Attachment B

Consultant Memorandum

HOUSEAL LAVIGNE

188 West Randolph Street
Suite 200
Chicago, Illinois 60601
312.372.1008

360 E 2nd Street,
Suite #800
Los Angeles, CA 90012
213.529.1008

hlplanning.com
info@hlplanning.com

MEMORANDUM

Date: June 9, 2026 *SENT VIA EMAIL*

To: City of Newport Beach Community Development Department
Liz Westmorland, AICP, Principal Planner

From: Houseal Lavigne Associates
Robert Kain, Project Manager

Re: **Newport Beach Mixed-Use Zoning Evaluation Technical Memo**

This memorandum provides an overview of the City of Newport Beach's current mixed-use development standards and evaluates potential constraints affecting housing production and redevelopment within the City's mixed-use zoning districts.

The analysis considers the City's current review process and development standards for mixed-use projects, as well as non-governmental factors, such as existing lot conditions and financial feasibility, that may present barriers to residential mixed-use development. The memorandum also summarizes field observations and preliminary development considerations for three study areas within the City's mixed-use districts.

Based on these findings, the memorandum outlines recommendations aimed at reducing regulatory barriers and promoting mixed-use residential development. The memorandum is organized into the following sections:

This project was funded by the Southern California Association of Governments (SCAG) through the Regional Early Action Planning (REAP 2.0) Program and administered by the Orange County Council of Governments (OCCOG). Technical assistance was provided in coordination with city staff, OCCOG, and the Houseal Lavigne (HL) team.

The findings and recommendations presented in this document are those of the consultant team and do not necessarily reflect the official views or positions of SCAG or OCCOG.

Analysis

Development Process

All mixed-use projects in Newport Beach require the approval of a site development review, unless a planned development permit application has been submitted. The Zoning Administrator serves as the decision-making authority on site development reviews for mixed-use projects with one to four dwelling units and less than 9,999 square feet of non-residential gross floor area, as well as all new development, additions, and exterior remodeling in the MU-W1 (Mixed-Use Water) Zoning District. Projects exceeding this threshold must go through a discretionary approval process with the Planning Commission. Public hearings are required prior to a decision on site development review applications, which can lengthen the approval process due to notification requirements and create uncertainty for developers. The Director also has the authority to approve minor changes to an approved site development permit that do not involve an increase in structure area or height, an increase in the number of dwelling units, or a change of use.

In addition to site development reviews, Coastal Development Permits are required for all development within the Coastal Zone. Projects on tidelands, submerged lands, public trust lands, or within deferred certification areas require a Coastal Development Permit issued by the California Coastal Commission. For projects located elsewhere in the Coastal Zone, the City has jurisdiction, with the Zoning Administrator serving as the decision-making authority unless the project requires another discretionary approval. When a project is located within both the Coastal Commission's and City's jurisdictions, Coastal Development Permits are required by both the City and the California Coastal Commission. However, there is an allowance for the California Coastal Commission to process a Consolidated Permit Application which streamlines the approval process. Public hearings are also required before the decision on any coastal development permit.

The City's current review procedures aim to streamline the development process with preapplication conferences, concurrent applications, administrative reviews, and clearly defined review authorities; however, increasing the threshold for administrative approvals, reducing public hearing requirements, and expanding the Director's authority to approve minor modifications to an approved site development review for mixed-use projects could further reduce procedural barriers, shorten project timelines, and improve predictability for developers.

District Standards

Newport Beach has a total of six mixed-use zoning districts citywide, including five mixed-use coastal zoning districts:

Mixed-Use Vertical (MU-V) Coastal Zoning District

Mixed-Use Mariners' Mile (MU-MM) Coastal Zoning District

Mixed-Use Dover/Westcliff (MU-DW) Zoning District

Mixed-Use Cannery Village and 15th Street (MU-CV/15th St.) Coastal Zoning District

Mixed-Use Water (MU-W1) Coastal Zoning District

Mixed-Use Water (MU-W2) Coastal Zoning District

Each mixed-use district has specific bulk and dimensional, use, and general development standards. These district-specific standards, in addition to the development standards that apply to all districts, such as landscaping and parking, were evaluated to identify potential barriers to housing production within these zones. Based on this analysis, the following standards have been identified as potential constraints.

Residential Location Restrictions. The mixed-use districts include several location restrictions for residential uses that vary by district and dwelling type. In the MU-W1 District, dwelling units are only permitted above the first floor and on lots with a minimum of 200 feet of frontage along Coast Highway. In the MU-W2 District, dwelling units are only allowed above the first floor and must be located above a commercial use, not a parking use. In the MU-MM District, multi-unit dwellings, located on the first floor or above the first floor, are permitted; however, they must be part of a mixed-use development and cannot be located within 100 feet of Coast Highway. These location requirements may constrain redevelopment opportunities, particularly on smaller or irregularly shaped parcels, by limiting the ability to incorporate residential units within otherwise feasible mixed-use projects. Additionally, ground-floor commercial spaces are notoriously difficult to lease and sit vacant without significant subsidies. Mandating large commercial footprints burdens projects with heavy construction costs that generate zero dollars in underwriting revenue.

