



MEMORANDUM - City of

Pasadena

DATE: April 2, 2019

TO: Board of Zoning Appeals

FROM: Jason Van Patten, Planner

RE: Affordable Housing Concession Permit #11879 (127 & 141 N. Madison Avenue):
KMA Addendum

Attached to this memorandum is the KMA addendum referenced in the staff report. The addendum provides responses to the appellant's claims regarding the financial analysis.



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

MEMORANDUM

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To: Talyn Mirzakhonian, Zoning Administrator
City of Pasadena

From: Kathleen Head

Date: April 1, 2019

Subject: 127-141 Madison Avenue Density Bonus Analysis:
Response to Comments

In a memorandum dated November 20, 2018, Keyser Marston Associates, Inc. (KMA) evaluated the development application submitted by Balian Investments, LLC (Applicant) for the property located at 127-141 North Madison Avenue (Site). In that memorandum KMA opined that the City of Pasadena (City) did not have sufficient evidence to deny the Applicant's request for Height and FAR concessions under the auspices of Government Code Sections 65915 – 65918 (Section 65915).

APPEAL SUBMISSION

A "Request for Appeal" was submitted by Ms. Erika Foy (Appellant) on January 28, 2019. As a part of the supporting documentation for the appeal, The Appellant asserted that the KMA analysis is "in error, inaccurate and incomplete" in the following ways:

1. The Appellant contends that KMA inaccurately weighted the costs associated with the residential site areas between the Base Case scenario and the Proposed Project.
2. The Appellant states that KMA has been inconsistent regarding the inclusion or exclusion of the in-lieu fee allowed for by the City's Inclusionary Housing Ordinance.

3. The Appellant takes issue with the KMA statement that the proposed Height and FAR concessions are likely the only way to physically accommodate the additional area associated with Proposed Project.
4. The Appellant asserts that KMA “used bad and incorrect sales comp data”. It is unclear whether this assertion relates to the land sales comparables or the condominium sales comparables that were applied in the KMA analysis.

KMA RESPONSE

Cost Weighting

The Appellant asserts that the Site area allocated to the residential component should vary between the Base Case scenario and the Proposed Project, because the residential square footage included in the Base Case is significantly less than residential square footage in the Proposed Project. The rationale for applying this assumption is that the project includes both residential and office components. If this was a 100% residential project the entire Site area would be allocated to the residential use irrespective of the differences in size between the Base Case scenario and the Proposed Project.

In this case, the square footage of the office component is the same for both the Base Case scenario and the Proposed Project. Therefore, there are no incremental differences in the construction costs or values associated with the office component between the two scenarios. For that reason, KMA intentionally held the commercial ratio constant at 8% of the total in both scenarios so that the commercial component would not influence the results of the analysis in either a positive or negative direction. Based on that assumption, by definition 92% of the Site area is allocated to the residential component in both the Base Case scenario and the Proposed Project.

KMA does vary the percentage allocations of site area between the two development scenarios when the commercial component in one development scenario is larger than the commercial component in the other scenario. In those cases it is appropriate to evaluate the financial impact created by the commercial use, because there are incremental differences between the construction costs and values of the commercial components included in the two development scenarios.

In-Lieu Fee Treatment

The Appellant contends that the development costs for the Base Case scenario should include the payment of the in-lieu fee associated with the City's Inclusionary Housing Ordinance. This contention is based on the fact that the Base Case scenario is a 100% market rate project. In turn, in order to fulfill the City's Inclusionary Housing requirements the Applicant would be required to pay the established in-lieu fee.

The KMA analysis does not dispute that the developer of a 100% market rate project would be required to pay an in-lieu fee to fulfill the Inclusionary Housing requirements. KMA's disagreement is solely related to the restrictions that Section 65915 places on jurisdictions.

Under the Appellant's stated approach, the Base Case scenario would include the in-lieu fee as a cost. In turn this additional cost would reduce the stabilized return on investment generated by the Base Case. When that reduced return is applied to the analysis of the Proposed Project, the financial impact created by the affordable units used to fulfill the density bonus requirements would be reduced or eliminated entirely.

The Appellant's approach implicitly calls for the affordable units required to obtain a Section 65915 density bonus to be added on top of the City's Inclusionary Housing requirements. Stated another way, the in-lieu fee payment that the Appellant contends should be in the Base Case scenario provides revenue to the City fulfill the project's Inclusionary Housing obligation in another location. At the same time, the affordable units required for the Proposed Project to receive a Section 65915 density bonus also fulfill the City's Inclusionary Housing obligations.

