

E. Riverside Corridor Development Bonus Program Background and Development Cost Analysis

Austin's Development Bonus Programs

Over the past few years, the Austin City Council has adopted a number of development bonus programs through which an applicant can be granted increased maximum allowable development (greater density or height) in exchange for the provision of public benefits. The city currently has development bonus programs for North Burnet / Gateway (NBG), University Neighborhood Overlay (UNO), Transit Oriented Developments (TODs), Downtown, Planned Unit Developments (PUDs), Rainey Street, and properties with Vertical Mixed Use (VMU) designation.

A well-defined density bonus program has the potential to provide both a predictable, efficient and equitable process for development interests and direct and meaningful benefits to the community. Community benefits vary by area, but can include affordable housing, open space, green building, family-friendly housing, and infrastructure improvements, among others.

In addition to the specific community benefits achieved through development bonus programs, density itself helps realize Austin's community priority of sustainability. Density that is well designed makes transit and retail more viable, and supports more schools and services close to homes. Higher densities make walkability possible, and great design makes it enjoyable. Dense development is the most sustainable use of land and resources, is a cost efficient use of infrastructure, creates healthy and vibrant diversity of activity, increases housing supply and housing options for all people, and enables more people to live near transit to access employment, goods, and services.

Density bonus programs have been effective tools in other cities to tie clearly identified benefits and costs together to the gain of both community and developer; however, proper calibration is key to producing desired community benefits. In a December 2011 City Council Work Session on the city's density bonus programs, the presentation included the following principles necessary to create successful programs:

- Cost and benefit exchanges must be based on area-specific market demand and achievable income.
- One size does not "fit all;" different parts of town will have different market environments that will require individual "prices" in the form of public benefits.
- Minimal increases in entitlements can only require nominal public benefits.
- Fees and requirements have to be low enough that the increased costs still result in an economically feasible project. All other things being equal, too low is better than too high. If requirements are set too high, the city won't achieve any desired benefits.
- Programs should be recalibrated on a regular basis in response to performance and changing market conditions.

In order for developers to realize a return on their investment from increased density, market analyses must show that the additional density will increase the probability that a project will be economically successful. For example, it does not make sense to invest in additional

housing density if there is not enough demand for housing to support it. In addition, and importantly, not all increases in density will result in increased profit to a developer because of higher construction costs, increased risk, over-supply, etc.

Calibration of the East Riverside Corridor Development Bonus Program

Most of Austin's development bonus programs include on-site and/or in-lieu fee options for affordable housing as one of the public benefits. The only one of the city's programs that has produced a significant number of affordable units or funds for affordable housing is the University Neighborhood Overlay (UNO) program, which has produced approximately 400 on-site affordable units and collected over a million dollars of in-lieu fees for affordable housing.

The other programs have been only seldomly used, staff believes, because they are not calibrated correctly to function as incentives for dense development. Put another way, the cost of public benefits required through the programs are set higher than the market will support. The result is that the city gains neither the benefits of increased density where desired nor the public benefits required in the programs.

Unlike in the UNO area where the university creates a high demand for housing, our analysis indicates that there is likely insufficient demand in the East Riverside area at present to justify the construction of buildings much taller than what will be allowed by right in the East Riverside Corridor Regulating Plan (which is similar to what is allowed by current zoning). In addition, buildings taller than five or six stories are more expensive to build due to increased construction costs, and current market rents in the area are unlikely to support those higher costs. There may, however, be sufficient demand for the construction of buildings under six stories with density greater than what will be allowed by right in the regulating plan. For this reason, staff supports requiring on-site affordable housing for shorter residential buildings, but providing an in-lieu fee option for taller buildings with higher construction costs. Staff recommends that all non-residential projects be eligible to pay the in-lieu fee for affordable housing as a way to encourage commercial and office projects in this area.

