TO: Mayor & Council Members

FROM: Greg Canally, Deputy Chief Financial Officer GC
Betsy Spencer, Neighborhood Housing & Community Development Office BS

DATE: December 5, 2014

SUBJECT: Homestead Preservation Districts: Resolution No. 20140213-044

The purpose of this memorandum is to respond to Council direction as outlined in Resolution No. 20140213-044 regarding Homestead Preservation Districts (HPD). On February 13, 2014, the City Council approved a resolution directing the City Manager to develop a "program plan, financing and funding strategy for viable [HPD] districts in the context of an overall affordable housing financing strategy."

To develop the overall plan, Neighborhood Housing & Community Development (NHCD) and Financial Services (FSD) contracted with California-based Economic & Planning Systems (EPS) and Austin-based Capital Market Research (CMR) to produce a comprehensive analysis of affordable housing programs, funding alternatives, eligibility requirements for HPD districts, as well as a real estate assessment of the districts, including property valuations. The final reports from these consultants are attached.

Background

Local Government Code Chapter 373A, Homestead Preservation District and Reinvestment Zone (HPD), was originally introduced to the Texas Legislature in 2005. This chapter created three affordable housing tools for census tracts that meet certain conditions regarding size of population, poverty rates and median family income. The tools created were a Homestead Land Trust, a Homestead Preservation Reinvestment Zone, and a Homestead Land Bank Program.

In 2007, at the City of Austin's request, the legislation was amended to require County participation in any HPD Tax Increment Financing Zone or Homestead Preservation Reinvestment Zone. On January 11, 2007, Council Ordinance 20070111-053 established the original Homestead Preservation District (District A in Figure 1). In 2008, Council approved Ordinance No. 20081016-014 designating Austin Housing Finance Corporation, Travis County Housing Finance Corporation and PeopleTrust to operate as HPD Land Trusts. In 2013, Chapter 373A was further amended to modify eligibility requirements necessary for a district to be created, and also eliminated the requirement that a Homestead Preservation Reinvestment Tax Increment Financing (HPD TIF) Zone could only be created if Travis County also participated. A November 2013 in response to Council Resolution No. 20130627-72 (http://austintexas.gov/sites/default/files/files/Housing/Reports_and_Publications/City_Reports/4._HB_3350_FinalReport_Nov_20_2013__2_.pdf) provides more detail of the legislation and changes to the legislation over-time, as well as an analysis that determined that there were five potential HPDs that could be created.

Figure 1 below shows a map of the potential districts that could meet the legislative requirements for Homestead Preservation.

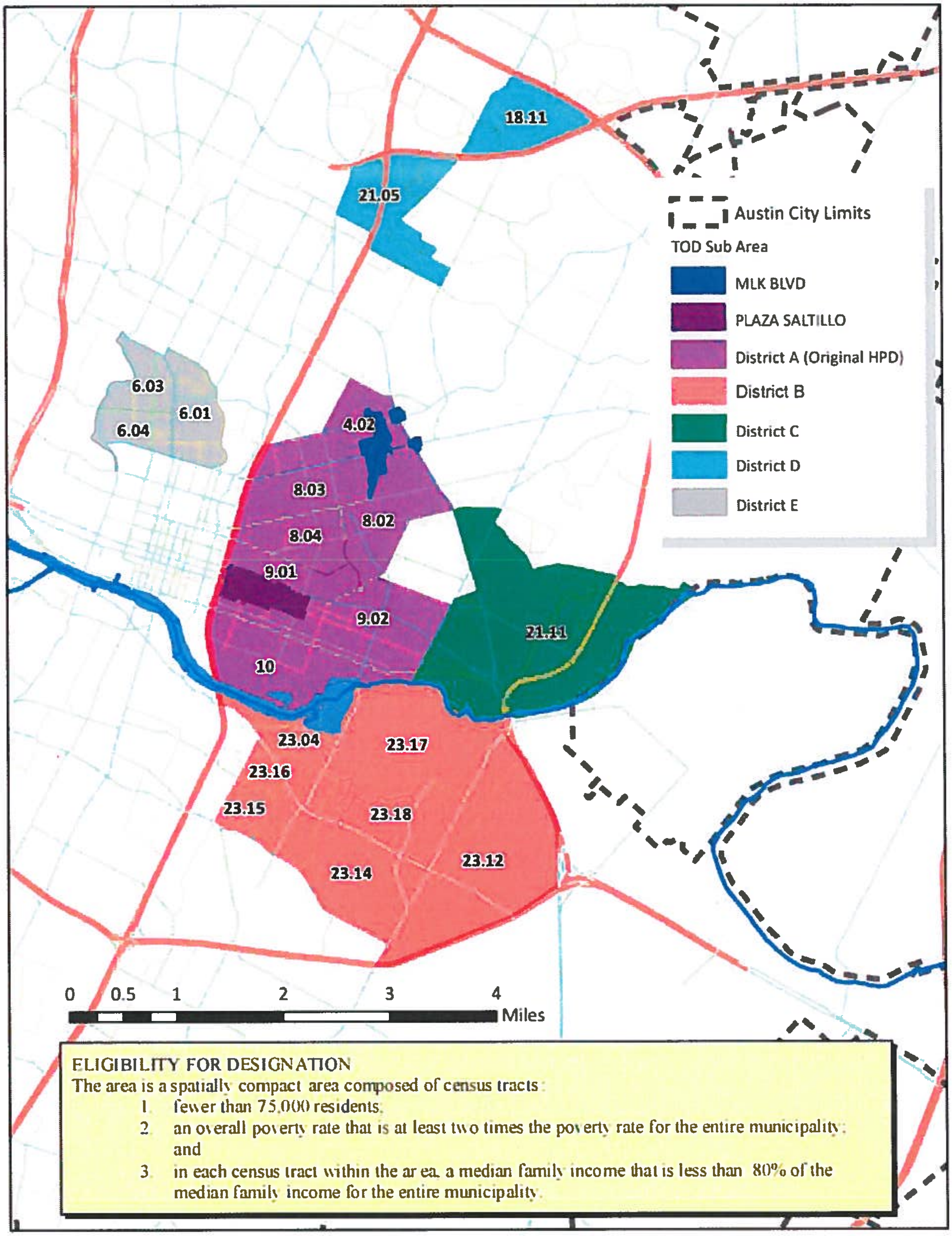

Figure 1: Existing and Potential Homestead Preservation Districts

Summary of Findings

Funding Alternatives and Eligibility Criteria

The City has successfully enacted numerous policies and programs to create local funding to enhance federal funding. Local funding sources include General Fund Operating, General Obligation Bonds, Austin Energy/Holly Good Neighbor Program, University Neighborhood Overlay Ordinance, General Fund CIP, Housing Trust Fund, Density Bonus Programs, minimum requirements of affordable housing units in developments of former City-owned properties, and S.M.A.R.T Housing.

It should be noted that the Housing Trust Fund (HTF) is funded by 40% of incremental property tax revenue from former public properties. For FY15, the General Fund will transfer $0.8 million to the HTF. By 2025 it is estimated that this transfer will be $2.9 million per year, for a cumulative of $23.7 million over the next 10 years, and $55.8 million over the next 20 years.

EPS also analyzed potential value capture and other funding mechanisms, including Homestead Preservation Districts TIFs (Chapter 373A), Tax Increment Reinvestment Zone (TIRZ under Chapter 311), Incentive Zoning, Inclusionary Zoning, Residential Linkage Fees, Commercial Linkage Fees, Excise Taxes, Document Recording Fees, Real Estate Transfer Taxes, Dedicated Sales and Use Taxes, Dedicated Property Taxes, Occupational Privilege Taxes, and Lodging Taxes. The majority of these alternatives are currently prohibited by Texas Law, but EPS has concluded that tax increment and linkage fees are viable additions to the existing local funding sources for affordable housing.

In order to create HPDs, the City would need to follow Legislative criteria for establishing each district. The criteria are as follows:

- Each HPD must have fewer than 75,000 residents;
- Each HPD must have an overall poverty rate that is at least two times the poverty rate for the entire municipality;
- In each census tract within and HPD area, a median family income that is less than 80% of the median family income for the entire municipality;
- The City will need to make a finding that land in the HPD is "unproductive, underdeveloped, or blighted

EPS further recommended the following related to potential Districts:

- Not more than 50% of the HPD population is enrolled in college or graduate school;
- The City should maintain its policy of no more than 5% of the overall tax base being in a Tax Increment Financing zone, including HPDs; and,

Related to potential future TIFs, EPS recommends that specific criteria to determine "unproductive, underdeveloped or blighted" land should be based on those spelled out in Chapter 311, as they give the City flexibility to determine that a variety of conditions exists in the HPD, but does not require that all conditions are met. See Exhibit A and Exhibit B for the full EPS Reports.

Table 1 below summarizes the eligibility criteria for each of the potential five HPDs.

	Total Pop.[1]	% Poverty[2]	Median Income[2]	% Students[1]	Aggregate AV
RECOMMENDED HPD ELIGIBILITY CRITERIA					
Standard	***<75,000***	***2 X City %***	***All Tracts <80% MFI***	***<50% Total Pop.***	***< 4% of City Total[3]***
City	*802,140*	*20.3%*	*$50,938 (80% MFI)*	*12.2%*	*100.0%*
District A[4]	21,551	32.3%	No	8.4%	2.2%
District B	36,685	43.6%	Yes	21.4%	1.5%
District C	4,290	41.6%	Yes	5.0%	0.3%
District D	8,606	44.3%	Yes	3.5%	0.5%
District E	22,493	82.3%	Yes	93.9%	2.1%
					6.6% Aggregate

1) Source: American Community Survey 2008-2012

2) Source: American Community Survey 2007-2011

3) Austin's Financial Policy limits total TIF areas to 5% of total City tax base. Existing TIF districts comprised 1% of total tax base in 2012. All figures represent 2013 assessed valuations, and are subject to update.

4) District A no longer meets the criteria set forth in the legislation authorizing the creation of HPDs, but since it was already designated as an HPD, per the same legislation, it may retain its HPD designation

Table 1: Eligibility Criteria for each Potential Homestead Preservation District

Real Estate Analysis

Capitol Market Research (CMR) looked at each of the five areas that could be considered for Homestead Preservation Districts by documenting historical growth and development patterns, and analyzed property changes and property tax value changes over the last 10 years. Using that historical data, CMR provided a forecast of future property values in each district.

Supply of housing product in the areas increased significantly over the 10-year period. Total residential (single family/multi-family/condominium) increased by 17.1%, from 11,841 properties to 13,863. The taxable assessed valuation of all property types (residential, commercial and other) in all five districts combined increased at an annual growth rate of 8.5% between 2004 and 2013, with the biggest growth occurring in new single family and multi-family product, at 24.9% (corresponding with the new supply). The annual growth of value for existing residential homes increased at a lower rate of 5.2%. These figures compare to an annual city-wide increase in taxable value over the same period of 6.0%.

Using these historical growth rates, as well as high-level survey of current planned developments, projected annual growth in the combined areas is 8.5%, taking total taxable value from 2013 value of $4.9 billion to $11.8 billion. At a 100% capture value, a HPD TIF would result in $28.7 million.

	Districts					
	A	B	C	D	E	Total
Acres	2,900	3,600	1,700	830	930	9,960
Residential Records	6,579	3,099	1,082	960	2,143	13,863
Total Assessed Value: *2014* (1)	$1,976,432,614	$1,317,807,869	$302,290,769	$470,243,495	$1,772,987,429	$5,839,762,176
Annual Growth: 2004-2013						
Existing Residential (SF) (2) (3)	8.6%	4.0%	6.8%	3.6%	4.1%	5.2%
All Properties	10.7%	5.5%	7.4%	3.6%	11.0%	8.5%
Projected Growth: 2023						
Annual Rate	10.7%	5.5%	7.4%	3.6%	11.0%	
Total Value	$4,448,862,385	$1,878,531,491	$528,978,743	$573,462,001	$4,393,923,735	$11,823,758,354
Increment vs 2014	$2,472,429,771	$560,723,622	$226,687,974	$103,218,506	$2,620,936,306	$5,983,996,178
Property Tax Revenue: 2023 (4)	$11.9 million	$2.7 million	$1.1 million	$0.5 million	$12.6 million	$28.7 million

(1) CMR report shows 2013 data; City has recently calculated AV based on 2014 certified tax roll
(2) Existing residential defined as properties built before 2000, which would be primary target of any affordable housing programs
(3) Comapres to City-wide increase of residential of 6.0%
(4) Based on tax rate of $0.4800 per $100 of valuation

Table 2: Assessed Valuation History and Projections for Potential Homestead Preservation Districts

City's Current TIF Policy

In June of 2013, Financial Services presented a detailed review of the Tax Increment Financing (TIF) tool the City's use of TIFs, and recommendations regarding evaluating TIFs using the "but-for" test, assessing tax rate impact, and criteria for creating new TIF districts.
(http://www.austintexas.gov/edims/document.cfm?id=191785). The City currently has three established percentage based TIFs – Mueller, Waller Creek and Seaholm. Revenue generated from these TIFs is used for debt service associated with capital infrastructure improvements.

The three existing TIFs have a current base assessed valuation of $1.4 billion, of which $1.1 billion is captured value, and encompass 839.6 acres. As a comparison, the five potential HPD districts have a total assessed valuation of $5.8 billion (2014), and cover 9,666 acres, ranging from 630 acres in District E to 3,600 acres in District B.

The City's TIF Policy dictates that no more than 5% of total taxable assessed valuation may be in a TIF. Our three current TIFs represented 1% of total AV in 2012. Our practice has been to establish TIFs to support capital infrastructure for projects that created taxable value above and beyond baseline conditions.

As the CMR report indicates, the potential use of TIFs as part of the Homestead Preservation District program is not a "standard" use of the TIF tool, in that the creation of a HPD district in itself would not result in an additional increment above normal growth. Any HPD TIF established would be a set-aside of tax revenue that otherwise would have flowed entirely to the General Fund. For example, a 100% TIF for all five HPDs would result in approximately $28 million less funding to the General Fund by 2023, which would require a tax rate increase and/or expenditure reductions to other General Fund departments. Any tax rate increase would be applied to property owners city-wide. A $28 million loss of general fund revenue is equivalent to a 2-cent tax rate increase. See Exhibit C for full CMR Report.

Alternative Financing Strategies

Resolution No. 20140213-044 asked for recommendations regarding funding strategies as it relates to these viable districts including "value capture and/or other funding tools". There are funding strategies that can be implemented now that do not require the legislative framework of a Homestead Preservation District. Several funding opportunities that could be used to invest in existing programs that already occur in HPD districts, as well as new HPD specific programs that would be developed are as follows:

1) Rather than establishing the entirety of any eligible HPD as a TIRZ district, identify projects throughout these potential districts for specific areas, and evaluate establishing Tax Increment Reinvestment Zones (TIRZ) such as the existing Transit Oriented Development (TOD) Red-Line stations at Saltillo Plaza (District A) and MLK station (District A), along the Riverside Corridor (District B), and others, to invest in both affordable housing and infrastructure;
2) Identify specific target areas to encourage development within potential districts to jointly collaborate and apply to the City to invest in infrastructure using a TIF mechanism, that can generate additional opportunities for the inclusion of affordable housing units in their projects;
3) For all future TIRZs created in any HPD-eligible area, dedicated a portion of the revenue for affordable housing;
4) Amend the Housing Trust Fund resolution, by increasing the percentage of property tax revenue generated by properties in any HPD-eligible area that convert from publicly owned to privately owned, from 40% to 60%, and dedicating all 60% to be spent within the HPD area the property resides in; and
5) Increase annual General Fund budget for Affordable Housing above current baseline.

While the HPD legislation allows for district-wide TIFs to be created, consideration should be given that putting large portions of the City under a TIF regime without a specific project that causes an incremental increase in taxable value, would have negative impacts on the General Fund and the tax rate. The City should continue to use the TIF for project based efforts, focusing on projects that created taxable value above and beyond baseline conditions.

However, on top of any affordable housing requirements that would be part of a project that requires a TIF (for example, City initiated redevelopments), it is recommended that a portion of any future TIF that is created should include a set aside for additional affordable housing. This is consistent with the work that the Housing + Transit + Jobs Action Team has been exploring. Namely, it is consistent with looking at the use of Tax Increment Financing to support infrastructure in key transit areas. By supporting infrastructure with public investment and thus reducing costs or enhancing value for private development, developments in the area would be able to offer additional affordable housing benefits. In addition to indirectly supporting affordable housing by investing in infrastructure, a portion of any established TIF could be used to directly support affordable housing units.

Process for Implementation

There are numerous procedural steps a city must follow before designating a homestead preservation reinvestment zone. Key steps include:

- Council must conduct a public hearing on the creation of the zone;
- Not later than the seventh day before the date of the public hearing, the City must publish a notice of the hearing in a local newspaper of general circulation;
- The City must prepare a preliminary zone financing plan; and

- The City must provide a reasonable opportunity for property owners to protest the inclusion of their property in the proposed zone.

State law does not explain what it means to provide a property owner a "reasonable opportunity" to protest the inclusion of the person's property in a zone. A fair reading of the statue is that a city complies with this requirement by complying with the first three steps listed above.

cc: Marc A. Ott, City Manager
Bert Lumbreras, Assistant City Manager

Attachments

Exhibit A: EPS Report: Recommendations for Homestead Preservation District Criteria and Definitions
Exhibit B: EPS Report: Value Capture Tools and Other Local Funding Resources for Affordable Housing
Exhibit C: CMR Report: Tax Increment Financing Study

Exhibit A

RECOMMENDATIONS FOR HOMESTEAD PRESERVATION DISTRICT CRITERIA AND DEFINITIONS

December 2, 2014

Economic & Planning Systems, Inc. (EPS) has been retained by the City of Austin's Neighborhood Housing and Community Development department (NHCD) to assist in preparing technical analyses in support of the City's consideration of the establishment of Homestead Preservation Districts (HPDs). These districts, as enabled under HB 3350 and LGC Section 373A, would allow the City to capture future tax increment from both new development and the escalation of values for existing development, and use those tax increment revenues to support the construction or retention of affordable housing within the districts. The City Council has directed the City Manager and staff to review various aspects of the potential implementation of these HPDs, as well as to evaluate alternative approaches to providing locally based and sustainable funding sources for affordable housing.

This memorandum addresses the following aspects of the potential HPD program:

1) The criteria for establishing the eligibility of an HPD
2) The criteria for determining whether land is unproductive, underdeveloped, or blighted as required under the existing TIF policy
3) The viability of each potential HPD identified by staff as meeting the initial eligibility criteria

Summary Findings & Recommendations

HPD Eligibility Criteria

The HPD eligibility criteria established in LGC Section 373A represent the baseline conditions that must be met. In addition, it is recommended that the City utilize criteria that directly reflect the affordable housing supply and demand conditions in each HPD, as well as the City's fiscal goal of limiting tax increment financing areas to maintain a robust tax base for general municipal services.

In sum, the following criteria for establishing an HPD are recommended:

The Economics of Land Use

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1. Each HPD must have fewer than 75,000 residents;
2. Each HPD must have an overall poverty rate that is at least two times the poverty rate for the entire municipality;
3. In each census tract within the area, a median family income that is less than 80 percent of the median family income for the entire municipality;
4. Not more than 50 percent of the HPD population is enrolled in college or graduate school; and
5. Total tax increment financing districts, including HPDs, cannot sum to more than 5 percent of the City's overall tax base.

In addition, the City will need to make a finding that land in the HPD is "unproductive, underdeveloped, or blighted," as discussed below.

Criteria for Determining Unproductive, Underdeveloped, or Blighted Conditions

Local Government Code 373A.1521 requires that a municipality's ordinance creating a Tax Increment Reinvestment Zone (TIRZ) in an HPD make findings that the specified area is "unproductive, underdeveloped, or blighted." However, LGC 373A.151 specifically exempts Homestead Preservation Districts from requiring the same findings as required in other TIRZ areas (under the Texas Tax Code), where tax increment financing is intended to support beneficial development that would not otherwise occur by private investment alone. As such, the City's legal analysis has suggested that the City may use alternative definitions or criteria for determining these conditions in an HPD.

Rather than reinventing such criteria, it is recommended that those under Texas Tax Code Section 311.005 be used for HPDs. These provide the City flexibility to determine that a variety of conditions – ranging from deteriorating buildings and inadequate sidewalks to property tax delinquency and unusual conditions of title – exist in an HPD. These definitions and criteria relate primarily to an area being "blighted" or "unproductive." In addition, the City may wish to add a criterion that more directly reflects land in the HPD being "underdeveloped," such as "applicable land use regulations in the HPD allow for more intensive use than currently exists," as this condition may lead to redevelopment of the area that threatens to displace existing lower-income households.

These criteria are not *all* required to be met in an HPD. As in the Texas Tax Code's requirements for TIRZ areas, it should be sufficient that *any* of the requirements be met. Similarly, it is not required that such conditions be found on all properties in the HPD, only that such conditions can be found in the HPD.

In addition, it is recommended that the City make a finding that the City's goals for producing or retaining affordable housing in HPD areas are unlikely to be met by private investment alone.

Viability of Each Potential HPD

Staff has identified four areas of the City that would qualify for HPDs under the criteria in the enabling legislation, in addition to the area that has already been established as an HPD. However, one of these areas – the west campus area known as "District E" – does not meet the additional criteria recommended herein, because the area has a predominance of student housing. This area is not considered "viable" as an HPD because it is populated almost entirely by student residents whose reported incomes are not necessarily reflective of the financial resources available to them for housing. The remaining three potential new HPDs identified by staff do appear to represent "viable" districts that have exhibited surfeits of housing affordability that could be addressed, in part, through the potential funding created by establishing an HPD.

Interestingly, the previously established HPD in Central East Austin no longer qualifies under all of the LGC criteria, but may remain an HPD under the legislation. This area, called "District A," is suggested herein to be the top priority for establishing an HPD, as recent demographic changes in the area are reflective of the impact of increasing property values on lower-income households.

The City's Financial Policy limiting TIF districts to a maximum of 5 percent of the City's overall tax base is likely to preclude all four of the recommended HPDs to be established. The potential HPDs are suggested herein to be prioritized in alphabetical order – first A, then B, then C and D, while E is not recommended for establishment of an HPD.

HPD Eligibility Criteria

Criteria under the HPD Enabling Legislation

As amended by the most recent enabling legislation for HPDs (HB 3350), Local Government Code Section 373A stipulates the criteria for establishing an HPD, as follows:

Sec. 373A.052. ELIGIBILITY FOR DESIGNATION.

(a) To be designated as a district within a municipality described by Section 373A.003(a) under this subchapter, an area must be composed of census tracts forming a spatially compact area with:

> *(1) fewer than 75,000 residents;*
>
> *(2) an overall poverty rate that is at least two times the poverty rate for the entire municipality; and*
>
> *(3) in each census tract within the area, a median family income [MFI] that is less than 80 percent of the median family income for the entire municipality.*

(b) To be designated as a district within a municipality described by Section 373A.003(b) under this subchapter, an area must be composed of census tracts forming a spatially compact area contiguous to a central business district and with:

> *(1) fewer than 75,000 residents;*
>
> *(2) a median family income that is less than $30,000 according to the last decennial census; and*
>
> *(3) an overall poverty rate that is at least two times the poverty rate for the entire municipality.*

(c) An area that is designated as a district under this subchapter may retain its designation as a district regardless of whether the area continues to meet the eligibility criteria provided by this section, except that an area that does not elect to retain its designation as permitted by this subsection must meet all eligibility criteria to be considered for subsequent redesignation as a district.

Subsection (a) applies to HPDs in Austin, which falls under the geographical definitions provided in Section 373A.003(a) – a municipality with a population of more than 750,000 that is located in a uniform state service region with fewer than 550,000 occupied housing units as determined by the most recent United States decennial census. As such, the criteria currently applicable are that the HPD must have fewer than 75,000 residents, an overall poverty rate at least double that of the City overall, and be comprised of census tracts each of which has a median income below 80 percent of the City's overall median income. These criteria do not apply to the existing HPD in Central East Austin, which is "grandfathered in" under Subsection (c) above.

In sum, these criteria mean that the incomes of district residents must be substantially below average. This requirement reflects the interest to establish HPDs in areas that already provide housing to people and households of modest income, so that such residents may continue to have opportunities to remain within their neighborhoods if not their current homes.

Other Potentially Relevant Criteria

Texas Tax Code 311: Tax Increment Financing Act

Texas Tax Code Section 311 establishes authority, processes, and criteria for "Tax Increment Reinvestment Zones" (TIRZ) in which tax increment can be collected and dedicated to specific purposes rather than accruing to the General Fund. While these TIRZ eligibility criteria are specifically noted under LGC Section 373A.151 to *not* apply to the HPDs, the language from the Tax Code provides an interesting context to consider additional eligibility criteria for the HPDs.

Specific TIRZ Eligibility Criteria

Under Section 311.005 of the Tax Code, a qualified TIRZ area must:

(1) substantially arrest or impair the sound growth of the municipality or county creating the zone, retard the provision of housing accommodations, or constitute an economic or social liability and be a menace to the public health, safety, morals, or welfare in its present condition and use because of the presence of:

(A) a substantial number of substandard, slum, deteriorated, or deteriorating structures;

(B) the predominance of defective or inadequate sidewalk or street layout;

(C) faulty lot layout in relation to size, adequacy, accessibility, or usefulness;

(D) unsanitary or unsafe conditions;

(E) the deterioration of site or other improvements;

(F) tax or special assessment delinquency exceeding the fair value of the land;

(G) defective or unusual conditions of title;

(H) conditions that endanger life or property by fire or other cause; or

(I) structures, other than single-family residential structures, less than 10 percent of the square footage of which has been used for commercial, industrial, or residential purposes during the preceding 12 years, if the municipality has a population of 100,000 or more;

(2) be predominantly open and, because of obsolete platting, deterioration of structures or site improvements, or other factors, substantially impair or arrest the sound growth of the municipality or county;

(3) be in a federally assisted new community located in the municipality or county or in an area immediately adjacent to a federally assisted new community; or

(4) Deleted by Acts 1989, 71st Leg., ch. 1106, § 27.

(5) be an area described in a petition requesting that the area be designated as a reinvestment zone, if the petition is submitted to the governing body of the municipality or county by the owners of property constituting at least 50 percent of the appraised value of the property in the area according to the most recent certified appraisal roll for the county in which the area is located.

These criteria for TIRZ areas do not directly reflect the presence, loss, or demand for affordable housing within a designated area. Rather, they reflect physical, legal, or regulatory conditions that challenge private investment in the area. The application of tax increment financing in such TIRZ areas is specifically intended to address these conditions and their dampening effects on private investment. In the case of the HPD areas, however, the lack of private investment has not been a great concern; indeed, the pace and value of private investment has created concerns about the displacement of lower-income residents in these areas.

Still, the City is required to make a finding that land in an HPD is "unproductive, underdeveloped, or blighted." The criteria for such findings are discussed in more detail below, and at least one of those criteria must be met for the area to be eligible for HPD TIRZ designation.

<u>Limitations on TIRZ Areas</u>

Tax Code Section 311.006 prohibits the establishment of TIRZ areas in zones where:

(1) more than 30 percent of the property in the proposed zone, excluding property that is publicly owned, is used for residential purposes; or

(2) the total appraised value of taxable real property in the proposed zone and in existing reinvestment zones exceeds:

> *(A) 25 percent of the total appraised value of taxable real property in the municipality and in the industrial districts created by the municipality, if the municipality has a population of 100,000 or more; or*
>
> *(B) 50 percent of the total appraised value of taxable real property in the municipality and in the industrial districts created by the municipality, if the municipality has a population of less than 100,000.*

The first restriction would limit the use of HPDs in areas that are primarily residential, which obviously would conflict with the HPDs intent to preserve and strengthen residential neighborhoods. The second restriction is intended to preserve fiscal resources for the overall community by limiting the amount of the community's tax base that can be dedicated to specific projects and programs covered by tax increment financing. As noted below, the City of Austin has a TIF policy intended to preserve the tax base. For these reasons, neither of these additional limitations on TIRZ areas in the Tax Code is recommended to be adopted for the HPDs.

Existing City TIF Policy Criteria

The City of Austin adopted a Financial Policy in 1996 that limited tax increment financing (TIF) districts to an aggregate of five percent (5%) of the City's total tax base. Clearly, this is much more restrictive than is required under the Tax Code, and is intended to preserve the vast majority of the City's tax base to support General Fund expenditures. As of June, 2013, the existing TIF districts for Mueller, Waller Creek, and Seaholm summed to only one percent (1%) of the City's overall tax base. It is recommended that the Financial Policy limitation continue to apply, to assist with preserving tax resources for the wide variety of municipal functions and to keep property tax rates at reasonable levels.

Other Potential HPD Eligibility Criteria

As discussed above, LGC Sections 373A establishes certain basic demographic standards for establishing an HPD. Those standards reflect the desire to have HPDs established only in areas that provide housing for a substantial number of lower-income households. However, the standards are broad enough to reflect certain households that may not be in need of below-market-rate housing. To address these conditions more directly, the City might adopt the additional HPD eligibility criterion discussed below.

