

**Potential Projects Subject to Removal under  
Ellis Act Ordinance**

#	Property Address	Permit #	Comment
1	4094 Hamilton	CP15-081	Permit approved
2	373 E. San Fernando St.	CP17-013	Inquiry
3	7201 Bark Ln.	PDC17-035 PRE16-153	Inquiry
4	2050 Southwest Expwy.	PDC17-059	Inquiry
5	439 and 451 S. 4th St.	H17-004	Inquiry
6	1605 Parkmoor Ave	H17-001	Inquiry

As of 3/15/18



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March 28, 2018

To: Kristen Clements

From: Nora Lake-Brown, David Rosen

Subject: Assessing the Potential Effect of the ARO on New Development

This memo summarizes findings from DRA's analysis of the potential effect of ARO obligations on demolished ARO housing properties that are rebuilt with new market rate housing. DRA focused on the potential difference in cash flows, property valuation and supportable debt under alternative restrictions and the extent to which the financing of new market rate housing construction is affected.

To complete this assignment DRA conducted interviews with representatives of private debt and mezzanine debt/equity sources, using the interviewee list and interview questions outlined in DRA's memo dated February 9, 2018. DRA prepared a financial analysis of prototypical rental developments and calculated supportable first mortgage financing using financing terms and underwriting standards consistent with GSE multifamily loan programs. DRA also compared trends in San Jose apartment rents with the 5% cap on ARO units.

## **SUMMARY OF FINDINGS**

In its lender and investor interviews and analysis, DRA focused on the following key questions regarding the effect of ARO restrictions on the financing of new multifamily housing development<sup>1</sup>:

1. How do the ARO restrictions affect the sizing of the senior first mortgage?
2. How do the ARO restrictions affect subordinate mezzanine debt/equity financing?
3. How do historical rent trends in San Jose compare to the 5% cap under the ARO?

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<sup>1</sup> These interviews will inform DRA's middle income debt fund analysis as well as the ARO analysis.



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DRA completed the following lender and investor interviews for this assignment:

- Andrew Ditton at Citibank;
- Stephanie McFadden at CBRE (formerly at Union Bank);
- Kenji Tamaoki at Prudential;
- Bob Simpson and Angela Kelcher at Fannie Mae.

### **Effect on First Mortgage Financing**

In terms of first mortgage financing, the key underwriting factors affecting first mortgage sizing include the DSCR, mortgage interest rate, loan to value ratio, and escalation rates and cap rates used to determine projected value upon exit. Current term sheets for FreddieMac and FannieMae fixed-rate multifamily loans are attached to this memo.

Due to GSE underwriting standards of 2% escalation on revenues and 3% on costs for the purpose of the refinancing test, the 5% annual cap on rent increases imposed by the ARO does not affect the sizing of the first mortgage. Standard fixed-rate mortgage products for conventional multifamily properties from both FannieMae and FreddieMac require a loan-to-value (LTV) ratio of no more than 80% and a minimum debt service coverage ratio (DSCR) of 1.25. Based on our cash flow analysis, first mortgage financing on new multifamily construction in San Jose is currently constrained primarily by DSCR, rather than LTV requirements.

Our lender interviews confirmed that ARO rent caps would have no effect on first mortgage financing for new apartment construction. Lenders further confirmed that any effects ARO rent caps might have on subordinate mezzanine debt/equity financing would not affect senior mortgage financing.

DRA also confirmed through its interviews that mezzanine lenders and investors use similar escalators and refinancing tests in assessing the viability of mezzanine debt and equity investments as conventional lenders. Therefore, the sizing of mezzanine debt or equity is not directly affected by ARO rent caps. One lender mentioned that there may be a perception that ARO rent caps subject multifamily property owners to limitations on the “upside” while providing full exposure to



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“downside” risks. This is despite the fact that there is no 10-year period (the length of time typically used for the refinance test) since 1970 where market rents have increased by more than an average of 5% per year, as described in the next section.<sup>1</sup>

The perception of a limit on upside potential, however, may lead to ARO projects being viewed slightly less competitively by lenders and investors than projects without ARO restrictions, all other factors being equal. We uncovered no evidence of a lack of liquidity for such projects, however, ARO projects may receive slightly less competitive pricing. Given the number of economy-wide and project-specific factors that affect pricing and investment, it is not possible to isolate or quantify the amount, if any, of this pricing effect.

### **Historical Rent Trends in San Jose**

Comparing historical trends in apartment rents in San Jose with the 5% annual cap imposed by the ARO sheds light on the potential effect of ARO restrictions on underwriting of subordinate debt and equity. **Table 1** and **Charts 1** and **2** on the following pages show the annual percentage increase in the average effective monthly rent per unit and average effective monthly rent per square foot<sup>2</sup>, along with the Consumer Price Index for all urban consumers for rent (CPI-U Rent), from 2006 through 2017. Since 2009, the lowest point in the market during this period, the average annual increase in monthly rents has been 3.5%, well below the 5% ARO cap. Additional data on the CPI-U Rent back to 1970 indicates the average annual increase over the past 46 years has averaged 4.9%. With these rent trends, it would be difficult to support underwriting projected rent increases over 5% per year.

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<sup>1</sup>Based on analysis of CPI-U Rent data since 1970 and CoStar rent data since 2006.

<sup>2</sup>For 4 and 5 star properties as rated by CoStar (5 stars is the highest rating).



