costs, whereas providing inclusionary units on site affects total project income and the resulting capitalized project value. In other words, payment of an in-lieu fee affects the cost side of the residual land value calculation, while providing inclusionary units on site affects the project value side of the residual land value calculation.

This analysis evaluated BMR Housing Scenario 4 by calculating the cost of making a unit affordable to a low-income household, with this "cost" defined as the reduction in capitalized project value that would result from charging affordable rents on the unit rather than market-rents. The calculations shown in Table 4 show the annual operating revenue that a project would forego by making a unit affordable, compared to renting the unit at market rate, and the

resulting difference in the capitalized value of the project. The analysis evaluated the cost of providing affordable units of various sizes at rents that are affordable to low-income households and at rents that are affordable to moderate-income households. The resulting cost of providing affordable units represents the "point of indifference," or the BMR in-lieu fee payment that would have the same cost impacts as providing affordable units within the project. In other words, if all else were equal, a residential rental project that pays the "point of indifference" fee rates shown in Table 4 in place of each affordable unit would generally support the same residual land value as a project that provides the affordable units on site. The market-rate rents, affordable rents, and capitalization rate used for this analysis were the same as those used for the pro-formas shown in Appendix A.

The analysis of Scenario 4 does not account for the effect that density bonuses available through either the City BMR Housing Program or State Density Bonus Law would have on overall project feasibility for projects that provide affordable units on site rather than paying an in-lieu fee. To the extent that projects that provide affordable units receive a density bonus, these additional units and other incentives or concessions wholly or partially offset the feasibility impacts associated with providing affordable units on site. Therefore, accounting for the effects that a density bonus would have on feasibility would result in a lower point of indifference fee rate. This analysis does not account for the effect of a possible density bonus to avoid underestimating the point of indifference fee rate for projects for which the developer chooses not to receive a density bonus.

Key Assumptions

BAE formulated assumptions for the pro-forma analyses based on a combination of published data sources, experience with recent development projects in the local area, and a series of interviews with developers familiar with the local development environment. These assumptions are based on BAE's research of market conditions and construction costs, conducted in the first half of 2019. Specific information about key assumptions is provided below.

Hard Costs: This analysis assumed that the two ECR/DT Specific Plan Area Prototypes (Prototypes 1 and 2) would have the highest hard cost per square foot of all eight prototypes, averaging $375, reflecting that these projects would be less efficient than larger projects and would have some fixed costs that are spread over a smaller amount of overall square footage than in a larger project. This analysis assumed a hard construction cost of $350 per square foot for the lower-density Bayfront Area prototypes (Prototypes 3 through 5). While these three prototypes would vary in terms of overall project size, this analysis assumes that each of these lower-density Bayfront Area prototypes would have the same hard cost per square foot because these prototypes would be similar in building height and massing, with the primary difference between the projects being the site size and the number of buildings on the site. Similarly, this analysis assumed an average hard cost of $360 per square foot for all of the higher-density Bayfront Area prototypes (Prototypes 6 through 8).

This analysis uses a parking hard cost assumption of $10,000 per surface space, $50,000 per podium space, and $80,000 per underground space.

All hard cost assumptions used in this analysis are consistent with current hard cost estimates provided by developers that BAE interviewed for this project as well as with BAE's experience with recent construction bids for proposed projects in the local area. However, it should be noted that hard costs are subject to variation, even among projects that are relatively similar, and the sources that BAE used to estimate hard costs for this study reflected this variation. This study generally uses assumptions that fall between the high and low end of the range of estimates.

Soft Costs: This analysis assumes that soft costs are equal to 20 percent of hard costs. This soft cost estimate includes engineering, architecture, and environmental review costs, as well as City cost-recovery fees for planning, permitting, and entitlements, but does not include financing costs or impact fees. Financing costs and impact fees were calculated separately and included in total development costs as separate line items. While some developers interviewed for this study stated that larger projects could have lower per-unit architecture and engineering fees and environmental review costs than the smaller projects, creating soft cost efficiencies as the projects move up in size, this analysis conservatively used the same 20 percent base soft cost assumption for all prototypes. Any differences in individual soft cost items would typically have a relatively small effect on overall project costs, as most of these costs constitute a small share of total development costs.

Financing Costs: This analysis assumes a 5.0 percent interest rate on construction loans and loan fees equal to 0.75 percent of the loan amount. Developers interviewed for this study reported slightly lower financing costs, but also stated that their financing costs might be lower than is typical. This analysis used slightly higher costs to ensure a conservative analysis.

Impact Fees: BAE calculated impact fees for each prototype based on the City's impact fee schedule and the applicable school district impact fee schedules, applied to the characteristics of each prototype.

BMR In-Lieu Fees: BAE calculated the in-lieu fees that a developer could pay to satisfy a requirement to provide a partial BMR unit in Prototypes 1 and 2 based on the cost of providing an affordable unit, as defined by City ordinance. These calculations are explained in further detail in Appendix B.

Market-Rate Residential Rents: This analysis assumes that rental rates for market-rate units in each prototype will be comparable to current rental rates for recently-constructed multifamily rental developments in Menlo Park. This analysis assumes that market-rate rents

will average $3,400 per month for studio units, $3,609 per month for one-bedroom units, $4,445 per month for two-bedroom units, and $5,954 per month for three-bedroom units.

BMR Rents: For Prototypes 1 and 2 (the two ECR/DT Specific Plan Area prototypes) and Prototypes 6 through 8 (the higher-density prototypes in the Bayfront Area), the BMR rental rates reflect the rental rates affordable to households with incomes equal to 80 percent of Area Median Income (AMI), in accordance with the requirements of the City of Menlo Park BMR program. For Prototypes 3 through 5 (the lower-density prototypes in the Bayfront Area), the BMR rental rates reflect the rental rates affordable to households with incomes equal to 60 percent of AMI, based on the assumption that these projects will pursue a density bonus under the State Density Bonus Law, which requires deeper affordability than the City's BMR Housing Program but allows for a larger overall density bonus. In all cases, the BMR rental rate is equal to 30 percent of household income for a household at the designated AMI level, adjusted for household size.

Operating Expenses: This analysis assumed that residential operating expenses would be equal to $13,000 per unit per year, which is consistent with BAE's experience with recent projects as well as information obtained through developer interviews.

Commercial Rents: The commercial rental rates used in this analysis are based on rents for existing retail space in Menlo Park, according to data provided by Costar. This analysis assumes that all commercial spaces will rent for $4.00 per square foot per month, triple net.

Capitalization Rate: This analysis uses a 4.0 percent capitalization rate for residential uses and a 5.0 percent capitalization rate for commercial uses. These are the mid-point of the range of typical capitalization rates for stabilized properties of each type in both San Francisco and San Jose, as reported in the CBRE North America Cap Rate Survey for the second half of 2018. These figures are also consistent with information obtained during developer interviews.

Table 2: Summary of Key Assumptions

General Assumptions (All Prototypes)	
Hard Construction Costs	
Surface Parking, per space	$10,000
Podium Parking, per space	$50,000
Underground Parking, per space	$80,000
Construction Financing	
Loan to Cost Ratio	65%
Interest Rate	5.0%
Loan Fees	0.75%
Avg. Outstanding Balance	50%
Developer Fee (as % of hard and soft costs)	4%
Contingency (as % of hard and soft costs)	5%
Developer Profit (as % of total hard and soft costs)	10%
Operating Assumptions	
Vacancy (Residential, Commercial, and Residential Parking)	5%
Operating Expenses (per unit/year)	$13,000

		Low Income		Moderate Income
Average Monthly Rent per Unit	**Market**	**60% AMI**	**80% AMI**	**(120% AMI)**
Studio	$3,400	$1,541	$2,054	$2,486
1-bedroom	$3,609	$1,760	$2,200	$2,664
2-bedroom	$4,445	$1,980	$2,640	$3,197
3-bedroom	$5,954	$2,199	$3,050	$3,694

Residential Parking Rent (per space/per month)	$125.00
Commercial Rent, NNN (per sf/per mo)	$4.00

Prototype-Specific Assumptions			
Unit Mix	**ECR/DT**	**Bayfront Low Den.**	**Bayfront High Den.**
Studio	0%	10%	25%
1-bedroom	25%	50%	60%
2-bedroom	50%	35%	15%
3-bedroom	25%	5%	0%
Hard Costs			
Site Work, per site sf	$30	$25	$30
Residential, per gross building sf (a)	$375	$350	$360
Commercial, per gross building sf (a)	$380	$380	$380
Capitalization Rates			
Residential	4.00%	4.00%	4.00%
Commercial	5.00%	5.00%	5.00%

	Project Size			
	<100 Units	**100 Units**	**200 Units**	**400 Units**
Soft Costs (as % of hard costs)	20%	20%	20%	20%
Construction Period (months)	18	20	24	28

Note:
(a) Does not include cost of parking, site work, etc.
Sources: BAE, 2019.

Financial Analysis Results

This section provides an overview of the findings from the financial analysis of each of the four BMR Housing Scenarios. The findings are summarized in Table 3 and Table 4 below. Appendix A also shows the findings along with detailed pro-formas.

Financial Feasibility of Current Affordability Requirements (BMR Housing Scenario 1)

Higher-Density Bayfront Area Prototypes: The financial feasibility analysis indicates that the higher-density Bayfront Area prototypes can absorb a 15-percent inclusionary requirement while remaining financially feasible. The analysis found that the three Bayfront Area prototypes built at bonus level development (Prototypes 6, 7, and 8) can support a residual land value of $301 to $315 per site square foot and $114,000 to $119,000 per unit with a 15-percent inclusionary requirement. This is higher than the minimum residual land value of $160 to $170 per site square foot and $80,000 per unit that this analysis uses to establish financial feasibility for prototypes in the Bayfront Area. However, as mentioned above, the analysis of this scenario does not account for the additional affordable units or other community amenities contribution that the City would require these prototypes to provide to be eligible for bonus level development with a density of 100 dwelling units per acre. The "Financial Feasibility of RM-U Community Amenities Requirements" subsection provided below discusses the effect that the community amenities requirement would have on the financial feasibility of these prototypes.

Lower-Density Bayfront Area Prototypes: The financial feasibility analysis indicates that the lower-density Bayfront Area prototypes cannot absorb a 15-percent inclusionary requirement while remaining financially feasible. While the analysis found that the three Bayfront Area prototypes that are built at lower or base density (not bonus level development) (Prototypes 3, 4, and 5) support high residual land values on a per-unit basis, on a per-site-square-foot basis these prototypes support a residual land value of $133 to $136. This per-site-square-foot residual land value is lower than the minimum residual land value of $160 to $170 per site square foot that this analysis uses to establish financial feasibility for prototypes in the Bayfront Area. These findings are consistent with comments made by developers interviewed for this study, who reported that developers are not typically pursuing this type of lower-density multifamily rental project in Menlo Park and nearby communities in the current development environment.

The potential development opportunity sites that could accommodate the lower-density Bayfront Area prototypes could also accommodate the higher-density prototypes, and therefore a developer pursuing a project on one of these sites will have a choice between a lower-density and higher density project. Because the higher-density projects result in a higher residual land value on a per-site-square-foot basis, a developer pursuing a project on one of these sites would be able to offer more for the land, thereby outcompeting any developers pursuing a lower-density project on the same site. Alternatively, if a developer is able to

acquire one of these sites for a price that is lower than the residual land value associated with his or her project, the difference between the residual land value from the project and the actual sale price would essentially represent additional profit from the project. The developer in this scenario would also be incentivized to build the higher-density project with the higher residual land value, in order to increase profits from the project.

If there were no inclusionary requirements or BMR in-lieu fees, the lower density Bayfront Area prototypes support residual land values that are well below the per-site-square-foot residual land values that the higher-density prototypes can support with a 15-percent low-income requirement. This means that the higher-density Bayfront Area prototypes represent more profitable and attractive development opportunities than the lower-density prototypes, even with a significantly higher affordability requirement.