HPDs Should Not Be Predominantly Student Housing Areas

Austin's vast population of students significantly skews income levels and affordable housing eligibility criteria. Most college or graduate students have very limited earned and reported incomes, and thus appear statistically to represent a significant source of demand for affordable housing units. However, many of those students receive supplemental financial resources from their parents, financial aid, or other sources, and can ably afford to pay housing prices well in excess of more typical households with similar reported income levels. This dynamic has proven challenging in the implementation of the affordable housing requirements in the University Neighborhood Overlay (UNO) area, as the City and developers seek information regarding the tenants' overall financial resources rather than individual reported income.

To address this issue, the City may consider adding an eligibility criterion such as the following:

- **An HPD may not have more than half of its population enrolled as college or graduate students.** In the latest Census data (ACS 2008-2012), there were 97,399 enrolled college or graduate students living in Austin, out of a total population of 799,939, meaning 12.2 percent of the total population was enrolled in colleges or graduate schools. Thus, this suggested standard would allow HPD status in places that feature far more than the City average student population, but not places that are primarily student housing.

In the west campus area Census tracts that meet the HPD eligibility criteria under LGC Section 373A, fully 93.9 percent of the population is enrolled in college or graduate school. Thus, applying this proposed eligibility criterion would eliminate that area as an HPD candidate. The other four potential HPD areas all have well below 50 percent college and graduate students, with only the East Riverside area having slightly more than the overall City average (21.4 percent vs. 12.2 percent). Importantly, the City maintains affordable housing requirements as part of a density bonus incentive under the UNO zoning in the west campus area, and that incentive has proven effective in generating affordable housing units and funding in the area. As such, the foregoing of HPD status in the west campus area would not mean that there are no other local resources and programs available to produce affordable units for those students or other residents who truly lack the resources to pay market-rate housing prices.

Summary of Recommendations

The HPD eligibility criteria established in LGC Section 373A represent the baseline conditions that must be met. In addition, it is recommended that the City seek to ensure that households' reported income is generally reflective of their ability to pay for housing, as well as to promote the City's fiscal goal of limiting tax increment financing areas to maintain a robust tax base for general municipal services. In sum, the following criteria for establishing an HPD are recommended:

1. Each HPD must have fewer than 75,000 residents;
2. Each HPD must have an overall poverty rate that is at least two times the poverty rate for the entire municipality;
3. In each census tract within the area, a median family income that is less than 80 percent of the median family income for the entire municipality;
4. Not more than 50 percent of the HPD population is enrolled in college or graduate school; and
5. If tax increment financing districts are established within HPDs, the City should maintain its policy of no more than 5 percent of City's overall tax base being in TIFs, including those in HPDs. In addition, the City will need to make a finding that land in the HPD is "unproductive, underdeveloped, or blighted," as discussed below.

Criteria for Unproductive, Underdeveloped, or Blighted Land

Local Government Code 373A.1521 requires that a municipality's ordinance creating a Tax Increment Reinvestment Zone (TIRZ) in an HPD make findings that the specified area is "unproductive, underdeveloped, or blighted." However, LGC 373A.151 specifically exempts Homestead Preservation Districts from requiring the same findings as required in other TIRZ areas (under the Texas Tax Code Section 311.005), where tax increment financing is intended to support beneficial development that would not otherwise occur by private investment alone. As such, the City's legal analysis has suggested that the City may use alternative definitions or criteria for determining these conditions in an HPD. Options for consideration are presented below.

TIRZ Criteria under Texas Tax Code Section 311.005

Texas Tax Code Section 311, enabling the establishment of Tax Increment Reinvestment Zones, discussed above, states that conditions in a TIRZ must:

(1) substantially arrest or impair the sound growth of the municipality or county creating the zone, retard the provision of housing accommodations, or constitute an economic or social liability and be a menace to the public health, safety, morals, or welfare in its present condition and use because of the presence of:

- *(A) a substantial number of substandard, slum, deteriorated, or deteriorating structures;*
- *(B) the predominance of defective or inadequate sidewalk or street layout;*
- *(C) faulty lot layout in relation to size, adequacy, accessibility, or usefulness;*
- *(D) unsanitary or unsafe conditions;*
- *(E) the deterioration of site or other improvements;*
- *(F) tax or special assessment delinquency exceeding the fair value of the land;*
- *(G) defective or unusual conditions of title;*

(H) conditions that endanger life or property by fire or other cause; or

(I) structures, other than single-family residential structures, less than 10 percent of the square footage of which has been used for commercial, industrial, or residential purposes during the preceding 12 years, if the municipality has a population of 100,000 or more;

(2) be predominantly open and, because of obsolete platting, deterioration of structures or site improvements, or other factors, substantially impair or arrest the sound growth of the municipality or county;

(3) be in a federally assisted new community located in the municipality or county or in an area immediately adjacent to a federally assisted new community; or

(4) Deleted by Acts 1989, 71st Leg., ch. 1106, § 27.

(5) be an area described in a petition requesting that the area be designated as a reinvestment zone, if the petition is submitted to the governing body of the municipality or county by the owners of property constituting at least 50 percent of the appraised value of the property in the area according to the most recent certified appraisal roll for the county in which the area is located.

The HPD legislation (LGC Section 373A) specifically exempts HPDs from these requirements of other tax increment financing districts. However, rather than reinventing such criteria, it is recommended that those under Texas Tax Code Section 311.005 be used for HPDs. These provide the City flexibility to determine that a variety of conditions – ranging from deteriorating buildings and inadequate sidewalks to property tax delinquency and unusual conditions of title – exist in an HPD. Importantly, the Tax Code does not require that *all* of the criteria are met, or that all parcels in the TIRZ area exhibit such conditions, only that such conditions do exist in the area.

Additional Criterion for "Underdeveloped" Land

The definitions and criteria under the Texas Tax Code relate primarily to an area being "blighted" or "unproductive." In addition, the City may wish to add a criterion that more directly reflects land in the HPD being "underdeveloped." This condition of being underdeveloped may be particularly critical in potential HPD areas, because where market forces are strong and highest intensity development is allowed, existing lower-priced housing options may be redeveloped and their lower-income residents displaced.

To address this concern, it is recommended that a criterion be added such as "applicable land use regulations in the HPD allow for more intensive use than currently exists." This would pertain to parcels that have not been built to their maximum allowable intensity, including the number of units, building heights, and/or gross square footage on their lots, and many existing plan documents provide accessible information regarding allowable development versus existing conditions. In addition to relating more closely to conditions contributing to the displacement of lower-income households than those described in the Tax Code, the inclusion of this criterion would make it less resource-intensive to document "underdeveloped" conditions (compared to reviewing tax or title issues for individual parcels, for instance). As with the criteria under the Texas Tax Code, this condition could be found if it applies to some but not all of the properties in the proposed HPD.

The "But For" Argument

The Tax Code suggests that other findings be made of the importance of the tax increment financing to achieving the intent of the TIRZ area's designation. Under Section 311.003 of the Tax Code, the "governing body of a municipality by ordinance may designate a . . . geographic area . . .to be a reinvestment zone to promote development or redevelopment of the area *if the governing body determines that development or redevelopment would not occur solely through private investment in the reasonably foreseeable future*" (italics added). Further, Section 311.004(7)(a) requires that the municipality's Reinvestment Zone Ordinance must contain findings that "improvements in the zone will significantly *enhance the value of all the taxable real property in the zone* and will be of general benefit to the municipality or county" (italics added).

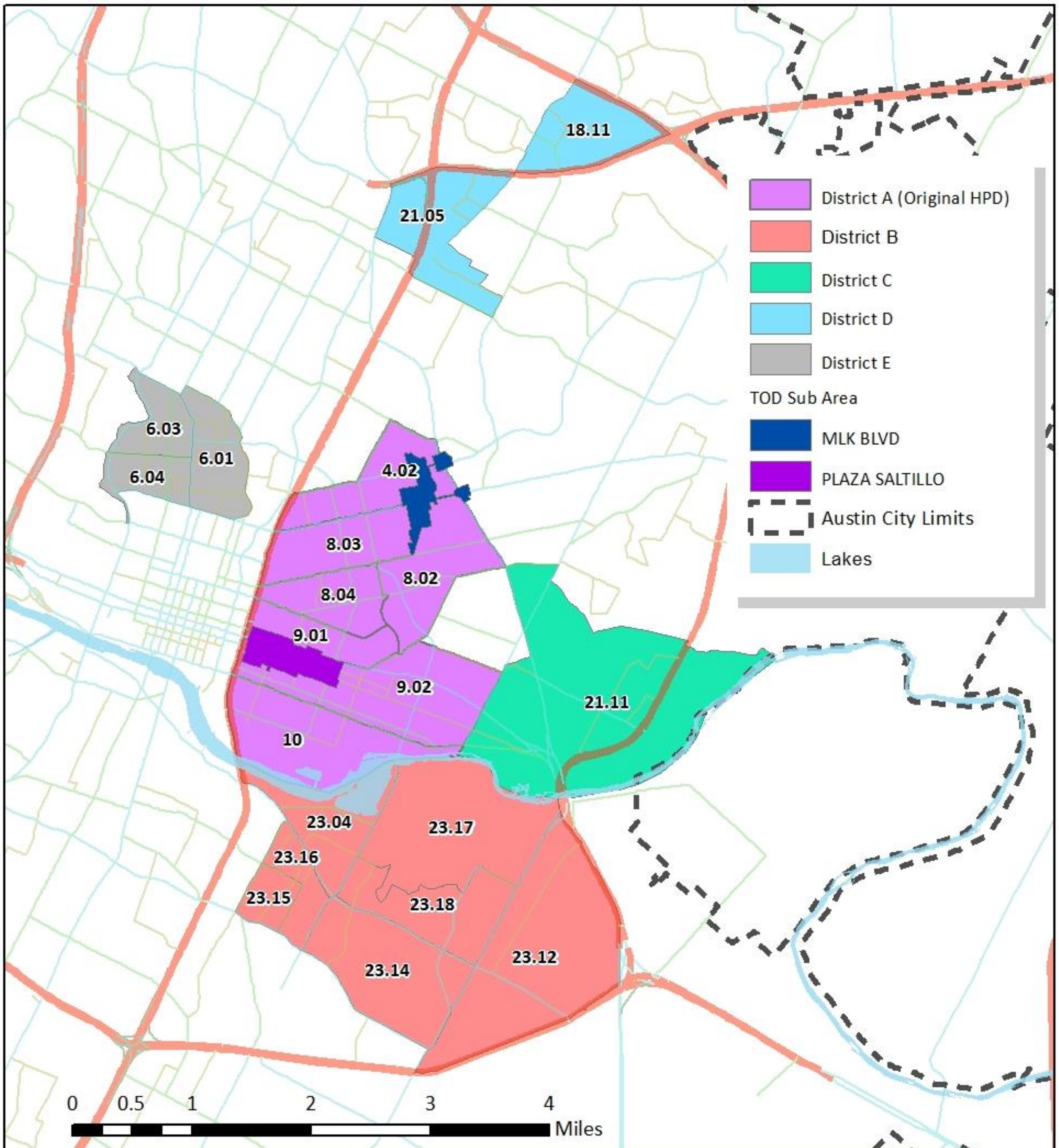
This language is the basis of the "but for" test regarding TIRZ districts, requiring that a finding be made that development and related growth in the tax increment would not occur "but for" the fact that improvements were being made through that tax increment funding. For example, the City found that had it not been willing to reinvest tax increment from the Mueller project back into that project's infrastructure and public facilities, the project would not have been financially feasible and the City would not have received the long-term fiscal benefits of the site's redevelopment. This specific "but for" argument does not appear to apply directly to the HPD concept, as most areas have private development occurring and it is not clear that the capture and expenditure of HPD tax increment on local affordable housing will directly yield the *financial* benefit of enhanced property values in the zone and thus increased property tax revenues to the City of Austin. Indeed, by building income-restricted housing that has a limited market value, the HPD may yield the effect of preventing property values overall from achieving their maximum levels, though one could reasonably argue that certain economic development benefits will also occur – for instance, by providing reasonably priced housing that can support the attraction and retention of companies and employees in a diverse and growing local economy. For this reason, it is not recommended that the Tax Code's "but for" standard be applied to HPDs precisely as written.

Viability of Potential HPDs

After a City Council discussion of the potential establishment of HPDs in February, 2014, City Council Resolution 20140213-044 directed the City Manager to "develop a program plan, financing, and funding strategy for viable districts in the context of an overall affordable housing strategy." That resolution did not, however, define what would constitute a "viable district."

The most permissive definition may be those areas that meet the minimum requirements of LGC Section 373A, including income characteristics and total population size. Staff has already identified four such districts in the City, in addition to the existing HPD in Central East Austin that technically no longer meets the criteria but is permitted to remain an HPD under LGC 373A. These potential districts are illustrated on **Figure 1**, which was prepared for the November 20, 2013 Staff Report on HPDs.

Figure 1: Current and Potential Homestead Preservation Districts



ELIGIBILITY FOR DESIGNATION

The area is a spatially compact area composed of census tracts:

1. fewer than 75,000 residents;
2. an overall poverty rate that is at least two times the poverty rate for the entire municipality; and
3. in each census tract within the area, a median family income that is less than 80% of the median family income for the entire municipality.

A more constrained definition of "viability" may include the additional criteria recommended above, including evidence of local housing cost burdens and a predominance of non-student households. In addition, the total tax base in each potential district is important to assess, so that the districts individually and in aggregate can be compared to the policy limitation regarding total tax increment financing in the City. Below, each of the five existing or potential HPD areas is characterized according to these recommended eligibility criteria.

District A (existing Homestead Preservation District)
(Census Tracts: 4.02, 8.02, 8.03, 8.04, 9.01, 9.02, 10)

This existing Homestead Preservation District includes the MLK Blvd Transit Oriented Development and Plaza Saltillo TOD Transit Oriented Development, as well as the Upper Boggy Creek, Central East Austin, Chestnut, Rosewood, Govalle, Holly, and East Cesar Chavez Neighborhood Planning Areas. The census tracts within this current HPD no longer meet the criteria set forth in the legislation, as the overall poverty rate of the district is no longer two times the poverty rate for the entire municipality and not all census tracts in this HPD have median incomes below 80 percent of the City median.

However, an area designated as a district under Chapter 373A may retain its designation as a district regardless of whether the area continues to meet the eligibility criteria. The current HPD continues to be a valid district as it has remained intact and not dissolved by ordinance. This means that, while the HPD can continue to exist in its current configuration, the boundaries cannot be changed.

District B
(Census Tracts: 23.04, 23.12, 23.14, 23.15, 23.16, 23.17, 23.18)

This potential district includes the East Riverside Corridor planning area and future development will be subject to the East Riverside Corridor (ERC) Master Plan, adopted in 2010, and the Regulating Plan for the East Riverside Corridor Zoning District, adopted in 2013. These documents provide standards for land use, site development, building design, connectivity and streetscape, and development bonus. Standards for individual properties are determined by the designated ERC Subdistrict. The Imagine Austin Future Growth Concept map identifies a large Neighborhood Center in the middle of this potential Homestead Preservation District. In addition to the East Riverside Corridor planning area, this proposed district encompasses the Montopolis, Pleasant Valley, and the majority of the Riverside Neighborhood Planning Areas. The urban rail was planned to provide service at four stations within this area, and the provision of affordable housing along the rail corridor may be very important for generating intergovernmental funding for the rail if it is pursued again.

District B meets all recommended eligibility criteria, including total population, poverty and income levels, and a minority of residents enrolled in college or graduate school.

District C
(Census Tract: 21.11)

This potential district includes the Johnston Terrace Neighborhood Planning Area, and portions of the Govalle Neighborhood Planning Area. This district also includes an area designated by the Imagine Austin Future Growth Concept Map as a Neighborhood Center.

District C meets all recommended eligibility criteria, including total population, poverty and income levels, and a small minority of residents enrolled in college or graduate school.

District D
(Census Tracts: 18.11, 21.05)

This potential district includes the Coronado Hills, North Loop, and Windsor Park Neighborhood Planning area. This district also overlaps with an area designated as a Regional Center on the Imagine Austin Future Growth Concept Map, and is near the ACC Highland and Airport Boulevard stations that were envisioned for the urban rail project.

District D meets all recommended eligibility criteria, including total population, poverty and income levels, and a small minority of residents enrolled in college or graduate school.

District E
(Census Tracts: 6.01, 6.03, 6.04)

The University of Texas and west campus areas are located within this district and the concentrated student population skews the area demographics. Fully 93.9 percent of all residents are enrolled in college or graduate school, and 82.3 percent have incomes below the poverty line while 85.8 percent face housing cost burdens. As noted earlier, these data are unlikely to reflect the actual financial resources available to this population for housing costs, as many or most students receive some form of support from parents, financial aid, or other sources.

In November, 2013, staff recommended that the eligible District E not be considered for Homestead Preservation District designation based on its particular circumstances, including both the student orientation of the area as well as the existing University Neighborhood Overlay (UNO) density bonus program that has yielded affordable housing units and in-lieu fees. That recommendation is further supported by the financial analysis below.

Summary

The following table provides a summary of the eligibility criteria and each potential HPD area's characteristics.

	RECOMMENDED HPD ELIGIBILITY CRITERIA				
-	Total Pop.[1]	% Poverty[2]	Median Income[2]	% Students[1]	Aggregate AV
Standard	*<75,000*	*2 X City %*	*All Tracts <80% MFI*	*<50% Total Pop.*	*< 4% of City Total*[3]
City	*802,140*	*20.3%*	*$50,938 (80% MFI)*	*12.2%*	*100.0%*
District A	21,551	32.3%	No	8.4%	2.2%
District B	36,685	43.6%	Yes	21.4%	1.5%
District C	4,290	41.6%	Yes	5.0%	0.3%
District D	8,606	44.3%	Yes	3.5%	0.5%
District E	22,493	82.3%	Yes	93.9%	2.1%
					6.6% Aggregate

1) Source: American Community Survey 2008-2012

2) Source: American Community Survey 2007-2011

3) Austin's Financial Policy limits total TIF areas to 5% of total City tax base. Existing TIF districts comprised 1% of total tax base in 2012. All figures represent 2013 assessed valuations, and are subject to update.

The existing HPD, District A, no longer meets the eligibility criteria under LGC 373A, but can be "grandfathered" to remain an HPD. Tellingly, the fact that this area no longer meets the eligibility criteria reflects the dramatic demographic changes in the area and the continuing loss of lower income households to the forces of reinvestment and gentrification. The HPD tax increment financing program could directly address some of those effects by promoting new affordable housing units in the area, or retaining existing units that otherwise may be lost to economic pressures (either occupied by higher-income households or torn down for new development). For this reason, the existing HPD should be considered as the top priority for retention and establishment as an HPD TIRZ.

District B is also considered a strong candidate as an HPD TIRZ, subject to tax base limits. This East Riverside area is planned for significant new growth and potentially new transit service, and has seen new investment and demographic changes in recent years. Capturing some of the value created by these changes can be critical to ensuring continued affordable housing opportunities in the area, and may also help to support an intergovernmental funding strategy for the potential transit system improvements, which rewards successful efforts to provide affordable housing near transit.

Districts C and D are much less populous areas, but are among the limited areas in the City with substantial proportions of low-income, non-student residents. District C lies east of the Original HPD, and may foreseeably be subject to similar economic pressures as those already evident in the Original HPD. A separate analysis of this district's tax base growth indicates that District C has added many new residential properties and shown significant escalation of property values. District C is a viable candidate as the third priority for establishing an HPD.

District D lies north of the Mueller redevelopment project and may be subject to economic pressures as well, though market and tax base analysis findings suggest that such pressures have not yet been reflected in substantial development activity or escalation of property values. District D is a viable candidate as the fourth priority for establishing an HPD.

District E, the west campus area, continues *not* to be recommended for the establishment of an HPD, as the area's affordable housing needs are overstated due to the predominance of student residents, and the area already has another place-specific affordable housing production and funding source in the form of the University Neighborhood Overlay.

Exhibit B

The Economics of Land Use

Value Capture Tools and Other Local Funding Resources for Affordable

December 2, 2014

Economic & Planning Systems, Inc. (EPS) has been retained by the City of Austin's Neighborhood Housing and Community Development department (NHCD) to assist in preparing technical analyses in support of the City's consideration of the establishment of Homestead Preservation Districts (HPDs). These districts, as enabled under HB 3350 and LGC Section 373A, would allow the City to capture future tax increment from both new development and the escalation of values for existing development, and use those tax increment revenues to support the construction or retention of affordable housing within the districts. The City Council has directed the City Manager and staff to review various aspects of the potential implementation of these HPDs, as well as to evaluate alternative approaches to providing locally based and sustainable funding sources for affordable housing.

This memorandum addresses the following issues that can inform the City's overall affordable housing financing strategy:

1) The City's recent history of locally-based funding sources and/or production incentives for affordable housing

2) The potential use of "value capture" mechanisms to fund affordable housing

3) Other potential locally-based affordable housing funding mechanisms.

Additional memoranda will be drafted by EPS pertaining to other aspects of the potential HPD implementation.

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Summary of Findings

The City's Affordable Housing Policies and Programs

The City of Austin has successfully enacted numerous policies and programs to create local funding and production incentives for affordable housing, including:

- **Sustainability Fund** transfers from the City's major operating enterprise funds (this fund was eliminated for FY15).
- **General Fund funding** for affordable housing was included in the FY15 budget in lieu of the Sustainability Fund.
- **General Obligation bonds** dedicated to affordable housing
- **Austin Energy/Holly Good Neighbor** program to assist with home repairs in the area surrounding the Holly Power Plant
- **University Neighborhood Overlay Zoning and Housing Trust Fund** for affordable units in the west campus area
- **General Fund – Capital Improvements Program** funding on a discretionary basis
- **Housing Trust Fund** dedicating 40 percent of property tax revenue increment from former public properties to affordable housing
- **Density bonus incentive programs** designed to generate new affordable housing units in specific areas
- The **inclusion of affordable housing units** in the development of several formerly City-owned properties and other development agreements, and
- The **S.M.A.R.T. Housing** program that streamlines development processing for projects that include affordable housing units.

While these efforts have been important and productive and should be continued as part of the overall affordable housing financing strategy, housing affordability has remained and generally grown as a significant issue for many Austin residents.

Potential Value Capture Mechanisms for Affordable Housing

"Value capture" mechanisms aim to leverage market forces and private development activity to generate funding and/or in-kind provision of a desired community benefit (e.g., affordable housing, transit, open space, etc.). In addition to the programs already in place in the City (density bonus programs, on-site unit requirements and tax increment dedications from former public properties, and S.M.A.R.T. Housing), the City may consider the following approaches enabled in Texas and/or used in other communities:

- **Homestead Preservation Districts** – As enabled under LGC Section 373A, tax increment from qualifying districts can be dedicated to the production and retention of affordable housing units.
- **Tax Increment Reinvestment Zones** – As enabled under Tax Code Chapter 311, property and sales tax increment from defined districts can be used for affordable housing, among other project costs.
- **Incentive Zoning –** Many communities, including Austin, encourage affordable housing in certain areas by providing density bonuses or other incentives in exchange for affordable units or fees.
- **Inclusionary Zoning –** Many cities require new housing development to include a portion of affordable units or pay an in-lieu fee.
- **Linkage Fees** – Nexus studies can demonstrate the impact that new development has on demand for affordable housing, and fees to mitigate those impacts can be imposed on residential and/or employment-generating uses.
- **Excise Taxes –** Some cities charge new development a tax on a per-unit or per-square foot basis, and use the proceeds for affordable housing. Unlike linkage fees, these are typically approved by a vote of the community rather than a Council action.
- **Document Recording Fees –** Some cities or counties dedicate a portion of the document recording fees on deeds and mortgages to affordable housing programs.
- **Real Estate Transfer Taxes –** Some cities or counties charge a tax as a percentage of the sale price of real estate, and dedicate a portion of those taxes to affordable housing.

Of these potential tools, the only ones clearly enabled under Texas law are the Homestead Preservation Districts, Tax Increment Reinvestment Zones, and Incentive Zoning. Inclusionary zoning is expressly prohibited, and Texas state law does not authorize a city to charge excise taxes, document recording fees, or real estate transfer taxes to fund affordable housing. Linkage fees that establish a nexus between new residential and/or commercial construction and growing demand for affordable housing have been used in several other states, but are untested in Texas and would place Austin in the position of pioneering a new approach that may attract litigation.

Other Potential Funding Mechanisms for Affordable Housing

While "value capture" mechanisms aim to leverage the growing real estate development value and activity to fund affordable housing, other sources may also be available that distribute the costs of desired affordable housing differently, rather than primarily on new development. Examples from other communities include the following:

- **Dedicated Sales Tax –** If approved by voters, cities may impose an additional sales tax that is dedicated to affordable housing.
- **Dedicated Property Tax –** As required for the affordable housing bonds issued by Austin, voters in several US cities have elected to impose an additional property tax levy to fund local affordable housing programs.

- **Hotel Tax –** A portion of the City's existing hotel tax, or an increase in the existing hotel tax rate, could be dedicated to affordable housing programs.
- **Occupational Privilege Tax –** Some cities charge a "head tax" on local employment that is dedicated to municipal services and capital improvements, and could potentially include affordable housing programs.

However, other than the property tax additions as enacted under the current and past housing bonds, state law and sales and use tax limits prevent the City of Austin from using these mechanisms to fund affordable housing. Austin has already reached the maximum two percent limit on all sales and use taxes and thus cannot impose additional sales tax to fund affordable housing without reducing other portions of the sales tax. State law does not authorize Austin to levy an occupational privilege tax, nor does it allow the use of hotel occupancy taxes to fund general revenue expenses unrelated to the promotion of tourism and the convention and hotel industry.

Based on this review of potential value capture and funding mechanisms, HPDs and/or Tax Increment Reinvestment Zones can be incorporated in the City's overall affordable housing financing toolkit because they represent sustainable, legally authorized, long-term funding tools that can address increasing affordability concerns in the areas of greatest need. The City may also wish to consider commissioning a "nexus study" to explore the relationship between new residential and/or commercial development and the City's affordable housing needs. A linkage fee based on such a nexus could be applied Citywide, whereas the HPD funding would be restricted to certain areas. The City should continue to focus the majority of its funding (including HPD TIF) on housing for very-low income households which the Market Study and Consolidated Plans identify as the top priority.

The City's Recent Affordable Housing Tools

The City of Austin has enacted several policies and programs designed to generate affordable housing funding and/or units. These efforts represent locally-based initiatives that augment the efforts of the non-profit housing industry, and complement the funding available through intergovernmental programs such as federal Low-Income Housing Tax Credits (LIHTC), Community Development Block Grants (CDBG), and Section 8 vouchers. The City's actions in recent years have included the following:

- **Sustainability Fund –** The Sustainability Fund was created in FY 2000-01 to provide resources for projects that will help the City of Austin build a sustainable economic, environmental, and equitable infrastructure. The Sustainability Fund is generated from transfers from the City's major enterprise operating funds, including Solid Waste Services (SWS), Drainage Utility, Transportation, and the Austin Water Utility (AWU) funds. The Neighborhood Housing and Community Development (NHCD) Office began receiving Sustainability Funds in FY 2009-10. The Sustainability Fund was eliminated as part of the FY 2014-15 budget, but funding for NHCD was assumed all by the General Fund (see below)
- **General Fund –** Beginning in FY 2014-15, the General Fund began directly funding NHCD for affordable housing programs. The transfer amount for this budget year was $5.3 million.

- **General Obligation Bonds** – The City of Austin has issued several general obligation bonds to support the production and retention of affordable housing. The City issued an affordable housing bond in 2006 for $55 million, all of which was utilized by 2011. The City's "Return on Investment" report indicates that 2,409 affordable units resulted from that bond. The City attempted to issue another $65 million affordable housing bond in 2012, but it failed to receive the required voter support. However, in 2013, an affordable housing bond passed that will provide up to $65 million over several years, and is expected to fund the production, rehabilitation, or retention of affordable housing units for households earning up to 80 percent of Area Median Income, with the majority (70 percent) directed toward rental housing for households under 50 percent of AMI. While the 2006 and 2013 bonds illustrate the positive potential for this type of voter-approved funding, the 2012 example reflects the possibility of this funding source not being available.
- **Austin Energy/Holly Good Neighbor Program –** The Holly Good Neighbor Program provides repairs to properties surrounding the former Holly Power Plant area. Austin Energy funds the program, and it is administered and facilitated by Austin Housing Finance Corporation (AHFC).
- **University Neighborhood Overlay (UNO) Housing Trust Fund** – The zoning overlay in the west campus area provides for density bonuses and other incentives in exchange for developers' provision of affordable units or payments in lieu of such units.
- **General Fund - Capital Improvements Program** – On a discretionary basis, the City has allocated a portion of its General Fund toward the construction of affordable units.
- **Housing Trust Fund** – The City has adopted a policy dedicating 40 percent of new property tax revenue increment from the development of former publicly-owned sites to an Affordable Housing Trust Fund. The value of this account is expected to grow substantially, reaching an estimated $2.9 million per year by 2025, and over $50 million in new funding over the next 20 years, as development continues and property values escalate.
- **Housing Assistance Fund –** The Austin Housing Finance Corporation (AHFC) issued $10 million in Residual Value Revenue Bonds in 1988 from its 1980 Single-Family Bond Issue. The purpose of the issue was to create an income stream that can be used to support activities providing housing assistance to persons and families of low- and moderate-income.

