




MEMORANDUM

TO: Mayor and Council Members

FROM: Mandy DeMayo, Interim Director, Housing Department 

THROUGH: Veronica Briseño, Assistant City Manager 

DATE: January 31, 2024

SUBJECT: **Redevelopment of City-owned Property at 1215 Red River and 606 East 12th Street (Resolution No. 20230921-101)**

This memorandum provides a response to [Resolution No. 20230921-101](#) regarding City Council's desire to consider detailed scenarios and explore the feasibility and costs of redeveloping 1215 Red River and 606 East 12th Streets (the former HealthSouth Hospital and Parking Garage) as an inclusive, mixed-use development in collaboration with the Austin Economic Development Corporation (AEDC).

Economic & Planning Systems, Inc. (EPS) was hired to evaluate four development scenarios directed by City Council, including approaches to providing on-site affordable units serving people earning at or below 60 percent of area median family income (MFI), generating funds that may be directed towards building affordable housing off-site and maximizing density and value of the site. City staff from Housing, Financial Services-Real Estate, Economic Development, and Law oversaw EPS efforts with AEDC leadership. Attached is the EPS' report for your review.

In summary, their analysis demonstrates the trade-offs of the four scenarios. Each scenario elicits the prioritization and trade-offs of a variety of community benefits, including on- and off-site affordable units, generation of public revenue to support city-wide community needs, and opportunity for residential density in the downtown core. All scenarios focus on the creation of affordable housing and revenue and include the same nominal amount of ground-floor retail to reflect a mixed-use development.

Scenario #1 - "Hybrid" provides the most affordable apartments on-site at 178 units yet the lowest number of overall units and revenue to the City over the ground-lease term. In this scenario, a 100% affordable housing building would be constructed on one of the two sites and a market-rate housing building on the other site. The on-site affordable units would come at an estimated cost of \$17 million in direct City subsidy in addition to a no-cost land dedication and a property tax exemption. They would also rely on additional public subsidies from sources other than the City, such as Low-Income Housing Tax Credits. For context on the city-wide need for City subsidy on affordable housing projects, the latest second quarter of Fiscal Year 2024 (FY 24) round of funding applications for the rental housing

development assistance program totaled \$105 million in requests in gap financing which is roughly twice the amount of gap financing available to award for the remainder of FY 24. The market-rate building in the “Hybrid” scenario could generate ground lease and property tax revenues, leading to an overall net present value (NPV) of \$51 million in net City revenue, which could leverage another 267 affordable units off-site in future developments, bringing the total yield to 445 affordable units.

Scenario #2 - “Downtown Density Bonus” explores maximizing entitlements in exchange for fee-in-lieu and/or on-site affordable units. Following the “Downtown Density Bonus” entitlements would potentially generate \$13 million in fees and an NPV of City revenue over the ground-lease term of more than \$300 million, which could be leveraged to support an estimated 1,589 total affordable units off-site in future developments.

Scenario #3 - “Rainey District Density Bonus” also explores maximizing entitlements in exchange for fee-in-lieu and/or on-site affordable units. Entitlements would potentially produce a mix of 93 on-site affordable units delivered concurrently with market-rate apartments, plus an NPV of City revenue of \$237 million, which could leverage an estimated 1,237 off-site affordable units delivered after the development of the site, for a total yield of affordable housing 1,331 units.

Scenario #4 - “Payment in Lieu of Taxes (PILOT),” Council calls for the City to maximize market-rate development on-site to support affordable housing and other community benefits off-site. While Scenario #4 provides no on-site affordable units, it maximizes revenues to the City through the ground lease and property taxes, estimated to have an NPV of up to \$330 million over the ground-lease term to support community benefits off-site. If these funds are used solely to support the development of affordable units off-site, more than 1,700 affordable units for people earning less than 60 percent MFI could be built in the decades following the completion of the development.

The scenario analysis demonstrates different opportunities to leverage the City’s land assets to produce affordable housing and revenues. Staff will schedule a briefing for the Council to discuss these findings for Council direction on the next steps.

Background

Through a series of acquisitions from 1952 to 1976, the City purchased the site at 1215 Red River. In 1988, the City offered the land to Brackenridge Hospital to attract Rehab Hospital Services Corporation (RHSC), a physical rehabilitation provider. RHSC executed a ground lease with the City through February 28, 2063, and constructed the four-story facility, which opened in 1990. RHSC assigned the ground lease in 1995 to HealthSouth, which developed a parking garage with 62 spaces at 606 East 12th Street to serve the facility. In 2016, HealthSouth closed this facility and sold to the City its leasehold interests as tenant and title to the parking garage on February 28, 2017. City Council directed the release of RFP 5500 SMW3002 for the Redevelopment of the sites on November 18, 2019. Following the termination of negotiations with the selected developer on June 29, 2023, City Council Resolution No. 20230921-101 directed staff to evaluate four potential redevelopment scenarios for the former HealthSouth site to determine a path forward for future development. On September 14, 2023, the Council approved a contract for the structural demolition and proper disposal of site improvements. The demolition process, which is underway, will expedite redevelopment options and eliminate the annual maintenance cost of the unusable facility.

Detailed information is available at the [1215 Red River & 606 East 12th website](#).

