# Waller Creek TIRZ
# 2009 Update of Market Demand and Absorption Projections

**Prepared for:**

**City of Austin, Texas**

CDS SPILLETTE
Strategic Urban Consulting Alliance

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# Introduction / Executive Summary

## Study Purpose

This study, performed for the City of Austin, examines market trends affecting four land uses in Downtown Austin: office, multifamily residential (rental and condominium), hotel, and retail. CDS | Spillette has then summarized and synthesized the information gathered in research overviews for each use to arrive at projections of market-supportable absorption within the Waller Creek Tax Increment Reinvestment Zone (TIRZ).

The projections include three physical improvement scenarios that are described below. The scenarios pertain to the scope and nature of physical improvements provided within the TIRZ, particularly the draft Waller Creek Master Plan for transportation enhancements and public amenities.

## Research Approach and Analysis Methodology

CDS | Spillette took a multi-pronged approach to gathering research for this study. The amalgam of information sources, both primary and secondary, included:

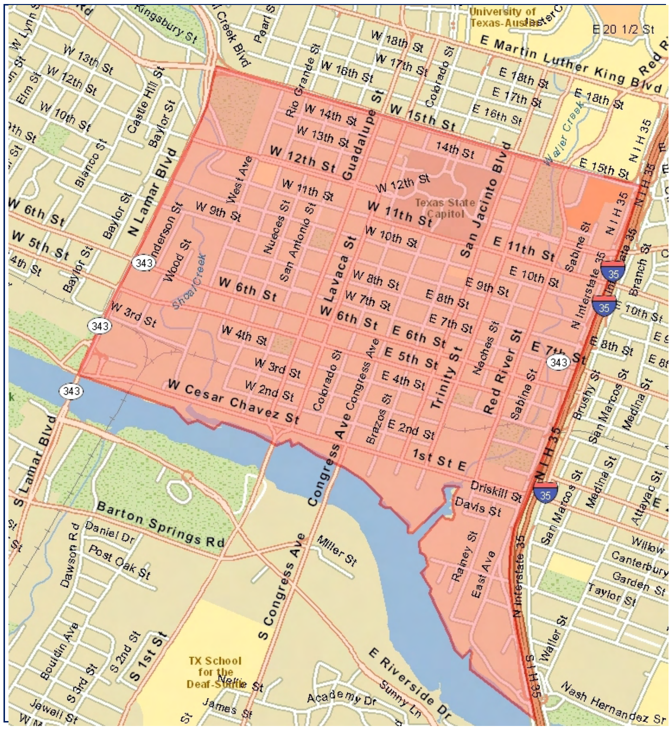
- Census data
- State of Texas Comptroller (retail sales data)
- Travis Central Appraisal District
- City of Austin agencies (Planning and Development Review, Convention Center)
- Real estate developers and brokers
- Development project websites
- Property managers
- Waller Creek Master Plan consultants (Roma)
- Other organizations and sources (Capitol Market Research, newspaper articles, etc.)

The objectives of the research were to assess the current state of the real estate and development markets for the subject land uses, identify trends occurring since the previous studies, project future demand and growth of the subject land uses within the overall Downtown area, and project a capture of that growth within the Waller Creek TIRZ under the three public improvement scenarios.

## Study Area

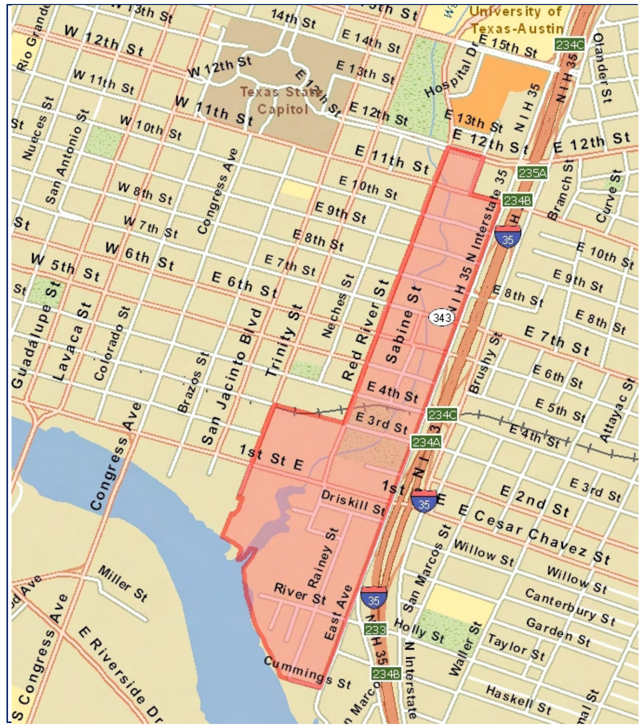
The following two maps illustrate the study areas used for analysis: Downtown and the boundaries of the Waller Creek TIRZ. In the Hotel market overview, the Downtown study area was slightly expanded to account for some proximate and relevant hotel properties.

### Downtown Study Area




Source: CDS | Spillette

### TIRZ Area




Source: CDS | Spillette, City of Austin

## Physical Concept Scenarios

CDS | Spillette performed this market analysis within the context of two principal future physical scenarios

1. **Master Plan** – The physical improvements conceptualized in the draft Waller Creek Master Plan are built by 2014 or 2015. The plan focuses on creating a defined and attractive pedestrian / bicycle pathway parallel to Waller Creek from Waterloo Park to Lady Bird Lake combined with environmental improvements to the creek channel.

   The focus of pedestrian and bicycle travel in much of the corridor will be at street level rather than a below grade creekside path. In particular, Sabine Street will be extended and enhanced to be continuous between 3rd Street and 7th Street as a lushly landscaped pedestrian and bicycle promenade that constitutes the central segment of the pathway. The pathway would cross 7th, 9th, and 11th Streets at grade. A more direct companion bicycle route would also be designated along Red River Street through the length of the corridor. All east-west cross streets would be receiving streetscape improvements to bring them up to the "Great Streets" standards applied elsewhere in Downtown.

The creek channel itself would undergo physical restoration to a more natural state in several locations, giving it a stronger linear open space quality including implementing riparian softscape and reduced gradient to the creek banks. The plan would significantly improve access to existing parks, including Palm Park, Waterloo Park, and Lady Bird Lake, that are linked by the new pathway. Palm Park is assumed to be generally improved as well from its current state of partial neglect and lack of patronage.

2. **Creekside** - CDS | Spillette has also considered how the Master Plan design concept would have different market and development impacts from the previous concept for Waller Creek surface improvements, called the **Creekside** concept in this report. These improvements would constitute a continuous hardscaped environment below grade within the main creek channel thereby creating development opportunities similar in concept to the Riverwalk in San Antonio.
3. **Storm Drainage Only** – The City implements only **Storm Drainage Improvements** within the TIRZ; no open space, landscaping, or pathway amenities are built. The overall public environment remains essentially the same as today, except for whatever public improvements might be constructed as part of individual private development projects in the absence of a comprehensive master plan and related investments.

# Summary of Market Findings

## Regional Economic and Demographic Trends

- Emerging from the recession in the early part of the decade, Austin regional population and employment has undergone a run of strong growth, adding an estimated 76,600 jobs from 2005 to 2009; 58,000 City of Austin residents from 2005 to 2008, and 244,000 in the region; and 25,000 City of Austin households, and 63,000 households in the region.
- The City's demographer projects population growth of 2.00% annually over the long term, though the recession is likely slowing growth somewhat through 2011. Economists generally expect the Austin region to recover relatively early from the recession and resume strong job growth.
- Austin's ongoing and future growth means that Downtown has good prospects for increasing its employment and population as well.

## Office Market

- After performing poorly during the early years of the decade, Austin's office market recovered well until 2007 and has declined since, as economic growth slowed while new supply was added to the market. The Downtown market has outperformed the region during the downturn and remains moderately healthy.
- Very little new supply has been added to the Downtown market since the Frost Bank Building opened in 2003.

- Once the economic recovery is underway, Downtown should garner significant growth in office demand.
- Several large office projects are proposed Downtown, all of which are located in the southwest quadrant of Downtown or in the Congress Avenue corridor. The TIRZ is not well positioned at present to capture a significant share of office growth, though improving the environment through the Master Plan may provide some incremental competitive benefit. This recent trend was not yet fully evident as of the 2006 market update and projections of future office development for the current update have been adjusted accordingly.

## Multifamily Rental Market

- Downtown proper has experienced a large increase in multifamily rental supply over the last decade, including several high rise developments. Although overall occupancy dropped in 2008 as several new projects came to market, absorption has been strong. All properties that opened within the last decade, except the Ashton which is newly opened in 2009, have at least 90% occupancy.
- Downtown properties, on average, obtain much higher rents than the rest of the region.
- New apartment properties within the TIRZ, Legacy on the Lake and Red River Flats, are doing well. The two projects represent different market segments: upscale renters valuing proximity to green space and renters comfortable in more moderately priced properties that are close to entertainment options and convenient to the remainder of Downtown.
- One multifamily project, Gables Park Plaza, is under construction within Downtown proper. Five other projects are proposed, including the 355-unit 21c project within the TIRZ. The total number of units under construction or proposed Downtown is 1,217.
- The outlook for apartment demand in both Downtown and the TIRZ is positive. The south end of the TIRZ should attract more upscale multifamily rental projects, including high rises, while northern portions are best suited to low-rise construction (partly due to the Capitol View Corridor) with less expensive rents.

## Condominiums

- Since 1999, nearly 1,800 condominium units have opened within Downtown proper. Another 531 units are under construction. The most recent projects are mostly new high rise construction rather than adaptive reuse.
- New condominiums have covered a wide range of price levels, from under $300,000 to over $1 million. The projects under construction are generally focused on the top end of the market.
- Demand for new condominiums has proven to be strong. Out of 1,889 high rise units built or under construction since 2001, including 1,248 units built in 2008 or 2009 alone, all but 422 have been sold. Units priced under $400,000 have sold especially quickly.
- The high rise projects under construction all target the upper end of the market, which is likely creating a temporary oversupply of luxury units.

- At least 1,908 additional condominium units are proposed for development within Downtown. All but one, Nahua, are proposed for Downtown's southwest quadrant or Congress Avenue corridor.
- Condo buyers have proven to be diverse in age and life situation, though few have school age children. The market is primarily buyers seeking a primary residence, and over two thirds come from within the Austin area.
- The TIRZ will continue to attract condominium development to the Rainey Street area and possibly to its central and northern portions as well.

## Hotel

- Downtown hotel room stock increased rapidly to over 5,200 rooms in the first half of the decade then leveled off after 2006; hotel development continued elsewhere in the region up to the present.
- The current recession has hurt overall regional hotel performance, but the Downtown market has not fared nearly as badly. Performance measures for 2009 indicate a moderately healthy Downtown hotel market.
- Downtown is accounting for an increasing share of regional hotel room revenue despite not adding rooms in recent years.
- A large number of hotel rooms, at least 3,454, are proposed in Downtown for future development. Only one, the W Hotel, is currently under construction. Three hotels have been proposed within the TIRZ, all in the Rainey Street area at its south end.
- The various entities responsible for attracting and hosting conventions are seeking development of another large headquarters hotel which they believe would facilitate an increase in overall meetings business. A Marriott with 1,000 rooms has been proposed but is on hold. These entities also seek additional luxury and boutique hotel development Downtown. Most proposed hotels, to the extent they have defined their concept, are targeting the upscale or luxury market.
- The meetings business as monitored by the Convention and Visitors Bureau has softened with the recession, but initial indications are that full recovery may be coming by 2012.
- In addition to the upscale hotels proposed for the south end of the TIRZ, the central and northern portions of the TIRZ present hotel development opportunities for more moderately priced limited service hotels.

## Retail

- Downtown retail spending is strongly dominated by restaurants and bars. Downtown spending in these establishments has increased substantially since mid-decade, and Downtown is increasing its share of total Travis County spending in this category. Growth in sales at Downtown Clothing, Jewelry, and Luggage stores have outperformed Travis County overall.

- Downtown first-floor retail space inventory is estimated at approximately 2.75 million square feet, with a vacancy rate of 14%. Only the Market District and the 2nd Street District represent multi-building retail spaces that are managed in a coordinated fashion.
- Nearly all of the TIRZ's retail space is devoted to restaurant and entertainment establishments. The East 6th Street district is the target of an effort to broaden its retail offerings, though lower-end bar and entertainment establishments continue to dominate.
- Almost all planned and proposed expansions to retail inventory are part of mixed-use developments.
- The southwest quadrant of downtown is clearly the preferred location for retail activity in Downtown, accounting for most recently developed space, all space under construction, and most proposed space. Two mixed-use projects within the TIRZ that propose to include 1-2 floors of retail space are 21c and Nahua.
- The TIRZ, due to lack of daytime activity and large residential population at present, is not well suited to extensive retail development, especially comparison and convenience goods. Extensive residential development with the zone will help generate neighborhood-oriented shops and services in the long run. Any near to middle term retail growth in the TIRZ is anticipated to remain focused on dining and entertainment.
- The Master Plan would mainly be indirectly beneficial to retail development by encouraging residential growth and generally increasing awareness of the area. It would have less of an impact on retail growth than the previous Creekside scenario would have had. Although there is less growth projected within the TIRZ under the Master Plan scenario, the impact on TIRZ property value is not projected to be significant. In terms of public revenues, retail space is typically most valuable as a sales tax generator.

# Projected TIRZ Absorption

CDS | Spillette used the findings of the market research to project market-supportable absorption for each land use during the remainder of the life of the TIRZ. Projections were made for the three physical concept scenarios previously described. Please see the last section of the report for a detailed discussion of projected absorption in Downtown and within the TIRZ.

Absorption was calculated for Downtown overall. A projected capture rate was then applied to the TIRZ to project supportable absorption within the zone over time. It is important to note that the projected quantities of absorption do not represent actual quantities of new development. Vacancy rates and building efficiencies will lead to projections of actual built area for each use, which will be larger than the absorption amounts.

A summary comparison of projected market-supportable absorption across the three scenarios is presented in the table below.

## Comparative Summary of Total Supportable Absorption, 2010 - 2027

| | | | Master Plan Increase (Decrease) vs: | |
|---|---|---|---|---|
| Land Use | Measurement | Master Plan Supportable Absorption | Storm Drainage Only | Creekside |
| Apartments | Dwelling Units | 1,284 | 499 | 373 |
| Condominiums - mid-priced | Dwelling Units | 924 | 339 | 243 |
| Condominiums - luxury | Dwelling Units | 245 | 62 | 62 |
| Office | Sq.Ft. | 975,000 | 180,000 | 180,000 |
| Hotel - limited service | Rooms | 290 | 73 | (145) |
| Hotel - full service | Rooms | 318 | - | (72) |
| Retail | Sq.Ft. | 73,000 | 21,000 | (105,000) |

Source: CDS | Spillette

# Regional Economic and Demographic Trends

## Economy and Employment

The Austin region has experienced tremendous growth in its economy over the last two decades. Since 1990, the total number of jobs has nearly doubled to approximately 769,000. The table below provides employment statistics for all major industry sectors.

### Austin MSA Historical Employment Trends by Category 1990 – 2009

| | End of Year Estimates | | | | | Change | | | |
|---|---|---|---|---|---|---|---|---|---|
| Industry Category | 1990 | 1995 | 2000 | 2005 | 2009* | 1990 - 1995 | 1995 - 2000 | 2000 - 2005 | 2005 - 2009 |
| Total Nonfarm | 389,000 | 516,500 | 672,700 | 692,200 | 768,800 | 127,500 | 156,200 | 19,500 | 76,600 |
| Natural Resources, Mining and | 13,100 | 26,300 | 41,300 | 40,200 | 44,600 | 13,200 | 15,000 | -1,100 | 4,400 |
| Manufacturing | 47,500 | 65,300 | 82,800 | 57,300 | 51,600 | 17,800 | 17,500 | - | -5,700 |
| Machinery | 2,400 | 2,800 | 3,600 | 3,700 | 4,100 | 400 | 800 | 100 | 400 |
| Computer and Electronic Products | 25,000 | 36,900 | 48,400 | 30,100 | 25,800 | 11,900 | 11,500 | -18,300 | -4,300 |
| Wholesale Trade | 12,300 | 17,900 | 34,900 | 37,400 | 39,000 | 5,600 | 17,000 | 2,500 | 1,600 |
| Retail Trade | 42,500 | 54,200 | 69,400 | 72,700 | 83,700 | 11,700 | 15,200 | 3,300 | 11,000 |
| Transportation, Warehousing, and | 5,900 | 8,900 | 10,700 | 11,700 | 13,100 | 3,000 | 1,800 | 1,000 | 1,400 |
| Information | 10,400 | 13,800 | 24,300 | 21,500 | 19,900 | 3,400 | 10,500 | -2,800 | -1,600 |
| Telecommunications | 3,900 | 4,300 | 7,400 | 5,100 | 5,500 | 400 | 3,100 | -2,300 | 400 |
| Finance and Insurance | 16,700 | 21,100 | 25,200 | 29,000 | 31,400 | 4,400 | 4,100 | 3,800 | 2,400 |
| Professional and Business Services | 36,600 | 60,000 | 91,900 | 94,100 | 114,600 | 23,400 | 31,900 | 2,200 | 20,500 |
| Prof., Scientific, and Technical Svcs. | 20,000 | 26,800 | 45,100 | 47,300 | 58,700 | 6,800 | 18,300 | 2,200 | 11,400 |
| Admin. and Support and Waste Mgmt. | 14,800 | 30,400 | 43,800 | 42,800 | 47,000 | 15,600 | 13,400 | -1,000 | 4,200 |
| Educational and Health Services | 36,100 | 47,800 | 62,300 | 71,100 | 82,500 | 11,700 | 14,500 | 8,800 | 11,400 |
| Leisure and Hospitality | 35,100 | 46,900 | 60,600 | 69,700 | 82,400 | 11,800 | 13,700 | 9,100 | 12,700 |
| Other Services | 15,400 | 18,500 | 22,300 | 26,500 | 32,400 | 3,100 | 3,800 | 4,200 | 5,900 |
| Government | 111,100 | 127,700 | 136,800 | 148,900 | 159,300 | 16,600 | 9,100 | 12,100 | 10,400 |
| Federal | 13,000 | 11,100 | 10,500 | 10,200 | 10,800 | -1,900 | -600 | -300 | 600 |
| State | 57,800 | 64,900 | 64,900 | 68,800 | 68,900 | 7,100 | 0 | 3,900 | 100 |
| Local | 40,300 | 51,700 | 61,400 | 70,000 | 79,600 | 11,400 | 9,700 | 8,600 | 9,600 |

Source: Texas Workforce Commission
*Values as of August 2009

- Although the region is known for its concentration of high-technology companies, related industry sectors have declined since 2000, especially manufacturing. Instead, various categories of Service industries have grown most strongly in the last decade. Unlike the technology companies, many Service companies are more inclined to locate within the City of Austin, including Downtown.
- Austin has suffered during the national recession which arrived in the area in late 2008. Government data sources indicate that the Austin - Round Rock Metropolitan Statistical Area (MSA) lost about 6,000 jobs between September 2008 and September 2009. The region's strong Government and Education sectors are helping to provide a steadying influence as other industries have suffered declines.
- In spite of these losses, the MSA is considered one of the regions least negatively impacted by the recession in the entire nation. Numerous publications and institutions have ranked it as among the very top performing economies at the present time, with strong expectations that it will be among the earliest to emerge from the slowdown.