As of the 2012-13 Consolidated Annual Performance and Evaluation Report, these local affordable housing funding resources were reported to have the following budgets:

FY 2012-13 Local Funding Sources for Affordable Housing

Local Funds	New Funds	Total Funds Available	Expended	Encumbered	Estimated Carry Forward
Sustainability Fund	$3,527,336	$3,620,194	$3,176,799	$206,584	$236,811
General Obligation Bonds	$0	$5,908,586	$2,740,534	$1,289,878	$1,878,174
Austin Energy (Holly Good Neighbor)	$0	$2,052,292	$301,600	$45,320	$1,705,372
UNO Housing Trust Fund	$55,265	$296,747	$0	$0	$296,747
General Fund - Cap. Imp. Program	$9,750,000	$10,749,262	$3,006,976	$841,098	$6,496,054
Housing Trust Fund	$602,132	$1,776,488	$1,090,801	$79,636	$578,219
Housing Assistance Fund	$276,570	$276,570	$22,252	$0	$254,318
Total Local Funds	***$14,211,303***	***$24,680,139***	***$10,338,962***	***$2,462,516***	***$11,445,695***

Source: City of Austin FY 2012-13 Consolidated Annual Performance and Evaluation Report

In FY 2012-13, roughly 60 percent of this local money was spent on affordable housing production, acquisition, and retention, with another 25 percent spent on program administration. The remainder was spent on assistance programs for homeless/special needs, renters, homebuyers, and homeowners, as well as commercial revitalization programs.

In addition to these local funding programs for affordable housing, the City has promoted the production of affordable units through the following programs:

- **Incentive Zoning Ordinances** – The City has created several incentive programs designed to generate new affordable housing units in specific areas. These include the Downtown Density Bonus program, Vertical Mixed Use Overlay District, the University Neighborhood Overlay zoning district (mentioned above), North Burnet/Gateway, and TOD districts. In each case, developers are offered enhanced entitlements such as increased density and/or heights, waivers of certain compatibility requirements, and/or reduced parking requirements in exchange for providing affordable housing units within their projects and/or paying a fee in lieu of such units. Through 2013, these incentive zoning ordinances were credited with generating 960 affordable units and $1.2 million for affordable housing in specified areas of Austin.

- **Affordability Requirements in New Developments** – The City has prioritized and negotiated the inclusion of affordable housing units and/or funding in the development of several formerly City-owned properties, including the former Mueller Airport, Seaholm Power Plant, Energy Control Center, and Green Water Treatment Plant properties. Through 2013, those projects have generated commitments for over 1,500 affordable units, plus $2.7 million in payments to the Affordable Housing Trust Fund. In addition, the City has negotiated development agreements for Municipal Utility Districts, Public Improvement Districts, Planned Unit Developments, and other specific projects (Gables, AMLI, Robertson Hill, etc.) that may yield nearly 3,000 additional units and over $12 million in funding for affordable housing.

- **S.M.A.R.T. Housing** – The City adopted the S.M.A.R.T. Housing program in 2000, which offers certain fee waivers and fast-track review in exchange for a proportion of units being offered at prices affordable below 80 percent of median family income. The extent of the fee waivers depends on the proportion of affordable units offered. Through 2013, over 6,000 "reasonably-priced" units had been produced under the S.M.A.R.T. Housing incentive program, although these units are only required to be "reasonably-priced" for one to five years, so they do not necessarily represent long-term affordable units.

The range of local affordable housing programs and funding sources described above illustrates the City's commitment to pursuing local solutions to augment the federal programs that provide the bulk of the available resources for affordable housing. Despite this strong commitment, however, housing affordability has become an increasing challenge in Austin. US Census data showed that 33 percent of Austin households paid over 30 percent of their gross income on housing costs in 2000. By 2010, that proportion had increased to 42 percent of all households facing a similar housing cost burden. The National Association of Home Builders' Housing Opportunity Index indicates that the Austin area has gone from being the nation's 88th most affordable region in 2001 to the 194th most affordable in 2014. These trends succinctly illustrate the broad challenge facing Austin in meeting the housing needs of its lower-income population.

Potential Value Capture Mechanisms

In Resolution No. 20140213-044 concerning the exploration of Homestead Preservation Districts, Austin's City Council directed the City Manager and staff to provide "recommendations on using value capture and/or other funding tools to accomplish the Council's priorities" for affordable housing. "Value capture" mechanisms aim to leverage market forces and private development activity to generate funding and/or in-kind provision of a desired community benefit (e.g., affordable housing, transit, open space, etc.). Several of the City's existing affordable housing programs may be characterized as "value capture" tools, including density bonus programs, on-site unit requirements and tax increment dedications from former public properties, and S.M.A.R.T. Housing. While the Homestead Preservation District represents another such "value capture" tool, other similar mechanisms have been implemented around the United States and may be considered for Austin.

Homestead Preservation Districts

Homestead Preservation Districts (HPDs), as enabled under Local Government Code Section 373A, allow a municipality to establish a tax increment financing (TIF) district in certain areas that meet eligibility criteria reflecting high poverty rates and low incomes. The tax increment achieved through new development and escalating values for existing development can be dedicated to the production, acquisition, and retention of affordable housing within the district. All of the HPD TIF funds must be used to provide housing for households earning less than 70 percent of median family income, including at least 50 percent of the money being used for housing for households earning under 50 percent of median family income.

HPDs are legally enabled, viable in several different areas of the City undergoing market pressures, and potentially productive in the near-term as a means of generating funding for affordable housing, including in areas where affordable housing production will help to secure federal funding for transportation system improvements. Potential concerns are that the HPDs would generate funding for new affordable units in areas that already have significant lower-income populations (rather than promoting geographic dispersion of such units), and that dedicating tax increment to any particular use, including affordable housing, may increase the overall property tax rate required to cover municipal services and debt service.

Tax Increment Reinvestment Zones

Tax Increment Reinvestment Zones (TIRZs), as enabled under Texas Tax Code Chapter 311, allow a municipality to capture growth in property and sales taxes generated in a defined area, after the year the district is established. Affordable housing is expressly defined as a qualified "project cost" under Section 311.010(b), along with construction of public buildings or infrastructure, environmental remediation, etc. The establishment of a TIRZ under Chapter 311 has certain limitations not required of HPDs, including that not more than 30 percent of the private property in the district can be used for "residential purposes" having fewer than five living units (as defined in Section 311.006). The HPD legislation has no such restriction, which allows HPDs to be established in areas that are primarily residential and lower-density.

The City of Austin has experience establishing TIRZs, as they are currently in place for the Mueller redevelopment project, the Seaholm project area, and the Waller Creek district. A TIRZ under Chapter 311 would offer the benefits of allowing tax increment to be captured for a variety of purposes, with affordable housing being among them, and incorporating sales tax revenues in addition to property taxes. Also, Chapter 311 TIRZs potentially can be established in areas where HPDs cannot, given the specific socio-economic conditions required for HPDs, and thus may contribute to geographic dispersion of affordable units. However, as noted above, Chapter 311 TIRZs are designed to be created in areas that are not primarily lower-density neighborhoods, whereas HPDs can be located in residential areas. And as with any dedication of tax increment to any particular use, including affordable housing, the overall property tax rate required to cover municipal services and debt service may increase.

Incentive Zoning

As described above, the City of Austin already has several ordinances that represent "incentive zoning" by providing enhanced density, heights, or other development regulations in exchange for the provision of affordable units and/or payment of in-lieu fees. The City of Cambridge, MA uses incentive zoning for projects seeking increases in density or intensity of use, waivers of parking requirements, or other Special Permit provisions, and requires such projects to include affordable housing units or pay a fee in lieu of such units. Similarly, the State of California requires all jurisdictions to provide increased densities, heights, or other enhancements for projects providing affordable units.

The City of Austin's experience with incentive zoning has been relatively recent, but has shown positive results. As noted above, nearly 1,000 affordable units and over $1 million of housing funds have resulted from the City's incentive zoning programs. These programs offer the benefit of potentially creating a "win-win" scenario in which the City and the developer both receive benefits above what base zoning would yield. However, there are concerns that increased heights and densities (or other outcomes) may not be accepted in certain neighborhoods. Also, these programs only yield positive results in areas where base zoning does not represent the "highest and best use" of property. In areas without market pressure for multifamily and/or taller development, incentive zoning may not represent a benefit to developers.

Inclusionary Zoning

Inclusionary zoning refers to municipal planning ordinances that require a portion of new housing construction to be affordable for households at specified income levels. As implemented around the United States, inclusionary requirements generally range from 10 to 30 percent of the total housing units in a new project. The level of affordability generally ranges from 60 to 100 percent of the HUD area median income (AMI)[1].

Under most ordinances, a developer can comply with the requirements by building the units on site as a part of the overall project master plan and/or by building them in an off-site location. Alternatively, many inclusionary programs allow for all or a portion of the housing requirement to be met by cash-in-lieu (CIL) payments.

Nationally more than 200 communities have adopted some form of inclusionary zoning. Montgomery County, Maryland was one of the earliest to adopt an inclusionary ordinance and has built over 10,000 affordable housing units. All cities and towns in Massachusetts are subject to General Law Chapter 40B which requires communities with less than 10 percent affordable housing to require new developments to provide 20 percent affordable housing and redevelopments to provide 15 percent affordable units. A number of major cities have inclusionary ordinances, including New York City, Denver, San Francisco, San Diego, and Sacramento. Also, there are a number of smaller urban markets with major colleges that have adopted inclusionary ordinances including Madison, Wisconsin; Davis, California; Cambridge, Massachusetts; Palo Alto, California; Burlington, Vermont; and Princeton, New Jersey.

While many IHOs have applied to the provision of rental and ownership units, a number of states have placed restrictions on the use of inclusionary ordinances for rental housing. California invalidated inclusionary provisions for rental housing in 2009 when the State courts found that it constituted a form of rent control that violated the Costa-Hawkins Rental Housing Act of 1996. In Colorado, courts found that inclusionary zoning for rental housing was also rent control in violation of state statutes according to the Telluride decision.

The perceived benefits of inclusionary zoning are that it generates affordable units through private development and funding rather than public resources, that it can be applied citywide and thus yield affordable units in places where market-rate development is occurring, and that it results in mixed-income projects and communities. Common concerns about inclusionary zoning include the fact that it places the burden of a citywide problem (housing affordability) on a limited number of stakeholders (developers and landowners) rather than the broader community, and that the addition of development costs can slow housing production and/or require higher market-rate prices to achieve project feasibility. Also, it can be difficult to meet the housing demand for the lowest-income groups because the implicit subsidies are too great and it is virtually impossible to qualify for Low Income Housing Tax Credits, typically the most sought-after and lucrative of the potential external funding sources.

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1 The AMI defined by the Department of Housing and Urban Development is the standard by which households qualify for housing that is subsidized with federal funding, such as Community Development Block Grant (CDBG) funding.

Inclusionary housing ordinances do not appear to be enabled under current Texas legislation, as Local Government Code Section 214.904 prohibits municipalities from establishing a maximum sales price for a privately produced housing unit, and Local Government Code Section 214.092 prohibits "rent control" except in the case of a housing emergency due to a disaster.

Residential Linkage Fees

The adoption of residential linkage fees is a less common practice than inclusionary zoning. These fees are assessed against residential developments to mitigate the affordable housing needs created by the permanent employment they are estimated to generate. In some high-end and resort markets, such as Teton County, Wyoming, these fees are imposed on large vacation homes (e.g. greater than 2,500 square-feet of habitable floor area) to mitigate the demand for employees to provide property management, landscape maintenance, cleaning, road maintenance, and snow removal services. In other areas, such as the Silicon Valley cities of Mountain View and Sunnyvale, the fees are calculated based on the spending of new residents in the broader community and the jobs generated by that spending (e.g., new supermarket workers) with wages that cannot afford local market-rate housing.

Residential linkage fees typically require a nexus study establishing the impacts of new housing development on local affordable housing demands, as well as estimating the subsidy required to mitigate those impacts. The fees often vary according to the value or size of the market-rate residential units, under the premise that more expensive units will have higher-income occupants who will spend more and create more jobs in the community. These fees are adopted by local City Councils rather than requiring broader votes. Often, developers are given the option of providing affordable units within their projects rather than paying the linkage fee. In this way, residential linkage fees are somewhat the inverse of inclusionary zoning ordinances.

The perceived merits of residential linkage fees are similar to those of inclusionary zoning, but also include their basis in a calculated impact rather than simply a policy preference of the local jurisdiction (e.g., requiring 20 percent affordable units of all projects). Concerns again include the fact that these fees place the cost of affordable housing on new private development rather than the general community, and that the addition of costs to housing development will make it that much more difficult for new housing to be built at middle-class prices.

No Texas jurisdictions are believed to have yet pursued linkage fees as described above. However, Federal and Texas law require that a City establish the "nexus" or logical connection between the activity being charged (new residential construction) and the effect or impact that the fee is intended to address (affordable housing demand). The law also requires "rough proportionality" between the amount of the fee charged to a type of development and the impact that development has created. If the City of Austin elects to pursue this approach, a nexus study would be required to substantiate the amount of any fees that might be adopted.

Commercial Linkage Fees

Commercial linkage fees are a form of impact fee assessed on new commercial developments based on mitigating the need for workforce housing generated by the new or expanding commercial business. Revenues collected from fees are then used to help fund the development of affordable housing within the community.

Because they are an impact fee, linkage fees typically require a nexus study to establish the basis for the fee. The study quantifies the cost of the capital facilities (in this case, affordable housing) needed to address the estimated impacts, allocates these costs to the new development, and sets the required payments. The commercial impacts are most often calculated as a cost per square foot of commercial space based on the number and wages of employees estimated to occupy the commercial space. As a result there often are different rates calculated for retail, restaurant, office, hotel, and industrial space. Typically, these fees are a few dollars per square foot, but can range as high as $20 per square foot. It is important to note that commercial linkage, like all impact fees, can only be used to pay for the impact of new development going forward. They cannot be used to address existing capital deficiencies in the community.

Some communities combine an inclusionary zoning ordinance with commercial linkage fees to allocate a portion of the affordable housing burden to both new residential and commercial development. Cambridge, MA, has a form of commercial linkage fee as part of its housing program, as do San Francisco, Palo Alto, San Diego, Oakland, Sacramento, and numerous other California jurisdictions.

Commercial linkage fees offer the benefits of spreading some of the costs of affordable housing to the commercial ventures that generate job and population growth but do not pay wages able to support local housing costs. This is particularly true when adopted as part of a broader housing strategy that includes inclusionary zoning and/or residential impact fees. They also are enacted at the local level, and require only a City Council vote rather than a broader vote. The chief concern about commercial linkage fees is that they may have a negative effect on the attraction or growth of commercial tenants, who may seek locations in areas without this added development cost. In high-demand areas such as Cambridge, San Francisco, or Palo Alto, these added costs have seemed not to have had a significantly negative effect on economic development, although in more value-driven areas (such as Sacramento or Oakland) these fees may represent a greater deterrent to growth.

As described above for residential linkage fees, the City would need to establish the nexus and rough proportionality of any commercial linkage fees.

Excise Taxes

An excise tax is a tax paid on a product that is intended to become a cost of the product passed on to the end user or customer. It differs from a sales tax in that it is based on a unit of production rather than a percent of the final purchase price. A number of communities have implemented an excise tax on construction designated for the development of affordable housing, including Boulder CO. Boulder's excise tax is $160 per 1,000 square feet of residential development and $340 per 1,000 square feet of commercial development.

An excise tax has some advantages over a linkage fee in that it is a general purpose tax that does not require a nexus study and does not require the funds collected to be allocated to a specified set of improvements. However, because it is a tax instead of an impact fee, it generally requires approval of the voters in a community. Otherwise, the merits and concerns regarding excise taxes mirror those for linkage fees. For better and worse, they would burden new construction with the costs of affordable housing rather than distributing those costs among the broader tax base. And, they may act as a deterrent to economic growth and broader housing affordability by contributing to cost premiums that may drive growth toward lower-cost communities and/or require higher market prices to achieve project feasibility.

Under Texas state law, municipalities are not authorized to levy excise taxes.

Document Recording Fees

A document recording fee is typically charged for legal documents that become public record, such as deeds/mortgages, marriage licenses, and birth certificates. The State of Pennsylvania has authorized its counties to charge fees on real estate mortgage and deed records and to use those fees to fund affordable housing. Philadelphia generates an estimated $10 million annually for affordable housing through this type of fee.

The potential benefit of this type of funding source is that it will typically increase as real estate activity (developments and transactions) increases in strong markets, and that it will capture the value being generated in existing properties (through resales and refinancing) as well as new properties. It also typically represents a relatively small cost (often less than $100) on an otherwise large transaction. Document recording fees are imposed and collected by the County rather than the City, so collaboration would be required to pursue this approach.

According to the Law Department, the imposition of a document recording fee is likely to face legal challenges, as such fees are generally required to reflect the actual cost of providing the service (i.e., processing and maintaining government records) rather than generating revenue for other public purposes.

Real Estate Transfer Tax

Real estate transfer taxes (RETTs) are taxes imposed by states, counties, and cities on the transfer of title within the jurisdiction. RETTS are often enacted as a general revenue source but can also be designated for specific purposes such as affordable housing. In most cases, it is an ad valorem (property) tax based on the value of the property transferred. A total of 37 states and the District of Columbia provide for this tax. The rates vary greatly from 0.05 percent in Cook County IL to as high as 2.0 percent in Delaware.

Texas law does not currently authorize a Real Estate Transfer Tax, and the Law Department has concluded that the City would be unable to adopt one without express authorization under State law.

Other Potential Funding Mechanisms

The funding sources described above share the characteristic of being “value capture” tools that aim to leverage local property value escalation and new construction to fund affordable housing projects and programs. Other potential funding sources in place around the United States are not necessarily focused on that “value capture” element, but do provide a local funding source that can augment other available resources for affordable housing. In general, these funding sources are imposed on the entire community, not only those engaged in real estate development.

Dedicated Sales and Use Tax

While not common, some communities have imposed a dedicated sales tax collected to fund affordable housing construction and programs. This is an attractive funding option in tourism-oriented markets because the majority of the taxes are paid by visitors and because the tax increases over time with growth and inflation. Aspen, CO has a 0.45 percent tax that currently generates about $2.75 million per year in revenues.

This type of dedicated tax typically requires voter approval, as it affects all community members and visitors. As with most sales taxes, there is concern that a sales tax add-on would represent a "regressive" tax, with greater impacts on lower-income households that typically spent a greater proportion of their gross income on taxable goods. Also, Austin's sales tax rate already is at the maximum amount allowed by Texas State Law, so any sales tax dedicated to affordable housing would either require an amendment to that law or a reduction of sales tax funds to other uses.

The City has already reached the maximum allowable sales tax (2.0 percent) under State law, so adopting a sales tax add-on for affordable housing would require an election to reduce or eliminate other existing segments of the sales tax.

Dedicated Property Tax

Similar to a dedicated sales tax, a number of communities have approved an additional property tax levy specifically for affordable housing. Boulder, CO has a small mill levy that applies to affordable housing, and affordable housing in Cambridge, MA, receives a significant amount of funds via a property tax surcharge. Seattle may represent the most successful case study, having passed 5 voter-approved housing levies since 1981, the latest with a duration of 7 years for $145 million in affordable housing funding.

Austin is very familiar with this type of funding source, which when successful offers the advantage of being supported both politically and financially by the broad community, but has the potential to not receive such support, as occurred in the 2012 bond election.

Occupational Privilege Tax

An occupational privilege tax (head tax) is an employment tax assessed on a per worker basis. The tax can be paid by the employer, employee or both. It has generally been used by larger cities for general fund revenues or for designated services. The City and County of Denver, Colorado has a $9.75 per month head tax that is paid for $5.75 by the employee and $4.00 by the employer. The revenues are split with 50 percent going to the general fund and 50 percent going to the capital improvement fund. Kansas City and Chicago also have employee head taxes. Seattle recently repealed a $25 per year employee head tax because it was determined to be an impediment to attracting new business to the community.

EPS is not aware of any communities that have implemented a head tax dedicated for affordable housing programs. However, it is a potentially viable source of revenue for affordable housing based on employment impacts and could be assessed to major employers regardless of where their employees live. One disadvantage is that it is a flat tax that does not increase with inflation or appreciation like a sales or property tax. Another disadvantage, as noted in the Seattle example, is that it may deter desired job growth and employer attraction/expansion objectives.

Texas state law does not authorize municipalities to levy occupational privilege taxes.

Lodging Tax

Cities have placed additional taxes on hotel and lodging receipts to fund a range of programs. While Austin's current hotel tax rate is 9 percent, some cities have total combined lodging taxes in the 10 to 15 percent range. As in Austin, these dedicated taxes over and above the base sales tax rate have generally been for tourism marketing and promotion programs and facilities related to the tourism industry such as convention centers.

San Francisco, CA, and Columbus, OH, dedicate a small portion of lodging tax revenues to fund affordable housing. In the recent past, Columbus, OH, has generated approximately $17 million per year in lodging tax revenues, 8.5 percent of which is dedicated to funding the Affordable Housing Trust.

Perceived benefits of this type of program include the fact that there is a logical nexus between tourism and the service level jobs needed to serve the hotel and lodging industry, and the fact that the cost is borne by visitors from out-of-town rather than Austin residents. Concerns include the potential for an added tax to adversely affect demand for hotel rooms in Austin, or alternatively the impact that dedicating a portion of the existing hotel tax rate to affordable housing may have on the tourism marketing programs currently funded by the tax.

Texas Tax Code Chapter 351 states that hotel occupancy taxes may be used only to promote tourism and the convention and hotel industry, and may not be used to fund general revenue expenses. Because hotel occupancy taxes used to fund affordable housing would not further the stated goal of promoting tourism or the convention and hotel industry, the City of Austin would be unauthorized to levy such a tax.

Recommendations

The City of Austin's current affordable housing funding strategy successfully leverages existing financing tools available to the City. However, addressing continuing issues of affordability in Austin requires additional funding sources. Aside from HPDs and Tax Increment Reinvestment Zones, the majority of alternative funding and value capture measures presented in this study are prohibited to Austin by Texas state law. HPDs and TIRZs provide a legally enabled, sustainable funding source that can capture value and reinvest in areas of greatest need while reducing the extent to which the City may be required to undertake discretionary funding projects in the future. As such, Austin should incorporate HPDs and/or TIRZs into the City's overall affordable housing financing toolkit.

Another possible mechanism would be the establishment of linkage fees on new residential and/or commercial development, based on the impact that such development has on the City's affordable housing demand. Such a program would be pioneering in Texas, though has precedents in other states, and could be used Citywide rather than only in selected areas, as required for HPD funding. The City would need to commission a "nexus study" to establish the logical connection between new construction and affordable housing demand, as well as stablishing that any fees to be adopted would be roughly proportional to the impact created by the development subject to the fee.

The City's 2014 Comprehensive Housing Market Analysis and Fiscal Year 2014-19 Consolidated Plan identify addressing the shortage of affordable housing for renters earning less than $25,000 per year as a top housing priority. For 60,000 renters earning less than $25,000 annually there are 12,000 affordable rental units in the city to serve them, leaving a housing gap of 48,000 units. In order to address this top priority need, the City should continue to focus the majority of its funding (including within any HPDs that are created) on housing for very-low income households.

Exhibit C

CAPITOL MARKET RESEARCH

Homestead Preservation Districts

Tax Increment Financing Study

Prepared for

Mr. Greg Canally
Deputy Chief Financial Officer
City of Austin
Financial Services Department
301 West Second Street
Austin, TX 78701

By

Capitol Market Research, Inc.
1102 West Avenue, Suite 100
Austin, Texas 78701

On

October 30, 2014

CAPITOL MARKET RESEARCH

Real Estate Research, Land Development Economics & Market Analysis

October 30, 2014

Mr. Greg Canally
Deputy Chief Financial Officer
City of Austin
Financial Services Department
301 West Second Street
Austin, TX 78701

RE: Homestead Preservation District Tax Increment Financing (TIF) Study.

Dear Mr. Canally;

We have concluded the analysis of the five proposed Homestead Preservation District TIFs. The analysis includes an aggregate evaluation of historical changes in value and land use in each of the five districts, from 2004 through 2013. We have also prepared a value increment projection for residential and commercial property in each district.

We appreciate the opportunity to provide you with this analysis, and invite you to contact us with any questions or comments you might have.

Respectfully Submitted,

CAPITOL MARKET RESEARCH

Charles H. Heimsath, President

CHH/ebr

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INTRODUCTION

Introduction

Capitol Market Research has prepared a report for the City of Austin which contains an analysis for five areas designated as possible Homestead Preservation District and Reinvestment Zones (HPD). Currently, one area, District A, is an existing HPD that was established by the City in 2008. These five study areas (defined by US Census 2010 Census Tracts) have met the Homestead Preservation Zones requirements noted in the Local Government Code Chapter 373A, which was amended in 2013.

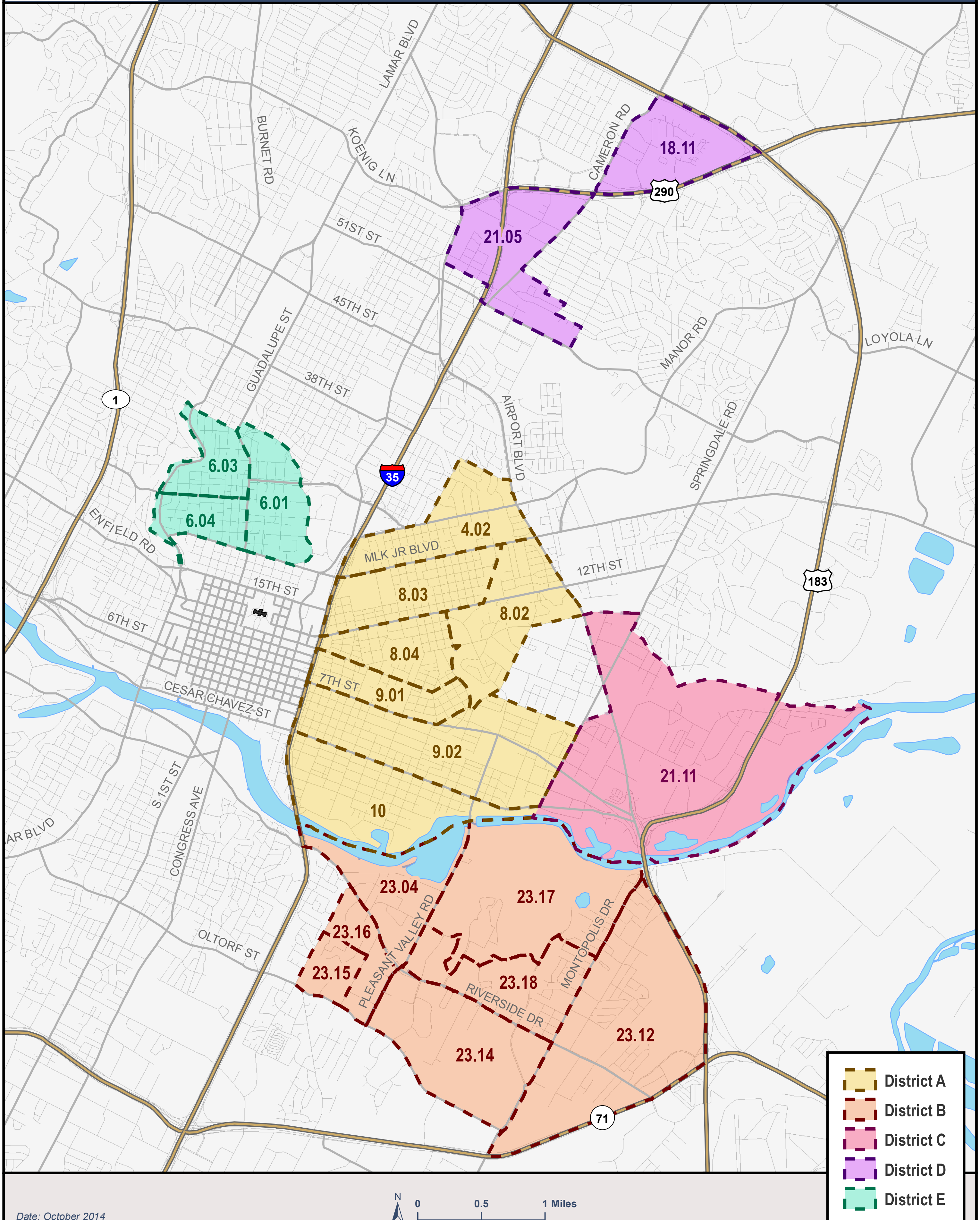
The primary purpose of the Homestead Preservation Districts is to retain the ability of existing home owners to occupy their homestead, in spite of rapidly rising property values. The financing tool proposed to accomplish this goal is the creation of a TIF (Tax Increment Financing) zone, to provide and preserve affordable housing, by mitigating rising residential property taxes in areas considered to be "gentrifying". However, these proposed TIF districts are not set up as a standard TIF, which is usually small in size and based on funding a particular project or infrastructure improvements that in themselves will create economic growth above and beyond "normal" expected growth. Instead the proposed HPD zones will be created for a large geographic area, and will capture the district growth in taxable value and invest the revenues from this growth back into the district with the intent of maintaining and providing affordable housing in the area.

