



CITY OF PORTSMOUTH, NH

INCLUSIONARY ZONING FEASIBILITY ANALYSIS

February 27, 2024



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The background features a complex grid of lines that create a sense of depth and perspective, resembling a tunnel or a dome. A large, solid blue circle is positioned in the lower-left quadrant, partially overlapping the grid pattern. The overall aesthetic is modern and architectural.

INTRODUCTION

BACKGROUND



The City of Portsmouth seeks to understand the financial impacts of implementing an Inclusionary Zoning (IZ) policy. An IZ policy would require residential developers to allocate a percentage of income-controlled units within their new market-rate developments. By having to provide some income-controlled units, it is highly likely that the development projects will experience reduced revenue, which will adversely impact financial returns.

For example, if the City of Portsmouth implements an IZ policy that requires residential developers to allocate 10% of all units in the development as income-controlled housing units, a multifamily developer seeking to construct a new 100-unit apartment building would have to set aside 10 units (10% of 100 rental units) to be priced at a monthly rate deemed “affordable” to a household at the prescribed income level. For the purposes of this analysis, affordable is defined as paying less than 30% of gross income for rent and essential utilities. Consequently, these 10 income-controlled units would generate lower rental revenues than the remaining market-rate units, which reduces financial returns for the developer.

The above example is a simplified version of an IZ policy but demonstrates the financial impact if a hypothetical IZ policy were to be implemented by the City of Portsmouth. The following report details the potential financial impact of more-complex IZ policy alternatives and their resulting financial returns. The analysis results are intended to assist the city in selecting a realistic and executable IZ policy based on prevailing market conditions within the local economy.

FINANCIAL FEASIBILITY MODEL

THE FINANCIAL FEASIBILITY MODEL IS A PROFORMA-BASED EXCEL MODEL THAT IS DESIGNED TO TEST THE FINANCIAL IMPACT OF POTENTIAL POLICY CHANGES AGAINST THE FINANCIAL RISK/REWARD OF A POTENTIAL REAL ESTATE INVESTMENT.

RKG Associates developed a financial feasibility model that estimates a real estate developer's potential financial return. While there are several return metrics used to assess financial feasibility, the Portsmouth financial feasibility model focuses on estimating the Internal Rate of Return (IRR). IRR is a standard quantitative metric used to predict the financial performance of a potential real estate investment. Essentially, the IRR will indicate whether a real estate investment is worth the costs of pursuing development. IRRs are expressed as percentages; the higher the IRR percentage, the higher financial return to a real estate developer.

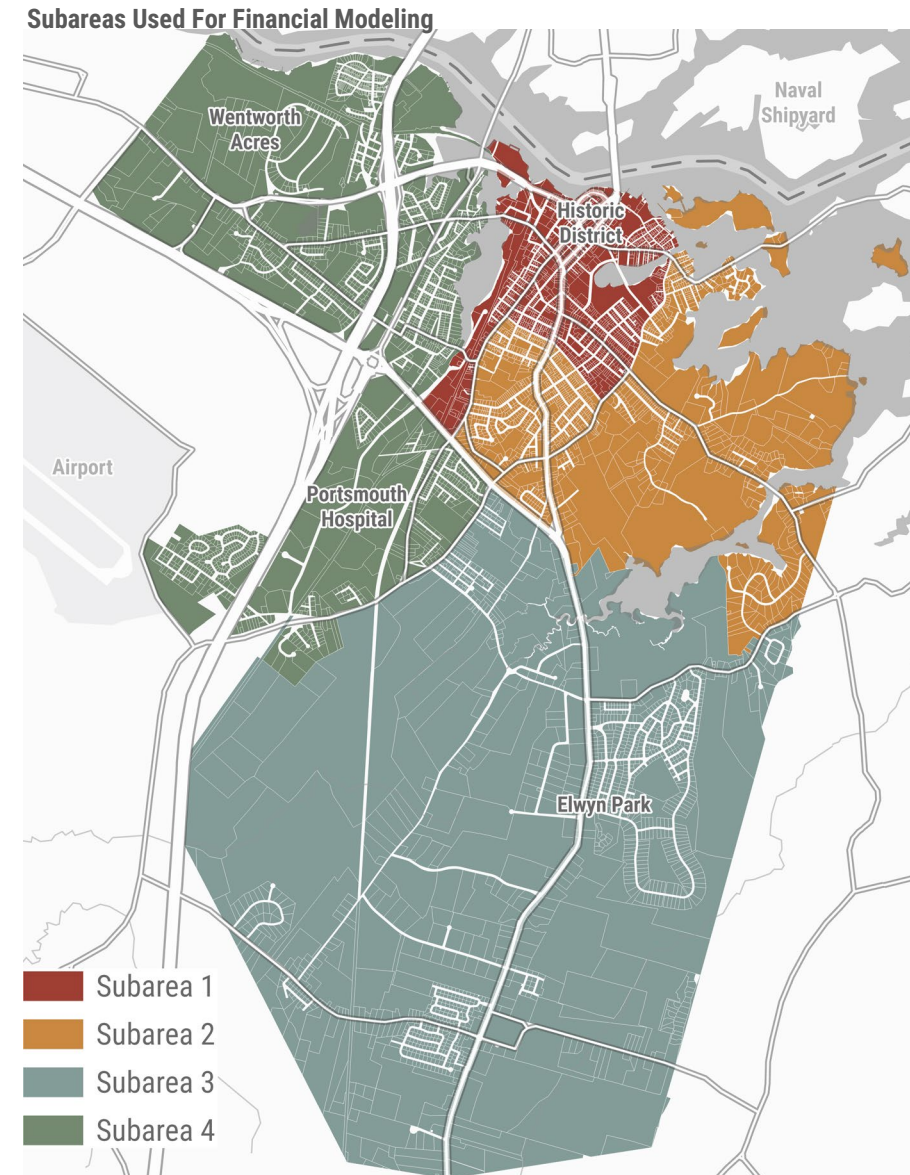
RKG Associates' financial feasibility model was designed to estimate the IRR while accounting for a variety of development factors. Such development factors include the percentage of income-controlled units, targeted Area Median Income (AMI) levels, construction costs, land costs, operation costs, tenure (owner vs. renter), and several others. Each of these factors can be changed within the model to test for multiple development scenarios. For instance, the model could test for different percentages of income-controlled units set aside (e.g., 10% vs. 20%, etc.) and different targeted AMI levels (e.g., 80% AMI, 60% AMI, etc.). Testing multiple development scenarios allows the City of Portsmouth to assess the impacts to financial returns of developments subjected to various hypothetical inclusionary zoning policies.



CITY SUBAREAS

Location within the city was a primary factor for modeling the financial performance of a real estate investment under a hypothetical IZ policy. RKG Associates incorporated different model inputs for four (4) distinct locations within the City of Portsmouth known as subareas. The four subareas are illustrated in adjoining map. The model inputs that differentiated across each subarea included land costs, monthly rental prices, and homeownership sales values.

RKG Associates' market research concluded that land costs, monthly rental prices, and homeownership sales values are much higher in Subarea 1 than the other 3 subareas. Therefore, RKG Associates utilized higher price points for modeling potential real estate investments in Subarea 1. Accounting for this price variation between the city's subareas was critical to accurately model the financial performance of real estate investments.



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MODELING INPUTS

METHODOLOGY

All financial feasibility modeling is based upon three principal components: construction costs, operational revenues, and operational costs. Each component utilizes locally-derived inputs to accurately reflect city's market conditions, and effectively design realistic development scenarios.

To this point, RKG conducted a comprehensive analysis of all components of financial feasibility of residential development in the City of Portsmouth. The primary inputs for which local data was derived include, but is not limited to:

Construction Costs

- Soft costs – design and preparation
- Hard costs – materials and construction
- Parking costs – costs per parking space
- Land costs – physical location within the city's subarea

Operation Costs

- Financing costs – debt and equity to pay for the project
- Operating expenses – marketing, management, repairs, property taxes

Operational Revenues

- Rental rates and sale prices

Construction Costs

To determine hard costs for building and parking construction, RKG interviewed several for-profit and non-profit developers, as well as utilizing RSMMeans¹ to build out customized per square foot construction costs for stick, stick over podium, and steel frame construction typologies.

Similarly, RKG collected information on construction costs for three types of parking costs: surface parking, aboveground structured parking, and underground parking.

Lastly, a land cost analysis was conducted by RKG on recently completed residential projects to understand the land price per unit developers have paid. RKG used interview data from for-profit and non-profit developers to verify the research.

Operation Costs

Development financing is possibly the most important element of any real estate deal. Different types of financing are available depending upon the scale of the project. Through interviews with for-profit and non-profit developers, RKG gained an understanding around debt, operational costs, and vacancy assumptions used in developer proformas.

