

STATESMAN PUD ECONOMIC ANALYSIS

Austin City Council
September 29, 2022



BACKGROUND

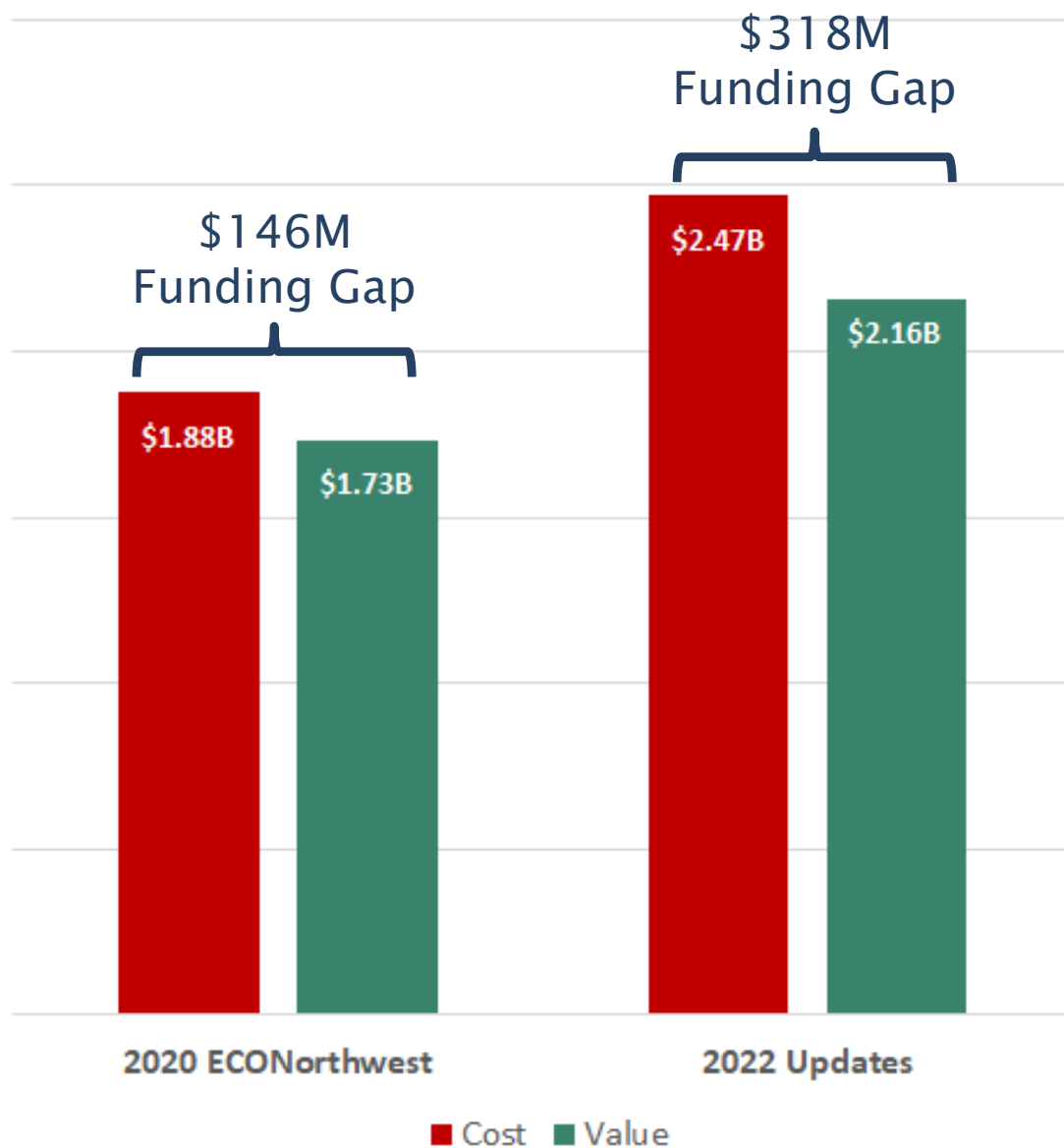
- The Statesman PUD at 305 S. Congress is envisioned as a high-density, mixed-use development along Ladybird Lake within the South Central Waterfront (SCW) District
 - The Statesman PUD represents 20 percent of the District's area
- City-retained consultants at ECONorthwest prepared a financial tool in 2016 to evaluate buildout scenarios of the SCW Framework Plan (including the Statesman site), and updated the findings in 2020
 - They found that development of the scale contemplated in the 2016 SCW Framework Plan may be financially infeasible, and suggested the establishment of a TIRZ
- In April 2022, the Council approved the first reading of an ordinance rezoning the Statesman site to allow for the PUD under the condition of 11 amendments in addition to the 21 amendments provided by the Planning Commission
 - Of these amendments, six were identified by the Developer as adding too great a cost burden to be borne by the project without public financing assistance through a TIRZ or other mechanism