It should be noted that this is not to be looked at as a "traditional" market study, which would study the expected impact of a particular project or tax implementation. Due to the large areas of analysis, the following study is not intended to ascertain the impact of a "project" in each area, but rather to examine the market trends and historical growth in each study area as a whole.

The analysis conducted on these five areas produced data that is intended to be used by the City of Austin, to document historical growth and development patterns, and estimate future growth potential in the five districts. Travis County Appraisal District (TCAD) provided historical tax roll data for 2004, 2009, and 2013, for each area, which was initially prepared and processed by the City of Austin. Developments, both past and future, were also identified and cataloged by Capitol Market Research. A more detailed description of these processes may be found in the following Methods section.

Homestead Preservation Districts:

Locations and Census Tracts



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Methods

The Travis County Appraisal District provided “tangible” (excluding personal property) tax roll data for the years 2004, 2009, and 2013. This data was then given to the City of Austin, whose staff narrowed down the records for parcels falling within each of the five districts, based on the Plat Blocks utilized by the appraisal district. Using ArcGIS, Capitol Market Research (CMR) then further refined the data, organizing the records into each district. Because of the way that historical tax roll data is maintained, it was inefficient to “join” the tax roll data parcel to parcel in order to track changes over time. In order to map the data, CMR used historical parcel shapefiles to create Plat Blocks, which the tax rolls were then joined to. However, due to the inconsistency in the appraisal data before 2009, there was no historical GIS data for 2004, therefore 2006 GIS data was substituted in order to map this historical data. Due to subdivision and lot assemblage over time, the historical tax roll information is not 100% accurate, and therefore this analysis is intended to give a “big picture” overview of trends in each study area, instead of precise parcel-level information.

Land use types indicated by Capitol Market Research were established by using the Texas State Land Categories indicated in the Travis County Appraisal tax roll, shown in Table (A) in the appendix. All other attributes, such as Year Built, Assessed Values, etc., were provided in the tax roll. CMR utilized the number of records for estimation of average values. The number of records indicate individual records, not the specific number of physical parcels. For example, one parcel, such as a condominium project, may contain multiple records representing not only individual condominium owner but first floor commercial space owners as well. The City of Austin (COA) taxable values were utilized to establish taxable values, in order to represent the true base tax values in the area. These COA taxable values take out of the equation exempt properties, such as parkland, as well as properties with exemptions, or those already in zones capturing tax values (Transit Oriented Development districts).

Differences in the date of construction completion, when comparing older structures and newer construction, were established by the “Year Built” attribute of the TCAD Tax Roll. It is important to note that the TCAD record indicates date of initial construction, and does not reflect any further improvements or remodels made to the structure. “Existing Construction” records were those with structures built before the year 2000, and is intended to reflect the older building stock that might be impacted by the HPD zone. “New Construction” records reflects those records with buildings built in 2000 and onward, and is intended to reveal the rate of taxable value increases and total taxable value within the potential HPD zone.

Capitol Market Research also tracked recent developments in each area, by using the City of Austin’s “Growth Watch” GIS data, which includes building permits, site plans, and subdivision cases, and the City of Austin multi-family report, as well as CMR’s own “pipeline data”. These projects were also verified by using the City of Austin’s Permit Database. Current and planned developments in the area were defined as those projects that started construction after the TCAD/WCAD final tax roll for 2013, or are planned to begin in the near future. These were also documented using the City of Austin’s Growth Watch data, City of Austin’s Emerging Projects, as well as Capitol Market Research’s own “pipeline” database. These future projects were mapped, and the type, size, estimated values, and description were listed (where the data was available). It is important to note that projects that were completed after the 2013 appraised values were released are still listed as “under construction” for analytical purposes.

City of Austin Taxable Values

The City of Austin provided Capitol Market Research with citywide historical taxable values, showing tangible taxable values for 2004, 2009, and 2013. In 2004, the total taxable value was $43 billion dollars, with $29.2 billion of that being Residential records. Total values increased at an annual average of 7.18% from 2004 through 2013, to reach $74 billion dollars. The annual compound growth rate of the City of Austin's taxable value, from 2004 through 2013, is 5.56%. Residential values make up the majority of taxable value, increasing at a compound growth rate of 5.96% from 2004 to 2013.

Table (1)

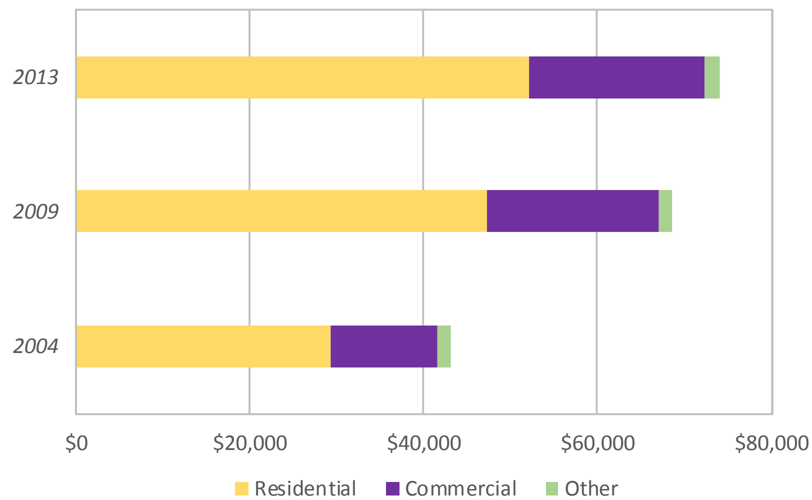
COA Taxable Value by Land Use

City of Austin

Land Use	*2004*	*2009*	*2013*	*(2004 - 2013)*	
	Taxable Value	Taxable Value	Taxable Value	*Average Annual Increase*	***Compound Growth Rate***
Residential	$29,228,720,035	$47,349,647,760	$52,166,052,806	*7.85%*	***5.96%***
Commercial	$12,319,062,595	$19,800,799,196	$20,237,453,773	*6.43%*	***5.09%***
Other (Land)	$1,520,230,726	$1,389,607,905	$1,599,889,485	*0.52%*	***0.51%***
Total	$43,068,013,356	$68,540,054,861	$74,003,396,064	***7.18%***	***5.56%***

Capitol Market Research, October 2014 AV history.xls

Data from: City of Austin



DISTRICT A

(East Austin)

District A Historical & Current Taxable Values

District A is delineated by 2010 US Census Tracts 4.02, 8.02, 8.03, 8.04, 9.01, 9.02, and 10, and encompasses approximately 2,900 acres. It includes portions of the Upper Boggy Creek, Central East Austin, Chestnut, Rosewood, Govalle, Holly, and East Cesar Chavez Neighborhood Planning Areas. This district is currently an existing Homestead Preservation Zone, which was set up in 2007, and includes both the Plaza Saltillo and MLK Boulevard Transit Oriented Development Districts (TOD).

In 2004, District A had a total taxable value of over $578 million dollars in 8,048 property tax records, with the majority of these records being Residential. District A increased to $1.36 billion dollars in 2009, an average annual increase of 27.0%. The increase in taxable value slowed to an average annual increase of 3.6% between 2009 and 2013, ending with a 2013 taxable value of $1.60 billion dollars. Historically, from 2004 through 2013, taxable value for tangible property had a compound growth rate of 10.73%, with the highest growth rate seen in Residential properties (11.67%). In comparison, the City of Austin Taxable Value for Residential properties for the same time period had a compound growth rate of 5.96%. These values are shown on Table (2) below.

Residential records in District A have increased from 5,933 records in 2004 to 6,579 records in 2013, Commercial records have increased from 632 records in 2004 to 763 records in 2013. Vacant/Agricultural records have decreased from 1,477 records in 2004 to 1,160 in 2013, but increased in total taxable values.

Table (2)

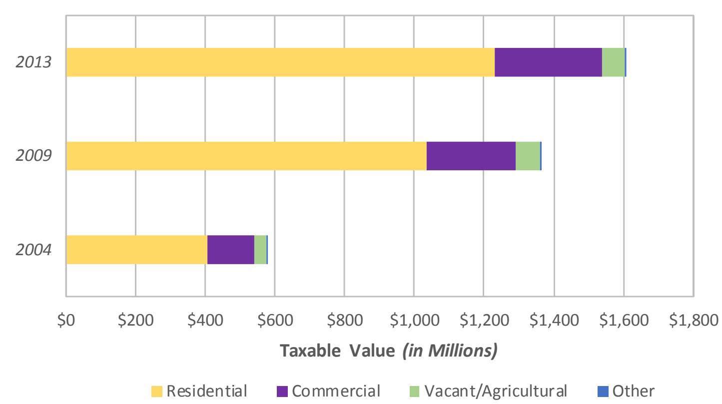
COA Taxable Value by Land Use

District A

Land Use	*2004*		*2009*		*2013*		***(2004 - 2013)***	
	No. Records	Taxable Value	No. Records	Taxable Value	No. Records	Taxable Value	*Average Annual Increase*	***Compound Growth Rate***
Residential	5,933	$407,381,872	6,521	$1,035,156,981	6,579	$1,228,710,059	*20.16%*	***11.67%***
Commercial	632	$132,965,200	759	$254,558,652	763	$309,308,059	*13.26%*	***8.81%***
Vacant/Agricultural	1,477	$37,396,680	1,194	$71,233,661	1,160	$66,537,357	*7.79%*	***5.93%***
Other	6	$1,246,574	5	$389,470	6	$389,472	*-6.88%*	***-10.98%***
Total	8,048	$578,990,326	8,479	$1,361,338,764	8,508	$1,604,944,947	***17.72%***	***10.73%***

Capitol Market Research, October 2014 district tcad.xls

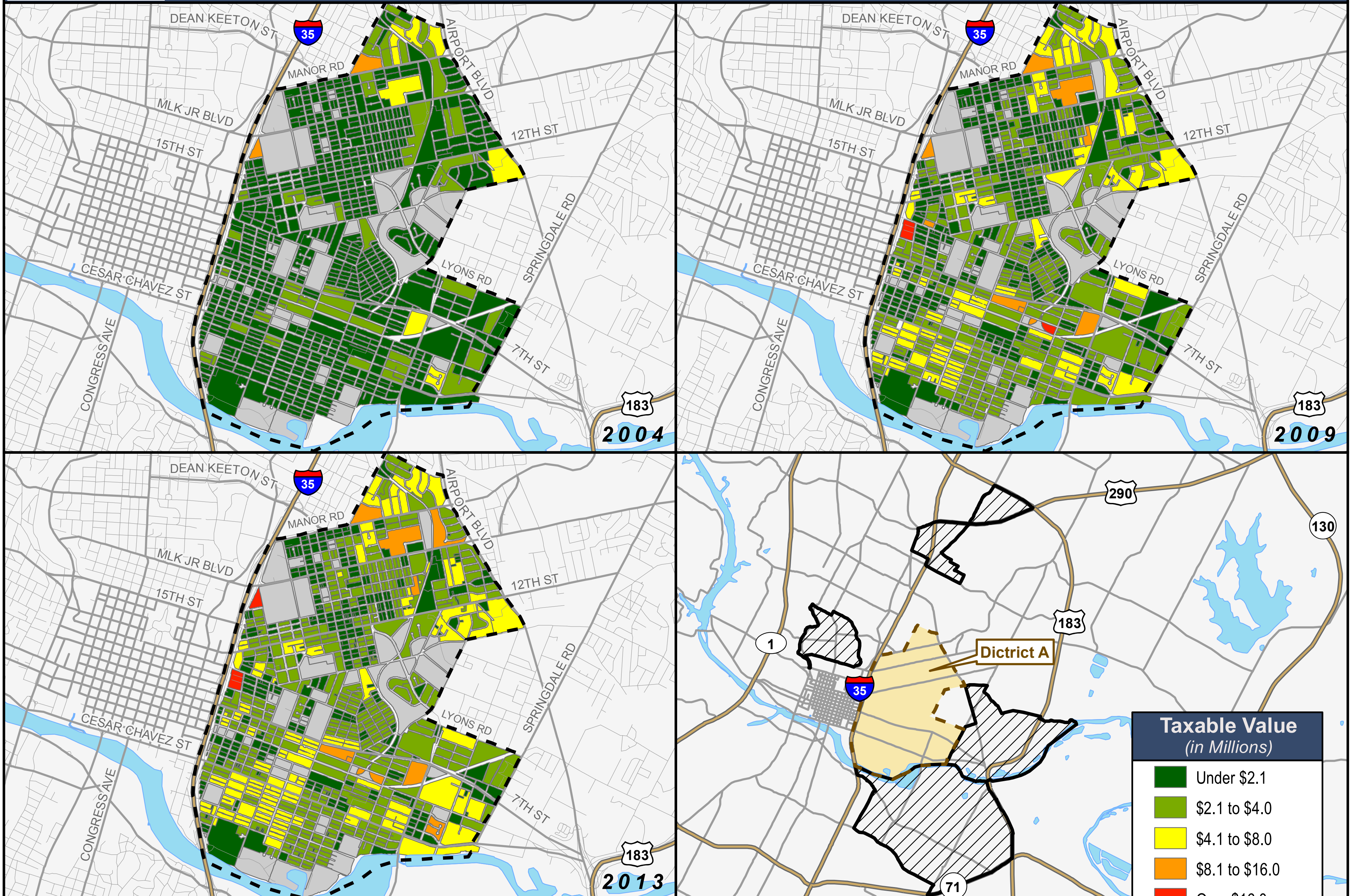
Data from: Travis County Appraisal District



District A:

COA Taxable Values by Year

CAPITOL MARKET RESEARCH



Date: October 2014
Path: C:\GIS\Projects\2014\Homestead\DistrictA\District_A.mxd
Note: Assessed values are shown by Plat Block
Data from: Travis County Appraisal District

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District A Construction Trends

The following analysis breaks down the total taxable values further, in order to provide more detail relating to historical construction trends in the area. This analysis includes both Residential and Commercial land use types, disaggregated into “Existing Construction”, those properties built before the year 2000, and “New Construction”, properties that were built in 2000 and after. This is done in order to analyze both the older, existing tax base in the area, as well as the land use changes and new taxable values being brought into the area.

Table (3) below, shows value trends for Residential buildings. Among the 5,933 Residential records in 2004, 5,727 of these (96.5%) were considered Existing Construction. In 2013, Existing Construction fell to 5,227 (79.4%) of the total Residential records. These records are mainly Single Family, and have increased in aggregate values from $386 to $862 million, with a compound growth rate of 8.36%, while in the same time period the number of records dropped -8.73%, possibly signifying demolition of older housing stock to make way for new construction. The average (total records divided by total tax value) Existing Single Family record increased in value from $63,843 to $159,623 during this time.

New Residential construction in District A increased dramatically from 2004 through 2013. In 2004, only 206 of the total Residential records in the District had been built since 2000, but by 2013 the number of new records had climbed to 1,352 records. The majority of this increase was in Single Family construction, including a surge in attached Condominium projects such as the Saltillo Lofts and Pedernales Condos. Other newer, detached single family is not contained in large-scale, new subdivisions but is scattered throughout the District, much of it built on land previously containing older single family homes. Multi-family construction is also on the rise, with taxable of properties built since 2000 increasing from $1.7 million in 2004 to over $81 million in 2013, a compound growth rate of 47.11%. Average Residential taxable values (total records divided by total tax value) were 63.92% higher for those New Construction properties in 2013.

Table (3)

Residential Taxable Value by Date of Completion

District A

Land Use	*2004*			*2009*			*2013*			***(2004 - 2013)***	
	No. Records	Taxable Value	Average Value	No. Records	Taxable Value	Average Value	No. Records	Taxable Value	Average Value	*Average Annual Increase*	***Compound Growth Rate***
Existing Construction (Built before 2000)											
Single Family	5,436	$347,051,372	$63,843	5,087	$701,136,403	$137,829	4,952	$790,453,991	$159,623	*12.78%*	***8.58%***
Multi-Family	291	$39,663,358	$136,300	278	$68,153,965	$245,158	275	$72,406,892	$263,298	*8.26%*	***6.20%***
Subtotal	5,727	$386,714,730	$67,524.83	5,365	$769,290,368	$143,391	5,227	$862,860,883	$165,078	*12.31%*	***8.36%***
New Constrution (Built 2000 +)											
Single Family	195	$18,949,638	$97,178	1,098	$213,503,176	$194,447	1,291	$284,336,543	$220,245	*140.05%*	***31.11%***
Multi-Family	11	$1,717,504	$156,137	58	$52,363,437	$902,818	61	$81,512,633	$1,336,273	*464.60%*	***47.11%***
Subtotal	206	$20,667,142	$100,325.93	1,156	$265,866,613	$229,988	1,352	$365,849,176	$270,599	*167.02%*	***33.29%***
Total	**5,933**	**$407,381,872**	**$68,664**	**6,521**	**$1,035,156,981**	**$158,742.06**	**6,579**	**$1,228,710,059**	**$186,762**	***20.16%***	***11.67%***
Average Value Difference *(New v.s. Existing Construction)*		*Single Family*	*52.21%*			*41.08%*			*37.98%*		
		Multi-Family	*14.55%*			*268.26%*			*407.51%*		
		Total	*48.58%*			*60.39%*			*63.92%*		

Capitol Market Research, October 2014 district tcad.xls

Data from: Travis County Appraisal District

Table (4) below, shows value trends for Commercial buildings. The number of Existing Construction records stayed relatively consistent from 2004 through 2013, but increased at an average rate of 10.74% during the 10-year time period. The one Industrial property in the District is currently tax except, and the majority of the increase in Existing taxable commercial properties was those considered "Other", which are commercial construction improvements such as parking lots.

Average Commercial values for New Construction increased at a compound growth rate of 22.76% from 2004 through 2013, with an increase in records from just 12 in 2004 to 102 in 2013. Most of these are scattered throughout the area on smaller lots, or located on the first floor of a new Residential apartment or condominium project.

Table (4)

Commercial Taxable Value by Date of Completion

District A

Land Use	*2004*			*2009*			*2013*			***(2004 - 2013)***	
	No. Records	Taxable Value	Average Value	No. Records	Taxable Value	Average Value	No. Records	Taxable Value	Average Value	*Average Annual Increase*	***Compound Growth Rate***
Existing Construction (Built before 2000)											
Goods/Services	580	$125,742,805	$216,798	611	$217,989,393	$356,775	611	$260,756,769	$426,770	*10.74%*	***7.57%***
Industrial	1	$0	$0	1	$0	$0	1	$0	$0	...	...
Other	39	$1,655,843	$42,458	61	$3,506,518	$57,484	45	$5,268,807	$117,085	*21.82%*	***12.27%***
Subtotal	620	$127,398,648	$205,481.69	673	$221,495,911	$329,117	657	$266,025,576	$404,910	*10.88%*	***7.64%***
New Constrution (Built 2000 +)											
Goods/Services	12	$5,566,552	$463,879	84	$31,585,632	$376,019	102	$39,632,388	$388,553	*61.20%*	***21.69%***
Industrial	...	...	...	...	...	...	...	...	...	...	...
Other	..	..	..	2	$1,477,109	$738,554.50	4	$3,650,095	$912,524	...	...
Subtotal	12	$5,566,552	$463,879.33	86	$33,062,741	$384,450	106	$43,282,483	$408,325	*67.75%*	***22.76%***
Total	**632**	**$132,965,200**	**$210,388**	**759**	**$254,558,652**	**$335,386.89**	**763**	**$309,308,059**	**$335,387**	***13.26%***	***8.81%***
Average Value Difference *(New v.s. Existing Construction)*		*Goods/Services*	*113.97%*			*5.39%*			*-8.96%*		
		Industrial	*...*			*...*			*...*		
		Other	*...*			*1184.80%*			*679.37%*		
		Total	*125.75%*			*16.81%*			*0.84%*		

Capitol Market Research, October 2014 district tcad.xls

Data from: Travis County Appraisal District

District A Current and Planned Developments

Current developments in the area are those that are now or were recently under construction in the area, but not yet reflected on the 2013 Tax Roll, as well as those under review by the City of Austin Planning and Development Review Department. If the project was completed and reflected in the 2014 tax roll, this value was used as an estimated value. When the project was not completed and recorded in the 2014 tax roll, the estimated assessed values for the projects under review are estimated from recently completed comparable projects in the same district, averaged by unit for residential properties, and land acres or building square feet for commercial (depending on the type of project).

In District A, there are twenty-six projects listed as current developments, many of which are "mixed-use", containing both residential and commercial land uses. This District is currently the most active of all the five districts, with over $499 million dollars of new construction expected to be added to the tax roll in the next few years. There is currently one single family condo project, two multi-family projects, and two mixed use multi-family projects, one office building, and one hotel project currently under construction. Table (5) on the following page lists all the developments under construction and planned in District A.

Table (5)

Current Developments

District A

Map No	Name	Status (2013)	Land Use (2013)	Taxable Value (2013)	Planned Units	Future Estimated Value	Description
Residential / Mixed-Use							
1	1615 E. 7th Street	Planned	Vacant	$287,325	19	$3,154,606	Multi-Family
2	2305 Coronado Street	Planned	Vacant	$85,000	5	$1,028,437	Single Family Condos
3	2400 Webberville	Under Construction	Commercial/Vacant	$543,356	6	$1,648,941	Mixed-Use Condo
4	2900 Manor (Elan East)	Under Construction	Residential/Vacant	$2,737,780	251	$41,674,003	Multi-Family Mixed-Use
5	4th and Navasota	Under Construction	Vacant	$289,920	27	$4,482,861	Multi-Family
6	7East	Planned	Commercial	$2,170,141	177	$29,387,643	Multi-Family
7	8TX Multifamily	Planned	Vacant	$1,603,300	176	$29,221,611	Multi-Family
8	ACDC East 12th (Anderson Village)	Under Construction	Residential/Vacant	$0	24	$0	Multi-Family (Tax Excempt)
9	Chicon Corridor	Planned	Vacant	$275,928	50	$7,555,674	Single Family Condominiums
10	Chicon MU	Planned	Commercial	$1,553,462	99	$16,437,156	Multi-Family Mixed-Use
11	Corazon	Under Construction	Residential/Vacant	$2,380,000	256	$42,504,162	Multi-Family Mixed-Use
12	Eastside Village	Planned	Commercial	$3,562,978	348	$57,779,095	Multi-Family Mixed-Use
13	Fannie Mae Stewart Village	Planned	Residential/Vacant	$319,793	8	$1,328,255	Multi-Family
14	Hargrave Place	Planned	Residential/Vacant	$844,528	74	$12,286,359	Multi-Family
15	Juniper Townhomes	Planned	Vacant	$352,742	16	$3,838,824	Single Family Townhomes
16	Live-Work Austin	Planned	Residential/Vacant	$339,363	12	$1,992,383	Multi-Family Mixed-Use
17	MLK and Alexander Mixed Use	Planned	Vacant	$2,681,212	306	$50,805,756	Multi-Family Mixed-Use
18	MLK Station Apartments	Planned	Vacant	$518,364	49	$8,135,562	Multi-Family
19	Plaza Saltillo	Planned	Commercial/Vacant	$0	800	$132,825,507	Multi-Family Mixed-Use
20	Saltillo Station	Planned	Commercial	$2,618,529	330	$54,790,521	Multi-Family Mixed-Use
21	SIGGGIGGI	Planned	Commercial/Residential	$459,218	4	$664,128	Multi-Family Mixed-Use
	Subtotal			$23,622,939		$501,541,485	

Map No	Name	Status	2013 Land Use	2013 Assessed Value	Planned Size	Future Estimated Value	Description
Commercial							
22	2021 East 5th St. Office	Under Construction	Residential	$499,773	31,572	$3,979,181	Multi-Tenant Office
...	2400 Webberville	Under Construction	Commercial/Vacant	*See Residential*	10,770	*See Residential*	Mixed-Use Condo (Office/Retail)
...	2900 Manor	Under Construction	Residential/Vacant	*See Residential*	9,865	*See Residential*	Mixed-Use (Ground Floor Office)
...	7East	Planned	Commercial	*See Residential*	6,751	*See Residential*	Mixed-Use (Ground Floor Retail)
...	Chicon MU	Planned	Commercial	*See Residential*	37,895	*See Residential*	Mixed-Use (Ground Floor Retail)
...	Corazon	Under Construction	*See Residential*	*See Residential*	16,060	*See Residential*	Mixed-Use (Ground Floor Retail)
...	Eastside Village	Planned	Commercial	*See Residential*	107,500	*See Residential*	Mixed-Use (Office & Retail)
23	Hotel Eleven	Under Construction	Vacant	$79,750	6,964	$1,925,086	14 Room Hotel, Restaurant
24	Kline Hotel	Planned	Commercial	$1,040,740	30,500	$8,431,237	Hotel, Restaurant
...	Live-Work Austin	Planned	Residential/Vacant	*See Residential*	2,730	*See Residential*	Mixed-Use (Ground Floor Office)
25	Miriam Nursing Home*	Planned	Vacant	...	84,034	$4,253,462	Nursing Home
...	MLK and Alexander Mixed Use*	Planned	Vacant	*See Residential*	8,664	*See Residential*	Mixed-Use (Retail)
...	Plaza Saltillo	Planned	Commerical/Vacant	*See Residential*	112,500	*See Residential*	Mixed-Use
26	San Marcos Hotel	Planned	Vacant	$842,100	20,550	$5,680,719	30 Room Hotel, Restaurant
...	SIGGGIGGI	Planned	Commercial/Residential	$459,218	10,033	*See Residential*	Mixed-Use (Ground Floor Office)
	Subtotal			$2,921,581		$24,269,685	
	Total			**$26,544,520**		**$525,811,170**	
	Additional Value						**$499,266,650**

Capitol Market Research, October 2014 development list.xls

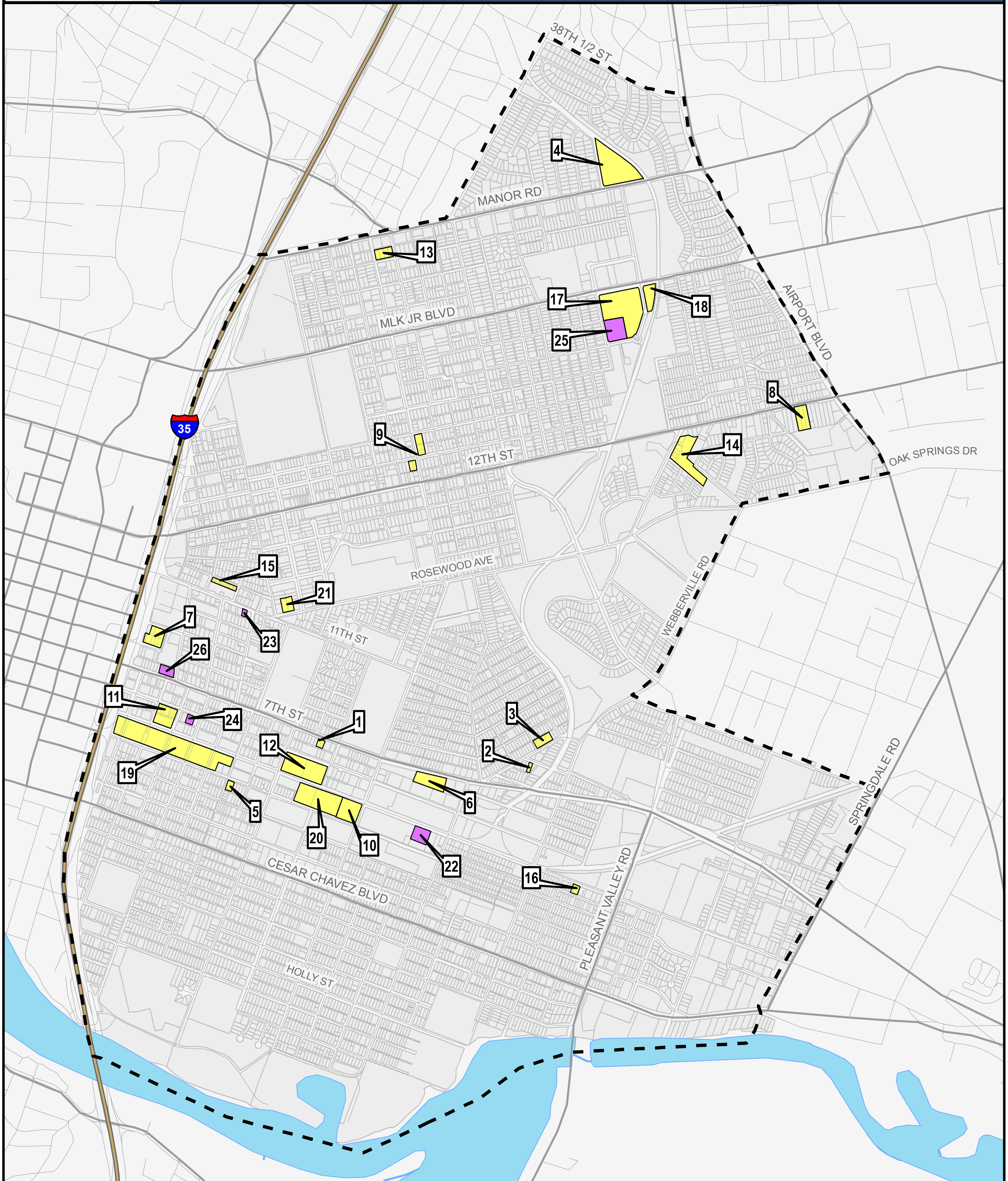
Source: City of Austin Emerging Projects, Growth Watch Data, and Permit Search, CMR Pipeline

Note: Estimated Values based upon 2013 assessed values of new construction, similar records in study area

**MLK and Alexander Mixed Use & Miriam Nursing Home are two separate developments in the same 2013 parcel.*

CAPITOL MARKET RESEARCH

District A:
Current Development



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Residential / Mixed-Use
Commercial

District A Future Values

District A includes portions of seven neighborhood planning areas and two TODs, Plaza Saltillo and MLK Boulevard. In 2013, it had a total assessed value of $1,604,944,947 in 8,508 records. The property value in the area grew from $578 million in 2004 to $1.64 billion in 2013, at an average compound interest rate of 10.73%, the second highest compound growth rate of all the districts. New Residential construction (built in 2000 +) had the highest rate of change from 2004 to 2013, with an astounding 33.29% compound growth rate.

