

AUSTIN CITY COUNCIL DENSITY BONUS BRIEFING

December 6, 2011

1. Overview

WHY WE ARE HERE:

- To ensure that future density bonus programs will be successful and well-utilized, resulting in a range of benefits to the community.

1. Overview

COUNCIL ACTIONS:

- Direction to review University Neighborhood Overlay (UNO) fee-in-lieu amount.
- Adoption and implementation of Downtown Austin Plan, including density bonus program.
- Discussion of need to refine the Transit Oriented Development (TOD) density bonus programs during a Council hearing on a project in one of the TODs.
- Development and adoption of East Riverside Corridor Regulating Plan.

1. Overview

PRESENTATION OVERVIEW

- Density bonus: what is it.
- Market context and what works.
- How density bonuses have been applied in Austin.
- East Riverside example.
- Conclusions.

2. Density Bonuses Explained

WHAT IS A DENSITY BONUS PROGRAM?

Incentive-based tool to grant additional entitlements (density) in return for community benefits.

Entitlements can include:

- Additional Density (FAR: Floor Area Ratio).
- Additional Units per Acre.
- Additional Height.

Incentives

**Allowable
Under Current
Zoning**

2. Density Bonuses Explained

WHY DO WE HAVE DENSITY BONUS PROGRAMS IN AUSTIN?

- Opportunity to tie clearly identified benefits and costs together to the gain of both community and developer.
- To allow new development to offset some of the community burdens it creates.
- State law limitations on affordable housing (no inclusionary zoning).
- To allow and encourage added density in locations where that density is desired.

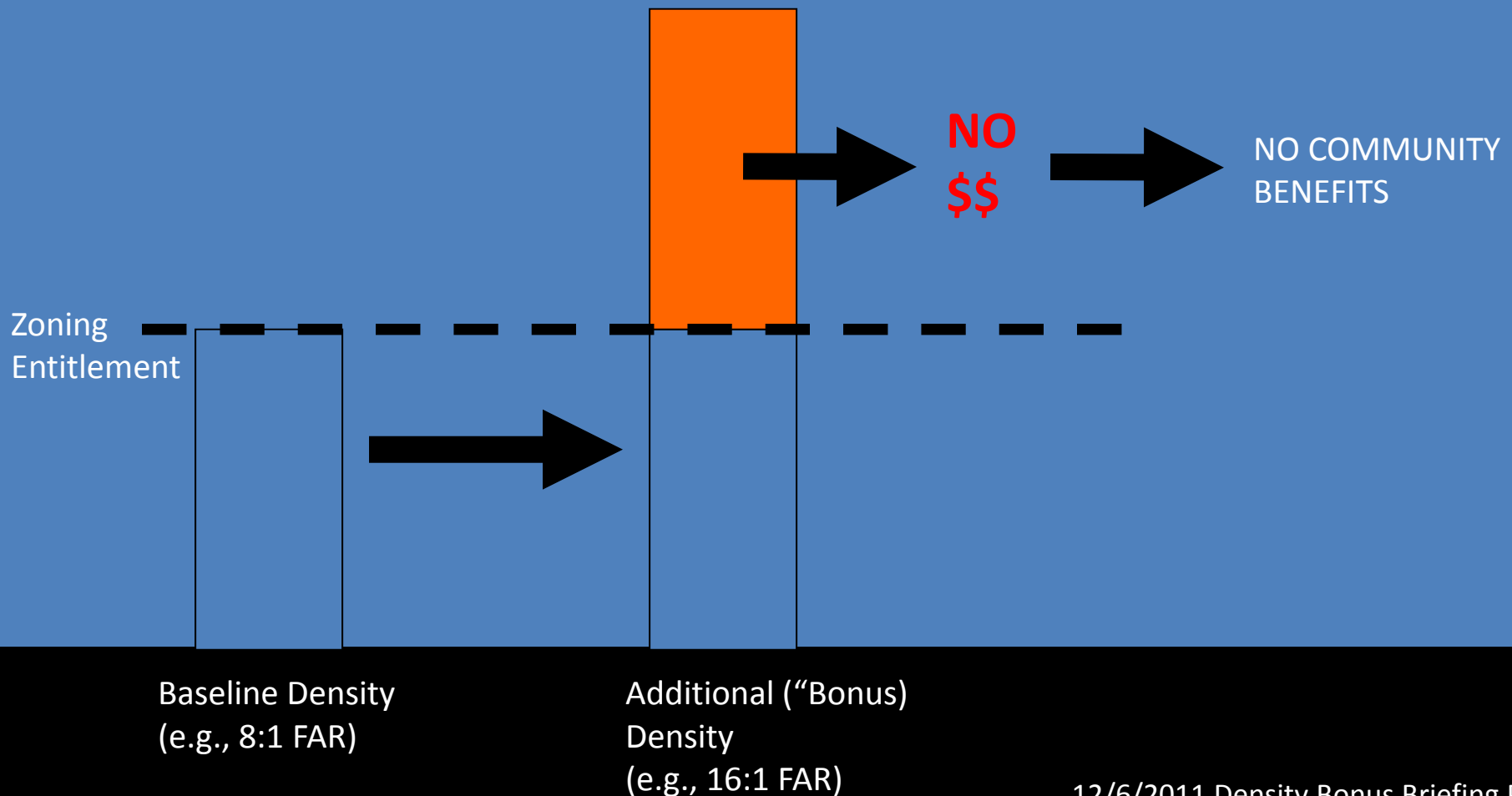
2. Density Bonuses Explained

WHY IS DENSITY A COMMUNITY BENEFIT?