ECR/DT Specific Plan Area Prototypes: The financial feasibility analysis also indicates that the ECR/DT Specific Plan Area prototypes cannot absorb the City's current inclusionary requirement (10 percent for the smallest ECR/DT prototype and 15 percent for the slightly larger ECR/DT prototype) while remaining financially feasible. While the analysis found that the two ECR/DT Specific Plan Area prototypes (Prototypes 1 and 2) support high residual land values on a per-unit basis, these per-unit land values are somewhat misleading because each of these projects also includes commercial space that is not accounted for in the per-unit land value calculation. Moreover, on a per-site-square-foot basis these prototypes support a residual land value of $72 to $86, well below the land value per site square foot that this analysis uses to establish financial feasibility for the ECR/DT Specific Plan Area prototypes. Both ECR/DT Specific Plan Area prototypes remain infeasible even with no affordability requirement, meaning that the affordability requirements for these units are not the sole cause of the feasibility shortfalls for these prototypes. These findings are consistent with BAE experience with recent projects, which has found that many smaller infill projects are not financially feasible in the current development environment.

Financial Feasibility of a 20-Percent Low Income Requirement (BMR Housing Scenario 2)

Higher-Density Bayfront Area Prototypes: The financial feasibility analysis indicates that the higher-density Bayfront Area prototypes are financially feasible with a 20-percent low-income requirement. The analysis found that the three Bayfront Area prototypes that are built at bonus level development (Prototypes 6, 7, and 8) can support a residual land value of $280 to $291 per site square foot, exceeding the minimum residual land value of $160 to $170 per site square foot that this analysis uses to establish financial feasibility for prototypes in the Bayfront Area. These same prototypes support a residual land value of $101,000 to $106,000 per unit, higher than the estimate of $80,000 per unit that this analysis uses to establish financial feasibility. These findings suggest that projects that are similar to Prototypes 6, 7, and 8 can generally absorb a 20-percent inclusionary requirement.

These higher-density Bayfront Area prototypes support a higher residual land value per site square foot in Scenario 2 than the lower-density prototypes support in Scenario 1. As a result, a developer that is pursuing a project on a site with RM-U zoning would be able to build a higher-value project and earn more profit by building a bonus level development project with a 20-percent low-income requirement then by building a lower or base level project with a 15-percent low-income requirement.

These findings do not account for the impact that providing community benefits in addition to a 20-percent inclusionary requirement would have on financial feasibility. However, these findings do indicate that it is generally feasible for developers of higher-density Bayfront Area prototypes to provide additional affordable units in excess of the City's current 15-percent BMR requirements as a community amenity. The "Financial Feasibility of RM-U Community Amenities Requirements" section below provides additional analysis of the financial feasibility of meeting the community amenities requirement in addition to the baseline BMR requirements.

Lower-Density Bayfront Area Prototypes and ECR/DT Prototypes: As stated above, the lower-density Bayfront Area prototypes and ECR/DT Specific Plan Area prototypes cannot absorb the City's existing affordability requirements while maintaining financial feasibility. Accordingly, these prototypes cannot absorb the higher 20-percent low income requirement modeled in Scenario 2.

Financial Feasibility of a 15 Percent Low-Income Requirement Plus a Two Percent Moderate-Income Requirement (BMR Housing Scenario 3)

High-Density Bayfront Area Prototypes: The financial feasibility analysis indicates that the higher-density Bayfront Area prototypes can absorb a 15-percent low-income requirement plus a two percent moderate-income requirement while remaining financially feasible. The analysis found that the three Bayfront Area prototypes that are built at bonus level development (Prototypes 6, 7, and 8) can support a residual land value of $298 to $309 per site square foot and $111,000 to $115,000 per unit in BMR Housing Scenario 3. This is higher than the minimum residual land value of $160 to $170 per site square foot and $80,000 per unit that this analysis uses to establish financial feasibility for prototypes in the Bayfront Area.

As with the findings related to Scenario 2, these findings do not account for the impact that providing community benefits in addition to a 15-percent low-income requirement and a two-percent moderate-income requirement would have on financial feasibility. However, these findings do indicate that it is generally feasible for developers of higher-density Bayfront Area prototypes to provide additional affordable units in excess of the City's current 15-percent BMR requirements as a community amenity. The "Financial Feasibility of RM-U Community Amenities Requirements" section below provides additional analysis of the financial feasibility

of meeting the community amenities requirement in addition to the baseline BMR requirements.

Lower-Density Bayfront Area Prototypes and ECR/DT Prototypes: The lower-density Bayfront Area prototypes and ECR/DT prototypes cannot absorb the City's existing affordability requirements while maintaining financial feasibility, and therefore cannot absorb the higher 15-percent low income plus two percent moderate income requirement modeled in BMR Housing Scenario 3.

Table 3: Summary of Financial Analysis Results, Inclusionary Scenarios (Scenarios 1 through 3)

	ECR/DT Prototypes		Bayfront Area Prototypes					
			Lower-Density Option			Community Amenties Density Option		
	Prototype 1 0.48 Acres	Prototype 2 1 Acre	Prototype 3 3.3 Acres	Prototype 4 6.7 Acres	Prototype 5 13.3 Acres	Prototype 6 1 Acre	Prototype 7 2 Acres	Prototype 8 4 Acres
BMR Housing Scenario 1: Current Inclusionary Requirement (10% Low Income for 10-19 Units; 15% Low Income for 20+ Units)								
Capitalized Value	$14,841,001	$31,569,928	$102,432,801	$204,556,406	$409,080,038	$82,477,760	$164,630,905	$329,059,175
Less Development Costs, excl. Land Cost	($13,051,548)	($28,446,926)	($82,712,029)	($165,206,654)	($332,002,932)	($68,761,528)	($137,657,120)	($251,524,042)
Residual Land Value	**$1,789,454**	**$3,123,002**	**$19,720,772**	**$39,349,753**	**$77,077,105**	**$13,716,232**	**$26,973,785**	**$52,382,729**
Residual Land Value per Site Sq. Ft	**$86**	**$72**	**$136**	**$136**	**$133**	**$315**	**$310**	**$301**
Residual Land Value per Unit	**$137,650**	**$111,536**	**$154,069**	**$154,313**	**$151,132**	**$119,272**	**$117,277**	**$113,875**
Financially Feasible?	**No**	**No**	**No**	**No**	**No**	**Yes**	**Yes**	**Yes**
BMR Housing Scenario 2: 20% Inclusionary Requirement (Low Income)								
Capitalized Value	$15,178,626	$32,531,603	$105,180,214	$211,290,881	$423,011,756	$84,249,675	$167,651,475	$335,267,325
Less Development Costs, excl. Land Cost	($14,129,301)	($29,041,795)	($87,229,880)	($174,820,783)	($351,406,943)	($71,579,659)	($142,573,370)	($260,509,351)
Residual Land Value	**$1,049,325**	**$3,489,808**	**$17,950,334**	**$36,470,098**	**$71,604,813**	**$12,670,016**	**$25,078,105**	**$48,707,039**
Residual Land Value per Site Sq. Ft	**$50**	**$80**	**$124**	**$126**	**$123**	**$291**	**$288**	**$280**
Residual Land Value per Unit	**$74,952**	**$116,327**	**$132,965**	**$135,074**	**$132,602**	**$105,583**	**$104,492**	**$101,473**
Financially Feasible?	**No**	**No**	**No**	**No**	**No**	**Yes**	**Yes**	**Yes**
BMR Housing Scenario 3: 15% Inclusionary (Low Income) + 2% Moderate-Income								
Capitalized Value	$15,304,026	$32,227,323	$101,807,796	$203,306,396	$406,675,208	$83,366,760	$166,469,040	$332,583,540
Less Development Costs, excl. Land Cost	($13,594,419)	($28,568,432)	($82,712,029)	($165,206,654)	($332,002,932)	($69,888,781)	($139,623,620)	($255,118,166)
Residual Land Value	**$1,709,607**	**$3,658,891**	**$19,095,767**	**$38,099,743**	**$74,672,275**	**$13,477,979**	**$26,845,420**	**$51,953,558**
Residual Land Value per Site Sq. Ft	**$82**	**$84**	**$132**	**$131**	**$129**	**$309**	**$308**	**$298**
Residual Land Value per Unit	**$122,115**	**$126,169**	**$149,186**	**$149,411**	**$146,416**	**$115,196**	**$114,724**	**$111,012**
Financially Feasible?	**No**	**No**	**No**	**No**	**No**	**Yes**	**Yes**	**Yes**

Note: (a) Total development costs include the cost of commercial space.
Source: BAE, 2019.

"Point of Indifference" In-Lieu Fee Rates (BMR Housing Scenario 4)

As shown in Table 4 below, the in-lieu fees that would be equivalent in cost to providing affordable units on site (i.e., the "point of indifference" in-lieu fee rates) vary between unit sizes and depending on the affordability level of the affordable units. The in-lieu fee that would be equivalent to providing a unit affordable to a low-income household would be approximately $335,000 per studio unit not provided on site, $351,000 per one-bedroom unit not provided on site, $449,000 per two-bedroom unit not provided on site, and $723,000 per three-bedroom unit not provided on site. If the City sets fee rates that are higher than these figures, developers will generally choose to provide affordable units on site rather than pay the BMR in-lieu fee. If the fee rates are lower than these figures, developers will generally choose to pay the in-lieu fee if allowed by City policy.

If the City chooses to adopt a moderate-income BMR requirement, the City could consider providing the option to pay the lower point of indifference fees that represent the cost of providing moderate-income units, rather than providing the moderate-income units on site. The in-lieu fee that would be equivalent to providing a unit affordable to a moderate-income household would be approximately $228,000 per studio unit not provided on site, $235,000 per one-bedroom unit not provided on site, $311,000 per two-bedroom unit not provided on site, and $563,000 per three-bedroom unit not provided on site.

This analysis does not include a calculation of the point of indifference fee rates that would be equivalent to providing low-income units affordable at the deeper 60 percent of AMI affordability level because none of the BMR Housing Scenarios evaluated in this study would require developers to target the deeper 60 percent of AMI affordability level. If the City's in-lieu fee rates are structured to incentivize providing BMR units on site, some developers will consider voluntarily making the BMR units affordable to low-income households at the deeper 60 percent of AMI level to become eligible for the greater bonus available under State Density Bonus Law, as discussed above. In these cases, the developer will have chosen to target these income levels only after deciding to provide affordable units on site rather than pay the in-lieu fee, making any fees that would be structured based on the deeper 60 percent of AMI affordability level irrelevant to the developer's decision-making process.

The "point of indifference" fee rates identified in this analysis are sensitive to the relationship between the market-rate rent and the affordable rent. Consequently, the fee rate that represents the point of indifference will vary between projects and over time based on variations in the difference between market-rate and affordable rents.