Looking at the historical trends, as well as the increasing density and the introduction of mixed use communities in the District (Table (5)), CMR has assumed a continuation of new construction, as well as renovations of existing properties, which, when taken together, will continue to dramatically increase taxable value. Table (6) on the following page compares the 10-year taxable value forecasts with the historical data from TCAD for the district. Using the average compound interest rate for the District (10.73%), CMR estimated the total assessed value in District A to be $4.48 billion in 2023. Then, using various forecasting techniques that fit with the trends in specific land use categories and age of product, CMR estimated their share of the value in 2023, with current and planned developments taken into account.

The future value estimation in 2023 shows the majority of new taxable value coming from Residential New Construction (Built in 2000 +), as their total taxable value is estimated to increase at a compound rate of 19.21% from 2013 through 2023, as well as Commercial New Construction, with an estimated 14.50% rate from 2013 through 2023.

Table (6)

10-Year Taxable Value Estimates

District A

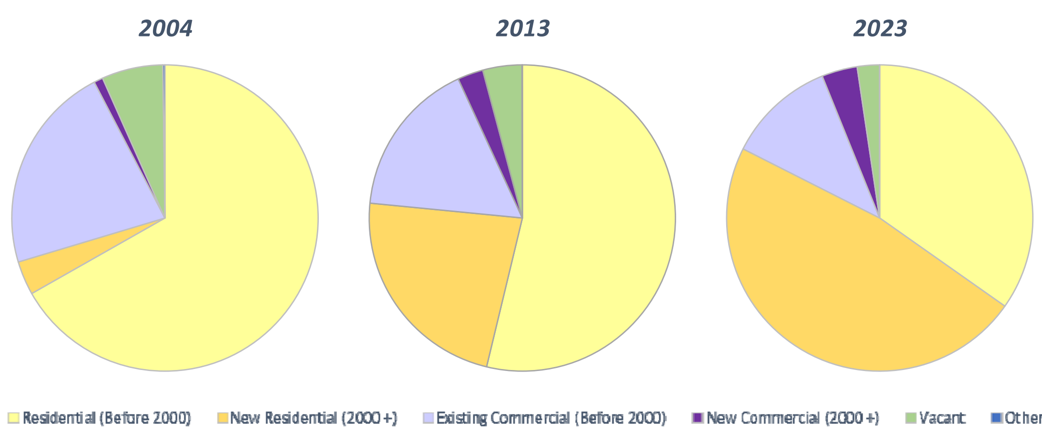
Land Use	2004		2013				2023			
	Existing Construction	New Construction	Existing Construction		New Construction		Existing Construction		New Construction	
	Taxable Value	Taxable Value	Taxable Value	*Compound Growth Rate (2004 -2013)*	Taxable Value	*Compound Growth Rate (2004 -2013)*	Taxable Value	*Compound Growth Rate (2013 -2023)*	Taxable Value	*Compound Growth Rate (2013 -2023)*
Residential	$386,714,730	$20,667,142	$862,860,883	*8.36%*	$365,849,176	*33.29%*	$1,546,753,587	*6.01%*	$2,121,329,604	*19.21%*
Single Family	$347,051,372	$18,949,638	$790,453,991	*8.58%*	$284,336,543	*31.11%*	$1,426,525,017	*6.08%*	$967,473,921	*13.03%*
Multi-Family	$39,663,358	$1,717,504	$72,406,892	*6.20%*	$81,512,633	*47.11%*	$120,228,570	*5.20%*	$1,153,855,683	*30.34%*
Commercial	$127,398,648	$5,566,552	$266,025,576	*7.64%*	$43,282,483	*22.76%*	$508,392,649	*6.69%*	$167,628,765	*14.50%*
Goods/Services	$125,742,805	$5,566,552	$260,756,769	*7.57%*	$39,632,388	*21.69%*	$495,988,164	*6.64%*	$161,273,239	*15.07%*
Industrial	$0	...	$0	...	...	...	$0	...	...	...
Other	$1,655,843	...	$5,268,807	*12.27%*	$3,650,095	...	$12,404,485	*8.94%*	$6,355,526	*5.70%*
Vacant/ Agricultural	$37,396,680		$66,537,357			*5.93%*	$104,640,072			*4.63%*
Other	$1,246,574		$389,472			*-10.98%*	$117,709			*-11.28%*
Total	**$578,990,326**		**$1,604,944,947**			***10.73%***	**$4,448,862,385**			***10.73%***

Capitol Market Research, October 2014

Historical data from Travis County Appraisal District

forecast values.xls

Percentage of Total Assessed Values



DISTRICT B

(Riverside)

District B Historical & Current Taxable Values

District B is delineated by 2010 US Census Tracts 23.04, 23.12, 23.14, 23.15, 23.16, 23.17, and 23.18, and encompasses approximately 3,600 acres, the largest of the five districts. It includes large portions of the Montopolis, Pleasant Valley, and Riverside Neighborhood Planning Areas. This district contains the East Riverside Corridor Master Plan and Regulating Plan, which were adopted in 2010 and 2013, respectively.

In 2004, District B had a total taxable value of over $646 million dollars in 2,881 property tax records, with the majority of these records being Residential. District B increased to $942 million dollars in 2009, an average annual increase of 9.2%. The increase in taxable value slowed to an average annual increase of 3.4% between 2009 and 2013, ending with a 2013 taxable value of $1.10 billion dollars. Historically, from 2004 through 2013, taxable value for tangible property had a compound growth rate of 5.48%, with the highest rate compound growth being for Vacant/Agricultural properties, at 6.09%. These values are shown on Table (7) below.

Residential records in District B have increased from 2,262 records in 2004 to 3,099 records in 2013, Commercial records have increased just slightly, from 152 records in 2004 to 164 records in 2013. Vacant/Agricultural records also increased marginally, from 466 records in 2004 to 484 in 2013.

Table (7)

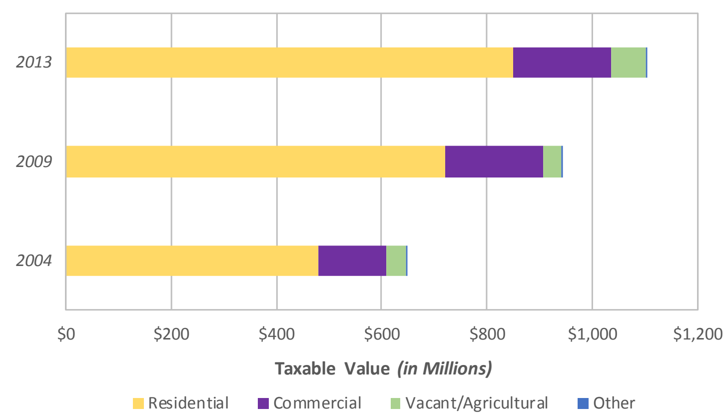
COA Taxable Value by Land Use

District B

Land Use	2004		2009		2013		(2004 - 2013)	
	No. Records	Taxable Value	No. Records	Taxable Value	No. Records	Taxable Value	*Average Annual Increase*	***Compound Growth Rate***
Residential	2,262	$480,970,739	3,067	$721,103,883	3,099	$848,776,605	*7.65%*	***5.84%***
Commercial	152	$129,277,249	157	$184,988,359	164	$188,352,910	*4.57%*	***3.84%***
Vacant/Agricultural	466	$35,855,195	475	$36,194,523	484	$64,771,676	*8.06%*	***6.09%***
Other	1	$580,000	2	$376,547	2	$285,147	*-5.08%*	***-6.85%***
Total	2,881	$646,683,183	3,701	$942,663,312	3,749	$1,102,186,338	***7.04%***	***5.48%***

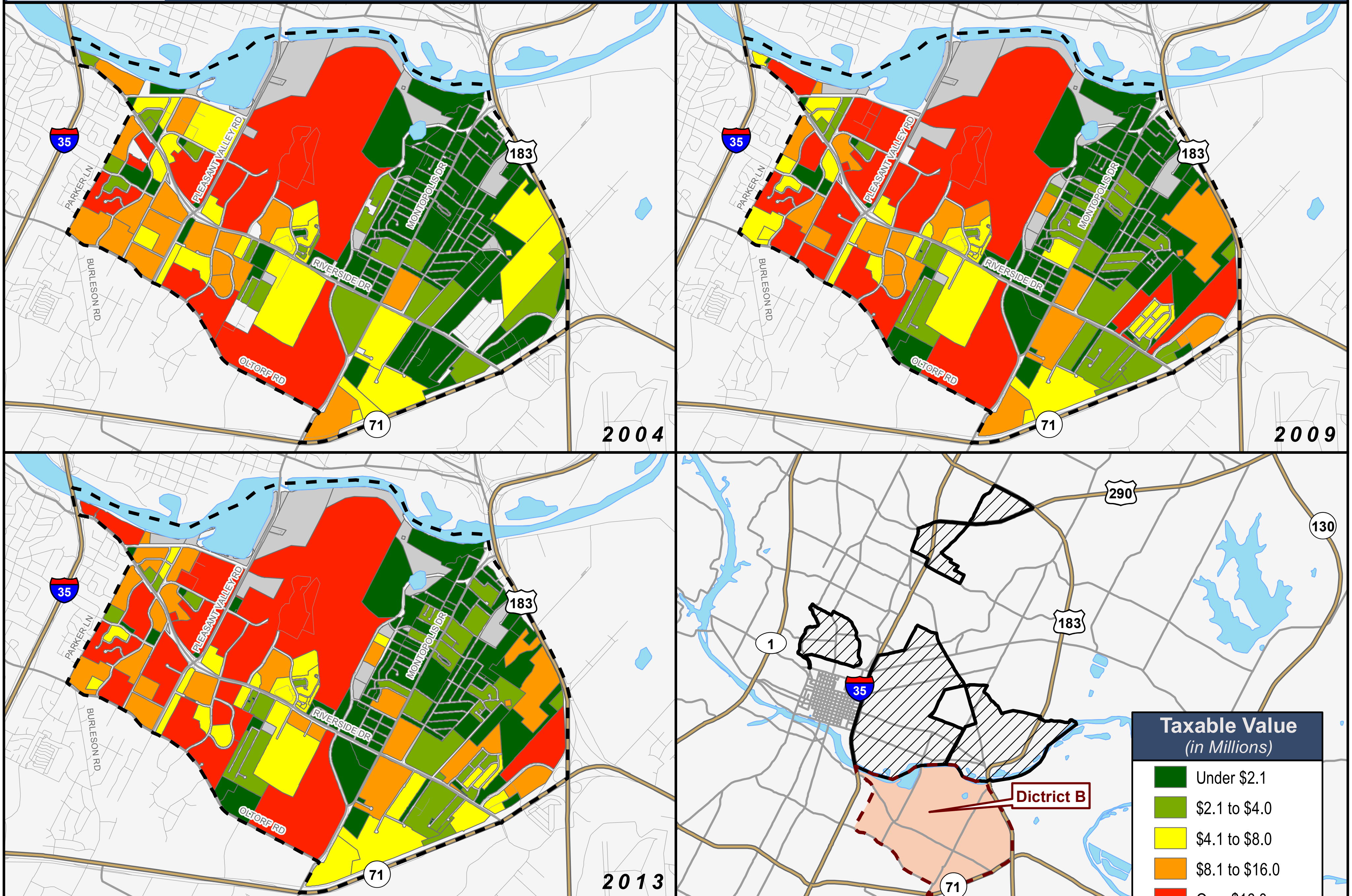
Capitol Market Research, October 2014

Data from: Travis County Appraisal District



CAPITOL MARKET RESEARCH

District B:
COA Taxable Values by Year



Date: October 2014
Path: C:\GIS\Projects\2014\Homestead\DistrictB\District_B.mxd
Note: Assessed values are shown by Plat Block
Data from: Travis County Appraisal District

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District B Construction Trends

The following analysis breaks down the total taxable values further, in order to provide more detail relating to historical construction trends in the area. This analysis includes both Residential and Commercial land use types, disaggregated into “Existing Construction”, those properties built before the year 2000, and “New Construction”, properties that were built in 2000 and after. This is done in order to analyze both the older, existing tax base in the area, as well as the land use changes and new taxable values being brought into the area.

Table (8) below, shows value trends for Residential buildings in District B. Among the 2,262 Residential records in 2004, 2,197 of these (97.1%) were considered Existing Construction. In 2013, Existing Single Family accounted for 2,115 (68.2%) of the total Residential records. Existing Family Records actually saw and increase in the number of records from 2004 to 2013 while Multi-Family records declined, which could be a result of multiple existing Multi-Family projects being converted into Single Family for sale condominium units. While Single Family accounts for the majority of records in the Existing Residential stock, Multi-Family makes up the majority of taxable value, with over $321 million dollars of taxable value in 2013. Historically, Existing Construction Residential values grew at a compound growth rate of 2.41% from 2004 through 2013, significantly lower than the City rate. Existing Single Family grew at a 4.83% annual rate, which indicates some demand pressure on prices, but not yet a critical factor for existing homeowners.

New Residential construction in District B increased at a compound growth rate of 13.18%, from $109 million dollars in 2004 to $377 million dollars in 2013. The majority of this increase was in Multi-family construction, which has occurred on the north side of Riverside Drive in several new mixed-use and student oriented communities in the Riverside Corridor, between Interstate 35 and Grove Boulevard. New Construction Single Family has been concentrated east of Grove Boulevard, both in new small lot Single Family subdivisions such as Riverside Meadows and Frontier at Montana, and scattered around the existing Montopolis neighborhood. Average Residential taxable values (total records divided by total tax value) were 135.68% higher for those New Construction properties in 2013, mainly due to Multi-family properties.

Table (8)

Residential Taxable Value by Date of Completion

District B

Land Use	*2004*			*2009*			*2013*			***(2004 - 2013)***	
	No. Records	Taxable Value	Average Value	No. Records	Taxable Value	Average Value	No. Records	Taxable Value	Average Value	*Average Annual Increase*	***Compound Growth Rate***
Existing Construction (Built before 2000)											
Single Family	2,002	$101,116,512	$50,508	2,224	$167,748,318	$75,426	2,155	$149,913,562	$69,565	*4.83%*	***4.02%***
Multi-Family	195	$270,518,175	$1,387,273	178	$342,461,982	$1,923,944	159	$321,752,810	$2,023,603	*1.89%*	***1.75%***
Subtotal	2,197	$371,634,687	$169,155.52	2,402	$510,210,300	$212,411	2,314	$471,666,372	$203,832	*2.69%*	***2.41%***
New Constrution (Built 2000 +)											
Single Family	45	$3,542,120	$78,714	635	$84,764,098	$133,487	750	$90,768,979	$121,025	*246.26%*	***38.31%***
Multi-Family	20	$105,793,932	$5,289,697	30	$126,129,485	$4,204,316	35	$286,341,254	$8,181,179	*17.07%*	***10.47%***
Subtotal	65	$109,336,052	$1,682,093.11	665	$210,893,583	$317,133	785	$377,110,233	$480,395	*24.49%*	***13.18%***
Total	**2,262**	**$480,970,739**	**$212,631**	**3,067**	**$721,103,883**	**$235,117**	**3,099**	**$848,776,605**	**$273,887**	***7.65%***	***5.84%***
Average Value Difference *(New v.s. Existing Construction)*		*Single Family*	*55.84%*			*76.98%*			*73.97%*		
		Multi-Family	*281.30%*			*118.53%*			*304.29%*		
		Total	*894.41%*			*49.30%*			*135.68%*		

Capitol Market Research, October 2014 district tcad.xls

Data from: Travis County Appraisal District

Table (9) below, shows value trends for Commercial buildings in District B. The number of Existing Construction records decreased in number of records and taxable value, from 146 records with a taxable value of $110 million in 2004, to 122 records with a value of $104 million in 2013, with a negative compound growth rate in taxable value of -0.61%.

Average Commercial values for New Construction increased in Taxable Value by a compound growth rate of 16.46% from 2004 through 2013, with an increase in records from just 6 in 2004 to 42 in 2013. Many of these new commercial properties can be found in Airport Commerce Park, just west of the intersection of US Hwy 183 and Hwy 71, and in the Riverside Corridor.

Table (9)

Commercial Taxable Value by Date of Completion

District B

Land Use	*2004*			*2009*			*2013*			***(2004 - 2013)***	
	No. Records	Taxable Value	Average Value	No. Records	Taxable Value	Average Value	No. Records	Taxable Value	Average Value	*Average Annual Increase*	***Compound Growth Rate***
Existing Construction (Built before 2000)											
Goods/Services	124	$84,319,932	$679,999	106	$105,218,593	$992,628	101	$89,039,476	$881,579	*0.56%*	***0.55%***
Industrial	4	$22,233,200	$5,558,300	5	$13,480,293	$2,696,059	4	$9,117,935	$2,279,484	*-5.90%*	***-8.53%***
Other	18	$4,425,820	$245,879	20	$7,099,385	$354,969	17	$6,244,785	$367,340	*4.11%*	***3.50%***
Subtotal	146	$110,978,952	$760,129.81	131	$125,798,271	$960,292	122	$104,402,196	$855,756	*-0.59%*	***-0.61%***
New Construtiion (Built 2000 +)											
Goods/Services	5	$3,680,164	$736,033	20	$41,209,586	$2,060,479	35	$80,765,131	$2,307,575	*209.46%*	***36.19%***
Industrial	1	$14,618,133	$14,618,133	1	$14,537,916	$14,537,916	...	...	...	...	...
Other	...	...	...	5	$3,442,586	$688,517	7	$3,185,583	$455,083	...	...
Subtotal	6	$18,298,297	$3,049,716.17	26	$59,190,088	$2,276,542	42	$83,950,714	$1,998,827	*35.88%*	***16.46%***
Total	**152**	**$129,277,249**	**$850,508**	**157**	**$184,988,359**	**$1,178,269.80**	**164**	**$188,352,910**	**$335,387**	***4.57%***	***3.84%***
Average Value Difference *(New v.s. Existing Construction)*		*Goods/Services*	*8.24%*			*107.58%*			*161.75%*		
		Industrial	*163.00%*			*439.23%*			*...*		
		Other	*...*			*93.97%*			*23.89%*		
		Total	*301.21%*			*137.07%*			*133.57%*		

Capitol Market Research, October 2014 district tcad.xls

Data from: Travis County Appraisal District

District B Current and Planned Developments

Current developments in the area are those that are now or were recently under construction in the area, but not yet reflected on the 2013 Tax Roll, as well as those under review by the City of Austin Planning and Development Review Department. If the project was completed and reflected in the 2014 tax roll, this value was used as an estimated value. When the project was not completed and recorded in the 2014 tax roll, the estimated assessed values for the projects under review are estimated from recently completed comparable projects in the same district, averaged by unit for residential properties, and land acres or building square feet for commercial (depending on the type of project).

In District B, there are sixteen projects listed as current developments, most of which are single family (for sale) projects, both attached and detached, not including remaining residential units and commercial square footage remaining in the unplanned parts of the Lakeshore PUD. There are currently three multi-family projects and one single family condominium project under construction. Table (10), below, lists all the developments under construction and planned in District B.

Table (10)

Current Developments

District B

Residential / Mixed-Use							
Map No	Name	Status (2013)	Land Use (2013)	Taxable Value (2013)	Planned Units	Future Estimated Value	Description
1	1401 Pleasant Valley	Planned	Vacant	$643,686	32	$6,563,740	Single Family Townhomes
2	1500 S. Pleasant Valley	Planned	Commercial	$1,371,514	340	$31,957,792	Multi-family
3	E. Riverside Mixed Use Project	Planned	Commercial/Vacant	$307,836	100	$15,333,333	Mixed-Use
4	Grove Tract Loft Development	Planned	Vacant	$710,267	156	$12,059,274	Multi-family
5	Lakeshore Lot 10 (Park at Lakeshore)	Construction	Vacant	$2,756,477	282	$21,799,457	Multi-family
6	Richardson Lane Subdivision	Planned	Vacant	$78,750	12	$1,587,410	Single Family
7	Riverside II Condominiums	Planned	Vacant	$746,261	125	$25,639,611	Single Family Condos
8	Riverside Grove Condominums (2 Bldgs)	Planned	Vacant	$152,830	57	$7,119,080	Single Family Condos
9	Riverside West Condominiums*	Construction	Residential/Vacant	$1,250,018	43	$8,820,026	Single Family Condos (Detached)
10	South Shore Section 1A	Construction	Residential/Vacant	$4,041,164	250	$38,333,333	Mixed-Use
11	South Shore Section 1B & 1C	Construction	Residential/Vacant	$15,143,963	256	$39,253,333	Mixed-Use
12	South Shore Subdivision (Sec. One)	Planned	Vacant	$2,505,571	71	$14,563,299	Single Family Townhomes
13	The Pointe/Villages at Ben White	Planned	Vacant	$3,155,441	404	$37,973,377	Multi-family
14	Townhomes at Park Place	Planned	Vacant	$1,452,508	55	$11,281,429	Single Family Townhomes
	Subtotal			$34,316,286		$272,284,496	
Commercial							
Map No	Name	Status	2013 Land Use	2013 Assessed Value	Planned Size	Future Estimated Value	Description
15	7800 E Ben White	Planned	Vacant	$858,319	10,880	$3,353,283	Restaurant/Retail
...	E. Riverside Mixed Use Project	Planned	Commercial/Vacant	*see residential*	12,000	*see residential*	Mixed-use (Ground Floor Retail)
16	Hilton Garden Inn	Planned	Vacant	$2,125,728	92,760	$6,416,281	Hotel (149 rooms)
...	South Shore Section 1A	Construction	Residential/Vacant	*see residential*	7,000	*see residential*	Mixed-use (Ground Floor Retail)
...	South Shore Section 1B & 1C	Construction	Residential/Vacant	*see residential*	10,584	*see residential*	Mixed-use (Ground Floor Retail)
	Subtotal			$2,984,047		$9,769,565	
	Total			**$37,300,333**		**$282,054,061**	
	Additional Value						**$244,753,728**

Capitol Market Research, October 2014 development list.xls

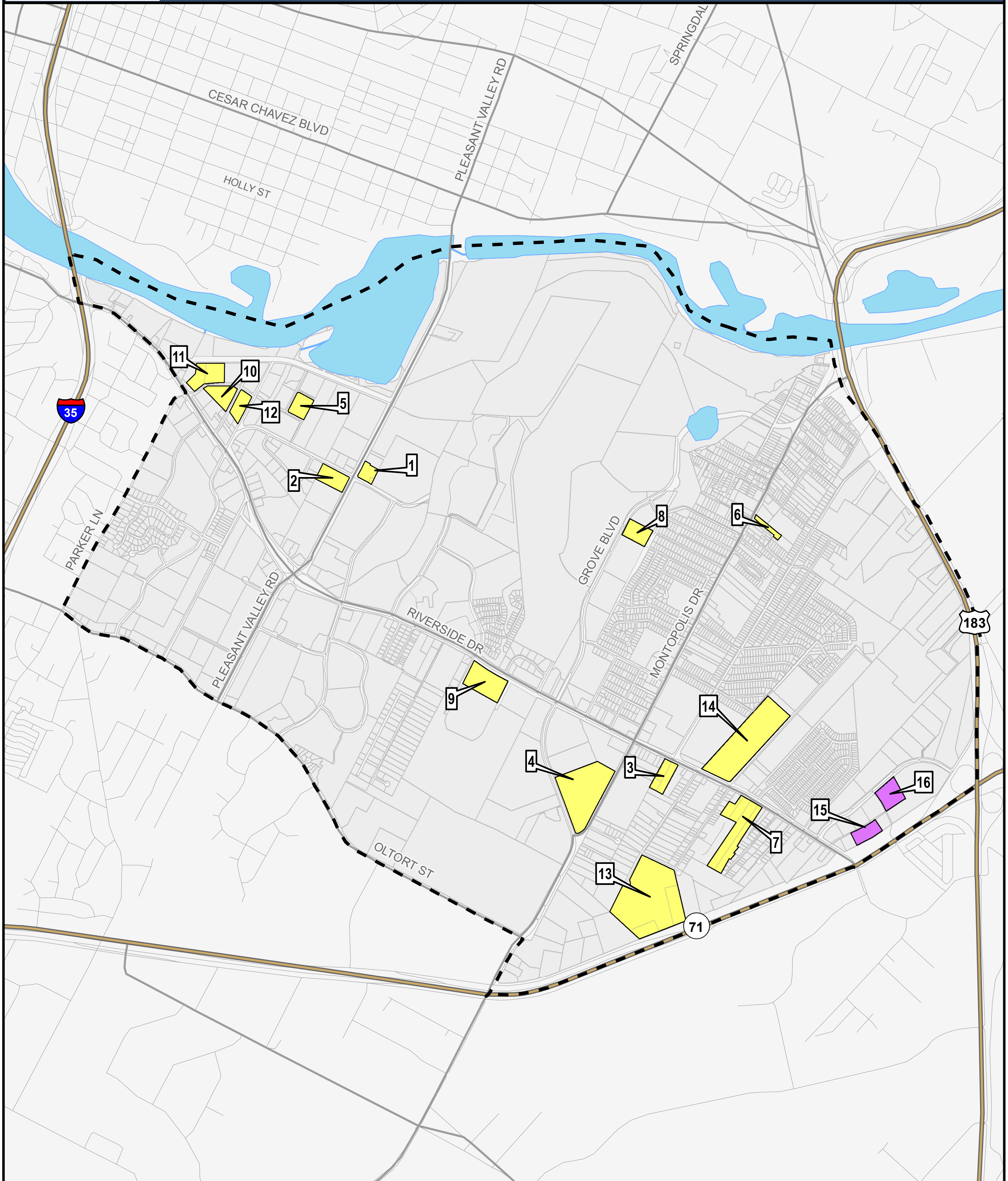
Source: City of Austin Emerging Projects, Growth Watch Data, and Permit Search, CMR Pipeline

Note: Estimated Values based upon 2013 assessed values of new construction, similar records in study area

**Riverside West Planned Units are those still under construction at the 2013 Tax Roll*

CAPITOL MARKET RESEARCH

District B:
Current Development



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Residential / Mixed-Use

Commercial

Date: October 2014
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District B Future Values

District B includes portions of three neighborhood planning areas and one master plan. In 2013, it had a total assessed value of $1,102,186,338 in 3,749 records. The property value in the area grew from $646 million in 2004 to $1.10 billion in 2013, at an average compound growth rate of 5.48%, just slightly lower than the City of Austin growth rate of 5.56%. New Single Family Residential construction (built in 2000 +) had the most astounding change from 2004 to 2013, increasing at an average compound rate of 38.31% in taxable value.

Looking at the historical trends, as well as the increasing density and the introduction of mixed use communities and attached Single Family, and availability of vacant and infill land in the District (Table (10)), CMR has assumed a continuation of new construction. Table (11) on the following page compares the 10-year taxable value forecasts with the historical data from TCAD for the district. Using the average compound interest rate for the District (5.48%), CMR estimated the total assessed value in District B to be $1.87 billion in 2023. Then, using various forecasting techniques that fit with the trends in specific land use categories and age of product, CMR estimated their share of the value in 2023, with current and planned developments taken into account.

The future value estimation in 2023 shows the majority of new taxable value coming from new (built in 2000 +) Commercial records, which are estimated to have a compound growth rate of 9.55% from 2013 to 2023, as well as New Residential construction, with an estimated growth rate of 7.90%.