- Most sustainable use of land and resources.
- Cost efficient use of infrastructure.
- Healthy and vibrant diversity of activity.
- Increased housing supply and housing options.
- Ability for more people to live in walking distance of or near transit to access employment, goods, and services.

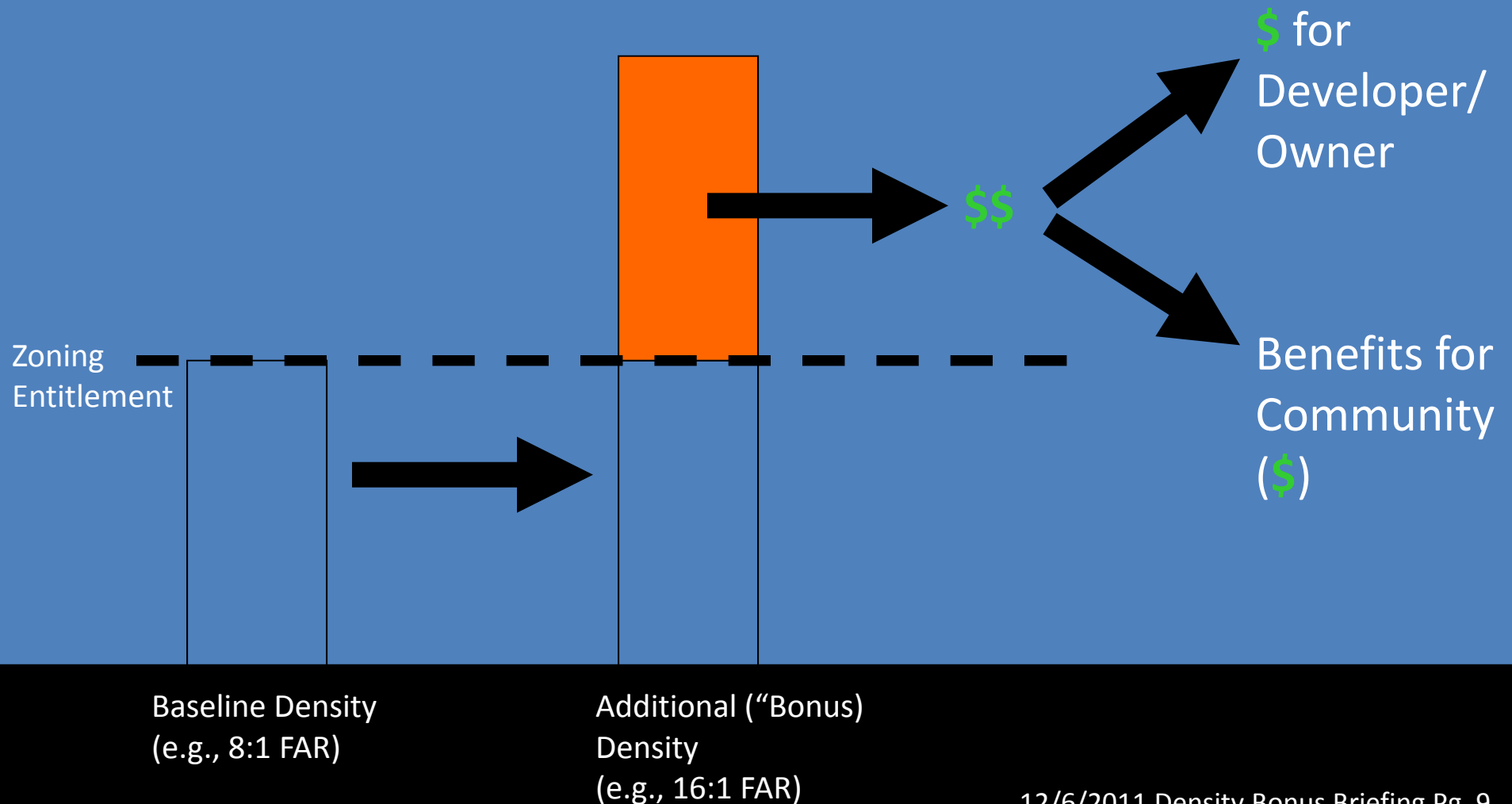
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HOW DO DENSITY BONUS PROGRAMS WORK?



