



City of Santa Barbara California

PLANNING COMMISSION STAFF REPORT

REPORT DATE: July 16, 2009
AGENDA DATE: July 23, 2009
PROJECT ADDRESS: Plan Santa Barbara
TO: Planning Commission
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I. STAFF RECOMMENDATION

That the Planning Commission receive a brief presentation, hold a discussion and provide feedback to staff on the following:

1. Development Feasibility Study prepared by Strategic Economics;
2. Findings of the Density and Unit Size Workshops including next steps; and
3. Revisions to the Draft Land Use Map

II. DEVELOPMENT FEASIBILITY STUDY

In June 2009, a Development Feasibility Study was prepared by Strategic Economics for the City of Santa Barbara (Exhibit A). The purpose of the analysis was to determine the financial feasibility of constructing more compact units targeted to middle-income and workforce households in residential and mixed use projects.

Currently, the variable density standards allowed by the Municipal Code, regulate residential density by unit type (number of bedrooms) in multi-family and most commercial zones. These standards allow greater density for units with fewer bedrooms, i.e., studios and one-bedroom units are allowed at higher densities than two and three bedroom units. Therefore, there is a financial incentive to construct studios and one-bedroom units in order to maximize the number of units that can be accommodated on the property.

The result has been the proliferation of large one bedroom units, marketed as luxury condominiums. Concern has been expressed by the community that these units are not affordable to the working, middle class and that the overall project size is too big, such as those on Chapala Street. This trend has been especially apparent in the Downtown, where units are located over ground floor commercial.

In response to this trend, new policies are proposed as part of the *Plan Santa Barbara (PlanSB)* General Plan Update to encourage the construction of smaller, more compact units intended for middle-income and workforce households. Changes to the existing variable density standards are

being considered by the *PlanSB* process to regulate residential densities based on unit size rather than the number of bedrooms in a unit. This new density standard would be permitted within the Mobility Oriented Development Area (MODA).

The Feasibility Study is intended to analyze the market realities of housing policies proposed by the *PlanSB*, Draft Policy Preferences Report. The new policies seek to promote market development of affordable housing through slightly increased residential densities, reduced unit sizes, and parking (see Exhibit B). Given the community's concern regarding the recent construction of larger, mixed-use buildings in the downtown area, the Development Feasibility Study sought to evaluate if the market will build smaller, affordable units, within various building height limits.

The study essentially tested four primary development scenarios for financial feasibility, including **Scenario 1:** Existing Variable Density; **Scenario 2:** Proposed *Plan SB* Policy - Density by Unit Size; **Scenario 3:** Higher Unit Count; and **Scenario 4:** Maximize Unit Mix by Income Target. Scenario 1 and three versions of Scenario 4 were presented at the workshops. The attached report includes the four primary scenarios and the three variations, for a total of seven.

The analysis confirmed that the City's existing variable density policy (Scenario 1) does not promote the construction of middle-income and workforce housing, since constructing luxury units is more profitable. The study also found that the *PlanSB* proposed changes to regulate density by unit size rather than by number of bedrooms (Scenario 2) would not generate sufficient revenue to cover the cost associated with land, construction and developer profit. The Study concluded that regulating density by unit size would only be financially feasible if the unit count is increased significantly as reflected by Scenario 4.

Scenario 4 would generate 62 units (61% market and 39% restricted) including 38 standard units, 18 workforce units and 6 inclusionary units for a total density of 60 units/acre. It would also generate a 15% developer profit. Based on these results, the analysis concluded that a mixed income/workforce housing strategy is essential for market feasibility. This approach would require a higher number of standard market-rate units, which would carry the cost of providing workforce housing, in exchange close to 40% of the units would be permanently restricted and affordable.

III. COMMUNITY WORKSHOPS

On June 24 and 25, the City held two Community Workshops to review the financial feasibility of linking density requirements to smaller unit sizes. Planning Staff and consultants provided the results of the Development Feasibility Study prepared by Strategic Economics. A panel discussion was held to answer questions and take public comment regarding the information presented. A variety of comments were received and have been included in Exhibit C of this report.

A. KEY TOPICS ARTICULATED AT THE WORKSHOPS

Increased Density

Concern was expressed that the increased density proposed by the development scenarios would jeopardize the City's character. One person indicated that any increased density would be unacceptable and that applying higher densities would likely have a negative effect on certain areas and neighborhoods of the City.

Others expressed support for an increased density scenario that would provide housing opportunities for young families and youth living in Santa Barbara. Several people asked for examples of projects at the higher density scenario, to which the panel pointed to several publicly subsidized projects such as Casa de las Fuentes, El Carrillo, and Garden Court. There was also a call for exploring other incentives that would allow the construction of smaller units, as well as the collection of in-lieu fees that could be used to provide affordable and workforce housing.

The panel re-iterated that changes to the variable density standards proposed by the *PlanSB* process are intended to both address ways to promote affordable housing while also maintaining the small-town character of Santa Barbara and its residential neighborhoods – two key goals of the *PlanSB* process that have at times, polarized the community. Staff understands that “one size does not fit all”. Clearly, there are distinct areas of the City that are most appropriate for certain housing types and therefore warrant different standards based on the area’s character.

Unit Size and Demand

The feasibility analysis assumed an average unit size for the middle-income and workforce housing units of 950 sq. ft. This assumption was based on market research, a survey of recently completed and proposed projects in the City, and the consultant’s knowledge of comparable types of units in other coastal California markets. Comments related to the unit size varied from support that this size is adequate to concern that it might be too small for families with children.

Strategic Economics stated that 950 sq. ft. could accommodate many of households; since statistics show that 2/3 of households do not have children at home under the age of 18. The consultant’s past research on demand for housing in compact, transit-oriented developments suggests that households with the greatest tendency to live in attached condominiums units are generally small households composed of singles or couples with no children. Several comments were made stating that Santa Barbara’s youth is being priced out of the housing market and this segment of the community would welcome the opportunity to own a 950 sq. ft. unit.

Questions regarding “who would buy these units and whether smaller units are marketable” were posed. Several individuals attending the workshop confirmed that there is a market for smaller units by those who desire to live in a more compact, vibrant environment, where active living is promoted and there is less dependence on the automobile. This is substantiated by the Feasibility Study, which found that the demand for non-luxury units is very strong in Santa Barbara. Similarly, demand for large, luxury units (1,500 sq. ft.) was found to exist from multiple market segments, including downsizing households, investors, retirees, and second homebuyers.

The City’s housing stock includes a full variety of unit types from Single Family to Single Room Occupancy. This proposal is to increase one type of unit that could feasibly meet the policies for affordable, workforce housing.

Height

The Development Feasibility Study assumed that all scenarios tested would be three and four story buildings with varying height limits. Given the 40-foot Height Limit Measure that is on the November Ballot, the analysis looked at several development scenarios, which would limit the building height to

40 feet. Under Scenario 4, the analysis evaluated both a three-story and a four-story residential development scenario limited to 40 feet in height (See Exhibit D).

The study found that in order to construct a 40-foot high, four-story building, the ceiling heights would be approximately 8 to 9 feet and such a design could not accommodate a sloped roof. This particular scenario would require a flat roof in order to meet the 40-foot design variable, which has been deemed economically infeasible or unlikely to meet market demands. However, a three-story, 40-foot high residential building could achieve a ceiling height of 9 to 10 feet and would allow a sloped roof.

Also analyzed was a four-story, mixed-use development with a building height of 45 to 52 feet, which could achieve ceiling heights of 9 to 10 feet and accommodate a sloped roof. The economic consultants were asked to show a development scenario reflecting a 60-foot building height that includes smaller units.

There was debate as to whether ceiling heights of 9 to 10 feet were necessary, especially in a non-luxury unit. Some felt that 8-foot high ceilings were adequate, and in fact are standard in other communities. Others felt that a 10-foot ceiling height is considered a luxury. As part of the Feasibility Study, interviews were conducted with various local developers, architects and real estate brokers. According to comments received from these individuals, a 45-foot height limit would not pose a significant barrier to development.

However, many interviewed felt that a 40-foot height limit would impede mixed-use development, making it necessary to design buildings with flat roofs, which are not typically acceptable to the Design Review Boards. Such a height limit would also result in retail spaces with low ceilings, which can be difficult to lease.

Parking

At the workshops, the economic consultant presented the *PlanSB* concept of “unbundled parking”. This approach allows homeowners to purchase parking spaces separately from the residential unit. Allowing some households to purchase one parking space and others to purchase two parking spaces depending on need and cost. The study assumed that nobody would want zero parking spaces.

The Development Feasibility Study found that this concept could lower the parking ratio to an average of 1.5 spaces per unit, assuming that the affordable units would opt for 1 space per unit to reduce the cost of the units. The economic consultant, as well as the local developer and real estate brokers, cautioned that the market demand for luxury units is definitely two spaces and they would be needed for the overall financial feasibility of the project.

Comments were received indicating that unbundling parking could be detrimental to neighborhoods that already experience parking problems. While other comments urged the City to explore off-site parking programs or other parking strategies, such as pooled parking or allowing the use of public parking garages as an effort to promote additional housing in the community.

B. NEXT STEPS

Variable Density Changes

Clearly, the existing variable density standards are not working as intended: the market is producing large, luxury condominiums rather than a range of affordable housing types. The first policy of the *PlanSB* Land Use and Growth Management Element (LG1) is to encourage affordable housing as the primary development priority: *“Prioritize the use of available resource capacities for additional housing for very low, low, moderate and middle income households overall other development”*.

Re-examining the existing variable density standards is a key starting point to implement this policy, together with the Adaptive Management Program to ensure available resource capacities are not exceeded.

In response to strong community sentiment, the proposed changes to variable density are centered on the concept of encouraging smaller, more affordable units – the smaller the units, the greater the permitted density. Initially, these changes were structured to approximately reflect the existing range of densities, in an attempt to balance community concerns regarding the impact of greater residential densities with the need for affordable housing. For both the existing variable density standards as well as the proposed density by unit size, the average 1-2 bedroom units (at approximately 950 sq ft) would be at a density of approximately 22 units per acre.

As noted above, the Financial Feasibility study confirmed that existing variable density standards encourage large, high-end units, and projects that the initial *PlanSB* concept, based on unit sizes at comparable densities, will not provide the necessary 15% profit margin for the market to build the smaller, more affordable units. Rather, densities up to 60 units per acre, comparable to publicly subsidized projects such as Casa de Las Fuentes at 54 units per acre, are necessary for the market to attain the necessary profit margin.

During the workshops, several members of the community inquired as to what a typical project of 60 units per acres might look like if smaller unit sizes were required, parking was minimized, and building height kept as low as possible. To date, most projects in the city that meet this criteria have been the publicly subsidized projects. Exploring what these projects might look like within the context of the MODA could be a valuable exercise for the community, Planning Commission and Council.

Adjustments to the MODA Concept

One of the key provisions of the proposed MODA is to strongly encourage future development inside its boundaries, within easy walking distance to transit, commercial retail, and other services. Initially, this was to be implemented by “re-balancing” future development potential - the variable density potential from the R3/R4 districts outside the MODA would be capped at 18 du per acre, and only within the MODA would variable density based on the proposed unit size standards continue to be permitted.

Given the results of the Financial Feasibility analysis, which indicate that the proposed variable density standards would not be financially feasible, further adjustments to the MODA will be required if the community wishes to encourage the market to build affordable housing. Clearly, up-zoning the entire MODA to 60 units an acre would be untenable, both in terms of living within our resource constraints and maintaining the character of the community.

However, with a careful selection of smaller sub-areas within the MODA to receive an affordable housing density overlay, in conjunction with an Adaptive Management Program to monitor the rate and pace of development, market driven affordable housing could be encouraged in balance with the other key quality of life goals of the General Plan.

Staff recommends the Planning Commission consider three further adjustments to the MODA concept:

1. Shift future development potential primarily to the commercial zones by excluding the majority of the R3/R4 zones from the MODA and the benefits of the amended variable density standards;
2. Further target future growth to within ¼ mile, easy walking distance, of the principal transit spine;
3. Within the redefined MODA boundaries, identify specific neighborhood centers (sub-areas) where affordable housing will be supported at the necessary 60 units per acre; and
4. For all other areas within the redefined MODA boundaries, maintain the proposed unit size variable density standards.

See Exhibit E, MODA Boundary Reduction & Potential Neighborhood Centers

Planning Commission Direction

Staffing is looking to the Planning Commission for specific feedback on the following questions:

1. Should changes to the variable density standards be pursued to regulate unit sizes?
2. Is shrinking the MODA boundaries an appropriate means for targeting future residential development?
3. Does removing variable density from R3/R4 zones outside the MODA and capping the development potential at 18 du/acre a reasonable tradeoff, given the average development in these zones has been 20 units per acre?
4. Should new neighborhood centers, at the requisite 60 units per acre density to support market driven affordable housing, be encouraged at selected sub-areas within the MODA, and if so, are the six identified sub-areas shown on Exhibit E appropriate?

IV. REVISIONS TO LAND USE MAP

Staff continues to work on the Land Use map from three approaches: 1) Format changes, i.e. land use categories, overlays, icons, colors, etc.; 2) Previously adopted land use amendments and minor corrections; 3) Significant policy changes, based on corrections to the existing map or new policy direction. Staff has been working with the *PlanSB* Sub Committee to review these recommended

changes, and specifically to identify those changes that warrant full Planning Commission review, prior to the creation of the complete draft map.

At this worksession, staff will review with the Planning Commission the following locations for direction on land use map designations:

1. Garden/Laguna blocks, between Sola and Carrillo
2. St Francis hospital
3. Milpas Corridor
4. Ortega/Cota blocks, between Salsipuedes and Garden
5. Upper State Street
6. Los Olivos/Quinto blocks, between Oak Park Lane and De La Vina (Cottage Hospital area)

Exhibits:

- A. Development Feasibility Study prepared by Strategic Economics
- B. Proposed *PlanSB* Policies Related to Housing
- C. Summary of June 2009 Workshop Public Comments
- D. Housing Design and Affordability (Workshop Handout)
- E. Reduced MODA Boundaries and Potential Residential Centers

Santa Barbara Development Feasibility Study Final Report

July 10, 2009

prepared for:
City of Santa Barbara



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I. INTRODUCTION

This report summarizes the methodology and results of a development feasibility study prepared by Strategic Economics (SE) for the City of Santa Barbara. The study is intended to supplement the current *Plan Santa Barbara* process by examining the effects of density, building height limits, unit sizes, parking, and other factors on the feasibility of future workforce housing development projects in Santa Barbara.

Strategic Economics presented preliminary findings of this analysis in two public workshops held June 24 and June 25, 2009, focusing on four development scenarios. Since the presentation, SE compiled comments from the public and City staff to elaborate on its analysis, further testing some of the key variables in three additional scenarios. This report presents a more comprehensive feasibility analysis of all of the scenarios tested in the study.

WORKFORCE HOUSING AND COMMUNITY CHARACTER

Santa Barbara is increasingly challenged in its ability to continue to provide housing for residents and workers at various income levels. According to the Regional Housing Needs Assessment conducted by the Santa Barbara County Association of Governments, the City of Santa Barbara's share of the total county housing need from 2007 to 2014 is nearly 4,400 housing units. There is an identified need for over 1,900 units for moderate-income, middle-income, and upper-middle-income units (households earning 120 to 200 percent of area median income). The City has adopted an Inclusionary Housing Ordinance that requires, in projects where there are ten or more ownership units (excluding any density bonus units), that fifteen percent (15%) of the units be sold at prices affordable to households earning up to 120 percent of AMI.¹ Other than the inclusionary housing ordinance, there are no other policies or sources of subsidy to address the housing need for workforce households.²

While there is support for the development of new housing targeted to the city's workforce, there is also concern in the community that newly constructed buildings have compromised Santa Barbara's charm, particularly in the historic El Pueblo Viejo district. Given this context, the City of Santa Barbara is exploring ways that it can provide more workforce housing without compromising Santa Barbara's unique character.

FINANCIAL FEASIBILITY ANALYSIS

Broadly, a development feasibility study is a planning-level analysis that assesses whether a development project meets typical criteria that developers and financial institutions consider essential. Real estate professionals often use development feasibility analysis to select viable

¹ City policy allows households earning up to 160 percent of AMI to qualify for the inclusionary units.

² For the purposes of this analysis, we have defined workforce households as households earning between 130 percent and 200 percent of the area median income. The AMI for Santa Barbara County as of March 2009 is \$70,400 for a four-person household.

development projects in which to invest. It can also be used by a public agency to test the impact of regulatory mechanisms, such as zoning, parking requirements, and height limits, on development potential. This kind of analysis can help city leaders make regulatory decisions that are congruent with the type of development they would like to attain.

This study focuses on two major feasibility factors: density and unit size limits. The existing Variable Density Policy in the City's zoning code limits maximum density by unit type (number of bedrooms) in multifamily and most commercial zones in the city, and was intended to encourage the development of rental apartments. Under the policy, studios and one-bedroom units are allowed higher density than three bedroom and larger units. The study analyzes the financial implications of the existing Variable Density Policy. In addition, the study evaluates the development feasibility under a proposed PlanSB Policy that regulates density by unit size. These policies are explained in more detail in the methodology section of this report.