Table (11)

10-Year Taxable Value Estimates

District B

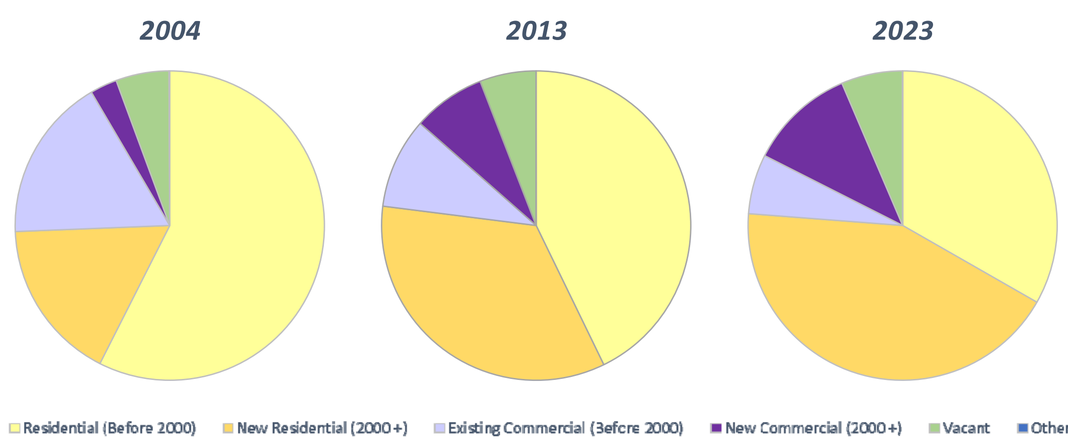
Land Use	2004 Existing Construction Taxable Value	2004 New Construction Taxable Value	2013 Existing Construction Taxable Value	2013 Existing Construction Compound Growth Rate (2004 -2013)	2013 New Construction Taxable Value	2013 New Construction Compound Growth Rate (2004 -2013)	2023 Existing Construction Taxable Value	2023 Existing Construction Compound Growth Rate (2013 -2023)	2023 New Construction Taxable Value	2023 New Construction Compound Growth Rate (2013 -2023)
Residential	$371,634,687	$109,336,052	$471,666,372	*2.41%*	$377,110,233	*13.18%*	$624,818,921	*2.85%*	$806,974,064	*7.90%*
Single Family	$101,116,512	$3,542,120	$149,913,562	*4.02%*	$90,768,979	*38.31%*	$227,071,440	*4.24%*	$227,855,014	*9.64%*
Multi-Family	$270,518,175	$105,793,932	$321,752,810	*1.75%*	$286,341,254	*10.47%*	$397,747,481	*2.14%*	$579,119,050	*7.30%*
Commercial	$110,978,952	$18,298,297	$104,402,196	*-0.61%*	$83,950,714	*16.46%*	$117,201,744	*1.16%*	$208,917,960	*9.55%*
Goods/Services	$84,319,932	$3,680,164	$89,039,476	*0.55%*	$80,765,131	*36.19%*	$103,662,572	*1.53%*	$201,962,558	*9.60%*
Industrial	$22,233,200	$14,618,133	$9,117,935	...	...	...	$4,082,201	...	...	...
Other	$4,425,820	...	$6,244,785	*3.50%*	$3,185,583	...	$9,456,971	*4.24%*	$6,955,403	*8.12%*
Vacant/ Agricultural	$35,855,195		$64,771,676			*6.09%*	$120,465,758			*6.40%*
Other	$580,000		$285,147			*-6.85%*	$153,043			*-6.03%*
Total	**$646,683,183**		**$1,102,186,338**			***5.48%***	**$1,878,531,491**			***5.48%***

Capitol Market Research, October 2014

Historical data from Travis County Appraisal District

forecast values.xls

Percentage of Total Assessed Values



DISTRICT C

(Johnston Terrace/Govalle)

District C Historical & Current Tax Values

This District is delineated by US Census Tract 21.11, and includes portions of the East MLK and the Govalle/Johnston Terrace Neighborhood Planning Areas. It encompasses approximately 1,700 acres.

In 2004, District C had a total taxable value of over $125 million dollars in 1,156 property tax records, with the majority of these records being Residential. District B increased to $226 million dollars in 2009, average annual increase of 15.9%. The average annual increase in taxable value slowed to 2.8% between 2009 and 2013, ending with a 2013 taxable value of $258 billion dollars. Historically, from 2004 through 2013, taxable value for tangible property increased at a compound rate of 7.44%, with the highest rate of growth being for Residential properties, which rose at a compound growth rate of 10.32%, significantly higher than those of the City of Austin. These values are shown on Table (12) below.

Residential records in District B have increased from 804 records in 2004 to 1,082 records in 2013, Commercial records have increased just slightly, from 137 records in 2004 to 150 records in 2013. Vacant/Agricultural records also increased, from 207 records in 2004 to 269 in 2013.

Table (12)

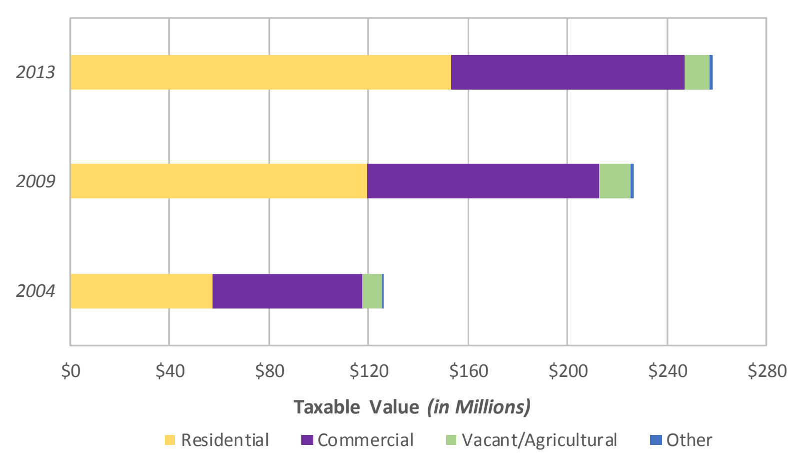
COA Taxable Value by Land Use

District C

Land Use	*2004*		*2009*		*2013*		***(2004 - 2013)***	
	No. Records	Taxable Value	No. Records	Taxable Value	No. Records	Taxable Value	*Average Annual Increase*	***Compound Growth Rate***
Residential	804	$57,342,795	953	$119,619,030	1,082	$153,048,915	*16.69%*	***10.32%***
Commercial	137	$60,081,319	148	$93,064,833	150	$93,831,391	*5.62%*	***4.56%***
Vacant/Agricultural	207	$7,879,690	335	$12,618,589	269	$10,369,081	*3.16%*	***2.78%***
Other	8	$569,611	8	$950,237	8	$790,069	*3.87%*	***3.33%***
Grand Total	1,156	$125,873,415	1,444	$226,252,689	1,509	$258,039,456	***10.50%***	***7.44%***

Capitol Market Research, October 2014 district tcad.xls

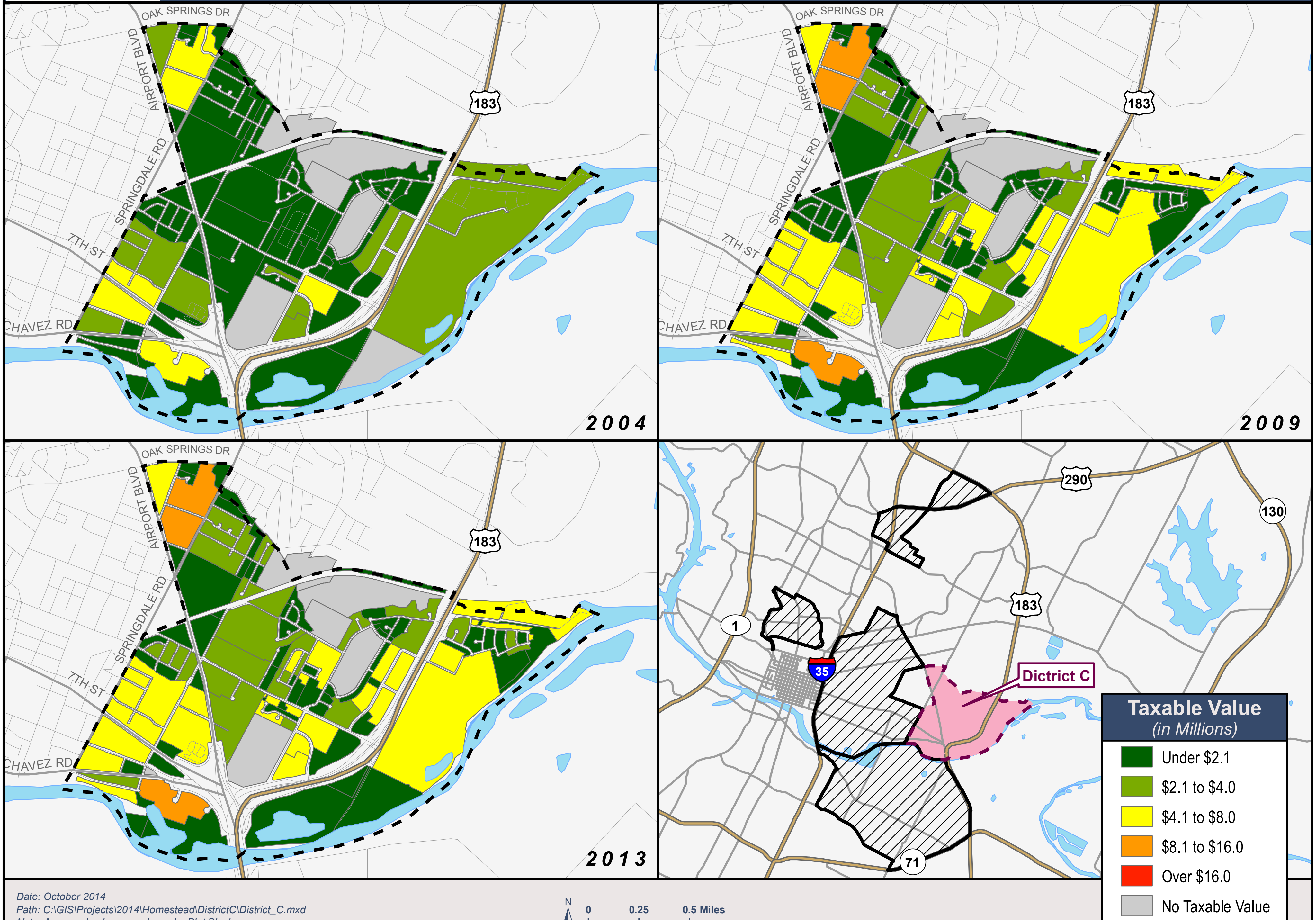
Data from: Travis County Appraisal District



CAPITOL MARKET RESEARCH

District C:

COA Taxable Values by Year



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Note: Assessed values are shown by Plat Block
Data from: Travis County Appraisal District

District C Construction Trends

The following analysis breaks down the total taxable values further, analyzing historical construction trends in the area. This analysis includes both Residential and Commercial land use types, disaggregated into “Existing Construction”, those properties built before the year 2000, and “New Construction”, properties that were built in 2000 and after. This is done in order to analyze both the older, existing tax base in the area, as well as the land use changes and new taxable values being brought into the area.

Table (13) below, shows value trends for Residential buildings in District C. Among the 804 Residential records in 2004, 791 of these (98.3%) were considered Existing Construction. In 2013, Existing Single Family accounted for 776 (71.7%) of the total Residential records. Existing Single Family also makes up the majority of taxable value, with over $75 million dollars of taxable value, which grew at a compound growth rate of 2.41% since 2004, when it was $39 million dollars.

New Residential construction in District C grew at a compound rate of 43.52%, from $1.3 million dollars in 2004 to $51 million dollars in 2013. The majority of this increase was in Single Family construction, taking place in new production home single family subdivisions such as Knollwood on the Colorado and Joseph Edward Smart Housing. Average Residential taxable values (total records divided by total tax value) were 28.34% higher for those New Construction properties in 2013.

Table (13)

Residential Taxable Value by Date of Completion

District C

Land Use	*2004*			*2009*			*2013*			***(2004 - 2013)***	
	No. Records	Taxable Value	Average Value	No. Records	Taxable Value	Average Value	No. Records	Taxable Value	Average Value	*Average Annual Increase*	***Compound Growth Rate***
Existing Construction (Built before 2000)											
Single Family	680	$39,140,271	$74,055	682	$69,091,248	$120,567	669	$75,716,437	$113,179	*9.34%*	***6.82%***
Multi-Family	111	$16,815,796	$167,896	105	$25,002,191	$240,059	107	$25,904,540	$242,099	*5.40%*	***4.42%***
Subtotal	791	$55,956,067	$70,740.92	787	$94,093,439	$119,560	776	$101,620,977	$130,955	*8.16%*	***6.15%***
New Constrution (Built 2000 +)											
Single Family	13	$1,386,728	$106,671	159	$22,675,415	$142,613	299	$48,835,199	$163,328	*342.16%*	***42.78%***
Multi-Family	…	…	…	7	$2,850,176	$407,168	7	$2,592,739	$370,391	…	…
Subtotal	13	$1,386,728	$106,671.38	166	$25,525,591	$153,769	306	$51,427,938	$168,065	*360.86%*	***43.52%***
Total	**804**	**$57,342,795**	**$71,322**	**953**	**$119,619,030**	**$125,518**	**1,082**	**$153,048,915**	**$141,450**	***16.69%***	***10.32%***
Average Value Difference *(New v.s. Existing Construction)*		*Single Family*	*44.04%*			*18.29%*			*44.31%*		
		Multi-Family	*…*			*69.61%*			*52.99%*		
		Total	*50.79%*			*28.61%*			*28.34%*		

Capitol Market Research, October 2014 district tcad.xls

Data from: Travis County Appraisal District

Table (14) below, shows value trends for Commercial buildings in District C. The number of Existing Construction records increased from 135 records with a total taxable value of $58 million in 2004 to 141 records with a total taxable value of $86 million in 2013, a compound growth rate of 3.92%. The majority of these increases are general Goods/Services records.

Average Commercial values for New Construction increased in aggregate Taxable Value at a compound rate of 18.89% from 2004 through 2013, with an increase in records from just 2 in 2004 to 9 in 2013. The construction of the Southwest Key Programs National Headquarters and the East Austin College Prep Jain Campus significantly increased newer construction commercial values in the area.

Table (14)

Commercial Taxable Value by Date of Completion

District C

Land Use	2004			2009			2013			(2004 - 2013)	
	No. Records	Taxable Value	Average Value	No. Records	Taxable Value	Average Value	No. Records	Taxable Value	Average Value	*Average Annual Increase*	***Compound Growth Rate***
Existing Construction (Built before 2000)											
Goods/Services	128	$53,586,484	$418,644	140	$85,461,395	$610,439	138	$82,863,641	$600,461	*5.46%*	*4.46%*
Industrial	3	$4,908,359	$1,636,120	2	$4,318,522	$2,159,261	2	$3,413,419	$1,706,710	*-3.05%*	*-3.57%*
Other	4	$254,520	$63,630	1	$36,654	$36,654	1	$36,922	$36,922	*-8.55%*	*-17.56%*
Subtotal	135	$58,749,363	$435,180.47	143	$89,816,571	$628,088	141	$86,313,982	$612,156	*4.69%*	*3.92%*
New Constrution (Built 2000 +)											
Goods/Services	2	$1,331,956	$665,978	5	$3,248,262	$649,652	9	$7,517,409	$835,268	*46.44%*	*18.89%*
Industrial	…	…	…	…	…	…	…	…	…	…	…
Other	…	…	…	…	…	…	…	…	…	…	…
Subtotal	2	$1,331,956	$665,978.00	5	$3,248,262	$649,652	9	$7,517,409	$835,268	*46.44%*	*18.89%*
Total	**137**	**$60,081,319**	**$438,550**	**148**	**$93,064,833**	**$628,816**	**150**	**$93,831,391**	**$625,542.61**	***5.62%***	***4.56%***
Average Value Difference *(New v.s. Existing Construction)*		*Goods/Services*	*59.08%*			*6.42%*			*39.10%*		
		Industrial	…			…			…		
		Other	…			…			…		
		Total	*53.03%*			*3.43%*			*36.45%*		

Capitol Market Research, October 2014 district tcad.xls

Data from: Travis County Appraisal District

District C Current and Planned Developments

Current developments in the area are those that are now or were recently under construction in the area, but not yet reflected on the 2013 Tax Roll, as well as those under review by the City of Austin Planning and Development Review Department. If the project was completed and reflected in the 2014 tax roll, this value was used as an estimated value. When the project was not completed and recorded in the 2014 tax roll, the estimated assessed values for the projects under review are estimated from recently completed comparable projects in the same district, averaged by unit for residential properties, and land acres or building square feet for commercial (depending on the type of project).

In District C, there are five projects listed as current developments, not including the total number of residential units and commercial square footage available to develop in the thinkEAST PUD. There is currently one single family subdivision and one commercial parking facility under construction. Table (15), below, lists all the developments under construction and planned in District C.

Table (15)

Current Developments

District C

Residential / Mixed-Use							
Map No	Name	Status (2013)	Land Use (2013)	Taxable Value (2013)	Planned Units	Future Estimated Value	Description
1	Greenpointe Austin (Smart Housing)	Planned	Vacant/Residential	$274,129	10	$1,410,988	Single Family Condos
2	Knollwood on the Colorado Ph.II B	Construction	Vacant	$329,864	76	$11,053,961	Single Family
3	thinkEAST	Planned	Vacant/Residential	$809,603	150	$23,000,000	Mixed-Use
	Subtotal			$1,413,596		$35,464,949	
Commercial							
Map No	Name	Status	2013 Land Use	2013 Assessed Value	Planned Size	Future Estimated Value	Description
4	Red Bluff Hotel	Planned	Commercial	$581,778	53,000 sq.ft.	$14,651,002	Hotel & Restaurant (79 Rooms)
5	Whole Foods Distribution	Construction	Vacant	$371,525	1.85 acres	$378,950	Parking Lot
	Subtotal			$953,303		$15,029,952	
	Total			**$2,366,899**		**$50,494,901**	
	Additional Value						**$48,128,002**

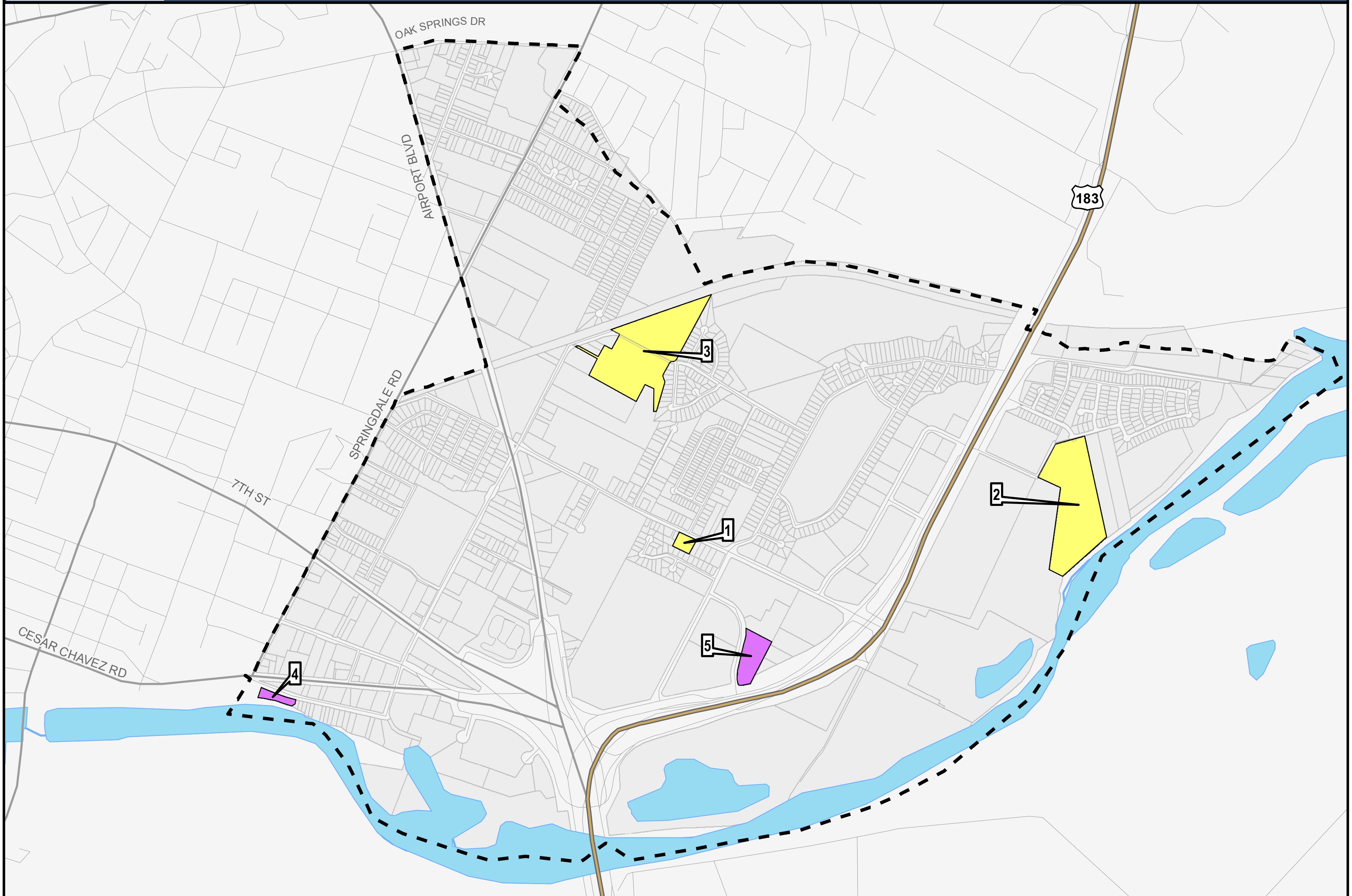
Capitol Market Research, October 2014 development list.xls

Source: City of Austin Emerging Projects, Growth Watch Data, and Permit Search, CMR Pipeline

Note: Estimated Values based upon 2013 assessed values of new construction, similar records in study area

CAPITOL MARKET RESEARCH

District C:
Current Development



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0 0.25 0.5 Miles

Residential / Mixed Use
Commercial

District C Future Values

District C includes portions of the East MLK and Govalle/Johnston Terrace Neighborhood Planning areas, and in 2013 had a total assessed value of $299,687,640 in 1,525 records. The property value in the area grew from $125 million in 2004 to $258 million in 2013, at an average compound interest rate of 7.44%. New Single Family Residential construction (built in 2000 +) had the highest rate of change from 2004 to 2013, increasing at a compound rate of 43.52%.

Given these historical trends, the abundance of vacant land available for development, and projects in development, it seems reasonable to assume a continuation of new single family home construction coupled with a modest appreciation in the value of the existing housing stock. Table (16) on the following page compares the 10-year taxable value forecasts with the historical data from TCAD for the district. Using the average compound interest rate for the District (7.44%), CMR estimated the total assessed value in District C to be $528 million in 2023. Then, using various forecasting techniques that fit with the trends in specific land use categories and age of project, CMR estimated their share of the value in 2023, with current and planned developments taken into account.

The future value estimation in 2023 shows the majority of assessed value coming from new Residential records, increasing at a compound rate of 14.17% from 2013 to 2023, as well as new Commercial records, which are estimated to increase at a compound rate of 13.33% in District C.

Table (16)

10-Year Taxable Value Estimates

District C

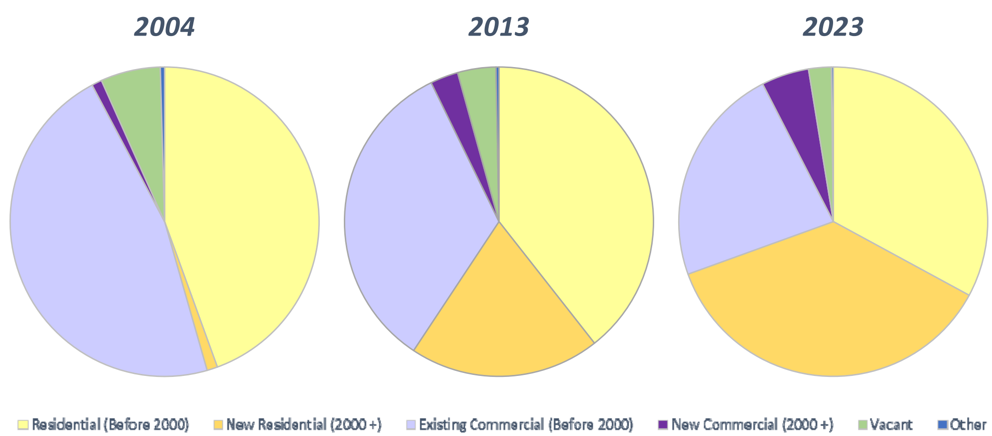
Land Use	2004 Existing Construction Taxable Value	2004 New Construction Taxable Value	2013 Existing Construction Taxable Value	2013 Existing Construction Compound Growth Rate (2004 -2013)	2013 New Construction Taxable Value	2013 New Construction Compound Growth Rate (2004 -2013)	2023 Existing Construction Taxable Value	2023 Existing Construction Compound Growth Rate (2013 -2023)	2023 New Construction Taxable Value	2023 New Construction Compound Growth Rate (2013 -2023)
Residential	$55,956,067	$1,386,728	$101,620,977	*6.15%*	$51,427,938	*43.52%*	$173,985,095	*5.52%*	$193,584,309	*14.17%*
Single Family	$39,140,271	$1,386,728	$75,716,437	*6.82%*	$48,835,199	*42.78%*	$136,659,446	*6.08%*	$154,094,130	*12.18%*
Multi-Family	$16,815,796	...	$25,904,540	*4.42%*	$2,592,739	...	$37,325,649	*3.72%*	$39,490,179	*31.30%*
Commercial	$58,749,363	$1,331,956	$86,313,982	*3.92%*	$7,517,409	*18.89%*	$121,479,189	*3.48%*	$26,281,875	*13.33%*
Goods/Services	$53,586,484	$1,331,956	$82,863,641	*4.46%*	$7,517,409	*18.89%*	$119,959,238	*3.77%*	$25,600,052	*13.04%*
Industrial	$4,908,359	...	$3,413,419	*-3.57%*	...	...	$1,514,283	*-7.81%*	...	...
Other	$254,520	...	$36,922	*-17.56%*	...	...	$5,669	*-17.09%*	$681,823	...
Vacant/ Agricultural	$7,879,690		$10,369,081			*2.78%*	$12,666,085			*2.02%*
Other	$569,611		$790,069			*3.33%*	$982,189			*2.20%*
Total	**$125,873,415**		**$258,039,456**			***7.44%***	**$528,978,743**			***7.44%***

Capitol Market Research, October 2014

Historical data from Travis County Appraisal District

forecast values.xls

Percentage of Total Assessed Values



DISTRICT D

(US Hwy 183 & US Hwy 290)

District D Historical & Current Taxable Values

District D is delineated by 2010 US Census Tracts 18.11 and 21.05, and encompasses approximately 830 acres. It includes large portions of the Coronado Hills, North Loop, and Windsor Park Neighborhood Planning Areas.

In 2004, District D had a total taxable value of over $282 million dollars in 1,145 property tax records, with the majority of these records being Residential. District D increased to $378 million dollars in 2009, an average annual increase of 6.8%. The increase in taxable value slowed to an annual average of just 1.2% between 2009 and 2013, ending with a 2013 taxable value of $402 million dollars. Historically, from 2004 through 2013, taxable value for tangible property increased at a compound growth rate of just 3.61%, slower than the City of Austin. These values are shown on Table (17) below.

Residential records in District B have seen a slight decrease, from 969 in 2004 to 960 in 2013. Commercial records have increased just slightly, from 116 records in 2004 to 123 records in 2013. Vacant/Agricultural records decreased marginally, from 60 records in 2004 to 59 in 2013.