Height and Density Alignment. The current height and density ranges limit the number of units that can be accommodated on a site and restrict building height. Minimum lot sizes per unit of 1,631 square feet and maximums of 2,167 square feet per unit provides some flexibility, but some districts could support higher densities with additional floors, while still maintaining the character of surrounding areas. In the MU-DW district, flat roofs are allowed up to 32 feet and sloped roofs up to 37 feet, while all other mixed-use districts allow 26 feet for flat roofs and 31 feet for sloped roofs. While existing height standards may be appropriate along the Balboa Peninsula or waterfront locations to protect viewsheds, districts along commercial corridors, such as MU-MM to the north of Coast Highway and MU-DW along Dover Drive, could accommodate taller buildings and higher density. Increasing the maximum height limit and allowing higher densities would support more efficient, urban-scale mixed-use development along these corridors.

FAR. The mixed-use districts currently regulate the FAR of residential uses within mixed-used developments by limiting them to a maximum of 1.0 or less, which is typical of suburban developments. While FAR standards can help manage overall building scale, their application to residential uses may inadvertently limit housing production. Existing standards, such as building height maximums, density ranges, and locational requirements for dwelling units, already limit the scale of development within these zones. Applying FAR maximums on top of these standards could further constrain residential development and reduce the feasibility of mixed-use projects. However, without adjustments to building height limits, density ranges, and parking requirements, reducing or eliminating FAR requirements for residential uses within mixed-use developments would likely result in larger dwelling units rather than additional units.

In addition to regulating FAR for residential uses, the mixed-use districts also regulate the square footage of commercial uses within mixed-use developments by establishing minimum and maximum FAR requirements. While the intent of these regulations is to ensure a balanced mix of uses on-site, meeting the minimum commercial FAR requirement may be challenging on some properties due to limited buildable area and building height restrictions. In addition, the minimum commercial FAR requirement can exacerbate parking constraints when sites are unable to accommodate the required parking on-site, potentially reducing the feasibility of mixed-use development on smaller or more constrained properties.

Common and Private Open Space. Private and common open space areas are currently required for residential dwelling units in mixed-use projects. While these requirements are intended to support livability, common open space can be an inefficient use of limited developable area in urban mixed-use projects, particularly on smaller lots. The private open space requirements are more flexible and can be satisfied with balconies, patios, or small decks. Reducing the common open space requirements or applying it only to larger projects could help minimize overlapping regulations that unintentionally limit housing.

Parking. The minimum parking requirement for both the residential and non-residential component within a mixed-use project must be provided on site; however, several adjustments are available, including parking management plans, shared parking for non-residential uses, and a 20 percent Director-approved reduction for non-residential uses. As another example, the Balboa Village Parking Management Overlay District waives off-street parking requirements for non-residential uses, except for higher intensity uses such as assembly/meeting facilities and commercial recreation and entertainment. Residential and non-residential parking requirements may be reduced through the approval of a Conditional Use Permit (CUP). While these provisions provide some flexibility, the base parking requirements are still derived from standards typically applied to suburban developments and serve as the primary constraint for mixed-use development. Unmet commercial parking demand forces developers into discretionary review processes, increasing holding costs and timeline risks. Establishing a base reduction to the minimum parking requirements for mixed-use projects would better reflect parking demands for mixed-use developments.

Non-governmental Constraints

Factors outside of governmental control, such as existing lot sizes, land and constructions costs, and availability of funding, may create barriers for the redevelopment or infill development of properties within the mixed-use zoning districts. It is important to take these factors into account when evaluating the existing standards and procedures to ensure that the City's regulations do not inadvertently exacerbate existing market challenges and instead provide a framework that supports project feasibility and encourages reinvestment.

Financial Feasibility Benchmarks

The following benchmarks reflect 2026 regional conditions for coastal Orange County and are intended to help evaluate the financial feasibility of mixed-use development in Newport Beach.

Market-Rate Development

Construction (Hard) Costs. Regional construction costs typically range from $350 to $550+ per square foot. For coastal lots in Newport Beach, projects tend toward the higher end of this range due to marine-grade exterior materials, specialized site preparation, and the challenges of construction in tight, high-traffic coastal locations. Larger corridor sites using structured parking podiums generally fall between $350 to $500 per square foot due to economies of scale.

Soft Costs & Entitlement Risk. Soft costs are estimated at 25 percent to 35 percent of hard costs. This accounts for extended timeline holding costs and the legal consulting necessary to secure discretionary approvals. Coastal California entitlements require developers to account for extended timeline holding costs (often 6-12 months), Coastal Development Permit fees, and the legal and consulting expenditures necessary to secure discretionary approvals, such as Conditional Use Permits (CUP) for parking waivers.

Land Acquisition Costs. Regional benchmarks for commercial and mixed-use land in coastal Orange County indicate acquisition costs ranging from $150 to $250+ per square foot of lot area. These values are heavily influenced by proximity to the coast (which commands a premium, as seen in the McFadden Square study area) and the property's existing entitlement status. When determining overall project viability, developers must underwrite the "Total Project Cost," which is the sum of Hard Costs, Soft Costs, and Land Acquisition Costs.