Should you have questions, feel free to contact me at please contact me at 512-974-1091 or Mandy.DeMayo@austintexas.gov.

cc: Jesús Garza, Interim City Manager
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Sylnovia Holt-Rabb, Economic Development Director
Theresa Alvarez, AEDC President and CEO

Attachment: Technical Memorandum: Scenario Analysis for 1215 Red River and 606 East 12th Street;
EPS #191067

TECHNICAL MEMORANDUM

To: Margaret Shaw,
City of Austin Economic Development Department

From: Darin Smith, Luke Foelsch, and Bex Allen

Subject: Scenario Analysis for 1215 Red River and 606 East 12th
Street; EPS #191067

Date: January 26, 2024

The Economics of Land Use



Economic & Planning Systems, Inc. (EPS) was retained by the City of Austin ("City") to analyze potential development scenarios for two adjacent sites at 1215 Red River and 606 East 12th Street. The properties jointly represent 1.49 acres of contiguous land in downtown Austin that has seen significant investment as well as demographic change in recent years. Council Resolution 20230921-101 directed staff to evaluate four potential redevelopment scenarios for the former HealthSouth site and make recommendations by January 31, 2024.

This memorandum presents an analysis of four separate development programs for the project site. All scenarios are designed with respect to Austin City Council support for inclusive, mixed-use developments that provides units affordable to households earning between 50 and 80 percent of Austin's Median Family Income (MFI). Scenario 1 contemplates a "hybrid" approach with an affordable housing development on one site and a market-rate housing development on the other. Scenario 2 assumes participation in the Downtown Bonus Program while Scenario 3 proposes redevelopment similar to the Rainey District Density Bonus Program. Scenario 4 maximizes the density and value of the site for market-rate housing with the proceeds supporting off-site community benefits. Each scenario includes 15,000 square feet of ground-floor retail space.

The main findings of this analysis are presented in **Table 1**, with selected key findings on the following page summarizing the results as they pertain to total affordable units and total Net Present Value (NPV) of public revenues generated by each Scenario. NPV is used to calculate the current value of a future stream of payments from a project.

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Background and Key Findings

By Resolution 20230921-101, Austin City Council directed staff to evaluate four potential redevelopment scenarios for the former HealthSouth site and make recommendations by January 31, 2024. The site comprises two parcels, a 1.141-acre site at 1215 Red River (former hospital site) and a 0.349-acre site at 606 East 12th Street (garage). The four redevelopment scenarios are designed with respect to Austin City Council interest in supporting inclusive, mixed-use developments that promote units affordable to households earning between 50 and 80 percent of Austin's MFI.

The four development scenarios that are analyzed herein, per Austin City Council direction, include the following:

- 1. Scenario 1 ("Hybrid").** This scenario contemplates the development of the larger 1215 Red River site into a 100 percent affordable housing building, with the smaller 606 East 12th Street site being developed into market rate housing with ground floor commercial. The smaller site is assumed to be eligible for a density bonus by paying an in-lieu fee that can be directed to off-site affordable housing.
- 2. Scenario 2 ("Downtown Bonus").** This scenario focuses on a development program that maximizes the density of the site for housing, similar to the Downtown Density Bonus Program that allows developers to pay affordable housing in-lieu fees rather than providing on-site affordable housing.
- 3. Scenario 3 ("Rainey District").** This scenario focuses on a development program that maximizes the density of the site for housing, similar to the parameters of the Rainey District Density Bonus Program that require the developers to provide on-site affordable units rather than paying an in-lieu fee.
- 4. Scenario 4 ("PILOT").** This scenario focuses on a development program that maximizes the density and value of the site under an agreement between the City and a private redeveloper. This agreement would maximize annual revenues through ground lease payments and/or "Payment In Lieu of Taxes" (PILOT) to the City rather than providing on-site affordable units or in-lieu fees as under existing density bonus programs, the proceeds of which would support community benefits off-site.

This analysis has yielded the following findings:

- 1. If allowed to build up to a 25:1 Floor Area Ratio (FAR) density, roughly 1,400 total residential units could be supported on the overall site.** This figure reflects the general sizes and mix of units found in recent and current Downtown high-rise housing developments.
- 2. The "Hybrid" scenario (Scenario 1) yields the lowest total number of units and revenues to the City, but would provide the largest number of on-site affordable units.** Scenario 1 would include a 100 percent affordable building with 178 units and a separate market-rate project for up to another 328

units combining for a total of up to 506 units. The public revenues could provide local funding to leverage an additional 267 affordable units off-site, raising the total affordable units supported to 445 at a cost of approximately \$17 million in subsidies from the City.

- 3. The “Downtown Density Bonus” scenario (Scenario 2) that pays in-lieu fees for bonus density generates much higher land value and Net Present Value (NPV) of public revenues than Scenario 1, but would not provide affordable units on-site.** Under this scenario, the development would pay in-lieu fees, ground lease payments, and property taxes that, combined, could provide local funding to leverage roughly 1,590 affordable units.
- 4. The “Rainey District Density Bonus” scenario (Scenario 3) that provides on-site affordable units in exchange for density bonus has reduced land value and NPV of public revenues relative to Scenario 2, but would provide on-site affordable units.** On-site affordable units generate much lower revenue and building value than market-rate units, which directly reduces land values and ground lease proceeds for the City. Still, this scenario would provide 93 on-site affordable units and public revenues to leverage another 1,237 off-site affordable units.
- 5. The “PILOT” scenario (Scenario 4), under a 25:1 FAR, is estimated to result in the highest land value and NPV of public revenues that can support the greatest total number of affordable units, but would not provide any on-site affordable units.** Because of the high public revenues (estimated between \$257-337 million), Scenario 4 could support the highest number of affordable housing units, although those units are all assumed to be provided off-site.