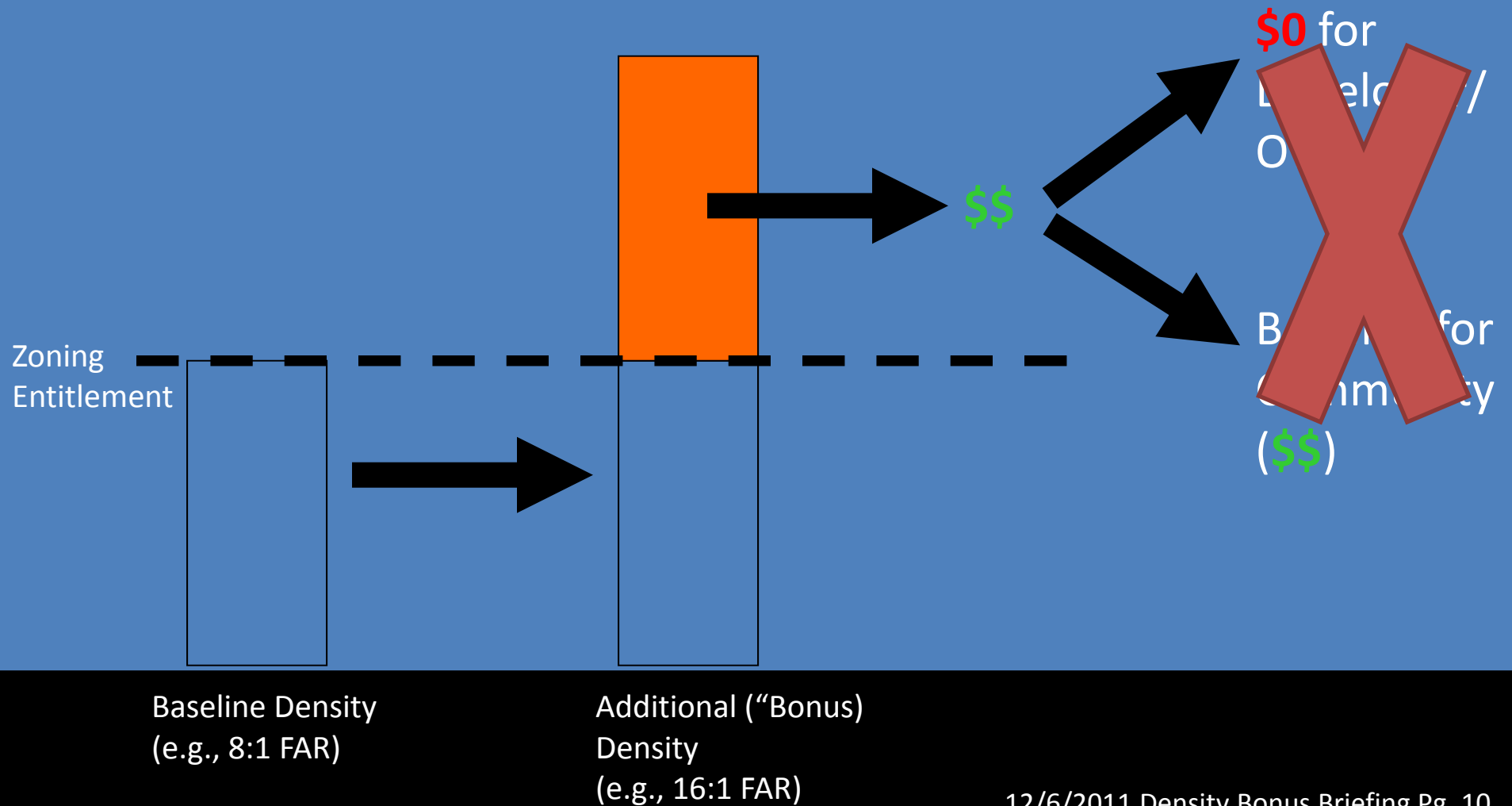
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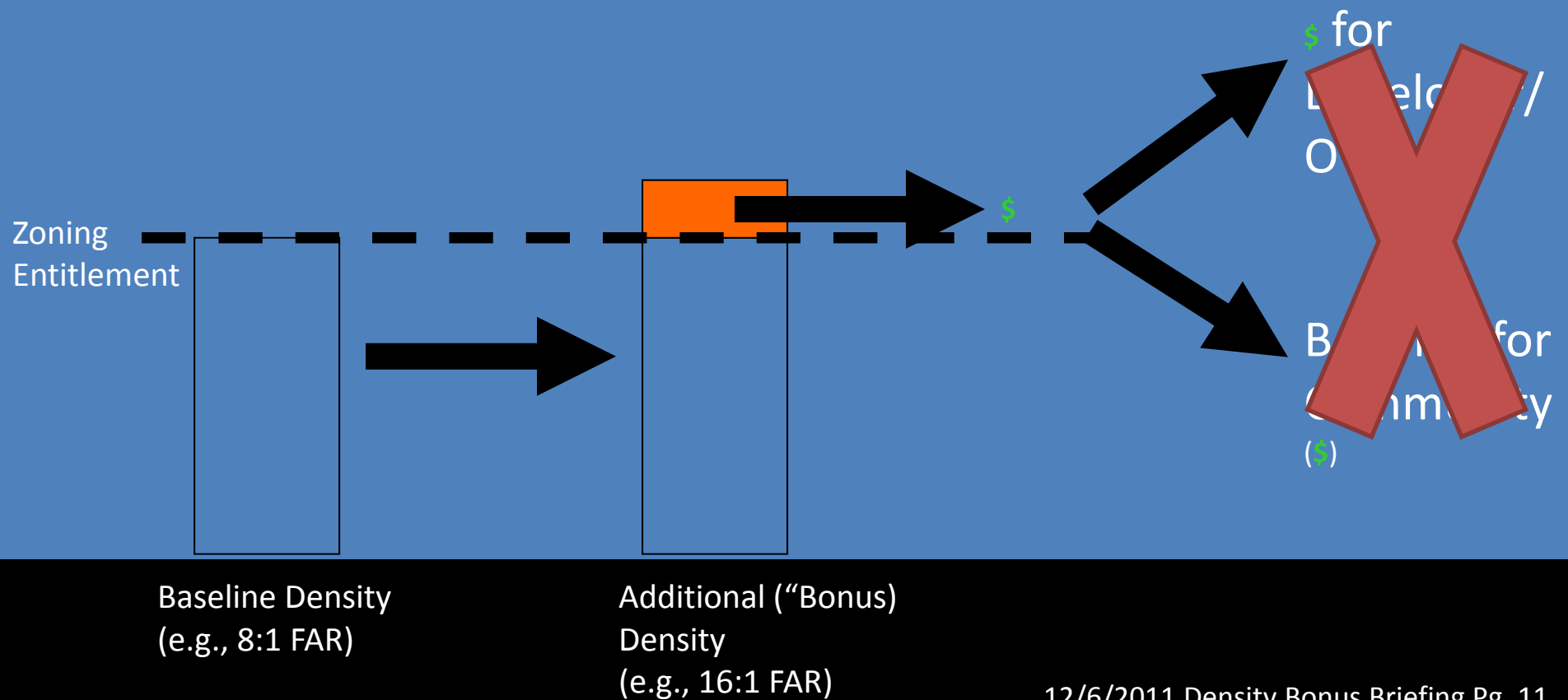
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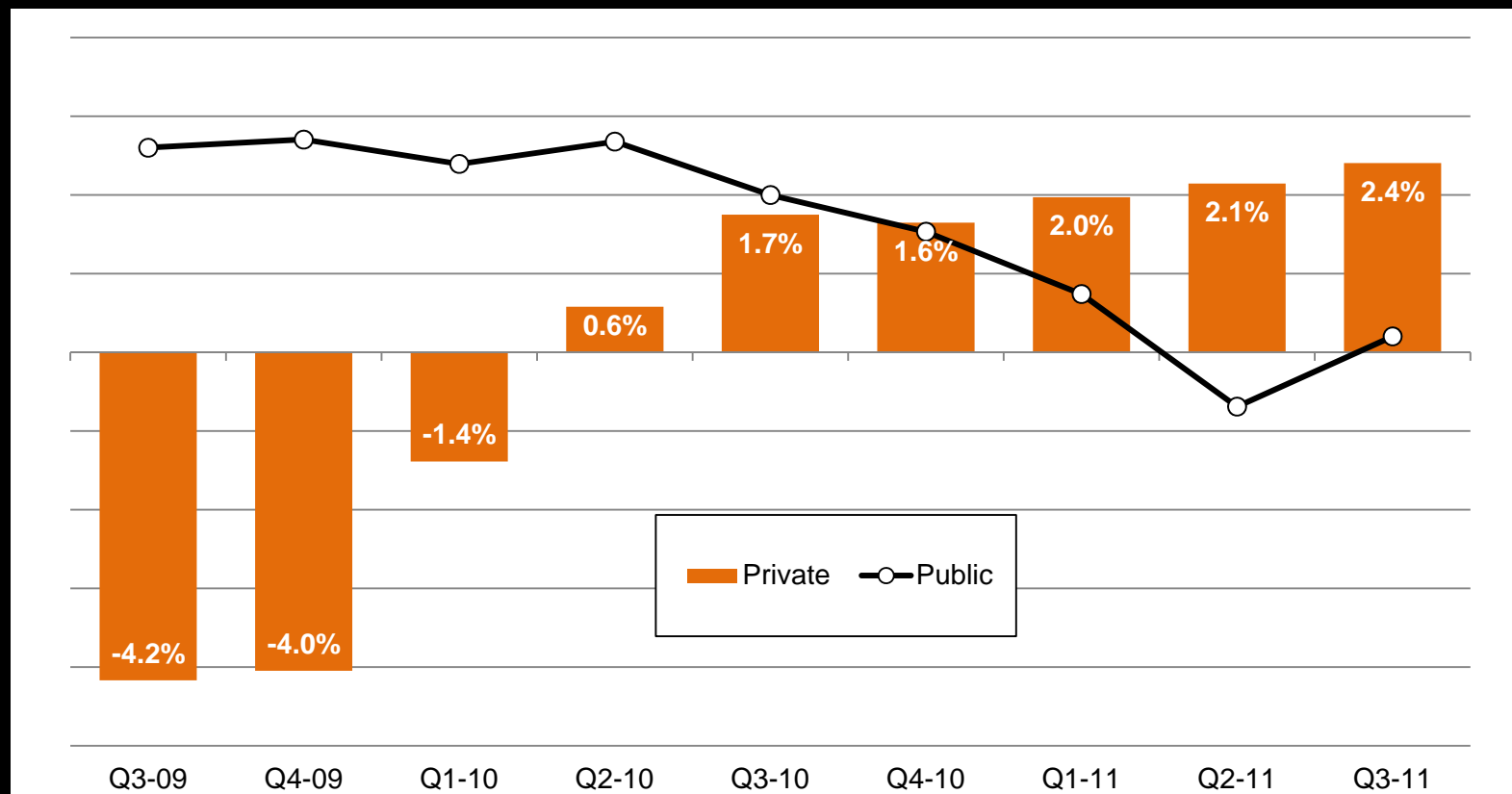
1. Here's how much "density" you can get using base entitlement.
2. Here's how much additional density the project seeks.
3. First analysis: does that additional density produce additional "net value" (\$\$) for the project.
4. If the answer to 3 is none -- go no further. Cannot do workable DB Program.
5. If the answer to 3 is yes, then a density bonus (which splits that value between the City/public and the project) may be feasible.
6. If the share of the split demanded by the City/public exceeds the amount of the additional value to the developer, the program won't work.

