MEMORANDUM

To: Rosie Truelove, Director, City of Austin Housing & Planning Department

From: Darin Smith and Luke Foelsch, Economic & Planning Systems

Subject: Statesman PUD Economic Analysis Addendum; EPS #221035

Date: September 28, 2022

The Economics of Land Use

Economic & Planning Systems, Inc. (EPS) has been retained by the City of Austin to review the feasibility implications related to the proposed PUD ("the Project") for the property at 305 South Congress, known as the Statesman property. As part of the South Central Waterfront planning process, the Project was already subject to a feasibility analysis by the City's hired consulting firm ECONorthwest in 2020, which concluded that the Project was likely to be infeasible without subsidy. EPS produced a memorandum dated July 8, 2022 describing the market changes since ECONorthwest analysis was conducted, and concluded that feasibility challenges likely remain and are likely more challenging in 2022 than previously estimated. That EPS memo also estimated the cost implications of six (6) exactions that the developers had already agreed to as part of the PUD application, as well as the cost implications of amendments suggested by the Planning Commission and City Council that the developers had not yet agreed to include in the Project.

This current memorandum builds upon that previous analysis by providing a comparison of the property's development economics under current conditions and entitlements versus the requested PUD provisions. The intent is to determine whether the developer/landowner will have economic incentive to redevelop the property under various scenarios.

EPS again concludes that the general 2020 ECONorthwest conclusion still appears to reflect current economics: the Statesman PUD Project is likely to be infeasible or require subsidy under prevailing market conditions and the currently envisioned uses, density, and community benefits program, and additional community benefits would require still more market improvements and/or subsidy.

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Analysis

EPS has approached this analysis from the perspective of landowners considering whether or not to sell their property for redevelopment. In such cases, the landowners must consider whether the revenue they could generate through land sales will exceed the value of what they already have. The revenues they could receive from selling the site depend on what can be built on it and how much it will cost to improve the site and prepare it for vertical (building) development. **Table 1**, attached, reflects the following analytical approach and calculations.

Existing Property Value

In the case of the Statesman property, the Travis Central Appraisal District assigns an assessed value of roughly $74 million to the property, which figure is meant to reflect its market value. This figure seems reasonable to EPS given that the site is presently developed with a roughly 300,000 square foot commercial building and could add another roughly 360,000 square feet of development under its current entitlement.

Gross Land Value Once Improved

In 2020 and 2021, five parcels of land entitled for high-rise development were sold in Downtown Austin. These five parcels were all under one acre in size and had a remarkably consistent valuation ranging from $55.12 to $66.09 per allowable building square foot, and averaged $62 per allowable building square foot. Assuming the Statesman property could achieve a similar per-square-foot value for its 3.5 million square feet of requested density, the Statesman land might sell for roughly $218 million once improved.

Costs of Improvement

The Statesman site, being considerably larger than the comparable sites and not yet fully served by infrastructure required to accommodate such density, is expected to require significant infrastructure investment both on- and off-site. The ECONorthwest study indicated that roughly $80 million in "physical framework" costs were attributed to the Statesman site in 2019-20, and this figure would be nearer to $102 million today given documented cost inflation in recent years. The developer has confirmed that their current estimates of infrastructure costs are roughly this same amount.

Net Value "Uplift" Before PUD Exactions

To realize the full "improved" land value estimate of $218 million, the land seller or buyer would need to invest roughly $102 million in site improvements, thus reducing the "net" value of the site to roughly $115 million. This figure exceeds the existing value of the site ($74 million) by roughly $41 million, and would thus represent an economic incentive to sell the site for redevelopment, if that were the extent of the required investments and/or community benefits.

Cost of Agreed-Upon PUD Exactions

The PUD proposed by the developer responds to certain expectations set by the South Central Waterfront vision plan and goals set by the Planning Commission and City Council by including affordable housing, land dedications for transportation improvements, underground parking, and other items that add costs and/or reduce revenues. As detailed in EPS's memo dated July 8, 2022, the estimated costs of these agreed-upon exactions sum to roughly $118 million.

Cost of Additional PUD Exactions under Consideration

The Planning Commission and City Council have introduced several additional ideas for benefits to be provided by the Statesman project. As detailed in EPS's July 8, 2022 memorandum, the cost implications of these various ideas range widely. None of them can be viewed as enhancing project feasibility for the landowner/developers, as they each involve some additional cost and/or reduction in revenues.

Conclusions

The project is expected to be infeasible under current market conditions because the added costs of the PUD exactions ($118 million) exceed the net land value uplift from the added density alone ($41 million). Subtracting the PUD exactions cost from the value uplift yields a deficit of roughly $77 million. This figure represents the amount of additional "value uplift" that would be required for the project to be feasible; i.e., for the landowners to realize the same value from selling the land as they would from retaining their existing asset. Without this additional "value uplift," which could be achieved through some combination of market improvements and/or public subsidy, the landowners would be most prudent to retain or sell their property with its current combination of buildings and development capacity, rather than taking on the financial burden of improving the land and meeting the current and potentially expanded PUD exaction requirements.

Table 1
Value of Existing Statesman Property vs. Proposed PUD Entitlement
Statesman PUD; EPS #221035

Item	Description	Dollar Amount
Proposed PUD Entitlement Improved Land Value	3.5M SF gross bldg area X $62/SF land value	$217,618,196
(less) Infrastructure Costs to Improve Land	New roadways, utilities, etc. required for increased capacity	-$102,341,934
= Net Land Value before PUD Exaction Costs		**$115,276,262**
(less) Existing Property Value	TCAD assessed value for Statesman property	-$74,484,500
= Value Uplift from Extra Buildable Area under Proposed PUD, before Exaction Costs		**$40,791,762**
(less) Cost of Agreed-Upon Benefits		
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
Dedicated Land for TIA Improvements	COA FSD estimate of land value for 1.92 acres	-$12,545,280
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**
Cost of Additional PC/CM Requests:		
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