

Health South Redevelopment 1215 Red River & 606 East 12th Streets



**City Council Work Session
February 27, 2024**

Agenda

- Status Update
- Scenario Analysis by Economic & Planning Systems (EPS)
- Considerations and Discussion

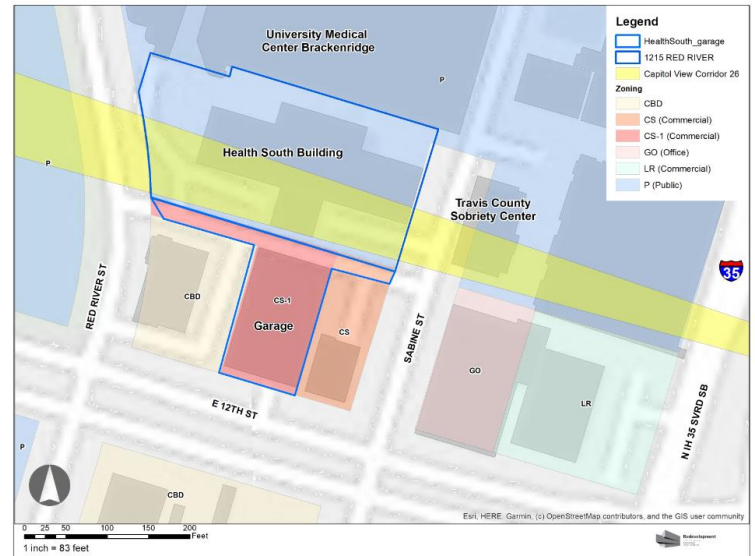
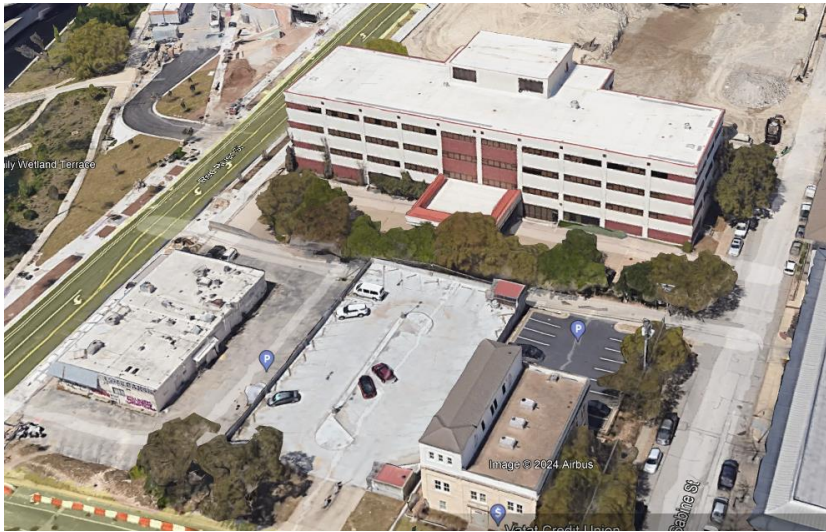


Status Update

- Site Demolition Underway (per City Council direction Item #20230914-11)
- January 31, 2024, Memo to Mayor and Council response to Resolution 20230921-101
- Resolution 20230921-101
 - Focus on mixed-use development, with affordable housing 50%-80% MFI
 - Estimate housing yield under multiple development scenarios
- City Council Housing and Planning Committee Presentation on September 6, 2023
- Resolution 20230720-132
 - Lease, do not sell, site
 - Focus on mixed-use, mixed-income project serving residents <60% MFI
 - Stakeholder Engagement
 - Market Feasibility

HEALTH SOUTH DEVELOPMENT SCENARIO ANALYSIS

Prepared for: City of Austin City Council



Economic & Planning Systems, Inc.
The Economics of Land Use

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CITY COUNCIL DIRECTION

RESOLUTION 20230921-101:

“THE CITY COUNCIL SUPPORTS REDEVELOPING THE SITE AT 1215 RED RIVER AND 606 EAST 12TH STREETS AS AN INCLUSIVE, MIXED-USE DEVELOPMENT THAT MAXIMIZES UNITS AFFORDABLE TO HOUSEHOLDS EARNING BETWEEN 50 AND 80 PERCENT OF AUSTIN’S MFI AND PRIORITIZES LOCAL GROUND FLOOR RETAIL AND RESTAURANT USES, AT A MINIMUM”

CITY MANAGER’S PRIOR RECOMMENDATION: DEVELOP IN PHASES WITH AFFORDABLE HOUSING ON ONE PORTION OF THE SITE AND MARKET RATE DEVELOPMENT ON THE OTHER PORTION OF THE SITE

CITY COUNCIL DIRECTED STAFF TO ESTIMATE THE YIELD FROM A PHASED REDEVELOPMENT OPTION ALONG WITH THREE OTHER DEVELOPMENT SCENARIOS:

1. Market and Affordable In-Lieu Fee – Downtown Density Bonus Program
2. Market and Affordable On-Site – Rainey District Density Bonus Program
3. Market – “PILOT” that maximizes development and revenue generation

ESTIMATES FOR EACH SCENARIO INCLUDE THE FOLLOWING:

- NUMBER OF UNITS
- UNIT MIX,
- LAND VALUE; AND
- PROJECTED PROPERTY TAX REVENUE



DEVELOPMENT SCENARIOS

1

Hybrid

- Assumes affordable housing development at 1215 Red River and market rate development at 606 E 12th
- Assumes public subsidy needed to complete affordable portion
- Assumes downtown density bonus for market rate portion

2

Downtown Density Bonus

- Maximizes the density of the site for market rate housing
- Uses the Downtown Density Bonus Program
- Use of affordable in-lieu fees rather than on-site affordable housing

3

Rainey District Density Bonus

- Maximizes the density of the site for a mix of on-site affordable and market rate housing
- Uses incentives similar to Rainey District Density Bonus Program

4

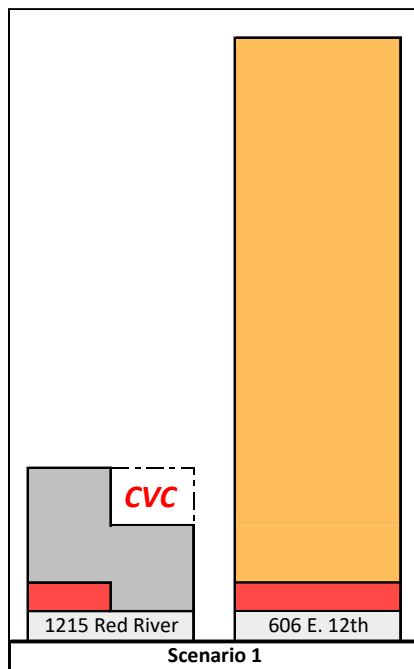
“PILOT”

- Maximizes the density of the site for market rate housing
- Assumes the development maximizes land value
- No on-site affordable units

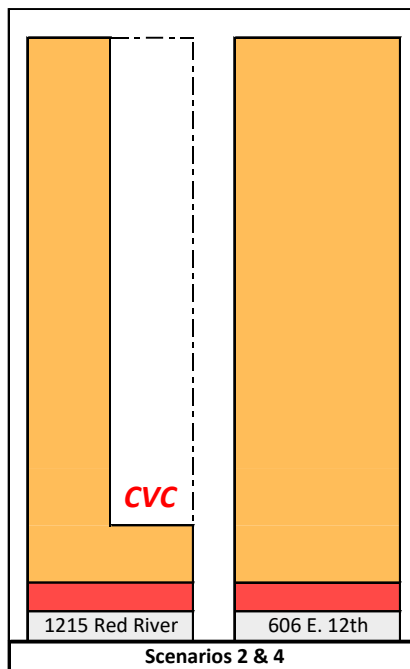


SUMMARY OF RESULTS BY SCENARIO (UNDER MAXIMUM BONUS)