Table 1 Scenario Summary Results

Item	Scenario 1: Hybrid		Scenario 2: Downtown Bonus		Scenario 3: Rainey Bonus		Scenario 4: "PILOT"	
	Base	Bonus	Base	Bonus	Base	Bonus	Bonus	Bonus
Development Program								
FAR	4.5	8.4	8	25	8	25	15	25
Total Square Feet	289,886	548,328	519,235	1,622,610	519,235	1,622,610	973,566	1,622,610
Commercial Sq.Ft. ¹	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000
Unit Mix								
Studio	48	92	88	276	88	276	166	276
1 BR	80	192	225	704	225	704	423	704
2 BR	151	209	116	361	116	361	217	361
3 BR	4	14	19	59	19	59	35	59
Total Units	283	506	448	1,400	448	1,400	840	1,400
Affordable Program								
On-Site Affordable Units	178	178	-	-	-	93	-	-
Percent MFI	50%-80%	50%-80%	-	-	-	80%	-	-
Affordable Longevity	40 years	40 years	-	-	-	40 years	-	-
In-Lieu Payment	-	\$3,101,298	-	\$13,240,498	-	-	-	-
Land Value								
Fee Simple	\$8,222,403	\$14,970,000	\$33,915,717	\$61,210,000	\$33,915,717	\$44,350,889	\$63,591,970	\$74,450,498
Annual Ground Lease Starting At:	\$575,568	\$1,047,900	\$2,374,100	\$4,284,700	\$2,374,100	\$3,104,562	\$4,451,438	\$5,211,535
Assessed Value Estimate	\$49,481,561	\$154,629,877	\$211,253,654	\$660,167,668	\$211,253,654	\$630,068,059	\$396,100,601	\$660,167,668
Annual Property Taxes Starting At:	\$220,589	\$689,340	\$941,769	\$2,943,027	\$941,769	\$2,808,843	\$1,765,816	\$2,943,027
Public Subsidy Required	\$17,085,308	\$17,085,308	-	-	-	-	-	-
NPV of Net Public Revenue²	\$15,772,494	\$57,712,763	\$136,847,592	\$311,532,469	\$136,847,592	\$244,049,243	\$256,589,235	\$336,542,915
(less) Site Acquisition	-\$6,500,000	-\$6,500,000	-\$6,500,000	-\$6,500,000	-\$6,500,000	-\$6,500,000	-\$6,500,000	-\$6,500,000
Total NPV of Net Public Revenue	\$9,272,494	\$51,212,763	\$130,347,592	\$305,032,469	\$130,347,592	\$237,549,243	\$250,089,235	\$330,042,915
Supportable Off-Site Aff. Units ³	48	267	679	1,589	679	1,237	1,303	1,719
On-Site Affordable Units	178	178	0	0	0	93	0	0
Total Affordable Units	226	445	679	1,589	679	1,331	1,303	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.

Source: Economic & Planning Systems

Assumptions

A number of assumptions utilized in this analysis are universal to all four scenarios. This section describes these assumptions, and all scenario-specific assumptions are addressed within the respective scenario's section.

Development Program Assumptions

This analysis provides planning-level development program assumptions for each of the four scenarios. Each scenario analyzes and presents the results of three different density assumptions (with the exception of Scenario 4). The first density reflects a base density of an 8:1 Floor Area Ratio (FAR), consistent with the City's standard Central Business District (CBD) zoning category. Neither of the two subject parcels is currently zoned CBD, but City staff have determined that such zoning is likely for any development pursued on the sites. The next density assumes a bonus density of 15:1 FAR, which is the maximum density allowed presently for the sites if they were a) rezoned to CBD and then b) developed under the existing Downtown Density Bonus program that limits the maximum FAR to 15:1 at this specific location. The last density scenario assumes the projects would be allowed to build to a bonus density of 25:1 FAR. Each scenario assumes 15,000 square feet of ground floor retail space, and there is a 75 percent net-to-gross efficiency ratio utilized to convert the gross building square footage to net leasable square footage for the residential portions of the programs.

Real estate market data was acquired via CoStar Group for recently constructed multifamily properties in Downtown Austin's Central Business District (CBD). This includes ten multifamily properties that have been completed since 2016 and ten multifamily properties that are currently under construction. The data for total units in each structure, unit mix, unit size, and monthly rent were averaged for all properties in the set and are presented below in **Table 2**. The unit mix and unit sizes shown below are used as the assumed mix and sizes for the market-rate portions of the scenarios analyzed. As shown, the recent market-rate developments have skewed heavily toward small units (studios and one-bedrooms) with only 30 percent of units having two or more bedrooms. The average size of all units in this sample is 869 square feet, which EPS has used to estimate the number of units that could be developed under each scenario.

The timeline for development of the scenarios analyzed is uncertain and will depend on a variety of factors. The market rate developments contemplated will vary based on market conditions and it is not possible to say with certainty when such developments would be feasible to construct based on market circumstance. The timing of the affordable development analyzed in Scenario 1 Hybrid would depend on availability of funding.

Table 2 Market Data – Recent & Future Downtown Austin Multifamily Properties

Item	Studio	1-BR	2-BR	3-BR	Average
Market Average¹					
Total Units in Structure	-	-	-	-	289
Unit Mix	20%	50%	26%	4%	-
Unit Size (SF)	536	739	1,191	2,018	869
Monthly Market Rent	\$1,823	\$2,700	\$4,387	\$9,399	-

[1] Values shown represent data for Downtown Austin residential properties built since 2016 or under construction.

Source: CoStar Group; Economic & Planning Systems

Value Assumptions

This analysis utilizes a number of assumptions to derive various value estimates for each scenario. The value estimates that are derived include the fee simple value of the land, the ground lease payments the developer would owe the City for the land, assessed value, property tax generation, the Net Present Value (NPV) of Public Revenues generated by the development, and the number of off-site affordable units that could theoretically be supported by the project’s NPV.

