



City Of Austin Planning Dept
South Central Waterfront
Density Bonus Assessment

January 2024

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Background

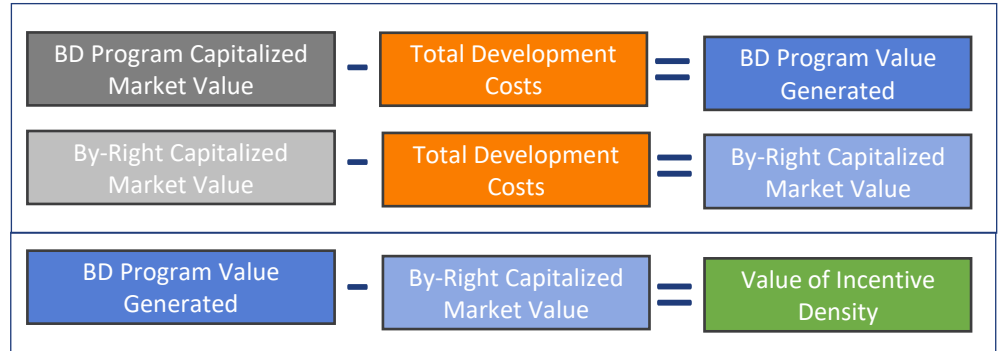
The City of Austin Planning Department is working to craft a density bonus program to encourage developers to provide community benefits in exchange for entitlement incentives within the South-Central Waterfront (“SCW”) planning area. The City sought third party review of the current Excel-based tool and underlying assumptions. Specifically, the City sought to understand:

- Are the methodology and mechanics of the SCW density bonus scenario tool functional and easy to use?
- Is this density bonus program sufficiently calibrated to motivate a developer to choose this program over a PUD process?

Stress Test Methodology

- Determine the value of incentive density granted through the density bonus program by netting the incremental project value for a participating project from one that completes a project under by-right zoning.
- Test two development options for the SCW District – small-scale and large-scale
- Compare project performance metrics between by-right and density bonus projects to test feasibility and relative value:
 - Return on Cost
 - Levered Internal Rate of Return
 - Equity Multiple
 - Capitalized Project Value

Pro Forma Model Output



Development Scenarios

	Small Scale		Large Scale	
	By-Right (CS-1-V-NP)	Density Bonus Program	By-Right (CS-1-V-NP)	Density Bonus Program
Site Size	1.5 Acres		4 Acres	
GSF	191,233	524,825	509,872	1,373,957
Multifamily (GSF)	127,100	348,150	338,850	910,300 (2 buildings)
Retail (GSF)	3,630	10,000	9,680	30,000
Parking (spaces)**	60,503 (173)	166,675 (476)	161,342 (461)	433,657 (1239)
FAR	2.0*	8.0	2.0*	7.9

*Does not include parking area

** Above grade parking spots are 350 SF/Space

Bonus Fee in Lieu

\$5 (Residential) / \$9 (Non-residential) / 5% On-site Affordable Housing

Small Scale Development

Scenario	Fee	Aff. Units	Return on Cost	Equity Multiple	LIRR
By Right			5.3%	1.33	7.8%
Density Bonus	✓	✓	5.9%	1.68	15.3%
Threshold			Cap Rate + 1%	2.00	15.0%

Large Scale Development

Scenario	Fee	Aff. Units	Return on Cost	Equity Multiple	LIRR
By Right			5.4%	1.36	8.4%
Density Bonus	✓	✓	5.9%	1.67	15.0%
Threshold			Cap Rate + 1%	2.00	15.0%

- By-right projects do not meet any of the 3 performance metric thresholds.
- Adding bonus density results in a marginally feasible project; returns drop with each public benefit (on-site affordable units / bonus fee)
- The inclusion of on-site affordable housing impacts project returns considerably, having a greater impact on long-term returns.
- Based on the spread between the return metrics and thresholds, the projects have limited capacity to fund public benefits and remain viable, given current market conditions.

Improved Economy Sensitivity

Description

- Real estate markets across the country are struggling today, given high interest rates, construction costs, and operating costs.
- The Improved Economy Sensitivity analysis is intended to simulate an alternative, a more favorable real estate market, as the density bonus program should not be built only on a current economic snapshot in time.
- While the adjusted assumptions may not align directly with future economic conditions, they represent general reductions in costs and improved revenue generation typically seen in more favorable markets, but which could ultimately take many forms.

Key Metrics

Three key assumptions were altered in this sensitivity analysis:

- Capitalization rate decreased by 25bp to 4.75%
- Permanent interest rate is reduced by 50bp to 5.0%
- Operating costs grow at 2% annually (reduced from 3%)

Improved Economy

Bonus Fee in Lieu-\$5 (Residential)/\$9 (Non-residential) / 5% On-site Affordable Housing

Small Scale Development

Scenario	Fee	Aff. Units	Return on Cost	Equity Multiple	LIRR
By Right			5.3%	1.46	10.3%
Density Bonus	✓	✓	6.1%	1.93	19.6%
Threshold			Cap Rate + 1%	2.00	15.0%

Large Scale Development

Scenario	Fee	Aff. Units	Return on Cost	Equity Multiple	LIRR
By Right			5.3%	1.50	11.2%
Density Bonus	✓	✓	6.0%	1.91	19.4%
Threshold			Cap Rate + 1%	2.00	15.0%

- By-right project does not meet any of the 3 performance metric thresholds.
- Adding bonus density results in a feasible project.
- Under improved market conditions the projects can fund public benefits and remain viable, at both \$5/\$9 fees and \$12/\$15 fees.
- The proposed fee structure (\$5/\$9/SF over 3:1 FAR) may be increased to provide additional public benefits without greatly impacting project viability and will likely endure changing market conditions.

The logo for Hayat Brown features the name in a dark blue serif font. A stylized, light blue swoosh underline is positioned beneath the 'H' and extends across the 'a' and 'y'.

Thank You