Development feasibility is strongly influenced by conditions in the real estate and construction materials markets. The market for real estate tends to be cyclical in nature and we are currently in a "down cycle", wherein home prices and the volume of sales are both declining. In the South Coast region, home prices have fallen more than 30 percent³ during the past year and condominium prices have fallen 21 percent in the last year⁴. Constrained credit markets, rising interest rates and the broader economic downturn are further impacting the market for real estate and it is difficult to anticipate when the market will improve. While current market conditions are not conducive to real estate development, the General Plan is a long-range document, and projects subject to any of its revised provisions will not be constructed and occupied until 2011–2012 at the earliest. It is therefore important to consider that policies designed to regulate building heights and densities in the city are feasible given likely future market and economic conditions. To account for this, the analysis used historic construction cost and revenue trends to test the sensitivity of project feasibility under a range of likely future market conditions. The analysis is based on judgments about what may be possible given likely future construction costs, land costs, and market conditions. Such predictions of future market conditions are always subject to exceptions, unforeseen and/or unpredictable variables.

This report is organized as follows:

- Section II Methodological Overview: describes the key assumptions and methodology used in this analysis.
- Section III Development Trends: describes the Santa Barbara housing market trends and development issues.
- Section IV Findings: describes the major findings of our analysis; discusses regulatory factors influencing feasibility; and other findings.

³ "Bay Area Home Prices Continue Steep Fall," San Francisco Chronicle, June 25, 2008.

⁴ DQ News: California Home Sale Price Medians by County and City, <http://www.dqnews.com/Charts/Monthly-Charts/CA-City-Charts/ZIPCAR.aspx>

- Appendix A: presents detailed pro formas for each development scenario tested in the analysis.
- Appendix B: presents diagrams of building types and heights for one selected scenario (Scenario 4).

II. METHODOLOGICAL OVERVIEW

This section provides the methodology and key development assumptions used in the financial feasibility analysis, including a description of the process used to create the hypothetical development programs tested.

TESTING FINANCIAL FEASIBILITY

Because there are currently no public subsidies for workforce housing, the units must be built by the private market, which means that the development of the units has to be profitable. In this study, Strategic Economics tested various development scenarios using Developer Profit as a measure of evaluating development feasibility.

Developer Profit

Developer Profit is an overarching term used to describe the return to the developer for a real estate project (not including developer overhead). In a pro forma analysis, developer profit is most simply expressed as a percentage of costs but it can also be expressed as an internal rate of return (IRR) or a flat fee. Developers use their preferred measure of Developer Profit as a way to evaluate the return on their investment of time and capital and to be assured that the profit they can earn on a given development project exceeds what they could reasonably expect from a more traditional investment. In other words, a project needs to have a profit that is higher than the return the developer (investor) could receive from another kind of investment with a similar risk-return profile, i.e., if they could invest money in the stock market and get a 10 percent return, the project's anticipated profit must exceed that rate in order to be viable.

Although Developer Profit can be calculated in many ways, Strategic Economics typically derives this measure using a static model that looks at the financial performance of a project based on total costs and revenues, rather than the cash flows associated with a project over time, as with IRR. In the static model, developer profit is calculated as a percentage of total development costs. The profit threshold required by a developer may vary depending on several factors including the perceived risk level associated with the project. The benefit of this planning-level method of analysis is that it does not include assumptions about equity investors and long-term financing and therefore can be easily conducted before all investors and their terms are defined. One of the drawbacks to using Developer Profit as a measure of feasibility is that it includes a fixed cost for land. In order to take into account the fact that land costs can vary depending on location in Santa Barbara, SE also conducted a sensitivity analysis for land costs, detailed later in this section.

While profit margin expectations vary depending on factors such as market conditions, length of time to receive entitlements, and other factors, 15 percent is considered to be a reasonably standard assumption for a threshold that would attract developers to Santa Barbara.

PROTOTYPICAL SITE

The team assumed a single hypothetical lot with dimensions of 200 feet by 225 feet. This 45,000 square foot site is representative of larger sites likely to be redeveloped in Santa Barbara based on a review of recently built projects. SE is aware that Santa Barbara is a largely built-out community with few one-acre parcels available for redevelopment. Therefore, it is important to note that the study's assumptions and the conclusions of the report would also hold true for sites as small as 20,000 square feet. Much smaller sites of 15,000 square feet or less would be more inefficient to develop and may have different construction cost implications. For example, it would be very challenging to build underground parking on a 15,000-square-foot site, which would require parking needs to be accommodated on a first-level podium, most likely using mechanical lift parking to reduce per car space demands.

BUILDING TYPE ASSUMPTIONS

The building type analyzed in the study is wood frame, with three or four residential stories above an underground parking garage. The scenarios tested a range in total building size and floor-area-ratios (FAR) ranging from 0.7 to 1.5 that be accommodated within this building type.

LAND USES TESTED

This study tested the financial feasibility of development scenarios containing ownership housing. Some of the scenarios developed also contained a ground-floor commercial retail component.

UNIT MIX

SE's past research on demand for housing in compact, transit-oriented developments suggests that the households with the greatest propensity to live in attached condominium units are generally small households composed of singles or couples with no children. SE's market research in Santa Barbara indicates that two-bedroom units and one-bedroom units with office nooks have the greatest market demand. Therefore, the unit mix for all of the scenarios tested was 50 percent one-bedroom units and 50 percent two-bedroom units.

MARKET SEGMENTS AND UNIT TYPES

The development scenarios tested in this financial analysis had varying combinations of the following types of units:

1. *Luxury Units* – The majority of new condominium development in Santa Barbara has been composed of large, luxury units. Although the market for these units and most ownership housing is currently weak, SE's market analysis indicates that the medium-term and long-term demand for luxury units will be strong once the regional housing market recovers. The target market for the luxury units are high-income households earning over \$300,000 annually.
2. *Standard Units* – Standard units are more compact units with fewer amenities and finishings than luxury units. The target market for the standard units are high-income households earning over \$200,000 annually.
3. *Workforce Units* – Workforce units are defined as housing units priced for middle-income and upper-middle-income households earning (130 percent to 200 percent of the area median income). Workforce unit sizes are the same as standard unit sizes.
4. *Inclusionary Units* - The City of Santa Barbara currently requires that 15 percent of units in a new for-sale development of more than nine units be affordable to households with incomes that are 120 percent of the area median income. For the purposes of this analysis, we assumed that the developer would provide inclusionary units priced for 120 percent of AMI households. It was assumed that the developer would choose to build the units in the condominium project rather than pay the in-lieu fee of \$357,000 per inclusionary unit. Also in accordance with the City's current inclusionary housing ordinance, the inclusionary units are assumed to be bonus density units. Inclusionary units are slightly smaller than standard and workforce units.

Several simplifying assumptions were made about average unit sizes for each unit by target market, shown in Table II-1. These sizes were determined based on market research, a survey of recently completed and planned projects in Santa Barbara, and our knowledge of comparable types of units in other coastal California markets.

SE conducted a market analysis to understand the trends in absorption and achievable price points for condominiums in Santa Barbara, presented in Section III. The estimated prices of the market-rate luxury and standard units were estimated based on the expected sale prices at the height of the Santa Barbara market (2007 prices). Although the current condominium market in the city is depressed, it is SE's belief that the housing market in the city will recover in the short term. Due to the scarcity of housing in the city and the high cost of land, combined with the area's continued growth and desirability, it is expected that the condominium market will once again command very high values of \$800 to \$1,000 per square foot. Estimated sales prices are about \$1.5 million for luxury units and \$880,000 for standard units.

Table II-1: Unit Types by Target Market Segments

Unit Type	Avg. Unit Size		Household Income	Target AMI¹	Est. Sales Price²
	1 Bdrm	2 Bdrm			
Luxury Units	1,200	1,800	> \$300,000	Market-rate	\$1.5 million
Standard Units	850	1,050	> \$200,000	Market-rate	\$880,000
Workforce Units	850	1,050	\$100,000-\$130,000	160%-200%	\$500,000
Inclusionary Units	825	1,000	\$70,000-\$80,000	120%-130%	\$250,000

¹Area median income for a three-person household in Santa Barbara County.

²Estimated sales price assumes conventional mortgage standards with fixed annual interest rate of 5.5 percent over a 30-year term, and a 15 percent down payment. Housing costs (including mortgage, utilities, taxes, insurance and home-owner association fees) comprise no more than 35 percent of the gross annual household income.

FINANCIAL ANALYSIS ASSUMPTIONS

Following is a discussion of key assumptions about development costs and project value used to analyze the financial feasibility of the development scenarios.

Development Costs

Hard Costs

Project construction costs are based on Strategic Economics’ research and informal surveys of a number of area contractors engaged in building the construction type represented by this analysis. The objective of this exercise was to establish an average construction cost. One could expect that this average is roughly in the middle third of actual costs though it is possible to envision specific projects that would have costs outside this range.

For the building type analyzed in the study, (three or four stories above underground parking garage), SE assumed that the building would be stick built wood frame. The estimated cost for luxury units was generated by taking a 10% per unit premium from the standard unit construction cost to account for the upgrade in the finishes provided. The inclusionary unit hard costs were similarly generated by taking a slight 10% discount from the standard construction costs to account for a reduction in the finishes provided.

Table II-2 shows the gross hard costs used for this analysis by unit type.

Table II-2: Hard Costs per Square Foot

	<u>Amt.</u>	<u>Unit</u>
Parking (underground)	\$125	per sf
Site Improvements	\$35	per sf
Site/Utilities/Offsite	\$8	per sf
Market Rate Luxury Units	\$275	per sf
Market Rate Standard Units	\$250	per sf
Workforce Units	\$250	per sf
Inclusionary Units	\$225	per sf

Soft Costs

Estimated soft costs include permits, architectural fees, engineering fees, developer overhead, insurance, taxes, legal, accounting fees, and marketing costs. Permits and other development fees were estimated based on the current fee schedule in Santa Barbara. The remainder of the soft costs was estimated based on standard industry ratios and conversations with local developers and architects, and calculated as a percentage of hard costs.

Financing Costs

Financing costs were estimated assuming that a construction loan would be obtained for 80 percent of the cost of development for a term of 36 months, with a 6.5 percent interest rate and a one percent loan fee. Given that the construction loan would be drawn down over the course of the project, the total financing cost was estimated assuming an average outstanding loan balance of 45 percent.

POLICIES TESTED

This financial analysis tests various development scenarios based on two different policies regulating density. The first is the existing Variable Density Policy which regulates the building density based on the number of bedrooms in the dwelling unit. The second is a Proposed PlanSB Policy regulating building density based on the size of the dwelling units (net residential area). Each of these policies is described in greater detail below:

Existing Variable Density Policy

The City of Santa Barbara’s zoning code allows higher density development in multi-family and mixed-use zones (R-3, R-4, C-1, C-2, C-M, and R-O zones). The number of units that can be built on a lot must be calculated in accordance with the following minimum lot areas by unit type (number of bedrooms).

Table II-3: Existing Variable Density Policy

<u>Unit Type</u>	<u>Lot size (square feet)</u>	<u>Density (Du/ac)</u>	<u>Inclusionary Requirement</u>	<u>Parking spaces/unit</u>
Studio	1,600	27	15%	1.25
1 Bdrm	1,840	24	15%	1.75
2 Bdrm	2,320	19	15%	2.25
3 Bdrm +	2,800	16	15%	2.25

Note: Parking spaces include 0.25 spaces per unit for guest parking. Density bonuses are allowed for inclusionary for-sale units and subsidized affordable rental housing projects.

According to the calculation, one bedroom units must have 1,840 square feet of lot area per unit, and two-bedroom units must have 2,320 square feet of lot area per unit. Based on the variable density zoning, smaller units such as studios and one-bedroom units can be built at a higher density than larger units like three-bedroom units. Under the existing variable density policy, the inclusionary housing requirement is 15 percent. Parking requirements increase with unit sizes, and are 1.75 spaces per one-bedroom unit and 2.25 spaces per two-bedroom unit.

Proposed PlanSB Policy

The City of Santa Barbara through PlanSB is considering changes to the existing Variable Density Policy that would limit building densities based on unit sizes rather than the number of bedrooms in the unit. The Proposed PlanSB Density Policy is intended to encourage the construction of smaller, more affordable units within the Mobility Oriented Development Area (MODA).

Table II-4: Proposed PlanSB Policy

<u>Unit Size (square feet)</u>	<u>Density (Du/ac)</u>	<u>Inclusionary Requirement</u>	<u>Parking spaces/unit</u>
<400	40	25%	1.0
401-700	30	25%	1.0
701-1,000	25	25%	1.0
1,001 -1,300	20	25%	1.0
>1,300	12	25%	1.0

Under one of the concepts of the Proposed Plan SB Policy, units with net residential area of less than 400 square feet could have a density of up to 40 dwelling units per acre. Large units of 1,300 square feet or more are allowed a density of up to 12 units per acre. An additional density bonus is allowed per State Bonus Density law and the City’s Inclusionary Housing Ordinance, which would be amended to 25 percent from the current 15 percent requirement. For subsidized affordable and rental projects a 50 percent density bonus would be available. The parking requirement is lowered to 1.0 space per unit regardless of unit size.

DEVELOPMENT SCENARIOS TESTED

Strategic Economics tested seven development scenarios based on the policies and assumptions outlined above.⁵ These scenarios are described below and summarized in Table II-5. The findings of the financial feasibility testing for each scenario are presented in Section IV.

Scenario 1: Existing Variable Density (Density by Unit Type) – Luxury Units

This scenario describes a luxury development project under Existing Variable Density. The development contains 22 market-rate luxury units and 4 inclusionary units (15% inclusionary requirement). The project provides 48 parking spaces (an average of 2.0 spaces per market-rate unit). The total gross residential building area in this scenario is 43,000 square feet. The project's floor-area-ratio (FAR), or the ratio of gross residential area to site area, is 0.96.

Scenario 1.1: Existing Variable Density (Density by Unit Type) – Standard Units

In order to understand why the market in Santa Barbara is building large, luxury units under the Existing Variable Density Policy, SE also tested a development scenario containing 22 market-rate standard units and 4 inclusionary units. Scenario 1.1 has a gross residential area of 29,000 square feet. The FAR is 0.6.

Scenario 2: Proposed PlanSB Policy – Density by Unit Size with Standard Units

Scenario 2 is a development project under the Proposed PlanSB Policy regulating density by unit size. The project has a total of 23 standard market-rate units and 6 inclusionary units (25% inclusionary requirement). There are 29 parking spaces serving the residential units (1.0 space per market-rate unit). Gross residential building area in this scenario totals 34,000 square feet, for a residential FAR of 0.7.

Scenario 2.1: Proposed PlanSB Policy – Density by Unit Size with Luxury Units

In order to test the presumption that the PlanSB Policy encourages the development of compact, affordable units, Scenario 2.1 shows the feasibility of a luxury project containing 16 large, luxury units and 4 inclusionary units with the densities allowed by the policy. Under this scenario, the gross residential area is about 32,000 square feet. The residential FAR of this scenario is 0.7, almost the same as Scenario 2 with standard units.

Scenario 3: Increased Unit Count – Standard Units

In order to test the relationship between density and financial feasibility, SE developed Scenario 3, which has a higher unit count than allowed under the Proposed Plan SB Policy (Scenario 2). The development program for Scenario 3 includes 34 standard market-rate units and 9 inclusionary units (25% inclusionary requirement), with 60 parking spaces. The parking ratio

⁵ Strategic Economics presented the preliminary findings of this study in public workshops on June 24 and June 25. The presentation summarized the findings for Scenario 1, Scenario 2, Scenario 3, and Scenario 4. Further analysis was conducted upon receipt of comments from City staff and community members to develop Scenario 1.1, Scenario 2.1, and Scenario 3.1.

under this scenario is 1.5 spaces per market-rate unit.⁶ The residential building area in Scenario 3 is 47,000 square feet, only slightly higher than Scenario 1 (Existing Variable Density) despite a significantly higher unit count. The residential FAR is 1.1.

Scenario 3.1: Increased Unit Count – Luxury Units

Scenario 3.1 includes the same increased unit count as Scenario 3, but with the development of luxury market-rate units instead of standard units. This scenario has 34 luxury units and 9 inclusionary units. The gross residential area is greater than Scenario 3 with 70,000 square feet of building area, and an FAR of 1.6.

Scenario 4: Maximized Unit Mix by Income Target

In this scenario, SE increased total unit counts even further in order to test the density required to develop workforce units (units affordable to middle-income and upper-middle-income households). This scenario includes 38 standard market-rate units, 6 inclusionary units (15% inclusionary requirement), and 18 workforce units. The parking ratio under this scenario is also 1.5 spaces per market-rate unit, and one space per unit for workforce and inclusionary units, for a total of 81 parking spaces. Total gross residential area in Scenario 4 is approximately 69,000 square feet, for a residential FAR of 1.5.

SE also tested the impact of variables such as parking types, mixed-use buildings, and building heights on the financial feasibility of Scenario 4, presented later in this report.

⁶ The ratio of 1.5 parking spaces per unit is a market-supported ratio that allows for unbundled parking. In other words, the parking spaces could be purchased separately from the condominium unit, allowing some households to purchase one parking space and others to purchase two parking spaces, for an average of 1.5 spaces per unit.

Table II-5: Summary of Development Scenarios Tested

	Scenario 1 Existing Variable Density - Luxury Units	Scenario 1.1 Existing Variable Density - Standard Units	Scenario 2 PlanSB Density by Unit Size - Standard Units	Scenario 2.1 PlanSB Density by Unit Size - Luxury Units	Scenario 3 Increased Unit Count - Standard Units	Scenario 3.1 Increased Unit Count - Luxury Units	Scenario 4 Maximize Unit Mix by Income Target
Unit Mix							
Luxury Units	22			16		34	
Standard Units		22	23		34		38
Workforce Units							18
Inclusionary Units	4	4	6	4	9	9	6
<i>Total Units</i>	26	26	29	20	43	43	62
Parking Spaces	48	48	29	20	60	60	81
Gross Residential Area	43,000	29,000	32,000	32,000	48,000	70,000	69,000
Residential FAR	1.0	0.6	0.7	0.7	1.1	1.6	1.5
Density (Du/acre) ¹	25	25	28	19	42	42	60

¹ Total project density as measured by dwelling units per acre, including inclusionary and workforce units.