The fee simple land value is estimated based on land value assumptions provided by Hornsby & Company, adjusted by EPS as necessary based on the particulars of the site under each development and density scenario. The draft appraisal indicated that the sites would be worth \$39 million per acre if entitled for development of up to 15:1 FAR and \$41.1 million per acre if entitled for development up to 25:1 FAR.¹ These figures reflect the site’s competitive position relative to other recent downtown land transactions, and assume that the 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 density allowed for CBD zoning.

To estimate the sites’ value for the base zoning of 8:1 FAR, the draft appraisal’s 15:1 FAR scenario value of \$39 million per acre is adjusted by “adding back in” the cost of paying the density bonus in-lieu fee, which results in a land value of \$42.7 million per acre or \$65.32 per gross buildable square foot (site size times 15). The resulting figure is intended to represent what the land would have been worth at 15:1 FAR had it not been required to pay the in-lieu fee. This figure of \$65.32 per gross buildable square foot is

¹ The draft appraisal has indicated that very few or no recent projects have built to the maximum density allowed under the 25:1 FAR density bonus programs. For this reason, the draft appraisal concludes that there is not a linear relationship between land value and densities above 15:1, meaning the land at 25:1 FAR is not worth 2/3 more than the same site limited to 15:1 FAR.

then applied to the maximum building size at the base 8:1 FAR (site size times eight) to estimate the site's value under the base zoning, without any obligations for affordable housing or other special community benefits. The underlying assumption is that whether at 8:1 or 15:1 FAR the project will be a high-rise building with similar development costs and values per building square foot, thus resulting in similar "residual land values" (the difference between costs and values) per building square foot. As appropriate, EPS has further adjusted these appraised value figures as described under each scenario below.

Ground lease payments are estimated by assuming the annual lease payments are equal to 7 percent of the site's fee simple value. The draft appraisal indicates that the market standard for ground leases is a 99-year term, so this duration is used to calculate the NPV of public revenues, along with a 3 percent annual inflation and a 5.25 percent discount rate meant to reflect the City's typical "cost of borrowing" funds.

Taxable assessed values of market-rate portions of each scenario are derived based on the assessed value of the Alexan Waterloo, a 30-story residential development built in 2021 at 700 East 11th Street within two blocks of the subject sites. The Alexan Waterloo's total appraised value of \$160.4 million is divided by its 272 units to arrive at an approximate \$590,000 in value per unit, which is then divided by the average unit size of 1,087 square feet in that building to get an assessed value per net square foot of \$542. This per-net square foot value assumption is utilized for the market-rate portions of every scenario to derive the total estimated assessed values. Assessed value is not estimated for the affordable portion of Scenario 1, since it is a fully affordable development on the 1215 Red River site and would not generate property taxes. Property taxes are estimated using the City of Austin's current property tax rate of \$0.4458 per \$100 of Assessed Value.

The number of off-site affordable units that could theoretically be supported by each scenario is estimated by taking the NPV of Net Public Revenues, subtracting \$6.5 million to repay the City's cost to acquire the properties, then dividing by \$191,970. The \$191,970 value represents the average amount of funding that the Austin Housing Finance Corporation (AHFC) has historically used to leverage outside funding, such as the Low-Income Housing Tax Credit (LIHTC) program, per one affordable housing unit priced at 50 percent AMI and below. This amount is based on AHFC funding for two recent projects, Seabrook Square and Norman Crossing, and constitutes the City funding required for each affordable unit, with all other funding coming from outside sources.

Scenario 1: Hybrid

Scenario 1 contemplates the redevelopment of the 1.141-acre 1215 Red River site into an affordable residential development, with the smaller 0.349-acre 606 East 12th Street site being used for a market-rate residential development. **Table 3** below shows the development programs used for Scenario 1. Note that unlike other scenarios, Scenario 1 separates the two sites to present an affordable development distinct from three potential development programs for the market-rate site.

Table 3 Scenario 1 – Development Program

Item	Scenario 1: Hybrid			
	Affordable	Market Base (8 FAR)	Market Bonus (15 FAR)	Market Bonus (25 FAR)
Development Program				
Acreage	1.14	0.35	0.35	0.35
Building Height	50	400	400	400
FAR	3.4	8.0	15.0	25.0
Total Square Feet	168,267	121,620	228,037	380,061
Commercial Sq.Ft.	5,000	10,000	10,000	10,000
Unit Mix				
Studio	27	21	39	65
1 BR	27	53	99	165
2 BR	124	27	51	85
3 BR	0	4	8	14
Total Units	178	105	197	328
Affordable Program				
Affordable Units	178	N / A	N / A	N / A
Percent Affordable	100%	N / A	N / A	N / A
Percent MFI	50%-80%	N / A	N / A	N / A
Affordable Longevity	40 years	N / A	N / A	N / A
In-Lieu Payment ¹	N / A	N / A	\$1,277,005	\$3,101,298

[1] In-Lieu Payment based on CBD rate of \$12 per bonus square foot.

Source: Economic & Planning Systems

The affordable portion of Scenario 1, being located on the 1215 Red River site, is impacted by the Capitol View Corridor (CVC), which limits the southern half of the site to an estimated 55 feet in allowable building height assuming grading does not change the existing dirt elevation. As such, it is assumed the building will be three floors of woodframe construction over a ground floor concrete podium on the southern half of the site, and five floors of woodframe construction over the same concrete podium on the northern half, averaging four residential stories across the entire site. Per discussions with the City’s Housing Department / AHFC staff, this height limit is assumed because 100 percent affordable housing developments rarely reach more than five stories or the limits imposed for woodframe construction, due to significant increases in construction costs above this height. Assuming that the building footprint covers 85 percent of the site, and with a 75 percent efficiency ratio for the building, the 1.41 acres could fit 126,740 net leasable square feet of development.