Additionally, information on financial return expectations was obtained and used as a benchmark for the financial feasibility model to understand the impact policy changes may have on a project's financial return metrics.

¹RSMMeans is a national data vendor that analyzes real estate construction cost data.

METHODOLOGY

Operational Revenues

RKG collected market rate rental data for residential projects completed since 2017, which included pricing for efficiency (studio), one-bedroom, and two-bedroom apartments. To collect rates for income-controlled rental data, RKG Associates calculated the maximum affordable rent for various household income thresholds. The adjoining table indicates the income thresholds ranging from 30% AMI to 100% AMI for the City of Portsmouth. As stipulated by HUD, the maximum affordable rent would be 30% of a household monthly income. For instance, an 80% AMI 2- bedroom household earns \$83,322. Therefore, 30% of this income at the monthly rate is \$2,083 ($83,322 \times .30/12$). Market-rate rental data and income-controlled rental data were used as revenue inputs for hypothetical rental developments.

The sales values of housing units were determined through a combination of market research and utilizing the City's property sales database to parse the most recent sales values by bedroom count. The results were used to set baseline assumptions around sale prices in the model.

Income Thresholds By Number of Bedrooms

Portsmouth-Rochester, NH HUD Metro FMR Area

AMI	Studio	1 Bedroom	2 Bedrooms	3 Bedrooms	4 Bedrooms
30% AMI	\$25,732	\$27,570	\$31,246	\$36,942	\$40,254
40% AMI	\$34,309	\$36,760	\$41,661	\$49,256	\$53,671
50% AMI	\$42,886	\$45,950	\$52,076	\$61,570	\$67,089
60% AMI	\$51,464	\$55,140	\$62,492	\$73,884	\$80,507
70% AMI	\$60,041	\$64,330	\$72,907	\$86,198	\$93,925
80% AMI	\$68,618	\$73,519	\$83,322	\$98,512	\$107,343
90% AMI	\$77,195	\$82,709	\$93,737	\$110,826	\$120,761
100% AMI	\$85,773	\$91,899	\$104,153	\$123,140	\$134,179

Source: RKG Associates Inc., 2023

CONSTRUCTION COSTS

As mentioned in the previous section, hard and soft construction cost data was collected through interviews with local for-profit and non-profit developers.

The financial feasibility model applied each of these hard costs based on the type of construction material used: stick, stick over podium, and steel frame construction. The costs of stick construction can vary for ownership developments, especially single-story townhome units. As indicated the table, soft costs, such as engineering and architectural fees, average around 15% of hard costs as learned through interviews with local developers.

The third and final construction costs are parking costs per space. As indicated in the table, RKG Associates modeled for three different types of parking. Surface parking is the least expensive option for parking at \$15,000 per space. Surface parking is more likely to be incorporated into properties with sufficient land area, typically in the less dense areas of a city (Subareas 3/4). Structured Belowground parking, the most expensive parking option at \$50,000 per space, will typically be incorporated into areas more land constrained (historical downtown).

Hard, Soft, and Parking Costs Inputs

Hard Construction Costs (PSF)	Apartment	Condo/Townhouse
Stick	\$280	\$280
Stick (Ownership)	N/A	\$200
Stick Over Podium	\$325	\$325
Steel Frame	\$425	\$425

Soft Costs (% of Hard Cost)

Soft Costs	15.00%
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Parking Costs (Per Space)

Surface	\$15,000
Structured Aboveground	\$25,000
Structured Belowground	\$50,000

Note: Values are based on data collected from stakeholder interviews.
Source: RKG Associates, 2023

CONSTRUCTION COSTS

The amount of money a developer can pay for a piece of land is a critical component to the financial feasibility of a project. The higher the land value, the more a developer needs to offset their costs through things like higher density, lower parking rates, or increased sales prices and rents.

The price of land in Downtown Portsmouth (within Subarea 1) has increased substantially in recent years, as the supply of land has decreased in tandem with inflated demand from developers. Several developers indicated that land prices in Downtown Portsmouth are significantly higher than the rest of the city. Therefore, RKG Associates modeled for significantly higher land costs in Subarea 1 than the other subareas.

Land Cost Inputs

Housing Type	Subarea 1	Subarea 2/3/4
Condominium	\$60,000/Acre	\$30,000/Acre
Townhome	\$320,000/Unit	\$250,000/Unit
Apartment	\$50,000/Acre	\$30,000/Acre

Note: Values are based on data collected from stakeholder interviews.
Source: RKG Associates, 2023

OPERATING COSTS

Following construction of the actual development, property owners accrue costs related to marketing, maintaining, and managing a rental property. These costs are known as operating expenses which can include, but not limited to utility, labor, and cleaning-related costs.

Operating expenses do not vary for market rate or income-controlled units, as costs do not change dramatically based on a tenant. Therefore, operating expenses accounted for 25% of total rental revenues generated from both market-rate and income-controlled units.

Vacancy and collection loss for new construction projects are consistent throughout Portsmouth, with most uncollected rent due to turnover. Turnover is the time between a unit is marketed until it is occupied by a tenant.

Operating Expense Inputs

Operating Expenses (As a % of Rental Revenue)

Operating Expenses	25%
Vacancy & Collection Loss	5%

Note: Values are based on data collected from stakeholder interviews.

Source: RKG Associates, 2023



OPERATING COSTS

The most common approaches towards financing residential development is through equity investment and debt financing.

Equity is the initial out-of-pocket amount a developer contributes towards a real estate investment. Developers will pay less in out-of-pocket costs if they can secure financing from other sources. This is preferable to developers, since the overall project return is expected to be greater, and less investment risk is involved. Per interviews with local developers, RKG Associates set the equity requirement to 20% for both ownership and rental developments.

Securing long-term debt financing at affordable rates has become increasingly challenging. Recent widespread increases in interest rates, accelerated by the COVID-19 pandemic, has adversely impacted the financial performance of new residential development. Based on developers' interviews, RKG Associates set the expected interest rate to 6%.

Financial Cost Inputs

Financing Costs

Interest Rate	6.00%
Equity Required	20%

Expected Financial Return

Internal Rate of Return (Rental)	15.00%
Internal Rate of Return (Ownership)	30.00%
Return on Cost	6.0%

Note: Values are based on data collected from stakeholder interviews.

Source: RKG Associates, 2023

OPERATIONAL REVENUES

RKG collected rental rate data for relatively new developments (previous 5 years) which included efficiency (studio), one-bedroom, two-bedroom, and three-bedroom apartments. The rental revenue inputs for each of the bedrooms consists of per square foot averages based on the rates of the developments.

The market rental rates were used as a baseline for the analysis and compared to information obtained from developers. Excluding studio floorplans, a new construction rental unit is priced between \$2.51 and \$3.95 per square foot citywide.

Subarea 1, which offers the most convenient accessibility to amenities and services, had the city’s highest rents. Subarea 4 didn’t have any rental developments constructed in the previous 5 years, therefore RKG Associates utilized the same rental prices as Subarea 3. Utilizing the same prices was justified based on market insights learned through conversations with local developers.

Rental Revenue Inputs (Per Square Foot)

Subarea	Studio	1BR	2BR	3BR
Subarea 1	\$4.47	\$3.95	\$3.74	\$3.18
Subarea 2	\$3.74	\$3.68	\$3.35	\$2.85
Subarea 3	\$3.62	\$3.37	\$2.96	\$2.51
Subarea 4	\$3.62	\$3.37	\$2.96	\$2.51

Note: Values are based on data collected from stakeholder interviews.
Source: RKG Associates, 2023

OWNERSHIP SALE PRICES INPUTS

RKG Associates used the City's property assessment database and RedFin data to analyze ownership sales prices by neighborhood for new construction ownership housing units built in the last five years.

Subarea 1 commanded the highest prices per square foot. This was especially the case for new condominium construction within the city's downtown corridor, where new units can range between \$1.8 and \$2.0 million.

Condominium prices were roughly the same across the remaining subareas. Therefore, RKG Associates applied the city average of \$500 per square foot in modeling for condominium construction.

Ownership Revenue Inputs (Per Square Foot)

Subarea	Condominiums	Townhomes
Subarea 1	\$950	\$425
Subarea 2	\$500	\$410
Subarea 3	\$500	\$350
Subarea 4	\$500	\$350

Note: Values are based on data collected from stakeholder interviews.
Source: RedFin, RKG Associates, 2023

INSIGHTS & IMPLICATIONS

The financial feasibility model is limited by its inputs.