Table 4: Summary of Financial Analysis Results, Point of Indifference In-Lieu Fee Scenario (Scenario 4)

	Studio Unit	One-Bedroom Unit	Two-Bedroom Unit	Three-Bedroom Unit
80% AMI Affordability				
Foregone Revenues				
Market-Rate Monthy Rent, per unit	$3,400	$3,609	$4,445	$5,954
50% AMI Monthly Rent, per unit	$2,054	$2,200	$2,640	$3,050
Difference btw. Market-Rate Rent and 80% AMI Rent, per unit	$1,346	$1,409	$1,805	$2,904
Valuation Assumptions				
Capitalization Rate	4.0%	4.0%	4.0%	4.0%
Vacancy Allowance	5.0%	5.0%	5.0%	5.0%
Cost of Providing one Affordable Unit at 80% of AMI (a)	**$383,610**	**$401,565**	**$514,425**	**$827,569**
Less: Cost of Financing on In-Lieu Fee	($11,221)	($11,746)	($15,047)	($24,206)
Less: Cost of Developer Profit on In-Lieu Fee	($37,239)	($38,982)	($49,938)	($80,336)
"Point of Indifference" Fee Rate	**$335,150**	**$350,837**	**$449,440**	**$723,026**
120% AMI Affordability				
Foregone Revenues				
Market-Rate Monthy Rent, per unit	$3,400	$3,609	$4,445	$5,954
60% AMI Monthly Rent, per unit	$2,486	$2,664	$3,197	$3,694
Difference btw. Market-Rate Rent and 120% AMI Rent, per unit	$914	$945	$1,248	$2,260
Valuation Assumptions				
Capitalization Rate	4.0%	4.0%	4.0%	4.0%
Vacancy Allowance	5.0%	5.0%	5.0%	5.0%
Cost of Providing one Affordable Unit at 120% of AMI (a)	**$260,490**	**$269,325**	**$355,680**	**$644,029**
Less: Cost of Financing on In-Lieu Fee	($7,619)	($7,878)	($10,404)	($18,838)
Less: Cost of Developer Profit on In-Lieu Fee	($25,287)	($26,145)	($34,528)	($62,519)
"Point of Indifference" Fee Rate	**$227,584**	**$235,303**	**$310,749**	**$562,672**

Notes:
All market-rate rent, affordable rent, capitalization rate, and vacancy assumptions shown in this table are the same as those used in the pro-forma analysis provided in this report and described above.
(a) This analysis defines the cost to the developer of providing an onsite affordable unit as the capitalized value of the rent revenues forgone from not charging market-rate rent on that unit. The cost does not include development cost factors, such as construction costs, because the analysis assumes the developer would otherwise construct an identical unit at identical cost and rent it at market rate. This analysis also excludes any additional rental income from units that could be added to a project due to a City or State density bonus, which partially offsets the cost of providing affordable units, because some developers will choose not to pursue a density bonus.
Source: BAE, 2019.

Financial Feasibility of RM-U Community Amenities Requirements

As discussed above, the three higher-density Bayfront Area prototypes (Prototypes 6, 7, and 8) represent projects that could be built at the bonus level development allowed in the RM-U zoning district, and therefore would be required to provide community amenities subject to the City's community amenities requirements. According to City ordinance, the value of the community amenity that each project provides must effectively equal half of the difference between the value of the land under the bonus level development and the value of the land under the base level allowed by zoning.

This study uses the analysis described in the above sections of this report to estimate the value of the community amenity that each of the higher-density prototypes would be required to provide. Because the three lower-density Bayfront Area prototypes (Prototypes 3, 4, and 5) represent projects that could be built at the base density in the RM-U zone, this analysis uses the residual land value that these three prototypes support to estimate the land value per acre in the RM-U zoning district at the base level zoning.[2] As shown in Table 5 below, the three lower-density Bayfront Area prototypes support a residual land value of approximately $5.8 million per acre on a weighted average basis.

Table 5: Average Residual Land Value per Acre, Prototypes 3, 4, and 5

	Prototype 3 3.3 Acres	Prototype 4 6.7 Acres	Prototype 5 13.3 Acres
Residual Land Value	$19,720,772	$39,349,753	$77,077,105
Site Size (acres)	3.33	6.67	13.33
Weighted Average Residual Land Value/Acre			$5,834,898

Source: BAE, 2019.

Table 6 below applies the weighted average residual land value per acre from Table 5 to the site sizes for each of the higher-density Bayfront Area prototypes (Prototypes 6, 7, and 8) to determine the value of each site at base level zoning. The calculations in Table 6 then subtract these base level site values from the residual land value that each of the bonus level development prototypes support, as determined through the financial feasibility analysis described above. The value of the community amenity value from each project would be equal to half of the difference in site value between the base and bonus level development, as shown in the table.

Finally, the calculations shown in Table 6 subtract the required community amenity value from the residual land value that each of the higher-density Bayfront Area prototypes support in Scenario 1 to determine the residual land associated with each prototype, net of the required community benefit contribution. As shown, after accounting for the community amenities contribution, each prototype continues to support a residual land value that exceeds the threshold used to establish feasibility in this study. This indicates that these prototypes can meet the City's current inclusionary requirements and the community amenities requirement while remaining financially feasible.

[2] City policy requires an appraisal to determine the value of the bonus; this analysis uses the residual land value as a proxy for appraised value.

Table 6: Required Community Amenities Value, Prototypes 6, 7, and 8

	Prototype 6 1 Acre	Prototype 7 2 Acres	Prototype 8 4 Acres
Site Size (acres)	1.0	2.0	4.0
Value of Site at Base Level Density (a)	$5,834,898	$11,669,797	$23,339,594
Residual Land Value at Comm. Amenity Bonus Level, Scenario 1 (b)	$13,716,232	$26,973,785	$52,382,729
Difference between Base and Bonus Level Site Value	$7,881,333	$15,303,988	$29,043,135
Required Community Amenity Value (c)	**$3,940,667**	**$7,651,994**	**$14,521,567**
Residual Land Value Net of Required Community Amenity Value	$9,775,565	$19,321,791	$37,861,161
Res. Land Value Net of Required Comm. Amenity Value, per site SF	**$224**	**$222**	**$217**

Notes:
(a) Based on weighted average residual land value per acre for Base Level prototypes, as shown in Table 5.
(b) Residual land value modeled in each scenario does not account for the effect of the community amenities requirement.
(c) Equal to 50% of the difference between the value of the site at the Base Level density and the residual land value of the Bonus Level prototype.

Source: BAE, 2019.

The figures provided in Table 6 above provide a high-level approximation of the feasibility of meeting the City's current inclusionary requirements in addition to the community amenities requirement that would apply to the higher-density Bayfront Area prototypes evaluated in this study. It should be noted that the City requires an appraisal to determine the value of the specific property that would provide community amenities, which determines the value of the property at the base and at the bonus level development, and that the appraised value of a specific site may differ from the residual land values identified in this analysis. This analysis provides a general indication that new multifamily rental developments in the Bayfront Area can typically meet the City's BMR Housing Program requirements and the community amenities requirement while remaining financially feasible, though specific findings for individual projects may vary.

KEY FINDINGS

The analysis presented in the previous chapters of this report supports the following findings.

Higher-density (100 dus/acre or more) multifamily rental projects in Menlo Park can generally provide 15 percent of units affordable to low-income households in compliance with the City's existing BMR Housing Program, and could likely exceed the existing requirements, while maintaining feasibility. The financial analysis found that multifamily rental projects built at the bonus level development (i.e., at 100 dwelling units per acre, plus any density bonuses) can provide 15 percent of units to low-income households while remaining financially feasible. With a 15-percent low-income requirement, the analysis found that these higher-density prototypes resulted in residual land values that are higher than the typical land sale costs within the area of Menlo Park that could accommodate these developments, indicating that these prototypes can feasibly provide more low-income units than the 15 percent currently required by the City's BMR Housing Program. These results are consistent across all higher-density prototypes tested in this study. These projects can likely meet the existing inclusionary requirements along with the community amenities requirement that would apply to projects built at this density.

Higher-density multifamily rental projects in Menlo Park can generally provide up to 20 percent of units affordable to low-income households while maintaining feasibility. The financial analysis found that higher-density prototypes that provide 20 percent of units affordable to low-income households generate residual land values that exceed the feasibility thresholds used for this study. These projects are able to maintain feasibility due in part to the availability of density bonuses that partially offset the cost of providing additional affordable units. This finding is based on an assumption that the additional five percent low-income requirement would count toward the community amenities requirement that would apply to projects built at this bonus level, though it is possible that these projects could provide community amenities in addition to a 20-percent low income requirement.

Similarly, higher-density multifamily rental projects in Menlo Park can generally provide 15 percent of units affordable to low-income households plus an additional two percent of units affordable to moderate-income households while maintaining feasibility. The financial analysis found that providing two percent of units affordable to moderate-income households in addition to the existing requirement to provide 15 percent of units affordable to low-income households decreases residual land values only slightly. With the additional two percent moderate-income requirement, all higher-density prototypes tested in this study support residual land values that are higher than typical land sale costs within the area of Menlo Park that could accommodate these developments. This finding is based on an assumption that the additional two percent moderate income requirement would count toward the community amenities requirement that would apply to projects built at this bonus level, though it is

possible that these projects could provide community amenities in addition to a 15-percent low-income requirement and a two-percent moderate income requirement.

Small (30 units or less) infill multifamily rental projects are generally not financially feasible in the current development environment, regardless of inclusionary requirements. This study tested two small (13- to 30-unit) multifamily rental projects that would be consistent with the ECR/DT Specific Plan Area and found that neither project is feasible under current market and development cost conditions. Both projects remained significantly below the infeasibility threshold even with no affordability requirement or BMR in-lieu fee, indicating that affordable housing requirements do not constitute the primary barrier to feasibility for these projects. This is consistent with trends throughout the Bay Area, as rapid increases in development costs have outpaced increases in multifamily rents, resulting in feasibility challenges for new construction projects in many communities. Small infill projects often to have higher costs on a per-unit or per-building-square-foot basis than large developments on larger sites, and therefore may be disproportionately impacted by these trends in some cases.

Larger (100 units or more) low-density (30 dus/acre plus any density bonus) multifamily rental projects are generally not feasible with the City's current inclusionary requirements, but also are not likely to constitute a significant share of future development projects in Menlo Park regardless of affordability requirements. The financial analysis found that multifamily rental projects built at 38 to 41 dwelling units per acre are not feasible with the City's current inclusionary requirements. With a 15-percent low-income requirement, the analysis found that these lower-density prototypes resulted in residual land values that are lower than the typical land sale costs within the area of Menlo Park that could accommodate these developments, indicating that these prototypes do not generate sufficient value to pay market-rate land costs.

However, regardless of affordability requirements, these prototypes are not likely to represent an attractive development opportunity relative to the higher-density prototypes that can be built on the same sites. The analysis showed that the higher-density Bayfront Area prototypes – which could be built on the same sites as the lower-density Bayfront Area prototypes – generate a larger residual land value per site square foot than the lower-density prototypes, even with a significantly higher affordability requirement for the higher-density prototypes. This means that a developer pursuing a project on one of these sites would be able to offer more for the land if he or she is planning to construct a higher-density project, thereby outcompeting any developers pursuing a lower-density project on the same site. If a developer is able to acquire one of these sites for less than the residual land value that his or her project supports, the difference between the residual land value from the project and the actual sale price would essentially represent additional profit from the project. In this case, the developer would be incentivized to build the higher-density project with the higher residual land value, in order to increase profits from the project.

The in-lieu fee rates that represent the "point of indifference" compared to providing affordable units on site are approximately $335,000 per studio unit not provided on site, $351,000 per one-bedroom unit not provided on site, $449,000 per two-bedroom unit not provided on site, and $723,000 per three-bedroom unit not provided on site. A requirement that developers pay these fees for each affordable unit that is not provided in a project results in the same residual land values as providing the affordable units. Assessing fees that are higher than these rates would generally incentivize construction of affordable units on site within market-rate projects. Assessing fees that are lower than these rates would generally incentivize payment of in-lieu fees.

The in-lieu fee rates that represent the "point of indifference" are sensitive to the difference between market-rate rents and affordable rents, and therefore will change over time and between projects. The in-lieu fee rates that are equivalent to providing affordable units on site from a developer cost perspective will generally be higher for projects with a large gap between the market-rate rent and affordable rent, and lower for projects in which this gap is relatively small. Therefore, if the City adopts a single in-lieu fee that would apply to all projects based on the in-lieu fee equivalent for a typical project, developers of higher-end luxury projects will be incentivized to pay the fee due to the large pricing gap between the market-rate and affordable units. Conversely, developers of projects with a lower price point than is typical for Menlo Park will find it advantageous to provide affordable units on site. This finding also suggests that adjustments to fees over time should be based on changes in the difference between market-rate rents and affordable rents.