The stand-alone affordable portion of Scenario 1 maximizes the provision of on-site affordable units based on the 2023 Governor Approved Qualified Allocation Plan's (QAP) stipulated minimum unit sizes and requirement that 70 percent of units must have two or more bedrooms (The QAP is approved annually and dictates rules under which all multifamily subsidy programs are administered in Texas). It is assumed that the developer would provide as close to 70 percent of the units as two bedroom units as possible, with the remainder being comprised of studio and one-bedroom units. This assumed unit mix, along with the required minimum unit sizes (450 square feet per studio unit, 550 square feet per one-bedroom unit, and 800 square feet per two-bedroom unit), results in a maximum of 178 units and 126,200 square feet in total net leasable area.

The "market" component of the Hybrid scenario is assumed to be developed on the smaller 606 East 12th Street site. As shown on **Table 3**, that site could support an estimated 105 to 328 total market-rate housing units depending on the density assumption (8:1 to 25:1 FAR). To reach the full 25:1 FAR, the project is assumed to be required to pay an in-lieu fee of \$12 per square foot above the base density of 8:1 FAR, resulting in an in-lieu fee payment of \$3.1 million.

Table 4 displays the resulting value estimates derived based on the development programs. Per discussions of comparable projects with AHFC, the affordable component is assumed to generate no land value or taxable assessed value. Moreover, the affordable project is assumed to have half of its units (89 out of 178) priced at 50 percent MFI or below and be both in need of and eligible to receive roughly \$191,970 per unit in local subsidy, resulting in a net City cost of \$17.1 million to deliver 178 total on-site affordable housing units. However, the market component on the smaller site is assumed to generate both land value and property taxes, the combined NPV of which is estimated to exceed the cost of subsidizing the units in the affordable component.

Table 4 Scenario 1 – Value Estimates

Item	Scenario 1: Hybrid			
	Affordable	Market Base (8 FAR)	Market Bonus (15 FAR)	Market Bonus (25 FAR)
Land Value				
Fee Simple	N / A	\$8,222,403	\$14,140,000	\$14,970,000
Annual Ground Lease Starting At:	N / A	\$575,568	\$989,800	\$1,047,900
Assessed Value Estimate				
Annual Property Taxes Starting At:	N / A	\$49,481,561	\$92,777,926	\$154,629,877
		\$220,589	\$413,604	\$689,340
Public Subsidy Required	\$17,085,308	N / A	N / A	N / A
NPV of Net Public Revenue¹	-\$17,085,308	\$32,857,802	\$59,196,198	\$74,798,072
(less) Site Acquisition	N / A	-\$6,500,000	-\$6,500,000	-\$6,500,000
Total NPV of Net Public Revenue	-\$17,085,308	\$26,357,802	\$52,696,198	\$68,298,072
Combined NPV (Full Site)²	N / A	\$9,272,494	\$35,610,890	\$51,212,763
Supportable Off-Site Aff. Units³	0	48	186	267
On-Site Affordable Units⁴	178	0	0	0
Total Affordable Units⁵ <i>(On-Site + Off-Site)</i>	178	226	364	445

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

[2] Adds the Total NPV of Net Public Revenues of the affordable site to each of the Market scenarios.

[3] Divides Combined NPV (Full Site) by the estimated required AHFC funding per affordable unit of \$191,970.

[4] Per **Table 3**.

[5] Adds Supportable Off-Site Affordable Units of market portion of site to on-site units provided in the affordable portion of the site.

Source: Economic & Planning Systems

As shown in **Table 4**, depending on the FAR that is achieved for the market portion of the site, Scenario 1 could result in a total NPV of net public revenue between \$9.3 million (under the base FAR of 8:1) and \$51.2 million (under an FAR of 25:1). The primary driver of the difference is not the land value but the property taxes generated by the project, which is assumed to be directly proportional to the development size while the land value is not directly proportional.

To derive the number of supportable off-site affordable units, the NPVs of net public revenues are divided by the estimated required City funding of \$191,970 necessary to leverage one affordable unit. The number of estimated supportable off-site units ranges from 48 under an 8:1 FAR to 267 under a 25:1 FAR. When combined with the 178 on-site affordable units in the 100 percent affordable project assumed on the 1215 Red River site, the total affordable units either provided on-site or supported off-site is estimated at 226 with the market portion at the base 8:1 FAR density, 364 under a 15:1 FAR density, and 445 under a 25:1 FAR density.

Scenario 2: Downtown Density Bonus

Scenario 2 analyzes the development potential of the site if a developer utilizes the Downtown Density Bonus Program, opting for the payment of affordable housing in-lieu fees rather than on-site affordable housing provision in exchange for bonus density. Unlike Scenario 1, this scenario (and all remaining scenarios) does not distinguish between the two sites but rather combines the full 1.49 acres and estimates allowable development across the entire site. While a portion of the larger Red River site is assumed to remain under the height limitations of the Capitol View Corridor, the remainder of that site and the entire 12th Street site are assumed to be developable to heights high enough to achieve the 15:1 and 25:1 FAR allowances for the overall combined site. In order to achieve bonus densities shown below, the project is assumed to be required to pay \$12 per square foot above the base density of 8:1 FAR. **Table 5** shows the assumed development programs under the base density, under an FAR of 15:1, and under an FAR of 25:1.

Table 5 Scenario 2 – Development Program

Item	Scenario 2: Downtown Bonus		
	Market Base (8 FAR)	Market Bonus (15 FAR)	Market Bonus (25 FAR)
Development Program			
Acreage	1.49	1.49	1.49
Building Height	400	400	No limit
FAR	8	15	25
Total Square Feet	519,235	973,566	1,622,610
Commercial Sq.Ft.	15,000	15,000	15,000
Unit Mix			
Studio	88	166	276
1 BR	225	423	704
2 BR	116	217	361
3 BR	19	35	59
Total Units	448	840	1,400
Affordable Program			
Affordable Units	N / A	N / A	N / A
In-Lieu Payment ¹	N / A	\$5,451,970	\$13,240,498

[1] In-Lieu Payment based on CBD rate of \$12 per bonus square foot.