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III. DEVELOPMENT TRENDS

This section describes the Santa Barbara residential housing market trends and reviews recently constructed development projects based on published data and telephone interviews with local brokers, architects and developers.

A UNIQUE HOUSING MARKET

Santa Barbara's housing market, while not immune to the influences of national and global economic conditions, exhibits a number of unique characteristics that render it somewhat insulated from the profound swings in prices and sales volumes seen in much of California. First, its location in a highly desirable natural setting with very limited developable land ensures that real estate values remain high, even in periods of decline in the regional housing market. The small amount of housing approved and developed in Santa Barbara and the South Coast results in a constrained supply that is far outstripped by demand.

Secondly, many of the homebuyers in Santa Barbara are second home buyers from outside of the immediate market area, and even outside of the country. According to Home Mortgage Disclosure Act (HMDA) data, 18% of loans taken out for the purchase of homes in Santa Barbara were for non-primary residences. Within the downtown, 34% of these loans were for non-primary residences, including 41% of loans for \$1,000,000 or more. These buyers are interested in luxury products, and have to some extent driven the price of housing in the city upwards. The global economic downturn has affected the purchasing power of these households to some extent, particularly with the stock market losses, but it is probable that many of them are not dependent on credit markets to make these discretionary purchases.

As discretionary buying power is restored and foreclosure opportunities are exhausted, it is likely that the supply factors in Santa Barbara will return to their standing as the dominant factors in the city's housing market. It is expected that the housing market will rebound more quickly in Santa Barbara and the South Coast than in other inland communities of the region because there are many buyers that will continue to want to live in the community, and that are willing to pay high prices for the privilege.

LAND VALUES

Strategic Economics researched average land values for residentially-zoned properties sold within the last year in various neighborhoods of Santa Barbara. The overall average price in the city for residential land is \$107 per square foot. This high land value reflects the scarcity of developable land: the demand to live in Santa Barbara is so much greater than the supply of land on which to build new commercial and residential space that landowners throughout the city are willing to hold out for extremely high prices rather than sell at prices that reflect the current decline in development or home prices. Land values varied from neighborhood to neighborhood. Certain areas had significantly lower values, primarily because of zoning and land use restrictions. For example, zoning in the Riviera area limits floor-area-ratio (FAR) or buildable area permitted per

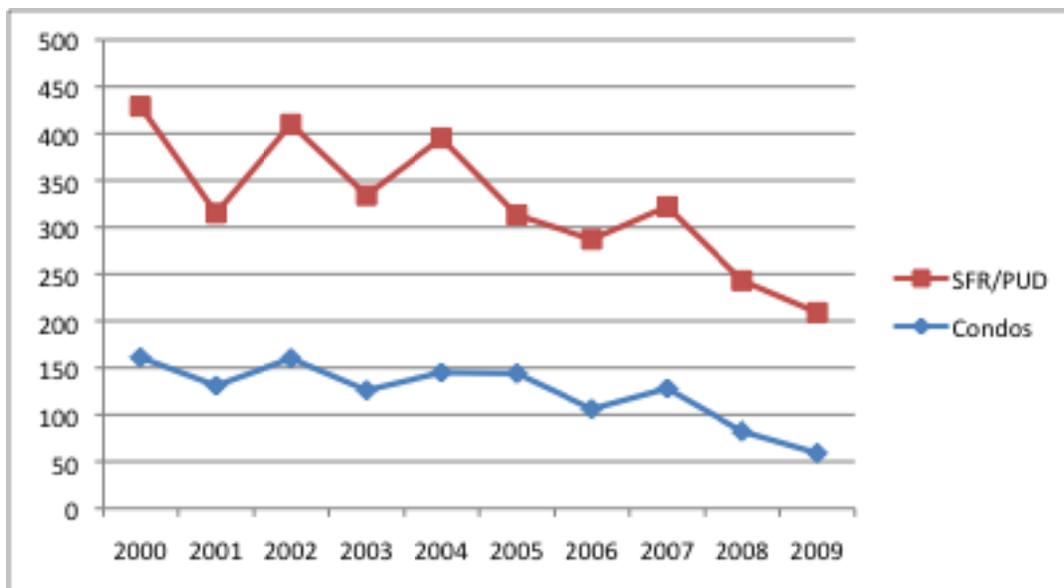
square foot of site area and average parcel sizes are large, leading to lower per square foot prices than in other neighborhoods. In Oak Park and the Waterfront, land values were generally higher, even in the midst of a global economic downturn, due to the high desirability of these areas. Although certain neighborhoods may offer more amenities or prestige than others, the limited supply of land in the city as a whole seems to buoy land prices everywhere.

FOR-SALE HOUSING

Volume of Sales

Figure III-1 and Table III-1, below, show the number of home sales in the South Coast, from January to April in each year from 2000 to 2009. From 2000 to 2007, the number of single-family home sales ranged from 300 to 400 units per year. The volume of condominium sales during this period was also steady, ranging from about 100 to 200 units per year. A noticeable slowdown in the volume of single-family and condominium sales can be seen in 2008, a result of the national and regional housing market crash.

Figure III-1: Home Sales Trends in South Coast, January to April, 2000 to 2009



Source: MLS 2009, Strategic Economics 2009

Table III-1: South Coast Home Sales, January through April, 2000-2009

	Condos		Others	
	Sales	Median	Sales	Median
2000	161	\$290,000	429	\$565,000
2001	131	\$329,000	315	\$620,000
2002	160	\$392,000	410	\$707,500
2003	126	\$431,094	334	\$807,000
2004	145	\$539,000	395	\$981,000
2005	144	\$650,500	313	\$1,200,000
2006	106	\$699,250	287	\$1,195,000
2007	128	\$635,000	322	\$1,200,000
2008	82	\$597,950	243	\$1,180,000
2009	59	\$472,000	209	\$825,000

Source: MLS 2009, Strategic Economics 2009

Table III-2, comparing condominium sales for the month of April in 2008 and 2009 indicates that both the volume and average sales price of condominiums in the South Coast have declined significantly. Average prices have dropped by 20 percent east of State Street in Santa Barbara, and 19 percent west of State Street.

Table III-2 South Coast Condominium Year-over-Year Sales in April 2008-2009

Area	Number Sold			Average Sale Price		
	2008	2009	% Increase	2008	2009	% Increase
Carpinteria-Summerland	11	12	9%	\$513,045	\$404,958	-21%
Montecito	4	1	-75%	\$2,465,000	\$679,000	-72%
Santa Barbara, East of State Street	18	11	-38%	\$825,806	\$657,809	-20%
Santa Barbara, West of State Street	18	14	-22%	\$733,361	\$588,879	-19%
Goleta South	23	12	-47%	\$569,109	\$458,292	-19%
Goleta North	10	10	0%	\$507,940	\$371,350	-26%

Source: MLS 2009, Strategic Economics 2009

Table III-3 shows that, unlike in the condominium market, Santa Barbara did not have significant decline in single-family sales volume from April 2008 to April 2009. The city’s (East of State Street and West of State Street combined) drop of six percent was far less than any other South Coast city. This suggests that, at least within the market for single family homes, demand may be even more stable in Santa Barbara than in the region as a whole.

Table III-3: South Coast Single-Family Year-Over-Year Sales in April 2008-2009

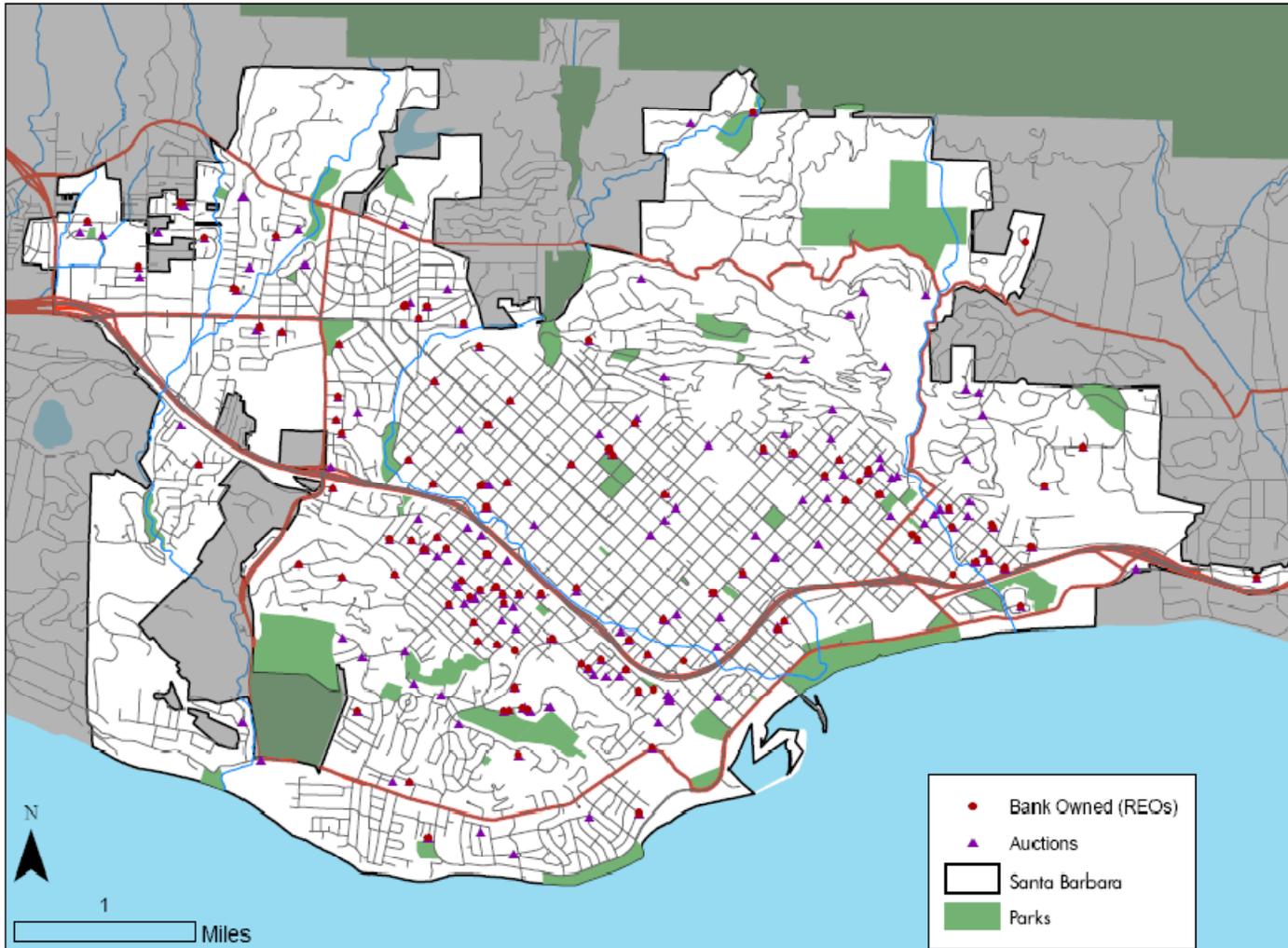
Area	Number Sold			Average Sale Price		
	2008	2009	% Increase	2008	2009	% Increase
Carpinteria-Summerland	20	15	-25%	\$2,055,251	\$2,226,333	8%
Montecito	60	32	-46%	\$4,638,787	\$2,538,875	-45%
Santa Barbara, East of State Street	58	52	-10%	\$1,317,789	\$1,089,243	-17%
Santa Barbara, West of State Street	45	45	0%	\$1,075,878	\$914,931	-14%
Goleta South	7	3	-57%	\$1,022,630	\$805,148	-21%
Goleta North	27	25	-7%	\$1,046,555	\$829,660	-20%

Source: MLS 2009, Strategic Economics 2009

Foreclosures

Although Santa Barbara has not experienced the high rate of foreclosure as some of California’s inland communities, there have been bank auctions for 267 properties since January of 2007. In addition, there are 155 properties that have been listed as Bank Owned (REOs) over that period. Figure III-2, below, shows the location of these properties. Brokers have indicated that, while these do not occupy a significant portion of the home sales in the city, they have attracted some investment away from the condominium market. This, in part, explains the drop in price and slow absorption rate for the most recent developments.

Figure III-2: Foreclosure Properties in Santa Barbara, January 2007-May 2009



Source: Foreclosures.com 2009, Strategic Economics 2009

Home Prices

Figure III-3 shows the median sales prices of homes in the South Coast, from January through April, in each year from 2000 to 2009. The median price of single-family homes rose dramatically from 2000 to 2003 at an average annual rate of growth of 12.6 percent, such that by 2003 the median sales price was \$807,000. From 2003 to 2005, however, this average annual growth rate nearly doubled to 22 percent, such that the median sales price of these homes was \$1,200,000 in 2005. Overall the median price of a single family or PUD home in the South Coast more than doubled from 2000 to 2005. Then, from 2005 to 2008, there was very modest decline of 0.6 percent annually, before an enormous drop-off of 30 percent from 2008 to 2009.

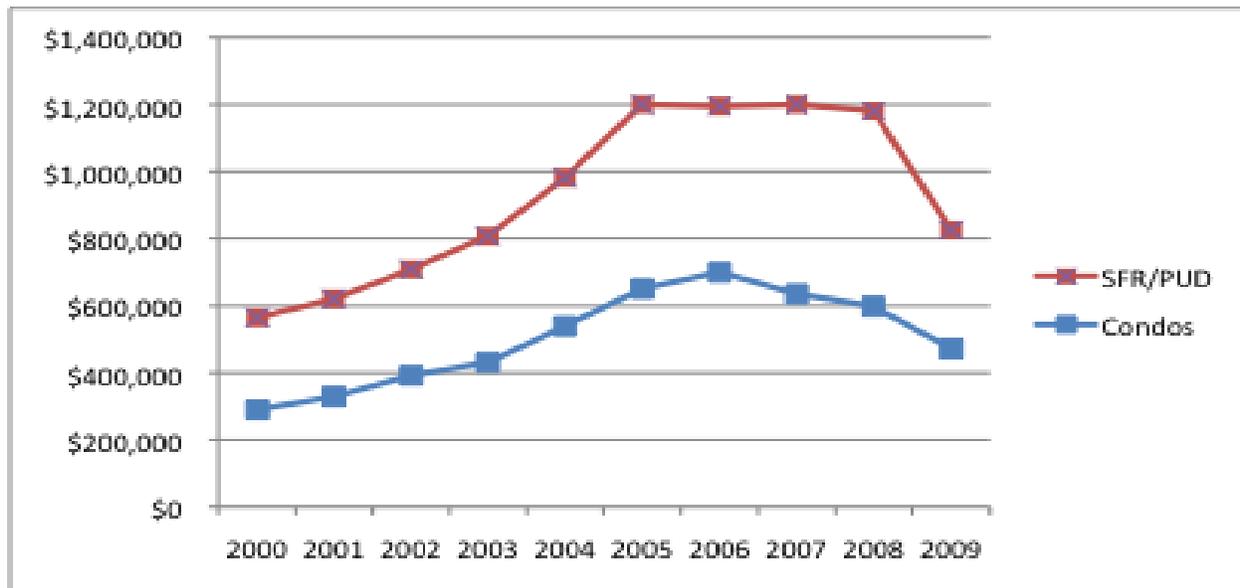
The condominium market, though starting at a much lower price-point, has followed a very similar trajectory. From 2000 to 2003, the average annual growth rate was 14 percent, growing from \$290,000 to \$431,094. Then, housing prices accelerated from 2003 to 2005, with an average annual growth rate of 23 percent, rising to a median sales price of \$650,500. As with single-family homes, this was more than double the median sales price of condos in 2000. Next, from 2005 to 2008, prices stagnated, with an average annual decline of 2.9 percent. Finally, from 2008 to 2009, the median sales price plummeted by 21.1 percent to \$472,000.

It is important to note that these trends do not represent the overall value of housing in Santa Barbara. In fact, the peak of the bubble may be more a reflection of the new luxury units that were built around this time; likewise, the drop may reflect the purchases of foreclosed properties, whose prices are artificially reduced by banks motivated to sell as quickly as possible. Nevertheless, there are two findings in these trends that may play an important role in future development in Santa Barbara.

First, whether it is because there are cheaper options now available (in the form of foreclosed properties, for instance) or because the demand for luxury units has dissipated, homes in the Santa Barbara and the South Coast are selling for a much lower price now than they were in 2005 to 2008. This will have an impact on the target market for developers and will change their expected return on their investments.

Secondly, although prices have fallen dramatically in the past year, the median sales prices, both of single-family homes and of condominiums, are still exceeding those of 2003. This suggests that, even the current economic downturn, the value of both of these types of housing is very strong.