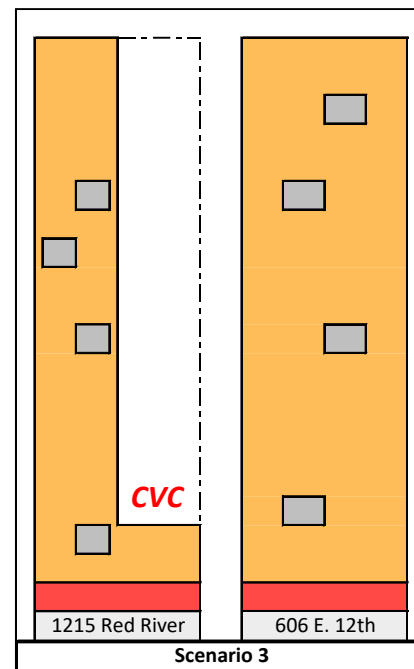
#1 HYBRID



#2 DOWNTOWN & #4
PILOT



#3 RAINEY



APPRAISED VALUE

Item	15:1 FAR	25:1 FAR
<u>Market Value Opinion</u> ¹		
1215 Red River St	\$44,000,000	\$46,240,000
606 East 12th St	<u>\$14,140,000</u>	<u>\$14,970,000</u>
Total	\$58,140,000	\$61,210,000
Value per Acre	\$39,020,134	\$41,080,537
<u>Adjusted Market Value</u> ²		
Total	\$63,591,970	\$74,450,498
Value per Acre	\$42,679,174	\$49,966,777
Value per Buildable Sq. Ft.	\$65.32	\$45.88

[1] Per Appraisal. Valuation assumes development would be required to meet the provisions of the Downtown Density Bonus Program by paying in-lieu fees to achieve densities above the base 8:1 FAR.

[2] Valuations adjusted by adding back in the in-lieu payment required to achieve bonus densities (\$12 per bonus square foot above base 8:1 FAR).

Source: Hornsby & Company; Economic & Planning Systems

APPRAISAL ESTIMATED VALUE OF SITES AT 15:1 AND 25:1 FAR, ASSUMING DEVELOPERS HAD TO PAY IN-LIEU FEES OF \$12/BONUS SF ABOVE 8:1 FAR

Used #1 Hybrid and #2 Downtown scenarios

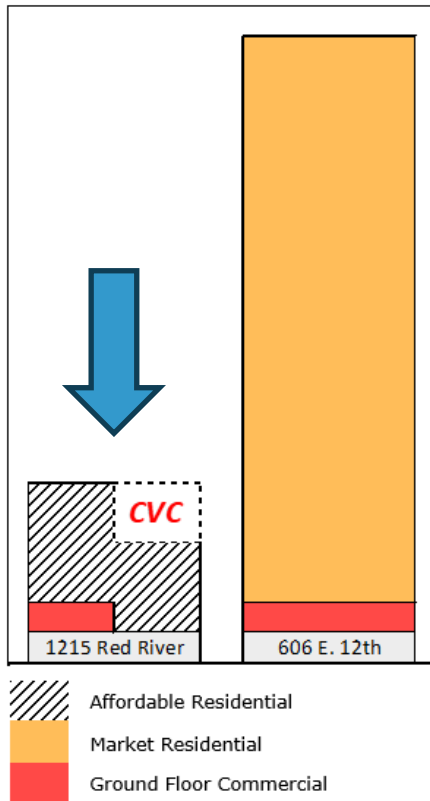
“ADJUSTED MARKET VALUE” BY EPS REFLECTS VALUE IF DEVELOPERS DID NOT HAVE TO PAY IN-LIEU FEE