Source: Economic & Planning Systems

As shown, the project would be required to pay an in-lieu fee of \$5.5 million to achieve the additional 454,331 total square feet that would be allowed under an FAR of 15:1. This in-lieu fee would increase to \$13.2 million to if the project were to increase the density to a 25:1 FAR, which would result in an additional 1,103,375 total square feet beyond the base zoning. Assuming the same unit mix and sizes as shown in **Table 2**, the 8:1, 15:1, and 25:1 FAR options would result in an estimated 448, 840, and 1,400 total units respectively. **Table 6** below displays the values and revenues that would result from these development programs under the three different densities.

Table 6 Scenario 2 – Value Estimates

Item	Scenario 2: <i>Downtown Bonus</i>		
	Market Base (8 FAR)	Market Bonus (15 FAR)	Market Bonus (25 FAR)
Land Value			
Fee Simple	\$33,915,717	\$58,140,000	\$61,210,000
Annual Ground Lease Starting At:	\$2,374,100	\$4,069,800	\$4,284,700
Assessed Value Estimate	\$211,253,654	\$396,100,601	\$660,167,668
Annual Property Taxes Starting At:	\$941,769	\$1,765,816	\$2,943,027
Public Subsidy Required	N / A	N / A	N / A
NPV of Net Public Revenue¹	\$136,847,592	\$246,290,816	\$311,532,469
(less) Site Acquisition	-\$6,500,000	-\$6,500,000	-\$6,500,000
Total NPV of Net Public Revenue	\$130,347,592	\$239,790,816	\$305,032,469
Supportable Off-Site Aff. Units²	679	1,249	1,589
On-Site Affordable Units	0	0	0
Total Affordable Units (On-Site + Off-Site)	679	1,249	1,589

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

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

Source: Economic & Planning Systems

As shown in **Table 6**, depending on the FAR assumed, Scenario 2 could result in a total NPV of net public revenue between \$130.3 million (under the base FAR of 8:1) and \$305 million (under an FAR of 25:1). These NPVs of net public revenues are divided by the assumed subsidy per affordable unit of \$191,970 to derive the number of supportable off-site units. The number of estimated supportable off-site units ranges from 679 under an 8:1 FAR to 1,589 under a 25:1 FAR. Since there would be no provision of on-site affordable housing under this scenario, the total affordable units are equal to the supportable off-site affordable units generated by this scenario.

Scenario 2 provides a much higher NPV of net public revenue than the “hybrid” Scenario 1 due to its much higher land values (and therefore higher ground lease payments) and much higher estimated assessed values (and therefore higher property tax revenues). Although it does not provide any on-site affordable units, the revenues from Scenario 2 “Downtown Bonus” development at 15:1 and 25:1 FAR allowances are estimated to support roughly three to four times as many total affordable units (combined on- and off-site) as under the Scenario 1 “Hybrid” project assumptions when comparing the same densities.

Scenario 3: Rainey District Density Bonus

Scenario 3 analyzes the development potential of the site if a developer were offered incentives similar to the Rainey District Density Bonus Program, requiring the provision of on-site affordable housing in exchange for bonus density. As shown in **Table 7**, the development program for this scenario is the same as that assumed under Scenario 2, except a portion of the units are earmarked as on-site affordable units and there are no in-lieu payments made. Whereas the Downtown Density Bonus program allows the payment of in-lieu fees rather than provision of on-site affordable units, the Rainey District Density Bonus Program requires that 5 percent of the total residential square footage must be devoted to affordable housing priced at 80 percent MFI or below in order to achieve bonus density.² In order to receive the bonus 15:1 FAR density, this analysis assumes that the subject project would devote 5 percent of the 973,566 total square feet, or 48,678, to affordable housing. The affordable units are assumed to have the same sizes and unit mix as the market program, resulting in a weighted average unit size of 869 square feet. Therefore, 56 on-site affordable housing units would satisfy the 5 percent requirement under the 15:1 FAR density. To achieve a 25:1 FAR, 5 percent of the 1,622,610 square feet would be devoted to affordable housing, which results in 93 total units provided on site.

² The Rainey District Density Bonus Program requires developers to provide on-site affordable units to exceed the current base zoning limiting heights to 40 feet. Developers are required to provide 5 percent of residential square footage as affordable housing up to an 8:1 FAR, but then may pay an in-lieu fee for density above the 8:1 FAR up to a maximum 15:1 FAR. This analysis, however, assumes that the City would create a new density bonus provision that requires 5 percent of total net square footage is provided as affordable housing at any density level above the 8:1 base density, rather than assuming that developers could provide a combination of on-site units and in-lieu fees. See: [§ 25-2-739. RAINEY STREET SUBDISTRICT REGULATIONS., SubPart C. Subdistrict Regulations., Article 3. ADDITIONAL REQUIREMENTS FOR CERTAIN DISTRICTS., SubChapter C. USE AND DEVELOPMENT REGULATIONS., Chapter 25-2. ZONING., Title 25. LAND DEVELOPMENT., Land Development Code, Austin \(elaws.us\)](#)

Table 7 Scenario 3 – Development Program

Item	Scenario 3: Rainey Bonus		
	Market Base (8 FAR)	Market Bonus (15 FAR)	Market Bonus (25 FAR)
Development Program			
Acreage	1.49	1.49	1.49
Building Height	400	400	No limit
FAR	8	15	25
Total Square Feet	519,235	973,566	1,622,610
Commercial Sq.Ft.	15,000	15,000	15,000
Unit Mix			
Studio	88	166	276
1 BR	225	423	704
2 BR	116	217	361
3 BR	19	35	59
Total Units	448	840	1,400
Affordable Program			
Affordable Units	N / A	56	93
Percent Affordable	N / A	5%	5%
Percent MFI	N / A	80%	80%
Affordable Longevity	N / A	40 years	40 years
In-Lieu Payment	N / A	N / A	N / A

Source: Economic & Planning Systems

As shown, Scenario 3 would result in 448 total units (all market-rate) under the base 8-FAR density, 840 total units (784 market-rate and 56 affordable) under a 15-FAR bonus density, and 1,400 total units (1,307 market-rate and 93 affordable) under a 25-FAR bonus density.