PURPOSE OF THE ASSIGNMENT

This analysis is meant to inform the Council discussion regarding the extent of community benefits required of the Statesman PUD by assessing:

1. the overall feasibility of the Statesman PUD development using updated market factors reflecting current (2022) conditions
2. the feasibility impact of the Planning Commission and City Council requests that Developer has declined
3. the costs of the “superior” PUD attributes that the Developer has accepted

1. UPDATING ECONORTHWEST'S 2020 FINDINGS



Since the 2020 analysis was performed:

Value-side metrics have increased 25%

Cost-side metrics have increased 28–36%

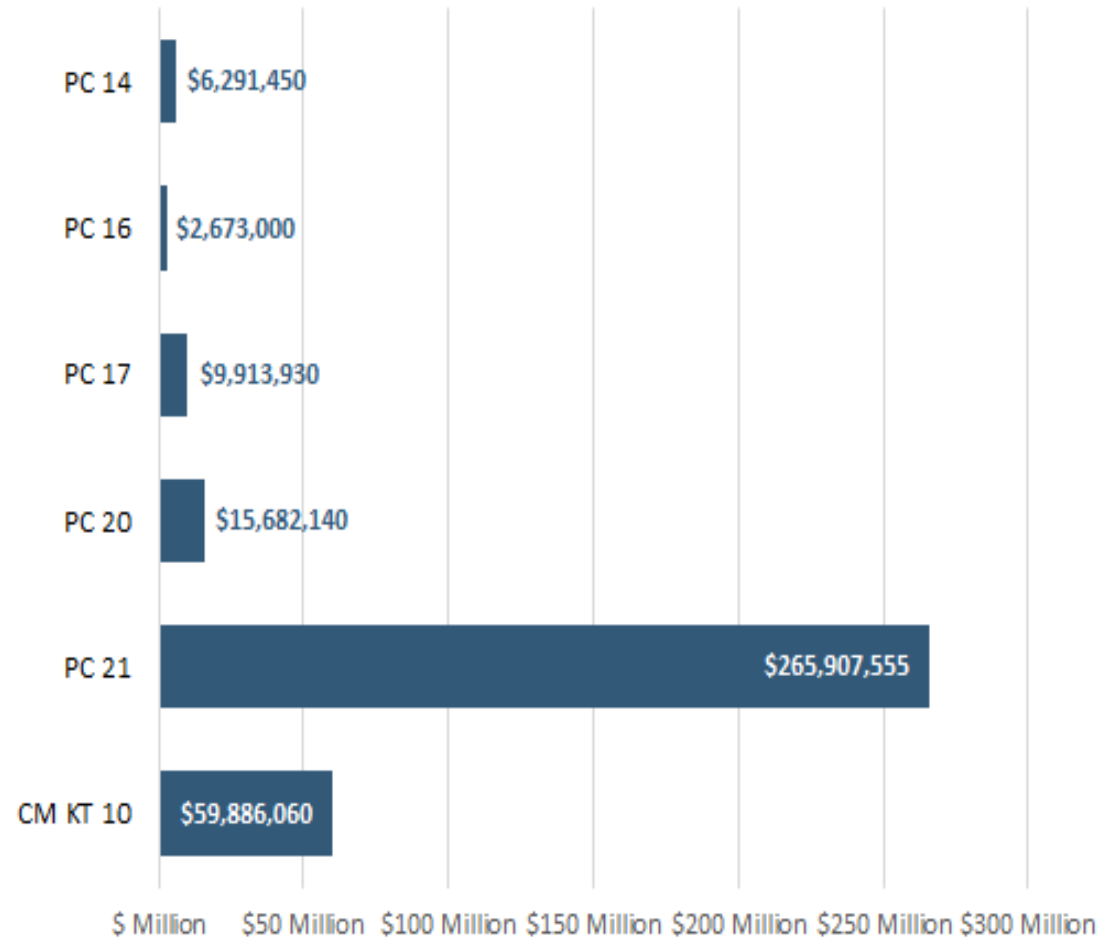
2. ADDITIONAL COMMISSION/COUNCIL REQUESTS