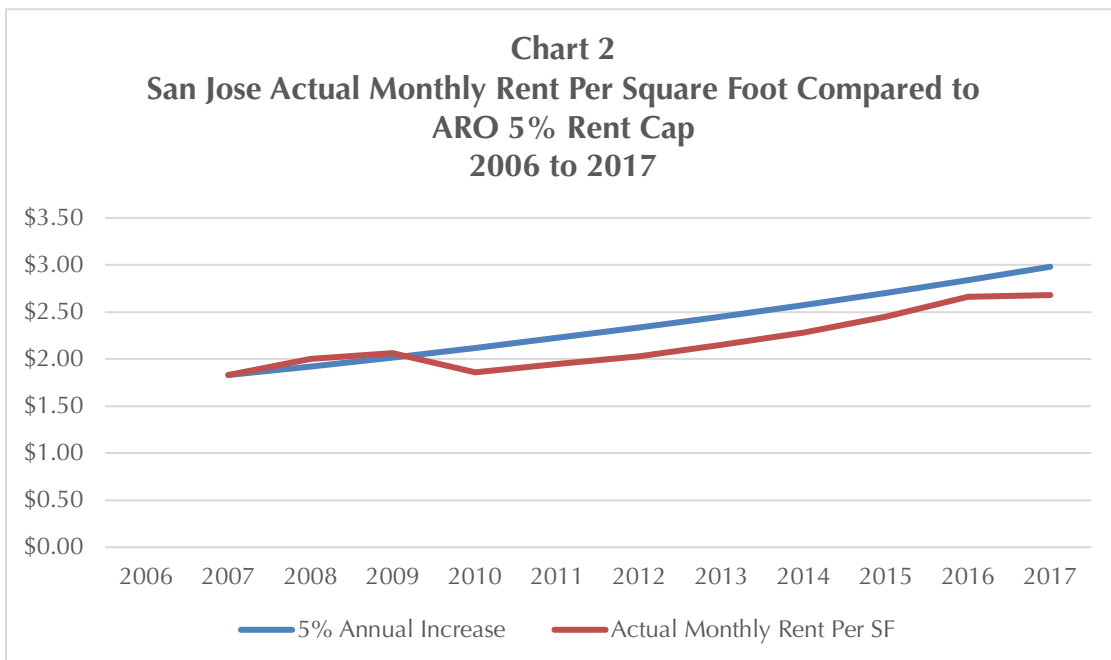
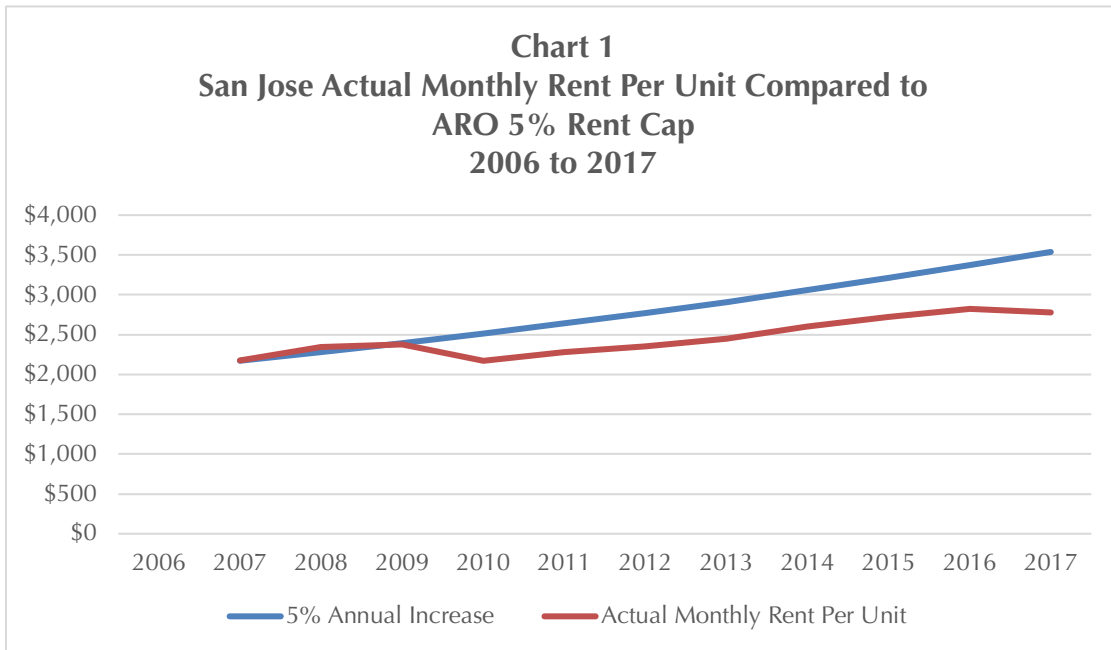
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Year	Effective Monthly Rent Per Unit <sup>1</sup>		Effective Monthly Rent Per Square Foot <sup>1</sup>		CPI-U Rent)
	\$	Annual Change	\$	Annual Change	
2006	\$2,172	--	\$1.83	--	--
2007	\$2,348	8.1%	\$2.00	9.3%	3.9%
2008	\$2,379	1.3%	\$2.06	3.0%	4.1%
2009	\$2,171	-8.7%	\$1.86	-9.7%	3.2%
2010	\$2,278	4.9%	\$1.95	4.8%	-0.1%
2011	\$2,353	3.3%	\$2.03	4.1%	2.3%
2012	\$2,449	4.1%	\$2.15	5.9%	4.1%
2013	\$2,599	6.1%	\$2.28	6.0%	4.5%
2014	\$2,721	4.7%	\$2.45	7.5%	5.5%
2015	\$2,823	3.7%	\$2.66	8.6%	6.1%
2016	\$2,782	-1.5%	\$2.68	0.8%	--
2017	\$2,869	3.1%	\$2.75	2.6%	--
<b>2009 - 2017</b>	<b>--</b>	<b>3.5%</b>	<b>--</b>	<b>3.3%</b>	<b>3.7%</b>

<sup>1</sup>Includes 4- and 5-star properties as rated by CoStar (5 stars is the highest rating).  
Source: CoStar; City of San Jose, DRA.



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## CASH FLOW ANALYSIS

DRA prepared a cash flow analysis estimating the supportable first mortgage financing from prototypical newly constructed multifamily apartment projects using:

- Loan terms (LTV, DSCR), escalation rates (2% on revenues; 3% on operating costs), and current interest rates<sup>1</sup> for multifamily fixed rate mortgages used by FannieMae and FreddieMac (estimated at 5% for 30-year amortization).
- Data from CoStar on average rents by unit bedroom count and subarea within the City of San Jose for apartment properties constructed since 2015, representing rents for newly constructed properties. CoStar data were used to create prototypical housing developments (in terms of total units, unit bedroom count distribution, square footages and rents) for the five geographic market subareas of San Jose defined by CoStar.
- Operating cost data for conventional apartment properties in San Jose from the Institute of Real Estate Management, by housing product type.

**Table 2** on the next page summarizes the financing assumptions used in the analysis. **Table 3** on the following page summarizes rent and operating costs assumptions.

Since we have concluded that ARO restrictions have no effect on first mortgage sizing or refinance tests used by GSE lenders, the percentage of ARO replacement units (100%, or 200% of demolished AMO units) has no effect on these cash flow projections. The projections assume that the project's Citywide inclusionary housing requirement is met through an alternative compliance method, such as payment in lieu, and does not contain on-site inclusionary units.

**Appendix A** contains the detailed financial analysis, including **Table 4**, which describes the rental prototypes in terms of unit sizes and bedroom count distribution, cash flow projections for each prototype, followed by current FannieMae and FreddieMac fixed rate multifamily loan term sheets.

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<sup>1</sup> 5% interest rate for 30-year amortization, FannieMae fixed-rate loan, Feb. 16, 2018.



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<b>Table 2 Cash Flow and Financing Assumptions San Jose ARO Analysis</b>	
<b>Escalation Rates: Underwriting and Refinance Analysis</b>	
Unregulated Rents	2.0%
ARO Rents	2.0%
Inclusionary Rents	2.0%
Laundry/Misc. Income	3.0%
Retail Income	3.0%
Operating Costs	3.0%
<b>Cap Rates</b>	
Entry Cap Rate	5.0%
Exit Cap Rate	7.0%
<b>Financing Assumptions</b>	
First Mortgage Interest Rate	6.0%
Amortization Period	30 years
Debt Service Coverage Ratio (DSCR)	1.25
Loan to Value (LTV) Ratio	80%
<b>Refinance Assumptions</b>	
Interest Rate	7.0%
Amortization Period	30 years
DSCR	1.25
LTV	80%

Sources: Lender and investor interviews; GSE term sheets; DRA.





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<b>Table 3</b>					
<b>Monthly Rent Per Square Foot and Annual Operating Cost Assumptions</b>					
<b>San Jose ARO Analysis</b>					
	<b>Downtown San Jose</b>	<b>West San Jose</b>	<b>Outer North San Jose</b>	<b>South San Jose</b>	<b>East San Jose</b>
Studio	--	--	\$3.60	\$3.60	\$3.95
One BR	\$3.33	\$3.33	\$3.33	\$3.00	\$3.33
Two BR	\$2.80	\$2.80	\$2.80	\$2.60	\$2.30
Three BR	--	--	\$3.00	\$2.45	
Average	\$3.07	\$3.13	\$3.09	\$2.80	\$2.88
Operating Costs/SF	\$14.20	\$14.20	\$14.20	\$9.25	\$9.25
Operating Costs/Unit	\$12,894	\$12,141	\$13,362	\$8,233	\$7,770

<sup>1</sup>Rent assumptions from CoStar for properties built 2015 through 2017. Based on average monthly rent by submarket area and unit bedroom count.

<sup>2</sup>Total annual operating expenses per square foot, including property taxes, from Institute of Real Estate Management 2017 Income/Expense Analysis for San Jose.

Sources: CoStar; IREM; City of San Jose; DRA.



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**Appendix A**  
**Assessing the Potential Effect of**  
**the ARO on New Development**  
**City of San Jose**  
**3/28/18**

## List of Tables

### San Jose ARO Analysis

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**Table 1**  
**City of San Jose**  
**Apartment Rent Trends**  
**4 and 5 Star Properties (1)**

	<b>Inventory (Units)</b>	<b>Effective Monthly Rent/Unit</b>	<b>Annual Change</b>	<b>Effective Monthly Rent/SF</b>	<b>Annual Change</b>	<b>Annual Change in CPI-U-Rent</b>
2006	21,887	\$2,172		\$1.83		
2007	22,774	\$2,348	8.1%	\$2.00	9.3%	3.9%
2008	23,606	\$2,379	1.3%	\$2.06	3.0%	4.1%
2009	23,849	\$2,171	-8.7%	\$1.86	-9.7%	3.2%
2010	24,119	\$2,278	4.9%	\$1.95	4.8%	-0.1%
2011	24,656	\$2,353	3.3%	\$2.03	4.1%	2.3%
2012	27,410	\$2,449	4.1%	\$2.15	5.9%	4.1%
2013	30,524	\$2,599	6.1%	\$2.28	6.0%	4.5%
2014	33,820	\$2,721	4.7%	\$2.45	7.5%	5.5%
2015	39,178	\$2,823	3.7%	\$2.66	8.6%	6.1%
2016	42,147	\$2,782	-1.5%	\$2.68	0.8%	--
2017	43,843	\$2,869	3.1%	\$2.75	2.6%	--
2006-2017 (2)			2.6%		3.8%	
2007-2017 (2)			2.0%			3.7%
2008-2017 (2)			2.1%		3.2%	3.7%
2009-2017 (2)			3.5%		3.3%	3.7%
2010-2017 (2)			3.4%		5.0%	3.7%
2011-2017 (2)			3.4%		5.0%	4.5%
2011-2017 (2)			3.2%		5.2%	5.1%

(1) The CoStar Building Rating System is a national rating for commercial buildings.