For those of you familiar with Austin's other development bonus programs, you will notice that the on-site affordable housing requirements are stated differently than they are in the City's existing density bonus programs. This is to facilitate the menu-style program recommended in the Downtown Austin Plan Density Bonus Program report. In this menu-style program, for each square foot of public benefit provided, an applicant is granted a certain number of square feet of bonus space. Although stated differently, you will find that the on-site affordable housing requirement results in a minimum of ten percent of the bonus space being affordable. For example, if an applicant obtains the minimum required amount of their bonus area (50%) through the provision of on-site affordable housing, ten percent of the bonus space would have to be affordable. If an applicant chooses to obtain the maximum allowable amount of their bonus area through the provision of on-site affordable housing (75%), it would result in fifteen percent of the bonus space being affordable.

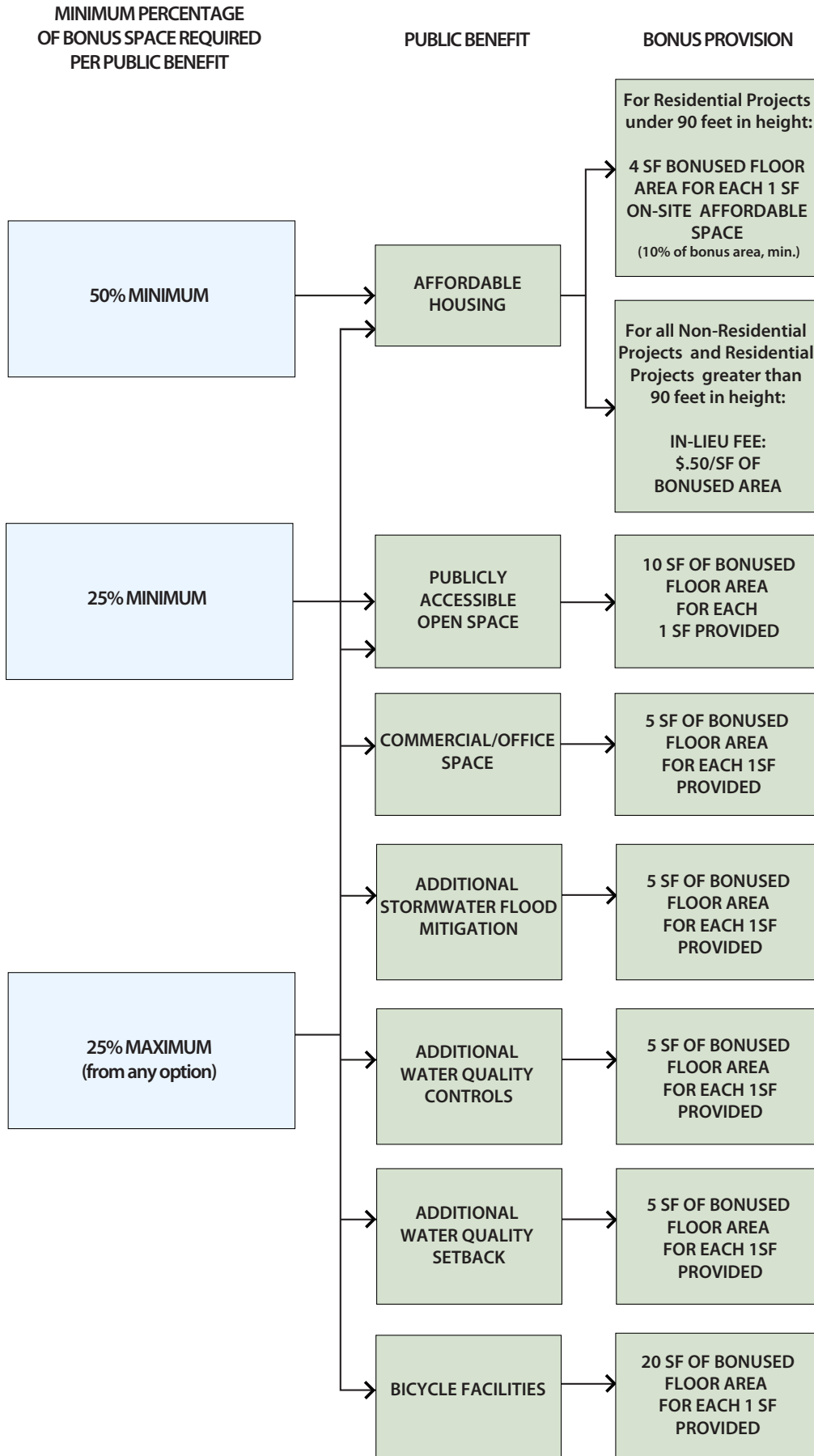
**East Riverside Corridor Development Cost Analysis
for calibrating the East Riverside Corridor Development Bonus Program**