Used for #4 PILOT scenario

ADDITIONAL ADJUSTMENTS REQUIRED IN CERTAIN SCENARIOS AS DESCRIBED IN RELEVANT SECTIONS

RESULTS INDICATE DIMINISHING VALUE PER SF AS DENSITY INCREASES

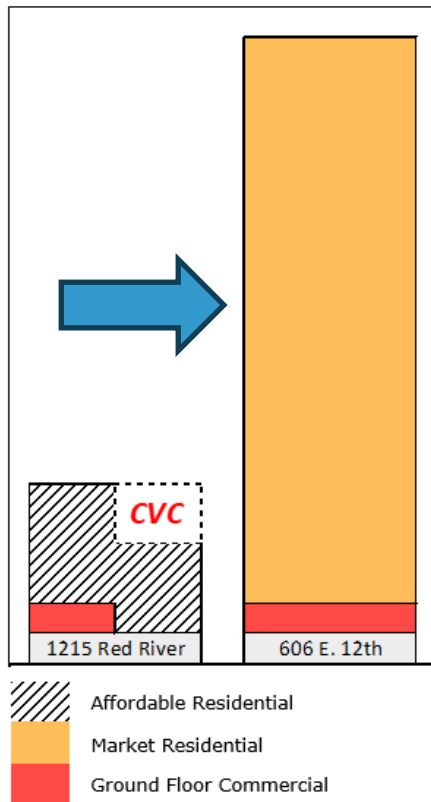
Scenario 1: Hybrid – Affordable Site



Scenario 1: Hybrid Affordable	
Item	
Development Program	
FAR	3.4
Total Square Feet	168,267
Commercial Sq.Ft.	5,000
Unit Mix	
Studio	27
1 BR	27
2 BR	124
3 BR	0
Total Units	178
Affordable Program	
On-Site Affordable Units	178
Percent MFI	50%-80%
Affordable Longevity	40 years
In-Lieu Payment	-
Land Value	
Fee Simple	-
Annual Ground Lease Starting At:	\$0
Assessed Value Estimate	
Annual Property Taxes Starting At:	\$90,594,412
Public Subsidy Required	
	\$0
NPV of Net Public Revenue	
(less) Site Acquisition	-\$17,085,308
Total NPV of Net Public Revenue	N/A
Supportable Off-Site Aff. Units	
On-Site Affordable Units	0
Total Affordable Units	178

- AFFORDABLE ON 1215 RED RIVER ST. SITE
- 178 UNITS ON THE 1.14-ACRE SITE
- ASSUMES A \$191,970/UNIT SUBSIDY FROM AHFC FOR UNITS AFFORDABLE AT 50% MFI (ASSUMES HALF OF UNITS AT 50% MFI AND HALF AT 80%)
- ASSUMES NO GROUND LEASE OR PROPERTY TAX PAYMENTS, SO FEE SIMPLE VALUE NOT DERIVED
- MAXIMIZES PROVISION OF ON-SITE AFFORDABLE UNITS BASED ON QAP-REQUIRED MINIMUM UNIT SIZES WITH 70% OF UNITS AT 2BR OR MORE
- RESULTS IN DIRECT PUBLIC SUBSIDY OF \$17.1M PLUS DONATION OF LAND VALUE AND NO ONGOING PROPERTY TAXES