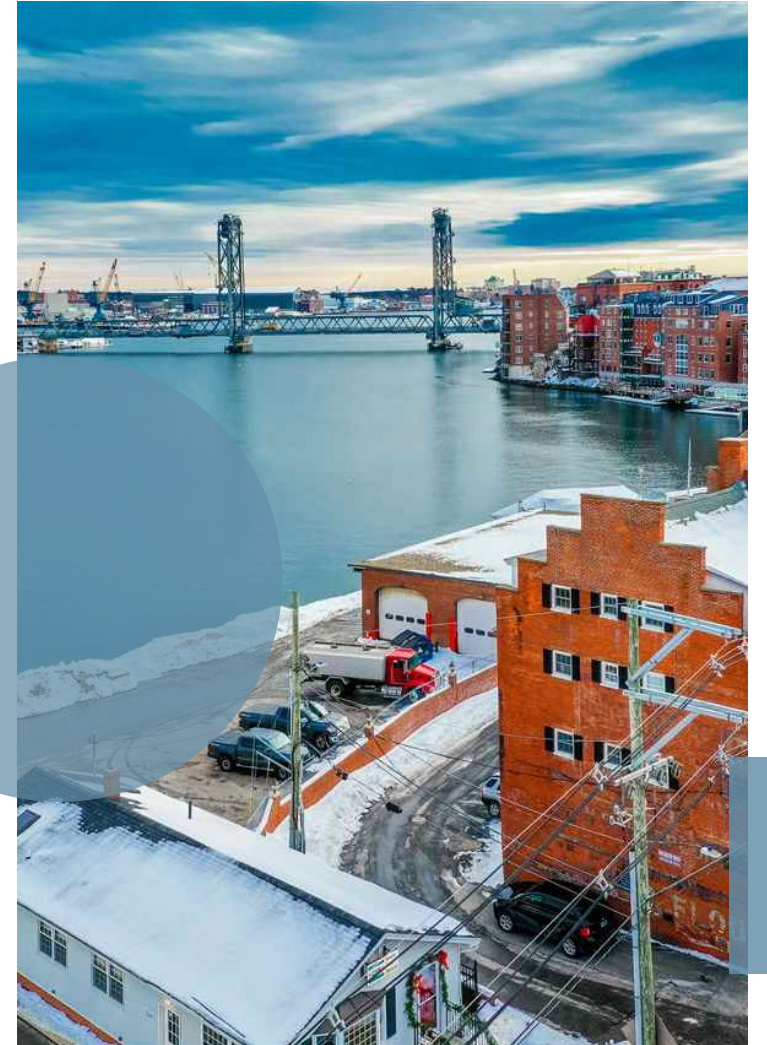
Feasibility modeling requires use of several development, operational, financing, and market assumptions when calculating financial proformas. We understand that each project is different and will carry costs and revenues that can vary greatly, even within a single market. Unfortunately, one of the limitations of modeling is having to create a policy that covers various development types, scale, and locations. RKG does its best to account for unique issues (e.g., wood frame costs versus concrete and steel costs), but we are limited in being able to model every potential permutation. There are three approaches to this type of analysis:

Best-Case Planning – This is where the modeling uses the most beneficial assumptions that results in an aggressive IZ policy.

Worst-Case Planning – Opposite of best-case, this is where the modeling uses the most challenging development assumptions to understand how a policy decision would impact the weakest project.

Mid-Point Planning – As it sounds, use means and medians to model to the ‘middle of the pack’, trying to find a balance point between production and financial impact.

There are benefits and drawbacks to all three approaches. Best-Case Planning is based on the most financially beneficial development examples, leading to the most aggressive IZ policy thresholds (set aside requirements and target AMLs). However, it is the most financially punitive to all but these ideal projects and can adversely impact residential development potential.



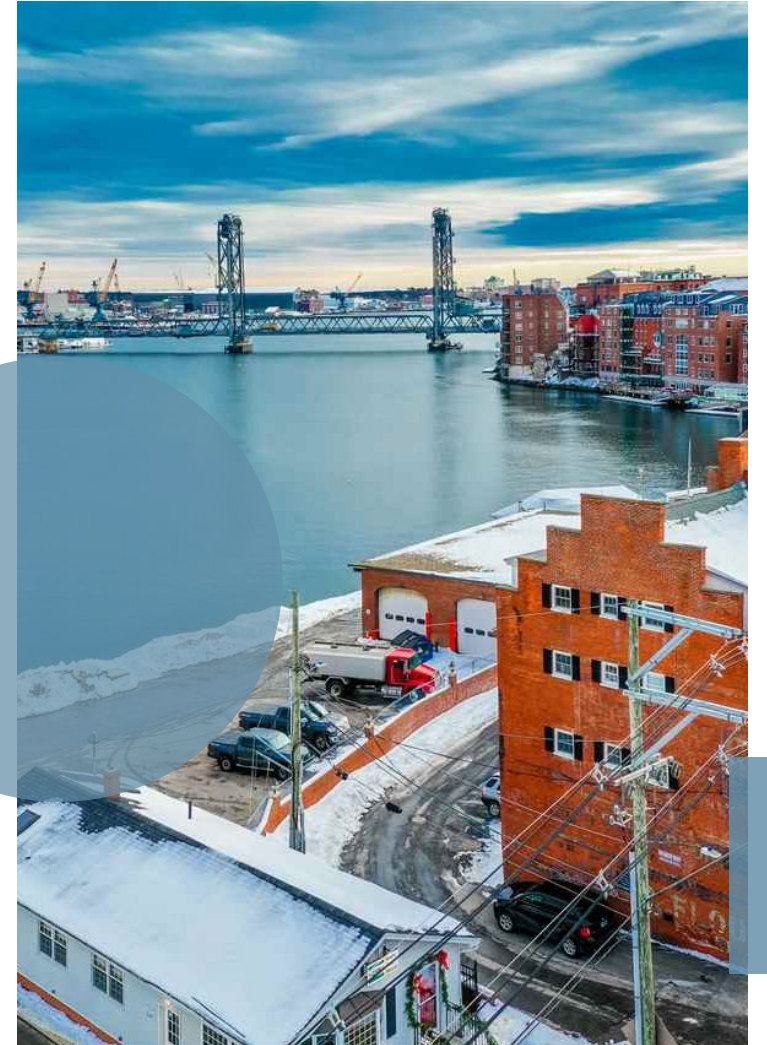
INSIGHTS & IMPLICATIONS


Conversely, the Worst-Case Planning approach focuses on the most difficult financial projects, thus leading to lower set-aside rates and/or higher AMI targets. While the worst-case approach ensures financial feasibility impact is minimized—or even eliminated—it yields the least amount of housing price diversity and does not capture the full potential of stronger projects. RKG Associates' uses the 'mid-point' analysis approach, balancing potential impact and price diversity delivery as fair as possible.

Regardless of which approach used, any individual project will likely differ somewhat from the model. This is why for-profit and non-profit organizations are interviewed, and locally-based data sources are used in the model's creation.

Financial performance is just one factor in the decision-making process of developers.

It is important to acknowledge that the financial performance of a project is one of many factors developers and investors consider when looking at a deal. Developers also assess project risk and feasibility based on ease of process and permitting, flexibility in zoning, location and amenities, strength of the market, and strategic value. Given the variability and difficulty of assessing all these additional factors, the model focuses primarily on the financial aspects of the project.



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FINANCIAL SENSITIVITY ANALYSIS

FINANCIAL SENSITIVITY ANALYSIS

The financial sensitivity analysis conducted by RKG Associates provides key insights regarding the relative impact on financial feasibility resulting from several developmental scenarios. RKG Associates modeled several development scenarios to understand the impacts on developers' return expectations for rental and ownership housing. Each scenario incorporates multiple variables, including, but not limited to:

- **Project Size** – The total number of units for a rental or ownership development. While the model can test for infinite number of units, the following analysis evaluates the impacts on returns based on the typical size of projects within the City of Portsmouth. For rental developments, RKG Associated modeled projects between 25 units and 150 units. For ownership condominiums projects, RKG Associates modeled between 15 and 25 units. Modeling the project size can be critical to understanding the relative impact on financial returns by changing the number of units.
- **Household Income Level** – The household income level is a percentage of the City of Portsmouth's Area Median Income (AMI) as defined by the U.S. Department of Housing and Development (HUD). AMI levels can range between 30%-120% of the city's Area Median Income, with 30% AMI representing the lowest earning income generating households. RKG Associates modeled projects at various AMI levels to understand the relationship between financial returns and providing a proportion of income-controlled housing units. Since lower rents and prices correspond with lower AMI levels, the following pages within this analysis should reveal how providing a greater number of units for lower AMI levels results in fewer revenues generated.
- **Percentage Set Aside** – The percentage set aside is the proportion of income-controlled units in relation to market-rate units. By increasing the percentage set aside, financial returns are expected to be lower.

The following pages focuses on the IRR metric, as it was proven to be the most difficult to reach market return expectations. In the case of rental development in Portsmouth, the minimum acceptable IRR to be considered financially feasible is 15%. For ownership development, the minimum acceptable IRR is 30%.