	60' w/ Wrapped Parking	120' w/ Podium Parking	160' w/ Podium Parking
Development Bonus 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
<i>Developer Profit at 12.5% of Costs</i>	<i>\$18,031</i>	<i>\$26,242</i>	<i>\$26,157</i>
Supportable Unit Value after Dev. Profit	\$187,823	\$177,915	\$185,772
Profit or (Financing Gap) per Unit	\$43,573	-\$32,024	-\$23,485

This analysis shows that current market rents in the East Riverside area are unlikely to support the construction of buildings greater than five or six stories at current construction prices and market rents. Staff therefore recommends an on-site affordable housing requirement for buildings under 90 feet tall and the option to pay an in-lieu fee for affordable housing initially set at the nominal rate of \$.50 per bonus square foot for buildings greater than 90 feet tall. The requirements should be recalibrated if market conditions change, or approximately every 5 years.

DEVELOPMENT BONUS PROGRAM PATHWAYS

East Riverside Corridor Regulating Plan



ARTICLE 6: DEVELOPMENT BONUS

6.1. INTENT

The standards of Article 6 are intended to:

- 6.1.1.** Encourage construction of projects with height or density greater than is allowed in the ERC Subdistrict in exchange for the provision of community benefits;
- 6.1.2.** Encourage the provision of affordable housing and mixed income communities;
- 6.1.3.** Encourage additional density while allowing new development to support “public benefits” that are important to achieve as the East Riverside Corridor area transforms in to a pedestrian-friendly urban neighborhood. These public benefits include affordable housing, open space, improved bicycling facilities, commercial or office uses, and improved flood and water quality controls.

6.2. APPLICABILITY

For the purpose of applying the standards in this Article, refer to Article 1 for maps and Sections 2.3.4 and 3.2.2 for descriptions of ERC Subdistricts and ERC Roadway Types and refer to Subsection 4.3.2.A: Principal Street Determination.

Standards	Applies if ERC Subdistrict is:					Applies if the adjacent street is:				Applies to the following:
	CMU	IMU	NMU	UR	NR	CTC	PPC	UR	HWY	
Section 6.2.1 Development Bonus	●	●	●			●	●	●	●	- Properties eligible for development bonuses, as shown on Figure 1-8.
See Article 1 for maps and Sections 2.3.4 & 3.2.2 for descriptions of ERC Subdistricts and ERC Roadway Types.										

6.3. STANDARDS

- 6.3.1.** A development bonus shall be granted to an eligible property, as shown on Figure 1-8, East Riverside Corridor Development Bonus Height Map, that meets the requirements provided of this Section.
- 6.3.2.** The development bonus requirements must be met in full to receive the bonus; exceptions are prohibited. It is the responsibility of the applicant to document that all of the requirements are met. Documentation of compliance with all development bonus requirements is required prior to site plan approval.
- 6.3.3.** The development bonus allows development on a site to be exempt from maximum Floor-to-Area Ratio (FAR) requirements in Section 4.2 and/or exceed its “maximum height by right” limitation up to the “maximum height with development bonus”

limitation established in Figure 1-8, East Riverside Corridor Development Bonus Height Map.

6.3.4. For purposes of applying standards in this section, the Bonus Area is the greater of:

- A.** The gross floor area that exceeds the “maximum base FAR by right” limitation; or,
- B.** The gross floor area that exceeds the “maximum height by right” limitation.