## Regional Population and Households

Along with rapid job growth in the Austin region has come a boom in population and households. The tables below provide population and household statistics as estimated by the Bureau of the Census.

### Bureaus of Census Population Estimates

| | | July 1 American Community Survey Estimates | | Change | |
|---|---|---|---|---|---|
| Area | 2000 Census | 2005 | 2008 | 2000 – 2005 | 2005 - 2008 |
| City of Austin | 656,562 | 699,812 | 757,688 | 43,250 | 57,876 |
| Travis County | 812,280 | 901,701 | 998,543 | 89,421 | 96,842 |
| Austin-Round Rock MSA[1] | 1,249,763 | 1,406,364 | 1,650,887 | 156,601 | 244,523 |

[1] Census 2000 used Austin – San Marcos MSA.
Source: U.S. Bureau of the Census

### Bureaus of Census Household Estimates

| | | July 1 American Community Survey Estimates | | Change | |
|---|---|---|---|---|---|
| Area | 2000 Census | 2005 | 2008 | 2000 – 2005 | 2005 - 2008 |
| City of Austin | 265,649 | 289,688 | 314,344 | 24,039 | 24,656 |
| Travis County | 320,766 | 356,445 | 394,253 | 35,679 | 37,808 |
| Austin-Round Rock MSA[1] | 471,855 | 540,685 | 603,680 | 68,830 | 62,995 |

[1] Census 2000 used Austin – San Marcos MSA.
Source: U.S. Bureau of the Census

- As Austin's job market recovered from the recession of 2001 – 2002, population growth accelerated. The MSA added approximately 156,000 residents over a five-year period from 2000 to 2005, but nearly 250,000 in just the following three years. This acceleration of growth took place within the City of Austin as well.
- The growth in households was not nearly as strong as the growth in residents. The growth in household size – from an average of 2.57 in 2000, to 2.60 in 2005, to 2.66 in 2008 – helps to explain this.
- The City of Austin performs its own estimates and forecasts of population within its jurisdictional boundaries. Its estimate of population for 2008 was 750,525, lower than the Census estimate of 757,688. For 2009, the City has estimated its full-service population to be 774,037, a remarkably high 3.13% annual growth rate. The City is projecting that its population growth will slow considerably over the next two years, at less than 2.00% annually, before returning to a 2.00% rate for several years following.
- The principal impact of these trends is that potential residential and household growth in the region and City overall provide an ever-expanding "pie" from which Downtown can obtain market share. Increasing household sizes mean that a significant amount of the region's growth will be due to multiple-person households that are less likely to locate in urban core neighborhoods, which normally cater to 1- and 2-person households. However, growth in smaller households will be large enough for Downtown to continue ample population gains.

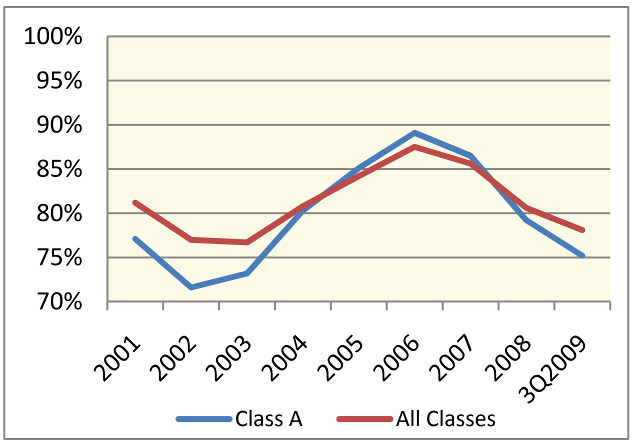
# Office Market Overview

The Austin region has experienced volatile office market conditions over the past decade as its economy expanded and contracted. As the overall market changed and grew, so has Downtown's place in it.

## Regional Market Trends

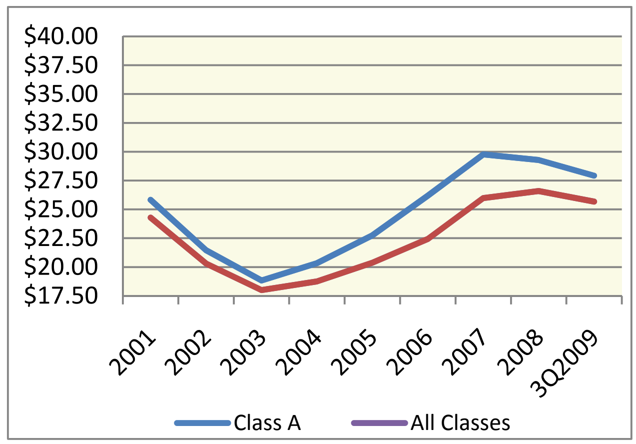
The three charts below provide a summary of key statistics for the MSA's office market. They reflect the broader cycle of the economy, enhanced with additions to inventory from new development that occurred mid-decade. Regional office inventory is estimated to total 43.1 million square feet.

### Austin MSA Historical Office Occupancy



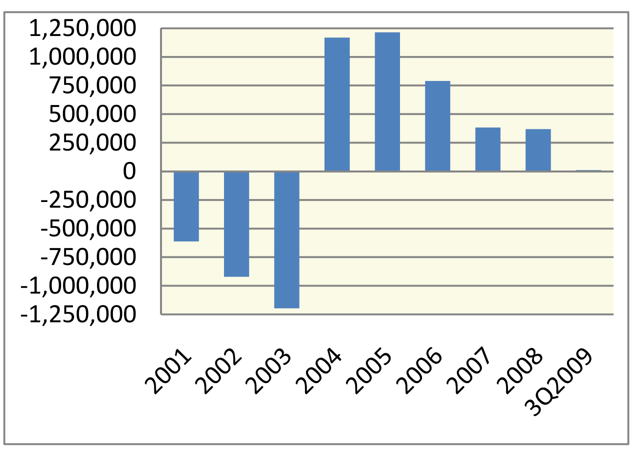

Source: Oxford Commercial/Cushman Wakefield, CDS | Spillette

### Austin MSA Historical Office Rent/SF/Yr




Source: Oxford Commercial/Cushman Wakefield, CDS | Spillette

### Austin MSA Historical Office Absorption



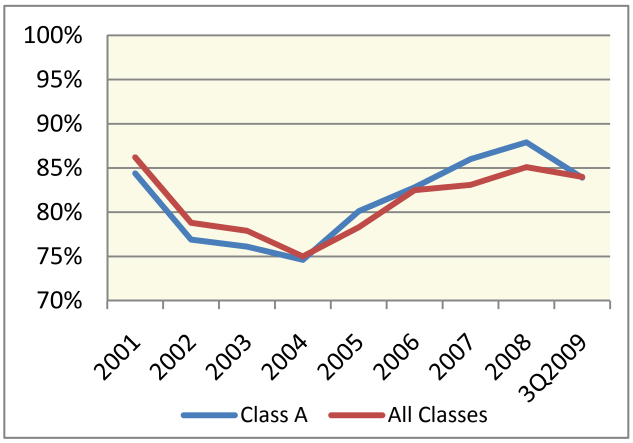

Source: Oxford Commercial/Cushman Wakefield, CDS | Spillette

- After bottoming out following the tech industry collapse in the early part of the decade, Austin's ensuing employment growth drove occupancies upward of 85% by 2006. The overall market tracked the Class A market closely. Occupancies have declined since 2006 due to both declining absorption and additions to inventory.
- Office rents, which plunged dramatically in the early part of the decade, recovered with a slight lag as occupancies improved. Since 2008, rents have begun to slide, though not nearly as precipitously as in the previous recession.
- Absorption statistics show that 2004 signaled a rapid office market recovery. Strong absorption of more than 1 million square feet in both 2004 and 2005 was followed by gradually decreasing increments through 2008.

## Downtown Market Trends

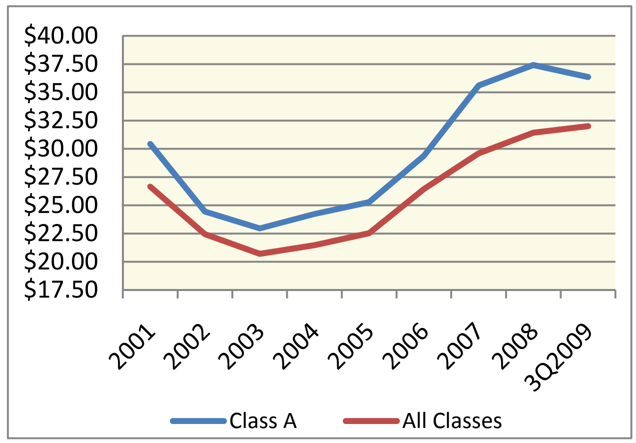
Much as with the overall regional market, Downtown Austin's office market has shown general trends that are reflective of the region's economic cycles, as illustrated in the charts below. Downtown's current office inventory is estimated to be approximately 8.7 million square feet (source: Oxford Commerical / Cushman & Wakefield).

### Austin CBD Historical Office Occupancy



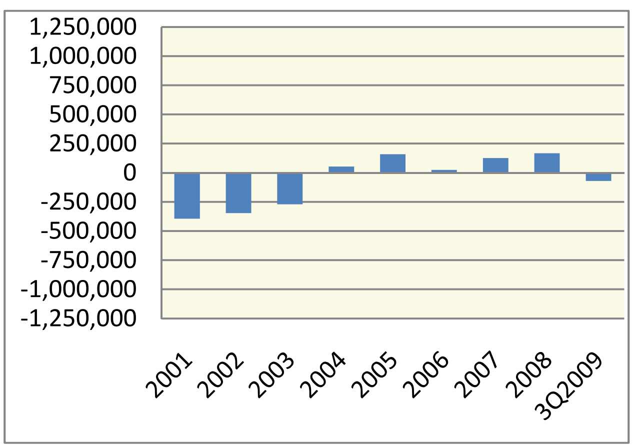

Source: Oxford Commercial/Cushman Wakefield, CDS | Spillette

### Austin CBD Historical Office Rent/SF/Yr




Source: Oxford Commercial/Cushman Wakefield, CDS | Spillette

### Austin CBD Historical Office Absorption




Source: Oxford Commercial/Cushman Wakefield, CDS | Spillette

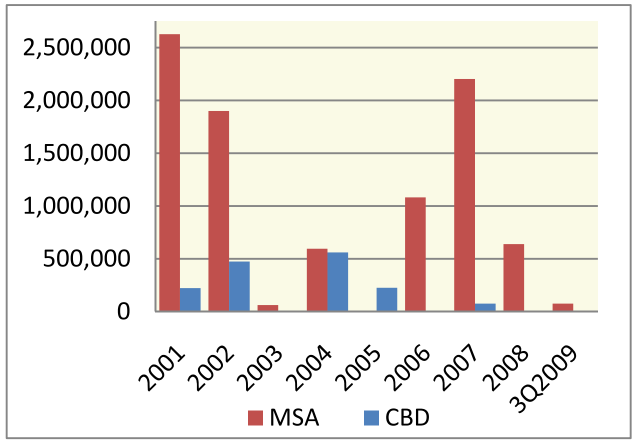
- Occupancy peaked in 2008, with all classes having dipped below 85% as of third quarter 2009. An estimated 20.7% of 1.4 million square feet of vacancy was sublease space as of third quarter 2009.
- Class A average rents also peaked in 2008.
- After significant negative absorption from 2001 to 2003, the CBD experienced slightly positive absorption from 2004 through 2008. However, net occupied space has fallen slightly in 2009.
- The State of Texas has publicized plans to move some administrative and support uses from central Austin to a suburban campus in the coming years. It is not known how much multitenant office space this will free up in Downtown; however, the Downtown Austin Alliance reports that the State's workforce within Downtown is not expected to drop.
- In 2010 commuter rail from the northern suburbs should begin operation, serving Downtown office commuters.

# Downtown Market vs. Region

Historically, outside of the Government sector and firms which interact directly with it, Downtown has not been the location of choice for the primary tenant drivers of the office market such as technology companies. There are indications that Downtown's place in the regional market may be changing, however.

**Historical Office Construction Comparison**

Austin MSA vs. CBD

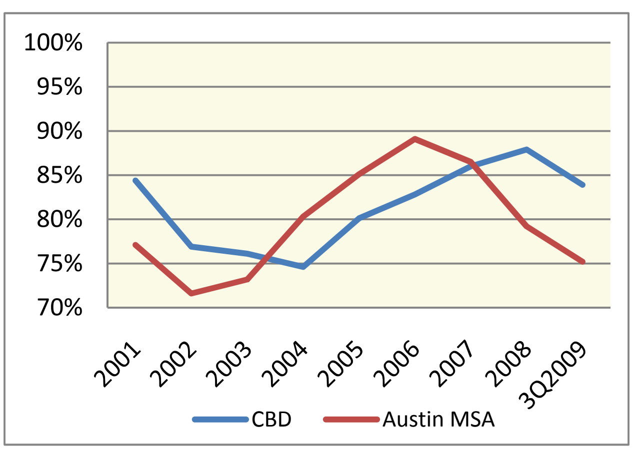



Source: Oxford Commercial/Cushman Wakefield, CDS | Spillette

- As Austin has grown and developed a larger Services sector, including subsectors such as Financial, Legal, and Business Services, there has been a more consistent tenant base that is likely to favor a Downtown location. Reflecting this trend, the Frost Bank Tower was built in 2003, adding over 500,000 square feet of leasable area to the Downtown market.
- Still, Downtown accounts for just 20% of the overall regional inventory: during the past decade, and particularly the last four years, millions of square feet of additional supply were developed in non-CBD locations, with much less added to the CBD, as the above chart illustrates.
- The lack of inventory growth in Downtown has allowed it to perform better than the overall regional office market. The charts below show that the Downtown office market experienced declining occupancies and rents at a later date and to a lesser extent than the overall MSA market. Continuing leases from the expansion years and increasing appeal of Downtown as an urban district have led to an increasing rent premium for its office properties, with average rents (before concessions) remaining above $35 per square foot for Class A space.

**Historical Class A Occupancy Comparison**

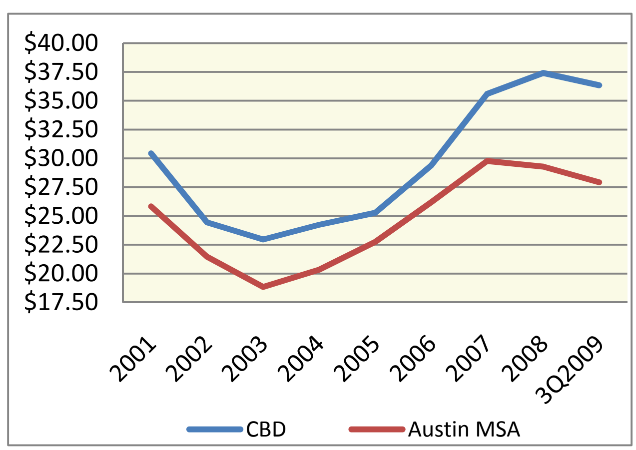
Austin MSA vs. CBD




Source: Oxford Commercial/Cushman Wakefield, CDS | Spillette

**Historical Class A Rent Comparison**

Austin MSA vs. CBD




Source: Oxford Commercial/Cushman Wakefield, CDS | Spillette

## Current Development Activity

In 2009, a relatively low quantity of new office development has occurred as the region is still attempting to absorb other new additions to supply from the last few years at the same time that the economy has slowed down.

- Year-to-date 2009, new developments have increased the supply of office space in the region by approximately 720,000 square feet. Areas near Downtown have accounted for about 329,000 square feet of this total, including two buildings just west of Downtown (Capstar at Compass Plaza and 1011 W. 5th, which is mixed-use with retail).
- No office completions have occurred within Downtown in 2009. However, a number of projects are planned or proposed. Also, some residential-mixed use properties are under construction; it is possible that the relatively small amounts of commercial space in these properties could accommodate some small-tenant office users, though it is expected that the primary focus will be retail tenants.

The table below shows that the Congress Avenue corridor and the west side of Downtown are the favored locations for potential new office development. There are no planned large office developments east of Brazos Street. A relatively small amount of flexible office / retail space is proposed to be included in the Nahua mixed-use tower at the Mexican American Cultural Center.