APPENDIX A: DETAILED PRO-FORMAS

Pro-formas for Multifamily Rental Project on 0.5 Acres in ECR/DT Area (Prototype 1), City of Menlo Park, 2019 (page 1 of 2)

	Current Inclusionary Requirement			20% Inclusionary Requirement			15% Low Plus 2% Moderate Req.		
Site Size (acres / sf)	0.48	20,909		0.48	20,909		0.48	20,909	
Built Project FAR (excl. parking)	0.87	FAR		0.93	FAR		0.93	FAR	
Dwelling Units per Acre	27	du / acre		29	du / acre		29	du / acre	
Total Dwelling Units	**13**	**units**		**14**	**units**		**14**	**units**	
Unit Mix		Market	Low		Market	Low	Market	Low	Moderate
Studio	0%	0	0	0%	0	0	0	0	0
One-Bedroom	25%	3	0	25%	3	1	3	0	0
Two-Bedroom	50%	6	1	50%	6	1	6	2	0
Three-Bedroom	25%	3	0	25%	3	0	3	0	0
Total		12	1		12	2	12	1	1
Weighted Average Rent (per unit/mo.)		$4,613	$2,640		$4,613	$2,420	$4,613	$5,280	$0
	Residential	**Commercial**	**Total**	**Residential**	**Commercial**	**Total**	**Residential**	**Commercial**	**Total**
Gross Building Area	16,250	2,000	18,250	17,500	2,000	19,500	17,500	2,000	19,500
Parking Spaces									
Surface	2	8	10	2	8	10	2	8	10
Podium	18	0	18	19	0	19	19	0	19
Underground	0	0	0	0	0	0	0	0	0
Total	**20**	**8**	**28**	**21**	**8**	**29**	**21**	**8**	**29**

(Continued on following page)

Pro-formas for Multifamily Rental Project on 0.5 Acres in ECR/DT Area (Prototype 1), City of Menlo Park, 2019 (page 2 of 2)

	Development Costs			Development Costs			Development Costs		
Hard Construction Costs	**Residential**	**Commercial**	**Total**	**Residential**	**Commercial**	**Total**	**Residential**	**Commercial**	**Total**
Site Work	$558,523	$68,741	$627,264	$562,929	$64,335	$627,264	$562,929	$64,335	$627,264
Building Costs	$6,093,750	$760,000	$6,853,750	$6,562,500	$760,000	$7,322,500	$6,562,500	$760,000	$7,322,500
Surface Parking	$20,000	$80,000	$100,000	$20,000	$80,000	$100,000	$20,000	$80,000	$100,000
Podium Parking	$900,000	$0	$900,000	$950,000	$0	$950,000	$950,000	$0	$950,000
Underground Parking	$0	$0	$0	$0	$0	$0	$0	$0	$0
Total Hard Costs	**$7,572,273**	**$908,741**	**$8,481,014**	**$8,095,429**	**$904,335**	**$8,999,764**	**$8,095,429**	**$904,335**	**$8,999,764**
Total Hard Costs per sf (gross)	$465.99	$454.37	$464.71	$462.60	$452.17	$461.53	$462.60	$452.17	$461.53
Soft Costs									
Soft Costs	$1,514,455	$181,748	$1,696,203	$1,619,086	$180,867	$1,799,953	$1,619,086	$180,867	$1,799,953
Impact Fees	$147,041	$25,181	$172,222	$158,008	$25,155	$183,163	$158,008	$25,155	$183,163
Developer Fee	$363,469	$43,620	$407,089	$388,581	$43,408	$431,989	$388,581	$43,408	$431,989
Contingency	$454,336	$54,524	$508,861	$485,726	$54,260	$539,986	$485,726	$54,260	$539,986
BMR in-lieu fee	$262,465	$0	$262,465	$524,931	$0	$524,931	$52,493	$0	$52,493
Total Soft Costs	**$2,741,767**	**$305,073**	**$3,046,840**	**$3,176,331**	**$303,690**	**$3,480,021**	**$2,703,893**	**$303,690**	**$3,007,584**
Total Costs before Financing	**$10,314,039**	**$1,213,814**	**$11,527,854**	**$11,271,760**	**$1,208,025**	**$12,479,785**	**$10,799,322**	**$1,208,025**	**$12,007,348**
Total Costs per sf	$634.71	$606.91	$631.66	$644.10	$604.01	$639.99	$617.10	$604.01	$615.76
Financing Costs									
Interest	$251,405	$29,587	$280,991	$274,749	$29,446	$304,195	$263,233	$29,446	$292,679
Points	$50,281	$5,917	$56,198	$54,950	$5,889	$60,839	$52,647	$5,889	$58,536
Total Financing Costs	**$301,686**	**$35,504**	**$337,190**	**$329,699**	**$35,335**	**$365,034**	**$315,880**	**$35,335**	**$351,215**
Developer Profit	**$1,061,572**	**$124,932**	**$1,186,504**	**$1,160,146**	**$124,336**	**$1,284,482**	**$1,111,520**	**$124,336**	**$1,235,856**
Total Development Costs (excl. land)	**$11,677,297**	**$1,374,250**	**$13,051,548**	**$12,761,605**	**$1,367,696**	**$14,129,301**	**$12,226,723**	**$1,367,696**	**$13,594,419**
Total Development Cost per sf	$718.60	$687.13	$715.15	$729.23	$683.85	$724.58	$698.67	$683.85	$697.15
Total Development Cost per Unit	$898,254	$105,712	$1,003,965	$911,543	$97,693	$1,009,236	$873,337	$97,693	$971,030

	Income Capitalization			Income Capitalization			Income Capitalization		
	Residential	**Commercial**	**Total**	**Residential**	**Commercial**	**Total**	**Residential**	**Commercial**	**Total**
Gross Annual Rent	$661,180	$91,200	$752,380	$686,260	$91,200	$777,460	$691,276	$91,200	$782,476
Gross Annual Residential Parking Rent	$28,500	$0	$28,500	$29,925	$0	$29,925	$29,925	$0	$29,925
Less: Operating Expenses	($169,000)	$0	($169,000)	($182,000)	$0	($182,000)	($182,000)	$0	($182,000)
Net Operating Income	$520,680	$91,200	$611,880	$534,185	$91,200	$625,385	$539,201	$91,200	$630,401
Capitalization Rate	4.00%	5.00%	4.12%	4.00%	5.00%	4.12%	4.00%	5.00%	4.12%
Capitalized Project Value	**$13,017,001**	**$1,824,000**	**$14,841,001**	**$13,354,626**	**$1,824,000**	**$15,178,626**	**$13,480,026**	**$1,824,000**	**$15,304,026**

	Residual Land Value	Residual Land Value	Residual Land Value
Capitalized Project Value	$14,841,001	$15,178,626	$15,304,026
Less Total Development Costs	($13,051,548)	($14,129,301)	($13,594,419)
Residual Land Value	**$1,789,454**	**$1,049,325**	**$1,709,607**
Residual Land Value per Site sf	$85.58	$50.19	$81.76
Residual Land Value per Unit	$137,650	$74,952	$122,115

Source: BAE, 2019.

Pro-formas for Multifamily Rental Project on One Acre in ECR/DT Area (Prototype 2), City of Menlo Park, 2019 (page 1 of 2)

	Current Inclusionary Requirement			20% Inclusionary Requirement			Current Req. Plus 2% Moderate Req.		
Site Size (acres / sf)	1.00	43,560		1.00	43,560		1.00	43,560	
Built Project FAR (excl. parking)	0.91	FAR		0.96	FAR		0.94	FAR	
Dwelling Units per Acre	28	du / acre		30	du / acre		29	du / acre	
Total Dwelling Units	**28**	**units**		**30**	**units**		**29**	**units**	
Unit Mix		Market	Low		Market	Low	Market	Low	Moderate
Studio	0%	0	0	0%	0	0	0	0	0
One-Bedroom	25%	6	1	25%	6	1	6	1	0
Two-Bedroom	50%	13	1	50%	13	3	13	1	1
Three-Bedroom	25%	6	1	25%	6	1	6	1	0
Total		25	3		25	5	25	3	1
Weighted Average Rent (per unit/mo.)		$4,606	$2,630		$4,606	$2,634	$4,606	$2,630	$3,197
	Residential	**Commercial**	**Total**	**Residential**	**Commercial**	**Total**	**Residential**	**Commercial**	**Total**
Gross Building Area	35,000	4,500	39,500	37,500	4,500	42,000	36,250	4,500	40,750
Parking Spaces									
Surface	6	18	24	5	18	23	6	18	24
Podium	36	0	36	40	0	40	38	0	38
Underground	0	0	0	0	0	0	0	0	0
Total	**42**	**18**	**60**	**45**	**18**	**63**	**44**	**18**	**62**

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Pro-formas for Multifamily Rental Project on One Acre in ECR/DT Area (Prototype 2), City of Menlo Park, 2019 (page 2 of 2)

	Development Costs			Development Costs			Development Costs		
Hard Construction Costs	**Residential**	**Commercial**	**Total**	**Residential**	**Commercial**	**Total**	**Residential**	**Commercial**	**Total**
Site Work	$1,157,924	$148,876	$1,306,800	$1,166,786	$140,014	$1,306,800	$1,162,491	$144,309	$1,306,800
Building Costs	$13,125,000	$1,710,000	$14,835,000	$14,062,500	$1,710,000	$15,772,500	$13,593,750	$1,710,000	$15,303,750
Surface Parking	$60,000	$180,000	$240,000	$50,000	$180,000	$230,000	$60,000	$180,000	$240,000
Podium Parking	$1,800,000	$0	$1,800,000	$2,000,000	$0	$2,000,000	$1,900,000	$0	$1,900,000
Underground Parking	$0	$0	$0	$0	$0	$0	$0	$0	$0
Total Hard Costs	**$16,142,924**	**$2,038,876**	**$18,181,800**	**$17,279,286**	**$2,030,014**	**$19,309,300**	**$16,716,241**	**$2,034,309**	**$18,750,550**
Total Hard Costs per sf (gross)	$461.23	$453.08	$460.30	$460.78	$451.11	$459.75	$461.14	$452.07	$460.14
Soft Costs									
Soft Costs	$3,228,585	$407,775	$3,636,360	$3,455,857	$406,003	$3,861,860	$3,343,248	$406,862	$3,750,110
Impact Fees	$315,738	$56,623	$372,361	$338,194	$56,572	$394,766	$326,996	$56,597	$383,592
Developer Fee	$774,860	$97,866	$872,726	$829,406	$97,441	$926,846	$802,380	$97,647	$900,026
Contingency	$968,575	$122,333	$1,090,908	$1,036,757	$121,801	$1,158,558	$1,002,974	$122,059	$1,125,033
BMR in-lieu fee	$971,753	$0	$971,753	$0	$0	$0	$323,918	$0	$323,918
Total Soft Costs	**$6,259,512**	**$684,597**	**$6,944,109**	**$5,660,214**	**$681,816**	**$6,342,030**	**$5,799,515**	**$683,164**	**$6,482,679**
Total Costs before Financing	**$22,402,436**	**$2,723,473**	**$25,125,909**	**$22,939,499**	**$2,711,831**	**$25,651,330**	**$22,515,756**	**$2,717,473**	**$25,233,229**
Total Costs per sf	$640.07	$605.22	$636.10	$611.72	$602.63	$610.75	$621.12	$603.88	$619.22
Financing Costs									
Interest	$546,059	$66,385	$612,444	$559,150	$66,101	$625,251	$548,822	$66,238	$615,060
Points	$109,212	$13,277	$122,489	$111,830	$13,220	$125,050	$109,764	$13,248	$123,012
Total Financing Costs	**$655,271**	**$79,662**	**$734,933**	**$670,980**	**$79,321**	**$750,301**	**$658,586**	**$79,486**	**$738,072**
Developer Profit	**$2,305,771**	**$280,313**	**$2,586,084**	**$2,361,048**	**$279,115**	**$2,640,163**	**$2,317,434**	**$279,696**	**$2,597,130**
Total Development Costs (excl. land)	**$25,363,478**	**$3,083,448**	**$28,446,926**	**$25,971,528**	**$3,070,267**	**$29,041,795**	**$25,491,776**	**$3,076,655**	**$28,568,432**
Total Development Cost per sf	$724.67	$685.21	$720.18	$692.57	$682.28	$691.47	$703.22	$683.70	$701.07
Total Development Cost per Unit	$905,838	$110,123	$1,015,962	$865,718	$102,342	$968,060	$879,027	$106,092	$985,118