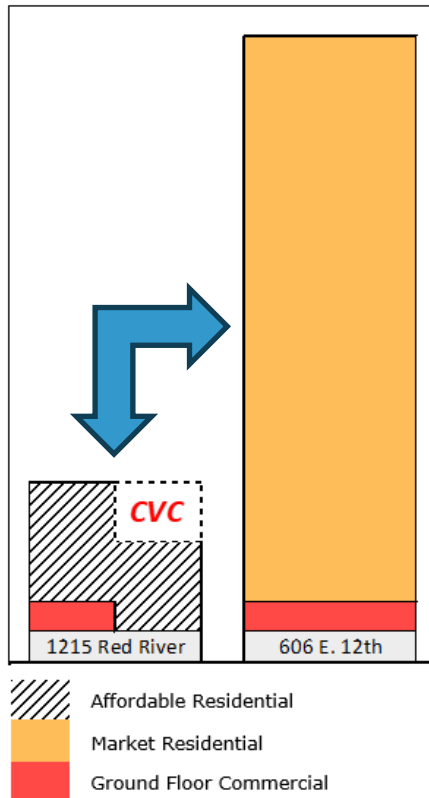
Scenario 1: Hybrid – Market-Rate site



Scenario 1: Hybrid Market (Bonus)	
Development Program	
FAR	25
Total Square Feet	380,061
Commercial Sq.Ft.	10,000
Unit Mix	
Studio	65
1 BR	165
2 BR	85
3 BR	14
Total Units	328
Affordable Program	
On-Site Affordable Units	-
Percent MFI	-
Affordable Longevity	-
In-Lieu Payment	\$3,101,298
Land Value	
Fee Simple	\$14,970,000
Annual Ground Lease Starting At:	\$1,047,900
Assessed Value Estimate	\$154,629,877
Annual Property Taxes Starting At:	\$689,340
Public Subsidy Required	\$0
NPV of Net Public Revenue	\$74,798,072
(less) Site Acquisition	-\$6,500,000
Total NPV of Net Public Revenue	\$68,298,072
Supportable Off-Site Aff. Units	267
On-Site Affordable Units	0
Total Affordable Units	267

- MARKET-RATE ON 0.35-ACRE SITE AT 606 EAST 12TH STREET
- BONUS AT 25:1 FAR VS. 8:1 BASE:
380K – 122K = 258K SF BONUS
- IN-LIEU FEE AT \$12/BONUS SF=\$3.1M
- FEE SIMPLE LAND VALUE (~\$15M) BASED ON DEC. 2023 APPRAISAL
- BONUS RESULTS IN \$74.8M NPV OF PUBLIC REVENUE BEFORE SITE ACQUISITION IS DEDUCTED, WHICH RESULTS IN A TOTAL NPV OF NET PUBLIC REVENUE OF \$68.3M
- THIS REVENUE STREAM COULD SUBSIDIZE AN ESTIMATED 267 OFF-SITE AFFORDABLE UNITS AT <50% MFI

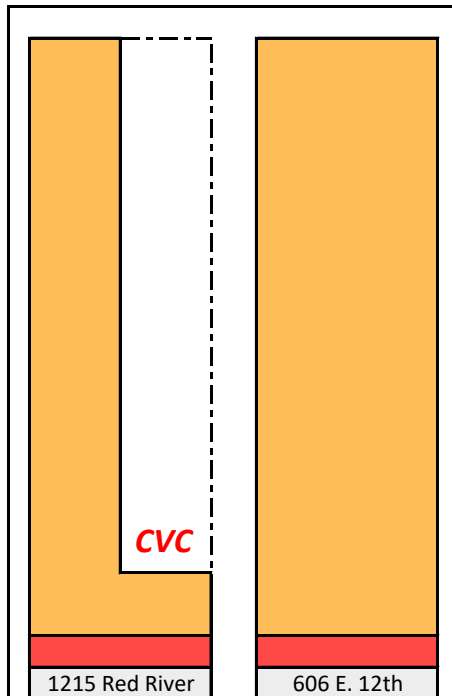
Scenario 1: Hybrid – Total



Scenario 1: Hybrid Total (Bonus)	
Development Program	
FAR	8.45
Total Square Feet	548,328
Commercial Sq.Ft.	15,000
Unit Mix	
Studio	92
1 BR	192
2 BR	209
3 BR	14
Total Units	506
Affordable Program	
On-Site Affordable Units	178
Percent MFI	50%-80%
Affordable Longevity	40 years
In-Lieu Payment	\$3,101,298
Land Value	
Fee Simple	\$14,970,000
Annual Ground Lease Starting At:	\$1,047,900
Assessed Value Estimate	
Annual Property Taxes Starting At:	\$154,629,877
	\$689,340
Public Subsidy Required	
	\$17,085,308
NPV of Net Public Revenue	
(less) Site Acquisition	\$57,712,763
Total NPV of Net Public Revenue	-\$6,500,000
	\$51,212,763
Supportable Off-Site Aff. Units	
On-Site Affordable Units	267
Total Affordable Units	178
	445