### Under Construction, Planned or Proposed Austin Downtown Office Projects

| Project | Location | Start Date | Completion | Total Sq. Ft. |
|---|---|---|---|---|
| 501 Congress | 501 Congress | Undetermined | Undetermined | 500,000 |
| Seaholm Power Plant | Cesar Chavez St.-3rd St./ W of Shoal Creek | Late 2009 | Undetermined | Undetermined |
| Green Water Treatment Plant | NW Corner Cesar Chavez St./San Antonio St. | 2010 | Undetermined | 588,000 |
| Star Building Redev. | NW Corner of Colorado St./5th St. | Undetermined | Undetermined | Undetermined |
| Shoal Creek Walk | Bowie/5th/6th | Undetermined | Undetermined | 450,000+ |
| Shoal Creek Offices Redev. | NE Corner of 6th St./West Ave. | Undetermined | Undetermined | 112,683 |
| Gables Park Plaza | SE Corner of Lamar and 3rd St. | Undetermined | Early 2010 | 11,000 |
| Capitol Terrace | SW Corner of 14th and Lavaca | Undetermined | Undetermined | 62,000 |
| Nahua | River St. and Rainey St. | Undetermined | Undetermined | 28,000 |
| | | | **Total** | 1.75 million + |

Source: Downtown Austin Emerging Projects 8-2009, CDS | Spillette

## Other Observations and Implications for the Waller Creek TIRZ

- In many respects Downtown Austin, though an old district, is still an emergent office market. Metropolitan economic and population growth are generating support for growth in locally-oriented Services sector industries that may choose to locate Downtown, expanding the potential tenant base.
- The evolution of Downtown as an urban district will help contribute to its competitiveness as an office location. The continuing growth of quality restaurants, retail, and personal services within

walking distance is an amenity that will increase demand for some potential tenants. It is likely not coincidental that planned and proposed office development is located in the areas of Downtown with the greatest concentration of new retail uses.

- Recent development and leasing in districts adjacent to Downtown indicate potential office demand by tenants seeking a pleasant urban mixed-use environment but unwilling to pay premium rents for a Downtown location.
- Current conditions in the financial markets make it unlikely that any new large-scale office construction starts are likely in the near term. This will give the market a chance to restore occupancy and buoy rents as the regional economy begins its expected upswing and job creation, anticipated as early as 2010. Assuming this economic rebound occurs, the Downtown office market should regain health quickly, as it has not suffered as much as other areas during this downturn.
- While demand for overall Downtown office space should recover relatively strongly, the Waller Creek TIRZ is not well positioned to capture a significant share of growth in the near term. Other development proposals for large office buildings are more advanced and located in the Congress Avenue corridor and the upscale mixed-use area west of Congress.
- Once economic recovery is sustained and if commuter rail service is proven to provide a strong accessibility benefit, sites east of Brazos may become more attractive for office uses.
- Most opportunities in the near term for capture of office demand in the TIRZ are likely to be small tenants that can afford less than premium rates. Implementation of the Waller Creek Master Plan, if it results in a more polished, active, and upscale urban environment that encourages restaurant uses, may help the TIRZ become more competitive for office development in the long run, though it may be limited to “boutique” users in relatively small properties or in uniquely themed projects (Nahua for example).
- The success of commuter rail service would enhance the TIRZ’s competitiveness for office space, as the Downtown station is within walking distance.

# Multifamily Rental Market Overview

One of the most significant changes in Downtown over the last decade has been the addition of multifamily housing, much of it rental apartments. Multifamily rental development has occurred already within the Waller Creek TIRZ and is expected to play a role in future development within the zone.

## Current and Recent Multifamily Development

The last four years have brought extensive multifamily development to Downtown, nearby areas, and indeed the whole region.

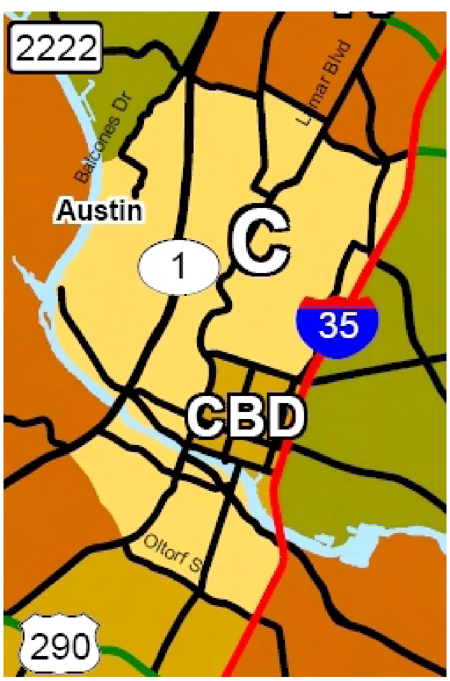
- The table to the right shows that over 3,300 units are currently under construction in the MSA. The Central submarket, surrounding Downtown west of IH 35 ("C" on the map below, in yellow), accounts for 620 of these units.

### Multifamily Project Development Summary

| | Number of Units | | |
|---|---|---|---|
| | CBD | Central | Austin MSA |
| **Submitted** | 0 | 377 | 4,834 |
| **Approved** | 0 | 786 | 1,710 |
| **Under Construction** | 315 | 620 | 3,316 |

Source: Austin Investor Interests

### Multifamily Submarket Map




Source: Austin Investor Interests

- Within Downtown ("CBD" on the map), 315 units are being built (Gables Park Plaza, and remaining units of the Ashton) and should open in early 2010.
- Currently, no additional apartment units have been submitted to or approved by the City within Downtown. In contrast, 1,163 units and 6,544 in the Central submarket and overall MSA respectively could be in the pipeline.
- Downtown has added considerable apartment inventory within the last two years: 653 units opened in 2008 and 421 in 2009.

## Downtown Apartment Inventory and Market Conditions

CDS | Spillette's previous studies documented 3,224 multifamily rental units in 20 properties within Downtown. All but four of those properties were built prior to 2001; several properties were also peripheral to Downtown and outside the area defined in the map on the previous page. In addition, as previously mentioned, several new properties have opened since 2006.Due to new development with more immediate geographic proximity and market relevance to the Waller Creek TIRZ Area appearing since completion of the past studies, we have now highlighted these properties rather than older and more distant properties which were previously used.

- The table below provides a list of multifamily rental properties built within the last decade in the CBD. The eight properties total 1,673 units. Four of the properties are mid-rise and four are high-rise.

**Downtown Apartment Inventory (Recently Built Projects)**

October 2009

| No. | Development | Address | Total Units | Year Built | Stories |
|---|---|---|---|---|---|
| 1. | Gables of West Ave. | 300 West Avenue | 239 | 2001 | 4 |
| 2. | 404 Rio Grande | 404 Rio Grande St. | 140 | 2004 | 4 |
| 3. | AMLI Downtown | 201 Lavaca St | 220 | 2004 | 7 |
| 4. | AMLI on 2nd | 421 W. 3rd St. | 230 | 2008 | 18 |
| 5. | Red River Flats | 901 Red River St. | 118 | 2008 | 4 |
| 6. | The Monarch | 805 W. 5th St. | 305 | 2008 | 30 |
| 7. | Legacy on the Lake | 43 Rainey St. | 185 | 2009 | 32 |
| 8. | The Ashton | 101 Colorado | 236 | 2009 | 36 |
| | | **Total** | **1,673** | | |

Source: Austin Investor Interests, CDS | Spillette

- On the next page, the first table gives an overview of the occupancies and rents at these properties. Occupancies at all properties except the Ashton exceed 90%. The Ashton is still in its lease-up phase.
- Apart from the Ashton, the lowest occupancies at 90% and 91% are the Monarch and Legacy of the Lake respectively. These are also the newest properties apart from the Ashton. The Monarch is the largest property with 305 units.
- All other properties are at least 94% occupied, indicating a generally healthy market. Five of the properties are currently known to be offering free rent or reduced rate concessions on some or all units, reflecting the overall economic slowdown. The Red River Flats stated that their current effective rental rate (after concessions) is $1.43 per square foot; at opening it had been $1.74.
- Rents at all properties are at the upper end of the Austin market. Gables West Avenue, the oldest of the selected properties, also offers the lowest rents by far; its unit sizes are also the smallest on average. The Ashton has the largest units and highest average rents. This may be slowing down its stabilization period, as it is targeting the very top of the market where the renter pool is smallest.

## Downtown Austin Apartment Rent Survey

October 2009

| No. | Unit Type | No. of Units | Occ. % | Avg. Unit Size (SF) | Avg. Rent/ Month | Avg. Rent/SF/ Month | Concessions / Other |
|---|---|---|---|---|---|---|---|
| 1. | Gables of West Ave. | 239 | 95% | 819 | $1,133 | $1.38 | None |
| 2. | 404 Rio Grande | 140 | 96% | 989 | $1,729 | $1.75 | 1 month free on 2 bed units |
| 2. | AMLI Downtown | 220 | 94% | 1,009 | $1,751 | $1.74 | None |
| 3. | AMLI on 2nd | 230 | 96% | 904 | $2,035 | $2.25 | None |
| 4. | Red River Flats | 118 | 96% | 941 | $1,549 | $1.65 | Look and Lease:1 month free |
| 5. | The Monarch | 305 | 90% | 1,266 | $2,038 | $1.61 | Reduced rates on some units |
| 6. | Legacy on the Lake | 185 | 91% | 1,134 | $2,085 | $1.84 | 1 month free |
| 7. | The Ashton | 236 | 37% | 1,357 | $2,566 | $1.89 | 2 months free |

Source: Austin Investor Interests, CDS | Spillette

- The table below summarizes the unit counts, sizes, and rents by plan type. One-bedroom units dominate, accounting for over half of total units. One-third of total units have two bedrooms. Studios and three-bedroom units account for nearly all the remainder.
- Perhaps because of their rarity, three bedroom units have the highest average rent per square foot; in other market areas, larger units such as these would more typically have lower rents per square foot.

## Apartment Unit Mix Summary

October 2009

C* and CBD* Areas Only

| Floor Plan | Share of Market | Quantity | Average Rent / Mo. | Avg. Rent / Sq.Ft. | Avg. Size |
|---|---|---|---|---|---|
| Efficiency | 6% | 511 | $710 | $1.60 | 444 |
| 1 Bedroom | 57% | 4,994 | $1,041 | $1.46 | 713 |
| 2 Bedroom | 33% | 2,884 | $1,488 | $1.41 | 1,057 |
| 3 Bedroom | 4% | 324 | $2,351 | $1.61 | 1,463 |
| 4 Bedroom | 0% | 35 | $2,210 | $1.48 | 1,490 |

Source: Austin Investor Interests

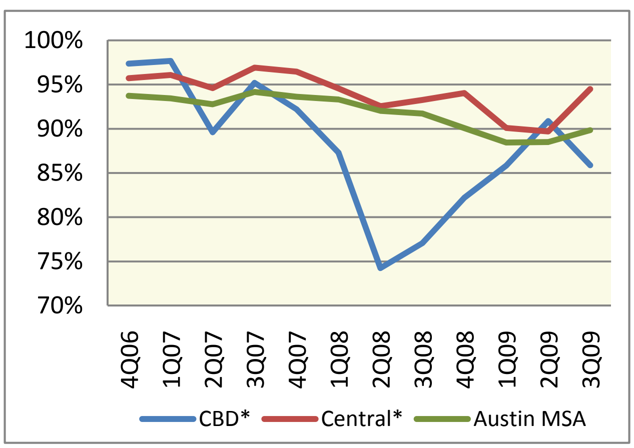
*See map on page 14 for area illustration

## Market Conditions Comparison

A comparison of the apartment market trends in urban core market areas versus the regional market over the last few years is provided in the charts below.

- Occupancies in the Downtown market (CBD) were similar to the MSA average until 2008, when several new properties entered the market. Occupancies climbed during stabilization of these properties to the point where the CBD market area had surpassed the MSA average by mid-2009.
- Additional new supply, perhaps also in conjunction with the economic recession, has caused a dip in CBD area occupancy during the second half of 2009. It should be noted that the subset of most recently built properties within Downtown identified earlier generally show occupancies above the market area average.
- The Central submarket, which also includes the University of Texas campus (but not the Downtown core), has shown the healthiest occupancy over the last two years. It is possible that occupancy in this submarket may dip slightly when new properties currently under construction enter the market.
- Downtown average rents per square foot are much higher than either the Central submarket or the MSA average at nearly $1.80 per square foot (before concessions). The Central submarket, at nearly $1.40 per square foot, is itself considerably more expensive than the MSA average, which is less than $1.00 per square foot.
- Downtown's average rents per square foot reached a peak in late 2007 then decline to 2006 levels after new properties entered the market.

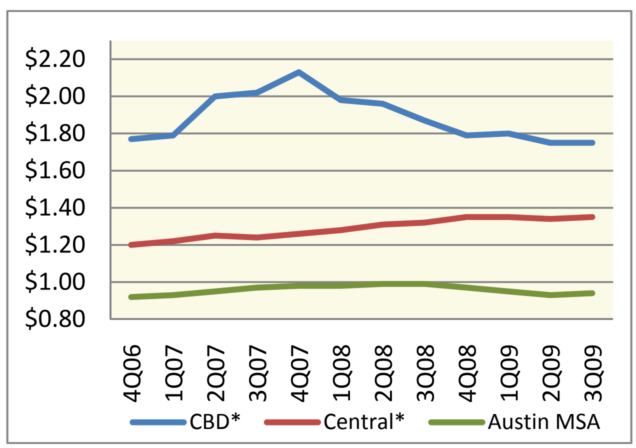
### Historical Multifamily Occupancy




Source: Austin Investor Interests, CDS | Spillette

* See map on page 14 for area illustration

### Historical Multifamily Rent per Square Foot

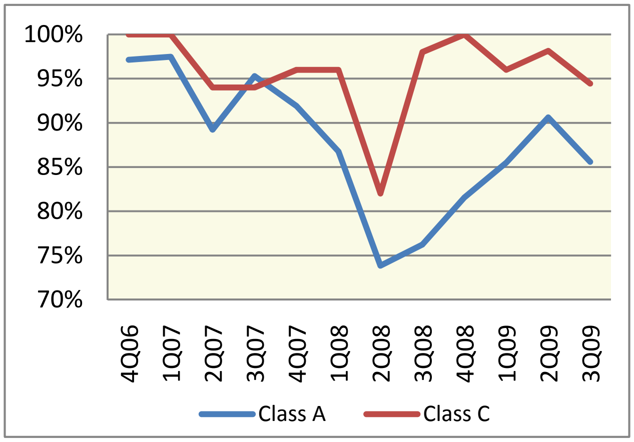



Source: Austin Investor Interests, CDS | Spillette

* See map on page 14 for area illustration

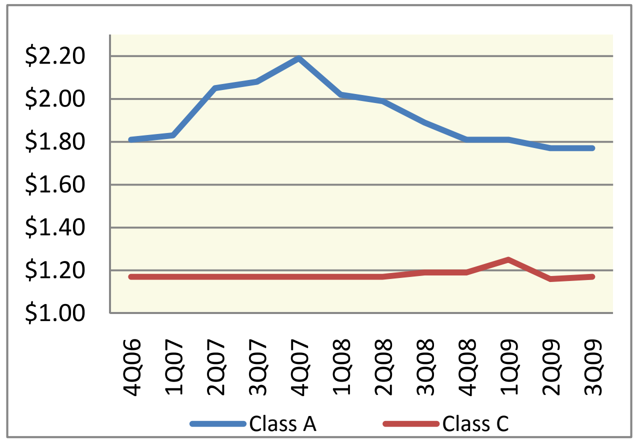
- The charts below compare trends in rents within Downtown between Class A and Class C properties (there are too few Class B properties to track). The Class C properties have achieved higher occupancy than the Class A properties, particularly since the opening of the new Class A projects that came on line in 2008.
- Class C average rents have remained relatively constant for the last few years while average Class A rents declined in 2008 with the entry of new supply.

### Historical CBD Multifamily Occupancy by Class




Source: Austin Investor Interests, CDS | Spillette

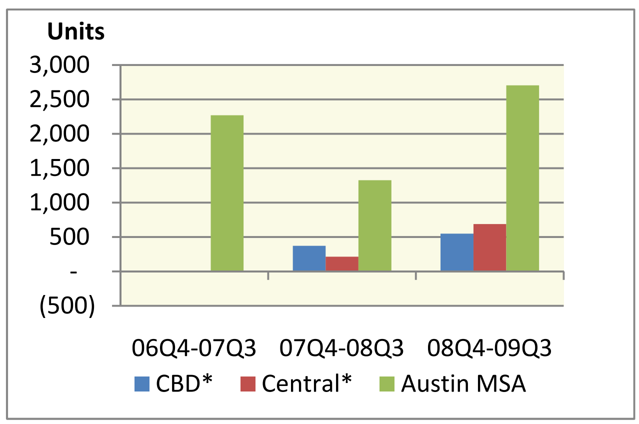
### Historical CBD Multifamily Rent by Class




Source: Austin Investor Interests, CDS | Spillette

- The chart to the right illustrates the increasing absorption share of the urban core submarkets relative to the overall region. For the four most recent quarters for which data is available, the Downtown and Central submarkets accounted for 46% of regional absorption. Quarterly breakdowns (not provided here) show that even as the recession brought negative absorption to the overall MSA market in late 2008 and early 2009, Downtown continued to have positive absorption.

### Historical Multifamily Absorption




Source: Austin Investor Interests, CDS | Spillette

* See map on page 14 for area illustration

## Future Development

The table below summarizes known and potential new multifamily rental projects in Downtown.

- One project is currently under construction in Downtown, the Gables Park Plaza, opening in 2010.
- Five other projects are proposed within Downtown. One is the 21c project within the Waller Creek TIRZ. A Kentucky developer will be developing a 31-story rental tower that will contain 355 units, 10% of which will be affordable to households below the region's median income. Eight of the units will be live-work artists' lofts overlooking Waller Creek that will also offer lower rents. Art will be a major theme of the overall development; an adjacent hotel will contain an art museum.
- Together with Gables Park Plaza, all of the other future projects are west of Congress Avenue. Three of these four projects are concentrated in an area bounded by 5th Street, Lamar Boulevard, Cesar Chavez, and Lavaca Street. Together with existing and planned apartment and condominium development, that area is becoming a concentration of residential uses, attracted partly by the presence of Whole Foods Market and other retail.