The fee simple land values have thus far been estimated based on draft appraisal data from Hornsby & Company (modified as appropriate with respect to the circumstances of each scenario). The draft appraisal does not account for the provision of affordable units on-site, which yield lower rents than market-rate units but cost the same to construct, and thus affect the overall project value and its ability to support land value payments.

Table 8 demonstrates the calculation used to estimate the loss in operating revenues, unit values, and land value from the provision of on-site affordable units for both the 15:1 and 25:1 FAR bonus scenarios.

Assuming the same unit mix between affordable and market rate units, **Table 8** calculates the loss in rent revenue for each affordable unit by taking the difference between the maximum allowable affordable rent at 80 percent of MFI and the revenue that unit would generate if it were rented at market rate. For example, an affordable studio unit is estimated to generate nearly \$500 less rent revenue monthly than would the same unit at market rate, and a two-bedroom affordable unit generates nearly \$2,000 less than a market-rate unit each month. These rent differences are converted to an annualized value, then multiplied by the total number of affordable units that would be required under the 15:1 FAR density and the 25:1 FAR density. This total annual loss in value is then capitalized using a capitalization rate of 4.75 percent per Integra Realty

Resources 2023 data for Downtown Austin Class A Urban Multifamily capitalization rates (a capitalization rate is the rate of return on a real estate investment property based on the income the property is expected to generate). This analysis suggests that the project's overall building value would be reduced by an estimated \$18.1 million by providing the 56 on-site affordable units necessary to achieve a 15:1 FAR density, and it would be reduced by \$30 million by providing the 93 on-site affordable units necessary to achieve a 25:1 FAR density.

These reduced building values directly affect the land value because the high-rise development's construction costs the same whether the units are affordable or market-rate, so the developer cannot afford to pay the same amount for land if the building is worth less. EPS has deducted these value reductions from those in the draft appraisal (as adjusted for the removal of the in-lieu fee requirements) to estimate the land value under this Scenario 3 program.

As shown in **Table 9**, even with this reduction, the fee simple land values for the bonus density programs are still greater than the fee simple values under the base 8:1 FAR, and their estimated ground lease payments are commensurably higher as well. While the \$30 million reduction in value under the 25:1 FAR density program drops the fee simple value (and ground lease payments) of that program below those of the 15:1 FAR density program, the much higher assessed value of the 25:1 FAR density program results in an NPV of total net public revenue that is more than \$40 million higher than under the 15:1 FAR density program and nearly double that of the base 8:1 FAR program that does not provide any on-site affordable units.

Table 8 Scenario 3 – Estimated Land Value Reduction

Unit Type	Market Rate Rent/ SqFt/Mo. ¹	Assumed Unit SqFt ²	Market Rate Rent/ Unit/Mo.	Affordable Rent/ Unit/Mo. ³	Diff. per Month	Diff. per Year	15-FAR		25-FAR	
							# of Aff. Units ⁴	Total Annual Difference	# of Aff. Units ⁴	Total Annual Difference
<i>Formula</i>	<i>a</i>	<i>b</i>	<i>c = a * b</i>	<i>d</i>	<i>e = c - d</i>	<i>f = e * 12</i>	<i>g</i>	<i>h = f * g</i>	<i>g</i>	<i>h = f * g</i>
Studio	\$3.92	536	\$2,097	\$1,636	\$461	\$5,536	11	\$61,165	18	\$101,941
1-Bedroom	\$3.56	739	\$2,634	\$1,753	\$881	\$10,571	28	\$297,769	47	\$496,281
2-Bedroom	\$3.36	1,191	\$4,005	\$2,104	\$1,901	\$22,816	14	\$329,655	24	\$549,425
3-Bedroom	\$4.19	2,018	\$8,450	\$2,430	\$6,020	\$72,245	<u>2</u>	<u>\$169,250</u>	<u>4</u>	<u>\$282,084</u>
Total Annual Discount in Year 2023 \$							56	\$857,839	93	\$1,429,731
Loss in Capitalized Value⁵								\$18,059,765		\$30,099,609

[1] Average effective rents for Downtown Austin Class apartments built since 2016 and currently under construction as of October 2023.

[2] Assumed unit sizes based on average unit sizes in Downtown Austin apartments built since 2016 and currently under construction.

[3] Maximum rents based on 80% MFI.

[4] Affordable unit count reflects Rainey Street density bonus requirement.

[5] Based on Capitalization Rate of 4.75% per IRR Viewpoint 2023 data for Downtown Austin Class A Urban Multifamily.

Source: Integra Realty Resources; CoStar; TDHCA; Economic & Planning Systems.

Table 9 shows the estimated values that would result from these development programs. As previously indicated, the fee simple values for both Market Bonus scenarios have been reduced by the Loss in Capitalized Values calculated in **Table 8**.