Commercial Revenue Assumptions. Prime visitor-serving retail rents average $4.50 to $6.00 per square foot (NNN) per month. Lower-intensity transitional office or neighborhood commercial space typically ranges from $3.00 to $4.50 per square foot per month.

Residential Revenue Assumptions (Gross). Average rents in Newport Beach are approximately $3,148 per month, while new, ocean-adjacent multi-family units are modeled at $4.50 to $5.50 per square foot per month. Comparable high-end two-bedroom units currently range from $4,000 to $6,800+ monthly.

Target Return Thresholds. Due to the complexity and risk of coastal development, projects typically require levered Internal Rate of Return (IRR) of 18 to 25 percent. With stabilized mixed-use cap rates around 5.0 to 5.25 percent, developers generally seek a stabilized NOI yield of at least 6.5 to 7.0 percent relative to total project costs.

Affordable Housing (LIHTC)

Construction / Development Costs. Recent Newport Beach Type V projects with surface parking indicate hard costs of approximately $320 per square foot. Soft costs are higher than market-rate projects, representing about 35 percent of the Total Development Cost (TDC). The TDC typically ranges from $650,000 to $850,000 per unit depending on target demographics.

Revenue Assumptions. Affordable rents supported by Low-Income Housing Tax Credit (LIHTC) financing generally range from $1,000 to $3,300 per month, depending on unit size and Area Median Income (AMI) levels. Ground-floor commercial space in affordable projects is typically underwritten conservatively, often at $0 in early years.

Target Returns and Financing Metrics. LIHTC projects are typically structured to operate near break-even with minimal cash flow. Feasibility is dictated by a Permanent Loan Debt Service Coverage Ratio (DSCR) of 1.15x, Investor pricing of 0.82 to 0.87 per credit, and developer fees generally capped at $2.5 million for 9 percent projects or 10 percent of TDC for 4 percent projects.

Study Areas

Existing Conditions

Three study areas were evaluated taking into account; existing site conditions, surrounding context, circulation patterns, urban form characteristics, and redevelopment opportunities to determine whether targeted zoning refinements may be appropriate to enable additional housing units. The three study areas included representative sites within the MU-DW, MU-CV/15th St., and MU-W2 Districts.

Dover Drive Site

Study Area 1 is within the MU-DW District and located between Dover Drive and Seagull Lane. The site is currently underutilized, with the existing three-story office building occupying only approximately 30 percent of the parcel. The remaining 70 percent consists of surface parking, which presents an opportunity to accommodate vertical mixed-use development with structured parking. The site sits at a transition between existing commercial developments and multifamily to the west, and lower-density single-family to the east. Dual frontage on both an arterial and lower-intensity street provides flexibility for redevelopment concepts, including potential separation of residential and commercial access. While the lower-density single-family context across Dover Drive should be considered, the fact that Dover Drive is a wide arterial helps buffer the impact on

these homes. The height in this area could be increased to five stories with a step back for the upper floor(s), allowing additional housing while maintaining compatibility with adjacent homes.

Cannery Village Site

Study Area 2 is within the MU-CV/15th St. District and located in Cannery Village. The site currently includes a one-story commercial building along 31st Street with a two-story commercial building with tuck-under parking at the rear. These uses are separate rather than vertically integrated, so the site does not yet reflect the full mixed-use potential envisioned by the MU-CV/15th St. zoning. Minimum parking and common open space requirements could constrain future residential redevelopment due to the site's limited depth and developable area; however, parking could be accommodated through structured or tuck-under solutions. Height maximums would also need to be considered in redevelopment concepts. Located within the core of Cannery Village, the site presents an opportunity to create true vertical mixed-use development, with ground-floor neighborhood-serving commercial uses and residential units above, increasing housing capacity while activating the street frontage.

McFadden Site

Study Area 3 is within the MU-W2 District and located directly across West Oceanfront from a beach parking lot. The site is currently developed with aging two-story residential duplexes. Parcel widths in this study area are narrow and have limited side setbacks. Similarly to Study Area 2, the current minimum parking and common open space requirements could pose challenges for new mixed-use development. Positioned as oceanfront properties and adjacent to visitor-serving uses, the site presents an opportunity for vertical mixed-use development, with ground-floor commercial uses serving beachgoers and residential units above.

Development Feasibility

Conceptual plans were developed for each study area to test redevelopment scenarios under the existing district standards and identify potential barriers to mixed-use developments. A high-level financial feasibility analysis was also conducted for each plan based on current market-rate conditions for coastal Orange County. The financial feasibility analyses were evaluated through the lens of programmatic efficiency, maximum yield potential, and the regulatory costs or risks associated with entitlement pathways.

Note: *These conceptual plans were developed based on uniform building codes and have not been reviewed for compliance with ADA requirements or California building codes, which could affect overall design and feasibility. Additionally, the plans assume lot consolidations for the Cannery and McFadden sites, as development on individual parcels would not yield meaningful mixed-use projects within these study areas.*

Dover Drive Site

For Study Area 1, two scenarios were developed for a three-story, housing-led mixed-use redevelopment that replaces an underutilized office building and surface parking with a structured parking podium wrapped by residential units and a strengthened ground-floor and upper-level commercial/office component. The first scenario represents a by-right development that complies with all applicable standards, while the second utilizes California State Density Bonus Law provisions to improve project feasibility. Both scenarios use the site's dual frontage on Dover Drive and Seagull Lane to separate residential access and parking from the more public-facing corridor, improving organization and site efficiency on the 56,664 square foot parcel.