The State Legislature has amended Section 65915 several times in ways that assert more restrictions over the actions jurisdictions can take to limit the benefits associated with the Section 65915 density bonus. In addition, the courts have found that Section 65915 specifically requires jurisdictions to count all the affordable units in a project towards the Section 65915 density bonus and concession standards even if the jurisdiction imposes Inclusionary Housing requirements.¹ It is therefore not possible for the City to add the affordable housing requirements imposed by Section 65915 on top of the City's Inclusionary Housing requirements.

For reference purposes only, KMA prepared a separate analysis that compares the economic characteristics of a non-density bonus market rate project that pays the Inclusionary Housing in-lieu fee to the Proposed Project which uses the Section 65915 density bonus. This analysis provides an understanding of why the Applicant would choose to couple the City's inclusionary housing requirements with the Section 65915 density bonus benefits. This analysis had no influence over the KMA determination as to whether or not there is sufficient evidence for the City to deny the Applicant's request for Height and FAR concessions under the auspices of Section 65915.

Physical Issues

The Appellant takes issue with KMA, as an economic consultant, including a discussion of the potential inability to construct the Proposed Project without the requested Height and FAR concessions. A summary of the analysis that KMA undertook to reach this finding follows.

KMA has attached the survey of closed condominium sales that was used to assist in identifying the typical condominium unit sizes in zip codes 91101, 91105, and 91106. The results of that survey are summarized in the following table:

¹ *Latinos Unidos del Valle de Napa y Solano v. County of Napa* (July 11, 2013)

	Sales Survey Average	Base Case	Proposed Project
<u>Average Unit Size (Square Feet)</u>			
One-Bedroom Units	898	889	1,038
Two-Bedroom Units	1,290	1,078	1,259
Three-Bedroom Units	2,085	1,757	2,051
<u>Variance from Sales Survey Average (Square Feet)</u>			
One-Bedroom Units		-9	+140
Two-Bedroom Units		-212	-31
Three-Bedroom Units		-328	-34
<u>Weighted Average Unit Size</u> ²	1,263	1,094	1,288
<u>Variance</u>			
Square Feet		-169	+25
Percentage		-13%	+2%

As can be seen in the preceding table, the units in the Base Case scenario are all smaller than the average units sizes derived from the condominium sales survey.

Comparatively, the one-bedroom units in the Proposed Project are larger than the average sized one-bedroom units in the survey, but both the two- and three-bedroom units are smaller than the average unit sizes derived from the survey.

When the unit size information is evaluated on a weighted average basis, the units in the Proposed Project are approximately 25 square feet larger than the surveyed condominium sales. This represents a less than 2% differential. Based on these results KMA concluded that the unit sizes in the Proposed Project fall within the range of condominiums located in the area. Therefore, unless the Applicant reduces the average unit size, by definition the FAR concession is required.

² The Base Case unit mix is 31% one-bedroom, 58% two-bedroom and 11% three-bedroom units. The Proposed Project mix is 31% one-bedroom, 57% two-bedroom and 12% three-bedroom units. The Proposed Project mix was used to estimate the weighted averages for Sales Survey data.

The Proposed Project has approximately 50% more gross building area than the Base Case scenario. It is difficult to imagine how an increase in building area of this magnitude could be accommodated without increasing the project's height.

KMA stands by our conclusion, derived from the financial analysis, that there is insufficient evidence for the City to deny the Applicant's request for Height and FAR concessions. However, the physical accommodation issue is also important to consider. For example, if the City was to require the Applicant to reduce the average unit size to achieve adherence to the FAR cap, the Applicant could potentially make a claim that the City's action rendered the proposed density bonus project financially infeasible.

Comparables Analysis

The Appellant did not identify the comparables being taken issue with. For reference purposes, KMA offers the following description of the comparables used in the analysis:

1. The property acquisition price used in the analysis was confirmed using Los Angeles County Assessor records.
2. The condominium sales comparables used in the analysis are presented in the attached worksheet. The average price per square foot of saleable area was identified for one-, two- and three-bedroom units. These prices were escalated by 5% to include a premium value for new construction.