RENTAL DEVELOPMENT RETURNS

RKG Associates wanted to better understand the relationship between the IRR and increasing density levels (number of units) for rental development within the city’s subareas. The adjoining table indicates the financial returns between 50 and 150 units while maintaining a fixed percentage of units (10%) and fixed income level (80% AMI).

As illustrated, increasing the number of units generated a non-linear relationship as the IRR fluctuated while increasing the number of units. In Subarea 1 for instance, a 60-unit rental development generated a return of 16.23% while a 150-unit rental development generated a slightly higher return of 16.25%. The higher IRR at 150 units demonstrates how additional revenues exceeds the marginal costs from building more units per rental development. Understanding this relationship is critical as developers will be incentivized to ‘right-size’ their projects, building the ideal number of units that can maximize their returns

Notably, under this rental development scenario (10% of units set aside at 80% AMI) Subarea’s 1 and 2 were able to achieve financial feasibility for projects at all density levels, as the IRR exceeded the 15% minimum threshold. This contrasts with Subarea 3/4 where market rents are not as high, unable to justify the premium cost structure associated with stick over podium construction.

Impacts on IRR By Changing Density Levels

Scenario: 10% of Units Set Aside at 80% AMI

	Subarea 1 ¹	Subarea 2 ¹	Subarea 3/4 ²
50 Units	16.51%	15.56%	13.56%
60 Units	16.23%	15.32%	13.38%
70 Units	16.35%	15.41%	13.44%
80 Units	16.16%	15.24%	13.32%
90 Units	16.26%	15.32%	13.38%
100 Units	16.12%	15.19%	13.28%
110 Units	16.15%	15.22%	13.30%
120 Units	16.09%	15.16%	13.26%
130 Units	16.12%	15.18%	13.27%
140 Units	16.07%	15.14%	13.24%
150 Units	16.25%	15.32%	13.38%

¹ Stick over Podium Construction w/Structured Parking

² Stick over Podium Construction w/Surface Parking

Source: RKG Associates Inc., 2023

Cell colors reflect whether the return is above (green) or below (red) market return expectations

RENTAL DEVELOPMENT RETURNS

RKG Associates then modeled for rental development at 80% AMI but changed the percentage of income-controlled units beyond 10% to include a 15%, 20%, and 25% set aside. As demonstrated in the adjoining table, increasing the percentage set aside while keeping the AMI fixed (80% AMI) decreases the IRR. The IRR decreases since fewer revenues are generated as fewer rental units would be charged at the market rate.

The percentage set side imposes a substantial impact on the IRR. For several development scenarios within Subarea 1 and Subarea 2, a 5% increase in the percentage set aside is associated with a decrease of 100 or more basis points (one hundredth of 1 percentage point) for the IRR.

The financial feasibility within these subareas eventually declines to unfavorable return expectations, as the IRR drops below 15% beyond a 10% set aside for most of the unit distributions. This may be largely due to the premium costs associated with stick over podium construction with structured parking, as revenues are insufficient to offset costs.

In contrast, modeling for wood frame construction (stick construction) with surface parking generated IRRs that exceeded the 15% minimum threshold in Subarea 3/4. This differentiates with the IRR results on page 22 for Subarea 3/4, which generated IRRs below the 15% minimum while modeling for stick over podium construction.

Impacts on IRR By Changing Set Aside

Scenario: Set Aside at 80% AMI

	10% Set Aside	15% Set Aside	20% Set Aside	25% Set Aside
Subarea 1 Stick Over Podium Construction-Structured Parking				
25 Units	15.60%	14.58%	14.27%	12.43%
50 Units	16.51%	15.28%	13.78%	12.48%
100 Units	16.12%	15.18%	13.78%	12.77%
150 Units	16.25%	14.94%	13.78%	12.67%
Subarea 2 Stick Over Podium Construction-Structured Parking				
25 Units	14.82%	13.93%	13.75%	12.21%
50 Units	15.56%	14.52%	13.21%	12.09%
100 Units	15.19%	14.41%	13.21%	12.36%
150 Units	15.32%	14.19%	13.21%	12.27%
Subarea 3/4 Stick Construction-Surface Parking				
25 Units	18.07%	17.30%	17.26%	16.04%
50 Units	18.74%	17.87%	16.90%	16.00%
100 Units	18.47%	17.83%	16.90%	16.24%
150 Units	18.56%	17.66%	16.90%	16.16%

Source: RKG Associates Inc., 2023

Cell colors reflect whether the return is above (green) or below (red) market return expectations

RENTAL DEVELOPMENT RETURNS

RKG Associates then modeled for rental development at several AMI levels to better understand the financial feasibility of providing units for severely low-income levels (30%, 40% AMI). Provision of these units is critical to enhance housing market conditions for key workforce segments, including restaurant and retail workers.

As indicated in the adjoining table, providing units for severely low-income levels (30%, 40% AMI) dropped below the minimum IRR threshold of 15% of what is considered financially feasible in Subarea 1. Setting aside rental units for households earning between 50% AMI and 80% AMI is considered financially feasible in Subarea 1 but infeasible in Subarea 2. This reflects the higher potential revenues that could be generated by market-rate units in Subarea 1 relative to Subarea 2.

Both Subarea's 1 and 2 account for stick over podium construction with structured parking. If these subareas were to incorporate stick construction into projects, however, projects would be financially feasible as seen in Subarea 3/4.

Impacts on IRR By Changing AMI

Scenario: 10% Set Aside Of 150 Units Between 30%-80% AMI

AMI	Subarea 1 ¹	Subarea 2 ¹	Subarea 3/4 ²
80% AMI	16.25%	15.32%	18.56%
70% AMI	15.88%	14.92%	18.13%
60% AMI	15.51%	14.51%	17.69%
50% AMI	15.13%	14.09%	17.25%
40% AMI	14.75%	13.67%	16.80%
30% AMI	14.36%	13.25%	16.34%

¹ Stick over Podium Construction w/Structured Parking

² Stick Construction w/Surface Parking

Source: RKG Associates Inc., 2023

Cell colors reflect whether the return is above (green) or below (red) market return expectations

OWNERSHIP DEVELOPMENT RETURNS

Ownership development financial returns between subareas is significantly more impacted than rental development returns. This is largely due to the relative pricing of condominium units. As illustrated in the adjoining table, an IZ policy would work in the most desirable areas of the City (Subarea 1) given current sales pricing and construction costs.

The key difference between ownership housing and rental housing is that market rate prices for ownership units are much higher than income-controlled units set aside at AMI percentages. As a result, converting a market-rate unit to an income-controlled unit has a much higher impact on financial feasibility

The fact that most ownership developments have fewer units than rental also impacts the results, as smaller projects are more heavily influenced than larger ones.

Impacts on IRR By Subarea And Construction Type

Owner-Occupied Condominiums

	Market Rate	50% AMI	80% AMI
Subarea 1 Steel Construction¹			
15 Units	140.34%	78.75%	84.26%
25 Units	142.18%	79.95%	85.49%
Subarea 2/3/4 Stick Over Podium Construction¹			
15 Units	-50.23%	-73.30%	-68.73%
25 Units	-48.87%	-77.65%	-72.06%
Subarea 2/3/4 Stick Construction²			
15 Units	42.18%	5.87%	13.32%
25 Units	43.09%	3.12%	11.08%

¹ Underground Parking

² Surface Parking

Source: RKG Associates Inc., 2023

Cell colors reflect whether the return is above (green) or below (red) market return expectations



FINANCIAL EQUIVALENCIES

As discussed previously, a lower percentage set aside or higher targeted AMI threshold generates improves financial performance. In contrast, a higher percentage set aside or lower targeted AMI threshold diminishes performances. That said, its possible to generate a similar IRR, or ‘financial equivalencies,’ by adjusting the percentage set aside and target AMI simultaneously. The adjoining table illustrates this relationship; As the percentage set aside and target AMI threshold is lowered, an equivalent IRR is generated. All that said, if the city wanted to provide a percentage of units targeting lower AMI thresholds (e.g., 60% AMI instead of 80% AMI), a lower percentage set aside must be stipulated in their IZ policy to avoid adversely impacting financial performance.

Retaining Same IRR

Scenario: Calibrated Set Aside Between 30%-80% AMI

AMI	% Set Aside
80% AMI	15.00%
70% AMI	12.00%
60% AMI	10.64%
50% AMI	9.99%
40% AMI	8.65%
30% AMI	8.00%

Source: RKG Associates Inc., 2023

FINANCIAL EQUIVALENCIES

Most municipalities establish an IZ policy that stipulates a single percentage set aside and targeted AMI level for new residential developments. However, many municipalities utilize a multi-tier approach that can be used to provide housing units for multiple AMI thresholds. From a financial feasibility perspective, the cumulative impact of a tiered IZ policy can be calculated to create 'financial equivalencies.' As illustrated in the adjoining IZ table, a single percentage set aside and target AMI threshold (10% at 80% AMI) generates the same financial returns as two different percentage set asides and target AMIs (5% at 100% AMI and 5% at 60% AMI). All that said, providing units for multiple AMI thresholds within the same residential development will require the city to adjust the percentage set aside to avoid adversely impacting financial performance.