3. Market Context

- Signs of life in the private sector job base.
 - 14,500 net new jobs for the 12 months from 3Q-10 through 3Q-11; public sector may not be as negative as originally feared.
- Consumer spending shows improvement, but concerns about prices and income remain a constraint.
- Multi-family looks to be first sector coming out of real estate recession. As demand picks up, rents have increased, while occupancy remains very solid.

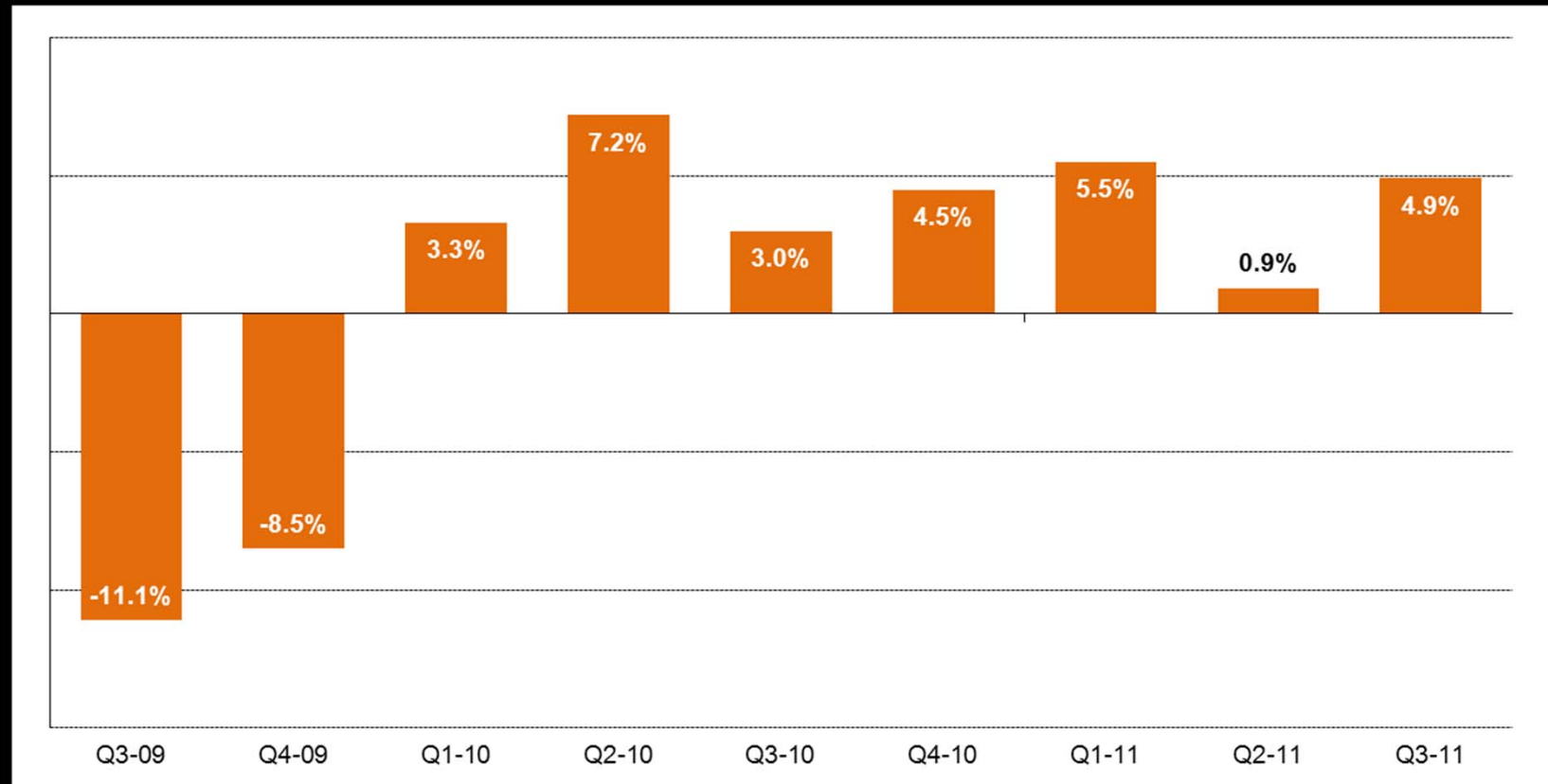
3. Market Context

MSA EMPLOYMENT GROWTH



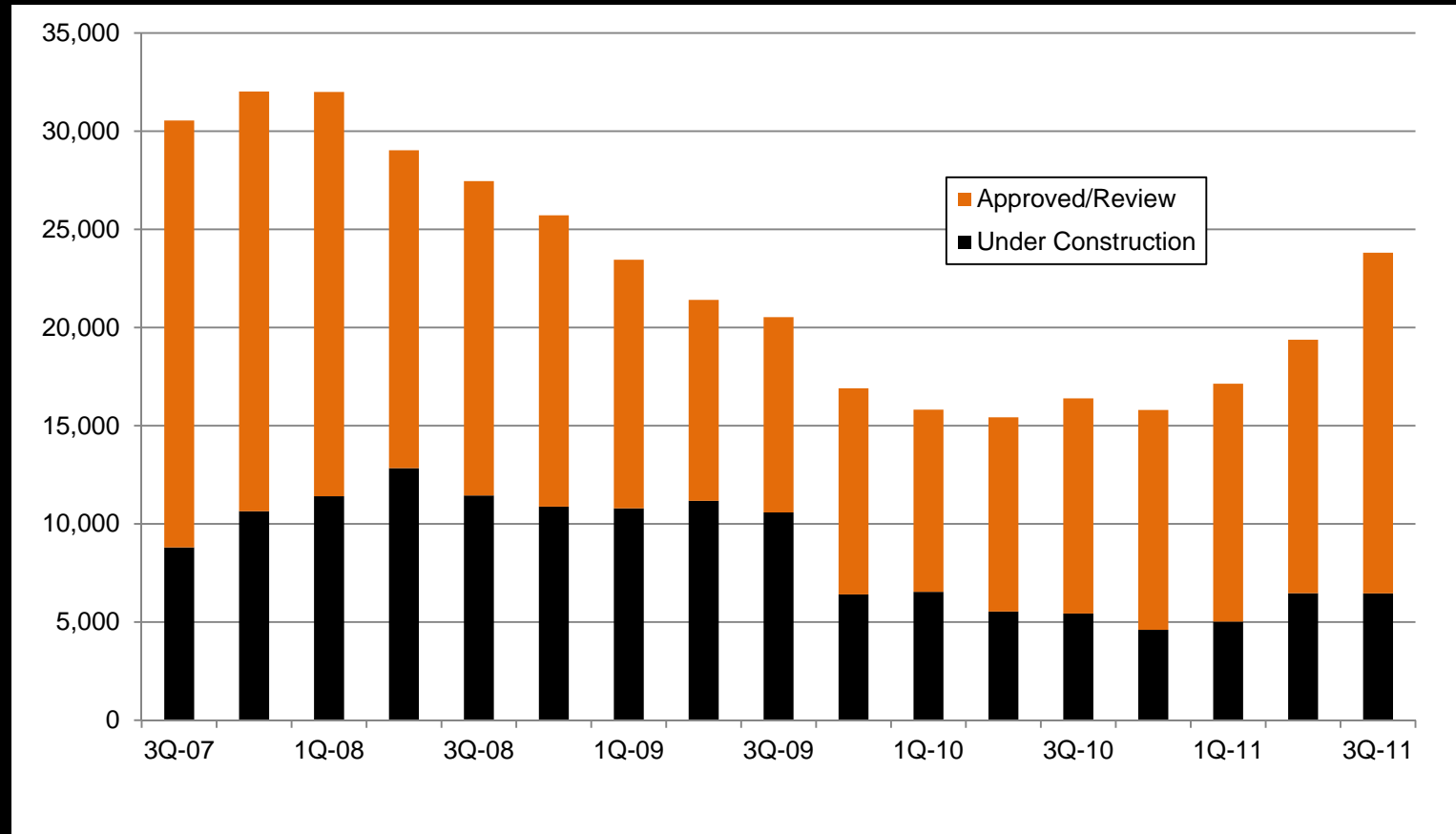
3. Market Context

COA SALES TAX GROWTH



3. Market Context

COA MULTI-FAMILY UNITS



3. Market Context

Historical and Current Occupancy

Area	Jun. 09	Dec. 09	Jun. 10	Dec. 10	Jun. 11
Central	85.3%	92.4%	91.7%	97.0%	95.5%
East	87.1%	83.0%	88.7%	89.4%	90.2%
Far Northwest	91.8%	89.6%	92.9%	95.7%	96.6%
North Central	90.5%	89.1%	92.6%	94.5%	96.4%
Northwest	92.1%	93.9%	95.9%	96.8%	97.0%
South Central	93.3%	93.3%	94.7%	96.4%	96.4%
Southeast	86.8%	88.9%	89.9%	93.2%	95.5%
Southwest	94.4%	93.8%	92.3%	93.5%	96.9%
Round Rock	79.9%	86.6%	92.7%	93.1%	95.3%
Austin Area Total	96.6%	91.4%	89.5%	90.4%	96.0%

Source: Capital Market Research

3. Market Context

Historical and Current Rent per Square Foot

Area	Jun. 09	Dec. 09	Jun. 10	Dec. 10	Jun. 11
Central	\$1.58	\$1.63	\$1.65	\$1.72	\$1.77
East	\$0.82	\$0.86	\$0.87	\$0.89	\$0.93
Far Northwest	\$0.82	\$0.80	\$0.84	\$0.87	\$0.93
North Central	\$0.85	\$0.86	\$0.85	\$0.89	\$0.92
Northwest	\$0.92	\$0.91	\$0.95	\$0.96	\$1.03
South Central	\$0.94	\$0.93	\$0.95	\$1.00	\$1.06
Southeast	\$0.94	\$0.91	\$0.92	\$0.95	\$1.01
Southwest	\$1.00	\$1.04	\$1.07	\$1.09	\$1.18
Round Rock	\$0.82	\$0.83	\$0.87	\$0.89	\$0.95