The by-right scenario provides 31 residential units and approximately 14,100 square feet of commercial and office space, meeting MU-DW density and FAR standards. Parking is accommodated through a split-level structure with 135 spaces, satisfying code requirements for both residential and non-residential uses. While this concept represents a balanced and optimized by-right development, the project achieves only a 3.77 percent yield on cost, well below the 6.5 percent or greater return typically required to support ground-up construction. Conventional parking minimums remain a significant constraint, requiring substantial investment in non-revenue-generating structured parking.

The affordable housing scenario increases the project to 34 residential units and approximately 19,500 square feet of non-residential space while reducing residential parking demand from approximately 85 spaces to approximately 47 spaces. At a non-residential FAR of 0.35, the commercial component generates an estimated parking demand of 78 spaces, leaving approximately 54 spaces available for residential use within the proposed 132-space parking supply. While this scenario substantially improves project feasibility for the residential component, minor additional parking flexibility, such as shared parking assumptions or CUP-based reductions for the non-residential uses, would likely still be necessary to support the higher-density mixed-use program. Additionally, the ground-floor commercial requirement for mixed-use projects could negatively affect the feasibility of the affordable housing scenario. Affordable ground-floor commercial space is typically underwritten at little to no revenue, and the project would likely be unable to support the additional debt required to construct the commercial space.

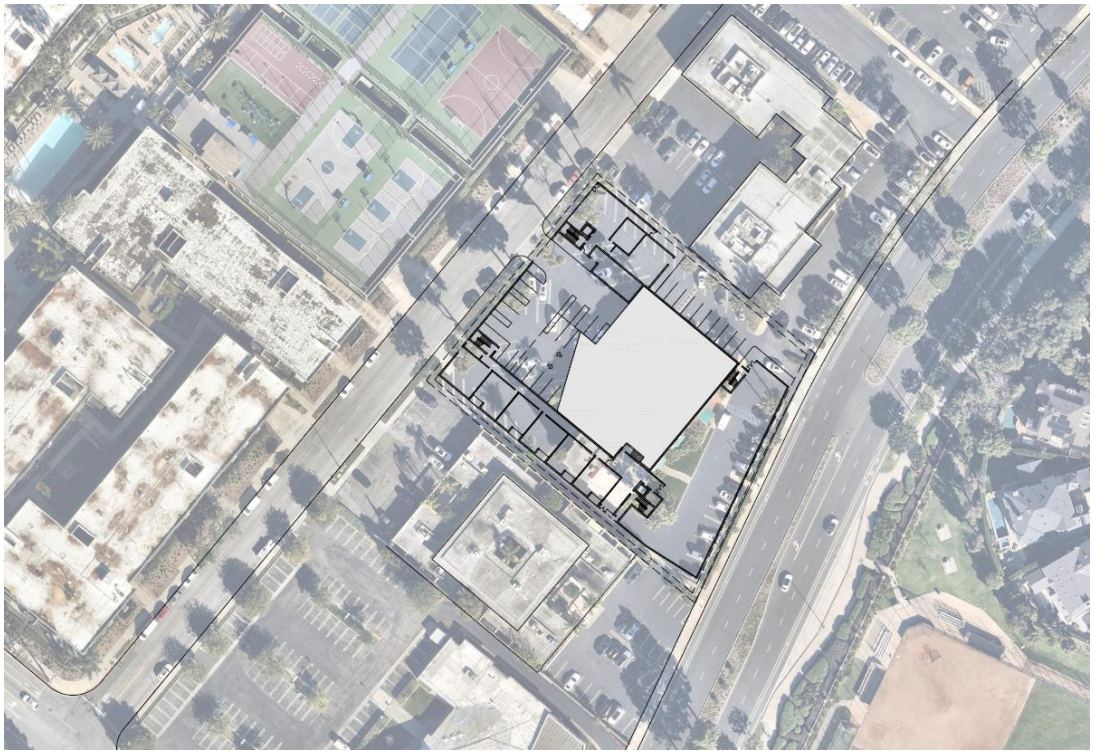

Figure 1 - Dover Drive Study Area - Conceptual Plan

Figure 2 - Dover - Conceptual Plan Model

Cannery Village Site

For Study Area 2, two scenarios were evaluated for feasibility under the current MU-CV/15th District standards. Both scenarios include ground-floor commercial uses (boutique retail and café totaling 2,813 square feet) with three residential units above, aligning with the required density range of 2.38 to 3.42 units for the 5,660 square foot site. The first scenario represents a context-sensitive solution, consisting of a two-story flat-roof building that prioritizes neighborhood compatibility through a lower building profile. The second scenario explores the upper limit of allowable development intensity, proposing a three-story building with a sloped roof and reduced first-floor height to maximize residential FAR and overall feasibility. While the second scenario is more efficient, pushing 69 percent of the building into rent-generating space, a 2.89 percent estimated yield still falls short of the target threshold.