The highest rating is 5 stars.

(2) For the CPI-U Rent, annual changes are through 2015 rather than 2017.

Sources: CoStar; City of San Jose; DRA.

**Table 2**  
**Cash Flow and Financing Assumptions**

**Escalation Rates: Underwriting/Refinance Analysis**

Unregulated Rents	2.00%
ARO Rents	2.00%
Inclusionary Rents	2.00%
Laundry/Misc. Inc.	3.00%
Retail Income	3.00%
Operating Costs	3.00%

**Cap Rates**

Entry Cap Rate	5.00%
Exit Cap Rate	7.00%

**Financing Assumptions**

Interest Rate	5.00%
Amortization Term (Years)	30
DSCR	1.25
LTV	80%

**Refinance Assumptions**

Interest Rate	7.00%
Amortization Term (Years)	30
DSCR	1.25
LTV	80%

Source: FannieMae and FreddieMac fixed-rate multifamily mortgage term sheets; lender interviews; DRA.

**Table 3**  
**Net Operating Income from Apartments**  
**San Jose ARO Analysis**

	<b>Prototype 1</b>	<b>Prototype 2</b>	<b>Prototype 3</b>	<b>Prototype 4</b>	<b>Prototype 5</b>
	<b>Downtown San Jose</b>	<b>West San Jose</b>	<b>Outer North San Jose</b>	<b>South San Jose</b>	<b>East San Jose</b>
<b>Tenure</b>	Rental	Rental	Rental	Rental	Rental
<b>Net Rentable SF of Apartment Space</b>	227,000	513,000	376,400	356,000	168,000
<b>Net Rentable SF of Retail Space</b>	0	8,000	0	0	0
<b>Parking Spaces</b>	0	945	0	0	0
<b>Approximate Building Stories</b>	0	4 & 5 Stories	0	0	0
<b>Total Units</b>	<b>250</b>	<b>600</b>	<b>400</b>	<b>400</b>	<b>200</b>
<b>Unit Size (Square Feet)</b>					
Studio/Loft	-	-	660	550	550
One Bedroom	780	750	800	750	750
Two Bedroom	1,100	1,100	1,100	1,100	1,050
Three Bedroom	-	-	1,300	1,300	-
Four Bedroom	-	-	-	-	-
<i>Average</i>	<i>908</i>	<i>855</i>	<i>941</i>	<i>890</i>	<i>840</i>
<b>Monthly Rent Per SF (1)</b>					
Studio/Loft			\$3.60	\$3.60	\$3.95
One Bedroom	\$3.33	\$3.33	\$3.33	\$3.00	\$3.33
Two Bedroom	\$2.80	\$2.80	\$2.80	\$2.60	\$2.30
Three Bedroom			\$3.00	\$2.45	
Four Bedroom					
Total Units					
<i>Average Monthly Rent/Unit</i>	<i>\$3.07</i>	<i>\$3.13</i>	<i>\$3.09</i>	<i>\$2.81</i>	<i>\$2.88</i>
<b>Monthly Rent Per Unit</b>					
Studio/Loft			\$2,376	\$1,980	\$2,173
One Bedroom	\$2,597	\$2,498	\$2,664	\$2,250	\$2,498
Two Bedroom	\$3,080	\$3,080	\$3,080	\$2,860	\$2,415
Three Bedroom			\$3,900	\$3,185	
Four Bedroom					
<i>Average Monthly Rent/Unit</i>	<i>\$2,790</i>	<i>\$2,672</i>	<i>\$2,904</i>	<i>\$2,500</i>	<i>\$2,416</i>
<b>Average Monthly Rent Per Square Foot</b>	<b>\$3.07</b>	<b>\$3.13</b>	<b>\$3.09</b>	<b>\$2.81</b>	<b>\$2.88</b>
<b>Parking Income (\$/Space/Month)</b>	\$0	\$0	\$0	\$0	\$0
<b>Parking Usage Rate</b>	100%	100%	100%	100%	100%
<b>Miscellaneous Income (\$/Unit/Year)</b>	\$120	\$120	\$120	\$120	\$0
<b>Stabilized Rental Vacancy Rate</b>	7.0%	7.0%	7.0%	7.0%	7.0%
<b>Rental Operating Cost/Unit</b>	\$12,894	\$12,141	\$13,362	\$8,233	\$7,770
<b>Rental Operating Cost/SF (2)</b>	\$14.20	\$14.20	\$14.20	\$9.25	\$9.25
<b>Retail Income (\$/NSF/Year)</b>		\$65.00			
<b>Retail Vacancy Rate (% Gross Retail Income)</b>		0%			
<b>Retail Operating Cost (\$ Per NSF)</b>		\$10			
<b>Total Monthly Gross Rental Income, Apts.</b>	<b>\$697,610</b>	<b>\$1,603,350</b>	<b>\$1,161,760</b>	<b>\$999,800</b>	<b>\$483,150</b>
<b>Annual Gross Income</b>	<b>\$8,371,320</b>	<b>\$19,240,200</b>	<b>\$13,941,120</b>	<b>\$11,997,600</b>	<b>\$5,797,800</b>
Less: Apartment Vacancy	(\$585,992)	(\$1,346,814)	(\$975,878)	(\$839,832)	(\$405,846)
Plus: Retail Income	\$0	\$520,000	\$0	\$0	\$0
Plus: Parking Income	\$0	\$0	\$0	\$0	\$0
Plus: Misc. Income	\$30,000	\$72,000	\$48,000	\$48,000	\$0
<b>Adjusted Annual Gross Income</b>	<b>\$7,815,328</b>	<b>\$18,485,386</b>	<b>\$13,013,242</b>	<b>\$11,205,768</b>	<b>\$5,391,954</b>
<b>Operating Costs</b>					
Less: Apartment Operating Costs (2)	(\$3,223,400)	(\$7,284,600)	(\$5,344,880)	(\$3,293,000)	(\$1,554,000)
Less: Retail Operating Costs	\$0	(\$80,000)	\$0	\$0	\$0
<b>Net Operating Income</b>	<b>\$4,591,928</b>	<b>\$11,120,786</b>	<b>\$7,668,362</b>	<b>\$7,912,768</b>	<b>\$3,837,954</b>

(1) From CoStar for properties built 2015 through 2017. Average by submarket area and unit bedroom count.

(2) Total expenses from Institute of Real Estate Management 2017 Income/Expense Analysis, including property taxes.

Assumes elevator served buildings for Prototypes 1, 2 and 3 and Garden Apartments, High Cost, for Prototypes 4 and 5.

Sources: CoStar; IREM; City of San Jose; DRA.