- **RESULTS IN 178 ON-SITE AFFORDABLE UNITS (35 PERCENT OF 506 TOTAL UNITS ACROSS BOTH SITES)**
 - the greatest on-site affordable unit provision of all scenarios considered
- **MARKET PORTION GENERATES \$3.1M IN-LIEU PAYMENT, BUT AFFORDABLE PORTION REQUIRES A \$17.1M PUBLIC SUBSIDY**
- **RESULTS:**
 - \$51.2M Total NPV of Net Public Revenue can leverage:**
 - 178 On-Site Affordable Units
 - 267 Off-Site Affordable Units
 - 445 Total Affordable Units**

Scenario 2: Downtown Bonus with in-lieu fees



Market-Rate Residential
 Ground Floor Commercial

Scenario 2: Downtown Bonus Bonus Scenario	
Item	
Development Program	
FAR	25
Total Square Feet	1,622,610
Commercial Sq.Ft.	15,000
Unit Mix	
Studio	276
1 BR	704
2 BR	361
3 BR	59
Total Units	1,400
Affordable Program	
On-Site Affordable Units	-
Percent MFI	-
Affordable Longevity	-
In-Lieu Payment	\$13,240,498
Land Value	
Fee Simple	\$61,210,000
Annual Ground Lease Starting At:	\$4,284,700
Assessed Value Estimate	
Annual Property Taxes Starting At:	\$660,167,668
	\$2,943,027
Public Subsidy Required	
	-
NPV of Net Public Revenue	
(less) Site Acquisition	\$311,532,469
	-\$6,500,000
Total NPV of Net Public Revenue	\$305,032,469
Supportable Off-Site Aff. Units	
On-Site Affordable Units	1,589
Total Affordable Units	0
	1,589

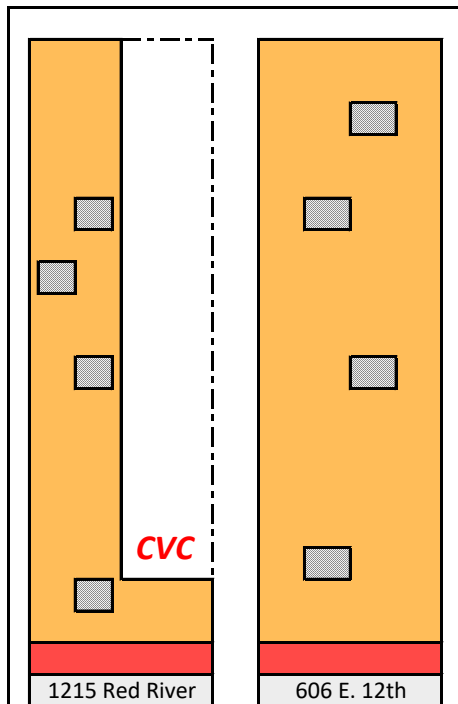
- BASE 8:1 FAR AND BONUS ASSUMES 25:1
- BONUS DENSITY RECEIVED THROUGH IN-LIEU PAYMENT OF \$12/PER BONUS SF = \$13.2M
- BONUS FEE SIMPLE VALUE ESTIMATED FROM APPRAISAL'S 25:1 FAR SCENARIO
- BONUS SCENARIO RESULTS:**

\$305M Total NPV of Net Public Revenue can leverage:

0 On-Site Affordable Units
 1,589 Off-Site Affordable Units
1,589 Total Affordable Units



Scenario 3: “Rainey Street”-style Bonus with on-site units

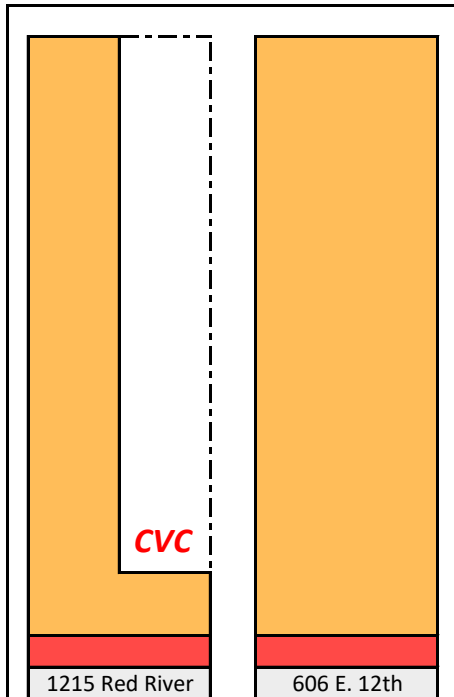




Affordable Residential
 Market-Rate Residential
 Ground Floor Commercial

Scenario 3: Rainey Bonus Bonus Scenario	
Item	
Development Program	
FAR	25
Total Square Feet	1,622,610
Commercial Sq.Ft.	15,000
Unit Mix	
Studio	276
1 BR	704
2 BR	361
3 BR	59
Total Units	1,400
Affordable Program	
On-Site Affordable Units	93
Percent MFI	80%
Affordable Longevity	40 years
In-Lieu Payment	-
Land Value	
Fee Simple	\$44,350,889
Annual Ground Lease Starting At:	\$3,104,562
Assessed Value Estimate	
Assessed Value Estimate	\$630,068,059
Annual Property Taxes Starting At:	\$2,808,843
Public Subsidy Required	
Public Subsidy Required	-
NPV of Net Public Revenue	
NPV of Net Public Revenue	\$244,049,243
(less) Site Acquisition	-\$6,500,000
Total NPV of Net Public Revenue	\$237,549,243
Supportable Off-Site Aff. Units	
Supportable Off-Site Aff. Units	1,237
On-Site Affordable Units	93
Total Affordable Units	1,331

- BASE 8:1 FAR AND BONUS ASSUMES 25:1
- BONUS DENSITY RECEIVED BY PROVIDING 5% ON-SITE BELOW MARKET RATE UNITS (NO IN-LIEU FEE)
- REPLACEMENT OF MARKET-RATE UNITS WITH AFFORDABLE UNITS REDUCES PROJECT'S VALUE BUT NOT ITS DEVELOPMENT COSTS, AND AFFECTS BOTH ASSESSED VALUE (AND PROPERTY TAXES) AND FEE SIMPLE LAND VALUE (AND GROUND LEASE REVENUES)
- LAND VALUE ESTIMATED FROM APPRAISAL'S 25:1 FAR SCENARIO, ADDING BACK IN THE COST OF DENSITY BONUS IN-LIEU FEE TO ACHIEVE 25:1, THEN REDUCED TO REFLECT AFFORDABLE UNITS
- BONUS SCENARIO RESULTS:**
 - \$238M Total NPV of Net Public Revenue can leverage:
 - 93 On-Site Affordable Units
 - 1,237 Off-Site Affordable Units
 - 1,331 Total Affordable Units

Scenario 4: “Pilot” that maximizes site revenue



 Market-Rate Residential
 Ground Floor Commercial

Scenario 4: "PILOT"	
Item	Bonus Scenario
Development Program	
FAR	25
Total Square Feet	1,622,610
Commercial Sq.Ft.	15,000
Unit Mix	
Studio	276
1 BR	704
2 BR	361
3 BR	59
Total Units	1,400
Affordable Program	
On-Site Affordable Units	-
Percent MFI	-
Affordable Longevity	-
In-Lieu Payment	-
Land Value	
Fee Simple	\$74,450,498
Annual Ground Lease Starting At:	\$5,211,535
Assessed Value Estimate	\$660,167,668
Annual Property Taxes Starting At:	\$2,943,027
Public Subsidy Required	-
NPV of Net Public Revenue	\$336,542,915
(less) Site Acquisition	-\$6,500,000
Total NPV of Net Public Revenue	\$330,042,915
Supportable Off-Site Aff. Units	1,719
On-Site Affordable Units	0
Total Affordable Units	1,719