WORKSHEET

**MARKET SURVEY
127-141 NORTH MADISON AVENUE
DENSITY BONUS ANALYSIS
PASADENA, CALIFORNIA**

Address	Zip Code	Unit Size (SF)	Sales Price		Year Built
			Total	Per SF	
One-Bedroom Units					
64 Mar Vista Ave Apt 228	91106	600	\$400,000	\$667	1987
64 N Mar Vista Ave #236	91106	850	\$455,000	\$535	1987
700 E Union St #113	91101	1,191	\$680,000	\$571	2006
139 S Los Robles Ave #107	91101	640	\$548,000	\$856	1927
160 S Hudson Ave #215	91101	774	\$492,000	\$636	2004
931 Walnut St #111	91106	1,061	\$539,000	\$508	2007
931 East Walnut St #211	91106	1,126	\$618,000	\$549	2007
931 E Walnut St #201	91106	3,346	\$1,455,000	\$435	2009
931 E Walnut St #625	91106	1,140	\$602,000	\$528	2007
85 N Madison Ave #37	91101	502	\$343,000	\$683	1922
133 S Los Robles Ave #208	91101	932	\$665,000	\$714	2013
85 N Madison Ave #48	91101	772	\$475,000	\$615	1922
211 S Wilson Ave #309	91106	811	\$400,000	\$493	1965
175 S Lake Ave #318	91101	690	\$450,000	\$652	2003
139 Los Robles Ave #204	91101	640	\$520,000	\$813	1927
300 N El Molino Ave #326	91101	672	\$392,000	\$583	1987
99 S Raymond Ave #510	91105	1,322	\$725,000	\$548	1898
286 North Madison Ave #305	91101	984	\$535,000	\$544	2003
139 S Los Robles Ave #203	91101	650	\$520,000	\$800	1927
139 South Los Robles Ave #202	91101	600	\$533,000	\$888	1927
85 N Madison Ave #45	91101	805	\$430,000	\$534	1922
217 S Marengo Ave #204	91101	550	\$480,000	\$873	2008
221 South Marengo Ave #8	91101	694	\$430,000	\$620	1953
35 N Raymond Ave #201	91103	1,090	\$702,500	\$644	1905
35 N Raymond Ave #208	91103	930	\$640,000	\$688	1905
931 E Walnut St #627	91106	1,154	\$650,000	\$563	2009
840 E Green St #132	91101	1,038	\$599,000	\$577	2006
85 N Madison Ave #46	91101	924	\$508,000	\$550	1922
139 S Los Robles Ave Unit 308	91101	660	\$495,000	\$750	1927
181 S Marengo Ave #15	91101	647	\$389,000	\$601	1951
1115 Cordova St #119	91106	495	\$345,000	\$697	1963
64 N Mar Vista Ave #205	91106	780	\$440,500	\$565	1987
217 S Marengo Ave #106	91101	550	\$460,000	\$836	2008
156 S OAK Knl #302	91101	660	\$390,000	\$591	1988
931 E Walnut St #514	91106	1,050	\$576,200	\$549	2007
160 S Hudson Ave #212	91101	688	\$480,000	\$698	2004
286 N Madison Ave #412	91101	1,008	\$592,500	\$588	2003
931 E Walnut St Unit 514	91106	1,050	\$576,500	\$549	2007
840 E Green St #429	91101	979	\$588,000	\$601	2006
175 S Lake Ave #302	91101	1,126	\$660,000	\$586	2003
217 S Marengo Ave #108	91101	643	\$450,000	\$700	2008
Minimum		495	\$343,000	\$435	
Maximum		3,346	\$1,455,000	\$888	
Average		898	\$542,176	\$604	