Figure III-3: South Coast Median Home Sales Prices in January through April, 2000-2009

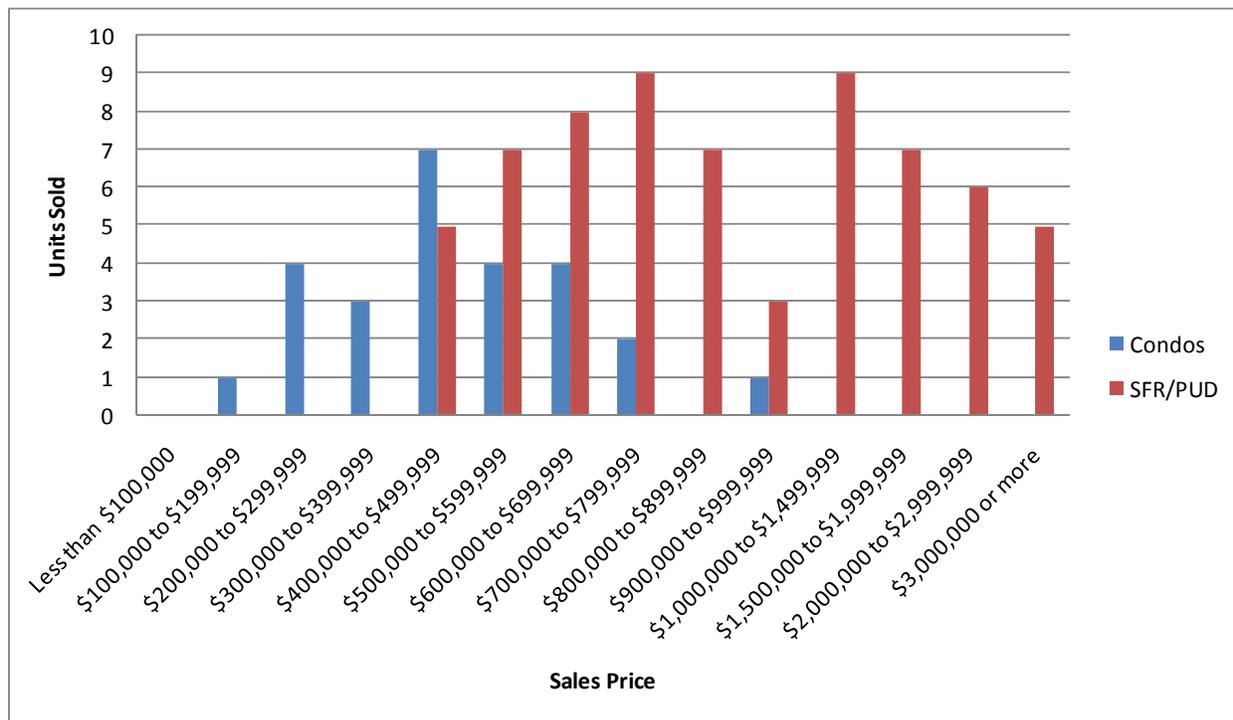


Source: MLS 2009, Strategic Economics 2009

In a pattern similar to that of sales volume, Table III-2 shows that the decline in condominium prices in Santa Barbara from April 2008 to April 2009 is comparable to that of other cities in the South Coast. Table III-3 shows, however, the price of homes in Santa Barbara has fallen by a smaller percentage than in neighboring cities (with the exception of the Carpinteria-Summerland market area). As with the change in sales volume, this suggests that Santa Barbara's housing market is especially insulated from changes in demand, even as housing prices have plummeted in the rest of the region.

The distribution of home sales in April of 2009 (Figure III-4, below) shows that, in addition to having a lower median price, condominiums provide homeownership opportunities at much lower price-points than even the lowest priced single-family homes. It also shows that, while the market for luxury condominiums has not evaporated entirely, it has, temporarily or otherwise, diminished considerably: in April, there was only one condo sold for more than \$800,000. The distribution also shows, however, that the market for luxury housing generally, is quite strong. In that month, there were 27 homes sold for more than \$1,000,000, including 5 for more than \$3,000,000. The high quality of life in Santa Barbara, and the limited supply of housing, has helped to maintain demand and prices for these homes.

Figure III-4 South Coast Home Sales Prices, April 2009



Source: MLS 2009, Strategic Economics 2009

RECENTLY CONSTRUCTED PROJECTS

Table III-4 shows a profile of major multi-family, market-rate residential projects completed recently in Santa Barbara. (This is not comprehensive inventory of new housing in Santa Barbara.) These projects are all located in or near Santa Barbara’s downtown. The first of them, Chapala Lofts, opened for sale in 2002, as the local housing market was heating up. All of the units in the project sold very quickly. Other projects, like Chapala One and 121 W. de la Guerra, opened past the peak of the market and have had much slower absorption.

Table III-5 provides more detail about the physical characteristics of these recently built projects. All of these were luxury, downtown condominiums with very large unit sizes. Maximum heights range from of 38 feet for the 121 W. De La Guerra to 58 feet for Chapala One. The amount of parking provided also ranges from 1 space per unit in 121 W. De La Guerra to a high of 2 in Chapala Lofts. Overall density, as measured by dwelling units per acre, runs from a low of 27 units per acre in 121 W. De La Guerra to a high of 45 units per acre in Paseo Chapala.

The majority of units within these projects are one-bedrooms or studios. However, there is a wide range in the square footage of studios and one-bedroom units. In Chapala One, for instance, some studio units are 450 square feet and others are 1,164 square feet. Similar variation in size is visible in Paseo Chapala and 121 W. De La Guerra. The wide disparity in unit sizes is largely due to the provision of smaller affordable units and larger market rate units. However, the

tendency towards very large one-bedroom and studio units is not consistent with the demonstrated market support for moderately sized two-bedroom units. In general, brokers reported that the “ideal” unit type that their clients seek is a two-bedroom unit sized from 1,000 to 1,200 square feet. According to brokers, studios are much less sought-after than two-bedroom units. One-bedroom units are less desirable because they usually command nearly the same prices as two-bedroom units, but do not give the buyer the flexibility of an extra room to use as a guest room or home office. As discussed elsewhere, developers are, in part, motivated to build large one-bedrooms in order to maximize both the number of units and the total square footage allowed under the city’s variable density formula.

Below is a more detailed description of each of these projects.

Chapala Lofts

Completed in 2003, 328 Chapala Street (Chapala Lofts) was one of the pioneering new condominium developments in downtown Santa Barbara. Selling out almost immediately, units initially sold for \$400,000 to \$600,000 each. When interviewed, Santa Barbara brokers reported that one-bedroom units, of which Chapala Lofts is primarily composed, are typically hard to sell. Nevertheless, at the peak of the market, the resale prices for units in this development were up to \$1.2 million, or \$800 to \$1,000 per square foot. The warm reception that this project received in the marketplace was a major inspiration for the projects that followed.

Paseo Chapala

721 Chapala Street (Paseo Chapala) opened in 2007, shortly after the peak of the housing market. Made up primarily of two-bedroom units, along with some one- and three-bedroom units, Paseo Chapala was initially listed at \$1,100 to \$1,200 per square foot. This was slightly above what brokers reported as being the common range for 2-bedroom condominiums in the rest of Santa Barbara (\$800-\$1,000 per square foot). Nonetheless, the project received some interested at opening, and several of the units sold immediately. After the initial burst, however, the housing market turned and there was a slow-down in sales. Nearly two year later, a few units remain unsold.

Table III-4: Profile of Recent Market-Rate Mixed Use Development in Santa Barbara

Name	Developer	Total Units	Size Range (market units)	Year Opened	Original Listing Price	Original Listing Price per SF	Absorption	Commercial Space (SF)
Chapala Lofts	Chapala Lofts LP	17	1,185 - 1,482	2002	\$400,000 - \$600,000	\$300 - \$500	100% of Units / Year	10,000
Paseo Chapala	Bermant Development Company	29	990 - 2,210	2007	\$1,149,000 - \$2,595,000	\$1,100 - \$1,200	40% of Units/ Year	10,000
Chapala One	Hughes Family Trust	46	1,006 - 2,264	2008	\$1,200,000 - \$3,500,000	\$1,200 - \$1,600	0 Units Sold	8,900
121 W. De La Guerra	Tom Luria	14	758 - 2,067	2008	\$535,000 - \$1,450,000	\$700 - \$800	15% of Units/ Year	3,615

Source: Strategic Economics 2009; City of Santa Barbara

Table III-5: Physical Characteristics of Recent Market-Rate Mixed Use Development in Santa Barbara

Name	Developer	Address	Lot Size	Total Units	Density	Height	Parking		Res. Spaces/
							Res.	Comm.	
Chapala Lofts	Chapala Lofts LP	328 Chapala Street	20,000	17	37.0	50'	34		2.00
Paseo Chapala	Bermant Development Company	721 Chapala Street	28,250	29	44.7	44'	31	0	1.07
Chapala One	Hughes Family Trust	401 Chapala Street	72,526	46	27.6	58'	53	19	1.15
121 W. De La Guerra	Tom Luria	121 W. De La Guerra	22,500	14	27.1	38'	14	6	1.00

Source: City of Santa Barbara 2009, Strategic Economics 2009

Table III-6: Unit Configurations in Recent Market-Rate Mixed Use Development in Santa Barbara⁷

Name	Total Units	Affordable Units		Studios		1BR		2BR		3BR	
		#	Type	#	Average Size	#	Average Size	#	Average Size	#	Average Size
Chapala Lofts	17	3	WF	0		14	1,334			0	
Paseo Chapala	29	8		0		5	1,010	13	1,666	3	1,842
Chapala One	46	11	Mi	1	1,006	25	1,378	9	1,863	0	
121 W. De La Guerra	14	3	MI	1	758	5	1,423	5	1,910	0	

Source: City of Santa Barbara 2009, Strategic Economics 2009

⁷ In this table, "MI" stands for "middle-income" and "WF" stands for "workforce."

Chapala One

Although the project included studios, two-, and three-bedroom units, more than 60 percent of the units were one-bedrooms. Furthermore, these units, like those in Paseo Chapala, tended to be very large, with one-bedrooms of nearly 2,000 square feet. Both of these features ran counter to what real estate brokers report were the unit types most in demand: two-bedroom units with 1,000 to 1,200 square feet.

Sales began in the summer of 2008, with opening listings at \$1.2 to \$3.5 million dollars (\$1,200 to \$1,500 per square foot). According to brokers, although there was a significant amount of interest in the units, bids were typically \$200,000 to \$300,000 lower than the listed price. This supports the consensus among interviewees, who said that at the peak of the market new condos were selling for roughly \$1,000 per square foot. Lower bids were not accepted, however, and no units were sold in the initial listing. Soon thereafter, sales were halted due to legal disputes with the general contractor. When units were placed back on the market, however, the housing market had turned and there was less demand for these luxury units. Subsequently, the project went into bank receivership and remains unoccupied.

Chapala One, and to a lesser extent Paseo Chapala, have received criticism from some residents and stakeholders in Santa Barbara because the height and bulk of the buildings are perceived to be inconsistent with the character of Downtown Santa Barbara and the historic El Pueblo Viejo district.

121 W. De La Guerra

121 W. De La Guerra is the most recent of the downtown luxury condominium projects to be constructed. A mix of studios, one-bedroom, and two-bedroom units, the project opened well after the housing downturn. Consequently, listings were \$500 to \$800 less per square foot than for Chapala One. Not including the three inclusionary units, only a few of the units have sold to date.

RENTAL HOUSING

In order to understand rental housing trends in Santa Barbara, SE collected data on the overall regional apartment market and on selected projects in Santa Barbara and Goleta. As shown in Table III-7, the rental apartment occupancy rate for these selected projects is less than 95 percent and average rent is \$1,727.⁸ As is the case with home sales prices, rents are significantly higher in Santa Barbara than they are in most of the rest of the region's commute area.⁹ The average rent in Santa Barbara is nearly double that of Lompoc, in northern Santa Barbara County. It is also roughly 24 percent higher than in Ventura, the nearest major coastal city in the commute shed. This rent premium is likely a result of a high demand for housing from the region's

⁸ These figures represent the vacancy rate and rental rate for the five selected projects tracked by RealFacts. SE's research indicates that citywide, apartment rental vacancy rates are actually significantly lower, at approximately 2 percent.

⁹ For the purposes of this analysis, Santa Barbara's commute area includes the cities of Santa Barbara, Camarillo, Lompoc, Oxnard, Santa Maria, and Ventura.

workforce willing to pay more for rent in order to live closer to jobs, or who value the unique amenities and services that the city offers.

Table III-7: Rental Apartment Occupancy and Rates in the Santa Barbara Commute Shed

City	Communities	Average Occupancy	Average Rent
Camarillo	9	90.2%	\$1,494
Lompoc	7	94.5%	\$880
Oxnard	16	92.3%	\$1,400
Santa Barbara	5	95.1%	\$1,727
Santa Maria	9	96.0%	\$1,080
Ventura	14	93.0%	\$1,392

Note: The figures represent the average occupancy rate and rental rate for selected communities or projects. It does not measure the performance of every rental property in the cities.

Source: Real Facts 2009, Strategic Economics 2009

Table III-8 provides data for a sample of six apartment projects (five in Santa Barbara and one in Goleta). All of these projects were built in the 1960s and 1970s. At an average of 883 square feet, the units are substantially smaller than units in recently developed condominium projects, which are targeted to luxury homebuyers. Studios average 450 square feet, one-bedroom units average 615 square feet, two-bedroom units average 954 square feet, and three-bedroom units average 1,487. Of these, two-bedroom units are by far the most common unit type, representing 48 percent of all units. Finally this table shows that these communities have an overall vacancy rate of 7.2 percent; this is comparable to the national average, which Grub & Ellis estimated to have been 7.2 percent in the first quarter of 2009. Per square foot rental rates are highest for one-bedroom/one-bath units at \$2.24. Studios obtain a similar per-square-foot rate of \$2.21.

Table III-8: Characteristics of Selected Apartment Projects in Santa Barbara and Goleta¹⁰

Unit Type	# of Units	Average Size (SF)	Average Rent	Average Rent per SF
All	770	833	\$1,717	\$1.94
Studio	10	450	\$995	\$2.21
1BR/1BA	265	615	\$1,442	\$2.24
2BR/1BA	173	788	\$1,613	\$2.05
2BR/2BA	154	1,034	\$1,873	\$1.81
2BR/TH	41	1,358	\$2,107	\$1.55
3BR/TH	82	1,487	\$2,387	\$1.60

Source: Real Facts 2009, Strategic Economics 2009

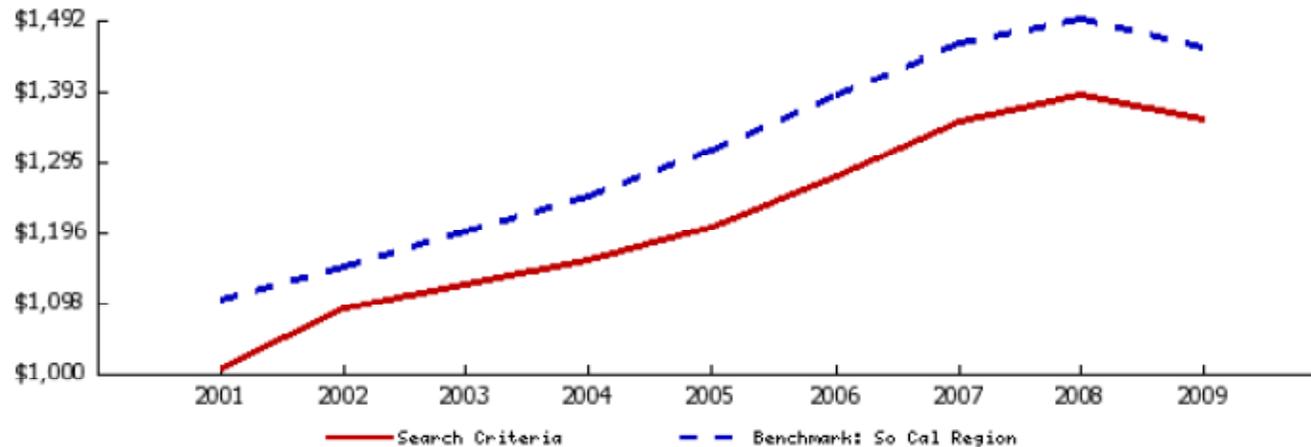
¹⁰ In this table, "TH" stands for "townhouse."

Table III-9: Trends in Average Asking Rents in Santa Barbara Commute Area Region, 2001-2009¹¹

	2001	2002	2003	2004	2005	2006	2007	2008	2009	% Change, 2001-2008	% Change, 2008-2009
Average	\$1,005	\$1,088	\$1,122	\$1,157	\$1,203	\$1,273	\$1,353	\$1,390	\$1,356	38%	-2%
Studio	\$754	\$792	\$825	\$832	\$876	\$919	\$915	\$953	\$910	26%	-5%
Jr. 1BR	\$796	\$833	\$868	\$893	\$909	\$916	\$953	\$984	\$994	24%	1%
1BR/1BA	\$894	\$938	\$977	\$1,004	\$1,040	\$1,106	\$1,169	\$1,204	\$1,160	35%	-4%
2BR/1BA	\$970	\$1,000	\$1,043	\$1,077	\$1,115	\$1,155	\$1,216	\$1,248	\$1,231	29%	-1%
2BR/2BA	\$1,199	\$1,330	\$1,333	\$1,361	\$1,413	\$1,489	\$1,577	\$1,625	\$1,599	36%	-2%
2BR/TH	\$1,325	\$1,402	\$1,465	\$1,516	\$1,559	\$1,650	\$1,752	\$1,772	\$1,738	34%	-2%
3BR/2BA	\$1,188	\$1,462	\$1,442	\$1,517	\$1,632	\$1,745	\$1,782	\$1,808	\$1,759	52%	-3%
3BR/TH	\$1,546	\$1,621	\$1,736	\$1,789	\$1,883	\$2,005	\$2,086	\$2,128	\$2,166	38%	2%

Source: Real Facts 2009, Strategic Economics 2009

Figure III-5: Average Asking Rents in Santa Barbara Commute Area and Southern California Regions, 2001-2009



Source: Real Facts 2009

¹¹ The commute area includes the cities of Santa Barbara, Camarillo, Lompoc, Oxnard, Santa Maria, and Ventura.