Retaining Same IRR

Understanding Tiered IZ Requirements

Tier 1		Tier 2		Equivalency	
Set Aside	Target AMI	Set Aside	Target AMI	Set Aside	Target AMI
10.0%	80.0%	0.0%	0.0%	10.0%	80.0%
5.0%	100.0%	5.0%	60.0%	10.0%	80.0%
5.0%	90.0%	5.0%	70.0%	10.0%	80.0%
2.0%	200.0%	8.0%	50.0%	10.0%	80.0%
4.0%	140.0%	6.0%	40.0%	10.0%	80.0%

Source: RKG Associates Inc., 2023

INSIGHTS & IMPLICATIONS

Construction requirements will need to vary by location to encourage financial feasibility.

If a rental development set aside 10% of its total units at 80% AMI, the modeling indicates that stick over podium construction produces returns below the minimum acceptable threshold of 15%. However, utilizing wood frame construction would make projects financially feasible. Only Subarea's 1 and 2 have high enough rents to justify the costs of stick over podium construction

Subarea 1 area could provide units to severely low-income households but would have to lower construction requirements.

Subarea 1, which includes Downtown Portsmouth, is reputed to have stringent development regulations. According to developers, the minimum standard for rental development is stick over podium construction. Allowing wood frame construction, however, could create the financial returns needed to provide units at 30%/40% AMI. Doing so could benefit downtown businesses, whose operations depend on the availability of a stable labor supply.



INSIGHTS & IMPLICATIONS

Concrete and steel construction for condominiums only supportable in Subarea 1.

Areas other than Downtown barely exceed the minimum acceptable threshold for owner-occupied condominiums, even if modeling for wood frame construction. The substantial premium in ownership prices in Downtown, makes all construction types, including concrete and steel, financially feasible.





PROJECT SCENARIO ANALYSIS

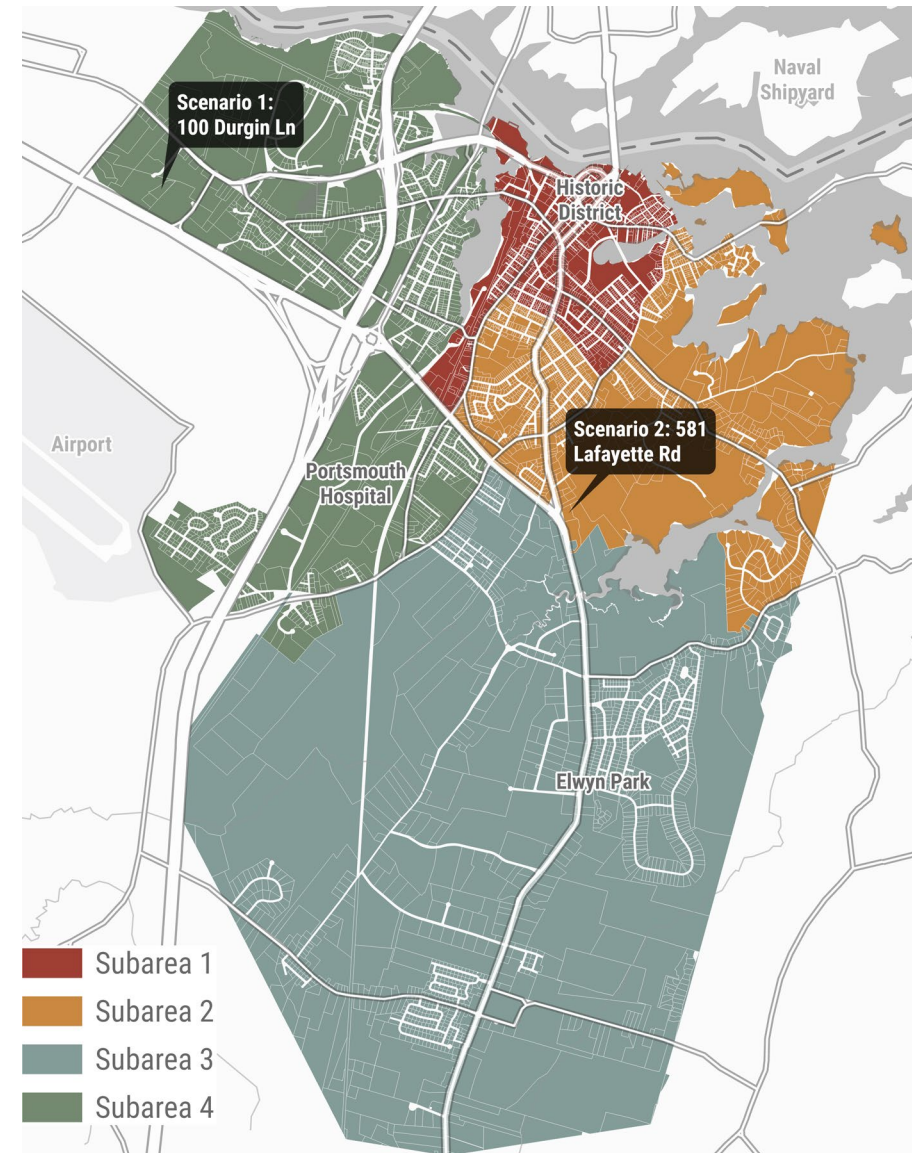
PROJECT SCENARIO ANALYSIS

RKG Associates tested the financial sensitivity of two hypothetical rental project scenarios within the City of Portsmouth. The selected projects scenarios are based on specific properties that have been previously proposed to the city as potential rental development opportunities:

- **Project Scenario 1, 100 Durgin Lane:** This property currently operates as a shopping center, which faces economic headwinds due to the recent closure of Bed, Bath, & Beyond. This property is being considered for infill rental development to strengthen its market and financial performance. The property consists of roughly 18.5 acres, distributed across 3 parcels.
- **Project Scenario 2, 581 Lafayette Rd:** This property has been formally proposed to the city to be infilled with roughly 72 rental units. It consists of 1 parcel that totals 2.27 acres.

To accurately estimate the financial returns of each project scenario, RKG Associates incorporated the zoning requirements (Gateway District) and model inputs (subarea rents) applicable to each property. Each property was modeled using the following inputs:

- **Rental Units/Acre:** 20 units by right and 36 units by conditional use
- **Community Spaces:** 10% of land acreage is dedicated to community space
- **Rents:** Project Scenario 1 utilized Subarea 3/4 market rents while Project Scenario 2 utilized Subarea 2 rents.



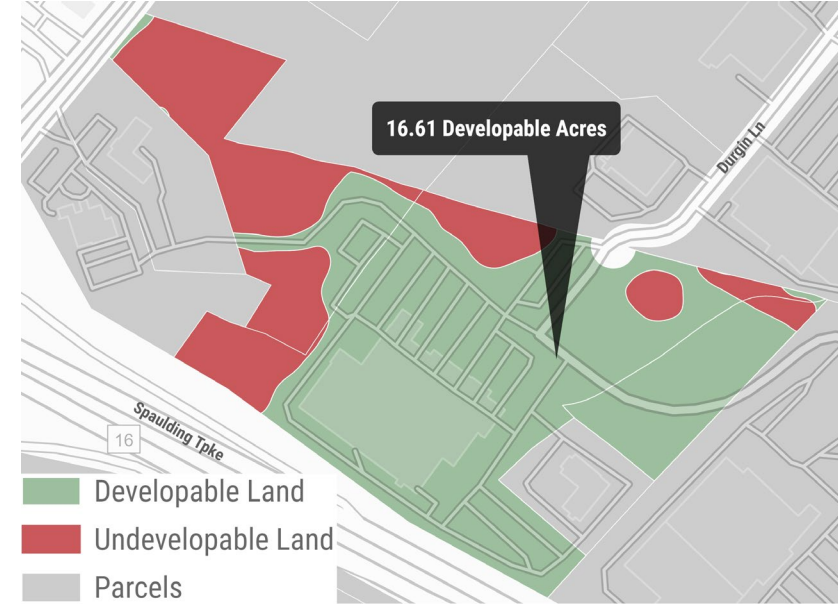
PROJECT SCENARIO DEVELOPABLE ACRES

RKG Associates estimated the extent of developable land for each property, constrained by wetlands. The areas in green represent 16.61 developable acres at the 100 Durgin Lane property, that are not constrained by wetlands. The second project scenario, 581 Lafayette Rd, is not constrained by wetlands and therefore 2.27 acres are considered developable.