### Multifamily Rental Projects Currently Proposed or Under Construction

| Project Name | Location | Completion | Stories | Units | Developer / Other |
|---|---|---|---|---|---|
| **UNDER CONSTRUCTION** | | | | | |
| **Gables Park Plaza** | 115 Sandra Muraida Way @ Lamar Blvd. | 6/2010 | 6 | 292 | Gables Residential, Second Phase may include up to 180 condos |
| **PROPOSED** | | | | | |
| **21c** | Cesar Chavez and Red River | 2012 at earliest | 31 | 355 | 21c; 10% of units to be affordable to below median income renters |
| **Gables Republic Park** | Next to Republic Park | | | 210 | Gables Residential, Apartments above ground floor |
| **Thomas C. Green Water Treatment Plant** | NW Corner of Cesar Chavez St. / San Antonio St. | | | 320 | Project also to include 235 senior independent living units, 140 condo's, 375 room hotel, 588,000 sf office, 160,000 sf retail, 10,000 SF civic/non-profit space |
| **Capitol Terrace** | SW Corner of 14th and Lavaca | | | 30 | 12-story mixed-use |
| **1306 West Ave.** | 1306 West Ave. | | | 10 | Stickerburr, LLC |
| ***Future Additions Total*** | | | | **1,217** | |

Source: Emerging Projects, Downtown Austin Alliance, and CDS | Spillette

## Other Observations and Implications for the Waller Creek TIRZ

- Discussions with property representatives and real estate professionals indicate that the demand for Downtown rentals is almost entirely lifestyle driven. Though there are many apartment residents who also work in Downtown, there are also many who commute to other parts of the region. Those who have chosen to live Downtown, at a significant price premium, do so because they want to be walking distance to restaurants, bars, and amenities like Lady Bird Lake.
- The dominant renter group Downtown is not students, but a mix of young professionals and empty nesters; there are few families with school-age children, though infants are becoming more common.
- The Red River Flats, by Greystar, have proven to have a diverse tenant profile. Located in the heart of the Red River entertainment area and subject to noisy activity in nearby nightclubs and on the street in the evenings, the property has attracted more older tenants than was expected. The property is up front with potential move-ins about the environmental factors of the neighborhood.
- Staff from Gables noted that nearby passive green space is an important element in attracting upscale young professionals that are looking for proximity to Downtown's retail and entertainment amenities but do not want to be immersed in them. Many such tenants also have dogs, adding another layer of importance to green areas.
- The most important finding regarding the potential for future multifamily rental development within the Waller Creek TIRZ is that two new properties have recently opened within the district and are doing well. They represent different physical product types and different price segments of the Downtown market:
    - Red River Flats is located within the Capitol View Corridor restriction area in the middle of the TIRZ, one of Downtown's grittier areas. It is relatively moderately priced for the Downtown market, though it still features upscale finishes in the units. It leased up quickly upon opening.
    - Legacy on the Lake is a high rise building with considerably higher rents than at Red River Flats. Its location in the Rainey Street area, across the street from park space along Lady Bird Lake and lacking much surrounding retail and entertainment, gives it an entirely different atmosphere from Red River Flats as well. Conversion of nearby single family houses to bar use may begin changing this environment, though it is too early to tell whether it will enhance or detract from Legacy's competitiveness.
- The lack of available financing for new projects is expected to quash development in the near term, possibly until at least 2011.
- However, the outlook for apartment development in Downtown and within the Waller Creek TIRZ is strong over the long run. Occupancies appear to be remaining high in the recently built Downtown projects despite the current economic downturn. The resumption of regional job growth (not just Downtown), will undoubtedly precipitate interest in new apartment development throughout Downtown.

- Although none of the proposed apartment projects are within the TIRZ, Waller Creek has shown to be successfully able to capture two segments of this potential Downtown market growth:
    - Upscale renters seeking a relatively quieter environment within Downtown, coupled with nearby green space; the rents this segment is willing to pay can justify high-rise construction.
    - Moderately affluent renters who are willing to pay a premium over non-Downtown properties in order to be close to the thriving entertainment scene, but are not willing or able to pay rents that justify construction more expensive than wood frame.
- The Rainey Street area, with its mix of high-end condominium and apartment towers and adjacent green space, is becoming established at capturing the first market segment.
- Red River Flats is emblematic of the second market segment. The portions of the TIRZ between Cesar Chavez and 11$^{th}$ Street are best suited to this market segment, which can more comfortably coexist with the presence of loud nightclubs, social service agencies, and IH 35. The Waller Creek Master Plan, by adding green space in certain locations, may mitigate the limiting factors somewhat, but it is unlikely that a large number of the most upscale renters will gravitate to this subarea.
- The far northern portion of the TIRZ is more removed from the features of Downtown that appeal to upscale urbanites – walkable high quality restaurants, entertainment, and shopping. It does provide substantial green space at Waterloo Park, however, and is not subject to as much burden from nighttime entertainment impacts. Thus apartment development here may be more upscale than the mid-TIRZ area, though there is little reason to assume it would cater to truly luxury-oriented residents. If the academic health center and research institute being proposed by the University of Texas and Seton Family of Hospitals is located at the Brackenridge Hospital campus, demand would be created to house faculty, staff, and students. This portion of TIRZ would be a suitable place for accommodating the renter portion of that demand.

# Condominium Market Overview

Condominium uses have been highly prominent among newly developed projects over the last decade. Some new projects have been within or very close to the Waller Creek TIRZ.

## Recent and Current Development

Since 1999, Downtown (defined as east of Lamar, west of IH 35, north of Lady Bird Lake, and south of 15th) has added a total of 1,767 condominium units in 13 properties to its inventory, and another 531 units are under construction within Downtown proper. These properties are listed in the tables below.

### Recently Built / Converted Downtown Condominiums

| Building Name | Address | Year Built | # Units |
|---|---|---|---|
| Avenue Lofts | 410 E. 5th | 1999 | 38 |
| Brazos Lofts | 411 Brazos St. | 1925/1999 | 39 |
| Nokonah | 901 W 9th | 2002 | 99 |
| Plaza Lofts | 311 W. 5th | 2002 | 60 |
| 5 Fifty Five | 555 E 5th | 2004 | 98 |
| Brown Building Lofts | 710 Colorado | 1940/2004 | 90 |
| Austin City Lofts | 800 W 5th | 2004 | 82 |
| Milago | 54 Rainey | 2006 | 240 |
| The Sabine on Fifth | 507 Sabine St. | NA/2008 | 80 |
| Brazos Place | 800 Brazos St. | 1948/2008 | 72 |
| The Shore | 603 Davis St. | 2008 | 192 |
| 360 | 360 Nueces St. | 2008 | 430 |
| Spring | 300 Bowie St. | 2009 | 247 |
| | | **TOTAL** | 1,767 |

Source: Urban Space Realtors, CDS | Spillette

### Condominiums Under Construction

| Building Name | Address | Expected Completion | # Units |
|---|---|---|---|
| Austonian | NWC 2nd and Congress | 2010 | 178 |
| La Vista on Lavaca | 1701 Lavaca | 2010 | 16 |
| 904 West Ave. | 904 West Ave. | 2010 | 31 |
| Four Seasons Residences | Cesar Chavez at San Jacinto | 2010 | 147 |
| Block 21 Residences | 2nd / Lavaca / 3rd / Guadalupe | 2011 | 159 |
| | | **TOTAL** | 531 |

Source: Urban Space Realtors, CDS | Spillette

- The latter half of the decade saw a shift from smaller adaptive reuse projects toward new high-rise construction that could bring hundreds of units to market at once. The years 2006 through 2009 accounted for 71% of all new condo units (1,261 units) since 1999. High-rises during this period contained 1,109 units.
- Three recently built projects are located within the Waller Creek TIRZ: Milago, Sabine on 5th, and The Shore. All are post-2006. Two more projects, Avenue Lofts and 5 Fifty-Five, date from 1999 and 2004 respectively and are located within two blocks west of Red River.
- Just across IH 35 and Lady Bird Lake from the Rainey Street area but not included in the previous tables, the Star Riverside project is adding 64 units in six-story structures to be completed in 2010.

## Pricing Trends

New condominium projects in Downtown Austin have exhibited a wide range of pricing, from under $400 per square foot to in excess of $500 for non-penthouse units. The table and chart below illustrate this pricing range.

### Historical Downtown Condominium MLS Sales Data

Jan. 2002 to Oct. 2009

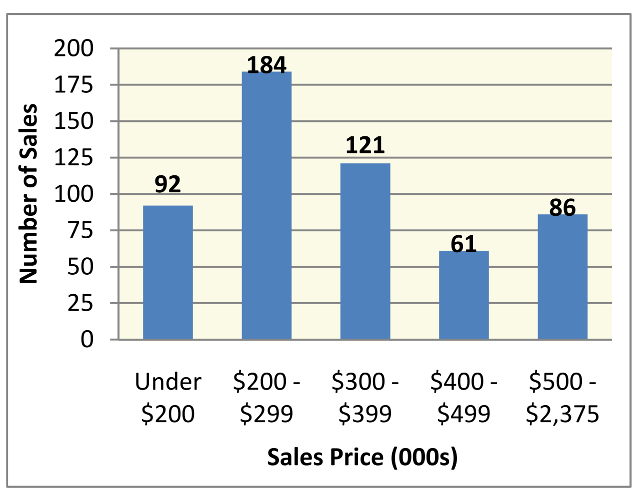
| | Year Built | Square Feet | Sales Price | Sales Price/ Square Foot | Days on Market |
|---|---|---|---|---|---|
| Low | 1925 | 322 | $85,000 | $147 | 0 |
| High | 2009 | 6,260 | $2,375,000 | $667 | 719 |
| Mean | 1990 | 1,181 | $358,025 | $301 | 92 |
| **Median** | **2001** | **1,164** | **$300,000** | **$293** | **65** |

Source: Urban Space Realtors, CDS | Spillette

- Multiple Listing Service (MLS) data for Downtown condominium sales (which focuses on resales but also may include new units) indicates the bulk of the market is between $200,000 and $400,000.
- A significant share of sales have also occurred at luxury pricing levels above $500,000.

### Historical Number of Condo Sales by Sales Price

Jan. 2002 to Oct. 2009




Source: Urban Space Realtors, CDS | Spillette

## MLS Data for Recently Built / Converted Downtown Condominiums

Data from Jan 2002 – Oct 2009

| Building Name | Address | Year Built | Bed Rooms | Bath Rooms | Average Size (SF) | Average Sales Price | $/SF |
|---|---|---|---|---|---|---|---|
| Avenue Lofts | 410 E. 5th | 1999 | 1,2 | 1,1.5 | 1,262 | $365,954 | $289 |
| Brazos Lofts | 411 Brazos St. | 1925/1999 | 1,2 | 1,2 | 1,261 | $373,833 | $296 |
| The Shore | 603 Davis St. | 2008 | 1,2 | 1,2 | 1,154 | $350,750 | $302 |
| The Sabine on Fifth | 507 Sabine St. | 2008 | 1,2 | 1,2 | 1,287 | $398,740 | $313 |
| Milago | 54 Rainey | 2006 | 1,2,3 | 1,2 | 1,031 | $341,097 | $327 |
| Austin City Lofts | 800 W 5th | 2004 | 1,2 | 1,2 | 1,790 | $627,883 | $357 |
| Plaza Lofts | 311 W. 5th | 2002 | 1,2 | 1,2 | 1,600 | $570,355 | $356 |
| Brown Building Lofts | 710 Colorado | 1940/2004 | 1,2 | 1,2 | 896 | $311,640 | $360 |
| 360 | 360 Nueces St. | 2008 | 1,2 | 1,2 | 824 | $300,040 | $362 |
| Brazos Place | 800 Brazos St. | 2008 | 1,2 | 1,2 | 946 | $359,708 | $380 |
| Nokonah | 901 W 9th | 2002 | 2,3 | 2,3,3.5 | 1,589 | $659,422 | $419 |
| 5 Fifty Five | 555 E 5th | 2004 | 1,2,3 | 1,2,3.5 | 1,668 | $758,836 | $444 |
| Spring | 300 Bowie St. | 2009 | 1,2,3 | 1,2,3 | 823 | $433,524 | $524 |

Source: Urban Space Realtors, CDS | Spillette

The table above summarizes the prices for the recently built Downtown condo projects based on MLS closings from 2002 to 2009. It should be noted that MLS sales will likely not include many of the sales of brand new units but instead emphasize resales. Therefore the most recently built properties will generally have a smaller sample.

- The two oldest properties, Avenue Lofts and Brazos Lofts, have had the lowest average price per square foot. Otherwise, there are no discernable patterns relating age of property to price per square foot.
- Three groupings of properties, as determined by price per square foot, are identifiable in the table. The least expensive ranges from $289 to $327 per square foot. All three condominium properties within the Waller Creek TIRZ fall into this category, as does one nearby property, Avenue Lofts. The next tier ranges from $357 to $380 per square foot. The upper tier ranges from $419 to $524 per square foot. Within each category, levels of actual sales prices may vary considerably depending on the sizes of units being offered.
- The Waller Creek TIRZ properties all had average sales prices ranging from $341,097 to $398,740. The Avenue Lofts falls in this category as well. However, there are indications that pricing may have softened in 2009. Based on a recent analysis of resales in The Milago by the website AustinTowers.net from November 2009, summer / fall 2009 transactions averaged $268 per square foot with a range of $231 to $313. There have been a few sales under $200,000.
- The 5 Fifty-Five is an anomaly in the greater Waller Creek area, with pricing at the upper end of the spectrum. This is due partly to its location within the Hilton hotel and additional services available as a result.

## Recent Condominium Absorption

The absorption rate of new Downtown condominium units in relation to the rapid expansion of supply has been the focus of much attention and study recently. CDS | Spillette has reviewed data, which is widely available in the public domain, on this matter in addition to primary research.

- The adjacent table tallies new condominium units built and sold since 2000 as compiled by Capitol Market Research. It should be noted that the total number of units (1,889), differs from the total reported earlier in this section (1,767), likely due to differences in the geographic definitions of "Downtown". The principal point is that through 2008, demand for condominium units remained very strong even as supply ballooned and the national economy faltered (though the Austin region did not fall into recession until late 2008).
- The table at the bottom right provides the remaining inventory of new units to be sold (including those under construction) as of mid-October 2009, also compiled by Capitol Market Research. The total number of new high-rise units awaiting buyers totaled 422 at that point in time. (904 West, which is not a high rise, was not included in the analysis).
- Almost all new units remaining unsold are in projects targeting the upper end of the market. Spring, while offering relatively expensive prices on a per-square-foot basis, has more unit prices in less expensive price ranges (under $500,000) due to smaller unit sizes. The other three projects under construction are all true luxury-priced properties, with heavy concentrations of units priced above $500,000 and some in excess of $1 million.

### Downtown Condominium Sales

2000 to July 2009

| Year | Total Units Built | Total Units Sold |
|---|---|---|
| 2000 | 0 | 0 |
| 2001 | 90 | 90 |
| 2002 | 57 | 57 |
| 2003 | 0 | 0 |
| 2004 | 82 | 82 |
| 2005 | 98 | 90 |
| 2006 | 0 | 0 |
| 2007 | 314 | 300 |
| 2008 | 806 | 613 |
| 2009 | 442 | 239 |
| **Total** | **1,889** | **1,471** |

Source: Capitol Market Research, presentation to Downtown Austin Alliance

### Downtown High-Rise Condominium Inventory

October 14, 2009

| Property | Units | # Sold or Contract | Remaining Inventory |
|---|---|---|---|
| Plaza Lofts | 60 | 57 | 3 |
| The Shore | 192 | 181 | 11 |
| Spring | 248 | 120 | 128 |
| The Austonian | 178 | 55[1] | 123 |
| Four Seasons Residences | 148 | 72[1] | 76 |
| Block 21 Residences | 159 | 78[1] | 81 |
| **Total** | **1,889** | **1,471** | **422** |

Sale contracts, not closed sales.

Source: Capital Market Research

## Proposed Additions to Downtown Condominium Supply

As of Fall 2009

| Project Name | Location | Units | Developer / Other |
|---|---|---|---|
| 5th and Brazos | E. 5th and Congress | 200 | Tom Stacy & Associates |
| Seaholm Power Plant | W. Cesar Chavez | NA | Seaholm Power, LLC; mixed-use redevelopment |
| Green Water Treatment Plant | W. Cesar Chavez and San Antonio | 140 | Trammell Crow; mixed-use redevelopment |
| Ovation | W. $5^{th}$ and San Antonio | 436 | Novare / Andrews Urban |
| Block 52 / Novare | W. $5^{th}$ and Guadalupe | 550 | Novare / Andrews Urban |
| Energy Control Center | W. $3^{rd}$ and West Ave. | 482 | Trammell Crow |
| Nahua | River St. at Rainey St. | 100 | Esperanza Development and Mexican American Cultural Ctr. |
| | TOTAL | 1,908+ | |

Source: Emerging Projects, Downtown Austin Alliance, and CDS | Spillette

Despite the rapid increase in condominium supply, developers have proposed several other projects Downtown. The table above summarizes those with sites in Downtown proper.

- The proposed projects as currently publicized would account for over 1,800 units (possibly over 2,000 once the Seaholm plan is finalized). Some developers are quoted as hoping to start construction in 2010.
- Except for Nahua, all of the listed projects are west of Brazos Street and south of $6^{th}$ Street, in Downtown's southwestern quadrant.
- Nahua would be located within the Waller Creek TIRZ. It would be part of a multi-use tower and employ Latin American aesthetic themes. Its pricing would be in luxury price ranges but not quite as high end as the Austonian. Its developer is keeping the project dormant until certain land conveyances from the City proceed and the general financing situation becomes less restrictive.
- The Ovation and Block 52 projects would be from the same development team as the 360 condominium tower which is nearby. This may indicate that these two new projects would target a similar price point, which is among Downtown's more affordable for a high-rise property.
- The Seaholm and Green Water Treatment Plant condominiums would be part of larger mixed-use developments on sites that are relatively large for Downtown. The units in both projects

could potentially have unobstructed views on all floors directly across Cesar Chavez Street to Lady Bird Lake.