Although both scenarios are able to meet most of the current standards for the MU-CV/15th District, such as density, height, FAR, and open space, parking remains the primary constraint influencing overall project feasibility. In both scenarios, the minimum parking requirement for the residential component (seven spaces), can be accommodated with tuck-under parking at the rear of the site; however, the minimum commercial parking requirement (12 spaces) cannot be satisfied on-site, remaining the key limiting factor to mixed-use development. As a result, project feasibility would depend on approval of a parking management plan or CUP to reduce parking requirements. These discretionary approvals create project uncertainty and result to render the project economically infeasible under current assumptions.

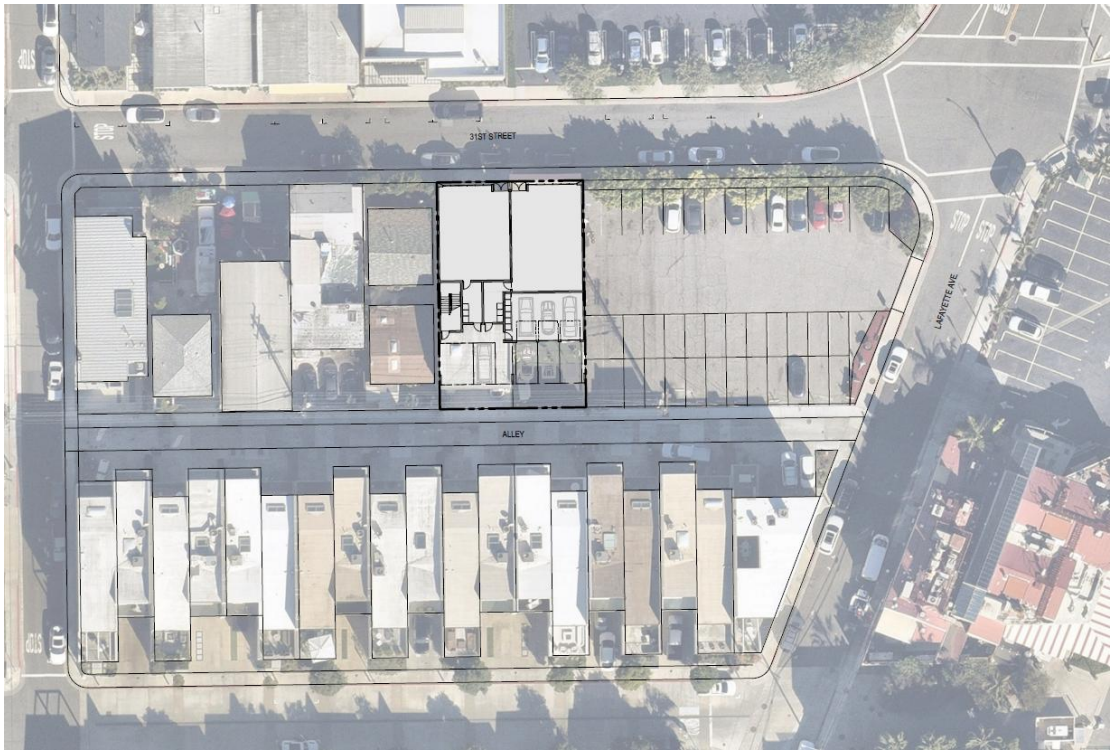

Figure 3 - Cannery Village Study Area - Conceptual Plan

Figure 4 - Cannery Village - Conceptual Plan Model

McFadden Square Site

For Study Area 3, a two-story mixed-use building was modeled at the corner of 23rd Street and West Oceanfront. The building accommodates two ground-floor commercial units (boutique retail and café totaling 2,776 square feet) and three residential units above, aligning directly with the required density range of 2.88 to 3.83 units for the site. The design consolidates two narrow parcels into a unified development footprint, with a total site area of approximately 6,250 square feet and a ground-floor building footprint of approximately 4,489 square feet (excluding covered parking), improving building efficiency, circulation, and parking organization.

Similar to Study Area 2, while the concept meets most MU-W2 standards, parking remains the primary constraint influencing overall development feasibility. The required residential parking (seven spaces) can be accommodated on-site through alley-loaded tuck-under spaces; however, the minimum commercial parking requirement (12 spaces) cannot be satisfied on-site. Overall, the project's efficiency ratio is low, with only approximately 55 percent of the building generating rent. The remaining 45 percent of the budget is absorbed by code-mandated covered parking, open space, and interior circulation. Additionally, an estimated 1.59 percent yield is likely insufficient to support feasibility under current market conditions.