Developer indicated the following amendments would add too great a cost burden to the project:

- PC 14* – 4% of Rentals at 60% Avg. MFI rather than 80% MFI
- PC 16 – Capital Cost of Pier & Water Steps
- PC 17 – Revenue/Value Impact of Added Park Maintenance Costs
- PC 20 – Capital Cost of Specific TIA Improvements
- PC 21* – Affordable Housing at 60% MFI (rental) and 80% MFI (ownership) on Bonus Sq. Ft.
- CM KT 10* – 10% of Rentals at 60% MFI, 5% Condos at 80% MFI with HOA Affordability Adjustments

*These three requests are mutually exclusive affordability programs

Estimated Cost of PC/CM Requests



3. COST OF OFFERED “SUPERIOR” PUD BENEFITS

PUD Agreed-Upon Benefits	Total Cost	Description
Affordable Housing	\$30,346,200	4% of Rentals at 80% MFI, In-Lieu Fee for 4% of Condos
Affordable Commercial	\$1,862,069	4% of Retail Space rented at 60% of Market Value
Underground Parking	\$70,927,088	Added Cost of Constructing 3,981 Spaces Underground vs. Above-Ground
"Superior" Parkland Dedication & Improvement Fees	\$165,300	"Superior" Parkland Fees at \$100 per Unit and \$100 per Hotel Room
Parkland Easement Maintenance Costs	\$1,733,377	Capitalized Revenue Impact of \$91.9K Annual Costs for 1.59 Acres
<u>Dedicated Land for TIA Improvements*</u>	\$12,545,280	1.92 Acres of Otherwise Developable Land for Barton Springs Extension and Bike / Ped Facility
<u>Total of Agreed-Upon Benefits</u>	\$117,579,314	

Source: Economic & Planning Systems

4. PUD ECONOMICS BASED ON COMPARABLE TRANSACTIONS

1. Adding density should increase land value for Statesman tract

- Existing building is 305,000 SF, current entitlement is 660,000 SF, and developer is requesting increase to 3.5 million SF

2. Applying recent sales data to proposed density suggests property value could increase by roughly \$41M *before* PUD exactions

- 5 downtown high-rise land sales in 2020–21 averaged \$62/bldg. SF allowed
- This figure would increase Statesman property value from ~\$74M today (TCAD AV) to ~\$218M of gross improved land value, a ~\$144M increase
- ECONorthwest/EPS estimates ~\$102M in infrastructure costs to improve the land, which reduces the *net* increase to ~\$41M before PUD exactions

3. The “superior benefits” included in the Project that have already been agreed to are estimated to cost the Project at least ~\$118 million