- Two potential projects near the Waller Creek TIRZ but outside of Downtown include the next phase of Star Riverside (140 units), which may include very high-priced units near $1 million, and Block One, at 5th and San Marcos two blocks east of IH 35.

## Other Observations and Implications for the Waller Creek TIRZ

- Condominium development has not occurred solely within the strict boundaries of Downtown. New projects have also emerged south of Lady Bird Lake and east of IH 35. In a general sense, these do present some competition for Downtown properties, though they lack a primary amenity of being within reasonable walking distance of Downtown's retail and activities.
- One project, Sixth and Brushy, is literally only a block from the Waller Creek TIRZ. There also have been other projects in East Austin, generally four stories or less. The East Austin developments have generally offered a more affordable price point, some offering units under $250,000. However, IH 35 is a significant barrier that keeps East Austin as a separate market except for those who are completely priced out of Downtown.
- The market has not had trouble absorbing units priced under $400,000. All properties offering such units have essentially sold out, with the exception of The Sabine, which has had legal issues and will be releasing most of its remaining units at auction in the very near term. Despite some downward pressure on pricing, resale activity in the price range has remained strong as well.
- Assuming sales contracts convert, some progress has been made regarding absorption of high-end units at properties under construction now. Still, there are a large number of units coming to market in a price range that typically has the smallest potential buyer pool. Finishing the sellout of these properties may be slow, especially since there is an increasing supply of resales of existing properties that also present competition.
- This oversupply of the highest-priced units should be temporary and will be aided by conditions in the financial markets, which are preventing new projects from going forward. Thus there will likely be a gap of at least a year, possibly more, before additional projects commence development. The long development process means that the market should have sufficient time to digest the current crop of new units prior to the next significant expansion in supply.
- In terms of buyer profile, the ages of condo buyers has been highly diverse, including young professionals, mid-career households (usually without a young child living with them full time), and empty nesters. For other aspects, findings by Capitol Market Research as of January 2008 included the following:
  - Over two-thirds of purchases were intended for primary residences;
  - Purchasers' places of employment are located all over the region, not just Downtown; and
  - Over two-thirds of buyers were from the Austin area, and just one-fifth were from outside Texas.

- This profile indicates broad-based demand not dependent on any one group, but more tied into the general health of the Austin economy. The fact that Downtown has been developing as an appealing urban neighborhood with walkable shopping, dining, entertainment, and open space has been critical. The option of purchasing in this type of neighborhood had not previously been available, so projects to date have also been taking advantage of "latent" demand.
- Condominium development within the Waller Creek TIRZ has paused. Although proposed projects are located primarily in the southwest quadrant of Downtown or east of IH 35, the Rainey Street area at the south end of the TIRZ has proven itself in the condominium market and will likely be the site of more development in the future, particularly high-rises. It remains to be seen if truly high-end projects occur there (similar to Austonian or Four Seasons). More likely pricing strategies similar to The Shore or 360 would be appropriate, unless the units are tied to an upscale hotel property.
- If land prices allow, low-rise condominium development could be appropriate for the central and northern portions of the TIRZ. Sites more insulated from the centers of nighttime entertainment will be preferred. Pricing on such development would likely be non-luxury, though not necessarily entry-level.

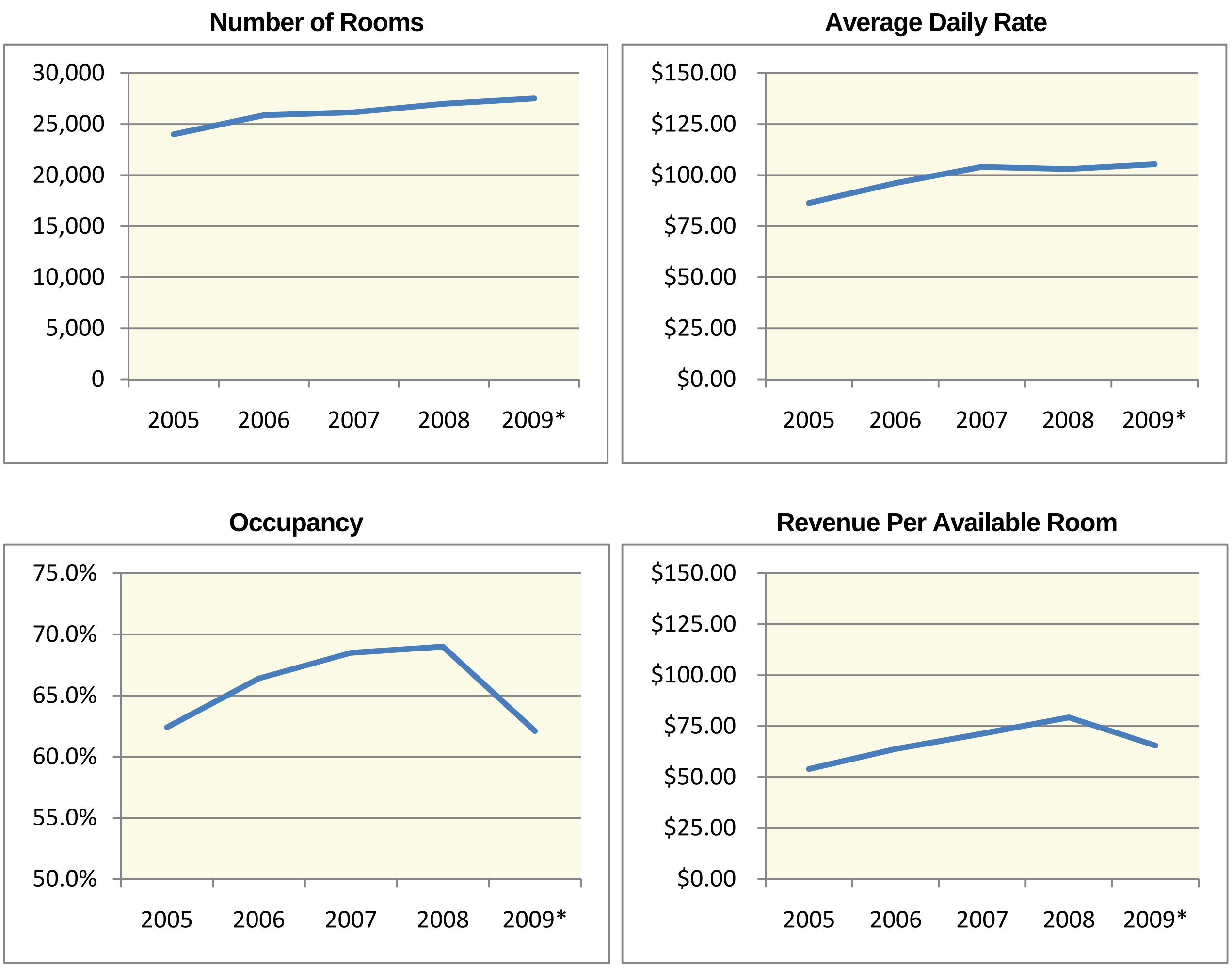
# Hotel Market Overview

Just as with residential uses, the Downtown Austin hotel market has experienced a large increase in supply over the last decade. In addition, the City expanded the Convention Center, located adjacent to Waller Creek. Its presence and the increasing focus on tourism in Downtown make hotel uses a potentially significant factor in future development in the Waller Creek TIRZ.

## General Hotel Market Trends

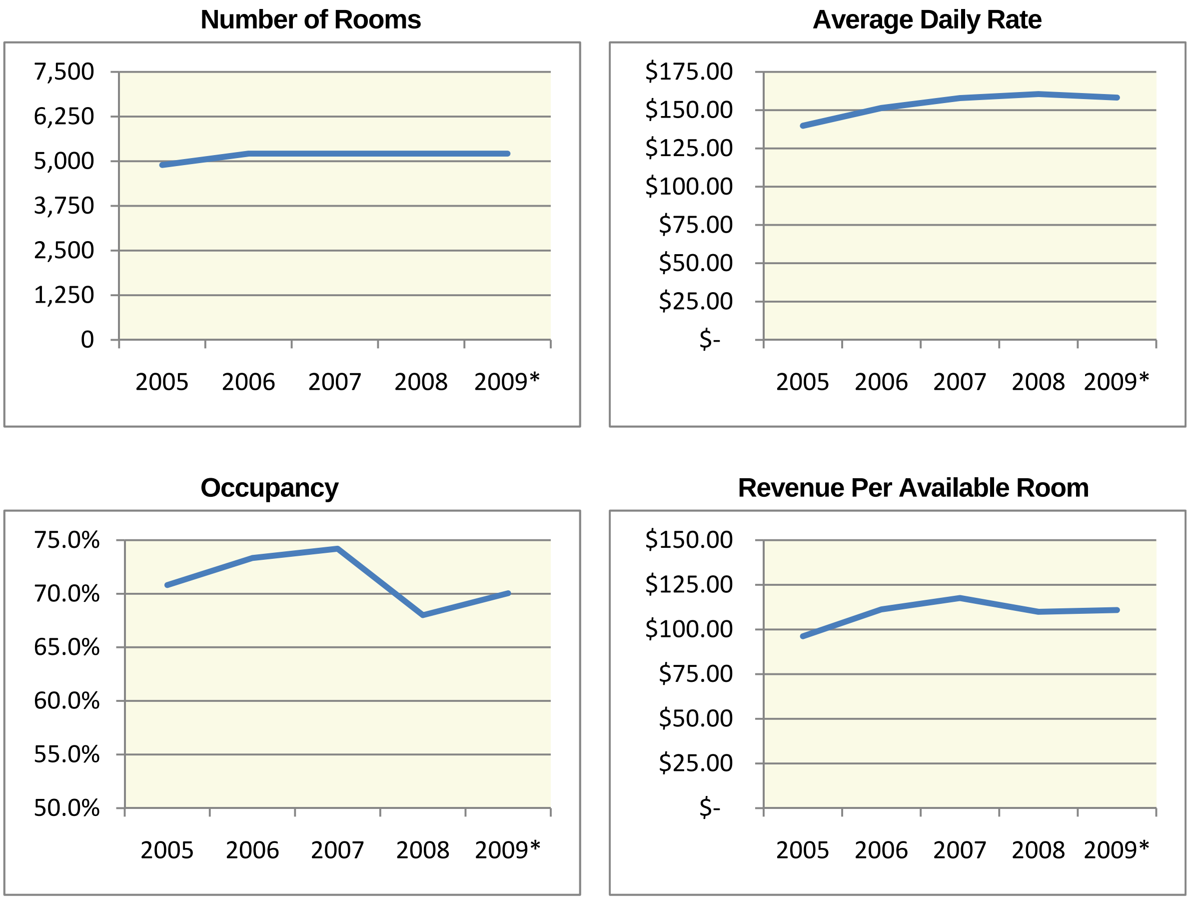
The series of charts below present the indicators for the regional Austin hotel market over the last several years. These are followed on the next page by indicators specifically for Downtown Austin.

### Austin Region Hotel Trends




*Data through 2Q 2009 Sources: Source Strategies, CDS | Spillette

## Downtown Austin Hotel Trends



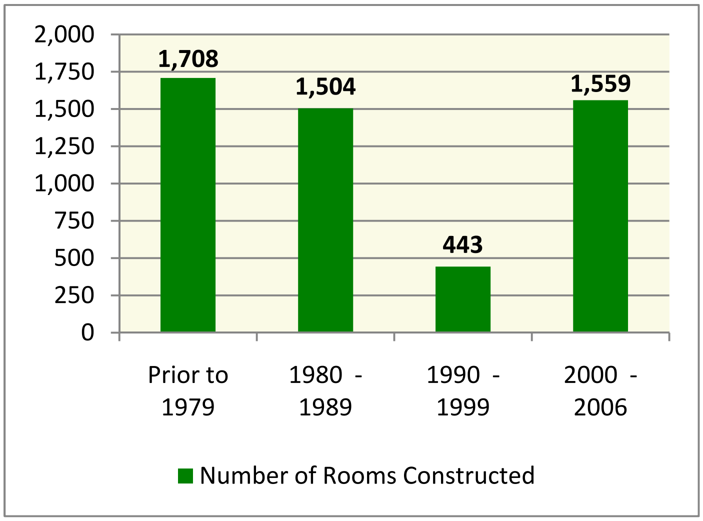

*Data through 2Q 2009 Sources: Source Strategies, CDS | Spillette

- The region has continued to experience additional hotel development over the last five years, while the room count in Downtown has leveled off after rapidly increasing in the first part of the decade.
- In both the region and Downtown, average daily rates have leveled off since 2007 after several years of increases.
- The most significant factor affecting hotel performance at present is the effect of the economic slowdown since 2007, particularly on business travel. The impact shows up in occupancy figures, which had plunged below 65% (considered the lower end of a healthy market) by 2009 for the region. Downtown has not suffered nearly as much, though average occupancy did decline below 70% in 2008; as of mid-year 2009 it appeared to be rebounding, unlike the regional average.
- Relative stability in average daily rates has helped maintain RevPAR, a measure of general hotel performance, from dropping too dramatically at either the regional or Downtown level.

## Downtown Hotel Market Specifics

Downtown has hotel properties constructed across a range of eras, as illustrated by the following chart. It should be noted that this inventory includes properties on the immediate southern shore of Lady Bird Lake, north of Riverside Drive.

### Downtown Austin Historical Hotel Construction Summary




Sources: Source Strategies, CDS | Spillette

- A total of 1,559 rooms, or approximately 30% of the current room stock, is in properties built since 2000, and no new rooms have been added within Downtown since 2006.

The next table provides hotel room revenues as recorded by the State of Texas to track hotel occupancy tax collections. The data covers the period since the last new rooms were built in Downtown.

### Hotel Revenue Trends

| Area | 2006 | 2007 | 2008 | YTD Q2 2009 | Ann. Growth Rate 2006-08 |
|---|---|---|---|---|---|
| Downtown | $198,555,077 | $227,889,509 | $236,165,054 | $111,883,134 | 9.1% |
| Travis County | $525,751,390 | $580,964,004 | $601,813,490 | $274,366,827 | 7.0% |
| Downtown Share | 37.8% | 39.2% | 39.2% | 40.8% | |

Source: State of Texas, Office of the Comptroller; CDS | Spillette

- Downtown's hotel revenues grew at a faster pace than Travis County overall since 2006, despite other additions to supply outside Downtown during this period.
- Downtown increased its share of Travis County's room revenues during this period also.
- Data for 2009 indicate a decline in revenues from 2008; as noted earlier, occupancies have dropped so far this year. The Austin Convention and Visitors Bureau (CVB) reports a 35% decline in room nights for Fiscal Year 2009.

The following table summarizes current and proposed Downtown hotel inventory.

## Downtown Austin Hotels

| Name | Address | Year Built | No. of Rooms |
|---|---|---|---|
| Driskill Hotel | 604 Brazos | 1886 | 188 |
| Inter-Continental, Stephen F. Austin | 700 Congress | 1924 | 189 |
| La Quinta Inn at the Capitol | 300 E. 11th | 1965 | 150 |
| Radisson Hotel on Town Lake | 111 E. Cesar Chavez | 1968 | 413 |
| Hyatt Regency - Austin | 208 Barton Springs (78704) | 1972 | 448 |
| Holiday Inn - Town Lake | 20 N. IH-35 | 1973/84 | 320 |
| Super 8 - Central | 1201 N. IH-35 (78702) | 1984 | 60 |
| Hilton Garden Inn | 500 N. IH-35 (formerly Crowne Plaza) | 1985 | 254 |
| Omni Hotel - Austin | 700 San Jacinto | 1985 | 375 |
| Embassy Suites Hotel - Town Lake | 300 S. Congress (78704) | 1986 | 261 |
| Sheraton Austin Hotel[3] | 701 E. 11th (formerly Marriott) | 1986 | 365 |
| Doubletree Guest Suites | 303 W. 15th | 1987 | 189 |
| Four Seasons Hotel | 98 San Jacinto | 1994 | 291 |
| Club Hotel/Doubletree | 1617 N. IL-35 (78702) | 1997 | 152 |
| Extended Stay America | 601 Guadalupe | 2002 | 101 |
| Hampton Inn & Suites | 200 San Jacinto | 2002 | 209 |
| Hilton Convention Center Hotel | 555 E. 5th Street | 2003 | 800 |
| Residence Inn/Courtyard by Marriott | 300 E. 4th | 2006 | 449 |
| **Total/Median** | | **1986** | **5,214** |
| ***Under Construction and Proposed*** | | | |
| W Hotel - Block 21 | 200 Lavaca St. | 2010 | 250 |
| Hotel Van Zandt | 602 Davis St. | | 290 |
| 21c – Museum Hotel | Red River and Cesar Chavez | | 200-250 |
| Nahua | River St. and Rainey St. | | 60-80 |
| Marriott Convention Center | NW Corner of Brazos St. / E 2nd St. | | 1,000 |
| Westin Hotel | NE Corner of Colorado St. / W 3nd St. | | 303 |
| "Eco-Hotel" / Woodbine | 5th St. and Colorado | | 250 |
| Green Water Treatment Plant Redev. | NW Corner of Cesar Chavez St. / San Antonio St. | | 375 |
| 5th and Brazos | NE Corner of 5th St. and Brazos | | 300 |
| Block 52 / Novare | 5th and Guadalupe | | 150 |
| Hyatt Place | 3rd and San Jacinto | | 276 |
| Seaholm Power Plant Redev. | Cesar Chavez St. to 3rd St. / W of Shoal Creek | | N/A |
| **Total** | | | **3,454+** |

Sources: Source Strategies, CDS | Spillette

- Downtown currently has a stock of 5,214 rooms, including some properties on the south shore of Lady Bird Lake. This total includes seven limited service, "club" or budget properties with 1,375 rooms; the remainder of the properties are full-service hotels.
- The Waller Creek TIRZ currently contains two hotel properties: the Sheraton and the Hilton Garden Inn.
- The Convention Center borders the TIRZ and several hotels are located in close proximity. These include the Four Seasons, Hilton, Courtyard by Marriott, Residence Inn, and Hampton Inn. Almost all of Downtown's existing room stock is east of Congress.
- One property, the W Hotel, is under construction and will be the first full-service, first-class property in Downtown's southwest quadrant when it opens in 2010. At least ten other projects have been proposed. Including the W, more than 3,400 additional rooms have been identified as potential future supply. It is notable that the proposed hotels are spread across the southern half of Downtown, from the Seaholm Power Plant Redevelopment just east of Lamar to the three hotels along Waller Creek described below.
- The TIRZ's Rainey Street area contains the sites for three currently proposed hotels.
    - The Hotel Van Zandt, with 17 stories and 327 rooms, would be located in the Rainey Street area adjacent to The Shore condominiums. It would be affiliated with the Kimpton brand, known for its upscale boutique orientation. Its amenities and features will include a three-meal restaurant and approximately 12,000 square-feet of meeting space. The total project cost is anticipated to be $92 million including land, with hard construction costs of $55 million. It will be positioned as an upscale boutique property that would have rack rates estimated at $225 in the context of today's market. The project has all pre-permit entitlements, designs are ready, and the developer, JMI Realty, owns the land. However, they are awaiting financing opportunities and project that development will start in two to three years.
    - The 21c project would be an art-themed hotel with 200 to 250 rooms on a large site at Cesar Chavez and Red River, overlooking Waller Creek. The site would also contain an art museum, an apartment tower, and a third development that has not yet been determined. The developer, Poe Companies, has created a similar project in Louisville, Kentucky, which has been very well received within the travel industry. That project is a high-end boutique hotel with rack rates well over $200 per night, and Poe reports that the Waller Creek property would also target the upper end of the market. The hotel will also contain a 4,000 to 5,000 square foot ballroom and a small amount of retail space, plus a high quality restaurant.
    - The Nahua would be a mixed-use tower at the Mexican American Cultural Center that would include a 60 to 80 room "Mexican boutique" hotel. Due to the economic downturn and lack of financing availability, the developer, Esperanza Development, has put the project on hold for now.
- The presence of the Convention Center makes the group meetings market a major factor for hotels on the east side of Downtown. The 800-room Hilton, the main Convention Center hotel, relies on group meetings for 70% of its room nights. The Marriott Courtyard and Residence Inn are also essential in supporting Convention Center activity.