Table III-9 shows the historic rental rate trends for apartments in the Santa Barbara commute area which includes the cities of Santa Barbara, Camarillo, Lompoc, Oxnard, Santa Maria, and Ventura. Overall, rents in the Santa Barbara commute area have tracked those in Southern California (Figure III-5). Like for-sale housing prices, rental rates grew dramatically from 2001 to 2005 and continued to climb until 2008, even as sales prices flattened. With the onset of the recession in 2008, rental rates have declined slightly.

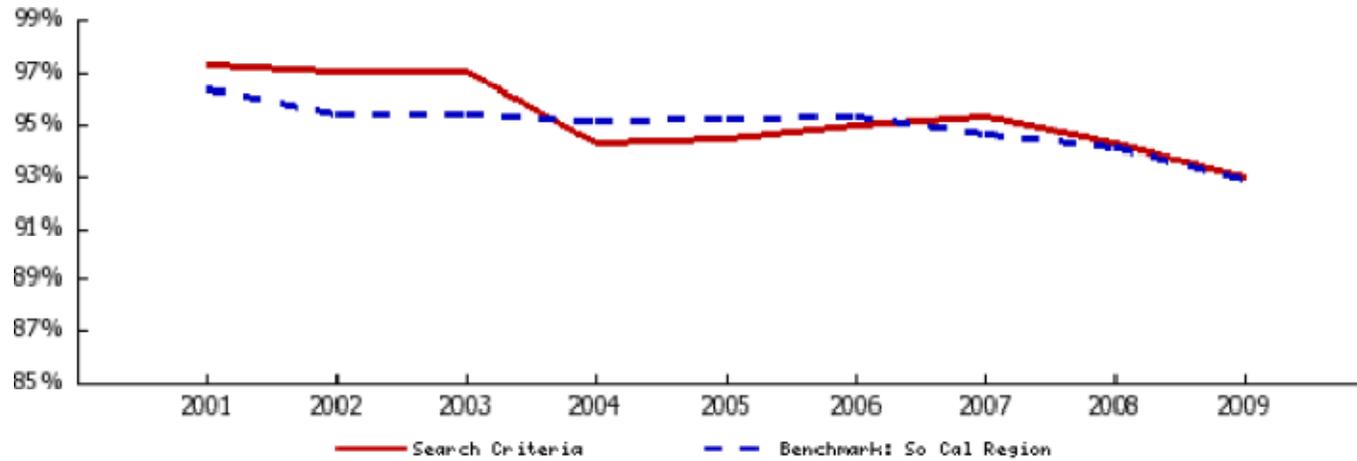
Table III-10 shows the occupancy rates for rental housing in the Santa Barbara commute area. While occupancy rates were exceptionally high in 2001, at 97.3 percent, they have fallen steadily and were down to 92.9 percent. While this is still high, it is somewhat lower than the industry standard of 95% for new construction. These occupancy rates have closely followed those of Southern California as a whole, as shown in Figure III-6.

Table III-10: Average Apartment Occupancy Rates for Santa Barbara Commute Area, 2001-2009

	2001	2002	2003	2004	2005	2006	2007	2008	2009	% Change, 2001-2009
Occupancy Rate	97.3%	97.0%	97.0%	94.2%	94.4%	94.9%	95.3%	94.2%	92.9%	-4.5%

Source: Real Facts 2009, Strategic Economics 2009

Figure III-6: Occupancy Rate Trends in Santa Barbara Commute Shed and Southern California Regions, 2001-2009



Source: Real Facts 2009

REGULATORY ISSUES

SE conducted interviews with local developers, architects, and real estate brokers to understand some of the regulatory issues affecting the types of buildings and projects planned and built in Santa Barbara. The following were the principal issues identified:

Variable density formula drives the development of large one-bedroom and studio units

Architects and developers frequently cited the formula used to calculate density as a primary cause of oversized, luxury condominium units. They explained that this was due to two factors. First, because one is permitted to construct more one-bedroom and studio units on a given lot, there is a financial incentive to build studios and one-bedroom units to maximize the number of units that can be placed on the site. However, the density cap under the formula is lower than what can actually be built on the lot under current height limits and maximum lot coverage. Therefore, to offset high land costs and to maximize profit, unit sizes have been expanded to fill the allowable building footprint. Many contacts stated that, if it were permitted higher density, they would prefer to build a larger number of standard size studio and one-bedroom units and/or a greater number of two-bedroom units within the building, as these unit types have the greatest market support.

Lower height limits could affect design of mixed-use buildings

There was broad consensus that, especially given current density limits, a 45-foot height limit does not pose a significant barrier to development. However, many contacts asserted that the 40-foot height limit proposed by the forthcoming ballot measure could significantly inhibit development of mixed-use buildings. Architects interviewed stated that this will require some combination of flat roofs (which are not usually approved in the design review process), retail spaces with low ceilings (which are difficult to lease), the inclusion of underground parking, and/or the elimination of a floor of residential space, all of which could have impacts on project's financial feasibility and design.

Santa Barbara has a long and unpredictable entitlements process

A lengthy entitlements process requires developers to finance the land acquisition and other "up-front" costs for a longer period of time, driving up the interest payments on the project. The length of time to receive entitlements can be as long as three years for controversial projects. Developers report that increasingly projects are being scrutinized more closely, and that the criteria for evaluating projects has become less predictable, augmenting the risk for developers. In several situations, developers have been asked to redesign their projects several times. The development community expressed concern that the uncertainty over the proposed regulatory changes has put a halt on all projects on the drawing board. Many expressed worry that further restrictions and delays could discourage experienced and competent developers from working in the city altogether.

Inclusionary Housing Ordinance

Within the current policy framework, opinions were varied with regard to whether the inclusionary housing ordinance has a major impact on development. Most stated that it has been possible to sell market units at a price sufficient enough to offset the losses incurred by the inclusionary units. However, there was some sentiment that if the requirement was raised, especially in conjunction with a lower height limit, it would not be possible to develop a large number of units. Instead, some contacts suggested, developers would limit themselves to luxury condominiums in buildings with fewer than 10 units, thereby evading the inclusionary requirement.

PLANNED PROJECTS

The projects shown in Tables III-11 and III-12 are in various stages of development- some have been approved and are ready for construction, while others are still being formulated. Therefore, the information below is subject to change, as projects pass through the entitlements process and as economic conditions change. Nonetheless, it provides some context on how the development community is conceptualizing projects in an uncertain regulatory environment.

These proposals are, on average, lower density than the recently constructed projects. Whereas the lowest density recently developed project had 27 units per acre, four of the five proposed market-rate projects have a lower density than this. Likewise, on average, the proposed projects have a lower maximum height than the recently constructed ones. In fact, three of the five proposed market rate projects have heights of 40 feet exactly; only one of the four recently constructed projects were this height or lower. Next, in general, these new projects are on much larger lots than the recent ones; whereas most of the recent projects are on lots between 20,000 and 30,000 square feet, all but one of the proposed market-rate projects are on lots of about 50,000 square feet or larger. Finally, although the proposed projects have similarly wide ranges in square footage, they include a much larger share of two- and three-bedroom units.

It is important to note that most developers have said that they are waiting to move ahead with any of the proposed projects until the height limits issue and other related regulatory issues have been resolved, in order to avoid having to redesign their projects.

Table III-11: Building Characteristics of Proposed and Approved Multi-Family Projects

Name	Developer	Address	Lot Size	Total Units	Density	Height	Parking		Res. Spaces/	Status
							Res.	Comm.		
Radio Square	Steve Delson and Ian Brown	210 W. Carrillo	49,881	32	27.9	40'	57	65	1.78	Approved
Arlington Cultural Arts Village	State Street Investors, LLC	1330 Chapala Street	62,395	35	24.4	45'	35	82	1.00	Proposed
The Enclave	George Armstrong for Cleo Purdy Trust	3885-3887 State St.	61,802	30	21.1	40'	68	10	2.27	Approved
1722 State St.	State Street Investors, LLC	1722 State St.	28,875	10	15.1	40'	20	35	2.00	Approved
318 State St.	Peter Lewis	318 State St.	62,096	31	21.7	52'	34	57	1.10	Proposed

Source: City of Santa Barbara 2009, Strategic Economics 2009

Table III-12: Unit Configuration of Proposed and Approved Multi-Family Projects¹²

Name	Total Units	Affordable Units		Studios		1BR		2BR		3BR					
		#	Type	#	Min SF	Max SF	#	Min SF	Max SF	#	Min SF	Max SF			
Radio Square	32	5	Inc.	13	658	2,280	12	814	1,564	7	1,163	2,320	0		
Arlington Cultural Arts Village	35	9	LI and WF	N/A			N/A			N/A			N/A		
The Enclave	30	4	Inc.	0			0			26	852	2,280	4	1,107	2,217
1722 State St.	10	1	MI	0			0			4	1,771	2,680	6	2,093	2,349
318 State St.	31	4	Inc.	1	827	827	16	825	1,880	13	984	1,805	1	1,704	1,704

Source: City of Santa Barbara 2009, Strategic Economics 2009

¹² In this table, "Inc." stands for "inclusionary unit"; "LI" stands for "low-income"; "MI" stands for "middle-income" and "WF" stands for "workforce." Also note that unlike Table III-7, unit counts and size ranges reflect both market-rate and inclusionary units.

CONCLUSIONS

Based on our research and interviews, SE has reached the following conclusions regarding the Santa Barbara residential market:

- A limited supply of land and a slow rate of new housing construction, coupled with high demand, are the primary factors in the high prices of housing in Santa Barbara. While the current housing market is weak in Santa Barbara, these supply constraints help to ensure a reasonably quick recovery. It is expected that the housing values in the city will soon rebound.
- Santa Barbara has exceptionally high land values of over \$100 per square foot citywide. This presents a challenge to the development of moderately priced housing for the region's workforce, because the high land values require developers to build projects that generate strong revenues, such as luxury condominium housing.
- In the South Coast as a whole, sales volumes were very stable from 2001 – 2007, for both condominiums and single family residences. From 2007 to 2009, there were significant declines in both markets. However, the market for single family residences in Santa Barbara has been more stable than in its peer cities in the South Coast.
- Home sales prices in the South Coast have followed a similar trend as the nation as a whole, rising from 2001 to 2005, then stabilizing somewhat before falling from 2008 to 2009. These changes were more pronounced in the single-family residence market than in the condo market. The most recent decline has been less pronounced in Santa Barbara than in the rest of the South Coast.
- Despite the drop in housing prices nationally and regionally, there continues to be strong demand for luxury housing in the South Coast, especially for single family residences.
- Brokers report that changes in the condominium market have fluctuated in an opposite pattern to the market for under-priced foreclosure homes. As more foreclosed homes are placed on the market, demand for condos has declined; during periods when foreclosures have been suspended, demand for condos has returned.
- The performance of individual condominium projects is tied to the trends in the regional housing market. Chapala Lofts, which entered the market in 2002 sold very quickly, while Paseo Chapala and 121 W. de la Guerra have had very slow absorption. This is in large part due to the recent turmoil in the housing market.
- Recently constructed condominium units have catered to a very high-end luxury market of which second-home buyers and investors are a major component.

- There is an untapped demand for moderate, middle-income, and upper-middle-income housing that has not been met by new development projects. Brokers report that market demand is greatest for two-bedroom units of 1,000 to 1,200 square feet. There is also demand for one-bedroom units with an extra nook or small den that can be used as a home office. The market for studios and three-bedroom condominium units is not very strong.
- Although the market demand is greatest for moderately-sized two-bedroom units, the majority of new market-rate units built in the city have been very large studio and one-bedroom units. This is reportedly due to the city's zoning code, which regulates building density by number of bedrooms, allowing studios and one-bedroom units to be built at greater densities than two- and three-bedroom units.
- At the height of the condominium market in Santa Barbara, condominium units sold very well at \$800-\$1,000 per square foot. Some very high end luxury units were priced at \$1,200 to \$1,500 per square foot, and had much slower absorption.
- The luxury condominium market requires that developers build two parking spaces per unit in order to sell the residential units.
- There is potentially room to lower parking ratios for standard market-rate housing through the use of "unbundled" parking ratios, in which parking spaces could be purchased separately from the unit for an average parking ratio of 1.5 spaces per unit. Brokers and developers did not believe that units with fewer than 1.5 spaces per unit would be marketable. It was agreed that below-market rate units (workforce and inclusionary units) could be sold with only one parking space per unit. Luxury units would probably require two spaces per unit to be marketable.
- Rents in the Santa Barbara region rose steadily from 2001 to 2008, and then declined from 2008 to 2009. Santa Barbara tends to command significantly higher rents than other cities in its commute area.
- There is a high level of uncertainty in the development community about the entitlements process. The current debate over height limits has led developers to either scale back to 40-foot height limits or to put planning on hold until the regulatory environment is clearer.

IV. DEVELOPMENT FEASIBILITY: KEY FINDINGS

FINANCIAL FEASIBILITY OF SCENARIOS

The developer profit generated by each scenario is summarized in Table IV-1. As shown, Scenario 1 (Existing Variable Density), Scenario 2.1 (PlanSB Policy with Luxury Units), Scenario 3.1 (Higher Unit Count with Luxury Units), and Scenario 4 (Maximize Unit Mix by Income Target) are all financially feasible.

The following describes the principal findings of the financial feasibility analysis:

The current variable density by unit type (number of bedrooms) does not provide a financial incentive to develop more compact units. Under the Existing Variable Density policy (Scenario 1), large luxury units are very profitable to develop, generating a return of 21.6 percent. However, a project built with standard sized units on the same site (Scenario 1.1), given the density cap permitted in the zoning code, does not pencil out. This is because luxury units are not much more expensive to build than standard units, and yet generate much more revenue for the developer.

The proposed PlanSB Policy regulating density by unit size, with its current density limits and a higher inclusionary housing requirement, does not improve the financial feasibility of building smaller, more affordable housing units. The proposed Planning Department policy is meant to encourage the development of more compact units to be affordable to workforce households. However, a project consisting of standard market-rate units, modeled in Scenario 2, is not financially feasible. On the other hand, a luxury project consisting of large, luxury units under this same policy does generate developer profit of 15.0 percent, as shown in Scenario 2.1. This indicates that the proposed PlanSB policy, as currently written, does not encourage the private market to build smaller, less expensive units.

Increasing the unit count is an important factor for improving financial feasibility of projects. Scenario 3, a development consisting of a greater number of standard market-rate units generates more revenue than Scenario 2, but the project still remains infeasible. However, a similarly sized project composed only of luxury units generates a developer profit of 34.2 percent, as shown in Scenario 3.1. Therefore, it is important to note that under both the Existing Variable Density Policy and the preliminary version of the PlanSB Policy, a developer will obtain much higher profits by building luxury housing rather than standard, compact units. This suggests that although increasing density will lower the cost and sales price of housing units, a density increase alone may not be sufficient to encourage the development of workforce units, since market-rate units will always generate more profit.

A development that maximizes the number of units in the project, and provides a mix of market-rate, workforce, and inclusionary units, can provide a reasonable return to the developer. A project that provides a mix market-rate standard units, workforce units, and inclusionary units can be feasible, as shown in Scenario 4, because

the value and number of market-rate units is sufficient to write down the cost of building the lower priced units. The developer profit generated is 15.1 percent, lower than what developers can obtain with luxury housing projects under Existing Variable Density (Scenario 1). It provides roughly equal return to the developer as Scenario 2.1, which is a luxury project under the proposed PlanSB Policy.

A sensitivity analysis of cost and revenue variables on the pro forma model reveals that the project is somewhat sensitive to land costs, and very sensitive to construction costs and unit pricing. Fluctuations in per square foot prices and construction costs have a very strong impact on developer profit and consequently project feasibility.

Table IV-1: Summary of Feasibility of Development Scenarios

	Scenario 1 Existing Variable Density - Luxury Units	Scenario 1.1 Existing Variable Density - Standard Units	Scenario 2 PlanSB Density by Unit Size - Standard Units	Scenario 2.1 PlanSB Density by Unit Size - Luxury Units	Scenario 3 Increased Unit Count - Standard Units	Scenario 3.1 Increased Unit Count - Luxury Units	Scenario 4 Maximize Unit Mix by Income Target
Unit Mix							
Luxury Units	22			16		34	
Standard Units		22	23		34		38
Workforce Units							18
Inclusionary Units	4	4	6	4	9	9	6
<i>Total Units</i>	26	26	29	20	43	43	62
Parking Spaces	48	48	29	20	60	60	81
Gross Residential Area	43,000	29,000	32,000	32,000	48,000	70,000	69,000
Residential FAR	1.0	0.6	0.7	0.7	1.1	1.6	1.5
Density (Du/acre) ¹	25	25	28	19	42	42	60
Developer Profit	21.6%	-0.1%	4.7%	15.0%	11.6%	34.2%	15.1%

¹ Total project density as measured by dwelling units per acre, including inclusionary and workforce units.

Table IV-2: Sensitivity Analysis of Cost and Revenue Variables on Developer Profit

	Scenario 1	Scenario 1.1	Scenario 2	Scenario 2.1	Scenario 3	Scenario 3.1	Scenario 4
	Existing Variable Density - Luxury Units	Existing Variable Density - Standard Units	PlanSB Density by Unit Size - Standard Units	PlanSB Density by Unit Size - Luxury Units	Increased Unit Count - Standard Units	Increased Unit Count - Luxury Units	Maximize Unit Mix by Income Target
<u>Land Costs</u>							
+ 10% increase	19.5%	-2.3%	2.3%	12.4%	9.7%	32.5%	13.6%
- 10% decrease	23.8%	2.2%	7.3%	17.8%	13.5%	35.9%	16.6%
<u>Sales Prices</u>							
+ 10% increase	25.5%	4.0%	8.3%	18.9%	15.0%	37.3%	23.3%
- 10% decrease	4.3%	-13.5%	-9.4%	-1.0%	-3.7%	14.5%	6.8%
<u>Construction Costs</u>							
+ 10% increase	15.0%	-4.7%	-0.5%	9.0%	5.7%	26.0%	8.4%
- 10% decrease	29.1%	5.1%	10.5%	21.8%	18.2%	43.5%	22.6%

PARKING TYPES

In order to gain a better understanding of the implications of podium versus underground parking, Strategic Economics conducted an analysis of Scenario 4 testing parking types. The major advantage to podium parking is its lower cost. While the project is feasible with both parking types, the underground parking is costlier to build, and therefore generates a lower developer profit (15.1 percent) than the same project with podium parking (21 percent).