The City of Portsmouth accounts for the total land area, regardless of wetlands constraints, in their calculation of allowable units per acre. Although the 100 Durgin Lane Property is partially constrained by wetlands, the city allows for the entire 18.5 acres of the property be factored into their calculation of allowable buildable units. To maximize the total number of units on this property, developers will likely need to increase the number of stories within each structure given that nearly 2 acres are not actually buildable.

Based on the allowable number of units within the Gateway district, 100 Durgin Lane could absorb 300 units by right and approximately 600 units by conditional use. 581 Lafayette Rd could absorb 41 units by right and approximately 72 units by conditional use. RKG Associates tested several project sizes that range between the maximum allowable number of units by right to the maximum number of units by conditional use.

Project 1: 100 Durgin Lane



Project 2: 581 Lafayette Rd



PROJECT SCENARIO 1: 100 DURGIN LANE

The adjoining table illustrates the results for several hypothetical rental development scenarios at percentage set asides ranging between 10% and 25%. Each of the scenarios are targeted at 80% AMI households.

As expected, increasing the percentage set aside while maintaining a fixed AMI (80% AMI) led to decreasing returns. Moreover, lower IRRs were reported for structured parking as opposed to surface parking as structured parking costs roughly \$10,000 more per space than surface parking. The IRR could reduce by as much as 160 basis points when switching from structured to surface parking for stick construction. Given the substantial developable acreage at 100 Durgin Lane, sufficient land is available to provide for surface parking.

As revealed through previous analyses, Subarea 4 (which includes the 100 Durgin Lane Property) doesn't supply high enough monthly rents to justify the higher costs of stick over podium construction. That said, stick construction appears to be the only financially feasible option at 100 Durgin Lane.

IRR At 80% AMI and Various Set Asides

Scenario 1: 100 Durgin Lane

	10% Set Aside	15% Set Aside	20% Set Aside	25% Set Aside
Stick Over Podium-Surface Parking				
300 Units	13.28%	12.53%	11.65%	10.85%
400 Units	13.28%	12.48%	11.65%	10.80%
500 Units	13.28%	12.51%	11.65%	10.83%
600 Units	13.28%	12.48%	11.65%	10.80%
Stick Over Podium-Structured Parking				
300 Units	11.85%	11.08%	10.19%	9.37%
400 Units	11.85%	11.03%	10.19%	9.32%
500 Units	11.85%	11.06%	10.19%	9.35%
600 Units	11.85%	11.03%	10.19%	9.32%
Stick Construction-Surface Parking				
300 Units	18.47%	17.74%	16.90%	16.14%
400 Units	18.47%	17.69%	16.90%	16.09%
500 Units	18.47%	17.72%	16.90%	16.12%
600 Units	18.47%	17.69%	16.90%	16.09%
Stick Construction-Structured Parking				
300 Units	16.90%	16.16%	15.32%	14.55%
400 Units	16.90%	16.12%	15.32%	14.50%
500 Units	16.90%	16.15%	15.32%	14.53%
600 Units	16.09%	16.12%	15.32%	14.50%

Source: RKG Associates Inc., 2023

PROJECT SCENARIO 2: 581 LAFAYETTE RD

In contrast to the financial results at 100 Durgin Lane, some development scenarios that include stick over podium construction are financially feasible at 581 Lafayette Road. A 10% and 15% percentage set aside, controlled for stick over podium construction with surface parking generates returns higher than the 15% acceptable minimum of what is considered financially feasible. The difference between the two properties is strictly due to the higher market rate rents at 581 Lafayette Road, which were modeled using the higher Subarea 2 rates. However, the rents are unable to justify the costs of stick over podium construction above 15%.

Interestingly, the results in the adjoining table indicate a fluctuating relationship between different unit counts for a 10% set aside. The IRR increases by 60 basis points or more between 41 and 50 units, decreases by 20 basis points between 50 units and 60 units, and then increases by 10 basis points between 60 and 72 units. This finding is critical, as it can form a baseline for an IZ policy that creates incentives around increased densities.

IRR At 80% AMI and Various Set Asides				
Scenario 2: 581 Lafayette Road				
	10% Set Aside	15% Set Aside	20% Set Aside	25% Set Aside
Stick Over Podium-Surface Parking				
41 Units	16.34%	15.72%	14.61%	13.46%
50 Units	16.95%	15.90%	14.62%	13.51%
60 Units	16.71%	15.81%	14.56%	13.92%
72 Units	16.80%	15.61%	14.51%	13.82%
Stick Over Podium-Structured Parking				
41 Units	14.90%	14.28%	13.15%	11.99%
50 Units	15.56%	14.52%	13.21%	12.09%
60 Units	15.32%	14.41%	13.14%	12.50%
72 Units	15.41%	14.21%	13.09%	12.40%
Stick Construction-Surface Parking				
41 Units	21.43%	20.81%	19.71%	18.58%
50 Units	22.07%	20.97%	19.77%	18.62%
60 Units	21.83%	20.94%	19.70%	19.09%
72 Units	21.92%	20.69%	19.66%	18.94%
Stick Construction-Structured Parking				
41 Units	19.82%	19.20%	18.10%	16.97%
50 Units	20.51%	19.42%	18.20%	17.08%
60 Units	20.26%	19.37%	18.14%	17.52%
72 Units	20.35%	19.14%	18.09%	17.39%

Source: RKG Associates Inc., 2023

INSIGHTS & IMPLICATIONS

Percentage set asides could vary by location to increase quantity of income-controlled units

Market rents at 581 Lafayette Road were able to justify the costs of stick over podium construction while leaving 15% set aside for income-controlled units targeted at 80% AMI. This differs with 100 Durgin Lane property where no percentage set asides for stick over podium construction were financially feasible. The results indicate a broader insight for the city, that inclusionary zoning policy must vary by location to maximize the provision of income-controlled units.

Allowing additional densities in the Gateway district can help expand the number of units

Compared to the property at 100 Durgin Lane, 581 Lafayette Rd is space constrained with only 2.27 acres of developable land. Developers indicated that a key barrier to development is the citywide regulation of only allowing 4 stories. Increasing the number of stories (stick over podium can support 5 stories) can expand the supply of income-controlled units.





POLICY CONSIDERATIONS

POLICY CONSIDERATIONS

What is a favorable target AMI and percentage set aside for a citywide IZ policy?

The results of the financial sensitivity analyses concluded that a 10% set aside of income-controlled units targeting 80% AMI households generated sufficient financial returns for rental developments throughout the entire city. While maintaining a target of 80% AMI households but increasing the set aside from 10% to 15%, the results demonstrated that rental projects generated reduced returns or were vulnerable to financial infeasibility in Subarea 1 and Subarea 2. The reduced financial returns in Subarea 1 and 2 by increasing the percentage set aside to 15% is largely due to the higher construction costs of stick over podium construction. All that said, RKG Associates recommends that the City of Portsmouth institute a citywide IZ policy of a 10% set aside that targets 80% AMI households. However, RKG Associates further recommends the percentage set aside increase from the citywide baseline of 10% to 15% within areas of the city that generate favorable financial returns through wood frame development. The increase set aside through wood frame development could apply to areas outside of Downtown Portsmouth.

Recommendation: If the City Council prefers to target a different AMI to serve with the IZ policy, RKG Associates recommends it adjusts the target set aside rates accordingly (see page 24). In short, targeting a lower AMI will require adjusting the set aside to a lower rate (e.g., 8% set aside for a 60% AMI target) to minimize financial impact.

Further, if the City Council's goal is to achieve a higher set aside (e.g., 15%) AND a lower AMI target (e.g., 50% AMI), RKG highly recommends using an incremental approach in achieving this goal. The data indicate that setting an initial IZ policy at those rates will have a negative impact on financial feasibility (without a corresponding incentive from the City), potentially stopping new residential development. To this point, RKG encourages the City Council to revisit the IZ policy regularly (every 1-2 years at most) to test incremental changes towards achieving its IZ delivery goals.

POLICY CONSIDERATIONS

Partial Unit Rule – How to address partial unit calculations?

A proposed rental development may provide a total number of units that are not mathematically divisible by the city’s stipulated percentage set aside. For instance, a project proposed for 72 rental units subjected to a percentage set aside of 10% would result in 7.2 income-controlled rental units. While the project could deliver 7 total income-controlled units, the city can decide how to address the remaining 0.2 of a rental unit utilizing 3 primary approaches [1] Round Up, [2] Partial Unit Payment, [3] Hybrid Approach:

Round Up: This approach would force the developer to pay for 1 additional rental unit. In the case of the above example, the developer would be forced to pay for 8 income-controlled units instead of 7 income-controlled units. If the developer agrees to build 8 income-controlled units, the upside of the approach is that an additional unit is delivered without the city incurring any costs. However, this would decrease the financial performance of the developer’s project. Therefore, the developer is more likely to decrease the project’s total number of units to maintain or increase profitability.