	Income Capitalization			Income Capitalization			Income Capitalization		
	Residential	**Commercial**	**Total**	**Residential**	**Commercial**	**Total**	**Residential**	**Commercial**	**Total**
Gross Annual Rent	$1,402,787	$205,200	$1,607,987	$1,462,979	$205,200	$1,668,179	$1,439,233	$205,200	$1,644,433
Gross Annual Parking Rent	$59,850	$0	$59,850	$64,125	$0	$64,125	$62,700	$0	$62,700
Less: Operating Expenses	($364,000)	$0	($364,000)	($390,000)	$0	($390,000)	($377,000)	$0	($377,000)
Net Operating Income	$1,098,637	$205,200	$1,303,837	$1,137,104	$205,200	$1,342,304	$1,124,933	$205,200	$1,330,133
Capitalization Rate	4.00%	5.00%	4.13%	4.00%	5.00%	4.13%	4.00%	5.00%	4.13%
Capitalized Project Value	**$27,465,928**	**$4,104,000**	**$31,569,928**	**$28,427,603**	**$4,104,000**	**$32,531,603**	**$28,123,323**	**$4,104,000**	**$32,227,323**

	Residual Land Value	Residual Land Value	Residual Land Value
Capitalized Project Value	$31,569,928	$32,531,603	$32,227,323
Less Total Development Costs	($28,446,926)	($29,041,795)	($28,568,432)
Residual Land Value	**$3,123,002**	**$3,489,808**	**$3,658,891**
Residual Land Value per Site sf	$71.69	$80.11	$84.00
Residual Land Value per Unit	$111,536	$116,327	$126,169

Source: BAE, 2019.

Pro-formas for Lower-Density Multifamily Rental Project in Bayfront Area on 3.3 Acres (Prototype 3), City of Menlo Park, 2019 (page 1 of 2)

	Current Inclusionary Requirement			20% Inclusionary Requirement			Current Req. Plus 2% Moderate Req.		
Site Size (acres / sf)	3.33	145,200		3.3	145,200		3.3	145,200	
Built Project FAR (excl. parking)	0.89	FAR		0.94	FAR		0.89	FAR	
Dwelling Units per Acre	38	du / acre		41	du / acre		38	du / acre	
Total Dwelling Units	**128**	**units**		**135**	**units**		**128**	**units**	
Unit Mix		Market	Low		Market	Low	Market	Low	Moderate
Studio	10%	11	2	10%	12	2	11	2	0
One-Bedroom	50%	57	7	50%	58	10	56	7	1
Two-Bedroom	35%	40	5	35%	40	7	39	5	1
Three-Bedroom	5%	5	1	5%	5	1	5	1	0
Total		113	15		115	20	111	15	2
Weighted Average Rent (per unit/mo.)		$3,988	$1,833		$3,980	$1,837	$3,988	$1,833	$2,931
	Residential	**Commercial**	**Total**	**Residential**	**Commercial**	**Total**	**Residential**	**Commercial**	**Total**
Gross Building Area	128,000	1,000	129,000	135,000	1,000	136,000	128,000	1,000	129,000
Parking Spaces									
Surface	88	3	91	88	3	91	88	3	91
Podium	104	0	104	115	0	115	104	0	104
Total	**192**	**3**	**195**	**203**	**3**	**206**	**192**	**3**	**195**

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Pro-formas for Lower-Density Multifamily Rental Project in Bayfront Area on 3.3 Acres (Prototype 3), City of Menlo Park, 2019 (page 2 of 2)

	Development Costs			Development Costs			Development Costs		
Hard Construction Costs	**Residential**	**Commercial**	**Total**	**Residential**	**Commercial**	**Total**	**Residential**	**Commercial**	**Total**
Site Work	$3,601,860	$28,140	$3,630,000	$3,603,309	$26,691	$3,630,000	$3,601,860	$28,140	$3,630,000
Building Costs	$44,800,000	$380,000	$45,180,000	$47,250,000	$380,000	$47,630,000	$44,800,000	$380,000	$45,180,000
Surface Parking	$880,000	$30,000	$910,000	$880,000	$30,000	$910,000	$880,000	$30,000	$910,000
Podium Parking	$5,200,000	$0	$5,200,000	$5,750,000	$0	$5,750,000	$5,200,000	$0	$5,200,000
Total Hard Costs	**$54,481,860**	**$438,140**	**$54,920,000**	**$57,483,309**	**$436,691**	**$57,920,000**	**$54,481,860**	**$438,140**	**$54,920,000**
Total Hard Costs per sf (gross)	$425.64	$438.14	$425.74	$425.80	$436.69	$425.88	$425.64	$438.14	$425.74
Soft Costs									
Soft Costs	$10,896,372	$87,628	$10,984,000	$11,496,662	$87,338	$11,584,000	$10,896,372	$87,628	$10,984,000
Impact Fees	$1,020,806	$7,971	$1,028,778	$1,076,759	$7,963	$1,084,722	$1,020,806	$7,971	$1,028,778
Developer Fee	$2,615,129	$21,031	$2,636,160	$2,759,199	$20,961	$2,780,160	$2,615,129	$21,031	$2,636,160
Contingency	$3,268,912	$26,288	$3,295,200	$3,448,999	$26,201	$3,475,200	$3,268,912	$26,288	$3,295,200
BMR in-lieu fee	$0	$0	$0	$0	$0	$0	$0	$0	$0
Total Soft Costs	**$17,801,219**	**$142,918**	**$17,944,138**	**$18,781,618**	**$142,464**	**$18,924,082**	**$17,801,219**	**$142,918**	**$17,944,138**
Total Costs before Financing	**$72,283,080**	**$581,058**	**$72,864,138**	**$76,264,927**	**$579,155**	**$76,844,082**	**$72,283,080**	**$581,058**	**$72,864,138**
Total Construction Costs per sf	$564.71	$581.06	$564.84	$564.93	$579.15	$565.03	$564.71	$581.06	$564.84
Financing Costs									
Interest	$1,957,667	$15,737	$1,973,404	$2,065,508	$15,685	$2,081,194	$1,957,667	$15,737	$1,973,404
Points	$352,380	$2,833	$355,213	$371,792	$2,823	$374,615	$352,380	$2,833	$355,213
Total Financing Costs	**$2,310,047**	**$18,570**	**$2,328,616**	**$2,437,300**	**$18,509**	**$2,455,809**	**$2,310,047**	**$18,570**	**$2,328,616**
Developer Profit	**$7,459,313**	**$59,963**	**$7,519,275**	**$7,870,223**	**$59,766**	**$7,929,989**	**$7,459,313**	**$59,963**	**$7,519,275**
Total Development Costs (excl. land)	**$82,052,439**	**$659,590**	**$82,712,029**	**$86,572,450**	**$657,430**	**$87,229,880**	**$82,052,439**	**$659,590**	**$82,712,029**
Total Development Cost per sf	$641.03	$659.59	$641.18	$641.28	$657.43	$641.40	$641.03	$659.59	$641.18
Total Development Cost per Unit	$641,035	$5,153	$646,188	$641,277	$4,870	$646,147	$641,035	$5,153	$646,188

	Income Capitalization			Income Capitalization			Income Capitalization		
	Residential	**Commercial**	**Total**	**Residential**	**Commercial**	**Total**	**Residential**	**Commercial**	**Total**
Gross Annual Rent	$5,451,232	$45,600	$5,496,832	$5,636,454	$45,600	$5,682,054	$5,426,232	$45,600	$5,471,832
Gross Annual Parking Rent	$273,600	$0	$273,600	$289,275	$0	$289,275	$273,600	$0	$273,600
Less: Operating Expenses	($1,664,000)	$0	($1,664,000)	($1,755,000)	$0	($1,755,000)	($1,664,000)	$0	($1,664,000)
Net Operating Income	$4,060,832	$45,600	$4,106,432	$4,170,729	$45,600	$4,216,329	$4,035,832	$45,600	$4,081,432
Capitalization Rate	4.00%	5.00%	4.01%	4.00%	5.00%	4.01%	4.00%	5.00%	4.01%
Capitalized Project Value	**$101,520,801**	**$912,000**	**$102,432,801**	**$104,268,214**	**$912,000**	**$105,180,214**	**$100,895,796**	**$912,000**	**$101,807,796**

	Residual Land Value	Residual Land Value	Residual Land Value
Capitalized Project Value	$102,432,801	$105,180,214	$101,807,796
Less Total Development Costs	($82,712,029)	($87,229,880)	($82,712,029)
Residual Land Value	**$19,720,772**	**$17,950,334**	**$19,095,767**
Residual Land Value per Site sf	$135.82	$123.62	$131.51
Residual Land Value per Unit	$154,069	$132,965	$149,186

Source: BAE, 2019.

Pro-formas for Lower-Density Multifamily Rental Project in Bayfront Area on 6.7 Acres (Prototype 4), City of Menlo Park, 2019 (page 1 of 2)

	Current Inclusionary Requirement			20% Inclusionary Requirement			Current Req. Plus 2% Moderate Req.		
Site Size (acres / sf)	6.7	290,400		6.7	290,400		6.7	290,400	
Built Project FAR (excl. parking)	0.88	FAR		0.94	FAR		0.88	FAR	
Dwelling Units per Acre	38	du / acre		41	du / acre		38	du / acre	
Total Dwelling Units	**255**	**units**		**270**	**units**		**255**	**units**	
Unit Mix		Market	Low		Market	Low	Market	Low	Moderate
Studio	10%	22	3	10%	23	4	22	3	0
One-Bedroom	50%	113	15	50%	115	20	111	15	2
Two-Bedroom	35%	79	11	35%	81	14	77	11	2
Three-Bedroom	5%	11	1	5%	11	2	11	1	0
Total		225	30		230	40	221	30	4
Weighted Average Rent (per unit/mo.)		$3,997	$1,833		$3,995	$1,837	$3,996	$1,833	$2,931
	Residential	**Commercial**	**Total**	**Residential**	**Commercial**	**Total**	**Residential**	**Commercial**	**Total**
Gross Building Area	255,000	2,000	257,000	270,000	2,000	272,000	255,000	2,000	257,000
Parking Spaces									
Surface	184	6	190	184	6	190	184	6	190
Podium	199	0	199	221	0	221	199	0	199
Total	**383**	**6**	**389**	**405**	**6**	**411**	**383**	**6**	**389**

(Continued on following page)

Pro-formas for Lower-Density Multifamily Rental Project in Bayfront Area on 6.7 Acres (Prototype 4), City of Menlo Park, 2019 (page 2 of 2)