**Table 4**  
**Development Prototypes**  
**San Jose ARO Analysis**

	Prototype 1	Prototype 2	Prototype 3	Prototype 4	Prototype 5
Market Subarea:	Downtown San Jose	West San Jose	Outer North San Jose	South San Jose	East San Jose
<b>Total Housing Unit Count</b>	<b>250</b>	<b>600</b>	<b>400</b>	<b>400</b>	<b>200</b>
<b>Original ARO Units</b>	<b>100</b>	<b>200</b>	<b>200</b>	<b>200</b>	<b>100</b>
<b>Other Regulated Units</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Tenure (Renter/Owner)	Rental	Rental	Rental	Rental	Rental
New Construction or Conversion	New	New	New	New	New
Total Site Area (Acre)		7.68 Acres			
Total Site Area (SF)		334,541			
Density (Units Per Acre)		78			
Construction Type		Type III-A			
Parking Type		1.5 Levels			
Building Stories		Partially Subt. 4 & 5 Stories			
<b>Net Residential Square Feet (NRSF)</b>	<b>227,000 SF</b>	<b>513,000 SF</b>	<b>376,400 SF</b>	<b>356,000 SF</b>	<b>168,000 SF</b>
Net SF Retail	0 SF	8,000 SF			
Other Uses (NSF)	0 SF	0 SF			
Net SF Total	227,000 SF	521,000 SF	376,400 SF	356,000 SF	168,000 SF
Other Uses (NSF)					
Building Efficiency Ratio (%)	78%	78%	571%	571%	80%
Total Gross Building SF (Excl. Pkg.)	291,026	667,949	65,864	62,294	210,000
<b>Unit Bedroom Count Distribution (1)</b>					
Studio/Loft	0%	0%	10%	10%	15%
One Bedroom	60%	70%	45%	50%	45%
Two Bedroom	40%	30%	35%	30%	40%
Three Bedroom	0%	0%	10%	10%	0%
Four Bedroom	0%	0%	0%	0%	0%
Total	100%	100%	100%	100%	100%
<b>Units by BR Count</b>					
Studio/Loft			40	40	30
One Bedroom	150	420	180	200	90
Two Bedroom	100	180	140	120	80
Three Bedroom			40	40	
Four Bedroom					
Total Residential Units	250	600	400	400	200
<b>Unit Size (Net SF) (1)</b>					
Studio/Loft			660 SF	550 SF	550 SF
One Bedroom	780 SF	750 SF	800 SF	750 SF	750 SF
Two Bedroom	1,100 SF	1,100 SF	1,100 SF	1,100 SF	1,050 SF
Three Bedroom			1,300 SF	1,300 SF	
Four Bedroom					
<i>Average Unit Size</i>	<i>908 SF</i>	<i>855 SF</i>	<i>941 SF</i>	<i>890 SF</i>	<i>840 SF</i>
Underground Parking Spaces		945 Spaces			
Structured Parking Spaces					
Podium Parking Spaces					
Garage Parking Spaces					
Surface/Carport Parking Spaces					
<b>Total Parking Spaces Provided</b>		<b>945 Spaces</b>			
Actual Project:		The Reserve			

(1) From CoStar. Average by submarket area.  
Sources: CoStar; DRA.

**Table 5**  
**Cash Flow Projections**  
**Prototype 1 Downtown San Jose**  
**100% ARO Replacement**  
**San Jose ARO Analysis**

<b>Total Housing Units</b>	250
<b>Unregulated Units</b>	112
<b>ARO Units</b>	100
<b>Inclusionary Units</b>	38
<b>Other Regulated Units</b>	0

<b>Escalation Rates</b>		<b>Cap Rates</b>		<b>Financing Assumptions</b>		<b>Refinance Assumptions</b>	
Market Rents (non-ARO)	2.00%	Entry Cap Rate	5.00%	Interest Rate	5.00%	Interest Rate	7.00%
ARO Rents	2.00%	Exit Cap Rate	7.00%	Amortization	30	Amortization	30
Inclusionary Rents	2.00%			DSCR	1.25	DSCR	1.25
Other Restricted Rents	2.00%			LTV	80%	LTV	80%
Laundry/Miscellaneous Income	3.00%						
Retail Income	3.00%						
Operating Costs	3.00%						

Year	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
<b>CASH FLOW</b>															
<b>Revenues</b>															
Gross Potential Rent															
Market-Rate Rental Income	\$3,750,351	\$3,825,358	\$3,901,866	\$3,979,903	\$4,059,501	\$4,140,691	\$4,223,505	\$4,307,975	\$4,394,134	\$4,482,017	\$4,571,657	\$4,663,091	\$4,756,352	\$4,851,479	\$4,948,509
Inclusionary Units	\$611,880	\$624,118	\$636,600	\$649,332	\$662,319	\$675,565	\$689,076	\$702,858	\$716,915	\$731,253	\$745,878	\$760,796	\$776,012	\$791,532	\$807,363
ARO Units	\$3,348,528	\$3,415,499	\$3,483,809	\$3,553,485	\$3,624,554	\$3,697,045	\$3,770,986	\$3,846,406	\$3,923,334	\$4,001,801	\$4,081,837	\$4,163,474	\$4,246,743	\$4,331,678	\$4,418,312
Other Restricted Units	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Laundry/Miscellaneous	\$30,000	\$30,900	\$31,827	\$32,782	\$33,765	\$34,778	\$35,822	\$36,896	\$38,003	\$39,143	\$40,317	\$41,527	\$42,773	\$44,056	\$45,378
Retail Income	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Apartment Vacancy Allowance	7.00% (\$539,753)	(\$550,548)	(\$561,559)	(\$572,790)	(\$584,246)	(\$595,931)	(\$607,850)	(\$620,007)	(\$632,407)	(\$645,055)	(\$657,956)	(\$671,115)	(\$684,538)	(\$698,228)	(\$712,193)
Retail Vacancy Allowance	5.00%	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Net Rental Income	\$7,201,006	\$7,345,326	\$7,492,542	\$7,642,711	\$7,795,893	\$7,952,149	\$8,111,539	\$8,274,128	\$8,439,980	\$8,609,159	\$8,781,734	\$8,957,772	\$9,137,343	\$9,320,517	\$9,507,368
<b>Operating Costs</b>	(\$3,223,400)	(\$3,320,102)	(\$3,419,705)	(\$3,522,296)	(\$3,627,965)	(\$3,736,804)	(\$3,848,908)	(\$3,964,375)	(\$4,083,307)	(\$4,205,806)	(\$4,331,980)	(\$4,461,939)	(\$4,595,798)	(\$4,733,672)	(\$4,875,682)
<b>Net Operating Income</b>	\$3,977,606	\$4,025,224	\$4,072,837	\$4,120,415	\$4,167,928	\$4,215,344	\$4,262,631	\$4,309,753	\$4,356,673	\$4,403,354	\$4,449,754	\$4,495,832	\$4,541,545	\$4,586,846	\$4,631,686
Debt Service--First Trust Deed	(\$3,182,085)	(\$3,182,085)	(\$3,182,085)	(\$3,182,085)	(\$3,182,085)	(\$3,182,085)	(\$3,182,085)	(\$3,182,085)	(\$3,182,085)	(\$3,182,085)	(\$3,182,085)	(\$3,182,085)	(\$3,182,085)	(\$3,182,085)	(\$3,182,085)
Debt Coverage Ratio	1.25	1.26	1.28	1.29	1.31	1.32	1.34	1.35	1.37	1.38	1.40	1.41	1.43	1.44	1.46
<b>Net Cash Flow</b>	\$795,521	\$843,139	\$890,752	\$938,330	\$985,843	\$1,033,259	\$1,080,546	\$1,127,668	\$1,174,588	\$1,221,269	\$1,267,669	\$1,313,747	\$1,359,460	\$1,404,761	\$1,449,601

**Capitalized Value, Cap Rate of:** 5.00% \$79,552,124

**MAX. 1ST MORTGAGE BASED ON DSCR** \$49,396,994

**MAX 1ST MORTGAGE BASED ON LTV** \$63,641,699

**PROJECT VALUE LESS FIRST MORTGAGE** \$30,155,130

**REFINANCE TESTS**

	<b>Refinance in Year 10</b>	<b>Refinance in Year 15</b>
NOI	\$4,403,354	\$4,631,686
Cap Rate	7.00%	7.00%
Project Value	\$62,905,051	\$66,166,948
Max Loan Based on LTV	\$50,324,040	\$52,933,559
Max Loan Based on DSCR	\$44,123,824	\$46,411,834
Refinance Proceeds	\$44,123,824	\$46,411,834
Less: Outstanding Debt	\$40,180,535	\$33,532,611
Cash Out	\$3,943,289	\$12,879,224

Source: DRA



**Table 6**  
**Cash Flow Projections**  
**Prototype 2 West San Jose**  
**100% ARO Replacement**  
**San Jose ARO Analysis**

Total Housing Units	600
Unregulated Units	310
ARO Units	200
Inclusionary Units	90
Other Regulated Units	0