6.3.5. Required Public Benefit Percentages

A. To be eligible for the development bonus described in Subsection 6.3.3 above, the applicant must provide public benefits as described below:

- 1.** A minimum of 50% of the Bonus Area shall be earned through the provision of on-site affordable housing or payment of an in-lieu fee for affordable housing, as described in Subsection 6.4.1 below; and
- 2.** A minimum of 25% of the Bonus Area shall be earned through the provision of publicly accessible open space, as described in Subsection 6.4.2 below; and
- 3.** The remainder of the Bonus Area shall be earned through the provision of any combination of public benefit options for which the project is eligible, as described in Section 6.4 below.
- 4.** A project providing a public benefit meeting multiple public benefit criteria will be granted cumulative Bonus Area for all benefits for which the criteria is met.

6.4. Public Benefit Bonus Options

6.4.1. Affordable Housing Bonus

Unless eligible for the following exceptions, projects must provide on-site affordable housing as described in Subsection 6.4.1.B.

A. Exceptions:

- 1.** Projects greater than 90 feet in height and with a floor area ratio (FAR) of at least 4:1 have the option to provide on-site affordable housing as described in Subsection 6.4.1.B. or pay an in-lieu fee for affordable housing as described in Subsection 6.4.1.C.
- 2.** Non-residential projects will pay the in-lieu fee for affordable housing as described in Subsection 6.4.1.C.

B. On-Site Affordable Housing Benefit

1. Bonus granted: 4 bonus square feet for each 1 square foot of on-site affordable housing provided.
2. An applicant must provide on-site affordable housing as described in the following section to be eligible for the development bonus described in Subsection 6.3.3 above.
3. The following requirements assign the specific level of affordability for each unit type, which shall run with the land:
4. Affordability Requirements for Owner-Occupied Units.

Habitable space as required in 6.4.1.A.1 shall be reserved as affordable through a City approved affordable housing land trust or other shared equity model approved by the Director of Neighborhood Housing and Community Development (NHCD), for not less than 99 years from the date a certificate of occupancy is issued, for ownership and occupancy by households earning no more than 80 percent of the Annual Median Family Income for the City of Austin Metropolitan Statistical Area as determined by the Director of NHCD.

5. Affordability Requirements for Rental Units

Habitable space as required in 6.4.1.A.1 shall be reserved as affordable, for a minimum of 40 years following the issuance of the certificate of occupancy, for rental by households earning no more than 60 percent of the Annual Median Family Income.

C. In-lieu fee for Affordable Housing

1. Bonus granted: 1 bonus square foot for each per square foot in-lieu fee paid for affordable housing.
2. The developer shall pay into the Housing Assistance Fund 100 percent of the fee prescribed by Subsection 3. below for each square foot of the bonus area granted through the provision of this public benefit.
3. The fee to be paid into the City fund for each square foot of Bonus Area is established as 50 cents. This fee should be reviewed at least every 5 years.
4. The developer must pay the fee prescribed by this section prior to the issuance of the Certificate of Occupancy.

D. Affordability Definition

For purposes of this section, a unit is affordable for purchase or rental if the house-

hold is required to spend no more than 30 percent of its gross monthly income on mortgage or rental payments for the unit, in addition to meeting the requirements of this section.

6.4.2. Publicly Accessible Open Space Bonus

- A. Bonus granted:** 10 bonus square feet for each 1 square foot of publicly-accessible open space provided.
- B. Requirements:** To qualify for this bonus, the following requirements must be met:
1. Size and dimensions. The open space must include at least 650 square feet of contiguous area with a minimum depth and width of 20 feet; and
 2. Location. Open space must be visible and accessible from a public right of way or a public park; and
 3. Open space features. The open space must meet the requirements of the LDC Chapter 25-2, Sec. 2.7.3.; and
 4. A minimum of 50% of the open space must be open to the sky; and any portion of the open space that is not open to the sky must have a minimum vertical clearance of 20 feet; and
 5. Ownership and use. One of the following must be met:
 - a. The open space must be dedicated to the City; or
 - b. A public access easement must be provided that allows for public access to and use of all the open space between the hours of 9:00am and dusk, at a minimum; and
 - c. The owner shall pay all costs of transferring the open space or easement to the City as set out in the LDC Section 25-1-602(G); and
 6. Maintenance. The property owner must execute a covenant with the City that ensures the installation, preservation, maintenance, and replacement, if necessary, of the open space features; and
 7. Parks approval. For open space that is dedicated to the City, the applicant must provide a letter from Austin Parks and Recreation Department stating that the open space features meet the requirements of the Department, and that the space is acceptable to the Department; and
 8. Timing. The requirements of this section must be met before a site plan permit is issued; and
 9. Eligibility. To qualify for this bonus, a project's open space must exceed what is required by other ERC regulations.