- This figure exceeds the developer’s net value gain by ~\$77M

4. The developer has limited incentive to pursue this development without significant market improvements and/or subsidy

- Existing property value exceeds net value of PUD without subsidy

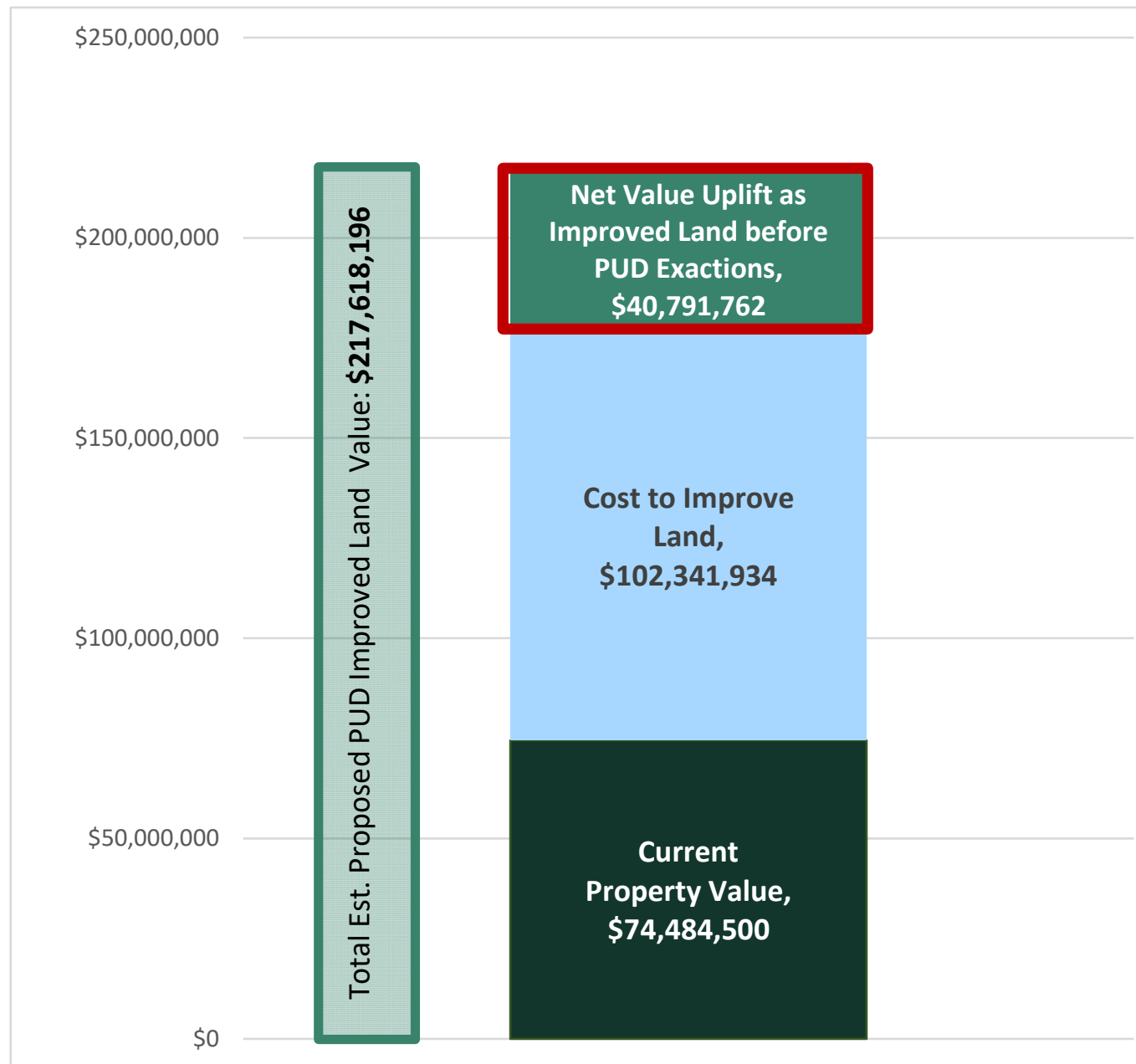
4. PUD ECONOMICS BASED ON COMPARABLE TRANSACTIONS

Item	Description	Dollar Amount
Proposed PUD Entitlement Improved Land Value	3.5M SF gross bldg area X \$62/SF land value	\$217,618,196
<u>(less) Infrastructure Costs to Improve Land</u>	<u>New roadways, utilities, etc. required for increased capacity</u>	<u>-\$102,341,934</u>
= Net Land Value before PUD Exaction Costs		\$115,276,262
<u>(less) Existing Property Value</u>	<u>TCAD assessed value for Statesman property</u>	<u>-\$74,484,500</u>
= Value Uplift from Extra Buildable Area under Proposed PUD, before Exaction Costs		\$40,791,762
<u>(less) Cost of Agreed-Upon Benefits</u>		
Affordable Housing	4% of apts at 80% MFI, in-lieu fee for condos	-\$30,346,200
Affordable Commercial	4% of retail at 60% of market rent	-\$1,862,069
Underground Parking	3,981 spaces at \$17,816 cost premium	-\$70,927,088
"Superior" Parkland Dedication & Imp. Fees	\$100 extra fee per residential unit and hotel room	-\$165,300
Parkland Easement Maintenance Costs	Project value impact of \$91,869 added cost/yr.	-\$1,733,377
<u>Dedicated Land for TIA Improvements</u>	<u>COA FSD estimate of land value for 1.92 acres</u>	<u>-\$12,545,280</u>
Total Cost of Agreed-Upon Benefits under Proposed PUD		-\$117,579,314
= Remaining Uplift Value (or Subsidy Required)	Value Uplift minus Cost of Agreed-Upon Benefits	-\$76,787,553
<u>Cost of Additional PC/CM Requests:</u>		
PC 14 (60% Average MFI) ¹	Add'l subsidy for rental units at 60% MFI rather than 80%	\$6,291,450
PC 16 (Pier & Water Steps)	Estimated construction costs	\$2,673,000
PC 17 (Added Park Maintenance)	Project value impact of \$525,438 added cost/yr.	\$9,913,930
PC 20 (Specific TIA Improvements)	Barton Springs Extension and bike/ped on Congress	\$15,682,140
PC 21 (Aff. Housing on Bonus S.F.) ¹	10% of bonus SF at 60% MFI, 5% of bonus SF at 80% MFI	\$265,907,555
CM KT 10 (Aff. Housing w/ HOA Adj.) ¹	10% of apts at 60% MFI, 5% of condos at 80% MFI	\$59,886,060