Austin Area Total	\$0.96	\$0.97	\$0.93	\$0.98	\$1.04

Source: Capital Market Research

3. Market Context

CHARACTERISTICS OF A SUCCESSFUL DENSITY BONUS PROGRAM

- Strong market demand in targeted area.
 - Creates larger margins, allowing “cost” of the bonus.
 - Larger projects (increased density) entail greater risk; strong demand mitigates.
- Additional density is properly “priced.”
 - Has to be low enough that adjusted pro forma still justifies commitment of capital, especially since it’s an up front cost to developer.
- Program is stable and predictable enough for duration of development cycle, yet flexible enough to respond to changing markets.

4. Austin's Current Density Bonus Programs

Existing Programs:

- Downtown ("Interim")
- University Neighborhood Overlay (UNO)
- Transit-Oriented District (TODs): Lamar/Justin, MLK, and Plaza Saltillo
- North Burnet/Gateway
- Vertical Mixed Use
- Rainey District

Potential New Programs:

- Downtown Austin Plan
- East Riverside Corridor

4. Austin's Current Density Bonus Programs

COMMUNITY BENEFITS ACHIEVED:

Program	Community Benefits Achieved
North Burnet/Gateway (2009)	<ul style="list-style-type: none">• None
TOD Density (2009)	<ul style="list-style-type: none">• None
TOD Height (2009)	<ul style="list-style-type: none">• 27 affordable units*
Downtown (Interim) (2008)	<ul style="list-style-type: none">• None
Vertical Mixed Use (2007)	<ul style="list-style-type: none">• 1 project
Rainey District (2005)	<ul style="list-style-type: none">• 9 affordable units
UNO (2004)	<ul style="list-style-type: none">• 25 buildings with streetscape improvements and 1-star AE Green Building ratings• 399 affordable units and \$1.3 million for affordable housing

* In an affordable hsg. devt.