6.4.3. Commercial/Office Space Bonus

A. Bonus granted: 5 bonus square feet for each 1 square foot of commercial or office space provided that is not required by ERC active edge requirements shown on Figure 1-4, East Riverside Corridor Active Edges Map.

B. Requirements:

1. Ground floor space must meet active edge requirements; and
2. Must contain commercial or office uses; and
3. The property owner must execute a covenant with the City attached to the deed of the site ensuring continuation and maintenance of the qualifying commercial or office spaces by the property owner for at least 20 years.

6.4.4. Additional Stormwater Flood Mitigation Bonus

A. Bonus granted: 5 bonus square feet for each additional 1 square foot of currently unmitigated impervious cover for which flood detention or downstream conveyance is provided above and beyond what is required by the by code and the Drainage Criteria Manual for the development of the site.

B. Requirements:

1. The additional stormwater detention or conveyance must provide a drainage benefit above and beyond what is required for the site development. The proposal must comply with design principles laid out in the City of Austin's Drainage and Environmental Criteria Manuals but is not required to mitigate for all flooding problems or undersized conveyance systems in the area.
2. All proposals are subject to approval by the Director of the Watershed Protection Department.

6.4.5. Additional Water Quality Controls Bonus

A. Bonus granted: 5 bonus square feet for each additional 1 square foot of currently untreated impervious cover for which water quality treatment is provided above and beyond what is required by code and the Environmental Criteria Manual for the development of the site.

B. Requirements:

1. The additional water quality controls must comply with the requirements of the City of Austin's Drainage and Environmental Criteria Manuals or an alternative approved by the Director of the Watershed Protection Department.

2. All proposals are subject to approval by the Director of the Watershed Protection Department.

6.4.6. Additional Water Quality Setback Bonus

- A.** Bonus granted: 5 bonus square feet for each 1 square foot of existing impervious cover removed from the Critical Water Quality Zone.

B. Requirements:

1. Soil in the areas restored to pervious cover must be uncompacted and re-vegetated with native and adapted riparian plants.
2. All proposals are subject to approval by the Director of the Watershed Protection Department.

6.4.7. Bicycle Facilities Bonus (only available to properties with nonresidential space)

- A.** Bonus granted: 20 bonus square feet for each 1 square foot of locker room facilities and associated long-term bicycle parking designed and available for use by employees.

B. Requirements:

1. The locker room facility must include showers, a dressing area, and lockers (the facilities may be located outside of a building in a common area accessible to all buildings triggering this requirement); and
2. All nonresidential tenants of the building must be able to use the locker room facility; and
3. The locker room facility shall be separately accessible from commercial / retail toilet facilities; and
4. Any building that contains commercial / retail space less than 20,000 square feet in size shall contain one unisex shower. Any building that contains commercial / retail space greater than 20,000 square feet, but less than 100,000 square feet shall have a minimum of one shower facility for each sex. Any building that contains commercial / retail space greater than 100,000 square feet, but less than 500,000 square feet shall have a minimum of two shower facilities for each sex. Any building that contains commercial / retail space greater than 500,000 square feet shall have a minimum of three shower facilities for each sex; and
5. Provide two enclosed long-term bicycle parking spaces for each 10,000 square feet of nonresidential space in the project, in addition to the bicycle parking required by code. Each bicycle parking space shall be installed in a covered (inside a building or in a parking garage), highly visible location and be:

- a.** “Class I” racks / parking spaces as defined in the City of Austin Transportation Criteria Manual; or
- b.** Located in a lockable bicycle storage room with means to secure individual bicycles within the room.

This map shows eligible properties and maximum heights allowed with a development bonus.