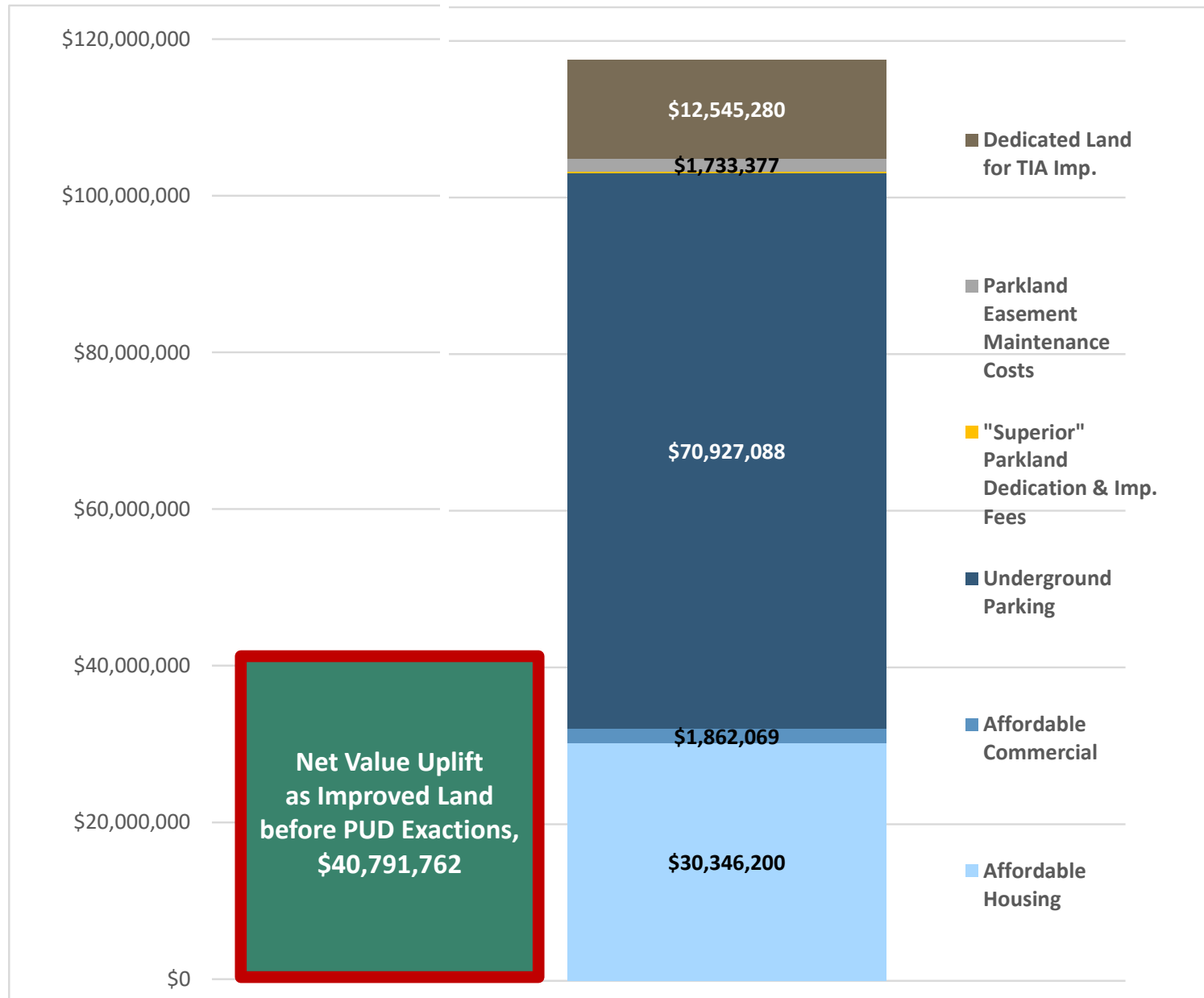
[1] The value of the Affordable Housing-related requests are shown net of the current Developer-proposed affordable housing program.