Podium parking can be even more efficient when using tandem or mechanical lift parking arrangements by reducing the space requirements and the cost per space. Mechanical lift parking is only suitable for above grade podium parking, and becomes very inefficient for underground parking. In order to accommodate the mechanical lift parking, the ground floor must have a minimum ceiling height of 15 feet.

So far in Santa Barbara the market acceptance for mechanical lift parking type is untried. Furthermore, there seems to be greater community support for underground parking for design and aesthetic reasons. Therefore, it seems likely that in most circumstances a developer would choose to accommodate parking in an underground parking garage (assuming the spaces can be accommodated on one subterranean level), rather than building podium parking with mechanical lifts.

MIXED-USE BUILDINGS

From a market perspective, the inclusion of well-designed ground floor retail can improve the marketability of residential units, and in some cases, add value to the units. However, retail on the ground floor is only appropriate in strategic locations and buildings.

SE tested the financial implications of residential-only versus mixed-use buildings in Scenario 4. The analysis shows that ground-floor retail can enhance project feasibility or at least “break even” in this scenario. The cost of building out the retail space can be recuperated from the rental revenues of the space, assuming that it is in a high-quality retail space of the right height (15 foot floor plate), with appropriate width and depths, and with attention to the service needs of retailers. The analysis also assumes that the parking requirement for the retail space would be no greater than 1 space per 500 square feet of leasable space. If the parking requirement is significantly greater, the cost of building additional spaces may make the commercial space too costly to build.

BUILDING HEIGHTS

The following are some of the key issues to consider when translating number of stories into a height limit in feet:

- Residential floors require an allowance of 10 to 11 feet for each story. While interior clear height of 8 feet has been common, especially in the lower end of the market, the market is now demanding clear height of 9 feet, even in mid level market units. In more expensive product 10 feet is very common. Allowing approximately 1 foot for structure,

the code should allow 11 feet for each story. A single-use residential building with units on the ground floor an additional 2 feet to raise the interior floor level above grade, in order to accommodate privacy concerns and allow for frame construction.

- Ground floor retail requires a floor to floor allowance of 15 feet in order to generate high-quality retail space that can command strong market-rate rents. Often, mixed-use buildings have poorly-designed retail spaces that are difficult to lease and do not contribute to the vitality of the street or the sales of the residential units.
- At grade parking can be achieved generally in a 12-foot floor plate. However, if mechanical lifts are incorporated, the required height is 15 feet.
- In the current code, building height is measured to the roof ridge line. This tends to discourage sloped roofs or to at least make roof elements limited to small “eyebrows” As it appears that designs with sloped roofs are favored, the height limits should acknowledge a roof zone of between 6 feet to 8 feet.

These guidelines result in the following story height/building heights:

Table IV-3: Building Types and Heights

	3-Story Residential	3-Story Mixed-Use	4-Story Residential	4-Story Mixed-Use
First Floor	12	15	12	15
Second Floor	11	11	11	11
Third Floor	11	11	11	11
Fourth Floor	-	-	11	11
	34	37	45	48
Roof Zone	6-8	6-8	6-8	6-8
Total Height	40-42	43-45	51-53	54-56

SE collaborated with Hixson & Associates to develop various diagrams showing the three-story and four-story building options that could accommodate the Scenario 4 project. The options include single-use residential and mixed-use buildings with underground parking or podium parking. The diagrams are presented in Appendix B.

The following can be concluded from the analysis of building types and heights:

- A building height limit of 40 feet allows for the development of three-story single-use residential buildings. A mixed-use three-story building could be accommodated within this height only if it had a flat roof.
- A building height of 45 feet permits the development of a mixed-use three-story building with a sloped roof, or a residential-only four-story building with a flat roof.
- A building height of between 51 to 56 feet allows for maximum flexibility. Under this height limit, it is possible to design 4-story mixed-use residential buildings with less site coverage and more articulation, providing setbacks, stepbacks, sloped roofs, paseos, and other desired design features.

RENTAL HOUSING

Preliminary analysis of rental housing, presented in Table IV-4 and IV-5, revealed that the development of new construction market-rate rental units is infeasible due to the high land and construction costs in Santa Barbara. As shown in Table IV-4, under the Existing Variable Density policy, rental housing does not pencil out. The densities permitted are insufficient to allow for apartments to carry to the land cost. Even with increased density of 65 dwelling units per acre, the value of the project is insufficient to pay for the development costs and generate developer profit (see Table IV-5).

There are other smaller-scale rental housing developments that have occurred in Santa Barbara, either through the construction of smaller “granny flat” secondary units on single-family home lots, or as subdivisions of existing lots into six or eight multifamily units. These market responses providing rental housing in smaller building types are probably much less expensive to build than the larger apartment developments analyzed in this study. However, there is little evidence to suggest that the greater development community will pursue this model at a large enough scale to produce a substantial number of units citywide.

Table IV-4: Financial Feasibility of Rental Apartments under Existing Variable Density Policy

Project Description			
Parcel Size	45,000	square feet	
Total Units	22	units	Avg. Rental Rate
One-Bedroom Units	11	units	\$1,600
Two-Bedroom Units	11	units	\$2,100
Average Unit Size	800	square feet	
Net Square Feet	17,600	project total	
Gross Residential Square Feet	20,240	project total	
Parking spaces per unit	1.0	spaces/unit	
Total parking spaces	22	spaces	
Development Costs			
	Unit	Amt.	Total
Land Costs	Per square foot	\$100	\$4,500,000
Residential Hard Costs	Per square foot	\$200	\$4,048,000
Parking Hard Costs	Per square foot	\$85	\$794,750
Indirect Costs (incl Financing)	Pct Const Costs	30%	\$1,214,400
Total Development Costs			\$10,557,150
Operating / Valuation Assumptions			
Project Cap Rate	Percent	5.0%	
Annual Res Op Ex	Pct Gross Rev	30.0%	
Res. Stabilized Vac Rate	Percent	5.0%	
Operating Summary			
Gross Res. Income	Annual	\$488,400	
Less Res. Vacancy	Annual	(\$24,420)	
Less Res. Op Ex	Annual	(\$146,520)	
Res. NOI	Annual	\$317,460	
Total NOI	Annual	\$317,460	
Total Capitalized Value		\$6,349,200	
Total Developer Profit		(\$4,207,950)	
Developer Profit as Percent of Costs		-39.9%	

Source: Strategic Economics; City of Santa Barbara; RealFacts

Table IV-5: Financial Feasibility of Rental Apartments with Increased Density (65 du/acre)

Project Description			
Parcel Size	45,000	square feet	
Density	65	units per acre	
Total Units	67	units	Avg. Rental Rate
One-Bedroom Units	34	units	\$1,600
Two-Bedroom Units	33	units	\$2,100
Average Unit Size	800	square feet	
Net Square Feet	53,719	project total	
Gross Residential Square Feet	61,777	project total	
Parking spaces per unit	1.0	spaces/unit	
Total parking spaces	67	spaces	
Development Costs			
	Unit	Amt.	Total
Land Costs	Per square foot	\$100	\$4,500,000
Residential Hard Costs	Per square foot	\$200	\$12,355,372
Parking Hard Costs	Per square foot	\$85	\$2,425,749
Indirect Costs (incl Financing)	Pct Const Costs	30%	\$3,706,612
Total Development Costs			\$22,987,732
Operating / Valuation Assumptions			
Project Cap Rate	Percent	5.0%	
Annual Res Op Ex	Pct Gross Rev	30.0%	
Res. Stabilized Vac Rate	Percent	5.0%	
Operating Summary			
Gross Res. Income	Annual	1,490,702	
Less Res. Vacancy	Annual	(74,535)	
Less Res. Op Ex	Annual	(447,211)	
Res. NOI	Annual	968,957	
Total NOI	Annual	968,957	
Total Capitalized Value		\$19,379,132	
Total Developer Profit		(\$3,608,600)	
Developer Profit as Percent of Costs		-15.7%	

Source: Strategic Economics; City of Santa Barbara; RealFacts

V. APPENDIX A: DETAILED PRO FORMAS

Scenario #1 Pro Forma

PROJECT SUMMARY			
Scenario 1: Existing Variable Density, Luxury Units (Current Market Response)			
Site Area	45,000 square feet		
	One-Bedroom Units	Two-Bedroom Units	Total Project
Unit Mix	50%	50%	
Average market-rate unit size (sf)	1,200	1,800	1,500
Average workforce unit size (sf)	850	1,050	950
Average Inclusionary unit size (sf)	825	1,000	913
Density (du/acre)	13.6	11.6	25.2
Parking spaces per market-rate unit	1.75	2.25	
Parking spaces per Inclusionary/workforce unit	1.00	1.00	
Market Rate Units	12	10	22
Workforce Units	0	0	0
Inclusionary Units	2	2	4
Total Units	14	12	26
Common area factor	1.20	1.20	1.20
Gross residential area (sf)	19,260	24,000	43,260
Market Rate Units	17,280	21,600	38,880
Workforce Units	0	0	0
Inclusionary Units	1,980	2,400	4,380
Parking spaces	23	25	48
Parking area	9,775	10,413	20,188
Area per parking space	425	425	425
Total residential and parking area	29,035	34,413	63,448

DEVELOPMENT PRO FORMA**Scenario 1: Existing Variable Density, Luxury Units (Current Market Response)**

	Unit	Amount	Total Project
DEVELOPMENT COSTS			
Land Cost	per sf	\$100	\$4,500,000
Hard Costs			
Site Improvements	Project	\$630,000	\$630,000
Site/Utilities/Offsite	Project	360,000	\$360,000
<i>Residential - Condos</i>			
Market-Rate	Per sf	\$275	\$10,692,000
Workforce	Per sf	\$250	\$0
Inclusionary	Per sf	\$225	\$985,500
Parking	Per sf	\$125	\$2,523,438
<i>Subtotal Hard Costs</i>			<i>\$15,190,938</i>
Soft Costs			
Sales and Marketing Costs	Pct revenues	4%	\$1,336,328
Purchase	Project	\$15,000	\$15,000
Concept	Project	\$35,000	\$35,000
Entitlement	Project	\$200,000	\$200,000
Const Documents	Pct hard costs	17%	\$2,582,459
Construction	Pct hard costs	2%	\$303,819
Developer Fee	Pct hard costs	5%	\$759,547
OCIP	Per unit	\$9,000	\$234,000
City Fees	Pct hard costs	1.5%	\$227,864
<i>Subtotal Soft Costs</i>			<i>\$5,694,017</i>
Financing Costs			
Construction Loan Fee			\$304,619
Construction Interest			\$1,782,024
<i>Subtotal Financing Costs</i>			<i>\$2,086,643</i>
<i>Subtotal Above Costs</i>			<i>\$27,471,598</i>
REVENUES			
Market-rate one-bedroom units	Per sf	\$1,000	\$14,400,000
Market-rate two-bedroom units	Per sf	\$1,000	\$18,000,000
Workforce one-bedroom units	Per unit	\$460,000	\$0
Workforce two-bedroom units	Per unit	\$550,000	\$0
Inclusionary one-bedroom units	Per unit	\$223,300	\$446,600
Inclusionary two-bedroom units	Per unit	\$280,800	\$561,600
<i>Subtotal Revenues</i>			<i>\$33,408,200</i>
Developer Profit			\$5,936,602
Developer Profit as Percent of Cost			21.6%

Scenario #1.1 Pro Forma

PROJECT SUMMARY			
Scenario 1.1: Existing Variable Density, Standard Units			
Site Area	45,000 square feet		
	One-Bedroom	Two-Bedroom	
	Units	Units	Total Project
Unit Mix	50%	50%	
Average market-rate unit size (sf)	850	1,050	950
Average workforce unit size (sf)	850	1,050	950
Average Inclusionary unit size (sf)	825	1,000	913
Density (du/acre)	13.6	11.6	25.2
Parking spaces per market-rate unit	1.75	2.25	
Parking spaces per Inclusionary/workforce unit	1.00	1.00	
Market Rate Units	12	10	22
Workforce Units	0	0	0
Inclusionary Units	2	2	4
Total Units	14	12	26
Common area factor	1.20	1.20	1.20
Gross residential area (sf)	14,220	15,000	29,220
Market Rate Units	12,240	12,600	24,840
Workforce Units	0	0	0
Inclusionary Units	1,980	2,400	4,380
Parking spaces	23	25	48
Parking area	9,775	10,413	20,188
Area per parking space	425	425	425
Total residential and parking area	23,995	25,413	49,408

DEVELOPMENT PRO FORMA**Scenario 1.1: Existing Variable Density, Standard Units**

	Unit	Amount	Total Project
DEVELOPMENT COSTS			
Land Cost	per sf	\$100	\$4,500,000
Hard Costs			
Site Improvements	Project	\$630,000	\$630,000
Site/Utilities/Offsite	Project	360,000	\$360,000
<i>Residential - Condos</i>			
Market-Rate	Per sf	\$275	\$6,831,000
Workforce	Per sf	\$250	\$0
Inclusionary	Per sf	\$225	\$985,500
Parking	Per sf	\$125	\$2,523,438
<i>Subtotal Hard Costs</i>			\$11,329,938
Soft Costs			
Sales and Marketing Costs	Pct revenues	4%	\$868,328
Purchase	Project	\$15,000	\$15,000
Concept	Project	\$35,000	\$35,000
Entitlement	Project	\$200,000	\$200,000
Const Documents	Pct hard costs	17%	\$1,926,089
Construction	Pct hard costs	2%	\$226,599
Developer Fee	Pct hard costs	5%	\$566,497
OCIP	Per unit	\$9,000	\$234,000
City Fees	Pct hard costs	1.5%	\$169,949
<i>Subtotal Soft Costs</i>			\$4,241,462
Financing Costs			
Construction Loan Fee			\$240,857
Construction Interest			\$1,409,012
<i>Subtotal Financing Costs</i>			\$1,649,869
			<i>Subtotal Above Costs</i>
			\$21,721,269
REVENUES			
Market-rate one-bedroom units	Per sf	\$1,000	\$10,200,000
Market-rate two-bedroom units	Per sf	\$1,000	\$10,500,000
Workforce one-bedroom units	Per unit	\$460,000	\$0
Workforce two-bedroom units	Per unit	\$550,000	\$0
Inclusionary one-bedroom units	Per unit	\$223,300	\$446,600
Inclusionary two-bedroom units	Per unit	\$280,800	\$561,600
<i>Subtotal Revenues</i>			\$21,708,200
Developer Profit			-\$13,069
Developer Profit as Percent of Cost			-0.1%

Scenario #2 Pro Forma

PROJECT SUMMARY			
Scenario 2: Proposed PlanSB Policy (Density by Unit Size) - Standard Units			
Site Area	45,000 sf		
	One-Bedroom	Two-Bedroom	
	Units	Units	Total Project
Unit Mix	50%	50%	
Average market-rate unit size (sf)	850	1,050	950
Average workforce unit size (sf)	850	1,050	950
Average Inclusionary unit size (sf)	825	1,000	913
Density (du/acre)	15.5	12.6	28.1
Parking spaces per market-rate unit	1.00	1.00	
Parking spaces per Inclusionary/workforce unit	1.00	1.00	
Market Rate Units	13	10	23
Workforce Units			
Inclusionary Units	3	3	6
Total Units	16	13	29
Common area factor	1.20	1.20	
Gross residential area (sf)	16,230	16,200	32,430
Market Rate Units	13,260	12,600	25,860
Workforce Units	0	0	0
Inclusionary Units	2,970	3,600	6,570
Parking	16	13	29
Parking area	6,800	5,525	12,325
Area per parking space	425	425	425
Total residential and parking area	23,030	21,725	44,755

DEVELOPMENT PRO FORMA**Scenario 2: Proposed PlanSB Policy (Density by Unit Size) - Standard Units**

	Unit	Amount	Total Project
DEVELOPMENT COSTS			
Land Cost	per sf	\$100	\$4,500,000
Hard Costs			
Site Improvements	Project	\$630,000	\$630,000
Site/Utilities/Offsite	Project	\$360,000	\$360,000
<i>Residential - Condos</i>			
Market-Rate	Per sf	\$250	\$6,465,000
Workforce	Per sf	\$250	\$0
Inclusionary Units	Per sf	\$225	\$1,478,250
Parking	Per sf	\$125	\$1,540,625
<i>Subtotal Hard Costs</i>			<i>\$10,473,875</i>
Soft Costs			
Sales and Marketing Costs	Pct revenues	4%	\$862,152
Purchase	Project	\$15,000	\$15,000
Concept	Project	\$35,000	\$35,000
Entitlement	Project	\$200,000	\$200,000
Const Documents	Pct hard costs	17%	\$1,780,559
Construction	Pct hard costs	2%	\$209,478
Developer Fee	Pct hard costs	5%	\$523,694
OCIP	Per unit	\$9,000	\$261,000
City Fees	Pct hard costs	1.5%	\$157,108
<i>Subtotal Soft Costs</i>			<i>\$4,043,990</i>
Financing Costs			
Construction Loan Fee			\$228,214
Construction Interest			\$1,335,054
<i>Total Financing Costs</i>			<i>\$1,563,269</i>
	<i>Subtotal Above Costs</i>		<i>\$20,581,134</i>
REVENUES			
Market-rate one-bedroom units	Per sf	\$930	\$10,276,500
Market-rate two-bedroom units	Per sf	\$930	\$9,765,000
Workforce one-bedroom units	Per unit	\$460,000	\$0
Workforce two-bedroom units	Per unit	\$550,000	\$0
Inclusionary one-bedroom units	Per unit	\$223,300	\$669,900
Inclusionary two-bedroom units	Per unit	\$280,800	\$842,400
<i>Subtotal Revenues</i>			<i>\$21,553,800</i>
Developer Profit			\$972,666
Developer Profit as Percent of Cost			4.7%