- Although the convention and meetings market has declined since the onset of the recession, the larger picture is that further growth in the Convention Center's business is constrained by hotel supply due to a maximum available room block of 1,500 that is allocated across numerous properties and brands. The Convention Center and ACVB desire another large headquarters hotel of at least equal size to the Hilton. One such hotel, a Marriott at 2nd and Brazos with 1,000 rooms, has been proposed but is currently on hold. The ACVB reports that 38% of lost business is due to hotel issues.

The following tables provide historical and future group meeting business, booked with the assistance of the CVB, involving the Convention Center and other meeting facilities.

## Historical and Projected Data for Convention Center Room Nights as of October 2009

Definite Room Nights and Attendance
Convention Center

| Year | Attendance | Room Nights | Groups |
|---|---|---|---|
| 2018 | 6,000 | 5,290 | 1 |
| 2017 | 0 | 0 | 0 |
| 2016 | 0 | 0 | 0 |
| 2015 | 39,700 | 55,930 | 6 |
| 2014 | 36,100 | 47,984 | 7 |
| 2013 | 48,950 | 70,635 | 11 |
| 2012 | 73,400 | 108,523 | 17 |
| 2011 | 69,100 | 91,978 | 19 |
| 2010 | 97,800 | 155,759 | 35 |
| 2009 | 145,491 | 161,385 | 58 |
| 2008 | 232,330 | 164,684 | 62 |
| 2007 | 185,325 | 144,570 | 56 |
| 2006 | 225,090 | 161,776 | 61 |
| 2005 | 183,140 | 149,253 | 56 |
| 2004 | 241,750 | 190,220 | 51 |
| 2003 | 144,800 | 147,648 | 47 |
| 2002 | 204,400 | 91,989 | 41 |
| 2001 | 121,200 | 107,131 | 38 |
| 2000 | 268,250 | 141,788 | 51 |
| 1999 | 237,905 | 96,787 | 45 |
| 1998 | 232,250 | 110,605 | 41 |
| 1997 | 67,350 | 72,906 | 34 |
| 1996 | 33,621 | 31,520 | 16 |

Definite Room Nights and Attendance
All Business (A, B, and C)

| Year | Attendance | Room Nights | Groups |
|---|---|---|---|
| 2018 | 6,000 | 5,290 | 1 |
| 2017 | 0 | 0 | 0 |
| 2016 | 0 | 0 | 0 |
| 2015 | 39,700 | 55,930 | 6 |
| 2014 | 37,600 | 49,934 | 8 |
| 2013 | 53,470 | 77,677 | 16 |
| 2012 | 84,870 | 130,763 | 31 |
| 2011 | 89,795 | 126,158 | 51 |
| 2010 | 154,103 | 249,481 | 168 |
| 2009 | 323,625 | 335,075 | 433 |
| 2008 | 370,370 | 347,352 | 454 |
| 2007 | 356,016 | 319,995 | 499 |
| 2006 | 428,432 | 346,089 | 457 |
| 2005 | 528,225 | 351,732 | 557 |
| 2004 | 638,078 | 386,768 | 465 |
| 2003 | 579,598 | 283,240 | 441 |
| 2002 | 591,649 | 219,491 | 455 |
| 2001 | 429,567 | 219,291 | 405 |
| 2000 | 413,268 | 226,356 | 363 |
| 1999 | 330,601 | 161,990 | 289 |
| 1998 | 334,625 | 187,828 | 245 |
| 1997 | 124,939 | 127,135 | 176 |
| 1996 | 45,803 | 63,303 | 89 |

Tables continued on next page

Tentative Room Nights and Attendance
Convention Center

| Year | Attendance | Room Nights | # of Events |
|---|---|---|---|
| 2016 | 38,810 | 61,436 | 10 |
| 2015 | 35,135 | 68,507 | 11 |
| 2014 | 60,035 | 95,530 | 16 |
| 2013 | 77,950 | 84,340 | 23 |
| 2012 | 61,900 | 69,836 | 23 |
| 2011 | 55,600 | 76,645 | 25 |
| 2010 | 14,500 | 27,162 | 14 |
| 2009 | 500 | 3520 | 2 |

Tentative Room Nights and Attendance
All Business (A, B, and C)

| Year | Attendance | Room Nights | # of Events |
|---|---|---|---|
| 2016 | 38,810 | 61,436 | 10 |
| 2015 | 36,385 | 71,547 | 13 |
| 2014 | 63,885 | 103,908 | 21 |
| 2013 | 91,871 | 113,818 | 42 |
| 2012 | 81,810 | 110,663 | 62 |
| 2011 | 128,885 | 144,015 | 89 |
| 2010 | 92,819 | 78,621 | 121 |
| 2009 | 30,848 | 25,436 | 31 |

A. Citywide convention center (or for another city facility) business generated.
B. Business generated that books peak room nights over 100 rooms and uses one or more hotels or motels. This category does not use the Convention Center facilities.
C. Any business generated by the Austin Convention and Visitors Bureau that book less than 99 rooms.

Source: Austin Convention Center and Visitors Bureau

- The Convention Center usage and room nights (left hand table) peaked in 2008. Future room nights that are definitely booked decline through 2011 then improve in 2012. However, tentative bookings for 2011 through 2014 are reasonably strong; a high conversion rate would imply that room nights may resume to be near 2008 levels by 2012.
- A more general accounting of room nights (right hand table) indicates a similar trend; definite room nights booked shows potential recovery by 2012.
- The ACVB, Convention Center, and Hilton staff reported to CDS | Spillette that most corporate meetings in Austin do not utilize the ACVB but still require a meetings-oriented hotel property.
- These organizations also emphasized that, in addition to the need for another large headquarters hotel, an additional high-end boutique hotel of about 250 rooms is needed for meeting attendees who desire a more upscale and unique hotel experience. These types of properties also typically do well with leisure weekend business, so that their overall market mix is less dependent on meetings.

## Other Observations and Implications for the Waller Creek TIRZ

- Several proposed hotels have full entitlements and could be ready for building permits if the financing climate changes for the better. These include:
    - Westin Hotel (Colorado at 3rd St.), 303 rooms
    - Hotel Van Zandt (Davis St. at Red River), 327 rooms
    - 21c (Cesar Chavez at Red River), 209 rooms

- While the music clubs are the primary driver of Austin's tourism reputation, proximity to upscale dining, shopping, and entertainment such as Warehouse District establishments is also very important in tourism appeal, especially for higher-paying hotel guests.
- For conventions and meeting groups, proximity to the meeting location is most important.
- If the Marriott project moves forward at some future time, it will delay or eliminate the need for another convention hotel in the Waller Creek TIRZ.
- Only one known project, a Hyatt Place by Poe Properties (same developer as the 21c project) at 3rd Street and San Jacinto, is proposed as a limited-service hotel.
- All other proposed hotel developments that have been well-defined are targeting upscale clientele, either business or leisure travelers. These establishments may also be able to siphon some demand from conventions and meeting groups.
- Inspired perhaps by the quality of its residential development, the Rainey Street area, with its relatively green and serene setting, is looked upon as a potential location for upscale hotel development. Its credibility is enhanced by its proximity to the Four Seasons, one of Austin's most upscale hotels.
- The mid and northern Waller Creek area, in its present form, contains little draw for hotel guests compared to the rest of Downtown, except for those specifically into the bar and entertainment establishments. The typically young crowd is not likely one that is a driver of upscale hotel demand in terms of their ability to pay room rates comparable to those paid by business travelers. More moderately priced limited-service hotels may be a better fit in this area.
- The Waller Creek Master Plan could affect the appeal of the mid and northern portions of the TIRZ for upscale hotel development, both business and leisure travelers, in the long run if:
    - The quality of public spaces and pathways is high;
    - Adequate security and management are provided (the impacts of nearby social service agencies must be counterbalanced);
    - Development guidelines are in place to assure an appealing urban environment that matches other Downtown locations and, within the TIRZ, the Rainey Street area.
    - A critical mass of upscale dining and entertainment is generated in the corridor that replaces or diverts attention from the existing establishments.

# Retail Market Overview

Retail uses are high-profile landmarks in any commercial or mixed-use area, but they are among the most difficult to successfully generate. The Waller Creek TIRZ, for the most part a low-profile retail destination today, has to successfully compete against the rest of Downtown to garner new retail development.

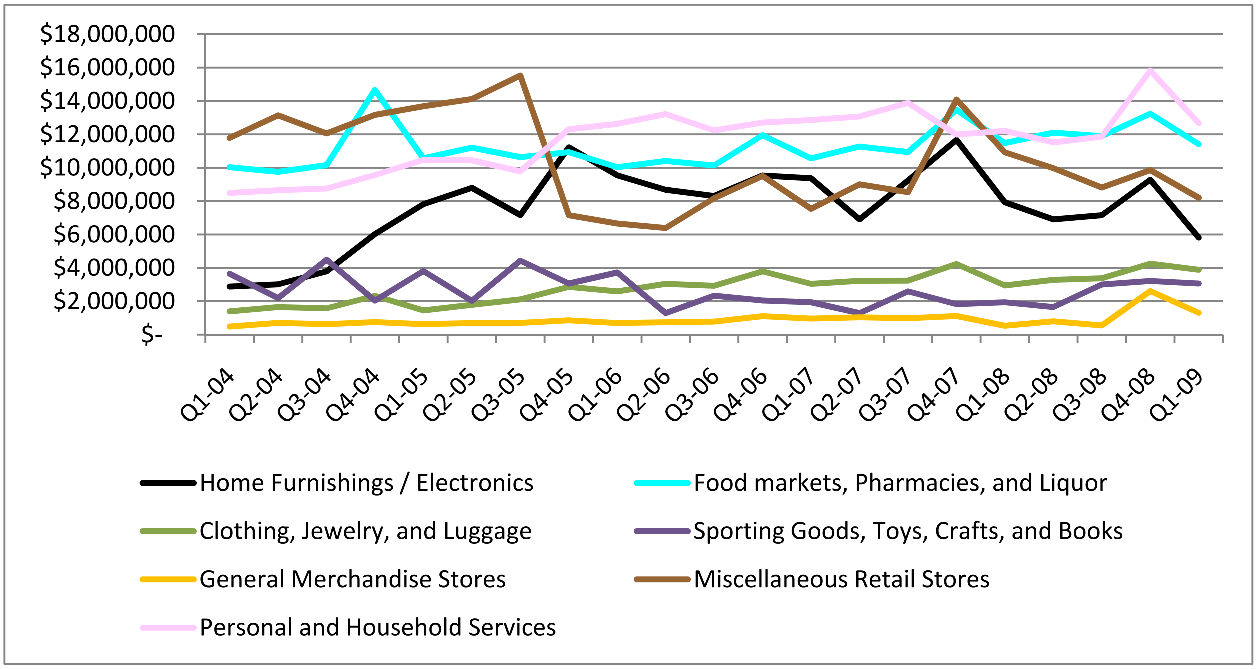
## Retail Sales Trends

The series of charts on the following two pages illustrate the trends in gross retail sales by category over the last few years in both Downtown and, for comparison purposes, in Travis County overall.

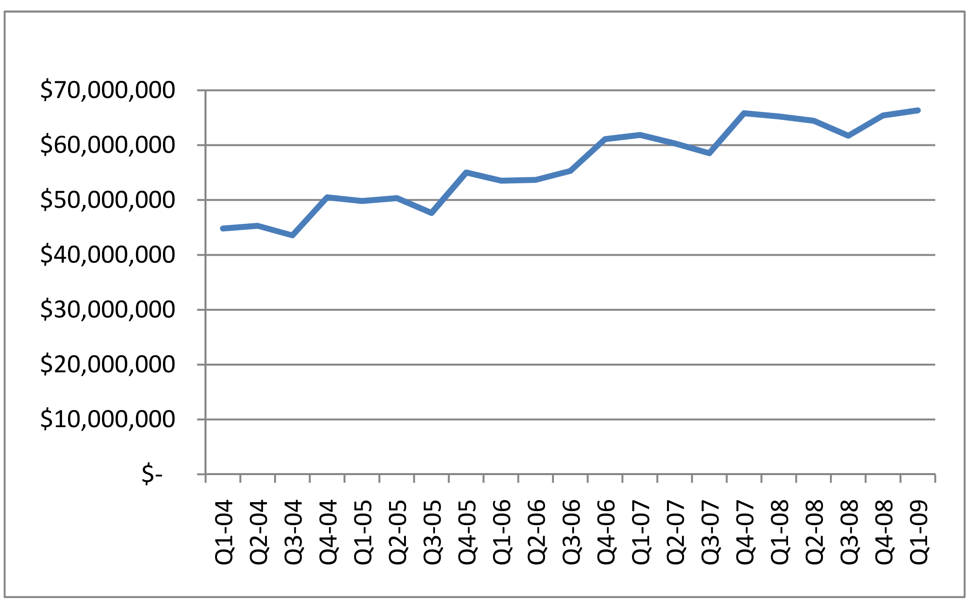
- In Downtown, by far the dominant category by sales volume is restaurants and bars. This category has also experienced the greatest increase in volume since 2004, rising from approximately $45 million in the first quarter of 2004 to more than $66 million in the first quarter of 2009.
- Some other categories experienced increases in volume, particularly in the middle of the decade. These include Personal Care and Household Services; Home Furnishings / Electronics; and Clothing, Jewelry, and Luggage. These increases are likely due in part to the opening of new specialty and neighborhood retail space in the Market District around the Whole Foods flagship store and the 2nd Street District near City Hall.
- Food markets, Pharmacies, and Liquor rose also, although not dramatically. Much of its volume is likely attributable to Whole Foods, the only Downtown supermarket.
- Two categories, Sporting Goods, Toys, Crafts, and Books, and Miscellaneous Retail Stores, did not show increases; the former actually declined.
- In comparing to county-wide sales volume, Downtown has outperformed in the Clothing, Jewelry, and Luggage category over the period as county-level volume has remained stagnant while Downtown's volume has gradually increased.
- General Merchandise, which includes both department stores and discount stores such as Walmart and Target, comprises a much larger portion of sales volume at the county level than in Downtown.
- The Home Furnishings / Electronics category has shown similar downturns in both Downtown and county-wide since 2007.
- Downtown's share of Travis County's total Restaurant and Bar sales volume increased from 11.1% in the first quarter of 2004 to 12.5% by first quarter of 2009.