Figure 5 - McFadden Square Study Area - Conceptual Plan

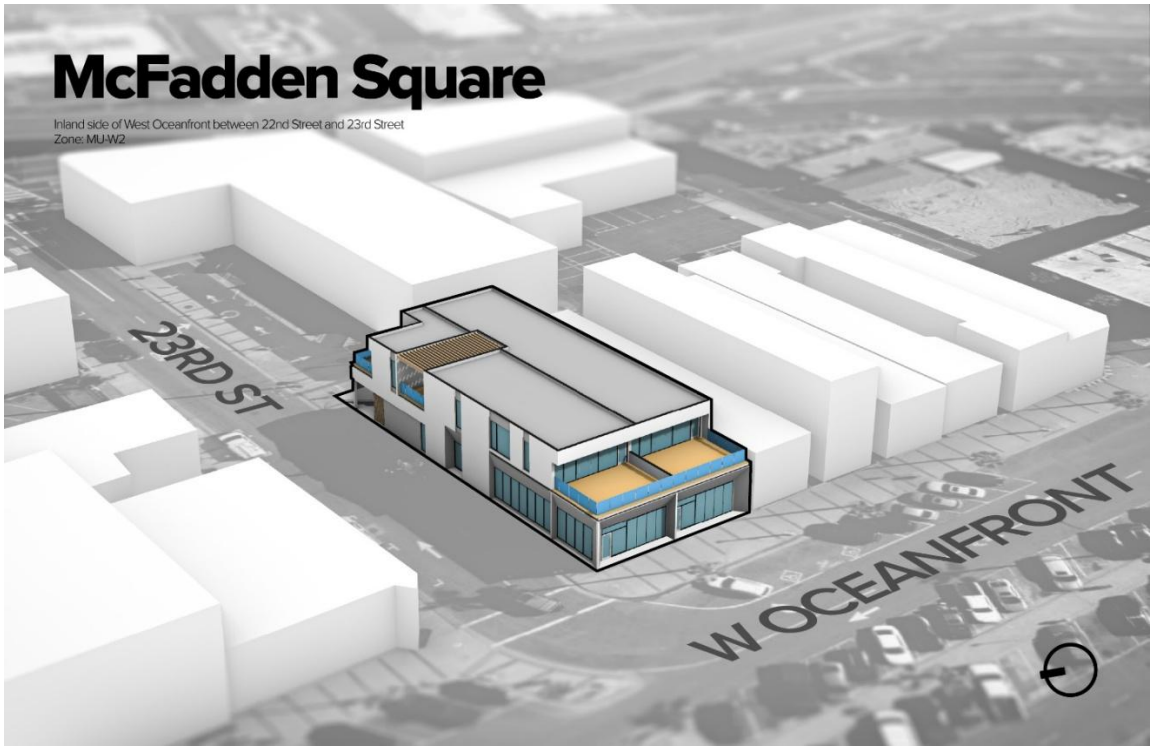

Figure 6 - McFadden Square - Conceptual Plan Model

Financial Feasibility

The financial feasibility analysis evaluates each conceptual plan based on yield on total development cost, including hard, soft, and land costs, to measure the economic impact of the City's existing regulatory framework. Across the conceptual scenarios, projected yields range from 1.59 percent to 4.18 percent, well below the 6.5 percent to 7.0 percent threshold generally required to justify new ground-up residential construction. These findings suggest that market-rate developers are unable to absorb the combined costs of code-mandated structured parking and density limitations on high-value coastal land.

Affordable housing development faces a different set of constraints. Because affordable projects operate with restricted rents and limited cash flow, they are generally unable to cross-subsidize high land acquisition costs or the financial burden associated with mandated ground-floor commercial space. As a result, both market-rate and affordable housing scenarios face significant feasibility challenges under current development standards.

The following pro formas evaluate the financial feasibility of the conceptual plans within each study area. The Dover Drive analysis examines the affordable housing scenario consisting of 34 residential units, while the McFadden Square analysis evaluates the three-story mixed-use building scenario.

Dover Drive Site

Project Costs & Capital Stack	Calculation / Assumption	Estimated Total
Land Acquisition Cost	Estimated Midpoint Value	$9,900,000
Hard Costs	95,000 Gross Building Area × $350/SF (Blended podium rate)	$33,250,000
Soft Costs	30% of Hard Costs	$9,975,000
Total Project Cost	Land + Hard + Soft	$53,125,000
Projected Revenues & Net Operating Income (NOI)	**Calculation / Assumption**	**Estimated Total**
Commercial Revenue	19,500 SF × $4.00/SF/month × 12 months	$936,000 / year
Residential Revenue	30,993 Net Rentable SF × $4.50/SF/month × 12 months	$1,673,622 / year
Less Deductions	5% Vacancy + 30% Residential Operating Expense	-$607,463 / year
Stabilized NOI	Net Operating Income	$2,002,159 / year
Financial Feasibility	**Calculation / Assumption**	**Estimated Total**
Feasibility Metric	$2,002,159 NOI ÷ $53,125,000 Total Cost	3.77% Yield

Cannery Village Site

Project Costs & Capital Stack	Calculation / Assumption	Estimated Total
Land Acquisition Cost	Lot Consolidation	$5,000,000
Hard Costs	11,000 Gross Building Area × $500/SF (Coastal premium rate)	$5,500,000
Soft Costs	30% of Hard Costs (Accounts for CUP risk)	$1,650,000
Total Project Cost	Land + Hard + Soft	$12,150,000
Projected Revenues & Net Operating Income (NOI)	**Calculation / Assumption**	**Estimated Total**
Commercial Revenue	2,813 SF × $5.00/SF/month × 12 months	$168,780 / year
Residential Revenue	4,791 Net Rentable SF × $5.00/SF/month × 12 months	$287,460 / year
Less Deductions	5% Vacancy + 30% Residential Operating Expense	-$104,738 / year
Stabilized NOI	Net Operating Income	$351,502 / year
Financial Feasibility	**Calculation / Assumption**	**Estimated Total**
Feasibility Metric	$351,502 NOI ÷ $12,150,000 Total Cost	2.89% Yield