However, this would decrease the financial performance of the developer’s project. Therefore, the developer is more likely to decrease the project’s total number of units to maintain or increase profitability. In the end, the disincentive for the developer to pay for that additional unit leads to fewer income-controlled being developed and ultimately fewer financial and economic benefits for the city. All that said, RKG Associates recommend the City of Portsmouth utilize either a Partial Unit Payment or Hybrid Approach.

Partial Unit Payment: In this approach, the developer would be required to pay a cash fee to the city for allowing an additional unit to be market rate instead of income-controlled. The .2 of a unit described earlier would be charged to the developer in the form of a payment which could go towards funding housing assistance programs for renter households. There are two methods for calculating the payment amount charged to the developer, a value gap calculation approach and construction cost calculation. Both methods will be described later in this report.

POLICY CONSIDERATIONS

Hybrid Approach: This approach involves the round up approach OR a partial unit payment, depending on the size of a proposed project and percentage set aside. If a partial unit exceeds half (.5 unit) or more of an income-controlled unit, the developer would be required to 'round up,' and provide an additional income-controlled unit. For instance, a developer proposes a 76-unit project under a citywide IZ policy that requires 10% of units to be controlled. This would equate to 7.6 income-controlled units, or .6 of a total unit. In this case, the developer would be required to provide 8 income-controlled units.

In contrast, a partial unit payment would be imposed on the developer if the partial unit were LESS than half of a total income-controlled unit. For instance, a 74-unit at a 10% set aside would generate 7.4 income-controlled units, or .4 of a total unit.

Recommendation: Whether to require a developer to round up to an additional income-controlled unit or pay out for the partial unit will depend on local preferences. In RKG Associates' experience, a partial unit payment is typically a more equitable approach towards providing income-controlled units. In contrast to rounding up, a partial unit payment imposes less of a financial burden on developers while supplying more income-controlled units in the long-run.

More specifically, the round up method creates a disincentive to maximize the development potential of a site (particularly for smaller projects under 50 units) by disproportionately impacting a project at different unit count levels.

Assuming a 10% set aside requirement and no minimum project size threshold, a 5-unit development will have to provide 1 set aside unit under the round up method. Under the partial unit method, that same development will have to make a contribution to the housing trust equivalent to the value of 50% of a set aside unit. Assuming the payment value accurately reflects the market value difference between a set aside unit and a market rate unit, the 50% payment will have a much lower financial impact than having to deliver an entire unit.

To this point, a developer who can build 6 units on a given parcel will be disincentivized to build all 6 units if they must provide a full set aside unit rather than pay the pro rata share of the partial unit. In effect, they may choose to only build 4 units because it would create a greater return (4 market rate, 0 set aside) than the full 6-unit development (5 market rate, 1 set aside).

POLICY CONSIDERATIONS

How to calculate the partial unit payment?

As mentioned previously, the amount charged to a developer through a partial unit payment is typically calculated using two methods: [1] Value Gap Calculation or a [2] Construction Cost Calculation. These methods can be applied to ownership and rental housing.

Value Gap Calculation: The value gap is the difference between the value of a market rate unit and that of an income-controlled unit. The value of a rental unit is determined by the net operating income and the capitalization rate; for an ownership unit it is determined by the sales value of the unit. In the case of income-controlled units, the amount of rent or sale price is limited to the target income threshold of the inclusionary zoning policy. This results in lower revenue for a developer. This loss of revenue translates into a loss of value (hence, the value gap) and negatively impacts the overall financials of a developer because the cost of construction and land to build either an affordable or market rate unit are essentially the same.

RENTAL	EXAMPLE
$\frac{\text{NOI}_{\text{MR}} - \text{NOI}_{\text{IC}}}{\text{CAP RATE}}$	$\frac{\$25,000 - \$15,000}{5\%} = \$200,000$

MR – Market Rate
IC – Income-Controlled

Construction Cost Calculation: The construction cost approach focuses on the costs to build a housing unit. This includes land acquisition, land development and soft costs (e.g., design and engineering), approval process, and the hard construction costs for development. A table showing construction cost calculations is included at the end of this narrative.

RKG Associates recommends using the value gap calculation approach, as it reflects the ‘fairest’ assessment, from a financial feasibility perspective. ‘Fair’ means that the value difference from a market rate unit to an income-controlled unit is the financial benefit to the developer. The difference will be lower than the full construction cost approach. As such, using the construction cost approach will be financially punitive for a partial unit calculation.

OWNER	EXAMPLE
$\text{PRICE}_{\text{MR}} - \text{PRICE}_{\text{IC}}$	$\$550,000 - \$275,000 = \$275,000$

POLICY CONSIDERATIONS

Do we allow a payment in lieu instead of a guaranteeing income-controlled units?

A payment in lieu would allow developers to pay the city for not providing income-controlled units in their projects. For instance, consider a developer proposes an 80-unit project and the city's IZ policy required a 10% set aside for income-controlled units resulting in 8 income-controlled units. If a payment in lieu were allowed under this scenario, the developer could pay the city an amount equal to those 8 income-controlled units. This payment would allow the developer to provide the required income-controlled units at market rate.

A payment in lieu policy can strengthen Portsmouth's ability to provide income-controlled housing. Under this policy, payments to the city can generate higher revenues for the city which can then be used to finance housing assistance programs. Such a policy can be useful depending on where a proposed project is located within the city. If proposed projects are in areas that lack convenient accessibility to key services (e.g., public transportation, grocery stores, etc.), they may not be a suitable housing location for income-restricted households (e.g., households that cannot afford a car). In this case, a payment in lieu can provide the city with flexibility, generating funds needed to finance other housing opportunities in areas that better serve the living needs of income-restricted households.

The downside of a payment of lieu policy is that income-controlled units are not guaranteed. At least in a timely manner. Payment in lieu allows developers to build all market-rate units within their projects at the exclusion of providing any income-controlled units. While the city generates revenues that can be eventually used to finance income-controlled housing units, the actual delivery can be at a slower pace given the time-intensive processes tied to new development.

Recommendation: Whether or not the City allows payment in lieu should be determined by the goal of this IZ policy. It is RKG Associates recommendation to only allow payment in lieu payments at the City's discretion. One of the primary tenets of IZ policies is to create inclusion (in neighborhoods, streets, projects...), so allowing the payment in lieu does not meet that standard. However, there may be exigent circumstances where a payment to the City is more beneficial than delivered units (e.g., a poorly-served location). To this point, in those unique situations, it would be valuable for the City to have that option to negotiate with a developer.

In terms of how to set the payment rate, RKG recommends the construction cost valuation approach for payment in lieu. A payment in lieu of delivering a whole unit is a different situation than a partial unit. Partial unit calculations are more challenging financially for developers given how uneven a round up strategy impacts projects. This is why RKG recommends using the value gap approach for partial unit payments. In contrast, a new unit elsewhere will require the full cost to build.

POLICY CONSIDERATIONS

Housing Voucher Considerations- Blending IZ with housing units

Portsmouth's Housing Authority (PHA) already institutes a dedicated set aside for housing vouchers benefits both the community (creates more diverse, lower-cost housing) and the development community (voucher payments often match or exceed target AMI rent thresholds). Expanding upon the existing voucher program by strategically allocating vouchers for new developments can be an efficient way for serving much lower income households while having no, or even a positive, effect on financial feasibility impacts. For example, a housing voucher can serve a household earning 30% of AMI but pay a landlord the full Fair Market Rent (FMR), reflecting a revenue stream at or above 100% of AMI.

Recommendation: Implementing a voucher component to an IZ policy creates benefits to both the community (serving the most vulnerable residents) and the developer (higher revenue levels), however these programs can be more challenging to implement. At a base level, the City will need a clear coordination effort with the PHA to make sure vouchers are available for a project in a timely manner. Further, the City will need to have a process in place to qualify tenants and manage the annual certifications. To this point, RKG recommends the City consider a voucher strategy as the update the IZ policy rather than as part of an initial program unless the PHA coordination and management processes are finalized.

Time Impacts and IZ Policy

The results of this analysis vary greatly from the housing market study performed in 2021. Development costs, operational expectations, interest rates, market pricing all change frequently. For instance, the Median Income for a family of four in Portsmouth region increased approximately 28% since 2021, going from \$106,600 in 2021 to \$136,000 in 2023. Thus, a household (of 4 persons) in earning 80% of AMI could afford a monthly rent (and utilities) payment of \$2,072 in 2021. In 2023, the monthly rent payment would be \$2,660. This change in income thresholds impacts maximum rent levels for income-controlled units, which impacts financial feasibility and value gap calculations.