Sources: ECONorthwest; TCAD; COA FSD; COA PARD; COA Housing and Planning; DPR Construction; Economic & Planning Systems

4. ESTIMATING NET VALUE UPLIFT FROM PUD DENSITY



4. NET VALUE GAIN VS. COST OF AGREED-UPON BENEFITS



CONCLUSIONS

1. Changes to market economics since the 2020 ECONorthwest analysis have likely increased the Statesman's feasibility challenges
 - Construction cost inflation has outpaced increases in achievable revenues, and development is likely to be delayed until the market improves
2. Still, developable land in Downtown Austin has significant market value, and adding density should add land value
 - Comparable transactions suggest that increasing maximum density from 660K to 3.5M SF may add \$143 million in gross land value, before infrastructure costs and PUD exactions are considered
3. The cost to improve the property must be netted out from its gross value to understand the net value added for the developer/landowner
 - Roughly \$102M in infrastructure improvements are required to create capacity and satisfy SCW Plan "physical framework" vision for Statesman site, reducing the net value added to \$41M *before* the PUD benefits are considered
4. The "superior benefits" that have already been agreed to by the developer are estimated to cost the Project more than the net value increase from the added density
 - The six identified benefits are provided above and beyond what would normally be required under similar zoning, and are estimated to cost roughly \$117M
5. Additional exactions would add costs and/or decrease revenues, but some would create more significant challenges than others
 - PC 16 (pier and water steps) is estimated to cost the least at \$2.7 million, while PC 21 (affordable housing based on bonus SF) is estimated to cost over \$250 million

STATESMAN PUD ECONOMIC ANALYSIS

Additional Slides



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The Economics of Land Use

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1. ARE INFLATED REVENUE UPDATES REASONABLE?

The 2020 ECONW revenue values, inflated by EPS, are generally similar to equivalent to or above market comparables (apart from condominiums). With condos representing only a small portion of the overall development program, **this suggests that EPS's overall inflated value is reasonable or even overstated** if current market conditions persist.

Item	Unit	ECONorthwest 2020	EPS Inflated 2022	Market Comps 2022
Revenues				
Rental Residential	Rent/NSF/Month	\$3.20	\$4.17	\$4.12 ¹
Ownership Residential	Sales Price/NSF	\$600	\$970	\$1,179 ²
Office	Rent/NSF/Year (NNN)	\$40.00	\$46.25	\$46.00 ³
Retail	Rent/NSF/Year (NNN)	\$50.00	\$53.98	\$36.18 ⁴
Hotel	RevPAR	\$169	\$189	\$164 ⁵

[1] CoStar Group data for average asking rents for High Rise Downtown Austin Class A Multifamily properties built since 2020.

[2] Redfin data for average sales price of condominium units sold at the Austonian in the past year.

[3] CoStar Group data for average NNN rents for Downtown Austin Class A Office properties built since 2017 for which rent data was available.

[4] CoStar Group data for 2022 YTD average NNN asking rents for Downtown Austin Retail properties.

[5] CoStar Group data for 12-month average RevPAR (August 2021-2022) for Downtown Austin Hospitality properties built since 2017.

