

City of Austin

Item: 83.
MEMO



Neighborhood Housing and Community Development
P.O. Box 1088, Austin, TX 78767-1088
(512) 974-3100 • Fax: (512) 974-3112 • www.austintexas.gov/housing

Late Backup

Date: March 20, 2017

To: Mayor and City Council

From: Rosie Truelove, Interim Director

Subject: Austin Oaks Planned Unit Development: Cost to Buy Down Units

This memorandum is responsive to several Council offices requesting confirmation of the buy down cost of additional units within the proposed Austin Oaks Planned Unit Development (PUD).

Comparable Rents

The applicant has stated that the multi-family within The Domain would be the most appropriate properties to use for comparing rents and determining per square foot pricing for the proposed multi-family in the Austin Oaks PUD. Staff has reviewed the Austin Multi-Family Trend Report and determined there are no Class A comparables in the Northwest Central sector where the development will be located. The Domain is a development with housing, retail and office and is located along Mopac, similar to that being proposed in the Austin Oaks PUD. Also, the two properties are in relatively close proximity to one another. Based upon this information, NHCD does concur that these multi-family properties within the Domain are an appropriate comparable.

NHCD staff evaluated rents and square footage of units in the 3 separate Class A complexes within the Domain. Per square foot rents range from \$1.93 to \$2.45. Our analysis determined that an average per square foot of \$2.15 is reasonable and correct.

Analysis to Determine Buy-Down Valuation

NHCD's process to calculate the buy-down valuation is to determine market rents for the project based on comparable projects in the area. Once that is determined we calculate the delta between market and the affordable rent and run a Net Present Value (NPV) calculation for the lost revenue.

| Rents | 1-B rent | 2-B rent | Buy down 1-B @ 60% | Buy down 2-B @ 60% |
|--------------------|----------|----------|--------------------|--------------------|
| Affordable 60% MFI | \$763 | \$872 | \$903 | \$1,493 |
| Market | \$1,666 | \$2,365 | | |

Item: 83.

Page 2 of 2

Market rent assumptions are based upon a 775 square foot one bedroom unit and 1,100 square foot two bedroom unit at \$2.15 per square foot.

We also assumed a 4% discount rate for the Net Present Value calculation. The discount rate is used to discount future cash flows back to the present to determine the net present value of lost revenue to the developer over 40 years. By completing a multi-year discounted lost revenue analysis we can quantify the per unit buy down cost estimate. Our methodology does assume the loss is constant over the 40 year period and does not account for increases in rents overtime. While our analysis does not adjust for inflation we have used this same methodology on the South Shore PUD, the Grove PUD, and the Plaza Saltillo TOD. The applicant however, does not agree with this methodology and believes the analysis should include an escalator to accommodate for increasing rents over time.

Based on our recent analysis (without escalating rents overtime) and using a 4% discount rate, we estimate a minimum of \$214,474 to buy down a one bedroom unit and \$354,607 to buy down a two bedroom unit. The total lost revenue to the developer for 16 – one bedroom and 4 – 2 bedroom units is \$4,850,021.

Staff also did the analysis to include a 3% inflation rate to the rents over time, this of course increases the lost revenue and ultimately our cost to buy down units to \$357,975 to buy down a one bedroom unit and \$591,704 to buy down a two bedroom unit. The total lost revenue is then \$8,094,416.

If you have additional questions please contact Rebecca Giello at 512-974-3045 or Rebecca.Giello@austintexas.gov.