Scenario #2.1 Pro Forma

PROJECT SUMMARY			
Scenario 2.1: Proposed PlanSB Policy (Density by Unit Size) - Luxury Units			
Site Area	45,000 sf		
	One-Bedroom	Two-Bedroom	
	Units	Units	Total Project
Unit Mix	50%	50%	
Average market-rate unit size (sf)	1,200	1,800	1,500
Average workforce unit size (sf)	850	1,050	950
Average Inclusionary unit size (sf)	825	1,000	913
Density (du/acre)	12.6	6.8	19.4
Parking spaces per market-rate unit	1.00	1.00	
Parking spaces per Inclusionary/workforce unit	1.00	1.00	
Market Rate Units	10	6	16
Workforce Units			
Inclusionary Units	3	1	4
Total Units	13	7	20
Common area factor	1.20	1.20	
Gross residential area (sf)	17,370	14,160	31,530
Market Rate Units	14,400	12,960	27,360
Workforce Units	0	0	0
Inclusionary Units	2,970	1,200	4,170
Parking	13	7	20
Parking area	5,525	2,975	8,500
Area per parking space	425	425	425
Total residential and parking area	22,895	17,135	40,030

DEVELOPMENT PRO FORMA

Scenario 2.1: Proposed PlanSB Policy (Density by Unit Size) - Luxury Units

	Unit	Amount	Total Project
DEVELOPMENT COSTS			
Land Cost	per sf	\$100	\$4,500,000
Hard Costs			
Site Improvements	Project	\$630,000	\$630,000
Site/Utilities/Offsite	Project	\$360,000	\$360,000
<i>Residential - Condos</i>			
Market-Rate	Per sf	\$275	\$7,524,000
Workforce	Per sf	\$250	\$0
Inclusionary	Per sf	\$225	\$938,250
Parking	Per sf	\$125	\$1,062,500
<i>Subtotal Hard Costs</i>			<i>\$10,514,750</i>
Soft Costs			
Sales and Marketing Costs	Pct revenues	4%	\$950,028
Purchase	Project	\$15,000	\$15,000
Concept	Project	\$35,000	\$35,000
Entitlement	Project	\$200,000	\$200,000
Const Documents	Pct hard costs	17%	\$1,787,508
Construction	Pct hard costs	2%	\$210,295
Developer Fee	Pct hard costs	5%	\$525,738
OCIP	Per unit	\$9,000	\$180,000
City Fees	Pct hard costs	1.5%	\$157,721
<i>Subtotal Soft Costs</i>			<i>\$4,061,289</i>
Financing Costs			
Construction Loan Fee			\$228,912
Construction Interest			\$1,339,138
<i>Total Financing Costs</i>			<i>\$1,568,050</i>
	<i>Subtotal Above Costs</i>		<i>\$20,644,090</i>
REVENUES			
Market-rate one-bedroom units	Per sf	\$1,000	\$12,000,000
Market-rate two-bedroom units	Per sf	\$1,000	\$10,800,000
Workforce one-bedroom units	Per unit	\$460,000	\$0
Workforce two-bedroom units	Per unit	\$550,000	\$0
Inclusionary one-bedroom units	Per unit	\$223,300	\$669,900
Inclusionary two-bedroom units	Per unit	\$280,800	\$280,800
	<i>Subtotal Revenues</i>		<i>\$23,750,700</i>
Developer Profit			\$3,106,610
Developer Profit as Percent of Cost			15.0%

Scenario #3 Pro Forma

PROJECT SUMMARY			
Scenario 3: Increased Unit Count - Standard Units			
Site Area	45,000 sf		
	One-Bedroom	Two-Bedroom	
	Units	Units	Total Project
Unit Mix	50%	50%	
Average market-rate unit size (sf)	850	1,050	950
Average workforce unit size (sf)	850	1,050	950
Average Inclusionary unit size (sf)	825	1,000	913
Density (du/acre)	23.2	18.4	41.6
Parking spaces per market-rate unit	1.50	1.50	
Parking spaces per Inclusionary/workforce unit	1.00	1.00	
Market Rate Units	19	15	34
Workforce Units	0	0	0
Inclusionary Units	5	4	9
Total Units	24	19	43
Common area factor	1.20	1.20	
Gross residential area (sf)	24,330	23,700	48,030
Market Rate Units	19,380	18,900	38,280
Workforce Units	0	0	0
Inclusionary Units	4,950	4,800	9,750
Parking	34	27	60
Parking area	14,238	11,263	25,500
Area per parking space	425	425	425
Total residential and parking area	38,568	34,963	73,530

DEVELOPMENT PRO FORMA**Scenario 3: Increased Unit Count - Standard Units**

	Unit	Amount	Total Project
DEVELOPMENT COSTS			
Land Cost	per sf	\$100	\$4,500,000
Hard Costs			
Site Improvements	Project	\$630,000	\$630,000
Site/Utilities/Offsite	Project	\$360,000	\$360,000
<i>Residential - Condos</i>			
Market-Rate	Per sf	\$250	\$9,570,000
Workforce	Per sf	\$250	\$0
Inclusionary	Per sf	\$225	\$2,193,750
Parking	Per sf	\$125	\$3,187,500
<i>Subtotal Hard Costs</i>			<i>\$15,941,250</i>
Soft Costs			
Sales and Marketing Costs	Pct revenues	4%	\$1,276,268
Purchase	Project	\$15,000	\$15,000
Concept	Project	\$35,000	\$35,000
Entitlement	Project	\$200,000	\$200,000
Const Documents	Pct hard costs	17%	\$2,710,013
Construction	Pct hard costs	2%	\$318,825
Developer Fee	Pct hard costs	5%	\$797,063
OCIP	Per unit	\$9,000	\$387,000
City Fees	Pct hard costs	1.5%	\$239,119
<i>Subtotal Soft Costs</i>			<i>\$5,978,287</i>
Financing Costs			
Construction Loan Fee			\$317,034
Construction Interest			\$1,854,651
<i>Total Financing Costs</i>			<i>\$2,171,686</i>
	<i>Subtotal Above Costs</i>		<i>\$28,591,223</i>
REVENUES			
Market-rate one-bedroom units	Per sf	\$930	\$15,019,500
Market-rate two-bedroom units	Per sf	\$930	\$14,647,500
Workforce one-bedroom units	Per unit	\$460,000	\$0
Workforce two-bedroom units	Per unit	\$550,000	\$0
Inclusionary one-bedroom units	Per unit	\$223,300	\$1,116,500
Inclusionary two-bedroom units	Per unit	\$280,800	\$1,123,200
<i>Subtotal Revenues</i>			<i>\$31,906,700</i>
Developer Profit			\$3,315,477
Developer Profit as Percent of Cost			11.6%

Scenario #3.1 Pro Forma

PROJECT SUMMARY			
Scenario 3.1: Increased Unit Count - Luxury Units			
Site Area	45,000 sf		
	One-Bedroom	Two-Bedroom	
	Units	Units	Total Project
Unit Mix	50%	50%	
Average market-rate unit size (sf)	1,200	1,800	1,500
Average workforce unit size (sf)	850	1,050	950
Average Inclusionary unit size (sf)	825	1,000	913
Density (du/acre)	23.2	18.4	41.6
Parking spaces per market-rate unit	1.50	1.50	
Parking spaces per Inclusionary/workforce unit	1.00	1.00	
Market Rate Units	19	15	34
Workforce Units	0	0	0
Inclusionary Units	5	4	9
Total Units	24	19	43
Common area factor	1.20	1.20	
Gross residential area (sf)	32,310	37,200	69,510
Market Rate Units	27,360	32,400	59,760
Workforce Units	0	0	0
Inclusionary Units	4,950	4,800	9,750
Parking	34	27	60
Parking area	14,238	11,263	25,500
Area per parking space	425	425	425
Total residential and parking area	46,548	48,463	95,010

DEVELOPMENT PRO FORMA**Scenario 3.1: Increased Unit Count - Luxury Units**

	Unit	Amount	Total Project
DEVELOPMENT COSTS			
Land Cost	per sf	\$100	\$4,500,000
Hard Costs			
Site Improvements	Project	\$630,000	\$630,000
Site/Utilities/Offsite	Project	\$360,000	\$360,000
<i>Residential - Condos</i>			
Market-Rate	Per sf	\$275	\$16,434,000
Workforce	Per sf	\$250	\$0
Inclusionary	Per sf	\$225	\$2,193,750
Parking	Per sf	\$125	\$3,187,500
<i>Subtotal Hard Costs</i>			<i>\$22,805,250</i>
Soft Costs			
Sales and Marketing Costs	Pct revenues	4%	\$2,081,588
Purchase	Project	\$15,000	\$15,000
Concept	Project	\$35,000	\$35,000
Entitlement	Project	\$200,000	\$200,000
Const Documents	Pct hard costs	17%	\$3,876,893
Construction	Pct hard costs	2%	\$456,105
Developer Fee	Pct hard costs	5%	\$1,140,263
OCIP	Per unit	\$9,000	\$387,000
City Fees	Pct hard costs	1.5%	\$342,079
<i>Subtotal Soft Costs</i>			<i>\$8,533,927</i>
Financing Costs			
Construction Loan Fee			\$430,070
Construction Interest			\$2,515,910
<i>Total Financing Costs</i>			<i>\$2,945,980</i>
	<i>Subtotal Above Costs</i>		<i>\$38,785,157</i>
REVENUES			
Market-rate one-bedroom units	Per sf	\$1,000	\$22,800,000
Market-rate two-bedroom units	Per sf	\$1,000	\$27,000,000
Workforce one-bedroom units	Per unit	\$460,000	\$0
Workforce two-bedroom units	Per unit	\$550,000	\$0
Inclusionary one-bedroom units	Per unit	\$223,300	\$1,116,500
Inclusionary two-bedroom units	Per unit	\$280,800	\$1,123,200
<i>Subtotal Revenues</i>			<i>\$52,039,700</i>
Developer Profit			\$13,254,543
Developer Profit as Percent of Cost			34.2%

Scenario #4 Pro Forma

PROJECT SUMMARY			
Scenario 4: Maximize Unit Mix by Income Target - Res. Only, Underground Pkg.			
Site Area	45,000 sf		
	One-Bedroom	Two-Bedroom	
	Units	Units	Total Project
Unit Mix	50%	50%	
Average market-rate unit size (sf)	850	1,050	
Average workforce unit size (sf)	850	1,050	
Average Inclusionary unit size (sf)	825	1,000	
Density (du/acre)	33.9	26.1	60.0
Parking spaces per market-rate unit	1.50	1.50	
Parking spaces per Inclusionary/workforce unit	1.00	1.00	
Market Rate Units	21	17	38
Workforce Units	11	7	18
Inclusionary Units	3	3	6
Total Units	35	27	62
Common area factor	1.20	1.20	
Gross residential area (sf)	35,610	33,840	69,450
Market Rate Units	21,420	21,420	42,840
Workforce Units	11,220	8,820	20,040
Inclusionary Units	2,970	3,600	6,570
Parking	46	36	81
Parking area	19,338	15,088	34,425
Area per parking space	425	425	
Total residential and parking area	54,948	48,928	103,875

DEVELOPMENT PRO FORMA**Scenario 4: Maximize Unit Mix by Income Target - Res. Only, Underground Pkg.**

	Unit	Amount	Total Project
DEVELOPMENT COSTS			
Land Cost	per sf	\$100	\$4,500,000
Hard Costs			
Site Improvements	Project	\$630,000	\$630,000
Site/Utilities/Offsite	Project	\$360,000	\$360,000
<i>Residential - Condos</i>			
Market-Rate	Per sf	\$250	\$10,710,000
Workforce	Per sf	\$250	\$5,010,000
Inclusionary	Per sf	\$225	\$1,478,250
Parking	Per sf	\$125	\$4,303,125
<i>Subtotal Hard Costs</i>			\$22,491,375
Soft Costs			
Sales and Marketing Costs	Pct revenues	4%	\$1,758,132
Purchase	Project	\$15,000	\$15,000
Concept	Project	\$35,000	\$35,000
Entitlement	Project	\$200,000	\$200,000
Const Documents	Pct hard costs	17%	\$3,823,534
Construction	Pct hard costs	2%	\$449,828
Developer Fee	Pct hard costs	5%	\$1,124,569
OCIP	Per unit	\$9,000	\$558,000
City Fees	Pct hard costs	1.5%	\$337,371
<i>Subtotal Soft Costs</i>			\$8,301,433
Financing Costs			
Construction Loan Fee			\$423,514
Construction Interest			\$2,477,555
<i>Total Financing Costs</i>			\$2,901,069
	<i>Subtotal Above Costs</i>		\$38,193,876
REVENUES			
Market-rate one-bedroom units	Per sf	\$930	\$16,600,500
Market-rate two-bedroom units	Per sf	\$930	\$16,600,500
Workforce one-bedroom units	Per unit	\$490,000	\$5,390,000
Workforce two-bedroom units	Per unit	\$550,000	\$3,850,000
Inclusionary one-bedroom units	Per unit	\$223,300	\$669,900
Inclusionary two-bedroom units	Per unit	\$280,800	\$842,400
	<i>Subtotal Revenues</i>		\$43,953,300
Developer Profit			\$5,759,424
Developer Profit as Percent of Cost			15.1%

VI. APPENDIX B: BUILDING DIAGRAMS

1 3 - Story - Above Grade Parking

Mixed Use

Height	Floors		Lot coverage	Gross Area	Parking	Retail	Residential
41-45	3						
6-8	roof		Site	45,000			
10-11	3	res	75%	33,750			33,750
10-11	2	res	80%	36,000			36,000
15	1	comm parking	100%	45,000	33,750	11,250	0
totals				114,750	33,750	11,250	69,750
units					81		62
FAR				2.55			1.55

2 3 - Story - Above Grade Parking

Residential Only

Height	Floors		Lot coverage	Gross Area	Parking	Retail	Residential
36-41	3						
6-8	roof		Site	45,000			
10-11	3	res	75%	33,750			33,750
10-11	2	res	80%	36,000			36,000
10-11	1	parking	80%	36,000	36,000		0
totals				105,750	36,000	0	69,750
units					81		62
FAR				2.35			1.55

3 3 - Story - Below Grade Parking

Mixed Use

Height	Floors		Lot coverage	Gross Area	Parking	Retail	Residential
41-45	3						
6-8	roof		Site	45,000			
10-11	3	res	55%	24,750			24,750
10-11	2	res	60%	27,000			27,000
15	1	commercial	70%	31,500		13,500	18,000
		park	75%	33,750	33,750		
totals				117,000	33,750	13,500	69,750
units							54
FAR				2.60			1.55

4 3 - Story - Below Grade Parking

Residential Only

Height	Floors		Lot coverage	Gross Area	Parking	Retail	Residential
38-42	3						
6-8	roof		Site	45,000			
10-11	3	res	40%	18,000			18,000
10-11	2	res	55%	24,750			24,750
12-13	1	res	60%	27,000			27,000
		park	75%	33,750	33,750		0
totals				103,500	33,750	0	69,750
units					81		54
FAR				2.30			1.55

5 4 - Story - Above Grade Parking

Mixed Use

Height	Floors		Lot coverage	Gross Area	Parking	Retail	Residential
51-56	4						
6-8	roof		Site	45,000			
10-11	3	res	40%	18,000			18,000
10-11	3	res	55%	24,750			24,750
10-11	2	res	60%	27,000			27,000
15	1	commercial	100%	45,000	33,750	11,250	0
			totals	114,750	33,750	11,250	69,750
			units		81		54
			FAR	2.55			1.55

6 4 - Story - Above Grade Parking

Residential Only

Height	Floors		Lot coverage	Gross Area	Parking	Retail	Residential
46-52	3						
6-8	roof		Site	45,000			
10-11	3	res	40%	18,000			18,000
10-11	3	res	55%	24,750			24,750
10-11	2	res	60%	27,000			27,000
10-11	1	parking	75%	33,750	33,750		0
			totals	103,500	33,750	0	69,750
			units		81		54
			FAR	2.30			1.55

7 4 - Story - Below Grade Parking

Mixed Use

Height	Floors		Lot coverage	Gross Area	Parking	Retail	Residential
51-56	4						
6-8	roof		Site	45,000			
10-11	3	res	20%	9,000			9,000
10-11	3	res	50%	22,500			22,500
10-11	2	res	55%	24,750			24,750
15	1	commercial	60%	27,000		13,500	13,500
		park	75%	33,750	33,750		
			totals	117,000	33,750	13,500	69,750
			units				54
			FAR	2.60			1.55

8 4 - Story - Below Grade Parking

Residential Only

Height	Floors		Lot coverage	Gross Area	Parking	Retail	Residential
48-54	4						
6-8	roof		Site	45,000			
10-11	3	res	20%	9,000			9,000
10-11	3	res	20%	9,000			9,000
10-11	2	res	55%	24,750			24,750
12-13	1	res	60%	27,000			27,000
		park	75%	33,750	33,750		0
			totals	103,500	33,750	0	69,750
			units				54
			FAR	2.30			1.55

Housing

Goals: Provide a wide range of housing options for a socially and economically diverse population, using creative and innovative approaches in order to retain the local workforce and the City’s cultural and ethnic diversity. New housing will be strategically placed within the Mobility Oriented Development Area or a neighborhood center for ease of access.