<b>Escalation Rates</b>		<b>Cap Rates</b>		<b>Financing Assumptions</b>		<b>Refinance Assumptions</b>	
Market Rents (non-ARO)	2.00%	Entry Cap Rate	5.00%	Interest Rate	5.00%	Interest Rate	7.00%
ARO Rents	2.00%	Exit Cap Rate	7.00%	Amortization	30	Amortization	30
Inclusionary Rents	2.00%			DSCR	1.25	DSCR	1.25
Other Restricted Rents	2.00%			LTV	80%	LTV	80%
Laundry/Miscellaneous Income	3.00%						
Retail Income	3.00%						
Operating Costs	3.00%						

Year	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
<b>CASH FLOW</b>															
<b>Revenues</b>															
Gross Potential Rent															
Market-Rate Rental Income	\$9,940,770	\$10,139,585	\$10,342,377	\$10,549,225	\$10,760,209	\$10,975,413	\$11,194,922	\$11,418,820	\$11,647,196	\$11,880,140	\$12,117,743	\$12,360,098	\$12,607,300	\$12,859,446	\$13,116,635
Inclusionary Units	\$1,431,900	\$1,460,538	\$1,489,749	\$1,519,544	\$1,549,935	\$1,580,933	\$1,612,552	\$1,644,803	\$1,677,699	\$1,711,253	\$1,745,478	\$1,780,388	\$1,815,995	\$1,852,315	\$1,889,362
ARO Units	\$6,413,400	\$6,541,668	\$6,672,501	\$6,805,951	\$6,942,070	\$7,080,912	\$7,222,530	\$7,366,981	\$7,514,320	\$7,664,607	\$7,817,899	\$7,974,257	\$8,133,742	\$8,296,417	\$8,462,345
Other Restricted Units	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Laundry/Miscellaneous	\$72,000	\$74,160	\$76,385	\$78,676	\$81,037	\$83,468	\$85,972	\$88,551	\$91,207	\$93,944	\$96,762	\$99,665	\$102,655	\$105,734	\$108,906
Retail Income	\$520,000	\$535,600	\$551,668	\$568,218	\$585,265	\$602,823	\$620,907	\$639,534	\$658,720	\$678,482	\$698,837	\$719,802	\$741,396	\$763,638	\$786,547
Apartment Vacancy Allowance	7.00% (\$1,245,025)	7.00% (\$1,269,925)	7.00% (\$1,295,324)	7.00% (\$1,321,230)	7.00% (\$1,347,655)	7.00% (\$1,374,608)	7.00% (\$1,402,100)	7.00% (\$1,430,142)	7.00% (\$1,458,745)	7.00% (\$1,487,920)	7.00% (\$1,517,678)	7.00% (\$1,548,032)	7.00% (\$1,578,993)	7.00% (\$1,610,572)	7.00% (\$1,642,784)
Retail Vacancy Allowance	5.00% (\$26,000)	5.00% (\$26,780)	5.00% (\$27,583)	5.00% (\$28,411)	5.00% (\$29,263)	5.00% (\$30,141)	5.00% (\$31,045)	5.00% (\$31,977)	5.00% (\$32,936)	5.00% (\$33,924)	5.00% (\$34,942)	5.00% (\$35,990)	5.00% (\$37,070)	5.00% (\$38,182)	5.00% (\$39,327)
Net Rental Income	\$17,107,045	\$17,481,626	\$17,837,356	\$18,200,384	\$18,570,860	\$18,948,941	\$19,334,782	\$19,728,547	\$20,130,399	\$20,540,506	\$20,959,040	\$21,386,177	\$21,822,095	\$22,266,978	\$22,721,011
<b>Operating Costs</b>	(\$7,284,600)	(\$7,503,138)	(\$7,728,232)	(\$7,960,079)	(\$8,198,881)	(\$8,444,848)	(\$8,698,193)	(\$8,959,139)	(\$9,227,913)	(\$9,504,751)	(\$9,789,893)	(\$10,083,590)	(\$10,386,098)	(\$10,697,681)	(\$11,018,611)
<b>Net Operating Income</b>	\$9,822,445	\$9,978,488	\$10,109,124	\$10,240,305	\$10,371,979	\$10,504,093	\$10,636,589	\$10,769,408	\$10,902,485	\$11,035,755	\$11,169,147	\$11,302,587	\$11,435,997	\$11,569,297	\$11,702,400
Debt Service--First Trust Deed	(\$7,857,956)	(\$7,857,956)	(\$7,857,956)	(\$7,857,956)	(\$7,857,956)	(\$7,857,956)	(\$7,857,956)	(\$7,857,956)	(\$7,857,956)	(\$7,857,956)	(\$7,857,956)	(\$7,857,956)	(\$7,857,956)	(\$7,857,956)	(\$7,857,956)
Debt Coverage Ratio	1.25	1.27	1.29	1.30	1.32	1.34	1.35	1.37	1.39	1.40	1.42	1.44	1.46	1.47	1.49
<b>Net Cash Flow</b>	\$1,964,489	\$2,120,532	\$2,251,168	\$2,382,349	\$2,514,023	\$2,646,137	\$2,778,633	\$2,911,452	\$3,044,529	\$3,177,799	\$3,311,191	\$3,444,631	\$3,578,041	\$3,711,341	\$3,844,444

Capitalized Value, Cap Rate of: 5.00% \$196,448,902

MAX. 1ST MORTGAGE BASED ON DSCR	\$121,982,730
MAX 1ST MORTGAGE BASED ON LTV	\$157,159,122
PROJECT VALUE LESS FIRST MORTGAGE	\$74,466,172

**REFINANCE TESTS**

	<b>Refinance in Year 10</b>	<b>Refinance in Year 15</b>
NOI	\$11,035,755	\$11,702,400
Cap Rate	7.00%	7.00%
Project Value	\$157,653,644	\$167,177,139
Max Loan Based on LTV	\$126,122,915	\$133,741,711
Max Loan Based on DSCR	\$110,583,834	\$117,263,950
Refinance Proceeds	\$110,583,834	\$117,263,950
Less: Outstanding Debt	\$40,180,535	\$33,532,611
Cash Out	\$70,403,299	\$83,731,339

Source: DRA

**Table 7**  
**Cash Flow Projections**  
**Prototype 3 Outer North San Jose**  
**100% ARO Replacement**  
**San Jose ARO Analysis**

<b>Total Housing Units</b>	400
<b>Unregulated Units</b>	140
<b>ARO Units</b>	200
<b>Inclusionary Units</b>	60
<b>Other Regulated Units</b>	0

<b>Escalation Rates</b>		<b>Cap Rates</b>		<b>Financing Assumptions</b>		<b>Refinance Assumptions</b>	
Market Rents (non-ARO)	2.00%	Entry Cap Rate	5.00%	Interest Rate	5.00%	Interest Rate	7.00%
ARO Rents	2.00%	Exit Cap Rate	7.00%	Amortization	30	Amortization	30
Inclusionary Rents	2.00%			DSCR	1.25	DSCR	1.25
Other Restricted Rents	2.00%			LTV	80%	LTV	80%
Laundry/Miscellaneous Income	3.00%						
Retail Income	3.00%						
Operating Costs	3.00%						