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DENSITY BONUS ANALYSIS
PASADENA, CALIFORNIA**

Address	Zip Code	Unit Size (SF)	Sales Price		Year Built
			Total	Per SF	
Two-Bedroom Units					
253 Mar Vista Ave #3	91106	930	\$500,000	\$538	1982
111 S Oak Knoll Ave #108	91101	960	\$506,000	\$527	1994
121 S Wilson Ave #101	91106	1,249	\$599,000	\$480	1979
50 W Dayton St #206	91105	1,123	\$775,000	\$690	2002
125 N Raymond Ave #406	91103	1,280	\$890,000	\$695	2009
330 Cordova St #378	91101	1,592	\$615,000	\$386	1981
300 N El Molino Ave #208	91101	982	\$465,000	\$474	1987
64 Mar Vista Ave #123	91106	890	\$470,000	\$528	1987
1115 Cordova St #303	91106	983	\$500,000	\$509	1963
931 E Walnut St #206	91106	1,764	\$860,000	\$488	2007
931 E Walnut St #622	91106	1,542	\$865,000	\$561	2009
111 S De Lacey Ave #404	91105	1,370	\$815,000	\$595	2007
1115 Cordova St #216	91106	983	\$511,800	\$521	1963
133 S Los Robles Ave #406	91101	940	\$719,000	\$765	2013
1097 Blanche St #127	91106	1,025	\$542,000	\$529	1988
65 N Michigan Ave #10	91106	964	\$485,000	\$503	1989
77 N Michigan Ave #12	91106	897	\$507,000	\$565	1988
238 S Arroyo Pkwy #405	91105	1,680	\$1,000,000	\$595	2008
99 South Raymond Ave #303	91105	829	\$560,000	\$676	1898
345 E Colorado Blvd #506	91101	3,559	\$2,300,000	\$646	2009
111 S De Lacey Ave #418	91105	1,180	\$700,650	\$594	2007
153 S Hudson Ave #401	91101	2,520	\$1,162,000	\$461	2013
330 Cordova St #144	91101	1,463	\$570,000	\$390	1981
330 Cordova St #385	91101	1,592	\$650,000	\$408	1981
330 Cordova St #170	91101	1,463	\$666,000	\$455	1981
330 Cordova St #176	91101	1,463	\$662,000	\$452	1981
1115 Cordova St #214	91106	983	\$530,000	\$539	1963
111 S De Lacey Ave Unit 109	91105	1,360	\$741,000	\$545	2007
840 E Green St Ph 506	91101	1,691	\$940,000	\$556	2006
130 S Mentor Ave #103	91106	1,050	\$592,000	\$564	1988
155 Cordova St Unit 203	91105	2,000	\$1,205,000	\$603	2010
50 W Dayton St #302	91105	1,381	\$940,000	\$681	2002
80 Raymond Ave #101	91103	957	\$685,000	\$716	1996
64 N Mar Vista Ave #112	91106	900	\$438,000	\$487	1987
121 S Wilson Ave #106	91106	1,249	\$551,000	\$441	1979
330 Cordova St #356	91101	1,390	\$658,000	\$473	1981
330 Cordova St #382	91101	1,592	\$640,000	\$402	1981
111 S De Lacey Ave #409	91105	2,187	\$1,250,000	\$572	2007
111 S De Lacey Ave #411	91105	2,187	\$1,120,000	\$512	2007
111 S De Lacey Ave #110	91105	2,010	\$950,000	\$473	2007
221 South Oak Knoll Ave #108	91101	1,190	\$600,000	\$504	1988
330 Cordova St #386	91101	1,592	\$670,000	\$421	1981
931 E Walnut St #313	91106	1,542	\$768,000	\$498	2009
330 Cordova St #178	91101	1,463	\$619,000	\$423	1981
235 Holliston Ave #211	91106	1,104	\$521,000	\$472	1985
64 N Mar Vista Ave #323	91106	1,095	\$511,000	\$467	1987
330 Cordova St #184	91101	1,463	\$675,000	\$461	1981