## Downtown Retail Sales Trends

ZIP 78701, 2004 – 2009



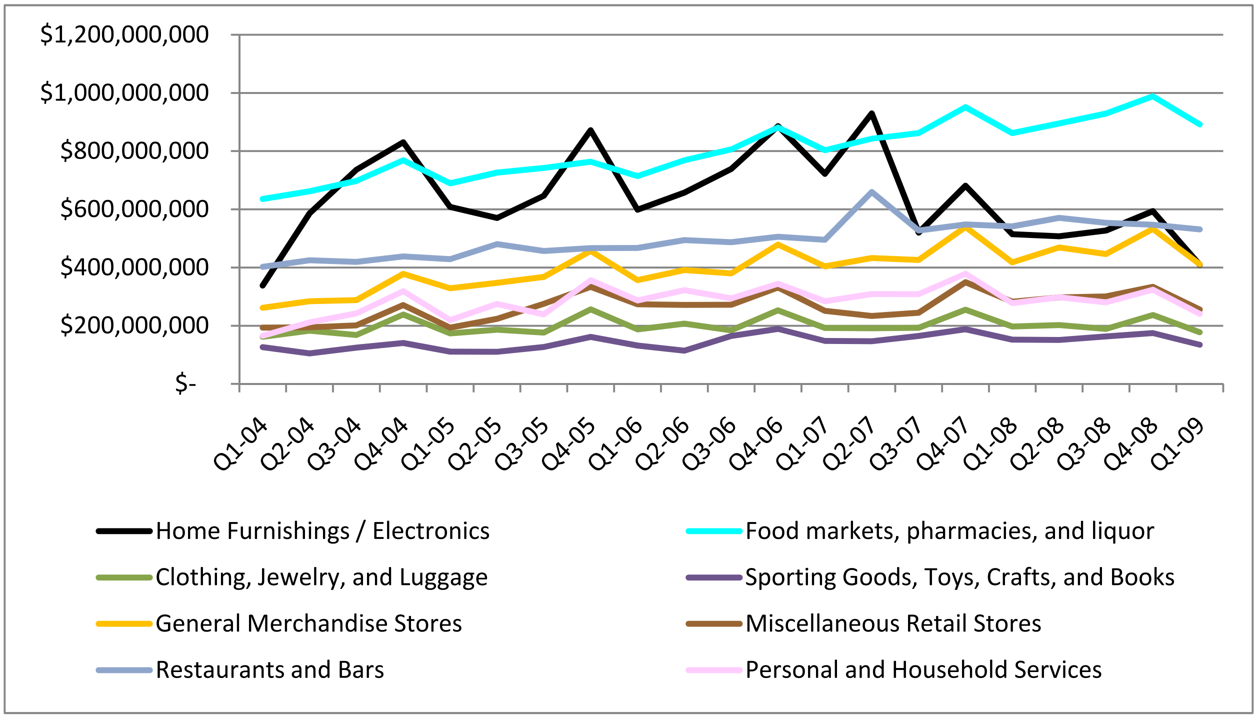

Downtown Restaurants and Bars




Source: State of Texas, Office of the Comptroller.

**Travis County Retail Sales Trends**

2004 – 2009




Source: State of Texas, Office of the Comptroller.

## Downtown Retail Supply and Performance

Downtown retail inventory is difficult to measure compared to suburban areas because, instead of space being located within retail-specific properties such as strip centers and malls, much of it is scattered in the first floors of mixed-use buildings or in older properties converted from other uses. Apart from the Market District and 2nd Street District developments, retail spaces are generally not under coordinated management and leasing across multiple buildings.

- Retail uses, including restaurants, in the first-floor spaces of multistory buildings are located throughout Downtown. The greatest and most visible concentrations of such uses are along Congress Avenue and the recently constructed 2nd Street District. The Downtown Austin Alliance (DAA) estimates that there is about 2.75 million square feet of retail space on first floors of buildings within Downtown.
- The Market District, which includes Whole Foods and several other properties both east and west of Lamar Avenue, is the only large scale development in Downtown that is primarily retail and has large tenants focusing on comparison goods such as clothing, books, and office supplies. The DAA's estimates indicate that just 11% of first floor retail space is devoted to comparison goods. Food service and bars / clubs make up 32% of the uses. Other uses frequently found in

retail spaces include private office (17%), banks (6%), and services (8%). An estimated 14% of first floor retail space is vacant.

- CDS | Spillette does not have an accurate total of retail and restaurant space that currently exists in the Waller Creek TIRZ zone specifically. The vast majority of the space is occupied by restaurant and entertainment users. Many are in single-use, 1-2 story buildings. Two identifiable districts are the East 6th Street entertainment district, consisting largely of bars catering to college-age patrons, and the Red River District, which contains several of the City's most well-known music venues as well as bars, also mostly catering to a young crowd. This area is notable for generating loud noise on certain nights due to amplified music and patrons on the street.
- Other retail establishments, mostly eating places such as Ironworks and Moonshine, are scattered throughout the TIRZ north of Cesar Chavez.
- A new development in the Rainey Street area is the conversion of old single family homes to bars and nightclubs. Two such conversions have been done so far at reportedly at least two more may be planned.
- Elsewhere outside the TIRZ, new retail space has recently opened in the following locations:
    - The ground floor in AMLI on 2nd (41,000 square feet, part of the 2nd Street District).
    - The ground floors of the 360 and Spring condominiums.
    - Just outside Downtown proper at 1011 W. 5th, the southwest corner of Lamar and 5th Street (35,500 square feet, anchored by West Elm).

The table on the next page summarizes the potential additions to retail supply known at this time.

- Except for the Stubb's expansion, all announced future retail projects are part of larger mixed-use developments, usually vertically integrated with retail on the ground floor. The projected square footage indicated for the Green Water Treatment Plant, however, indicates that the developers may be envisioning a larger retail focus in the project.
- All space under construction, totaling up to 66,500 square feet, is located in Downtown's southwest quadrant.
- The Waller Creek TIRZ includes, beside Stubb's, two projects that would add retail space: the 21c art-oriented mixed-use development and the Nahua tower at the MACC. The 21c would have an upscale, destination restaurant as its bottom floor anchor, with complementary retail on the second floor; the space would front on Cesar Chavez. The Nahua's space could be used as either retail or office.
- The southwest quadrant continues to be the preferred location for proposed retail space, though Brazos Street has two potential projects that could add retail supply also.

## Future Additions to Downtown Retail Supply

| Project | Location | Completion | Square Footage | Anchors/Other |
|---|---|---|---|---|
| ***Under Construction*** | | | | |
| The Austonian | NWC 2nd and Congress | 2010 | Up to 20,000 | Ground floor of condo tower |
| Gables Park Plaza | 2006 | 2010 | 11,500 | Ground floor of apartment development |
| Block 21 / W Hotel | 2nd /Guadalupe / Lavaca | 2011 | 35,000 | Extends 2nd Street District; space may flex to office |
| ***Proposed*** | | | | |
| Market District East Block | Bowie / 5th St. / 6th St. | NA | | Office buildings with ground floor retail |
| 501 Brazos | NEC 5th and Brazos | NA | 8,500 | Bottom floor of 1,200 space parking structure |
| Marriott Hotel | NWC 2nd and Brazos | NA | NA | Up to 50,000 square feet of retail and meeting space |
| Stubb's expansion | 9th and Red River | NA | NA | New 1,500 seat nightclub, amphitheater capacity expansion of 1,300, expansion of restaurant |
| Nahua | River St. and Rainey St. | NA | 28,000 | Mixed use tower; includes flex office / retail space |
| 21c | Cesar Chavez and Red River | NA | 25,000 | Bottom two floors of mixed-use development with hotel and apartments |
| Shoal Creek offices | 6th St. and West Ave. | NA | 8,400 | Retail space in office buildings |
| Seaholm Power Plant | W. Cesar Chavez / 3rd St. | NA | NA | 7.8 acre Power Plant to be redeveloped into mixed-use project |
| Green Water Treatment Plant | Cesar Chavez and San Antonio | NA | 160,000 | Mixed-use redevelopment of water plant |
| Starr Building | 6th St. and Colorado | NA | NA | 32 story high rise with 225 luxury hotel, 125 condos, entertainment / civic |
| Ovation | 5th. St. / San Antonio / Nueces | NA | 20,000 | Ground floor of condo tower |
| Novare Block 52 | 5th St. / Guadalupe / San Antonio | NA | NA | Ground floor of condo / hotel tower |
| Gables Republic Park | 4th St. and Guadalupe | NA | NA | Ground floor of apartment tower |
| Energy Control Center | 3rd. St and West Ave. | NA | 15,000 | First floor of condo towers |

Source: Emerging Projects, October 2009, CDS | Spillette

## Other Observations and Implications for the Waller Creek TIRZ

Retail dynamics in Downtown Austin are unique in the metropolitan market. Not only are the physical spaces and parking unlike typical suburban strip centers and malls, they tend to be located within areas defined at a finer-grained scale. The establishments also cater to a wider mix of customers, from daytime employees to tourists to suburban residents on Downtown excursions to the growing number of neighborhood residents. Specific observations of these dynamics and opinions on the potential for retail growth within the Waller Creek TIRZ are presented here.

- The concentrated clustering of restaurants in Downtown, while helping to create a dining and entertainment destination that appeals to a wide market, raises questions that Downtown may be nearing its limit of dining uses. To increase Downtown's market share of dining spending in the City, new restaurants must be either destination quality or supportable solely on the basis of immediately nearby residential population.
- Downtown Austin retail is distinctive due to relative lack of national chain store dominance. Attempts to tenant new space with unique or one-in-a-market retailers is risky, however. The 2nd Street District has had considerable tenant turnover even as the immediately surrounding population has grown. New retail space in mixed-use projects generally must charge high rent to cover development costs. This is a potential barrier to desired tenants, especially local independent businesses. Property owners may have to reduce rents, in effect subsidizing tenants, in order to obtain desired occupancy levels and tenant profile until Downtown is more firmly established as a major retail destination.
- The Downtown Austin Alliance has undertaken a retail initiative over the last several years. Their principal geographic areas of focus are Congress Avenue and East 6th Street, which crosses the Waller Creek TIRZ. Congress Avenue is likely a corridor which can attract comparison goods establishments and is starting to have success in this regard.
- E. 6th has strong historical ambience and is a major gateway into Downtown, but its orientation toward low-priced bars and nightclubs has discouraged other retail from locating there. The properties here could present a unique opportunity, however, because they have long time ownership and low bases that can allow for lower rents than in other Downtown locations, should the property owners choose to change from entertainment uses.
- Retail experts question whether that the Waller Creek TIRZ can support much additional retail development in the near future, particularly non-entertainment uses. The presence of social service agencies discourages retail generally in central segments of the corridor. There is a lack of daytime population to drive the same level of convenience-oriented dining and shopping such as exists in the Downtown core. The Convention Center has a significant impact only for attendees who are free in the evenings, particularly those staying at hotels within or close to the TIRZ.
- Increasing the residential population within the TIRZ will help generate support for retail, but it will take concentrated development of hundreds more units to allow self-sustaining neighborhood-level shops and services. During the interim, retail development is anticipated to continue the existing focus on restaurants and entertainment.
- The Waller Creek Master Plan could have a directly beneficial effect if it creates sufficiently attractive and well used public spaces that can serve as an anchor of activity. Such an effect

might be achieved if the greenway is heavily traveled as a connector across the east side of Downtown.  While travelers might not stop to patronize establishments in route, they will at least have an opportunity to gain awareness of what establishments are there and visit them at another time.

- Compared to the “Creekside” design scenario that was previously envisioned for Waller Creek, the current Master Plan design is not expected to generate as much direct retail investment, because it would not create a concentrated destination attraction.  However, the Master Plan’s potential for inducing more housing development will help create more resident-based demand within the TIRZ and bring the added benefit of more stable property tax revenues.

# TIRZ Market Demand and Development Projections

CDS | Spillette has synthesized the findings from the previous sections and developed projections of supportable absorption for the Waller Creek TIRZ.

## Overall Downtown Absorption

### Residential

Guidance for projections of supportable absorption of residential units came from two principal sources: (1) most importantly, the market performance of recently built residential projects in Downtown; (2) a "reality check" of the share of Austin's population growth.

- Using information from the earlier Multifamily Rental market overview section – the unit count and occupancy of each recently built property – it is estimated that from 2001 to 2009, the Downtown residential market absorbed 1,433 apartment units. This averages to 159 units annually. However, the market has absorbed an estimated 864 units in properties opened just since 2008, while occupancies at properties built earlier in the decade remain well above 90%. This absorption has also occurred despite the current economic downturn. This suggests a higher average absorption than had been occurring earlier in the decade, likely due to the increasing overall appeal of Downtown as a vibrant mixed-use neighborhood.
- Therefore CDS | Spillette projects 200 to 250 multifamily rental units absorbed annually throughout Downtown, for a total of 3,925 units added by 2027.
- As with apartments, condominium sales have been very strong in Downtown since 2000, especially in the latter half of the decade. The average number of new units sold per year over the ten year period was 147. However, from 2007 to July 2009, 1,152 new units have sold, for an annual average of 384 per year.
- In projecting absorption, it is important to acknowledge the somewhat bifurcated market in Downtown. Condominiums that are relatively moderately priced ($300,000 to $500,000) have been absorbed very strongly, and new units are currently in limited supply. CDS | Spillette projects supportable absorption of 100 to 200 moderately-priced units annually, resulting in 2,575 units through 2027.
- Luxury condominium product priced in the $500,000 and up range has a much more limited market of eligible buyers, equating to slower absorption, and at present there is an excess of supply of new units in this price range. This supply should be worked off over the next two years. In acknowledging this current situation, CDS | Spillette does not project supportable absorption of new luxury condominiums starting until 2012. Demand will thereafter support 100 units annually, gradually decreasing to 60 units annually in later years as increasing numbers of resales compete for the limited buyer pool. The total projected additional luxury units through 2027 are 1,220.
- As a check, CDS | Spillette compared the growth in population in Downtown since 2000 with the City of Austin demographer's estimates of total citywide population. The current Downtown population, as estimated by the Downtown Austin Alliance, is approximately 8,000 in 2009, up

from an estimate of 2,334 in 2000 (*source*: Claritas). This growth represents approximately 4.8% of the City's total growth during this period.

- If the projected supportable new residential units Downtown are estimated to house 1.5 residents per unit on average, the projected population growth in Downtown will be approximately 10,000 people (see retail analysis later in this section for calculation of projected population). The City's projected population growth through 2025 (no projection for 2027 was available) totals approximately 268,000. Downtown's growth would thus be approximately 3.7% of the City's growth. Compared to the 4.8% share of recent years, this share of growth, and the projected absorption residential units, appears conservative. The high growth share of the past few years was likely due in part to pent-up demand for living Downtown and / or in a dense, vibrant urban neighborhood; since this has been at least partly satisfied, the growth share will likely decrease slightly.

## Office

Downtown has only recently begun to assert itself as one of the region's more competitive office locations after decades of being obscured by suburban developments. Metropolitan growth and Downtown's improving image are significant factors in projecting future demand for office space in Downtown.

- Historical office absorption has varied widely with Austin's economy; regional annual absorption has exceeded 1 million square feet in both positive and negative directions over the last decade. The Downtown market's absorption has also cycled, though its best positive years have been of lower magnitude than its poorly performing years of the early 2000s. This makes forecasting absorption problematic. However, it is useful to note that Downtown's best years of absorption averaged roughly 150,000 square feet per year.
- Downtown's office market will benefit from overall growth of the City and region as more businesses expand in industry sectors that typically favor Downtown office locations, including finance, legal services, and business services.
- Downtown is currently outperforming the regional office market during the economic downturn. Its growing vibrancy as a mixed-use urban district may be part of its office market appeal. The start of commuter rail service is likely to enhance its competitive position over time.
- Austin is well positioned to emerge from the downturn within the next 12 to 18 months with relatively strong job growth.
- CDS | Spillette is of the opinion that Downtown will become increasingly popular as an office location. It is projected that Downtown will support absorption of 250,000 to 300,000 square feet per year after economic recovery has fully kicked in by 2012.

## Hotel

After experiencing a large increase in supply mid-decade, Downtown has absorbed the additional rooms successfully. It has been outperforming the market for several years and has not suffered nearly as much as the overall region in the current recession. Despite healthy occupancies and strong rates, no new hotels have opened in Downtown since 2006.

- The Convention Center and Austin Convention and Visitors Bureau state that a second convention headquarters hotel is needed Downtown. A 1,000-room Marriott that would address this need is proposed. CDS | Spillette considered the potential for additional hotel rooms independent of whether this project goes forward. By helping to attract conventions that currently bypass Austin because of limited and dispersed room blocks, this project would increase demand to counterbalance the increase in supply.
- Although Downtown is holding up relatively well given the national decline in business travel, CDS | Spillette is not projecting sufficient demand to support additional rooms until 2012 after economic recovery is well underway. This is particularly true given that the W Hotel will be open by 2011 with 250 new rooms.
- Although most of the known proposed hotels are oriented to the upscale full-service market, CDS | Spillette believes that new limited-service properties would be well-received in the market from 2012 onward. They are especially suitable for sites that are not in the heart of upscale dining and entertainment; more budget-conscious travelers will still seek moderately-priced rooms Downtown even if major amenities require a taxi or pedicab ride. Supportable absorption is projected to total 100 rooms annually from 2012 to 2015, tapering off over time.
- Austin has been raising its profile as a leisure tourism destination. A portion of convention attendees also are looking for alternatives to standard chain hotels. These factors, plus the recovery in business travel by 2012, combine to foster demand for new full-service hotel properties. CDS | Spillette projects 75 supportable new full-service rooms annually after 2012, also decreasing over time.

## Retail

Retail growth in Downtown will be driven by Downtown resident population growth, daytime population growth, secondary market area population growth, and increased tourist spending. To address demand from residential population growth, CDS | Spillette projected resident population and spending, resulting in supportable retail space, as presented in the following tables.