Year	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
<b>CASH FLOW</b>															
<b>Revenues</b>															
Gross Potential Rent															
Market-Rate Rental Income	\$4,879,392	\$4,976,980	\$5,076,519	\$5,178,050	\$5,281,611	\$5,387,243	\$5,494,988	\$5,604,888	\$5,716,985	\$5,831,325	\$5,947,952	\$6,066,911	\$6,188,249	\$6,312,014	\$6,438,254
Inclusionary Units	\$975,144	\$994,647	\$1,014,540	\$1,034,831	\$1,055,527	\$1,076,638	\$1,098,171	\$1,120,134	\$1,142,537	\$1,165,387	\$1,188,695	\$1,212,469	\$1,236,718	\$1,261,453	\$1,286,682
ARO Units	\$6,970,560	\$7,109,971	\$7,252,171	\$7,397,214	\$7,545,158	\$7,696,061	\$7,849,983	\$8,006,982	\$8,167,122	\$8,330,464	\$8,497,074	\$8,667,015	\$8,840,356	\$9,017,163	\$9,197,506
Other Restricted Units	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Laundry/Miscellaneous	\$48,000	\$49,440	\$50,923	\$52,451	\$54,024	\$55,645	\$57,315	\$59,034	\$60,805	\$62,629	\$64,508	\$66,443	\$68,437	\$70,490	\$72,604
Retail Income	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Apartment Vacancy Allowance	7.00% (\$897,757)	(\$915,712)	(\$934,026)	(\$952,707)	(\$971,761)	(\$991,196)	(\$1,011,020)	(\$1,031,240)	(\$1,051,865)	(\$1,072,902)	(\$1,094,360)	(\$1,116,248)	(\$1,138,573)	(\$1,161,344)	(\$1,184,571)
Retail Vacancy Allowance	5.00%	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<b>Net Rental Income</b>	<b>\$11,975,339</b>	<b>\$12,215,326</b>	<b>\$12,460,127</b>	<b>\$12,709,839</b>	<b>\$12,964,560</b>	<b>\$13,224,391</b>	<b>\$13,489,436</b>	<b>\$13,759,798</b>	<b>\$14,035,584</b>	<b>\$14,316,904</b>	<b>\$14,603,868</b>	<b>\$14,896,590</b>	<b>\$15,195,187</b>	<b>\$15,499,775</b>	<b>\$15,810,475</b>
<b>Operating Costs</b>	<b>(\$5,344,880)</b>	<b>(\$5,505,226)</b>	<b>(\$5,670,383)</b>	<b>(\$5,840,495)</b>	<b>(\$6,015,710)</b>	<b>(\$6,196,181)</b>	<b>(\$6,382,066)</b>	<b>(\$6,573,528)</b>	<b>(\$6,770,734)</b>	<b>(\$6,973,856)</b>	<b>(\$7,183,072)</b>	<b>(\$7,398,564)</b>	<b>(\$7,620,521)</b>	<b>(\$7,849,136)</b>	<b>(\$8,084,611)</b>
<b>Net Operating Income</b>	<b>\$6,630,459</b>	<b>\$6,710,100</b>	<b>\$6,789,744</b>	<b>\$6,869,344</b>	<b>\$6,948,851</b>	<b>\$7,028,211</b>	<b>\$7,107,370</b>	<b>\$7,186,269</b>	<b>\$7,264,850</b>	<b>\$7,343,048</b>	<b>\$7,420,796</b>	<b>\$7,498,027</b>	<b>\$7,574,666</b>	<b>\$7,650,638</b>	<b>\$7,725,865</b>
Debt Service--First Trust Deed	(\$5,304,367)	(\$5,304,367)	(\$5,304,367)	(\$5,304,367)	(\$5,304,367)	(\$5,304,367)	(\$5,304,367)	(\$5,304,367)	(\$5,304,367)	(\$5,304,367)	(\$5,304,367)	(\$5,304,367)	(\$5,304,367)	(\$5,304,367)	(\$5,304,367)
Debt Coverage Ratio	1.25	1.27	1.28	1.30	1.31	1.32	1.34	1.35	1.37	1.38	1.40	1.41	1.43	1.44	1.46
<b>Net Cash Flow</b>	<b>\$1,326,092</b>	<b>\$1,405,732</b>	<b>\$1,485,376</b>	<b>\$1,564,977</b>	<b>\$1,644,483</b>	<b>\$1,723,843</b>	<b>\$1,803,002</b>	<b>\$1,881,902</b>	<b>\$1,960,482</b>	<b>\$2,038,680</b>	<b>\$2,116,429</b>	<b>\$2,193,659</b>	<b>\$2,270,298</b>	<b>\$2,346,271</b>	<b>\$2,421,497</b>

**Capitalized Value, Cap Rate of:** 5.00% \$132,609,186

**MAX. 1ST MORTGAGE BASED ON DSCR** \$82,342,178  
**MAX 1ST MORTGAGE BASED ON LTV** \$106,087,348  
**PROJECT VALUE LESS FIRST MORTGAGE** \$50,267,007

**REFINANCE TESTS**

	<b>Refinance in Year 10</b>	<b>Refinance in Year 15</b>
NOI	\$7,343,048	\$7,725,865
Cap Rate	7.00%	7.00%
Project Value	\$104,900,679	\$110,369,495
Max Loan Based on LTV	\$83,920,543	\$88,295,596
Max Loan Based on DSCR	\$73,581,041	\$77,417,061
Refinance Proceeds	\$73,581,041	\$77,417,061
Less: Outstanding Debt	\$40,180,535	\$33,532,611
Cash Out	\$33,400,506	\$43,884,451

Source: DRA

**Table 8**  
**Cash Flow Projections**  
**Prototype 4 - South San Jose**  
**Scenario 1: 100% ARO Replacement**  
**San Jose ARO Analysis**

<b>Total Housing Units</b>	400
<b>Unregulated Units</b>	140
<b>ARO Units</b>	200
<b>Inclusionary Units</b>	60
<b>Other Regulated Units</b>	0

<b>Escalation Rates</b>		<b>Cap Rates</b>		<b>Financing Assumptions</b>		<b>Refinance Assumptions</b>	
Market Rents (non-ARO)	2.00%	Entry Cap Rate	5.00%	Interest Rate	5.00%	Interest Rate	7.00%
ARO Rents	2.00%	Exit Cap Rate	7.00%	Amortization	30	Amortization	30
Inclusionary Rents	2.00%			DSCR	1.25	DSCR	1.25
Other Restricted Rents	2.00%			LTV	80%	LTV	80%
Laundry/Miscellaneous Income	3.00%						
Retail Income	3.00%						
Operating Costs	3.00%						

Year 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15

<b>CASH FLOW</b>																
<b>Revenues</b>																
Gross Potential Rent																
Market-Rate Rental Income		\$4,199,160	\$4,283,143	\$4,368,806	\$4,456,182	\$4,545,306	\$4,636,212	\$4,728,936	\$4,823,515	\$4,919,985	\$5,018,385	\$5,118,753	\$5,221,128	\$5,325,550	\$5,432,061	\$5,540,702
Inclusionary Units		\$969,492	\$988,882	\$1,008,659	\$1,028,833	\$1,049,409	\$1,070,398	\$1,091,805	\$1,113,642	\$1,135,914	\$1,158,633	\$1,181,805	\$1,205,441	\$1,229,550	\$1,254,141	\$1,279,224
ARO Units		\$5,998,800	\$6,118,776	\$6,241,152	\$6,365,975	\$6,493,294	\$6,623,160	\$6,755,623	\$6,890,736	\$7,028,550	\$7,169,121	\$7,312,504	\$7,458,754	\$7,607,929	\$7,760,087	\$7,915,289
Other Restricted Units		\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Laundry/Miscellaneous		\$48,000	\$49,440	\$50,923	\$52,451	\$54,024	\$55,645	\$57,315	\$59,034	\$60,805	\$62,629	\$64,508	\$66,443	\$68,437	\$70,490	\$72,604
Retail Income		\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Apartment Vacancy Allowance	7.00%	(\$781,722)	(\$797,356)	(\$813,303)	(\$829,569)	(\$846,161)	(\$863,084)	(\$880,346)	(\$897,952)	(\$915,911)	(\$934,230)	(\$952,914)	(\$971,973)	(\$991,412)	(\$1,011,240)	(\$1,031,465)
Retail Vacancy Allowance	5.00%	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<b>Net Rental Income</b>		<b>\$10,433,730</b>	<b>\$10,642,885</b>	<b>\$10,856,237</b>	<b>\$11,073,871</b>	<b>\$11,295,873</b>	<b>\$11,522,331</b>	<b>\$11,753,334</b>	<b>\$11,988,974</b>	<b>\$12,229,343</b>	<b>\$12,474,538</b>	<b>\$12,724,655</b>	<b>\$12,979,794</b>	<b>\$13,240,054</b>	<b>\$13,505,539</b>	<b>\$13,776,355</b>
<b>Operating Costs</b>		<b>(\$3,293,000)</b>	<b>(\$3,391,790)</b>	<b>(\$3,493,544)</b>	<b>(\$3,598,350)</b>	<b>(\$3,706,301)</b>	<b>(\$3,817,490)</b>	<b>(\$3,932,014)</b>	<b>(\$4,049,975)</b>	<b>(\$4,171,474)</b>	<b>(\$4,296,618)</b>	<b>(\$4,425,517)</b>	<b>(\$4,558,282)</b>	<b>(\$4,695,031)</b>	<b>(\$4,835,882)</b>	<b>(\$4,980,958)</b>
<b>Net Operating Income</b>		<b>\$7,140,730</b>	<b>\$7,251,095</b>	<b>\$7,362,693</b>	<b>\$7,475,521</b>	<b>\$7,589,572</b>	<b>\$7,704,841</b>	<b>\$7,821,320</b>	<b>\$7,938,999</b>	<b>\$8,057,869</b>	<b>\$8,177,920</b>	<b>\$8,299,139</b>	<b>\$8,421,511</b>	<b>\$8,545,023</b>	<b>\$8,669,658</b>	<b>\$8,795,397</b>
Debt Service--First Trust Deed		(\$5,712,584)	(\$5,712,584)	(\$5,712,584)	(\$5,712,584)	(\$5,712,584)	(\$5,712,584)	(\$5,712,584)	(\$5,712,584)	(\$5,712,584)	(\$5,712,584)	(\$5,712,584)	(\$5,712,584)	(\$5,712,584)	(\$5,712,584)	(\$5,712,584)
Debt Coverage Ratio		1.25	1.27	1.29	1.31	1.33	1.35	1.37	1.39	1.41	1.43	1.45	1.47	1.50	1.52	1.54
<b>Net Cash Flow</b>		<b>\$1,428,146</b>	<b>\$1,538,511</b>	<b>\$1,650,109</b>	<b>\$1,762,937</b>	<b>\$1,876,988</b>	<b>\$1,992,257</b>	<b>\$2,108,735</b>	<b>\$2,226,415</b>	<b>\$2,345,285</b>	<b>\$2,465,336</b>	<b>\$2,586,554</b>	<b>\$2,708,927</b>	<b>\$2,832,439</b>	<b>\$2,957,073</b>	<b>\$3,082,813</b>