Source: CoStar Group; Redfin; Economic & Planning Systems

1. ARE INFLATED COST UPDATES REASONABLE?

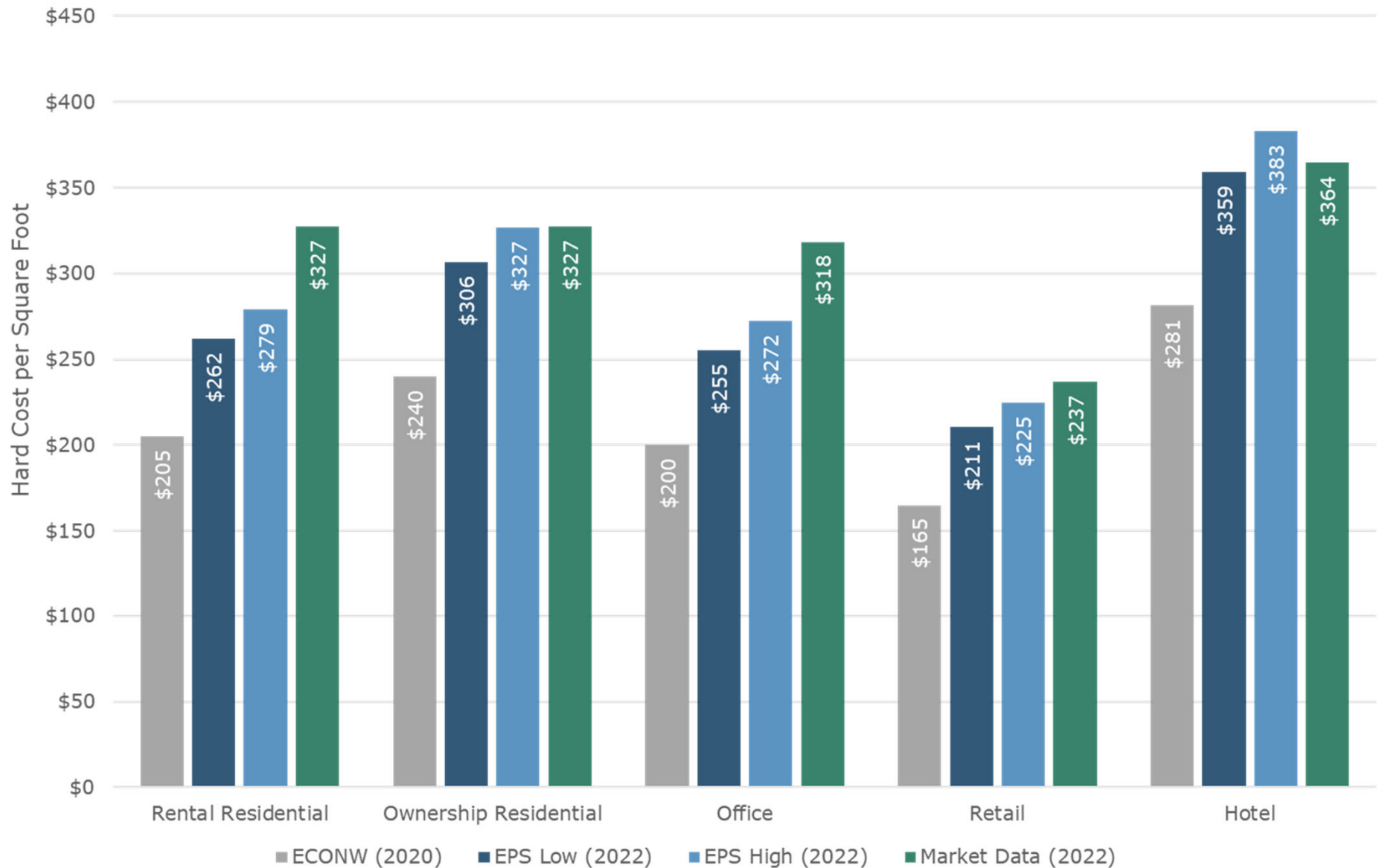
The 2020 ECONW cost values, inflated by EPS, are roughly equivalent to or below market comparables even at the high end of the provided range. **This suggests that EPS's overall inflated costs should be reasonable or even understated** if current market conditions persist.

Item	Unit	ECONorthwest 2020	EPS Inflated (2022)		Market Comps ¹ 2022
			Low (CCI)	High (BCI)	
<u>Costs</u>					
Rental Residential	Hard Cost/GSF	\$205	\$262	\$279	\$327
Ownership Residential	Hard Cost/GSF	\$240	\$306	\$327	\$327
Office	Hard Cost/GSF	\$200	\$255	\$272	\$318
Retail	Hard Cost/GSF	\$165	\$211	\$225	\$237
Hotel	Hard Cost/Key	\$225,000	\$287,236	\$306,332	\$291,576

[1] Market data per Marshall & Swift Valuation Service for construction costs of indicated uses in Austin, TX. Hotel estimate additionally includes FF&E costs per Cushman & Wakefield Focus On Hotel Construction Costs 2019 for Upper Upscale