McFadden Square Site

Project Costs & Capital Stack	Calculation / Assumption	Estimated Total
Land Acquisition Cost	Estimated Midpoint Value	$11,550,000
Hard Costs	11,500 Gross Building Area × $500/SF (Coastal premium rate)	$5,750,000
Soft Costs	30% of Hard Costs	$1,725,000
Total Project Cost	Land + Hard + Soft	$19,025,000
Projected Revenues & Net Operating Income (NOI)	**Calculation / Assumption**	**Estimated Total**
Commercial Revenue	2,776 SF × $5.00/SF/month × 12 months	$166,560 / year
Residential Revenue	3,626 Net Rentable SF × $5.00/SF/month × 12 months	$217,560 / year
Less Deductions	5% Vacancy + 30% Residential Operating Expense	-$81,210 / year
Stabilized NOI	Net Operating Income	$302,910 / year
Financial Feasibility	**Calculation / Assumption**	**Estimated Total**
Feasibility Metric	$302,910 NOI ÷ $19,025,000 Total Cost	1.59% Yield

Recommendations

Below is a list of recommendations aimed at reducing regulatory barriers and incentivizing mixed-use residential development. These recommendations provide direction as the City considers potential policy and code changes. While the City may implement these recommendations individually, they are most effective when considered together. In particular, proposed recommendations for height, density, and FAR rely on adjustments to existing parking requirements to achieve their intended outcomes.

1. **Parking.** Consider updating parking requirements to one of the following:
    A. Remove parking requirements for residential and non-residential uses in mixed-use projects.
    B. Reduce or administratively waive parking requirements for non-residential uses in mixed-use projects.
    C. Allow administrative approval of parking reductions where adequate on-street parking is available.
    D. Remove guest parking space requirements for multi-unit dwellings and live/work units in the MU-DW District.
    E. Use bedroom-based parking standards to align with the residential off-street parking for Housing Opportunity Overlay Zones.
2. **Common Open Space.** Consider applying the common open space requirement to projects with four or more residential units.
3. **Height.**
    A. **MU-DW District Height.** Consider removing requirement to increase height limit with approval of a discretionary action and increase the base height limit to 55 feet for flat roofs and 60 feet for sloped roofs, with the upper floor(s) steps-backs to reduce visual impacts on surrounding lower-density areas.
4. **Residential Location Restrictions.**
    A. **MU-MM District.** Consider allowing exemption to the restriction that prohibits multi-unit dwellings within 100 feet of Coast Highway if the residential units are located above the first floor. This allows for vertical and horizontal mixed-use development.
    B. **MU-W2 District.** Remove the restriction prohibiting single-, two-, and multi-unit dwellings from being located over a parking use if the parking use abuts an alley.
5. **Density.** Consider adding an exception to the density ranges so that a minimum of two dwelling units shall be permitted.

6. **Site Development Reviews.**

    A. **Outside of the Coastal Zone.** Consider allowing administrative approval of site development reviews for mixed-use projects with one to four dwellings units and/or non-residential construction of up to 9,999 square feet of gross floor area.

Attachments

A – Feasibility Analysis Terminology

Attachment A

Terminology used in the Feasibility Analysis

Construction and Development Costs
These cost estimates are based on a recent (April 2025) affordable housing project in Newport Beach, built as a Type V wood-frame building with surface parking, which is a common and cost-effective construction type for this scale of development.

Total Project Cost Breakdown (Hard, Soft, and Land)
To fully assess the economic viability of a development, the capital stack is broken down into three distinct categories:

- **Hard Costs:** The physical construction of the building and related on-site improvements. This includes base building construction, site work, contractor overhead, and insurance.
- **Soft Costs:** The non-construction expenses required to deliver the project. This includes architectural design, permitting, legal fees, and holding costs during the entitlement phase.
- **Land Acquisition Costs:** The cost to purchase the underlying real estate. In premium coastal markets like Newport Beach, high land costs represent a significant percentage of the Total Project Cost and drastically impact the project's ability to achieve a feasible Yield on Cost.

Hard Construction Costs
Hard costs include the physical construction of the building and related on-site improvements.

- **Base building construction:** approximately **$220 per square foot**, covering framing, exterior, interior finishes, mechanical systems, and code-required features.
- **Additional required costs**: Such as site work, contractor overhead, general conditions, bonding, and insurance, bring the total to approximately **$320 per square foot**.
- When translated to a per-unit basis, this equals roughly **$400,000 per dwelling unit**, depending on unit size and building layout.

These costs reflect current labor, materials, and regulatory conditions in coastal Orange County.

Attachment A

Soft Costs

Soft costs are non-construction expenses required to deliver the project and typically represent about **35% of total development cost**.