Table (17)

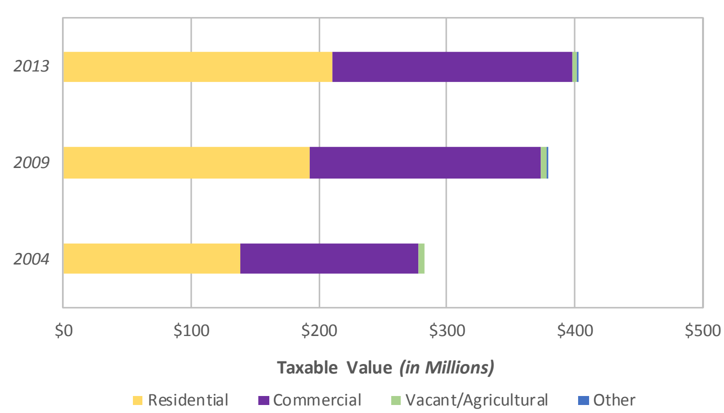
COA Taxable Value by Land Use

District D

Land Use	2004		2009		2013		(2004 - 2013)	
	No. Records	Taxable Value	No. Records	Taxable Value	No. Records	Taxable Value	*Average Annual Increase*	***Compound Growth Rate***
Residential	969	$138,445,812	960	$192,572,302	960	$210,174,242	*5.18%*	***4.26%***
Commercial	116	$139,529,277	125	$180,573,913	123	$187,606,337	*3.45%*	***3.00%***
Vacant/Agricultural	60	$4,240,755	49	$5,563,692	51	$4,480,184	*0.56%*	***0.55%***
Other	...	...	1	$32,740	1	$32,740	...	...
Grand Total	1,145	$282,215,844	1,135	$378,742,647	1,135	$402,293,503	***4.25%***	***3.61%***

Capitol Market Research, October 2014

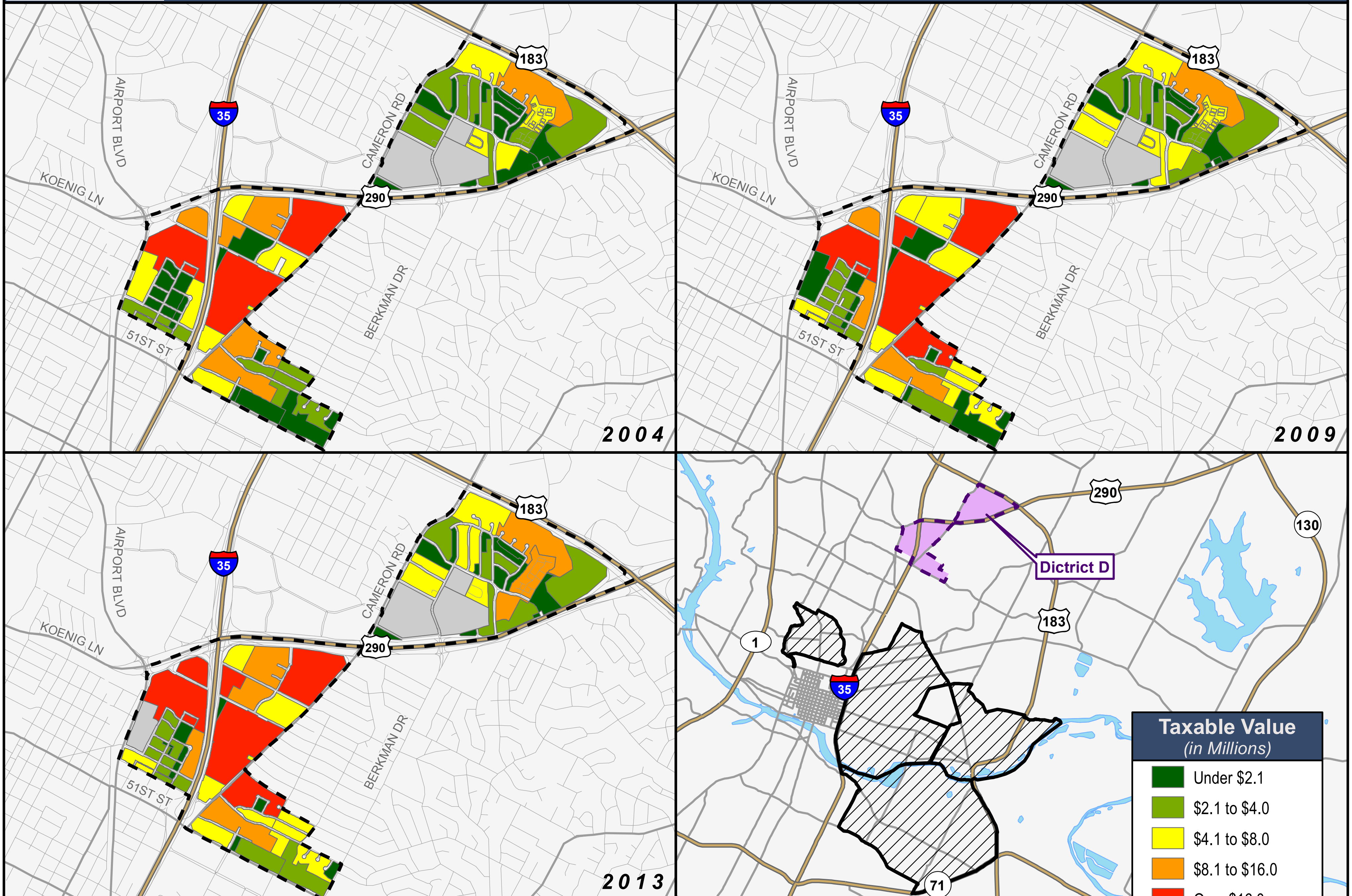
Data from: Travis County Appraisal District



CAPITOL MARKET RESEARCH

District D:

COA Taxable Values by Year



Date: October 2014
Path: C:\GIS\Projects\2014\Homestead\DistrictD\District_D.mxd
Note: Assessed values are shown by Plat Block
Data from: Travis County Appraisal District

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District D Construction Trends

The following analysis breaks down the total taxable values further, analyzing historical construction trends in the area. This analysis includes both Residential and Commercial land use types, disaggregated into "Existing Construction", those properties built before the year 2000, and "New Construction", properties that were built in 2000 and after. This is done in order to analyze both the older, existing tax base in the area, as well as the land use changes and new taxable values being brought into the area.

Table (18) below, shows value trends for Residential buildings in District D. Among the 967 Residential records in 2004, all but 2 were considered Existing Construction. In 2013, Existing Single Family accounted for 940 (96.9%) of the total Residential records. Existing Single Family also makes up the majority of taxable value, with over $204 million dollars of taxable value, with a compound growth rate of 4.00% from 2004, when it was $138 million dollars.

New Residential construction in District D increased at a compound rate of 36.91%, from $243 thousand dollars in 2004 to $5.6 million dollars in 2013. The majority of this increase was in Single Family construction, scattered around the existing neighborhoods. The only new Multi-family construction in the area is a senior housing affordable housing facility built in 2002, Primrose at Shadow Creek, owned by the Austin Housing Finance Corporation, which contributes no taxable value. Average Residential taxable values (total records divided by total tax value) were 29.21% higher for those New Construction properties in 2013.

Table (18)

Residential Taxable Value by Date of Completion

District D

Land Use	*2004*			*2009*			*2013*			***(2004 - 2013)***	
	No. Records	Taxable Value	Average Value	No. Records	Taxable Value	Average Value	No. Records	Taxable Value	Average Value	*Average Annual Increase*	***Compound Growth Rate***
Existing Construction (Built before 2000)											
Single Family	894	$85,973,274	$96,167	881	$121,608,590	$138,035	870	$122,732,645	$141,072	*4.28%*	*3.62%*
Multi-Family	73	$52,229,534	$715,473	70	$68,358,683	$976,553	70	$81,818,063	$1,168,829	*5.67%*	*4.59%*
Subtotal	967	$138,202,808	$142,919.14	951	$189,967,273	$199,755	940	$204,550,708	$217,607	*4.80%*	*4.00%*
New Constrution (Built 2000 +)											
Single Family	2	$243,004	$121,502	7	$2,149,027	$307,004	19	$5,623,534	$295,975	*221.42%*	*36.91%*
Multi-Family	...	...	...	2	$456,002	$228,001	1	$0	$0	...	...
Subtotal	2	$243,004	$121,502	9	$2,605,029	$289,448	20	$5,623,534	$281,177	*221.42%*	*36.91%*
Total	**969**	**$138,445,812**	**$142,875**	**960**	**$192,572,302**	**$200,596**	**960**	**$210,174,242**	**$218,932**	***5.18%***	***4.26%***
Average Value Difference *(New v.s. Existing Construction)*		*Single Family*	*26.34%*			*122.41%*			*109.80%*		
		Multi-Family	*...*			*-76.65%*			*-100.00%*		
		Total	*-14.99%*			*44.90%*			*29.21%*		

Capitol Market Research, October 2014 district tcad.xls

Data from: Travis County Appraisal District

Table (19) below, shows value trends for Commercial buildings in District D. The number of Existing Construction records increased just slightly, from 111 records with a total taxable value of $129 million in 2004 to 113 records with a total taxable value of $167 million in 2013, a compound increase of 2.62%. The majority of these increases are general Goods/Services records.

Average Commercial values for New Construction increased in aggregate Taxable Value a compound growth rate of 6.96% from 2004 through 2013, with an increase in records from just 2 in 2004 to 9 in 2013. The renovation of the 400,000 square foot Capital Plaza Shopping Center in 2003 and 2004 provided the majority of new commercial value in the area.

Table (19)

Commercial Taxable Value by Date of Completion

District D

Land Use	*2004*			*2009*			*2013*			***(2004 - 2013)***	
	No. Records	Taxable Value	Average Value	No. Records	Taxable Value	Average Value	No. Records	Taxable Value	Average Value	*Average Annual Increase*	***Compound Growth Rate***
Existing Construction (Built before 2000)											
Goods/Services	105	$128,383,436	$1,222,699	108	$163,082,912	$1,510,027	106	$166,294,809	$1,568,819	*2.95%*	*2.62%*
Industrial	...	...	...	...	...	...	...	...	...	...	...
Other	6	$844,963	$140,827	10	$1,497,190	$149,719	7	$1,115,512	$159,359	*3.20%*	*2.82%*
Subtotal	111	$129,228,399	$1,164,219.81	118	$164,580,102	$1,394,747	113	$167,410,321	$1,481,507	*2.95%*	*2.62%*
New Constrution (Built 2000 +)											
Goods/Services	5	$10,300,878	$2,060,176	7	$15,993,811	$2,284,830	10	$20,196,016	$2,019,602	*9.61%*	*6.96%*
Industrial	...	...	...	...	...	...	...	...	...	...	...
Other	...	...	...	...	...	...	...	...	...	...	...
Subtotal	5	$10,300,878	$2,060,175.60	7	$15,993,811	$2,284,830	10	$20,196,016	$2,019,602	*9.61%*	*6.96%*
Total	**116**	**$139,529,277**	**$1,202,839**	**125**	**$180,573,913**	**$1,444,591**	**123**	**$187,606,337**	**$1,525,254.77**	***3.45%***	***3.00%***
Average Value Difference *(New v.s. Existing Construction)*		*Goods/Services*	*68.49%*			*51.31%*			*28.73%*		
		Industrial	...			...			...		
		Other	...			...			...		
		Total	*76.96%*			*63.82%*			*36.32%*		

Capitol Market Research, October 2014 district tcad.xls

Data from: Travis County Appraisal District

District D Current and Planned Developments

Current developments in the area are those that are now or were recently under construction in the area, but not yet reflected on the 2013 Tax Roll, as well as those under review by the City of Austin Planning and Development Review Department. If the project was completed and reflected in the 2014 tax roll, this value was used as an estimated value. When the project was not completed and recorded in the 2014 tax roll, the estimated assessed values for the projects under review are estimated from recently completed comparable projects in the same district, averaged by unit for residential properties, and land acres or building square feet for commercial (depending on the type of project).

In District D, there are two projects listed as current developments, and none that are currently under construction. There is currently one single family condominium project and one restaurant facility planned for the area. Table (20), below, lists all the developments under construction and planned in District D.

Table (20)

Current Developments

District D

Residential / Mixed-Use							
Map No	Name	Status (2013)	Land Use (2013)	Taxable Value (2013)	Planned Units	Future Estimated Value	Description
1	Little Walnut Creek	Planned	Vacant	$1,088,549	110	$15,520,867	Single Family Condominiums
	Subtotal			$1,088,549		$15,520,867	
Commercial							
Map No	Name	Status (2013)	Land Use (2013)	Taxable Value (2013)	Planned Size	Future Estimated Value	Description
2	Burger Stand #11	Planned	Vacant	$152,280	3,050	$1,555,165	Restaurant
	Subtotal			$152,280		$1,555,165	
				$1,240,829		**$17,076,032**	
	Additional Value						**$15,835,203**

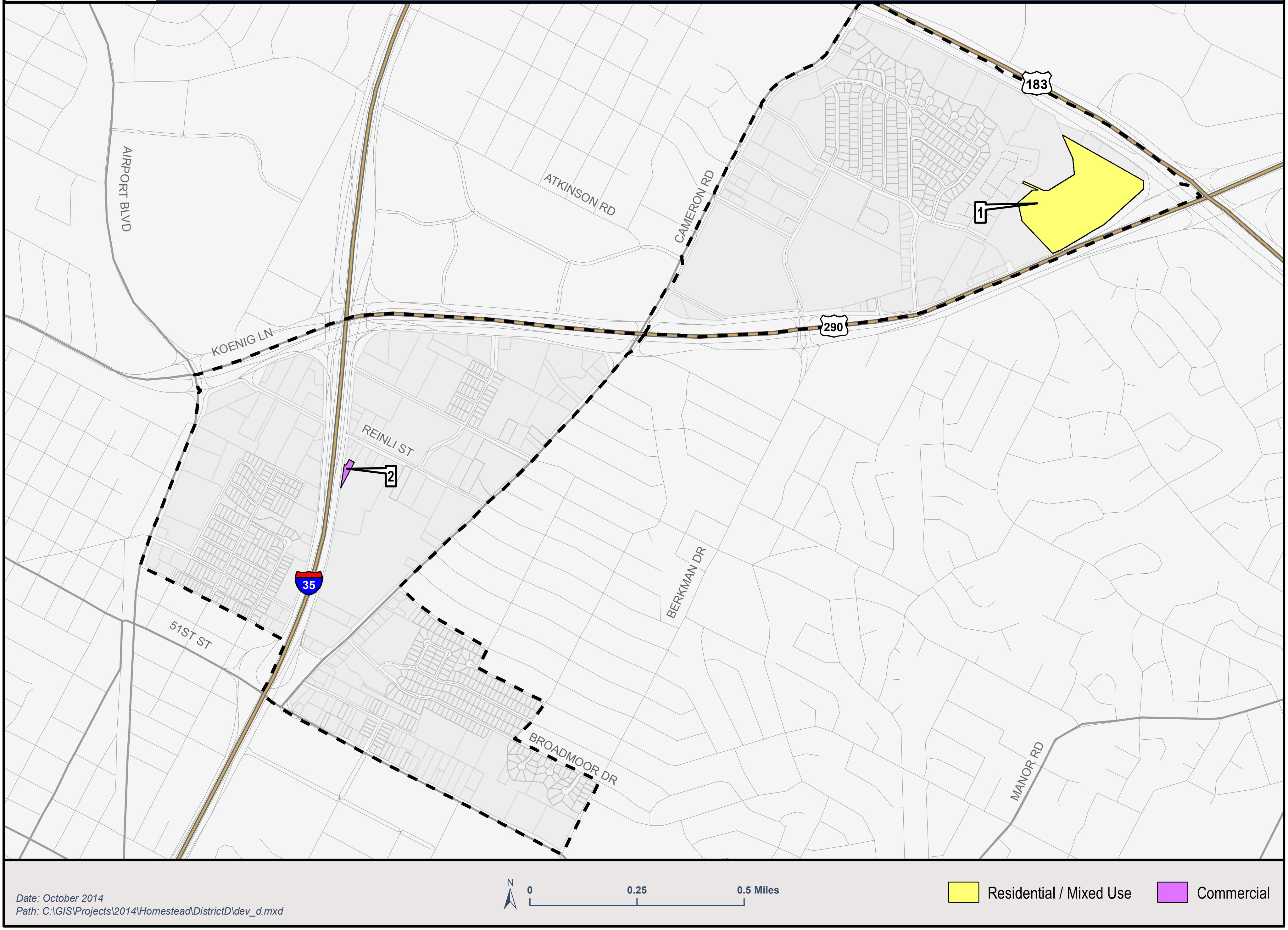
Capitol Market Research, October 2014 development list.xls

Source: City of Austin Emerging Projects, Growth Watch Data, and Permit Search, CMR Pipeline

Note: Estimated Values based upon 2013 assessed values of new construction, similar records in study area

District D:

Current Development



Date: October 2014

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District D Future Values

District D includes portions of the Coronado Hills, North Loop, and Windsor Park Neighborhood Planning areas, and in 2013 had a total assessed value of $402,293,503 in 1,135 records. The property value in the area grew from $282 million in 2004 to $402 million in 2013, at an average compound interest rate of 3.61%, much lower than the City of Austin as a whole. New Single Family Residential construction (built in 2000 +) had the highest rate of change from 2004 to 2013, increasing at a compound rate of 36.91%%.

Given these historical trends, and the limited amount of projects in development, it seems reasonable to assume a continuation of a relatively slow pace of new single family home construction, coupled with a modest appreciation in the value of the existing housing stock. Table (21) on the following page compares the 10-year taxable value forecasts with the historical data from TCAD for the district. Using the average compound interest rate for the District (3.61%), CMR estimated the total assessed value in District D to be $573 million in 2023. Then, using various forecasting techniques that fit with the trends in specific land use categories and age of project, CMR estimated their share of the value in 2023, with current and planned developments taken into account.

The future value estimation in 2023 shows the majority of assessed value coming from new Residential records, increasing at a compound rate of 22.03% from 2013 to 2023, as well as new Commercial records, which are estimated to increase at a compound rate of 5.64% in District D.

Table (21)

10-Year Taxable Value Estimates

District D

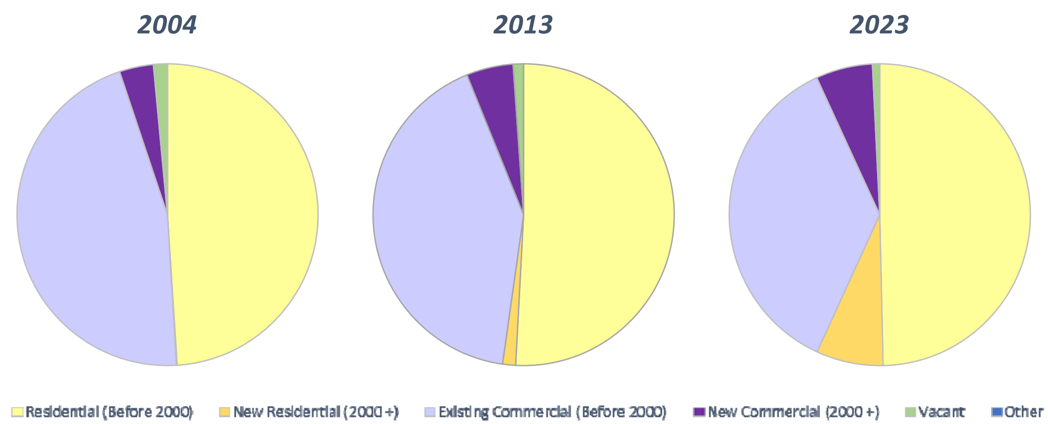
Land Use	2004		2013				2023			
	Existing Construction	New Construction	Existing Construction		New Construction		Existing Construction		New Construction	
	Taxable Value	Taxable Value	Taxable Value	Compound Growth Rate (2004 -2013)	Taxable Value	Compound Growth Rate (2004 -2013)	Taxable Value	Compound Growth Rate (2013 -2023)	Taxable Value	Compound Growth Rate (2013 -2023)
Residential	$138,202,808	$243,004	$204,550,708	*4.00%*	$5,623,534	*36.91%*	$284,754,319	*3.36%*	$41,166,258	*22.03%*
Single Family	$85,973,274	$243,004	$122,732,645	*3.62%*	$5,623,534	*36.91%*	$165,910,964	*3.06%*	$41,166,258	*22.03%*
Multi-Family	$52,229,534	...	$81,818,063	*4.59%*	...	...	$118,843,354	*3.80%*	...	...
Commercial	$129,228,399	$10,300,878	$167,410,321	*2.62%*	$20,196,016	*6.96%*	$208,056,579	*2.20%*	$34,951,119	*5.64%*
Goods/Services	$128,383,436	$10,300,878	$166,294,809	*2.62%*	$20,196,016	*6.96%*	$206,629,893	*2.20%*	$34,060,694	*5.37%*
Industrial	...	...	...	...	...	...	...	...	...	...
Other	...	...	$1,115,512	...	$378,950	...	$1,426,686	*2.49%*	$890,425	*8.92%*
Vacant/ Agricultural	$4,240,755		$4,480,184			*0.55%*	$4,463,544			*-0.04%*
Other	...		$32,740			...	$70,182			*7.92%*
Total	**$282,215,844**		**$402,293,503**			***3.61%***	**$573,462,001**			***3.61%***

Capitol Market Research, October 2014

forecast values.xls

Historical data from Travis County Appraisal District

Percentage of Total Assessed Values



DISTRICT E

(West University)

District E Historical & Current Taxable Values

District E is delineated by 2010 US Census Tracts 6.01, 6.03, and 6.04, and is the smallest of the five proposed districts, with only approximately 630 acres. It includes large portions of the University of Texas campus, as well as part of the West University Neighborhood Planning Area.

In 2004, District E had a total taxable value of over $545 million dollars in 2,187 property tax records, with the majority of these records being Residential. District E increased to $1.2 billion dollars in 2009, an average annual increase of 25.6%. The increase in taxable value slowed to 4.9% between 2009 and 2013, ending with a 2013 taxable value of $1.5 billion dollars. Historically, from 2004 through 2013, taxable value for tangible property increased at a compound rate of 10.99%, much higher than the City of Austin rate of 5.56%. These values are shown on Table (22) below.

Residential records in District B have seen a noticeable increase, from 1,873 in 2004 to 2,143 in 2013. Commercial records have seen decreases, from 207 records in 2004 to 187 records in 2013. Vacant/Agricultural records decreased marginally, from 107 records in 2004 to 101 in 2013.

Table (22)

COA Taxable Value by Land Use

District E

Land Use	*2004*		*2009*		*2013*		***(2004 - 2013)***	
	No. Records	Taxable Value	No. Records	Taxable Value	No. Records	Taxable Value	*Average Annual Increase*	***Compound Growth Rate***
Residential	1,873	$388,022,351	2,133	$1,005,049,733	2,143	$1,295,164,302	*23.38%*	***12.81%***
Commercial	207	$153,462,927	195	$231,774,339	187	$245,655,423	*6.01%*	***4.82%***
Vacant/Agricultural	107	$4,278,492	105	$7,910,122	101	$7,742,312	*8.10%*	***6.11%***
Other	...	...	...	...	...	...	...	...
Grand Total	2,187	$545,763,770	2,433	$1,244,734,194	2,431	$1,548,562,037	***18.37%***	***10.99%***

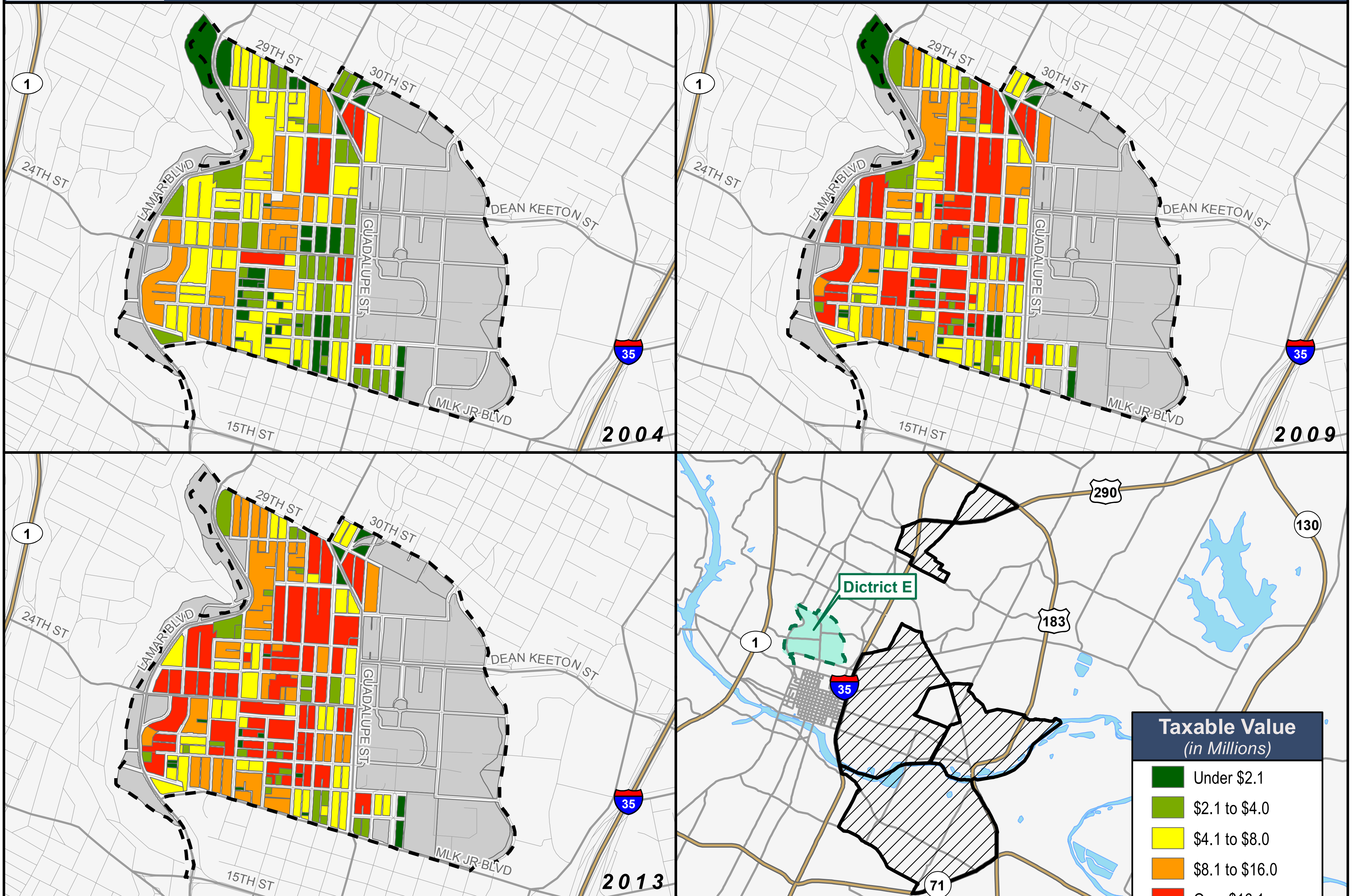
Capitol Market Research, October 2014 district tcad.xls

Data from: Travis County Appraisal District

CAPITOL MARKET RESEARCH

District E:

COA Taxable Values by Year



Date: October 2014
Path: C:\GIS\Projects\2014\Homestead\DistrictE\District_E.mxd
Note: Assessed values are shown by Plat Block
Data from: Travis County Appraisal District

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District E Construction Trends

The following analysis breaks down the total taxable values further, analyzing historical construction trends in the area. This analysis includes both Residential and Commercial land use types, disaggregated into “Existing Construction”, those properties built before the year 2000, and “New Construction”, properties that were built in 2000 and after. This is done in order to analyze both the older, existing tax base in the area, as well as the land use changes and new taxable values being brought into the area.

Table (23) below, shows value trends for Residential buildings in District E. Among the 1,873 Residential records in 2004, 1,853 (98.9%) were considered Existing Construction. In 2013, Existing Single Family accounted for 1,842 (85.9%) of the total Residential records. Existing Residential records accounted for $348 of total taxable value in 2004, increasing at a compound growth rate of 3.92% to reach $512 million dollars in 2013.

New Residential construction in District E increased by a compound growth rate of 34.94%, from $39 million dollars in 2004 to $782 million dollars in 2013. The majority of this increase was in Single Family construction, many in attached condominium projects such as Piazza Navona, the Texan Tower, and Caswell Lofts. There was also a large amount of new mixed-use and mid-rise student oriented apartment projects built in the area over the past 10 years, which increased Multi-family taxable values by a compound rate of 34.61%. Average Residential taxable values (total records divided by total tax value) were 835.14% higher for those New Construction properties in 2013.

Table (23)

Residential Taxable Value by Date of Completion

District E

Land Use	2004			2009			2013			(2004 - 2013)	
	No. Records	Taxable Value	Average Value	No. Records	Taxable Value	Average Value	No. Records	Taxable Value	Average Value	*Average Annual Increase*	***Compound Growth Rate***
Existing Construction (Built before 2000)											
Single Family	1,555	$193,569,421	$124,482	1,622	$282,393,406	$174,102	1,616	$288,580,940	$178,577	*4.91%*	***4.07%***
Multi-Family	298	$155,340,039	$521,275	240	$200,918,383	$837,160	226	$223,726,106	$989,939	*4.40%*	***3.72%***
Subtotal	1,853	$348,909,460	$188,294.37	1,862	$483,311,789	$259,566	1,842	$512,307,046	$278,125	*4.68%*	***3.92%***
New Constrution (Built 2000 +)											
Single Family	9	$2,843,065	$315,896	232	$66,008,108	$284,518	252	$74,160,737	$294,289	*250.85%*	***38.56%***
Multi-Family	11	$36,269,826	$3,297,257	39	$455,729,836	$11,685,380	49	$708,696,519	$14,463,194	*185.40%*	***34.61%***
Subtotal	20	$39,112,891	$1,955,645	271	$521,737,944	$1,925,232	301	$782,857,256	$2,600,855	*190.15%*	***34.94%***
Total	**1,873**	**$388,022,351**	**$207,166**	**2,133**	**$1,005,049,733**	**$471,191**	**2,143**	**$1,295,164,302**	**$604,370**	***23.38%***	***12.81%***
Average Value Difference *(New v.s. Existing Construction)*		*Single Family*	*153.77%*			*63.42%*			*64.80%*		
		Multi-Family	*532.54%*			*1295.84%*			*1361.02%*		
		Total	*938.61%*			*641.71%*			*835.14%*		

Capitol Market Research, October 2014 district tcad.xls

Data from: Travis County Appraisal District

Table (24) below, shows value trends for Commercial buildings in District E. The number of Existing Construction records declined, from 207 records with a total taxable value of $153 million in 2004 to 147 records with a total taxable value of $202 million in 2013, a compound growth rate of 2.82%. The majority of these increases are general Goods/Services records, although there are an usually large number of records considered “Other”, which includes parking garages, many of which are centered around the University of Texas.

