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Zoning Commission Case No. 14-13 - Penthouse Text Amendments
May 11, 2015 (supplement to October 31, 2014 and April 29, 2015 submissions)

Following my testimony at the April 29, 2015 hearing of this case I was asked by Commissioner Miller to provide some sensitivity testing of Bolan Smart's submitted 8% IZ economic feasibility assuming different AMI incomes. In October 2014 and April 2015, Bolan Smart's IZ analysis employed generalized AMI assumptions, and was part of other elements of the proposed penthouse text amendments. We have taken the opportunity herein to align the prior analysis based with precise AMI levels adjusted for household size as published by DHCD for 2013 (with added 65% level). An example of the computations is attached labeled Table 2 Supplemental.

The deeper the IZ affordability provision, the more at risk a developer is of having a disincentive to proceed. A disincentive is noted at either 50% or 65% of AMI. While the risk may be mitigated to some degree assuming premium penthouse pricing, other rooftop conditions under the proposed text amendments (setbacks, other non-occupancy uses) limit this potential, and which is by no means guaranteed.

Developer Investment Return Over Breakeven Cost @ 8% IZ
(non-wood construction)

Household Income	Building Market Price	Possible Penthouse 5% Premium
2 person 80% AMI $69,530	*- 0.5%*	*4.4%*
2 person 65% AMI $56,654	*- 1.3%*	*3.6%*
2 person 50% AMI $43,778	*- 2.1%*	*2.8%*
4 person 80% AMI $86,912	*0.5%*	*5.6%*
4 person 65% AMI $70,817	*- 0.5%*	*4.5%*
4 person 50% AMI $54,722	*- 1.4%*	*3.5%*

Table 2 (May 11, 2015 Supplemental)

Roof Top Penthouse Residential Economic Feasibility: 8% IZ

#	Residential (sale or rental valuation)			**Bldg Market Rate**	**IZ**	**Roof Top Penthouse Unit**		
2)	Assumptions				8% of market units			
3)					65% AMI / partial unit			
4)		unit size	1,000 gsf	1,000 gsf	80 gsf		1,000 gsf	
5)		net square foot	84.0% ratio	840 nsf	67 nsf	82.0% ratio	820 nsf	(less efficiency factor)
6)		land	varies	$100 / gsf	$100 / gsf		$0 / gsf	
7)		construction	$200 / gsf	$200 / gsf	$200 / gsf	130.0% of bldg	$260 / gsf	(extra one-off costs) [1]
8)		soft costs	25.0%	$75 / gsf	$75 / gsf	125.0% of mrkt	$94 / gsf	(added unique elements)
9)		investor return	18.0%	$68 / gsf	$68 / gsf	18.0%	$64 / gsf	
10)	Total Cost / SF			$443 / gsf	$443 / gsf		$417 / gsf	
11)				$527 / nsf	$527 / nsf		$509 / nsf	
12)	Total Cost Per Unit			$442,500	$35,400 partial unit		$417,425	
13)	AMI Subsidy / Offset			$0	NA	IZ line 20	$20,292	
14)	Operating Cost Differences [2]			$0	$0	some, but not quantified		
15)	Required Unit Price			$442,500	$15,108 [3]	lines 10 plus 11	$437,717	break even price
16)				$527 / nsf	$189 / nsf		$534 / nsf	
17)								
18)	Building Market Unit Price			$442,500	$15,108		$431,964	penthouse market price
19)				$527 / nsf			$527 / nsf	
20)	Gain / Loss			$0	($20,292)	lines 18 minus 15	($5,753)	if priced at penthouse market
21)					partial unit	lines 20 div. by 15	*-1.3%*	develop return over break even
22)	Penthouse Premium Unit Price					5.0% over bldg	$453,563	if with penthouse premium [4]
23)								
24)	Gain / Loss					lines 22 minus 15	$15,845	if priced at penthouse premium
25)						lines 24 div. by 15	*3.6%*	develop return over break even

Notes:

[1] One-off costs include less efficient ratio of common area (elevator, stairwells, hallways, service closets), less efficient exterior wall to interior space ratio, probable unique utility stacking requirements, and need to buffer and coexist with building mechanical systems and other roof top uses.

[2] Higher operating costs per square foot of added penthouse space compared with building average not quantified, but likely to be 10% to 25% higher due to building fixed costs per floor to maintain common elements (elevator, stairwell, hallways, service closets) and private spaces subject to more exterior elements plus less interior economies of scale.

[3] Affordable pricing = $188,847 @ 30% gross income to unit price ratio, assuming 65% of Area Median Income (AMI) of $56,654 for 2 person household.

[4] Penthouse pricing premium over building market limited due to required setbacks restricting views and inclusion of other rooftop uses.

Bolan Smart Associates, Inc. (05/15)