These include:

- Architectural and engineering design
- Planning, entitlement, and permitting
- Environmental studies
- Legal, financing, and accounting costs
- Developer overhead during predevelopment and construction

Soft costs are higher for affordable housing because of added compliance, financing layers, and public review requirements.

Total Development Cost

When hard and soft costs are combined, the **total development cost** typically ranges from **$650,000 to $850,000 per unit** for recent large-family affordable housing projects in similar markets.

- **Senior housing projects** can be slightly lower due to smaller unit sizes and reduced parking needs.

Revenue Assumptions

Affordable Housing Rents

Affordable housing rents are **not market-based**. Instead, they are set according to:

- **AMI (Area Median Income) targets**, such as 30%, 50%, or 80% of AMI, and
- **Unit size**, with larger units allowed higher rents within program limits.

In some cases, **housing vouchers** are used to supplement rents, but all rent levels remain regulated by state and federal housing programs.

Typical LIHTC Rents

For projects using Low-Income Housing Tax Credits (LIHTC), typical monthly rents range from approximately **$1,000 to $3,300**, depending on:

- Unit size (studio through multi-bedroom), and
- The AMI level assigned to each unit.

These rents are designed to be affordable to qualifying households and are capped by program rules.

Attachment A

Commercial Space (if included)
When affordable housing includes ground-floor commercial space, income can vary significantly based on location and tenant demand. Because this space can be difficult to lease, especially early on, projects are often underwritten assuming little to no commercial revenue initially.

This conservative approach protects the housing project from financial risk if the space remains vacant.

Return and Underwriting Standards
Permanent Loan Coverage (DSCR ~1.15x)
Lenders require that project income exceeds annual loan payments by a modest margin.

- A **1.15 debt-service coverage ratio** means the project generates about **15% more income than needed to pay its mortgage**, which is standard for affordable housing and provides a basic financial cushion.

Developer Fee Limits
Developer fees are **regulated and capped**, not profit-driven.

- **9% tax credit projects** typically cap fees at **$2.5 million**.
- **4% tax credit projects** generally allow a fee of about **10% of total development cost**, subject to limits set by the California Tax Credit Allocation Committee (TCAC).

These caps ensure public funding is used efficiently and transparently.

Investor Yield (Tax Credit Pricing)
Affordable housing relies heavily on equity raised by selling tax credits to investors.

- Current pricing is approximately **$0.82–$0.87 per dollar of tax credit**, depending on market conditions.
- Higher pricing improves project feasibility by reducing reliance on debt.

Cash Flow
Affordable housing projects are not designed to generate ongoing profits.

- Most projects are structured to break even, covering operating costs and debt service.
- Any remaining cash flow is minimal and typically restricted for long-term maintenance, reserves, or reinvestment in the property.

Attachment A

DSCR

The **Debt Service Coverage Ratio (DSCR)** for a permanent commercial or investment property loan measures a property's cash flow against its annual mortgage debt. Lenders use this essential metric to determine if a property generates enough income to safely cover its loan payments.

Industry Standard: Lenders typically require a 1.25x or higher ratio to approve permanent commercial loans.

> Definition:
>
> DSCR measures a property's cash flow against its annual mortgage payments to determine loan safety.
>
> Formula:
>
> Calculated by dividing Net Operating Income (NOI) by Total Annual Debt Service.
>
> Impact:
>
> **A higher ratio lowers lender risk**, maximizes your potential loan amount, and secures better interest rates.

Break-Even Goal: These housing projects are designed to cover their costs rather than make a monthly profit from rent.

The 1.15x Buffer: Lenders require the property's income to be 15% higher than its mortgage payment to ensure the loan can be safely paid back.

Investor Pricing: Big investors buy tax credits to lower their own tax bills, paying roughly 82 to 87 cents upfront for every dollar of tax credit they receive.

Payday Limits: The person developing the property faces strict profit limits: a maximum cash cap of $2.5 million for high-subsidy projects, or 10% of the total project cost for standard-subsidy projects.

LIHTC - Low Income Housing Tax Credit.

Assumption/factor used for the feasibility of rental and return on investment. *I.E. Dover concept has several lot assumed to be affordable based on size*

Construction / Development Costs

(from April 2025 proposed Type V project in Newport w/ surface parking)

- Hard Costs: ~ $220 SF + site work + general conditions/fee/bonds/insurance = $320 SF / $400K per unit

Attachment A

- Soft Costs: ~35% of total development cost
- Total Development Cost: ~$650K–$850K per unit (recent large-family comps; senior can be slightly lower)

Revenue Assumptions

- Affordable Rents: Driven by AMI targeting and vouchers where applicable
- Typical LIHTC rents: ~$1,000–$3,300/month depending on unit size and AMI band
- Commercial Space (if applicable): Highly variable; often underwritten conservatively at $0 in early years.

Return / Underwriting Thresholds

- Permanent Loan DSCR: ~1.15x (standard for affordable deals)
- Developer Fee: Capped at $2.5M for 9% tax credit projects and typically 10% of TDC (subject to TCAC limits) for 4% tax credit projects
- Investor Yield (LIHTC): Driven by pricing (currently ~0.82-0.87 per credit depending on market)
- Cash Flow: Minimal; most deals are structured to break even with limited residual receipts