	Development Costs			Development Costs			Development Costs		
Hard Construction Costs	**Residential**	**Commercial**	**Total**	**Residential**	**Commercial**	**Total**	**Residential**	**Commercial**	**Total**
Site Work	$7,203,502	$56,498	$7,260,000	$7,206,618	$53,382	$7,260,000	$7,203,502	$56,498	$7,260,000
Building Costs	$89,250,000	$760,000	$90,010,000	$94,500,000	$760,000	$95,260,000	$89,250,000	$760,000	$90,010,000
Surface Parking	$1,840,000	$60,000	$1,900,000	$1,840,000	$60,000	$1,900,000	$1,840,000	$60,000	$1,900,000
Podium Parking	$9,950,000	$0	$9,950,000	$11,050,000	$0	$11,050,000	$9,950,000	$0	$9,950,000
Total Hard Costs	**$108,243,502**	**$876,498**	**$109,120,000**	**$114,596,618**	**$873,382**	**$115,470,000**	**$108,243,502**	**$876,498**	**$109,120,000**
Total Hard Costs per sf (gross)	$424.48	$438.25	$424.59	$424.43	$436.69	$424.52	$424.48	$438.25	$424.59
Soft Costs									
Soft Costs	$21,648,700	$175,300	$21,824,000	$22,919,324	$174,676	$23,094,000	$21,648,700	$175,300	$21,824,000
Impact Fees	$2,031,929	$15,944	$2,047,873	$2,151,372	$15,926	$2,167,298	$2,031,929	$15,944	$2,047,873
Developer Fee	$5,195,688	$42,072	$5,237,760	$5,500,638	$41,922	$5,542,560	$5,195,688	$42,072	$5,237,760
Contingency	$6,494,610	$52,590	$6,547,200	$6,875,797	$52,403	$6,928,200	$6,494,610	$52,590	$6,547,200
BMR in-lieu fee	$0	$0	$0	$0	$0	$0	$0	$0	$0
Total Soft Costs	**$35,370,928**	**$285,905**	**$35,656,833**	**$37,447,130**	**$284,927**	**$37,732,058**	**$35,370,928**	**$285,905**	**$35,656,833**
Total Costs before Financing	**$143,614,430**	**$1,162,403**	**$144,776,833**	**$152,043,748**	**$1,158,310**	**$153,202,058**	**$143,614,430**	**$1,162,403**	**$144,776,833**
Total Costs per sf	$563.19	$581.20	$563.33	$563.12	$579.15	$563.24	$563.19	$581.20	$563.33
Financing Costs									
Interest	$4,667,469	$37,778	$4,705,247	$4,941,422	$37,645	$4,979,067	$4,667,469	$37,778	$4,705,247
Points	$700,120	$5,667	$705,787	$741,213	$5,647	$746,860	$700,120	$5,667	$705,787
Total Financing Costs	**$5,367,589**	**$43,445**	**$5,411,034**	**$5,682,635**	**$43,292**	**$5,725,927**	**$5,367,589**	**$43,445**	**$5,411,034**
Developer Profit	**$14,898,202**	**$120,585**	**$15,018,787**	**$15,772,638**	**$120,160**	**$15,892,798**	**$14,898,202**	**$120,585**	**$15,018,787**
Total Development Costs (excl. land)	**$163,880,221**	**$1,326,433**	**$165,206,654**	**$173,499,021**	**$1,321,762**	**$174,820,783**	**$163,880,221**	**$1,326,433**	**$165,206,654**
Total Development Cost per sf	$642.67	$663.22	$642.83	$642.59	$660.88	$642.72	$642.67	$663.22	$642.83
Total Development Cost per Unit	$642,668	$5,202	$647,869	$642,589	$4,895	$647,484	$642,668	$5,202	$647,869

	Income Capitalization			Income Capitalization			Income Capitalization		
	Residential	**Commercial**	**Total**	**Residential**	**Commercial**	**Total**	**Residential**	**Commercial**	**Total**
Gross Annual Rent	$10,878,521	$91,200	$10,969,721	$11,311,550	$91,200	$11,402,750	$10,828,521	$91,200	$10,919,721
Gross Annual Parking Rent	$545,775	$0	$545,775	$577,125	$0	$577,125	$545,775	$0	$545,775
Less: Operating Expenses	($3,315,000)	$0	($3,315,000)	($3,510,000)	$0	($3,510,000)	($3,315,000)	$0	($3,315,000)
Net Operating Income	$8,109,296	$91,200	$8,200,496	$8,378,675	$91,200	$8,469,875	$8,059,296	$91,200	$8,150,496
Capitalization Rate	4.00%	5.00%	4.01%	4.00%	5.00%	4.01%	4.00%	5.00%	4.01%
Capitalized Project Value	**$202,732,406**	**$1,824,000**	**$204,556,406**	**$209,466,881**	**$1,824,000**	**$211,290,881**	**$201,482,396**	**$1,824,000**	**$203,306,396**

	Residual Land Value	Residual Land Value	Residual Land Value
Capitalized Project Value	$204,556,406	$211,290,881	$203,306,396
Less Total Development Costs	($165,206,654)	($174,820,783)	($165,206,654)
Residual Land Value	**$39,349,753**	**$36,470,098**	**$38,099,743**
Residual Land Value per Site sf	$135.50	$125.59	$131.20
Residual Land Value per Unit	$154,313	$135,074	$149,411

Source: BAE, 2019.

Pro-formas for Lower-Density Multifamily Rental Project in Bayfront Area on 13.3 Acres (Prototype 5), City of Menlo Park, 2019 (page 1 of 2)

	Current Inclusionary Requirement			20% Inclusionary Requirement			Current Req. Plus 2% Moderate Req.		
Site Size (acres / sf)	13.3	580,800		13.3	580,800		13.3	580,800	
Built Project FAR (excl. parking)	0.88	FAR		0.94	FAR		0.88	FAR	
Dwelling Units per Acre	38	du / acre		41	du / acre		38	du / acre	
Total Dwelling Units	**510**	**units**		**540**	**units**		**510**	**units**	
Unit Mix		Market	Low		Market	Low	Market	Low	Moderate
Studio	10%	45	6	10%	46	8	44	6	1
One-Bedroom	50%	225	30	50%	230	40	221	30	4
Two-Bedroom	35%	158	21	35%	161	28	155	21	3
Three-Bedroom	5%	22	3	5%	23	4	22	3	0
Total		450	60		460	80	442	60	8
Weighted Average Rent (per unit/mo.)		$3,996	$1,837		$3,998	$1,837	$3,998	$1,837	$2,842
	Residential	**Commercial**	**Total**	**Residential**	**Commercial**	**Total**	**Residential**	**Commercial**	**Total**
Gross Building Area	510,000	4,000	514,000	540,000	4,000	544,000	510,000	4,000	514,000
Parking Spaces									
Surface	369	12	381	369	12	381	369	12	381
Podium	396	0	396	441	0	441	396	0	396
Total	**765**	**12**	**777**	**810**	**12**	**822**	**765**	**12**	**777**

(Continued on following page)

Pro-formas for Lower-Density Multifamily Rental Project in Bayfront Area on 13.3 Acres (Prototype 5), City of Menlo Park, 2019 (page 2 of 2)

	Development Costs			Development Costs			Development Costs		
Hard Construction Costs	**Residential**	**Commercial**	**Total**	**Residential**	**Commercial**	**Total**	**Residential**	**Commercial**	**Total**
Site Work	$14,407,004	$112,996	$14,520,000	$14,413,235	$106,765	$14,520,000	$14,407,004	$112,996	$14,520,000
Building Costs	$178,500,000	$1,520,000	$180,020,000	$189,000,000	$1,520,000	$190,520,000	$178,500,000	$1,520,000	$180,020,000
Surface Parking	$3,690,000	$120,000	$3,810,000	$3,690,000	$120,000	$3,810,000	$3,690,000	$120,000	$3,810,000
Podium Parking	$19,800,000	$0	$19,800,000	$22,050,000	$0	$22,050,000	$19,800,000	$0	$19,800,000
Total Hard Costs	**$216,397,004**	**$1,752,996**	**$218,150,000**	**$229,153,235**	**$1,746,765**	**$230,900,000**	**$216,397,004**	**$1,752,996**	**$218,150,000**
Total Hard Costs per sf (gross)	$424.31	$438.25	$424.42	$424.36	$436.69	$424.45	$424.31	$438.25	$424.42
Soft Costs									
Soft Costs	$43,279,401	$350,599	$43,630,000	$45,830,647	$349,353	$46,180,000	$43,279,401	$350,599	$43,630,000
Impact Fees	$4,063,336	$31,887	$4,095,223	$4,302,512	$31,851	$4,334,364	$4,063,336	$31,887	$4,095,223
Developer Fee	$10,387,056	$84,144	$10,471,200	$10,999,355	$83,845	$11,083,200	$10,387,056	$84,144	$10,471,200
Contingency	$12,983,820	$105,180	$13,089,000	$13,749,194	$104,806	$13,854,000	$12,983,820	$105,180	$13,089,000
BMR in-lieu fee	$0	$0	$0	$0	$0	$0	$0	$0	$0
Total Soft Costs	**$70,713,613**	**$571,810**	**$71,285,423**	**$74,881,709**	**$569,855**	**$75,451,564**	**$70,713,613**	**$571,810**	**$71,285,423**
Total Costs before Financing	**$287,110,617**	**$2,324,806**	**$289,435,423**	**$304,034,944**	**$2,316,619**	**$306,351,564**	**$287,110,617**	**$2,324,806**	**$289,435,423**
Total Costs per sf	$562.96	$581.20	$563.10	$563.03	$579.15	$563.15	$562.96	$581.20	$563.10
Financing Costs									
Interest	$10,886,278	$88,149	$10,974,426	$11,527,992	$87,838	$11,615,830	$10,886,278	$88,149	$10,974,426
Points	$1,399,664	$11,333	$1,410,998	$1,482,170	$11,294	$1,493,464	$1,399,664	$11,333	$1,410,998
Total Financing Costs	**$12,285,942**	**$99,482**	**$12,385,424**	**$13,010,162**	**$99,132**	**$13,109,294**	**$12,285,942**	**$99,482**	**$12,385,424**
Developer Profit	**$29,939,656**	**$242,429**	**$30,182,085**	**$31,704,511**	**$241,575**	**$31,946,086**	**$29,939,656**	**$242,429**	**$30,182,085**
Total Development Costs (excl. land)	**$329,336,215**	**$2,666,717**	**$332,002,932**	**$348,749,617**	**$2,657,327**	**$351,406,943**	**$329,336,215**	**$2,666,717**	**$332,002,932**
Total Development Cost per sf	$645.76	$666.68	$645.92	$645.83	$664.33	$645.97	$645.76	$666.68	$645.92
Total Development Cost per Unit	$645,757	$5,229	$650,986	$645,833	$4,921	$650,754	$645,757	$5,229	$650,986

	Income Capitalization			Income Capitalization			Income Capitalization		
	Residential	**Commercial**	**Total**	**Residential**	**Commercial**	**Total**	**Residential**	**Commercial**	**Total**
Gross Annual Rent	$21,757,157	$182,400	$21,939,557	$22,640,300	$182,400	$22,822,700	$21,660,963	$182,400	$21,843,363
Gross Annual Parking Rent	$1,090,125	$0	$1,090,125	$1,154,250	$0	$1,154,250	$1,090,125	$0	$1,090,125
Less: Operating Expenses	($6,630,000)	$0	($6,630,000)	($7,020,000)	$0	($7,020,000)	($6,630,000)	$0	($6,630,000)
Net Operating Income	$16,217,282	$182,400	$16,399,682	$16,774,550	$182,400	$16,956,950	$16,121,088	$182,400	$16,303,488
Capitalization Rate	4.00%	5.00%	4.01%	4.00%	5.00%	4.01%	4.00%	5.00%	4.01%
Capitalized Project Value	**$405,432,038**	**$3,648,000**	**$409,080,038**	**$419,363,756**	**$3,648,000**	**$423,011,756**	**$403,027,208**	**$3,648,000**	**$406,675,208**

	Residual Land Value	Residual Land Value	Residual Land Value
Capitalized Project Value	$409,080,038	$423,011,756	$406,675,208
Less Total Development Costs	($332,002,932)	($351,406,943)	($332,002,932)
Residual Land Value	**$77,077,105**	**$71,604,813**	**$74,672,275**
Residual Land Value per Site sf	$132.71	$123.29	$128.57
Residual Land Value per Unit	$151,132	$132,602	$146,416

Source: BAE, 2019.