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PASADENA, CALIFORNIA**

Address	Zip Code	Unit Size (SF)	Sales Price		Year Built
			Total	Per SF	
65 N Michigan Ave #7	91106	964	\$504,999	\$524	1989
128 N Oak Knoll Ave Unit 301	91101	1,060	\$630,000	\$594	2004
111 South De Lacey Ave #412	91105	1,134	\$724,000	\$638	2007
111 S De Lacey Ave #213	91105	1,360	\$741,000	\$545	2007
931 E Walnut St #624	91106	1,450	\$800,000	\$552	2007
840 E Green St #410	91101	1,729	\$1,005,000	\$581	2006
1097 Blanche St #309	91106	974	\$570,000	\$585	1988
121 S Wilson Ave #202	91106	1,249	\$580,000	\$464	1979
227 S Madison Ave #304	91101	1,179	\$659,000	\$559	1982
1299 Cordova St #204	91106	1,243	\$600,000	\$483	1964
1245 Cordova St #105	91106	1,437	\$620,000	\$431	1987
121 S Wilson Ave #301	91106	1,249	\$561,000	\$449	1979
840 E Green St #418	91101	1,347	\$749,000	\$556	2006
111 S De Lacey Ave Unit 314	91105	1,360	\$700,000	\$515	2007
931 E Walnut St #106	91106	1,483	\$705,000	\$475	2009
202 S Holliston Ave #103	91106	1,251	\$662,000	\$529	1989
128 N Oak Knoll Ave #409	91101	1,110	\$690,000	\$622	2004
156 S Oak Knoll Ave #107	91101	1,057	\$602,000	\$570	1988
186 N Madison Ave	91101	1,106	\$651,000	\$589	2000
64 N Mar Vista Ave #322	91106	1,035	\$530,000	\$512	1987
160 S Hudson Ave #404	91101	914	\$591,000	\$647	2004
221 S Oak Knoll Ave #303	91101	1,220	\$605,000	\$496	1988
64 N Mar Vista Ave #201	91106	860	\$505,000	\$587	1987
111 S De Lacey Ave #406	91105	1,431	\$793,000	\$554	2007
64 Mar Vista Ave #102	91106	860	\$513,000	\$597	1987
1115 Cordova St #404	91106	1,500	\$681,000	\$454	1963
221 S Oak Knoll Ave #307	91101	1,180	\$575,000	\$487	1988
1299 Cordova St #304	91106	1,243	\$605,000	\$487	1964
211 S Wilson Ave #110	91106	1,216	\$560,000	\$461	1965
300 N El Molino Ave #125	91101	982	\$490,000	\$499	1987
64 N Mar Vista Ave #129	91106	900	\$465,000	\$517	1987
1000 Cordova St #106	91106	1,330	\$610,000	\$459	1960
64 N Mar Vista Ave #134	91106	870	\$465,000	\$534	1987
300 North El Molino Ave #202	91101	1,026	\$485,000	\$473	1987
111 S De Lacey Ave #207	91105	1,360	\$758,700	\$558	2007
111 S De Lacey Ave Unit 207	91105	1,360	\$759,000	\$558	2007
931 E Walnut St #207	91106	1,680	\$855,000	\$509	2007
64 Mar Vista Ave Apt 102	91106	860	\$513,000	\$597	1987
931 E Walnut St #413	91106	1,485	\$880,000	\$593	2009
111 S Oak Knoll Ave #206	91101	1,122	\$612,000	\$545	1994
125 N Raymond Ave #408	91103	1,100	\$785,000	\$714	2009
65 N Michigan Ave #14	91106	965	\$535,000	\$554	1989
221 Oak Knoll Ave #204	91101	1,130	\$537,578	\$476	1988
130 S Mentor Ave #18	91106	1,050	\$592,000	\$564	1988
126 S Catalina Ave #104	91106	925	\$555,000	\$600	1994
300 N El Molino Ave Unit 120	91101	982	\$300,000	\$305	1987
840 E Green St #215	91101	1,613	\$910,000	\$564	2006
35 N Raymond Ave #410	91103	1,160	\$710,000	\$612	2006
330 Cordova St #255	91101	1,407	\$635,000	\$451	1981

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Address	Zip Code	Unit Size (SF)	Sales Price		Year Built
			Total	Per SF	
300 N El Molino Ave #217	91101	894	\$450,000	\$503	1987
155 Cordova St #104	91105	1,650	\$940,000	\$570	2010
330 Cordova St #354	91101	1,290	\$634,888	\$492	1981
300 N El Molino Ave #220	91101	982	\$475,000	\$484	1987
125 N Raymond Ave Unit 301	91103	1,310	\$536,000	\$409	2009
Minimum		829	\$300,000	\$305	
Maximum		3,559	\$2,300,000	\$765	
Average		1,290	\$680,194	\$527	

Three-Bedroom Units

700 E Union St #202	91101	1,991	\$1,010,000	\$507	2006
345 E Colorado Blvd #201	91101	3,575	\$1,850,000	\$517	2009
1065 Locust St #34	91106	1,997	\$950,000	\$476	1908
128 N Oak Knoll Ave #204	91101	1,390	\$805,000	\$579	2004
345 E Colorado Blvd #301	91101	3,575	\$2,300,000	\$643	2009
141 S Hudson Ave #401	91101	2,450	\$1,365,000	\$557	2006
126 S Catalina Ave #102	91106	1,449	\$670,000	\$462	1994
108 S El Molino Ave #107	91101	2,139	\$1,229,000	\$575	2004
155 Cordova St Unit 501	91105	3,840	\$2,450,000	\$638	2010
222 S Catalina Ave #8	91106	1,338	\$608,000	\$454	1986
128 N Oak Knoll Ave #310	91101	1,630	\$850,000	\$521	2004
250 S De Lacey Ave Unit 203A	91105	1,784	\$1,100,000	\$617	2007
244 S Marengo Ave #60	91101	1,741	\$825,000	\$474	1978
209 S Oakland Ave Unit G	91101	1,613	\$911,000	\$565	1979
1000 Cordova St #301	91106	1,507	\$651,000	\$432	1960
222 S Catalina Ave #3	91106	1,338	\$602,000	\$450	1986
Minimum		1,338	\$602,000	\$432	
Maximum		3,840	\$2,450,000	\$643	
Average		2,085	\$1,136,000	\$545	

Source: Redfin 7/24/18