OBJECTIVES

Objective H1: Increased housing availability for different levels of affordability (very low, low, moderate, middle-income), for the local workforce, and for special needs populations.

Objective H2: An expanded range of housing types (e.g., Single Family Residential, clustered, zero lot line, townhouse, mixed-use) is available to accommodate different types of households, different lifestyles or life stages.

Objective H3: Increases in density to accommodate affordable housing in multi-family or commercial development has been off-set by reduced unit sizes.

POLICIES

The framework policies included here primarily address ways to increase the provision of affordable housing, retain or increase rental housing while also maintaining the amenity and small-town character of Santa Barbara and its residential neighborhoods. A range of housing types for a range of incomes, lifestyles and life stages are needed throughout the City to support the diverse population. Additionally, policies are proposed to support and encourage provision of non-subsidized affordable housing.

Housing Policies

- H1. **In-Fill and Opportunity Sites.** Assist, coordinate or partner with builders for the development of affordable housing projects by identifying in-fill and opportunity sites in the commercial zones, on public lands and underdeveloped R-2, R-3 and R-4 sites. Opportunity sites are vacant or underdeveloped sites, or small parcels that could be merged.
- H2. **Market Rate Residential.** A market-level housing project in the R-2, multi-family or commercial zones (including mixed-use) shall:
- Provide unit sizes calculated using maximums set out under the City's redefined variable density provisions; and
 - Have access to adequate public open space within a ½-mile radius, a dedication of sufficient useable open space on-site, a contribution is made toward future parks through in-lieu fees, or a combination of any of these.
- H3. **Average Multi-Family Residential Unit Size.** Establish standards for average unit sizes. Average unit sizes may use the LEED for homes average home size adjustment for multifamily buildings or be based on standards set by the City under revisions to the City's variable density provisions.
- H4. **Unit Size and Density.** Establish base residential density standards for multi-family and commercial zones, and create a two tier maximum unit size system so if larger size units are built the density is lower than for building smaller units. (See also policy H5 and H6.)
- H5. **Incentives for Affordable-By-Design Units.** Prepare design standards and codify incentives for market rate developers to build smaller, "affordable-by-design" residential units that better meet the needs of our community. Incentives could include higher allowable densities, less required parking, etc.
- H6. **Promote Affordable and Workforce Housing Production.** Explore options to promote affordable and workforce housing, such as:
- Revise variable density ordinance provisions to increase affordable housing (e.g., limit unit sizes, require a term of affordability, reduce parking standards with tenant restrictions);
 - Increase the allowed density in the R-2, R-3 and R-4 zones for rental housing developments.
- H7. **Regional Employee Housing.** Provide incentives for employers throughout the South Coast to provide employee housing on-site or close-by off-site and establish or expand programs for encouraging employers to provide other housing benefits or financial assistance programs, such as down payments, closing costs and rental move-in fees for employees.
- H8. **Educational Institutions.** Encourage UCSB and Santa Barbara City College to address affordable student, faculty and staff housing on campus and at close-by off-site opportunity sites.

- H9. **Inclusionary Affordable Housing Amendments.** Explore requiring a percentage higher than 15% (consider 25%) for the provision of inclusionary affordable housing in new residential ownership developments. Consider low/moderate and middle income requirements for affordable housing to accommodate low/moderate and workforce (middle) income earners, and people with disabilities. Consider in-lieu fee structure based on market sales price.
- H10. **Density Incentive for Sustainable Resource Use.** Establish criteria and standards for resource use in relation to density in the project review process, to encourage reduced resource footprint projects. Residential projects that exhibit a significantly lower resource per capita footprint would be allowed bonus density providing the building remains smaller than allowed by zoning.
- H11. **Mixed-Use Housing at Shopping Centers.** Promote and encourage the development of mixed-use housing with an emphasis on affordability at shopping centers such as the La Cumbre Plaza shopping center, by coordinating and/or partnering with property owners and housing developers.
- H12. **Rental Incentives.** Develop programs such as a rental overlay to allow for greater density for rental units and encourage the production of rental housing projects by providing incentives such as reduced parking requirements, preferential processing, fee waivers, or deferrals.
- H13. **Residential Density Standards.** Develop density standards that permit greater densities for projects that provide a greater percentage of price-restricted ownership units than required by the inclusionary housing ordinance. Programs to increase density can be combined with programs to reduce density such as changes to the variable density ordinance provisions or rezoning historic districts or special design districts.
- H14. **Second Unit Incentives.** Second units in single family neighborhoods shall be:
 - Encouraged where located within the MODA;
 - Allowed where located outside of the MODA;
 - Restricted in the High Fire Zone.

Second units (granny units) that are within 10-minutes walking distance from a main transit corridor and bus stop will be encouraged by providing incentives, such as revise development standards for second units. (e.g., eliminating the parking requirements for second units, eliminating the attached unit requirement, reducing development costs by allowing one water, gas and electric meter and a single sewer line for the main residence and the second unit, developing an amnesty program for illegal second units located within the MODA.) (*See Map 4, Potential Secondary Dwelling Unit Locations.*)

- H15. **Preserve Existing Affordable Housing.** Preserve non-subsidized affordable rental housing. Explore ways to avoid condominium conversions, or alternatively, the possibility of cooperative tenant ownership of previous rentals, such as the use of public funding to provide mortgage or down-payment loans. Such funds could also fund new affordable rental development.
- H16. **Property Transfer Tax.** Increase property transfer tax to provide funding for price-restricted affordable and workforce housing, in order to broaden the funding base.
- H17. **Redevelopment Funding for Affordable Housing.** Continue to explore and pursue potential legislative amendments or other opportunities for extension or replacement of the Redevelopment Project Area and its funding mechanism for affordable housing and other community benefit projects.¹

¹ The Central City Redevelopment Project (CCRP), established in 1972 and activated in 1977, will expire in 2015, at which time the Redevelopment Agency will lose its authority to take actions other than to complete existing projects and collect tax increments in the amount needed to service existing debt. Tax increment collection in the Project Plan is projected to reach the total tax increment cap of \$431 million in 2018 or 2019. Changes in State law have redefined conditions constituting “blight” that provide the basis for Redevelopment powers, such that no areas of the City would be in such a decaying state as to qualify under the current State definition. Therefore, no opportunities to further extend or expand the existing Redevelopment Project are currently foreseen.



DENSITY & UNIT SIZE WORKSHOPS SUMMARY OF PUBLIC COMMENTS JUNE 24 AND 25, 2009

Affordable & Workforce Housing

- Should consider cooperative housing. This type of housing would eliminate developer profit.
- With stick construction assumption, adding 4th floor reduces unit prices by 20-25%
- Would the 60' height scenario produce middle-income (inclusionary) housing?
- There is no regulation of commercial square footage for mixed-use projects. How much does commercial component help carry affordable units in a mixed-use project?
- Concern expressed about lack of affordable housing in Santa Barbara and associated issues with employees commuting from other jurisdictions. There is a need to provide more affordable housing for workforce.
- Explore incentives to build smaller units, such as reducing fees by 15-20%. Make it easier for residents to build smaller units and residential additions. Establish criteria for green units.
- Explore in-lieu fees and other incentives to promote affordable and workforce housing.
- Concern expressed that Santa Barbara's youth is being priced out of the housing market. A vibrant community should include young people. A 950 sq. ft. housing unit is adequate living space.
- Analyze employment balance. Scenarios should calculate the number of workers that would occupy units and number of workers that projects would generate.
- Analyze public health perspective of overcrowding. Multiple residents have to combine resources to live in 2-bedroom unit.
- Need housing that is provided by or partially subsidized by employer.
- Asked if market research has been conducted to determine what the buyers want. Do we know if downtown condominiums would attract buyers? Who is going to buy these units? Workforce may not want to live in this area.

- There is a perception that much of the community is transient. Once young families start a family, they leave Santa Barbara.
- Cottage Hospital conducted a careful study of what employees wanted with respect to housing. City and School Board should conduct similar study to find out who would live in these units.
- Aside from the 15% developer profit assumption, the economic analysis should include a 10% profit assumption.
- Need to provide a better study of who is going to use these units. How many units are we planning for? How much housing do we need?
- Important to assess the impact (“resource feasibility”) that increased density will have on the community.
- If increased density is necessary in order to produce affordable and workforce housing, the jobs/housing imbalance will be perpetuated. Market rate units will generate service workers that need to be housed. Therefore, we are not solving the housing issue. Need something that does not repeat the problem.

Rental Units

- Clarify assumptions regarding rental units. Financial analysis assumed that rental does not work because the first year return is zero.
- Rental unit production is strong, 40 units/acre. Do not overlook rent to own category. Sixty percent of Santa Barbara residents are renters.
- Consider increasing the number of housing units by allowing detached second units on existing parcels as rentals. 950 sq. ft. second units can be quite large.

Density/Size, Bulk & Scale

- The existing bulk and density is barely acceptable to the majority of community. Increased density is unacceptable to many in Santa Barbara. The current density scenario is feasible and should be maintained.
- Concern expressed that FAR above 1.0 is too bulky and massive to be compatible with the City’s character. The analysis should add Scenario 5 reflecting Housing Authority and Blankenship type projects of 2 stories, above grade parking, 25 units/acre and limit projects in R-3 zones.
- Asked if local architects were consulted about unsubsidized higher density projects. Research other jurisdictions such as San Francisco and Denver for examples of projects with greater density.
- Does land cost drive number of units, similar to zoning?
- Younger generation desires denser housing, is less dependent on automobile.
- Consider a scenario reflecting a 3-story building with flat roof.
- Support expressed for the feasibility analysis. Analysis can be used as a good tool with trends in addressing issues of character, density, etc.

- Will commercial FARs be considered as part of General Plan update?
- Consider minimum density standards or community density standards.
- Do not overbuild.

Unit Size

- Concern expressed that 950 sq. ft. unit may be too small for households with families.
- Several individuals stated that many people want to live in Santa Barbara, especially the younger generation. Smaller units, including 950 sq. ft. would be an adequate size.
- Is 1,500 sq. ft. too small to be defined as a luxury unit?
- Explore incentives to build smaller units, such as reducing fees by 15-20%. Make it easier for residents to build smaller units and additions. Establish criteria for green units.
- Stated that the Vancouver and Victoria, BC areas have great examples of smaller units.

Height

- Need to show scenario reflecting 60' building height with smaller units.
- Are 8' ceiling heights acceptable? They are not generally desirable.
- Lowered ceiling heights work elsewhere. Eight feet is standard ceiling height in Fairfax.
- 10' ceiling height are considered a luxury.
- Are there any buildings in Santa Barbara at 4 stories, 40' or 45' high?
- Three and four story developments would "severely" impact character of Westside Neighborhood. Current development is killing the neighborhood's character. Additionally, step-backs should be no higher than existing rooflines in Westside Neighborhood of City. Existing setbacks on the Westside are very generous.

Parking

- Unbundled parking – would have a negative impact on Westside Neighborhood. It will not work.
- Cost of producing parking is huge and will impact the provision of housing units. Look at off-site parking, or other parking strategies such as pooled parking. City should require that project parking be provided in public parking garages.
- Was underground parking assumed for all scenarios?

Land Use/Environmental Review

- Stated that speculative development is ruining Santa Barbara.
- Older Westside homes (heritage homes) should be retained.
- Was the trade-off of walkability analyzed in feasibility study? Walkability scores can be obtained for any community at walkscore.com
- Using a 45,000 sq. ft. project site was questioned. How many 45,000 sq. ft. sites really exist in Santa Barbara? Smaller parcels should be analyzed.
- Will the EIR study the environmental consequences of the different growth scenarios?
- The City should encourage the reuse, recycle and conversion of existing buildings, especially for affordable housing. “Do not always build new”.
- Explore other zones to building affordable housing. Placing affordable housing in the most expensive areas of Santa Barbara was questioned. “Ridiculous” to use the most expensive land for affordable housing. “City should look for less costly land. It should be market driven, not government driven.”

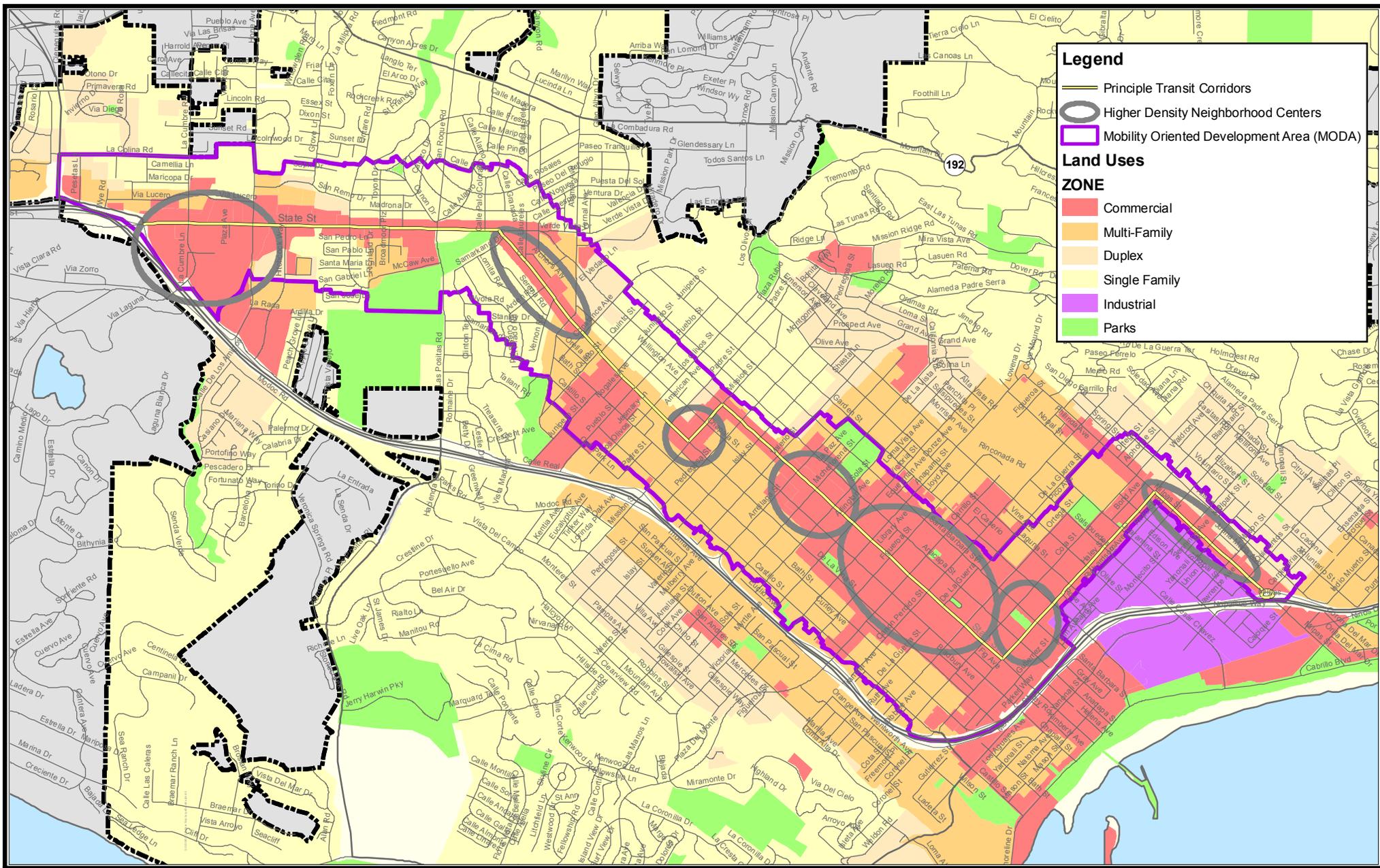


Plan Santa Barbara

LIVING WITHIN OUR RESOURCES

Housing Design and Affordability

DESIGN VARIABLES	Scenario 1	Scenario 4: Maximize Unit Mix by Income Target		
	Existing Variable Density Height: Up to 60'	3 Stories Height: 40'	4 Stories Height: 40'	4 Stories Height: 45-52'
Underground Parking	Encouraged	Necessary	Necessary	Necessary
Single/Mixed Use	Single/Mixed Use	Single Use	Single Use	Single/Mixed Use
Average Unit Sizes	1,500 sq. ft.	950 sq. ft.	950 sq. ft.	950 sq. ft.
Setbacks and Stepbacks	Achievable	Achievable	Achievable	Achievable
Ceiling Height	9 - 10'	9 - 10'	8 - 9'	9 - 10'
Roof Design	Sloped	Sloped	Flat	Sloped
Inclusionary Housing	Yes	Yes	Yes	Yes
Middle Income/ Workforce Housing	No	Yes	Unlikely	Yes
Market Feasibility	Yes	Yes	Unlikely	Yes



Legend

- Principle Transit Corridors
- Higher Density Neighborhood Centers
- Mobility Oriented Development Area (MODA)

Land Uses

ZONE

- Commercial
- Multi-Family
- Duplex
- Single Family
- Industrial
- Parks

Reduced MODA Boundary and Neighborhood Centers



Map prepared by City of Santa Barbara, Planning Division, July 2009

Exhibit E

City Limits

0 0.15 0.3 0.45 Miles

NAD 1983 State Plane
California V FIPS 0405 (Feet) 1 inch = 2,666.666667 feet