Table 9 Scenario 3 – Value Estimates

Item	Scenario 3: <i>Rainey Bonus</i>		
	Market Base (8 FAR)	Market Bonus (15 FAR)	Market Bonus (25 FAR)
Land Value			
Fee Simple	\$33,915,717	\$45,532,204	\$44,350,889
Annual Ground Lease Starting At:	\$2,374,100	\$3,187,254	\$3,104,562
Assessed Value Estimate	\$211,253,654	\$378,040,835	\$630,068,059
Annual Property Taxes Starting At:	\$941,769	\$1,685,306	\$2,808,843
Public Subsidy Required	N / A	N / A	N / A
NPV of Net Public Revenue¹	\$136,847,592	\$201,093,032	\$244,049,243
(less) Site Acquisition	-\$6,500,000	-\$6,500,000	-\$6,500,000
Total NPV of Net Public Revenue	\$130,347,592	\$194,593,032	\$237,549,243
Supportable Off-Site Aff. Units²	679	1,014	1,237
On-Site Affordable Units³	0	56	93
Total Affordable Units (On-Site + Off-Site)	679	1,070	1,331

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

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

[3] Per **Table 7**.

Source: Economic & Planning Systems

As shown, depending on the FAR achieved, Scenario 3 could result in a total NPV of net public revenue between \$130.3 million under the base FAR of 8:1 and \$237.6 million under an FAR of 25:1. These NPVs of net public revenues are divided by the assumed subsidy per affordable unit of \$191,970 to derive the number of supportable off-site units. The number of estimated supportable off-site units ranges from 679 under an 8:1 FAR to 1,237 under a 25:1 FAR. When combined with the on-site affordable units provided under the 15:1 and 25:1 FAR scenarios, the total affordable units provided both on-site and supported off-site are unchanged under the base 8:1 FAR scenario, but increases to 1,070 under a 15:1 FAR density and 1,331 under a 25:1 FAR density.

The Scenario 3 analysis indicates that, when holding all else equal, the provision of on-site affordable units and the use of the Rainey District Bonus Density Program more negatively impacts the value of the development as compared to payment of an in-lieu fee under the Downtown Bonus Density Program to achieve the same bonus density. Although they have the same total number of units under each density, Scenario 3 results in a lower generation of ground lease payments, property taxes, and NPV of net public revenue than Scenario 2 in exchange for the provision of on-site affordable units.

Scenario 4: "PILOT"

This scenario outlines a development program that maximizes the density and value of the site for market-rate housing under an agreement between the City and a private developer in exchange for maximizing annual revenues through ground lease payments and/or "Payment In Lieu of Taxes" to the City rather than providing on-site affordable units or in-lieu fees as under existing density bonus programs. As such, this scenario has no "base" density 8:1 FAR included in the analysis and is only considered under a 15:1 and a 25:1 FAR. **Table 10** displays the development programs under both density options for Scenario 4.

Table 10 Scenario 4 – Development Program

Item	Scenario 4: "PILOT"	
	Market Bonus (15 FAR)	Market Bonus (25 FAR)
Development Program		
Acreage	1.49	1.49
Building Height	400	No limit
FAR	15	25
Total Square Feet	973,566	1,622,610
Commercial Sq.Ft.	15,000	15,000
Unit Mix		
Studio	166	276
1 BR	423	704
2 BR	217	361
3 BR	35	59
Total Units	840	1,400
Affordable Program		
Affordable Units	N / A	N / A
Percent Affordable	N / A	N / A
Percent MFI	N / A	N / A
Affordable Longevity	N / A	N / A
In-Lieu Payment	N / A	N / A

Source: Economic & Planning Systems

The development programs for Scenario 4 are identical to the 15:1 and 25:1 FAR programs under Scenarios 2 and 3, but this scenario assumes the developer does not have to provide on-site affordable units or pay an in-lieu payment in order to achieve these densities. Without providing affordable units on-site, the fee simple land value is not reduced by the loss of rent revenue as is the case in Scenario 3. The land values for Scenario 4 are estimated by adding the in-lieu payments needed to achieve the 15:1 and 25:1 FAR densities in Scenario 2 to the draft appraisal's land values for those densities.

As such, the estimated value generation of this scenario is higher than any other scenario, as shown in **Table 11**.

Table 11 Scenario 4 – Value Estimates

Item	Scenario 4: "PILOT"	
	Market Bonus (15 FAR)	Market Bonus (25 FAR)
Land Value		
Fee Simple	\$63,591,970	\$74,450,498
Annual Ground Lease Starting At:	\$4,451,438	\$5,211,535
Assessed Value Estimate	\$396,100,601	\$660,167,668
Annual Property Taxes Starting At:	\$1,765,816	\$2,943,027
Public Subsidy Required	N / A	N / A
NPV of Net Public Revenue¹	\$256,589,235	\$336,542,915
(less) Site Acquisition	-\$6,500,000	-\$6,500,000
Total NPV of Net Public Revenue	\$250,089,235	\$330,042,915
Supportable Off-Site Aff. Units²	1,303	1,719

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

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

Source: Economic & Planning Systems

Scenario 4 results in the highest estimated number of supportable off-site affordable units, as it achieves the highest total NPV of net public revenue due to the lack of land value reduction from on-site affordable housing provision. Even though Scenario 4 is not paying a one-time in-lieu fee payment to the City to achieve these higher densities, the total NPV of net public revenue is higher in this Scenario as that foregone in-lieu payment goes straight to the fee simple value of the land, resulting in a higher ground lease payment. Taken over the 99-year term, this higher ground lease payment results in a higher overall net present value of public revenues generated by this scenario.

Although this scenario would not provide any on-site affordable units, it is estimated to generate the highest amount of public revenue and therefore would be able to support the highest number of off-site affordable units of any Scenario, at 1,303 units under a 15:1 FAR density and 1,719 units under a 25:1 FAR density.