There were no New Commercial records in District E in 2004, but 5 in 2009, with a total taxable value of $7.8 million. Average Commercial values for New Construction increased from 2009 at a (five-year) compound rate of 42.20%, to $42 million in 2013, with an increase in records from 5 in 2009 to 10 in 2013. Much of this new Commercial value comes from first floor retail located in the new mixed-use multi-family communities being built in the area.

Table (24)

Commercial Taxable Value by Date of Completion

District E

Land Use	2004			2009			2013			(2004 - 2013)	
	No. Records	Taxable Value	Average Value	No. Records	Taxable Value	Average Value	No. Records	Taxable Value	Average Value	*Average Annual Increase*	***Compound Growth Rate***
Existing Construction (Built before 2000)											
Goods/Services	171	$147,824,124	$864,469	158	$219,382,296	$1,388,496	147	$196,981,252	$1,340,009	*3.33%*	***2.91%***
Industrial	...	...	...	...	...	...	...	...	...	...	...
Other	36	$5,638,803	$156,633	32	$5,003,210	$156,350	30	$5,707,293	$190,243	*0.12%*	***0.12%***
Subtotal	207	$153,462,927	$741,366.80	190	$224,385,506	$1,180,976	177	$202,688,545	$1,145,133	*3.21%*	***2.82%***
New Constrution (Built 2000 +)											
Goods/Services	...	...	...	5	$7,388,833	$1,477,767	10	$42,966,878	$4,296,688	...	...
Industrial	...	...	...	...	...	...	...	...	...	...	...
Other	...	...	...	...	...	...	...	...	...	...	...
Subtotal	...	...	...	5	$7,388,833	$1,477,767	10	$42,966,878	$4,296,688	...	...
Total	**207**	**$153,462,927**	**$741,367**	**195**	**$231,774,339**	**$1,188,586**	**187**	**$245,655,423**	**$1,313,665.36**	***6.01%***	***4.82%***
Average Value Difference *(New v.s. Existing Construction)*	*Goods/Services*	...			6.43%			220.65%			
	Industrial	...			...			...			
	Other	...			...			...			
	Total	...			25.13%			275.21%			

Capitol Market Research, October 2014 district tcad.xls

Data from: Travis County Appraisal District

District E Current and Planned Developments

Current developments in the area are those that are now or were recently under construction in the area, but not yet reflected on the 2013 Tax Roll, as well as those under review by the City of Austin Planning and Development Review Department. If the project was completed and reflected in the 2014 tax roll, this value was used as an estimated value. When the project was not completed and recorded in the 2014 tax roll, the estimated assessed values for the projects under review are estimated from recently completed comparable projects in the same district, averaged by unit for residential properties, and land acres or building square feet for commercial (depending on the type of project).

In District E, there are seven projects listed as current developments, four which are currently under construction. All seven properties are Multi-family, with two under construction also having ground floor retail (mixed-use). Table (20), below, lists all the developments under construction and planned in District E.

Table (25)

Current Developments

District E

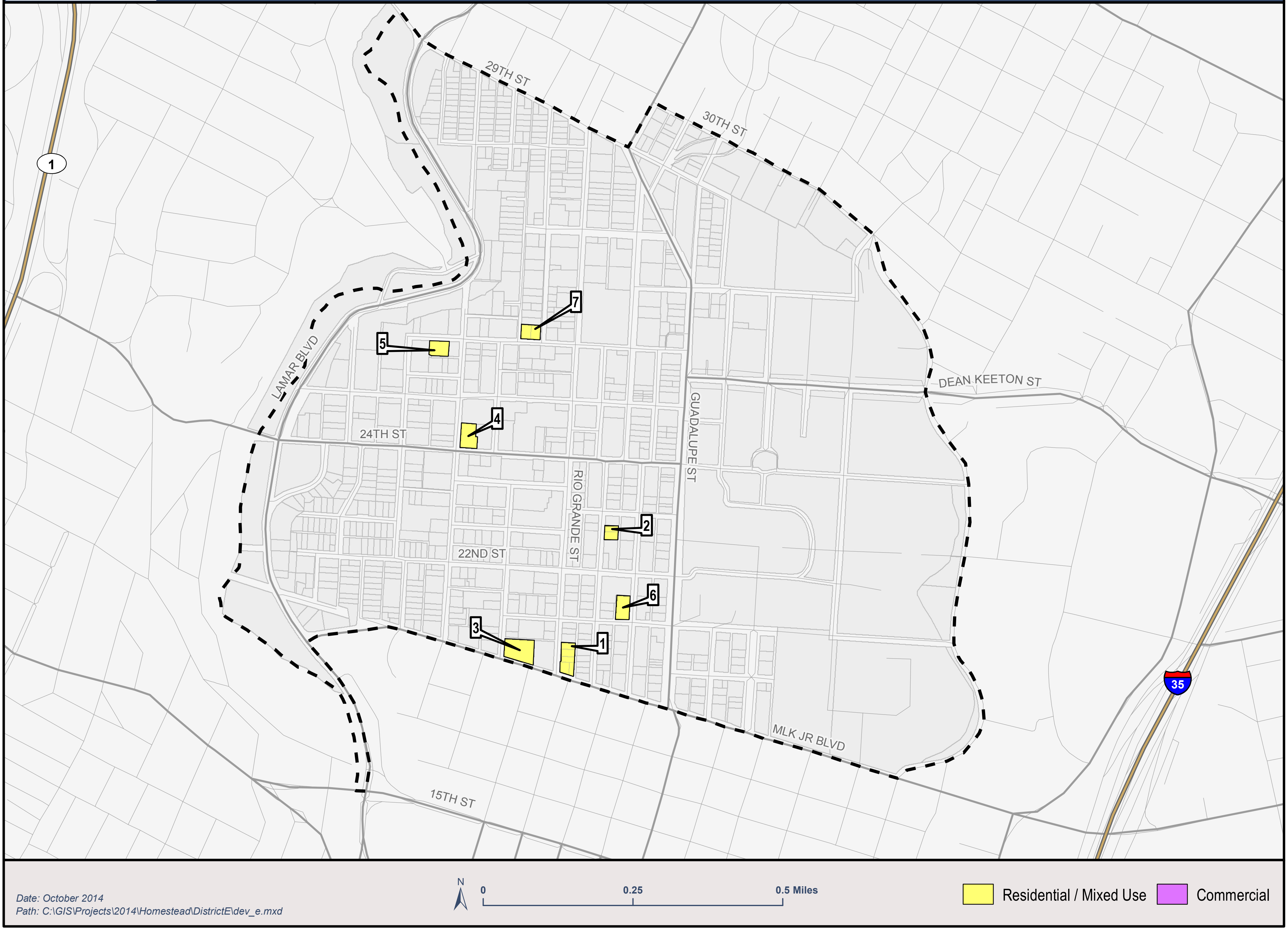
Residential / Mixed-Use							
Map No	Name	Status (2013)	Land Use (2013)	Taxable Value (2013)	Planned Units	Future Estimated Value	Description
1	1901 Rio Grande	Construction	Commercial/Vacant	$1,895,876	118	$24,307,300	Mixed-Use
2	2211 ATX	Planned	Commercial	$1,107,116	135	$18,110,254	Multi-family
3	706 W MLK JR Blvd	Construction	Vacant	$1,007,116	141	$18,915,154	Multi-family
4	Regents West at 24th Street	Construction	Commercial	$1,880,342	93	$19,157,448	Mixed-Use
5	Texan 26th	Construction	Residential	$1,115,150	55	$7,378,252	Multi-family
6	University House 2100 San Antonio	Planned	Commerical (Non-Profit)	$0	176	$36,254,955	Mixed-Use
7	Villas on 26th Street	Construction	Vacant	$949,608	47	$6,305,051	Multi-family
	Subtotal			$7,955,208		$130,428,414	
Commercial							
Map No	Name	Status (2013)	Land Use (2013)	Taxable Value (2013)	Planned Sq.Ft.	Future Estimated Value	Description
...	1901 Rio Grande	Construction	Parking Lot	*see residential*	3,645	*see residential*	Mixed-Use (Ground floor retail)
...	Regents West at 24th Street	Construction	Retail Space	*see residential*	3,361	*see residential*	Mixed-Use (Ground floor retail)
...	University House 2100 San Antonio	Planned	Church	*see residential*	6,000	*see residential*	Mixed-Use (Ground floor retail)
	Subtotal			$0		$0	
	Total			**$7,955,208**		**$130,428,414**	
	Additional Value						**$122,473,206**

Capitol Market Research, October 2014 development list.xls

Source: City of Austin Emerging Projects, Growth Watch Data, and Permit Search, CMR Pipeline

Note: Estimated Values based upon 2013 assessed values of new construction, similar records in study area

District E:
Current Development



Date: October 2014
Path: C:\GIS\Projects\2014\Homestead\DistrictE\dev_e.mxd

District E Future Values

District E includes portions of the University of Texas and the West University Neighborhood Planning area, and in 2013 had a total assessed value of $1.5 billion in 2,431 records. The property value in the area grew from $545 million in 2004 to $1.5 billion in 2013, at an average compound interest rate of 10.99%, the highest of all the five Districts. New Single Family Residential construction (built in 2000 +) had the highest rate of change from 2004 to 2013, increasing in taxable value at a compound rate of 38.56%.

Given these historical trends, the high number of projects in development, and the lack of developable land, it seems reasonable to assume a continuation of the construction of high density single and multi-family projects, coupled with a modest appreciation in the value of the existing housing stock. Table (26) on the following page compares the 10-year taxable value forecasts with the historical data from TCAD for the district. Using the average compound interest rate for the District (10.99%), CMR estimated the total assessed value in District D to be $4.3 billion in 2023. Then, using various forecasting techniques that fit with the trends in specific land use categories and age of project, CMR estimated their share of the value in 2023, with current and planned developments taken into account.

The future value estimation in 2023 shows the majority of assessed value coming from new Residential records, with a compound growth rate of 14.81% from 2013 to 2023, impacted by the continuation of high density development and the increase in taxable value that this type of construction conveys.

Table (26)

10-Year Taxable Value Estimates

District E

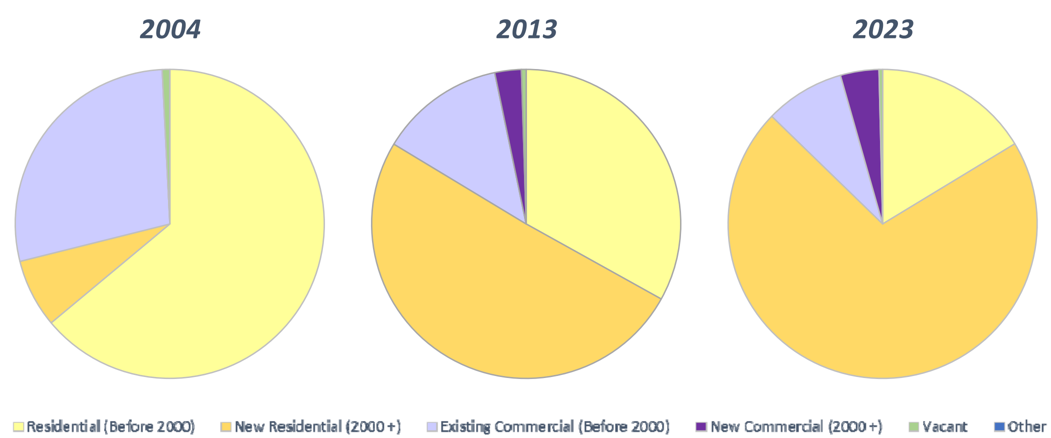
Land Use	2004		2013				2023			
	Existing Construction	New Construction	Existing Construction		New Construction		Existing Construction		New Construction	
	Taxable Value	Taxable Value	Taxable Value	*Compound Growth Rate (2004 -2013)*	Taxable Value	*Compound Growth Rate (2004 -2013)*	Taxable Value	*Compound Growth Rate (2013 -2023)*	Taxable Value	*Compound Growth Rate (2013 -2023)*
Residential	$348,909,460	$39,112,891	$512,307,046	*3.92%*	$782,857,256	*34.94%*	$717,506,973	*3.43%*	$3,116,461,454	*14.81%*
Single Family	$193,569,421	$2,843,065	$288,580,940	*4.07%*	$74,160,737	*38.56%*	$419,804,398	*3.82%*	$297,557,845	*14.91%*
Multi-Family	$155,340,039	$36,269,826	$223,726,106	*3.72%*	$708,696,519	*34.61%*	$297,702,575	*2.90%*	$2,818,903,609	*14.81%*
Commercial	$153,462,927	...	$202,688,545	*2.82%*	$42,966,878	...	$366,785,681	*6.11%*	$176,854,632	*15.20%*
Goods/Services	$147,824,124	...	$196,981,252	*2.91%*	$42,966,878	...	$358,639,295	*6.18%*	$176,854,632	*15.20%*
Industrial	...	...	...	...	...	...	...	...	...	...
Other	$5,638,803	...	$5,707,293	*0.12%*	...	...	$8,146,386	*3.62%*	...	...
Vacant/ Agricultural	$4,278,492		$7,742,312			*6.11%*	$16,314,995			*7.74%*
Other	...		...			...	...			...
Total	**$545,763,770**		**$1,548,562,037**			***10.99%***	**$4,393,923,735**			***10.99%***

Capitol Market Research, October 2014

Historical data from Travis County Appraisal District

forecast values.xls

Percentage of Total Assessed Values



CONCLUSIONS

Conclusions

The five proposed Homestead Preservation Districts vary widely in size, character, taxable value, and development activity. The previous sections explored the historical taxable value in each area, in 2004, 2009, and 2013, in order to establish a 10-year forecast of taxable values. New development and constructions trends were also taken into consideration when establishing these values. Table (26) on the following page shows the summary of each District's historical and forecasted taxable values.

District A currently makes up approximately 2,900 acres, or 1.41% of the City of Austin's land. In 2013, it took in $1.6 billion in taxable revenue, which was 2.17% of the City's total taxable value (in non-personal property records). There are currently 26 developments in the pipeline for District A, with seven under construction. With a compound growth rate of 10.73%, District A is expected to grow in total taxable value to $4.48 billion dollars in 2023, much of which will be concentrated in Residential records, such as new Single Family built on lots previously occupied by older homes, and new higher density mixed-use multi-family projects.

The largest of the five districts, District B has approximately 3,600 acres and makes up approximately 1.75% of the City of Austin's acreage, but accounts for only $1.10 billion in taxable value in 2013. However, District B has sixteen planned developments, six of which are under construction, including multiple sections of the Lakeshore PUD. The compound growth rate of 5.48% applied to the 2013 base indicates that District B will have a taxable value of $1.87 billion in 2023.

District C, at approximately 1,700 acres, has only $258 million in taxable value in 2013, the lowest of the five districts. This district has five projects in development, two of which are currently under construction. There is a large amount of vacant, developable land in the district, but the majority of development over the past ten years have been concentrated in two "entry-level" single family home subdivisions. District C has a compound growth rate of 7.44%. It is estimated that this district will have a taxable value of $528 million in 2023.

One of the smallest districts, District D, only contains approximately 830 acres, and had a total taxable value of $402 million dollars in 2013. This district has had the least amount of change among all the districts, only growing in value at a compound interest rate of 3.61%, far lower than the other districts and the City of Austin as a whole. There are currently only two developments in the area, neither of which are currently under construction. CMR estimates that this district will have a total taxable value in 2023 of $573 million dollars.

The smallest district, District E, contains approximately 630 acres of land, but had a total taxable value of $1.5 billion in 2013. There are currently seven developments in the area, with five under construction. Because the area has a limited amount of land, all of these developments are of a higher density. With the highest compound growth rate of 10.99%, the District is estimated to grow to $4.39 billion dollars in 2023.

All five Districts combined, shown in Table (27), increased at an average compound growth rate of 8.47% from 2004 through 2013, higher than the citywide average of 5.56%. In 2013, they made up 6.64% of the total tangible taxable income in the City of Austin, while also accounting for 3.87% of the total land in the Austin City Limits.

Table (28) breaks down Residential values by date of construction completion, as done in each individual district study. District E, with a compound growth rate of 12.81% from 2004 through 2013, shows the highest increase in aggregate Residential tax values, followed by District A with 11.67%. Throughout the five Districts, Existing Construction (Built before 2000), which would be the primary target for the proposed Homestead Preservation Districts, grew at a compound growth rate of 5.16%, which is slightly lower than the City of Austin Residential compound rate of 5.96%. However, District A (8.36%) and District C (6.15%) had higher compound growth rates for Existing Residential Construction. Residential New Construction values in all five Districts grew at a compound rate of 24.94% from 2004 to 2013. All Districts, excluding District C, saw compound growth rates of New Residential Construction higher.

Table (27)

Taxable Value by Land Use

Homestead Preservation Districts

District A	2004 No. Records	2004 Taxable Value	2013 No. Records	2013 Taxable Value	(2004 - 2013) *Average Annual Increase*	(2004 - 2013) *Compound Growth Rate*	*2023*
Residential	5,933	$407,381,872	6,579	$1,228,710,059	*20.16%*	*11.67%*	$3,668,083,191
Commercial	632	$132,965,200	763	$309,308,059	*13.26%*	*8.81%*	$676,021,414
Vacant/Agricultural	1,477	$37,396,680	1,160	$66,537,357	*7.79%*	*5.93%*	$104,640,072
Other	6	$1,246,574	6	$389,472	*-6.88%*	*-10.98%*	$117,709
Total	8,048	$578,990,326	8,508	$1,604,944,947	*17.72%*	*10.73%*	**$4,448,862,385**

District B	2004 No. Records	2004 Taxable Value	2013 No. Records	2013 Taxable Value	(2004 - 2013) *Average Annual Increase*	(2004 - 2013) *Compound Growth Rate*	*2023*
Residential	2,262	$480,970,739	3,099	$848,776,605	*7.65%*	*5.84%*	$1,431,792,985
Commercial	152	$129,277,249	164	$188,352,910	*4.57%*	*3.84%*	$326,119,705
Vacant/Agricultural	466	$35,855,195	484	$64,771,676	*8.06%*	*6.09%*	$120,465,758
Other	1	$580,000	2	$285,147	*-5.08%*	*-6.85%*	$153,043
Total	2,881	$646,683,183	3,749	$1,102,186,338	*7.04%*	*5.48%*	**$1,878,531,491**

District C	2004 No. Records	2004 Taxable Value	2013 No. Records	2013 Taxable Value	(2004 - 2013) *Average Annual Increase*	(2004 - 2013) *Compound Growth Rate*	*2023*
Residential	804	$57,342,795	1,082	$153,048,915	*16.69%*	*10.32%*	$367,569,405
Commercial	137	$60,081,319	150	$93,831,391	*5.62%*	*4.56%*	$147,761,064
Vacant/Agricultural	207	$7,879,690	269	$10,369,081	*3.16%*	*2.78%*	$12,666,085
Other	8	$569,611	8	$790,069	*3.87%*	*3.33%*	$982,189
Total	1,156	$125,873,415	1,509	$258,039,456	*10.50%*	*7.44%*	**$528,978,743**

District D	2004 No. Records	2004 Taxable Value	2013 No. Records	2013 Taxable Value	(2004 - 2013) *Average Annual Increase*	(2004 - 2013) *Compound Growth Rate*	*2023*
Residential	969	$138,445,812	960	$210,174,242	*5.18%*	*4.26%*	$325,920,576
Commercial	116	$139,529,277	123	$187,606,337	*3.45%*	*3.00%*	$243,007,698
Vacant/Agricultural	60	$4,240,755	51	$4,480,184	*0.56%*	*0.55%*	$4,463,544
Other	…	…	1	$32,740	…	…	$70,182
Total	1,145	$282,215,844	1,135	$402,293,503	*4.25%*	*3.61%*	**$573,462,001**

District E	2004 No. Records	2004 Taxable Value	2013 No. Records	2013 Taxable Value	(2004 - 2013) *Average Annual Increase*	(2004 - 2013) *Compound Growth Rate*	*2023*
Residential	1,873	$388,022,351	2,143	$1,295,164,302	*23.38%*	*12.81%*	$3,833,968,427
Commercial	207	$153,462,927	187	$245,655,423	*6.01%*	*4.82%*	$543,640,313
Vacant/Agricultural	107	$4,278,492	101	$7,742,312	*8.10%*	*6.11%*	$16,314,995
Other	…	…	…	…	…	…	…
Total	2,187	$545,763,770	2,431	$1,548,562,037	*18.37%*	*10.99%*	**$4,393,923,735**

Homestead Districts Total	2004 No. Records	2004 Taxable Value	2013 No. Records	2013 Taxable Value	(2004 - 2013) *Average Annual Increase*	(2004 - 2013) *Compound Growth Rate*	*2023*
Residential	11,841	$1,472,163,569	13,863	$3,735,874,123	*15.38%*	*9.76%*	$9,627,334,584
Commercial	1,244	$615,315,972	1,387	$1,024,754,120	*6.65%*	*5.23%*	$1,936,550,194
Vacant/Agricultural	2,317	$89,650,812	2,065	$153,900,610	*7.17%*	*5.55%*	$258,550,454
Other	15	$2,396,185	17	$1,497,428	*-3.75%*	*-4.59%*	$1,323,123
Total	**15,417**	**$2,179,526,538**	**17,332**	**$4,916,026,281**	***12.56%***	***8.47%***	**$11,823,758,354**
City of Austin		**$43,068,013,356**		**$74,003,396,064**			
% of COA		*5.06%*		*6.64%*			

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Data from: Travis County Appraisal District, City of Austin

Table (28)

Residential Taxable Value by Date of Completion

Homestead Preservation Districts

District A	2004		2013		(2004 - 2013)	
	No. Records	Taxable Value	No. Records	Taxable Value	*Average Annual Increase*	*Compound Growth Rate*
Existing Construction *(Built before 2000)*	5,727	$386,714,730	5,227	$862,860,883	*12.31%*	*8.36%*
New Construction *(Built 2000+)*	206	$20,667,142	1,352	$365,849,176	*167.02%*	*33.29%*
Total	5,933	$407,381,872	6,579	$1,228,710,059	*20.16%*	*11.67%*

District B	2004		2013		(2004 - 2013)	
	No. Records	Taxable Value	No. Records	Taxable Value	*Average Annual Increase*	*Compound Growth Rate*
Existing Construction *(Built before 2000)*	2,197	$371,634,687	2,314	$471,666,372	*2.69%*	*2.41%*
New Construction *(Built 2000+)*	65	$109,336,052	785	$377,110,233	*24.49%*	*13.18%*
Total	2,262	$480,970,739	3,099	$848,776,605	*7.65%*	*5.84%*

District C	2004		2013		(2004 - 2013)	
	No. Records	Taxable Value	No. Records	Taxable Value	*Average Annual Increase*	*Compound Growth Rate*
Existing Construction *(Built before 2000)*	791	$55,956,067	776	$101,620,977	*8.16%*	*6.15%*
New Construction *(Built 2000+)*	13	$1,386,728	306	$51,427,938	*360.86%*	*43.52%*
Total	804	$57,342,795	1,082	$153,048,915	*16.69%*	*10.32%*

District D	2004		2013		(2004 - 2013)	
	No. Records	Taxable Value	No. Records	Taxable Value	*Average Annual Increase*	*Compound Growth Rate*
Existing Construction *(Built before 2000)*	967	$138,202,808	940	$204,550,708	*4.80%*	*4.00%*
New Construction *(Built 2000+)*	2	$243,004	20	$5,623,534	*221.42%*	*36.91%*
Total	969	$138,445,812	960	$210,174,242	*5.18%*	*4.26%*

District E	2004		2013		(2004 - 2013)	
	No. Records	Taxable Value	No. Records	Taxable Value	*Average Annual Increase*	*Compound Growth Rate*
Existing Construction *(Built before 2000)*	1,853	$348,909,460	1,842	$512,307,046	*4.68%*	*3.92%*
New Construction *(Built 2000+)*	20	$39,112,891	301	$782,857,256	*190.15%*	*34.94%*
Total	1,873	$388,022,351	2,143	$1,295,164,302	*23.38%*	*12.81%*

Homestead Districts Total	2004		2013		(2004 - 2013)	
	No. Records	Taxable Value	No. Records	Taxable Value	*Average Annual Increase*	*Compound Growth Rate*
Existing Construction *(Built before 2000)*	11,535	$1,301,417,752	11,099	$2,153,005,986	*6.54%*	*5.16%*
New Construction *(Built 2000+)*	306	$170,745,817	2,764	$1,582,868,137	*82.70%*	*24.94%*
Total	**11,841**	**$1,472,163,569**	**13,863**	**$3,735,874,123**	***15.38%***	***9.76%***

Capitol Market Research, October 2014

Data from: Travis County Appraisal District, City of Austin

APPENDIX

Table (A)

Land Use Designations

CMR Land Use Designation	Texas State Land Category	Description
Residential		
	A1	Single Family
	A2	Single Family (Mobile Home attached to land)
	A3	Single Family (Condominium)
	A4	Single Family (Townhome)
	A5	Single Family (Condominium HOA/Common Area)
	B1	Multi-Family
	B2	Multi-Family (Duplex)
	B3	Multi-Family (Triplex)
	B4	Multi-Family (Fourplex)
Commercial		
	FI	Goods/Services
	F2	Industrial / Manufacturing
	F3	Other Commercial (nominal improvement, such as parking lot/signage)
	F4	Goods/Services (Condominium)
	F5	Goods/Services (from Residential conversion)
Vacant/Agricultural		
	C1	Small Vacant Lot (less than 20 acres)
	C2	Vacant Land ("Colonias", no utilities)
	D1	Qualified Agricultural Land
	D2	Qualified Agricultural Land with improvements
	E1	Rural Land not qualified for Agricultural use
	O1	Residential inventory under development
Other		
	J1	Water Systems
	J2	Gas Systems
	J3	Electric Systems
	J4	Telephone Systems
	J5	Railroad
	J6	Pipelines

Capitol Market Research, October 2014 appendix tables. xls

Date from: Travis County, 2013 Texas Property Tax Assistance Property Classification Guide (Texas Comptroller of Public Affairs)

Certificate

The undersigned do hereby certify that, except as otherwise noted in this market/feasibility report:

We certify that we have personally inspected the aforementioned subject property, and that our fee is in no way contingent upon the determination of feasibility reported herein.

We have no present or contemplated future interest in the real estate that is the subject of this report.

To the best of our knowledge and belief the statements of fact contained in this report, upon which the analyses, opinions and conclusions expressed herein are based, are true and correct.

This report sets forth all of the limiting conditions (imposed by the terms of our assignment or by the undersigned) affecting the analyses, opinions and conclusions contained in this report.

Recognition is hereby given to Erin Roberts, Joey Valenzuela, and Carly Havard for their assistance in the preparation of this report.

No one other than the undersigned prepared the analyses, conclusions and opinions concerning the real estate that are set forth in this report.

Respectfully submitted,

CAPITOL MARKET RESEARCH, INC.

Charles H. Heimsath
President

CHARLES H. HEIMSATH: QUALIFICATIONS

Charles H. Heimsath graduated from The University of Texas in 1976 with a Master of Science degree in City Planning. He has been active in the real estate market since 1976 in the areas of commercial and residential brokerage, market and feasibility studies, and real estate research. Prior to his association with Capitol Market Research, Mr. Heimsath was a senior project manager in charge of feasibility/market research with an appraisal firm, R. Robinson & Associates, Inc., Austin, Texas. Between 1980 and 1983 he was responsible for managing the real estate research division at the Rice Center in Houston.

Since moving to Austin in February 1984, Mr. Heimsath has conducted or managed over 600 market research and feasibility projects covering a range of property types from residential and mixed-use subdivisions through office/warehouse and service center space to downtown office buildings and condominium towers. His work has also included population forecasting for several cities, consultation to the General Land Office, The University of Texas System, and a wide variety of private sector developer, land owners and investors.

EDUCATION

B.S. in Economics, University of Vermont, Burlington, Vermont; June 1972
M.S. in Community and Regional Planning, The University of Texas, Austin, Texas; August 1976
Post Graduate Studies, Rice University, Houston, Texas; 1980, 1981

PROFESSIONAL MEMBERSHIPS & CERTIFICATIONS

American Planning Association
Austin Real Estate Council, Former Board Member
Central Texas Regional Mobility Authority (CTRMA), Board Member
Texas Real Estate Broker #188355-13
Urban Land Institute, Austin Advisory Board Member
Downtown Austin Alliance, Boardmember, Policy Committee Chair

PROFESSIONAL EXPERIENCE

Capitol Market Research, Inc., President: June 1986 - Present

R. Robinson & Associates, Project Manager: Real estate research, market and demographic studies, land-use forecasting: February 1984 - June 1986

South Main Center Assoc., Associate Director: Construction management, office administration, policy development, community outreach: February 1983 - February 1984

Rice Center, Senior Associate: Senior project manager responsible for real estate research, urban development and economic forecasting: October 1978 - February 1983

Mayor's Office, City of Houston, Urban Economist: Responsible for preparing the Overall Economic Development Plan (OEDP) for Houston: October 1976 - October 1978