Pro-formas for Higher-Density Multifamily Rental Project in Bayfront Area on One Acre (Prototype 6), City of Menlo Park, 2019 (page 1 of 2)

	Current Inclusionary Requirement			20% Inclusionary Requirement			Current Req. Plus 2% Moderate Req.		
Site Size (acres / sf)	1.0	43,560		1.0	43,560		1.0	43,560	
Built Project FAR (excl. parking)	2.39	FAR		2.50	FAR		2.43	FAR	
Dwelling Units per Acre	115	du / acre		120	du / acre		117	du / acre	
Total Dwelling Units	**115**	**units**		**120**	**units**		**117**	**units**	
Unit Mix		Market	Low		Market	Low	Market	Low	Moderate
Studio	25%	25	4	25%	25	5	25	4	1
One-Bedroom	60%	60	9	60%	60	12	60	9	1
Two-Bedroom	15%	15	2	15%	15	3	15	2	0
Three-Bedroom	0%	0	0	0%	0	0	0	0	0
Total		100	15		100	20	100	15	2
Weighted Average Rent (per unit/mo.)		$3,682	$2,220		$3,682	$2,230	$3,682	$2,220	$2,575
	Residential	**Commercial**	**Total**	**Residential**	**Commercial**	**Total**	**Residential**	**Commercial**	**Total**
Gross Building Area	103,500	750	104,250	108,000	750	108,750	105,300	750	106,050
Parking Spaces									
Surface	0	0	0	0	0	0	0	0	0
Podium	133	3	136	138	3	141	135	3	138
Total	**133**	**3**	**136**	**138**	**3**	**141**	**135**	**3**	**138**

(Continued on following page)

Pro-formas for Higher-Density Multifamily Rental Project in Bayfront Area on One Acre (Prototype 6), City of Menlo Park, 2019 (page 2 of 2)

	Development Costs			Development Costs			Development Costs		
Hard Construction Costs	**Residential**	**Commercial**	**Total**	**Residential**	**Commercial**	**Total**	**Residential**	**Commercial**	**Total**
Site Work	$1,297,399	$9,401	$1,306,800	$1,297,788	$9,012	$1,306,800	$1,297,558	$9,242	$1,306,800
Building Costs	$37,260,000	$285,000	$37,545,000	$38,880,000	$285,000	$39,165,000	$37,908,000	$285,000	$38,193,000
Surface Parking	$0	$0	$0	$0	$0	$0	$0	$0	$0
Podium Parking	$6,650,000	$150,000	$6,800,000	$6,900,000	$150,000	$7,050,000	$6,750,000	$150,000	$6,900,000
Total Hard Costs	**$45,207,399**	**$444,401**	**$45,651,800**	**$47,077,788**	**$444,012**	**$47,521,800**	**$45,955,558**	**$444,242**	**$46,399,800**
Total Hard Costs per sf (gross)	$436.79	$592.54	$437.91	$435.91	$592.02	$436.98	$436.43	$592.32	$437.53
Soft Costs									
Soft Costs	$9,041,480	$88,880	$9,130,360	$9,415,558	$88,802	$9,504,360	$9,191,112	$88,848	$9,279,960
Impact Fees	$855,412	$6,650	$862,062	$892,052	$6,648	$898,700	$870,068	$6,649	$876,717
Developer Fee	$2,169,955	$21,331	$2,191,286	$2,259,734	$21,313	$2,281,046	$2,205,867	$21,324	$2,227,190
Contingency	$2,712,444	$26,664	$2,739,108	$2,824,667	$26,641	$2,851,308	$2,757,333	$26,655	$2,783,988
BMR in-lieu fee	$0	$0	$0	$0	$0	$0	$0	$0	$0
Total Soft Costs	**$14,779,291**	**$143,526**	**$14,922,816**	**$15,392,011**	**$143,404**	**$15,535,414**	**$15,024,380**	**$143,476**	**$15,167,856**
Total Costs before Financing	**$59,986,689**	**$587,927**	**$60,574,616**	**$62,469,798**	**$587,416**	**$63,057,214**	**$60,979,938**	**$587,717**	**$61,567,656**
Total Costs per sf	$579.58	$783.90	$581.05	$578.42	$783.22	$579.84	$579.11	$783.62	$580.55
Financing Costs									
Interest	$1,624,640	$15,923	$1,640,563	$1,691,890	$15,909	$1,707,800	$1,651,540	$15,917	$1,667,457
Points	$292,435	$2,866	$295,301	$304,540	$2,864	$307,404	$297,277	$2,865	$300,142
Total Financing Costs	**$1,917,075**	**$18,789**	**$1,935,864**	**$1,996,431**	**$18,773**	**$2,015,203**	**$1,948,817**	**$18,782**	**$1,967,600**
Developer Profit	**$6,190,376**	**$60,672**	**$6,251,048**	**$6,446,623**	**$60,619**	**$6,507,242**	**$6,292,876**	**$60,650**	**$6,353,526**
Total Development Costs (excl. land)	**$68,094,140**	**$667,388**	**$68,761,528**	**$70,912,852**	**$666,808**	**$71,579,659**	**$69,221,631**	**$667,150**	**$69,888,781**
Total Development Cost per sf	$657.91	$889.85	$659.58	$656.60	$889.08	$658.20	$657.38	$889.53	$659.02
Total Development Cost per Unit	$592,123	$5,803	$597,926	$616,633	$5,798	$622,432	$601,927	$5,801	$607,729
	Income Capitalization			**Income Capitalization**			**Income Capitalization**		
	Residential	**Commercial**	**Total**	**Residential**	**Commercial**	**Total**	**Residential**	**Commercial**	**Total**
Gross Annual Rent	$4,577,225	$34,200	$4,611,425	$4,705,977	$34,200	$4,740,177	$4,635,935	$34,200	$4,670,135
Gross Annual Parking Rent	$189,525	$0	$189,525	$196,650	$0	$196,650	$192,375	$0	$192,375
Less: Operating Expenses	($1,495,000)	$0	($1,495,000)	($1,560,000)	$0	($1,560,000)	($1,521,000)	$0	($1,521,000)
Net Operating Income	$3,271,750	$34,200	$3,305,950	$3,342,627	$34,200	$3,376,827	$3,307,310	$34,200	$3,341,510
Capitalization Rate	4.00%	5.00%	4.01%	4.00%	5.00%	4.01%	4.00%	5.00%	4.01%
Capitalized Project Value	**$81,793,760**	**$684,000**	**$82,477,760**	**$83,565,675**	**$684,000**	**$84,249,675**	**$82,682,760**	**$684,000**	**$83,366,760**
	Residual Land Value			**Residual Land Value**			**Residual Land Value**		
Capitalized Project Value			$82,477,760			$84,249,675			$83,366,760
Less Total Development Costs			($68,761,528)			($71,579,659)			($69,888,781)
Residual Land Value			**$13,716,232**			**$12,670,016**			**$13,477,979**
Residual Land Value per Site sf			$314.88			$290.86			$309.41
Residual Land Value per Unit			$119,272			$105,583			$115,196

Source: BAE, 2019.

Pro-formas for Higher-Density Multifamily Rental Project in Bayfront Area on Two Acres (Prototype 7), City of Menlo Park, 2019 (page 1 of 2)

	Current Inclusionary Requirement			20% Inclusionary Requirement			Current Req. Plus 2% Moderate Req.		
Site Size (acres / sf)	2.0	87,120		2.0	87,120		2.0	87,120	
Built Project FAR (excl. parking)	2.39	FAR		2.49	FAR		2.43	FAR	
Dwelling Units per Acre	115	du / acre		120	du / acre		117	du / acre	
Total Dwelling Units	**230**	**units**		**240**	**units**		**234**	**units**	
Unit Mix		Market	Low		Market	Low	Market	Low	Moderate
Studio	25%	50	7	25%	50	10	50	7	1
One-Bedroom	60%	120	18	60%	120	24	120	18	2
Two-Bedroom	15%	30	5	15%	30	6	30	5	1
Three-Bedroom	0%	0	0	0%	0	0	0	0	0
Total		200	30		200	40	200	30	4
Weighted Average Rent (per unit/mo.)		$3,682	$2,239		$3,682	$2,230	$3,682	$2,239	$2,753
	Residential	**Commercial**	**Total**	**Residential**	**Commercial**	**Total**	**Residential**	**Commercial**	**Total**
Gross Building Area	207,000	1,000	208,000	216,000	1,000	217,000	210,600	1,000	211,600
Parking Spaces									
Surface	0	0	0	0	0	0	0	0	0
Podium	265	3	268	265	3	279	265	3	273
Total	**265**	**3**	**268**	**265**	**3**	**279**	**265**	**3**	**273**

(Continued on following page)

Pro-formas for Higher-Density Multifamily Rental Project in Bayfront Area on Two Acres (Prototype 7), City of Menlo Park, 2019 (page 2 of 2)

	Development Costs			Development Costs			Development Costs		
Hard Construction Costs	**Residential**	**Commercial**	**Total**	**Residential**	**Commercial**	**Total**	**Residential**	**Commercial**	**Total**
Site Work	$2,601,035	$12,565	$2,613,600	$2,601,556	$12,044	$2,613,600	$2,601,248	$12,352	$2,613,600
Building Costs	$74,520,000	$380,000	$74,900,000	$77,760,000	$380,000	$78,140,000	$75,816,000	$380,000	$76,196,000
Surface Parking	$0	$0	$0	$0	$0	$0	$0	$0	$0
Podium Parking	$13,250,000	$150,000	$13,400,000	$13,250,000	$150,000	$13,400,000	$13,250,000	$150,000	$13,400,000
Total Hard Costs	**$90,371,035**	**$542,565**	**$90,913,600**	**$93,611,556**	**$542,044**	**$94,153,600**	**$91,667,248**	**$542,352**	**$92,209,600**
Total Hard Costs per sf (gross)	$436.58	$542.57	$437.08	$433.39	$542.04	$433.89	$435.27	$542.35	$435.77
Soft Costs									
Soft Costs	$18,074,207	$108,513	$18,182,720	$18,722,311	$108,409	$18,830,720	$18,333,450	$108,470	$18,441,920
Impact Fees	$1,710,570	$8,577	$1,719,147	$1,780,949	$8,574	$1,789,522	$1,738,722	$8,576	$1,747,297
Developer Fee	$4,337,810	$26,043	$4,363,853	$4,493,355	$26,018	$4,519,373	$4,400,028	$26,033	$4,426,061
Contingency	$5,422,262	$32,554	$5,454,816	$5,616,693	$32,523	$5,649,216	$5,500,035	$32,541	$5,532,576
BMR in-lieu fee	$0	$0	$0	$0	$0	$0	$0	$0	$0
Total Soft Costs	**$29,544,849**	**$175,687**	**$29,720,536**	**$30,613,308**	**$175,523**	**$30,788,831**	**$29,972,234**	**$175,620**	**$30,147,854**
Total Costs before Financing	**$119,915,883**	**$718,252**	**$120,634,136**	**$124,224,864**	**$717,568**	**$124,942,431**	**$121,639,482**	**$717,972**	**$122,357,454**
Total Costs per sf	$579.30	$718.25	$579.97	$575.12	$717.57	$575.77	$577.59	$717.97	$578.25
Financing Costs									
Interest	$3,897,266	$23,343	$3,920,609	$4,037,308	$23,321	$4,060,629	$3,953,283	$23,334	$3,976,617
Points	$584,590	$3,501	$588,091	$605,596	$3,498	$609,094	$592,992	$3,500	$596,493
Total Financing Costs	**$4,481,856**	**$26,845**	**$4,508,701**	**$4,642,904**	**$26,819**	**$4,669,723**	**$4,546,276**	**$26,834**	**$4,573,110**
Developer Profit	**$12,439,774**	**$74,510**	**$12,514,284**	**$12,886,777**	**$74,439**	**$12,961,215**	**$12,618,576**	**$74,481**	**$12,693,056**
Total Development Costs (excl. land)	**$136,837,514**	**$819,607**	**$137,657,120**	**$141,754,545**	**$818,825**	**$142,573,370**	**$138,804,334**	**$819,286**	**$139,623,620**
Total Development Cost per sf	$661.05	$819.61	$661.81	$656.27	$818.83	$657.02	$659.09	$819.29	$659.85
Total Development Cost per Unit	$594,946	$3,564	$598,509	$616,324	$3,560	$619,884	$603,497	$3,562	$607,059

	Income Capitalization			Income Capitalization			Income Capitalization		
	Residential	**Commercial**	**Total**	**Residential**	**Commercial**	**Total**	**Residential**	**Commercial**	**Total**
Gross Annual Rent	$9,161,131	$45,600	$9,206,731	$9,411,954	$45,600	$9,457,554	$9,286,657	$45,600	$9,332,257
Gross Annual Parking Rent	$377,625	$0	$377,625	$377,625	$0	$377,625	$377,625	$0	$377,625
Less: Operating Expenses	($2,990,000)	$0	($2,990,000)	($3,120,000)	$0	($3,120,000)	($3,042,000)	$0	($3,042,000)
Net Operating Income	$6,548,756	$45,600	$6,594,356	$6,669,579	$45,600	$6,715,179	$6,622,282	$45,600	$6,667,882
Capitalization Rate	4.00%	5.00%	4.01%	4.00%	5.00%	4.01%	4.00%	5.00%	4.01%
Capitalized Project Value	**$163,718,905**	**$912,000**	**$164,630,905**	**$166,739,475**	**$912,000**	**$167,651,475**	**$165,557,040**	**$912,000**	**$166,469,040**

	Residual Land Value	Residual Land Value	Residual Land Value
Capitalized Project Value	$164,630,905	$167,651,475	$166,469,040
Less Total Development Costs	($137,657,120)	($142,573,370)	($139,623,620)
Residual Land Value	**$26,973,785**	**$25,078,105**	**$26,845,420**
Residual Land Value per Site sf	$309.62	$287.86	$308.14
Residual Land Value per Unit	$117,277	$104,492	$114,724

Source: BAE, 2019.