Source: Marshall & Swift CoreLogic Cost Estimator; Cushman & Wakefield; Economic & Planning Systems

1. DEVELOPMENT COST ASSUMPTIONS SUMMARY



INFRASTRUCTURE COSTS (UNINFLATED)

2020 MODIFIED PHYSICAL FRAMEWORK COSTS - PARCEL ALLOCATION

DRAFT 4 | JULY 20, 2020

Name	Property Code	Street / Open Space Code	Street Name	% length	% back of curb	TOTAL	Roadway & Drainage Improvements	Streetscape Improvements	Green Infrastructure	All Utilities		Open Space
										Utilities	Reclaimed Water	
Statesman	PR-22	C-1	CONGRESS INT 1	100%	100%	\$ 4,173,970	\$ 4,125,970	\$ 48,000	\$ -	\$ -	\$ -	
		C-2	CONGRESS IMPROVEMENTS 2	100%	100%	\$ 1,176,750	\$ 408,450	\$ 768,300	\$ -	\$ -	\$ -	
		BS-1	BARTON SPRINGS 1	100%	100%	\$ 3,287,603	\$ 231,803	\$ 1,789,800	\$ 216,000	\$ 1,050,000	\$ -	
		WQ-1	BARTON SPRINGS WATER QUALITY	100%	100%	\$ 1,089,300	\$ -	\$ -	\$ 1,089,300	\$ -	\$ -	
		S-1	INTERNAL STREETS SEGMENT 1	100%	100%	\$ 777,835	\$ 42,305	\$ 527,280	\$ -	\$ 208,250	\$ -	
		S-2	INTERSECTION 1	100%	100%	\$ 132,784	\$ 1,188	\$ 101,946	\$ -	\$ 29,650	\$ -	
		S-2	LANEWAY - DECORATIVE STREET	100%	100%	\$ 983,356	\$ 9,576	\$ 854,080	\$ -	\$ 119,700	\$ -	
		S-2	INTERSECTION 2	100%	100%	\$ 132,784	\$ 1,188	\$ 101,946	\$ -	\$ 29,650	\$ -	
		S-3	INTERNAL STREETS SEGMENT 3	100%	100%	\$ 702,318	\$ 44,082	\$ 520,596	\$ 44,640	\$ 93,000	\$ -	
		S-4	SHARED STREET SEGMENT 4	100%	100%	\$ 703,540	\$ 6,120	\$ 697,420	\$ -	\$ -	\$ -	
		WQ-3	INTERNAL STREET WATER QUALITY	100%	100%	\$ 659,500	\$ 659,500	\$ -	\$ -	\$ -	\$ -	
		R-1	SITE UTILITY REMOVAL / RELOCATIC	100%	100%	\$ 804,000	\$ -	\$ -	\$ -	\$ 804,000	\$ -	
		G3	REGRAIDING WORKS	100%	100%	\$ 2,424,450	\$ 2,424,450	\$ -	\$ -	\$ -	\$ -	
		WQ-2	PLAZA 7 WATER QUALITY			\$ 154,900						\$ 154,900
		P-1	GREAT STEPS PLAZA 1			\$ 2,583,570						\$ 2,583,570
		P-2	LANDSCAPE PLAZA 2			\$ 477,920						\$ 477,920
		P-3	LANDSCAPE PLAZA 3			\$ 287,875						\$ 287,875
		P-4	LANDSCAPE PLAZA 4			\$ 840,648						\$ 840,648
		P-5	LANDSCAPE PLAZA 5			\$ 538,600						\$ 538,600
		P-6	LANDSCAPE PLAZA 6			\$ 240,100						\$ 240,100
		P-7	LANDSCAPE PLAZA 7			\$ 1,383,896						\$ 1,383,896
		OS1	WATERFRONT PARK- CMG			\$ 26,541,191						\$ 26,541,191
			SUBTOTAL			\$ 50,096,890	\$ 7,954,632	\$ 5,409,368	\$ 1,349,940	\$ 2,334,250	\$ -	\$ 33,048,700
		60%	INDIRECT COSTS			\$ 29,857,746	\$ 4,740,961	\$ 3,223,983	\$ 804,564	\$ 1,391,213	\$ -	\$ 19,697,025
			TOTAL COSTS			\$79,954,636	\$ 12,695,593	\$ 8,633,351	\$2,154,504	\$ 3,725,463	\$0	\$ 52,745,725