### Projected Downtown Resident Population

| Estimate | | Comments / Source |
|---|---|---|
| Existing population | 8,000 | DAA estimate |
| **POPULATION IN APARTMENTS** | | |
| Future additions - apartments | 3,925 | CDS | Spillette estimate |
| Occupancy rate | 90% | Conservative estimate based on market data |
| Total additional occupied apartment units | 3,533 | |
| Projected persons / unit | 1.50 | |
| Additional population - apartments | 5,299 | |
| **POPULATION IN CONDOMINIUMS** | | |
| Future additions – condominiums | 4,145 | CDS | Spillette estimate |
| Occupancy rate | 75% | Adjusted to account for vacant units and second-home units |
| Total additional occupied condominium units | 3,109 | |
| Projected persons / unit | 1.50 | |
| Additional population - condominiums | 4,663 | |
| **TOTAL POPULATION 2015** | | |
| **Total additional residents** | 9,962 | |
| **Total 2015 population** | 17,962 | |

Source: CDS | Spillette

## Projected Downtown Resident Retail Demand

| Retail Category | Travis Co. Per Capita Spending | Total Spending | Total 2015 Population | | Incremental 2009 - 2015 Population Only | |
|---|---|---|---|---|---|---|
| | | | Required Sales per Sq.Ft. | Supportable Space (Sq.Ft.) | Total Spending | Supportable Space (Sq.Ft.) |
| Home Furnishings / Electronics | $2,041 | $36,652,026 | $450 | 81,449 | $20,327,661 | 45,173 |
| Food markets, pharmacies, and liquor | $3,710 | $66,636,921 | $500 | 133,274 | $36,957,649 | 73,915 |
| Clothing, Jewelry, and Luggage | $806 | $14,485,226 | $450 | 32,189 | $8,033,683 | 17,853 |
| Sporting Goods, Toys, Crafts, and Books | $624 | $11,216,196 | $400 | 28,040 | $6,220,639 | 15,552 |
| General Merchandise Stores | $1,862 | $33,441,815 | $400 | 83,605 | $18,547,238 | 46,368 |
| Miscellaneous Retail Stores | $ 1,189 | $21,350,847 | $400 | 53,377 | $11,841,440 | 29,604 |
| Restaurants and Bars | $2,205 | $39,612,731 | $400 | 99,032 | $21,969,704 | 54,924 |
| Personal and Household Services | $1,144 | $20,550,270 | $400 | 51,376 | $11,397,430 | 28,494 |
| | | | Total | 562,342 | | 311,882 |

Sources: State of Texas, Office of the Comptroller; Urban Land Institute, *Dollars & Cents of Shopping Centers / The Score 2008*; CDS | Spillette

- The total Downtown residential population in 2015 is projected to support over 560,000 square feet of retail space. Of this total, about 412,000 square feet would be in categories considered "comparison" or "convenience" goods.
- Considering the anticipated increase in residential population from 2009 to 2015 only, this population increment is projected to support approximately 312,000 square feet of retail space, 228,000 square feet of which would be considered "comparison" or "convenience" goods.
- The total amount of first-floor retail space in Downtown today, estimated at 2.75 million square feet, is far more than the existing or future residential populations would support on their own. Market demand for the remainder of the retail space comes from the other sources previously noted.
- Based on the performance and absorption of existing space Downtown, plus the anticipated increase in all sources of demand, CDS | Spillette projects supportable annual absorption of retail space at 20,000 square feet over the next two years, rising to 25,000 square feet from 2012 to 2015 and 35,000 square feet thereafter.

## Waller Creek TIRZ Market Capture

The quantities of supportable absorption within the Waller Creek TIRZ presented in the tables at the end of this section represent projected shares of total Downtown absorption. CDS | Spillette evaluated a variety of factors in projecting these capture rates for each use. The capture rates are the point at which the impacts of the different physical design scenarios were brought into consideration.

### Residential

- The TIRZ contains numerous sites to develop dense residential projects such as apartments. In particular, sites whose development potential is constrained by the Capitol View Corridor present opportunities for 4-story wood-frame apartment projects, such as the well-occupied Red River Flats, which offer more moderate rents than high-rise developments. Nevertheless, the southern end of the TIRZ is also becoming established as an upscale lakeshore enclave. While much attention will continue to be focused on Downtown's southwest quadrant, the TIRZ will still attract a healthy share of market demand in the Storm Drainage Only scenario, where the only public improvements are for flood control, and surface improvements to create amenities are made solely by individual private property owners.
- The Master Plan should be a significant benefit to the TIRZ's market share. By "greening" and amenitizing what it today a gritty hardscaped urban environment, plus improving bicycle and pedestrian access, the TIRZ will increase its appeal and market demand capture across residential product types. Furthermore, the Master Plan should enable properties to achieve higher rents or sale prices. The Creekside scenario, which creates primarily a tourism attraction limited to below-grade areas of the creek channel, would not likely have a similar impact.

### Office

- The current trend is for commercial development, including office, to focus in Downtown's southwest quadrant and the Congress Avenue corridor. All announced proposals for large-scale office development, such as Shoal Creek Walk, 501 Congress, and the Seaholm Power Plant and Green Water Treatment Plant redevelopments are in these areas. The TIRZ, disconnected and too far to easily walk from this increasing center of commercial dynamism, is in a less competitive position for office demand. In the Storm Drainage Only scenario with no improvements aside from flood control, CDS | Spillette projects it to capture a relatively minor share of total office absorption.
- The Master Plan will likely have a moderate impact for office demand as the general environment in the TIRZ is improved, making the area more competitive. The Creekside scenario would not be expected to significantly impact office demand capture.

### Hotel

- The TIRZ has available sites for new hotel development, proximity to the Convention Center, and existing hotel properties. Upscale full service hotels are proposed for the area south of Cesar Chavez. CDS | Spillette. Although the southwest quadrant of Downtown also is a focus of hotel development interest, the TIRZ should be competitive in capturing demand. The appeal of the Rainey Street area as an upscale lakeshore subdistrict will enable at least one of the proposed upscale hotels in this area to go forward. Northern portions of the TIRZ will be appealing for limited service hotel development.

- The Master Plan should help the central and northern portions of the TIRZ capture more limited-service hotel activity after 2014-2015. The Creekside scenario, however, by creating a defined tourism attraction, would likely attract more development of both full service and limited service hotels.

## Retail

- Retail activity is becoming more and more concentrated in Downtown's southwest quadrant, including the Market District, 2nd Street District, and extending to Congress Avenue. Because retail is attracted to the proximity of other retail, this momentum will be difficult to alter in attracting retail to the TIRZ. Most residential and hotel projects in the southwest quadrant are also proposing street-level retail space; in the case of the Seaholm and Green Water Treatment redevelopments, the amount may be relatively large. In the Storm Drainage Only scenario where the public sector implements flood control measures only, CDS | Spillette is projecting demand capture in the TIRZ to be quite limited, mostly additions to the existing stock of dining and entertainment plus a small amount of incidental convenience retail and services for the growing residential population.
- The Master Plan should have a small effect on retail demand capture primarily through its positive effect on residential development and general improvement in the area to make the environment more appealing. Its impact on retail demand would be less than the Creekside scenario, which would create a defined tourism-oriented attraction that would also draw regional residents provided that the quality of the dining and entertainment was high.

A summary of the projected supportable absorption within the TIRZ through 2027 is presented in the table below; the Master Plan scenario is given, followed by the differences in quantities for each use from the other two scenarios.

### Comparative Summary of Total Supportable Absorption, 2010 - 2027

| | | | Master Plan Increase (Decrease) vs: | |
|---|---|---|---|---|
| Land Use | Measurement | Master Plan Supportable Absorption | Storm Drainage Only | Creekside |
| Apartments | Dwelling Units | 1,284 | 499 | 373 |
| Condominiums - mid-priced | Dwelling Units | 924 | 339 | 243 |
| Condominiums - luxury | Dwelling Units | 245 | 62 | 62 |
| Office | Sq.Ft. | 975,000 | 180,000 | 180,000 |
| Hotel - limited service | Rooms | 290 | 73 | (145) |
| Hotel - full service | Rooms | 318 | - | (72) |
| Retail | Sq.Ft. | 73,000 | 21,000 | (105,000) |

Source: CDS | Spillette

It is important to note that the quantities presented above do not represent actual quantities of new development. Vacancy rates and building efficiencies will lead to actual built area for each use.

## Projected Absorption Tables

Three tables provided at the end of this section summarize the projections, each representing a different physical scenario:

1. Storm Drainage Only
2. Master Plan
3. Creekside

Each table follows a methodology from top to bottom of each table:

1. The total supportable absorption for each land use in Downtown as a whole (bounded by 15th St., IH 35, Lady Bird Lake, and Lamar Avenue) is projected for four future periods of multiple years (top third of table);
2. The share of absorption that will be captured by the TIRZ for each land use is then estimated for each period (middle third of table); and
3. The resulting absorption within the TIRZ is calculated (bottom third of table).

The projections for Downtown-wide absorption (top of each table) are the same in all scenarios. The projected market capture for the TIRZ drives the differences between scenarios.

Projections for all three scenarios reflect a market demand approach, not a supply-driven approach. Absorption for each use is not designated for specific sites, although general areas within the TIRZ have been noted as more likely to attract certain types of uses. Furthermore, land use regulations are not applied as constraints on absorption. That certain types of more vertical uses (high rise condominiums for example) are likely to be attracted to locations where already allowed is a beneficial coincidence.

## Projected Supportable Absorption in Waller Creek TIRZ – Storm Drainage Only

| TOTAL DOWNTOWN ABSORPTION | | Supportable Absorption Per Year by Time Period | | | |
|---|---|---|---|---|---|
| Land Use | Unit of Measurement | 2010 - 2011 | 2012 - 2015 | 2016 - 2020 | 2021 - 2027 |
| Apartments | Dwelling Units | 200 | 250 | 225 | 200 |
| Condominiums - mid-priced | Dwelling Units | 100 | 200 | 175 | 150 |
| Condominiums - luxury | Dwelling Units | - | 100 | 80 | 60 |
| Office | Sq.Ft. | - | 250,000 | 300,000 | 300,000 |
| Hotel - limited service | Rooms | - | 100 | 75 | 50 |
| Hotel - full service | Rooms | - | 75 | 40 | 40 |
| Retail | Sq.Ft. | 20,000 | 25,000 | 35,000 | 35,000 |

| TIRZ CAPTURE | Share of Total Downtown Absorption | | | |
|---|---|---|---|---|
| Land Use | 2010 - 2011 | 2012 - 2015 | 2016 - 2020 | 2021 - 2027 |
| Apartments | 20% | 20% | 20% | 20% |
| Condominiums - mid-priced | 20% | 20% | 20% | 20% |
| Condominiums - luxury | 0% | 15% | 15% | 15% |
| Office | 0% | 15% | 15% | 20% |
| Hotel - limited service | 0% | 0% | 30% | 30% |
| Hotel - full service | 0% | 50% | 35% | 35% |
| Retail | 0% | 10% | 10% | 10% |

| TIRZ ABSORPTION | | Supportable Absorption Per Year by Time Period | | | |
|---|---|---|---|---|---|
| Land Use | Unit of Measurement | 2010 - 2011 | 2012 - 2015 | 2016 - 2020 | 2021 - 2027 |
| Apartments | Dwelling Units | 40 | 50 | 45 | 40 |
| Condominiums - mid-priced | Dwelling Units | 20 | 40 | 35 | 30 |
| Condominiums - luxury | Dwelling Units | - | 15 | 12 | 9 |
| Office | Sq.Ft. | - | 37,500 | 45,000 | 60,000 |
| Hotel - limited service | Rooms | - | - | 23 | 15 |
| Hotel - full service | Rooms | - | 38 | 14 | 14 |
| Retail | Sq.Ft. | - | 2,500 | 3,500 | 3,500 |

Source: CDS | Spillette

## Projected Supportable Absorption in Waller Creek TIRZ – Master Plan

| TOTAL DOWNTOWN ABSORPTION | | Supportable Absorption Per Year by Time Period | | | |
|---|---|---|---|---|---|
| Land Use | Unit of Measurement | 2010 - 2011 | 2012 - 2015 | 2016 - 2020 | 2021 - 2027 |
| Apartments | Dwelling Units | 200 | 250 | 225 | 200 |
| Condominiums - mid-priced | Dwelling Units | 100 | 200 | 175 | 150 |
| Condominiums - luxury | Dwelling Units | - | 100 | 80 | 60 |
| Office | Sq.Ft. | - | 250,000 | 300,000 | 300,000 |
| Hotel - limited service | Rooms | - | 100 | 75 | 50 |
| Hotel - full service | Rooms | - | 75 | 40 | 40 |
| Retail | Sq.Ft. | 20,000 | 25,000 | 35,000 | 35,000 |
| **TIRZ CAPTURE** | | **Share of Total Downtown Absorption** | | | |
| **Land Use** | | **2010 - 2011** | **2012 - 2015** | **2016 - 2020** | **2021 - 2027** |
| Apartments | | 20% | 25% | 35% | 40% |
| Condominiums - mid-priced | | 25% | 25% | 35% | 35% |
| Condominiums - luxury | | 0% | 15% | 20% | 25% |
| Office | | 0% | 15% | 20% | 25% |
| Hotel - limited service | | 0% | 0% | 40% | 40% |
| Hotel - full service | | 0% | 50% | 35% | 35% |
| Retail | | 0% | 10% | 15% | 15% |
| **TIRZ ABSORPTION** | | **Supportable Absorption Per Year by Time Period** | | | |
| **Land Use** | **Unit of Measurement** | **2010 - 2011** | **2012 - 2015** | **2016 - 2020** | **2021 - 2027** |
| Apartments | Dwelling Units | 40 | 63 | 79 | 80 |
| Condominiums - mid-priced | Dwelling Units | 25 | 50 | 61 | 53 |
| Condominiums - luxury | Dwelling Units | - | 15 | 16 | 15 |
| Office | Sq.Ft. | - | 37,500 | 60,000 | 75,000 |
| Hotel - limited service | Rooms | - | - | 30 | 20 |
| Hotel - full service | Rooms | - | 38 | 14 | 14 |
| Retail | Sq.Ft. | - | 2,500 | 5,250 | 5,250 |

Source: CDS | Spillette

## Projected Supportable Absorption in Waller Creek TIRZ – Creekside

| TOTAL DOWNTOWN ABSORPTION | | Supportable Absorption Per Year by Time Period | | | |
|---|---|---|---|---|---|
| Land Use | Unit of Measurement | 2010 - 2011 | 2012 - 2015 | 2016 - 2020 | 2021 - 2027 |
| Apartments | Dwelling Units | 200 | 250 | 225 | 200 |
| Condominiums - mid-priced | Dwelling Units | 100 | 200 | 175 | 150 |
| Condominiums - luxury | Dwelling Units | - | 100 | 80 | 60 |
| Office | Sq.Ft. | - | 250,000 | 300,000 | 300,000 |
| Hotel - limited service | Rooms | - | 100 | 75 | 50 |
| Hotel - full service | Rooms | - | 75 | 40 | 40 |
| Retail | Sq.Ft. | 20,000 | 25,000 | 35,000 | 35,000 |

| TIRZ CAPTURE | Share of Total Downtown Absorption | | | |
|---|---|---|---|---|
| Land Use | 2010 - 2011 | 2012 - 2015 | 2016 - 2020 | 2021 - 2027 |
| Apartments | 20% | 20% | 25% | 25% |
| Condominiums - mid-priced | 20% | 20% | 25% | 25% |
| Condominiums - luxury | 0% | 15% | 15% | 15% |
| Office | 0% | 15% | 15% | 20% |
| Hotel - limited service | 0% | 0% | 60% | 60% |
| Hotel - full service | 0% | 50% | 50% | 50% |
| Retail | 0% | 10% | 40% | 40% |

| TIRZ ABSORPTION | | Supportable Absorption Per Year by Time Period | | | |
|---|---|---|---|---|---|
| Land Use | Unit of Measurement | 2010 - 2011 | 2012 - 2015 | 2016 - 2020 | 2021 - 2027 |
| Apartments | Dwelling Units | 40 | 50 | 56 | 50 |
| Condominiums - mid-priced | Dwelling Units | 20 | 40 | 44 | 38 |
| Condominiums - luxury | Dwelling Units | - | 15 | 12 | 9 |
| Office | Sq.Ft. | - | 37,500 | 45,000 | 60,000 |
| Hotel - limited service | Rooms | - | - | 45 | 30 |
| Hotel - full service | Rooms | - | 38 | 20 | 20 |
| Retail | Sq.Ft. | - | 2,500 | 14,000 | 14,000 |

Source: CDS | Spillette

## Comparison to Previous Projections

The amounts of office and retail space in the current projections of supportable absorption within the TIRZ are substantially lower than in the 2004 and 2006 studies. Much has happened within Downtown and with the Austin economy that has led to this conclusion; the reasons are explained below.

The quantities of residential and hotel absorption are roughly similar to previous projections, especially in the Master Plan scenario.

### Office

- The present economic downturn was not foreseen. While current economic conditions, particularly the ability of developers to obtain financing for new projects, are not expected to linger in the long term, the implications through the short term are that there will be no new office development within the TIRZ compared to 2006 projections.
- Although Downtown has improved as an office market, it has not captured as much of regional office demand as previously projected through the second half of the decade – there have been no significant office buildings built in the core of Downtown since the Frost Bank Building. Overall Downtown absorption has been less than anticipated even prior to the recession. The 2006 study had projected demand for another large office building by 2008 or 2009.
- As with other uses, the southwest quadrant of Downtown has become even more dominant than previously anticipated. More large scale proposed office developments have emerged since 2006, all west of Brazos Street. At that time, the Seaholm and Green Water Treatment sites, plus the Shoal Creek Walk project, were not identified specifically as potentially containing large scale office buildings of possibly several hundred thousand square feet each. These proposed developments over time reduce the likelihood of the TIRZ competing for as large of a share of new office building demand.
- On the other hand, successful implementation of commuter rail service will enhance the TIRZ's competitiveness for office space, as portions of the zone are within walking distance of the Downtown station.

### Retail

- While the southwest quadrant of Downtown was emerging as a retail center in 2006, its dominance was underestimated. It is also by far the dominant area for attracting new residential development; retailers with one location to place Downtown will almost certainly choose this area.
- The numerous proposals for new dense residential in the southwest quadrant mostly contain ground floor retail space. In addition, the large Seaholm and Green Water Treatment sites will also contain retail uses, possibly in large quantities. Thus the southwest quadrant is poised to further enhance its dominance through aggressive capture of retail spending, probably diminishing the TIRZ's chances of increasing its capture rate.
- The current recession and the pull back in consumer spending has caused a reassessment of retail growth assumptions. Past trends that highlighted the aggressive opening of new locations by major retail chains are at least temporarily halted. The assumption that consumers will

spend as freely even once the economy resumes growth is now in question, particularly regarding the use of credit.

- The spotty success of comparison goods establishments even in the southwest quadrant (particularly along 2nd Street) will likely lead to less confidence among similar retailers that Downtown is a strong location; this is likely to slow absorption, particularly over the next several years.

Although office and retail projections for the zone have decreased since 2006, it should be noted that the TIRZ should benefit from the overall health of Downtown and its attractiveness for new development, particularly residential uses. The medium to long term outlook for Downtown, if anything, is brighter than in 2006. Downtown should be among the districts to most strongly lead Austin's economic recovery, and thus the TIRZ will likely experience healthy growth, on average, for the remainder of its life.

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