- ASSUMES 25:1 FAR
- NO ON-SITE AFFORDABLE UNITS OR PAYMENT OF IN-LIEU FEE
- RESULTS IN HIGHEST ANNUAL GROUND LEASE OF ANY OF THE SCENARIOS
- BONUS FEE SIMPLE VALUE ESTIMATED FROM APPRAISAL'S 25:1 FAR SCENARIO, ADJUSTING FOR THE REMOVAL OF THE IN-LIEU FEE REQUIREMENT
- BONUS SCENARIO RESULTS:

\$330M Total NPV of Net Public Revenue can leverage:

0 On-Site Affordable Units
1,719 Off-Site Affordable Units
1,719 Total Affordable Units

COMPARISON OF RESULTS BY SCENARIO

	Scenario 1: Hybrid	Scenario 2: Downtown Bonus	Scenario 3: Rainey Bonus	Scenario 4: "PILOT"
Development Program				
FAR	8.4	25	25	25
Total Square Feet	548,328	1,622,610	1,622,610	1,622,610
Commercial Sq.Ft. ¹	15,000	15,000	15,000	15,000
Unit Mix				
Studio	92	276	276	276
1 BR	192	704	704	704
2 BR	209	361	361	361
3 BR	14	59	59	59
Total Units	506	1,400	1,400	1,400
Affordable Program				
On-Site Affordable Units	178	-	93	-
Percent MFI	50%-80%	-	80%	-
Affordable Longevity	40 years	-	40 years	-
In-Lieu Payment	\$3,101,298	\$13,240,498	-	-
Land Value				
Fee Simple	\$14,970,000	\$61,210,000	\$44,350,889	\$74,450,498
Annual Ground Lease Starting At:	\$1,047,900	\$4,284,700	\$3,104,562	\$5,211,535
Assessed Value Estimate				
Annual Property Taxes Starting At:	\$154,629,877	\$660,167,668	\$630,068,059	\$660,167,668
	\$689,340	\$2,943,027	\$2,808,843	\$2,943,027
Public Subsidy Required	\$17,085,308	-	-	-
NPV of Net Public Revenue²	\$57,712,763	\$311,532,469	\$244,049,243	\$336,542,915
(less) Site Acquisition	-\$6,500,000	-\$6,500,000	-\$6,500,000	-\$6,500,000
Total NPV of Net Public Revenue	\$51,212,763	\$305,032,469	\$237,549,243	\$330,042,915
Supportable Off-Site Aff. Units³	267	1,589	1,237	1,719
On-Site Affordable Units	178	0	93	0
Total Affordable Units	445	1,589	1,331	1,719

Note: All Scenario values above represent combined totals for the full site (1215 Red River and 606 East 12th Street sites combined). It is assumed the full site would be developed collectively in all Scenarios except for Scenario 1 Hybrid, wherein the affordable portion would likely be developed independently of the market portion, by different developers, and not necessarily simultaneously.

[1] The commercial component is held constant across all scenarios for analytical purposes to maintain focus on housing options. The final amount of commercial development delivered within any scenario is unknown at this time, and any increase in commercial space will potentially diminish the number of housing units provided on site.

[2] Estimated assuming 3% annual inflation, a 5.25% discount rate, and a 99-year term.

[3] Divides Total NPV of Net Public Revenue by the estimated required AHFC funding per affordable unit of \$191,970.



OTHER CONSIDERATIONS

- Challenging current market conditions may mean City would “sell low” right now
 - High interest rates, high construction costs, lots of competition from new and under-construction projects
 - Appraisal indicates several recent projects that have scaled back or delayed development
 - Land values are likely somewhat depressed vs. more stable market conditions
- “Hybrid” scenario would require ~\$17M of near-term City subsidy
 - City’s limited resources would mean redirection of \$ that could go to other affordable projects
 - AHFC estimates that best-case timing would deliver affordable units on-site by 2028
- Ground lease revenues may be less than those achievable through fee simple land sale
 - Ground lease projects frequently face greater financing challenges that are then reflected in land payments
 - Policy preference for ground lease may not optimize revenues, but would retain City ownership
- Affordable units funded from projects’ property tax revenues would take years to accumulate
 - Assumes new property taxes from site development go to Housing Trust Fund



Discussion

Project Team

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