Pro-formas for Higher-Density Multifamily Rental Project in Bayfront Area on Four Acres (Prototype 8), City of Menlo Park, 2019 (page 1 of 2)

	Current Inclusionary Requirement			20% Inclusionary Requirement			Current Req. Plus 2% Moderate Req.		
Site Size (acres / sf)	4.0	174,240		4.0	174,240		4.0	174,240	
Built Project FAR (excl. parking)	2.39	FAR		2.49	FAR		2.43	FAR	
Dwelling Units per Acre	115	du / acre		120	du / acre		117	du / acre	
Total Dwelling Units	**460**	**units**		**480**	**units**		**468**	**units**	
Unit Mix		Market	Affordable		Market	Affordable	Market	Low	Moderate
Studio	25%	100	15	25%	100	20	100	15	2
One-Bedroom	60%	240	36	60%	240	48	240	36	5
Two-Bedroom	15%	60	9	15%	60	12	60	9	1
Three-Bedroom	0%	0	0	0%	0	0	0	0	0
Total		400	60		400	80	400	60	8
Weighted Average Rent (per unit/mo.)		$3,682	$2,230		$3,682	$2,230	$3,682	$2,230	$2,686
	Residential	**Commercial**	**Total**	**Residential**	**Commercial**	**Total**	**Residential**	**Commercial**	**Total**
Gross Building Area	414,000	2,000	416,000	432,000	2,000	434,000	421,200	2,000	423,200
Parking Spaces									
Surface	0	0	0	0	0	0	0	0	0
Podium	529	6	535	529	6	558	529	6	545
Total	**529**	**6**	**535**	**529**	**6**	**558**	**529**	**6**	**545**

(Continued on following page)

Pro-formas for Higher-Density Multifamily Rental Project in Bayfront Area on Four Acres (Prototype 8), City of Menlo Park, 2019 (page 2 of 2)

	Development Costs			Development Costs			Development Costs		
Hard Construction Costs	**Residential**	**Commercial**	**Total**	**Residential**	**Commercial**	**Total**	**Residential**	**Commercial**	**Total**
Site Work	$5,202,069	$25,131	$5,227,200	$5,203,112	$24,088	$5,227,200	$5,202,497	$24,703	$5,227,200
Building Costs	$149,040,000	$760,000	$149,800,000	$155,520,000	$760,000	$156,280,000	$151,632,000	$760,000	$152,392,000
Surface Parking	$0	$0	$0	$0	$0	$0	$0	$0	$0
Podium Parking	$26,450,000	$300,000	$26,750,000	$26,450,000	$300,000	$26,750,000	$26,450,000	$300,000	$26,750,000
Total Hard Costs	**$180,692,069**	**$1,085,131**	**$181,777,200**	**$187,173,112**	**$1,084,088**	**$188,257,200**	**$183,284,497**	**$1,084,703**	**$184,369,200**
Total Hard Costs per sf (gross)	$436.45	$542.57	$436.96	$433.27	$542.04	$433.77	$435.15	$542.35	$435.66
Soft Costs									
Soft Costs	$36,138,414	$217,026	$36,355,440	$37,434,622	$216,818	$37,651,440	$36,656,899	$216,941	$36,873,840
Impact Fees	$3,420,850	$17,154	$3,438,004	$3,561,607	$17,148	$3,578,755	$3,477,153	$17,151	$3,494,304
Developer Fee	$8,673,219	$52,086	$8,725,306	$8,984,309	$52,036	$9,036,346	$8,797,656	$52,066	$8,849,722
Contingency	$10,841,524	$65,108	$10,906,632	$11,230,387	$65,045	$11,295,432	$10,997,070	$65,082	$11,062,152
BMR in-lieu fee	$0	$0	$0	$0	$0	$0	$0	$0	$0
Total Soft Costs	**$59,074,008**	**$351,374**	**$59,425,382**	**$61,210,926**	**$351,047**	**$61,561,973**	**$59,928,778**	**$351,240**	**$60,280,018**
Total Costs before Financing	**$239,766,077**	**$1,436,505**	**$241,202,582**	**$248,384,037**	**$1,435,135**	**$249,819,173**	**$243,213,275**	**$1,435,943**	**$244,649,218**
Total Costs per sf	$579.15	$718.25	$579.81	$574.96	$717.57	$575.62	$577.43	$717.97	$578.09
Financing Costs									
Interest	$9,091,130	$54,467	$9,145,598	$9,417,895	$54,416	$9,472,310	$9,221,837	$54,446	$9,276,283
Points	$1,168,860	$7,003	$1,175,863	$1,210,872	$6,996	$1,217,868	$1,185,665	$7,000	$1,192,665
Total Financing Costs	**$10,259,990**	**$61,470**	**$10,321,460**	**$10,628,767**	**$61,412**	**$10,690,179**	**$10,407,501**	**$61,446**	**$10,468,948**
Total Development Costs (excl. land)	**$250,026,067**	**$1,497,975**	**$251,524,042**	**$259,012,804**	**$1,496,547**	**$260,509,351**	**$253,620,776**	**$1,497,389**	**$255,118,166**
Total Development Cost per sf	$603.93	$748.99	$604.63	$599.57	$748.27	$600.25	$602.14	$748.69	$602.83
Total Development Cost per Unit	$543,535	$3,256	$546,791	$563,071	$3,253	$566,325	$551,350	$3,255	$554,605

	Income Capitalization			Income Capitalization			Income Capitalization		
	Residential	**Commercial**	**Total**	**Residential**	**Commercial**	**Total**	**Residential**	**Commercial**	**Total**
Gross Annual Rent	$18,315,582	$91,200	$18,406,782	$18,823,908	$91,200	$18,915,108	$18,560,557	$91,200	$18,651,757
Gross Annual Parking Rent	$753,825	$0	$753,825	$753,825	$0	$753,825	$753,825	$0	$753,825
Less: Operating Expenses	($5,980,000)	$0	($5,980,000)	($6,240,000)	$0	($6,240,000)	($6,084,000)	$0	($6,084,000)
Net Operating Income	$13,089,407	$91,200	$13,180,607	$13,337,733	$91,200	$13,428,933	$13,230,382	$91,200	$13,321,582
Capitalization Rate	4.00%	5.00%	4.01%	4.00%	5.00%	4.01%	4.00%	5.00%	4.01%
Capitalized Project Value	**$327,235,175**	**$1,824,000**	**$329,059,175**	**$333,443,325**	**$1,824,000**	**$335,267,325**	**$330,759,540**	**$1,824,000**	**$332,583,540**

	Residual Land Value	Residual Land Value	Residual Land Value
Capitalized Project Value	$329,059,175	$335,267,325	$332,583,540
Less Total Development Costs	($251,524,042)	($260,509,351)	($255,118,166)
Less Developer Profit	($25,152,404)	($26,050,935)	($25,511,817)
Residual Land Value	**$52,382,729**	**$48,707,039**	**$51,953,558**
Residual Land Value per Site sf	$300.64	$279.54	$298.17
Residual Land Value per Unit	$113,875	$101,473	$111,012

Source: BAE, 2019.

APPENDIX B: BMR IN-LIEU FEE CALCULATIONS

This appendix describes the methodology used to calculate the in-lieu fee that a developer could pay to satisfy fractional BMR unit requirements in the two ECR/DT Specific Plan Area prototypes. The City's BMR Housing Program Guidelines for the in-lieu fee state:

> *The fee shall be based on the cost to develop, design, construct, and maintain a standard one-bedroom unit in Menlo Park. The fee shall also include the proportionate costs of associated common area as well as land acquisition costs. The fee shall be adjusted on a project-by-project basis depending on size, location and other factors relevant to cost.*

Based on the above guidelines, BAE estimated the in-lieu fee as the sum of: 1) total per-square-foot development costs for the multifamily portion of each project, excluding land and any BMR in-lieu fees, multiplied by the gross square footage for a one-bedroom unit in each project; 2) the estimated cost of land for each project site, assuming a land cost of $270 per site square foot, allocated to a one-bedroom unit based on the average one-bedroom unit's share of overall gross project square footage; and 3) the net present value of the estimated average per-unit operating costs over a 55-year period. This methodology is consistent with calculations that BAE recently prepared to estimate a partial in-lieu fee payment for a proposed project in the ECR/DT Specific Plan Area. Table B.1 shows this in-lieu fee calculation for the two ECR/DT prototypes and applies the resulting fee rates to the partial unit requirements that would apply in BMR Housing Scenarios 1, 2, and 3.

Table B.1: In-Lieu Fees for Partial BMR Unit Requirements, ECR/DT Prototypes

	Prototype 1 0.48 Acres	Prototype 2 1 Acre
Total Development Cost per Gross Residential Sq. Ft. (a)	$637	$630
Average One-Bedroom Unit Size with Common Area (b)	883	882
Estimated Land Cost for Project Site (c)	$5,645,376	$11,761,200
Average One-Bedroom Unit Share of Gross Building Area (d)	4.8%	2.2%
Average One-Bedroom Unit Development Cost, excl. land & BMR in-lieu fe	$562,260	$556,072
One-Bedroom Unit Land Costs (e)	$273,190	$262,722
One-Bedroom Unit 55-year Operating Cost (e)	$476,876	$476,876
Total BMR In-Lieu Fee (per whole unit)	**$1,312,327**	**$1,295,671**
Scenario 1 Fractional Unit	0.20	0.75
Scenario 1 Fractional Fee	**$262,465**	**$971,753**
Scenario 2 Fractional Unit	0.40	0.00
Scenario 2 Fractional Fee	**$524,931**	**$0**
Scenario 3 Fractional Unit	0.04	0.25
Scenario 3 Fractional Fee	**$52,493**	**$323,918**

Notes:
(a) Equal to all hard and soft costs for the multifamily residential portion of each prototype, excluding land and BMR in-lieu fees, divided by the gross multifamily residential square footage.
(b) Represents the average gross residential area for a one-bedroom unit in each prototype.
(c) Based on the site sizes used in the pro-forma for each prototype and an assumed land cost equal to $270 per square foot.
(d) Equal to the average one-bedroom unit size with common area divided by the gross building area for each prototype.
(e) Equal to the estimated land cost for the project site multiplied by a one-bedroom unit's share of gross building area.
(e) NPV of operating costs for a one-bedroom unit over a 55-year period.
Annual operating costs in year 1 (per unit): $13,000
Annual rate of operating cost inflation: 2.5%
Discount rate for NPV analysis: 4.0%

Source: BAE, 2019.