5. East Riverside Example

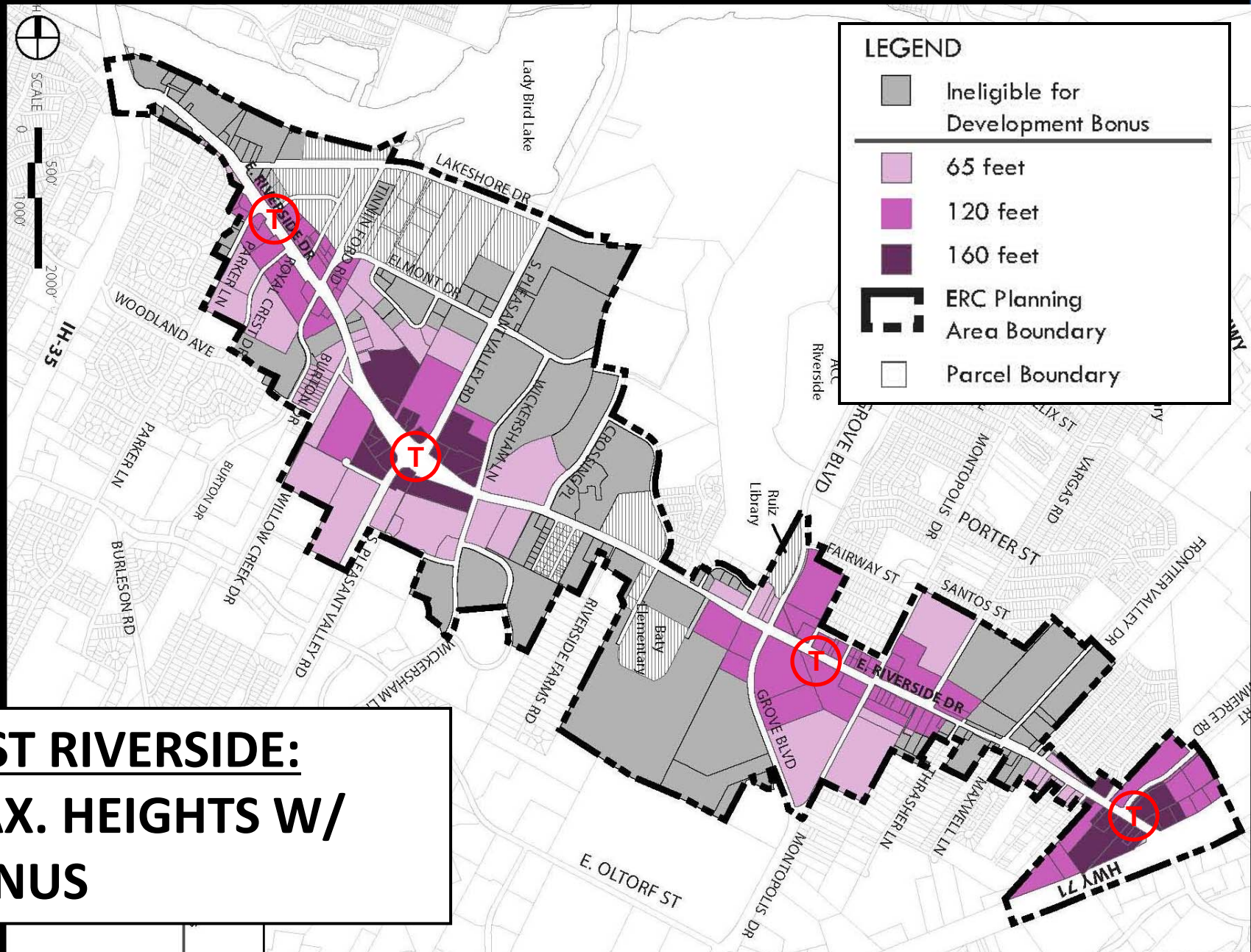
PRELIMINARY PROGRAM INFORMATION:

- Height bonus: from 50' or 60' base height up to 65', 120', or 160' with bonus.
- Highest priorities are affordable housing and open space.
- Other community benefits could include commercial/office space, flood/water quality controls, and bicycle amenities.

5. East Riverside Example



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EAST RIVERSIDE:
**MAX. HEIGHTS W/
BONUS**

5. East Riverside Example

ERC DEVELOPMENT ANALYSIS

- Greater allowable heights enable the construction of more units per acre (making one think that the price per unit would decrease), but many other costs increase.
- Construction prices are higher for taller buildings due to higher parking garage costs and the increased cost of steel or concrete construction over wood construction.
- Higher rents can be charged for the top floors of tall buildings, but can't be raised sufficiently in the Riverside area to offset the increases in other costs.
- Buildings five stories and under have more likelihood than taller buildings of being financially feasible in the Riverside area at present.