Recommendation: To this point, the City needs to update its IZ policy requirements and guidelines no more than every two (2) years to ensure the policy [1] does not create financial infeasibility over time, [2] promote outcomes undesirable to the city (e.g., making payments in lieu financially beneficial over delivering units on-site), and [3] ensures the goals and objectives of the policy still reflect the City's priorities and shifting opportunities.

POLICY CONSIDERATIONS

Approval Processes – The cost of gaining approvals from the City

Based on feedback from local real estate professionals, the development approval and permitting process in the City can be long and expensive depending on where a project is located, the size, and complexity of the project, and if there is any neighborhood opposition to the project. Finding ways to reduce those costs through these zoning changes, streamlining approval processes, and more proactive neighborhood planning that sets expectations for residents about future development can have a substantial impact on development costs, and therefore financial feasibility.

Recommendation: Cities throughout the U.S. are seeking ways to improve their permitting and approval processes. Portsmouth is no different, constantly seeking ways to make their processes more efficient and effective. When it comes to inclusionary zoning, implementing policies that can accelerate approvals for projects that meet the IZ thresholds (e.g., concurrent reviews, expedited review processes) to reduce the time it takes for projects to move through the development process.

Density Incentives – Maximizing the City’s leverage with the new zoning requirements.

Limited density levels exist on a citywide level, especially areas outside of Downtown. While it is reasonable for varying density levels, particularly in traditional subdivisions, there are areas within Portsmouth that are appropriate for—and equipped to—support higher densities than currently allowed in the City’s zoning ordinance.

Upzoning and bonus densities are mechanisms for increasing the housing supply that can support market price stabilization, reduce financial burdens on developers, and maximize the economic use of properties. Allowing additional densities is not only used to generate income-controlled units but provide market rate units to address housing shortages among the highest income households.

Recommendation: The City should consider using a density bonus program to mitigate the costs incurred by providing income-controlled housing units. There are several examples throughout the U.S. of how this can be established. However, using a bonus density benefit of two market rate units in exchange for one set aside unit creates a revenue neutral impact on a development. The upside to density bonus is that it can be used in a voluntary IZ policy (and is the most effective approach) since it creates equal benefits and costs financially. On the downside, it will require the community to rethink density levels from the current zoning allowances.

Market Rate vs. Set Aside Value Difference Calculations

Housing Value Gap Calculations

Rental Units

	30% AMI	40% AMI	50% AMI	60% AMI	70% AMI	80% AMI	90% AMI	100% AMI	110% AMI	120% AMI
Subarea 1										
Studio	(\$212,918)	(\$188,613)	(\$164,308)	(\$140,004)	(\$115,699)	(\$91,394)	(\$67,089)	(\$42,784)	(\$18,479)	\$5,826
1 BR	(\$254,719)	(\$230,414)	(\$206,109)	(\$181,804)	(\$157,499)	(\$133,194)	(\$108,890)	(\$84,585)	(\$60,280)	(\$35,975)
2 BR	(\$332,742)	(\$308,437)	(\$284,132)	(\$259,827)	(\$235,523)	(\$211,218)	(\$186,913)	(\$162,608)	(\$138,303)	(\$113,998)
3 BR	(\$395,144)	(\$370,839)	(\$346,535)	(\$322,230)	(\$297,925)	(\$273,620)	(\$249,315)	(\$225,010)	(\$200,706)	(\$176,401)
Subarea 2										
Studio	(\$166,697)	(\$142,393)	(\$118,088)	(\$93,783)	(\$69,478)	(\$45,173)	(\$20,868)	\$3,436	\$27,741	\$52,046
1 BR	(\$225,264)	(\$200,959)	(\$176,655)	(\$152,350)	(\$128,045)	(\$103,740)	(\$79,435)	(\$55,130)	(\$30,825)	(\$6,521)
2 BR	(\$286,128)	(\$261,823)	(\$237,518)	(\$213,213)	(\$188,908)	(\$164,603)	(\$140,299)	(\$115,994)	(\$91,689)	(\$67,384)
3 BR	(\$341,984)	(\$317,679)	(\$293,375)	(\$269,070)	(\$244,765)	(\$220,460)	(\$196,155)	(\$171,850)	(\$147,545)	(\$123,241)
Subarea 3/4										
Studio	(\$158,591)	(\$134,286)	(\$109,981)	(\$85,676)	(\$61,371)	(\$37,067)	(\$12,762)	\$11,543	\$35,848	\$60,153
1 BR	(\$203,762)	(\$179,457)	(\$155,152)	(\$130,847)	(\$106,542)	(\$82,238)	(\$57,933)	(\$33,628)	(\$9,323)	\$14,982
2 BR	(\$249,543)	(\$225,238)	(\$200,934)	(\$176,629)	(\$152,324)	(\$128,019)	(\$103,714)	(\$79,409)	(\$55,105)	(\$30,800)
3 BR	(\$298,854)	(\$274,549)	(\$250,245)	(\$225,940)	(\$201,635)	(\$177,330)	(\$153,025)	(\$128,720)	(\$104,415)	(\$80,111)

Source: RKG Associates Inc., 2023

Market Rate vs. Set Aside Value Difference Calculations

Housing Value Gap Calculations

Owner-Occupied Condominiums

	30% AMI	40% AMI	50% AMI	60% AMI	70% AMI	80% AMI	90% AMI	100% AMI	110% AMI	120% AMI
Subarea 1										
Studio	(\$747,704)	(\$711,938)	(\$676,173)	(\$640,407)	(\$604,642)	(\$568,876)	(\$533,111)	(\$497,345)	(\$461,580)	(\$425,814)
1 BR	(\$787,540)	(\$749,220)	(\$710,900)	(\$672,580)	(\$634,260)	(\$595,940)	(\$557,620)	(\$519,300)	(\$480,980)	(\$442,660)
2 BR	(\$1,484,712)	(\$1,441,283)	(\$1,397,853)	(\$1,354,424)	(\$1,310,994)	(\$1,267,565)	(\$1,224,136)	(\$1,180,706)	(\$1,137,277)	(\$1,093,848)
3 BR	(\$1,840,960)	(\$1,789,613)	(\$1,738,267)	(\$1,686,920)	(\$1,635,574)	(\$1,584,227)	(\$1,532,880)	(\$1,481,534)	(\$1,430,187)	(\$1,378,840)
Subarea 2/3/4										
Studio	(\$342,704)	(\$306,938)	(\$271,173)	(\$235,407)	(\$199,642)	(\$163,876)	(\$128,111)	(\$92,345)	(\$56,580)	(\$20,814)
1 BR	(\$360,040)	(\$321,720)	(\$283,400)	(\$245,080)	(\$206,760)	(\$168,440)	(\$130,120)	(\$91,800)	(\$53,480)	(\$15,160)
2 BR	(\$719,712)	(\$676,283)	(\$632,853)	(\$589,424)	(\$545,994)	(\$502,565)	(\$459,136)	(\$415,706)	(\$372,277)	(\$328,848)
3 BR	(\$895,960)	(\$844,613)	(\$793,267)	(\$741,920)	(\$690,574)	(\$639,227)	(\$587,880)	(\$536,534)	(\$485,187)	(\$433,840)

Source: RKG Associates Inc., 2023

Average Construction Costs

Construction Costs

Owner-Occupied Condominiums

	Average Square Foot	Cost Per Square Foot	Total Cost Per Unit
Subarea 1 Steel Construction¹			
Studio	900	\$601	\$540,666
1 BR	950	\$601	\$570,703
2 BR	1,700	\$601	\$1,021,258
3 BR	2,100	\$601	\$1,261,554
Subarea 2/3/4 Stick Construction²			
Studio	900	\$378	\$340,237
1 BR	950	\$378	\$359,139
2 BR	1,700	\$378	\$642,670
3 BR	2,100	\$378	\$793,886

¹ Underground Parking

² Surface Parking

Source: RKG Associates Inc., 2023

Average Construction Costs

Construction Costs

Rental Units

	Average Square Foot	Cost Per Square Foot	Total Cost Per Unit
Subarea 1 Stick Over Podium Construction - Structured Parking			
Studio	507	\$508	\$257,703
1 BR	690	\$508	\$350,582
2 BR	956	\$508	\$485,499
3 BR	1,338	\$508	\$679,699
Subarea 2 Stick Over Podium Construction - Structured Parking			
Studio	507	\$479	\$243,033
1 BR	690	\$479	\$330,625
2 BR	956	\$479	\$457,863
3 BR	1,338	\$479	\$641,008
Subarea 3/4 Stick Construction - Surface Parking			
Studio	507	\$406	\$205,927
1 BR	690	\$406	\$280,146
2 BR	956	\$406	\$387,957
3 BR	1,338	\$406	\$543,139

Source: RKG Associates Inc., 2023