**Capitalized Value, Cap Rate of:** 5.00% \$142,814,607

**MAX. 1ST MORTGAGE BASED ON DSCR** \$88,679,120

**MAX 1ST MORTGAGE BASED ON LTV** \$114,251,686

**PROJECT VALUE LESS FIRST MORTGAGE** \$54,135,487

**REFINANCE TESTS**

	<b>Refinance in Year 10</b>	<b>Refinance in Year 15</b>
NOI	\$8,177,920	\$8,795,397
Cap Rate	7.00%	7.00%
Project Value	\$116,827,431	\$125,648,528
Max Loan Based on LTV	\$93,461,945	\$100,518,823
Max Loan Based on DSCR	\$81,946,886	\$88,134,315
Refinance Proceeds	\$81,946,886	\$88,134,315
Less: Outstanding Debt	\$40,180,535	\$33,532,611
Cash Out	\$41,766,351	\$54,601,705

Source: DRA

**Table 9**  
**Cash Flow Projections**  
**Prototype 5 East San Jose**  
**100% ARO Replacement**  
**San Jose ARO Analysis**

<b>Total Housing Units</b>	200
<b>Unregulated Units</b>	70
<b>ARO Units</b>	100
<b>Inclusionary Units</b>	30
<b>Other Regulated Units</b>	0

<b>Escalation Rates</b>		<b>Cap Rates</b>		<b>Financing Assumptions</b>		<b>Refinance Assumptions</b>	
Market Rents (non-ARO)	2.00%	Entry Cap Rate	5.00%	Interest Rate	5.00%	Interest Rate	7.00%
ARO Rents	2.00%	Exit Cap Rate	7.00%	Amortization	30	Amortization	30
Inclusionary Rents	2.00%			DSCR	1.25	DSCR	1.25
Other Restricted Rents	2.00%			LTV	80%	LTV	80%
Laundry/Miscellaneous Income	3.00%						
Retail Income	3.00%						
Operating Costs	3.00%						

Year 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15

**CASH FLOW**

<b>Revenues</b>																
Gross Potential Rent																
Market-Rate Rental Income		\$2,029,230	\$2,069,815	\$2,111,211	\$2,153,435	\$2,196,504	\$2,240,434	\$2,285,243	\$2,330,947	\$2,377,566	\$2,425,118	\$2,473,620	\$2,523,092	\$2,573,554	\$2,625,025	\$2,677,526
Inclusionary Units		\$474,132	\$483,615	\$493,287	\$503,153	\$513,216	\$523,480	\$533,950	\$544,629	\$555,521	\$566,632	\$577,964	\$589,524	\$601,314	\$613,340	\$625,607
ARO Units		\$2,898,900	\$2,956,878	\$3,016,016	\$3,076,336	\$3,137,863	\$3,200,620	\$3,264,632	\$3,329,925	\$3,396,523	\$3,464,454	\$3,533,743	\$3,604,418	\$3,676,506	\$3,750,036	\$3,825,037
Other Restricted Units		\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Laundry/Miscellaneous		\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Retail Income		\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Apartment Vacancy Allowance	7.00%	(\$378,158)	(\$385,722)	(\$393,436)	(\$401,305)	(\$409,331)	(\$417,517)	(\$425,868)	(\$434,385)	(\$443,073)	(\$451,934)	(\$460,973)	(\$470,192)	(\$479,596)	(\$489,188)	(\$498,972)
Retail Vacancy Allowance	5.00%	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<b>Net Rental Income</b>		<b>\$5,024,104</b>	<b>\$5,124,586</b>	<b>\$5,227,077</b>	<b>\$5,331,619</b>	<b>\$5,438,251</b>	<b>\$5,547,016</b>	<b>\$5,657,957</b>	<b>\$5,771,116</b>	<b>\$5,886,538</b>	<b>\$6,004,269</b>	<b>\$6,124,354</b>	<b>\$6,246,841</b>	<b>\$6,371,778</b>	<b>\$6,499,214</b>	<b>\$6,629,198</b>
<b>Operating Costs</b>		<b>(\$1,554,000)</b>	<b>(\$1,600,620)</b>	<b>(\$1,648,639)</b>	<b>(\$1,698,098)</b>	<b>(\$1,749,041)</b>	<b>(\$1,801,512)</b>	<b>(\$1,855,557)</b>	<b>(\$1,911,224)</b>	<b>(\$1,968,561)</b>	<b>(\$2,027,618)</b>	<b>(\$2,088,446)</b>	<b>(\$2,151,099)</b>	<b>(\$2,215,632)</b>	<b>(\$2,282,101)</b>	<b>(\$2,350,564)</b>
<b>Net Operating Income</b>		<b>\$3,470,104</b>	<b>\$3,523,966</b>	<b>\$3,578,439</b>	<b>\$3,633,521</b>	<b>\$3,689,211</b>	<b>\$3,745,504</b>	<b>\$3,802,399</b>	<b>\$3,859,892</b>	<b>\$3,917,977</b>	<b>\$3,976,651</b>	<b>\$4,035,908</b>	<b>\$4,095,742</b>	<b>\$4,156,146</b>	<b>\$4,217,112</b>	<b>\$4,278,634</b>
Debt Service--First Trust Deed		(\$2,776,083)	(\$2,776,083)	(\$2,776,083)	(\$2,776,083)	(\$2,776,083)	(\$2,776,083)	(\$2,776,083)	(\$2,776,083)	(\$2,776,083)	(\$2,776,083)	(\$2,776,083)	(\$2,776,083)	(\$2,776,083)	(\$2,776,083)	(\$2,776,083)
Debt Coverage Ratio		1.25	1.27	1.29	1.31	1.33	1.35	1.37	1.39	1.41	1.43	1.45	1.48	1.50	1.52	1.54
<b>Net Cash Flow</b>		<b>\$694,021</b>	<b>\$747,883</b>	<b>\$802,356</b>	<b>\$857,438</b>	<b>\$913,128</b>	<b>\$969,422</b>	<b>\$1,026,317</b>	<b>\$1,083,809</b>	<b>\$1,141,895</b>	<b>\$1,200,568</b>	<b>\$1,259,825</b>	<b>\$1,319,659</b>	<b>\$1,380,063</b>	<b>\$1,441,029</b>	<b>\$1,502,551</b>

**Capitalized Value, Cap Rate of:** 5.00% \$69,402,073

**MAX. 1ST MORTGAGE BASED ON DSCR** \$43,094,435

**MAX 1ST MORTGAGE BASED ON LTV** \$55,521,659

**PROJECT VALUE LESS FIRST MORTGAGE** \$26,307,638

**REFINANCE TESTS**

	<b>Refinance in Year 10</b>	<b>Refinance in Year 15</b>
NOI	\$3,976,651	\$4,278,634
Cap Rate	7.00%	7.00%
Project Value	\$56,809,306	\$61,123,338
Max Loan Based on LTV	\$45,447,445	\$48,898,670
Max Loan Based on DSCR	\$39,848,054	\$42,874,068
Refinance Proceeds	\$39,848,054	\$42,874,068
Less: Outstanding Debt	\$40,180,535	\$33,532,611
Cash Out	(\$332,481)	\$9,341,457