5. East Riverside Example

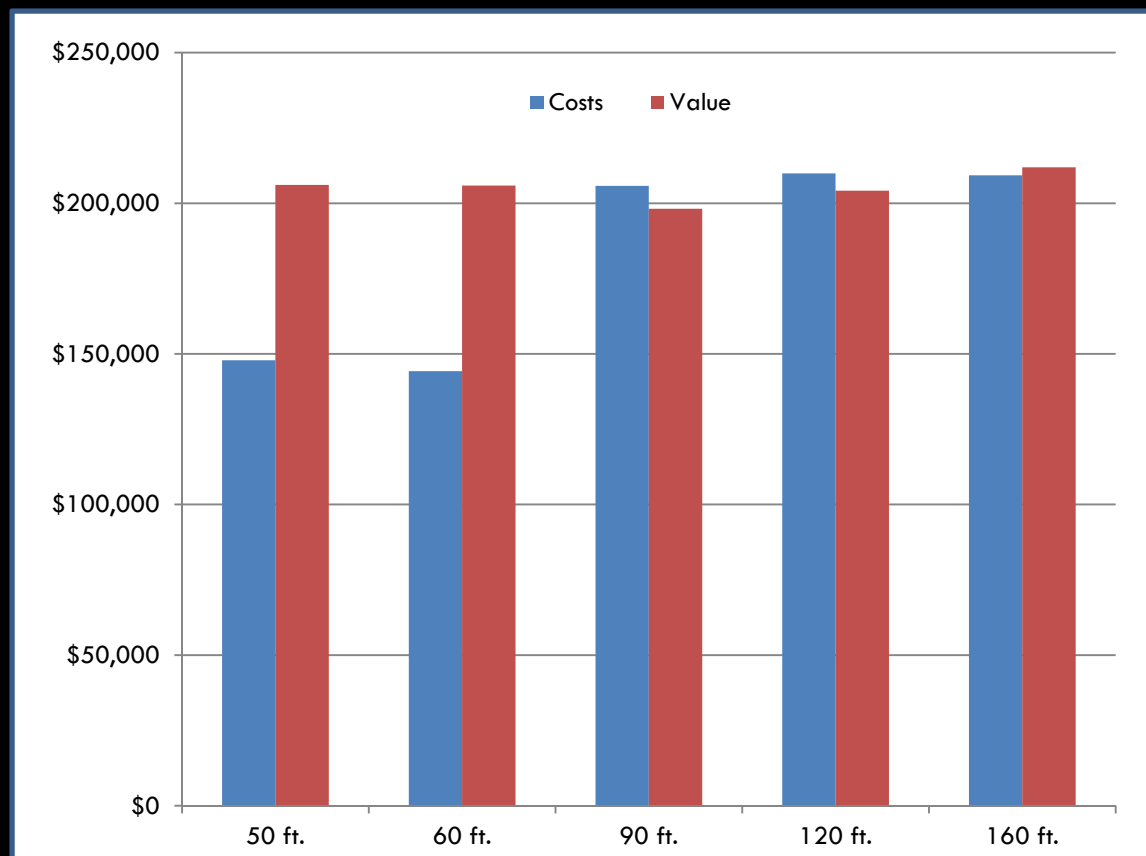
ERC DEVELOPMENT ANALYSIS

	60' w/ Wrapped Parking	120' w/ Podium Parking	160' w/ Podium Parking
Development Program Assumptions			
Density/Acre	60	100	115
Cost Assumptions			
Land/Unit	\$18,150	\$13,939	\$13,257
Direct Construction Costs/Gross SF	\$80	\$120	\$120
Direct Construction Costs/Unit	\$86,000	\$129,000	\$129,000
Parking Construction Costs/Space	\$10,000	\$20,000	\$20,000
Subtotal, Direct Costs/Unit	\$104,000	\$165,000	\$165,000
Indirect Costs/Unit	\$21,450	\$30,350	\$30,350
Total Cost/Unit	\$144,250	\$209,939	\$209,257
Maximum Supported Home Price			
Monthly Rent Price (\$1.70/sq.ft. - \$1.90/sq. ft.)	\$1,615	\$1,758	\$1,805
Gross Revenues/Year	\$19,380	\$21,090	\$21,660
Total Expenses/Year	\$6,514	\$8,330	\$8,414
Net Operating Income/Year	\$12,866	\$12,760	\$13,246
Capitalization Rate	6.25%	6.25%	6.25%
Total Supportable Unit Value	\$205,854	\$204,157	\$211,929
<u>Developer Profit at 12.5% of Costs</u>	<u>\$18,031</u>	<u>\$26,242</u>	<u>\$26,157</u>
Supportable Unit Value after Dev. Profit	\$187,823	\$177,915	\$185,772
Profit or (Financing Gap) per Unit	\$43,573	-\$32,024	-\$23,485

5. East Riverside Example

ERC DEVELOPMENT ANALYSIS

Comparison of Costs and Values per Unit (before dev. profit)



6. Conclusion

OVERALL CONCLUSIONS

- Development bonus programs can be one effective tool in promoting fundamental City goals.
- Correctly calibrated exchanges will establish a predictable and understandable framework for granting additional density.
- One size does not “fit all;” different parts of town will have different market environments that will require individual “prices.”
- All other things being equal, too low is better than too high.
- Programs should be recalibrated on a regular basis in response to performance and changing market conditions.

6. Conclusion

NEXT STEPS

- UNO in-lieu fee analysis will be brought back to Council.
- Council direction to recalibrate the Downtown Density Bonus Program.
- East Riverside Corridor is slated to have a density bonus program.

6. Conclusion

FINAL THOUGHTS: HOW TO CREATE SUCCESSFUL DENSITY BONUS PROGRAMS

Density bonus programs can be a good way to achieve community benefits, but...

- Proper calibration is essential:
 - Exchanges must be based on area-specific market demand and achievable income.
 - Minimal increases in entitlements can only require nominal community benefits.
 - If requirements are set too high, we won't achieve any desired benefits.

QUESTIONS AND DISCUSSION