Source: DRA

## Ellis Act Ordinance – Community and Stakeholder Meetings

### *Community Meetings*

Meeting	Date	Time	Location
Policy Development Community Meeting – Tenant Meeting	February 22, 2018	6:30-8:30 pm	Westminster Presbyterian Church
Policy Development Community Meeting	February 12, 2018	6:30-8:30 pm	Seven Trees Community Center
Housing & Community Development Commission	February 8, 2018	5:45 pm	San José City Hall – Wing Rooms
Policy Development Community Meeting	February 7, 2018	9:00-11:00 am	San José City Hall – Wing Rooms
ARO & TPO Educational Outreach	January 25, 2018	6:30-8:30 pm	Cypress Community Center
ARO & TPO Educational Outreach	January 19, 2018	2:00-4:00 pm	San José City Hall – Wing Rooms
ARO & TPO Educational Outreach	January 10, 2018	9:00-11:00 am	San José City Hall – Wing Rooms

### *Stakeholder Meetings*

Stakeholder Meeting	Date	Location
Stakeholder – Developers	March 16, 2018	Developer Roundtable
Stakeholder – Landlords	March 8, 2018	Bay Area Housing Network
Stakeholder – Developers	March 2, 2018	Greystar
Stakeholder – Developers	February 22, 2018	Silicon Valley Synergy
Stakeholder - Tenants	February 20, 2018	Renters' Coalition
Stakeholder - Landlords	February 15, 2018	California Apartment Association
Stakeholder - Landlords	February 12, 2018	California Apartment Association
Stakeholder - Tenants	February 6, 2018	Renters' Coalition
Stakeholder - Landlords	January 29, 2018	California Apartment Association
Stakeholder - Landlords	January 16, 2018	California Apartment Association
Stakeholder - Tenants	January 10, 2018	Renters' Coalition
Stakeholder - Landlords	December 15, 2017	California Apartment Association
Stakeholder - Tenants	December 13, 2017	Renters' Coalition

# **Ellis Act Ordinance**

City of San José – Department of Housing

Public Comments Received from  
February 2, 2018 to April 2, 2018

# Policy Development Meeting Series

## February 7, 2018 to February 22, 2018

### Dot Activity for Public Comments

**Ellis #1: How many of the new apartments should be covered by the Apartment Rent Ordinance? Select one.**

	Tenant	Landlord
All new apartments	16	
All new apartments are re-controlled, with some apartments limited to 5% and the other apartments limited to 10% rent increase		1
Two times the number of apartments destroyed are covered		1
The number of apartments destroyed are covered		4
If the new building includes 20% affordable units, the entire building would be exempt from rent control	9	
Other	<ul style="list-style-type: none"> <li>• Define what type of affordable</li> <li>• Why not more than 20%</li> <li>• Affordable should be for low income, very low income</li> <li>• At least 50% should be affordable</li> </ul>	None
	Let's build our own community.	

# 2-7-18 Public Meeting Comments Summary

## Criminal Activity

- The Housing Dept. should take more active of a role to regarding neighborhood issues. Recent shooting in the Cadillac neighborhood. How can Housing assist landlords in these type of situations? TPO makes addressing crime more challenging.
- “Responsible Landlord Engagement Initiative (RLEI)” available for landlords that are fearful of retaliation.
- “Crime Free” is an approach used by many other cities. Why not try crime free in San Jose?
- When did the City Council discuss crime free housing?
- What proof is required by landlord for the 12 Just Cause?

## RUBS

- Master metered electricity and gas – all references to RUBS assume landlords are only using RUBs for water, sewer and garbage. Landlords of older buildings also allocate gas and electric.
- Idea: Certified RUBs provider.
- Idea: Create parameters for monthly fluctuations in RUBs charges.
- Cost of submetering for water is prohibitive. Landlords have called contractors and they are either not willing to bid because they often to not get the work because the cost is so high.
- A landlord stated when the tenants have to pay for the water bill, they are more likely to inform the landlord of a leak so they problem gets resolved much faster, he has had tenants use a vice-grip with a leaky faucet and paid additional water and repair costs from the neglect.

## Ellis Act

- One for one seemed common practice – what do other cities do?

## Source of Income

- A landlord mentioned that he is working with a Section 8 tenant and it has taken 2 to 3 weeks for a deposit and rent, if the program was faster with onboarding he would consider more often.
- Another landlord mentioned he does not have the time to accommodate the additional work required for Section 8 tenants and felt that the word “discriminating” should not be used regarding landlords screening process.
- Participant mentioned if more landlords knew that they could get closer to market rate for their ARO rental units, they might be more willing to take on the programs.



# 2-12-18 Public Comments Summary

## **Tenant Protection Ordinance**

- If there is 1 issue, having a gun, would landlord and other tenant want that person with the conviction still living in the unit? Would this be a material lease violation?
- Material violation - what is an example or designate an issue that is material? Example, starting a fire in a backyard. Does lease must specify "criminal activity" or "fire" in the lease?
- If someone is arrested for domestic violence, can a landlord serve a notice?
- What is the City of San Jose's position on criminal activity? Tolerant or zero? 3 day notice? not required and go directly to evict?
- The warning is significant, should a 3 day notice still be allowed or evict right after the 1 instance?
- Someone (for example, son or daughter) can be evicted for a conviction and automatically move in with his mom without approval from the landlord, they/tenant are protected. The roommate clause allows for harboring of criminals.
- Landlord should be able to do a review to be aware of a conviction and maximum number of tenants move in? Landlords need some type of help with this issue/check.

## **Apartment Rent Ordinance**

- Some landlord also do their own RUBS, not only just 3rd parties doing to calculations.
- There should be a RUBS allowed option for consideration by the City Council.
- Will electricity be considered a part of RUBS - all utilities should be considered?
- HUD utility rates, how do they factor or calculate? HUD rates should be removed because nobody can determine their factor.
- What about an alternative for a landlord to charge an additional 1% in rent if their building is master metered, similar to LA?
- Landlord feels is RUBS is not allowed, an angry tenant will leave the water running so landlord must pay bill and lose money, no conservation.
- If you remove storage and lose rent, will the rent ever be increased or will it be lost income going forward?

## **Ellis Act**

- Will there be a separate outreach for Ellis Act with developers? This issue is less significant for ARO property owners.
- How is relocation defined or determined? Chart available for calculation per number of bedrooms, how was the cost determined?
- Regarding which units are covered by the Ellis Act, why 1979 when 1985 is when Ellis went into effect?

## **Source of Income**

- What is the Housing Department's position on Source of Income, is it neutral or direction to create an Ordinance? Housing will be bringing a framework to Council and wait for direction.
- Given a mandate, the Housing Department's position does not appear neutral.
- What is the reason for the source of income policy issue? City Council asked Housing to explore.
- Source of Income issue is not Section 8 voucher holders, instead the deterrence for landlords is the logistics, time, and cost for using Section 8. Housing is painting the wrong picture about landlords.
- A landlord indicated never used Section 8 because the heard the program was a zoo and has created more problems, does not believe in program.

## 2-12-18 Public Comments Summary

- Had a Section 8 tenant, has lost thousands of dollars, many lawsuits, and they know how to gain the system.

### **General questions**

- What is the definition of Affordable Housing? Is there special funding for developers if they build Affordable Housing?
- Is there a special property tax relief for Affordable Housing?
- Public Notice is done through ARO; would landlords be notified for specifically for Ellis Outreach?
- Participant feels their input falls on deaf ears, rules appear to be protecting tenants, not landlords.
- Landlords do not want to file a Capital Improvement petition, does not want to ask Housing an allowance to increase rents.

## 2-22-18 Tenant Input Public Comments Meeting

### Ellis Act

- Not enough resources available for a tenants to move or relocated while development of property.
- Better option is for lower rents for low income tenants.
- Tenant moved to affordable housing, not able to find affordable housing with good paying job.
- Tenant in affordable housing got an increase of \$250 this year, should not be considered affordable.
- It should be very expensive to evict tenants living in ARO units.